Essentra plc

Half Year Results 2024

30 July 2024

ESSENTRA

Welcome and overview

Scott Fawcett
CEO

Agenda

1 H1 2024 highlights

2 Financial performance

3 Strategic update

4 Outlook

5 Q&A

H1 24 highlights

- £159.7m revenue, +1.5% growth on a constant currency basis
- Resilient performance despite mixed end-markets, demonstrating strength of our differentiated business model
- Pro-active cost control and procurement benefits, expanding gross margins by 260bps on a constant currency basis to 46.4%
- £21.8m adjusted[1] operating profit, +7.6% growth on a constant currency basis
- Encouraged by sales and volume trends returning to growth in Q2 on a like-for-like[2] basis
  - Stable underlying performance in EMEA, with lower levels of recovery in line with external indicators
  - Americas region benefitting from stability across distributor end-market channels
  - APAC export market improving; domestic China market remains soft
- Integration and performance of BMP TAPPI is on track, new cross-sell opportunities being unlocked
- Excellent progress on sustainability continues including commercial wins
- Progressive interim ordinary dividend of 1.25p

1. On a continuing operations basis, before amortisation of acquired intangible assets and adjusting items
2. Excluding the impacts of foreign exchange and the acquisition of BMP TAPPI, completed in October 2023

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Financial performance

Jack Clarke
CFO

Financial performance

Total revenue

£159.7m

H1 2023: £166.3m

+1.5% constant currency

Adjusted[1] operating profit

£21.8m

H1 2023: £23.0m

+7.6% constant currency

Adjusted[1] operating margin

13.7%

H1 2023: 13.8%

+80bps constant currency

Adjusted[1] operating cash conversion

80.3%

H1 2023: 89.1%

Net debt / (surplus) to adjusted EBITDA[2]

1.1x

H1 2023: (0.3)x

Return on Invested Capital[3]

11.9%

H1 2023: 12.2%

Adjusted[1] Earnings per Share

4.6p

H1 2023: 5.9p

Dividend per share

1.25p

H1 2023: 1.20p

1. On a continuing operations basis, before amortisation of acquired intangible assets and adjusting items
2. Presented excluding lease liabilities. The ratio of net debt to adjusted EBITDA including lease liabilities is 1.4x (H1 2023: 0.2x)
3. ROIC adjusted for the acquisition of BMP TAPPI in October 2023

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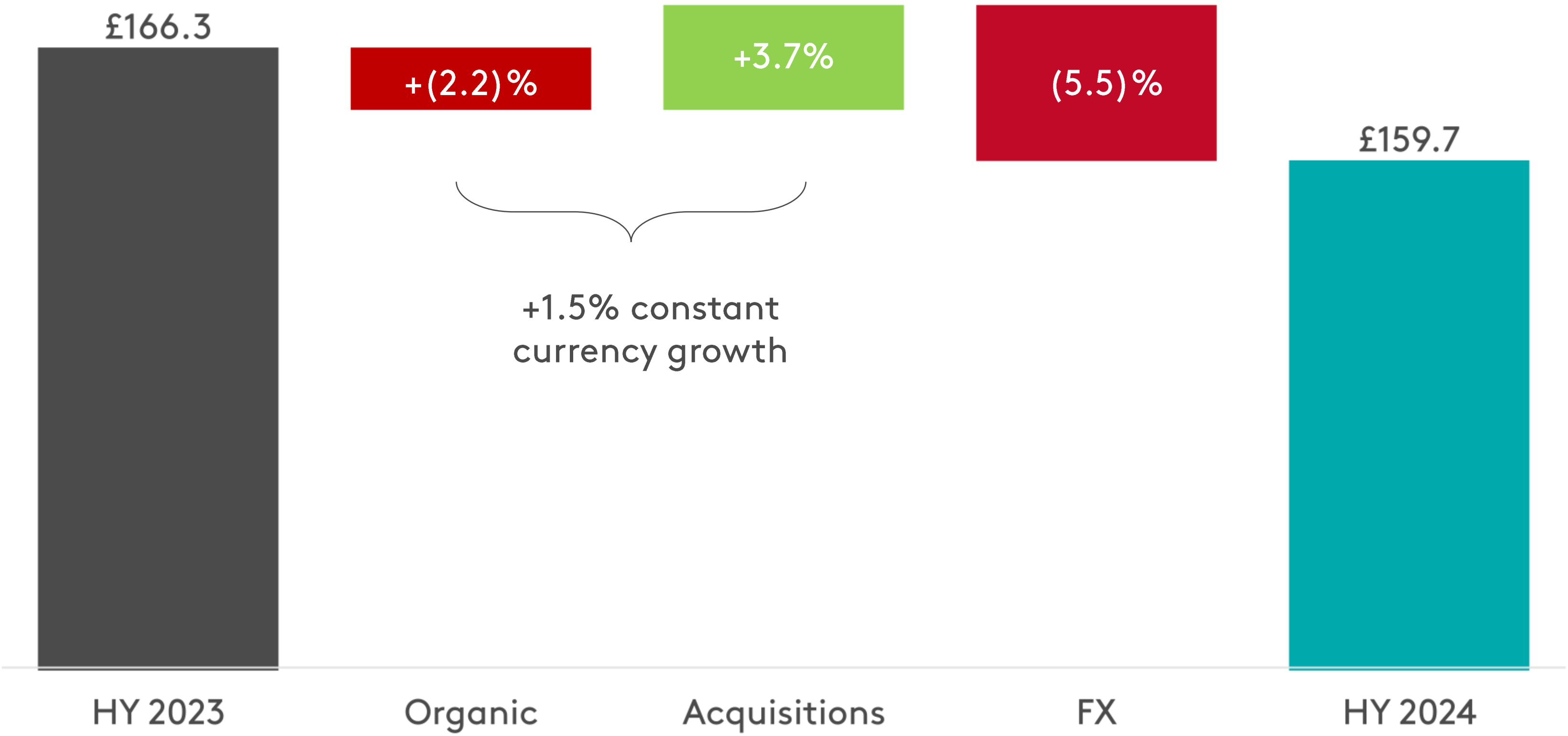
Revenue bridge



+1.5% constant currency growth

-2.2% like-for-like[1] revenue reduction

- EMEA -0.1%
- Americas -6.9%
- APAC +1.8%

+3.7% benefit from the acquisition of BMP TAPPI

-5.5% FX movement in the period

1. Like-for-like excluding the impacts of foreign exchange and the acquisition of BMP TAPPI, completed in October 2023

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Income statement

£m	H1 2024	H1 2023	Constant currency
Revenue	**159.7**	**166.3**	**+1.5%**
Gross profit	74.1	73.0	+7.4%
Gross margin	*46.4%*	*43.9%*	*+260bps*
Trading adjusted operating profit[1]	28.3	29.2	
Central corporate costs	(6.5)	(6.2)	
Adjusted operating profit[1]	**21.8**	**23.0**	**+7.6%**
Adjusted operating profit margin	*13.7%*	*13.8%*	*+80bps*
Net finance expense	(4.1)	-	
Adjusted profit before tax[1]	17.7	23.0	
Effective tax rate	*25.7%*	*23.5%*	
Adjusted profit[1]	**13.2**	**17.6**	
Adjusted basic EPS[1]	4.6p	5.9p	(13.3)%

- Strong gross margins at 46.4% supported by procurement and cost efficiency
- Central corporate costs in line with c.£13m annual run rate
- Normalised net finance expense following return of shareholder funds in 2023
- Effective tax rate within the forecast range of 24% - 26%

1. Adjusted to exclude intangible amortisation of £5.9m and an adjusting items pre-tax charge of £7.8m along with associated tax impact

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Adjusting items

	H1 2024
	£m
Software as a Service ("SaaS")	4.8
Restructuring activities[1]	0.7
Relating to acquisitions[2]	0.4
Defined benefit pension scheme charges[3]	0.8
Other[4]	1.1
Total	**7.8**

1. In relation to restructuring activities to right-size the continuing operations of the business
2. Costs incurred in the year related to the acquisition of BMP TAPPI
3. Incurred in relation to defined benefit pension scheme charges which, following the outcome of the strategic review, no longer pertain to the continuing operations of the Group
4. Relating to a provision for a historic indemnity claim £1.2m and provision movement net credit of £0.1m

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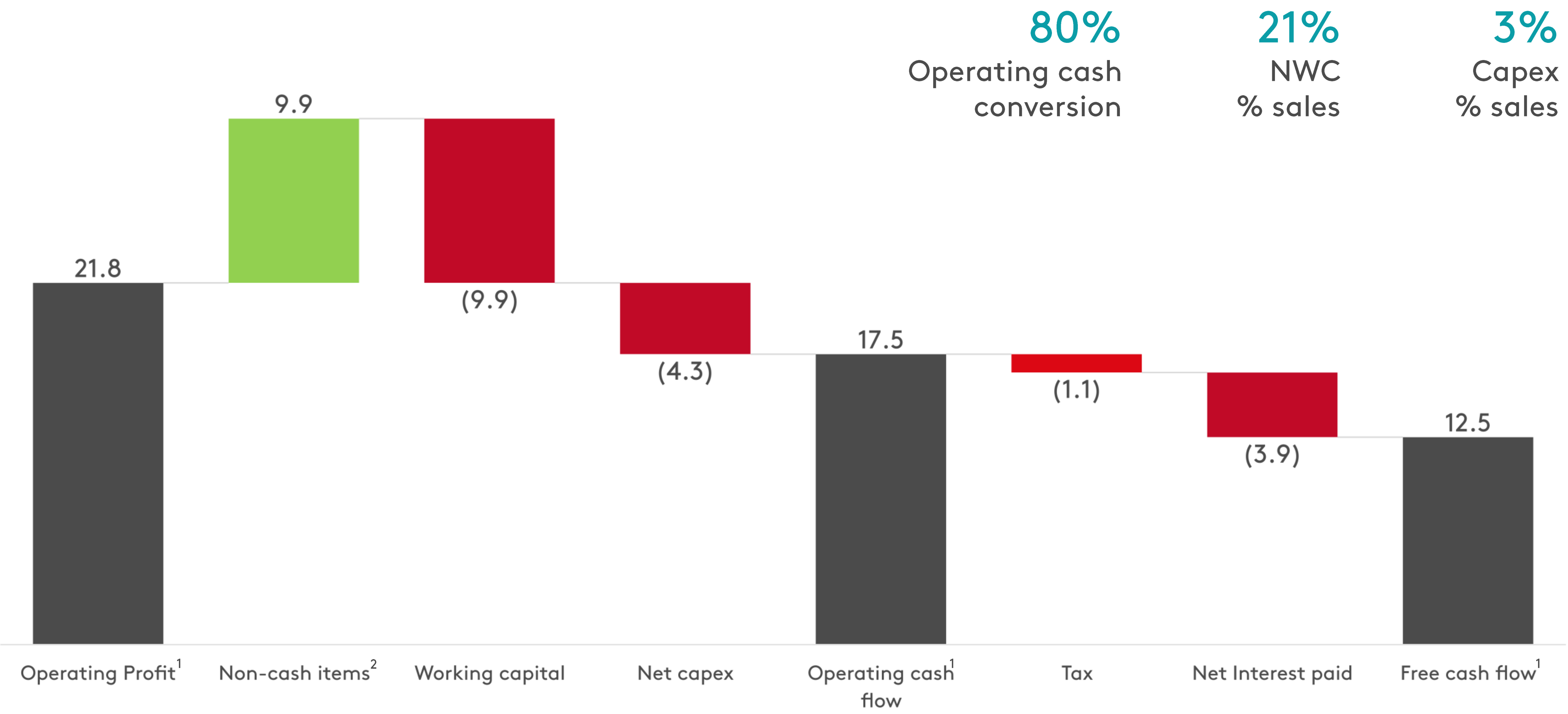
Operating and free cashflow



1. Adjusted to exclude intangible amortisation and adjusting items
2. Being depreciation and amortisation of £6.0m, right-of-use asset depreciation of £3.0m, Share Option Expense of £0.9m

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Returning capital to shareholders

Ordinary dividend

- Interim ordinary dividend of 1.25p per share, 4% increase
- To be paid on 25 October 2024.
  Ex-dividend date 19 September 2024
- Progressive dividend policy unchanged, maintaining dividend cover in the order of three times adjusted full year earnings

Share buyback programme

- £27m of £60m share buyback programme deployed
- 45% complete as at 30 June 2024
- The execution of the programme will be flexible and is dependent on the Group's capital allocation opportunities
- It is anticipated that the buyback programme will extend beyond the current financial year

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A consistent capital allocation policy

ORGANIC GROWTH

- Capital investment remains core to strategic growth
- Capex to be maintained between 4 – 5% of sales

INNOVATION

- Sustainable new product development and customer proposition
- Digitalising the customer experience

ACQUISITIONS

- Strong pipeline of potential acquisitions
- Addition of product adjacencies enables higher organic growth through cross-sell

ORDINARY DIVIDENDS

- Maintaining dividend cover in the order of three times adjusted earnings

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Clear financial targets to deliver profitable growth

Revenue Growth	Profitability	Cashflow	Leverage	Returns	Dividend
Revenue CAGR >10% total >5% organic	Adjusted operating profit margin c.18%	Cash Conversion >85%	<1.5x medium term	ROIC >15%	Maintain dividend cover in the order of 3.0x adjusted earnings
+1.5% total -2.2% organic	13.7%	80.3%	1.1x	11.9%	1.25p

1. Presented excluding lease liabilities. The ratio of net debt to adjusted EBITDA including lease liabilities is 1.4x

All numbers presented on a constant currency basis

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Regional performance

Scott Fawcett

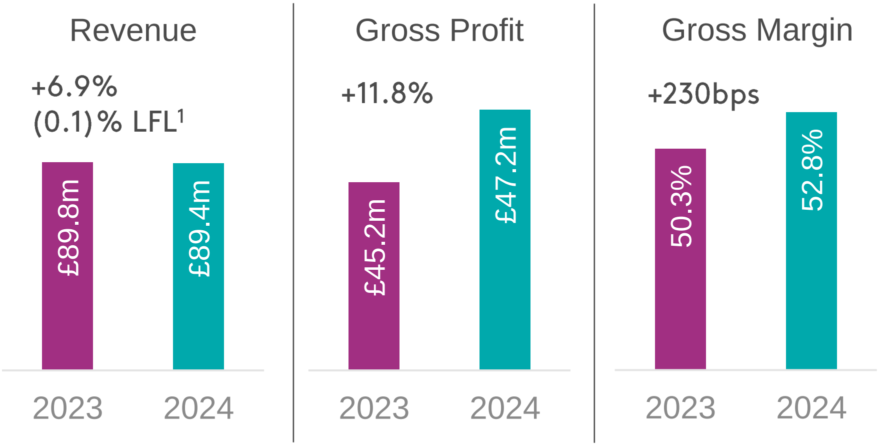
CEO

EMEA

Stable year on year performance, with mixed conditions across end-markets

- Market conditions in line with wider Purchasing Manager Index trends. Western Europe, Germany in particular, continues to experience market softening
- Like-for-like[1] revenue decline of -3.1% in Q1, improving to growth of +3.7% in Q2
- Acquisition of BMP TAPPI performing to expectations, and integration plans are on track
- Stronger momentum in access hardware product category due to reduced exposure to cyclical markets, benefitting from the growth of electrification end-market trends
- Successful ERP deployment in Eastern Europe, and costs in line. Expect to deploy in Germany, Austria and Benelux region in H2

% of group revenue:



Year on year % movement is presented on a constant currency basis

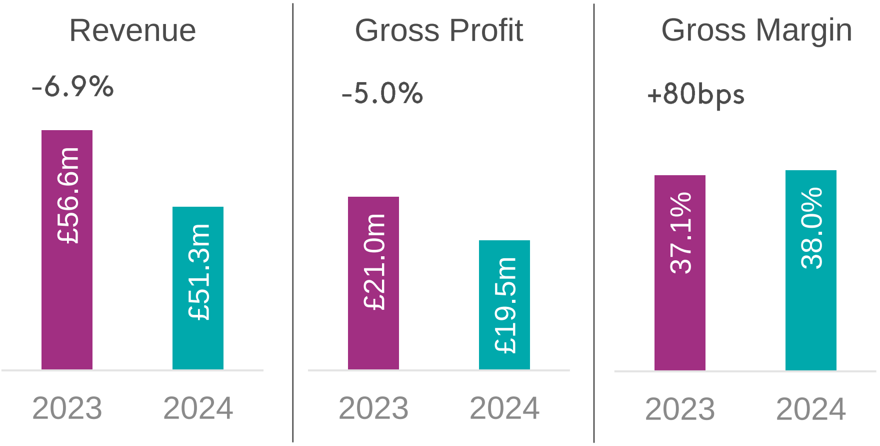
1. Excluding the impacts of foreign exchange and the acquisition of BMP TAPPI, completed in October 2023

Americas

New management changes at the start of 2024 embedded, with focus on gaining market share

- H1 2023 comparatively strong. Constant currency Q1 revenue decline of -8.7% easing to -4.9% in Q2
- Previous destocking trends have eased, with stability in distributor end-market channels
- Margin expansion through procurement decisions and improved tooling capabilities, improving efficiency
- Sales team refocused, driving new business across industrial electronics and production machinery end-markets.
- The region remains focused on inventory availability, optimising the distribution network, with further investment in the stocking of the standard product offer

% of group revenue:



Year on year % movement is presented on a constant currency basis

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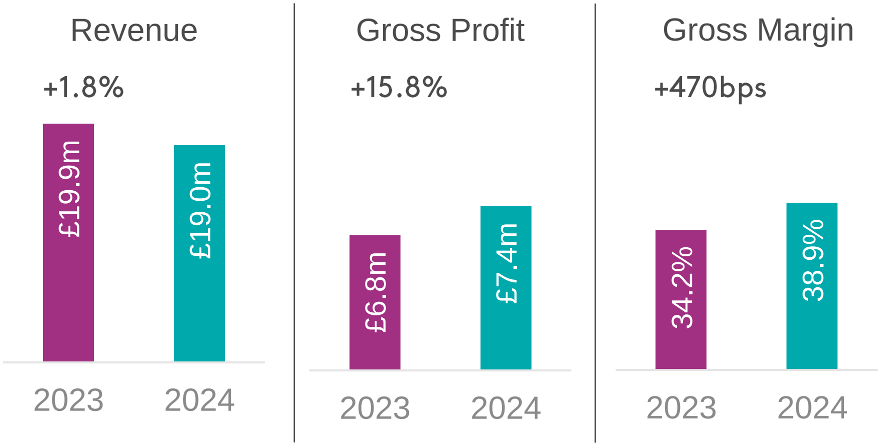
APAC

New commercial opportunities and export market driving growth. China domestic market remains soft

- Constant currency Q1 revenue +0.8% improving to +3.5% in Q2
- Pipeline of commercial opportunities within the export market and rest of APAC region including renewable energy, telecommunications and power networks
- Review of South East Asia go-to-market approach, including the closure of our Singapore office
- Insourcing and near shoring investment in Ningbo supporting growth and margin progression
    - Enhancing the product range
    - Developing our "hassle-free" proposition, improving availability of products and improving lead times

% of group revenue:



Year on year % movement is presented on a constant currency basis

Strategic Update

Our vision is to be the world's leading responsible hassle-free supplier of essential industrial components

Market leader with a unique proposition in a fragmented £8-10bn market

Clear strategy to drive organic growth and market share gains supported by digitalisation and sustainability

High margin business with scope to expand through scale efficiencies, operational effectiveness and pricing

Strong returns and cash conversion enabling value enhancing M&A

Our ambition remains to double revenue and triple operating profit

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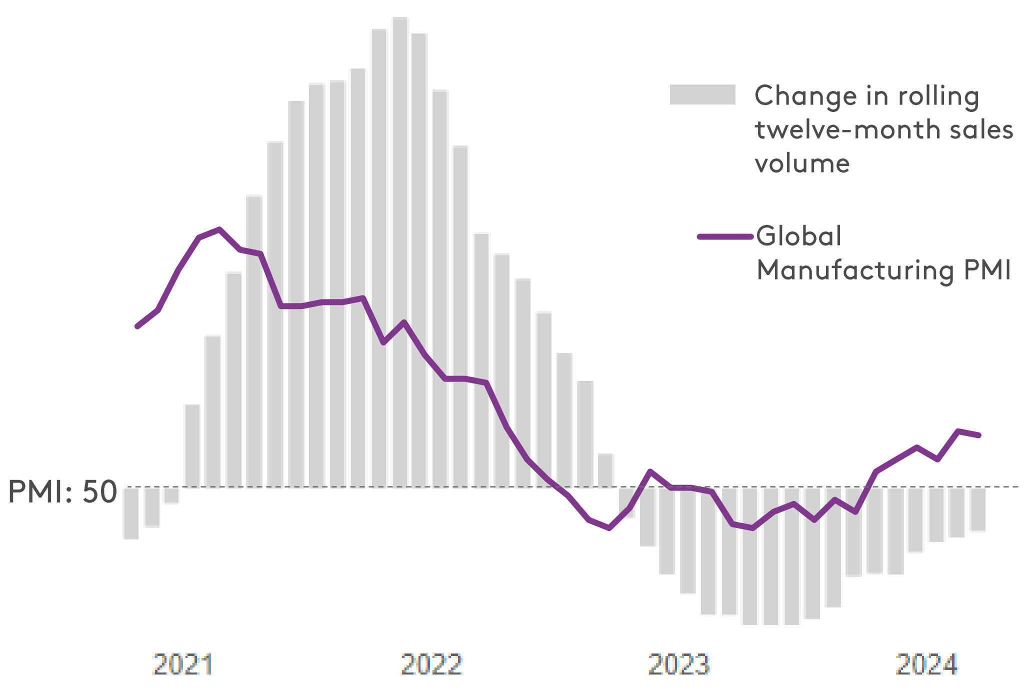
Underlying volume trends showing modest improvements

Sales volume and PMI correlation



- Our performance is linked to global industrial production cycles, particularly in EMEA and Americas
- We have sought to reduce cyclicality over time with new markets and geographies
- We have a robust business model which has delivered strong operating margins and cash conversion through the cycle
- Last twelve month underlying volume trends[1] show a modest improvement trend since H2 2023

1. Internal metric. Volume defined as existing customers, buying existing products. Excluding price, new customers, and new product sales.

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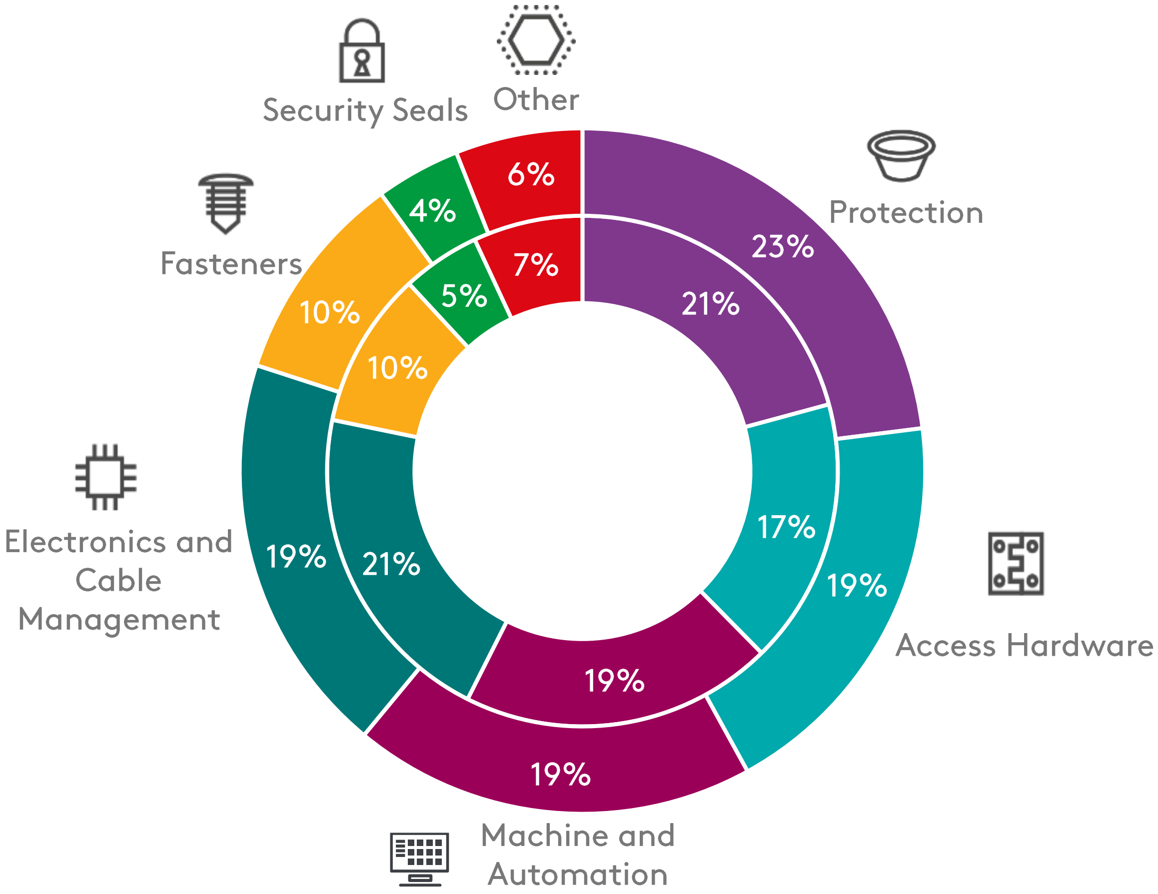
Developing the breadth and depth of our product offer



External circle H1 2024 % of revenue
Internal circle H1 2023 % of revenue

- Electronics and Cable Management reducing as a % of overall product sales
- Access Hardware continues to grow, with sales into less cyclical, structural growth markets
- BMP TAPPI increasing the breadth of offer within Protection

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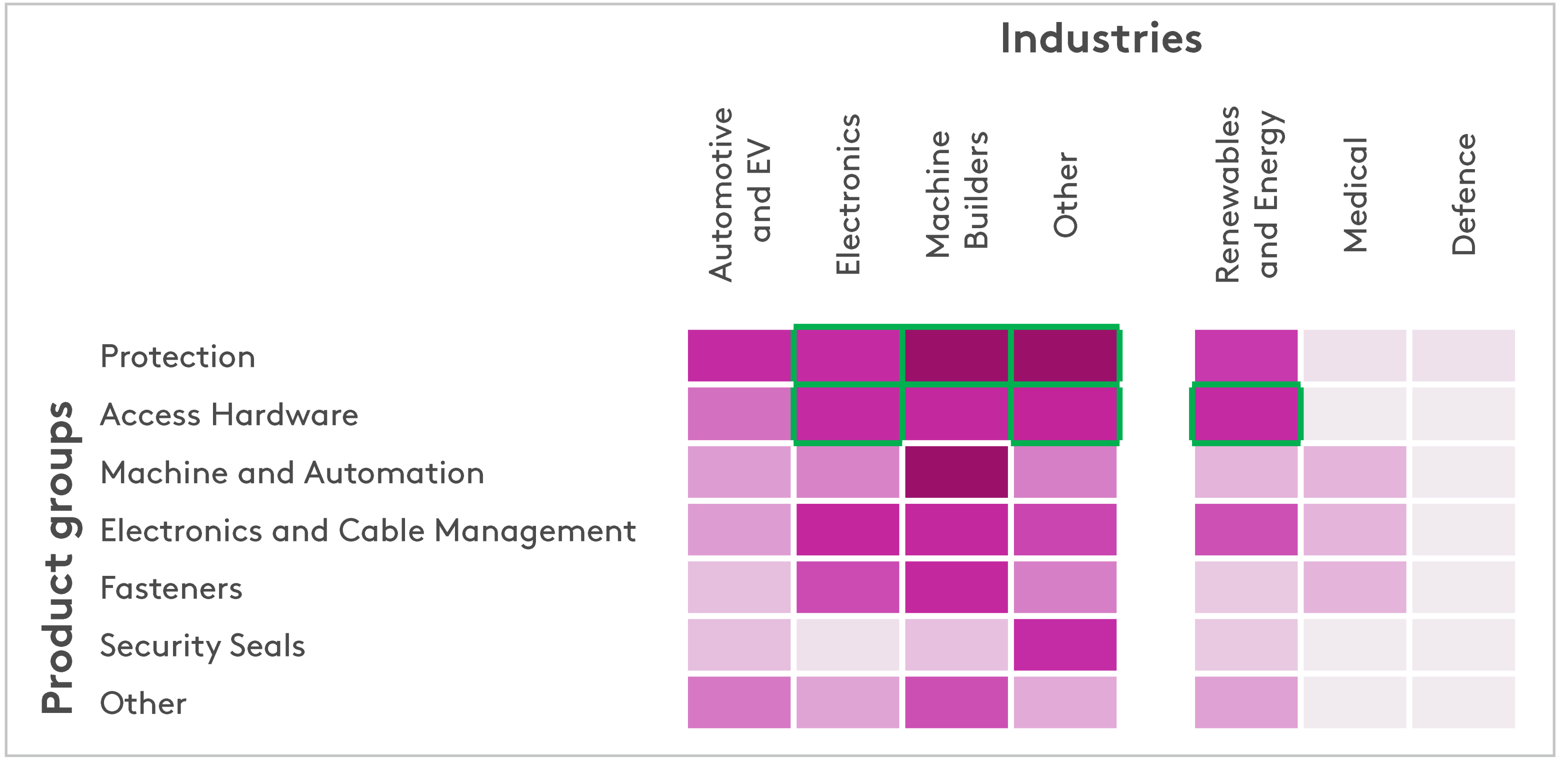
Unlocking new opportunities in high-growth segments

H1 2024 revenue by product and end-market industries



Data excludes distributors

Areas of growth in H1 2024 v H1 2023

% of H1 2024 revenue low to high

- Range of product expertise across diverse industries
- Focus on markets with structural growth
- Acquisitions unlocking new opportunities

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BMP TAPPI update

<u>Deal rationale</u>
- ✓ Expansion of a core product range
- ✓ Expansion of European manufacturing footprint
- ✓ Strong profit margins

<u>Progress in 2024</u>

- Business performance is in line with expectations and integration activities are on track
- First 1,100 products launched into Europe as part of a phased approach
- 500 products planned to launch in H2 in the Americas
- Sustainability trials underway for post-consumer recycled content

- Early cross-sell wins unlocked across a breadth of industries and product categories. Examples include:


Fit plugs into a leading producer of hydraulic components in the central Europe market place


Ribbed inserts into a UK based agricultural company for use in farming machinery


Ribbed inserts into a specialist seating solutions furniture manufacturer in France


Protection caps into a global material handling business for use in specialist vehicles

Sustainability progress including commercial wins

We continue to support our customers with their sustainability needs:

- **Increasing number of new commercial wins and retaining existing business,** based on sustainability criteria across our end-markets, including heating and ventilation, industrial trucks and general industrial end-markets
- **A series of successful trials in our UK Centre of Excellence**
  - Accelerating development of new bioplastic materials to create more sustainable product ranges
  - 19 trials have been completed using 14 different materials across 9 individual products

- **Renewable energy consumption** increased to over 60% (H1 2023: 40%)
- Five additional sites on target to reach **zero waste to landfill** by end of 2024 (c.46% of sites)
- **Scope one and two emissions** intensity reduced by 50% compared to 2019 baseline
- **Recycled content usage** at 19% (H1 2023: 20% Increased demand across the standard range for specific products which have not yet transitioned to recycled or biopolymers

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Outlook

Outlook

Momentum building

- Sequential quarterly improvements in revenue through H1
- Business returned to LFL growth in Q2 despite mixed end-market recovery
- Investing in growth initiatives, ensuring Essentra is well-positioned to take market share
- Balanced approach to cost control, driving operational efficiencies and margin expansion

Expectations for FY 2024 unchanged

- Further modest recovery anticipated across our three regions in H2
- The Group is well positioned with a right-sized cost base and agile operations to benefit from its operational leverage
- Management remains confident that Essentra's robust and differentiated business model will support further progress towards its medium-term targets

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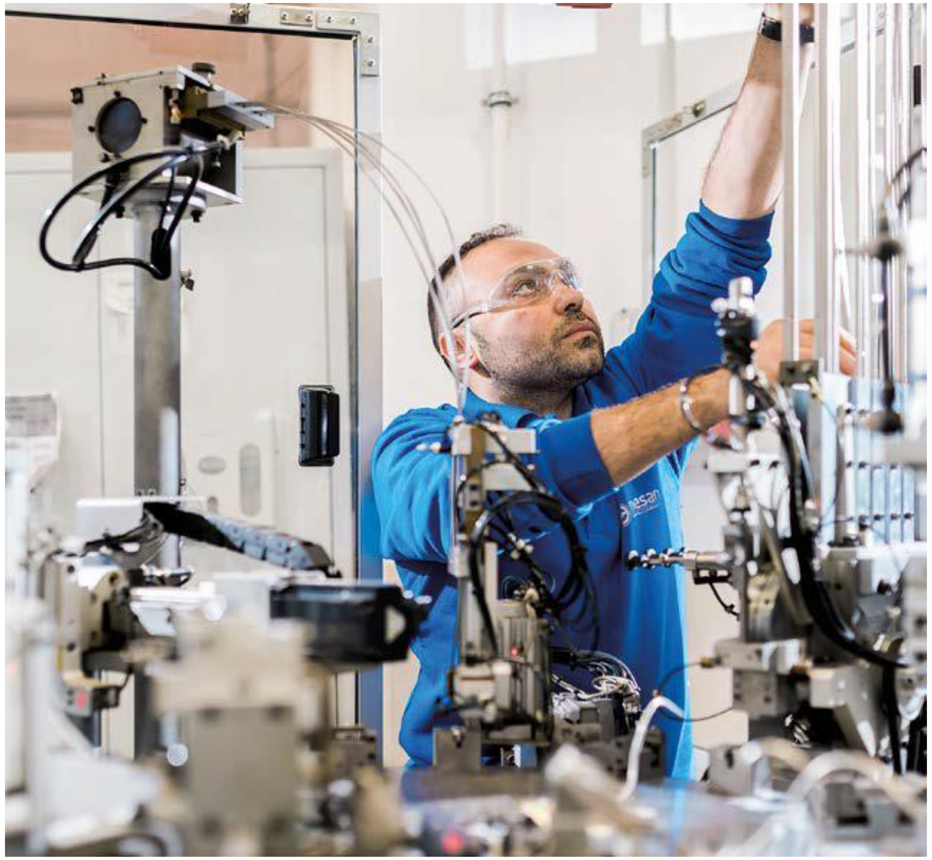
Q&A



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Half Year Results 2024

30 July 2024

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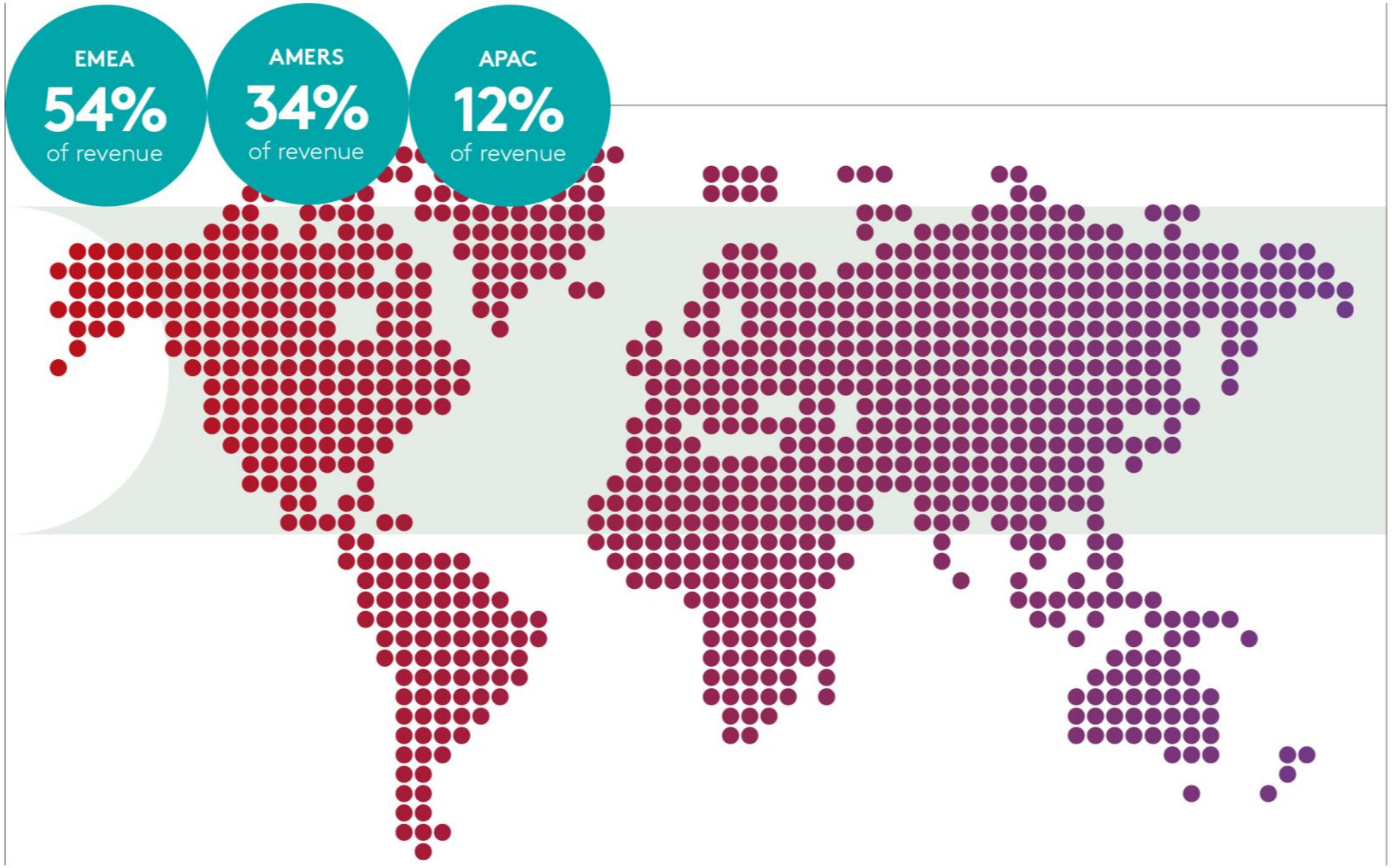
Appendices

The breadth and depth of our offering is a key differentiator



14 manufacturing sites

24 distribution centres

33 sales and service centres

c.3,000 employees worldwide

c.69k customers

c.60m parts produced per week

c.2bn parts in stock

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FX sensitivity

Currency	H1 2024 average rate	H1 2023 average rate	Change
USD	1.27	1.23	3.3%
EUR	1.17	1.14	2.6%

Impact on H1 2024 of 1 cent increase in rates	Adjusted operating profit movement (£m)
USD	(0.1)
EUR	(0.1)

Income Statement – Reported basis

	H1 2024 £m	H1 2023 £m
Adjusted operating profit	21.8	23.0
Intangible amortisation	(5.9)	(5.7)
Adjusting items	(7.8)	(7.0)
Reported operating profit	**8.1**	**10.3**
Net finance charge	(4.1)	-
Profit before tax	**4.0**	**10.3**
Taxation expense	(1.5)	(2.6)
Net income	**2.5**	**7.7**
Net loss from discontinued operations	(1.2)	(0.8)
Profit / (loss) for the period	**1.3**	**6.9**

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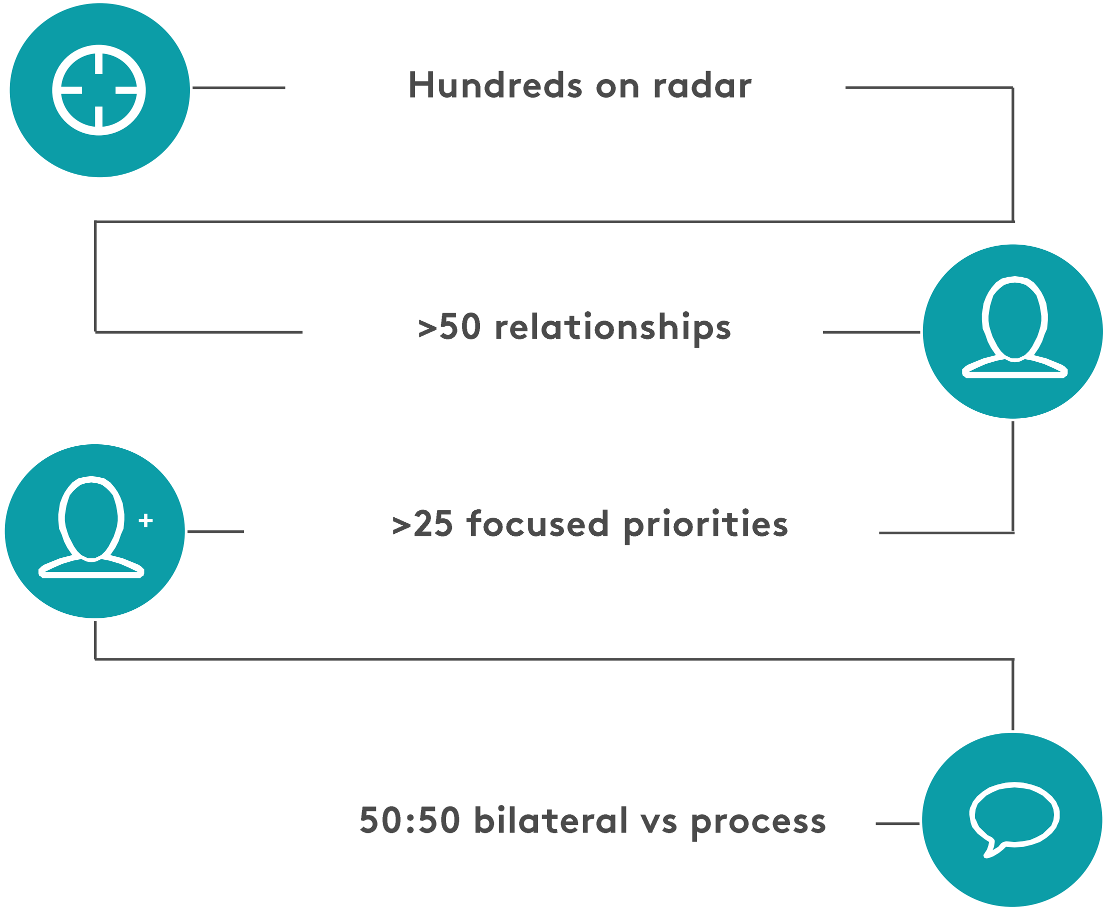
Net debt reconciliation

	£m
As of 1 January 2024: net debt	62.5
Free cash flow	(12.5)
Share buyback	3.1
Acquisitions less cash acquired	1.9
Adjusting items	6.2
Cash flow from discontinued businesses including disposal costs	25.8
FX including hedging derivatives	0.5
Lease liabilities	1.6
As of 30 June 2024	**89.1**

A healthy pipeline of value-enhancing M&A

- We continue to apply a disciplined approach to deal rationale, our pipeline is healthy
- Targeting new product capabilities that can be cross-sold, including existing suppliers of sourced products
- We are increasingly considering the impacts of ESG
- We have a rigorous financial framework, seeking a post synergy ROIC of >15%
- We typically buy at 8-10x EBITDA reducing to 6-8x EBITDA after synergies



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ESG Framework

Our Planet

Planet

Driving resource and energy efficiency, reducing emissions and embracing renewables

Our Culture

Culture

A safe, supportive work environment that champions equality and celebrates diversity

Our Communities

Communities

Working with suppliers to ensure ethical practices and contribute to equitable economies

Volunteering our time and supporting good causes

Our Components

Components

Developing innovative products using renewables, recyclables, reusables and biodegradables

Our Customers

Customers

Providing a hassle-free service that helps customers achieve their sustainability goals

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Half Year Results 2024

30 July 2024

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