Qi3 Insight: Intriguing Instrumentation

Some lessons from an industry that has outperformed during the recent recession

Insight

The turbulent economic times precipitated by the 2007/8 ‘credit crunch’ are still unresolved. In the UK, manufacturing output dipped sharply and then recovered to a growth rate above that of the economy as a whole. But at the time of writing, UK manufacturing output has stalled, and it is unclear whether we shall return to a period of modest growth or prolonged, ‘L-shape’ recession.

But the instrumentation industry has bucked the trend of manufacturing. Qi3’s recent analysis of 15 of the larger UK quoted instrumentation companies has shown outperformance in sales, profits and share prices. The combined sales of these companies in 2010 was £5.6bn, with £250m (5%) being invested in R&D. After deleveraging their balance sheets, the companies have combined cash reserves of over £800m which they are now using to fund acquisitions and further develop their global presence.

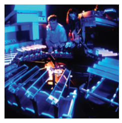
These businesses followed a pattern through the last four years. First they reacted speedily to the downturn, by cutting costs, reducing debt, stalling acquisition activity and improving operating performance. Second they focused on organic growth, new product development and exports – particularly to China and other markets which are expanding faster than the West. Third they used their now larger cash reserves in 2010/11 to return to acquisition activity in earnest. Many of the newer acquisitions have strong strategic relevance in that they bolster the companies’ presence in emerging markets and provide additional product ranges that can be offered through their global distribution channels.

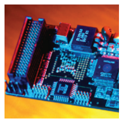
The UK instrumentation sector was not alone in this pattern of activity. Comparable companies in the USA mirrored this with high levels of R&D investment in 2008/9, followed by a return to major acquisitions in 2010/11.

The 15 businesses analysed generally entered the recession with diversified geographical and market bases and moderately strong balance sheets which could weather the financial storm. Qi3’s knowledge of the 2000 smaller instrumentation SMEs indicates a very different picture, with some companies doing well, but a significant number struggling with poorer cash reserves, less diversified customer bases and lower exports.

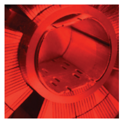
Looking to the future, Qi3 recommends continued focus on organic growth through product range extension and global market share. Acquisition strategy should focus on opportunities at attractive valuations with strong strategic rationale. Attention should be paid to short term earnings impact and the potential for balance sheet risk.

The full report from Qi3 provides insights for those within the instrumentation sector, and perhaps some lessons for others within the engineering and manufacturing industries.





Qi3 has extensive knowledge of the user markets for instrumentation, companies in the field and the sensing, electronics, optics, materials and software technologies that underpin this complex sector. We work with large corporations, smaller enterprises, Universities and Research Institutes across Europe to support marketing strategy, technology and innovation strategy, technology commercialisation, acquisition and disposal, strategic alliance and business development in high value manufacturing, engineering and instrumentation amongst other industries.



Companies analysed in this report are Andor Technology, E2V Technologies, Elektron, Filtronic, Halma, IDS, Judges Scientific, Optos, Oxford Instruments, Renishaw, Rotork, Smiths Detection, Spectris, TT Electronics, and Ultra Electronics. Certain divisions were excluded where these lie outside of sensing and instrumentation.

To receive a copy of the full report, or to enquire about how Qi3 may support your business, please contact Nathan Hill at nathan.hill@qi3.co.uk or call +44 (0)20 7925 1992 (London) or +44 (0)1223 422404 (Cambridge).