2002 Interim Results

Gareth Rhys Williams
Alastair Hewgill

2 September 2002

Agenda

- Introduction and Overview - Gareth Rhys Williams
- Interim Results and Review - Alastair Hewgill
- Strategy for future growth - Gareth Rhys Williams
- Outlook - Gareth Rhys Williams

Introduction

Key Market Drivers - weak demand in 2002

- Markets are flat or down

  Broadcast customer base facing difficult times

  - Significant downturn in USA studio businesses, our highest priced / margin country
  - Recent fall off in German / UK studio orders
  - Camera / Equipment vendors actions to push their volumes has increased competition in rental arena

  Photographic markets more resilient

  - Bogen / Manfrotto have held up well, but below last year
  - Retail display environment very tough, but large custom project

- Lighter, and cheaper cameras continue to eat away at ‘middle ground’ of support sales, and cause pressure on mix

Financial Overview

Margins protected and cash generation improved

	H1 2002	**H1 2001**	**Δ**
Turnover	£89.2m	£99.6m	-10%
Pre-tax profit *	£12.5m	£13.9m	-10%
Operating Margin	14.8%	15.5%	-0.7pts
Headline EPS **	18.5p	22.5p	-18%
Net operating cash inflow	£19.4m	£17.8m	+9%
Dividend	6.1p	6.1p	-

2001 included exceptional costs of £2.9m

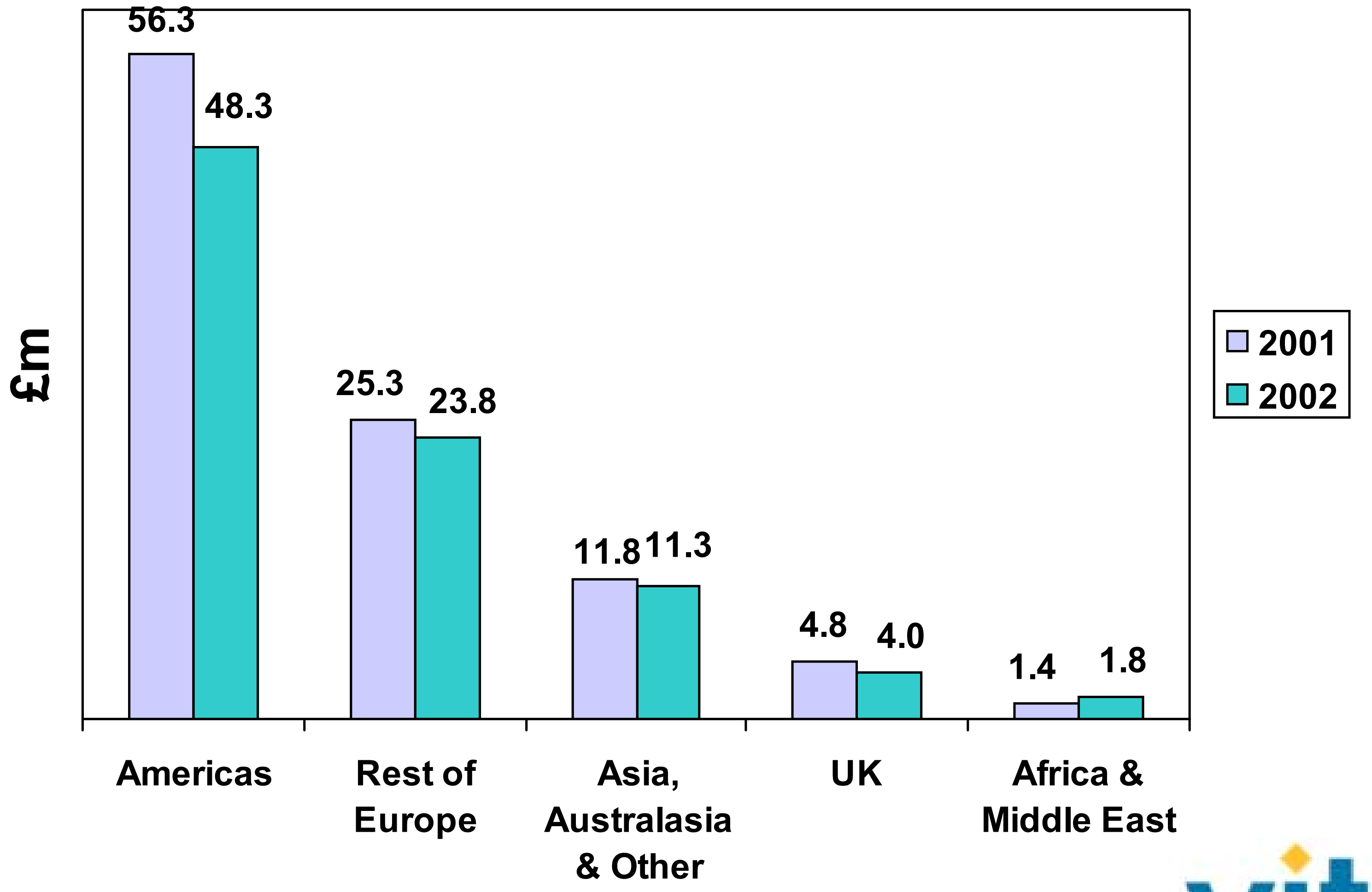
* *pre goodwill amortisation and exceptional items*
** *as restated following the introduction of FRS19*

vitec

Financial Review

H1 Turnover – destination

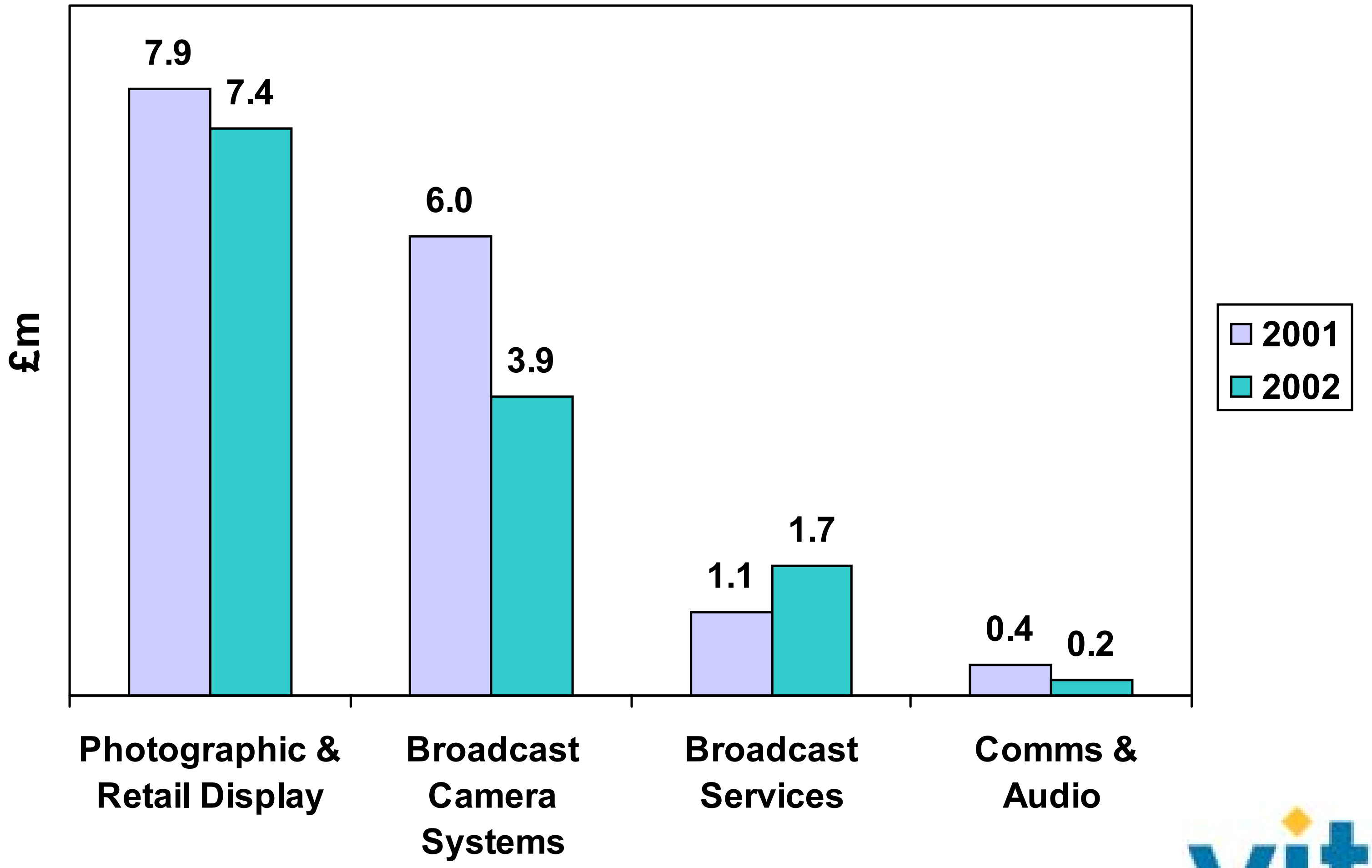
Slowdown has spread from US to Europe / Asia, with Germany particularly weak



vitec

H1 Operating Profit - division

Broadcast market declines partly offset by successful World Cup and Olympics



Profit and Loss

Margins held up well despite revenue reduction

	H1 2002 £m	H1 2001 £m	Δ
Turnover	89.2	99.6	-10%
Gross profit %	*50.2%*	*51.8%*	*-1.6 pts*
Operating expenses	(31.6)	(36.2)	-13%
Operating profit*	13.2	15.4	-14%
Operating margin %	*14.8%*	*15.5%*	*-0.7 pts*
PBT*	12.5	13.9	-10%
*Tax charge %***	*39.2%*	*33.8%*	*+5.4 pts*
Headline earnings per share**	18.5p	22.5p	-18%
Profit on property, net of tax	-	£0.5m	
Impairment of Intersense	-	-£3.7m	

* *pre goodwill amortisation and exceptional items*

** *as restated following the introduction of FRS19*

vitec

Operating Cash Flow

Continued strong cash flow

	H1 2002 £m	H1 2001 £m	Δ £m
Operating profit*	13.2	15.4	-2.2
Depreciation	6.1	6.2	-0.1
Working capital change	0.1	(3.8)	+3.9
Net cash inflow from operating activities	19.4	17.8	+1.6
Conversion % of profit	*147%*	*116%*	*+31 pts*

** Pre goodwill amortisation and exceptional items*

Free Cash Flow Highlights
High free cash flow helped by lower tax and capex

	H1 2002 £m	H1 2001 £m	Δ £m
Net operating cash flow	19.4	17.8	+1.6
Net capital expenditure	(6.0)	(6.7)	+0.7
Interest paid	(0.8)	(1.6)	+0.8
Tax	(0.7)	(9.5)	+8.8
Free cash flow	11.9	-	+11.9
Net debt	18.2	38.1	-19.9

- Capex under control
- Net debt reduced, halving interest payments

vitec

Broadcast Camera Systems
Studio customers under significant pressure

	H1 2002 £m	H1 2001 £m	Δ
Turnover	28.3	33.7	-16%
Operating profit	3.9	6.0	-35%
Operating margin %	*13.8%*	*17.8%*	-4.0 pts

- Sales of automated (robotic) systems strong
- Ongoing trend in mid range applications towards lighter cameras
- Headcount reductions of 32 (before Aspen acquisition)

Photographic & Retail Display

'Pro-sumer' demand more resilient

	H1 2002 £m	H1 2001 £m	Δ
Turnover	36.1	38.3	-6%
Operating profit	7.4	7.9	-6%
Operating margin %	*20.5%*	*20.6%*	*-0.1 pts*

- Growth in Asia pre World Cup
- Retail Display workforce reductions in US, but Europe buoyed by a large custom project
- New IT systems being rolled out across division

vitec

Communications & Audio

Studio infrastructure projects have been cut back

	H1 2002 £m	H1 2001 £m	Δ
Turnover	7.8	9.7	-20%
Operating profit	0.2	0.4	-50%
Operating margin %	*2.6%*	*4.1%*	*-1.5 pts*

- Broadcast market continues weak, especially in US and Germany
- Drake and ClearCom restructured to save money while becoming stronger in R&D and manufacturing
- Continued success in Air Traffic Control and for Homeland security

Broadcast Services

Performance buoyed by World Cup and Olympics

	H1 2002 £m	H1 2001 £m	Δ
Turnover	17.0	17.9	-5%
Operating profit	1.7	1.1	+55%
Operating margin %	10%	6.1%	*+3.9 pts*

- US rental market still very weak, with our base business down 27%
- Considerable success at larger events, for US and non US clients
- Cash generation through rental stock right-sizing and capex controls

vitec

Strategy

Strategy agenda

- SWOT Analysis
- Strategic options
- Chosen strategy
- Acquisition strategy
- Actions taken

SWOT Analysis – Strengths
Many strengths - some under-utilised

- Strong Balance sheet – transparent / un-leveraged
- Strong cash generation

- Well known brands / high market share
- Multiple worldwide distribution channels
- Reputation for service, design and quality
- Relatively large player in its core industry
- Commitment and knowledge of company staff

SWOT Analysis – Weaknesses
Historical strengths have led to gaps

- High market share has disguised difficulty of introducing radically new ‘rule changing’ products
- Manufacturing structure impedes ‘world class’ progress
- Organisation / relationships come from very independent heritage
  - Limited experience of realising value from scale
- Aged and fragmented IT systems being upgraded

SWOT Analysis – Opportunities

'Fully autonomous' model is almost out of gas – our future must include exploiting synergies

External

- Customers have urgent need for cost saving solutions
- Digital cameras are stimulating growth in photography
- Tough market may make businesses available for purchase

Internal

- Leverage of existing (worldwide) distribution/customer contacts
- Savings from integrated manufacturing to be used to drive profit and growth

SWOT Analysis – Threats

Market dynamics are changing fast

- Studio customers retrenching and consolidating
- Decline in advertising has reduced discretionary spend of studios on rental services
- Competition from low cost areas is getting stronger
- Pressures on camera manufacturers may encourage them to bundle our products to boost their sales
- Smaller cameras tend to be cheaper, and require less robust supports
- Many of the smaller niche players have lower profit expectations

vitec

Strategic options considered

Valid strategies need to generate top quartile TSR

- Focus the conglomerate
  - Vitec is already fairly focused
  - Selling major divisions to reinvest elsewhere has risks
- Product based
  - Present market share & positions allow only limited growth
  - But product extensions into other markets should be pursued opportunistically, in a controlled way
- Focus on manufacturing skills
  - Under utilises existing valuable brand equity
  - Vitec's present skills are in developing / selling finished products, not acting as a subcontractor

vitec

Agreed Strategy

Exploit opportunities centred on the Broadcast / Media / Entertainment (‘BME’) market

‘Consolidate - Leverage - Grow’

- Exploit existing manufacturing and distribution scale
- Grow by developing products / services that redefine customer expectations, leveraging brands
- Acquire and integrate related businesses

- Explore product extensions opportunistically, to find new growth areas that can then be reinforced

vitec

‘Consolidate – Leverage – Grow’

Pursue ‘Market focused’ strategy

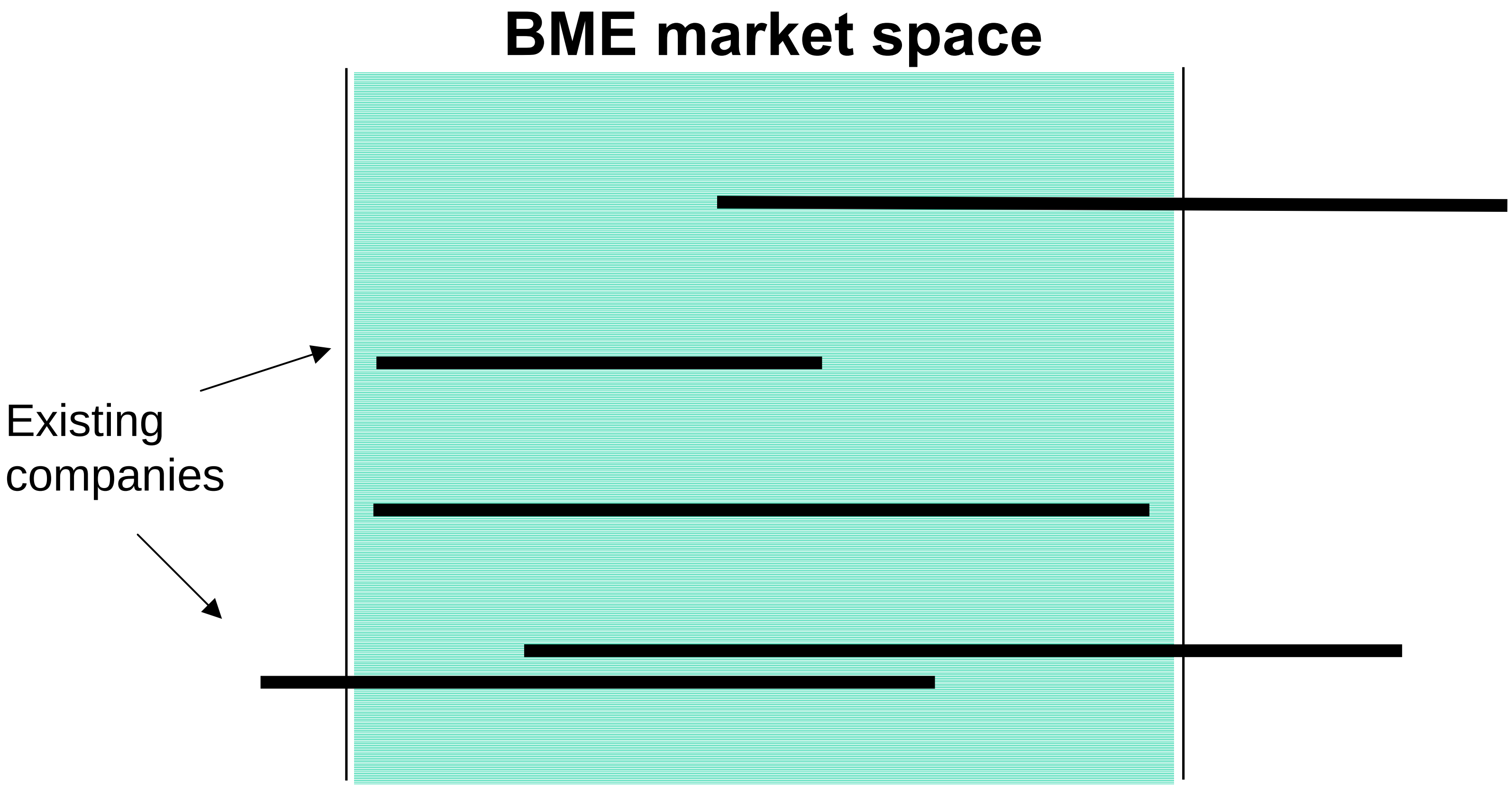
- Allows leverage of existing brand values
  - Vitec is already No 1 / No 2 in most markets
- Allows leverage of existing customers
- We understand this market
- Fragmented market - acquisition opportunities

- Success will be all about <u>Implementation</u>

vitec

Vitec is centred in BME markets

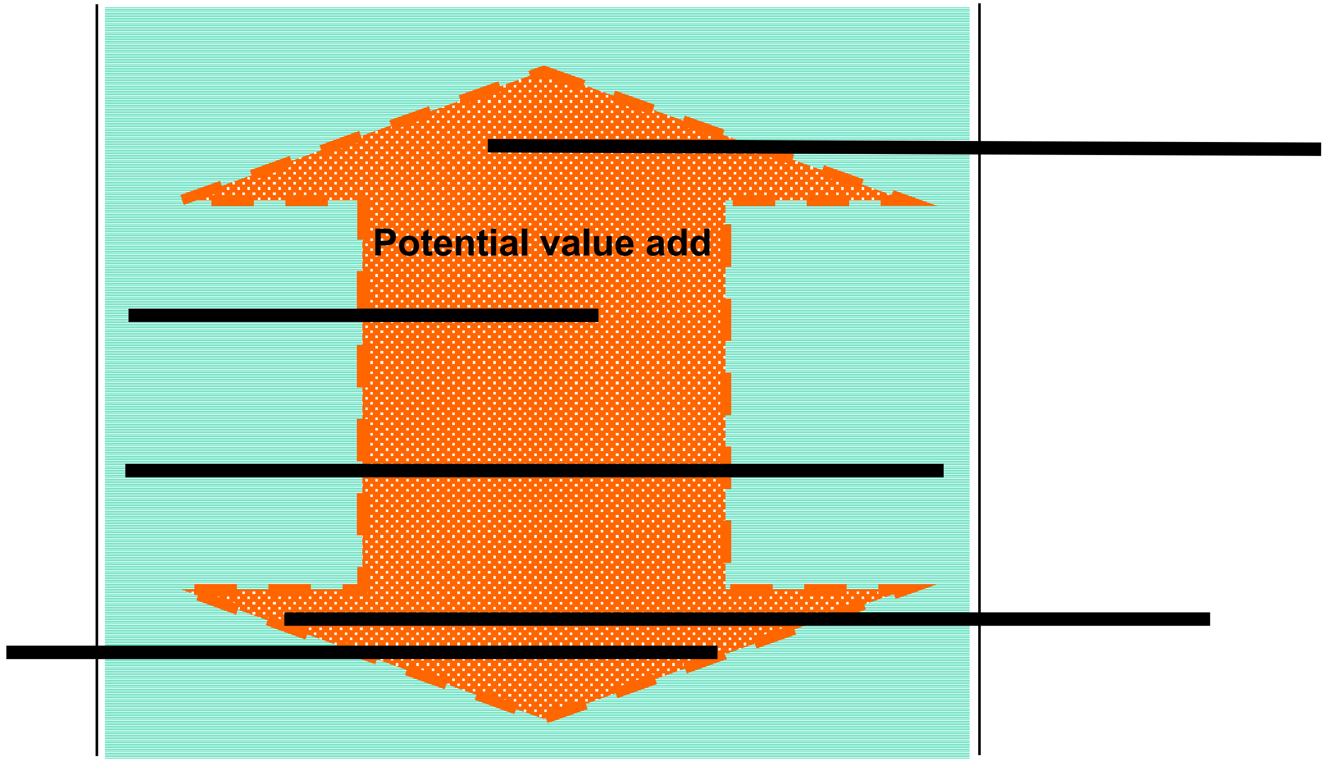
But companies are essentially 'product' businesses



Some of Vitec's companies already operate successfully outside BME

Vitec thrives as entrepreneurial units
BME focus brings meaningful synergies

BME market space



Leveraging customer contacts / distribution / manufacturing adds value to units & group

Major Issue – Culture

Aim is to build ‘enabled entrepreneurialism’

- Small, autonomous companies have speed, loyalty and local ownership…

  ….but suffer from lack of scale, and dispersion of resources

- Emphasis must be on retaining / building brand values - we do not sell as ‘Vitec’
- Use of economies of scale / best practice will generate resources to invest in the business
  - but this requires a degree of cross business interchange
  - important to maintain local strengths, ownership, ‘feel’

- Balance of ‘growth’ and ‘cost’

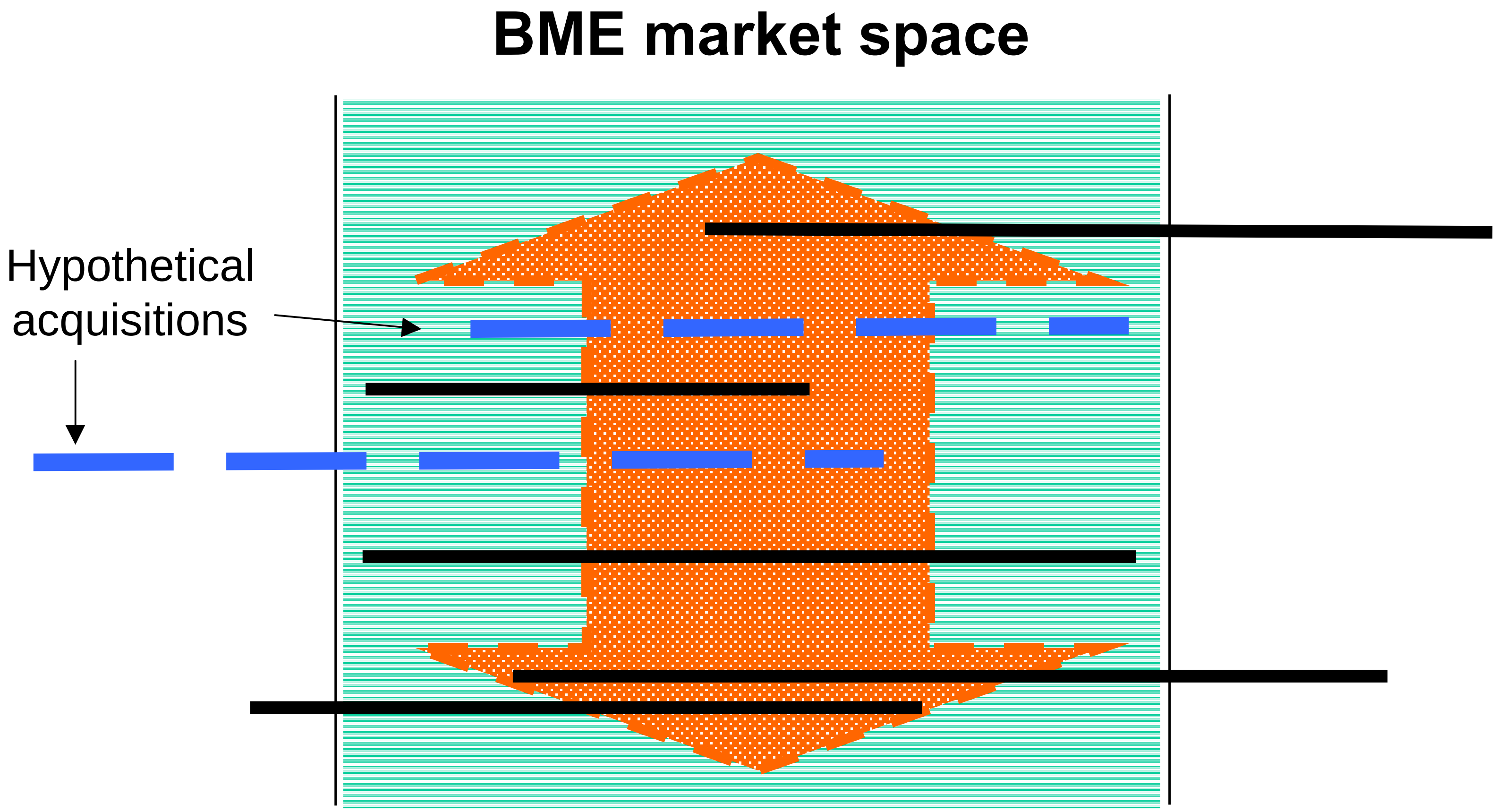
vitec

‘Consolidate - Leverage - Grow’

Acquisition Strategy

Vitec adds value within BME

Any acquisitions need to be synergistic, ie overlap



Ideal ones would bring positions in related markets that are a platform for future growth

vitec

Acquisition Strategy
Timing / size of deals is hard to predict

- Previous focus was on ‘large and transforming’
  - Should be assessed if they come along, but they are rare
  - Ideal would be ones partly in BME, partly outside
  - Many businesses within BME are medium / small
    - Frequently privately / VC owned
- Focus will be on those where we can add value; customer relationships / distribution / manufacturing
  - Synergistic mindset required from outset
- Today’s climate may well produce attractive opportunities

vitec

Actions

Consolidate - Leverage - Grow

Actions already taken

- New Finance Director and Operations Director
  - Operations focus on Camera Support businesses
- Intercoms businesses (ClearCom and Drake) reshaped to build critical mass
  - Sharing some Engineering and Manufacturing
- Aspen acquisition already integrated with AntonBauer
- Merging of two divisions (Broadcast Camera and Communications and Audio) into Broadcast Systems
  - Puts all the product businesses with 'Studio' customers together
- Structure now leaner, with just three divisions

vitec

Consolidate - Leverage - Grow

Focus on cost / margin funds R&D and future growth

- Reduce costs and free up cash
  - Exploit manufacturing scale
  - Reduce working capital
- Sales opportunities
  - Establish / maximise distribution in all key countries
  - Utilise customer / project knowledge already within Vitec
- Product opportunities
  - Change the rules - new, differentiated systems and services
  - Faster time to market
- Acquisitions

Manufacturing presently dispersed
Review has revealed big potential savings

- Vinten presently manufactures in US and UK
- Sachtler has sites in Germany and Costa Rica
- Manfrotto has multiple sites in Italy

- Consolidation will bring scale benefits and cost savings
  - Reduce the number of sites
  - Move to lower cost locations

Present plans have rapid payback
Two year progamme identified

- Overall annual benefits of £2m in 2004 and £3m thereafter
  - Reflecting headcount savings of approx 50
- Exceptional costs of £5-6m
  - Including redundancy and asset write downs
- To be implemented while also improving / underpinning delivery performance, quality and lead times

Outlook

Outlook

2002 is proving tougher than last year

- Broadcast customers still under pressure with earlier expectations of advertising recovery now receding
- ‘Pro-sumer’ photographic sales are strong but susceptible to any further weakening in consumer confidence

- Although H2 sales have historically beaten H1, with no major events in H2, we expect H2 profits to be slightly lower than H1

- Continuing focus on cost / innovation
- Accelerated pace of change within manufacturing
- Continuing to look at value adding acquisitions

vitec

Consolidate - Leverage - Grow

Gareth Rhys Williams
Alastair Hewgill

2 September 2002