Case study

Johnson Matthey

Primary themes

Environmental | Social | Governance ✓

Approach

Direct ✓ | Collaborative | Escalation

Objective

Achieved ✓ | Ongoing | Not met | N/A – interaction

Context

Johnson Matthey is a UK-listed, multinational, speciality chemicals and sustainable technologies company.

Summary

From an investment perspective, the company is attractive to the Investment Team due to its deep valuation discount to its sum-of-the-parts value - its core infrastructure-like characteristics within the PGM (platinum group metals) ecosystem and enviable positions in the auto and industrial catalyst markets afford it a durable cash generation capability not recognised in the market valuation.

However, we have been frustrated by the slow pace and depth of change, and the lack of cash generation, and have made efforts over 2025 to encourage greater discipline on capital allocation and cash generation.

This case study encapsulates many of the values of the Stewardship Code. It reflects an ardent, strategic investment objective to engage with the aim of enhancing the value of investments. The overall approach is dictated by a business transformation lens with the clear objective to identify and urge action on self-help levers, where management / boards have the ability to drive better outcomes and create value for stakeholders relatively independent of the wider ecosystem.

As a top 10 shareholder, we utilised our investor rights to engage with management and the board to understand their position, shared our independent perspective and sought to influence strategy and capital discipline. Additionally, we also used engagement to drive urgency and alignment with the investment team through direct, open and constructive dialogue. This approach is founded on purposeful and credible engagement that is centred on incisive analysis and longstanding investor experience.

Lastly, the case study highlights our role as market participants, and in this case, we also held discussions with a significant shareholder who went public with its concerns around the company's leadership, execution and strategy.

Objectives

This dialogue commenced in late 2024 when we had a productive meeting with the CEO and covered areas linked to market expectations, group structure and capital discipline. Whilst the company was heading in the right direction, the Investment Team assessed its urgency and commitment to capital discipline to be lacking. The Investment Team has monitored this company for several years and its independent analysis evaluated the company to be materially undervalued relative to its sum-of-the-parts value.

Further to the CEO meeting, a letter intended for the Board was drawn up in December 2024. This communication identified areas of focus and management actions that could work towards unlocking the valuation discount and enhancing the company's cash generation capabilities and return on capital. Although the letter brought attention to our concerns and advocated for greater urgency, the sentiment was very much underlined by a desire to work constructively with the company.

The communication was ultimately not delivered because at a corresponding time the company's largest shareholder, Standard Investments, with a c.11% stake, had independently issued an open letter which was outrightly critical, calling out management and the Board for being 'complacent', and for poor oversight of a 'misguided' strategy which had resulted in sustained underperformance.

In light of the (public) Standard Investments development, we paused our written communication and decided to take initiative and to pursue a more direct approach. Multiple meetings were scheduled with management, the Senior Independent Director (SID) and Standard Investments whilst retaining our independent view and agenda to drive urgency and greater accountability on capital and cash discipline.

The themes highlighted in our initial letter distilled our objectives and provided the bedrock for the series of dialogues that lay ahead:

i. **Express concerns about performance / valuation.** Against the backdrop of a declining share price, we highlighted the potential risk of being susceptible to an opportunistic takeover approach which was not in the long-term interest of shareholders.

ii. **Encourage focus on cost and capital discipline.** We urged the company to conduct a detailed review of capital expenditure, R&D and operating costs unencumbered by legacy. The aim was to improve value creation through tighter focus on costs, cash and capital expenditure relying on Day 1 thinking rather than legacy and inertia.

iii. **Suggest Board re-appraise group structure / commercial strategy across divisions:** A thorough review of the group's structure, with the aim of focusing on the group's area of greatest competitive advantage and opportunity whilst exploring the sale of non-core assets to strategic buyers at very accretive levels to the group's low-rated multiple. This would potentially unlock short-term valuation discounts but additionally also enhance long-term growth and viability through focus.

iv. **Escalate views on Board effectiveness / accountability:** The questions over capital allocation and performance ultimately draw attention to the Board's role. Through our dialogue with the SID, we wanted to impart our views and expectations concerning Boardroom oversight and capability specifically on capital allocation discipline.

About the engagement

We convened a call with the SID in January 2025. Dialogue with the SID was an appropriate course of action when considering governance protocols. We voiced concerns over corporate performance and questioned Board effectiveness against a backdrop of publicly-aired discord from the company's largest shareholder.

We articulated views about company performance, strategy and capital allocation, in line with the above objectives. It was important to step up our engagement efforts to effect change with urgency. This was not a repeat exercise of conversations we had held with management. This dialogue was specifically addressed to an independent director and channelled concerns over disappointing execution and the standard of Board / non-executive oversight and challenge.

Ultimately, this was a forward-looking conversation about how best the company could become a better version of itself going forward. The company was undertaking measures and planning to make reforms, but we conveyed expectations that the tone from the top and the strength of overall Board leadership and accountability was key. The SID understood our points, which resonated with feedback from the marketplace. Regarding enhanced Board oversight, the SID discussed measures to create an additional Board Committee which would be an Investment Committee focused on capital discipline.

In early 2025, we were also contacted by Standard Investments, who wanted to discuss their public escalation. As market participants, we are open to discussion so long as it helps us represent our clients' interests and maintain an objective view of investment value. In this case, neither party wanted any form of co-operation agreement nor to discuss making changes at the company. It was an opportunity to exchange views on company strategy and understand how each other was engaging.

We had two conversations with Standard Investments (January and February 2025). These included dialogue with the Head of Corporate Development and M&A and a Portfolio Manager. The conversations were straightforward and the agenda was based on their public comments. There was an in-principle understanding between the two parties about the company's past capital indiscipline and lack of urgency, and a desire for greater Board accountability.

Outcome

On 27 January 2025, the company issued a stock exchange announcement to discuss how it was delivering against its strategic objectives to create value. The company referenced the Standard Investments letter and outlined that they had been engaged with Standard Investments and a group of shareholders since its publication in December 2024.

The announcement was very targeted in its intent:

- Detailed measures and stretching targets around cash generation and capital discipline were woven through the disclosure. The announcement also formalised the establishment of the Investment Committee, chaired by the SID, and stated that executive compensation would have an increased weighting on cash generation. The formation of the Committee is particularly relevant to our shareholder dialogue as it strengthens Board governance and oversight around the central themes of the engagement. Specific responsibilities of the Committee would include review and endorsement of i) investment and capital allocation strategy, ii) major capital projects and, iii) M&A activity. In discharging these duties, the Committee would give consideration to leading market indicators, execution risk, **and levels of return and cash generation for shareholders.**
- The company took the opportunity to highlight the leadership and industry credentials of its non-executives that had been appointed over the last three years.

We were encouraged by the announcement as it pivots towards our objectives and references the company's overall engagement programme, where we featured. In the interests of being fair and balanced, we played a role amongst a group of investors, including the company's largest shareholder, which were engaging independently. The Board articulated that the developments outlined in the announcement were evidence of its own strategy coming to fruition. However, the Board publicly acknowledged the need to improve the share price and that more needed to be done at pace.

These assurances over cash generation and capital discipline helped us to remain invested and provided confidence that the Board had listened to our concerns and acted with the necessary urgency and accountability.

Board and leadership matters were a core part of our dialogue and there were more significant developments over the last 12 months.

- In February 2025, the company announced the appointment of a new CFO and disclosed that the Chairman would not be seeking re-election at the AGM in July 2025. The Chairman had been in place for six years. A new Chairman was appointed in July 2025, and we held a dialogue in January 2026.
- On 22 May 2025, the company entered into an agreement to sell its catalyst technology division to Honeywell International for an enterprise value of c.£1.8B, materially above sell-side analyst estimates, with a commitment to return £1.4B to shareholders should the deal close subject to certain due processes and procedures. A key part of our engagement efforts had been to review the group structure and to focus down and the team was pleased with the provisional sale agreement. Whilst the deal value was subsequently renegotiated to £1.325B, it still offers a price materially above market estimates coming into 2026.
- In November 2025, the company announced an internal re-organisation. The former Head of Strategy & Operations became Group CFO on 1 January 2026 and the former CFO remains on the Board in the capacity of COO with a focus to deliver cash generation targets and execute capital projects on time and in budget.
- There was no further communication between Jupiter and Standard Investments during the remainder of 2025. Looking at publicly available information, it is evident that Standard Investments materially scaled down its position during summer 2025, which coincided with the rally following the announcement concerning the catalyst technology division. At the time of writing, Standard Investments no longer features in the top 10 holders, and its holding represents c.1.8% of issued share capital. Different institutional investors have their own time horizons and manage portfolios in accordance with their own mandates, policies and client commitments.
- The shares have continued to rally and we have held on beyond the early price spike seen in 2025. We think there are further benefits for our clients over the long term, and consequently the Investment Team has actively remained invested following the engagement and the positive developments that have ensued.

Outcome achieved: The company has publicly acknowledged the shareholder dialogue and re-iterated its commitment to capital discipline and creating shareholder value. We also credit the company's actions in implementing swift and decisive changes to targets on cash generation, return on capital and implementing leadership change at Board and senior management level. Lastly, the potential sale of the catalyst technologies division to streamline the business, unlock the valuation discount, and return cash to shareholders was a very encouraging and meaningful step towards unlocking the valuation discount within Johnson Matthey. At the time of writing we are waiting for the catalyst technology deal to be completed.

In a tumultuous year for the industrials and chemicals sector, Johnson Matthey delivered a strong share price performance delivering material idiosyncratic value for clients largely independent of the wider ecosystem.