RNS Number : 6970U
Johnson Matthey PLC
27 January 2025

27 January 2025

Johnson Matthey Plc

(the Company)

Delivering against strategic objectives to drive value

The Board has reviewed the letter issued by Standard Investments on 16 December 2024 and has engaged with a number of the Group's shareholders since its publication, including Standard Investments. The Board is publishing this announcement for the benefit of all shareholders.

Introduction

Johnson Matthey is built upon strong and longstanding foundations including world-class technologies, cutting edge R&D and exceptionally talented people. These capabilities have delivered leading market positions, unique competitive advantages and a clear ability to win across all the businesses which the Group operates.

When Liam Condon joined as Group CEO in March 2022, Johnson Matthey set out a transformation strategy to drive value, including cost reduction, capital discipline, portfolio rationalisation and growth. This strategy is being implemented against a backdrop of challenging and dynamic end markets, and has therefore been adjusted over time. As summarised in this announcement, this strategy is delivering clear results. However, the Board recognises that there remains more work to do and further progress is required at pace.

Alongside the continued transformation of Johnson Matthey, the Board is resolute in its focus on driving a step change in cash generation and higher returns on capital. The Board has implemented plans to significantly increase the cash efficiency of the Group, and expects cash conversion[1] levels to increase from around 20-30% in FY2024/25 (including the delivery of positive free cash flow in FY2024/25, in line with guidance), to at least 50% in FY2025/26, and above 80% in FY2026/27 and beyond, following the completion of the refinery upgrade in FY2026/27 and assuming stable metal prices. In turn, this is expected to deliver attractive returns to shareholders.

The Board's confidence is further underpinned by additional actions being announced today as part of this focus on cash and efficiency:

- No further growth capex being deployed in Hydrogen Technologies, and capex in this business will be reduced to maintenance levels of no more than £5m per annum from FY2025/26. This business remains on track to achieve operating profit break-even by the end of FY2025/26. In addition, the Group is pursuing options to further de-risk this business.
- The formation of an Investment Committee of the Board to be chaired by the Group's Senior Independent Director, Barbara Jeremiah, to reinforce both cash generation, and disciplined and measured deployment of capital.
- Reviewing the Group's executive remuneration schemes to increase the weighting on cash generation targets.

The Board is confident in the value that Johnson Matthey's transformation strategy will create for all shareholders, and remains open-minded to, and regularly assesses, alternative strategic options for value maximisation in the ordinary course of business.

A transformation strategy that is delivering under challenging market conditions

Key achievements under the Group's transformation strategy since 2022 include:

- **Cost reduction:** £155m in cumulative savings achieved by September 2024, and on track to deliver £200m of cumulative cost savings by FY2024/25, which annualises at over £250m savings in FY2025/26. This exceeds the target of £150m annualised cost savings set in May 2022.
- **Capital discipline:** Capex has been reduced to a maximum of £0.9bn for the three-year period to FY2026/27 (vs £1.1bn over the preceding three-year period), including the benefit of reduced capex in Hydrogen Technologies.
- **Portfolio rationalisation:** Completed the sale of all Value Businesses realising net proceeds of over £500m (vs. £300m target set in May 2022), enabling £250m in excess shareholder returns.
- **Growth initiatives:** Secured growth opportunities across the portfolio, including contracts worth more than £350m in sales in Catalyst Technologies over 5 years[2].
- **Operating model:** Transformational changes including the introduction of Global Business

Services across Finance, IT, HR and Procurement, and the creation of Centres of Excellence, notably in Capital Projects, driving greater effectiveness and efficiency.

These initiatives have delivered strong underlying profit growth during the period (+11% in FY2023/24[3], with at least mid-single digit growth expected for FY2024/25[4]). This is against a challenging market backdrop with automotive production remaining well below pre-COVID levels[5], unprecedented peak-to-trough falls in precious group metal prices[6], and macro-economic and energy transition headwinds.

Market conditions have impacted the total shareholder returns generated by the Group, its wider peer group and the chemicals sector. Although Johnson Matthey's total shareholder return has outperformed both catalyst peers and an index of broader European chemicals companies[7] since Liam Condon became CEO on 1 March 2022, the Board fully recognises the need to improve the absolute share price and to deliver increased returns for shareholders.

Execution progress in each business

The Group's transformation strategy is being executed in a disciplined manner in each business to optimise value for shareholders.

Clean Air: strong cash generation and meaningful increase in margins

Since FY2021/22, Clean Air has closed 4 out of 16 production sites and delivered annualised savings from transformation of £65m. Ongoing actions include manufacturing footprint and procurement efficiencies, and cost reduction actions in commercial, R&D and operations. These actions have resulted in operating margins increasing from 8.7% in FY2022/23 to 10.6% in FY2023/24 and underpin the Board's confidence in delivering mid-teens operating margins by FY2025/26, with further margin growth expected beyond that.

The Board expects increasing cash conversion in Clean Air from reducing capex to maintenance levels and ongoing implementation of working capital optimisation initiatives. As announced at the half year results for FY2024/25 in November 2024, Clean Air is pursuing a number of initiatives to further optimise its manufacturing footprint and cost base, and drive higher margins. The Group intends to provide further details ahead of the preliminary results in May 2025.

Catalyst Technologies: a high-quality business delivering attractive profitable growth

Since April 2022, Catalyst Technologies has delivered significant commercial wins and partnerships, including 15 new projects worth more than £350m in sales over 5 years[2], and a pipeline of more than 140 projects in its sustainable technologies portfolio. This business provides the Group with exposure to attractive growth markets with supportive regulatory frameworks, such as sustainable aviation fuels and low carbon hydrogen, and leverages leading positions in syngas globally and a strong portfolio of sustainable technologies.

The Board is confident in delivering profitable growth in this business: high single digit sales growth in the short term and accelerating to mid-teens growth over the medium- to long term and targeting high-teens operating margins by the end of FY2027/28 (from 13.0% in FY2023/24), with continued margin growth thereafter given the business mix shift towards licensing.

Platinum Group Metal Services (PGMS): driving cash conversion as a major investment programme concludes and metal prices normalise

PGMS is the world's largest secondary refiner of platinum group metals (PGMs) globally with deep expertise and industry leading capabilities in both refining of PGMs and their use in high value applications. The Board is focused on optimising the value PGMS delivers for shareholders with investment programmes enhancing the efficiency of the refining business and delivering a step change in cash generation, further details of which are set out below.

Hydrogen Technologies: significant reduction in capital needs

Hydrogen is expected to be core to the longer-term energy transition and Hydrogen Technologies is well-positioned given Johnson Matthey's long 25+ year history in hydrogen technologies, especially fuel cells, where it enjoys strong capabilities alongside its expertise in catalysis and PGMs. The sharp acceleration and then deceleration of the hydrogen sector has posed an industry-wide challenge. In 2024, the Board adapted its strategy for this business to reflect the market slowdown, and has undertaken significant actions to reduce cash costs, while maintaining its technology advantage to capture the opportunity in the longer term.

In May 2024, the Group revised its capex guidance for Hydrogen Technologies to no more than £90m over the three-year period to FY2026/27, out of a maximum of £900m for the Group. The Board has further reduced its investment in this business, with no additional growth investment planned. Accordingly, capex in this business will be reduced to maintenance levels of no more than £5m per annum from FY2025/26. The business remains on track to achieve operating profit break-even by the end of FY2025/26. In addition, the Board is pursuing options to further de-risk the Hydrogen Technologies business.

Significant increase in free cash flow and ROCE expected

Non-recurring headwinds to historical cash flow

The Board recognises the need to drive a step change in cash generation and higher returns on capital.

As set out at the PGMS seminar in June 2024, a significant portion of the historical cash generation under-performance was due to the increase in PGMS working capital over the three-year period to FY2023/24. First, refining backlogs increased by c.£300m as a result of PGMS' ageing refinery. Second, to optimise the cost of financing metal requirements, the Group reduced external metal leases by £240m, which led to a one-time step-up in working capital by the same amount. Third, lower metal prices increased the value of working capital in PGMS by approximately £500m, offsetting the significant working capital benefit seen in Clean Air. In aggregate, these represent over £1bn of non-recurring headwinds to free cash flow in PGMS.

In addition, PGMS is undergoing a major, once in a generation, capex programme to replace an ageing and inefficient refinery that acts as a drag on margin and working capital. The total capex for this refinery is expected to be £350m, of which c.£250m is to be spent over the three-year period to the end of FY2026/27. The increase in refining backlogs in PGMS will unwind as the refinery upgrade is completed in FY2026/27, supporting the release of working capital.

Step change in cash conversion

The Board is implementing plans to significantly increase the cash efficiency of the Group. For FY2024/25, the Group expects positive free cash flow, primarily driven by the benefits of the transformation strategy and a stronger performance from PGMS given an expected improvement in volumes. Going forward, the Board expects cash conversion levels (defined as free cash flow[8] as a percentage of underlying operating profit) to significantly increase from around 20-30% in FY2024/25, to at least 50% in FY2025/26 and above 80% in FY2026/27 and beyond.

The key drivers of this increase in cash conversion include at least £2.5bn of Clean Air cash generation (between FY2024/25 and FY2030/31); PGMS delivering cash conversion approaching 100% of underlying operating profit; Hydrogen Technologies reaching operating profit break-even by the end of FY2025/26 and being cash flow[9] positive in FY2026/27; and continued growth in the Group's capital-light Catalyst Technologies business.

A key priority of the new Investment Committee of the Board is to review cash generation and the initiatives in place to drive cash delivery. This will also be one of the key focus areas for the Group's new Chief Financial Officer, whose appointment is expected to be announced shortly. Further details on the Group's initiatives to drive cash conversion and outlook for free cash flow will be issued to the market no later than the preliminary results for FY2024/25 in May 2025.

Finally, given the increased focus on cash generation, the Group's executive remuneration schemes are being reviewed to increase the weighting towards cash generation targets.

Delivering enhanced return on capital employed (ROCE)

The Board recognises the need to drive a robust improvement in the Group's ROCE[10]. As part of the ongoing transformation strategy, this is being addressed through improved operational efficiency, reduced capital intensity, and a growing share of high-margin, capital-light businesses such as the licensing business in Catalyst Technologies. The Board is applying further focus and scrutiny on the Group's capital requirements and returns through the new Investment Committee of the Board.

Given the importance of improving ROCE, the Remuneration Committee last year introduced a ROCE component to the long-term Performance Share Plan awards, representing 25% of the award. For FY2024/25, the ROCE hurdle is 12% for threshold (25%) vesting rising to 16% for maximum (100%). This will be reviewed again as part of the FY2025/26 remuneration planning process, alongside the planned introduction of a cash generation target under the Group's annual incentive plan.

Johnson Matthey has a strong and experienced Board and has established a new Board Investment Committee

The Board has a strong mix of skills and expertise to provide both appropriate support and challenge to the management team. This Board has experience across specialty chemicals, a broad range of end markets (including automotive), finance, M&A and portfolio management.

The Board has also been refreshed regularly with 3 new non-executive directors having joined the Board in the past ~3 years (out of a current non-executive Board of seven directors), with all of them bringing extensive expertise and skills:

- Sinead Lynch, who joined the Board on 1 January 2025, was previously the Senior Vice President of Low Carbon Fuels at Shell. Sinead brings deep expertise to the Board on investments to capitalise on energy transition trends, emerging markets and regulatory trends and enhance shareholder value.
- Barbara Jeremiah, is the Senior Independent Director and joined the Board in July 2023. Barbara spent over 30 years at Alcoa, most recently as Executive Vice President for Corporate Development, where she was instrumental in strategic decisions that enhanced financial performance, operating efficiency and shareholder value. She is Chair of Weir Group plc where she has driven strategic decisions to enhance operational efficiency, market positioning and sustainable growth. She is also a non-executive director at Senior plc.
- Rita Forst joined the Board in October 2021. She brings deep experience in the automotive industry having spent 35 years at the Opel European division of General Motors holding various leadership positions including Vice President of Engineering. Her management contributed to the company's ability to navigate market challenges, innovate and capitalise on growth opportunities, and drive financial performance.
- In addition, the Board is in the final stages of appointing a new CFO.

The Nominations Committee regularly considers opportunities to augment the Board with new directors in the ordinary course and, as demonstrated above, regular Board refresh is a feature of Johnson Matthey.

In order to further leverage the Board's capabilities to enhance performance, the Board has formed a new Investment Committee that is chaired by Barbara Jeremiah. As set out in further detail in the separate announcement issued today, this Investment Committee will regularly review initiatives to optimise cash conversion across each business in the Group, the capital allocation framework by Group and division, return requirements on investments, ongoing monitoring of capital investment programmes against market conditions and business unit and corporate strategies in the context of the overall portfolio strategy.

The Board's commitment to delivering shareholder returns

Johnson Matthey welcomes dialogue with all shareholders with a view to driving sustainable value, carefully considering the views of shareholders at all times, including over recent weeks.

The transformation strategy is being delivered at pace while navigating the challenging external environment. The Group is currently executing a comprehensive programme of initiatives across each of its businesses to realise the benefits of this strategy, including the additional actions that the Group has announced today. Beyond this, consistent with the Board's statutory and fiduciary duties, the Board also remains open-minded and regularly assesses whether alternative strategic and restructuring options may maximise value.

The Board is confident that the Group's strategy, alongside the additional actions announced today, will deliver attractive and sustainable value for all shareholders and looks forward to regularly updating the market on its continued progress.

ENDS

Enquiries

Investor Relations

Martin Dunwoodie	Director of Investor Relations & Treasury	+44 20 7269 8241
Louise Curran	Head of Investor Relations	+44 20 7269 8235

Media

Sinead Keller	Group External Relations Director	+44 7833 285585
Harry Cameron	Teneo	+44 7799 152148

Johnson Matthey Plc is listed on the London Stock Exchange (JMAT)

Registered in England & Wales number: 00033774

Legal Entity Identifier number: 2138001AVBSD1HSC6Z10

Notes to the announcement

1. Defined as free cash flow[8] as a percentage of underlying operating profit.
2. Revenue over 5 years relating to project wins in Catalyst Technologies' sustainable technologies portfolio from 1 April 2022 to date, subject to project reaching completion.
3. At constant FX and adjusting for £85m impact from precious metal prices.
4. For 2024/25, excluding Value Businesses, we continue to expect at least mid-single digit growth in underlying operating performance at constant precious metal prices and constant currency.
5. For example, based on S&P Global Mobility data, from 2018 to 2023, light duty internal combustion engine has decreased by more than 7 million units and production levels of heavy-duty trucks did not return to pre-COVID levels as expected.
6. Weighted index of platinum group metal prices increased by >150% between FY2018/19 and FY2021/22 and then fell by 50% between FY2021/22 and FY2023/24.
7. Catalyst peers comprise Albemarle, Clariant and Ecovyst. European chemicals indices comprise UK specialty peers (Croda, Elementis, Victrex), European specialty peers (Akzo Nobel, DSM-Firmenich, EMS-Chemie, Symrise, Sika, Umicore) and European diversified peers (Arkema, BASF, Clariant, Evonik, Lanxess). From 1 March 2022 to 24 January 2025, Johnson Matthey had a total shareholder return of (14)% vs. catalyst peers of (37)%, UK specialty peers of (22)%, European specialty peers of (26)% and European diversified peers of (21)% based on a mean of equal weighted performance for peer groups.
8. Defined as net cash flow from operating activities after net interest paid, net purchases of non-current assets and investments, dividends received from joint ventures and associates and the principal elements of lease payments.
9. Defined as underlying operating profit plus depreciation (EBITDA), less capital expenditure and net working capital movements.
10. Defined as underlying operating profit / capital employed, where capital employed is calculated as book value of equity + net debt.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our Privacy Policy.

END

MSCXELLLEFLBBBZ