



Keeping the World Flowing
for Future Generations



Annual General Meeting

Rotork Plc

Speech by Kevin Hostetler, Chief Executive

12pm on 24th April 2020

Kevin Hostetler

Good day everyone and thank you for being like me, a shareholder in Rotork.

My name is Kevin Hostetler and I am Rotork's Group Chief Executive.

I am very disappointed that it is not possible to present to you live at our annual general meeting this year.

The COVID-19 situation is without precedent and has caused significant heartache and disruption across the world.

Please be assured that our priority is the health and safety of our colleagues and their families and all other stakeholders.

We have taken decisive actions to manage the situation whilst following instructions from governments and health authorities.

Unfortunately, this includes the decision to ask that shareholders not attend the AGM in person.

Whilst taking tough decisions such as this one I should remind you that at Rotork we are absolutely committed to 'keeping the world flowing for future generations' through providing our essential products and services.

I would like to recognise the extraordinary fortitude and determination of all our people in recent months, be they in our factories, in site services, in our offices or currently working from home.

I'm also really proud of the efforts our people are making to support our local communities.

An example of this - recognising the shortage of protective equipment for doctors and nurses, our UK team designed a fantastic face shield. We are now manufacturing these shields in numbers of plants around the world and distributing to local hospitals. This is only one of many examples.

Please be assured we are also doing all we can to engage with, support and help the Rotork team worldwide. As well as implementing the strictest safety rules at all our sites we have increased our group wide communications. Our weekly wellbeing tips have been well received and we've had good take-up of desk yoga!



Let me begin with highlights from 2019, then I'll briefly discuss the progress we are making on our Growth Acceleration Programme, provide an update on COVID-19 and I'll conclude with the few words I can regarding our outlook for 2020.



My second year at Rotork has been one of significant progress – despite 2019 seeing a more challenging than expected external environment.

Global economic growth lost momentum through the year, and 2019 is now expected to have seen GDP growth of around 2.5%, versus earlier forecasts of above 3.0%. This is the slowest global growth rate since the financial crisis of 2008.

The combination of this challenging macroeconomic environment, a demanding comparison period, and absent orders and revenues from sanctioned countries, meant revenue growth proved elusive. We were pleased however to report full year order intake grew 1.5%.

Despite our sales declining, we continued to execute as evidenced by a 160 basis point improvement in operating margins (now up to 22.6%), a 260 basis point increase in Return on Capital Employed (to almost 32%), cash conversion of 131%, and a strong balance sheet at period end including net cash of £106m.



Moving on to our Growth Acceleration Programme. I'm pleased to report that we have laid the foundation that drives our future growth, and have successfully initiated our operational transformation.

Our endeavours in becoming easier to do business with, reorienting our customer-facing teams, and accelerating our innovation and new product development, are taking shape.

We continue to make progress in lean manufacturing, globalizing our supply chain, business simplification - in terms of both facilities and product line rationalisations.

These efforts, along with our keen focus on productivity, are yielding tangible benefits in increasing our cyclical resilience.

We've strengthened our leadership team and created our OneRotork movement, emphasizing bringing our company together under our revised Purpose of 'Keeping the World Flowing for Future Generations'.

Our next generation IT platform, which yields additional future benefits, is well underway with elements having already been deployed this quarter, ahead of the fuller implementation in 2021.

Our investments in our Rotork Site Services business are bearing fruit, and we were pleased to disclose recently that Rotork Site Services grew in 2019 to achieve 20% of group revenues.



Moving to our outlook for 2020. When we reported our results on March 3rd, the impacts of COVID-19 were only just starting to be felt. At the time we said that absent COVID-19, we were planning for modest sales growth and margin progress in 2020, albeit with margin progress more gradual, reflecting our investment plans.

On March 31st we updated the market on the actions we were taking in response to the threat posed by COVID-19, which in a very short period of time had made the world considerably less certain.

We reported that our ability to deliver products and services to our customers had remained good considering the demanding environment, however, we had started to experience some disruption.

This was due to our actions to protect our people, as well as supply chain and logistics challenges. We had to temporarily close certain facilities and whilst we plan to remain open we will not hesitate to close sites if required, or if we believe there is risk to colleagues.

COVID-19 and the consequential drop in energy demand and global oil prices is of course impacting our customers. In several of our end markets, customers have announced high level plans to revisit their capital and operational expenditure commitments, in light of COVID-19 uncertainty and the near term requirement to conserve cash. It is too early to fully assess the impact of these.

Given the uncertain outlook we currently face, we are taking steps to reduce the impact on our business. Actions taken across the Group include a recruitment freeze, postponing salary increases, restricting discretionary spending and institution of greater flexibility in the workforce.

Given these unprecedented times and our increasing awareness of the difficulties some of our global colleagues may face in light of the COVID-19 Pandemic, Rotork has initiated the formation of an Employee Benevolent Fund to provide short-term, supplemental emergency support to those past and present associates or eligible dependents facing serious financial hardship and who cannot afford housing, utilities, and other basic expenses as a result of certain unforeseen and unpreventable circumstances or personal tragedies.

Our ambitious Growth Acceleration Programme continues to drive cost benefits from procurement, site improvement, continuous improvement/lean and organisation change. We are reviewing whether there are cost benefits we could bring forward or investments we could delay.

In order to ensure that Rotork can continue to act from a position of strength, and recognising the exceptional set of circumstances and the mitigating actions the business is taking, the Board has decided it is appropriate to withdraw the recommendation to pay the final dividend. We will reassess this position later in the calendar year when the situation is clearer.

We understand the importance of our dividend to shareholders and did not take this decision lightly.

The good news is that Rotork's financial position is strong. The Group had c. £110m of net cash as of 29th March 2020. We remain in advanced discussions with the Group's banks to extend our funding arrangements beyond their current term. Additionally, our application to the UK Government's CCFF scheme has been conditionally approved. I would like to thank our lending partners for their continued support.

As regards guidance, given the unprecedented level of uncertainty, it is not currently possible for the Group to provide an outlook for 2020.

I thank you again for being a shareholder in Rotork. I very much hope you and your family and friends stay well and I sincerely hope we can meet in person next year. Thank you for listening.

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A full listing of our worldwide sales and
service network is available on our website.

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