



Essentra plc

Half Year Results 2023



16 August 2023

Welcome and Overview

Scott Fawcett
CEO



Agenda

- 1 H1 highlights
- 2 Financial performance
- 3 Strategic update
- 4 Outlook
- 5 Q&A

H1 2023 highlights

A resilient performance, in line with expectations

- Resilient H1 performance, whilst navigating macro-economic conditions
- Improved adjusted¹ operating margins of 13.8%
 - Pro-active and disciplined management of costs. Strong pricing maintained, offsetting inflation
 - Central corporate costs re-sized, on track to deliver the previously guided run rate of c.£13m
- Robust balance sheet with 0.2x leverage, supporting investment in organic and inorganic growth
- Strong adjusted operating cash flow², cash conversion of 89.1%
- Investing in our “hassle-free” proposition, and the development of cross-sell opportunities, including Wixroyd
- Leading on sustainability, making excellent progress towards our medium-term goals
- Expectations for FY23 unchanged

¹ Before adjusting items and acquired intangible amortisation

² Adjusted operating cash flow is net cash flow from operating activities, excluding income tax paid, pensions adjustments, and cash flows relating to adjusting items, less net capital expenditure

Financial Performance

Jack Clarke
CFO



H1 2023 financial results

Financial resilience and strong balance sheet

Total revenue

£166.3m

2022: £175.9m

-5.5%

Adjusted¹ operating profit

£23.0m

2022: £15.1m

+52.3%

Adjusted¹ operating margin

13.8%

2022: 8.6%

+520bps

Adjusted¹ operating cash conversion²

89.1%

2022: N/A

Net debt to EBITDA incl. leases³

0.2x

2022: 2.1x

ROIC

12.2%

2022: 13.3%

Adjusted¹ EPS

5.9p

2022: 0.9p

Interim dividend

1.2p

2022: N/A

All numbers presented on a reported basis

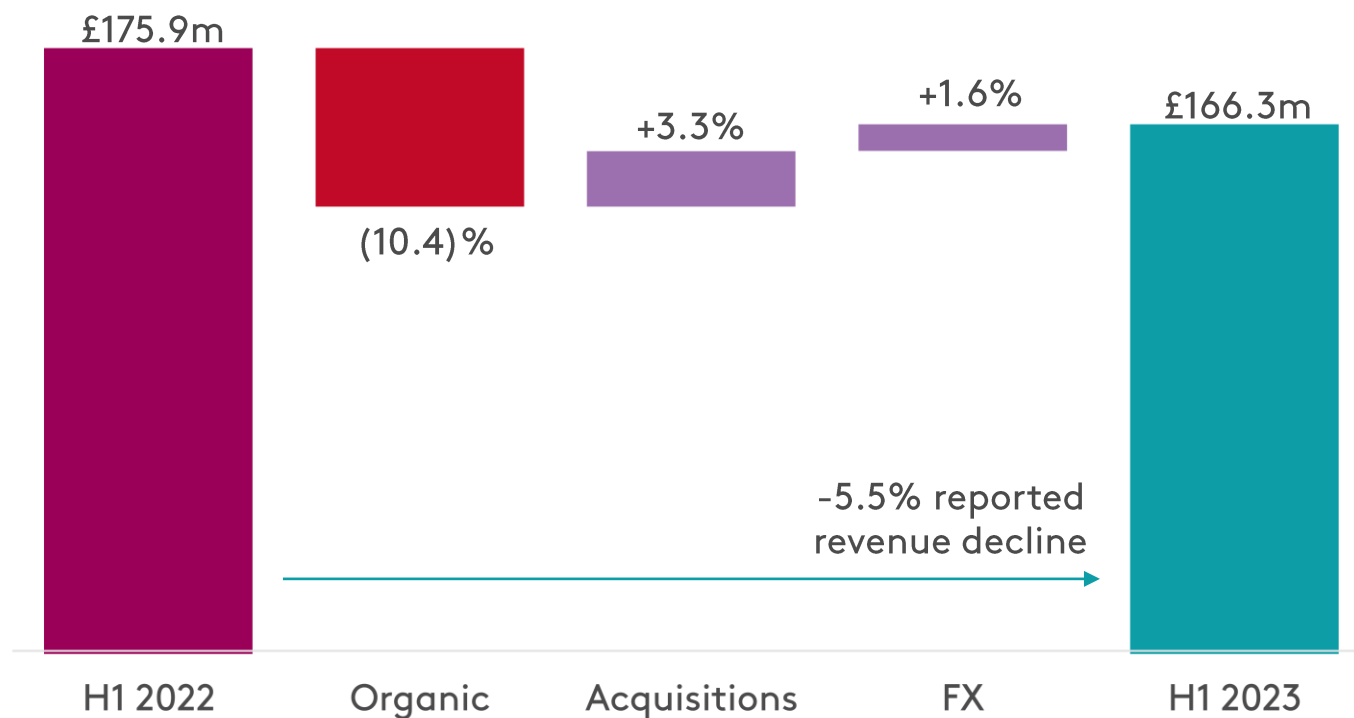
¹ Before adjusting items and acquired intangible amortisation

² Adjusted operating cash flow is net cash flow from operating activities, excluding income tax paid, pensions adjustments, and cash flows relating to adjusting items, less net capital expenditure

³ EBITDA is defined on a twelve-month basis, as operating profit before depreciation (and other amounts written off property, plant and equipment), share option expense, intangible amortisation and adjusting items
For 2023 EBITDA is calculated on a continuing basis and for 2022 on a total Group basis

Revenue bridge

-5.5% reported, -7.1% constant currency



- Disciplined pricing partly offsetting volume decline, demonstrating the benefits of our hassle-free proposition
- Volumes linked with wider market trends; strong H1 2022 comparatives
- Wixroyd acquisition (2022) supporting new cross-sell opportunities across Europe

Income statement

	H1 2023	H1 2022 ¹	Change %
	£m	£m	
Revenue	166.3	175.9	-5.5
Gross profit	73.0	77.6	
Trading adjusted ² operating profit	29.2	35.1	
Central corporate costs	(6.2)	(20.0)	
Adjusted operating profit²	23.0	15.1	+52.3
Finance income	6.9	3.6	
Finance expense	(6.9)	(15.3)	
Adjusted profit before tax ²	23.0	3.4	
Effective tax rate	23.5%	21.5%	
Adjusted profit²	17.6	2.7	
Adjusted basic EPS ²	5.9p	0.9p	

¹ Prior year numbers re-presented on a continuing operations basis

² Adjusted to exclude intangible amortisation of £5.7m and an adjusting items pre-tax charge of £7.0m along with associated tax impact

Adjusting items

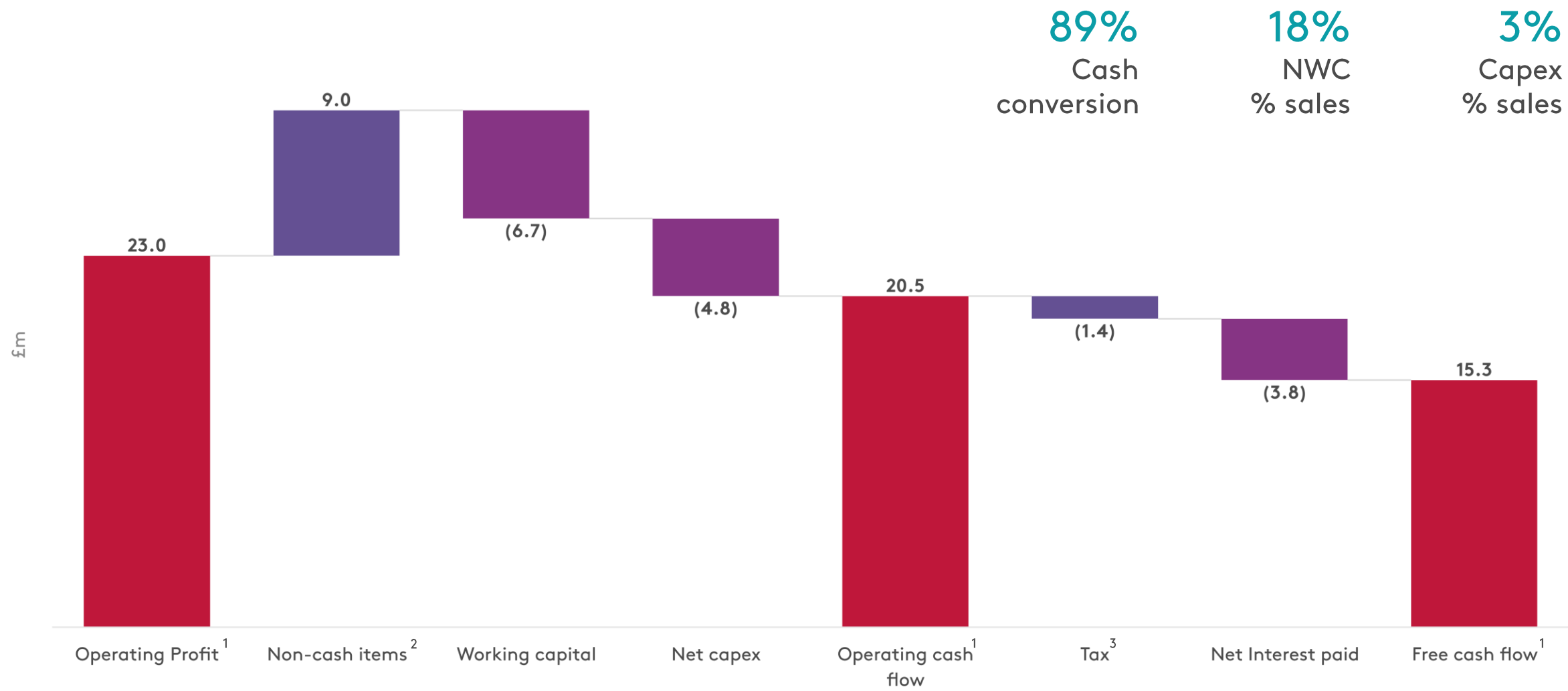
Items excluded from adjusted profit measures

	£m
SaaS (Software as a Service) incl. ERP implementation	4.9
Relating to disposals and separation	0.9
Defined benefit pension scheme charges ¹	0.8
Acquisition costs ²	0.4
Total	7.0

¹ 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

² £0.4m incurred in relation to the acquisition of the Wixroyd Group, acquired in December 2022.

Cashflow



1 Adjusted to exclude intangible amortisation and adjusting items
2 Being depreciation and amortisation of £6.9m, right-of-use asset depreciation of £2.7m, Share Option Expense of £0.7m offset by other movements (£1.3m)
3 Tax paid excludes the tax received on business acquisitions/disposals

Strong balance sheet supports capital allocation priorities

Strong liquidity position following the 2022 strategic review process

- £89.8m returned via special dividend in April 2023
- c.£60m share buyback programme is c.27% complete, £16.2m deployed as of 30 June 2023

Sufficient facility headroom for growth and M&A firepower

- Net debt to adjusted EBITDA 0.2x post-IFRS 16

Sources of funding:

- \$102.5m USPP with an average coupon rate of 3.8% extending to July 2033
- £200.0m Revolving Credit Facility expiring November 2025

Shareholder returns

£113.8m

Net Funding Surplus
1 January 2023

£15.3m

Free cash flow generated

(£106.0m)

Shareholder capital return

(£3.0m)

Ordinary Dividend

M&A firepower

(£8.3m)

Net debt
30 June 2023

0.2x

Net debt to EBITDA

£286.3m

Liquidity¹

\$102.5m

USPP debt

£200.0m

RCF²

¹ Group's liquidity position defined as the headroom available under the banking facilities plus cash resources
² As of 30 June 2023, the Rolling Credit Facility ("RCF") is £10.0m drawn

Capital allocation policy

A clear policy to support organic and acquisitive growth



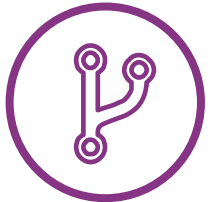
ORGANIC GROWTH

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



INNOVATION

Sustainable new product development and propositions
Digitalising the customer experience drives cross-sell and customer acquisition



ACQUISITIONS

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



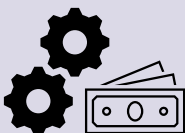

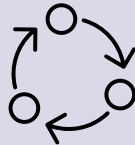



ORDINARY DIVIDENDS

Maintaining dividend cover in the order of three times

Progressing towards our medium-term targets

We remain focussed on what we can control, and have clear financial targets to deliver profitable growth

Revenue Growth	Profitability	Cashflow	Leverage	Returns	Dividend
					
Revenue CAGR >10% total >5% organic	Adjusted Operating Profit c.18%	Cash Conversion >85%	0x – 1.0x near term 0x – 1.5x medium term	ROIC >15%	Maintain dividend cover in the order of 3.0x earnings
-5.5%	13.8%	89.1%	0.2x	12.2%	1.2p

Strategic Update

Scott Fawcett
CEO



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 is to double revenue and triple operating profit

Our business is resilient

Global footprint with breadth and depth of offer

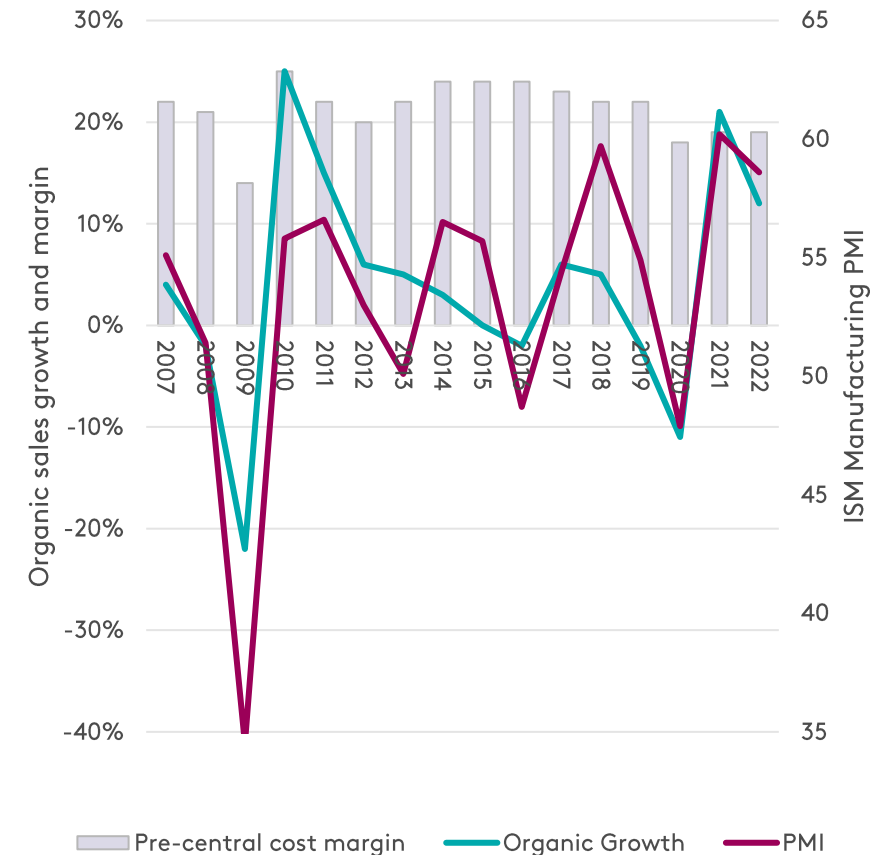
- Unique manufacturing and distribution business model
- Wide range of product capabilities and end-customers, with exposure to high growth markets
- Attractive cross-selling opportunities

Successful track record of M&A

- Expanding product, market and geographic diversity
- Scope for bolt-on acquisitions in a highly fragmented market

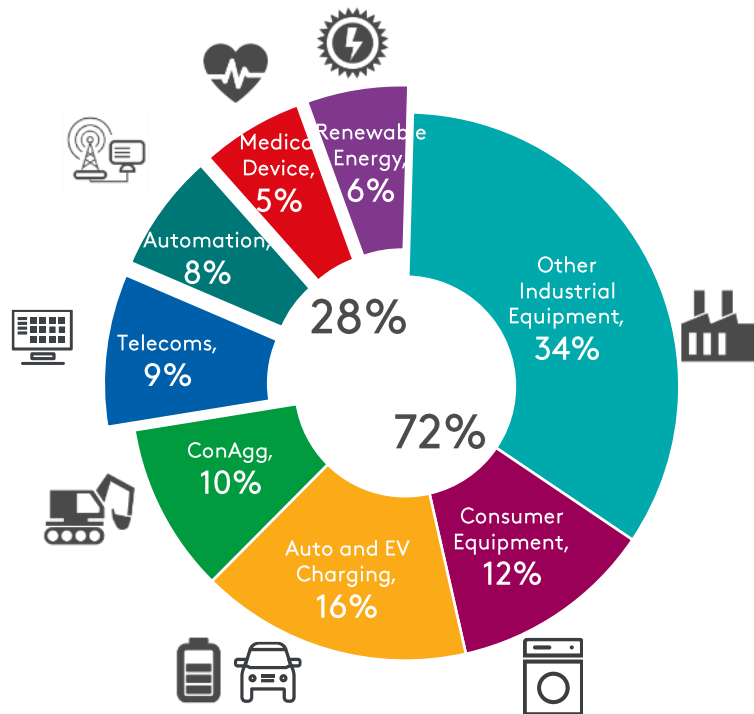
Track record of financial performance through the cycle

- 4-5% organic CAGR, >20% operating margin (pre-central costs)
- 80-100% cash conversion



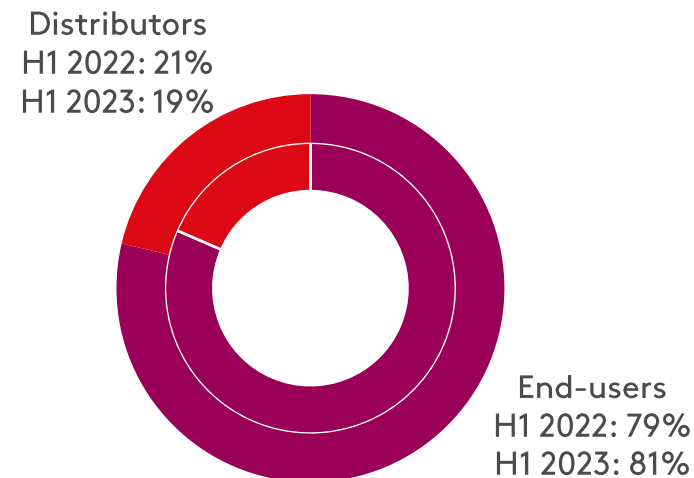
Our business is diversified, we continue to focus on high-growth segments

Revenue by end-market



- 28% of revenue, across four end-market segments, is exposed to industrial mega trends
- Our “hassle-free” proposition supports performance in our end-market segments, closely linked to industrial production

Revenue by channel



- Distributor channels represent 20% of our customer base and have continued to destock in H1
- Our focus remains on winning new business, including growth through cross-selling

EMEA

- Broadly flat performance in H1, supported by the acquisition of Wixroyd
- Like-for-like¹ Q1 revenue -4.3% improving to +0.2% in Q2
- New business wins in the region are increasing renewable energy and industrial equipment end-market segments

Strategic areas of focus:

- Expansion of access hardware proposition
- Further exposure to machinery and automation end-markets, supported by Wixroyd
- Cross-sell acceleration enabled by new product introductions and training

¹ like-for-like revenue excludes the impacts of acquisitions and foreign exchange

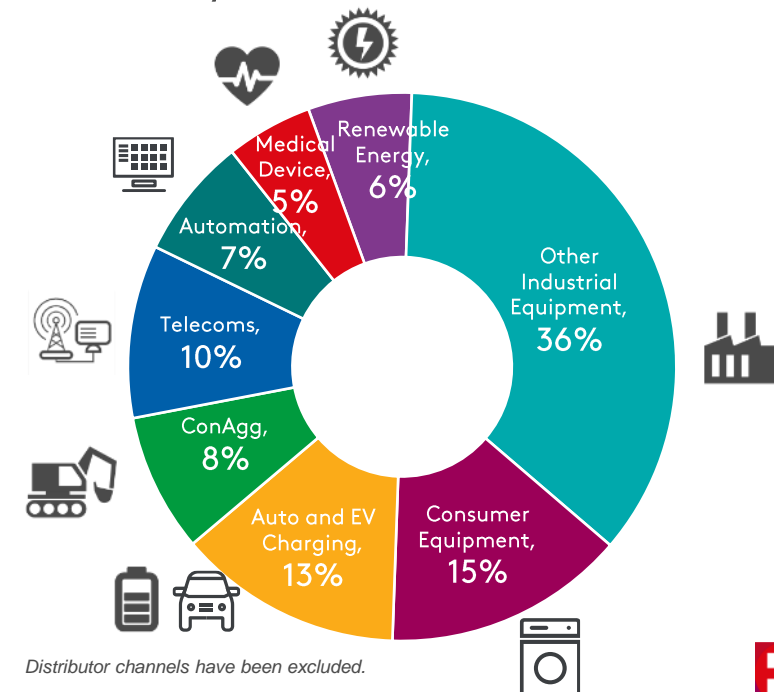
% of group revenue:



	H1 23 (£m)	H1 22 (£m)	Change
Revenue	89.8	89.6	+0.2%
Gross profit	45.2	46.0	-1.7%
Gross profit margin %	50.3%	51.3%	-100bps

Revenue and gross profit as reported

Revenue by end-market:



Distributor channels have been excluded.

Americas

- Signs of destocking continued in H1. End-user channels are improving in Q2
- Like-for-like¹ Q1 revenue -12.2% and -14.3% in Q2
- New manufacturing facility in Monterrey, Mexico is now open, increasing capacity and will bring production closer to demand

Strategic areas of focus:

- Normalising distributor volumes
- Driving new business including cross-sell and customer acquisition
- Near-shoring opportunities accelerated by Monterrey facility in Mexico

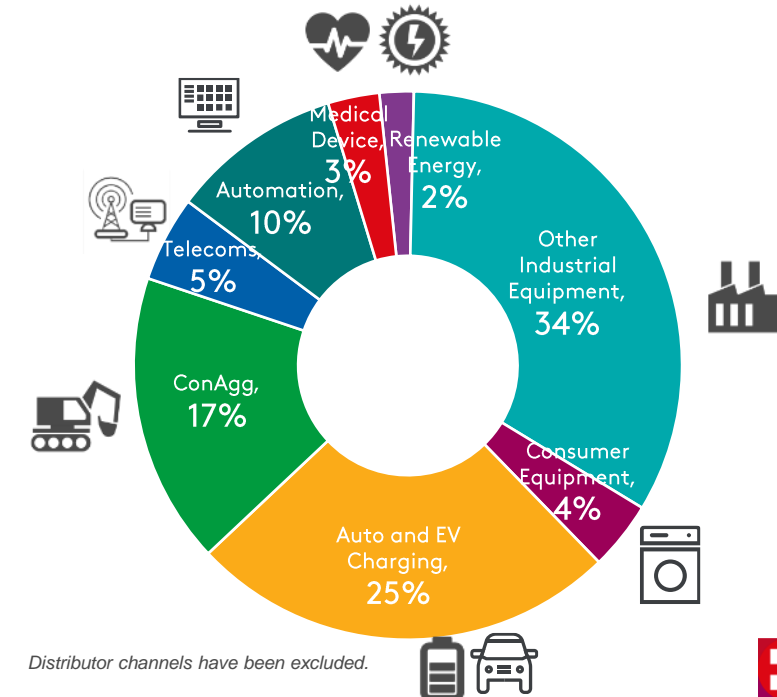
% of group revenue:



	H1 23 (£m)	H1 22 (£m)	Change
Revenue	56.6	61.7	-8.3%
Gross profit	21.0	23.2	-9.5%
Gross profit margin %	37.1%	37.6%	-50bps

Revenue and gross profit as reported

Revenue by end-market:



Distributor channels have been excluded.

¹ like-for-like revenue excludes the impacts of acquisitions and foreign exchange

Asia Pacific

- Performance driven by the market in China, seeing gradual improvements from the end of Q1
- Like-for-like¹ Q1 revenue -27.5% improving to -10.5% in Q2
- Renewable energy end-market segment more than doubled year-on-year, supported by new business wins including solar projects

Strategic areas of focus:

- Commercial opportunities in emerging Asia markets, notably Vietnam
- Increased focus on access hardware solutions enabling cross-selling
- Acceleration of the integration of Hengzhu, enabled by lifting of pandemic restrictions

¹ like-for-like revenue excludes the impacts of acquisitions and foreign exchange

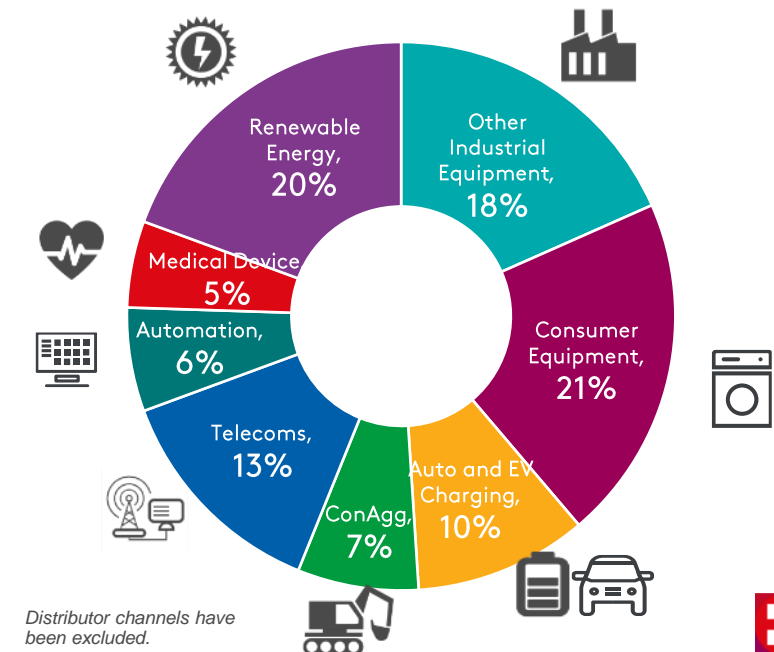
% of group revenue:



	H1 23 (£m)	H1 22 (£m)	Change
Revenue	19.9	24.6	-19.1%
Gross profit	6.8	8.4	-19.0%
Gross profit margin %	34.2%	34.1%	+10bps

Revenue and gross profit as reported

Revenue by end-market:



Excellent progress on mid-term ESG targets



- Renewable energy consumption increased to over 40% (FY 2022: 31%)
- As of Q1 2023, renewable energy generated at our Thailand site
- Additional five sites on target to reach zero waste to landfill by end of 2023 (c.50% of sites)



Solar panel installation in Essentra Rayong, Thailand

- Over 3,900 products contain recycled content across product offering. In H1, over 20% of raw materials are from sustainable sources
- Continue to improve safety culture with significant reduction in lost time incidents year on year

Essentra is developing the next set of targets to build on progress

Essentra has committed to the Science Based Targets initiative and will submit targets for validation in Q3 2023

We continue to invest in organic growth and strategic projects

Manufacturing footprint



- Mexico expansion project in Monterrey is now open and operations are commencing
- The expansion will increase capacity, support future growth plans and enable near shoring opportunities



Digital progress



- Digital hub in Turkey continues to enhance next generation websites, live in 26 countries
- Focussed on improving organic traffic and customer conversation rates
- New functionalities launched in H1, including “my account”
- We continue to develop AI solutions

ERP



- Continue to follow a phased roll-out whilst improving processes in live countries
- Platform will be deployed across all five Eastern Europe sites including the distribution hub in Poland in 2023
- Anticipate up to £12m spend in 2023, aligned with guidance

Wixroyd acquisition unlocking cross-sell opportunities

- ✓ Expanding capabilities in hardware components
- ✓ Increasing manufacturing footprint
- ✓ c.750 SKUS launched into Europe providing cross-sell opportunities

Case Study

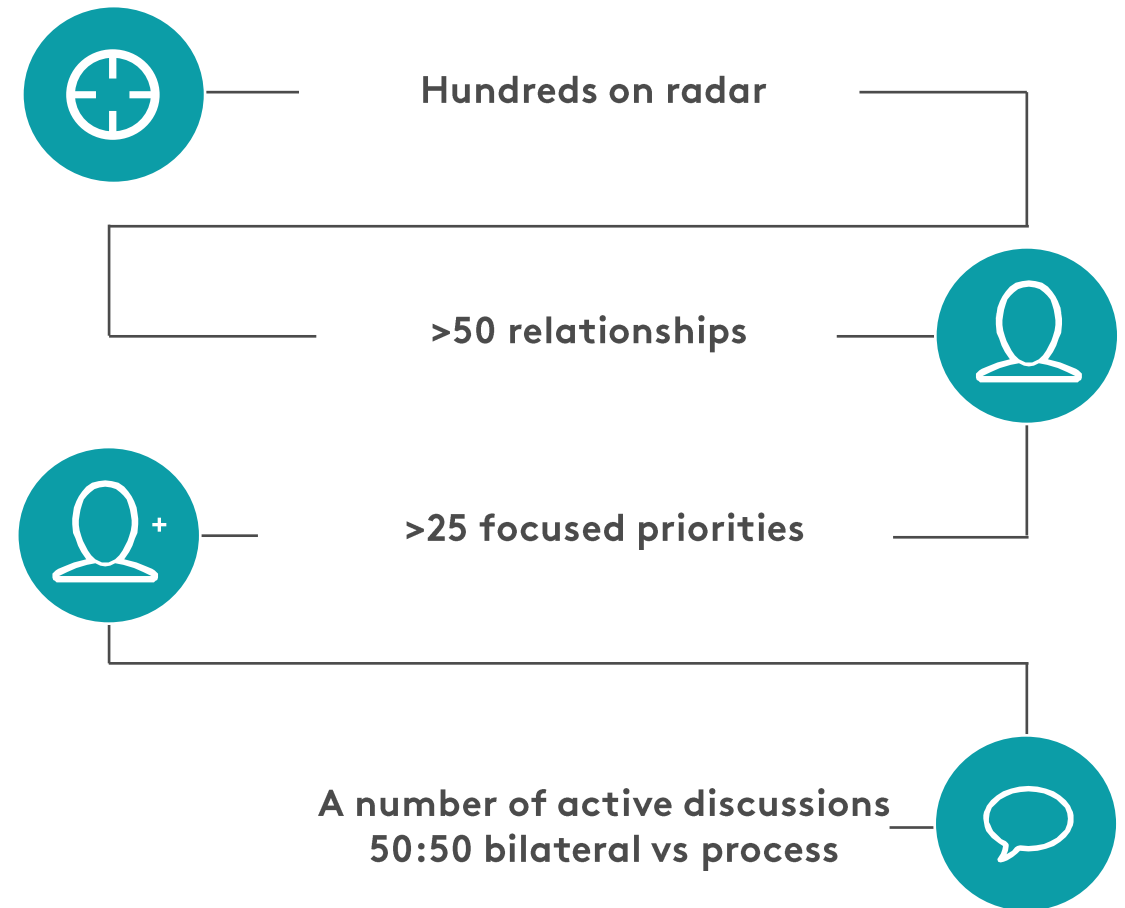
- Essentra has won new business with existing customer, Ingeteam
- A leading energy conversion company, with a wide range of products across renewable energy sectors as well as e-mobility
- We're able to cross-sell across the breadth of our offer, including Wixroyd products, to support in EV charging stations, delivering revenues in 2023 and 2024



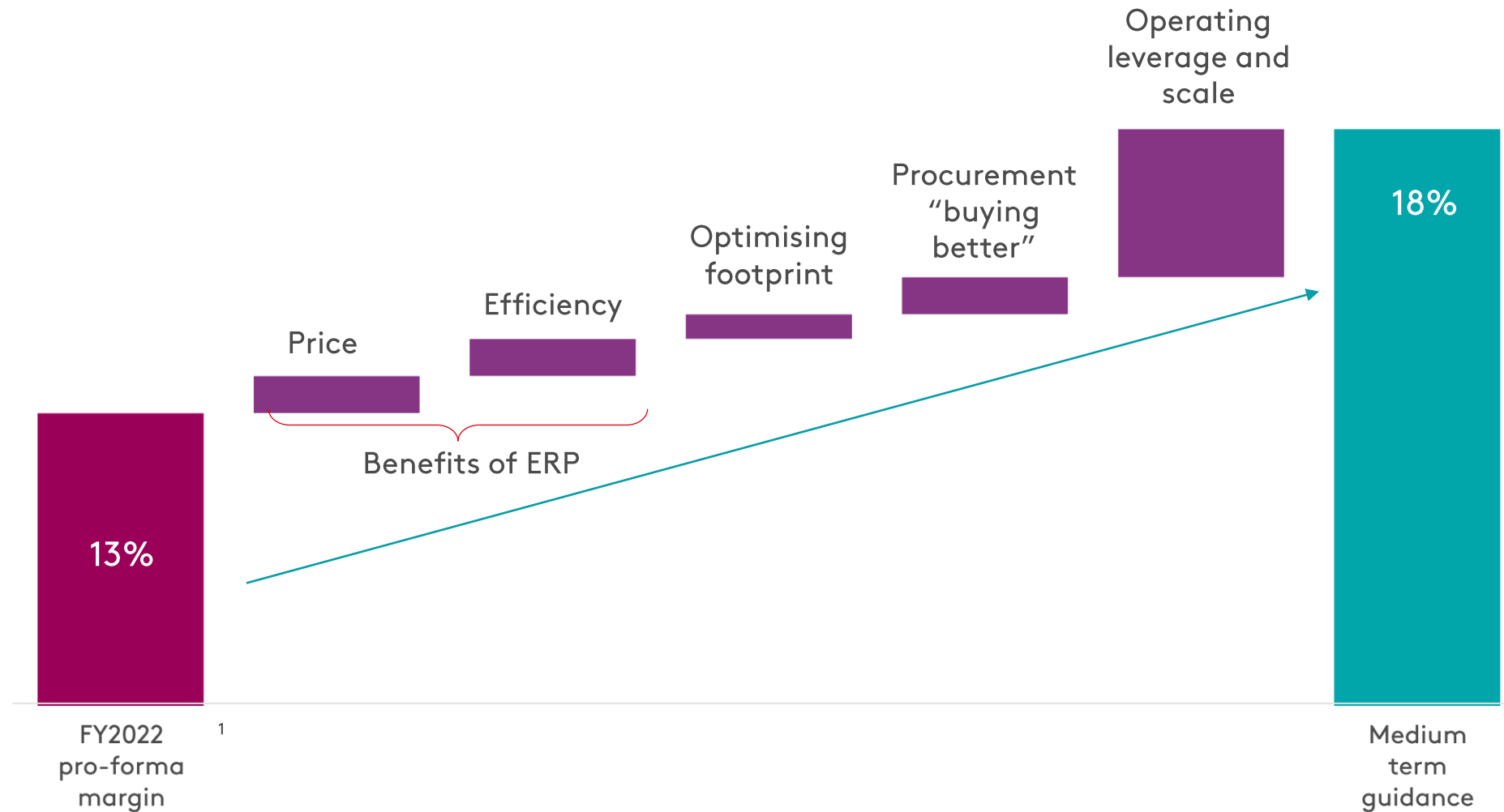
Active acquisition pipeline supports value-enhancing M&A

- We continue to apply a disciplined approach to deal rationale. Our focus remains on bolt-on acquisitions
- 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

We are in a number of active conversations, and anticipate one bolt-on transaction in H2



On track to reach medium-term target operating margin of c.18%



- Driven by operating leverage and efficiencies
- Accelerating in outer years as ERP benefits are delivered

¹ In 2022, the Components business absorbed £20.7m of the £38.6m central services costs incurred in the year.

Outlook

Outlook

Our business model is fundamentally strong

- Historical through-cycle operating margin resilience
- Continue to maintain pricing and pro-active, disciplined cost management

Confident in achieving the medium-term financial framework

- Investing in the business whilst remaining mindful of the macro conditions
- Strong balance sheet supports organic growth investment and value enhancing bolt-on M&A
- We expect to maintain progress against our medium-term targets

Outlook for FY 2023 unchanged

- Mixed market conditions in Europe and potential for improvement in Americas and Asia. We anticipate broadly flat trading in H2
- Profitability continues to be robust and the Company is well positioned to capitalise on market recovery
- The Board's expectations for FY 2023 remain unchanged

Q&A

Essentra plc

Half Year Results 2023

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Appendices

The breadth and depth of our offering is a key differentiator



13

manufacturing
sites



80m

parts produced
per week



45,000+

SKU's



24

distribution
centres



1bn

parts in stock



33

sales and service
locations



c.75k

customers



1.8m

order lines
per year



17k

orders shipped
per week

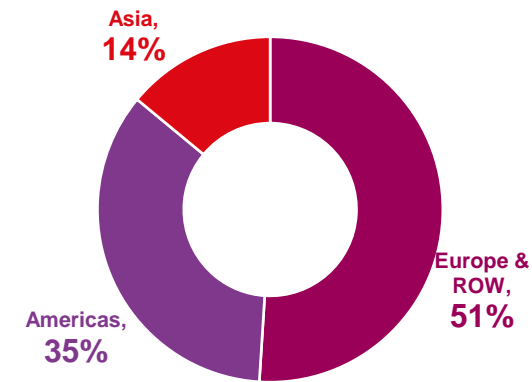


c.3,000

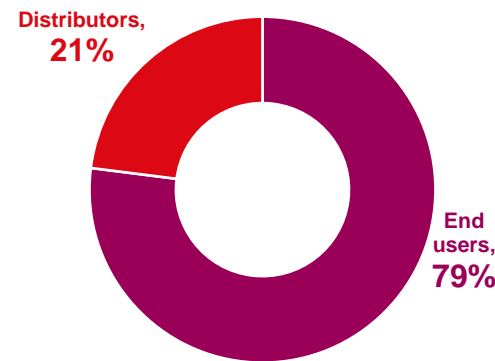
employees
worldwide

A resilient and diversified business

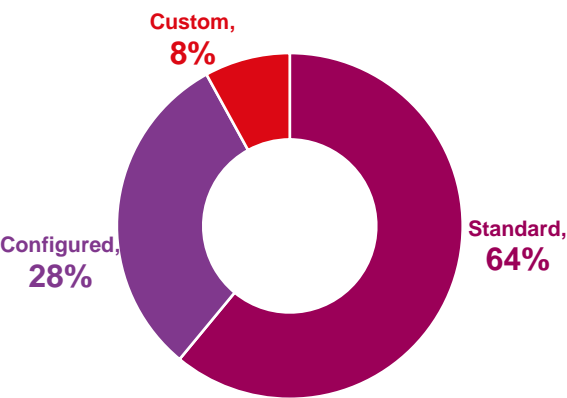
Revenue by region



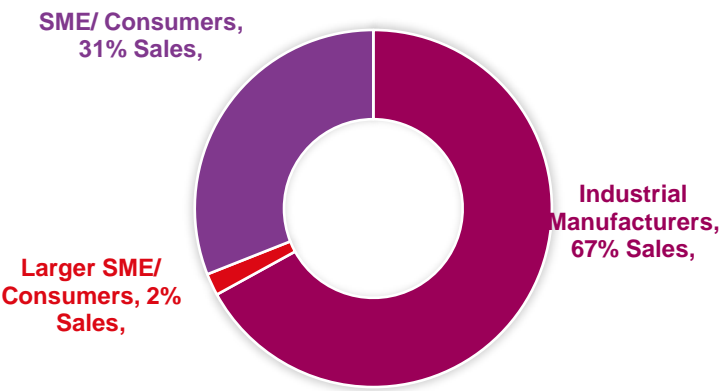
Revenue by channel



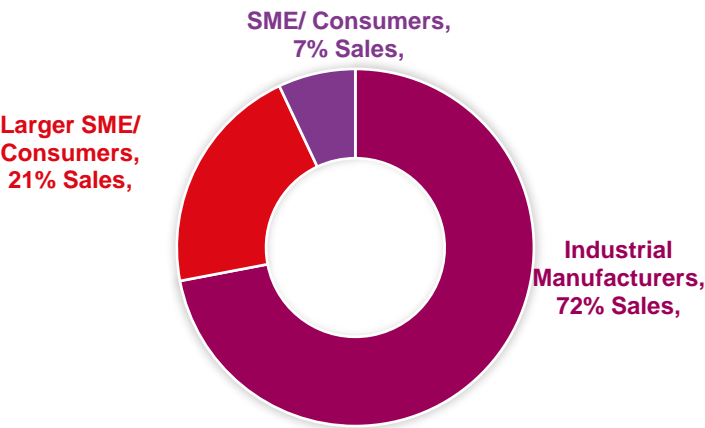
Revenue by offer type



Customer count by customer segment



Revenue by customer segment





























































































All data correct as of FY2022

Multiple product expertise and a broad range of customer categories

Typical product range to unlock target category customer

After customer is unlocked, we can cross-sell our full range.

		CUSTOMER CATEGORY									
		CONSUMER MANUFACTURING			INDUSTRIAL MANUFACTURING					SME	
		 Auto	 Consumer Equipment	 Telecoms/ Industrial Electronics	 Con-agg	 Renewable Energy	 EV charging	 Medical Equipment	 Other Industrial Equipment	 SME	 Consumer
PRODUCT EXPERTISE	Protection										
	Cable management										
	Electronic hardware										
	Plastic fasteners										
	Access hardware										
	Other hardware										
	Security Seals										
	Other										

Income Statement – Reported basis

	H1 2023	H1 2022
	£m	£m
Adjusted operating profit	23.0	15.1
Intangible amortisation	(5.7)	(5.0)
Adjusting items	(7.0)	(9.1)
Reported operating profit	10.3	1.0
Net finance charge	-	(11.7)
Profit / (loss) before tax	10.3	(10.7)
Taxation (expense) / credit	(2.6)	1.7
Net income / (loss)	7.7	(9.0)
Net loss from discontinued operations	(0.8)	(178.4)
Profit / (loss) for the year	6.9	(187.4)

Net funding surplus / (debt) reconciliation

	£m
As of 1 January 2023: net funding surplus	113.8
Free cash flow	15.3
Shareholder capital return	(106.0)
Dividends	(3.0)
Adjusting items	(15.0)
Cash flow from discontinued businesses including disposal costs	(14.3)
FX including hedging derivatives	2.8
Lease Liabilities	(1.9)
As of 30 June 2023: net (debt)	(8.3)

Exchange Rates

Half year ended 30 June 2023	Average	Closing
US\$/£	1.23	1.27
Euro €/£	1.14	1.17
Impact on HY2023 of a one cent increase in rate		Adjusted Op. profit movement (£m)
US\$/£		(0.1)
Euro €/£		(0.1)
Half year ended 30 June 2022	Average	Closing
US\$/£	1.29	1.21
Euro €/£	1.18	1.16

ESG Framework



Planet

Driving resource and energy efficiency, reducing emissions and embracing renewables



Culture

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



Communities

Working with suppliers to ensure ethical practices and contribute to equitable economies
Volunteering our time and supporting good causes



Components

Developing innovative products using renewables, recyclables, reusables and biodegradables



Customers

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

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