

Renishaw plc – 2020 results

13 August 2020

Summary

- Revenue was £510.2m, 11% lower than 2019 revenue of £574.0m.
- Revenue was lower in all regions:
 - Challenging global macroeconomic conditions throughout the year
 - COVID-19 pandemic impacted most lines.
- Metrology revenue was 11% lower at £475.2m
 - Good growth in our position encoder product line due to a recovery in the semiconductor market.
- Healthcare revenue was 14.6% lower at £35.0m
 - Pandemic caused delays in orders, shipments, installations and postponement of elective surgery.
- Adjusted profit before tax of £48.6m (2019: £103.9m), a reduction of 53%
 - Adjusted operating profit for Metrology of £50.3m (2019: £90.6m); adjusted operating profit of £1.4m for Healthcare (2019: £3.1m).
- Statutory profit was £3.2m (2019: £109.9m).

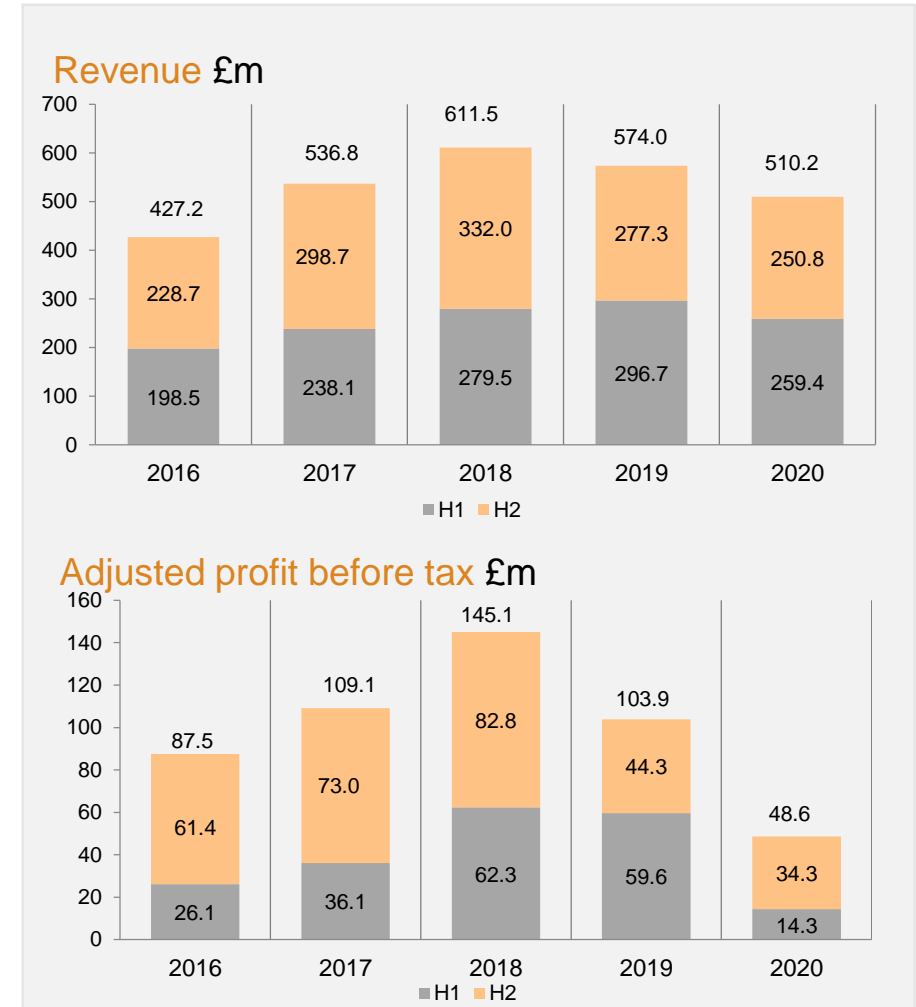
Summary (continued)

- Took a range of actions to protect the long-term health of the business by preserving cash and reducing the Group's cost base. These included:
 - Business resizing that led to a global headcount reduction.
 - Restructure of our additive manufacturing business.
 - Targeted reductions in other operating costs.
 - Cancellation of interim dividend and decision not to pay a final dividend.
- Capital expenditure of £38.7m, of which property expenditure for future growth totalled £24.6m.
- Strong balance sheet, with end of period cash of £120.4m (£106.8m at 30 June 2019).
- Continue to invest appropriately for the future.
- Current focus is on maximising the benefits of recent investments and the prioritisation of projects that will bring faster revenue benefits and are strategically important to the business.

Total headcount
reduction of 578
during the year

Financial highlights

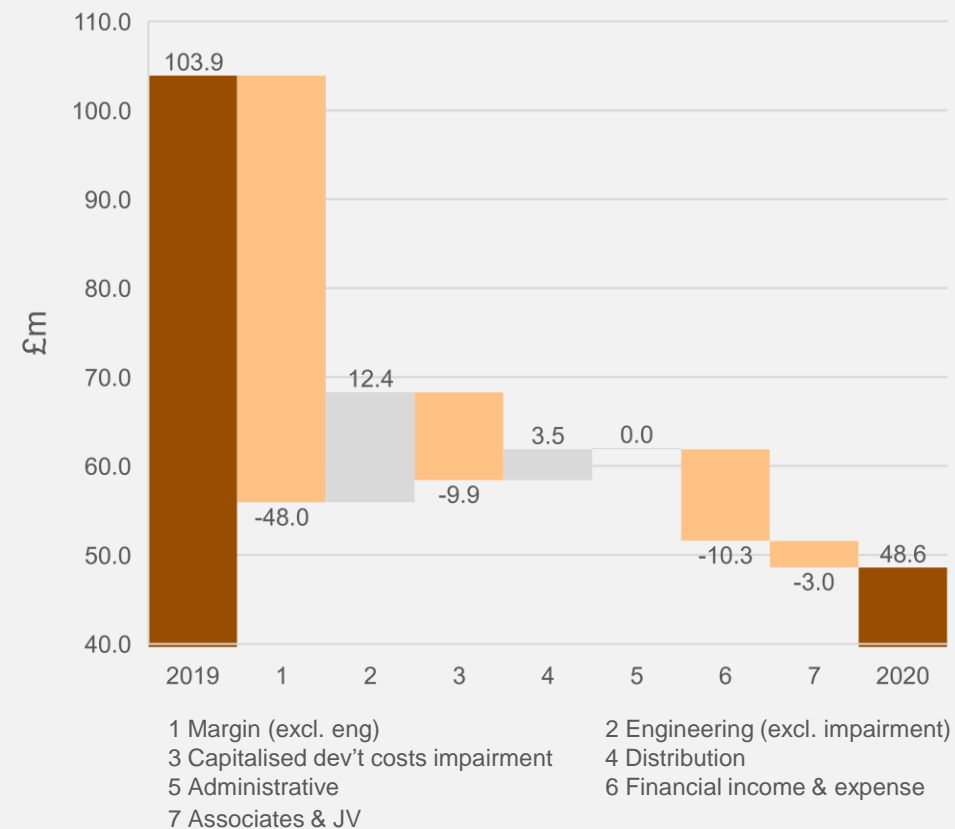
	2020 £m	2019 £m	Change %
Revenue	510.2	574.0	-11%
Adjusted profit before tax	48.6	103.9	-53%
Restructuring costs	(23.8)	0.0	-100%
FV (losses) / gains on ineffective FX cash flow hedging contracts	(21.6)	6.0	-460%
Statutory profit before tax	3.2	109.9	-97%
Tax	(2.9)	(17.7)	-88%
Profit after tax	0.3	92.2	-99%
Adjusted earnings per share	51.0p	119.9p	-57%
Statutory earnings per share	0.4p	126.7p	-99%
Dividend per share	0	60.0p	



Income statement

	2020 £m	%	2019 £m	%	Change
Revenue	510.2	100	574.0	100	-11%
Cost of sales	(184.3)	36	(200.1)	35	-8%
Engineering (inc. R&D)	(87.3)	17	(89.8)	16	-3%
Gross profit	238.6	47	284.1	49	-16%
Distribution costs	(123.3)	24	(126.8)	22	-3%
Administrative costs	(58.6)	11	(58.6)	10	0%
Restructuring costs	(23.8)	5	0	-	-100%
Fair value gains/(losses) on financial instruments	(26.6)	5	1.1	-	-2518%
Financial expense (net)	(3.9)	1	6.3	1	-162%
Share of profits of associates and joint ventures	0.8	-	3.8	1	-79%
Statutory profit before tax	3.2	1	109.9	19	-97%

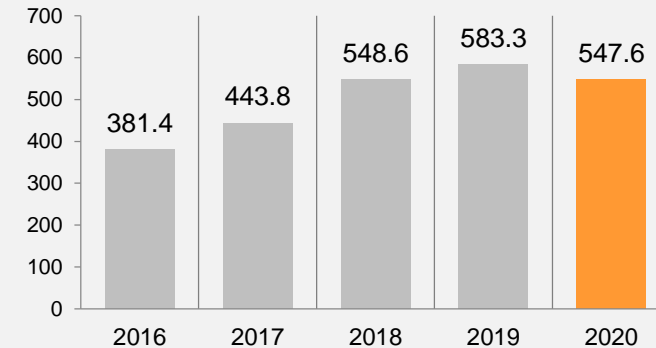
Adjusted profit before tax bridge



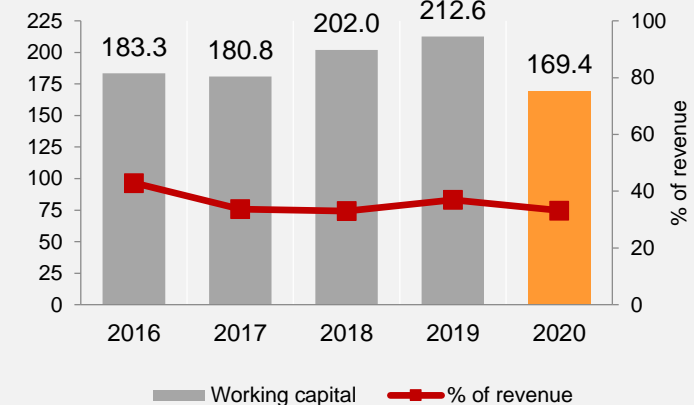
Balance sheet

£m	June 2020	June 2019	Change %
Property, plant & equipment	270.0	263.4	3%
Intangible assets & investments	60.0	72.0	-17%
Right of use assets	12.7	0	100%
Deferred tax assets	39.6	29.8	33%
Finance lease receivables	4.8	5.0	-4%
Long-term loans to ass. & joint vent.	2.8	1.0	180%
Derivatives	1.2	1.3	-8%
Total non-current assets	391.1	372.5	5%
Inventory	105.5	129.0	-18%
Debtors	135.1	154.2	-12%
Pension fund cash escrow	10.6	10.5	1%
Cash and bank deposits	120.4	106.8	13%
Derivatives	(18.8)	(16.1)	17%
Creditors (current)	(71.2)	(75.6)	-6%
Net current assets	281.6	308.8	-8%
Borrowings	(11.5)	(10.4)	11%
Pension scheme deficit	(64.9)	(51.9)	25%
Lease liabilities	(8.9)	0	100%
Derivatives	(41.6)	(35.7)	17%
Net assets, equal to Total equity	546.9	583.3	-6%

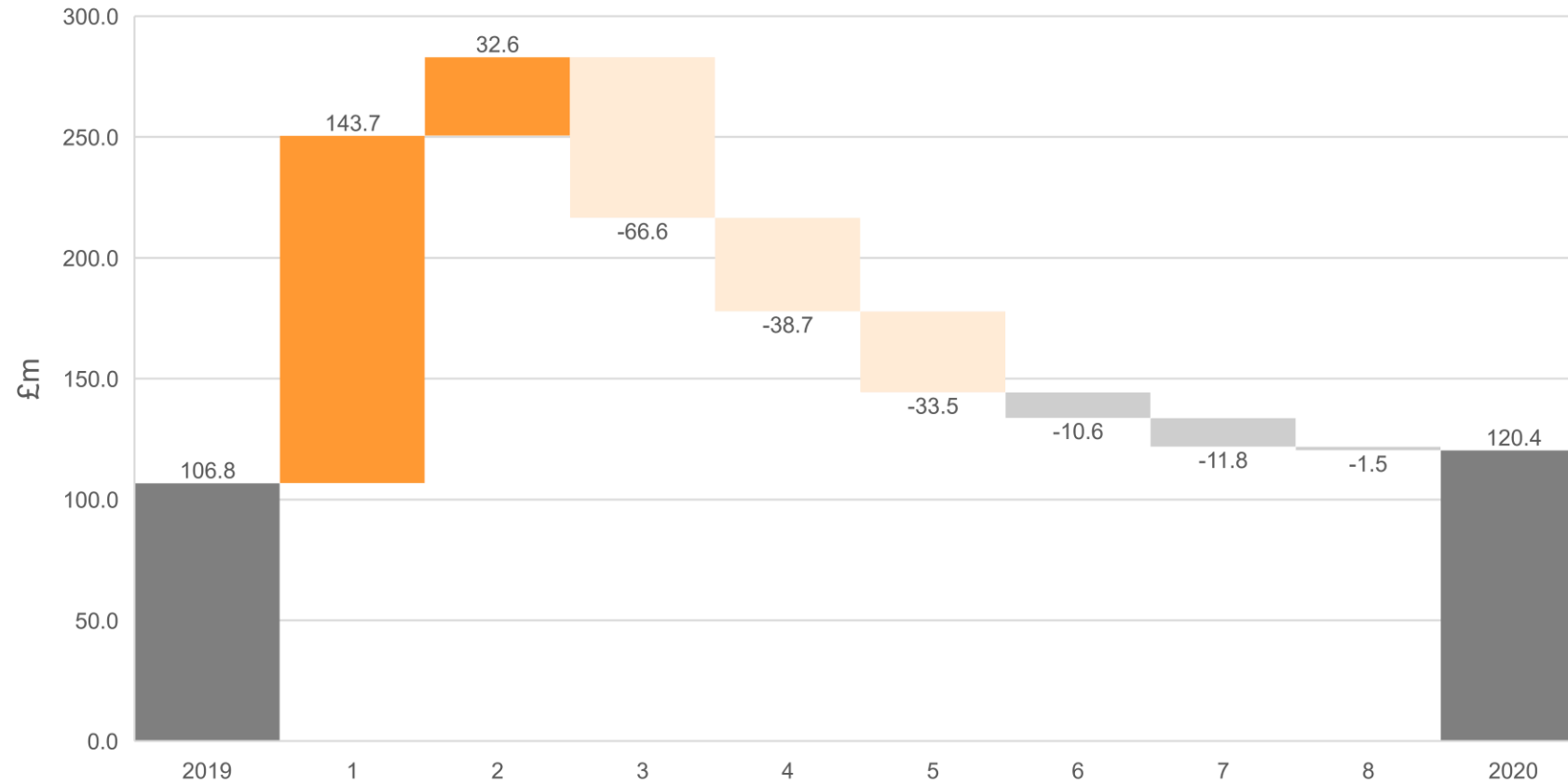
Total equity £m



Working capital (excluding Cash & derivatives) £m



Cash flow (incl. bank deposits)



Sources of cash		Capital allocation strategy		Other	
1	Operating cashflows before R&D costs	3	R&D costs	6	Tax paid
2	Working capital	4	Capital expenditure	7	Pension contributions
		5	Dividends paid	8	Other

Capital expenditure

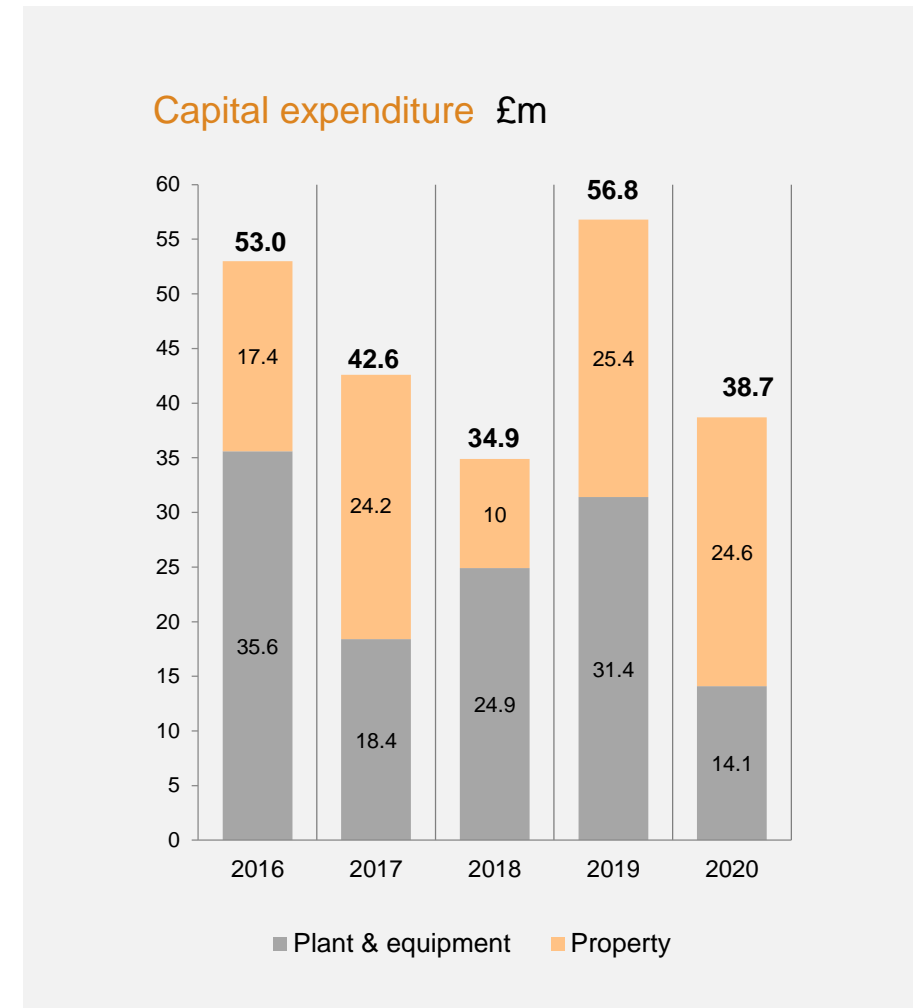
	2020 £m	2019 £m
Capital expenditure	38.7	56.8

Additions to property, plant and equipment and vehicles totalled £38.7m, of which £24.6m was spent on property and £14.0m on plant and machinery, IT equipment and infrastructure, and vehicles.

£28.4m of the additions were incurred in the first half of the year, with spend in the second half significantly lower at £10.3m

The main additions were:

- in the UK, a 94,000 sq ft extension to our Renishaw Innovation Centre completed in early 2020;
- acquisition of property in Pune, India to provide capacity for future growth;
- refurbishment of the building purchased in Nagoya, Japan last year; and
- construction of a new facility for Renishaw Fixturing Solutions in Michigan, USA.



Business environment

Our markets – industry sector

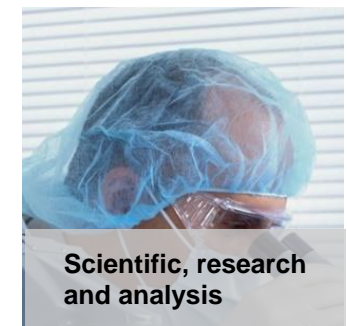
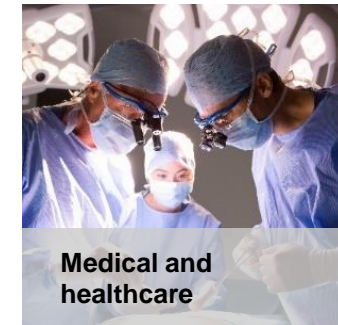
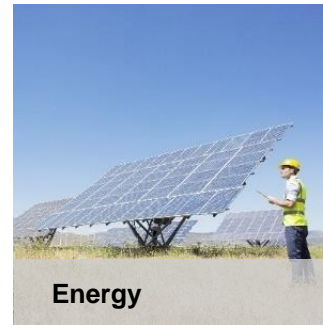
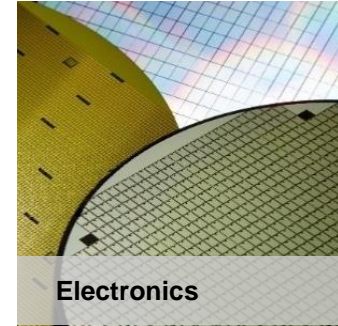
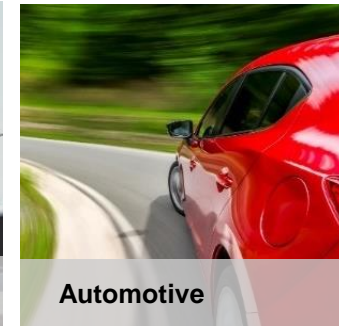
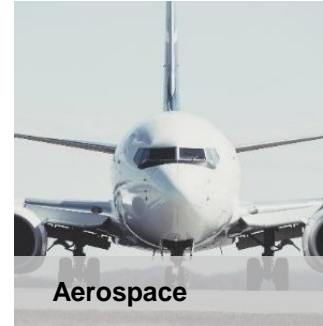
- Automotive conditions remain challenging
- Challenging conditions expected for aerospace
- Recovery in semiconductor market

Our routes to market

- Weaker demand in machine tool sector

Macroeconomic

- Brexit
- COVID-19 pandemic
- Trade tensions



Brexit

- The Board continues to oversee the work of the Brexit Steering Group in identifying the key risks and mitigation plans arising from a possible no-deal Brexit at the end of the transition period.



Mitigation:

- Warehouse in Ireland will significantly reduce the number of direct shipments between the UK and the EU; currently supplying some EU customers and shipments will increase during the remainder of 2020
- General increase in inventory of certain finished goods and components at sites within the EU and the UK; maintained dynamically in line with required demand.
- Ongoing assessment of developments and possible impacts on current plans.

COVID-19 response

Our priority continues to be the health and welfare of our employees, their families and the wider communities in which we operate.

Manufacturing

- All of our manufacturing sites remain open but overall capacity is reduced due to reductions in staff numbers – shielding, childcare issues, COVID-secure working practices and/or local operating restrictions
- Worked 24/7 over six weeks to produce 115,000 components for the VentilatorChallengeUK consortium which supplied over 13,000 ventilators to the NHS

Customer support

- Have supported customers throughout the pandemic utilising digital collaborative tools for presentations/training, and remote diagnostic tools.
- Where necessary and after rigorous risk assessments we have carried out physical installations, support calls and on-site training.



Market drivers



Industrial metrology



Position measurement



Additive manufacturing



Spectroscopy



Neurological

Market drivers across all our business areas:

Precision

Productivity

Practicality

Industrial metrology - market drivers

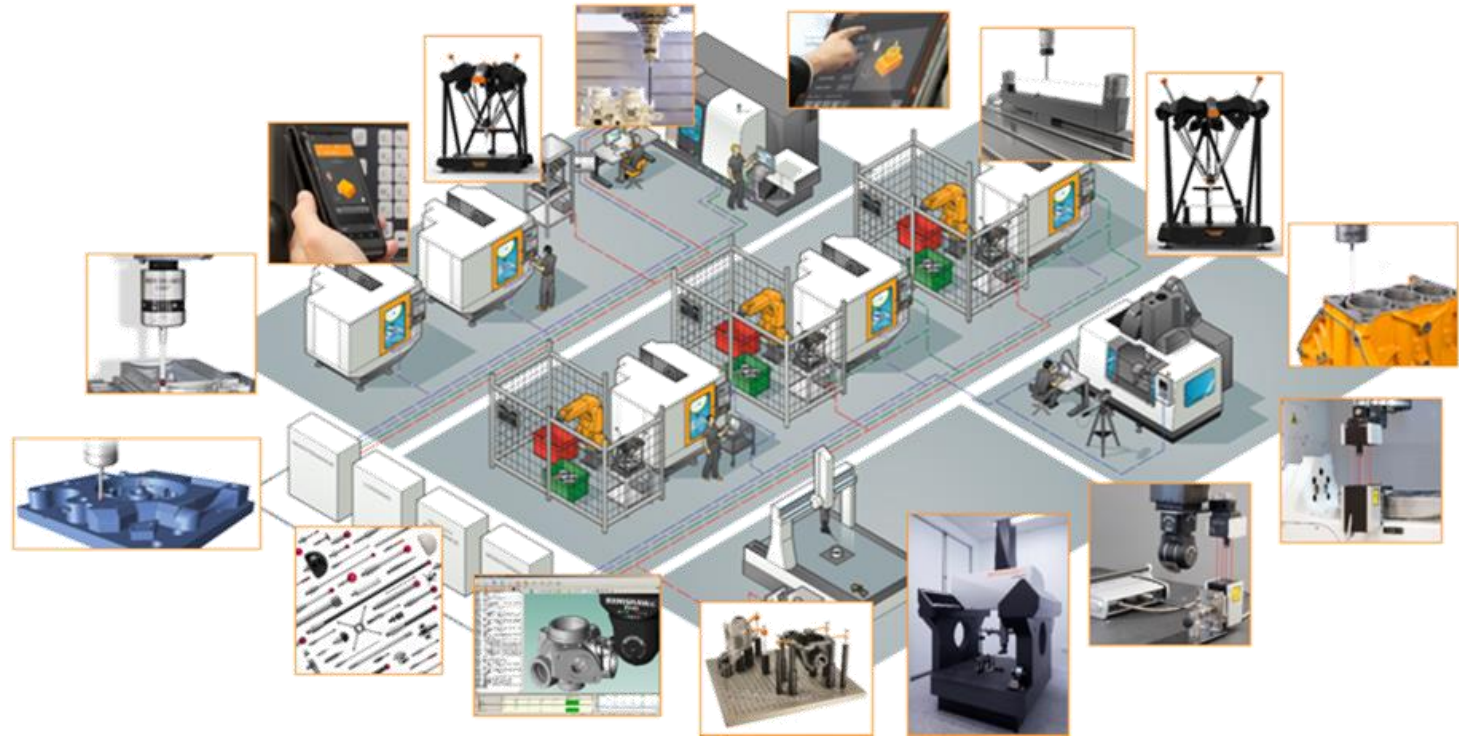
**Weaker current investment levels,
including machine tool sector**

However market drivers remain:

**Increasing component complexity and
closer tolerances – new performance
monitoring equipment**

**Measurement at point of manufacture –
shop floor measurement**

Increased need for automation



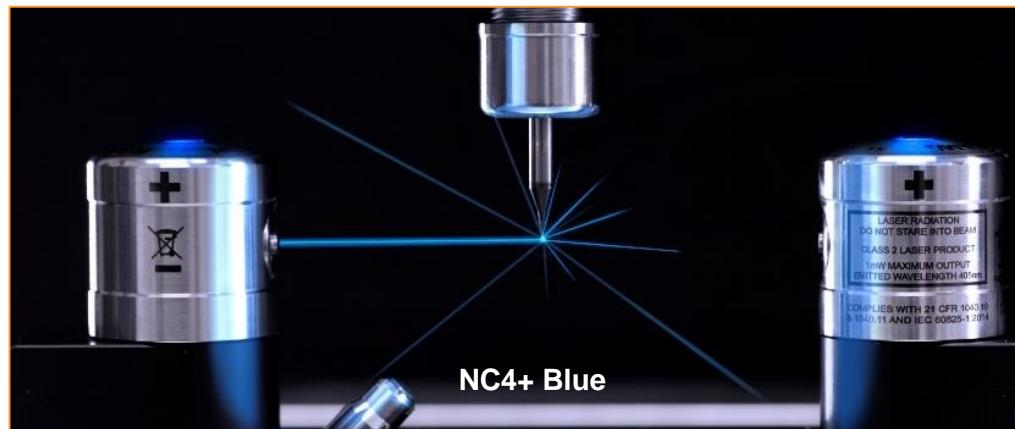
Renishaw's strength is breadth of products and applications knowledge

Industrial metrology

Productivity

Shopfloor measurement

Cutting tools and components remain in situ on the machine tool and automatically checked using an inspection probe or contact/laser-based tool setting probe, such as the new **NC4+ Blue**, which features industry-first, blue laser technology, to deliver significant improvements in tool measurement accuracy.



Automation

There is increasing use of automated changing between different sensor types for the REVO[®] measuring head - contact, optical, surface finish and new **RFP1 fringe probe** which is suited to the measurement of freeform surfaces and complex geometry.

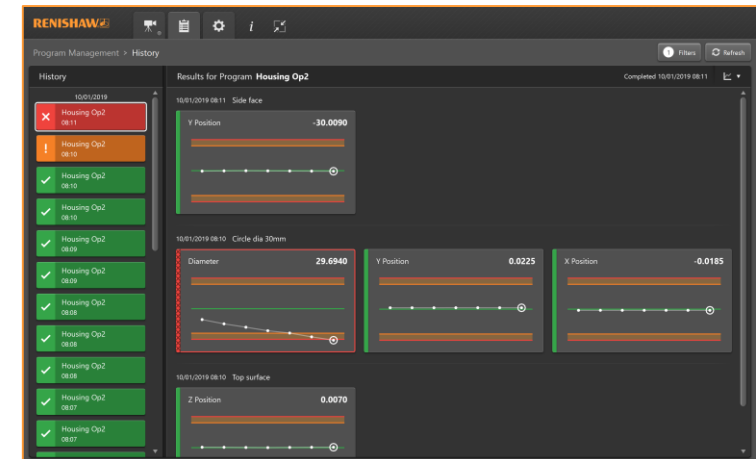


Industrial metrology

Practicality

Set and Inspect is a simple, intuitive, on-machine probing app for customers who require an easy-to-use probing solution.

- Minimal user training required
- The app is installed onto a Windows® based CNC control or Windows tablet connected to the machine tool control via Ethernet
- Supports part setting, inspection and tool setting cycles
- Combined with the complimentary Reporter app, users are provided with immediate access to part and tool measurement data.
- Connectivity is achieved with the Data Export option, allowing measurement data to be exported to files and reports or automatically streamed from machine tool via MTConnect.
- Key objective for us across IM product range

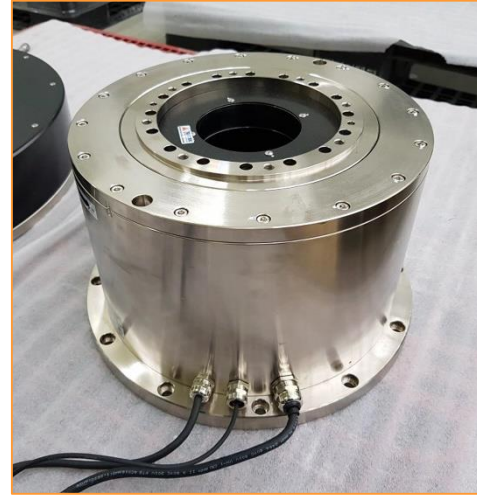


Position measurement – market drivers

Positive trends include:

- emerging flat panel display (FPD) technology e.g. mini-LED and microLED
- commercialisation of new Intel 7 nm and AMD 5 nm semiconductor processes
- rollout of 5G mobile products and infrastructure
- increasing factory and warehouse automation/robotics
- demand for telecommunications equipment and data centres for streaming and cloud storage
- COVID-related rise in PC and gaming systems

Ability to supply on short lead-times and support customers throughout the pandemic has been critical



ATOM™ encoder installed on a JUSTEK (Korea) direct-drive rotary (DDR) motor used for precision process equipment in the FPD and semiconductor industries



ATOM encoder installed on a CCP (Taiwan) mini direct-drive (DD) rotary tables used in applications such as industrial automation, semiconductor and FPD manufacturing equipment.

Position measurement

Practicality

ATOM DX™ encoder series

- Our smallest incremental encoder, with digital output direct from the readhead, eliminating the need for bulky interfaces.
- A high-performance encoder that features resolutions down to 2.5 nm, low Sub-Divisional Error (SDE) and low jitter.
- Can be used with a wide range of linear and rotary scales to meet most application requirements.



Functional safety

Certain machinery safety functions that ensure that operators are protected in the event of hardware failure require the encoder feedback to be functionally safe (FS). This includes medical robots and collaborative robots (Cobots).

Our FS position encoders, certified to international safety standards, include new **RESOLUTE™ FS with BiSS® Safety** absolute open optical encoder system, and **TONiC™ FS** incremental open optical encoder system.



Additive manufacturing

- Demand impacted by the global macroeconomic environment.
- Our strategy is to simplify and focus our AM business and during the year we undertook a restructuring to:
 - focus on those customers who are planning for AM volume production
 - rationalise the product range to focus on the RenAM 500Q platform
- Good progress with key aerospace accounts. BAE Systems has announced target for 30% of the Tempest aircraft to be additively manufactured.
- Exciting technology roadmap building on the productivity and precision of the RenAM 500Q.



RenAM 500Q multi-laser system at Sandvik (Sweden)

Healthcare - Raman spectroscopy

Market applications

We are focussing on new application areas to address existing and new markets for our Raman systems. Our current areas of interest include healthcare (cancer and infectious disease diagnosis) and environmental (microplastics and green energy).

The new **Virsa™ Raman Analyser** is a versatile, fibre-optic-coupled Raman spectroscopy system designed for reliable, detailed remote analysis. Its **practicality** enables expansion into new markets and environments beyond the confines of a laboratory, including art and heritage, manufacturing, forensics, pharmaceutical and medical.

Raman spectroscopy has a unique place in forensic crime laboratories and the new purpose-built **inVia™ InSpect system** helps to target our solutions at a known market.



Healthcare - Neurological

- Impacted by the pandemic with orders for the neuromate stereotactic robot delayed and consumable sales reduced due to elective surgeries being put on hold.
- Underlying demand remains for robots in neurosurgery which is still an emerging market meeting the need for **precision** and **productivity** – installations during the year mainly for procedures used in the treatment of epilepsy.
- During the year we created Renishaw Neuro Solutions Ltd as a new entity to take the neurological line to the next stage and exploit the innovative technology that we have already developed.
 - Main aim is to facilitate the opportunity for external investment from partners whose expertise could help to exploit what has been achieved to date and grow the business to fulfil its market potential



Demonstration operating theatre at the Renishaw Healthcare Centre of Excellence, Misken, South Wales

Going forward

- Maintained supply to our customers through challenging conditions
- We remain committed to our long-term strategy of delivering growth through the development of innovative and patented products.
 - We have taken measures to size the business for the challenging conditions
- We continue to generate an abundance of ideas for disruptive new technology which we believe have excellent opportunities within our existing markets.
- Our focus is on prioritising resources onto key projects that will either bring faster revenue benefits or are strategically important to the business.

Outlook summary

- We face an uncertain macroeconomic backdrop and very challenging market conditions. However, the Group is in a strong financial position and we remain confident in our long-term prospects due to the high quality of our people, our innovative product pipeline, extensive global sales and marketing presence and relevance to high-value manufacturing.

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