


# Essentra plc

## Accelerating our potential as a pure-play Components business

Full Year 2022 results

29 March 2023

## Scott Fawcett
## CEO

# Agenda

1 Overview

2 Financial performance

3 Strategic update

4 Outlook

# Essentra is now a focused business with a clear strategy to deliver

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 profits

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# FY 2022 highlights

A strategically transformational year

- Disposals of the Filters and Packaging businesses completed in Q4 2022
- Strong balance sheet post c.£150m capital return, driving investment in organic and inorganic growth
- Acquisition of Wixroyd announced in December 2022, in line with our bolt-on acquisition strategy

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- Components business has sustained growth with strong margins:
    - 12% revenue growth to £337.9m. Adjusted[1] operating profit +12% to £63.7m
    - Operating margin of 18.9% before central costs
    - Pro-forma[2] operating margin 12.7%
- Pricing actions offset inflation. Good cost management

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- +11 points improvement in NPS, +5 points improvement in employee engagement
- Continued progress in ESG and refreshed framework

1 Operating profit before adjusting items and acquired intangible amortisation
2 Assumes that the Components business absorbs £20.7m of the £38.6m central services costs incurred in the year

# Financial Performance

## Jack Clarke
## CFO

# Financial Results: Continuing business

## Sustained revenue growth and strong balance sheet

| Total revenue | Components adjusted[1] operating profit | Group pro-forma[1,2] operating margin |
|---|---|---|
| £337.9m | £63.7m | 12.7% |
| +12.0% | +12.0% | 2021: 13.4% |

| Adjusted operating cash conversion[3] | Net surplus/ (debt) to EBITDA incl. leases | ROIC[2] |
|---|---|---|
| 80% | 2.3x | 13.3% |
| 2021: 67% | 2021: (1.7)x | 2021: 14.3% |

Prior year numbers re-presented on a continuing operations basis

1 Before adjusting items and acquired intangible amortisation
2 Assumes that the Components business absorbs £20.7m of the £38.6m central services costs incurred in the year
3 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

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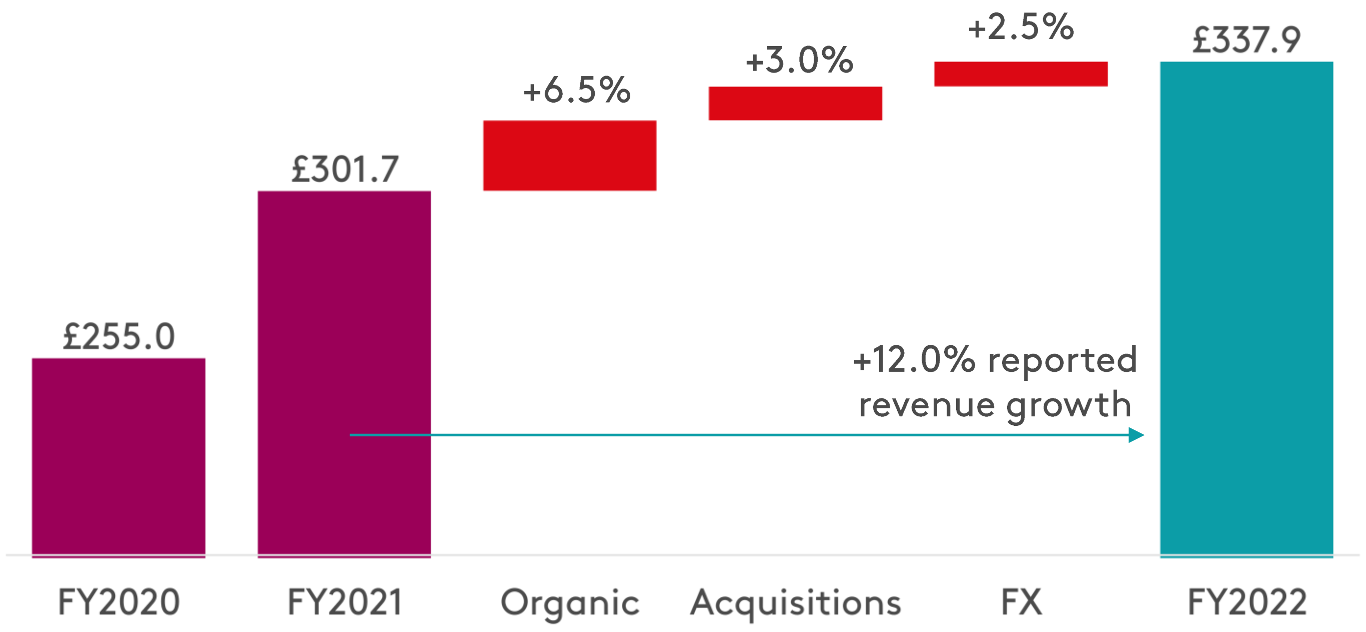
# FY2022 Revenue: Continuing business

+12.0% reported growth, +9.5% constant currency




- Increased focus on service to our customers and being “hassle-free”
- Pricing actions are delivering, offsetting inflation
- Driving cross-sell
- Hengzhu (2021) and Wixroyd (2022) acquisitions driving inorganic growth

# Income Statement: Continuing business

| | 2022 | 2021[1] | Change % |
|---|---|---|---|
| | £m | £m | |
| Revenue | 337.9 | 301.7 | +12.0 |
| Components adjusted operating profit[2] | 63.7 | 56.9 | +12.0 |
| Central service costs allocated to continuing operations[3] | (20.7) | (16.6) | +24.7 |
| Pro-forma adjusted operating profit[2,3] | 43.0 | 40.3 | +6.7 |
| Central costs previously allocated to discontinued operations | (17.9) | (13.9) | +28.8 |
| Adjusted operating profit[2] | 25.1 | 26.4 | -4.9 |

1 Prior year numbers re-presented on a continuing operations basis
2 Adjusted to exclude intangible amortisation of £10.4m and an adjusting items pre-tax charge of £26.0m along with associated tax impact
3 £43.0m adjusted operating profit proforma assumes that the on-going Components business absorbs £20.7m of the £38.6m central services costs incurred in the year.

# Income Statement: Continuing business

| | 2022 | 2021[1] | Change % |
|---|---|---|---|
| | £m | £m | |
| Adjusted Operating Profit[2] | 25.1 | 26.4 | -4.9 |
| Net finance charge | (17.8) | (14.8) | +20.3 |
| **Adjusted profit before tax[2]** | **7.3** | **11.6** | **-37.1** |
| Effective tax rate | *21.5%* | *3.2%* | |
| **Adjusted profit[2]** | **5.7** | **11.2** | **-49.1** |
| Adjusted basic EPS[2] | 1.9p | 3.7p | -1.8p |

1 Prior year numbers re-presented on a continuing operations basis
2 Adjusted to exclude intangible amortisation of £10.4m and an adjusting items pre-tax charge of £26.0m along with associated tax impact

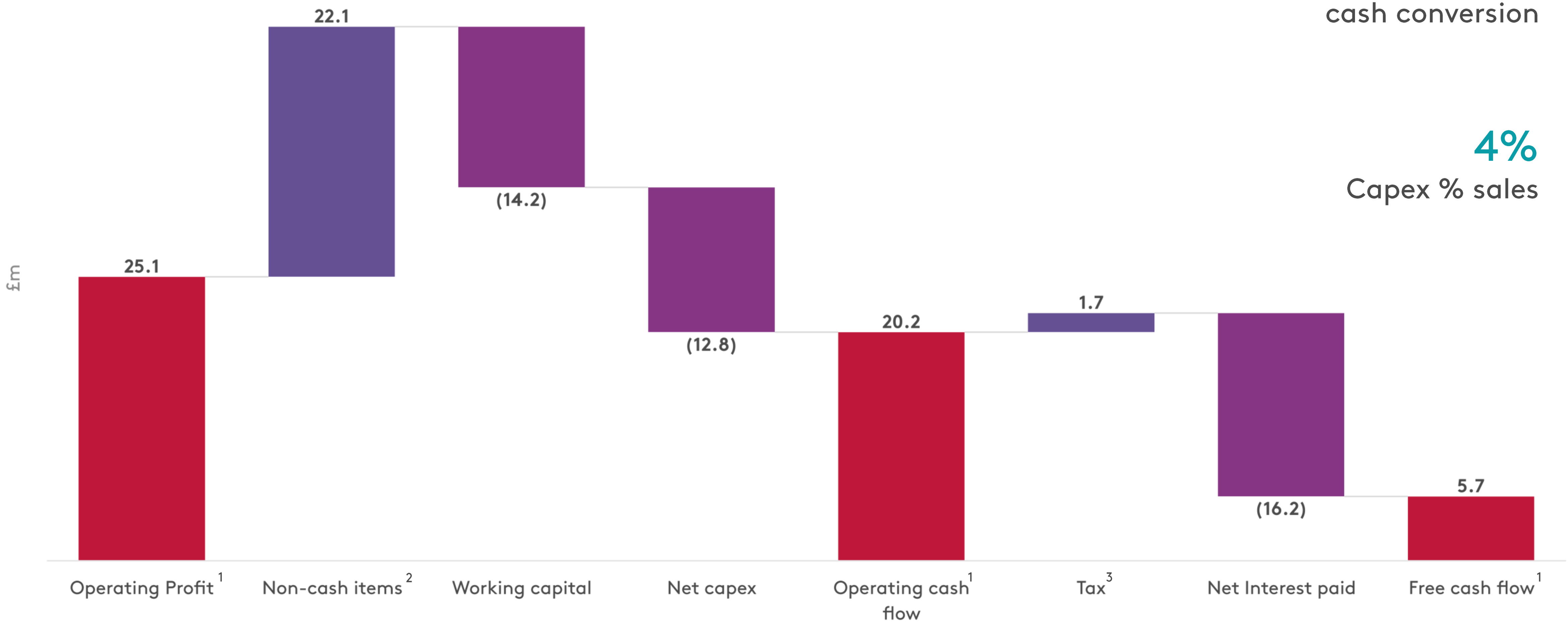
# Adjusting Items: Continuing business

Items excluded from adjusted profit measures

| | £m |
|---|---|
| SaaS (Software as a Service) incl. ERP implementation | 12.4 |
| Relating to disposals and separation | 10.4 |
| Defined benefit pension scheme charges[1] | 2.0 |
| Acquisition costs[2] | 0.5 |
| Other[3] | 0.7 |
| **Total** | **26.0** |

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 £0.3m incurred in relation to the acquisition of the Wixroyd Group, acquired in December 2022. £0.2m incurred in relation to the integration of Hengzhu, acquired in 2021
3 £0.6m write-down of centrally held IT assets, £0.6m costs of restructuring activities within the continuing European and Americas businesses offset by a £0.5m credit relating to adjustments to the carrying value of lease right-of-use assets.

# Cashflow: Continuing business




**80%**
Adjusted operating cash conversion

**4%**
Capex % sales

1 Adjusted to exclude intangible amortisation and adjusting items
2 Being depreciation and amortisation of £16.6m, right-of-use asset depreciation of £5.6m, Share Option Expense of £1.4m offset by other movements (£1.5m)
3 Tax paid excludes the tax received on business acquisitions/disposals

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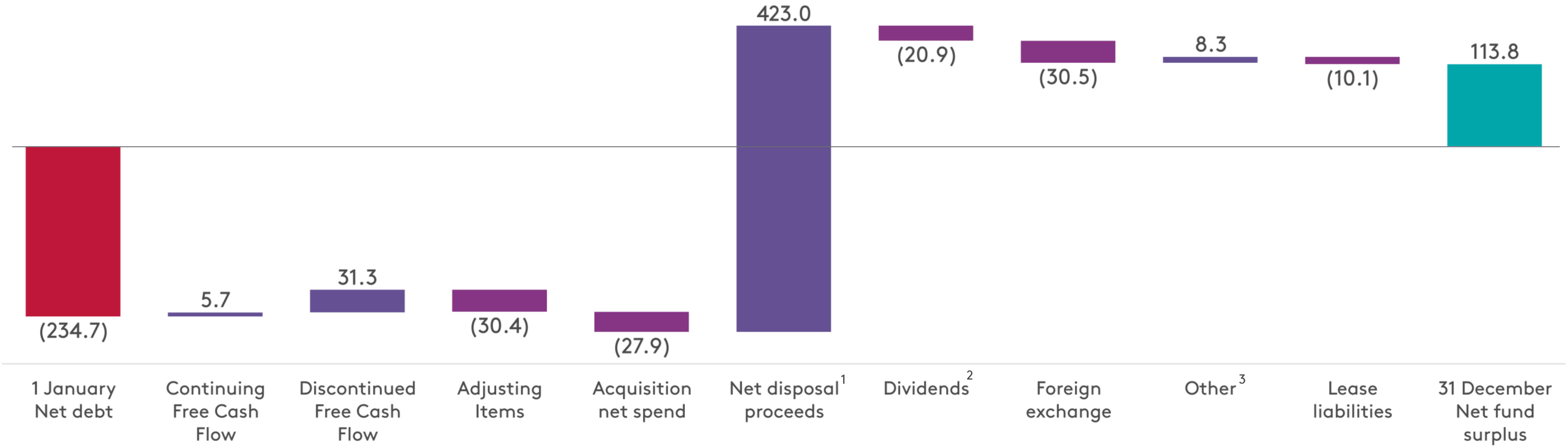
# Net funding reconciliation

| | £m |
|---|---|
| As of 1 January 2022: net (debt) | (234.7) |
| As of 31 December 2022: net surplus | 113.8 |
| **Total change in net funding** | **348.5** |




1 Net of lease liabilities transferred, costs associated with the transaction and net working capital adjustments
2 Includes £1.9m dividends to non-controlling interests in the year
3 Movement in loan hedging derivatives £14.8m, revaluation of loans (£1.6m), arrangement fee write off (£3.2m) and amortisation of pre-paid facility fees (£1.7m)

# Uses of disposal proceeds

Balance sheet strength provides strategic optionality

- **£423.0m net disposal proceeds received** incl. leases, after customary adjustments and re-organisation costs

- **Strengthened balance sheet and improved liquidity**
    - In December 2022, RCF facility drawn balance was repaid
    - In January 2023, $247m of USPP debt repaid
    - Interest expense and foreign exchange exposure reduced

- **Sizable capital return announced totalling c.£150m** through a combination of £90m special dividend and c.£60m share buyback programme

- **M&A firepower** supported by a strong balance sheet. Expect to maintain a funding surplus after special dividend is paid

# Shareholder return and ordinary dividend

### Shareholder return

- £90m special dividend to be paid on 27 April 2023 (representing c.29.8p per ordinary share)
- c£60m share buyback programme announced today

### Ordinary dividend

- Final ordinary dividend of 1.0p per share recommended, to be paid 30 June 2023 (resulting in 3.3p total dividend for FY 2022)
- FY2022 dividend has been rebased to account for the earnings of the continuing business
- The Board is committed to a progressive dividend policy going forward, maintaining dividend cover in the order of three times

# Capital allocation policy

A clear policy to support organic and acquisitive growth

| | |
|---|---|
| **ORGANIC GROWTH** | Capital investment remains core to strategic growth<br>Capex expected to be maintained between 4–5% of sales |
| **INNOVATION** | Sustainable new product development and propositions<br>Digitalising the customer experience drives cross-sell and customer acquisition |
| **ACQUISITIONS** | Strong pipeline of potential acquisitions<br>Addition of product adjacencies enables higher organic growth through cross-sell |
| **ORDINARY DIVIDENDS** | Maintaining dividend cover in the order of three times |

# Medium-term targets to double revenue and triple operating profit

Clear financial targets to deliver profitable growth

| | |
|---|---|
| Revenue (CAGR)<br><br>**>10%** Total<br>**>5%** Organic | Adjusted Operating Margin<br><br>**c.18%** |
| Net Working Capital % Sales<br><br>**c.18%** | Net Debt to EBITDA<br><br>**(0)x – (1.5)x** [1] |

| | |
|---|---|
| Capex % Sales<br><br>**4% - 5%** | Adjusted Operating Cash Conversion<br><br>**>85%** |
| ROIC<br><br>**>15%** | Group underlying effective tax rate<br><br>**24% - 26%** |

1. In the near-term, after the return of capital, the Group anticipates operating between 0x - 1.0x

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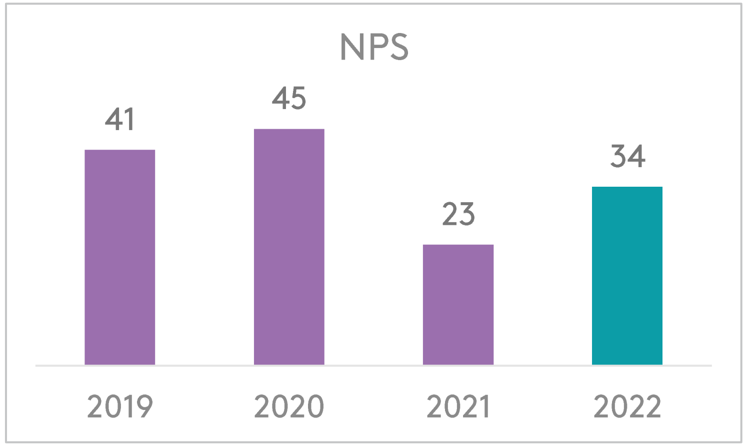
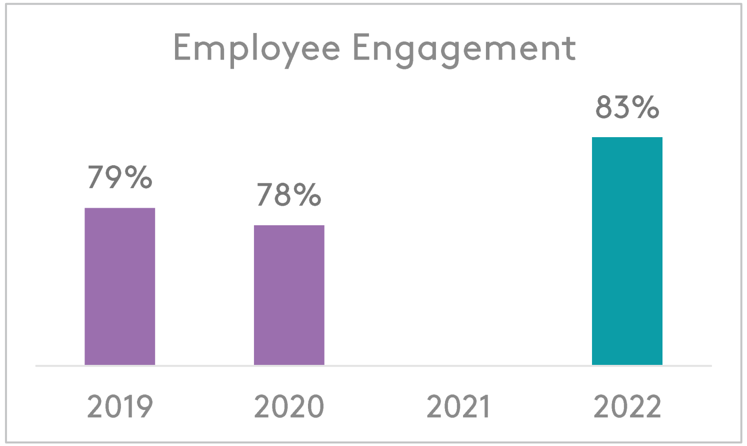
# Strategic Update

## Scott Fawcett
## CEO

# Strong progress achieved across our service metrics

- Our two closely linked customer experience KPIs have improved in 2022
  - NPS +11 points to 34
  - OTIF delivery improved to 78.8% (54.1% 2021)
- Employee engagement of 83% is above industry average and previous survey (78% 2020)
- Digitalisation will enable further improvement as we look to enhance our “hassle-free” customer experience



# Digital progress continues to enhance our “hassle-free” proposition

## Enhancing the customer experience

- Digital hub in Turkey established
- Developing lead scoring using AI tools to improve customer conversion rates
- 27 countries websites are now live in 17 languages

**Our focus remains on driving new business including cross-sell, supported by a strong digital offering**

## A new ERP will streamline internal processes

- Underpins improvements in supply chain and operations, supporting margin expansion
- Will enable optimisation of pricing
- We have recommenced the ERP roll-out in France with improved implementation and a revised approach

**We plan to accelerate ERP implementation and complete roll-out by the end of 2024**

- Phased launch approach
- Initially targeting Eastern Europe mid-year
- £12m spend anticipated in 2023 (consistent with previous guidance)

# Optimising our global footprint

We have a service driven, global distribution footprint. Our manufacturing presence continues to evolve

In 2022, we opened a new distribution hub in Poland, enhancing our European distribution footprint

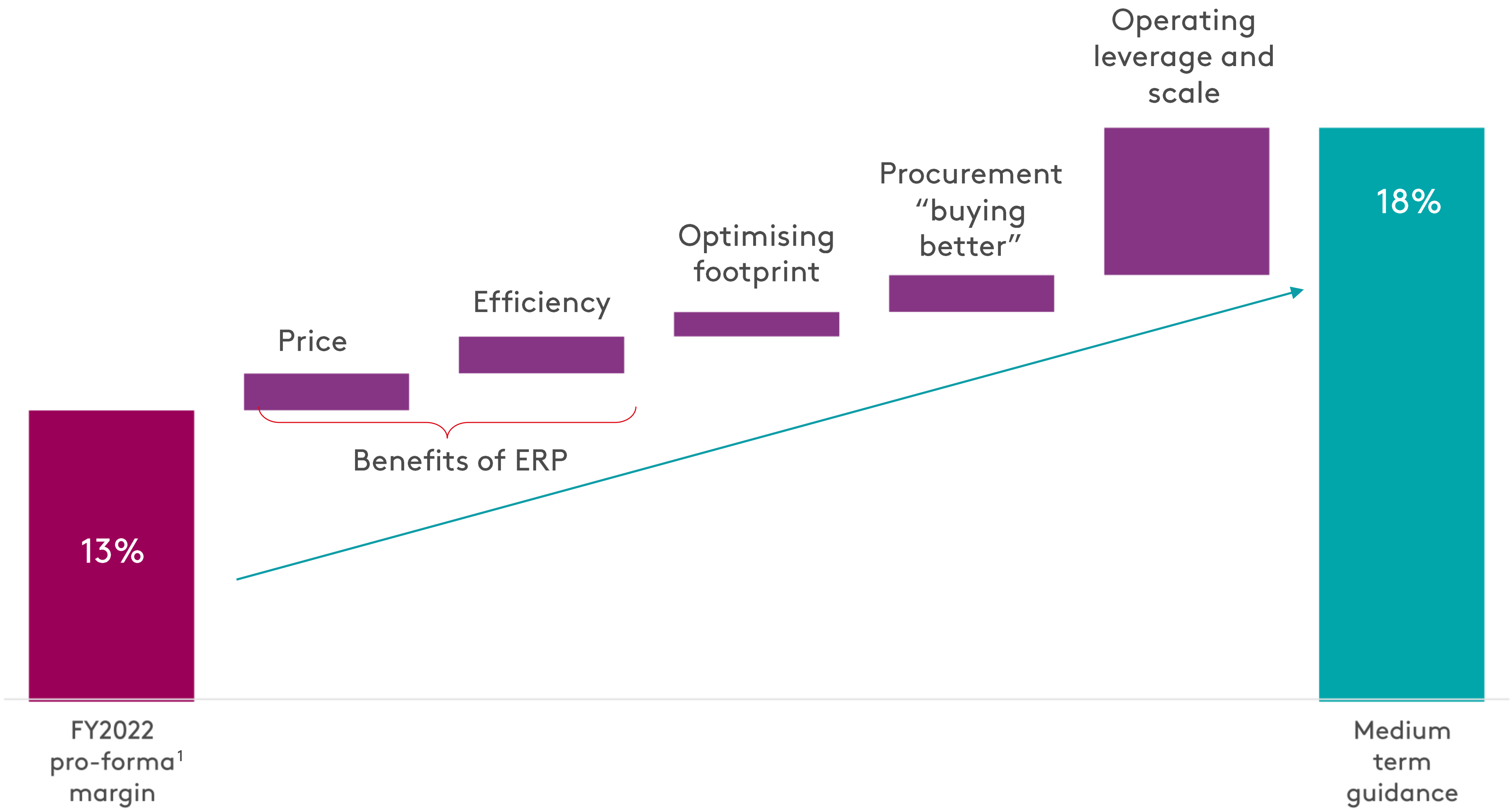
- Provides capacity to enable growth in Eastern markets
- Strengthens service reliability and responsiveness
- Provides a secondary hub operation in Europe, optimising cost-to-serve

In 2023, we plan to expand our manufacturing facility in Monterrey, Mexico

- Enables acceleration of near-shoring opportunities
- Increases capacity to support wider growth plans
- Anticipate to be operational in H1 2023
- Within 4-5% capex guidance

# Margin growth opportunity

We are targeting an operating profit margin of c.18% in the medium-term




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

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# Acquisition of Wixroyd demonstrates our inorganic growth strategy

## Strategically aligned bolt-on acquisition

In December, Essentra acquired Wixroyd, a leading UK supplier of parts for the automation sector for an initial consideration of £29.5m

- Expansion of Essentra's capabilities in hardware components
- Focuses on distinct product categories in a fragmented industry
- Margin enhancing
- Enables cross-sell opportunities

- Wixroyd has invested over £2 million in infrastructure and capacity over the past three years. They are in a strong position for revenue and profit growth
- The business is performing to plan, and integration is on track. Essentra has received the first commercial order for a Wixroyd product

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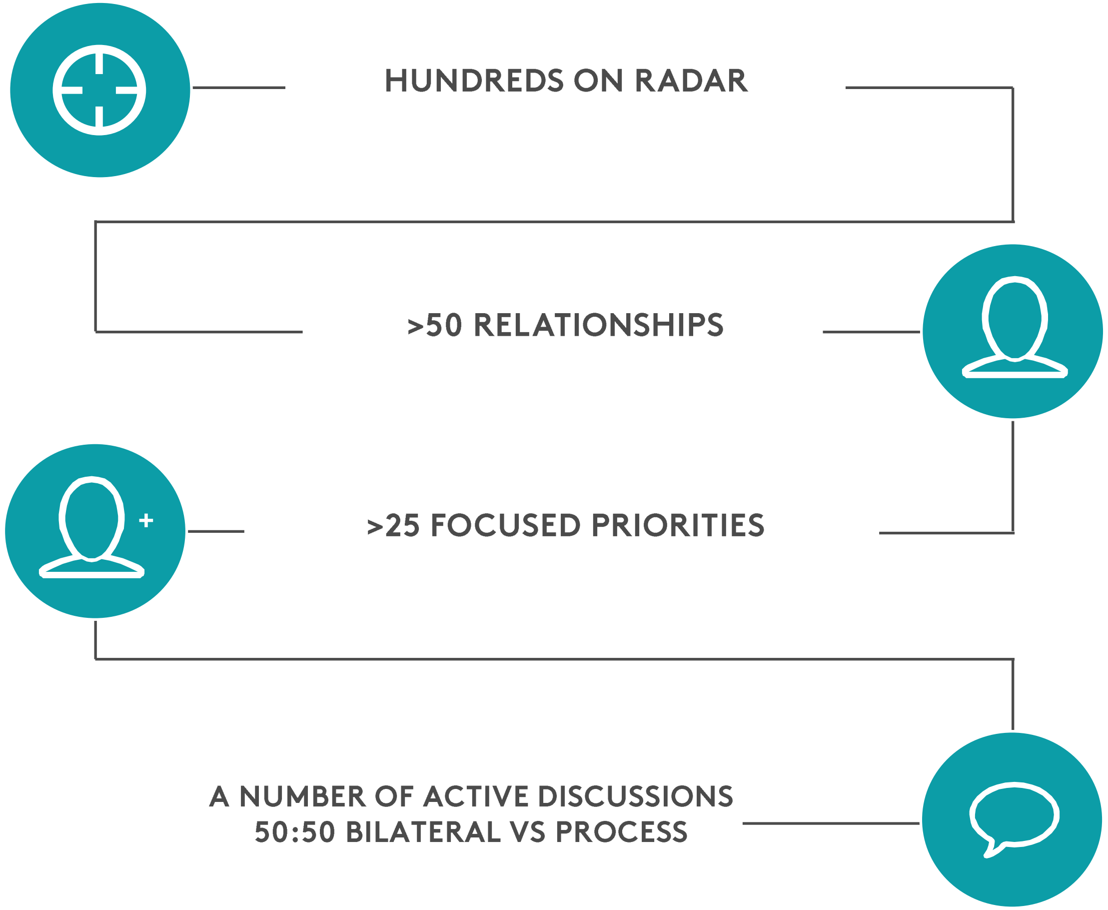
# Our M&A pipeline is strong

Our pipeline is strong, and we are actively managing

**A highly disciplined approach to M&A and deal rationale**

- Our initial focus will be bolt-on acquisitions
- Targeting new product capabilities that can be cross-sold, including existing suppliers of sourced products
- ESG impacts taken into consideration
- We have a rigorous financial framework and seek a post synergy ROIC of >15%
- We typically buy at 8-10x EBITDA reducing to 6-8x EBITDA after synergies



# Our refreshed ESG framework

We are committing to additional sustainability targets in 2023, covering each of our refreshed ESG pillars:

Our Planet

## Planet

Driving resource and energy efficiency, reducing emissions and embracing renewables

Excellent progress made on 2025 targets

In 2023 we will reset our near and long-term emission reduction targets in line with SBTi

Our Culture

## Culture

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

Introduced a new Safety Commitment across the business

We will target diversity of gender in our leadership team

We have refreshed our Group purpose and values

Our Communities

## Communities

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

Volunteering our time and supporting good causes

We are supporting our people impacted by the devastating events in Ukraine, Turkey and Syria

We will provide one day volunteering for all of our employees during 2023

Our Components

## Components

Developing innovative products using renewables, recyclables, reusables and biodegradables

We are seeking to achieve our 20% recycled content target ahead of 2025

We will ensure 100% of our packaging is reusable, recyclable or compostable by 2030

Our Customers

## Customers

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

We will provide customers with accurate information to understand their Scope 3 emissions, supporting them to reduce impacts

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# Outlook

## Scott Fawcett
## CEO

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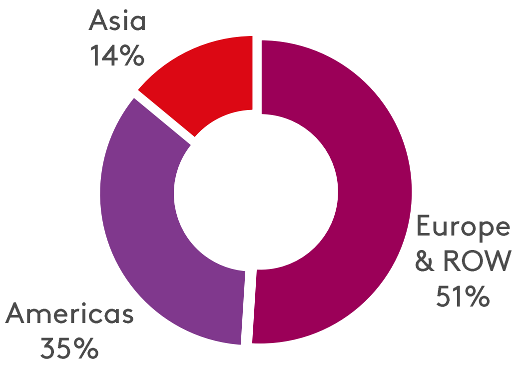
# Our business model is diversified and resilient

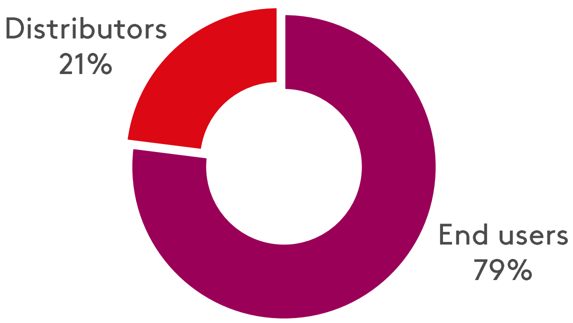
Coupled with a successful record of managing variable costs and offsetting inflation through price

### Revenue by region



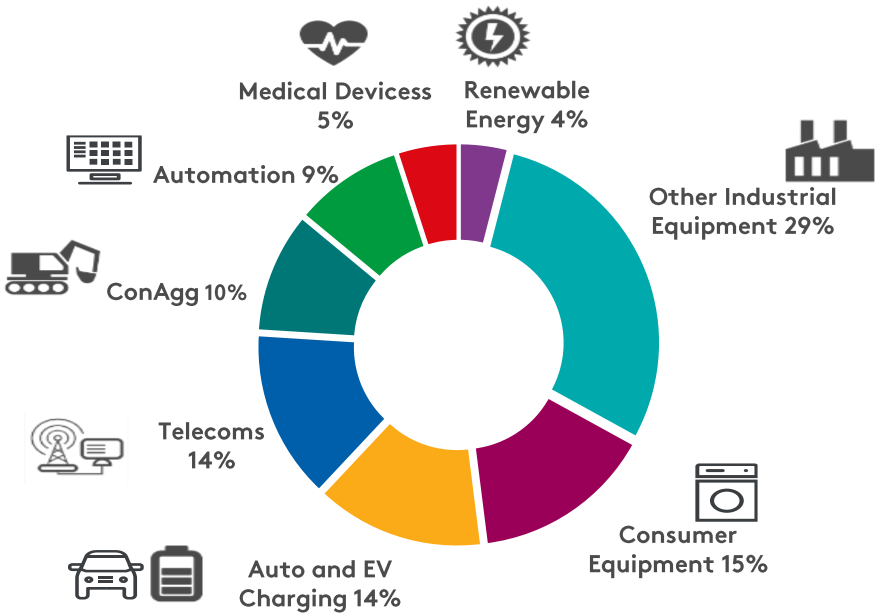

Asia % has remained stable. We anticipate recovery in China after the impacts of Covid

### Revenue by channel




Destocking has reduced distributors %. Indicators signal a normalisation is expected

### Revenue by Customer Category




Breadth of offering and end customer segments provide resilience and presents growth opportunities

All data correct as of FY2022

# Outlook

**Signs of improving conditions**

- We have continued to see distributor destocking, however indicators are signalling normalisation
- Trading in Europe continues to be robust and China’s reopening will increasingly benefit our business in Asia
- Industrial Production growth is forecast for H2
- To date, new order intake is c8% ahead of FY 2022, like-for-like

**We have strong and resilient operating margins**

- Historical through-cycle margin resilience
- We will continue to implement pricing actions and focus on cost control

**Board expectations for 2023 are unchanged**

- We expect to make progress against our medium-term targets
- Strong balance sheet will support organic growth, and drive investment in value enhancing bolt-on M&A

# Essentra is now a focused business with a clear strategy to deliver

- A strategically transformational year
- FY 2022 performance of the continuing business in line with the Board’s expectations
- Components business has sustained growth with strong margins
- Strong balance sheet post-capital returns, driving investment in organic and inorganic growth
- Clear financial targets defined to deliver profitable growth
- Board expectations for FY 2023 are unchanged
- Our ambition is to double revenue and triple operating profits


# Q&A

# 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

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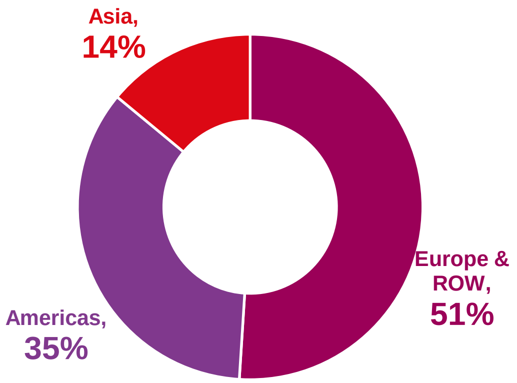
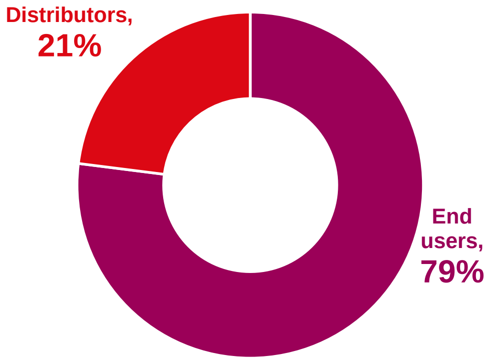
# A resilient and diversified business

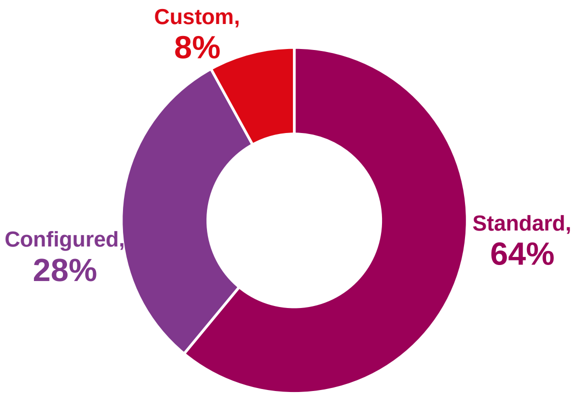
## Revenue by region



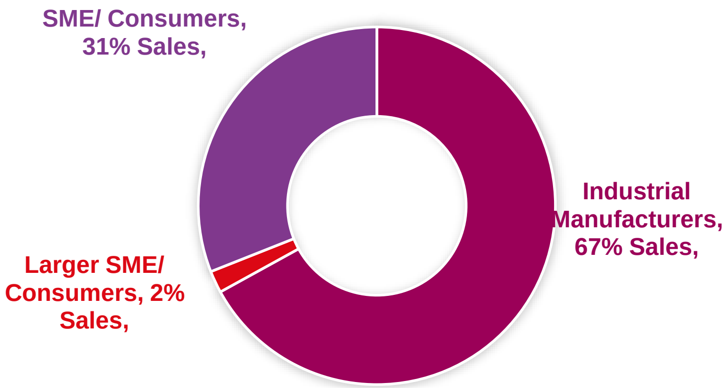

## Revenue by channel



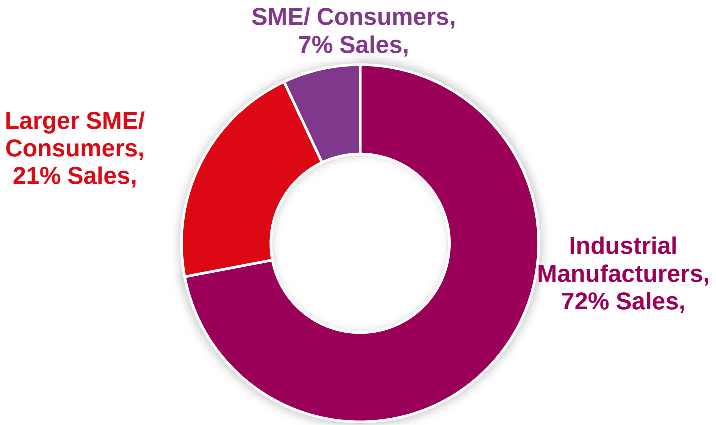

## Revenue by offer type




## Customer count by customer segment




## Revenue by customer segment

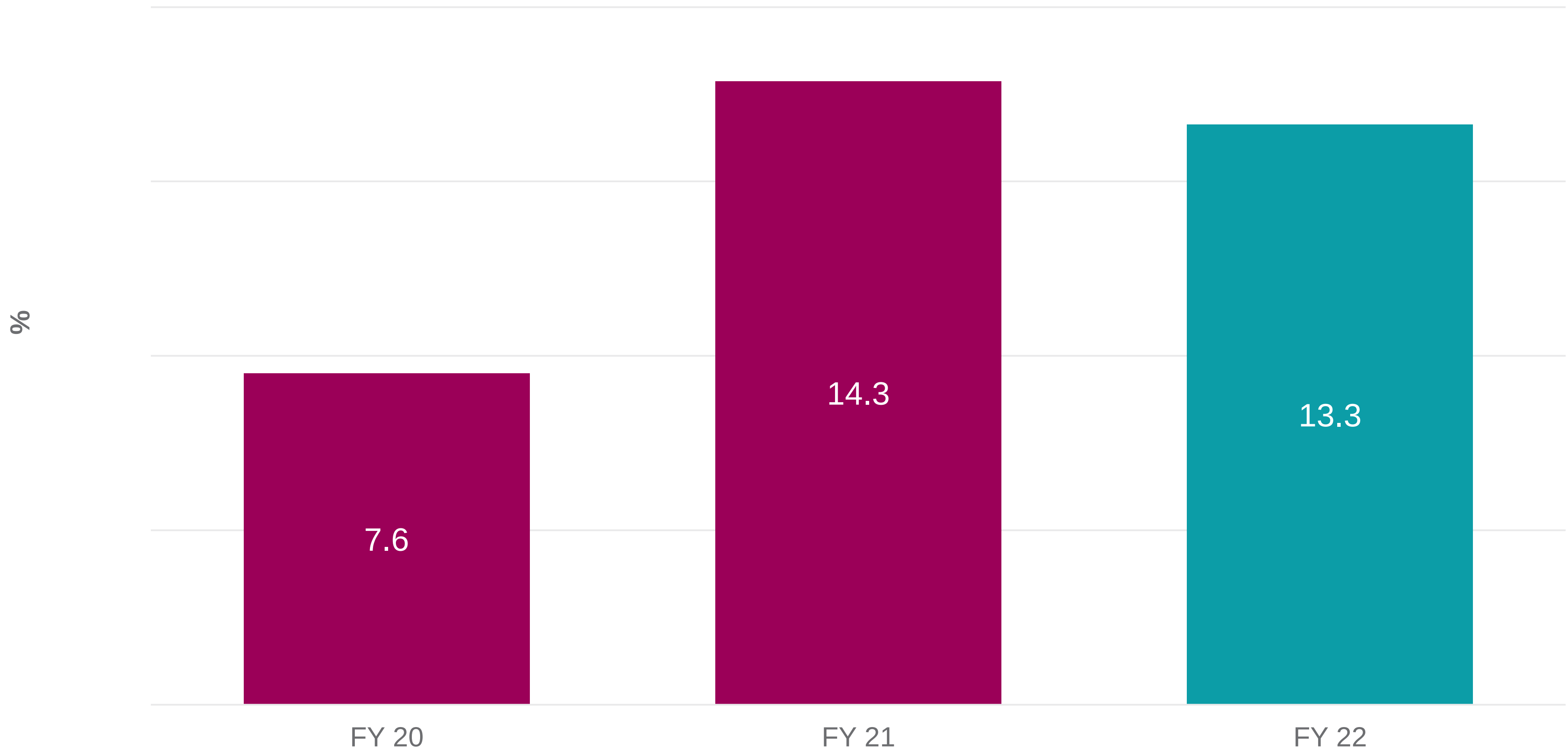



All data correct as of FY2022

# Income Statement – Reported basis

| | FY 2022 | FY 2021 |
|---|---|---|
| | £m | £m |
| Adjusted operating profit | 25.1 | 26.4 |
| Intangible amortisation | (10.4) | (8.6) |
| Adjusting items | (26.0) | (10.1) |
| **Reported operating profit** | **(11.3)** | **7.7** |
| Net finance charge | (17.8) | (14.8) |
| **Loss before tax** | **(29.1)** | **(7.1)** |
| Taxation (expense) / credit | (2.0) | 2.2 |
| **Net income / (loss)** | **(31.1)** | **(4.9)** |
| (Loss)/profit from discontinued operations | (152.7) | 33.2 |
| **(Loss) / profit for the year** | **(183.8)** | **28.3** |

# ROIC – Continuing business




Prior years have been adjusted to present the business on a continuing operations basis

# Discontinued Operations. Operating performance

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Packaging | Filters | Total | Packaging | Filters | Total |
| | £m | £m | **£m** | £m | £m | **£m** |
| Revenue | 319.1 | 334.8 | 653.9 | 362.4 | 295.6 | 658.0 |
| Operating (loss) / profit | (184.7) | 47.6 | (137.1) | 6.6 | 35.4 | 42.0 |
| Net finance charge | (0.5) | (0.1) | (0.6) | (1.0) | (0.8) | (1.8) |
| (Loss) / profit before tax | (185.2) | 47.5 | (137.7) | 5.6 | 34.6 | 40.2 |
| Taxation credit / (expense) | 11.6 | (7.6) | 4.0 | (2.6) | (4.4) | (7.0) |
| **(Loss) / profit for the period after tax** | **(173.6)** | **39.9** | **(133.7)** | **3.0** | **30.2** | **33.2** |

The operating result of discontinued operations is stated after impairment charges and the costs of preparing the disposed businesses for sale.
An impairment charge of £181.6m was recognised at 30 June 2022 following the Group's impairment assessment in respect of the carrying value of goodwill allocated to the Packaging business prior to its disposal. In addition, an impairment charge of £1.1m was recognised relating to intangible assets held in India following an impairment review triggered by the divestment of the Packaging business.

# Exchange Rates

| Year ended 31 December 2022 | Average | Closing |
|---|---|---|
| US$/£ | 1.24 | 1.20 |
| Euro €/£ | 1.17 | 1.13 |
| | | |
| Impact on FY2022 of a one cent increase in rate | | Adjusted Op. profit movement (£m) |
| US$/£ | | (0.1) |
| Euro €/£ | | (0.1) |
| | | |
| Year ended 31 December 2021 | Average | Closing |
| US$/£ | 1.38 | 1.35 |
| Euro €/£ | 1.16 | 1.19 |

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