Spectris
2024 Full Year Results

Friday, 28th February 2025

2024 Full Year Results

Andrew Heath

CEO, Spectris

Welcome

Well, good morning and hello, everyone, and thank you very much for joining us today, be that in the room or on the webcast, as we present our results for 2024 and also our outlook for 2025. I am very pleased today to be joined by Angela Noon, who became our CFO on 1 September and who has made a very quick impression, a very positive impact in the business.

Strong finish to 2024 after prolonged softness across end markets

So when I stood here a year ago, I have to say I expected 2024 to be another year of progress for Spectris. We had delivered three years of double-digit growth and despite order normalisation through 2023, which was very much in line with the market, we expected demand to pick up in the second half of last year.

Markets, though, in 2024 remain subdued. And this prolonged weakness that we have seen is largely unprecedented in its alignment across multiple end markets, as customers right across the board held back investment in CAPEX and in R&D in what was a challenging macroeconomic environment, where an elevated cost of capital really bore down on our customers' CAPEX and R&D expenditures.

In the end, our like-for-like order intake was 3% lower, with demand, though, improving back to flat in the second half versus the prior year. While it is too early to say that we are seeing a sustained recovery, overall demand has stabilised and like-for-like order growth of 6% in the final quarter is really encouraging. With a book-to-bill of nearly 1x, the order book finished the year broadly in line with the opening position, representing four to five months of cover.

Sales for the full year were down 7% on a like-for-like basis, reflecting the weakness across end markets, and this impacted our financial performance, particularly in the first half. However, following the actions that we took through 2024, we finished the year strongly. We delivered our second half broadly in line with the second half of 2023, with orders in line and sales down 4%, and that is against quite a tough comp.

We also delivered another good cash performance, with cash conversion of 88%. And we have maintained our strong track record on the dividend, this being the 35th year of successive growth. I would just like to thank all of my Spectris colleagues for their hard work and delivering such a strong finish to the year, with our full-year profit slightly ahead of our revised guidance.

Strong year of execution to accelerate strategy

Now, in a tougher market, we focused on strong strategic execution, and the decisions that we took last year will very much shape the future of Spectris, not just in 2025, but well beyond. Collectively, the big decisions that we took accelerated delivery of our strategy, and they positioned us strongly to deliver sustainable, profitable growth and material shareholder value creation. And that is firstly through the decisive action that we have taken on cost.

We have got in place an accelerated value enhancement plan that we call our Profit Improvement Programme, and that leverages the strategic operational actions that we have taken to drive profitability, and it positions us to further capitalise as markets recover. Secondly, on M&A, as you know, we acquired three high-quality businesses in 2024, and that significantly strengthens our two divisions, and the acquisitions are strongly aligned with our ambition to make both Spectris Scientific and Spectris Dynamics global leaders in their fields. And since completing these acquisitions, we are even more excited about the progress that we can make on both cost and on revenue synergies.

Thirdly, we have continued to prioritise R&D. We have invested through the downturn. As we highlighted at our previous half-year results, 2024 was a record year for new product launches, with our vitality index rising from 22% to 29%. And we also have a strong pipeline with some really exciting digital innovations, which will not only compound sales, but also increase recurring revenue over time.

Then fourthly, on ERP, we took a big step forward this year, and we can already see how transformative the new system will be. Importantly, we were able to work through the short-term disruption that impacted the first half. Our teams did an excellent job, and we took on some useful learnings that served us well with the second implementation last October. And as a reminder, the new ERP system will deliver 150 basis points of margin improvement, and as such, is an important building block towards our +20% adjusted operating margins for the Group.

And finally, the Spectris Business System, again generated tangible cost savings, delivering over £10 million in 2024, with at least the same amount expected for 2025. And I am really pleased to say we are making great progress on our 'Go for Gold' programme, with ten sites now at Bronze, and one at Silver at the end of 2024. And we have the aim to get all our operational sites at Bronze by the end of this year.

So as you can see, we have a strong grip on areas that are very much under our control, improving productivity and efficiency as we drive towards our margin goal.

In 2024, we also further enhanced our credentials as a leading sustainable business. Employee engagement improved again, and we also continue to make strong progress towards our net-zero goals, with a 22% reduction in our Scope 1 and 2 emissions last year. Overall, while I have to say 2024 was a test, we have emerged strongly on the other side.

And I am very encouraged by the response of my colleagues, and the strength of our culture. The significant strategic and operational progress we have made positions us even more strongly in 2025 and beyond.

Disciplined and balanced approach to capital allocation

In 2024, we continued the transformation journey that we have been on for the past five years.

In 2018, Spectris was very much a disparate collection of businesses. Now, with the sale of Red Lion concluding our portfolio rationalisation, we have simplified and refocused the Group, and through the divestment of eight businesses at attractive valuations, generating £1.3 billion in proceeds. And this programme has underpinned return to shareholders. Since 2019, we have returned over £1 billion, including £600 million through share buybacks alone.

It has also allowed us to reinvest in our future, both in R&D to drive organic growth, and in high-quality M&A. We invested £600 million in R&D, and over £1.1 billion in acquisitions over the same period. So, as you can see, we have and continue to take a very disciplined and also a balanced approach to capital allocation.

And last year, we took the decision to deploy our balance sheet on three highly synergistic and highly accretive businesses. They being Micromeritics, SciAps, and Piezocryst. All three businesses have been at the top of our M&A target list for some time. And that is because we have always had high conviction on both the strategic fit and the synergistic opportunities.

In Scientific, the combination of Micromeritics and SciAps, along with Malvern Panalytical, creates the world's leading material characterisation business for advanced materials analysis, both in the lab and in the field. And in Dynamics, Piezocryst builds on the successful acquisitions of Dytran and MicroStrain over the past two years and creates the leading premium pressure and vibration sensor offering in the market for the most advanced applications. The incremental contribution from these high-growth, high-margin acquisitions really underpins a significant increase in profit, but also earnings in 2025 and 2026.

And we have always said that we would temporarily go beyond our target leverage range of between 1-2x for the right deals. And we are a little above the top end of the range at the end of 2024. However, our highly cashed generative model plus the benefits from our Profit Improvement Programme give us a clear pathway to reducing leverage to back within the range this year.

Guidance and outlook

So moving on to the outlook, we entered 2025 in a strong position. After a year of strong strategic execution, I am even more confident about our business. However, we will, of course, remain cautious on the macro environment until there is more certainty and evidence of a sustained recovery.

However, what is more certain in 2025, though, is the significant uplift in earnings. And underpinning our confidence is our Profit Improvement Programme. This is significant and will deliver circa £50 million of benefits, of which £30 million is expected this year in 2025, with an additional £20 million in 2026. And Angela will cover more about this later on in the presentation.

Our commitment to R&D is supporting our organic growth. And ERP and SBS are driving operational excellence as we focus on reducing overheads and in driving efficiency. And in combination with the benefits of the Profit Improvement Programme, we are on track to deliver strong progress with margins of at least 20% by 2027.

Following the high-quality acquisitions that we have made, we really do have great businesses with leading market positions, two world-class divisions providing premium offerings in attractive niches, with market-leading technologies and really strong IP. And having got to know Micromeritics, SciAps and Piezocryst better since the acquisition, it is clearer than ever that the combination is compelling and the synergies are very real.

Additionally, we are significantly better-positioned today to benefit strongly from market recovery and deliver on the operating leverage opportunity as sales improve. So, while it is still early in the year, we are comfortable with the current market expectations for 2025. And looking forward to 2026, it is hard for me to not to feel even more confident in our prospects. And this confidence is rooted in our focus portfolio of high-quality premium precision measurement businesses, along with a market that is rich with opportunity and with a clear value enhancement plan in place.

Consequently, we have a fantastic opportunity to deliver outsized value creation for Spectris. And we have the people to do it. The resilience and determination that our teams showed in 2024 really demonstrates the depth of our healthy high-performance culture. And we are well-placed, therefore, to deliver on our ambitions.

And with that, I will hand you over to Angela.

Financials

Angela Noon

CFO, Spectris

A great business with huge potential

Thank you, Andrew. And good morning, colleagues, ladies and gentlemen. I am delighted to be here for my first results presentation at Spectris.

As you know, I joined last September, shortly before we announced our third acquisition in 2024. Since then, I have spent time learning about our businesses, meeting customers to understand their challenges, and getting to know our people. I have been impressed by what I have seen, especially the strength of technology and depth of talent within the Group.

Spectris is a great business with huge potential. And I believe we are now at an important point in our strategy. With three new acquisitions, I am fully energised about the future.

Key financial highlights

So let us jump into the numbers. I would like to start with the key highlights of our profit performance.

Orders for the full year were 3% lower on a like-for-like basis. As you heard from Andrew, demand in the second half was stable. We ended the year with robust order growth in the fourth quarter. Our book-to-bill ratio was just under 1x.

Sales were down 7% on a like-for-like basis, given prolonged softness across a number of our end markets. And you can see the impact of this on both profit and margin, where our direct costs are sensitive to volume changes. In order to mitigate this impact, we worked hard to reduce overheads. And I would like to touch on a little bit later.

Adjusted and statutory operating profit

Adjusted operating profit was £202.6 million, with operating margin of 15.6%. Moving on to cash, adjusted cash flow of £177.6 million resulted in cash conversion of 88%, which is fully in line with our framework. On return on gross capital employed, it was 11.6% for the year, mainly as a result of assets from our acquisitions and, of course, the reduced profit. Net debt at the end of the year was £549 million, with leverage of 2.3x on a covenant basis. Staying with debt, one of my first responsibilities was to secure long-term financing to fund the acquisitions. We achieved this through a $400 million US private placement at favourable rates and at the right time. And I am pleased to say the issuance was heavily oversubscribed and on investment-grade terms.

To help you, this next table provides a bridge between adjusted and statutory operating profit and also PBT. In 2024, we incurred £18.3 million of restructuring costs in support of our Profit Improvement Programme. Additionally, our M&A activity resulted in net transaction-related costs and fair value adjustments of £16.2 million. Software implementation costs were £45 million that relate primarily to our SAP 4HANA projects and sales force, which are seen as key enablers in our road to 20% operating margin.

Further down the table, the other significant item I would like to mention is the £210 million gain on the disposal of Red Lion that reflects the consideration received of £281 million net of tax.

Net finance costs of £2.8 million compares with finance income last year. As a result, statutory profit before tax was £302.7 million.

Sales and Operating Profit bridge

This next slide shows the main P&L movements during the year, including the impact of FX and M&A.

You can clearly see the drop-through impact on operating profit from lower volume of almost £70 million, together with higher production costs of £23.5 million. You can also see that we were able to partially mitigate the impact of lower sales by restructuring in both divisions during the second half, reducing overheads by £43 million.

Net debt bridge

Now turning to cash and net debt, we finished with a slightly higher net outflow in working capital, including higher receivables and inventories, which reflects the momentum that we saw in the last quarter.

Higher capital expenditure was a result of investment in our new PMS facility in Colorado and our new strain gauge facility in Porto. As a result, adjusted cash flow was £178 million. As previously mentioned, the restructuring costs incurred for our various initiatives resulted in a cash outflow of £8 million.

Tax payments were £45 million. The larger bar is the cash outflow for our three acquisitions, which include transaction-related costs of £34 million and the proceeds from the disposal of £226 million is net of capital gains tax of £48 million. The foreign exchange translation of £26 million mainly reflects the Group's new debt facilities, which are US dollar and euro denominated. Sterling has, of course, weakened against both currencies since the facilities were put in place. Taking all of these movements together, net debt at the end of the year was £549 million.

Spectris Scientific

Let me now move to our divisional performance, and I would like to start with Spectris Scientific.

Orders for the year were 2% lower on a like-for-like basis. Book-to-bill for the Scientific division was marginally below 1x. Again, Scientific had a much more positive second half, where orders were actually up 6%.

On the bottom-right, I have shown the quarterly order growth for 2024 that highlights the momentum in the second half, especially in the last quarter. Moving to sales, after a strong year in 2023, when like-for-like sales grew 13%, sales in 2024 were 6% lower at £776.7 million. Scientific experienced decreases across all end markets and regions, in particular academia and Asia.

Adjusted operating margin decreased to 17.7%, which was particularly hard hit in H1 due to the lower sales volumes.

Spectris Dynamics

Looking now at Spectris Dynamics, after a strong performance in 2023, order intake in Spectris Dynamics was 4% lower on a like-for-like basis. The book-to-bill ratio in the division was 1x.

Staying with orders, we saw double-digit growth in machine manufacturing and good growth in aerospace and defence, which was more than offset by lower demand in automotive and other end markets. Again, on the bottom-right, you can see the order growth trajectory in 2024 by quarter, where Q3 was particularly impacted by softness in the automotive sector. Demand recovered, however, in Q4 was modest growth as we closed the year.

In respect to sales, after a good year in 2023, where sales grew 6%, like-for-like sales were 7% lower at £501.7 million. Finally, adjusted operating margin for the division was 14.4%.

My key priorities in 2025

I would like to talk about my four key priorities for the year ahead, which are primarily focused on value creation, efficiency and deleverage.

Firstly, delivering the benefits of our Profit Improvement Programme. As you know, this identifies clear actions to drive margin expansion, including the delivery of substantial cost synergies, the new ERP system and restructuring in both divisions.

Second is the successful integration of our acquisitions. I am really satisfied with the progress we have made so far, and this is a topic that is very much on my personal radar. I have overseen the integration of several businesses during my career, and I know only too well how critical it is to have a firm grip of the integration process.

Third is ERP. The implementation of SAP 4HANA was indeed complex, but I am pleased to say that the new system is working well. In 2025, we will focus on the delivery of the financial benefits as well as harnessing the opportunities that come with greater efficiency, transparency and control.

Finally, working capital optimisation is key for both deleveraging and for operation excellence throughout the Group. We are targeting a £20 million improvement in 2025, especially in inventory. Our new ERP system will play an important role enhancing both collections and billing with a focus of reducing debtor days.

Profit Improvement Programme delivers £50 million

I would like to get into more detail on the Profit Improvement Programme now and also share with you the building blocks to 20% operating margin.

As we said in October, we expect to deliver £50 million of benefits over the next two years from three main areas.

Firstly, savings derived from our focus on operational excellence, in particular from our new ERP system, which is expected to improve margins by 150 basis points. Secondly, significant cost synergies from integrating the three acquisitions. And thirdly, restructuring and cost reduction savings across the entire Group as a result of action taken in the second half of 2024.

As Andrew said, £30 million of savings will be made in 2025 and the remaining £20 million to come in 2026. I expect to see £10 million of savings in the first half of 2025, and then building to deliver £20 million in the second half.

Margin bridge to 20%+ by 2027

Now, what does all this mean for our margin journey? We have announced a +20% target in 2022. And as you can see here, we made great strides in 2023, reaching 18.1% margin. This was then followed by the reduction we saw last year of 250 basis points as a result of the operational leverage impact from lower sales.

So let me start with that lower base. The bridge to +20% comes from the three elements of our Profit Improvement Programme that I have already explained. In addition, we will drive further margin expansion from operational leverage and organic growth as markets do recover, growth for our new acquisitions and business plans. Importantly, continued savings from the Spectris Business System. As we have highlighted several times, our operational leverage means we bounce back very quickly as the volume returns.

Capital allocation in 2025 and leverage

Now turning to capital allocation. Andrew has talked about our balanced and disciplined approach to capital allocation. Having reviewed the framework, I believe this is the right approach for the Group. After a significant year for M&A and a sustained period of shareholder returns through share buybacks in 2025, our capital allocation focus will be on investing in the business and the ordinary dividend.

We expect CAPEX to be in the region of £40 million as we complete the move to our new PMS building. We will continue to allocate capital to innovation. On M&A we will concentrate our efforts on integration and rebuilding our pipeline.

And then finally, while buybacks remain a core part of our policy, we have decided not to proceed with the final £50 million tranche of the £150 million buyback programme which was announced in December 2023 alongside the sale of Red Lion.

Moving on to leverage, where our aim is to bring it in within the target range of 1-2x, achieved through a combination of what I have just described, plus the following, clearly, an expected recovery in EBITDA.

Secondly comes significant reduction in working capital. And you can see, at the bottom of this slide, the outflow in working capital between 2021 and 2024, which includes the years of COVID and the subsequent supply chain disruption. This chart highlights a real opportunity to improve our cash position. As I have already said, we will also drive cash through the tight management of our major programmes.

Investment in ERP peaked in 2024, so cash costs associated with this are expected to reduce. In addition, we expect tax payments and CAPEX to return to more normal levels.

Conclusion

To conclude, while it is still an early time in the year, we are encouraged by the momentum from the fourth quarter. In today's economic environment, building resilience is key. In that regard, we remain vigilant and will focus on those things we can control, namely delivering our Profit Improvement Programme, driving it, integrating the acquisitions, realising the full potential and benefits of our new ERP, continuous improvement in working capital.

With that, thank you very much. And I will hand back to Andrew.

Strategy Update

Andrew Heath

CEO, Spectris

Strategy for Sustainable Growth

Purpose-led

Thank you, Angela. With the launch of the Strategy for Sustainable Growth, we took the decision to focus Spectris on great businesses in two focused divisions to provide each with the attention and resources that they require to scale and be global leaders in their fields. Both divisions benefit from the strengths of the Group's cost of capital, the Group's balance sheet, our ability to execute and integrate M&A, the deployment of SBPS and also from common systems and capability.

We remain committed to deliver at least 6-7% through cycle growth by 2027. Also, we are committed to delivery of our +20% operating margin target and mid-teens return on gross capital employed in the same time horizon. As I said earlier, our confidence is based very much on the increased strength and quality of both divisions.

What we are building in Spectris Scientific

Spectris Scientific, making the invisible visible

So, let me start with Scientific, which as you know is focused on long-term, high-growth end markets in life sciences, material sciences, semiconductors and academia, with our exposure to clean tech also having increased following the addition of Micromeritics. We are strongly positioned in high value, critical to quality areas where precision measurement, domain expertise and analytics are highly valued by our customers throughout their workflow and where our customers will not and cannot compromise. Our businesses are leaders in their field and are seen as being the benchmark in the markets which they operate, and the addition of Micromeritics and SciAps, both of which are being fully integrated as you know into Malvern Panalytical, creates the leading material characterisation business for advanced materials analysis in the world.

So, let us hear from them now in this short video to really drive home what we are creating.

[VIDEO]

Speaker: The combination of Micromeritics, SciAps and Malvern Panalytical will drive growth, with Micromeritics growing by 19%, Malvern Panalytical 10%, and SciAps 50% since 2021. We have now got the ability to provide more measurements and the skills and the capabilities of our staff coming together combined with the power of the Spectra support makes us unbeatable in the market.

Speaker: Micromeritics, SciAps and Malvern Panalytical, we will always win with performance. We have really intelligent customers, and they have demanding and challenging applications because customers and scientists and innovators will see the difference with Malvern Panalytical technology, and they will feel the difference when they deal with Malvern Panalytical people.

Speaker: The advantage that we have around customer access and offering a complete portfolio gives us an advantage against the competition that will inevitably translate into commercial outcomes.

Speaker: At the end of the day, we win with the best products. The ability to bring new products and new innovations to our existing customers and new customers gives us massive opportunities.

Speaker: We work closely with customers and together with them, try to find new solutions, new possibilities to help them create new materials resulting in improved medicines or electronic technology or better cars.

Speaker: Looking at one example further, let us take batteries. We can now deliver a combination of over 20 different products from particle size analysis with our Mastersizer technology, surface area measurement with our TriStar instruments and structural analysis via our Empyrean XRD, helping develop batteries with faster charging and longer life. So the combination with Micromeritics and SciAps gives our customers much more choice, and they trust our applications scientists and our expertise. It is a one-stop shop for our customers.

Speaker: As material scientists working in the laboratory, you will typically work with five, six or more different technologies and switching between them can be difficult. We have the opportunity to improve the workflow in two ways. One is by introducing commonality in that user experience will make it easier to move from one technology to the other; and two, as we bring the data from our measurements together, we will be able to deliver deeper insights than any individual data analysis or outcome could to give our customers a more clear understanding of their material.

Speaker: The complementary technology we have acquired will strengthen our innovative digital solutions.

Speaker: SciAps business benefited from being part of Malvern Panalytical because now not only can we offer you these great handheld analysers, but we can patch you into a great network of benchtop analysers, particle size, laboratory equipment and I think this whole digital platform where you can start using cloud analytics and handhelds combined to do complex analysis in the field. It is a great match, we are really excited about it.

Speaker: I am excited about the growth opportunities that we have across our markets from food and pharma to primary and advanced materials, but I am especially excited about the opportunity that is in front of us in the clean technology space from advanced batteries to carbon capture and utilisation. New chemistries are shaping the future of the world, and we have got an opportunity to be an important tool in that process.

Speaker: We are building right now a very efficient and scalable organisation. The future means more customers, more industry-leading technologies, a larger global footprint and profitable growth.

Speaker: Together we are building a world-leading business, helping our customers solve their biggest challenges. It is a fantastic combination.

Andrew Heath: Similarly in Spectris Dynamics we have built a global leader in advanced virtual and physical testing and also high-precision sensing solutions. Again, as one division of scale, it is uniquely placed offering the broadest premium customer solution with the ability to integrate both the physical and virtual worlds of test and measurement. Its breadth of technical solutions really enables customers to innovate across the whole product life cycle from empowering engineers that want to design in the virtual world using our leading simulators and simulation software to validating in the physical world using data acquisition software and sensors, and we are very pleased with what we have built in Dynamics where our buy-and-build approach has had great success. I have to say I am delighted to welcome Piezocryst into the Group, who have been a key partner of ours for some time. So again, to really illustrate what we are doing here, let us take a look at another video.

[VIDEO]

Speaker: We have acquired some really great assets over the last five years. This has accelerated our growth, but more importantly has helped the customer to solve many of their biggest challenges.

Speaker: We have to push the boundaries of technology and products that are available today for our customers.

Speaker: We are in this transformation. We will be more sustainable. We can bring more productivity that will better the world.

Speaker: Our virtual testing tools help customers have their time to market and reduce the cost of innovation by as much as 20%. From a financial standpoint, it has allowed us to grow from £15 million in 2020 to £80 million in 2024. Combining the most comprehensive simulation experience with precision physics from desktop to full-scale immersion, we are at the cutting edge of our customers' innovation.

Speaker: We have also built the leading vibration and pressure sensor offering through the acquisitions of Dytran and Piezocryst in addition to our existing offering from Brühl & Kjaer providing customers with unrivalled precision in the most extreme operating environments.

Speaker: What is most exciting in the combination of HBK and Piezocryst really is that we have the market access, and we have the technology now in one hand. With HBPK, we have the complete portfolio to support our customers in an ideal way and a very complete way.

Speaker: Dytran is in a very better position as far as capital investments and technology investments go. Taking full advantage of the Group's brand strength. Over the last two years, the business has grown by 33%. We are really excited for our future.

Speaker: From commercial space to industrial power, our technology is maximising performance. Whether delivering the latest communication satellites for the safety and usage monitoring of rotary aircraft or optimising the efficiency of gas turbines, this business is growing by 6-8%, and is expected to exceed €100 million in sales in 2030.

Speaker: Robotics growth is also propelling our progress. The acquisition of MicroStrain in 2023 complemented our existing strain gauge-based OEM sensors with precision positioning sensing.

Speaker: As part of HBK, we can offer a myriad of different solutions to our customers, not only addressing stability and control, but also addressing cost-effective torque sensing solutions and also load sensing.

Speaker: This technology enables our customers to increase automation and enhance productivity whether in agriculture for the latest autonomous farming equipment, in precision robotics, or to accurately position satellite receivers to connect passengers in flight. We expect to grow 6-8% through the cycle.

Speaker: And key to our growth is our software. From the latest generation of our leading reliability and durability tools through modelling and simulation to incorporating AI tools to provide actionable insights our customers can trust at the point of measure and in real-time. We are now rapidly approaching 20% of our revenue in software, and we are well on track with the innovations and the new products we are going to bring to the market to be at 25% in 2027.

Speaker: The future is so bright. All of these acquisitions coupled with bringing industry-leading technologists together has accelerated our growth. We have seen our overall revenue increase by 22% over the last five years.

The value proposition for Spectris Dynamics has huge potential to continue to enable and empower the innovators for the future.

What we are building at the Group

Andrew Heath: So bringing this all together, you can see here on the left of this chart that as a result of the investment we have made in three acquisitions, we have a Group that would have generated just under £1.4 billion of sales and operating profit in 2024, if we had owned the business that is, for the whole year. On the left-hand side of this chart, we have included the compound annual sales growth rates for the two divisions and the group since 2021, and excluded the impact from the three businesses.

As you can see, we have delivered growth in line with our 6-7% framework over this period. And as you have heard, we remain firmly on track and committed to delivering this along with our other targets through the rest of the cycle to 2027.

Structural growth markets

So in finishing, I thought it would be helpful to also provide you with some more colour on our end markets. As I have already mentioned, in 2024, orders ended the year down 3% on a like-for-like basis, but with strong order growth in the final quarter across a number of end markets.

It is encouraging to see orders recovering of pharmaceuticals and life sciences, where we continue to see strong demand in biologics and positive growth in aseptic manufacture, which offset some softness in small molecule. Within tech-led industrials we saw continued demand growth in aerospace and defence, and we are reassured to finally see strong growth returning in machine manufacturing, notably in China and also in Europe. Order intake in semiconductors did end the year slightly, down but returned to growth in Q4.

And in materials, we saw strong order growth in the second half, particularly in building materials. Academia returned to strong growth in Q4, with some stimulus support from China. And finally, during a more challenging period for the automotive industry, we experienced a decline in demand in the second half. This followed essentially a strong first half and despite the strong year for our virtual test business, where sales grew actually in the high-teens, but we did see a pullback in demand in Europe, with continuing weakness in North America, particularly in physical test.

On a regional basis, order intake was flat in Europe, down 6% in North America, which was driven primarily by Dynamics and automotive, and we were down 4% in Asia, primarily Scientific, in academia and battery materials. Asia was held back by China, and that is despite growth we saw in both Japan and Korea.

Structural growth markets

Now, one of the key indicators that I look at is the momentum in our quarterly growth as well as on an annualised basis.

As you can see in the two graphs, the indicators suggest that we are entering a recovery phase, with a positive trajectory of both orders and sales in the final quarter, and also a closing of the gap through 2024, albeit not yet back to accelerating growth on an annualised basis. So encouraging signs, yes. However, as I said at the start, we will remain cautious on the macro environment until there is more evidence that the recovery is sustained. And to reiterate, we are not relying on end markets to drive our earnings growth this year.

Summary and outlook

2024 summary

So in summary, 2024 was a strong year for strategic execution, a significant year for capital deployment and another important step forward for the Group. We put in place a clear executable value enhancement plan. We took decisive actions on costs, the benefits of which we will see come across in 2025 and in 2026.

It was a record year for innovation, as we look to maintain our leading market positions, helping customers solve their most complex challenges, and we made continued progress across our sites as we strive towards world-class operational performance. 2025 will be a year to consolidate the actions that we took in 2024, and also to deliver on the returns on the investments that we have made, with a particular focus on integrating the three acquisitions, setting them up for growth and long-term success and realising the value from our Profit Improvement Programme. And after a significant year of capital deployment, our focus, as we said, is very much on cash generation and deleveraging while continuing to execute on our strategy.

Outlook for 2025

Looking at the outlook and guidance for 2025, we expect to deliver significant profit growth, with adjusted operating profit to be in line with market expectations. As a result of the work we have done, we are well-placed to return to delivering against our committed performance framework with additional support as markets recover. And historically, we have always outperformed when markets do return. And finally, to reiterate, I firmly believe we have a fantastic opportunity to deliver outsized value creation here at Spectris.

And in ending, I would just like to thank all of my colleagues for their dedication and for their support, and for you in the room, thank you for listening.

Andrew and I will now be very happy to take your questions.

Q&A

Mark Jones (Stifel): Thank you. Good to go. Andrew, can I start on Micromeritics, obviously the biggest of the acquisitions? How has trading gone there, particularly around the clean tech end of that? Because, obviously, there have been some political changes in the US. How do you think that plays out? And I think we have heard from some people that Q1 has been a bit slower as people try and digest what is going on in the States. Have you seen some of that in terms of just decision-making being pushed out?

Andrew Heath: So, thank you for questions, Mark. So firstly on Micromeritics, we are very pleased with the performance since they have been part of the Group. They met their acquisition business plan for the first four months post-acquisition.

China has softened, but we knew that when we were going through the acquisition. We always expected China and some of that clean tech to come off. They have got a big exposure in clean tech. But at the same time, there are some quite positive signs still in terms of the R&D side around clean tech and battery materials.

Whilst there is an oversupply in the actual delivery of batteries themselves, there is a lot of development going on in terms of looking at next-generation batteries, new materials, new ions to drive better battery performance, better range, better life, better durability and the Micromeritics tools alongside, as you saw in the video, alongside a lot of our more Malvern Panalytical tools, we have over 20 different products now that is focused on that market. We are still very excited about that and its long-term growth projections.

Your second question just about sort of Q1, I mean in terms of order intake, it is the order intake in January and certainly the indications in February are very much in line with our expectations. I would say I would just characterise it, as we have said through the presentation really, is that we are in a recovery phase, but it is going to be progressive. And as we said at the Q3 trading update, we are expecting some of that softness that we saw through last year pervade through the first half of this year.

I think in terms of your specific question about North America and some of the uncertainties, inevitably it is causing some customers to think about why are they going to place investments and what they are going to do. We are certainly seeing that in the academia side in North America because funding to a lot of institutions has been cut back as part of the Doge initiative, and so it will cause some short-term issues I am sure, which again just sort of comes back to us being sort of very cautious in terms of the market developments for this year. However, as I said and reiterate, we are not relying on the markets to deliver the progress that we are committed to this year.

Richard Paige (Deutsche Numis): Morning, it is Richard Paige from Deutsche Numis. Just a couple for me as well. Firstly, how does the order improvement translate into the 2025 first half, second half weighting, and how we should look at the year given I think most of the consensus expectations seem quite light organic growth at present?

And then secondly, that Dynamics like-for-like order profile, Q3 minus £16 million, I know also it has been where it has been weak for quite a while. Was there any specific customer impact in there that you could describe?

Sorry, actually, I said two, but I am going to sneak in a third if possible. Just could you give us an update on where you are on the ERP system rollout? Because you said your ERP peaked, but any guidance on SaaS costs going forward as well, please?

Andrew Heath: Yes, let me take the first two, and Angela, I will ask to talk about ERP because Angela's now sponsoring all the ERP initiatives across the Group.

So just on the orders, I think it is consistent what I said to Mark, Rich. I think we see a progressive recovery in the order intake from here on in. So the H1, whether we get back into what I call accelerating growth phase, i.e., the annualised LTM orders exceeding, potentially, I think that is where we could be. However, I think it is going to be more sort of H2-weighted. However, there is a lot of uncertainty out there. And I think it is going to be quite a lumpy sort of recovery phase in reality, where we will see certain markets move, others not, and then not everything is going to move in unison.

And specifically on your Dynamics question, Q3 was predominantly automotive and predominantly Europe. I think we all saw a lot of news flow come out of automotive OEMs in Europe in the third quarter. And we saw a big pullback, particularly, as I said, in the physical test side of the automotive industry that clearly impacted Dynamics. However, good to see that they got back into positive order growth again in the fourth quarter.

And I think just on the automotive, clearly, Dynamics, about a third of its business is exposed to automotive. However, increasingly, our virtual test is becoming a bigger and bigger part of that. As you saw in the video, it is sort of $80 million, €80 million of sales end of last year. It grew high-teens last year and certainly exceeded a number of its peers, competitors. We absolutely feel we have got leading offerings and taking share and becoming really the number one offering in that real immersive dynamic ride and handling side of simulation.

Angela Noon: Thank you for your question on ERP. We did give some colour on this at the half-year. And as we got into H2, we managed to get through the stabilisation phase. And of course, it cost slightly more than we expected at $45 million. I think the good news is after that, we have now got a blueprint of how we want to roll this out throughout the company. We are still expecting to go ahead with the cluster two in our Dynamics division in Q3. However, we do see the cost of ERP coming down now.

I think what I would also share with you is we have just actually taken part company-wide for the users of MP and Dynamics, a large survey for end users, together with lessons learnt with a third party. And there is a lot of stuff came out of that that highlights this is good for the company, it is changing people's lives, and it is making the business more efficient.

However, for sure, there is things we now need to push into the next phase. So, yes, it is going well, and it is on track.

Mark Jones (Stifel): Just a couple more for Angela, if I can. Firstly, coming in, I think one of the noticeable things about Spectris has always been the huge seasonality and profitability in that big Q4 dependency. Do you think there is anything that can be done to moderate that? Because it always increases risk profile through the first half of the year.

Angela Noon: I am certainly going to try. You are absolutely right. I think the drop-through, and you saw this on this chart that I put up, the drop-through is also because we have obviously got these larger direct fixed costs, so it is very difficult to navigate.

We are looking again at the same split of 35% in H1, 65% in H2. However, for sure, I am looking at is there anything we can do to change the direct fixed cost to more variable in nature. That is something that we are looking at, at the moment.

What I would say about that drop-through, however, this year, especially in the second half, and it is interesting, is we also had a mix effect, which our virtual test business grew double-digit. Maybe Andrew could speak to it as well. However, it is lower margin. However, it is growing exactly as we expect, and we are very excited about it. However, of course, it changes the blend as we come into the year. However, yes, there is a lot to do.

Mark Jones: My other slightly cheeky question is around the integration within Scientific, just in terms of who is running that process, because clearly you are heavily involved in that. That is a lot of Derek's role, and presumably it is a lot of Terry Kelly's role as well, coming in from that. How does that work in terms of lines of responsibility?

Andrew Heath: Yes. So, Derek is responsible for it. That was one of the key reasons we asked Derek to move to run the Scientific division. We could see what was coming or potentially coming from an M&A perspective in Scientific. We wanted to increase the strength of the leadership there. That was the reason we made the move for Derek and bringing Angela in.

Derek is leading that, and Terry's directly on the ground, responsible for the programme, and he has a full team supporting him. However, they are getting plenty of support from Angela, from myself, from our HR Director and all the members of the team around the Group.

Look, it is a big programme. It is a big priority, but there is huge value to be delivered. And as I said, Mark, briefly my comments, I mean, since we have acquired the business, they have been under our ownership, we are just even more excited about the potential there. And the teams are, which is the really encouraging piece of this. Our people are very excited. They can see the combination. They can see bringing it together is super complementary to what it does for customers. The cost synergies are very real. We are very confident on that. And on the revenue synergies, I think we are even more confident than we said in terms of when we announced the acquisition back in July last year.

Mark Jones: Fantastic. Thank you.

Richard Paige (Deutsche Numis): Just a point of clarification on that, the like-for-like orders that you have shown, how have you dealt with the acquisitions?

Andrew Heath: Our like-for-like is, as we have always reported. We adjust for FX, and we strip out any disposals and strip out any acquisitions out of that 12-month period. So, they are true. It excludes Red Lion, for instance, was gone. And then it excludes the acquisitions. The CAGRs I showed on the chart exclude both sides of that. Thus, we are growing.

Richard Paige: And then the natural question on that is then the acquisitions themselves. You are seeing a very similar pattern in their order growth?

Andrew Heath: Yes. On their order growth, they have both done very well on orders through last year. They grew higher than the Group through last year.

Richard Paige: Thanks.

Stephan Klepp (HSBC): Yes. Hi. Good morning. I hope you can hear me. Apologies that I cannot be there, and apologies that I am Stefan still and not Stephen. I wanted to ask a couple of things.

First of all, it is all add-ons to what has been asked before. ERP, I mean, I get it, £45 million this year. You did three acquisitions. The entire programme will be longer running because you want to move to one ERP, and there will be costs involved. Can you update us on the timeline? Are we now looking into finalisation in 2027, and how much will that cost in total per annum, please?

Second question is deleveraging. I have a view. Can you please from your perspective talk through the deleveraging bridge from 2.3x leverage to in your target corridor 1-2x, and particularly bearing in mind the earnout next year as well the ERP costs which are still significant?

And then coming back as well to the organic growth, funny that, on slide 25 you showed 6.9% organic growth. Can you split that into volume and pricing, please? Because I think we have to bear in mind that 2021-22, we had significant years in terms of demand as well as in terms of pricing changes. Dissecting those two would be quite good.

Angela Noon: Stephan, maybe starting with the ERP, I do not know when you joined the call, but we have given guidance of £25-30 million in 2025. We are looking at another £20 million, £15-20 million in 2026. You are quite right, there is a small delay, but it is certainly not into 2027. However, yes, we are basically on track with the programme. We have simply added Micromeritics and SciAps. The rest of the programme is back, as we presented at the half-year.

In terms of leverage sitting today at 2.3x, there is a number of factors that get us back into the corridor. Obviously, the working capital targets that I presented today, we are going to push and drive very, very hard the working capital, and I see clear line-of-sight to do that.

The other thing I would mention is you talked about earnouts. I am expecting to pay minimal cash for earnouts in 2025, not because we are far behind. We are actually bang on the business plan. If you look, we talked about £10 million profit for 2024, and we have hit exactly 10 million profit for 2024. It is more that the businesses we were acquiring had very stretchy targets. We stuck to our targets and the business, the earnouts have been on the acquired company stretch. So, I will get an upside from that.

I have also got my tax returning back to normal levels. We can give you more colour on that through the IR team. And then I am reducing CAPEX as well by another £15-20 million.

I think overall, that coupled with earnings momentum from our organic business and from the acquisitions, as much as we are looking at very modest growth in 2025, should get me back in under 2x or even slightly lower.

Andrew Heath: Thank you, Angela. And just your point, Stephan, on the 6-9% growth. Yes, clearly we have come through quite a turbulent time with inflation, etc. However, that is our aggregate number. When we stood up in October 2022, we said it would be 6-7% organic with all those factors in place, and we are bang in line with what we expected to deliver.

Jonathan Hurn (Barclays): Hey, guys. Good morning. Likewise, very sorry that I am not there. I just have a couple of questions. You may have already answered these. The first one was just in terms of that outlook for growth in FY25.

I do not know if you made any comments about how much growth you think you may be able to get from pricing in 2025. Just some colour there would be good. And then the second one was just in terms of the order book and particularly the margin order book as it stands right now. If we look at Q4, obviously, we have had a recovery in some of those, I would say, higher-margin segments, stuff like life technology. As we look at that order book, is the margin of that pretty much due to mix higher than it has been for a while? That was the second one. Thank you.

Andrew Heath: Okay. I think I got all that, Jonathan. I think your first point on 2025 and growth, I think in terms of what is sort of out there in terms of the market in general, is a fair estimate. As we talked earlier, we see through this year a progressive recovery through the year. However, the rate at which that happens, obviously, is going to be determined by a number of market factors. And it is difficult early on in the year to call exactly how that is going to play out, certainly with all the uncertainty that is out there at the moment.

I think you asked specifically around pricing. Pricing for us is, I would just say, back to sort of business as usual, pretty much there to offset the rate of inflation through the year, plus with our sort of Spectris Business System, helping to then defray input cost inflation as well.

And on the order book, if you actually look at the order book as it stands today, it is broadly in line with where we were 12 months ago. You saw the order profile. Hopefully, the graphs that we included in the presentation have been quite helpful, just to show what the shape and progression of the orders have been and sales have been. And you can see the orders are coming back, getting close back to 1x on a book-to-bill basis for the end of the year. Thus, the order book is pretty much back to where it was. And that, I think, supports this progressive recovery through the year.

And from a mix perspective, I think you said right at the end, I do not think there is anything from a mix point of view that you should have to worry about. The mix across the business, generally speaking, is pretty consistent from what we have seen.

Thank you everyone for attending and for joining online as well as in the room. Clearly, 2024 was impacted by what we described in terms of the overall markets. However, we took decisive actions through last year. Our performance in the second half, I think, just demonstrates and underlines just how those actions are coming to bear fruit inside the business.

Our second half is quite a contrast to our first half from a financial performance. And as we enter 2025 with that order of momentum we saw in Q4, that is encouraging. We expect to see some progressive growth through the year. And with the actions we have taken on the

Profit Improvement Programme, with the tailwinds from the acquisitions, we are well-placed to deliver significant improvement in earnings through the year.

With that, thank you very much.

[END OF TRANSCRIPT]