Spectris 2019 Full Year Results

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Introduction and Highlights

Andrew Heath

Chief Executive, Spectris

Welcome

Good morning, everybody. Welcome to you in the room and to those of you on the webcast to this, the Spectris full-year results for 2019. I am Andrew Heath, Chief Executive, and I am joined today by Derek Harding, our CFO. I will go through the headlines and then pass over to Derek to run through the numbers in more detail. I will then come back and talk to you about some of the financial and operational developments in our businesses before closing with our outlook for 2020 and opening the session for Q&A.

Coronavirus

First of all, I am sure you will all agree with me that the welfare of our people is our most important priority. As such, I would like to comment on the coronavirus situation. As no doubt some of you will have seen in the media, a small number of our Servomex employees unfortunately contracted the virus after attending a conference in Singapore back in January. I am pleased to report that they have now all recovered and are back at home or are recovering well; we still have one employee in hospital. We have been in close contact with public health authorities around the world throughout this period and have been acting on their advice to ensure the welfare not only of our people but also of our communities, and we are supporting both the affected employees, their colleagues and their families. In terms of the direct impact of coronavirus on our business, I will cover that later on.

Demonstrable progress in executing our Strategy for Profitable Growth in 2019

With that, let us start to talk about the results for last year. You will remember at our Capital Markets Day in June we set out our strategy for profitable growth, and we have made demonstrable progress in executing on this in 2019. I am very pleased to say that against a weakening macroeconomic backdrop last year we delivered profit growth, enhanced margin and cash flow, which I think just demonstrates our increased resilience as a business. This was underpinned by successfully executing our profit improvement programme, combined with increased emphasis on deploying the Spectris Business System to further reduce waste and improve efficiency as we drive increased operating leverage across our businesses. The strategy to simplify and focus our portfolio commenced with the sale of BTG in the year, and also the sale of the EMS Brüel & Kjær joint venture is nearing completion. We will continue to manage the portfolio through 2020, as well as seek acquisitions. Having reviewed the balance sheet at the year-end, we are proposing to pay a special dividend, consistent with our capital allocation policy.

Delivering value beyond measure

Before I get into some of the numbers, let us just talk about our purpose. During the strategic review last year, we clarified our purpose – the role we play in society and how we want to progress as a business. Precision is very much at the heart of what we do in Spectris. Our businesses provide global customers with specialist insight through our high-tech instruments and test equipment, augmented by the power of our software. We are well positioned in our markets, with compelling and differentiated offerings which our customers highly value. We ensure our customers get the measurements and insights that they need to meet their challenges. This in turn enables them to deliver significant benefits to their own customers. This might be in getting a new drug to market quicker, developing new electric and autonomous vehicles, improving the productivity of manufacturing processes or meeting regulatory requirements for food quality, environmental or emissions controls. In this way, Spectris knowhow is creating value for society as our customers manufacture, design, test and produce new products to make the world cleaner, healthier and more productive.

So our purpose is all about delivering value to all our stakeholders, be they our customers, our employees, suppliers and partners, shareholders or wider society. But it's more than about just delivering value. Our aim is to deliver value beyond measure, doing more than expected and going beyond the measurement as we expand our software analytics and services offerings.

Strategy for Profitable Growth

You will have seen our strategy triangle before; we used this at the Capital Markets Day back in June. We are absolutely keeping things focused and simple, targeting top-line growth, margin expansion, free cash flow growth and enhanced returns on capital to create greater shareholder value. That means we are going to be owners of scalable platform businesses with differentiated and competitive customer offerings, facing off to attractive end markets with strong fundamentals where we can achieve strong operating leverage as we grow, actively managing the portfolio to optimise our assets and deploying our Spectris Business System to accelerate growth, reduce waste and drive efficiency. All this is underpinned by a strong culture around ethics and health and safety, developing leadership and talent with a growth and performance mindset.

2019 scorecard – financial metrics improving

So, against these objectives, how did we perform in 2019? Here we show our financial metrics, which we also use internally as part of our core value drivers to run the business. Overall, I am pleased with our performance last year, but not satisfied, as clearly there is more to do. I have made it clear since I arrived at Spectris that I believe we could be more profitable and, in the near term, return Spectris to previous margin highs. Against a slowing macro backdrop, I think it is therefore particularly pleasing that we achieved operating profit growth, margin enhancement and cash flow improvement last year. This absolutely reflects the successful execution of our profit improvement programme and the increased focus on overheads and cost control right across the business. And if you look at overheads – and Derek will speak to this – overheads were down year over year.

However, we have to do a better job with regards to return on capital. While our working capital as a percentage of sales remained within our guidance range, it did increase last year, and our new KPI, return on gross capital employed, declined 20 basis points despite an increase in operating profit last year, and that was very much as a consequence of the higher capital base from acquisitions that came into the capital base from the prior year. But certainly as we concentrate on improving the operating profit and managing the portfolio, this will respond to treatment.

2019 scorecard – progress in strategy execution

In terms of executing our strategy, we have also made considerable progress. The profit improvement programme has delivered benefits ahead of expectations, helping to drive operating leverage. We made the first steps towards optimising the portfolio with the divestment of BTG and the announcement of the sale of the EMS joint venture. On capital allocation, we reduced CAPEX by 13%, with the peak CAPEX investment at Millbrook now behind us. We increased the dividend by 6.7%. That is the thirtieth consecutive year of growth – a 10% CAGR over that period. We ended the year in a net cash position and, in accordance with our capital allocation policy, we are proposing a £175 million special dividend. The M&A environment, whilst challenging in 2019, we did participate in a number of opportunities, but we retained financial discipline. So ultimately we did not transact on any of those, and to be clear, though, M&A does remain a core part of our strategy going forward.

We also simplified our organisational reporting structure as we implemented our platform model. And with that, I will pass you over to Derek, who will take you through the numbers and how we see the second half.

Financial Highlights

Derek Harding

Chief Financial Officer, Spectris

Thank you, Andrew. Good morning, everyone, if you can hear me.

Improving our financial performance

Andrew has covered some of these numbers already, but for completeness my first slide is a summary of the key performance metrics for the period. And you can see that sales increased by 1.7% to £1.632 billion, a 0.4% increase on a like-for-like basis. Adjusted operating profit increased by 3.9% to £258.1 million, up 3.7% on a like-for-like basis. And along with Andrew, I am also pleased to report an improved adjusted operating margin, up by 30 bps to 15.8%, with a like-for-like adjusted increase of 50 basis points compared to 2018.

Adjusted profit before tax was £247.4 million, up 2.5%, and our tax rate came in at 21.4%, which is in line with the guidance that we gave during the year. Adjusted earnings per share increased by 1.9% to 168p, reflecting the net impact of the increase in adjusted profit before tax, offset by the increase in the effective tax rate and the decrease in the weighted average number of shares following the share buyback last year.

Full-year dividend per share of 65.1p is up 6.7% and represents, as Andrew said, the thirtieth consecutive year of dividend growth here at Spectris. Dividend cover remains good at 2.6x and is consistent with our long-term average, and adjusted cash conversion at 91%, compared to 59% last year. During the year, net debt reduced by £330.6 million, which resulted in a net cash position of £33.5 million. As we know, that is mainly driven by the sale of BTG. And then finally on the slide we see again the reduction in the return on gross capital employed, which is mainly due to the full-year effect of the CLS acquisition, and I will come back to the bridging items of that later.

Delivering sales and profit growth

So my next slide gives a graphical view of just the main P&L movements in the year. Sales are across the top, and then profit is along the bottom. I have adjusted the 2018 numbers to remove sales and operating profit relating to seven months of EMS, which was transferred to the JV in 2018, and one month, effectively, relating to BTG, sold at the end of November, so that we can get an organic baseline, as you see there in the middle, for sales and profit. Acquisitions contributed £20.5 million of additional revenue in 2019, and that relates to the full-year effect of VI-grade, Revolutionary Engineering, which was part of Millbrook, and the full year of CLS. However, these acquisitions did not contribute any additional profit, primarily due to the trading performance of CLS. Favourable foreign exchange movements contributed £23.6 million of sales and £3 million of operating profit, and like-for-like organic sales increased by £6.8 million, of which £4.5 million dropped through to the gross profit line.

The gross margin was actually flat year on year, and therefore that drop-through reflects a favourable pricing and procurement savings that we have achieved, offset by cost inflation and mix impacts. And then finally, as you can see there, overheads are down £4.7 million, with savings generated from the profit improvement programme, and that is through headcount reductions and other targeted savings, more than offsetting cost inflation that we experienced during the year. As Andrew said, notwithstanding the progress we have made in 2019, we still see opportunity to improve further as we head into 2020.

Improving cash flow

That is profit. The important conversion here is cash, and this slide shows how we generated it in the year, and it illustrates how we have used it. It is another way of thinking about sources and uses, which we talked about at the Capital Markets Day back in June last year. So first of all I add back £58.3 million of depreciation and amortisation charged in the year, and that will then bring you to a £316.4 million EBITDA generated in the year. Cash movements from working capital was broadly stable, with an increase in receivables being offset by lower inventory and slightly higher payables. And we are increasing our focus on improving our average working capital as a percentage of sales, which, although it ended within our range, as Andrew said, is up over the prior year. And you will see us looking at that further during 2020.CAPEX net of grants of £81.6 million was £12.5 million lower than the prior year. And in that number there is £43.1 million of CAPEX for Millbrook.

So that then gives us our adjusted cash position of £234.2 million, and we divide that into the adjusted operating profit to get the cash conversion metric of 91%, compared to the 59% last year. And we will continue to strive to be in this range of 90% going forward. Interest and tax had a combined cash impact of £43.3 million, and the payment of dividends utilised £72.3 million. We spent £34.3 million of cash in relating to the restructuring – I will expand on that in a moment.

And then the group completed one small software acquisition during the year, with a total cost of £3.8 million. The £5.9 million was paid in respect of prior year acquisitions, and £2.6 million was paid in respect of deferred consideration tax payments for EMS and some other small disposals. We also spent £1.6 million on other transaction-related costs, so all of that together gives you £13.9 million outflow for transactions. And then you can see the £262.7 million that came in as a result of the BTG disposal.

And then finally there are a few other items in there, which are mainly a lease payment of around £20 million and the cash from a sale of a property of £9 million, and then, in order to bring us back to a balance-sheet number, there is a £10 million FX adjustment in there. And that is how you get to the £333 million decrease in the net debt in the year.

Adjusted and statutory operating profit

So I have put this in to try and help us bridge between the moving parts between our adjusted operating profit and our statutory profit, and I will take those in turn. So first of all you can see that the group incurred costs of £52.2 million relating to restructuring in 2019. Now this relates wholly to one-off costs of the profit improvement programme that we started in 2018, and within here you have £27.5 million of staff-related costs, predominantly redundancy; £11.6 million related to impairment of assets, including inventory, property, plant and intangibles; and £13.1 million of other costs. Offsetting some of this cost, you can see that we have adjusted to the positive £5.2 million of profit on disposal of property, and that is as we sold some buildings as part of our footprint rationalisation. And then at the half-year we discussed the goodwill impairment at Concept Life Sciences, and you can see that here – £35.1 million. Next is an £84.6 million charge for amortisation and impairment of acquisition-related intangibles. Now £37.5 million of this is the normal annual charge, and then in addition there is around £32 million relating to customer relationships that we impaired at the half-year for Concept Life Sciences, and then £14.7 million relating to other restructuring activities undertaken as part of the profit improvement programme.

Statutory profit before tax

So as you roll through those adjustments you will go from the adjusted operating profit to the statutory operating profit. And then in order to get from statutory operating profit to statutory profit before tax, there were then some other adjustments. So our share of the EMS joint venture lost £4.7 million in the year – you can see that there. But on 17th January this year we announced that we have reached an agreement for the sale of our interest in this joint venture for a consideration of £17.9 million in cash and approximately £1.2 million in shares of the Envirosuite limited company, which is the business we are selling it to. The closing of the deal is subject to approval by their shareholders at a meeting to be held on 24th February, so this coming Monday. And as a result of that transaction the receivable from the joint venture has been impaired by £21.3 million to the expected recoverable amount that I have just described. And you can see the impairment here on the slide.

And then finally, you can see £204.7 million of profit on the disposal of BTG. And interestingly, when you look at the prior year comparator there, you see £56.3 million, which is actually the profit recognised on the sale of the JV of EMS last year. So, despite the impairment that you can see this year, net/net this is still a profitable transaction for us over the two-year period. Then you take off the finance costs, and you will get to a statutory profit before tax of £259.3 million. For clarity, it is our intention to ensure that this slide is less complicated going forward.

Capital allocation – special dividend of £175 million

So I have put here our capital allocation model, as a reminder from the Capital Markets Day. I am not going to go through it particularly, but it is relevant when you look at the net cash position and the decision around the special dividend that we have announced today. The group's cash generation has been strong, with a net cash position at the year-end of £33.5 million. And whilst the economic outlook does remain uncertain, we do believe the group has adequate resources to fund future investment in the business, along with continuing to grow the ordinary dividend, whilst at the same time retaining sufficient capacity for bolt-on acquisitions. All of those remain a priority for the group, and therefore, in line with the capital allocation policy, we are proposing the special dividend to shareholders of £175 million. This will be paid in June, along the same time as the ordinary dividend, and it represents just over 5% of the market cap of the group. And it will be accompanied by share consolidation, subject to the shareholder approval at the annual general meeting, which is being held on 22nd May. All of the other details – the ex div, the record and the payment dates – will be announced in due course and will be in the documents available for shareholders associated with the AGM.

Return on gross capital employed

This slide looks at a bridge for you on the return on gross capital employed. And, if you remember, this was a KPI that we have introduced last year. It replaces our previous KPI of economic profit. We define it as the ratio of the group's adjusted operating profit to the average year-end shareholders' equity, net debt and accumulated amortisation and impairment of goodwill and acquired intangibles. So it is effectively the full return on all of the capital in the group, and, as you can see over the year, despite the profit increasing for the reasons we have already talked about, the return on gross capital actually goes down by 2 points. And the main reason is the goodwill and other intangibles that you can see on the capital employed, which is the full-year effect of the CLS acquisition that we did in 2018. Now that that has fully flowed through, we will look to see incremental improvements in this measure going forward.

2020 considerations

So just finally, before I hand over to Andrew, I thought it would be helpful to share some thoughts on how we see 2020. As always when managing a business in a dynamic environment, there are headwinds and there are tailwinds. So, starting with the headwinds, we remain cautious about the impact of the current political and economic environment around the world in which we operate. And like many of our peers, we did see a slowdown in the second half of 2019, and we expect that this will continue into 2020, certainly in the first half, and therefore overall we expect limited top-line growth in the current year. We continue to see inflationary pressures on the cost base, and we anticipate around 3% of cost inflation into 2020. But despite these short-term concerns we remain extremely confident in our markets over the medium term, and for this reason we have decided to increase our R&D spend at Malvern Panalytical in 2020, and this will not capitalised and will result in an additional cost of approximately £5 million to our R&D spend in 2020.

And then finally, coronavirus. We continue to monitor the ever-changing situation regarding coronavirus in China. At the moment, it is too early to have a clear view on the extent or duration of the potential impact on the group, so we monitor it, but it is there as a headwind as we look into 2020.

On the other side, though – the positive side, the tailwinds – we anticipate a further £10 million of benefit from the profit improvement actions taken in 2019. And against the current lower growth backdrop I have just talked about, we are going to continue our profit improvement programme into 2020. We anticipate further costs in the range of £20 million to £25 million, predominantly supporting ongoing merger activities at HBK, but we think that these actions will drive a further £10 million of benefit in-year in 2020.

All or our platform businesses introduced new products and services during 2019, which will continue to support the top line despite the challenging conditions, and we anticipate further product launches in 2020. And finally, we are continuing to deploy the Spectris Business System to reduce waste and further build on our self-help activities. So the tailwinds offsetting the headwinds, broadly.

Technical guidance for 2020

In the back of the book I have included a slide which shows our sensitivities to FX and also confirms our guidance on tax and CAPEX, which is going to be around about 21.5% for tax, and our planned CAPEX is £70 million, of which £20 million relates to Millbrook. And then I have also included a table on this slide which shows what 2019 and 2018 would have looked like if BTG were not part of the group, so hopefully that is a useful table for you as you think about your baselining as you consider 2020 without BTG.

And with that I will hand back to Andrew.

Business Update

Andrew Heath

Chief Executive, Spectris

Thank you, Derek. So now let me run through a high-level summary of our sales by region and by end markets, and then I will cover each of the businesses in more detail.

Sales by destination

Firstly by region, like-for-like sales were lower in both North America and also in Europe, with sales in both the UK and Germany down. These generally reflect the trend in PMIs that we have seen across those geographies through last year. Asia does continue to see good growth across the region, although in China like-for-like sales last year were marginally lower, reflecting quite a tough comp from 2018, but particularly the impact of the US-China tariff situations.

Sales by end market

In our end markets, we saw good growth in pharma, especially in Asia, even after the strong performance in 2018. Automotive was lower, reflecting a tough prior year comparator but also the global auto downturn. There was strong growth in sales to energy and utility customers, especially in emissions control and wind power, and there was growth in semiconductors, through lower in electronics and telecoms, and good growth in advanced materials within minerals and mining, offset by lower sales into the metals industry.

Malvern Panalytical – financial and end market performance

So now let us turn to each of the businesses – first the platforms, then I will cover the Industrial Solutions division.

So, starting with Malvern Panalytical, sales growth was 1% up on a like-for-like basis, with strong growth in Asia and to academic research and advanced materials customers, partly offset by lower like-for-like sales into pharmaceutical and mining. On a like-for-like basis, adjusted operating profit increased 5%, with a like-for-like margin expansion of 60 basis points, a positive impact from higher sales reflecting favourable pricing, and good overhead cost control. This was partly offset by the dilutive impact of Concept Life Sciences, as Derek has mentioned.

Looking at the end markets, pharma was lower year on year, reflecting a tough comp, particularly in North America. However, as I said earlier, we saw good growth in Asia, especially in China, and we are also seeing positive underlying trends for investment, especially around new generic drugs and the more complex biologic therapies. In food, which is traditionally a lower-growth market, there are attractive niches, such as confectionery products and beverages. The increased focus on food safety, sustainable sourcing and manufacture represent true opportunities for our solution portfolio going forward.

There has been some softening in metals and mining, but demand is expected to stabilise and improve this year. Sales into the advanced materials, however, have been strong, and this is expected to continue with new product developments in battery and additive layer manufacturing, with Asia being the key growth region driving that performance.

Malvern Panalytical – update on strategy

In terms of update on strategy, we continue to see benefits coming through from the merger activity that was started three years ago, and last year we strengthened our end-market and customer focus within Malvern Panalytical through a further organisational change. CLS restructuring has been completed and is now part of the Malvern Panalytical platform. The teams between Malvern and CLS are working closely to develop incremental sales opportunities and also new capabilities that benefits both parties. Malvern Panalytical have continued to launch new products, such as the latest generation of its X-ray fluorescent spectrometer, which has enhanced precision, functionality and also flexibility.

Partnerships and collaborations with academia was also an area of significant activity last year, such as the partnership with the University of Bristol where we are working on data analytics, machine learning and artificial intelligence. These types of collaborations are moving us into more predictive and prescriptive offerings, in addition to our more traditional diagnostic solutions, as we combine our best-in-class sensors with our increased domain knowledge and newly developed AI application capabilities.

Case study: Acceleration time to market for generic drugs

I thought we would just include a few case studies through the presentation; I think that went down well at the Capital Markets Day, because I think they illuminate well what we do as a business. As Derek mentioned earlier, we are also increasing the level of R&D investment in Malvern Panalytical to accelerate the development of new products, as we repeatedly see the precision and insights that our equipment and software provide is truly valued by customers. A good example is Dolomite Microfluids, who specialise in nano- and microparticles in developing drug delivery systems. They were using a transmission electron microscopy technique to characterise the particles, and, while that is a reliable process, it is also expensive and time-consuming, and it is also not fully capable of verifying the entire sample in one pass. The customer switched to using a Malvern Panalytical Zetasizer Ultra, which has both a more accurate capability across the entire sample but also enabled the customer to streamline their R&D process. And this led to significant reduction not just in costs but also in development time, with the actual time to develop the new delivery system coming down from 12 to just one month. So this is a typical example of how customers utilise our products and the value beyond measure that we can provide them.

HBK – financial and end market performance

Moving on to HBK, like-for-like sales declined 1%, partly reflecting some high one-off orders in 2018, but also some more challenging end markets last year. On a like-for-like basis, adjusted operating profit increased 8% and operating margins rose by 130 basis points. The year-on-year improvement reflects favourable pricing, but also lower overheads and then particularly strong operational improvement coming through as a consequence of the merger and the execution of the profit improvement programme in HBK last year.

In our end markets, like-for-like sales into automotive were lower, reflecting a tough comp, particularly Asia and Europe, and also the subsequent impact from the global auto downturn. We see strong opportunities, though, in automotive R&D, which is more resilient than the production side of the business, and this stems from the plethora of new vehicle platforms that are being developed, whether they be electric vehicles, connected autonomous vehicles, or more conventional internal combustion engine systems. We are taking advantage of all the opportunities that we see here.

In machine building, sales were marginally up, and while the industry fundamentals remain attractive, we expect activity to remain soft through 2020. In aerospace and defence, commercial business was good in all regions, although sales in Asia last year were lower. We do see notable R&D investment and opportunities in the aircraft and space industries going forward, particularly for software products in areas such our static and fatigue testing solutions.

And in consumer electronics and telecoms, customers launched fewer products last year, which led to a like-for-like sales decline. We expect moderate growth this year with the rising use of voice-activated mobile and smart home products, along with increasing noise regulation, and both of those things coming together is really underpinning the future demand for testing in that area.

HBK – update on strategy

In terms of strategy, work on the merger in HBK continued throughout the year, and we will continue that work this year. The new senior leadership team is now fully established, and the strategy execution plan is being implemented. As previously reported, combining the sales and marketing teams in the early part of last year did lead to some sales disruption, but now we have an integrated global go-to-market model in place we are starting to see much-improved order flow coming through.

Activity is continuing to further reduce overhead costs through additional headcount reductions, site consolidation and closures, and to harmonise processes, and we see good opportunities for further margin expansion as we bring these two parts of the business together under HBK. As part of the integration, VI-grade is now also part of the HBK platform, and that is being positioned to lead the development of an expanded simulation offering for our customers, and the software and simulation will be a key sales growth area for HBK this year and going forward. And as I have just mentioned, we are actively targeting electrical vehicle testing. Our new e-Drive system for testing electrical inverters and motors is getting great traction. It utilises our data acquisition systems, dedicated application software, torque and other sensors. And this is in addition to our additional battery durability testing solutions, where we can test across voltage, temperature, vibration measurement and life-cycle testing.

Case study: Solving EV noise challenges to support public safety

And again, in terms of just a little case study, this is a good example of our test solutions for electric and hybrid vehicles, in this case actually looking at drive-by noise measurement for automotive development, particularly for new electric vehicles, where there is a concern from a public safety perspective that electric vehicles are too quiet. So actually we have developed a noise measurement system – to measure the drive-by noise to make sure actually the cars are loud enough to pass those new tests.

IDIADA bought one such system in order to be able to satisfy these new testing requirements that are now coming into force, and the capability not only has allowed IDIADA to meet the minimum noise certification requirements, but it also supports public safety as a consequence of that, and also has enabled IDIADA to offer design and system development capability to their auto OEM customers.

Omega – financial and end market performance

Moving on to Omega, disappointingly like-for-like sales last year at Omega declined 9%, as a consequence of really slowing US industrial production, but also the US-China tariff situation and also one-off sales not repeating again from 2018. The sales performance, though, did also reflect some temporary disruption following a supplier change at the beginning of last year, and also lower online traffic as customers learned to navigate the new website following the launch of the latest digital platform at Omega. And while the customer transition was more impactful than we anticipated, the key operating metrics have been improving noticeably since the launch, all the way through last year.

So that combination of the sales decline and the increase in overheads due to extra licence costs and also higher depreciation in relation to the investment we made in the new digital platform has meant that the like-for-like adjusted operating profit and margin both contracted, by 39% and 600 basis points respectively, last year.

On a regional basis, sales into North America declined, and that reflects the slowing US industrial production environment. And we do expect that to continue through the first half of this year. And, as I said, sales into China were also lower, and both China and the US were both impacted as a consequence of the tariff situation. We also saw a pullback in semiconductors last year, really in terms of the CAPEX spend in the large fabs last year, which washed through to the equipment providers which Omega supply to, although we have started to see some pick-up in the first few weeks of this year from a number of those customers, so that is encouraging.

Omega – update on strategy

In terms of an update on strategy for Omega, as I said, we have launched the new digital platform. That is a significant step in strengthening Omega as an industry-leading e-commerce player. They were already a strong player with their previous website, but that was becoming outmoded and we needed to make further investment, which concluded last year. And continue to drive volume through that new e-commerce platform to deliver sales growth is clearly now the objective for the Omega management team.

Omega also accelerated its product refresh programme during the year. We introduced over 100 new product lines, such as the new handheld thermal imaging range – a picture of that is one the slide – and also the ultrasonic liquid level sensors, and more are planned for 2020. And these investments both consolidate Omega's position as a leader in the specialist process engineering distribution space, but also will help drive future sales growth.

Case study: Wireless monitoring solution keeps fruit quality high and energy costs low

Another little case study here, and this one is on industrial Internet of Things, where Omega has been expanding its portfolio progressively in recent years. One such customer example is the Prima Company, who harvest stone fruit, and they need to ensure the quality of the fruit by making sure that it is cooled to its lowest safe storage temperature. Omega provided a low-cost wireless monitoring solution with easy-to-use plug-and-play features which connected to the customer's control system. As a consequence, the solution not only helped the customer maintain product quality but also lowered their energy costs through more precise data and control around the cooling requirements.

Industrial Solutions – financial and end market performance

And then finally on Industrial Solutions division, here like-for-like sales grew 3%. Sales rose strongly in Asia and were also up in Europe, but this was partly offset by lower demand in North America. Like-for-like adjusted operating margins increased 150 basis points. This resulted from the revenue increase, particularly at PMX and Servomex, combined with high gross margins which reflected favourable pricing. In addition, growth in overheads was constrained as a consequence of the profit improvement programme. Sales into the semiconductor industry were solid, despite the overall industry pullback. Growth in Asia was particularly strong outside of China, offsetting a slowdown in North America, and we had a strong order backlog coming into the year, with notable sales of gas analysers and particle counters to the major fabs around the world. The backlog did, however, reduce through the year as the sector saw a decline in capital equipment orders that I have mentioned, but we do expect growth to resume this year on the strength of memory spending and new projects in China.

In pharma there was good sales growth, particularly in Asia, driven again by China. The demand from increasing regulatory scrutiny, especially data and process integrity, is expected to continue. In energy and utilities, the scrutiny around environmental monitoring is also increasing. Servomex's gas analysers play a critical role, and as such we saw strong sales into the hydrocarbon processing, but also the petrochemical sector. And BK Vibro also saw strong sales into the wind industry, whereas lower US onshore oil prices did mean that sales at ESG did fall last year.

In automotive, the expansion in testing facilities at Millbrook drove an increase in sales, with new capacity across all their sites in the UK and in the US, and also in Finland. New assets in the UK included a leading facility for testing large-scale battery packs for both performance and durability, and the connected autonomous vehicle village, which is part of a UK Government-backed testbed for CAV – connected autonomous vehicle development – was opened last year, and that includes one of our top VI-grade simulators.

Test World was also opened in Finland with new facilities for through-year testing – winter testing – on an indoor basis, so we opened new indoor test facilities so customers could test in winter conditions on snow and ice throughout the year. And we also launched and opened a new electric vehicle development facility in California.

So Millbrook has benefited from significant capital investment, and as such is now well positioned to serve its automotive OEMs and their tier-one suppliers. As I said earlier, the peak year of CAPEX investment in Millbrook is now behind us.

Industrial Solutions – update on strategy

In terms of strategy for the division, we put in place a new leadership team at a divisional level last year, and they have been very much focused on improving the operational and financial performance of that group. The performance in 2019 I think absolutely underlines that Industrial Solutions is made up of some high-quality niche businesses. As you are aware, as part of the strategic review, each of the businesses within Industrial Solutions was assessed for either platform potential or divestment where we would not be the best long-term owner. And during the year, as we have said, the divestment programme commenced and we completed the sale of BTG, and also announce the sale of the EMS Brüel & Kjær joint venture, which, as Derek said, is expected to complete at the end of this month. As we go forward, we will continue to target investments within Industrial Solutions where we see attractive opportunities and attractive returns.

Case study: Helping reduce emissions in the steel industry

As I have just mentioned, one area of particularly strong growth for Industrial Solutions has been in emissions control. This is not just in power plants and hydrocarbon processing. Midrex Technologies has designed, engineered and procured equipment for a new hot briquetted iron plant, which is used for steelmaking. They were keen to have high levels of environmental stewardship and to be one of the world's most modern and efficient ironmaking facilities when it opens shortly. Servomex provided over 40 gas analysers, a sampling system, as well as a continuous emissions monitoring system. And the monitoring control that was being provided by Servomex helps the customer improve energy efficiency, lowering the plant's overall cost as well as its carbon footprint, and ensuring the environmental stewardship requirements are met.

So I think, or at least I trust, the inclusion of these case studies does give you some further insight into how Spectris' businesses are harnessing the power of precision measurement, equipping our customers to make the world cleaner, healthier and more productive.

Coronavirus

Then before I just conclude, let me talk about coronavirus just for a second. As Derek said, we are seeing some impact from coronavirus as we speak. January was a difficult comparator month, mainly because Chinese New Year shifted from February into January, so it occurred in the last week of January, really at the only point where the virus was starting to get prominence. So January, in reality, year to year we do not really see much difference, but we are experiencing less activity in China than we would normally expect in February as a consequence, really, of the ever-changing situation around COVID-19. And as Derek said, we are monitoring the situation very closely to assess the extent and duration of the potential impact to us. We will provide updates as necessary, and we are happy to take questions on it as best we can in the Q&A in a moment.

Executing our Strategy for Profitable Growth

So just to wrap up, then, in summary we made demonstrable progress in 2019 in executing our strategy for profitable growth, despite the more challenging macroeconomic and geopolitical backdrop which caused our top-line sales growth to slow. I am pleased with the profit growth, pleased with the operating margin expansion and cash flow that we delivered. Also pleased with the successful execution of our profit improvement programme and the value delivered from our first divestments. These achievements have allowed us to announce a special dividend, in line with our capital allocation policy, so net/net good progress in 2019, but, as I said earlier, there is more to do. We are intent on further improving our operating margin and enhancing returns, so we will maintain our focus on cost control.

We will continue to optimise our assets and actively manage the portfolio. You should expect to see further divestments while we seek acquisitions in parallel, and absent a material impact from coronavirus we expect markets to remain challenging in the first half of the year and a recovery only likely post June, and as such we see limited top-line growth in 2020. Therefore, we are continuing our self-help initiatives to drive further cost efficiency and ensure a more resilient and profitable business going forward. And clearly we are going to build on our accomplishments in 2019 as we execute our strategy to deliver a sustainable increase in shareholder value.

So, with that, Derek and I will be more than happy to take any questions.

Q&A

Andrew Douglas (Jefferies): Four quick questions, hopefully. Can we just talk firstly on Malvern? It looks like a bit of a slowdown back end of the year. Is that more markets or, given the fact that it can be a lumpy business, have things shifted into 2020? Just give us bit of a flavour for what happened there. That would be helpful.

Andrew Heath: So certainly for Malvern Panalytical, as I said, there were some very tough comparators against 2018, especially in the second half of 2018. The business was going extremely strongly. So we did anticipate that certainly Q4 to Q4 would be a tough comparator. So that is a big part of the relative slowdown. We did see the growth in North American pharma slowing down last year. Some of that is as a consequence of US Government concerns around the cost of healthcare, and that is causing some of the US pharma companies to restructure and rejig things. So I think that did cause some pullback as well, but I think fundamentally the Malvern Panalytical business pre-CLS, as you would have seen before, through the year performed extremely well. We are very pleased with its performance. It is a really good business, and when you actually overlay the CLS restructuring and the losses from CLS last year, that has effectively pulled down the top-line metrics for Malvern Panalytical.

Andrew Douglas: With regard to the additional restructuring – it is £25 million for £10 million benefit – can you just explain to me exactly what that is? And if we were to assume, post 2002, a reasonably sensible top-line environment, is there more restructuring that needs to be done, or is this you guys just cutting your cloth accordingly for the year ahead?

Andrew Heath: I will let Derek talk about the specifics, but I think, as we said last year, when we launched the profit improvement programme we were really looking for it to be fundamentally a 2019 programme. But we did always say that, depending on where the markets ended up, we would look at whether we needed to extend some of those self-help measures. Given where the markets have gone through 2019 and the first half of 2020 as we see it, we think it is absolutely appropriate to continue to drive those self-help measures. We are accelerating the merger activity at HBK, so using this opportunity to do that, but also just extending the programme in certain other areas to just make sure we are really battening down on the cost control wherever we can.

Derek Harding: I think the key here is, in light of where we are, we need to keep going. So we wanted to stop in 2019. I think you can see it particularly in HBK, so in specifics, where is the predominant spend? It is the continuation in HBK. And we saw last year a reduction in revenue but improvement in profit, and we would hope to do the same improvement in profit, at least, in 2020. Beyond that, then the restructuring is done.

Andrew Douglas: Post the special dividend, you have clearly got a strong balance sheet even after the £175 million. Can you just comment quickly on the M&A pipeline as how you see it?

Andrew Heath: So, as I said, from an M&A perspective last year we participated in a number of processes but retained and kept our discipline. Prices last year were pretty frothy for a number of things that we looked at. And so we are very focused on making sure we can deliver value and good returns from the investments that we make from an M&A perspective, but, to be absolutely clear, it is a key part of our strategy going forward. We are looking at M&A opportunities. We are active, in the same way we are actively managing the portfolio. I think the key message is do not take 2019 that we are giving up on M&A. That is absolutely not the case. We are very much focused on how we can put our capital to best use for our shareholders, and M&A is part of that.

Mark Davies Jones (Stifel): Omega: it is another tough year. Clearly understand the headwinds from the end markets, but there have been some misjudgements, poor execution, whatever it might be as well as that. Are you comfortable both that the right team is now running that, and that the view that perhaps that was the more surprising of the platforms is still very much in place?

Andrew Heath: Great question, Mark. Clearly we are disappointed with the performance at Omega last year, as is the management team. I think that, as I said, we are quite clear of the causes of that. We outsourced an electronics product line from a higher-cost location to a lower-cost location, which is doing all the right things, but that proved to be more problematic, so that caused some disruption in terms of stocking and therefore sales in the first half of the year. At the same time, we also implemented the new e-commerce platform. I guess the lesson learned is that the customer disruption from transitioning from the old website to the new was more challenging than we anticipated, so big lesson learned for that. But both those events also happened just at the same time as industrial production in North America came off and the tariffs started to bite, so we got a bit of a double whammy from all of that as well. But net/net I would say mostly half of it is down to the market and half of it is down to us, in all candour. That is not good enough. The management team there are absolutely on it. We do have a management team who are a bunch of digital natives now.

They do understand this environment. They understand not just the distribution space but the specialist e-commerce omnichannel solutions that they are providing. But, as we look at Omega, we have clearly got to scale that business. We have made investments in the e-commerce platform. That has increased IT costs, as I talked about. It has also increased deprecation from that investment that went in. We have got to scale that business, and that is the objective for Omega as we go forward.

Mark Davies Jones: Great. And can I also ask one on Malvern? You talked about moving into predictive and prescriptive value-added. I was not quite sure what that meant.

Andrew Heath: Okay, sorry. So really, Malvern Panalytical today is known for its diagnostic capabilities. Our equipment, whether it be laser-based, X-ray diffraction or X-ray fluorescence. We are able to characterise materials and effectively diagnose samples, and they can tell the customers what is in there, what shape, size particles, delivery systems etc. But what we are also looking is, given we generate a huge amount of data from that diagnosis and the diagnostics, that allows us then to apply machine learning, big data analytics and artificial intelligence to that data set to really then think about how, the data from the tests can be predictive. So, rather than just diagnosing, but to actually predict to the customer, whether it be the lab technician or the scientist who is looking at the data, actually what this data is this telling you, what therefore you might need to do as a next step, or, if you combine it with this other piece of equipment, that gives you a much richer interpretation understanding, and then not just predicts but it can also be prescriptive about what you should do next. Do you need to rerun the sample? Need to do it in this way? Actually you are good to go, and then you need to do this next step? So we are building our software capability and working with the University of Bristol in particular in terms of gaining some of their insight and knowledge to help us start to develop that into a more solution space. Hopefully that explains it.

Jonathan (Barclays): Good morning. Hi. Three questions, please. Firstly, can you just talk a little bit about CLS? How do we think about the profitability of that business in 2020? That was the first one.

Andrew Heath: Okay, one at a time. That is fine, Jonathan. It is much easier for us; thank you. I think, from CLS, we were clear at the half-year last year that we had sustained losses in CLS. We then obviously moved to restructure. So the losses last year were slightly higher than they were at the half-year – the June half-year as we went through all that disruption. We have now closed the environmental analysis part of the business, which was doing earth and air sort of environmental analysis, and we also sold the environmental consulting business. So effectively we have halved the size of CLS and focused it on integrated drug development and discovery and food analytics, which are the more attractive higher-growth, higher-margin parts of the business. We do need to scale that business up, and as we do so we will see that return to profitability. The degree to which we move through this year and where we get to will depend on exactly where that number falls out at. But going forward this is all wrapped up now within Malvern Panalytical, and we are also doing that as a consequence of really trying to get the Malvern Panalytical expertise around the diagnostic solutions and their equipment with Concept Life Sciences as they develop new assays for pharma companies, and also bringing in Malvern Panalytical's salesforce to help grow the sales in terms of identifying new customers for CLS.

Derek Harding: And actually, as you model it and think about your modelling, it is not incremental to what I have already guided you. So if you actually think about this year's benefit from the PIP, it is coming in at £25 million and a further £10 million this year for those actions, so it is a sort of £35 million benefit for the actions taken in 2019, compared to our previous guidance. So you have got to include the benefits in CLS within all of that in the round.

Jonathan: Second question, just coming back to M&A. Can you just talk a little bit more about that in terms of size of the deals that got away? Were they bolt-ons, or were there some bigger acquisitions that you were looking at that you actually were not successful?

Andrew Heath: Well, Jonathan, I will not get into the specifics, but I think what we have always said around M&A is that we are looking at basically M&A that is immediately highly synergistic to our platform businesses, or creating potential platforms. So these are either bolt-ons or businesses that allow us to expand our market share or move us into immediately adjacent technologies, product lines, geographies etc. So we are very much focused around how do we create and look at acquisitions where we can get true synergies – particularly cost synergies, not just revenue synergies.

Derek Harding: And I would add, even after the special div, if you look at where we are on the balance sheet after the special dividend, it is about 0.4x net debt EBITDA. And in our overall guidance I have said between 1 and 2. So you can see the headroom and the capacity that we have in the general shape of the balance sheet, which will hopefully help give you insight into what we are thinking.

Jonathan: Just a final quick question, just in terms of that R&D at Malvern Panalytical there. Is there a payback on that that comes through at some point? Is it linked to a particular project or?

Derek Harding: Well, there is certainly a payback that comes from it. The timing is the key. I think, when you look at the organic growth in the year, and particularly the organic growth in Malvern Panalytical that we believe it can achieve over the next three to five years, we feel we need to give it a shot in the arm in terms of its activity. So the things that Andrew was just talking about – that AI investment, the work that we are doing down in Bristol University – all of that kind of rolls into the Malvern Panalytical investment. So you will see it come through over the next couple of years as those new products come on stream and hopefully we see the organic growth come through from that investment.

Andrew Heath: I think, again, we are being clear, Jonathan, in terms of looking at the returns that we have had historically from our R&D investment. We said at the Capital Markets Day we will maintain R&S at a range of 6% to 7%, but we also said the efficiency of that R&D historically has not been good enough. And we have been working with all our businesses through last year to really focus on that R&D effectiveness and making sure that we are really working on the right technologies aligned to the strategy, and also reducing the sustaining and maintenance burden on some of our older products. So part of the profit improvement programme was actually culling some of those older product lines that were marginally profitable or actually loss-making or just had a large burden associated with them. So we have been tidying up the portfolio, driving a high quality in that portfolio, so that we can liberate R&D resources to go and focus on new product where, frankly, we typically know best and it is a lower-risk source of applying our capital. So it is the right thing to do, and Malvern Panalytical have been very successful with a lot of their product launches over the year. And as we have looked at all that, absolutely to Derek's point, we look at getting good returns from that.

Harry Philips (Peel Hunt): A couple of questions, please. Just to be clear on the additional R&D spend at Panalytical, is that a sustained run rate going forward, i.e. it is a £5 million for the foreseeable future? And then, just on Omega, because when you look at the maths it looks like the final two months deteriorated a little bit further in terms of organic growth, so clearly the exit rate was lower than the reported rate for the year. You mentioned, Andrew, that it was half and half – half market, half yourselves. When we look at Omega in 2020, there is a question, obviously, on margins. How much do we add back, if you like, and how much weight is there on the prevailing market and the relative softness that is currently there?

Derek Harding: I think when you look at the exit rate, the half and half – a lot of the internal challenges and own goals are the second half, and all the external challenges are the second half, to an extent, because I think you see that in North American industrial production come off, certainly in the fourth quarter, and we anticipate that will continue into the first half of this year. So I think when you look at Omega certainly for H1, you will see a continuation from the market challenges. And actually across the group you will see continuations in the market challenges, but we are continuing to then get volume through on the website. We will lap ourselves on the depreciation on the website in the first half as well, so I would expect a stronger second half. Net/net overall on Omega we are probably going to be looking at a flat top line, but margin expansion at the bottom line and start to see some improvement coming through. But the exit trajectory out of 2020 should be quite strong, I think.

Richard Paige (Numis): Couple of questions, please. Academic research – two very strong years of growth in that market. Any indications on academic research, because historically it has been quite lumpy demand profile? And then secondly you have also provided sort of H1/H2 guidance in terms of EBITA, and given what you are saying on outlook, it suggests that it is going to be even more second-half-weighted than before, but if you can provide any colour on that, that would be useful, please.

Andrew Heath: Let us take the second question first. In terms of phasing, we are working hard to smooth the phasing of the profit through the year in terms of the actions we are taking internally. But given the shape of 2020 as it is looking, we are going to have a tougher first half and hopefully a bit of a rebound in the second half. So inevitably there is going to be much – the historic phasing is going to be there to some extent, just from a market underpin this year. So I think, in terms of expectation, we are trying to push it forward or smooth it, but I think this year it is going to be difficult to achieve that.

Derek Harding: Yes. Our historic range has been between 30% and 35% in the first half. As I sit here right now, I think we will be at the bottom end of that historic range as we look into the shape of 2020.

Andrew Heath: The academic research point, yes. So academic research has been strong for the last two years. I think that is really as a consequence of we are at the sweet spot of a number of new technologies that are being developed. So clearly pharma in terms of the new generic drugs, the biotherapeutics. In terms of electric vehicle development and battery development worldwide, we are doing everything in batteries and element, from looking at the characterisation of the materials, the quality of the materials, the yield of the materials. We are looking at how materials get laid down in the manufacturing process of batteries. We have got diagnostic tests where we are actually looking inside the battery during testing through X-ray, so we actually know the performance of the battery under load. We are then looking at when the battery is produced and coupled with an electric drive, how that then is going to optimise the power performance, durability, lifecycle, discharge time, charge time.

So that is creating a lot of demand for us. Things like drive-by noise – the example we showed – in electric vehicles is bringing in new requirements in automotive. Advanced materials – a lot of research going into additive layer manufacturing, fine chemicals, the next generation of semicon materials. So I think we are fortunate that we have the technologies absolutely overlay and sit on a number of those sweet spots, and that is what is driving that investment. But it comes back to what we said at the Capital Markets Day about the attractive end markets. The five markets that we have identified have been particularly around automotive, semicon, advanced materials etc, are the ones that are really going to underpin our growth going forward.

Robert Davies (Morgan Stanley): First question was around China. Just would like a little more colour in terms of what your exposure there is in terms of factories, production, manufacturing site and people as a percentage of group, and just where you are, really, in terms of how much of those facilities and people are currently operational. And then the second one was just around Industrial Solutions. Maybe you would give us a little bit more colour in terms of the different moving parts there. And I guess just know that you have been sitting on that bit which was identified – potentially bit of the portfolio you did not want to keep. Have you changed your view on any bits of that portfolio, and anything kind of working out better or worse that you had originally thought?

Andrew Heath: Great. Thanks for the questions. Where do you want me to start? Shall we start in China? So as we stand today basically all our offices are open, our factories are open. Our largest facility is just outside of Shanghai. We are over 60% staffed as today. There are still people who are effectively quarantined within China because of Chinese New Year. If they went across provincial borders, and depending on where they were, they are either not allowed to travel or they have to self-quarantine. So that has caused some disruption to our facility, but we are at about two thirds strength. Our facility in the south of the country is back up and running, again at a similar strength. In terms of offices, we are less than half staffed, but a lot of people are working from home.

So I think if you compare us to others in China and everything – our people out there, we are having daily calls with them. I think generally there are still about a third of businesses in China have not come back at all, so it just plays to the disruption that the virus is causing out there. And then I think the other key parameter is the supply chain. We clearly do source things out of China, but we are not heavily exposed to China in terms of our supply chains. We have identified those parts that are, we think, going to be critical to the manufacturing and assembly processes over the next few weeks and months, and we are basically monitoring that and have plans to deal with that as best we can. I think it just depends. If we basically stay, I think, where we are today – and who am I to predict? If we say this is going to be a February/March effect and then we recover from here, then I think it will be marginal. We should be able to contain a lot of that for us. If it gets worse, then clearly I think it is going to get worse for everybody.

Robert Davies: Sorry, just on that, is that expected then just to be a March/February impact, or would you expect a catch-up during the year? Are you just removing that from the year?

Andrew Heath: So I think there will be a Q1 impact, and then I think everybody is talking around Chinese Government stimulus that will be then launched to try and really boost the Chinese economy. So we do expect then some rebound. This is reminiscent of SARS, and as you look at SARS and what happened and try and apply some of those learnings, that is generally what happened. And the question is where does coronavirus go from here, really. Is it contained, or does it get worse? So, as we said, we continue to monitor and assess it. I think we have to remember that really this is a February thing for most people – the Western companies, at least. It has obviously been going longer in China, and we are very sympathetic to what is going out there. And we are very concerned about our employees out there and helping them, but I think, from a business impact, really we only started to see this after Chinese New Year. We fully expect everyone to go on holiday at Chinese New Year. We planned for that. As I said, January not really impacted, and it has really only then been since the beginning of February, so we are at day 20, really, in terms of a business impact. So it is still early days.

Robert Davies: And then on the Industrial Solutions part?

Andrew Heath: Yes, so Industrial Solutions. I think your question was really leading to have we changed our minds on anything. No, I think the performance last year, as I said, does underpin and underline that we have a number of high-quality niche businesses in Industrial Solutions that have been performing well. A number of those performed well in 2018 as well. I think we got 6% growth in a lot of those businesses in that year, so those have continued to perform well. I think as we look at the end markets that we have identified that were attractive and we think of the businesses – where we are going to be the best owner, where we are going to place the investments – I think our view on that is still the same.

Robert Davies: Thank you, and then maybe just one final one. Just around some of the end-market dynamics coming into the early part of the year, maybe could you provide a little bit more colour in terms of some of the end markets that you are maybe expecting to be the biggest positive surprise or biggest negative surprise over the first half? You have obviously mentioned this market dynamic of slowing through the first half, getting better in the second half. Maybe just within it, because you obviously cover a lot of different segments, maybe just give us a little colour on where you are most or least positive on the first half. Thank you.

Andrew Heath: Yes. I guess, as we see end markets, I would say things are sort of spotty. There are spots of concern, but equally there are spots of still strong growth, and we are trying to be as agile as we can to go and focus on those areas of growth and maximise the opportunities. The ones that are still strong are certainly academia. We are seeing the advanced materials part of our market doing well. Semicon I think has basically flattened, and all the signs are that, depending on where you are in the cycle on semicon, that will start to pick up through this year. That is all the industry commentators who are saying that. Pharma in the US has been on a slowdown through last year, as I said, but in Europe and Asia it has been doing well. What else have I not covered? Automotive – the signs are for auto in the US, Asia, Europe that generally it seems to have troughed from what we have seen. Now obviously all these things are subject to what happens with coronavirus and what happens from here, but I think in auto we have seen it trough, and therefore it is just how long that trough lasts for. I think that covers off most of the key trends.

Robert Davies: Great. Thank you.

Andy Wilson (JP Morgan): Just a quick one for Derek, actually, on cash flow and working capital specifically. It feels like it is very much work in progress, given the time being, the role and, I think, a big opportunity that we all identified at the end of last year. Just interested on what is changing within the business, where the business is looking at cash, how you are thinking and targeting cash, just to get a sense of what that looks like over the next 12 to 25 months, maybe.

Derek Harding: Sure. So I think I said at the half-year, or certainly at the Capital Markets Day, that we felt that using working capital to improve customer service and our reliability was a useful use of funds in 2019. I am not surprised to see no sort of major improvement, and in fact we guided between 11% and 15% and I am at 13.7%, so I think that is pretty much spot on in the range. Notwithstanding that, though, we think we can do better, so as you look at 2020 all of the businesses have clear cash cycle targets. We are changing the focus in terms of how we look at cash within the business, so very clear focus on inventory days, very clear focus on receivable days, payable days, and just making sure that everybody in the organisation understands the levers that they can pull to improve on that. I think we will see incremental gains throughout the year. What I am very aware of and nervous of, though, is that you can easily hit targets by doing daft things, so that is why you need to be really clear about what the core drivers are and make sure this is sustainable, and that is the focus that we have got. I am not going to give you a number of guidance on this, frankly, because this is a new way of looking at it internally. We have got to push the guys and be very clear. I know exactly what their targets are, and I hope they hit them, and we will come back at the end. But in terms of specifically giving a cash release through working capital, there are so many other variables in terms of what the top line does, the mix of performance within our businesses, the working capital structure in our businesses is different, so let us just see where the progress goes. The other thing I would point out is that, from an incentive perspective, we have also changed the incentives, both for Andrew and I and all the way down the organisation, such that working capital improvement is 20% of it, so have no doubt it is under scrutiny in 2020.

Tom Fraine (Shore Capital): Just back to China, if you could touch on how your customers are affected by it and whether they are in restricted regions or nearby. Understandably, you might not have an idea of the impact on their own supply chains, but could you touch on any of the orders that you are receiving from them?

Andrew Heath: I think, from a customer perspective, it to some extent depends where they are in China at the moment. Clearly the Wuhan province is still all closed down. But we are still supporting our customers, both remotely but progressively now face to face. I think everybody in China is restricting the travel, obviously, so customers are not necessarily asking for people to go. But where we have critical demands we are looking at all of those and trying to release people to go and visit customers and try and maintain support to them, which is important, clearly. We are doing it in a very responsible way.

Any other questions? I appreciate that we have run for 80 minutes, so let us wrap up. Derek and I will be around afterwards, so happy to carry on talking to you, but I think, just by way of summary, again, thank you for coming, both physically and those who have joined on the webcast. Thank you for joining us. 2019 I think was a year of good progress. I am pleased about a lot of what we did last year. I think 2019 showed demonstrable progress against delivering on our profit improvement programme, but also about executing on our strategy. There are a number of touchpoints, as I think you can see, that show that the execution of our strategy is absolutely on track. But there is clearly more to do, and we are very focused, especially in the current end-market environments, on what we need to do, as we have explained today. Thanks again for coming.