Johnson Matthey
Inspiring science, enhancing life

Presentation of Results for the Half Year Ended 30th September 2022

Wednesday, 23rd November 2022

Welcome

Martin Dunwoodie

Head of Investor Relations, Johnson Matthey

Right, I think we're good to go. So I'm Martin Dunwoodie, Head of Investor Relations at Johnson Matthey, and thank you for coming along today and for those of you who are attending on the webcast. Can I ask just before we start that everyone turn mobile devices off or to silent?

I'm very pleased, today, to welcome our Chief Executive, Liam Condon, and our Chief Financial Officer, Stephen Oxley. We'll have a presentation, followed by plenty of opportunity for Q&A, both from the room and we'll also take questions from the webcast. I'd point you to our cautionary statement ahead of the presentation.

And, with that, I'll hand over to our Chief Executive, Liam Condon.

Introduction

Liam Condon

Chief Executive Officer, Johnson Matthey

Thank you, Martin, and a warm welcome to everybody here in the room and, of course, everybody who's listening to us and joining us online. It's fantastic that particularly the people in the room can be here; it's great to get together again after that long COVID period.

Just to give you a short rundown how we're going to do things today, I'm going to give a very brief introduction and then Stephen's going to talk us through the financial results, and then I'm going to come back and talk about some of the strategic progress we're making, particularly against the milestones that we already outlined at the end of May. And then we're going to have plenty of time, that's the majority of time is reserved, of course, for Q&A.

Strong Foundations and Increasing Confidence in Growth Opportunities

Transformation progressing across the group

Now, I have to say it's eight, almost nine months since I joined the company. And you might remember we presented a new strategy at the end of May and quite a bit has happened since then. And, if I reflect, two monarchs, three Prime Ministers, four Chancellors of the Exchequer. Of course, we have an ongoing horrific war in Europe, an energy crisis, huge inflationary pressure. So there's a lot of turmoil, there's a lot of turbulence, and against that background I think at least I'm pleased to be able to say our results, and these are my first half-year results, are in line with market expectations. I think we're making good progress on the strategic milestones, and I'm going to explain a little bit why I think that is as we go through the presentation later on. And I think a really important point, the growth markets that we identified back at the end of May as, kind of, the future areas for growth for Johnson Matthey, they're actually coming at us faster than we originally anticipated, and I'll explain that a little bit.

We Are Making Progress in Important Areas

Across JM, we are in a stage of transformation and I think we're making good progress here. Before we go into the financials, which Stephen is going to explain, I just want to highlight a couple of elements, or a few elements, where I think we're making very good progress, just as, kind of, proof points of where we are and how we're doing.

Portfolio progress

Now, the first one from a portfolio point of view, we said, we identified a certain portfolio where we said, 'This is where we want to play, this is where we want to play to win, this is where we're going to win.' And whatever is not part of that portfolio, being Platinum Group Metals, Clean Air, of course Catalyst Technologies and Hydrogen Technologies, we said we're going to divest other businesses and our divestments are on track. We said we're going to do that within two years, and we already announced a smaller divestment again today. It's just a sign that we're making progress.

Our Catalyst Technologies pipeline has expanded significantly. Last time we spoke, end of May, we had 70+ projects. We now have 100+ projects. And the real significance of this is we said to reach our mid-term targets of mid to – or we said single high digit, over the mid-term growth for Catalyst Technologies. We only need, basically, 10 to 15 projects to be able to reach that target and if we have 100 projects of course we have a higher probability of success, and I'll explain some of the projects where we've made tremendous success already a little bit later on.

And our expansion activities are on track, particularly for Platinum Group Metals and Hydrogen Technologies. This is really important for us because there's tremendous growth expected here. This is a difficult environment to be building and expanding, but luckily, or thankfully, all our projects are on-budget and on-time. So good portfolio progress.

People progress

On the people side, I'm really happy about how our team is coming together. We have a new team and every leadership team typically goes through various phases of coming together. Some never come together, but typically there's a forming stage, there's a storming phase, there's a norming phase and there's a performing phase. And I'd say very clearly with our team we're currently in the norming phase and we're looking, really, very much forward into getting into the performing and high-performing phase in the second half of the year. So a lot going on and we've built out our commercial and capital project capabilities, so I think this is really good progress.

Market progress

And from a market customer point of view, important, I think, from a results point of view that we're in line – with no big surprises – in line with expectations. No big surprises up or down. There's no fireworks this time around, it's only a half-year results, but I think this was – it is important to tick that box.

Catalyst Technologies and Hydrogen Technologies are the two areas that we identified for significant growth going forward. Both of them already in the first half had significant growth, so high double-digit growth for – or very strong double-digit growth for Catalyst Technologies and Hydrogen Technologies doubled sales, and we actually expect this trajectory to continue.

So this was just an important proof-point that we've identified the right businesses for growth going forward.

And, finally, on the sustainability side, we got – I mean we have many ratings from different sustainability agencies across the world. EcoVadis is one of the most renowned. We got the platinum rating from a sustainability point of view – this is the highest rating you can get – and the actual rating we got puts us in the top 1 percentile of 90,000 companies. So, again, for a company like Johnson Matthey, innovation company, completely committed to sustainability, I think this is great recognition of our commitments and the progress we're making so far.

So these are just some elements that give me confidence that we're on the right track. Of course, it's a long journey, we've got a lot ahead of us, but important to see that we're making progress.

And, with that, I think it's important, now, that we dive a bit deeper into the half-year results and that you get a sense also for our outlook for the remainder of the year. And, with that, I would ask Stephen to take over. Thank you.

Financial Results

Stephen Oxley

Chief Financial Officer, Johnson Matthey

Strong Financial Foundations in Challenging External Environment

First half in line with expectations – expect a stronger second half

Thank you, Liam, and good morning, everyone. So our underlying results, overall, are in line with market expectations and reflect the challenging economic environment. We're also reporting against the strong prior half year, which benefitted from both the COVID bounce and higher metal prices.

So let me start with the headlines. Sales this half were up 5%, but operating profit declined 30%. Earnings per share were 88 pence, compared to 117 on a continuing basis. And as a reminder, this excludes Health, which we divested in May.

Sales growth was supported by higher pricing as we acted to mitigate cost inflation. Nevertheless, operating profit was impacted both by increased costs and lower average metal prices. We're working hard to pass on cost inflation to our customers, but there is a time lag as we negotiate prices. As a result, we expect further recovery in the second half.

We have a strong balance sheet. Net debt came in at £963 million and our net debt to EBITDA ratio of 1.5 is at the lower end of our range of 1.5 to 2 times. We're paying an interim dividend of 22 pence, in line with last year and our policy to at least maintain our dividend while targeting a pay-out ratio of 40% over the medium term.

Group Sales up 5% – Strong Performance by Growth Businesses

Now, let me turn to our performance in more detail. On a continuing basis, sales grew 5% at constant currency to £2 billion. There were strong gains in our growth businesses, both Catalyst Technologies and Hydrogen Technologies. These were partly offset by lower metal prices and reduced refinery intakes in PGMS. Clean Air sales grew 2%, mainly because of price increases, which offset a marginal decline in volumes. Clean Air sales grew 2%, as I say, and there's also strong sales growth in our value businesses. And, as Liam mentioned, today we announced the sale of Piezo Products, a small part of Medical Device Components.

Profit Impacted by Cost Inflation and Lower PGM Prices

So turning now to profit. Group underlying profit decreased 30% to £222 million with the decline in metal prices and high input costs, which we partially recovered. Lower metal prices impacted profit by around £30 million and the net impact of inflation was £40 million. We benefitted from a weaker pound, with FX translation benefits of around £18 million. Corporate costs decreased by £10 million, mainly due to lower pension charges, as well as the early benefits from our cost transformation programme. And I'll talk more about the individual businesses in a moment.

Underlying Results

But looking at the rest of the income statement on an underlying basis. Our finance charge decreased from 28 to 21 million pounds, reflecting higher interest income, lower average borrowings and reduced metal leases. The underlying effective tax rate for the first half was 20%, and I still expect a full-year rate of 19. Underlying earnings per share declined 25% to 88.2 pence, with a lower underlying operating profit.

Free Cash Flow and Net Debt

Looking at cash. We generated £133 million of free cash, compared to £190 in the prior half year. And, as expected, working capital was higher, reflecting increased volumes in the second quarter and especially in Clean Air. CAPEX was £137 million, which includes our ongoing investment to improve PGMS refining assets, as well to increase Hydrogen Technologies' UK manufacturing capacity. We continue to focus on maintaining balance-sheet efficiency and low levels of working capital.

Clean Air

So, looking now at the individual businesses. Clean Air sales were up 2% as we increased prices to mitigate cost inflation and offset a marginal decline in volumes. In light duty diesel, sales were slightly up in line with the market. In the Americas, we benefitted from strong underlying market growth and our customers' outperformance. Europe represents about 60% of our light duty diesel business and sales here decreased as OEMs prioritised commercial sales of vehicles over passenger car platforms that we serve because of the semiconductor shortages.

Light duty gasoline sales rose 3%, underperforming the global market, and our growth was driven by a strong market in the Americas, as well as in Asia, following COVID lockdowns in the prior year. In Europe, sales were broadly flat due to previous platform losses.

Our heavy-duty business was up 1%, strongly outperforming the global market. We delivered strong sales growth in Europe due to pent-up demand and our customers' platform performance. In the Americas, we continued to benefit from a cyclical recovery in Class 8 truck production, and this was offset in Asia by declines in vehicle production with COVID lockdowns. So heavy duty production in China was down 63% in the first quarter and 30% in the second, which severely impacted the business. Underlying operating profit decreased

32% to £108 million, but there was a progressive improvement through the first half whilst vehicle production increased and we started to recover cost inflation. Margin was also down at 8.5% as the improved pricing and efficiencies were more than offset by cost inflation, which was not fully recovered.

So we typically have five-year contracts with the OEMs and negotiating price increases takes time. We recognised some inflation benefit in the first half, and we continue to strengthen our commercial focus and expect further recovery in the remainder of the year.

Clean Air is on track to generate at least £4 billion of cash through to 2031, though the amount this year will be lower than the £800 million generated last year when we benefited from a working capital unwind.

PGM Services

So moving on now to PGM Services. Sales decreased 11% to £282 million, largely because of lower metal prices and reduced refinery intakes with less auto scrap as a result of a buoyant second-hand car market. Our metals trading service performed well, although sales were also lower year-on-year due to less market volatility.

PGMS operating profit declined 29% to £125 million as a result of reduced metal prices, lower volumes and higher energy costs.

Catalyst Technologies

In Catalyst Technologies, sales grew 18% to £275 million, driven by higher prices, growth in catalyst refills and higher licensing income. In catalysts, we delivered double-digit sales growth. Refills grew supported by higher volumes and pricing, including the pass-through of cost inflation.

Licensing revenues more than doubled year-on-year and we won seven new licenses in the period. We are unlocking new growth in markets such as low-carbon hydrogen, sustainable fuels and low-carbon solutions.

So for example, so far this year we have won three licenses in North America, the first large-scale, low-carbon hydrogen license, and two, sustainable fuel projects at a commercial scale. Our licensing pipeline is growing and we now have over 100 sustainable technology projects, which will drive growth over the coming years and transform the scale and profitability of this business.

And as a reminder, as a result of the war in Ukraine, we exited our activities in Russia. This has led to a loss of catalyst sales and high margin licensing income. Underlying profit fell by 32% to £21 million due to higher input costs and an impact of about £5 million from Russia.

Hydrogen Technologies

In Hydrogen Technologies, revenues more than doubled, supported by higher commercial sales in fuel cells as well as initial revenue for hydrogen electrolysers. Volumes also increased as we released capacity used for customer testing and qualification.

Hydrogen Technologies' recorded an operating loss of £24 million as we continue to invest to scale the business.

First half cost inflation

So as you've seen, inflation has had a major impact on our first half performance. So I'd like to look at costs in a bit more detail.

Here you can see the breakdown of our cost base, along with levels of inflation. Raw materials represent about 40% of total costs and prices here have increased 6% year-on-year. This excludes substrates in Clean Air, which represents a large proportion of raw material costs, but these are a pass-through. Labour costs represent 30% of our cost base. These rose 3%. We've made one-off payments rather than higher salary increases to help alleviate the pressure on our employees from the current high cost of living.

Energy and utility costs have more than doubled, and although these constitute a relatively small proportion of our total cost base, this had a significant impact on profitability. We incurred inflation costs of £80 million during the first half and we recovered about half of this.

And as I said earlier, given the time lag as we renegotiate prices, we expect further recovery of inflation in the second half.

Stronger operational focus

So as we navigate a challenging environment, we are focused on what we can control. We've made good progress delivering our cost transformation programme that we set out in May, targeting £150 million of annualised savings by '24-'25, and we're on track to deliver £35 million this year.

Initial activities include accelerating efficiencies across the Group and creating a simplified organisation. We're taking out layers to reduce management headcount by 15% and consolidating our shared service centre operations in Malaysia. We continue to optimise Clean Air's footprint and we're accelerating that footprint rationalisation.

In addition, we have a programme underway to improve margins in Catalyst Technologies. And we're continuing to strengthen our commercial muscle to help grow the top line.

Outlook for year ending 31st March 2023

So finally, turning to the outlook for the full year. We're clearly in a period of heightened political and economic uncertainty, which makes forecasting difficult. Our performance will continue to track levels of auto production and precious metal prices.

Whilst visibility is low, we do expect overall operating performance to be within the current range of consensus. So let me walk you through the moving parts.

In Clean Air, supply chain disruption has eased progressively during the first half and we expect vehicle production volumes will continue to improve. Most recent IHS data suggests auto production for fiscal year '22-'23 will be 4% higher than last year with volumes in the second half expected to be 4% higher than the first.

With continued volume recovery, we therefore expect Clean Air's operating performance to be higher in the second half. We also expect PGMS to deliver a stronger second half with increased efficiency and inflation recovery. And assuming metal prices remain at their current level, we anticipate an adverse impact on full year performance of around £40 million compared to 2022.

In Catalyst Technologies, we're focused on further increasing pricing. The profit impact of lost business with Russia is likely to be about £10 million, meaning full year profits will be lower than last year. We're continuing to invest in Hydrogen Technologies to capture significant growth opportunities in this space, and therefore, we expect a larger operating loss this year compared to last.

Longer term, the geopolitical situation is driving significant acceleration towards a net zero economy and we are investing to position Johnson Matthey for growth in the markets and technologies that support this transition.

So in summary, we're navigating a challenging external environment and mitigating the impact of market uncertainty by managing those things that are within our control. We're actively managing cost inflation to protect profitability. We're accelerating our transformation programme, and we will continue to maintain a strong balance sheet while investing to position the company for growth.

With that, Liam, I'll hand back to you.

Strategic Progress

Liam Condon

Chief Executive, Johnson Matthey

Catalysing the net zero transition

Great. Thanks a lot, Stephen. So I'm going to walk us through now the strategic progress that we've been making against our milestones. And first, again, a quick reminder, this is the portfolio that we have. And this is the portfolio where we said we want to play to win because in these four business areas, Johnson Matthey can and should be and often is a market leader – a global market leader. And we believe, going forward, these are the areas that we should focus on to drive growth and value creation for our company. So it's this portfolio and it's playing to win is our strategy with these four businesses to be a global market leader.

Now strategy, of course, is something very, very long term typically. And we had, of course, the question, well, how are you going to measure and track progress. And we gave you, end of May, these milestones and said, beyond the half year and full year financials, look at these milestones. And according to these milestones, we will update you on progress we are making. And that will help you understand whether or not we're on track with our strategy. That's the way we laid it out.

We have clear milestones until end of 2023/24

Now I have to be very open here. We did this end of May and the period that we're covering only goes up to end of September. So we're talking four months. So again, you can't expect tremendous progress from a strategic point of view in a short space of time like four months. But I hope to be able to show you enough progress that you'll be as convinced as I am that we are absolutely on the right track.

Now this was end of May. And since end of May, there have been some really interesting changes in the environment around us. And this is when we talk about what's accelerating and driving growth in our growth markets.

Structural growth markets accelerating

Little bit off the radar for many people, the pace of decarbonisation activities in China has actually accelerated. If you read the media, you might get a different impression. But China has, for example, the world's biggest fuel cell market. Demand is increasing significantly.

The market is developing rapidly. A lot of people don't know because we haven't been able to travel there for the last three years. But we have a big team on the ground. We can sense this. We see this. So demand in China is growing very, very strongly.

We have a completely changed landscape in Europe due to the energy crisis. Significant regulatory changes, think of REPower the EU strategy, and for example, doubling the demand for electrolytic green hydrogen. These are very significant changes. There is an acceleration in demand for renewable energy.

And probably the biggest and the most poorly named is the Inflation Reduction Act in the U.S. This is, in essence, the world's largest renewable energy incentivisation bill. This is – it basically is a renewable energy bill that incentivises low carbon intensity. So depending on how carbon intensive a certain technology is, whether it's electrolytic green hydrogen or whether it's low-carbon blue hydrogen, you get a certain amount of incentivisation. And there's a social component related to wages paid in the US.

This is massively driving investment and demand in the US. And this is really a game changer. For anybody who's in the industry, you would really see this as a pivotal moment for the renewable energy industry globally and very specifically in the US.

And this has only happened after May after we announced our strategy. And this is what I mean by our growth markets are accelerating and coming at us faster than we originally anticipated.

Customers – winning business

Now coming back to us, let me briefly take you through our strategic milestones and overall where we are.

Starting with the customer targets, we had set out the target for Hydrogen Technologies that we won two large-scale strategic partnerships by the end of our fiscal year, meaning by the end of March, and we publish at some time in May. So if you think of that map I just showed you, the opportunities in China, Europe and the US, that's in essence the nature of the strategic partnership discussions that we're in right now, are looking at tapping into those opportunities that are evolving and evolving very rapidly.

And these discussions are at an advanced stage, and that's why I'm very confident that we will be making announcements to you in that period that we've already outlined. So for me, this is on track in the sense that we clearly intend to be able to update you by the end of the fiscal year about these partnerships.

Clean Air. Our Euro 7 targeted business is on track. There's been a lot of discussion around Euro 7 recently. We were happy to see that the Euro 7 proposals have finally been released. There's different elements in there. These regulations are broadly in line with what we were expecting. There's very strong standards that have been set for heavy duty diesel. There's also reductions in light duty diesel. And it looks on the surface like not much has changed for light duty gasoline, but what has changed is the criteria around real driving emissions.

So, for example, the speed at which you need to be able to meet your emission standards or the temperature, which will have a significant impact on multiple OEMs. So there will – there are technology changes required here. And this opens up new opportunities for us.

Light duty is supposed to come in '25, heavy duty in '27, still subject to political ratification, but again, broadly in line with what we were expecting and fully in line with our goal to achieve at least £4 billion in cash flow by 2030, '31. So we believe here we're very much on track with the business we're winning today and within the frame of the regulatory framework going forward.

Catalyst Technologies, I mentioned it briefly, Stephen mentioned it briefly that the three contracts we have won. Neither of us mentioned the amount – the financial amount. The first three contracts, this is low-carbon hydrogen again in North America and sustainable fuels in North America. And if you think of where the dollar is today and the dollar versus sterling is, of course, attractive to have a growing and strong US related business. These are worth £75 million over the initial life time. Initial lifetime means typically three to five years. You get a small upfront payment and then income comes in over three to five years. And then you have later on an opportunity for a catalyst refill. So we haven't baked that into these numbers that comes later on. So it's three to five years, £75 million.

And we only need 10 to 15 projects to achieve our high single-digit growth target over the medium term. You can do the math. And here we've got three projects already worth £75 million against the background of a business that currently has sales of £450 million. This is already, in a very short space of time, a really significant achievement, and there's a lot more to come, because the pipeline again has increased from 70 projects to 100 projects. So I think this is really exciting.

Now there was one element that wasn't on here, but I think it's worthy of just mentioning it to you as a significant achievement, because I mentioned the importance of China. We got our first fuel cell recycling contract with Unilia, one of the biggest fuel cell players in the world based in China. And this is really important because we're basically at the end of increasing our refinery expansion capabilities in China, so that we have end-to-end refining capabilities. This allows us to tap into a much bigger part of the market than was previously possible. And that's really important from a competitive point of view that we don't only offer great technology, we also offer a recycling opportunity, and that is a competitive advantage that is hard, if not impossible, to match.

So gaining this first contract is actually strategically quite important for us. And that’s - even though it wasn't on the original milestones, that's why I just added here to kind of fill in the picture for you. So overall, on the customer side, from the milestones that we outlined at the end of May, I would say we're very much on track.

Investments – scaling to capture growth

Now from an investment point of view, I don't think we need to go through all of the details around our various investments, and we've already mentioned the Value Businesses as divestments. I think the important message here is whether it's Platinum Group Metals, Catalyst Technologies, Hydrogen Technologies, we've got a lot ongoing. It's all on budget and it's on time. And I think this is due to also fantastic work internally.

We've been building out our capital projects execution – planning, design and execution capabilities. This has been a weakness in the past. We spent an awful lot of effort in ramping this up. And so far, this is paying off and allowing us to deliver so far our projects on budget and time. That's not a forward-looking statement in terms of a guarantee that this will always be the case, but it's good to be in the situation that we're in right now that we're on budget, on time with our investments. So here as well, I would say, very much on track.

People – transforming JM

On the people side, this was the other, I think weakness that was identified end of May beyond capital projects execution – planning, design, and execution capabilities, was our commercial capabilities. I think we're a fantastic technology company. We haven't had an equally strong commercial muscle. So we've been ramping up capabilities there. We have somebody in the audience with us today. If anybody wants to have detailed questions, our commercial muscle man is Anish, who's leading the commercial council, which basically aligns activities across the entire company with a very strong focus on pricing.

So for example, what Stephen mentioned, the ability to pass on pricing to negotiate with OEMs. That wasn't a core strength of JM in the past. This is something we're working on intensively, and I think we're making great progress here. But it's something that's in progress. And again, it's very important that we build this muscle, taking strategic key account approach across customers where relevant. There's huge opportunity for us in here.

So on this one, I think we're making good progress. Still a way to go, but this is one of the reasons also why we're confident that the second half will be better than the first half is because we're actually in better shape now from a commercial point of view.

Capital project, the execution I've already mentioned. I believe we're doing quite well. And what we're instilling in the organisation is the idea of a high-performance culture. Culture is always a – it sounds a bit esoteric, and I don't like to get carried away in esoteric discussions. I think the key point for us here is that we, as a company, develop a culture of feedback and learning for a very simple reason. If you want to grow a company, you need to grow people, and to grow people, you have to have a culture of feedback and a culture of learning.

And this is something that we are trying to embed now throughout the company as a core element that we're developing our people in order to be able to better develop the company, serve our customers better and create more value. So this is something where we're, I think, making good progress. Still a way to go, but it starts at the top and the leadership team role modelling this.

We're also launching our first commercial incentive scheme. I have to say, after 205 years, it's probably about time that we get one in there. It's taken a bit longer than I personally would have liked, but we're getting there, and it's going to be in place and will help make a difference. So also here, still early days, but we've built out key capabilities. And I think from a cultural point of view, we are making good progress.

Sustainability

Last one on sustainability. This is how we measure sustainability. These are the three categories: Products and services, operations and people. And again, between end of May and end of September, it's a relatively short time period to be measuring these types of – or looking at these types of criteria.

But the good news is we are on track with all of our targets so far. So I think that's very helpful. And again, I mentioned already the EcoVadis rating. We're also top rated from MSCI and many others. And I think that external recognition is important that we're not just telling ourselves we're doing the right things, but that others are auditing us and also coming to the same assessment. So also here, I think we're very much on track from a sustainability point of view.

Now that was just a quick kind of speed run through the milestones because I promised at the Capital Markets Day or our full year results presentation end of May to keep you updated about progress. And you can expect them when we get to the full year results in May, that again we'll go through the same format, and I'll tell you what's working. And if we're not on track with any of these targets, we will outline that transparently as well.

Catalysing the net zero transition

So to summarise for today, overall results, as Stephen has presented, are in line with expectations. I believe we are making good progress on our strategic milestones, and I hope I've given you enough data points to substantiate that. And as outlined, our growth markets, particularly driven by the energy crisis in Europe and the Inflation Reduction Act in the US, our growth markets are getting bigger and coming at us faster than we originally anticipated. And that's why I'm personally completely convinced about the bright future for Johnson Matthey.

So I think we have a lot to look forward to, and you can now look forward to a Q&A with Stephen and myself. Thank you very much.

Q&A

Margaret Schooley (Stifel): Good morning. It's Maggie Schooley from Stifel. I had two questions, if I may. I'll take the first one, which is more strategic, and then follow up with the second more near term.

Given the opportunities that you've highlighted in Hydrogen Technologies, particularly what the Inflation Reduction Act brings, that requires a level of local content to really garner those production or other tax credits. So thus far, you've been putting capacity down in the UK and in China. And I was hoping if you could discuss with us your plans to actually put local content and capacity in the US to take advantage of that opportunity? And if so, does that fit within your £250 million investment plan? Or should we be thinking that perhaps we have slight creep on that as well?

Liam Condon: Thanks a lot, Maggie. So you're completely right. If you want to benefit from the incentives in the US, production will need to be in the US. That was a key element of the programme; one of the criticisms, I think, of Europe of the programme. And we had earmarked certain funds within our current CapEx budget also for expansion in the US. But without giving too much away, as we have our strategic long-term partnership discussions, some of those revolve also around, let's say, additional presence in the US.

So if and when that takes place, we would then give you all the details around that what that actually involves. But it's very clear that to avail of the opportunity, you – we would need to have a presence, or let's say, have a bigger presence and production capabilities and refining capabilities in the US.

Margaret Schooley: And the second, if I may, is more near term. Clean Air second half weighting. Obviously, there'll be some question marks around that. So two-part question. Obviously, you're making traction on pushing through those inflationary price actions. Could you give us some understanding of the remaining 50%? Have you agreed all of that uplift, or are you still in the process of agreeing that?

And then secondly, you point to the first quarter weakness from China. Obviously, we're seeing more COVID lockdowns in China now. Do you believe in your client discussions that clients have gotten better about circumventing these types of lockdowns? Or is this still a risk that you feel you would like to highlight as we go through the second half of the year?

Stephen Oxley: Okay. Let me start, Maggie, with the inflation. And as I outlined, because we have such long contracts with the OEMs, they're typically a five-year period, it's the Clean Air part of the business where it's actually most difficult to pass these on. It's a longer negotiation, hence the lag. And we're making really good progress. So we have various customers where everything is agreed. We have some that are in progress, absolutely.

But given the lag, that's why we're confident that there will be a catch-up in the second half from the first half costs that we've incurred.

Margaret Schooley: Any thoughts on COVID restrictions?

Stephen Oxley: Yeah. I mean as you've sort of heard from what I outlined, heavy duty particularly was massively hit in Q1. What we've seen is a kind of a progressive recovery. IHS is talking about a 4% second half over first half recovery. At the moment, we're not being impacted, but there obviously are lockdowns in Beijing and Guangzhou. They're not affecting us directly at the moment. I'm not sure they're affecting our customers directly, but that's clearly one of the variables in the second half.

Martin Dunwoodie: Go to Kevin.

Kevin Fogarty (Numis): Thank you. Two questions, if I could do? Firstly, just in terms of strategic progress, particularly in Catalyst Tech. You've clearly talked about a bigger pipeline there. But I just wondered what's happening to sort of momentum within that pipeline, i.e., customer reaction? Are they moving a lot more quickly than expected? And I guess, the potential for that sort of opportunity kind of pull forward in Catalyst Tech?

And just secondly, one for Liam. I guess just sort of reflecting back on nearly kind of nine months of being within sort of JM. I just wondered if you would sort of update us on your thoughts on the Group? Back in May when you presented, you were impressed by the depth of talent, expertise within JM. Just wondered with sort of almost nine months in the role, how have your kind of thoughts changed?

Liam Condon: Thank you. Do you want to start with Catalyst Technologies?

Stephen Oxley: Yes, just the customer reaction. So look, I think the fact that we've gone, Kevin, from 70 projects in the pipeline to 100 in a very, very short space of time says everything. We're really excited about the opportunities. These are real projects that we're winning. And our expectation is that, that will carry on. So a really, really good start, and the technologies that we have are clearly working.

Liam Condon: I'll maybe add to it. You were asking also about the customer footprint and has something changed – beyond kind of the regulatory environment, has something changed? What's changed for us very clearly is, in the past our chemical business would have been largely focused – sorry, our CT business, Catalyst Technology, would have been largely focused on the chemical industry.

What we've noticed, and this is literally the last six months, the energy industry has massively ramped up demand. So think of oil and gas looking for new opportunities to decarbonise. And oil and gas, as we all know, right now are making a fortune but they know they need to invest in renewable energy going forward. And that was a good time to do it when the pockets are full. So that has literally kind of changed the landscape.

And I think the great thing about us is, as JM, because a lot of people are talking about technology, we have the technology ready to go, licensing technology ready to go. And that helps us in these discussions. It's not a kind of a theoretical discussion. It's one where it's plug and play if we can get into the customer.

On the nine months thoughts, yeah, I was quite shocked myself to realise it's almost nine months. Time is flying. To be very honest, I would say, if I think about the feedback from customers on our technology, I think when I presented end of May, I highlighted that as a strength. In the meantime, I've been able to talk to a lot more customers. I've been more than impressed. It's like I've met so many customers who are just convinced that we have the best stuff and – across the board, particularly in the Hydrogen and Catalyst Tech space, across the board saying what you do is really unique. And I hadn't appreciated how strong that, that technology advantage is on the positive side.

On the, let's say, the negative or weaker side, probably the commercial weakness which had been identified, wasn't clear to me that it is or was as weak as it was. And for example, and this is the discussion around our ability to pass on pricing, we are just – we have an organisation that is not used to having the difficult discussions around pricing. That requires a certain skill set, a certain capability, also a systematic process to doing that. We didn't have that in place. We have that in place now, and that gives me confidence going forward.

But the whole situation kind of reemphasised that we have a big opportunity if we can strengthen the commercial muscle and make it as strong as the technology muscle. I think that's the way I would –

Kevin Fogarty: Thanks very much.

Martin Dunwoodie: Thank you. We'll move to Charlie Bentley, and then, sorry, Nicola, up in the middle.

Charles Bentley (Jefferies): Hi. Charlie Bentley, Jefferies. Could I just ask a couple of questions. So on the split of that pipeline, the kind of 100 projects, how does that split between kind of more traditional projects, low-carbon hydrogen, SAF, that would be really helpful?

And then secondly, just on the energy inflation. I mean, is that – is there a kind of – how does that break down between Q1 and Q2? I guess we haven't really seen this so much in kind of some of the peer reporting that we've seen so far this year on the kind of the – I mean, your two big peers in Clean Air?

And then just a final question. I mean I'm not sure I saw it in the release, but can you disclose the price that you got for the Piezo products business?

Stephen Oxley: Yes, let me – I'll deal with the last question first. I'm not going to give you a precise number, but it's sort of low 10s. So relatively small, but actually a really important part of progressing the pipeline of disposals.

So, on the inflation, I mean, it's essentially kind of built through the – through that first half. And as I said, we're recovering about 50% in total. It's actually easier in parts of the business to recover than others. So if I think about CT, for example, in part of the Catalyst business, we have price lists, so essentially we can pass that on.

Typically, our price lists have been refreshed every 12 months. We're now refreshing them every month. So you can see a much more immediate response. That compares on the other end to Clean Air where it's much, much longer. I think the really good thing here is that the inflation – the energy inflation is the biggest component that's hit the bottom line. And if you think about how that operates in the business, Clean Air is the most energy intensive. We bake the product essentially. So if that's a transitionary element, that should be the bit that comes out the first.

Liam Condon: Yeah. And on the pipeline, Charlie, this is all related actually to the – let's say, the sustainable project – the emission-reducing projects going forward. And to give you like a ballpark, I'd say about 50% of that is sustainable fuels. And the other 50% is split between low-carbon hydrogen, so basically blue hydrogen and what we call low-carbon solutions, which is again a decarbonisation activity.

And then on top, we have the, let's say, the classical also catalyst or the traditional business, but this – specifically, this pipeline was related to the low-carbon offerings.

Charles Bentley: Thanks very much.

Martin Dunwoodie: So we go around, Ranulf. So it's easier, Nicola, Ranulf right next to Charlie. Sorry, that'll make it easy.

Ranulf Orr (Citigroup): Hi. Ranulf Orr, Citi. I have just a few questions as well, please. Firstly, on the guidance range and the sort of implied second half EBIT growth from minus 9 to plus 13, quite broad given we're already part way in. Could you give us some ideas of how you might get towards the top end of that range? And what might be a plausible scenario there, firstly?

Second question is on the SABIC MOU and perhaps you could give an idea of the opportunity there and how much sort of resource and efforts are meant to go into that? And just in addition to that, does that form a large part of the 100 projects – pipeline projects increase?

And then thirdly, on Catalyst Tech margins, slightly longer term. Can you help us understand the economics of these new projects that are coming through? And what kind of profitability might be attached to the £75 million sales? Thanks.

Martin Dunwoodie: Can I just make a quick clarification? You mean the Sinopec MoU?

Ranulf Orr: Yeah, sorry.

Stephen Oxley: Okay. Let me start with guidance. So I'm obviously happy with the guidance. Look, there are a number of variables in there. We've talked historically about auto volumes being the single largest component. That is absolutely the case, plus our precious metal pricing. But critically, for the second half, it will be the amount that we can pass on, on those inflation recovery price increases. So there's some key variables externally.

And then internally, you've heard me talk about the efficiency programme, the £150 million programme, which we aim to pass on £35 million. So there are some kind of big sort of ups and downs in there. What we will outperform, push it out, I think, would be enhanced recovery of those cost increases as with price increases we've talked about. That's the kind of the big favourable in the second half. And obviously, those auto productions hold up in the way that the industry is expecting.

Liam Condon: Yeah. And I'll take Sinopec. We are working with SABIC as well. But let's stay on Sinopec for a minute. I think it's important to understand that the background, both in Catalyst Technologies and Hydrogen Technologies in the past, we've had quite a lot of transactional type sales like one-off projects, where we might sell a catalyst or we might sell a membrane or we might sell a component.

And given the massive increase in demand, what we've clearly said is we're not going to engage in these transactional activities anymore. We're only interested really in strategic partnerships, and we want to – our strategy, in essence, playing to win is win with the winners. So we want to identify who are the companies that we think going forward have – are going to be creating the biggest opportunities from a value point of view by addressing the need to decarbonise.

In China, that is clearly Sinopec. I mean this is by far the biggest company. Chinese state policy is to decarbonise. If you want to win in China, Sinopec is a good place to start. And the MoU that we have, in essence, covers the entire value chain. I mean everything from fuel cells, electrolytic hydrogen, blue carbon hydrogen. And we're in the process of evaluating what exactly we could and should do together.

And so it's only at MoU stage right now. We would expect to be able to update you then in the future on how that is progressing. But to be very clear, the 100 projects that were mentioned, Sinopec is not part of that. So that would be upside to the 100 projects that we've mentioned.

And then from a valuation kind of point of view, like the CT pipeline and how does it all fit together. So the 75 – and maybe staying on the concrete example, £75 million for three projects. So these are three very attractive projects. So you can say an average of 25 on those three projects.

Typically, you'll get a smaller upfront payment in the first year, and then in the subsequent kind of three, four years, you'll have the breakdown of the rest of the payments. So if you seal the deal upfront, the income is coming then over the following years. That's why you don't necessarily see it on the P&L today, but you know it's coming. That's the mechanism.

And clearly, we've stated our CT midterm margin profile should be at least mid-teens and these projects are crucial for getting us back in that direction.

Martin Dunwoodie: If we go to Andrew and then take Riya and then Gunther.

Andrew Stott (UBS): Okay. Thanks. Morning. Andrew Stott, UBS. The first one is on the large – I'm using your phrasing, Liam, large strategic partnerships in Hydrogen Tech. What type of partnerships are we talking about? Is this an equity JV? Is this just a – is larger a reference to the size of the contracts you're going to get? I'm not asking you to announce an announcement before you announce it, but I sort of am.

Secondly, Clean Air. I had two specific questions on Clean Air. So thank you for the disclosure on cost inflation. That's very useful. And Stephen, you mentioned that most of that cost inflation is Clean Air. I'm wondering, how much of the initiatives are surcharges and how much are negotiated prices? Because obviously, that has massive implications as we go forward on inflation, particularly on energy. And then sorry, staying with Clean Air. Euro 7, what's your experience of revenue per vehicle – per versus Euro 6, obviously?

Stephen Oxley: Let me pick up the inflation. So it's 50% is Clean Air. So £80 million total. Sorry, £40 million overall recovery half, but half of the inflation, the gross inflation is Clean Air. So it's essentially a negotiation because these contracts were struck in a lower inflation environment. So we're literally physically having to open those up. So it's not a simple just surcharge that we add to the employees in Clean Air. We can do that more easily in Catalyst Technologies, as I described.

Andrew Stott: Is that because the contracts don't let you pass costs through?

Stephen Oxley: They're just not structured in that way. That's the problem. So we're physically having to collate the evidence of the underlying energy cost increases, present those to an inflation committee and then negotiate.

Liam Condon: Yeah, I think the important thing on this one is the OEMs have a high interest in sustainable partnerships so with strategic suppliers. So they're, of course, completely open for discussion, but you need to have the right evidence base. And we didn't have that set up because we weren't set up that way. Now we do. So going forward, it's much easier for us to manage than, let's say, in the first or partially the second quarter.

Stephen Oxley: And then pricing.

Liam Condon: Yeah.

Stephen Oxley: On Euro 7, I'm not going to comment specifically on pricing. All I'd say is that we are confident and pleased with the win rates that we have and the book of business that we're building that very much supports our expectations of more than £4 billion of cash over the 10 years.

Liam Condon: Yeah. And upgraded technology and innovation typically will involve a degree of upgrade in prices, will be my expectation anyway.

On Hydrogen Technologies, the definition of large – so to help you think about it, we're completely agnostic from a legal structure point of view, whether JV, joint development agreement, supply agreement. That doesn't matter for us. It just needs to be purposeful. When we say large, typically what we're talking about is long-term agreements or minimum five years, that kind of where there's a lock-in on both sides, where typically we would be developing bespoke products for a certain supplier. So it's customised and that often typically involves a joint development agreement.

And typically, there's – because it goes two ways, there should be then a take-or-pay commitment. So these are like really significant. These are not kind of transactional contracts that we would be entering.

Martin Dunwoodie: Okay. If we move to Riya?

Riya Kotecha (Bank of America): Hi. It's Riya Kotecha from Bank of America. I have two questions, please. My first one is on Clean Air and pricing. I just want to know how you're thinking about sort of the confidence in passing these on, given that beyond maybe the first quarter of next year you have a much weaker demand outlook on the auto side. And to what extent do you think you're sort of more reactive and delayed versus peers and pricing given that now we see some OEMs even talking about cutting autos prices? And so how do you then have confidence that in a five-year contract you pass that through?

Stephen Oxley: Yes. Look, if I'm honest, and we talked about it, we're probably slightly later out of the blocks than we will have liked, and that reflects the kind of the commercial muscle or perhaps the maturity of that muscle than we would like. I think what I come back down to or what I come to is the strength of the relationship and the importance of our product to the OEM. I think that's what gives us confidence, and we are having some good early successes.

So I think if we can carry that momentum through into the second half, well, that's why we're confident of further recovery than in the first.

Liam Condon: And I think – I mean, just to add to it, of course, now where it's like almost end of November, so we've got a couple more months under the belt of the second half of the year, and it's also based on that progress that we've seen based on the system that we've implemented now of negotiations with the OEMs, that's what really gives us the confidence that we can do a better job in the second half.

Riya Kotecha: Okay. Thanks. And then my second question is on Euro 7. I appreciate there was some tightening of diesel, but gasoline was seemingly unchanged. And I think it's not unreasonable to say that it was overall somewhat underwhelming. And broadly speaking, what message do you think this sends from the EU about sort of the relative importance of combustion engines versus EVs? And do you see any risks that the competitive landscape sort of increasingly becomes a bit more aggressive on the volume side and on winning what's left of the platforms?

Liam Condon: Yeah. So as you rightly say, I mean, it's been hotly contested, the whole Euro 7, from multiple different viewpoints with a lot of particularly health-related NGOs saying this clearly doesn't go far enough. And we would also agree that more could be done. But I think what's underestimated, let's say, heavy duty diesel, and to a degree, light duty diesel is cleared – it's stricter.

What's underestimated, I think, is on the light duty gasoline side, that the switch to real driving emissions actually is a significant change. So things like temperature, again, like the speed. That actually, in many cases, will require an upgrade, which will automatically come with a better emission system. So that's why we still see an opportunity here. And it's brought forward versus our expectations. It's '25 instead of '26, '27.

So I think overall, broadly in line. Yes, more could be done. But I think there's also a realisation that if you look at the growing pains in – on the electrification side from a supply chain point of view, I think there's a growing recognition that you're still going to need an ICE for quite some time. And you can't just flip a switch, and it's a little bit like oil and gas and renewable energy. You can't just run down one and ramp up the other. There has to be a transition, and it needs to be managed over time in a manner that's getting emissions down as quickly as possible, but without somehow destroying the whole fabric of the economy.

Riya Kotecha: Okay. Thank you.

Martin Dunwoodie: Go to Gunther. Thanks.

Gunther Zechmann (Bernstein): Thank you. Gunther Zechmann from Bernstein. Liam, you referenced the deteriorating external environment since the May update. Can you just talk us through the levers that you can pull to offset that without compromising the medium to long-term growth drivers that you've highlighted?

And then secondly, just coming back to Clean Air. Everyone is experiencing the cost increases. So what's the competitive reaction you've seen from the other suppliers? Are they increasing prices to a similar amount? Are they also looking at price increases, renegotiating what is very similar contracts on their side as well? Are they more looking at surcharges? So if you could just generally, without probably commenting on a specific competitor, but can you just talk about the dynamics there, please?

Liam Condon: Yeah, sure. So I'll start, and Stephen will join in. And I just want to try and frame it right when we say deteriorating environment. On the CT and HT side, I was trying to paint a rosy picture. So not deteriorating, actually booming. That’s – there the challenge is scaling up. That's different.

And then rather on the Clean Air side, that's typically more closely linked to what's going on in the overall economy as part of the automotive supply chain where there's still supply chain disruption, COVID-related, and still various other issues. So our levers that we can pull to manage the situation, in essence, we're looking at what we can control.

So cost – tightly managing cost is hugely important. We're looking at accelerating our efficiency measures. We had this £150 million target for 2024-'25. We're tracking towards £35 million for this year. And the run rate of that will, of course, be much higher. And we're doing whatever we can to actually accelerate those savings. So I think that's one core element.

Second one is clearly this ability to pass on pricing from a commercial point of view, particularly in the Clean Air space, where I believe in the past couple of months we've made very good progress, just not visible on the half year results. But we have enough proof points there that we're making good progress. And then overall, what will – ultimately in this – in the Clean Air, what will be dependent on is how volumes and metal pricing ultimately plays out. At least now still forecasts are 4% growth for the year. So we'll see how that plays out.

But we do have additional measures that we can pull from a, let's say, an efficiency point of view to make sure that we can track towards the right numbers.

Stephen Oxley: And then just on the pricing. I mean it varies in different parts of the business. I'd say that the most sensitive is on the catalyst refill side that is most sensitive to price increases, particularly in somewhere like China. That's where we're seeing the greatest pressure. The flip side on the Clean Air side, although it's taking longer to get the inflation increases through, I think that's where we're in the strongest position, given the long-term nature of those contracts.

Gunther Zechmann: So just to follow up on that, the mechanisms that your competitors are exploring at the magnitude of the cost pass-throughs in Clean Air specifically is very similar to what you're doing?

Liam Condon: I don't feel able to comment about our competitors specifically. I don't know, Anish whether you want to or –

Well, I think if one of our lawyers was in here and we knew that, I think we'd really get in trouble. So I think we can conceptually answer it, but not practically, because of course, any type of pricing and competition, that's always a very delicate discussion.

Gunther Zechmann: I'll wait for the lawyers to leave.

Liam Condon: Do you want maybe – but Anish can give a conceptual – to give you a bit more without getting into any trouble.

Anish Taneja: I'll try not. No, but I think it's – so first of all, hello, everyone. So Anish Taneja, CEO of Clean Air. It's a very good question, and I'm going to answer it from our perspective. So a lot of the questions you had on Clean Air was very short term and the answers were perfect, so I don't need to add anything to that. But if you look more long term, based on what the competitive scenario in the markets give us is a unique opportunity to be the one long-lasting partner for our customers.

And therefore, it's important for us to have a sustainable pricing where we just measure, are we able to win business on a higher price than our competitors are offering? And that is a clear indicator for us we take a look at. And we just recently won a very big business for the years '26 and to come, which we will announce in January. And there, we won the tender with 4% higher prices than our competitors were offering.

And I think when we get that feedback, that's showing us that our strategy is going in the direction. We will be the one long-lasting partner where our customers can trust that our commitment to Clean Air is really honest and that we have the capability from a technology side and the commercial side to get higher prices than our competitors do. And I think that's the most important indicator we're looking at.

Stephen Oxley: I think our lawyers are okay with that answer.

Gunther Zechmann: I'm happy. Thank you.

Stephen Oxley: That’s okay, Gunther.

Martin Dunwoodie: Okay. I will move to the web – from the webcast, a couple of questions from there. So two from Chetan Udeshi, JP Morgan, on Hydrogen. Firstly, the large-scale strategic partnerships in Hydrogen Technologies. Are these for fuel cells or electrolysers or both?

And secondly, will the new strategic partnerships present an upside to the £200 million sales target by 2025? Or are the partnerships needed to achieve the £200 million sales?

Liam Condon: Yeah. So they are both fuel cells and electrolysers in all cases we've been discussing so far. And whatever we do here is upside to what we have previously been discussing.

Martin Dunwoodie: Okay. And then from Alexandre Cornu at CPR Asset Management and again, focused on Hydrogen. In the US and Europe, IRA and REPowerEU haven't yet been able to fast track the developments of the industrial value chain. Project FIDs, so final investment decisions, have even been pushed to the right. Although mid to long-term the attractive outlook is not in question, how will that shape the evolution of your activities dedicated to these areas in the short term, i.e., the next two years?

Liam Condon: Yeah. So I think there is a – at least what we sense, there is a significant difference now in Europe versus the US. So I think the comment is completely accurate for Europe in that the FIDs, these final investment decisions are taking too long and we haven't gotten over that hurdle.

The reason is fairly simple, there are incredibly complex regulations behind this. I mean if you read the relevant documentation, this is like thousands of pages. You need a very big dictionary to understand then you need a lot of experts in the room. This is complicated stuff. And because it's so complicated, it's unsure what actually – which criteria need to be met in order to be able to avail of an incentive in the – in Europe today. So there's a big job to be done, I think, in decluttering and making the regulation clearer.

This is different in the US with the IRA, the Inflation Reduction Act. It's very clear. It's very straightforward, and I'm 100% sure this will be driving investment in the near term, meaning in the next one, two years and not in two, three, four, five years. That's the way I would differentiate it right now. And I think there will be a reaction in Europe, hopefully, also in the UK that will ensure, because at the end of the day, hydrogen is a global business. It's not local, and we need to make sure that different locations are competitive and a part of that is having regulations that are easy to understand and easy to implement.

Stephen Oxley: Can I just go back to the Hydrogen Technologies question? So the partnerships that we're talking about are an integral part of the £200 million, but what we're seeing is real upside on top of that, particularly to the sort of the medium, longer term. The sorts of volumes that we're discussing give us real confidence that that business is outperforming what we thought even six months ago.

Liam Condon: Yes. I mean, to be very clear, these will be not really relevant for the £200 million, given the fact that these are long-term strategic partnerships. The real kicker will, of course, be in the outer term. And that's the part where we haven't given guidance, we haven't baked in any numbers, but versus our internal estimates, this is a significant upside. So, as we announce those, we would give you then more colour and flavour around what that actually means.

Martin Dunwoodie: Okay. If we move back to the room, I think there were a couple of hands I saw earlier. Yeah, one in the middle. So lady in the middle.

Alycia Samsudin (Berenberg): Hi. Alycia Samsudin. I'm from Berenberg. I've got two questions. Firstly, on margins. I'm wondering if there's been a fundamental change to achievable margins given the around 30% EBIT in Clean Air? And then I'm also wondering if the Euro 7 business will come in at around 30%?

Stephen Oxley: So, I'll take that. No is the answer. We're not expecting a shift in margin. Indeed, through Euro 7, we expect some kind of an uplift actually. Go back to what I said about inflation, particularly being transitionary. So we would expect to get back to historical margins. And actually, as we accelerate the cost optimisation programme, that gives us potential, I think, for upside.

Alycia Samsudin: Okay. Thank you. And then do you think the Euro 7 benefit will only materialise in 2025? Or could it benefit sooner if automakers front-run the instruction legislation like they have done previously?

Stephen Oxley: I think it will be from 2025. I mean just getting the technology in place takes time. So it is earlier than we thought. We were thinking '26, '27, but I don't really see much benefit before 2025.

Alycia Samsudin: Okay. Thank you.

Martin Dunwoodie: Okay. So if we go to Nicola. Sorry, Ranulf, Nicola needs it. Hasn't had a first go. So Nicola first. And I think given the time, Ranulf, you'll be the last question today.

Nicola Tang (Exane BNP Paribas): Sorry, Ranulf. Hello, everyone. It's Nicola Tang from BNP Paribas Exane. It's just kind of one question, a few sort of sub-questions on the PGMS Services business. You mentioned in the slides the kind of pressure from energy costs. I was wondering if you could just remind us how easy it is to sort of pass-through either through surcharges or contractually to your customers that cost? And whether that higher energy costs combined with lower precious metal prices is having an impact on volumes that your customers are sending, or do you think that the volume sort of weakness is just because of the sort of scrap autocat of issue? Thanks.

Stephen Oxley: Yeah, no, so the volume is very much driven by input availability of metal rather than pricing. On the energy side, again, it's a mix. So we have some long-term contracts with customers, particularly on the auto scrap side, but then we also have spot business. So it's exactly the same as the Clean Air, CT sort of a situation. Some we can reprice very quickly with surcharges in PGMS, but for the most business, it's opening up some of those contracts. So again, there's a lag effect.

Martin Dunwoodie: And we go to Ranulf for the last question, I think.

Ranulf Orr (Citigroup): Thanks. Ranulf Orr, Citi. Just a question on the long-term sort of nature of Euro 7, and you're talking about contracts being awarded for the rest of the platform lives or combustion engine vehicle platform lives at least. And how do you manage the risk around this, and what kind of visibility are OEMs giving you? Because we have no idea really what the market would look like for these types of vehicles in 2028-2029, and should Mercedes suddenly want to pull the plug on its entire diesel platform, as an example, given the reference, are you left on the hook with a load of capacity built to sustain this platform for seven years that's suddenly not there? And how do you manage that, I guess? Thank you.

Liam Condon: Given that Anish is here and is heading the Clean Air business, I guess it would be best if Anish gives you a direct answer.

Anish Taneja: Yes. So the first thing is we don't really believe there is an opportunity to pull out the diesel platform because you all know that the OEMs have CO2 targets that need to achieve and the diesel production with the hybrid and the electrification is the only way they can achieve that. And without diesel, they would not achieve it. So I don't really think that's a realistic scenario.

We have won some Euro 7 tenders already recently. And obviously, we're discussing with the customers how we're going to handle those. And everything what we see so far is that they are going to put them in place. Nevertheless, how the regulation went out now, or what's going to happen on the final political journey, getting the Euro 7 regulation finally validated. And what we're doing as well is we are adapting our cost structure and production structure anyway. So Liam and Stephen talked about the transformation.

And obviously, we keep in mind how to find synergies on those several platforms that we have for the customers. So I think we are very well prepared, when that business kicks in, to be much more efficient than we are today.

Martin Dunwoodie: Great. Well, we're out of time at the moment. So thank you very much for all the questions. Thank you to Liam and Stephen for the presentations. If you have other questions that you think of afterwards or stuff that we haven't answered so far, please do come back to all of us in the IR team and we'll do our best to get back to you with answers on those. But thank you very much today. Hopefully, we'll see you on road shows in the coming days. Thank you.

Liam Condon: Thank you very much.

[END OF TRANSCRIPT]