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## TRAK MICROWAVE LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 JULY 2020

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#### **Introduction**

TRAK is a Limited Liability Company registered in Scotland.

TRAK's principal activities are in the space, defence, medical oncology and avionics industrial sectors providing components for long term, capital intensive projects.

#### **Business review**

The Company continues to support the overarching strategies of its parent division; expansion of its geographic and application base with emphasis on supporting existing & potential customers who are recognised as experts in their field. Successful execution of these strategies requires the Company to demonstrate staff expertise and competence equivalent to that maintained by its customer base and to invest in product development and the capital expenditure necessary to maintain its reputation for technical and operational excellence.

The facility is currently the recipient of a large and phased investment to build and kit out a new test facility that will be used by the site and potentially others with the division (Smiths Interconnect) including the commissioning of a high power test facility which represents a substantial proportion of the following year's capital investment program.

The space market is expected to show some recovery as a result of institutional spending and commercial investment in low earth orbit constellations although demand and prime contracts awarded globally which flow down orders for the Company remain depressed. The defence business has continued to show growth in terms of orders but have been insufficient to counter the reduced space demand. Company profitability was impacted by the change in the business mix.

During the year, the company, as part of Smiths Group plc, implemented comprehensive employee safety, support and communications programme during the COVID-19 pandemic. The company maintained continuity of production and service to its customers.

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2020

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#### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company remain: Competition, the timing and funding of major projects and the continued desire for a stream of innovative products.

TRAK operates in global industries which demand continuous technological innovation. Product superiority, once the dominant factor, remains important but is only one of several discriminators which TRAK uses to promote its products. Markets continue to look to value creation (a subjective mix of innovation, service, support and schedule adherence) as a primary selection criteria to identify their future strategic partners. TRAK's product development pipeline is aimed at satisfying this value creation and is critical to TRAK's future business. Investment in anticipation of future demand and capability remains a high priority leading to future business advantage is becoming part of that "mix".

While new or improved technologies and products do involve certain risks TRAK continues to demonstrate an adeptness in managing downside outcomes and mitigating any impacts by; leveraging a combination of close personal business contacts with key decision makers in core customers, an in depth market knowledge and an understanding of its own and those of our competitors strengths and weaknesses.

The consequences of Brexit remain uncertain. Potential effects applicable to many businesses include economic and operational uncertainty, volatility of currency exchange, regulatory changes and the imposition of tariffs on trade between the UK and the Eurozone. Ongoing negotiations between the UK and the EU are being monitored in order to assess the potential impact of Brexit and any transitional arrangements that may be agreed.

The disruption to the orbital asset investment/replacement cycle as satellite operators look to alternative data delivery strategies (moving from geostationary to lower earth orbit constellations) has continued to have a bearing on the performance of the company resulting from fewer orders to execute. While opportunities have been identified to take advantage of these market changes the timing and availability of funding for these new systems remains unclear, creating general uncertainty within the space community.

#### *Targeted cost savings*

TRAK continues to strive to improve profitability through increased productivity and efficiency. This generally involves reducing costs within the internal and external supply chains and efforts have been largely successful despite pressures created by currency weakness affecting raw and processed material prices, despite costs increasing in the year.

Manufacturing efficiency is a focus area with year on year improvements sought through the routine review of operational performance, by the effective control of the manufacturing and design processes and focused and intelligent capital investment.

#### *Global political and economic conditions*

TRAK operates in the space, defence, medical oncology and avionics industrial sectors providing components for long term, capital intensive projects. These markets are global in scope and are now highly competitive. The uncertainty experienced over recent years, due to governments' spending priorities and constraints, showed continued signs of abating however with neutral impacts being felt on the order intake and general enquiry levels.

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2020

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TRAK continues to desensitise the business to its reliance on UK/EU spending by actively pursuing markets in commercial space business specifically in Europe & India where progress has continued to be made, positively impacting revenues and the scheduled order backlog. Structural changes within the Smiths Interconnect division have directly resulted in the expansion of the internal and external sales channels globally with focus placed on markets deemed accessible and attractive to TRAK.

Looking forward the global markets are expected to remain broadly the same over the coming few years with growth created by increasing market share through the creation of value as measured by our customers.

#### **Section 172 Statement - Operational**

The directors of the Company have acted in a way they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members. As part of the Company's deliberations and decision making process, the Board takes into the account the

- (i) likely consequences of any decision in the long term;
- (ii) the interests of the company's employees;
- (iii) the need to foster the company's relationship with suppliers, customers and others;
- (iv) the impact of the company's operations on the community and the environment; and
- (v) the desirability of the company maintaining a reputation for high standards of business conduct.

The Board considers its stakeholders to be our shareholders, customers, employees and wider workforce, suppliers, local communities and governments, lenders and the environment and also took account the views and interests of a wider set of stakeholders including our regulators, the government, and non-government organisations. During the year ended 31 July 2020, the directors gave careful considerations to the factors set out above in discharging their duties under section 172 of the Companies Act 2006. The Board recognises that building strong relationships with our stakeholders will help deliver the Company's strategy in line with its long-term values and operate the business in a sustainable way.

The Company is part of the Smiths Group and is ultimately owned by Smiths Group plc ('Group'), which is responsible for setting the overall strategy of the Group maintaining oversight of the Group's activities and setting its risk appetite. The Board will sometimes engage directly with certain stakeholders on specific issues, but the size and distribution of our stakeholders and of the Group means that stakeholder engagement often takes place at an operational level. In these instances, the Board is informed of stakeholder views through management reports and presentations. Most decisions made by the Board during the year are deemed to be routine in nature and are taken on regular basis.

Further explanations of how the Group board has considered matters set out in section 172 (for the Group and for the Company) can be found on pages 90 to 95 of the Group Annual Report and Accounts for the year ended 31 July 2020, which does not form part of this report.

#### **Financial key performance indicators**

The directors of Smiths Group Plc manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of TRAK. The development, performance and position of the Interconnect division of Smiths Group Plc, which includes the Company, is discussed separately in the group's annual report which does not form part of this report.

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**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 JULY 2020**

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**Other key performance indicators**

The company invested throughout the year retaining its AS9100 accreditation; a highly regarded standard used in the commercial and defense Aerospace and Aviation markets. This standard requires that the Company use a variety of business and market specific metrics to drive improvement in the operation generally. These metrics include, but are not limited to, a focus on schedule adherence, product quality and material costs while the front end of the business uses a variety of service centric measures designed to align the company to customer's specific and general demands.

This report was approved by the board on 5 February 2021 and signed on its behalf.



**A McNeill**  
Director