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TT Electronics HY Results
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RICHARD TYSON: Good morning everyone and thank you for joining me at the TT Electronics half-year results presentation. I am joined today by our CFO Mark Hoad and we will run you through the presentation and then open up for questions.

I want to start off by saying that I am delighted with the really strong first-half performance. Testament to our excellent people, working through a challenging time. I'd like to take a moment to thank all of them for their huge efforts, that have enabled our great progress in the first half of the year and for contributing to our purpose of solving technology challenges for a sustainable world.

We are pleased not only to be reporting good first-half results, but also considerable momentum across the business. Order intake has built to record levels. Sales numbers have rebounded strongly across all divisions from the COVID impact last year. And having upgraded expectations at the AGM in May, this strength in demand means that we now have confidence in our expectations for the year improving further.

Revenues and profit at constant currency are now likely to be back at 2019 levels this year.

It's not just the growth to date that encourages us, but much greater visibility in forward revenues. We are fully covered for our growth expectation for 2021 and our 2022 order book is building nicely. Much better than we've had in the past.

The pipeline of new business and new business opportunities also look stronger than ever with both important new wins and excellent new customers being added to our key account list.

Today, I will show you how we have achieved this growth and momentum, where the new business wins are coming from and some colour with a few examples.

Some of the order book visibility has increased through working with customers, to place longer-term orders, to secure capacity and help manage supply chain constraints that are being experienced across a wide range of electronics markets.

We have also invested in inventory to protect near-term customer demand and managing to pass on inflationary pressures through pricing. We expect this dynamic to continue through the balance of the year at least.

Clearly, this has some understandable impact on working capital and Mark will touch on these dynamics in more detail.

Growing the top line is a key component of our strategy, but only one part of the story. We remain focused on delivering a self-help program and improving margins. The program is on track to deliver the expected benefits at a reduced cost.

I will talk about margin in more detail in a moment. But it's very encouraging to see run rate margins improve to 8%, excluding the start-up costs associated with the Virolens product.

We have big improvements in margin coming from growth and self-help actions, with the step change in Sensors and Specialist Components, a particular standout.

Another highlight has been the further improvement in the quality of the Global Manufacturing Solutions business, where we see opportunities to further enhance margins. The division now looks capable of going beyond its stated target range, which we will discuss later in the presentation.

So overall, the momentum we are seeing, gives us increased visibility and confidence that we can deliver double digit margins whilst continuing to grow the top line.

Sustainability, governments, and environmental matters are core to our strategy. As I highlighted in our full-year results presentation in March, not only are TT's product solutions delivering productivity and cleaner capabilities for our customers, to support energy efficiency and better use of scarce resources. But we are determined to improve our own environmental performance.

Our top sustainability priorities are highlighted on this slide. We delivered a step change towards our carbon neutral reduction goals last year and the team have continued to make great progress so far this year, with two sites closed, the opening of our new plant in Plano and five further sites transitioned to renewable energy.

We have decided to focus on end markets exhibiting structural growth, where we can use our engineering excellence to provide solutions for a cleaner, smarter, healthier world.

And as I look at the new business pipeline, what pleases me is the quality of these opportunities. The future growth from these markets is underpinned by structural growth drivers, driven by electrification and the need for efficiency, improved productivity, and environmental demands.

Our clients increasingly work in partnership with us, and we are increasing the number of customers for whom we are both designing and building the product.

The business is now much better positioned to capture higher growth with margin improvements, supported by our own self-help actions.

On this slide, I wanted to remind you of the growth potential in our chosen market segments. Healthcare is in good shape. There have been some areas with surges in demand, due to the pandemic like refrigeration units for vaccines, offsetting a pause in elective surgery.

The demand is starting to return as some parts of the world are passing the crisis phase. This demand recovery, coupled with the requirement for higher technology healthcare electronics, is encouraging for the longer-term outlook.

Commercial aerospace has been subdued as expected. Last year saw almost £30 million worth of annual sales come out of our revenue stream. We're starting to see the signs of growth returning and would expect these revenues to recover over the next few years and support good growth for the group.

Defence outlays have been strong in the areas in which TT has expertise. Communications, radar, and missiles, have all seen programs supported with good awards.

The automation and electrification market is performing strongly with demand currently running ahead of these growth rates as projects restart after the pandemic pause and underlying demand for electronics comes through.

We believe all this supports medium term revenue growth of between 3% to 5% per annum.

I have talked about margin and our increased confidence in delivering double digits. The margin run rate in H1, is 8% excluding Virolens start-up costs. As you know, Virolens has been a project that we have been supporting through its start-up phase. And we are pleased to see it achieve its first important regulatory milestone and gain registration with the MHRA in Great Britain in the first half.
We now have an established product, with commercial potential.

Clearly start-up costs have been incurred during this phase and we remain encouraged that active dialogue is continuing with a number of regulators and that commercial potential remains.

Importantly, the costs will substantially reduce in H2.

So, given the strength of the underlying margin progress this year, let's run through how we have delivered the margin improvement in the first half and why this informs that we are on-track to deliver further improvements in the future.

Firstly, recovery from the COVID impact last year. The business has not only shown its resilience, but is returning quickly to 2019 revenue and margin levels. Secondly growth. As already outlined, we are growing at a record pace and delivering good operational leverage on that growth.

With the order book building and visibility better than usual across all divisions, we're confident growth will continue, supporting further operational leverage.

Then there is our successful self-help program. It's firmly on-track. The Barbados and Carrollton sites have closed, and the new Plano facility has opened. The production from Corpus and Lutterworth is on-track to be moved by year-end.

This has been an important contributor with benefits building this year, supporting excellent improvements in margins in our Sensors and Specialist Components division.

Their new Plano factory will commence manufacturing in the second half. Additionally, we were able to sell the Covina site, which is helping to reduce the net cost of the program by £2 million.

Finally, acquisitions. Torotel has been a great success and is delivering new, high-quality business for us with great examples of cross-selling and cost synergies, which further enhances margin.

We continue to have a pipeline of acquisition targets, which should support a continuation of this opportunity to enhance value for the group.

So, with that, I will handover to Mark, to take you through the performance and some of the dynamics we expect for the balance of the year.

MARK HOAD: Thank you Richard and good morning everyone. So, as Richard has already said, we are really pleased with our performance in the first half of 2021. Our markets are coming back strongly, operating profit and margin are improving, thanks to growth and self-help actions and the contribution from the Torotel acquisition. And although cash generation in the first half has been lower, as you might expect with this level of revenue growth, we remain on-track to reduce leverage in the second-half.

We grew revenue by 12% organically the first half-half. And acceleration from the 7% in the first four months of the year, as we have moved through Q2 and the weaker comps.

We have increased operating profit by 27% at constant currency, improved run rate margin to 8%. Including the costs associated with establishing the Virolens product line, adjusted operating margin in H1, improved by 50 basis points at constant currency to 6.7%.

And on the next slide, I will show you how the margins have developed in H1.

With an interest expense of £1.8 million, and an effective tax rate of 19.6%, adjusted basic EPS increased by 23% to 6.5 pence per share.

The level of growth we're delivering together with our decision to build the inventory levels to protect the H2 order book in the face of supply chain constraints, resulted in a large working capital outflow and a free cash outflow of £10.3 million in the first half.

However, we expect to be able to drive an improvement in working capital in the second half, as we did last year.

Return on invested capital is recovering quickly. It's up by 60 basis points in six months and will improve further from here as operating profit improves.

Given the good growth in revenue and profits, we're delivering a positive outlook for 2021 and beyond, the board has declared an interim dividend of 1.8 pence per share.

So, here you can see evidence of the improvement in operating margin in the first half. Firstly, we're getting good operational leverage on the growth we're generating, and this has added 170 basis points.

We are realising benefits from the self-help program, as anticipated and it's added another 90 basis points to margin in the first half.

We have added back roughly around £2.5 million of discretionary costs, relating to marketing and employee incentives, as planned.

And Richard will talk about Torotel in some more detail a bit later. But the business is performing really well and has added 30 basis points to group margins.

All this means we've increased run rate margins by 180 basis points on a constant currency basis to 8%. The adjusted margin is then reduced by 1.3%, which is the impact for the costs we incurred in H1 to establish the Virolens product line. We expect there to be a significant reduction in this cost in the second half.

So, as you can see, on a run rate basis, we have quickly returned margins to 2019 levels. We have seen the benefits of growth, self-help and acquisitions come through as expected.

Okay, so moving on then to see how that revenue and profit performance has played out in the divisions.

In Power and Connectivity, revenue increased by 17% on a constant currency basis and 1% organically.

There was a £9.7 million revenue contribution from Torotel and the organic growth came from defence, healthcare and automation and electrification markets. Offset by commercial aerospace demand dropping to run rate in Q1.

The inorganic operating profit contribution from Torotel was £1.4 million. So, it's delivering mid-team margins and the business is performing really well.

The adjusted margins here, declined by 210 basis points at constant currency. But run rate margins were 9.5% after excluding the cost to establish Virolens.

On a comparable basis therefore, margins improved by 220 basis points, reflecting good efficiency improvement, self-help benefits and the impact of the Torotel acquisition.

The stand-out performer from a revenue perspective in the first half was Global Manufacturing Solutions with 18% organic revenue growth. The margin was particularly strong in healthcare and in automation and electrification.

The order book continues to grow very nicely, benefitting in part from a number of new customer wins. Adjusted operating profit improved by 9% on a constant currency basis. But margins were held back by reduced recovered hours in the Cleveland site.

We have taken actions to adjust the cost base and we expect GMS margins to improve in the second half.

We have talked for some time about the quality of this division having been transformed. The division is in excellent shape, and we now see scope to drive GMS margins beyond the 7% to 8% range we have talked about until now.

Finally, Sensors and Specialist Components. Here, we grew revenue by 13% organically, with strong demand in the automation and electrification markets.

In this division, we have generated good growth in order intake and the general tightening in the supply chain for electronic components has encouraged new customers to place their orders further out to secure capacity. As a result, we're already booking a good level of orders for 2022.

We are seeing some input cost inflation. But this is by and large being passed on through price increases.

The profit performance in the first half has been particularly strong with really good operational leverage on revenue growth and the benefits of the self-help program, meaning adjusted operating profit doubled and margins are up by 560 basis points at constant currency to 12.8%.

Moving on to cashflow and net debt. The growth dynamics we are experiencing, have put pressure on working capital. With high levels of growth, receivables have increased as you'd expect and we have also decided to invest in inventory to protect the orders we have for H2, especially given increased lead times.

We did manage to partially mitigate this, by realising £6 million of cash proceeds in the first half from the sale of the Covina freehold site.

We continue to invest in Capex and the self-help program as planned, to support the growth and margin.

We resumed dividends for the full-year results and paid £8.2m dividends in the first half. Reported net debt also increased due to new leases and lease extensions.

This mainly related to the new Plano in Texas but as you know, leases do not impact on our leverage cousins.

So, all of this means that leverage increased as anticipated to the upper end of our target range. But we fully expect to be able to drive improved cash generation in the second half and as I said before, we expect to reduce leverage in the second-half.

Finally on debt, I am delighted to say that we have just agreed our daily private placement insurance, securing £75 million of 7 and 10 year notes, with an average fixed coupon of 2.9%.

This complements our existing bank RCF, and nicely diversifies our sources of debt funding and our debt maturities.

Lastly, I wanted to give you an update on our self-help program. It's progressing really well and which we have expanded slightly as well as reducing the cost of delivery.

We have already delivered a lot in the first half. The Barbados and Carrollton sites have been closed, along with a very small site in Tunisia that came with the Aero-Stanrew acquisition.

We have opened our new Texas facility in Plano, just north of Dallas. And we're on-track to commence manufacturing of Corpus product there in Q4.

We have a new enlarged clean room in Bedington in that is now operational and the team there is working through reconfiguring the sites, so they are ready to receive Lutterworth products and to optimise resistor manufacturing.

Those steps mean we will be ready to transfer manufacturing out of Corpus Christie and Lutterworth in Q4 and those two sites can then be shut down completely early in 2022.

Lastly, as I mentioned on the previous slide, we are also now planning to move out of the Covina site in California. The overall project is now expected to be delivered for £2 million less than originally planned, net of move costs and some other areas of the program, where we have invested a bit more in Capex.

We have also seen scope for additional benefits to flow from locating the Covina business in a more suitable facility.

Summing all of that up, whilst there is still a lot to do in the second half, the program is realising plan benefits as expected, which you can see in the margins. We've got good line of sight overall project benefits. We now expect to deliver the program for a lower cost than originally planned.

So hopefully, that's given you a good sense that we're doing a lot to deliver the growth in the self-help program. The business is really moving forward and we're seeing the expected improvements come through in the numbers.

With that, I hand back to Richard.

RICHARD TYSON: Great, thanks Mark. So now, I'd like to turn to providing more colour on the makeup of the successes in the first half and start with a run through of some examples of new business wins that are behind the current momentum.

Starting with Torotel and our quick integration of the business. We are working with a major US defence supplier, who had an urgent need towards the end of last year for some complex cable assemblies for a program that was high profile within the US DOD.

The performance of the team in fulfilling this order, resulted in a more in-depth discussion with the customer and we have since put together an investment plan, starting in the second half of the year, which will deliver an incremental revenue of over a million pounds per annum.

The Telenor win is a result of investments into new products TT made after we bought the Stadium business.

Telenor is a great customer for us. It is a leading communication's provider and will be sunsetting 2G and 3G cellular technology, which creates a requirement for an upgrade across its networks.

They're a partner that provides a clear route to market for us and if we expand beyond the Nordic region, then there is scope for it to support mid-single digit millions of pounds in annual sales.

Finally, we have secured a contract from a new customer in specialised diagnostics markets, supporting an innovative line of haemostasis products.

They were referred to TT by one of our longstanding healthcare customers and ultimately selected us to manufacture complex electronic assemblies for one of their screening and anti-coagulant monitoring systems.

The initial contract is worth over a million pounds and involves our Cleveland and Suzhou facilities.

It's a great example of our strategy in action and testament to the GMS division's deep customer relationships.

Given the strength in organic growth in the first half and order bookings running at 134% of sales, we have increased confidence in our expectations for the year improving further and are already fully covered in the order book for these revenue levels.

Furthermore, our customers are giving us more visibility through awarding us multi-year projects for industries with long-term demand, meaning we are building the order book nicely for growth in 2022. At present, significantly better than previous years.

This growth also presents the platform for margin improvement. The progress in global manufacturing solutions over the last few years, has been tremendous. GMS delivered 18% growth. They are central to our cross-selling key account strategy in these new growth markets and are introducing customers to the rest of the group.

They have secured three brand new customers in 2021 already and added ten new contracts worth £65 million with existing key accounts for delivery over the next few years.

So, as Mark said, with the improvements in efficiency to come through in H2, we now expect GMS to move above their 7% to 8% target margin range.

Power and Connectivity have also secured a number of multi-year contracts worth over £30 million. Which includes winning a number of brand new customers.

Our successful multi-year self-help program is on track. Will deliver £11 to £12 million of run rate benefits by 2023 and enhance margin now at a lower cost.

These organic actions are being complemented by accretive acquisitions, such as Torotel. All these actions come together to drive margin growth. As you can see, we have increased confidence and visibility in the goal of reaching double digit margins.

As I've mentioned Torotel a couple of times, the slide here summarises the whole picture. This acquisition has out-performed expectations on all levels. It's opened up new relationships with new tier 1 OEM's and the team have been working on cross-selling opportunities, which benefit other parts of the group, especially GMS.

The new business pipeline is strong and conversion of new opportunities into wins already happening. These wins will be adding organic growth to the original business case projections, delivering good revenue synergy.

The cost synergies have come in as expected. But the top line opportunities are exceeding expectations. And with a pipeline totalling mid-single digit millions, the future looks really encouraging.

So, eight months after taking ownership, we are on track to hit our ROIC hurdles, with opportunity to go further.

So, to summarise how things look from here. We have strong momentum as we enter the second half of the year, with the order book already covering expected substantial growth in 2021 sales and building nicely into 2022.

The self-help program is on-track to be largely completed in the second half of the year and we expect to deliver it at a lower cost.

As a result, adjusted margins will improve in H2 and we expect to deliver a further increase in full-year profit expectations.

The level of new business opportunities, visibility in our order book, coupled with our momentum and self-help actions, give us confidence in our ability to deliver double digit margins and growth going forward.

Thank you very much. That concludes our presentation. So, we will now open up the call for questions. Thanks.

MICHAEL TYNDALL (HSBC): Morning gentlemen, thank you very much for taking my questions. I have got three if I may. The first is around Virolens and the start-up costs. I guess they came in higher than we were expecting. And in that regard, is that a function of it being potentially a bigger opportunity or is it a function of you doing that work in a shorter timeframe, so effectively it was kind of condensed into the first half?

The second one is more about the supply chain constraints. We heard some other companies talking about a potential bubble developing, where people are ordering, there is a degree of fear in their orders. And I am wondering if you are seeing that at all, if there is any concern about that very strong order intake? Whether or not there's a bit of inventory building going on at your customers?

Then the last question is just around pricing. I wonder if you could just without going too deep into it, give us a feel for the different pricing mechanisms in your business? So for example, in GMS, is it just contracted in or in distribution are there formal price increases that you put through? Just curious to know how you actually enact those price increases, given the inflationary environment we're in? Thanks.

RICHARD TYSON: Thanks Mike, morning. Okay, so in order, the Virolens start-up costs have come in a bit bigger. Yes, they have. There's a couple of functions in there. To answer the question about is it because it's bigger? I think you know, we continue to believe there's a

potentially large commercial opportunity there as we always had. So, that's really why we've continued to support the program and not necessarily particularly bigger, just it's always been a sizable opportunity to both help the communities around the world as well as potentially create value.

In terms of the sort of the shorter aspect. I guess there's been more activity with more territories and regulators, that have required you know a few more units to be out there into trials. And therefore, you add that to the support needed for multiple areas - I guess that's added up to a bit more than we had anticipated at this stage.

I guess the key point now is, we have the product commercially available. It's achieved its first regulatorily milestone here in Great Britain and others are continuing. So, really for us now, those costs significantly reduce and are not really material going forward, subject to obviously getting revenues.

The supply chain constraints. In terms of the order intake pattern, there's a range of dynamics in what is a very strong order intake for us. We think there is a large proportion of the intake is being driven by new customers, new programs, new contracts that we have been winning and we've been working on that for some time. As customers have come out the other side of the pandemic crisis phase if you like, there has been confidence to get those projects started up again and the outlays in other parts of the market have been coming back nicely. So, there's clearly an element of some pandemic rebound in there. But there's a lot of action we have been driving ourselves to position ourselves in the right place all the way through it.

In terms of fear of bubble, we're very mindful, particularly in areas that carry inventory as part of the chain into customers, that we keep an eye on that level of order intake and inventory levels. And actually, right now, we have not yet seen signs of inventory increasing. So, it came down during the pandemic and demand has been consumed so far as far as we can see.

So, yes we keep an eye on it. But I think I would say at this stage, it's good strong demand and good visibility.

Then to your last question on pricing. I think there were two dynamics to the question. One was the example of GMS and how the contracts work. So, they're typically multi-year contracts and product programs where we have pricing agreements. But in terms of any sort of significant inflation or scarcity of parts supply at a particular moment in time and an opportunity to get hold of it at higher cost, then those costs get agreed through with the customer. So, we have been able to pass those on through those pricing mechanisms real-time.

Where we're engaged in more of the distribution partner activity, that tends to be more of a price book, with pricing updated periodically. So, clearly in an environment where you get a bit more inflation, you might well update your prices more regularly. So, that is what's been going on broadly on any price books like that.

MARK DAVIES JONES (STIFEL): Thank you very much, morning both. One sort of broad question and two more specific ones if I can. The broad one was on cross-selling between the divisions. That seems to be an increased focus. Is that principally coming out of GMS back to the other two divisions or is it in both directions as it were? And is that something you're driving hard from the centre and how do you incentivise behaviour in that kind of direction?

RICHARD TYSON: I think we have been flagging this for a while now, in terms of it being a part of our strategic intent to get the best opportunity from the customer set that we would call a broader list of key accounts that have more opportunity for the group.

So, GMS are at the heart of that. But it does go both ways, because we have an active business development council that facilitates that between the sales and business development leads in each of the divisions. And they are incentivised under their objectives to provide and help opportunities for each other.

So, a key account will have a network of players across TT, that might be engaged with that customer or organisation, looking to facilitate as much opportunity as possible. And you will probably have noted that we said this morning under the Torotel example, that's been just a brilliant example of that happening really quickly, of getting them engaged with that council and working between the GMS guys and the Power and Connectivity guys.

MARK DAVIES JONES (STIFEL): Great stuff. The more specific ones were around margins. GMS, I didn't really get the Cleveland issue there. Could you explain that? Sensors and Specialist Components is staggering. Jump in margin there in the first half, is there anything exceptional in that? How much does that kind of keep going into a much bigger moving margin than we would have anticipated, quite so quickly?

MARK HOAD: Just to take Cleveland first. So, revenues in Cleveland were flat year on year. But last year, they were building a lot of product for the big defence prime. So, it had a lot more recovered hours and they were also getting quite good PBB pick-ups on materials that they were purchasing.

So, those factors have gone away. But those recovered hours have come up, and we've taken heads out, so we expect the margins to pick-up in the second half.

MARK DAVIES JONES (STIFEL): It's more a comp issue than any sort of challenges at the moment?

MARK HOAD: Yes, absolutely. And you know, we have got very clear line of sight to H2 order book and the GMS margins improving. And obviously, we have talked about the fact, we see GMS actually now having the potential to go past the 7% to 8% range that we have talked about previously.

In S&SC, absolutely. I mean, you know really stand-out performance with the operating profit doubling and margins up by 560 basis points. It's a combination of factors. So, they're getting good contribution from the self-help programme. They are getting good drop through on revenue growth and you know, revenue growth there has been strong, particularly when you consider that it was last time buy headwinds for them. Then there's been a little bit of the fact that building product, ready for some close activities in the second half of the year.

So, second-half margins may come off that number a little bit. But you know, great to see them back into their target range so quickly.

MARK FIELDING (RBC): Morning guys. Three questions from me. First one, obviously Torotel progressing really well, maybe just an update on how you think about M&A going forward and the M&A pipeline?

Second one on just obviously the order cover extending further out than normal. You're talking about a lot of that to do with new customers, new programs. I mean, just a more general question of do you expect to continue to increase your order visibility in the future, given the mix shift in the business?

Then the third question is just on GMS margins. Obviously, you have indicated you can go above that 7% to 8% range. What are the medium-term constraints on margins in that business and tie it in with the group margin? Because obviously the target for the group is 10%, you felt you could get to 10% for the group, with GMS and that 7% to 8% range, is it just an indication that we shouldn't think about 10% as the stopping point and at medium term, not next year, but medium term, there is more to go for?

RICHARD TYSON: Thanks Mark. Well, let's just do the last one first, to answer your statement at the end of that. Yeah, we'd agree with that, clearly. I think we feel that quality of this business has been improved significantly. It has demonstrated that in numbers over the last few periods and the range of extra capability services and value adding support we're giving to customers, coupled with the type of customers were working with, is fed into that dynamic. So, yeah with that, that is what we're sort of flagging this morning as far as they're concerned and Mark is just articulated, we expect to see the absolute numbers improve again in H2.

Acquisition pipeline after Torotel? Well, hopefully we conveyed this morning, we think Torotel has been fantastic on all levels. Really delivering and supporting and helping the capability we're bringing to our customers. And in terms of the future, we continue as we always have done, to monitor the pipeline of opportunity and keen to continue to find things that we can add value to and they can help us. So, that pipeline I think is as I signalled at the full-year results, really sort of coming out of this pandemic phase, has been more active and more things in it. So, we can continue to work that actively.

I guess in terms of capacity, is probably the other subtext to the question. I think as Mark talked through in the presentation, we expect to be back to the sort of mid-point of our leverage range by the end of the year. So, £30 to £40 million, I am looking at Mark now, to make sure I am not going that wrong. But yeah, £30 to £40 million of capacity is the way we think about that at the moment.

Your third question was visibility. We think as I tried to say in the presentation, it's a range of dynamics. We are certainly clear that we're getting the benefits of repositioning that our market focus and the customer set in those markets, to being more multi-project or program or contract based, that naturally give you more visibility to forecasting.

I think therefore, that gives you the opportunity with customers, that you are closer with, to talk more actively about providing your actual order cover visibility, when it matters even more. And that's certainly part of the dynamic, given the supply chain situation.

Would we expect it to extend further? I think you know; we would like to see it extend further. And I think as mix shifts, we will see some of that. But it is exceptionally good at the moment as well and probably going back to Sensors and Specialist Components, that's more of an area where we're getting more visibility because of market dynamics.

So, all three playing into it. But a long way further than normal and probably 25%/30% covered to growth in '22 at the moment. Which is a good step ahead of where we've ever been before.

RICHARD PAIGE (Numis): Morning all. Three questions if I may please. First of all, on the clean energy smart monitoring systems, that sort of area, we're obviously hearing a lot more on that front EU directives and such. I was just wondering what impact that is having in terms of customer orders currently, versus what you expect in the future?

Secondly, just a view on the civil aerospace market. You gave us that £30 million revenue impact versus the 2019 numbers. Just wondering given what we're hearing from improved deal rates or potential for improved deal rates, how quickly that will come through for you?

And then thirdly, just a question on that lower margin exit in terms of the revenue line. What impact that has had in the first half and what you expect for the full-year in terms of the overall numbers please?

MARK HOAD: So, if we can just clarify on that last question, I am not quite sure we followed.

RICHARD PAIGE (Numis): As part of your restructuring program, you mentioned there was obviously some exits from another margin product line…

RICHARD TYSON: I think that's some of the dynamic in particular you're seeing in the S&SC margin as well as a bit of the GMS improvement that we have been talking about, that will come through. Those are the two places where the exits give you the margin enhancements. So that there is some in the margin, there is some more self-help to come from S&SC as well. So, that's one of the reasons we're pointing to confidence in the future margin build.

RICHARD PAIGE (Numis): I was just wondering if on the revenue line, because obviously you have very strong growth in the first half. And whether there's been what sort of negative impact that's been against that?

MARK HOAD: We talked last year about taking £10 to £15 million out of revenue. So, for that year is say, kind of 2% 3% 4% kind of organic revenue headwind. That's probably for S&SC there will be a more first-half weighting. So, it's meaningful, it's probably a good 3% or so headwind in the numbers.

RICHARD TYSON: So, on civil aero, the £30 million coming out and yeah, we're seeing obviously the same signs that other people are talking about, you know both headline build rates improving, particularly Airbus driven, and now a bit of Boeing on the single aisle. We are clearly a balance between single aisle and wide body for us. So, I think rather than it being sort of an initial quick kick-up, it will be a sort of gradual return to the growth that that £30 million will drop through over the next few years.

We haven't got any material amounts in the forecast we have been talking about for this year or really next. So, if there is a stronger, quicker improvement, then that could add some upside potential for us.

Then your other question was on clean energy monitoring systems etc. So, in this area, we sell a range of both parts and products. So, it has had some impact on orders, a positive impact on orders and revenues in recent periods. I think what's been perhaps a bit more encouraging, is the number of new projects that we have been involved with, that have got through their design phase, got launched and we have sort of won positions on. So, hopefully future benefit to come in that area for us as well.

So, definitely encouraging more of it around and pleased that we're inside that market sector that can benefit from it.

Thanks a lot.

RICHARD TYSON: Okay, well thanks a lot guys for joining us this morning, listening to the presentation, some great questions there. Hopefully, we have conveyed we feel we're in great shape and good visibility to future growth and nice to see the numbers moving upwards this morning. Have a great day.