Oxford Instruments plc
Announcement of Preliminary Results for the year ended 31 March 2020

Oxford Instruments plc, a leading provider of high technology products and systems for industry and research, today announces its preliminary results for the year ended 31 March 2020.

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	% change reported	% change constant currency
Revenue[1]	**317.4**	314.0	+1.1%	-0.7%
Adjusted[2] operating profit[1]	**50.5**	47.7	+5.9%	-1.0%
Adjusted[2] profit before tax[1]	**49.5**	45.5	+8.8%	
Profit before tax[1]	**38.8**	34.3	+13.1%	
Adjusted[2] basic earnings per share[1]	**70.2p**	62.3p	+12.7%	
Dividend per share (full year)	**-**	14.4p		
Cash generated from operations[1]	**62.3**	53.0	+17.5%	
Net cash	**67.5**	6.7		

1. Continuing operations.
2. Throughout this preliminary announcement we make reference to adjusted numbers. A full definition of adjusted numbers can be found in Note 1 to the Financial Statements. Where we make reference to constant currency numbers these are prepared on a month-by-month basis using the translational and transactional exchange rates which prevailed in the previous year rather than the actual exchange rates which prevailed in the year. Transactional exchange rates include the effect of our hedging programme.

Financial highlights:
- Good progress underpinned a strong financial performance until the impact of covid-19 in Q4
- Trading disruption due to the pandemic equated to approximately two weeks' equivalent revenue following deferred product shipments and installations in the last quarter
- Reported orders up 0.3% to £336.0m (2019: £335.1m), a decrease of 1.3% at constant currency; book to bill ratio of 1.06
- Order book of £175.0m (31 March 2019: £153.2m), up 14.2% (12.1% at constant currency), assisted by finished goods not shipped or installed at the year end
- Reported revenue increased by 1.1% to £317.4m (a decline of 0.7% at constant currency)
- Adjusted operating profit from continuing operations up 5.9% at £50.5m (a decline of 1.0% at constant currency)
- Adjusted operating margin of 15.9% (2019: 15.2%), 15.1% at constant currency
- Net cash grew to £67.5m, aided by strong operating cash flow (124% cash conversion) and proceeds from business disposals. At the end of March, our revolving credit facility remained undrawn, leaving approximately £105m of undrawn committed facilities. This represents total headroom of approximately £200m
- Following the uncertainty created by covid-19, the Group suspended payment of the interim dividend of 4.1p per share. As a result of continued uncertainty, the Board will defer a decision on payment of dividends but will keep this under review as the year progresses while we assess the impact of covid-19 on our markets and trading performance

Operational highlights:
- Good progress with our Horizon strategy; tangible benefits from our customer-centric, market-driven approach and operational excellence programme
- Business responded to the challenges of covid-19, with the wellbeing of our employees paramount. Manufacturing sites remained operational with products supporting the fight against covid-19 and essential industries
- Cost-saving measures implemented to preserve the financial health of the business
- Underlying growth across all of our customer segments
- Materials & Characterisation saw good underlying demand for our products across the Semiconductor, Advanced Materials and Energy & Environment sectors, with covid-19 disruption particularly impacting shipments into the Semiconductor segment
- Research & Discovery had strong underlying revenue growth supported by global initiatives related to quantum technologies and increased research funding. Refined commercial practices and gains through operational excellence contributed to improved profit and margin
- In Service & Healthcare, the transformation of our customer services approach drove strong order and revenue growth with improved profitability
- Further portfolio focus with disposal of US Healthcare business and equity stake in Scienta Omicron
- Alison Wood to join Board as independent Non-Executive Director in September 2020

Summary and outlook:
Ian Barkshire, Chief Executive of Oxford Instruments plc, said:

"We have made good progress in the year with the implementation of our Horizon strategy, which combined with our strong balance sheet continues to provide the foundation for long-term sustainable growth and margin improvement. We have positioned the Group to be a leading provider of high technology products and services to the world's leading industrial customers and scientific research communities to image, analyse and manipulate materials down to the atomic and molecular level. This allows us to live up to our purpose of facilitating a greener economy, increased connectivity, improved health and leaps in scientific understanding.

"The coronavirus has continued to impact trading in the first two months of the year, with cumulative orders 3% below a weak comparator period, and with growth in Asia of 19% offsetting a reduction in Europe and North America of 23% and 7% respectively. A strong uplift in orders for our compound semiconductor process solutions has offset a reduction in orders for our higher-margin scientific cameras and optical microscopy products, which have been severely impacted by disruption across academic customers. Group revenue is 3% above last year, assisted by delivery of shipments that were held over from the year end due to covid-19.

"We have an active pipeline of sales opportunities, reinforced by our digital marketing and online sales presence; but activity levels within academic institutions remain low due to continued customer site closures.

"It will take some time to understand the impact and longevity of this disruption, and we will continue to take measures to adapt and protect our business throughout this period. Once we have attained an improved level of visibility, we will be in a position to provide guidance on the current year's expected financial outcomes.

"Our strategy is to operate in attractive markets with long-term fundamental growth drivers and to focus on segments where we can maintain leadership positions. With the increasing demand for electric vehicles and digital communications infrastructure, and the need for improved energy-efficient devices, medicines and diagnostic tools, we are confident that our end markets are resilient and should not be weakened in the long term by covid-19 headwinds."

Enquiries:

Oxford Instruments plc	Tel: 01865 393200
Ian Barkshire, Chief Executive	
Gavin Hill, Group Finance Director	
MHP Communications	Tel: 020 3128 8591
Rachel Hirst / Alice McLaren	

Number of pages: 35

CHAIR'S STATEMENT

Oxford Instruments is a leading technology company that uses its expertise and capabilities to help the world's leading industrial manufacturers and scientific research institutions address many of the world's most pressing challenges. Our purpose is to support our customers through the provision of our key enabling technologies to develop improved healthcare, enhanced connectivity, a greener economy and leaps in fundamental science.

In light of the recent challenges related to the coronavirus pandemic, impacting both people's health and the global economy, our core purpose remains as important and relevant as ever. Throughout the disruption, the Board and executive team have made it our priority to protect the health and wellbeing of our employees, support our customers and other stakeholders, and secure the long-term future of the business.

The Horizon strategy has enabled the Group to make progress and has equipped us to react quickly to the present covid-19 situation. The strategy continues to provide the foundation for long-term sustainable growth and margin improvement, with our attractive end markets providing opportunities for growth. I am encouraged that, prior to the impact of covid-19, the Group delivered good improvements in underlying profitability in the year, with growth in orders and revenue, through the ongoing success of our customer-centric, market-driven approach and operational excellence programme. At the tail end of the year, we successfully disposed of two non-core businesses, which, along with the benefits of our Horizon programme, have contributed to a strong balance sheet, providing resilience and focus to navigate the challenging global economic situation.

I have been pleased at how quickly the Group developed and implemented a phased response to the covid-19 situation and that, despite the disruption, we still delivered some growth in sales and profits.

Throughout the year, the Board has undertaken a programme of broader engagement with employees across the Group. This has included site visits, with presentations from management teams, and Board-led focus groups with representative cohorts from across the Group. This process has provided direct input and feedback from employees to the Board. What impresses me about Oxford Instruments is the depth of scientific and technological capability across our management teams and employees, coupled now with a strong culture of commercial acumen across the Group.

Given the unprecedented uncertainty regarding the short-term macroeconomic situation, the Board has taken a number of cash management measures to protect the business and job security of our employees. This has included a temporary reduction in salary of 20% for the executive team and equivalent reduction in fees to the Board members; and the Group has suspended the payment of the interim dividend of 4.1p, which was due to be paid on 14 April 2020. The Board will defer a decision on payment of dividends while we assess the level of disruption on our markets and business caused by covid-19.

Planning has centred around running our operations in a safe and supportive manner, as well as facilitating efficient home working arrangements, allowing our employees to work flexibly as we seek to satisfy customer requirements and continue the good progress we have made over the last few years.

We are well positioned to navigate the evolving situation and, despite the current challenges, we remain fully committed to our current strategy, which provides many opportunities in the future.

I am pleased that Alison Wood will join the Board in September 2020 as an independent Non-Executive Director. She brings with her a wealth of executive and non-executive board experience and an understanding of engineering, technology and industrial markets. She has previously held business and strategic development leadership roles in BAE Systems plc and National Grid.

I would like to thank the Board and all our employees for their contribution throughout the year and for their agility and resilience in recent months as we manage through this unprecedented situation.

Neil Carson
Non-Executive Chair
9 June 2020

CHIEF EXECUTIVE'S REVIEW

Introduction
I have been pleased with the performance of the Group in the year, with positive progress in our Horizon strategy delivering continued business improvements and a good level of growth in sales and profits in the first three quarters of the year. The sudden impact of covid-19 in the fourth quarter subdued financial performance, resulting in marginal growth for the year.

We delivered order, revenue, profit and margin growth, with a constant currency performance broadly in line with the previous year. Good underlying growth in orders and revenue before the impact of covid-19 were underpinned by our chosen end markets and their attractive, fundamental growth drivers, combined with our relentless drive to enhance our market intimacy through a customer-centric approach.

The success of recently launched products and our customer support initiatives further strengthened our market-leading product portfolio in the year. Improved profitability and strong cash collection were supported by refined commercial practices across the Group and gains from our operational excellence programme. In line with our strategy, in the second half of the year we divested the US OI Healthcare business and our share in the Scienta Omicron joint venture, further enhancing our focus on attractive markets and margin expansion.

The extensive disruption caused by the outbreak of covid-19 in the fourth quarter led to a number of orders being delayed and customers being unable to receive shipments and proceed with installations. The resulting impact in Q4 was equivalent to approximately two weeks of revenue, offsetting much of the progress we had made in the preceding three quarters.

I have been impressed by the commitment and agility of our employees, which has enabled us to maintain business continuity and support for our customers through this difficult period. The progress over the past few years has significantly improved the performance and capabilities of the Group; the procedures, disciplines and infrastructure that are now in place provide the foundation and resilience to successfully navigate the current challenges.

As a global provider of products and solutions to the world's leading industrial companies and scientific research communities, we recognise our responsibility and role in the advancement of society, helping to create a more sustainable future. This is reflected in our core purpose, which is to support our customers in addressing some of the world's most pressing challenges, enabling improved health, increased connectivity, a greener economy and leaps in scientific understanding.

Covid-19
In light of the emerging covid-19 situation I established a dedicated covid-19 leadership team to direct our rapid and agile response to the changing business conditions. We developed and implemented a phased approach to prioritise the health and wellbeing of our employees and to support our customers through maintaining business continuity where possible and appropriate. This approach is in line with longer-term goals of creating positive futures for all our stakeholders.

To manage through the uncertainty and potential disruption, we developed a three-phased approach, which we then implemented in line with the local situation and government guidelines for each business and territory in which we operate.

- Phase one included preparations across the Group to enable business continuity in light of further potential business disruption and immediate actions to minimise our immediate exposure and that of our employees to coronavirus. This included ensuring all employees who could work off-site had secure remote working enabled and in place, developing working practices in our manufacturing sites to enable the implementation of social distancing guidelines, and proactively engaging with our supply chain. In addition, we minimised international and inter-site travel, and postponed large gatherings.

- Phase two was triggered in response to significant regional outbreaks. This included the implementation of social distancing guidelines within our facilities; in some sites this required implementing shifts, an extended working week and home working for all employees who could do so. We introduced remote communications to keep in touch with and support our teams working from home as well as to remain in contact with our customers.
- Phase three implemented support for our customers and mechanisms to maintain business continuity as best as possible if it became necessary to temporarily close a site.

Our early actions and approach enabled us to maintain business continuity and progress our strategic new product developments throughout the peak of the disruption. With ongoing global business disruption likely, at the start of the new financial year we developed phase four, our "Global Recovery" phase. This includes the preparation and implementation of adapted business practices and capabilities, recognising ongoing business through the recovery phase will require, and benefit from, new approaches.

In response to the uncertainty regarding the timing and shape of global economic recovery, we have taken a number of measures to protect the financial health of the business through the short and medium term. I, along with the Group Finance Director, have taken a 20% reduction in salary, with an equivalent reduction in fees to the Board with effect from April, initially for a three-month period, which we will review throughout the year. In addition, we have taken a number of other measures, including the delay of the normal annual pay review from July until the second half of the year for all but our lowest paid employees and a deferral in the payment of performance-related bonus schemes related to the 2019/20 year. We have implemented a number of cost containment measures including a freeze on all non-time-critical recruitment and capex spend and we are utilising available Government business support and job protection schemes where appropriate. In light of this, the Board took the decision to prudently suspend the payment of the interim dividend that was due in April 2020. As a result of continued uncertainty, the Board will defer a decision on payment of dividends until we have assessed the level of disruption caused by covid-19 on our markets and the consequent impact on the business.

We had a short period of closure at two of our sites in the US in order to comply with Government directives. However, all of our manufacturing sites are now open, albeit at a slightly reduced capacity to enable safe working environments, with plans to increase capacity through the implementation of our phase four response.

I am extremely proud of the role that Oxford Instruments has played in the fight against the coronavirus, with a number of our products and key enabling technologies being directly involved in the identification and gene sequencing of the virus, diagnostic testing and the development of treatments and vaccines. Many of our other products provide capabilities and support across a wide range of essential services including power generation, connectivity and the supply of food.

Horizon update
We have continued to make good progress with the implementation of our Horizon strategy, which is delivering tangible financial benefits to the Group. With the key tenets of our Market Intimacy, Operational Excellence, Innovation and Product Development initiatives well embedded across the Group, and positive early progress from the transformation of our Customer Support services, we continue to identify further opportunities to drive growth and improve the efficiency and productivity of the business through further development of Horizon initiatives.

Through Horizon we continue to transform the organisation into a customer-centric, market-driven business. This includes how we are organised internally, our core capabilities and how we work with and support our customers and other stakeholders. In the year we have developed the Oxford Instruments Business System, which has formalised the processes and procedures for conducting business within the Group. This ensures that all of our employees have visibility and awareness of the best practice improvements arising from Horizon whatever their role, meaning that we benefit from a unified culture and break down functional silos.

Market Intimacy
In the year we continued to strengthen our market intimacy, which has further enhanced our understanding of our customers' world and their strategic priorities, identifying additional opportunities for growth. By further improving our market segmentation by end application, we are better placed to identify new customers and optimise the full value our products can bring. In the year we have further invested in the development of our marketing communications and customer website to strengthen our reach and engagement with customers.

Our enhanced digital presence and market intimacy approach are proving particularly valuable during the current covid-19 disruption when our customers and sales teams are unable to travel and tradeshows around the world have been cancelled. In particular, our broad range of additional training and tailored educational and sales materials for specific applications, which have both supported our customers and driven increased traffic to our website, leading to improved webinar attendance and increased lead generation.

Innovation and Product Development
By exploiting our enhanced market insights, we are developing richer product roadmaps and increasing the impact of recently launched products. As a key element of Horizon, we are increasing our new product focus and tailored solutions on higher growth opportunities that support specific customer applications. For instance, recent innovations are helping to improve the efficiency of power devices, develop stronger, lighter, higher performing materials and advance the understanding of viruses to aid the creation of vaccines.

In the year we have increased the deployment of our technical capabilities across business units and collaboration with external partners to accelerate the delivery of our priority projects. The infrastructure and collaborative procedures that we have put in place provide our teams with the ability to work securely across geographies and from remote locations including their homes. These have enabled us to maintain our product development activities throughout the covid-19 disruption. We also made good progress in increasing the identification and generation of valuable intellectual property to protect our investments and create significant barriers to entry.

Customer Support
In the year we launched and made good initial progress with our customer services transformation programme. In line with our product strategy, we have taken a market-centric approach to our services and support activities. This has involved generating tailored service support packages and products that are specific to the type of customer and their end application. This has enabled us to enhance the value that we bring to our customers by helping them improve their capabilities and increase their productivity.

Throughout the programme we have started to leverage our scale and exploit the synergies across our global customer support teams by utilising cross-business capabilities to deliver quicker response times and increased local support. Through the development of our own teams and targeted recruitment we are providing a broader and higher quality of support products and services to better meet the future needs of our target markets and application segments.

In addition, to enable the delivery of quicker response times, reduce the amount of travel and drive efficiencies for our teams and customers, we have invested in technology enabling the provision of increased levels of support remotely, including the virtual presence of an expert in customer laboratories.

Whilst early in this programme, our new approach to supporting our customers has increased the demand for, and financial returns from, our customer support activities in the year.

Operational Excellence
We have continued our improvement programme, which focuses on strategic procurement, operational efficiency and logistics, delivering tangible gains in the year. Within procurement, we are transforming our supply chain, building long-term partnerships with fewer suppliers, leading to shorter lead times, reduced working capital and better leveraging our purchasing scale. With fewer suppliers, we are better placed to drive the responsible sourcing of materials and to operate under the highest ethical standards. Our operational efficiency and logistics activities have delivered improved working practices and quality with increased throughput and reduced lead times.

Whilst we have made good progress in the year, there remains significant opportunities for further operational improvements.

People Capabilities
Our ability to achieve our strategic goals and deliver ongoing growth is determined primarily by the capability of our people. At the centre of the Horizon strategy, we have focused on developing a stronger core leadership team and increasing the capabilities across the business. In the year, whilst we have continued to bring in talent and capabilities to enhance our performance in specific areas of the business, we have also initiated key internal training programmes aimed at developing the careers and capabilities of our existing employees across each of our business functions.

Results
Reported revenue of £317.4m grew by 1.1% (2019: £314.0m), a decline of 0.7% at constant currency. Covid-19 related issues in the fourth quarter of the year impacted our ability to complete planned product shipments and installations. In the absence of this disruption, the Group would have delivered good growth. As a direct consequence, reported revenue was broadly flat for the Materials & Characterisation and Research & Discovery sectors, declining by 1.9% and 1.1% respectively at constant currency. The Service & Healthcare sector delivered good revenue growth of 5.7% (3.7% at constant currency), supported by our initiative to offer a broader portfolio and higher value of service offerings to our customers, which led to strong increased demand for services related to our own products.

From an end market perspective, we saw strong revenue growth across our Energy & Environment and Research & Fundamental Science segments, with underlying growth in the Quantum Technology, Semiconductor, Advanced Materials and Lifescience segments being more than offset by delayed shipments in the fourth quarter. The previously reported weakness across silicon semiconductor, electronics and automotive production continued through the second half, impacting full-year orders and revenues into these customers.

From a geographical perspective, constant currency revenue growth of 4.7% and 3.0% across Europe and North America respectively were modestly impacted by coronavirus-related delays. In Asia, disruption to shipments and installations into China and South East Asia significantly impacted revenue, resulting in a constant currency decline of 6.5%. Without this disruption, China and the region would have continued to deliver growth in the year.

Our customer-centric approach supported underlying growth from both commercial and academic customers, with the proportion of revenue broadly in line with the previous year, with 52% from academic or government-funded customers and 48% from commercial customers.

Reduced revenue due to covid-19 adversely impacted both adjusted operating profit and margin. This more than offset the gains in underlying increased profitability in the year achieved through improved commercial practices and our operational excellence programme. Adjusted operating profit increased 5.9% to £50.5m (2019: £47.7m) supported by a currency tailwind, representing a marginal decline of 1.0% at constant currency. Adjusted operational margin for the Group increased to 15.9% (2019: 15.2%), representing 15.1% at constant currency. Adjusted profit before tax increased by 8.8% to £49.5m (2019: £45.5m). Continuing adjusted basic earnings per share grew by 12.7% to 70.2p (2019: 62.3p).

Order intake was also impacted throughout the fourth quarter, predominantly across China and parts of South East Asia, but to a lesser extent compared to revenue. This resulted in reported orders of £336.0m, slightly ahead of the previous year (2019: £335.1m) and representing a decline at constant currency of 1.3%. Despite this disruption, increased customer demand for our products resulted in constant currency growth in the Materials & Characterisation and Service & Healthcare sectors of 0.1% and 4.7% respectively, with Research & Fundamental Science declining by 5.1%. Excluding the large order for the Institute of Physics – Chinese Academy of Sciences in the comparative period, orders for the Group have shown good constant currency growth with modest growth within the Research & Fundamental Science sector. Orders grew in Europe with modest constant currency declines in North America and Asia.

The book-to-bill ratio in the period remained positive at 1.06, with the order book, representing orders for future delivery, up 14.2% to £175.0m (2019: £153.2m), growth of 12.1% at constant currency. Strong growth across the Materials & Characterisation and Research & Discovery sectors was supported by revenue not recognised in the year owing to delayed shipments and installations due to the impact of covid-19. Strong growth in the Service & Healthcare sector was predominantly due to increased demand for services related to our own products.

Operational and commercial improvements within the year supported good cash collection which, combined with the disposal proceeds from OI Healthcare and our minority share of Scienta Omicron, resulted in a significantly improved net cash position of £67.5m (2019: £6.7m) at the year end.

Sector performance
Turning to the individual sector performance:

Materials & Characterisation products and solutions enable the fabrication and characterisation of materials and devices down to the atomic scale, predominantly supporting customers across applied R&D as well as the production and manufacture of high technology products and devices.

Building on a positive first half we saw continued underlying demand for our products across the Semiconductor, Advanced Materials and Energy & Environment sectors. The continued global drive for higher efficiency power devices, improved connectivity and faster communications supported strong order growth for our compound semiconductor solutions. This offset the continued weakness and reduced demand for our imaging solutions into silicon semiconductor and electronics customers across the Semiconductor & Communications segment. Underlying revenue growth in the Advanced Materials and Energy & Environment segments was supported by the diverse range of end applications and broad customer base seeking to develop and manufacture stronger, lighter and higher performing materials.

In the period, delayed revenues and orders due to coronavirus disruption particularly impacted the Semiconductor and Advanced Materials sectors for customers in Asia and Europe. Increased demand and positive funding environments across Europe and North America supported good order and revenue growth to academic and Government-funded customers in the period.

Reported orders grew by 1.5% in the period to £146.1m (2019: £144.0m) up 0.1% at constant currency, with reported revenue of £137.6m broadly in line with the previous year (2019: £137.9m) and down 1.9% at constant currency. Reported adjusted operating profit was £21.0m (2019: £21.2m), down 7.1% at constant currency. Adjusted operating margin of 15.3% (2019: 15.4%), representing 14.6% at constant currency, was held back by delayed shipments. The order book for future deliveries grew 23.5% in the period to £50.9m (2019: £41.2m).

Research & Discovery provides advanced solutions that create unique environments and enable imaging and analytical measurements down to the molecular and subatomic level, predominantly used in scientific research and applied R&D.

Continued progress in the second half of the year with increased demand for products across the sector was offset by covid-19 related delays to the shipment and installation of a number of large value systems, resulting in revenue broadly in line with the previous year. Orders were impacted to a lesser extent with good underlying growth when excluding the large order to the Institute of Physics – Chinese Academy of Sciences, which will be delivered over the next few years. Underlying pre-covid-19 order and revenue growth has been supported by increased global initiatives related to Quantum Technology and increased academic interest and associated international funding into Research & Fundamental Science, driving demand across our portfolio of scientific instruments, cryogenics and high magnetic field platforms.

The Healthcare & Lifescience segment was broadly in line with the previous year, with strong growth across the product portfolio being offset by a decline in revenue related to our optical microscopy portfolio in the period due to increased competitor activity and a strong comparator. Within the Energy & Environment segment, growth within food applications was more than offset by a decline of sales into oil exploration.

From a geographical perspective, we had good growth in North America with delayed revenue into China offsetting growth in Asia, with Europe having a marginal decline relative to the previous year. The sector had good growth to commercial customers with delayed revenue more than offsetting good underlying growth to academic customers in the period.

The impact of coronavirus tempered growth towards a marginal increase in reported revenue to £126.0m (2019: £125.2m), representing a decline of 1.1% at constant currency. Reported orders declined in the period by 3.4% to £133.5m (2019: £138.2m), with underlying in-year increased demand being offset by the substantial order in the previous year into China. Improved commercial practices and gains through our operational excellence programme contributed to improved profitability in the period with reported operating profit growth of 12.4% to £14.5m (2019: £12.9m), representing a growth of 2.3% at constant currency. Reported operating margin increased to 11.5% (2019: 10.3%) corresponding to 10.7%, an increase of 40 basis points at constant currency. Delayed shipments in the year contributed to the order book for future deliveries increasing to £99.0m (2019: £91.1m), representing growth of 8.6%. In the second half of the year we sold our minority shareholding in Scienta Omicron to existing Shareholders.

Service & Healthcare provides customer services and support for our own products and the service of third-party MRI scanners in Japan. In the second half of the year we divested our OI Healthcare business in the US. This has been treated as a discontinued business. Our business to support and service MRI systems within Japan continues to perform well and remains a core part of the Group.

In the year, we initiated the transformation of our customer services approach in line with our Horizon strategy. This has involved both changing the way in which we provide support to our customers as well as providing a broader portfolio with increased customer segment tailored content. Whilst we are early in this transformation, the programme has already driven strong growth in demand from customers for services related to our own products and increased efficiencies, driving profit growth and improved margins.

Reported orders increased by 6.6% to £56.4m (2019: £52.9m), growth of 4.7% at constant currency, with reported revenue increasing 5.7% to £53.8m (2019: £50.9m), growth of 3.7% at constant currency. Reported adjusted operating profit increased 10.3% to £15.0m (2019: £13.6m), a rise of 5.1% at constant currency, with reported operating margin up 120 basis points to 27.9% (2019: 26.7%).

R&D

Our enhanced customer-centric, market-driven approach is identifying increasingly attractive development opportunities, enriching our IP portfolio and driving our investment decisions across the Group. In the year we invested £26.8m in R&D (2019: £24.8m), representing 8.4% of sales, with distribution reflecting our focus on developing products and tailored solutions that support specific customer applications within our growth markets. We monitor the proportion of revenue which originates from products launched in the last three years (our vitality index). In the period, our vitality index was 39% (2019: 37%) representing a continued healthy pipeline and performance of newly launched products.

People

We have diverse and engaged employees who have demonstrated their commitment and passion to continue to improve our business and provide enhanced support for our customers. This has been particularly demonstrated through their actions and agility throughout the unprecedented disruption caused by the coronavirus.

I would like to thank all our employees for their commitment during these challenging times and their innovative approaches to ensure our customers continue to receive a world-class experience from Oxford Instruments.

Summary and outlook

We have made good progress in the year with the implementation of our Horizon strategy, which combined with our strong balance sheet continues to provide the foundation for long-term sustainable growth and margin improvement. We have positioned the Group to be a leading provider of high technology products and services to the world's leading industrial customers and scientific research communities to image, analyse and manipulate materials down to the atomic and molecular level. This allows us to live up to our purpose of facilitating a greener economy, increased connectivity, improved health and leaps in scientific understanding.

The coronavirus has continued to impact trading in the first two months of the year, with cumulative orders 3% below a weak comparator period, and with growth in Asia of 19% offsetting a reduction in Europe and North America of 23% and 7% respectively. A strong uplift in orders for our compound semiconductor process solutions has offset a reduction in orders for our higher-margin scientific cameras and optical microscopy products, which have been severely impacted by disruption across academic customers. Group revenue is 3% above last year, assisted by delivery of shipments that were held over from the year end due to covid-19.

We have an active pipeline of sales opportunities, reinforced by our digital marketing and online sales presence; but activity levels within academic institutions remain low due to continued customer site closures.

It will take some time to understand the impact and longevity of this disruption, and we will continue to take measures to adapt and protect our business throughout this period. Once we have attained an improved level of visibility, we will be in a position to provide guidance on the current year's expected financial outcomes.

Our strategy is to operate in attractive markets with long-term fundamental growth drivers and to focus on segments where we can maintain leadership positions. With the increasing demand for electric vehicles and digital communications infrastructure, and the need for improved energy-efficient devices, medicines and diagnostic tools, we are confident that our end markets are resilient and should not be weakened in the long term by covid-19 headwinds.

Ian Barkshire
Chief Executive

9 June 2020

OPERATIONS REVIEW

Materials & Characterisation

	2020 £m	2019 £m	Growth	Constant currency growth
Revenue	**137.6**	137.9	-0.2%	-1.9%[1]
Adjusted[2] operating profit	**21.0**	21.2		
Adjusted[2] operating margin	**15.3%**	15.4%		
Operating profit after adjusting items	**12.3**	18.8		

1. For definition refer to foot note 2 on the first page.
2. Details of adjusting items can be found in Note 1 of the condensed Financial Statements.

The Materials & Characterisation sector comprises Asylum Research, NanoAnalysis and Plasma Technology. This sector has a broad customer base across a wide range of applications for the imaging and analysis of materials down to the atomic level, as well as the fabrication of semiconductor devices and structures through our range of advanced semiconductor etch and deposition process systems. Our portfolio of imaging systems includes our range of market-leading X-ray and electron analysis systems used in conjunction with electron and ion microscopes as well as our performance-leading atomic force microscopes.

The sector has a strong focus on supporting and accelerating our customers' applied R&D, enabling the development of new devices, next generation higher performance materials and enhancing productivity in advanced manufacturing, quality assurance (QA) and quality control (QC). We provide leading product performance, improved ease of use and enhanced productivity, with the analytics and information to aid the interpretation of acquired data.

Materials & Characterisation delivered growth in reported orders, with delayed shipments offsetting underlying growth in revenue and adjusted operating profit. Performance in the period was enhanced by our customer-centric approach, which identifies new markets and then subsequently tailors our product offerings to these specific end-customer applications, increasing the product value and expanding our addressable markets. We had good order and revenue growth from academic and Government-funded customers supported by positive funding environments across Europe and North America.

This led to good order and revenue growth from academic customers in the period. However, continued weakness in the semiconductor, electronics, automotive and steel production markets impacted orders and revenue from commercial customers. The proportion of revenue from commercial customers remained broadly in line with the previous year at 55% (2019: 57%). Adjusted operating margin of 15.3% was held back by delayed shipments and installations. The order book for future deliveries grew 23.5% in the period to £50.9m (2019: £41.2m). Profit before tax after adjusting items fell against last year due to the non-cash impairment of capitalised development costs.

Looking at our end markets, we continued to see underlying demand within each of the three main segments for the sector, namely Advanced Materials, Semiconductor & Communications and Energy & Environment, supported by the diverse range of end applications.

Delayed revenues and orders due to covid-19 disproportionally impacted both the Semiconductor & Communications and Advanced Materials sectors for customers in Asia and Europe. Semiconductor & Communications represented 44% of sales in the sector, Advanced Materials 37%, with Energy & Environment 14%, and Healthcare & Lifescience 4%, broadly in line with the previous year.

Semiconductor & Communications remains a significant focus for the sector, with growth in compound semiconductor markets offsetting the continued weakness in demand for our imaging and analysis systems from silicon semiconductor and electronics customers through the year. The global demand for faster data processing, improved connectivity and increased efficiency of power devices has led to growth in demand for our compound semiconductor etch and deposition process solutions, underpinned by our market-leading performance and expertise.

With governments around the world recognising the critical importance of connectivity, there is increasing investment in developing more capacity to cope with the growing amount of information and required communication bandwidth resulting from developments such as 5G and device connectivity, as well as increasing levels of online activities such as shopping and virtual meetings. This requires enhanced fibre optic connectivity in hyperscale data centres, to enable faster and more efficient transfer of vast data volumes. This has driven the demand for next generation devices for optical transmission, detection and data processing which in turn has led to increased demand for our gallium arsenide and indium phosphide compound semiconductor solutions. These have been specifically tailored to enhance the performance of advanced optical semiconductor devices, such as lasers.

The pressing need to find solutions to enable a greener economy is leading to increased efforts to improve the efficiency of power conversion devices and the move to sustainable energy sources. This has resulted in increased investment in electric vehicles, high efficiency energy conversion and power delivery systems. This has led to growing demand within the electric vehicle and industrial power distribution markets for our silicon carbide (SiC) processing solutions providing the ability for batteries to run at higher voltages with significantly higher energy efficiency, enabling faster charging times and longer mileage range.

In addition, the ability of SiC devices to operate at higher temperatures reduces the need for coolants, reducing the size and weight of batteries and contributing to more efficient cars. In the year, we further optimised our SiC processing solutions to provide higher performance, with increased yield and reduced manufacturing cost per wafer. The demand for improved power conversion also exists in consumer devices, although the cost sensitivity of this market has driven use of lower cost devices that utilise gallium nitride compound semiconductors. Our tailored process solutions for this market are being used to produce the latest USB charging devices, which are enabling significantly faster charging of mobile phones, tablets and laptops.

We continue to see growth in the Advanced Materials segment supported by the drive to develop, control and repeatably manufacture stronger, lighter, higher performing materials across a broad range of diverse markets and applications. These include the increased use of high-performing alloys and aluminium components within the aerospace and automotive industries, which provide more durable, lighter and safer aircraft and vehicles that are more fuel efficient and environmentally friendly Our market-leading imaging solutions, which enable the measurement and characterisation of composition, structure and thin film characteristics, support our customers across fundamental research investigations, applied R&D and quality control. In addition, the increased demand for cost-effective and viable battery solutions is driving significant materials science research in this area.

Advanced materials, such as graphene, are also providing potential solutions for the provision of clean water, the capture of carbon emissions and more robust and flexible solar panels. Material purity, thin film thickness and reproducibility remain significant challenges. The ability of our atomic force microscopes and electron microscopy imaging solutions provides the necessary characterisation capabilities to advance this field-enabling measurement down to the atomic level. In addition, our semiconductor processing solutions provide the capability for customers to repeatably and controllably deposit the ultra-thin layers and coatings of the advanced materials. The application of our products across a broad range of markets has more than offset the ongoing weakness in automotive and steel production sales within this segment.

We had good growth in the Energy & Environment segment, with applications across photovoltaics, batteries and forensics. This has included strong growth in sales of our AZtecGSR™ software to the leading forensic laboratories around the world, supported by the increased speed and accuracy of our system, and the achievement of industry accreditation in the year, which allows results to be fully validated and admissible as evidence in court.

While still a relatively small proportion of the sector, Healthcare & Lifescience applications represent an opportunity for future growth, specifically within bioimaging. Building on our expertise and knowledge from the Semiconductor & Communications and Advanced Materials segments we have developed solutions to enable customers to investigate and characterise biological materials. For example, our video rate AFM is helping researchers to learn more about the building blocks of life by unlocking the dynamic behaviour and events at a cellular level for those undertaking cancer and virus research. Our analysers are being used to look at the micro-particles that result from general wear and tear on artificial joint replacements. This is helping researchers understand how these particles impact the tissues around it, possibly causing inflammation that can result in tissue death. Studies using our Ultim™ analyser have sought to understand the seed and cell structure in plants and how they can capture and transport air pollutants, leading to better understanding of allergies such as hay fever.

RESEARCH & DISCOVERY

	2020 **£m**	2019 £m	Growth	Constant currency growth
Revenue	**126.0**	125.2	+0.6%	-1.1%[1]
Adjusted[2] operating profit	**14.5**	12.9		
Adjusted[2] operating margin	**11.5%**	10.3%		
Operating profit after adjusting items	**13.3**	6.8		

1. For definition refer to foot note 2 on the first page.
2. Details of adjusting items can be found in Note 1 of the condensed Financial Statements.

The Research & Discovery sector includes Andor Technology, Magnetic Resonance, NanoScience and X-Ray Technology. This sector provides advanced solutions that create unique environments and enable imaging and analytical measurements down to the molecular and atomic level, used predominantly in fundamental and applied research. We build on our relationships with customers working on breakthrough applications in research to gain insights and support future commercial applications. We have strong brand recognition and leading product performance in our chosen market segments.

In the second half of the year we sold our minority shareholding in Scienta Omicron to existing Shareholders for a consideration of SEK 147m (£11.7m).

The sector continued to make good progress in the second half of the year, building on a positive first half. However, significant covid-19 related delays to the shipment and installation of systems in the fourth quarter offset underlying growth, resulting in revenue broadly in line with the previous year. Despite the impact to revenue, reported adjusted operating profit growth of 12.4% to £14.5m (2019: £12.9m) reflected continued gains from our ongoing operational excellence programme and improved commercial practices. This led to improved profitability for the sector, with operating margin increasing 120 basis points to 11.5% (2019: 10.3%). From a geographical perspective, we had good revenue growth in North America, with covid-19 related delays more than offsetting underlying growth in Asia; Europe marginally declined in the year.

Reported orders were down 3.4% to £133.5m (2019: £138.2m) but represented good underlying growth after excluding the contribution from the prior year's large framework order from the Chinese Academy of Science, which will be delivered over the next few years. The delay to shipments and installations in the year due to covid-19 contributed to strong growth in the order book for future deliveries, which increased by 8.6% to £99.0m (2019: £91.1m).

Our key enabling technologies and products within the sector are seeing increased demand across a broad range of commercial applications, leading to growth in revenue from commercial customers. Underlying market conditions and global funding remained positive from the academic and Government-funded community but reported revenues declined due to the previously mentioned covid-19 delays.

As a consequence, the proportion of revenue from commercial customers increased to 35% (2019: 31%).

The positive underlying performance was supported by demand across a broad range of end applications for our portfolio of scientific instruments and cameras, cryogenics, and high magnetic field platforms. In the year, and in line with our customer-centric approach, we continued to develop tailored solutions for customer-specific applications. Underlying growth was further supported by the increased global initiatives and associated funding across Quantum Technology, increased academic funding into Research & Fundamental Science and the increasing demand for technology solutions that drive improvements across Healthcare & Lifescience.

Healthcare & Lifescience remains a significant focus for the sector, with revenue broadly in line with the previous year, representing 39% of the sector. The continued drive to improve the health and wellbeing of society is leading to the increased development of more accurate means of disease detection, improved understanding of how the body fights diseases and the development of personalised medicine and treatment plans. The market-leading sensitivity of our scientific cameras, and the performance of our X-ray tube and laser systems, have supported advances in this area and have led to increased demand across a broad range of applications including gene sequencing, diagnostic testing, drug discovery and cancer research. This has included direct sales to end customers as well as the supply of our key enabling technologies to our OEM partners. These products have been critical in the global response to the covid-19 pandemic and are being used to study the virus, determining its fundamental structure, gene sequencing, mutations, developing potential vaccines and treatments, as well as within diagnostic testing equipment. Whenever necessary, we increased our capacity and prioritised the shipment of products for these applications to support the global fight against covid-19.

Improved microscopy techniques with increased resolution and the ability to interrogate and interpret large data sets are providing new insights, improved fundamental understanding and treatments across many applications, including cancer research and neurological disorders such as Parkinson’s and Alzheimer’s. This has driven increased demand for our advanced visualisation and data analysis software as we continue to add application-specific capabilities. However, sales of our microscopy systems declined in the period against a strong comparator and increased competitor activity.

We had strong revenue growth in Quantum Technology, representing 17% of the sector, with governments and corporates increasing investments to develop quantum computing, secure communication, advanced sensors and quantum imaging capabilities. Our cryogenic platforms, high-field magnet systems and scientific cameras are critical components in the advancement of both the fundamental science and commercial applications.

In the second half of the year we launched a new cryogenic platform with improved performance that enables higher productivity and measurement capability supporting the development of practical quantum computers. In addition, the requirement to detect and measure individual photons has led to increased demand for our tailored scientific cameras, which we have optimised for these applications.

Within Research & Fundamental Science, increased academic interest and associated international funding drove strong underlying revenue growth across our portfolio of scientific instruments, cryogenics and high-field magnetic platforms. This included the delivery of several advanced systems into the world’s leading academic institutions.

The proportion of revenue from this sector represents 27%, up on the previous year. Increased investment in astronomy is driven by the exploration of the universe, the tracking of space debris to enable the safe operation of billion-dollar satellites and monitoring solar activity to predict interruptions and to protect the security of satellite and earth-based communications. This has led to increased demand for our specifically designed, higher performing scientific cameras with increased value. As an example, during the year, astronomers in Hawaii took the most detailed images ever recorded of the sun’s surface using our Balor™ camera, which we launched in the first half of the year, whose unique features include the ability to capture a much larger area of the sky with improved resolution and stability.

Our customers within the Advanced Materials segment utilise these same products and solutions in the development and characterisation of next generation materials such as graphene and represent 8% of revenue in the sector.

The Energy & Environment segment represents 6% of revenue. Our benchtop magnetic resonance analysers have benefited from growth within the food manufacturing market. Due to the method’s superior accuracy in measuring fat levels in snack foods, our benchtop analyser is becoming the technology of choice, with precision becoming important for accurate food labelling, quality control and consistency between batches. Revenue growth in the period was offset by ongoing weakness in the oil market, leading to a reduction in sales of our Rock Core oil analysers.

SERVICE & HEALTHCARE

	2020 £m	2019 £m	Growth	Constant currency growth
Revenue	**53.8**	50.9	+5.7%	+3.7%[1]

Adjusted[2] operating profit	**15.0**	13.6
Adjusted[2] operating margin	**27.9**	26.7
Operating profit after adjusting items	**15.0**	13.6

1. For definition refer to foot note 2 on the first page.
2. Details of adjusting items can be found in Note 1 of the condensed Financial Statements.

The Service & Healthcare sector comprises the Group's maintenance service contracts, billable repairs, training and support services, and spare part sales related to Oxford Instruments' own products; and the support and service of third-party MRI scanners in Japan.

In the second half of the year we divested the OI Healthcare business with operations within North America. This has been treated as a discontinued business, along with comparative numbers. Our contract to support and service MRI systems within Japan remains within the Group, with performance in line with the previous year.

During the year, as a key focus of our Horizon strategy, we initiated the transformation of our customer service approach by reviewing the way in which we provide support to our customers as well as expanding the breadth of service product offerings and capabilities. To aid the development of future service offerings and application-specific tailored products, we have embedded the requirements of design for service within our new product development management process. This has included taking a customer-centric approach, providing tailored service products for dedicated end-market applications. Our new approach has led to increased demand for services related to our own products, supporting strong order and revenue growth and contributed to improved profitability in the period.

As part of the transformation we are reorganising the resources across our business units and regions, better leveraging our scale to provide better response times for customers, improve our efficiencies and increase our global presence. This further contributed to improved margins from the services related to our own products.

The transformation has enabled us to increase the added value that we bring to our customers by focusing on helping them improve their capabilities, knowledge and productivity. This has included the provision of tailored maintenance contracts and upgrades, training programmes and remote support from our knowledgeable experts.

We have increased the productivity of our customers through the development and utilisation of remote servicing and Live Assist capabilities, enabling augmented reality service support to help with diagnostics and system repairs. In addition to providing increased efficiencies across our service teams, reducing our carbon footprint and improving customer response times, we have found this invaluable in supporting our customers during the covid-19 related business and travel disruption.

Whilst at the early stages of this transformation, we can see a good pipeline of opportunities to further support our customers and increase our productivity.

FINANCE REVIEW

In January 2020, the Group disposed of its minority equity stake in the Scienta Omicron joint venture to existing Shareholders. In the following month, the Group completed the disposal of its OI Healthcare business in the US. For the purposes of current and comparative reporting, OI Healthcare has been reclassified as a discontinued operation.

The Group was impacted by covid-19 towards the latter stages of the financial year. Approximately two weeks' equivalent product shipments and installations were delayed; these are expected to unwind during the first quarter of the 2020/21 financial year depending on the reopening of customer sites and easing of travel restrictions. Despite disruption during a busy period for our businesses, our full-year financial outcomes were broadly consistent with last year. In addition, good operating cash flow, combined with proceeds from business disposals, contributed to a healthy net cash position at year end. This, along with proactive cash-saving actions, provides resilience for the Group to weather the economic turbulence as a result of covid-19.

Reported orders increased by 0.3% to £336.0m (2019: £335.1m), a decrease of 1.3% at constant currency. At the end of the period, the Group's order book for future deliveries stood at £175.0m (31 March 2019: £153.2m). The order book grew 14.2% on a reported basis and 12.1% at constant currency.

Reported revenue on a continuing basis increased by 1.1% to £317.4m (2019: £314.0m). Revenue from continuing operations, excluding currency effects, declined by 0.7%, with the movement in average currency exchange rates over the year increasing reported revenue by £5.5m.

Adjusted operating profit from continuing operations increased by 5.9% to £50.5m (2019: £47.7m). Adjusted operating profit, excluding currency effects, decreased by 1.0%. Adjusted operating margin from continuing operations increased by 70 basis points to 15.9% (2019: 15.2%). Excluding currency effects, adjusted operating margin fell by 10 basis points to 15.1%.

Operating profit of £39.8m (2019: £37.4m) grew by 6.4%.

Adjusted profit before tax from continuing operations grew by 8.8% to £49.5m (2019: £45.5m), representing a margin of 15.6% (2019: 14.5%).

Amortisation of acquired intangibles was £8.7m and the business incurred a charge of £1.4m relating to the movement in the mark-to-market valuation of uncrystallised currency hedges for future years. A charge of £0.6m on net adjusting items comprises a £6.5m gain on the disposal of Scienta Omicron and a credit of £0.6m on the termination of the US defined benefit pension scheme, offset by an impairment of intangible development costs of £7.1m and a one-off inventory write-down and small restructuring cost of £0.6m.

After adjusting items, the Group recorded an operating profit of £39.8m (2019: £37.4m) and profit before tax of £38.8m (2019: £34.3m).

Continuing adjusted basic earnings per share grew by 12.7% to 70.2p (2019: 62.3p). Continuing basic earnings per share were 55.9p (2019: 48.6p), growth of 15.0%.

Cash generated from operations of £62.3m (2019: £53.0m) represents 124% (2019: 100%) cash conversion. Net cash increased from £6.7m on 31 March 2019 to £67.5m, aided by good operating cash flow and proceeds from disposals of £20.4m. Net cash at the end of May 2020 had increased to £70.0m.

At the end of March, our revolving credit facility remained undrawn, leaving approximately £105m of committed facilities. This represents total headroom of about £200m. The Group has outstanding private placement loan notes of £27.9m, which mature on 31 March 2021, at which point headroom will fall to £172m.

Adjusted operating profit is stated before amortisation of acquired intangibles, restructuring costs, the mark-to-market valuation of unexpired currency hedges, and other adjusting items, as set out in Note 1 to the Financial Statements.

Under the rules for audit tendering and rotation implemented in 2016, the Group is required to replace our current auditor, KPMG LLP, no later than 31 March 2021, effective for the 31 March 2022 year end. Following a comprehensive and thorough competitive tender process for the audit in the first quarter of 2020, BDO were appointed as auditor, effective for the 31 March 2021 year end. This appointment will be subject to Shareholder approval at the next AGM to be held in September 2020.

Income Statement

The Group's Income Statement is summarised below.

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Change
Revenue	**317.4**	314.0	+1.1%
Adjusted gross profit	**158.8**	159.3	(0.3%)
Administrative expenses	**(109.0)**	(110.6)	
Share of profit of associate	**0.7**	0.2	
Foreign exchange	**—**	(1.2)	
Adjusted operating profit	**50.5**	47.7	+5.9%
Net finance costs	**(1.0)**	(2.2)	
Adjusted profit before tax	**49.5**	45.5	+8.8%
Amortisation of acquired intangibles	**(8.7)**	(8.8)	
Non-recurring items	**(0.6)**	(0.9)	
Mark-to-market of currency hedges	**(1.4)**	(1.5)	
Profit before tax	**38.8**	34.3	+13.1%
Tax from continuing operations	**(6.8)**	(6.5)	
Profit for the period from continuing operations	**32.0**	27.8	
Profit from discontinued operations after tax	**1.8**	2.2	
Adjusted effective tax rate[1]	**18.8%**	21.8%	
Continuing adjusted earnings per share – basic	**70.2p**	62.3p	+12.7%
Continuing earnings per share – basic	**55.9p**	48.6p	+15.0%
Continuing adjusted earnings per share – diluted	**69.5p**	61.7p	+12.6%
Continuing earnings per share – diluted	**55.3p**	48.2p	+14.7%
Dividend per share	**—**	14.4p	

1. The adjusted effective tax rate is calculated excluding amortisation of acquired intangibles, the mark-to-market of financial derivatives, and other adjusting items.

Orders and revenue
Total reported orders grew by 0.3% (a decline of 1.3% at constant currency) to £336.0m. Orders, at constant currency, were flat for Materials & Characterisation, declined by 5.1% for Research & Discovery and grew by 4.7% for Service & Healthcare. In the comparative period, orders included a large £11.0m order from the Institute of Physics-Chinese Academy of Sciences (IOP-CAS). Excluding the impact of this order, the Group and our Research & Discovery segment have seen modest constant currency order growth.

Reported revenue of £317.4m (2019: £314.0m) increased by 1.1% (a decline of 0.7% at constant currency). Reported revenue was broadly flat for Materials & Characterisation, increasing by 0.6% for Research & Discovery and 5.7% for Service & Healthcare. Customer disruption from covid-19 meant that we were unable to complete a significant number of product shipments and installations in the final quarter, with approximately two weeks' equivalent revenue being delayed to the following financial year. In the absence of this disruption the Group would have achieved modest constant currency growth.

The book-to-bill ratio (orders received to goods and services billed in the period) for the year was 1.06.

Revenue, at constant currency, declined by 1.9% for Materials & Characterisation due to several of Plasma Technology's product shipments, along with a smaller number of Asylum Research's shipments, being delayed due to the closure of customer sites. A constant currency decline of 1.1% in Research & Discovery was also impacted by being unable to complete high value product installations in Asia ahead of the year end owing to customer site closures and travel constraints on service personnel.

Service & Healthcare constant currency revenue grew by 3.7%, with good growth from the service of our own products.

On a geographical basis, at constant currency, revenue grew by 4.7% in Europe, 3.0% in North America, and a decline of 6.5% in Asia, with the Rest of World growing by 17.0%. The covid-19 disruption to trading was most prevalent in Asia during the fourth quarter of the year.

The total reported order book grew by 14.2% (12.1% at constant currency). The order book, at constant currency, compared to 31 March 2019, increased by 20.1% for Materials & Characterisation, 7.4% for Research & Discovery and 16.6% for Service & Healthcare. This good growth has been supported by revenue not recognised in the year owing to delayed shipments and installations.

£m	Materials & Characterisation	Research & Discovery	Service & Healthcare	Total
Revenue[1]: 2018/19	137.9	125.2	50.9	314.0
Underlying movement	(2.6)	(1.4)	1.9	(2.1)
Foreign exchange	2.3	2.2	1.0	5.5
Revenue[1]: 2019/20	**137.6**	**126.0**	**53.8**	**317.4**
Revenue growth: reported	(0.2%)	+0.6%	+5.7%	+1.1%
Revenue growth: constant currency	(1.9%)	(1.1%)	+3.7%	(0.7%)

1. From continuing operations.

Adjusted gross profit
Adjusted gross profit was broadly flat at £158.8m (2019: £159.3m), representing a gross profit margin of 50.0%, a decline of 70 basis points over last year.

Adjusted operating profit
Adjusted operating profit from continuing operations increased by 5.9% to £50.5m (2019: £47.7m), representing an adjusted operating profit margin of 15.9%, an increase of 70 basis points against last year. At constant currency, the adjusted operating profit margin was 15.1%, a decrease of 10 basis points. Lower contribution recognised in the year on delayed product shipments and installations from covid-19 has offset underlying margin improvement from our operational excellence and other Horizon programmes, depressing the full-year operating margin.

Materials & Characterisation margin declined by 10 basis points to 15.3% (2019: 15.4%) with Plasma Technology's and Asylum Research's margins negatively impacted by shipment delays from customer site closures. At constant currency, the margin was 14.6%, a decline of 80 basis points.

Research & Discovery's adjusted operating margin increased to 11.5% (2019: 10.3%), growth of 120 basis points. At constant currency, the margin was 10.7%, an increase of 40 basis points. Margin growth was held back by being unable to complete the installation of some significant complex magnet and cryogenic systems owing to site closures and travel restrictions for our service personnel.

Service & Healthcare margin increased by 120 basis points to 27.9% (2019: 26.7%). At constant currency, the margin was 27.1%, an increase of 40 basis points owing to our focus on improving service revenue on our own products.

Our share of the Scienta Omicron joint venture prior to the sale of our equity shareholding showed an adjusted profit after tax of £0.7m for the year, against a profit of £0.2m for the comparative period.

Currency effects (including the impact of transactional currency hedging) have increased reported adjusted operating profit by £3.3m when compared to blended hedged exchange rates for the comparative period.

£m	Materials & Characterisation	Research & Discovery	Service & Healthcare	Total
Adjusted operating profit[1]: 2018/19	21.2	12.9	13.6	47.7
Underlying movement	(1.6)	0.3	0.8	(0.5)
Foreign exchange	1.4	1.3	0.6	3.3
Adjusted operating profit[1]: 2019/20	**21.0**	**14.5**	**15.0**	**50.5**
Margin: 2018/19	15.4%	10.3%	26.7%	15.2%
Margin: 2019/20	**15.3%**	**11.5%**	**27.9%**	**15.9%**

1. From continuing operations.

Adjusting items
Amortisation of acquired intangibles of £8.7m relates to intangible assets recognised on acquisitions, being the value of technology, customer relationships and brands.

Non-recurring items were a net charge of £0.6m. The sale of our shareholding in Scienta Omicron realised a gain of £6.5m. In addition, an accounting credit of £0.6m arose from the termination of the US defined benefit pension scheme, which was completed prior to the end of the year. The impact of covid-19 is, in the short term, expected to reduce some order opportunities across our business segments. In addition, we have reviewed our development intangible assets to ensure they remain directly related to targeted product or software developments. As a result, we have impaired intangible development assets, realising a charge of £7.1m. The majority of the non-cash impairment relates to our Materials & Characterisation segment; comprising software intangibles in Asylum Research, historical balances on general process development in Plasma Technology and product development in NanoAnalysis that has been affected by a reduction in orders as a result of covid-19. This results in a large reduction in the segment's operating profit after adjusting items compared to last year. The remaining charge of £0.6m is attributable to a one-off write-down of inventory built up over time ahead of an in-year implementation of a new ERP system in X-Ray Technology, as well as a small restructuring cost within our magnet and cryogenics business.

The Group uses derivative products to hedge its short-term exposure to fluctuations in foreign exchange rates. It is Group policy to have in place at the beginning of the financial year hedging instruments to cover 80% of its forecast transactional exposure for that year. The Group has decided that the additional costs of meeting the extensive documentation requirements of IFRS 9 to apply hedge accounting to these foreign exchange hedges cannot be justified. Accordingly, the Group does not use hedge accounting for these derivatives.

Net movements on mark-to-market derivatives in respect of transactional currency exposures of the Group in future periods are disclosed in the Income Statement as foreign exchange and excluded from our calculation of adjusted profit before tax. In the current year this amounted to a charge of £1.4m (2019: £1.5m charge). The year-end liability primarily reflects an uncrystallised loss arising from a fall in the value of Sterling at the balance sheet date against a blended rate achieved on US Dollar, Euro and Japanese Yen forward contracts that will mature over the next twelve months.

Net finance costs
The Group's adjusted net finance costs fell by £1.2m to £1.0m (2019: £2.2m) with net finance charges falling by £0.9m to £1.0m, supported by a refund of overpaid interest for previous years of £0.4m, and pension finance charges falling by £0.3m to zero, reflecting the movement from a net asset pension deficit as at 31 March 2019 to an asset at 31 March 2020.

Profit before tax
Continuing adjusted profit before tax increased by 8.8% to £49.5m (2019: £45.5m). The adjusted profit before tax margin of 15.6% (2019: 14.5%) was above last year due to an increase in the adjusted operating margin and lower net finance costs.

Continuing profit before tax of £38.8m (2019: £34.3m) is after the mark-to-market movement on derivative financial instruments, amortisation of acquired intangibles and other adjusting items.

Tax
The adjusted tax charge from continuing operations of £9.3m (2019: £9.9m) represents an effective tax rate of 18.8% (2018: 21.8%), the reduction reflecting provisions made in the comparative period and a change in the geographical mix of profits earned.

Earnings per share
Continuing adjusted basic earnings per share increased by 12.7% to 70.2p (2019: 62.3p); continuing adjusted diluted earnings per share grew by 12.6% to 69.5p (2019: 61.7p). Continuing basic earnings per share increased by 15.0% to 55.9p (2019: 48.6p); continuing diluted earnings per share grew by 14.7% to 55.3p (2019: 48.2p).

The number of undiluted weighted average shares increased marginally to 57.3m.

Foreign exchange
The Group faces transactional and translational currency exposure, most notably against the US Dollar, Euro and Japanese Yen. For the year, approximately 15% of Group revenue was denominated in Sterling, 52% in US Dollars, 20% in Euros, 11% in Japanese Yen and 2% in other currencies. Translational exposures arise on the consolidation of overseas company results into Sterling. Transactional exposures arise where the currency of sale or purchase transactions differs from the functional currency in which each company prepares its local accounts.

The Group maintains a hedging programme against its net transactional exposure using internal projections of currency trading transactions expected to arise over a period extending from 12 to 24 months. As at 31 March 2019, the Group had currency hedges in place extending up to 14 months forward.

For the full year 2020/21, our assessment of the currency impact is, based on hedges currently in place and spot rates prevailing as at 31 March 2020, a tailwind of approximately £6.0m to revenue and £2.0m to adjusted operating profit. As an example sensitivity, if we assume a 5% appreciation of Sterling against our major trading currencies, then the impact is a reduction in revenue of £9.0m and adjusted operating profit of £1.5m. Uncertain volume and timing of shipments and acceptances, currency mix and FX volatility may significantly affect full-year currency effects.

Disposal of OI Healthcare – discontinued operations
On 24 February 2020, the Group sold the OI Healthcare business in the US to MXR Imaging, Inc, for a consideration of $14.9m (£11.5m). The business has been treated as a discontinued operation. An adjusted loss of £0.5m after taxation has been recorded under discontinued operations (2019: profit of £1.5m).

Disposal of Scienta Omicron
On 29 January 2020, the Group sold its 47% share in Scienta Omicron to a group of existing Shareholders in the joint venture for a consideration of SEK 147m (£11.7m). The Group has recorded a gain of £6.5m on the disposal; this has been treated as a non-recurring item. During the year, the Group recorded a profit of £0.7m (2019: £0.2m) within adjusted operating profit.

Dividend
The Group's policy is to increase the dividend each year in line with the increase in underlying earnings, considering movements in currency. Following the high uncertainty created by the impact of covid-19, the Group suspended the payment of the interim dividend of 4.1p per share, which was due to be paid on 14 April 2020. As a result of continued uncertainty, the Board will defer a decision on payment of dividends until we have fully assessed the outcome of disruption caused by covid-19 on our markets and trading performance.

Cash flow
The Group cash flow is summarised below.

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Adjusted operating profit	**50.5**	47.7
Depreciation and amortisation	**9.9**	9.5
Adjusted EBITDA	**60.4**	57.2
Working capital movement	**10.1**	2.8
Loss on disposal of property, plant and equipment	**—**	0.2
Equity settled share schemes	**3.1**	0.8
Share of profit from associate	**(0.7)**	(0.2)
Business reorganisation items	**(0.6)**	(0.7)
Pension scheme payments above charge to operating profit	**(10.0)**	(7.1)
Cash generated from operations	**62.3**	53.0
Interest	**(1.0)**	(3.2)
Tax	**(6.1)**	(8.7)
Capitalised development expenditure	**(2.8)**	(3.5)
Expenditure on tangible and intangible assets	**(4.3)**	(7.1)
Proceeds from sale of associate	**11.7**	—
Decrease in long-term receivables	**1.4**	1.1
Dividends paid	**(8.2)**	(7.6)
Proceeds from issue of share capital and exercise of share options	**0.7**	0.2
Payments made in respect of lease liabilities	**(3.3)**	(2.7)
Decrease in borrowings	**(0.6)**	(11.5)
Net increase in cash and cash equivalents from continuing operations	**49.8**	10.0

Note: Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation of acquired intangibles, mark-to-market of financial derivatives, business reorganisation items costs and other adjusting items.

Cash generated from operations
Cash generated from operations of £62.3m (2019: £53.0m) represents 124% (2019: 100%) cash conversion. Cash conversion is defined as cash generated from operations before non-recurring items and pension scheme payments, less capitalised development expenditure, capital expenditure and payments made in respect of finance leases/adjusted operating profit.

Working capital fell by £10.1m. Inventories rose by £2.3m with additional finished goods due to shipments held over the year end following closure of customer sites. Receivables declined by £3.3m and payables and customer deposits increased by £9.1m, supported by our commercial focus on improving the percentage of deposits on long lead time products.

The increase in the cost of equity settled share schemes is due to a catch-up charge relating to a correction in the valuation of management share option incentive schemes.

Pension
Pension costs of £10.0m included a payment of $3.4m (£2.8m) to the US defined benefit pension scheme as full and final settlement of termination liabilities.

Interest
Net interest paid was £1.0m (2019: £3.2m). The comparative period includes a loan note make-whole of £0.9m. The remaining reduction reflects lower financing costs as the business increased its net cash position, combined with receipt of overpaid interest relating to previous years.

Tax
Tax paid was £6.1m (2019: £8.7m), with cash tax in the year benefiting from one-off refunds on closure of prior year tax returns.

Investment in Research and Development (R&D)
Total cash spend on R&D in the year was £26.8m, equivalent to 8.4% of sales (2019: £24.8m, 7.9% of sales). A reconciliation between the adjusted amounts charged to the Income Statement and the cash spent is given below:

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
R&D expense charged to the Income Statement	**26.6**	24.8
Depreciation of R&D-related fixed assets	**—**	(0.1)
Amounts capitalised as fixed assets	**0.1**	0.1
Amortisation and impairment of R&D costs capitalised as intangibles	**(2.7)**	(3.5)
Amounts capitalised as intangible assets	**2.8**	3.5
Total cash spent on R&D during the year	**26.8**	24.8

Net debt and funding
Net debt
Good cash generation in the year, combined with disposal receipts, substantially increased the Group's net cash position from £6.7m to £67.5m. Cash generated from operations was £62.3m (2019: £53.0m). Proceeds from disposals were £20.4m. The Group invested in capitalised development costs of £2.8m and tangible and intangible assets of £4.3m.

Movement in net debt	£m
Net cash as at 31 March 2019	6.7
Cash generated from operations	62.3
Interest	(1.0)
Tax	(6.1)
Capitalised development expenditure	(2.8)
Capital expenditure on tangible and intangible assets	(4.3)
Disposal of subsidiary and associate	20.4
Dividends paid	(8.2)
Other items	0.5
Net cash as at 31 March 2020	**67.5**

Funding
On 2 July 2018, the Group entered into a new unsecured multi-currency revolving facility agreement, which is committed until June 2023 with one-year extension options at the end of the first and second years. The facility has been entered into with two banks and comprises a Euro-denominated multi-currency facility of €50.0m and a US Dollar-denominated multi-currency facility of $80.0m.

We are in discussions to extend the facility by one year to June 2024, with an option to request an extension for a further year in one year's time.

The Group has outstanding bilateral private placement notes of £27.9m which mature on 31 March 2021.

Debt covenants are net debt to EBITDA less than 3.0 times and EBITDA to interest greater than 4.0 times. As at 31 March 2020 the business had net cash.

Pensions

The Group has defined benefit pension schemes in the UK and US. Both have been closed to new entrants since 2001 and closed to future accrual from 2010.

At 31 March 2020, the net asset arising from our defined benefit pension scheme obligations was £30.7m (31 March 2019: liability of £6.5m). The move from a deficit to surplus was attributable to scheme assets rising by more than liabilities due to respective changes in gilt and corporate bond yields on hedged assets and scheme liabilities respectively. Total scheme assets at 31 March 2020 were £321.4m (31 March 2019: £311.4m) while liabilities were £290.7m (31 March 2019: £317.9m).

As at 31 March 2020, the UK defined benefit pension liability includes an allowance of £0.3m for the expected cost of equalising Guaranteed Minimum Pension between males and females.

We have completed the process to terminate the US defined benefit pension scheme. This has extinguished all liabilities of the scheme. The cash cost of termination was $3.4m (£2.8m) with all payments having been made during the year in full and final settlement of the scheme's liabilities.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Performance, Strategy and Operations sections. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review.

In light of the global health crisis around the outbreak of covid-19, the future performance of the Group is anticipated to be affected, but it remains too early to assess the impact the unfolding situation will have on trading for the year ahead. The Group has therefore prepared and reviewed a number of scenarios for the Group based on varying degrees of disruption caused by covid-19 on orders, trading and cash flow performance. In addition, the Group has overlaid the risk of long-term adverse movements in foreign exchange rates to our cash flow forecasts. The Board is satisfied, having considered the sensitivity analysis, as well as its funding facilities, that the Group has adequate resources to continue in operational existence for the foreseeable future.

Forward-looking statements

This document contains certain forward-looking statements. The forward-looking statements reflect the knowledge and information available to the Company during the preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future, thereby involving a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.

Gavin Hill
Group Finance Director
9 June 2020

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 March 2020

		2020			2019 as restated[2]		
	Note	**Adjusted £m**	**Adjusting items[1] £m**	**Total £m**	Adjusted £m	Adjusting items[1] £m	Total £m
Revenue	3	**317.4**	**—**	**317.4**	314.0	—	314.0
Cost of sales		**(158.6)**	**(0.4)**	**(159.0)**	(154.7)	—	(154.7)
Gross profit		**158.8**	**(0.4)**	**158.4**	159.3	—	159.3
Research and Development	5	**(26.6)**	**(7.1)**	**(33.7)**	(24.8)	—	(24.8)
Selling and marketing		**(47.7)**	**—**	**(47.7)**	(48.5)	—	(48.5)
Administration and shared services		**(34.7)**	**(8.3)**	**(43.0)**	(37.3)	(9.1)	(46.4)

Share of profit of associate, net of tax		**0.7**	**6.5**	**7.2**	0.2	0.3	0.5
Foreign exchange loss		**—**	**(1.4)**	**(1.4)**	(1.2)	(1.5)	(2.7)
Operating profit		**50.5**	**(10.7)**	**39.8**	47.7	(10.3)	37.4
Financial income		**0.3**	**—**	**0.3**	0.3	—	0.3
Interest charge on pension scheme net liabilities		**—**	**—**	**—**	(0.3)	—	(0.3)
Other financial expenditure		**(1.3)**	**—**	**(1.3)**	(2.2)	(0.9)	(3.1)
Financial expenditure		**(1.3)**	**—**	**(1.3)**	(2.5)	(0.9)	(3.4)
Profit/(loss) before income tax	3	**49.5**	**(10.7)**	**38.8**	45.5	(11.2)	34.3
Income tax (expense)/credit	13	**(9.3)**	**2.5**	**(6.8)**	(9.9)	3.4	(6.5)
Profit/(loss) for the year from continuing operations		**40.2**	**(8.2)**	**32.0**	35.6	(7.8)	27.8
(Loss)/profit from discontinued operations after tax	7	**(0.5)**	**2.3**	**1.8**	1.5	0.7	2.2
Profit/(loss) for the year attributable to equity holders of the parent		**39.7**	**(5.9)**	**33.8**	37.1	(7.1)	30.0

Earnings per share		**pence**		**pence**	pence		pence
Basic earnings per share	2						
– From continuing operations		**70.2**		**55.9**	62.3		48.6
– From discontinued operations		**(0.9)**		**3.1**	2.6		3.8
From profit for the year		**69.3**		**59.0**	64.9		52.4
Diluted earnings per share	2						
– From continuing operations		**69.5**		**55.3**	61.7		48.2
– From discontinued operations		**(0.9)**		**3.1**	2.6		3.8
From profit for the year		**68.6**		**58.4**	64.3		52.0
Dividends per share	14						
– Dividends paid				**14.4**			13.3
– Dividends proposed[3]				**—**			14.4

1. Adjusted numbers are stated to give a better understanding of the underlying business performance. Details of adjusting items can be found in Note 1.
2. Details of restatement of prior period numbers can be found in note 9.
3. Payment of the interim dividend which was proposed by the Board on 12 November 2019 has been suspended until further notice.

The attached notes form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2020

	2020	2019

	£m	£m
Profit for the year	**33.8**	30.0
Other comprehensive income/(expense):		
Items that may be reclassified subsequently to profit or loss		
Foreign exchange translation differences	**2.5**	4.2
Net cumulative foreign exchange gain on disposal of subsidiaries recycled to the Income Statement	**(4.4)**	—
Items that will not be reclassified to profit or loss		
Remeasurement gain in respect of post-retirement benefits	**26.8**	2.5
Tax charge on items that will not be reclassified to profit or loss	**(5.1)**	(0.5)
Total other comprehensive income	**19.8**	6.2
Total comprehensive income for the year attributable to equity Shareholders of the parent	**53.6**	36.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2020

	Note	**2020**	2019
		£m	£m
Assets			
Non-current assets			
Property, plant and equipment	15	**21.8**	24.2
Right-of-use assets	28	**8.2**	8.8
Intangible assets	16	**135.5**	152.5
Investment in associate	6	**—**	4.6
Long-term receivables	19	**—**	0.3
Retirement benefit asset	25	**30.7**	—
Deferred tax assets	17	**17.3**	15.3
		213.5	205.7
Current assets			
Inventories	18	**58.8**	60.8
Trade and other receivables	19	**71.1**	78.3
Current income tax receivable		**0.2**	2.4
Derivative financial instruments	22	**0.9**	1.1
Cash and cash equivalents	20	**95.4**	35.2
		226.4	177.8
Total assets		**439.9**	383.5
Equity			
Capital and reserves attributable to the Company's equity Shareholders			
Share capital	23	**2.9**	2.9
Share premium		**62.2**	61.7
Other reserves		**0.2**	0.2
Translation reserve		**11.5**	13.4
Retained earnings		**174.8**	124.0
		251.6	202.2
Liabilities			
Non-current liabilities			
Bank loans	24	**—**	27.9
Lease payables	28	**6.5**	6.0
Retirement benefit obligations	25	**—**	6.5
Derivative financial instruments	22	**0.9**	—
Provisions	27	**0.9**	1.1
Deferred tax liabilities	17	**10.2**	6.3
		18.5	47.8
Current liabilities			
Bank loans and overdrafts	24	**27.9**	0.6
Trade and other payables	26	**125.1**	116.9

Lease payables	28	**2.1**	3.0
Current income tax payables		**4.6**	4.3
Derivative financial instruments	22	**2.6**	1.1
Provisions	27	**7.5**	7.6
		169.8	133.5
Total liabilities		**188.3**	181.3
Total liabilities and equity		**439.9**	383.5

The Financial Statements were approved by the Board of Directors on 9 June 2020 and signed on its behalf by:

Ian Barkshire Gavin Hill
Director Director
Company number: 775598

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2020

	Share Capital £m	Share premium £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
As at 1 April 2019	2.9	61.7	0.2	13.4	124.0	202.2
Total comprehensive income/(expense):						
Profit for the year	**—**	**—**	**—**	**—**	**33.8**	**33.8**
Other comprehensive income/(expense):						
– Foreign exchange translation differences	**—**	**—**	**—**	**2.5**	**—**	**2.5**
– Net cumulative foreign exchange gain on disposal of subsidiaries recycled to the Income Statement	**—**	**—**	**—**	**(4.4)**	**—**	**(4.4)**
– Remeasurement gain in respect of post-retirement benefits	**—**	**—**	**—**	**—**	**26.8**	**26.8**
– Tax charge on items that will not be reclassified to profit or loss	**—**	**—**	**—**	**—**	**(5.1)**	**(5.1)**
Total comprehensive (expense)/income attributable to equity Shareholders of the parent	**—**	**—**	**—**	**(1.9)**	**55.5**	**53.6**
Transactions with owners recorded directly in equity:						
– Proceeds from exercise of share options	**—**	**—**	**—**	**—**	**0.2**	**0.2**
– Credit in respect of employee service costs settled by award of share options	**—**	**—**	**—**	**—**	**3.1**	**3.1**
– Tax credit in respect of share options	**—**	**—**	**—**	**—**	**0.2**	**0.2**
– Proceeds from shares issued	**—**	**0.5**	**—**	**—**	**—**	**0.5**
– Dividends	**—**	**—**	**—**	**—**	**(8.2)**	**(8.2)**
Total transactions with owners recorded directly in equity:	**—**	**0.5**	**—**	**—**	**(4.7)**	**(4.2)**
As at 31 March 2020	**2.9**	**62.2**	**0.2**	**11.5**	**174.8**	**251.6**
As at 1 April 2018	2.9	61.7	0.2	9.2	105.6	179.6
Impact of adoption of IFRS 15	—	—	—	—	(7.2)	(7.2)
	2.9	61.7	0.2	9.2	98.4	172.4
Total comprehensive income/(expense):						
Profit for the year	—	—	—	—	30.0	30.0
Other comprehensive income/(expense):						

– Foreign exchange translation differences	—	—	—	4.2	—	4.2
– Remeasurement gain in respect of post-retirement benefits	—	—	—	—	2.5	2.5
– Tax charge on items that will not be reclassified to profit or loss	—	—	—	—	(0.5)	(0.5)
Total comprehensive income attributable to equity Shareholders of the parent	—	—	—	4.2	32.0	36.2
Transactions with owners recorded directly in equity:						
– Proceeds from exercise of share options	—	—	—	—	0.2	0.2
– Credit in respect of employee service costs settled by award of share options	—	—	—	—	0.8	0.8
– Tax credit in respect of share options	—	—	—	—	0.2	0.2
– Proceeds from shares issued	—	—	—	—	—	—
– Dividends	—	—	—	—	(7.6)	(7.6)
Total transactions with owners recorded directly in equity:	—	—	—	—	(6.4)	(6.4)
As at 31 March 2019	2.9	61.7	0.2	13.4	124.0	202.2

Other reserves comprise the capital redemption reserve, which represents the nominal value of shares repurchased and then cancelled during the year ended 31 March 1999.

The foreign exchange translation reserve comprises all foreign exchange differences arising since 1 April 2004 from the translation of the Group's net investments in foreign subsidiaries into Sterling.

The Group holds 72,121 (2019: 152,710) of its own shares in an employee benefit trust. The cost of these shares is included within retained earnings.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 March 2020

	Note	**2020**	2019
		£m	£m
Profit for the year		**33.8**	30.0
Profit for the year from discontinued operations	7	**(1.8)**	(2.2)
Profit for the year from continuing operations		**32.0**	27.8
Adjustments for:			
Income tax expense	13	**6.8**	6.5
Net financial expense		**1.0**	3.1
Fair value movement on financial derivatives		**1.4**	1.5
Restructuring costs		**0.2**	—
Restructuring costs – relating to associate		**—**	0.3
Adjustments relating to defined benefit pension schemes		**(0.6)**	0.3
Share of impairment recognised by associate		**—**	(0.6)
Profit on disposal of associate	6	**(6.5)**	—
Impairment of inventory		**0.4**	—
Impairment of capitalised development costs		**7.1**	—
Amortisation of acquired intangibles	16	**8.7**	8.8
Depreciation of right-of-use assets	28	**3.4**	2.7
Depreciation of property, plant and equipment	15	**3.5**	3.0
Amortisation of capitalised development costs	16	**2.7**	3.5
Amortisation of capitalised software costs	16	**0.3**	0.3
Adjusted earnings before interest, tax, depreciation and amortisation		**60.4**	57.2
Loss on disposal of plant, property and equipment		**—**	0.2
Charge in respect of equity settled employee share schemes	12	**3.1**	0.8
Share of profit of associate		**(0.7)**	(0.2)
Restructuring costs paid		**(0.6)**	(0.7)

Cash payments to the pension scheme more than the charge to operating profit		**(10.0)**	(7.1)
Operating cash flows before movements in working capital		**52.2**	50.2
Increase in inventories		**(2.3)**	(5.4)
Decrease/(increase) in receivables		**3.3**	(3.6)
Increase in payables and provisions		**2.5**	4.7
Increase in customer deposits		**6.6**	7.1
Cash generated from operations		**62.3**	53.0
Interest paid		**(1.0)**	(3.5)
Income taxes paid		**(6.1)**	(8.7)
Net cash from operating activities – continuing operations		**55.2**	40.8
Net cash from operating activities – discontinued operations	7	**—**	3.3
Net cash from operating activities		**55.2**	44.1
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**0.1**	—
Acquisition of property, plant and equipment		**(4.4)**	(4.9)
Acquisition of intangible assets		**—**	(2.2)
Net cash flow on disposal of associate		**11.7**	—
Capitalised development expenditure		**(2.8)**	(3.5)
Decrease in long-term receivables		**1.4**	1.1
Interest received		**—**	0.3
Net cash generated from/(used in) investing activities – continuing operations		**6.0**	(9.2)
Net cash generated from investing activities – discontinued operations	7	**8.7**	0.8
Net cash generated from/(used in) investing activities		**14.7**	(8.4)
Cash flows from financing activities			
Proceeds from issue of share capital		**0.5**	—
Proceeds from exercise of share options		**0.2**	0.2
Payments made in respect of lease liabilities	28	**(3.3)**	(2.7)
Repayment of borrowings		**(0.6)**	(11.5)
Dividends paid		**(8.2)**	(7.6)
Net cash used in financing activities – continuing operations		**(11.4)**	(21.6)
Net cash used in financing activities – discontinued operations	7	**—**	(0.5)
Net cash used in financing activities		**(11.4)**	(22.1)
Net increase in cash and cash equivalents		**58.5**	13.6
Cash and cash equivalents at beginning of the year		**35.2**	20.7
Effect of exchange rate fluctuations on cash held		**1.7**	0.9
Cash and cash equivalents at end of the year	20	**95.4**	35.2

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

1 NON-GAAP MEASURES

In the preparation of adjusted numbers, the Directors exclude certain items in order to assist with comparability between peers and to give what they consider to be a better indication of the underlying performance of the business. These adjusting items are excluded in the calculation of adjusted operating profit, adjusted profit before tax, adjusted profit for the year from continuing operations, adjusted EBITDA, adjusted EPS, adjusted cash conversion and adjusted effective tax rate. Details of adjusting items are given below.

Adjusted EBITDA is calculated by adding back depreciation of property, plant and equipment, depreciation of right-of-use assets and amortisation of intangible assets to adjusted operating profit, and can be found in the Consolidated Statement of Cash Flows. The calculation of adjusted EPS can be found in Note 2. Adjusted effective tax rate is calculated by dividing the share of tax attributable to adjusted profit before tax by adjusted profit before tax. The definition of cash conversion is set out in the Finance Review.

Reconciliation between operating profit and profit before income tax and adjusted profit from continuing operations

	2020		2019	
	Operating Profit £m	**Profit before income tax £m**	Operating Profit £m	Profit before income tax £m
Statutory measure from continuing operations	**39.8**	**38.8**	37.4	34.3
Restructuring costs	**0.2**	**0.2**	—	—

Restructuring costs – relating to associate	**—**	**—**	0.3	0.3
Business reorganisation items	**0.2**	**0.2**	0.3	0.3
Adjustments relating to defined benefit pension schemes	**(0.6)**	**(0.6)**	0.3	0.3
Impairment of inventory	**0.4**	**0.4**	—	—
Impairment of capitalised development costs	**7.1**	**7.1**	—	—
Share of impairment recognised by associate	**—**	**—**	(0.6)	(0.6)
Profit on disposal of associate	**(6.5)**	**(6.5)**	—	—
Amortisation of acquired intangibles	**8.7**	**8.7**	8.8	8.8
Fair value movement on financial derivatives	**1.4**	**1.4**	1.5	1.5
Loan note make-whole payable	**—**	**—**	—	0.9
Total non-GAAP adjustments	**10.7**	**10.7**	10.3	11.2
Adjusted measure from continuing operations	**50.5**	**49.5**	47.7	45.5
Income tax expense		**(9.3)**		(9.9)
Adjusted profit for the year from continuing operations	**50.5**	**40.2**	47.7	35.6
Adjusted effective tax rate		**18.8%**		21.8%

Restructuring costs
These represent the costs of one-off changes to senior management within the Research & Discovery segment.

Restructuring costs – relating to associate
These represent the Group's share of mergers and acquisitions costs and other one-off items incurred by the associate in the prior year.

Adjustments relating to defined benefit pension schemes
During the year, the Group recognised a one-off accounting gain on the termination of its US defined benefit pension scheme. See Note 25 for further details.

During the prior year, a charge of £0.3m was recognised in respect of the expected cost of equalising Guaranteed Minimum Pension (GMP) between males and females.

GMP is a portion of pension that was accrued by individuals who were contracted out of the UK State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP. A High Court case concluded on 26 October 2018 and confirmed that GMPs need to be equalised.

Impairment of inventory
During the year, the Group implemented a new ERP system at a site within the Research & Discovery division. In reconciling the inventory on the new system, a need for an impairment in respect of certain historic inventory differences was identified. This has been treated as an adjusting item due to its one-off nature.

Impairment of capitalised development costs
During the year, the Group reviewed the capitalised development costs to ensure they remained directly related to targeted product or software developments. The one-off non-cash impairment relates to the Materials & Characterisation segment; comprising software intangibles in Asylum Research, historical balances on general process development in Plasma Technology and product development in NanoAnalysis that has been affected by a reduction in orders as a result of covid-19.

Share of impairment recognised by associate
During the year to 31 March 2018, the Group's equity accounted associate recognised an impairment relating to the disposal of its Vacgen subsidiary. The Group's share of this impairment was £2.0m. Following the completion and finalisation of the transaction, a one-off impairment of £0.6m was reversed in the year to 31 March 2019.

Profit on disposal of associate
During the year, the Group made a profit on disposal of its shareholding in Scienta Scientific AB; see Note 6. This has been treated as an adjusting item due to its non-recurring nature.

Amortisation and impairment of acquired intangibles
Adjusted profit excludes the one-off non-cash amortisation and impairment of acquired intangible assets and goodwill.

Fair value movement on financial derivatives
Under IFRS 9, all derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, they are also measured at fair value. In respect of instruments used to hedge foreign exchange risk and interest rate risk, the Group does not take advantage of the hedge accounting rules provided for in IFRS 9 since that standard requires certain stringent criteria to be met in order to hedge account, which, in the particular circumstances of the Group, are considered by the Board not to bring any significant economic benefit. Accordingly, the Group accounts for these derivative financial instruments at fair value through profit or loss. To the extent that instruments are hedges of future transactions, adjusted profit for the year is stated before changes in the valuation of these instruments so that the underlying performance of the Group can be more clearly seen.

Loan note make-whole payable
During the year to 31 March 2019, the Group repaid £11.6m of the principal outstanding on its loan notes. This payment was necessary due to material changes to the Group's structure following the disposal of its Industrial Analysis business during July 2017. The one-off costs of £0.9m relate to the make-whole balance payable upon settlement of the £11.6m principal.

Share of taxation
Adjusting items include the income tax on each of the items described above.

Reconciliation of changes in cash and cash equivalents to movement in net cash

	2020	2019
	£m	£m
Net increase in cash and cash equivalents	**58.5**	13.6
Effect of exchange rate fluctuations on cash held	**1.7**	0.9
	60.2	14.5
Repayment of borrowings	**0.6**	11.5
Movement in accrued interest	**—**	0.4
Movement in net cash in the year	**60.8**	26.4
Net cash/(debt) at start of the year	**6.7**	(19.7)
Net cash at the end of the year	**67.5**	6.7

Reconciliation of net cash to Statement of Financial Position

		2020	2019
	Note	**£m**	£m
Loan notes – unsecured	24	**(27.9)**	(28.5)
Cash and cash equivalents	20	**95.4**	35.2
Net cash at the end of the year		**67.5**	6.7

2 EARNINGS PER SHARE
Basic and diluted EPS from continuing operations are based on the result for the year from continuing operations, as reported in the Group Income Statement. Basic and diluted EPS from total operations are based on the result for the year attributable to equity Shareholders of the parent. Adjusted and diluted adjusted EPS are based on adjusted profit for the year from continuing operations. The profit measures noted above are divided by the weighted average number of ordinary shares outstanding during the year, excluding shares held by the Employee Share Ownership Trust. The table below reconciles these different profit measures.

	2020	2019
	£m	£m
Profit for the year attributable to equity Shareholders of the parent	**33.8**	30.0
Discontinued operations	**(1.8)**	(2.2)
Adjusting items:		
Business reorganisation items	**0.2**	0.3
Adjustments relating to defined benefit pension schemes	**(0.6)**	0.3
Impairment of inventory	**0.4**	—
Impairment of capitalised development costs	**7.1**	—
Share of impairment recognised by associate	**—**	(0.6)
Profit on disposal of associate	**(6.5)**	—
Amortisation of acquired intangibles	**8.7**	8.8
Fair value movement on financial derivatives	**1.4**	1.5
Loan note make-whole payable	**—**	0.9
Adjusted income tax expense	**(2.5)**	(3.4)
Adjusted profit for the year from continuing operations	**40.2**	35.6

The weighted average number of shares used in the calculation excludes shares held by the Employee Share Ownership Trust, and is as follows:

	2020	2019
	Shares	Shares
	million	million
Weighted average number of shares outstanding	**57.4**	57.4
Less: weighted average number of shares held by Employee Share Ownership Trust	**(0.1)**	(0.2)

Weighted average number of shares used in calculation of basic earnings per share	**57.3**	57.2

The following table shows the effect of share options on the calculation of diluted earnings per share:

	2020 Shares million	2019 Shares million
Number of ordinary shares per basic earnings per share calculations	**57.3**	57.2
Effect of shares under option	**0.6**	0.5
Number of ordinary shares per diluted earnings per share calculations	**57.9**	57.7

For the purposes of calculating diluted and diluted adjusted EPS, the weighted average number of ordinary shares is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all potentially dilutive ordinary shares expected to vest, relating to the Company's share-based payment plans. Potential ordinary shares are only treated as dilutive when their conversion to ordinary shares would decrease EPS or increase loss per share.

3 SEGMENT INFORMATION

The Group has eight operating segments. These operating segments have been combined into three aggregated operating segments to the extent that they have similar economic characteristics, with relevance to products and services, type and class of customer, methods of sale and distribution and the regulatory environment in which they operate. Each of these three aggregated operating segments is a reportable segment. The aggregated operating segments are as follows:

- the Materials & Characterisation segment comprises a group of businesses focusing on applied R&D and commercial customers, enabling the fabrication and characterisation of materials and devices down to the atomic scale;
- the Research & Discovery segment comprises a group of businesses providing advanced solutions that create unique environments and enable measurements down to the molecular and atomic level which are used in fundamental research; and
- the Service & Healthcare segment provides customer service and support for the Group's products and the service, sale and rental of third-party healthcare imaging systems.

The Group's internal management structure and financial reporting systems have been amended to differentiate the three aggregated operating segments based on the economic characteristics discussed above.

Reportable segment results include items directly attributable to a segment as well as those which can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. The operating results of each are regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Board of Directors. Discrete financial information is available for each segment and used by the Board of Directors for decisions on resource allocation and to assess performance. No asset information is presented below as this information is not presented in reporting to the Group's Board of Directors.

Results from continuing operations

Year to 31 March 2020	**Materials & Characterisation £m**	**Research & Discovery £m**	**Service & Healthcare £m**	**Total £m**
Total segment revenue	**137.6**	**126.0**	**53.8**	**317.4**
Segment adjusted operating profit from continuing operations	**21.0**	**14.5**	**15.0**	**50.5**

Year to 31 March 2019	Materials & Characterisation £m	Research & Discovery £m	Service & Healthcare £m	Total £m
Total segment revenue	137.9	125.2	50.9	314.0
Segment adjusted operating profit from continuing operations	21.2	12.9	13.6	47.7

The adjusted profit after tax of £0.7m (2019: £0.2m) from the Group's associate is reported within the Research & Discovery segment.

Revenue in the Materials & Characterisation and Research & Discovery segments represents the sale of products. Revenue in the Service & Healthcare segment relates to service income,

As at 31 March 2020, the Group had unfulfilled performance obligations under IFRS 15 of £175.0m.

Reconciliation of reportable segment profit from continuing operations

	Materials & Characterisation	**Research & Discovery**	**Service & Healthcare**	**Unallocated Group items**	**Total**

Year to 31 March 2020	**£m**	**£m**	**£m**	**£m**	**£m**
Segment adjusted operating profit from continuing operations	**21.0**	**14.5**	**15.0**	**—**	**50.5**
Restructuring costs	**(0.1)**	**(0.1)**	**—**	**—**	**(0.2)**
Adjustments relating to defined benefit pension schemes	**—**	**—**	**—**	**0.6**	**0.6**
Impairment of inventory	**—**	**(0.4)**	**—**	**—**	**(0.4)**
Impairment of capitalised development costs	**(6.3)**	**(0.8)**	**—**	**—**	**(7.1)**
Profit on disposal of associate	**—**	**6.5**	**—**	**—**	**6.5**
Amortisation of acquired intangibles	**(2.3)**	**(6.4)**	**—**	**—**	**(8.7)**
Fair value movement on financial derivatives	**—**	**—**	**—**	**(1.4)**	**(1.4)**
Financial income	**—**	**—**	**—**	**0.3**	**0.3**
Financial expenditure	**—**	**—**	**—**	**(1.3)**	**(1.3)**
Profit/(loss) before income tax from continuing operations	**12.3**	**13.3**	**15.0**	**(1.8)**	**38.8**

Year to 31 March 2019	Materials & Characterisation £m	Research & Discovery £m	Service & Healthcare £m	Unallocated Group items £m	Total £m
Segment adjusted operating profit from continuing operations	21.2	12.9	13.6	—	47.7
Restructuring costs – relating to associate	—	(0.3)	—	—	(0.3)
Adjustments relating to defined benefit pension schemes	—	—	—	(0.3)	(0.3)
Share of impairment recognised by associate	—	0.6	—	—	0.6
Amortisation of acquired intangibles	(2.4)	(6.4)	—	—	(8.8)
Fair value movement on financial derivatives	—	—	—	(1.5)	(1.5)
Financial income	—	—	—	0.3	0.3
Financial expenditure	—	—	—	(3.4)	(3.4)
Profit/(loss) before income tax from continuing operations	18.8	6.8	13.6	(4.9)	34.3

Depreciation, capital expenditure, amortisation and impairment of intangibles and capitalised development costs arise in the following segments:

Depreciation	**2020 £m**	2019 £m
Materials & Characterisation	**2.9**	2.5
Research & Discovery	**1.4**	1.3
Service & Healthcare	**1.1**	1.0
Unallocated Group items	**1.5**	1.4
Total	**6.9**	6.2

Capital expenditure	**2020 £m**	2019 £m
Materials & Characterisation	**2.7**	4.5
Research & Discovery	**1.1**	1.1
Service & Healthcare	**0.1**	0.1
Unallocated Group items	**0.5**	1.3
Total	**4.4**	7.0

Amortisation and impairment of intangibles	**2020 £m**	2019 £m
Materials & Characterisation	**10.5**	4.6
Research & Discovery	**8.0**	7.7
Service & Healthcare	**—**	—
Unallocated Group items	**0.3**	0.3
Total	**18.8**	12.6

	2020	2019

Capitalised development costs	**£m**	£m
Materials & Characterisation	**1.8**	2.7
Research & Discovery	**1.0**	0.8
Service & Healthcare	**—**	—
Unallocated Group items	**—**	—
Total	**2.8**	3.5

The Group's reportable segments are located across a number of geographical locations and make sales to customers in countries across the world.

The analysis below shows revenue and non-current assets (excluding deferred tax) for individual countries or regions that represent more than 5% of revenue.

	2020	2019
	£m	£m
UK	**13.4**	14.2
China	**69.7**	70.0
Japan	**38.5**	38.7
USA	**83.5**	80.2
Germany	**26.7**	28.3
Rest of Europe	**44.8**	38.7
Rest of Asia	**28.4**	34.4
Rest of World	**12.4**	9.5
Total	**317.4**	314.0

	2020	2019
Non-current assets (excluding deferred tax)	**£m**	£m
UK	**170.2**	157.4
Germany	**4.0**	3.9
USA	**9.7**	15.4
Japan	**1.4**	1.7
China	**0.5**	0.5
Rest of Europe	**8.8**	9.4
Rest of Asia	**0.3**	0.4
Rest of World	**1.3**	1.7
Total	**196.2**	190.4

4 RESEARCH AND DEVELOPMENT (R&D)

The total adjusted Research and Development spend by the Group is as follows:

Year to 31 March 2020	**Materials & Characterisation £m**	**Research & Discovery £m**	**Total £m**
R&D expense charged to the Consolidated Statement of Income	**15.3**	**11.3**	**26.6**
Add: amounts capitalised as fixed assets	**0.1**	**—**	**0.1**
Less: amortisation of R&D costs previously capitalised as intangibles	**(1.9)**	**(0.8)**	**(2.7)**
Add: amounts capitalised as intangible assets	**1.8**	**1.0**	**2.8**
Total cash spent on R&D during the year	**15.3**	**11.5**	**26.8**

Year to 31 March 2019 as restated[1]	Materials & Characterisation £m	Research & Discovery £m	Total £m
R&D expense charged to the Consolidated Statement of Income	14.3	10.5	24.8
Less: depreciation of R&D-related fixed assets	(0.1)	—	(0.1)
Add: amounts capitalised as fixed assets	—	0.1	0.1
Less: amortisation of R&D costs previously capitalised as intangibles	(2.2)	(1.3)	(3.5)
Add: amounts capitalised as intangible assets	2.7	0.8	3.5
Total cash spent on R&D during the year	14.7	10.1	24.8

1. Details of restatement of prior period numbers can be found in note 9.

5 INVESTMENT IN ASSOCIATE

The Group held a 47% interest in the ordinary share capital of Scienta Scientific AB. Scienta Scientific AB is registered, and has its principal place of business, in Sweden. On 28 January 2020, the Group sold its holdings in Scienta Scientific AB for £11.7m in cash. The investment has been accounted for as an associate taking into account the following factors:

- the Group held substantial, but minority, voting rights (47%). All other rights were controlled by a single shareholder;
- the Group had a minority number of non-executive Board seats (two of five), with the remaining seats held by representatives of the other shareholder; and
- whilst the Group had certain veto rights in respect of certain decisions, it could not unilaterally direct the activities of the Scienta Scientific AB Group.

The Group's share of profit in its equity accounted associate for the period to 28 January 2020 was £0.7m (2019: £0.5m for the year). The Group did not receive any dividend from the associate in either period.

	Period to 28 January 2020 £m	Year to 31 March 2019 £m
Income	**37.4**	36.5
Expenses	**(35.9)**	(35.4)
Profit for the period	**1.5**	1.1
Group's share of profit	**0.7**	0.5

The profit on disposal of the associate was determined as follows:

	£m
Cash consideration	**11.7**
Carrying value of investment	**(5.2)**
Transaction costs	**—**
Profit on disposal	**6.5**

Cash flows:

	£m
Cash consideration	**11.7**
Transaction costs paid	**—**
Cash inflow	**11.7**

6 DISPOSAL OF SUBSIDIARY AND DISCONTINUED OPERATIONS

On 21 February 2020, the Group disposed of its OI Healthcare business in the US for a final consideration of $14.9m, of which $1.5m is held in escrow for twelve months pending any claims from the purchaser.

Effect of the disposal on the financial position of the Group

	£m
Acquired intangible assets	(1.3)
Property, plant and equipment	(3.3)
Right-of-use assets	(2.7)
Inventory	(3.1)
Trade and other receivables	(2.4)
Cash and cash equivalents	(0.3)
Trade and other payables	1.4
Lease liabilities	2.9
Net assets divested	(8.8)
Consideration receivable	11.5
Deferred consideration	(1.2)
Consideration received, satisfied in cash	10.3
Cash disposed of	(0.3)
Transaction expenses – paid	(2.6)
Net cash inflow	7.4

Carrying value of net assets disposed of (excluding cash and cash equivalents)	(8.5)
Deferred consideration	1.2
Recognition of provision on disposal	(1.4)
Currency translation differences transferred from translation reserve	4.4
Gain on disposal	3.1
Tax (charge)/credit on gain on disposal	—
Gain on disposal net of tax	3.1

The recognition of provision on disposal relates to obligations of the business which the Group expects to remain liable for.

Discontinued operations
In the year to 31 March 2020, the OI Healthcare business was classified as a discontinued operation. It was considered a major class of business on the basis of its size and that it was previously an operating segment and referred to in the Group's Strategic Report.

The 2019 Financial Statements have been re-presented to reflect the classification of the OI Healthcare business as a discontinued operation.

During the prior year the Group recognised £1.6m of income representing additional proceeds due in respect of the sale of the Industrial Analysis business in July 2017 and an associated tax charge of £0.3m. The cash was received during the current year.

	2020		2019	
	OI Healthcare	**Industrial Analysis**	OI Healthcare	Industrial Analysis
Results of discontinued operations	**£m**	**£m**	£m	£m
Revenue	**14.8**	**—**	19.6	—
Expenses	**(15.5)**	**—**	(17.6)	—
Adjusted (loss)/profit before tax	**(0.7)**	**—**	2.0	—
Income tax credit/(charge)	**0.2**	**—**	(0.5)	—
Adjusted (loss)/profit after tax	**(0.5)**	**—**	1.5	—
Adjusting items:				
Restructuring costs	**(0.1)**	**(0.2)**	—	—
Amortisation of acquired intangibles	**(0.8)**	**—**	(0.8)	—
Income tax on adjusting items	**0.3**	**—**	0.2	—
(Loss)/profit after tax	**(1.1)**	**(0.2)**	0.9	—
Gain on disposal	**3.1**	**—**	—	1.6
Tax on gain on disposal	**—**	**—**	—	(0.3)
Profit from discontinued operations after tax	**2.0**	**(0.2)**	0.9	1.3
Cash flows from discontinued operations				
Net cash generated from operating activities	**—**	**—**	3.3	—
Net cash generated from investing activities	**7.4**	**1.3**	0.8	—
Net cash used in financing activities	**—**	**—**	(0.5)	—

Earnings per share from discontinued operations

	2020	2019
	Pence	Pence
Adjusted basic (loss)/earnings per share	**(0.9)**	2.6
Adjusted diluted (loss)/earnings per share	**(0.9)**	2.6
Total basic earnings per share	**3.1**	3.8
Total diluted earnings per share	**3.1**	3.8

7 INCOME TAX EXPENSE

	2020	2019
	£m	£m
Recognised in the Consolidated Statement of Income		
Current tax expense		
Current year	**9.1**	8.1
Adjustment in respect of prior years	**(0.8)**	(0.7)
	8.3	7.4
Deferred tax expense		
Origination and reversal of temporary differences	**(1.6)**	(1.2)

Adjustment in respect of prior years	**0.1**	0.3
	(1.5)	(0.9)
Total tax expense	**6.8**	6.5
Reconciliation of effective tax rate		
Profit before income tax	**38.8**	34.3
Income tax using the weighted average statutory tax rate of 22% (2019: 22%)	**8.5**	7.5
Effect of:		
Tax rates other than the weighted average statutory rate	**0.1**	(0.2)
Change in rate at which deferred tax is recognised	**0.1**	(1.2)
Profit on disposal	**(1.3)**	—
Transaction costs, deferred consideration and impairments not deductible for tax	**—**	0.7
Non-taxable income and expenses	**0.6**	—
Movement in unrecognised deferred tax	**—**	0.1
Adjustment in respect of prior years	**(1.2)**	(0.4)
Total tax expense	**6.8**	6.5
Taxation charge recognised directly in other comprehensive income		
Deferred tax – relating to employee benefits	**5.1**	0.5
Taxation credit recognised directly in equity		
Current tax on adoption of IFRS 15	**—**	(0.9)
Deferred tax on adoption of IFRS 15	**—**	(0.9)
Deferred tax – relating to share options	**(0.2)**	(0.2)

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. However, in the Budget on 11 March 2020, it was announced that this reduction would be reversed, which was substantively enacted on 17 March 2020. Consequently, the UK corporation tax rate will remain at 19%. The UK deferred tax liability at 31 March 2020 has been calculated based on that rate. The Group carries tax provisions in relation to uncertain tax positions arising from the possible outcome of negotiations with tax authorities. Such provisions are a reflection of the geographical spread of the Group's operations and the variety of jurisdictions in which it carries out its activities.

On 2 April 2019, the EU Commission announced that it believes that in certain circumstances the UK's Controlled Foreign Company (CFC) regime (introduced in 2013) for certain finance income constituted State Aid. The Commission instructed the UK Government to recover any such aid from affected parties. The Group has claimed the benefit of this exemption, and therefore may be required to repay State Aid. The maximum amount of State Aid repayable as at 31 March 2020 was £1.2m in respect of tax and £0.1m in respect of interest, unless the decision is successfully challenged in the EU Courts. The Group believes that £0.2m may ultimately be payable and a provision has been made for that amount.

8 DIVIDENDS PER SHARE

The following dividends per share were paid by the Group:

	2020 pence	2019 pence
Previous period interim dividend	**3.8**	3.7
Previous period final dividend	**10.6**	9.6
	14.4	13.3

The following dividends per share were proposed by the Group in respect of each accounting period presented:

	2020 pence	2019 pence
Interim dividend	**—**	3.8
Final dividend	**—**	10.6
	—	14.4

Payment of the interim dividend which was proposed by the Board on 12 November 2019 has been suspended until further notice.

NOTE 9

This preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 March 2020 or 2019. Statutory accounts for 2019 have been delivered to the registrar of companies and those for 2020 will be delivered in due course. The auditor has reported on those accounts: their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 2) or (3) of the Companies Act 2006.

The financial information presented in this preliminary announcement for the year ended 31 March 2020 is based on, and is consistent with, that in the Group's audited Financial Statements for the year ended 31 March 2020. No revisions to adopted IFRS that became applicable in 2020 had a significant impact on the Group's Financial Statements for the year ended 31 March 2020.

During the year, the Directors reviewed the classification of costs in the Income Statement with a particular focus on whether items are reported within cost of sales or operating expenses. As a result of this review a number of reclassifications were made the most significant being that outward freight costs and commissions paid to employees and external agents are better presented within cost of sales rather than within selling and marketing expenses. The Directors consider this to be a better presentation since gross margin is now a clearer indicator of commercial performance and overheads a clearer indicator of cost control. Consequently, the previously published figures for the year to 31 March 2019 have been restated. The effect on the year to 31 March 2019 has been to increase cost of sales by £10.0m and reduce research and development costs by £0.6m, selling and marketing costs by £9.2m and administration and shared services by £0.2m. There is no impact on any other primary statement at any reporting date.

The Company is registered in England, Registration Number 775598.

The principal exchange rates to Sterling used were:

Year-end rates	**2020**	2019
US Dollar	**1.24**	1.30
Euro	**1.13**	1.16
Japanese Yen	**134**	144

Average translation rates

Year to 31 March 2020	**US Dollar**	**Euro**	**Japanese Yen**
April	**1.30**	**1.16**	**144**
May	**1.28**	**1.15**	**142**
June	**1.27**	**1.13**	**138**
July	**1.26**	**1.12**	**136**
August	**1.23**	**1.11**	**132**
September	**1.23**	**1.12**	**132**
October	**1.26**	**1.14**	**136**
November	**1.28**	**1.16**	**139**
December	**1.30**	**1.17**	**142**
January	**1.32**	**1.18**	**143**
February	**1.30**	**1.19**	**144**
March	**1.27**	**1.16**	**139**

Average translation rates

Year to 31 March 2019	US Dollar	Euro	Japanese Yen
April	1.39	1.14	150
May	1.36	1.14	148
June	1.33	1.14	146
July	1.32	1.13	146
August	1.30	1.12	144
September	1.29	1.11	146
October	1.29	1.13	145
November	1.28	1.13	144
December	1.28	1.12	142
January	1.30	1.13	142
February	1.31	1.15	145
March	1.30	1.16	144

NOTE 10

The Annual General Meeting will be held on 8 September 2020. Detailed arrangements in respect of the AGM will be advised in due course.

NOTE 11

Principal Risks and Uncertainties

The effective management of risk contributes significantly to the successful delivery of the Group's strategic plans and objectives. Therefore, risk management is an essential element of our regular management activities at a Group and business unit level. The work performed at the operating business units is complemented by the Group risk management function to provide assistance and challenge where required. It also provides the link to the Audit and Risk Committee through reporting the Group risk register, which is prepared on a quarterly basis.

The general methodology for risk management has remained consistent with last year, although in response to covid-19, the March 2020 risk register was focused primarily on risks related to the pandemic and the business units' responses thereto. Operating business units provide granular reports covering their key external and internal risks relating to markets, operations and processes. These reports are provided to Group risk management on a quarterly basis and provide the starting point for the Group risk register. The reports are standardised and include the likelihood of a risk materialising, and both a gross and net risk score. The residual risk score is used to classify the risks as low, moderate, high or significant. Group-wide risks are added to the key business units' risks to prepare the Group risk register. For risks that require ongoing mitigating actions, a risk owner is assigned and action plans are reviewed as part of the risk reporting process.

Risk management at the business unit level forms an integral part of the senior management team's agenda. At Group level, either the Group Finance Director or the Chief Executive review and approve the quarterly update to the Group risk register in conjunction with Group head of risk and assurance, prior to it being reported to the Audit and Risk Committee.

Specific uncertainty 1: **Impact of covid-19**
Context: Covid-19 has caused global disruption and there is considerable uncertainty relating to the short-term impact on customers, markets and operations. In the short term, the Group is taking pragmatic steps to maintain liquidity and capability so that it is best placed to respond to the new paradigm. The Group will continue with the customer-centric approach that is a key pillar of the Horizon strategy to focus on growth markets.
Risk factor/uncertainty • Fall in demand due to reduced funding for academic customers • in key markets/deferral of capex for industrial customers • Short-term supply chain disruption • Workforce disruption in production • Ongoing travel restrictions for service personnel
Possible impact • Short-term reduction in sales volumes and contribution • Potentially unable to meet delivery deadlines/reduction in capacity • Installations and on-site service activities disrupted • Negative cash flow/liquidity risk
Management actions • Customer intimacy • Working closely with key supplier base • Safe ways of working and changes to shift patterns to maximise capacity • Remote service activities • Iterative financing review and review of cost base
Mitigation • Sales and operational planning process • Contractual protection • Strategic procurement, working with supply chain to mitigate risk • Strong balance sheet and options for external funding
Change in the year: new

Specific risk 1: **Routes to market**	**Specific risk 2:** **Technical risk**	**Specific risk 3:** **Supply chain risk**
Context: In some instances, the Group's products are components of higher-level systems sold by OEMs, and thus the Group does not control its route to market.	Context: The Group provides high technology equipment, systems and services to its customers.	Context: The Group operates a strategic make or buy policy which places reliance on key partners, notably single source suppliers, in terms of pricing and on-time delivery.
Risk • Vertical integration by OEMs	Risk • Failure of the advanced technologies applied by the Group to produce commercially viable products	Risk • Operational disruption, due to supply chain shortages • Change of ownership resulting in loss of supply • Long-term availability of key components
Possible impact • Loss of key customers/routes to market • Reduction in sales volumes and/or pricing and lower profitability	Possible impact • Loss of market share or negative pricing pressure resulting in lower turnover and reduced profitability • Additional NPI expenditure • Adverse impact on the Group's brand and reputation	Possible impact • Reduction or halt to production output • Lost revenue • Decreased margins • Increased lead times • Poor customer service • Increased inventory leading to cash flow reduction • Negative impact on quality

Control mechanisms • Customer intimacy to match product performance to customer needs • Positioning of the Oxford Instruments brand and marketing directly to end users	Control mechanisms • “Voice of the Customer” approach and market intimacy to direct product development activities • Formal NPI processes to prioritise investment and to manage R&D expenditure • Product lifecycle management	Control mechanisms • Group consolidated risk database + sales and operational planning process • Proactive management of key suppliers • Focused efforts on higher risk suppliers identified • Long-term contracts with key suppliers
Mitigation • Strategic relationships with OEMs to sell performance of combined systems • Product differentiation to promote advantages of Oxford Instruments’ equipment and solutions • Direct marketing to end users	Mitigation • Understanding customer needs/expectations and targeted new product development programme to maintain and strengthen product positioning • Stage gate process in product development to challenge commercial business case and mitigate technical risks • Operational practices around sales-production matching and inventory management to mitigate stock obsolescence risks	Mitigation • Long-term demand planning • Buffer stock in extended supply chain • Relationship management with key suppliers • Responsive and adaptive engineering change process
Change in the year: no change	Change in the year: no change	Change in the year: no change

Specific risk 4: Political risk	**Specific risk 5: Brexit-related risks**	**Specific risk 6: IT risk**
Context: The Group operates in global markets and can be required to secure export licences from governments.	Context: The transition period to leave the EU is scheduled to end on 31 December 2020 and there is no clarity on future trading arrangements with the EU.	Context: Elements of production, financial and other systems rely on IT availability.
Risk • Changes in the geopolitical landscape or a global trade war resulting in a complete embargo on trade with specific nations, barriers to trade with individual customers, or significant increases in tariffs	Risk • Supply chain disruption • Lower participation in EU-funded research projects • End to free movement of goods and services in the EU • Tariffs on exports to EU from the UK and vice versa • UK becomes less attractive to EU nationals • Volatility in foreign currency rates.	Risk • Cyber-attack on the Group’s IT infrastructure • Ransomware/spread of viruses or malware • Insider threat
Possible impact • Lower export volumes or net pricing to key markets adversely affecting turnover • Increases to input costs and lower gross margins • Limitations on ability to provide after-sales service to existing customers	Possible impact • Delays to production and revenue generation • Lower sales and profitability • Lower net pricing on UK exports to EU and cost increases on products sourced from the EU • Loss of key skills • Volatility in earnings	Possible impact • System failure/data loss and disruption to business as usual operations • Loss of business-critical data • Financial and reputational damage
Control mechanisms • Contract review and protection against breach should export licences be withheld	Control mechanisms • Sales and operational planning process • Customer intimacy and monitoring of funded projects • Strategic sourcing programme • Product pricing reviews • Skills and capabilities reviews • Treasury management	Control mechanisms • Suite of IT protection mechanisms including penetration testing, regular backups, virtual machines, and cyber reviews • Internal IT governance to maintain protection systems and our incident response • Employee awareness training

Mitigation • Broad global customer base; contractual protection	Mitigation • Existing stock of raw materials and work in progress • Market diversification • Long-term pricing agreements for key suppliers and strategic sourcing • Pricing strategy • Renewal of UK work permit scheme	Mitigation • Managed service with third-party security specialists providing incident monitoring • Regular review, monitoring and testing of key security measures to assess adequacy of protection against known threats • End user education and phishing simulation exercises
Change in the year: increased	Change in the year: no change	Change in the year: no change

Specific risk 7: Legal/compliance risk	**Specific risk 8: Adverse movements in long-term foreign currency rates**	**Specific risk 9: People**
Context: The Group operates in a complex regulatory and technological environment. The Group may at times experience unintentional non-conformance with regulations and competitors may seek to protect their position through intellectual property rights.	Context: A high proportion of the Group's revenue is in foreign currencies, notably US Dollars, while the cost base is predominantly denominated in Sterling.	Context: A number of the Group's employees have business-critical skills.
Risk • Infringement of a third party's intellectual property • Regulatory breach	Risk • Long-term strengthening of Sterling against key currencies such as the US Dollar, Japanese Yen and the Euro.	Risk • Key employees leave and effective replacements are not recruited on a timely basis
Possible impact • Potential loss of future revenue • Future royalty payments • Payment of damages • Fines and non-financial sanctions such as restrictions on trade, disbarment from public procurement contracts • Reputational damage	Possible impact • Reduced profitability	Possible impact • Adverse impact on NPI • Operational disruption • Lower sales and profitability
Control mechanisms • Formal "Freedom to Operate" assessment to identify potential IP issues during product development • Internal control framework including policies, procedures and training in risk areas such as bribery and corruption, sanctions and export controls	Control mechanisms • Short-term exposure is managed by hedging programme • Procurement "make or buy" strategy • Treasury management	Control mechanisms • HR people strategy for retention and recruitment of staff with key skills
Mitigation • Confirmation of "Freedom to Operate" during new product development stage gate process • Compliance monitoring programmes	Mitigation • Strategic procurement in US Dollars, Euros and Yen • Active review of net exposure in key currencies	Mitigation • Succession management plans • Technical career paths • UK work permit scheme to facilitate employment of non-UK nationals in place
Change in the year: decreased	Change in the year: no change	Change in the year: no change

Specific risk 10: Operational risk	**Specific risk 11: Pensions**
Context: Business units' production facilities are typically located at a single site.	Context: The actuarial pension deficit is sensitive to changes in the actuarial assumptions.
Risk • Sustained disruption to production arising from a major incident at a site	Risk • The actuarial pension deficit is sensitive to movements in actuarial assumptions and returns on investments
Possible impact • Inability to fulfil orders in the short term, resulting in a reduction in sales and profitability • Additional, non-recurring overhead costs	Possible impact • Reduction in net cash as additional Group contributions become payable to fund the deficit • Increase in the annual levy paid to the Pension Protection Fund
Control mechanisms • Business Continuity Plans (BCPs) exist for all manufacturing sites • Contractual clauses to limit financial consequences of delayed delivery	Control mechanisms • Ongoing review of investment strategy, including active control of risk, by the Trustee's investment sub-committee • Liability hedging programme to mitigate exposure to movements in interest rates and inflation

Mitigation • Detailed response plans in BCPs can reduce downtime arising from incidents and facilitate the restoration or relocation of production • Standard sales contracts include clauses for limitation of liability, liquidated damages and the exclusion of consequential losses • Business interruption insurance	Mitigation • The Group closed its UK defined benefit pension scheme to future accrual in 2010. • The Group has a funding plan in place to eliminate the pension deficit over the short to medium term
Change in the year: no change	Change in the year: decreased