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JMAT.L - Full Year 2014 Johnson Matthey PLC Earnings Presentation

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PRESENTATION

Robert MacLeod *- Johnson Matthey Plc - Chief Executive*

A very good morning, everybody. So this morning, I will just go through the results for the year quickly, in summary. I'll then hand over to Den to go through some of the financial information, and then I'll go through the business performance and outlook in more detail.

First of all, the key messages for the year; good progress, I think, in 2014/2015, led particularly by ECT but, as a Group as a whole, in line with expectations, in line with what we expected to do at the start of the year. Underlying earnings per share are up 6%, and the dividend, as you can see, up 9%.

As we described in the Investor Day, we're focusing on our core markets, ones where we can use our chemistry skills and its application. And during the year, we've sold our Gold and Silver Refining business; we've talked about that before. But today, we announced that we're in advanced negotiations on the disposal of our Research Chemicals business. All good businesses, both of them good businesses, but no longer a fit for Johnson Matthey, going forward.

We are, though, investing in new areas that fit with our business model. You've seen that we've done two acquisitions in battery materials, but also one, it's called StePac, we bought just a week or two ago in atmosphere control technologies. So I'm pleased with the progress we're making on the managing of our portfolio.

Going forward into the year we're now in, we expect good underlying growth from our continuing businesses. And I'm pleased to say the long term drivers that I went through in January on our Investor Day remain strong.

Now before I hand over to Den, I just want to talk a little bit about our health and safety performance. It's an area we've enhanced and increased our focus over the last few months. One of the things we try and do is start each meeting with a safety moment, so I thought I'd do that with you all today.

One of the things that we have been talking about is the use of mobile phones, particularly in a car. As you're driving along, and they've done some studies in the US, and about 25%, I've heard, of accidents in the US are caused by being on your mobile phone.

Of course, here in Europe, and particularly in the UK, we think, well, we're all right because we go hands free. But there's been recent studies saying that about 90% of the distraction caused by being on the phone is not because you're hands free, it's because you're talking to somebody else.

So I'd strongly encourage you, as you're driving along, maybe home at the weekend or tonight, and somebody phones you, just pull over or just let it go and don't answer, because you are far more likely to have an accident if you are concentrating on something else.

But we are spending a lot of effort on enhancing our health and safety performance. You can see that we've managed over the last few months to reduce our lost time incident rate by 25%. But about 50% of our accidents are caused by slips, trips and falls, so there's a lot of work going on across the Group on behavioral safety to try and minimize those.

We've set ourselves a target to get to this lost time incident rate down to 0.2, and if we do that, we'll be best in class. And I'm very pleased with the performance of the team and the Group around how they're embracing this drive to try and improve and enhance our performance.

And with that, I'll hand over to Den to talk through our financial review.

Den Jones - *Johnson Matthey Plc - Group Finance Director*

Thank you, Robert, and good morning, everyone. I'm now going to take you through our full year financial results, and I'm going to start with the underlying numbers.

As Robert has said, the Group has made good progress. In the second half, we built on a solid first six months results. As the table shows, sales were up 5% and profit before tax was up 3%.

However, these numbers are weighed down by FX and the loss of commission income from Anglo. Excluding these, sales grew 9% and profit before tax was 15% ahead, demonstrating that the business is in good shape and performing well.

Interest was slightly lower than last year, as we've guided to previously. You may remember that in June 2003, we refinanced some of the debt early, taking advantage of low interest rate environment, and increased our interest rate charge for that year.

Towards the bottom of the table, you can see EPS is up 6%, helped by the lower UK headline tax rate. This went down from 23% to 21% during the year and has now reduced further to 20% for the year we are currently in.

Our guidance on tax remains the same, in that we expect our effective tax rate to be maintained at, at least, 3% lower than the UK headline rate of tax.

Now, I just want to touch on the dividend here. The Board is recommending a final dividend of 49.5p, which brings the total dividend per share for the year to 68p, a 9% increase. This is in line with the half-year and 3% above the growth in earnings per share, a reflection of the Board's confidence in the Group's long-term performance.

Now, if we delve a little bit more into what has driven the Group's underlying PBT; in line with what we've said at the half-year, FX did not impact us in the second half. But there was a GBP16 million impact in the first half, which reduced PBT by 4% for the year as a whole. Anglo also reduced PBT by around GBP30 million, representing a 7% drag.

From this rebased starting point, you can see the growth contribution from each of the main divisions.

ECT, as our largest division with a strong performance in the year, helped grow the Group's PBT by 10%. Process Technologies, Precious Metal Products and Fine Chemicals also grew, while New Businesses loss increased slightly.

So you can see the good overall growth in the underlying businesses, and Robert will give you more details of their performance a little bit later.

I just wanted to give you a quick reconciliation here on our reported results. You can see the big movement is a profit of just under GBP70 million on the sale of Gold and Silver Refining. As you know, this business was sold for GBP124 million in the year.

Reported profit before tax of GBP495.8 million is up 22%. Earnings per share of 211.2% (sic - see slide 9, "211.2p") is up 26%.

Turning now to cash flow. Cash flow from operations was GBP126 million, compared to GBP477 million last year. This is driven by movements in working capital, both precious metal and non-precious metal related. Obviously, working capital is at a point in time, and at the yearend non-precious working capital had increased by GBP253 million. Working capital days, again, excluding precious metals, rose to 66 days from 59 at the half-year and 45 last year.

The increase in working capital was driven by four main factors.

In PT, higher sales volumes in the final quarter, especially in February and March, converted to increased receivables in the yearend.

ECT's Asian business has continued to grow, and customers here have relatively longer payment terms compared to other regions.

Inventories in both ECT and PT increased ahead of sales expected in the first quarter of 2015/2016. As you remember, PT had a very weak first quarter in 2014/2015.

And finally, lower licensing activity in PT, which is typically cash positive. So four key reasons, three relating to timing of increased business activity.

On precious metal working capital, this also increased by GBP180 million, mainly within PGM balances in our Precious Metal Products division. As you know, these balances do vary depending upon any particular point in time. We are confident that these high levels at yearend are not indicative of ongoing metal balances.

Now a quick slide on cash flow conversion. Here, you can see the detail behind the calculation and excluding precious metal working capital, cash flow is GBP210 million, resulting in a cash flow conversion of 44%.

So what does this mean going forward? As I've mentioned already, working capital is at a point in time and I do expect it to be reduced from the yearend levels. Indeed, in April we have seen a GBP100 million improvement already.

As was mentioned last year, 45 days was unusually low and with a growing business, as well as expansion in China, I expect working capital days to be, on average, in the range of 50 to 60 days by the yearend and going forward. This is in line with historic levels, as you can see from the chart on the top right.

As we've seen over the last few years, it can be slightly out of this range. Last year, it was five days below this and now it is six days above it, but we are driving the business to deliver working capital within this level.

The low cash flow conversion this year, which is a factor of the working capital movements, is expected to reverse. And based on our forecast, this is expected to average around 70% over the next few years.

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I'll come on to capital expenditure in a moment, but it is the continued investment to support the business growth, that will hold back future cash conversion to some extent.

Now, moving on to investment and, in particular, capital expenditure. This was just over GBP210 million for the year with spend in ECT and PT making up over half of this, with the key projects being those we highlighted to you at the half-year.

In ECT in the second half, we continue to extend manufacturing capacity in the UK to meet future demand from the new European legislation; that's Euro 6b and 6c. And this project will be ongoing for the next few years.

In PT, we completed capacity expansions of our chemical catalyst manufacturing sites in Germany, and the construction of a VCM catalyst plant in China is also largely complete.

So CapEx to depreciation was around 1.6 times and I think it will stay between this level and 1.8 times for the next year or so, with depreciation increasing and CapEx rising next year to around GBP280 million. This figure includes a shift of some CapEx spend that moved out of 2014/2015 into our current year.

As we mentioned at the Investor Day in January, we are also investing in our core business systems, expecting to spend around GBP100 million over the next five years, and this is also included in this forecast. So overall, CapEx is expected to remain high to support future business growth.

Turning to research and development, we continued to invest around 5% of sales in research and development this year, with around 83% of this spent on development work within our divisions.

Let's now move on to look at return on invested capital. This was 18.8%, down 2% from last year and slightly below our 20% target for the Group. This was driven predominantly by the loss of income from the Anglo contract, which was about a 1.5% headwind.

To be clear, we have strict investment criteria and return on invested capital continues to be a key metric. We are committed to our 20% target and look to continue to invest to drive long-term value for the Group.

Finally, a brief look at some of the other areas of the balance sheet. Our net debt has increased from GBP729 million last year to GBP994 million. This is due to the movements in working capital that I have already discussed.

The balance sheet remains strong with net debt to EBITDA of 1.7, which is within our target range of 1.5 to 2. Average cost of debt is 2.4% with an average tenure of 5.7 years.

Finally, on pensions; as previously advised, we have undertaken a number of actions to reduce our pension deficit. We are currently undertaking our triennial valuation of our main scheme. We'll advise you of the result at the half-year announcement in November this year.

On an accounting basis, unfortunately the discount rates are against us for the coming year. These are based on AA rated corporate bond yields and, as at the yearend of March 2015, they were significantly lower than the previous year. This means an increase in net pension liabilities of GBP31 million to GBP194 million.

This has a knock-on impact on pension service costs for 2015/2016, where we expect costs to grow by GBP15 million. This increase is predominantly non-cash and driven by the change in discount rates I've just mentioned. This cost will be charged in underlying operating profit and we have included this in the guidance we have given to you on the outlook for the five divisions for 2015/2016.

So that's all from me, and I will now hand you back to Robert, who will take you through the performance of each of the divisions. Thank you.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

Thank you, Den. I'll just start off before I go through the operating review just a little bit about this picture. It's a picture of two of our colleagues in Germiston in South Africa, which is one of John's ECT plants there, where we've been doing a lot of effort and a lot of work on operational improvements, particularly on energy efficiency.

Over the last couple of years, they've reduced energy by 25%, which has saved about GBP0.75 million. And that's just one example of all the things that John and his team are doing to drive the improvements in the margins that I'll talk about in a second.

So ECT, as you know, had another strong year. We're very pleased with its performance with, at constant rates, sales up by 12%, and underlying profit by 21%. And you can see the improvement in margins here, 12.4% going to 13.3%.

And that is due to a whole series of things, not one thing at all; development of new materials, lower cost materials to go into our manufacturing process, freeing up capacity through less complex routes of manufacturing. So some instances we'll be using multilayer passes to make a catalyst and now we're able, in some cases, to do single layer. And that just frees up additional capacity at no extra cost.

Margins are now at very good levels and I think they're sustainable at this level. But I don't think there's any more to come; I think they will be here or here abouts. We've got further operational improvements we need to go after but, at the same time, our customers continue to challenge us on price and returns.

Looking at light duty; a good performance from our light duty business, where our sales are up 9% at constant currency, compared to a growth in global car production of 1%. In the US, volumes are in line, but the mix effect has been slightly negative, hence the reduction in our sales.

In Europe, we've benefited from Euro 6b legislation which came into force, as you know, for new models in September last year, and for all models will come into force in September this year.

This gives us, basically, a NOx emission standard such that the NOx from diesel is about the same as NOx from gasoline cars. And it's around about half of new models now are fitted with a Euro 6b system. So we've got further growth in the second half of this year as we get towards full implementation.

There's been lots of talk about the death of diesel, as you know. John discussed that at the Investor Day in January. And in our year, about 52% of cars sold in Western Europe were diesel, which is exactly the same as it was last year. So we haven't seen any impact yet of all this talk in the press.

Of course, we still expect, and we've talked about it before, a gradual decline in the diesel penetration in Europe. But diesel is an important factor in the whole requirement by car companies to increase their CO2 efficiency. So we still think it's an important part of the overall mix.

Our performance in Asia has also been good, supported by strong growth in China where we have very good relationships with many OEMs.

On the heavy duty side, a very good year across all regions, sales up here by 18%. We've got growth in all the markets here, all the regions here, but for very different reasons.

In the US, it's because of Class 8 trucks. Those are the big transcontinental trucks which have more catalyst value per vehicle. And we've had a replacement cycle that we had old trucks in the last through recession. That replacement cycle is now happening. And I think, throughout this year, we'll continue to see that high level of new production, but I think we're reaching peak levels.

In Europe, the first half obviously benefited from Euro 6, and we've now got full fitment of Euro 6 on diesel trucks. The sales were good and grew quite a lot this year, despite the fact that the market was actually very weak.

In Asia, we've now got about 35% of fitment of Euro 4 trucks. But of course remember, these are relatively simple, non-PGM catalysts that fit on a truck in China.

So looking ahead for ECT, air quality remains a global issue. Light duty, I think we've still got further structural growth ahead of us with Euro 6b I've already talked about. But in the medium term, Euro 6c will require filters on some direct injection gasoline cars, and that will double the value per gasoline car in Europe.

We're also seeing some early signs, encouraging signs, of increased diesel penetration in the US, which is slightly going against the trend here in Europe.

On the heavy duty side, there's no new legislation in the US and Europe. So now what's likely to happen, going forward, is we're more likely to track the market for underlying truck production in the future. In the US, I've already mentioned that we expect the Class 8 trucks to be relatively stable for the rest of this year.

And in the EU, perhaps we'll have, in a few years' time when the EU starts recovering perhaps, then maybe we'll have an old fleet and we'll see the replacement cycle come through. But we're certainly not expecting that in 2015/2016.

So, therefore, the real growth is in China as we continue the rollout of Euro IV. As we talk about on the slide here, Beijing VI is talked about for 2018. And Beijing VI is effectively the same as Euro VI so will require filters to be fitted on a truck in China. Non-road in Europe will also require fitment of filters, so that growth could come in 2019/2020.

So overall, the structural drivers remain in the medium term, and we expect a continued strong performance from ECT in this year.

Turning now to Process Technologies; they made progress in the year, with growth in sales and profit of 7%. So a good performance overall, given the change in mix, especially because of the lower contribution from licensing.

We turn to Chemicals first of all; good growth in catalysts, but slower in the licensing side. Sales were up, as you can see, as a sector by 4% at constant currency, with higher sales of ammonia and formaldehyde technologies, but lower demand in methanol.

That's the normal cycle; it seems to work on a two-year cycle. So last year, we had low sales of ammonia and high sales of methanol. This year, it's the other way round. And then the year we're now in, it's probably going to revert back to higher demand for methanol, and slightly lower for ammonia. So a sort of two-year cycle, and they seem to be out of phase at the moment.

And on the licensing side, that was also down. Although we won six new licenses, they'd be relatively low value, and not unexpected, but principally due to the slowdown in China, where there's now sufficient capacity for many of the petrochemical plants that we have our licensing technology.

We're now working on a whole series of new technologies, such as VCM, but they take time to come into market. And really, the first challenge is getting that first reference site, having one customer to have the confidence to build the first plant. Once you've got one plant, then you're more likely to get others following, but the first reference site does take quite some time. And we're also working on a number of bio-based feedstocks for licensing technologies too.

So for licensing, I think it will be lower again in 2015/2016, the year we're now in. But then in 2016/2017 and beyond we'll then start to see a recovery and return to growth.

On the Oil and Gas side, they performed well across all sectors, with sales up by 11%. Now remember here, about 75% of our Oil and Gas business is to mid and downstream sector, mostly catalysts and additives, and not services, so relatively less impacted by the lower oil price. So over the last year, we've seeing good demand supported by a tighter fuel specifications and lower emissions for refineries requiring our products.

Hydrogen's done well this year, supported by new plant builds, particularly in the Middle East, which has helped. And on the additive side, higher performance materials rather than emission materials have allowed us to grow that business as well.

On the diagnostic services side, that's our Tracerco business, they had a good year. But this is the business that has the upstream exposure. A lot of the work they do is on asset integrity and asset performance improvements. New products are going well and showing good customer demand. But the oil price fall has seen a reduction in activity, and that will probably impact this business in this year.

Looking ahead, as we said in January, we see a short-term hiatus. It's going to be tough for this business to grow this year, but the long-term drivers remain good. So this year is really around good demand for catalysts, I think, we'll still see in PT. And the Oil and Gas business should continue to perform well. But the licensing side, as I've already said, will offset that growth on the catalyst side.

We've got three reasons here, principally, why the licensing income is dropping, and it's really partly to do with the coal to SNG projects in China. Those are being slowed down. But also, the petrochemical capacity is pretty much in line with the market demand today.

The long-term drivers, though, remain in place for this division. So although we expect this year to be broadly in line with last year, I think the outlook for the longer term is good.

To be honest, on the outlook for this year, this is the area of risk in this whole -- when we look at outlooks. There's probably more risk on the downside in this sector -- in this division, I should say, than perhaps any of the others when we're looking at the outlook for this year.

Our Precious Metal Products division is being impacted, as we know, by the Anglo contract which has now completely gone through our numbers. And this probably is the last time you'll hear us talking about Anglo, in relation to our results at least.

So at constant rates down 9% at sales level, and 21% at the operating profit level. Of course, the sales were also lower because of weakness in our Gold and Silver Refining business which had a relatively poor sales performance in this year. But, of course, we've now sold that and we won't have that, going forward.

So a difficult year for the business, but still a high margin business. The return on capital you can see has dropped quite a long way, but I think that should recover and it should, in the medium term, be around 30%. That's the sort of level of return on capital that we should be achieving from this division, still a high margin/high return on capital division.

On the Services side, I've already mentioned the Anglo contracts. It's been a mixed year for refining and recycling. Volumes are slightly higher overall, helped by the Stillwater contract which has boosted our palladium intakes.

But we have seen, on an intake basis, some fall-off in the fourth quarter, so the first calendar quarter of this year. And that intake volume responding to lower prices will then start impacting our results in this first quarter of this financial year.

Also, our mix has been less favorable. There's been a lot more filters coming through our spent auto catalyst feedstock -- intakes, I would say. Filters, if you think they started being fitted to cars about eight to 10 years ago, so now they've started to be scrapped, and they take quite a lot more time to process through our refinery. And that's one of the reasons why we've had increase in our PGM balances, because we're still working on that mix and how we improve the performance of the refinery to make sure that we deal with these issues, going forward.

So we're working on efficiencies, and we'll continue to invest in those and continue work on improving in 2015/2016. But remember, of course, that PGM prices do impact our business, and we said before that a 10% movement in the PGM price for a full year is about a GBP5 million impact to sales and profit.

On the Manufacturing side, steady overall but lots of moving parts here. Relatively mature, as you know, as we talked about in January; high margin, relatively high return on capital, but relatively growth-limited in some of these businesses. Previously, we've focused on that return on capital and margin, and now we're looking for some growth. So more investment coming in, but that will take some time before that yields benefits.

Looking at the businesses in the year, Noble Metals had some good demand for its PGM gauzes, but was offset by other industrial product weaknesses. And our Advanced Glass Technologies business tracked the global car production for automotive glass and we're increasing our presence in Asia where, of course, that's where the growth in the car market is.

So looking ahead for PMP, it'll be a tough year this year, but also we're investing for growth. On the refining side, the shift in mix that I mentioned about will continue to impact us this year, but we are looking for efficiency improvements, and we are also investing in a refinery in China.

That's about a GBP10 million to GBP15 million investment, initially to support industrial products but, going forward, it will be available, obviously, to us when cars start being scrapped in China, but that's not for a few years yet.

On the manufacturing side, relatively stable. We're investing. I think there might be a little bit of growth this year in that business but, going forward, the growth should come in the future.

So the outlook for this division will be significantly down, primarily because, of course, we no longer have the Gold and Silver business, but also because of the impacts of the things I've talked about on the refinery side.

Fine Chemicals had a good year; sales up by 3% and profit by 7%. A good effort by the API team, manufacturing team, particularly on process efficiencies and on the raw material improvements in price, etc.

The sale of the Research Chemicals business, as I said, we're in advanced negotiations there. We hope to be in a position to close that this calendar year and we'll announce in the near future when we're ready to do that. It's a good business, but it doesn't fit with our business model, going forward.

What we're doing now, though, across the business is leverage our synergies between our API manufacturing businesses and our catalysis and chiral technologies businesses, CCT, and that leverage and those synergies have started to have an effect.

In the year, demand for our APIs across our portfolio was mixed but steady growth overall, and we continue to develop new products and new opportunities.

On the Research Chemicals side, just to finish and help you, the sales, as you can see, were GBP77 million in the year. The margin of this business is around about 20%, so you can work out what the impact will be for your numbers for the year, obviously depending upon when we finally complete.

Looking ahead, the robust longer-term growth potential for the division is still there. We expect good growth in our API Manufacturing businesses this year and beyond. We continue to invest in the development of more and more complex APIs. Not all of them are in controlled substances, so more and more diversification of the APIs that we're going after.

Just last year we bought a new facility in Scotland, just north of Carlisle and that's a bit like the facility we bought in the US. If you remember, a couple of years ago we bought a facility off Lonza in Conshohocken in Pennsylvania.

This is a large plant; had been a former GSK one that we believe that we can use. We'll spend a little bit of money, a little bit of CapEx, getting it up and running, and then in mid-2016 it will give us an opportunity to provide growth for our business here in Europe.

So the strong drivers remain. We continue to work on the formulation and development of new generics. These take three or four years once the ANDA has been filed and approved by the development agency, then three or four years before you actually start seeing real revenues. So we've got to have a number of these to make sure that we can grow and provide that portfolio of products and not rely on just one or two.

So we expect this year to make good progress in this division, of course excluding the impact of the sale of Research Chemicals.

Finally, New Businesses made good progress in the year, principally as a result of the acquisitions they've done, both in Battery Technologies, but also subsequently in the atmosphere control technologies acquisition we did recently.

Battery Technologies, the acquisitions, we're working on integrating those into the business. We like what we see so far, and it provides us good opportunities to develop this business in the longer term. And with Battery Technologies there was only a modest loss in the year, and the two materials acquisitions were slightly profitable.

On fuel cells, there's more and more activity going on, as you know, across the world and we're working very closely with a number of the OEMs. We aren't on any of the platforms yet, but we're working very hard, we're working with many of them, and hope to be, in the next two or three years, on some of those platforms, as they continue to get into larger-scale production.

So overall, good progress. A higher loss, though, as you can see, as we continue to invest in the business and obviously, some of the integration costs are in here too. Looking ahead, we continue to want to deepen the portfolio, and this is all about providing the next engines of growth for the Group.

Battery Technologies, this year we expect to be break-even, if we exclude the integration costs. Atmospheric control, the acquisition of StePac that we bought just last month, expect sales, as it says, of about GBP20 million with a small operating profit.

So overall, we continue to invest in areas where we can use our chemistry skills and our application expertise to provide those next engines of growth.

We still think, for 2015/2016, we'll see a modest reduction in the loss this year but then, hopefully, we're still well placed for break-even in 2017/2018; again, as we said in January at the Investor Day.

So just pulling it all together, I've gone through each of the individual divisions' outlook. So if we look at the Group as a whole, we expect the underlying growth in the continuing businesses to be good and to continue to be strong. But because of the disposals, the net/net you end up with the 2015/2016 numbers being just slightly ahead the 2014/2015, but we're very well placed for the long-term growth in the business.

So to finish up and just to recap before questions, I think we've had good progress in the year, led particularly by ECT, but with EPS up 6%. We're focusing on attractive markets and we'll continue to keep that chemistry and applications focus going forward as we manage the portfolio. And as I've just said, we expect 2015/2016 to be slightly ahead of 2014/2015, but the long-term drivers remain strong and in place.

And with that, just give us a few minutes, or a few seconds to set up, and we'll take your questions.

QUESTIONS AND ANSWERS

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

If you can say your name and where you're from?

Laurent Favre - *BofA Merrill Lynch - Analyst*

Laurent Favre, BofA Merrill Lynch. I've got two questions. The first one is probably for John, on ECT in North America. In the first half, if I remember correctly, sales were slightly ahead. For the full year they're slightly below the year before. Can you talk about what happened really on this mix topic for the second half?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

Light duty business?

Laurent Favre - *BofA Merrill Lynch - Analyst*

Yes, light duty, yes. So can you talk a bit more about this mix impact for the second half and whether or not we see that again in the first half, because I suppose that's an issue that is not just a one-off on a six month basis?

And then the second question is probably for you, Robert, on the balance sheet and how you're going to balance M&A and cash returns, given this improvement on the working capital already in April, the disposal to come through, cash flow conversion that is going to improve this year compared to last year. So how do you think about M&A and cash returns? Thank you.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

John, do you want to go first and --?

John Walker - *Johnson Matthey Plc - Executive Director, Emission Control Technologies*

I think, on our light duty business in North America, the mix change that we're talking about there is a customer mix change. In Europe, a lot of the mix that we talk about is both customers and models.

Whether this is going to continue, I think our light duty business is cyclical, as you know. So yes, it will continue for a period, but we do expect recovery. And in fact today, I just told Robert that we have won some new business that should see that turn around. So I don't see that as much of a worry, and it's not a very big impact on our total business.

Laurent Favre - *BofA Merrill Lynch - Analyst*

So this is just your customers selling smaller cars or smaller engines or -- ?

John Walker - *Johnson Matthey Plc - Executive Director, Emission Control Technologies*

It's a combination of a few things, yes.

Laurent Favre - *BofA Merrill Lynch - Analyst*

A combination. Okay.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

We always get asked this question about the balance sheet. We've said, for many years, that we're not going to sit on a hoard of cash just for the sake of hoarding cash.

As you know, and we talked about it a bit in January, we are looking at M&A across the organization, particularly in New Businesses. To create that route to market and the access to technology sometimes we need to do some M&A, but it's a balance.

We will always review the balance sheet. We always look at when and if there is an appropriate time to return capital to shareholders then we'll do it. We've done it before and we'll do it again. But on the other hand, we need to maintain our flexibility to make sure that we can take advantage of opportunities as they come.

But our ratios and our target ratio, Den, I think, hasn't changed?

Den Jones - *Johnson Matthey Plc - Group Finance Director*

No, it hasn't. Like Robert's comments, my view on this is we're a growing Company, we're looking at investing and growing the Company; that's what we want to do. As Robert said, the sale of Research Chemicals, we're not going to hang onto the cash forever without doing anything with it.

Laurent Favre - *BofA Merrill Lynch - Analyst*

And maybe I just sneak another one in. On portfolio management, you mentioned that you thought you had made good progress. Is there anything in the portfolio right now that you would argue is still non-core of the size of Research Chemicals? So something that we would all basically see and care about?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

No.

Laurent Favre - *BofA Merrill Lynch - Analyst*

No, okay. Thank you.

Peter Cartwright - *Fiske - Analyst*

Peter Cartwright, Fiske. Could I ask you, on the battery materials, your investment in lithium-ion phosphate, what's the existing customer base and where do you think you're taking that division?

And perhaps a comment on where you think Tesla are taking their battery chemistry?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

Well, I could give you answer, but I think it's better to ask the man who really knows. So Nick, do you want to answer this one?

Nick Garner - *Johnson Matthey Plc - Division Director, New Businesses and Corporate Development*

I'll have a go, or ask someone else who really knows as well, Peter, I suppose. I think we've said before, lithium-ion phosphate is an entry chemistry for us. It's based on availability. I don't think I need to get into our customer base. I think it would be clear to say it's principally Asian, and it's where high power matters. So that's both the Chinese EV market, but power applications more generally.

The strategy would be extend that chemistry portfolio and, clearly, I gave the clue there. We've got a high power chemistry; we want a high energy chemistry. So clearly, we are continuing to evaluate alternative chemistries, both with internal research, but also external opportunities for in-licensing or possibly acquisition of technology.

Comments on Tesla. They have a high energy [application] because they're going to drive engines for cars with it, so they remain, as they seek to expand that market, a potential customer in the future for us, once we deliver high energy chemistries.

Is that clear?

Peter Cartwright - *Fiske - Analyst*

Thank you.

Martin Evans - *JPMorgan - Analyst*

Martin Evans, JPMorgan Cazenove. Just fuel cells and maybe a question for Nick, again, on the new business. Losses yet again this year, which you seem quite happy to tolerate on the basis, as you said, Robert, that you're working with the OEMs on new platforms, but there have been many, many years of these continuing fuel cell losses.

Can you just explain, is it simply that the market is incredibly challenging and changing, and you have to respond to that without getting a return? Or, and probably a difficult question to answer, structurally is there something wrong with Johnson Matthey's particular fuel cell platform?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

I'll have a start and then maybe let Nick [or Larry] have a go. We look at this frequently, as you would -- when you've got a loss-making business you look at it and see whether it fits and when you want to keep a hold on it, and we reviewed it again with the Board just this year.

And the outlook for the market is starting -- this is technology that we have, and we're actually pretty good. So it's not about our technology being good enough; we think our technology is pretty world class. The challenge is, though, where's the market and how is the market going to develop?

And we're now at the stage where legislation's coming in, or is in, or is coming in, in California and Japan and Korea. So that is going to potentially encourage, and you're starting to see launches, tangible launches, of fuel cell vehicles in the market.

The challenge for us, then, is to be on those platforms. We're working with many of those OEMs, but we're not yet on those platforms. Because mainly at this stage, because it's very much R&D still for them, they're not large-scale manufacturer, so they're basically doing their own in-house development today and in-house manufacture today.

But going forward, they will start looking for external people to supply and we think we're well placed. And we still think today that it's a good investment for the shareholders to continue to look at fuel cells. And that's why we're keeping going. Would you say anything more, Larry?

Larry Pentz - *Johnson Matthey Plc - Executive Director*

I don't think you need to say anything more. No, it is about having technology. I might be even a little bolder and say we have leading technology in the membrane electrode assembly today, out there. But it's about waiting for the market to develop, and it couldn't take very much penetration in the automotive market, low single digits, very low single digit penetration of the market, for this to be a rather attractive business. That's what we're playing for.

Martin Evans - *JPMorgan - Analyst*

So within your break-even target, within three years in new business, does that assume that the losses, individually, within fuel cells trend down? Or, is the break-even -- because the other bits, the acquisitions, begin to more than offset that and fuel cells remain a small loss maker?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

It's both.

Simon Fickling - *Exane BNP Paribas - Analyst*

Simon Fickling, Exane. Can I ask, on Process Technologies, so we had the update in January and wondering what may have changed in your view on the outlook since then? Oil price slightly higher, but in particular in the guidance -- you had a very strong Q4, and in the guidance for the cash flow you flagged that there looked to be quite a strong order book in the in Process Technologies.

Can you just help us to pick apart those areas and what expectations around licensing and around the catalyst build and the refinery business, what may have changed since the update in January when we all went over it in quite a bit of detail?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

Sure. Well, since Geoff did the update in January, maybe, Geoff, you're best placed to give an overview.

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

I guess, if I think about it, I'm not sure that a whole lot did change from the guidance that we're trying to give you. I think the year came in roughly where we thought it would, and not sure that the outlook changes significantly from where we were. Sorry, you had something else to -- trying to pick apart the licensing, the licensing side of things?

Simon Fickling - *Exane BNP Paribas - Analyst*

Well, a strong Q4 and then some inventory build ahead of expected strong start to the year, just --

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

A lot of the inventory in the working capital build was really due to the strong fourth quarter that we had, and some of the inventory build is just our expectations of what's coming along for us.

In terms of the licensing, yes, that didn't really feature prominently in the fourth quarter and, as I think we've noted just from the number of licenses we've sold, we don't expect great recovery of that any time soon. But going for this year, we're probably expecting that the number of licenses we sell will be more in line with what we've seen kind of the average in the past. So a bit of recovery, but I wouldn't expect a huge amount of cash from that straight away.

Simon Fickling - *Exane BNP Paribas - Analyst*

Right, thanks.

Oliver Reiff - *Deutsche Bank Research - Analyst*

Oliver Reiff, Deutsche Bank. Could I just ask one question on HDD in China and what you're seeing in terms of momentum on the ground, post clean -- low sulfur fuel being available since January 1 this year, and whether you're seeing gearing up or acceleration in uptake or fitment of catalysts? Thanks.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

John, do you want to take that?

John Walker - *Johnson Matthey Plc - Executive Director, Emission Control Technologies*

Yes. I think this year, so far, has been kind of a consolidation of a lot of the new legislation that Beijing, in particular, has and national standards that they're working on, and it's all been changing, changing, changing. This week, Beijing announced that, as of two days ago, June 1, they were going to implement Beijing 5, and they also announced strict enforcement of the regulation.

One of the things that happened on the light duty side of things in the past was the enforcement took about three to four years after the implementation of the legislation. So in my opinion, the Chinese Government is really starting to get organized to be able to tackle the problems that they have in air pollution, and things are really starting to come together.

The nationwide standard for the nationwide equivalent of Euro 5 looks to be coming out in January 2018. And the fuel, as you talked about, is going to be available -- is available now in 10 provinces, and then starting from January 2017, all that cleaner fuel will be available nationwide. So that's happening. And then Beijing 6, it also looks like they're going to pull that forward.

I think directionally, things are looking good, we're still -- when is that going to flow through into our numbers, probably might be another couple or three months to six months. But it's happening and it now looks like they're organized to be able to make it happen.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

What's encouraging is the enforcement because it's all very well having legislation, but if you don't enforce it then some people don't fit it, so that's encouraging.

Oliver Reiff - *Deutsche Bank Research - Analyst*

Thanks.

Joe Dewhurst - *UBS - Analyst*

Joe Dewhurst, UBS. I've got two questions; one on performance technologies and the other around the packaging acquisition. But first of all, on performance technologies, with the growth in the oil and gas, first of all with that 10% growth, how much was the hydrogen and FCC? And then how much of the FCC is maybe linked to some of the sharp or reasonable increases we've seen in miles driven, particularly in the US we're seeing a pick up there?

And then just on the packaging, with the acquisition now, where do you see that eventually going? Do you see yourselves eventually being something like a Tetra Pak, or is it effectively selling equipment and ideas or just out-licensing for food packaging or packaging in general? Thank you.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

Okay, I'm going to delegate both of these questions I think. So Geoff, do you want to have a go on the first one about the oil and gas business?

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

On the FCC additives part of process technologies, yes the refineries has typically, especially in the US, been running hard, so that is good for our business.

Sorry, I didn't quite understand the hydrogen part.

Joe Dewhurst - *UBS - Analyst*

Just what's the split, in other words the 10% growth how much was hydrogen versus the FCC?

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

It was roughly split between the two, so a very good year in hydrogen. Robert alluded to we had good success in new plant sales, Russia, Middle East, and then the additives was good as well.

Joe Dewhurst - *UBS - Analyst*

And then with the additives, this was then very much then correlated with the miles driven, so is it an end of the year kind of --?

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

A lot of it is based upon -- it's a number of factors; the pollution that they're trying to get at, how hard the refineries are running, some of the end products that they might try to preferentially make. So it's a cocktail of things that happen and we're in a pretty good space for that, right now.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

We do give you in the breakdown on the PT slide, I think on slide 23 if I can see it, we do give the breakdown between hydrogen and additives and I think we gave it last year too. You can see the relative growth between the two businesses.

Nick, do you want to talk about why we're not going to be Tetra Pak?

Nick Garner - *Johnson Matthey Plc - Division Director, New Businesses and Corporate Development*

We deliberately call this business, and we gave the update in January, atmospheric control, we're not going to be a packaging company. Johnson Matthey is about advanced materials, and atmospheric control talks about the ability to subtly absorb modified gases within a closed environment is what it's about.

Now you can do that as a package or something that goes in as an infill within the package, or integrate that within the packaging material itself. And this acquisition gives us some background and market access but also technology on film and film integration because it's an advanced film manufacturer.

So there's different routes to market, but in the end our core competency, and the value we bring to that problem of food wastage, is about advanced materials. And delivery of those will be through various routes, but we will not be a large film blower or cardboard folder. That industry is enormous, well served, and we would not bring any value to it, and so we're not going to go there.

Joe Dewhurst - *UBS - Analyst*

Okay. Thanks very much.

Charles Pick - *Numis Securities - Analyst*

Charles Pick, Numis. A couple of questions on the precious metal products division, please. You've given us a sales figure for the gold and silver operations; is it possible to give the EBIT that was included last year, and what the refinery intake volume decline was in that Q4 period? And also say a little bit more about the new products being development on the manufacturing side, please?

Just a couple on the ECT side; the margins down 60 basis points second half on first half, is there any particular reason for that? I think you've always emphasized Q4 is a very strong period for ECT normally?

And also the capacity use ratio there, I think a year ago you said it was about 70% for the 15 plants you've got, can you update that, please?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

I think you managed to get about six questions in one, which I think that's the record. Just briefly on PMP, the answer is yes, we could give you the gold and silver EBIT, we're not going to, sorry. But I think it is around GBP10 million; the exact number I'm not going to give you (laughter).

Refining volumes down about 10% in the fourth quarter, and some of the growth in new products in the marketing -- manufacturing area, it's a range of different things. We're looking at a whole range of different products in different areas, none of them are going to move the needle for you, I don't think initially at this stage. It's a range of different things, which will give growth when we get to year two and beyond, but it's not just one particular product.

John, do you want to talk about ECT?

John Walker - *Johnson Matthey Plc - Executive Director, Emission Control Technologies*

The first half, the second half, I guess you're talking about operating margin not sales margin. The operating margin, I think, was impacted by some of the things that Robert talked about. In the first half of the year, when we were taking some of our double layer catalyst and moving them to single layer catalyst, that effectively freed up production capacity at no extra cost.

We already had the people, we already had the plants in place and I think, progressively, as we went through the year you had less and less opportunity to be able to use that leverage that we had in the first half. Not to say that it went to zero, but it's been reduced, so I think that's what caused that first half/second half effect.

And then capacity utilization; fortunately or unfortunately, we added capacity in China right at the end of the year, so our internal published numbers didn't really move very much and we're still in the effective capacity utilization range of around 75%. But what has happened is that some of our factories have actually, due to these reasons of filling up that capacity through the year, a couple of our factories are now running in the 80% to 90% capacity utilization.

So when it becomes more clear what's going to happen on some of the gasoline filter business that we're going to have to think about over the next six to 12 months, we're going to have to think about whether we do need some additional capacity to make certain products.

Evgenia Molotova - *Berenberg - Analyst*

Evgenia Molotova, Berenberg. I had a question on Process Technologies as well, on licensing, because in the past years, you've benefited from strong capacity increase in oxo alcohols in China and you sold lots of licenses. So the recovery in a couple of years, is it predicated on new cycle of building capacities for oxo alcohols, etc., so the demand will be strong enough to absorb all the capacity that is built within two years? Or do you think that the new technology like VCM will pick up and this will bring you the growth?

And the second question on chemicals catalysts. You are not losing market share by any chance?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

When you say chemical catalysts, which bit do you mean?

Evgenia Molotova - *Berenberg - Analyst*

For chemicals; it's a general question. I'm not saying -- I just wanted to -- not oil and gas, yes it was in process technologies.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

I think I can answer the second one quite easily. I think the answer is no. Larry, do you want to, just to share it about a bit, do you want to have a go on licensing?

Larry Pentz - *Johnson Matthey Plc - Executive Director*

Sure. Your licensing question about oxo alcohols in China, as you see in any kind of petrochemical chemical, you will go through a bit of a chemical cycle with ups and downs. What we saw through the years with oxo alcohol is there was a great demand. Subsequently, then, new plant builds, i.e., licensing for Johnson Matthey [becoming involved] and that was a few years back you saw those. Now that capacity is on line, so supply and demand are in balance.

But that said, there is continuing growth happening in the oxo alcohol space, so we will see licenses; they will just come in a more controlled environment. So back to the guidance, at a general level, more around that eight licenses per year versus the peak numbers that we saw around fourteen.

Evgenia Molotova - *Berenberg - Analyst*

Thank you.

Peter Cartwright - *Fiske - Analyst*

Could you expand on the filters for gasoline, because [Ricardo] mentioned this yesterday, specifically with reference to China. Have you been caught on the hop, anything like that? Has it come out of the blue?

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

Can you imagine John being caught on the hop? John?

John Walker - *Johnson Matthey Plc - Executive Director, Emission Control Technologies*

Many of our customers have been worrying about that issue, or planning for that issue, for quite some time. And I think that timing is a little bit tight as China moves up the timing for some of the things that are going to require filters. But I think most of our customers have been on the plan there, and they're well placed to be able to hit the target. It's going to be tough, but I think they will be okay.

Peter Cartwright - *Fiske - Analyst*

What's this specific driving force for gasoline?

John Walker - *Johnson Matthey Plc - Executive Director, Emission Control Technologies*

For gasoline? What do you mean, what's this specific driving force for gasoline?

Peter Cartwright - *Fiske - Analyst*

As to why you have to fit filters to gasoline.

John Walker - *Johnson Matthey Plc - Executive Director, Emission Control Technologies*

It's all related to -- well, it's again health effects and ultrafine particles in gasoline vehicles.

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

People think that diesel is the only cars that produce particulate. Gasoline cars produce quite a lot of particulate too; it's just much finer and so you can't see it. So now what's happening with regulations, and that's what 6c is all about here in Europe too, it's about reducing the number of particulates in the atmosphere from both diesel and gasoline cars.

Peter Cartwright - *Fiske - Analyst*

So they're both going to be banned then (laughter).

Robert MacLeod - *Johnson Matthey Plc - Chief Executive*

Any more? No? Well look, thanks very much for coming indeed, and we'll see you again in six months' time. Thank you.
