

# Preliminary Results for the year to 31 March 2014 – Presentation Notes

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*[Jonathan Flint, Chief Executive, Oxford Instruments plc]*

Good morning and welcome to the preliminary results announcement for Oxford Instruments for the 12 months ending 31<sup>st</sup> March 2014

After a brief overview I will hand over to Kevin Boyd, the Group Finance Director, who will go through the details of our financial results announced this morning. I will then come back and give you some more colour about our operational performance and outline our strategy and business model. I will also give you our view of the outlook for the Group.

As we reported earlier in the year, the first two months started slowly. Thereafter, we saw a gradual, sustained recovery in our markets. The year finished strongly and we can report orders, sales and profits are all up on the prior year.

One of the highlights of the year was our acquisition of Andor Technology, an AIM listed company based in Belfast, which we acquired on the 21<sup>st</sup> January this year. Andor is a market leading provider of high performance optical cameras and microscope systems. It fits extremely well into our strategy. I will tell you more about Andor later.

We have now reached the end of the period covered by our *14 Cubed* plan, which set a target of achieving an annual compound growth rate of 14% in the years 2011 to 2014 and return on sales of 14% by 2014. We delivered the targeted 14% return on sales. On average growth rate, we achieved 11%. The acquisition of Andor took a little longer than expected and as a result this portion of the growth plan was effectively delayed by about 6 months. So with *14 Cubed* behind us, we are seeking to further grow the business and enhance our margins. I will tell you a little bit more about our Strategy to do this later. First over to Kevin

*[Kevin Boyd, Group Finance Director, Oxford Instruments plc]*

## Financial Highlights

- Good Morning, I'd like to start by taking you through the financial highlights.
- Reported sales grew by 2.7%. However there were a number of significant headwinds and tailwinds most notably acquisitions, currency, the decline in the HBLED market and the completion of the ITER contract which I will talk about in the next slide.
- Adjusted Operating profit grew 2% to £50.3m and we achieved an operating margin of 14.0%.
- The growth in adjusted profit before tax was less due to increased interest charges both actual and IAS19.
- The underlying tax charge was slightly lower than we expected at 18% and as a result we saw a 1.8% growth in EPS
- We are proposing a final dividend of 9.04 pence, bringing the total dividend for the year to 12.4 pence, an increase of 10.7%
- As a result of the Andor acquisition we ended the year with net debt of £124m which equates to approximately 1.9 times EBITDA on a pro-forma basis.

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## Segments

- We report in three segments, Nanotechnology Tools, Industrial Products and Service.
- In Nanotechnology tools we saw headline growth of 9% aided by the acquisition of Andor but hindered by a £3.6m currency headwind. On a constant currency organic basis sales declined by 5%. Excluding the fall in HBLED, underlying sales were up 1%
- In Industrial Products, reported sales fell by 8% or 9% on a constant currency organic basis. Excluding the ITER programme which ended in the first quarter of the year, we saw underlying growth of 2%
- Sales in Service grew by 10% with the benefit from acquisitions almost exactly equalling the foreign currency headwind.
- Operating Margins across the three businesses were broadly similar to the prior year with the margin in Nanotechnology Tools yet to benefit from a turnaround in our Omicron business.

## Sales Bridge

Underlying organic growth was £8.8m coming largely from the Service sector. The acquisitions of Andor, RMG and Roentgenanalytik in the year combined with a full year of Asylum revenues added £27.4m which was counteracted by foreign exchange rate fluctuations, predominately the Yen. The decline in HBLED sales and the completion of the ITER contract totalled £21m.

## Sales by Geography

- In the year we saw 12% growth in North America but small declines in Europe due to ITER finishing and in Asia due to HBLED.
- Our largest territory remains the US with 27% of Group sales. China is second with 14% followed by Japan at 10%. Sales in Japan jumped by 9% which equates to nearly 20% in Yen terms.

## Sales by Market Segment

- A broadly similar distribution to last year.
- The percentage of sales to Research and Academia has increased due to the acquisition of Andor and Asylum as have Life Sciences although the bulk of these revenues are down to the work we do in the MRI field.
- The percentage of sales to Energy has dropped due to the completion of the ITER contract.

## Profit Bridge

- The £8.8m underlying increase in sales contributed £3.9m in profit
- The decline in HBLED sales and the completion of the ITER contract impacted profits by £8.4m
- The weaker dollar and particularly the weaker Yen hit profits by almost £5m. I have a slide later which goes into currency exposure in more detail.
- Interest costs rose as we took on debt to acquire Andor, Operating expenses were £6.4m lower
- Acquisitions added £4.2m.

## Currency Exposure

- Due to the increased impact of currency I thought it might be useful to give you more detail of the Group's exposure.
- On the left hand graph we have split our revenues by currency.



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- Last year 54% of our revenues were in dollars, 20% in Euro, 12% in Sterling, 9% in Yen and 5% in other currencies.
- On the right hand graph we show how our profit is split between currencies.
- So when you see a loss in Sterling, it doesn't mean that we have made a loss in the UK, it means that we have more costs in sterling than we have revenues. This is because most of the invoices that we raise in the UK are in foreign currencies. Similarly if we look at dollars it shows that we have more much more revenues in dollars than we have costs.

## Cash Flow

- This bridge reconciles the net cash balances at the start of the year to the net debt at the end of the year.
- EBITDA was just shy of £60m.
- Despite increased sales in the second half of the year working capital didn't increase.
- Capex, R&D capitalisation and pension payments were very similar to the prior year.
- As I said earlier the tax rate reduced in the year but we would expect an increase in the current year as we use up the last of our brought forward losses.
- We spent a net £157m on Andor, £5.7m on RMG and £1.6m on Roentgen leaving us with debt of £124m.
- This debt is financed by facilities comprising a 5 year £100m RCF and fixed rate, fixed term loans from the EIB and Priscoa.

## Sales Progress

This slide shows revenue progress in the eight years since 2005/06, the base year of our original 5 year plan. In that time, we saw compound annual growth of 14.4%. Over the three years of our *14 Cubed* plan we saw 11% growth giving a total compound annual growth rate of 13.1% for the eight years.

## Profit Progress

We achieved our *14 Cubed* goal of a 14% Operating Margin and my last slide shows profit progression over the eight years, going from £4.4m profit and 3% margin in 2005/06 to the £50.3m and 14.0% we report today.

*[Jonathan Flint, Chief Executive, Oxford Instruments plc]*

## Operational Highlights

Our Group operates in three sectors: Nanotechnology Tools, Industrial Products and Service

Let me start with Nanotechnology Tools. This business contains the highest technology products, serving research and industrial customers in both the private and public sectors. The business delivered an increase in both revenues and profit, despite quite difficult trading conditions particularly with our government customers. The growth was supported by the introduction of some well received new products. For example, the Layerprobe thickness measurement tool. This enables our



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customers to analyse the three dimensional structures of nanoscale thin films. For the first time we offer customers information about variations in sample depth, by sharing composition in the third dimension. This is vital for applications like photovoltaic devices and power electronics, where device performance depends on both the thickness and composition of ultra thin films. Our best selling X-Max detector now has a variant which allows up to four detectors to be used on a microscope at one time. Our Cypher atomic force microscope is the best commercial AFM on the market. A Cypher can image at the atomic level a range of sample environments including in liquids. Our Astrea product is a tool for the batch production of high brightness LED's offering our customers both high throughput and flexibility of use.

Within our Nanotechnology Tools Sector, we now have Andor Technology. It is a market leading supplier of high performance optical cameras, microscopes and software. I am delighted to say that the acquisition integration is progressing very well and the results so far, are better than our expectations. It is great to have such a good set of scientists and engineers as part of the family. In addition, you may not be aware, that Andor itself made a couple of recent acquisitions prior to becoming part of the Oxford Instruments. Apogee and Spectral provide additional types of optical instrumentation giving Andor an excellent portfolio of high performance cameras. The integration of Apogee and Spectral are also proceeding to plan. We appointed a new Managing Director to run the Andor business. Conor Walsh's chosen successor, he was internally promoted from the team in Belfast. This is a picture of an example of the sort of ultra high performance sensitive cameras Andor produces for research and industry. Zyla offers ultra-low noise, fast frame rates, wide dynamic range and is rapidly taking market share from our competitors.

But first let me move onto Industrial Products. If you exclude the one off ITER programme which we completed successfully in the year, it showed good growth. Organic growth was supported by the introduction of products like PMI-Master Smart, which I showed you at the half year, the world's first mobile optical emission spectrometer. Our Pulsar bench top magnetic analyser has attracted a lot of interest because of its potential to analyse food stuffs and in particular differentiate between different species of meat. We have also had a success with our Shasta x-ray tube power supply made in our California X-ray technology business.

Industrial Products also made a couple of small acquisitions in the year. RMG Technology gave us a laser induced breakdown spectroscopy tool and their mPulse product is the first handheld LIBS analyser in the world. We have now increased the production rate to 3 times what it was before the acquisition and market interest remains very strong. This product will be marketed initially into the scrap sector, where its ease of use and speed of operation give it particular advantages. There are further applications for it once we have satiated the demand in this area.

We also acquired Roentgenanalytik based in Germany. This is a supplier of bench top thickness coating tools using X-ray fluorescence. This compliments our existing X-ray fluorescence capability and gives us a stronger and more comprehensive set of tools to offer our customers. Both these acquisitions are integrating well and performing to plan.

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Our Service business is also performing well in all territories with revenues and profits up. We have seen a growth in our third party servicing of MRI and CT machines in North America with an increasing fraction of our customers taking on multi-year contracts. Also in the year we launched the Oxford Instruments Training Academy which trains distributors and customers to be expert operators and to get the most from their investment in our tools and systems. Expert knowledge and hands on supervised instruction enables distributors to offer a better level of service to customers and keep them up to date on our latest capabilities and software enhancements.

Let me remind you of our business model and how it supports our strategy.

We operate in two markets; Research and Industrial.

In the research field, our tools are used to advance the frontiers of science. We count many winners of the Nobel Prize amongst our customers. In the industrial field, our tools are used to improve production efficiency, ensure high standards of quality control and demonstrate compliance to environmental legislation.

We are managed in three sectors.

Our Nanotechnology Tools sector sells high technology tools, primarily to research customers. It provides a unique insight into emerging trends in public and privately funded research, thus guiding the direction of our innovation. Our Industrial Products sector sells more mature, though still technically advanced products, primarily to industrial customers. The tools and systems produced by this sector enable us to benefit from the economies of scale offered by trading in larger industrial markets, thereby maximising the returns from our R&D programmes. Our Service sector addresses the aftermarket for both our own and third party high technology equipment. The complexity and uniqueness of our products mean our customers increasingly purchase multi-year service contracts.

We adopt a business model whereby the Group sells tools to customers who wish to exploit the opportunities offered by Nanotechnology. This tools model enables us to generate revenues from emerging industries utilising nanotechnology without undue exposure to any one application or market

Let me say more about the tools model.

The sciences, and increasingly Convergence, the blurring of scientific boundaries, generate new scientific discoveries. This yields new technologies, once repeatable and cost effective fabrication and analysis tools are developed. This, in turn, drives industrial development. Oxford Instruments provides tools into each of these levels.

So that is how the model works. But what about the strategy going forward?

Four pillars form the basis of our strategy going forward

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## People

Our staff deploys a high level of technical skill and deep understanding of technology trends to convert our intellectual property into new tools using the latest nanotechnology techniques.

We enjoy a good *Vitality Index* measured by the proportion of revenues coming from products introduced in the last three years. This stands at 42%.

## Processes

Improvement of our operational excellence forms a key part of our strategy. Following the successful introduction of continuous improvement activities in our businesses, we have initiated a global Operational Excellence programme that deploys best practice lean six sigma methodologies throughout the Group to deliver the benefits of economies of scale as the business grows.

## Markets

Advances in information technology, new materials, imaging, and quantum physics, have transformed physical science markets in recent years. Oxford Instruments is a leading tool provider for this change. These same advances are now beginning to transform other sciences.

This year we announced the evolution of our strategy to exploit the current convergence of the sciences, especially at the nanoscale, which is driving increased demand for nanotechnology tools.

‘Convergence’ is an increasingly important aspect of scientific research which is being adopted by many research institutions around the world. It is the merging of previously distinct areas of research and technology into a unified discipline.

This creates significant commercial opportunities for Oxford Instruments as tools that were once restricted to one discipline can now be utilised across a number of research areas, increasing our addressable market.

Convergence gives the Group an opportunity to take the technical tools and the disciplined design approach traditional to engineering and physics, and apply them to life science research. This provides the Group with a unique opportunity to access a new set of customers who need to work at the molecular scale.

For example, the Andor Zyla sCMOS camera is a tool used in both the life and physical science arenas.

The convergence of nanotechnology and biotechnology (‘Nano-Bio’) will lead to innovative advances in medicine, energy production, agriculture, aerospace and manufacturing. Oxford Instruments’



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acquisitions of Asylum in 2012, and Andor in the year just ended, support this strategy of extending our reach into analysis tools for Nano-Bio research.

## Products

I showed you in the operational section some of our new products which will continue to drive the growth of our business. In the year we increased our R&D spend to nearly £28m, producing genuinely innovative products like the ones I have described. This innovation is part of a broader strategy that also includes acquiring key technologies where this is more cost effective than developing it in house. Many of you will have seen this table which we have used for many years now. This table shows how we look at the technologies for our products. The blue boxes show our capability range as it was in 2011. Each of the coloured boxes represents a nanotechnology technique that we have brought into the portfolio through our six acquisitions since 2011. Greyed out on the table you can see the many other techniques which constitute our technological aspirations on our strategic road map. Technology here is highly fragmented and is rapidly moving. Through this road map we ensure that we maintain our strong position as *the* nanotechnology tool provider for industry and research around the world.

So to summarise, Oxford Instruments has a highly skilled and talented work force, which can generate really world class technological products. We are focused on operational excellence to improve margins beyond this year's 14%. Our strategy is focused on growing the business in our core markets of physical and materials science, and exploiting scientific convergence to expand into life science.

Looking forward, the current financial year started well, with orders ahead of the previous year. A full year contribution from recent acquisitions, complemented by our talented people and our focus on operational excellence will underpin our continued growth in the current year, despite the headwind from foreign exchange. Our modelling of the nano technology market says that it will provide long term structural growth as nanotechnology is exploited by a broader and broader range of industries. In addition, the convergence of the sciences enables us to offer our products to an ever widening pool of researchers and high technology manufacturers who want to operate at the nanoscale.

Thank you



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