

Strategic Report

Chief Executive's statement

Guided by our values and supporting all our stakeholders in unprecedented times

Robert MacLeod
Chief Executive



Undoubtedly, the world is in a very different place today compared to 12 months ago. Throughout the year we have witnessed a shift in the urgency for action against climate change and net zero targets set by several countries around the world. Then, towards the end of the year, there has been the emergence of COVID-19.

This has brought unprecedented challenges to individuals and to all businesses but I am pleased at the way JM has stepped up to those challenges. In the early part of 2020, we started to see the spread of the virus in China. The actions we put in place there to look after our people and manage our operations in line with customer demand stood us in good stead as the virus took hold across the rest of the world during March. Our priority has been, and continues to be, the health and safety of our people, customers, suppliers and communities where we operate, and I would like to say a heartfelt thank you to all our employees for their dedication and efforts over the past few months.

We are playing our part to combat this pandemic, supplying crucial, but often hidden, components into many of the value chains providing vital products in the health, food or energy sectors. In addition, our people around the world have applied their initiative in numerous ways, from manufacturing goggles and visors and offering them to healthcare professionals, to lending unused gas storage tanks to hospitals for storing oxygen. JM and its people are also providing financial support and volunteering their time to help charity partners and communities as we work together through COVID-19.

It goes without saying that we have not experienced anything quite like this in our lifetime. However, we have been fortunate in being able to draw on our strong set of company values to guide our decisions, and ensure we consider our response and commitments to all our stakeholder groups.

[+ Read more: Our COVID-19 commitments on page 9](#)

We have taken immediate and decisive action to protect our long term financial health

Our immediate response to COVID-19 was to assess the risks and take decisive action to maintain good liquidity and a strong balance sheet. These measures, which included cost reduction, tightly managing our operations to optimise working capital and postponing non-strategic capex, also positively impacted our cash flow. In mid-March, we concluded the refinancing of £1 billion of our bank facilities.

We acted quickly, temporarily stopping production at our Clean Air plants, managing our raw materials purchases across the group and controlling intakes into our pgm refineries, all of which preserved our cash position. The effects of COVID-19 did, however, affect our performance towards the end of the year, adversely impacting our underlying operating profit by about £60 million overall.

Following the temporary closure of numerous automotive original equipment manufacturer (OEM) production plants due to government mandated closures and lower consumer demand, our Clean Air plants are now gradually resuming production across all regions. Across the remainder of our business, the vast majority of our plants are operational and we have adopted new working practices in line with local guidelines. Alongside maintaining our operations where it is safe to do so, we are balancing obligations to our stakeholders through maintaining payment terms with suppliers and offering support to small suppliers who may be facing hardship.

Accelerating our strategy to drive efficiency

These are challenging times, but we are well positioned in an uncertain world. We have a resilient and diverse portfolio, serving a range of end markets and geographies. As you would expect, we continue to assess the potential impacts and future scenarios in the wake of COVID-19 – we give more details on this on pages 65 and 66. This is a huge shock to the global system rather than a new structural challenge for our business. We expect that our markets will recover and we are continuing with our strategic investments, but a sustained economic slowdown is likely, and the way we navigate through this period will be critical to keeping JM healthy and in good shape.

We are also building on our recent investments to drive efficiency across our manufacturing footprint and our operations, accelerating areas of our strategy to drive further efficiency and strengthen our business. There are two areas of particular focus:

Consolidating Clean Air footprint

In Clean Air, we have been investing in new world class plants in Europe and Asia. These plants are identical and highly flexible, allowing us to drive efficiency and increase agility across our global footprint by consolidating some of our existing older capacity in Europe into this new capacity.

Driving organisational efficiency

In recent years we have been investing into our corporate functions. For example, we are rolling out our single global ERP (enterprise resource planning) system, and have invested into our global procurement and IT functions to increase our capability and standardise our processes. This is allowing us to review our group operating model to remove duplication of activities between the corporate centre and the sectors, and reduce complexity across the organisation. A simplified organisation will enable faster decision making and reduce costs.

We know, from our recent employee opinion survey, that this duplication can sometimes stifle their ability to do their jobs. By bringing forward this work to make the way we operate clearer and simpler, we hope to remove barriers for our people and create more fulfilling roles.

We are taking a coordinated approach to these initiatives to manage the risk and drive delivery of the change.

r Business transition risk on page 74

In total, the acceleration of our strategic initiatives will deliver annualised savings of at least £80 million over the next three years of which at least £30 million will benefit 2020/21. We go into more detail on the breakdown of the savings, along with the associated costs, on pages 61 and 62.

Pushing forward with our strategy – global trends remain firmly in place as drivers for growth

These developments do not change the global trends that will drive our longer term growth. Addressing climate change remains a priority and commitments to net zero are gathering pace across the world. The impact of the rising global population, increasing longevity and natural resource challenges also remain top of national and international agendas. With our continued investment in strategic growth projects and leading sustainable technologies, we remain uniquely positioned to address these key global trends, delivering significant value for our shareholders and society.

r Future growth risk on page 71

We made progress in the year against our strategic plans and are well placed in the medium term

The group made good progress in 2019/20 and excluding the effects of COVID-19 we delivered operating performance slightly ahead of market expectations.

In Clean Air, we continued to benefit from tightening light duty legislation, especially in Europe and Asia, maintained our strong market shares in our key segments and continued to invest in our new, highly efficient world class plants.

However, operating profit was down, primarily driven by a weak global heavy duty market, the impact of COVID-19, and inefficiencies within our manufacturing footprint due to phasing of the completion of our new plant in Poland. As COVID-19 spread, many of our OEM customers ceased production which had a knock on impact on our business at the end of the year. Although they are gradually ramping up their plants, visibility on the path of recovery remains low.

Efficient Natural Resources, boosted by both strong pgm prices and success in developing and commercialising new technologies, posted higher sales with significant growth in operating profit. However, the stronger pgm prices presented us with the challenge of managing high metal working capital. Thanks to a fantastic cross-JM team, we made strong progress in reducing the volume of precious metal working capital in our pgm refineries while ensuring continued supply to our Clean Air business and external customers.

Our Health Sector had a tough year overall because of a temporary disruption in the opioid addiction therapy market, although we are well placed for recovery thanks to new multi-year supply agreements with generic partners. We made further progress towards delivering an additional circa £100 million of operating profit from our pipeline of generic and innovator APIs by 2025, albeit subject to timing of individual drug launches. During the year we took the decision to deprioritise certain generic molecules and refocus our resources on the most attractive opportunities. Just after year end, we got the great news one of our customers received regulatory approval for its therapy for triple negative breast cancer which contains a drug linker manufactured by JM.

In New Markets, the Battery Materials team made significant progress with the development and commercialisation of eLNO, our portfolio of leading ultra high energy density cathode materials. We moved to full cell testing with two global automotive and two non-automotive customers, collaborating more intensively with them, which gives us further confidence that we have the materials our customers seek. We also broke ground on our first commercial plant in Konin, Poland, which is expected to be on stream in 2022 and supplying platforms in production in 2024. As part of the commercialisation process, we are also securing sources of renewable energy for the site in Poland. To further support development of eLNO, and our customers, we are also refocusing our business in lithium iron phosphate (LFP) battery cathode materials to concentrate on the high value segment of that market.

It is not only our technologies for battery powered vehicles that gathered pace this year. There is increasing momentum around the significant role that hydrogen will play in enabling the energy transition to a clean, net zero economy. Stemming from our science, we have a unique competitive advantage for this transition, with a number of market leading solutions across the hydrogen value chain including hydrogen production technologies and fuel cells.

We have developed a new, market leading process to produce low carbon hydrogen (LCH) or 'blue' hydrogen and we are already starting to commercialise this technology. We are collaborating on one of the UK's leading low carbon hydrogen projects which will use our LCH technology in a refinery for the first time.

Strategic Report

Chief Executive's statement continued

Fuel cell technologies will also play a key role in decarbonisation of transportation, or other power hungry applications, and it is an area we have built up considerable expertise over many years. Today, we supply fuel cells for non-automotive and automotive applications, including commercial vehicles in China, and we are working with a number of customers, including major automotive OEMs, on a variety of applications as this market develops. Not only did we see sales in our fuel cells business increase this year, we continue to invest in our technology and have committed £15 million to double our manufacturing capacity across the UK and China.

We are actively engaging with industry groups in the hydrogen space, contributing our unique expertise and experience to the decisions that are shaping this evolving market.

[+ Read more: Our operational performance in 2019/20 on pages 53 to 60](#)

[+ Read more about JM and hydrogen on page 33](#)

We stayed focused on safety and sustainable business

Health and safety are the bedrock of our licence to do business. An improved performance this year – equivalent to over 1,000 fewer lost days due to injuries and incidents – signals progress in our work to embed a culture of working safely and making sure we look after personal wellbeing across JM. Through our efforts on process safety we have continued to reduce the risks across our business arising from the hazardous processes we operate.

More broadly, our sustainable business framework and its six goals have continued to keep us true to our vision for a cleaner, healthier world. This year almost 86% of our sales came from products and technologies that make a positive contribution to the United Nations Sustainable Development Goals (UN SDGs).

[+ Read more: Our sustainability performance in Responsible business on pages 38 to 52](#)

[+ Read more: Our sustainable business framework on pages 24 to 27](#)

In the leadership team, we said goodbye to some colleagues and welcomed new ones

At the end of the year, JM said farewell and best wishes for retirement to the two longest serving members of my leadership team. John Walker, Sector Chief Executive, Clean Air retired after 36 years at JM, including a decade successfully leading our Clean Air Sector. Simon Farrant, General Counsel and Company Secretary also retired after 26 years' service. Under his leadership, JM's reputation for integrity has been upheld and remains a source of competitive advantage. I'd like to thank both John and Simon, on behalf of everyone in JM, for their huge contributions to the company over many years.

During the year we welcomed three new members to the JM team; Joan Braca as our Sector Chief Executive for Clean Air, Christian Günther, Chief Executive of Battery Materials and Maurits van Tol as Chief Technology Officer. We are already benefiting from their individual strengths and a stronger collective leadership team. Each has brought a refreshing new and diverse perspective and dynamic to the Group Management Committee (GMC) which is proving invaluable, especially as we navigate the current climate.

And we continued to listen and respond to what our people say so we can build a culture for success

As Patrick has already highlighted, we have moved further forward in shaping our culture for success, engaging our people at all levels in conversations about the behaviours and actions we need to dial up in order to deliver our strategy and achieve our vision. We have a clear view now of what that looks like – more emphasis on our purposeful vision, really driving and shaping the markets of the future and relentlessly driving for better performance. And we will use our strategy acceleration actions as a way to exemplify the culture that we are aiming for.

[+ Read more: Our culture for success on page 41](#)

We have continued to do even more this year to help our people achieve personal success through their work at JM. Much of what we do is shaped by the feedback they give us, including through our company-wide survey and in our pulse check this year, we got a clear steer on what people feel good about and where we need to focus next. People told us they were more engaged than before, which is a positive step. On the other hand, it was clear that people still feel there are barriers preventing them from doing their best work and our enablement score was flat. As I have already mentioned, our work on the group operating model is targeting precisely this and so I hope that people experience a positive shift as a result of those changes.

As we continue to move through the phases of our strategy, and in particular this period of accelerated change, the leadership team and I know that it will be unsettling for people in many parts of JM. Regrettably, we believe the impact of these changes will be fewer jobs across JM and we will be consulting with employee groups regarding estimated reductions of around 2,500 jobs globally over the next three years. The decisions we will take are the right ones for the future success of JM. I recognise it is difficult for our people and I give them my assurance that we will be transparent and open about our plans and we will act in line with our values.

Outlook for 2020/21 and priorities for the year

As I write to you towards mid-June, given the ongoing uncertainty, we are unable to provide financial guidance for the year ending 31st March 2021. Looking at each of our sectors:

Clean Air has a direct link to consumer demand. Following automotive OEM shutdowns earlier in the year, we are now seeing our customers gradually reopen their plants. Production in China is recovering towards prior year levels, and Europe and the US are now also gradually ramping up. However, visibility on the path of recovery remains low. This significant uncertainty has led to a wide range of forecasts for automotive and truck production for the coming year. External data currently suggests a decline of circa 25% in light duty for Europe and the US, but better in Asia, while for heavy duty the declines are slightly more. Although the actual outcomes could be materially different. We have a flexible cost base in Clean Air, enabling us to manage different levels of activity, with circa 75% of costs before mitigation being variable.

Efficient Natural Resources serves a diverse range of end markets and is subject to a broader range of variables. It is later cycle than Clean Air, so while we have seen little impact so far on the business from macroeconomic weakness, we expect this will come through as lower demand begins to affect the industries it serves and because of volatile feedstock dynamics.

Pgm prices will also influence operating performance. Operating leverage is greater here as the sector operates with a larger number of sites and higher fixed costs.

Health is relatively unaffected by changes in the macroeconomic environment. We expect to benefit from new supply agreements for APIs used in generic opioid addiction therapies as well as our continued work with innovator customers.

In **New Markets**, in our Battery Materials business, commercialisation of eLNO remains on track.

Our newly announced efficiency initiatives will deliver additional annualised savings of at least £80 million by 2022/23 for a cash cost of circa £80 million, with initial savings of at least £30 million supporting operating performance in 2020/21. We have a strong balance sheet and liquidity position and expect to generate further cash through precious metal working capital improvements as we continue to reduce refinery backlogs. We remain committed to our investment in our strategic growth projects which will support our medium term growth.

Building on the board's priorities outlined by Patrick on page 81, our strategic priorities for 2020/21 are to:

1. **Navigate COVID-19, maintaining focus on financial strength**
 - Maintain a strong balance sheet and liquidity position.
 - Generate further cash through precious metal working capital improvements.
2. **Accelerate our strategy to drive efficiency**
 - Finalise plans and commence consolidation of our Clean Air footprint.
 - Review our group operating model to remove duplication and reduce complexity across the organisation.
3. **Continue to invest in strategic projects for medium term growth, including growth driven by climate change**
 - Invest and build new growth opportunities to plan, prioritising Battery Materials, Health new product pipeline and Hydrogen.

In addition, we will continue to support our people, and in particular our leaders. We will enable them to manage business and cultural change and deliver our process safety improvement plans to further reduce risk in our hazardous processes.

So, to conclude

We have navigated the immediate impact of COVID-19, acting quickly and decisively to protect our stakeholders and our business.

At the same time, we continue to execute against our strategy and are accelerating this to take Johnson Matthey to the next stage of its evolution, creating a simpler organisation and enabling a greater focus on driving growth.

In an uncertain world, our science remains at the heart of JM and we are well positioned for future success with our leading sustainable technologies. As we drive towards our vision to create a cleaner, healthier world, I remain confident in the future.



Robert MacLeod
Chief Executive

Group Management Committee (GMC)



Joan Braca,
Sector Chief
Executive, Clean Air
Joined the GMC:
October 2019

Joan joined JM in October 2019 to lead our Clean Air Sector. Having joined from Tate & Lyle, and with previous experience in the speciality chemicals industry with Dow Chemical and the Rohm & Haas Company, Joan is now directing our strategy to deliver sustained growth in our largest business sector.



Christian Günther,
Chief Executive,
Battery Materials
Joined the GMC:
November 2019

Christian joined the company in November 2019 to lead our Battery Materials business having previously been at Tasnee in Saudi Arabia, and before that at McKinsey & Company. Christian leads the business' strategy for breakout growth through the commercialisation of JM's leading battery cathode materials technology.



Annette Kelleher,
Chief HR Officer
Joined the GMC:
May 2013

Annette is our Chief HR Officer, leading the group's people strategy. Joining from Pilkington Glass in May 2013, Annette is responsible for the programmes to build talent and capabilities across JM in line with our group strategy.



Robert MacLeod,
Chief Executive
Joined the GMC
and the board:
June 2009

Having joined JM as Group Finance Director in 2009, Robert has been leading JM since June 2014 when he became Chief Executive. Robert also has executive level responsibility for environment, health and safety and our sustainable business framework. Currently, our Health Sector is reporting to Robert while we are in the process of recruiting a Sector Chief Executive in this area.



**Anna Manz, Chief
Financial Officer**
Joined the GMC
and the board:
October 2016

Anna joined JM as Chief Financial Officer in October 2016 to lead the group's finance activities, risks and controls. Joining from Diageo, Anna also leads the group's corporate development activities, Procurement and IT functions.



Jane Toogood,
Sector Chief
Executive, Efficient
Natural Resources
Joined the GMC:
March 2016

Jane joined JM from Borealis in March 2016 and leads the Efficient Natural Resources Sector, directing the strategy to deliver market leading growth. Jane also has responsibility for security across JM and chairs the Brexit working group.



Maurits van Tol,
Chief Technology
Officer
Joined the GMC:
October 2019

Maurits joined JM in October 2019 and is responsible for R&D and innovation. Previously at Borealis and DSM, Maurits has a strong background combining science with business. Maurits leads strategy development to deliver value from our science and protect the value of our investment in R&D through intellectual property.