

# Welcome to Victrex's FY13 results presentation

Tuesday 10 December 2013

PASSION • INNOVATION • PERFORMANCE



# Welcome and Introductions

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David Hummel  
Chief Executive



Steve Barrow  
Group Finance Director

# Business highlights

## ***Robust performance and improvement in the second half year***

- Volume, revenue and EPS ahead
- Good underlying trading in VPS; Invibio stabilised
- Gross margins remain strong
- Continued investment to deliver and support future growth programmes
- Record cash generation
- Full year dividend increased by 15%

# Group income statement

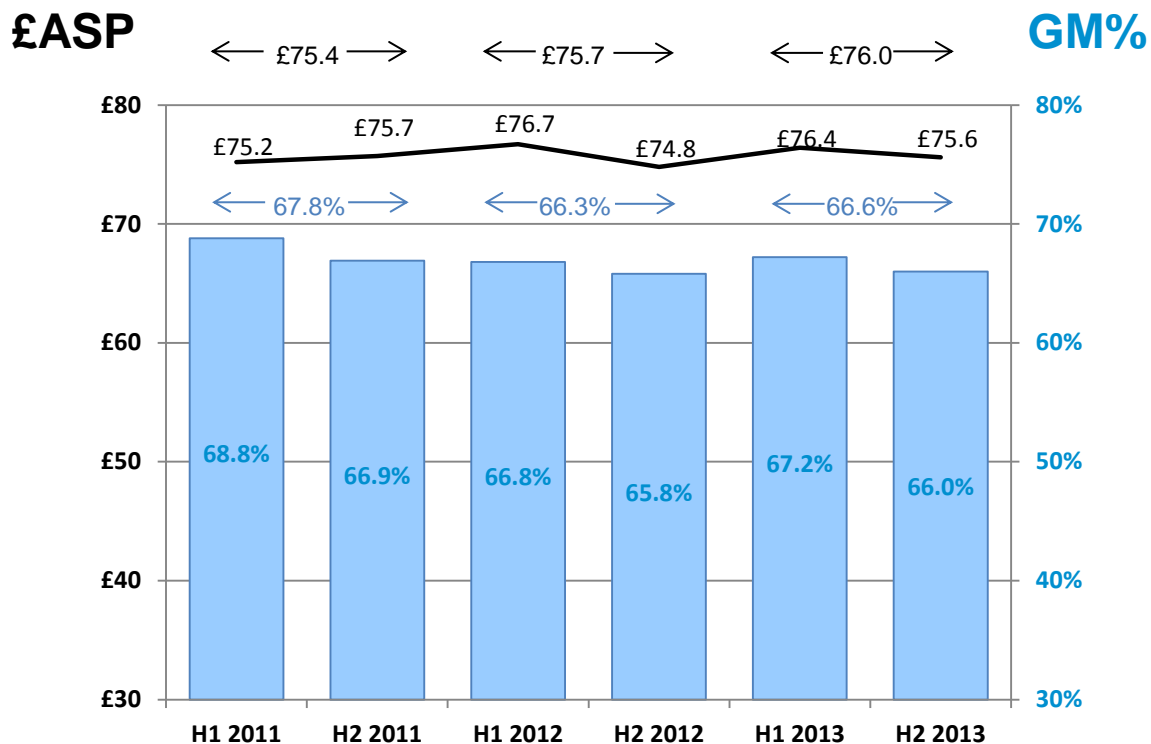
Year ended 30 September	2013 £m	2012 £m	Change %
<b>Revenue</b>	<b>221.9</b>	219.8	<b>1%</b>
<b>Gross profit</b>	<b>147.8</b>	145.7	<b>1%</b>
<i>Gross margin %</i>	<b>66.6%</b>	66.3%	<i>0.3 % pts</i>
<b>Overheads</b>	<b>(53.8)</b>	(51.7)	<b>4%</b>
<b>Interest</b>	<b>0.6</b>	0.5	<b>20%</b>
<b>Profit before tax</b>	<b>94.6</b>	94.5	<b>0%</b>
<b>Earnings per share</b>	<b>86.5p</b>	85.7p	<b>1%</b>

- Margins remain strong
- Continued investment to deliver future growth programmes
- FY13 tax rate 22.9%; expected FY14 tax rate c21.5%

# Business unit income statements

	VPS			Invibio		
Year ended 30 September	2013	2012	Change	2013	2012	Change
	£m	£m	%	£m	£m	%
<b>Revenue</b>	<b><u>171.1</u></b>	<u>169.3</u>	<b>1%</b>	<b><u>50.8</u></b>	<u>50.5</u>	<b>1%</b>
<b>Gross profit</b>	<b>103.1</b>	101.1	<b>2%</b>	<b>44.7</b>	44.6	<b>0%</b>
<i>Gross margin</i>	<i>60.3%</i>	<i>59.7%</i>	<i>0.6% pts</i>	<i>88.0%</i>	<i>88.3%</i>	<i>(0.3%) pts</i>
<b>Overheads</b>	<b>(34.5)</b>	(32.6)	<b>6%</b>	<b>(15.4)</b>	(15.4)	<b>0%</b>
<b>Operating profit</b>	<b><u>68.6</u></b>	<u>68.5</u>	<b>0%</b>	<b><u>29.3</u></b>	<u>29.2</u>	<b>0%</b>

# Group gross margin



- Strong ASP and gross margin
- Moving downstream: favourable product mix
- Adverse currency movement

# Currency update

## Average exchange rates

	2012	2013	2014 *	Exchange rate sensitivity #
<b>\$/£</b>	1.59	1.57	<b>1.57</b>	<b>£4.2m</b>
<b>€/£</b>	1.17	1.21	<b>1.18</b>	<b>£3.8m</b>
<b>¥/£</b>	126	128	<b>151</b>	<b>£0.7m</b>

- **Currency impact on 2013 PBT c£1m adverse**
- **Current estimate of FY14 currency impact: broadly neutral**

\* 2014 year estimates based on forecast sales volume, currency hedging already in place and spot exchange rates as at 28 November 2013

# Management estimate of impact on full year PBT from a 5% movement in full year average exchange rate

# Strong cash generation

Year ended 30 September	2013 £m	2012 £m
Operating profit	94.0	94.0
Increase in inventories	(3.6)	(4.3)
Decrease/(Increase) in trade and other receivables	1.3	(2.6)
Decrease in trade and other payables	(1.3)	(6.5)
Depreciation	9.5	9.6
Other	1.0	(0.3)
<b>Cash generated from operations</b>	<b>100.9</b>	<b>89.9</b>
Tax paid	(21.7)	(24.4)
Capital expenditure	(40.7)	(27.0)
Dividends paid	(32.7)	(28.0)
Other financing activities	2.1	1.7
<b>Net increase in cash and cash equivalents</b>	<b>7.9</b>	<b>12.2</b>

- **Capital expenditure to support future growth:**
  - PEEK, BDF and APTIV capacity
- **Capital expenditure (indicative):**
  - 2014: £65m      2015: £40m      2016: £30m
- **15% increase in 2013 final dividend (~ £28m)**





# Strong balance sheet

	30 September 2013 £m	30 September 2012 £m
PPE and intangible assets	185.8	153.7
Inventories	51.1	48.6
Cash	91.6	83.9
Trade receivables and other assets	39.1	39.5
Retirement benefit obligations	(3.6)	(4.0)
Trade payables and other liabilities	(50.3)	(50.6)
<b>Equity shareholders' funds</b>	<b>313.7</b>	<b>271.1</b>
Return on capital employed	23.2%	26.5%

- Expected inventory increase, lower than half year
- Strong balance sheet:
  - Ability to invest
  - Security of supply for customers

# Victrex Polymer Solutions (VPS)



Automotive



Aerospace



Electronics



Energy



## Strategic Focus

Focus on PEEK in Auto, Aero, Electronics and Energy

Exploit downstream integration opportunities (eg Speciality Products)  
and extend into other proven markets

# VPS highlights

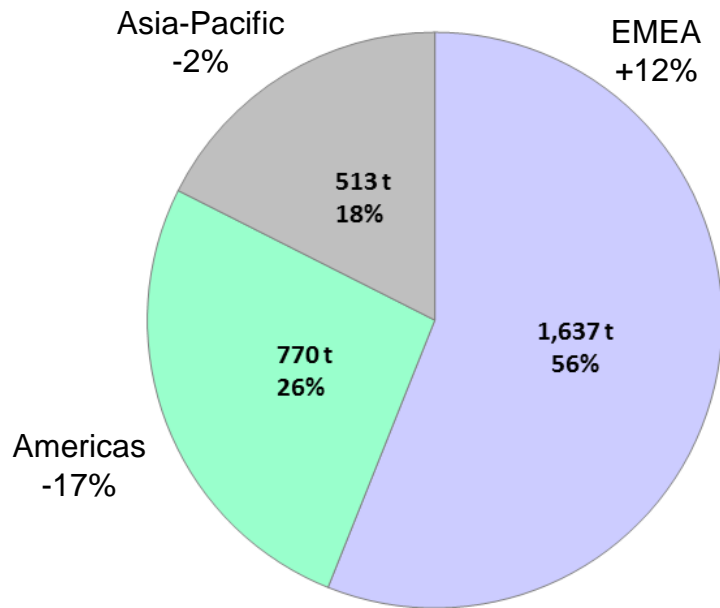


- Volume and revenue slightly ahead
- Good underlying growth in H2, offset by Electronics volatility
- Robust ASP and margins
- Continued progress in Specialty Products
- Evaluation of further downstream opportunities

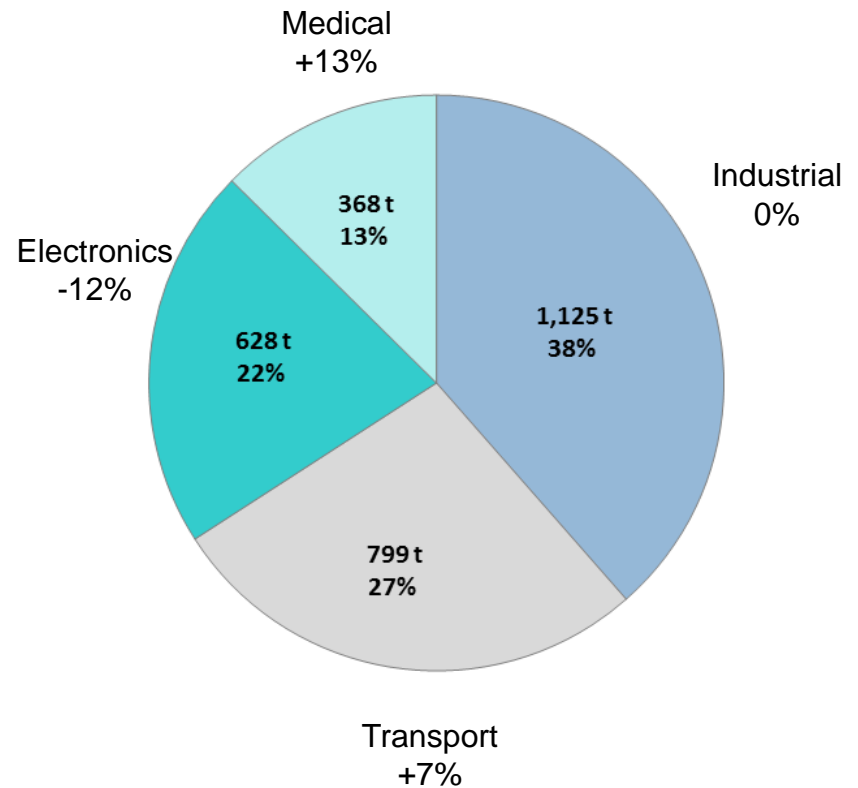
# Group end markets

**FY 2013:**  
**2,920 tonnes**

Volume by Region



Volume by Industry

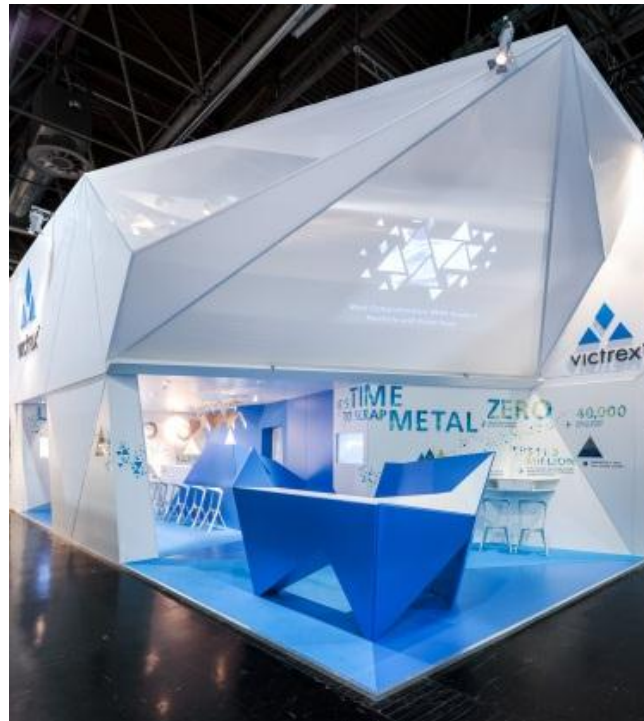


# Strategic marketing: focus on growth

THE **ROAD** TO  
NO **WEAR**

**LIFT-OFF**  
WITH **LESS**

IT'S **TIME**  
TO SCRAP **METAL**



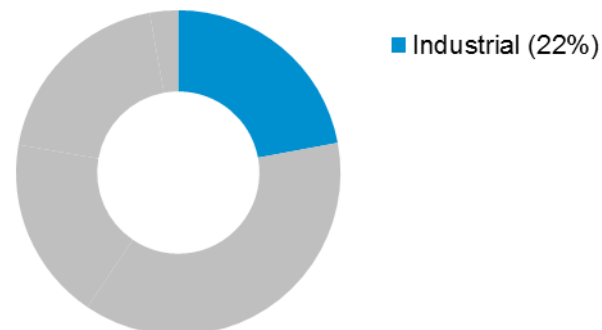
Video of Victrex customer marketing

# VPS market highlights – Industrial

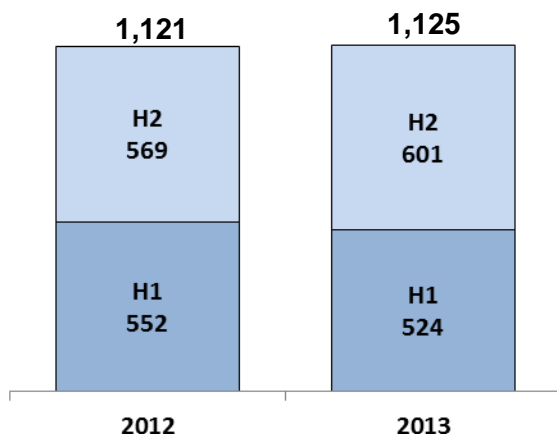
## Growth Drivers

- Increase yield (recoverability) in Oil & Gas
- Deeper water and challenging environments
- Durable materials
- VICTREX PEEK proven track record

## Development Pipeline



## Sales Volume (tonnes)



## Business update

- Industrial volume in line with FY12
  - Industrial machinery solid
- Energy:
  - Lower rig count in 2013
  - New Oil & Gas product
  - Developing 'Fracking' opportunities
  - Magma initial order and field testing

# VPS market highlights – Transport

## Growth Drivers

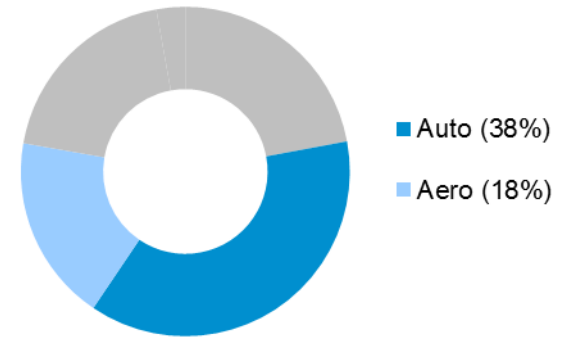
### Automotive

- Durability, fuel efficiency, regulatory standards
- Global car production >70 million cars annually

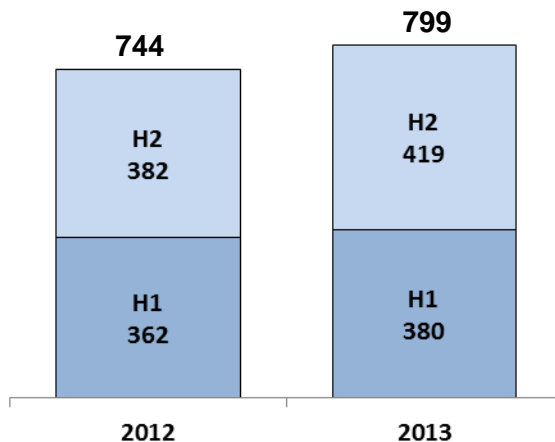
### Aerospace

- Lightweighting; reduce weight and fuel cost
- Order backlogs and production ramp-up

## Development Pipeline



## Sales Volume (tonnes)



## Business update

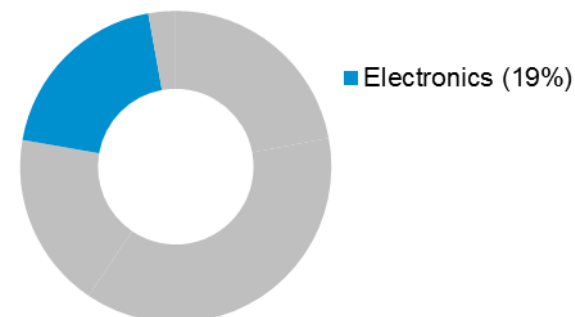
- Volume up 7% on 2012
- Automotive:
  - Driven by Europe
  - New application – wear grade
- Aerospace:
  - Production ramp up
  - COMAC qualification in China
  - New application development

# VPS market highlights – Electronics

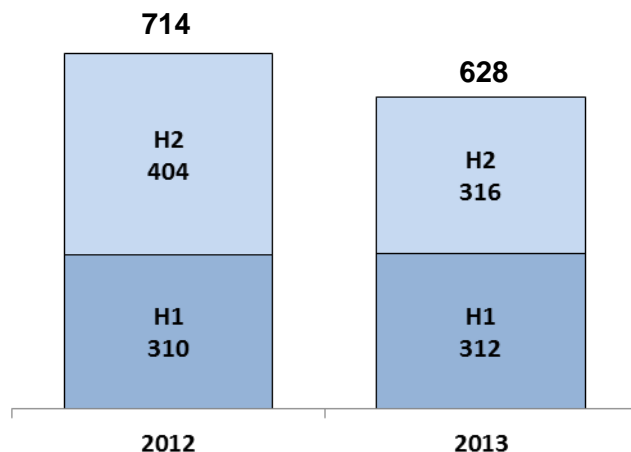
## Growth Drivers

- Thinner, smaller, smarter devices
- Energy and thermal management challenges
- APTIV® films create design opportunities from inherent durability

## Development Pipeline



## Sales Volume (tonnes)

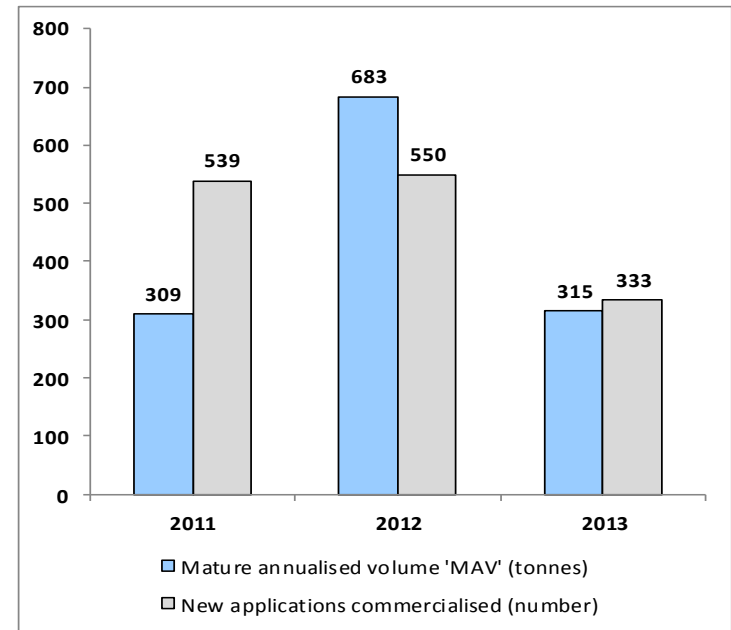
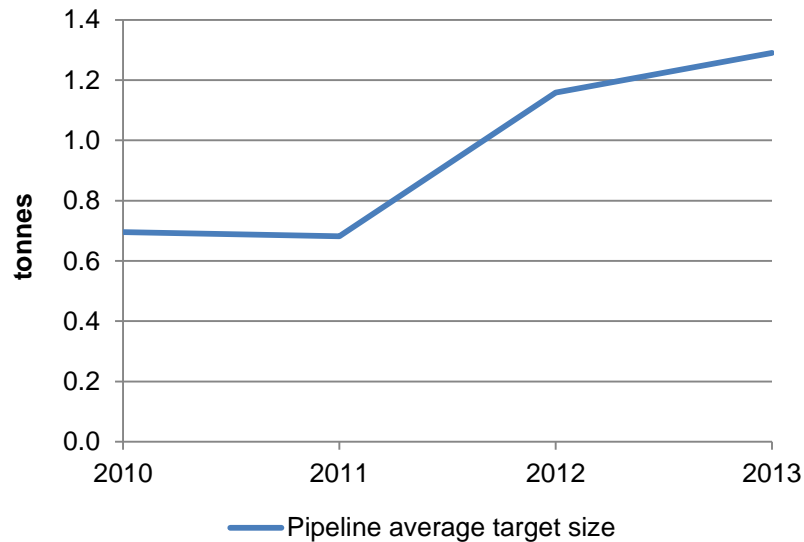
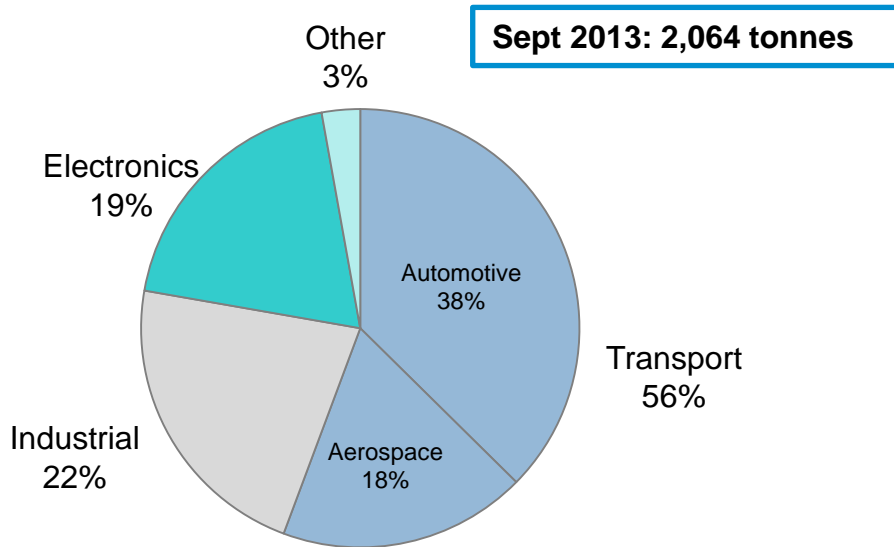


## Business update

- Volume down 12% on 2012
  - Strong H2 2012 comparative
  - Volatility of product life-cycle
  - Minimal capital investment in Semicon
- Long term opportunities:
  - Demand for thinner films
  - Further opportunities for APTIV



# VPS – development pipeline

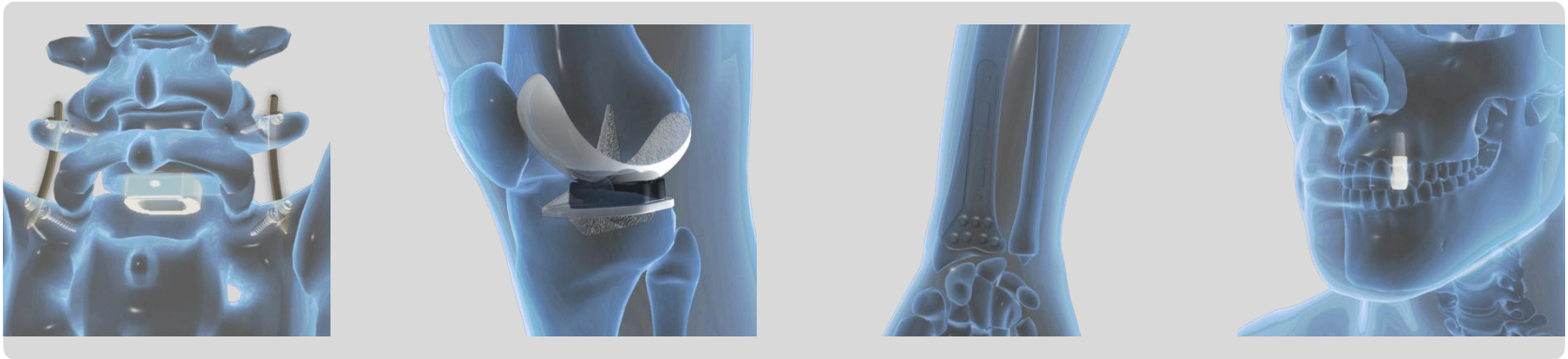


- Pipeline remains strong and diversified
- H2 2013 increase in commercialisation
- Commercialisation in line with historical average
- Portfolio management: focus on more impactful targets

# Speciality Products



- Continued progress this year – favourable margin mix
- Developing new product solutions to serve unmet needs
- Further investment in downstream processing capacity
- Future investment opportunities identified



## Strategic Focus

Deliver value-creating solutions, based on PEEK and other enabling polymers in:

Spine, Arthroscopy, Trauma, Dental and Orthopedics

# Invibio highlights

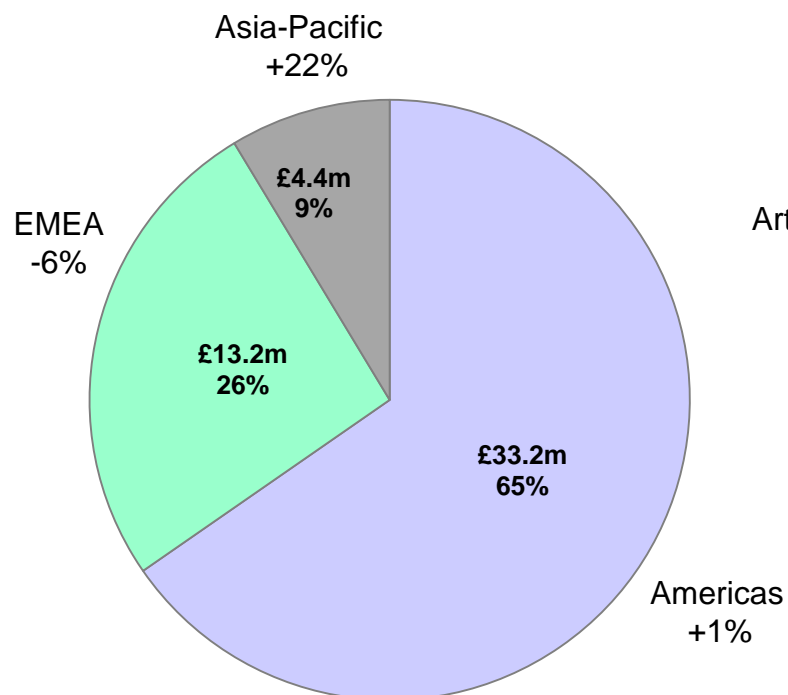


- Spine market stabilised; H2 recovery vs H1
- Margins remain strong
- Further regulatory approvals in Asia
- New product launches in Spine and Dental
- Progress in emerging market opportunities

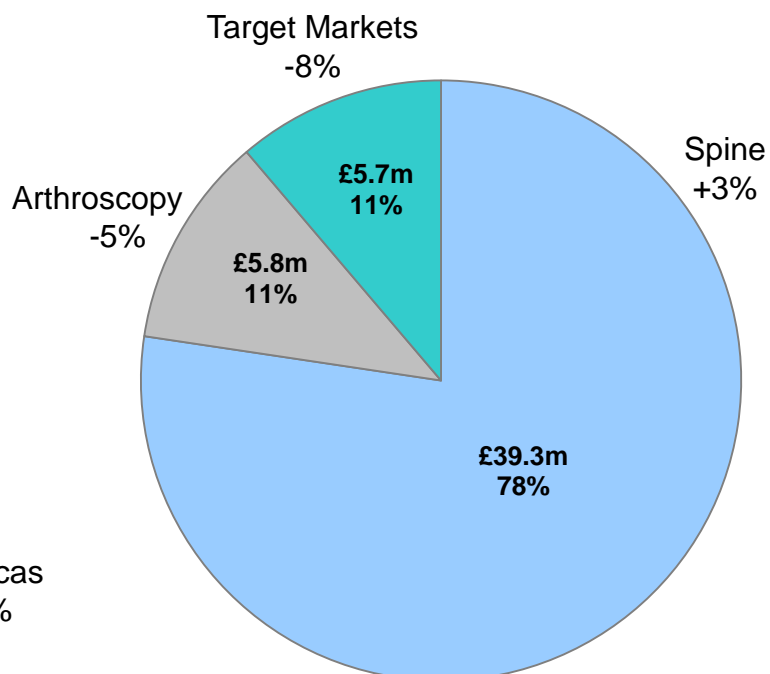
# Invibio – key markets

2013: £50.8m

Revenue by Region



Revenue by Market



# Invibio market focus

Performance  
reward

Cost vs benefit

New solutions

Regulation

Emerging  
markets

## TRENDS

PEEK delivers:  
Clear clinical benefit & superior performance

## APPLICATIONS

Spine

**Invibio** SPINE  
Materials. Manufacturing. Knowledge.

Arthroscopy

**Invibio** ORTHO  
Materials. Manufacturing. Knowledge.

Dental

 **JUVORA**  
DENTAL INNOVATIONS

Trauma

**Invibio** TRAUMA  
Materials. Manufacturing. Knowledge.

Knee

**Invibio** ORTHO  
Materials. Manufacturing. Knowledge.

**Horizon 1**  
(today to 2 years)

**Horizon 2**  
(2-5 years)

**Horizon 3**  
(5 years +)

**TIMESCALE**

# Invibio market highlights: Spine

## GROWTH DRIVERS

- US and Europe stabilised
- Limited innovation – new solutions demanded
- China key focus for growth



## Revenue (£m)



**Invibio<sup>®</sup> SPINE**  
Materials. Manufacturing. Knowledge.

## BUSINESS UPDATE

- Spine recovery in H2; double digit growth vs H1
- HA ENHANCED launch
- Superior product; increased bone apposition

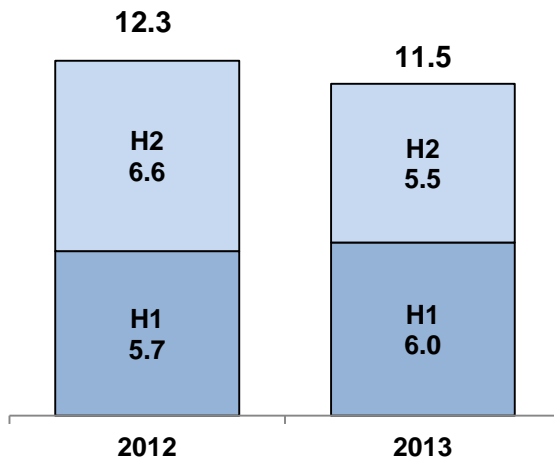
# Invibio market highlights: Arthroscopy, Dental, Trauma

## GROWTH DRIVERS

- Arthroscopy – sports injury recovery; resorbables
- Dental – Lifestyle, metal replacement
- Trauma – failure rates



## Revenue (£m)



YEAR ENDED 30 SEPTEMBER 2013



**Invibio<sup>®</sup> ORTHO**  
Materials. Manufacturing. Knowledge.

**Invibio<sup>®</sup> TRAUMA**  
Materials. Manufacturing. Knowledge.

## BUSINESS UPDATE

- Arthroscopy – impacted by product launches
- Dental – 60+ lab approvals
- Trauma – commercial programmes




















# Invibio Component Solutions



- Moving downstream: Component based solutions focused on performance, clinical benefit and high incidence surgeries
- JUVORA and Trauma progressing with further regulatory approvals
- Knee – development partnership established
- Reviewing potential investment opportunities

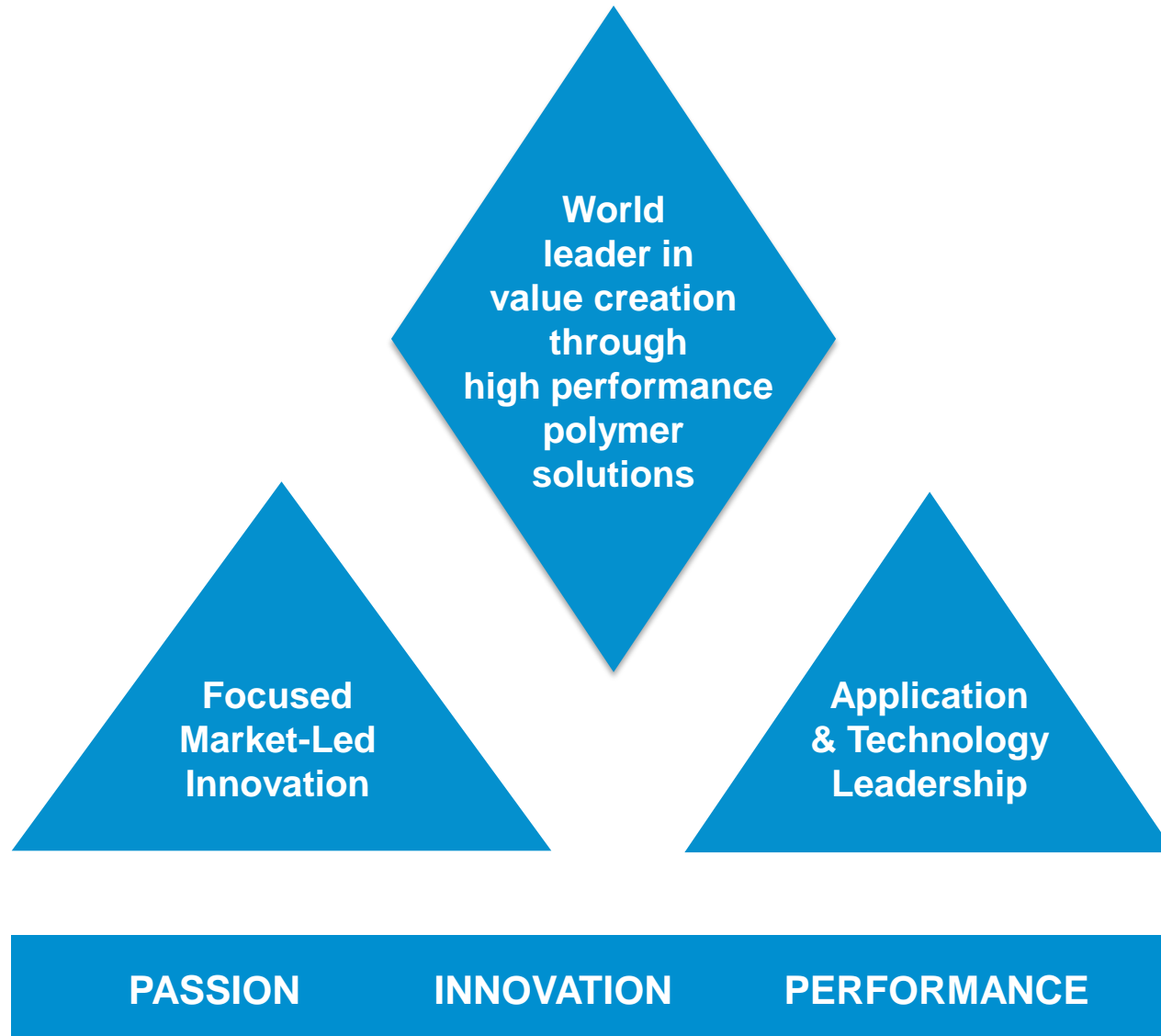
# Group Outlook: FY14

	Aerospace		<div>Key:</div> <div> Optimistic</div> <div> Neutral</div> <div> Cautious</div>
	Automotive		
	Energy / Industrial		
	Medical (Spine)		
	Medical (Developing markets)		
	Electronics		

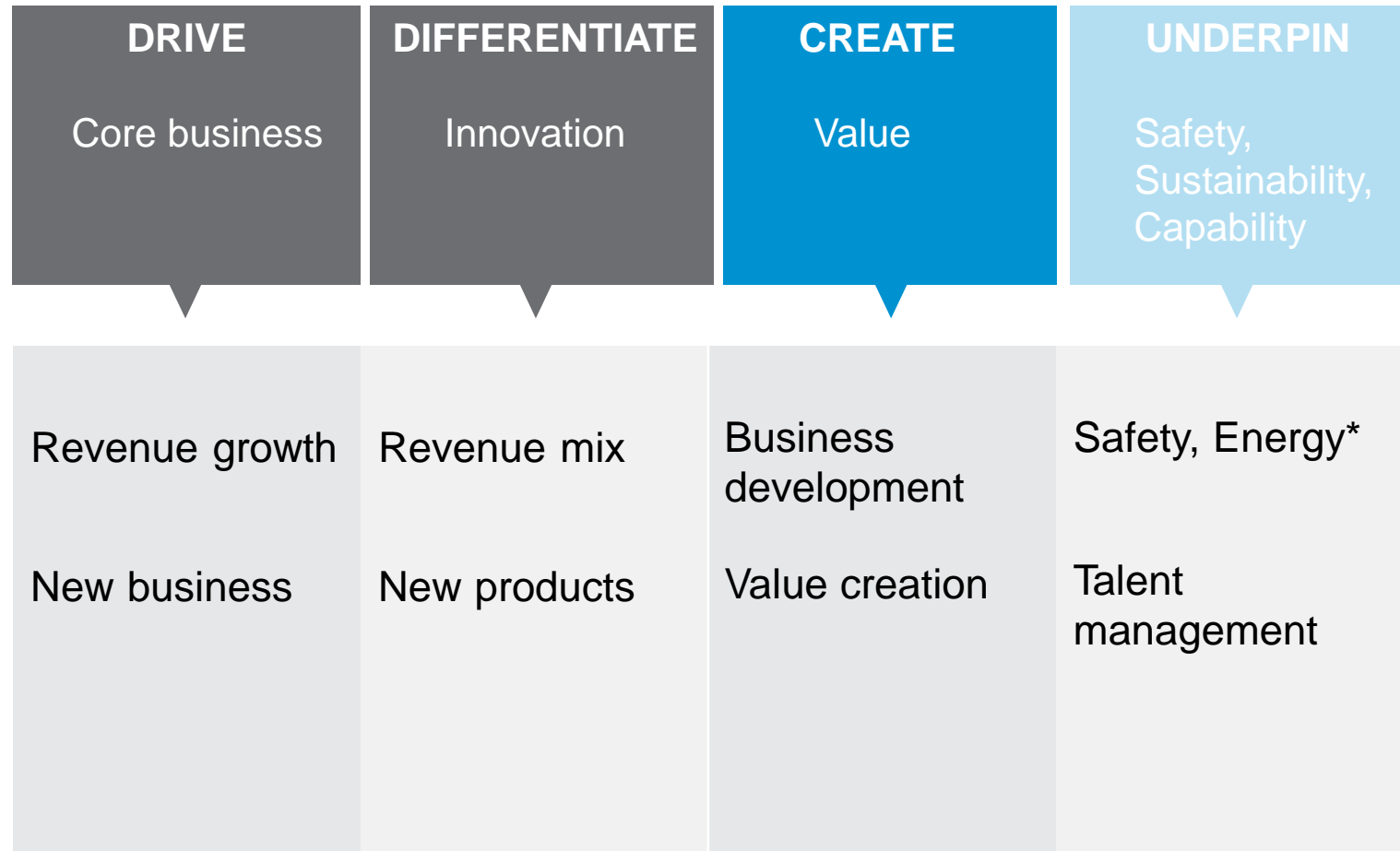
- ***Initial outlook for our markets in FY14***
- ***Medium/long term structural growth drivers remain strong***

# Our strategy for growth

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# Strategic KPIs



\* Published in our Sustainability Report

# Summary: well placed for growth

- **Steady growth momentum**
- **Differentiating through innovation**
- **Diverse growth opportunities**
- **Continued investment:  
underpin future growth**



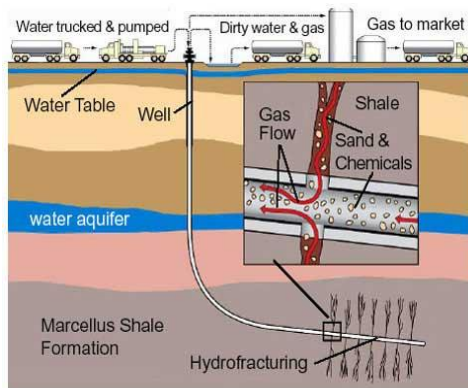
***Victrex's business and share price may be affected by a number of risks, trends, factors and uncertainties, not all of which are in our control.***

***Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors, including: changes in exchange rates; changes in global, political, economic, business, competitive and market forces; changes in raw material pricing and availability; changes to legislation and tax rates; future business combinations or disposals; relations with customers and customer credit risk; events affecting international security, including global health issues and terrorism; changes in regulatory environment and the outcome of litigation.***

# Appendix 1: Energy – our ‘fracking’ opportunity

## *BUILDING ON VICTREX'S PROVEN EXPERTISE IN ENERGY....*

- **MARKET:**
  - 50pc increase in US shale gas production expected over next 10 years
  - China holds the world's largest shale gas reserves, but produces <1%
- **TECHNICAL:**
  - Sealing solutions – VICTREX PEEK offers heat, pressure, chemical and sand resistance (8 times more creep resistance vs competitor materials)
  - PEEK now fully tested in ‘fracking chambers’ within shale oil & gas operations
- **COMMERCIAL:**
  - Exploring partnership opportunities



Strategic  
Marketing

Application  
Focussed  
Technology

Market  
Orientated  
Commercial

