

Oxford Instruments plc Interim Results 11th November 2014

Presentation Transcript

Jonathan Flint, Chief Executive, Oxford Instrument plc

Good morning and welcome to the half year results announcement for Oxford Instruments for the 6 months ending 30 September 2014.

After a brief overview, I will hand over to Kevin Boyd, the group Finance Director, who will go through the details of our financial results announced this morning. I will then come back and give you some more colour about the operational performance of the business and give you my view of the outlook.

We saw an improving trend in our order in-take throughout the half year. This is particularly pronounced in the US and UK. This strong order in-take puts us in a good position for a strong second half. We suffered from a continued currency headwind during the first half. The strength of the Pound eroded our reported profits, as much of our revenues are earned in foreign currencies, particularly the Dollar. I am delighted to say the integration of Andor, which we acquired in January 2014, is going very well. Current Andor performance is ahead of plan. Finally, we have continued our programme of innovative new product introductions and I will give you some examples of those later.

Let us look at the strong order picture in a little bit more detail. Orders in North America were a particular highlight, where, after two difficult years we are seeing a strengthening in demand particularly from our government customers. Orders in North America grew by nearly 30% on an organic basis or 60% when we include the

contribution made by our Andor acquisition. In addition, the Affordable care act in the US gives us significant growth opportunities for our Service business. We also saw an improving order position in Europe, with orders up by 12.5%, However, orders fell on an organic basis in Asia. Although orders in China were up, a weak performance in Japan, reflecting weaker government demand, contributed to an overall Asian organic orders decline of 14%

I would now hand over to Kevin who will go through the details of the results announced this morning.

Kevin Boyd, Group Finance Director, Oxford Instrument plc

- Good Morning, I'd like to start by taking you through the financial highlights.
- Orders grew by just under 20%. Excluding acquisitions and adjusting for constant currency, growth was 7%
- Reported sales grew by 7%. Adjusting for acquisitions and currency, there was a decline of 6% principally in our Plasma Technology business unit as a result of very poor orders in the last quarter of the previous year. Orders in the first half have picked up significantly and are running well ahead of sales.
- As a result of the organic decline in sales, the completion of the ITER programme in the previous year and foreign exchange headwinds, Adjusted Operating profit fell by £3m.
- Adjusted profit before tax fell somewhat more due to an increase in interest as a result of the debt taken on to fund the Andor acquisition.
- The underlying tax charge was 23% up from last year's 21% as we use up the last of our brought forward losses. We estimate that the tax rate for the year will be similar.
- For the 7th consecutive half year we are proposing an increase in the dividend, up 10.1% to 3.7 pence.
- As is usual in the first half, we saw an outflow of cash and ended the period with net debt of £137.5 m. The difference in the comparison number reflects the acquisition on Andor which occurred in the second half of last year.

Sectors

- We report in three sectors, Nanotechnology Tools, Industrial Products and Service.

- Order growth was most marked in Nanotechnology Tools with orders running 25% ahead of sales.
- Nanotechnology tools sales saw headline revenue growth of 20% aided by the acquisition of Andor but hindered by a £4.4m currency headwind. On a constant currency organic basis, sales declined by 14%, principally in our Plasma Technology business unit and in Japan in our NanoCharacterisation division.
- In Industrial Products, reported revenue fell by 6% and was flat on a constant currency organic basis. Excluding the ITER programme which completed in the first quarter of the prior year, we saw underlying growth of 5%
- Revenue in Service declined by 2% as reported but grew 2% on a constant currency organic basis.
- Operating Margins in Nanotechnology Tools fell due to currency and operational gearing effects. Margins in Industrial Products fell due to currency and the ending of the ITER contract. Margins increased in Service due to the continued success of our North American Healthcare business.

Sales Bridge

- We saw an underlying fall of £6.8m due primarily to the poor order intake in Plasma Technology in the last quarter of last year and a drop in demand in Japan.
- The ITER programme contributed £3m sales in the first quarter of last year.
- Foreign exchange headwinds were £11.5m, principally the US dollar and Japanese Yen.
- The three acquisitions made in the second half of last year, Andor, RMG and Roentgen Analytik added £33.5m

Sales by Geography

- The inclusion of Andor has helped increase our exposure to North America.
- In the period we saw 34% revenue growth in North America. Organically we saw 5% growth although the growth in orders has been much higher in the period.
- In Europe, excluding Andor, organic revenues fell 11% however organic orders grew.
- Sales in Asia were down 21% organically. Organic orders were also down, particularly in Japan and India although we saw growth of 6% in China

Our largest territory remains the US with 33% of Group sales. China is second with 14% followed by the UK at 11% and Japan and Germany at 7%.

Sales, Orders and Orderbook

- This slide shows orders, sales and the orderbook for future delivery.

- This year we saw a book to bill ratio of 1.13 compared with 1.01 in the same period last year.
- The order book has grown by over £20m since prior year end to £147.9m. Of this approximately 70% is for delivery in the second half.

Profit Bridge

- Volume impacted profit by £3.1m
- ITER contributed £1.5m in the first quarter of last year.
- The weaker dollar and weaker yen hit profits by £2.1m.
- Lower volumes impacted efficiency through operational gearing.
- Interest costs rose as we took on debt to acquire Andor, while Operating expenses were rigorously controlled.
- Acquisitions added £4.1m.

Cash Flow

- This bridge reconciles EBITDA for the first half of the year to the outflow of cash.
- EBITDA was £23.2m.
- Working capital increased by £15m. Approximately £10m of this is an increase in inventory as we prepare for a bigger second half. The remainder is a reduction in creditors.
- Capex and R&D capitalisation have increased reflecting the Andor acquisition and pension payments have increased by 10% as agreed in the 2012 valuation.
- M&A spend comprises fees on the Andor acquisition and part of the earn-out on the Platinum Medical Imaging acquisition.
- Interest has increased due to the debt taken on to finance the Andor acquisition.
- The total outflow of cash was £13.2m, giving net debt at the period end of £137.5 m which equates to 2.3x pro-forma EBITDA.

Currency Exposure

- Due to the continuing impact of foreign exchange I thought it might be useful to remind you of the Group's exposure.
- On the left hand graph we have split our revenues for the whole of last year by currency.
- Last year 54% of our revenues were in dollars, 20% in Euro, 12% in Sterling, 9% in Yen and 5% in other currencies.

- On the right hand graph we show how our profit is split between currencies.
- So when you see a loss in sterling, it doesn't mean that we have made a loss in the UK, it means that we have more costs in sterling than we have revenues. This is because most of the invoices that we raise in the UK are in foreign currencies. Similarly if we look at dollars it shows that we have more much more revenues in dollars than we have costs.

Jonathan Flint, Chief Executive, Oxford Instrument plc

Thank you Kevin

Let me take a look at our business structure. We report, and are managed in, three sectors. Nanotechnology Tools, Industrial Products and Service. The NanoTechnology Tools sector contains our most advanced technology products sold in small volumes with a high unit price. There is a high degree of technical innovation in the product which is usually sold direct to our end customers without the use of agents or distributors. For management purposes we separate Nanotools into two divisions; Nanosolutions and NanoCharacterisation. Within our Nanocharacterisation sector we have gathered a unique capability spanning all the major types of microscopy. In Nanosolutions we have a unique set of capabilities focussed on the most advanced new research areas like Quantum Information processing.

Our Industrial Products division sells more mature high technology products into industrial markets for quality control, environmental monitoring and compliance testing. Here volumes are higher and we do sell through agents as the product is more standard. The Service sector addresses the aftermarket, for both our own and third party products and now accounts for 20% of our revenue helped by the growing

installed base and increasing acceptance by our customers of long term support contracts.

Let me start with Nanotechnology Tools. As Kevin indicated, our Plasma Technology business had poor order intake during the second half of last year. This resulted in poor trading in the first half of this year. However an increase in demand in the US and a reorganisation of the sales team has yielded a rapid improvement in order intake for delivery in the second half and next year. Our Omicron business has continued its planned improvement programme and is performing significantly better than last year.

We further strengthened our relationship with Canadian Quantum Computing manufacturer D-Wave and also made significant sales in the US to two prestigious customers who are researching into quantum information processing. Graphene and other two dimensional materials like Magnesium Diboride, offer enormous potential for significant new applications and also generate near term demand for research tools. The sector achieved significant sales of equipment to the UK National Graphene Centre in Manchester. The Andor and Asylum businesses, have helped grow our exposure to the life sciences markets which we expect to increasingly use tools formally associated with our core physical science markets. For example, our NanoAnalysis EDS spectrometers are now being used by biologists to investigate the effects of nano particles on human biology, the bio-fortification of crops and pesticide protection of arable plants. This is due to the high performance and sensitivity of our X-MAX150 scanning electron microscope detectors that, for the first time, enable this type of bio-analysis.

You may have noticed that the Nobel Prize winners for both Physics and Chemistry this year were customers of Oxford Instruments. The prize for Physics was won for

work on HBLEDs. The prize for Chemistry was won for work on superresolution microscopy which enables researchers to see objects 10 to 100 smaller than had previously possible making the processes of life visible with optical cameras for the first time.

Andor has delivered a good performance since its acquisition in January and is delivering order in-take ahead of our acquisition assumptions. It has launched seven new products. One of these in particular the high resolution Zyla camera is creating significant customer interest. The Zyla HF camera is the fastest X-ray detection camera in the market, allowing the user to visualise samples in real time in a non-destructive manner. It can also be utilised in 3D X-ray tomography to rapidly build up 3D reconstructions of objects offering a much higher process throughput than has been possible to date.

We have integrated the business processes of Oxford Instruments and Andor and in May this year we promoted the Belfast engineering director to be Andor Managing Director.

Moving now to the Industrial sector. At the end of the half year, we launched the latest in our successful series of X-MET handheld X-Ray fluorescence analysers, the X-Met8000. Its industry-best performance and ruggedness when used in industrial environments has made it a hit with customers. Orders since the launch have exceeded our expectations. Our Austin business has been providing helium compressors for the Meerkat 64 element radio telescope array being built in South Africa. Our wire business continues to do well, providing superconductor wire for both Siemens and GE for MRI machines. In addition, in the half year we made our first shipments to another major MRI machine manufacturer. Finally, the two industrial acquisitions announced last year, RMG and Roentgenanalytik have been

integrated into the business and are performing to plan. RMG bought us a unique handheld implementation of the spectroscopy technique LIBS. We introduced a new LIBS application capable of analysing Lithium in an aluminium matrix which resulted in a significant order from a major industrial metals company. Through our Roentgenanalytik acquisition we launched our new Maxxi 6 product which will allow us to not only address the Electronics market where Oxford Instruments were traditionally present but also attack the large, General Metal Finishing market.

We saw a steady performance in our Service sector with good growth in our service contracts and spares business. In addition, to help support our customers in India, we opened a new Service Centre in Mumbai. Also, we are now certified to service CT machines as well as MRI machines in the growing South Korean healthcare market. Our CT & MRI service business has rebranded to Oxford Instruments Healthcare. This rebranding has aligned the business more closely with the Group while setting up continued growth. The Affordable Care Act continues to be a major influence in the market place providing opportunities for third party providers such as Oxford Instruments.

In summary, we expect the improved economic conditions in the US and UK, and the momentum of new product introductions to yield a significantly improved operating profit in the second half. Second half results are also expected to be ahead of the comparable period last year. Our confidence is underpinned by the strengthening order book built up during the first half. However for the full year, given relatively weak trading in the first half, we anticipate performance around the lower end of market expectations.

Looking ahead, we will continue to focus on developing innovative new products and growing market share in our core areas of physical science. Our strategy will extend

our reach into adjacent new markets by applying our tools and technologies to life science research and analysis, thus extending the reach and reputation of the Oxford Instruments brand worldwide.

Scientific tools will continue to shape the economic development of society and Oxford Instruments will be a leading provider into that market.

Thank you