

9 May 2022

Victrex plc – Interim Results 2022

‘Strong first half & volumes up 8%; underlying PBT up 10% in constant currency’

Victrex plc is an innovative world leader in high performance polymer solutions, delivering sustainable products which support CO2 reduction and bring environmental and societal benefit in multiple end-markets. Today’s announcement covers interim (unaudited) results for the 6 months ended 31st March 2022.

	H1 2022	H1 2021	% change (reported)	% change (constant currency) ¹
Group sales volume	2,264 tonnes	2,087 tonnes	+8%	N/A
Group revenue	£160.1m	£150.9m	+6%	+9%
Gross profit	£85.0m	£81.4m	+4%	+8%
Gross margin	53.1%	53.9%	-80bps	N/A
Underlying PBT ¹	£48.2m	£46.6m	+3%	+10%
Reported PBT	£43.6m	£46.6m	-6%	-
Underlying EPS ¹	47.8p	46.9p	+2%	N/A
EPS	43.5p	46.9p	-7%	N/A
Dividend per share	13.42p	13.42p	flat	N/A

Highlights:

- **Strong first half, volumes +8%**
 - Double-digit growth in Electronics, Energy & Industrial, VAR
 - Recent improvement in Automotive, despite Semiconductor chip challenges
 - Medical revenue +12% as elective surgeries return
 - 6% increase in core application growth pipeline
- **Underlying PBT up 3% & up 10% in constant currency**
 - Underlying profit before tax (PBT) up 3% at £48.2m
 - Reported PBT down 6% reflecting £4.6m exceptional items relating to one off expensed ERP software implementation
 - Gross margin broadly stable (improvement impacted by timing of inflation recovery & FX)
 - Continuing action to mitigate inflation:
 - Operational improvements offset inflation in H1
 - Additional price recovery well advanced in H2
- **Strong mega-programme growth pipeline**
 - Strong progress in PEEK Knee clinical trial, 15 implants & recruitment at halfway stage
 - New business wins for next generation E-mobility programme
 - Good progress in Magma; supporting scale-up in Brazil
- **Strong cash generation drives growth investment & returns**
 - H1 2022 available cash¹ of £41.9m*
 - Good progress on new PEEK facility in China; commissioning in 2022
 - H1 dividend of 13.42p/share
- **Good progress on ESG strategy**
 - 100% renewable electricity at all UK sites
 - Victrex joins Apple Clean Energy Supplier programme
 - New Corporate Responsibility Committee established

¹ Alternative performance measures are defined on page 12

*excludes £3.8m of cash ring-fenced in the Group’s Chinese subsidiaries and includes £0.1m in 95-day notice deposit accounts

Jakob Sigurdsson, Chief Executive of Victrex, said: "This is a strong first half, with further improvement across all end-markets, good progress in our Medical business as elective surgeries return in greater numbers and improved average selling prices compared to the second half of 2021.

"Our attractive and differentiated portfolio includes sustainable products which bring environmental and societal benefit and, reflecting the value PEEK brings to customers, our core application growth pipeline increased by 6%. Whilst volumes were strongly ahead and our initial price recovery programme is delivering on plan, we have faced further unprecedented energy, raw material and distribution inflation, as well as FX headwinds. Thanks to significant improvement in operating efficiency and better asset utilisation, first half margin was broadly stable, despite the additional cost inflation, which we are well placed to recover. Without these additional cost headwinds, margin would otherwise have improved closer to our target level.

"Cash generation remained strong, supporting growth investment and shareholder returns. We are also pleased to be making good progress at our new PEEK facility in China, in a year of high capital expenditure to support our future growth in that region. Full mechanical completion is anticipated during Q3 and, subject to current COVID restrictions in China, we plan to start commissioning thereafter. Alongside growth investment, we have declared an interim dividend for shareholders of 13.42p/share.

Outlook

"Our core business and PEEK offering continue to be strong, with a clear focus on increasing the proportion of sustainable products which bring environmental and societal benefit.

"For the remainder of FY 2022, we anticipate continuing volume growth, which is likely to see growth of a similar magnitude to the first half, although we are mindful of the potential for a changing global economic environment later in the year. Mitigation plans for recovering additional inflation are making good progress although, as previously communicated, gross margin in the second half is likely to be slightly lower than the first, primarily as a consequence of currency movements. Nevertheless, for FY 2022 as a whole, we remain focused on delivering good year-on-year growth.

"On a medium to long term basis, Victrex remains well placed, with a broad range of growth opportunities, a strong ESG agenda and a highly cash generative business model."

About Victrex:

Victrex is an innovative world leader in high performance polymer solutions, focused on the strategic markets of automotive, aerospace, energy & industrial electronics and medical. Every day, millions of people use products and applications which contain our sustainable materials – from smartphones, aeroplanes and cars to oil and gas operations and medical devices. With over 40 years' experience, we develop world leading solutions in PEEK and PAEK based polymers, semi-finished and finished parts which shape future performance for our customers and our markets, provide environmental and societal benefits, and drive value for our shareholders. Find out more at www.victrexplc.com

A presentation for investors and analysts will be held at 9.00am (GMT) this morning at JP Morgan, 1 John Carpenter Street, London EC4Y0JP. A conference call facility is available, to register, dial +44 (0) 3333 000804 and participant pin 93945287#. Audio playback is available by dialling +44 (0) 3333 000819 and participant pin 425020407#. The presentation will be available to download from 8.30am (GMT) today on Victrex's website at www.victrexplc.com under the Investors/Reports & Presentations section.

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Interim results statement for the 6 months ended 31st March 2022

‘Strong first half & volumes up 8%; underlying PBT up 10% in constant currency’

Group financial results

H1 sales volume up 8%

Group sales volume of 2,264 tonnes was 8% up on the prior year (H1 2021: 2,087 tonnes), reflecting a strong performance across a number of end-markets, principally driven by Electronics, Energy & Industrial and Value Added Resellers (VAR). VAR remained strong despite our anticipation of no restocking benefit compared to the prior year.

In Automotive, sales volume was down 8%, reflecting the current challenges in Semiconductor impacting the Automotive industry, although we have seen some improvement over recent months. Aerospace has seen steady improvement, with 4% growth year-on-year.

Despite strong comparators, Q2 volume of 1,239 tonnes saw 3% growth on the prior year (Q2 2021: 1,204 tonnes).

Continued growth in core business application targets

We saw a 6% increase in our core business application pipeline, which reflects the health of our core business as we work with Original Equipment Manufacturers (OEMs) and Tier 1 suppliers to develop new applications for PEEK. Our Mature Annualised Revenue (which could occur only if all targets convert) within the core application pipeline is £303 million (H1 2021: £285m).

Group revenue up 6%

Group revenue was £160.1m, up 6% on the prior year (H1 2021: £150.9m), reflecting a strong performance in most Industrial end markets and a better performance in Medical.

Group revenue in constant currency¹ was 9% up on the prior year (H1 2021: £147.2m in constant currency).

ASP improvement vs H2 2021

Our Average Selling Price (ASP) of £71/kg saw some improvement on a sequential basis, compared to the second half of 2021 (H2 2021: £68/kg), principally reflecting an improvement in Medical as surgery rates increased, offset by the impact of currency and strong growth in a number of Industrial end markets. With Medical set to continue improving as surgery rates increase globally, offset by a sizeable currency headwind and continued strength in Industrial, our expectations are that FY 2022 ASP will be similar to the first half. H1 ASP also reflects the initial price recovery taking effect during the first half and delivering on plan, although with customer contracts renewing at different times, the full benefit was not realised during the first half. Mitigation and price recovery for additional cost inflation is being implemented, with energy and raw materials comprising the majority of the double-digit cost headwind.

Good performance in Industrial & Medical improvement

Our Industrial division reported revenues of £132.3m, 5% up on the prior year (H1 2021: £126.0m) but 8% up in constant currency, driven by growth in Electronics, Energy & Industrial and Value Added Resellers.

Medical revenues were £27.8m, up 12% on the prior year (H1 2021: £24.9m) and 12% ahead in constant currency¹. Recovery was primarily driven by Asia, where we saw a record performance as surgery rates recovered faster than other geographies. Growth was broad based across Spine, Trauma, Arthroscopy and CMF. US surgery rates were impacted by the Omicron variant of COVID in late 2021, meaning revenues in that region were up 3%, though we have seen recent improvement. Our non-Spine business continues to grow, with good progress in Cardio and Drug Delivery. Non-Spine now represents 51% of Medical revenues (H1 2021: 46%).

Gains & losses on foreign currency net hedging

Fair value gains and losses on foreign currency contracts, where net hedging is applied on cash flow hedges, are required to be separately disclosed on the face of the Income Statement. In H1 2022, a gain of £1.7m (H1

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2021: gain of £0.5m) has been recognised accordingly, largely from contracts where the deal rate obtained (placed up to 12 months in advance in accordance with the Group's hedging policy) was favourable to the average exchange rate prevailing at the date of the related hedged transactions.

Gross margin impacted by cost & currency headwinds

Group gross margin of 53.1% was slightly lower compared to H1 2021 (53.9%). With substantial inventory unwind during FY 2021, we are now seeing higher production volumes, which is starting to benefit our asset utilisation, although we still have some under absorbed fixed costs in our downstream assets, particularly our Rhode Island Aerospace composites facility and our Aptiv film facility. With our initial price recovery programme delivering on plan, other inflationary costs, higher freight costs to serve customers, currency and additional mobilisation costs for our new China manufacturing investments impacted our margin during the first half, offsetting the benefit of improving asset utilisation.

As previously communicated, margin in the second half is likely to be slightly lower reflecting the higher currency headwind in the second half and the timing of inflation recovery. Our intentions remain to deliver a recovery in gross margin from these levels once existing headwinds subside, once the full benefit of our price recovery programme takes effect and asset utilisation continues to improve. Without the impact of the unprecedented cost inflation and currency headwinds, gross margin in the first half would have been closer to our target level, reflecting much improved asset utilisation and other operating efficiencies.

Inventory unwind

With the significant inventory unwind during FY 2021, our H1 2022 closing inventory position of £79.8m (FY 2021: £70.3m) reflects rebuilding of some raw material inventories, which had fallen close to safety stock levels for certain raw materials. With some uncertainties in global supply chains and the higher cost of manufacture, we continue to expect total inventory in FY 2022 to fluctuate between £70m and £80m.

Investment in innovation

Total overheads, including exceptional items of £4.6m, increased to £41.0m (H1 2021: £34.4m) primarily reflecting higher innovation investment, offset by a slightly lower bonus accrual compared to the prior year. On an underlying basis, excluding exceptional items and bonus, overheads increased by 13%.

Our Group All Employee Bonus Scheme is no longer based primarily on profit growth, but is based on actual performance versus a budget-based target, with a cap in place. We envisage this will reduce the volatility of bonus payout year on year. Executives are now, from FY 2022, also incentivised on targets linked to our ESG goals.

R&D investment is measured on a full year basis and is currently tracking at 5%-6% of revenues¹. Of total R&D investment focused on individual projects, approximately 88% of this is now aligned to programmes supporting sustainable products.

Underlying PBT up 3%

Underlying PBT of £48.2m was up 3% on the prior year (H1 2021: £46.6m), reflecting a solid operating performance, partially offset by currency and inflation. Reported PBT reduced by 6% reflecting exceptional items of £4.6m (H1 2021: nil), representing the cost of implementing a new ERP software system. In previous years these costs would have been capitalised but are now expensed in line with recently issued IFRIC guidance. The implementation will be completed in mid-2024.

Underlying earnings per share up 2%

Underlying EPS was up 2% at 47.8p (H1 2021: 46.9p). Basic earnings per share of 43.5p was 7% down on the prior year (H1 2021: 46.9p per share), reflecting the impact of exceptional items on reported PBT in the first half.

Taxation

The effective tax rate was 14%, lower than the prior year (FY 2021: 21.3%) which is mainly due to the restatement of deferred tax balances in FY 2021, following the announcement that the UK Corporation tax rate would increase to 25% from April 2023. Whilst the UK corporation tax rate is currently 19%, because of the availability

of the reduced rate on profits taxed under Patent Box, our mid-term guidance at this stage remains for an effective tax rate of approximately 12%-15%, although we continue to assess global taxation developments.

Currency headwind

Currency was a modest headwind of approximately £3m at PBT level, reflecting the strengthening of Sterling in the prior year when hedging was put in place. The weighting of the currency headwind is expected to be more in the second half, meaning a slightly lower overall headwind for FY 2022 in the range of approximately £6m-£8m at PBT level, with over 80% of hedging cover in place for US Dollar and Euro exposure. At this early stage, currency for FY 2023 is tracking as a small headwind.

Our hedging policy seeks to substantially protect our cash flows from currency volatility on a rolling twelve-month basis. The policy requires that at least 80% of our US Dollar and Euro cash flow exposure is hedged for the first six months, then at least 75% for the second six months of any twelve-month period. The implementation of the policy is overseen by an Executive Currency Committee which approves all transactions and monitors the policy's effectiveness.

COVID-19

The health, safety and well-being of Victrex employees and supporting our customers continued to be our highest priority during the first half. A full Return to Site, supported by our Global Flexible Working policy, was implemented during the first half in the UK. In our other global regions, we are seeing a mix of site-based working and home working, dependent on governmental guidelines and local conditions.

Investment in capacity and growth

Cash capital expenditure was £26.7m (H1 2021: £16.5m), principally to support the final phase of our China manufacturing investments, which will provide additional capability to support customers in China. We also commenced a multi-year investment to support the efficiency improvement of our UK manufacturing assets, a project which was deferred during the pandemic. We anticipate this will be approximately £15m, spread over the next four financial years and built into the annual capital budget. Following these investments, we do not anticipate any material large scale capacity investment for several years.

Our China investment is expected to see full mechanical completion during our third quarter, with commissioning to start thereafter, subject to COVID guidelines and restrictions in China. With the challenge of managing some of the engineering work remotely – due to COVID restrictions on in-country access – we have had to source additional regional engineering support and other facilities at an increased cost.

Capital expenditure for the year is expected to be in line with guidance, at approximately £60m. We will also start to incur some limited capital and operational expense in support of our ESG strategy, particularly around process improvement and the potential use of alternative fuels.

We continue to assess the effectiveness and returns profile of our growth investments, particularly our downstream assets where improving market adoption would support a greater return on investment over the years ahead. With most of our downstream investments being in place primarily to help seed the market or opportunity, we also continue to explore partnerships or other options which could drive adoption without necessarily requiring equity ownership or significant capital investment.

Mega-programme progress

We have continued to make good progress delivering against key milestones in our portfolio of mega-programmes. Although individual timelines remain subject to change, the long-term prospects in each programme continue to be attractive.

Our **Knee** programme has continued to move forward and is now at the halfway stage of recruitment, with 15 patients now having implants, including three who have successfully passed the 12-month clinical stage, with no remedial intervention required. Recruitment for the remaining patients continues in India, Belgium and Italy. We also anticipate establishing an additional trial site in the US by the start of our next financial year and are closing in on an additional partner (a top 5 Knee company) to support the route to commercialisation.

As a \$10 billion global market, Knee remains a sizeable opportunity, with an addressable market of approximately \$1 billion for femoral knee replacements utilising PEEK over Titanium or Cobalt Chrome.

Our **Aerospace Loaded Brackets** programme – which increased commercial revenues above £2m in FY 2021 – has benefited from improvement in this end-market. Several additional orders for composite parts were seen during the period, reflecting mega-trends aligned to light-weighting, CO2 reduction and faster processing supporting the use of our PEEK based composite materials. We also continue to explore opportunities in eVTOL (Electric Vehicle Take-off and Landing) which could support medium to long term growth.

In PEEK **Gears**, which now have several initial contracts 'on the road' following a first supply agreement in 2018, we are on track to further improve on the milestone of delivering meaningful revenue in FY 2021. We currently have more than 20 development programmes with Tier 1 suppliers or OEMs. Subject to successful development testing, several of these programmes are expected to move to commercialisation stage over the next two years. PEEK Gears continue to have application uses across both traditional internal combustion engines (ICEs) and electric vehicles (EVs), with opportunities based on both part-based collaborations and polymer offerings (where Victrex holds the design and development expertise).

For '**Aerospace Structures**', which links to our development alliance with Airbus, we are now delivering prototype revenue via large scale test parts. Development and commercialisation of thermoplastic composites in Aerospace continues to offer a sizeable opportunity, across larger primary and secondary Aerospace structures, such as wings and fuselage parts. Aerospace Structures remains incremental to Victrex's Aerospace Loaded Brackets programme, with our AE™250 composites grade being integral to both of these opportunities.

In our **Magma** composite pipe programme, TechnipFMC is seeking to accelerate the significant opportunities for thermoplastic composite pipe in deepwater fields in Brazil. Victrex continues to work in close collaboration with TechnipFMC as a strategic supply partner, with multi-year supply agreements in place and industry qualifications based on Victrex PEEK. TechnipFMC is also focusing on manufacturing scale up in Brazil, with a new facility in Brazil, over the next 1-2 years. The focus for FY 2022 remains support to TechnipFMC for the qualification programme ahead of bid programme outcomes and scale up.

We expect to see continued development revenues during the year as qualification pipes progress – extruded by Victrex – through the supply chain.

H1 2022 saw us secure new business wins for our next generation **E-mobility** programme and better than expected progress. This mega-programme focuses on applications across electric vehicles, in particular for high-voltage next generation programmes (800 volt batteries and applications). Business wins include an Aptiv film based opportunity. PEEK will be used in specific applications where durability, heat resistance and light-weighting are all key. We have also increased our development programmes as we move closer to greater commercialisation. Our assessment of the PEEK content per vehicle is more than 100g (from approximately 10g today), as we focus on the high performance needs of next generation electric vehicles.

Our **Trauma** pipeline continues to build, following the agreement with US based In2Bones for composite plating, and we also secured our first Asia customer product launch. We are also finalising partnership collaborations to support launches in China.

As previously communicated, in **Dental**, whilst the technical proposition remains strong, like other participants or competitors in this market, we are focused on commercialisation through partnerships or other vehicles. Clinical data, including infection rates compared to metal prosthetics, remains positive. Dental is now no longer a mega-programme but continues to offer a sizeable revenue opportunity.

Strong balance sheet

Our strong balance sheet underpins our ability to invest and support security of supply for customers. Net assets at 31 March 2022 totalled £470.6m (FY 2021: £511.7m) following the payment of the final and special dividends in February 2022.

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Robust cash generation

Cash generated from operations was £37.3m (H1 2021: £59.2m), an operating cash conversion¹ of 22% (H1 2021: 96%) reflecting the inventory recovery and strong sales seen in March 2022 adversely impacting working capital. Trade and other receivables and trade and other payables have both increased compared to the prior year period, although the net movement is negligible. The increases have arisen due to a higher level of activity in the reported period, including higher sales (with a different geographical mix), increased manufacturing (with the associated raw material purchases and higher utility payments) and increased capital expenditure.

Cash and other financial assets at 31 March 2022 was £45.8m (FY 2021: £112.4m). This includes £3.8m ring-fenced in our China subsidiaries and other financial assets of £0.1m, representing cash which was held on 95-day deposit. In February 2022 we paid the 2021 full year final dividend of 46.14p/share and a 50p/share special dividend at a cash cost of £83.5m combined.

We have also secured a RMB400m borrowing facility (£45m equivalent) in China in support of our investments there, of which £9.4m was drawn down at 31 March 2022.

Dividends

With positive cash generation and a strong trading performance, the Group is proposing an interim dividend of 13.42p/share (H1 2021: 13.42p/share).

Sustainability & ESG

Our ESG strategy and 2030 carbon net zero vision has been refined into a number of workstreams within Victrex and a scorecard which we will start to report on for each half year period, commencing at the full year stage this year.

Building on our recent accreditation by EcoVadis and a Gold standard for our ESG strategy, we were pleased to have joined Apple's Clean Energy Supplier programme, with a commitment to utilising clean energy for products supporting this customer. Currently, over 95% of our global electricity is from renewable sources including 100% at all our UK locations now. We also established a Corporate Responsibility Committee during the period and will update on this at the end of FY 2022.

Outlook

Our core business and PEEK offering continue to be strong, with a clear focus on increasing the proportion of sustainable products which bring environmental and societal benefit.

For the remainder of FY 2022, we anticipate continuing volume growth, which is likely to see growth of a similar magnitude to the first half, although we are mindful of the potential for a changing global economic environment later in the year. Mitigation plans for recovering additional inflation are making good progress although, as previously communicated, gross margin in the second half is likely to be slightly lower than the first, primarily as a consequence of currency movements. Nevertheless, for FY 2022 as a whole, we remain focused on delivering good year-on-year growth.

On a medium to long term basis, Victrex remains well placed, with a broad range of growth opportunities, a strong ESG agenda and a highly cash generative business model.

Jakob Sigurdsson

Chief Executive, 9 May 2022

¹ Alternative performance measures are defined on page 12.

DIVISIONAL REVIEW

Industrial

	6 Months Ended 31 Mar 2022 £m	6 Months Ended 31 Mar 2021 £m	% Change (reported)	% Change (constant currency)
Revenue	132.3	126.0	+5%	+8%
Gross profit	60.9	59.5	+2%	+6%

Group performance is reported through the Industrial and Medical divisions although we continue to provide a market-based summary of our performance and growth opportunities. The Industrial division includes the markets of Energy & Industrial, Value Added Resellers (VAR), Transport (Automotive & Aerospace) and Electronics.

Reflecting a strong performance, our Industrial business delivered record revenue of £132.3m (H1 2021: £126.0m), 5% up on the prior year. We saw double-digit growth across Electronics, Energy & Industrial and VAR.

Revenue in constant currency was up 8%. Gross margin was slightly lower at 46.0% (H1 2021: 47.2%), primarily reflecting the impact of foreign currency exchange and raw material and energy inflation, despite higher production volumes and better asset utilisation.

Energy & Industrial

Our Energy & Industrial segment includes volumes for oil & gas and new energy applications, including renewables, and an array of applications across General Industrial. These include food processing, machinery and robotics. Energy & Industrial saw sales volume of 413 tonnes, which was up 14% on the prior year (H1 2021: 362 tonnes), with Energy up 23% overall, driven by strong oil prices and higher capital investment for exploration and processing. Our products continue to offer durability and performance in many demanding applications, where the reliability of PEEK can mean less intervention or downtime, thereby supporting efficiency of operation.

Having focused additional sales resource towards Industrial (which includes Manufacturing & Engineering) over recent years, we continue to benefit from applications across fluid handling, food contact materials and manufacturing robotics. PEEK's unique combination of properties has enabled us to capitalise on the application growth in this end market and metal replacement opportunity, helping drive volume growth of 8% for the Industrial proportion of Energy & Industrial, compared to the prior year.

Value Added Resellers (VAR)

Full clarity on the exact route to market for all of our polymer business is not always possible, however, our analysis suggests that VAR shows a similar alignment to our Industrial end-markets, with the exception of Aerospace, where sales volumes are largely direct to OEMs or tier suppliers.

VAR remains an important part of our Industrial division, as stock shape companies and processors are specified by their customers to deliver Victrex PEEK. Pleasingly, after a strong first half in VAR last year and a challenging comparative, we achieved 14% growth in volume as several end markets supported by VAR continue to improve. Sales volume was 970 tonnes (H1 2021: 852 tonnes), principally reflecting the macro-improvement, as well as good growth in end markets including Electronics and Energy & Industrial.

Transport (Automotive & Aerospace)

Megatrends including lightweighting, CO2 reduction, durability, comfort, electrification and heat resistance remain strong.

Following a good performance for both Automotive & Aerospace in FY 2021, Automotive has suffered from the well-publicised shortage of Semiconductor chips during FY 2022 so far, with volumes being down 8% compared to the prior half year. However, market indicators suggest some improvement through the second half, with momentum over recent months seeing an uptick in volumes. Aerospace has continued to see a gradual improvement, with volumes up 4% and long term trends remain supportive, with OEM forecast build rates and the trend towards faster processing and lightweight materials supporting increased content of PEEK (Airbus forecasts 39,000 new or replacement planes by 2040).

Overall Transport sales volume fell by 5% to 451 tonnes (H1 2021: 474 tonnes), with Aerospace up 4% and Automotive down 8%.

Automotive

Whilst we continue to benefit from new application growth, we again saw an impact from the Semiconductor chip shortage during the first half, although performance over recent months has been more encouraging. Core applications include braking systems, bushings & bearings and transmission equipment, with increasing opportunities in electric vehicles, supporting a growing e-mobility business.

In PEEK Gears, following meaningful revenue of over £1m being delivered in this mega-programme last year, we are anticipating further progress in FY 2022, with approximately 20 programmes seeking to commercialise over the next three years. PEEK gears based on Victrex™ HPG PEEK can offer a 50% performance and noise vibration and harshness (NVH) benefit compared to metal gears, as well as contributing to the trend for minimising CO2 emissions through weight & inertia reduction, and quicker manufacturing compared to metal. A PEEK Gear offers the potential of approximately 20 grams per application. We have also developed a network of partners, where Victrex will either manufacture the complete gear, or offer a solution via design and development, with partner manufacturing. Victrex will retain the know-how and capability in both cases.

In E-mobility, we have seen better than expected progress, with our focus on next generation high-voltage (800 volt) vehicles. PEEK remains well placed for both internal combustion engines, hybrids and electric vehicles (EVs), with the long term opportunity of over 100g of PEEK per vehicle, compared to approximately 10g today. We now have several commercial contracts in place, including new wins in Europe during the first half.

Aerospace

Aerospace volumes were up 4%, reflecting some recovery in the supply chain and improved OEM forecasts for plane build over the next 12 months.

Long term trends continue to remain strong. Our Loaded Brackets and Aerospace Structures mega-programmes both grew revenues over the period, with Loaded Brackets looking to exceed £2m revenue for the full year as the use of composites and differentiated products remain in demand. We have also benefited from some retrofit opportunities for composite parts, using our AE™250 low-melt PEEK grade, which supports faster processing. These opportunities include interior structural components with light-weighting, recyclability and the ability to reduce manufacturing cycle time by up to 40% being key selling points for our PEEK and PAEK polymers. The ability to support CO2 reduction through PEEK materials which are typically 60% lighter than metals also remains strong, with our assessment that over 50 million tonnes of CO2 could be saved over the next 15 years if all new single aisle planes were produced with over 50% PEEK composite content. These attractions also play to our Aerospace Structures mega-programme, working with Airbus to support their Clean Sky 2 and Wing/Fuselage of Tomorrow programmes.

Electronics

Electronics continued to perform well in the first half, as the tightness in Semiconductor manufacturing capacity supports demand. Volumes grew 8% at 335 tonnes (H1 2021: 309 tonnes). Market indicators suggest server shipments will grow 4-5% in 2022 (TSMC).

Our application opportunities are driven by Semiconductor, the internet of things, 5G applications, cloud computing and core applications like CMP rings and other extended application areas. We also continue to benefit from greater implementation of 5G alongside the greater homeworking trend. This provides good momentum for our Aptiv™ film business and small space acoustic applications and we continue to see a positive outlook for this end market into FY 2022.

Sales of home appliances and our impeller application business in high-end brands are also performing well across a number of product areas, including vacuum cleaners and hairdryers.

Regional trends & Ukraine/Russia exposure

With European and North American economies seeing a good recovery (following later lifting of COVID restrictions compared to Asian economies), progress across those regions was encouraging during the first half.

Europe was up 6%, at 1,193 tonnes (H1 2021: 1,124 tonnes), reflecting further improvement in VAR, with North America up 28% at 465 tonnes (H1 2021: 363 tonnes), principally driven by VAR and Energy & Industrial. Asia-Pacific was up 1% at 606 tonnes (H1 2021: 600 tonnes), driven by continued growth in Electronics and VAR.

Within Europe, we had no active sales to Ukraine during the first half, with Russia sales negligible. Victrex has no employees, assets or supply chain within these countries and no direct raw material purchases.

Medical

	6 Months Ended 31 Mar 2022 £m	6 Months Ended 31 Mar 2021 £m	% Change (reported)	% Change (constant currency)
Revenue	27.8	24.9	+12%	+12%
Gross profit	24.1	21.9	+10%	+12%

Revenue in Medical was up 12% at £27.8m (H1 2021: £24.9m) as we saw a good return to elective surgeries across regions, with the US gaining good traction, slightly offset by the impact of the Omicron variant in late 2021, where surgeries were deferred.

In constant currency, Medical revenue was up 12%. Gross profit was £24.1m (H1 2021: £21.9m) and gross margin was down at 86.6% (H1 2021: 88.0%) reflecting a slightly adverse sales mix as Non-Spine continued to grow faster than Spine (Non-Spine +25% vs Spine +1%). Overall Medical volume (implantable and non-implantable) was up 5%, reflecting a stable performance in non-implantable and growth in implantable. Geographically, Asia-Pacific revenues were up 38% year on year, with Medical revenues in the US up 3% and Europe up 8%.

Medical strategy

Our Medical strategy seeks to continue diversifying our portfolio to build revenues in non-Spine areas such as Cranio Maxillo-Facial (CMF), Dental, Arthroscopy & Sports Medicine as well as emerging or incremental opportunities in Cardio and other implantable devices. Non-Spine overall now represents 51% of divisional revenues. Spine is our historic end-market which, whilst it has become more mature in recent years, is one we continue to diversify through focusing on emerging geographies and new innovative products. Our premium and differentiated PEEK-OPTIMA™ HA Enhanced product (POHAE) – to drive next generation Spine procedures – is one part of our strategy to grow our Medical business, with annualised revenues now building and being above £2m. We are also establishing regulatory approval for our Porous PEEK opportunity, where the benefit of bone-in growth is added to bone-on growth for Spinal application. Thanks to our Bond 3D investment, this will also support the ability to 3D print spinal cages.

Mega-programmes

In **Knee**, we saw significant progress through the first half, with a total of 15 implants as part of the clinical trial, meaning the clinical trial has now passed the halfway stage. Three patients have successfully passed the 12 month follow up phase with no remedial requirements. Clinical trials are now operating in Belgium, India and Italy and we envisage a US trial site being established later in 2022.

The long term opportunity – in what is a \$10 billion global market – remains attractive, with an addressable market for femoral knee at approximately \$1 billion. We are also close to establishing an additional partner, a top 5 global orthopaedic company, reflecting the significant opportunity to commercialise this programme, once clinical trials are complete.

In **Trauma**, our agreement during FY 2021 with US based In2Bones for composite plating in higher and lower extremities has supported increased revenue and we are also finalising preparations for Asia based manufacturing partnerships.

Our PEEK composite Trauma plates offer the potential for 50 times better fatigue resistance compared to a metal plate, with awareness of composites as a viable metal alternative growing. Although we have the manufacturing capability to meet initial demand, partnerships will support scale-up, particularly for geographies in Asia-Pacific and China, where Victrex will continue to hold the know-how and capability.

Alternative performance measures:

We use alternative performance measures to assist in presenting information in an easily comparable, analysable and comprehensible form. The measures presented in this report are used by the Board in evaluating performance. However, this additional information presented is not required by IFRS or uniformly defined by all companies. Certain measures are derived from amounts calculated in accordance with IFRS but are not in isolation an expressly permitted GAAP measure. The measures are as follows:

- Operating profit before exceptional items (referred to as underlying operating profit) is based on operating before the impact of exceptional items. This metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and / or unusual or infrequent in nature. Exceptional items for H1 HY 2021 are £4.6m, details are disclosed in note 5;
- Profit before tax and exceptional items (referred to as underlying profit before tax) is based on Profit before tax before the impact of exceptional items. This metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and / or unusual or infrequent in nature.
- Constant currency metrics are used by the Board to assess the year on year underlying performance of the business excluding the impact of foreign currency rates, which can by nature be volatile. Constant currency metrics are reached by applying current year (FY 2022) weighted average spot rates to prior year (FY 2021) transactions;
- Underlying EPS is earnings per share based on profit after tax but before exceptional items divided by the weighted average number of shares in issue. This metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and/or unusual or infrequent in nature;
- Operating cash conversion is used by the Board to assess the business's ability to convert operating profit to cash effectively, excluding the impact of investing and financing activities. Operating cash conversion is operating profit before exceptional items adjusted for depreciation and amortisation, working capital movements and capital expenditure / operating profit before exceptional items;
- Available cash is used to enable the Board to understand the true cash position of the business when determining the use of cash under the capital allocation policy. Available cash is cash and cash equivalents plus other financial assets (cash invested in term deposits greater than three months in duration) less cash ring-fenced in the Group's Chinese subsidiaries which is committed to capital investment or additional capability and therefore not available to the wider group;
- Research and development expenditure as a % of Group sales is used by the Board because R&D spend is considered to be a leading indicator of the Group's ability to innovate into new applications, supporting future growth. The Group targets spend at c5%–6% of Group revenues;
- Sales from New Products as a percentage of Group sales is used by the Board to measure the success of driving adoption of the new product pipeline. It measures Group sales generated from mega-programmes, new differentiated polymers and other pipeline products that were not sold before FY 2014 as a percentage of total Group sales;
- Return on Capital Employed (ROCE) is used by the Board to assess the return on investment at a Group level. ROCE is profit after tax / total equity attributable to shareholders at the year end;
- Total overheads are operating overheads which are made up of sales, marketing and administrative expenses after exceptional items; this metric is used by the Board to assess the underlying performance of the business excluding items that are, in aggregate, material in size and/or unusual or infrequent in nature;
- Research and Development spend on sustainable products is calculated as the percentage of project-based R&D spend on sustainable products or sustainable programmes. This metric, which is new in FY 2021, is used by the Board to assess progress against the sustainability strategy and vision of being Carbon Net Zero by 2030 (scope 1 & 2 emissions). Sustainable products are currently defined as revenue from Aerospace, Automotive and Medical end markets; and
- Mature Annualised Revenue is a measure of new application targets within our core business (excluding mega-programmes) and would be realised only if all targets convert to commercial revenues.

Condensed Consolidated Income Statement

		Unaudited Six months ended 31 March 2022 £m	Unaudited Six months ended 31 March 2021 £m	Audited Year ended 30 September 2021 £m
	Note			
Revenue	4	160.1	150.9	306.3
Gains on foreign currency net hedging		1.7	0.5	4.9
Cost of sales		(76.8)	(70.0)	(145.9)
Gross profit		85.0	81.4	165.3
Sales, marketing and administrative expenses	4	(41.0)	(34.4)	(71.9)
Operating profit before exceptional items		48.6	47.0	92.6
Exceptional items	5	(4.6)	-	0.8
Operating profit	4	44.0	47.0	93.4
Financial income		0.2	-	0.2
Financial costs		(0.1)	-	(0.2)
Share of loss of associate		(0.5)	(0.4)	(0.9)
Profit before tax and exceptional items		48.2	46.6	91.7
Exceptional items	5	(4.6)	-	0.8
Profit before tax		43.6	46.6	92.5
Income tax expense	6	(6.1)	(6.1)	(19.7)
Profit for the period		37.5	40.5	72.8
Attributable to:				
Owners of the Company		37.8	40.7	73.2
Non-controlling interests		(0.3)	(0.2)	(0.4)
Earnings per share				
Basic	7	43.5p	46.9p	84.3p
Diluted	7	43.3p	46.8p	84.0p
Dividends per ordinary share				
Interim		13.42p	13.42p	13.42p
Final		-	-	46.14p
Special		-	-	50.00p
		13.42p	13.42p	109.56p

An interim dividend of 13.42p per share will be paid on 29 June 2022 to shareholders on the register at the close of business on 27 May 2022. This dividend will be recognised in the period in which it is approved.

Condensed Consolidated Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2022 £m	Unaudited Six months ended 31 March 2021 £m	Audited Year ended 30 September 2021 £m
Profit for the period/year	37.5	40.5	72.8
Items that will not be reclassified to profit or loss			
Defined benefit pension schemes' actuarial gains/(losses)	3.8	(2.6)	4.5
Income tax	(0.9)	0.5	(1.1)
	2.9	(2.1)	3.4
Items that may be subsequently reclassified to profit or loss			
Currency translation differences for foreign operations	1.4	(4.5)	(2.0)
Effective portion of changes in fair value of cash flow hedges	2.5	8.0	5.7
Net change in fair value of cash flow hedges transferred to profit or loss	(1.7)	(0.5)	(4.9)
Income tax	(0.2)	(1.4)	(0.2)
	2.0	1.6	(1.4)
Total other comprehensive income/(expense) for the period/year	4.9	(0.5)	2.0
Total comprehensive income for the period/year	42.4	40.0	74.8
Total comprehensive income for the period/year attributable to:			
Owners of the Company	42.7	40.2	75.2
Non-controlling interests	(0.3)	(0.2)	(0.4)

Condensed Consolidated Balance Sheet

	Note	Unaudited 31 March 2022 £m	Unaudited 31 March 2021 £m	Audited 30 September 2021 £m
Assets				
Non-current assets				
Property, plant and equipment		323.4	281.6	305.7
Intangible assets		21.6	25.7	24.8
Investment in associated undertaking	8	10.9	11.9	11.4
Financial assets held at fair value through profit and loss	9	8.8	10.0	12.7
Deferred tax assets		7.5	7.6	8.9
Retirement benefit asset		18.7	6.2	14.2
		390.9	343.0	377.7
Current assets				
Inventories		79.8	81.0	70.3
Current income tax assets		3.9	0.1	2.9
Trade and other receivables		64.7	45.5	49.1
Derivative financial instruments	10	3.0	9.4	2.9
Other financial assets		0.1	-	37.5
Cash and cash equivalents		45.7	79.6	74.9
		197.2	215.6	237.6
Total assets		588.1	558.6	615.3
Liabilities				
Non-current liabilities				
Deferred tax liabilities		(34.4)	(22.0)	(31.6)
Borrowings	11	(15.3)	(5.5)	(5.9)
Long-term lease liabilities		(7.3)	(7.4)	(8.2)
Retirement benefit obligation		(2.9)	-	(1.9)
		(59.9)	(34.9)	(47.6)
Current liabilities				
Derivative financial instruments	10	(2.4)	(0.5)	(1.9)
Borrowings	11	(0.3)	-	-
Current income tax liabilities		(2.0)	(4.2)	(2.9)
Current lease liabilities		(1.7)	(1.5)	(1.8)
Trade and other payables		(51.2)	(33.3)	(49.4)
		(57.6)	(39.5)	(56.0)
Total liabilities		(117.5)	(74.4)	(103.6)
Net assets		470.6	484.2	511.7
Equity				
Share capital		0.9	0.9	0.9
Share premium		61.2	57.8	61.1
Translation reserve		3.1	(0.8)	1.7
Hedging reserve		0.7	5.6	0.1
Retained earnings		402.5	418.0	445.4
Equity attributable to owners of the Company		468.4	481.5	509.2
Non-controlling interest		2.2	2.7	2.5
Total equity		470.6	484.2	511.7

Condensed Consolidated Cash Flow Statement

		Unaudited Six months ended 31 March 2022 £m	Unaudited Six months ended 31 March 2021 £m	Audited Year ended 30 September 2021 £m
	Note			
Cash flows from operating activities				
Cash generated from operations	14	37.3	59.2	135.5
Interest received		0.1	-	0.2
Tax paid		(5.6)	(0.9)	(8.6)
Net cash flow from operating activities		31.8	58.3	127.1
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangible assets		(26.7)	(16.5)	(41.9)
Proceeds from disposal of financial asset held at fair value through profit and loss	9	4.5	-	-
Decrease in other financial assets		37.4	-	(37.5)
Loan to associated undertaking	8	(1.4)	(2.0)	(3.8)
Net cash flow from investing activities		13.8	(18.5)	(83.2)
Cash flows from financing activities				
Proceeds from issue of ordinary shares exercised under option		0.1	2.8	6.1
Bank borrowings received	11	9.3	-	-
Loan received from non-controlling interest		-	5.9	5.6
Repayment of lease liabilities		(1.1)	(0.9)	(1.8)
Dividends paid		(83.5)	(40.0)	(51.6)
Net cash flow from financing activities		(75.2)	(32.2)	(41.7)
Net (decrease)/increase in cash and cash equivalents		(29.6)	7.6	2.2
Effect of exchange rate fluctuations on cash held		0.4	(1.1)	(0.4)
Cash and cash equivalents at beginning of period		74.9	73.1	73.1
Cash and cash equivalents at end of period		45.7	79.6	74.9

Included in cash and cash equivalents is £3.8m of cash which is ring-fenced.

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total attributable to owners of parent	Non- controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equity at 1 October 2021 (audited)	0.9	61.1	1.7	0.1	445.4	509.2	2.5	511.7
Total comprehensive income for the period								
Profit for the period:								
Attributable to owners of the Company	-	-	-	-	37.8	37.8	-	37.8
Attributable to Non-controlling interest	-	-	-	-	-	-	(0.3)	(0.3)
Other comprehensive (expense)/income								
Currency translation differences for foreign operations	-	-	1.4	-	-	1.4	-	1.4
Effective portion of changes in fair value of cash flow hedges	-	-	-	2.5	-	2.5	-	2.5
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	(1.7)	-	(1.7)	-	(1.7)
Defined benefit pension schemes' actuarial gains	-	-	-	-	3.8	3.8	-	3.8
Tax on other comprehensive expense	-	-	-	(0.2)	(0.9)	(1.1)	-	(1.1)
Total other comprehensive income for the period	-	-	1.4	0.6	2.9	4.9	-	4.9
Total comprehensive income/(expense) for the period	-	-	1.4	0.6	40.7	42.7	(0.3)	42.4
Contributions by and distributions to owners of the Company								
Share options exercised	-	0.1	-	-	-	0.1	-	0.1
Equity-settled share-based payment transactions	-	-	-	-	0.8	0.8	-	0.8
Tax on equity-settled share based payments transactions	-	-	-	-	(0.9)	(0.9)	-	(0.9)
Dividends to shareholders	-	-	-	-	(83.5)	(83.5)	-	(83.5)
Equity at 31 March 2022 (unaudited)	0.9	61.2	3.1	0.7	402.5	468.4	2.2	470.6

	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total attributable to owners of parent	Non- controlling interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Equity at 1 October 2020 (audited)	0.9	55.0	3.7	(0.5)	419.0	478.1	2.9	481.0
Total comprehensive income for the period								
Profit for the period:								
Attributable to owners of the Company	-	-	-	-	40.7	40.7	-	40.7
Attributable to Non-controlling interest	-	-	-	-	-	-	(0.2)	(0.2)
Other comprehensive (expense)/income								
Currency translation differences for foreign operations	-	-	(4.5)	-	-	(4.5)	-	(4.5)
Effective portion of changes in fair value of cash flow hedges	-	-	-	8.0	-	8.0	-	8.0
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	(0.5)	-	(0.5)	-	(0.5)
Defined benefit pension schemes' actuarial losses	-	-	-	-	(2.6)	(2.6)	-	(2.6)
Tax on other comprehensive (expense)/income	-	-	-	(1.4)	0.5	(0.9)	-	(0.9)
Total other comprehensive (expense)/income for the period	-	-	(4.5)	6.1	(2.1)	(0.5)	-	(0.5)
Total comprehensive (expense)/income for the period	-	-	(4.5)	6.1	38.6	40.2	(0.2)	40.0
Contributions by and distributions to owners of the Company								
Share options exercised	-	2.8	-	-	-	2.8	-	2.8
Equity-settled share-based payment transactions	-	-	-	-	0.4	0.4	-	0.4
Dividends to shareholders	-	-	-	-	(40.0)	(40.0)	-	(40.0)
Equity at 31 March 2021 (unaudited)	0.9	57.8	(0.8)	5.6	418.0	481.5	2.7	484.2

Notes to the Financial Report

1. Reporting entity

Victrex plc (the 'Company') is a limited liability company incorporated and domiciled in the United Kingdom. The address of the Registered Office is Victrex Technology Centre, Hillhouse International, Thornton Cleveleys, Lancashire, FY5 4QD, United Kingdom. The Company is listed on the London Stock Exchange.

This Half-yearly Financial Report is an interim management report as required by DTR 4.2.3 of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

These condensed consolidated interim financial statements as at and for the six months ended 31 March 2022 comprise those of the Company and its subsidiaries (together referred to as the 'Group').

The comparative figures for the financial year ended 30 September 2021 are extracted from the Group's statutory financial statements for that year. Those financial statements have been reported on by the Group's auditor, filed with the Registrar of Companies and are available on request from the Group's Registered Office or to download from www.victrexplc.com. The auditor's report on those financial statements was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under sections 498 (2) or (3) of the Companies Act 2006.

These condensed consolidated interim financial statements are unaudited.

2. Basis of preparation and statement of compliance

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Victrex Plc transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 October 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

This condensed consolidated interim financial report for the half-year reporting period ended 31 March 2022 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2021, which has been prepared in accordance with both "International Accounting Standards in conformity with the requirements of the Companies Act 2006" and "International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union", and any public announcements made by Victrex Plc during the interim reporting period.

This Half-yearly Financial Report was approved by the Board of Directors on 9 May 2022.

Risks and uncertainties

The principal risks and uncertainties which could impact the Group's long-term performance remain those detailed on pages 33 to 38 of the Group's 2021 Annual Report and Financial Statements, a copy of which is available on the Group's website www.victrexplc.com. The risks outlined remain valid as regards their potential to impact the Group during the first half of the current financial year. The Group has a comprehensive system of risk management installed within all parts of its business to mitigate these risks as far as is possible.

Use of Judgements and estimation uncertainty

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the Group's 2021 Annual Report and Financial Statements, detailed on page 128.

Going Concern

The Directors have performed a robust going concern assessment including a detailed review of the business's 18 month rolling forecast and consideration of the principal risks faced by the Group and the company, as detailed in the FY21 Annual Report for the year ended 30 September 2021. This assessment has paid particular attention to the impact of the ongoing global economic challenges on the aforementioned forecasts.

The company has maintained a strong balance sheet throughout the past two years despite seeing a significant impact from COVID-19, particularly during the second half of the year ended 30 September 2020. The combined cash and other financial assets balance at 31 March 2022 was £45.8m, having reduced from £112.4m at 30 September 2021 following payment of the regular and special dividends of £83.5m in February 2022. Of the £45.8m, £3.8m is held in the Group's subsidiaries in China for the sole purpose of funding the construction of our new manufacturing facilities. Of the remaining £41.9m, approximately 60% is held in the UK where the company incurs the majority of its expenditure. £41.8m of funds is held on instant access. The Group has drawn debt of £9.4m in its Chinese subsidiaries (with a total facility of c.£45m available until December 2026) and has unutilised UK banking facilities of £40m through to October 2024, of which £20m is committed and immediately available and £20m is available subject to lender approval.

The 18-month forecast is derived from the company's Integrated Business Planning ("IBP") process which runs monthly. Each area of the business provides revised forecasts which consider a number of external data sources, triangulating with customer conversations, trends in market and country indices as well forward-looking industry forecasts. For example, forecast aircraft build rates from the two major manufacturers for Aerospace and World Semiconductor Trade Statistics semiconductor market forecasts for Electronics through 2022 and 2023.

The assessment of going concern included conducting scenario analysis on the aforementioned forecast which focused on the Group's ability to sustain a period of falling demand, whether caused to a pandemic, geo-political event(s) or other global economic challenges. In assessing the severity of the scenario analysis the scale of the impact of the COVID-19 pandemic was used as a reference point – COVID-19 had a material impact on second half performance of the year ended 30 September 2020 with demand falling c.30% from pre COVID-19 levels.

Using the IBP data and reference points from the COVID-19 pandemic, noted above, management has created two scenarios to model the effect of reductions to revenue at regional/market level and aggregated levels on the company's profits and cash generation through to June 2023.

Scenario 1 – the global economy contracts with sales reducing by 30% from the level seen over the past 12 months, to approximately 265 tonnes per month, from June 2022 for a period of 6 months (to mirror the length of the downturn in 2020) before a partial recovery to c.320 tonnes per month for the remainder of the going concern period.

Scenario 2 – in line with scenario 1, c.265 tonnes per month from June 2022, however, the economic contraction lasts for a full 12 months, i.e. throughout the going concern period. This would give an annual volume of c.3,180 tonnes, a level not seen since the financial crisis which impacted 2008 and 2009 (and lasted approximately 12 months). The group considers scenario 2 to be a severe but plausible scenario.

Before any mitigating actions the sensitised cash flows show the company has significantly reduced cash headroom. Under scenario 2 there is minimal cash generation through the going concern period and there is potential that the committed facility would be required to manage intra-month cash flows. However, the company has a number of mitigating actions which are readily available in order to generate significant headroom. These include:

- Use of committed facility - £20m could be drawn at short notice. Conversations with our banking partner indicating that the £20m accordion could also be readily accessed. The covenants of the facility have been successfully tested under each of the scenarios;
- Deferral of capital expenditure – the base case capital investment over the next 12 months is approximately £50m as major projects are completed in China and the UK. This could be reduced significantly by limiting expenditure to essential projects, deferring all other projects later into 2023, with the exception of completing the manufacturing facilities in China which will continue as planned;
- Reduction in discretionary overheads - costs would be limited to prioritise and support customer related activity; and
- Deferral/cancellation of dividends – the dividends payable in February 2023 could be deferred or cancelled. The company's intention is to continue payment of dividends where cash reserves facilitate but it remains a key lever in downside scenario mitigation.

Reverse stress testing was performed to identify the level that sales would need to drop by in order for the Group to run out of cash by the end of the going concern assessment period. Sales volumes would need to consistently drop materially below the low point in scenario 2 which is not considered plausible.

As a result of this detailed assessment and with reference to the company's strong balance sheet, existing committed facilities and the cash preserving levers at the company's disposal, but also acknowledging the current economic uncertainty as the global economy recovers from the COVID-19 pandemic and the war in Ukraine continues, the Board has concluded that the company has sufficient liquidity to meet its obligations when they fall due for a period of at least 12 months after date of this report. For this reason, they continue to adopt the going concern basis for preparing the condensed consolidated interim financial statements.

3. Significant accounting policies

The accounting policies applied by the Group in these condensed financial statements are the same as those applied in the Group's published consolidated financial statements for the year ended 30 September 2021.

The Group has adopted the IFRS Interpretations Committee decision of how arrangements in respect of cloud-based software as a service (SaaS) systems should be accounted for. Costs incurred on the implementation, including customisation and configuration, of cloud-based SaaS systems are now expensed as incurred rather than capitalised as an intangible asset as they were prior to 1 October 2021 if the criteria in IAS 38 – Intangible Assets were met.

4. Segment reporting

The Group's business is strategically organised as two business units: Industrial, which focuses on our Energy & Industrial, VAR, Automotive, Aerospace and Electronics markets; and Medical, which focuses on providing specialist solutions for medical device manufacturers.

	Unaudited Six months ended 31 March 2022			Unaudited Six months ended 31 March 2021			Audited Year ended 30 September 2021		
	Industrial £m	Medical £m	Group £m	Industrial £m	Medical £m	Group £m	Industrial £m	Medical £m	Group £m
Segment revenue	133.2	27.8	161.0	127.3	24.9	152.2	257.4	51.1	308.5
Internal revenue	(0.9)	-	(0.9)	(1.3)	-	(1.3)	(2.2)	-	(2.2)
Revenue from external sales	132.3	27.8	160.1	126.0	24.9	150.9	255.2	51.1	306.3
Segment gross profit	60.9	24.1	85.0	59.5	21.9	81.4	119.7	45.6	165.3
Sales, marketing and administrative expenses			(41.0)			(34.4)			(71.9)
Operating profit before exceptional items			48.6			47.0			92.6
Exceptional items			(4.6)			-			0.8
Operating profit			44.0			47.0			93.4
Net interest			0.1			-			-
Share of loss of associate			(0.5)			(0.4)			(0.9)
Profit before tax and exceptional items			48.2			46.6			91.7
Exceptional items			(4.6)			-			0.8
Profit before tax			43.6			46.6			92.5
Income tax expense			(6.1)			(6.1)			(19.7)
Profit for the period			37.5			40.5			72.8
Attributable to:									
Owners of the Company			37.8			40.7			73.2
Non-controlling interests			(0.3)			(0.2)			(0.4)

5. Exceptional items

Items that are, in aggregate, material in size and / or unusual or infrequent in nature, are included within operating profit and disclosed separately as exceptional items in the Consolidated Income Statement.

The separate reporting of exceptional items, which are presented as exceptional within the relevant category in the Consolidated Income Statement, helps provide an indication of the underlying performance of the Group.

	Unaudited Six months ended 31 March 2022 £m	Unaudited Six months ended 31 March 2021 £m	Audited Year ended 30 September 2021 £m
Included within sales, marketing and administrative expenses			
Implementation of SaaS ERP system	4.6	-	-
Restructuring costs	-	-	(0.8)
Exceptional items before tax	4.6	-	(0.8)
Tax on exceptional items	(0.9)	-	-
Exceptional items after tax	3.7	-	(0.8)

Implementation of SaaS ERP system

The company has commenced a multi-year implementation of a new cloud-based ERP system. The company forecasts to spend approximately £17m on the implementation which will deliver benefits to both customer interactions and internal business processes. The IFRS Interpretations Committee issued its decision clarifying how arrangements in respect of cloud based software as a service (SaaS) systems should be accounted for. The new ERP system does not meet the criteria for capitalisation (as past systems have) and therefore the cost is being expensed rather than capitalised and amortised. Given the size of the project and its impact on the reported profit-based metrics, the fact the system is evergreen and thus this level and nature of cost will not happen again, it meets the company's criteria to be presented as exceptional. The ERP system is expected to be completed in 2024.

Restructuring Costs

The restructuring costs credit in FY21 relates to more favourable settlements being reached on finalisation than assumed when making the restructuring charge in FY20.

The cash outflow in the period associated with Exceptional Items was £2.5m (FY 2021: £1.9m).

6. Income tax expense

Taxation of profit before tax in respect of the six months ended 31 March 2022 has been provided at the estimated effective rates chargeable for the full year in the respective jurisdiction.

	Unaudited Six months ended 31 March 2022 £m	Unaudited Six months ended 31 March 2021 £m	Audited Year ended 30 September 2021 £m
UK corporation tax	3.2	4.5	10.6
Overseas tax	0.8	1.0	1.7
Deferred tax excluding rate change	1.5	0.6	1.3
Deferred tax rate change	0.6	-	6.1
Total tax expense in income statement	6.1	6.1	19.7
Effective tax rate	14.0%	13.1%	21.3%
Effective tax rate excluding rate change	12.6%	13.1%	14.7%

Deferred tax assets and liabilities are measured at the rate at which they are now expected to reverse. For UK assets and liabilities this is 25% for the majority of assets and liabilities (31 March 2021: 19%; 30 September 2021: 25%) being the UK tax rate effective from 1 April 2023. For overseas assets and liabilities the corresponding overseas tax rate has been applied.

7. Earnings per share

	Unaudited Six months ended 31 March 2022	Unaudited Six months ended 31 March 2021	Audited Year ended 30 September 2021
Earnings per share			
– basic	43.5p	46.9p	84.3p
– diluted	43.3p	46.8p	84.0p
Profit for the financial period attributable to the owners of the Company (£m)	37.8	40.7	73.2
Weighted average number of shares used			
– basic	86,889,310	86,599,378	86,704,789
– diluted	87,308,262	86,815,421	87,045,353

8. Investment in associated undertakings

Bond 3D High Performance Technology BV (“Bond”)

Bond is a company incorporated in the Netherlands, developing unique, protectable 3D printing (additive manufacturing) processes which are capable of producing high strength parts from existing grades of PEEK and PAEK polymers. The investment offers the potential of utilising this technology to help accelerate the market adoption of 3D printed PEEK parts, with particular emphasis on the Medical market.

The Group holds an investment of €12.5m/£10.9m (24.5%) in Bond at 31 March 2022 (30 September 2021: €13.0m/£11.4m). As the Group is considered to have significant influence in Bond the investment continues to be accounted for as an associate, using the equity method.

Further cash injections into Bond during the period have been in the form of convertible loans to a value of €2.2m/£1.8m (including rolled up interest of £0.4m) bringing the total of convertible loans €6.4m/£5.3m at 31 March 2022 which are held as financial assets held at fair value through profit and loss.

The Group's share of the loss of Bond in the period is £0.5m (FY 2021 loss of £0.9m).

9. Financial assets held at fair value through profit and loss

At 31 March 2022, financial assets held at fair value through profit and loss relate to:

- Investment in Surface Generation Limited at £3.5m (FY 2021 £3.5m)
- Convertible loans in Bond at £5.3m. See also note 8 above.

The investment in Magma Global Limited was sold to TechnipFMC in October 2021 at a consideration equivalent to its fair value at 30 September 2021 of which £4.5m was received in cash and the balance deferred for 12 months.

10. Derivative financial instruments

The notional contract amount, carrying amount and fair value of the Group's forward exchange contracts are as follows:

	Unaudited As at 31 March 2022		Unaudited As at 31 March 2021		Audited As at 30 September 2021	
	Notional contract amount	Carrying amount and fair value	Notional contract amount	Carrying amount and fair value	Notional contract amount	Carrying amount and fair value
	£m	£m	£m	£m	£m	£m
Current assets	106.2	3.0	159.4	9.4	61.2	2.9
Current liabilities	80.6	(2.4)	12.4	(0.5)	106.9	(1.9)
	186.8	0.6	171.8	8.9	168.1	1.0

The fair values have been calculated by applying (where relevant), for equivalent maturity profiles, the rate at which forward currency contracts with the same principal amounts could be acquired on the balance sheet date. These are categorised as Level 2 within the fair value hierarchy under IFRS 7.

Fair value gains on foreign currency contracts of £1.7m has been recognised in the period (H1 2021 – gain of £0.5m; FY 2021 – gain of £4.9m).

11. Borrowings

	Unaudited Six months ended 31 March 2022 £m	Unaudited Six months ended 31 March 2021 £m	Audited Year ended 30 September 2021 £m
Due within one year			
Bank loans	0.3	-	-
Loan payable to Non-controlling Interest	-	-	-
Total due within one year	0.3	-	-
Due after one year			
Bank loans	9.1	-	-
Loan payable to Non-controlling Interest	6.2	5.5	5.9
Total due within one year	15.3	5.5	5.9

Bank loans are repayable in line with a schedule up to December 2026. Interest is charged at the 5-year Loan Prime Rate of People's Republic of China, which is currently 4.6%. The purpose of the loan is funding of capital expenditure in China and is guaranteed by Victrex Plc.

The loan from the Non-Controlling Interest is unsecured and is repayable on 30 September 2026. Interest is charged at 4%.

12. Other financial assets

At 31 March 2022 the Group had £0.1m of cash on 95-day deposit (30 September 2021: £37.5m). This is included in the Available Cash metric (see APM's above).

13. Exchange rates

The most significant Sterling exchange rates used in the financial statements under the Group's accounting policies are:

	Unaudited Six months ended 31 March 2022		Unaudited Six months ended 31 March 2021		Audited Year ended 30 September 2021	
	Average spot	Closing	Average	Closing	Average	Closing
US Dollar	1.36	1.33	1.33	1.39	1.36	1.34
Euro	1.19	1.20	1.11	1.15	1.14	1.18

The average exchange rates in the above table are the weighted average spot rates applied to foreign currency transactions, excluding the impact of foreign currency contracts. Gains and losses on foreign currency contracts, where net hedging has been applied for cash flow hedges, are separately disclosed in the income statement.

14. Reconciliation of profit to cash generated from operations

	Unaudited Six months ended 31 March 2022 £m	Unaudited Six months ended 31 March 2021 £m	Audited Year ended 30 September 2021 £m
Profit after tax for the period	37.5	40.5	72.8
Income tax expense	6.1	6.1	19.7
Share of post-tax loss of associate	0.5	0.4	0.9
Financial income	(0.2)	-	(0.2)
Interest on lease liabilities	0.1	-	0.2
Operating profit	44.0	47.0	93.4
Adjustments for:			
Depreciation	9.6	9.0	18.5
Amortisation	1.4	1.5	3.4
Loss on disposal of non-current assets	2.1	-	0.8
(Increase)/decrease in inventories	(9.7)	15.2	26.0
Increase in trade and other receivables	(14.7)	(14.3)	(18.3)
Increase in trade and other payables	2.5	3.4	11.9
Equity-settled share-based payment transactions	0.8	0.4	1.4
Losses/(gains) on derivatives recognised in income statement that have not yet settled	1.2	(1.8)	(0.5)
Gain on financial asset held at fair value	-	-	(0.9)
Retirement benefit obligations charge less contributions	0.1	(1.2)	(0.2)
Cash generated from operations	37.3	59.2	135.5

15. Related party transactions

The Group's related parties are as disclosed in the Annual Report and Financial Statements 2021. There were no material differences in related parties or related party transactions in the six months ended 31 March 2022 except for transactions with key management personnel. The most significant of these was on 10 December 2021 under the 2019 Long Term Incentive Plan ('LTIP'), when 43,702 and 19,676 share option awards were granted to J O Sigurdsson and M L Court respectively at an option price of nil p per share when the market price was £24.6267p per share. Furthermore, on the 10 December 2021 under the Victrex 2017 Deferred Bonus Plan ("Deferred Bonus Plan") 15,841 and 7,541 share options were granted to J O Sigurdsson and M L Court respectively at an option price of nil p per share when the market price was £24.6267p per share.

Responsibility Statement of the Directors

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- (i) an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- (ii) material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

During the period since the approval of the Victrex plc Annual Report for the year ended 30 September 2021, there have been the following changes in the directorate:

1/ Larry Pentz retired as Chair at the 2022 AGM and was succeeded by Dame Vivienne Cox, who joined the Board on 1 December 2021, became Chair-designate on 1 January 2022 and became Chair after the Annual General Meeting on 11 February 2022

The Directors of Victrex plc are detailed on our Group website www.victrexplc.com.

By order of the Board

Jakob Sigurdsson
Chief Executive
9 May 2022

Richard Armitage
Chief Financial Officer
9 May 2022

Forward-looking statements

Sections of this Half-yearly Financial Report may contain forward-looking statements, including statements relating to: certain of the Group's plans and expectations relating to its future performance, results, strategic initiatives and objectives, future demand and markets for the Group's products and services; research and development relating to new products and services; and financial position, including its liquidity and capital resources. These forward-looking statements are not guarantees of future performance. By their nature, all forward looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future, and are or may be beyond the Group's control, including: changes in interest and 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; the impact of, and changes in, legislation or the regulatory environment (including tax); and the outcome of litigation. Accordingly, the Group's actual results and financial condition may differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements in this Half-yearly Financial Report are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.

Shareholder information:

Victrex's Annual Reports and Half-yearly Financial Reports are available on request from the Company's Registered Office or to download from our corporate website, www.victrexplc.com

Financial calendar:

Record date	27 May 2022
Payment of interim dividend	29 June 2022

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