

7 November 2019

Interim Management Statement and Strategy Review conclusions

IMI, the specialist engineering company, issues the following Interim Management Statement, which covers the third quarter from 1 July to 30 September 2019 (unless otherwise indicated, comparatives reflect results on an organic constant currency basis). We also present the conclusions reached following our strategy review.

Current trading and outlook

Good progress is being made with the Group's recently announced business improvement and cost-reduction initiatives.

Trading in the third quarter, for each of the divisions, has continued largely as expected. Where markets have been weak, the businesses have acted decisively to reduce costs and protect margins. Revenues for the third quarter were, on an organic basis, 2% lower compared to 2018 and, before adjusting for the impact of foreign exchange movements, flat on an adjusted basis. Despite lower sales, the Group achieved higher margins in the quarter.

In the second half of 2019 we continue to expect that organic revenue will experience a decline similar to that in the first half, when compared with the same period in 2018. Nonetheless, second half profits are expected to be similar to last year, supported by the business improvement initiatives pursued by each of the three divisions.

Based on current market conditions, we expect full year 2019 results to be in-line with current market expectations.

IMI Precision Engineering

On an organic basis, Precision Engineering revenues in the three months to the end of September were 4% lower compared to the same period last year and, before adjusting for the impact of foreign exchange movements, were 2% lower on an adjusted basis.

Sales in Industrial Automation were 7% lower when compared to the third quarter of 2018. Sales in Commercial Vehicle decreased 4% in the quarter with continued good growth in Energy, Life Sciences and Rail.

Given the expectation for continued softness in both the Industrial Automation and Commercial Vehicle segments, organic revenue in the second half is still expected to be down when compared to last year.

IMI Critical Engineering

In the three months to the end of September, order intake was 10% lower due to significant new projects booked in Petrochemical and Water in the same period in 2018. Aftermarket orders were 4% higher than the comparable period in 2018. Year-to-date orders are 8% higher than last year.

The division's order book at the end of September 2019, at £563m, was 7% above the same point last year. Margins in the order book are now up compared to those at the same point in 2018, reflecting some improvement in New Construction due to project mix.

In the three months to the end of September, organic revenues were 1% lower when compared to the same period last year, with 16% growth in Aftermarket offsetting a similar decline in New Construction. On an adjusted basis, revenues were 1% higher in comparison to the same period last year.

Although it is only a few weeks since IMI acquired PBM, early progress with its integration has been good and we remain optimistic about the opportunities the combination presents.

In the full year, we continue to expect revenue to be about 7% lower, broadly consistent with the position of the closing order book of 2018. We continue to expect second half margins to be higher as a result of increased Aftermarket sales and the benefits of restructuring.

IMI Hydronic Engineering

Hydronic Engineering organic revenues in the three months to the end of September were 2% higher when compared to the same period last year and 2% higher on an adjusted basis.

Further good progress has been made towards our objective of improved margins, with value pricing and good cost-control contributing to the division's improvement.

In the second half, on an organic basis, we expect our self-help initiatives to deliver improved profits from broadly flat revenues, when compared to the same period in 2018. In the full year we expect our business improvement initiatives to deliver improved sales, profits and margins when compared to 2018.

Strategy Review conclusions

Having presented early findings and actions from our strategy review with the Interim Results in July, we have now completed the full review process, ahead of the original timetable. Most importantly, the review confirms that we have significant value creation opportunities across our businesses as we enter the next phase of IMI's development.

The time for prioritising internal and operational issues has passed. IMI now has a much-improved manufacturing base which we will leverage for all our stakeholders. To take the Group forward, the areas for the greatest change in approach are as follows:

- We have developed much greater clarity on where and how we win, establishing exactly what differentiators we can leverage and in which specific markets.
- We are taking significant steps to create a customer-driven culture.
- We have established new organisational structures and upgraded key roles to improve commercial accountability and to enable IMI to improve through-cycle returns significantly for our shareholders.
- We have made significant progress pursuing opportunities in pricing, especially in the aftermarket and in our long 'tail' of products. Selling price rises are already running at more than twice the 0.7% average of the last few years.

We have also begun the process of removing significant structural costs from across the Group.

- As we announced in July, the Group Executive team has been reduced from 11 to 7.
- IMI Precision is targeting a further £35m annualised savings from a new c.£75m multi-year restructuring to streamline its business and address supply chain complexities in both Europe and the Americas. This programme will place the business on an even stronger competitive footing and is in addition to the £35m of group-wide rationalisation already announced for 2019. Some of these plans have been initiated, so we now expect the full-year Group charge in 2019 to be c.£55m.

- IMI Critical has placed under review lower-margin businesses accounting for 20%-30% of revenue, because their products may not meet the Group's long-term growth and margin aspirations.
- IMI Hydronic has already made substantial progress in improving its margins and has further plans to streamline its supply chain.

By executing on these key strategic areas, we believe IMI will be a fundamentally stronger business that will deliver significant improvement in returns over the next few years. In particular, the plans of the respective businesses give us confidence about both their ability to grow and their realistic returns:

- We see that IMI Precision has all of the characteristics of a 20% margin business at the top of the cycle.
- IMI Critical will be a 17-20% margin business, with an acute focus on the Aftermarket and higher growth sectors.
- IMI Hydronic will be a 20% margin business.

Regarding Capital Allocation, IMI plans to maintain capital spend at similar levels to the last five years, as the Group continues to see opportunity to improve each business while delivering cash paybacks of less than three years. We plan to continue to pay a progressive dividend whilst improving dividend cover through profit and margin growth. Finally, we will continue to pursue acquisitions that support our strategic plans and will maintain our strict discipline of requiring a return in excess of IMI's cost of capital by year three.

Exchange rates

IMI's financial results are being favourably impacted by the effects of exchange rate movements compared to 2018, and in particular by the weakening of Sterling against the US Dollar. At current rates, this would translate to an exchange rate tailwind for the full year of around 1% on both revenues and profits.

Preliminary results

IMI will issue its preliminary results announcement in respect of the year ending 31 December 2019 on 28 February 2020.

A live webcast for analysts and investors will be held at 09:00 GMT today to discuss this statement. To access the webcast, please go to <https://www.imiplc.com/investors>. A recording will be on our website from 2pm.

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Cautionary Statement:

This Interim Management Statement contains forward-looking statements which are made in good faith based on the information available at the time of its approval. 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.

IMI plc

Press Release



Notes to editors

IMI plc

IMI plc, the specialist engineering company, designs, manufactures and services highly engineered products that control the precise movement of fluids. IMI has manufacturing facilities in more than 20 countries and operates a global service network. The Company is listed on the London Stock Exchange. Further information is available at www.imiplc.com.

IMI plc is registered in England No. 714275. Its legal entity identifier ('LEI') number is 2138002W9Q21PF