



# Presentation of results for the half year ended 30<sup>th</sup> September 2016

17<sup>th</sup> November 2016

Visit [www.matthey.com](http://www.matthey.com)

Follow us on Twitter:  
[@johnson\\_matthey](https://twitter.com/johnson_matthey)



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.



Johnson Matthey





# Introduction

Robert MacLeod  
Chief Executive



Johnson Matthey

## First Half Trading In-line; Full Year Outlook Confirmed



Sales up 5%, underlying PBT up 5% and  
underlying EPS up 12%



Strong trading in ECT in Europe and Asia,  
weaker in North America



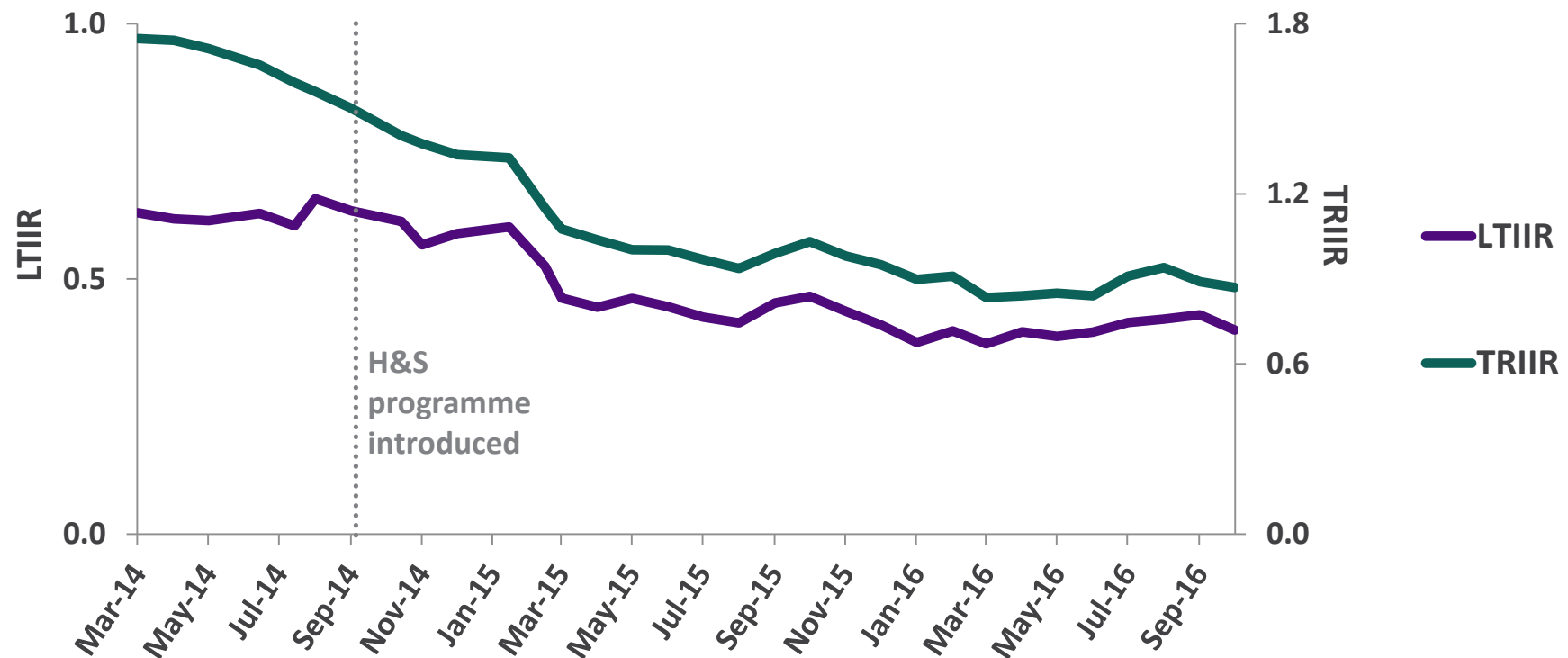
Tough conditions in PT, steady demand in PMP.  
Weak H1 in Fine Chemicals, expect stronger H2



Interim dividend up 5%; reflecting confidence in  
medium term prospects

**Full year outlook at constant rates in line with our previous expectations**  
**Positive translational impact for full year underlying PBT of ~£65m at 30<sup>th</sup> Sept 2016 rates**


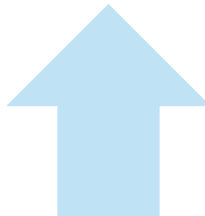



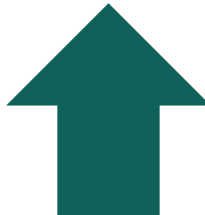
# Health and Safety is Our Priority



**Significant reductions in lost time injury and illness (LTIIR) and total recordable injury and illness (TRIIR) since introduction of Health and Safety programme in September 2014**

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

## Strategy Update – Well Positioned in Growth Markets

	JM sector position	Current market	Opportunity	% JM sales today
<b>Automotive</b>	<ul style="list-style-type: none"><li>• #1 in emission control</li><li>• #1 in LFP battery materials</li><li>• Developing position in other battery materials</li></ul>			<b>64%</b>
<b>Petrochemicals</b>	<ul style="list-style-type: none"><li>• #1/#2 position in key sectors</li></ul>			<b>11%</b>
<b>Pharma</b>	<ul style="list-style-type: none"><li>• Leader in small molecule APIs</li><li>• Building broader API portfolio</li></ul>			<b>9%</b>

## Strategic Focus – Investing for Growth; Driving Efficiencies

### Automotive

- Expanding global ECT capacity
- Improving operational and supply chain efficiencies
- ~50% increase in LFP capacity

### Petrochemicals

- Reduced cost base in PT by £23m
- Well positioned for future recovery in end markets and to maintain leading positions

### Pharma

- Investment in new facility in Europe to expand capacity and improve efficiency
- R&D investment to expand API portfolio

### R&D investment

- ~5% of sales p.a.

### Investment in core business systems

### Capital efficiency

- ROIC target of 20%
- Net debt / EBITDA 1.5-2.0 times





## Financial Review

Anna Manz  
Group Finance Director



Johnson Matthey



# Underlying Results<sup>1</sup> – In Line With Expectations

	H1 2016 £m	H1 2015 £m	% change	% at constant rates for continuing business
Sales excluding precious metals <sup>2</sup>	1,676	1,600	+5	-1
Operating profit	236.1	225.0	+5	-3
Interest and share of JV profit	(16.5)	(16.7)		
Profit before tax	219.6	208.3	+5	-3
Taxation	(35.3)	(33.7)		
Profit after tax	184.3	174.6	+6	
Earnings per share	96.4p	86.3p	+12	
Interim dividend per share	20.5p	19.5p	+5	

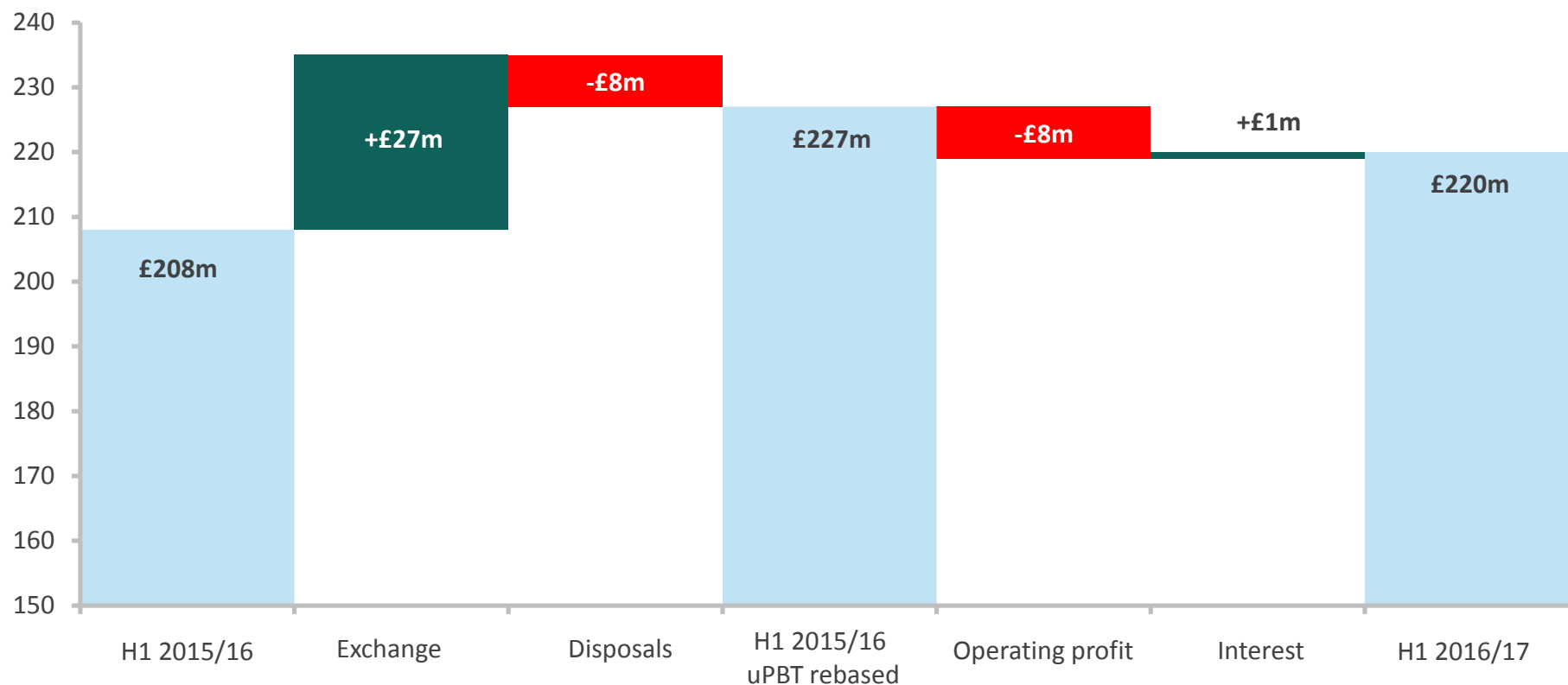
1. All figures are before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses, significant tax rate changes and, where relevant, related tax effects

2 Sales excluding precious metals have been adjusted to include certain non pass through precious metal items

## Solid Performance in H1; Benefit from Exchange Rates

### Underlying Profit Before Tax Bridge

(£m)



## Cash Flow from Operations

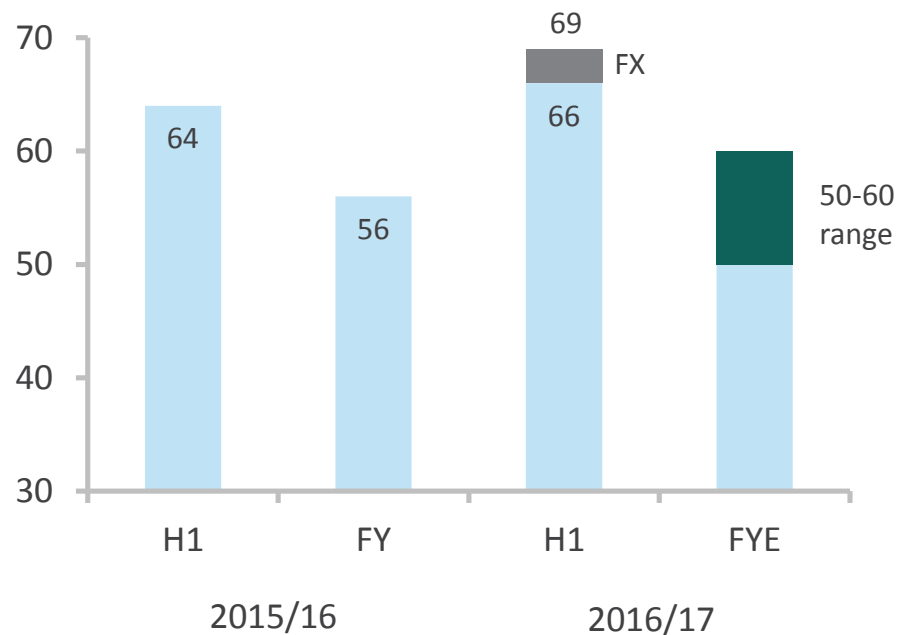
	H1 2016	H1 2015
	£m	£m
Underlying operating profit	236	225
Depreciation and amortisation	84	77
Tax paid	(33)	(36)
Working capital / other	(163)	279
<b>Cash flow from operations</b>	<b>124</b>	<b>545</b>

Operating cash flow impacted by higher working capital



## Working Capital: Building Inventory Ahead of Stronger H2

### Working capital days (excl. pm)

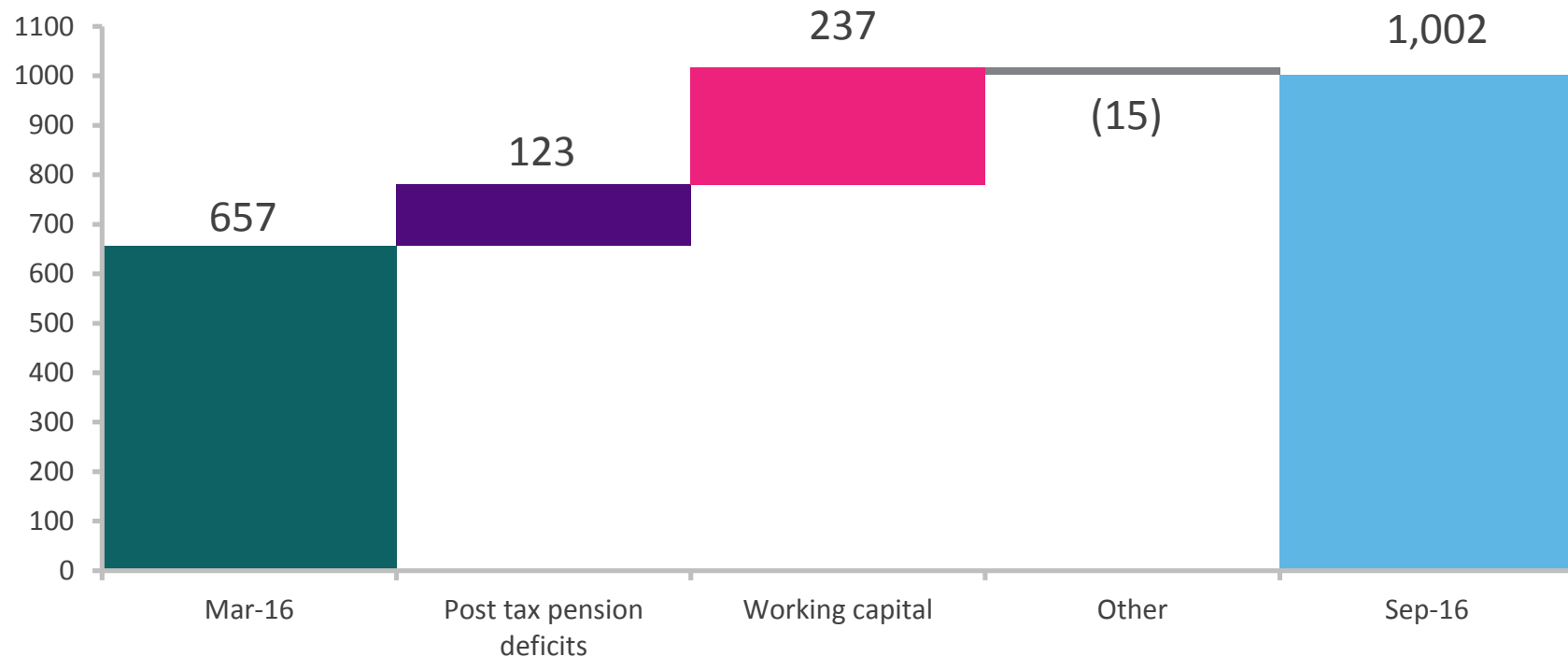


- Working capital increased by £237m
- Pm working capital up £111m
- Non-pm working capital up £126m, of which £49m FX

## Net Debt: Working Capital and Pension Driving Increase

### Net debt, including post tax pension deficits

(£m)



## Balance Sheet Remains Strong; Capacity to Invest



### Treasury

- Net debt (including post tax pension deficits) / EBITDA 1.6 times
- Target range 1.5-2.0 times



### ROIC

- Group ROIC 17.6%
- In line with last year



### Reward and Benefits

- ~£16m one-off gain in US post-retirement medical plan in H1
- ~£16m increase in group-wide LTIP over the full year
- ~£9m net benefit in H1, £ nil for full year



### Dividend

- Interim dividend up 5% at 20.5p per share
- Confidence in future prospects



A photograph of a modern office interior. In the foreground, two women are leaning over a table, looking at a large sheet of paper with a diagram. The woman on the left is wearing a colorful patterned top, and the woman on the right is wearing a pink cardigan over a white top. In the background, other office workers are visible at their desks, and large windows let in bright natural light.

# Operating Review

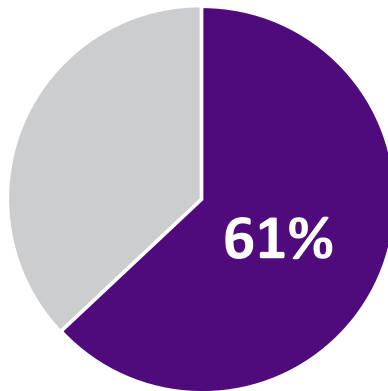
Robert MacLeod  
Chief Executive



Johnson Matthey

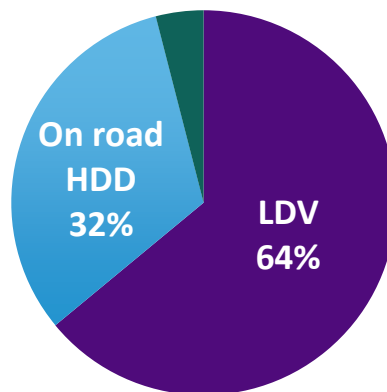
## ECT – A Solid First Half

% of Group sales



Division sales split

Other 4%



- Sales **up 3%<sup>1</sup>**
- Underlying operating profit **flat<sup>1</sup>**
- Strong performance in Europe and Asia
- Weakness in North America as expected

### Outlook:

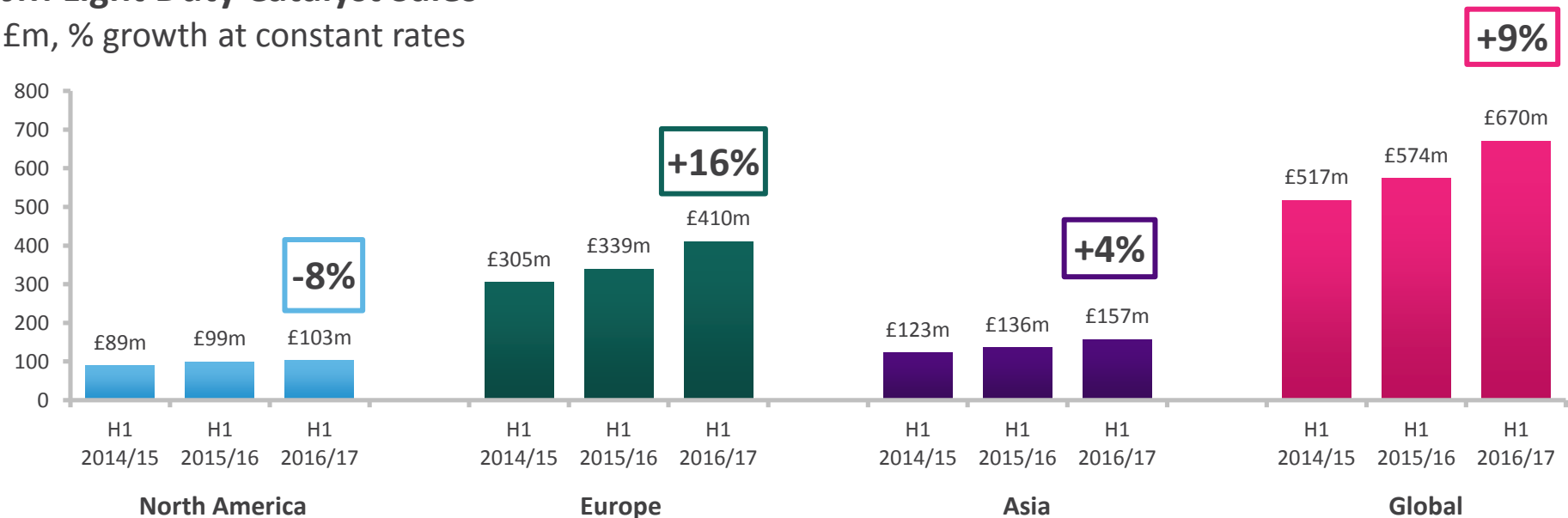
- Continued strength in Europe and Asia
- Stabilising sales in North America

1. At constant rates

# Light Duty – Outpacing the Market

## JM Light Duty Catalyst Sales

£m, % growth at constant rates



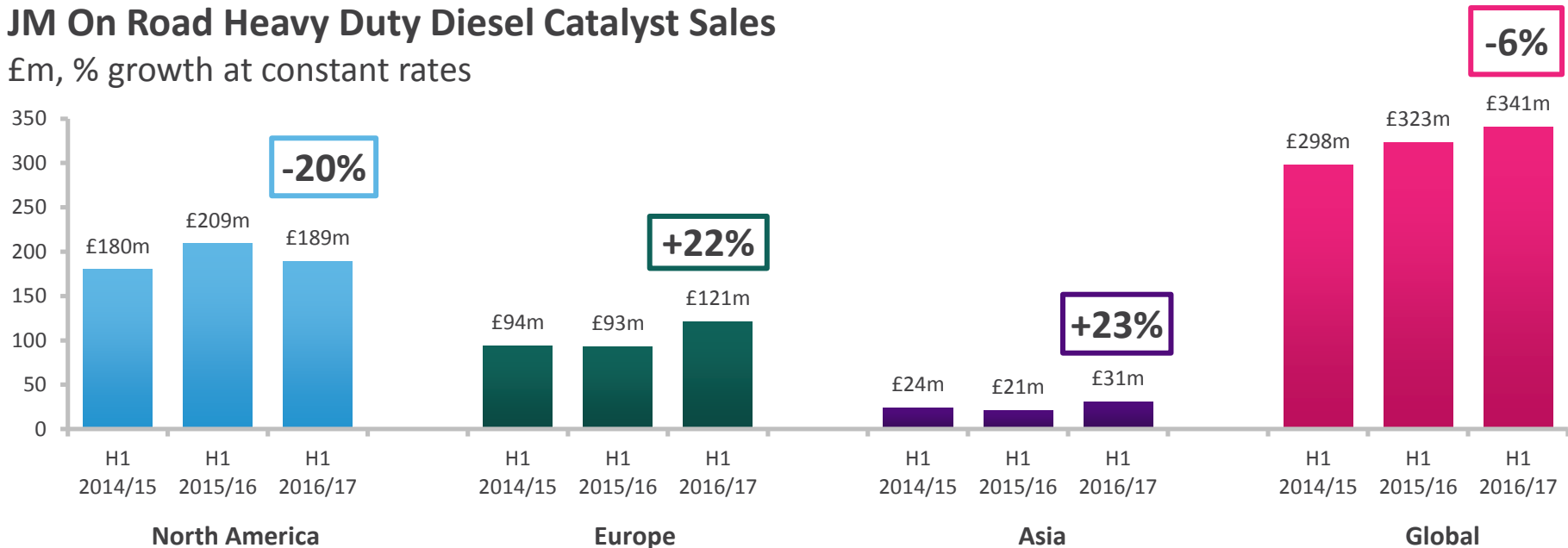
- Outperformance in Europe, benefiting from increased focus on emissions
- Growth in Asia in line with vehicle production



## On Road HDD – US Class 8 Weak, Growth in Europe and Asia

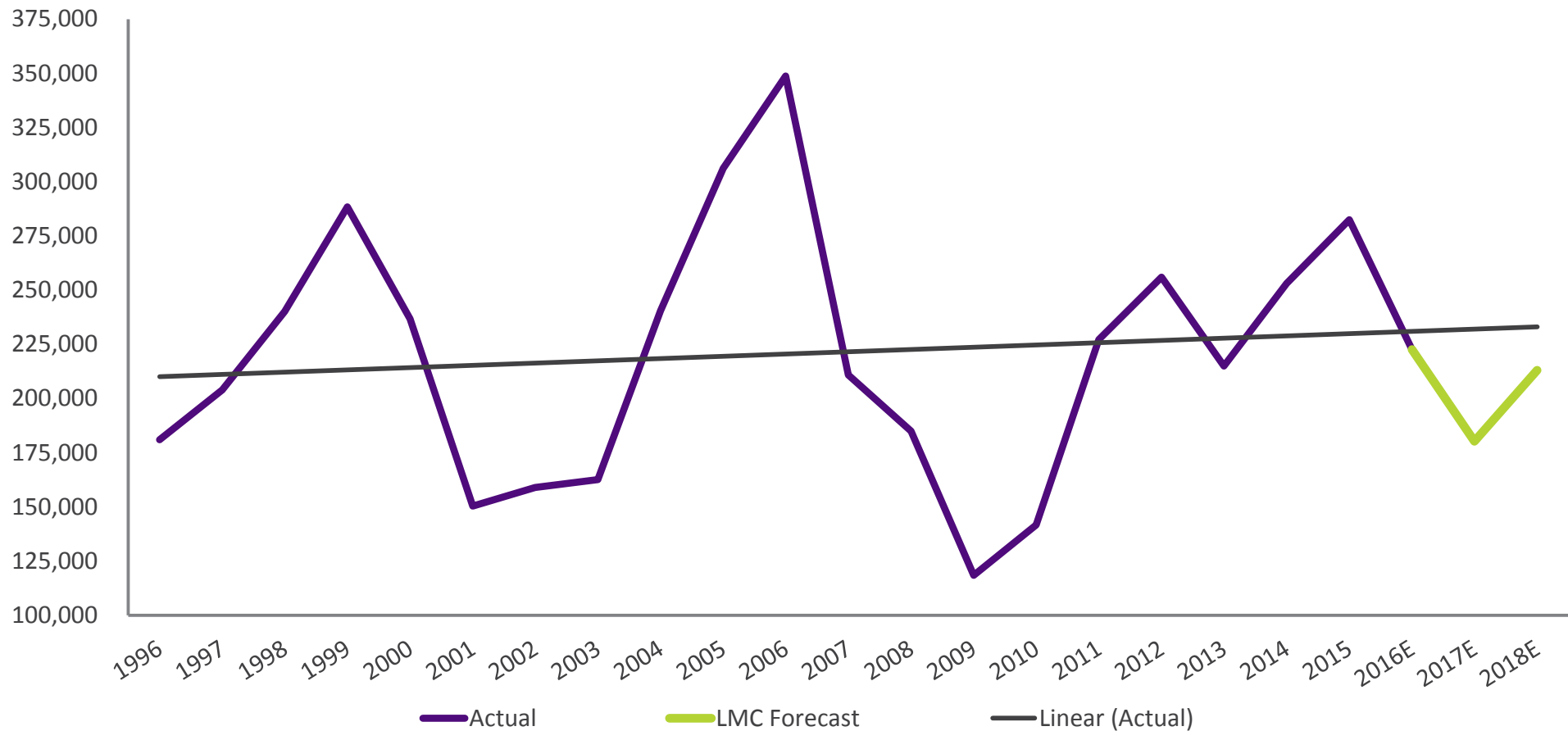
### JM On Road Heavy Duty Diesel Catalyst Sales

£m, % growth at constant rates



- Significant increase in Europe and Asia sales – strong vehicle production and improved product mix
- Tough trading in North America due to Class 8 production cycle

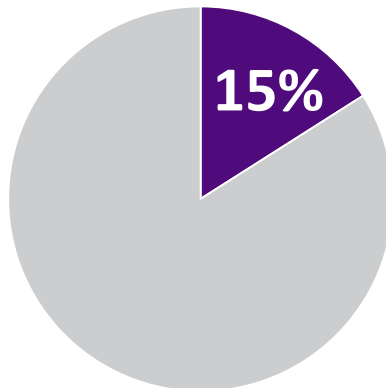
## US Class 8 Truck Sales – A Cyclical Market



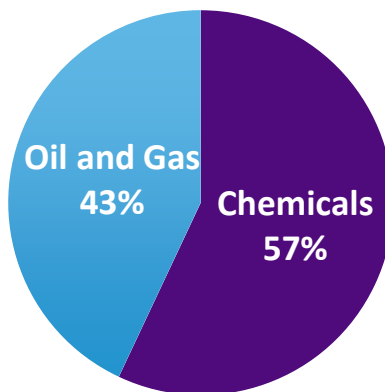
Source - LMC Automotive, October 2016

## PT – Strong Position Maintained in Challenging Markets

% of Group sales



Division sales split



- Sales **down 12%<sup>1</sup>**
- Underlying operating profit **down 1%<sup>1</sup>**
- No new licences signed
- Customers lengthening catalyst replacement cycles
- Benefit from cost saving actions last year

### Outlook:

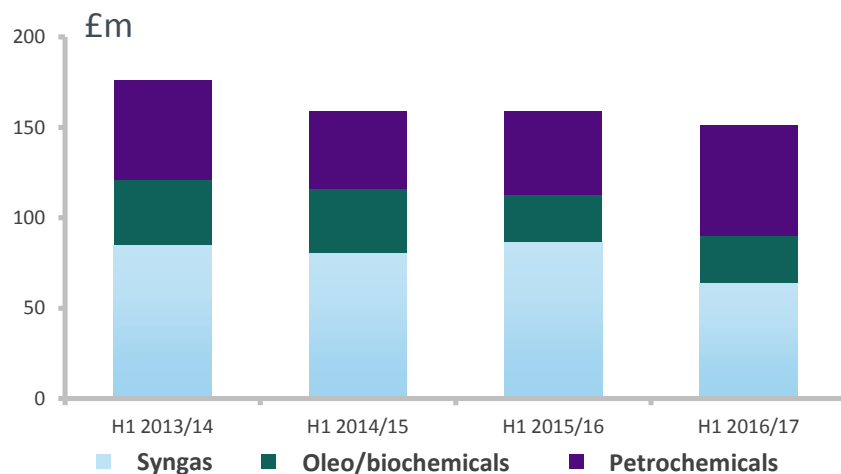
- Stronger second half expected

1. At constant rates

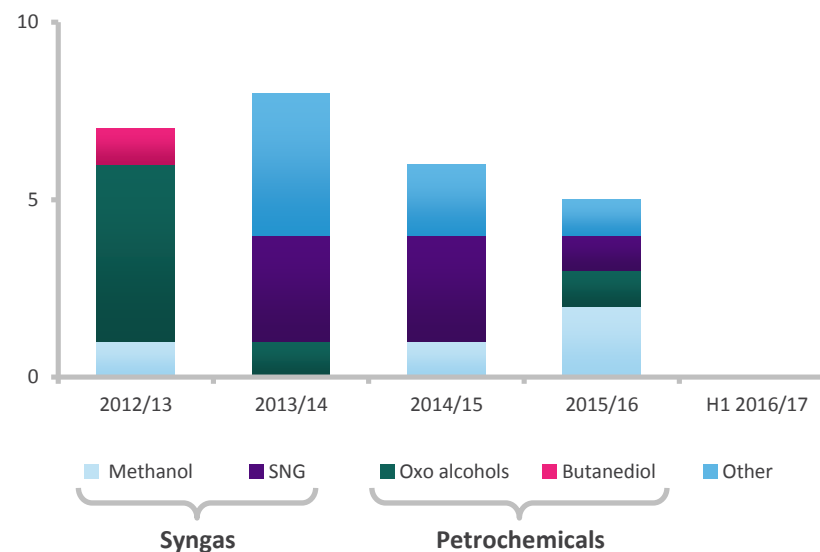
## Chemicals – Licensing Weak and Lower Catalyst Demand

- Sales **down 11%**<sup>1</sup>
- Longer replacement cycles in Syngas
- New product boosted Petrochemicals' sales
- Licensing sales £22m, **down 36%**<sup>1</sup>

PT Chemicals – Sales by End Use



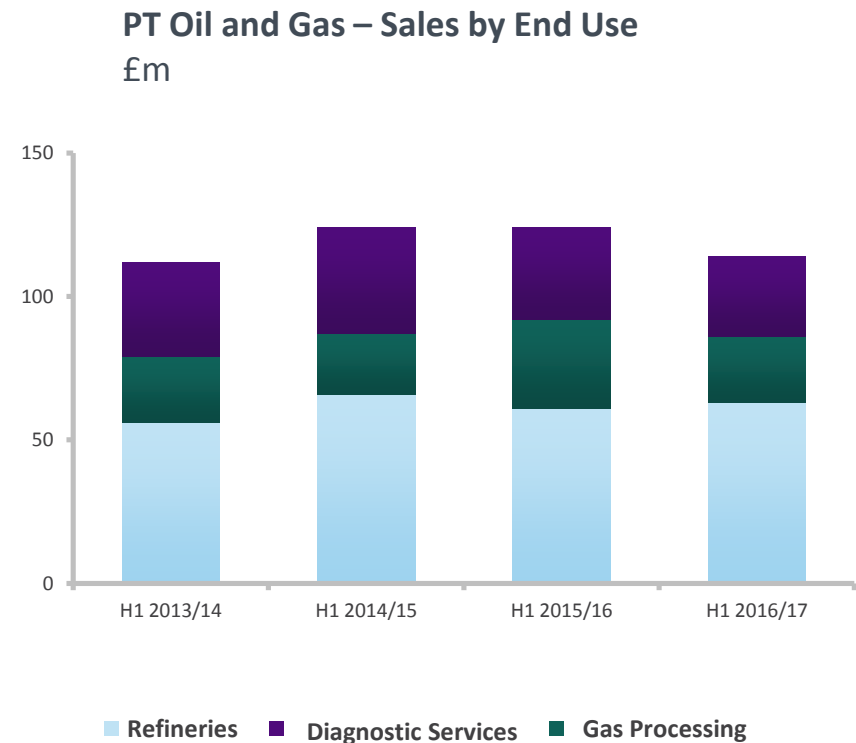
Technology Licensing – Projects Awarded, 2013 – 2016



1. At constant rates

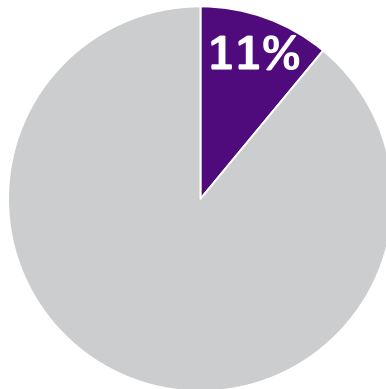
## Oil and Gas – Performance Mixed, Impacted by Oil Price

- Sales **down 14%**<sup>1</sup>
- Weaker sales in hydrogen catalysts
  - Refineries processing sweeter crudes
- Good demand for refinery additives
- Sustained low oil price impacted Diagnostic Services
  - Reduced cost base; business broke even in H1

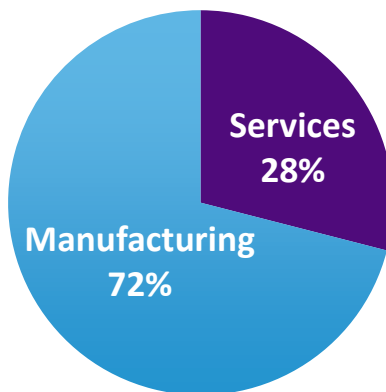


## Precious Metal Products – Performance Stabilised

% of Group sales



Division sales split



- Sales **down 2%<sup>1</sup>**
- Underlying operating profit **up 4%<sup>1</sup>**
- Steady performance in Manufacturing
- Continued weakness in Pgm Refining and Recycling

### Outlook:

- Steady performance expected to continue

1. At constant rates



## PMP – Progress in H1 Despite Weak Pgm Prices



### Services – sales **down 3%<sup>1</sup>**

- Lower average pgm prices (Pt -1%, Pd -9%)
- Refining intake volumes steady but at low levels
- Reduced end of life autocatalyst recycling
- Outlook for intakes remains subdued for H2
- Opened new refinery in China

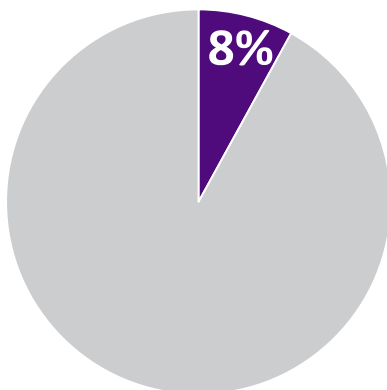


### Manufacturing – sales **down 1%<sup>1</sup>**

- Noble Metals mixed
  - Stable sales of medical components
  - Weaker demand for pgm alloy catalysts used in fertiliser production
- Strong sales in AGT
  - Demand up for black obscuration enamels for auto glass

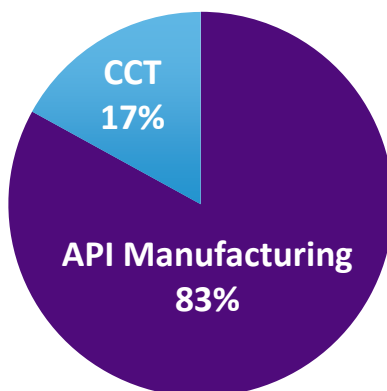
## Fine Chemicals – Stronger Second Half Ahead

% of Group sales



- Sales **up 4%<sup>1</sup>**
- Underlying operating profit **down 26%<sup>1</sup>**
- Unfavourable product mix impacted H1
- Continued development of new products

Division sales split



### Outlook:

- H2 expected to be well ahead of H1

1. For continuing businesses at constant rates

# Fine Chemicals – Investing in Future API Portfolio

## API Manufacturing – sales **up 4%**<sup>1</sup>

- Sales ahead but less favourable product mix impacted operating profit
- Timing of customers' product approvals versus maturing products weighted to H2
- Bulk opiates and ADHD APIs ahead
- Contribution from Dofetilide API
- DEA reducing manufacturing quotas – increased focus on controlled substance abuse in US

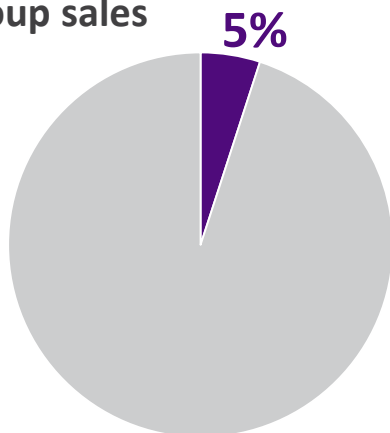
## Catalysis and Chiral Technologies – sales **up 1%**<sup>1</sup>

- Supported by demand for heterogeneous catalysts

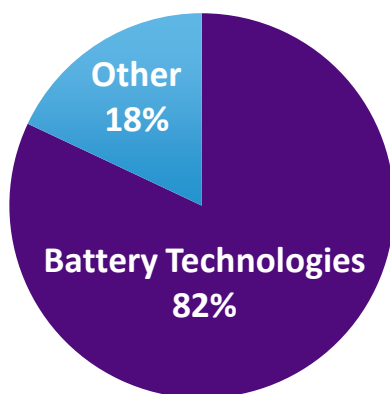


## New Businesses – Continued Progress

% of Group sales



Division sales split



- Sales **up 13%<sup>1</sup>**
- Underlying operating **loss reduced by 11%<sup>1</sup>**
- Strong sales growth in Battery Materials
- Broadening technology portfolio into nickel rich battery materials

### Outlook:

- Second half to improve
- Expect break even in 2017/18

1. At constant rates

## Outlook 2016/17 – Guidance Confirmed



**Guidance for 2016/17 confirmed**



**At constant rates, expect group performance for continuing businesses to be slightly ahead of last year**



**FX guidance: at 30<sup>th</sup> Sept 2016 rates, positive translational impact to uOP of ~£65m (up from £15m impact at 2<sup>nd</sup> June 2016 rates)**



**JM remains well positioned in growth markets. Continued investment in R&D, infrastructure and people to deliver growth**



Q & A



Johnson Matthey





Johnson Matthey

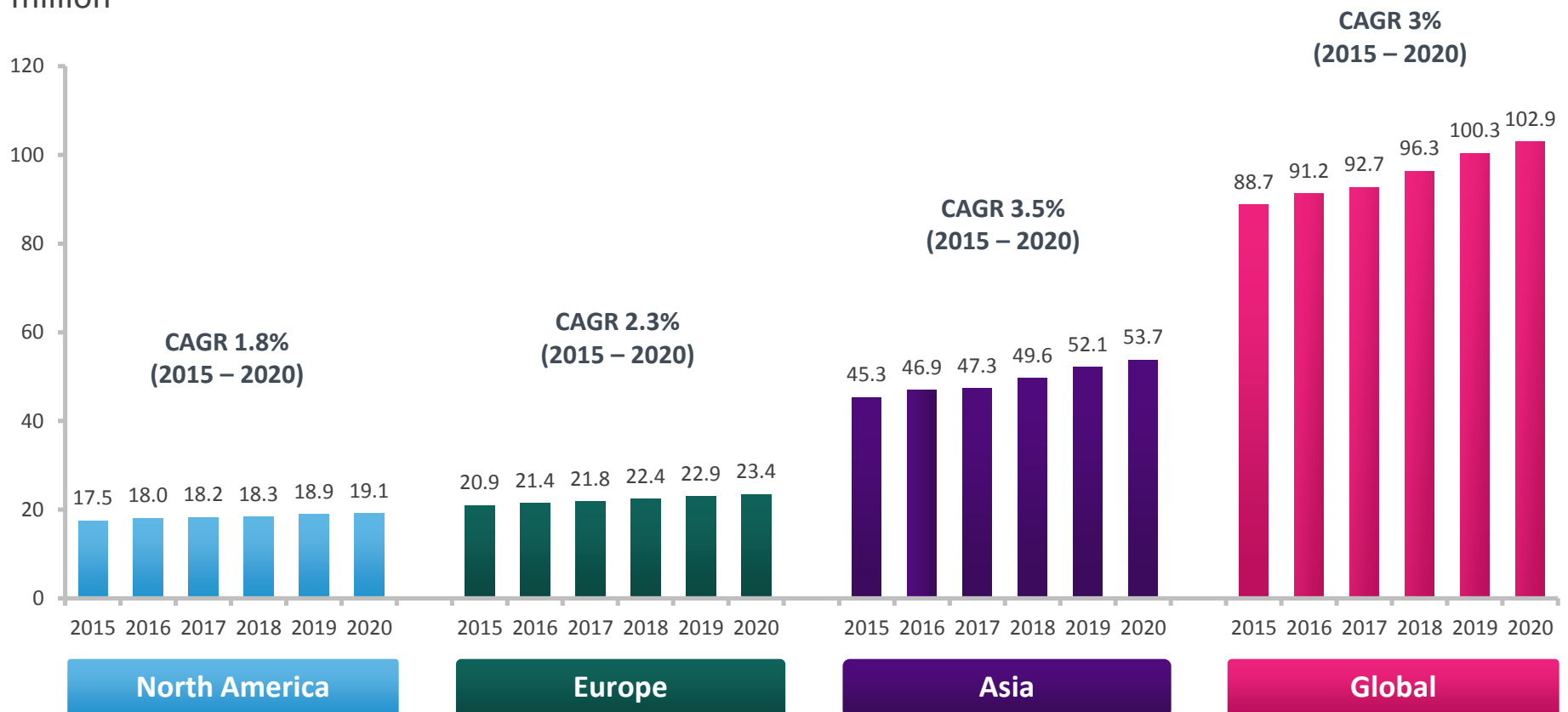
# Estimated Light Duty Vehicle Sales and Production

		1H	1H		1H	2H	
		2016/17	2015/16	%	2016/17	2015/16	%
		millions	millions	change	millions	millions	change
North America	Sales	11.0	10.8	+1	11.0	10.2	+8
	Production	9.1	8.9	+2	9.1	8.8	+4
Europe	Sales	9.8	9.3	+5	9.8	9.5	+4
	Production	10.7	10.3	+3	10.7	10.7	0
Asia	Sales	19.6	18.1	+9	19.6	21.7	-9
	Production	22.5	21.1	+6	22.5	24.4	-8
Global	Sales	44.6	42.6	+5	44.6	47.4	-6
	Production	44.7	42.9	+4	44.7	46.2	-3

# Global Growth in Vehicle Production Drives ECT

## Light Duty Vehicle Production Outlook – 2015 - 2020 (calendar years)

million



# Legislation Continues to Tighten Around the World

## Light Duty Emissions Control Legislative Roadmap

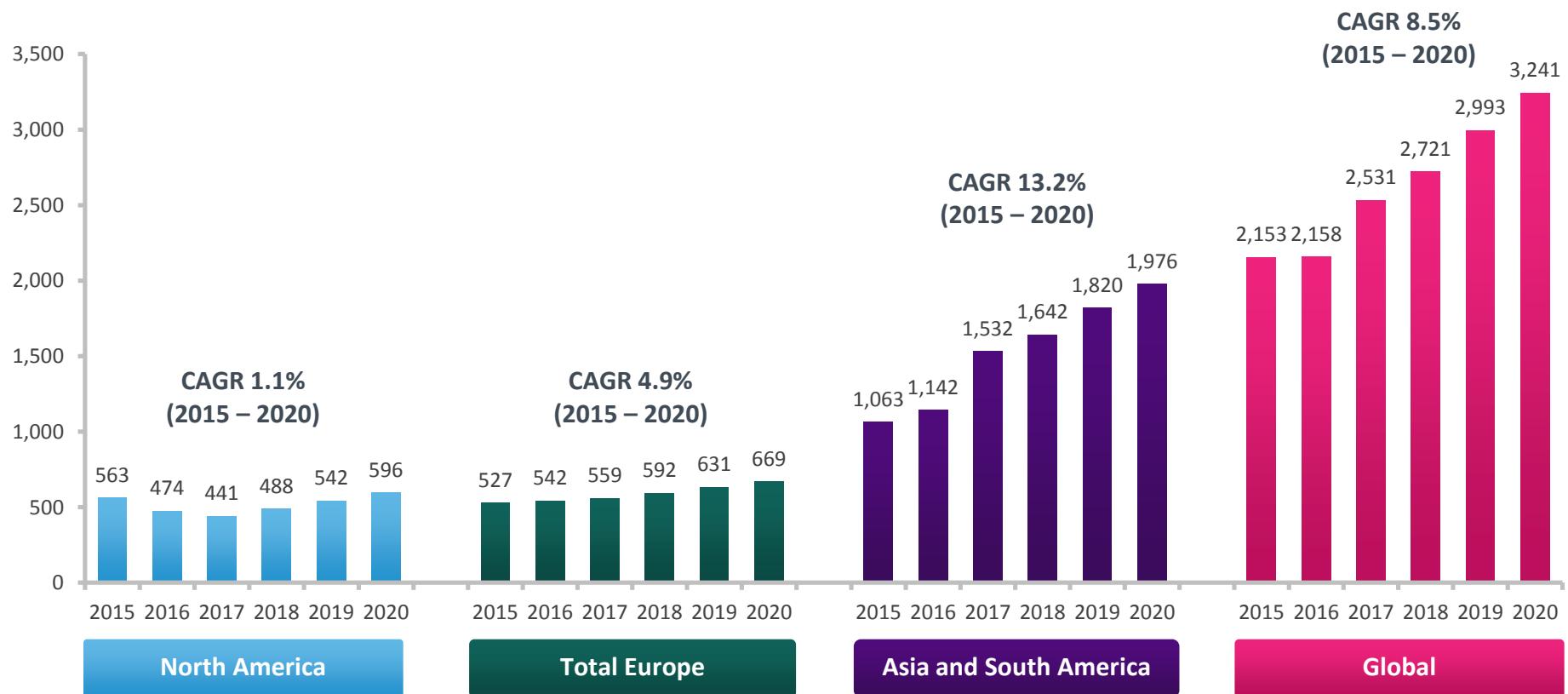
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Europe	EU 6b		EU 6c / RDE Phase 1				RDE Phase 2 / 95 g/km CO <sub>2</sub>			EU 7?	
North America EPA	Tier 2		Tier 3 Phase In: NMOG + NOx, PM Tightening								
North America CARB	LEV III Phase In: NMOG + NOx, PM Tightening						LEV III Further Tightening				
Japan	JP09			JP18							
South Korea (Gasoline)	K-ULEV	K-ULEV 70					LEV III / / 97g/km CO <sub>2</sub>				
South Korea (Diesel)	EU 6b				EU 6c/ RDE Phase 1		RDE Phase 2 / 97g/km CO <sub>2</sub>			EU 7?	
China (Beijing)	BJ5 (EU 5)		BJ6			China 6b			China 6b / RDE		
China (Nationwide)	China 4 (EU 4)			China 5 (EU 5)		China 6a					
India	BS4 (EU 4)					BS6 (EU 6)			BS6 / RDE		
Indonesia	EU 2				EU 4						
Thailand	EU 4				EU5					EU6	

## Estimated HDD Truck Sales and Production

		1H	1H		1H	2H	
		2016/17	2015/16	%	2016/17	2015/16	%
		thousands	thousands	change	thousands	thousands	change
North America	Sales	254	284	-11	254	266	-4
	Production	235	293	-20	235	265	-11
EU	Sales	209	194	+8	209	215	-3
	Production	267	259	+3	267	275	-3

# Heavy Duty Vehicle Production Regulated Engines Outlook

Heavy Duty Vehicle Regulated Engines Production outlook 2015 - 2020 (calendar years)  
thousands



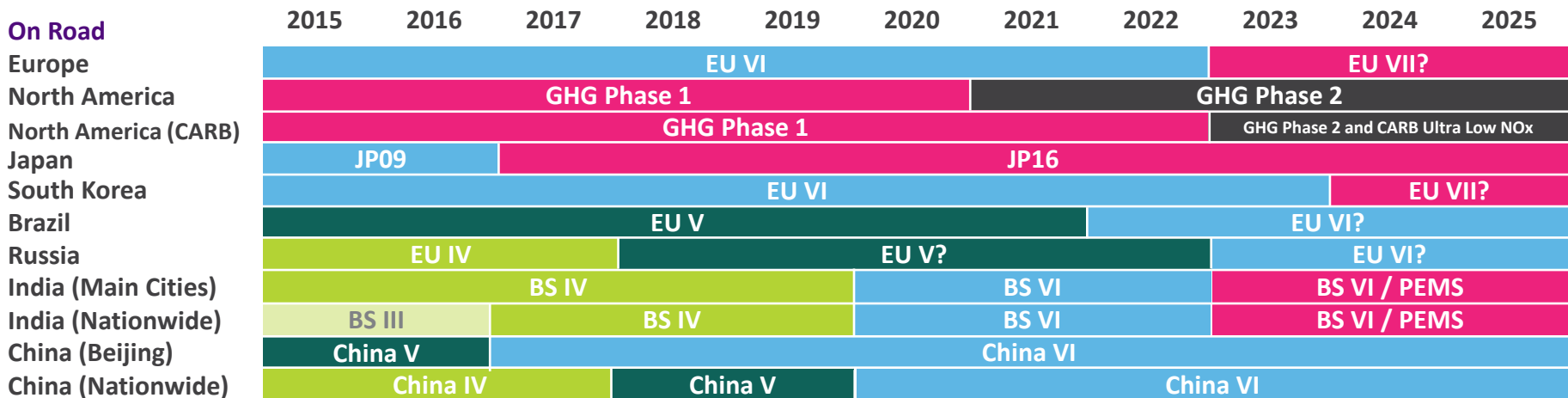
Source: LMC (April 2016); JM estimates for proportion regulated



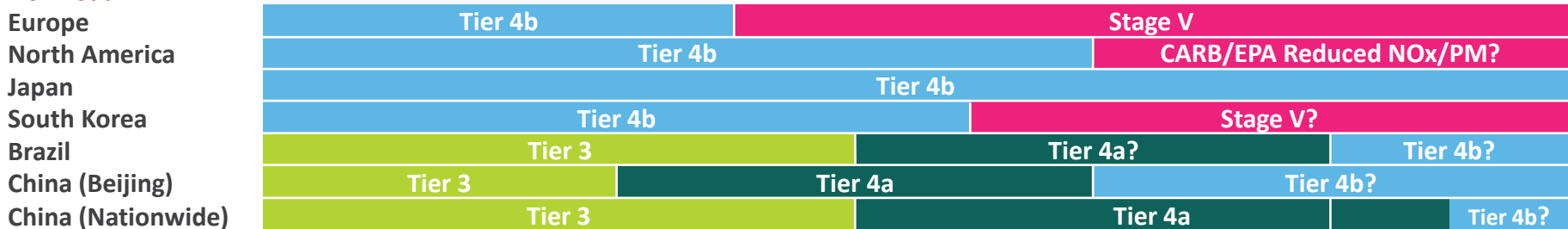
# Further Tightening of Heavy Duty Regulation

## Heavy Duty Diesel Emission Control Legislative Roadmap

### On Road



### Non-road



## Reconciliation to Reported Results

	H1 2016 £m	H1 2015 £m
Underlying profit before tax	219.6	208.3
Amortisation of acquired intangibles	(9.6)	(9.0)
Profit on sale of Research Chemicals	-	130.9
Profit before tax	210.0	330.2
Earnings per share	92.7p	137.9p

**Last year had benefit of profit on sale of Research Chemicals**