Spectris
2024 Half Year Results

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Business Update

Andrew Heath

Chief Executive Officer, Spectris

Strong strategic execution in the face of softer end markets

Well, good morning and welcome to our presentation of our results for the first half of 2024. With me is Derek Harding, our CFO.

By way of starting and characterising the first half of the year, I would say we have continued to deliver strong strategic execution in the face of softer end markets. After three years of double-digit growth and against the backdrop of ongoing macroeconomic uncertainty, 2024 was always going to be a slower year for the Group, before returning to growth in 2025 and 2026.

During the first six months, we have experienced weaker overall demand, albeit conditions across our end markets continue to be mixed, with some parts growing strongly while others remain subdued. As we said last month, our first-half performance reflects a combination of soft underlying trading, which reduced our first-half sales and operating profit by around £50 million pounds and £10 million, respectively, but also secondly, temporary delays relating to the implementation of our new ERP system, which went live across Malvern Panalytical's global operation back in April.

To be clear, we are very pleased with the new system and can already see the benefits that it is going to bring. However, this short-term disruption has meant that £22 million of sales and £15 million of operating profit has been re-phased to the second half. Now, while this is a higher number than we originally estimated back in June, we continue to expect to recover all of these sales in the second half with no impact on the full year. It is very much a timing issue.

Now, notwithstanding the softer trading in the first half, the order book of £532 million at the end of the period provides good visibility going into the second half, and we are very much encouraged by the signs that market conditions will improve as we go through the next six months. Although, clearly, timing remains somewhat uncertain.

Now, in light of our first half performance, we are taking action to accelerate further self-help measures with a focus very much on operational efficiency and tight cost control. As such, excluding any incremental profit associated with the acquisitions of SciAps and Micromeritics, we expect to deliver adjusted operating profit for the full year in line with current market expectations.

At the same time, we have been busy executing our strategy for sustainable growth and deploying capital to drive shareholder returns, with a number of significant milestones achieved in the first half as we continue to build on the work we have done to transform the Group since 2019. In April, we completed our portfolio rationalisation programme with the sale of Red Lion, and we have moved our leading gas analysis business, Servomex, to become part of Spectris Scientific.

Following the increase in R&D investment across the Group in recent years, we have launched a significant number of exciting new products over the last six months, and we have got more to come in the second half, very much supported by a strong pipeline. Then in the past few weeks, I was absolutely delighted to announce the acquisition of two great businesses that we have been tracking for some time. Both SciAps and Micromeritics will further strengthen our leading positions in advanced materials analysis, and we very much look forward to welcoming them to the Group soon.

Then, finally, we are continuing to return capital to shareholders through the completion of our £150 million share buyback programme. This strategic progress structurally increases our ability to deliver against our medium-term financial targets and as I look ahead, I am convinced as ever about the future growth potential of the Group.

Thank you to all our Spectris colleagues

Now, the progress that we have made would not have been possible without great people united behind a common purpose and values. I have to say there is something special about what we are creating in Spectris, a culture that is really working for us, very much a great and engaging place to work. And having engaged colleagues really underpins our ability to drive our progress. So I am delighted with the results of our recent employee engagement survey, where the scores increased for the third year in succession. So I would just like to take this opportunity to thank all of my colleagues who are watching online for really owning it, and continuing to aim high.

I would also like to take this opportunity to recognise and thank Derek for being a fabulous CEO and business partner over the past five years. And Derek, I look forward to continuing our close partnership in your new role leading our enlarged Scientific division. And I am also very much looking forward to Angela Noon, starting with us in September. Her breadth of experience will help further strengthen our executive team.

And with that, I will hand you over to Derek, before I come back to round off the presentation.

Financials

Derek Harding

Chief Financial Officer, Spectris

Sales and Operating Profit

Thanks, Andrew, and morning everyone. I will start today with a graphical view of the main P&L movements for the first half.

So starting at the top with sales, I have removed £32.9 million of the prior year sales associated with disposed businesses. This is primarily the second quarter sales from Red Lion, and that gives us a comparable organic base. FX has been a headwind of £21.5 million in the year, and on a like-for-like basis the first half sales were 10% lower.

We have seen a re-phasing of £22 million of sales to the second half following the successful implementation of our ERP system in Malvern Panalytical. Now, while the quantum is slightly higher than we originally estimated at the time of our June update, we continue to expect to recover all of these sales with no impact on the full year. Prior year acquisitions added $8.2 million of revenue in the first half, and that gives us a reported revenue of £589.7 million.

I have then followed the same approach for the operating profit, removing £5.6 million for disposals and £1.5 million for FX. Gross profit fell by £53.2 million year-on-year, primarily as a result of the lower revenue and therefore lower absorption of fixed costs. And in light of the reduced top-line activity, the Group has been focused on the cost base, and we reduced overheads by £19.5 million, and we will be taking action to accelerate our self-help initiatives. In the second half. Adjusted operating profit for H1 was £61.1 million, a margin of 10.4%.

Adjusted and statutory operating profit and profit for the period

This slide is included for completeness so that you can easily see the bridge between our adjusted operating profit and the statutory measures. I will not go through every line, but I draw your attention to the following points. There are no asset impairments to report or restructuring costs in the period. Transaction-related costs were £7.4 million, and we spent £22 million on our new ERP system. Amortisation of acquisition-related intangibles of £7.7 million brings us down to the statutory operating profit of £24 million. The disposal of Red Lion created a profit on disposal of £210.6 million, bringing you to a £235.3 million statutory profit before tax.

So now moving on to the divisions.

Spectris Scientific

Against a strong comparative period, Spectris Scientific sales were 12% lower on a like-for-like basis at £320 million, with adjusted operating profit of £33.4 million. While sales grew in electronics and semiconductor, this was offset by lower sales in other end markets, particularly pharmaceuticals and academia, and sales were lower across all regions. Orders were 10% lower on a like-for-like basis. The adjusted operating margin decreased to 10.4%, reflecting the negative drop-through impact of the lower sales volumes, and the statutory operating profit was £16.4 million.

As Andrew has already said, we were really pleased to announce the acquisitions of the two strategically complementary businesses, high-quality, high-growth in SciAps and Micromeritics. These acquisitions will significantly strengthen our leadership position and expand our offering to customers while delivering material synergies, and it is entirely consistent with our portfolio strategy to build higher-quality, higher-growth businesses.

Spectris Dynamics

In Spectris Dynamics, sales were 5% lower on a like-for-like basis at £249.4 million. Slightly higher sales in both aerospace and defence and automotive were more than offset by lower sales to machine manufacturing, academia and other markets. Order intake was in line with the comparative period on a like-for-like basis, with double-digit growth in both aerospace and defence and automotive, offset by softer demand in machine manufacturing, academia and other markets. The adjusted operating profit was £30.6 million and the adjusted operating margin was 12.3%. This lower margin reflects the drop-through impact of the lower sales and some product mix effects, partially offset by actions to manage the division's overhead cost. Statutory operating profit was £10.7 million.

Cash flow bridge

So moving on to cash, this slide shows how we have generated cash in the period and illustrates what we have then done with that cash. So I start by adding back £17.7 million of depreciation and amortisation. This will give you an EBITDA of £78.8 million. Our working capital position continues to unwind, releasing £4.9 million of cash in the first half, and we spent £15.8 million on CAPEX. And that will give you the adjusted cash from operating activities of £67.9 million, which we divide into the adjusted operating profit, to get to our cash conversion metric of 111%.

We received £248.8 million of cash from the proceeds of disposals, primarily Red Lion, and in the first half we paid the final dividend of £54.2 million, spent a further $46 million on share buybacks and our cash tax was £26.8 million. We spent $22 million on the design and development of our SAP 4HANA system and then remaining items of £14 million brings us to a net increase in cash for H1 of £153.7 million. And at the end of June, the Group had a net cash balance of £292.5 million.

Operational Excellence

Underpinned by business process transformation and SBS

So in April, we completed the first phase of the rollout of our new ERP system with a successful global implementation across Malvern Panalytical. The system is working as expected, and it is really important to note that while £22 million of revenue has been delayed into the second half, circa $200 million of revenue was successfully delivered by Malvern Panalytical in H1.

With such significant change, there are often disruptions, and the most significant for us relates to the cutover between the old and new system at our Almelo supply centre. The root causes of all these issues have been identified and are being addressed, and we expect our Almelo facility to be operating at a catch-up capacity in Q3. The Malvern facility is now operating at a higher capacity than before the go-live. The initial release of the system to the Dynamics division will take place in Q3, and we have further implementation scheduled in 2025. As I said previously, the SAS cost in H1 was £22 million.

We have now taken the decision to expand the system across the remainder of the Group, with further implementations expected at PMS and Servomex in 2026, and the recently announced acquisitions of Micromeritics and SciAps will also be added to the system in due course.

We continue to leverage SBS to drive operational excellence and deliver tangible cost savings, and we anticipate another £10 million in savings in 2024. We have continued to develop and promote our 'Go for Gold' programme, with seven bronze sites pursuing silver, and the additional five sites targeting bronze by the end of this year, with the aim to have all of our operational sites certified as bronze by the end of 2025. And we can already see benefits from the new ERP at Malvern Panalytical, and will continue to drive SBS. However, given the conditions we have encountered in the first half, they have been softer than expected. We will be taking additional self-help initiatives in the second half, and we currently anticipate a one-off charge of around £10-15 million to be expensed in H2.

Guidance and modelling considerations

So finally, to help with your modelling, I have set out on this slide some broad areas for technical guidance. As an overarching comment, though, excluding any incremental profit associated with the new acquisitions, we expect to deliver adjusted operating profit for the full year, in line with current market expectations. Working capital is expected to continue to reduce, should be in the middle of my guided range of 11-15%, and the acquisitions are expected to complete by the end of Q3.

Net debt is expected to be around 1.5x EBITDA at the end of the year, and interest costs are going to be between 5-6%. CAPEX in the second half should be about £25 million. SaaS costs in the second half will be around £30 million, and we think the tax rate to be around 23%. The remaining £100 million of the share buyback will recommence and will be completed in the next 12 months. I have also put here our assumed exchange rates for the second half at $1.27 and €1.18, and the table shows the impact of each cent-change in that assumption.

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

Strategy for Sustainable Growth

Andrew Heath

Chief Executive Officer, Spectris

Demand patterns mixed across our end markets

Thank you, Derek.

As I said earlier, conditions across our end markets remain somewhat mixed. So let me just take you through some of our markets in turn.

In tech-led industrials, slightly higher sales in aerospace and defence were more than offset by machine manufacturing. Order intake remains very strong for A&D, particularly commercial space, and our acquisition of Dytran is proving to be particularly successful. In civil aerospace. We have seen good demand in physical test, and in defence, we equally see a lot of opportunities. On the other hand, machine manufacturing remains subdued, although we do expect the market to pick up later in the year and into 2025, as the interest rate environment eases and customer confidence returns.

In pharmaceutical and life sciences, sales were significantly lower, which reflects continued muted conditions. However, and encouragingly, we continue to see strong demand and order intake for aseptic manufacturing, particularly linked to the production of new drugs, plus the construction of new facilities linked to onshoring. However, demand for instruments to support R&D and drug development do remain weak, especially in small molecule. Although, our leading indicators are now showing signs of improvement.

In semiconductors and electronics, we saw solid sales growth against a tough comp, and we expect demand to continue to grow into the second half and into 2025, driven by strong secular trends. And in automotive, sales were slightly ahead with strong order intake. We are seeing a lot of demand for our leading virtual test and simulation offerings, with a number of large orders secured already during the first half of the year.

Moving on to materials, in primary, we saw a reduction in sales and orders during the first half, but with a robust performance from building materials, which was more than offset by lower demand in mining, and that has to be recognised it is against another strong comparator from 2023. Sales in advanced materials were down. That was notably linked to the slowdown in EV sales that we talked about in June. And lastly academia, where as expected, sales and order intake were significantly lower following a very strong comparator from last year, which very much benefited from Chinese government incentives. Now, the Chinese government did announce a similar package of incentives earlier in the first half of 2024, so we still remain hopeful that this will feed through into increased demand in the second half.

The outlook over the medium term, however, remains positive, with our market supported by a number of structural growth and sustainability trends that, we feel, are very much here to stay. And with the strength of and continued investment in our business, as well as our position as a premium provider, we are well-positioned to be able to outperform and grow market share.

Investing in Growth – Research & Development

R&D investment £52.9 million (9% of sales)

We also continue to invest for growth and following the increase in R&D investment across the group in recent years, 2024 is going to be a record year for new product launches. And rather than me take you through each product in turn, we have got a video here that highlights the advantage that our new products will make. So if you just kindly run the video.

[VIDEO]

We are harnessing the power of precision measurement to make the world cleaner, healthier and more productive. And this year, our commitment to accelerating innovation and technology is translating to a record number of transformative product launches.

At Spectris Scientific, we have been advancing ways to measure and analyse the materials that shape our world by pushing the boundaries of elemental analysis with the launch of Revontium, a compact spectrometer detecting up to 6 million photons per second. Accelerating innovation through automation with the Zetasizer sample assistant, a robotic solution that automatically processes samples to make round the clock research possible, opening a new horizon in particle analysis with the Mastersizer 3000+ using integrated AI to provide reliable results for even the most challenging samples, and winning a Microsoft intelligence manufacturing award for our smart return agriculture technology, an innovative solution for precision farming, increasing yields, lowering costs and protecting the environment.

We are also ushering in the next generation of ultra trace measurements with the Gen 7 DF-500 Series, delivering crystal clear insight into moisture, contaminants and ultra-high purity gases and bringing a new level of precision to liquid water measurements with the Servotough SpectraExact 2500F, ideal for hazardous areas and providing the most reliable data in even the toughest environments, all while revolutionising microbial air sampling with the BioCapt Single-Use AutoM microbial impactor, the ideal choice for automated filling in sterile environments with a plug-and-play design to enhance cost-efficiency and productivity.

But that is not all. Across Spectris Dynamics, we have been busy making breakthroughs in sensing, testing and simulation solutions by taking a quantum leap in realism with the award-winning driver-in-motion full spectrum simulator from VI-grade, the first-ever simulator capable of truly immersive full vehicle motion; meeting growing demand for real-time customization with the FPGA programmable workbench, the ideal development environment for the most complex testing applications from automotive to aerospace medical research to fintech; unveiling the latest platform in the world of torque measurement with the next-generation market-leading T100 torque sensor, offering new possibilities in powertrain development for electric vehicles, implementing in industry 4.0 technology extending our industry-leading range of IO-link-enabled connected smart force load and torque sensors to uncover insights simply, quickly and effortlessly.

And expanding the capabilities of our leading software design solutions, including data and durability analysis with our nCode tools, and complex analytical data management with our Aqira platform. And there is so much more to come with further innovations in the pipeline as we look to further harness the power of precision measurement, delivering value beyond measure for all our stakeholders.

Andrew Heath: Clearly, we have been very busy, and I am very pleased to say that the customer response to these launches has been extremely positive, and I am also delighted that our innovation continues to be recognised by the industry, the Microsoft award in particular. And with a strong pipeline, there will be more launches in the second half, as I have said, that will further help stimulate the market and also drive share.

SciAps – a leader in handheld elemental analysis

However, we are not just investing organically. Since 2019, we have set out to evolve our portfolio to increase the quality, growth, margin profile and resilience of the Group. And the recent announcement of two strategically complementary acquisitions of high-quality, high-growth businesses is entirely consistent with our strategy to compound growth. It also reflects the hard work of our M&A teams over several years to grow and develop our acquisition pipeline.

The acquisition of SciAps and Micromeritics, both of which will be integrated into Malvern Panalytical within Spectris Scientific, will significantly strengthen our leadership position in advanced material science and expand our offerings to customers while delivering material synergies.

Now, we recently provided a detailed overview of both acquisitions, but I thought it would be worth quickly just reminding you of our rationale. Firstly, SciAps is a leader in handheld elemental analysis with its instruments enabling the identification of any element, any place on the planet. They provide a comprehensive suite of advanced technology offerings in attractive end markets across mining, non-destructive testing, and product circularity and recycling, and their handheld portfolio is used in the field and as such complements Malvern Panalytical's range of laboratory and benchtop equipment. The combination also provides strong cross-selling opportunities, allowing both parties to leverage sales channel and expand their presence in key geographies. Additionally, it will also accelerate our digital strategy with access to a greater volume and variety of measurement techniques shall move analysis closer to the sample.

Micromeritics – a leader in particle characterisation

And the acquisition of Micromeritics also fits perfectly with our strategy to build world-class businesses, generating strong value creation for our customers and shareholders. In Micromeritics, we are acquiring an established business of scale which represents the most attractive acquisition in the particle characterization space as it provides a unique opportunity for us to build a leading, highly differentiated offering with competitive positioning. As you can see in the top-right hand graphic on the chart here, we will be able to offer customers the most comprehensive, fully integrated suite of instruments as a single supplier, improving efficiency and enabling deeper analytical insights, which supports the entire customer workflow from fundamental research through product development to quality of control and assurance. It will also strengthen our offering in the rapidly growing clean tech as well as the traditional industrial technology markets, and provides a great opportunity for us to leverage our respective geographic strengths. And with strong customer overlap, it will provide significant opportunities to sell a broader range of products to existing customers as well as win totally new customers with its unique and differentiated solution portfolio.

Building a higher-growth, higher-quality Group

And before concluding, I just want to reinforce how different and Spectris is today compared to the business that we inherited five years ago, and also remind you of the ingredients to our progress.

As we first articulated in 2019, we set out to evolve our portfolio to increase the quality, growth, margin profile and resilience of the Group, and we have been using all elements of our capital allocation framework to drive shareholder value creation. The combination of our disposal programme and the redeployment of capital to acquire great businesses means we have truly reshaped the portfolio in the last five years, providing a higher-quality platform from which to drive sustainable growth well into the future.

As you see, we transformed the way we develop new products to drive organic growth, expand our market share and ensure our best-in-class products very much remain at the forefront. And we have also been targeted in our approach to M&A, acquiring businesses to enhance our capabilities and returning excess cash to shareholders where this has not been achievable in a reasonable time period. We are driving operational excellence by engaging our people through SBS, and we have begun the transformation of our business processes. And we have also been investing in our people, developing a healthy, high-performance culture.

So as a result of the work we have done, the business today we have is focused on premium precision measurement, facing into attractive markets, taking exciting new products to market on a regular basis, with a strong accelerating self-help story, but also a highly engaged and multitalented team who have really demonstrated their ability to rise to the many challenges of recent years.

Summary and outlook

To summarise, while clearly we have been impacted by short-term demand headwinds, we have maintained a clear focus on strategic execution, with our business transformation continuing at pace. The acquisitions of SciAps and Micromeritics is further evidence of our strategy to build a world-class, higher-quality, higher-growth business and with an ever stronger platform underpinned by long run structural growth thematics, including increased levels of clean technology, the rise of digital and automation, superior materials performance and the development of new medicines, the medium-term outlook for the Group is very promising. And with the work, we have done over the last five years to reshape and focus the Group, we have structurally increased our ability to deliver against our medium-term financial targets. We are strongly positioned for the future.

Thank you very much for listening. And with that, Derek and I are very happy to take your questions.

Q&A

Mark Davies Jones (Stifel): Thank you very much. Can I start, it is Mark Davies Jones at Stifel? Can we start on Scientific and the instrumentation business, which is clearly still very weak, what makes people upgrade those instruments? Can they extend the lifetime of them, if they are feeling slightly nervous about life? What is the average life span, and what can you do to accelerate that replacement cycle?

Andrew Heath: Yes, Mark, is your question particularly relating to pharmaceutical life sciences?

Mark Davies Jones: Yes, probably.

Andrew Heath: I think in pharmaceutical, what we are seeing is, as I said, an expansion and demand growth in the aseptic manufacturing side. So manufacturing capacity continues to have to increase because of new drug developments. Things like these weight loss therapies are driving quite a lot of investment in terms of new facilities. However, there is also the regulatory demands requiring ever-cleaner facilities and tighter regulation. So that is very much helping our aseptic particle measuring side of the business through PMS.

On the flip side, your point on the scientific instruments for advanced research and development of new drugs is definitely still subdued. If anything, it went backwards again last year. Small molecule development is pretty weak. We are seeing some uptick in biopharma, and we are certainly seeing some upticks in certain parts of the world, like India, where we are seeing incremental investment going in there. However, I think, our reflections of what has happened over the last three, four years is that during the pandemic there was clearly a lot of investment in re-equipping labs to invest in antivirals, in terms of mRNA research as well as vaccine development. And I think what happened was a big re-equipment of labs and refurbishing of labs during that period. And so we are just waiting now effectively for the timing of that next refurbishment cycle.

To your last point to your question, what can we do to stimulate the market? You have seen in our new product developments, things like Revontium, things like Zetasizer, the Mastersizer 3000+ is our largest-selling instrument in Malvern Panalytical. It is very much the gold standard for particle analysis in drug development. We have talked about this before, the pharmaceutical industry talks about the Malvern measurement is the gold standard. And the latest derivative of 3000+ incorporates new AI technology, so it can operate faster, quicker, with greater fidelity and provide greater insights. So by bringing these new products to market, that also helps stimulate demand. So we are pushing on all fronts in that regard.

Mark Davies Jones: However, can you generalise if there was a spike in refurbishment and buying new kit in 2021, when would that naturally drive the next replacement cycle? How long does this last?

Andrew Heath: The market has been talking about the second half of this year for a time. We are not short of inquiries, but that conversion is clearly taking longer. And so, we, like, I think the rest of the industry, are waiting for the market to actually start to come back.

Mark Davies Jones: Okay. Can I just add on one for Derek? £10-15 million of charges for restructuring the second half, I am assuming all that is cash. And in terms of getting the benefit through, how much of that is effective second half versus into next year?

Derek Harding: Yes. So it may not all be cash in the second half because obviously some of it will relate to decisions that are made in the second half, and then we will book it. Bulk of it will be cash in the second half, but some may flow into 2025. And I think if you think about typically one-for-one benefit on those sorts of activities, on a full-year annualised basis, so there probably be 25%, 20-25% of benefit in 2024. However, I would view that very much as a hedge against the guidance that we have given those part of our actions that we are going to take, rather than kind of add it on. I would make the same point with the SBS savings as well. So we are focusing hard on our own measures that are under our control and the activities under our control, and those give us a little bit of a hedge to kind of offset the risk in your first question.

Richard Paige (Numis): Hi, Richard Paige from Deutsche Numis, just a couple for me. Order book £532 million, just to check that is all for delivery in the second half?

Andrew Heath: Richard, the £532 million does include all the orders, so some of that will, will be for 2025 deliveries. However, we have given you our guidance range and where we are comfortable with where sort of order visibility should sit in aggregate, so that four to five months range, and we are bang in the middle of that today. So relative to our history and our precedence, we are right in the middle of the range where we would expect to be at this point in the year. So that gives us confidence going into the second half.

Richard Paige: And then I notice on the group cost, there is quite a big drop. It is almost half. Is that a permanent saving, or is there something one-off in that number?

Derek Harding: It is a reflection of the performance of the first half and the performance of where we are anticipating the full year to go. So there is a chunk of cost in there that is variable incentive that is not going to happen this year. Is it a permanent saving? I hope. I hope not because I hope in the future the other performance comes back. However, it is the correct treatment of where we are as we sit here at the first half.

Richard Paige: So you expect repeated?

Derek Harding: There is some savings in there. If you look at the £19.5 million, there is a general focus on the cost that we have had throughout the business. We knew coming into 2024, as we certainly said back in October, and indeed at the year-end, that 2024 we knew was going to be harder. We entered the year with that in mind and the cost base was positioned for that, but we had to go further in the first half. So that is broadly what you are seeing in that central card charge.

Richard Paige: So just one last, automotive remains remarkably strong in both in order intake and performance in the first half. Is that across your businesses that attack that industry, or is it the virtual test?

Andrew Heath: Nearly all our automotive sales sit within Dynamics. Clearly, they have seen the same weakness in the battery development, physical testing side within automotive. In terms of sort of new product development, there has been a slowdown there. However, two things, really. One, the virtual test and simulation side of the business has been extremely strong. That has been building through the second half of last year. We have seen strong demand for our market-leading products. We are seeing more and more customers convert to the new tools to drive lower-cost, faster time to market and drive productivity. And we still feel that the penetration there is relatively low. So there is a long ways to go. So that is an exciting, strongly growing part of the business. Then, actually also in China, Dynamics were up in China and a lot of that was actually sort of end-of-line testing driven. So whilst some of the research and development have pulled back, the actual production volume side in China, and the end-of-line testing for electric vehicles drove some incremental demand.

Richard Paige: Brilliant. Thank you.

Alexander Virgo (Bank of America Securities): Morning, guys. Alex Virgo, BofA. I wondered if you could talk a little bit about the quarterly development of your businesses through, and then I guess into the second half? Easier comps will help, of course, but the order intake in Q2 looks particularly weak. So obviously, I appreciate you have backlog which provides some visibility. However, the order trends do not look particularly encouraging. So that is the first question.

And then the second question would be taking a decision to do incremental cost savings and restructuring tends to imply a little bit more of a structural view rather than a temporary weakness. Can you tell us a little bit more about where that is going? What are you looking at saving? Where it is being saved. What are you targeting? Thank you.

Andrew Heath: I will take the first part of your question. I will ask Derek to take on the second part.

So in terms of your question was about quarterly development of orders. So start with the positives. Dynamics was actually up Q2 over Q1. So we are seeing some order momentum building in Dynamics, very much around the trends that we have been talking about. And certainly, as you know where we sit at the half year, we see the outlook for Dynamics has been pretty resilient and robust. Within Scientific, it was the inverse. However, within our PMS particle measuring system business, we are seeing strong demands, as I said, for life science applications around aseptic manufacturing. And the semiconductor side of that business is starting to pick up. It has been a bit slower than I think we anticipated coming into the year, but it is building, and we are seeing the long lead time items continue to be ordered.

And then for Servomex on the gas analysis side, against a very tough comp last year, they had a lot of project wins in the first half of last year. And just as 2024 has worked out, there are a number of big projects that will be tendered, but they are all going to happen in the second half. So there is just a bit of a phasing issue for Servomex. So I think from that side we still see the whole gas analysis, emissions control, industrial process, hydrocarbon market still pretty resilient. So it then really resolves down to Malvern Panalytical where the weakness in pharma, in particular the battery materials, has impacted us. And then that, I think, really leads on to the second part of the question.

Derek Harding: Yes, so you will forgive me for not going through too much detail. And the reason for that is obviously, as it impacts different parts of the Group, we need to manage that appropriately. And telling you here is not the appropriate way of doing that. What I would say though is that the bulk of it will be in the Scientific division, and it reflects the current trading that we are seeing in that division, and expectations of how we can continue to drive efficiencies, and how we can continue to set ourselves up, leverage some of the benefits bits of bringing the businesses closer together. And that is the general area, but we will wait. There will be more clarity at Q3.

Andrew Heath: And clearly, we anticipate strong synergies with the two acquisitions that they have been announced. So to some extent, there is a bit of we can get ahead of this.

Harry Philips (Peel Hunt): It is Harry, Harry Philips at Peel Hunt. A couple of questions, please.

Just thinking about the drop-through, and I appreciate the chart is sort of made tougher because of the move to the right of ERP and what have you. However, it still, even if you add that back, looks pretty punchy. Is it just too simplistic to say that when revenue recovers, that sort of drop-through maths works back in your favour to the same sort of extent?

Derek Harding: It does. I would make two observations on the drop-through. First of all, we are a high gross margin business, and we are also a second half weighted business, typically, anyway. So you have a broad fixed cost through the year, and if the volume comes off in the first half, the ability to absorb that cost is much harder. And then that has a more extreme impact on the first half numbers. The exact opposite is true in the second half, when that volume comes through, point one. So that does help us, and you see it anyway, year-on-year. Normally, if you look at the numbers, you can always see that in the margin in H1 and H2.

I think the other thing to think about, though, is the revenue and the profit from the sales that have not been recognised in the first half. And just to kind of explain a little bit more about what is happened there, when you go through cutover between one system and the other, inevitably everything changes. Part numbers change, customer reference numbers change, the entire process changes. So if you are halfway through, let us say you have taken an order on something in the old system, you start manufacturing it in the new, everything has changed. If you have manufactured it in the old, and then you deliver it in the new, everything has changed. If you have delivered it, but then you have installed it in the new, everything has changed. So that sort of process of washing through has taken longer than we anticipated, particularly with our more complicated instruments out of Almelo.

So we are through the bulk of that now, and therefore we will start to recognise those shipments and those installations in the second half. So it really is a move from H1, where it kind of got slowed into H2. It has no impact on the full year. If you are then doing your classic, sit back and say, okay, well, what is the shape of spectrum this year? You almost need to add £22 million of revenue to the first half number and £15 million of profit to the first half number, and then look at that H1, H2 shape. And if you do that, it does not look particularly out of whack for a normal spectrum shear. So that is kind of how we are thinking about it. And again, I made the point in the presentation, the ERP is working. I think it is really important to understand that the ERP is working. It is a transitional phase and if we did not have a half-year in the middle of that transition, there would be no ERP compensation. So that is important.

Harry Philips: Thank you. And just a second question around, it is sort of sitting right above you, the through cycle 6-7% growth. And you go back to the Capital Markets Day in October 2022, when you set that out, and just thinking across the whole sector, not just yourselves, but as we are here today, obviously with yourself and 6-7%, that is punchy. What catalyst do we need? What is the market catalyst, and what is the Spectris catalyst? I think we know more on the Spectris catalyst because of the M&A, but we are going from -10% in the first half, which I appreciate as a distortion, to 6-7%. That is quite a big transition.

Andrew Heath: Yes. Harry, I think you first we should recognise we have grown double-digit through 2021, 2022, 2023. So we are against a tough comp. And as Derek said, we always expected 2024 to be a softer year. We signalled that, accordingly, it has been weaker than we anticipated. As we go from here, clearly there are some softer comps. However, I think, really, the key triggers for us is that we are facing off into a structurally attractive market. So we have talked about automotive, what we are doing in terms of the advanced testing simulation software that we are developing, that is a very high-growth market.

Within pharmaceuticals, really well-positioned in the aseptic manufacturing side. The instrument side on the research development will come back. There will be a re-equipping cycle, and we are stimulating that with some of our new products, as we talked about. Aerospace and defence, you know, commercial aerospace is now picking up. Defence, all the spending, unfortunately, is going on consumables at the moment, but that inevitably leads through into a re-equipment cycle. So we fully anticipate that to come through.

Machine manufacturing, which for us is about ten-ish percent of our revenue exposure, has been in the doldrums for the best part of two and a half, three years. As interest rates come off, cost of capital comes down. Again, we would expect to see some re-equipping coming through there. And then, certainly the emissions, the hydrocarbon and transition to clean technologies both helps us on the emission side, the gas analysis side, and into all the particle characterization. So, there are a number of, I think, key secular trends and sustainability trends that is going to underpin that 6-7%.

So we still feel that is still right guidance for us, and that is where we are pushing ourselves to get to. We are clearly going through a bit of a correction year this year, but would fully anticipate by the time we get into 2025 or 2026 to be sort of heading back into that sort of territory.

Derek Harding: Yes. And I think in 2022, when I made that comment and said, how does it mean? What does it mean? It was always, if you take a period and look back five years, it is more than 6-7%. And that remains true today, and I think it will continue for the next number of years.

I will just make one observation. When you look at this slide, it is quite interesting. There is a danger sometimes you focus on Q1, Q2 of a difficult year. We have also delivered on other things we said back in 2022 as well, which is kind of redeploying our capital from businesses that were low-growth, not the best owners for us. With the acquisition of Science and Micromeritics, we have absolutely completed that phase of our strategy. So there is a number of things that we set out in 2022 that we are delivering on, that gives us confidence on that growth rate, particularly when you look at those businesses and their historic growth and the opportunities that they have, that will give us a real – obviously, it is acquired growth next year, but it becomes organic growth the year after that, and we start to really see that kick through as well.

Harry Philips: Thank you for that. And then just one final one. Just as you mentioned, the M&A, obviously two decent-sized acquisitions and a bit of sort of normal leverage, if you like, on the balance sheet. Now, just in terms of two things really, I guess more M&A, is this, bar infills, just to get these integrated? And then secondly, around broader capital allocation, obviously you have got the completion of this buyback, but then when would a buyback, if nothing else happens, inevitable question, I am afraid. When would that sort of potentially kick back in?

Andrew Heath: Yes, so, clearly, we are a highly cash generative business. We are buying two equally highly cash generative businesses. That gives us even greater capacity. So we have flexibility going forward. We have been developing our pipeline of opportunities over the years. There are other opportunities that we continue to cultivate and nurture. The priority in the short term is very much around bringing SciAps and Micromeritics on board and driving a successful integration. And at the same time, whilst we have got the sort of flexibility on the balance sheet, we are mindful of the leverage point in terms of where the markets currently sit, and how far we should push that or not push it.

I think we demonstrated that we are patient, and we are disciplined. If we see the right thing at the right time, and we have reached the right decision, we will take it. Equally, when we get to the sort of the end of the year, we will assess the potential uses of our cash going forward on the balance sheet. We will determine whether that is going to be more M&A or more buyback. However, that is, I think, a decision for the year-end and where we are at the year-end.

Mark Davies Jones (Stifel): Another M&A-related one if I may. I know we should not read too much into it, and what you buy is always a function of what you can buy at the time. However, two deals in rapid succession, both on the Scientific side, means that Scientific will be up to getting up to two-thirds of sales and when margins recover, probably three-quarters of profit. So the portfolio is skewed heavily in favour of that. Is Dynamics still as core as it was previously? Are you looking for deals there, or is Scientific going to be the core of Spectris going forward?

Andrew Heath: Yes, I mean, when we bring on SciAps and Micromeritics, it is going to push the Scientific division to well over £1 billion of revenue in and of itself, doing margins very much in line with our target, north of the +20% range. It is going to be a very attractive division, and we will continue to, you know, as we are doing, seek out other acquisitions to complement an infill and try those bolt-ons to expand our offering to customers and our scale and impact. At the same time, though, we see good opportunities to continue to grow Dynamics. There is a lot more value within Dynamics. Just the margin progression story there, is extremely strong. We still feel very confident about that with the work that Ben Bryson and his team are doing, the implementation of the RP system, the 150 basis points of margin opportunity absolutely flows into Dynamics as it does into Scientific and the rest of the Group. And we are, to your point, Mark, looking at acquisitions in that space, again, highly synergistic. That absolutely then builds out our capabilities in the same way we have done with SciAps and Micromeritics in Scientific. So it is absolutely core.

Mark Davies Jones: Thank you. Can I do one more, at risk of being greedy?

Andrew Heath: Yes, of course.

Mark Davies Jones: Battery materials, it has obviously been very weak. And see why that could presumably last some time in terms of unwinding a sort of bloom of spending in China, or is there a potential offset as we try and build a battery supply chain outside of China for strategic reasons?

Andrew Heath: Yes, I think there are a number of factors, Mark, in all of this. There is clearly an over capacity in the manufacturing of batteries, certainly in automotive at the moment. However, there is, you know, there is a lot of work going on still in terms of looking at new battery technologies, new materials, particularly solid-state batteries. And it is not just an automotive play. For the energy transition to work, we need storage and therefore that is going to rely heavily on batteries. And then as we go forward, it is also the recycling of battery materials as well, and that will then feed into the mining industry, rare earth metals, lithiums and other key materials.

To me, this is we are going through a short-term correction, but the medium and long-term outlook remains very strong.

Well, thank you very much for coming. Just by way of wrapping, I think, as I said right at the opening, 2024 is going to be characterised by softer end markets, softer than we anticipated coming into this year, but we are taking the appropriate measures to address that. However, it is also very much categorised by as being a laser-focused on continue to execute on our strategy and to build shareholder value creation from the actions that we are taking. Hopefully, that has come across strongly in the presentation today.

So thank you very much for coming, and we are very happy to have a cup of coffee with you afterwards. Thanks very much.

[END OF TRANSCRIPT]