

# Strategy for Profitable Growth

**2020 full year results**



*Value  
beyond  
measure*

Andrew Heath  
Chief Executive

# Balanced and socially responsible approach

- Safeguarding the welfare of our employees and supporting our customers remains our top priority
- Balanced, socially responsible approach, consistent with our values, delivered resilient and sustainable financial performance ahead of expectations
- Dividend increase of 5% for the full year and £200 million share buyback announced
- Continued to execute strategy – PIP completion and further cost actions in 2020, combined with sale of Millbrook and B&K Vibro will enhance margins in 2021
- Group positioned well as markets recover – cost base reduced, capability retained, strong operating leverage opportunity, balance sheet optionality



# Our strategy is driven by our purpose

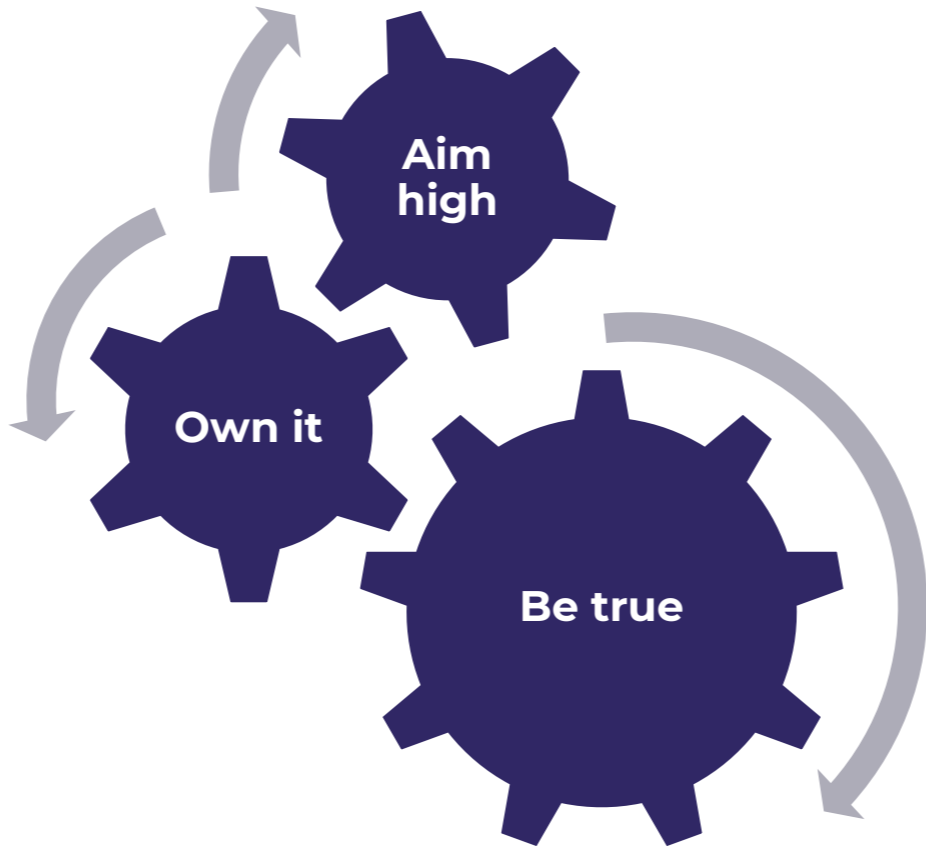
## Our Strategy for Profitable Growth is defined by our purpose and built on our values

### Purpose

Our purpose is to *deliver value beyond measure*

We harness the power of precision measurement to equip our customers to make the world *cleaner, healthier and more productive*

### Values




### Strategy



# Sustainability strategy being implemented


## Our sustainability strategy is centred around three areas

**Environment**




- Agreeing carbon reduction strategy for each platform
- Publishing Group net zero ambition with interim science-based targets
- TCFD compliant by end of 2021 - climate risk scenario analysis by each platform and ISD business

**People**



- Implementing programme of training on diversity and inclusion
- Further developing our culture of values-based, high performance
- Launching our first global recognition programme

**Operations**



- Strengthening our supply chain assurance processes
- Developing a lens for sustainable product categorisation for use in R&D and marketing
- Strengthening risk management

## 2020 progress

- Sustainability strategy approved by Board
- Dedicated sustainability Executive presence
- Sustainability Steering Group building momentum across the business



## 2021 plan

- Net zero target (science-based targets)
- TCFD compliance
- Key people initiatives
- Supply chain review
- Launch of Spectris Foundation





# A balanced approach to managing our business

## React

### Support employees, customers and suppliers

- Health, safety and wellbeing of our people our key priority
  - Enabled working from home
  - Revised working practices in facilities
  - Enhanced safety standards
- Kept operations running for customers, rapidly innovating to provide support remotely
- Increased virtual engagement
- Quickly expanded capacity for essential components and services
- Worked with suppliers to mitigate potential supply chain impacts
- Pledged to work with and to support any small supplier suffering hardship

## Respond

### Reduce costs and preserve cash to protect the business

- Temporary measures introduced:
  - Headcount freeze
  - Salary reductions
  - Reduced hours and/or furloughs
- Reduced discretionary expenditure
- Limited capex to key projects
- Maintained R&D spend
- Withdrew special dividend
- Postponed 2019 final dividend

## Reset

### Prepare for the recovery

- Temporary measures reversed:
  - Salaries reinstated in Q3
  - Salary sacrifice recompensed in Q4
- Sustainable cost reductions:
  - Footprint rationalisation
  - Reduction in discretionary costs; eg T&E & non-digital marketing spend
  - Resizing capacity
- Additional interim dividend paid in October, in lieu of 2019 final dividend
- 2020 interim dividend paid in November
- 5% growth in 2020 full year dividend

# Well-positioned for 2021 and beyond

- Market recovery in 2021 and beyond, although uncertainty remains in the near term
- Q4 orderbook provided momentum into Q1 2021
- Investment in the business maintained and capability retained
  - R&D spend sustained; new products launched
  - Investment in strategic growth initiatives
- Cost base reduced giving strong operating leverage opportunity
  - Restructuring implemented
  - Deploying the Spectris Business System
- Portfolio optimisation enhances margin
- Balance sheet optionality



# Derek Harding Chief Financial Officer



# 2020 scorecard – sales impacted by COVID-19; strong cashflow

Sales growth	✗	-11% LFL decrease
Operating profit growth	✗	-26% LFL decrease
Operating margin expansion	✗	-270bps LFL decrease
Working capital management	≡	+0.1%
Cashflow	✓	+50pp
ROGCE	✗	-370bps LFL decrease

## Sales growth

- Challenging topline performance given pandemic-related customer access issues and broader macro environment

## Operating profit growth

- Drop-through limited to 38%, ahead of guidance of 40-50%

## Operating margin expansion

- Restructuring programmes and cost saving actions saw an 8% LFL fall on overheads, limiting margin decline

## Average working capital

- Increased by 0.1% to 14.0% of sales, within 11-15% guidance

## Cashflow

- Improved cashflow conversion to 141%, cashflow generation ahead of 2019 - proactive WC management, lower capex

## Return on gross capital employed

- Decrease in operating profit on broadly stable capital base

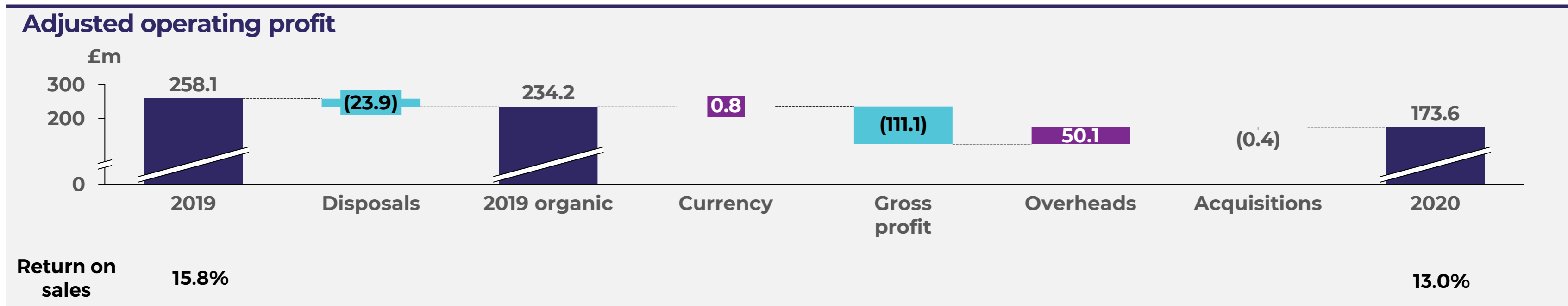
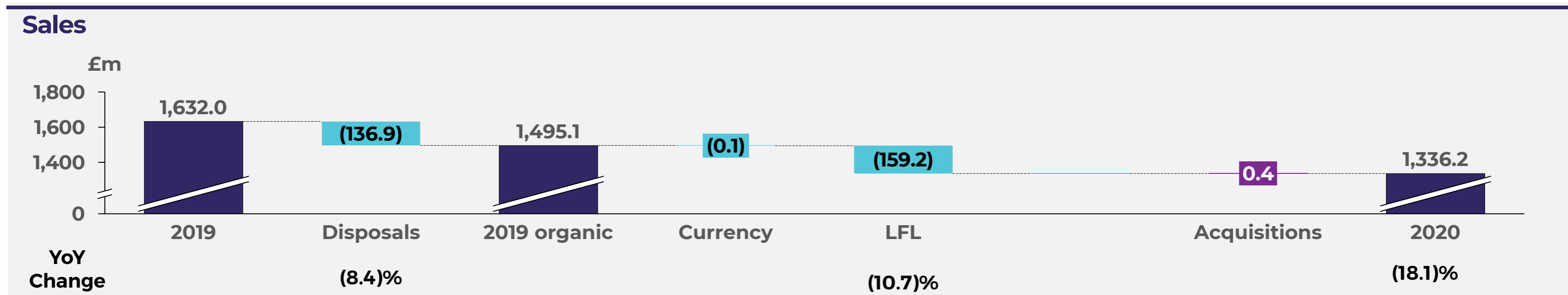
# Resilient and sustainable financial performance

	FY2020	FY2019	Change	Like-for-like change <sup>2</sup>
Sales (£m)	<b>1,336.2</b>	1,632.0	(18%)	(11%)
Adjusted operating profit (£m) <sup>1</sup>	<b>173.6</b>	258.1	(33%)	(26%)
Adjusted operating margin (%) <sup>1</sup>	<b>13.0%</b>	15.8%	(280bps)	(270bps)
Adjusted profit before tax (£m) <sup>1</sup>	<b>166.4</b>	247.4	(33%)	
Adjusted effective tax rate (%) <sup>1</sup>	<b>21.8%</b>	21.4%	40bps	
Adjusted EPS (pence) <sup>1</sup>	<b>112.1p</b>	168.0p	(33%)	
DPS (pence) <sup>3</sup>	<b>68.4p</b>	65.1p	5%	
Adjusted cash conversion (%) <sup>1</sup>	<b>141%</b>	91%	50pp	
Net cash (£m)	<b>106.1</b>	33.5	217%	
Return on gross capital employed (%) <sup>1</sup>	<b>9.8%</b>	13.5%	(370bps)	

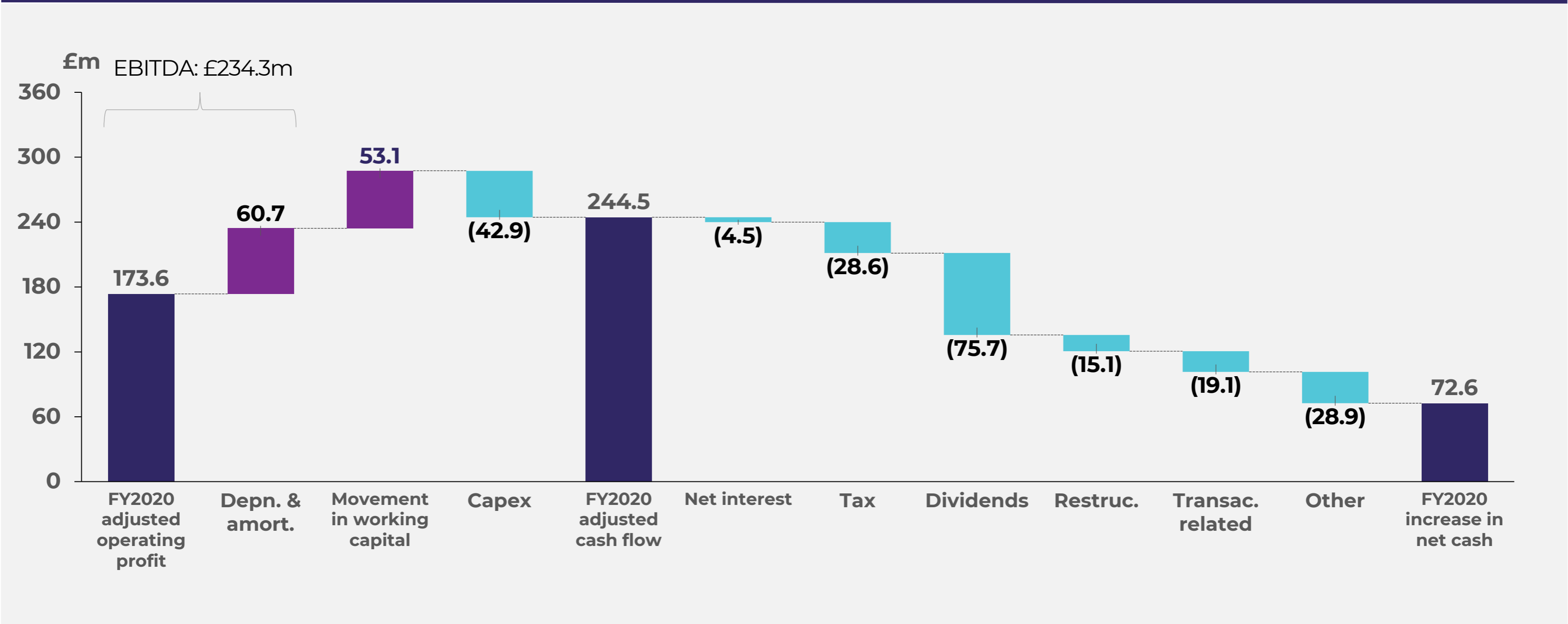
## Notes

1. These adjusted performance measures represent the statutory results excluding certain items.
2. At constant exchange rates and including acquisitions and disposals on a comparable basis ('LFL').
3. The 2019 dividend of 65.1p includes the 43.2p 2019 final dividend that was declared on 20 February 2020 and subsequently postponed in response to COVID-19. An additional interim dividend of 43.2p was paid in October 2020.

# Sales impact mitigated by overheads cost control



# Strong cash flow generation



# Adjusted and statutory operating (loss)/profit

	FY2020	FY2019
Adjusted operating profit <sup>1</sup>	173.6	258.1
Restructuring costs	(19.5)	(52.2)
Net transaction-related costs and fair value adjustments	(19.4)	(6.1)
Depreciation of acquisition-related fair value adjustments to property, plant and equipment	(0.7)	(1.0)
Profit on disposal of property	-	5.2
Impairment of goodwill	(58.4)	(35.1)
Amortisation and impairment of acquisition-related intangible assets and impairment of other property, plant and equipment	(98.9)	(84.6)
<b>Statutory operating (loss)/profit</b>	<b>(23.3)</b>	<b>84.3</b>

## Notes

1. These adjusted performance measures represent the statutory results excluding certain items.

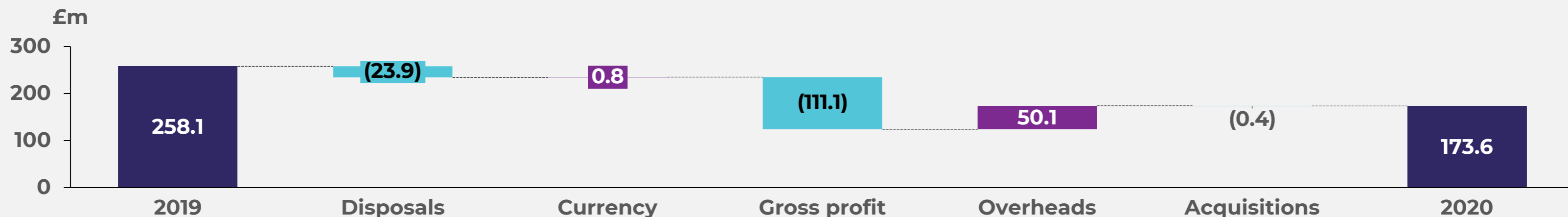


# Statutory (loss)/profit before tax

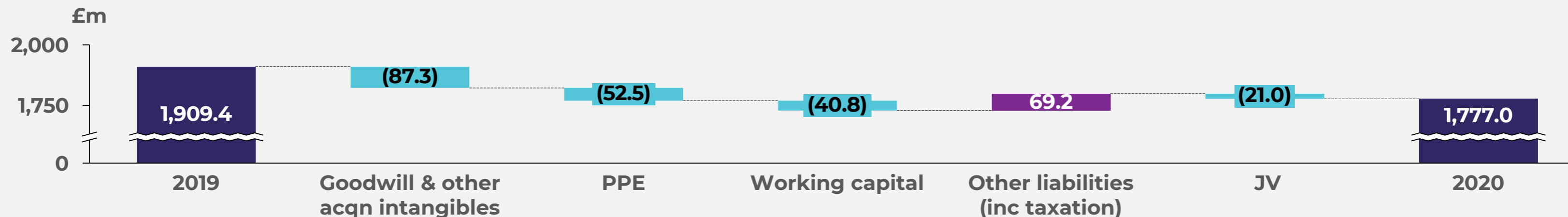
	FY2020	FY2019
<b>Statutory operating (loss)/profit</b>	<b>(23.3)</b>	<b>84.3</b>
Fair value through profit and loss movements on equity investments	23.2	-
Share of post-tax results of joint venture	-	(4.9)
Impairment of non-current receivable from joint venture	-	(21.3)
Profit on disposal of businesses	4.4	204.7
Financial income	1.8	7.9
Finance costs	(10.2)	(11.4)
<b>Statutory (loss)/profit before tax</b>	<b>(4.1)</b>	<b>259.3</b>

# Return on gross capital employed

## Adjusted operating profit



## Average gross capital employed



ROGCE 13.5%

9.8%

# Disposals pro-forma

	<b>2020 reported</b>	<b>2019 reported</b>	<b>2018 reported</b>	<b>2020 pro-forma</b>	<b>2019 pro-forma</b>	<b>2018 pro-forma</b>
Sales	<b>1,336.2</b>	1,632.0	1,604.2	<b>1,218.5</b>	1,384.5	1,362.2
Overheads	<b>563.1</b>	663.1	659.4	<b>519.4</b>	568.5	568.4
Adjusted operating profit	<b>173.6</b>	258.1	248.3	<b>173.3</b>	222.3	215.6
Adjusted operating margin	<b>13.0%</b>	15.8%	15.5%	<b>14.2%</b>	16.1%	15.8%
Adjusted cash conversion	<b>141%</b>	91%	59%	<b>138%</b>	106%	74%
Adjusted EPS	<b>112.1</b>	168	164.9	<b>111.9</b>	143.7	142.6
Statutory operating (loss)/profit	<b>(23.3)</b>	84.3	176.4	<b>109.3</b>	59.4	154.8
Closing headcount	<b>8,550</b>	8,903	9,973	<b>7,636</b>	7,976	8,443

Note: Pro-forma numbers exclude BTG, Millbrook and B&K Vibro for the full three-year period shown above for comparable purposes. These do not represent like-for-like alternative performance measures as described in our Annual Report and Accounts.

# 2021 considerations

Sales growth	↑
Operating profit growth	↑
Operating margin expansion	↑
Working capital management	≡
Cashflow	≡
ROGCE	↑

Headwinds	Tailwinds
<ul style="list-style-type: none"> <li>• COVID-19</li> <li>• Unwind of temporary COVID-19 savings £10 million</li> <li>• Overheads inflation of 2% (£10 million)</li> <li>• £ strength against the \$ (translation effect)</li> </ul>	<ul style="list-style-type: none"> <li>• End market recovery relative to 2020</li> <li>• £40 million cost savings banked in 2020</li> <li>• Further product launches</li> <li>• Additional focus on core activities following disposals</li> <li>• Continued delivery of the Spectris Business System</li> </ul>

Impact of 1 cent change versus GBP	2021 sales £m	2021 adj op profit £m	Financial guidance
EUR	3.0	0.4	<ul style="list-style-type: none"> <li>• Capex anticipated to be c. £50 million</li> <li>• Adjusted tax rate of 22%</li> <li>• Working capital ~14% of sales</li> <li>• Limited restructuring costs</li> </ul>
USD	3.3	0.5	

# Andrew Heath Business update



# 2020 scorecard – continuing to execute our strategy

Operating leverage	✓	£40m ongoing benefit from restructuring
Portfolio management	✓	Divestment of Millbrook and B&K Vibro
Capital allocation: Business	✓	Capex -47%
Capital allocation: Dividend	✓	DPS +5%
Capital allocation: M&A	—	No acquisitions
Simplify and focus	✓	Lower margin activities being exited

## Operating leverage

- Overheads reduced by 8% on LFL basis

## Portfolio management

- Further divestments achieved
- Exited lower margin products/activities

## Capital allocation: Business

- Capex constrained to key projects
- Notable reduction at Millbrook

## Capital allocation: Dividend

- Dividend growth of 5% for the full year
- £200 million share buyback

## Capital allocation: M&A

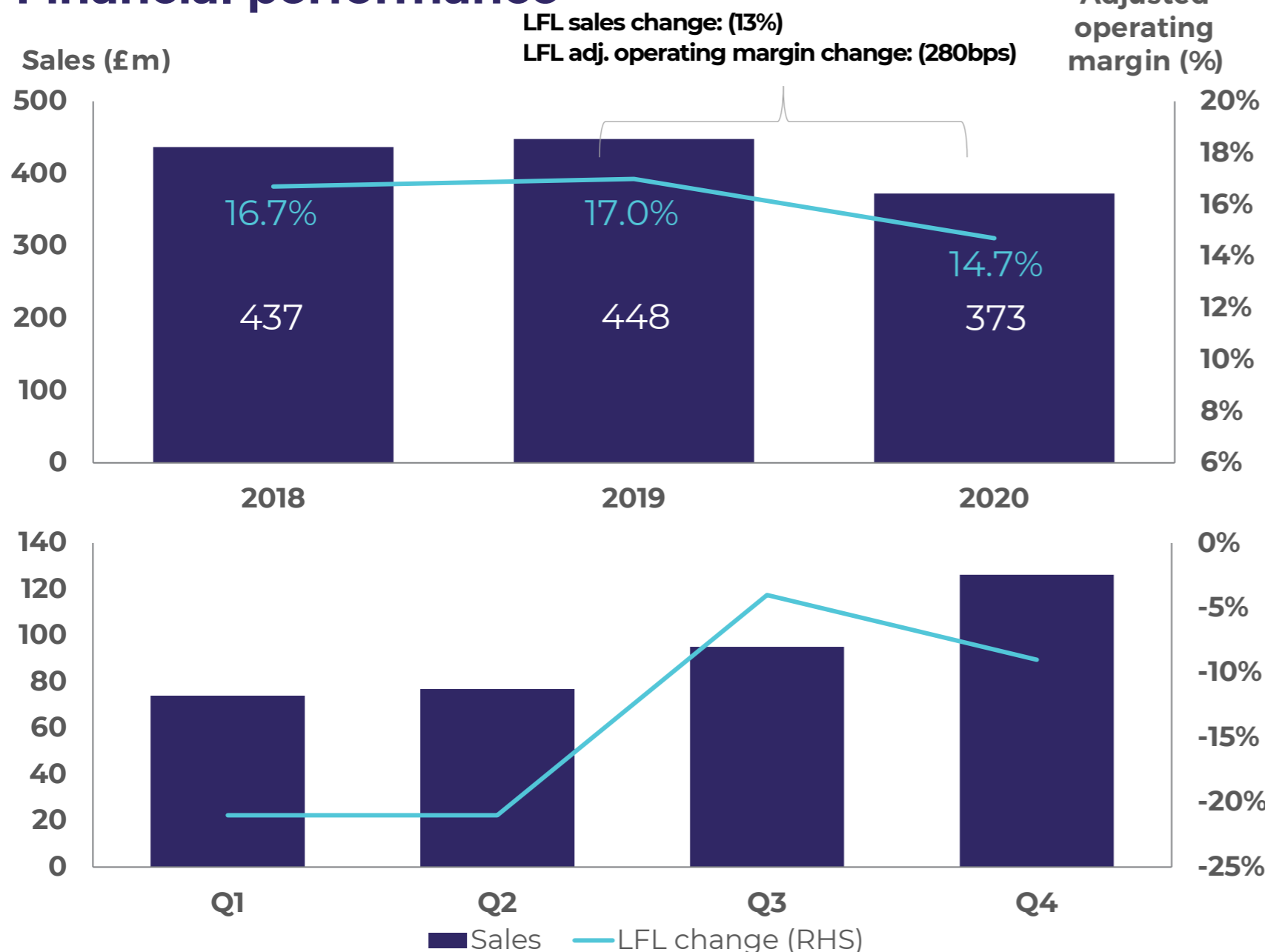
- Participated in various opportunities, but retained discipline

## Simplify and focus

- Divestments and product line exits - focuses Group on its target markets and higher margin activities

# Malvern Panalytical – financial and strategic update

## Financial performance

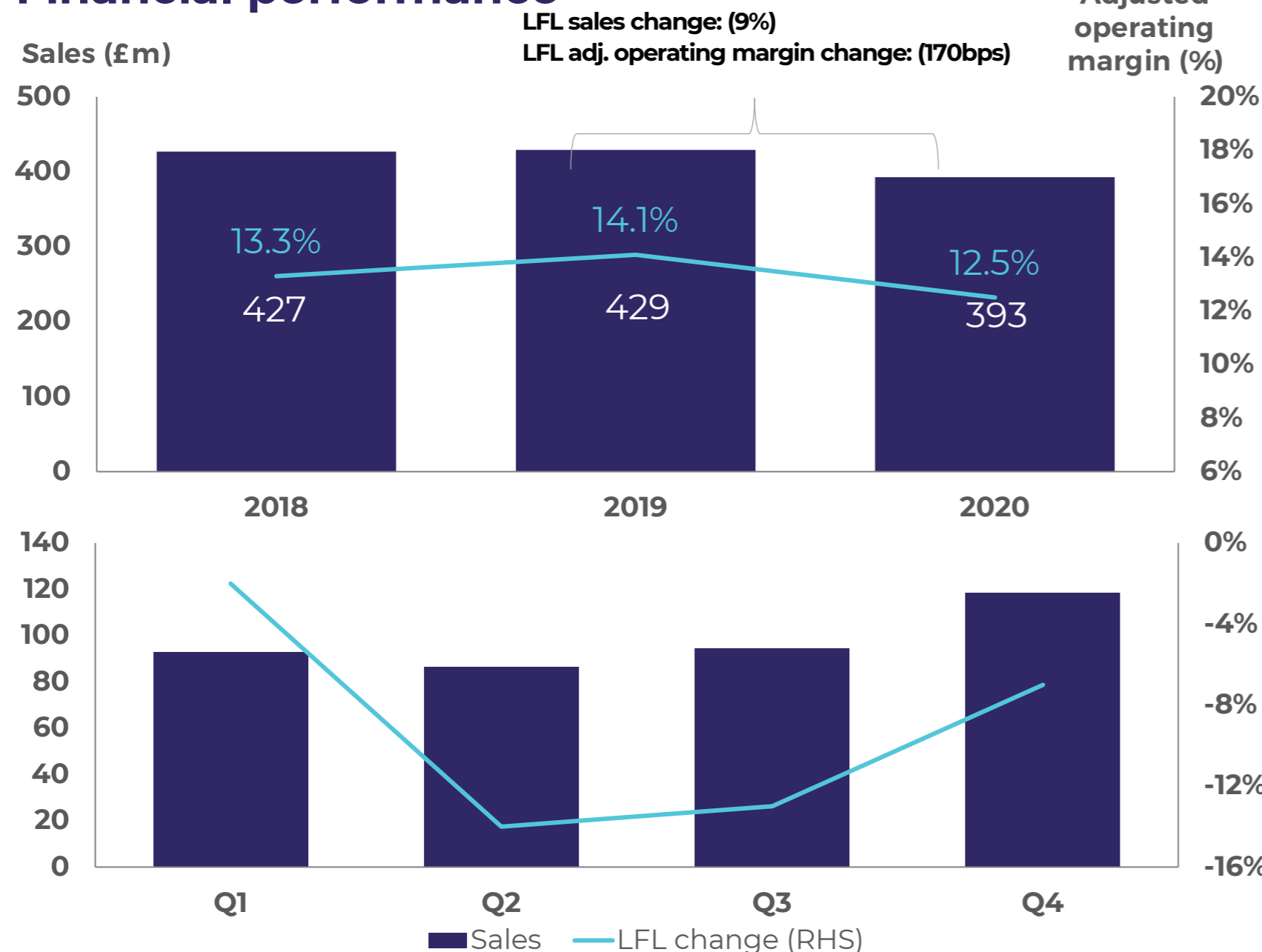


## Strategic update

- Slowdown coming into 2020, further impacted by COVID-19 shutdowns and installation delays
- Much improved H2 performance, especially in pharma
- Growth in 2021 driven by:
  - Pharma - increase in onshoring; uplift in vaccine/viral vector manufacturing
  - Primary materials - economic recovery expected to drive a revival
  - Advanced materials - emerging battery technologies, a greater environmental focus and a shift to digital solutions support growth
- New products launched, with software, services and analytics being a key focus area
  - Amplify Analytics and OmniTrust – supporting accelerated drug development
  - Zetasizer Advance - greater flexibility and upgradeability
  - 1Der detector for XRD platform - step change in data quality
- Expanding capabilities in data science, machine learning and AI

# HBK – financial and strategic update

## Financial performance

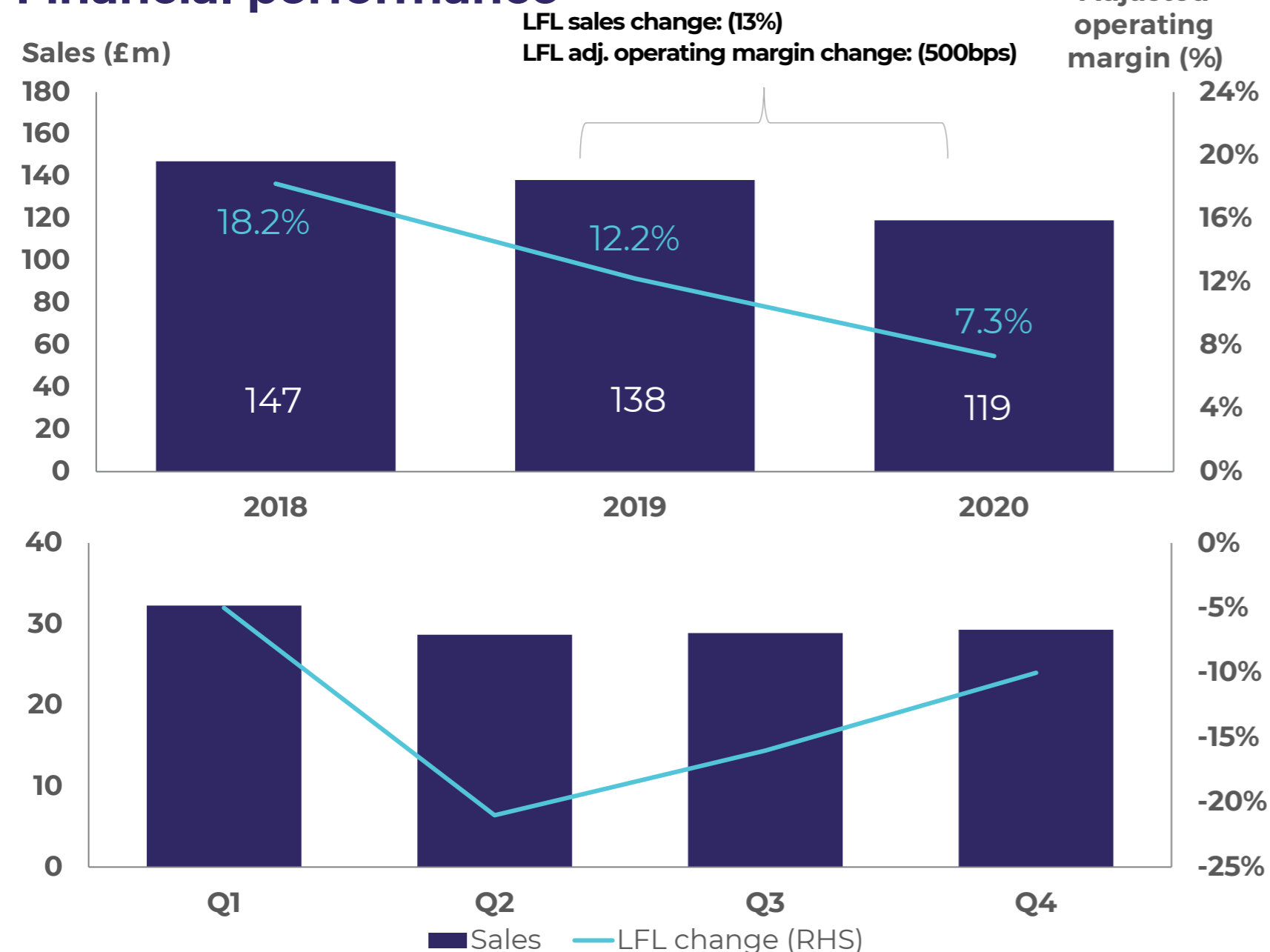


## Strategic update

- Resilient performance with strong H1 and later cycle impact
- Automotive and A&D materially lower; strong growth in machine manufacturing sector
- Growth in 2021 driven by:
  - Automotive - technological advances in hybrids/EVs/CAVs supporting R&D spend
  - A&D - investment in new carbon-neutral propulsion concepts; satellite/space markets more resilient
- Merger initiatives have better positioned HBK, activities continue
- Simulation and software products launched
  - WorldSim - simulation software environment for testing ADAS/AV
  - DiM<sup>®</sup>400 - high performance, scalable, cable-driven simulators
  - Acquisition of IMTEC Engineering - driving simulators and machine automation systems
- eDrive testing system for electrical inverters expanded and extended to eGrid testing
- Strengthened sensor and software offering

# Omega – financial and strategic update

## Financial performance

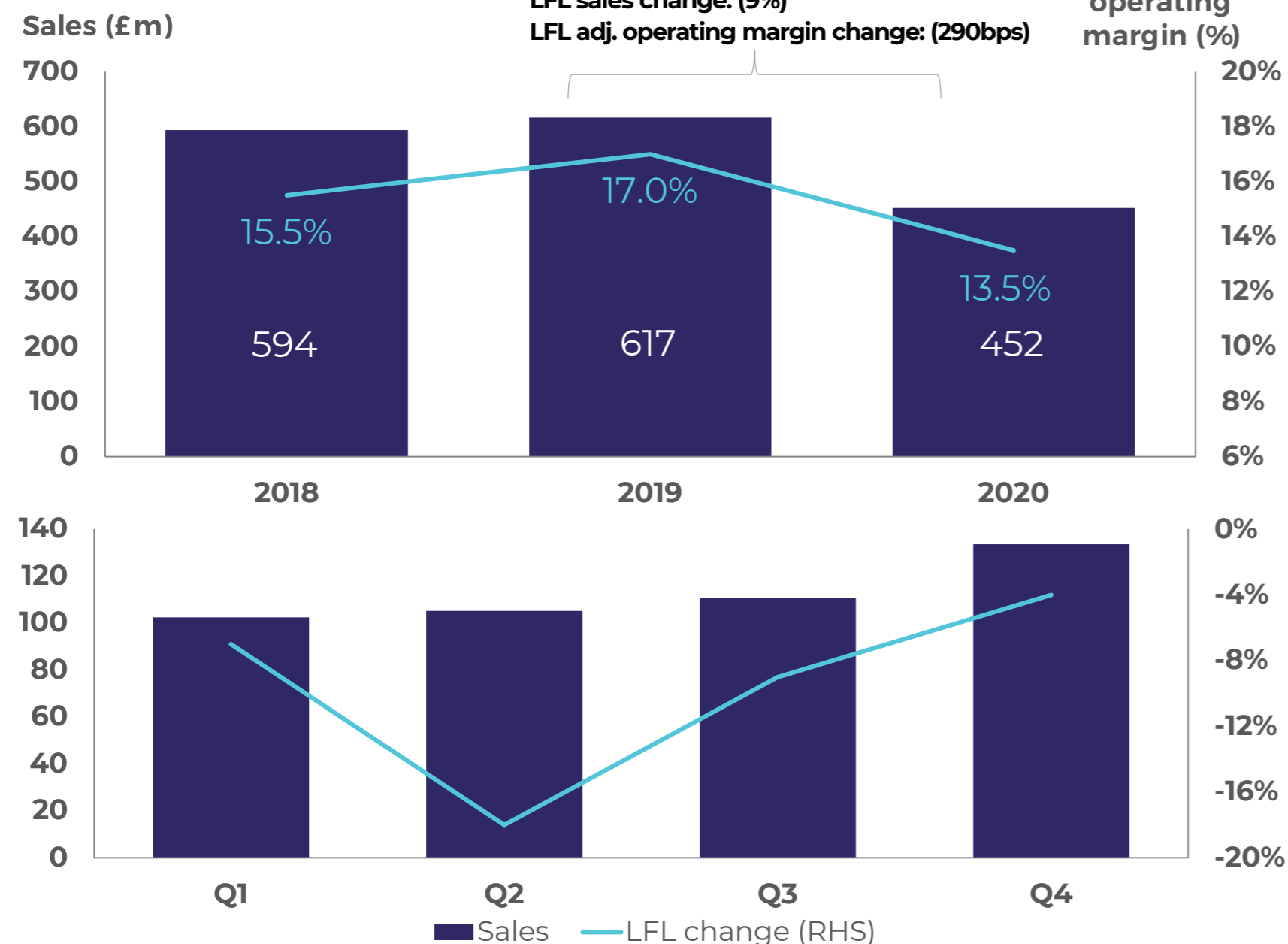


## Strategic update

- COVID-19 business disruptions in North America and Europe; growth in Asia, especially South Korea
- Modest growth expected in H1 2021, with recovery gaining pace in H2; demand in Asia more positive, supported by semicon outlook
- Four strategic initiatives underway to drive organic growth
  - Optimising the digital customer experience
  - Expanding sales distribution channels and developing new partnerships
  - Accelerating product development to expand the product offering
  - Continuing to simplify the business and improve operational performance

# Industrial Solutions – financial and strategic update

## Financial performance



## Strategic update

- Resilient performance, particularly at Servomex and PMS
- Growth in 2021 driven by:
  - Semicon/electronics - rising chip demand and LED demand in consumer products, cloud computing, 5G infrastructure roll-out
  - Pharma - increase in onshoring; uplift in vaccine and viral vector manufacturing plus increased regulatory monitoring
  - Emissions control and increasing focus on environmental issues
  - Expansion in digital/automation solutions and connectivity
- New products launched
  - Servomex – new variant of Paracube oxygen sensor
  - PMS - IsoAir® Pro-E Remote Particle Counter
  - Red Lion Controls - FlexEdge™ Intelligent Edge Automation Platform
- Divestment strategy to continue post B&K Vibro and Millbrook
- Mary Beth Siddons appointed as Business Group Director
- Focusing on building out platforms



# Cleaner

Future-proofing hybrid and electric powertrain testing

Loccioni has been a leader in the technological advances in the automotive industry, providing test equipment and services for hybrid and electric powertrains.

Loccioni needed a measurement solution for powertrain testing with a high degree of expandability and flexibility.

HBK's eDrive system is easily integrated with their existing equipment, and the expandability and flexibility of the hardware means that that it can be readily upgraded in response to future measurement requirements.



# Healthier

Supporting GE Healthcare in ventilator production

Hummingbird Sensing Technologies (Servomex) produce high performance, paramagnetic oxygen sensors used in critical care ventilators to monitor the amount of oxygen administered to a patient.

GE Healthcare provide critical care ventilation solutions and partnered with Servomex to rapidly ramp up the supply of sensors to respond to COVID-19.

This included a large expansion of the clean room operation where the sensors are produced and launching a new variant of the Paracube, that is much faster to manufacture, at much greater volumes.



# More productive

Improving mining productivity, quality and safety

Mining companies need to ensure the safe and efficient operation of their facilities and are actively working on reducing the cost of mineral extraction and energy consumption.

Malvern Panalytical was selected by SCOTT Technology Ltd, for the engineering, design, equipment supply and the provision of a fully automated robotic analytical system at Rio Tinto's Koodaideri iron ore project in Australia.

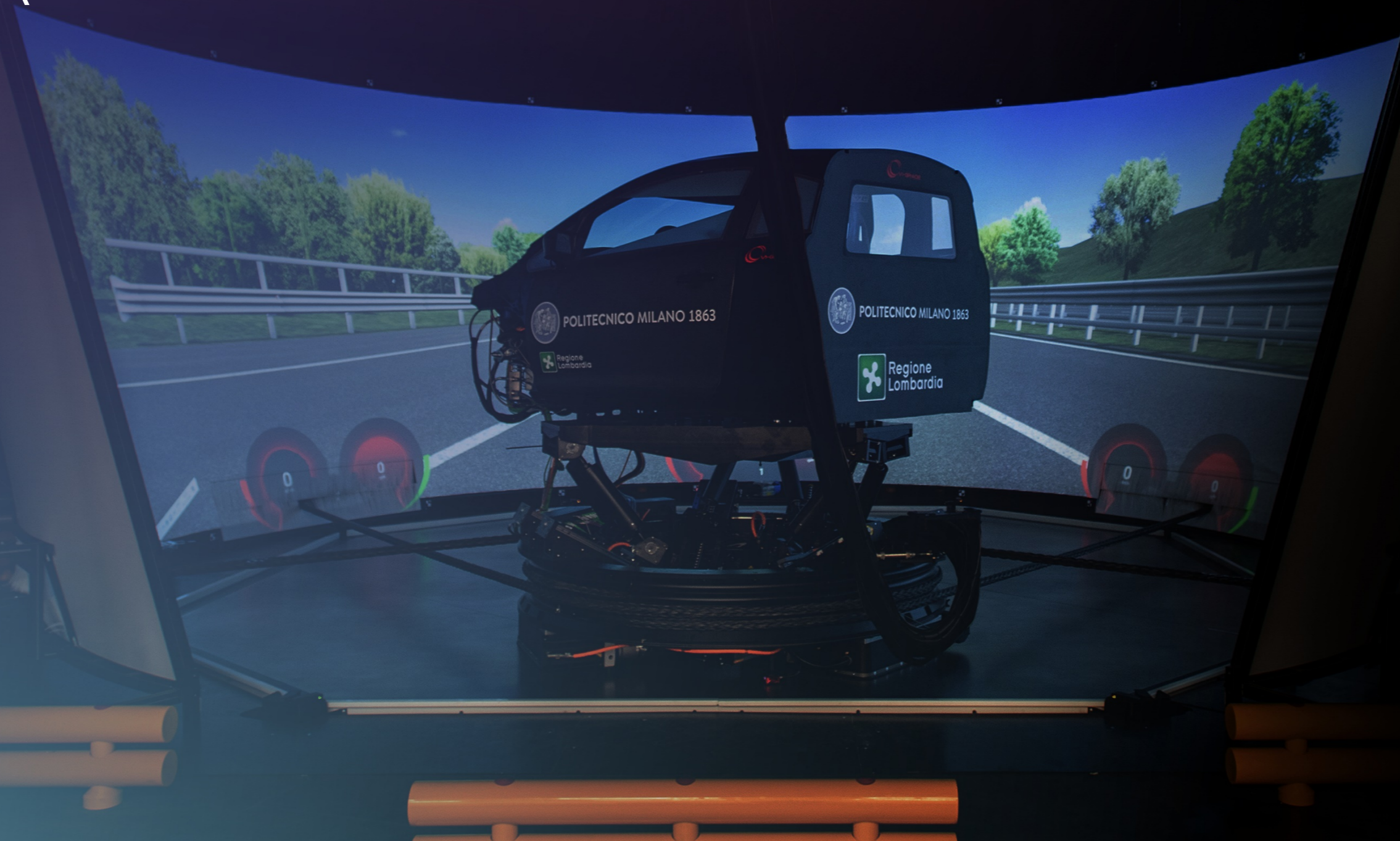
The project is a major step forward in the combined offering of automated solutions and will enable this facility to be one of the safest, highest quality, and most productive iron ore laboratories globally.

# Well-positioned for 2021 and beyond

- Balanced approach to managing the business
  - Maintained investment in the business and retained core capabilities
  - Temporary cost measures reversed
- Resilient financial performance delivered, with drop-through limited by cost actions
- Strong cashflow generation further strengthens the balance sheet
- Dividend reinstated, full-year dividend increased and £200 million share buyback announced
- Group is in an enhanced position coming into 2021:
  - Q4 orderbook provided momentum into Q1 2021
  - Cost base reduced, increasing operating leverage opportunity
  - Portfolio optimisation enhances margin
  - We will continue to deploy SBS
  - Balance sheet strength provides optionality
- Will maintain our approach, acting with purpose, to deliver long-term, sustainable financial health

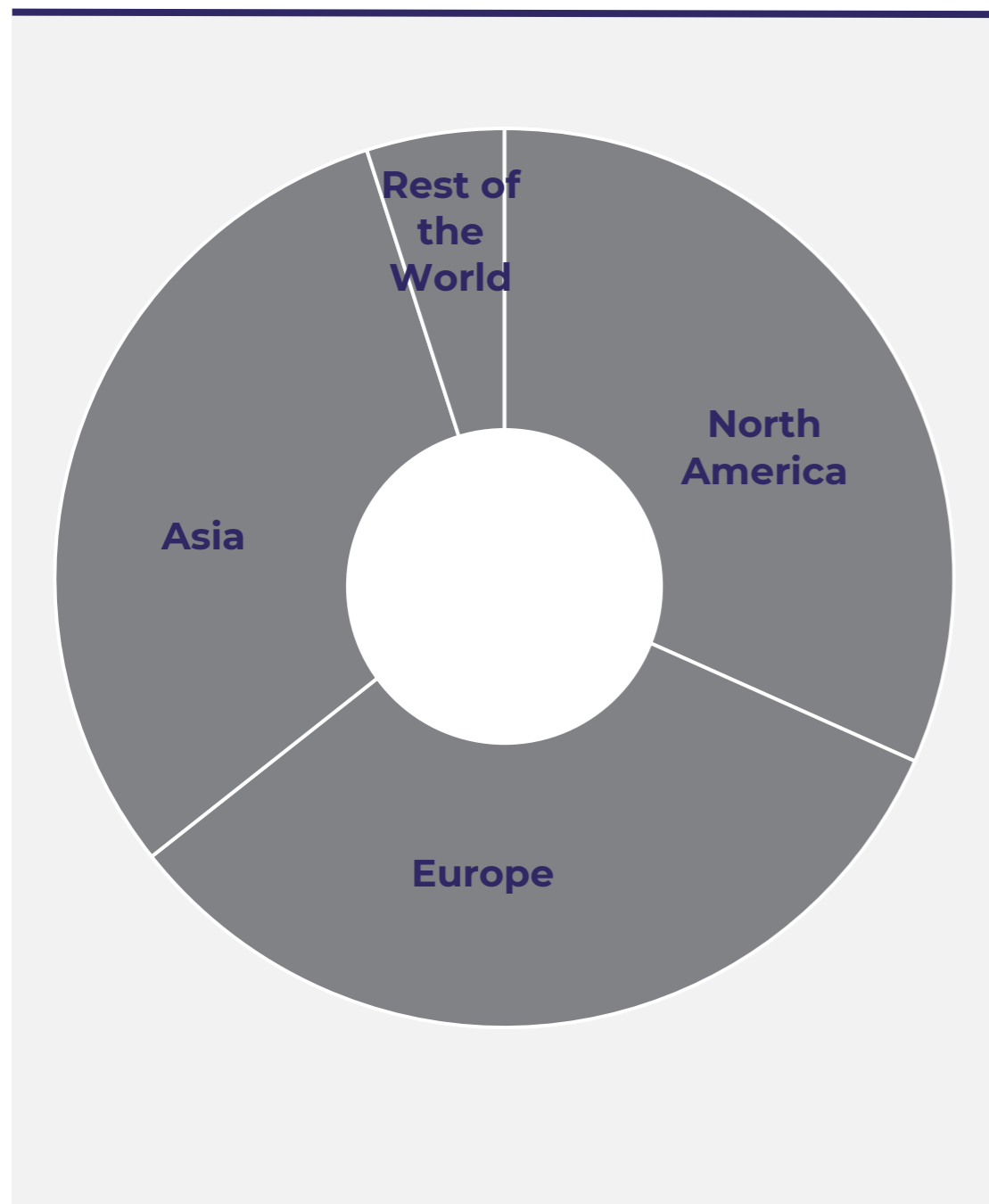


# Q&A



# Appendix

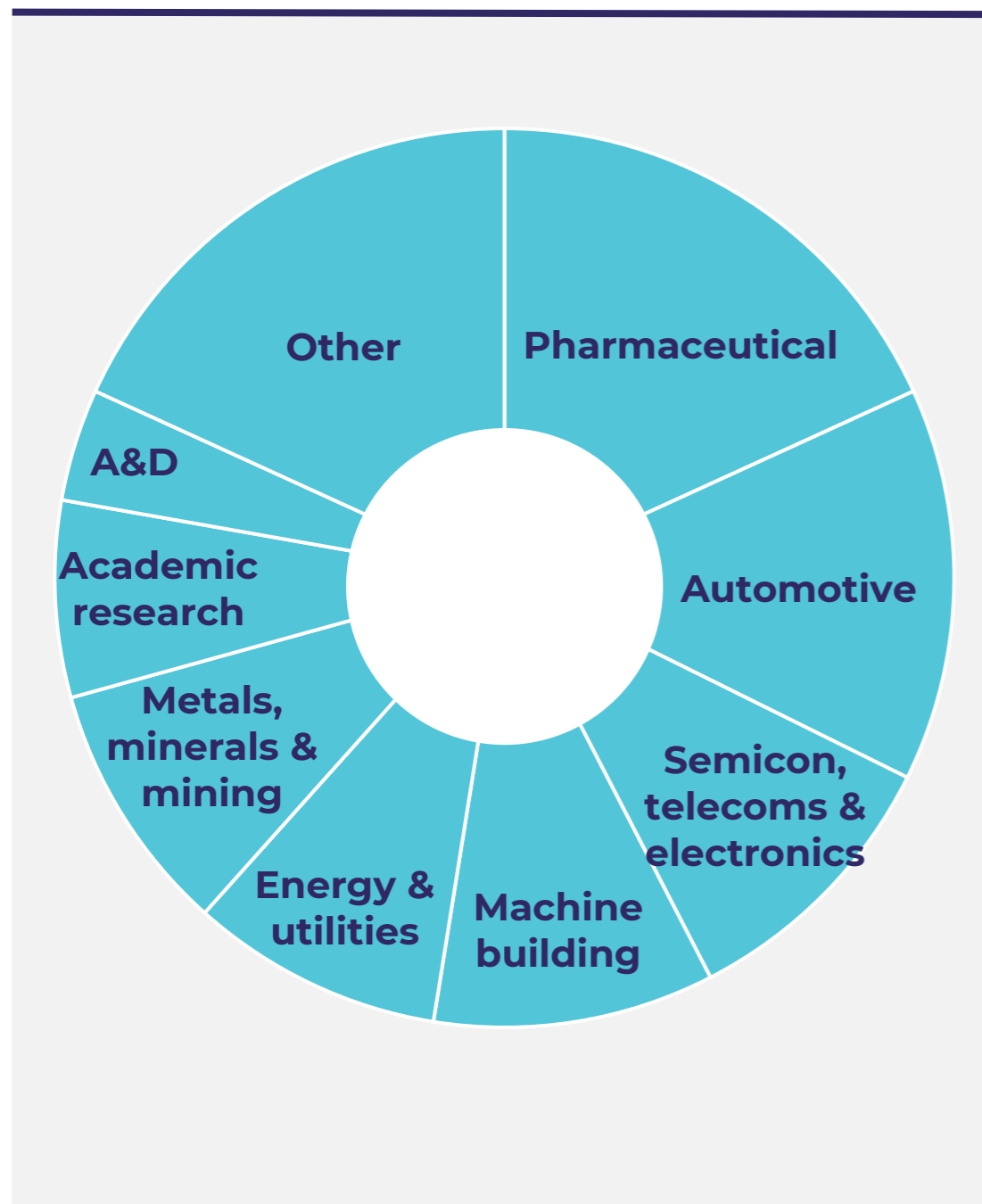
# Sales by destination



Destination	% of Group sales	LFL change FY2020	LFL change FY2019
North America	32%	<b>(8%)</b>	<b>(3%)</b>
Europe	33%	<b>(13%)</b>	<b>(1%)</b>
Germany	9%	<b>(14%)</b>	<b>(6%)</b>
UK	8%	<b>(13%)</b>	<b>(7%)</b>
Asia	31%	<b>(11%)</b>	<b>+3%</b>
China	14%	<b>(5%)</b>	<b>(1%)</b>
Japan	5%	<b>(10%)</b>	<b>+2%</b>
Rest of the world	4%	<b>(15%)</b>	<b>+14%</b>

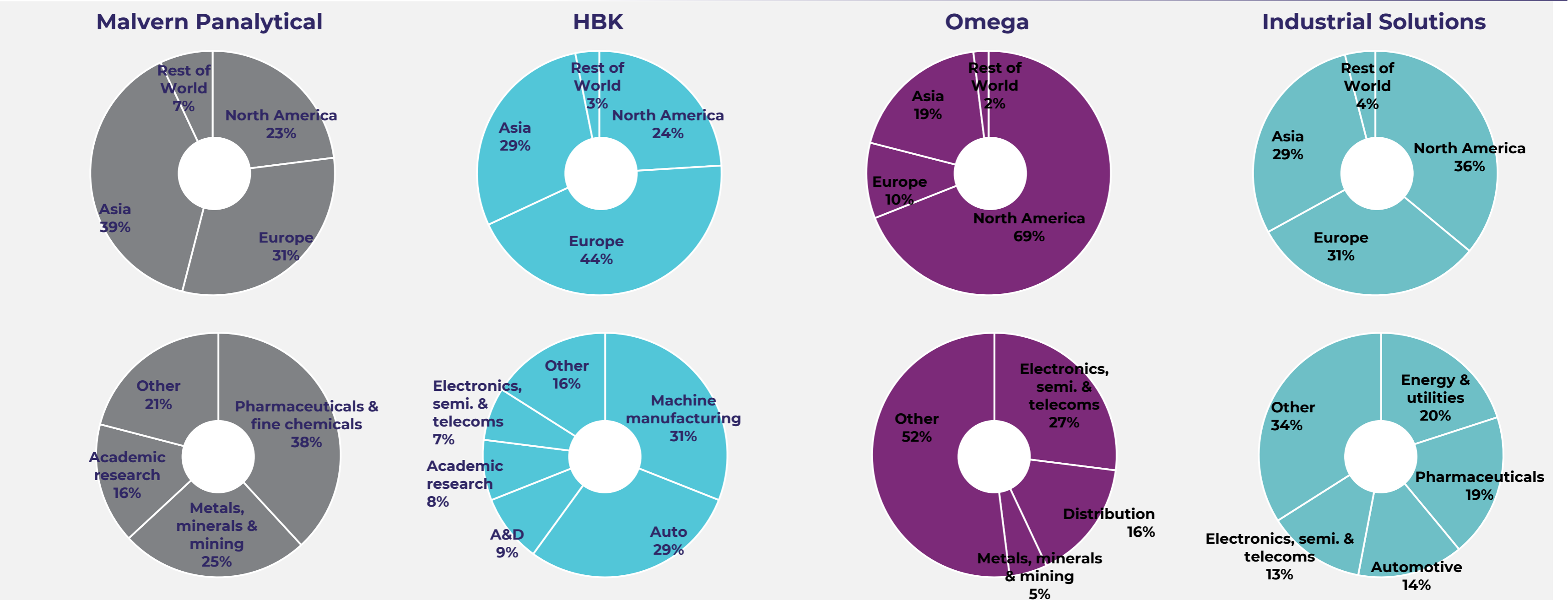


# Sales by end market



End market	% of Group sales	LFL change FY2020	LFL change FY2019
Pharmaceutical	18%	+4%	+2%
Automotive	14%	(21%)	(2%)
Semiconductor, telecoms & electronics	10%	(13%)	(2%)
Machine manufacturing	10%	+12%	(3%)
Energy & utilities	9%	(19%)	+8%
Metals, minerals & mining	9%	(14%)	(6%)
Academic research	7%	(24%)	+20%
Aerospace & Defence	5%	(0.5%)	+5%
Other	18%	n.a.	n.a.

# Sales by destination and end market



# Major disposals 2020 pro-forma adjustments

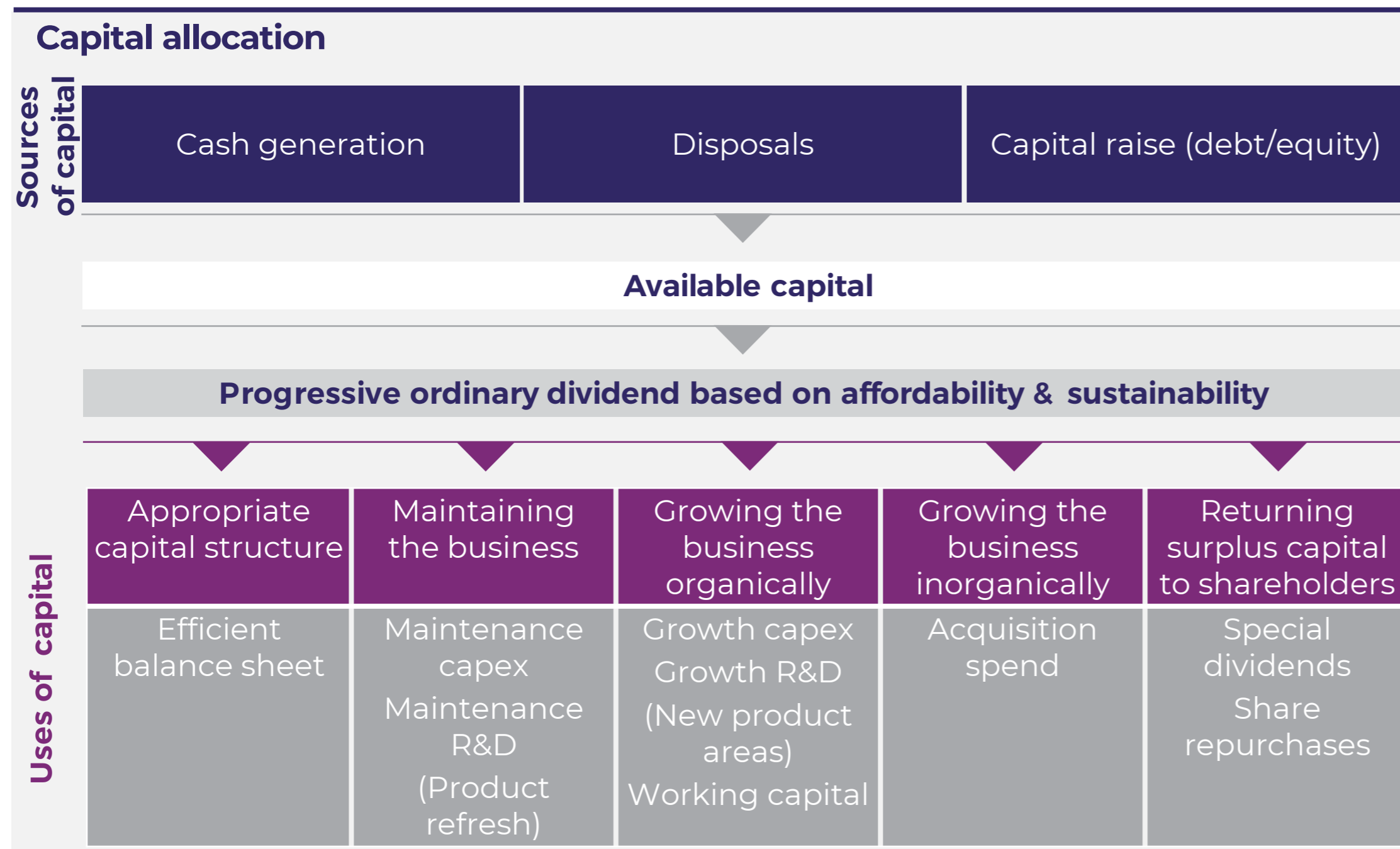
	Millbrook	B&K Vibro
Sales	76.7	41.0
Overheads	26.5	17.2
Adjusted operating (loss)/profit	(5.7)	6.0
Adjusted operating margin	-7.4%	14.6%
Adjusted cash conversion	56%	133%
Statutory operating (loss)/profit	(137.2)	4.5
Closing headcount	701	213

Note: Pro-forma adjustments are for the full year 2020. These will not represent like-for-like alternative performance measures as described in our Annual Report and Accounts when referred to in 2021.

# Balance sheet

Summary (£m)	FY2020	FY2019
Goodwill and intangible assets	710.5	825.3
Property, plant and equipment	187.1	369.0
Investment in equity instruments	39.4	-
Assets held for sale (net)	141.4	18.9
Working capital:		
- Inventories	168.5	197.2
- Receivables	291.8	335.7
- Payables	(313.0)	(318.1)
- Provisions	(28.5)	(32.9)
Derivatives & taxation (net)	(3.9)	(19.1)
Lease liabilities	(38.9)	(60.5)
Retirement benefits (net)	(20.4)	(27.5)
<b>Net capital employed</b>	<b>1,134.0</b>	<b>1,288.0</b>
Net cash	104.6	33.5
<b>Net assets</b>	<b>1,238.6</b>	<b>1,321.5</b>

# Disciplined capital allocation approach



- Continued strong cash generation
- Net cash positive at the year end
- Adequate resources to fund future investment and grow ordinary dividend
- Further disposals proceeds of £223 million expected in Q1 2021
- £200 million share buyback

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