Oxford Instruments
Trading update H1 FY26

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Transcript of conference call for analysts and institutional investors

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Richard Tyson:

Thank you for joining us. I'm here with Paul Fry, our CFO, and I'm going to start by talking you through the key points from the interim trading update we've issued this morning.

So, we are providing this a day earlier than scheduled, having received our confirmed H1 financials and order back log position late Friday afternoon. Working through the implied scenarios of the full year, it was clear that whilst we had good momentum in Q2, set alongside the ongoing uncertain backdrop, the recovery does not appear fast enough to deliver a full year performance in line with the original expectations.

Now, please note that all of the numbers I'm going to quote now today are at organic constant currency and relating to continuing operations, with our NanoScience business excluded as it is held for sale.

So, to start with the headlines: in common with many of our peers, and the market more generally, Quarter 1 was very disrupted with the emerging tariff regime requiring a repricing of all open orderbooks as well as customers, especially in academia, needing to find additional budget and consequently delaying some orders.

As we indicated at the prelims in early June, we felt confident that we would agree commercial solutions to cover these tariff costs and I am pleased to say this has been the case, ensuring minimal impact on margins and profit.

That said, the ongoing variable trading environment and subsequent disruptions has clearly impacted demand patterns from our customers more broadly, and not just in the US, with customers taking longer to convert from confirmed interest to firm orders.

This turbulent global trading environment has led to a more challenging first half for Oxford Instruments, especially in the first quarter, primarily in our Imaging & Analysis division.

At a Group level, having seen orders down in Q1, we finished the half around 1% up on prior year. Q2 orders were 15% higher than Q1, and 6% higher than prior year demonstrating sequential improvement and good momentum.

Mainly as a result of this slower start to the year in orders, and delays in shipping while tariff cost recovery was resolved, H1 Group revenue was 8% behind the same period last year – and, given the high contribution margin of the revenue shortfall in Imaging & Analysis in H1, we are expecting adjusted operating profit margin for the first half to be around 14.5%.

We're obviously pleased that tariff costs have been recovered, and we've been able to protect gross margins as well as held our absolute overhead costs, offsetting inflationary increases as our operational improvements start to support profitability.

We expect AOP margin to be substantially stronger in the second half, both as the Q2 order growth flows into improved revenue, but importantly as we see the benefits of cost savings from our Belfast business, together with other margin improvement initiatives across the Group, combined with our typically stronger second half weighting.

Given the ongoing uncertain backdrop, we now believe that we will not recover the revenue shortfall in H1.

With order growth in both divisions, a half-year book to bill ratio expected to be around 1.1, and good visibility in the order book across the Group, we have good momentum going into the second half, and are expecting H2 revenue weighting to be broadly in line with that delivered last year.

As a result, we now expect full-year Group revenue, adjusted operating profit and AOP margin outturns to be similar to prior year on an organic constant currency basis.

I think it's important now to provide you some colour behind the numbers, as we've had different dynamics across our two divisions:

Our Imaging & Analysis division experienced a greater impact from the global economic uncertainty than we had anticipated: I&A order intake in Q1 was down 11% year on year, although it has since recovered, with Q2 orders on a par with last year.

In Advanced Technologies, by contrast, demand has been exceptionally strong as we converted our opportunities well, delivering very strong order growth of around 25% supported by good execution and market tailwinds in the compound semiconductor market, as well as our continued expansion into volume manufacturing customers.

Taking a closer look, first at Imaging & Analysis:

Here, we successfully re-priced the majority of the US open order book to mitigate any profit impact from tariffs in Q1. However, as I've said, order intake was impacted in the early months of the financial year, mainly as our academic customer base responded to the macro uncertainty by delaying purchases and working to find additional funding.

This led to order intake around 6% lower overall in H1, with Q1 falling 11%, and Q2 in line with prior year.

Sequentially orders were up 15% Q2 over Q1.

This pattern resulted in revenues around 9% lower for the half year.

I do want to take the opportunity to underline how proud I am of how proactive our teams have been in responding to such a challenging global trading and tariff environment. We've quickly adapted our manufacturing and supply chain footprint, and the teams have also been innovating around emerging challenges relating to rare earth supply.

While we successfully mitigated most of that particular supply chain challenge in H1, we are continuing to closely monitor developments on that front.

The healthcare and life sciences market has remained challenging, and the pace of any improvement continues to be a key uncertainty for our Belfast imaging business this year, albeit we have seen some growth returning in the US and China and are winning back key OEM customers.

We talked at full year about business improvement actions we've taken in the Belfast imaging business, including significant workforce reductions, a refocused product portfolio, and a renewed focus on key OEM partnerships.

These will all have a material positive impact on the margin structure of this business in H2, and we're continuing to prioritise winning greater market share through focused sales effort and new products.

Overall, in Imaging & Analysis, we expect to see a stronger H2 performance, with a small amount of growth on the strong prior year comparator, with margin growing through the second half as increased revenue drops through from our high contribution margins.

Moving on now to Advanced Technologies, where we've seen a very different trajectory in the first half of the year.

We've been delighted to see the strengthened demand from our compound semiconductor business throughout the period and achieving 25% order growth in H1.

Our business is now fully moved in to the new Severn Beach facility, and that's having a very positive impact on customer confidence, particularly with volume manufacturers.

The business is well positioned in growth areas of the compound semi market – notably datacomms and augmented reality – and our market-leading technology is a clear differentiator, helping us gain traction with our target customers.

I should note that H1 divisional revenue is expected to be around 7% lower than prior year.

That's primarily due to tariff-related delays in shipments to China from our small US based X-Ray business, and a couple of deliveries of high value compound semiconductor systems which were postponed into Q3.

We expect revenue to be very strong in H2, delivering on the full order book and in line with our expectations for the division's growth and improved margin.

So, to conclude: after significant disruption linked to the emerging trade and tariff environment in Q1, similar to peers, the business saw good recovery in Q2 and we go into the second half with improved momentum

We have full order cover for Advanced Technology and an order cover consistent with the prior year in Imaging & Analysis.

Given this, we expect strong revenue growth in Advanced Technology, and Imaging & Analysis to generate revenue in line with prior year.

Overall we expect marginal reported revenue growth in the second half and the weighting to be broadly in line with prior year

But the full year, despite good orderbook strength and strong execution so far this year, we're working on the assumption that we will not recover the c. £13 million of revenue reduction in H1, and therefore we now expect to deliver a stable performance on a constant currency basis as we deliver the order book, and as our strategic actions improve margins as well through the second half.

Thanks very much for joining the call.