

# 2009 Preliminary Results

25 February 2010

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

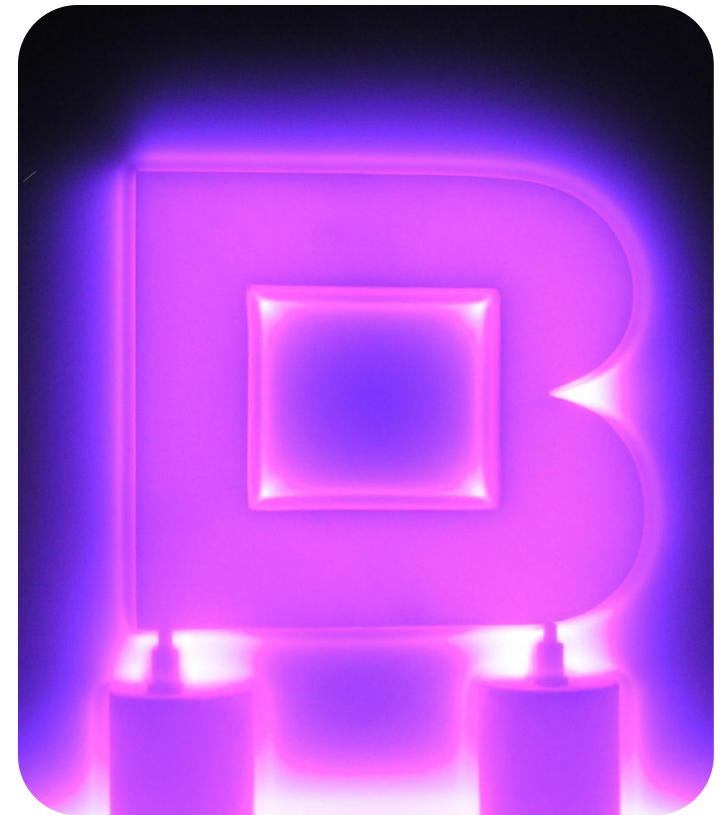
**Bodycote**

- Overview: Stephen Harris
- Financial Review: David Landless
- Business Review: Stephen Harris

- Focusing on our future

**Stephen Harris**

*Chief Executive*



**Plasma Nitriding**

Minimal distortion with enhanced hardness, wear resistance and strength

## Markets

- All major customer sectors impacted by global recession
- Capital goods manufacturers most severely affected
- Severe destocking – worse where supply chain is long

## Bodycote business characteristics

- Few costs are volume dependent
- Volume changes have a significant impact on profits

## Actions taken

- Restructuring – addresses structural costs/demand imbalances
- Cost base reduction – incremental to restructuring
- Improved capex and working capital controls
- Realignment of divisions into Aerospace, Defence & Energy and Automotive & General Industrial

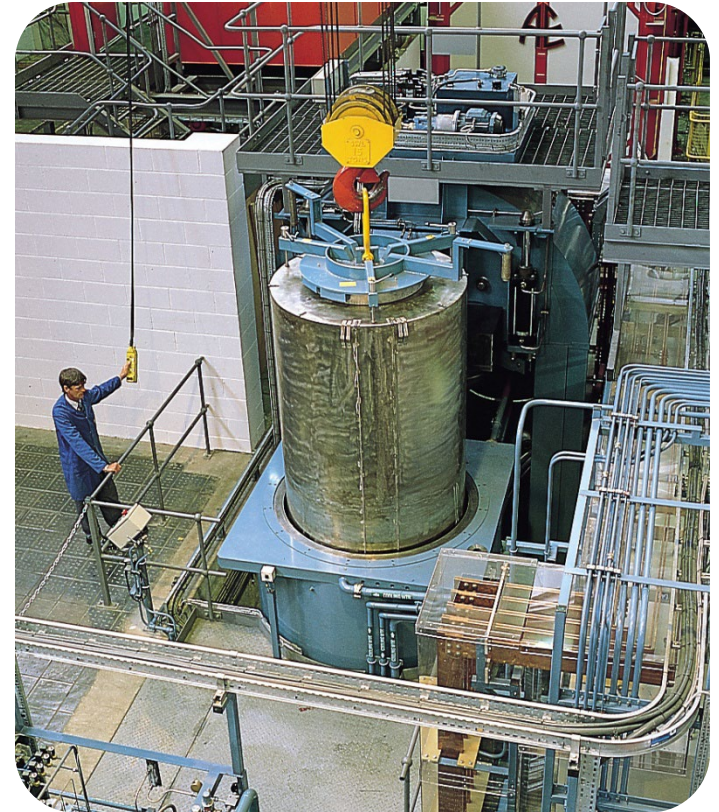
## Status

- Overall sales starting to trend up
- Major restructuring initiatives nearing completion
- Core debt facility refinanced
- Final dividend maintained at 5.35p (2009 total unchanged at 8.30p)



**David Landless**

*Finance Director*



**Hot Isostatic Pressing**

Casting densification and complex near-net-shapes

# 2009 Results Summary

## Continuing Operations



<b>£m</b>	<b>2009</b>	<b>2008</b>
Revenue	435.4	551.8
Headline EBITDA <sup>1</sup>	57.4	122.8
Margin %	13.2%	22.3%
Headline Operating Profit <sup>2</sup>	8.0	71.2
Margin %	1.8%	12.9%
Headline Profit before Taxation <sup>2</sup>	3.7	67.6
Operating Cash Flow	15.5	61.0
Net Debt	85.5	64.7
Basic Headline Earnings <sup>2</sup> Per Share (Pence)	0.4	17.5
Dividend Per Share (Pence)	8.3	8.3

1. Earnings before exceptionals, interest, tax, depreciation, amortisation, impairment and share based payments

2. Pre exceptional items



# Segmental Revenue



## Continuing Operations

Aerospace, Defence & Energy (ADE) Actual FX £m	2009	2008	Change	
			Actual FX	Constant FX
Western Europe	91.3	110.7	-18%	-22%
North America	97.4	109.0	-11%	-26%
Emerging Markets	0.8	0.4	100%	44%
<b>ADE Total</b>	<b>189.5</b>	<b>220.1</b>	<b>-14%</b>	<b>-24%</b>

Automotive & General Industrial (AGI) Actual FX £m	2009	2008	Change	
			Actual FX	Constant FX
Western Europe	176.2	243.6	-28%	-35%
North America	30.7	33.6	-9%	-23%
Emerging Markets	39.0	54.5	-28%	-31%
<b>AGI Total</b>	<b>245.9</b>	<b>331.7</b>	<b>-26%</b>	<b>-33%</b>

<b>Group Total</b>	<b>435.4</b>	<b>551.8</b>	<b>-21%</b>	<b>-29%</b>
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- UK represents 12% of 2009 revenues (2008: 12%)

# Segmental Headline Operating Profit







## Continuing Operations

<b>Aerospace, Defence &amp; Energy (ADE) Actual FX £m</b>	<b>2009</b>	<b>2008</b>
Western Europe	11.7	26.1
North America	13.3	19.9
Emerging Markets	(0.3)	(0.5)
<b>ADE Total</b>	<b>24.7</b>	<b>45.5</b>

<b>Op Gearing Constant FX</b>
 62%
 31%
 147%
 45%

<b>Automotive &amp; General Industrial (AGI) Actual FX £m</b>	<b>2009</b>	<b>2008</b>
Western Europe	(10.1)	27.5
North America	0.6	0.7
Emerging Markets	(3.8)	1.6
<b>AGI Total</b>	<b>(13.3)</b>	<b>29.8</b>

<b>Op Gearing Constant FX</b>
 43%
 4%
 29%
 38%

Head Office	(3.4)	(4.1)
<b>Group Total</b>	<b>8.0</b>	<b>71.2</b>

 40%
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Pre exceptional items

£m	P&L Exceptional Charges			Cash
Period	Total	Asset writedowns	Cash costs	Spend by period
2008	77.6	42.7	34.9	2.1
2009	25.4	12.6	12.8	19.2
2010				17.7
After 2010				8.7
<b>Total</b>	<b>103.0</b>	<b>55.3</b>	<b>47.7</b>	<b>47.7</b>

£m	Annual savings compared to pre-restructuring base			
Period	Total	Western Europe	North America	Emerging Markets
2009	30.4	16.1	11.1	3.2
2010	43.0	25.1	13.9	4.0

# Cost Reduction

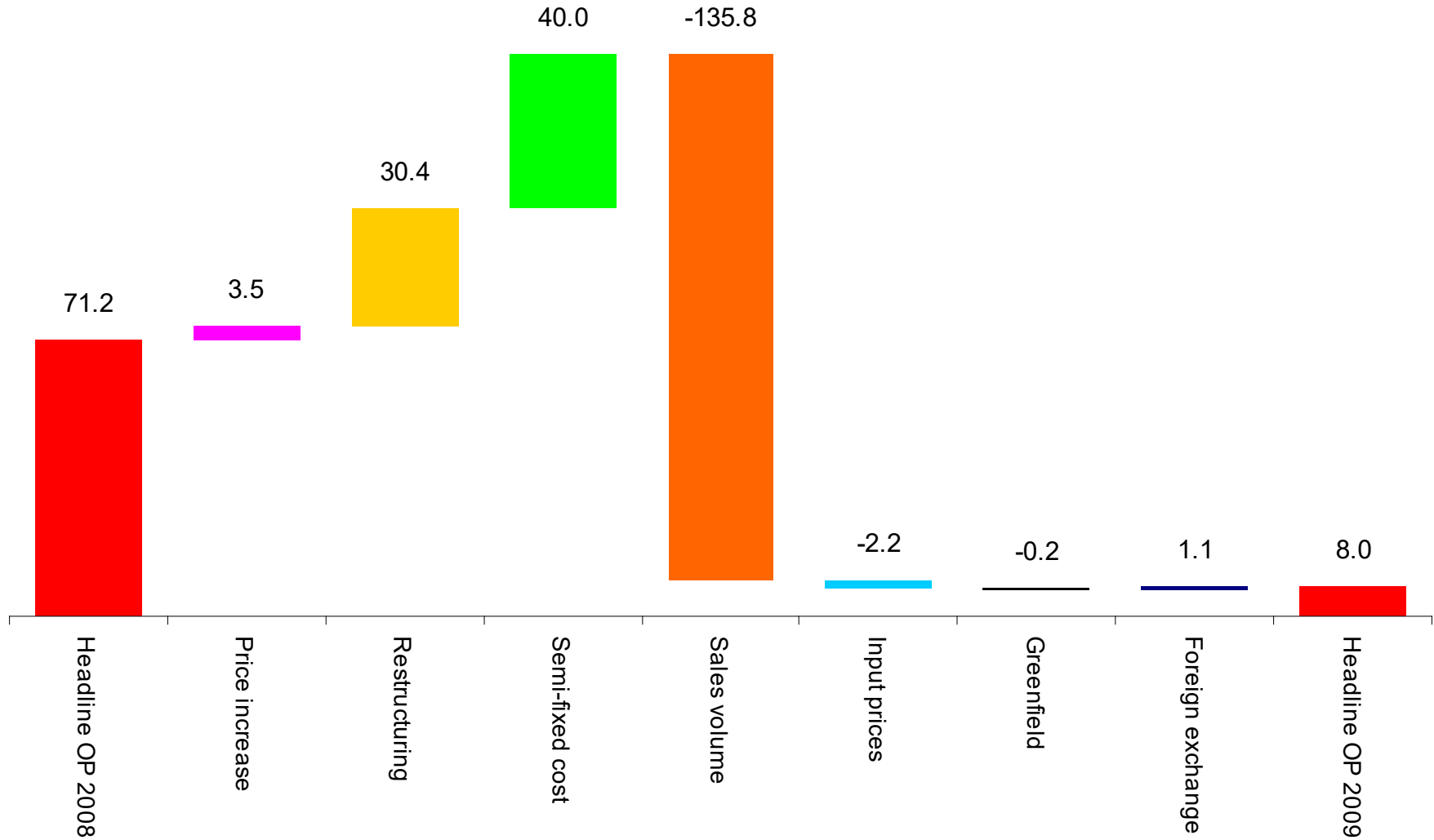


£m	2008	Change at constant exchange rates	Exchange rate impact	2009
Revenue	551.8	(161.9)	45.5	435.4
Variable Cost	114.5	(27.2)	10.1	97.4
Semi-fixed	180.3	(40.0)	16.9	157.2
Structural Cost	185.8	(30.4)	17.4	172.8
<b>Total Cost</b>	<b>480.6</b>	<b>(97.6)</b>	<b>44.4</b>	<b>427.4</b>
<b>Headline Operating Profit<sup>1</sup></b>	<b>71.2</b>	<b>(64.3)</b>	<b>1.1</b>	<b>8.0</b>

- Variable costs reduced by lower utilities and consumable usage
- Semi-fixed costs benefit from lower maintenance & repair and people cost savings (non-restructuring)
- Structural costs reduction achieved by restructuring initiatives
- Exchange rate movements arise on translation of non-sterling results

# Profit Bridge

Continuing Operations £m





# Operating Cash Flow



£m	2009 Headline	2009 Exceptional	2009 Total	2008 Total
EBITDA <sup>1</sup>	57.4	(12.8)	44.6	118.3
Working capital movement	9.0	-	9.0	(13.0)
Provision movement	0.5	(6.4)	(5.9)	30.6
Net capital expenditure	(32.2)	-	(32.2)	(74.9)
<b>Operating cash flow</b>	<b>34.7</b>	<b>(19.2)</b>	<b>15.5</b>	<b>61.0</b>
Interest	(4.4)	-	(4.4)	(8.0)
Taxation	(2.0)	(22.4)	(24.4)	(20.5)
Lump sum contribution to pension plan	(1.5)	-	(1.5)	(21.0)
<b>Free Cash Flow</b>	<b>26.8</b>	<b>(41.6)</b>	<b>(14.8)</b>	<b>11.5</b>

1. Earnings before interest, tax, depreciation, amortisation, impairment and share based payments

£m	Net Debt	Including:	
		Debt	Cash
Opening balance	(64.7)	(323.1)	258.4
<b>Movement in Net Debt due to:</b>			
Free Cash Flow	(14.8)		
Dividends Paid	(20.1)		
Currency Movement	18.0		
Other	(3.9)		
<b>Closing balance</b>	<b>(85.5)</b>	<b>(105.1)</b>	<b>19.6</b>

### Debt facilities update:

- New £110m and \$20m bank facilities maturing Mar 2013 (arranged early 2010)
- Covenants remain unchanged
- Existing €125m bank facility matures Jul 2013 (arranged Jul 2006)
- Surplus cash used to repay debt

# Finance Charge

£m	2009	2008
Net interest payable	1.9	1.2
Pension Finance Charge	1.3	0.8
Other finance expense	1.1	1.6
<b>Net Finance Costs</b>	<b>4.3</b>	<b>3.6</b>

- Existing €125m bank facility meets working and fixed capital needs
- New £110m bank facility has significantly higher interest cost but will be largely undrawn
- Fees for the £110m bank facility will increase finance charge in 2010

£m	2009	Tax	Tax Rate
Loss before tax	(54.5)	(3.4)	6.2%
Exceptional items	58.2	7.4	12.7%
<b>Headline Profit before tax<sup>1</sup></b>	<b>3.7</b>	<b>4.0</b>	<b>108.1%</b>
Impact of tax losses not recognised	-	(5.6)	
Impact of tax rate differences and profit / loss mix	-	2.6	
<b>Underlying tax rate on trading activities</b>	<b>3.7</b>	<b>1.0</b>	<b>c. 27%</b>

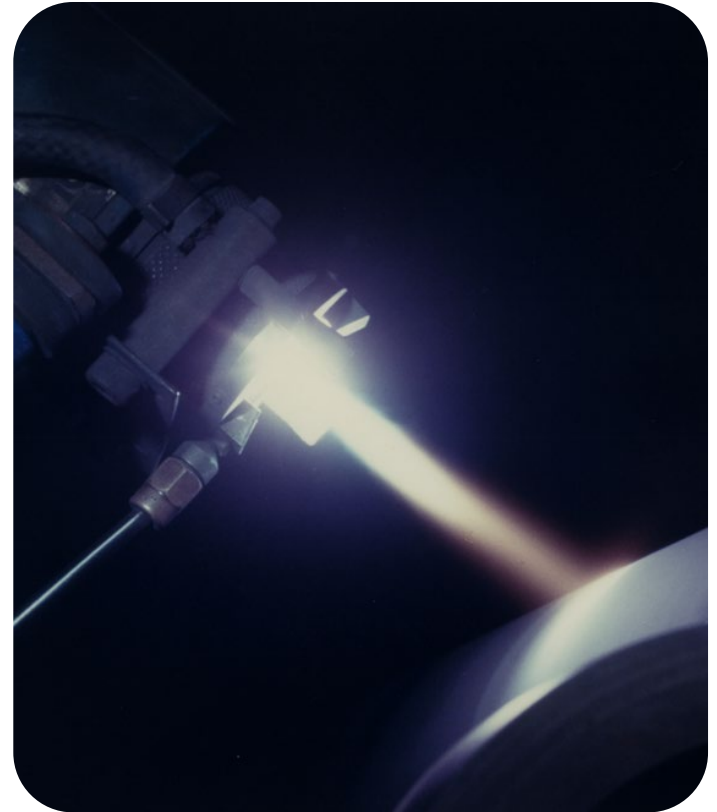
1. Pre exceptional items

- Trading conditions were very challenging
- Restructuring executed quickly
- Cash flow tightly managed
- Net debt low
- Liquidity secured
- Dividend maintained



## Stephen Harris

*Chief Executive*

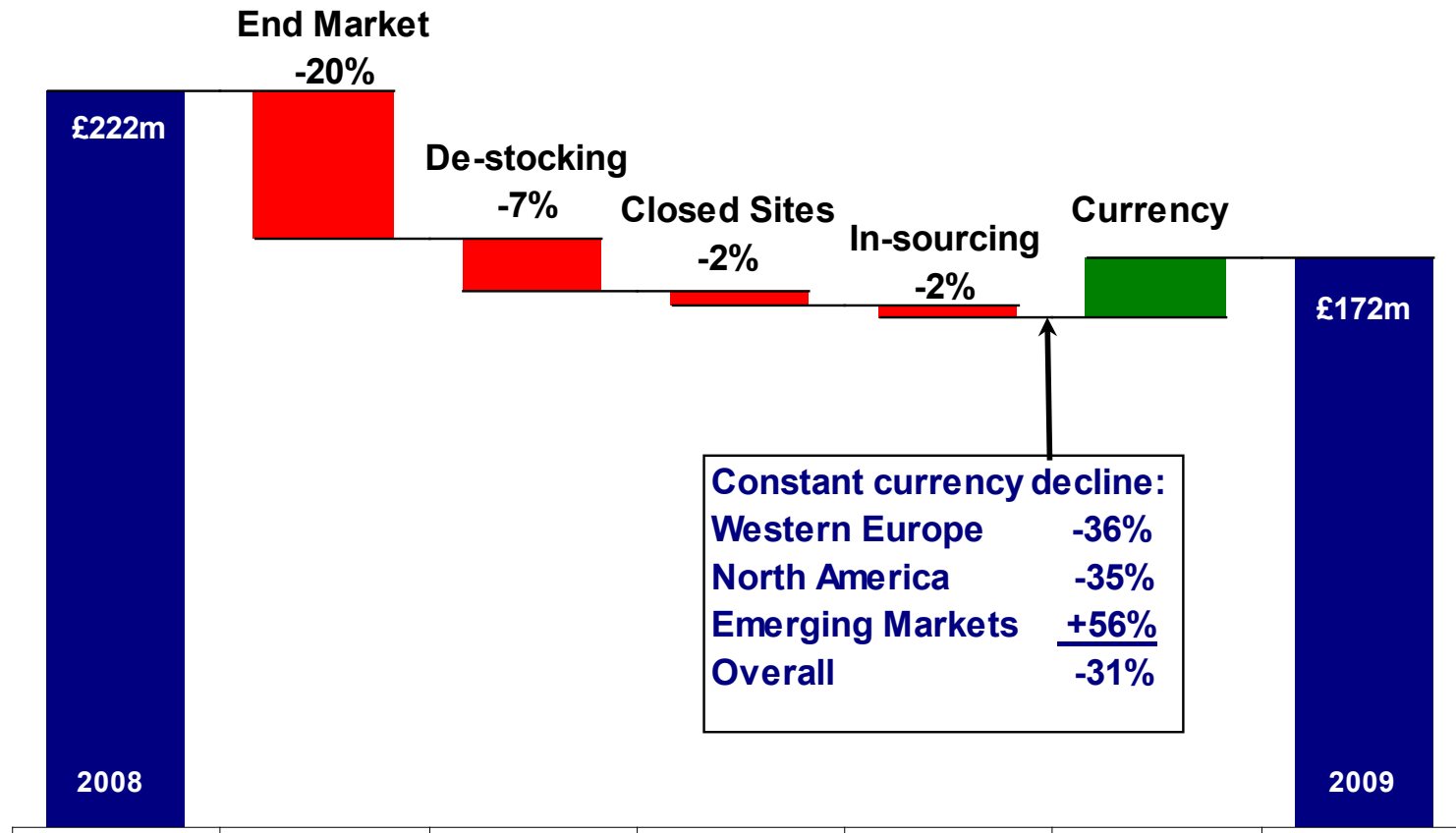


### **Thermal Spray**

High performance coatings for corrosion and wear resistance

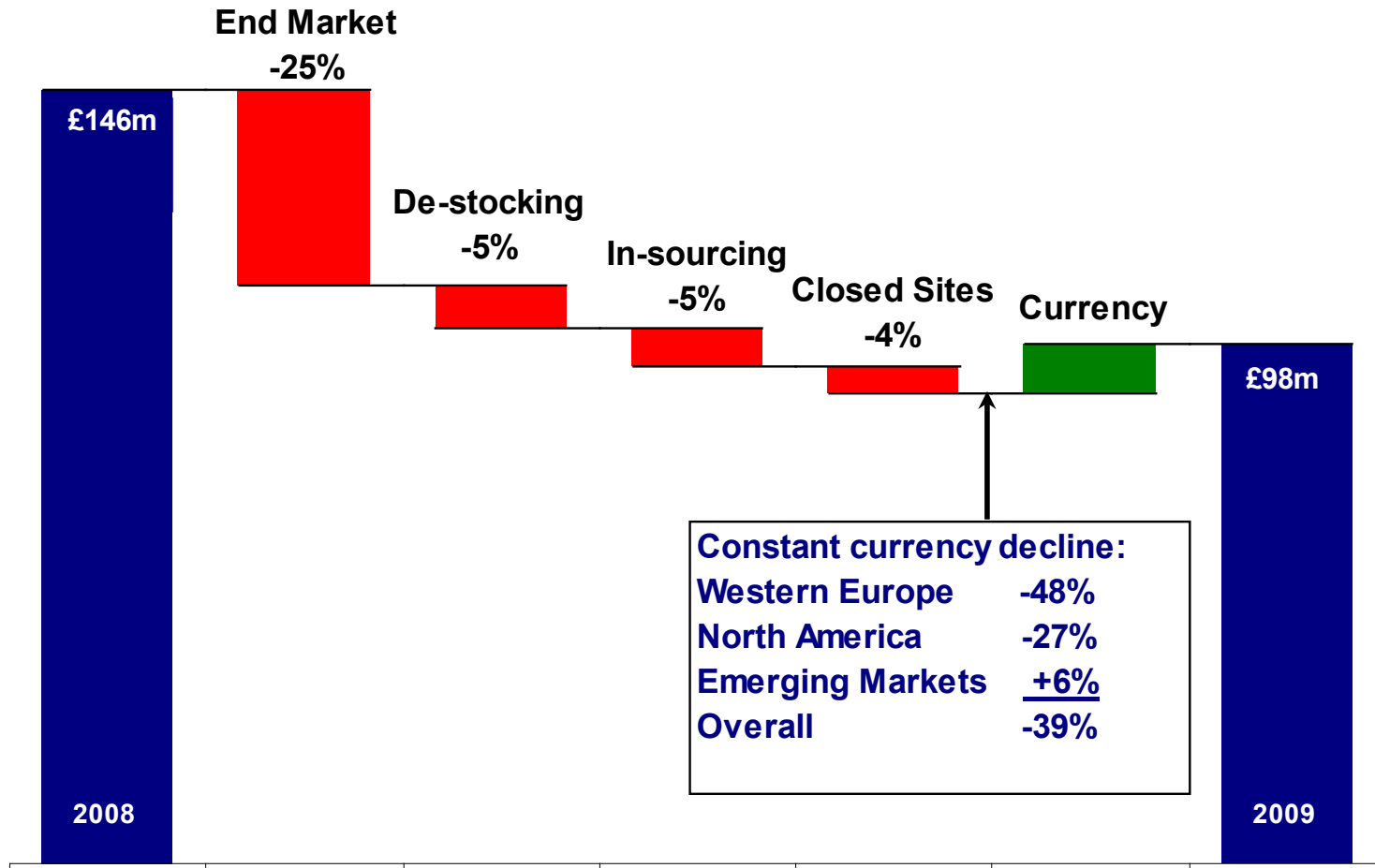
- **Demand trends**
- Cost trends
- Looking forward

# Demand - General Industrial Sector



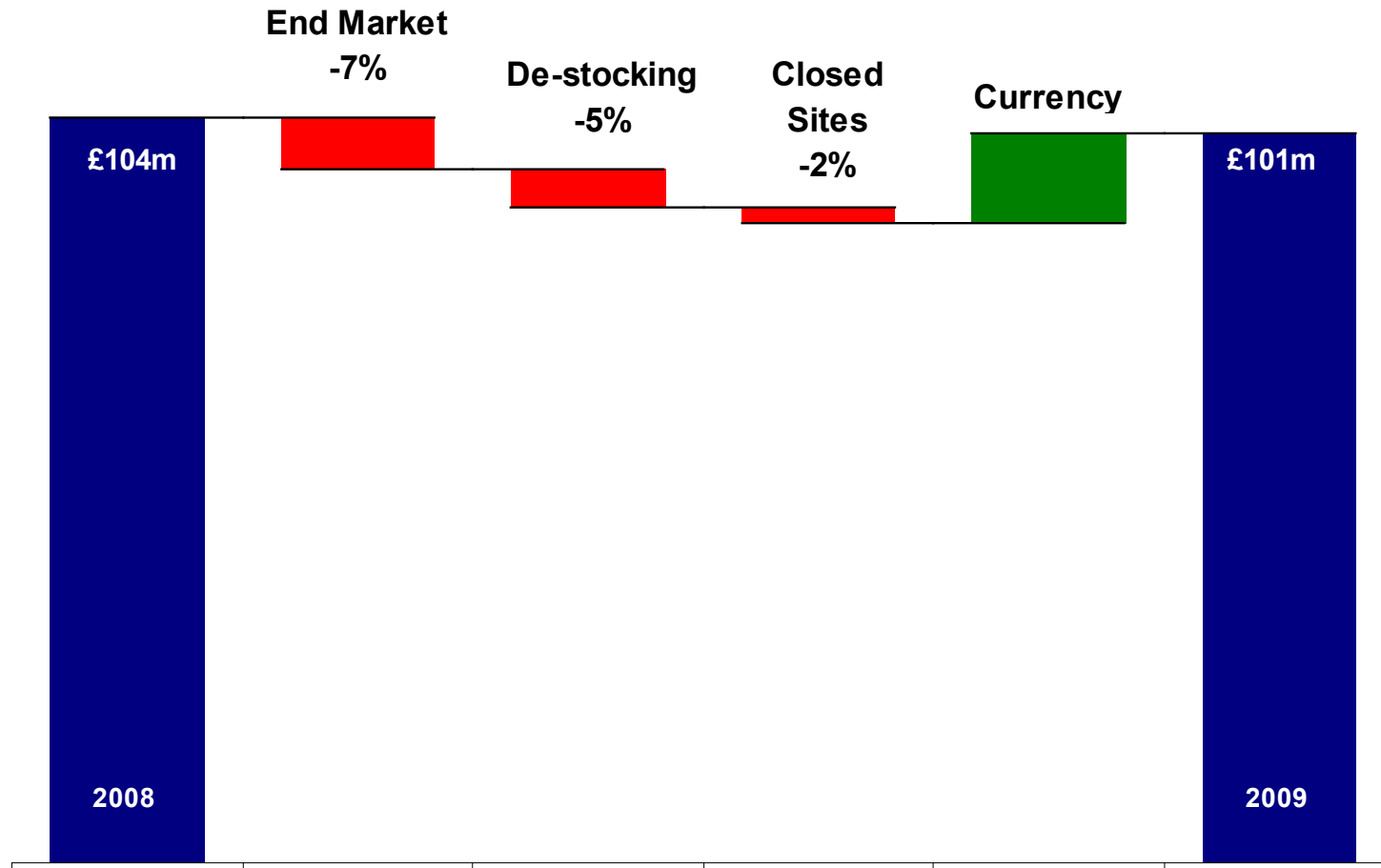
- Variable by sector
- Multiple layers of destocking depending upon length of supply chain

# Demand - Automotive & Truck Sector



- Bodycote market in Europe biased towards premium cars & diesel in particular
- Truck more heavily impacted

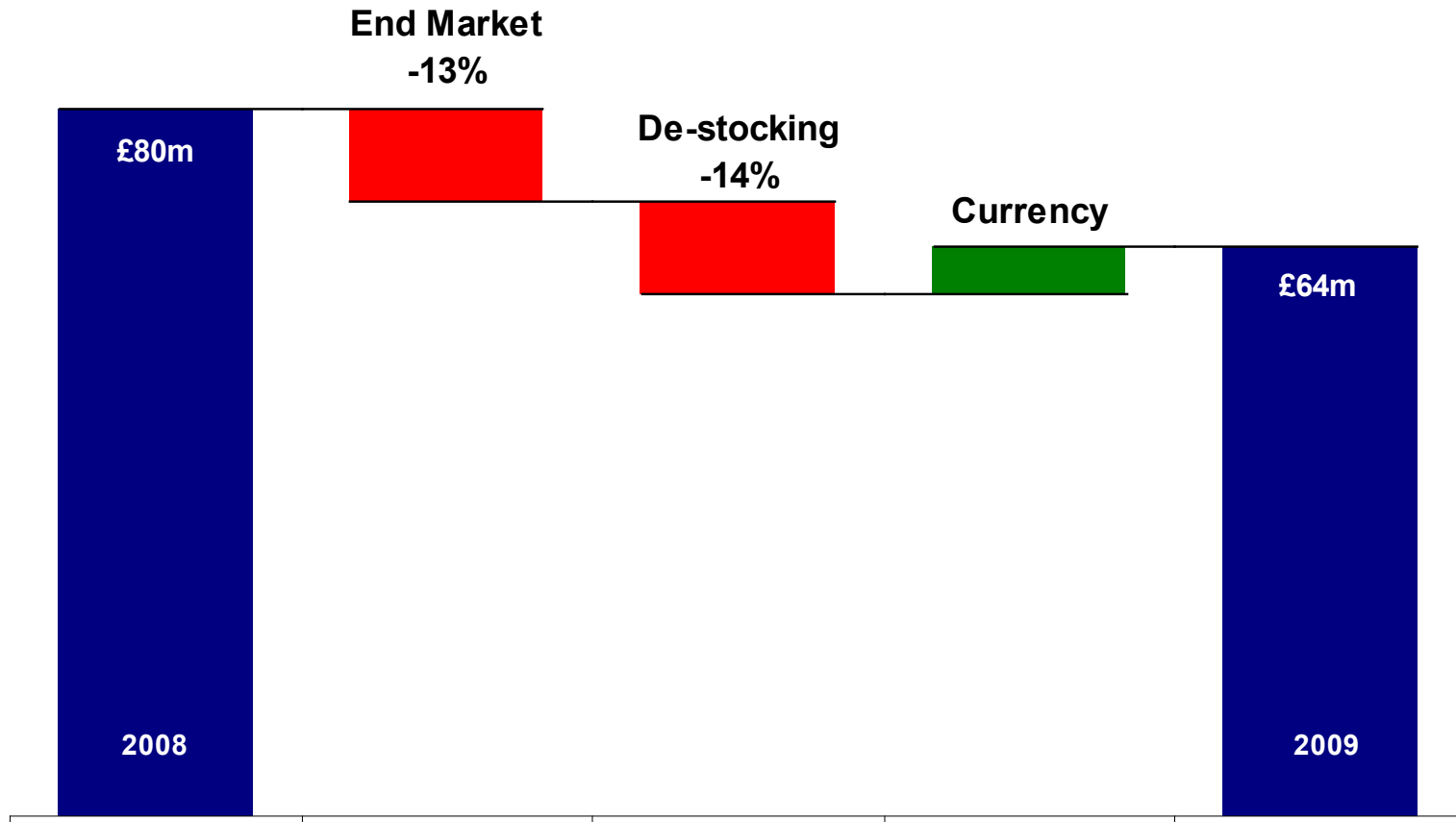
# Demand - Aerospace & Defence Sector



- Long cycle. Build rate of most platforms sustained
- Aftermarket weaker than new build



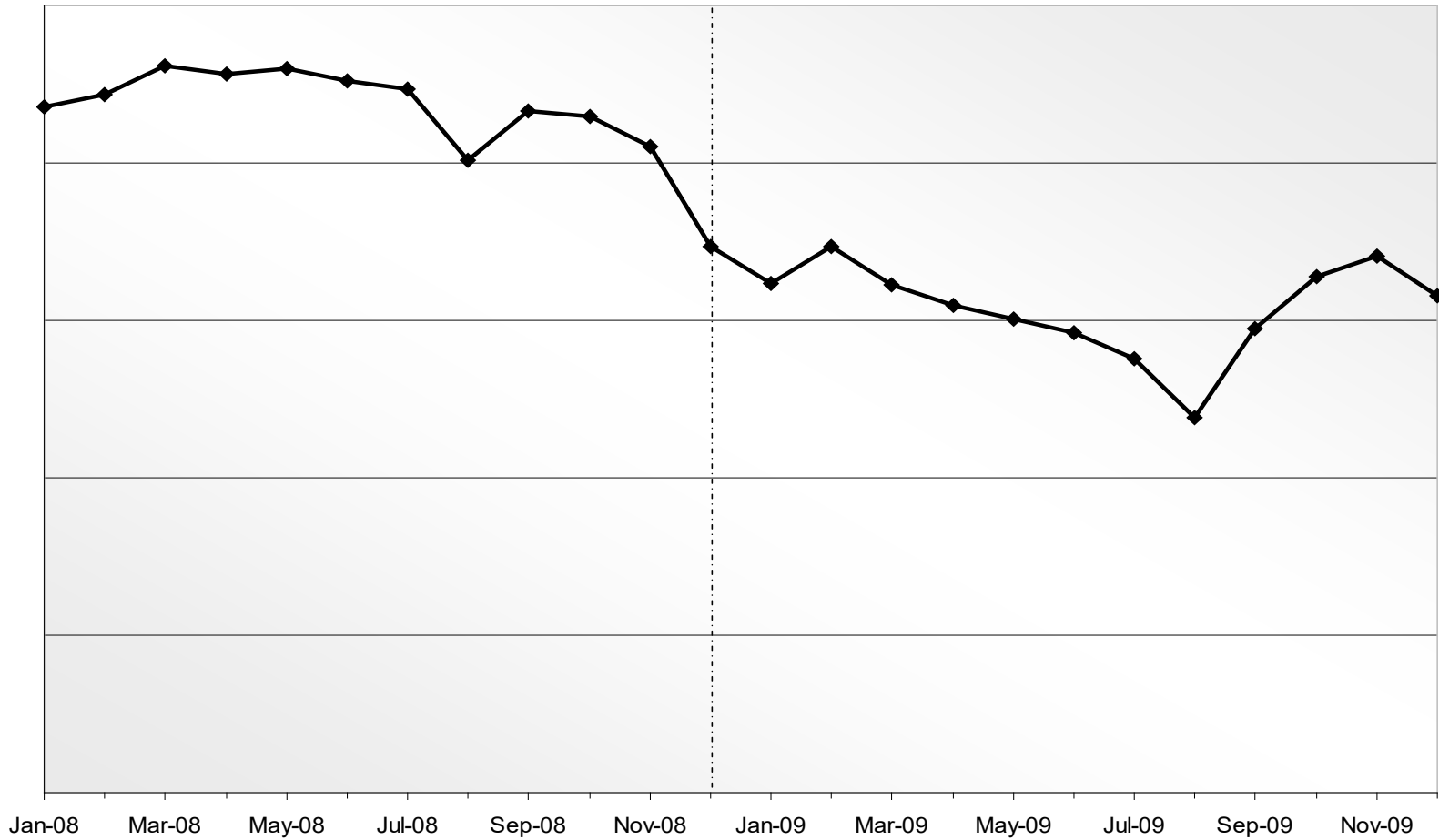
# Demand – Energy Sector



- Power Generation is long cycle, strong underlying demand, but customers face financing difficulties
- Oil & Gas exploration heavily dependent on oil and gas market price

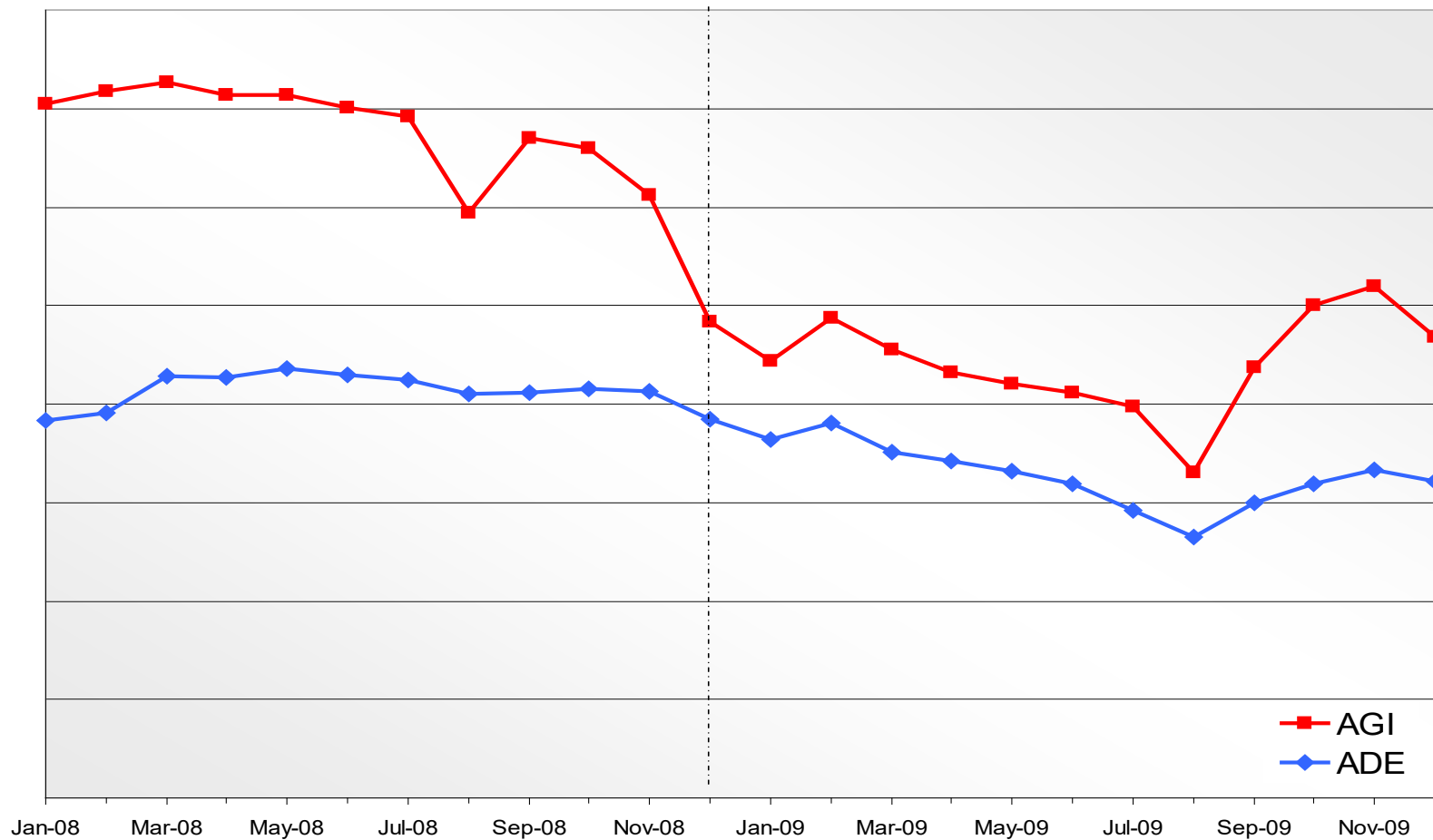
# Daily Sales Trend – Group

## Constant Exchange Rates



# Daily Sales Trend – By Division

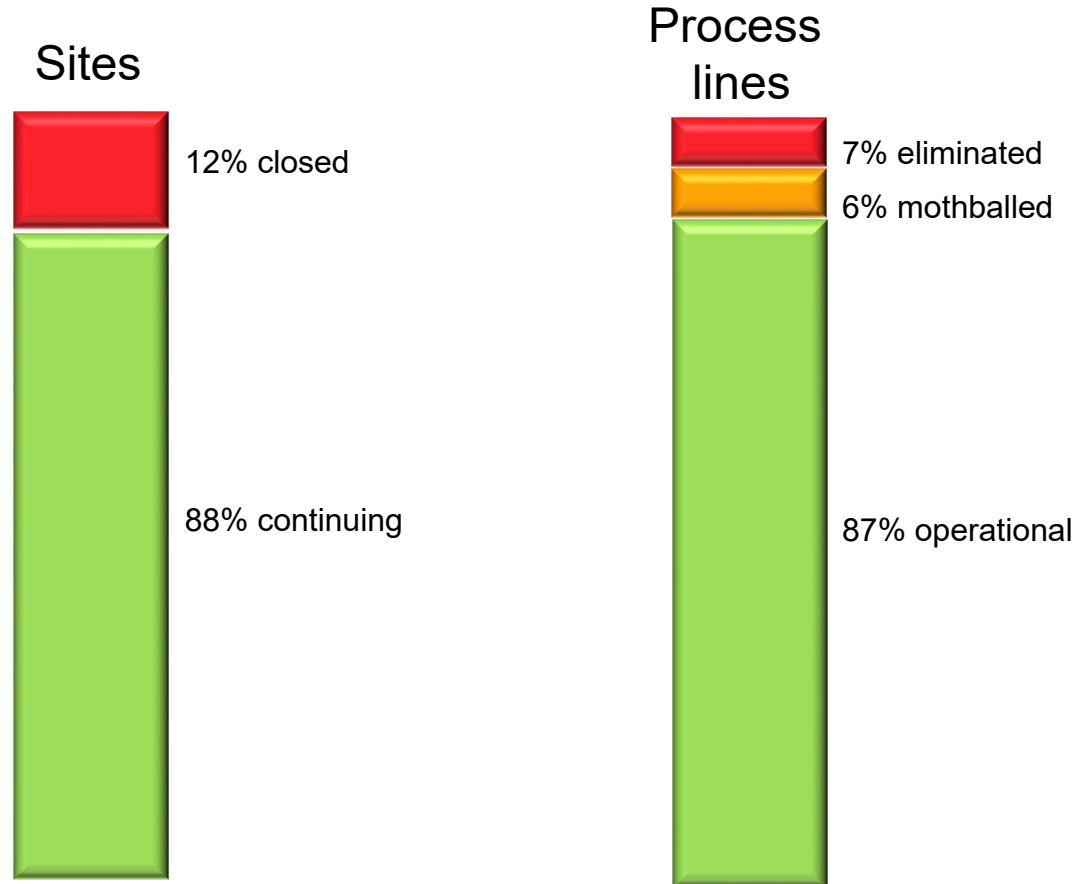
Constant Exchange Rates



- Demand trends
- **Cost trends**
- Looking forward

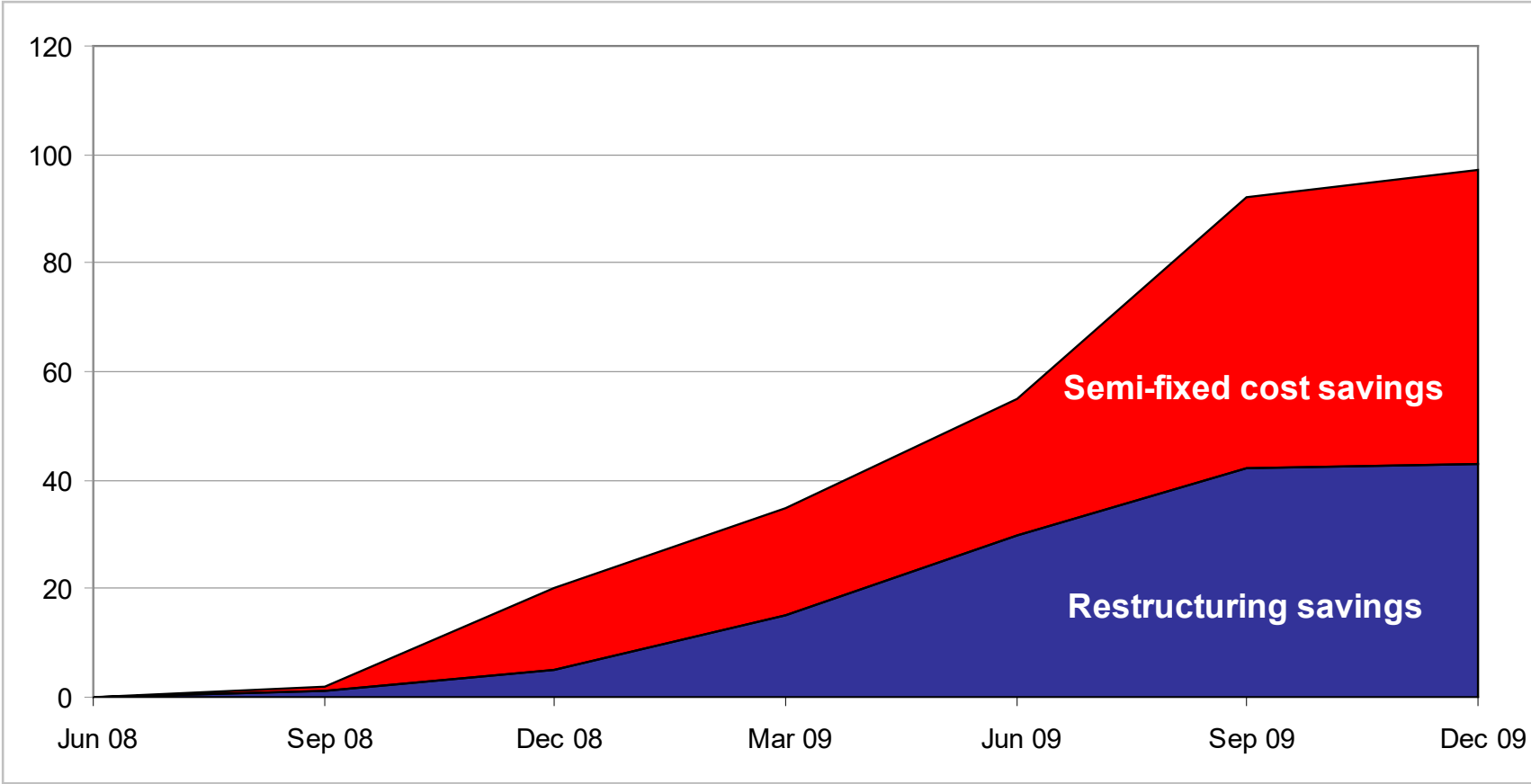
# Restructuring Update

## Site and Process Lines Closure



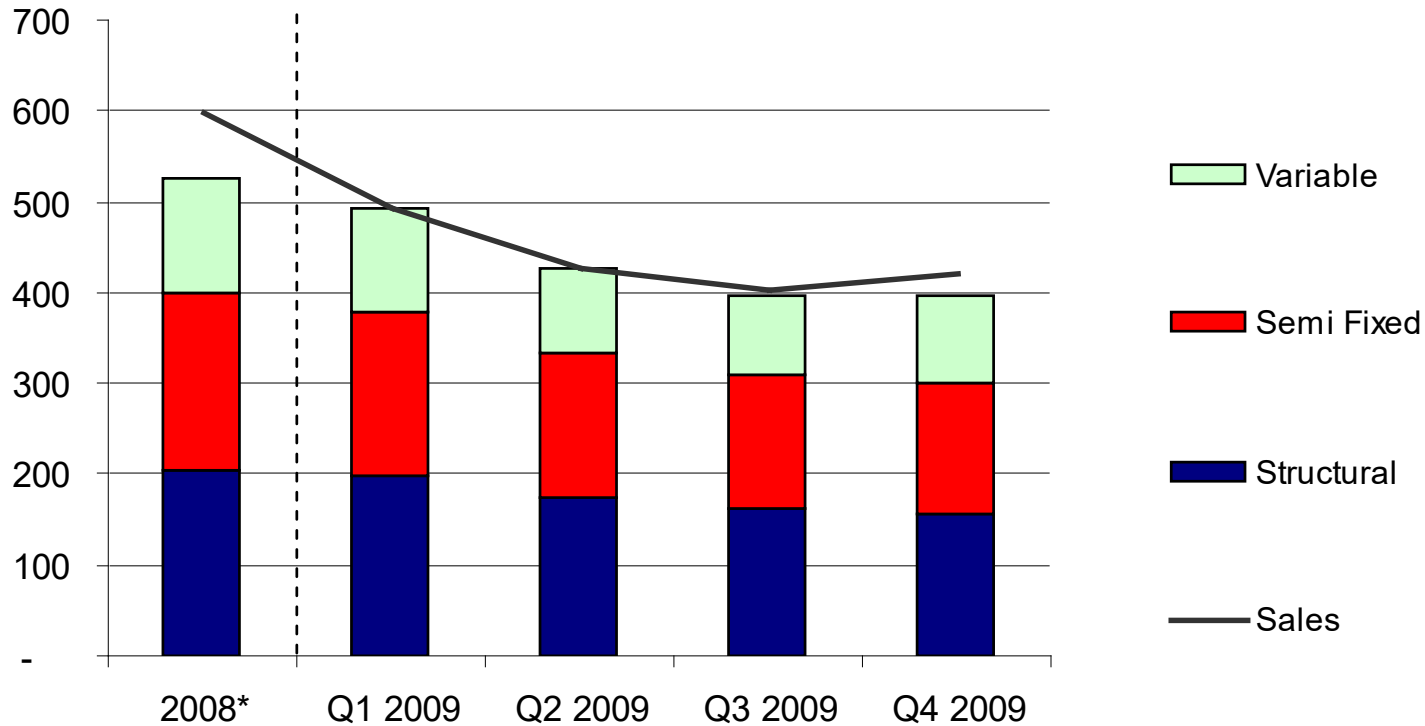
# Cost Savings

Annualised £m



# Costs by Type

Annualised £m



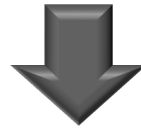
▪ Closed the year with much lower cost base

## Volumes

- Severe recession in capital goods market
- Volumes trended up by December, but still c.25% below pre-crisis levels
- Pace of recovery is uncertain

## Costs

- Costs managed down by restructuring and normal management action
- Cost base at close of 2009 is much lower



## Profitability

- Return to operating profit in H2 2009
- Volume recovery gains to come (but potentially uneven)



- Demand trends
- Cost trends
- **Looking forward**

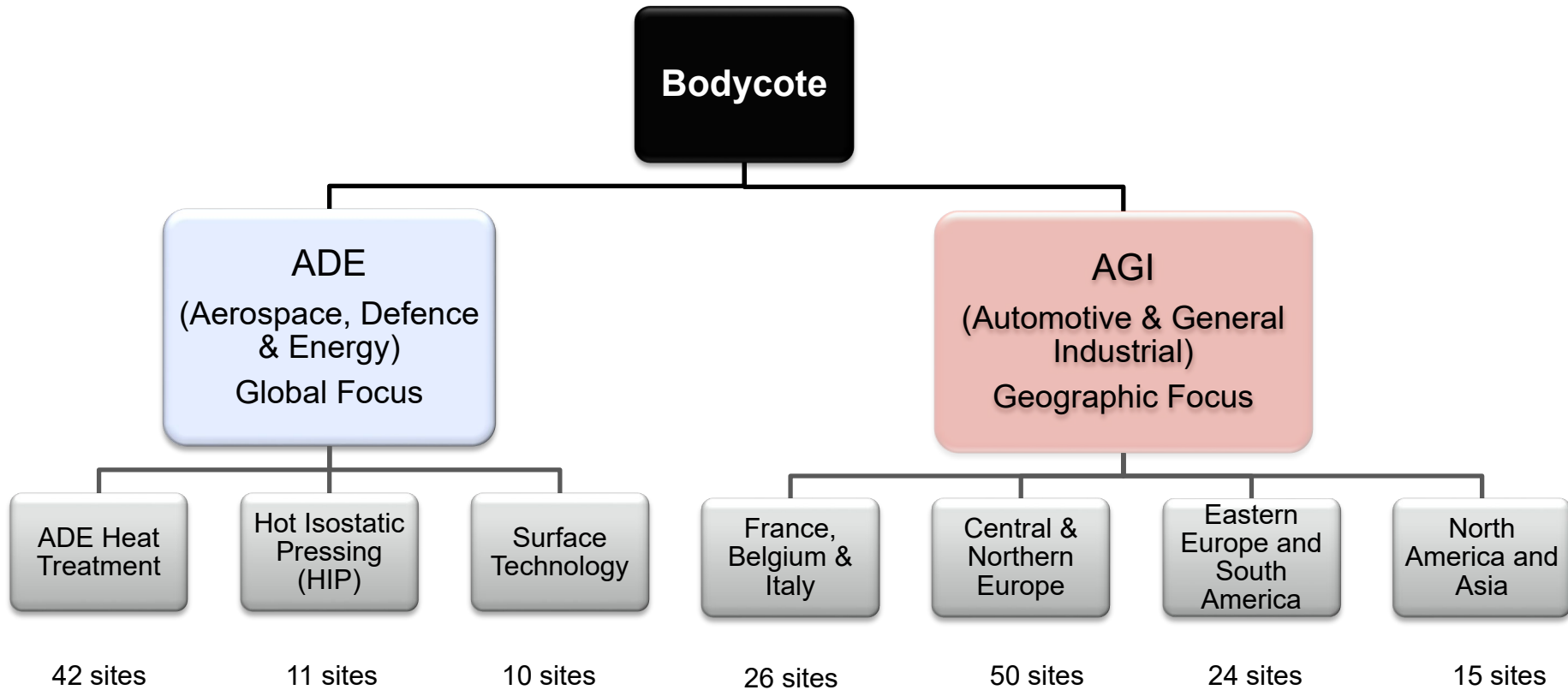
## Automotive & General Industrial

- Short supply chains – “parts don’t travel”
- Automotive is medium to high volumes, General Industrial can be low volumes
- Generally lower value parts
- Larger universe of customers, many compete largely on price
- Larger universe of competitors
- Absolute lead time and JIT critical
- Industry specific standards
- Early to mid cycle industries

## Aerospace, Defence & Energy

- Long supply chains – “parts travel”
- Low to medium volumes
- Higher value parts
- Smaller universe of customers
- Smaller universe of competitors
- Delivery reliability more important than absolute lead time
- Industry specific standards (Nadcap)
- Late cycle industries

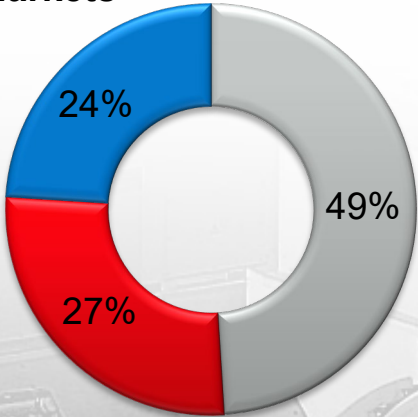
# New Management Structure



# Aerospace, Defence & Energy

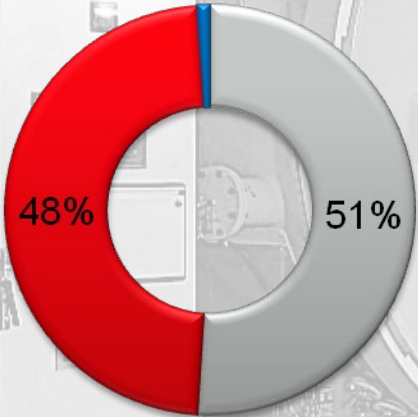


## 2009 Markets



■ Aerospace & Defence ■ Energy ■ General Industrial

## 2009 Turnover by Geography



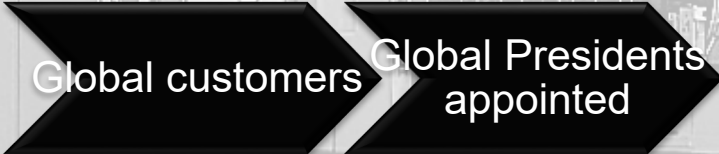
■ N. America ■ Western Europe ■ Emerging Markets

63 sites

£153m average capital employed\* 2008  
(\*excluding goodwill)

£220m 'pre crisis' revenue

21% margin on sales 2006 to 2008



£m	2009	2008	Change	Constant Currency
Sales	189.5	220.1	-14%	-24%
Operating Profit	24.7	45.5	-46%	-51%

## Performance

- Aerospace and IGT impacted by supply chain destocking
- Oil exploration sector suffering from fewer new exploration wells
- Late cycle nature of market implies no major pick up expected until later in 2010

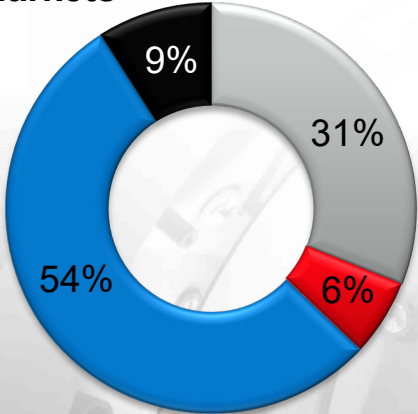
## Future Development

- Gaining additional business by meeting more of customers' global needs, building on current strong relationships
- Building expertise in high growth technologies

# Automotive & General Industrial



2009 Markets



■ Automotive ■ Truck ■ General Industrial ■ Energy

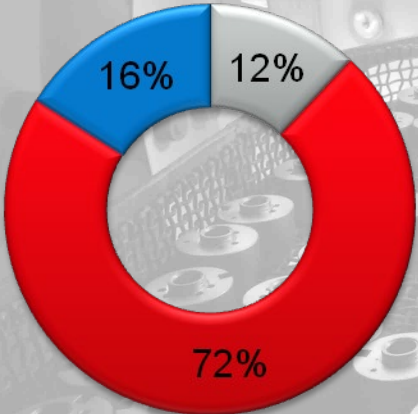
115 plants

£319m average capital employed\* 2008  
(\*excluding goodwill)

£330m 'pre crisis' revenue

11% margin on sales 2006 to 2008

2009 Turnover by Geography



■ N. America ■ Western Europe ■ Emerging Markets

Local and regional customers

Geographic management

£m	2009	2008	Change	Constant Currency
Revenue	245.9	331.7	-26%	-33%
Operating Profit	(13.3)	29.8	-145%	-141%

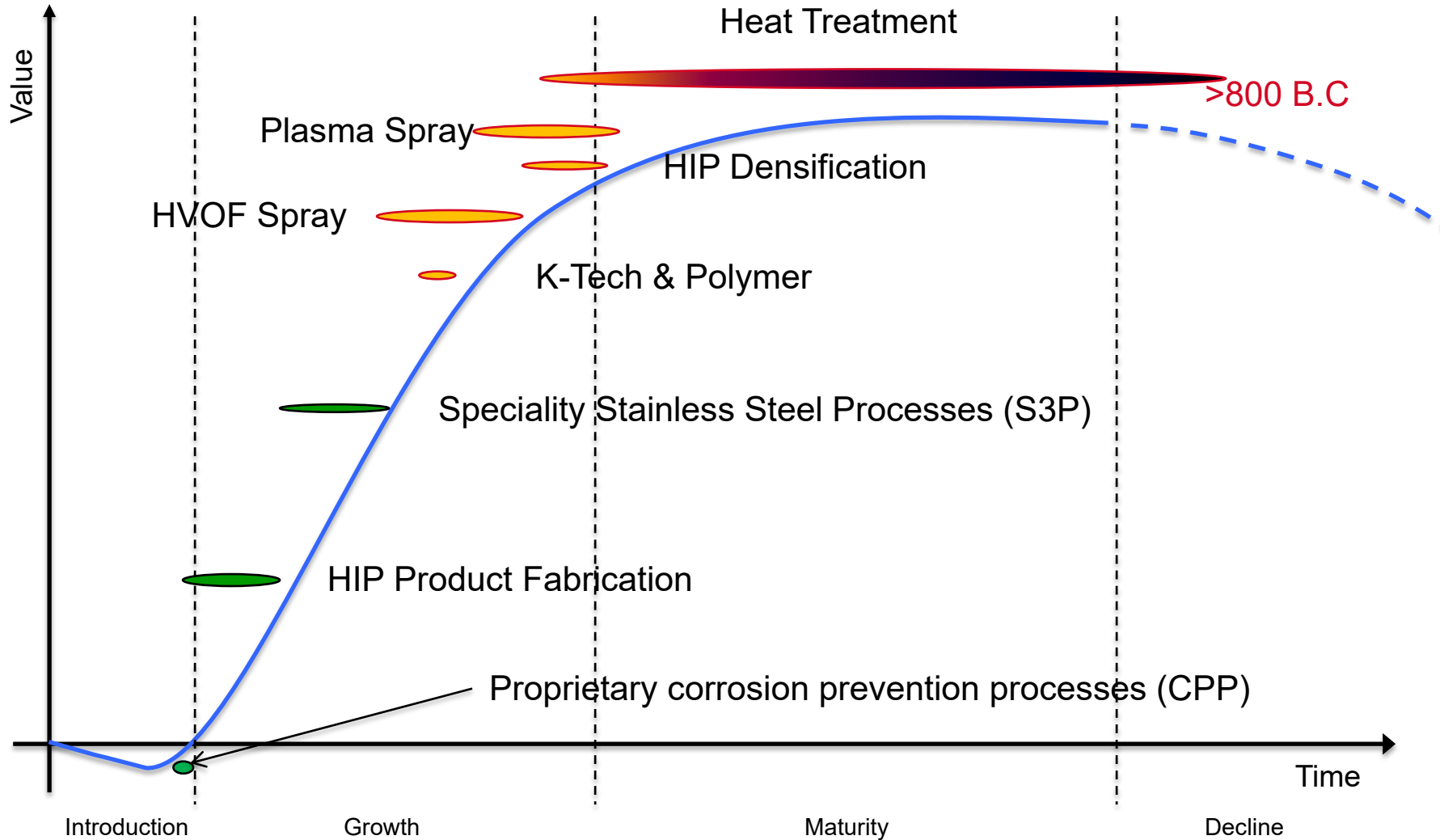
## Performance:

- Lower output and destocking in capital goods and automotive sectors
- Early cycle nature

## Future Development:

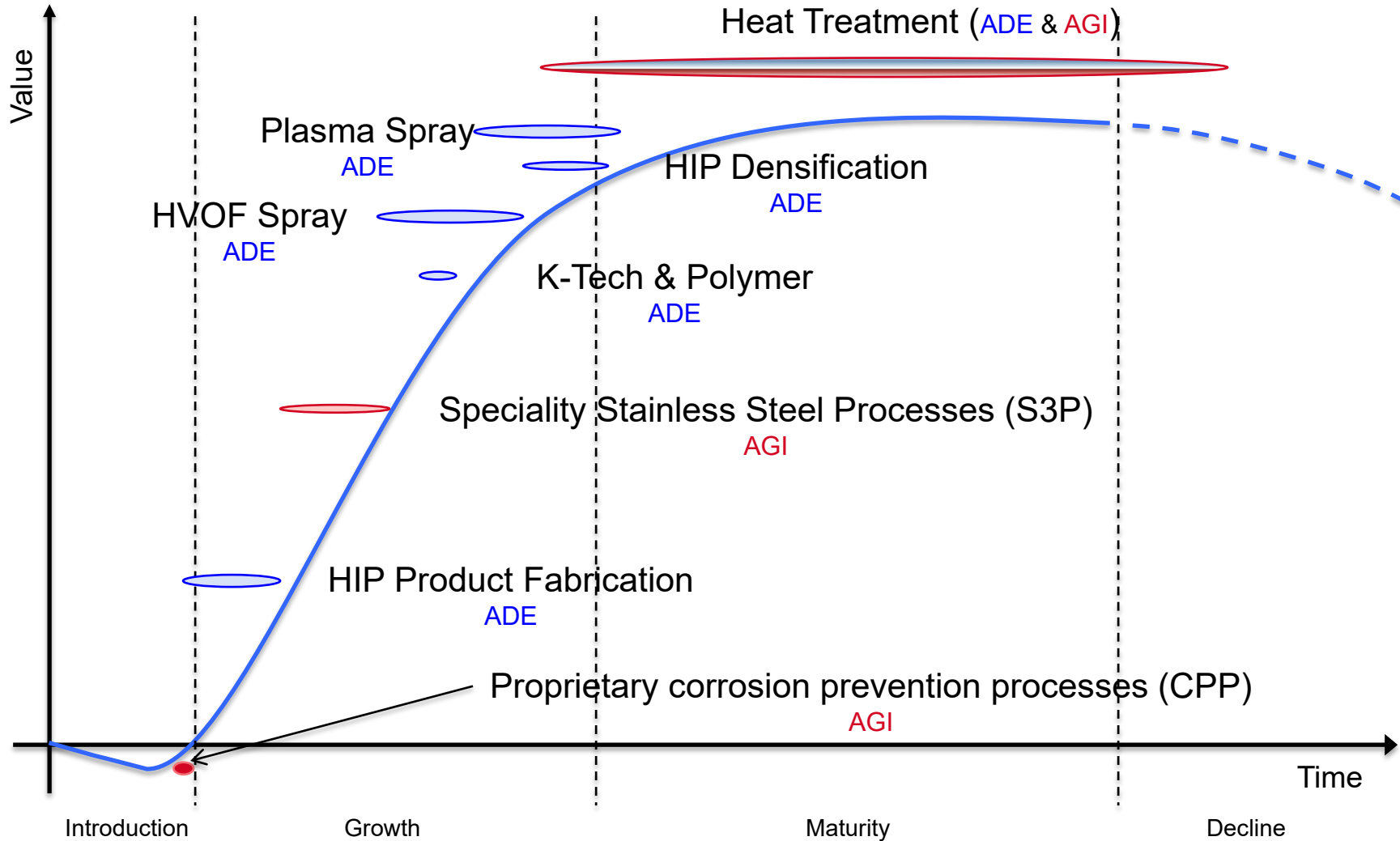
- Improving the value mix, more selective investment and concentrating on gaining benefit from differentiated technology

# Life Cycle Phases - Technologies





# Life Cycle Phases - Technologies

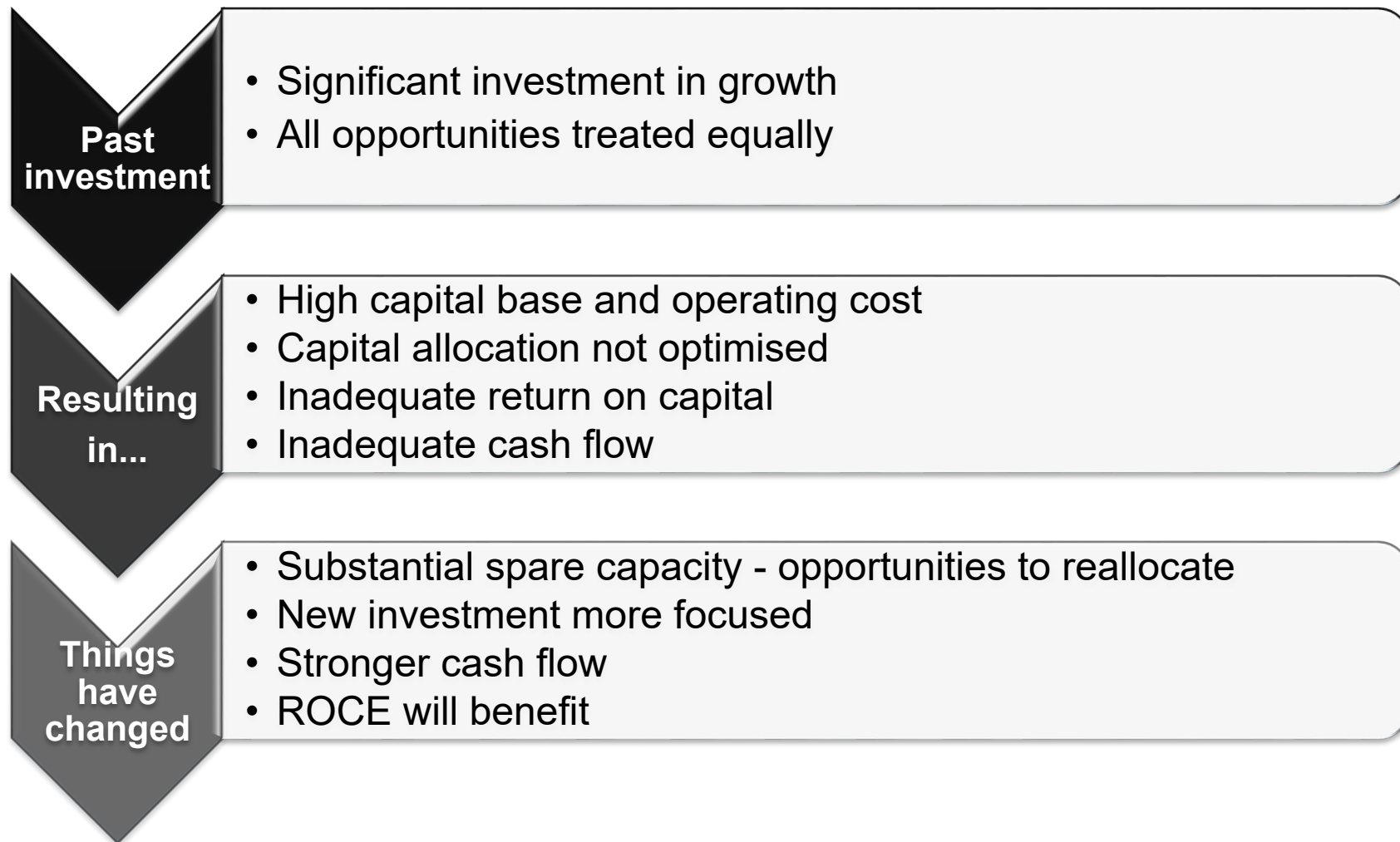


## Migration to Emerging Markets

- Eastern Europe
- Brazil
- China

## Driving proprietary technologies

- HIP Product Fabrication
- Specialty Stainless Steel Processes
- Corrosion Protection Processes



# Specific management initiatives



**Retain benefit of lower cost base following restructuring**

- Control expense 'build back'

**Very selective capex**

- Capex less than depreciation

**Enhance business processes**

- Plant operation
- Optimal pricing

**Enhance 'bench strength'**

- Across the organisation

**Migrate with our customers**

- Growth in Eastern Europe, South America and Asia

**Drive growth of chosen proprietary technologies**

- Longer-term growth

## Volumes

- Severe impact of recession in capital goods market
- Trended up in Q4 – ‘early cycle’ sectors showing signs of recovery

## Costs

- Costs managed down by restructuring initiatives and management action
- Continued focus on cost and capital expenditure control

## New divisional structure

- Recognising different ethos, needs and opportunities

## Strategic initiatives

- Maximise return on existing assets
- Enhance business processes
- Migrate with our customers
- Longer term growth from targeted proprietary technologies

Many of our automotive and general industrial markets have already started to recover but we do not expect the aerospace, defence and energy markets to strengthen until later in 2010. The pace of recovery remains uncertain and potentially uneven. We anticipate that full recovery in demand may take several years. This notwithstanding, we enter 2010 with a reshaped business and renewed vigour.

**Bodycote**

# 2009 Statutory Income Statement

## Continuing Operations



<b>£m</b>	<b>2009</b>	<b>2008</b>
<b>Revenue</b>	<b>435.4</b>	<b>551.8</b>
<b>Headline Operating Profit<sup>1</sup></b>	<b>8.0</b>	<b>71.2</b>
Amortisation of acquired intangible fixed assets	(1.3)	(1.3)
Impairment charge	(31.5)	(44.0)
Major facility closure costs	(25.4)	(77.6)
<b>Operating Loss</b>	<b>(50.2)</b>	<b>(51.7)</b>
Net finance costs	(4.3)	(3.6)
<b>Loss before taxation</b>	<b>(54.5)</b>	<b>(55.3)</b>
<b>Loss per share</b>	<b>Pence</b>	<b>Pence</b>
Basic	(27.0)	(12.5)

1. Pre exceptional items



- Average shares in issue 2009: 185.6m (2008: 310.9m)
- Exchange rates:

Currency	Description	2009	2008
Euro	Average (P&L)	1.12	1.26
	Closing (B/S)	1.13	1.03
US Dollar	Average (P&L)	1.56	1.87
	Closing (B/S)	1.61	1.44

- Net debt and interest related financial ratios:

Financial Ratios	2009
Net Debt : Headline EBITDA <sup>1</sup>	1.5x
Headline EBITDA <sup>1</sup> : Net Interest Payable	30.2x
Gearing (Net Debt to Total Equity)	20%

1. Earnings before exceptionals, interest, tax, depreciation, amortisation, impairment and share based payments

£m	2009	2008
UK Funded	3.7	0.7
Other Western Europe Funded	0.3	2.2
Other Western Europe Unfunded	10.0	10.9
<b>Western Europe Total</b>	<b>14.0</b>	<b>13.8</b>
North America Funded	0.6	1.2
Emerging Markets Unfunded	0.4	(0.1)
<b>Total retirement benefit obligations</b>	<b>15.0</b>	<b>14.9</b>

# Segmental Results - H1 and H2

## Continuing Operations



Aerospace, Defence & Energy (ADE) £m	Revenue		
	H1	H2	2009
Western Europe	49.5	41.8	91.3
North America	54.3	43.1	97.4
Emerging Markets	0.4	0.4	0.8
<b>ADE Total</b>	<b>104.2</b>	<b>85.3</b>	<b>189.5</b>

Headline Operating Profit		
H1	H2	2009
5.3	6.4	11.7
6.6	6.7	13.3
(0.2)	(0.1)	(0.3)
<b>11.7</b>	<b>13.0</b>	<b>24.7</b>

Automotive & General Industrial (AGI) £m	Revenue		
	H1	H2	2009
Western Europe	90.0	86.2	176.2
North America	15.7	15.0	30.7
Emerging Markets	18.0	21.0	39.0
<b>AGI Total</b>	<b>123.7</b>	<b>122.2</b>	<b>245.9</b>

Headline Operating Profit		
H1	H2	2009
(8.4)	(1.7)	(10.1)
(0.3)	0.9	0.6
(2.7)	(1.1)	(3.8)
<b>(11.4)</b>	<b>(1.9)</b>	<b>(13.3)</b>

<b>Head Office</b>	-	-	-
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<b>(2.0)</b>	<b>(1.4)</b>	<b>(3.4)</b>
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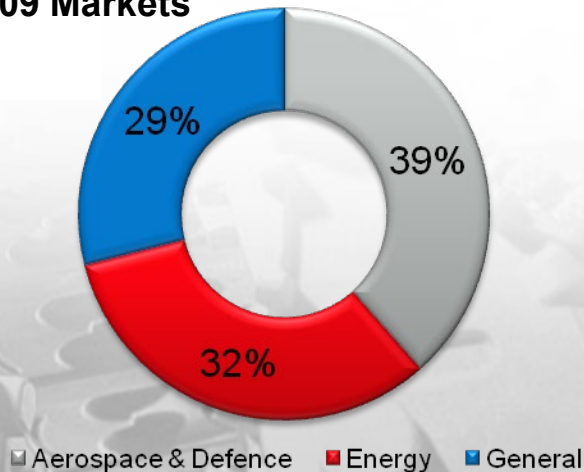
<b>Group Total</b>	<b>227.9</b>	<b>207.5</b>	<b>435.4</b>
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<b>(1.7)</b>	<b>9.7</b>	<b>8.0</b>
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# Hot Isostatic Pressing

Included within Aerospace, Defence & Energy

## 2009 Markets



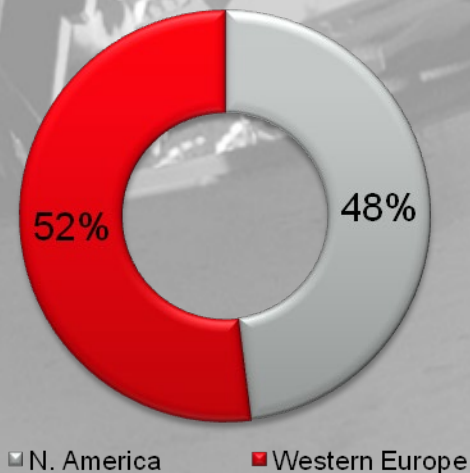
11 plants

£59m capital employed\* 2008  
(\*excluding goodwill)

£50m 'pre crisis' revenue

32% margin 2006 to 2008

## 2009 Turnover by Geography



## Results Summary:

£m	2009	2008	Change	Constant Currency
Revenue	43.3	51.1	-15%	-25%
Operating Profit	7.9	15.0	-47%	-53%