

**Presentation of results for the six
months ended 30th September 2017**

Presentation script

Tuesday, 21st November 2017

Robert MacLeod, Chief Executive

Slide 1 – Intro

- Good morning and thank you for watching our half year results presentation video

Slide 2 - Cautionary statement

Slide 3 - Our strategy to deliver sustained growth and value creation

- Two months ago, at our Capital Markets Day, we outlined our strategy.
- In the last six months we have good progress in implementing our strategic plans and we have made a strong start to the financial year
- Our strategy is clear and will deliver sustained growth and value creation through using our core strengths to solve our customers' increasingly complex problems
 - Our strengths give us sustained leadership positions in the areas we target. Our target markets are growing, have high margin and, most importantly, are driven by technology
 - We are and will continue to invest in our business to accelerate our growth; and
 - We have a relentless focus on operational excellence across the group
- This strategy will yield attractive returns in the medium term:
 - Generating mid to high single digit growth in earnings per share;
 - Expanding our return on capital to 20%;
 - and delivering a progressive dividend

Slide 4 - H1 in line with expectations, full year outlook confirmed

- So looking at the half year – performance was in line with our expectations and we have confirmed our full year outlook for both sales and operating performance
- I am pleased that the strong operational momentum we saw in the second half of last year has continued, with sales growth of 5% and operating profit growth in line with sales growth after adjusting for the gain in our US post-retirement medical benefit plan in the prior period. Anna will walk you through this shortly
- We continue to invest in our business in line with our strategy to accelerate growth
 - In the half, we started work on our new Clean Air plant in Poland to deliver the next stage of growth in that business and we continued to build our API product portfolio in our Health business.
 - We spent around £100 million on R&D and made significant progress in the development of our eLNO battery material – after Anna has been through the current period's results, I will come back to give a more detailed update on our strategic progress
- We maintained our ROIC at 17.5% and have increased our interim dividend by 6% to reflect our confidence in the group's medium term outlook
- I will now pass to Anna to talk through our results for the half in more detail

Anna Manz, Chief Financial Officer

Slide 5 - Intro

- Thank you Robert, and good morning everyone
- I am going to walk you through the first half numbers before Robert updates you on the progress we have made to strengthen our business as we implement the strategy we outlined at our recent capital markets day.

Slide 6 – Performance in line with expectations

- We delivered first half results in line with our expectations, with strong sales growth and investment to strengthen the business and to build the platform through which we will deliver sustained operational efficiency and disciplined working capital management.
- Sales were up 11% and operating profit, excluding restructuring charges, was up 6% showing strong sales momentum in the underlying businesses and benefiting from foreign exchange
- At constant rates, sales were up 5% and underlying operating profit was down 1%. Operating profit growth was impacted by comparison against last year's Post-Retirement Medical Benefit credit, but excluding this, underlying operating profit was up 5%, in line with our sales growth
- Finance charges were held flat and as previously announced our tax rate increased to 18%, and underlying EPS was up 4%
- Given our good underlying performance and the medium term outlook we articulated at our capital markets day we have increased the interim dividend by 6%
- I will now take you through this underlying performance in more detail and from here onwards I will be talking to you about growth at constant exchange rates

Slide 7 - On track to deliver full year sales growth guidance of around 6%

- As you can see from this slide, foreign exchange benefited sales by £86m with sales growth at constant rates of 5%
- We delivered growth in Clean Air, Efficient Natural Resources and Health at rates equal to or above the group performance and we are on track for our full year sales growth guidance of around 6%
- Turning now to operating profit

Slide 8 – Operating profit performance in line with sales growth excluding PRMB

- Operating profit at constant rates was down 1%, with a translational FX benefit of £18 million
- We lapped a £16m credit, taken in the first half of last year, in relation to implementing an inflation cap on our US Post-Retirement Medical Benefit plan.
- The underlying operating profit growth excluding this is in line with sales growth as my next slide illustrates

Slide 9 - Profit growth impacted by comparison against PRMB last year

- Margin excluding the impact of the PRMB has seen a slight improvement
- Clean Air, Health and New Markets all saw improvements in their underlying margins in the first half, while the margin in Efficient Natural Resources declined
- And I will talk through these movements in more detail when I come to the sectors.
- As expected corporate costs have risen as a percentage of sales to about 1% as we invest in group efficiency initiatives such as the roll-out of our single global ERP system and our global procurement programme.
- In June, we guided to a £12 million increase in pension costs for the full year.
- However, in the first half, we implemented a Pension Increase Exchange exercise for our UK scheme, which resulted in a gain of £5 million. This largely offset the increase in pension costs in the half and the increase for the full year is now expected to be modest
- So now on to Clean Air

Slide 10 - Clean Air: Strong growth led by double digit growth in HDD

- Clean Air delivered strong growth with sales up 7%
- Heavy duty had a very strong first half, with double digit growth, outperforming truck production in every region
- The expected recovery in US Class 8 trucks has started to come through, with Class 8 truck production up 15% in the half and we saw restocking by our customers to support this cyclical recovery.
- Our Chinese business continued to grow strongly from a low base supported by the China truck market which was up over 50%, as it continues to adjust to the enforcement of the truck loading weight limits. Our business was further boosted by the increase in China V catalysts as a result of legislation
- Our European business also outperformed the 4% growth in the market, helped by business wins
- Our light duty business was up 1%, in line with global light duty vehicle production
- In Europe light duty, sales declined 3% in the first half as double digit growth in gasoline was more than offset by a 5% decline in diesel
- The decline in diesel was due to negative platform mix and lower substrate costs that are passed directly through to customers. However, we are pleased with our underlying volume performance in diesel over the period, where we held our volumes flat despite a 3% decline in vehicle production
- Our light duty Asia and US businesses both outperformed their respective markets
- Margin in Clean Air improved slightly excluding the impact of last year's PRMB gain.
- This was driven by margin expansion in Americas HDD given the strong growth there. We had a transactional FX benefit but it was offset by a number of factors, mainly by a negative product mix in light duty diesel Europe.
- Overall, operating profit grew 7% excluding the PRMB comparison. This was in line with sales growth.
- We expect margin to be slightly lower in the second half against both last year and H1 although we expect improved sales growth in the second half. This sales improvement will be led by European Light duty diesel where the impact of share

gains start to come through in the second half, before we see the main ramp up in 2018/19 to the 20 ppts of share gain we outlined at our Capital Markets Day

Slide 11 - Efficient Natural Resources: Improved sales growth but lower margin in Catalyst Technologies

- Moving to Efficient Natural Resources, where sales were up 5%
- We delivered good growth across most of the business with the exception of sales from licensing and catalyst first fills. Demand here is driven by new plant construction, which remains subdued. This licensing income is now reaching the bottom, as the large projects won in 2011 and 2012 are predominantly complete.
- In contrast, sales of refill catalysts and additives into existing plants were strong – here we outperformed our markets in aggregate, driven by significant growth in sales of ammonia catalysts
- PGM services was also strong, continuing the trends we saw in the second half of last year, with an improved intake mix in the refinery and also benefiting from higher precious metal prices
- The benefit of pgm prices is expected to be slightly lower in the second half
- However, operating profit excluding the impact of the post-retirement Medical Benefit was down 4% and margin was down just over 1ppt
- This was driven by the sales decline in the higher margin licensing business, pricing pressure particularly in our Chemicals businesses, which we do expect to stabilise in the second half, and the weaker mix of catalysts.
- The restructuring we announced in June will benefit Efficient Natural Resources by over £12 million on an annualised basis, of which around £5 million will be achieved in this year, majority in the second half.
- Margin is therefore expected to improve in the second half against H1, although operating profit for the full year will be lower than last year and margin will be down year on year. This reflects weakness in licensing income and better management of inventory as well as some targeted increases in fixed cost to improve the safety and resilience of our plants.

Slide 12 - Health: Good performance benefiting from investment to build our pipeline

- Sales in Health were up 5%
- In Generics, contribution from dofetilide continued to benefit growth. We saw increased demand for one of our existing API's ahead of a new product launch by our customer. These were offset by the expected decline in sales of APIs for ADHD treatments
- The Innovator business grew strongly driven by sales of APIs for branded drugs in commercial production, where we had improved pricing as well as increased volumes
- Operating profit excluding the post-retirement Medical Benefit grew 12%, and margin increased 1.5 percentage points. This was driven by improved pricing, which more than offset the lower sales of higher margin ADHD APIs
- For the full year we expect improved sales growth in the second half, although operating profit is expected to be broadly in line with last year

Slide 13 - New Markets: Strong profit performance despite anticipated LFP decline

- As expected sales were down due to a decline in LFP as we flagged back in June
- This was principally due to changes in electric vehicle tax incentives in China which has led to the increased substitution of LFP with high energy materials. This has severely impacted our sales as certain platforms no longer use our LFP materials
- We continue to see LFP as part of a portfolio of battery materials and continue investment.
- We made significant progress in the period on developing our new battery material, eLNO and Robert will talk more about this later
- Other parts of the business, namely Fuel Cells and Medical Device Components were strong
- Operating profit grew with margin improving 4.3ppts excluding the post-retirement Medical Benefit credit from prior year, again driven by a strong performance in Fuel Cells and Medical Device Components and actions taken to mitigate the fall in LFP sales.
- The outlook for the second half is good with stronger sales growth and improved profitability

Slide 14 - Higher tax rate impacted EPS growth

- Moving down the P&L
- Finance charges were flat year on year as I guided to previously
- We do expect to see some slight upward pressure on our finance charges in the second half related to higher costs to fund metal across the group
- Underlying EPS was up 4%, benefiting from FX, while OP, including FX, was up 6%. This is due to the increased tax rate of nearly 18% which as expected is up from 16.1% last year

Slide 15 - Restructuring charges impact reported results

- We took an £18.5 million restructuring charge in relation to the restructuring programme I announced in June
- The total charge for the full year is expected to be between £50 and £65 million of which over half will be cash

Slide 16 – Continued reduction in non-precious metal working capital days but metal price increases led to higher working capital

- Free cash flow was an out flow as we outlined at the capital markets day.
- It was driven by a net working capital outflow of £264 million mainly as a result of an increase in precious metal inventory

Slide 17 – Improved focus is leading to continued reduction in non-precious metal working capital days

- Consistent working capital management throughout the year continues to be a key focus area for me to ensure we are running the business as efficiently as possible every day

- Of course business phasing does impact the actual level of working capital excluding precious metal. At 30th September it had increased £91 million since our year end as a result of phasing.
- The performance metric we use is working capital days excluding precious metal and we measure success as maintaining working capital, excluding precious metal, between 50 and 60 days throughout the year, rather than just at points in the cycle.
- At the 30th September working capital days were 64, 5 days lower than the same time last year.
- We still have a lot more to do here, but our performance year-to-date has seen an average improvement over the same period last year of six days.

Slide 18 – The volatility of metal prices impacts working capital

- Precious metal working capital increased significantly by £156 million. Receivables and payables were broadly flat on a days basis with the vast majority of the increase in metal inventory.
- Precious metal inventory can vary significantly as it is a function of the dynamics of the precious metal market, our customers' choices, and the demand from our business.
- We offer our customers a unique set of services, including sourcing metal, storing metal as well as refining their metal. These services underpin our competitive strengths across a number of our businesses, including Clean Air. Our skill comes in the commercial terms we offer for the different services we provide, and the benefit of those terms in the relationship it builds with our customers. However, our customers' choices impact our metal working capital.
- Prices increased high teens on average over the half which coupled with reduced liquidity in the palladium market led to an increase in our metal working capital, as our customers store less metal with us, as they look to us to source metal for them for production, and as we manage safety stocks.
- The majority of the inventory correction associated with the current reduced liquidity and higher prices has occurred in the first half. However, our stock needs will continue to depend on the metal market and our customers choices

Slide 19 - Strong balance sheet, net debt to EBITDA 1.4 times

- Moving to the balance sheet
- Net debt has increased to £891m, a £198m increase excluding FX since the year end
- Our balance sheet remain strong with net debt to EBITDA at 1.4 times
- Our policy is to maintain our balance sheet flexibility, targeting net debt to EBITDA of 1.5 to 2x, allowing us to invest in value-enhancing opportunities which accelerate our growth and meet our criteria

Slide 20 - ROIC maintained

- Return on invested capital was 17.5%, in line with last year
- This is well ahead of our pre-tax cost of capital, which is 8%. We have a return on invested capital target for the group of 20%
- Rigorous resource allocation, disciplined management of working capital and increasing the efficiency of our business will support our ambition for sustained improvements in our return on invested capital

Slide 21 - Interim dividend increased 6%

- As you have seen we have announced a 6% increase in the interim dividend.
- This is supported by a number of improving metrics on current performance;
- When we look at the sales performance of the group it is getting stronger and we expect to see a stronger performance in H2 as H1 sales growth was in line with our expectations and our guidance for the full year unchanged.
- We are delivering the benefits of the restructuring programme we outlined at the year end and are on track to deliver the forecast of £10 million savings for this year and to achieve the annualised run rate of £25 million next year.
- Lapping last year's PRMB credit has offset this stronger underlying performance as we outlined in our year end guidance.
- At our full year results announcement we had estimated that non cash pension costs would increase year on year. This was mainly due to a negative impact from the change in discount rates. However, as I mentioned earlier, while that is still affecting our pension costs we have taken steps in the half to reduce these costs. This reduction in pension costs against our previous estimate has partly funded our procurement programmes, our IT investment and allowed us to take further steps to destock in Efficient Natural Resources
- And secondly, as we outlined at our capital markets day we have increasing confidence in the future growth in the business given the changes we have implemented.

Slide 22 - Full year guidance confirmed

- So, overall, a good start to the year with strong momentum in the underlying businesses which underpins our full year guidance which we have reiterated today.
 - Sales growth at constant rates for the full year will be around 6%, accelerating in the second half
 - At the full-year results, we announced a restructuring programme, targeting further cost savings of around £25 million in a full year, with £10 million being achieved in 17/18. This has an associated charge in the range of £50 to £65 million. It's now well under way. Half of the £10 million will be seen in Efficient Natural Resources as we de-layer the business, with the rest benefiting New Markets and Health
 - Operating profit on a constant currency basis is still expected to be broadly flat as operational momentum is offset by lapping the one-off £17 million US post-retirement medical benefit credit
 - And while the increase in pension costs we had expected in the year is now modest the reduction against our original estimates will be reinvested in the business to drive efficiency across the group, including in our global

- procurement programme and core IT improvements and funding destocking in ENR.
- For the second half, despite the benefit from cost savings, there will be a slight dilution to margins, due to:
 - Slightly lower margins in Clean Air as we start to see the beginning of the share gains in European light duty diesel
 - The H1 pricing benefits we saw in Health are expected to be lower and margin will decline in H2 against the prior year.
 - In Efficient Natural Resources the margin movement we saw year on year in H1 is expected to continue.
 - Our corporate costs for the full year will increase by over a third with investment in the procurement programme and our wider group efficiency initiatives such as the roll-out of our single global ERP system.
 - The FX benefit for full year is expected to be £14m on operating profit, similar to the £13m we previously guided to and therefore slightly negative in the second half.
 - Working capital days are expected to be between 50 and 60 as I continue to focus on this area
 - Capex is expected to be £285m for the full year, at 1.8x depreciation
 - And now I will hand back to Robert to show you how this first half performance has strengthened the business and how our strategy will deliver our goals.

Robert MacLeod, Chief Executive

Slide 23 – Intro

- Thank you Anna
- As Anna has described, we have made significant progress in the last six months as we strengthen our business in line with our strategy, so now I want to look beyond this year

Slide 24 – Sustained growth and value creation through:

- This slide sums up what JM is all about: We are a world-class technology company, and at our core is our chemistry.
We are world-class chemists, and we use that expertise to solve complex problems for our customers. In a world which is becoming increasingly challenging, our skills in chemistry and our ability to scale it up to solve problems, is a competitive advantage. And this competitive advantage enables us to build close collaborative relationships with current and future customers
- We focus on high margin, technology driven growth markets, and in those markets the combination of our chemistry and our customer focus gives us leadership. We sustain those leadership positions through a virtuous circle of investment in research and development, to enhance our expertise and our understanding of fundamental chemistry. This then enables us to develop new or better ways of solving our customers' problems which in turn deepens our relationships with those customers

- Investment in the strongest growth opportunities by sector, by market and by geography is underpinned by our relentless focus on operational efficiency

Slide 25 – Our strategy to deliver sustained growth and value creation

- And this strategy delivers attractive returns for shareholders over the medium term

Slide 26 – Sustained growth and value creation through:

- And we deliver this strategy through our four sectors, where:
 - We have clear visibility for sustained growth in Clean Air
 - We are positioning ourselves for break out growth in Battery Materials and Health; and
 - We will drive top and bottom line growth ahead of our markets in Efficient Natural Resources
- We then support this through our focus on efficiency across the group, which Anna has already touched on
- So moving on to look at our sectors and the progress we have made in the half. For each, I will also recap our messages from the Capital Markets Day we held in September. Across all of our sectors, and for the group, the messages we shared then remain exactly the same today

Slide 27 – Clean Air H1 progress: continued leadership and investing for future growth

- We have made good progress in the half implementing our strategy in Clean Air
- Our leadership supported growth in the period across all our HDD businesses
- Within light duty vehicles, we saw strong growth in gasoline across all regions and will start to see the benefits of the share gains we have made in European diesel come through in the second half ahead of significant growth next year, with a 20ppt share increase in 2018/19
- We have started our investment in a new plant in Poland to support the growth expected in Europe from tighter legislation and from our significant share gains. We have also started the early design work for our new plant in China
- Of course, tighter legislation across the world is one of the biggest drivers of growth in our business over the next decade. In the first half, we made our first sales of coated gasoline particulate filters which will help carmakers meet Euro 6c legislation on gasoline particulate matter. And on diesel, we continued to see a shift to systems that will support real world driving standards going forward

Slide 28 – Clean Air: Our strategy will deliver consistent value creation from a global leader

- So here is a recap of the main messages we shared at our Capital Markets Day on our strategy for Clean Air
- Our Europe Light Duty business will grow strongly in the short term driven by tightening legislative standards and as we benefit from the platform wins which will drive our share gains

- Following this period of growth, our European Light Duty business will be broadly flat over the next 10 years after accounting for the expected decline in diesel and increase in BEV penetration
- Asia will transform in scale, led by tighter legislation in China
- And throughout the whole period, the rest of our business, that is our European, North American and Asia Heavy Duty Diesel and North American light duty businesses, will continue to grow steadily
- These will enable us to deliver mid-single digit sales growth through the medium term, with margins maintained through focus on efficiency

Slide 29 – ENR H1 progress: Strengthening our platform

- Within Efficient Natural Resources, Jane and the team have taken some positive early steps in implementing the strategy that was articulated at the Capital Markets Day
- The creation of our Efficient Natural Resources segment gave us the opportunity to drive efficiency and improve ways of working
- We outperformed in some market segments in the first half, particularly within catalyst refills and PGM services
- Our Chemicals business continues to remain impacted by challenging end markets despite a recent recovery in the oil price and until we see a meaningful recovery in licensing activity, we will continue to sustain our performance by investing in the technologies in which we anticipate an earlier recovery
- In particular, we have invested in our refineries to improve operating efficiencies and ensure that we have ready access to platinum group metals to serve our internal supply chain
- And we have started our restructuring programme that will generate £12 million of cost savings each year, with an approximately £5 million benefit in the second half

Slide 30 – ENR: Our strategy will deliver outperformance in targeted, growth segments

- Therefore, over the medium term, the strategy for our Efficient Natural Resources sector will deliver outperformance in targeted, growth segments
- We will use our strong market positions and focussed investment to deliver this outperformance and further strengthen our technology leadership
- Over the medium term, this sector should grow sales 1 percentage point above the market and expand its margins as we improve the efficiency of our operations

Slide 31 – Health H1 progress: development in line with our plans

- Onto Health. We continued to invest in developing our pipeline, spending £8 million in the half
- Development is progressing in line with our plans, which included some regulatory filings in the period but no new product launches.
- We are developing our site in Annan to increase capacity and operating efficiency. This is taking longer than we had originally hoped but we are making progress and should be in a position to begin commercial scale manufacturing in 2018, with a gradual ramp up in activity as product validations for the site are secured

- We have commenced the reorganisation of our business to better address the generic and innovator markets and optimise the utilisation of our global manufacturing and development footprint
- So the foundations are set for break out growth in the medium term but it is important to remember that our portfolio is not yet at scale. As a result, and as we said at our Capital Markets Day, we expect operating profit to be lower next year before our business grows rapidly as our generic pipeline comes through
- One of the core foundations is, of course, hiring a new person to lead this sector. We are making good progress with that and I hope to be in a position to conclude the search early in the New Year

Slide 32 – Health: Our strategy will deliver break out growth

- A short recap here of what our strategy will deliver
- We operate in the very large outsourced API market of \$40 billion of sales growing at 8% per annum
- We have strong skills in this area and a good track record with innovator and generic pharma companies.
- What we don't yet have is a deep, broad portfolio
- In 2014, we began to invest in building a broader pipeline of new products and we expect our current generic pipeline to add £100m of operating profit per annum by 2025
- We will deliver break out growth in the medium term, with double-digit sales growth from 2019/20 and margin reaching the high 20%S from its high teen %s today

Slide 33 – Battery Materials H1 progress: significant progress in development of our eLNO battery material

- The last six months saw a great deal of development work and testing on our new enhanced LNO battery materials
- We have our materials with customers for testing and validation and early feedback remains very positive. Of course, we are not stopping there, as we continue our development work looking to further enhance the properties of our materials to ensure that they deliver the performance demanded by our customers for the future
- And on our manufacturing capability, we started work on our pilot plant which will be able to manufacture 5 metric tonnes per year to help us continue to scale up novel materials
- The early design work for our planned commercial scale plant has started and we expect to start investment in the summer of 2018
- Whilst we are disappointed with the performance of LFP in the first half, we remain excited about the opportunity in eLNO. Recognising that the market for battery materials for vehicles is still at an early stage, we are confident that our development capabilities, underpinned by a balanced and disciplined investment strategy, provide a strong platform through which we can target attractive long-term returns in this sector

Slide 34 – Battery Materials: Our strategy will deliver break out growth

- And to recap on our main Capital Markets Day messages here
- We told you, just two months ago, about the exciting developments we have made in this space, with our enhanced LNO material that delivers a step change in performance
- We shared the timeline of our plans that lead to us supplying automotive platforms from 2021/22, which include a planned £200 million investment next year
- Of course, we have other growth opportunities in our New Markets sector as well as in batteries, including in our Life Science Technologies and Medical Device Components businesses, and Alan will be hosting a conference call in December to discuss these in more detail

Slide 35 – Efficiency will drive further improvements across the group

- Growth in the four sectors is further supported through our focus on efficiency and we have progressed on this in the half
 - We have started our restructuring programme to deliver £25 million of annual saving
 - We have continued to upgrade our core IT systems, with the first launch expected to take place in the summer of next year
 - We are building out our procurement function
 - We are driving commercial excellence across the group to ensure that we maximise the value we capture from our technology leadership
 - And, as Anna discussed, we continue to make progress in non-metal working capital management

Slide 36 – Sustained growth and value creation

- So to conclude
- We remain on track to deliver our strategy for sustained growth and value creation and have made good progress so far this year in implementing our strategy
- All of which will lead to Johnson Matthey being one of the best performing, most trusted and admired specialty chemical companies in the world
- That concludes our presentation and will look forward to speaking to some of you on our conference call and to meeting you on the road in the coming few weeks

ENDS