

# 2019 Full Year Results

12 March 2020

 **Bodycote**

**Stephen Harris**

*Group Chief Executive*



- Highlights
- Business review
- Financial review
- Summary of 2019
- Looking forward
- Outlook statement

# Successful execution in a challenging year

## Highlights

- Resilient margin of **18.7%** despite some tough market conditions
- Good operational performance; strong control of costs
- Successful execution of acquisition strategy including £154m Ellison acquisition expected completion in Q1
- Very strong balance sheet

## Results

- Revenue: **£719.7m** (down 2.0% at constant currency, 1.2% at actual rates)
- Headline operating profit: **£134.9m** (down 5% at constant currency, 4% at actual rates)
- ROCE: 17.7%
- Free cash flow: **£123.1m**, FCF conversion 91%

## Dividends

- Final ordinary dividend 14.0p, total year 20.0p, +5.3%

## Embedded in the Bodycote culture for many years

- Continuous improvements in environmental sustainability
  - CO<sub>2</sub> emissions<sup>1</sup> decreased more than 22% since 2015
  - Water consumption has declined in the past 10 years by 33%
  - TCE chlorinated solvents use virtually eliminated (now only used in 1 of our more than 185 facilities)
  
- Continuous improvements in safety
  - Loss Time Injuries (LTI) rate<sup>2</sup> now 1.4, down by 30% over last 10 years
  
- A diverse global organisation and leadership
  - Board of Directors represents 5 countries and is 43% female
  - Executive management team represents 6 countries and is 36% female
  - A full suite of operating governance policies

<sup>1</sup>Tonne CO<sub>2</sub>e/£m revenue

<sup>2</sup>Lost time injury incidents per 200,000 hours worked

# Driving performance

## Matching resources to demand

- Strong control of cost base at each location to match changing customer demand
- Headcount reduced by 6%<sup>1</sup> during the year to 5,373 FTEs at year-end
- Temporary and contract labour reduced by a further 2 points down to 8% of headcount

## Resilient margin of 18.7% driven by management actions

<sup>1</sup> Excluding the impact of acquisitions and closures

# Strategic investment priorities

- Secular growth markets – e.g. Civil Aerospace
- Specialist Technologies
- Emerging Markets<sup>1</sup>
- Network in-fill for Classical Heat Treatment

<sup>1</sup> Eastern Europe, Turkey, China, & Mexico

**Dominique Yates**  
*Chief Financial Officer*





# 2019 Results summary

£m	2019	2018	Growth	Growth constant currency
Revenue	719.7	728.6	-1.2%	-2.0%
Headline operating profit	134.9	140.7	-4%	-5%
Headline operating margin	18.7%	19.3%		
Headline profit before tax	130.2	136.4	-5%	-5%
Headline tax rate	23.8%	21.7%		
Free cash flow	123.1	133.8	-8%	
Headline EPS	52.1p	55.9p	-7%	
Return on capital employed	17.7%	18.9%		
Ordinary dividend	20.0p	19.0p	5.3%	
Special dividend	-	20.0p		

# Headline operating profit bridge

£m



# ADE and AGI summary

## The ADE Business

£m	2019	2018	Growth	Growth constant currency
Revenue	301.4	288.0	4.7%	2.9%
Headline operating profit	75.8	69.4	9%	7%
<i>Headline operating margin</i>	<b>25.1%</b>	<b>24.1%</b>		

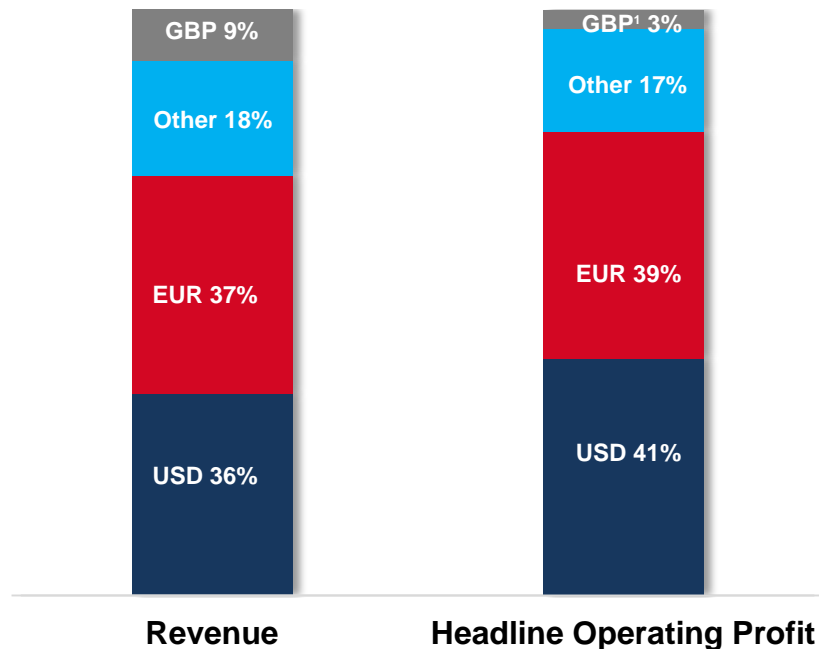
## The AGI Business

£m	2019	2018	Growth	Growth constant currency
Revenue	418.3	440.6	-5.1%	-5.2%
Headline operating profit	65.9	83.9	-21%	-21%
<i>Headline operating margin</i>	<b>15.8%</b>	<b>19.0%</b>		

- The ADE business comprises more than 60 facilities primarily focused on Aerospace, Defence and Energy customers, but also includes almost 20% General Industrial business

- The AGI business comprises more than 120 facilities primarily focused on Automotive and General Industrial customers
- 60% of the AGI business is in Western Europe

# 2019 Sales and operating profit by currency



- Operating profit translation increase of £0.6m
- Average full year exchange rates:  
£1: €1.14 and £1: \$1.28
- Every cent change in the Euro is worth c.£0.4m of annual operating profit
- Every cent change in the US dollar is worth c.£0.4m of annual operating profit
- **Translating the 2019 results at latest exchange rates would have reduced headline operating profit by c.£2m**

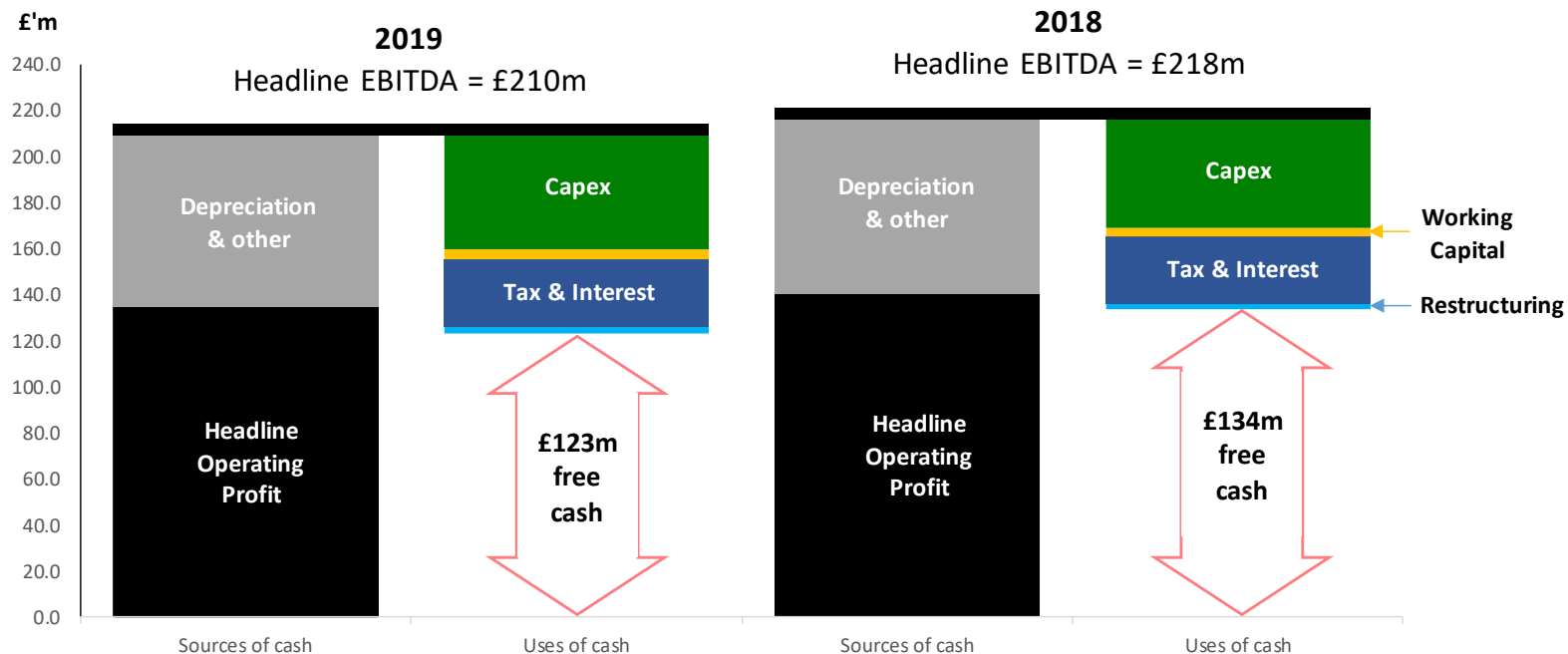
## Taxation

- Headline tax rate of 23.8%, in line with guidance
- Expectation for 2020 is c.22.5% assuming completion of Ellison in Q1

## Balance sheet

- Net cash £20.9m (pre IFRS16 impact) reflecting strong cash generation
- Pro-forma 2019 net debt : EBITDA of 0.6x post Ellison
- IFRS16 lease liabilities of £79.4m
- Facilities:
  - Committed facility headroom of £230m at 31 December 2019
  - £230m revolving credit facility matures in 2022

# Cash flow<sup>1</sup>



- Consistently strong free cash flow conversion: 91% in 2019

<sup>1</sup> As announced at half year, the format and definitions in the management cash flow have been updated and are included in the appendix.

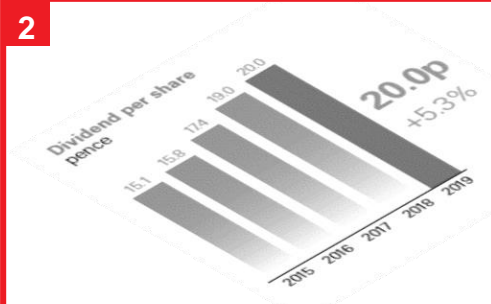
# Capital allocation priorities

1



Investment for growth

2



Dividend per share  
pence

Year	Dividend per share (pence)
2015	15.1
2016	15.9
2017	17A
2018	19.0
2019	20.0

+5.3%

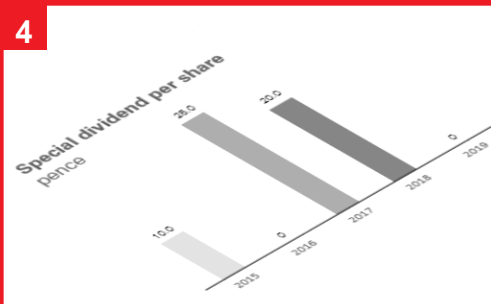
Enhancing ordinary dividends

3



Acquisitions

4

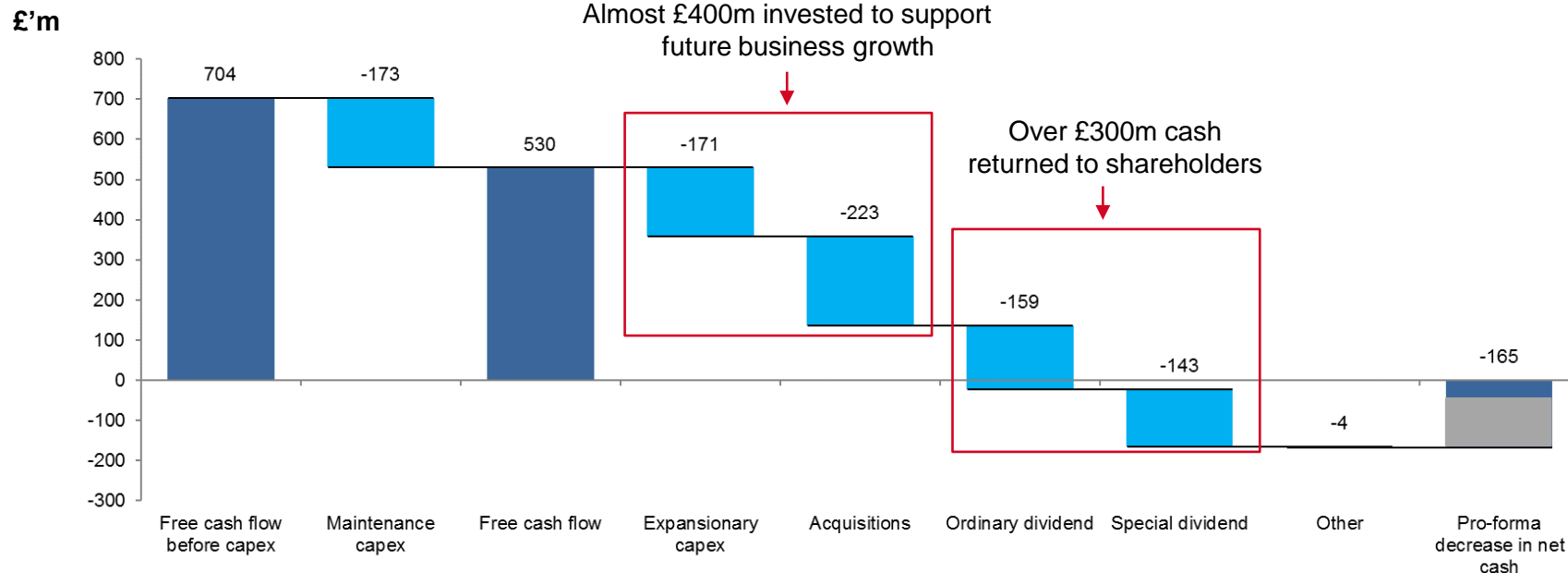


Special dividend per share  
pence

Year	Special dividend per share (pence)
2015	15.0
2016	0
2017	25.0
2018	0
2019	0

Supplemental distributions  
as appropriate

# 2015 - 2019 capital allocation<sup>1</sup>



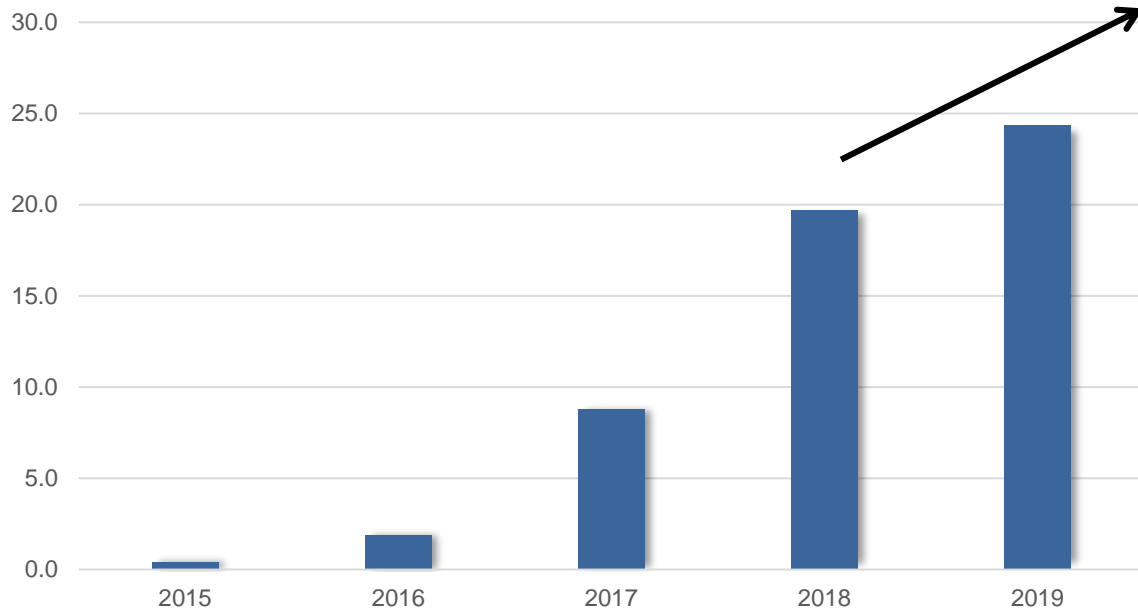
- New facilities can take 3-5 years to ramp up to our expected returns
- Pro-forma acquisition expenditure includes £154m anticipated for Ellison Surface Technologies

<sup>1</sup> Figures are pre IFRS 16



# Revenue progression of recent facilities

Revenue, £m  
At constant currency



- 13 facilities opened since the beginning of 2015
- £48m invested across these 13 facilities
- Typically revenues build over a 3 to 5 year period
- Strongly underpinned by contracts from anchor customers
- Hurdle rate of return on investment of 20%

## Stephen Harris

*Group Chief Executive*



# Strategic investment priorities

- Secular growth markets – e.g. Civil Aerospace
- Specialist Technologies
- Emerging Markets<sup>1</sup>
- Network in-fill for Classical Heat Treatment

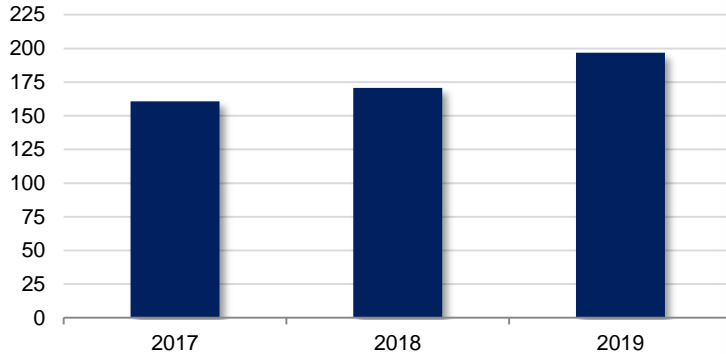
<sup>1</sup> Eastern Europe, Turkey, China, & Mexico

# Aerospace & Defence

**Revenue: £197m**  
(27% of total revenue)

**Growth: 14%<sup>1</sup>**

Revenue, £m



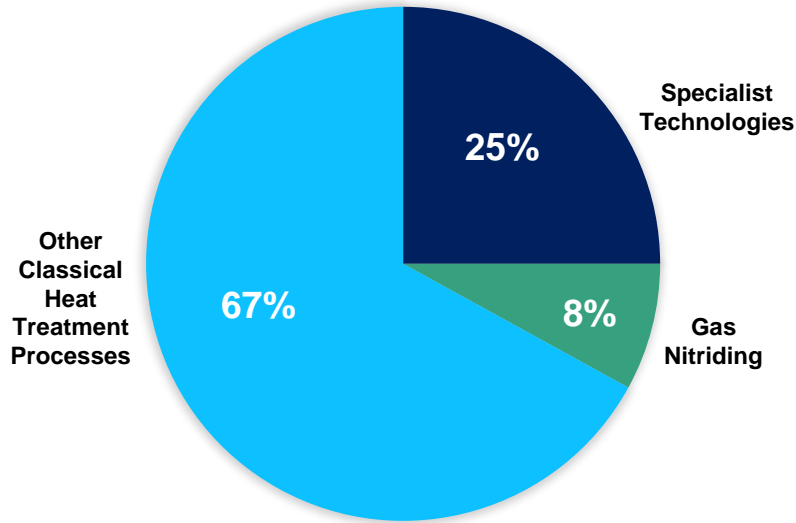
- 17% revenue growth<sup>1</sup> achieved in civil aerospace
- Growing revenues from replacement parts as global fleet grows
- Above-market growth driven partly by momentum from contract wins over several years, particularly on LEAP
- Market share gains as supply chains shake out



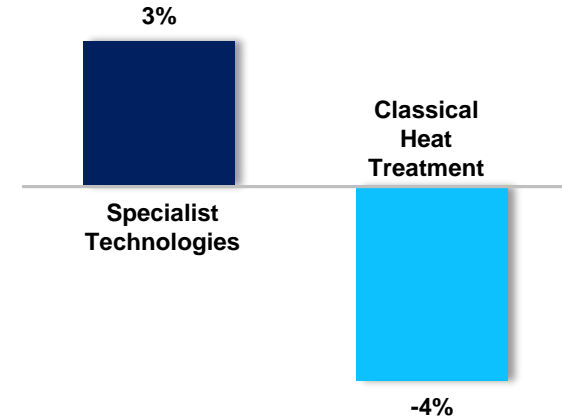
<sup>1</sup> At constant currency

# Our technologies

Revenue<sup>1</sup>



Growth



- Continued outperformance of Specialist Technologies vs. Classical Heat Treatment
- Strong growth in revenues for HIP services and Surface Technology
- Gas nitriding is currently part of Classical Heat Treatment

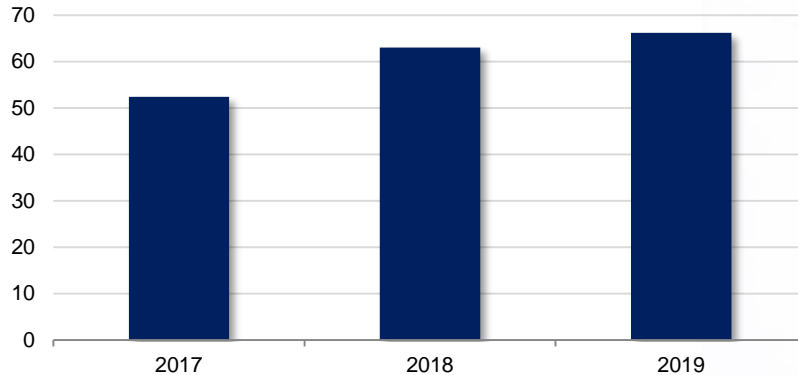
<sup>1</sup> At constant currency

# Emerging Markets<sup>1</sup>

Revenue: £66.3m

Growth: 5%<sup>2</sup>

Revenue, £m



- 9% of total Group revenues (including just over 2% in China)
- Emerging Markets has high exposure to car & light truck market
- Strongest growth prospects for Electric Vehicle production is in Emerging Markets
- Investment in these markets continues apace

<sup>1</sup> Eastern Europe, incl. Turkey, China, & Mexico

<sup>2</sup> At constant currency

# £61m invested in strategic growth areas in 2019

## Capacity Enhancements

- New Hot Isostatic Pressing (HIP) capacity operational in Europe
- Another new HIP under construction in the US
- Extra aerospace heat treatment capacity supporting long term growth in revenues

## Emerging Markets<sup>1</sup>

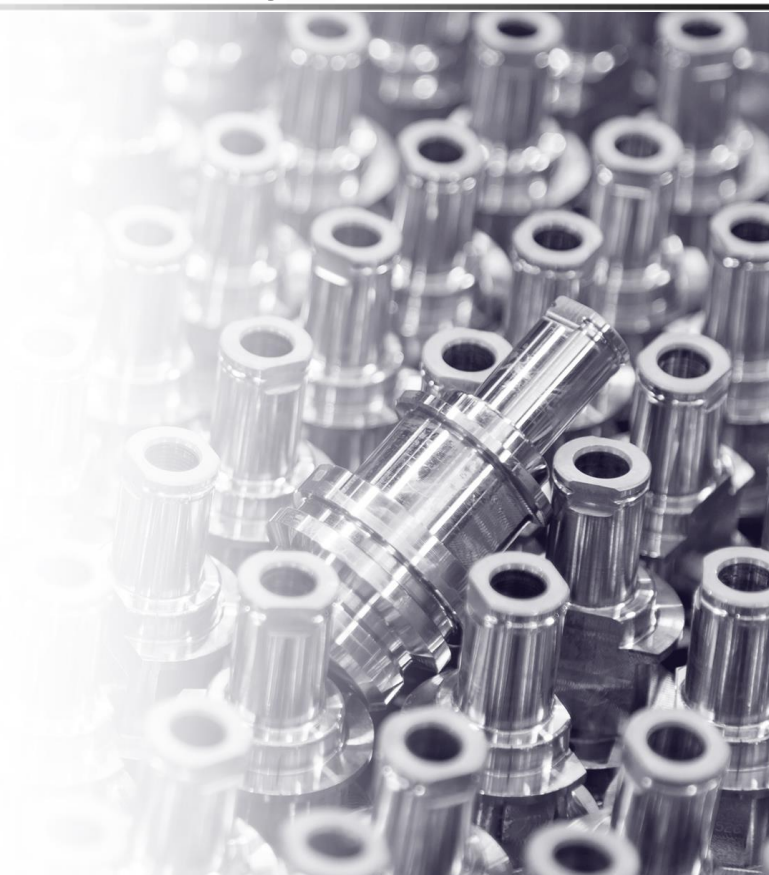
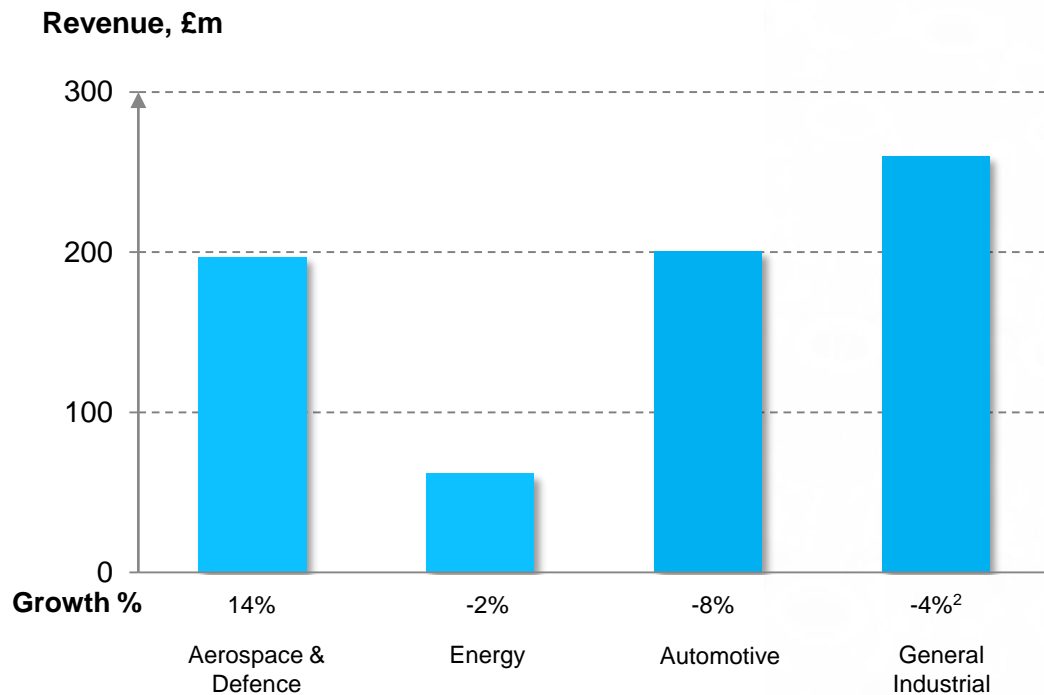
- Greenfield facility now operational in Czech Republic
- Construction of the new facility in Hungary progressing well

## Acquisition Strategy

- Acquisition in Slovakia expanded emerging market exposure and boosted gas nitriding capability
- Bolt-on in Sweden – mining exposure
- Ellison acquisition due for completion expected in Q1 2020

<sup>1</sup> Eastern Europe, Turkey, China, & Mexico

# 2019 Market sector revenue and growth analysis<sup>1</sup>



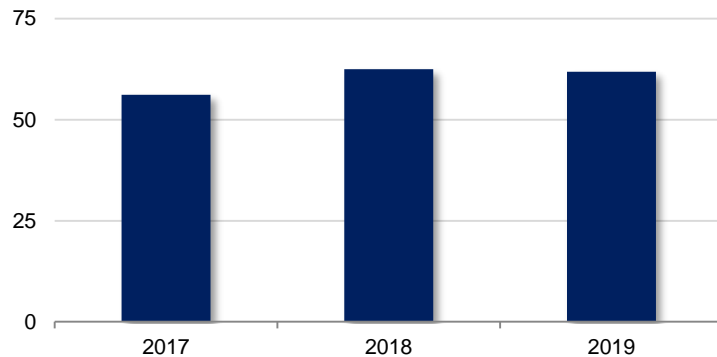


# Energy

**Revenue: £62m**  
(9% of total revenue)

**Growth: -2%<sup>1</sup>**

Revenue, £m



- Sequential half on half growth in subsea revenues
- Weakness in North American onshore business
- US fracking exposure is now less than 2% of Group revenues

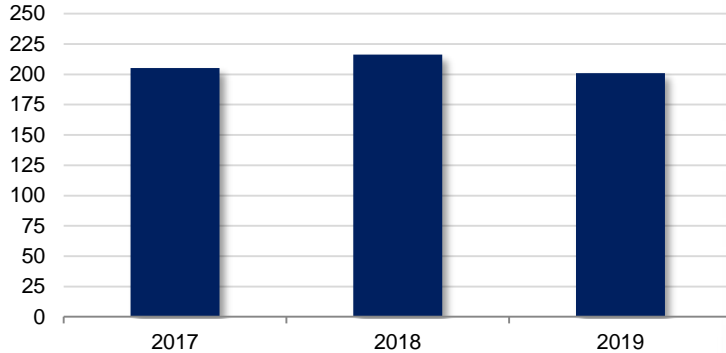


<sup>1</sup> At constant currency

**Revenue: £201m**  
(28% of total revenue)

**Growth: -8%<sup>1</sup>**

Revenue, £m



- Car & light truck represent 87% of this market
- Western European car manufacturers' production fell once again
- Long term structural changes becoming evident in the Western car & light truck markets as EV supply chains are establishing rapidly in Emerging markets

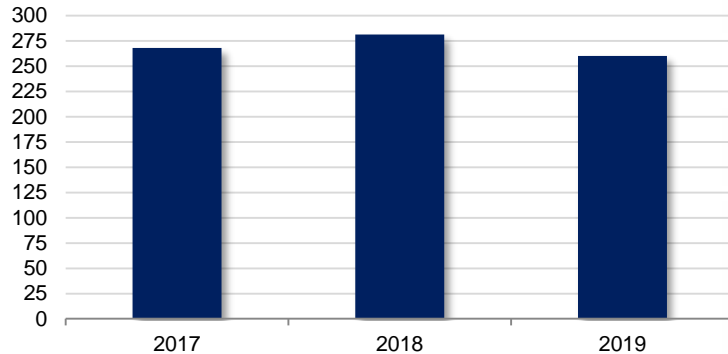


# General Industrial

**Revenue: £260m**  
(36% of total revenue)

**Growth: -4%<sup>1</sup>**

Revenue, £m



- Backdrop of macroeconomic growth concerns and trade tensions
- Delayed capital investment decisions and some destocking, predominantly in H2
- Global trends are similar with no particular sub sectors or territories standing out.



<sup>1</sup> Like-for-like result

# Summary

## Successful execution in a challenging year

- Strong cost management
- Resilient margin of 18.7% despite some tough market conditions
- Improvement in quality of the business – high returns and lower volatility
- Investment in strategic priorities continues
- Robustness of business demonstrated once again



# Looking forward

## Continuing benefits from growth investment programme

- Growth investment of £400m over last 5 years – benefit not yet fully reflected in Group results

## However ...

- Macroeconomic uncertainties persist
- Long term structural changes evident in Car & Light Truck markets, particularly in Western Europe
- Western European car and light truck supply chains are unlikely to recover to same position and profile as before

**The combination of macroeconomic uncertainties and longer term structural shifts requires some consolidation of Bodycote's facilities**



# 2020 Restructuring programme

## Focus of consolidation

- Western Europe
- Internal Combustion Engine specific Classical Heat Treatment exposure

## Restructuring financial impact

- Expected P&L charge c. £30m, including cash cost of c. £15m
- Expected cash payback c.2.5 years

# Major acquisition

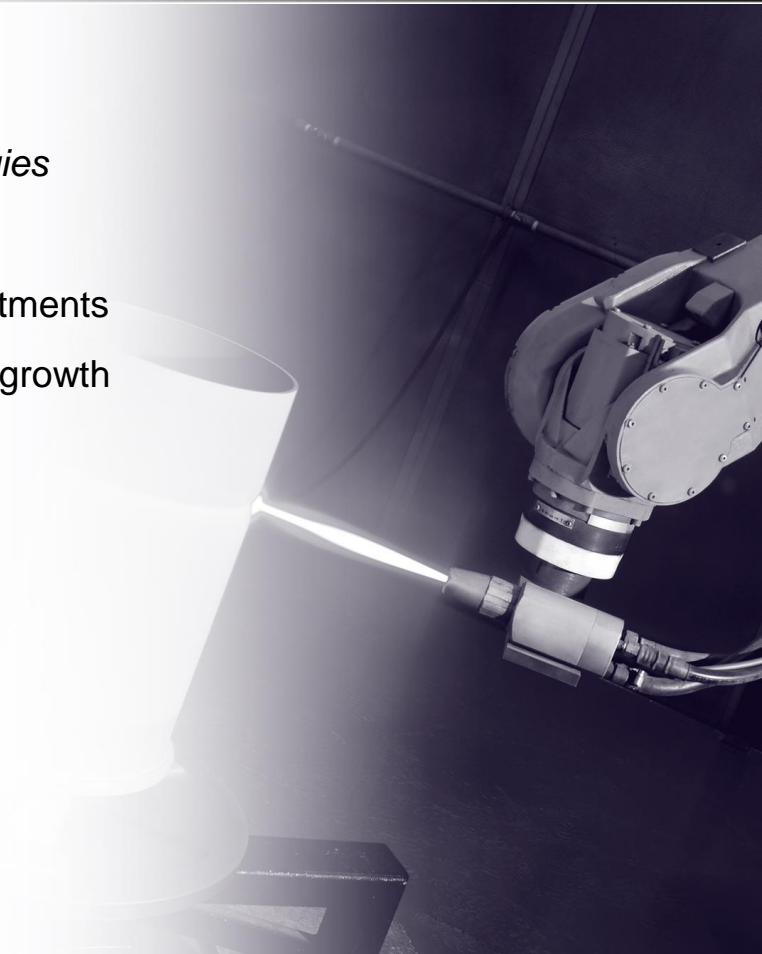
## In December 2019, Bodycote entered into an agreement to acquire Ellison Surface Technologies

- Ellison Surface Technologies is one of the world's largest providers of thermal spray and engineered coating surface technology services
- Founded in 1986, it is based in North America with 6 locations across the US, Canada and Mexico
- 90% aerospace and defence revenues
- Significant number of customer approvals
  - Critical for winning and keeping aerospace work



## Rationale

- Perfect strategic fit – *Civil Aerospace and Specialist Technologies*
- Improves overall Group business quality
- Strong future growth profits underpinned by contractual commitments
- Increases the proportion of business benefiting from structural growth
- Ellison, combine with Bodycote's existing surface technology business, has the skills and scale to expand beyond existing applications and customers





## Synergies

- Majority of synergies will be revenue gains:
  - Ellison's existing customer approvals in North America will help Bodycote win business in Europe
  - Bodycote's existing customer approvals will help win business in North America
- Cost synergies of c.\$2m annually from 2021 onwards



# Transaction summary

## Timing

- Completion expected in Q1
- Integration plan ready to go

## 2019 results

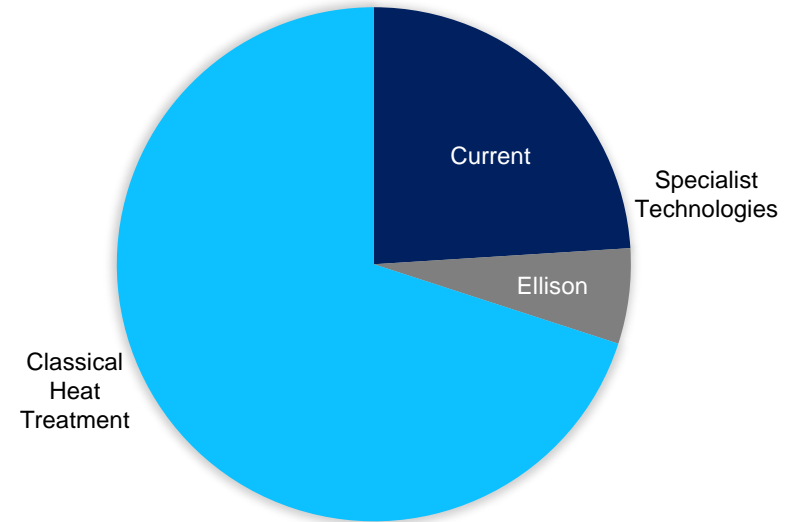
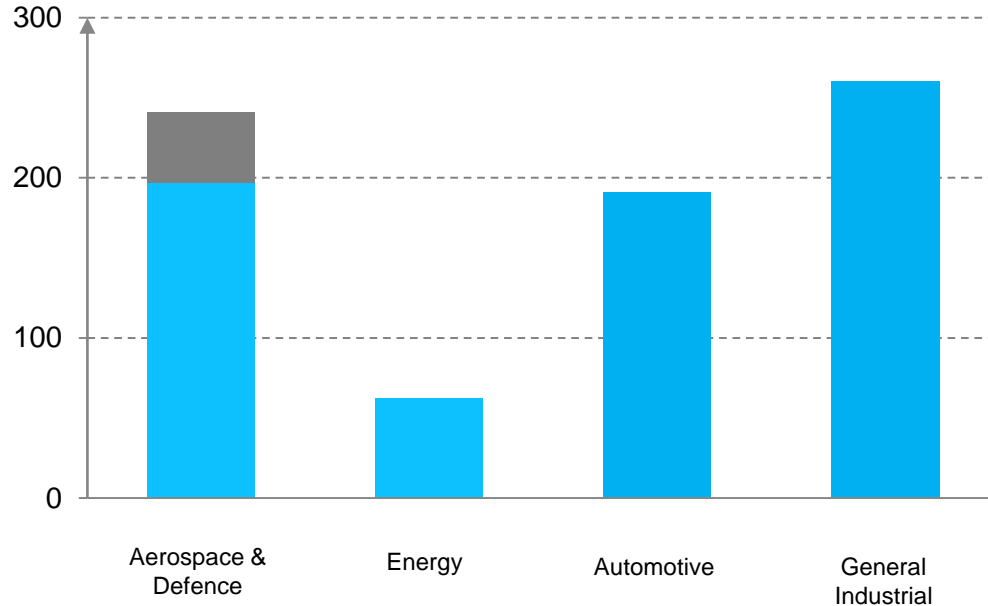
- Revenue: \$58m (£44m), up 16%
- EBITDA margin: 21%
- Margin will transition to Bodycote norms over several years

## Consideration

- \$200m (£154m) gross consideration; including tax benefits worth at least \$30m (£23m)

# Pro-forma Market and Technologies revenues

Revenue, £m



- Aerospace revenues boosted by Ellison acquisition
- Graph incorporates some revenue reductions arising from the Restructuring

Bodycote delivered a robust performance in 2019, achieving a resilient operating margin despite challenging market conditions.

2020 has started with a number of challenges, notably Covid-19, and ongoing international trade tensions.

The potential impact of the Covid-19 health crisis is difficult to assess at this time. However, Bodycote has a proven track record of margin enhancement through cost management and improving the mix of business and we will continue to manage the cost base in response to market conditions whilst investing in our strategic growth areas of Aerospace, Specialist Technologies and Emerging Markets.

An aerial photograph of a river delta, showing a network of channels and a large body of water. The land is a mix of brown and tan, with some darker patches. The water is a light, milky color. The word "Bodycote" is overlaid in the center in a bold, black, sans-serif font with a white outline. The letter 'B' is stylized with a red square inside its top-left corner.

**Bodycote**

# Specialist Technologies



A selection of highly differentiated, early stage processes with high margins, large market opportunity and good growth prospects. Bodycote is either the clear market leader or one of the top players among few competitors

## **Hot Isostatic Pressing (HIP) Services**

Improves component integrity and strength by application of extreme pressure and heat

### **HIP PF inc. Powdermet®**

Additive manufacturing of often complex components in conjunction with HIP

## **Specialty Stainless Steel Processes (S<sup>3</sup>P)**

Improves the strength, hardness and wear resistance of stainless steels

## **Surface Technology**

Enhances component life using ceramic and metal coatings

## **Low Pressure Carburising (LPC)**

Provides a hardened surface and tough core in a “clean” process under vacuum

## **Corr-I-Dur® (CiD)**

Improves corrosion resistance and wear properties without use of chrome



# Classical Heat Treatment

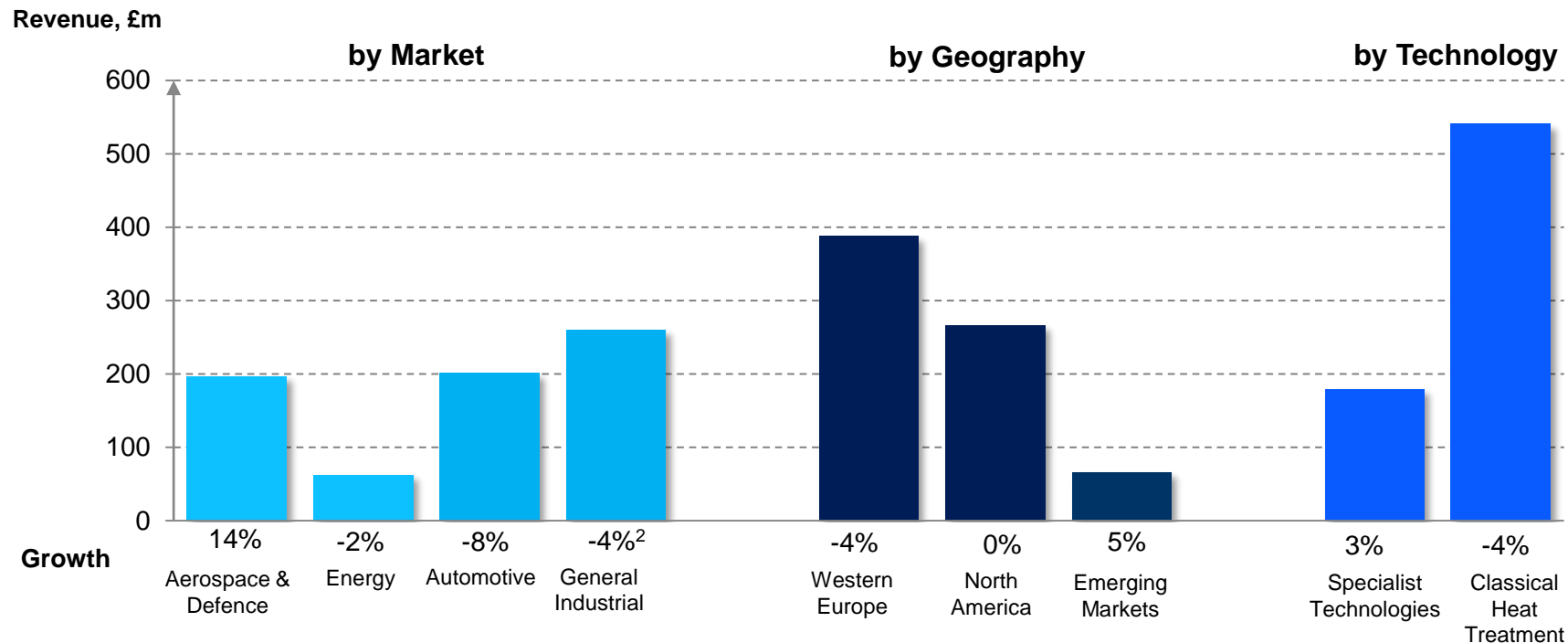


Classical Heat Treatment is the controlled heating and cooling process of metals in order to obtain the desired mechanical, chemical and metallurgical properties during the manufacturing of a product.

It provides wear resistance, strength or toughness depending on the application. Surface hardness can be controlled by diffusing elements such as carbon and nitrogen into the metal during the heating stages of the process. Classical Heat Treatment is an indispensable set of processes within the manufacturing chain of most of the products used in life. A seat belt buckle for example, hardens after heat treatment so that it keeps the passenger safe during an accident. A screwdriver lasts longer without wear or a screw fastens components together without fail only after heat treatment.

Classical Heat Treatment is carried out in precisely controlled industrial furnaces which can heat up to temperatures above 1000°C and use quenchants like oil, water or Nitrogen gas to cool the heated material. During the process the microstructure of the metal transforms into a different structure which results in hardening or softening of the material depending on the process. Engineers can design thinner, lighter but stronger components with the help of Classical Heat Treatment.

# 2019 Revenue and growth analysis<sup>1</sup>



<sup>1</sup> At constant currency  
<sup>2</sup> Like-for-like result



# 2019 Statutory income statement

£m	2019	2018 <sup>1</sup>
<b>Revenue</b>	<b>719.7</b>	<b>728.6</b>
<b>Headline operating profit</b>	<b>134.9</b>	<b>140.7</b>
Amortisation of acquired intangible fixed assets	(4.6)	(3.7)
Acquisition costs	(1.7)	(0.5)
<b>Operating profit</b>	<b>128.6</b>	<b>136.5</b>
Net finance costs	(4.7)	(4.3)
<b>Profit before tax</b>	<b>123.9</b>	<b>132.2</b>
<b>Headline earnings per share (pence)</b>	<b>52.1p</b>	<b>55.9p</b>

# 2019 Cash flow

£m	2019		2018	
	Post IFRS 16	Pre IFRS 16	Post IFRS 16	Pre IFRS 16
<b>Headline operating profit</b>	<b>134.9</b>	<b>132.6</b>	<b>140.7</b>	<b>138.3</b>
Add back: Depreciation and amortisation	79.6	65.1	76.4	62.0
Impairment of fixed assets	-	-	1.8	1.8
Income from associates	(0.2)	(0.2)	-	-
Loss on disposal of business	-	-	0.6	0.6
Profit on disposal of fixed assets	(4.4)	(4.4)	(1.7)	(1.8)
<b>Headline EBITDA</b>	<b>209.9</b>	<b>193.1</b>	<b>217.8</b>	<b>200.9</b>
Net maintenance capital expenditure	(50.2)	(39.1)	(48.7)	(29.8)
Net working capital movement	(4.2)	(4.2)	(3.7)	(3.7)
<b>Headline operating cash flow</b>	<b>155.5</b>	<b>149.8</b>	<b>165.4</b>	<b>167.4</b>
Restructuring	(3.2)	(3.2)	(2.8)	(2.8)
Financing costs	(4.5)	(2.1)	(4.3)	(1.9)
Tax	(24.7)	(24.7)	(24.5)	(24.5)
<b>Free cash flow</b>	<b>123.1</b>	<b>119.8</b>	<b>133.8</b>	<b>138.2</b>
Expansionary capital expenditure	(32.2)	(32.2)	(44.1)	(44.1)
Ordinary dividend	(36.8)	(36.8)	(34.3)	(34.3)
Acquisition spend	(29.0)	(22.9)	(8.8)	(8.8)
Special dividend	(38.1)	(38.1)	(47.5)	(47.5)
Own shares purchased less SBP	(4.9)	(4.9)	(6.7)	(6.6)
<b>Increase/(reduction) in net cash</b>	<b>(17.9)</b>	<b>(15.1)</b>	<b>(7.6)</b>	<b>(3.1)</b>
<b>Net cash / (Debt)</b>	<b>(58.5)</b>	<b>20.9</b>	<b>(44.1)</b>	<b>36.2</b>

- IFRS 16 treats outstanding lease obligations as a form of debt
- Bodycote has £79.4m of outstanding lease obligations at 31 December 2019

# Net finance charge/facilities

£m	2019	2018
Interest received on bank overdrafts and loans	0.2	0.2
Net interest expense	2.7	2.5
Financing and bank charges	1.9	1.8
Pension finance charge	0.3	0.2
<b>Total finance charge</b>	<b>4.9</b>	<b>4.5</b>
Net finance charge	<b>(4.7)</b>	<b>(4.3)</b>

- Committed facility headroom of £230m at 31 December 2019, undrawn
- The remaining life of the facility is 2.3 years
- Closing net cash of £20.9m

# Financial information

Shares in issue	2019	2018
Weighted average	189.9m	190.3m

Exchange rates		2019	2018
EUR	Average (P&L)	1.14	1.13
	Closing (B/S)	1.18	1.11
USD	Average (P&L)	1.28	1.33
	Closing (B/S)	1.32	1.27
SEK	Average (P&L)	12.1	11.61
	Closing (B/S)	12.39	11.29

## Analysis by currency, 2019

	<b>Sales</b>	<b>Operating profit</b>
EUR	37%	39%
USD	36%	41%
SEK	6%	6%

# ADE and AGI summary – 2019 H1 v H2

The ADE Business	H1	H2	Total ADE
Revenue	151.1	150.3	<b>301.4</b>
Headline operating profit	37.9	37.9	<b>75.8</b>
Margin	25.1%	25.2%	<b>25.1%</b>

The AGI Business	H1	H2	Total AGI
Revenue	215.4	202.9	<b>418.3</b>
Headline operating profit	35.4	30.5	<b>65.9</b>
Margin	16.4%	15.0%	<b>15.8%</b>

Term	Definition
Headline Operating Profit	Operating profit before acquisition costs and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, acquisition costs and amortisation of acquired intangibles
Headline EBITDA	Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets, profit or loss on disposal of property, plant and equipment, restructuring and acquisition costs
Headline Operating Cash Flow	Headline EBITDA adjusted for net working capital movements and net maintenance capital expenditure
Free Cash Flow	Headline operating cash flow less restructuring costs, finance costs and taxes
Headline EPS	Earnings per share excluding acquisition costs and amortisation of acquired intangible assets