

# Half Year Results June 2020

# Robust H1 performance, strong start to H2

## Revenue

£169.7m

- 2%  
- 2% underlying<sup>1</sup>

H1 2019: £172.3m

## Adjusted PBT<sup>2</sup>

£33.1m

- 7%  
- 7% underlying<sup>1</sup>

H1 2019: £35.6m

## Adjusted EPS<sup>2</sup>

9.35p

- 8%

H1 2019: 10.06p

## Interim dividend

1.75p

Maintained in line with  
confidence in the Group's  
future prospects

H1 2019: 1.75p

## Cash

£28.3m

after £38.3m in debt,  
interest and dividend  
payments

H1 2019: £27.4m

## Net debt

£34.5m

0.4x EBITDA on a TTM basis

H1 2019: £63.9m

<sup>1</sup> Excluding the impact of acquisitions and assumes constant currency.

<sup>2</sup> Before amortization of acquired intangibles, acquisition costs, share-based payment expenses and other exceptional items.

# Covid-19 update

- › Staff welfare and wellbeing the Group's #1 priority
- › All offices fully operational and staff are working from home
- › Two exceptions are:
  - › China offices now re-opened. The region traded in line with expectations throughout their period of closure
  - › Staff gradually returning to office in Brno, Czech Republic

- › RWS's business model utilizes freelancers which provides cost scalability in line with changes in demand
- › Group is well diversified geographically, by markets, services and clients
- › Highly cash generative business with low capital expenditure requirements
- › Strong balance sheet and liquidity, having recently completed refinancing of existing debt providing headroom of \$120m at H1 end, of which \$40m is guaranteed under a revolving Credit Facility and a further \$80m available under a non-committed facility

# H1 trading update

- › Trading in H1 reflected:
  - › Lower activities in IP Services which faced a very tough comparative, due to a change in the EPO's processes. Growth from pharmaceutical clients offset by previously announced client loss and sale of a customer's IP assets
  - › Moravia saw good results from several customers, but held back by deferment of a major project (which is now operational)
- › Life Sciences revenue up 2%, driven by continued growth for its specialist, high value linguistic validation offering. Action taken by new leadership starting to yield results in the rest of the division
- › Financial guidance withdrawn on 8 April due to difficulty in predicting likely financial impact of Covid-19; prudent to continue to refrain from providing guidance for the full year

# A strong start to the second half and strategic acquisitions

- › Traded strongly in April and May
  - › Moravia: increase in volumes from tech customers due to Covid-19 messaging across social media platforms and surge in use of online communication tools. Resulted in record sales in April and May
  - › RWS Life Sciences: working with pharmaceutical companies on clinical trials for vaccines and training material for antibody testing machines
  - › RWS IP Services: small number of customers seeking some cost savings, eg. cancelled orders, filing in fewer countries, and slower onboarding
- › Announced two strategic acquisitions on 9 June:
  - › Iconic, an award-winning machine translation (MT) and artificial intelligence (AI) solutions industry expert to the Group, for up to US\$20m subject to performance
  - › US\$21.0m acquisition of Webdunia brings a leader in translation, localization and technology services which will enable the Group to better support its technology customers in the Indian and Asia Pacific regions

# Financial Review H1 2020

# Income statement

	6 months ended 31 March 2020 (£m)	6 months ended 31 March 2019 (£m)
Revenue	169.7	172.3
Cost of sales	(103.9)	(103.6)
<b>Gross profit</b>	<b>65.8</b>	<b>68.7</b>
GM%	38.8%	39.8%
Administrative expenses (before adjusting items)	(31.1)	(30.8)
Net finance costs	(1.6)	(2.3)
<b>Adjusted profit before tax</b>	<b>33.1</b>	<b>35.6</b>
NM%	19.5%	20.7%
Adjusting items <sup>2</sup>	(7.2)	(8.0)
Tax expense	(5.9)	(6.3)
<b>Profit for the year</b>	<b>20.0</b>	<b>21.3</b>
Basic EPS (pence)	7.26	7.78
Adjusted Basic EPS (pence)	9.35	10.06

Reported and underlying revenues are both 2% lower YoY driven by

- › IP Services impacted by strong H1 2019 comparative
- › Deferral of a significant project in Moravia

Gross margin fell 100bps driven primarily by planned investment in Moravia

Administrative expenses as a percentage of revenues constant YoY at 18%

7% YoY reduction in Adjusted PBT

- › Underlying<sup>1</sup> reduction – 7%

Effective tax rate steady at 22.8%

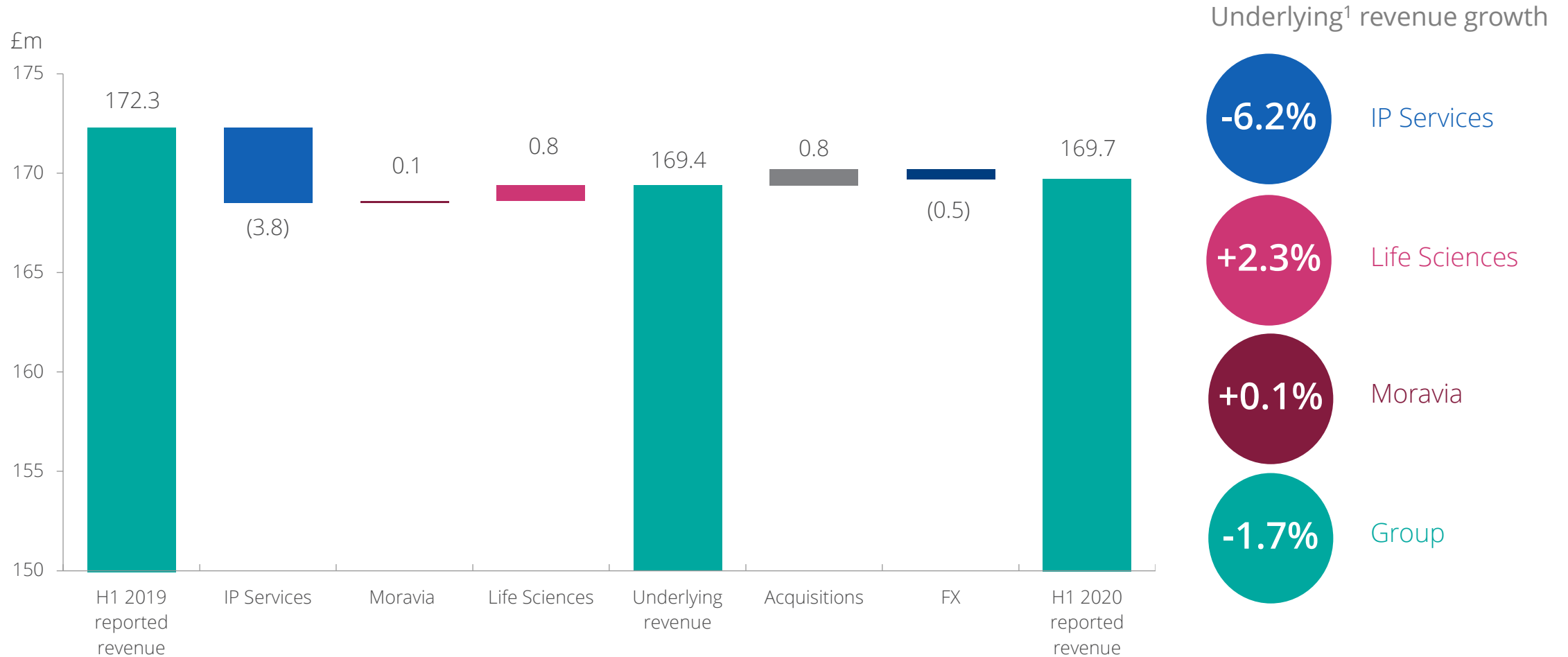
Adjusted basic EPS fallen 7% to 9.35p

Negligible impact from exchange rates

<sup>1</sup> Adjusted for acquisitions and assumes constant currency.

<sup>2</sup> Includes amortization on acquired intangibles £7.6m (H1 2019: £7.6m), acquisition costs £0.2m (H1 2019: £0.5m), share-based payments expense £0.04m (H1 2019: £nil) and other exceptional items £0.6m credit (H1 2019: £nil).

# Underlying segmental revenue bridge





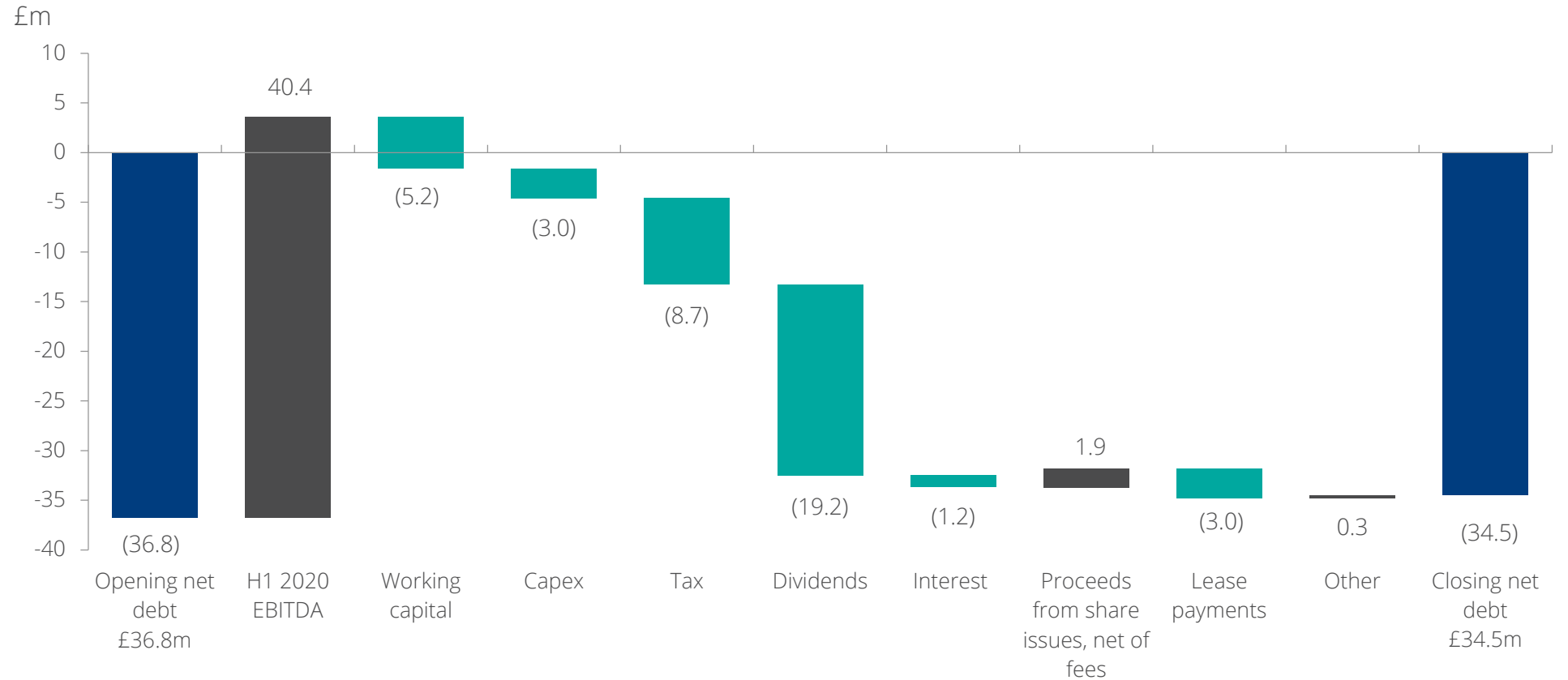
# Net debt bridge – H1 2020

**Cash conversion**  
85%  
H1 2019: 84%













**Free cash flow**  
£21.3m  
H1 2019: £23.1m

**Net debt**  
£34.5m  
H1 2019: £63.9m

**Effective tax rate**  
22.8%  
H1 2019: 22.8%



# Effectively mitigating our currency exposures

	Moravia	IP Services	Life Sciences	Corporate
Revenues		 		
Operating costs	  	 		 
Type of risk	<ul style="list-style-type: none"> <li>✓ Transactional</li> <li>✓ Translational</li> </ul>	<ul style="list-style-type: none"> <li>✓ Transactional</li> <li>✓ Translational</li> </ul>	<ul style="list-style-type: none"> <li>✗ Transactional</li> <li>✓ Translational</li> </ul>	<ul style="list-style-type: none"> <li>✓ Transactional</li> <li>✗ Translational</li> </ul>
Mitigating actions	<ul style="list-style-type: none"> <li>› Hedge CZK cost base with USD:CZK forwards</li> <li>› Utilize USD surplus to reduce net debt and/or distribute to Corporate</li> <li>› Constant currency reporting</li> </ul>	<ul style="list-style-type: none"> <li>› Distribute surplus USD to Corporate</li> <li>› Constant currency reporting</li> </ul>	<ul style="list-style-type: none"> <li>› Distribute surplus USD to Corporate</li> <li>› Constant currency reporting</li> </ul>	<ul style="list-style-type: none"> <li>› Utilize USD to reduce net debt</li> <li>› Hedge GBP dividends via USD:GBP forwards</li> </ul>

# Balance sheet

Balance sheet	As at 31 March 2020 (£m)	As at 30 September 2019 (£m)
Non-current assets	453.6	444.8
Trade and other receivables	85.7	85.5
Foreign exchange derivatives	-	-
Cash and cash equivalents	28.3	47.0
<b>Total assets</b>	<b>567.6</b>	<b>577.3</b>
Trade and other payables	52.0	57.7
Loans	62.8	83.7
Foreign exchange derivatives	3.0	0.8
Lease liabilities	22.3	-
Other liabilities	33.0	37.6
<b>Total liabilities</b>	<b>173.1</b>	<b>179.8</b>
<b>Net assets</b>	<b>394.5</b>	<b>397.5</b>
<b>Net debt</b>	<b>34.5</b>	<b>36.8</b>

## Net debt

- › Net debt reduced to £34.5m
- › Refinanced our existing term loan into a \$120m revolving credit facility (RCF) with an \$80m accordion option
- › \$81.4m drawn down at 31 March 2020 repayable in February 2024, with an option to extend maturity until February 2025
- › Net debt to EBITDA of 0.4 – Covenant is 2.75

## IFRS 16 Leases

- › Transition occurred on 1 October 2019
- › Negligible impact on the Group's H1 2020 adjusted PBT – down £0.1m
- › Lease liabilities of £22.3m as at 31 March 2020

# Operational Review H1 2020

# Leaders in specialist, growing market segments



## IP Services

World's premier provider of patent translation and filing, search, retrieval and monitoring services

Over 250 full time in-house translators and linguistic revisors

Crowd of 43,000+ researchers

Multijurisdictional patent filing via web filing platform, inovia



## Life Sciences

Exclusive focus on language service needs of pharmaceutical, biotech, medical device companies and CROs

The high margin linguistic validation business continues to grow

Safely expediting the translation of critical clinical studies to support the release of medicines that show promise in the fight against Covid-19



## Moravia

Customized localization programs with innovative technology solutions

Document, web, software and app localization

Specialized teams for technical, legal and financial content

Simultaneous, consecutive and telephone interpretation

# IP Services

## Revenue down 7% (CC<sup>1</sup>)

- › H1 in previous period benefitted from a change in practices at the European Patent Office
- › Strong organic growth from new pharmaceutical customers
- › Growth offset by the loss of major customer and another customer selling its IP assets
- › Several new business wins in the period with revenue expected in late H2

## Operational update

- › Strengthened management team
- › Investment in supporting long term careers
- › Working from home is marginally less efficient operationally

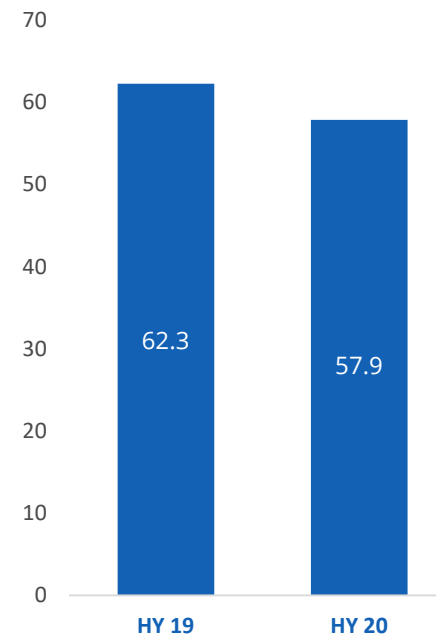
## Outlook

- › Strong level of both new business wins and sales pipeline
- › Conversion of contract wins to revenue will likely take longer due to Covid-19
- › Timing of new business wins uncertain but a strong pipeline of opportunities
- › Significantly reduced discretionary expenditure and implemented a hiring freeze

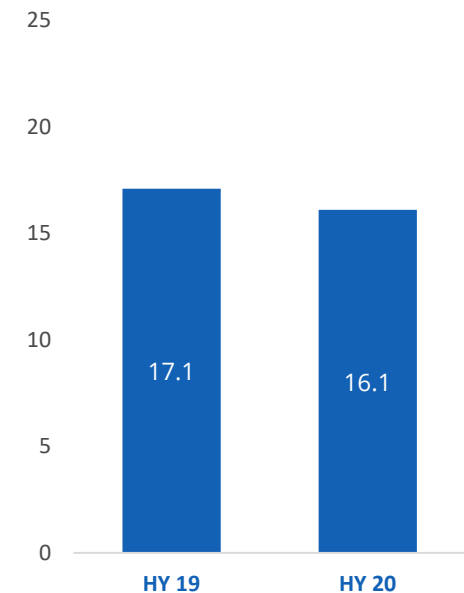
## Asia

- › Encouraging growth in China, Japan and Korea, including new wins with local companies and patent attorney firms

## IP Services Revenue (£m)



## IP Services Adjusted Operating Profit (£m)



Adjusted operating margin  
27.5%      27.7%

# Life Sciences

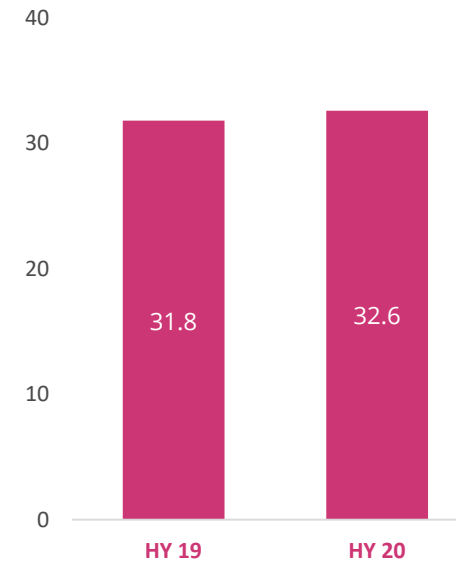
## Revenue grew by 2% on underlying<sup>1</sup> basis

- › Good growth from key clients
- › Increased sales in linguistic validations (+13% CC<sup>1</sup>)
- › Good new client wins in the period
- › Offset by lower sales to Clinical Research Organisations
- › Management team bedded down and changes being made are positive
- › Continues to invest to exploit opportunities in linguistic validation and in China and Japan

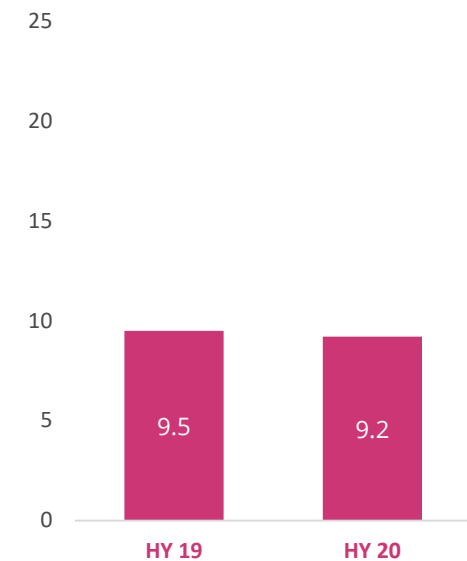
## Current trading and outlook

- › Good work on Covid-19 projects, largely offset by postponed clinical trials and impact of cancellation of elective surgery in hospitals
- › Good progress on machine translation (MT) projects
- › Although EU Medical Device requirements delayed, seeing gradual increase in volumes
- › Encouraging, albeit early, signs of reinvigoration of sales
- › Likely to benefit from increased spending on healthcare

### Life Sciences Revenue (£m)



### Life Sciences Adjusted Operating Profit (£m)



Adjusted operating margin  
29.8%      28.2%

# Moravia

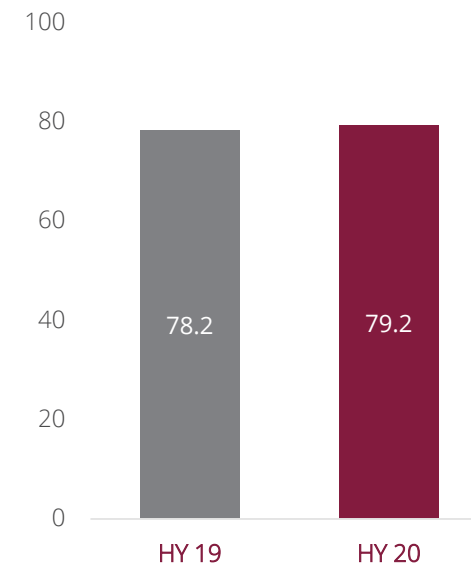
## Revenue grew by 0.1% on underlying<sup>1</sup> basis

- › Reasonable growth outside the 'top 6' clients (+4%)
- › Revenue with 'top 6' customers mixed but slight reduction on FY19
- › Tight control on overheads
- › Delay in client's new project work has now commenced
- › Situation in Group's largest customer better than expected
- › Recently merged small Language Solutions business impacted by Covid-19
- › Investment in technology and service offerings and sales mix reduced net margin

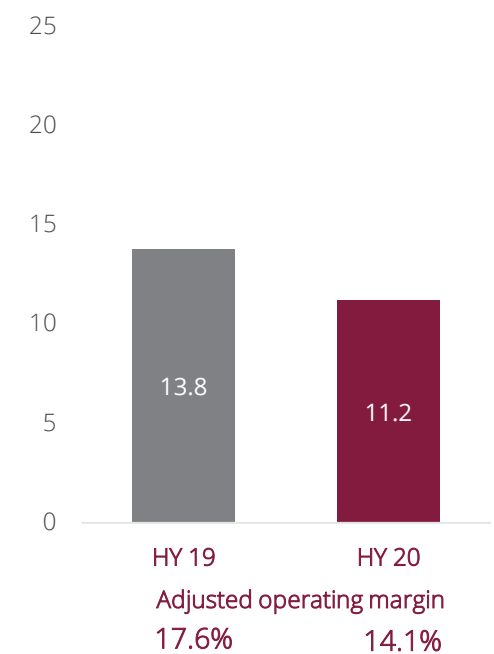
## Outlook

- › Investment being made in technology and new services to keep at the forefront of language services and localization market
- › Strong April and May: benefitting from growth in demand for online, social media and streaming services during Covid-19 lockdown

Moravia Revenue (£m)



Moravia Adjusted Operating Profit (£m)





# Market Dynamics

# Challenges and opportunities

## Covid-19

- › RWS has experienced limited demand-side impact overall from Covid-19 so far, with increased activity from Moravia's large technology clients and Life Sciences' clients, who are working on vaccines and antibody testing, offset by some impact on IP services
- › RWS is doing all it can to support global efforts to fight Covid-19, including:
  - › Mobilizing its global research community to identify and review relevant prior scientific research for use by pharmaceutical companies working on Covid-19 vaccines or treatments, on a pro-bono basis
  - › Translating new training protocols rapidly to help speed up the use of vital medical device equipment when technicians cannot travel
  - › Expediting the translation of critical clinical studies to support the release of medicines that show promise in the fight against Covid-19
  - › Facilitating the change from face-to-face information gathering to phone and online formats, which allows existing clinical trials to continue
- › Overall the impact of Covid-19 on the results of RWS remains uncertain. However, the specialist niches that RWS operates in, combined with its flexible, cash generative business model, puts the Group in a better position than many

# Challenges and opportunities

## Machine Translation (MT)

- › Neural machine translation (NMT) remains a challenge and an opportunity
- › Group continues to trial and provide NMT services where it is in the customer's interest and makes commercial sense to do so
- › The acquisition of Iconic significantly strengthens the Group's NMT offering
- › The quality of NMT will improve over time and, as a leader in language services, we will continue to differentiate by focussing on translation work in critical areas

## Unitary Patent (UP)

- › It is now unclear as to whether the UP system will be implemented. The intended start date was dependent on the ratification of the agreement by Germany, France and the UK. Whilst France has ratified the agreement, the UK Government has made it clear that it does not intend to participate in the UP and the German constitutional court has upheld a complaint that the original approval of the UP agreement by the German Government was unconstitutional
- › We believe that the introduction of the UP system will now be delayed by several years and will be subject to further lengthy debate. There is the clear possibility that the entire scheme will be dropped

# Acquisitions

# Iconic acquisition

## Rationale

- › Highly successful award winning niche machine translation (MT) provider based in Dublin
- › Strengthens RWS's MT offering to the market
- › On recent MT projects RWS benchmarked Iconic's technology against its competition and discovered it to be best-in-class

## Transaction details

- › Initial cash consideration of USD\$10m, potentially rising by another \$10m, payable in shares in RWS, providing certain revenue and profit targets are achieved by the Iconic business over a 28 month period
- › Will operate as a small separate business selling MT services to all three main divisions but with an initial focus on the life sciences sector
- › Existing Iconic management will remain with and continue to run the business

# Webdunia acquisition

## Rationale

- › Successful translation, localization and technology solutions business based in India and with offices in Thailand and the USA
- › Strengthens RWS's translation and localization offering in the Indian and Asia Pacific markets to better support our customers growth aspirations; two major customers have indicated that they endorse the Group's expansion in these territories
- › Webdunia's technology solutions business will allow the Group to provide an enhanced IT solution offering as well as advancing RWS's continuing investment on internal IT

## Transaction details

- › Total cash consideration of \$21m. To be paid by drawing down the Group's revolving credit facility
- › The business will be rebranded and fully integrated into the RWS Moravia division with effect from 1 October
- › Several of Webdunia's key managers will remain with the RWS Group to run the business

# Current trading and outlook

# Outlook

- › Group is a well-balanced and integrated business with extensive service offerings across three divisions and a global presence
  - › Well positioned in markets thought to be beneficiaries in a post Covid-19 world (life sciences and technology) or where managing and protecting R&D investments remains important to customers (IP)
  - › Group's highly cash generative business model, flexible cost base and strong balance sheet give confidence for the future
  - › An excellent start to H2
- › Uncertainty around impact of Covid-19 led to withdrawal of market guidance on 8 April
  - › However, second half expected to benefit from incremental ramp up in new client/contract wins and strong sales pipeline
  - › Excellent recent new business wins, particularly in IP Services, will deliver good future revenue
  - › Moravia currently benefitting from growth in demand for technology services
  - › Life Sciences division playing its part in fight to beat Covid-19 and will benefit from likely future increased spending on global health care



# Key investment case highlights



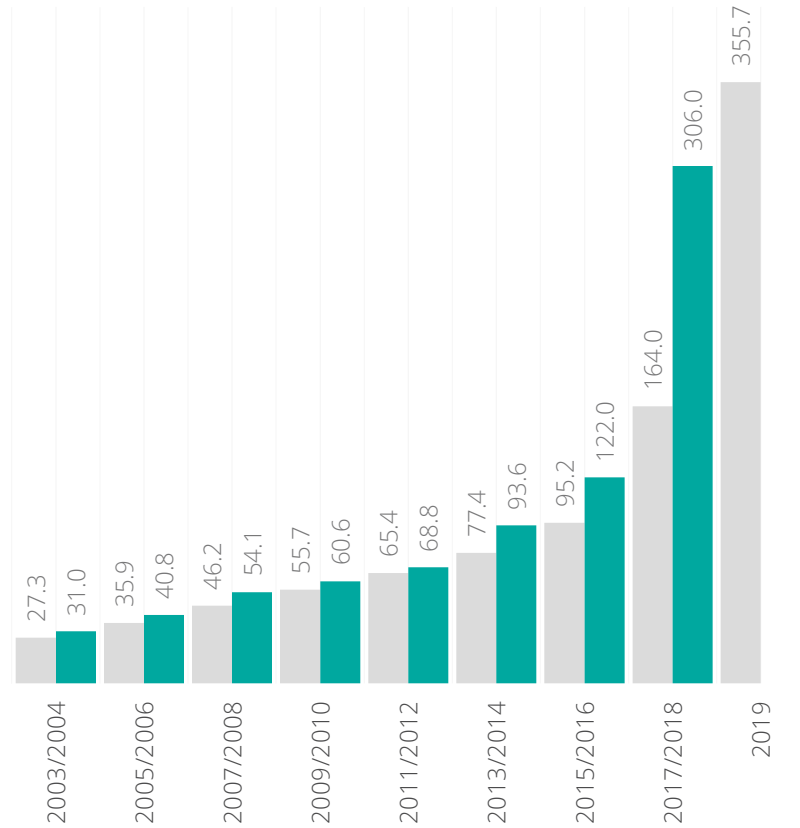
# Thank you and questions

RWS.com

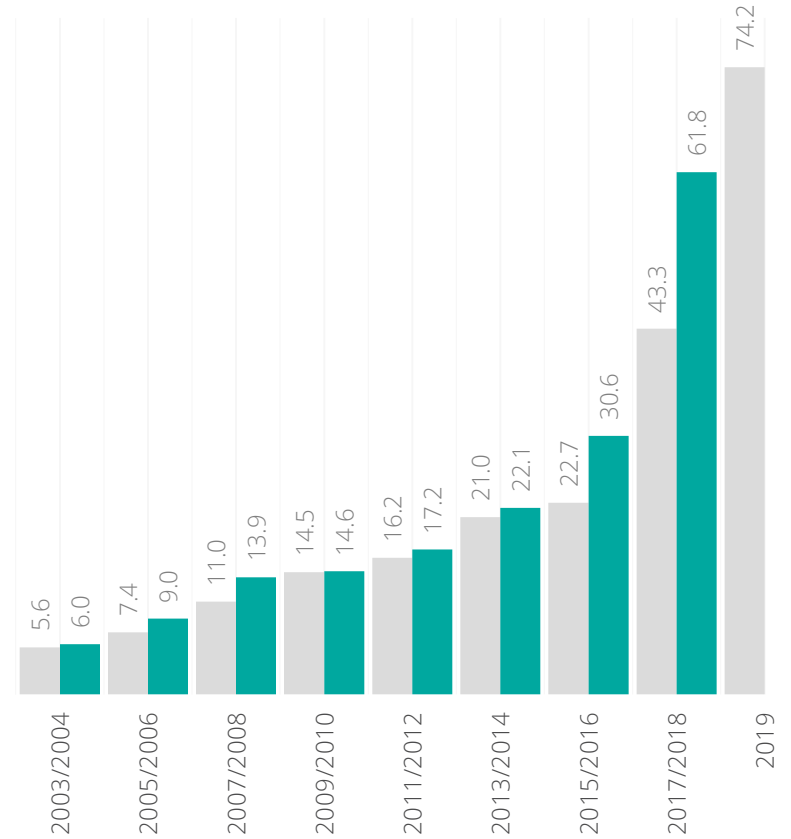
# Appendices

# A 16-year track record of unbroken growth

Annual revenue (£m)



Annual adjusted PBT (£m)



# Shareholders list

As at 31 May 2020

## Top seven shareholders

Holding (%)

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Andrew S Brode	32.8
Liontrust Asset Management	11.3
Aberdeen Standard Investments	6.7
Octopus Investments	5.0
Canaccord Genuity	3.9
BlackRock	3.0
Sanford Deland Asset Management	2.7

# Environmental, social and governance highlights

## Environment

Compliant with Streamlined Energy and Carbon Reporting (SECR) policy **Yes**

**Energy:** seeking to reduce our energy consumption and Scope 1 and Scope 2 emissions on a comparable basis as defined by the Greenhouse Gas Protocol **2%**

**Waste:** to reduce the waste we create on a comparable basis **2%**

## Social and Community

**Employee health and wellbeing:** proactively support the personal health and wellbeing

**Coaching and mentoring:** maximizing our employees' potential is central to our growth

Actively promote foreign language learning through school and university partnership programmes: RWS Scholarship Programme with The University of Manchester & Outward Bound Trust

## Corporate governance

Compliance with the 10 key principles in the QCA Corporate Governance Code **Yes**

Independent Board review **Yes**



# Attractive growth markets

## PCT Filings

265,800

5.2% increase in 2019

Source: WIPO

## European Patent (EP) Applications

181,400

4.0% increase in 2019

Source: EPO

PCT Filings: China surpassed the US as the top source of international patent applications filed with WIPO for the first time since the PCT began operations in 1978

EP Applications: Overall 4% growth was fuelled by the strong increase in filing volumes from China, the US and South Korea, with growth in patent applications from some of the larger EPO countries, including the UK. This confirms that the European market remains key to the global economy's ongoing digital transformation

## Life Sciences

US\$10 trillion market by 2022

5.4% annual growth rate 2018-2022

Source: Deloitte, 2019 Global Life Sciences Outlook

Highly regulated and audited industries with significant R&D spend

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

Uncertain outlook but Life Sciences could grow at a faster rate in a post Covid-19 world.

## Language industry

US\$49.6bn market

7.8% CAGR 2009-2019

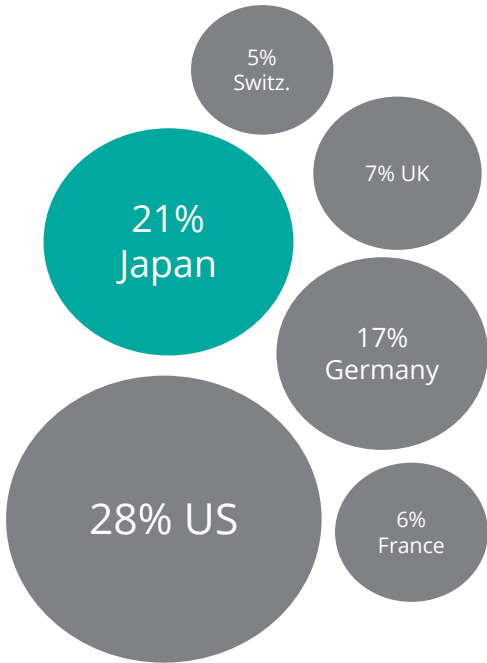
Source: Common Sense Advisory Report, 2019

Language industry is an essential function for companies with a global mindset

Market growth is driven by globalization and increased digital content

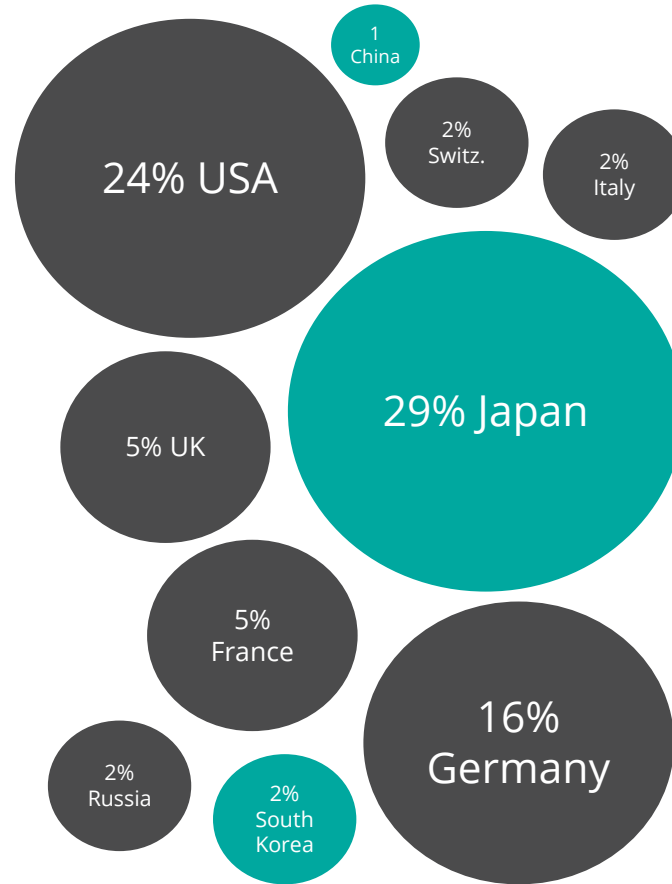
# Patent power tilts to Asia

40,605 average patents awarded annually **1970 - 1979**



● Countries in Asia incl. Israel

119,689 average patents awarded annually **1980 - 1999**



283,248 average patents awarded annually **2000 - 2018**

