CHIEF EXECUTIVE OFFICER'S REVIEW

Robust financial performance and a refreshed strategy through a new lens

I am pleased to report a robust set of results for Oxford Instruments, and to set out a new strategy for the Group to enable us to fulfil our strong potential.

"Our exceptional technology, strong talent base, well-distributed regional infrastructure and choice of markets give us a strong platform from which to grow. There are significant opportunities ahead – but to address them in full we need to structure Oxford Instruments differently."

RICHARD TYSON
Chief Executive Officer

I am pleased to report a robust set of results for Oxford Instruments. We have delivered 9.8% revenue growth at constant currency, driven by a 7% increase in semiconductor revenue, reflecting our greater exposure to the compound semiconductor market, and double-digit growth in Materials Analysis and Healthcare & Life Science markets, underpinned by strong research funding.

Orders
£459.1m
(2023: £511.6m)

Revenue
£470.4m
(2023: £444.7m)

Adjusted operating profit
£80.3m
(2023: £80.5m)

Operating margin
17.1%
(2023: 18.1%)

Adjusted operating profit of £80.3m was in line with expectations, up 3.7% on a constant currency basis. Adjusted operating margin was down 100bps at 17.1% (2023: 18.1%), in line with guidance, primarily reflecting losses incurred in our quantum business as a result of ceasing certain commercial activities for these products in China and continued operational investment.

The successful transition of our compound semiconductor business to a new purpose-built facility has been a key operational highlight of the year, delivering streamlined production and increased capacity, and presenting significant opportunity to scale. A further focus has been the action we have taken in response to the shifting geopolitical landscape, pivoting to less sensitive applications in China and growing revenue in other regions. Our robust revenue growth in Europe and the rest of Asia bears out the success of this programme, which will continue into FY24/25.

Underlying order intake (excluding the pivot from China) remained robust, supported by a good performance in Europe and the rest of Asia. Underlying book to bill is positive, despite the strong revenue growth, and the orderbook provides good visibility into the year ahead. Our pipeline is strong across all geographies and markets.

A strong platform for growth

Since joining Oxford Instruments in October, I have carried out a thorough review of our business model and markets, working collaboratively with our leadership team and gathering input from across the business.

Our work confirms that **academic research** is the bedrock of Oxford Instruments' success. Representing more than a third of our revenue, it is resilient across cycles and grows steadily at 3–6% a year.

Our market-leading technology and expertise, developed over 60 years, spans all areas of fundamental research and provides unrivalled reach into academic institutions worldwide.

In recent years, by developing and leveraging our market insight, we have strengthened our position in commercial markets **applied R&D**, where the technology is used to develop new products for industrial applications (a market four times larger than the academic research market), which now represents c. 45% of our revenue. We have also started to make early inroads into the even larger **commercial production** market, representing c.20% of our revenue today. The volume potential in commercial applied R&D and production markets is significantly bigger, offering high single-digit growth underpinned by structural growth drivers requiring new technologies to support decarbonisation and productivity globally.

Our deep dive review highlights that 90% of our revenue is generated in **three primary markets – Materials Analysis, Semiconductors and Healthcare & Life Science**. All three have clear sustainability drivers with high single-digit structural growth potential. Quantum technology, a much smaller contributor to our current revenue, also represents a growth opportunity, though its trajectory is less linear.

Our strategy for the future

Our exceptional technology, strong talent base, well-distributed regional infrastructure and choice of markets give us a strong platform from which to grow. There are significant opportunities ahead – but to capture them in full and achieve industry-leading margins, we need to structure Oxford Instruments differently.

Group	Full year to 31 March 2024	Reported growth vs full year to 31 March 2023	Constant currency growth vs full year to 31 March 2023
Orders	£459.1m	(10.3%)	(2.5%[1])
Revenue	£470.4m	+5.8%	+9.8%
Adjusted operating profit	£80.3m	(0.2%)	+3.7%
Adjusted operating margin	17.1%	(100bps)	(100bps)

1. Underlying order growth is adjusted for the impact of prior year China orders removed from current year order intake due to export licence restrictions.

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As we set out below, the different areas of our business fall naturally into two distinct groupings, reflecting different drivers and business models. This new structure will also facilitate targeted actions to unlock the potential in each.

Our future divisional structure

We are restructuring the business and will be creating two new divisions: **Imaging & Analysis** and **Advanced Technologies**.

*How we are **structured today**:*

Materials & Characterisation
Materials imaging and analysis solutions and advanced tech and deposition systems for compound semiconductor devices

Research & Discovery
Scientific cameras, microscopy, cryogenic and superconducting magnet technology and X-ray tubes

Service & Healthcare
Customer service and support for our own products and for third-party MRI scanners in Japan

*From **2024** the Group will report against **a new divisional structure**:*

Imaging & Analysis
Microscopy, cameras, analytical instruments and software

Advanced Technologies
Compound semiconductor fabrication equipment, cryogenic and superconducting magnet technology and X-ray tubes

Imaging & Analysis will comprise our microscopy and cameras business Andor and our materials analysis businesses Asylum Research, Magnetic Resonance, NanoAnalysis and WITec. (recent adjusted operating profit margin history 22–24%).

Advanced Technologies will comprise our compound semiconductor business Plasma Technology and our quantum-focused business NanoScience, together with the much smaller X-Ray Technology business. (recent adjusted operating profit margin history 0–4%).

Moving forward, service revenue will be reported within each respective division. We will report against the new structure at our half-year results in November 2024. The indicative and unaudited pro forma numbers under the proposed divisional structure for the full year 2024 are disclosed in the Finance Review and the annual results presentation.

The rationale for the planned reporting change is as follows.

The businesses which will form the new **Imaging & Analysis** division represent c.70% of Group revenue, and have strong existing synergies and a track record of success.

They provide similar relatively small-scale imaging and analysis equipment and software, have common business models, go-to-market strategies and margins, and they address a similar client base in their three key markets in materials analysis, semiconductors, and healthcare & life science.

In recent years, particularly since the acquisition of WITec in 2021, the Materials Analysis businesses have collaborated more closely, driving cross-selling opportunities and efficiencies. Joining forces with our scientific camera and microscopy business will facilitate further synergies and simplification. Together, they will provide an unrivalled range of microscopy, scientific cameras, spectroscopy and analytical tools and software.

Action plans for these high-performing business units are under way. It will result in improved growth and operational leverage supporting strong margins. Strategic priorities will include:

- improving sales and service channels by going to market through streamlined regional customer-facing teams and generating more whole life revenue from a better customer experience;
- greater focus to leverage maximum opportunity from the existing product portfolio and R&D programme;
- simplifying the organisation by streamlining business processes and removing duplication;
- increasing cross-selling through shared marketing initiatives;
- delivering a step change in operational performance by optimising production and enhancing performance management and value engineering; and
- increasing commercial sales through sharing of best go-to-market practice across regions and targeted key account management.

The businesses which will form our new **Advanced Technologies** division (representing c.30% of Group revenue) have a very different profile. They sell much lower volumes of larger-scale complex systems into very specialised markets (compound semiconductor and quantum) with unique growth drivers and principally separate customer bases. These businesses each require a dedicated, focused approach to leverage their well-invested base, deliver improved margins and achieve their full growth and margin potential.

Our compound semiconductor business is growing strongly. Scale is important to reap the benefits and recover the costs of our new, larger dedicated facility in Severn Beach, outside Bristol, UK. The business is poised to take advantage of the structural growth in the compound semiconductor market, which does not have the cyclicality inherent in the silicon semiconductor market. The leadership team have identified key areas of specialism within the compound semiconductor landscape where we have leading capability, or have the potential to do so.

Here, we will maximise productivity and output following the site move, taking advantage of the process and efficiency opportunities the site provides, look to optimise our supply chain, and continue to simplify our product range, in order to deliver good growth and strong margin progression. A further key focus area is customer service, which requires a step change to meet the stretching requirements of the business's growing commercial production customer base.

Our quantum business has been impacted by export restrictions which have limited our ability to sell these capabilities into China. This, combined with operational challenges, larger project timescales and strong competition in the high potential, but uncertain quantum market, has impacted performance in 2023/24.

We have already started to restructure the cost base, commenced a major operational turnaround programme in operations and refocused sales teams on Europe and the USA. This will continue at pace, focusing on value engineering, cost reduction and performance management.

While leveraging our regional sales and marketing infrastructure, the businesses in the Advanced Technologies division will operate with greater independence than their counterparts in Imaging & Analysis, enabling them to address their specialist markets in ways which will maximise their ability to grow both scale and margin and removing this complexity from the wider business. Structuring our business in these two new divisions will improve our customers' experience and facilitate the delivery of targeted action plans designed to suit the opportunities and the challenges in each, whilst supporting greater transparency of their different paths to significant value creation for investors.

We will provide a progress update on the development of the new divisions via our interim reporting in November, at which point we will report in the new divisional structure.

Group-level strategic priorities

While our action plans are targeted at divisional level, the following core priorities underpin our strategy Group-wide.

Improve our customers' experience

Further growing our reach into commercial markets requires on-time delivery paired with exceptional customer service and responsiveness, particularly in production environments, where deadlines are non-negotiable and down time is not tolerated.

More broadly, we will focus on delivering deep customer insight and best-in-class customer service through our regional teams around the world. We also see significant opportunity to extend whole-life revenue via our services proposition.

Drive a step change in operational performance and productivity

The Group's rapid growth has challenged both capacity and capabilities in some of our manufacturing facilities, opening up significant opportunities in both divisions to reconfigure production areas, design more efficient production processes and upskill colleagues to increase their productivity.

We have appointed a Chief Transformation Officer who is leading a broad-ranging transformation programme covering all aspects of operational performance and productivity, from the layout of our facilities to value engineering to reduce our cost of goods.

In addition, we have appointed a dedicated customer service lead who will focus on our after-sales support infrastructure and capabilities, and target significant improvements in our service to our customers.

Simplify our organisational structure

With significant overlap between business units and markets, the structure of Oxford Instruments had become overly complex over a number of years, making it confusing for stakeholders to understand and leading to duplication of processes internally. Consolidating our eight business units and six previous end markets into just two divisions and three core markets, supported by a simplified customer-facing regional structure, will drive efficiencies and operational gearing, and provide greater transparency of Oxford Instruments as an investment proposition.

Focus on our key strengths

We will continue to protect, invest and enhance our core strengths by investing c.8–9% of revenue annually in R&D, and working closely with our regional teams and our customers to ensure we focus our efforts on the most economically attractive opportunities, delivering strong return on capital employed.

Focusing on our core markets – materials analysis, semiconductors, and healthcare & life science – will enable us to maximise our impact in all three markets, while deriving efficiencies from this more targeted approach.

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Capital allocation priorities

These can be summarised as follows:

- **Invest in the business**
  Our businesses are well invested, as evidenced by the capital investments we are making in new facilities at Severn Beach and Belfast. We will continue to invest c.8–9% of revenue in R&D, and make targeted operational investments to support growth.
- **Drive shareholder returns**
  We are committed to delivering strong shareholder returns, taking account of underlying earnings, dividend cover, currency movements and demands on our cash.
- **Make selective acquisitions**
  Our acquisition strategy is highly selective and disciplined. We will focus on adding capabilities in Imaging & Analysis, with a good pipeline of owner-managed businesses under consideration.
- **Maintain strong balance sheet**
  Our strong balance sheet gives us flexibility. We will continually assess the appropriateness of returns to shareholders in the context of the strategy.

Journey to growth and higher margins

We expect to deliver revenue growth and higher margins from both divisions over the medium term, with the Group capable of delivering a revenue CAGR of 5–8% and an adjusted operating profit margin of 20%+. Actions to support growth have begun. Changes in focus and sharing of best practice are expected to be implemented over the next 18 months. Operational performance improvements will require investment in the short term, meaning the margin improvement profile will not be linear. The initial efforts of the last year or so have been supplemented with a dedicated Chief Transformation Officer and we have added resources and built a more extensive change team who have started improvement actions in our Belfast facility first.

As evidenced by the recent financial performance in Advanced Technologies, specific restructuring and improvement activities are required in the short term which have been commenced and are expected to have some impact in the coming financial year.

Overall, we expect these actions to deliver good sustainable organic growth in the medium term, coupled with the opportunity to generate significant value through operating margin enhancement to 20%+.

Our anticipated mid-term outcomes can be summarised as follows:

- Organic growth of 5–8% CAGR.
- Adjusted operating margin improvement to 20%+.
- Cash conversion of over 85%.
- Continuing to invest in growth, including 8–9% on R&D.
- Strong return on capital employed (currently 29%).
- Selective acquisitions bringing complementary capabilities.

A clear purpose

We make a tremendous positive impact through our products and services – from supporting Nobel Prize-winning scientific endeavours and the development of personalised treatments for cancer to accelerating the path to decarbonisation through our extensive role in the battery ecosystem. Our technology and scientific expertise enable our customers to discover and bring to market exciting new advances that drive human progress. I am proud of the unique contribution we make. As we set out on our new strategy, I am delighted to share a new purpose for Oxford Instruments:

To accelerate the breakthroughs that create a brighter future for our world.

Our position is unique among UK-based technology companies – and it is my hope that this new purpose, which has been warmly embraced by colleagues around the world, will highlight our positive impact, and focus the energy of everyone at Oxford Instruments.

People and planet

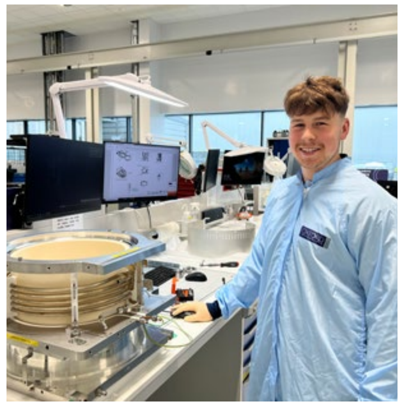
I have visited almost all our global sites since joining last autumn and have been impressed by the energy and commitment of the colleagues I have met at every level of the organisation. Our engagement scores are high, at 78%, based on the organisation-wide survey carried out last September. But there is no room for complacency, and in recent months I have led a deep dive exercise, as part of the development of our strategy, to understand our organisational culture and to drive action where there is scope to improve.

We have many strengths. Our workforce is highly skilled, with deep expertise in a wide range of disciplines, from science and engineering to marketing and sales, and our people are passionate about what we do and the impact we have. However, there are areas we need to focus on as we move forward in line with our new strategy. We are clear on our new strategic priorities, and have worked collaboratively with focus groups around the business to set out new ways of working to deliver them.

We are committed to creating a values-driven, inclusive culture. To that end, we have launched a new equity, diversity and inclusion policy, and successfully piloted new Inclusive Leadership training to be rolled out over the coming year.

Our employees have launched impact groups focused on women's issues and neurodiversity this year, adding to the network begun with our race and ethnicity and LGBTQ+ impact groups.

Our products and services have a remarkably positive impact on the world around us. We want to generate a brighter future through our own operations, too. To that end, we are accelerating our progress to net zero, in all the areas we can control. Last year, we committed to achieve a 50% reduction in Scope 1 emissions and a 70% reduction in Scope 2 emissions by 2030. Today, we are setting a new target to achieve net zero in Scopes 1 and 2 by 2030, and sooner if we can. We will continue to work with our product development teams and our supply chain to minimise our Scope 3 emissions, with the goal of accelerating our overall target to achieve net zero faster than our current target year of 2045.


Richard Tyson with colleagues in Shanghai (top left) and Belfast (above right); Richard and his Board colleagues also met apprentices on the site visit to Severn Beach (bottom left).

Summary and outlook

I am pleased with the results for the full year and the development of the business during the period. We have reported strong revenue growth of 9.8% at constant currency, with adjusted operating profit in line with expectations. I am grateful to my colleagues across Oxford Instruments for their commitment and energy through a busy year.

We have rebalanced our positions in regional markets in the face of geopolitical shifts, focusing our resources on non-sensitive areas in China, and successfully growing revenue and orders in Europe and elsewhere in Asia.

We have continued to make organic investments to support our future growth, with our state-of-the-art compound semiconductor facility now operational. Underlying order intake has remained robust, with a positive book to bill even though we had stronger growth in the second half, and the orderbook gives us good visibility into the year ahead.

I am hugely impressed with the strong platform at Oxford Instruments, anchored by our market-leading technologies and our talented and committed workforce. My work with leadership teams around the business has confirmed our view that there is significant opportunity to build on our core strengths. I have today outlined a new strategy, setting targets to improve the returns from the business in the medium term.

As part of this strategy, we are reorganising the Group into two distinct business divisions to simplify and enhance our operations. We will target growth by focusing on fewer markets and a sharpened product portfolio, tackling key areas where improvement is required and delivering a step change in operational and service performance.

We are in a strong position to improve and grow the business, putting it on a sustainable growth footing through our market-leading offering together with operational and efficiency improvements. Given our strong order book and pipeline, coupled with positive business improvement actions, we expect to make good constant currency progress in the full year ending March 2025.

RICHARD TYSON
Chief Executive Officer

10 June 2024