# 2022 HY Results

## Trading update and strategic highlights

2022 Half Year Results – 17 August 2022

# HY 2022 RESULTS

## Agenda

# HY 2022: HIGHLIGHTS

## The Group has delivered strong financial performance and strategic progress in H1 2022

**Sale of Packaging to Mayr-Melnhof Group announced in June for £312m, 12.4x implied EBITDA multiple**

**The Filters strategic review continues to progress, and an update is expected by the end of Q3**

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**Strong performance across the continuing group. Components and Filters delivered double digit revenue growth as well as margin expansion**

- Revenue growth +14.0% LFL and adjusted operating profit growth of 43.8%[1]
- Operating margin of 10.4%, an improvement on H1 2021 (8.5%)
- Continue to mitigate inflationary headwinds in Components and Filters through price

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**Order book growth in H1, +22% year on year[1]**

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**Continued commercial progress with recycled content products and the ECO filters range**

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**The sale of Packaging will enhance Essentra's balance sheet leaving the continuing Group with an expected small net cash balance. The Board intend to return a portion of Packaging proceeds to shareholders after the conclusion of both strategic reviews**

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**Interim dividend 2.3p, +15% increase on HY21 in line with progressive dividend policy**

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[1] On a constant currency adjusted basis. For continuing operations only.


# STRATEGIC REVIEW UPDATE

**PAUL FORMAN**

**CHIEF EXECUTIVE OFFICER**

# BECOMING A PURE PLAY COMPONENTS BUSINESS

## Creating a Components business with flexibility and financial strength to accelerate growth

### Sale of Packaging to Mayr-Melnhof Group

- The sale of Packaging is the first step in repositioning Essentra as a global leading manufacturer and distributor of components
- We expect the transaction to close in Q4 2022, pending regulatory clearances. Shareholder approval was received on 8 August
- The transaction will enhance Essentra's balance sheet. After completion, the Group expects to hold a small net cash balance, enabling further investment activity
- The Board intend to return a portion of Packaging proceeds to shareholders after the conclusion of both strategic reviews
- For our half year results, Packaging has been accounted for as a discontinued operation

ESSENTRA PACKAGING

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### Filters strategic review update

- The outcome of the review will mark the second major step in realising the strategic goal of becoming a pure-play Components business
- The strategic review continues to progress, an update is expected by the end of Q3 2022

# HY 2022 FINANCIAL PERFORMANCE

**JACK CLARKE**

**CHIEF FINANCIAL OFFICER**

# FINANCIAL METRIC HIGHLIGHTS (continuing operations)

## Strong H1 financial performance

| Revenue | Adjusted operating profit | Adjusted operating margin | Adjusted basic EPS |
|---|---|---|---|
| £340.8m | £35.3m | 10.4% | 5.3p |
| +14.0% LFL | +43.8% | +190bps | H1 2021: 5.2p[2] |

| Group Net debt to EBITDA | Cash conversion | Interim dividend | ROIC (last 12 months basis) |
|---|---|---|---|
| 1.9x[1] | 45% | 2.3p | 16.4% |

*All values are presented on a constant currency, continuing operations basis unless otherwise stated*
*Adjusted basis excludes intangible amortisation and adjusting items*

[1] Group net debt, including continued and discontinued operations and pre IFRS 16 adjustments. Post IFRS 16 net debt ratio is 2.1x (2021 FY 1.7x)
[2] H1 2021 has been restated for the continuing group

# INCOME STATEMENT

## Continuing operations

| | HY 2022 | HY 2021 (restated)[2] | Growth | |
|---|---|---|---|---|
| | £m | £m | Actual FX | Constant FX |
| Revenue | 340.8 | 287.9 | *18.4%* | *17.0%* |
| Operating profit[1] | 35.3 | 24.6 | *43.5%* | *43.8%* |
| *Operating margin[1]* | *10.4%* | *8.5%* | *190bps* | *190bps* |
| Profit before tax[1] | 23.4 | 18.1 | *29.3%* | *26.9%* |
| Earnings[1] | 16.0 | 15.8 | *1.3%* | |
| Adjusted basic earnings per share[1] | 5.3p | 5.2p | *1.9%* | |

[1] Presented on an adjusted basis, excluding intangible amortisation and adjusting items
[2] Prior year restatement required for the removal of Packaging division as a discontinued operation

# REVENUE BY DIVISION

| | HY 2022 | HY growth |
|---|---|---|
| | £m | Constant FX |
| **Components**[1] | **175.9** | **+18.6%** |
| **Filters** | **164.9** | **+15.4%** |
| **Continuing Operations** | **340.8** | **+17.0%** |
| ***Continuing Operations – like-for-like***[1] | | ***+14.0%*** |
| | | |
| ***Discontinued Operations:*** | | |
| Packaging | 205.6 | +9.5% |

[1] Components 18.6% growth includes Hengzhu acquisition. On a like-for-like basis, excluding Hengzhu, Components growth in H1 was 12.7%.

# ADJUSTED[1] OPERATING PROFIT BY DIVISION

| | HY 2022 | Growth | Constant FX Margin | |
|---|---|---|---|---|
| | **£m** | **Constant FX** | **HY 2022** | **HY 2021** |
| Components | 35.9 | 33.7% | 20.4% | 18.1% |
| Filters | 15.1 | 27.2% | 9.2% | 8.3% |
| Central Services | (15.7) | 10.9% | | |
| **Continuing Operations** | **35.3** | **43.8%** | **10.4%** | **8.5%** |
| | | | | |
| ***Discontinued Operations[2]:*** | | | | |
| Packaging | 3.9 | -59.4% | 1.9% | 5.1% |

[1] Adjusted to exclude intangible amortisation on acquired assets and adjusting items
[2] After £2.8m central cost allocation. Prior to allocations, Packaging adjusted operating profit was £6.7m in H1 2022

# ADJUSTING ITEMS

| | Continuing | Discontinued |
|---|---|---|
| Transaction costs relating to acquisition and disposal of businesses | - | 12.0 |
| Loss on disposal due to goodwill impairment of packaging business | - | 181.6 |
| Major software as a service (“SaaS”) development | 6.2 | - |
| Other[1] | 13.1 | - |
| **Total charge from adjusting items** | **19.3** | **193.6** |

[1] Other adjusting items relate to professional, advisory and restructuring costs across the Group

# INCOME STATEMENT

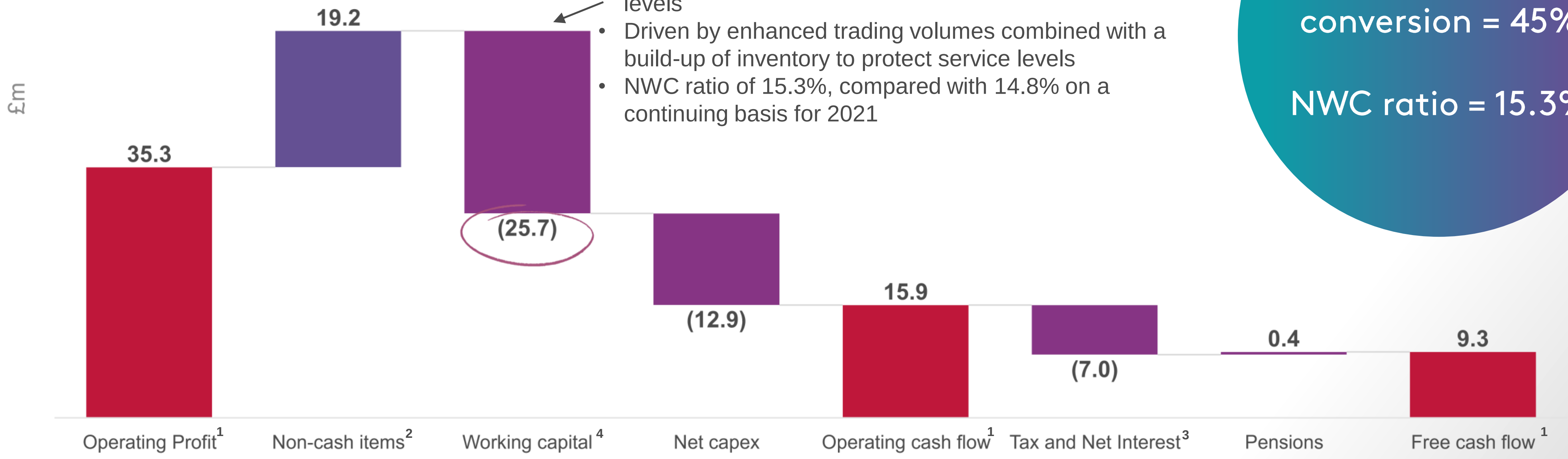
## Continuing operations

| | HY 2022 | Growth | |
|---|---|---|---|
| | £m | Actual FX | Constant FX |
| Operating profit[1] | 35.3 | *43.5%* | *43.8%* |
| Net finance charge | (11.9) | | |
| **Profit before tax[1]** | **23.4** | ***29.3%*** | ***26.9%*** |
| Taxation[1] | (6.2) | | |
| *Effective tax rate[2]* | *26.5%* | | |
| **Profit for the period from continuing operations** | **17.2** | **4.2%** | **2.2%** |
| Non-controlling interests | (1.2) | | |
| Earnings[1] | 16.0 | *1.3%* | |
| EPS – basic[1] | 5.3 | *1.9%* | |
| EPS – diluted[1] | 5.3 | *1.9%* | |

1 Continuing operations basis, adjusted to exclude intangible amortisation of £5.0m and an adjusting items pre-tax charge of £19.3m along with associated tax impact
2 The underlying effective tax rate for the continuing Group is adversely impacted by the accounting treatment for consolidation adjustments between the continuing and discontinued operations. Excluding these significant impacts, the continuing Group's underlying effective tax rate would be 21.4% which is within our forecast tax rate range of 21% to 22%

# CASH FLOW

## Continuing operations




- Predominately due to higher inventory and receivables levels
- Driven by enhanced trading volumes combined with a build-up of inventory to protect service levels
- NWC ratio of 15.3%, compared with 14.8% on a continuing basis for 2021

Operating cash conversion = 45%

NWC ratio = 15.3%

[1] On a continuing operations basis, adjusted to exclude intangible amortisation and adjusting items
[2] Depreciation and amortisation of £14.1m, right-of-use asset depreciation of £4.3m and Share Option Expense / Other Movements of £0.8m
[3] Tax paid excludes the tax received on business acquisitions/disposals
[4] Includes £1.7m of operating cashflows from IAS29 hyper inflation

# NET DEBT RECONCILIATION

| | £m |
|---|---|
| As of 1 January 2022 | 234.7 |
| As of 30 June 2022 | 309.9 |
| **Total Change in Net Debt** | **75.2** |
| Movement in FX | 27.4 |
| **Change in net debt after FX, of which:** | **47.8** |
| Free cash flow | (9.3) |
| Discontinued operations cash flow | 12.8 |
| Cash outflow in respect of adjusting items | 31.1 |
| Loan revaluations & Private Placement facility fees | 4.9 |
| Movements in loan hedging derivatives | (10.7) |
| Dividends to equity holders | 12.0 |
| Lease liability movements (including lease liabilities acquired) | 7.0 |

*Negative numbers denote a cash inflow, positive numbers a cash outflow*

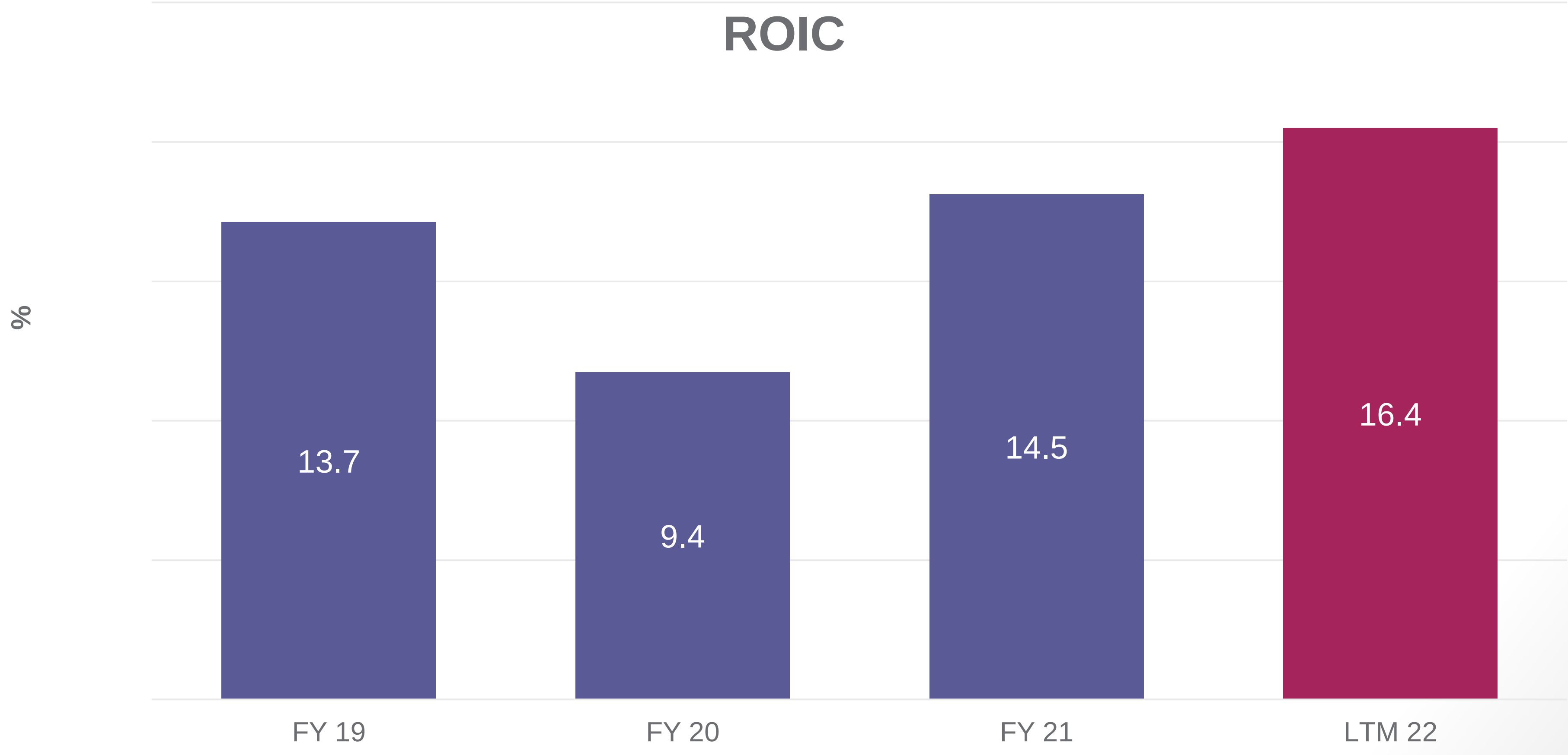
# DIVIDEND

## Progressive interim dividend 2.3p

- Dividend resumed in FY20 with a final dividend of 3.3p per share, funded from free cash flow
- The Board has since adopted a progressive dividend policy, guided by the objective of maintaining a robust balance sheet to pursue strategic opportunities
- In line with this policy, an interim dividend of 2.3p per share has been proposed by the Board, a 15% increase on interim 2021 of 2.0p

# RETURNS

## ROIC increases to 16.4%




Prior years have been adjusted to present the business on a continuing operations basis, and restated for the adoption of IFRIC agenda decision on cloud-based software arrangements

# DIVISIONAL UPDATES

**PAUL FORMAN: CHIEF EXECUTIVE OFFICER**

**SCOTT FAWCETT: COMPONENTS MANAGING DIRECTOR**

# COMPONENTS

## Revenue growth continues with margin expansion

18.6% revenue growth in H1 (12.7% LFL) with 20.4% margin

Regular review of price across H1 to mitigate cost inflation

Service metrics including NPS and OTIF are improving following the impact of COVID, as we have invested in inventory

Continued digitalisation of the customer experience journey, a new digital hub has opened in Istanbul

Stabilised and re-developed the BPR programme through H1 and will recommence the roll out in EMEA in H2. This includes planning for implementation in AMERS

Solid progress towards our sustainability goals, achieving 50% recycled content in almost all of our Kidlington LDPE range

M&A pipeline remains strong, with conversations ongoing

| | HY 22 | HY 21 | HY 20 |
|---|---|---|---|
| Revenue £'m | £176m | £148m | £130m |
| LFL growth v 2021 | 12.7% | | |
| Operating margin | 20.4% | 18.2% | 18.4% |

Revenue and operating margin as reported. LFL growth at constant currency, adjusted for acquisitions

# FILTERS

## Sustained growth and margin progression

15.4% growth in H1, supported by ‘game changers’

- Further success with contract business wins, including new BCP volume which grew 19% compared to HY21
- China JV volumes continue to grow reaching profitability in P6
- Interest continues with our range of proprietary ECO and THP products. Three customers have now placed commercial orders

Margin expansion supported by operational gearing, improved product and customer mix and price actions, mitigating inflation

Operational metrics and agility remain class leading, overcoming supply disruptions in the market

The Tapes business delivered 7.6% (constant currency) growth in the period, over 50% of our revenue now falls in to non-tobacco markets

| | HY 22 | HY 21 | HY 20 |
|---|---|---|---|
| Revenue £’m | £165m | £140m | £133m |
| LFL growth v 2021 | 15.4% | | |
| Operating margin | 9.2% | 8.2% | 8.1% |

Revenue and Operating Margin as reported. Growth at constant currency.

# ESG COMMITMENTS AND PROGRESS

Effectively and responsibly building for the future, meeting the needs of all our stakeholders

## Environment

- Normalised GHG emissions are now 21% below 2019 baseline
- 20% increase in renewable energy being using across all sites (14% 2021)
- 7% (11% June) recycled content in Components
- 22 of 45 manufacturing sites certified as zero waste to landfill,  additional 4 are in progress for FY 2022
- Almost all LDPE products leaving Kidlington facility have 50% recycled content
- Filters division continues to receive interest in ECO filters with new commercial orders received in H1

## Social

- Our people remain at the heart of our journey
- Health and safety remains a key priority
- We continue to communicate and support colleagues impacted by change, through proactive engagement in employee forums
- Corporate Social Policy in development. Continuously improving in this area engages with our people and stakeholders

## Governance

- Welcomed Jack Clarke as a new director, and CFO, to the Board
- Embedded changes in the Board and committee membership, with Ralf Wunderlich now leading the Remuneration Committee
- The Group Risk Committee, working with the Divisions and Audit and Risk Committee have closely monitored the principal risks through the strategic review
- We have continued with Voice of the Employee sessions, with three NEDs visiting sites across Europe, Asia and Americas


# OUTLOOK

PAUL FORMAN

CHIEF EXECUTIVE OFFICER

# TRADING OUTLOOK

## Focus on completion of strategic reviews, sustained growth with margin progression

Strong H1 performance. LFL revenue growth of 14.0% and margin expansion from 8.5% to 10.4%

Sale of Packaging announced and expected to complete in Q4 2022

A Filters strategic review update is expected by the end of Q3 2022

We continue to manage supply chain disruption and mitigate inflationary pressures through price

We remain mindful of macro-economic headwinds, and continue to monitor trends and the impact on our business closely

**Outlook**

- The Group remains well positioned with organic and inorganic growth opportunities, strong order books and a robust balance sheet
- Components: Continued market share gains driven by digital and cross-selling with further focus on price
- Filters: Growth enabled by the continued ramp up of the China JV and outsourcing contracts
- The continuing Group expects to deliver adjusted operating profit in line with Board expectations

# Questions and Answers

# Appendices

# INCOME STATEMENT: Reported basis

| | HY2022 | Growth | |
|---|---|---|---|
| | **£m** | **Actual FX** | **Constant FX** |
| Adjusted operating profit | 35.3 | *43.5%* | *43.8%* |
| Intangible amortisation | (5.0) | | |
| Adjusting items | (19.3) | | |
| **Reported operating profit** | **11.0** | ***(37.5%)*** | ***(37.2%)*** |
| Net finance charge | (11.9) | | |
| **Loss before tax** | **(0.9)** | | |
| Taxation charge | (3.7) | | |
| **Net loss on continuing** | **(4.6)** | | |
| Loss from discontinued operations | (182.8) | | |
| **Net loss total Group** | **(187.4)** | | |
| EPS – basic continuing | (1.9p) | | |
| EPS – diluted continuing | (1.9p) | | |

# DISCONTINUED OPERATIONS: Packaging

| | HY2022 | HY2021 |
|---|---|---|
| | **£m** | **£m** |
| Revenue | 205.6 | 187.0 |
| Adjusted operating profit | 6.7 | 11.3 |
| Intangible amortisation | (6.6) | (6.9) |
| Adjusting items | (193.6) | 3.0 |
| **Reported operating (loss) / profit** | **(193.5)** | **7.4** |
| Net finance charge | (0.3) | (0.5) |
| **(Loss) / profit before tax** | **(193.8)** | **6.9** |
| Taxation | 11.0 | (1.7) |
| **Net (loss) / profit** | **(182.8)** | **5.2** |

# EXCHANGE RATES

| Six months ended 30 June 2022 | Average | Closing |
|---|---|---|
| US$/£ | 1.29 | 1.21 |
| Euro €/£ | 1.18 | 1.16 |
| | | |
| **Impact on HY2022 of a one cent increase in rate** | | **Adjusted Op. profit movement (£m)** |
| US$/£ | | 0.1 |
| Euro €/£ | | 0.2 |
| | | |
| **Six months ended 30 June 2021** | **Average** | **Closing** |
| US$/£ | 1.39 | 1.38 |
| Euro €/£ | 1.15 | 1.17 |

# ENVIRONMENTAL TARGETS

| | Long-term Targets |
|---|---|
| **Scope 1&2 GHG emissions (normalised) (Group)** | • GHG emissions neutral by 2040<br>• 25% reduction by 2025 (vs. 2019 baseline) |
| **# sites at zero waste to landfill (Group)** | • All sites at zero waste to landfill by 2030 (and preferably sooner) |
| **Total waste volume (normalised) (Group)** | • 20% reduction by 2030, vs 2019 baseline |
| **% packaging/raw materials from more sustainable sources (Components)** | • 20% of material by 2025<br>• Note: using Components KPI as a Group proxy – other Divisions also tracking their own (different) metrics |

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