Strategic Update & Results for Year ended 31st March 2022

Thursday, 26th May 2022

Introduction

Martin Dunwoodie

Head of Investor Relations, Johnson Matthey Plc

Good morning everyone. Thank you for coming along to the presentation today. I'm Martin Dunwoodie, Head of Investor Relations at Johnson Matthey. We have people dialled in and on the webcast as well. And before we start just a couple of things to mention. Firstly, we're not expecting any fire drills today so if there is an alarm please follow instructions, make your way to the exits as indicated. And secondly, for all mobile devices, please turn to silent or turn them off. After the presentations we've got opportunity for Q&A, again, from in the room and on the webcast. And with that I'll hand over to our new Chief Executive, Liam Condon.

Opening Remarks

Liam Condon

Chief Executive, Johnson Matthey Plc

Thanks a lot Martin and from my side good morning and a warm welcome to everybody here at the London Stock Exchange. And of course, to everybody joining us online, we're really, really grateful that you could join us today. Now, I think most of you know I just joined Johnson Matthey on the 1st of March and in the old days, in the good old days it was common wisdom that the first 100 days of any CEO were a really enjoyable time because you didn't have to actually do anything. You just had to walk around, ask a lot of questions and basically wave and smile. And just get on with life. But very luckily for you the good old days are over and today I'm going to have the pleasure on my 87th day at Johnson Matthey of presenting to you a revised strategy for the company, a new structure for the company and a new leadership team.

Agenda

So we've got a lot to get through today. We're going to try and keep it pacy and I just want to explain to you very briefly how we're going to run the setup today. So first of all, Stephen is going to talk us through the full year results where we already had a pre-close statement. He's going to give you further background now on the final details of our financial results for the previous year. Then we're going to go into the strategy presentation. We're also going to talk about our capital allocation framework and we're going to flag some milestones for you and how you should think about our progress as a company going forward. So, I think a lot to look forward to today. We'll have plenty of time for question and answer at the end so looking forward to a very interactive session with you as well. And with that I'd say let's get into the meat of it and I'll welcome Stephen to the stage to take it over with our presentation of the financial results.

Financial Results

Stephen Oxley

Chief Financial Officer, Johnson Matthey Plc

Strong financial foundations

Thank you, Liam. Good morning, everybody. Let me start with the headlines. So, we've delivered a robust performance in a challenging – with challenging market conditions. Our underlying results are in line with market expectations. Sales grew 5%, operating profit increased 21% and earnings per share were up 26% to 213 pence on a continuing basis excluding Health. Our reported results however were adversely impacted by some significant one-offs, including the impairment of Battery Materials.

Our efficiency programme targeting £100 million per annum by 2023/24 is now largely complete. And we continue to maintain a strong balance sheet and manage our working capital efficiently. Net debt came in at £856 million, slightly lower than expected and this resulted in a net debt to EBITDA ratio of 1.2, slightly below our target range of 1.5-2.0x. We're proposing a full-year dividend of 77 pence. That's up 10% on the prior year.

Group sales driven by Clean Air and Efficient Natural Resources

So let me now turn to our financials in more detail. On a continuing basis, sales grew 5% to £3.8 billion, up from £3.7 billion. This was driven by Clean Air, which benefitted from a partial recovery in demand, as well as higher average metal prices in Efficient Natural Resources. It was partially offset by a reduction in Other Markets, in particular Hydrogen Technologies where we took the decision to use capacity to qualify new customer products. We had an adverse foreign exchange impact of around £100 million mainly due to the depreciation of the euro and the US dollar.

Improved performance in Clean Air and Efficient Natural Resources

Underlying profit grew 21% driven by higher sales, increased metal prices and greater efficiencies across the Group. Metal prices remain elevated compared to historic levels and we benefitted by about £45 million this year. Excluding this, underlying profit was up 11% on our continuing operations. Corporate costs increased by £13 million primarily in Group functions and IT which I will come back to later. And we expect to complete the sale of our Health business next week.

Clean Air

Partial recovery in demand

So let's now look at our sectors in more detail. In Clean Air there was a partial recovery in auto production across all of our regions and sales grew 5%. Performance was especially strong in the first half, while the second was impacted by microchip shortages. In Light Duty Diesel sales were up 2%, ahead of the overall market with a positive performance in the Americas and Asia offset by a softer European market. And as a reminder, Europe represents about 65% of our Light Duty Diesel sales. Light Duty Gasoline sales were down because of previous platform losses in Europe and the Americas. We have been investing to support growth in our gasoline products. And our commercial offering and technology is now competitive and we are starting to win new contracts. Our Heavy-Duty business performed well. Sales were up 17%, outperforming the market in both Europe and the Americas. This was supported by the cyclical rebound in class 8 trucks in the US. And in China we continue to benefit from the value uplift due to the rollout of China VI legislation for heavy duty vehicles. This is now mostly complete and will annualise over the first half of fiscal 23.

Operating profits increased 17% to £302 million and margin from 11.2% to 12.3% supported by operational leverage as well as efficiency savings from Clean Air's new operating model. Clean Air generated almost £800 million of cash as it benefitted from lower year-end metal prices and lower working capital. We are on track to generate at least £4 billion of cash, that is £4 billion of cash in the ten years to 2031, although the amount will vary from each year.

Efficient Natural Resources

Strong performance

Moving on now to Efficient Natural Resources where we delivered a strong performance. Sales grew 9% to over £1 billion with both businesses performing well. In PGM Services sales were up 13% to £587 million as a result of higher precious metal prices and a strong operating performance. Our refinery backlogs remain low, a testament to our focus on working capital and the investments that we've made to improve the reliability of our plants. In Catalyst Technologies, sales grew 5% to £454 million. As a reminder, there are three revenue streams in CT: our licencing technology, our first fill and then our refill catalysts. The large majority of revenues are driven by refills and these increased as end market demands grew, especially in methanol. Though licencing revenues were down, we signed four new licences in the year and our licencing pipeline remains really strong. We've got 70 potential projects across blue hydrogen, sustainable aviation fuels and low carbon solutions.

Total operating profit increased by roughly a third to £358 million and operating margin improved 22% to 34.4%. Within this, PGM Services' operating profit grew 28% to £308 million and CT was up 67% to £50 million.

Other Markets

Investing in our new growth businesses

Moving on now to our Other Markets which currently consists of new markets. That's Hydrogen Technologies, compromising fuel cells and green hydrogen, and our Value Businesses which we are managing for exit as these are non-core. So let me start with Battery Materials. We've just announced two deals to fully exit the business and I'm pleased that we've now moved quickly to a conclusion. Being able to sell the businesses – sell the operation as a going concern has enabled us to reduce our exit costs to £50 million. That's £100 million less than our previous guidance and that means we can now focus our efforts on our four key businesses.

So moving on to Hydrogen Technologies, fuel cell revenues declined as we constrained commercial production to scale the business and we use capacity for new customer testing and qualification. We are working at pace to expand our capacity in the UK and China and the first phase of that expansion will be available in early 2023. In Green Hydrogen, we've recently completed our first commercial sale. And given our confidence in its growth potential, we've accelerated our investment to scale Hydrogen Technologies and as a result we've reported a loss of £33 million.

In our Value Businesses, sales were broadly stable, Medical Devices and Diagnostic Services performed well and we took action to drive business performance. And as that – as demand also recovered from COVID-19. This was offset by Battery Systems with sales impacted by the shortage of microchips. We completed the sale of AGT in January for a total of £178 million and that helps to further simplify the Group.

Underlying performance

So let's turn to the rest of the income statement on an underlying basis. We're managing working capital tightly and our finance charge decreased from £85 million to £60 million. The underlying effective tax rate of 17.4% is slightly higher than the previous year and we expect the rate to increase this year to 19% and then progressively to 21% by 2024/25 reflecting rising corporation tax rates. Underlying earnings per share grew from 169 pence to 213 pence.

Reported results adversely impacted by one-offs

Our reported results include the costs of exiting Batteries and Health. For Battery Materials there was a total charge of £363 million. As we announced in March, we have discontinued all commercial activities in Russia and we've taken an impairment charge of £32 million writing down the related assets in full. We also took a partial impairment to Diagnostic Systems writing down £45 million of goodwill. We recognised one-off income of £42 million largely related to a longstanding intellectual property dispute in China, as well as the £106 million benefit from the profit on disposal of AGT. Finally, we expect the sale of Health to complete shortly and therefore this business is reported as discontinued. The post-tax loss shown here of £217 million includes the impairment of its assets being the amount recoverable through sale.

Free cash flow and net debt

Looking at cash, we generated £221 million of cash compared to £295 million the year before. We used Clean Air's strong cash generation of almost £800 million to reduce our metal leases by £300 million. And given current market conditions we've also increased our metal holdings by over £400 million to ensure supply to our customers. Net interest paid was £76 million, down from £90 million due to our lower metal borrowings. Taxes were £36 million higher mainly due to decreased patent box claims. Capital expenditure was £422 million, broadly in line with the guidance for the year, including £187 million of battery materials. And we ended the year, as I said, with a net debt to EBITDA of 1.2x. That is slightly lower than I expected and we'll continue to focus on maintaining balance sheet efficiency and low levels of working capital.

Outlook for year ending 31st March 2023

So finally turning to the outlook for 2023. We're clearly entering a period of greater political and economic uncertainty that will affect this year ahead. However, our performance will continue to track levels of auto production and precious metals prices. So let me walk you through the key variables. In Clean Air whilst we expect end market demand to remain robust, the industry is suffering from the impact of COVID restrictions in China and disruption as a result of the war in Ukraine. Most recent IHS data suggests that auto production will be 5% higher than last year. And in this scenario, we would expect Clean Air to be broadly in line with 21/22. And just as a reminder, around 75% of our cost base in Clean Air is variable so you can flex your own estimates depending on your auto demand expectations.

In PGMS Services assuming prices remain at their current level for the rest of this year, we would expect an adverse impact from metal price of around £25 million. And you'll see we've provided you with an updated rule of thumb for PGM prices reflecting the current metals mix so you can run your own scenarios. But broadly a 10% change in the price of all PGMs would impact operating profit by around £20 million. And rhodium has the biggest single effect. At current foreign exchange rates underlying operating profit would benefit by £25 million.

So, whilst visibility is low and the outcome for the full-year remains uncertain, we currently expect operating performance to be somewhat below 2022 and in the lower-half of the consensus range. And in terms of phasing, we are following an exceptionally strong first half last year so our year-on-year performance will be significantly weighted towards the second-half. Longer term, the current geopolitical situation is likely to drive significant acceleration towards a net zero carbon economy which will position us really well for long-term growth.

So, in summary we've delivered a robust performance in challenging market conditions. We're committed to mitigating the impact of market uncertainty by managing those things that are within our control. And we're actively managing our portfolio to focus capital allocation on areas of growth and provide attractive returns. And with that I'll hand back to Liam.

Our Reinvigorated Strategy

Liam Condon

Chief Executive, Johnson Matthey Plc

The future of JM is bright and sustainable with really exciting future opportunities

But significant change is needed

Great, thanks a lot Stephen. So, as you've heard from Stephen, there is of course great volatility short-term in the market right now but long-term the net zero transition is of course going to have to accelerate. Otherwise, we're going to have a lot bigger problems than what we're currently seeing in the market right now. And we believe that will open up tremendous opportunities for Johnson Matthey. So, I'd like to explain to you now, what our new long-term strategy is and if I was to leave you with one message today it is basically this: The future of JM is bright and sustainable with really exciting opportunities, but it is also this: for us to tap into the true potential of JM we as a company also need to significantly change.

And what I would like to do is just very briefly share with you some of my insights gained in the first 87 days. What I've learnt, what I've observed and in essence tell you the good, the bad and the ugly of Johnson Matthey. And use that as a basis to explain then the rest of the strategy.

The good

Purpose-driven

Now the good is really good. We have tremendous strength in this organisation. This is an incredibly purpose-driven organisation. It's super-resilient and people really are driven by the purpose we have to help create a cleaner, healthier world. This is something that gets people out of bed every day at Johnson Matthey, incredibly purpose-driven workforce.

Talented and innovative people

But we don't – we're not only purpose-driven, we have incredibly smart people, we get this feedback all the time also from customers. We have really, really brilliant scientists but not only scientists, throughout the organisation a really talented workforce.

Strong technology portfolio

We have fantastic technology, I get this feedback all the time from customers. In essence usually saying world-class, amongst the best if not the best. Sometimes even to the extent saying we believe you could do much more with it. But an acknowledged, fantastic strength from a technology portfolio point of view.

Synergies across the Group

And finally we have a lot of synergies across the Group. Real synergies that I will explain as we go through the presentation. So great strengths to build on as a company overall and this is the good.

The bad

Lack of strategic clarity

Now the bad, and I'm just focusing here on the highlights. This is the biggest feedback I've gotten both internally and externally, we really need a strategy. This company needs to explain where are we going in the future. Where's growth going to come from? How are we going to allocate capital? What is the future of JM? There has been a lack of strategic clarity particularly of course since the exit from Battery Materials and Health last year, which were clearly positioned as growth pillars. So today I'm going to be outlining to you what that strategy is. But this is in essence the single-biggest thing both internally and externally that I'm getting as feedback that we need to get clarity on.

Complex and siloed organisation

Second one is we have a pretty complex and siloed organisation. Now I came from a pretty big organisation, a German-based multinational several times – many times bigger than Johnson Matthey. And of course, a company that size brings with it a high degree of complexity. I have to say I was surprised at the amount of complexity within Johnson Matthey. And I don't think things need to be that complex. Clearly, we have a – we've built a suit that is oversized for the body that it needs to fit. And this is something that we need to adapt to. We also have a siloed organisation, quite fragmented, and this prevents us from tapping into the full synergy potential of the company.

Execution challenges

And clearly, we've also had significant execution challenges. Not across the board. For example, if I take Clean Air I think they're actually doing a really, really good job. Their execution is not the challenge. But in other parts of the business, particularly in new ventures where we have entered into, we really haven't done a good job. You could say we've done a very poor job from an execution point of view. And this is something clearly that we need to address.

And the result of that bad side is the ugly truth, is in essence that we have not as Johnson Matthey created value in the last years. And this is something that we absolutely need to address and fix as we go forward with our revised strategy.

Our reinvigorated strategy needs to drive growth through three principles

Focus

Now, I just want to outline very briefly three principles that are guiding our strategic choices based also on these observations. And the first one is focus. Really important for us going forward. As Johnson Matthey we will be focusing only on the markets where we can win. We'll be focusing only on areas where we have absolute competencies, where we have the right to win. And then in those markets we will be playing to win. We will not be playing not to lose which is partially a game that we have been playing. So focus understanding where we can win, playing to win is going to be core. This informs our portfolio choices.

Simplify

We need to simplify. We have a huge opportunity to get leaner, faster, eliminate bureaucracy, increase the speed of decision-taking and of course as we do that this will release cost in the organisation. That's going to be a natural side effect of what we have to do.

Execute

And the third point from an execution point of view, execution typically what's really important is making sure upfront you have the right capabilities. So, a key part of our new strategy is also ensuring we have the right capabilities and that starts at the top. This is not an esoteric exercise in upskilling. This is ensuring also that the top leadership team displays and is capable of fulfilling what we need to do. So, we are making certain changes to our leadership team starting at the top to make sure that we can execute successfully on the strategy that I'll be presenting to you today.

My new leadership team

And just very briefly I want to highlight to you our new leadership team. They're all present here today. I'm not going to introduce everybody cos it will take too long and I'm not going to ask everybody to stand up now. But I will call out a couple of people as we go through the presentation and explain a little bit why they're in the position that they're in. And maybe just three points to highlight. This team, 50% are new on the role. So on day 87, 50% of the team is new on the role. This is pretty big. Of that 50% half of those are external hires. And they're external hires because they bring certain capabilities and skills that we did not necessarily have internally.

And last point I would make about this team is, this is six nationalities. This is a very diverse team and you will forgive me but I'm not differentiating between English and Welsh and Northern Irish and Scottish. That's all – that's all one nationality so it's six nationalities. I'm not shortcutting here. But really important that we have a diverse team, incredibly capable. And in my over 30 years of experience the one thing I've learnt which is really important, when you take over a new job, quickly figure out who you need on your team, quickly get your new team in place and this is the team that can execute on the strategy. This is a fantastic team and I'm really looking forward to working with everybody. So, a little bit more as we go through the presentation. I'll highlight some of the people here.

Catalysing the net zero transition for our customers

Now, if we get into the meat and bones of what our strategy actually is, I think it's always important to start with our customers and here, we basically explain who are the customers of Johnson Matthey. We serve in essence three industries, three massive industries: the automotive, chemicals and energy. Automotive, we serve primarily through our Clean Air business but also growing more and more through our Hydrogen Technology business with fuel cells. Chemicals, we serve through our Catalyst Technology but also through our Hydrogen Technology business. And energy, we serve through our Hydrogen Technology but also our Chemicals business. So these are basically our core customers.

And the interesting thing about these three industries, like almost any industry nowadays, but these are typically energy-intense industries as well. Also, with major emissions issues, all of them have to go through a massive transformation to enable the net zero transition. So, for all of them they all will need to transition. And if you take the chemical companies they need to transition to sustainable chemicals. We won't have a world without chemicals but we can't continue with just fossil-fuel based chemicals going forward. So how is that going to happen? Energy, same issue. If we wean ourselves off fossil fuels what's the sustainable fuel of the future going to be at a scale that we can actually power the entire world? And same for the automotive industry. We're going to be moving towards zero emission over time. How are we going to get there? Is it only going to be batteries or is it also going to be fuel cells?

Now, the interesting thing here is, we have across the board fantastic technology and I'll explain as we go through the presentation, actually leading positions in spaces that are vital for the net zero transition of our three core customer groups. And I don't mean tangential. I mean absolutely vital. Johnson Matthey is an enabler of the net zero transition for our three core customer groups. And I'll talk a little bit as we go through the presentation how we intend to do that. So that's in essence the starting point. Three core customer groups and industries going through a transformation who need help to get to net zero. And we have the technology that can help them to get there.

Core Businesses

Four JM competencies

Now, based on that big question, so how do we organise ourselves? How do we set ourselves up for success? What businesses do we want to be in? And I'm very grateful to all the analysts out there who've given me wonderful ideas about what I should do in my first 100 days. And whether it's acquisitions or divestments. I think it was a pretty broad span of suggestions about what could be possible. What I'm going to explain to you is what we have concluded is absolutely the right thing for Johnson Matthey to be doing, to focus on, because we can create tremendous value.

And in essence what we're going to do is we're going to focus on four businesses and going back to what I said earlier, the four businesses we've chosen them for the simple reason that these are core competencies of Johnson Matthey. These are businesses where we are really, really strong and where we can win absolutely. Where we actually have leading positions today and they're all based on innovation. And all have attractive margins and competitive margins. So, these are four businesses where Johnson Matthey absolutely has the right to win and needs to win. And flip side of this is everything that is not related to these are non-core and we will be focusing our portfolio going forward and we will be divesting our non-core assets at a point in time that maximises the value. But our focus here is on these four businesses.

And it's not just that these four businesses are in and of themselves highly attractive. I mentioned earlier there are significant synergies at Johnson – within Johnson Matthey and I think it's really important to understand those synergies. To also better understand why we choose this set up and this structure. We have synergies at basically three levels. A customer level, a technology level and our foundational PGM ecosystem.

Foundational PGM ecosystem

And if I start with that, the foundational PGM ecosystem, basically our foundational business is platinum group metals. This is the beating heart of Johnson Matthey. This business enables our other businesses. It also enables many customers outside of our own businesses. But this is fundamental to what we do. Supplies precious metals to all of our businesses and what's less known, we have a circularity component built into our offer because we're the biggest recycler in the world of platinum group metals. So, we can actually offer our customers a circularity proposal which almost nobody else in the world can do. And this is important today but this is growing in importance in a world that's challenged with limited natural resources. This is of course a huge advantage to have a circularity proposal built in. I can tell you on the hydrogen side companies are highly interested in working with us, not only because of access, for example, to platinum group metals, iridium, platinum, but also because of the circularity proposal that we have because that will offer a competitive advantage. So, this foundational ecosystem is really important. This is core to how we work together as a Group.

Shared technology capabilities

We also have shared technology capabilities. We have 1,200 scientists in the organisation, as I mentioned earlier, super-bright, super-smart. We have world-class catalysis, metals, chemistry and process technology know-how. And this is applicable to all of our businesses. So, it's not just relevant for one, it's applicable to all of our businesses and we build on that synergy throughout the Group.

Mutual customers/partners

And the final one is – and this is I would say probably the most under-utilised synergy that we have but one that's actually really, really important and also important that we enhance our commercial capabilities in this regard, our customer synergy. So, to give you a simple example, take any major automotive company, whether it's Daimler or whoever it's going to be, they have their internal combustion engine vehicles that they're going to have for at least a decade, maybe two decades, who knows, but they're going to continue with that business. And at the same time, they'll be transitioning to zero emission vehicles. Some of that will be battery-based. For trucks a lot of it will be fuel cell based. And they want partners who can help them in that transition. They want to be able to dial up and down because nobody knows what the pace of the transition is going to be. And you want partners who can help you manage that transition and shifting from one field to the other. And we have really long-term trusted relationships with all of our customers, typically decades long. As they transition, we can help them transition and we can use our know-how and knowledge that we've acquired in the one business to help another business.

So, for example, Clean Air working together with Hydrogen Technologies there's a tremendous synergy in there. Catalyst Technologies working with Hydrogen Technologies, think about the requirements for sustainable feedstocks. If you're making sustainable chemicals, which we can enable with syngas, you can also use green hydrogen. So tremendous potential synergies here that we absolutely need to lift going forward. But this basically gives you the rationale for this setup that we have, attractive businesses in and of themselves but tremendous synergies that we need to build on further.

Our vision and aspiration

Now, our vision as I said earlier is we want to play to win. And I think this is really important. Playing not to lose is actually quite a risky game. Playing to win in areas where you absolutely have the core competencies to win is a very attractive game. In all of these businesses we want to be a leader. And in all of these businesses right now we actually play a leading role. The thing is, most of these businesses will grow in attractiveness over time. So, playing to win here is crucial to us. It's crucial to our ambition that we take on this leadership challenge as well.

We reaffirm our ambition to be a sustainability leader

And are being recognised by leading industry organisations

Now, before I go to the individual businesses, I would just like to highlight also our sustainability commitment. We're also here, we have a very clear leadership commitment. We are not – we haven't made our ambitious sustainability targets and plan an agenda based on pressure from ESG funds or because we think ethically it's the right thing to do. We're actually completely convinced that given our circularity proposal that we have in the organisation, given the purposeful nature of our entire organisation, the energy that we have for this topic, we can make this a competitive advantage. We can set new standards in the industry that will make it harder for others to achieve. And that will become our competitive advantage. And again, think of the circularity component, something that is quite unique to Johnson Matthey. So, we want to step up further our game here and we want to stay ahead of the pack. I think we have ambitious commitments. I think we can do more.

And at that point in time maybe Anne, if you could briefly stand up and wave. Wave to the camera so everybody can see you. Anne is one of the new members of the team. Anne has joined us from formerly she was the CSO of Engie and was fundamental to helping Engie make the transition to the new world. And Anne has joined us to help Johnson Matthey take the next step on the sustainability journey. So, thanks a lot Anne for joining us. Looking forward to you leading on this journey supported by the entire team. But this is a strong commitment we have from a sustainability point of view.

A closer look at PGM Services

We are the leading recycler and metal hub of precious metals

Now, I'm going to briefly go through each of the businesses just to outline what they are. And I'm going to start with Platinum Group Metals because this is the foundational business, as I outlined, for Johnson Matthey. It's an enabler for all of our businesses. And feedback I have gotten is also under our former structure that Platinum Group Metals is – this business is a bit of a black box. Nobody really knows what it is, what they do and we're changing that. So, you're going to get great transparency on this going forward and I'm very happy to introduce – so maybe at this point in time Alastair if you could briefly stand up and just wave to the camera. And then you can sit down as well. Alastair is taking over now as the CEO of Platinum Group Metals. Alastair was the Interim CEO for Clean Air. I've been incredibly impressed with how Alastair stepped up to that challenge. We have decided to put in place a different CEO for Clean Air for the simple reason we believe Clean Air needs a stronger commercial muscle. And that is not the core strength of Alastair. Alastair is a financial and leadership whizz kid. And this Platinum Group Metals business has a huge impact on our balance sheet, on working capital and we have a very strong trading component in here. So, you really want somebody like Alastair running this business. So super Alastair that you're taking on this challenge.

And I'll just briefly talk you through what does this business looks like. Very simply these are the sales, the Platinum Group Metals that we have typical customers. And key point is here we're the number one supplier of platinum group metals and we're the number one secondary recycler. And I get a lot of questions on the Russia/Ukraine impact on us. We have a very diversified source of supply for Platinum Group Metals and because we're the world's biggest recycler we don't have any issues from a sourcing point of view. So, we can ensure security of supply to all of our customers.

Market demand will be sustained over the long-term

Now, over time platinum group metals and particularly platinum palladium is today highly-dependent on the auto catalyst market which over time will inevitably decline from a volume point of view as the automotive industry transitions to zero emission vehicles. But it's not the whole market that will decline. And the market is split into two components. And there's an essence the primary supply, which is the mining. And there's the secondary supply, which is recycled product.

Now, we are by far the market leader in the recycled product segment and that's where our core strength is. And that part of the market will continue to grow, and it will grow for very simple reasons. We have a tremendous cost advantage. If you're recycling a product versus digging it out of the ground, of course, the cost is going to be lower. The carbon content in the world, again, that's challenged from a carbon point of view is going to be at 98% lower than what you'll get out of a mined product.

And we have the circularity component built in, which is more and more important also from a regulatory point of view. There's going to be more and more restrictions on products that do not have a proper circularity or recycling component built in.

So, this part of the market that we are biggest in is actually going to continue to grow.

PGM ecosystem is a key source of synergies for the Group

And here, just lifting the lid on the business to a degree, so what we do in this business? You can see, in essence, three components. Big part is the refining, the recycling. We take then a lot of product in, whether its scrap coming back from used auto catalysts or jewellery or whatever it's going to be. Some product we get from mining, but big chunk comes basically as a second – from the secondary supply.

We then manage those metals and trade them. And we do that so well that our customers pay us to manage this on their behalf. And because of that, we have deep insights into the demand and supply of platinum group metals to the extent that the entire industry relies on our forecasts as far as supply and demand is concerned.

We had last week International Platinum Week for the first time, again, since the COVID outbreak. The whole industry shows up, and they pay to listen to the market research of Johnson Matthey because that informs their decisions based on what we're forecasting from a supply and demand point of view.

And the last part is the value-add. We basically will then use those metals to produce higher value products that we either sell ourselves or we pass on to other customers to sell.

So, this is in essence what the PGM business is all about with this fantastic circularity proposal built in, which over time will become more and more a competitive advantage.

A closer look at Clean Air

Now if we move on to Clean Air. Clean Air is probably the business today that Johnson Matthey is most known for.

The auto catalyst business, where we're particularly strong with heavy duty diesel, particularly trucks. But we're a leading player in the market today.

And here I already mentioned we have a new leader as well. And maybe, Anish, if you can briefly wave to the camera, because we have a lot of – I'm sure we have a lot of employees as well as investors today who are interested in seeing who Anish is, because they haven't gotten a chance to meet him yet. So, we've brought in Anish from Michelin to run this business.

And the simple reason is, although I said already Clean Air is a business that's actually in a great shape. They've done tremendous work over the past couple of years and getting in better shape. I think done a really good job. But I personally am convinced there's a lot more juice in the tank, but we'll have to up our game from a commercial point of view. And Anish is an acknowledged commercial tiger who's going to not only help Clean Air, he's going to help all of JM, because he's also going to be leading the commercial council across all of JM. So very glad, Anish, that you could join us as well.

Leading market position in autocatalysts underpinned by…

This business, I think, has been explained extensively already to analysts. So, I don't think I need to go into any kind of detail here. We have a great technology position, longstanding relationships.

Clean Air is serving a durable, global market

And the overall market forecasts, I think, have been presented many times as well. There will be positive factors influencing the market, whether it's legislation tightening, just overall increase in vehicles, but is also negative factors impacting, of course, electrification and the lower light duty diesel penetration in Europe.

And the pace of this is a subject of much debate. We have scenarios that are based on basically all the estimates that are out there with base case, with faster electrification case.

Long-lasting cash generation with continued autocatalyst leadership and operational excellence

And regardless of the case, one thing we have a commitment on, and that is that we will be delivering at least £4 billion of cash by 2030/31 regardless of the pace of electrification, because regardless of the pace of electrification, we have certain levers that we can pull. For example, if electrification is moving faster, we'll be moving faster on our cost base, on our CapEx. And there's different areas of working capital to unwind. There's different areas, different levers that we can pull.

And as long as we have a certain penetration, we require a certain investment level and we will adjust that over the years. So, this £4 billion – I'm personally convinced and I've spent a lot of time with the Clean Air team – this number is a bare minimum. I'm convinced there will be much more. And don't forget, after 2030/31, there is still going to be a need for particularly heavy-duty ICE trucks, for the simple reason this is a very hard to abate sector, it's going to take time to transition to zero emission. We will be helping the industry transition towards zero emission.

But in the meantime, life has to go on and we got to make sure that every product that's on the road is able to meet legislation requirements. That's our job. We ensure clean air. That's what we do really, really well.

We delivered on our commitments in 2021/21, with around £800m cash generated

And as I already mentioned, Clean Air is doing, I believe, a great job today, big progress on the cost saving programmes, big progress on getting CapEx down, winning where it matters now in the shootouts, particularly with Euro 7 coming. And we delivered £800 million in cash. Clean Air delivered £800 million in cash this year. Think about that, our 2030/31 estimate was £4 billion.

Its 2021/22, we delivered £800 million. So, I think that should underline our confidence in achieving the £4 billion-plus target that the plus should be a big plus and not a small plus.

A closer look at Catalyst Technologies

So let me move on to our next business, Catalyst Technologies. And here, I'm super happy that we have Jane Toogood to go to run the business. Maybe, Jane, I think everybody must know you. But still, it would be nice if you wave to the camera. So, Jane is an acknowledged leader in the chemicals and energy space. And she's, I think, a rare breed amongst Johnson Matthey and that she is regularly invited as a speaker to external events as well. We tend not to do so much externally, something we're changing. But Jane has always been ahead of the pack here and fantastic leader for this business.

And I want to explain a little bit about what this business is, because the Catalyst Technologies that Jane is going to take over is not the Catalyst Technologies of Johnson Matthey of the past. This is a new Catalyst Technology business that has tremendous growth potential, and we will be investing to tap into that growth potential.

Catalyst Technologies has a well-established portfolio with c.£450m in sales

So today, just to give you a brief snapshot of where are we overall as a business. £450 million sales. What you can see is, we have business in the space of syngas processes and refinery processes. And in all of those spaces, we typically have number one, two, three positions, often number one, but we already have leading market positions here.

A fundamental shift in chemicals and fuels production is taking place with syngas at its centre as the gateway to a decarbonised world

Now, syngas and refinery processes are crucial for the chemical and the energy industries. But there is a fundamental – a really fundamental change that's taking place in this industry. And to understand that, this might look like a complex chart, but this in essence, shows what happens today. Vast majority of the chemical and the energy industry uses fossil fuels. So, coal, natural gas, oil.

You go through a syngas process or a refinery process and you develop your chemical, which you need for almost every everyday product, or you get your fuel for the energy industry. So, this is what happens today.

Now we all know we've got to get off fossil fuels. But this fundamentally changes this industry and where – what our position and role in the industry is. So, the massive change that's taking place is you have, on two sides, a complete transformation. One on the left side and you have much more sustainable feedstocks. So, whether it's bio-waste or whether it's green hydrogen or whether it's captured carbon. You have an explosion in sustainable feedstocks. And on the other side, from a demand point of view, you have an explosion in demand for sustainable chemicals and sustainable fuel.

And to get there, you have to go through a syngas process. We own syngas today. So, this is a fantastic opportunity for Johnson Matthey, because we have leading positions in syngas today. This market is going to explode. This is where we want to focus for the future. And this is where we're committed to investing for further growth.

Syngas is the key gateway in the net zero transition – we aspire to become the #1 player across the value chain

Now I've mentioned we already have fantastic examples of technology leadership positions. There's a few examples given here. But a hint at what the future holds. We just released an announcement recently, earlier this week, which I have to admit was a bit technical in nature because four companies were involved. And I think all of the technologists and the engineers wrote the press release together, so you maybe need a translator to interpret it.

But in essence, what the press release wanted to say was that Aramco and Repsol were developing a sustainable fuel plant in Bilbao in Spain, one of the most advanced in the world, that they have chosen Johnson Matthey technology to process that – to basically do the syngas process in that plant. And this is both Johnson Matthey technology and technology that we developed together with BP. And they have chosen us.

So just imagine Aramco, Repsol, BP dependent on Johnson Matthey technology. This is what the future holds for Johnson Matthey in this business. And we have a fantastic starting position and we have a great technology already today, and we're building the pipeline further. And that's just the outline here.

Delivering high single digit growth over the medium term

Maybe too many numbers, but simple message is, there's market potential £3 billion to £12 billion and by 2030, the addressable market. Our current plans basically aim for the lower end, but we are completely capable and able to scale up if the market is accelerating faster. And this market will accelerate significantly beyond 2030. Maybe it will accelerate faster. So if we go to the high end, we will make sure as a market leader that we'll be able to capture that growth.

And what you can see beyond that growth that's there today, we have over 70 projects in the pipeline today and we only need a handful of those projects in each segment, Blue Hydrogen, sustainable aviation fuel, low carbon solutions, to be able to meet our initial ambition of high-single growth over the medium term. And I say initial ambition because I think here for sure as we progress, we'll see that there is probably more growth potential than we can even imagine.

So fantastic business to be in. A lot of growth ahead of us. And the pace of that growth will be determined by the market. But we will be the market leader in this space.

A closer look at Hydrogen Technologies

And the last one I want to talk to, and then we'll come to our capital allocation, is our Hydrogen Technologies business. And here as well, I'd like to introduce you to a new leader who has joined us from external. Maybe, Mark, if you could stand up. Mark Wilson, who's also not yet known by the JM folks internally. So, everybody I think is that is Googling your name today and trying to find out more.

So, Mark is a super experienced leader in – particularly in the energy transition space. He's worked a long time in corporates, BP as an example, and has also worked a lot with start-ups. He's managed JVs in China, which is actually going to be crucial for our success going forward. And is simply a very, very accomplished leader who can help lift our Hydrogen Technology business to the next level. That's why we've put Mark in place for this role.

We provide the key technologies that enable the hydrogen economy

Now hydrogen, we believe – and this isn't just us, these are market estimates, not our estimates – has fantastic growth potential. And there's two specific areas where Johnson Matthey can and will be a winner. And that is in the fuel cell market and in electrolysis. So, fuel cells to power vehicles, particularly heavy-duty trucks, and electrolysis to generate green hydrogen, so the production of green hydrogen.

Now it might sound odd to those of you who are not so familiar with the technology, at least it sounded odd to me. This sounded like two completely different markets. So why on earth would Johnson Matthey enter these? And the reality is why we do this is it's based on the technology. Where our core competency is, is in the catalyst coated membrane. This is where the magic literally happens.

And if I can show you in simple terms, this is a catalyst coated membrane. You can see it's pretty thin. It's like a piece of paper. This has five layers on it. This is really, really high-tech stuff. And in essence, what happens is if you take the example of fuel cells, you're going to be taking hydrogen and mixing it with oxygen through this and you get electricity on the other side, and that powers the vehicle.

Electrolysis, you do the opposite. You take electricity to water through this and you get green hydrogen and oxygen. This is the magic that makes it possible. Five layers, so you have a membrane, you have a catalyst on either side, the cathode and anode, and a seal on either side. And then we've got a seven-layer version as well with two gas diffusions. This is high-tech stuff, high value, super high value.

And the most important part is, this determines the performance. This determines the durability, the efficiency, the cost of either the fuel cell or the electrolysis process. This is a really high value component because this determines what the outcome is going to be. And this is core competency of JM. This is hardcore catalysis know-how. This is hardcore metals chemistry. This is really – goes to the fundament of what we do.

Significant addressable markets

We've a lot of experience here at Johnson Matthey, and you can see here basically the market growth projections here, £4 billion to £14 billion is the estimates, depending whether it's electrolysis or fuel cells. The pace of growth, again, completely dependent on the markets.

If you take the example of fuel cells, if electrification is faster, you can assume that the fuel cell growth will also be faster, because it means that the trend towards zero emission will be increasing. We haven't factored that in our Clean Air scenarios. So, I think this is something where we, of course, have a natural hedge within the company, but tremendous growth opportunities here for a company like ours.

Strong right to win in CCM...aiming for market leadership

And I'm sure some of you might be thinking in your mind and I'm sure might have the question, well, haven't we heard this before? Isn't this like Battery Materials? What's different? Why are you going to be successful this time?

Very simply why we'll be successful this time, it goes back to what I said at the beginning, focus on the core competencies, play where you can win and play to win. This is absolutely crucial for us from a strategic point of view. We have 20 years of experience in fuel cells. These fuel cells were one of few in the world that can do this at a world class level. This is a core competency.

We got into battery materials pretty late. It was never a core competency. And unfortunately, we realised as a company too late how expensive it would be to build up CapEx and what meagre returns we would get on that. So I think, ultimately, it was a good strategic decision to get out. Unfortunately, too late. Here, very different. Core competency and the CapEx intensity of this type of business is of magnitude to lower than, for example, Battery Materials.

Another difference, we have customers. We have real customers. We never had a customer for Battery Materials. We had wonderful technology. We were building plants. We never had a customer. Very different. We have existing customers today, and the customers are ramping up their demand. And everything we built is customer-backed. So, this is completely different than Battery Materials where we were building ahead of customer contracts. We are building now based on customer commitments.

Strong technology position and this is why our customers want to work with us, but also, as I mentioned, the circularity component. A company like Plug in to US, they want to work with us because of our great technology, the catalysis component, because of the fact that we can get them iridium, which is going to be super important, to also platinum, but also because we have the circularity proposal. There's nobody else who can offer that out there. So, this is a really fantastic business to be in.

Scaling capacity: Capacity expansion in line with growing customer demand

Example here of what we're doing going forward. This is a business where demand outstrips supply by far. I think our biggest challenge here is actually scaling up, which is why we're very happy to work with partners like Plug who are like-minded, who want to invest together to help grow the market.

Here's an example of what we're doing to increase capacity on three levels. We build out capacity at our current plant in Swindon. We're expanding in China, which is also important that we have Mark's expertise for the Chinese market. We also have an excellent president in China, Mark Su, who's helping connect us with the right partners in China.

And we're planning on building a three-gigawatt manufacturing facility in Royston, but we're doing this in a smart way. Smart way twofold: one, customer-backed; two, smart CapEx and we're building on an existing site. We're not building a greenfield site. We have actually decommissioned the part of our Clean Air production facilities because we've moved Clean Air to a more efficient location in Europe.

And we've basically repurposed those buildings so that they can house now our fuel cell production capacity so we can increase capacity by three gigawatts. So, all of this is ongoing, smart CapEx, customer-backed and basically doing it in a manner that we can fulfil our customers' needs, but this is really a scale-up challenge. So, we also have to look at what we can do in China and increase output in Swindon at the same time.

Customer partnerships: building on a strong position today, targeting more than £200m sales by the end of 2024/25

And finally, on this last slide and then we'll move on. This is the current customer landscape that we're allowed to talk about. We do work with customers who are very sensitive about us using their name for various reasons. So, we don't list every customer up here. But what you can see is whether it's in electrolysis or in fuel cells, we typically have a good representation of customers across Asia, Europe and the US. And our core intent and desire here is only to have strategic partnerships.

We have no interest whatsoever in transactional relationships in this space because demand is so high. We are not just going to be a supplier of low value components to others. We will focus on the core value adding component catalyst coated membranes for electrolysis and for fuel cells. And we will only work with strategic partners, and we will only invest in capacity that is backed by customer demand.

And right now, we're looking at a total customer pipeline. This is 25 already, 10-plus gigawatt. And this is real. This is now. This is what we're scrambling to scale up to. And there's a lot more to come.

So, I hope I've given you a sense, we're going to be generating some juicy returns going forward. We also have to make some decisions about how we allocate capital. So, to give you a little bit of a sense of how we think about that, how we frame that, I'd ask Stephen to present the capital allocation framework.

Capital Allocation Framework

Stephen Oxley

CFO, Johnson Matthey

Our clear capital allocation framework will be the basis for our growth trajectory

Thanks, Liam. So let me wrap the financials around that. And naturally, if we're going to deliver that growth, we need a prudent, disciplined approach to our capital allocation. So let me start with the left-hand side of this chart, that's our sources of capital. And these include our strong cash inflows from our operations, particularly, of course, Clean Air and PGMS.

And we expect also to release additional cash through divestments of those non-core assets that Liam talked about. And we're targeting at least £300 million over the next two, three years.

So, this cash flow will then be complemented by a new efficiency programme. We expect to generate £150 million of annualised benefits by 2024/25, and I'm going to talk more about that in a minute.

So, we'll deploy capital in four ways. So firstly, we'll focus on our organic growth opportunities. Secondly, we will at least maintain and aim to grow the dividend, and we'll going to be targeting a 40% pay-out ratio over the medium term. And third, we are open to bolt-on acquisitions to unlock further value. So, we're going to consider adjacent technologies, businesses that can accelerate our growth, strengthen our operational capabilities and also improve our technology.

And then, of course, we will distribute excess funds to shareholders through special dividends or through share buybacks. And for the record, we've now just completed the £200 million buyback that we announced back in November.

We will also maintain a strong balance sheet with a prudent net debt to EBITDA ratio of 1.5 to 2 times. I've reassessed our gearing policy, and I'm satisfied that this remains appropriate.

Capital allocation will set us up for long-term growth

So, moving on to capital expenditure. So, following the strategic review, we've revised down our three-year CapEx plans by £200 million. We now expect to invest about £1 billion by 2025, of which half will be on growth opportunities, 30% on maintenance and the balance on replacement projects.

And we're going to invest in a disciplined way, only committing to investments that pass through our new stringent, independent review process and meet strict internal rates of return. Our capital deployment is going to be modular and will be dependent upon the achievement of clear milestones to make sure that we don't over-commit to any particular project.

In Hydrogen Technologies, as Liam has just said, we're scaling investments to support growth and meet committed customer demand. In Catalyst Technologies, we do not expect immediate capital expenditure or significant capital expenditure in the short term, but we do anticipate modest investment to support growth in the medium term.

PGMS, our UK refinery needs substantial replacement CapEx. This is a complicated project that we've inherited. It's not without its difficulties, but getting it right will set us up for decades to come and mean much lower future maintenance spend.

And finally, Clean Air, we will reduce our CapEx to about £50 million by 2024/25 as our strategic investments in plants complete.

Transformation delivering material efficiency benefits

So now turning to that efficiency programme. So, on the back of the strategic review, we've performed an initial assessment of the Group and we've identified opportunities to increase efficiency and further reduce our costs. That's across our global corporate functions, across procurement, operations and real estate. The programme will generate £150 million of annualised benefits by 2024/25 and will start to deliver this year.

We expect the total cost of the programme to be about £100 million and that will be incurred in cash. And of course, we're going to look for further efficiencies beyond this.

Growth driven by Catalyst Technologies and Hydrogen Technologies

So let me now turn to our growth profile. So, assuming constant metal prices, we expect to accelerate to high-single-digit growth in operating profit in the medium term. And that will be driven by the growth of Hydrogen and Catalyst Technologies and also the benefiting Clean Air of new regulations, and of course, the impact of that efficiency programme. Of course, this is at constant metal prices, and we know these are close to historic highs.

Now in the longer term, we expect strong growth as we further scale Hydrogen and Catalyst Technologies whilst continuing to generate substantial profits from Clean Air and PGMS. And within 10 years, we expect to have a well-balanced portfolio and estimate that our combined growth businesses will account for around 40% of our profits.

So, with that, Liam, let me hand back to you.

Next Steps

Liam Condon

CEO, Johnson Matthey

We have clear milestones until end of 2023/24

Thanks a lot, Stephen. So just two, three more slides, and then we're done and then we're going to get into the Q&A.

I think what's important beyond what Stephen has already outlined from a financial parameter point of view – and my clicker has given up. If we can maybe – somebody can – there we are. Okay. Thank you.

We have certain milestones to basically track progress. And I think one of the questions that will be out there is, how will we know that you're making progress, you're presenting this strategy and structure and team and beyond the financials, how will we know that you're actually making progress? So we've put up some milestones here.

And our commitment is that we will be regularly updating you on how we're progressing. So, we'll be informing you about how we're doing, if we're achieving our targets or not and if not, what mitigation measures we're taking to ensure that we can achieve them.

So, this is a complete commitment to transparency. Because I'm aware today that just presenting strategy is not going to be enough. What's really important is that we deliver on our commitments. So, we're being transparent about what we're committing to and helping you to be able to track how we're doing. So, there's various components in here, but all broken down. And you can expect the first update latest at the half year results probably in November.

But before then, I can guarantee you, you'll be hearing about further progress on our journey because there's one thing that we're committed to, it's moving at pace.

Creating value by catalysing the net zero transition

And as a summary of our core messages today, what the new strategy is all about. It's focusing, as Johnson Matthey, on where we can win. It's playing to win. It's having a much simpler organisation, a faster organisation, a more efficient organisation. And it's all about executing in a much more rigorous, disciplined and successful fashion. And that's going to be enabled by a team that is committed to creating value on behalf of our shareholders and, of course, on behalf of our customers.

But also, and I say this very honestly, on behalf of society because Johnson Matthey is catalysing the transition to net zero. We have the core competencies to do that. We can help our customers move faster. And the world will be a better place, if more Johnson Matthey products are used. So that's our commitment to you.

We're very excited about the future, and we're looking forward to your questions. Thank you very much.

Q&A

Martin Dunwoodie: So, thank you, Liam. Thank you, Stephen, for the presentations. As Liam said, we'll now open to Q&A. We'll take Q&A in the room and also from the webcast. If you can give your name and company before asking, that would be great. We'll start off with Sebastian in the middle, please.

Sebastian Bray (Berenberg): Good morning. Sebastian Bray of Berenberg Bank. Welcome, Liam. Thank you for the presentation. And likewise, Stephen. It's good to see you again. I have one question, but it gets a bit numerical, so I'll focus it on in this way. The page 53 of the slides, I think there is a different label given in the digital presentation, but it's only a difference of one. Where the target is for 40% of operating profit from new businesses by 2030 to 2031?

If I take, let's say, a high-single-digit percentage growth rate on the £500 million base at a reasonable level of metal prices similar to today, let's say that number is between £700 million and £1 billion, depending on what exactly the growth rate is, and if we ex out the value businesses and so on. So, we're talking about £300 million or so of EBIT potentially from those businesses.

Assuming that they make a similar margin to what catalysis has done in the past, that's 15%. That's about £2 billion of incremental sales. There is – what I'm getting at here is that you've effectively guided for about £300 million-ish of CapEx over the next few years dedicated to those areas to 2025. Is there an absolute CapEx bomb coming afterwards when those growth areas accelerate to 2030?

And what I'm getting at here is, this strategy review only runs out to 2025, is the plan to sell autocatalyst business to raise that capital when you reached that point? Thank you.

Stephen Oxley: Okay. So maybe I can deal with the financial.

Liam Condon: You do the first and I'll do the second.

Stephen Oxley: To portfolio. So, yeah, look, great numbers. I'm not going to go through those in detail. So look, so the CapEx in the short-term, as I say, is about £1 billion, that's come down a little bit and that sort of costed across the various areas. We will obviously continue to invest after that. There isn't a CapEx bomb to come, but clearly, we will then derive or plan CapEx depending on the rate of growth of those subsequent businesses. So let me give you an example.

So, on Hydrogen Technologies, we've talked about – we'll spend about 25% of that £1 billion on hydrogen expansion. There's about three gigawatts to come immediately in the UK that we've talked about. We'll then look to see what those committed contracts give us. And if we're seeing fantastic growth opportunities, we will put more CapEx in. But there certainly isn't a big bomb to come, Sebastian.

Sebastian Bray: Thank you. Just to clarify the comment around potentially selling autocatalyst is my words, not yours. I don't want to put words in your mouth, post 2025 to raise financing. Is there a day when you can imagine holding a presentation and you think of Clean Air as a value business rather than a core area of Johnson Matthey?

Liam Condon: Yeah. Thanks, Sebastian. So the way we're thinking about the strategy right now and the portfolio choices that we've made is this is – right now, this strategy can create tremendous value. For each of our portfolio businesses that we have, we're in essence looking at market-leading positions. We're looking at competitive margins and we're looking at a need for innovation, because this is also driving the margin.

And as long as those three conditions are met, then we are the right owner for the business because it's going to be a very attractive business. If that changes, if something changes in that, we will, of course, regularly review with our board, are we still the right owner for a specific business. So, nothing is ever set in stone. But this strategy will create a tremendous amount of value and we'll just regularly monitor with the board what our overall portfolio should be. But as long as we're meeting those three criteria, I think we have a very clear portfolio.

Martin Dunwoodie: Okay. We'll next go to Gunther. I think, Andrew, you have a question. So, Gunther to Andrew and then Kevin down at the front.

Gunther Zechmann (Bernstein): Good morning. Gunther Zechmann from Bernstein. I have a numerical question as well. Why aren't you selling more in Hydrogen Technologies? You're saying £30 a kilowatt. You have two gigawatts of capacity. You should be selling £60 million, not £20 million, unless your utilisation rates are submergingly low.

Gunther Zechmann: Just following up how do you get to that £200 million as well?

Liam Condon: Yeah, sure. Now, it’s a great question. But the reality is the hydrogen business right now is in essence a nascent business. It’s still very small. And we have a mix of development work ongoing together with real product sales. So, the sales that you see right now that are basically recorded are relatively low. Customer demand, as we’ve highlighted for 2025, we’re targeting at least £200 million. That gives you a sense of where it's going simply based on the customer demand that's there.

The margin profile will, of course, significantly change over time. Right now, it is an investment business. It will be for the next years. And I would expect in four or five years that this will turn then significantly positive from a margin point of view, for the simple reason that we're producing a high value component with a unique competitive proposition, with the circularity proposition built in and a lot of customer-backed capacity.

Gunther Zechmann: So that £30 a kilowatt is a projection. At the moment, it's more around £10 a kilowatt.

Liam Condon: Yeah.

Stephen Oxley: Yeah. So let me – so, what we've done is we've taken that business down essentially in the short term. Think about what it used to be. It was more of a sales business and we're running the business sort of double current revenue. We've consciously decided that we have – that we’ve got a fantastic opportunity. So, we're taking the sales down. So, we've got capacity, for product development and customer qualification. And at the same time, we're putting a lot more resource into the business, which is why we've now got an operating loss and investment in the business.

We will get then further volume growth through as we get towards the next three years. And that will come up towards the £200 million. That's when we'll get the margin accretion that we've talked about.

Liam Condon: And the only the only bottleneck to increasing that number further is our own ability to scale up. So, it's not an issue of demand. It's literally an issue of ability to scale up fast. That's the key issue.

Martin Dunwoodie: Move to Andrew.

Andrew Stott (UBS): Yeah. Thanks. Morning. Andrew Stott, UBS. Thanks again for the comprehensive presentations. First one is on milestones, if I can, back to that final slide. So, it’s sort of linked in with the previous question with Gunther. Of the more than £200 million, how much is committed contractual revenue today?

And then linking to that, would you – from a shareholder perspective, I guess as a benefit here, would you consider putting a backlog in your numbers as you go forward? So, we can actually see the milestone in the backlog? So that's the first question.

But also with milestones, on Euro 7, I'm a bit confused. Because if you go back six months, there was a sort of message I thought that Euro 7 was not going to be anything other than neutral due to price downs. So, maybe I misunderstood that message – sort of sensing a more positive message on Euro 7. So, two, separate question on milestones, and if I can steal a second, how do you intend to incentivise your leadership team, Liam? Thank you.

Liam Condon: Thanks, Andrew. So, the £200 million is all customer backed, and I'm not sure I got your point on the backlog and being transparent on backlog.

Andrew Stott: Well, given – as you said, it's a nascent technology. Do you not need to publish the backlog as it develops? Rather than – we just see a sales number. So, we've got a future-looking aspect to your financial ratios. Is that something you would consider?

Stephen Oxley: Well, we can take that away and have a think about it.

Liam Condon: Yeah. We can gladly have a look. I think, one for the notebook that we take that away and consider it, because it is our intent to provide you with more transparency, so you can track our progress. And we just need to do that in a meaningful way, that doesn't breach any confidentiality agreements. But if we can do that in a reasonable way, why not? But key point is, it's all customer-backed.

Euro 7, should we asked – Alastair maybe to take this one. Can we get a mic for Alastair? Because Alastair made the statements previously, I think. So just for the sake of consistency, I think it'd be better if Alastair answers this one. Do you want to stand up, Alastair? I mean, just watch the camera.

Alastair Judge: So, the way we see it is that with Euro 7, there's more complexity needed in the catalysis system to take out more of the gases that come out the exhaust system. So, the absolute value will go up with Euro 7, but the margin on each piece won't, because we see it as very competitive in the actual tender process. So, there's more absolute value at the same margin. That's how we described it, I think, in January. And that's obviously one where we're hoping we can do better, but that's the assumption we're using in our long-term modelling.

Liam Condon: And on incentivisation, our long-term model, so for the – not just this management team, but all our senior leaders, is basically 40% is total shareholder return, 40% will be core EPS or underlying EPS, and 20% is sustainability targets. So that's how we're incentivised, which I think is very much in shareholder interests.

And one thing I would add on incentivisation, because I spoke about the need to enhance our commercial capabilities and our commercial muscle. You'll be very happy to hear for the first time ever we are implementing a commercial incentive scheme with Johnson Matthey this year. So that's something to look forward to.

Andrew Stott: Thank you.

Martin Dunwoodie: We'll move to Kevin.

Kevin Fogarty (Numis): Good morning. Kevin Fogarty from Numis. Two please. Just one just on capital allocation. Stephen, just digging into the disciplined nature of capital allocation, just in terms of how that process sort of changes relative to the past, and particularly around the kind of modular nature of CapEx going forward, I guess, the existence of those opportunities across the group? And then, just secondly, in terms of leadership change, obviously quite extensive. I just wondered if you could share with us how does that change kind of JM's approach going forward to try and commercialise the opportunities ahead? What should we see as different?

Stephen Oxley: Okay. Let me start with CapEx then. So, in the good old days at JM, we had the businesses coming up with capital projects – the designs and the assessments of those that would then come forward to the central team and the board. And what we've now put in place is an intermediate step, where we have an independent team that's scrubbing all of those projects with discipline and consistently across the whole company.

So, it's a very deliberate step. It's providing much more discipline. It goes then through a sort of a committee review across – has people from across the business, and then, eventually comes up to the leadership team. So much, much more rigour and independent challenge. And wrapped around that, of course, appropriate return hurdles.

The point about modularity here, and I'm – and what I'm going to do is contrast with Battery Materials. So, batteries we were looking at hundreds, billions of pounds worth of investments in huge, huge plants that just isn't Johnson Matthey quite frankly. If I contrast that then with hydrogen, we're talking about bolt-on plants within existing facilities, Liam, as you talked about.

So, we're talking about to £10 million, £20 million, £30 million worth of extra investments that we can then phase in depending on those customer commitments. So, a completely different model that we're talking about here.

Kevin Fogarty: Okay. Helpful. Thank you.

Liam Condon: Yes. And on leadership and leadership changes, and I think you specifically referenced the commercial approach as well, what would change? I just mentioned a couple items, and maybe ask Anish to give a brief insight from his side with – and, of course, he can't be specific to JM because he is only joining now. But he can, I think, inform you with his thinking how he thinks about this, which I think would be very helpful.

But for me, what's crucial is we get much more strategic commercial partnerships in place. I think we have a tendency to do a lot of transactional or to be involved in transactional relationships, where the true value of what we offer is, of course, undermined. So having a strategic relationship – we don't need every customer, but the ones that we do have, we need to be really in for the long term together in a win-win type of scenario. That's one.

Second one is a more – a joined up key account management because we have extensive long-term relations to core customers in one business which are highly relevant for other parts of the business. And we need to approach this as one JM and not as separate businesses. So, another typical example.

And finally, just about the whole topic of value and going after value is something as simple as having a commercial incentive scheme that also incentivises value versus volume is actually something very helpful to have. So, these are pretty simple things but actually quite fundamental to us improving our performance. Maybe Anish, do you want to – if we've got a mic for Anish?

Anish Taneja: Yes. Thank you very much. As Liam said, I've not spent a day in the company until now, so I'm going to be very prudent. But what generally helps on commercialisation is that, first thing, we're going to look on the different silos we have today in the company. And I think if we can look from a customer base toward all the opportunities we have there, what you generally call increased share of wallet, there's a huge opportunity there. Obviously, we can go for cross-selling as well on that part.

The second point clearly is I think we can bring some hunting spirit to JM. That's definitely something where you want to go for new customers, especially with all the innovations we have there. And the third point definitely is I always say sales it's just pure mathematics. You have a funnel. If you calculate it right and you know your business, you can estimate pretty well what's going to happen.

And once you have that funnel built up, you know exactly where your weak points are, and exactly there we're going to train the people and go to a very rigorous performance management.

Martin Dunwoodie: We'll move to a couple from the web and then come back into the room. So, a couple from Alex Stewart at Barclays. Firstly, your free cash flow in Clean Air was £800 million. Could you talk us through the moving parts? And then secondly, you say Clean Air has around about £2 billion of net working capital but your Group net working capital is less than £1 billion. So how do we square that, please?

Stephen Oxley: Yeah. Great questions. I'll deal with both of those. So let me start with the £800 million. So just to recap, we've obviously said that Clean Air will generate at least £4 billion of cash over the next 10 years and then substantial amounts thereafter. So on average, at least £400 million per annum.

We have said though that that will be very lumpy. So, we've had a great start with £800 million. What we'll actually do is give you a cumulative picture as time goes on. But as much as I'd love it to be, it's not going to be £800 million times 10. It may not get to £8 billion, but let's see. Let's see what happens to the markets.

But there were a number of drivers of that. And what we've talked about happening at the end of the year was a reduction in metal prices and also because of the China COVID shutdown particularly, and saw a depression of that business. So that threw off a lot of working capital, coupled with the metal price decrease. It was the combination of those two things that gave us a significant boost beyond the operating profits, obviously, that gave us that lift from £400 million up to £800 million.

It will be lumpy. So, what you'd expect particularly maybe through the second half of this year as the business comes back, then we would expect the cash to come down accordingly. So, look, we'll see that sort of flipping around.

The next question was, I think, on the overall level of working capital. You're absolutely right. You do the splits by the different parts of the business. What you see there is that we are running a very efficient working capital model in our PGM Services business. So historically, we've had very significant backlogs in the business. We've now turned that around. So, we have very small backlogs. We maintain our liquidity ratios, and we run a very, very efficient balance sheet, which is why we ended up with a negative working capital in that part of the group.

Martin Dunwoodie: Thank you. We'll take another one from the web before we come back into the room. It's from Jean-Baptiste Rolland at Credit Suisse. Could you elaborate on the terms of your partnership with bp regarding the FT CANS technology? What's in there for both players? How do the earnings get shared? And how does Johnson Matthey protect its IP?

Liam Condon: Yeah. Great question, Jean-Baptiste. So, I would ask Jane to comment on this one because she's much more familiar with the details.

Jane Toogood: Thanks very much for the question. We've worked closely with bp actually for some period to develop the technology. And as is typical when we work with partners, we of course share some of the value of that. And so, we do have a sharing arrangement, which I won't go into details in here.

In terms of protecting IP, we are absolutely vigilant around protecting the IP of our technologies, particularly in area where we're licensing. And the one-off that we talked about earlier was in the Catalyst Technologies area. So that £42 million that we had that was where we actually challenged people that had potentially stolen our IP, and we did that jointly with partner and, of course, received recompense when they took our IP.

Liam Condon: Thanks, Jane.

Martin Dunwoodie: Great. Thank you. If we move to Charlie Webb. Charlie?

Charlie Webb (Morgan Stanley): Thank you very much. Charlie Webb from Morgan Stanley. This might be for Jane as well. It's on process technologies to start. So just how do we think about the growth opportunities in syngas? Is that growth that you'll be able to serve via the plants you have today? Or is there investment is going to be required to meet the opportunities you see there? And also, kind of tied into that, how do we think about the licensing opportunities in the next five years in terms of the potential with all this growth you see?

Jane Toogood: Thank you. So, of course, the growth in syngas will come with a big growth in licensing opportunity, as we see new facilities built that need our technologies. And so that pipeline that Liam talked about earlier, and this is a pipeline at record levels with 70 – over 70 projects just in the new areas quite apart from our existing business. So, licensing will become a much more important component of what we do.

And what that means is in terms of the other parts and how we support the catalyst, that then follow from that, of course, we have existing facilities that we can use. We have a network of operations and we'll continue to run those very efficiently and effectively and invest as needed for new catalysts. But we don't expect that to be a heavy capital investment.

Charlie Webb: And sorry, just following very briefly, where are the opportunities? Do you see them in Asia, Middle East? Or is it all over the place for the syngas?

Jane Toogood: The opportunities are truly global. So truly global pipeline.

Charlie Webb: Thank you. And then maybe just one more question, on – for the gentlemen up top. Just on returns. It was something, obviously, not so present in terms of a target for you guys stated today. It's obviously – something that has been discussed for many years, whether we are at a kind of pre-tax return of 20% within the JM business. Obviously, I guess, with Battery Materials, we were kind of deviating away from that previously. But where do you – where do we stand today on returns in terms of not necessarily a target, but your expectations over the medium-term?

Stephen Oxley: Yeah, look – and I'm smiling because it was a question I thought might come up. So, look, the returns are really important, and we've taken our return up from 13% to over 17% in the year, which is great. I said it back in the autumn that for me, the 20% ROIC that we talk about historically was not right for JM of now. We've got different businesses in the portfolio at different stages of their lifecycle. So, an absolute 20% across the board isn't the right approach and that is not our guidance.

What we clearly want to do is invest for growth in the long-term through the disciplined approach that I have talked about on a case-by-case basis, where the return is significantly ahead of our WACC, and that's the key thing for me. So, it will be less on ROIC.

And what I come back to actually are the key measures that we focus on, the key KPIs, which is TSR, which is creating value for all of us, core EPS, and then, of course, increasingly our sustainability measures as well.

Charlie Webb: Thank you very much.

Martin Dunwoodie: If we move to Maggie, just in the centre as well, please. And then, Riya Kotecha, I've got you as well.

Maggie Schooley (Stifel): Good morning. It's Maggie Schooley from Stifel. I had two questions, if I may. Can we just delve a bit deeper on Alex's question in terms of the CapEx for PGM refineries? And what I really would like to get a sense of is you have improved or you have spent quite a bit over the past couple of years and it's benefit throughput. So, with this additional CapEx spend, should we be thinking a greater capacity? Or is this just to reduce your future maintenance spend? So, a better understanding of out and how that affects trading?

Stephen Oxley: Yeah.

Maggie Schooley: And then secondly, a smaller question. Your small investment in Enapter, admittedly my knowledge on anion exchange membranes are quite low. But I thought the benefit of that was that there was no PGM catalyst. So, could you – there might be other catalysts, but could you explain the rationale for that?

Stephen Oxley: Now, let me start with PGM Services, Maggie. So PGM Services is about a third of £1 billion over the next three years, and that splits – within PGM Services, roughly a third of that is growth. The rest is maintenance and replacement CapEx. The growth is really in two areas. One is providing additional capacity, particularly in China, where clearly that is going to be a growing market for recycled PGMs, but also providing and creating capacity for fuel cell catalysts.

So the raw ingredient, if you like, the chemistry that goes into hydrogen but also potentially into the market as well. So those are the two growth areas. And we'll see the replacement expenditure going up over the next few years. That will then come down as we complete our refinery build with a much, much lower level of maintenance capital expenditure thereafter.

Maggie Schooley: Do you have the capacity numbers?

Stephen Oxley: Not in ounces, no. I might come back to you on that afterwards.

Liam Condon: And if I take the Enapter, I'll ask Maurits, our CTO, to comment a bit more it. Basically, first, you're right. So, the anion exchange membrane technology, it does not require PGMs. The reason for us to invest here goes back to our strategy, where we want to – in fuel cells and electrolysis, we want to be the technology leader. We also want to be the cost leader. And we want to be the market leader.

And we believe we're going to need a broad toolbox. There's going to be different technologies. It's unclear today which one is going to be the absolute winner. General consensus is clearly PEM, where most of our focus is on proton exchange membrane. That's going – that's the area where we're strongest. And in essence, we're investing also in AEM to have more options from a technology point of view because for sure there will be at least niche applications there.

But maybe, Maurits, you could add to that?

Maurits van Tol: Yeah. Maybe I can explain. Excellent explanation already by Liam, but add to that. So AEM still uses a little bit of PGMS, but that's of course – the whole intent is to change that and move to other catalytic systems. But you still need a catalyst and we are a catalyst player also for non-PGMs. Also in CT, you see a lot of the catalysts being based not on PGMs. So that's a core competence of us.

You still need a membrane. You need a catalyst on the membrane. And as Liam explained before and demonstrated, similar kind of technology is really at our core. So, we can work together with Enapter to make also this technology a complementary winning technology.

Liam Condon: Thanks, Maurits.

Martin Dunwoodie: Move to Riya.

Riya Kotecha (Bank of America Merrill Lynch): Good morning. It's Riya from Bank of America. I have two questions, please. First to Liam. A key focus of the strategy seems to be simplifying the group, which you alluded to is a learning from Bayer. I'm just wondering about what are the learnings you've made that you think you can leverage and use at your time at Johnson Matthey?

And my second question is on Catalyst Technologies. Now that you've split the business out, it looks like it achieved low-double digit margins for FY22. What are the levers to bringing this back up to historical levels? And what does the trajectory look like? Is it at a similar level until you gain new contracts? Or is that element of cyclical recovery that means that this margin can sort of go back up in the near term?

And then just the last one related to Catalyst Technologies. On one of your slides, you mentioned significant capacity additions in blue hydrogen, sustainable fuels and low carbon solutions. I'm just wondering, to what extent JMAT will then need to increase its own capacity to satisfy these catalyst needs? And how should we think about the capital intensity of growth? Thanks.

Liam Condon: Okay. Thanks a lot, Riya. So, I'll do the transformation, the learnings so far from Bayer and what we learned – let's say, what I can transfer here as key learnings. And Stephen will take the others and maybe pull up one or two voices from our leadership team.

So, I think coming from Bayer, what was always what stuck in my mind really the importance of being very clear about your positioning in the market, this topic of focusing on your core competencies, market leadership positions, having competitive margins. This is something that I think is – it's not the way we've looked typically from a portfolio point of view at Johnson Matthey.

And together with the team, I'm trying to bring that rigour, that we focus where we can win and then play to win. And if we can't win, we get out. If we're not the best owner, we got to sell, we got to divest, and we just got to focus on where we can really win. That's a core learning, which you can see being translated already into the strategy.

Second point around – and you mentioned it's simplification. Being a complex organisation, things grow over time. It is important that we keep things simple. And we've got a lot of opportunity from a process point of view, whether it's automation, whether it's outsourcing. But whatever it is, there's a lot of opportunity for us to be less complex in what we do.

From a governance point of view, we have many committees at Johnson Matthey. It's often unclear who is taking decisions. So, we're placing a huge emphasis on accountability and a slight tweak to how we position ourselves. And it might sound semantic, but it's actually really important.

The leadership team was formerly known as the Group Management Committee. And we're not a management committee, we're a leadership team. And that implies that we're pushing for leadership. So we're not only doing things right, we're doing the right things. And that's the difference with only managing. And we're a team working together, not a committee. So this is – it might sound like semantic, but really important that we work together as a high performance team. And that's another – for me, it was a key learning.

And the third one, I would say, from a transformational point of view, you have – if you really want to transform, you've got to adapt the culture. And at Johnson Matthey, we absolutely need to evolve the culture. We've got a long and proud history, but the history shouldn't hold us back. The history is something we can build on, but for sure, we've got to change and that starts with behavioural change and linked to our strategy of focus simplification and execution, we will be focusing on certain core behaviours that my leadership, myself, we need to exemplify throughout the organisation that will be taking accountability.

It's keeping things simple, driving results. That's basically going to be our mantra going forward. These are the behavioural changes that we will need to implement in the organisation to be able to execute successfully on the strategy. So that's, in essence, it. And the other learnings, I won't go into the importance of having a great legal department, but I'm happy to confirm we have that at Johnson Matthey as well.

Stephen Oxley: So, let me pick up the Catalyst Technologies margin point and CapEx, but Jane, please come in if I miss anything. So, look, what we've done is we've broken out Efficient Natural Resources. So, you can now see the split between PGM Services and Catalyst Technologies. We'll obviously continue to do that.

And what we've talked historically is CT having a sort of mid-teens operating margin. The number for this year is 11%. So, it's slightly down on that and that's really because we're still coming back to sort of full-bore from COVID essentially.

I would point out that this year we talked about the loss of business in Russia. That does fall disproportionately on CT. So, we were expecting some quite big engineering or licensing sales this year in some first fills. That's good margin. So that is going to disproportionately affect that business this year. That will be one-off because we will get that business elsewhere across the world for the year after.

So what you can expect to see is that 11%, certainly when we get through the end of this year, will come up. And the beauty of all of the new sustainable business that we've talked about is a lot of that is licensing. It’s the front-end work which is more profitable. So, we should be seeing the margin ticking up over time.

Just on CapEx. So, I said – as I said in my note that actually the shorter-term CapEx on Catalyst Technologies is not going to be huge. We have capacity to build the catalyst pellets, the refills that we have. Of course, as that business scales, we will need more. So, we'll have to put more capacity down. That isn't going to be over the next sort of one or two years. But depending on the rate of expansion, we will put extra kit in.

But we're not talking hundreds and hundreds of million pounds here. This is tens and more. It's not of the scale of some of our historical investments. But Jane, I don’t know if there’s anything you want to? Perfect. Thanks.

Martin Dunwoodie: Okay. We'll go back to the web. A couple of questions coming in. Jean-Baptiste Rolland, Credit Suisse again. What are the barriers to entry in fuel cell membranes? Given the capital intensity is materially lower than Battery Materials, what's the risk that a large group of players could expand into that market as well?

Liam Condon: Yeah. I'll start and maybe also Maurits can add to this one. And at a future session, I'd be happy to give this to Mark Wilson as well. So, as I already kind of pointed to – showed you the example of the five-layer membrane that we have, and we have a seven layer with the diffusion system, this is technically really difficult stuff to do. You don't need massive plants to do this but you need an awful lot of metals chemistry expertise. You need an awful lot of catalysis expertise.

And on top of that expertise, what’s more and more desired in the market is having that circularity component, that ability to basically take back product, refine it and then send it back to the customer. This is a huge competitive advantage that literally nobody else has out there today, and that’s a – from a commoditisation point of view, exceptionally hard to replicate. Well, maybe technically, Maurits, you could talk a little bit to the –

Maurits van Tol: Yeah. When you look at the barriers to entry here, it’s, of course, speed. This is a market that is growing like crazy. So, speed is of the essence. We built on a very long history, decades of history in fuel cells technology.

So we have a lot of the know-how, the intellectual property, but also the trade secrets, the tricks of the trades, the salt, pepper, the finesses that our people know about, and that will help us tremendously going forward and is very hard to copy, to gain, to replicate. So, these are barriers to entries. And you saw also a very extensive, of course, intellectual property portfolio that we have built over decades. And that is also expanding still quite rapidly.

So these are just some of the examples. Then we’re also backward integrated into the PGM, security of supply. We can offer circularity to our customers. So, at the end of its life, or when you have production ways, we can take it back, get the metals out, and this whole circularity element, of course, in a business that's all about sustainability is extremely important. And again, very, very hard to copy or to replicate.

Liam Condon: Thanks, Maurits.

Martin Dunwoodie: Okay. If we move to guidance, Chetan Udeshi at JP Morgan. What are your internal assumptions on how PGM prices evolve in the next three to five years and beyond? I understand secondary PGM source will gain share over primary mines, but the earnings in this division are exposed more to PGM prices than volumes.

Stephen Oxley: Great question. And look, we are in a fantastic position to understand this market like nobody else. We do not give price forecasts. We have – clearly, have our own views. Look, where I come from on this is that PGMs have fantastic chemical properties and they're going to be around for decades to come. And as you said, Liam, they unlock net zero in the energy transition. So, they're not going to go away.

Clearly, at the moment, based on current uses, there will be some ups and downs of individual metals. So, we can expect some prices to go up, some prices to go down. But the volume of the business, for the reasons that we've talked about around secondary refining versus primary, I think is a really good underlying driver of demand.

So, look, we're not going to give price forecasts. We'll obviously continue to split out our results, talking about the underlying and the price effect. And we'll see. But look, it's going to be – it will be volatile. The business is volatile, like any metals or minerals associated business. But it's a fantastic business that will be here for decades to come.

Liam Condon: And maybe if I just add, this is also one of the reasons why we have Alastair in charge here with our trading business for metals management. Like any good trading business, you make money on volatility, not necessarily on where – just where the absolute prices are. So that volatility plays into pricing, but it also plays into our own margin because we have a very strong ability to manage that.

Stephen Oxley: Was there a second part to that or we covered?

Martin Dunwoodie: No. That’s covered as well.

Stephen Oxley: Okay. Thank you. That’s good.

Martin Dunwoodie: And then, we’ll move on to synergies. Question from Howard Weller at Frank Investments. What is the strategy to capture synergies between technologies and across the client base? Is there a budget and financial goal for the realised upside for synergy increases?

Liam Condon: Yeah. It’s a great question. So, we don't break out additional numbers for the synergy targets. We basically bake them into the individual businesses. So, the four businesses, the way we report will capture synergy potential. But I think it's fairly obvious from a technology point of view where the synergies are from a PGM point of view. What we have not baked in and where I think there's much more potential, which we would then see in the business going forward, is on the customer front.

Although, as Anish referred to, the ability to cross-sell based on our strong – our strength in a specific – with a specific customer, that we can cross-sell from another business as part of the transition to net zero. So, this is something that we have not yet factored in. I think we will be factoring it in going forward. Right now, we've identified this as an opportunity, something we want to work on and something that we'll be updating you on going forward.

Martin Dunwoodie: So, we have a hand raised in the middle for another question. Thank you.

James Hooper (Bernstein): Hi. James Hooper, Bernstein. I think we've quite well understood the kind of market side of things on the Catalyst Technologies, but I just want to dig into a little bit more the commercial assumptions. Obviously, we’re seeing a lot more projects come online. But compared to historical win rates of these projects, what are we modelling and how should I think about this going forward when it comes to high single-digit growth?

Liam Condon: Jane, do you want to take that? I mean, at least what I've seen so far of the 70 projects, and I think I alluded to, we only need a handful in each segment, blue hydrogen, sustainable aviation fuel, low carbon solutions to meet that target. And what the win rates are? I don't know if you can give any colour on that, Jane.

Jane Toogood: So obviously, this is a space that's evolving really rapidly at the moment. So, what you saw there were some scenarios and pictures around the scenarios. When we look at the way we model this, of course, we want to have our leadership position maintained throughout. So that's what we built our basis on.

As Liam just described, our plans are around winning a handful of those projects and that will be supporting our leadership market share position. Of course, if the market accelerates, then we'll be poised to go much faster. And it's a very exciting pipeline.

Liam Condon: Thank you.

Martin Dunwoodie: We've got another question just down front of that, Nancy, next to you.

Henry de Vismes: Henry De Vismes. You talked about the three industries: automotive, chemicals and energy. Are you expecting any changes in the geographical contribution either sales, profits or anything else over the next five to 10 years that you were talking about?

Liam Condon: Yeah. Thanks, Henry. It's a great question. If I take the three, clearly where the three customer groups, from a group point of view, clearly, we’re heavily weighted towards automotive today. As we said, we see tremendous opportunities now, particularly in the chemical and the energy industries. These are all globally run, but I believe our footprint will be changing over time that we will have a stronger footprint, particularly in China.

So right now, we’re relatively well balanced globally, but we’re probably slightly overweight in Europe. Next would be the US and then basically Asia. But from a growth point of view, I would expect disproportionate growth coming out of China.

Martin Dunwoodie: Okay. Anymore? We’ve got last two, I think. We’ll go with Sebastian first and last one to Andrew.

Sebastian Bray: Thank you. Two follow-up questions, please. Both on cash. Where did the £200 million of reduced CapEx come from? What was it originally intended for before it was cut?

And the second question is just on battery windup cost. Stephen, I know we touched on this before the presentation started. But are there any one-off cash outs to be modelled for the wind down of existing businesses or major restructurings to think of in the fiscal year 2023? Thank you.

Stephen Oxley: Yeah. Let me start with the CapEx, the £200 million. That's obviously £200 million over three years. So what we've done is we've got on the back of the strategy looking at the four businesses. We've scrubbed the previous plans. Okay? So, we've looked at everything again, decided what we need, prioritised growth, obviously thought very carefully about safety and the CapEx that we need to keep our plants going. But we've taken some stuff out. I'm not going to go into individual projects, but we've stopped some areas of development. You may hear more about that over the coming weeks and months.

As we've taken some out and we've said, look, you know, do we need to do things? Do we need a Rolls-Royce solution or something, or is this good enough? So, that's really the philosophy that we've sort of approached.

The – sorry, the second question was on Battery Materials. That's it. So, we are out of batteries. We've had announced two transactions. The brilliant thing about this is we've managed to sell our sites. The business essentially has one as a going concern, which means it's the technology, the people, and the assets that we've built, which is fantastic for our people. It's fantastic for the technology. We've got – we've now got the cash in for that. But as far as I'm concerned, that is it.

Sebastian Bray: I might be interpreting a little much, but your use of the word Rolls-Royce. If you squeeze the Clean Air CapEx a bit more when you're originally intending to?

Stephen Oxley: So, look, Clean Air, we've said very clearly that we'll get CapEx down to the rate of depreciation, so that will get down to about £50 million per annum, Anish. Maybe there's an opportunity to squeeze even further, we'll see. But it's the discipline, I think – the message for you to take away is it's the discipline that we're applying to our CapEx that's absolutely critical here. Thank you.

Martin Dunwoodie: Thank you. And, Andrew.

Andrew Stott: Yeah. Sorry. End on a shameless spreadsheet question. The £150 million of cost savings that you've outlined to the mid-term, there's no mention of that in this year's guidance. So is that part of that guidance that's benefiting from cost savings already? Or is that more backend loaded?

And maybe just related to the same question, how do you feel at the moment about your COGS inflation in general? Do you have any particular challenges in thinking about the obvious with Russia, etc.? Thank you.

Stephen Oxley: Yeah. Okay. So – and the two are linked. So, look, this £150 million, we'll get to that by the end of the three years. That's clearly going to ramp. We're already several weeks into this year, so that will come through progressively. We've not called out a specific number for this year because it's going to be relatively small, obviously, compared to the total.

But where, for example, we've talked about – I talked earlier about the pressure on Catalyst Technologies because of the loss of Russia business. That's the sort of thing that overall for the group we will make up by the efficiencies.

On cost inflation, yes, of course, we, like everybody else, is seeing pretty significant cost inflation. We're committed to passing on clearly whatever we can to our customers. That won't be everything but it will be a substantial portion and we'll be using the efficiencies that we're driving through this programme to soak up any kind of residual. That's the objective.

Andrew Stott: And sorry, is that pricing or surcharges or both? How do you actually pass on costs?

Stephen Oxley: It's both.

Andrew Stott: Both.

Stephen Oxley: It's both. Yeah.

Andrew Stott: Thank you.

Liam Condon: Okay. And this is – I think maybe just add to it, Andrew, again it goes back to the topic of enhancing also our commercial capabilities. Our organisation is not used to increasing prices. These are very difficult discussions. They are much easier when your organisation is trained to do it and when they have the documentation to be able to support to give the suppliers that we do have cost inflation that we need to pass on. So, we're getting much better organised to be able to do that.

Martin Dunwoodie: Great. Well, thank you very much Liam, Stephen, for the presentation and the Q&A, the wider leadership team and then also to all of you for your interest. Hopefully, we'll see many of you on the roadshows in the coming days and weeks. But thank you, everyone, for your interest today.

Liam Condon: Thanks a lot.

Stephen Oxley: Thank you.

[END OF TRANSCRIPT]