2023 Interim Results

Friday, 28th July 2023

Introduction

Roy Twite

CEO, IMI plc

Welcome

Good morning, everybody, and welcome to IMI's 2023 Interim Results presentation. I'm joined here today as usual by Dan Shook, our Finance Director. Next slide please.

Strategic execution delivering sustainable growth

This slide covers the key messages from the presentation, and the first thing to say is that it was another excellent performance from the team in the first half.

There is great momentum in this business, and we delivered 12% revenue growth, 7% of which was organic. Adjusted operating margins were up 140 basis points and adjusted profit before tax was up 17%. Our complexity reduction program delivered £8 million of benefits in the first half, and our good working capital management has allowed us to deliver significantly improved operating cash flows.

We're also announcing the next steps of our purpose-led strategy as we further align our business to key sectors to accelerate growth. I will provide more detail on the next slide.

Finally, we are reiterating the guidance that we upgraded in our May IMS. We expect that the full-year adjusted EPS will be between 112p and 117p. Next slide please.

Positioning IMI for accelerated growth

So today we are announcing the next steps of our purpose-led strategy, Breakthrough Engineering for a Better World. IMI is always evolving, the sectors in which we operate have expanded and the way in which we help solve customer problems has strengthened. And as such, we're making some changes to our structure to further set us up for success.

To build on our customer-focused journey and maximise our growth opportunities, we are organising IMI into an Automation business and a Life Technology business. The aim is to accelerate Better World growth by continuing to get us closer to our customers through sector-focused teams and align our world-class engineering capabilities.

So effective immediately, Jackie Hu, will lead the Automation business, which will leverage deep automation technology and applications expertise to improve productivity, safety, and sustainability in the Process Automation and Industrial Automation sectors. This platform includes IMI Critical Engineering and IMI Precision Engineering's Industrial Automation business.

Beth Ferreira will lead the Life Technology business, which will focus on technologies that enhance and improve everyday life, particularly in the areas of health, sustainability, and comfort across the Climate Control, Transport and Life Science & Fluid Control sectors. This platform includes IMI Hydronic Engineering and IMI Precision Engineering's Fluid OEM and Transport businesses.

Reporting will be aligned across the two businesses and five sectors alongside our 2023 Preliminary Results announcement. Next slide please.

Better World sectors with sustainable growth characteristics

Our new structure aligns IMI to five Better World sectors, where secular macro trends will support sustainable, profitable growth. The long-term fundamentals in each of these key sectors is strong and we have the ability to make a significant, positive impact.

Our Process Automation business will benefit from a renewed focus on energy security, the need to reduce emissions and develop new green technology, as well as our customers continued investment in process efficiency and safety. We believe that this sector can grow at a 5% CAGR in the medium term.

Industrial Automation can grow at 5% CAGR through the cycle. In the current labour market, the payback on our customers' automation projects is faster than ever, and we see significant tailwinds from continued investments in reshoring and demands for mass customisation.

Our Climate Control business specialises in delivering optimal building comfort, energy efficiency and connectivity. Our premium products play an important role creating the smart buildings of the future and helping our customers to meet their environmental and sustainability goals. Supported by favourable regulation, we believe that this sector can grow at 5%+ CAGR.

In Life Science & Fluid Control, we are helping our customers to improve their processes to diagnose disease early and support highly-tailored, patient-focused, critical care. With the demand for healthcare expected to increase substantially and scientific advances unlocking novel new treatments, we see this sector growing between a 5% to 10% CAGR in the medium-term.

Our Transport business sits at the heart of our customers' journey to reduce emissions and develop the next generation of commercial vehicles. We believe that this sector can grow between 3% and 5% CAGR in the medium-term.

Next slide please.

Strategic pillars underpin financial framework

So before I hand over to Dan, I do want to provide a quick refresher on our strategy and how it underpins our new financial framework.

So at the heart of our strategy is our purpose, Breakthrough Engineering for a Better World. This is an incredibly powerful driver which has unleashed the tremendous energy of our people and our partners to solve key industry problems - helping our customers become safer, more sustainable, and more productive.

There are three key pillars to our strategy. The first is customer satisfaction - we provide world-class engineering expertise and excellent service to our customers. We have deep sector knowledge and know-how. Our focus is on solving our customers' problems, we have market-leading brands and we are achieving industry-leading customer satisfaction scores across IMI.

The second is market-led innovation. Our innovation accelerator, Growth Hub, supported by selective M&A, enables us to develop breakthrough solutions to support our customers with their most challenging and complex engineering problems.

And then the third is complexity reduction. And we continue to simplify and improve our global manufacturing footprint and demonstrate a resilient supply chain to support our customers.

And the good news is that this strategy is delivering significant improvements in our financial KPIs. We have grown revenue at 3% CAGR between 2019 and 2022. Our operating margin has increased by 360 basis points and adjusted profit before tax grew at an 11% CAGR. ROIC improved by 130 basis points to 12.7% and full-year adjusted EPS increased from 73p to 105p.

So reflecting on the considerable success of our strategy alongside our sector-aligned operating model, our evolved portfolio and the renewed strength of our energy markets in Process Automation, we have revised our financial framework and set ambitious new goals for the Group.

We want to deliver 5% organic growth, 20% operating margin, and 90% cash conversion through the cycle. Finally, we want to maintain our return on invested capital above 12%, as we continue to create real shareholder value through acquisitions.

With that, I'm going to hand over to Dan to talk through our first half results in more detail.

Business review

Daniel Shook

Group Finance Director, IMI plc

Delivering excellent first half performance

Thanks Roy, and good morning everyone. I'm pleased to be able to take you through our first half results today.

As Roy mentioned, a really strong first half as our purpose-led strategy continues to deliver. Revenue increased by 12%, adjusted operating profit was up 21%, and our adjusted operating margin increased by 140 basis points as we made further progress towards our 20% through-cycle target. We also improved our operating cash flow during the first half and are increasing our interim dividend by 10%, reflecting our continued confidence in the business. Next slide.

Strong organic revenue and profit growth

So firstly, some more detail around our strong revenue and operating profit performance. First half revenue increased by 12% to £1.1 billion, as we delivered 7% organic revenue growth and benefited from our recent acquisitions as well as a 4% currency tailwind. Adjusted operating profit increased by 21% to £193 million. Organic profits increased by 13%, and we again benefited from our acquisitions and FX. I will cover it a little later, but the recent strengthening of sterling will obviously change the FX effect for the full year. Next slide.

Delivering growth across key sectors

As Roy mentioned, we are aligning our business to five Better World sectors, where we see a significant opportunity to create value and deliver sustainable, profitable growth. This slide shows how we performed across each of the key sectors in the first half.

Process Automation had another outstanding period with 15% organic revenue growth and continued strong order intake. Overall orders were up 30% organically, with a 26% increase in Aftermarket. We have seen particular strength in LNG, Marine, and Downstream Oil and Gas. New products continue to make a major contribution to growth, particularly through upgrade opportunities.

Industrial Automation delivered a good performance despite more uncertain markets, with revenue up 8% and 2% organically. We see continued demand for solutions that automate processes that help our customers improve labour efficiency.

Climate Control organic revenue was up 5% as we continue to see demand for our energy saving solutions. Adjusted revenue was up 15% with the integration of Heatmiser progressing really well and providing a positive contribution to performance in the period.

Life Science & Fluid Control grew by 1%, with a 3% reduction on an organic basis. Underlying demand remains solid, although like many in this space, we have seen customer destocking in the first half.

Transport was up 12% and 6% organically. We saw growth across all regions as supply chains began to normalise and have particularly benefited from a strong recovery in China.

As you know, we are fluid and motion control specialist, and we continue to successfully share our engineering talent and expertise across all these sectors, particularly across our Growth Hub teams. And a number of our key manufacturing facilities serve multiple sectors, as do key support functions like procurement, IT and finance. We will finalise our reporting under this new structure through the remainder of the year, but you'll see the division detail included in the appendix in this pack.

So next slide, please.

Better World strategy delivering growth

So looking at the income statement. As mentioned, we saw strong organic growth in revenue and operating profit, respectively up 7% and 13%.

As expected, the net interest charge has increased to £12.7 million, largely reflecting the increased rate environment and funding for recent acquisitions. We continue to expect the full-year charge to be roughly £25 million.

Adjusting items have increased when compared to the prior period, reflecting an increase in restructuring costs, which I will run through shortly, and an increase in acquired intangible amortisation following the three acquisitions completed in 2022.

Our adjusted tax rate for the first half was 22.3%, and we expect this to be maintained for the full year.

And finally, our adjusted basic EPS increased by 15% to 54p in the first half. Next slide.

Maintaining continued cash discipline

So, continuing to cash flow where we delivered significant improvement during the first half, supported by our profit performance.

We saw a £48 million working capital outflow in the first half, with debtors increasing in line with our top line growth. Inventory levels increased by £52 million with investments to support the significant increase in Process Automation orders, which more than offset reductions across our other sectors.

Capex of £36 million is about 1.2 times depreciation and includes investments to support growth and our sustainability ambitions. We continue to see good opportunities to deploy capital into our core businesses to drive organic growth and deliver further productivity improvements.

Our net debt has reduced from £812 million at the end of the year to £772 million at the half year, with the net debt to EBITDA reducing to 1.6 times, giving us ample capacity to continue to invest both for organic and inorganic purposes. Next slide, please.

Step change in free cash flow generation

Given the importance free cash flow delivery is in fuelling our future growth, I thought it would be good to review our recent performance and where our ambitions lie. While IMI is consistently cash-generative, we do see a clear pathway to delivering a step change in free cash flow generation in the coming years.

Starting with our 2022 figure of £158 million, firstly, we invested £85 million in working capital in 2022 to support customer deliveries. So we would expect this to normalise as supply chain settle back down.

Secondly, we plan to conclude our complexity reduction program in 2025, and I'll update on that shortly. Including 2023, we expect to deliver a further £42 million of incremental annual benefits. And this, combined with the elimination of the cash investment, will further boost free cash flow.

And finally, continuing growth in our attractive end markets will further increase our free cash flow. Overall, we see IMI building over the next years to a free cash flow delivery in excess of £300 million. Next slide.

Disciplined approach to capital allocation

So given this free cash flow expectation, I thought it would be important to remind and reinforce our disciplined approach to capital allocation.

Our priority is delivering consistent profitable growth, so we continue to invest in both our people and operations to accelerate breakthrough solutions to solve our customers' most challenging and complex engineering problems. This includes investment in Growth Hub, which is going from strength to strength and really embedding a customer-led entrepreneurial culture across the organisation.

Next, as you know, we have completed four strategic acquisitions since December 2021, and we'll continue to pursue targeted Better World acquisitions. These deals must be in attractive Better World markets, like smart buildings, Life Sciences, and Automation, they must be scalable within IMI and they must deliver returns in line with our strict financial criteria. The integration of our recent acquisitions is progressing well and we continue to develop an attractive pipeline of bolt-on opportunities.

And last but certainly not least, we will continue to deliver returns to shareholders. Our progressive dividend is an important commitment we will maintain even while we invest in the business both organically and inorganically. And should we see a situation where we expect our leverage will fall meaningfully below our target range, we will look to return additional capital to shareholders through share buybacks. You will remember and see on the slide that we did this in 2021, completing a £200 million share buyback in that year.

Since launching our strategy in 2019, we have effectively deployed over £1.4 billion of capital, all while increasing our return on invested capital. Next slide, please.

Complexity reduction continues to deliver benefits

Next, an update on our complexity reduction program. We delivered £8 million of benefits in the first half and continue to expect to deliver £20 million for the full year. All projects are progressing to plan and we still expect the overall program to come to its conclusion in 2025. Next slide.

Group outlook

So, final slide before I hand back over to Roy, the Group outlook statement. Now, as I mentioned earlier, it is important to note that the pound has strengthened since we last issued guidance in May and given we make the majority of our profits overseas, we now expect to see an FX headwind of 1% rather than the 2% tailwind previously flagged.

Despite the FX movement due to the resilience of our Precision business and continued strength in Critical, we are reiterating guidance. We continue to expect full-year adjusted EPS will be between 112p and 117p in 2023. And finally, I'd just like to confirm that the divisional guidance issued in our May IMS remains unchanged.

So with that, let me hand back to Roy to take you through the strategy update. Thanks, everyone.

Strategy update

Roy Twite

CEO, IMI plc

Better World strategy compounding profitable growth

Thanks, Dan. So, the first thing I want to say is that our Better World strategy is clearly delivering results. We are building a track record of compounding profitable growth, and you can see on the slide that our adjusted EPS has grown at 13% CAGR since we launched our new strategy back in late 2019. Next slide, please.

Creating value through a disciplined approach to M&A

We are building a track record of successful acquisitions underpinned by our disciplined approach to capital allocation and strict financial criteria.

You may remember that we acquired PBM back in September 2019. PBM specialise in the development of high-quality industrial flow control solutions with particular strengths in pharma and biotechnology. And this acquisition has been a real success story, as well as providing further exposure to Better World growth markets with secular growth trends, we have generated great synergies through scaling.

The acquisition is on track to deliver our financial criteria in full. We delivered returns above WACC in year three, and we are on track to deliver returns in line with the Group ROIC by year five. Next slide, please.

Sustainability: Unlocking the Hydrogen economy

I also wanted to take this opportunity to give you an update on our ESG progress. At IMI, we engineer solutions for our customers that are safer and more sustainable. Every day, our people are helping to improve energy efficiency in buildings; they're helping to improve medical analytical devices to save lives; and reduce emissions both in oil and gas and on trucks.

Now, whilst there are countless examples I could talk through today, I'd like to highlight how we're adding value to the hydrogen value chain. Hydrogen looks set to play an important role in the transition to net zero, and our focus on hydrogen is leading to some very exciting projects.

Firstly, we are providing valves and actuators to support electrolysers which generate 100% green hydrogen.

Secondly, our Hydrogreen team actively supporting the development of hydrogen refuelling infrastructure, with solutions that improve the reliability of refuelling stations. Refuelling stations will be key to unlocking the hydrogen economy, and we are well-placed to capitalise.

Third, the storage of liquid hydrogen also presents a great opportunity for us, and we are seeing some promising early wins applying our technology to store hydrogen at cryogenic temperatures safely and securely.

Finally, hydrogen fuel cell trucks. We see a great opportunity for growth here, largely as a result of the additional fluid control requirements on hydrogen fuel cell trucks when compared to traditional vehicles. We've actually been supplying products into nearly 3,000 hydrogen vehicles in China, as well as into trucks being launched this year in the US. And we feel really excited about the future growth opportunities.

We delivered £7 million of hydrogen orders in 2022 and we expect to double that 2023. And hopefully this gives you a good feeling for how our Better World strategy is translating into sustainable, profitable growth in rapidly growing sectors.

Next slide, please.

Minimising our environmental impact

So, we are committed to playing our full parts to address climate change and protect the planet by minimising the environmental impact across everything we do.

We continue to see great progress in reducing our CO2 intensity with a 26% reduction since 2019, and we are committed to a net zero target for Scope 1 and Scope 2 emissions by 2040 and for Scope 3 by 2050. We're also progressing initiatives to reduce our water usage, and we have improved and reduced our water intensity by 9% since 2020.

Next slide please.

Empowering people to create a Better Word

At IMI we want to develop and empower our people to make an impact and to create a better working world.

Employee engagement remains really high and we are making good progress on gender diversity and are benefiting from the strong female representation on both our Executive Committee and our Board.

Training and development remains a core part of our talent strategy, and we continue to invest in focused programs to ensure our people are able to progress and grow our business. Next slide please.

Key messages

So to summarise then, the key takeaways from today are, first that the purpose-led strategy that we laid out in late 2019 continues to deliver. Organic revenue grew 7%. The adjusted operating margin was up another 140 basis points, and our adjusted EPS increased by 15%.

Second, we are organising our business into two platforms focused on key market sectors supported by long-term secular growth trends that will support sustainable profitable growth and our new financial ambitions.

Third, and finally, as Dan said, we are maintaining guidance. We continue to expect that this year's EPS will be between 112p and 117p.

Okay. So, I'm going to stop talking there and turn over to the moderator for the Q&A, please.

Q&A

Operator: First question comes from George Featherstone with Bank of America. Your line is open.

George Featherstone (Bank of America): Thanks for taking the questions. I just want to pick up on something first, Roy, that you mentioned about payback periods for your automation proposition maybe never been better than they are currently. I just wonder if you could give us a sense or perhaps frame it for us just how much that has changed?

Roy Twite: Yeah, I think for our customers, George, automation, as I said, and I've been involved in this business more than 30 years, right? So, I think what's happened obviously is that across most of our major markets, labour is really scarce. And if you look at, obviously material inflation is coming down, energy is coming down, but labour is still going through an inflationary period. And because of that and just the sheer ability to get people – and I think there's a third thing as well, George, which I would say is that supply chains, the robustness of supply chains is right up there in people's minds, obviously given a period of quite severe disruption. And I think the companies that – well, I know the companies that managed to supply customers throughout that period took share, right? And some of that stuck, certainly for us. I've highlighted many times in areas where our competitors couldn't supply and we could, that gave us an advantage. And some of that has stuck.

So I think George, all of that is combining to mean that when people look at the financial case for automation, in my opinion, it’s stronger than it's ever been.

And I think perhaps another effect on top of that is reshoring. And so, people are reshoring generally to higher cost economies like the US, and there you have to automate to stay competitive. So I think there's a mixture of factors that mean that when people look at the financial case for automation, it is stronger than ever George.

George Featherstone: The Precision business. I just wanted to maybe talk a little bit more about that. The IA growth seems to still be kind of disconnected a little bit from its historical correlation with PMIs. So is there anything that you can see from your customers that would suggest have that sharp reconnection maybe in H2 at all, or perhaps not as the case, maybe?

Roy Twite: Yeah, I mean, so far so good, as you say, George. Looking at the PMIs, we would've expected a reduction by now. Beth and the team, Dibyava, they've done a great job really; 2% growth in the first half, much more resilient than people would've expected. Improvement in margins again as we take the complexity out of that business. So no, pleased so far, clearly PMIs have dropped further this month so we are all over that, as you can imagine, George, with Plan Bs in place. And we have forecast a reduction in sales in the second half because that's what traditionally happens.

At the moment, having said that, George, we use our 60 day moving average, and it's only slightly down on last year in terms of order intake, and there's still opportunity to sell out of the order book because the order book versus traditional levels is still a bit longer than it would normally be, George. So, so far so good. But we've got a very keen eye on any changes in those order patterns and make sure we are ready with Plan Bs if it does actually happen.

George Featherstone: Okay, thank you very much. And then last one from me. Through cycle targets, obviously very welcome so thanks for providing those. The 5% growth, how should we interpret that? Is that more kind of a CAGR and there'll be some plus and minuses along the way, or do you expect to kind of be around that level on a per annum basis based on how you've sort of looked at those end market dynamics?

Roy Twite: Yeah, it's, it's the first example, George, right? So we expect there will be some pluses and minuses I'm sure, but 5% is our, let's call it our medium term growth ambition. You know, I think as you can see from our outlook, we're going to be close to that this year and I wouldn't say the markets are easy right now. I think there's a mix as usual, I think that's the strength of the diversity of our business. I think that if you put all of our capital market day targets together, you'd have probably ended up with 4% to 5%. This is a move up to 5%.

Couple of things in there. Clearly Critical outlook's improved dramatically, and we haven't seen the Critical markets like this for a decade. And if anything, Jackie – we did the business review, Jackie would say momentum is super strong in that business and, and if anything, accelerating slightly, right? So we feel very good about where Critical is. And probably that plus the fact that we've made some nice acquisitions in some good spaces, Life Sciences, smart buildings that we know we can build on for the future, the mix of business is improving.

So we think that, ticking it up to sort of 5% organic growth target through the cycle is a sensible place to be. Obviously reinforcing the 20% margin for the business and a 90% cash conversion as well. And that means that as I said in the presentation, we think we can start to become a compounder, as we have done over the last four years as we've compounded EPS at 13% CAGR. So, that's really just laying out the financial framework for everybody so they can see what sort of company we're becoming.

George Featherstone: Great. Thank you very much.

Roy Twite: Thanks George.

Operator: Our next question comes from Christian Hinderaker with Goldman Sachs. Your line is open.

Christian Hinderaker (Goldman Sachs): Roy, Dan, good morning. Hopefully you can hear me and thank you for the presentation. I've got three questions, maybe we can take them in turn. Firstly, I wonder, please, can you give us an indication on how price and volumes are progressing across the different businesses, inclusive of whether or not we've got new price increases or if it's just price tailwind from last year?

Roy Twite: No new price increases. Obviously we've got the price increases from the beginning of this year, George, obviously, right? But there's no mid-year price increases like there were last year. We are winning the inflation equation, so no need for that. So if you look at our 7% growth, about a third of that is coming through volume, and about two thirds is coming from price. And again, George, just to give you a rough idea without getting into commercial sensitivities, pricing is a bit higher in Hydronic and is a bit lower in Critical, right? And Precision sort of through the middle, just to give you a rough idea. So no new price increases and that therefore will as a comparator, if you're thinking about your models, start to taper towards the end of the year.

Christian Hinderaker: Thanks, Roy. Very clear. Maybe you can comment as well on the on the destocking in Life Sciences - organic growth at minus 3% for the half and plus two in the first quarter. Assuming an equal weight, that's minus eight for the second quarter. I wonder if there are specific customers, regions, product categories that that's impacting more or less than others and how much of that relates to lead time compression?

Roy Twite: Yeah, thanks Christian. I was looking obviously at our US peers earlier in the week, exactly the same story that Q2, you're almost bang on actually Christian, is a 7% reduction for us in that segment, and it was sharp. And when we talk to customers, there's more to come in the second half. So that's obviously included in our guidance, right? So originally, I thought on the last call that that would be finishing by the end of the first half. No, that's going to continue through the second half. And I think in overall terms, Christian, we think Critical is now slightly better than we thought a few months ago and obviously that segment of Precision a bit lower. And I think again, looking at what peers are saying, talking to some people in the industry, it's what's happening across that segment and it's in analytical devices which is obviously now, post Adaptas, the biggest part of that business for us now, Christian. So yeah, it's worse than we thought, but it's happening across the whole piece.

Anything you'd add to that, Dan?

Daniel Shook: Just that fundamentally I think those businesses are still certainly 10% businesses that we are going to go through this period. Money costs money again and I think we're seeing that starting to play through some of the some of the end markets that we serve.

Roy Twite: Yeah, these are life-saving devices, Christian. That's a good point, Dan. So ultimately the demand is there, that's for sure. And yeah, after a few years of very strong growth, there's a bit of a reset in the supply chain.

Christian Hinderaker: Fair enough. Thank you both. And then finally on the comment of money costs money, the M&A targets have a value creation hurdle for ROIC to be above WACC, I believe by year three. I just want to understand the mechanics there in terms of whether that cost of capital is fixed at point of acquisition or if it's a moving target. And then secondly, how your cost of capital's evolved today versus say, 2019, when you flagged the PBM acquisition earlier.

Roy Twite: Yeah, no, all good points I think Christian. Over to you, Dan?

Daniel Shook: Yeah, so it certainly has evolved and where we're sitting right now, we’re looking at hurdle rates more like 8.5% versus 7% for our overall weighted average cost of capital. And that's both sides kind of ticking up.

Yeah, I mean we don't get so analytical around changing targets. Once we have those businesses in, the focus is very much around delivering the synergies, both cost and revenue. I mean, we showed in the presentation, Roy went through it, as PBM has become more integrated into the Critical Process Automation business now, you can just see how we're able to move those ROICs up for those individual businesses.

Certainly as we look at acquisitions today, we have to have greater conviction that it's going to enable to achieve that 8.5%. And let's watch and see where that number goes. So we really look at it at the point in time, but certainly as we get through a bit of an inflationary environment, hey, that absolutely enables us to use the inflation equation to actually augment the profits. So overall, if anything, if we're buying the right businesses that fit really well with our market segments and we can integrate them quickly and effectively, we should be able to expand out those profits and drive towards that 12.7%, 13% ROIC we're sitting at today.

Roy Twite: Yeah. And I think that's the broader point really, Christian, is that we have a very strong drive to increase our overall ROIC. We have a very tough measure as you know, Christian, we write back all of the goodwill into the denominator. We wanted a tough measure. And we moved that up from, I think it was 11.3% on that measure back in 2019 to 12.7%. And therefore we now put an underpin at 12% as we acquire that we want to drive returns on acquisitions reasonably quickly up to our Group average. And we are incentivised on that as well, Christian. So we take it seriously.

Christian Hinderaker: Very clear. Thank you.

Roy Twite: Thanks Christian.

Daniel Shook: Thanks.

Operator: We now turn to Lushanthan Mahendrarajah with JP Morgan. Your line is open.

Lushanthan Mahendrarajah (JP Morgan): Hey, morning. Morning both. Thank you again, thank you for the presentation. A couple of questions, which I'll take one by one if that's okay. The first is on Hydronic, just how we think about that sort of H2 outlook. I think there's probably some slightly easier comps from sort of destocking and pre-buying in Q2 last year, but clearly read across and the macros a bit tougher, just how we sort of think about that into H2 and actually to next year as well.

Roy Twite: Yeah, I think that's right. That is, you've just nailed the two conflicting trends there, right? You know, I think the comp was tougher in Q2, will be a bit easier in Q3 but European construction market's tough. We have obviously got an energy saving angle on that, which I think will mean we do better than a lot of people. It's interesting looking at one of our peers yesterday was suffering, already had a negative first half. So I think out of it all, we'll do okay out of this, but European construction markets are definitely tougher. Back to the cost of money, as Dan said, that's clearly having an effect.

So we're actually calling the overall year modest growth, and I think that's probably a good description of where we see Hydronic. A lot will depend on the strength of the heating season. I'm sure you know that Hydronic does a lot of business in the run up to the colder weather in Europe. And a lot will depend on how much energy security is an issue, how much governments really push energy saving as they did last year in that period. And a lot will depend on people's energy bills and how much focus they have on that and how much they then drive during that period.

So I think you've called it right, we're thinking about modest growth for Hydronic for the year now because of the European construction markets. But we'll obviously let you know more as we come to our next update.

Lushanthan Mahendrarajah: Okay, that's really helpful. The second which is kind of linked because if we look at that sort of EPS guidance range for the year, I guess, what does the 112p imply in terms of your assumptions and what does the 117p - is that sort of – is 117p Industrial Automation flat, for example, and the 112p down, just to get an idea of what's in sort of the budget.

Roy Twite: I think broadly speaking that obviously what could go even better than the middle of the guidance will be things like Critical Aftermarket, right? Jackie and the team doing a fantastic job with that strategy. You know, obviously some of that Critical Aftermarket order book will be shipped next year. I think you understand that the upgrade valve part is on a similar lead time to new valves, i.e., 12 months plus, right? But some of the parts business is very strong, so that could obviously be a positive. Industrial Automation, as you said, could be stronger. We've obviously forecast a decline, particularly in Q4, so it could be stronger if it is dislocating a bit from PMIs. So I think they're probably the two things that could go that way.

Hydronic, as I said, could have a stronger heating season. You know, people could really come back to front of mind. Governments can always underpin that, like they did last year - if you remember, we gave an example in Germany, where the German government suddenly said, all municipal buildings need to be 19°C fixed, because that would obviously help them through the winter. So things like that can obviously help us.

And on the other side, Industrial Automation might come off, could come off a little bit more even than we think, even though we've brought it down.

So I think that would sort of be the mix of things, and remember we do have a lot to ship in Critical in December as well always. And I know that's out there in the market, but we have to deliver all of that. And I know that will mean that Jackie and the team won't get much of a Christmas break right, as I didn't for sort of eight years. So, I'd say they're the sort of moving parts. If I missed any moving parts there, Dan?

Daniel Shook: The only thing, Transport's operating nicely, 6% up in the first half. There's nothing there that would indicate that's going to come off. But as we know when the truck business starts, when they move, they move relatively quickly. So you know, that that's the only other area that we can see potentially going positive or negative. But where we see it today, I think we'll be fine on the CV side.

Roy Twite: Yeah, I mean Lush - I suppose the only other thing, Dan, is what you said in the video, right, is that we would've upgraded again if it wasn't for FX, and FX has been moving around a bit, right? So that's probably the only other ingredient. And so yeah, but that's probably, I think yeah –

Daniel Shook: That could go either way as well.

Roy Twite: It can go either way. Yeah.

Lushanthan Mahendrarajah: Okay. That's super helpful. And then just last one from me, just in terms of the change in sort of the reporting structure. I guess could we get a bit more colour on sort of some of the internal benefits and perhaps some examples of sort of combining some of these sort of subdivisions, I guess, into some of these bigger divisions?

Roy Twite: Brilliant. Yeah, no we are obviously super excited about this, and I'm really looking forward to the second half and Beth and Jackie and the teams really getting into this now because really what's happened, if you think about the last four years, we have driven very much a market segment approach, right? So as you know, Precision used to be organised regionally. Beth has done a really good job under the Customer First reorganisation of making sure that globally we have teams responsible for Transport, for Life Sciences and Process. And obviously Hydronic has also focused on their markets and Industrial Automation, right? So we, we've got a really nice now set of what I would call market sector focused teams.

And when Dan and I do the reviews. including the deep strategic reviews that we do, what's really pleased me now is that we've got sector specialists that really know their markets and they know how to win in their markets. And a part of the inflexion point with a new strategy has been that, knowing your markets, knowing how to win, and then using our deep engineering expertise to really support customers, solve their problems, create growth.

So now that that has happened over the last few years, you obviously strategically look at the sectors and you say, okay, which of these sectors go best together to really enable us to optimise the use of our resources to grow faster. Better World growth, that's what it's all about. So you look at the two automation platforms – and Critical Engineering obviously is really better described as Process Automation because you are automating, using valves, actuators, and controls and increasingly software, you are using those technical capabilities to automate refineries, to automate combined cycle gas power plants, to automate LNG compression plants and so on. And Industrial Automation is very similar, but in Industrial Automation, you are doing discreet automation of things like assembly plants in pharma and other sectors, right? Testing capabilities as well.

So naturally, now that we've managed to get the sector teams, it makes sense to put those two sectors together and end up with a globally competitive £1 billion plus automation platform.

And then we've also got what we call the life technologies. So all of these technologies, whether it's reducing emissions from buildings while making them comfortable, reducing emissions from trucks, or whether it's building out our life saving technologies in Life Sciences, all of those are life technologies. They make a difference and an improvement to everyday life. And they all have a very similar business model where we are working with the customer, engineering at the system level, whether it's a truck or whether it's an analytical medical unit, and then making sure that our components improve the productivity or the safety or the sustainability of the whole customer system. So we're really important to the customer.

So, really that's why those businesses, it's now time to put those sectors together in those two platforms. And I'm really excited because I think that will help us propel for the next phase of the strategy.

Lushanthan Mahendrarajah: Okay. That's super, super helpful. Thank you very much.

Roy Twite: Great. Thanks, Lush.

Operator: We now turn to Jonathan Hurn with Barclays. Your line is open.

Jonathan Hurn (Barclays): Morning guys. Just a couple of questions from me. I think the first question, just following up on the last one, and obviously the, the new divisional structure, obviously you've talked through. But Roy, is there some sort of hard synergies that you can get from those combinations? I think possibly in terms of the sort of the sales synergies more than the cost, but do you think there's some good synergies that can come through from putting those businesses together? That was the first one.

Roy Twite: Yeah. Thanks, thanks guys for today as well, for breaking up the questions. It makes my life so much easier than trying to remember or write down three. So no, the absolute focus of this restructuring is faster growth, right? So Jonathan, we've laid out the margin targets 20% through the cycle. We've made really good progress as you know. We're up from sort of 14% in 2019 roughly, you know, we're almost at 18% last year. We're well on our way to 20%. We want to achieve that target. Undoubtedly, there's bound to be some efficiencies in the new structure. We are very likely to reinvest that in future growth, right? As we have been more into the Aftermarket area in the Process Automation business, more into digital analytical. We're investing in CRM, world-leading customer relationship management software right across the business. We're starting to use the data much more effectively, Jonathan, to really ascertain at a granular level where we win, how we win. So, it'll be much more – there will be some efficiencies. I'm sure Jackie and Beth are very good at that but will be reinvesting in the business in the frontline to grow it faster.

Jonathan Hurn: No, that's very clear. And the second one was just on Critical, obviously the order book plus 32% at the half year. Can you just sort of talk us through where that order book sits, just in terms of margin? Are we seeing some margin progression in the order book? Obviously, there's, there's strong growth in Aftermarket through and just how that feeds into 2024. Are we still thinking that, you know, Critical can do sort of double digit growth in 2024?

Roy Twite: Yeah, no, really good. Well, if you look at it, Jonathan, actually the orders in the first half just to, well, the splits on the presentation, isn't it? But New Construction was actually up 36%, Aftermarket up 26%, right? So, the order book margins, I would characterise as pretty similar to the previous period. So not a big shift in the order book margin. Clearly with the extra volume you're getting better overhead absorption. So that will obviously help. Plus we've got more – remember we've got more restructuring benefits to come through in Critical into next year. So we see a clear pathway as Critical moves towards that 20% margin.

And I would say that to your second point, that the order book is 32% up. As I said earlier, a big part of those orders are now for next year. Me and Jackie we think it's very likely now that the order book will end up this year double digit ahead, right, in percentage terms, which means that next year we expect to see very good growth again, Jonathan.

So yeah, we're certainly building for the future in what is becoming the Process Automation sector.

Jonathan Hurn: That's very clear. And maybe just one last one, just in terms of one of your earlier comments. Obviously you need a stronger December, but in terms of sort of the book to ship that's left for Critical, what's that for the second half roughly?

Roy Twite: Yeah, it's obviously shrinking fast. We've got all the New Construction for this year, which is, let's say almost half the business as you know, Jonathan. Aftermarket as you know, three to four month lead time. So we've still got some Aftermarket to come through in the next couple of months. But yeah, Aftermarket momentum, as you can see, is good. So we've been good about this year.

Daniel Shook: On the parts side, upgrade still going well, but that's definitely 2024.

Roy Twite: Good point. Yeah.

Jonathan Hurn: Great. Clear guys, thank you very much.

Roy Twite: Thanks Jonathan.

Daniel Shook: Thanks Jonathan.

Operator: Our next question comes from Mark Davies Jones with Stifel, your line is open.

Mark Davies Jones (Stifel): Thanks very much. Morning, Roy. Morning Dan. Bearing in mind, putting to one side maybe, Dan's comments around cost of capital, obviously. Structurally, as you look at the next period of the strategy, do you think M&A will play a bigger part in the IMI story from here? Clearly there's an increased focus on growth. Are we going to see more and bigger deals as part of that, do you think?

Roy Twite: No, I think Mark we like the deals we've done. So we like bolt-ons, Adaptas was was a bigger one, but we like bolt-ons that we can fit into our sector businesses because obviously that's the way we get the synergies, right? And especially the growth synergies.

So Adaptas allows us access to the top analytical OEMs globally, but particularly in the US. And that great cross sale between our existing technology and the Adaptas customer framework and the Adaptas technology the other way is exactly what we like, right, because as we want to improve the mix of the business and we want to accelerate the growth of the business, that sort of acquisition fits really well. Same thing with Heatmiser, right? Fantastic business, leading share in the UK, great tech, growing very fast, grew double digit in the first half, but giving that access to Europe is the way that one plus one equals a lot more than two.

So, that sort of size of bolt-on really suits us, and we've done, I think four in the last 18 months, isn't it, Dan?

Daniel Shook: Yeah.

Roy Twite: So, that sort of rate, give or take, obviously, it will increase over time, but I wouldn't expect to see a massive shift in that, Mark.

Daniel Shook: And certainly as we generate the cash, we'll have the ability to do it. I think that the only thing I'd add is those bolt-ons culturally often fit really, really well. And as everybody knows that's so important and having their teams join IMI seamlessly, and in every case that's been – that's absolutely worked well and we get so many benefits from bringing those teams into IMI and vice versa. So that's the other reason I think we kind of like the size of deals we do.

Mark Davies Jones: Thank you. And can I just then a follow up slightly unrelated, but coming back to Hydronic, even modest growth for this year I think looks pretty impressive given the backdrop. We're hearing very weak trends, particularly in Germany and the Nordics, which are obviously big markets for you. So can those micro trends around energy efficiency really offset or continue to offset that general picture to the extent that you can grow in any sort of way for the year?

Roy Twite: Yeah, I think we feel, we feel reasonably good about that. Certainly Phil and the team feel good about that and they have got a great track record even through Covid actually of nailing where we're going to be through sort of half a year. You are right. It is, as I said earlier, there's some ups and downs around that, right, around the heating season, around how governments react to any energy crisis in Europe. So there are definitely some ups and downs in there, but on balance, we think that's the sort of base case for us. And obviously we have plan Bs and Phil is all over it in terms of making sure we protect margins.

So yeah, I think our base case is pretty sound and certainly what we've seen so far, Mark. So yeah, I think with bit of sensitivity around it, I think our base case is okay.

Mark Davies Jones: Great. Thanks very much.

Roy Twite: Thanks, Mark.

Daniel Shook: Thanks, Mark.

Operator: Our next question comes from Kulwinder Rajpal with Alpha Value, your line is open.

Kulwinder Rajpal (Alpha Value): Good morning everyone. So my first question was on the new sector breakdown. So when I look at it at first glance, Transport seems to be the slowest growing sector. And then maybe from a medium-term perspective it would seem to be a smaller part of your portfolio, and we haven't seen some divestments for a while. So maybe from a medium-term perspective, is there a remote possibility that you would divest this business or maybe I'm completely off base here, or would you try to accelerate growth eventually?

Roy Twite: Yeah, so obviously we constantly look at that. We constantly look at each sector and make sure it fits with our overall ambitions. And Beth has made, as I said, she's carved it out now, right? We've got Transport carved out, and that's really, really good news and we're making really good progress. And Beth put new leadership in place, Steve, he's doing a fantastic job in that segment. In each strategic review we do, now we get more confident in terms of the, let's call them the longer term growth prospects of that business, right? And in terms of driving profit growth, that's certainly happening, right? So certainly not on our agenda right now to do anything like that. There's a lot of value to come out of that business.

I think in the longer term, obviously we've got to manage an energy transition. And as we said at the capital market day, the exciting thing for us is that a hydrogen fuel cell truck uses more content for us than a diesel truck. So, so far so good. And as I said on the presentation, we're doing trials in China on hydrogen fuel cell trucks, we're doing trials in the US and we're pretty excited about it. What we're going to have to do is over time expect that the growth rate of that division, of that segment rather, improves right, rather than doesn't improve. All we're flagging is as it goes through that transition growth could be slightly slower. That's it.

Kulwinder Rajpal: Okay. Thank you very much. The second one is on Critical Engineering. As you rightly pointed out, the growth has been great, and I find myself going back to the capital markets day where you unpick Critical's business into new markets, New Construction, and then Aftermarket. So could you please elaborate a little bit on the business development in the new markets particularly Marine and hydrogen, and how should we look at it from the second half perspective and more from a medium term perspective?

Roy Twite: Yeah, I mean, so since that capital markets day, it's been basically all good news for Critical, right? And, if I think about each part of that, Kulwinder. So Aftermarket, we said we would grow, I think it was sort of 5% - 7%, something like that, actually it's grown at 8%. And I think the best is in front of us actually. You know, so, I think the Aftermarket part and that whole Aftermarket strategy, I won't go through it again and bore everybody on the call, right? But what Jackie has done with the team is phenomenal because everything we said we would do, we'd done and more in terms of Aftermarket. And a lot of that is about upgrading our own valves and then getting the parts annuity that comes from that, and also upgrading our competitors' valves and using a lot of innovation – Retrofit3D, Erosolve, all the things we've talked about to give more value for customers, increase our installed base, and obviously increase the business. So I think that segment is going really well.

Obviously what's changed is New Construction at that time, I think we called it pretty flat, right? Obviously the markets because of energy security, those markets are growing quickly and our win rates are really good. So, I think New Construction is shifted in the right direction.

What I've said is, and I think it's clear in the numbers, we still expect to achieve the 20% margins because as the New Construction creates overhead recovery, as that drops through, as the footprint changes that Jackie's done start to drop through, the benefits from the projects comes through we still shifting critical towards 20% margins. So, that's bit's good.

And then on hydrogen, I talk quite a lot about that on the call, so I'm not going to go back through that, but hydrogen, we're excited about for the whole of IMI, right? And then pharma, well, PBM was a big part of that pharma segment, and as we showed you in the numbers, that's really doing well. And again, I think PBM has had a very good start because we got some good savings, actually synergy savings, particularly on indirect spending. We've found some nice big areas, but then obviously now it's the growth, right, that's really coming through. So yeah, I think across all of those segments it's, it's been going well.

Daniel Shook: Yeah. And you mentioned Marine as well. That's the last element, which of course, in light of everything going on in the world, that element, and things like AUKUS where Australia's looking at leveraging sub-technology of the UK and the US and coming together, all of that just gives us a nice platform to continue to grow. And of course, you saw the growth just in the UK business with the orders coming through in the first quarter for a very nice, long portfolio there. So definitely, and also through some Growth Hub opportunities there, we see even more ways to expand their markets.

Kulwinder Rajpal: Thank you very much. And lastly, just, just for you Dan, so in your bridge for increasing free cash flow generation, could you talk a little bit more about rationalisation measures just a little bit more detail? Is it related to restructuring or is it something else?

Daniel Shook: Yeah. I think it's delivering on the complexity reduction that we've already flagged and pretty much flagged since we started the strategy. And getting that final £42m, well, we delivered £8m, so we're down that £34m of benefits, and of course that will improve profits, but it also flow through to cash. And then yeah, these complexity reduction programmes do require investment and it's on the slide as well. You can see the cash investments we need to do as we go through the end of this programme. So I think the combination of that additional £34m coming through - £43m starting from 2022 - plus the reduction of that investment will all go to help move that free cash flow up to that £300m level.

Kulwinder Rajpal: Okay, thank you. Have a nice day.

Daniel Shook: Great, thanks. Thanks.

Rory Smith (UBS): Hi, morning Roy. Morning Dan. Thanks for taking my questions. Hopefully three quick ones from me. All on Critical. Could you just please flesh out what the order intake would've been in New Construction, stripping out the large one-off Marine order in the first quarter?

Daniel Shook: Well, the, the order was about, yeah, £25 million. About 25 million. So looking at new construction, that might be 10 and a bit percent of the growth if we took that out.

Rory Smith: Brilliant.

Roy Twite: So without it then it would've been about what, 25%?

Daniel Shook: Yeah, something like that. Yeah.

Rory Smith: Okay. Fantastic. Thanks. And then looking at Aftermarket, can you just help me try and understand the sort of the phasing there or maybe the comp effects quarter on quarter? Because obviously up very strong in the first quarter and then up, but sort of strong but less strong in the second quarter and how that kind of impacts that that look forward into the second half for growth in Aftermarket? Sorry if it was answered on a previous question and I missed it.

Roy Twite: Yeah, so Aftermarket almost up 10% in the second quarter. As you said, up 47% in the first quarter, so you know it and it is a bit lumpy, right? We get some big upgrade valve orders and so on. But still good growth coming through in the second quarter. And how it plays out, well, it was sort of answered earlier. So the upgrade valve parts, Rory, are very similar lead times to New Construction valves. They're more like 12 plus months. The parts lead times are more like three to four months, right? So the parts element of that first quarter will ship or has shipped some of it in the second quarter, some of it will ship in the third and fourth quarter, but the upgrade valve parts will ship later. Field service is a mixture of the two really. You can have longer term field service contracts and some shorter term ones as well. So I would say because obviously upgrade valves well up, what was the percentage they were up, Dan, in the first half? Upgrade valves?

Daniel Shook: Over 40%.

Roy Twite: Yeah, over 40%, right. Just to give you a rough idea. So it'll be a mixture of what ships this year, what ships next year, Rory. But we feel good about the second half, as you can tell, right, in terms of our guidance.

Daniel: Yeah.

Rory Smith: No, absolutely. Thank you. And then given this sort of very strong growth across energy markets in Critical, is that causing a problem for any of your suppliers or are there any pinch points that you can see?

Roy Twite: Yeah, I think we're acutely aware of that. Our bigger factories, the one in South Korea, the one in India are still only working just over a shift. Obviously, they're working two shifts on some of the bottleneck areas. And in terms of suppliers, if you remember, we've done a really good job. Jackie's done a really good job, to be fair – we used to have 3000 direct suppliers, round numbers, Rory, in Critical. We've now only got about a thousand. But at the same time, we've taken the number of single source suppliers down from about 60 down to about six.

And what we, generally speaking, what we've done on the bigger castings and the forgings, we tended to duplicate supply so often, it's – we had a supplier in China and we've duplicated that capability in India. And where you've got the sort of longer lead times like we got in Critical on new valves, that means that we've got time to make sure that sourcing is in a good place. So, I think Critical's done a really good job, obviously we're acutely aware of it. In fact, Jackie told us that the last business review that we're starting to get a bit of a competitive advantage because we are holding the lead times on some of our New Construction valves to 12 months. And actually some of the competition's already moved that out by three months or more. So we are starting to get see a little bit of a competitive advantage in some areas. So, so yeah, and I'm pleased with what's happening in Critical.

Rory Smith: Brilliant. Thanks a lot. Cheers.

Roy Twite: Thanks Rory.

Daniel Shook: Cheers. Rory.

Operator: Our final question comes from Bruno Gjani with BNP Paribas Exane. Your line is open.

Bruno Gjani (BNP Paribas Exane): Thanks for taking the question. I just wanted to go back to Critical and the margin delivered in H1. So good organic revenue growth, the margin improved by 90 bps. I don't want to take anything away from what was a very good performance but given the strong top line growth and the richer aftermarket growth within the mix, I think that business grew 20-odd percent. I would've expected the drop through to be somewhat richer than the 20% rate delivered in H1. So is there anything that perhaps held back the margin in H1 - greater levels of investment or say older orders, older priced orders leaving the books, or should we just think of this 20% as a more normal drop through to consider for Critical looking forward?

Roy Twite: No, I think the – so Critical's margin target is clear where we're going with that. You know, as I said, we've ramped up considerably over the last few years. Of course, we are investing, as I've said on several occasions, in that business. Aftermarket salespeople, Growth Hub, as I said CRM systems, new IT to make the business grow faster in the long term, plus the new areas like hydrogen, like pharma, where we see nice long-term growth capability in that business. So yeah, some good investment going in from Jackie and the team; and as I said, good progress and we expect to make further progress towards that 20% in the in the full year. Yeah.

Bruno Gjani: Okay. Got it. And just on the order trends are Critical, so another good quarter of organic order growth, another good half. And I think on an organic basis, this means that we're nearing levels last seen in 2014 where we were riding an O&G super cycle, it was a different market. What does the order pipeline look like today? What does the project pipeline look like? How do you expect order trends to develop from here - conscious that the comps are getting a little bit tougher as we look towards H2 of this year and next year as well?

Roy Twite: Yeah, I mean, so that's a question that we always have for Jackie and the team, right? And right now the order pipeline looks really good, right? So in the areas that you would expect I think, in LNG, in oil and gas generally. And what we expect to happen is this, to start sort of at the upstream end. Middle East is super strong right now, US, yeah, we expect it and then we expect that sort of wave, a bit like last time as you referred to, to them, ripple through into downstream over a period of time. So yeah, at the moment, very strong pipeline in terms of project activity and, yeah, all to play for, I think.

Bruno Gjani: Okay. Got it. And just on Hydronic, finally. Could you describe where the business is today relative to 2019 in volume terms? It looks like at least to me that we're back to 2019 levels. So volumes for the Hydronic business feel like they've moderated over the last few quarters. And don't know, I guess on a 12-month rolling basis on my analysis, I think perhaps 7-8% lower than the peaks reached towards the end of 2021. So given this moderation in volumes that I suspect has played out over the last quarter, does this actually limit the downside as we look forward? So, I guess if you take a step back, if you look at this business on a seasonally adjusted basis, I guess the question I'm asking is, is the volumes delivered in Q2 - is that rate sustainable? How are you thinking about this?

Roy Twite: Yeah I think, well I've given the Hydronic guidance. So, I won't sort of expand on that part. But I think what you say is interesting. Because supply chains have sort of been a bit all over the place over the last few years, I think wholesaler stocking, destocking is definitely playing more of a role than it was back in 2019. I think if you take the market in 2019 - good market pre Covid, construction in a pretty good place across Europe, I think that with interest rates moving as they have, and as Dan said, as the cost of money is increasing, clearly that's putting pressure on construction, right, on new construction, which is a portion of that business. It's probably – at the moment it's probably in the sort of 20-25% region of that business, but it is having an effect.

Having said that, on the positive side, you've definitely got energy saving, which is much more acutely in focus than it was back in 2019 because of what's happened with oil and gas and the invasion of Ukraine. So, so there's a lot of things going on and I think it's not quite as simple as that comparison to 2019. I think as I said to an earlier question, I think modest growth this year feels about right for us in Hydronic.

Bruno Gjani: Yeah. Understood. I guess what I was getting at is just when you look through prior cycles, this business isn't very cyclical on the downside. Even if you go back to the GFC you don't see particularly harsh declines. So if we're already 7-8% below, say, a prior peak level, then perhaps that might limit the downside from here. But I appreciate the colour. Very, very useful.

Roy Twite: No I think, and you've made a good extra point, right? 2009 I think sales in hydronic were down 4% from memory, Dan. Yeah. So you're absolutely right. What tends to happen is that our customers, the installers, move to more refurbishment and governments tend to in incentivise refurbishment, particularly energy efficient refurbishment, in a downturn. So what you've said is absolutely true and it's been a very resilient business in a downturn. Absolutely. In fact, in 2009, I think the profits and certainly the cash went up because the price of its raw materials dropped and it's very resilient in terms of its pricing. Obviously, it's serving a very fragmented market with very strong brands and then into that energy saving space. So, no, you make a good point, and that is a fair point.

Bruno Gjani: Thank you.

Daniel Shook: Thanks Bruno.

Roy Twite: Thank you, Bruno.

Operator: This concludes our Q&A. I'm going to hand back to Roy Twite, CEO, for closing remarks.

Roy Twite: Well great. Well, thanks ever so much for your time this morning. Good questions. We think it's good first half, 7% organic growth, margins up in all the divisions. Cash flow, obviously improving a lot on last year we're starting to see much better cash flow. And we feel really well placed. We are really excited about the new structure, and I know that Beth and Jackie are as well. And we look forward to optimising on that in the second half and beyond. Thank you.

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