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# EDITED TRANSCRIPT

JMAT.L - Half Year 2014 Johnson Matthey PLC Earnings Presentation

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## PRESENTATION

**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

Good morning, everybody, and welcome to Johnson Matthey's interim results presentation. (Conference Instructions) But thank you very much indeed for coming.

Just go through the results, and I'll start off with a summary, hand over to Den, who will go through the financial results in some detail and then I'll go through all the divisions' performance and outlook.

But first of all, just the key messages. The business has performed well. And, whilst the published numbers might look relatively modest in terms of growth, if you exclude the impact of foreign exchange, which you'll hear more about from Den, and the impact of the loss of the Anglo Platinum contract, our sales were up by 10% in the first half and our underlying profit before tax was actually up 22%.

So it shows you the strength of the really underlying the strength of the business. And that's mainly driven in the first half by a very strong performance from ECT, which is doing exceptionally well at the moment. I'm sure we'll talk quite a lot about ECT over the next hour or so.

On a published basis our underlying earnings per share is up 4% and, demonstrating the confidence in the future of the Company, the Board have increased the interim dividend by 9% to 18.5p, which we're pleased about.

Looking forward for the rest of the year, I'll go through the each divisional outlook, but we expect 2014/2015 for the year as a whole to be slightly ahead of last year, in line with current market consensus.

And, with that, I'll hand over to Den.



**Den Jones** - Johnson Matthey PLC - Group Finance Director

Thank you, Robert, and good morning, everyone. I'm delighted to be here today to take you through Johnson Matthey's financial results for the half-year. You may have noticed that we've made a couple of changes to the format of the half-year announcement and I hope you found these changes useful. Let's move to the results.

As Robert said, our underlying businesses have grown very well in the first half. As you can see from the table, sales of over just GBP1.5 billion were up 2% and operating profit was flat. More from Robert, as he said, on the key drivers for this in a moment but, just to remind you, results were negatively impacted by both FX and by the loss of commission revenue from Anglo.

The adverse impact of FX was GBP90 million on sales and GBP16 million on operating profit. As I'm sure you're aware, the three main currencies which impact results are the US dollar, the euro and the renminbi. But, based on the current rates, we don't expect much of an impact in our second half.

Now on to Anglo, and just to recap, the impact on revenue is around GBP10 million each quarter, with a similar impact on profit. So GBP20 million in the first half and we're expecting a further GBP10 million in Q3. And I won't need to mention it any more, hopefully.

Moving on to our profit before tax, was just over GBP216 million, which was up 2%. This was helped by a slightly reduced interest charge of GBP17.7 million, which was in line with the guidance we gave at the yearend.

You may remember in June last year the Group refinanced some debt early. This was to take advantage of the low interest rates environment and increased our interest charge last year.

Tax at GBP37.2 million went down in the first half and our overall effective underlying tax rate for the period was 17.2% down around 2% from the yearend. This is reflective of the reduction in the UK corporation tax rate, which went down from 23% to 21% at the start of April this year.

Just a reminder on our tax guidance, which remains the same. We expect our effective tax rate to be maintained by at least 3% lower than the UK headline tax rate.

On the last numbers here; so profit after tax was up 5% and EPS was up 4%.

Moving on to capital expenditure; just over GBP70 million and, as you can see from the pie chart on the right, spread across the divisions. I just want to mention two of the key projects in ECT and PT.

In ECT we continued to extend manufacturing capacity in the UK and Macedonia to meet demand from Euro 6b light duty diesel and Euro 6 HDD products.

In PT, we continued to invest in projects to expand our chemical catalyst manufacturing capacity in both Germany and China. The work on our site in Germany is nearly complete, while in China the Board has approved construction of an SNG catalyst plant there and preliminary engineering work is now underway.

For the full year, I expect capital expenditure to be around GBP200 million and CapEx to depreciation to be around 1.5 times. This is slightly lower than we have guided to previously, but this is purely due to the timing of projects. We generally have higher spend in the second half, which will be the case this year. We are currently expecting some spend originally planned for Q4 to move into next year.

We'll give further guidance for next year when we talk to you at the full-year results in June.

So, we'll take a look at cash flow.



Cash flow from operations was GBP163 million; down GBP84 million from last year. This decrease is really a story of movements in non-precious metal working capital and cash tax.

Working capital days, excluding precious metals, rose to 59 from 45 at the yearend and from 53 last September.

This movement in working capital was driven by three factors. The first in PT, where there was higher receivables following increased sales in August and September. Also, higher inventory levels ahead of expected sales in the second half, again in PT. And thirdly, in ECT there were lower payables at the half-year end following the completion during the half of some capital and inventory-building projects.

Obviously working capital represents a point in time and it is normal for our working capital days to be higher at the half-year than the full year. I expect working capital days to come down to around 50 day level for the full year and this is in line with what we said back in June.

You'll also see that the amount of tax paid has also increased and this is due to the timing of payments. Last year was low and the level of cash outflow in this first half is more normal.

Our net debt has increased from yearend and this is due to the movement in working capital. The balance sheet remains strong, though, with net debt/EBITDA ratio of 1.4, which is slightly below our target range of 1.5 to 2 times and up from the yearend number of 1.3.

Moving on to cash flow conversion.

Here the working capital also impacted this and for the half-year we see cash flow conversion at 50%. I'm happy that this will move towards the 75% level that we mentioned at the end of last year. So 75% for the full year.

Last slide here, moving on to return on invested capital.

This continues to be a key metric for us and was 20.3%, so still above our target of 20% even after the loss of Anglo. We expect to be above the target for the full year.

This is nearly all from me but, just before I hand back to Robert, I just wanted to mention the changes to the rules regarding IMS. We're giving this some thought right now and certainly don't think moving to only two statements per year is the right thing to do.

For the current financial year we don't plan to change anything with regards to timing, so you can look forward to our Q3 IMS on January 28 next year. That will be the day before we host our usual Investor Day, which this time will focus on our long-term strategy, with updates from all five divisions. It will also include a trip to our UK technology center in Sonning Common, near Reading. So I hope you'll be able to join us for that on January 29.

And, with that, I'll hand back to Robert.

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

Thank you, Den. And now I'm just going to go through all the divisions, much like we've done before, and in this, my commentary,, I'm going to focus really on the constant currency numbers rather than talk about the pre-FX rates.

So turning first of all to ECT.

As I've already mentioned, a very good performance from ECT in the first half of the year, driven a lot by tighter legislation in Europe and Asia, which have benefited our results; good demand for heavy-duty diesel trucks in the US; but, obviously, the notable improvement in our margins, up 200 basis points to 13.6%.



No one single thing has driven this but it is fair to say John and his team are doing an excellent job and they are ahead of our previous expectations. It's not one single thing, it's a whole series of things and it's really -- you've heard us talk about our manufacturing excellence program and this is it in action and this is what comes as a result of that.

And also the increased plant utilization across the world too. Marginal increase in plant utilization, but it's a lot of things that we've been doing that made this difference. But the good news is it's sustainable. We think that that will be sustainable into the second half of this year and beyond.

The outlook remains positive for us. Driven by legislation, Euro 6b should continue to support growth for light-duty vehicles in Europe. On the other hand, on the heavy-duty diesel side, subdued truck demand in Europe might hold that back. Having said that, we've got the Euro 6 legislation, but US truck demand does appear robust. And, as a result, overall we expect the second half to be similar to the first-half result for ECT.

Going into it in more detail on the light-duty side, our sales are up by 10% in the period. And that compares to global light-duty vehicle production of 3%, so some way ahead.

In North America, our sales have grown roughly in line with the market, but in Europe we're well ahead. And that's mainly driven by this Euro 6b change, as we start to see more cars moving to Euro 6b -- this is diesel legislation. And remember that adds about 20% more value per diesel car.

In Asia, we've also outperformed the market, where our sales grew by 12%, compared to a 6% growth in the car market. Strong sales in China and in Southeast Asia.

And in both Europe and Asia we've really benefited from the growth in our customers. We haven't particularly taken share in numbers of new business wins, but our customers are doing particularly well and that's benefited our results. And, as I've already mentioned, clearly the margins have improved through all these efficiency improvements that we've been working on across the Group.

On the heavy-duty diesel side, again good growth; this time 23% up on sales and this time we've got growth in all regions.

In North America, it's driven a lot by the growth in heavy-duty diesel trucks and these are the big Class 8 trucks. The fleet has been getting older and we're now on a replacement cycle and that growth has started to come through of the larger trucks compared to just the smaller trucks.

In Europe, the opposite is true. We've got a weak European truck demand and you can see that the volumes are down by 10% of trucks produced in Europe. On the other hand, though, we've got new legislation, the Euro VI legislation we've been talking about for some time, and that is benefiting the results significantly.

In Asia, continued growth is happening as we roll out Euro 4 for buses and trucks across China and we now think we've got roughly 30% fitment of trucks with catalysts. We're moving outside the major cities and we still expect, though, it's going to take a number of years before we get full fitment across China.

As I said on the slide, non-road applications continue to grow and represent now about GBP30 million; 10% of sales in this business.

Turning to Process Technologies.

Overall our process technology business is performing broadly in line with our long-term expectations. A good performance in the first half from our oil and gas business, offset by a little bit of weakness in chemicals, and we'll talk about that a bit more in a second.

We expect, though, that the fundamentals for the business haven't changed and we still expect good growth in the long run for Process Technologies. And we expect a stronger second half and progress for the year as a whole.

And, as we've said many, many times before, this is, particularly in the chemicals area, a much lumpier business because the large license orders and large catalyst orders can impact quarter-on-quarter or half-on-half results.

Looking at Chemicals, sales are down by 9% and that's both the case for both catalysts and licensing; they're both down by about 6%.

On the Syngas side, the catalyst sales have been lower, due to timing of orders, and we expect those to recover in the second half.

On the licensing side, whilst income has been reasonable in the first half, because we've been finishing off the plants that we've been previously awarded on the SNG side, we have in China signed no new licenses in this first half. This is a brief hiatus. If you heard just last week, I think it was, President Obama and the Premier of China agreeing about air quality. We still believe SNG is a growth market in China. There's a little bit of a hiatus with these new licenses over the next few months or so.

On the Petrochemicals side, this is where we've had both the catalysts has been down and also the licensing comes down too.

The catalysts is mainly about timing and we expect that to recover in the longer term. But on the licensing side, if you recall, the biggest area here is the oxo alcohols and butanediol plants that we had this very large boost in orders in [2011] (corrected by company after the call) to 2013. And those were high-value licenses and mainly done in China and China now has sufficient capacity, for the time being, for oxo alcohols and so we expect not very many new license wins for the next few years.

So I think we expect for some time to come, at least, on existing technologies, this will be a little bit less license income in our petrochemicals area. That's why we're working on new license income, on new technologies to replace the ones we've had before.

On the Oil and Gas side, business has been much better. Sales are up by 15%, boosted by -- in this case, we've got good timing helping us. We've said before that there weren't very many new hydrogen plants; well they've now started to come through. And our additives market has also been good.

If you recall, we bought Intercat a couple of years ago now and we've been expanding our plant in Savannah, Georgia. And that is now complete and that's helping to boost our sales in our refineries area.

And remember here, in this area, this is where we don't have lumpiness. The orders are much, much smaller and more predictable and more consistent.

Diagnostic Services, otherwise known as our Tracerco business, continues to do well, supported by the growth in unconventional oil and gas opportunities, particularly in North America.

Turning now to Precious Metal Products, and, of course, here we are impacted, as we've said for some time, by the loss of the Anglo Platinum contract, which impacted the results by about GBP20 million. But you can still see our return on sales and return on invested capital are still at very healthy levels.

Excluding the loss of the Anglo contract, business was a bit mixed and I'll go and talk about that in a minute.

But one consequence of the loss of the Anglo contract is our sensitivity to pgm prices and metal prices are much, much lower than they ever were before. So it's become much less of an issue for us in the future.

We expect the second-half performance to be lower than the first half at current prices. That's partly, in fact mainly, due to the fact that remember we've got one more quarter of Anglo to come out of the business.

If we look at the services side, the Precious Metals Management business, this is being re-based now, of course, without the Anglo contract, our sales are about GBP9 million in the first half. And this is solely when we're now earning income from matching metal to customer orders to supply to other parts of the Group. And that's what we make this business here now; a relatively modest sum of money.

The refining businesses did okay. A bit mixed.

The pgm side did well, with volumes ahead of last year and this is a core part of the Group. We are the largest secondary refiner of pgm material in the world by some way. And during the strikes in South Africa through the early part of this year, having these refineries and being such a large supplier of metal was a very important part of us being able to make sure that we didn't disappoint any of our customers at all, because we get access to our own metal through the refineries.

Overall, the intake mix and pricing was pretty stable in the first half and, if prices stay as they are, we believe those levels should be stable.

In gold and silver, the secondary volumes continue to be impacted by the lower gold and silver prices and those volumes have come down compared to the same period last year. But the good news is the volumes now in the first half of this year were in line with the second half of last year. So we believe the secondary volumes have stabilized and primary volumes have been stable pretty much all the time anyway.

On the manufacturing side, sales were up by 12%.

In noble metals, 25%; partly helped by the transfer in of a small business from ECT that we talked about at yearend, but also improvement demand for nitric acid catalysts and relatively steady demand in our medical device business.

Advanced Glass Technologies. You probably haven't heard of that business before, but that's what we used to call color technologies. We've changed the name to better reflect what we now do in this business and the nature of the business. First half down slightly, partly due to the high customer inventory levels that were there at the end of last year.

Nothing structurally has changed in this business, although we have, as we told you before, closed the decorative color products business, which we did at the end of last year. That closure has happened now.

Our Chemical Products business has done quite well. It's a small business but it's doing well, helped by a good performance from ECT, as we've already talked about.

Fine Chemicals. Another steady performance from Fine Chemicals, pleasing to see.

Product mix, in API manufacturing was positive in the second half of last year and that's continued into the first half of this year and, hence, benefited the return on sales.

The outlook remains good, supported by growth in the API business, and we expect the second half to be better than the first half.

On the API side, sales were flat, where we had demand for bulk opiates and ADHD APIs going up but some slight reduction in the specialty opiates side. And this was partly due to phasing of orders and also a little bit of increased competition in the generic space for a pain relief API.

On the Research Chemicals side, sales were down slightly, partly due to increased competition in China but also, going forward, we have some new warehouses to support future growth in Asia and in the US for this business.

And our CCT business, another small one, is performing very well and growing very strongly with good demand for its products.

So the last division is our New Businesses division, where we continue to make progress, particularly in our battery technologies area, where you've seen the two acquisitions we've done, or are doing. But today the businesses are really around supplying battery systems for power tools and e-bikes, which continues to do well.

We have continued to increase our R&D investment, which has turned this business into a small operating loss. But the two acquisitions that we've done we really believe are complementary and will give us a good base to grow our battery materials business into the future.

You'll hear more about our battery material strategy at the Investor Day, as Den mentioned, in the back end of January next year.



Our fuel cells business has been impacted by one of our key customers going into administration, which they did, I think, at the end of last year. But the good news is that they've come out -- well, they've been bought by a big concern, and so we expect those sales to now start recovering into the second half.

And we continued to invest around about GBP5 million in the first half, so roughly GBP10 million a year, on new opportunities and new ideas across the Group to come up with new businesses going forward. So expect, with that, the level of investment to be slightly higher in 2013/2014 this year compared to the full year last year.

Finally, if we just go back again and reiterate the outlook, the underlying businesses have performed very well in the first half; as I said, benefiting from the good performance from ECT. Remember, excluding the impact of FX and Anglo, sales up 10% and underlying profit before tax by 22%. So pretty good first half.

In the second half the underlying growth is expected to continue. We will, of course, lose the impact of Anglo. The third quarter will flow through. And, as Den's already mentioned, we don't expect any material impact from foreign currency translation in the second half, obviously, if the rates stay as they are. That's not a forecast about exchange rates.

So we expect, overall, the Group's performance to be slightly ahead in this year than we were last year.

That's all I wanted to say in this presentation. We'll now hand over, as we normally do, to questions. If you just give us a little while, we'll assemble up here.

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## QUESTIONS AND ANSWERS

**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

Please feel free to ask any question of us. We've got our management team here as well, if we can't answer the questions. But please state your name and where you come from when you ask your question, please.

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**Rakesh Patel** - *Goldman Sachs - Analyst*

Rakesh, Goldman. Just a couple of questions. First of all, in PT you seem extraordinarily bullish in oil -- on the oil services side. I just wondered if you could talk a little bit about what your customers are saying to you about the oil price and whether they would look to you to manage their orders, or whether they'd allowed inventory to build or, indeed, whether you would allow them to build inventory of your products.

Secondly, can you talk a little bit about the synergies that you think you can get from the battery materials acquisitions? Is the name of the game here to try and drive economies of scale? Or are you trying to access more adjacent revenue streams? Thanks very much.

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

So I'm not going to answer all the questions. So I'm going to ask Larry. Do you want to go for the oil question, first?

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**Larry Pentz** - *Johnson Matthey PLC - Executive Director*

The guidance. Obviously oil price has an impact on the diagnostic services in some areas of that; as price goes down, activity will go down as well.

However, we also have technologies in the reservoir and reservoir tracing; the shale gas area in the US, which is still a bullish and growing opportunity for us and then also in some of the fuel tagging opportunities.



So there's positives and minuses. All in, we'd expect it to be a growth area.

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

On the battery materials side, we do think we've got the potential for synergies with our two plants, now that we have one in China and one in North America. But Nick, do you want to give a bit more color to that?

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**Nick Garner** - *Johnson Matthey PLC - Division Director, New Businesses & Corporate Development*

The reason we did these acquisitions was not for synergies, quite clearly; it's for growth and revenues, although synergies can be attained by both of them. They are quite complementary. It's really about accessing technology, current markets and customer base, IP, as well as the production facilities themselves. But it's not really a cost-driven operation here. But there are some minor synergies we should aim for.

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**Thomas Gilbert** - *UBS - Analyst*

Thomas Gilbert, UBS. I've got three questions. On the operating margin in Process Technologies, the sales are down in constant currency but the margin is up 60 basis points. Is that mix? Or is it the fact that you said some of the -- you had an inventory build because you expect strong demand also in the second half? Did you run the plants particularly hard and will the incremental margin, therefore, be a bit lower? So what's -- can you explain that?

And the second question (multiple speakers) --

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

I'll tell you the answer, if you like, rather than you tell me. Go on, keep going.

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**Thomas Gilbert** - *UBS - Analyst*

No, no. It's good. (laughter).

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

I'll answer this one. It's really because the principal thing was some of the -- I talked about license contracts, the oxo alcohols contracts and things, coming to an end. As they come to an end we carry a bit of a contingency. And then when they come to the end and we deliver them in budget, etc., then there's a bit of a boost of that as they come through and they get finalized at the end. So just end of contracts; normal contract accounting.

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**Thomas Gilbert** - *UBS - Analyst*

Thank you. On -- and I've got a question on Fine Chemicals. And I read on all the -- there was an acquisition, Merck KGaA bought Sigma-Aldrich business. They have a catalog business. Will this have any impact on you on research chemists, the way Merck might run Sigma-Aldrich?

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**John Fowler** - *Johnson Matthey PLC - Division Director Fine Chemicals*

The short answer is no. That deal was probably more to do with biological research chemicals. Merck is fundamental in biological drug development and the biggest part of Sigma is biological research chemicals. And our business, our Alfa Aesar business, is small molecule chemicals. So we don't really compete on the biological side of it, so no real impact.

But am quietly optimistic that there'll be some opportunities from it, because I see Merck as distracting Sigma a bit; vertical integration. So maybe some opportunities for our business, in terms of taking advantage of the warehouses that Robert mentioned and taking some of the business on the chemical side.

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**Thomas Gilbert** - *UBS - Analyst*

And the third one is coming back to the A123 acquisition. The -- a couple of questions. When -- the battery story was pitched to us after Axelon as being cell-agnostic, i.e., irrespective of the cathode technology. Now you're acquiring a specific molecule; lithium iron phosphate. What has Axelon told you that made you make that move?

Also there is a patent challenge, I think by LG Chem. And you said you're buying it for intellectual property. But there is a -- the patents are challenged, as far as I know. So can you just come back to that, to those two points, please?

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

We can indeed. And Nick, do you want to have a go at that one?

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**Nick Garner** - *Johnson Matthey PLC - Division Director, New Businesses & Corporate Development*

What did Axelon tell us? There's a range of chemistries, clearly, and I think the point is we were very confused and weren't very well guided as to what would win. That was our view pre-Axelon.

What Axelon's told us, that actually there are quite simple -- there's about five or six basic chemistries that been around for decades. One of them's lithium iron phosphate. A successful business would have two or three of those and that's what we intend to deliver. So this is the first stage in building a range of chemistries.

So lithium iron phosphate is very good on power density, but that's its niche. You need to cover energy density and other niches as well, and we are currently pursuing opportunities to buy in those technologies and develop those as well. So it's the first stage in building a portfolio of technologies.

As to the patent challenges in lithium iron phosphate itself, really Clariant is the solution there. It's a very messy and tightly-owned IP space, lithium iron phosphate, probably the most tightly, where you think we can probably in license in the other chemistries.

Lithium iron phosphate was very tightly controlled by the consortium, who have arranged the -- from the Goodenough original patents and Clariant clearly have a very lead position in that consortium out of their operation in Switzerland. And so I think there we access the head of that IP.

A123 had an arrangement with the consortium and they were quite limited to what they could do. So the IP secret to lithium iron phosphate was through the Clariant deal. Hopefully that answers.

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

I think the new business area, as we've said many times, is an area where we're looking to grow the next new legs in Johnson Matthey.



As we said before, it will take a little bit of time, a little bit of initial marketing, market development and market studies, then a bit of R&D. And then, to accelerate the growth and to drive the business forward, some modest-sized acquisitions. Exactly what we've done in battery technologies and I imagine we'll be doing that in other areas, too. At the appropriate time we'll come and talk to you about them.

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**Adam Collins** - *Liberum - Analyst*

Adam Collins, Liberum. I had three questions on ECT, so maybe John can help there. So, first of all, you mentioned the fact that the margin improvement had quite a lot to do with a number of small measures, the operational excellence plan.

And I wonder if you could just give us some sort of sense of the sort of things that you've been doing at Royston and Macedonia, just to help us understand the sort of operational measures that are going through there.

And the second thing was on the CapEx side. You've said that expansion at Macedonia and Royston was one of the two key legs of CapEx in the first. Just give us sense of what's going on there. What's the extent of the expansion that's taking place?

And the third thing is on European light-duty sales. How much of Euro 6b was in those numbers? I know it's pretty early days, so just a sort of sense of the take-up rate so far, pre introduction?

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

John, do you want to do all those?

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**John Walker** - *Johnson Matthey PLC - Executive Director, Emission Control Technologies*

Margin improvement. As Robert said, there's a lot of moving parts to that. We've had favorable product mix, favorable platform mix, favorable technology mix.

Manufacturing excellence, we're now in our fourth year, starting our -- or 3.5, something like that. And I think what you're seeing, in particular in Europe is, this is happening all over the world, is the culmination of a lot of that work.

Now, what are some of the things we're working on? Materials and material cost savings are one of the big drivers because a lot of the new technologies that we're bringing in are also high value. They may not be as much as precious metal materials, but we're replacing precious metal materials with high-value other materials. So a lot of the work that we're looking at is there.

One of the other key things that technology did was that they've developed less complex high-technology catalysts that have freed up capacity in the plant. So some of our catalysts are multiple layers. So we've been able to replace multiple layer catalysts with single layer catalysts in some cases. And, again, that freed up capacity in the plant with basically no added extra cost.

So we've improved our cycle times, we've reduced our down times, we've reduced our energy costs (multiple speakers) --

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

There's a lot of things.

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**John Walker** - *Johnson Matthey PLC - Executive Director, Emission Control Technologies*

There's a lot of moving pieces and almost every one of them, except for foreign exchange, has been positive.



So are these going to keep on going? Yes. Some of them are less in magnitude than they were in this period, but the good work is going to keep on going.

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

That's one of the reasons we get confidence about it keeping going because if it was just one thing, then it could reverse. But it's a multiple of little things and they all add up.

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**John Walker** - *Johnson Matthey PLC - Executive Director, Emission Control Technologies*

I think it's embedded now. So it's not some fly-by-night thing that we're doing that's going to go away next Tuesday.

So CapEx, Macedonia. The Macedonian expansion is complete. Depending on how you look at that, we roughly doubled the capacity of our Macedonian plant, obviously product mix and part size dependent.

The third line is full. And the fourth line we're running part time on one shift, so we still have a lot of room to grow into the rest of that capacity expansion that we did in Macedonia. And the Board was there last month and that was received very well.

In Royston, the CapEx projects are still underway. And in Royston what we did was we took our existing filter capacity and we upgraded our existing lines to our new process technology. The second phase of that was to add new capacity. And then the third phase of that is to shut down some of our existing lines and upgrade those to our new technology.

So it's a three-phase project. We're in phase two right now and we'll start phase three of that in October of 2015.

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

And there was a question on Euro light duty, Euro 6, 6b uptake.

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**John Walker** - *Johnson Matthey PLC - Executive Director, Emission Control Technologies*

6b uptake. I think, as you said, it's early days. Because some of those products are common and some are changing over, trying to get an exact number on that is a little bit difficult.

But I think we said that it's a three-year rollout and we probably started in July, so we're three or four months into it.

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

Now I know you like your detail Adam, was that enough? (laughter)

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**Andrew Stott** - *Bank of America Merrill Lynch - Analyst*

It's just a question on the return on capital target. So if you really want to, I guess, create an even bigger revenue line in the new businesses segment, would you be prepared to temporarily undershoot that return on capital target. Is it sacrosanct, is really where I'm coming from?



**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

It's an interesting question, is it sacrosanct? It is a target that we want to make sure that we are above.

Would we be prepared to, for the right thing, drop below for a period of time? Absolutely, but then we would have to be very clear how we get back above that target again in short order.

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**Charles Pick** - *Numis Securities - Analyst*

Charles Pick, Numis. Three questions, please. On the ECT side you were talking about capacity utilization being about 70% last year. Can you just update us, please?

And also on the Royston visit last year you were talking about a production run rate of about 46 million for the -- total for the catalysts. Again, is it possible to update that, please?

On the US truck-replacement cycle, how long has that got left to go, basically?

And then when we look at results on a Q2-on-Q1 basis, I know you don't like doing that because of the quarterly lumpiness factor, but Q2 on Q1 you had a margin upgrade of, what was it, 330 basis points. Q2 on Q1 last year it was an increase of 30 basis points. Was there basically anything that really led to distortions in the first half of this year?

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

Well, I'll try and answer the last one first I think there are a whole series of moving parts here. I think when you look at our quarterly statements we give you sales by division and we give you profit for the Group. And, of course, what you've then got is you don't get to see what's actually happening in each individual division.

And remember, don't forget, that last year we had the Anglo contract. This year we don't have the Anglo contract. So that was the biggest moving part about our overall margin impact quarter on quarter. Obviously you've heard about John and what John's doing in his business on ECT.

I wouldn't lose sleep about quarter-on-quarter margin return on sales numbers. They do go up and down. More in the long run, I think that's what matters more.

John, do you want to answer about the capacity utilization, 46 million pieces?

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**John Walker** - *Johnson Matthey PLC - Executive Director, Emission Control Technologies*

That wasn't really a capacity utilization question, was it?

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**Charles Pick** - *Numis Securities - Analyst*

I think the 46 million was the production rate at the time of the Royston visit last January, January of 2013.

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**Robert MacLeod** - *Johnson Matthey PLC - Chief Executive*

46 million, apparently.

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**John Walker** - Johnson Matthey PLC - Executive Director, Emission Control Technologies

Well, we're over 50 million now, comfortably over 50 million. So we're growing nicely.

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

And capacity utilization, I think, is up a couple of percent from where it was last, but it's still in the mid 70%.

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**John Walker** - Johnson Matthey PLC - Executive Director, Emission Control Technologies

Capacity utilization globally is something that's difficult because there's a couple of places that matter more than others and in the places where it matters, we're doing very well, and in places where it doesn't, we're not doing quite as well. (laughter)

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

And I think US truck-replacement cycle, what I talked about is we expect that to continue to go as it is in the second half. How much it goes beyond that, well, we'll talk about that later. But I think we're confident and optimistic for the rest of this fiscal year.

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**Oliver Reiff** - Deutsche Bank Research - Analyst

Oliver Reiff, Deutsche Bank. Just one question from me on non-road diesel and just how it's progressing this year and how you'd expect it to progress into next year in terms of a ramp up. Thanks.

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

Non-road. I think it's always been a smaller part of the overall heavy-duty diesel picture. I think it's performing in line with where we thought it would be. Perhaps it did start a little bit slower, but I think it's doing in line with our current expectations. Isn't that right, John?

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**John Walker** - Johnson Matthey PLC - Executive Director, Emission Control Technologies

Yes, I think so. Half-year on half-year we had very little growth, but I think if you look at the long term, it's still on track to where we expect it to be.

I think we talked the last time about there's probably going to be less filters in the early days, but eventually will end up in the place where we talked about earlier.

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**Martin Evans** - JP Morgan Cazenove - Analyst

Just back on the new business division and the losses thereof, historically you used to refer to the fuel cell exposure as your hedge really against electric vehicles and so on. I guess that's been upgraded to include battery materials where you're spending now quite considerable sums of money. I'm thinking obviously of the Clariant business.

Robert, you said it will take some time. Have you got a finite period of time whereby, I guess, all this investment will have to have a positive return? Or do you just see this new business area essentially as an ongoing R&D slush fund where you're exposing yourself to various battery technologies, hopeful that, at some point, there'll be a predominant winner?

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

That's an interesting choice of words. I think you'll be pleased to know that the Finance Director doesn't allow me to have a slush fund.

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**Den Jones** - Johnson Matthey PLC - Group Finance Director

Those days are over.

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

Look, we don't treat these as a hedge about what might happen to ECT. We're looking at what's right, what's our technology, where can we make a technological difference, where can we add value, using our chemistry expertise and our application expertise. Those two things are really important. And we think both fuel cells and batteries have that opportunity.

There happened to be a hedge about what might happen to the automotive power train, but that's a nice consequence rather than the principal driver.

Batteries has to make money. Fuel Cells has to make money in time. They all have to make money in time, but we will continue to invest in other ideas and new ideas.

So there will come a time when the business gets big enough and strong enough that it will get spun out of new business into somewhere else in the rest of the Group, in some division or whatever, or a new division on its own. And so then you'll still have this embryonic ventures area, in a way, to come up with new ideas.

I think it's right for a company of our size and scale and the longevity of the R&D programs to have an area where we incubate new ideas and new businesses, and that's what that is.

I don't think it's going to get enormous. I don't think we want to be spending -- we're going to spend roughly GBP5 million to GBP10 million a year on new ideas, but I think for a company of our size that's probably about right. I don't think that's going to increase a lot more. But the businesses on their own have to make money quite quickly.

And going back to the question about return on capital, they all have a target to get to 20% just like anything else.

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**Peter Cartwright** - Fiske - Analyst

Peter Cartwright, Fiske. I'd like to stay on the new business. When I look back at my notes on the Axion visit, the technology guy there was emphatic, not equivocal, emphatic that NMC was the technology to back. So A, do you have a little twist on lithium iron phosphate that you might want to share with us?

And then on fuel cells, could you just remind us again who you supply to on the chief auto companies? I'm just thinking of those five or six that have joined the hydrogen fuel supply consortia.

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

We'll do fuel cell first and then we'll come back to batteries and I'll make up my mind whether I'm answering batteries or whether I'll ask Nick to do it.

**Larry Pentz** - Johnson Matthey PLC - Executive Director

As you know, in the fuel cell sector there's a number of OEMs that are more predominant in their discussions about fuel cells and we're in discussions to some level with all of them, quite honestly. Some of the OEMs are producing their technology, their membrane electrode technology, themselves. Others are looking to outsource and, obviously, those are the ones that we're concentrating on.

It's still early days for fuel cells, of course. And in the next couple of years there'll only be hundreds of vehicles that are being sold, maybe low thousands of vehicles being sold. But we see ourselves on a good percentage of those vehicles.

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

On the battery side I'll have a go first and then Nick will tell me whether I've said the right thing. I think, as Nick has already said, there are a number of different technologies and different materials that are used in batteries. And I think you can be emphatic, depending upon what you want to do.

If you want long range, you're not going to get that from lithium iron phosphate; you're going to get that from NMC. If you want power and power density, you might want to use something like lithium iron phosphate.

So different OEMs will use different materials for different applications. So I think that you can be emphatic about a particular application, and one material might be right for that application, but if you use a different application you can be equally emphatic for a different material. How was that, Nick?

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**Nick Garner** - Johnson Matthey PLC - Division Director, New Businesses & Corporate Development

Yes. We would aim to play in both those things.

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**Joe Dewhurst** - UBS - Analyst

Joe Dewhurst, UBS. I've just got one question. On the thrifting potential, particularly on pgms that's left within catalyst both heavy-duty diesel as well as light-duty vehicles, there was also some talk about potentially a catalyst or a pgm-free heavy-duty diesel option and if you've got any comments on that if that's fact or if it's just talk.

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**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

I'll ask John to answer this in a second, but we've been working on thrifting pgms out of car catalysts and truck catalysts for the last 40 years. So it continues to happen. I was in Sonning two months ago, or last month actually, and there's a lot of work going on and you can see a further thrifting happening. So it's still happening and ongoing. But John, do you want to give a bit more detail?

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**John Walker** - Johnson Matthey PLC - Executive Director, Emission Control Technologies

I think I know what you're talking about, but the company that you're talking about there's two patents that are published. Our view is that those technologies may be of theoretical interest and their suitability for practical applications has not been demonstrated, at least in the patent documentation that we've seen. So, from our understanding, this type of catalyst would be highly unlikely to be effective in real-world conditions.

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**Joe Dewhurst** - UBS - Analyst

Thanks.

**Robert MacLeod** - Johnson Matthey PLC - Chief Executive

Any more for any more? No. All right. Well, that's us. Thank you very much. As you've heard, we've got our IMS on January 28, I think that's the right date, and we're doing an Investor Day, for those of you who are interested, I'm sure most of you, if not all of you, will get an invite, on the following day, the 29th. And that's going to be in Sonning Common. For those of you who don't know where that is, that's near Reading. Thank you very much. See you then.

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