IMI Plc
Interim Management Statement

Thursday, 7th November 2024

Introduction

Roy Twite

CEO, IMI Plc

Good morning, everybody, and welcome to IMI's quarter three trading update. I am joined here, as usual, by Daniel Shook, our CFO. Hopefully you have all had the chance to read through our update this morning.

I would like to highlight that third quarter performance was in line with our expectations, and we are reconfirming guidance for this year at 120p to 126p of EPS, reflecting the continued delivery of our growth strategy.

The middle of that range puts our forecast EPS growth at 11% CAGR since we launched this new strategy in 2019. Process Automation was a particular highlight, 14% orders growth in the third quarter, with further good progress in the Aftermarket. That put book-to-bill at an exciting 1.15 over the last 12 months, showing continued momentum and that the best is still to come in Process Automation.

The other good news is that margins in both platforms were up in the quarter, as we benefited from our significant Aftermarket business, continued delivery of high value-added solutions and further efficiency gains.

We also completed the acquisition of TWTG. This is a very entrepreneurial, fast-growing and profitable company, that is fully aligned with our growth strategy. It has great IoT solutions that will help accelerate Aftermarket growth in the Process Automation install base. I would like to extend a very warm welcome to Nadine, John, Dimer, and the entire TWTG team.

Lastly, I am sure that you will have seen the announcement earlier this week about Luke Grant, who will be appointed CFO and join the Board next July when Dan will step down.

Firstly, I want to acknowledge and thank Dan for his invaluable contribution. And secondly, I want to congratulate Luke on his appointment. This is a wonderful reflection of how we nurture, develop and promote talent at IMI, and I look forward to working closely with Luke to continue to drive our business forward.

So with that, I'm going to hand back to the operator, who will manage the Q&A session. Thank you.

Q&A

Christian Hinderaker (Goldman Sachs): Morning, Roy. Morning, Dan. I want to start on IA, if I can. Obviously, you have seen some softening in the PMIs and also in some of the automation hardware markets. What are you hearing from customers in IA in terms of order intentions but also maybe stocking levels into year end and beyond?

Roy Twite: Thanks, Christian. Morning, everybody. Yeah, I think if you look at what's happening in IA, and I do not want to get everybody too excited, but actually, the 60-day moving average orders has gone positive, which is obviously great news.

I think this business is obviously a far, far better business than it was ten years ago. And I say that because I think Jackie and the team are doing a great job of focusing on obviously gaining market share, focusing on the Aftermarket, like they were doing in Process Automation. And that 45% of Aftermarket is definitely providing resilience, when, as you say, Christian, historically when the PMIs were as low as 43 in Germany at the moment, then clearly, we would have seen far, far bigger reductions in demand.

I think there is that aspect of this business. The other aspect is that we have dramatically improved customer service, and I was delighted to report that they have actually hit net promoter scores of 60, which is world class. And again, if I think back to 10 years ago, around that time, we would have been 15, 20. We would have been nowhere near the levels that we are doing now. And a lot of that, Christian, has come from consolidating into our very best factories. And you know that our best factories are in areas like the Czech Republic and across IMI, obviously in Mexico, China, India. And I think what we have done is obviously reduced the fixed cost base, which is providing margin resilience, but we have also got much better responsiveness, which is generating that much better customer satisfaction number.

So yes, I mean, I talked to a few people this morning who said IA is standing up really, really well. And it is. And I think that, as I said, it is really down to that work that Jackie and the team have done.

I think the other big effect is we are much more exposed to the US now in IA. Obviously, since the Bimba acquisition. And that is certainly helping us versus where certainly Germany is right now in terms of industrial production.

So yes, in terms of orders, they are slightly positive. I am not calling a recovery in that market. I do not see the markets themselves getting better, but I do see our business improving, which is great.

Christian Hinderaker: Thanks Roy. That takes me well on to the second one. Given you mentioned Mexico and the US, and I appreciate relatively recent news given yesterday's election result, but you have got about a quarter of your revenue base in the US. Can you just talk about potential risks and opportunities there in terms of both cost base and component procurement alignment to that 25% or so revenue mix in the United States?

Roy Twite: Yes, really good. As you said, bang on as always, 25% in the US Very, very important market to us and clearly where we see opportunity. Process Automation, obviously as you know, the majority of that business is energy. And with the news coming out yesterday, we see that business has been doing incredibly well, but that should provide even more tailwinds for that business.

I think in terms of tariffs is the other big element, obviously. We will see how those tariffs play out. We have, over time, I think you all know, built much more regional supply chains. So actually, China is 8% of our sales, but it is only 5% of our manufacturing, and that 5% is mainly for China. So we very much had a China for China investment strategy over the last several years.

In the US, yes, a lot of our US sales are out of Mexico, but I think that that is a better position. When I study where our competition and manufacturing across IMI and look at where manufacturing and our supply chains come from, actually from the information that we have about where tariffs could be applied, I think we will actually be in a better situation.

I think it will be a relative gain, Christian. And as you know, we have proven we have had strong pricing power. If some of those tariffs need to be passed on, then obviously, particularly with overall 45% Aftermarket across IMI, we will be looking for that area in particular to pass on some of these tariffs as they arise.

So, until we get more specifics, I cannot say more than that, Christian. But yes, at the moment, overall, we think that what happened yesterday will be net positive in terms of IMI.

Christian Hinderaker: Thanks, Roy.

Roy Twite: Thank you very much, Christian.

Andrew Douglas (Jefferies): Morning everyone. Three quick questions from me, please. Can you talk to us about the progress you have made in energy markets in the third quarter? You clearly call that out along with the Aftermarket. Which specific energy markets are you referring to, both from end market and from the regional perspective?

And second question is on Life Sciences, still in double-digit declines, but clearly the comps are getting better. And hopefully given what other people are saying in terms of destocking, do you expect that to turn positive in the fourth quarter, or is it going to be into next year?

And then last but by no means least, can you just make a comment on the progress that Jackie is making in his new role as COO, how that is driving additional either share or margin opportunities in the business?

Roy Twite: Andy, I have got to say your line was absolutely awful there. No worries at all, Andy. But just if I start answering the wrong question, then please stop me. Right? So, if I talk a little bit about energy markets, Dan, and then you talk about Life Sciences, and then I will talk about COO. Right?

Okay. So, on energy markets, I mean, as you know, Andy, 60% of that business almost is Aftermarket, right? And what we are seeing across the Aftermarket is broad spread growth with, I would say, highlights in LNG and actually power. So very, very important to us. But it is broad spread growth in the Aftermarket.

On the New Construction side, and again, because of the nature of the orders in this business, I tend to look at it on a year-to-date basis, Andy, because in any particular quarter, it is not really going to help you with trends.

On a year-to-date basis, we have seen real strength in hydrogen, real strength. That is coming from the growth accelerator projects. And I should say that growth accelerator projects this year are now, in terms of orders, nearly double last year. So, the amount of innovation happening is fantastic. And a big part of that extra growth is coming out of hydrogen and VIVO and what we are doing in Process Automation. So that is where we see a lot of New Construction growth.

And the other area we are seeing New Construction growth, which will not surprise you, is in Marine. So, you look year-on-year, year-to-date Marine is strong. The rest of oil and gas is fine. But the rapid growth is coming from those areas, which is pretty much what we said it would do back at that capital markets event, which I know you attended, Andy.

That is it in terms of energy markets. Dan, do you want to take Life Science?

Daniel Shook: Yes. Life Science, Andy, I think we can go back probably 9 to 12 months. When people were starting to predict and trying to predict how the markets were going to evolve, we did not see it coming through. We saw our orders come down to a lower level. And as you know, we have just set our business up to allow for trading at that level. That is what we communicated, and we have worked towards that.

I think that is part of the reason why, even though you see the third quarter and year-to-date for overall Life Technology margins actually have picked up. We have certainly been able to protect the margins in Life Science by being prepared.

There is so much good things happening behind the scenes with our customers in terms of next products and making the next diagnostic equipment better. But in terms of order demand, we are still predicting that we are going to be at that lower level. And we want to prepare for when it ticks up. We are just not in a position, and I think it has played out well for us to say we are going to just be prepared to stay at this lower level.

Overall, the good thing is the fourth quarter is an easier comp. So again, I think we will tick up a little bit with regards to quarter-on-quarter comparison and pretty much trading kind of as we expected and as we have called it. We are prepared, and that is the one conversation we have out with our businesses.

We do think when it does tick up and we are not going to call that, but when it does, we think it will go up in a pretty quick way as people try to get out with their new devices. But for the moment, we are pretty happy with how the team is managing what has been a tough environment.

Andrew Douglas: Thank you

Daniel Shook: Does that answer your question?

Andrew Douglas: Yes, 100%

Roy Twite: And then on COO. So obviously, really pleased with Jackie assuming that position, Andy. And as you know, our strategy has been pretty consistent since 2019. And it is around the world growth. And really those three pillars of commercial excellence, innovation, complexity reduction and driving best practice that Jackie really embedded in Process Automation, driving that commercial excellence innovation and complexity reduction right across all five sectors.

And as always, Jackie is starting with really making sure we have got excellent customer coverage, making sure that our CRM systems are giving us the data to make the best commercial decisions we can make, and then driving growth hub, growth accelerator thinking in terms of solving customer problems at pace, creating innovation that actually creates real value-added growth. So really pleased.

As you probably suspect, we are also driving efficiencies across the piece as we have done, to be frank, since the margins were 14% back in 2019. So, where they are going to be this year, up pretty close to 20%, Andy.

So yes, of course we are still driving efficiencies. But the main focus is on growth, generating that top quality growth. And yes, really pleased with what he is doing.

Andrew Douglas: Thanks for the time. Thank you very much, guys.

Roy Twite: Thanks, Andy.

Daniel Shook: Thanks, Andy.

Mark Davies Jones (Stifel): Thank you. Morning, Roy. Morning, Dan. Slightly unfair question because you are not going to guide on next year. But just thinking about that 10%, 11% CAGR that you were flagging, which is great. A lot of that has been driven by margin recently. And you are very close to that 20% goal. So, in terms of maintaining that growth in 2025, is that now all about markets picking up, or do you think you can get there? Are there other levers you can pull? Can we look again at those margin targets, for instance? Or do you think you step up M&A? Can you just think about growth for next year?

Roy Twite: Thanks, Mark. Clearly, free cash flow was not very much five years ago. Now free cash flow is becoming very, very significant. And next year we will be around that £300 million of free cash flow. Obviously, we need to pay the dividend out of that. But as you say, as I start to think about not just next year, but the next five years, the next strategic period, you think, well, okay, we want to drive organic growth at that 5%. Profits at 5%, and maybe next year slightly higher as we do that final part of the journey to get to the 20% margins. And then, of course, deploying that free cash flow.

We have just done TWTG, which is small but is obviously vital to getting sensors into the Process Automation install base to really help us accelerate further that whole strategy of upgrade valve, which is working so well.

So more really good M&A like that, that is what we are going for. It is a good pipeline. But as we all know, we will not overpay. We have got a very, very disciplined approach to M&A. And if we cannot do the M&A, we put out our financial framework.

Our net debt to EBITDA is going to be between 1 and 2 times. And on that basis, any excess cash will be returned to shareholders, probably in the form of share buybacks. And so, the maths would show that if you get that over a strategic period, you should be driving something and continuing to drive, I should say, something like low double-digit EPS growth, Mark.

So that is the way we see the business. Much prefer to invest in great acquisitions, obviously. We love that compounding effect, but we will remain very disciplined in our approach.

Mark Davies Jones: Thank you. That's helpful as a framework.

Roy Twite: Thank you, Mark.

Daniel Shook: Super Mark, thanks.

Stephan Klepp (HSBC): Morning Guys. Just one question. So, you delivered 1% organic growth now in Q3. Should I be worried or should we be worried that the growth that we all have been expecting for the full year is not coming through? Can we talk about the phasing of sales? Am I right to assume that the year-end bias of Process Automation is so strong that we should not worry at all?

Roy Twite: Yes, I mean, Stephan, if you look at the order intake in Process Automation of 14% growth in the quarter, 10% Aftermarket growth, again, and 20% New Construction. Then that is a very, very strong quarter. I think everybody on this call appreciates that the phasing of order shipments in Process Automation is always more Q4 weighted, right?

In December, we have got a big December, as always. I think the veterans on the call will know we always have a big December. And that is down to customer budgets, right? I mean, that is something that is very difficult to change. It is a structural thing in the industry.

So absolutely, Stephan, the big change, the 1%, if you break it all down in Q3 versus where we will probably end up this year. If you look at the middle of our EPS guidance, it is probably around 4% organic growth, right, around that number. And so, if you look at the phasing of the shipments in Process Automation, the whole thing ties together.

So yes, I am not worried. That is why we have reaffirmed guidance obviously, Stephan. The majority of that is Process Automation, order shipment phasing.

Stephan Klepp: Can I add on to Mark's question on use of capital and mentioning share buybacks, having an efficient balance sheet and understanding that you want to be in a 1 to 2 times leverage target corridor. I mean, if you just look out a few months' time, you basically are at the low end anyhow and are going to be below, because you are very disciplined on M&A. I understand that. When would be the point in time that you could openly think about share buybacks again?

Roy Twite: Yes, obviously we will review the situation at the full year results, Stephan. The normal way we look at it is we are looking at the full year, we are looking at the half year, and we consider where we are going to be and then we will take action, just like we did at the half year this year, Stephan.

Stephan Klepp: Okay. Perfect. Thank you

Roy Twite: Thank you, Stephan.

Jonathan Hurn (Barclays): Hey guys, good morning. Just a few questions from me, please. Firstly, can we just come back to TWTG? Obviously, it is an interesting acquisition, gives you more digital exposure. But can you maybe just give us some potential revenue numbers or potential addressable market that you think you can get through having that capability now? That was the first one.

The second one was just on Climate. Obviously, 4% growth is pretty decent for Climate. What is underpinning that? And also, just maybe related to Climate, just following on. If we look at data centres, if we look at digital cooling, it is a huge opportunity. I know data centres for you right now is small. But can you just give us a feel for what you are doing in that space and potentially what that could become going forward?

And then lastly was just in terms of restructuring. Obviously going into FY 2025, restructuring is now going to come above the line. Can you just give us a feel of what that cost impact is going to be? And in the early years, is there potential for that to be higher, as Jackie, who executes on his plan across the five business areas? Thanks.

Roy Twite: Excellent, Jonathan, wow that is a lot. Well, TWTG, I am absolutely delighted. Obviously, Jackie and I visited them in Rotterdam. We have been chasing them for a while. It came out of a growth accelerator project, Jonathan. And it really does solve customer problems. Fundamentally, at the moment, it is in refineries, which probably would not surprise you since it is in Rotterdam.

But it is selling lots and lots of sensors because of a couple of things. One, it has got a vibration sensor with a full frequency spectrum capability. So, it can find vibrations in rotating equipment, it can find vibrations in valves, basically across the whole spectrum.

At the moment, it is very, very limited in terms of the applications that the company is pursuing because each application, what you have to do is map the vibrations to a particular fault mode and predict from that data what is going to go wrong based on that vibration. I mean, some of these process plants are now doing $3 million a day or more of output. And so, what they are desperately trying to do is make sure that all their maintenance happens in a planned outage.

So this particular sensor one has a full frequency range to pick up all different faults and predict all different faults, but only with the help of very knowledgeable applications engineers like our valve doctors, because you have really got to understand what is happening in the valve and critically what you are going to do about it if you get that particular signal.

They then create or they have created the software that interprets all of those signals. So, the market for this particular device is very, very big. And our acquisition case more than pays for itself on the sales of sensors and software. And it is very, very fast growing at the moment, Jonathan.

The reason that customers can apply literally hundreds or even thousands of these sensors in one process plant is because it can be battery powered. So, it uses LoRaWAN technology, which is designed to be very good at monitoring. And that means low packets of data are sent for very big distances. So over tens of kilometres, they can send robust, accurate signals and use very, very little of the battery. So that is why the battery will last five years. So, you do not need mains, which obviously is very expensive. Mains electricity, when you try and put that into a refinery and you do not need any other sort of relay because the data goes to very, very long distances.

So, the market is very substantial for the sensors. Really for us though, and it will take some time because we have got to map all the frequencies, we have got to test it in valves and all of that. We have got to get customers comfortable with this. But honestly, if anybody can get customers comfortable with this, it will be us. We have proven that we can do an upgrade valve strategy.

The real prize is to help grow faster, the £600 million PA Aftermarket business. Because every 1%, 2%, 3% extra growth we get there is very, very profitable. Remember, that the gross margins in Process Automation Aftermarket are 2.5 times what they are in New Construction. It is very profitable business. You get the upgrade valve and then you get that beautiful past annuity coming afterwards once you have got your valve installed.

And roughly, Jonathan, we are replacing five competitor valves and losing one to competition at the moment. That will give you an idea of how strong that strategy is becoming. So yes, that is why TWTG rather than just thinking about the sensor market is going to be good, it is fast growing, it is going to be big. But the bigger thing for us really is how we really start to grow. Eventually, 18 months' time, something like that, two years' time, we start to really get another lift on Process Automation. So that is TWTG.

Climate. Yes, I am very pleased with 4% growth. Obviously, Stefano doing a great job leading that division. As you know, it has been driven by energy savings. So, everybody says how are you doing better than X peer, Y peer, energy saving is at the core of that business. And we are a very small part, typically, our products cost 2% or 3% of the cost of the system, but they can save 30% of the energy. And so that value equation really helps that business generate growth. Really, really pleased with what they are doing.

Data centres. Yes, it is a small part of the business at the moment. But yes, it is growing quickly. And of course we are looking to do more, Jonathan. And Stefano set up a dedicated team, obviously to really think about how do we scale what we are doing in data centres. Because yes, we can really help data centres save a lot of energy, particularly as the data centres are being driven by AI. And therefore, using even more energy.

I think that will also actually help eventually. Again, this will not be overnight, Jonathan, but it will also actually help our nuclear business, both in terms of retrofits. But I think it potentially will help in SMRs as well. And we have got a strong position in small modular reactors. Again, I am not talking about the next few years. It is probably a 2030 thing. We are well placed to benefit from that as the world has to be carbonised.

And then restructuring. Yes. So just to give you an idea, so we have said for a while now that this is the last year of restructuring, and we mean it. There will not be below the line costs. Of course, as you said, we are very keen to continue to improve and improve the efficiencies and invest in the right things in this business. Grow faster, create the space to invest the cash to grow even faster. That has been our mantra since we launched the Better World Strategy in 2019.

There will be some costs above the line. We have not done the budget review yet, Dan and I. Although Jackie and I have talked about it at least twice a week since August. So do not worry, we are already on it. Jackie is all over it.

And so there will be probably Jonathan one or two pence of EPS in terms of cost next year. Once it is in the denominator, it is in the denominator that cost. And then we will just be able to run and carry on creating EPS growth. But yes, we tell you more in February about that. But a rough guide, Jonathan, would be one or two pence of EPS.

Daniel Shook: And the only caveat, Jonathan, and you know this, if we do, do an acquisition like when we did Bimba and it came with nine sites and there would be a need to do some rationalisation and footprint moves. When we do those acquisitions, we might just flag a number there which would end up in the middle column of restructuring because that truly is one-off. But for the core business, we have really got the footprint now that we want and can take us forward.

Roy Twite: Good point, Dan. Great. Does that answer your question, Jonathan?

Jonathan Hurn: Yeah. Thanks, guys. Very clear. Thank you

Daniel Shook: Brilliant. Thanks, Jonathan.

Bruno Gjani (BNP Paribas): Thanks for taking my questions. The first one was just on the 60-day rolling order trends in Industrial Automation, which you had commented had grown. I was wondering whether you could shed some colour on book-to-bill and what that looked like?

Roy Twite: Yes. So, I mean, it is only slightly up, Bruno. It is slightly up. I think it is 1% or something like that in the last 60 days. I would not say it is started, as I said be careful. It is just good news. And the reason I touched on it is because it is very resilient in very difficult industrial market. I would not say it is starting to grow, but it is slightly up.

Daniel Shook: In terms of book-to-bill, it is about one, maybe a little bit under. And there is a bit of order book that we have certainly been selling out of. So, I would say it is relatively stable, Bruno. And we are watching it. There is nothing there that would indicate any major challenges. And as Roy said, with a 60-day moving average of plus one, I think that gives us a little bit of some nice news as we head into Q4.

Roy Twite: Yes. Because the order book is slightly longer than it would have historically been. So obviously it is coming down. You would expect some times to come down as we still come through some of the effects of Covid and obviously improve and improve.

Bruno Gjani: Got it. And just on Transport, sales have declined partially as expected, given the tough comps. Could you, I guess, provide us with some colour in regards to how long you think this downcycle may last for you?

Roy Twite: Yes. So, Bruno, the way I would characterise it is, the second half of last year really ramped up, as we said at the time, you will probably remember. So post-Covid, suddenly the truck manufacturers could get all the electronic parts, which allowed them to set up their production lines, and we were running flat out to keep ours up.

So, as we said in the statement, we have got very, very tough comparator in Q3, Q4. I would say we are returning to more normal levels now, and we see that continuing into next year. I think that at some point, potentially late next year, volumes will start to build again because in the year after that, there is going to be some legislation changes which are going to add quite a bit to the cost of a truck. And so there is going to start to be a pre-buy

So yes, I think, we are going to run at these current levels for a while. And then it will start to pick up again. And remember Transport is 8% of our business. Our job is to make sure that while that is happening, we obviously keep pushing for better returns out of that business.

Bruno Gjani: Understood. And just coming back again to the earlier comment of around 4% organic sales growth for the year, which I think implies roughly around 6% in Q4. And it does not sound as if you are baking in much of a recovery in Transport in the very near term. Are you baking in any sort of sequential recovery on, say, the shorter cycle sides of your business into Q4? Or is it just pretty much all Process led or very vast majority process led?

Roy Twite: Yes, the vast majority is Process led, Bruno, as I said. So vast majority is that. As Dan said, IA, we think it will be slightly up Q4, flat to slightly up. It is not massive. And Climate continues its good progress. And it is really good to see Climate doing what it is doing, actually. And bigger and bigger part of that business is the connected product.

Last month, for the first time, I just saw on our intranet yesterday. We sold 1,000 TA-Smart valves. Now, a TA-Smart valve is a fully connected intelligent device. So typically, and again there is a range, right? I am oversimplifying. But typically, the price of a fully connected TA-Smart valve for us is 5 to 10 times what a mechanical simple balancing valve would be.

So as the industry moves towards requiring much better control to meet the legislation to drive the energy efficiencies that are required, then we sell more and more connected devices. One, because they deliver better control. Two, because they actually deliver the data that proves that you are delivering better control as well.

So yes, it is a good trend. And again, great job by the Climate team and some really good new product coming through there. And next year, there will be another, what I call a real banner product, new product coming through, which will be very much linked with the Heatmiser technology, that Heatmiser acquisition that we did nearly a couple of years ago now, is it Dan?

So I think it is shaping up quite nicely, actually, Bruno.

Bruno Gjani: Understood. Thank you very much

Roy Twite: Thank you.

Harry Phillips (Peel Hunt): Yes. Good morning, everyone. Two hopefully straightforward ones, please. The first is just on Growth Hub and the comments you were making around that, Roy. Just how does that spread across the five different divisions in terms of emphasis? And also, is there a big difference in payback on those Growth Hub projects and those different businesses?

And then secondly, and I missed it, I think. Just how big is the Aftermarket exposure in Industrial Automation, please?

Roy Twite: Yes. So I will do the easy one first. Aftermarket in IA is about 45% of the business. And obviously, it is different to Process Automation, where you might be selling a £50,000, £60,000 valve with an upgrade. It might be a lot more than that, actually, in places like petrochem, Harry. Whereas these are much more small transactions to a very fragmented customer base.

And again, using data, Jackie is just getting better, and the team are getting better and better at really highlighting when something is an Aftermarket transaction in all of that data complexity, and making sure that we then sell on speed, service, and obviously, price. It is not really about price. It is about making sure that that kit is running. So yes, I think we are getting better at that. But it is about 45% in IA.

Growth Hub. Obviously, Dan's favourite subject, right? So yes, Growth Hub, action orders first nine months, £98 million, actually up 91% on last year. Process Automation again is doing superbly, Harry. What they have done is on top of everything that we have presented, that is all on the web, Retrofit3D, EroSolve, and all of those brilliant projects which are now doing over £20 million each a year. And it is the hydrogen projects that are really starting to shine, right?

So, the main Process Automation hydrogen project, I think we did £1 million of orders a couple of years ago. We did £9 million of orders from memory last year. And this year I was just in Italy literally last week with Jackie and the whole team down there, and we will do over £40 million of orders this year. It might even be more than that, but it is really starting to ramp up, Harry.

And margins are obviously moving in the right direction. We are starting to do more service along with those projects. And yes, we have just got a nice niche of the market that totally uses our oil and gas capability in this new area. So, Process Automation going really well.

Finally, as I said, some fantastic projects on the connected side. TA-Smart, I just talked about. I will not talk about that again. But really using more and more connected products to give better control and give the data, it is where a lot of those projects are going, which is great. We were in Sweden with the Board three weeks ago, and they showcased a lot of this innovation. They have also got more areas that we need to control, Harry. So obviously, the amount of balancing valves required in the building directly affects the energy use because the more control you get, the less energy you need to use. And again, there is more legislation and standards coming down the pipeline, which will help us in some of our really important markets like Germany. So yes, innovating behind that trend, really good.

Transport as well, I call out. We have got some great innovation coming through on Transport, particularly around the core valves that enables so much of our technology around things like the air systems on the truck, even things, Harry, like, reducing the ride height of the truck to improve fuel economy, things like that. We have got a really good new core valve, and we have booked already tens of millions worth of orders on the back of what that will do as part of an ecosystem, which does control on the truck.

So that is going well. I mentioned the Life Sciences. It is more around making sure that we are on the next platform for these big OEMs and making sure we have got the best. As you know, we have got global market leading position in things like electron multipliers and just making sure that we are on those next platforms.

And then IA, lots of incremental innovation in IA, which is again around digital and making sure that valve protocols are the best in terms of analytics and preventative maintenance and making sure that that whole product arena is very, very competitive.

So yes, I am pleased with the whole mindset change versus five, six years ago, where we are much more focused on making sure that everything we do solves an acute customer problem. We can quantify the value that it creates. We can prove that we can capture some of that value through the customer willingness to pay, all very, very early in the cycle.

So, these are high value-add projects, Harry. And payback times are short because it is a fundamental change. We spend far less cost before we start to get customer commitment. That is the whole point of using this sprint team approach, Harry.

Does that answer your question?

Harry Phillips: Yes, it does. Just to double check the numbers. Just in terms of the order intake of Growth Hub is £98 million after nine months this year. And then hydrogen is circa £40 million of that.

Roy Twite: No, sorry. That is two different numbers. What I am predicting is that hydrogen by the year end will be £40 million. Obviously, the overall number will be bigger than that because that is the nine months number. So, I am saying it is going to be £40 million plus by the year end of a number that is obviously going to be quite a bit bigger than £98 million.

Harry Phillips: Fantastic. That's really clear. Thanks very much indeed.

Roy Twite: All the key projects are growing. EroSolve, Retrofit3D, they are all growing, Harry.

Harry Phillips: Excellent. Thank you.

Daniel Shook: Thanks, Harry.

Roy Twite: Thanks, Harry.

Margaret Schooley (Redburn): Good morning, Roy. Good morning, Dan. Just a quick one for me because we have been through a lot. But could you just give us an update on the M&A pipeline? We have talked a lot about the fact that you have very solid balance sheet. TWTG was quite small. What areas are you starting to see that perhaps multiples are coming down or things starting to look more interesting?

Roy Twite: Thanks, Margaret. TWTG is quite small, but it is very important. I hope I got that across in terms of its effect on this space. It is the biggest profit pool in our business. Process Automation, it is what, 37%, 38% of IMI. 60% of that is Aftermarket. And that is just what we are going after. That is why that is important.

Yes. The M&A pipeline. So, we are going after three areas. One is obviously automation. TWTG is a classic example of what we like in automation. Something where us, plus the other company, was a lot more than the sum of the parts. One plus one equals a lot more than two. And so, things like sensors, connected devices, things that can get us even closer to customers, things that can help us, help our customers do that maintenance in a very effective way, in a low-cost way, is obviously crucial.

So, we love those sort of automation acquisitions. Clearly, smart buildings and the things that drive energy efficiency ultimately in smart buildings, connected devices, that is another very good pipeline. I would say our pipeline on commercial buildings is stronger than our pipeline on residential buildings. And we are fine with that. Commercial buildings, we think that is a really good space for energy efficiency. So, your pipeline is good there.

And then the third place is around life sciences. And again, the pipeline is good. We would not overpay in our terms, Margaret. So out of those three areas, what we found is that we have a higher hit rate on automation and in smart buildings than we do in life sciences, because often there is some big US companies that will pay some very big multiples in life sciences, which for us is tricky because again, just so you know Margaret, for us, we have got to be above our cost of capital in terms of returns by year three.

And IMI, on our basis, where we have got everything in the denominator, including writing back all of any goodwill written off since we started. On that basis, we are over 13% ROIC. And we do not want to be materially reducing that number. We want to be hitting that number within a five-year period. So, we are very strict about that.

Daniel Shook: Yes. I think multiples for deals, they really have not changed that much through this entire period. I think that is partly because we are always interested in those businesses that are operating very nicely already and we can see a great combination synergy, like TWTG.

So yes, it is not really a multiple. As Roy said, we will always look and try to develop those relationships so we can do deals out of process, which enable us sometimes – that usually tends the multiples to come down a little bit, but overall it is really down to that framework of making sure we get to our cost of capital within three years and then get up to that 13% number by year five.

Margaret Schooley: The TWTG acquisition. I agree, I think you explained that very, very well. But one of the other areas that I think you have been hiring a lot of software engineers internally. So, with that acquisition and the other IP you have within the business and the whole overlay of growth enablers, are you really starting to see that momentum in terms of being able to use one technology to overlay?

So, for instance, could those sensors of TWTG be applicable in Climate? Is that really starting to come together internally, given your focus on internal hires as well?

Roy Twite: Really interesting. Yes. So, Jackie is going to be running workshops with obviously across all the divisions. So, we have put it in Process Automation because that is the biggest opportunity. And again, talking to Nadine and the team in Rotterdam, they have inquiries from other areas, which includes things like monitoring the smart grid. It includes things like infrastructure monitoring.

And because of the nature of the way that the data works and the software, yes, I can see that there are other opportunities potentially certainly into Climate, potentially into Industrial Automation as well. So absolutely, I am trying to keep these messages reasonably straightforward, Margaret. But yes, I think this has got several potential growth streams or avenues for IMI, totally agree.

Margaret Schooley: Yeah. Thank you very much. I appreciate that. Very clear.

Daniel Shook: Thanks, Maggie.

Richard Paige (Deutsche Bank): Morning, all. Thank you. Just one question from me on Process Automation. Another good quarter of strong order growth in the Aftermarket. Can I just ask what part is the upgrade of competitive valves playing in that number?

Roy Twite: Yes. Thanks, Richard. I mean, upgrade valves are up in the quarter about 30%. So, 30% year-on-year is an upgrade of competitor valves. So yes, it is it is becoming significant. And obviously for commercial reasons, I am not going to go through this list. But Jackie's given me a list of the different competitors that we are upgrading. And remembering, we are upgrading typically from a cage valve technology, which is less control, obviously cheaper, because that is why the EPC bought it in the first place, Richard, to drag valve designs to very sophisticated control valves and obviously that is because the end user is most interested in reliability.

If you have got $3 million a day or that sort of region coming out your process plant, you want it to be reliable. And so yes, generally we are upgrading from obviously older, what I would say, is less technically good technology into our severe service valves.

And yes, it is a broadening range of valves that we are upgrading. And using CRM, we are getting better data and starting to find patterns in that. That means that we can upgrade more valves, more systematically across the world.

Richard Paige: Brilliant. Thank you very much.

Roy Twite: Thank you, Richard.

Daniel Shook: Thanks, Richard

Roy Twite: Thanks, everybody, for joining the call. I will just reiterate; we are maintaining guidance. We fully believe that we are going to be within our range for the year end. And I think the key point is the free cash flow point, that a lot of you asked about. But as we go into this next period, we still see that 5% plus profit growth, but we have got something like £300 million to use either on great acquisitions, which of course is our preferred option. But we will be disciplined. And if we cannot find the right acquisitions, we will be using that to give back to shareholders probably by share buybacks. And therefore, you get to an EPS growth that continues that trend we have been on somewhere around double-digit.

Great. Thank you very much everybody. Have a great end of the year.

[END OF TRANSCRIPT]