

**Interim results for the half year ended  
31 May 2010**

Specialist filtration and environmental technology

**Ben Stocks**  
**Chris Tyler**

**Chief Executive**  
**Finance Director**

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## **Business structure and strategy:**

- > Engineered, consumable, filtration products, often proprietary
- > Regulated markets with long term growth characteristics
- > Demand driven by regulation, process reliability or maintenance schedules
- > Barriers to entry: quality accreditation, design rights, IP
- > Strategic objective: organic and acquired growth

## **2010 first half performance and prospects:**

- > Recovering well from lows of 2009
  - Sales from new products up to 23% of sales
  - Good recovery in metals filtration
- > Prospects for 2010 and 2011 good in both divisions
- > Banking facilities renewed

# Business structure



Two divisions with common filtration and engineering skills

## Microfiltration division

Aviation, Energy, Environmental Labs

Metallic & polymeric filters  
Instrumentation

Based: UK, USA, Germany

## Metals Filtration division

Non-ferrous metals

Ceramic foam filtration

Based: USA, China



# Attractive business characteristics

## Proprietary products:

- > Bespoke
- > Consumable
- > Long life cycle

## Demand driven by:

- > Regulation
- > HSE legislation
- > Process reliability

## Barriers to entry:

- > Quality accreditation
- > Design rights
- > Materials or engineering IP

Examples:



**Specialist filters are used to protect costly or complex downstream systems**

# Regulated markets with long term growth potential



## Aviation

c20% of Group sales

- > FAA, CAA, EASA and other accreditations essential
- > Global air traffic growth: **4.7% cagr** 2009-28 <sup>(1)</sup>

## Energy and Industrial process

c20% of Group sales

- > International nuclear standards: NQA1, ASME etc
- > Nuclear consumables growth: **13.5% cagr** 2009-15 <sup>(2)</sup>

## Environmental laboratory supplies

c25% of Group sales

- > Water analysis must be done by approved methods: EPA, SEPA, EU water directives
- > Water analysis & consumable growth: **8.6% cagr** 2009-12 <sup>(3)</sup>

## Non-ferrous metals

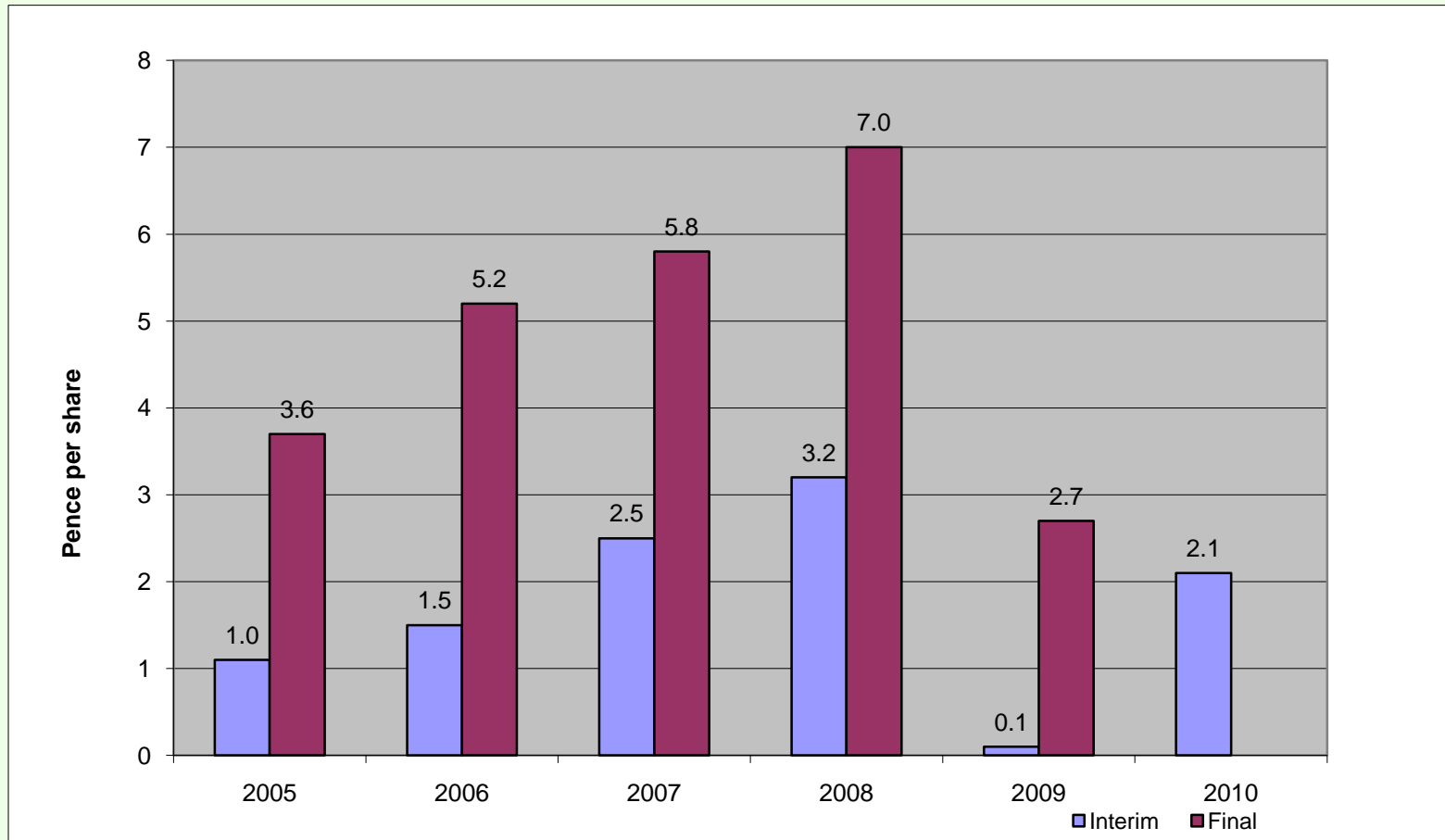
c17% of Group sales

- > ISO & customer accreditations, extensive qualification requirements
- > Aluminium consumption: **6% cagr** 2008-18<sup>(4)</sup>

**To generate long term growth by developing specialist filtration and environmental technology businesses both organically and by acquisition**

- > A focus on regulated markets with long term growth prospects
  - Aviation; energy and industrial; environmental laboratories and non-ferrous metals
- > Concerted investment in new product development
  - *New products to existing customers*
  - Consistent long term strategy : revenues from these projects **now 23%** of total
- > Geographic expansion
  - *Existing products to new customers*
  - Directed at specific opportunities
- > Bolt-on acquisitions as appropriate while maintaining both a conservative balance sheet and the discipline of paying a dividend

# Earnings per share record



Notes:

- 2009 interims and final shown before exceptional items of (1.1)p

# Income statement

Six months ended 31 May 2010



	<b>2010</b>	Before	Exceptionals	2009
	<b>Total</b>	exceptionals		Total
	<b>£000</b>	£000	£000	£000
Revenue	29,661	26,995	-	26,995
Operating profit	1,723	523	(637)	(114)
Interest	(443)	(485)	-	(485)
<b>Profit before tax</b>	<b>1,280</b>	38	(637)	(599)
Tax	(412)	(12)	202	190
<b>Profit after tax</b>	<b>868</b>	26	(435)	(409)
<b>EPS (basic and diluted)</b>	<b>2.1p</b>	0.1p	(1.1)p	(1.0)p

# Cash flow

Six months ended 31 May 2010



	2010	2009
	£000	£000
Cash generated from operations	2,754	901
Working capital movements	(846)	1,122
Interest	(330)	(514)
Tax	(333)	(169)
Capital expenditure	(606)	(960)
<b>Net cash from operations</b>	<b>639</b>	<b>380</b>
Exchange movements	(1,007)	334
Net debt at 30 November	(13,910)	(16,730)
<b>Net debt at 31 May</b>	<b>(14,278)</b>	<b>(16,016)</b>

## 12 months ended 31 May 2010

<b>Net cash from operations</b>	3,580
Dividends	(947)
Exchange movements	(895)
Net debt at 31 May 2009	(16,016)
<b>Net debt at 31 May 2010</b>	<b>(14,278)</b>

# Metals Filtration: results and progress



Six months ended 30 May 2010

	2010	2009	2008
	\$m	\$m	\$m
Revenue	17.5	14.1	21.8
Operating profit	0.4	(1.6)	0.7

## Background

- > Positive business fundamentals:
  - High market share
  - Unusual technology
- > But long term margin squeeze
  - Customer consolidation

## Strategic progress

- > New products IP protected
  - Super alloy filter (Patent 2008) – 100% converted
  - Aluminium filter (Patent 2009) – 90% converted
    - Alcoa global supply deal.
  - Foundry filter (Patent 2010) – conversion started
- > Geographic expansion: low cost manufacturing
  - Selee Wuhan – open 2009, in production 2010
  - Transfer non patented production to China

## 2010

- > 24% increase in revenue (2009: 35% decline)
  - Steady improvement in demand since Q3 2009
- > Margins improving
  - New products driving improved gross margins
  - 40% cut in staff in 2009

# Microfiltration: results and progress



Six months ended 31 May 2010

	2010	2009
	£m	£m
Revenue	18.4	17.5
Operating profit	2.1	1.9

## Background

- > Division expanded by acquisition in 2007/8
  - OmniFilter: US manufacturing capability
  - Toolturn: Machining capability
  - Seal Analytical
    - Environmental lab market for water treatment.
    - Opportunity to build consumable sales

## Strategic progress

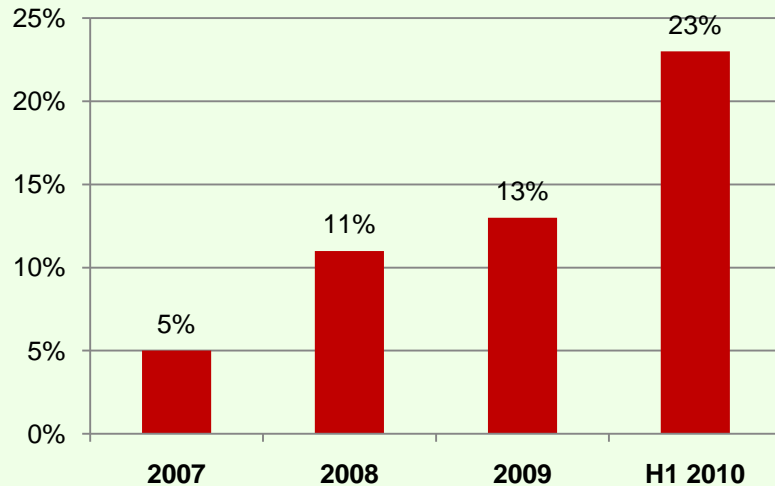
- > New product sales growth
  - Inerting filter: Boeing underway, Airbus to start in second half
  - Seal: launched new discrete analyser
- > Geographic expansion
  - French and US sales recruits starting to deliver
  - Seal – sales office opened in Shanghai
  - Seal – installed base. Starting to re-connect

## 2010

- > 5% growth in revenue
- > Operating profit flat
  - High margin aviation sales 19% down
  - Aviation schedules are improving for second half
- > Demand from energy & industrial and environmental laboratories steady
  - Order books healthy
- > Excellent first half in USA
  - Sales up 100%
  - Skills transfer
  - Building sales presence

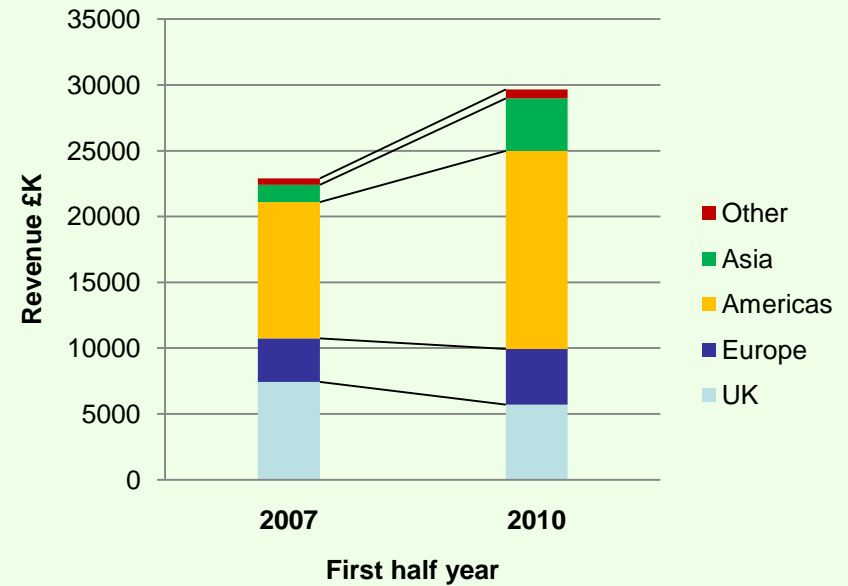
# Strategic progress: three year record

### Next generation products revenue as a % of total revenues



Benefits of consistent investment

### Revenue by destination



Expansion in US and Asia

> **29% revenue growth over three years**

# Strategic progress: 2010 detail



Market	Growth* CAGR%	Next generation product revenue progress £6.7m sales in H1 2010	Geographic expansion progress
Aviation	4.7%	Inerting filters	France office: nuclear and aviation
Energy & Industrial	13.5%	Gasification and nuclear remediation filters Combustion and bipolar plates	US sales force expansion
Lab supplies	8.6%	Seal AQ1 BioVyon - ultra clean SPE filters	Shanghai office US sales force expansion
Metals	6%	Selee CSX aluminium filter Selee IC iron filter Selee SA super-alloy filter	Satellite plant: Wuhan Sales office: Russia

\* See Regulated markets with long term growth potential slide for sources

# Strategic progress: development plans and opportunities



Market	Growth CAGR%	Development path	Medium term targets and objectives
Aviation	4.7%	Skills transfer to US site  Inerting filter expansion: new build and retrofit	Generate revenue growth and improve margins on US aviation  £2m pa when retrofit is underway – 2013
Energy & Industrial	13.5%	Take UK proposition to larger US market: build sales force to exploit products, media and skills  Nuclear and gasification installation growth for hot gas applications	\$10m revenue from US operations by 2013  One major new installation (£1m+) p.a.
Lab supplies	8.6%	Seal: reconnect with the installed base  Porous plastic filtration media: build functional surface capabilities	Increase consumables from 20% to 40% of revenue by 2012  £1m p.a. additional sales
Metals	6%	Patented products all have clear technical upgrade for 2011-2013  Structural review to lower manufacturing costs	Full conversion to patented products to drive gross margins  Non patent products transferred to China by end of 2011 to drive net margins

**Scale of these opportunities:  
c.£4-5m incremental operating profit**

Porvair is full of opportunity:

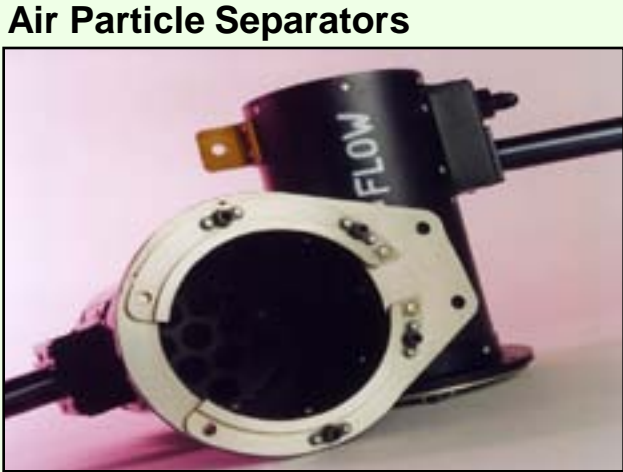
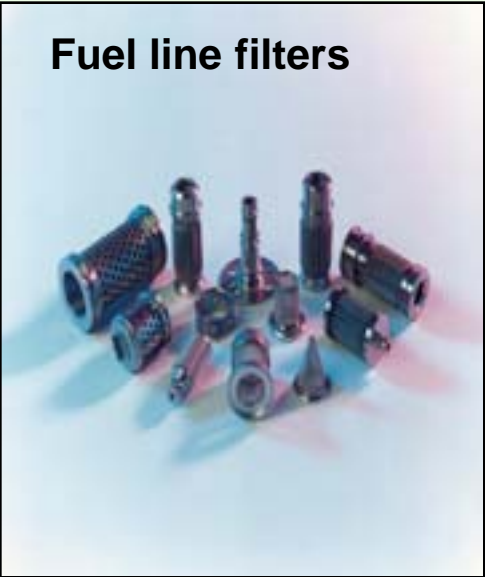
- > Aviation schedules are increasing
  - promising for second half revenue growth
- > Energy and industrial order books are healthy for second half and 2011
  - US operations strength continues
- > Metals filtration able to build on strong IP position
- > Lab supplies business growing
  - Reconnecting with the installed base – consumable sales and upgrades
  - New product introductions

**Provided current levels of demand remain steady, outlook is promising**

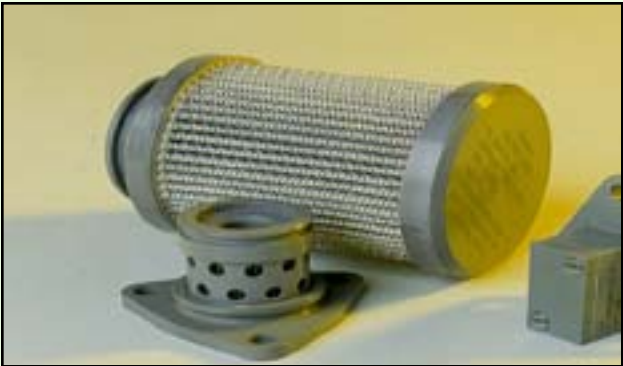
# Porvair plc

# Appendices

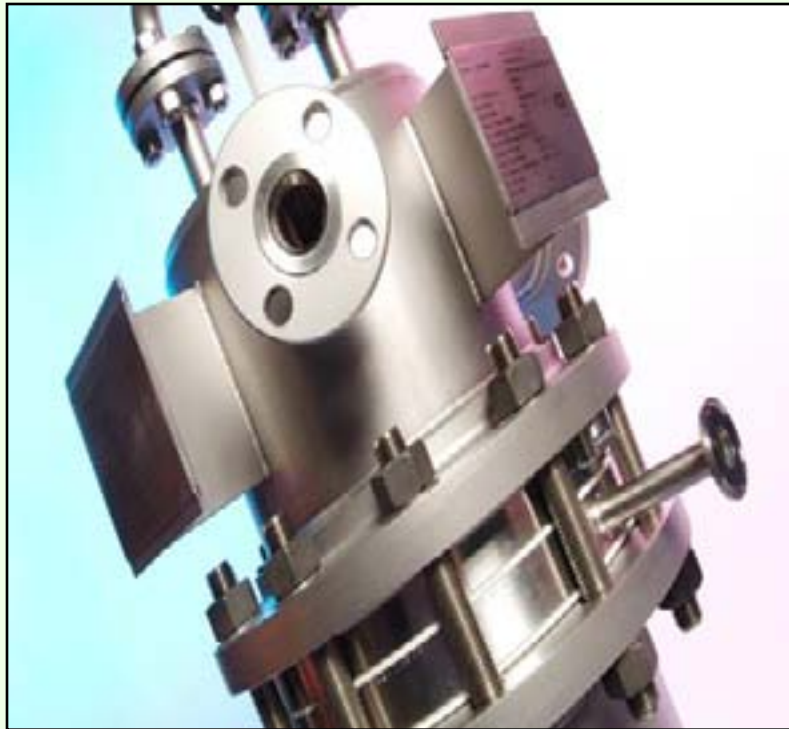
# Aviation: highly engineered metallic filters and assemblies



**Hydraulic, Fuel and Lubrication Filters**



# Energy & Industrial: highly engineered metallic filters for industrial processes



# Environmental laboratory supplies: polymeric filters and instrumentation





Aluminium filters



Reticulated ceramic foam for depth filtration

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