

Renishaw plc – Annual General Meeting 2019

24th October 2019

Agenda

1200 Welcome and Trading update

1205 Financial summary of 2018/2019

1220 Business review

1235 AGM – formal business, including question and answer session with Renishaw Board

c.1305 Close meeting

1315 Lunch



Welcome

Trading update and business review

**William Lee, Chief Executive
Renishaw plc**

Trading update – 3 months to 30th September 2019

- **Revenue £124.6m (2019: £154.0m)**
- **Adjusted profit before tax £4.3m (2019: £32.6m)**
- **Strong balance sheet – net cash balance £98.5m (as at 30 September 2019)**
- **Trading conditions expected to remain challenging through the remainder of this financial year driven by the global macroeconomic environment**
- **Focused on improving productivity and initiatives to reduce the Group's cost base**

Renishaw plc
Trading update
15 October 2019

Renishaw plc, the global high-precision metrology and healthcare technology group, publishes this trading update for the three months ended 30 September 2019. It contains unaudited information that covers the first quarter and the period since.

Trading activity

Revenue for the first quarter of the current financial year was £124.6m, compared to £154.0m for the corresponding period last year.

In our metrology business revenue amounted to £119.7m compared to £147.4m last year. The first quarter of 2019 benefitted from a number of large orders from end-user manufacturers of consumer electronic products in the APAC region which have not been repeated this year. Furthermore, we have experienced reduced demand for our products as a result of the challenging global macroeconomic environment.

Revenue in our healthcare business was £4.9m compared with £6.6m last year, due to the timing of additive manufacturing machine sales into the healthcare market.

Adjusted* profit before tax for the first quarter amounted to £4.3m compared with £32.6m last year and the statutory profit before tax amounted to £5.1m (2019: £33.5m).

Adjusted profit before tax includes restructuring provisions of £2m following the decision to close our additive manufacturing facility at Stone, Staffordshire and relocate the activities to our Headquarters site at Wotton-Under-Edge, Gloucestershire and our site at Miskin near Cardiff, South Wales.

Financial position

The Group balance sheet remains strong with net cash balances of £98.5m as at 30 September 2019 compared to £106.8m at 30 June 2019.

Outlook

As indicated at the time of our full year results in July, trading conditions are expected to remain challenging through the remainder of this financial year driven by the global macroeconomic environment.

The Board believes that the structural demand drivers in our end-markets remain intact. The Group is in a strong financial position and remains committed to our long-term strategy of delivering growth through the development and introduction of innovative and patented products. However, as previously indicated, we are focussed on improving productivity and we are committed to undertaking further initiatives to reduce the Group's cost base.

The results for the half year ending 31 December 2019 will be released on 30 January 2020.

This announcement contains inside information.

Sir David McMurtry
CBE, RDI, FRS, FREng, CEng, FIMechE
Executive Chairman

William Lee
Chief Executive

15 October 2019

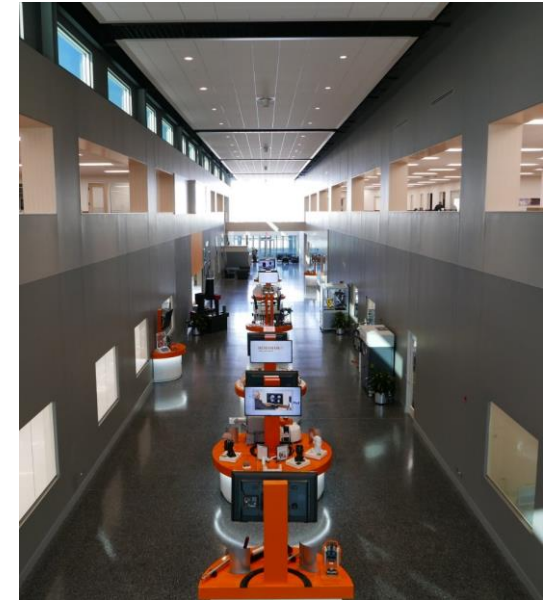
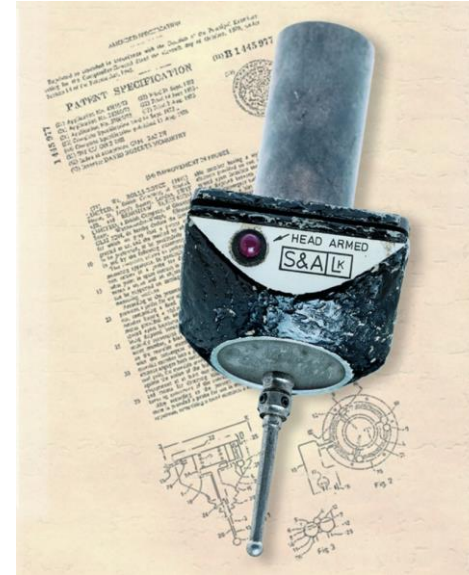
Renishaw plc
Registered office
Registered number
LEI number
Telephone number
Website

New Mills, Wotton-under-Edge, Gloucestershire, GL12 8JR
01106250
21300048ADXIM6Z67CT18
01453 524524
www.renishaw.com

Overview

Our fundamental strategy is based on:

- **patented and innovative products and processes**
- **high quality manufacturing**
- **providing local customer support in all our markets around the globe**



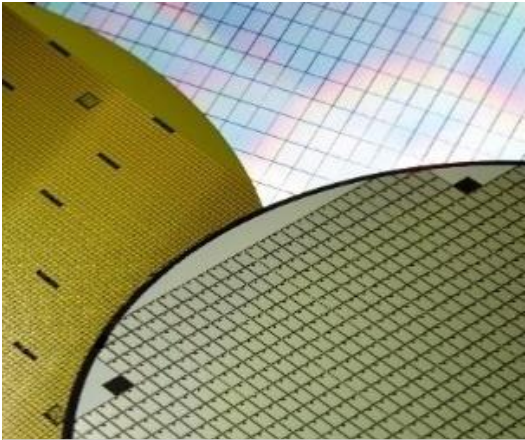
Our key markets



Aerospace



Automotive



Electronics



Energy



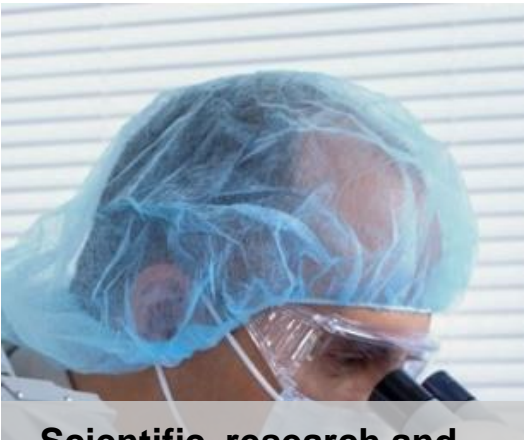
Heavy industry



Medical and healthcare



Precision manufacturing

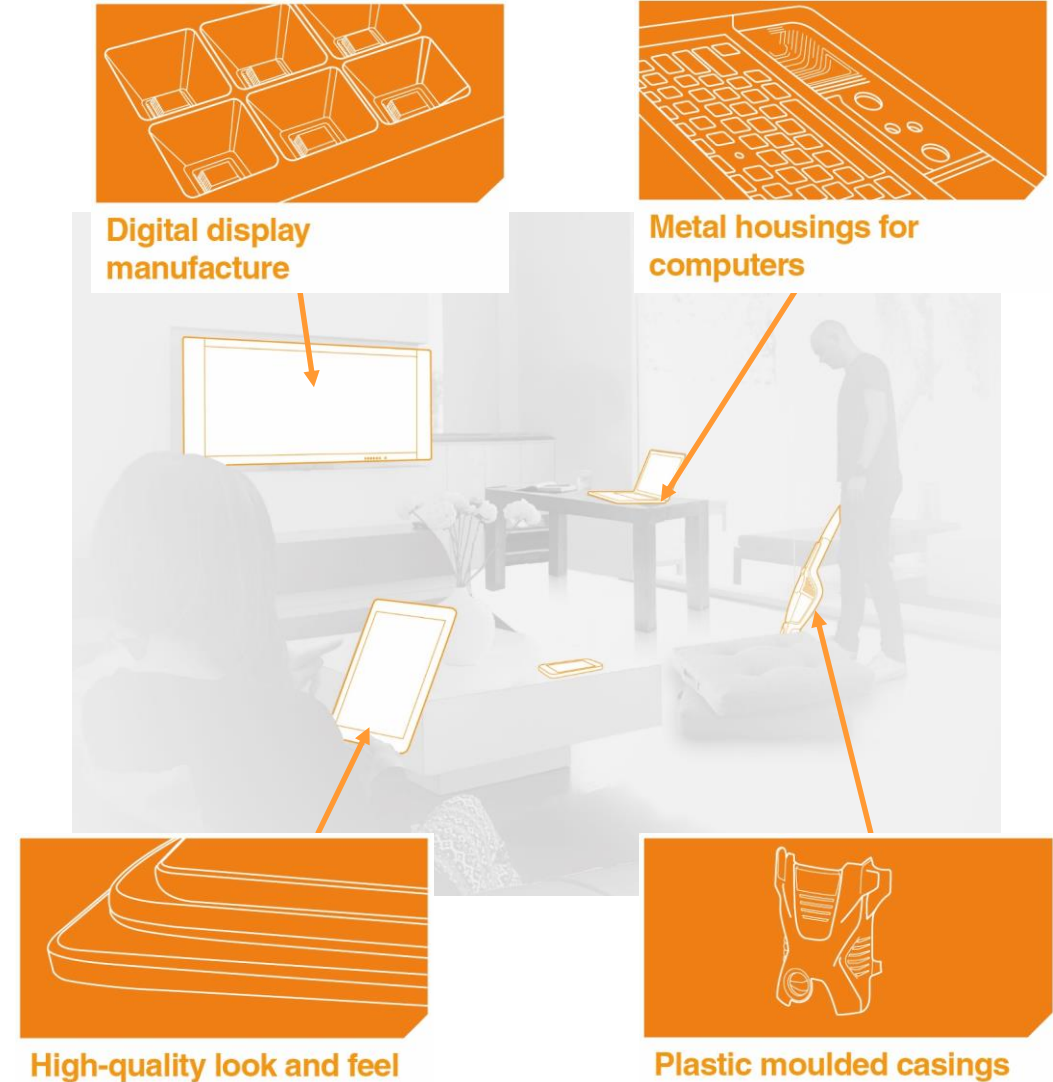


Scientific, research and analysis

Consumer electronics market

Key market drivers

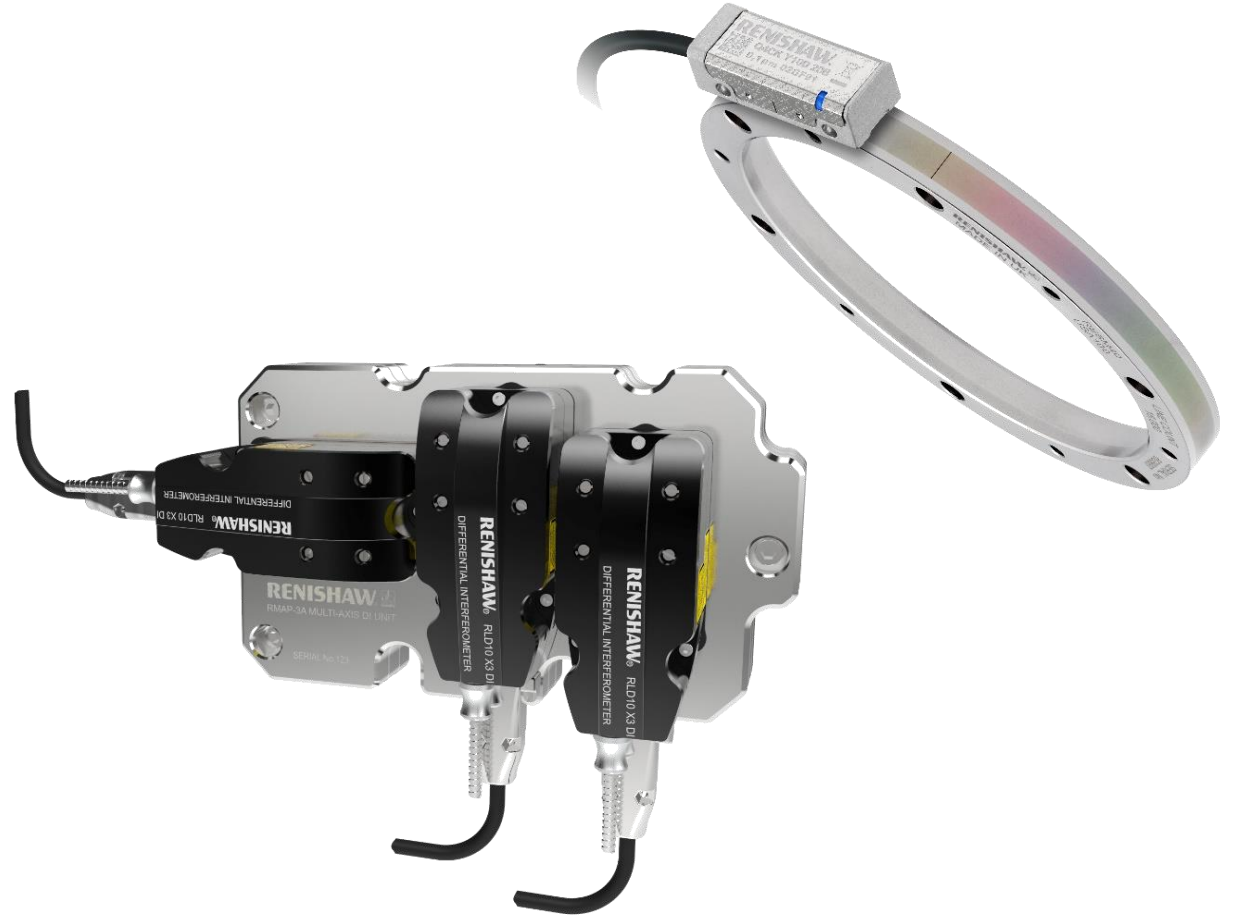
- Weaker smartphone demand and increased machining capacity in Asia
- Shorter product life cycles require flexible measurement systems
- Increasing use of automation in manufacturing and material handling due to rising labour costs in Asia
- 5G mobile products require significant investments in more complex integrated circuits



Consumer electronics market

Position encoder products

- Market drivers – size, speed, accuracy, ease-of-use
- Our encoders are required for machinery throughout the semiconductor, electronics and flat panel display (FPD) production process
- New multi-axis periscope meets the need for higher machine performance which requires multiple interferometer feedback axes



Aerospace market

Key market drivers

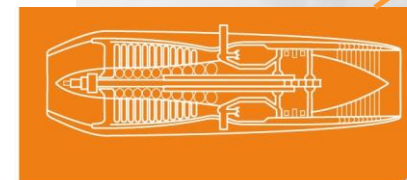
- 42,700 new aircraft by 2038 to meet growing global demand for civil air transport
- Lower emissions through fuel-efficient engines and reductions in engines and airframe weight
- Metrology and additive manufacturing opportunities
- Process stability and certification



Landing gear components



Advanced manufacture of control surfaces



Quiet and efficient aero engines



Wings and wing spars

Aerospace market

Key market drivers

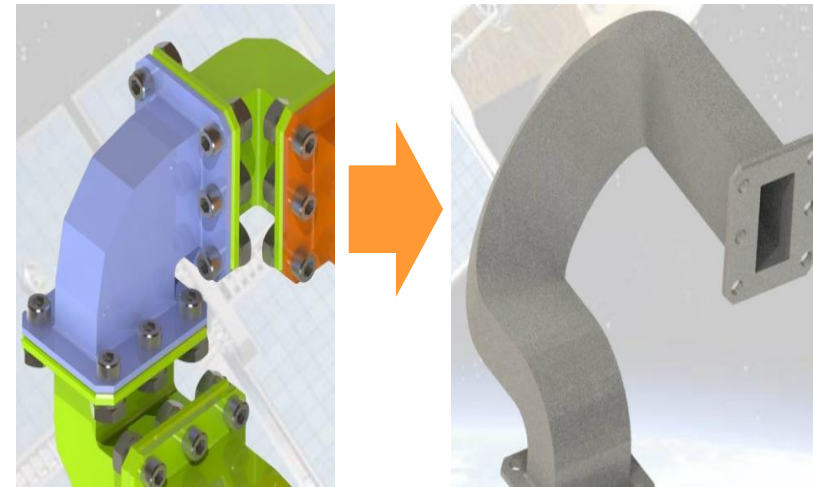
- **42,700 new aircraft by 2038 to meet growing global demand for civil air transport**
- **Lower emissions through fuel-efficient engines and reductions in engines and airframe weight**
- **Growing global market for engine maintenance, repair and overhaul (MRO) (due to increased demands on engine performance)**
- **Metrology and additive manufacturing opportunities**
- **Process stability and certification**



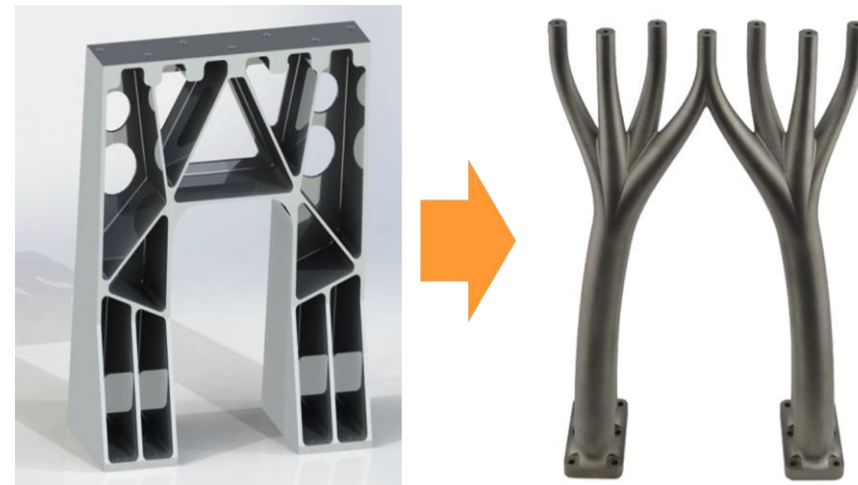
Aerospace market

Driving additive manufacturing (AM) innovation

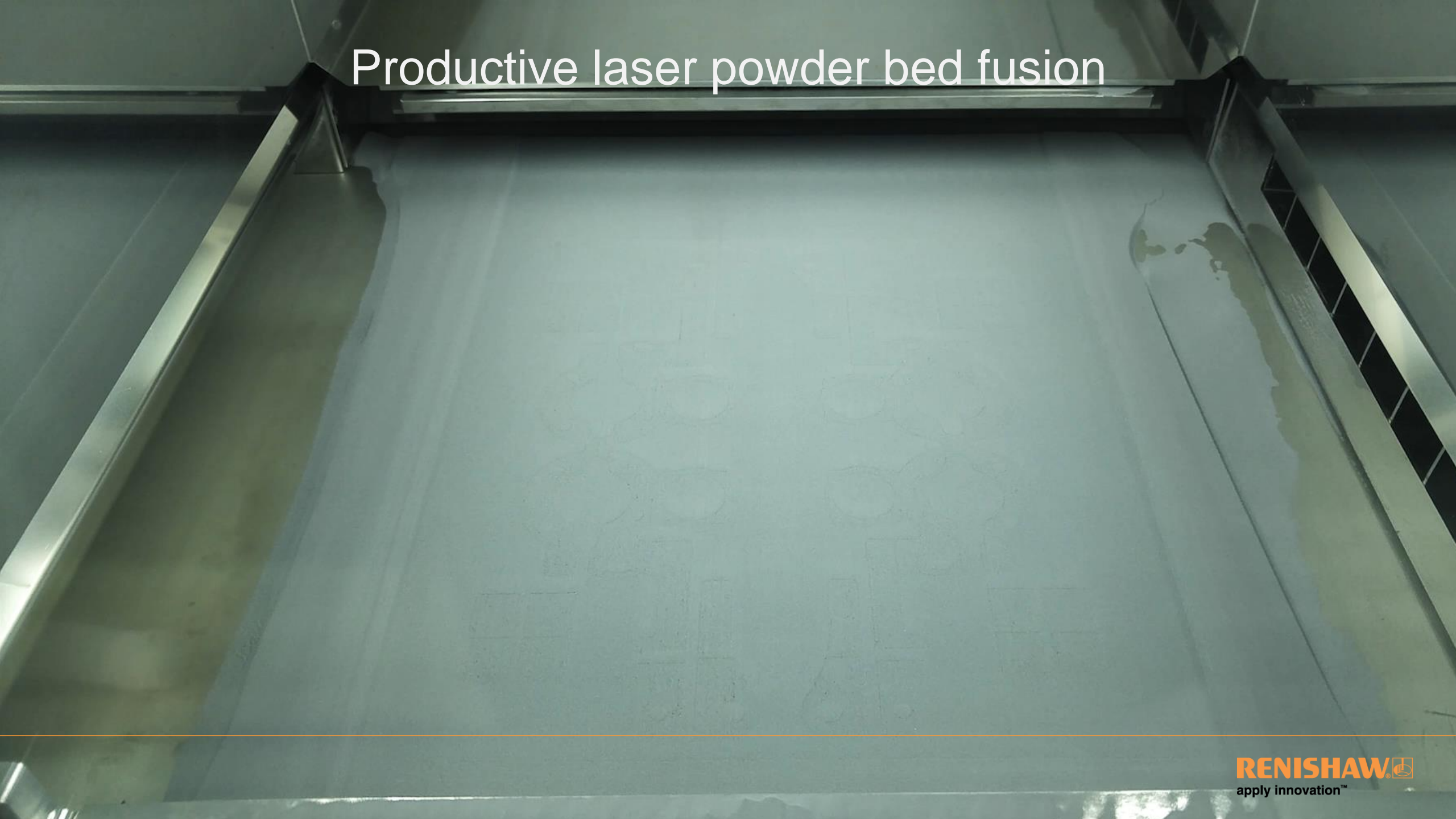
- Obvious benefits for many aerospace applications
- Reducing the cost per part opens up more opportunities



Patented and innovative products.....

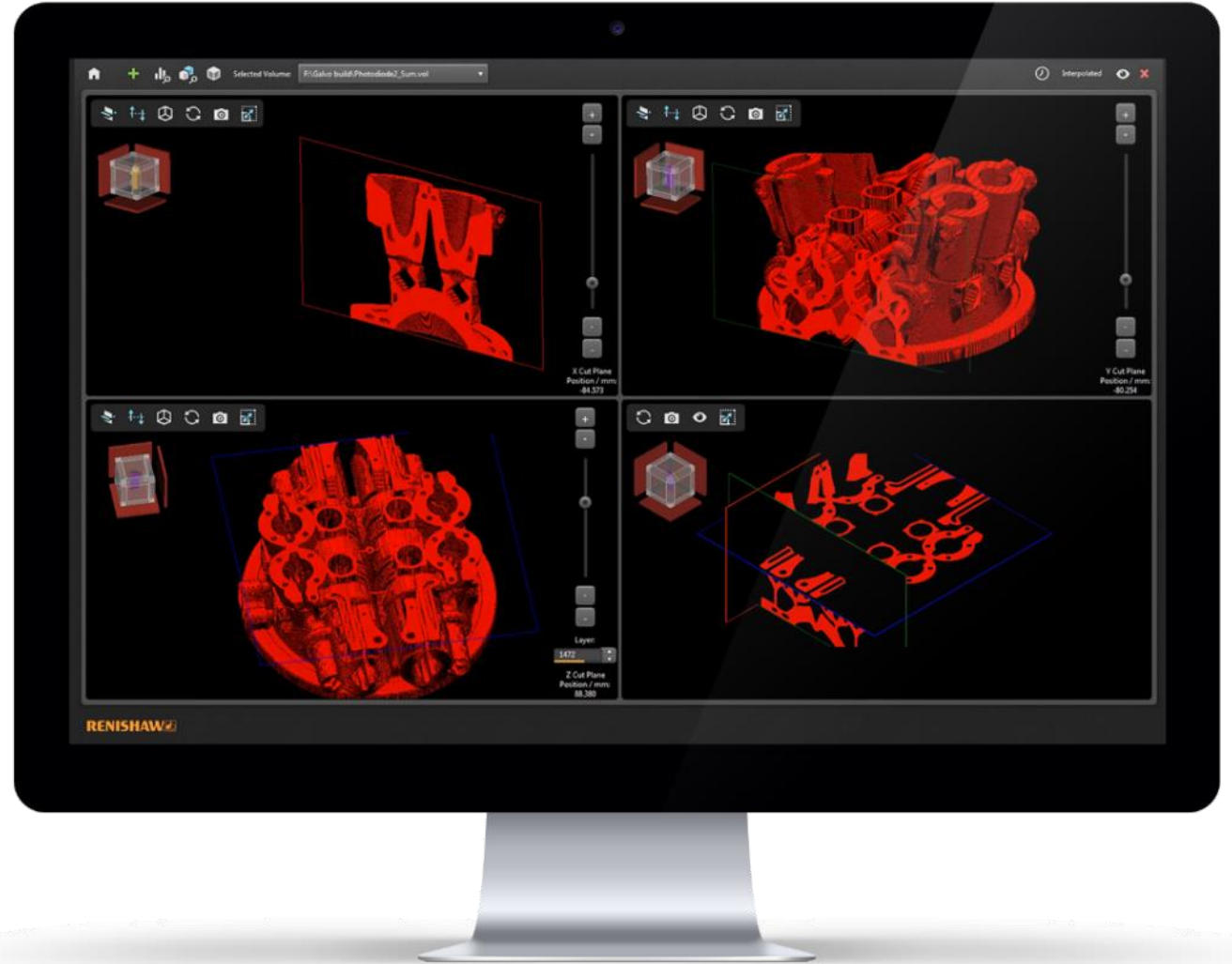


Productive laser powder bed fusion



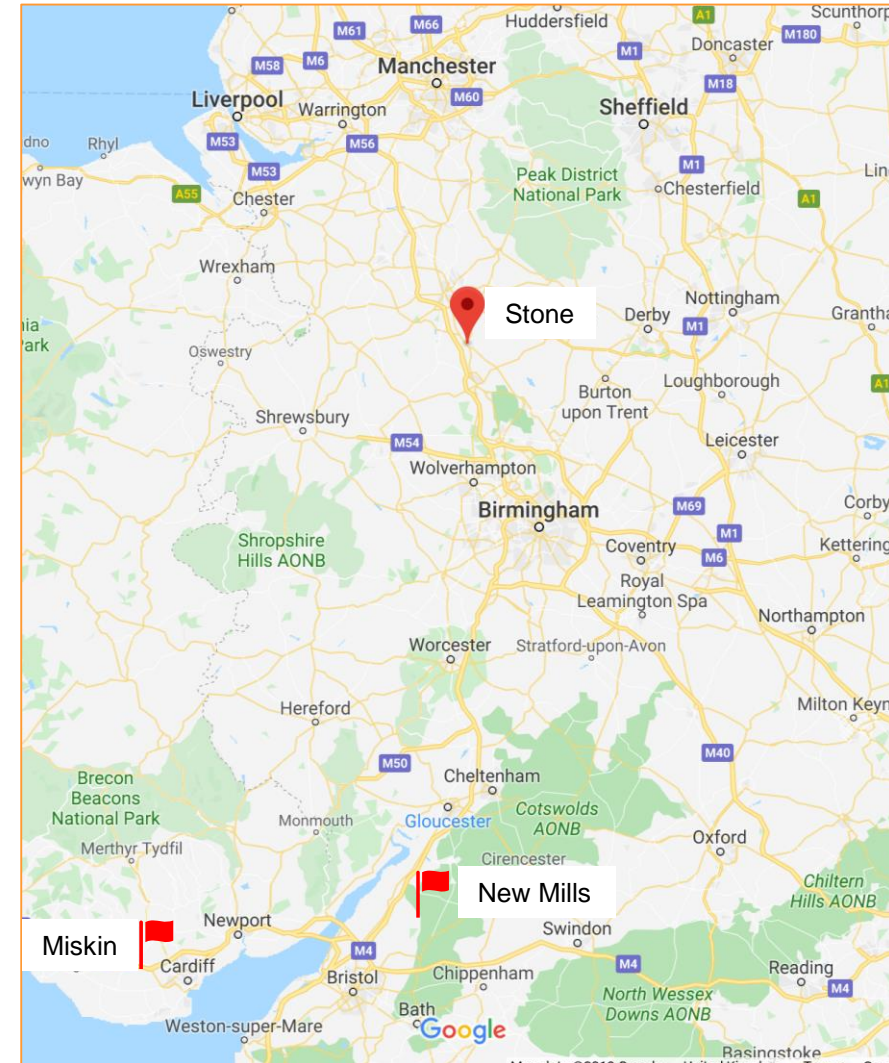
AM – the drive for built in quality

- Process anomalies can produce defects that affect fatigue performance
- Heavy reliance on post-build testing and costly production process control
- New technologies give the opportunity to detect and identify defects through process design, and possibly to repair defects during the build



Additive Manufacturing

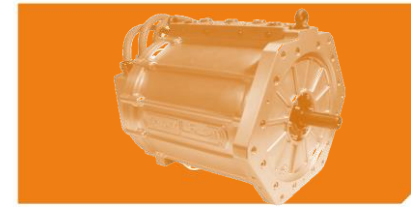
- Decision now made to co-locate our AM engineering, marketing and commercial activities at the New Mills site
- Manufacturing of AM systems is unaffected and will continue at our Miskin site in South Wales
- Now undertaking individual consultation with affected staff at Stone



Automotive market

Key market drivers

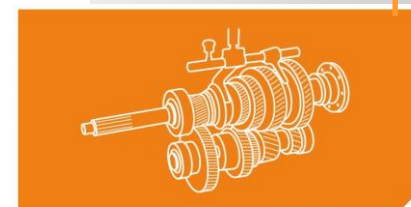
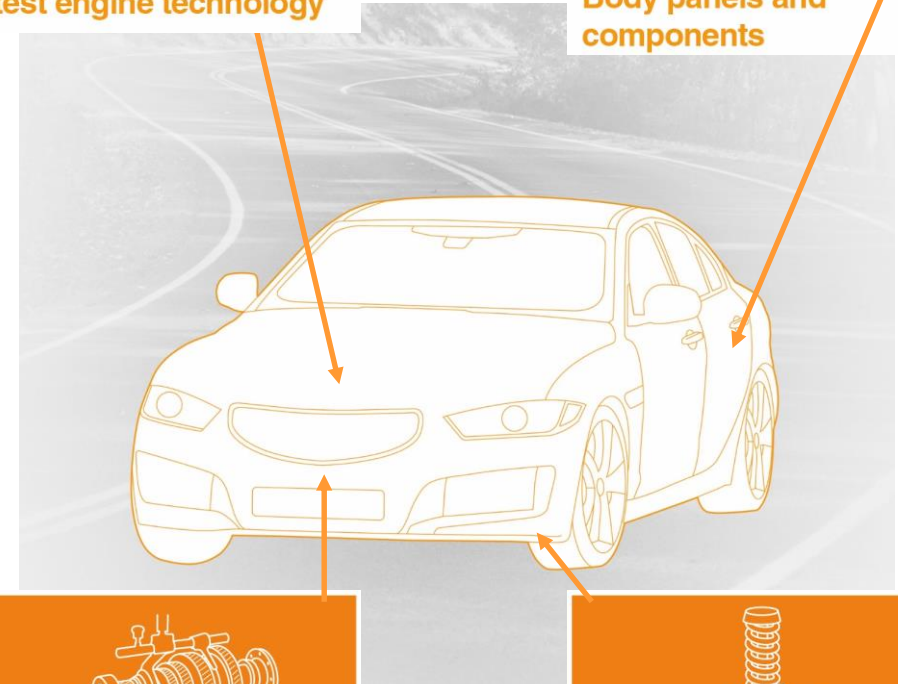
- Trend towards hybrid and electric vehicles (EV), and a focus on autonomous vehicles
- Mixed global environment for adoption of the newer technologies
- Reduced capital investment for internal combustion engines (ICE) but still a drive to make engines as efficient as possible
- Vehicle design life cycles are reducing, driving more flexible manufacturing
- AM interest focused on high-end applications



Latest engine technology



Body panels and components



Precision gears and reliable gearbox components



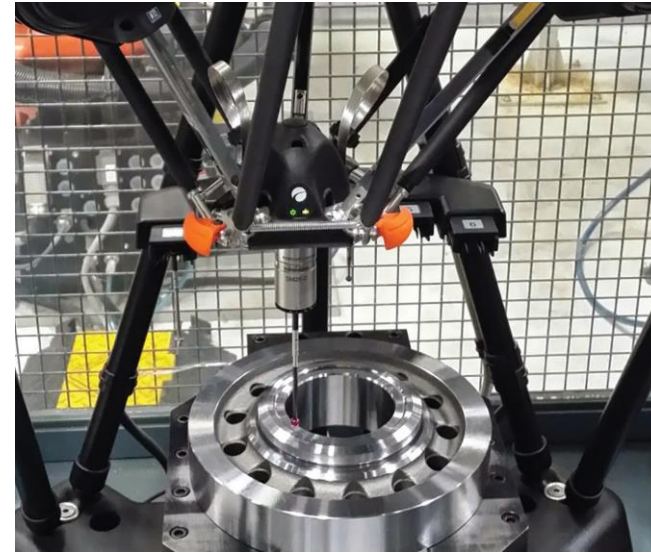
Suspension and braking components

(Electric motor image: Ricardo plc)

Automotive market

Key market drivers

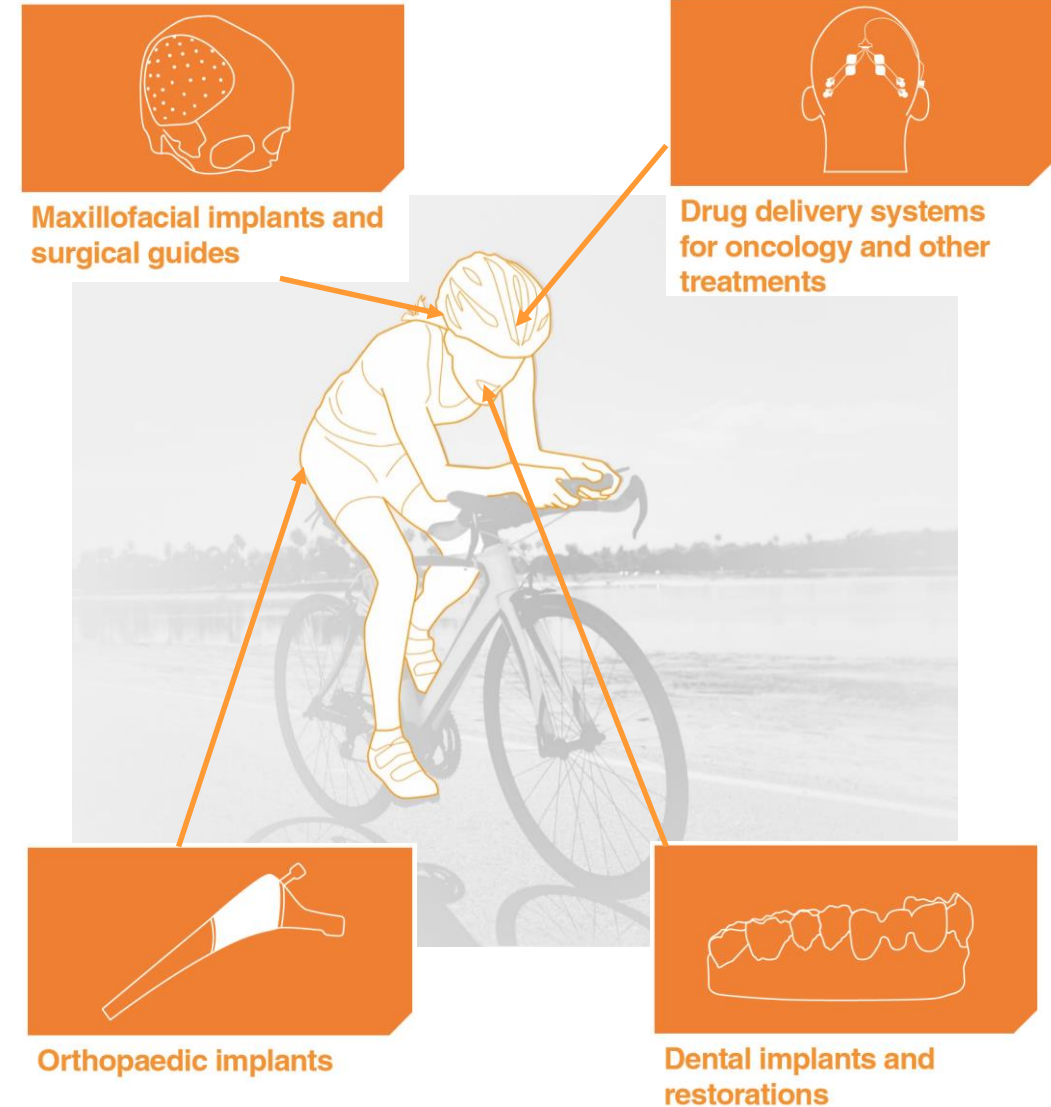
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Healthcare market

Key market conditions

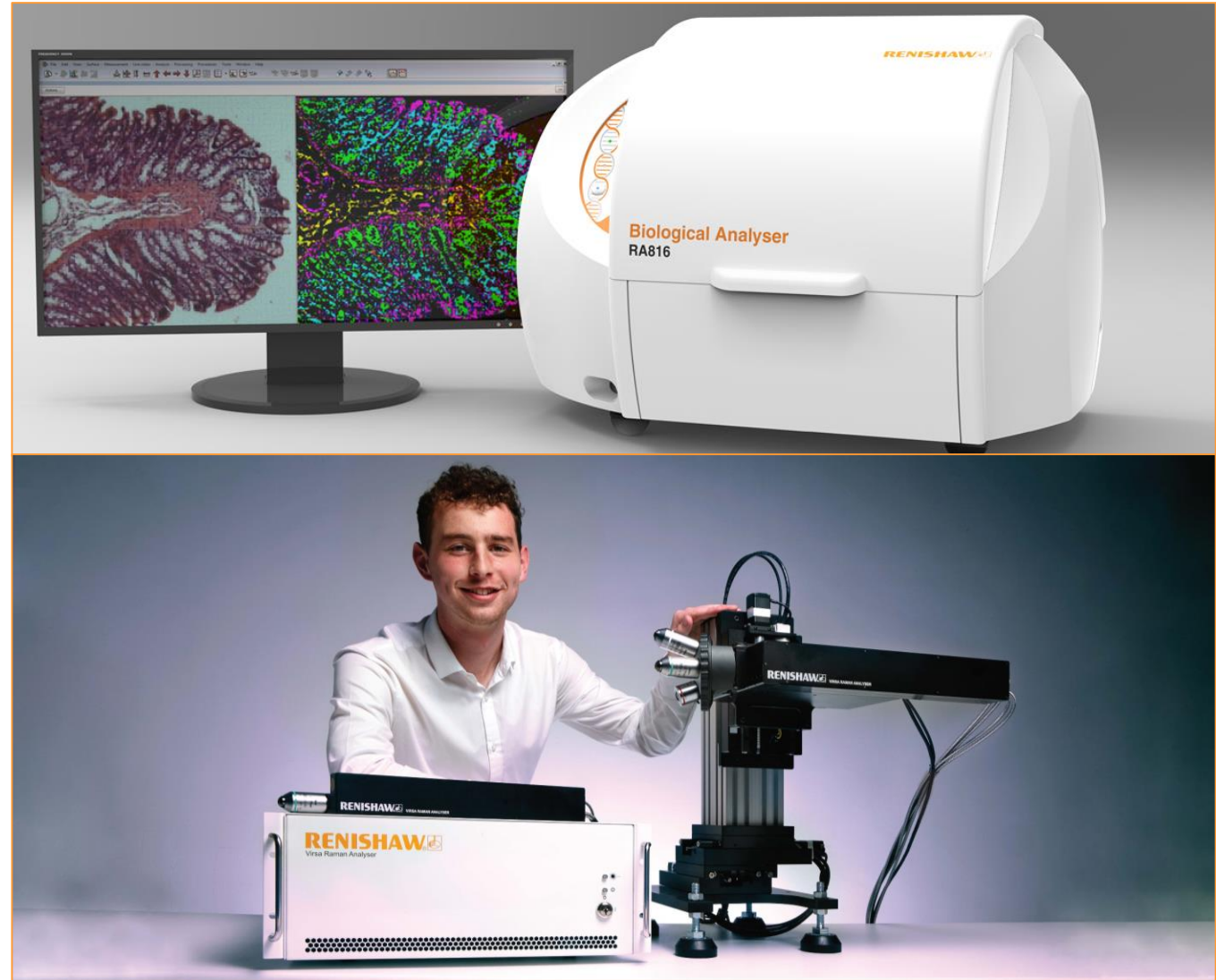
- Average global life expectancy rising; increasing neurological disorders require faster and highly precise surgical therapies
- Demand for more economical treatments, more patient-specific treatments and safer procedures with reduced human error
- Obesity rising globally leading to growing demand for orthopaedic implants



Healthcare market

Spectroscopy

- Raman systems increasingly used in industrial process control applications
- Diverse research applications including microplastic pollution, counterfeit food and battery technology
- New Biological Analyser exclusively for biological and clinical research
- New Virsa™ Raman Analyser – versatile, fibre-optic-coupled system for reliable, detailed remote analysis



Brexit

- The Brexit steering group has continued to oversee preparedness and mitigation plans against the risk of a worst case 'no-deal' Brexit (assumed 31st October)



Mitigation plan

- New warehouse established in Ireland to direct ship to 3rd parties within the EU
- General increase in inventory adding an additional 4 weeks in both finished goods and components in our UK and Ireland manufacturing sites, as well as within Renishaw GmbH
- Assessment of other risks and possible negative impacts

Financial review – 2018/2019

**Allen Roberts, Group Finance Director
Renishaw plc**

Financial summary (continuing operations)

	2019 £m	2018 £m	Change %
Revenue	574.0	611.5	-6%
Adjusted profit before tax	103.9	145.1	-28%
% return on revenue	18%	24%	
Statutory profit before tax	109.9	155.2	-29%
Tax	(17.7)	(22.9)	23%
Profit after tax	92.2	132.4	-30%
Adjusted earnings per share	119.9p	170.5p	-30%
Statutory earnings per share	126.7p	181.8p	-30%
Dividend per share	60.0p	60.0p	



Group revenue analysis

Changes in geographic area

	Change at actual fx %	Change at constant fx %
APAC	-17%	-19%
EMEA	1%	2%
Americas	5%	1%
UK	11%	11%
Total	-6%	-7%

Revenue by major countries

	2019 £m	2018 £m
USA	113.2	108.1
China	111.0	150.2
Japan	63.7	60.9
Germany	60.9	64.4

Average exchange rates

	2019	2018
GBP : USD	1.29	1.35
GBP : EUR	1.13	1.13
GBP : JPY	144	149

Market conditions

- APAC region impacted by slowdown in demand for encoder and machine tool products.
- Encoder product demand lower due to reduced investments in electronics production equipment and semiconductor manufacturing.
- Machine tool products affected by lower sales to large end-user manufacturers of consumer electronic products, with weaker smartphone demand leading to over-capacity in the supply chain.
- Have not experienced an erosion in our customer base in APAC
- Strong growth in our additive manufacturing line and in our measurement and automation and fixturing product lines.
- In our healthcare sector revenue increased by 15% with strong growth in our spectroscopy and medical dental product lines.

Business sector performance

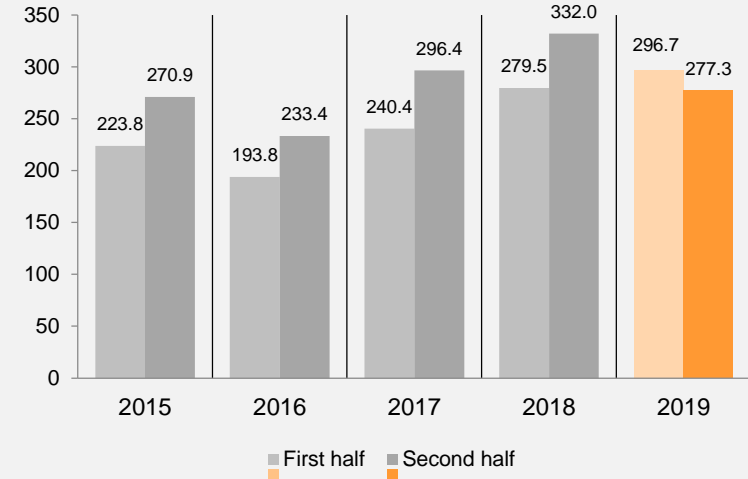
Revenue

	2019 £m	2018 £m	Change %
Metrology	533.0	575.8	-7%
Healthcare	41.0	35.7	15%
Total	574.0	611.5	-6.1%

Adjusted operating profit

	2019 £m	2018 £m	Change %
Metrology	90.6	142.8	-37%
Healthcare	3.1	0.3	933%
Total	93.7	143.1	-35%

Revenue – 1st & 2nd half £m

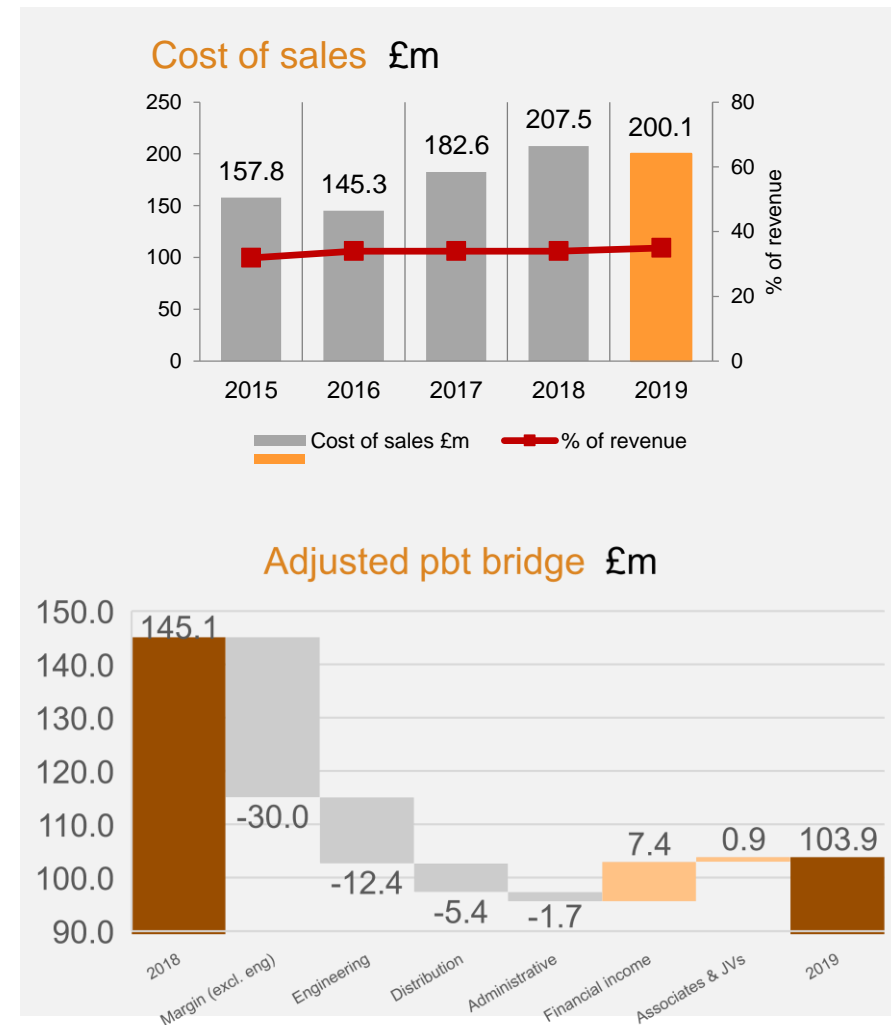


Year-on-year changes:

First half	-13%	24%	16%	6%
Second half	-14%	27%	12%	-16%

Income statement

	2019 £m	%	2018 £m	%	Change
Revenue	574.0	100	611.5	100	-6%
Cost of sales	(200.1)	35	(207.5)	34	-4%
Engineering (inc. R&D)	(89.8)	16	(77.4)	13	16%
Gross profit	284.1	49	326.6	53	-13%
Distribution costs	(126.8)	22	(121.4)	20	4%
Administrative costs	(58.6)	10	(56.9)	9	3%
Fair value gains/(losses) on financial instruments	1.1	-	4.8	1	-77%
Financial expense (net)	6.3	1	(0.9)	-	-800%
Share of profits of associates and joint ventures	3.8	1	3.0	1	27%
Statutory profit before tax	109.9	19	155.2	25	-29%
FV gains and losses on instruments not eligible for hedge accounting					
-reported in revenue	(5.0)	1	(5.3)	-1	-6%
-reporting in fair value gains/(losses) on financial instruments	(1.0)	-	(4.8)	-	-79%
Adjusted profit before tax	103.9	18	145.1	24	-28%



Income statement – Engineering costs

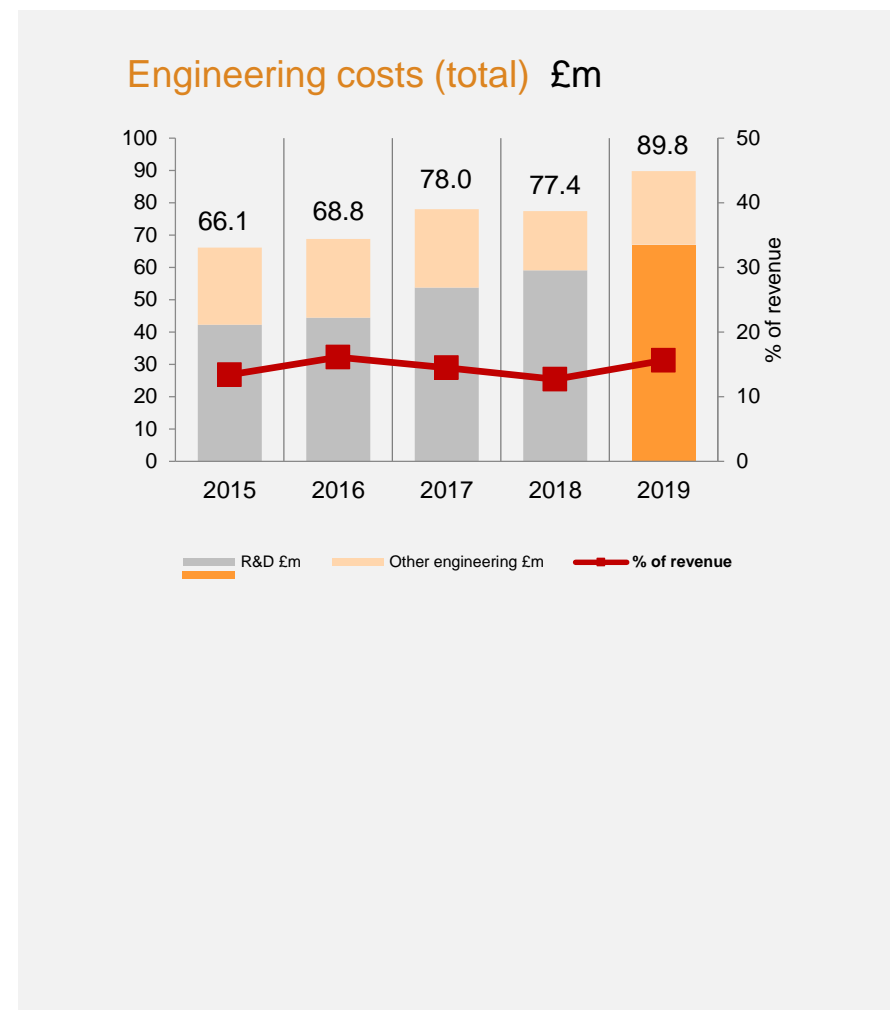
Engineering costs

	2019 £m	2018 £m	Change %
Total spend	97.9	83.6	17%
Less capitalised net	3.0	2.1	43%
Less R&D tax credit	5.1	4.1	24%
Net R&D	89.8	77.4	16%

	2019 £m	2018 £m	Change %
Total spend segmental			
Metrology	90.7	77.1	18%
Healthcare	7.2	6.5	11%

	2019 £m	2018 £m	Change %
New product spend	67.0	59.1	13%

•Continued investment in R&D, with net increase of 107 R&D employees from June 2018



Income statement – Distribution costs

Distribution costs

- Continued expansion of global marketing and distribution infrastructure to support new and existing products
- Distribution costs up 4% from last year, representing 22% of revenue (2018: 20%)
- Purchase of property in Japan and The Netherlands and purchase of land in Brazil



Income statement – Administrative costs and Group employees

Administrative costs

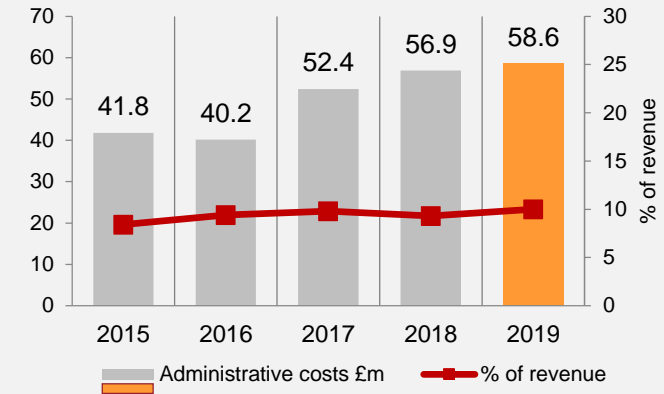
- Inflationary increases
- Headcount increase to support business growth and increasing complexity
- Offset arising from reduction in bonuses
- GMP equalisation cost of £0.8m

Group headcount (at June)

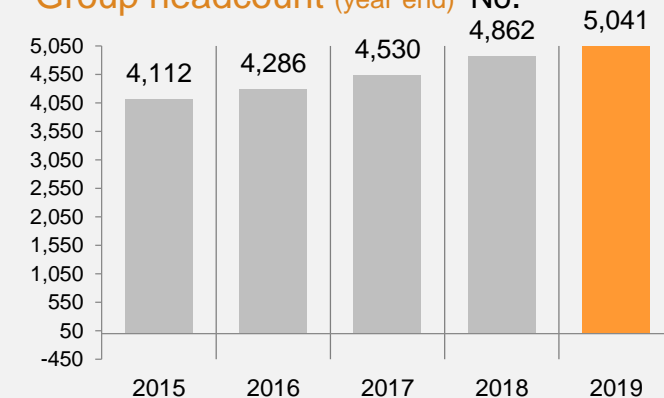
	2019 No.	2018 No.	Change No.
UK	3,167	3,045	122
Overseas	1,874	1,817	57
Total	5,041	4,862	179

- Total headcount up 179 from June 2018
- 119 apprentices and graduates have joined the business since June 2018
- Additionally we took on 73 paid industrial and summer placements

Administrative costs £m



Group headcount (year end) No.



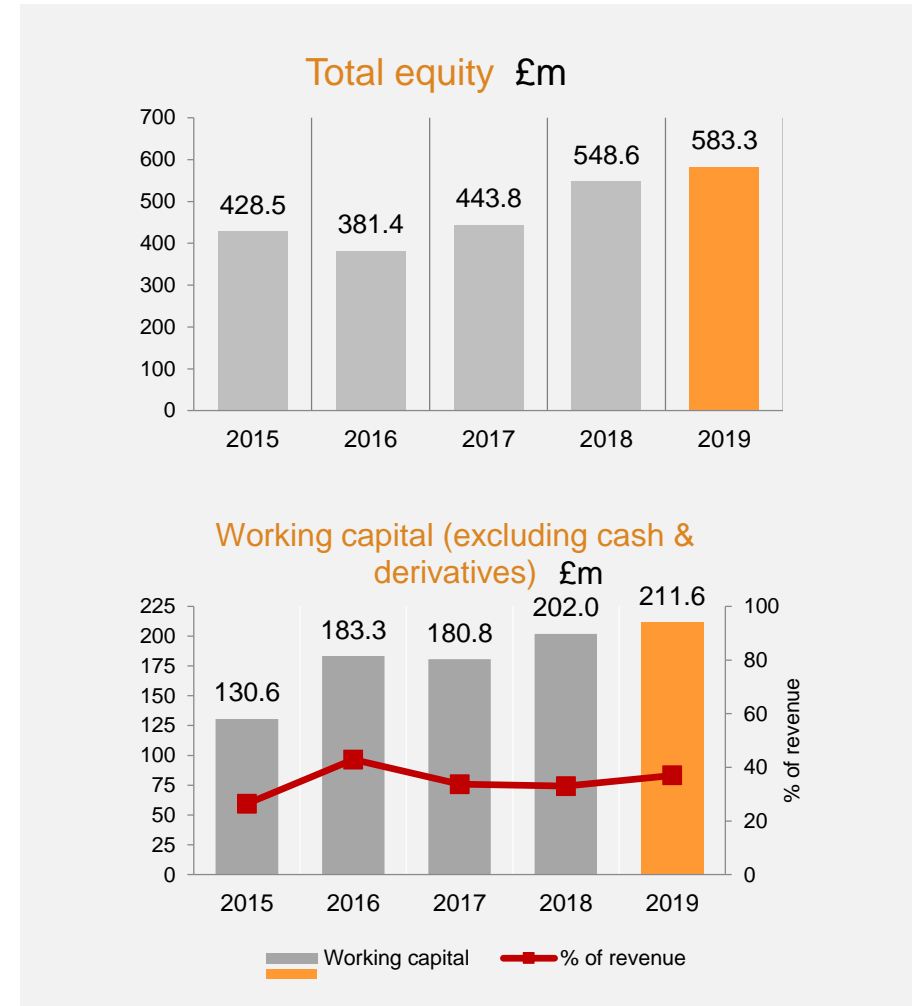
Business systems

- In recent years, we have made significant progress in enhancing and simplifying financial reporting processes and systems, to further improve the analysis of business performance.
- With a focus on increasing productivity and efficiency, major systems developments are in progress in the following areas:
 - HR
 - engineering change management
 - marketing
- Recently committed to a new ERP system to replace our global finance, sales & marketing, CRM and overseas distribution systems.



Balance sheet

£m	June 2019	June 2018	Change %
Property, plant & equipment	263.5	232.6	13%
Intangible assets & investments	72.1	64.3	12%
Deferred tax assets	29.9	27.3	10%
Long-term loans to associates & JVs	0.7	4.2	-83%
Derivatives	1.3	9.6	-86%
Total non-current assets	367.5	338.0	9%
Inventories	129.0	110.6	17%
Debtors	159.2	177.3	-10%
Pension scheme cash escrow account	10.5	10.4	1%
Cash	106.8	103.8	3%
Derivatives	(16.1)	(21.1)	-24%
Creditors (current)	(76.6)	(86.0)	-11%
Net current assets	312.8	295.1	6%
Borrowings	(9.4)	-	
Employee benefits	(51.9)	(67.4)	-23%
Derivatives	(35.7)	(17.0)	110%
Net assets, equal to Total equity	583.3	548.6	6%



Defined benefit pension schemes

UK defined benefit pension scheme - new funding plan

Previous funding plan

Company paid all monthly pension payments and lump sum payments, and transfer payments to a limit of £1.0m in each year, until the earlier of 30 June 2031 or reaching the self-sufficiency funding target, totalling circa £4.0m per annum.

New funding plan

£8.7m per annum for five years effective from 1 October 2018. At 30 June 2031 the Company is obliged to pay any remaining deficit, unless self-sufficiency funding target is achieved before this date. Payments may reduce in the event of the funding target being achieved before 30 September 2023.

Contingent assets

The scheme continues to have charge over a number of UK properties and the pension scheme escrow account.

IFRIC 14

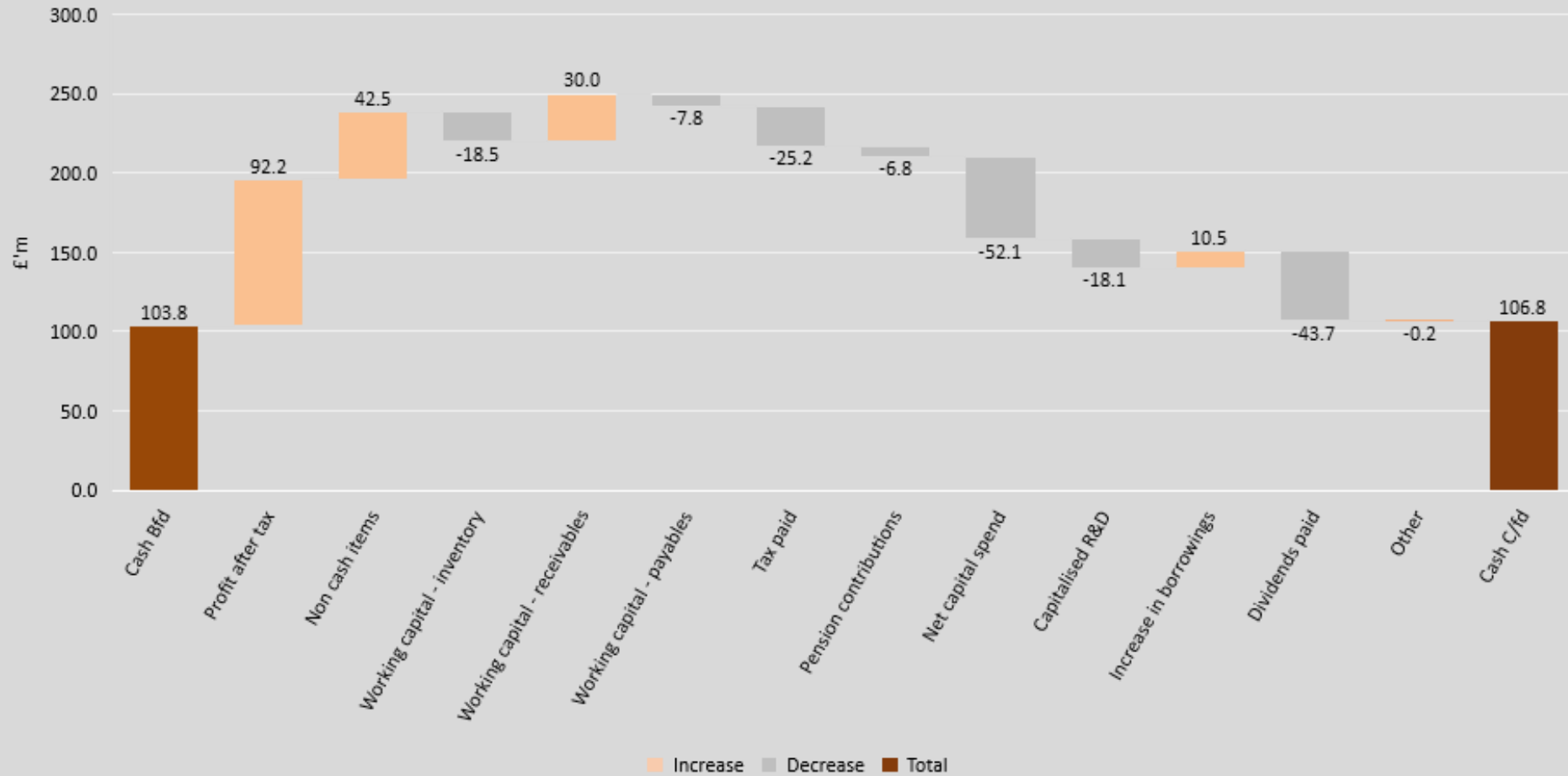
The present value of guaranteed payments under the new plan is lower than the IAS 19 pension scheme deficit at 30 June 2019, such that no adjustment to the scheme's liabilities are required in accordance with IFRIC 14.

	Year ended 30 June 2019 £'000
Balance at the beginning of the period	(67,378)
Contributions paid	6,831
Interest on pension schemes ¹	(845)
Remeasurement loss from GMP equalisation ²	(751)
Remeasurement loss under IAS 19 ³	(21,227)
Change in remeasurement gain under IFRIC 14 ³	31,500
Balance at the end of the period	(51,870)

¹Reported in Financial expenses. ²Reported in Administrative expenses.

³Reported in Other Comprehensive income and expense.

Cash flow



Capital expenditure

	2019 £m	2018 £m
Capital expenditure	56.8	34.9

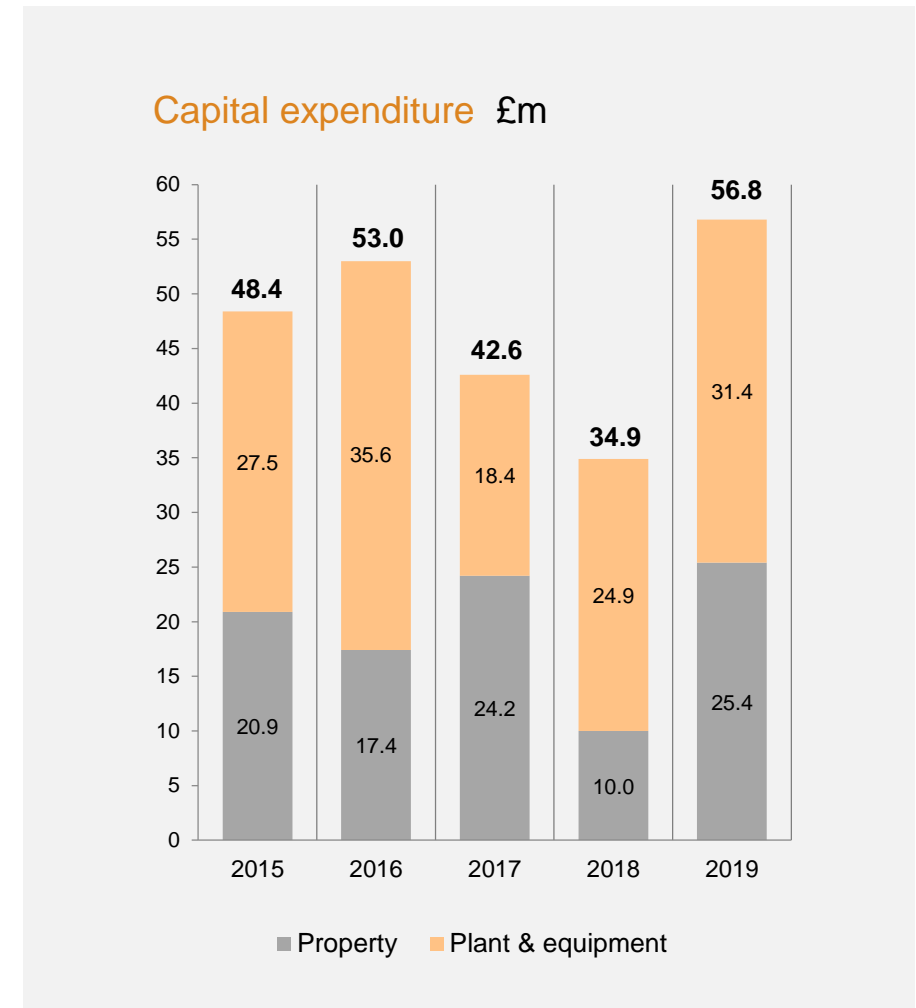
- Property

The main property additions were

- in the UK, construction in progress for a 94,000 sq ft extension to our Renishaw Innovation Centre due for completion in December 2019
- in The Netherlands, the purchase of our existing facility
- in Brazil the purchase of land for the future development of a new distribution facility
- in Japan, the purchase of property in Nagoya to support the expansion of our distribution function, funded by local third-party borrowing

- Plant & equipment

- £31.4m expenditure on plant, equipment and IT systems in 2019 (2018: £24.9m)



Property



Nagoya, Japan, distribution facility



Renishaw Innovation Centre extension (artist's impression)

Renishaw Annual General Meeting 2019



**Sir David McMurtry, Executive Chairman
Renishaw plc**

Questions

Renishaw Board of Directors



Carol Chesney
Non-executive
Director



John Jeans
Non-executive Director



Sir David Grant
Senior Independent
Director



Sir David McMurtry
Executive Chairman



William Lee
Chief Executive



Allen Roberts
Group Finance
Director



Catherine Glickman
Non-executive
Director



Mark Noble
General Counsel &
Company Secretary



John Deer
Deputy Chairman

Apologies –
attending
funeral of
employee's
wife

Renishaw plc – Annual General Meeting 2019

24th October 2019