IMI plc - Preliminary Results 2023

Friday, 1st March 2024

Introduction

Roy Twite

Chief Executive Officer, IMI plc

Accelerating organic growth, delivering record profits

Good morning everyone and welcome to IMI's 2023 preliminary results presentation. This slide covers the key messages from the presentation, and the first thing to say is that it was another strong performance from our team in 2023.

There is great momentum in this business and I'm incredibly proud to announce the highest profit ever delivered by IMI in its 160-year history. We delivered 7% sales growth, 6% of which was organic, adjusted operating margins at 18.7%, which were up 90 basis points and closed in on our 20% target. Adjusted profit before tax was up 12% and we delivered significantly improved cashflow. Our complexity reduction programme delivered another £20 million of benefits in 2023 and we expect to deliver a further £15 million of benefits in 2024. The order book within Process Automation is at a record level, which will provide good momentum into 2024, and I am pleased to announce that we are increasing the final dividend by 10%.

Finally, you will have seen that we have now taken the first steps in unifying and evolving our brand. Great things happen when we come together as one IMI, and we will gradually begin consolidating under a unified IMI master brand. Whilst we will retain our strong product brands within our sectors, we will adopt a singular visual identity. And this approach will simplify our engagement with customers, it will support growth, it will help attract top talent and unite us as one big team.

Next slide please.

IMI business platforms fully aligned to purpose-led strategy

So in July we announced that we're adopting a new business structure as the next steps in our purpose-led strategy, Breakthrough engineering for a better world. And to build on the opportunities for growth, we have organised the group into five market-focused sectors operating within two business platforms, Automation and Life Technology. Our Automation platform is led by Jackie Hu and leverages deep automation technology and applications expertise to help our customers operate more efficiently, more safely, and more sustainably across the Process Automation and Industrial Automation sectors.

This platform includes IMI Critical Engineering and IMI Precision Engineering's Industrial Automation business. Beth Ferreira leads the Life Technology platform which focuses 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 Precision Fluid OEM and Transport businesses. Reporting is now aligned across our new structure.

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 sectors is strong and we have the ability to make a significant positive impact. The new structure has been really well received and we are already feeling the benefits as we put our best people and resources in front of our biggest growth opportunities.

Next slide please.

Strategic pillars underpin financial framework

So before I hand over to Dan, let me provide a quick refresher on our strategy and our financial framework. At the heart of our strategy is our purpose, Breakthrough engineering for a better world, and this is an incredibly powerful driver which has unleashed tremendous energy from 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 applications knowledge and know-how. We have market leading brands and we are achieving industry-leading customer satisfaction scores across IMI. The second is market-led innovation. Our internal innovation accelerator, Growth Hub, supported by sustained R&D investment and selective M&A allows us to work at pace to develop breakthrough solutions that support our customers with their most complex engineering challenges. And then the third pillar is complexity reduction. We continue to identify and execute opportunities to reduce complexity and drive more efficient resilient operations.

These three pillars then support our financial framework. 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 by deploying our capital both organically and through targeted M&A.

And with that I'm going to hand over to Dan who will talk through our results in more detail.

Business review

Daniel Shook

Chief Financial Officer, IMI plc

Delivering strong financial performance in 2023

Thanks Roy, and good morning everyone. I'm pleased to be able to take you through our 2023 results today. As Roy mentioned, a really strong performance in the year as our purpose-led strategy continues to deliver. Revenue increased by 7%, adjusted operating profit was up 13% and our adjusted operating margin increased by 90 basis points as we made further progress toward our 20% margin target. We significantly improved our cash generation during the year and are increasing our proposed final dividend by 10%, reflecting the continued confidence in the business.

So next slide.

Strong organic revenue and profit growth

So firstly, some more detail around our revenue and profit performance. Revenue increased by 7% to £2.2 billion and we delivered 6% organic growth, around two thirds of which was price. Recent acquisitions also contributed positively to our results. Adjusted operating profit increased by 13% to £411 million.

Organic profits increased by 10% and we again benefited from our recent M&A activity. As you can see on the slide, there was no material FX impact in the year.

Next slide.

Clear pathway to our 20% margin target

We have made significant progress delivering sustainable improvements in our margins since launching our purpose-led strategy in 2019.

As already mentioned, we improved margins to 18.7% in the year, which is well up from the 14.2% delivered in 2019. We are now getting close to our 20% through cycle margin target, and the good news is that we have a clear pathway to deliver on this commitment.

Our complexity reduction programme is progressing well and is expected to provide a further £22 million of incremental P&L benefits in the next two years. And this combined with further growth in our attractive sectors and in aftermarket sales should see us delivering margins in line with our through cycle target.

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 in the year. As expected, the net interest charge increased to £23 million, largely reflecting the increased rate environment and the funding for recent acquisitions.

Adjusting items have increased when compared to the prior period, largely due to our restructuring programme, which I will run through in a few slides. Our adjusted tax rate for the year was 21.8% and was supported by the favourable resolution of a number of historic tax disputes. We do expect this to increase to 24% in 2024, due in part to the UK rate increase and new minimum tax legislation.

And finally, our adjusted basic EPS increased by 11% to 116.8p in the year.

Next slide.

Delivering revenue and order growth

Now looking at the performance of the platforms and sectors, starting with Automation.

Automation delivered strong revenue growth of 8%, both statutory and organic. Process Automation had an excellent year delivering strong order intake as shown at the bottom of the slide. Orders were up 18% organically with a 23% increase in aftermarket. Organic revenue was 14% higher than 2022 and 13% higher on an adjusted basis. We have benefited from our own self-help initiatives, particularly in the aftermarket where we continue to ramp activity on retrofitting both our own and competitor valves, and continued investments in energy security and have seen particular strength in LNG, nuclear and downstream oil and gas.

Now Industrial Automation delivered a resilient performance, particularly when considering major market PMIs were sub-50 for most of the year. Organic revenue was in line with prior year and up 1% on an adjusted basis. We see continued demand for solutions that automate processes to increase efficiency and reduce reliance on competitive labour markets.

Turning to Life Technology, the platform delivered a good performance in the year against very mixed end markets. Revenue was up 6% and 2% on an organic basis.

Climate Control saw good demand for its energy saving products with revenue up 3% on an organic basis and 10% when including the Heatmiser acquisition. While the recent slowdown in the European construction market did impact sales in the second half, the sector continues to perform resiliently due to the retrofit demand for products that improve HVAC system efficiency. The integration of Heatmiser, acquired in December 2022, has progressed well as we look to accelerate our growth in smart buildings.

Life Science & Fluid Control revenue was 4% lower than 2022 and 5% lower on an organic basis. We saw customer destocking and reduced demand in the second half and expect this to continue in 2024, but the long-term fundamentals of this sector are strong and we remain very excited about our opportunities for growth.

Transport revenue was up 14% when compared to 2022 and 14% higher organically. Growth was certainly helped by the normalisation of our customers supply chains. We have also benefited from particularly strong demand and new contract wins in China and India.

We saw strong margin growth in both platforms, which was supported by the continued execution of our complexity reduction initiatives.

Next slide.

Strong cash delivery

So continuing to cashflow where we delivered significant improvements during the year, supported by our profit performance and focus on working capital management.

We saw a £31 million working capital outflow in the year with debtor and creditor increases in line with our top line growth. Inventory levels grew by £32 million with increases to support the Process Automation order book offsetting reductions across the rest of the business.

Capex of £80 million is about 1.3 times depreciation and includes investments to support growth and our sustainability and complexity reduction initiatives. We continue to see good opportunities to deploy capital into our core businesses to drive organic growth and deliver further productivity improvements. This includes continued investment in R&D, which was over 3% of sales for the second consecutive year.

And our net debt has reduced to £639 million at year end from £812 million at the start of 2023. Net debt to EBITDA reduced to 1.3 times giving us ample capacity to continue investment in organic and inorganic opportunities.

Next slide.

Complexity reduction continues to deliver benefits

Next, an update on our complexity reduction programme. We delivered £20 million of incremental benefits in the year and now expect to deliver £15 million of benefits in 2024, slightly up from our previous estimate as we accelerate the completion of the programme.

All projects are progressing to plan and we still expect the overall programme to come to its conclusion in 2024. As you can see on the slide, the overall programme payback has been less than two years and has helped our platforms improve both customer service levels and their environmental impact.

Next slide.

Significant progress towards £300m+ free cash flow

Now as I mentioned at the half year, we see a clear pathway to delivering a step change in free cashflow generation and we took a big step in 2023.

You can see our free cashflow generation improved significantly from £158 million in 2022 to £234 million in 2023. This is great progress and we continue to see a pathway to delivery of in excess of £300 million through a combination of continued growth of the business and delivery of our remaining complexity reduction initiatives.

Next slide.

Disciplined approach to capital allocation

So with that free cashflow delivery, this slide is a reminder of our disciplined approach to capital allocation.

Our priority is delivering consistent, profitable organic growth. So we continue to invest in both our people and operations to accelerate breakthrough solutions to solve our customers' most complex engineering problems. We will continue to invest in capex at a level slightly higher than depreciation and we will look to maintain R&D spend above 3% of sales. This includes investments in Growth Hub, which is now a fundamental part of growth delivery across the whole organisation.

Next, as you know, we have completed four strategic acquisitions since December 2021 and we will continue to pursue targeted better world opportunities. These deals must be in attractive, better world markets like smart buildings, life science and automation, they must be scalable within IMI and they must deliver returns in line with our strict financial criteria. Our recent acquisitions are integrating well and the pipeline of bolt-on opportunities remains attractive.

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 leverage to fall below our one to two times target range, we will consider returning additional capital to shareholders, likely 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 £1.6 billion of capital all while increasing our post-tax return on invested capital.

Next slide please.

Outlook: continued progress in 2024

So final slide before I hand back over to Roy, the group outlook. Based on current market conditions, we expect adjusted EPS to be between 120p and 126p in 2024.

This guidance reflects strong growth in our Automation platform, following on from the record order book in Process Automation and continued resiliency in our Industrial Automation sector as the competitive labour market drives investment.

The Life Technology platform is expected to be broadly flat in the full year reflecting continued demand for our energy-efficient products in Climate Control, offset by softer markets in Life Science and Fluid Control and Transport. And given the strong start in 2023 in climate and life science, we expect this platform's revenue to be down in H1.

Our group operating profit delivery is expected to return to its normal phasing in the year, which is an approximate 45/55 H1/H2 split.

We again expect margin progression in the year towards our 20% target.

I would also like to draw your attention to a few other moving parts in our guidance this year. As you can see in the bridge, we expect to see our interest charge reduce to about £17 million in 2024, offset by a tax rate increase from just under 22% to 24% this year. As things stand today, we also see FX creating a headwind of around 2% on sales and profits.

This is all considered and takes us back to our guidance of 120p to 126p.

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

Strategy update

Roy Twite

Chief Executive Officer, IMI plc

Better World strategy compounding profitable growth

Thanks Dan. The first thing I want to say is that our better world strategy continues to deliver results. We have grown organic revenue at an average of 3% per year since 2019. Our operating margin has increased by 450 basis points, and our ROIC has increased by 170 basis points. And as you can see on this slide, our full year EPS has grown at a 12% CAGR.

Next slide please.

Improving quality and resilience of IMI portfolio

Now I would like to take this opportunity to highlight how we have successfully improved the quality and the resilience of IMI's portfolio over the last decade.

Firstly, as you can see on the slide, the geographic mix of our revenue has evolved quite significantly since 2014. Whilst our European operations remain strong, North America now represents almost 30% of group sales, up from around 20% in 2014, thanks in part of course to the successful integration of acquisitions like PBM, Bimba and Adaptas.

Secondly, our strategic focus on the aftermarket is clearly paying off with group aftermarket content increasing from around 35% of sales in 2014 to around 45% in 2023, improving both our returns and the long-term resiliency of our through-cycle earnings.

Finally, we've continued to increase our exposure to attractive growth markets using our engineering expertise to build exciting businesses in better world markets like life sciences, smart buildings and automation.

The good news is that the hard work that we have put in to evolve our portfolio is clearly delivering results and we have seen a significant improvement in our financial KPIs since the introduction of the new strategy in late 2019. I'm particularly proud of the performance in 2023 though, delivering 6% organic growth and improving margins in the current macro environment really shows how far we've come.

Next slide please.

Organic investment and M&A delivering growth

I also wanted to spend some time giving you a few examples of how our better world strategy is successfully driving incremental growth.

Firstly, we continue to see a great opportunity to add value in the rapidly evolving hydrogen market. Hydrogen looks set to play an important role in the transition to net zero and I'm pleased to report that we doubled our hydrogen orders to £15 million in 2023. A particular highlight is our innovative IMI VIVO electrolyser solution, which is capable of generating 100% green hydrogen and is starting to gain real traction across a number of different territories. We feel really good about the growth opportunities in hydrogen and we expect further progress in 2024.

Secondly, as I'm sure that you will remember, we completed the acquisition of Heatmiser in December 2022, and Heatmiser is a leading smart thermostatic control manufacturer in the UK. Performance is in line with our business case and we launched the predominantly UK business into Germany during the year. We stabilised the supply chain for electronic components and enhanced the management team in Heatmiser. We will continue to scale the business across Climate Control's core European markets in 2024 as we look to accelerate our growth in smart buildings.

Finally, Adaptas is now fully integrated into the group, and we have seen great synergies across our life sciences business. We are now able to offer our OEM customers an expanded range of engineered solutions and we won additional synergy orders during the year. We have a large opportunity pipeline as we work with our key customers on developing the latest technology.

Next slide please.

Minimising our environmental impact

Responsible business underpins everything we do at IMI and we are committed to minimising our environmental impact and playing our full part to address climate change. And we continue to see great progress in reducing our CO2 intensity with a 29% improvement since 2019 and we are completely committed to a net zero target for Scope 1 & 2 emissions by 2040, and for Scope 3 by 2050. We are also progressing initiatives to reduce our water usage, and we've improved our water intensity by 11% since 2020.

Next slide please.

Empowering people to create a better world

Our people are obviously absolutely key to the successful delivery of our strategy and we want to empower our people to make an impact and create a better working world.

Employee engagement remains high and we continue to make progress on gender diversity, with strong female representation on both our Executive Committee and on our Board.

Training and development remains a core part of our talent strategy and we continue to invest in focused programmes to ensure that 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 our purpose-led strategy that we laid out in 2019 continues to deliver results, and I'm really proud of our achievements in 2023. Organic revenues grew at 6%. The adjusted operating margin was up another 90 basis points and our adjusted EPS grew by another 11%.

Second, as previously announced, we have organized our business into two platforms focused on our key market sectors. These sectors are supported by long-term secular growth trends that will support the sustainable delivery of profitable growth.

Third, and finally, as Dan said, we are targeting another year of earnings growth, and based on current market conditions, we expect this year's full year adjusted EPS to be between 120p and 126p.

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

Q&A

Operator: Our first question comes from Lush Mahendrarajah of JP Morgan. Lush, your line is open. Please go ahead.

Lushanthan Mahendrarajah (JP Morgan): I have got a few questions if that's okay. The first, just in terms of guidance on Life Technology. Obviously phasing flat over the year, down in H1 and up in H2. How shallow or deep do you think that is in the first half before that sort of shallow or deep recovery in the second half? I guess is it, just to get an idea of how weak it could be and how much recovery you're assuming in the second half or is it actually a bit shallower than that in terms of how we should think about that?

Roy Twite: We are not expecting a steep recovery at all in life sciences, so it's more of a comparator effect, Lush. If you think about the orders, first quarter of last year, still strong in life sciences, then came off in the second half of the year. Now orders look like they've bottomed out, and they're pretty much in line with the second half of last year. So what we're seeing is a stabilisation, and in terms of this year, we don't expect any big recovery for this year. Could come Q4, but we haven't built that into our outlook.

Lushanthan Mahendrarajah: Okay, thank you. The second one's just on Process Automation. Clearly continues to be very strong, but obviously we are lapping tougher comps; and I guess what sort of run rate do you think we should be thinking about orders for this year and where in particular are you seeing that incremental growth off a tougher and tougher comp?

Roy Twite: We are delighted with Process Automation and I just think Jackie and the team have done such a phenomenal job. An awful lot of self-help, Lush, 60% of that business is aftermarket and they're really driving upgrade valves. In fact, our upgrade valve business doubled in the competitor valve space in the aftermarket last year to over £35 million of bookings. That strategy that we laid out at the capital markets event a couple of years ago now, that really is coming through. I am really pleased with that, Lush.

In terms of the order book, it is 21% up. We shipped only about, was it £807 million of sales last year and orders were £950 million. You can see that the overall book to bill I think it is 1.18. There is plenty of headroom in terms of sales going forward. Some of those orders obviously are for next year, for 2025, some longer lead time orders now. We think we're building a really nice sustainable business for the future. In overall terms, our forecast show that we expect this year's orders to be ahead of last year. When you put all that together, that would bode well obviously for next year's sales as well. We feel very good about the pipeline and where that business is going.

Lushanthan Mahendrarajah: Okay, brilliant. And just last one, I guess related to that in terms of inventory obviously, how should we think about that this year, because obviously the sort of step up will not be as significant in terms of orders in Process Automation although still good? So do we start thinking about it not getting bigger I guess in terms of your inventory for this year and less of an outflow?

Daniel Shook: Yeah, Lush. If I think if you take it all in context, we are expecting the order book to grow again; and that part of our business, definitely the inventory will flow against that order book. We will likely see some further increases there. The rest of the portfolio, I think there's still opportunity to drive a bit more efficiency. I think that's why a combination of the profit growth plus good working capital management in 2024 will continue to move that free cash flow up. I think there's still a bit of investment we will need and that'll just flow as a result of the higher order book.

Roy Twite: Yeah, I think the other good news on that, Lush, is that this is the last major year of our complexity reduction programme. And definitely as we have consolidated sites, which has helped us drive,

as Dan said in the presentation, better customer service, actually a better environmental footprint as well, and obviously the efficiencies that have come through to the margin improvement. As we have done that, obviously, every time you do that you need to put safety stocks in place. This year we will still have heightened safety stocks, but as we go through into next year, I expect to see that unwind in the non-Process Automation areas as well.

Lushanthan Mahendrarajah: Okay, brilliant. Thank you very much guys.

Roy Twite: Thanks Lush.

Daniel Shook: Thanks.

Operator: Thank you. Our next question comes from Christian Hinderaker of Goldman Sachs. Christian, your line is open. Please proceed.

Christian Hinderaker (Goldman Sachs): Morning Roy, morning Dan. First question, just to elaborate on the sector level outlook, it reads as a Life Technology is the only area where you see revenues down in 2024 if I've read that correctly. Just what are the growth prospects then or risks perhaps to Climate Control? I mean if new build markets in Europe say remain weak, can that business still grow organically or are you assuming that there's some sort of recovery in new build? I'll start there.

Roy Twite: Excellent Christian. Now we're not seeing a major improvement in the new build Europe construction sector. Obviously our sales were 3% up last year. Even in the darkest days of 2009, the sales are only down 4%, Christian. That business has a beautiful resiliency to it, and part of it is the energy saving nature, which is still very, very important to our European customers. Part of it is the fact that more than 70% is into refurbishment of buildings as well. Obviously the refurbishment of buildings is slowing in areas like bathrooms, areas like that. However, in terms of energy efficiency, we're still seeing good demand. I will say, Christian, that the first quarter comparator will be tough in Climate Control because last year Q1 we grew at 12% and that was driven by, as we said at the time, wholesaler restocking plus Halo B. If you remember that product that helped the German municipal buildings run at 19°C. That was very much a one-off project. So Q1 we expect to be down but beyond that due to the energy saving nature of the product, we expect to carve out growth this year. Only a small amount of growth, but growth.

Christian Hinderaker: Understood. Thank you. This one is zooming out a little bit. If we can think back to 2018, growth in that year organic was plus five versus plus six this year. Operating margins are up 470 basis points since and net debt EBITDA effectively unchanged at the 1.3 times as it was then. I think really restructuring has probably been the theme since. There is obviously some more work to do in terms of reaching the 20% margin target, but you pulled forward some of the savings ambitions for this year. But then looking at your financial framework, I guess 5% growth is the target, but you have delivered around 2% on average organically since that 2018 period. I guess just interested in that growth element, what gives you confidence that you can drive a much higher growth rate going forward?

Roy Twite: Yeah, great question, Christian. I think for obvious reasons, since we launched the strategies is when I tend to measure things from - and despite covid and all those things, we have been growing 3% organic since then.

Why do I think we can lift it to the next level? It is really the reasons that we covered in the presentation that we are improving the mix of the business. Using organic growth techniques, obviously growth accelerator, our innovation orders associated with growth accelerator were nearly £90 million last year. They are up 70%, and we see tremendous opportunities still to create faster growth through innovation. We have gone from very low levels of innovation growth back in your sort time period 2018, 2019 to really, really improving that rate. I think that's probably the first reason.

The second reason we have been gradually improving the mix of the business into automation, smart buildings, life sciences. Obviously life science having a bit of a tough time at the moment as the sort of covid stock unwinds and all of that, but we think the fundamentals of those markets are much more 5% plus than some of our more traditional market areas.

And then the final reason is that clearly the outlook for Process Automation has changed completely. Back in 2017, 2018, we were still in an oil and gas recession, a much smaller part of the business was aftermarket, we hadn't cracked the code of competitor and our own upgrade valves that creates that beautiful stream of parts annuity and resilience that we're building into the business. We think that we have really changed the mix of the business. We have fine-tuned up the strategies. We are very much a sector-led company now, so we have got five really material sectors. That is the way we now run the business, and that means that our strategy in terms of exactly where we play and how we win is much clearer. I think you've seen in the last few years a build-up of organic growth and we expect that to continue and run at that sort of 5% rate at 20% margins.

Christian Hinderaker: Thanks, Roy. I'll keep the third one brief. I can just to come back on the potential for special returns. If leverage goes below one times, obviously some uncertainty, but current consensus is for net debt EBITDA at 0.3 times in 2025. If that scenario was to play out, what is the process for evaluating buyback versus an increased or special dividend?

Daniel Shook: As you know, we will watch it. We certainly have the pipeline to deploy that capital, but we need to make sure they hit our financial criteria. The bolt-ons are there and are available. We need to just see if they will come through. If we get down to those levels, Christian, we will evaluate it. We talk to the shareholders constantly around it. By and large, the view is a share buyback is more palatable to a special dividend, and essentially it enables every shareholder to choose whether to participate or not versus a special dividend where they must take the cash. That has some tax implications for some shareholders and that's why in 2021 when we looked at the opportunity and we felt absolutely we could give that capital back to shareholders and still pursue everything on the strategy. That’s what we did, we did a share buyback. By and large that feels like the way most of the shareholder base is happy for us to do it.

Christian Hinderaker: Thank you.

Roy Twite: Thanks Christian.

Operator: Thank you. Our next question comes from Mark Davies Jones of Stifel. Mark, your line is open. Please go ahead.

Mark Davies Jones (Stifel): Thanks very much. Morning Roy. Morning Dan. I had two if I can. The first one was just if you can give us a bit more of the moving parts within the Automation business. I guess the one regret of the move to the new divisional structure is a little less granularity in the disclosure around those end markets, but particularly I was interested in the comments around LNG. Has the US export ban there had any impact, or is it likely to? Then in Industrial Automation, what are you seeing in Germany? Are things flattening out there after what has been a pretty tough period?

Roy Twite: I will start with that. Industrial Automation, as you see with PMIs dropping as far as they did last year, it was great to see quite how resilient the business was. The good news on that Mark is that as we have come into this year, actually our 60-day moving average order intake has actually gone slightly positive for the first time in a long time. I will just break that down a bit for you. Europe is now flat to slightly down, whereas it was obviously quite a long way down in the second half of last year because Germany, industrial activity was obviously a lot lower. That has been a good lift. Asia actually is in reasonably strong shape as well. US broadly flat I would say on the order intake. So actually an improving picture there. If we

look at past recessions, we have got a pretty good correlation to PMIs. If that continues to lift, then there is some potential upside there, maybe Q4 potentially. So yeah, IA is I would say improving in terms of the outlook, which is good.

In terms of Process Automation and LNG, that US decision obviously doesn't affect our existing situation and it won't affect sales for a very long time, probably 12 to 18 months, but it probably will have a slight effect. I think despite that, Mark, we are seeing really good pipeline in terms of future activity in Process Automation. I think the LNG demand is still very, very strong. I actually believe that demand will be met by supply from other places and we are still seeing very strong investment in the obvious places like the Middle East. It might cause a little bit of a timing effect, but at the moment overall pipelines, oil and gas looking good.

Mark Davies Jones: Excellent. Thank you, that's very helpful. My other one was just on the complexity reduction plan. Obviously it is good to see the benefits coming through there and the cash costs stepping down and ending this year. These restructuring plans have a habit of replacing each other in time. Do you think we would simply go to a point where we come to a more steady state and cash is flowing back into the business or is there another plan to come beyond this one?

Roy Twite: No other plan beyond this one. I think we basically set it out with our strategic plan that we were going to dramatically reduce the number of sites, that we were going to consolidate into our best sites in terms of customer service and efficiency and competitiveness. That is what we have done Mark, and this year really we will be nearly completion of that plan. As you say, in terms of P&L costs, we intend to close it out. We got an absolute ambition that our statutory P&L is the same as our management P&L and all that beautiful cash flows through. That is the way we see it. The only thing that could alter that really would be a significant acquisition, a bit like Bimba. We bought Bimba, it came with nine sites, right? Something like that where you think, hang on a minute, we really need to look at this and decide is every one of these sites essential to our competitive advantage or is there a better solution there. Unless that happens, we are very happy with the overall programme and what we we’ve done.

Mark Davies Jones: Great. Thank you very much.

Roy Twite: Thanks, Mark.

Operator: Thank you. Our next question comes from Kulwinder Rajpal of AlphaValue. Kulwinder, your line is open. Please go ahead.

Kulwinder Rajpal (AlphaValue): Yeah, good morning. Thank you for taking my question. I just wanted to click a little bit on R&D first. As you rightly pointed out, R&D spend has increased by one percentage point since 2019. Just trying to understand where this is going. Is it being equally spent across all divisions or are you more focusing on new markets or putting it more towards the Growth Hub?

Roy Twite: Growth Hub, Kulwinder, is really a culture. What we are doing is that all of our new product development is done in a way that solves an acute customer problem. That has been a real shift for IMI, right, because I think everybody understood the lean strategy. Lean is very important because it keeps us competitive and we do a lot of lean processes today, it is very, very important. However, the lean strategy is incremental. Basically what you do is you carry on improving incrementally every day your existing products. What we realised we also needed was new innovation, and new innovation comes from solving acute customer problems. The almost £90 million of orders that we got with Growth Hub are very much around solving problems in areas like the Process Automation aftermarket where customers can get a loss of reliability, they can get a reduction in things like yield from their processes once those valves and the fluid control equipment starts to wear over time.

One of the examples we showed at the capital markets day was using 3D printing to be able to shrink the very complex drag valve innards, the fluid control, so that it actually fits into a much smaller envelope and fits inside our competitors installed valves. That was Retrofit3D. Kulwinder, you have a look on the web, it is superb. That has enabled us to give a much better solution to the customer, but without having to remove the installed valve, massively reducing the risk for the customer, giving them a much better solution.

The whole culture of IMI's innovation is around solving customer problems. We say don't fall in love with a solution. I am an engineer, I love technical solutions. All of us engineers are prone to it, but that is absolutely banned. You must find and validate an acute customer problem and then you must use test and learn and fail fast techniques and prototyping techniques to prove that the customer is willing to pay for that particular solution.

At that point, we have not invested very much money, that is Growth Hub, but we are really looking for customer validation and willingness to pay. We have done that right across IMI. That is a reversal of the old traditional, the way that nearly all industrial companies do new product development. Yes, we have increased our investment in R&D and I expect that to gradually tick up over time and I still expect to be able to deliver 20% margins. The name of the game of course is to make sure that we keep hitting and that we keep accelerating our growth rate. Back to Christian's question earlier, how do you raise the whole rate of growth for the whole company? You make sure your innovation, you are spending more on it, but fundamentally you make sure it's much more effective in terms of the money that you spend. Did I answer your question, Kulwinder?

Kulwinder Rajpal: Thank you so much. Yes, very much. And the second one is mostly on pricing and wage inflation. So how should we think about those items going into 2024?

Roy Twite: Obviously last year inflationary background, for us, much better environment this year and we expect a return to the normal sort of 1% - 2% pricing, that sort of amount of pricing and much more normal conditions. We still expect to marginally win the inflation equation. We still expect that because, again, back to Christian's question, really we are improving the mix. We are now up to 45% aftermarket. Clearly in an aftermarket environment customers are much more concerned with the quality and speed of service than they are in terms of price. We can offer excellent value while making sure that we protect ourselves against inflation. So much more normal pricing environment this year.

Kulwinder Rajpal: Okay, and wage inflation?

Roy Twite: Our wage inflation is more or less locked in now. Most of it is locked in actually in January. We do expect wage inflation, obviously we expect to be offsetting that through productivity. As I said, in terms of lean programmes, we expect to be able to offset a lot of that wage inflation this year. I think our overall wage inflation number, it is a little bit distorted actually, Kulwinder, because while we have moved everybody across IMI to the living wage, which I'm really proud of, obviously we have moved a lot of jobs to best cost countries as well. Actually, what we're seeing is a huge offset obviously because wages in the developed economies are typically, well more than three times what they are in our best cost country operations. But overall wage inflation I would think this year will turn out to be just on a like-for-like basis around 4%, something like that.

Kulwinder Rajpal: Okay, thank you very much.

Roy Twite: Thanks, Kulwinder.

Operator: Thank you. Our next question comes from Calum Battersby of Berenberg. Calum, your line is open. Please go ahead.

Calum Battersby (Berenberg): Great, morning guys, thanks for the questions. Firstly, on the Transport side, are you able to say any more about the growth in China and India? So how much of the segment do these geographies now make up and does exposure to customers in those geographies change the cyclical exposure of the segment at all? Thank you.

Roy Twite: Yeah, thanks. Yeah, I mean certainly it is about 25% now of Transport is Asia for us. It took a big step up last year. Again, we beat the market last year. What is driving that is emissions legislation. We have had the tech in Europe as you know for a long time to be able to meet the latest European and US legislation. Now we're selling very similar technology into China, and that new product for China, and it is modified actually from the European product, is obviously helping drive growth there. It is up to 25%. I think we look at all the numbers in terms of the European and the US truck market, fully expect them to be down this year. I think our overall Transport segment, which is what 7% or 8% of our business now, something like that, will be down this year. We do not expect it to be down where the market is going to be down though Calum because of the new product launches that we've got and because of the expanding sales that we have got in China and India in particular.

Calum Battersby: Got it really clear. Thank you. Next then in terms of life sciences, if we can go back there. Just given how long destocking trends have been continuing, shouldn't it be the case that we do see an improving performance through the year as we go from a period of destocking until let us say revenues matching underlying demand as the comps get easier? Is that fair? And if so, do you have a latest view on when destocking trends are most likely to come to an end?

Roy Twite: Calum, it has been a really difficult period, and everybody that's tried to call it seems to have got it wrong. We talk to our customers. It is very difficult to get clarity. So for us, we have looked at our own order trends. We have talked to customers again many, many times. Beth and Martin, we have really gone into detail. We think it is safer at this point to say actually looking at where our order trends at the moment, they do seem to have bottomed down, but sequentially we see, it is a slight improvement we have got in our outlook in the second half, but nothing heroic. I know other people are saying it is going to come in the second half, but when it comes, brilliant, but other people have called it before and it has taken longer than they thought. At the moment, we are just making sure our business is aligned with that level, that we are protecting margins and more importantly that we are really going after the new platforms and really making sure that we are on that next platform so that we will return to the faster growth that we are accustomed to in that sector when that happens.

Calum Battersby: Understood, makes sense. Then last question for me please is on disposals. So you talked before about potential disposals of underperforming parts of the portfolio that then seem to improve. Now given how much of the focus is on this 5% organic growth target and the fact that there are clearly areas of IMI that have not delivered at that level historically, does that suggest you are now more likely to look at disposals as solutions to improve the overall group growth outlook for the group?

Roy Twite: I mean, we always look across the group with a lot of diligence, and as you said, in that first strategic plan, at that point we had 30% of what was IMI Critical Engineering, which is now Process Automation under review. And the fantastic thing that that team did was really drive the aftermarket strategy and actually pick up new business as well in areas like hydrogen. Completely altered the margin profile and the growth profile of that part of the business. Now as you can see, Process Automation firing on all cylinders.

We constantly review all parts of the business. Everybody's clear in IMI what our financial framework is, what our expectations are. If you step outside of that for too long, you will be under scrutiny. Dan and I do a lot of business reviews, Beth, Jackie doing a lot of business reviews. We constantly look at that.

I would say at the moment actually that some of the parts, even a couple of years ago that were under more scrutiny, are performing very, very well. Practically all cases, even areas that are under a bit of volume pressure, they are doing well in terms of margin progression. Well, you do not get, as Dan said in the presentation, 14% margins up to nearly 19% in four years. Practically every part of the business has to be improving to enable you to do that. And that is pretty much what we are seeing. We are absolutely clear. If there are areas that are dilutive, they are under a lot of scrutiny, but at the moment actually we think the businesses is progressing well.

Calum Battersby: Understood. Thanks guys.

Roy Twite: Thanks, Calum.

Operator: Thank you. And our final question of today comes from Jonathan Hurn of Barclays. Jonathan, your line is open. Please go ahead.

Jonathan Hurn (Barclays): Hey guys, good morning. A few questions from me please. Firstly on Process, I wonder if you could just talk a little bit about nuclear there. Obviously we are seeing increasing levels of activity or potential levels of activity in Europe and in Southeast Asia. Obviously it picked up for you in 2023, but can you just talk a little bit about the opportunity for you and nuclear and just how sort of dynamics of that sector play out please for you?

Roy Twite: Brilliant, Jonathan. Nuclear is having a bit of a renaissance because I think countries are recognising that it is an important part of the mix to decarbonise. We see opportunities particularly in upgrades, where life extensions have been important in places like the US, we see opportunity there. I actually had a brief meeting with our head of nuclear sales at Jackie's Automation conference, and he was also very excited about, let's say the slightly longer-term impact of small modular reactors. It is a long way to go, but I think most of a small modular act, I mean they are aiming for it to cost something like £2 billion versus probably more like eight plus with a lot more uncertainty on a regular reactor. We are working with all the major parties on that. For us, it is not going to be a next year thing, so don't put it in next year's model, but already some of those are advancing quite well, some of those programmes. In the sort of 2030 timeframe, that could be a reasonable business for IMI. I think nuclear is having a bit of renaissance. I think there is some short-term things, Jonathan, in terms of upgrades, quite encouraging. However, I think in terms of the longer term as well, we remain pretty excited about nuclear.

Jonathan Hurn: Great. Okay, fantastic. Then the second one, again, just staying on Automation. Obviously you have put Process and Industrial under the charge of Jackie Hu. I mean any sort of comments you can make there? What are his sort of thoughts going forward? Is there sort of areas that he thinks he can improve? Anything you can give us there would be helpful please.

Roy Twite: Jackie is moving rapidly as usual and doing a cracking job. As I said, I was at his conference a couple of weeks ago now and he has got a clear structure in place. He is got all of the leadership in place across the business. He has created, I would say, clarity around the strategic imperatives for this year. Everybody is working towards very good alignment, very good motivation in the team to work towards those. I think the clear things that we want to see are things like the aftermarket strategy that has been so successful in Process Automation to be applied with Growth Hub techniques into Industrial Automation. So get real clarity and real closeness to the end user, really understand their problems and solve those problems at pace, Jonathan. I am super-excited about that larger Automation platform, and I think some good things will happen there, Jonathan, over the next few years. Exciting.

Jonathan Hurn: Thank you. Maybe the last one, obviously you have talked a lot this morning about life science. Can you talk a little bit about the other part of that, the fluid control and essentially what you are

seeing there, because obviously I am sure within that sort of segmentation that is a fair part of that? If you could just give us some colour there, that would be helpful.

Roy Twite: It is a good point actually, Jonathan. It is about half of that segment that is fluid control. About half of that fluid control is sort of food and beverage and market. It is things like we sell the fluid control elements into inkjet machines. We sell the fluid control elements into PET bottling equipment and crucially we sell fluid control equipment into coffee, commercial coffee machines as well, which is obviously a nice faster growing area. Half of it roughly food and beverage, there is a lot of other end markets that we sell there as well. It is quite fragmented and I would say the outlook, it was pretty flattish last year from memory, and this year what we see is again, a reasonably flattish outlook. Some of it has been weighed down by industrial activity in Germany again. Again, some of it is a bit dependent on that, and there is some upside risk I would say, Jonathan, if industrial activity starts to improve it in Germany.

Jonathan Hurn: Interesting stuff. Thank you.

Roy Twite: Brilliant. Thanks, Jonathan.

Operator: Thank you. We currently have no further questions. I will hand back over to the management team for any closing remarks.

Roy Twite: Brilliant, Charlie. Well, thanks as always to all the analysts for their questions and their work. I think you can see IMI is evolving into our financial framework, and the better world strategy has delivered the fourth year of consecutive profit improvement. We have driven EPS improvement at 12% CAGR, and we are becoming that serial compounder of profits and that is exactly what we want to be. Thanks very much and enjoy the rest of the results season. Thank you.

[END OF TRANSCRIPT]