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# EDITED TRANSCRIPT

JMAT.L - Full Year 2016/17 Johnson Matthey PLC Earnings Presentation

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JUNE 01, 2017 / 8:30AM, JMAT.L - Full Year 2016/17 Johnson Matthey PLC Earnings Presentation

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## PRESENTATION

**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

We're good to go, and welcome to Johnson Matthey's full year results presentation.

We'll follow the normal format today of Anna and me giving you an overview of the results and the outlook and then take your questions afterwards.

So on to our results.

First of all, I thought it's important to provide some context. This has been a year of building upon our core strengths and leadership positions by strengthening our business and implementing our strategy. We delivered financial results, in line with our expectations, with a much stronger second half. The cost savings identified at the end of the last financial year were delivered. And further actions will be taken in 2017/18, generating additional savings of around GBP 25 million in a full year and GBP 10 million in 2017/18. And we continue to invest in the business to position us to deliver future growth, with R&D of GBP 201 million, around 5.6% of sales; and capital expenditure of GBP 265 million, which was 1.7x depreciation. Despite this investment, we are cash generative and have a strong balance sheet, leaving us well placed with a strong platform for future growth.

So now looking at the headlines of our performance. Anna will talk you through the detail in a minute.

But firstly, on health and safety. Unfortunately, we saw our key health and safety metric worse in the year with 0.49 lost time incidents per 200,000 hours worked. This compares to a rate of 0.37 last year. This was disappointing, and it's not good enough, so we are taking actions to improve our performance.

Moving on to our financial performance. Our published results clearly benefited from the impact of foreign exchange translation, but at constant rates and for our continuing businesses sales were up 3% and underlying operating profit was flat. Our performance was much stronger in the second half. Then for the year as a whole, we delivered growth in underlying EPS of 17%, although most of that increase related to foreign exchange. Our working capital improved substantially to 54 days. And finally, we've announced a 5% increase in this year's dividend, demonstrating the board's confidence in the prospects of the group in the medium and long term.



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Our performance is improving, and this momentum will be carried into next year. During the year, we took decisive action to change the business and drive further improvements in our cost efficiency, and we expect to make additional savings in the year to come. And we are driving improved functional excellence in areas such as procurement.

Now to pass to Anna for the financial review.

**Anna Manz** - *Johnson Matthey Plc - Group Finance Director*

Thank you, Robert. And good morning, everyone.

This year's results and especially our second half performance reflects the work we've done to strengthen our business, implement our strategy and deliver results in line with the guidance we gave you at the interims. That work includes our renewed focus on 3 areas that I identified at the interims: rigorous resource allocation, disciplined management of working capital and an increasing efficiency in our business processes. Whilst this is work in progress, we've already made a strong start, and it's contributed to the momentum you see in our second half performance. So let me take you through the results in detail.

Our guidance was for profit before tax at constant rates to be slightly ahead of last year, and that's what we've achieved. Our results benefited from foreign exchange and an improvement in our underlying performance. We held finance charges flat. And while our tax rate increased by a percentage point, earnings per share was up 17%. In the subsequent slides, I'll be describing performance at constant rates for our continuing business, starting with sales.

Sales in the second half were up 6%, following a 1% decline in the first half. As we expected, Process Technologies had a strong second half improvement benefiting from the recovery of orders in our catalyst business. Precious Metal Products also delivered a significant improvement, reflecting higher average pgm prices as well as the work that we've done to improve the efficiency of our refineries.

Moving to operating profit. As you can see from this chart, foreign exchange translation benefited operating profit by GBP 69 million, while the disposal of our Research Chemicals business in September 2015 reduced operating profit by GBP 8 million. We held underlying operating profit flat in the year at GBP 513 million, but there were a number of movements within this, and I want to take you through them individually. We benefited from a one-off noncash credit of GBP 17 million as we implemented an inflation cap on our U.S. postretirement medical benefit plan. This mainly impacted the first half. While the credit will not reoccur in 17/18, we will benefit from lower costs on an ongoing basis. However, in 17/18, the service costs of providing post-employment benefits are expected to increase by GBP 12 million. The postretirement medical benefit credit was largely offset by the year-on-year movement in share-based payments. Last year, our performance was not in line with our long-term incentive targets. And therefore, a credit was released to the P&L in 15/16, which we lapped this year. Based on current projections, we do not expect a material change in share-based payments in 17/18.

Cost savings in the year have underpinned operating profit despite the pressures on our Fine Chemicals and, to a lesser extent, Process Technologies businesses, which drove the decline in underlying business. We delivered GBP 26 million of additional cost savings as anticipated, bringing the total cost savings from our 2015/16 restructuring to GBP 34 million. As you will have read in our announcement this morning, we are targeting around another GBP 25 million of further cost savings, which achieved would bring our total cost savings to nearly GBP 60 million. I currently expect to deliver an additional GBP 10 million of this benefit in 17/18, but our journey doesn't end here, and we will continue to examine further ways to increase the efficiency of our business.

As this chart shows, we delivered a significant improvement in operating profit in the second half. The first half was down 3% despite the GBP 17 million U.S. postretirement medical benefit scheme credit. In the second half, costs of share-based schemes were up GBP 8 million year-on-year, and we delivered an additional GBP 9 million of cost savings against the prior year. And therefore, it was significant underlying performance improvement delivered by each division which drove the second half growth.

So let me start with ECT. Sales in ECT were up 4% for the full year, outperforming vehicle production in the majority of the markets in a year which had limited changes in legislation. The biggest driver of growth was sales in our higher-value light-duty catalysts in Europe across both diesel and



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gasoline. Euro 6b was fully phased in, and car companies have begun to respond to real-world driving emission standards. In addition, we benefited from the business wins that we have already secured. We had a strong performance in our Asian light duty business, and it will be an important driver of future growth. Light duty in the U.S. was weak. And the heavy-duty diesel business declined, held back by the weak truck market, particularly for the larger Class 8 trucks. So although our U.S. heavy duty business outperformed, it was down significantly. This is a cyclical market. And on the back of recent improvements we are seeing in our order book, we expect Class 8 truck production will stabilize in the first half of 17/18. Sales were also well ahead of vehicle production in our heavy duty businesses in Europe and Asia. In Europe, this was driven by sales of higher-value technologies. And in Asia, we saw particularly strong growth in China. And we won new business with local manufacturers following the enforcement of the new truck loading limits.

Operating profit was up 2% as margins were maintained at around 14% despite higher initial manufacturing costs associated with producing the more advanced catalyst systems which were key to our business wins. As we increase production over the next 2 or 3 years, these costs will reduce. In the year, they were partially offset by the one-off credit for the U.S. postretirement medical benefits. I expect continued good growth in this division and margin to be broadly maintained. Growth will be driven by tightening European and Chinese light duty legislation and the very strong pipeline of business wins that we've already secured.

Moving to Process Technologies. As I've shown on this slide, our Process Technologies business has 2 parts: firstly, sales relating to the construction of new plant capacity, that's new licenses, the first fill of catalysts, and our Diagnostic Services business. These sales are cyclical. At the top of the cycle, we benefit as manufacturers build capacity, but this year, sales were down in line with the market. Secondly, ongoing sales of refill catalysts and additives into existing plant capacity. Here we saw steady sales. While refill cycles have lengthened in some sectors, our performance was a result of our leading technology and our ability to respond quickly to our customers. The division now produces specialty zeolites for our ECT division, delivering synergy and advantaged technology for the group as a whole.

Despite flat sales, operating profit was up 9%, as we delivered savings from last year's restructuring program. In 17/18, we're not expecting a recovery, as license revenue will continue to be subdued.

Sales growth in Precious Metal Products was 6%, again following a strong second half. This was driven by higher pgm prices, especially for palladium; and improved efficiency of our refineries. Our Manufacturing businesses saw steady growth as we operate in more mature markets where we've got strong positions. Operating profit was up 17%, driven by the strong sales growth in the second half. In 17/18, many of the improved trends we saw in the second half will continue, but operating profit growth will be held back by lapping the one-off credit relating to the U.S. postretirement medical benefits that was recognized this year.

Sales in Fine Chemicals were up 1%. This is an attractive sector, and we have the specialist skills, science and capabilities to succeed. However, when a generic drug is launched, life cycles are short, and trends will be volatile until we build scale. This year, our new active pharmaceutical ingredients or APIs have made a strong contribution, but this was offset by lower sales of APIs for ADHD treatments. Lower sales of some of these higher-margin ADHD APIs impacted our operating profit. In 17/18, we expect sales growth to improve and operating profit to grow. And we will continue to build a strong pipeline of products and develop our API portfolio.

Moving to New Business. In the year, growth has been slower due to the changes in Chinese tax credits for electric vehicles. The uncertainty surrounding these changes has impacted the LFP market, and we expect this to continue into 17/18. Whilst we will make progress in the profitability of these businesses in 17/18, the uncertainty in the LFP market is likely to continue and impact operating profit. We've continued to develop our presence in nickel rich high energy battery technology, leveraging our existing capabilities in nickel. And I'm really pleased with the speed of our progress. Robert will cover this further later.

Moving back to the P&L.

The finance charges reduced slightly in the year. The finance charge for post-employment plans was lower, partially offsetting a higher interest charge due to foreign exchange and higher average net debt. I would expect finance charges to be broadly flat next year. The tax charge increased as a result of higher operating profit and the increase in the tax rate to 17%. We currently expect the tax rate to be around 18% next year.



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Underlying EPS grew 17% from 179p per share to 209p per share. Foreign exchange was the main driver, but the reduction in the weighted average number of shares as a result of share consolidation also benefited EPS.

Free cash flow was GBP 230 million. And within this, we had a working capital outflow of GBP 27 million. In a year when FX had an impact of GBP 139 million and the phasing of our sales into Q4 drove higher year end receivables, this is a strong performance. Working capital management is 1 of my 3 focus areas, as it's the biggest lever in delivering consistent cash flow. There are still areas for improvement, but I am pleased with the progress that we've made. At the end of the year, working capital days, excluding precious metals, reduced to 54 days from 69 at the half year. I expect to sustain our performance within the 50 to 60 day range. However, it is even more important to achieve this throughout the year, as this year our average working capital days were well above. Driving working capital efficiency day in, day out will improve the consistency of our cash generation.

Moving now to our strong balance sheet.

Adjusting for FX, net debt has fallen by GBP 53 million in the period given our strong cash flow. Net debt to EBITDA is 1.1 times, and our policy is to be within the range of 1.5 to 2 times on a sustained basis. Return on invested capital was 18.2%, around a percentage point ahead of last year largely due to the impact of foreign exchange translation. This is well ahead of our pretax cost of capital, which is 8.4%. We have a return on invested capital target for the group of 20%. Rigorous resource allocation, disciplined management of working capital and increasing the efficiency of our business will support our ambition for sustained improvements in our return on invested capital.

Turning now to the dividend. The board is recommending a final dividend of 54.5p. This 5% increase is in line with the interim and brings the total dividend per share to 75p for the year. This reflects our confidence in the medium term prospects of the group: stronger top line, efficiency across the business, investment for growth and consistently strong cash generation.

So pulling it together.

We have generated momentum in our underlying performance with stronger sales growth in the second half, and we're confident that we can deliver similar sales growth to the 6% in 17/18. In 17/18, we will have operational momentum. And we are targeting further cost savings of GBP 10 million, predominantly benefiting the second half. However, there will be no U.S. postretirement medical benefit credit in 17/18. And remember that this benefit was all in the first half, and noncash pension charges to operating profit will be higher due to the lower discount rates. Together, these amount to GBP 29 million, which will offset our improved operational performance and additional cost savings.

Before I hand back to Robert, I want to spend a few minutes on my last 6 months. I joined JM because of its strong market positions underpinned by leading edge science, and I'm even more confident of that now. Investment through CapEx and R&D has strengthened our science, and we really do deliver solutions for our customers, but improving our performance means that we also have to improve other capabilities. Our strategy is to turn great chemistry into world-leading products, but we have to increase our ability to do that efficiently. My 3 focus areas will contribute to this. Deploying our cash, whether it's CapEx, R&D or discretionary spend, requires discipline; and this discipline needs to be underpinned by rigorous analysis. We're investing in IT, our processes and in additional talent to ensure that we can enable consistent data-driven resource allocation to drive growth and improve returns. This year, our disciplined management of working capital has led to a reduction in working capital days. This business can deliver strong cash conversion on a consistent basis, and we will maintain our focus on working capital throughout the year. We will continue to benchmark all of our activities to identify opportunities for efficiency. This year, we had an additional GBP 26 million of efficiency-driven cost savings following from the GBP 8 million we delivered last year, and we're targeting a further GBP 25 million of annualized savings.

And now I'll hand you back to Robert.

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**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Thank you, Anna.

And now to give some further details as we look ahead.

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I want to start by talking about some of the substantial changes we have made to our organization in the last few years. JM has always been about great science and products that meet our customers' needs, but in a more complex and farther -- faster-paced world and with the increased scale of JM, that is not enough. We need to drive performance much more deliberately, running our business more efficiently and allocating capital appropriately. To do this, I'm putting in place a really strong and experienced management team. In the last 2 years, I've welcomed Jane Toogood, Alan Nelson and Anna Manz to our group management committee. And shortly, we will welcome Matthew Harwood as our Chief Strategy and Corporate Development Officer. He has strong strategy and market development experience. And of course, we will further upgrade the team when we appoint a new head of our Health sector with deep sector experience from outside JM to drive this very important part of the group. That appointment will complete the leadership team to move JM forward. In addition to these changes, around 1/3 of our wider senior management, those who report into my leadership team, has changed over the last 3 years with the combination of talent we have developed in house and many recruited from outside JM. We have great people inside the company, but now when we promote internally, we are also benchmarking against the external world. This new team is already making a significant impact, which you're beginning to see.

It is vital to ensure that we optimize our investments. And to do that, we are putting in place much more rigorous capital allocation processes. This is supported by an essential and long overdue increase in investment in our core processes, including IT, governance and compliance. While making these changes, we have kept strong local accountability at the sector and business level, but this local accountability will be against standardized data and performance metrics as we look to maintain agility and accountability but also drive greater synergy across the group. Finally, we are targeting functional excellence in areas such as procurement and commercial. So a lot of work to prepare for the future. I'm going to take you through some of these now. And in the Capital Markets Day in September, we will provide more detail to build on this.

To reinforce the changes we are making and to better align our businesses upon the global megatrends, we will change the group structure. Therefore, going forward, as you can see, we will have sectors aligned to these global priorities. So ECT becomes Clean Air. And John Walker, who most of you have known for years and is doing a fabulous job, will continue running this business. Process Technologies and Precious Metal Products are combined, except for medical device components, to create our Efficient Natural Resources sector. This will be run by Jane Toogood, who joined JM last year. Fine Chemicals becomes Health, except for our Catalysis and Chiral Technologies business. I'm currently running this sector, which is giving me a great opportunity to get even closer to the management team and the drivers of the business, which is adding to my optimism about what the business is capable of achieving in the coming years. And our New Businesses become New Markets, with Alan Nelson continuing to run these alongside his role as Chief Technology Officer.

So with these changes and the new organization, we are aligned to drive stronger performance in line with our refreshed brand identity, "inspiring science, enhancing life."

As I've already said, we are a high quality science led company, and that is something that we can be incredibly proud of. It is this that gives us our leading positions. Our particular areas of competitive advantage come from our deep capabilities in material characterization and testing, pgm chemistry and metallurgy, material design and engineering and surface chemistry. We build on these capabilities with how we apply them to solve our customers' problems. We do this through our experience in the provision of customized solutions based on our customers' needs. The development of new and next generation products, this is fundamental to our business, as standing still is never an option as we have to keep ahead of our competitors by moving our technology forward all of the time. And of course, scale-up of complex manufacturing. Making a product in the lab is all very well, but to sell commercial quantities, we have to scale-up the manufacturing process, taking our chemistry from the lab to market. Taken together, our science and how we apply it to solve customers' problems, this is what gives us a differentiated position. These provide the common thread across JM and do not need to change materially. We are very good indeed today. Having said that, we have to keep building upon them. This is something that we have done over the lifetime of JM.

Now for some detail of the key growth areas ahead of us by sector.

Firstly, Clean Air. This sector clearly focuses upon the global need for improved air quality. Tighter CO2 emission standards and an increasing focus on emissions generally in big cities is requiring significant changes to the powertrain from automotive OEMs. And of course, emission control is in its early stages in emerging markets. We are very confident that the increasing focus on air quality in Europe will drive growth in our European light duty business in the medium term. There are also significant growth opportunities for us in Asia. We are well aware of the potential changes to the automotive powertrain over the next few years. And to ensure that we can continue to drive value for shareholders in the long term, as well



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as to meet our customers' requirements, John and his team are building a much more flexible and efficient business to give us the ability to manage through these changes in the most effective way.

So let's look at our North American and European business in more detail. Firstly, our European light duty business. As you know, we have a strong position in diesel catalyst systems in Europe. This strength is the result of our strategy to pursue the highest value opportunities. We focused our R&D resources and development spend on catalyst systems for diesel cars; and won more than our fair share, thanks to our excellent technology and R&D teams. That investment has had higher returns, as Anna showed when describing ECT's results.

It's worth talking specifically about diesel here just for a minute. Diesel's share of total production in Western Europe was 51% for 2016/17, but this figure includes light commercial vehicles, which are likely to stay diesel for much longer. If we were to exclude these vans, the diesel share of cars was around 45%. As we all know, diesel's share has trended down gradually over the year, but recent trends have seen much sharper reductions, so what are the consumers moving to? For smaller engines, which of course have smaller catalyst systems and hence are of lower value to us, the shift away from diesel has happened already. For larger cars, the move away from diesel is happening more slowly. Should consumers move away from large diesel cars, it is highly likely at least in the medium term that it will move to gasoline cars instead. These will be quite large cars, and therefore they will have more valuable catalyst systems than the current smaller gasoline ones, firstly, because they are larger but also as they're more likely to require gasoline particulate filters to satisfy the requirements of Euro 6c under real-world driving standards. We have already started to evolve our R&D focus by putting more resources into systems for gasoline vehicles. We have made some early business wins for new Euro 6c systems, and I am confident that we will win a similar share in the gasoline market as we currently have today in the diesel market.

The huge change in the environment in Europe recently has meant that we've had to introduce many new products very quickly to satisfy our customers. This has stretched our R&D as well as manufacturing teams. We've had to be very agile, learning quickly, as requirements have changed rapidly. We've learned a huge amount about our business during this period, and this sets us up well for the future in this fast-moving world.

So what does all this mean for our business in Europe? In the medium term, our European light duty business will continue to grow strongly, supported by new business wins in both diesel and gasoline, with these platforms already secured; tighter legislation; and the increased focus on tighter emissions from OEMs, where they are moving beyond the minimum regulatory requirements. While maximizing growth from these opportunities, we are investing ahead of the changes in the powertrain landscape. In Europe, we need additional capacity to meet our expected production requirements. To satisfy this, we are building a new plant in Poland, which will start production in the second half of 2019. This will provide additional highly flexible and efficient manufacturing capacity to our European footprint. And we're driving operational efficiency across the business by creating a single global supply chain. As a result of all these moving parts, we are confident that our light duty European business will grow profits over the medium term in all presently foreseeable scenarios.

Outside of Europe, a recovery in the U.S. Class 8 truck market is expected to happen this year, and the early signs are encouraging. And our heavy-duty diesel business across Europe and North America is expected to perform well.

Looking to the long term, the importance of air quality remains a focus. We are investing today to make sure that we have a flexible cost base and manufacturing footprint so that we can respond to changes in the external environment very quickly and maximize the value of our business for shareholders.

Now looking at our Asian business, which are currently around 20% of our Clean Air sector. This proportion will grow over time given the growth potential ahead of us, particularly in China and India. We have great businesses in both countries and are winning contracts with local manufacturers as well as our international customers too. Both China and India are moving to tighter legislation and will have Euro 6 equivalents for both light and heavy duty by the early 2020s. We conservatively believe that the move in legislation will more than double the size of our Chinese and Indian businesses, where our growth in China is most important.

Moving on to our next sector, Efficient Natural Resources. The growing population and the need to use fewer of the world's natural resources plays to our strengths. Key raw materials will come under greater pressure as populations expand, and world energy consumption will increase by over 1/3 between 2014 and 2035. This sector is all about helping our customers make more efficient use of scarce natural resources, including of course JM ourselves, as this sector supplies the rest of the group with a number of key raw materials and intermediates. Jane Toogood will bring renewed



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focus across these markets. And we will think about this sector as a whole when we consider our manufacturing footprint and where we spend our R&D.

The chemicals market is relatively weak at the moment, particularly in new plant builds, but these markets will come back once the surplus capacity that is available today is used up. And we have continued to invest in R&D through the cycle to ensure we are well positioned when the recovery comes. On the other hand, our Oil and Gas business, if we exclude Diagnostic Services, is performing well. Jane has only just taken over running this sector. Before then, she and her team had already done some great work in improving the performance of our Precious Metal Products division. In particular, they have improved the management for our pgm refineries and are focusing upon how we run them more efficiently. This is yielding benefits, as you can see in our results. In addition, our pgm manufacturing businesses continue their solid performance. Finally, we took significant cost actions last year. And given the market conditions, we continue to look to drive down costs and create further efficiencies.

Moving to Chemicals. In recent years, we have suffered from a sharp reduction in demand for new licenses, which are directly linked to the level of new plant builds. We don't expect demand to return for a few years, and that is why we took the cost actions we did last year. However, our refill catalysts and additives business is over 3x the size of our licence business, and it remains relatively stable. So given this backdrop, we will focus upon delivering operational efficiencies in coming years whilst maintaining our competitive advantage in our existing technologies. Jane will be leading a review of her new businesses to identify additional growth opportunities, but in addition, we have recently started a detailed strategic review of our Diagnostic Services business.

Moving on to the next sector, Health. The need for improved and lower cost healthcare for an ageing and growing population will drive growth in this sector. As we all know, the world's population has continued to expand and age. This is increasing the prevalence of chronic diseases and putting pressure on healthcare costs. This and the need for increasingly personalized treatment is driving a trend to more complex niche drugs that play to our strengths. We have a strong set of core capabilities. And I'm very excited about the growth opportunities that lie ahead of us in this market, which has good, long term growth potential. Over the last few years, we have increased our level of investment to expand our business and most importantly our future API product portfolio. This portfolio of opportunities has a longer lead time, but we are building increased confidence in the future growth of this business. In the meantime, we're also driving improved operational efficiency through looking at ways to use our manufacturing footprint as efficiently as possible and using cheaper raw materials.

We are currently too small a player in what is a huge market which is growing at mid to high single digits. The pie chart here shows the current split of our business. As you can see, it shows our historic focus on treatments for ADHD and opiate-based painkillers. In recent years, we've been expanding our portfolio, and an early proof of this is the launch this year of dofetilide. We're also expanding our contract development and manufacturing business. We continue to develop our site in Annan, which will give us increased capacity but also allow us to manufacture certain products much more efficiently. We are making validation batches now and will be transferring the manufacturing of bulk opiate products from Edinburgh to Annan over the next 18 months or so.

My main focus is to grow this business. A key growth driver for the medium term is the development of our API product portfolio. We have a pipeline of over 40 products in various stages of development, with a wide range of potential opportunity. This is vastly more than a few years ago, where our pipeline of new products probably numbered less than 5. Of these new products in the pipeline, over 10 are expected to launch in the next 3 years. And by then, we expect to have submitted over 20 additional filings to the FDA. The financial benefits from these launches will take a few years to be fully felt, but when they do launch, our larger portfolio will smooth the variability in our trends that Anna explained to you for the year just gone. Historically, this business has been run in an isolated manner, but our Health sector has and uses the same core capabilities I described earlier. This gives us clear opportunities to drive potential synergy across the group.

On to New Markets, looking firstly at our alternative powertrains business, which includes Battery Technologies and Fuel Cells; and of course, aligns with our Clean Air focus. We have a strong position in high power LFP materials and have broadened our portfolio this year into high energy nickel rich materials. We acquired 2 licenses in this space last summer and are actively developing new products. We are making good progress, with samples already taken to potential customers. And we have made faster progress than I had originally anticipated given the deep understanding in Efficient Natural Resources of nickel based chemistry. And we have reallocated nearly 30 people from across the company to this area. Also, our Fuel Cells business has seen significant improvement; and is moving towards breakeven, which we expect to achieve this year.



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In other potential new markets we are looking into areas such as agrochemicals and medical device components, both of which where we have existing market entry points. These also fit within our overarching areas of focus.

As you know, we have strict capital discipline throughout the group. We will constantly assess the businesses within this sector. If they work, we will invest accordingly but only at the right time once we are confident in the business model and the levels of return that are achievable to shareholders balanced against the opportunities elsewhere in the group. If they don't, we will exit quickly. Clearly, when these businesses reach a degree of maturity, they will move into our core sectors to drive further operational synergy. In the meantime, at a commercial level, these businesses are working across JM to take advantage of customer relationships and technology expertise.

Finally, these charts show the split of R&D and capital expenditure across the business over the last few years. Historically, capital allocation has been done by division, but we are now looking at these investments across the group to optimize the allocation of resources. Firstly, looking at R&D, we need to ensure that our R&D spend is driven by longer term market needs, insight driven, rather than spending too much on reactive, short term customer need. You can see here that we have increased our level of spending in Health over the last few years whilst constraining Efficient Natural Resources for obvious reasons. We have continued to have relatively high levels of capital expenditure in 2016/17, which is required to drive future growth. Going forward into 2017/18 and beyond, we intend to continue the investments we are making in our core business systems and developing our API product portfolio, but we will also start to see this -- we also see the start of our spending on the new auto catalyst plant in Poland.

So to conclude.

Our strategy and focus within the business is strongly aligned with the global growth drivers. And after some substantial recent change, I'm confident that we have the right leadership team to drive Johnson Matthey forward in the years ahead. We expect good sales growth in 2017/18. Whilst operating profit is expected to grow in our underlying businesses after taking account of the additional cost savings, it will be held back to broadly flat given the noncash items Anna set out. Notwithstanding that, we are focusing upon driving cost efficiency across the group and improving functional excellence. Beyond next year, growth will be stronger as the actions we are taking build on the improved momentum we are seeing across our business and drive expansion in margins.

Clean Air will remain a key growth driver over the medium term, driven by the need to enhance air quality. And we are evolving our business to ensure that we have the right level of flexibility to adapt our business to the gradual evolution of the powertrain over time. Our Efficient Natural Resource sector is well placed to take advantage of a recovery in the chemicals market. As you have heard, I'm excited by the prospects for our Health business. And we continue to invest, like we have always done, in potential new markets for the future. And in particular, I am pleased with the progress we've made this year in developing new, high nickel battery materials. Of course, all of this is supported by our focus on working capital management and capital discipline. And our balance sheet is in great shape, giving us the flexibility to accelerate opportunities that we see.

So thank you very much for listening. We hope to see many of you on the road in the coming weeks. Now I'll invite John and Anna up to the stage. And remember we've got the rest of my management team in the front row. And we'll move on to take your questions.

## QUESTIONS AND ANSWERS

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Okay, who is going to go first? First one I saw was at the front. If you could state your name and [throw] your question.

**Martin Christopher Dunwoodie** - Deutsche Bank AG, Research Division - Research Analyst

It's Martin Dunwoodie from Deutsche Bank. And if I can touch on 3 things. Firstly, a lot of focus, for obvious reasons, on the Battery Materials business. If we can start with 2 on that and then maybe 1 on acquisitions. Firstly, where do you think you are on NMC technology versus peers? I



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know you said you've accelerated a lot in the last year, but are you -- do you think you're behind peers? Or is that a broadly equipment technology you have? And then secondly, you have material out with customers. I guess we're going to hear an increasing amount of news flow over the coming period. When do you think you're going to start bidding on platforms with customers and we'll hear some news about success on that potentially? And then the third thing, on acquisitions. You obviously have a very strong balance sheet. We're in a very -- or we're in an environment where there's a lot of consolidation within the sector, but what's your view on acquisitions and maybe where you see the scope for you to improve your portfolio or strengthen it in that regard?

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**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

Okay, thanks for the questions, Martin. I'll start with the last question, about acquisitions. Then I'll hand over to Alan, who will talk about batteries, but -- so perhaps if you could hand the microphone back, he'll be able to answer that one. Look, acquisitions, we'll do when they make sense, when they add value to the shareholders. We're not about adding scale for scale's sake. It's about driving value. Clearly, we look for acquisitions across the group. I'm not going to go into any details today, as you wouldn't expect me to, but it's all about driving value. We're -- we've got very good market positions today, but where we can see opportunities, we will access them at the appropriate time, if we see things that make sense. On batteries, Alan, do you want to answer Martin's questions?

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**Alan E. Nelson** - *Johnson Matthey Plc - CTO and Division Director of New Businesses*

Sure. Thanks, Martin. So on the technology side of things. So as Robert had mentioned, last year, we acquired 2 technology licenses for NMC and, broadly speaking, high energy nickel based materials. What that effectively gave us was a composition of matter, if you will, space that go out and to manufacture those materials. What we've done over the past 6 to 9 months is bring that technology in-house. And as Robert had mentioned, leveraging the broad science and technology base all the way across JM, we've accelerated the development and commercialization of those materials. And then by doing so, we've created materials that in our hands, benchmarked against industry samples, industry materials, actually outperform what we see in the marketplace today. So we're further validating that. We do have multiple samples in multiple customers today to go in and do additional testing and screening on that, to do further validation work and benchmarking of those materials. And we're actively looking at how we can accelerate the scale-up and commercialization; manufacturing, if you will, of those materials as well.

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**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

So I think -- to answer the question in another way as well. I think we feel like, from a technology point of view, using our deep core capabilities and the science, we are there or thereabouts or in some cases ahead, from what we can see. But clearly, in the market point of view, we're a little bit behind, and so then we need to get those materials with customers and then get them on to platforms. And that will take a little bit of time, as you can -- as you would expect, but we feel like we're making really good progress. Then here at the front now, if we could.

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**Paul Richard Walsh** - *Morgan Stanley, Research Division - MD*

It's Paul Walsh from Morgan Stanley. I wonder if I can just pick up on Martin's question, but I've got a different angle, if I can. My question is really are you convinced by the returns on invested capital that you might get on the cathode materials side. It looks to me to be a more competitive market, albeit growing strongly. Just wondering whether or not some of your reticence is driven by capital allocation decisions and the fact that you might not see the same returns in that market as others, question mark. Second question is, given a lot of debate around diesel penetration is a kind of terminal value debate, and I hear what you're saying about the medium-term growth prospects, can you just quantify for us the level of profits you currently generate from the diesel market or some kind of steer around that; and how you would see that being offset in a world where you either went more into EVs, pure EVs or hybrids or more complex like petrol vehicles? I think that's where a lot of the focus lies at the moment in terms of that transition of value. Because we talk about value and it's sales per vehicle, which is kind of meaningless, so really interested in the profit side, please.



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### **Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Yes, okay, you have just 3 questions. So I think I'll try and answer those. And maybe, Anna or John, if I don't do a good-enough job, you'll chip in. So look, on the cathode materials piece and returns, what I said about this sector, the New Markets sector, is when we see a business is successful, we will invest accordingly. Now for us, the position we're in today, we've got samples, as we said, out with customers. It would be wrong for us today to invest heavily in a new plant and move ahead of the curve just yet. It -- that wouldn't be right. When we win business, we will look at the investment. We will look at what the returns are going to be and then compare them with the opportunities across the rest of the group. It's too early to say today what the returns will be vis-a-vis the other opportunities in the group, but as you'd expect, we will allocate our capital in the most effective way for shareholders. That's our job. I can't say today where the returns will be, but we will look at it very carefully before we invest. On the diesel terminal value debate, look, I'm not, we're not going to give you a breakdown of where we make our profits. Sorry to disappoint you, but look, what we've looked at when we made the statements we did, we looked at the range of potential outcomes in the foreseeable scenarios. What we're seeing at the moment is, yes, a decline in diesel, but those people are moving -- we've already won a very significant share in the diesel market today but also in some of the Euro 6c systems which will go into larger gasoline cars. And of course, when we talk about sales value, the sales value which we'd historically talked about between a diesel car and a gasoline car is narrowing partly because of the Euro 6c fitments which should be going on to gasoline cars but also because the data we were giving you were averages. And of course, what you're seeing is you're going to see an uplift in the average value of gasoline cars as they get bigger, and therefore that will narrow the gap between the diesel and gasoline value. We're not going to give you the data because, of course, it is all averages and we'll see what happens with trends. At the same time, we're looking at driving our efficiency in our business. And we'll allocate, we already are allocating our R&D between gasoline -- more to gasoline, away from diesel, as you'd expect. We've been doing that already, John, for a few years. And of course, we'll look to drive efficiencies in our manufacturing. The Polish plant that we're talking about is needed for capacity in the short run, but going forward longer term it will be very efficient, highly flexible; and give there opportunities to adapt our manufacturing footprint accordingly. And taken all together, that's how we think we'll drive value for shareholders. Is there anything you want to add?

### **John F. Walker** - Johnson Matthey Plc - Executive Director of Emission Control Technologies and Executive Director

Just the only other thing that I would add to the flexibility, the Poland plant, is that it will have the capability to make gasoline and diesel and light duty and heavy duty. So all of our newbuilds have a lot more flexibility than some of the legacy production lines that we have.

### **Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Okay. Sorry, Adam. You've had your hand up right from the start, so why don't we -- who's going to go to that -- [Sylvia]. And there at the back there -- sorry. You get prizes for persistence, Adam.

### **Adam Robert Collins** - Liberum Capital Limited, Research Division - Analyst

It's Adam Collins from Liberum. So 2 areas I wanted just to discuss. First one, on Fine Chemicals, in the statement you referred to the fact that the U.S. drug enforcement agency has imposed tighter manufacturing quotas on certain controlled substances you've talked about at the half year stage. And you mentioned the fact there wasn't much of a decline in the last year but are hinting that there could be a substantial reduction in the coming year. Could you give us an idea of how much of the Fine Chemicals business is affected by those factors, the scope of the area; and also the degree to which you expect those quotas to be cut in the coming year? And then just going back to the sort of diesel profit exposure question. Helpfully, in the statement you've given us an idea of the European diesel revenues. You said they're 80% of Europe LDV, so overall I think we can work out that that's roughly 19% of group revenues. A few questions on that: Can you give us a sense of what the non-EU LDV exposure is in diesel non-Europe? Also, what's your base assumptions are in suggesting that the overall business will grow looking forward despite some attrition in this space? In the past, you've talked about a 200 basis point fall in diesel share in Europe roughly over 5 years. What is the new planning assumption? And then just finally, Robert, in the past, you've talked about the fact that there's a higher pass-through component in the diesel area because of the substrates that have brought in the filters; and alluded to that being a key factor in the revenue difference, the 5-to-1 split. Is this to say that, when we think about the margin in this space, we should be thinking about the margin being lower than the divisional average, lower than the 14% or so that the division reports? I would suggest that probably that is the case, but perhaps you could just comment on that.



**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

I've got to be impressed with the number of times you ask me questions to try and work out exactly the profitability of diesel, which I've already said we're not going to give you, so -- but good try. But Anna, I'm sure, will answer some of those questions in a bit more in a second, but the one thing I would say about, look, base assumptions, we didn't -- we don't have a single base assumption. Companies don't run on one basis. They run on scenarios. And we've run a range of scenarios. We've looked at what the scenarios out there in the market today. There are some quite wide ranges in the scenarios today. And we've also looked at more extreme scenarios beyond even further than the scenarios that other people have. And in doing that whole analysis, that's how we felt confident in making the statement we made just a few minutes ago, I made. So not one single scenario, a whole range. And of course, there's plenty of options and things that we can do to adjust our cost base; and the move into gasoline, larger gasoline engines; and of course, hybrids, which as we all know have emissions control systems needed, anyway. I'll -- well, should we -- do you want to answer any more on his question about profitability with diesel and the margins?

**Anna Manz** - Johnson Matthey Plc - Group Finance Director

No. I mean the only thing I would say is outside of Europe, in light duty, diesel is a small percentage of our business.

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

On Fine Chemicals and the quotas for opiates. I mean that did impact us at the end of -- in our fiscal third quarter. So normally, what happens with the FDA, they give quotas in a calendar year. And that's why actually it came back in the first quarter, and the quotas look okay for this year. The vast bulk of our opiate business is actually over here in Europe. It's where the majority is, which is less impacted by quotas. The biggest impact in our performance in the year just gone has been on the ADHD treatment, which was not a quota-related issue. So I don't think it's going to be a particularly material impact on the group. Who's next? Mel do you want to give it to Andrew?

**Andrew Gregory Stott** - UBS Investment Bank, Research Division - MD and Research Analyst

Andrew Stott, UBS. Can I start on operational gearing in ECT? Anna, you said in your presentation that there have been some extra costs with the -- I guess, the newer platforms, the newer chemistries. I just wondered if you could sort of quantify that in some ways. As we go forward, the operational gearing, does it go back to that normal 75-25 variable-fixed cost ratio that you've often talked about? Or I'm just trying to get my head around the margin for not this year but next. Number two, the cost savings of GBP 25 million for the group, do I assume all of that is process tech? Because that's how it sort of felt. Sorry, I've got another one. At fine chems, sort of really following on from Adam a bit, when you look at this year and your guidance for EBIT growth, I just wonder if you could just elaborate on the key components of that, please.

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Right, I think I'm going to ask you, Anna, to go for the first two, if you can. And then I'll -- actually, you can handle all three, if you like.

**Anna Manz** - Johnson Matthey Plc - Group Finance Director

Fine. So cost savings for the group, we haven't disclosed where we're taking them, in part because we have yet to announce what we're doing across our own business, so I'm not going to give you a lot of detail. But what I would say is that, of course, there will be some cost savings associated with putting the 2 divisions together. And clearly, we're looking for cost savings in areas of underperformance. And that's as much as, I'm afraid, I can share with you on that. On operational gearing in ECT, it's a tricky one because we have now a business that has a much wider range of products. And what we have is a number of new products that have had significantly higher costs for a period. I think the way to think about that is that they were offset this year by the postretirement medical benefit credit. Next year, we will see an improvement in that number, but it will take 2 to 3 years, a couple of years, to see that improvement fully coming through. Equally at the same time, we're looking for efficiencies across our business,



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which is why that we say that we hold our margin steady at the current level next year. And what was the last one? Fine chem EBIT growth. Yes, what's held our EBIT growth back or what's caused the decline this year has been the impact that we've seen in the performance of a specific ADHD API. And what's happened in the marketplace is our customer's customer, the distributors of these drugs, have consolidated. And in consolidating, that's put pricing pressure on our customer that's impacted us. The scale of that decline has predominantly impacted this year. It was offset by a number of launches and some strong performance in dofetilide and another additional API. So next year, you'll see less of a drag with respect to the ADHD API, but you'll see the rest of our business continue to perform. And that's what will deliver the EBIT growth.

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**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

Okay? Yes. Hand phone back.

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**Stephanie Bothwell** - *BofA Merrill Lynch, Research Division - VP*

It's Steph Bothwell at Bank of America Merrill Lynch. Just a point -- couple of points of clarification on PT. Within the release you comment on the negative trends within the licensing business. Can you just clarify whether or not you expect to see absolute growth in profitability within PT during this financial year? And the second question on that is on the refill business. And some of your key competitors are or have been commenting on an improvement in the underlying within that part of their business. I think in your release you said that you've seen broadly stable trends, so perhaps some additional color in terms of how the underlying business is shaping up there.

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**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

I think I got your questions. I'll answer the first one -- or the second one, first. I mean the refill business. I mean it kind of depends on which particular technologies you are talking about. I mean there's a range of -- we operate in a fairly narrow area of focus, principally in the sort of Syngas-related technologies which go into methanol, ammonia and hydrogen plants; and which is we have a fairly large share of that market. And so there's a sort of a -- there aren't many competitors in that space, but when you look at the whole broader market, maybe there are different dynamics in different areas. So we can only call what we see in our markets, which as I said is relatively stable. On the licensing business, look, it is all about capacity in the market. The market isn't dead. We are still winning licenses, granted not a huge number, and in some cases relatively small value licenses. But the market isn't dead. And it will come back sometime again in the future as that capacity is all used up. I'm not sure if that entirely answered your question (inaudible)...

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**Anna Manz** - *Johnson Matthey Plc - Group Finance Director*

I'm just going to add a little on that first one. I mean, if you think about the ammonia market particularly, it's been very materially down, sort of 20% plus, so the fact that we are delivering effectively flat refill catalyst performance means that we are collectively, across these markets, outperforming for a number of reasons. Pricing has marginally improved both in methanol and ammonia, so you could say that, that will lead to more rapid refills. We don't know. We'll have to wait and see if that comes through over time. These refills happen every 3 to 4 years so it's a kind of lumpy business.

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**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

So yes, it's coming to you on the -- on your left.

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**Sebastian Christian August Bray** - *Berenberg, Research Division - Analyst*

Sebastian Bray of Berenberg Bank. I would have 3 questions, please. The first concerns the underlying growth rate that you would expect to 2025 in Emissions Control Technologies. I think previously the guidance has been that you'd expect this business to grow around 7%, but you seem to



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have stepped away a bit from the 40% diesel market share in Europe that you previously guided to. Could you perhaps give a -- I appreciate you mentioned there was not -- perhaps no longer one base case, but could you say if you expect this business to grow at around 6% per annum to 2025? The second question is on batteries. Do you have a long term sales outlook beyond next year for LFP? And do you view this currently as a core division for Johnson Matthey? And finally, the third one, on Fine Chemicals, what is the time line that you would have in your mind to reach the scale required of this business? And are there any new product launches like dofetilide that are coming this year?

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Okay, so I'll go with Fine Chemicals, first. And then John, maybe you can answer the growth rate on ECT to 2025, which is you get to get your crystal ball out. On Fine Chemicals, the timescale to reach scale, look, where we are with this business -- and as I said, it's too small. I mean we're growing our product portfolio. We're doing a strategic review at the moment [that they're all] getting a strategy review of the whole business. And I think what that will do is it'll identify the opportunities much clearly for us going forward. I'm not going to give you a timetable about when we need to do -- when we need to get there. Obviously, it'll depend upon -- if there are inorganic opportunities, then maybe we'll -- that will help us get there quicker. In the meantime, these -- this portfolio of new APIs, some of them are more material than others. And then it will absolutely depend on their particular launch dates. Most of those 10 new launches I talked about in the next 3 years will happen in years 2 and 3. There's not many next year, and so it's weighted towards the back end of that 3-year plan. And of course, it takes time to -- for these things to come through because you've got to go through all the regulatory requirements through FDA, with partners and et cetera. So that's going to take a little bit of time before those come through and have really meaningful impact on the results, but we are -- the good news is we've got a large portfolio now which we didn't have before. On the battery side -- and I don't think we're going to go into a particular sales forecast for every particular material in the battery market. What we've always said, though, is that you need to have -- we believe we need to have a portfolio of different products. Having a single product, which is what we had before, i.e. lithium iron phosphate, I'm saying product -- class of products, is not what you need. You need to have a range of products because the customers will adapt their -- they'll change particular buying patterns and what they want, what materials they want, depending upon the price of those materials and what that might depend on and the commodity prices themselves. Because of course, a large part of the costs of the cathode material is the raw material that goes into that. So having a portfolio and a blend of materials, I think, is important. We still think lithium iron phosphate has a role to play in this market, but clearly for high range, high energy materials that's more around the high-nickel materials rather than the power applications. But that's not to say that lithium iron phosphate doesn't have a role to play at all in the market. John, do you want to talk about your crystal ball?

**John F. Walker** - Johnson Matthey Plc - Executive Director of Emission Control Technologies and Executive Director

Well, I think some more of my crystal ball. I don't think I'm going to give you a compound annual growth rate and confirmation or denial, but what I will do is invite you to our Capital Markets Day on the 21st of September. And I think we will give you a lot more clarity on long term plans then, but I think, if you go back to Robert's slides on the opportunities for growth -- for some of the growth opportunities I think listed out there, where we see several things happening in Europe: So there's opportunities with gasoline particulate filters coming in from next year, so starting in 2018. We are selling some now, but in terms of the beginnings of any real volumes, it starts in 2018. We have the recovery of Class 8 trucks. And so in the short to medium term, we have some drivers of growth in our business. Obviously, there's a lot of offsetting potential for declines in our diesel business that are very well publicized. We've run a lot of scenarios on that. And we feel comfortable with the flexibility that we have in the future; that we can cover off many of those things through the medium term, so through the 5 years of the plan. And then beyond that, we have opportunities in Asia that are coming in from -- beginning in 2020. And that's a 2-phased thing similar to the Euro 6 legislation that we've seen there, so it'll take a couple of years for that technology to ramp up. And then there's a second phase where the real-world driving stuff kicks in, and that kicks in around 2023. So I think, offsetting a lot of the negative stories, we've got a lot of positive growth drivers. And so yes. And I don't know if that answered your question, but again...

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

And I think -- yes. And I think we're very focused, very clearly focused on the bottom line, not just the top line. So it's around making sure that we have the right cost base, the right flexibility, the ability to adapt accordingly; and drive the efficiency for shareholders. And so top line is obviously



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very important, but what matters more, of course, is the bottom line. Next we go -- who wants to go to the front? Do you want to hand it -- thanks, Alan.

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### **Charles John Edward Pick** - *Numis Securities Limited, Research Division - Analyst*

Charles Pick of Numis. I'm afraid I've got 4 questions actually. With the new business division, as it stands now, it sounds as though the break-even target has been pushed out a bit. And related to that, is it possible to say a bit more about these changes to the EV tax incentives in China, please? And can you confirm too that the GBP 5 million impairment item last year related to Battery Materials? And an additional question, please, on ECT, the 13% constant FX growth for Europe last year for the LDV catalysts, is it possible to say what sort of order of percentage of that came from the RDE situation starting to apply? And the final one, Diagnostic Services: I seem to remember, a couple of years ago, it was in -- it was loss making. Was that still -- was that the case again last year? I think you did return to breakeven in about 15/16.

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### **Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

Okay, so I'm going to hand out some of these questions, quite detailed, on -- and if you can hand the mic back to Alan. Because Alan, one is coming your way in a second. On the New Businesses break-even target, we've said for some time we expected our New Businesses division to be breakeven in this fiscal year. Clearly, you're not going to see the answer because we've now moved it to New Markets. And we didn't do that to obfuscate and to not meet that target, but I think what is fair to say is the recent changes in the tax legislation in China has put a bit of a hiatus in the electric market in China, which has impacted our business. We talked about that a little bit. And so therefore, our -- because of that change, our -- if we were still New Businesses, I think it was unlikely we will get to breakeven this year like we originally said. But I think we're on target in most areas and that we planned, but that's what happens in New Businesses. Occasionally, you get some things that move against you. But do you want to just give a little bit more detail on tax changes?

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### **Alan E. Nelson** - *Johnson Matthey Plc - CTO and Division Director of New Businesses*

Yes. So just broadly, in terms of the tax changes that happened last year, it was both due to the phasing and the nature of the changes. So historically the tax incentives and subsidies in China were announced typically in the early fourth quarter of the calendar year. This past year, they weren't announced until mid-December and were not finalized until earlier this year. And so what happened was essentially a hiatus in the market, broadly speaking, across xEVs. That caused a pretty significant downturn in the number of sales in the vehicles into China. And what we're seeing right now is we are seeing those volumes tick back up as those subsidies are finalized. However, the actual return to kind of the, say, mid-last year types of level has been slow predominantly because the level of those subsidies have also changed. And the level depends on the type and the classification of vehicle, but looking broadly across, we're seeing reductions in the neighborhood of 35% to 55% net reduction on the level of incentives. So it's quite significant. I think it's also an important reminder that today largely the xEV market, so I say xEV to include BEV, PHEV et cetera, is largely underpinned by incentives and subsidies broadly. So I mean that also speaks to the technical challenge and the opportunity that we have to develop better battery materials that address not only the range issues and range anxiety but, of course, address the cost issues both from a raw material standpoint, diversifying away from, let's say, higher-cost raw materials such as cobalt and into other materials, but also making higher-energy-density materials. And that's really how we can start to lessen the dependencies on the subsidies and the tax credits that are in place today and that we see affecting not only our business but broadly the xEV market.

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### **Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

Thanks, Alan. To answer your specific question about that write-off that we had this year: That was nothing to do with batteries. That was Fuel Cells investment we made over a decade ago, I think.

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### **Anna Manz** - *Johnson Matthey Plc - Group Finance Director*

Yes.



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**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

On the diagnostic servicing business, I think it's around breakeven this year.

**Anna Manz** - Johnson Matthey Plc - Group Finance Director

Yes, that's right.

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

And ECT, John?

**John F. Walker** - Johnson Matthey Plc - Executive Director of Emission Control Technologies and Executive Director

On the overperformance of light duty European sales compared to the market, yes, a significant portion of that was related to improved NOx control catalysts for real-world driving. And that was car companies' reaction of this naming and shaming and getting ahead of the legislation. So there was rapid industrialization of -- some kind of in between normal cycles that happened -- or that's happening right now.

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Okay, Charles? Now who's next? So right at the back, and I can't see who you are back there. Sorry.

**Andrew Benson** - Citigroup Inc, Research Division - MD

Yes, it's Andrew Benson from Citi. Just staying with the battery theme. Can you talk about your strategy for stationary power generation; and whether LFP, given it's much cheaper than the nickel systems, can play a role there? And secondly, on the systems business, you haven't talked at all about that and how that's going to play a role in your growth and the -- and how you see that developing over the medium term.

**Robert J. MacLeod** - Johnson Matthey Plc - Chief Executive and Executive Director

Okay. I mean I think one of the things about stationary business is the demands and requirements for high-performing materials are not the same as they are in an automotive application. So the opportunity for real added value and real differentiation is definitely greater in the automotive side than it is in a large stationary system. So I think from a value point of view the opportunity is much more around the automotive applications rather than now with stationary. That's how we see it today, anyway. And on the systems business, look, it's a relatively small business for us at the moment, certainly on the automotive side. The non automotive side is a bit bigger, but on the automotive side it's relatively small. It does provide us some insight into what our customers are looking for from the materials. I don't think it's going to be a large part of Johnson Matthey's future as a group because I think it's still going to be a relative niche element because we're not going to be a large-scale systems business. That's -- that doesn't play to our core capabilities that I talked about, but having that insight into the battery materials and what the customers are looking for is helpful and allow us to drive some extra value into our Battery Materials business, okay? Adam is going for a repeat question. He's going to -- [Sylvia], if you could...

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**Adam Robert Collins** - *Liberum Capital Limited, Research Division - Analyst*

Maybe 3 quick ones for Anna. Status update on the ERP investment. What is the thinking around rolling that out now? And then R&D was up 7% last year. Can you give us a sense of what the level it will be in the coming year? And then also, fixed asset depreciation, you've been guiding that up. Where is that heading in the coming year? And to what extent will that be influenced by the ERP rollout?

**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

I'm glad to say, Adam, that even if you'd ask the -- didn't say -- asked them to Anna, I would have passed all those questions straight on to Anna. So...

**Anna Manz** - *Johnson Matthey Plc - Group Finance Director*

So the ERP rollout has been delayed a little over a year because we've learned a lot from the work we've done. Initially, I think we tried to build a system that delivered against all of the complexity of Johnson Matthey, but actually what that created was a system that would be too costly to maintain and slow and complex to roll out. So we stopped the project. And we redesigned our system to be a simple, standard set of efficient global processes. And we're proceeding to rollout. Our first unit will be early in the next calendar year. And because we've moved now to a common, simple set of processes, it's going to allow us to roll out our subsequent sites much quicker. So the aggregate cost of the whole actually probably won't be too different in the end. And having done many, many ERP implementations over my career, I think it's really important that you get the right design upfront that you can roll out in a consistent, simple way because that's what gives your business the flexibility. So I'm really glad that we've -- we caught it. We changed it, and we're moving forward. In terms of R&D, I think a good benchmark is to think about how it's grown previously. As we look forward, we will, of course, invest more in high-energy nickel batteries if that is required, but we'll have to wait and see. And that talks a little bit to the question about will New Businesses be breakeven. In a world where the LFP market is less strong, it's really important that we continue to invest at the right level in high-energy nickel; and if that requires more, make sure that we get that right. In terms of depreciation, actually once we go live with our ERP system, that will have an impact on depreciation, but we're not live yet, so we don't see a big kick up depreciation. As we've been investing ahead -- our capital has been investing ahead of depreciation, depreciation will trend up over time, Adam, as you know.

**Robert J. MacLeod** - *Johnson Matthey Plc - Chief Executive and Executive Director*

Okay, are we -- I can't see any hands up, so are we done? It looks like it.

Well, look, thanks very much indeed for coming. And I look forward to seeing some of you on our road shows. And if not, we'll see you all at our Capital Markets Day on the 21st of September. Thanks very much.

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