Pre-close trading update and strategic review of Health business

Johnson Matthey releases a pre-close trading update for the financial year ended 31st March 2021, ahead of its full year results scheduled for 27th May 2021.

Robert MacLeod, Chief Executive commented:

In what has been an extraordinary year, I would like to thank all of our employees for their dedication and efforts throughout this time. I am very pleased with the progress we made, particularly in the second half. As a result, group operating performance for the year is expected to be around the top end of market expectations, alongside continued strong management of working capital. In the year, we continued to execute our growth strategy at pace. We are driving cashflow from our more established businesses to invest in our suite of exciting sustainable technologies that will enable decarbonisation and enhance circularity, including our portfolio of eLNO battery materials and hydrogen technologies. We have commenced a strategic review of Health, as we continue to focus resources to maximise value for our shareholders. As the world builds back greener following the pandemic, we have an important role to play in helping society address climate change through our sustainable technologies, and we remain focused on commercialising these and delivering our growth ambitions.

Update for the year ended 31st March 2021

In 2020/21, group operating performance is expected to be around the top end of market expectations1-2. Following the disruption from COVID-19 earlier in the year, our second half was materially stronger. This reflected increased activity in autos and other key end markets, and the actions taken to transform our business including tight cost management. Our strong operational performance has enabled us to continue to invest at pace into our strategic growth projects.

Strategic review of Health business

We continue to review our portfolio to focus on areas of greatest opportunity to maximise value for our shareholders. As part of that ongoing process, we are undertaking a strategic review of our Health business.

Clean Air saw a strong recovery in demand

Following the disruption from the pandemic at the start of the year, we saw a strong recovery in demand across all regions towards the end of our first half. This strength continued through the second half, with global auto production better than previous expectations. As a result, Clean Air full year operating performance is expected to be only moderately below the prior year. We expect a significant improvement in margin in the second half to above 13% and approaching pre-COVID-19 levels, driven by an improvement in volumes and early benefits from our transformation programme.

In our final quarter, there was limited impact from the shortage of semi-conductor chips. As we transform Clean Air and ramp up our new highly efficient plants in Europe and Asia, we remain focused on driving efficiency and cash generation across our business.

Notes:

Unless otherwise stated, commentary refers to performance at constant rates. Growth at constant rates excludes the translation impact of foreign exchange movements, with 2019/20 results converted at 2020/21 average exchange rates.

1. In 2020/21, the translation impact of exchange rates on group underlying operating profit is expected to be negative c.£6 million.
2. Vara consensus for full year underlying operating profit in 2020/21 is £469 million (range: £405 million to £502 million). 2019/20 underlying operating profit was £539 million.
By region, Asia was strong – particularly China – driven mainly by increased volumes from higher consumer demand supported by government stimulus, and inventory rebuild, as well as some benefits from China 6 legislation. In Europe and Americas, following the temporary disruption in the first quarter, there was a steady improvement in demand. We expect to see the benefits of the rebound in the US Class 8 truck cycle in 2021/22, given the recent strength of orders in that market.

**Efficient Natural Resources performed strongly**

Efficient Natural Resources’ performed strongly with full year operating performance expected to be broadly in line with the prior year, despite challenges from COVID-19. Catalyst Technologies was lower driven by weaker demand due to COVID-19 and the comparison to a strong performance in the prior year from methanol and ammonia catalyst refills. We continue to see positive momentum in licensing. During the year we won 10 new licences across various segments and we have a strong pipeline of future projects. We also made good progress on commercialising our new technologies which enable decarbonisation, including our low carbon hydrogen offering (blue hydrogen) where we are currently working on a growing, global pipeline of around 15 projects in a market with significant growth opportunity.

In PGM Services performance was exceptionally strong in our refinery and trading businesses, benefiting from more volatile and higher average precious metal prices. We made excellent progress in reducing our refinery backlogs and we expect to end the year at historically low levels, representing a significant improvement in precious metal working capital volumes.

**Health benefited from new customer contracts**

In Health, we expect full year operating performance to be above the prior year. This reflects continued progress with our new customer contracts for active pharmaceutical ingredients used in generic opioid addiction therapies and our work with innovator customers, particularly the supply of an immuno-oncology drug linker to Gilead (formerly Immunomedics).

**New Markets – further progress with eLNO, fuel cells and green hydrogen**

In New Markets, we expect full year operating performance to be above the prior year. In Battery Materials, commercialisation of our high nickel cathode material, eLNO, remains on track. The construction of our first commercial plant is on schedule and we are making progress with our plans for a second commercial plant with 30kt capacity. We continue to carefully evaluate a range of scale up models for our battery materials business, including strategic partnerships.

Fuel Cells continued its rapid growth, with sales expected to be up over 20% for the full year. We are supplying key fuel cell components for a range of automotive, non-automotive and stationary applications. Most recently, we signed a memorandum of understanding with a major European automotive supplier for the long term supply of components for automotive applications. In addition, we have existing supply contracts with fuel cell players including Doosan, SFC, Unilia and Sino Fuel Cell plus a number of joint development programmes in place with automotive and truck OEMs, stack and system manufacturers. We have completed the doubling of our manufacturing capacity in the UK and China to give an overall capacity of 2GW and, given the sizeable opportunity, we are already working on major capacity expansion plans.

Our green hydrogen business builds on our fuel cells technology, leading pgm expertise and circularity offering. We are making fast progress and have received positive feedback from testing with leading electrolyser manufacturers. We recently announced new manufacturing capacity for products used in green hydrogen production, with the ability to scale to multi-GW capacity as the market continues its anticipated growth.

**Maintained strong balance sheet**

As part of our continued focus on balance sheet efficiency, our leverage ratio (net debt to EBITDA) is expected to be below our target range of 1.5 to 2.0 times, with net debt under £850 million. This is despite a backdrop of higher average precious metal prices and increased activity within the Clean Air business, reflecting the significant improvement we have made across the group through our ongoing programme of precious metal working capital management.
**Efficiency initiatives on track**
We remain focused on driving efficiency and are making good progress against our targeted annualised savings of c.£225 million by 2022/23. For the year ended 31\textsuperscript{st} March 2021, we expect to deliver benefits of c.£60 million\(^3\) as planned.

**Foreign exchange**
In 2020/21, the translation impact of exchange rates on group underlying operating profit is expected to be negative c.£6 million based on average exchange rates of £:$ 1.31, £:€ 1.12, £:RMB 8.85. A one cent change in the average US dollar exchange rate has an impact of approximately £1 million on full year underlying operating profit, a one cent change in the average euro exchange rate has an impact of approximately £2 million and a ten fen change in the average rate of the Chinese renminbi has an impact of approximately £1 million.

**Full year results:** We plan to announce our full year results for the year ended 31\textsuperscript{st} March 2021 as scheduled on Thursday 27\textsuperscript{th} May 2021.

**Ends**

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Notes:
eLNO is a trademark of Johnson Matthey Public Limited Company.
3. c.£60 million includes £30 million relating to Clean Air footprint and driving group organisational efficiency, and £29 million of procurement savings.

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