# IMI plc
## Press Release

26 February 2021

**Good operational performance and accelerated strategic progress**

## Preliminary results, year ended 31 December 2020

| | Adjusted[1] | | | | Statutory | | |
|---|---|---|---|---|---|---|---|
| **Continuing operations:** | **2020** | 2019 | Change | **Organic[5]** | **2020** | 2019 | Change |
| **Revenue** | **£1,825m** | £1,873m | -3% | **-4%** | **£1,825m** | £1,873m | -3% |
| **Operating profit** | **£285m** | £266m | +7% | **+5%** | **£227m** | £204m | +11% |
| **Operating margin** | **15.6%** | 14.2% | +140bps | | | | |
| **Profit before tax** | **£274m** | £251m | +9% | | **£214m** | £189m | +13% |
| **Basic EPS[2]** | **79.7p** | 73.2p | +9% | | **62.7p** | 57.6p | +9% |
| **Operating cash flow[3]** | **£335m** | £299m | | | | | |
| **Dividend per share[4]** | **22.5p** | 41.1p | | | | | |
| **Net debt** | **£316m** | £438m | | | | | |

[1] Excluding the effect of adjusting items as reported in the income statement.
[2] Statutory amounts for Basic EPS include both continuing and discontinued operations.
[3] Adjusted operating cash flow, as described in note 9.
[4] The 2019 Dividend per share includes the postponed dividend that was paid in September 2020.
[5] Change shown after adjusting for exchange rates and excluding the impact of acquisitions (see note 1).

## Key points

- Resilient organic revenue 4% lower than 2019.
- Improved margins in all three divisions.
- Strong adjusted operating cash flow, up 12%.
- Structural rationalisation programmes delivering expected efficiency gains.
- Final dividend of 15.0p reflects previously announced reset of earnings cover baseline.
- Net debt / EBITDA improved to 0.8x (2019: 1.2x).
- Cultural shift progressing well with increased resource dedicated to growth.
- Strong customer and employee engagement throughout the Coronavirus pandemic.

Lord Smith of Kelvin, Chairman, commented:

"2020 has been an extraordinary year in which IMI has demonstrated resilience, ambition and absolute commitment to supporting our customers and our wider communities. There is little question that significant drivers of our recent performance have been our unifying and empowering purpose "Breakthrough Engineering for a better world", as well as a rejuvenated culture. It is the way in which these results were delivered that is particularly encouraging and bodes well for continuing improvement."

Roy Twite, Chief Executive, added:

"Our top priority is the safety of our people, and I could not be prouder of the commitment our employees made to keep our facilities and communities safe throughout 2020. All three divisions also advanced their strategic initiatives and delivered resilient results in a tough year. Margins have improved and our culture change and growth initiatives are gaining traction. IMI has also advanced its ESG agenda as we work to build on the positive contribution our solutions make to the wider world. We expect further progress during 2021."

"Based on current market conditions, and assuming no worsening impact from Coronavirus, we expect the Group to deliver 2021 adjusted earnings per share of between 75p and 82p."

## Enquiries to:


| | | |
|---|---|---|
| John Dean | IMI | Tel: +44 (0)121 717 3712 |
| Stephen Malthouse / Jane Glover | Headland PR | Tel: +44 (0)7734 956 201 / +44 (0)7884 742 400 |


A live webcast of the analyst meeting taking place today at 08:30am (GMT) will be available on the investor page of the Group's website: www.imiplc.com. The Group plans to release its next Interim Management Statement on 6 May 2021.

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### Overview

2020 was another important year of progress for IMI. All three of the divisions delivered robust results in the year. Despite the challenges of a global pandemic, the Group demonstrated its ability to protect its people, its businesses and its wider stakeholders. Whilst managing the short-term challenges, the Group has continued to strengthen its capability for growth.

| Income statement | 2020 | 2019 | Change | Organic change |
|---|---|---|---|---|
| **Group revenue** | **£1,825m** | £1,873m | -3% | -4% |
| **Adjusted operating profit** | **£285m** | £266m | +7% | +5% |
| | | | | |
| **Adjusted operating margin** | **15.6%** | 14.2% | +140bps | |
| **Adjusted EPS** | **79.7p** | 73.2p | +9% | |
| | | | | |
| **Cash flow and Balance Sheet** | | | | |
| **Adjusted operating cash flow** | **£335m** | £299m | +12% | |
| **Net Debt** | **£316m** | £438m | | |
| **Net Debt to adjusted EBITDA** | **0.8x** | 1.2x | | |

- Resilient organic revenue 4% lower than 2019.
- Organic operating profit 5% higher than 2019; 7% higher when including PBM and currency.
- Improved margins in all three divisions.
- Strong adjusted operating cash flow, up 12%.
- £33m restructuring benefits achieved.
- Final dividend of 15.0p reflects previously announced reset of earnings cover baseline.
- Net debt / EBITDA improved to 0.8x (2019: 1.2x).

Dividend
Reflecting our decision to reset dividend cover to a level that enables IMI to more effectively deliver on its long-term growth ambitions, the Board is recommending a final dividend of 15.0p (2019: 26.2p) making a total dividend for the year of 22.5p, a decrease versus last year's 41.1p.

Outlook
Based on current market conditions, and assuming no worsening impact from Coronavirus, we expect the Group to deliver 2021 adjusted earnings per share of between 75p and 82p.

### Coronavirus

The protection of our people, our businesses and our stakeholders remains our absolute priority. Right at the start of the pandemic a Coronavirus response team was established – with meetings chaired by the Chief Executive – to monitor and manage employee welfare, our supply chain and how we communicate effectively with all of our stakeholders. Delivering appropriate protection remains an important function of this group – whether providing PPE or adjusting working practices to maximise safety and social distancing. The organisation also kept particularly close to our customers to support them as they incurred challenges brought on by the pandemic.

### Environmental, Social & Governance (ESG)

IMI has made real progress in advancing its ESG initiatives during 2020.

Many aspects of ESG – particularly those that relate to Social and Governance – represent disciplines in which IMI has long enjoyed a strong reputation as a business with a robust, ethical and sustainable model. In 2020, we continued to demonstrate our commitment, as evidenced by a reduction in workplace accidents by 9%, high levels of employee engagement and improved diversity within the business. But there is more to do, and with that in mind, IMI has extended its ESG efforts, and outlined a robust process and structure of accountability to reflect our ambitions, and to ensure delivery against them.

We start with a commitment to halve factory $CO_2$ intensity by 2030 (based upon 2019 Scope 1 and Scope 2 emissions). With the support of a specialist external consultancy firm, we will establish additional,



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auditable targets as the year progresses. Many of our products already play an important role in reducing the environmental impact of our customers' processes and products.  All future product and strategic planning activities will include ESG assessments as a significant influencing factor to ensure we continue to build our positive influence. These are challenges we embrace as an organisation as they directly reflect our purpose: Breakthrough Engineering for a better world.

We continue to support the Task Force on Climate-related Financial Disclosures (TCFD) recommendations on the disclosure of information about the risks and opportunities presented by climate change. More information about ESG – including all of our ESG policies and practices – can be found on our website www.imiplc.com and in our forthcoming Annual Report.

## Strategy update

In November 2019, we set out our plans to improve the strategic positioning of our business. We are pleased to report significant progress, despite the considerable market disruption caused by the Coronavirus pandemic.

### Growth culture

Initiatives designed to effect a change in culture across the business remain fundamental to the Group achieving its strategic ambitions. These initiatives are aimed at driving innovation, customer intimacy and greater commercial accountability throughout the organisation. That shift is producing encouraging early signs of impact, including Growth Accelerator programmes that are delivering early commercial wins. Importantly, the levels of customer engagement and motivation across our employees are continuing to build momentum, and will be essential to our success.

### Accelerating market-led innovation

A key element of our growth strategy is our IMI Growth Hub.  The Growth Hub delivers structure and guidance for Growth Accelerator and NPD ignite projects – initiatives that evaluate brand new ideas or critical product developments. The number of active teams and participants in these initiatives continues to increase and the enthusiasm across the organisation is high. This has resulted in a number of projects advancing successfully in the year, from developing engineered solutions to making severe service control valves safer and more effective, to developing parts that significantly improve hydrogen-fuelling infrastructure. At the end of 2020 we had over 20 active Growth Accelerator teams and £7m of orders already secured.

### Reducing complexity

The work to drive complexity out of the organisation continues, which will ensure the long-term competitiveness of the business and support the delivery of our divisional margin targets as first set out in the strategy presentation of November 2019.

Benefits in 2020 from the rationalisation programme totalled £33m. Charges for 2020 were slightly below plan at £39m – partly reflecting the deferral of some activity into 2021 as a consequence of Coronavirus restrictions. Full details of the rationalisation programme are provided below.

| £m | 2019* | 2020 | 2021 | Future years | Overall programme |
|---|---|---|---|---|---|
| **Restructuring charge (including impairment losses)** | | | | | |
| IMI Precision Engineering | (20) | (8) | (47) | (5) | (80) |
| IMI Critical Engineering | (19) | (26) | (11) | (3) | (59) |
| IMI Hydronic Engineering | - | (5) | (1) | - | (6) |
| **Total charge (excluding corporate)** | **(39)** | **(39)** | **(59)** | **(8)** | **(145)** |
| Cash impact | (13) | (37) | (55) | (30) | (135) |

| £m | 2019 | 2020 | 2021 | Future years | Annualised |
|---|---|---|---|---|---|
| **Benefits** | | | | | |
| IMI Precision Engineering | 1 | 20 | 5 | 9 | 35 |
| IMI Critical Engineering | 12 | 13 | 7 | 11 | 43 |
| IMI Hydronic Engineering | - | - | 3 | - | 3 |
| **Total benefits** | **13** | **33** | **15** | **20** | **81** |

*Excludes costs and benefits from previous programmes.

### Short-term cost savings
In addition to the structural cost savings described above, we also benefitted in the year from approximately £25m of short-term cost savings as a result of the pandemic. In 2021 we expect c.£17m of those costs to return.

## Divisional results review

The following review relates to our continuing businesses' performance on an adjusted basis for the year ended 31 December 2020, when compared to the year ended 31 December 2019. References to organic changes are on a constant currency basis and exclude disposals and acquisitions.

## IMI Precision Engineering

IMI Precision Engineering specialises in the design and manufacture of motion and fluid control technologies where precision, speed and reliability are essential to the processes in which they are involved.

| | **2020** | 2019 | Change | **Organic change** |
|---|---|---|---|---|
| **Adjusted revenue** | **£877m** | £907m | -3% | -3% |
| **Adjusted operating profit** | **£151m** | £148m | +2% | +2% |
| **Adjusted operating margin** | **17.3%** | 16.3% | +100bps | |

### Key achievements
- The rapid increase in production and delivery of critical ventilator valves by more than 10x.
- Effective operational and supply chain management during a period of significant market volatility.
- Increasing resource dedicated to Growth Hub initiatives.
- Continued complexity reduction including delivery of planned restructuring benefits.

### 2020 performance
In 2020 IMI Precision Engineering has delivered significant progress in its structural reorganisation as well as a strong operational performance. The response to an unprecedented surge in ventilator valve demand was exemplary, as the business quickly and reliably scaled-up production by a factor of 10x.

Revenue, on both an organic and adjusted basis, was 3% lower than in 2019 at £877m. That result reflected performances in Motion Control (down 11% vs 2019) and Commercial Vehicle (down 25% vs 2019) that followed the trends evident across their wider segments. However, in the final quarter of the year, both segments delivered sequential improvements in revenue. The Fluid Technologies business delivered revenues 24% ahead of 2019, largely driven by the surge in demand for ventilator valves to satisfy the urgent global need in light of the pandemic. Ventilator valve sales totalled £117m in the year, reflecting a temporary surge of £94m above the more normal level of demand experienced in 2019 (£23m). Current expectations are for overall sales to return to c. £35m in 2021.

Operating profit of £151m for the year was 2% higher than in 2019 (£148m) on both an adjusted and organic basis, which resulted in margins of 17.3% (2019: 16.3%). The benefits of rationalisation, effective operational management, and sales mix all contributed to that robust performance.

### Outlook
Based on current market conditions, and assuming no worsening impact from Coronavirus, we expect the reversal of the temporary surge of ventilator demand to be largely offset by improving markets in Motion Control and Commercial Vehicle. This will result in IMI Precision Engineering 2021 organic revenues being slightly lower than 2020. Profits and margins are expected to be flat to slightly down as rationalisation benefits will be offset by the reversal of 2020 temporary savings and the mix effect from lower Life Sciences sales.

## IMI Critical Engineering

IMI Critical Engineering is a world-leading provider of flow control solutions that enable vital energy and process industries to operate safely, reliably and more efficiently. Our products control the flow of steam, gas and liquids in harsh environments and are designed to withstand temperature and pressure extremes as well as intensely abrasive or corrosive cyclical operations.

| | **2020** | 2019 | Change | **Organic change** |
|---|---|---|---|---|
| **Order intake** | **£659m** | £697m | -5% | -8% |
| **Closing order book** | **£522m** | £516m | +1% | |
| **Adjusted revenue** | **£643m** | £651m | -1% | -4% |
| **Adjusted operating profit** | **£107m** | £90m | +18% | +14% |
| **Adjusted operating margin** | **16.6%** | 13.8% | +280bps | |

### Key achievements

- Early order success from Growth Accelerator teams.
- Strong upgrade Aftermarket order delivery.
- Accelerated progress with restructuring programme.

### 2020 performance

IMI Critical Engineering has delivered a very strong financial performance for the year, while continuing to reposition its business toward more attractive markets.

When compared with 2019, order input for the year decreased by 8% on an organic basis with New Construction down 17% and Aftermarket flat to 2019.  Both New Construction and Aftermarket Field Service activities were adversely impacted by the effects of the pandemic.  The division was able to again deliver good growth in Aftermarket Upgrade valves by focusing on solving identified operational problems being experienced by both existing and new customers.

Oil & Gas orders of £134m were up 9% and were supported by £58m of New Construction LNG orders, as well as 11% growth in Parts.  Refining and Petrochemical orders of £177m were down 20%, reflecting reduced new build activity and maintenance budgets in the year.

Power orders of £190m were up 5%, with good growth in New Construction coming from projects in gas-fired and concentrated solar power stations. Within Power, New Construction Coal orders totalled only £16m in the year, now less than 3% of division order activity.  Coal Aftermarket Parts orders were largely flat in the year, reflecting the resilience of the division’s installed base. Over 60% of these orders relate to valves installed within modern and/or favourably located facilities, providing confidence that this important annuity will continue into the future.

Marine orders of £33m were 51% lower than last year, which was expected due to a large multi-year order received in 2019.  This remains a highly attractive part of IMI Critical’s portfolio which will provide long-term growth given its expanding product offering and geographic reach.

Nuclear orders increased 38% in the year to £78m, with over 90% of activity within the Aftermarket.  IMI Critical benefits from the ongoing investment to install the latest technologies into older nuclear power facilities to significantly extend the lives of those assets.

The 2020 closing order book was £522m – up 1% when compared to 2019.

Organic revenue at £643m was 4% lower than in the previous year, and 1% lower when including the results of PBM and currency movements. New Construction sales were £309m (+7% vs. 2019), whilst Aftermarket sales were 12% lower than the previous year at £334m.

Operating profit of £107m was 14% ahead of 2019 on an organic basis, despite the decline in volumes, delivering a significant improvement in margins to 16.6% (2019: 13.8%).

### Outlook

Based on the opening orderbook and current market conditions, and assuming no worsening impact from Coronavirus, we expect IMI Critical Engineering 2021 organic revenues and profits to be broadly flat when compared to 2020.

## IMI Hydronic Engineering

IMI Hydronic Engineering is a leading provider of technologies that delivers energy efficient water-based heating and cooling systems for the residential and commercial building sectors.

| | 2020 | 2019 | Change | Organic change |
|---|---|---|---|---|
| **Adjusted revenue** | **£305m** | £315m | -3% | -4% |
| **Adjusted operating profit** | **£56m** | £57m | -2% | -5% |
| **Adjusted operating margin** | **18.3%** | 18.0% | +30bps | |

### Key achievements

- Strong operational performance in volatile markets.
- Delivery of supply chain simplification and Slovenia factory closure.
- Continued progress with cultural shift and Growth Accelerator projects.

### 2020 performance

IMI Hydronic was notably affected in the first half of 2020 by construction site and installer access restrictions, as governments responded to the Coronavirus pandemic. The division experienced better conditions in most markets as the year progressed, including modest growth in Q4.  While managing effectively the significant volatility and uncertainty of the pandemic year, IMI Hydronic continued to drive forward its strategic plan of simplification and growth.

Organic revenue was £305m, 4% lower than in 2019, with declines experienced across all sectors. Operating profit of £56m was 5% lower on an organic bases versus the prior year, and resulted in an improvement to the operating margin to 18.3%. The division's simplification project is now largely complete, and on track to deliver the targeted £3m of savings by the end of 2021.

### Outlook

Based on current market conditions, and no worsening impact from Coronavirus, IMI Hydronic Engineering's 2021 organic revenues and margins are expected to be slightly higher than in 2020.

## New non-executive director appointed

IMI announces the appointment of Dr Ajai Puri as a non-executive director and member of the Nominations and Remuneration Committees with effect from 1 March 2021.

Dr Puri brings more than three decades of global experience in international business. His expertise spans innovation, science and technology and marketing. Dr Puri holds a PhD in Food Science from the University of Maryland and an MBA from the Crummer Business School, Rollins College.

## Executive committee changes

During the year Beth Ferreira joined the Executive Committee as Divisional Managing Director of IMI Precision Engineering, replacing Massimo Grassi who left the business. Liz Rose was promoted to the Executive Committee as Group Human Resources Director, replacing Geoff Tranfield who retired.

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## Financial review

### Key highlights

| | Adjusted[1] | | | | Statutory | | |
|---|---|---|---|---|---|---|---|
| **Continuing operations:** | **2020** | 2019 | Change | Organic[5] | **2020** | 2019 | Change |
| **Revenue** | **£1,825m** | £1,873m | -3% | -4% | **£1,825m** | £1,873m | -3% |
| **Operating profit** | **£285m** | £266m | +7% | +5% | **£227m** | £204m | +11% |
| **Operating margin** | **15.6%** | 14.2% | +140bps | | | | |
| **Profit before tax** | **£274m** | £251m | +9% | | **£214m** | £189m | +13% |
| **Basic EPS[2]** | **79.7p** | 73.2p | +9% | | **62.7p** | 57.6p | +9% |
| **Operating cash flow[3]** | **£335m** | £299m | | | | | |
| **Dividend per share[4]** | **22.5p** | 41.1p | | | | | |
| **Net debt** | **£316m** | £438m | | | | | |

[1] Excluding the effect of adjusting items as reported in the income statement.
[2] Statutory amounts for Basic EPS include both continuing and discontinued operations.
[3] Adjusted operating cash flow, as described in note 9.
[4] The 2019 Dividend per share includes the postponed dividend that was paid in September 2020.
[5] Change shown after adjusting for exchange rates and excluding the impact of acquisitions (see note 1).

### Results summary

To facilitate a more meaningful review of performance, certain alternative performance measures ('APMs') have been included within this announcement. These APMs are used by the Executive Committee to monitor and manage the performance of the Group, in order to ensure that decisions taken align with its long-term interests. Movements in adjusted revenue and operating profit are given on an organic basis (see definition in note 1) so that performance is not distorted by acquisitions, disposals and movements in exchange rates. A table summarising the reconciliation of adjusted measures to statutory measures is included in note 1.

The Group delivered a good financial result in the year, as both margins and cash flow improved despite the difficult trading conditions experienced in certain end markets. Revenue decreased by 3% to £1,825m (2019: £1,873m). The exchange rate adjustment was nil and after adjusting for £19m of sales for the first 9 months of 2020 in IMI PBM, that were not in the comparative period in 2019 as this was a prior year acquisition, organic revenue was 4% lower and reflects the challenging economic markets as a result of the global pandemic.

Adjusted operating profit of £285m (2019: £266m) was 7% higher, and after removing the £2m favourable impact of exchange rates and the inorganic element of the PBM acquisition was higher by 5%. The adjusted operating margin was 15.6% (2019: 14.2%) as the Group was able to manage effectively through the difficulties brought on by the pandemic. All three divisions grew margins in the year, supported by the benefits of ongoing restructuring programmes and value-pricing initiatives. Statutory operating profit was £227m (2019: £204m). We consider that the presentation of adjusted results allows for improved insight to the trading performance of the Group.

Adjusted net financing costs on net borrowings of £11.0m (2019: £14.9m) was lower due to the repayment of a US$100m loan in the second half of 2019 and a one-off benefit to interest from tax refunds, and includes the impact of £2.5m (2019: £2.3m) interest cost on leases. Adjusted net financing costs were covered 35 times (2019: 24 times) by continuing adjusted earnings before interest, tax, depreciation, amortisation, impairment and adjusting items of £380m (2019: £357m) and included £30m (2019: £32m) of depreciation on our leased assets. The net pension financing income under IAS 19 was £0.2m (2019: £0.5m expense).

Adjusted profit before taxation was £274m (2019: £251m), which is higher by 9% compared to 2019. Statutory profit before taxation increased 13% to £214m (2019: £189m) as the Group continued its restructuring activities to address current market realities and improve long-term competitiveness.

## Adjusting items and discontinued operations

| Adjusting Items | 2020 £m | 2019 £m |
|---|---|---|
| **Reversal of net economic hedge contract (gains)/losses** | **(2)** | 4 |
| **Restructuring costs** | **(36)** | (52) |
| **Gains on special pension events** | **-** | 9 |
| **Impairment losses** | **(2)** | (2) |
| **Acquired intangible amortisation and other acquisition items** | **(19)** | (21) |
| **Net financing costs** | **(2)** | - |
| **Tax in connection with the above adjusting items** | **13** | 17 |

Adjusting items that are excluded from profit before tax are listed below:

- Changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlements, are included in the adjusted revenues and operating profit of the relevant business segment with the net loss at £2m (2019: gain of £4m). The adjusting items at the operating level reverse this treatment. The net financing adjusting items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted.

- The restructuring costs of £36m (2019: £52m) are as a result of a number of significant restructuring projects across the Group. These include the continuation of a cost and footprint rationalisation programme within IMI Precision Engineering, £5m in Europe and £2m in the Americas, which include the closure of a manufacturing site in each region. In IMI Critical Engineering, adjusted restructuring costs related to a restructuring programme in the EMEA region of £23m, which included the closure of manufacturing at two Italian sites and restructuring at two German sites, and £2m in the Americas to right size the workforce. In IMI Hydronic Engineering there were costs of £5m related to the closure of a manufacturing site in Slovenia and consolidation of the Swedish and German distribution hubs into one hub in Poland. There was a provision release of £1m related to the Corporate HQ following the closure of matters relating to previous projects.

- In 2019, gains on special pension events were £9m. A gain in respect of an accounting adjustment for Swiss disability benefits was recognised for £5m. In addition, within Switzerland there was a gain of £3m in respect of a restructure of the pension benefits and curtailment and settlement gains of £1m.

- In 2020, the Group recorded an adjusting impairment charge of £2m (2019: £2m) associated with the restructuring programmes ongoing in IMI Precision Engineering and IMI Critical Engineering.

- Acquired intangible amortisation is excluded from adjusted profits, to allow for better comparability of the performance across divisions. This allows users of the financial statements to gain a clearer understanding of the performance of the business, with the impact of amortisation identified separately in line with internal reporting to management. Acquired intangible amortisation reduced to £19m (2019: £20m), which largely relates to the amortisation of the intangible assets recognised on the acquisition of Bimba in 2018. In 2019 there was a release of the fair value uplift to inventory, recognised as part of the PBM acquisition accounting in accordance with IFRS 3 'Business Combinations', of £1m.

- A net loss of £2m arose on the revaluation of financial instruments and derivatives under IFRS 9 (2019: £0.4m gain).



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- There was a pre- and post-tax gain of £3m in 2019 from discontinued operations relating to the finalisation of a number of matters relating to historical discontinued operations.

### Taxation

The adjusted effective tax rate for the Group remained at 21% (2019: 21%). The total adjusted tax charge for the year on continuing operations was £58m (2019: £53m). The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group's Tax Policy which is available on the Group's corporate website.

### Earnings per share

The Board considers that a more meaningful indication of the performance of the Group is provided by adjusted earnings per share. Adjusted basic EPS was 79.7p (2019: 73.2p) and increased by 9%. Statutory basic EPS increased by 9% at 62.7p (2019: 57.6p) and statutory diluted EPS increased by 9% at 62.6p (2019: 57.6p).

Cash flow

| Movement in net debt | 2020 | 2019 |
|---|---|---|
| | **£m** | £m |
| **Adjusted EBITDA* from continuing operations** | **379.5** | 357.3 |
| Working capital movements | **14.6** | 12.9 |
| Capital and development expenditure | **(50.7)** | (65.8) |
| Provisions and employee benefit movements** | **8.5** | 6.5 |
| Principal elements of lease payments | **(28.7)** | (31.3) |
| Other | **11.3** | 19.2 |
| **Adjusted operating cash flow ***** | **334.5** | 298.8 |
| Adjusting items**** | **(36.7)** | (26.2) |
| Interest | **(11.0)** | (14.9) |
| Derivatives | **(22.5)** | 16.1 |
| Tax paid | **(41.0)** | (40.2) |
| Additional pension scheme funding | **(7.0)** | (7.0) |
| **Free cash flow before corporate activity** | **216.3** | 226.6 |
| Dividends paid to equity shareholders | **(91.6)** | (110.8) |
| Acquisition of subsidiaries | **-** | (69.0) |
| Net purchase of own shares | **(8.5)** | (3.4) |
| **Net cash flow (excluding debt movements)** | **116.2** | 43.4 |
| | | |
| **Reconciliation of net cash to movement in net borrowings** | | |
| Net increase/(decrease) in cash and cash equivalents excluding foreign exchange | **98.4** | (19.5) |
| Repayment of borrowings excluding foreign exchange and net debt acquired | **17.8** | 62.9 |
| **Decrease in net debt before acquisitions, disposals and foreign exchange** | **116.2** | 43.4 |
| | | |
| Net cash/(debt) acquired | **-** | 1.0 |
| Currency translation differences | **3.3** | 12.7 |
| Movement in lease creditors | **2.1** | (90.4) |
| **Movement in net borrowings in the year** | **121.6** | (33.3) |
| Net borrowings at the start of the year | **(437.8)** | (404.5) |
| **Net borrowings at the end of the year** | **(316.2)** | (437.8) |

*Adjusted profit after tax (£216.4m) before interest (£10.8m), tax (£57.5m), depreciation (£76.1m), amortisation (£16.3m) and impairment on property, plant and equipment and non-acquired intangible assets (£2.4m).
**Movement in provisions and employee benefits as per the statement of cash flows (£7.9m) adjusted for the movement in the restructuring provisions (£0.6m).
***Adjusted operating cash flow is the cash generated from the operations shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, excluding the cash impact of adjusting items. This measure best reflects the operating cash flows of the Group.
**** Cash impact of adjusting items.



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Adjusted operating cash flow was £335m (2019: £299m). This represents a conversion rate of total Group adjusted operating profit to adjusted operating cash flow of 117% (2019: 112%).

Net working capital balances decreased £15m due to a reduction in receivables of £18m as a result good cash collection across the Group and an increase in payables of £6m due to overall payment timing, partly offset by an increase in inventory of £9m. The decrease of net working capital balances in 2019 of £13m was due to a decrease in receivables of £45m partly offset by an increase in inventory of £15m and a decrease in payables of £17m.

Cash spent on property, plant and equipment and other non-acquired intangibles in the year was £51m (2019: £66m) which was equivalent to 0.8 times (2019: 1.1 times) depreciation and amortisation thereon. Capital spending in 2020 was deliberately curtailed during the pandemic given the economic uncertainty; expectations are for a return to historical levels of £60-70m in the future. Research and development spend, including capitalised intangible development costs of £7m (2019: £9m), totalled £46m (2019: £52m).

In 2020 the Group paid tax of £41m (2019: £40m) which was 71% (2019: 76%) of the adjusted tax charge for the year.

Dividends paid to shareholders totalled £92m (2019: £111m), reflecting the Group’s decision to reduce its distribution to provide a dividend earnings cover baseline of three times Adjusted Earnings per Share, which will enable IMI to deliver more effectively on its long-term growth ambitions. In addition, there was a cash outflow of £9m (2019: £3m outflow) for net share purchases to satisfy employee share options.

### Balance sheet

Net debt at the year-end was £316m compared to £438m at the end of the previous year. The decrease reflects strong cash generation in the year including good working capital management. The net debt is composed of a cash balance of £208m (2019: £88m), a bank overdraft of £74m (2019: £60m), interest-bearing loans and borrowings of £362m (2019: £376m) and lease liabilities of £88m (2019: £90m).

The year-end net debt to adjusted EBITDA ratio was 0.8 times (2019: 1.2 times) based on continuing adjusted EBITDA. At the end of 2020, loan notes totalled £362m (2019: £358m), with a weighted average maturity of 5.3 years (2019: 6.3 years) and other loans including bank overdrafts totalled £74m (2019: £78m). Total committed bank loan facilities available to the Group at the year-end were £300m (2019: £300m), of which nil (2019: £17m) was drawn.

At 31 December 2020, the value of the Group’s intangible assets was £600m (2019: £619m). The decrease of £19m over the prior year was predominately due to amortisation and impairment of £39m offset by additions of £13m and an increase arising from exchange movements of £7m.

The net book value of the Group’s PPE at 31 December 2020 was £266m (2019: £271m). Capital expenditure on PPE amounted to £38m (2019: £47m), with the main capital expenditure focused on developing production facilities to support operational efficiency as well as to increase capacity to accommodate the increase in ventilator component demand. Including capitalised intangible assets, total capital expenditure was £51m (2019: £66m) and was 0.8 times (2019: 1.1 times) the depreciation and amortisation charge (excluding acquired intangible amortisation and lease asset depreciation) for the year of £63m (2019: £59m).

The net deficit for defined benefit obligations at 31 December 2020 was £22m (2019: £31m deficit). The UK surplus was £69m (2019: £48m surplus) and constituted 77% (2019: 76%) of the total defined benefit liabilities and 89% (2019: 88%) of the total defined benefit assets. The deficit in the overseas funds as at 31 December 2020 was £91m (2019: £79m deficit).

### Return on capital employed (‘ROCE’)

The Group uses ROCE as an indication of IMI’s ability to deploy capital effectively. The Group’s definition is Adjusted Operating Profit after tax divided by Average Capital employed. Capital employed is defined as net assets adjusted to remove net debt, derivative assets/liabilities, defined pension position (net of deferred tax) and to reverse historical impairments of goodwill and amortisation of acquired intangibles. ROCE was 12.3% in 2020 (2019: 11.4%) which increased by 0.9%.


Breakthrough Engineering

| | 2020 | 2019 |
|---|---|---|
| | **£m** | £m |
| **Adjusted Operating Profit** | **284.7** | 266.1 |
| Notional tax charge | **(59.8)** | (55.9) |
| **Net Adjusted Operating Profit after tax** | **224.9** | 210.2 |
| **Net Assets** | **799.5** | 709.9 |
| Adjusted for: | | |
| Net debt | **316.2** | 437.8 |
| Restructuring provision | **30.1** | 29.4 |
| Net derivative assets/liabilities | **(6.1)** | (4.3) |
| Net defined pension benefit | **22.0** | 31.3 |
| Deferred tax on employee benefits | **(7.0)** | (9.3) |
| Previously written-off/impaired goodwill | **351.9** | 351.9 |
| Acquired intangibles amortisation | **311.5** | 285.6 |
| **Closing capital employed** | **1,818.1** | 1,832.3 |
| **Opening capital employed** | **1,832.3** | 1,848.0 |
| **Average capital employed** | **1,825.2** | 1,840.2 |
| **ROCE** | **12.3%** | 11.4% |

## Foreign exchange

The income statements of overseas operations are translated into sterling at average rates of exchange for the year, balance sheets are translated at year end rates. The most significant currencies are the euro and the US dollar – the relevant rates of exchange were:

| | **Average Rates** | | **Balance Sheet Rates** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Euro | **1.13** | 1.14 | **1.12** | 1.18 |
| US Dollar | **1.28** | 1.28 | **1.37** | 1.32 |

The movement in average exchange rates between 2019 and 2020 provided no impact to our adjusted 2020 revenue and a 1% increase in adjusted operating profit, with the average US dollar rate flat and the Euro rate being 1% stronger.

If the exchange rates as at 12 February 2021 of US$1.39 and €1.14 were projected for the full year and applied to our 2020 results, it is estimated that both adjusted revenue and profits (including corporate costs) would be 3% lower.

## Treasury

IMI has a centralised Treasury function that provides treasury services to Group companies including funding liquidity, credit, foreign exchange, interest rate and base metal commodity management. The Group Treasury function effectively manages financial risks in compliance with Board-approved policies.

## Brexit

The Group generates 5% of sales in the United Kingdom. Whilst not a significant percentage of the Group's revenue, the Group has taken steps to fully prepare for any potential impacts following the UK's withdrawal from the EU on 31 December 2020. We have fine-tuned our Brexit mitigation plan and established a Brexit contingency stock of £3m at the year end. Developments are being monitored and further mitigation actions may be taken as appropriate.

## Capital allocation & dividend policy

The Board determines the appropriate capital structure for the Group, specifically, how much cash is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.



Breakthrough Engineering

The Board considers the Group's capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan. The Board is mindful that equity capital cannot be easily flexed and raising new equity would normally be likely only in the context of an acquisition. Debt can be issued and repurchased more easily, but frequent changes lead to high transaction costs and debt holders are under no obligation to accept repurchase offers.

At 31 December 2020, IMI plc (the company) had distributable reserves of £292m (2019: £303m).

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2020

| | Notes | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | | **Adjusted £m** | **Adjusting items £m** | **Statutory £m** | Adjusted £m | Adjusting items £m | Statutory £m |
| **Revenue** | 1 | **1,825** | | **1,825** | 1,873 | | 1,873 |
| Cost of sales | | **(1,008.8)** | | **(1,008.8)** | (1,058.6) | (1.1) | (1,059.7) |
| **Gross profit** | | **816.2** | | **816.2** | 814.4 | (1.1) | 813.3 |
| Operating costs | | **(531.5)** | **(57.9)** | **(589.4)** | (548.3) | (60.7) | (609.0) |
| **Operating profit** | 1 | **284.7** | **(57.9)** | **226.8** | 266.1 | (61.8) | 204.3 |
| Financial income | 3 | **3.8** | **14.1** | **17.9** | 4.5 | 13.4 | 17.9 |
| Financial expense | 3 | **(14.8)** | **(15.8)** | **(30.6)** | (19.4) | (13.0) | (32.4) |
| Net financial income/(expense) relating to defined benefit pension schemes | 8 | **0.2** | | **0.2** | (0.5) | | (0.5) |
| Net financial (expense)/income | | **(10.8)** | **(1.7)** | **(12.5)** | (15.4) | 0.4 | (15.0) |
| **Profit before tax** | | **273.9** | **(59.6)** | **214.3** | 250.7 | (61.4) | 189.3 |
| Taxation | 4 | **(57.5)** | **13.4** | **(44.1)** | (52.6) | 16.6 | (36.0) |
| **Profit from continuing operations after tax** | | **216.4** | **(46.2)** | **170.2** | 198.1 | (44.8) | 153.3 |
| Profit from discontinued operations after tax | 2 | | | | | 2.8 | 2.8 |
| **Total profit for the year** | | **216.4** | **(46.2)** | **170.2** | 198.1 | (42.0) | 156.1 |
| | | | | | | | |
| **Earnings per share** | 5 | | | | | | |
| Basic - from profit for the year | | | | **62.7p** | | | 57.6p |
| Diluted - from profit for the year | | | | **62.6p** | | | 57.6p |
| Basic - from continuing operations | | | | **62.7p** | | | 56.6p |
| Diluted - from continuing operations | | | | **62.6p** | | | 56.5p |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2020

| | **2020** | | 2019 (Note 1) | |
|---|---|---|---|---|
| | **£m** | **£m** | £m | £m |
| **Profit for the year** | | **170.2** | | 156.1 |
| **Items that may be reclassified to profit and loss** | | | | |
| Change in fair value of unsettled effective net investment hedge derivatives | **3.3** | | 2.6 | |
| Settled effective net investment hedge derivatives | **(22.7)** | | 19.6 | |
| Exchange differences on translation of foreign operations net of funding revaluations | **21.4** | | (35.0) | |
| Related tax effect on items that may subsequently be reclassified to profit and loss | **(0.7)** | | 6.0 | |
| | | **1.3** | | (6.8) |
| **Items that will not subsequently be reclassified to profit and loss** | | | | |
| Re-measurement gain/(loss) on defined benefit plans | **4.3** | | (0.1) | |
| Related taxation effect | **(2.1)** | | 0.1 | |
| Effect of taxation rate change on previously recognised items | **5.7** | | - | |
| | | **7.9** | | - |
| **Other comprehensive income/(expense) for the year, net of taxation** | | **9.2** | | (6.8) |
| **Total comprehensive income for the year, net of taxation** | | **179.4** | | 149.3 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2020

| | Share capital £m | Share premium account £m | Capital redemption reserve £m | Hedging reserve £m | Translation reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| As at 1 January 2019 | 81.8 | 13.3 | 174.4 | 2.8 | 25.3 | 368.6 | 666.2 |
| Profit for the year | | | | | | 156.1 | 156.1 |
| Other comprehensive income/(expense) excluding related taxation effect (note 1) | | | | 2.6 | (15.4) | (0.1) | (12.9) |
| Related taxation effect (note 1) | | | | | 6.0 | 0.1 | 6.1 |
| Total comprehensive income/(expense) | | | | 2.6 | (9.4) | 156.1 | 149.3 |
| Issue of share capital | - | 0.8 | | | | | 0.8 |
| Dividends paid | | | | | | (110.8) | (110.8) |
| Share-based payments (net of tax) | | | | | | 8.6 | 8.6 |
| Shares acquired for: | | | | | | | |
| employee share scheme trust | | | | | | (4.2) | (4.2) |
| As at 31 December 2019 | 81.8 | 14.1 | 174.4 | 5.4 | 15.9 | 418.3 | 709.9 |
| **Changes in equity in 2020** | | | | | | | |
| **Profit for the year** | | | | | | **170.2** | **170.2** |
| **Other comprehensive income/(expense) excluding related taxation effect (note 1)** | | | | **3.3** | **(1.3)** | **4.3** | **6.3** |
| **Related taxation effect (note 1)** | | | | **(0.7)** | | **3.6** | **2.9** |
| **Total comprehensive income/(expense)** | | | | **2.6** | **(1.3)** | **178.1** | **179.4** |
| **Issue of share capital** | **-** | **0.2** | | | | | **0.2** |
| **Dividends paid** | | | | | | **(91.6)** | **(91.6)** |
| **Share-based payments (net of tax)** | | | | | | **10.3** | **10.3** |
| **Shares acquired for:** | | | | | | | |
| **employee share scheme trust** | | | | | | **(8.7)** | **(8.7)** |
| **As at 31 December 2020** | **81.8** | **14.3** | **174.4** | **8.0** | **14.6** | **506.4** | **799.5** |

## CONSOLIDATED BALANCE SHEET
## AS AT 31 DECEMBER 2020

| | 2020 £m | 2019 £m |
|---|---|---|
| **Assets** | | |
| Intangible assets | **599.8** | 618.8 |
| Property, plant and equipment | **266.0** | 271.3 |
| Right of use assets | **85.6** | 90.1 |
| Employee benefit assets | **69.1** | 47.9 |
| Deferred tax assets | **36.3** | 22.2 |
| Other receivables | **3.4** | 2.3 |
| **Total non-current assets** | **1,060.2** | 1,052.6 |
| Inventories | **293.3** | 280.8 |
| Trade and other receivables | **378.9** | 389.7 |
| Other current financial assets | **10.8** | 6.2 |
| Current tax | **3.3** | 2.5 |
| Investments | **3.1** | 3.6 |
| Cash and cash equivalents | **207.9** | 88.2 |
| **Total current assets** | **897.3** | 771.0 |
| **Total assets** | **1,957.5** | 1,823.6 |
| **Liabilities** | | |
| Trade and other payables | **(371.9)** | (359.4) |
| Bank overdraft | **(73.5)** | (60.1) |
| Interest-bearing loans and borrowings | **-** | (17.6) |
| Lease liabilities | **(26.3)** | (25.6) |
| Provisions | **(43.9)** | (39.8) |
| Current tax | **(66.3)** | (57.7) |
| Other current financial liabilities | **(4.7)** | (1.9) |
| **Total current liabilities** | **(586.6)** | (562.1) |
| Interest-bearing loans and borrowings | **(362.3)** | (357.9) |
| Lease liabilities | **(62.0)** | (64.8) |
| Employee benefit obligations | **(91.1)** | (79.2) |
| Provisions | **(15.1)** | (13.0) |
| Deferred tax liabilities | **(33.9)** | (27.5) |
| Other payables | **(7.0)** | (9.2) |
| **Total non-current liabilities** | **(571.4)** | (551.6) |
| **Total liabilities** | **(1,158.0)** | (1,113.7) |
| **Net assets** | **799.5** | 709.9 |
| **Equity** | | |
| Share capital | **81.8** | 81.8 |
| Share premium | **14.3** | 14.1 |
| Other reserves | **197.0** | 195.7 |
| Retained earnings | **506.4** | 418.3 |
| **Total equity** | **799.5** | 709.9 |

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2020

| | 2020 £m | 2019 £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit for the year from continuing operations | **226.8** | 204.3 |
| Operating profit for the year from discontinued operations | **-** | 2.8 |
| Adjustments for: | | |
| Depreciation and amortisation | **111.1** | 110.7 |
| Impairment of property, plant and equipment and intangible assets | **4.0** | 1.5 |
| Other acquisition items | **-** | 1.1 |
| Gain on special pension events | **-** | (8.6) |
| Loss/(profit) on sale of property, plant and equipment | **2.3** | (0.7) |
| Equity-settled share-based payment expense | **10.3** | 8.8 |
| Increase in inventories | **(8.8)** | (14.7) |
| Decrease in trade and other receivables | **17.2** | 44.9 |
| Increase/(decrease) in trade and other payables | **6.2** | (17.3) |
| Increase in provisions and employee benefits | **7.9** | 29.2 |
| **Cash generated from operations** | **377.0** | 362.0 |
| Income taxes paid | **(41.0)** | (40.2) |
| **Cash generated from operations after tax** | **336.0** | 321.8 |
| Additional pension scheme funding | **(7.0)** | (7.0) |
| **Net cash from operating activities** | **329.0** | 314.8 |
| **Cash flows from investing activities** | | |
| Interest received | **3.8** | 4.5 |
| Proceeds from sale of property, plant and equipment | **0.2** | 7.7 |
| Settlement of transactional derivatives | **0.2** | (3.5) |
| Settlement of effective net investment hedge derivatives | **(22.7)** | 19.6 |
| Acquisitions of subsidiaries net of cash | **-** | (68.0) |
| Acquisition of property, plant and equipment and non-acquired intangibles | **(50.7)** | (65.8) |
| **Net cash from investing activities** | **(69.2)** | (105.5) |
| **Cash flows from financing activities** | | |
| Interest paid | **(14.8)** | (19.4) |
| Shares acquired for employee share scheme trust | **(8.7)** | (4.2) |
| Proceeds from the issue of share capital for employee share schemes | **0.2** | 0.8 |
| Repayment of borrowings | **(17.8)** | (63.9) |
| Principal elements of lease payments | **(28.7)** | (31.3) |
| Dividends paid to equity shareholders | **(91.6)** | (110.8) |
| **Net cash from financing activities** | **(161.4)** | (228.8) |
| Net increase/(decrease) in cash and cash equivalents | **98.4** | (19.5) |
| Cash and cash equivalents at the start of the year | **28.1** | 49.6 |
| Effect of exchange rate fluctuations on cash held | **7.9** | (2.0) |
| **Cash and cash equivalents at the end of the year*** | **134.4** | 28.1 |

* Net of bank overdrafts of £73.5m (2019: £60.1m).

Reconciliation of net cash to movement in net borrowings appears in note 9.

## NOTES RELATING TO THE FINANCIAL STATEMENTS

### 1. Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. Each of the Group's three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

***IMI Precision Engineering –*** IMI Precision Engineering specialises in the design and manufacture of motion and fluid control technologies where precision, speed and reliability are essential to the processes in which they are involved.

***IMI Critical Engineering –*** IMI Critical Engineering is a world-leading provider of critical flow control solutions that enable vital energy and process industries to operate safely, cleanly, reliably and more efficiently.

***IMI Hydronic Engineering –*** IMI Hydronic Engineering designs and manufactures technologies which deliver optimal and energy efficient heating and cooling systems to the residential and commercial building sectors.

Performance is measured by the Executive Committee based on adjusted operating profit and organic revenue which are defined in the table on page 20.

Businesses enter into forward currency and metal contracts to provide economic hedges against the impact on profitability of swings in rates and values in accordance with the Group's policy to minimise the risk of volatility in revenues, costs and margins. Adjusted operating profits are therefore charged/credited with the impact of these contracts. In accordance with IFRS 9, these contracts do not meet the requirements for hedge accounting and gains and losses are reversed out of operating profit and are recorded in net financial income and expense for the purposes of the consolidated income statement.

The Consolidated statement of comprehensive income now separately discloses 'Settled effective net investment hedge derivatives' and 'Exchange differences on translation of foreign operations net of funding revaluations' and the Consolidated statement of changes in equity separately discloses 'Other comprehensive income/(expense) excluding related taxation effect' and 'Related taxation effect'. 2019 comparatives have been re-presented accordingly.

## 1. Segmental information (continued)

**Alternative Performance Measures ('APMs')**
To facilitate a more meaningful review of performance, certain alternative performance measures have been included within this announcement. These APMs are used by the Executive Committee to monitor and manage the performance of the Group, in order to ensure that decisions taken align with its long-term interests. Movements in adjusted revenue and operating profit are given on an organic basis (see definition below) so that performance is not distorted by acquisitions, disposals and movements in exchange rates. The table below details the definition of each APM and a reference to where it can be reconciled to the equivalent statutory measure.

| APM | Definition | Reconciliation to statutory measure |
|---|---|---|
| **Adjusted revenue** | These measures are as reported to management and do not include the impact of adjusting items. | See income statement on page 14. |
| **Adjusted profit before tax** | | |
| **Adjusted net interest cost** | | |
| **Adjusted earnings per share** | | See note 5. |
| **Adjusted effective tax rate** | | |
| **Adjusted EBITDA** | This measure reflects adjusted profit after tax before interest, tax, depreciation, amortisation and impairment. | See note 9. |
| **Adjusted operating profit and margin** | These measures are as reported to management and do not include the impact of adjusting items. | See income statement on page 14 and segmental reporting in note 1. |
| **Organic growth** | This measure removes the impact of adjusting items, acquisitions, disposals and movements in exchange rates. | |
| **Adjusted operating cash flow** | This measure reflects cash generated from operations as shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments less the repayment of principal amounts of lease payments excluding the cash impact of adjusting items. | See note 9. |
| **Net debt** | Net debt is defined as the cash and cash equivalents, overdrafts, interest-bearing loans and borrowings and lease liabilities. | See note 9. |
| **Free cash flow before Corporate activity** | This measure is a sub-total in the reconciliation of adjusted EBITDA to Net Debt and is presented to assist the reader to understand the nature of the current year's cash flows. | See note 9. |
| **Return on capital employed (ROCE)** | ROCE is defined as adjusted operating profit after tax divided by average capital employed. Capital employed is defined as net assets adjusted to remove net debt, derivative assets/liabilities, defined benefit pension position (net of deferred tax) and to reverse historical impairments of goodwill and amortisation of acquired intangible assets. | See Financial Review on pages 11 and 12. |

## 1. Segmental information (continued)

The following table illustrates how the results for the segments reconcile to the overall results reported in the income statement.

| | Revenue | | Operating profit | | Operating margin | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | **£m** | £m | **£m** | £m | **%** | % |
| **Continuing operations** | | | | | | |
| IMI Precision Engineering | **877** | 907 | **151.4** | 148.0 | **17.3%** | 16.3% |
| IMI Critical Engineering | **643** | 651 | **106.5** | 90.1 | **16.6%** | 13.8% |
| IMI Hydronic Engineering | **305** | 315 | **55.7** | 56.7 | **18.3%** | 18.0% |
| Corporate costs | **-** | - | **(28.9)** | (28.7) | | |
| **Total adjusted revenue/operating profit and margin** | **1,825** | 1,873 | **284.7** | 266.1 | **15.6%** | 14.2% |
| Reversal of net economic hedge contract (gains)/losses | | | **(1.5)** | 4.0 | | |
| Restructuring costs | | | **(36.1)** | (51.8) | | |
| Gains on special pension events | | | **-** | 8.6 | | |
| Acquired intangible amortisation and other acquisition items | | | **(18.7)** | (21.1) | | |
| Impairment losses | | | **(1.6)** | (1.5) | | |
| **Statutory revenue/operating profit** | **1,825** | 1,873 | **226.8** | 204.3 | | |
| Net financial expense | | | **(12.5)** | (15.0) | | |
| **Statutory profit before tax from continuing operations** | | | **214.3** | 189.3 | | |

The following table illustrates how revenue and adjusted operating profit have been impacted by movements in foreign exchange, acquisitions and disposals.

| | Year ended 31 December 2019 | | | **Year ended 31 December 2020** | | | | |
|---|---|---|---|---|---|---|---|---|
| **Adjusted revenue** | As adjusted | Exchange | Organic | **As adjusted** | **Acquisitions** | **Organic** | **Adjusted growth (%)** | **Organic growth (%)** |
| IMI Precision Engineering | 907 | (1) | 906 | **877** | | **877** | **-3%** | **-3%** |
| IMI Critical Engineering | 651 | (1) | 650 | **643** | **(19)** | **624** | **-1%** | **-4%** |
| IMI Hydronic Engineering | 315 | 2 | 317 | **305** | | **305** | **-3%** | **-4%** |
| **Total** | 1,873 | - | 1,873 | **1,825** | **(19)** | **1,806** | **-3%** | **-4%** |
| **Adjusted operating profit** | | | | | | | | |
| IMI Precision Engineering | 148.0 | 0.3 | 148.3 | **151.4** | | **151.4** | **2%** | **2%** |
| IMI Critical Engineering | 90.1 | | 90.1 | **106.5** | **(3.7)** | **102.8** | **18%** | **14%** |
| IMI Hydronic Engineering | 56.7 | 2.0 | 58.7 | **55.7** | | **55.7** | **-2%** | **-5%** |
| Corporate costs | (28.7) | | (28.7) | **(28.9)** | | **(28.9)** | | |
| **Total** | 266.1 | 2.3 | 268.4 | **284.7** | **(3.7)** | **281.0** | **7%** | **5%** |
| **Adjusted operating profit margin (%)** | 14.2% | | 14.3% | **15.6%** | | **15.6%** | | |

## 1. Segmental information (continued)

The following table shows a geographical analysis of how the Group's revenue is derived by destination.

| | 2020 Revenue £m | 2019 Revenue £m |
|---|---|---|
| UK | **88** | 90 |
| Germany | **222** | 234 |
| Rest of Europe | **486** | 494 |
| **Total Europe** | **796** | 818 |
| USA | **443** | 440 |
| Rest of Americas | **102** | 98 |
| **Total Americas** | **545** | 538 |
| China | **156** | 158 |
| Rest of Asia Pacific | **234** | 246 |
| **Total Asia Pacific** | **390** | 404 |
| **Middle East & Africa** | **94** | 113 |
| **Total statutory revenue** | **1,825** | 1,873 |

The Group's revenue streams are disaggregated in the table below.

| **IMI Precision Engineering**** | 2020 Revenue £m | 2019* Revenue £m |
|---|---|---|
| Factory Automation | 361 | 406 |
| Rail | 37 | 42 |
| **Motion Control** | **398** | 448 |
| Life Sciences | 171 | 88 |
| Process Control | 86 | 98 |
| Energy | 82 | 87 |
| **Fluid Technologies** | **339** | 273 |
| **Commercial Vehicles** | **140** | 186 |
| **Total IMI Precision Engineering** | **877** | 907 |
| | | |
| **IMI Critical Engineering***** | | |
| New Construction | 67 | 60 |
| Aftermarket | 47 | 51 |
| Oil & Gas | **114** | 111 |
| New Construction | 120 | 102 |
| Aftermarket | 82 | 105 |
| Refining & Petrochemical | **202** | 207 |
| New Construction | 47 | 57 |
| Aftermarket | 130 | 147 |
| **Power** | **177** | 204 |
| **Marine** | **39** | 30 |
| **Nuclear** | **49** | 53 |
| **Other** | **62** | 46 |
| **Total IMI Critical Engineering** | **643** | 651 |
| | | |
| **IMI Hydronic Engineering** | | |
| TA | 146 | 152 |
| Heimeier | 95 | 97 |
| Pneumatex | 51 | 50 |
| Other | 13 | 16 |
| **Total IMI Hydronic Engineering** | **305** | 315 |
| **Total revenue** | **1,825** | 1,873 |

**1. Segmental information (continued)**

* The Group has been reorganised into commercially focused business units, resulting in the reclassification to new sectors. Prior year numbers in the tables above have been re-presented.

** 2019 Industrial Automation sales of £509m disaggregate as Factory Automation (£398m), Process Control (£98m), Life Sciences (£7m) and Energy (£6m). 2019 Commercial Vehicle sales of £194m disaggregate as Commercial Vehicle (£186m) and Factory Automation (£8m).

*** 2019 New Construction sales of £277m disaggregate as Oil & Gas (£60m), Refining & Petrochemical of (£102m), Power (£57m), Marine (£13m), Nuclear (£11m) and Other (£34m) and Aftermarket sales of £374m disaggregate as Oil & Gas (£51m), Refining & Petrochemical (£105m), Power (£147m), Marine (£17m), Nuclear (£42m) and Other (£12m).

**2. Discontinued operations**

There was no profit or loss from discontinued operations in 2020.

A gain of £2.8m, pre- and post-tax, was recognised in 2019 relating to the release of an indemnity provision for a historical discontinued operation. There was no cash impact from this.

**3. Net financing costs**

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Interest** | **Financial Instru-ments** | **Total** | Interest | Financial Instru-ments | Total |
| **Recognised in the income statement** | **£m** | **£m** | **£m** | £m | £m | £m |
| Interest income on bank deposits | **3.8** | | **3.8** | 4.5 | | 4.5 |
| Financial instruments at fair value | | | | | | |
| through profit or loss: | | | | | | |
| Other economic hedges | | | | | | |
| - current year trading | | **7.9** | **7.9** | | 7.5 | 7.5 |
| - future year transactions | | **6.2** | **6.2** | | 5.9 | 5.9 |
| **Financial income** | **3.8** | **14.1** | **17.9** | 4.5 | 13.4 | 17.9 |
| Interest expense on interest-bearing loans and borrowings | **(12.3)** | | **(12.3)** | (17.1) | | (17.1) |
| Interest expense on lease arrangements | **(2.5)** | | **(2.5)** | (2.3) | | (2.3) |
| Financial instruments at fair value | | | | | | |
| through profit or loss: | | | | | | |
| Other economic hedges | | | | | | |
| - current year trading | | **(10.4)** | **(10.4)** | | (9.3) | (9.3) |
| - future year transactions | | **(5.4)** | **(5.4)** | | (3.7) | (3.7) |
| **Financial expense** | **(14.8)** | **(15.8)** | **(30.6)** | (19.4) | (13.0) | (32.4) |
| **Net finance income/(expense) relating to defined benefit pension schemes** | **0.2** | | **0.2** | (0.5) | | (0.5) |
| **Net financial (expense)/income** | **(10.8)** | **(1.7)** | **(12.5)** | (15.4) | 0.4 | (15.0) |

Included in financial instruments are current year trading gains and losses on economically effective transactions which for management reporting purposes are included in adjusted revenue and operating profit. For statutory purposes these are shown within net financial income and expense above. Gains or losses for future year transactions are in respect of financial instruments held by the Group to provide stability of future trading cash flows.

**4. Taxation**

The adjusted effective tax rate for the Group remained constant at 21% (2019: 21%). The total adjusted tax charge for the year on continuing operations was £58m (2019: £53m). Taxes of £41m (2019: £40m) were paid in the year. The Group seeks to manage its tax affairs within its core tax principles of compliance, fairness, value and transparency, in accordance with the Group's Tax Policy.

## 5. Earnings per ordinary share

| | Key | 2020 million | 2019 million |
|---|---|---|---|
| Weighted average number of shares for the purpose of basic earnings per share | A | **271.4** | 270.8 |
| Dilutive effect of employee share options | | **0.5** | 0.4 |
| Weighted average number of shares for the purpose of diluted earnings per share | B | **271.9** | 271.2 |
| | | **£m** | £m |
| **Statutory profit for the year** | C | **170.2** | 156.1 |
| Statutory profit from discontinued operations, net of tax | | **-** | (2.8) |
| **Continuing statutory profit for the year** | D | **170.2** | 153.3 |
| Total adjusting items charges included in profit before tax | | **59.6** | 61.4 |
| Total adjusting items credits included in taxation | | **(13.4)** | (16.6) |
| **Earnings for adjusted EPS** | E | **216.4** | 198.1 |
| **Statutory EPS measures** | | | |
| Statutory basic EPS | C/A | **62.7p** | 57.6p |
| Statutory diluted EPS | C/B | **62.6p** | 57.6p |
| Statutory basic continuing EPS | D/A | **62.7p** | 56.6p |
| Statutory diluted continuing EPS | D/B | **62.6p** | 56.5p |
| **Adjusted EPS measures** | | | |
| Adjusted basic EPS | E/A | **79.7p** | 73.2p |
| Adjusted diluted EPS | E/B | **79.6p** | 73.0p |

**Discontinued earnings per share**
Statutory basic discontinued earnings per share were nil (2019: 1.0p). Statutory diluted discontinued earnings per share were nil (2019: 1.0p).

## 6. Adjusting items

### Reversal of net economic hedge contract losses/gains

For segmental reporting purposes, changes in the fair value of economic hedges which are not designated as hedges for accounting purposes, together with the gains and losses on their settlement, are included in the adjusted revenues and operating profit of the relevant business segment. The adjusting items at the operating level reverse this treatment. The net financing adjusting items reflect the change in value or settlement of these contracts with the financial institutions with whom they were transacted.

### Restructuring costs

The restructuring costs of £36.1m (2019: £51.8m) are a result of a number of significant restructuring projects across the Group. These include the continuation of a cost and footprint rationalisation programme within IMI Precision Engineering, £4.8m in Europe and £2.5m in the Americas, which include the closure of a manufacturing site in each region. In IMI Critical Engineering, adjusted restructuring costs related to a restructuring programme in the EMEA region of £22.4m, which included the closure of manufacturing at two Italian sites and restructuring at two German sites, and £2.1m in the Americas to right size the workforce. In IMI Hydronic Engineering there were costs of £5.1m related to closure of a manufacturing site in Slovenia and consolidation of the Swedish and German distribution hubs into one hub in Poland. There was a provision release of £0.8m related to the Corporate HQ following the closure of matters relating to previous projects.

In 2019, £51.8m of restructuring costs included the restructure of our European business totalling £24.4m in IMI Precision Engineering, £4.6m in the Americas and £1.2m in the divisional central team. In IMI Critical Engineering, adjusted restructuring costs related to a divisional reorganisation of £9.2m and restructure of the EMEA region of £9.5m. In IMI Hydronic Engineering, there were restructuring costs of £0.3m due to the finalisation of the Global Restructuring Programme initiated in 2018 and there were restructuring costs of £2.6m relating to the Corporate head office.

### Gains on special pension events

During 2019, a gain in respect of an accounting adjustment for Swiss disability benefits was recognised for £4.7m. A gain was recognised in respect of a restructure of the pension benefits in Switzerland resulting in a gain of £2.8m. A curtailment gain of £0.8m was recognised in relation to a restructuring event in Switzerland. A settlement gain of £0.5m was recognised in respect of the buy-out of retirees in Switzerland. Professional fees of £0.2m have been recognised as adjusting associated with ongoing de-risking projects.

### 6. Adjusting items (continued)

#### Impairment losses

In 2020, the Group recorded an adjusting impairment charge of £1.6m (2019: £1.5m) associated with the restructuring programmes ongoing in IMI Precision Engineering and IMI Critical Engineering.

#### Acquired intangible amortisation and other acquisition items

Acquired intangible amortisation is excluded from adjusted profits, to allow for better comparability of the performance across divisions. This allows users of the financial statements to gain a clearer understanding of the performance of the business, with the impact of amortisation identified separately in line with internal reporting to management. Acquired intangible amortisation reduced to £18.7m (2019: £19.5m), which largely relates to the amortisation of the intangible assets recognised on the acquisition of Bimba in 2018.

In 2019, the acquisition of PBM resulted in a fair value uplift to inventory of £1.1m recognised in accordance with IFRS 3 'Business Combinations' as an adjusting item to cost of sales and professional fees of £0.5m.

#### Taxation

The tax effects of the above items are included in the adjusting items column of the income statement.

Adjusting items associated with discontinued operations are disclosed in note 2.

### 7. Dividend

The directors recommend a final dividend of 15.0p per share (2019: 26.2p) payable on 14 May 2021 to shareholders on the register at close of business on 6 April 2021, which will cost approximately £40.7m (2019: £71.0m). Together with the interim dividend of 7.5p (2019: 14.9p) per share paid in September 2020, this makes a total distribution of 22.5p per share (2019: 41.1p per share). In accordance with IAS10 'Events after the Balance Sheet date', this final proposed dividend has not been reflected in the 31 December 2020 balance sheet.

### 8. Employee Benefits

The Group has 71 (2019: 71) defined benefit obligations in existence as at 31 December 2020. The Group recognises there is a funding and investment risk inherent within defined benefit arrangements and seeks to continue its programme of closing overseas defined benefit plans where possible and providing in their place appropriate defined contribution arrangements.

The net deficit for defined benefit obligations at 31 December 2020 was £22.0m (2019: deficit of £31.3m). The UK surplus was £69.1m (2019: £47.9m) and constituted 77% (2019: 76%) of the total defined benefit liabilities and 89% (2019: 88%) of the total defined benefit assets. The deficit in the overseas funds as at 31 December 2020 was £91.1m (2019: £79.2m).

| | UK £m | Overseas £m | Total £m |
|---|---|---|---|
| Net defined benefit surplus/(obligation) as at 1 January 2020 | 47.9 | (79.2) | (31.3) |
| Movement recognised in: | | | |
| Income statement | **0.8** | **(6.3)** | **(5.5)** |
| Other comprehensive income | **13.4** | **(9.1)** | **4.3** |
| Cash flow statement | **7.0** | **-** | **7.0** |
| Other movements | **-** | **3.5** | **3.5** |
| **Net defined benefit surplus/(obligation) as at 31 December 2020** | **69.1** | **(91.1)** | **(22.0)** |

## 9. Cash flow and net debt reconciliation

**Reconciliation of net cash to movement in net borrowings**

| | **2020 £m** | 2019 £m |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents excluding foreign exchange | **98.4** | (19.5) |
| Repayment of borrowings excluding foreign exchange and net debt acquired | **17.8** | 62.9 |
| **Decrease in net debt before acquisitions and foreign exchange** | **116.2** | 43.4 |
| Net cash acquired | **-** | 1.0 |
| Currency translation differences | **3.3** | 12.7 |
| Movement in lease creditors | **2.1** | (90.4) |
| **Movement in net borrowings in the year** | **121.6** | (33.3) |
| Net borrowings at the start of the year | **(437.8)** | (404.5) |
| **Net borrowings at the end of the year** | **(316.2)** | (437.8) |

**Movement in net debt**

| | **2020 £m** | 2019 £m |
|---|---|---|
| **Adjusted EBITDA* from continuing operations** | **379.5** | 357.3 |
| Working capital movements | **14.6** | 12.9 |
| Capital and development expenditure | **(50.7)** | (65.8) |
| Provisions and employee benefit movements** | **8.5** | 6.5 |
| Principal elements of lease payments | **(28.7)** | (31.3) |
| Other | **11.3** | 19.2 |
| **Adjusted operating cash flow*** ** | **334.5** | 298.8 |
| Adjusting items**** | **(36.7)** | (26.2) |
| Interest | **(11.0)** | (14.9) |
| Derivatives | **(22.5)** | 16.1 |
| Tax paid | **(41.0)** | (40.2) |
| Additional pension scheme funding | **(7.0)** | (7.0) |
| **Free cash flow before corporate activity** | **216.3** | 226.6 |
| Dividends paid to equity shareholders | **(91.6)** | (110.8) |
| Acquisition of subsidiaries | **-** | (69.0) |
| Net purchase of own shares | **(8.5)** | (3.4) |
| **Net cash flow (excluding debt movements)** | **116.2** | 43.4 |
| Opening net debt | **(437.8)** | (404.5) |
| Net cash acquired | **-** | 1.0 |
| Foreign exchange translation | **3.3** | 12.7 |
| Movement in lease creditors | **2.1** | (90.4) |
| **Closing net debt** | **(316.2)** | (437.8) |

* Adjusted profit after tax (£216.4m) before interest (£10.8m), tax (£57.5m), depreciation (£76.1m) and amortisation £16.3m) and impairment on property, plant and equipment and non-acquired intangible assets (£2.4m).

** Movement in provisions and employee benefits as per the statement of cash flows (£7.9m) adjusted for the movement in the restructuring provisions (£0.6m).

*** Adjusted operating cash flow is the cash generated from the operations shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, excluding the cash impact of adjusting items. This measure best reflects the operating cash flows of the Group.

**** Cash impact of adjusting items.

## 10. Exchange rates

The income statements of overseas operations are translated into sterling at average rates of exchange for the year, balance sheets are translated at year end rates. The most significant currencies are the euro and the US dollar – the relevant rates of exchange were:

| | Average Rates | | Balance Sheet Rates | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Euro | **1.13** | 1.14 | **1.12** | 1.18 |
| US Dollar | **1.28** | 1.28 | **1.37** | 1.32 |

The movement in average exchange rates between 2019 and 2020 provided no impact to our adjusted 2020 revenue and a 1% increase in adjusted operating profit, with the average US dollar rate flat and the Euro rate being 1% stronger.

If the exchange rates as at 12 February 2021 of US$1.39 and €1.14 were projected for the full year and applied to our 2020 results, it is estimated that both adjusted revenue and profits (including corporate costs) would be 3% lower.

## 11. Acquisitions

There were no acquisitions during 2020.

On 20 September 2019 the Group acquired 100% of the share capital, and associated voting rights, of PBM Inc. (PBM) for cash consideration of £69.0m. PBM is a market leading manufacturer of ball valves and flow control solutions based in North America.

There were no changes to the provisional fair value amounts disclosed in the 2019 Annual Report and Accounts.

## 12. Financial information

The preliminary statement of results was approved by the Board on 25 February 2021. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from the 2020 accounts, which are prepared on the same basis as the 2019 accounts. Statutory accounts for 2019 have been delivered to the registrar of companies and those for 2020 will be delivered in due course. Ernst & Young LLP has reported on both the 2019 and 2020 accounts. Their reports were (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and (iii) did not contain statements under section S498(2) or S498(3) of the Companies Act 2006.

This announcement 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 preparation of this announcement. 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. Nothing in this preliminary announcement should be construed as a profit forecast.

This preliminary statement has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to IMI plc and its subsidiaries when viewed as a whole.

References in the commentary to revenue, adjusted operating profit and adjusted operating margins, unless otherwise stated, relate to amounts on an adjusted basis before adjusting items as noted on the face of the consolidated income statement.

References to EPS, unless otherwise stated, relate to adjusted basic EPS i.e. after adjustment for the per share after tax impact of adjusting items in note 6.

Alternative Performance Measures ('APMs') are used in discussions with the investment analyst community and by the Board and management to monitor the trading performance of the Group. We consider that the presentation of APMs allows for improved insight to the trading performance of the Group. The APMs presented in the Annual Report and Accounts to 31 December 2020 are defined in note 1.

References to organic growth exclude the impact of exchange rate translation and acquisitions or disposals that are included in adjusted growth figures. The organic growth is derived from excluding any contribution from acquired businesses to revenues or profits in the current period until the first anniversary of their acquisition. It also excludes the contribution to revenues or profits in both the current and comparative period from any business that has been disposed of. These organic revenues or profits will then be compared to the organic revenue or profits for the prior period after their re-translation at the current period average exchange rates to provide the organic growth rate. The impact on revenue and adjusted operating profit of movements in foreign exchange, acquisitions and disposals is set out in note 1.

*The Company's 2020 Annual Report and Notice of the forthcoming Annual General Meeting will be posted to shareholders on 26 March 2021.*

## Notes to editors

IMI plc, the specialist engineering company, designs, manufactures and services highly engineered products that control the precise movement of fluids. Its innovative technologies, built around valves and actuators, enable vital processes to operate safely, sustainably, cleanly, efficiently and cost effectively. IMI employs around 10,000 people, has manufacturing facilities in 18 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 2138002W9Q21PF751R30. The person responsible for releasing this announcement on behalf of the Board is John O'Shea, Company Secretary and Group Legal Director.