



# Rotork plc Half Year Results - 2009

4th August 2009  
CEO Peter France

Worldwide Leaders in Valve Actuation Technology

[www.rotork.com](http://www.rotork.com)



## Financial Summary – H1 2009 v H1 2008

- Sales revenue up 25.1%
- Operating Profit up 36.3%
- PBT Return on Sales increased to 24.8% from 23.2%
- Order Book up 2.7%
- Basic EPS up 35.2%
- Interim Dividend up 20.5%

## Trading – H1 2009

- Record first half revenue and profit
- Managing the business tightly whilst expanding in areas of opportunity
- Strong performance from Australasia and the Americas
- A number of significant project orders won

Bob Slater

## FINANCIAL REVIEW

## Reconciliation of 'Adjusted' figures

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	Operating Profit	Profit before tax
	£m	£m
As reported on a statutory basis	44.9	44.4
<b>Amortisation of acquired intangible assets</b>	<b>0.4</b>	<b>0.4</b>
<b>Disposal of Spanish property</b>	<b>(0.6)</b>	<b>(0.6)</b>
'Adjusted' figures as used in this presentation	44.7	44.2

In the segmental analysis:

RFS operating profit as reported is £6.8m, the adjusted figure, before the amortisation of acquired intangibles, is £7.2m.

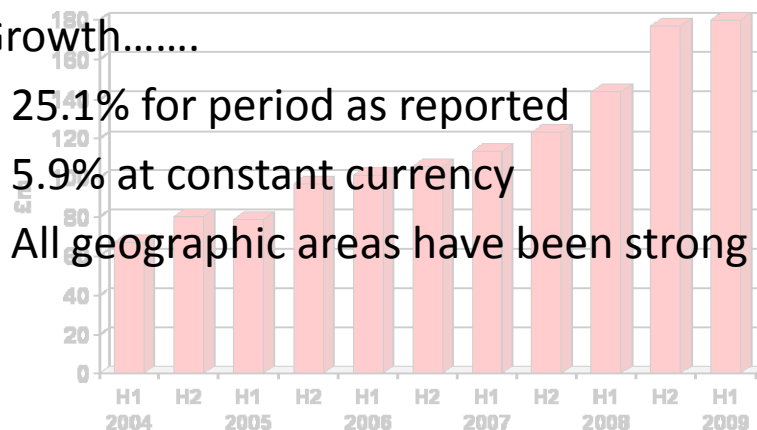
Controls operating profit as reported is £35.4m, the adjusted figure, before the disposal of property, is £34.8m.

## Sales Revenue

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Growth.....

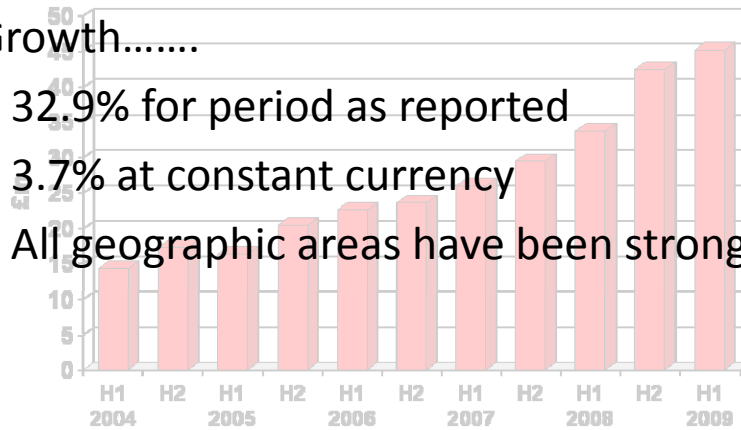
- 25.1% for period as reported
- 5.9% at constant currency
- All geographic areas have been strong



## Adjusted Operating Profit

Growth.....

- 32.9% for period as reported
- 3.7% at constant currency
- All geographic areas have been strong



## Currency Rates

	US\$	Euro
<b><u>Average rates - Trading:</u></b>		
Full year 2007	2.01	1.45
H1 2008	1.98	1.29
H2 2008	1.72	1.19
<b>Full Year 2008</b>	<b>1.81</b>	<b>1.24</b>
<b>H1 2009 Trading</b>	<b>1.46</b>	<b>1.12</b>
<b><u>Period end rates – Balance Sheet</u></b>		
Year end - 2007	1.99	1.36
- 2008	1.44	1.03
<b>Period end June 2009</b>	<b>1.65</b>	<b>1.17</b>

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## Constant Currency Analysis

£m	H1 2009 Group as reported		Adjust to get to CC	H1 2009 Group at 2008 Rates		H1 Group 2008		Growth at CC
Revenue	179.5		(27.6)	151.9		143.5		5.9%
Cost of Sales	(98.3)		14.0	(84.3)		(78.1)		
Gross Profit	81.2	45.2%	(13.6)	67.6	44.5%	65.4	45.5%	3.4%
Overheads	(36.5)		3.8	(32.7)		(31.8)		
Operating profit*	44.7	24.9%	(9.8)	34.9	22.9%	33.6	23.4%	3.7%
Interest	(0.5)		0.4	(0.1)		0.4		
PBT*	44.2	24.7%	(9.4)	34.8	22.9%	34.0	23.7%	2.6%

\*adjusted before amortisation of acquired intangibles and disposal of property

## Controls Division

£m	H1 2009	H1 2008	% inc
Group Sales Revenue	179.5	143.5	25.1
<b>Controls Sales Revenue</b>	<b>115.3</b>	<b>91.1</b>	<b>26.6</b>
Group Operating Profit*	44.7	33.6	32.9
<b>Controls Operating Profit*</b>	<b>34.8</b>	<b>25.8</b>	<b>34.8</b>

- Controls still makes up 62.4% of Group revenue
- Revenue up 26.6%
- Order book £87.9m, up 11.7% on June 2008
- Operating Profit\* up 34.8%
- Operating Margin\* was 30.2%, up from 28.4% in H1 2008

\*adjusted before amortisation of acquired intangibles and disposal of property

## Fluid Systems Division

£m	H1 2009	H1 2008	% inc
Group Sales Revenue	179.5	143.5	25.1
<b>RFS Sales Revenue</b>	<b>49.3</b>	<b>39.7</b>	<b>24.4</b>
Group Operating Profit*	44.7	33.6	32.9
<b>RFS Operating Profit*</b>	<b>7.2</b>	<b>5.4</b>	<b>33.7</b>

- Revenue up 24.4%
- Order book £46.2m
- Operating Profit\* up 33.7% on H1 2008
- Operating Margin\* 14.6% up from 13.6% in H1 2008

\*adjusted before amortisation of acquired intangibles and disposal of property

## Gears Division



£m	H1 2009	H1 2008	% inc
Group Sales Revenue	179.5	143.5	25.1
<b>Gears Sales Revenue</b>	<b>20.1</b>	<b>17.2</b>	<b>16.8</b>
Group Operating Profit*	44.7	33.6	32.9
<b>Gears Operating Profit*</b>	<b>4.3</b>	<b>4.0</b>	<b>9.1</b>

- Revenue up 16.8%
- Order book £4.6m
- Operating Profit\* up 9.1% on H1 2008
- Operating Margin\* 21.6% down from 23.1% in H1 2008

\*adjusted before amortisation of acquired intangibles and disposal of property

## Group Income Statement



£m	H1 2009	H1 2008	inc %
Revenue	179.5	143.5	25.1
Gross Margin	45.2%	45.5%	(0.7)
Operating Profit	44.9	32.9	36.3
PBT as reported	44.4	33.3	33.6
Adjusted PBT	44.2	34.0	30.2
Effective tax rate	30.0%	29.5%*	
Adjusted EPS	35.9	27.6	30.1
EPS as reported	36.1	26.7	35.2

\*2008 full year effective tax rate

## Dividends in 2009

Interim dividend for 2009 up 20.5% to 11.15p

Dividend cover for 2009 dividends is 2.59 times\*

Total dividends in 2009:

Date	Amount	Cost (£)	Details
May 2009	16.75p	14.5m	2008 final dividend paid
September 2009	11.15p	9.6m	2009 interim dividend payable
	27.90p	24.1m	

\* Dividend cover is  $\text{eps}/(2009 \text{ dividends paid}/2)$

## Balance Sheet – currency impact

### Rates used for translation of Balance Sheets

	December '08	June '09
US \$	1.44	1.65
Euro	1.03	1.17

- Assets generally devalued by currency
- Inventory as reported - £50.5m – at constant currency £56.3m
- Debtors as reported - £59.3m – at constant currency £66.3m
- Order book as reported - £138.7m – at constant currency £153.6m



## Balance Sheet

- CAPEX in the period was £2.2m
- Working capital as a percentage of revenue
 

– 2009 June	23%
– 2008	28%
– 2007	25%
– 2006	24%
– 2005	28%
- Period end cash balance £52.4m

## Cash Flow Summary - Inflows

£m	H1 2009	H1 2008
Operating Profit	<b>44.9</b>	<b>32.9</b>
Add back depreciation & amortisation	2.2	2.9
Less pension charge versus cash paid	(0.4)	(0.8)
Cash inflow from operating activities	<b>46.7</b>	<b>35.0</b>
Working capital movement	(3.0)	(10.8)
Other	(0.2)	0.3
Operating cash inflows	<b>43.5</b>	<b>24.5</b>

## Cash Flow Summary - Outflows

£m	H1 2009	H1 2008
Cash inflows	<b>43.5</b>	<b>24.5</b>
<b>OUTFLOWS</b>		
Taxation	(11.9)	(7.0)
Capital Expenditure	(2.2)	(2.6)
Purchase/issue own shares under share schemes	(1.3)	(2.2)
Other	-	(0.1)
Net operating cash flow	28.1	12.6
Disposal of property	0.9	-
Acquisitions	-	(12.7)
Dividends	(14.5)	(12.1)
Net cash inflow / (outflow)	14.5	(12.2)
Foreign exchange	(3.5)	0.4
Cash balances	<b>52.4</b>	<b>26.0</b>
Net funds	52.1	25.7



Peter France

## OPERATING REVIEW

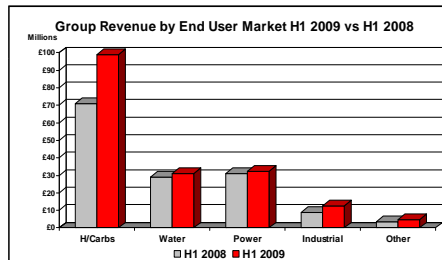
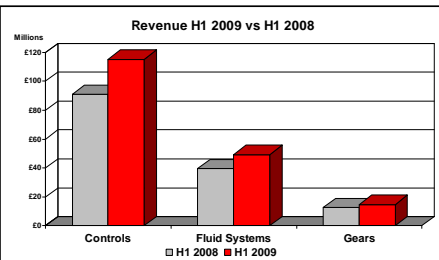
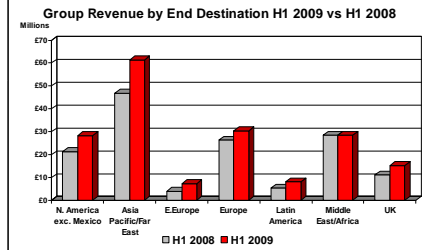
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# Group Results

## Results

- Growth in all divisions
- Growth in all markets
- Growth in all territories



Source – Rotork Internal Data

# Rotork Controls

## Results

- Revenue up 26.6%
- Operating profit up 34.8%
- Operating margin up from 28.4% to 30.2%
- Order book at end of H1 2009 up 11.7% compared with H1 2008.



## Operational Highlights

- Material cost and operational cost management.
- Improved operating margin.
- CVA production commenced.
- Strong demand in Australasia and the Americas.
- Frame agreement awards.
- UMPP – Ultra Mega Power Plant win in India.

## Markets

- Increased activity in Naval and Solar markets.
- Government stimulus packages driving investment in oil & gas and infrastructure in China.
- Stimulus packages starting to support project activity in USA.
- Reduction in new power plant construction
- Continued investment in water infrastructure

# Rotork Fluid Systems



## Results

- Revenue up 24.4%
- Operating profit up 33.7%
- Operating margin up from 13.6% to 14.6%
- Order book at end of H1 2009 was £46.2m



## Operational Highlights

- Completion of Lucca expansion..
- Established Middle East office.
- Strong performance from USA
- Continued sales developments.
- Slow down in order input.
- Improved operating margin.

## Markets

- Reduction in global oil and gas investment.  
Top 25 oil and gas companies -11.9%
- Increased investment by NOCs.
- Strong investment from Latin America and Asia.
- Investment in transmission pipelines and local distribution continues.

# Rotork Gears



## Results

- Revenue up 16.8%
- Operating profit up 9.1%
- Operating margin for H1 was 21.6%
- Order book at end of H1 2009 was £4.6m



## Operational Highlights

- Material cost pressures.
- Slow down in Europe.
- Increased sales in domestic China.
- Number of new customers.

## Markets

- Geographic opportunities in India and China.
- New OEM accounts.
- 75% of all valves still manual.
- Engineered solutions.

## Rotork Site Services

### Activities

- Preventative Maintenance.
- Retrofitting.
- Factory Fitting.
- Workshop Overhaul.
- Technical Support.
- Field Service.
- Training.



### Operational Highlights

- New or extended service centres in India, Middle East, USA and Russia.
- Increased activity due to optimisation of existing plants by customers and increased sales activity.

### Continued Growth

- Significant growth in Controls and RFS.
- Volumes of services increasing between 10% and 20% pa on average.
- Over 220 service technicians based over 41 operational centres.

## Research & Development

### CVA



### High Pressure Controls RFS



### Pakscan Wireless



### Large Gearbox



## Top 10 objectives in 2009



Within the Group Strategy the following objectives have been identified as the Key Objectives for 2009:

Objective	Description
Sales Growth	Continue efforts to ensure all divisions and subsidiaries sell actively and enthusiastically to grow market share and enter new geographic markets and sectors thereby underpinning achievement of financial targets.
New Products	Development of new products for existing and new markets with special focus on India and China.
Acquisitions	Execute acquisition of identified suitable opportunities.
Health & Safety	Continue to drive improvements in safety performance group wide.
Material Cost Reduction	Ensure material costs are continuously monitored and controlled.

## Top 10 objectives in 2009



Objective	Description
Development of RSS	Continue progress with Preventative Maintenance (PM) contract offering worldwide and further develop our site service capabilities under a recognisable global brand.
IT	Develop a management system for subsidiary sales and service offices in line with manufacturing sites.
New India factory	New factory in Bangalore to be operational for IQ electric actuator production by year end.
People Development	Identify and develop key talent.
Business Processes	Roll out new Group administrative procedures and ensure their adoption group wide, including newly acquired businesses.

## Summary First Half 2009

- Record set of results
- Continued cost management
- Focused investment
- Project timing less certain
- Challenging market

## Outlook

The markets that we serve remain challenging and project delays are affecting the timing of order placements. We expect the current market conditions to continue in the second half of the year, although quotation activity and project visibility remain positive.

The current weakness of sterling continues to benefit the group's competitive position and reported trading results.

Our existing order book, low cost base and international presence provide a solid platform and give us confidence in meeting market expectations for the current year.

## APPENDIX

### Appendix - Adjusted Operating Profit

£m	2009	2008	% increase
Controls	34.8	25.8	34.8
Fluid Systems	7.2	5.4	33.7
Gears	4.3	4.0	9.1
Unallocated	(1.6)	(1.6)	-
Total	44.7	33.6	32.9

### Adjusted Operating Profit to Revenue %

%	2008	2007
Controls	30.2	28.4
Fluid Systems	14.6	13.6
Gears	21.6	23.1
Group	24.9	23.4



## Appendix – Cash inflow from operations

	First half 2009 £000	First half 2008 £000	Full year 2008 £000
Profit for the period	31,111	23,027	53,420
Amortisation of acquired intangibles	420	725	1,125
Amortisation of development costs	201	176	352
Depreciation	1,611	1,685	3,281
Equity settled share based payment expense	390	380	718
(Profit) / loss on sale of property, plant and equipment	(600)	(46)	25
Financial income	(3,054)	(3,410)	(7,073)
Financial expenses	3,465	3,037	6,211
Income tax expense	13,333	10,248	22,331
	<b>46,877</b>	<b>35,822</b>	<b>80,390</b>
Decrease / (increase) in inventories	2,777	(9,253)	(8,621)
Increase in trade and other receivables	(2,621)	(7,355)	(4,293)
(Decrease) / increase in trade and other payables	(1,019)	6,371	5,955
Difference between pension charge and cash contribution	(369)	(771)	(823)
Increase in provisions	559	634	1,554
(Decrease) in employee benefits	(2,695)	(1,378)	(299)
	<b>43,509</b>	<b>24,070</b>	<b>73,863</b>
Income taxes paid	(11,852)	(7,054)	(22,547)
<b>Cash flows from operating activities</b>	<b>31,657</b>	<b>17,016</b>	<b>51,316</b>

## Appendix - Cash outflows

	First half 2009 £000	First half 2008 £000	Full year 2008 £000
Purchase of property, plant and equipment	(1,835)	(2,172)	(4,353)
Purchase of intangible fixed assets	-	(386)	(666)
Development costs capitalised	(398)	(337)	(817)
Sale of property, plant and equipment	908	64	90
Acquisition of subsidiary net of cash acquired	-	(12,714)	(12,714)
Interest received	109	382	564
<b>Cash flows from investing activities</b>	<b>(1,216)</b>	<b>(15,163)</b>	<b>(17,896)</b>
Issue of ordinary share capital	22	91	149
Purchase of ordinary share capital	(1,300)	(2,261)	(3,518)
Purchase of preference shares treated as debt	-	-	(5)
Interest paid	(76)	(98)	(294)
Repayment of amounts borrowed	(12)	(65)	(82)
Repayment of finance lease liabilities	(56)	(59)	(87)
Dividends paid on ordinary shares	(14,470)	(12,075)	(29,970)
<b>Cash flows from financing activities</b>	<b>(15,892)</b>	<b>(14,467)</b>	<b>(33,807)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>14,549</b>	<b>(12,614)</b>	<b>(387)</b>
Cash and cash equivalents at 1 January	41,390	38,253	38,253
Effect of exchange rate fluctuations on cash held	(3,495)	403	3,524
Cash and cash equivalents at end of period	<b>52,444</b>	<b>26,042</b>	<b>41,390</b>

## Appendix - Adjusted Operating Profit by Segment



£m	2009	Amortisation Charge	Property Gain	2009 Adjusted	2008	% increase
Operating profit	44.9	0.4	(0.6)	44.7	33.6	32.9
<b>By Division:</b>						
Controls	35.4	-	(0.6)	34.8	25.8	34.8
Fluid Systems	6.8	0.4	-	7.2	5.4	33.7
Gears	4.3	-	-	4.3	4.0	9.1
Unallocated costs	(1.6)	-	-	(1.6)	(1.6)	-
Total	44.9	0.4	(0.6)	44.7	33.6	32.9