

2019 Preliminary Results

Roy Twite – Chief Executive
Daniel Shook – Finance Director

Key messages

- 2019 second half margins 60bps above H2 in 2018, despite industrial market downturn
- Good progress on immediate profitability improvement initiatives
- £27m of rationalisation benefits delivered in 2019
- Cash generation strong
- Strategic projects progressing well
- c£45m rationalisation charge expected in 2020, with £25m savings to be delivered in 2020

Business review

Daniel Shook – Finance Director

Organic revenue and operating profit

£m	12 months to 31 December 2019				12 months to 31 December 2018			
	Adjusted post IFRS 16 and notional rent	Adjusted pre IFRS 16 and notional rent and excluding PBM	Adjusted Growth (%)*	Organic Growth (%)**	Adjusted	Foreign Exchange	Acquisitions/ Disposals	Organic
Revenue								
IMI Precision Engineering	907	907	-1%	-3%	916	11	9	936
IMI Critical Engineering	651	643	-5%	-6%	682	3		685
IMI Hydronic Engineering	315	315	2%	3%	309	(2)		307
Total	1,873	1,865	-2%	-3%	1,907	12	9	1,928
Operating Profit								
IMI Precision Engineering	148.0	146.0	-3%	-6%	153.2	2.2	0.3	155.7
IMI Critical Engineering	90.1	87.9	2%	-1%	88.3	0.8		89.1
IMI Hydronic Engineering	56.7	55.7	9%	5%	52.0	0.8		52.8
Corporate costs***	(28.7)	(26.4)			(27.2)			(27.2)
Total	266.1	263.2	0%	-3%	266.3	3.8	0.3	270.4
Operating Profit Margin (%)	14.2%	14.1%			14.0%			14.0%

* Adjusted growth includes the impact of lease accounting changes.

** Organic growth after adjusting for exchange rates and excluding the impact of acquisition and disposals and the impact of lease accounting changes.

*** Corporate costs in 2018 excludes non-adjusting restructuring costs of £0.8m.

Income statement

£m

	2019	2018
Adjusted operating profit	266.1	265.5
Net interest expense	(14.9)	(12.9)
Net pension finance expense	(0.5)	(1.4)
Adjusted profit before tax	250.7	251.2
IFRS 9 adjustment	4.4	(2.5)
Restructuring costs	(51.8)	(12.4)
Impairment losses	(1.5)	(2.0)
Gain on disposal of subsidiaries	-	0.6
Gain on disposal of properties	-	3.2
Gain on special pension events	8.6	6.8
Indirect taxes on reorganisation	-	(3.2)
Acquired intangible amortisation/other	(21.1)	(28.8)
Discontinued operations	2.8	-
Profit before tax	192.1	212.9
Taxation	(36.0)	(43.5)
Total profit for the period	156.1	169.4

- Net interest expense higher due to lease accounting change
- Restructuring costs (including impairment losses) of £53m to deliver necessary footprint and cost efficiencies
- Restructure of Swiss pension scheme realises £9m of gains in 2019
- Acquired intangible amortisation decreases following first year one off Bimba charges

Rationalisation plans

£m	2019	2020	Overall programme
Restructuring charge (including impairment losses)			
IMI Precision Engineering	(31)*	(30)	(75)
IMI Critical Engineering	(19)	(10)	(29)
IMI Hydronic Engineering	-	(5)	(6)
Total charge	(50)	(45)	(110)
Cash impact	(24)	(60)	(105)

£m	2019	2020	Annualised
Benefits			
IMI Precision Engineering	11*	20	35
IMI Critical Engineering	12	5	17
IMI Hydronic Engineering	3*	-	3
Total benefits	26	25	55

Table above excludes corporate restructuring costs of £2.6m in 2019.

* Includes £20m of charge and £1m of benefits from IMI Precision's £75m restructuring programme. £3m of IMI Hydronic benefits relate to prior year programmes.

Operating cash flow

£m

	2019	2018
Adjusted operating profit	266	266
Depreciation & amortisation	59	54
Lease depreciation	32	-
EBITDA (from continuing operations)	357	320
Inventory	(15)	5
Debtors	45	(8)
Creditors	(17)	(47)
Working capital	13	(50)
Capital expenditure	(66)	(58)
Provisions and employee benefits	7	2
Principal elements of lease payments	(31)	-
Asset sales/other	19	8
Adjusting operating cash flow	299	222

- Strong cash delivered in 2019
- Debtor reduction reflects continued focus on improving cash collection
- Capital expenditure of £66m represents 1.1x of depreciation and amortisation
- Inventory growth reflects improved IMI Critical order book

Net cash flow

£m

	2019	2018
Adjusting Operating cash flow	299	222
Adjusting items	(26)	(9)
Statutory Operating cash flow	273	213
Interest	(15)	(13)
Derivatives	16	(18)
Tax paid	(40)	(41)
Cash generation	234	141
Acquisitions	(69)	(123)
Dividend	(111)	(108)
Special pension contributions/other	(11)	(15)
Net cash flow	43	(105)
Opening net debt	(405)	(265)
Net cash/debt acquired	1	(15)
Movement in lease liabilities	(90)	-
Foreign exchange/other	13	(20)
Closing net debt	(438)	(405)

- Adjusting items reflect £26m of restructuring spend, primarily in IMI Critical & IMI Precision
- Lease liabilities of £90m included in net debt following the adoption of IFRS 16
- Favourable currency impact on net debt of £29m

£m

	2019	2018
Adjusted EBITDA	357	320
Net debt / Adjusted EBITDA	1.2x	1.3x

IMI Precision Engineering operational review

£m	2019 Adjusted	IFRS 16 and notional rent*	2019 Adjusted Pre IFRS 16 and notional rent	FX	Organic	Acq'n	2018 Adjusted
Adjusted Revenue	907	-	907	11	(29)	9	916
Organic Growth**	-3%		-3%				6%
Operating Profit	148.0	2.0	146.0	2.2	(9.7)	0.3	153.2
Operating Margin	16.3%		16.1%				16.7%

Sales by sector

Industrial Automation	£509m Down 6%
Commercial Vehicle	£194m Down 2%
Energy	£81m Up 6%
Life Science	£81m Up 2%
Rail	£42m Up 1%

Outlook

- Given current market headwinds, expectation for organic sales and profits in H1 to be c7% to 10% lower

Industrial Automation

Factory Automation	£369m
Process Fluid Control	£140m

*IFRS16 impact £0.8m; Notional rent £1.2m.

**Organic growth based on 12 months of Bimba in 2018 and 2019.

IMI Critical Engineering operational review

£m	2019 Adjusted	IFRS 16 and notional rent*	Acq'n	2019 Adjusted Pre IFRS 16 and notional rent and excluding PBM	FX	Organic	2018 Adjusted
Adjusted Revenue	651	-	8	643	3	(42)	682
Organic Growth**	-6%			-6%			7%
Operating Profit	90.1	1.1	1.1	87.9	0.8	(1.2)	88.3
Operating Margin	13.8%			13.7%			12.9%

Outlook

- We expect to achieve some sales growth in the first half
- Margins are expected to improve again

*IFRS16 impact £0.7m; Notional rent £0.4m.

** Organic growth excludes the impact of 3 months of PBM results in 2019.

*** Order input figures include results of PBM, growth percentages are on an organic basis.

Order input by sector***

Aftermarket	£364m Up 2%
Oil & Gas	£123m Up 30%
Petrochemical	£70m Down 15%
Marine	£54m Up 278%
Power	£47m Down 25%
Other	£39m Down 25%

Total	£697m Up 5%
--------------	-----------------------

IMI Hydronic Engineering operational review

£m	2019 Adjusted	IFRS 16 and notional rent*	2019 Adjusted Pre IFRS 16 and notional rent	FX	Organic	2018 Adjusted
Adjusted Revenue	315	-	315	(2)	8	309
Organic Growth	3%		3%			0%
Operating Profit	56.7	1.0	55.7	0.8	2.9	52.0
Operating Margin	18.0%		17.7%			16.8%

Sales by sector	
IMI TA	£152m Up 1%
IMI Heimeier	£97m Up 1%
IMI Pneumatex**	£50m Up 6%
Other**	£16m Up 16%

Outlook

- We expect first half organic revenue to show some growth versus 2019
- Our profit improvement initiatives are expected to deliver margin improvement

*IFRS16 impact £0.2m; Notional rent £0.8m.

** Pneumatex service sales of £5m (2018: £4m) have been reclassified from Other into Pneumatex

Coronavirus

- First priority has been the health and safety of IMI employees
- Supporting our Life Science customers in helping those affected
- Direct exposure: China represented 8% of IMI sales in 2019
 - IMI's two China factories are in Shanghai
- Indirect exposure: a further c8% of sales tied into China
 - ie supply chain sourcing or customer exports

Group outlook

- Any forecasting difficult given Coronavirus uncertainty
- The following outlook assumes no worsening of current situation
- In H1, continued weakness is expected in Factory Automation and Commercial Vehicle markets
 - IMI H1 revenues expected to be lower than H1 2019
- H1 margins expected to be maintained through business improvement initiatives

Strategy Update

Roy Twite – Chief Executive

Strategy update

- New customer-focused organisational structures in IMI Precision and IMI Critical starting to bed down
- Growth Accelerator teams progressing well
 - First three orders won in IMI Critical
- Multi-year £75m IMI Precision restructuring programme on track to deliver £35m of annual cost saving and an incremental £20m in 2020
- New IMI Critical rationalisation plan announced today to deliver £5m of annual benefits at a one-off cost of £10m
- 20% to 30% of IMI Critical's lower margin revenue is under review and in improvement mode

Achieving the divisional margin targets



Target: 20% top of cycle

- £35m annual benefits from footprint optimisation
- Beat inflation through productivity, material cost reduction and value pricing
- Growth through higher margin new products



Target: 17%-20%

- £5m annual benefits from footprint optimisation
- Margin improvement from addressing 20%-30%
- Beat inflation through value engineering, material cost reduction, productivity and pricing in the aftermarket
- Growth through aftermarket focus and expansion into more attractive segments



Target: 20%

- £3m annual benefits from supply chain optimisation
- Beat inflation through value pricing, productivity and value engineering
- Growth through investment in pull-model, cross-selling and new products

Increasing customer focus

- Three awards won from key customers in H2 2019
- Customer satisfaction included in incentives for 2020
- New customer-focused organisations bedding in
- Growth Accelerator teams generating hundreds of customer interactions

Creating growth



Customer problem

Reducing diagnosis time

IMI solution

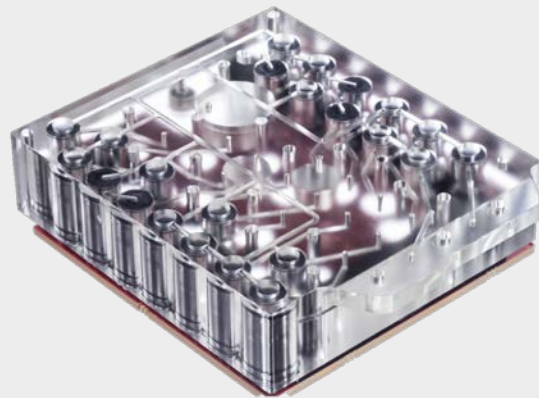
Engineered acrylic manifold with 23 microsolenoids & software interface

Customer value

Disease detection within 60 minutes

Growth trend

Increasing global healthcare spend



Improving vaccine production

Bespoke radial diaphragm valves integrated into all critical vessels

Reduced down time and product wastage

Increasing global healthcare spend



Saving energy in buildings

Fully balanced system with differential pressure controls

15% energy reduction

Legislation addressing climate change



Operational improvements



Continuous improvement – Las Vegas

- Pull systems and Kanban

Benefits achieved:

- Lead-time reduced by 15 to 5 days
- 100% on-time delivery



Continuous improvement – Sardinia

- Value Stream Mapping and Kaizen
- Improved manufacturing flow, materials planning

Benefits achieved:

- Lead-time reduced by 131 to 49 days



Continuous improvement – Olkusz

- New assembly stations and fixtures
- Improvement of test processes

Benefits achieved:

- Productivity improved
- Lead-time reduced by 13 to 17 days
- Stock reduced by £500k



IMI's ESG performance – 2019 overview

Climate change

- Our products have a direct and positive impact on the world
- Since 2015 we have reduced our carbon usage by over 5%

People

- Health & Safety a key priority – LTAs now 48% lower than 2015
- Active supporters of WISE, promoting the success of women in STEM
- 38% of our Board are female
- 10th annual IMI Way Day, including community activities
- Leadership Programme awarded Gold Award for Excellence by Brandon Hall Group
- Graduate programme shortlisted for Personnel Today's "Graduate Programme of the Year"

Governance

- Robust governance and internal control environment
- Full compliance with the 2018 UK Corporate Governance Code



Key take-aways

- H2 margins improved by 60bps over H2 2018, despite market downturn
- Increasing commercial focus and accountability resulting in some key wins
- Growth Accelerator starting to generate market-led innovation
- Margins improving and margin targets reaffirmed
 - 20% for IMI Precision at the top of the industrial cycle
 - 17% to 20% for IMI Critical
 - 20% for IMI Hydronic
- Customer focus, complexity reduction, operational excellence and “market-pull” new products create faster growth

Appendices

Lease Accounting changes (IFRS 16) – from 1 January 2019

£m

	FY 2019 (post IFRS 16)	Impact from		FY 2019 (pre IFRS 16)	FY 2018
		IFRS 16	Notional Rent		
Income Statement					
IMI Precision Engineering	148.0	0.8	1.2	146.0	153.2
IMI Critical Engineering	90.1	0.7	0.4	89.0	88.3
IMI Hydronic Engineering	56.7	0.2	0.8	55.7	52.0
Corporate costs*	(28.7)	0.1	(2.4)	(26.4)	(27.2)
Operating profit	266.1	1.8	-	264.3	266.3
Adjusted EBITDA	357.3	33.6		323.7	320.1
Statutory net financial expense	(15.0)	(2.3)		(12.7)	(18.7)
Statutory profit before tax	189.3	(0.5)		189.8	212.9
Balance Sheet					
Right of use asset	90.1	90.1		-	-
Net debt	(437.8)	(90.4)		(347.4)	(404.5)
Ratios					
Net debt / EBITDA	1.2	0.1		1.1	1.3

- Adjusted operating profit increases by £1.8m, offset by higher finance expense
- Minimal impact to profit before tax
- Internal rent recharges also removed as no longer required
- Minimal impact to key financial ratio

* Corporate costs in 2018 excludes non-adjusting restructuring costs of £0.8m.

Pensions

£m	Dec 2019	Dec 2018
Total Position:		
Liabilities	(655)	(597)
Assets	624	545
Deficit	(31)	(52)
UK Schemes:		
Liabilities	(500)	(445)
Assets	548	473
Surplus	48	28
Overseas Schemes:		
Liabilities	(155)	(152)
Assets	76	72
Deficit	(79)	(80)

- UK scheme remains in surplus following the de-risking exercises completed in 2018
- Proactive management of Swiss schemes during 2019

2019 sales by destination & employees

£m	Sales by Destination £m	No. of Employees
Europe	818	6,689
<i>UK</i>	<i>90</i>	<i>1,205</i>
<i>Germany</i>	<i>234</i>	<i>1,960</i>
<i>Switzerland</i>	<i>53</i>	<i>427</i>
<i>Italy</i>	<i>37</i>	<i>684</i>
<i>Other</i>	<i>404</i>	<i>2,413</i>
Americas	538	2,630
<i>USA</i>	<i>440</i>	<i>2,040</i>
<i>Other</i>	<i>98</i>	<i>590</i>
Asia Pacific	404	1,321
<i>China</i>	<i>158</i>	<i>461</i>
<i>Japan</i>	<i>49</i>	<i>113</i>
<i>India</i>	<i>45</i>	<i>294</i>
<i>South Korea</i>	<i>40</i>	<i>202</i>
<i>Singapore</i>	<i>14</i>	<i>123</i>
<i>Other</i>	<i>98</i>	<i>128</i>
Middle East & Africa	113	67
Total IMI	1,873	10,707

Foreign exchange

	FY 2019	FY 2018	Change
--	---------	---------	--------

Average Rates

Euro	1.14	1.13	1%
US Dollar	1.28	1.33	-4%

	Dec-19	Dec-18	Change
--	--------	--------	--------

Closing Rates

Euro	1.18	1.11	6%
US Dollar	1.32	1.28	3%

Year Over Year impact

Revenue	1%
Operating Profit	1%

Projection for FY 2020*

Revenue	-3%
Operating Profit	-3%

Ready Reckoner for translation impact of movement in FX rates on 2019 FY Performance

Sensitivity to +/- 1 cent move in:

	Revenue	Operating Profit
Euro	+/-£6.9m	+/-£0.9m
US Dollar	+/-£3.7m	+/-£0.6m

*Compares the impact of projecting rates average rates for January 2020 (USD:1.31; EUR:1.18) for the full year and applying to our 2019 results.

Capital allocation

- Maintain capital investment at current levels
- Improve free cash flow through profit growth and margin expansion
- Maintain progressive dividend, rebuild cover
- Continue to pursue strategically and financially attractive acquisitions
 - *Acquisition returns must exceed IMI's cost of capital by year three*

This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Any forward-looking statement is made in good faith and based on information available to IMI plc as of the date of the statement. All written or oral forward-looking statements attributable to IMI plc are qualified by this caution. IMI plc does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in IMI plc's expectations.