IMI plc - Interim Results 2024

Friday, 26th July 2024

Overview

Roy Twite

Chief Executive Officer, IMI plc

Welcome

Good morning, everyone and welcome to IMI's 2024 Interim Results Presentation. I am joined here, as usual, by Dan Shook, our CFO.

Before I start, I would like to let you know that after nearly 10 years with IMI, Dan Shook, Group CFO, has decided to step down from the IMI Board in 2025. I have got to say that Dan has been an absolutely fantastic partner to me, particularly over the last five years as a genuine CEO and CFO partnership. I will certainly really miss Dan when he eventually does leave. But between now and then, there will be many opportunities for me to thank him for his incredible contribution to IMI. We will obviously now start a process to find his successor.

Continued strategic progress

This slide covers the key messages in the presentation. The first thing to say is that the first half performance was completely in line with expectations. We delivered 5% organic sales growth and 6% organic adjusted operating profit growth. The adjusted operating margin was up another 10 basis points. Our complexity reduction programme delivered £4 million of benefits in the first half.

I am pleased to announce that we are increasing the interim dividend by 10%. And in line with our disciplined approach to capital allocation, we are also announcing a £100 million share buyback programme.

Finally, based on current market conditions, we are maintaining guidance. We still expect 2024 full year adjusted EPS to be between 120p and 126p.

Next slide, please.

IMI sectors fully aligned to purpose-led strategy

In July last year, we aligned our business to five customer-focused sectors to accelerate better world growth. This structure has been really well received by our people and by our customers. And along with the successful rollout of our new visual identity and values, this has played a crucial role in transforming us into one IMI.

We have made significant progress in the last year and we are now taking the next steps in the evolution of our operating model. I am therefore pleased to announce that with immediate effect, all five sectors will be reporting into Jackie Hu, who is appointed Chief Operating Officer of IMI. Beth Ferreira stepped down from her role as CEO of Life Technology and as a member of the Executive Committee on 10th June, and Beth will be leaving the business at the end of her notice period. On behalf of the Board and the Exec Committee, I would like to thank Beth for all her hard work since she joined IMI nearly four years ago.

I am really excited about this next step. It will bring us even closer to our customers and give us the opportunity to share more best practice across our sectors, ultimately helping us grow faster.

Strategic pillars underpin financial framework

Now before I hand over to Dan, I would like to provide a very quick refresher on our strategy and our financial framework.

We continue to make good progress delivering our purpose-led strategy, as our people solve key industry problems and help our customers become safer, more sustainable and more productive.

As you know, there are three key pillars to our strategy: improve customer satisfaction, market-led innovation, and complexity reduction.

These pillars are embedded into everything we do, and they are driving sustainable improvements in our financial KPIs, ultimately supporting the delivery of our financial framework. As a reminder, we want to deliver 5% organic growth, 20% operating margins, 90% cash conversion, through the cycle and 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 from targeted M&A.

With that, I am going to hand you back to Dan, who will talk through our results in more detail.

Business Review

Dan Shook

Chief Financial Officer, IMI plc

Introduction

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

Next slide, please.

Delivering strong first half performance

So it was a strong first half as we delivered 5% organic revenue growth and 6% organic adjusted profit growth. Our adjusted operating margin increased by 10 basis points as we continue progress towards our 20% through cycle target. Adjusted basic EPS was 1% higher than prior period and was impacted, as expected, by adverse currency and tax rate movements.

Cash conversion was lower and reflects further working capital investment, mainly to support the Process Automation order book.

Finally, I am pleased to announce that we are increasing our proposed final dividend by 10%, reflecting the continued confidence we have in the business.

Next slide.

Delivering organic revenue and profit growth

So firstly, some more detail around our revenue and profit performance. Revenue increased to £1.098 billion with underlying business growth mostly offset by the impact of recent disposals and foreign exchange, which created a 3% headwind in the first half.

Adjusted operating profit increased to £196 million. We delivered 6% organic growth, again, partly offset by recent disposals and foreign exchange.

Next slide.

Continued growth and margin improvement

Looking at the full income statement. As mentioned, we saw strong organic growth in both revenue and operating profit with statutory results up 1% and 2%, respectively. The net interest charge was in line with expectation at £8.7 million as our net debt position has reduced by £166 million since June of last year.

We saw a reduction in adjusting items in the period, largely reflecting the timing of our restructuring programme.

This programme delivered £4 million of benefits in the first half, and we still expect to deliver £15 million worth of benefits in the full year.

Next slide.

Sector performance in line with expectations

Now looking at platforms and sector detail. The first thing to say here is that overall performance was in line with our expectations.

Starting with Automation, Automation delivered strong growth with revenue up 9% on an organic basis and margins increasing 100 basis points to 18.4%.

Process Automation had an excellent first half with strong order intake, up 9%, as shown at the bottom of the slide. Similar to last year, this includes a significant order, £33 million within our Marine sector, which covers deliveries over a number of years. In addition to the Marine order, we have seen particular strength in LNG Aftermarket, Hydrogen and Upstream Oil & Gas. Organic revenue for the sector was up 19%.

Industrial Automation delivered a resilient performance against softer markets in Europe and the Americas. Revenue was down 4% on an organic basis.

Turning to Life Technology. As expected, the platform's revenue was down 1% organically in the first half due to very mixed end markets. Climate Control, again, demonstrated its resiliency, delivering 1% organic growth despite the weaker Europe construction markets and a strong prior year comparator. Demand for our energy saving products, particularly in balancing and control, remains strong.

Life Science & Fluid Control organic revenue was 13% lower than the prior period, which was as expected given the strong first quarter comparator and continued softness in its markets. The long-term fundamentals of this sector are strong, and we remain excited about the opportunities for future growth when the end markets recover.

Transport revenue was up 13% organically. We continue to benefit from strong growth in Asia and our new product launches, supported by favourable regulatory tailwinds.

As you can see, the Life Technology operating margins reduced to 17% in the first half, reflective of the lower sales and some mix effect between the sectors.

Next slide.

Continued cash delivery

Regarding our cash performance, the continued strong growth in the Process Automation order book and our normal seasonality have led to additional working capital investments in the first half. We delivered £130 million of operating cash flow and reduced net debt to £606 million at the half year.

Net debt to EBITDA also reduced to 1.2 times, towards the bottom end of our 1 to 2 times target range.

Next slide.

£100m share buyback to enhance shareholder returns

As you all know, we maintain a disciplined approach to capital allocation, including a commitment to an efficient balance sheet. And so today, we announce a £100 million share buyback programme.

We will look to transact this buyback over the next six months and still expect both our debt and leverage levels to come down at the full year, giving ample headroom for organic and inorganic investment.

Next slide.

Full year guidance maintained

The final slide before I hand back to Roy, the Group outlook statement. As Roy already mentioned, we are maintaining guidance. We still expect full year adjusted basic EPS to be between 120p and 126p. Our guidance assumes that the number of shares will reduce to 259 million at the year end, with the accretive impact of our share buyback programme largely offset by an increase in interest expense. We also see more FX headwind than the 2% included in the previous guidance.

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 are building a track record of compounding profitable growth. And as you can see on this slide, the adjusted EPS has grown at 12% CAGR since the strategy was launched in 2019, and we expect further growth in 2024.

Improving quality and resilience of IMI portfolio

You can see on this next slide a reminder of how we have successfully improved the quality and the resilience of our portfolio over the last decade we have rebalanced the geographic mix of our revenue, grown the Aftermarket content to around 45% of sales in 2023 and increased our exposure to attractive long-term markets like life sciences, smart buildings and automation.

The good news is that this hard work is clearly delivering results, and we have seen a significant improvement in our financial KPIs since the strategy was launched back in 2019.

Solving customer problems with innovative new solutions

Okay. I wanted to spend some time today giving you a few examples of how our better world strategy is delivering sustainable, profitable growth.

Firstly, we continue to accelerate high margin Aftermarket growth in Process Automation. We are successfully deploying our innovative Retrofit3D technology to upgrade both our own and competitive valves. We are winning market share in the installed base and delivering £14 million of orders in the first half of this year just on Retrofit3D. This Growth Hub project, obviously, has grown very, very quickly from its inception in 2019.

Secondly, our continued focus on customer service, technical support is unlocking some interesting opportunities in Industrial Automation. A great example here is how we are supporting a large Chinese electric vehicle OEM, helping them to expand their manufacturing footprint across Southeast Asia. In addition to our best-in-class technical solution, we were able to offer customer service locally, which was truly excellent. That married with really good technical support, helped the customer unlock their maximum productivity benefits from our solution.

Finally, the rapid expansion and demand for data centres, fuelled by artificial intelligence, is presenting a really exciting opportunity for Climate Control. Data centres can consume up to 50 times the energy per floor space of a typical commercial building, and they must be cooled to work efficiently. Installing energy-efficient climate control solutions is, therefore, absolutely critical to data centre performance and profitability. We delivered £5 million of data centre orders in Climate Control in the first half, and we are really excited about the opportunities for growth from here.

Creating a better world is at the heart of our purpose

Creating a better world is absolutely at the heart of our purpose at IMI. Our carbon intensity continued to improve in the first half, and both platforms are progressing actions that will continue to reduce our Scope 1, 2 and 3 emissions. We remain on track to deliver our longer-term targets. We also saw a significant reduction in health and safety incidents in the first half. And whilst we remain committed to an accident-free workplace, this is excellent progress.

I am also very proud to report that employee engagement remained very high in our recent survey and was up at 79% right across the global business.

Key messages

So to summarise then, the key takeaways from today are, firstly, that the better world strategy that we launched in 2019 continues to deliver results. I am really pleased to report strong organic revenue and operating profit growth, up 5% and 6%, respectively.

Secondly, we are taking the next steps in our evolution of our operating model as we adopt a new One IMI structure. This promotes the sharing of best practice right across the Group with an acute focus on accelerating growth.

Third and finally, as Dan said, based on current market conditions, we are maintaining our guidance. We still expect this year's full year adjusted EPS to be between 120p and 126p.

Okay. So I am going to stop talking now and hand over to the moderator for Q&A, please.

Q&A

Lush Mahendrarajah (JP Morgan): I have got a few, if that is okay. Firstly, on Life Technology margins for the second half. I guess how much of those £11 million of restructuring benefits are in Life Technology? And then I appreciate the mix impact in H1 as well from Transport being lower margin. But I am not sure if you can tell us different margins between the three businesses. But is it quite a substantial difference between Transport and the other two in terms of the potential swing we could see the other way in the second half?

The second is on Process Automation, just on that Marine order. Clearly, this is the second big one you have won now in two years. I guess, how repeatable are these types of orders? Is this really it, or is there something that could happen, perhaps not every year, but are there these sorts of projects out there, which you can keep on driving that?

And then the third one is just on Hydrogen. I think the order number there has gone from £3 million to £22 million year-on-year in the half and quite a big move. I guess, what exactly are these orders and which divisions are they in? And in terms of deliveries, are these multi-year contracts, or are these shorter in terms of deliveries? They are my three questions.

Roy Twite: Brilliant. Good morning, Lush. Thanks for your questions. So the first one was about Life Technology and the opportunity for improvement in the second half. Yes, we think there is the two big effects, as you said, Lush, right, which is that the majority of the £11 million of restructuring benefits that we are going to deliver in IMI in the second half will come through in Life Technology. So that is one big supporting factor. And then the second thing is the mix that you recognise.

And while it is obviously commercially sensitive to break down margins any further, I think everybody knows that the mix effect in the first half has worked against us. And the mix effect in the second half will definitely work for us because, as we forecast all year, Transport will have a more difficult second half and the comparators in Life Sciences get a lot easier. So yes, put all that together, what that means is that we actually think that Life Technology full year margins will actually be slightly up. So you can imagine what is going to happen in the second half, Lush.

So yes, and that is backed up by what we have seen in the last couple of months, Lush, as well. So we are really not expecting anything miraculous in the second half.

Second question was all about Process Automation. Yes, I mean, first of all, well done to Jackie again, right, because you got to recognise that Process Automation overall orders up 9%. Remember that they were up 30% in the first half of last year. So he is really building a very, very strong order book. And Process Automation is almost 40% of IMI. So to have that strength of order book for the rest of this year, but also as we go into next year is really impressive, and I am really pleased with that.

Yes, of course, there are other opportunities within Marine. And what has really happened there, we have put some new management into Marine, a long-standing IMI person I have known for many years, and one of our best lean people. A couple of years ago, they went in. And now we are recognised as one of the best suppliers in that market area, and they are absolutely flying. So we are picking up more orders and there is more opportunity, for sure. So yes, the short answer is yes, Lush, we are quite optimistic about that.

Third point is Hydrogen. Yes, it is really picking up now, Hydrogen. There are five applications that we work across the whole of IMI. And again, as I have said many, many times, we are not putting any big balance sheet investments into this. We are really modifying existing technology. We are using our oil and gas capability often. So the ability to handle complex materials, the ability to make sure we can seal very light gases, all of that capability and those products, we are moving across into the hydrogen industry, which is pretty exciting. It is growing pretty quickly.

The biggest single application is using our valves, actuators and what we call the balance of plant, all of that technology, digital technology, to enable a niche of smaller-sized electrolysers. And the sort of projects we are winning are things like localised hydrogen, making hydrogen from obviously solar power locally and then using that and dispensing it into hydrogen fuel cells. And actually, the single biggest order was in Italy, and it is actually on a train system that is going to run on hydrogen fuel cells from the airport to the city centre.

And that is the sort of thing that we are seeing in Europe. They do require ultimately, obviously, government funding at the moment but the overall prices are coming down and down and becoming more and more competitive. Again, if I was to tell you our pipeline, it would probably put the share price through the roof, and I do not want to do that because these projects do require funding, but there are a lot of projects out there for hydrogen that we are working on. So yes, it is very encouraging. And of course, all of that came out of Growth Hub, right? And, in fact, I think every single hydrogen project we are doing came out of that Growth Hub thinking where we go in, we find customer problems and we solve them at pace using our technology. And that is what is really gratifying, Lush.

Does that answer your questions okay?

Lush Mahendrarajah: Yes, that was brilliant.

Christian Hinderaker (Goldman Sachs): Sorry to hear of your departure, of course, Dan. I want to start on Process Automation. If we adjust for the Marine order, I get to 2.4% organic order intake. You obviously had a very strong comp last year, and you talked to some of the areas of strength. I guess just curious if there is any other areas that have slowed. I do not know if you want to look on a two-year stack basis. But how is market activity holding up? And how do we think about the second half?

Roy Twite: Yes. I think to be fair, Christian, if you are going to strip the one-off out of this year, you got to strip it out of last year, right? So I think you probably, Dan, get back to not far off.

Dan Shook: Pretty close.

Roy Twite: Yes, I think close to 8%, is it?

Dan Shook: I think £26 million, I think, last year and £33 million this year.

Roy Twite: So I think, Christian, if you are going to strip both sides out, then you are still at pretty good growth rates. And obviously, within that, Christian, as you know, the really encouraging is Aftermarket where the margin is at 2.5 times, gross margin is 2.5 times what they are in New Construction. That carried on growing at 8%. And for me, that is the really good long-term opportunity for IMI. That installed base, we can make it more efficient, we can make it safer, we can make it emit less fugitive emissions. And that coverage that Jackie has put in place, backed with Growth Hub, the ability to innovate into that space, leaves us pretty excited.

So yes, I think to answer your question, overall market activity is still good and plenty opportunities across oil and gas, across hydrogen, as we are just talking about, and of course, the Aftermarket, right? So no, we feel pretty good about the activity in that space right now.

Dan Shook: Let me just jump in. Thanks, Christian. Just to just to make it clear, everybody is fine, and I am not going anywhere anytime soon. I will miss everyone. But it has been 25 years where the family has really supported me in my career. So this has been a decision where I put the family first. But everybody is good, and let us not talk about it for the next nine months.

Roy Twite: Deal.

Dan Shook: That is a deal.

Roy Twite: Does that answer your question?

Christian Hinderaker: It does. Maybe another on Climate Control, if I may. A little bit of growth there. I think consensus was for an organic decline. One of your peers has reported a decline closer to 7% in the half, and we have had a number of the OEMs in the heat pump space warning in recent weeks. Just want to understand what your take is on that strength. Is this market share gain? How much effect is there, if any, in terms of distributor inventory rebalancing? I think there is a bit of uncertainty in this market, so keen to clarify.

Roy Twite: Yes, no, fair question. Well, I have looked to the peers as well, Christian, and it does make our performance look reasonable. I think we always said this year, we expected to carve out some growth. For me, it comes back to the energy efficiency proposition of this business. It has got incredibly strong brands, good market positions. We have spent decades training customers in how to use the product. If they use the products correctly and they balance buildings, then they can save typically around 35% of the energy cost, that is obviously incredibly important to the end user, while creating a comfortable indoor climate.

And often, temperature in buildings is one of the things that people are sensitive to. I am sure everybody on the line is, right? When it gets really hot, you do not like it. When it gets too cold, you do not like it. So I think it is that value proposition, remembering that our products are typically only 2% or 3% of the cost of the system, but they can have a massive effect on the comfort and on the temperature within the system. And energy efficiency has definitely gone up in the agenda. There is no doubt about it. Energy security, energy efficiency is up the agenda.

And there are regulations. And the annoying thing about regulations, if I am completely honest, is that they can come and go, but the overall tide, the overall flow of regulation is definitely in the favour of energy efficiency. So that is why I think we are well placed to continue to carve out some growth.

Hemal Bhundia (UBS): I guess just one to follow up on Lush's question. Could you give a bit of colour on how much of the Process Automation is LNG and Hydrogen? And secondly, on transportation, what are you hearing from OEMs regarding second half orders and activity?

Roy Twite: Yes, I will take Transport. Do you want to talk a bit about Process Automation, Dan?

Dan Shook: Yes. No, I can jump in. I mean LNG continues to be strong, and actually we are seeing much more in the Aftermarket space. Clearly, there was a bit of changes with Biden's move on LNG trains in North America. But what, quite frankly, happened was more of the LNG projects outside of the US just jumped the queue. So we are still seeing good activity there on the New Construction side. But with the installed base, actually, we had a really nice first half of LNG orders.

And I think upstream Oil & Gas is still doing well. And I suspect people are recognising, with all the electrification going on, certainly gas is going to be the transition fuel for us for some time. And we are still seeing very good demand for gas-fired turbines and our turbine bypass valves. So yes, so all of that, I think, is playing well. As you know, as Roy already talked about, the Marine orders are in good shape.

Our expectation as we move forward with all of the upstream activity is we will begin to see more and more downstream and petrochemical activity on the New Construction as that part of the industry starts tweaking and changing the way in which they are managing the feedstocks, I think that is going to give us some good legs. And clearly, we are very set for the rest of this year, which sets us up for next. And yes, we see that going quite well.

Roy Twite: Yes. So I think the normal upstream move through to downstream. That is a good point. But I think the specific question was what percentage of the business is Hydrogen? So in Hydrogen, I think, in Process Automation was about £19 million of orders in the first half. And then the percentage of LNG overall, New Construction Aftermarket, it is just over 10% I think, Dan, of Process Automation.

And then on Transport. So what OEMs are saying in the US and particularly Europe, second half is going to be slower. And I think at the beginning of the year, we actually said we expected Transport to be slightly down this year. Obviously, we have done a bit better than we thought in Transport, but we still expect to slow down in the second half. And remember, the second half of last year, the comparator gets much more difficult. So we expect this year now in Transport to be flat to slightly down is where we would call it. So slightly better than we thought at the beginning of the year, but still a more difficult second half. That is what the OEMs are saying.

Mark Davies Jones (Stifel): I got a few things. Can I take them separately because they are a little bit different? The first was, I am sure there are lots of moving parts here, but can you give any rough guidance on price versus volume in that first half growth rate? And in particular, are there any parts of the portfolio where price is now coming under pressure?

Roy Twite: Yes, brilliant. Thanks for spacing them out, Mark, saves us writing it all down.

Mark Davies Jones: Makes life easier, yes.

Roy Twite: So 5% organic growth, Mark, roughly half and half price and volume in that first half. Price under pressure, I mean, obviously there is lots of competitive situations, but I would say no real change. If I look versus a year ago, no real change to now. We have still got real pricing strength overall. And Mark, I think you know where we have got particular pricing strength, obviously, areas like the Aftermarket, areas where we have got super strong brands. The normal places, Mark, what we do in our segmentation and making sure that, in overall terms, we are basically offsetting inflation. And that is what we have done in the first half. And in the full year, we will look to offset or even maybe slightly beat inflation, I would say, in terms of our overall model.

Mark Davies Jones: Great. Second one was really focused on Industrial Automation, but more generally, your view of the short cycle outlook. Because that is the one thing that might have gotten a little worse as we have gone through this year. I think we are expecting a better second half. Leading indicators in places like Germany and China are still pretty grim. So have you changed your view in any way on that part of the business?

Roy Twite: I think probably slightly, you are right, Mark, because look at the PMI in Germany, it was at 43.5 last print, right? I mean it is still pretty tough out there. And we are seeing it in all the industrial companies. So I think, again, from what I have seen so far, we are slightly outperforming. We are slightly more resilient than other people. But yes, I think what we are saying about Industrial Automation, if we look at our 60-day moving average, Mark, it is still slightly down, very slightly down, right? So yes, we are not seeing any real recovery yet. It will come. It is just a question of when.

We are certainly not banking on any recovery in our outlook, right, as we have said consistently.

Mark Davies Jones: Excellent. And then my last one was just on the management changes and the structural part of that. I understand what you are trying to do. But going forward, does that mean you run the business, possibly you then end up reporting the business on the five underlying units, rather than the two sectors that were recently formed? How does that shift? And does it give more responsibility to the heads of each of those five units?

Roy Twite: Yes. I mean, ultimately, those five sector heads are obviously very, very important, right? And I have been working very closely with three of them, as you can imagine, over the last, what, seven weeks, is it something like that? So absolutely, they are pivotal to our success. We are becoming market sector experts, which is where I wanted to take the company because that is when you truly understand the sector and hear customers' problems and where you play, how you win, right? And as I have said on previous calls, the clarity of the strategy at the sector level is becoming better and better and better, and that is obviously contributing to our overall growth.

Having said that, the platforms remain incredibly important. And obviously, too much data at the sector level is commercially sensitive, as you can well imagine, Mark, right? So we do not want to be stupid in terms of that situation.

So in terms of the way we look at the business, we still look at it in terms of two platforms, and that is the way we are going to continue to report. The most important thing for me is Jackie moving into that role. I think you have all seen what he has done with Process Automation. He is already starting to do that, obviously, with Industrial Automation, really getting good market coverage, really good understanding using data, using CRM to really make sure we have got the best market data we can possibly have and then backing that up with some really good innovation coming through from Growth Hub. And accelerating that development across the whole group is obviously what really excites me.

Dan Shook: So no need to redo your model again, Mark.

Roy Twite: No, if that is what you are asking.

Andrew Douglas (Jefferies): Two quick questions for me, please. Going back to Process, we talked about replacing competitors' valves in the last presentation. Is that momentum still continuing, or have your peers figured out what you are doing and tried to offset that? So what is going on in that, please?

Roy Twite: Very good question. Very good. No, as we have said before, it is actually very difficult. It is easy thing to say, is not it, Andy, right? But it takes a minimum of seven years to become a valve doctor, right? Because it is back to the point that this is not ordinary Aftermarket, right? This is Aftermarket in big process plants, big LNG plants, big combined cycle gas power stations.

And so to convince somebody to change to something that is not the OEM, you have got to have technical expertise, you have got to have a brand, you have got to have a proven track record, you have got to have references. It is not easy. Believe me, I have tried to do it, Andy, myself, it is not easy.

So the good news is, I think last year, in the first half, we roughly doubled the value of competitor valve upgrades. And in the first half of this year, we are up 5% again, Andy. So yes, we are continuing that momentum. I was a bit worried having done that huge jump because, obviously, some of these valves are huge, right? You know, Andy, some of these Remosa valves, Z&J valves, this is what I would call a bit lumpy, right? But no, we have grown another 5% in the first half of this year.

And as you know, what it does is two things. One is we get a nice margin sale, and roughly the margins in upgrades are twice what they are in New Construction because you are dealing with the end user.

They get all their value from the upgrade and the quality, but also then you get the parts as well, which is, as you know, is the good margin stuff. So yes, it is still moving in the right direction. Thanks, Andy.

Andrew Douglas: Perfect. Well done. Can I ask Mark's question slightly differently? In terms of management change, I am assuming we have seen no change at the SBU level?

Dan Shook: The sector president level, you mean?

Andrew Douglas: At the sector president level.

Roy Twite: So at that level, very little change, I would characterise it as. Obviously, Phil retired, what was that, end of last year, was it? And Stefano came in. Stefano is up and running. And obviously, I have been dealing with him direct for the last seven weeks.

And within Process Automation, Jackie was the sector President effectively. But his two number two, Roby, is now moving across. So he has been promoted into that position. So he has got the capacity to make sure he can get into the other three sectors, Andy. So I would describe it as minimal. It is good news, really, because it is internal progression and some promotion in there. So I think the feeling on the ground is excitement.

Andrew Douglas: So nothing in Life Tech?

Dan Shook: No.

Roy Twite: No.

Andrew Douglas: And where do we think Jackie can make the most difference in Life Tech? Because it feels to me like biosciences, once the market recovers, you are back to good growth. Transport is just when the market gets back to good growth and Fluids when the IP recovers, you are in decent shape. So where can Jackie make the most difference there?

Roy Twite: I think, Andy, because all of those things are sort of external effects, right? And in IMI, we always say control the controllables, right? Whatever happens in the market, we want to outpace the market. So as an industrial company, how do you do that? You have better customer intimacy, better customer service.

So effectively, the three ways to grow, and I know you know this pretty obvious, right? One, you need fantastic customer satisfaction. And I should say that in IA, Industrial Automation, net promoter scores are now at 60, right? And that is world class. So they are at 60 in Climate as well. So two areas now where we move customer service to very, very high level. That is the first way, right? Keep the customers you have got and make them very, very happy.

Once they are very happy, obviously, try and sell them more of your existing product, all right? Once you sell them more of your existing products as much as you can, then obviously, what we want to do is sell the more new product. And that is where growth accelerator really kicks in and innovation, and that is what we always see as the opportunity.

So really, those three steps, which is what Jackie has been obviously relentlessly going after in Process Automation, that will be very similar and really accelerating the success of Growth Accelerator, Growth Hub, across those three sectors.

Because what we want to do is just keep compounding organic growth whatever is happening in the cycle. And that has always been my ambition, Andy, is to almost divorce ourselves from that, right, and just really make ourselves a structural growth company as I see it.

Andrew Douglas: Okay. Perfect. And the last question, and I will jump back in the line, £100 million buyback, nice stuff, a bit earlier than I expected, but well done. Does that change the message on M&A in terms of size of deals, your ability to do deals? Can you do one or two pieces of M&A and a buyback? Can you just flesh that out a little bit?

Roy Twite: So I mean we feel that a good deal for us is a bolt-on, maybe just over £300 million to well £20 million, to be frank with you, if it is the right deal. So we like those bolt-ons because they play to our strengths. We know those markets. Us, plus the acquisition, the reason we are buying it is because we can accelerate the growth, one plus one equals a lot more than two. So we still see those opportunities, Andy. But Dan has always said that the balance sheet efficiency, the best for us is between 1 and 2 times net debt to EBITDA.

And it does not take a rocket scientist to work out that second half cash flow is always stronger right, just the seasonality of the way payments come through. In the second half if we did not do anything, we were going to be down to 0.8 net debt to EBITDA, right? And so just to maintain that overall, you do the math, it is about £100 million share buyback, it still leaves us £0.5 billion, Dan, of dry powder, right?

Dan Shook: Yes, exactly. With EBITDA above £500 million and 1 turn, it gives us the spare capacity to go after it. And the pipeline remains there. As you know, we get into processes. Well, we walk away from a lot of things as well. We want to be disciplined. And we recognise you push those multiples on transactions too high, then it gets very hard to generate the shareholder value. So we are selective but the pipeline is still absolutely there. And more and more of those sector presidents are playing their role to get into their sectors and find those really nice bolt-ons that we can bring into the fold.

Jonathan Hurn (Barclays): Just a few questions from me, please. Firstly, just in terms of the guidance range, obviously, that is 120p to 126p. You are flagging increased interest costs and obviously the FX headwind. If we look at consensus, it kind of sits in the middle. But the question really is, what needs to change, or how can we actually get to that top end of guidance at 126p? What is underpinning that, please?

Roy Twite: Yes, brilliant. Yes. So Jonathan, yes, as you said, really, we have done two small upgrades this year, right? Because we sold that small business, IMF, if you remember that. And then, obviously, exchange rates have gone up against us by about another 1.5%, right? That is really what has happened. So that is why we firmly believe that when we looked at all the business plans, that 123p is a good place to be with a range around it. And of course, the range around it, to get to the 126p, Jonathan, it is the normal things, right?

More book to ship Aftermarket in Process Automation. Industrial Automation does make a bit of a recovery in Q4. Because the comparator gets easier second half, but actually the growth that we show will be higher in the second half. And the whole energy saving thing, as I said, proved to be resilient against strong comps. So you can see where Climate could improve.

And then, obviously, everybody is waiting for a Life Science recovery, right? And again, we are not banking on any of those things, but they are the sort of things that could push us to the top of that range, Jonathan.

Jonathan Hurn: Okay, very clear. And the second question is just on Automation. Just in terms of that profitability improvement, obviously, 100 basis points year-on-year. But I know you do not disclose it, but can you just give us a little bit kind of how that breaks down between Industrial Automation and Process? Obviously, Process is increasing margin, but in terms of that 100 basis points, is all of that attributable to Process in terms of increasing it? And in terms of Industrial, what is happening there? Are margins going backwards a little bit?

Roy Twite: Yes. I mean, yes, broadly, yes. I think that is broadly right. So more than 100% of the margin increase was Process Automation, as you would expect, because we are seeing good growth, good Aftermarket content. So that will be broadly yes. And then IA, volume is down. Jackie is doing a good job in terms of overall defence of the margins, but they are slightly down year-on-year, yes.

Jonathan Hurn: Okay. Very clear. And then lastly, just in terms of the order book for Process Automation. If we look at it in monetary terms year-on-year, big increase obviously coming through in New Construction. I think if we look at Aftermarket, it is a lot smaller. But what is sort of underpinning that? Is that all the Marine in terms of New Construction, but are you also seeing good demand in New Construction from other areas as well?

Roy Twite: Yes. Well, obviously, we talked earlier, Jonathan, about Hydrogen, right, which is really stepping up from a small base. Oil & Gas is staying at a similar high level to last year where it shot up in terms of New Construction.

And actually, power, as Dan said, Jonathan, power New Construction side holding up really well. So there is nothing I looked at across the segments, Jonathan, and thought this is a turning point down. Market activity is still good.

Thomas Rands (Davy UK): My questions have been asked. But just two clarifications just on transportation. Since the Q1 update, does it feel as if the second half outlook has improved or got worse. You are saying you are sort of expecting a slower second half versus the first half? I just wanted to clarify the timing of the comments and is it slightly better or slightly worse than what you are expecting in the last guidance, please?

Roy Twite: I think, Thomas, from memory, remember, this is 8% of our business, however from memory, second half Transport is pretty much where we thought it would be. It is just the first half has been a bit better.

Dan Shook: A little bit better.

Roy Twite: That is really it, really. So obviously, talking to our customers, there are really 14 big truck customers globally that make up a huge part of that business, as you can imagine, Thomas. Most of their information is public because they are public companies, right? And so we use that, we use a mixture of forecasts like the ACT forecast. And I do not think our second half has changed materially, Thomas, is the answer.

Thomas Rands: Okay, great. And the second one was just on Life Sciences and the destocking that we have seen through the first half. Do you still see a bit of that? Is it very customer dependent? Anything you can add on that would be great.

Roy Twite: Yes. So Thomas, the way I would characterise it is, that last year, first half, it came down pretty sharply, orders I am talking about. Second half, it stabilised, and we are pretty well stabilised at that level. So that has what has happened. And again, we said at the beginning of the year, we are not going to call a recovery. We are not calling a recovery, right? And hopefully, it does happen sooner rather than later, but we certainly not put that into our outlook.

Harry Philips (Peel Hunt): Two swift ones. Just trying to gauge the comments around where working capital goes in the second half. Because obviously, as you said, you have the seasonal buildup. But with the order activity, particularly in Process, how does that normalise or perform its normal seasonal pattern in the second half? And then the second is just in terms of the 19% organic growth in Process during the first half, 9% increase in the order book notwithstanding the Marine order. What sort of delivery trajectory we are looking at in the second half and then on into 2025? Because it looks like now you are going to get pretty good cover through the bulk of 2025 right now in terms of showing good sort of mid-single-digit growth as the bare minimum for that year?

Dan Shook: Harry, yes, you are spot on. We will still see the order pattern improve in process. So there will still be investment in working capital there. I think it will be offset by our normal seasonality in places like Climate where we do a lot of the sales and cash collection. That is why, yes, expect, as I said earlier, I think, we will try to get it to around 90% cash conversion for the full year. That will give us, yes, probably 100% cash conversion for the second half.

So we will absorb the continued growth in the order book in Process Automation by pulling cash down in the other areas.

Roy Twite: Yes. Well, unless, hopefully, Process Automation, best case we keep increasing the order book and that we will need the working cap, right? But yes, in terms of our base case, Harry, I think that is exactly right.

Dan Shook: Yes, I think that is what we are forecasting. Yes.

Roy Twite: And then your second question on Automation, you are absolutely right. Process Automation, we now think will grow a bit faster in terms of sales this year, Harry. Industrial Automation, a little bit less. Net-net, Automation is overall pretty much bang where we thought it would be for the full year, which is going to be pretty excellent organic growth, and I would say pretty similar to the first half overall for overall Automation, Harry. Very high single digit.

Harry Philips And that cover obviously building via Process for 2025 as well, so that underpin sort of stretches further out and gives the other businesses more time to recover if it is in the back end of this year, I guess?

Roy Twite: Yes, exactly. I mean, on average, I think we have now got a 10-month order book in Process Automation. Again, book-to-bill first half was just under 1.3. So of course, there is phasing. We know that. We sell a lot more in December. We know all of that. But still, the first half of almost 1.3, with a 10 month order book, that is, as you say, starting to provide good air cover for first half of next year.

Harry Philips: Yes. I think one or two of your peers will take that, but I know that is really helpful.

Roy Twite: Excellent. Well, apart from one thing, which is obviously I am going to miss Dan. But that is not now, is it, Dan? That is for next year, right? But until then, I think we are really excited. I am really excited about the management change and Jackie going over all five sectors. I really think we are going to see an acceleration of best practice across particularly the areas of customer coverage and innovation, the things that Jackie has done really well in Process Automation, really excited about that. And we are looking forward to delivering more performance and more progress in the second half. Thank you.

[END OF TRANSCRIPT]