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EDITED TRANSCRIPT

Full Year 2019 Johnson Matthey PLC Earnings Presentation

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PRESENTATION

Martin Christopher Dunwoodie *Johnson Matthey Plc - IR Director*

Good morning, everyone. Thank you very much for coming along this morning to Johnson Matthey's full year results. For those of you who don't know me, I'm Martin Dunwoodie, the Director of Investor Relations here. We're going to have the usual format today. We're going to have a presentation followed by Q&A. Very pleased to welcome our CEO, Robert MacLeod; and our CFO, Anna Manz, this morning. But before we start, can I just ask everyone to turn off or turn on to silent their mobile phones and other devices to avoid interference with that the webcast.

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

Robert J. MacLeod *Johnson Matthey Plc*

Thank you, Martin, and good morning, everybody, and welcome to our 2018/'19 results presentation. As we've done previously, Anna and I are going to do this in 3 sections, and I will start with the highlights.

We had clear aims for the year: Deliver a strong performance and progress our strategy. And we delivered on these goals. These results are in line with our expectations, and as I will come onto after Anna has taken you through the financials, we continue to make progress with the changes and investments that will strengthen our platform for growth.

In the year, we grew underlying earnings per share by 10% led by Clean Air, which performed strongly as expected. Efficient Natural Resources saw good sales growth and we delivered strong margin improvement from improved efficiency and higher pgm prices.

In Health, the changes we made have improved our footprint, positioning ourselves for growth. And in Battery Materials, we continue to make significant progress. We have leading technology in eLNO and are now investing in its commercialisation, which will deliver breakout growth over the medium term.

Our return on invested capital was 16.4% held back by the higher levels of metal inventory we've had over the course of this year as Anna will explain. Given this strong performance and our confidence in the group's prospects, the full year dividend is up 7%.

So now let me hand over to Anna to talk you through the financials, the progress we've made against our focus areas and the outlook.



Anna Manz Johnson Matthey Plc - CFO & Executive Director

Thanks, Robert. Good morning, everyone.

Overall, we've had a very good year. And despite challenges in some of our end markets, we're doing exactly what we said we would. At constant rates, our sales were up 10% and underlying operating profit was up 8%. Underlying earnings per share is up 10%. And as Robert mentioned, we increased the final dividend by 7%.

Firstly, looking at sales for the group, sales were strong throughout the year, up 10%. We saw growth across all of our sectors but particularly Clean Air, which grew double-digit in both our Light and Heavy Duty businesses.

Operating profit was up 8%, towards the upper end of our mid- to high single-digit guidance for operating profit. This was a strong performance led by Clean Air and Efficient Natural Resources. In Health, operating profit declined slightly as expected and New Markets was also lower.

Corporate costs increased due to our investments in various group initiatives which will help drive further efficiencies across our business. Some of these costs are included in the sector's operating profit whilst others sit in corporate. Overall, this was a good operating performance for the group.

Progressing now to my 3 focus areas. As I go through this presentation, I'll be talking about those focus areas. And to remind you what they are: Driving increasing business-wide efficiency, disciplined management of working capital and rigorous and transparent resource allocation.

Overall, we've made good progress. However, progress has been impacted by the increase we've seen in precious metal working capital, which was caused by unscheduled downtime in one of our refineries in the year. This will have a temporary impact on some aspects of our performance including finance costs, return on invested capital, cash flow and net debt, which I'll cover in more detail later on.

We're delivering now as we invest for the future. The 8% growth in operating profit was achieved whilst we incurred costs as we invest to drive improvements across our business. We've invested in the rollout of a single global ERP system, building our procurement function, improving our commercial capability and in other areas, all of which will set us up for sustainable growth.

Growth in our underlying business also includes both the GBP 15 million saving associated with the closure of our Health plant at Riverside and the investments that we're making to improve the efficiency of our footprint in this sector. This net cost in the year will deliver significant benefits in the future. Through driving business-wide efficiency, we're seeing tangible results and expect further benefits in the medium term.

We've made good progress in the number of efficiency initiatives in the year. In procurement, we've continued to invest in building our procurement capability and we're on track to deliver the expected GBP 60 million of savings over 3 years. So far, we've delivered GBP 28 million and expect to deliver the remainder over the next 2 years. As I've said previously, roughly 3/4 will directly benefit the P&L.

Our group restructuring program that we started last year is now substantially complete, generating annualised cost savings of around GBP 25 million. And in Health, we've optimised our Manufacturing footprint by closing our Riverside plant and expect savings of GBP 20 million.

This is just the start. We're continually identifying opportunities to run our business more efficiently and this enables to reinvest, driving further growth. All of this will strengthen our platform for the future.

Moving on now to the sectors in more detail, and I'll cover our performance in the year and strategic progress. Robert will give you the forward-looking view and a sense of our priorities.

Clean Air performed well, delivering sales growth of 11% driven by double-digit growth in both Light and Heavy Duty. And this was in a year where we saw a decline in global auto production.

Starting with Light Duty, as expected, growth was driven both by diesel and gasoline in our European business. Our diesel catalyst sales grew 22% in a market that declined 9% driven by respective market share gains. We achieved a 20 percentage point increase in our Light Duty diesel market share in Europe which increased from 45% at the start of the year to around 65% by the end.

Our gasoline business in Europe grew 18%. This was ahead of the market and largely due to a positive sales mix with more gasoline particulate filters being sold. Our Asian Light Duty business grew ahead of the market production in most markets, and our Americas Light Duty business slightly underperformed the market.

In Heavy Duty, we saw double-digit growth and we outperformed the truck market in Europe and the Americas and we were in line in Asia. Our growth is driven by the Americas where we grew 19%, and this reflects a strong performance in the U.S. Class 8 and 4-7 truck markets. We continue to expect high levels of activity in the U.S. Class 8 market with production peaking in the middle of the 2019 calendar year.

Our European Heavy Duty business grew 4% in a low-growth market driven by non-road. And in Asia Heavy Duty, our sales were broadly flat.

Clean Air's operating profit grew 13%, with a 20 basis point increase in margin largely due to volume leverage particularly in Europe. Overall, this is a strong performance this year and I'm really pleased with our strategic progress.

As expected, our European Light Duty business has driven growth in the short term and we achieved our planned share gains in Light Duty diesel, a significant milestone due to our technology leadership.

And to support this growth, we're taking steps to expand our manufacturing footprint. In the year, we broke ground and made good progress on our new manufacturing facilities in China and in Poland. We'll be ramping up both of these plants through 2020. And we're also building a plant in India, which will cost around GBP 50 million to meet the increasing demand in that region from Bharat IV which comes into force in April 2020. And of course, we remain focused on maintaining a margin of around 14% through delivering planned efficiencies and optimising our manufacturing footprint.

Looking forward to '19/'20, we expect a year of more modest growth. Growth will be weighted to the first half as we realise the benefit of the annualised share gains partly offset by reinvestment into R&D and the new manufacturing capacity. We anticipate that these investments for growth and efficiency will lead to a slightly lower margin than prior year.

Beyond '19/'20, we expect sales and operating profit growth to be increasingly driven by the introduction of newer legislation both in China and in India.

Looking out the Efficient Natural Resources. Sales grew 4%, driven by the growth in our refill business in Catalyst Technologies and Pgm Services. Overall, Catalyst Technologies was broadly flat. We saw double-digit sales growth in refill catalysts offset by lower sales from first fill catalysts, while licensing was flat.

Refill catalysts and additives are reoccurring in nature. These sales make up the majority of our Catalyst Technologies business and we outperformed our markets in aggregate.

First fill catalysts are one-off in nature and are driven by the timing and number of new plants being commissioned. As expected, licensing income was flat as activity around new builds especially for the technologies we license remains subdued. We signed 5 new licenses in the year, so there were some signs of improvement. But as revenue is recognised over the period of plant construction, we won't see a material impact in the near term. In PGM Services, sales grew 10%, benefiting from higher more volatile average precious metal prices, slightly offset by lower sales of industrial products.

Moving now to operating profit, this was up 15% and the margin improved 1.8 percentage points. We benefited from higher pgm prices, a GBP 16 million impact in the year. Additionally, we saw net benefits from improved efficiency due to initiatives across a number of areas including procurement and restructuring. Most of these efficiency benefits are ongoing, although around GBP 5 million will not repeat.

Of course, we've made good progress in running our business more efficiently, we are investing to improve the safety, resilience and efficiency of our pgm refineries. Our pgm refineries are critical in ensuring that we have security of supply for clean air as well as for our external customers, and that's why we're investing around GBP 100 million over the next 3 years. This investment is already included in our CapEx guidance. So overall in the year, ENR performed well.

Taking a step back and looking at our strategic progress to date, we've taken some significant actions within this business to support the delivery of our strategy. For example, a lot of work has gone on behind the scenes to simplify our product portfolio with the removal of a significant number of products. This will optimise our offering to the market and improve our cost to serve our customers.

We're making good progress in commercialising newly developed sustainable technologies. For example, we signed a large new license in the year for mono ethylene glycol. At the same time, we're also seeing benefits from our focus on efficiency. I've talked about the restructuring savings that we've achieved in the year and we'll continue to look for further improvement as we drive profit growth ahead of sales.

Looking to '19/'20, we drive these -- as we drive these efficiencies in our business and continuing to focus on higher ground segments, we expect sales growth and with operating profit growth ahead of sales growth. This guidance assumes metal prices remain at current levels.

In Health, we saw sales growth of 3%. In our Generics business, sales were broadly flat. Sales of controlled APIs, that's active pharmaceutical ingredients, grew slightly, with growth in bulk and specialty opiates, while sales of ADHD APIs were flat.

Sales of noncontrolled APIs declined. This is largely due to lower sales of dofetilide, an anti-arrhythmic drug, as new competitors for our customer entered the market, and we expected this. Our Innovator business has performed well with sales up 14%. We had increased sales from APIs where our customers are moving into late-stage testing ahead of commercialisation.

Moving now to operating profit, as expected, this was slightly down and the margin declined by 1.3 percentage points. This was primarily driven by the change in product mix as our current portfolio moves through its natural life cycle. Additionally, we saw higher costs from our manufacturing footprint optimisation as we restructure our business to support our future growth which offset the GBP 15 million of savings achieved in the year from the closure of Riverside.

As we execute our strategy, we've made significant progress in restructuring our assets. The closure of the Riverside plant in the U.S. is now complete and we're ramping up our U.K. plan in Annan. This is in line with our focus on complex, high-value, low-volume APIs rather than bulk-quantity manufacturing that Riverside was designed for. Over the medium term, this optimisation will deliver annualised benefits of GBP 20 million and provide the efficient platform to deliver value for our global product portfolio.

As you know, we've been investing in our new product pipeline across both Generic and Innovators. We're also on track to deliver an additional GBP 100 million in operating profit from our pipeline by 2025. At the end of March 2019, we've got 46 products in our Generic pipeline and we've included the slide in the appendix showing our progress in the year.

Our Innovator pipeline is also progressing well with 3 products in late-stage development and nearing commercial launch. And finally, looking to '19/'20, we expect sales to be broadly stable whilst operating profit will grow double-digit driven by the cost savings that we've made from the closure of Riverside.

In New Markets, we saw strong sales growth, up 17% driven by alternative powertrain which includes battery systems, fuel cells as well as the LFP and eLNO cathode materials businesses. Alternative powertrain sales were driven by demand for nonautomated applications



within battery systems, such as e-bikes; and growth in demand within our fuel cell business, which is now profitable. The development and commercialisation of eLNO is on track and have made good progress during the year. Robert will speak more about eLNO later in the presentation.

In the year, operating profit declined, primarily due to further investments in our Battery Materials business, eLNO, and weaker profitability in medical device components. Looking forward to '19/'20 we expect new markets to deliver both sales and operating profit growth.

Moving down the income statement, as expected finance charges increased in the year, primarily driven by the higher precious metal funding costs associated with the pgm refinery downtime. Next year, we anticipate that the finance charges will be significantly higher.

As guided, our underlying tax rate decreased to 15.9% following the lowering of the U.S. corporate tax rate and our mix of profits by country. In '19/'20, we expect the underlying tax rate to remain about 16%. Underlying EPS was up 10% to 228.8p benefiting from better operating profit and the lower tax charge.

Our reported results were impacted by a number of one-off items, the largest of which was a legal settlement. We recognised a charge of GBP 17 million in respect of a settlement with one customer in relation to an issue we previously highlighted in our contingent liability note with no admission of fault.

Free cash flow was an outflow of GBP 13 million due to net working capital outflow of GBP 224 million, the bulk of which relates to precious metals which I'll come to on the next slide. Whilst the working capital outflow is disappointing, the business has strong cash generation characteristics. CapEx in the year was GBP 323 million with cash spend of GBP 300 million.

Disciplined management of working capital is another of my focus areas. And over the next 2 slides, I'll talk through our precious metal and non-precious metal working capital progress.

Starting with precious metal working capital, this has increased as a result of unscheduled downtime in one of our refineries in the year. Since the downtime occurred, we've worked hard to reduce the backlog in ounces. It's a complex process that takes time.

Whilst there's been an improvement since the half year, our progress in reducing the value has been partially masked by higher pgm prices. We expect to make further progress through the course of '19/'20 weighted to the second half and anticipate a return more normalised levels in 2021.

Now looking at nonprecious metal working capital, our continued focus on improving working capital and running the business as efficiently as possible everyday has again resulted in progress in the period.

Average working capital days excluding precious metal improved by 3 to 59. The improvement has been delivered despite specific factors this year, including the preparations that we made ahead of the U.K.'s planned withdrawal from the EU. As you can see, we've had an 11-day improvement since 2016. Overall, we're pleased with progress, and we will continue to drive an underlying improvement in working capital.

Moving to the balance sheet, our net debt increased by GBP 187 million since last year to GBP 866 million reflecting the increase in precious metal working capital. Our balance sheet remains strong with net debt-to-EBITDA of 1.3x. We target our net debt-to-EBITDA of 1.5x to 2x allowing us to invest in value-enhancing opportunities to accelerate future growth and in line with our disciplined capital allocation framework.

And moving now to my final focus area, rigorous resource allocation. We continue to focus on ensuring spend is targeted to higher growth areas. Our annualised return on invested capital excluding net pension assets was 16.4% compared to 17% last year. We took the decision to remove the pension assets and related deferred tax liability from our calculation as it isn't an operating asset and it masks the underlying performance.

For transparency, we've given you return on invested capital using both our old and our new methodology. But on this slide, I'll talk through the movements on the new basis.

Return on invested capital in the year was impacted by our increased precious metal working capital and higher recent metal prices. Over the near term, we will be investing and building assets for growth and therefore you would expect a temporary reduction.

However, following these near term investments, we will begin to realise returns. We've already won the business required to fill our Clean Air plants and are working hard on our plans for eLNO commercialisation. We have a clear path to achieve a 20% return on invested capital over the medium term.

Turning to the outlook, we expect growth in operating performance at constant rates to be within our medium-term guidance of mid- to high single-digit growth. Working capital continues to be a focus and we're targeting a further reduction in underlying average working capital days. And we expect CapEx to be up to GBP 500 million next year as we invest for future growth, for example as we commercialise eLNO and we complete our 2 Clean Air plants in Poland and China and our smaller plant in India.

I'll now hand back to Robert who will take you through our strategic progress.

Robert J. MacLeod *Johnson Matthey Plc*

Thank you, Anna. Johnson Matthey's strategy will deliver on our vision for a cleaner, healthier world. This year, we outlined a new sustainable business framework which runs through to 2025 and it's centered around the 6 U.N. Sustainable Development Goals where we can make the biggest impact. The changes and investments that I continue to drive will create an agile and efficient business for all our stakeholders, and that is what I'm going to talk you through in the next section.

You've seen our results which give you a picture of our performance, but what you can't see is what goes on behind the scenes, is that every day nearly 15,000 people are working to solve the challenges our customers face and deliver our strategy. To do that, we're making fundamental changes across all aspects of our group -- people, processes and systems -- to build a more sustainable business going forward. These changes are crucial to our long-term success and will enable us to strengthen our platform for growth.

In a fast-changing world, we would not be able to deliver on our growth promise if we stayed as we were. Our people deliver our strategy and vision, and the executive team and the board create a culture that drives success.

As we move through different phases of our strategy, I'm building the management team with the right mix of skills, experience and diversity to deliver on our ambitions. Most recently, we have agreed the appointment of a new CEO for Battery Materials who has strong business leadership skills. They will join us in September.

We've also changed a significant proportion of our broader senior management team, those that report into the group management committee. These appointments are a combination of talent developed in-house and recruited from outside.

In addition, we're building capability across the whole of JM and are investing in their development through ongoing leadership programs and other courses as we embed a greater performance culture across the organisation.

To enable our people to succeed, we're changing our processes, standard transparent processes will transform the way that we work, but it will substantially reduce complexity and increase our efficiency, allowing more time for our leaders to focus on delivering great products and services for our customers. Better processes, better data and improved visibility allows us to roll our business more effectively and will create even more value across the group.

We have a number of group-wide initiatives, and of those, our procurement program probably has the biggest impact in the short term. Alongside this, our commercial excellence program is about capturing the fair share of the value we create for our customers. It's also about gaining a deeper understanding of our customers' needs and ensuring that we have a clear view of our customer and product

profitability.

We do this, for example, through our recently established JM sales academy where we have trained 350 colleagues so far to focus on creating a better awareness of customer needs and where we can apply our capabilities accordingly.

Our systems investments are also key to delivering the efficiency targets we have set ourselves. The rollout of a single global ERP system will underpin everything that we do. And although the pace and level of change is high, our world-class sites remains at the heart of our business. We will continue to invest in our science and technology to maintain our competitive advantage.

But around this core, we will have a business that's more agile and efficient, one that will enable us to deliver for our customers. We will be able to meet their requirements through standard ways of working across all our various plants, which enable us to scale up our business even further. The result will be a business that is better positioned to drive growth in a world that is constantly changing around us.

I now have a broader senior leadership team that is committed to delivering on this promise to all of our stakeholders. Of course, we will deliver our strategy through our sectors, so I want to look at the impact of the changes we're having on each of them.

In Clean Air, we delivered exactly as planned and are on track to achieve the sustained growth and margin as we'd outlined. The growth drivers for this business are the global demand for improving our quality and the tighter emissions legislation which underpins that, especially in Asia.

We'll deliver our strategy through our global leadership with the best technology, our competitive advantage in working with our customers to enable them to meet increasingly stringent legislation and through an efficient manufacturing footprint.

And we have 3 priorities. First, to maintain our technology leadership through our research and development. In Europe, our technology leadership in Light Duty diesel delivered our share gains this year. But given market dynamics, we are now reallocating some research and development spend to gasoline to deliver future share gains.

Second, further legislative change will be a key driver for growth in Clean Air, particularly in China and India with the implementation of China VI and Bharat VI for light and heavy duty vehicles. We will capture this growth to double our Asia business over the medium term and will support our growth through our new capacity, expanding our manufacturing footprint in Europe and Asia.

As we progress through the year, our key priority will be ensuring the smooth ramp-up of our new manufacturing plants in Poland and China, as you can see on this slide. On the left, you can see our new plant in Gliwice, Poland; and in the right, our plant in Zhangjiagang, China.

Both of these plans will be highly flexible and extremely efficient which helps us drive further operational efficiencies across the sector. Our ability to operate efficiently is a key priority in Clean Air and indeed across the group, and this will enable us to get margins broadly stable as planned.

Almost 2 years ago, we outlined our medium-term projections for Clean Air to 2025. As you've seen from our results, we have delivered the strong growth we projected for the first 2 years. But as we look forward to the next big opportunity, it is in Asia, particularly in China where we'll see a similar transformation as we did in Europe with the Euro 6 legislation for both light and heavy duty.

In China, on the light duty side, we'll see the implementation of China VI from 2020. In the short term, we expect some vehicles to be fitted with a coated filter which could double the value per vehicle to us. But from 2023, when China VIb comes into force, we will see a significant ramp-up in penetration of coated filters.

Whilst in Heavy Duty, the implementation of China VI is earlier than expected driven by the Chinese government's blue sky legislation which requires early implementation in some provinces from July this year. The adoption of this legislation will ramp up over time and

drive a tripling of value to us per vehicle.

We'll also see this tripling of value in the India Heavy Duty segment from April 2020. Therefore, our projections for sustained growth, which we laid out on our Capital Markets Day 2 years ago over the period from 2017 to 2025, are absolutely unchanged. But of course, this depends a little bit on the level of diesel decline in Europe and battery electrical vehicle penetration.

In Efficient Natural Resources, in the year, we continue to make solid progress. Building on this, going forward, we will focus on our technology on higher-growth segments and also look to improve our efficiency.

The growth driver for Efficient Natural Resources is the need for a more sustainable world, one that makes the most efficient use of the world's natural, critical resources. With the growth of population and increasing wealth, the demand for chemicals continues to increase. Our leading market positions in chemical catalyst technologies will benefit from these megatrends.

We'll achieve our strategy through targeted investments in higher-growth segments, a continued focus on efficiency and by extending our capabilities into new technologies. Those targeted investments in new technologies will start with an assessment of the potential for profitable growth. For example, we're assessing whether battery materials recycling is an opportunity for us.

Given the developments of the battery market, this could be a significant for the mid-2020s as there are a greater number of end-of-life batteries available. This closed-loop offering has the potential to be a key part of our customer proposition. We feel confident in our chemistry skills. Recycling and refining is part of our DNA after all. And although the metals involved aren't pgms, we know we have the expertise to succeed in this space.

Another key focus for us will be to expand our newly developed license technologies. As well as the mono ethylene glycol that Anna mentioned, we're also looking at ways to aviation fuel, a fabulous example of how our technology enables a more sustainable future. This is a really interesting opportunity for us.

We have a license agreement with Fulcrum BioEnergy, a biofuel producer, to support them in converting household waste into diesel and jet fuels. This has the potential to be a significant, particularly as Fulcrum looks to build more and larger plants, and we are seeing interest from customers who want to use this technology in other applications.

And of course, we will drive efficiency across Efficient Natural Resources. Therefore, an important priority in the near term is continued investment in our refineries to ensure their safety and resilience. So overall, I'm confident that the sector will deliver sales growth ahead of the market and operating profit growth above this.

Turning now to Health, in the year, Jason and his team have done a massive amount of work to improve our footprint, build the team and increase our efficiency. The business is now better structured to deliver the breakout growth we've outlined.

The main growth driver for Health is increased health care costs which are driving more targeted and potent APIs. And our strategy is all about enhancing the performance of our existing business, expanding our new product pipeline and building capabilities to better support our customers.

The team will now leverage the work we've done in optimising our footprint. They will get an immediate operating cost benefit next year from these changes, but the long-term benefit is that we now have production assets matched to our plans. Having built the team, we can now fully focus on our new product pipeline across both Generic and Innovators.

Delivering our pipeline depends on our customers' time frames, our delivery and the time it takes to get regulatory approval and launch. But in Generics, our goal is an additional GBP 100 million in operating profit by 2025.

In Innovators, we do see significant potential in this business due to the nature of these APIs, which can be more complicated requiring deeper expertise and advanced technology capabilities which play to our strengths.

Our Innovator pipeline is progressing well with 3 products in late-stage development and nearing commercial launch. And this year, we announced a strategic partnership for the manufacture of high-potent API used in the production of immuno-oncology treatment for triple negative breast cancer.

And of course, we continue to enhance our capabilities to better support our customers. For example, we're building our capability in particle technology and we're also globalising our development capabilities through our work with solid form sciences in Cambridge.

This year has seen a lot of change in our Health business. I'm pleased with the progress that has been made and I'm confident this will drive breakout growth in the medium term.

In Battery Materials, we've made good progress in the development and commercialisation of our portfolio of leading ultrahigh energy density cathode battery materials which we call eLNO. Our materials are next generation. They're designed to perform ahead of new products, such as NMC811 and will suit a range of electric vehicle applications.

In particular, eLNO has high-performance capabilities enabling greater adoption, long-range battery electric vehicles with longer cycle life, higher safety and higher LNG density.

The growth drivers for this business are all about improved air quality and increased battery electric vehicle penetration which requires new technologies. To deliver our strategy, we will maintain our technology leadership in an area of the market where we can add value and we will commercialise and scale up this business.

To do that, our priorities are just start of construction on our commercial plants and identify the opportunities for scale-up. Our commercial plant in Konin, Poland is close to major customers in the battery electric vehicle supply chain.

At the time that we announced our plant location, we also secured our first supply agreement with Nemaska Lithium for raw materials. These long-term and sustainable relationships are an important step in the road to commercialisation.

Building our first 10,000-tonne plant is the quickest route to market and preserves our options and we are currently undertaking the preparatory work. The FEED, the front-end engineering design, work actually be completed this summer. And we are ordering the long-lead-time items, we have submitted our environmental impact assessment and we started some initial work on cleaning the site. Of course, this isn't an exhaustive list, but we've made really good progress so far.

The site also gives us the potential to expand our eLNO manufacturing capacity to up to 100,000 tonnes per year well below -- beyond the capacity of our first 10,000-tonne commercial plant.

As you know, eLNO is a range of battery materials, all sharing the same high-performance attributes. In addition to these performance characteristics, our customers are increasingly looking for customised solutions to their problems, and this plays right to our strengths. Over the last year, we've been working hard to tailor eLNO to meet specific customer requirements. Our ability to customise is a key differentiator and puts us at the leading edge of technology.

As we work through the various stages of testing, we receive constant feedback from our customers, and I'm pleased to say that this feedback remains positive. And it's great to hear that we're adding value, which goes back to the core of our strategy: We help our customers solve complex problems.

You can see some quotes on the left-hand side which shows that our customers value our willingness and ability to customise, and our commitment to having the best technology.

As we move to full-scale commercialisation, we'll continue to work through customer qualification. We've moved from lab scale to our pilot plant which is now complete, and our customers are now looking to test eLNO in their own applications to assess how our material

performs against their specific requirements.

To support this, we are building 3 best-in-class customer application centers, 2 in the U.K. and 1 in Japan, with a plan for further expansion. The first U.K. center will be completed in 2019 and the remaining 2 in 2020.

These centers will include a range of facilities from laboratories to demonstration cell manufacturing capability and are critical to delivering the tailored solutions our customers are asking for. In the last year, we have achieved some major milestones as we positioned ourselves for success in the global electric vehicle market.

So to conclude, we delivered a strong performance this year, it's in line with our expectations and we've done it while making fundamental changes across almost every aspect of our business. We are investing to strengthen the platform for the future which will enable us to successfully execute on our strategy that we've laid out to you before.

As you've seen, Johnson Matthey has an exciting future ahead. I'm confident that we will deliver, and these results and those over the past couple of years provide you with clear evidence that we can and are.

And if I don't see you beforehand, I look forward to updating all on our Capital Markets Day in September.

So that concludes our presentation. Thank you for listening. And with that, we'll pause and take any questions you may have.

QUESTIONS AND ANSWERS

Robert J. MacLeod *Johnson Matthey Plc*

Okay, who wants to go first? Should we go -- let's go over there.

Sebastian Christian Bray *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Sebastian Bray of Berenberg Bank. I would have 3 questions please. The first is on corporate costs. What is the expected development for 2020? Is -- do some of the one-off items recorded in that line potentially fall away? Or is it a roughly flattish development that we should look for? The second is on the Health portfolio. Why is it that there is no top line growth predicted for next year? There's quite an ambitious operating profit target even against the backdrop of improving margins to 2025. Is the pipeline very heavily back-end loaded? Or how should we think about this? And the final question on long-term CapEx. Could you give us an idea of how much of the GBP 500 million is dedicated towards eLNO-related activities, and if you -- how to put this, if the Chinese and Polish facilities are effectively done after 2020?

Robert J. MacLeod *Johnson Matthey Plc*

Okay. So why don't -- Anna, why don't you take the corporate cost ones. And do want to take the CapEx one as well? And then I'll come back to the Health one.

Anna Manz *Johnson Matthey Plc - CFO & Executive Director*

Yes. So corporate costs, specifically what is in corporate. I think -- because don't confuse it with investment in group initiatives because some of that investment sits in our sectors. Corporate costs has grown in the year and we would expect some further growth, but not at the same level as I look forward. Looking at CapEx, you asked how much of that is in eLNO. I'm not going to tell you that number exactly, but what I would say -- and I would have told you already if I was going to, is that Clean Air and eLNO together are well more than half of it. So I would think about it that way. And in terms of the Clean Air plants, Poland and China should be substantially complete this year. We also have spend in India looking beyond that.

Robert J. MacLeod *Johnson Matthey Plc*

And on the Health pipeline, I wouldn't get too worked up about the sort of sales number for next year because, of course, it all depends upon the mix of the overall portfolio. The new pipeline is coming through. We did talk about there's a few delays in a couple of projects. But the sort of ramp-up to GBP 100 million that we've talked about sometime, we're still positive on that and confident about. But the --

it's all about the mix of the overall portfolio of products, some come to the end of their lives and so drop off a bit in the sales line and then some come through. And it's the whole mix issue rather than anything else that we're concerned about. So I wouldn't get too worked up about it.

Okay, next question. Should we go to -- Andrew, you put your hand up quickly.

Andrew Gregory Stott *UBS Investment Bank, Research Division - MD and Research Analyst*

Andrew Stott, UBS. A question for John, just appreciate an update on some of the timings of legislation. So start on Euro 6 in light duty in China. I think you said in November, you might get some pull-forward, just wonder where we are with that. And then also you said April 2020 for India on trucks. Can you just remind me of China on the phasing? And broadly when you talk about the doubling and then the tripling, so the timeframe you're thinking about roughly? And then I had a second question for Anna on the interest costs. Can you just remind me how that works? I know that's -- is that all leasing costs? And then is that just tied to palladium prices primarily? Is that the problem?

Robert J. MacLeod *Johnson Matthey Plc*

Okay, Andrew. So John, are you happy to take those to start with?

John F. Walker *Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director*

On the China 6 legislation, that has been kind of moving around, mostly moving forward. So the blue sky initiative was announced in 13 provinces in China. So light duty, what that means is that from July of 2019, they're introducing NS 6b, as they call it, but there's no particle number specification and there's no real-world driving. So as you know, they're calling it the second standard. They've excluded on the pull-forward the particle number spec, which drives filter fitment and the real-world driving, which is more challenging target there, too. So on the light-duty side of things, that's not going to have a huge impact on our sales. The real impact in China on the first legislation is in heavy duty. And for the blue sky initiative there, that was pulled forward to July '19. And that's been limited to most of the cities, city-type vehicles, sanitation vehicles, buses, postal service vehicles and things like that. So there's a limit to that. But actually, that's a little bit of an upside compared to what we had in our plan. So we should see a benefit starting in '19/'20 in China from that legislation.

The real doubling of our light-duty business and tripling is when the 6b legislation comes in. And that's when we really get to those levels. And that's not until 2023. So in China, just to finish that story, the translation through there is that more provinces will start adding the 6b legislation without real-world driving in January of 2020. And then the 6b, full 6b comes in, in July of 2023, okay? So -- and then in India, it's the same kind of a thing, they have what they call the first stage and second stage of the legislation. First stage comes in, in April 2020. And that's for everything. That's for gasoline, diesel, heavy duty, non-road and motorcycles, okay? So it affects the whole product mix. And so in there, again the first stage of this legislation doesn't include any particle number specifications. So there's very little filter fitment on light duty. And then when the stage 2 comes in 2023, that's when you add the particle number standard and the real-world driving. And that's going to begin to put filters on light-duty gasoline vehicles and will be the full system on heavy duty. So sorry, that's a little bit of a complex story, but there's a lot going on there.

Robert J. MacLeod *Johnson Matthey Plc*

I know some of you like data. And hopefully, that was enough data for you. You can get more data if you want to. There is actually a chart on Slide 34 of the presentation which gives some of that legislation map and does tie in with those dates that John talked about. The key thing to understand is that real-world driving, and there's a tighter regulation on particle number things, is in the sort of bs, sort of the 6bs is when that changes -- drives the principal change. But some people are pulling forward. And whereas in the U.S., we tended to have a prebuy of old technology. If you remember that happened in 2010 when we went to U.S. 2010 regulations, not very imaginatively named. And then we pulled forward old technology in China, happens the other way around. They tended to want to try and pull forward new technology because they're particularly worried about resale value of the vehicle. So it's a slightly different dynamics. You do get some of that pull-forward. But as John said, it's particularly going to come through as we get closer to '23. And Anna, our interest costs?

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Interest costs. So we will be running with higher precious metal because of the backlogs that we're working down through a chunk of the fiscal year. And we've got to fund that metal. And we do that through leases and so that hits the interest line. So that's really what's going on. So it's a factor of higher ounces and higher prices.

Robert J. MacLeod Johnson Matthey Plc

Okay. Can we just pass the microphone to...

Neil Christopher Tyler Redburn (Europe) Limited, Research Division - Research Analyst

Neil Tyler, Redburn. So another question for John actually. On the margin outlook in Clean Air, can you just run through some of the pluses and minuses in terms of the dynamic over the next 12 months, please, as you see them? And the second question is on the ENR division. The first fill catalyst drop of GBP 30-odd million in the year. Can you give us some quantum of what is left in the full year sales figure in terms of first fill catalysts because it continually seems to go south. And so I wonder if there's much left.

Robert J. MacLeod Johnson Matthey Plc

John, do you want to answer the first one?

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

Yes. On the pluses of margin, we're consolidating our position in Europe on the share gains in diesel. So that will be continuing throughout the year. But the real plus is going to be the increases in our sales value of the beginnings of what's happening in China. So that's pretty much the 2 positives, I guess, that are going to come from that. And then on the things that are drawing us down, I think Anna alluded to all those in her talk. We have our increased R&D investment, which is adding more investment on the gasoline side. We have the beginnings of some of the systems that are coming out, where Clean Air is one of the early adopters of those. So some of that stuff in terms of depreciation starting to hit our P&L. And then we have 2 new big plants coming onstream. So we have all the start-up costs from the new plants.

Robert J. MacLeod Johnson Matthey Plc

And I think I would say longer-term guidance may change, around about 4%. We said that -- sorry, 4%? 14%, sorry. Not 4%, 14%. And so no change there at all. And I think there's always a little bit of (inaudible). The big movement is, of course, that the new plants that come onstream. And some of the benefits, John talked about the ERP system. Until we've got 1 plant, 2 plants, 3 plants, the benefits come as you start to roll out multiple plants. You end up with a sort of depreciation in a way coming in early. And the benefits coming in a little bit later. So you'll see the benefits coming through. But in the short one, you've got a sort of a cost coming into the -- and the same is true with the new plant.

And on Efficient Natural Resources, I mean the first fill numbers came down quite a bit as you said. It's principally due to a pretty large order, one large order last year. But it's driven by licensing in many ways. And so as we got relatively steady licenses, depending on when those plants come onstream, you'll then have new first fills accordingly. But we don't tend to split out the amount of first fills, the amount of refills. Although as Anna said, the bulk of those sales in the catalyst side, well, are these businesses that are on refills. Yes, huge bulk. Right. Should we just -- since the mic is just in front of -- we'll come -- don't worry, guys, we'll come back to you.

Jean-Baptiste Henri Rolland BofA Merrill Lynch, Research Division - Associate

Jean-Baptiste Rolland, Bank of America Merrill Lynch. Three questions, please. The first one on North American Class 8 trucks. I can see that net orders seems to be approaching trough levels. And I was wondering when would you expect this to filter through your P&L and also maybe what is baked into your guidance for next year. Second question on Clean Air in Asia, I was wondering if there is any development against Asian competitors. And finally on Battery Materials, what's the current market dynamic in LFP? It seems that the switch to NMC in Chinese e-buses is sort of halting. And I'm just wondering if you're seeing any sort of renewed interest in the technology.

Robert J. MacLeod Johnson Matthey Plc

I guess we'll start with the Clean Air ones first. I mean, John, I mean I think Class 8, what we said, we expect it carry on through this summer of this year?

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

I'd say it will carry on to the summer. I mean the extension now is filling some of the backfill that some of the orders that have been building up. But we expect it to start to tail off this summer. But that's been an extension of what is called a normal cycle.

Robert J. MacLeod Johnson Matthey Plc

And that's what's embedded in our plans and everything with the projections and guidance that we've been giving is based on that. But I think in...

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

I didn't understand the second question.

Robert J. MacLeod Johnson Matthey Plc

The second question was about Asia. And any competitive dynamics changed? No, not really. I mean it hasn't changed. And we've won the business that we expected to win and was in our strategic plan and the guidance that we had. So everything is on track for whatever we expected it to be when we talked to you at the Capital Markets Day, was it 2 years ago, in Asia. On the LFP dynamic, yes, look, it's -- the business has been on a tough time in last year or so in LFP. There are areas and opportunities for us to continue to have LFP growth.

But it's not going to be a large part of the business. It's still relatively small, relatively tame. But our plant in China is we've got commitments from our customer there. And we'll continue to fill -- to use the plant in Canada that we have for other technologies. And there are some really interesting opportunities for us out there. But it's never going to be a large part of the business. And I wouldn't expect to see a sudden massive growth in that portfolio. Okay. Should we go over to -- why don't we go to the back. We've got a couple sitting next to each other. Where's the mic going to come from? It's going to come from -- I think it's coming from my right, your left.

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

It's Adam Collins from Liberum. I have three questions as well. First one is on R&D. Forgive me if you talked about that. But what's the sort of direction of travel in terms of R&D spending? Will it increase from 5%? And could you talk a little bit about the capitalised R&D component with GBP 19 million last year? So not a big number, but where was that? And will capitalised R&D develop, too, over time? On U.S. truck, I think you're being sensible in predicting a decline for mid-year. Historically, that's been quite a cyclical business, where there have been volume declines that have been sometimes quite significant part.

And I have a sort of slight concern that the U.S. business doesn't have a light-duty opportunity like we see perhaps from Royston to fall back on. So in the event that we do see a significant volume decline, what would be the contingency planning there? To what extent are there offsets? And then just finally on precious metals refining, it strikes me that industry is pretty tight today. We've seen some decommissions in Europe from BASF and Vale. The other 2 main players in that area have had outages in the last year, yourself and Umicore. So it looks to be like market conditions are pretty benign there. Would you concur?

Robert J. MacLeod Johnson Matthey Plc

Well, good questions, Adam. Let me just make sure we can have the mic so that Jane could answer the last question. And we've got a mic here. So we'll come back to you, Jane, in a second. On the first one on R&D, look, we invested last year around about GBP 200 million in R&D. It wasn't exactly GBP 200 million.

Anna Manz Johnson Matthey Plc - CFO & Executive Director

GBP 190 million.

Robert J. MacLeod Johnson Matthey Plc

GBP 190 million. I expect it will grow a little bit this year. But it will be within the range of 5% to 5.5% of sales, which is where we've guided for some time. And it will continue to grow with that sort of level. But this year, the year we're now in, I expect it will grow a little bit ahead of that, driven partly by the increased investment that John has talked about it in gasoline but partly run -- and eLNO as well, where I think we'll see a little bit more investment. On the capitalised development side, the largest part of capitalised development, I think, is in health as we develop the pipeline. And that's gone up over the last year. Of course again, that's the amount of investment on that pipeline ahead of the growth that will come through into the next few years. And we're putting something, we're capitalising some of the eLNO development, too. On the U.S. truck cycle, John, I mean we're used to truck cycle. It's alive and well and been there for decades.

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

I think we're quite experienced in that. And we, I guess, have a lot more flexibility in North America to scale up our business and scale down our business depending on what the demand is on the plants. So we've got 3 manufacturing facilities there. And we're quite experienced in being able those use those efficiencies to be able to move the footprint around to optimised that. So I don't think this is going to be -- I don't disagree with everything you said. But I think we've got quite a lot of experience there.

Robert J. MacLeod Johnson Matthey Plc

And remember, of course, that's 75% of our cost of variable. So you never see a great appraisal of leverage on the upside. But on the other hand, you don't see much operational deleverage on the downside either. Well, I've given you a bit of time to think, Jane. And I'm sure you didn't need it. But over to you, Jane.

Jane E. Toogood Johnson Matthey Plc - Sector Chief Executive of Efficient Natural Resources

Is it working now?

Robert J. MacLeod Johnson Matthey Plc

Yes.

Jane E. Toogood Johnson Matthey Plc - Sector Chief Executive of Efficient Natural Resources

Yes, okay. So thanks for the question. So with respect to the refining question, why is the market benign? I mean I don't describe markets as benign really. But it's true that we've been very busy in our refinery. And our refinery has a very important strategic position for JM because we're making sure that we've got that secured availability of pgms for the JM group because that's our fundamental purpose of having refining activity. And one of the reasons it's taken time to work off our backlogs is because we're optimised the whole time in demand and also our supplies. So we're full and we're busy all the time.

And it's true across the palladium market is seeing quite a bit of change this year with increasing prices. So we have managed to also increase our returns in the business. And that's been a positive dynamic for us. So it's been an interesting year with respect to the markets. And I'm sure we'll continue to be very volatile going forward. But an interesting period. I can't say -- I don't know who asked the question, I couldn't see there. Thank you very much. So an interesting period for us, but it just underlines the importance of having a refining business for JM.

Robert J. MacLeod Johnson Matthey Plc

Thanks, Jane. So you just pass the mic to your right.

Marc Antony Elliott Investec Bank plc, Research Division - Mining Analyst

Marc Elliott, Investec. Just a quick couple of questions. I noticed rare earths have been dragged into the (inaudible) trade dispute at the moment. And I think back in 2011, it was somewhat problematic for the autocat business because you use a bit of it. Is it something you're preparing for? Or are you able to pass on sort of cost that may come through or may not come through? Or is there any sort of working capital that needs to be considered on that side?

And also just a little bit about raw material sourcing, I think Umicore signed up a deal with Glencore the other day on cobalt. You've got

the deal with Nemaska. Are there any cost implications? Because Nemaska, I think, is struggling a little bit at the moment with financing and so forth. Is there any implication if they sort of don't through? And lastly on eLNO, I was just curious to know. 811 struggles a little bit with charge rates. It obviously has high-energy density. Does eLNO have quite a good charge rate characteristic so to give it a further advantage?

Robert J. MacLeod Johnson Matthey Plc

I thought for a minute, you were going to have two questions and every else has had three. So it feels like you were going to miss out on your third question, but you threw one in the at the end. Well done. So just very briefly on eLNO, the answer is yes. It does have good charge characteristics. And that's one of the things that our customers like about it. Not just it's energy density and safety, but some other characteristics that it has as well. And of course, they're looking at a whole suite of characteristics, not just one. It's just not about energy density or whatever metric. And so there's a wide range of things they look of which charging capabilities is one. So that's good for eLNO, which is one of the things that customers like. And of course, one of the things we talked about as well is that customisation piece because every customer is different. Every customer wants something separate. And so the ability to customise a product and give each individual customer what they particular want is something that we think we can differentiate. And eLNO enables us to do that. We talked about raw materials sourcing. And do you want to answer that one, Anna, because you've been involved in the sourcing group?

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Yes. I think we're in good place on sourcing. So we've got -- we moved into the Nemaska Lithium to secure the lithium contract. I think we are quite confident we can see a route through that. In terms of the other metals, right now we buy big quantities of nickel anyway, so we're well sorted around that. And we have done for many, many decades in Jane's business so that's not a new thing for us. Cobalt, our levels of acquisition of cobalt are relatively low. But we're building on the relationships at the moment. We don't want to move into long-term sourcing agreements too early. You need to have the volumes there to secure the best deal.

Robert J. MacLeod Johnson Matthey Plc

The point is that we actually have a group that are looking at and thinking about sourcing and the tactics around that, I think, is an important things. You should just be aware of that we are monitoring and managing that and how we think about that going forward. And last but not least was the rare earth question. And yes, you're right. I mean 2011, we did have quite a big impact. When the prices went up enormously, we always managed to access the rare earths we needed. And I don't think there's any difference this time. Although we've learned the lessons from that. So we've now got within the sort of our arrangements, we've got multiple sourcing options, multiple sourcing routes. As well as if prices go up, we've got a price escalator in our contracts. So from a point of view of sourcing, we're quite content at the moment. And if the prices were to spike up again like they did previously, we've got a mechanism in the contracts to manage that risk going forward. Would you want -- would you add anything else, John?

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

No. I think we're in pretty good shape on the tariff side. Our rare earth usage as our total global spend in North America is relatively small. And as Robert said, we've got multiple options on some raw materials, which gives us change-out ability if one is a China-sourced material. And we have supply chain options to be able to work around that. So on the tariff side, we are in pretty good shape.

Robert J. MacLeod Johnson Matthey Plc

Okay. I saw some hands -- a hand over here. So the mics -- sorry, we'll come back -- we'll give you time over here. And then we'll go over the mic over there.

Chetan Udeshi JP Morgan Chase & Co, Research Division - Research Analyst

Chetan from JPMorgan. A few questions. On U.S. truck, you said you expected to sort of peak at the middle of this year. So for full year 19/'20, can that business see sales growth? That's number one. Number two question was to Anna, maybe on CapEx. Is there a way to think about GBP 500 million or up to GBP 500 million this year in terms of how much of that may be phasing-related one-offs? Or in other words, what I'm trying to get to is looking beyond this year, is that sort of run rate number? Or is that sort of just impacted by some phasing of CapEx in different projects?

And the last question is on the guidance for this year in terms of EBIT growth, where you've said you're comfortable with mid- to high

single-digit in terms of the range that you have forecasted for the full year. When I look at the second half constant currency EBIT growth, it was 5%. I know that second half sort of already incorporates bulk of the share gains in diesel ex the trucks. So is there a reason to believe we see a big uplift from that run rate going into this year? Or is sort of 5% the right number to think about for '19/'20?

Robert J. MacLeod Johnson Matthey Plc

Okay, thank you for your questions. So John, do want to talk about U.S. truck phasing for this year?

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

U.S. truck. I mean we had a full year of Class 8 strong sales last year and we're going to have the better part of the half year this year so -- and I think there's growth in that Class 8 story for '19, '20.

Robert J. MacLeod Johnson Matthey Plc

But it's not going to fall off a cliff from the 1st of October. I do know that we're seeing a normal cycle and of course you're going to work through the sort of backlogs and stuff like that, the truck orders so -- and as I said -- as we said already, we can adjust our cost base very, very quickly.

But from a top line point of view, there's nothing else we can do about it obviously. But from a bottom line point of view, we're pretty immune, but pretty dampened that volatility.

Anna, on CapEx and EBIT, I mean I think we're looking for very -- a little precision here and I'm not sure you're going to give it, but I'll...

Anna Manz Johnson Matthey Plc - CFO & Executive Director

I'll try and help. So on CapEx, maybe the way to think about it, Chetan, is you've got GBP 250 million we're investing in plants in Clean Air. The 2 big ones, China and Poland, will be substantively complete this year. So yes, there'll be continued spend around India next year.

If you look at eLNO, we are breaking ground this year so the spend on the commercial plant, not that demo plant or the application centers, which will be weighted this year, the spend on the commercial plant will be continuing through next year.

So those were the sort of really big chunky bits and we talked about needing to reinvest in the refineries to ensure their resilience. That will start this year and continue and be weighted towards next year.

So I would suspect that we continue to see higher CapEx growth. Will that be as high? It's sort of a little bit, depends on the phasing. We were quite careful in our wording of up to GBP 500 million in that these are really big and complex projects that go over the year-end based on the build schedule that we have today, which will almost certainly change as we continue to build these projects because it always does. The exact phasing of which year some of this sits in will become clearer as we move through.

Robert J. MacLeod Johnson Matthey Plc

But this is, I would kind of argue, good news because, in John's parts, his business is a 30% return on capital business. There's absolutely no reason why this won't be accretive to the group and deliver great ROIC. And of course, the investments in the eLNO, in particular, those are the 2 big investments, will all be about the long-term growth in the company and it's about making sure we get the right return rate and on...

Anna Manz Johnson Matthey Plc - CFO & Executive Director

EBIT?

Robert J. MacLeod Johnson Matthey Plc

EBIT.

Anna Manz Johnson Matthey Plc - CFO & Executive Director

Will it be 5%, I'm not going to answer that question explicitly. But what I'd say is there is a consensus out there and we have not guided in a way to change consensus because we're broadly happy with it.

Robert J. MacLeod Johnson Matthey Plc

Okay. Now get over to the side of the room now.

Ming Lee Tang Exane BNP Paribas, Research Division - Analyst

Nicola Tang from Exane BNP Paribas. I have 2 questions, first, on Clean Air. Thanks for laying out your views on regulatory drivers. Can you talk a little bit about your assumptions on the underlying market, particularly in Light Duty across the globe, how have things been tracking so far because the data doesn't necessarily look that great.

And my second question in Battery Materials or in eLNO, Robert, you hinted that you're doing preparatory work on stages beyond the current investment. Could you talk a little bit in terms of what options you're exploring there? And does the warning from Umicore on a delay and demand for cathode materials concern you at all?

Robert J. MacLeod Johnson Matthey Plc

Okay. John, do you want to talk a little bit about the underlying market, what you're seeing so far?

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

So I just think, in general, I would agree that we have kind of global outlook of a couple of percent growth in Asia. Much of that growth in China, in particular, is electric vehicles. But the point of our business is that our growth is coming from legislation. So I don't want to say that if car sales are 0 growth for the rest of the lifetime, that our business is going to fall apart. But with very little growth in the market, our sales are going to grow and I think that has been our story, that the growth that's built into our plans is for legislation growth and that's where the growth is coming from in our business.

Robert J. MacLeod Johnson Matthey Plc

Okay. And on eLNO, I mean I'm not obviously going to talk about Umicore's announcement, that's their announcement. I mean -- but didn't change anything to do with our plans and our thinking. Our thinking is very much we need to be the best technology and the technology leadership end of the market where the market is looking at -- you could all the data it would suggest when you get into the middle of the decade, certainly the middle of the next decade, that's when the demand for ultra-high-energy density material is really going to grow and that's where our opportunity is because that's where we play, at the high end of the market and the customised emissions. So nothing's particularly changed. We need to make sure we scale up at the right pace with the right pace in the market.

I'm not really going to go into the details of our scale-up strategy at this stage. I think that's probably something we can talk a little bit more about, maybe at the Capital Markets Day. We're on the results day today. But all would say is we are thinking about it, we've got a plan -- we're developing our plans about how we would scale up this business and move away from sort of development phase of the business, which is where we were for the last couple of years into very much the sort of commercialisation and scale-up of the business.

Can you go and just pass to the left, yes.

Charles L. Webb Morgan Stanley, Research Division - Equity Analyst

Charlie Webb from Morgan Stanley. Just maybe a few on new markets, so just following up on eLNO. When do you think your move to A sampling? Is that a 2019 event or do you see that in a bit later? So I think that's still ahead of you.

Secondly, on the CapEx for eLNO that you kind of originally guided to, is that still unchanged in the near medium term or has that increased?

And then on fuel cells, you obviously saw significant growth there. Can you perhaps tell us what the backlog looks for you in the business today versus last year? Or at least give a kind of idea of that change? That'd be very helpful.

And then just a couple of others, really quick ones. On restructuring costs, what should we expect as we look into next year versus the GBP 30-odd million that we had in FY '19?

And then just on working capital, given the kind of continued improvement if we kind of strike at current pricing, would you expect an inflow in '20 or is it still expect to be an outflow?

Robert J. MacLeod *Johnson Matthey Plc*

Okay. Anna, I'll ask you to answer the second two. You've got 5 questions in there. But look, the eLNO is sort of one, new markets is one.

So look, A sampling, I wouldn't get to -- sometimes it's not very black-and-white with customers where you're going from A to B to C. But we're really pleased with the progress we're making. We're moving in very much into the next stage of testing with them, with the customers, and that's one of the reasons why we're building our application centers because that will give us the capability ourselves to do the testing and validation work, which they often will then rely on because they trust our data. So the progress we're making is absolutely in-line with what we expected. Was it A sample or not, it's quite hard to judge. Different customers have different methodologies. But are we making the progress we expected to make? Yes, we are.

On the CapEx question with eLNO. The guidance we said was really we talked about the demo plant and the commercial plant. We didn't talk about the application centers, which clearly are, I mean, much, much smaller numbers. So there's a bit more CapEx -- that's right, we didn't talk numbers for that. We talked numbers for the main commercial plant. Look, until we finish the whole front-end engineering design, we don't know exactly what the CapEx spend is going to be. That's what you do with the design. And so when that work is finished, we'll be able to articulate it more. But the overall spend because we didn't talk about them and we didn't talk about the application centers, will be bit larger than we talked about before.

And on fuel cells, I'll keep going then. On fuel cells, look, it's a tiny part of the business at the moment but it is a profitable part of the business. And for those of you who have been around for a while, followed JM for many years, you'll remember we used to spend GBP 10 million -- have losses of about GBP 10 million a year from this business. It's now profitable, they're not big numbers, but at least going in the right direction. And with what's going on with the whole need for the hydrogen economy to grow and the opportunity for fuel cells, we are going to invest more in the fuel cell business over the next few years, initially probably for demand in China but then for opportunities in Europe, too.

The backlog is -- much of our sales for this year are secured or at least very much on track, but I don't think you're going to suddenly see becoming meaningful for the whole group at this stage. I think the longer-term opportunity for fuel cells is absolutely quite exciting actually, and the level of investment required for fuel cells versus the level of investment for our business versus batteries is quite different. So it's a really exciting adjunct to the whole zero-emission vehicle opportunity for us.

Restructuring and working capital?

Anna Manz *Johnson Matthey Plc - CFO & Executive Director*

I'm not going to be that helpful, I'm afraid. So we guide -- so you're after what sits below operating -- underlying operating profit. And there, were we to foresee anything, we would have explained it and announced it. At this point, I don't foresee anything. But as we've had a legal settlement this year, there may be things that might come up through the course of the year. And if and when they do, we will share those with you.

With respect to cash flow, again, we don't guide on cash flow, but we do talk through the pieces. We will expect to see working capital return to a more normalised level on metals so you should see that benefit through the year. But of course, there will be cash outflow associated with that CapEx cost. I'll let you work it through.

Robert J. MacLeod *Johnson Matthey Plc*

I mean on the restructurings, I mean what goes outside of underlying is, of course, the major restructurings. We're always doing things in the business all the time, but they're all above the line, they're just normal activities. There's not any of the sort of bigger ones that we would talk about outside of underlying and then I would reach out exactly what I understand. We would have talked about it if there was one planned.

How are we doing? Martin hasn't asked one yet so should we go to the front to Martin and then, Adam, I think you wanted -- do you get another three? No, not sure. You only get one when you came for a second time around.

Martin John Evans *HSBC, Research Division - Analyst of Global Chemicals*

Martin Evans, HSBC. I guess, for Anna, just on these procurement savings of GBP 26 million in the year, which is a useful figure. Will you just remind me, we normally -- or you at the end of that procurement sort of prices now, and how easy has it been to achieve those versus how the company functioned before?

And secondly, in the press release, which I'm quoting in front of us. I saw something about IT systems and SAP, which sent a shudder with sort of past recollections of how companies have come a little bit unstuck on implementing SAP. Again, can you say what you're aiming to do there and how far advanced that is?

Robert J. MacLeod *Johnson Matthey Plc*

Anna, yes, you want to take both of them?

Anna Manz *Johnson Matthey Plc - CFO & Executive Director*

Yes. So we've guided to there being an opportunity of GBP 60 million in procurement savings. We delivered GBP 28 million to date, of which about GBP 7 million is in CapEx, the majority of the rest hitting the P&L. Look, we've gone from purchasing at the site level to purchasing globally. And that touches a vast number of our 15,000 people. They've got to work differently. So I'm hugely pleased with the progress that we've made to liberate these savings. I would say we're relatively early in our procurement journey. There is more opportunity here yet, and there will be further opportunity once we've got the group on SAP wall to wall because, today, just to give you an example, I've got 44 ledger systems and multiple instances of those. So if I want to know how much we're procuring, for example, methanol, no idea in that each system calls it something different. And the only way to get at that data is to suck the data out of those systems and aggregate it, which is how we're delivering these procurement savings. Once we've got a single global way of doing things, we will have real-time data and we'll be able to go faster. So this is the beginning of a journey and it's going to be consistent improvement year-on-year.

In terms of SAP, it's right to send a shudder. It should send a shudder. I'm appropriately paranoid. We've got our first site live though. We've got Clean Air in Royston live on our single global instance. Royston is a big and complex site. The number of users on that site is over 1,000, and we've been successful in that first go-live. We've got 8 more go-lives coming in the next 12 to 18 months, and we're well on track.

So I think we've already done in some ways our hardest site, which maybe wasn't the most sensible place to start, but we're in good shape. So now we just roll out from there. So we remain appropriately paranoid, but therefore you shouldn't be.

Robert J. MacLeod *Johnson Matthey Plc*

And the good news is we're doing it on a site-by-site basis, so there's no big bang or anything like that and there have -- other companies being -- done a big bang, and of course, that's a very wary place to be. As you've done the first one, the first one is the hardest because then people didn't know what they were looking, couldn't practice really on what it was that they were going to use. So the next site, several of you can come to Royston, and as you see it, live with the people and talk to the people about what happened. So it doesn't make it easy, but we should be getting quicker and quicker about how -- and then we should be able to roll out this ledger across the whole organisation. Look, it's something that nobody really wants to do, but actually, it's...

Anna Manz Johnson Matthey Plc - CFO & Executive Director

I quite like it.

Robert J. MacLeod Johnson Matthey Plc

Well, it's a lot of hard work for an awful lot of people. It touches virtually the whole organisation. And so it's a big change for the organisation. And a lot of effort going in to do that. But the benefits that come from it are really important and we'd drive those through, we will do.

Have you got a mic, Adam? So we go over here since there's a mic just nearby and then we'll come back to you.

Thomas P Wrigglesworth Citigroup Inc, Research Division - Director and Chemicals and Basic Materials Analyst

Sorry, Adam. Is this working? Tom Wrigglesworth at Citi. So just one question on your calling out increasing R&D on gasoline. Is there something you're seeing in the outlook for gasoline that JMAT is particularly well positioned to solve or a new hurdle, a new challenge there that's leading to that R&D? If you could elaborate, that'd be helpful.

Robert J. MacLeod Johnson Matthey Plc

Sure. John, do you want to give a bit of color there?

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

I think there's always new challenges. Especially if you're a technology person, that's how they live. But I think our focus on gasoline is that I guess we strive to be #1 in everything. Right now, we feel that our gasoline is on par with our competitors, and we want to be clearly the leader. And when we put our mind to doing that, I think we've demonstrated that we succeed pretty much all the time. So that's what we're trying to do.

Robert J. MacLeod Johnson Matthey Plc

And obviously...

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

And as the market is shifting with diesel and gasoline, more towards gasoline, so I mean it just makes sense that we shift some of our R&D.

Robert J. MacLeod Johnson Matthey Plc

Okay. Adam?

Adam Robert Collins Liberum Capital Limited, Research Division - Analyst

Yes. I had a question in relation to the leadership changes in the business. There's been a couple of things going on in the last year that I'd be interested in your views on. The first one is, of course, on the appointment of the CEO for Battery Materials and the standing down of the CTO role. And then on the business development director side, you've had a couple of changes in as many years. It strikes me the first one maybe has something to do with the transition from research to commercialisation in Battery Materials. But the second one sort of speaks to some dissatisfaction around the business development function. I wondered what your take was on what's happened here and the rationale?

Robert J. MacLeod Johnson Matthey Plc

So well, look, on Battery Materials one, a year ago, we've made -- I made a decision that we needed to move from technology development into business scale-up and so I wanted to bring in somebody into the organisation who is a business leader, and as I said already, they'll join in September. I won't announce who they are at the moment, but they'll come in September. So the previous incumbent, Alan, as you know, was going to get back to CTO, but he decided he wanted to go work in a bigger organisation as CTO. Disappointed to lose him, but the right thing for our business is to drive Battery Materials successfully going forward and we are, of course, going to replace that CTO role and we're well advanced in the process of doing that.

On the other role, look, not every role works perfectly every time, and maybe it does in your organisation. But some you win, some you don't win so it's better to just sort of get the right people at the right time and then move on and get the right team in place. And I'm very happy with the team we have now. It's now a question of continuing to move forward from here.

I thought for a minute we were done, but not quite yet. One more question over here?

Charles L. Webb Morgan Stanley, Research Division - Equity Analyst

Charlie from Morgan Stanley. Just a quick couple...

Robert J. MacLeod Johnson Matthey Plc

You've already asked 2 questions last time. So you get your third.

Charles L. Webb Morgan Stanley, Research Division - Equity Analyst

Yes. No, just the -- on Clean Air, just thinking about diesel market share, do you think you can push on from 65% you have today further and then continue to grow share in that market over time? Or do you think that's kind of done for now? That's really the only one.

Robert J. MacLeod Johnson Matthey Plc

Yes. Don't worry, I'm not putting pressure on only three, if you have another one, please do ask. Okay. So John, I know what you're going to say, but go on.

John F. Walker Johnson Matthey Plc - Sector Chief Executive of Clean Air & Executive Director

We're going to consolidate our position for now. We're working on some of the Euro 7 stuff. There are still diesel bids that are in Euro 7. I know the skeptics are saying diesel is going to die, but car companies are still offering request for quotes for new business. And we'll see. I'm not going to commit to say we can go beyond 65% because I don't think that's a long-term sustainable position. But we're going to hold on to it as long as we can.

Robert J. MacLeod Johnson Matthey Plc

I think the OEMs have very powerful procurement functions. And whilst it's a technology buy, there is still that sort of -- they don't want to rely on 1 company only. So they always do try to make sure that they have multiple sources, particularly on the Light Duty side. Heavy Duty side, you can be more -- it's more often that you can be a sole supplier. So John's got 65%. I mean the challenge initially is to keep it for as long as we can. And the numbers that we presented back 2 years ago assumed that, that would decline back down to a more normalised level. So if we can keep that, the 65%, for longer, that would be upside to where we are in our current plan.

Great. Sorry, Martin, go on. You just sneaked out just as I was about to say -- call the time, but...

Martin John Evans HSBC, Research Division - Analyst of Global Chemicals

It's the last question, probably slightly unfair. I was just going to ask about how you're getting on with the new Chairman given his, and I'm not sure he's watching this somewhere, given his extensive experience in the chemical industry and with investors. Do you feel he's brought a sort of new approach or new dynamism to the Board?

Robert J. MacLeod Johnson Matthey Plc

What do you expect me to say? Of course, we're getting on very -- but genuinely, we are getting along very well. And look, he's got tremendous experience and very relevant experience. What we wanted was somebody as Chairman who deeply understood the chemical industry and deeply had an affinity to it. And I think all those of you who have met him would really deeply understand that he does. And he brings that experience to bear to help us, to challenge us, to move us forward. And absolutely, that's what he's doing. Look, he's only been chairman now for not even a year. So you'll start to see some of that coming through, I'm sure, in the future. But we're pushing forward quite well anyway, but this is just another little bit of a gentle nudge and support, which I think is a good thing.

Great. Thank you very much. We're obviously -- thank you for your time. Very nice to see you all. And we've got our Capital Markets Day in the middle of September, and you'll get more invitations about that soon. Thanks very much, everybody.

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