

# **Interim results presentation**

**25 August 2011**

# **Martin Lamb**

# Key messages

- Current trading positive
  - Strong first half
  - Weakening macroeconomic indicators noted
  - Current order trends mostly positive
- Margin resilience embedded
  - Well established forward momentum
  - Full range of options in event of downturn
- Long term development plan on track
  - Driving greater strategic convergence
  - Investing for growth

# Agenda

- Financial Review
- Business Review
  
- Current trends and outlook
- Questions and answers

Douglas Hurt

Ian Whiting  
Sean Toomes  
Roy Twite

Martin Lamb

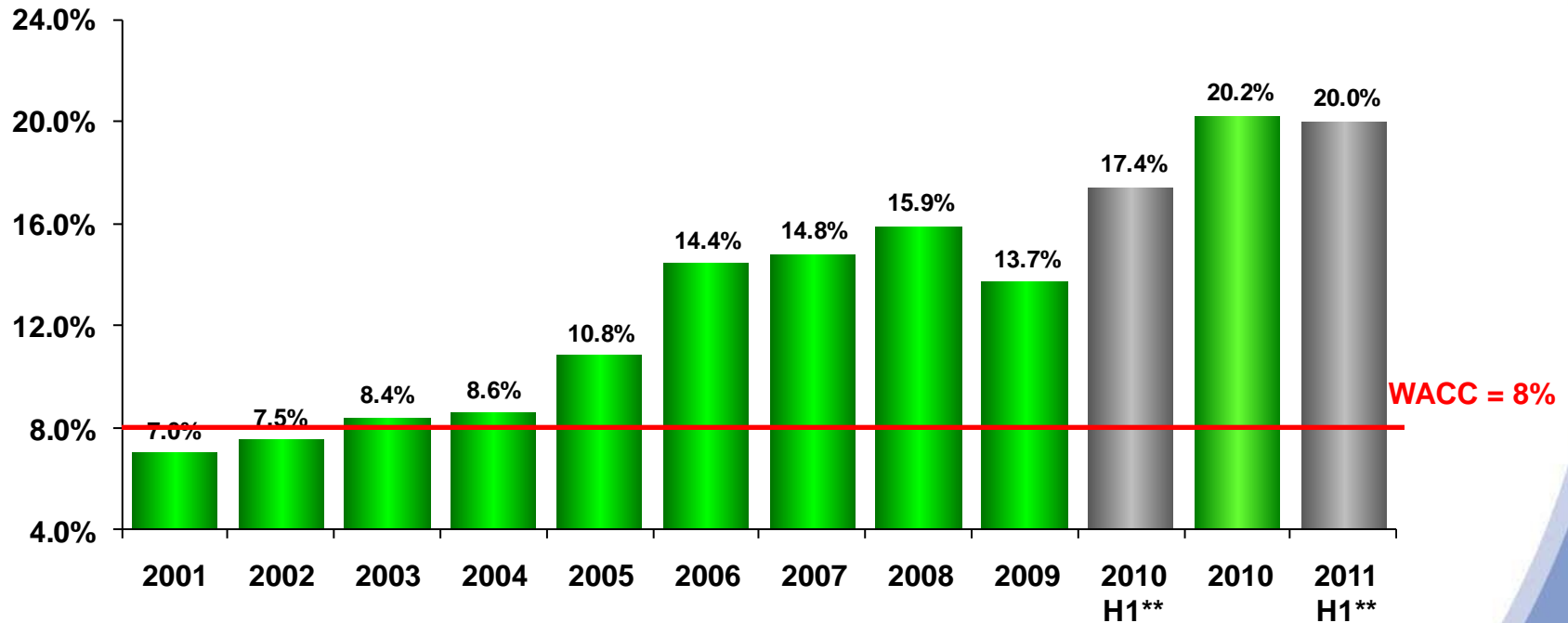
# **Douglas Hurt**

# Results overview

£m	<u>2011 H1</u>	<u>2010 H1</u>	<u>change %</u>
Revenue	<b>1,032</b>	925	+12%
<i>organic revenue growth</i>			+8%
Segmental operating profit	<b>176.4</b>	145.6	+21%
Segmental operating margins	<b>17.0%</b>	15.7%	
Adjusted basic eps	<b>37.9p</b>	29.8p	+27%
Interim dividend	<b>11.0p</b>	9.0p	+22%

# Return on capital

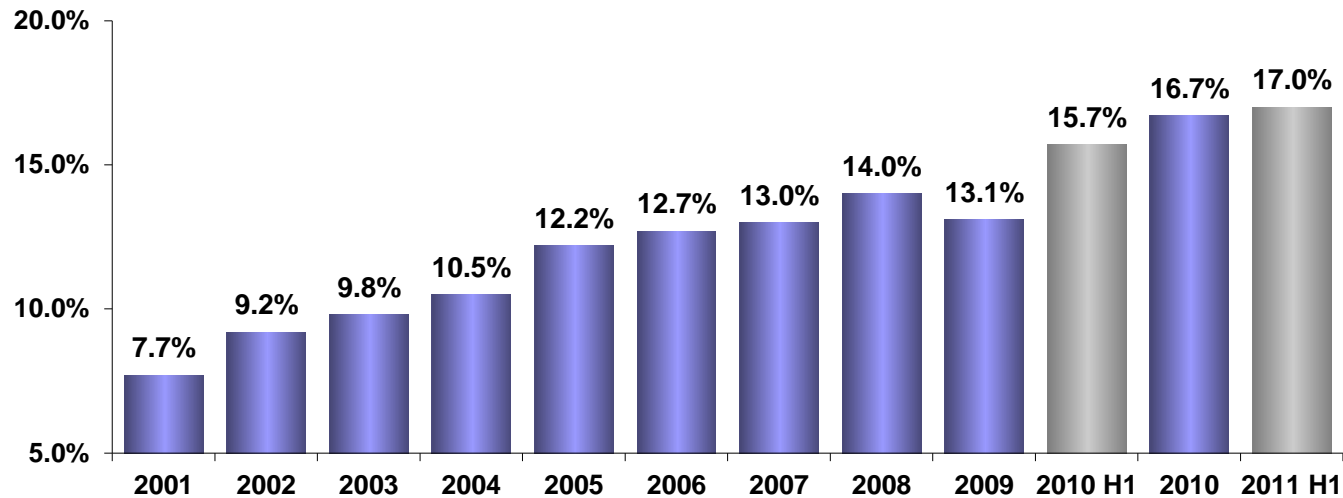
Post tax return on invested capital\*



\* Segmental operating profit after tax divided by the average invested capital of the group

\*\* H1 ROICs are annualised figures based on H1 returns

# Margin improvement



- Further good margin improvement in H1 2011
- Improved product mix
  - New products
  - Continued exits from low margin product areas
- Increasing focus on other product margin initiatives
  - Value engineering
  - Supplier rationalisation

# Results overview

£m	H1 2011	H1 2010	<i>change</i>
Segmental operating profit	<b>176.4</b>	145.6	+21%
Interest	<b>(8.2)</b>	(8.3)	
Net pension finance income/(expense)	<b>3.1</b>	(0.9)	
Profit before tax before exceptional items	<b>171.3</b>	136.4	+26%
Restructuring costs	<b>(9.9)</b>	(3.3)	
Acquired intangible amortisation	<b>(17.4)</b>	(3.6)	
IAS39 adjustment	<b>0.3</b>	4.0	
Profit before tax	<b>144.3</b>	133.5	+8%
Taxation	<b>(41.7)</b>	(39.5)	
Profit from continuing operations	<b>102.6</b>	94.0	+9%
Discontinued operations, net of tax	-	5.4	
Total profit for the period	<b>102.6</b>	99.4	+3%

# Operating cash flow summary

£m	H1 2011	H1 2010	H2 2010	Year 2010
EBITDA*	<b>187</b>	168	201	369
Working capital	<b>(64)</b>	(27)	60	33
Capital expenditure	<b>(21)</b>	(21)	(30)	(51)
Employee benefit movement	<b>(3)</b>	-	(21)	(21)
Asset sales/other	<b>(3)</b>	(2)	7	5
Operating cash flow	<b>96</b>	118	217	335
Interest and derivatives	<b>(5)</b>	(3)	(9)	(12)
Tax	<b>(41)</b>	(29)	(27)	(56)
Cash generation	<b>50</b>	86	181	267
Severe Service investigation costs	<b>(1)</b>	(3)	(1)	(4)
Refund of EU Fine	-	5	-	5
Special pension contributions	-	(49)	(16)	(65)
Cash flow before corporate activity	<b>49</b>	39	164	203

\* From continuing operations

# Net cash flow summary

£m	H1 2011	H1 2010	H2 2010	Year 2010
Cash flow before corporate activity	<b>49</b>	39	164	203
Corporate activity:				
Acquisitions	<b>3</b>	(14)	(116)	(130)
Polypipe earnout recovery	-	-	8	8
Investment by pension fund	-	49	-	49
Payment to non-controlling interest	<b>(2)</b>	-	-	-
Dividend to minority/others	-	-	(1)	(1)
Shareholder activity:				
Dividends	<b>(54)</b>	(42)	(29)	(71)
Share buyback/issues	<b>(7)</b>	(10)	(18)	(28)
Net cash flow	<b>(11)</b>	22	8	30
Opening net (borrowings)	<b>(145)</b>	(172)	(157)	(172)
Impact from foreign exchange movements	<b>(12)</b>	(7)	4	-
Closing net (borrowings)	<b>(168)</b>	(157)	(145)	(142)

# Balance sheet

£m	<b>June 2011</b>	June 2010	Dec 2010
Shareholders' funds	<b>582</b>	365	526
Net debt (£m)	<b>168</b>	157	145
<i>Gearing</i>	<b>29%</b>	43%	28%
EBITDA (£m)	<b>187</b>	168	369
Interest costs	<b>8.2</b>	8.4	15.3
Net debt/EBITDA*	0.4	0.5	0.4
EBITDA/interest*	25.7	17.3	24.1

\* Debt covenants are based on 12 month pro forma analysis for EBITDA and interest comprising H2 2010 and H1 2011

# Pensions – IAS 19

£m	<b>Jun 2011</b>	Jun 2010	Dec 2010
Assets	<b>1,134</b>	1,031	1,115
Liabilities	<b>(1,322)</b>	(1,360)	(1,314)
Deficit	<b>(188)</b>	(329)	(199)

- Small reduction in IAS19 deficit since beginning of year
- Next triennial actuarial valuation of the IMI pension fund in the UK taking place as at 31 March 2011
- Actively working with Trustee of the IMI pension fund in the UK on additional proposals to manage future risk
- Work continues worldwide to close defined benefit plans and replace them with defined contribution plans and/or cash

# Results overview

- Strong first half results
  - Organic growth 8%
  - Segmental operating margin up 130 basis points
  - Adjusted basic EPS 37.9p, up 27%
  - Interim dividend 11p, up 22%
- Strong balance sheet

# **Ian Whiting**

# Severe Service

£m	H1 2011	H1 2010	<i>change</i>	Year 2010
Revenue	<b>258</b>	217	+19%	452
<i>Organic growth %</i>	<b>-1</b>	-15		-14
Operating profit	<b>41.3</b>	38.4	+8%	78.4
<i>Operating margin %</i>	<b>16.0</b>	17.7		17.3

- H1 revenue broadly flat, on an organic basis
  - Improved shipments in Q2
- As expected, H1 margins impacted by an unfavourable mix of projects
  - Margins expected to improve in H2
- Z&J margins ahead of plan



# Severe Service Orders

	% Change		
	Backlog*	Orders**	
Fossil Power	+13%	(1%)	Increased quotation activity. Expect good order intake pick up in H2 on weaker comparative
Oil & Gas	+15%	(2%)	Large LNG orders taken in H1 2010
Nuclear	+16%	(9%)	Some deferments in orders following Japanese nuclear incident
Aftermarket	+11%	+12%	
<hr/>			
Total	+13%	+2%	
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- Order book up 13% since December 2010
- H2 order intake expected to improve for both Fossil Power and Oil & Gas but weaken further for Nuclear

\* Change in order book, excluding Z&J, between December 2010 and June 2011

\*\* Order intake, excluding Z&J, in H1 2011 versus order intake in H1 2010

**Sean Toomes**

# Indoor Climate

£m	H1 2011	H1 2010	<i>change</i>	Year 2010
Revenue	<b>150</b>	142	+6%	296
<i>Organic growth %</i>	<b>+3</b>	-1		+2
Operating profit	<b>30.2</b>	30.8	-2%	70.3
<i>Operating margin %</i>	<b>20.1</b>	21.7		23.8

- Continued focus on energy efficiency
- New commercial construction market remains subdued
- Increased investments in seminars, engineers and Key Account Managers to drive future growth
- Transactional exchange rate headwind on strength of Swedish Kroner and Swiss Franc
- Pricing offsetting higher metal costs

# Indoor Climate

- Renovation activity to make buildings more energy efficient continues to prove resilient
- Increased investment to drive “pull model”
  - Seminar attendees up 27% in H1 to over 44,000
  - Increased number of hydronic control demonstration centres in emerging markets
  - 44 new Hydronic sales engineers
- Good progress expected in H2 supported by positive trends in energy efficiency



**Roy Twite**

# Fluid Power

£m	H1 2011	H1 2010	<i>change</i>	Year 2010
Revenue	<b>387</b>	333	+16%	685
<i>Organic growth %</i>	<b>+16</b>	+31		+31
Operating profit	<b>74.6</b>	49.8	+50%	113.7
<i>Operating margin %</i>	<b>19.3</b>	15.0		16.6

- Continued revenue momentum with organic growth of 16% in H1
- Good growth in sector business up 18% in H1
  - Commercial vehicles up 39%
  - Energy up 20%
  - Rail up 14%

# Fluid Power

- Overall sectors now represent 42% of total revenues
- Further strong progress on margin improvement
  - Further moves to low cost manufacturing
  - Other product margin initiatives including increased focus on value engineering and supplier rationalisation
- Some pockets of weakness (Southern Europe, UK) but no material change to overall order intake and customers remain positive



# Beverage Dispense

£m	H1 2011	H1 2010	<i>change</i>	Year 2010
Revenue	<b>161</b>	159	+1%	315
<i>Organic growth %</i>	<b>+5</b>	+3		+5
Operating profit	<b>20.0</b>	16.9	+18%	32.0
<i>Operating margin %</i>	<b>12.4</b>	10.6		10.2

- Good organic growth in H1
  - Strong revenue momentum in North America
  - UK market remains difficult
- Further good progress on operating margins
  - Focus on improving the quality of overall sales mix
  - Closure of Spanish factory
  - Additional “inflation equation” initiatives
- New product pipeline continues to improve
- Temporary slowdown by some customers in China but overall momentum positive

# Merchandising

£m	H1 2011	H1 2010	<i>change</i>	Year 2010
Revenue	<b>79</b>	76	+4%	169
<i>Organic growth %</i>	<b>+10</b>	-12		+2
Operating profit	<b>10.3</b>	9.7	+6%	25.3
<i>Operating margin %</i>	<b>13.0</b>	12.8		15.0

- Strong organic revenue growth of 10%
  - Good growth in automotive and beverage sectors
- Prioritisation of higher margin, differentiated project opportunities
- New “In-Vision” retail science centre opened in US
  - Positive feedback from initial customer visits
- H2 momentum sufficient to offset large automotive order in H2 2010

# **Martin Lamb**

# Key topics

- Current trading & visibility
- Margin resilience
- Strategic development

# Current trends

- PMI / ISM / OECD forward indicators weakening
- Some pockets of weakness emerging
  - Nuclear impacted post Fukushima
  - Temporary slowdown in Beverage in China
  - Lower industrial demand (Fluid Power) in UK and southern Europe
- But plenty of positives
  - General industrial demand (Fluid Power) in northern Europe and US holding up
  - New construction fossil power market recovering
  - New wave of LNG investments
  - Japanese demand recovering strongly
  - Truck market buoyant
- OEM customers remain generally upbeat
- Aside from pockets of weakness identified, no material change in order patterns since half year

# Fluid Power

## 6 week MA Order Intake

	Week 53, 2010		Week 26, 2011		Week 32, 2011	
	£m	change LY	£m	change LY	£m	change LY
Americas	4.6	+22%	4.3	+15%	4.2	+6%
Europe	8.7	+30%	9.7	+8%	9.0	+10%
Asia Pacific	1.3	+28%	1.6	+21%	1.5	-3%
Group	14.7	+27%	15.6	+11%	14.6	+8%

### Comments

- Caution: July / August order patterns typically volatile, especially Europe
- Second half comparables more challenging
- Some signs of weakening order intake in the UK and southern Europe last 6 weeks (around 10% Fluid Power sales)
- Top 50 customer interviews (last 2 weeks) underpinned positive outlook
- No material weakening in overall terms

# Visibility

## Forward order cover (weeks)

	Dec '08	Dec '10	Aug '11 (week 32)	Comments
Severe Service	35	31	40	Improved momentum weaker H1 shipments
Fluid Power	5	7	7	Improved momentum
<i>Memo: Sector %</i>	37%	41%	42%	<i>Higher sector % (longer contracts)</i>
Indoor Climate	3	3	3	Improved momentum offset by higher % renovation (smaller projects)
Beverage Dispense	2	3	4	Larger projects (new product related)
Merchandising	4	8	10	Larger projects (project selection)
Group	11	13	16	

# Margin resilience

A. Incremental volume (fixed cost absorption)

**Less:** Investments for growth  
(new product development, sales resource)

+

B. Benefits from winning the Inflation Equation

+

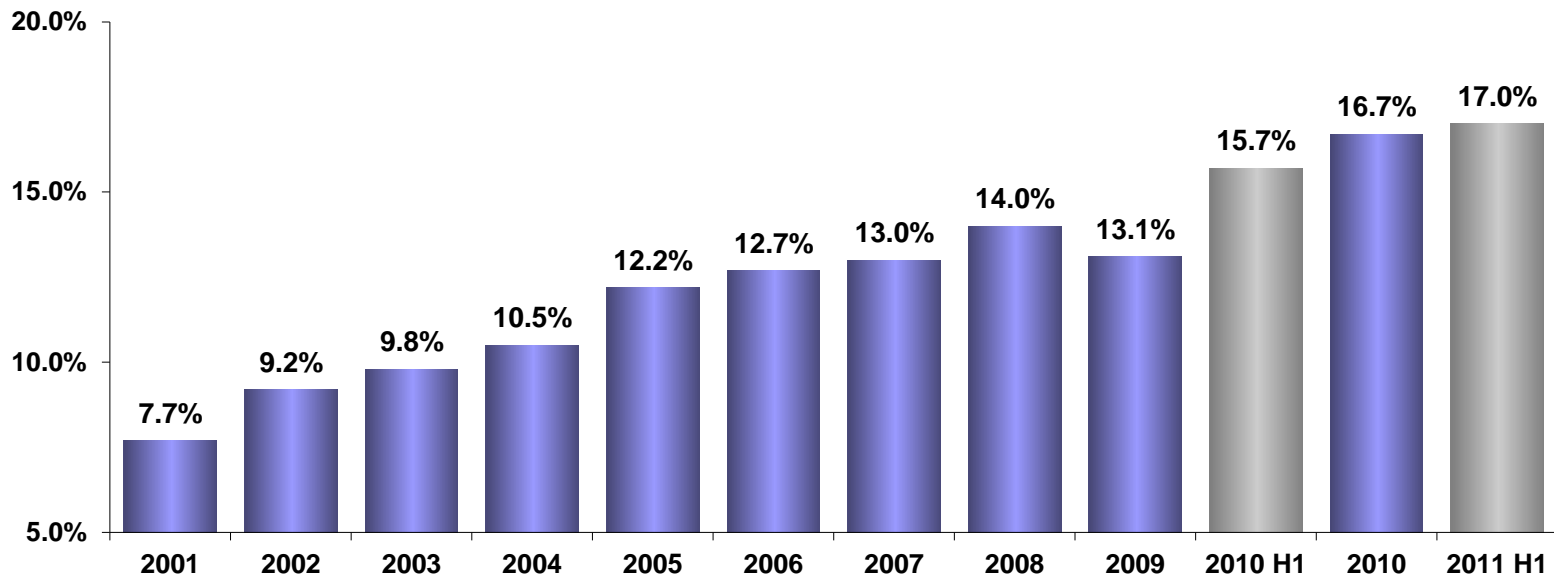
C. Benefits from improved product and business mix

+

D. Cost savings arising from operation restructuring

= Margin improvement / resilience

# Margin resilience



# Margin resilience

## A. Incremental Volume

- Increased investment in new products
- Increasing exposure to attractive end markets (for growth & resilience)  
*clean energy, energy efficiency, emissions control, health & life sciences*
- Accelerated investment in high growth emerging markets

135 new Key Account Managers and product engineers added in the period (70% located in emerging markets)

# Margin resilience

## B. Winning the “Inflation Equation”

<p>Improved pricing</p> <p>+</p> <p>Benefits arising from supply chain initiatives</p> <p><b>Less:</b> material cost inflation</p> <p>+</p> <p>Labour productivity improvements</p> <p><b>Less:</b> wage &amp; salary inflation</p> <hr/> <p>= Inflation Equation</p>
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5 year track record: 300 bps improvement (cumulative)

# Margin resilience

## B. Winning the “Inflation Equation”

### (i) Optimised pricing

- No 1 market position in target niches
- 70% revenue bespoke, engineered to order, or highly differentiated (NB <10% in 2001)
- Strong Key Account Management disciplines (focus on value not cost)
- Pricing specialists and disciplines

### (ii) Supply chain effectiveness

- Effective negotiations (key disciplines)
- Low cost sourcing network (China, India, Eastern Europe, Mexico)
- Dedicated resources for Value Engineering
- Focused supplier rationalisation programme (significant scope remains)

# Margin resilience

## C. Improving the business and product mix

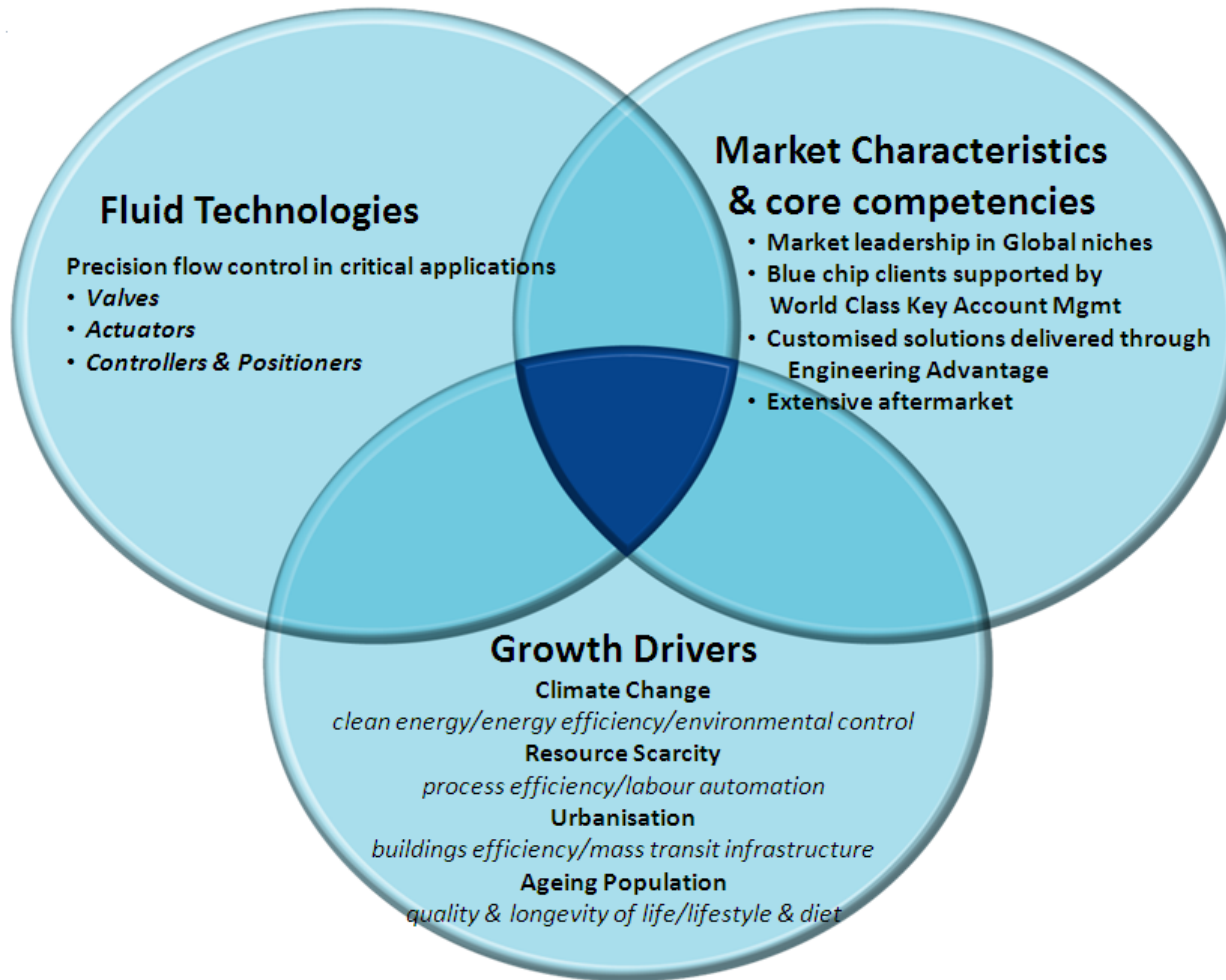
- Exit older, lower margin and undifferentiated products in unfavoured segments  
(10% revenue exits 2010 – 2012)
- Ensure all new products attain upper quartile product margins

# Margin resilience

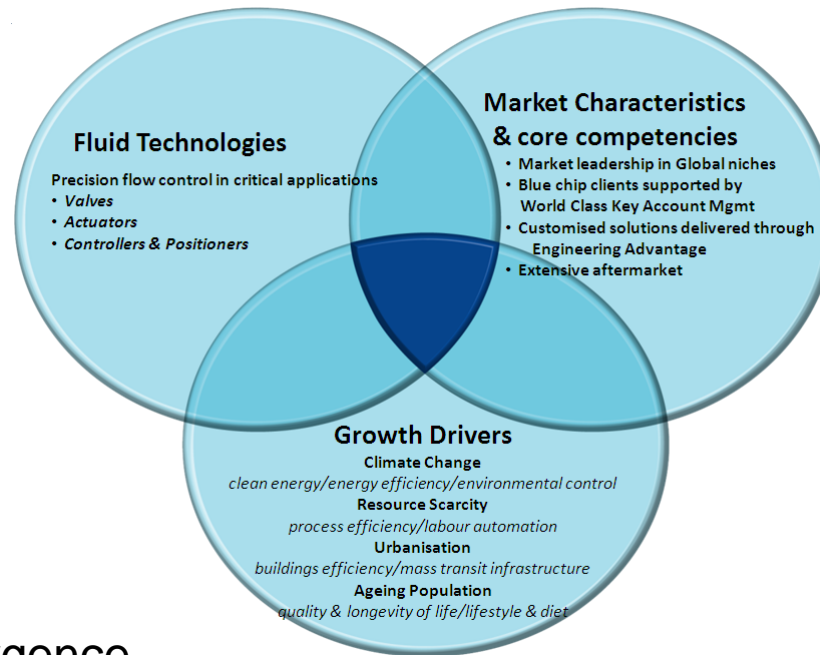
## D. Operational restructuring

- Plans to drive LCM to 55% on track
- Limited fixed or permanent additions in mature western markets post 2009 downturn
  - Volume increases met through temporary additions
  - Capacity expanded in low cost economies
- Detailed contingency plans in place to protect profitability in event of material downturn with full range of options/measures available
- Balance sheet strength to support restructuring

# Strategic convergence



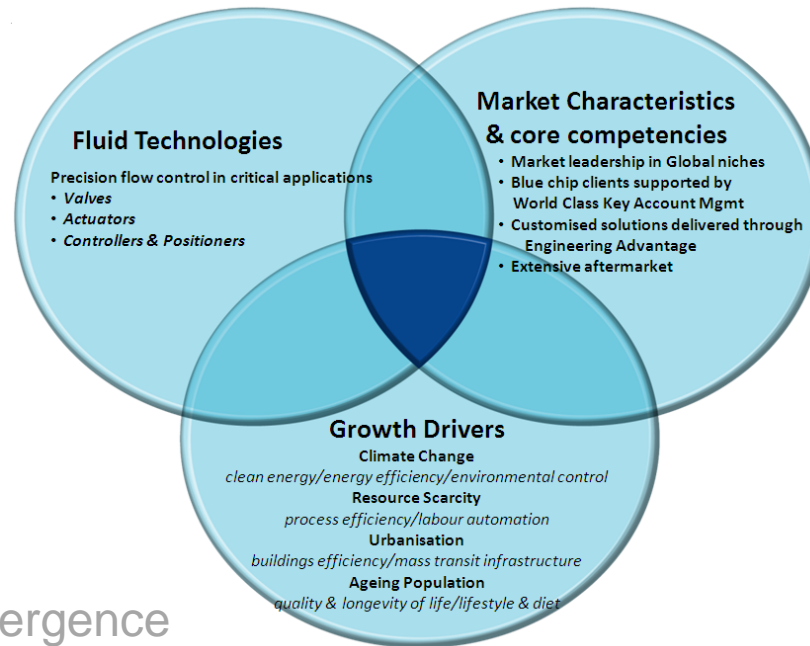
# Strategic convergence



## 1. Organic convergence

- Continued exit from older lower margin and undifferentiated products in non sweetspot territory
- Increased investment in Key Account Management and Engineering in key target markets

# Strategic convergence



## 1. Organic convergence

- Continued exit from older lower margin and undifferentiated products in non sweetspot territory
- Increase investment in Key Account Management and Engineering in key target markets

## 2. Inorganic convergence

- Significant expansion M&A revenue
- Pipeline of activity strengthened
- Balance sheet capacity

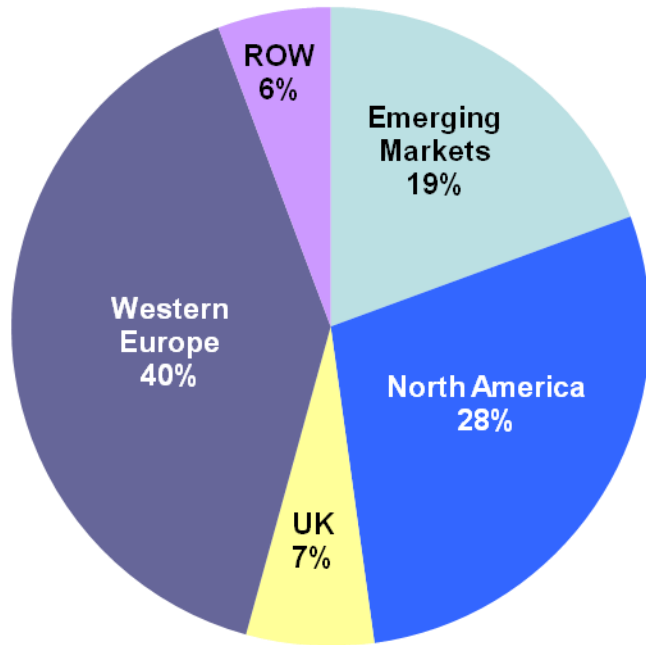
# Summary and outlook

- Good results in H1 2011
- Macroeconomic indicators weakening but current order trends mostly positive
- Margin resilience a core strength
  - Well established program to deliver further improvements
  - Full range of options to protect profitability in the event of significant market downturn
- Long term development plan on track
  - Driving greater strategic convergence
  - Investing for growth
- Further good progress expected for the remainder of 2011

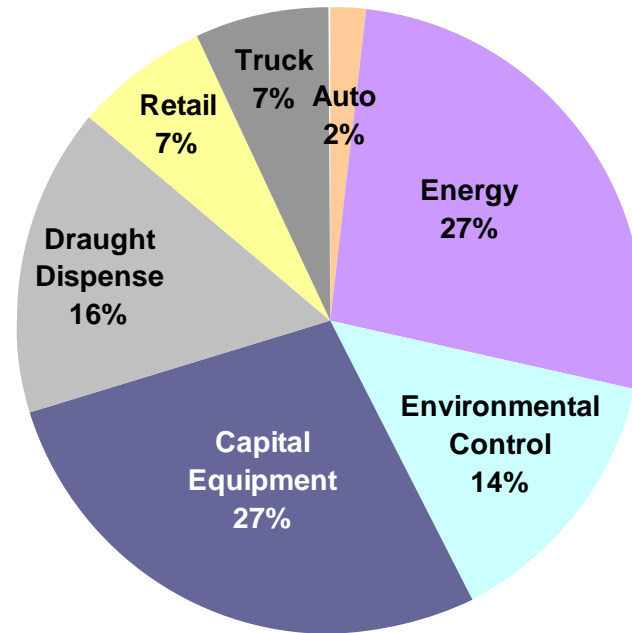
# **Additional Information**

# H1 Sales

**By Geography:**



**By end market:**



# Exchange rates

	2011	2010	<i>Change</i>
Average rates			
Euro	<b>1.15</b>	1.15	+0%
US\$	<b>1.62</b>	1.52	-7%
Closing rates			
Euro	<b>1.11</b>	1.22	+9%
US\$	<b>1.61</b>	1.50	-7%
Translational impact on H1 2011:			
Revenue			0%
Segmental operating profit			+1%
Estimated translational impact on FY*:			
Revenue			+1%
Segmental operating profit			+2%

\* Based on average exchange rates to 22 August 2011 with current spot rates assumed for remainder of 2011

# Sales bridge

£m	H1 2010	Translation	Acquisitions / Disposals	Organic	H1 2011
Severe Service	217	4	39	(2)	<b>258</b>
Fluid Power	333	-	-	54	<b>387</b>
Indoor Climate	142	3	-	5	<b>150</b>
Beverage Dispense	159	(6)	-	8	<b>161</b>
Merchandising	76	(4)	-	7	<b>79</b>
Segmental revenue	927	(3)	39	72	<b>1,035</b>
IAS39 adjustment	(2)				<b>(3)</b>
<b>Group revenue</b>	<b>925</b>				<b>1,032</b>

# Profits bridge

£m	H1 2010	Translation	Acquisitions / disposals	Organic	H1 2011
Severe Service	38.4	1.5	6.2	(4.8)	<b>41.3</b>
Fluid Power	49.8	0.7		24.1	<b>74.6</b>
Indoor Climate	30.8	1.2		(1.8)	<b>30.2</b>
Beverage Dispense	16.9	(0.9)		4.0	<b>20.0</b>
Merchandising	9.7	(0.5)		1.1	<b>10.3</b>
Segmental operating profit	145.6	2.0	6.2	22.6	<b>176.4</b>