

Strategic Report

Chair's statement

Making a huge contribution to a more sustainable future

Patrick Thomas
Chair



As I write to you this year, my thoughts are with you all and I hope you are safe and well.

I also want to extend the board's sincere gratitude to every single JM employee for their immense efforts and contribution over the past few months and, indeed, throughout 2019/20.

As I reflect on the past year, I am pleased with the many changes we are making to strengthen our business, improving our efficiency and effectiveness in such a changing and volatile business environment. I call this the 'known unknown', but I doubt that anyone was planning for the 'unknown unknown' brought about by the global COVID-19 pandemic.

Robert and the whole leadership team have really stepped up to the challenge and the rapid and decisive action they have taken is to be commended. At times of crisis like this, some leadership teams struggle and some get stronger; the board has seen the strength of response at JM.

The ongoing uncertainty has required us to take short term action without losing sight of the long term, and our strong values have guided us well. As the crisis evolved, it was important for us to make clear commitments to all of our stakeholders at such a worrying time.

[+ Read more: Our COVID-19 commitments on page 9](#)

Taking decisions for all our stakeholders

We have prioritised – without compromise – the health, safety and financial security of our employees, customers, suppliers, shareholders and communities. And we have played our part in keeping the economy going through supplying countless products that the world's pharmaceutical, food and energy supply chains are reliant on right now.

Who knew that JM's technologies performed a critical role in ventilators? Or that Bitrex, a bitter tasting product that stops accidental swallowing of household cleaning products, is used to make sure medical grade face masks are correctly fitted?

The board members were united in wanting to do their bit alongside JM's 15,000 employees. Each director is adding a portion of their salaries or fees for April, May and June to a new, £1 million science education fund that JM has specially created in the wake of COVID-19. We know that science will help provide the solution to winning the fight against COVID-19, and other global challenges. The new fund will be used to break down the barriers that prevent people choosing to study science.

Our fast response to COVID-19 has ensured JM is in a strong position financially with a solid cash position and a strong balance sheet. One must also remember that JM is a highly resilient and diverse business. The nature of our portfolio means we serve a range of end markets and geographies which will be impacted by COVID-19 to varying degrees and timescales. The actions we have taken to protect our people, maintain good liquidity and a strong balance sheet mean that we are well positioned to navigate COVID-19 and take advantage of the opportunities that will emerge. We have also announced the acceleration of certain strategic initiatives to drive further efficiency which will deliver savings over the next three years. However, the economic situation remains extremely dynamic, especially in our largest market, automotive.

The board is acutely aware of its accountability to maintain the long term financial health of JM and its responsibilities to stakeholders. We have spent significant time considering this year's final dividend and have taken a decision which we believe balances the interests of all our stakeholders.

Notwithstanding the strong financial position of the group, in light of the current uncertainty and to balance the needs of all stakeholders, we are proposing a final dividend for the year of 31.125 pence, representing half the level of the 2018/19 final dividend. This is not intended to be a rebasing; the board remains committed to a progressive dividend and anticipates restoring future dividend payments to levels seen prior to the COVID-19 pandemic when circumstances permit.

JM's sustainable technologies are even more relevant

The big growth drivers of JM's business are stronger than ever and the need to balance human prosperity with climate stability has moved even further up the agenda over the last year. Through its science, JM continues to make a huge contribution to a sustainable future – driving down pollution, lowering carbon footprints for our customers and creating molecules to combat cancer – and we are orienting our investments towards the sustainable technologies that will be needed in the not too distant future.

"The ongoing uncertainty has required us to take short term action without losing sight of the long term, and our strong values have guided us well. As the crisis evolved, it was important for us to make clear commitments to all of our stakeholders at such a worrying time."

We use a risk lens to get the right balance of capital allocation across the portfolio, particularly to our investments that relate to our ability to meet automotive industry demands as the shift to lower carbon transportation continues. We are investing significant resources into our eLNO battery materials technology and focusing carefully on the risk management of the market, technology and capital investment elements. As our Clean Air business matures, our investments in new world class manufacturing plants in Europe and Asia will provide the physical and metaphorical 'catalyst' to move the business model into a new mode to maximise value over the next decade.

[+ Read more: Risks and uncertainties on pages 67 to 74](#)

Hydrogen, as a source of clean energy, is a necessary element in the transition to a clean, low carbon economy and JM has a unique competitive advantage for this transition. Over the last year, customers, governments, regulators and investors around the world increasingly have been seeing the importance of hydrogen and are coming to JM as a trusted expert in hydrogen production and fuel cell technologies. These aren't technologies that are still at a research scale; JM has well developed, scalable technologies in customer applications today. We have increased investment this year to accelerate our hydrogen strategy and in October, the board witnessed JM's capabilities first hand when we visited our Fuel Cells business in Swindon, UK.

We also spent time at our operations in China and five of us visited several US sites giving us ample opportunity to meet employees from all sectors. The technical competence of our people always impresses me, and my recent visits reinforce how deeply rooted it is right across JM. It is unusual for a company to be able to make that depth of technical expertise available to customers all around the world; the ability to do so is a genuine hallmark of JM.

We have met many more stakeholders and strengthened ways to understand their issues

The board makes it a priority to meet as many of JM's employees as we can as it is one of the most valuable ways of assessing the success of strategy delivery and getting a real feel for the culture of the organisation.

This year, as part of our response to the new UK Corporate Governance Code, we expanded and formalised our workforce engagement mechanisms so we can better understand the issues on the ground.

We spent time discussing how best to achieve this and, following a pilot session to test effectiveness, we introduced a programme of country engagement forums. We will run these regularly with employees from the UK, China, US and Germany and members of the board will be directly involved.

I've also met more of our shareholders this year. Discussions focused mostly on how we are managing and prioritising investments across our business opportunities and there was increased interest in our sustainability credentials and our role in enabling a hydrogen economy. JM's shareholders are among the most engaged I have met and show a genuine interest in the company. In January we also hosted an investor lunch where the board committee chairs and I met with around 25% of our top 20 institutional shareholders.

So, we have good mechanisms in place for the board to understand the views of shareholders, employees, customers and our other stakeholders. Alongside these, I will continue to be available to our major shareholders throughout the year, despite not having the opportunity to meet with some you in person at our AGM in July – which this time will be conducted virtually.

[+ Read more: Our stakeholders on pages 28 to 31](#)

[+ Read more: Our Section 172 statement on pages 32 to 33](#)

Strategic Report

Chair's statement continued

We have continued to create and shape the right culture and support strategy execution

Every interaction the board and I have had with employees and shareholders has taught us something about the company that is new and gives valuable insights on the potential of the organisation and on its culture.

In my experience, the culture at JM is open and innovative where people enjoy working together and are really connected with the amazing things the company does for the world. My board colleagues and I appreciate the role we play in defining culture and leading by example, especially when it comes to safety and doing the right thing. Throughout the year, we took time to agree how to evolve our culture to keep pace with strategy. We are developing and improving our understanding of how we can assess, monitor and test the culture of the organisation, particularly as it goes through such significant change as we accelerate our strategic initiatives. We still have room for improvement, but our site visits and other interactions with employees are extremely valuable, together with the feedback we get from employee surveys.

[+ Read more: Our culture ambition on page 41](#)

Robert and the leadership team have made good progress this year in executing our strategy for sustained growth and value creation, which has set us up well to be able to prioritise and accelerate our plans in the current climate. As a board, we have continued to engage in the development of strategy and ask the really challenging questions.

During the year, we have probed further into the strategies for each of our sectors and have increased the time spent on active and regular risk management in our meeting agendas. Exploring the risk landscape and being more rigorous in using risk as a lens in business decisions, especially on capital investments, has translated into specific mitigating actions, particularly in the eLNO investments.

Board changes have brought new perspectives and experience

Succession planning, not only at board level, is something we have spent more time on to ensure we have the depth of leadership capability required to support the cultural and business change.

At the board level, we have a good breadth of varied and strong skills, experience and diversity which bring richness to our discussions. During the last 12 months we welcomed Xiaozhi Liu and Doug Webb as Non-Executive Directors. As I reported in my statement last year, Doug will take over from Alan Ferguson as Chair of the Audit Committee upon Alan's retirement from the board at the end of the AGM in July which has allowed a good amount of time for a thorough onboarding and handover. I'd like to thank Alan for his wise counsel and contributions. We will all miss his challenge and his immense knowledge of the business. I'm pleased to say, though, that Doug has shown himself to provide equal challenge since he joined the team.

At the end of March, after a 36 year career with JM, including over six years as an Executive Director of the board, John Walker retired from the company. John led the Clean Air business successfully for a decade, and on behalf of the company and its stakeholders, I want to thank him for all he has done for JM. I am impressed by how professionally he has managed his handover to Joan Braca, ensuring that the Clean Air business remains set for continued success for many years to come.

This year, at the end of March, Simon Farrant, Legal Counsel and Company Secretary also retired after 26 years in JM during which he has successfully driven the compliance and governance agenda. Simon has contributed more than you could ask of any Company Secretary and I thank him for his many years of support.

Good governance is more important than ever

At this time of change and volatility, compounded by the COVID-19 pandemic, where we need to maintain financial strength, our priority is on good governance and retaining our dynamic risk management processes. This focus will ensure we ask the right questions of Robert and the team to support them in driving results for the short and medium term. We will build on our work last year on succession planning and culture to support business change and continue to set the tone on environment, health and safety with a focus this year on process safety improvement.

[+ Read more: Corporate Governance Report on pages 82 to 91](#)

Resilient for today with a successful future ahead

I'd like to personally thank our shareholders – including the several thousand employees who own company shares – for their strong interest in the long term opportunities that are key to the future of JM and for their interest in how we are managing the transition in our portfolio.

I also want to thank all our people for their dedication to safe operations, improving efficiency and embracing the accelerated strategic changes taking place across JM.

These are challenging and dynamic times but JM is in good shape and we have a sound approach to maintain financial strength in the short term. This means we can optimise value creation long term and make the world we all share, a cleaner, healthier place.



Patrick Thomas
Chair

Our COVID-19 commitments

Johnson Matthey has a clear vision – for a world that's cleaner and healthier; today and for future generations.

We have a strong set of values at the heart of our work, and these have guided our COVID-19 response.

That's why we've outlined a number of commitments to support our people, customers, suppliers, shareholders and communities.

People

We are ensuring the health, safety, and wellbeing of our 15,000 people.

- Upholding the highest standards of safety in all working practices.
- Pledging to make no member of staff redundant as a direct result of the impact of COVID-19 until the end of June.
- Committing not to use the UK Government's scheme for furloughed staff during April, May and June.



Customers and the relief effort

We are providing vital products in the world's most critical sectors and supply chains.

- Keeping operations running for customers where it's safe to do so.
- Producing:
 - products used in ventilators.
 - ingredients used in chronic pain relief medication.
 - catalysts used in the production of food and energy.



Suppliers

We are helping our value chain and suppliers navigate a difficult period.

- Maintaining our payment terms to support all our suppliers.
- Pledging to support any small supplier that is suffering hardship and requests early payment terms as a result of the impact of COVID-19 during April, May and June.



Communities

Our communities are at the heart of the fight against COVID-19, and we are playing our part.

- Matching all donations made by our employees to funding local relief efforts.
- Coordinating a local volunteering programme across JM.
- Manufacturing goggles and visors for community medical staff and donated spare PPE.



Science

We are looking longer term, creating a £1 million fund for STEM education.

- Creating a special fund for local and regional science education programmes.
- Supporting the fight against COVID-19, future outbreaks, and other global challenges.
- Improving access to a quality science education, and supporting our vision for a cleaner and healthier world.

