

# **2009 Preliminary Results**

**4 March 2010**

# Agenda

- Introduction  
Norman Askew
- 2009 business review  
Martin Lamb
- 2009 financial review  
Roy Twite
- Outlook for 2010  
Douglas Hurt
- Question and answers  
Martin Lamb

# **Martin Lamb**

# Results overview

• Revenue	£1,792m	-6%
- <i>Organic revenue decline</i>	-16%	
• Segmental operating profit	£234.2m	-12%
- <i>Organic operating profit decline</i>	-22%	
- <i>Profits drop through</i>	19%	
- <i>Segmental operating margin</i>	13.1%	
• Adjusted earnings per share*	45.8p	-15%
• Net borrowings	£172m	-42%
- <i>Cash conversion</i>	139%	
- <i>Net debt / EBITDA</i>	0.7x	
• Full year dividend increased to 21.2p		

\* Before the after tax cost of exceptional items

# Sales and order momentum

£m		Q1	Q2	Q3	Q4	Year
<b>Sales</b>	2008	490	571	539	530	2,130
	<b>2009</b>	<b>429</b>	<b>449</b>	<b>437</b>	<b>470</b>	<b>1,785</b>
	% Change (Organic)	(12%)	(21%)	(19%)	(11%)	(16%)
<b>Orders</b>	2008	587	605	532	450	2,174
	<b>2009</b>	<b>473</b>	<b>424</b>	<b>414</b>	<b>463</b>	<b>1,774</b>
	% Change (Organic)	(19%)	(30%)	(22%)	+3%	(18%)

All at 2009 average year rates: US \$1.57 and €1.12

# Margin development

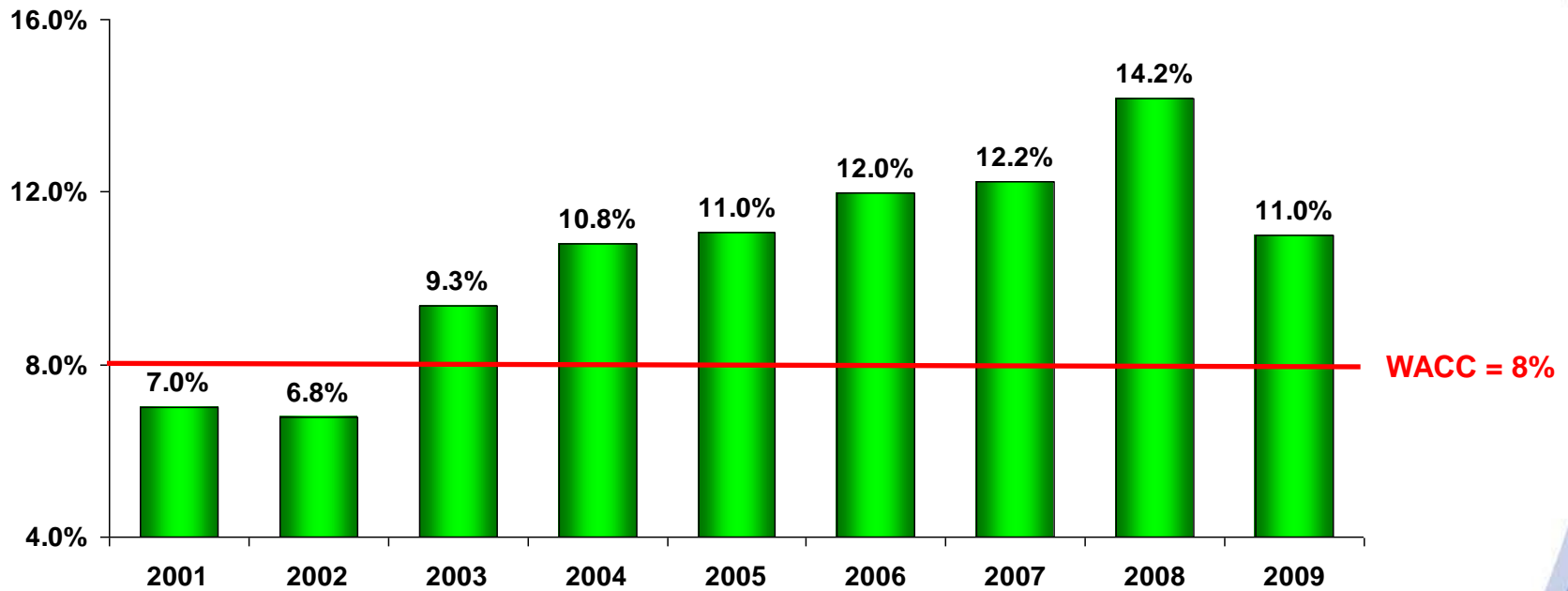
Segmental operating profit margin:

	H1	H2	<b>2009</b>	2008
Severe Service	19.0%	20.6%	<b>19.8%</b>	18.4%
Fluid Power	2.9%	9.6%	<b>6.3%</b>	13.7%
Indoor Climate	17.0%	24.3%	<b>20.8%</b>	16.1%
Beverage Dispense	6.8%	7.4%	<b>7.1%</b>	9.0%
Merchandising	8.5%	14.0%	<b>11.1%</b>	10.3%
Group	10.9%	15.3%	<b>13.1%</b>	14.0%

- H2 Group margins in excess of 15%
- Strong recovery in H2 margins by Fluid Power
- Record margins from both Severe Service and Indoor Climate

# Return on invested capital\*

IMI Group ROIC\*



\* After restructuring costs and pre Severe Service investigation costs in 2007 & 2008

# Management priorities in 2009

1. Simple and effective game plan with clear priorities
  - Resource allocation
  - Capacity alignment
  - Product margins
  - Cash optimisation
  - Business integrity / IMI Way
2. Early and comprehensive execution with short interval management

# Resource allocation

- Aftermarket/refurbishment
  - CCI aftermarket sales +18%
  - Indoor climate refurbishment +20%
- Legislation (energy/environmental)
  - Heimeier TRV sales in Germany +6%
  - £55m single nuclear order in CCI
  - Energy efficient coolers in beverage dispense
- Resilient end markets
  - Life Science, Rail
- Emerging markets with strong national finances
  - IMI BRIC sales +3% versus Group sales -16%

# Capacity alignment

- Headcount reduction of c.2,600 since June 2008
- Continued use of short time working arrangements
- Several smaller sites closed
- Good progress made on longer term restructuring
  - Severe Service expansion in Czech Republic / India
  - New Norgren facility opened in Shanghai
- Rationalisation charge £34.9m in 2009

# Product margins

## “Winning the inflation equation”

- Defended and increased selling prices
  - Overall average increase of c.1.5%
  - Differentiated products / customer value
- Material cost savings delivered
  - Metals cost reductions
  - Low cost sourcing initiatives
  - Supplier rationalisation / value engineering
  - Average material cost reduction of 7%
- Salary and wage restraint continued into 2010

# Cash optimisation

- Cash conversion of 139% (2008: 98%)
- Working capital improvements
  - Inventory reductions (constant currency) of £57m or 19%
  - Debtor days reduced by 6 days
- Capital expenditure\* constrained to 0.8x depreciation
  - Low cost manufacturing expansion
  - New product tooling
  - Health and safety
- Net debt reduced by 42% to £172m

\* On property, plant and equipment

# IMI Way / responsible business

- IMI Way
  - 13,000 employees trained face to face
  - 100% completion of on-line training
- Health & Safety
  - 43% LTA reduction 0.47 to 0.27
  - 11 additional full time H&S officers
- 125 supplier audits completed
- CO<sub>2</sub> emissions
  - new target to reduce by 10% over 3 years

# **Platform Businesses**

# Indoor Climate

£m	<b>H1</b>	<b>H2</b>	<b>2009 Year</b>	2008 Year
Sales	<b>142</b>	<b>150</b>	<b>292</b>	281
<i>Organic growth %</i>	<b>-4</b>	<b>-4</b>	<b>-4</b>	+6
Operating profit	<b>24.2</b>	<b>36.5</b>	<b>60.7</b>	45.2
<i>Operating margin %</i>	<b>17.0</b>	<b>24.3</b>	<b>20.8</b>	16.1

- Organic decline contained to just 4% throughout the year
- Operating profits up 21% on a constant currency basis
- Significant margin improvement in H2 and full year
  - Pre-emptive cost reductions implemented early
  - Lower material costs

# Indoor Climate

- Later cycle business for new construction
- High resilience
  - Strong aftermarket
  - Energy legislation increasing
  - New markets opening up
  - Project penetration
- Increased investment in seminars to create pull demand
  - c.45,000 trained in 2009
  - Engineering design support centre in Hungary
- Good progress with new product development
  - Balancing control valves / TA scope
- Strong growth from Pneumatex throughout the year



# Severe Service

£m	<b>H1</b>	<b>H2</b>	<b>2009 Year</b>	2008 Year
Sales	<b>252</b>	<b>260</b>	<b>512</b>	443
<i>Organic growth %</i>	<b>+11</b>	<b>-5</b>	<b>+3</b>	+9
Operating profit	<b>47.9</b>	<b>53.5</b>	<b>101.4</b>	81.3
<i>Operating margin %</i>	<b>19.0</b>	<b>20.6</b>	<b>19.8</b>	18.4

- Record sales and operating profit for the year
- Organic sales decline in H2 after strong shipments in H1
- Continued improvement in operating margins

# Severe Service Order intake trends

	H1*	H2	2009
New Construction :			
Power	(8%)	(49%)	<b>(25%)</b>
Oil & Gas	(37%)	(40%)	<b>(39%)</b>
Nuclear**	(17%)	+91%	<b>+34%</b>
Total	(18%)	(21%)	<b>(20%)</b>
Aftermarket	+26%	+30%	<b>+28%</b>
Group Total	(5%)	(8%)	<b>(7%)</b>

\* Adjusted for approximately £20m orders deferred from H2 2007 to H1 2008 arising from the CCI investigation

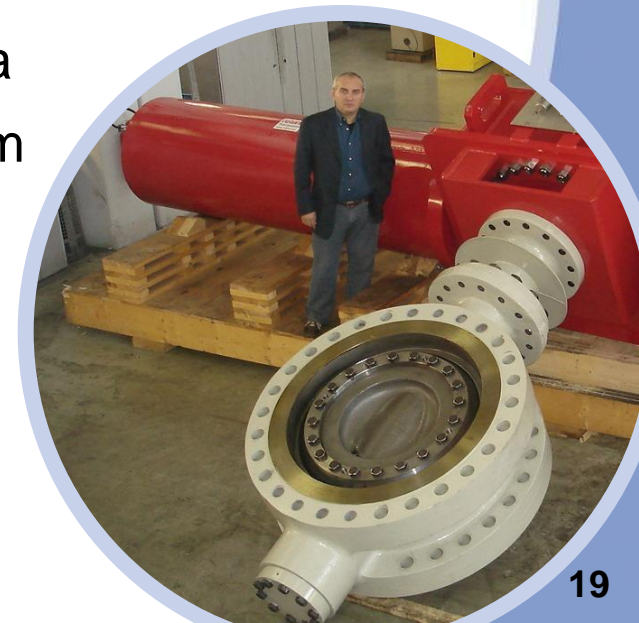
\*\* Nuclear bookings in H2 include the first tranches (c.£28m) of the long term EDF order most of which ships after 2010

- Material slowdown in construction markets for oil & gas / fossil power
- Quotation activity in oil & gas strengthened in H2
- Nuclear activity strong
- Aftermarket remains buoyant

# Severe Service

## Significant change initiatives in 2010

- New business structure
  - Control valves
  - Isolation valves
  - Nuclear
- Global operations restructure
  - New facilities in Czech Republic and India
  - % low cost manufacturing to increase from 30% (2009) to over 60% (2012)
- Global ERP implementation



# Beverage Dispense

£m	<b>H1</b>	<b>H2</b>	<b>2009 Year</b>	<b>2008 Year</b>
Sales	<b>154</b>	<b>143</b>	<b>297</b>	305
<i>Organic growth %</i>	<b>-20</b>	<b>-7</b>	<b>-15</b>	-1
Operating profit	<b>10.5</b>	<b>10.6</b>	<b>21.1</b>	27.6
<i>Operating margin %</i>	<b>6.8</b>	<b>7.4</b>	<b>7.1</b>	9.0

- H2 markets improved but challenging
- 3Wire parts business more resilient
  - Successful technology upgrade
- Significant cost reductions implemented
  - Headcount reduction of 15% in 2009
  - Two factories closed

# Beverage Dispense

- Good progress on new product development
  - Viper (carbonated frozen beverages) roll out continues
  - Energy efficient cooling systems
- Focus on margins / added value
  - Gradual exit of low margin product lines



# Merchandising

£m	<b>H1</b>	<b>H2</b>	<b>2009 Year</b>	<b>2008 Year</b>
Sales	<b>87</b>	<b>77</b>	<b>164</b>	202
<i>Organic growth %</i>	<b>-22</b>	<b>-35</b>	<b>-29</b>	+11
Operating profit	<b>7.4</b>	<b>10.8</b>	<b>18.2</b>	20.9
<i>Operating margin %</i>	<b>8.5</b>	<b>14.0</b>	<b>11.1</b>	10.3

- As expected sharp organic sales decline in H2
  - 2008 US grocery order
  - Impact of lower US automotive activity
- Profits drop through contained to 10% for full year
- Significant uplift in H2 margins to 14.0%

# Merchandising

- Automotive risks well managed
- Food and beverage and consumer electronics more resilient
- Focus on margins / added value
  - Gradual exit of low margin product lines
- New product development
  - LED lighting
  - Digital merchandising



# **Roy Twite**

# Fluid Power

£m	<b>H1</b>	<b>H2</b>	<b>2009 Year</b>	2008 Year
Sales	<b>255</b>	<b>265</b>	<b>520</b>	666
<i>Organic growth %</i>	<b>-36</b>	<b>-24</b>	<b>-31</b>	+3
Operating profit	<b>7.4</b>	<b>25.4</b>	<b>32.8</b>	91.3
<i>Operating margin %</i>	<b>2.9</b>	<b>9.6</b>	<b>6.3</b>	13.7

- Markets stabilised after the sharp fall in H1
- Revenue up 4% in H2 versus H1 2009
- Significant improvement in H2 margins to 9.6%

# Fluid Power

## Sales and order momentum

£m		Q1	Q2	Q3	Q4	Year
<b>Sales</b>	2008	192	201	190	165	748
	<b>2009</b>	<b>130</b>	<b>122</b>	<b>130</b>	<b>138</b>	<b>520</b>
	% Change (Organic)	(32%)	(39%)	(32%)	(16%)	(30%)
<b>Orders</b>	2008	204	204	181	151	740
	<b>2009</b>	<b>131</b>	<b>121</b>	<b>132</b>	<b>143</b>	<b>527</b>
	% Change (Organic)	(36%)	(41%)	(27%)	(5%)	(29%)

All at 2009 average year rates: US \$1.57 and €1.12

# Fluid Power

- Engineering Advantage sector strategy accelerated
- Advanced Tech Centre expanded in China
- Outlook more positive
- Focus remains on margin improvement



# **Douglas Hurt**

# Results overview

£m	<b>2009</b>	2008	<i>change</i>
Segmental revenue at comparable rates	<b>1,785</b>	2,130	-16%
IAS 39	<b>7</b>	4	
Exchange impact		(233)	
Revenue as published	<b>1,792</b>	1,901	-6%

# Results overview

£m	<b>2009</b>	2008	<i>change</i>
Segmental operating profit	<b>234.2</b>	266.3	-12%
Interest	<b>(18.5)</b>	(15.4)	
Net (expense)/return on pension plan	<b>(4.0)</b>	3.8	
Profit before tax*	<b>211.7</b>	254.7	-17%

\* Before exceptional items

# Results overview

£m	2009	2008	change
Profit before tax *	<b>211.7</b>	254.7	-17%
Restructuring costs	<b>(34.9)</b>	(19.6)	
Investigation costs & fines	-	(26.3)	
Acquired intangible amortisation & impairment	<b>(7.2)</b>	(13.2)	
Financial instruments excluding economic hedge contacts	<b>16.6</b>	(19.6)	
Profit before tax	<b>186.2</b>	176.0	+6%
Taxation	<b>(53.8)</b>	(60.0)	
Profit after tax	<b>132.4</b>	116.0	+14%

\* Before exceptional items

# Restructuring - costs / benefits

## 2006 Low Cost Manufacturing programme

£m	2006	2007	2008	2009
Annual costs	20	22	20	
Cumulative benefits*	2	8	18	28
Low cost manufacturing	25%	—————→		35%

\* From base year 2005

# Restructuring - costs / benefits

## 2009/10 Low Cost Manufacturing programme

£m	2009	2010	2011	2012
Annual costs	35	10	-	-
Cumulative benefits*:				
Permanent	19	40	55	62
Temporary	16	8	-	-
Total	35	48	55	62
Low Cost Manufacturing	35%	—————→		50%

\* From base year 2008

# Operating cash flow summary

£m	2009	2008	<i>Change</i>
EBITDA*	<b>262</b>	269	
Working capital	<b>61</b>	4	
Capital expenditure	<b>(42)</b>	(53)	
Asset sales/other	<b>(3)</b>	21	
Operating cash flow	<b>278</b>	241	+15%
Interest and derivatives	<b>(27)</b>	(19)	
Tax	<b>(53)</b>	(54)	
Cash generation	<b>198</b>	168	
Severe Service investigation costs and fines	<b>(13)</b>	-	
Special pension contribution	<b>(17)</b>	(17)	
Cash flow before corporate activity	<b>168</b>	151	+11%

\* After restructuring costs

# Net cash flow summary

£m	<b>2009</b>	2008	<i>Change</i>
Cash flow before corporate activity	<b>168</b>	151	+11%
Corporate activity:			
Acquisitions	<b>(19)</b>	-	
Dividend to minority / others	<b>(2)</b>	(2)	
Shareholder activity:			
Dividends	<b>(66)</b>	(66)	
Share buyback / issues	<b>1</b>	(15)	
Net cash flow	<b>82</b>	68	+21%
Opening net (borrowings)	<b>(299)</b>	(233)	
Foreign exchange revaluation	<b>45</b>	(134)	
Closing net (borrowings)	<b>(172)</b>	(299)	-42%

# Balance sheet

£m	<b>Dec 2009</b>	Dec 2008
Shareholders funds	<b>400</b>	452
Net borrowings	<b>172</b>	299
<i>Gearing</i>	<b>43%</b>	66%
Continuing businesses:		
EBITDA	<b>262.5</b>	269.3
Interest costs	<b>18.5</b>	15.4
Debt / EBITDA	<b>0.7x</b>	1.1x
EBITDA / interest	<b>14.2x</b>	17.5x

# Debt summary

£m	Dec 2009	Dec 2008
Bilateral bank facilities	<b>277</b>	370
US loan notes	<b>246</b>	201
Other drawn uncommitted facilities	<b>7</b>	6
Total funding available	<b>530</b>	577
<i>Average maturity (years)</i>	<b>4.4</b>	3.5
Drawn at period end	<b>253</b>	423
Undrawn at period end	<b>277</b>	154
Cash balance	<b>81</b>	124

# Pensions – IAS 19

£m	<b>Dec 2009</b>	Jun 2009	Dec 2008
Assets	<b>1,043</b>	915	957
Liabilities	<b>(1,301)</b>	(1,196)	(1,094)
<b>Surplus/(deficit)</b>	<b>(258)</b>	(281)	(137)

- Commenced consultation with members to close UK pension fund to future accrual with effect from 30 September 2010
- Deficit impacted by changes in assumptions on UK scheme:
  - Move in real discount rate from 3.7% to 2.0%
- In 2008 IMI agreed additional cash contributions of £16.8m pa until July 2016

# Dividend progression

	2001	2002	2003	2004	2005	2006	2007	2008	<b>2009</b>
Pence per share									
Full year dividend	15.5	15.5	15.5	16.5	17.5	18.7	20.2	20.7	<b>21.2</b>

# **Outlook for 2010**

# Proven long term strategy

## Market characteristics

Niche global markets £1-3bn

Market leadership  
No.1 or 2, 20% + share

Large global customers,  
key account focus

Differentiated & customised  
engineering solutions

Captive, high margin aftermarket



## Business competencies

World Class  
Key Account Management

Insight & Innovation  
“Engineering Advantage”

Disciplined execution and  
project management

# Focus for 2010

- Continue 2009 focus on cost control, inflation equation and cash generation
- Enhance core skill base
  - Key account management
  - Engineering advantage
- Further investment in low cost manufacturing
- Leverage strong balance sheet
  - Investment in organic growth
  - Strategic acquisitions

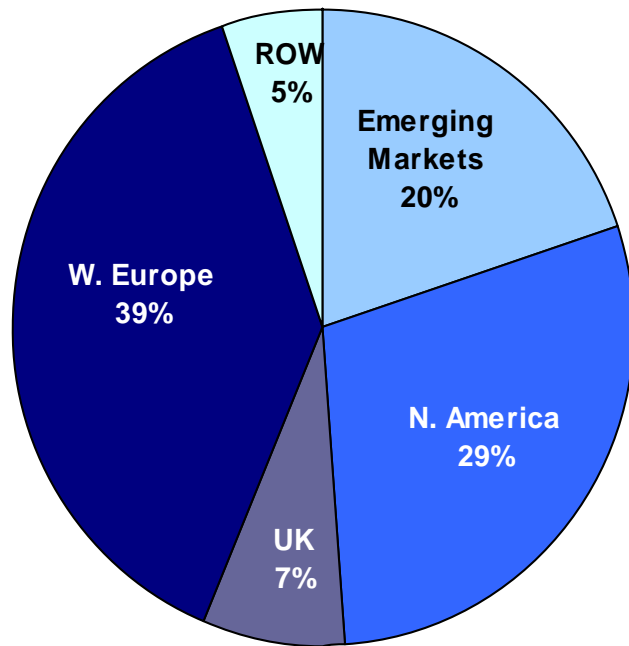
# Outlook

- Greater stability / more visibility
- No 'V' shaped recovery assumed
  - Late cycle vs early cycle businesses evenly weighted
  - Some restocking potential (Fluid Power)
  - Emerging markets strong
- Continued margin development opportunities
  - Further cost reductions
  - Increased % of low cost manufacturing
  - Improved mix
- Strong balance sheet
  - Acquisitions / new products
- Poised for market recovery
  - Reduced cost base
  - Increased low cost manufacturing capacity
  - Strong new products funnel

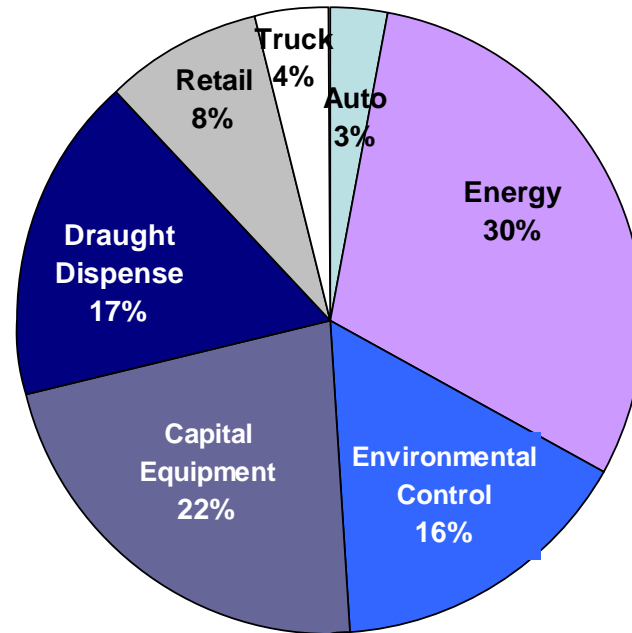
# **Additional information**

# 2009 Sales

**By Geography:**



**By end market:**



# Exchange rates

	2009	2008	<i>Change</i>
Average rates			
Euro	<b>1.12</b>	1.26	+11%
US\$	<b>1.57</b>	1.85	+15%
Closing rates			
Euro	<b>1.13</b>	1.03	-10%
US\$	<b>1.61</b>	1.44	-12%
Impact on FY 2009:	Revenue		+12%
	Segmental operating profit		+13%
Projection for 2010*:	Revenue		+4%
	Segmental operating profit		+5%

\* Compares impact on 2009 results of using current exchange rates (as at 1 March 2010) versus average exchange rates for 2009

# Sales and margin development

%	2002	2003	2004	2005	2006	2007	2008	<b>2009</b>
Sales momentum - organic growth	<i>nil</i>	+3	+5	+5	+4	+7	+5	<b>-16</b>
Segmental Operating margin	9.2	9.8	10.5	12.2	12.7	13.0	14.0	<b>13.1</b>

# New product momentum



CCI's Oil & Gas production choke valve with DRAG technology



Integrated pneumatic valve system to control gas flow in an Anesthesia Ventilator



TA Differential pressure control valve for large cooling systems and district energy applications

The Viper frozen beverage dispenser with high output valve system



New "10 Wide" Visi-Slide increases cooler capacity for brand owners

% revenue from products less than 3 years old

2002	2005	2007	2008	2009	Target
4%	7%	13%	14%	14%	15-20%

# Sales bridge

£m	2008	Translation	Organic	2009
Severe Service	443	56	13	<b>512</b>
Fluid Power	666	83	(229)	<b>520</b>
Indoor Climate	281	24	(13)	<b>292</b>
Beverage Dispense	305	42	(50)	<b>297</b>
Merchandising	202	28	(66)	<b>164</b>
Segment revenue	1,897	233	(345)	<b>1,785</b>
IAS39 adjustment	4			<b>7</b>
Group revenue	1,901			<b>1,792</b>

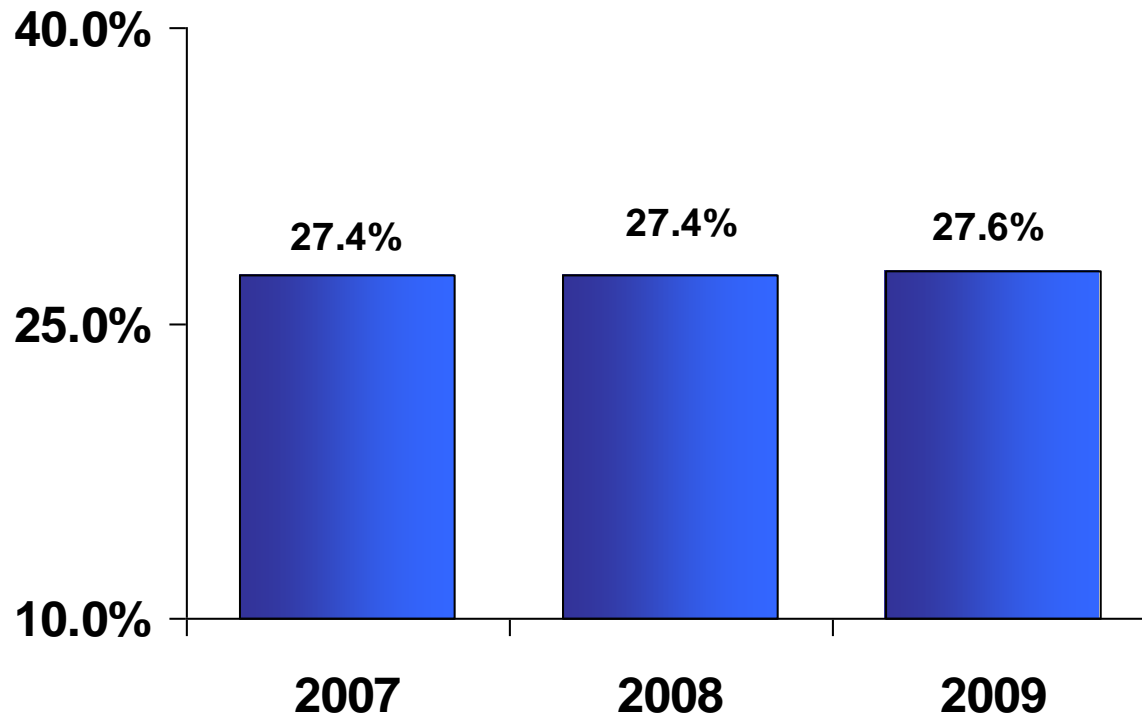
# Profit bridge

£m	2008	Translation	Organic	2009
Severe Service	81.3	10.3	9.8	<b>101.4</b>
Fluid Power	91.3	11.2	(69.7)	<b>32.8</b>
Indoor Climate	45.2	4.9	10.6	<b>60.7</b>
Beverage Dispense	27.6	5.0	(11.5)	<b>21.1</b>
Merchandising	20.9	3.8	(6.5)	<b>18.2</b>
Segmental operating profit	266.3	35.2	(67.3)	<b>234.2</b>

# Restructuring – by business

£m	H1	H2	2009
Severe Service	1.1	1.6	<b>2.7</b>
Fluid Power	9.2	11.8	<b>21.0</b>
Indoor Climate	1.6	1.5	<b>3.1</b>
Beverage Dispense	5.0	2.1	<b>7.1</b>
Merchandising	0.6	0.4	<b>1.0</b>
Total Group	<u>17.5</u>	<u>17.4</u>	<u><b>34.9</b></u>

# Return on operating capital\*



\* Segmental operating profits over segmental assets as per the statutory accounts