

OUR YEAR IN REVIEW

ANOTHER YEAR OF ROBUST GROWTH IN REVENUE AND EARNINGS

“ THE GROUP’S STRATEGY, CONSISTENTLY APPLIED, DELIVERS STRONG GROWTH IN EARNINGS AND SHAREHOLDER VALUE ”

FINANCIAL PERFORMANCE

In 2018, the Group delivered another year of robust growth in revenue and earnings benefiting from strong industrial economies in the US and Europe and from the reduction in the US Federal corporate income tax rate.

The Group's reported revenues increased by 7%, with currency headwinds decreasing revenues by 3% and acquisitions, net of a small disposal this year, contributing 3% to revenue growth. On an underlying basis, after adjusting for acquisitions, the disposal and for the currency effects on translation, Group revenues increased by 7%.

The Group's adjusted operating margins improved by 20bps to 17.5%, compared with 17.3% in the prior year and the first half of the current year. Gross margins remained unchanged from last year, despite pressures on supply chains in most Sectors leading to increases in product costs and other margin support costs. These pressures were mitigated during the second half of the year as selective price increases began to take effect and with increased availability of inventory. Adjusted operating costs as a percentage of revenue have reduced by 20bps with improved operating leverage from the increase in revenues and generally tight control of operating costs.

Working capital as a percentage of revenue was managed down through the second half of the year to 15.1%. The Group's free cash flow increased by 9% to £60.5m, reflecting very strong cash generation in the second half of the year and boosted by proceeds of £4.0m from the disposal of a small non-core US business.

SECTOR PERFORMANCE

In **Life Sciences**, underlying revenues increased by 5% after adjusting for currency movements and the prior year acquisition of Abacus ALS. The Healthcare businesses benefited from strong diagnostic consumable revenues and the introduction of new premium Surgical and Endoscopy products. The Environmental businesses had a mixed year with stronger revenues in Germany, offset by reduced UK revenues because of delays in placement of orders. Both Environmental businesses continued to benefit from stronger service revenues.

In **Seals**, underlying revenues increased by 10% after adjusting for currency movements, the prior year acquisitions of PSP and Edco and the disposal of the small non-core Bulldog business this year. In North America, both the Aftermarket and Industrial OEM business benefited from a buoyant US industrial economy. In the International Seals businesses, a strong improvement in industrial activity in the second half of the year provided good growth in European revenues. Solid growth in Australian revenues was more than offset by much weaker trading with a major customer in New Caledonia.

In **Controls**, underlying revenues increased by 5% after adjusting for currency movements and the acquisitions this year of FS Cables and Coast. The Interconnect revenues benefited from both broadening its customer base deeper into Europe and from stronger industrial markets. The Specialty Fasteners business also increased revenues from broadening its range of customers in the Civil Aerospace sector. The Fluid Controls businesses reported lower revenues reflecting

the decision to focus on higher margin business and from the absence of a large one-off project delivered last year.

ACQUISITIONS AND DISPOSALS

Over the last five years, a total of ca. £128m has been invested in acquisitions and ca. £6m has been realised from divesting businesses.

During 2018, the acquisition spend was £20.4m of which £16.9m was invested in the acquisition of FS Cables, a supplier of specialist cable products to a range of industries and based in St Albans, UK. FS Cables fits well within the Controls Sector alongside Cablecraft, which was acquired in 2016 and provides growth opportunities through cross-selling to new and existing customers. The small non-core US business, Bulldog, was sold during 2018 for cash proceeds of £4.0m.

In addition, the Group completed two smaller bolt-on acquisitions in the Controls Sector: Coast, a small specialty fastener distributor based in California, US was acquired in October 2017 and Gremtek, a supplier of protective own-brand sleeving products, based in France was acquired after the year end in October 2018.



STRONG EXECUTIVE MANAGEMENT

The Executive Management Committee ("EMC") comprises the Executive Directors along with the Executive managers who are responsible for the major business clusters and key Group functions. The EMC members are a combination of internally developed senior managers and experienced senior managers who have been recruited externally.

The EMC has been strengthened this year with experienced senior management who will take responsibility for overseeing and coordinating additional Group functions, including IT and ERP projects carried out across the Group. A HR senior manager is also being recruited and will join the EMC in the new financial year.

The EMC provides the opportunity for members to broaden their perspective of the Group's activities in order to reinforce the key elements of the Group's culture and to identify best practices that are transferable across the Group. The EMC meets quarterly through a combination of full group meetings in London and sub-group meetings held in the major business locations.

During this year, the EMC has demonstrated its strength by providing a significant level of stability and support to the businesses in a period of uncertainty caused by the change in CEO. This has contributed to the strong results reported this year.

