

rotork®

60

YEARS OF PROGRESS

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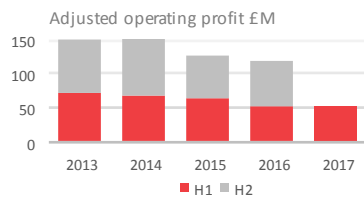
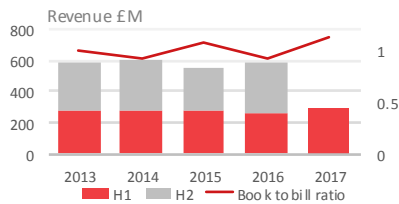
HALF YEAR RESULTS 2017

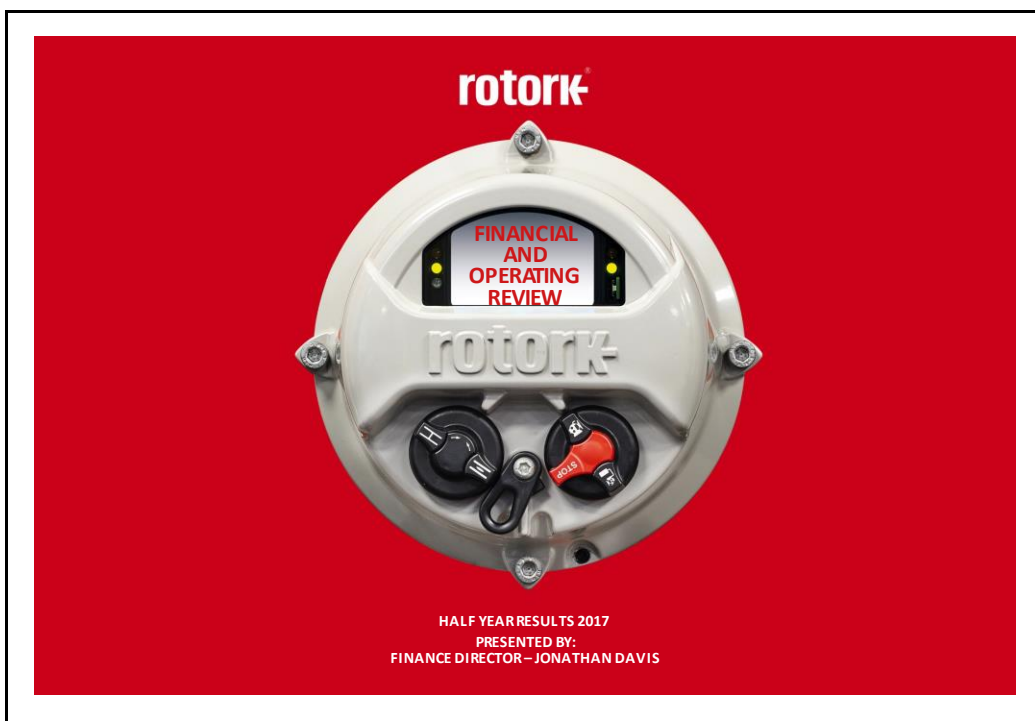
**EXECUTIVE CHAIRMAN – MARTIN LAMB
FINANCE DIRECTOR – JONATHAN DAVIS**



HIGHLIGHTS

- Market backdrop
 - Oil and gas
 - Other
- H1 performance
 - Order intake up 20% (5% OCC)
 - Margins impacted by phasing of revenue and cost inflation
- Full year outlook
 - Management expectations unchanged





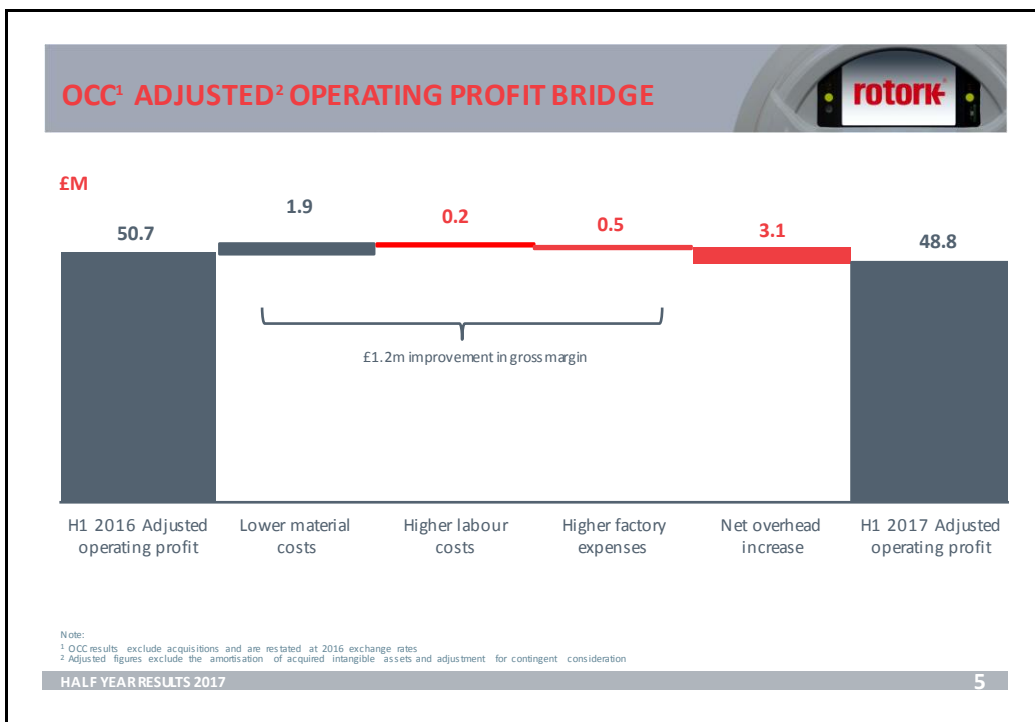
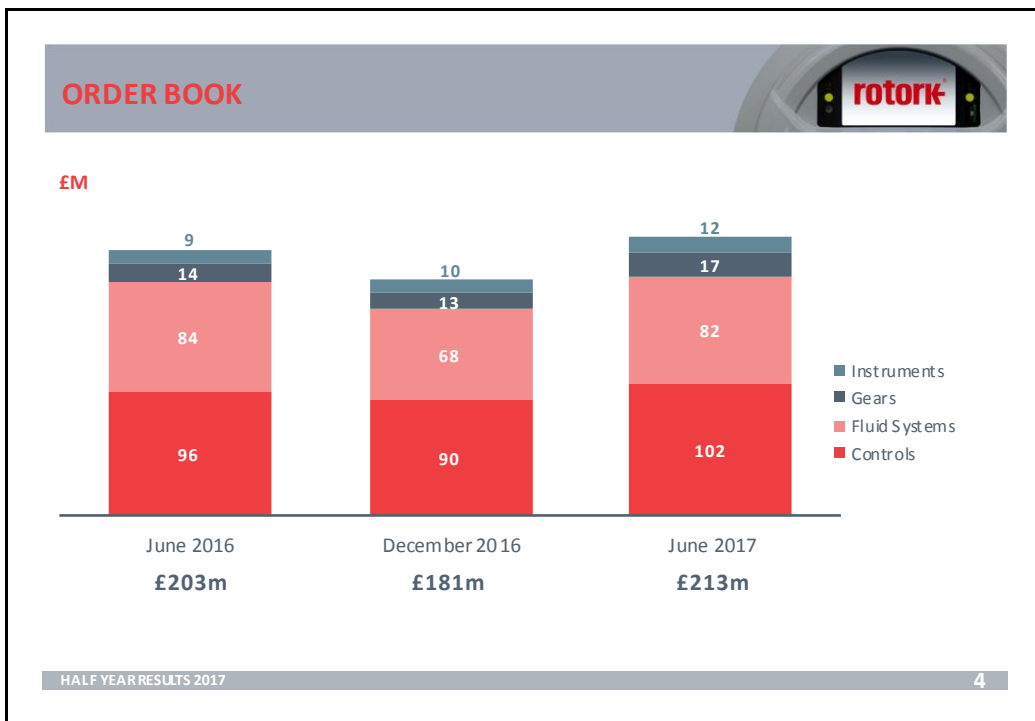
FINANCIAL REVIEW

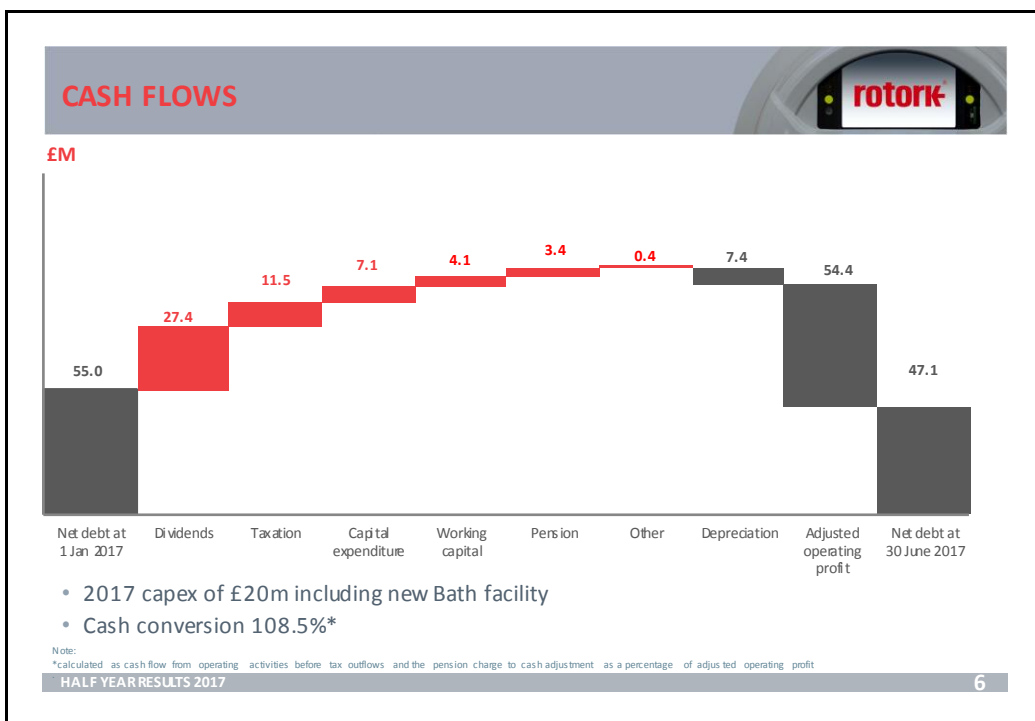


	2017	2016	%	OCC ¹ %
Order Intake (£M)	334.2	279.4	+19.6%	+4.8%
Order Book (£M)	212.8	203.1	+4.8%	+1.3%
Revenue (£M)	299.7	263.9	+13.6%	0.0%
Adjusted² Operating Profit (£M)	54.4	50.7	+7.3%	-3.7%
Adjusted² Operating Margin	18.2%	19.2%	-100bps	-70bps
Adjusted² EPS	4.4p	4.3p	+4.2%	-7.3%
Interim Dividend	2.05p	1.95p	+5.1%	+5.1%


- Impact of Mastergear acquisition c+2% on order intake, revenue and 0% on operating profit
- Currency impact c11% increase in order intake, revenue and operating profit
- Current exchange rates prevailing for remainder of 2017 would equate to a 6% tailwind for the full year (US\$1.30, €1.14)
- 1 cent movement – US\$: £450,000, Euro: £250,000 impact on operating profit

Note:
¹ OCC results exclude acquisitions and are restated at 2016 exchange rates
² Adjusted figures exclude the amortisation of acquired intangible assets and adjustment for contingent consideration





BALANCE SHEET



£M	June 2016	December 2016	June 2017
Total assets	766.8	775.4	755.2
Total liabilities	(348.3)	(341.3)	(297.7)
Equity	418.5	434.1	457.5
Net working capital	177.1	178.0	175.9
Pension deficit	41.2	58.5	45.3
Net debt	86.9	55.0	47.1
Net debt/EBITDA	0.76x	0.41x	0.38x
ROCE	24%	23%	23%

- Net of release of £10m provision for Bifold contingent consideration

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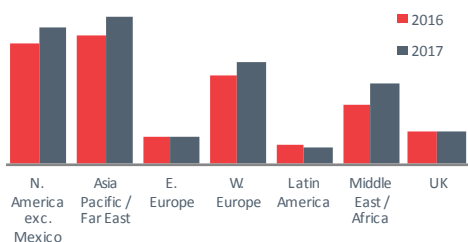
GROUP REVENUE



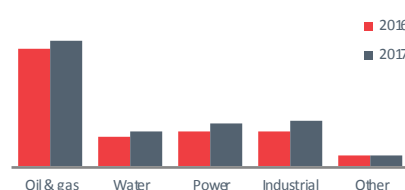
- Revenue increased across all divisions
- All major end user markets up
- All regions up except Latin America

Oil and gas	2016	2017
Upstream	16%	17%
Midstream	12%	11%
Downstream	23%	21%
Contribution to Revenue	51%	49%

End destination (£M)



End user market (£M)

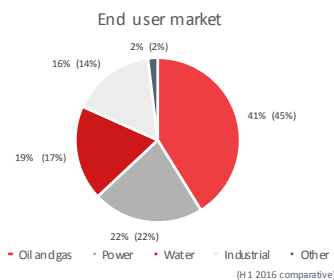


CONTROLS



£M	2017	2016	Change	OCC ¹ Change
Order intake	164.7	138.8	+18.7%	+6.3%
Revenue	151.1	132.5	+14.1%	+2.2%
Gross margin	51.4%	52.0%	-60bps	+60bps
Operating profit ²	40.0	36.2	+10.2%	+1.1%
Operating margin ²	26.4%	27.4%	-100bps	-30bps

- Asia, Americas, Middle East positive
- Europe and Latin America challenging
- CK range market penetration
- Growth in HVAC and Industrial Processes
- Develop sales channels
- Service growth

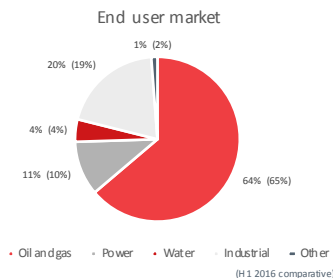


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FLUID SYSTEMS



£M	2017	2016	Change	OCC ¹ Change
Order intake	82.6	70.1	+17.8%	+5.3%
Revenue	68.1	61.8	+10.2%	-1.8%
Gross margin	27.2%	27.5%	-30bps	-10bps
Operating profit ²	1.1	0.8	+35.2%	-3.3%
Operating margin ²	1.6%	1.3%	+30bps	0bps



- Growth in upstream in Middle East, Africa and Europe
- Americas and Asia yet to pick up
- Electro-hydraulic product range expansion
- Developing broader end markets
- Collaboration with other divisions
- Site consolidation

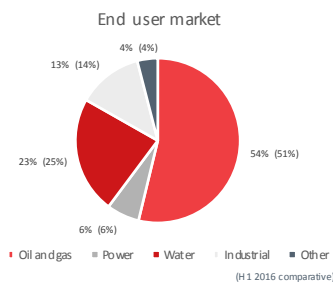


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GEARS



£M	2017	2016	Change	OCC ¹ Change
Order intake	45.4	33.0	+37.5%	+3.3%
Revenue	40.3	32.6	+23.3%	-3.7%
Gross margin	33.4%	35.1%	-170bps	+160bps
Operating profit ²	6.3	6.5	-3.2%	-12.9%
Operating margin ²	15.7%	20.0%	-430bps	-190bps



- Modest increases across Power, Water and Industrial Processes
- America, Asia, Europe and Latin America positive
- Mastergear synergies
- Leverage broader product range
- Addition of intelligence to products

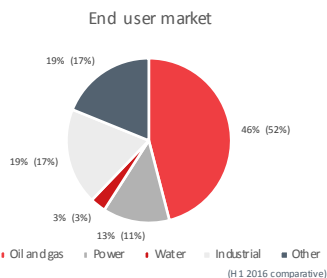


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INSTRUMENTS



£M	2017	2016	Change	OCC ¹ Change
Order intake	51.0	45.5	+12.0%	+3.4%
Revenue	48.6	45.0	+8.0%	-0.5%
Gross margin	43.4%	44.2%	-80bps	-150bps
Operating profit ²	10.0	10.3	-2.8%	-15.8%
Operating margin ²	20.5%	22.8%	-230bps	-350bps



- Growth across Water, Power and Industrial Process markets
- Asia and America strong
- Product range expansion
- Sales channel development
- Rotork synergies
- Brand harmonisation



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SITE SERVICES



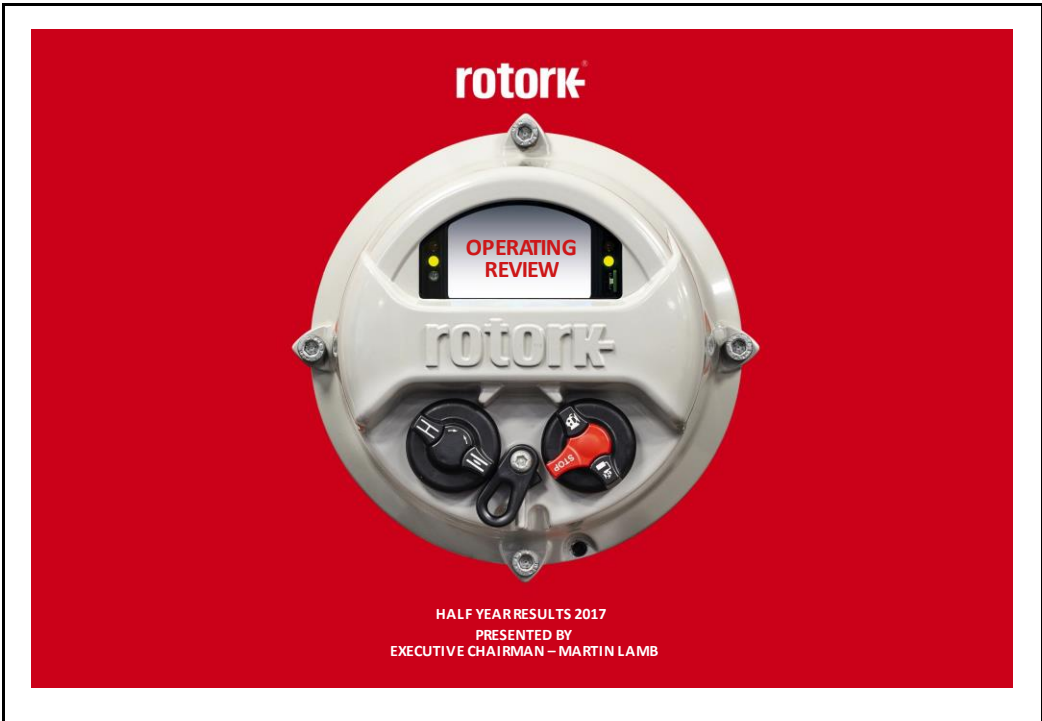
H1 2017 activity

- 5% more qualified service engineers, >450
- 5% more actuators under some form of maintenance agreement now >175,000

Opportunities

- Strengthening of global presence
- Client Support Programme
- Intelligent Asset Management





MARKET DRIVERS

Macroeconomic factors:

- Population growth
- Urbanisation
- Automation
- Ageing infrastructure

Competition:

- Market consolidation

Technology:

- Demand for connectivity and 'Internet of Things'
- Demand for increased efficiency and low power devices

End markets:

- Drive to reduce cost of oil production
- Lower oil price
- Increase in power consumption
- Increase in water consumption

- Opportunities to increase addressable market to £4bn and beyond

- Continue to leverage our independence from valve makers
- Continue to differentiate on service offering, technology and geographical spread
- Improve ease of transacting

- Technology building blocks in place
- Intelligent asset management and efficient low energy devices to complement broad product portfolio

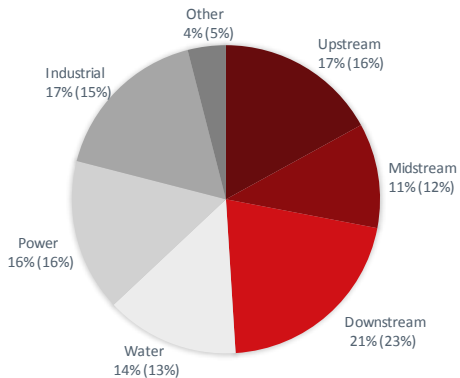
- Continue to diversify end markets
- Leverage market specialism and local offices focused on local markets

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MARKET TRENDS



- North America and Middle East active across each division
- Oil and gas market stabilisation
- Increased reliability requirement
- More efficient asset management
- Plant life extension
- Increasing automation
- Water, HVAC and Industrial Processes growing



H1 2017 revenue split

POSITIONING FOR GROWTH



- Leadership change
- Growth and margin ambition
- Fresh perspective:
 - Scope for increased investment in new products and service
 - Re-examination of cost base (manufacturing footprint, supply chain, structure and systems)
- Strategic direction unchanged



PRIORITIES



- Business as usual
 - Project Energise
 - New Bath facility
 - New ERP system
 - Acquisitions
- Reviews of:
 - Innovation funnel
 - Operations footprint
 - Supply chain
 - Talent development
- Progress in the interim



OUTLOOK



- Management expectations for the full year remain unchanged:
 - H2 weighting
 - Full year margins expected to be similar to the prior year





ANALYSIS OF MOVEMENTS

£M	2017 at OCC ¹	Acqn. benefit	2017 at 2016 Rates	FX benefit	2017 as Reported	2016
Order intake	292.9	7.4	300.3	33.9	334.2	279.4
	+4.8%	+2.7%		+12.1%	+19.6%	
Revenue	263.9	5.4	269.3	30.4	299.7	263.9
	0.0%	+2.1%		+11.5%	+13.6%	
Adjusted ² operating profit	48.8	0.0	48.8	5.6	54.4	50.7
	-3.7%	0.0%		+11.0%	+7.3%	
Adjusted ² operating margin	18.5%		18.1%		18.2%	19.2%
	-70 bps	-40 bps	-110 bps	+10 bps	-100 bps	

- Revenue split 36% US\$, 27% Euro, 12% GBP and 26% other currencies
- Adjustments relate to intangible amortisation of £13.1m (H1 2016: £11.8m) and release of Bifold contingent consideration provision of £10.0m (H1 2016: nil)

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CONSTANT CURRENCY ANALYSIS



£M	H1 2017 as Reported		Adjust to CC		2017 at 2016 rates		Remove Acqn.		H1 2017 at OCC ¹		H1 2016	
Revenue	299.7		(30.4)		269.3		(5.4)		263.9		263.9	
Cost of Sales	(169.0)		19.0		(150.0)		4.6		(145.4)		(146.6)	
Gross Profit	130.7	43.6%	(11.4)		119.3	44.3%	(0.8)		118.5	44.9%	117.3	44.4%
Overheads	(76.3)	25.5%	5.8		(70.5)	26.1%	0.8		(69.7)	26.4%	(66.6)	25.2%
Adjusted² operating profit	54.4	18.2%	(5.6)		48.8	18.1%	-		48.8	18.5%	50.7	19.2%

- OCC¹ gross margins increased
- OCC¹ overheads increased 120bps, ahead of OCC¹ revenue which is flat
- OCC¹ net margin 70 bps lower

Note:

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ADJUSTED OPERATING MARGINS



£M	H1 2017	H1 2017 OCC ¹	H1 2016	FY 2016
Controls	26.4%	27.1%	27.4%	29.3%
Fluid Systems	1.6%	1.3%	1.3%	4.3%
Gears	15.7%	18.1%	20.0%	19.4%
Instruments	20.5%	19.3%	22.8%	22.1%
Group	18.2%	18.5%	19.2%	20.4%

Note:

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COST MANAGEMENT PROGRAMME



£M	Impact over 2015 to 2017		2015	2016	P&L impact in		
	TARGET	ACTIONS COMPLETED			H1 2017	H2 2017	2017
2015 initiatives	10.3	10.3	5.4	4.9			
2016 initiatives	7.0	8.5		4.3	2.0	2.2	4.2
2017 initiatives	4.0					2.0	2.0
Combined total	21.3	18.8	5.4	9.2	2.0	4.2	6.2

- Savings delivered through:
 - Material cost initiatives
 - Headcount reduction
 - Site consolidation

EARNINGS PER SHARE



£M	2017	2016	Change
PBT as reported (£m)	48.8	38.3	+27.4%
Adjusted ² PBT (£m)	52.0	50.1	+3.7%
Effective tax rate	23.6%	26.4%	
Adjusted effective tax rate	25.9%	26.4%	
Basic EPS as reported	4.3p	3.3p	+32.1%
Adjusted ² basic EPS	4.4p	4.3p	+4.2%

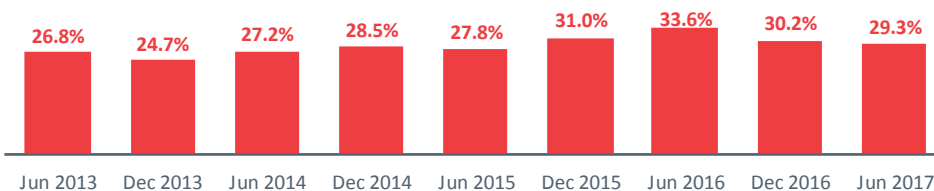
- Net finance expenses £2.5m (H1 2016: £0.6m)
 - Increase due to increase in foreign exchange loss, pension costs and other interest expense

Note:

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WORKING CAPITAL



£M	Dec 2016	% Revenue	June 2017 OCC ¹	% Revenue	June 2017	% Revenue
Inventory	85.8	14.5%	92.2	15.4%	91.8	15.3%
Trade Receivables	131.9	22.4% (61 D.S.O.)	129.6	21.6% (63 D.S.O.)	129.1	21.5% (63 D.S.O.)
Trade Payables	(39.7)	6.7%	(44.8)	7.5%	(44.9)	7.5%
Net Working Capital	178.0	30.2%	177.0	29.5%	176.0	29.3%

Note:
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EXCHANGE RATES



	US\$	Euro
Average rates		
H1 2016	1.43	1.29
H2 2016	1.28	1.17
Full Year 2016	1.36	1.22
H1 2017	1.26	1.16
+ = GBP STRENGTHENING / - = GBP WEAKENING		
H1 2017 v H1 2016	-12%	-10%
H1 2017 v FY 2016	-7%	-5%
Period end rates		
June 2016	1.34	1.20
December 2016	1.24	1.17
June 2017	1.30	1.14
+ = GBP STRENGTHENING / - = GBP WEAKENING		
June 2017 v December 2016	5%	-3%

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DIVIDENDS



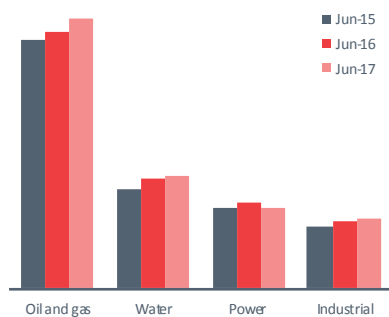
Core Dividend	Month Paid / Payable	Amount (pence)	Cost (£m)
2015 Final	May 2016	3.10p	27.0
2016 Interim	September 2016	1.95p	16.9
Paid in 2016		5.05p	43.9
2016 Final	May 2017	3.15p	27.4
2017 Interim	September 2017	2.05p	17.8
Payable in 2017		5.20p	45.2

- 2017 interim dividend increased by 5.1% to 2.05 pence
- Dividend cover 1.7 times on H1 results

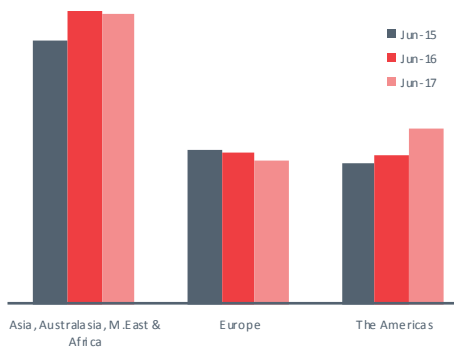
PROJECT ACTIVITY

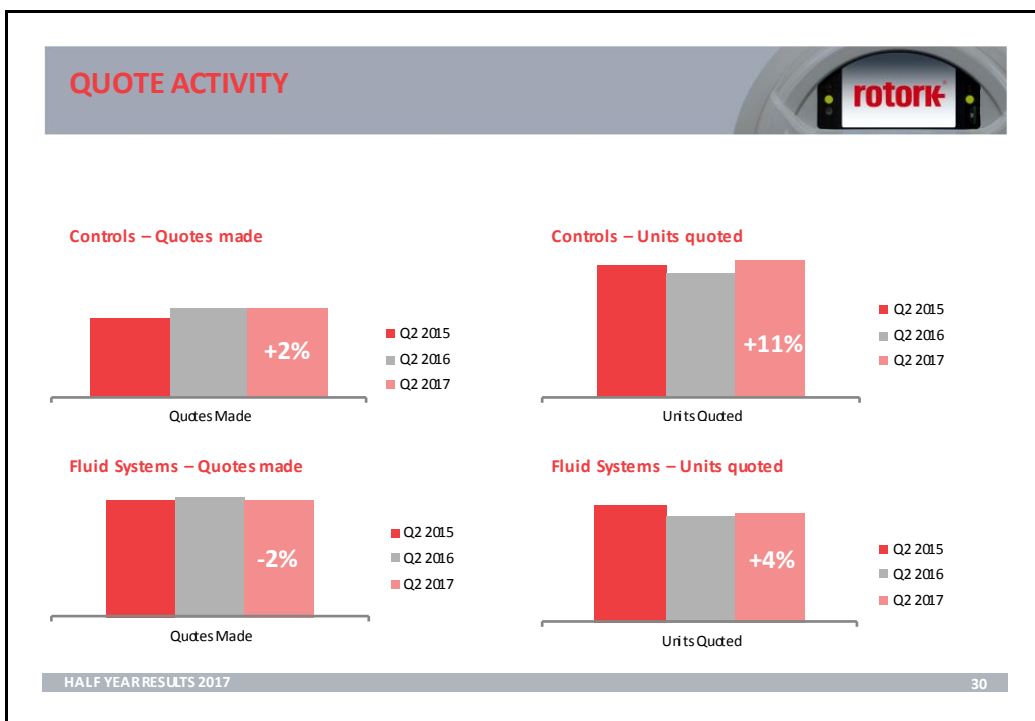


Project activity: Industry type
No. of projects




Project activity: End destination
No. of projects





REVENUE ANALYSIS

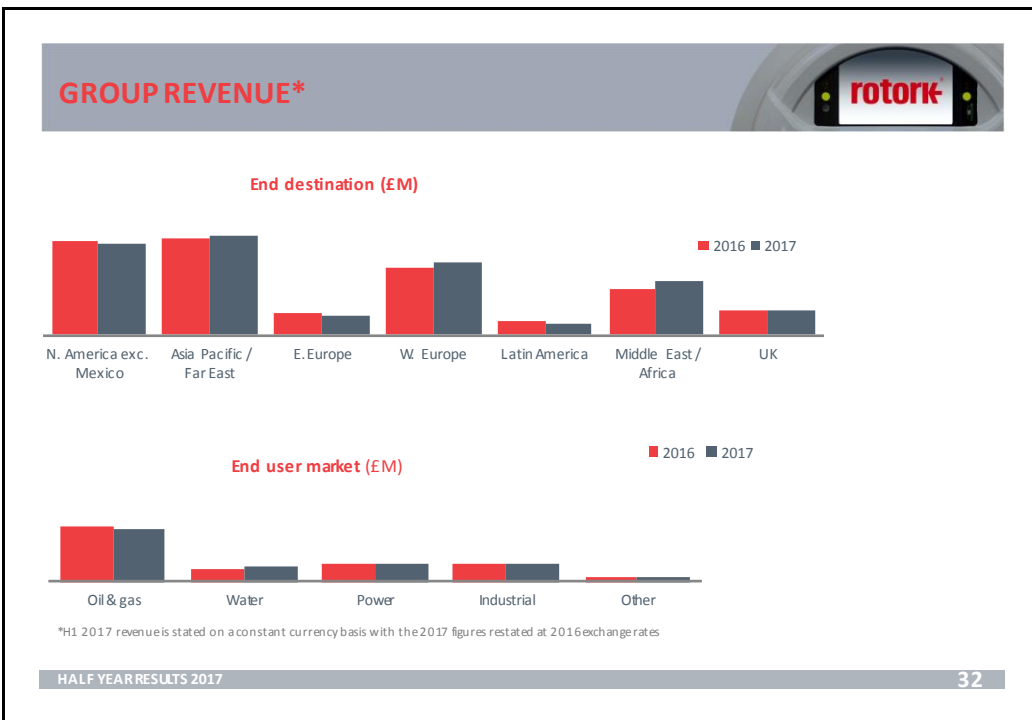


By division (%)	Controls	Fluid Systems	Gears	Instruments	Total
H1 2017	50.4	22.7	11.7	15.2	100.0
H1 2016	50.2	23.4	10.4	16.0	100.0


By end user market (%)	Oil & Gas	Power	Water	Industrial	Other	Total
H1 2017	48.5	16.2	13.6	17.2	4.5	100.0
H1 2016	51.2	15.7	12.7	15.5	4.9	100.0

By end destination (%)	Asia Pac / Far East	Europe	Middle East / Africa	N. America exc. Mexico	UK	Eastern Europe	Latin America
H1 2017	27.0	19.0	14.7	25.3	6.0	5.2	2.8
H1 2016	27.0	18.8	12.3	25.6	6.8	5.7	3.8

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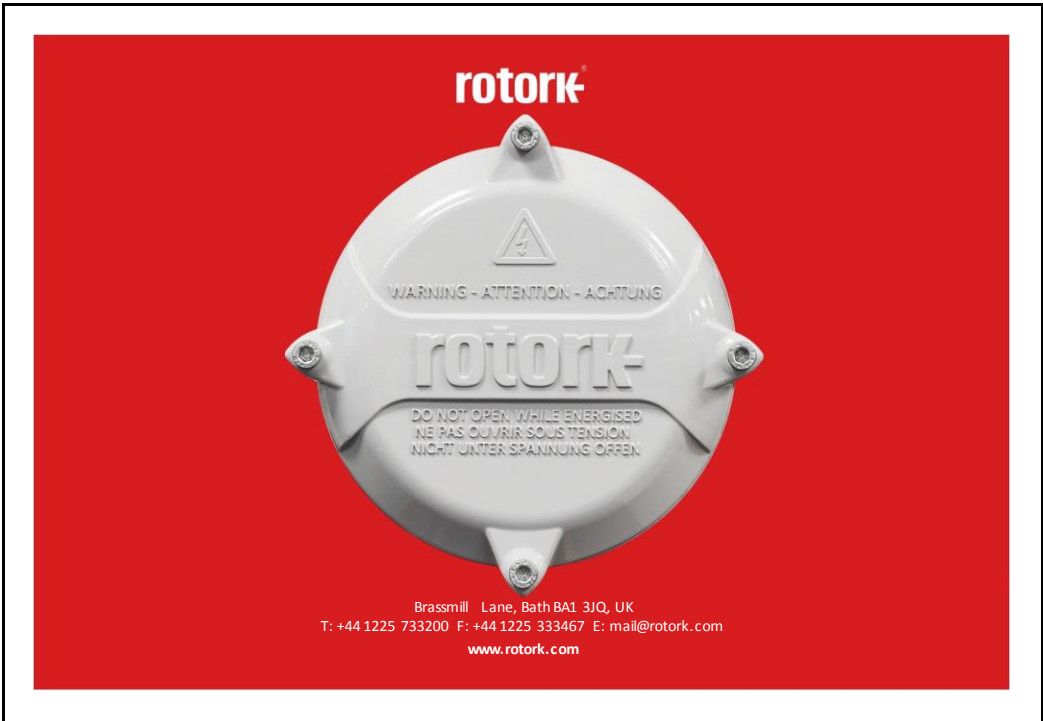


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rotork®



Brassmill Lane, Bath BA1 3JQ, UK
T: +44 1225 733200 F: +44 1225 333467
E: mail@rotork.com

www.rotork.com