

Victrex plc
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Transcript

victrex

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Dr James Routh:

Good afternoon everyone, and thank you for joining the Victrex Capital Markets event. Today, we'll set out how we'll unlock Victrex's significant potential and drive long-term sustainable profit growth. As many of you know, I joined in January because I was convinced this business has solid foundations, a differentiated product, a powerful brand, and well-invested facilities. The main issue was clearly execution. As I said at the half year results, that view has been confirmed and I now see a clear path to materially improved performance. Over the past nine months, we've moved at pace and made considerable progress as reflected in the trading update that we issued two weeks ago. So today I'll start with introductions to the leadership team, then set out the dynamics of the global PEEK market and why Victrex is so well positioned. I'll also cover our distinct competitive advantages and why they give us a long-term right to win in this attractive growth market.

I'll then explain the changes we're making to build a performance focused culture and summarise the strategic framework that will unlock a significant improvement in financial performance. My colleagues will then go into detail on Victrex performance materials, which was formally sustainable solutions, Victrex Medical, and our operational transformation programme, including the actions we're taking to drive improved performance. I'll then provide more detail on our updated financial guidance and capital allocation policy before wrapping up and moving into Q&A.

Today's session will provide the detail and context around how we intend to unlock our potential and drive significant growth in profit and cash generation over the medium term. So what should you take away from today? Well, first, PEEK is a compelling high margin growth market aligned to structural trends across multiple industries, and within it, Victrex is the clear market leader. Second, Victrex has a genuinely differentiated offering, not only our products, but also our vertically integrated manufacturing and value added customer services. This creates a sustainable competitive advantage, enabling us to capture market share in a structurally growing market by focusing on applications where Victrex PEEK is differentiated while also creating new markets for PEEK that don't currently exist. Third, we're rapidly transforming the organisation, culture, and operating model to unlock a step up in profit, cash generation and returns. This is already underway and delivering results, and I'll cover the implications for guidance and capital allocation later.

Together, these strengths provide a clear path to sustainable shareholder value creation, and today we'll spell out exactly how this will be delivered over the medium term. And I want to make this really clear upfront so we can draw a line under this. None of the guidance provided today requires any contributions from the so-called mega programmes you'd have heard about in the past.

So I'm delighted to be joined today by my members of my refreshed leadership team, alongside other senior Victrex colleagues who you see in the polo shirts, who will be available during the breaks and at the drinks reception if you want to speak to them. As you know, we don't currently have a permanent CFO, so I'll be covering the financial sections today. Our interim CFO, Chris Gilbert, raise your hand, and finance director Mike Ward are also here to address any more detailed financial questions you may have. Our business is split into two market facing areas, performance materials and medical. Andrew Ng, our Chief Commercial Officer, leads performance materials while Daniel Diffenderfer is managing director of medical. Both have joined recently and are already making a strong impact. We're also joined by Suranjan Ghosh, who leads operations and transformation across the group, and he's playing a vital role in driving our operational changes.

So I'd like to start with a few points that explain why Victrex is so well positioned. First, we lead the global PEEK market with over 45% share by volume, built on a differentiated product proposition, trusted brand, and a strong global presence. We invented PEEK and we have 48 years experience formulating it and applying it to real world customer challenges. That expertise is supported by more than 200 patents in place or pending, reflecting the strength of our technology and our know-how. And Victrex is the only global PEEK manufacturer with vertically integrated manufacturing, including our own monomer precursor materials. This UK manufacturing base avoids potential Asian supply chain risk and for some geographies and sectors provides a critical security of supply advantage. We also have market leading applications engineering capability, translating PEEK's unique properties into practical solutions for demanding challenges. This is underpinned by state-of-the-art modelling and simulation in computational chemistry and physical performance.

Finally, we are well invested with capacity to nearly double our current output without the need for additional CapEx. So as the market grows, this enables us to scale with customers while providing the security supply that they need.

So I'm now going to introduce our investment case, providing colour around each of the four key messages for today's event, starting with the fact that PEEK is a compelling growth market and that Victrex is the undisputed leader. PEEK or polyether ether ketone is a semicrystalline polymer used in mission critical settings, particularly high temperature or high wear environments requiring chemical compatibility, fatigue resistance, and dimensional stability under load. A combination of physical, chemical, and electrical properties make PEEK essential where performance is critical. Victrex offers PEEK polymers in over 450 grades, supplied as powder, granules and compounds. These are sold directly to customers or they're processed into specialised forms, including thin films, fibres and filaments,

composite tapes, coatings, and tubes or pipes. To be clear, we do not produce PEEK based finished parts for the market, except thermoplastic composites parts made in the US for aerospace. Any other parts manufacturing is for prototyping and helping customers optimise their own processes despite the previously reported polymer to parts strategy.

So with that cleared up, the polymer hierarchy is shown as a pyramid. Lower cost, higher volume polymers sit at the bottom, while higher performance, higher cost, lower volume polymers sit at the top, and PEEK sits at the very top of this hierarchy within the ultra high performance category. And this is reflected in pricing, which typically range from £40 per kilo to over £1,000 per kilo, depending on the application, with the global volumes of around 9,000 tonnes per year. By comparison, other ultra high performance polymers are typically £10 plus per kilogramme and produce volumes at orders of magnitude higher. Both price and volume reflect the nature of applications where PEEK is used, while pricing also reflects the production complexity. PEEK synthesis is difficult and the manufacturing technology is hard to master and replicate. A new PEEK plant takes several years to build and commission, followed by a lengthy optimisation process to deliver the consistency and quality that customers require.

That know-how takes a long time to build, which is one reason why several newer Asian producers have yet to reach the required consistency and quality. PEEK is also much less exposed to cyclicalities than commodity materials. It's sold for its unique performance properties in highly specific applications where it's often specified in and difficult to substitute.

So why do engineers choose PEEK? PEEK combines physical, chemical, and electrical properties in a way other materials rarely match. While alternatives may perform well in one or two areas, PEEK offers high mechanical strength, high temperature and best in class chemical wear and fatigue resistance, making it essential where performance is critical. The left hand graph shows this clearly. PEEK delivers high fatigue resistance, particularly elevated temperatures versus other polymers. Fatigue resistance is the ability to withstand repeated loads without permanent deformation or failure, and that's vital in high cycle applications such as EV motors and aerospace structures. The right hand graph highlights PEEK strength in chemically exposed wear critical applications such as bearings, reciprocating or rotary seals and robotics. PEEK also offers an excellent strength to weight ratio, low creep, long-term durability, and a proven track record of biocompatibility, making it well suited to implantable medical applications. It's often used to replace metals where lightweighting matters and can reduce total manufacturing costs.

So although PEEK is relatively expensive versus other polymers, material content typically only represents 5% to 10% of a parts manufactured cost

while delivering significant value through performance durability and its product life. PEEK is also PFAS free, making it a potential replacement for materials used in higher volume applications such as cookware and waterproofing should regulation require alternatives. In summary, PEEK is used in mission critical applications where no other material meets the same combination of requirements. This technical differentiation supports strong customer value, meaningful pricing power and attractive margins.

Victrex serves a broad range of high value end markets with highly attractive structural growth characteristics across multiple geographies. This breadth gives us diversified revenue streams and provides resilience against short term movements in individual markets. These markets are grouped into two areas. Performance Materials comprises Aerospace & Defence, Automotive, Electronics and Energy & Industrial while medical covers both implantable and non-implantable materials. Across this portfolio, average selling prices vary significantly. Medical is the smallest segment by volume around 4% of total volumes, but contributes around 20% of sales revenue reflecting the higher value nature of these applications. Andrew and Daniel will give more specific examples of what we do in each market, but in short, we help customers solve complex engineering challenges with a highly differentiated product supported by leading applications engineering capability. Importantly, these markets are underpinned by strong fundamentals with regulatory and structural growth drivers supporting demand over the long term.

The PEEK market is forecast to grow at around 5% per annum by volume between 2025 and 2031, driven by two factors, underlying growth in our end markets and increased PEEK penetration in both existing and new applications. In 2025, the global PEEK market was around 8,600 tonnes equivalent to roughly £600 million of sales. By 2031, volumes are expected to reach around 11,000 tonnes with sales rising to approximately 800 million. This growth provides strong support for the financial guidance that we'll discuss later. Importantly, market value is expected to grow slightly faster than volume as some of the fastest growing sectors, including medical and aerospace carry higher average selling prices. Beyond the underlying market growth, the other important driver is increased penetration, which I'll only touch upon only briefly as Andrew and Daniel will cover the end market detail later. To summarise briefly, in medical, adoption is broadening across areas such as cranial maxillofacial and cardiovascular applications where PEEK's bone-like stiffness profile, imaging benefits and clinical performance provide clear advantages over metals.

In aerospace, PEEK is increasingly used in new applications from structural parts to interior components where it's lightweight, strong and cost-effective performance offers a compelling alternative to metal. In automotive, electrification is creating new opportunities as vehicles move from 400 volt

to 800 volt architectures. In these higher voltage applications, PEEK performs well where existing materials often reach their limits. In energy and industrial, demand is supported by more extreme operating environments, including high temperature, high pressure and corrosive conditions such as in oil and gas and through industrial automation. There may also be longer term opportunities in emerging areas such as humanoid robotics, although we haven't included these in our analysis given the very early stage of the technology and uncertainty around timing and end use applications. So the key takeaway here is straightforward. PEEK is an attractive growth market. Victrex already holds a leading position and we are over indexed to the applications and end markets with the strongest forecast growth.

So far, I've explained why PEEK is an attractive growth market. I now want to turn to why Victrex is exceptionally well positioned to capture that growth and why we believe our competitive advantage is sustainable. So some key facts on Victrex's competitive advantage. First, as already touched upon, we have a leading market share supported by our differentiated product proposition, trusted brand and global reach. It's important to understand that not all PEEK is the same. Victrex PEEK has unique properties from our proprietary monomer manufacturing process. We use this platform to produce a broad range of grades, compounds, and forms often tailored to specific customer applications. As a result, over 70% of our revenue is specified in with high barriers to entry.

Customers trust Victrex for consistent quality, reliable lead times and deep technical support. That trust is reflected in longstanding customer relationships with tenure exceeding 10 years for the majority of our top customers. We are the only PEEK manufacturer with vertically integrated monomer manufacturer. Core products are made in the UK with optional China manufacturing for the local market. This gives us greater control over quality, supply chain resilience and global customer flexibility. Importantly, our analysis shows around 90% of our revenue is structurally protected from Asian competition through complex product requirements, stringent qualification standards, or customer security supply needs.

So Victrex PEEK is unique that we're the only global supplier that produces what has previously been referred to as type one PEEK with everybody else producing type two. From now on, let's make this really simple. There's Victrex PEEK and then there's everyone else's PEEK. The reason Victrex PEEK is different is due to our monomer manufacturing process, which is vertically integrated, made in the UK and unique to Victrex. This produces material properties that are distinct. So what does this mean in real applications? Well, touching on a few of the characteristics shown on the slide, Victrex PEEK delivers significantly better performance at high temperatures with 30% higher tensile strength and 100% higher compressive strength at 200 degrees celsius. In practise, that means double the load bearing capacity so

customers can use less material for the same application. It also has very long operating life, which is critical in sealing applications where products face extreme temperatures, high pressures, and corrosive environments.

Victrex PEEK has demonstrated twice the ceiling lifetime compared to alternative PEEK, and we've supplied material for more than 75 million seals, delivering considerable operational cost savings versus alternative PEEK. Its higher crystallinity also improves manufacturability. Faster crystallisation can increase throughput and production yields, reinforcing why customers should consider not just the material price, but total cost, quality, reliability and manufacturing performance. A good example where several of these properties come together is an oil and gas wellhead electrical connector. These mission critical components transfer power, control, and data signals between downhole equipment and surface systems whilst maintaining the integrity of the world's primary pressure seal. They must operate reliably in some of the harshest environments, including pressures above 20,000 PSI, temperatures above 200 degrees celsius, corrosive hydrocarbons, hydrogen sulphide exposure, and continuous vibration. Victrex PEEK's performance across all these requirements enabled our customer to develop a highly reliable connector that meets or exceeds operational life requirements in one of the world's most severe operating environments.

In addition to the unique properties of Victrex PEEK, a key differentiator is our ability to help customers engineer solutions to complex problems. While our customers are often experts in their particular fields, many are less familiar with designing and manufacturing in PEEK. Our applications engineers support product design, manufacturing optimisation, testing and regulatory requirements adding considerable customer value. Applications engineers are based globally and work closely with commercial colleagues, allowing us to support our customers locally. They're supported by local laboratories and UK-based technical teams enabling outstanding customer service. We also use advanced digital tools to simulate both polymer chemistry and real world applications from structural analysis of physical behaviour to computational fluid dynamics for material flow in extrusion and injection moulding. This helps customers optimise part design and the manufacturing process before committing to costly tooling or physical tests. So what does this mean in practise? The slide shows an aerospace interiors bracket used in aircraft overhead storage compartments.

Using advanced finite element analysis and process flow modelling of stamp forming and overmolding, the composite bracket was optimised to outperform the original metal design in fatigue and shock loading while delivering significant weight savings. This gave the customer confidence that Victrex PEEK-based composites were suitable, manufacturable and valuable for the application and we gained long-term business as a result. So to bring all this to life, here's a short video from Ensinger, one of our largest and

longest standing customers explaining how our close relationship helps them deliver value for their customers.

Video: [Video Plays]

Dr James Routh: So a key part of our competitive advantage is the scale and capability of our operations, which gives us strategic flexibility in a rapidly changing market. We're a global business with manufacturing predominantly based in the UK despite generating less than 2% of sales here. In the UK, we operate five manufacturing sites. We make our unique monomer in Rotherham and Seal Sands, which supplies our polymer and specialised forms business in Lancashire. We also operate a fibres manufacturing business in Gloucestershire and support the Magma programme from a small operation in Portsmouth. So it's important to note that the vast majority of our manufacturing is non-Asia based, meaning we've got security supply, particularly for protected or regulated markets. To support Aerospace & Defence customers, we operate a thermoplastics composite business in Rhode Island, giving us specialist capability closer to customers where local supply and technical collaboration matter most. In China, we operate a polymer plant in Pangin and a state of the art compounding plant in Shanghai.

This is in addition to our Asia technology centre, all of which support our rapidly growing Chinese business. As many will know, we've faced challenges with the Pangin plant, but we're committed to making this work and Suranjan will explain the actions underway later in the presentation. These facilities allow us to support Chinese customers locally while we continue to supply UK manufactured Victrex PEEK into premium applications where its differentiated performance and quality are valued and growing. We also operate eight warehousing centres close to customers, helping maximise availability and meet dynamic demand. And finally, and importantly, we have sales and support offices in strategic locations close to customers, including Germany, France, various locations in Asia Pacific and the US. This keeps us in the right time zone, speaking the right language, and responding quickly, combining commercial teams with world-class applications engineers to deliver engineered solutions for our customers.

Based on either volume or sales, Victrex is the world leader in PEEK. We're a premium brand with premium quality, deep technical capability and a global network. This gives us more than double the market share of the next nearest competitor and leading positions in the highest value sectors. There are two main non-Asia headquartered competitors, shown as competitor one and competitor two. Both supply a much broader polymer portfolio with PEEK only a small part of their business, and whilst they benefit from scale, they lack Victrex's focus and specialism in PEEK. Competitor one manufactures in the US and India with capacity around one third of Victrex.

Competitor two is European, but its PEEK manufacturing is entirely China based.

There are seven Chinese PEEK producers, but only competitor three and competitor four have credible scale and quality. The others remain relatively small, reflecting the difficulty of mastering complex PEEK synthesis and delivering consistent customer quality even many years after plant commissioning. And recent VAT increases on Chinese exports and punitive US tariffs have also constrained their ability to compete outside China. Chinese players, particularly competitor three, have grown strongly over the past five to six years, but it's mainly in lower performance or lower quality applications. Higher value segments remain protected by tougher quality performance and certification requirements. As such, we estimate that we retain a 25% market share in China, broadly stable since 2019. Over the past 10 years, China sales have grown at 17% compound annual growth rate with acceleration this financial year entirely through UK made product. This is an important proof point. Chinese customers import Victrex PEEK at premium prices because they value its distinctive properties and consistent quality.

Much of China's announced capacity expansion is aimed at the nascent humanoid robotic sector. Based on our analysis, not all of this capacity is likely to emerge and many producers will continue to struggle with the complex PEEK synthesis. Competitor three has announced 10,000 tonnes of expansion, but as this includes the total of their monomer, polymer, forms and composites business, the actual additional PEEK polymer capacity is unclear and likely only a minority of the headline figure. Overall, Asian competitors remain largely contained to China and lower barrier segments. We remain vigilant, but our analysis shows their manufactured cost is not substantially below our current cost per kilogramme, even before the operational transformation work that Suranjan will describe later.

So standing back from the market dynamics, growth opportunities and competitive landscape, the key point is that Victrex is well positioned to benefit from attractive market conditions despite the much discussed potential Asian capacity expansion. First, Victrex has greater protection than the overall PEEK market. Around 90% of our portfolio has high or medium protection from Asian competition, reflecting our exposure to fast growing high value applications in medical, aerospace and defence, semiconductors, and battery electric vehicles. Second, that protection is underpinned by high barriers to entry. These include strict regulation and demanding technical requirements, long development and testing cycles, and established Western manufacturing capability. These barriers are particularly strong in Medical and Aerospace & Defence and remain meaningful even in lower complexity applications. This is why higher value segments remain better protected and why Victrex's exposure to the most demanding applications provides greater resilience than the broader market. So the key takeaway is that Victrex is

over indexed to the most attractive parts of the market with around 90% of our portfolio benefiting from high or medium protection from Asian competition.

That gives us confidence in the resilience and growth potential of our portfolio. So in summary, we have deep PEEK expertise that's unmatched in the market and a differentiated, unique version of PEEK. We have class leading applications engineering, which unlocks customer value by providing solutions to real world challenges and a world-class vertically integrated manufacturing capability with the capacity to grow without the need for additional CapEx. This is mostly located in non-Asian supply chains to provide security supply. When combined, these attributes ensure we are seen as a trusted solutions partner to our customers, prioritising long-term relationships to drive real business outcomes. So now I'm going to show you another short video summarising our premium offering.

Video: [Video Plays]

Dr James Routh: So I've told you that the market is growing and Victrex is well positioned to capitalise on that growth through a differentiated model. I'm now going to explain to you how we're going to do that through rapid organisational transformation. Let me start by highlighting some internal factors that have affected our past performance. So some of the more sceptical amongst you might be thinking if the market opportunity and Victrex's competitive advantages are so clear, why haven't we delivered in recent years? It's the obvious question. Well, the answer is execution. So let me explain. First, starting with commercial focus and capability, we have not driven sufficient top line growth over the past seven to eight years. Whilst we maintained share in Europe and China, we lost share in North America where we lacked sufficient commercial capability. This is because despite the product and service differentiation I described earlier, our pricing discipline was not robust enough.

We failed to increase prices adequately in certain markets and applications, reducing revenue and squeezing gross margin. At the same time, mix shifted towards lower priced, but still highly valuable VARs business while medical, our highest price business, was flat and saw negative mix within its portfolio. Second, operating effectiveness. Headcount increased by around 50% from 2020, mostly in support functions rather than direct value adding functions. This created a large corporate centre, limited local empowerment, and insufficient focus on P&L performance. This resulted in bureaucracy, rigid processes, and a much larger overhead base with limited accountability. And much of this resource was focused on longer term projects, previously known as mega programmes, rather than nearer term opportunities to improve financial performance. This added significant cost over many years without any corresponding return. Third, capital allocation and execution.

We made investments that did not deliver the expected profit uplift while depreciation charges flowed through the P&L and further reduced earnings.

We also invested in loss making businesses that ultimately did not deliver. The China manufacturing plant is the clearest example. Since commissioning completed in May 2024, it's been a drag on gross margin with an £8 million negative PBT impact in FY25 and nearly 300 basis points drag on operating margin, and we'll cover next steps for this facility later. Overall, many of these impacts resulted from the choices the business made rather than external factors. That means they are largely within our control to address. This brings me to how we are changing Victrex's leadership, organisation design and operating model.

So we certainly haven't been waiting for this event to start taking action. We've moved quickly and completed much of the heavy lifting needed to position the business for FY27 and beyond. This is already driving results as shown in our 9th of September trading update, which highlighted improved performance and upgraded FY26 guidance. When I started in January, I commissioned a strategic review to understand what had gone wrong, where we were strong, and where we needed to change. It became clear that many issues were internal and within our control. We used that work to then define target markets by geography and sector and to sharpen our win strategy. Following the issues with the manufacturing plant in China, we completed a full review of our China strategy against a backdrop of operational challenges and rapidly changing market conditions. We'll cover this in more detail during the individual presentations.

As part of the same review, we reassessed each of the so-called mega programmes, cancelling or changing scope where needed to deliver nearer term commercial outcomes. From February, I began reshaping the executive leadership team around the new organisation design and the operating model. While some change is still underway, the key commercial and operational leaders are now in place and here today. Please remember, they've only been here a couple of months, so be gentle with them today. This team is commercially led, focused on financial outcomes and rebalancing effort towards nearer term opportunities while still pursuing longer term potential. Since their appointments, Andrew and Daniel have been actively driving change through their organisations, visiting global sites and meeting as many customers as possible. They've also reviewed senior leadership capability and made several changes aligned to the new operating model. We've also designed a decentralised operating model with individual P&L owners.

This will sharpen accountability, drive financial performance, and reduce the size and cost of the corporate centre. The work is complete and will go live next week, aligned to the start of our new financial year. The new team has

also rationalised a very large project portfolio into a manageable set focused on commercial outcomes, eliminating OpEx and CapEx projects that were not aligned to our strategy. And on the profit improvement plan, we delivered the first phase by the end of Q3, removing around 10% of global roles supporting our previously stated £10 million annualised profit improvement commitment. We'll continue to review organisation design and identify further savings. The program's also highlighted opportunities to rationalise our product supply given that a relatively small number of products generate most of the profit. This will also be delivered during FY27. In August, as part of this rationalisation, we divested our Grantsburg parts manufacturing business in the US.

Originally acquired in 2015 to support an automotive gears opportunity, it was no longer core as we focus on polymers and specialised forms and was also a drag on the P&L. We also announced the closure of our underutilised Philadelphia office and going forward, we'll continue to rationalise all other loss making sites. So in conclusion, we've moved quickly, but there's still more to do to drive the turnaround. The actions already taken combined with our advice strategy position us well to deliver a step change in financial performance.

So moving forward, our execution will focus on three clear priorities driving near-term performance and positioning us for long-term growth. The first priority is to transform the business to build a customer and performance focused culture that puts customer needs and financial performance at the centre of everything that we do. We've already made strong progress, including appointing the new leadership team and establishing a new or agile decentralised organisation with clear P&L accountability. This may sound like an obvious thing to do, but it wasn't previously in place. We're also simplifying the operating model, removing internal barriers so that activity clearly supports either the customer or improved profit, cash, and return on invested capital. R&D and product development will now be commercially led, shaped by customer needs and market trends, so we launch products with a clear and defined route to revenue. We'll continue to invest in innovation, but the focus is commercial outcomes, not background research.

The second priority is profitable revenue growth as we refocus the organisation on nearer term higher value opportunities. In recent years, Victrex has been too focused on longer term projects that have not delivered incremental revenue or profit, which has understandably frustrated shareholders. To reinforce this, we have introduced a 70 / 20 / 10 rule. 70% of resources will be focused on financial performance over the next two years, 20% on two to five years and 10% on opportunities beyond five years. This will help convert nearer term opportunities into profit and cash. We will prioritise high margin applications where Victrex PEEK is highly differentiated, already specified in and protected by a strong moat. In some

markets, this includes geographic advantages where supply from outside the US or the UK or EU is not viable. These areas support stronger pricing, higher margins and lower competitive risk.

Growth will also come from stronger, deeper, more meaningful customer partnerships where there's a clear benefit for both parties. We already have many examples, which you'll see later today, but this remains a major focus for our sales teams. Product development will follow exactly the same discipline. Everything we develop must drive incremental revenue at improved margins. The third priority is relentless efficiency and cost discipline. In recent years, the overhead base became too large and we're now right sizing costs. We've already taken a substantial first step through the profit improvement plan, but there's a lot more to do. And as part of our simplification, we're driving operational excellence and using digital tools and automation where possible to reduce costs and improve efficiency. We're also rationalising the product range. We have over 450 products, but a relatively small proportion drives profitability, and we're applying the same discipline to projects and initiatives, reducing work streams so resources focus on nearer term financial outcomes.

We're reviewing our operating footprint and have already exited loss making locations or underutilised sites and are actively reviewing all other locations. Fundamentally, we will operate a capital light model. Victrex has invested significantly in capability and capacity over the past decade. Now is the time to generate stronger returns from that investment and drive a material improvement in return on capital. So after explaining our compelling market, our strong competitive advantage, and our strategic model to deliver the next phase of our growth, this delivers a clear path to enduring value creation. In conclusion, Victrex has a premium offering, a trusted position, and a well invested asset base. By combining those strengths with far sharper execution across the organisation, we can unlock the true potential of the business and deliver a substantial step up in operating profit and cash generation. The largest part of that improvement is within our control, focusing on the core business, commercial and operational discipline, strengthening gross margins and maximising returns from our existing portfolio.

I have great confidence in our ability to compound earnings growth and generate substantial free cash flow over the next five years. In the next part of the presentation, my colleagues will take you through the commercial, organisational, and operational initiatives that they'll be leading and they'll be delivering these improvements. And then towards the end, I'll pull it all together for you by summarising our updated financial guidance and capital allocation policy. So I'll now hand over to Andrew and he'll take you through Victrex performance materials.

Andrew Ng:

Thank you, James. Good afternoon. I'm Andrew Ng, chief commercial officer leading Victrex performance materials or VPM across our industrial and technology focus activities. I joined earlier this year from AB Dynamics where I was group president and Chief Commercial Officer. Prior to this, I led the APAC business for Diploma where accountability, customer intimacy, and local decision making were key to the decentralised operating model. Crucially, I've been a customer of Victrex and I know what Victrex is capable of delivering. My focus here at Victrex is clear, building high performance teams, scaling international operations and delivering discipline commercial growth. It is indeed exciting for me to be here today presenting to all of you.

So there are three things I would like to cover today. Firstly, we have strong foundations in VPM. Secondly, I will talk about the untapped potential that today Victrex has not converted. And thirdly, I will cover the VPM strategic priorities related to firm focus on profitable revenue growth and optimising our global operations. Finally, I will share with many of you the actions that are already underway. So let's start with strong foundations. As outlined by James, VPM is not just a material supplier. We are a global leader in PEEK based, high performance polymer solutions for critical applications where failure just isn't an option. We have a strong material suite with about 450 different grades organised into four groups across our product family. Firstly, PEEK performance. This is designed for higher temperature applications, offering better PEEK stiffness and strength above 150 degrees celsius. Secondly, PEEK core. Now that's the original Victrex PEEK range and it is widely recognised as the industry benchmark.

It includes specialist formulations for PEEK wear, mechanical and electrical performance. Thirdly, PEEK process. These are our lower melting PEEK materials developed to be easier and faster to process than conventional PEEK. They are particularly relevant for extrusion, 3D printing, and carbon fibre composites. And finally, PEEK volume. These materials are designed to provide a broader offering for customers looking for cost-effective and high volume solutions. Across these product families, we produce PEEK polymers as granules and powder, which are typically compounded into specialist forms such as films, tapes, fibres, and tubes. Our performance materials solve demanding problems. So let me bring that to life for you.

In Aerospace & Defence, we supply major civil aerospace customers with PEEK for applications such as brackets, hinges, and interior components. Increasingly, we're also supplying customers with thermoplastic composite materials used for larger aircraft structural parts. Defence is still at an early stage for us, but the opportunity is developing. There is an increasing need for rapid innovation and cost-efficient manufacturing for unmanned aerial vehicles, UAVs, and PEEK is well placed to support both. In automotive, we supply PEEK components for both hybrid and EVs, such as slot liners and bushes. More importantly, PEEK coatings can replace traditional enamel on

high voltage wiring, which supports the move to the new 800 volt EV architectures. In electronics, our PEEK is used to produce high performance components such as the impellers for vacuum cleaners and hair dryers. Victrex PEEK is also specified in mobile devices where our specialist product forms can make the difference.

And in semicon manufacturing, PEEK has a variety of chips in the production process. These includes wafer carriers and CMP retaining rings. We have product samples displayed here today, so take a look a bit later. Finally, turning into energy and industrial, PEEK is used across a wide range of applications such as gears, compressor rings, seals, bushes, bearings, and other low friction components. In oil and gas, PEEK is particularly well suited for high temperature and high pressure applications in hostile chemical environments. This is particularly important as operators move towards deeper and harder to access reserves. I'll come back to this later and bring this to life through a case study.

PEEK is critical across multiple end markets and applications. As James mentioned earlier, applications engineering is critical part of VPM's strong foundations. This is particularly important in aerospace where we work as a trusted solutions partner, not just a material supplier. I recognise that some of these opportunities may be familiar. What is important today is the progress we are making towards commercialisation. So let's talk about EVTOL, which stands for electric vertical takeoff and landing aircraft or air taxis. There are a range of exciting applications for PEEK from commercial air taxis to UAVs, as I mentioned for defence. We have a highly differentiated business in Rhode Island, USA called TXV. Now, TXV produces PEEK composites via unidirectional carbon fibre tape supplied from our UK operations. Victrex low melting PEEK is being used in load bearing brackets, engine veins, access panels, interiors, and battery containment enclosures. So why does it matter?

Well, Victrex thermoplastic PEEK can be moulded in minutes compared to hours in an autoclave, and this is really important because it supports faster, more repeatable production and improved yields while enabling lighter structures and greater design flexibility. Our unique PEEK expertise and applications engineering are helping our customers to bring innovative solutions to the market. A clear example is our partnership with Daher where Victrex Composite PEEK is playing a critical role in the design and manufacture of its light aircraft. So let's take a look at the short film illustrating this partnership.

Video: [Video Plays]

Andrew Ng: So that provided a good overview of what Victrex offers. However, when I joined, it was clear that our strong foundations were getting held back. The

organisational structure contained too many layers and overlapping responsibilities, internal hurdles slowed decisions and diluted focus. Decision making was just too centralised. This reduced our speed, our agility, and our responsiveness to regional opportunities. Commercial rigour was also limited, prioritisation was insufficient, and pricing discipline was not robust enough. We had a significant untapped potential. So addressing these internal issues and simplifying our operations will enable us to commercialise more of the opportunities within the business. Now, to our favourite topic, pricing.

This chart shows or highlights the clear pricing opportunity for Victrex. Pricing has simply not kept pace with inflation, despite our premium quality and superior performance of our materials. This reflects insufficient pricing discipline and too much acceptance of our customer-led pricing. So in future, decisions will sit close to the revenue source, strengthening accountability and enabling us to price strategically for the actual value we deliver. So let's talk about that untapped potential. There are three growth drivers for VPM. We benefit from structural growth in selected end markets. We can increase in PEEK penetration with those markets as customers require lighter, stronger, and more durable materials. Capturing the opportunity requires disciplined resource allocation and pricing that reflects the value we deliver. Given these drivers, we know that the strongest regional growth will be in Asia Pacific, ranging 7% to 8%. North America also presents a compelling opportunity having historically been under-resourced.

But it's okay, we're already fixing that. This is a compelling growth opportunity going forward.

So let me start with the structural dynamics in our priority markets and the opportunity for further PEEK penetration. As shown on the slide, growth across priority segments is driven by a combination of underlying market growth and increasing PEEK penetration. The opportunity differs by segment. We access these opportunities through complimentary routes to market. We engage directly with the strategic customers on technically demanding applications. Our value adding resellers extend that reach further. They broaden access to PEEK through parts prototyping and support volume growth in non-molded components. Over the next few slides, I will take you through each segment in turn, looking at the market drivers, penetration opportunity, and how Victrex is positioned to capture that growth. So let's start with aerospace. In commercial aerospace, growth is getting driven by increased aircraft production as shown in these forecasts. It's followed several years of delays in the delivery of all programmes since 2020.

These are opportunities for Victrex PEEK across both new generation, wide-bodied and single aisle aircraft. Importantly, Victrex PEEK is already specified on all aircraft types. So as customer capacity and production increases, that

growth will benefit Victrex. We're already seeing this in our performance with good double digit sales growth over the last 12 months. In addition to the underlying market growth, there is also increasing penetration of PEEK into new aircraft applications. These include larger structural parts and interior components. Lightweighting remains a key structural driver. Every kilogramme removed reduces fuel burn, operating costs and lifetime emissions. PEEK is moving from smaller functional parts into larger load bearing and exterior applications, so ultimately more PEEK will be required per aircraft. In addition, through injection moulding, PEEK components can often be produced at lower costs and with less waste. Well, they're machine parts. The Daher wing rib featured in the early video is a good example of this.

It delivers low weight, low assembly costs and shorter production cycles. A further example is a door bracket. The PEEK based solution is about 40% lighter and it's significantly cheaper to manufacture. The opportunity also extends into primary structures, including the emergency exit door. Pretty important. This is a single moulded overwing component that reduces parts and assembly steps by up to about 90%. I mean, that's massive. There are further opportunities in premium class seating where the potential is being assessed to switch from aluminium architecture to PEEK. For example, we estimate that the PEEK usage for business class seats on a new wide body aircraft to reduce seat weight by about 20%. So in a standard configuration aircraft, that would equate to about one tonne, one tonne in weight savings. Imagine that. So together, build rate recovery and increasing PEEK penetration creates a compelling aerospace growth opportunity.

More aircraft, more PEEK per aircraft, and qualifications that support the defensible growth through the decade. And now onto automotive. In automotive, the shift is to EVs. There's a big push from 400 volts to 800 volt architectures. Let's hold onto that thought. PEEK has historically been used in smaller vehicle components such as seals and bearing cages. EVs now are in turn creating demand for larger performance critical insulation applications that must withstand high voltages, temperatures, long thermal lifecycling. And a good example of that is in the EV wiring. So traditional enamel coatings can break down at high voltages, whereas PEEK's unique properties makes it ideal for a solution for 800 volt architecture and beyond. EV production is expected to almost double over the next five years, 20 million vehicles to about 36 million. And at the same time, adoption of that 800 volt architectures is set to accelerate from 10% to 20% to well over 50% today.

So why is that? Well, it's faster charging and the demand is high, as we all know. We are already seeing this translate into material demand. One leading Chinese OEM uses around 10 times more PEEK coating in vehicles built on 800 volt architecture compared to hybrid vehicles. This is a clear

example of a strong growth driver in Asia Pacific, and this is why we're focused on this particular opportunity.

AI, that's a hot topic for all of us today, but at Victrex, this is an opportunity for us because it's in the electronic sector. In electronics, fundamental drivers of growth include both the rapid increase in AI infrastructure and the increase in electronic devices. So both support an increase in semiconductor chip demand and an increase in fabrication facilities. This benefits Victrex. Within the semicon chip manufacturing process, we supply PEEK for the production of the CMP retaining rings. These rings hold wafers in place during the chip polishing phase. As chips become smaller and more advanced, they require more and more polishing. Therefore, the wear rate of the CMP rings will be higher. More gets used, more will be replaced. This is a multiplier effect for us and our resilient position has given qualified materials that are not easily substituted.

Finally, turning to energy and industrial. Across this sector, we are seeing increasing demand for high performance materials. Operating environments are becoming more extreme and applications are placing greater demands on reliability, durability and efficiency. Be it in oil and gas, industrial processing automation, PEEK is increasingly being specified where traditional materials approach the performance limits. So many of you have heard us talk about Magma and flexible piping and the opportunity continues to progress, but it's worth revisiting. Well, I've seen it. It's always there. At its core, this is about Victrex PEEK carbon fibre composite pipe operating in some amazing and most demanding offshore environments. At depths of nearly 2.5 kilometres, infrastructure faces extreme pressure, temperature and corrosive conditions. In these environments, the technology offers higher pressure capability, so corrosion resistance, reduced weight, improved fatigue life. However, technology alone is not enough. What makes the opportunity compelling is the collaboration across the value chain.

So Victrex provides the proprietary PEEK and composite technology. Relax. TechnipFMC, our customer, provides the flexible piping. It engineers the expertise. It deploys the solution to their end customer, Petrobras. Petrobras provides a real world demand and qualification pathway. So this has been a long-term partnership, about 16 years, but Victrex and its partners have invested in developing and qualifying this technology, progressing it from concept to a qualified route to market. Petrobras, it accounts for nearly 60% of the global flexible piping demand, making Brazil's pre-salt reserves one of the most attractive use of this technology. More importantly, this opportunity is not included in the guidance case or forecast that James will discuss later. It represents additional upside. As we have highlighted previously, the single application with a single customer has the potential to deliver revenue equivalent to about 10% of today's group revenue by 2031.

This will be further opportunity beyond as the customer and geographic adoption expands.

Speaking of geographies, China. China is an established and strategically important market for Victrex. We have a brilliant business in China. It has grown over 17% compound annual growth rate over the last 10 years. It is by far our clearest and strongest growth opportunity going forward. In China, our operations comprise of three elements. One, Asia Technology Centre. This is based in Shanghai. It supports our customers across Asia Pacific for material selection and prototyping to tool design and simulation. Two, our Shanghai compounding plant enables tailored formulations to meet our customer needs in China. Three, our Pangin polymer plant produces type two polymer, which supports a volume driven industrial business in China. Today, this remains a relatively minor proportion of our revenue. As James has shown, we have maintained strong double digit market share since 2019. Importantly, our growth in China has been driven by our UK manufactured PEEK core, demonstrating Victrex retains a defensible premium position in the market.

This is driven by applications where qualification, reliability, quality, performance, and consistency, these are critical in some of the industries that we operate in, aerospace and electronics. New entrants have largely grown in the lower spec industrial applications. Our local competitions continue to commission new plants. It's okay. However, it'll take many, many years to achieve the product consistency and quality that Victrex has. So this has enabled Victrex to compete effectively in China without diluting our premium offering. Our global customers are specifying Victrex products manufacturing in China for the quality of our PEEK. However, as I mentioned, our polymer plant in Panjin, it has some headwinds, so let's address that. We will have a revised operating model, which will reduce the cost, improve the flexibility and support growth without any further capital investment. Suranjan will explain more about the next steps in his presentation. So the message for Victrex in China is clear, market opportunity, that's very attractive.

Our premium offering position, that remains defensible. Our facilities in Shanghai plus Panjin is pivotal to selective market segment for our growth in China. So to summarise, this matrix shows our focus areas across end applications and regions. The pluses on the matrix, it represents the focus areas that we want to be in the short and medium term. Now, given our previous under-representation in North America, remember, I'm fixing that. We are fixing that. And in this region, this is now our number one focus across all market segments. It is. Well I should know, I've done three trips in the last four months to the US and it's here to visit all our customers and partners. We have an incredible opportunity here to pursue the new business opportunities at pace and we will ensure it is fully resourced to

drive revenue growth going forward. Some of my colleagues are actually here from the US.

Within EMEA, we will have a particular focus on high margin Aerospace & Defence segments. There are also future opportunities for the rapid growth from the 800 volt architecture for the EVs. Remember, the demand for fast charging EVs, that's real. In Asia Pacific, the EV market opportunity is automotive. And as previously mentioned, the CMP rings in the electronic segment, that's very attractive for us. So we remain strong in a defensible position in other market segments where premium applications have the highest conversion potential. Execution will be focused, disciplined, and customer led. So as James set out, our priorities are clear, build a customer performance focused culture, deliver profitable revenue growth and drive efficiency through cost optimisation. For me, that starts with simplification. In VPM, we will simplify how we work. We will move decisions closer to the customers, focusing resources on opportunities with the strongest commercial return.

It's okay. We are moving away from a model that has become too centralised, too complex. Regional P&Ls will strengthen accountability and give teams sharper ownership of customers, growth, profitability and execution. The second area is project rationalisation. We are focusing R&D and commercial resource on fewer higher value opportunities with clear customer need, a defined route to revenue and attractive returns. The aim is a faster and more commercially disciplined business. A good example of this is how we are managing the value chain and product pipeline. When I joined, the pipeline responsibility was across four separate teams, four, industry, project management office, strategic portfolio and product portfolio. Each had a role, but priorities were not aligned and R&D interfaces overlapped. And then the decisions making, well, it was just slow. We've brought that together into a streamlined product portfolio management team under one director. She's here too. I'll introduce her later.

One team now manages the full product life cycle from early R&D and launched to mature product optimisation, giving us one point of accountability for resources and priorities and the roadmap. The third area is regional empowerment. By moving decisions closer to customers, regional teams can respond faster to local needs. This will help give clear ownership of customers, pipelines, market priorities and financial performance and execution. Asia Pacific demonstrates this opportunity. It is near decentralised model, combines local sales and customer facing capability with the ATC, the Asia Technology Centre based in Shanghai. It has delivered growth well ahead of the wider group and it provides a blueprint of how we move forward. The divestment of Grantsburg, it's another example. We successfully seeded the PEEK gears market, but this parts based business is

no longer our core. The divestment sharpens our focus on core operations where Victrex can create the greatest long-term value.

So the direction is clear. The sharper commercial focus also changes how we allocate resources. We are shifting from spreading resources too widely to focusing them on where they can create the greatest value. New product opportunities will be governed by the sharper 70 / 20 / 10 discipline as outlined by James. Most effort will be directed to near term opportunities with a clear path to revenue. Our effort will be focused on opportunities capable of generating revenue within five years with the greatest emphasis on those that can deliver within two. Every project must demonstrate customer need, customer commitment, a credible route to revenue and an attractive return before resources are committed. This creates a more disciplined innovation model, less technology for tech's sake and more focus on what customers will specify, buy, and pay for. And in terms of existing product opportunities, we will also extract more value from the existing portfolio through stronger sales capability, pricing discipline, and more active commercialisation of our operating assets.

We will focus on the vital few products that drives the majority of the revenue and profit while actively managing the remainder that add capacity, cost and complexity without equivalent value. Sites such as Stonehouse Fibres, Magma Tubing in Portsmouth should not simply fulfil customer orders passively. They should be positioned and promoted as growth assets that can contribute directly to revenue. So in summary, our commercial efforts are focused on increased revenue, profit and cash with a focus on maximising new term opportunities and we're already making progress. I've been very busy.

The changes I've described are already well underway and many are now complete. In terms of the regional structure, we've simplified the organisation and clarified ownership across the board. Alongside this, changes to our sector leadership have created one point of accountability for the product roadmap, customer led priorities and resource allocation. I've also undertaken extensive customer visits across EMEA, the Americas and Asia Pacific. These have confirmed to me the strength of the Victrex brand and the value proposition. Customers consistently highlighted their trust in our product quality, technical expertise and security of supply. Finally, I've implemented a performance culture with clear P&L accountability. This has reduced duplication and align activity directly to commercial execution. We are now focused and we will not be distracted, but we have been very, very busy. In conclusion, I've been here before. Victrex has strong foundations. It has differentiated technology, trusted customer relationships, substantial manufacturing capability and talented, amazing people.

The opportunity is to convert this consistent profitable growth, stronger returns and cash generation. We have simplified our business at pace, sharpen accountability, moving decisions closer to customers and focusing resources where they create the greatest value. I'm excited about the future of VPM. My team and I, we're ready to take on all the challenges and we know we have the right to win. So thank you and I'll look forward to the Q&A session.

Daniel Diffenderfer: Allow me to thank you all for coming to our capital markets event and also thank you for coming back from the break. Actually, we had quite a lot of you come back and that's never a guarantee. Before I begin my remarks, I'd just like to say I'm a little bit trying to decide what's more daunting in terms of presenting to our investors and shareholders after several years of underperformance in our medical business or if it's getting stared down by this oversized zebra in the corner over here. And yeah, it's you all actually. So okay. All right. So I am Daniel Diffenderfer and I am the managing director of Victrex Medical. I joined Victrex Medical three months ago. Before that, I spent my career in the engineered polymer and medical manufacturing space at Trelleborg, where I most recently served as the business unit president for their medical business in Europe.

My experience spans strategy, organisational transformation and commercial leadership. What attracted me to Victrex was simple. It's our market leading position in medical grade PEEK and the opportunity to improve a business that had fundamentally underperformed that market leading potential. Today, I want to share my plan to unlock the potential of our medical business.

I want to organise my remarks around four key messages. First, Victrex Medical has strong foundations. We hold leading positions across a diverse medical portfolio, differentiated technology and deeply embedded customer relationships. Second, there is significant untapped potential to drive improved business performance in the near term. Third, we have a clear set of strategic priorities. We are going to grow through stronger commercial execution and we are going to align our organisation around the areas where we have the strongest right to win. Finally, this is not simply some theoretical aspirational future oriented plan. Action is underway as we speak. We have a clear plan we are currently executing to drive that improved business performance.

Before we get into the plan, I also wanted to clarify what is our business exactly and who is it that we sell to? The answer here is simple. We are primarily a medical materials business. We develop and supply medical grade PEEK powder and granules through both our Victrex and Invibio brands, and our customers then transform these into finished medical devices and products using shapes such as rods. This distinction is really important and I

wanted to make that clear for our investors because sometimes there's a misperception that we are associated with finished medical devices or large programmes. In reality, the overwhelming majority of our revenue today comes from medical grade materials and forms. Devices and components contribute a minor portion of our current revenue profile. So throughout this presentation, I am going to refer to the core business. And when I refer to the core, I mean something very specific, our medical grade materials and forms business.

If you look at the markets we serve, spine remains our largest by value, but is today less than a quarter of our overall revenue. Our customer base in medical today is broader and more diversified than at any point. We support diverse applications ranging from cranial implants to inhalers. We have 450 active customers from early stage innovators to leading medical device companies. Importantly, no single customer represents more than 8% of our revenue. So while our customer base is broad, our value proposition is simple. We are the global leader in medical grade PEEK.

I wanted to explain how we built that leading position and it's not just the polymer itself. It's about the evidence and the experience that comes with more than 25 years supporting implant grade medical applications. We have over 15 million implants using PEEK optima in humans today, and in medical, that history matters. Our customers and partners, they want robust evidence as they prove patient safety. And here, Victrex is the PEEK partner of choice for medical device companies globally. Second, it's our regulatory and quality support. Our customers rely on us for consistency, traceability, documentation, change control, and long-term reliability. We have built an audit-ready quality management system that supports these complex medical requirements. Third, it's applications expertise. In medical, we work alongside customers from concept through regulatory approval to commercialisation. We both understand the performance requirements for medical as well as the intended clinical outcomes our customers are trying to achieve.

We provide key evidence and data that is used by our customers to get approval by regulated bodies such as the FDA in the United States. So while it can take years to introduce a new medical device to market, once you are in, the revenue that results is both high quality as well as moat driven.

Our collaboration with customers result in us being a trusted solutions provider across the product development cycle. But I don't want you to just trust me on this. I want you to hear from one of them directly. Aesculap, which is part of the B. Braun Group, is an established leader in knee arthroplasty. Its Columbus knee system alone has more than two decades of clinical use with more than 650,000 implantations worldwide. Let's hear directly from them.

Video:

[Video Plays]

Daniel Diffenderfer:

What you've just heard as a leader in knee arthroplasty describe the clinical benefits of PEEK, and I just want to point out that this is a company with a proven track record of commercialising and scaling knee platforms. It also illustrates the depth of the relationships we have with our technical expertise and application support as we continue to partner with medical device companies to bring PEEK innovations to market. As our shareholders, you're probably wondering if our market position is strong, then why hasn't our performance been stronger? And here the answer is very straightforward. We have not converted our advantages into commercial outcomes. There's four reasons for this. First, some of our programmes have failed to commercialise both at the scale and within the timeframes originally anticipated. As a result, we've increased our costs that were not offset by new revenue and profit. The second reason is we did not consistently capture the value of our unique position.

This includes not fully covering development costs as well as under-leveraged pricing opportunities, which I'll discuss. Third, we expanded beyond our core capabilities, and this is particularly evident if we look at efforts to grow through finished device design and manufacturing. Fourth, our organization's structural became fragmented. Within medical alone, we operated as two businesses. One was focused on our core materials business and the other was focused on parts. This reduced alignment, increased costs, and ultimately decreased our business performance. We are addressing these through three connected priorities as we transform, grow, and optimise the business. Transforming and optimising means creating a simpler and a more focused business with resources focused on our core medical grade materials business. Growth means leveraging commercial excellence to turn our market leading position, customer relationships, and sales pipeline into business results in alignment with the 70 / 20 / 10 principle outlined by James.

These are practical management actions and they will unlock the potential of our medical business. While we've had internal issues, we also have faced significant external factors that we need to recognise and address here directly. I want to describe our plan to mitigate these impacts on our business in the future. First, spine. We've talked a lot about spine over the last several years. 10 years ago, our medical business could be described as a spine business with spine contributing over 60% of our revenue in medical. Today, spine represents less than a quarter. That decline occurred because the market shifted toward 3D printed porous titanium spinal cages, and this has resulted in sustained 10-year decline in our spine portfolio. We do have reason to believe that spine is stabilising over the near term, but while spine has declined, that decline obscured a really important fundamental fact. The

rest of our portfolio has grown at a compounded annual rate of 6.5% across that exact same time as our spine portfolio declined.

This reflects what has been true all along, which is that PEEK remains a compelling material choice for medical device companies globally. PEEK is also expanding into new platforms as we'll discuss. So while our 10-year performance has been largely flat, it's been driven by a significant portfolio transformation. The second issue we face as a business is in China. We continue to believe in the long-term growth outlook for China, where we hold a significant market leading advantage over our next competitor. Our data indicates that PEEK will grow in China on a volume basis at a rate of 9% across our planning horizon. However, we have to recognise that short term, we have experienced headwinds in China on pricing. Those headwinds began with volume-based procurement. This policy introduced new pricing pressure for finished device companies. That pricing pressure made its way up the supply chain to material suppliers.

So what do we do? In China, our approach is going to be pragmatic. We will protect our customer relationships and partnerships and defend our market leading position while we remain disciplined on price as the situation stabilises over the near term. While both spine and China remain risk, these risks are understood, managed, and increasingly balanced by growth across our wider medical portfolio.

So I've just shown how our non-spine medical portfolio has been growing at 6.5%. And the question is why is that happening? I want to share with you the underlying reasons for that growth. Our growth expectations in medical come from two factors, PEEK's unique properties and our unique positions in the medical PEEK market. Our market assessment supports a 5% annual growth for medical grade PEEK across our planning horizon. This is driven by higher volumes and increasing PEEK adoption. That underlying demand is supported by durable trends. We've got ageing populations, rising chronic disease, expanding access to care, and continued innovation as companies seek to deliver improved clinical outcomes. But market growth alone does not guarantee growth for PEEK. PEEK must solve specific clinical problems for patients through its unique characteristics and properties. And here, PEEK excels as a medical material. PEEK is both biocompatible and offers high mechanical strength with a modulus and density closer to bone than any traditional metal.

PEEK is radiolucent enabling clearer imaging before, during, and after procedures. And in select applications, PEEK can support blood contact. PEEK is also unique in that it's transmissive to wireless and electromagnetic signals, which is increasingly relevant as medical devices become smaller, smarter, and more connected. Taken together, we believe our medical

business will grow at a mid single digit growth rate with additional upside potential from our long-term growth programmes.

I want to bring that growth outlook to life through three examples. The first is in pharmaceutical applications. We have 20 years of experience in pharmaceutical contact applications. This gives us both evidence and customer credibility on which to build. Our Victrex PC grade creates opportunities for new drug platforms that require chemical resistance, low extractables and leachables, precision, and a PFAS free material. A practical example of this is in drug delivery platforms. Here, components must perform consistently in demanding mechanical and chemical environments. These markets are different than what we've pursued in the past and they offer significantly higher material volumes than traditional implant grade applications. This creates meaningful growth opportunities supporting our mid single digit growth ambitions. The second area is in active implantable devices. These are technologies placed inside the body using electronics to stimulate, monitor, and support a patient. Examples here include neuromodulation systems, cardiac devices, and next generation connected implants such as brain computer interface devices.

These technologies are becoming smaller, smarter, and more connected and materials must provide mechanical protection, biocompatibility, and without interfering with signal transmission. PEEK's transmissive characteristics can offer a meaningful advantage over metallic enclosures in selected implant grade designs. The third area, knees. Some of you who've been around a while might have heard about knees. Before I speak on the potential of knees, let me just say I understand where you're coming from. We've been talking about knees for some time. However, we do believe that PEEK has a compelling long-term potential in total knee replacement. Its modulus characteristics, transparency and metal free proposition provide a basis for differentiated platforms for the orthopaedics industry. It's not just us though. You just heard from one of the leading companies in this space essentially say that exact same message.

So while our opportunities are currently in preclinical or regulatory approval stage, we have seen promising results from both in-human safety studies, but we have additional in-human trials planned with partners in the near term. Despite these positive developments in knee, we're making a change. We are deliberately excluding knees-based revenue from our midterm guidance. This is upside potential given the uncertainty of the regulatory approvals and the timing of market adoption. And this illustrates an important new discipline that we're bringing to the business. We want to retain the long-term potential and upside of knees without relying on it to deliver our medium-term plan.

As we look to accelerate our performance in medical, we have three priorities. The first, prioritise the core. Historically, the majority of our efforts in medical were focused on these long-term growth programmes. We are right sizing delivery costs and we're redirecting resources towards our materials and forms business. The second, organisational simplification. Historically, we were divided across our medicals business and our materials business and our programs-based business, operating under separate organisational structures. But it's even worse than that. Within our programmes business, we established separate development teams around specific product level categories rather than working flexibly across. This added costs and reduced our flexibility and limited our ability to respond to new market opportunities. Moreover, we're establishing clear P&L ownership to ensure our teams drive outcomes aligned with our business objectives.

Our third priority is on commercial excellence. We're improving pricing and contractual discipline while we work to convert our opportunity pipeline. Regarding pricing, we anticipate near term opportunity here. The price increases we've delivered to the market have not offset our inflationary cost drivers and we're taking immediate action to address this. In alignment with the 70 / 20 / 10 framework, we will allocate resources towards winnable convertible business anchored in our core right to win. Together, these create a more focused medical business and will accelerate our business performance. A central part of the change is being clearer about where Victrex should participate in the value chain. Historically, we extended from materials and forms to finished device design and manufacturing. The rationale here was understandable. We were trying to create new markets for PEEK and we believe that taking greater control over the device would accelerate adoption. In practise, it did the opposite.

This increased complexity, it lengthened development pathways and required us to fund capabilities that are better owned by our customers. Our future model is more focused. It starts with a basic recognition that we are not a finished medical device company. We are a partner to finished medical device companies. We are going to concentrate on materials and forms and designed for manufacturability. We will pursue vertical integration only when three criteria are met. First, genuine customer sponsorship, including resources, milestones, and direct customer funding. Second, these opportunities must be simple and anchored in our core capabilities. And third, they must have clear commercial outcomes identified at the outset and a willingness to walk away when the assumptions behind those outcomes change.

We will still help our customers innovate. We will still create new markets for PEEK, but without the cost, complexity and overhead burden of our prior approach. I want to bring this to life through two examples of this model in

action for both our knee as well as our trauma programmes. First, regarding our knees programme. Historically, our knees programme involved developing complete knee platforms. We believe in the long-term potential of PEEK in knees. Our efforts here built valuable knowledge, intellectual property and capabilities through our investments here, which we still believe will return an investment to shareholders, but the scope of our future involvement will be narrower. These engagements will be increasingly partnership led and customer funded. We want to preserve the upside, but no longer carry the disproportionate development costs or rely on knee revenue to deliver our growth plan. In trauma, the shift is even more decisive.

Our previous model involved designing and manufacturing bespoke finished trauma plates. This stretched us beyond our core capabilities into device design and manufacturing. The future model here is advanced forms led. We will supply our differentiated composite blanks and forms and our customers will convert those forms into finished medical devices in accordance with their specification and their intellectual property for bone fixation. This is a simpler model. It's better aligned with our core capabilities. It lowers our delivery costs and it still gives us a route to participate in a long-term growth market where we believe PEEK offers differentiated capabilities. For both knee and trauma, the principle is the same. We're going to narrow our scope to our areas of differentiation and we will partner with leading medical device companies to bring those innovations to market. We will only share further updates on both these programmes if and when we have new information to share.

Actions are underway. This is not a theoretical plan. This is in progress as we speak. We've already established the target operating model for medical and we've begun rolling out the associated organisational design. We've narrowed the scope of our programme engagements as I've just described. We're right sizing our resources supporting our knee and trauma programmes. We've unified the medical management structure and we're recruiting talent across medical, particularly in our commercial teams. That investment is important because we have not consistently equipped our organisation with the commercial capabilities required to capture the full value of our market leading position. The important point for investors, we are no longer diagnosing the causes of our underperformance in medical. Instead, we're taking decisive action to fix it.

Let me finish with four messages that I want you to remember today. First, Victrex Medical operates in attractive markets supported by strong demand tailwinds. Second, our leadership position is defensible. It's not simply PEEK. It's 25 years of clinical evidence, 15 million implanted devices, and the key relationships with the right partners to bring PEEK innovations to market in medical. Third, our business today is a more diversified business. We are not

relying on one application, one geography, or one large development programme for growth. Our growth will come from our core materials business. Fourth, we are applying much greater execution discipline as we seek to win and expand our market leading position. That is why I'm confident in our outlook for medical. This is a high quality business that needs to be focused and executed more effectively. Our path forward is straightforward. We're going to optimise the business.

We're going to grow through commercial excellence, and we're going to continue to expand PEEK adoption across a growing array of platforms and devices. And the best part, most of the factors to drive this improvement in our performance are fully within our control. Thank you. I'd like to introduce Suranjan to talk on operational.

Suranjan Ghosh:

Thank you, Daniel. Hello everyone. I am Suranjan. For the past 25 years, my career has centred around manufacturing, operations, strategy and transformation roles in sectors like industrial, advanced materials, chemicals. And in all those companies, what I've done is pretty simple, make operations better, that helps us be more profitable. My role within Victrex is that of the chief operations and transformation officer. My purpose, pretty simple, make Victrex better, better in serving our customers by making better quality products by better plant performance and transforming our operations with our people to make it more profitable for our shareholders. Over the next 20 minutes, I would like to share with you the journey that we are on within operations. I will give you details about our operations and if you haven't figured it out yet, why we have strong foundations, but that strong foundation is a great platform for further improvements.

I will walk you through our value chain. I may geek out a bit. I'm an operations person talking about value chain kind of really gets me going, but I will also share with you opportunities that are within our control. I want to share with you the operations transformation programme. This is not only what we are doing, but also how we are doing it, how we are translating these improvements into opportunities. This transformation programme is CapEx light. It's an improvement programme that with disciplined execution will transform our business. I will also share with you three proof points, case studies perhaps, that should give you more granularity, perhaps the reason to believe on why me and my team will achieve this. What will we achieve? Through the end of our programme, we will reduce our cost of manufacture per kg by high single digit percentage, and that should contribute about 300 to 400 basis points improvements to our gross margin.

Let me walk you through the opportunities that really excite me. I think we may have to go to the next slide. Thank you. Victrex has a long technical heritage that is a strong and substantial asset base. This asset base has the ability to be even more better by reaching what I would call as cutting edge.

For that, we will have to improve our performance. When I talk about people, I have been impressed, perhaps at times blown away by the technical knowledge and expertise that exists within our business. This knowledge, unfortunately, has been people centric, not always process centric. And what that means is there is an opportunity for us to codify this knowledge, things that exist in our people's heads, we should be able to get into our ways of working. Functional expertise, complexity, silos and boundaries. I want to share an anecdote, this was something that happened about 11 months back.

We had one of our top three customers reach out to us and said they wanted to audit us because we were a key supplier for them. And for me, it was fascinating, more like eye opening to see multiple emails going around through different functions where other than functions reaching out and saying, "I want to own this, I want to make a difference to this customer," every function was saying it was the other function's job to lead this. Perhaps this example also gives you two things. One, we had forgotten the reason why we exist. We exist to serve the customer, but I think the second thing it also articulates is we had forgotten it is not about focusing on activity, but focusing on delivering the outcome that is important and the outcome that is important is serving our customer or ensuring that their audit went off very well.

There is another opportunity which is about digital. I will come to that later because that's a topic that's really close to my heart. If I was to summarise all these observations, Victrex is an opportunity rich organisation and the challenges that we have that we will overcome are all within our control. And the focus that me and my team have through the operations transformation programme is centred around three priorities. First, drive operational performance, improve asset utilisation, better reliability, better execution, and generating stronger returns from the asset that we have. Second, disciplined execution, getting things done, simplifying ways of working, reducing complexity, accelerating decisions, moving it to the front line. This would improve our culture to be more customer-centric and improvement focused. And last, excuse me, is about delivering projects, step change projects. In this case, I've used digital or automation, which will then drive a much more customer-centric value chain.

Let's now go to our value chain. What is a value chain? A value chain is a collection of assets. It's our processes, it's our know-how. That's how we convert our raw material into our products for our customers. That you see that diagram, that's our value chain. I am going to start by the end of the value chain, which is where our customer is. Be it the 450 customers in medical that Daniel and his team serve, be it the multitude of customers in VPM that we serve all across the globe through the different regions, we have regional warehouses that are closer to the customer that allow us

shorter lead time. Those regional warehouses are served from our UK operations. As James alluded, 98% of our products are made in the UK, and this supply chain, this global reach, that service capability is one of our competitive strengths.

Let me talk about the next competitive strength, the value chain. The journey in this value chain starts from raw materials and chemical processing within our integrated upstream monomer manufacturer. This monomer, it's the building block. It's the important starting point that feeds into our polymer manufacturing operations. Over the years, we have developed phenomenal technical capability to know how our monomers make a difference. Our polymer plants then use those monomers, and not only can we use our monomers, but we have the ability to use different monomers at different stages, so we are able to balance our supply chain, find the right balance between costs as well as supply chain resilience. Then when those monomers are used within the polymers, that's when we make their magic happen. Our polymer is created within our polymer streams. We have about five of them. Once we make that polymer, we have to refine it.

Refining is nothing more than perhaps removing the byproducts, so what you're left with is the polymer powder, and this is the heart of Victrex manufacturing. From that polymer chemistry, we can create the extensive range of forms that our customers value. Some of this powder can be sold directly to some of our customers. Some of these powders can be value added to make granules and compounds. These granules and compounds can go to our customers or should we choose, we can convert it into really specialised downstream forms, be it films, be it tapes, be it fibres, be it tubes. The reason why our customers choose us is our know-how. We know how to combine different materials like our monomers to make that magical polymer chemistry. We know how to make that powder into different forms that our customers would like. This could be different forms like the thin film that is used to produce the fidelity and crispness of the sound that you can see in one of your electronic devices.

We have a sample there, it goes down to six micron, that's nearly 10 times thinner than your human hair. We have the ability to convert material into pipes and tubes. These tubes can go under the surface under the sea and withstand phenomenal amount of pressures. That is our know-how. Our know-how is also the technical attributes that come within PEEK, be it the chemical resistance, the high strength, the lightweighting, and last but not the least, the biocompatibility that is absolutely important for our medical customers. Now, while our product performance is world-class, our operational performance has not always matched the strength of our underlying technology. To deliver the consistency that our customers really expect from us, most of the times, perhaps sometimes, we rely heavily on our operator expertise. We rely on the intervention and additional

processing. Rather than having processes that are inherently capable, repeatable manufacturing processes, we sometimes have recycle loops.

This creates unnecessary complexity and cost in the value chain, but it creates a phenomenal opportunity for me and my teams to add value. And that's why within our operational transformation programme, we are not only focused on improving our plant performance, but it's also about process capability, improved quality, which together drives improved productivity, and that drives cost and that drives service across our business. To now move from where we are today to where we want to be, which is really improved margin and performance, there are a few things that are integral to what we do. You will get bored about me saying how much I want to drive plant performance and how quality is important for us, but also there are these step change projects. Disciplined execution happening in every shift and every day, in every week and every month is how we will increasingly drive this, moving decision making to the frontline where our operators are empowered to do this.

Operations transformation programme is the programme in which we will deliver this. There are two very critical points I want to make at this point. First, all of these improvements are within our control. I, my team, we are not waiting on a market rebound. We don't need new technology. We do not need significant capital investment before taking action. Second, this value creation opportunity is CapEx light. Should capital be required, it'll be selective and disciplined. It will be clearly within the way we do things and the guidance to that is something that James will cover later on in our slides. So the operation transformation programme is everything that we can do to help ourselves. It is CapEx light, and if I was cheeky, I would say execution heavy. Let's now zoom into three examples of how this programme is adding value. I will start off with China, perhaps the elephant in the room.

Andrew has already shared with you how important the China market is and how we have been growing there well. He's also shared the value chain that we have on the right. I would like you to focus on the section that is refining. On the picture on the right hand side, you can also see this extent of our site that is there in Panjin in the Northeast in China. There is no denying we have had operational challenges since we commissioned the plant. Hindsight, this is an exact science. It was the technology that we chose for the refining section that is the key contributor to the challenges that we've had in Panjin. We chose ethanol as a solvent rather than acetone as a solvent as we have in our UK plants. That was a new technology for us and we have not been able to execute that well.

So when we did the real comprehensive strategic review, we evaluated whether we need to change our technology and invest more or are there other ways of doing things? We took the prudent decision that we will focus

on outsourcing the refining, have another person do the refining where they can add value because they have expertise. We have trialled and proven this mechanism to outsourcing. The cost of outsourcing refining will more than be offset by the benefits that come out of this. This enables us to match our supply capability to the demand that we see within the market. As the demand grows, there will be a point where we will break even, but also we then have the optionality of choosing whether we want to put more capital into this to switch technology or any other option. This new operating model that we have is expected to reduce the losses that James had alluded to by about 25% in the near term.

Let me switch to another example where I will talk about operations improvement, but also talk about network optimisation. I'd like you to focus on our powder plant where we have five streams. Historically, we managed to constrain ourselves. Some of our specialist regular products could only be made in some of our specific lines. Unfortunately for us, those specific lines were some of our older streams. Over the last 12 months, we have invested capability, not capital, to improve our product flexibility so that we can now make those products on our newer efficient assets, thereby giving us flexibility. This has allowed us to put one of our older lines in what I would call as a state of suspended animation so I don't have to invest in CapEx or maintenance. Should demand grow up and at some point it will, I get to bring this line back up.

Moving this product from our older, less efficient line to a newer one has had cost advantages, but a side benefit that we've also found is the quality of product that we have from our newer lines is better, which then reduces the amount of reprocessing which further improves the economics of this. As you can see, this example is one where the network optimisation has helped. Andrew was talking about simplifying our product portfolio, reducing our manufacturing complexity, and that is music to my ears because as we reduce our product complexity, as we have lower products, less changeovers, lower operating costs, enhanced manufacturing performance. It's a small example, but a pertinent example that will drive about £200,000 to our bottom line. It is the sort of examples that we are showing you, which give a lot of benefits to us when applied across the organisation. Digital, a subject that is close to my heart.

Within Victrex, I was shocked when I came because for the first time in my 10 years as a senior executive in operations, I could not see, I, me, my manufacturing director, the plant managers, did not have real time visibility of what was happening in our manufacturing assets. We have great control systems, but the data was not accessible beyond that control room. So if I had to know what was happening on my plant, I or people in leadership positions had to go to the control room. In the last year, we have invested in our digital infrastructure. This gives our operational teams real time visibility

of plant performance, and that visibility allows us to identify issues early and act before things. Let me walk through a case study of what we've done in the last 12 months in the place where we did the proof of concept.

The bar graph that you see on the top is about plant changeovers. Plant changeovers is when you go from one product to the other product. By using the process data, we were able to identify triggers, triggers that predicted when a changeover could happen so that we could get everyone aligned. Quarter by quarter, you can see how we have been reducing the average changeover time, to the extent that in the last 12 months, we have nearly halved our changeover time, which means my plants are operational more of the time. It improves asset utilisation, it improves reliability, it improves customer responsiveness and reduces manufacturing costs. And the beauty of this example, most of the improvements have been driven by the operators, the frontline staff, where they are almost wanting to make this improvement because there is a shift by shift rivalry. Another benefit from this real time visibility is the graph that you see on the bottom.

This is showing how we are able to optimise our operating conditions to deliver higher production rates. That graph is the weekly production rate that we have from one of our lines. We were able to identify a mechanism by which we could optimise the conditions and that's allowed us to improve our production rates by about 6%. And that's the data from the last 30 weeks. Each of this improvement may appear modest in isolation, but together they are an example that demonstrates how you can use data combined with disciplined execution unlocks productivity gains without significant capital investment. This improvement is of the order of 250K. Now this is one improvement on one equipment, on one line, on one site. As we apply this across multiple equipment, across our different lines, across our different assets, this will lead to substantial improvements. And as we build this digital foundation, that gives us something that over time we can apply automation and machine learning, but that is something that we'll have to do.

Let's crawl and walk before we try to run. Over the last three examples, I have given you how we are having tangible improvements within our operations. I want to focus, give you more detail about the operations transformation programme. We are managing this programme as a structured portfolio. Being Indian, cricket is like a religion to me and those who play cricket know that fours and sixes are good, but the great teams that win over five days or five years are the ones that really focus on the singles and the doubles. The singles and doubles are the small improvements, the incremental improvements that are being owned by our plant operators and our frontline staff. We then have step change initiatives, the fours and the sixes. These are programme managed to accelerate execution and ensure we do value capture. My team is having a portfolio of all these improvements,

but beyond what, there is also a cultural programme that is happening so that these improvements become sustainable.

We get teams that are engaged and empowered. We get teams that make continuous improvement a part of their DNA because that's what's going to endure long term after this programme is complete. In terms of outcome, I had earlier said we will deliver a high single digit reduction in our manufacturing costs, which will give about 300 to 400 basis points. A large part of that will come from the operational performance and the leverage, nearly 40% of it. The rest of it comes from programmes like quality, process improvement, digital automation, optimising our network, our plans, our lines. I have to state, procurement and cost out will be an underlying thing. We constantly look at it and it continues to improve our performance. This transformation programme has multiple constituent projects, ones of different scale, ones of different benefits, ones of different duration that we are driving through. There are things that me and my team are focused on for the next hundred weeks, and as we progress through those hundred weeks, there will be other projects that come up our priority list that help give me the confidence that we will be delivering on this.

So let me summarise. Victrex really has this fantastic strong operational foundation, long established assets, deep process expertise, really knowing how the monomer and the polymer make a difference. We have a reputation for security of supply, but with all of that, there is phenomenal opportunity, opportunity that me and my team are translating into financial outcomes. We're doing that by the operations transformation programme. I don't want to bore you to death about all the things that we've been doing, but plant performance, improving quality and step change projects. What will that give us at the end of it? At the end of it, we will have a supply chain that is really geared towards serving our customers in the region, the right product, in the right place, at the right cost for the right service. We will reduce our cost of manufacture. We will also reduce our inventory within the supply chain to release cash, but it's about finding the balance between how we service our customers and how we manage our own materials, our work in progress and our finished product.

And we will deliver 300 to 400 basis point improvements in our margin. As I leave you, I want to reiterate the following. Victrex is opportunity rich, but it provides a phenomenal platform. You would have seen examples of how we are leveraging those opportunities into real tangible value for the business. We are transforming our business to a performance and customer centric organisation. We are optimising with a relentless focus on cost reduction and efficiency. We are growing, driving profitable revenue growth, and in my case, also growing the gross margin. Thank you for your attention. I will hand you over to James who will speak about how all of this gets translated into the finances. Thank you.

Dr James Routh:

Okay. Thank you, Suranjan. That was very helpful. You've heard about the extensive and urgent actions that we're taking to optimise our commercial performance and our operational footprint. So let me now summarise how all this shapes our financial ambitions and how this will drive attractable and sustainable shareholder value creation. So before getting into the detail, I want to step back and be clear about the five principles that run through our financial framework. Firstly, and importantly is clarity and simplicity in our guidance. Second, we're focused on maximising the value of our core business today. We've clearly outlined the substantial growth opportunities across our key geographies and end markets, and together with our well-invested portfolio, we can expect to deliver higher return on invested capital as we unlock Victrex's full growth potential. Third, cost and CapEx discipline. We're driving significant cost reduction through the core of the business, leaving no stones unturned.

We'll be disciplined through investing only in the highest returning and deliverable future growth projects that are value accretive to our core business, not "jam tomorrow" programmes. As I mentioned earlier, the benefits from such projects will be incremental to not part of our financial guidance, and we expect this to deliver a credible recovery in gross margins to historic levels, compounding earnings growth from a growing top line and operating cost control and sustainable cash generation. And importantly, our strong organic cash generation will enable us to self-fund a sustainable and attractive level of shareholder distributions whilst maintaining our strong balance sheet.

So over the next five years, we will aim to deliver mid single digit compound annual growth rate over the guidance period. This is consistent with where the business is operating today. Significant margin accretion with circa 50% gross margin and mid 20s operating margin by FY31 and maintaining CapEx at 5% to 8% of annual revenues consistent with prioritising investment in our well-invested existing portfolio. Strong and improving working capital as we continue to reduce and optimise our inventory position and average annual cash conversion of at least 90% consistent with historic levels. This all results in our ambition to deliver approximately £250 million of free cash flow on the basis we've defined over the next five years. This represents all the post CapEx cash flow available for shareholder distributions, additional discretionary growth investment and deleveraging. And then beyond 2031, we expect continued growth and significant cash generation.

And importantly, I want to make it really clear that these are an ambitious but achievable set of targets that we've set ourselves. So let me now give you the building blocks on how we plan to deliver these targets. Going forward, we will be disclosing segmental revenue and gross profit for our VPM and medical businesses. Across both areas, a core priority is the optimisation of pricing across the portfolio as explained by both Andrew and Daniel. This will

be supported by mid single digit volume growth across both segments. As you've already heard, we are over-indexed to the fastest growing segments of the PEEK market and we will continue to focus our commercial efforts on driving growth in these sectors alongside penetrating new markets for PEEK. We'll simplify our portfolio and focus on growth products and developing new products through commercially led product development, partnering with customers wherever possible.

In medical, we'll protect and grow the core business in medical grade PEEK polymers and selected forms, focusing on growing the non-spine parts of our portfolio. There'll be an absolute focus on converting our medical pipeline and driving the specification of PEEK in next generation medical devices, and we'll aim to capture additional medical revenue from funded value added services. All of these together provide confidence in the overall delivery of mid single digit revenue growth over the guidance period.

To be clear, recovering margins is core to my ambition for this business. Clearly the world has changed over the last few years. We're operating in a more volatile macro environment. The industry dynamics have changed over this period with a changed competitive landscape and structural shifts such as volume-based procurement in China. Equally, the business has not adapted quickly enough to respond to these changes, which is why our margins are where they are today. Our strategy is to draw a firm line under that from the current trough point and is designed to improve margins to a level that is more consistent with where we should be operating given our scale and attractive prospects. In particular, we're laser focused when it comes to our price and cost saving initiatives to deliver this margin increase. We're paying a particular attention to our pricing and addressing some of the historical price downs we've accepted, driving improvements in margin across higher margin sectors such as medical, aerospace, and semiconductor.

As you heard from Suranjan earlier, we're taking action to transform our operations to deliver high single digit reduction in cost of manufacture, improve yield and quality, and deliver operating leverage, which will result in a 300 to 400 basis point improvement in our gross margin. We're actively addressing the issues with our manufacturing plant in Panjin in China to reduce the operating losses and the 300 basis points drag on operating margins. And through the work we're doing to redesign our organisation structure and operating model, we will further reduce our operating costs as a percentage of sales, delivering a leaner, more decentralised business with a much smaller corporate centre as well as continuing to rationalise our portfolio across operating sites and the product range. So this underscores our confidence in restoring gross margin to circa 50% and operating margins to mid 20s by FY 31. And it's very important to note, as you've heard many times, the majority of this is entirely within our control.

This materials earning growth translates into substantial cash generation of around 250 million over the next five years. For annual CapEx, we expect to spend around 5% to 8% of revenue as our assets are well invested and it enables us to maintain the advantages of our integrated upstream strategy. Spend will be primarily weighted to maintenance CapEx and process improvements to enhance growth and profitability from the core business. Our CapEx guidance includes any potential future CapEx spend in China, which will be immaterial going forward. Therefore, we expect CapEx to broadly track D&A over the period. We'll make a material improvement in working capital. This will principally come from inventory reduction. We're rationalising our product portfolio, reducing slow moving inventory and rebalancing stock across regions to better support local customer service requirements.

We have very low financial expenses given our strong balance sheet and there'll be minimal cash restructuring costs given the majority is being incurred this financial year, and we expect our average annual tax rate to be 17.5%. All of this delivers approximately 250 million of free cash flow over the next five years based on that annual average cash conversion of at least 90%. And all of this is the discretionary cash flow available with a focus on cash returns to shareholders. Let me start by giving some important context. We recognise that our distribution policy is important for shareholders, and this topic has therefore been a key focus area for me and the board. Our underlying principle has been to establish a policy that is sustainable, attractive, and fully funded throughout organic cash generation whilst maintaining our strong balance sheet. So under our new policy, we are committing to returning at least 75% of the free cash flow we generate to shareholders over the next five years.

We'll deliver the returns through an ordinary dividend of 30 p per share in respect of FY26 with the intention to grow this over the period and for earnings cover to be around two times by FY 31, and the remainder will be through buybacks or special dividends. You can see on the right hand side of this page why we believe this is superior to our old policy. Firstly, our old policy wasn't sustainable, uncovered by earnings and cash flow, leaving the business starved of oxygen with no surplus capital. This policy directly addresses those issues. It delivers sustainable and attractive cash returns to shareholders over the life of our plan, underscoring our high confidence in delivering it. We're not borrowing to pay shareholders, cash returns will be covered by organic cash generation from day one, implying a dividend cover around two times at the end of the period.

Importantly, we maintain a strong balance sheet with sufficient but not excessive surplus capital that we will prioritise for additional cash returns to shareholders in the near term.

Therefore, our disciplined capital allocation policy comprises the following key elements. We focus on critical investment priorities only to contribute to our revenue and earnings growth targets with CapEx at 5% to 8% of revenue. We return at least 75% of free cash flow to shareholders over the next five years, and we'll prioritise surplus capital in the near term for additional cash returns to shareholders. Any potential bolt on M&A will be subject to disciplines, strategic and financial criteria only to be considered once we've delivered a sustained recovery in our organic performance, which remains our absolute immediate priority. This capital allocation policy will be subject to maintaining a strong balance sheet with less than one times group leverage over the five year guidance period.

So putting our framework on a single page, we'll execute a compelling growth strategy focused on the existing portfolio. This will deliver mid single digit revenue growth with operating leverage driving a substantial margin increase and enhanced operating profit. This will translate into significant free cash flow of around £250 million, of which at least 75% will be returned to shareholders over the period. Beyond 2031, we expect continued growth and significant cash generation. So I'd like to come back now to the four key messages that I wanted you to take away from today. Firstly, PEEK is a compelling growth market in which Victrex is the clear market leader, and we are over-indexed to the fastest growing end markets. We have strong and enduring competitive advantage through our vertically integrated manufacturing, unique properties of Victrex PEEK, applications engineering expertise, and long-term customer partnerships that drive high barriers to entry with around 90% of our portfolio structurally protected from agent competition.

We're actively transforming Victrex into a customer and performance focused organisation, simplifying the business, removing unnecessary costs, and focusing our resources on nearer term opportunities to drive financial performance. In aggregate, we expect this to deliver exceptional value creation for our shareholders, restoring the group's valuation to a level that is more consistent with its fundamentally compelling growth prospects, scale, and unique competitive advantages in PEEK.