



# Presentation of Results for the half year ended 30<sup>th</sup> September 2015

19<sup>th</sup> November 2015



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Johnson Matthey



## Cautionary Statement

This presentation contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which Johnson Matthey operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.



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# Introduction

Robert MacLeod  
Chief Executive



Johnson Matthey

## Key Messages



Strong growth in ECT and good progress in  
New Businesses



Challenging conditions in other key markets;  
actions being taken to reduce costs



Sales up 5%, underlying PBT down 4% and  
underlying EPS down 3%



Interim dividend up 5%; special dividend of  
150.0 pence per share

**Expect FY performance to be in line with current market expectations**  
**JM positioned to return to growth in 2016/17**

# Health and Safety is Our Priority



LTIR reduced by 30% to 0.44

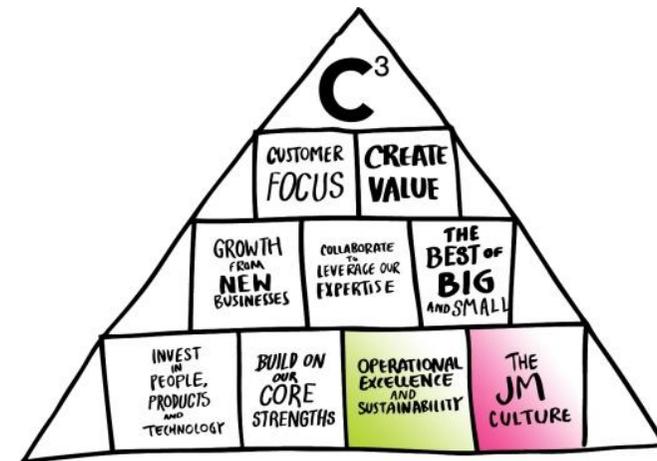
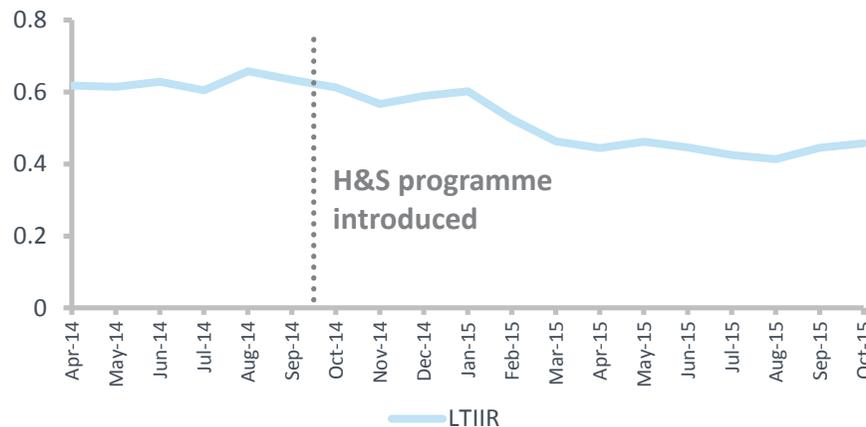


Tragic fatal accident in July at Fine Chemicals' facility in USA



Reinforced efforts to achieve world class health and safety culture

LTIR - 12 month rolling year



LTIR (lost time injury and illness rate) = number of lost workday cases per 200,000 total hours worked in a rolling year



# Financial Review

*Eddie*  
Den Jones  
Group Finance Director



Johnson Matthey

## Underlying Results

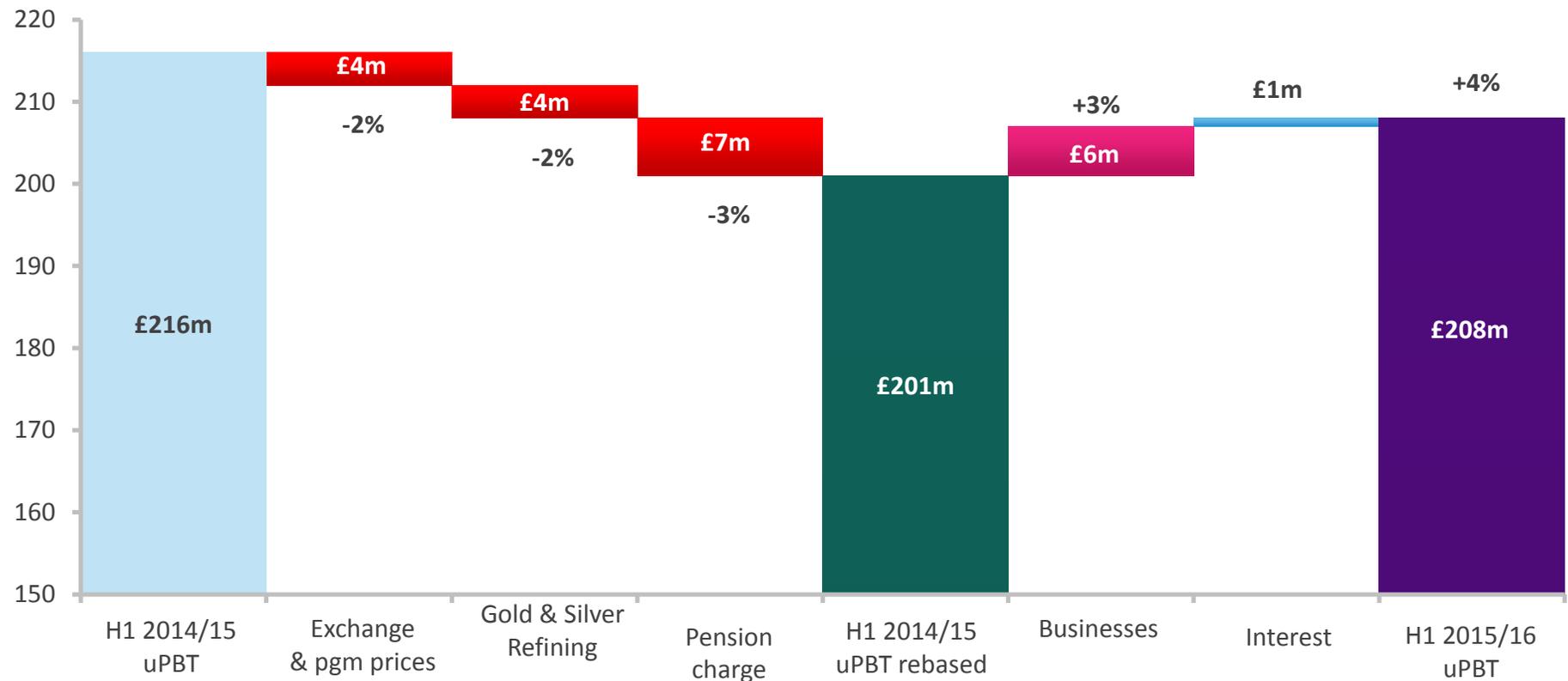
Half year to 30 <sup>th</sup> September	H1 2015 £m	H1 2014 £m	% change	% at constant rates (cr)
Revenue	5,755	4,800	+20	+18
Sales excluding precious metals	1,588	1,514	+5	+4
Operating profit	225.0	234.1	-4	-4
Interest and share of JV profit	(16.7)	(17.7)		
Profit before tax	208.3	216.4	-4	-4
Tax	(33.7)	(37.2)		
Profit after tax	174.6	179.2	-3	
Earnings per share	86.3p	88.7p	-3	
Interim dividend per share	19.5p	18.5p	+5	
Special dividend per share	150.0p	-		

Note: All figures are before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses, significant tax rate changes and, where relevant, related tax effects

# Good Business Growth

## Underlying Profit Before Tax Bridge – H1 2014/15 to H1 2015/16

(£m)



## Reconciliation to Reported Results

Half year to 30 <sup>th</sup> September	H1 2015 £m	H1 2014 £m
Underlying profit before tax	208.3	216.4
Amortisation of acquired intangibles	(9.0)	(8.6)
Profit on sale of Research Chemicals	130.9	-
Profit before tax	330.2	207.8
Earnings per share	137.9p	85.6p

# Cash Flow from Operations

Half year to 30 <sup>th</sup> September	H1 2015	H1 2014
	£m	£m
Underlying operating profit	225	234
Depreciation and amortisation	77	74
Tax paid	(36)	(46)
Working capital / other	279	(99)
<b>Cash flow from operations</b>	<b>545</b>	<b>163</b>

- Working capital improved by £386m:
  - Precious metal decreased by £315m
  - Excl. pm decreased by £71m

- Working capital days (excl. pm) 64 (FY 2014/15 66)
- Strong cash inflow from operations H1

# Cash Flow Conversion

Half year to 30 <sup>th</sup> September	H1 2015	H1 2014
	£m	£m
Cash flow from operations	545	163
Add back: Tax paid	36	46
Pension deficit contributions	13	13
Net capital expenditure	(119)	(80)
	<b>475</b>	<b>142</b>
Movement in precious metal working capital	(315)	(24)
<b>Cash flow (excluding precious metals)</b>	<b>160</b>	<b>118</b>
<b>Underlying operating profit</b>	<b>225</b>	<b>234</b>
<b>Cash flow conversion</b>	<b>71%</b>	<b>50%</b>



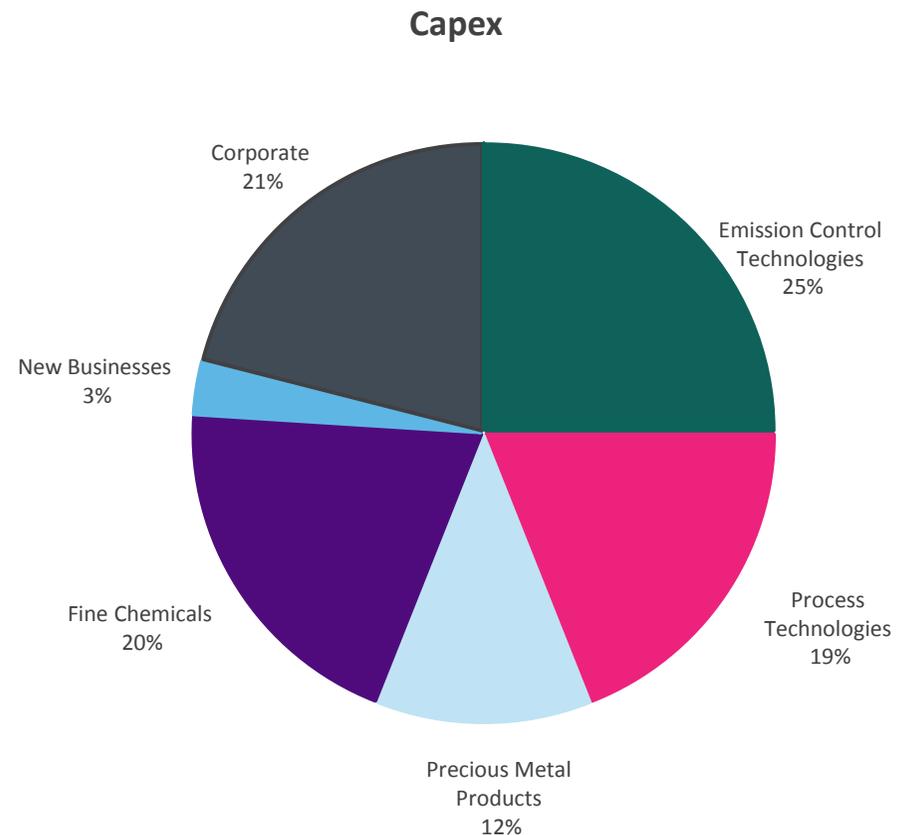
Conversion rate benefited from improvement in working capital; continue to expect to average ~70% over next few years

## Continued Investment to Support Business Growth

**Capital expenditure £98.1m**  
**(H1 2014/15 £71.3m)**

- Key projects:
  - Expansion of UK ECT facilities to meet demand from new light duty legislation
  - Expansion of PT's chemical catalyst manufacturing capacity in Europe complete
  - Investment in core business systems
- Capex expected to be slightly below £280m for FY

**R&D – gross expenditure up 14% at £91.6m**



## Strong Balance Sheet; Actions to Reduce Costs

### ROIC

- Group ROIC 17.7%
- Decline due to higher average levels of working capital over the last 12 months

### Post-employment Benefits

- UK scheme actuarial valuation complete; net deficit at 1<sup>st</sup> April 2015 £28m
- £7.1m increase in pension costs in H1 2015/16 in underlying operating profit

### Treasury and Capital Return

- Net debt £441.2m, down £553.2m since year end
- Net debt (including post tax pension deficits) / EBITDA 0.7 times
- Special dividend of 150.0p per share

### Restructuring to Reduce Costs

- Restructuring programme commenced since end of H1, particularly in PT
  - Cost reduction of ~£30m p.a. starting in Q4
  - Expect one-off charge of ~£40m in H2



# Operating Review

Robert MacLeod  
Chief Executive



Johnson Matthey

## Emission Control Technologies – Continued Strong Growth

£m	Half year to 30 <sup>th</sup> September			% change	% at constant rates (cr)
	2015	2014			
Sales (excluding precious metals)	939	869	+8	+8	
Underlying operating profit	136.0	118.1	+15	+16	
Return on sales (ROS)	14.5%	13.6%			
Return on invested capital (ROIC)	25.2%	23.4%			

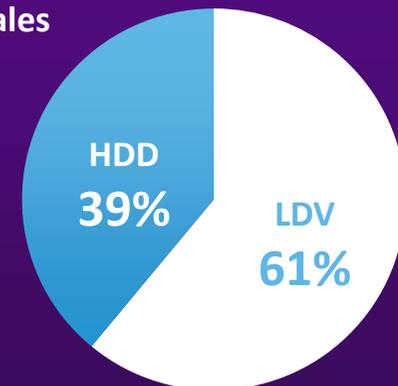
### Strong performance:

- Growth in all regions
- Process efficiency improvements and one-off benefit boosted ROS

### Outlook:

- Expect continued strong performance; H2 to be similar to H1
- LDV benefit from Euro 6b; good demand for HDD catalysts in US

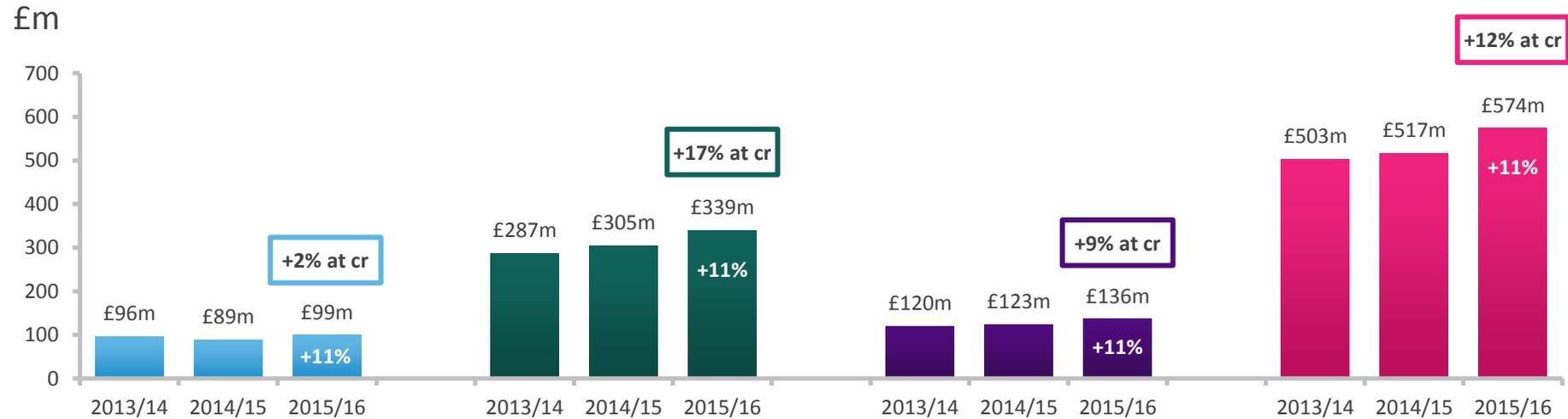
### Sales



# Growth Well Ahead of Global Light Duty Market

Total sales H1 2015/16  
**£574m** up 11%

## Johnson Matthey's Light Duty Catalyst Sales



### North America

- North American car production up 6%
- JM volumes grew in line with market

### Europe

- JM sales strongly ahead despite 3% fall in European car production
- Sales boosted by higher value Euro 6b catalysts

### Asia

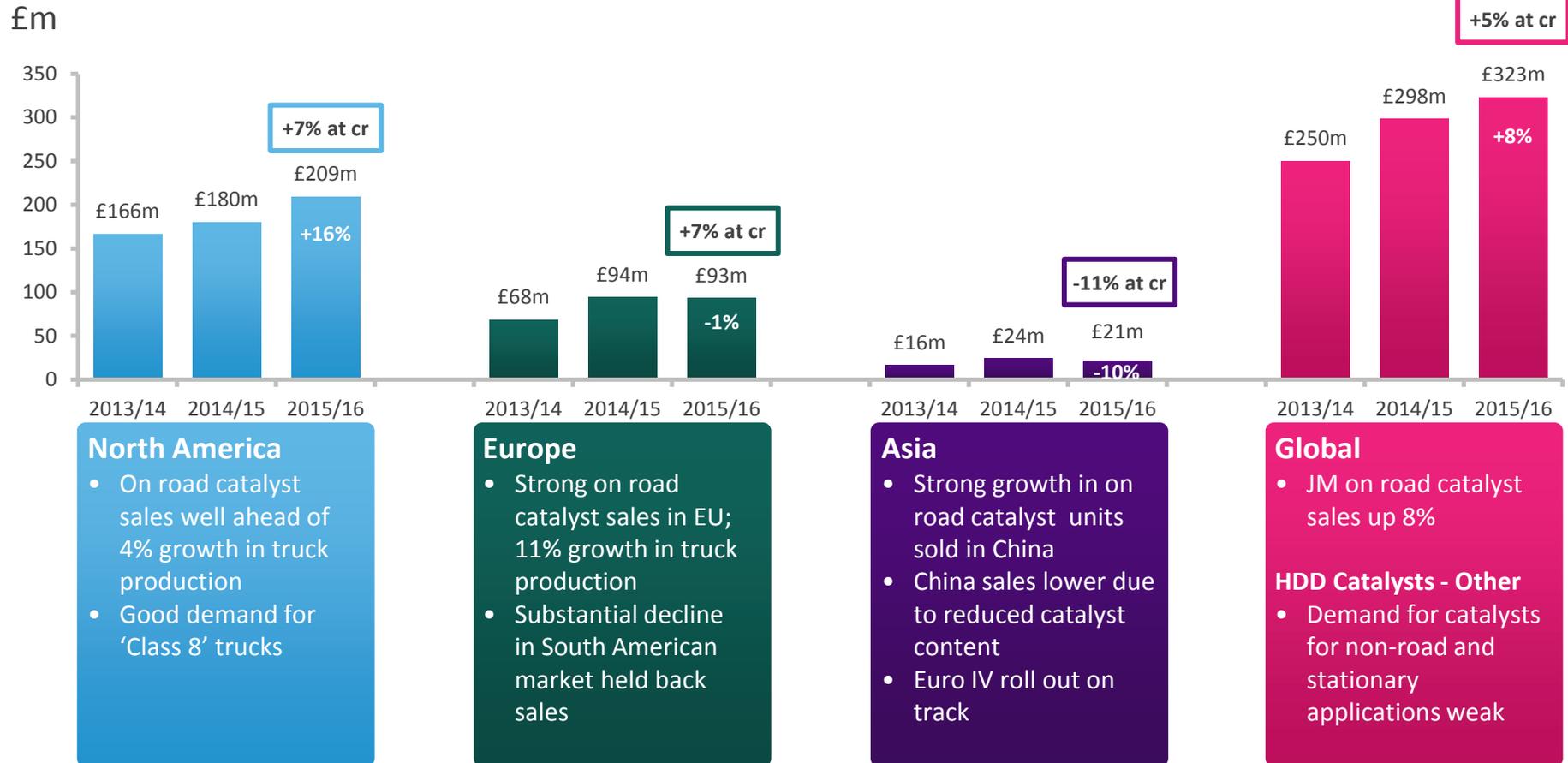
- JM sales up 9% at cr, outpacing vehicle production in all our major markets
- China sales held up well despite slower market

### Global

- JM sales grew strongly, well ahead of 3% fall in global car production

# Strong Growth in On Road HDD Catalysts

## Johnson Matthey's On Road Heavy Duty Diesel Catalyst Sales



## Increasing Focus on Emission Control



### Recent Developments

- Air quality, especially emissions of NOx from diesel cars, remains a hot topic
- No major shift in diesel share to date
  - Continue to expect diesel share to trend down in medium term
  - Tighter CO<sub>2</sub> emissions and fuel economy favour diesel in the mix
- Increased scrutiny on emissions limits and testing



### Real World Driving

- Introduction from September 2017
- Testing over urban, rural and highway cycle
- Conformity factor for NOx now set
  - Impacts diesel cars
  - Further tightening in 2020
- Expect particulate number conformity factors early 2016
  - Expected to impact gasoline cars

# Johnson Matthey Technology is Part of the Solution

## Technologies to control NOx



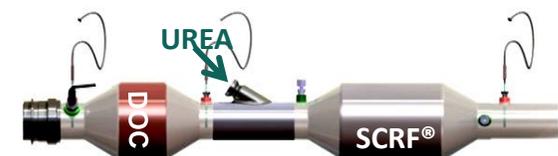
### NOx Adsorber Catalysts (NAC)

- Pgm based catalyst
- Requires fuel addition, hence penalty on fuel consumption
- Favoured on smaller vehicles



### Selective Catalytic Reduction (SCR)

- Metal-zeolite based catalyst
- Low pgm loading (slip catalyst only)
- Requires urea injection system, with tank, doser and injector systems
- Favoured on larger vehicles
- More reliable at higher speeds



### Advanced SCR

- Allows improved thermal management of catalyst on vehicle
- Technically very demanding system
- May require additional SCR / ammonia slip catalyst (ASC) to maximise NOx conversion
- Higher technology product adds value

- JM well positioned in all technologies
- Expect shift to Advanced SCR for RDE

## Process Technologies – Challenging Trading Conditions

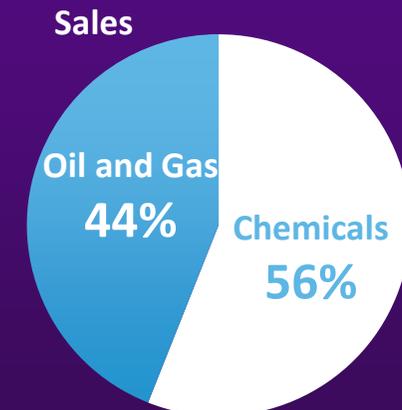
£m	Half year to 30 <sup>th</sup> September			% at constant rates (cr)
	2015	2014	% change	
Sales (excluding precious metals)	283	283	-	-1
Underlying operating profit	35.9	49.7	-28	-28
Return on sales (ROS)	12.7%	17.6%		
Return on invested capital (ROIC)	12.3%	15.0%		

### Sales flat but profit adversely impacted:

- Good catalyst sales but less favourable mix, reduction in licensing income and weak performance in Diagnostic Services significantly impacted ROS

### Outlook:

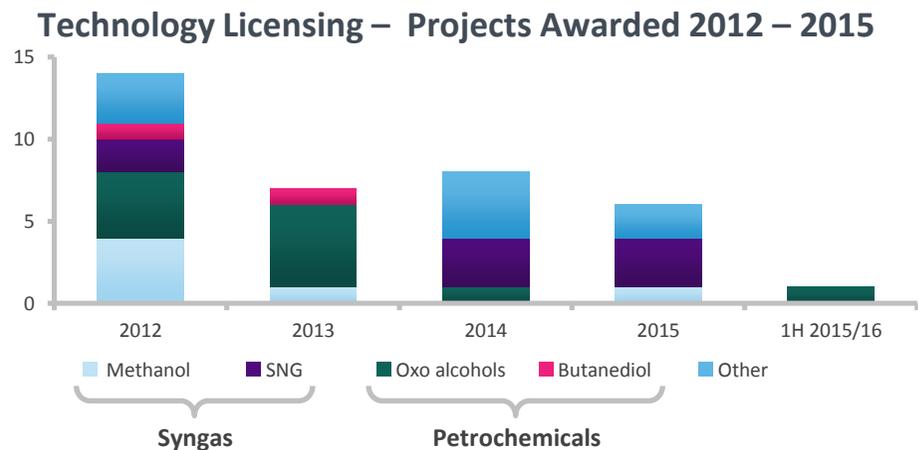
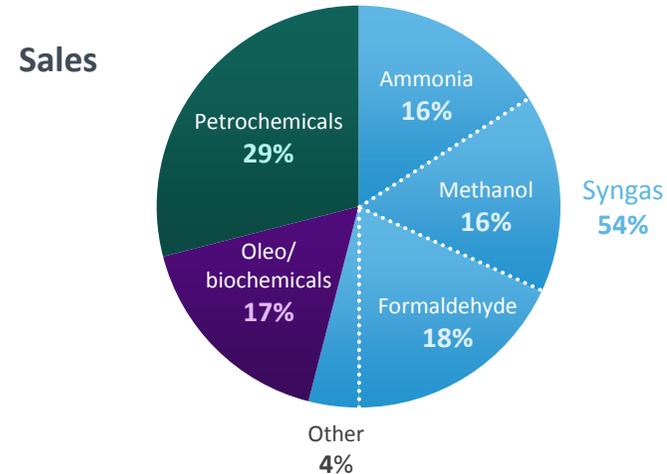
- Expect H2 ahead of H1, heavily weighted to Q4
- 2015/16 performance expected to be significantly lower than 2014/15



# PT Chemicals – Steady Sales But Less Favourable Mix

## Sales stable at £159m

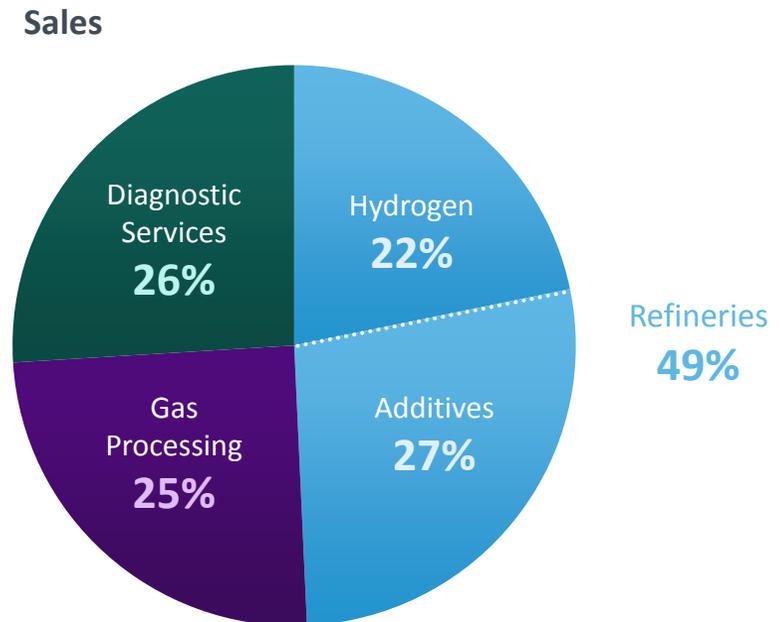
- Good catalyst sales in Syngas but less favourable product mix
  - Strong demand from formaldehyde customers but lower margin
  - Project delays impacted SNG catalyst sales
- Steady demand for petrochemical and oleo/biochemical catalysts
- Licensing sales £34m (H1 2014/15 £41m)
  - 1 new licence secured (vs 2 in H1 2014/15)
  - Slow activity continues with project delays and fewer new opportunities



## PT Oil and Gas – Mixed Performance in First Half

### Sales steady at £124m (down 2% at cr)

- Good growth in catalysts
  - Strong demand for purification products
  - Slower in hydrogen catalysts following strong new plant activity last year
    - Refill customers postponing change outs to H2
- Diagnostic Services' sales down 13%
  - Slowdown in activity at customers due to low oil price
  - Lower demand across all regions
  - Operating loss in H1



# Precious Metal Products – Headwinds in Refining

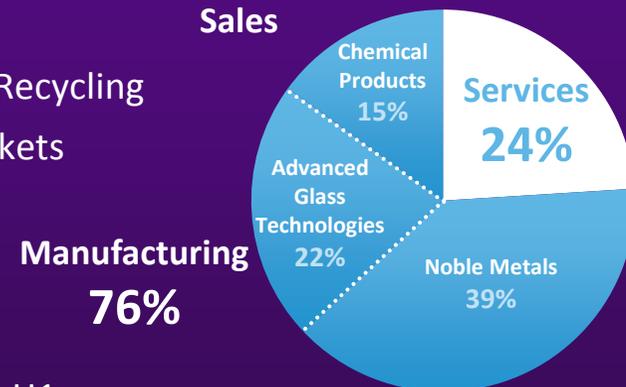
£m	Half year to 30 <sup>th</sup> September			% at constant rates (cr)
	2015	2014	% change	
Sales (excluding precious metals)	165	193	-15	-15
Underlying operating profit	36.1	52.0	-31	-31
Return on sales	21.9%	26.9%		
Return on invested capital (ROIC)	19.3%	32.9%		

## Continuing businesses’ sales down 5%, profit 25% lower:

- Substantially lower pgm prices impacted Pgm Refining and Recycling
- Mixed in Manufacturing businesses; weakness in some markets

## Outlook:

- Refining intakes expected to remain weak
- At current pgm prices, expect weaker performance in H2 vs H1

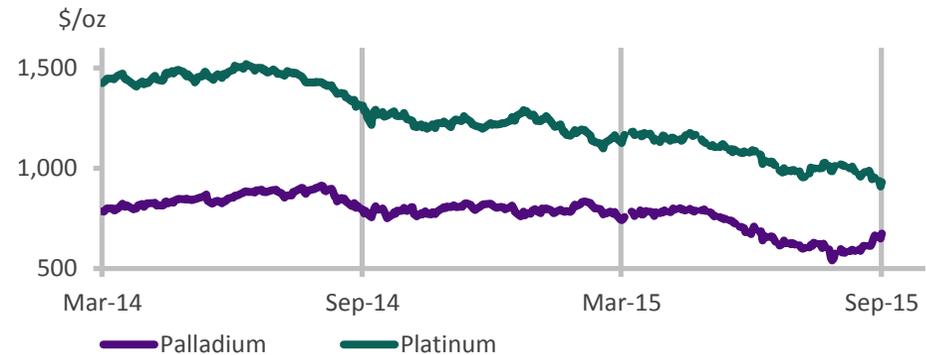


# PMP Services – Substantially Lower Pgm Prices

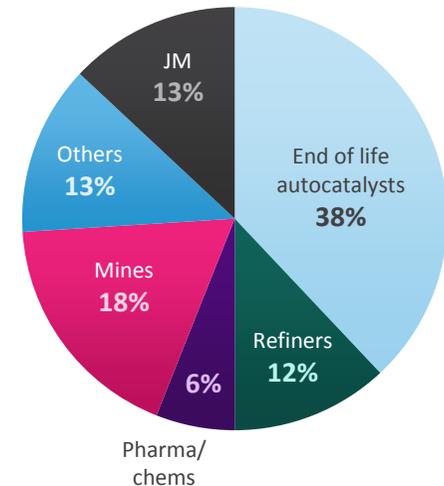
**Sales down 5% at £40m (7% down at cr) in the continuing businesses**

- Substantially lower average pgm prices impacted performance in Refining
  - Pt \$1,064/oz (down 26%)
  - Pd \$691/oz (down 19%)
- Intake volumes reduced from H2 2014/15
- Pricing stable but shift towards lower grade intakes
- Good progress to resolve processing issues with some intakes
- Outlook for intakes and pgm prices remains subdued

**Platinum and Palladium Prices**



**Pgm Refining and Recycling Throughput by Sector**



## PMP Manufacturing – Mixed First Half

### Sales down 5% to £125m

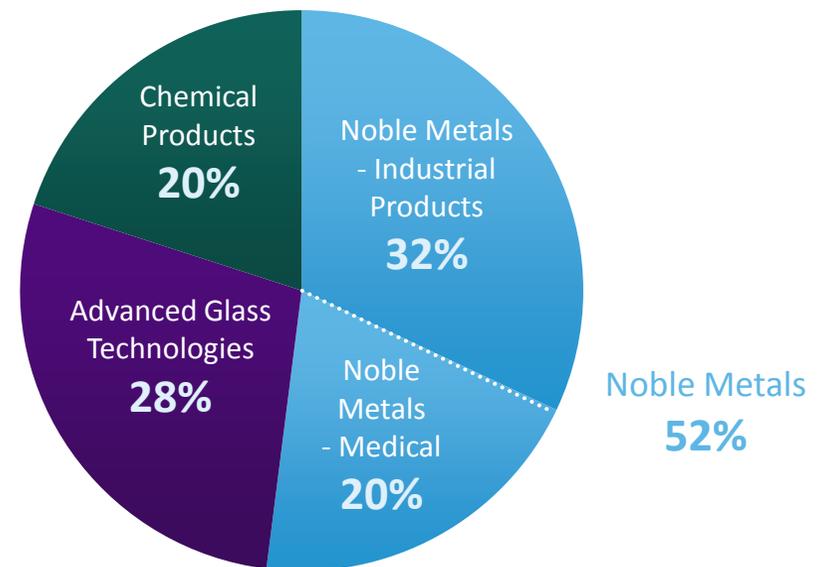
Benefiting from:

- Good sales of medical components in the US
- Steady demand for black obscuration enamels for automotive glass applications
- Strong sales of chemical products due to good demand from the pharma industry

However:

- Slower sales of catalysts for fertiliser manufacture after strong demand last year
- Weaker markets for fabricated products in other industries
- Lower sales for decorative ceramic colour products after JM exit from market

Sales



## Fine Chemicals – Sale of Research Chemicals Completed

£m	Half year to 30 <sup>th</sup> September			% at constant rates (cr)
	2015	2014	% change	
Sales (excluding precious metals)	157	155	+1	-3
Underlying operating profit	40.6	41.8	-3	-8
Return on sales	25.9%	26.9%		
Return on invested capital (ROIC)	17.6%	18.4%		

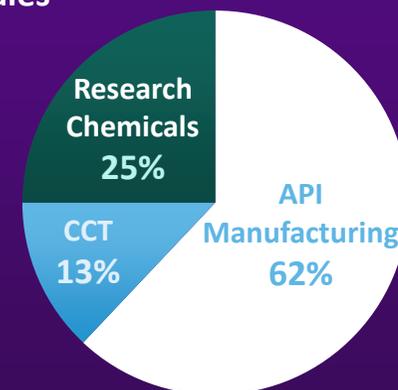
### Steady sales but profit down

- Good growth in CCT and custom services; lower sales of APIs
- Safety shutdown in USA adversely impacted performance
- Sale of Research Chemicals completed for £255 million

### Outlook

- Positive outlook; expect strong growth in API Manufacturing in H2
- Despite absence of Research Chemicals, expect H2 performance ahead of H1

### Sales

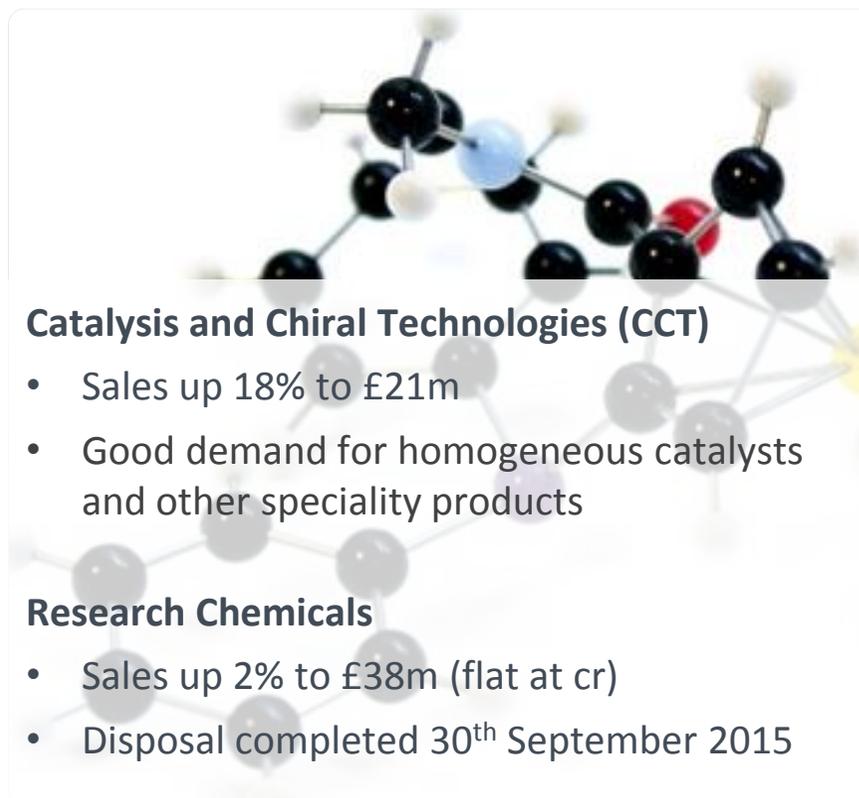


## Expanding API Capabilities



**API Manufacturing**

- Sales down 2% to £98m (7% lower at cr)
- Performance affected by safety shutdown
- Lower volumes of bulk opiates and ADHD APIs; steady sales of speciality opiates
- Strong demand for custom API development
- Expansion of European API manufacturing footprint progressing well



**Catalysis and Chiral Technologies (CCT)**

- Sales up 18% to £21m
- Good demand for homogeneous catalysts and other speciality products

**Research Chemicals**

- Sales up 2% to £38m (flat at cr)
- Disposal completed 30<sup>th</sup> September 2015

## New Businesses – Good Progress in First Half

£m	Half year to 30 <sup>th</sup> September			% at constant rates (cr)
	2015	2014	% change	
Sales (excluding precious metals)	72	37	+98	+116
Underlying operating profit / (loss)	(9.9)	(12.0)	+18	+19

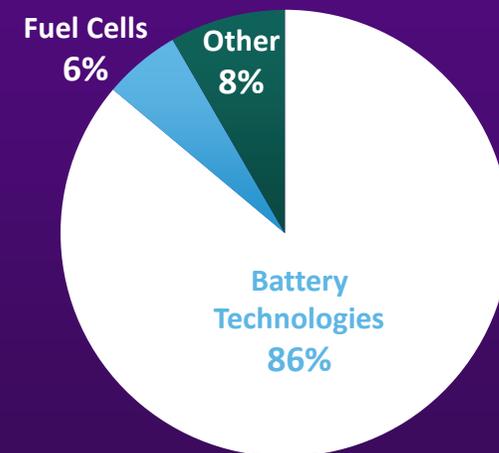
### Excluding acquisitions, sales up 16%

- Battery Technologies: Sales up 79% to £62m, broke even excluding acquisition-related costs
  - Good progress in battery materials following two acquisitions
  - Strong LFP sales, especially in China
  - Developing relationships with key partners in supply chain
- ACT: Progressing in line with expectations

### Outlook:

- Expect modest reduction in operating loss for year

### Sales



## Outlook 2015/16



Strong performance in ECT and good progress in New Businesses; challenging conditions in other markets



Difficult conditions expected to continue; taking action to reduce costs



Good underlying growth in continuing\* businesses in H2 vs H1; strongly weighted to Q4



Expect FY performance to be in line with current market expectations



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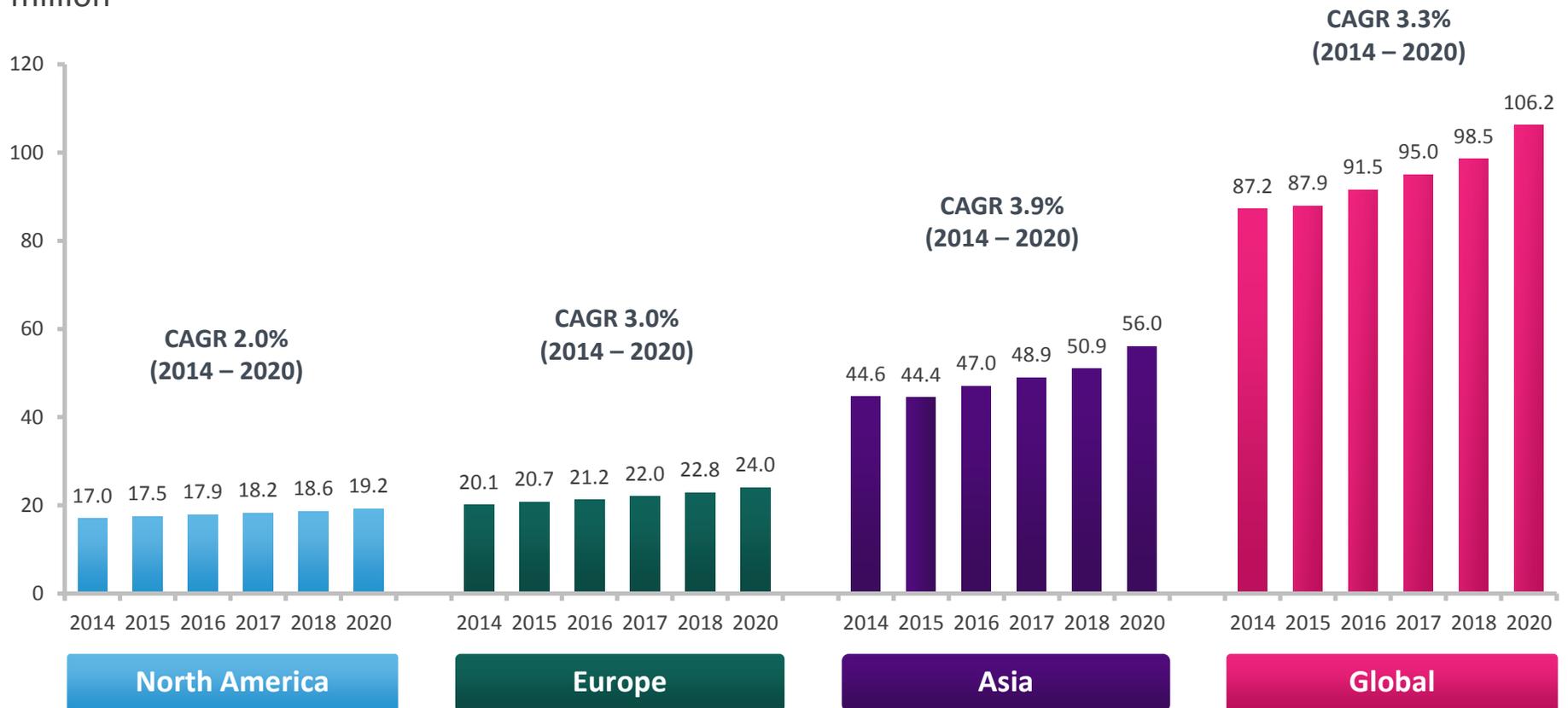
# Estimated Light Duty Vehicle Sales and Production

		H1	H1		H1	H2	
		2015/16	2014/15	%	2015/16	2014/15	%
		millions	millions	change	millions	millions	change
North America	Sales	10.7	10.3	+5	10.7	9.4	+14
	Production	9.0	8.4	+6	9.0	8.4	+7
Europe	Sales	9.3	8.9	+4	9.3	9.1	+2
	Production	10.0	10.3	-3	10.0	10.1	-1
Asia	Sales	18.1	18.2	-	18.1	21.2	-15
	Production	21.3	22.7	-6	21.3	23.1	-8
Global	Sales	43.7	43.2	+1	43.7	45.3	-4
	Production	42.9	44.1	-3	42.9	44.2	-3

# Global Growth in Vehicle Production Drives ECT

## Light Duty Vehicle Production Outlook – 2014 - 2020 (calendar years)

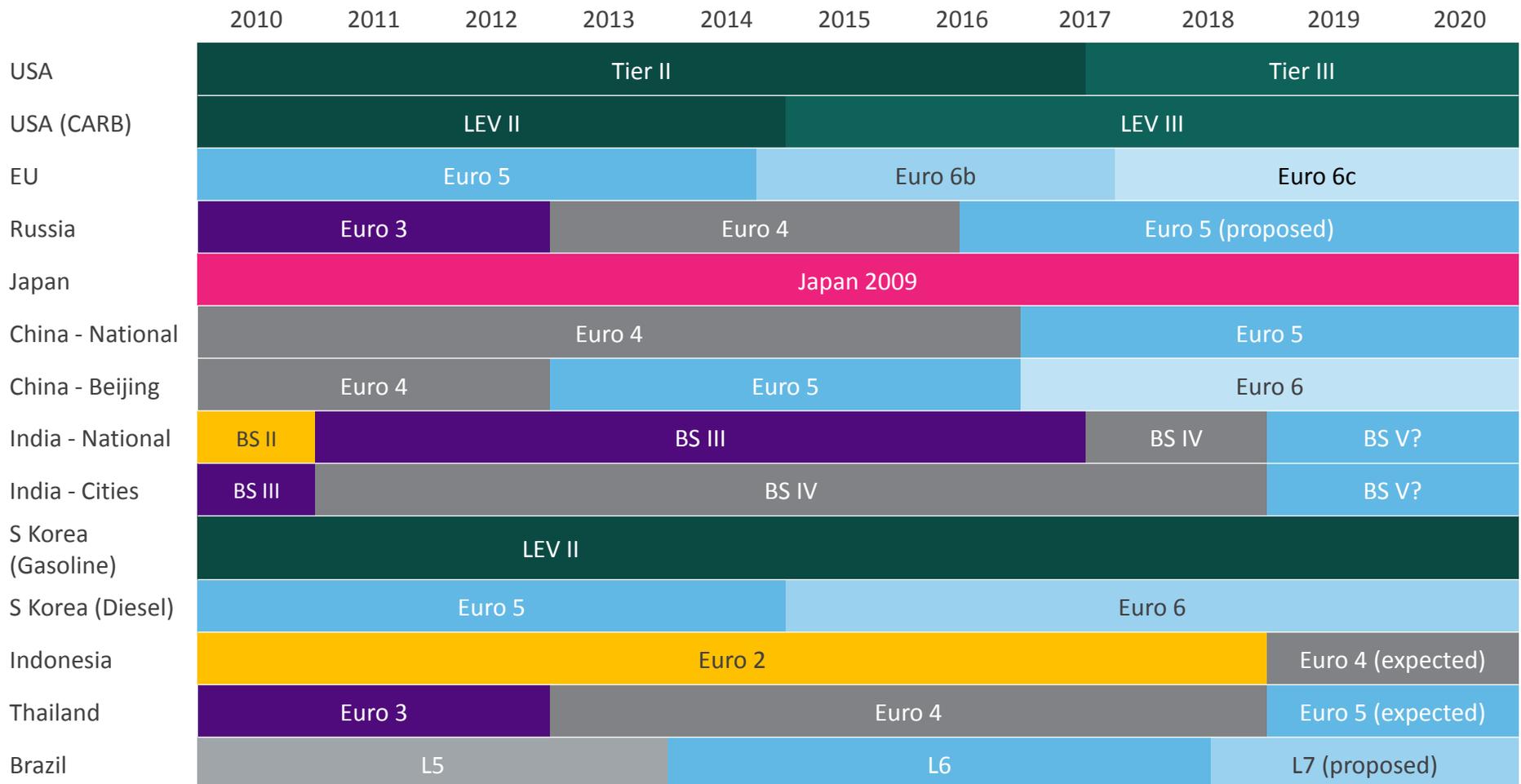
million



Source: LMC Automotive (October 2015)

# Emission Control Technologies

## Light Duty Vehicle Legislation



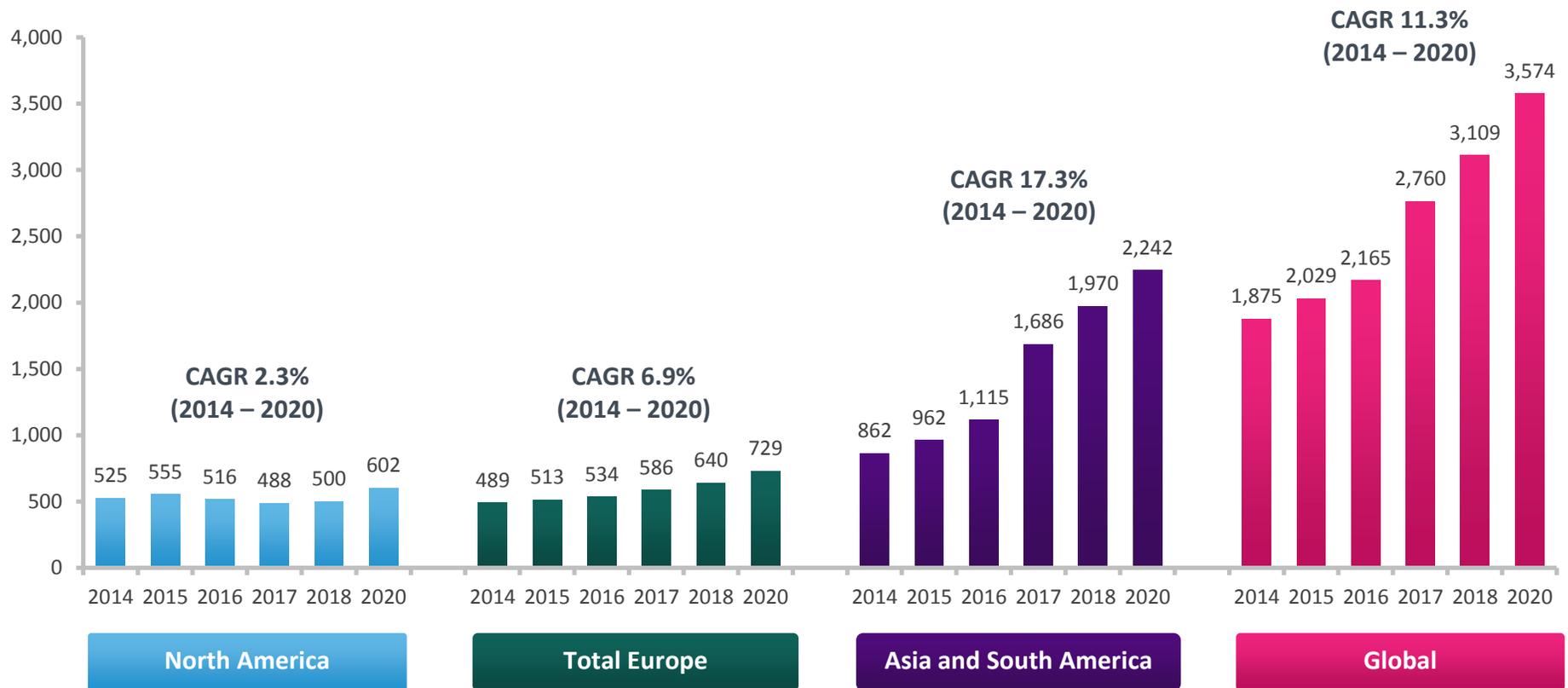
## Estimated HDD Truck Sales and Production

		H1	H1		H1	H2	
		2015/16	2014/15	%	2015/16	2014/15	%
		thousands	thousands	change	thousands	thousands	change
North America	Sales	283.3	257.4	+10	283.3	255.4	+11
	Production	284.0	271.9	+4	284.0	271.8	+4
EU	Sales	148.3	129.7	+14	148.3	147.3	+1
	Production	206.0	185.4	+11	206.0	204.7	+1

# Heavy Duty Vehicle Production Regulated Engines Outlook

2014 - 2020 (calendar years)

thousands



Source: LMC (September 2015); JM estimates for proportion regulated

# Emission Control Technologies

## Heavy Duty Diesel Legislation

