

# Half Year Results

June 2019



Andrew Brode  
Chairman

Richard Thompson  
Chief Executive Officer

Desmond Glass  
Chief Financial Officer



# An excellent first half

## Double-digit underlying revenue and profit growth



Record revenues of £172.3m (H1 2018: £139.6m), an increase of 23%



Strong sales performance from RWS IP Services, including 23% growth in its European patent translation and filing business



Growing demand for IP and language services in China and Japan from existing and new clients



Significant margin improvement at RWS Moravia, with growing demand for higher value localization services



RWS Life Sciences revenue up 21%<sup>1</sup>, with 26% growth for its specialist, high value linguistic validation offering



Strengthened legal and financial translation offering with acquisition of Alpha Translations Canada Inc.

# Strong, cash-generative growth driving returns

**Sales**  
**£172.3m**  
 + 23%  
 +10% underlying<sup>1</sup>

H1 2018: £139.6m

**Adjusted PBT**<sup>2</sup>  
**£35.6m**  
 + 24%  
 + 18% underlying<sup>1</sup>

H1 2018: £28.6m

**Cash**  
**£27.4m**  
 after £35.4m in debt,  
 acquisition and dividend  
 payments

H1 2018: £24.3m

**Adjusted EPS**<sup>2</sup>  
**10.1p**  
 + 23%

H1 2018: 8.2p

**Net debt**  
**£63.9m**  
 < 1.0x expected 2019 adjusted PBT

H1 2018: £82.8m

**Interim dividend**  
**1.75p**  
 +17%

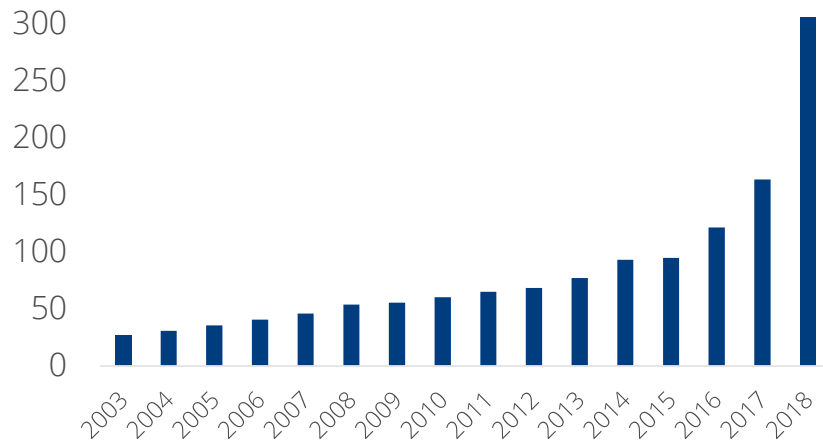
H1 2018: 1.5p

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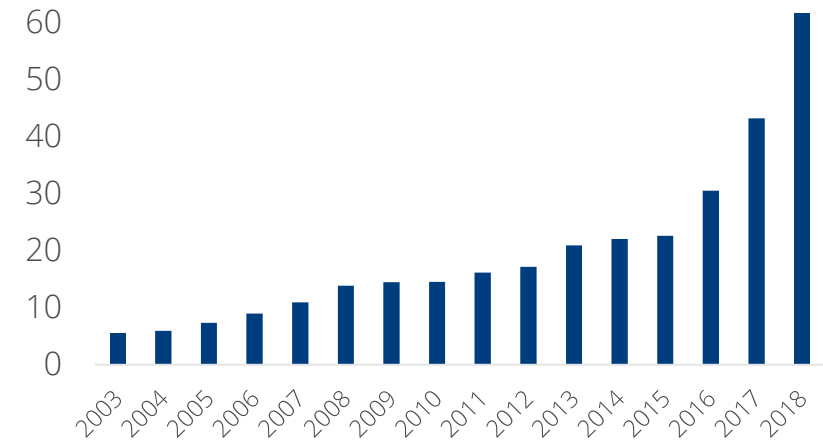
<sup>1</sup> Excluding the impact of acquisitions and assumes constant currency.  
<sup>2</sup> Before amortization of acquired intangibles and acquisition costs.

# A 15-year track record of unbroken growth

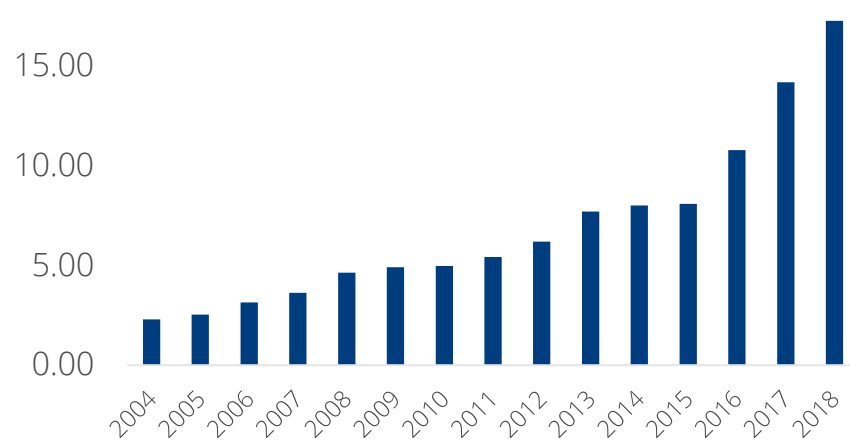
Annual revenue (£m)



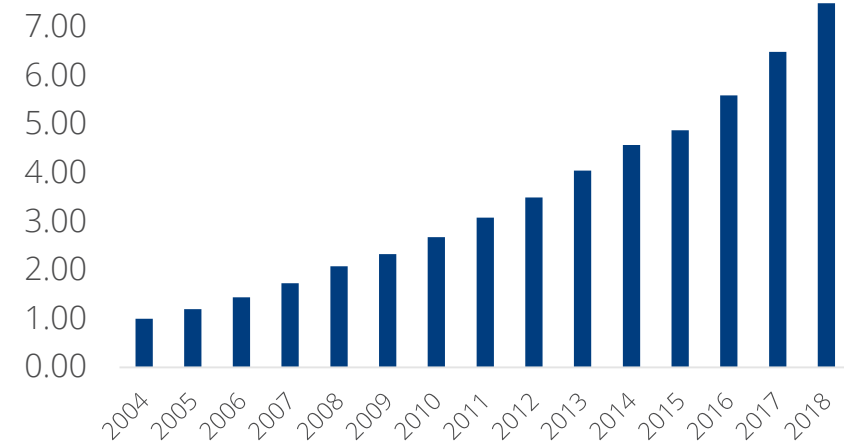
Annual adjusted PBT<sup>1</sup> (£m)



Adjusted diluted EPS<sup>2</sup> (pence)



Dividend<sup>2</sup> per share (pence)



<sup>1</sup> Adjusted profit before tax is before charging, amortization of intangible assets, share scheme costs and acquisition costs.

<sup>2</sup> Adjusted to reflect the 5 for 1 subdivision of shares approved at RWS's February 2015 AGM.

# Financial Review H1 2019

# Income statement

	6 months ended 31 March 2019 (£m)	6 months ended 31 March 2018 (£m)
Revenue	172.3	139.6
Cost of sales	(103.6)	(84.7)
Gross profit	68.7	54.9
<i>GM%</i>	39.8%	39.3%
Administrative expenses (before adjusting items)	(30.8)	(24.4)
Net finance costs	(2.3)	(1.9)
<b>Adjusted profit before tax</b>	<b>35.6</b>	<b>28.6</b>
<i>NM%</i>	20.7%	20.5%
Adjusting items <sup>3</sup>	(8.0)	(10.3)
Tax expense	(6.3)	(5.7)
<b>Profit for the year</b>	<b>21.3</b>	<b>12.6</b>
Basic EPS (pence)	7.8	4.7
Adjusted Basic EPS (pence)	10.1	8.2

## Strong revenue growth – up 23%

- › Organic<sup>1</sup> growth – 14%
- › Underlying<sup>2</sup> growth – 10%
- › Full period contribution from RWS Moravia

## Improved GM of 39.8% driven by RWS Moravia

## 24% uplift in Adjusted PBT

- › Underlying growth<sup>2</sup> – 18%
- › Excellent H1 2019 performance from RWS Moravia

Increased net finance costs primarily due to a stronger USD and higher US interest rates during H1 2019

Effective tax rate of 22.8% down from 31.1% at H1 2018

Favourable average exchange rates compared to H1 2018

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<sup>1</sup> Adjusted for the effect of acquisitions.

<sup>2</sup> Adjusted for the effect of acquisitions and assumes constant currency.

<sup>3</sup> Amortization on acquired intangibles £7.6m (2017: £3.7m) and acquisition costs £0.5m (2017: £6.7m).

# Underlying segmental revenue analysis

	H1 2019 reported (£m)	H1 2018 reported (£m)	YoY growth (£m)	YoY growth (%)	Currency impact (£m)	Acquisition impact (£m)	Internal transfers <sup>3</sup> (£m)	Underlying <sup>1</sup> YoY Growth (£m)	Underlying <sup>1</sup> revenue growth
IP Services	62.3	54.3	8.0	16%	0.9	-	-	7.1	IP Services <b>+13%</b>
Moravia	71.1	52.1	19.0	36%	3.3	11.2	(2.2)	6.7	Moravia <b>+10%<sup>2</sup></b>
Life Sciences	31.8	26.2	5.6	21%	1.7	-	2.2	1.7	Life Sciences <b>+6%</b>
Language Solutions	7.1	7.0	0.1	1%	-	0.5	-	(0.4)	Language Solutions <b>-5%</b>
<b>Total</b>	<b>172.3</b>	<b>139.6</b>	<b>32.7</b>	<b>23%</b>	<b>5.9</b>	<b>11.7</b>	<b>-</b>	<b>15.1</b>	<b>Group +10%</b>

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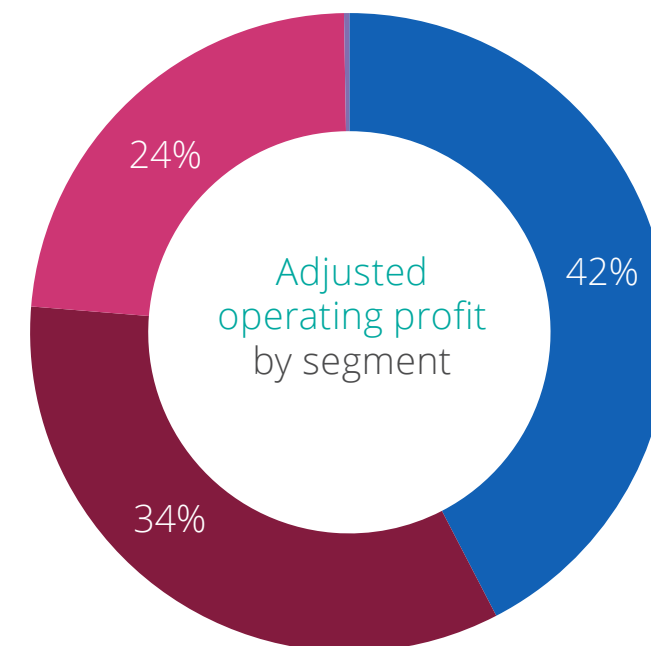
<sup>1</sup> Adjusted for the effect of acquisitions and assumes constant currency i.e. H1 2018 figures retranslated at H1 2019 exchange rates.

<sup>2</sup> Includes Moravia's October 2017 pre-acquisition revenues and excludes the effect of clients transferred to RWS Life Sciences (see below).

<sup>3</sup> As of 1 October 2018, a number of life sciences clients serviced by Moravia were transferred to RWS Life Sciences.

# Segmental operating margin analysis

	IP Services		Moravia		Life Sciences		Language Solutions	
	H1 2019	H1 2018	H1 2019	H1 2018 <sup>1</sup>	H1 2019	H1 2018	H1 2019	H1 2018
Revenue	62.3	54.3	71.1	52.1	31.8	26.2	7.1	7.0
Adjusted operating profit - £m	17.1	17.2	13.7	4.7	9.5	8.0	0.1	0.6
Adjusted operating margin - %	27.4%	31.7%	19.3%	9.0%	29.9%	30.5%	1.4%	8.6%
Movement	-4.3%		+10.3%		-0.6%		-7.2%	

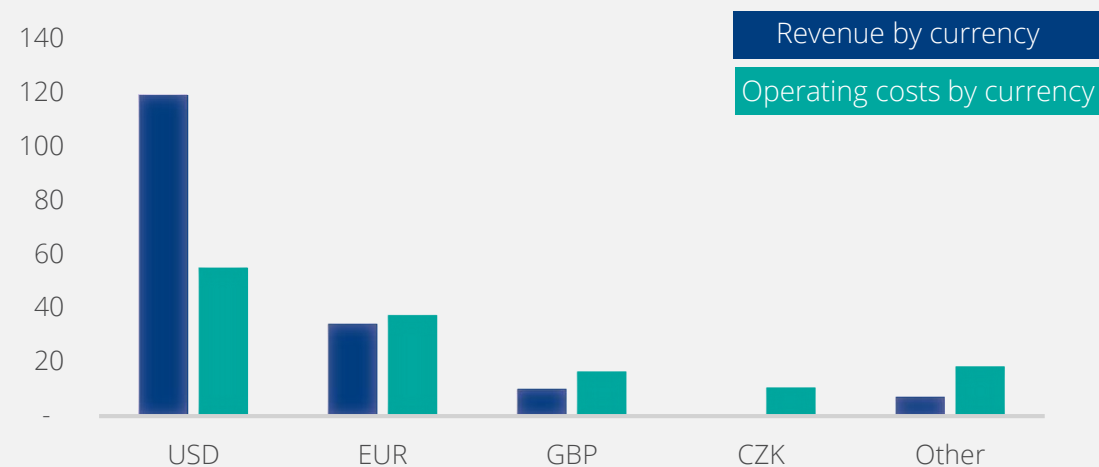




# Group currency analysis

## Key currency exposures – H1 2019

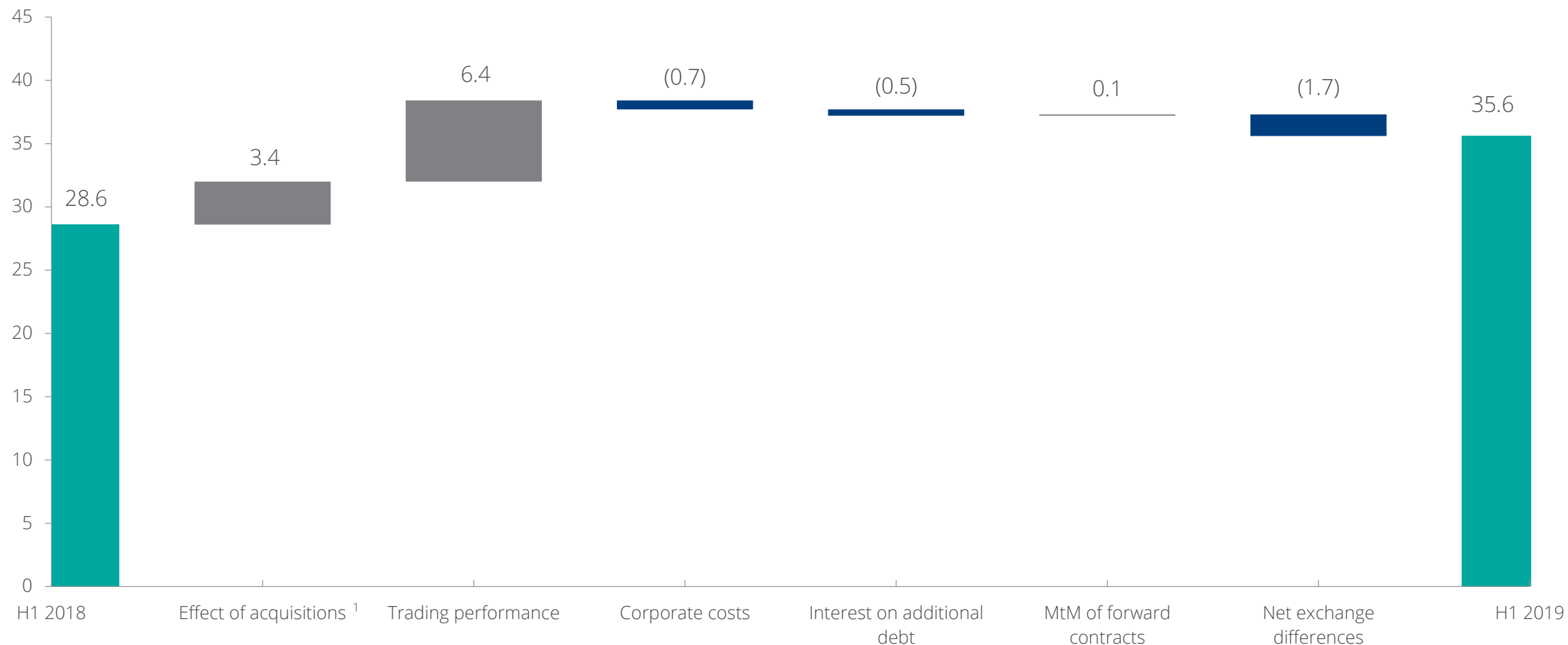
(in millions of GBP equivalents)



	H1 2019 average	H1 2018 average
USD/GBP	1.295	1.372
USD/EUR	1.135	1.208
EUR/GBP	1.142	1.137

- › Continued focus on reducing earnings volatility
  - › Novation of significant portion of USD debt to RWS Moravia in late FY18 and now applying hedge accounting
  - › USDGBP forward contracts and disciplined cash management to manage our GBP shortfall
  - › USDCZK forward contracts in place until 30 September 2020 to cover RWS Moravia's CZK operating costs
- › From a Group perspective, we remain substantially economically hedged
  - › USD denominated debt continues to provide a natural hedge
  - › Additional currency specific hedging through currency forwards at both Group and local entity level
- › Continue to mitigate our key USD exposure at both Group and local entity level

# Adjusted profit before tax bridge



10 <sup>1</sup> Includes an incremental month of trading from Moravia (October 2018) and 2.5 months trading from Alpha Translations Canada Inc. since acquisition.

# Balance sheet and cash flow

	As at 31 March 2019 (£m)	As at 30 September 2018 (£m)		6 months ended 31 March 2019 (£m)	6 months ended 31 March 2018 (£m)
Non-current assets	425.6	429.8	Profit before tax	27.6	18.3
Trade and other receivables	79.5	72.6	<i>Add/(Less):</i>		
Foreign exchange derivatives	0.1	1.0	Net finance costs/(income)	2.3	1.9
Cash and cash equivalents	27.4	38.2	Amortization	8.8	4.5
<b>Total assets</b>	<b>532.6</b>	<b>541.6</b>	Depreciation	1.5	1.3
Trade and other payables	47.6	48.2	<b>Operating cash flows before working capital and taxation</b>	<b>40.2</b>	<b>26.0</b>
Loans	91.3	103.3	Working capital movements	(6.2)	(10.7)
Other liabilities	34.7	34.8	Income tax paid	(6.0)	(4.9)
<b>Total liabilities</b>	<b>173.6</b>	<b>186.3</b>	<b>Net cash from operating activities</b>	<b>27.9</b>	<b>10.4</b>
<b>Net assets</b>	<b>359.0</b>	<b>355.3</b>	<b>Free cash flow</b>	<b>23.1</b>	<b>5.3</b>
<b>Net debt</b>	<b>63.9</b>	<b>65.1</b>			

# Operational Review H1 2019


# Leaders in specialist, growing market segments

 IP Services


- > World's premier provider of patent translation and filing, search, retrieval and monitoring services
- > 130 full-time translators
- > Crowd of 42,000+ researchers
- > Multijurisdictional patent filing via web filing platform, inovia

 Life Sciences

- > Technical translations and linguistic validation for pharmaceutical, biotech, medical device companies and clinical research organizations

 Moravia

- > Technology-enabled localization for companies requiring global reach and consistent brand voice
- > Adapts content, software, websites and applications into 100s of languages and geographies

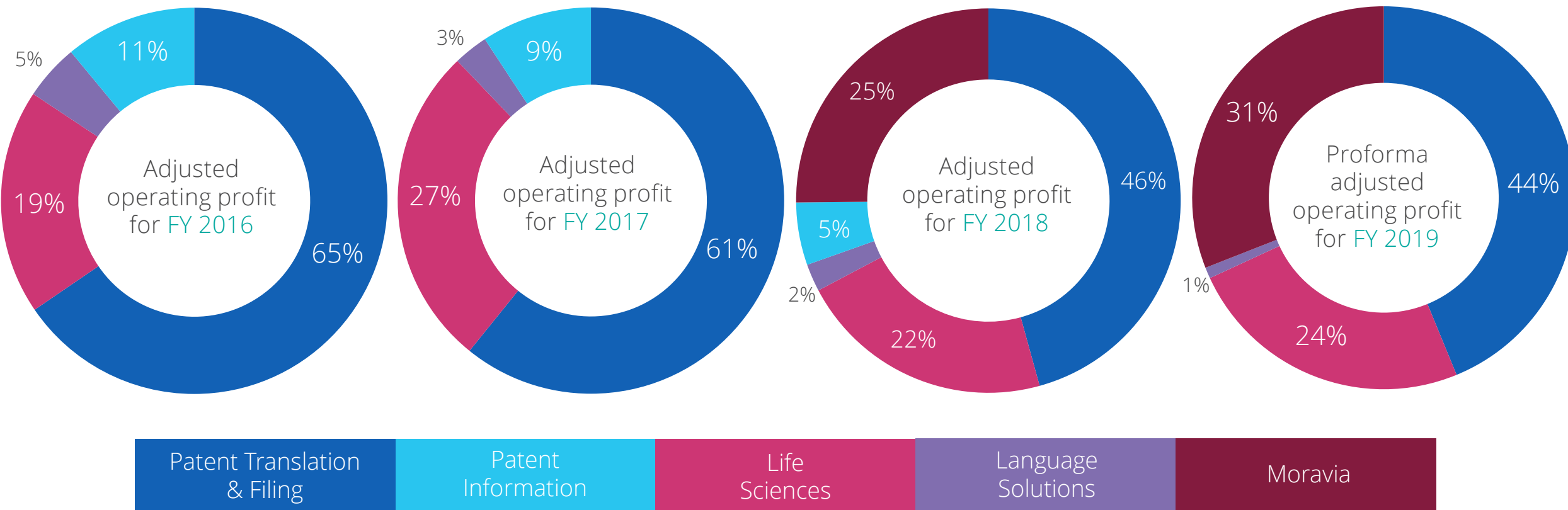
 Language Solutions

- > Commercial translations with a particular emphasis on technical and sensitive legal and financial documents
- > Includes our interpreting offering



World leader in language and intellectual property services with a reputation for high-quality people, processes and technology

# Increased diversification of services: profit



# RWS IP Services

## Revenue grew by 13% on underlying<sup>1</sup> basis

- › Good growth from core client base and revenue from new wins in prior periods
- › Good pipeline of sales opportunities
- › Continuing growth in PatBase

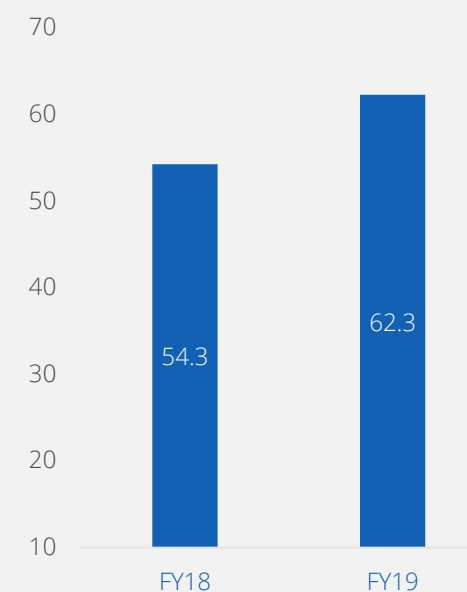
## Operational improvements

- › Strengthened management team and focus on communications
- › Increased investment in staffing and training
- › Ongoing investment in technology to drive efficiency

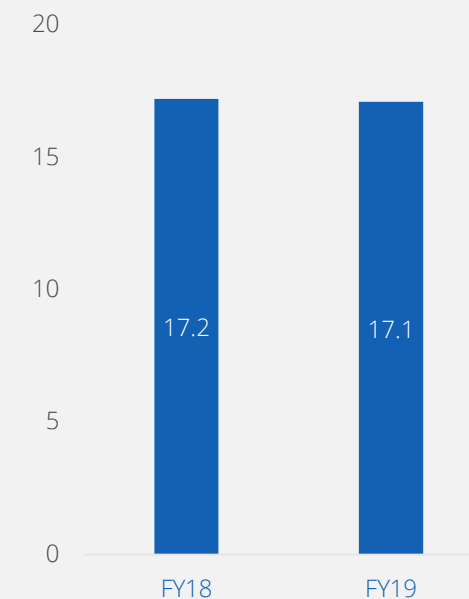
## Future growth: China and Japan

- › Long-term strategic revenue growth markets
- › Investment in local teams and consolidation of offices

IP Services revenue (£m)



IP Services adjusted PBT (£m)



# RWS Life Sciences

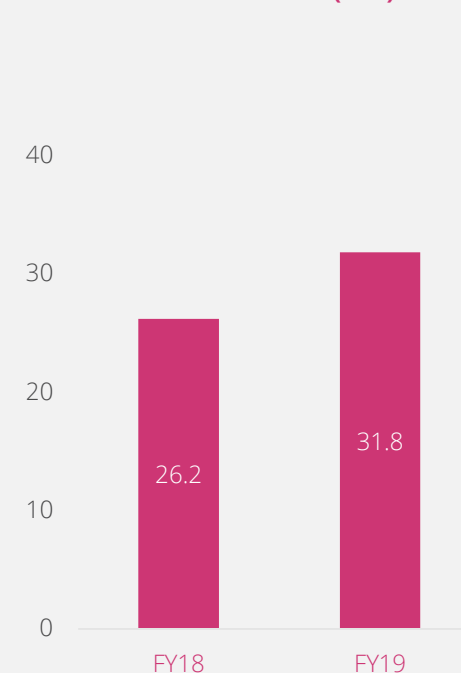
## Revenue grew by 6% on underlying<sup>1</sup> basis

- › Strong first half with good growth from key clients and strong performance from linguistic validation business (+26%) where we continue to invest
- › Former Moravia life sciences clients successfully transferred
- › Jon Hart appointed as new Managing Director

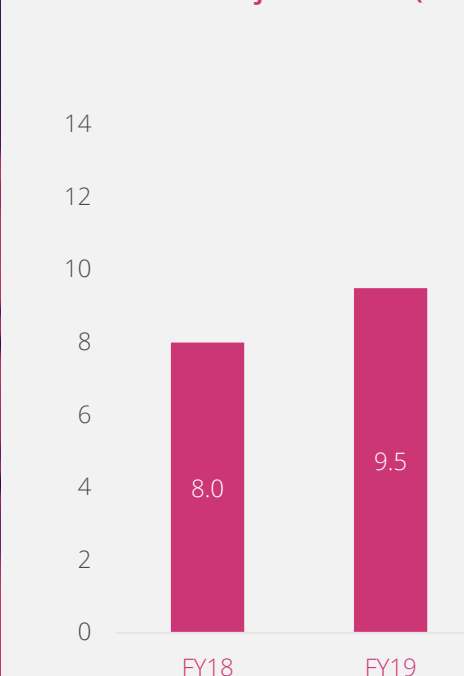
## Expansion and continued investment in Asia Pacific

- › Capitalize on growth in the pharmaceutical market
- › Better serve existing client base
- › New heads in operations and sales
- › First new local business win in China

Life Sciences revenue (£m)



Life Sciences adjusted PBT (£m)



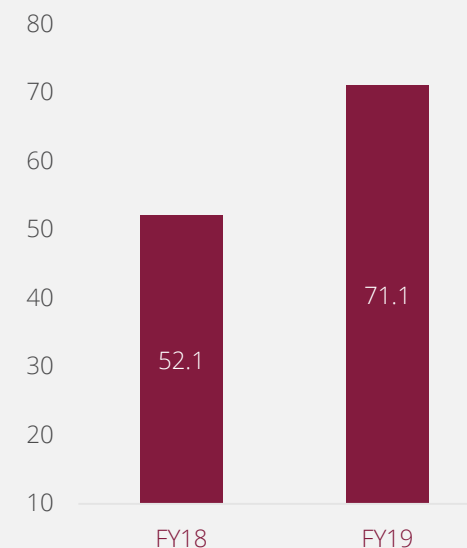


# RWS Moravia

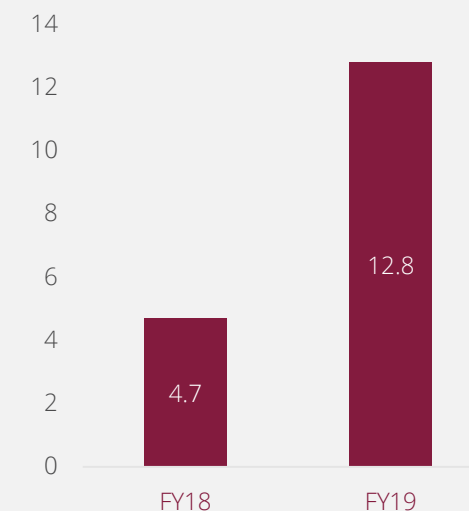
Strong H1 performance with margins up to 19.0% from 9.3%

- › Growth from top clients
- › Several new business wins as we continue to diversify client base
- › Continued focus on cost control
  
- › Leveraging machine translation expertise across the Group
  
- › Ongoing work to build business outside existing top five clients – revenues from other clients up 36%
  
- › RWS Language Solutions will be integrated as of 1 October 2019

Moravia revenue (£m)



Moravia adjusted PBT (£m)



# Market Dynamics

# Attractive growth markets

## PCT Filings

253,000

3.9% increase in 2018

Source: WIPO

## European Patent Applications

174,317

4.6% increase in 2018

Source: EPO

## Life Sciences

US\$1,060bn market by 2022

6.5% CAGR 2017-2022

Source: Deloitte, 2018 Global Life Sciences Outlook

## Localization

US\$49.6bn market

7.8% CAGR 2009-2019

Source: Common Sense Advisory Report, 2019

Good consistent growth in both PCT filings and EP applications

US still largest PCT filer but Chinese applications showing +13% growth. Top two PCT filers Chinese

High-quality translations an important part of IP protection process

Highly regulated and audited industries with significant R&D spend

Growing market worldwide and greater regulatory scrutiny / information. Growth closely tied to global healthcare expenditure

Regulatory changes can pause growth but ultimately drive volume

Localization is an essential function for companies with a global mindset

Market growth is driven by globalization and increased digital content

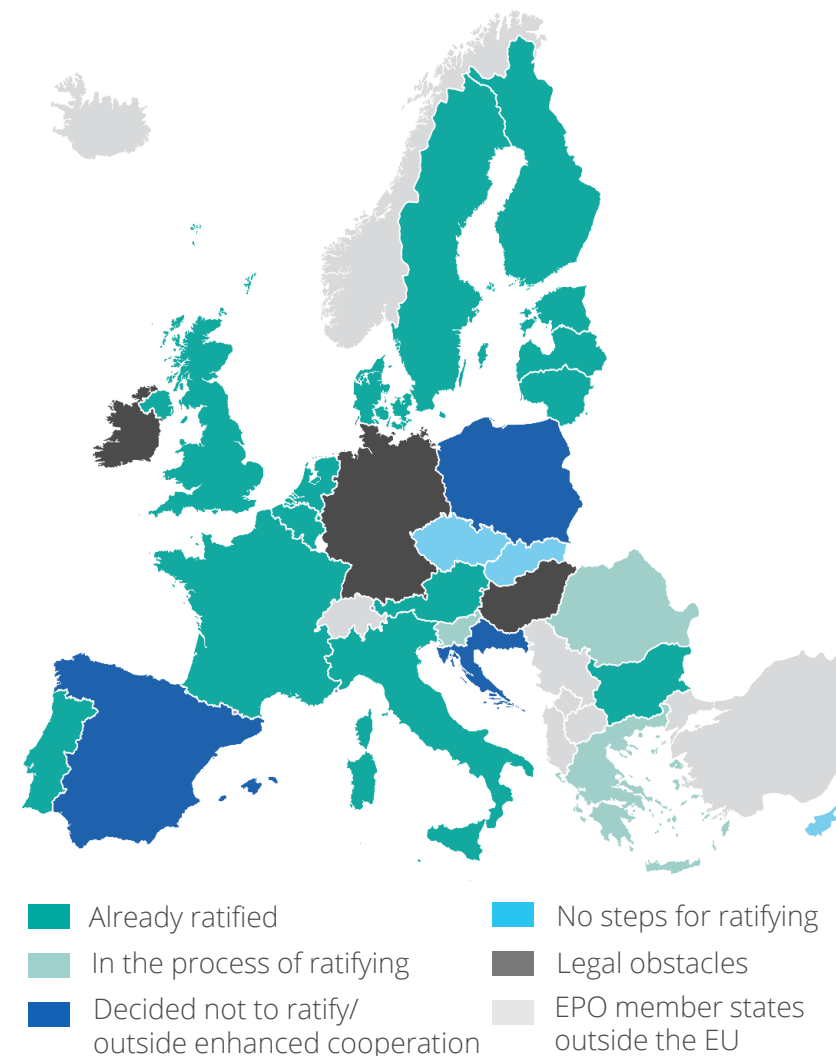
# Challenges and opportunities

## Unitary Patent

- › Now expected to be introduced in Q2 2020 at the earliest
- › German ratification delayed pending a court appeal that claims the UP is unconstitutional
- › Uncertainty remains over UK's membership of unitary patent post Brexit
- › Take-up from major clients is uncertain due to the risk of new litigation and procedures, different territorial coverage and fee structures / financial viability if filing in fewer key markets

## Machine Translation

- › Neural machine translation (NMT) both a challenge and an opportunity
- › Group will continue to review use of NMT and will introduce it where it makes sense to do so and can provide significant additional benefit over existing TM
- › RWS Moravia's knowledge of MT technologies is being leveraged across the Group



# Strategic Priorities

# Our strategic priorities remain

#1

## Drive organic growth

- › Increase sales
- › Additional services
- › Gain market share

#2

## Cross-sell

- › Strengthen Group mentality
- › Sell our full service offering
- › Increase 'stickiness' with clients
- › Sales training and joint events

#3

## Harness technology

- › Further leverage RWS Moravia expertise
- › Identify suitable technology partners
- › Introduce technology where it makes sense

#4

## Selective acquisitions

- › Extend capabilities
- › Strengthen global presence

# Current Trading and Outlook

# Current trading and outlook

- › Trading performance since period end has been in line with recently upgraded market expectations
- › Confident in delivering another record year:
  - › growth opportunities in America and Asia Pacific
  - › continued focus on developing sales teams across the Group
  - › good momentum in the RWS IP Services division
  - › good opportunities at RWS Moravia to expand range of services with key clients
- › Strong cash generation continues to underpin the Group's progressive dividend policy
- › Fragmented market creates opportunities to support strong organic growth with complementary acquisitions



Thank you

RWS.com

RWS 2019© HALF YEAR RESULTS



# Appendices

# Investment summary

- › Strong track record of sales and underlying profit growth
- › Market leading positions across its specialist businesses:
  - › No. 1 position in the worldwide patent translation and patent filing market, with a leading patent search service with the PatBase database covering over 57 million patent families
  - › No. 2 position in life science translations and linguistic validation
  - › A leading provider of technology-enabled localization services to many of the world's largest companies
- › Attractive, large and growing end markets with fragmented service provision, providing opportunities to gain market share and consolidate
- › International blue chip client base that is well diversified geographically and by sector
- › Cash-generative with low capex requirements and a solid balance sheet
- › Clear strategy to grow internationally; both organically and by acquisition
- › Track record of strong dividend growth and committed to a progressive dividend policy

# Shareholders list

As at 30 May 2019

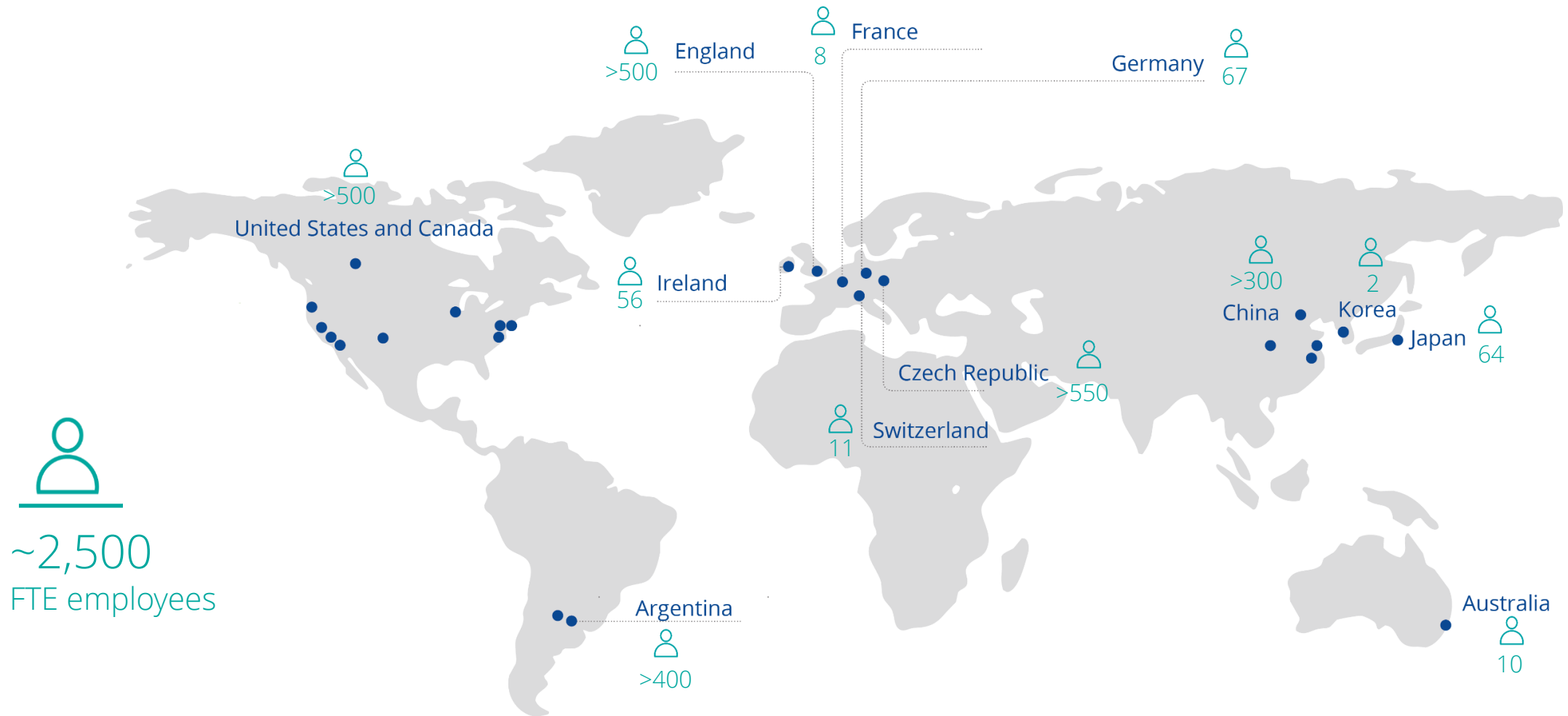
## Top seven shareholders

Holding (%)

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Andrew S Brode	33.0
Liontrust Asset Management	11.4
Aberdeen Standard Investment	7.7
Octopus Investments	5.6
Canaccord Genuity	5.3
BlackRock	3.0
Investec	2.8

# Our geographical reach



~2,500  
FTE employees