

**rotork®**

Keeping the World Flowing  
for Future Generations



# **BUILDING A PLATFORM FOR GROWTH**

INTERIM RESULTS 2019

6 AUGUST 2019

PRESENTED BY CHIEF EXECUTIVE - KEVIN HOSTETLER | FINANCE DIRECTOR - JONATHAN DAVIS



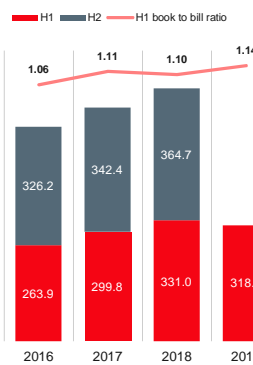
## HIGHLIGHTS

### Performance

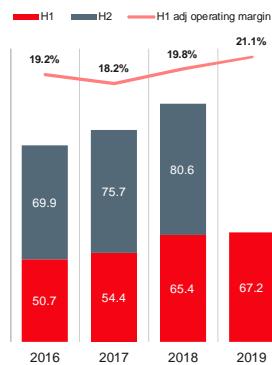
- Strong execution on our Growth Acceleration Programme
- H1 order intake and sales were lower year-on-year reflecting the strong comparison period
- Q2 order intake was sequentially ahead and year-on-year (OCC)
- Adjusted<sup>1</sup> operating margin improvement continued: 21.1% in H1, up 130bps
- Strong cash conversion of 117%; closing net cash of £43M
- ROCE 29.7%, up 250 bps

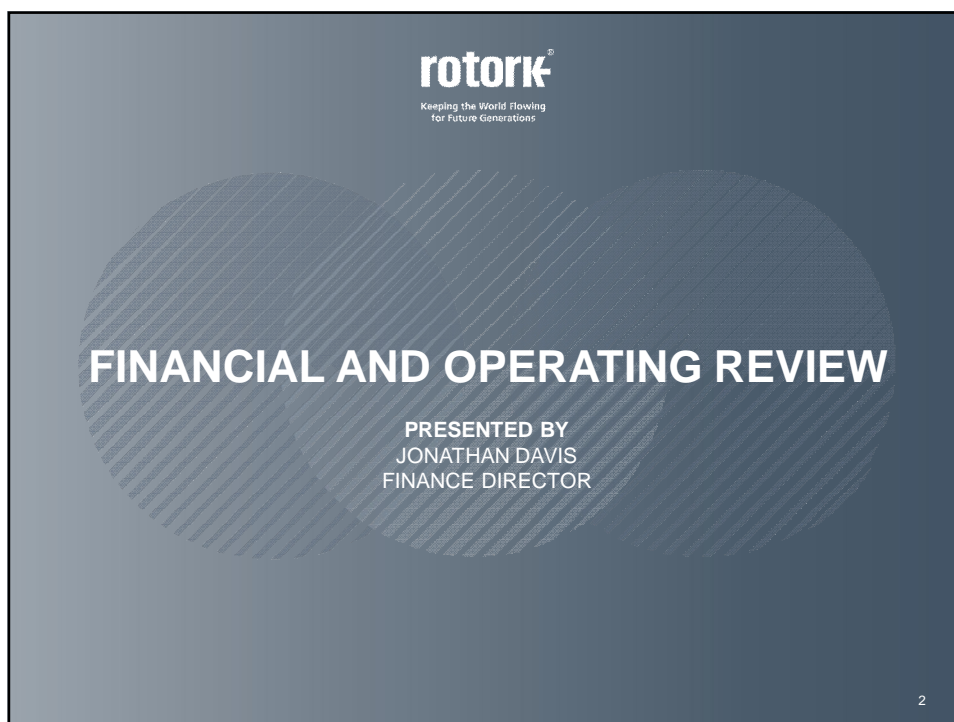
Note:  
<sup>1</sup>Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments

### Revenue £m



### Adjusted<sup>1</sup> operating profit £m





## FINANCIAL REVIEW

- Q2 order intake was ahead sequentially and year-on-year
- Currency impact ~1% increase in order intake, sales and operating profit
- 2018 disposals contribution in H1 2018 was £2.0m order intake, £2.5m revenue and £0.4m profit
- Operating margin 21.1%
- Dividend +4.5% to 2.3p

	H1 2019	H1 2018	%	OCC <sup>1</sup> %
Order intake	£362.5m	£364.7m	-0.6%	-1.3%
Order book	£224.8m	£226.2m	-0.6%	-1.6%
Revenue	£318.6m	£331.0m	-3.7%	-4.3%
Adjusted <sup>2</sup> operating profit	£67.2m	£65.4m	+2.8%	+1.7%
Adjusted <sup>2</sup> operating margin	21.1%	19.8%	+130bps	+120bps
Adjusted <sup>2</sup> EPS	5.8p	5.6p	+2.7%	+1.5%
Interim dividend	2.3p	2.2p	+4.5%	

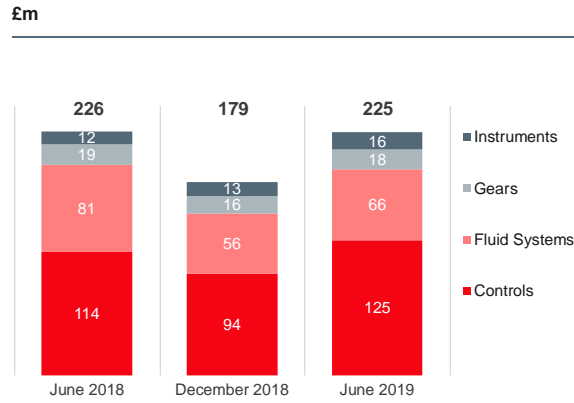
Note:

<sup>1</sup>OCC results exclude acquisitions / disposals and are restated at 2018 exchange rates

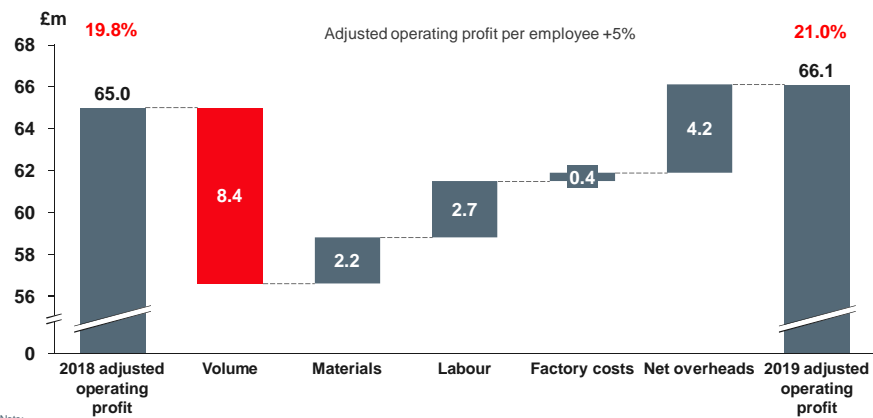
<sup>2</sup>Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments

## ORDER BOOK

- £44m increase in OCC order book in H1
- £4m lower (OCC) than June 2018
- Order book mix shows shift to Controls from Fluid Systems
- Controls average delivery period slightly longer
- Fluid Systems more normal order intake pattern

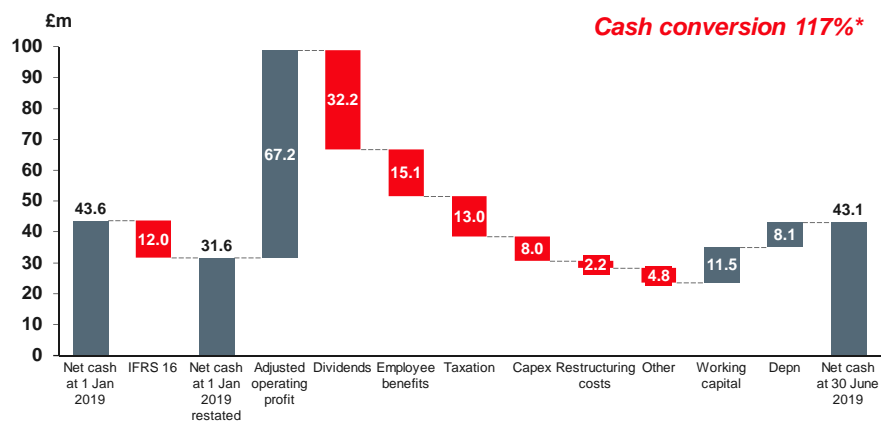


## OCC<sup>1</sup> ADJUSTED<sup>2</sup> OPERATING PROFIT



Note:  
<sup>1</sup>OCC results exclude acquisitions / disposals and are restated at 2018 exchange rates  
<sup>2</sup>Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments

## CASH FLOWS



Note:

\*Calculated as cash flow from operating activities before tax outflows, adjusted items and the pension charge to cash adjustment as a percentage of adjusted operating profit

## BALANCE SHEET

- Net working capital to sales 28.6% (2018: 29.0%)
- Inventory to sales 13.8% (2018: 15.3%)
- Pension 85% funded
- Net cash £43.1m
- ROCE 29.7%, up 250bps

£m	June 2019	December 2018	June 2018
Total assets	717.2	757.4	736.4
Total liabilities	(207.6)	(243.8)	(262.9)
Equity	509.6	513.6	473.5
Inventory	87.7	94.7	101.6
Net working capital	182.5	192.9	192.2
Pension deficit	33.9	27.3	32.8
<b>Net cash / (debt)</b>	<b>43.1</b>	<b>43.6</b>	<b>(5.7)</b>
<b>ROCE</b>	<b>29.7%</b>	<b>29.2%</b>	<b>27.2%</b>

## ADJUSTMENTS TO PROFIT

- Other restructuring costs include asset write-offs following the closure of manufacturing facilities
- 2019 FY restructuring estimate £6m

£m	H1 2019	H1 2018
<b>Adjustments:</b>		
Pension adjustments	-	(5.8)
Redundancy and executive change costs	1.8	0.4
Consultancy costs	-	3.3
Other restructuring costs	2.8	1.8
	<b>4.6</b>	<b>(0.3)</b>
<b>Amortisation of acquired intangible assets</b>	<b>9.0</b>	<b>9.9</b>
<b>Amortisation of acquired intangible assets and adjustments</b>	<b>13.6</b>	<b>9.6</b>

## 2019 GUIDANCE FOR FINANCIAL ITEMS

- Headline effective tax rate (ETR) impact by adjusted profit items
- 2019 ETR on adjusted profit estimated at 23.5%
- Procurement on track for £5m savings in 2019
- Higher H2 people costs: rebalancing and supporting growth
- IFRS16 P&L impact de minimis

	2019	2018	2017
Headline effective tax rate	23.6%	24.0%	31.0%
Adjusted effective tax rate	23.5%	23.7%	26.3%

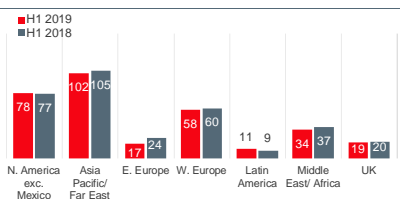
- \$1.22 and €1.10 exchange rates prevailing for the remainder of 2019 would equate to a 2.2% tailwind for the full year
- CAPEX for 2019 will be ~£25m
- Brexit
- Tariffs (H1 £0.6m, FY £1.8m)

## GROUP REVENUE

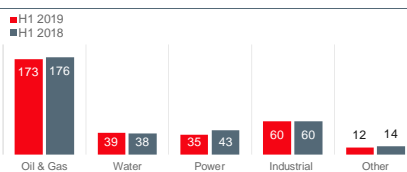
- North America and Latin America delivered growth
- Asia Pacific and Eastern Europe faced tough comparisons
- Midstream and Water showed progress
- Power significantly weaker as expected
- Industrial process revenue was flat

Oil & Gas	H1 2019	H1 2018
Upstream	16%	17%
Midstream	10%	9%
Downstream	28%	27%
Contribution to revenue	54%	53%

### End destination (£m)



### End user market (£m)



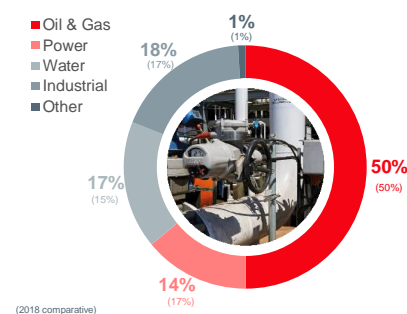
## CONTROLS

	H1 2019	H1 2018	Change	OCC <sup>1</sup> Change
Order intake	£192.3m	£182.8m	+5.2%	+3.7%
Revenue	£161.8m	£163.6m	-1.1%	-2.5%
Gross margin	53.4%	51.9%	+150bps	+150bps
Operating profit <sup>2</sup>	£48.0m	£45.2m	+6.2%	+4.6%
Operating margin <sup>2</sup>	29.7%	27.6%	+210bps	+210bps

- Material costs 160bps lower due to mix and savings
- Water and waste water growth led by North America
- Industrial process growth in Asia Pacific
- Oil & Gas remains 50%, downstream gains offset by upstream/midstream reduction

Note:  
<sup>1</sup> OCC results exclude acquisitions / disposals and are restated at 2018 exchange rates  
<sup>2</sup> Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments

### End user market



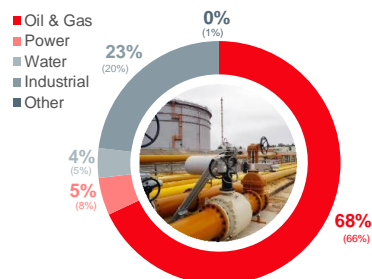
## FLUID SYSTEMS

	H1 2019	H1 2018	Change	OCC <sup>1</sup> Change
Order intake	£76.0m	£91.7m	-17.1%	-17.2%
Revenue	£66.7m	£79.4m	-16.0%	-15.1%
Gross margin	32.2%	31.4%	+80bps	+120bps
Operating profit <sup>2</sup>	£3.9m	£5.8m	-33.7%	-31.3%
Operating margin <sup>2</sup>	5.8%	7.4%	-160bps	-130bps

- Material costs 190bps better
- Midstream growth offset by declines in other markets
- Latin America the only region to show growth
- Projects in upstream / downstream in 2018 not repeated

Note:  
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### End user market



(2018 comparative)

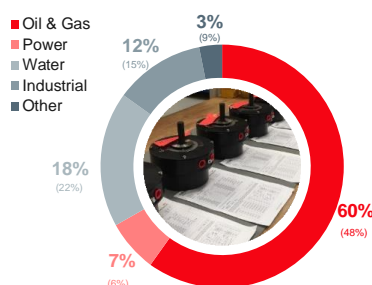
## GEARS

	H1 2019	H1 2018	Change	OCC <sup>1</sup> Change
Order intake	£43.6m	£46.1m	-5.5%	-4.8%
Revenue	£42.8m	£41.7m	+2.6%	+3.2%
Gross margin	29.8%	34.0%	-420bps	-440bps
Operating profit <sup>2</sup>	£7.3m	£7.9m	-7.4%	-7.9%
Operating margin <sup>2</sup>	17.1%	18.9%	-180bps	-210bps

- Material costs 500bps higher, due to tariffs, cost increases and mix
- Midstream and downstream drive Oil & Gas growth
- Water slightly lower
- North America strongest growing region

Note:  
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<sup>2</sup> Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments

### End user market



(2018 comparative)



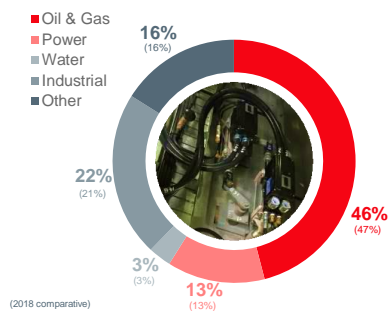
## INSTRUMENTS

	H1 2019	H1 2018	Change	OCC <sup>1</sup> Change
Order intake	£57.3m	£52.4m	+9.3%	+8.3%
Revenue	£54.0m	£54.5m	-1.0%	-2.0%
Gross margin	46.4%	44.0%	+240bps	+230bps
Operating profit <sup>2</sup>	£13.4m	£11.7m	+14.7%	+13.2%
Operating margin <sup>2</sup>	24.8%	21.4%	+340bps	+330bps

- Labour productivity drives 100bps gross margin improvement
- Upstream and midstream growth more than offset by downstream reduction
- Asia Pacific and Middle East sales slightly higher
- Little change to geographic and end-market mix

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## End user market



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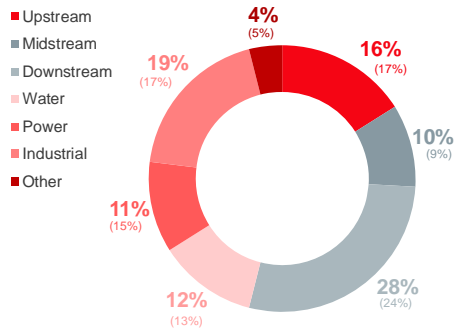
# MARKET OUTLOOK & GROWTH ACCELERATION PROGRAMME UPDATE

PRESENTED BY  
KEVIN HOSTETLER  
CHIEF EXECUTIVE

## MARKET ENVIRONMENT

- Oil prices volatile but above incentive levels
- Forecasts for Oil & Gas capex tempered to low to mid-single digit
- Upstream – return of subsea and Middle East wellhead expansion
- Midstream – LNG and US pipelines
- Downstream – refinery and petrochemical expansion in Asia
- Water – steady growth
- Growth resumed in America, strong in Asia, declines in Continental Europe
- Power – in structural decline but H1 2019 fall unlikely to repeat
- Industrial process sector slowing
  - China and US growth moderating

### H1 2019 Revenue Split



(2018 Comparative)

## FOUR PILLAR GROWTH ACCELERATION PROGRAMME

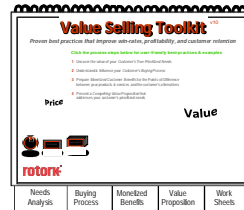


## GROWTH ACCELERATION PROGRAMME

### 1 Commercial Excellence

#### Market re-alignment & Value Selling

- Transition from product to market segment orientation in North Asia successfully completed in Q2
- South Asia, Europe and Middle East has been initiated
- Optimisation of Rotork's order fulfilment process is underway to streamline the quoting, sales and back office processes
- Rotork Value Selling Toolkit has launched with >125 sales team members trained in H1 - targeting over 275 by year end



#### Rotork Site Services (RSS)

- Implemented streamlined organisation structure to allow further scale in Service capabilities
- Centralised customer support functions to maximise effectiveness in supporting Rotork end-users around the globe
- Developed strategy to accelerate aftermarket and lifetime management offerings
- Continued growth in targeted regions

## GROWTH ACCELERATION PROGRAMME

### 1 Commercial Excellence (cont.)

#### Innovation and New Product Development

- Established focused Engineering leadership team
- Engineering capabilities mapped with development plans
- Commenced key technology development activities
- Continued focus on energy efficiency, reduced emissions, increasing operating efficiencies, and advanced and secure communications protocols
- **Seven products launched in H1-2019**

#### Key H2 2019 actions

- Launch eight additional new products
- Deployment of emerging technologies into existing platforms
- Drive optimisation across platforms in support of supply chain savings
- Completion of automated design tools to drive NPD efficiencies and standardisation of solutions

#### SAMPLE H1 2019 LAUNCHES



**Pakscan™**  
Rotork Master Station  
High speed multi-standard control system for Rotork and 3<sup>rd</sup> Party products



**CK Atronik**  
Electric actuator with onboard controls for the water market



**S4SR**  
Intelligent electro-hydraulic fail safe actuator for safety critical shut down systems

#### SAMPLE H2 2019 LAUNCHES



**IQT-61**  
Ultra-low temperature intelligent 1/4 turn electric actuator



**IW LLA**  
1/4 turn gearbox range. Improved efficiency, higher output torques optimised for Rotork IQ



**YT Positioner Range**  
New range of smart pneumatic positioners for industrial control valve market. Enhanced diagnostics and communications

## GROWTH ACCELERATION PROGRAMME

### 2 Operational Excellence

#### Operational Improvements & Supply Chain

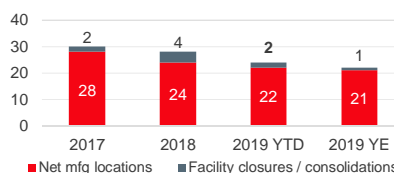
- Our lean/continuous improvement methodology has been successfully rolled-out to our largest factories
- Strong progress on our ESG agenda
- 28 Rapid Improvement Events (RIEs) in H1 yielding £0.6m in FY savings
- Supply chain initiative on course to achieve £5m of savings in 2019
- Inventory reduction programme off to an encouraging start – >7% reduction (£7m) from Dec. 2018, £14m reduction from H1/18



#### Key H2 2019 actions

- Roll-out 'Rotork lean/CI' to 10 subsidiary offices
- Continue our footprint optimisation execution
- Procurement savings - secure "Wave 2" and commence "Wave 3"
- Build on the momentum of our inventory reduction programme – targeting > 10% reduction in 2019

#### Footprint rationalisation



## GROWTH ACCELERATION PROGRAMME

### 3 Talent & Culture

#### Global developments

- Nine new leaders hired including Asia lead, Investor Relations, Programme Management Office and Compliance
- Rotork's Purpose articulated in alignment with One Rotork Values and Behaviours Set crafted through staff involvement in 37 countries
- Progress made against gender diversity plans – PLC Board, Management Board and Senior Leaders levels are now at least 20% female staff
- New divisional structure announced as well as operating model changes across operations, engineering and group functions

#### Key H2 2019 actions

- Formalise rhythm of talent reviews, succession plans and development across our senior and middle management population
- Launch 'Leading Rotork' – management development programme
- Continue our strong progress against our diversity targets



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## GROWTH ACCELERATION PROGRAMME

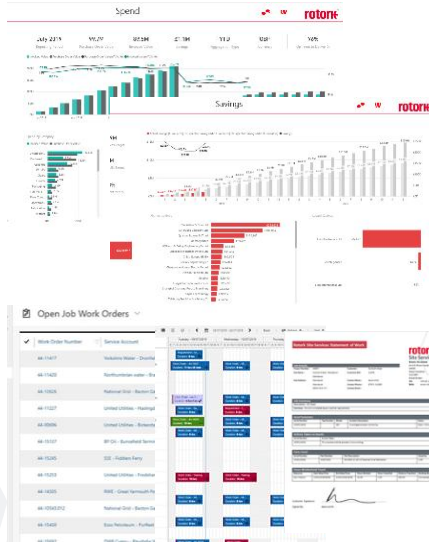
### 4 IT & Core Business Processes

#### IT / Systems

- Extended our Strategic Data Platform to deliver advanced analytics and KPI dashboards for Strategic Sourcing and Procurement and Innovation and NPD
- Completed 71 workshops to design the global blueprint for our enterprise technology platform, Microsoft Dynamics 365 (D365)
- Deployed D365 Field Service 'Lite' application to UK service centres, with North America deployments planned for Q4-19
- Designed D365 'Early Release' solutions for CRM and Global HR

#### Key H2 2019 actions

- Begin Global HR, CRM and ERP deployments to factories, sales offices and valve actuation centers
- Enhance asset visibility and service offerings by integrating operational data with our business systems and data lake
- Continue to strengthen our cybersecurity posture as we shift enterprise technology platforms to the cloud



## SUMMARY

### Pleased with execution and momentum across our Growth Acceleration Programme

- Transition to market orientation underway
- Seven new products launched in H1 and eight launches anticipated in H2
- Lean deployment gaining momentum
- Supply chain on track

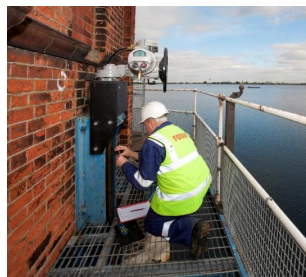
### New global purpose launched

Delivered strong margin improvement despite lower sales



## OUTLOOK

- While macro uncertainty remains, with recent order intake and the momentum of our Growth Acceleration Programme we now expect flat sales on an OCC basis in 2019
- Full year margins to show clear progress on 2018



## APPENDICES

## ANALYSIS OF MOVEMENTS

£m	2019 as Reported	Adjust to CC	Remove Disposals	2019 at OCC <sup>1</sup>	2018 <sup>2</sup>	2018 as Reported
Order intake	362.5	(4.7)	-	357.8	362.7	364.7
	-0.6%			-1.3%		
Revenue	318.6	(4.0)	-	314.6	328.6	331.0
	-3.7%			-4.3%		
Adjusted <sup>3</sup> operating profit	67.2	(1.1)	-	66.1	65.0	65.4
	+2.8%			+1.7%		
Adjusted <sup>3</sup> operating margin	21.1%			21.0%	19.8%	19.8%
	+130bps			+120 bps		

- Revenue split 40% US\$, 29% Euro, 12% GBP and 19% other currencies
- Adjustments relate to intangible amortisation of £9.0m (2018: £9.9m), pension related credits nil (2018: £5.8m credit) and restructuring costs £4.6m (2018: £5.5m)

Note:  
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## CONSTANT CURRENCY ANALYSIS

£m	2019 as Reported		Adjust to CC	2019 at 2018 rates		Remove Disposals	2019 at OCC <sup>1</sup>		2018 <sup>2</sup>	
Revenue	318.6		(4.0)	314.6		-	314.6		328.6	
Cost of sales	(173.0)		2.3	(170.7)		-	(170.7)		(181.7)	
Gross profit	145.6	45.7%	(1.7)	143.9	45.7%	-	143.9	45.7%	146.9	44.7%
Overheads	(78.4)	24.6%	0.6	(77.8)	24.7%	-	(77.8)	24.7%	(81.9)	24.9%
Adjusted <sup>3</sup> operating profit	67.2	21.1%	(1.1)	66.1	21.0%	-	66.1	21.0%	65.0	19.8%

- OCC<sup>1</sup> gross margins increased 100bps
- OCC<sup>1</sup> overheads decreased 20bps
- OCC<sup>1</sup> net margin 120 bps higher

Note:  
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## ADJUSTED OPERATING MARGINS<sup>3</sup>

£m	H1 2019	H1 2019 OCC <sup>1</sup>	H1 2018 <sup>2</sup>	FY 2018 <sup>2</sup>
Controls	29.7%	29.7%	27.6%	28.8%
Fluid Systems	5.8%	5.8%	7.1%	9.6%
Gears	17.1%	17.0%	19.1%	18.1%
Instruments	24.8%	24.7%	21.4%	22.8%
<b>Group</b>	<b>21.1%</b>	<b>21.0%</b>	<b>19.8%</b>	<b>21.1%</b>

Note:  
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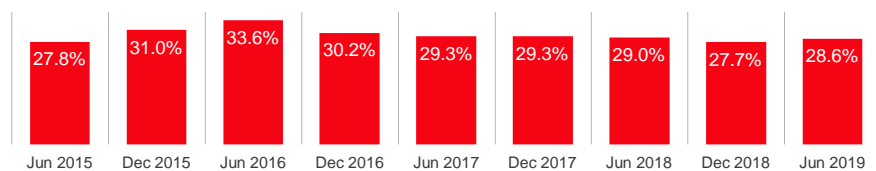
## EARNINGS PER SHARE

£m	2019	2018	Change
PBT as reported	52.2	54.7	-4.5%
Adjusted <sup>1</sup> PBT	65.8	64.3	+2.2%
Effective tax rate	23.6%	24.7%	
Adjusted <sup>1</sup> effective tax rate	23.5%	24.3%	
Basic EPS as reported	4.6p	4.7p	-2.9%
Adjusted <sup>1</sup> basic EPS	5.8p	5.6p	+2.7%

Note:  
<sup>1</sup> Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments.



## WORKING CAPITAL



£m	Jun 2018	% Revenue	Dec 2018	% Revenue	Jun 2019	% Revenue
Inventory	101.6	15.3%	94.7	13.6%	87.7	13.8%
Trade Receivables	142.7	21.5% (66 D.S.O.)	145.5	20.9% (62 D.S.O.)	137.0	21.5% (65 D.S.O.)
Trade Payables	(52.1)	7.9%	(47.3)	6.8%	(42.2)	6.6%
Net Working Capital	192.2	29.0%	192.9	27.7%	182.5	28.6%

## EXCHANGE RATES

	US \$	Euro €
<b>Average rates</b>		
H1 2018	1.38	1.14
H2 2018	1.29	1.12
Full year 2018	1.34	1.13
<b>H1 2019</b>	<b>1.29</b>	<b>1.15</b>
<b>+ = GBP STRENGTHENING / - = GBP WEAKENING</b>		
H1 2019 v H1 2018	-7%	+1%
H1 2019 v FY 2018	-4%	+2%
<b>Period end rates</b>		
June 2018	1.32	1.13
December 2018	1.28	1.11
<b>June 2019</b>	<b>1.27</b>	<b>1.12</b>
<b>+ = GBP STRENGTHENING / - = GBP WEAKENING</b>		
June 2019 v December 2018	-1%	+1%

## DIVIDENDS

- 2018 final dividend increased by 10.4% to 3.70 pence
- Dividend cover 1.8 times (adjusted cover 2.1 times)

Core Dividend	Month Paid / Payable	Amount (pence)	Cost (£m)
2017 Final	May 2018	3.35p	29.2
2018 Interim	September 2018	2.20p	19.1
<b>Paid in 2018</b>		<b>5.20p</b>	<b>48.3</b>
2018 Final	May 2019	3.70p	32.2
2019 Interim	September 2019	2.30p	20.1
<b>Payable in 2019</b>		<b>6.00p</b>	<b>52.3</b>

## REVENUE ANALYSIS

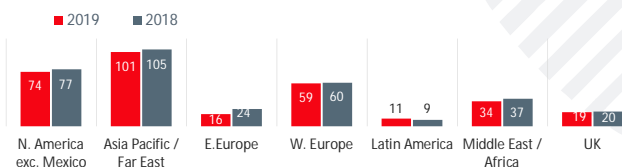
By division (%)	Controls	Fluid Systems	Gears	Instruments	Total
H1 2019	50.8	20.9	12.0	16.3	100.0
H1 2018	49.4	24.0	11.0	15.6	100.0

By end user market (%)	Oil & Gas	Power	Water	Industrial	Other	Total
H1 2019	54.3	11.0	12.4	18.8	3.5	100.0
H1 2018	53.3	13.0	11.4	18.0	4.3	100.0

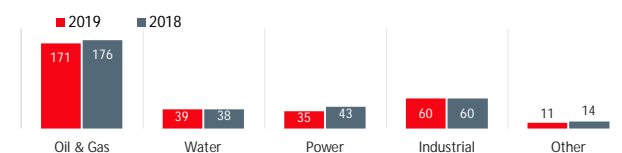
By end destination (%)	Asia Pac/ Far East	Europe	Middle East/ Africa	N. America exc. Mexico	UK	Eastern Europe	Latin America
H1 2019	32.1	18.2	10.7	24.4	6.1	5.1	3.4
H1 2018	31.6	18.0	11.2	23.5	5.9	7.1	2.7

## GROUP REVENUE<sup>1</sup>

### End Destination (£m)



### End User Market (£m)



<sup>1</sup>2019 revenue is stated on a constant currency basis with the 2018 figures restated at 2018 exchange rates

## DISCLAIMER

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