

# 2012 Interim Results

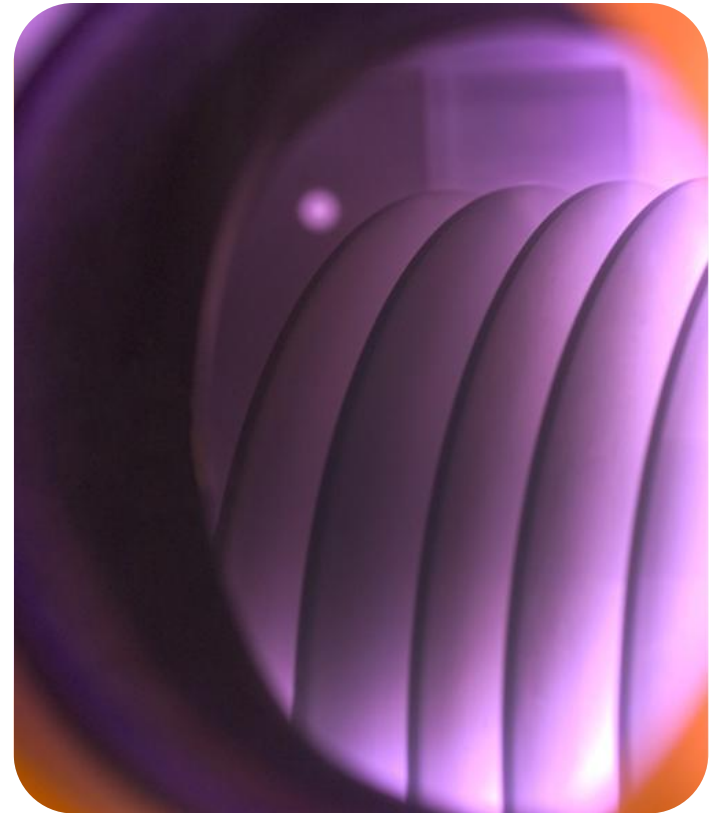
26 July 2012

The logo for Bodycote, featuring a red square inside a black square, followed by the word "Bodycote" in a bold, black, sans-serif font with a white outline.

**Bodycote**

**Stephen Harris**

*Chief Executive*



**Plasma nitriding**

A low temperature, short cycle form of nitriding which produces very clean surfaces. It is typically used for treating stainless steels and other high alloy steels.

- Highlights Stephen Harris
- Financial Review David Landless
- Business Review Stephen Harris

- Revenue up 5%; 7% at constant currency
- Good growth from North American Automotive & General Industrial and Aerospace & Energy in all geographies
- Headline operating profit up 10%, with margin up to 15.8%
- Recent US acquisition performing well
- 110% headline operating cash conversion
- Free cash flow exceeded cost of US acquisition
- Net debt at £16.7m
- Interim dividend up 11% to 4.0p

**David Landless**

*Finance Director*



### **Brazing**

A precision metal joining technique suitable for many component configurations in a wide range of materials. It can be used for high-integrity joining of unweldable, dissimilar and non-metallic materials.

# 2012 Interim Results Summary



£m (actual rates)		H1 2012 <i>margin</i>		H1 2011 <i>margin</i>		<i>Increase</i>
<b>Revenue</b>		<b>301.3</b>		<b>288.2</b>		<b>5%</b>
<b>Headline:</b>	<b>Operating profit<sup>1</sup></b>	<b>47.5</b>	<b>15.8%</b>	<b>43.2</b>	<b>15.0%</b>	<b>10%</b>
	<b>Profit before taxation<sup>1</sup></b>	<b>45.7</b>		<b>40.8</b>		<b>12%</b>
<b>Exceptional:</b>	<b>Acquisition costs</b>	<b>1.2</b>		<b>-</b>		
<b>Headline operating cash flow<sup>2</sup></b>		<b>52.3</b>		<b>39.8</b>		
<b>Net debt</b>		<b>16.7</b>		<b>33.7</b>		
<b>Headline EPS<sup>1</sup></b>	pence	<b>18.3</b>		<b>16.2</b>		<b>13%</b>
<b>Dividend</b>	pence	<b>4.0</b>		<b>3.6</b>		<b>11%</b>

1. Headline operating profit, headline profit before taxation and headline EPS exclude exceptional costs and amortisation of acquired intangibles

2. Cash generated by operations less net capex, before cash flow relating to exceptional items

# Divisional Summary



£m	H1 2012	H1 2011
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## ADE Divisions

Revenue	130.3	115.9
Headline Operating Profit <sup>(1)</sup>	31.3	25.2
Margin	24.0%	21.7%

## AGI Divisions

Revenue	171.0	172.3
Headline Operating Profit <sup>(1)</sup>	22.8	22.9
Margin	13.3%	13.3%

Head Office costs	6.6	4.9
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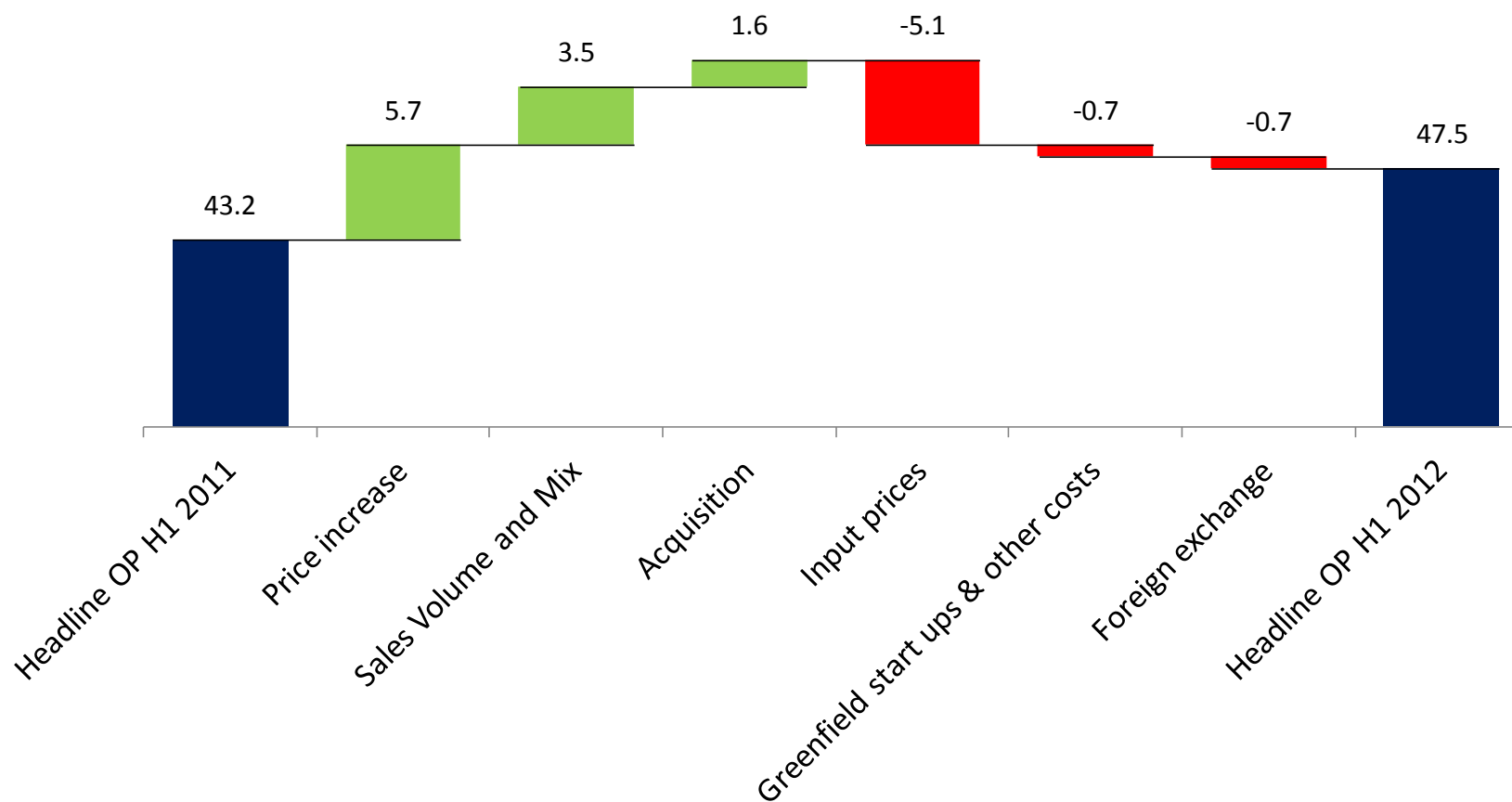
Underlying growth	Currency		CW HT acqn	Total growth
	Euro	Other		

11.3	10%	(1.4)	-1%	1.1	0%	3.4	3%	14.4	12%
5.0	20%	(0.3)	-1%	0.3	1%	1.1	4%	6.1	24%

3.2	2%	(4.7)	-3%	(2.9)	-2%	3.1	2%	-1.3	-1%
0.1	0%	(0.6)	-2%	(0.1)	0%	0.5	2%	-0.1	0%

1. Headline operating profit before head office costs

# Operating Profit Bridge (£m)





# Cash Flow



£m	H1 2012	H1 2011	
<b>Headline operating profit</b>	<b>47.5</b>	<b>43.2</b>	
Add back: Depreciation and amortisation	25.1	24.9	
Share-based payments	3.0	2.5	
<b>Headline EBITDA<sup>1</sup></b>	<b>75.6</b>	<b>70.6</b>	<b>Capex to depreciation: H1 2012: 1.1x H1 2011: 0.8x</b>
Net capital expenditure	(26.6)	(20.6)	
Working capital	3.3	(10.2)	
<b>Headline operating cash flow</b>	<b>52.3</b>	<b>39.8</b>	<b>110% headline operating cash conversion<sup>(2)</sup></b>
Restructuring	(2.0)	(3.3)	
Acquisition costs	(1.2)	-	
<b>Operating cash flow</b>	<b>49.1</b>	<b>36.5</b>	
Financing costs	(1.2)	(1.7)	
Taxation	(9.0)	(6.4)	
<b>Free cash flow</b>	<b>38.9</b>	<b>28.4</b>	
Acquisition	(32.0)	-	
Dividends	(13.8)	(10.8)	<b>Acquisition of own shares for EBT</b>
Other	(9.9)	-	
<b>(Increase) / Reduction in net debt</b>	<b>(16.8)</b>	<b>17.6</b>	

(1) Earnings before interest, tax, depreciation, amortisation, loss on disposal of plant, property and equipment and share based payments

(2) Cash conversion defined as Headline Operating Cash Flow divided by Headline Operating Profit

**Stephen Harris**

*Chief Executive*



**Densification of superalloy castings**

Turbine blades from the high-temperature section of jet engines are HIPed to ensure removal of microporosity and to optimise the properties of single crystal cast blades.

End markets	2011	H1 2012	Future
Heavy machinery			
General capital goods			
Supply chain stock build			
Technology driven change			

} Economy dependent in short term

**Bodycote revenues £121m** **Organic growth +1%\***

- North American sales strong, particularly mining & agricultural machinery
- Western European sales softening, reflecting weakness in domestic economies and lower growth in exports to Asia

End markets	2011	H1 2012	Future
European car production			
US car production			
Heavy trucks			
Technology driven change			

} Economy dependent in short term

**Bodycote revenues £72m** **Organic growth -2%\***

- North American sales up 19% with increased sales to major accounts
- Western European sales down 4% but outperforming the market
- South American sales down £1.3m, supply chain disrupted by 20% currency appreciation

# Aerospace & Defence



End markets	2011	H1 2012	Future
Commercial new build			
Spares requirement			
Defence			
Supply chain stock build			

**Bodycote revenues £66m**

**Organic growth +16%\***

- Strong sales growth in Europe and North America
- Good visibility of order backlog at OEMs
- New capacity in Mexico, London Ohio and Toulouse
- Continued investment to meet increasing demand

End markets	2011	H1 2012	Future
Oil & Gas production			
Oil & Gas exploration			
Power generation			
Supply chain stock build			

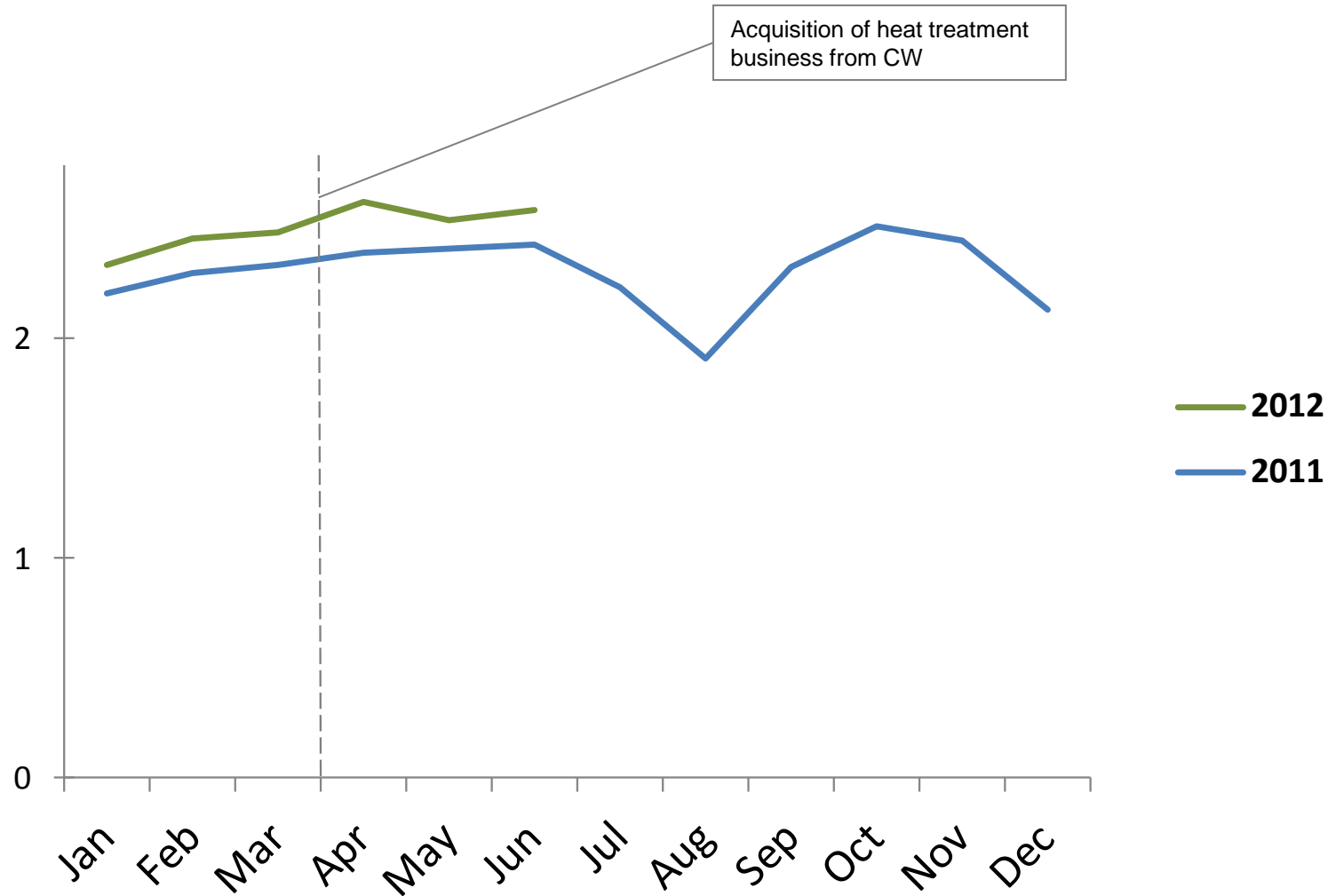
**Bodycote revenues £42m**

**Organic growth +18%\***

- **Western European surface technology business expanding customer base and growing strongly**
- **North American heat treatment business growing well despite slow-down in gas fracking**
- **New plant in Houston**

# Daily Sales Trend

## Constant Exchange Rates (£m)

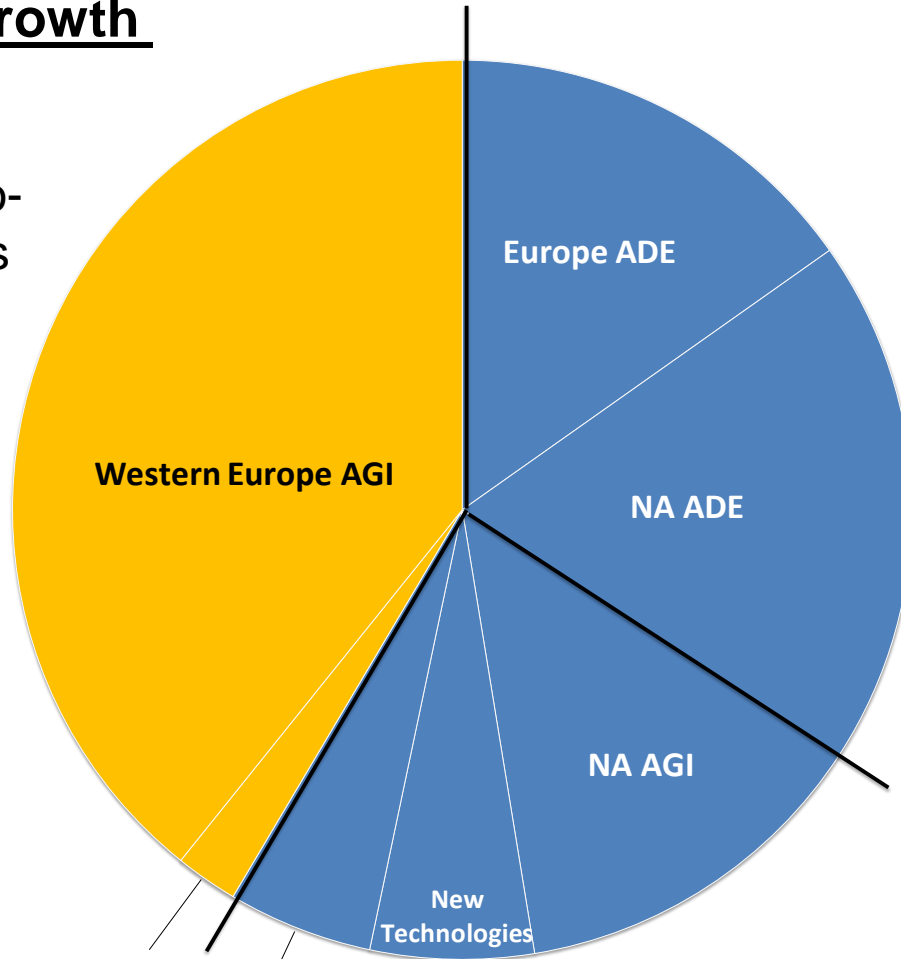


# Growth mix overview



## Organic H1 growth

Soft Macro-  
Economics  
-2%



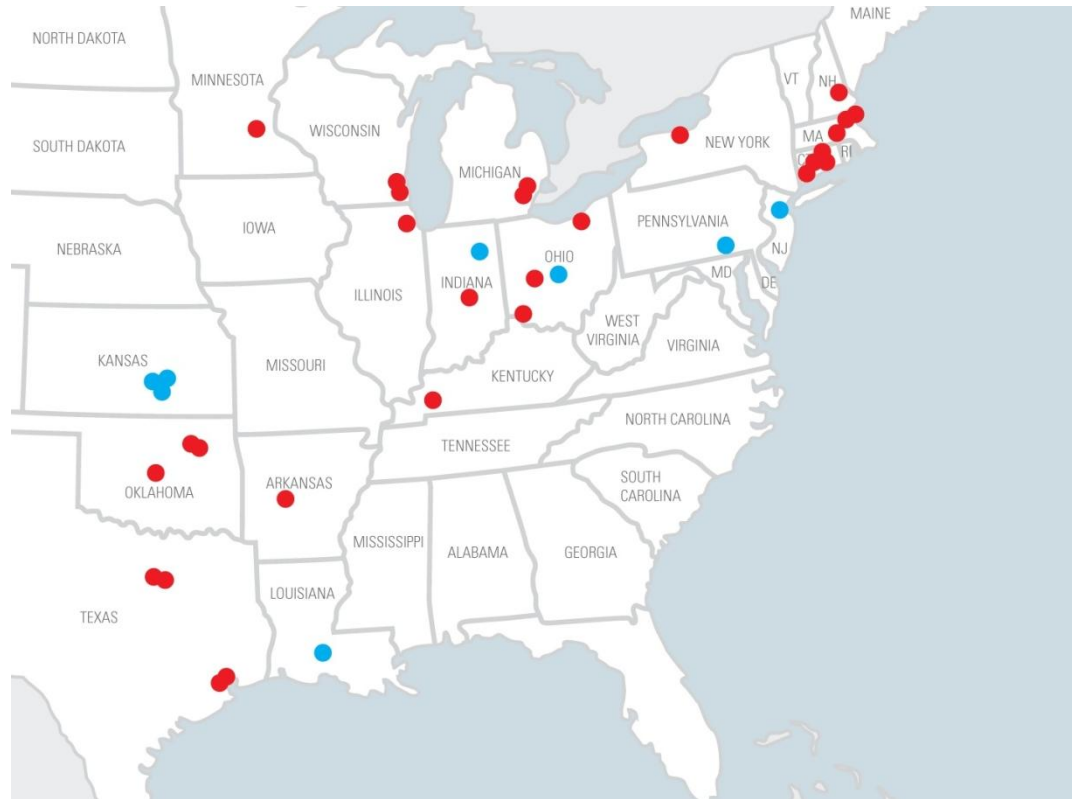
Secular  
+17%

Brazil  
Emerging markets  
ex Brazil

Other  
+3%



# Acquisition of HT business of Curtiss-Wright

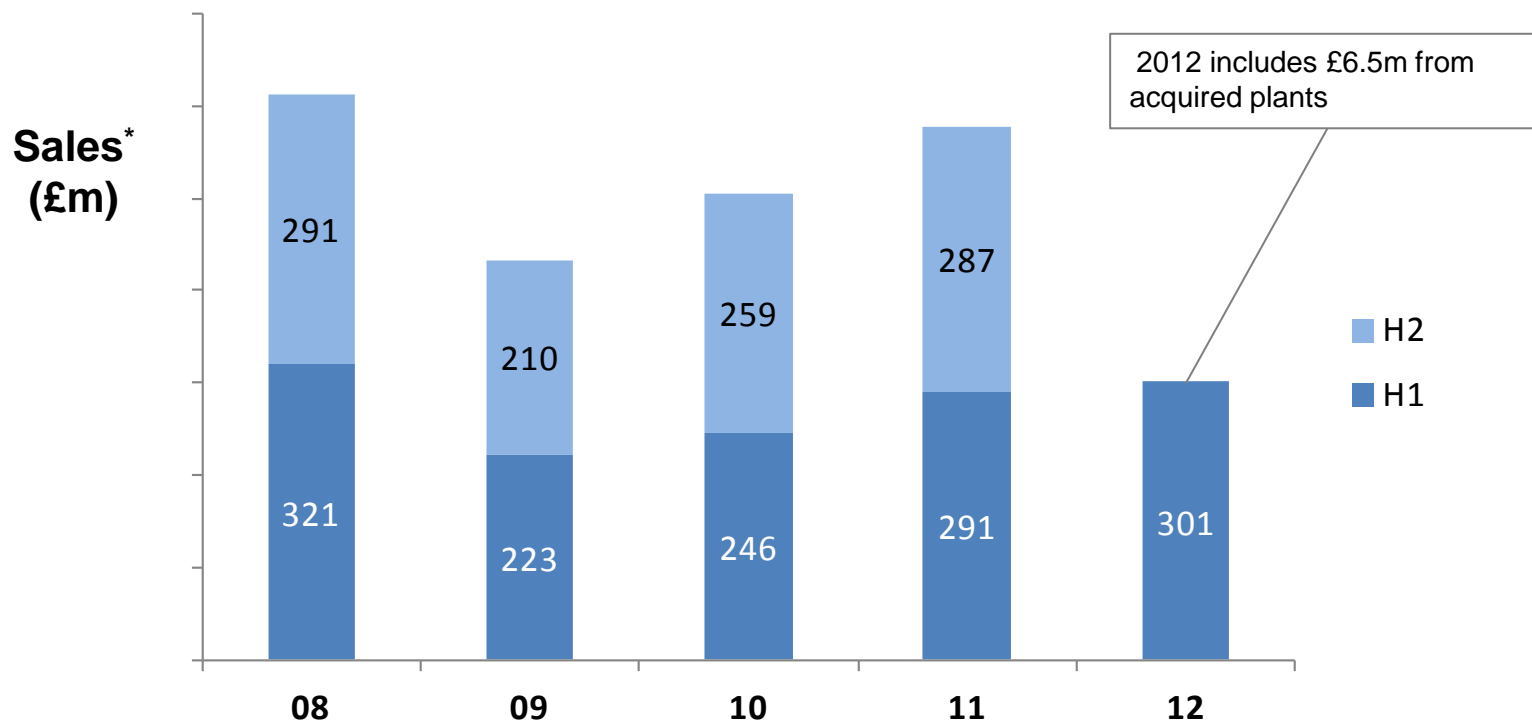


- Existing Bodycote plants
- Acquired Plants

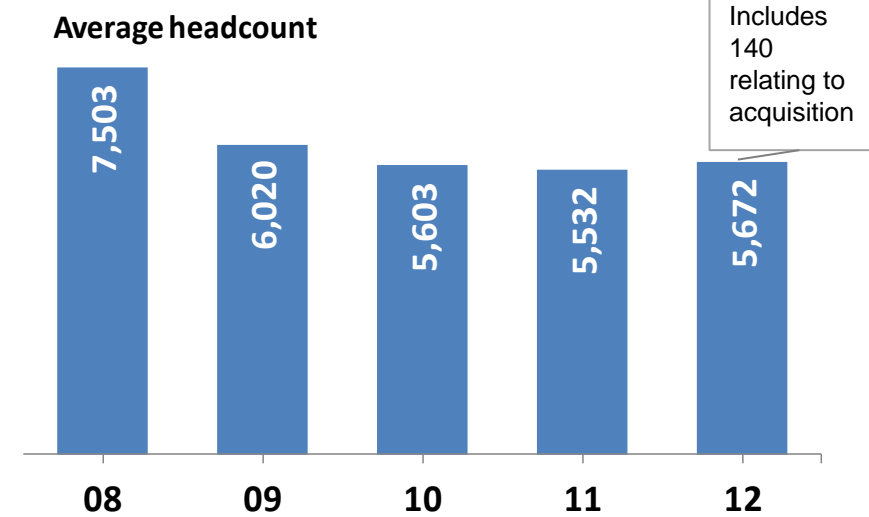
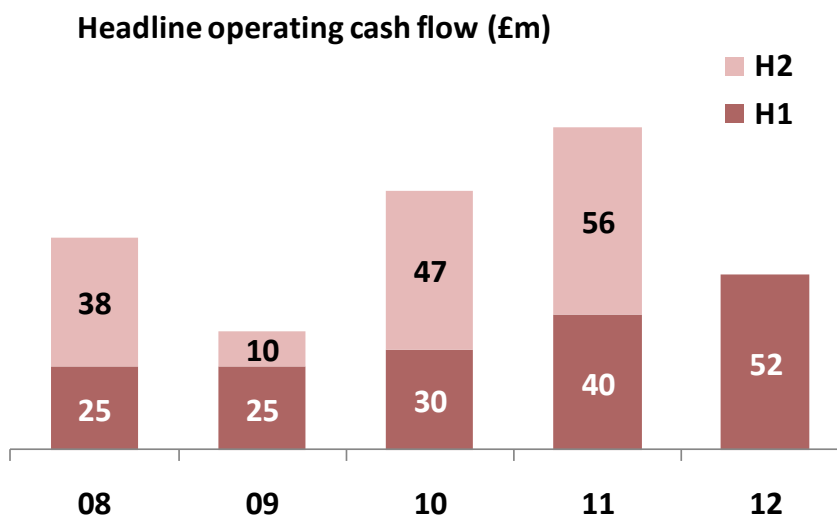
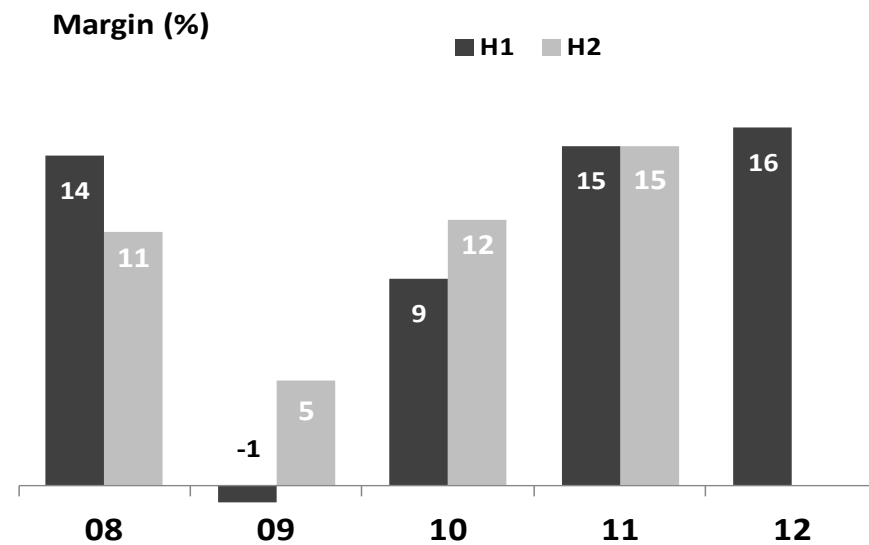
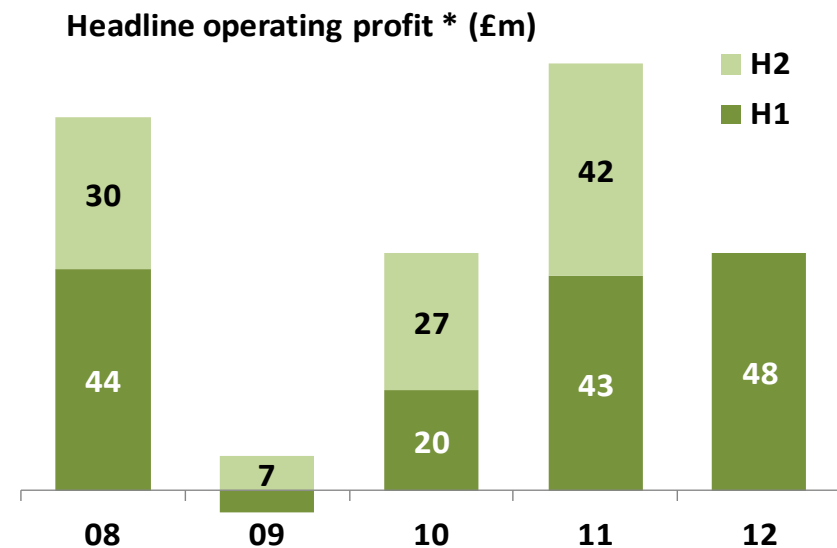
- Purchase price £33m
- 3 month contribution:  
£6.5m sales  
£1.6m operating profit

- High margin
- High aerospace & energy content
- Excellent network infill
- Loss making plant closed
- Bodycote synergies being realised:
  - Sales channels
  - Logistics network

# Five Year Perspective



# Five Year Perspective



- Strong first half performance despite currency headwind and weakened demand in the Eurozone economies
- 5% revenue growth; 7% in constant currency
- 10% headline operating profit growth
- Margin expansion to 15.8%
- Excellent cash flow
- Low net debt

“Looking forward into the second half, growth in aerospace and energy together with new technologies, is expected to counteract the effect of slowing economies.

The Board remains confident that the ongoing execution of the Group’s strategy will continue to deliver superior through-cycle shareholder returns.”



**Bodycote**

# H1 2012 Statutory Income Statement



£m	H1 2012	H1 2011
<b>Revenue</b>	<b>301.3</b>	<b>288.2</b>
<b>Headline operating profit <sup>1</sup></b>	<b>47.5</b>	<b>43.2</b>
Amortisation of acquired intangible fixed assets	(0.7)	(0.5)
Acquisition costs	(1.2)	-
<b>Operating profit</b>	<b>45.6</b>	<b>42.7</b>
Net finance costs	(1.8)	(2.4)
<b>Profit before taxation</b>	<b>43.8</b>	<b>40.3</b>
<b>Headline earnings per share (pence)</b>	<b>H1 2012</b>	<b>H1 2011</b>
Basic	18.3	16.2

1. Prior to separately identified items

# Net Finance Charge / Facilities



£m	H1 2012	H1 2011
Net interest payable	0.2	0.7
Financing costs	0.6	1.1
Other charges	0.4	0.3
Pension finance charge	0.6	0.3
<b>Net finance charge</b>	<b>1.8</b>	<b>2.4</b>

- Committed facilities from several sources over a spread of maturities
- Committed facilities total £232.5m
- Facility headroom of £210.3m



# Pensions – net deficit



£m	H1 2012	H1 2011
UK Funded	2.4	0.3
Other Western Europe Funded	0.7	0.8
Other Western Europe Unfunded	11.2	10.2
Western Europe Total	<b>14.3</b>	<b>11.3</b>
North America Funded	0.8	0.4
Emerging Markets Unfunded	0.2	0.2
<b>Total retirement benefit obligations</b>	<b>15.3</b>	<b>11.9</b>

- Average shares in issue H1 2012: 188.4m (H1 2011: 185.5m)
- Exchange rates:

Currency	Description	H1 2012	H1 2011
<b>Euro</b>	Average (P&L)	<b>1.21</b>	<b>1.15</b>
	Closing (B/S)	<b>1.24</b>	<b>1.11</b>
<b>US Dollar</b>	Average (P&L)	<b>1.58</b>	<b>1.61</b>
	Closing (B/S)	<b>1.57</b>	<b>1.61</b>
<b>SEK</b>	Average (P&L)	<b>10.75</b>	<b>10.23</b>
	Closing (B/S)	<b>10.83</b>	<b>10.13</b>

- Net debt and interest related financial ratios

Financial Ratios	H1 2012	H1 2011
<b>Net Debt : Headline EBITDA<sup>1</sup></b>	<b>0.1x</b>	<b>0.3x</b>
<b>Headline EBITDA<sup>1</sup> Interest Cover</b>	<b>197x</b>	<b>76x</b>
<b>Gearing (Net Debt to Total Equity)</b>	<b>3%</b>	<b>7%</b>

1. Earnings before interest, tax, depreciation, amortisation, loss on disposal of plant, property and equipment and share based payments calculated on a LTM basis.

**Bodycote**