Annual Results 2022

17 March 2023

Bodycote

Introduction

Stephen Harris

Group Chief Executive

Strong growth; good prospects

- Overview
- Financial Review
- Business Review
- Summary and Outlook

Financial highlights

Results

- Revenues up 20.8% to £743.6m (17.3% at constant currency)
- 10.1% underlying revenue growth, excluding energy related surcharges
- Headline operating profit up 19%[1] to £112.2m
- Strong balance sheet with net debt (excl. lease liabilities) of £33m

Dividends

- Final ordinary dividend 14.9p, total year 21.3p (2021: 20.0p), uninterrupted 35-year track record of growing or maintaining dividend

[1] *At constant currency*

Key achievements

- Strong growth in revenues and profit
- Price increases fully recovered labour and general cost inflation
- Nil margin surcharges completely recovered energy cost inflation in H2 (shortfall of £5m in H1)
- Headline operating margin of 15.1%; 16.1% excluding the dilution effect of energy surcharges
- Good momentum in higher growth markets. Growth[1] excluding surcharges above background demand:
    - Specialist Technologies up 14% (10% organic)
    - Emerging Markets up 16%
    - Civil Aerospace up 19%
- Carbon reduction strategy working well

[1] At constant currency

Managing inflation

- Energy[1] prices are now falling, and surcharges are being reduced - surcharges are updated between 1 and 3 months in arrears
- Contractual indexation normally lags cost impact by 6 to 12 months, but multiple customers have already accepted exceptional price increases outside of the contract terms
- Labour[2] and other cost inflation addressed by price increases or contractual indexation - fully covered and includes profit contribution
- **Unwinding of nil margin surcharges are impacting revenue, but not profit – driving margin expansion**
- **Price increases include profit contribution and are permanent**

[1] Historically energy costs were c10% of revenues
[2] Historically labour costs were c40% of revenues

Financial Review

Dominique Yates

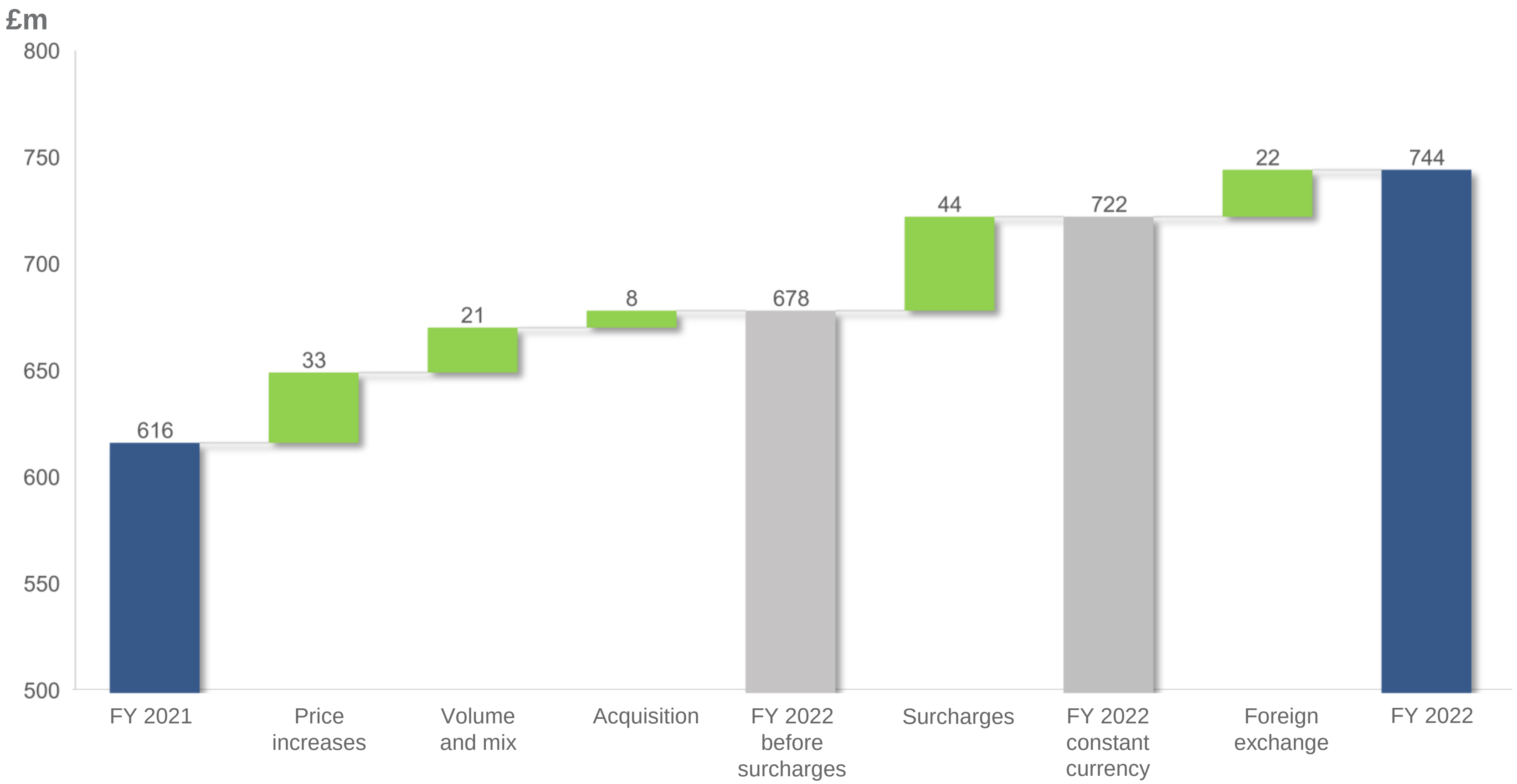
Chief Financial Officer

Bodycote

2022 Results summary

£m	2022	2021	Growth constant currency	Growth
Revenue	**743.6**	**615.8**	17.3%	20.8%
Headline operating profit	**112.2**	**94.8**	19%	18%
Headline operating margin	***15.1%***	***15.4%***		
Headline profit before tax	**105.5**	**88.4**	20%	19%
Headline tax rate	**22.3%**	**22.3%**		
Free cash flow	**84.0**	**105.0**		
Headline EPS	**42.7p**	**35.8p**		19%
Return on capital employed	**13.3%**	**12.0%**		
Ordinary dividend	**21.3p**	**20.0p**		6.5%

Revenue bridge



- Price increases added 5% to revenue
- Energy surcharges added 7% revenue growth
- Acquisition is European HIP business bought in December 2021

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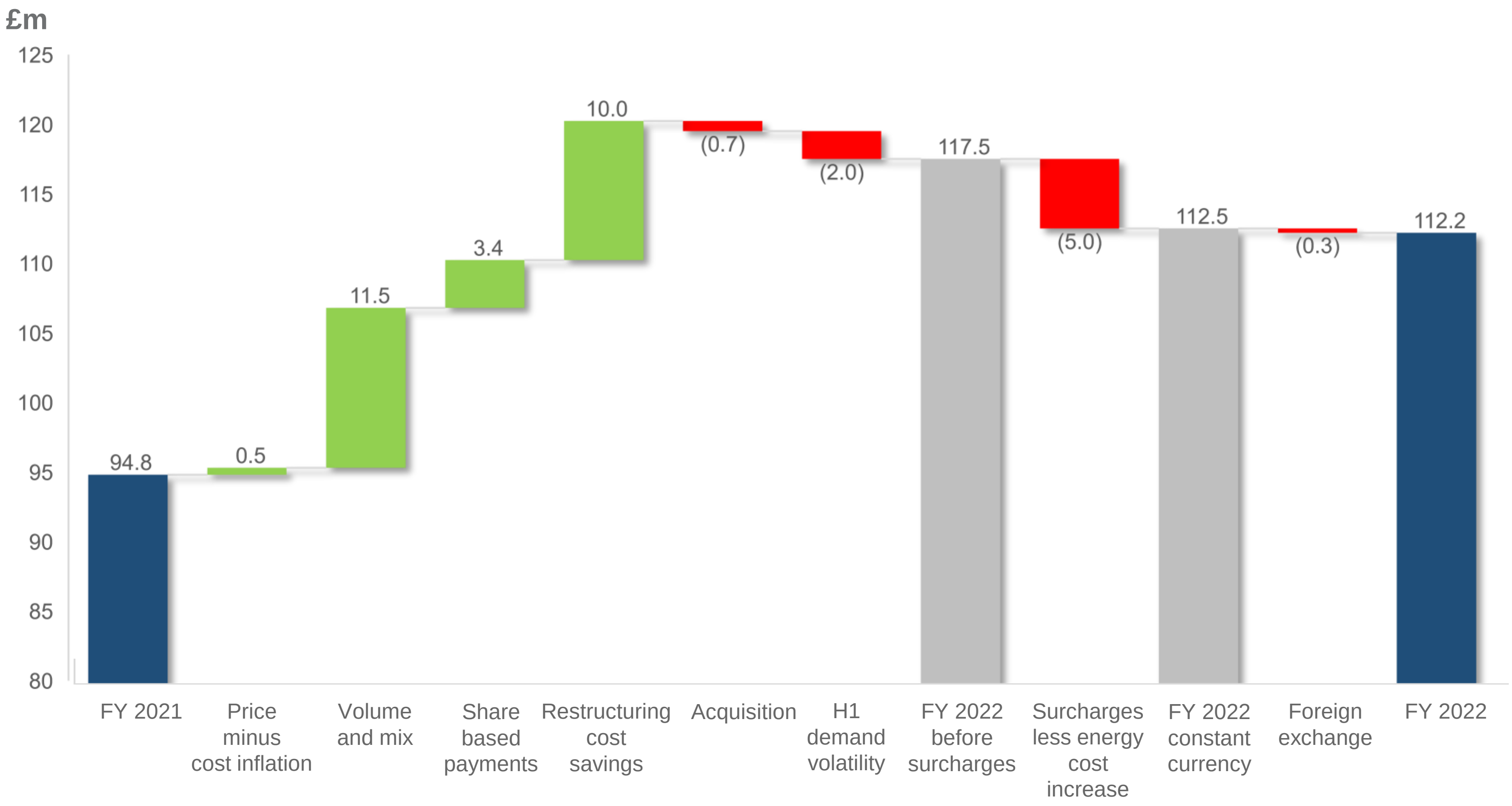
Headline operating profit bridge



- Price increases recovered labour and general cost inflation
- £5m H1 energy surcharge shortfall
- Nil margin surcharges completely recovered energy cost inflation in H2
- Restructuring benefit delivered as expected (£30m annualised cost savings vs 2019)

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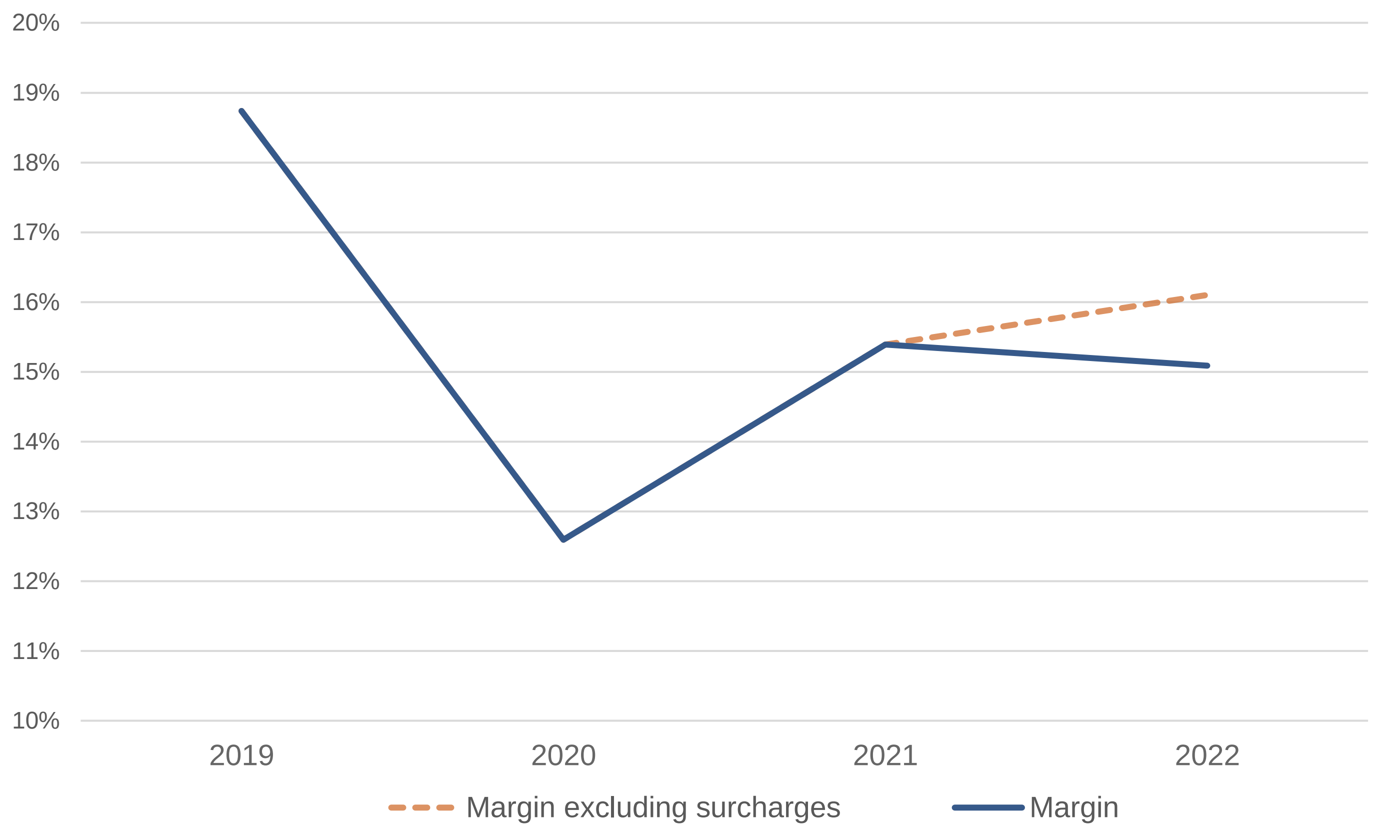
Headline operating margin



- Headline operating margin 15.1%
- Surcharges have zero margin
- Margin excluding surcharges was 16.1%
- Volume growth and unwind of surcharges will drive margins above 20% in due course

AGI and ADE summary

The AGI Business

Comprised of over 100 facilities focused on Automotive & General Industrial customers

£m	FY 2022	FY 2021	Growth Organic constant currency	Growth excluding revenue surcharges
Revenue	**430.9**	**370.2**	**15.3%**	**7.7%**
Headline operating profit	**80.8**	**69.5**	**17%**	
Headline operating margin	***18.7%***	***18.8%***		

- Profits above pre-COVID levels despite significantly lower automotive volumes
- Impact of energy surcharges on revenue greater in the AGI division

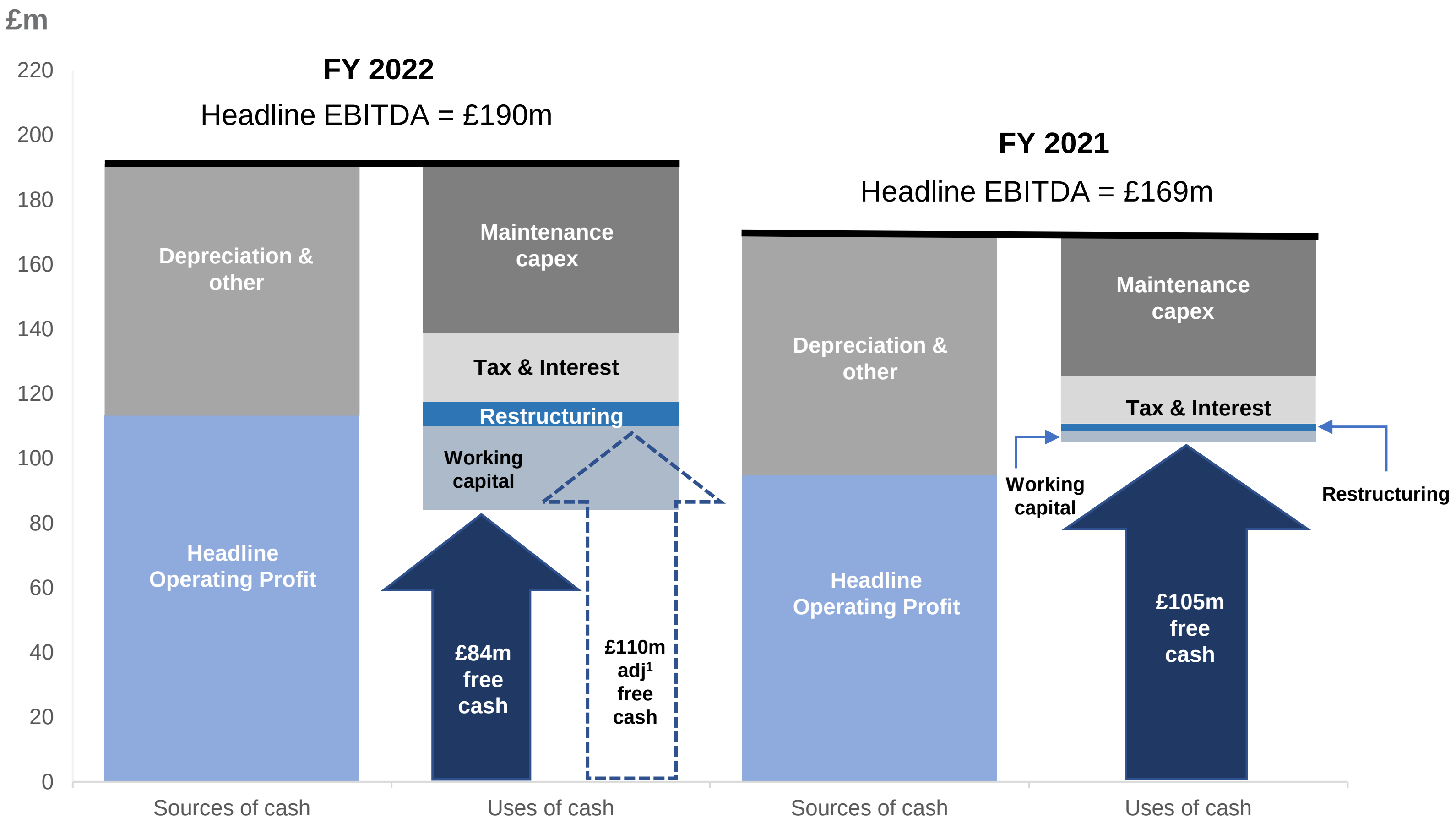
The ADE Business

Comprised of over 55 facilities focused on Aerospace & Defence customers

£m	FY 2022	FY 2021	Growth Organic constant currency	Growth excluding revenue surcharges
Revenue	**312.7**	**245.6**	**17.2%**	**22.2%**
Headline operating profit	**50.8**	**44.2**	**11%**	
Headline operating margin	***16.2%***	***18.0%***		

- Strong volume growth in civil aerospace
- Short-term margin decline from H1 surcharge shortfall and 2021 acquisition
- Significant profit growth anticipated as volumes continue to grow strongly

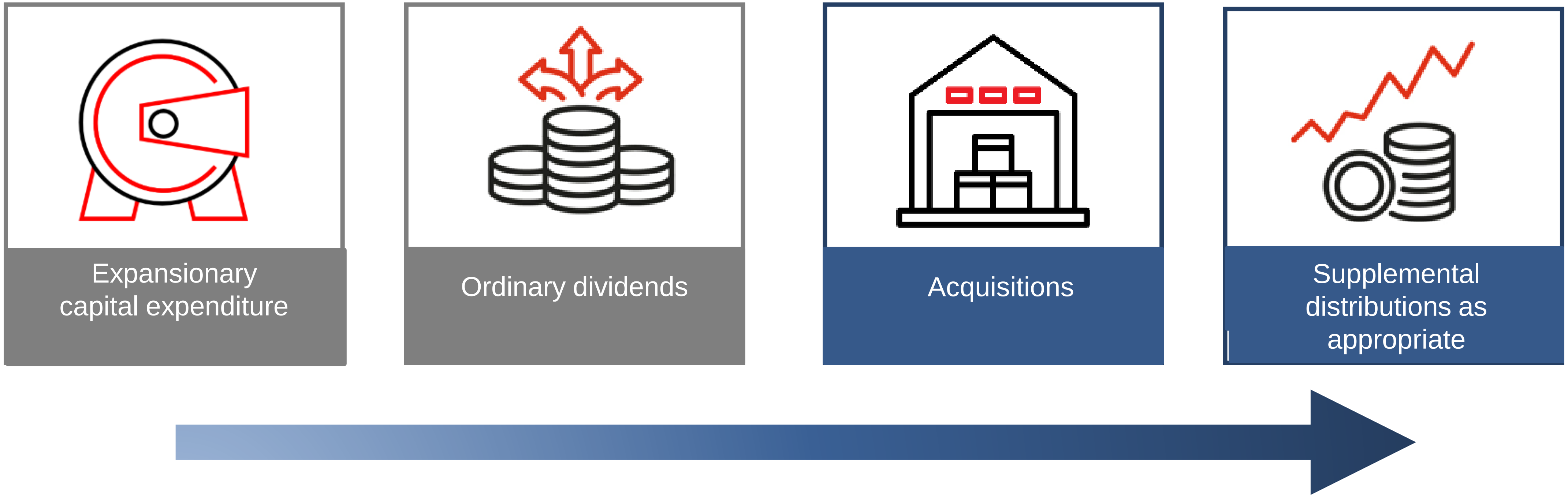
Free cash flow



- DSO slightly improved
- Unusually high working capital outflow reflects higher receivables from surcharges
- This will improve as energy related surcharges unwind
- Free cash flow of £110m excluding the impact of increased trade receivables
- Free cash flow conversion expected to return to more normalised levels
- H2 free cash flow of £52m (2021: £45m)

[1] *Adjusted to exclude the increase in trade receivables*

Uses of free cash



Strong balance sheet provides good optionality

Balance sheet and taxation

Balance sheet

- Net debt[1] £33m after paying £39m of dividends
- IFRS16 lease liabilities of £66m
- Facility headroom of £186m at 31 December 2022
- £251m credit facility matures in May 2027

Taxation

- Headline tax rate of 22.3%, in line with guidance

[1] *Excluding lease liabilities*

Business Review

Stephen Harris

Group Chief Executive

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Committed to a sustainable future

Supporting customers' sustainability efforts

- Science Based Targets initiative (SBTi) target commits to an absolute reduction of 28% in emissions by 2030
- Investing in new projects to reduce carbon emissions
- Extending the life of components reduces waste
- Significant potential to improve Scope 4 (avoided emissions) – already attracting new customers. We process components with up to 60% less carbon emissions than our customers
  - By aggregating multiple customers' work, we run at higher utilisation than our customers
  - We use our expertise to optimise processes and loads to produce the lowest carbon footprint possible

On track to reduce Scope 1 and Scope 2 emissions by **28%** by 2030

Senior management **33%** female

13% reduction in safety events (TRCR) vs 2021

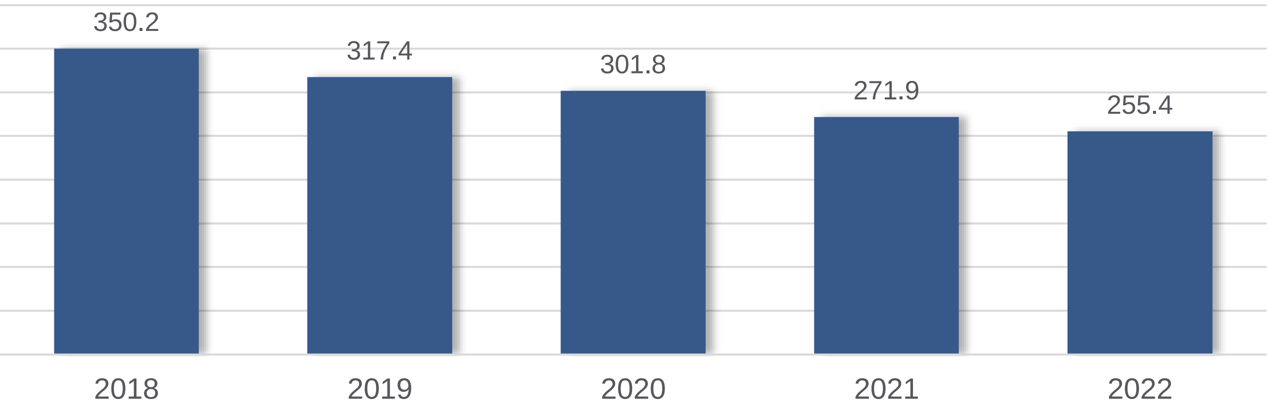
99% facilities accredited ISO 14001

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

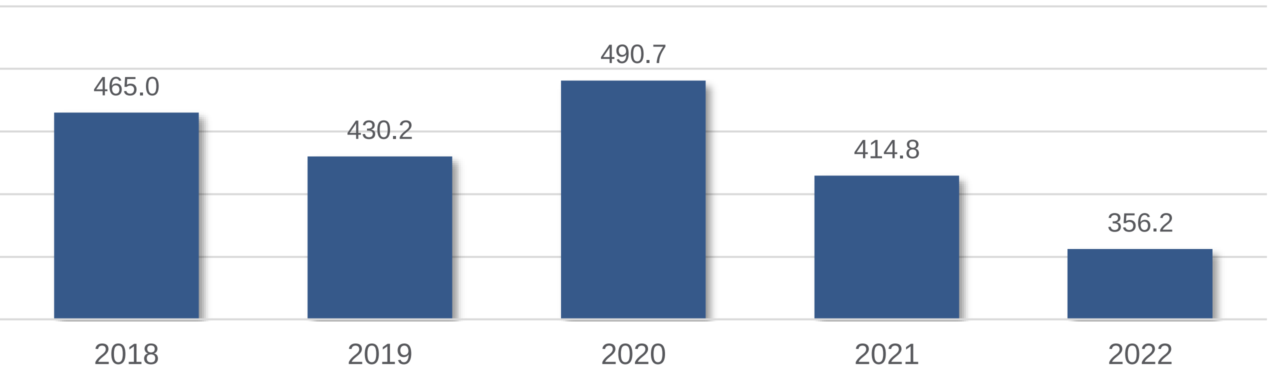
Major initiative aimed at improving Scope 4

Total global CO_2e emissions – five-year trend

Total Global CO_2e Emissions ($ktCO_2e$)



Carbon Intensity Ratio
(tonne CO_2e/£m sales normalised[1] - excluding surcharges)

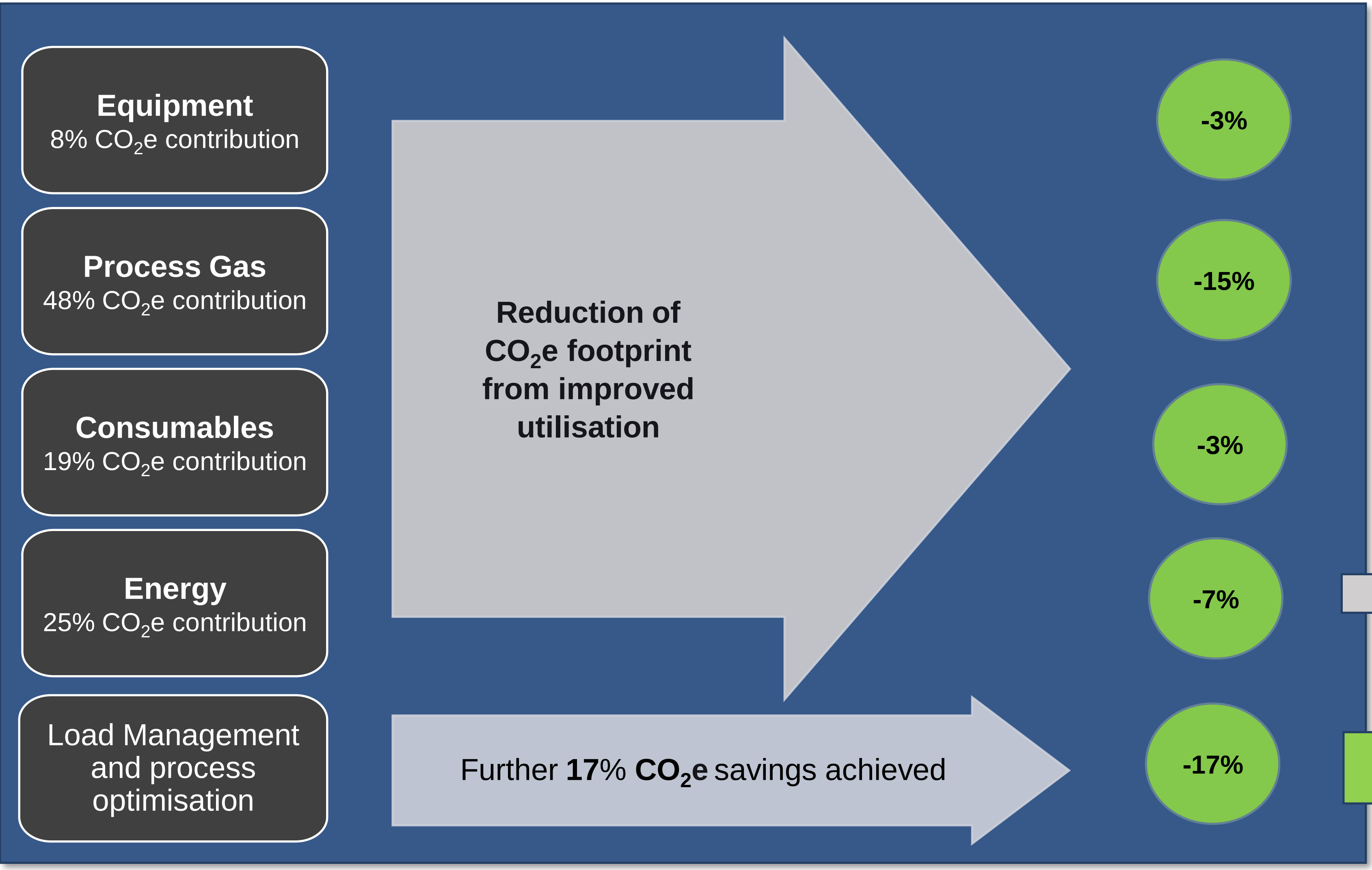


- Decrease of 6% year-on-year in CO_2e emissions
- Decrease of 14% year-on-year in intensity ratio - tonnes CO_2e per £m of sales (excluding surcharges)

[1] Restating all years' sales figures using the closing exchange rate at December 2022 and excluding surcharges

A real world example of Scope 4 carbon avoidance

(Carbonitriding in this case – other processes have different CO_2e contributions)

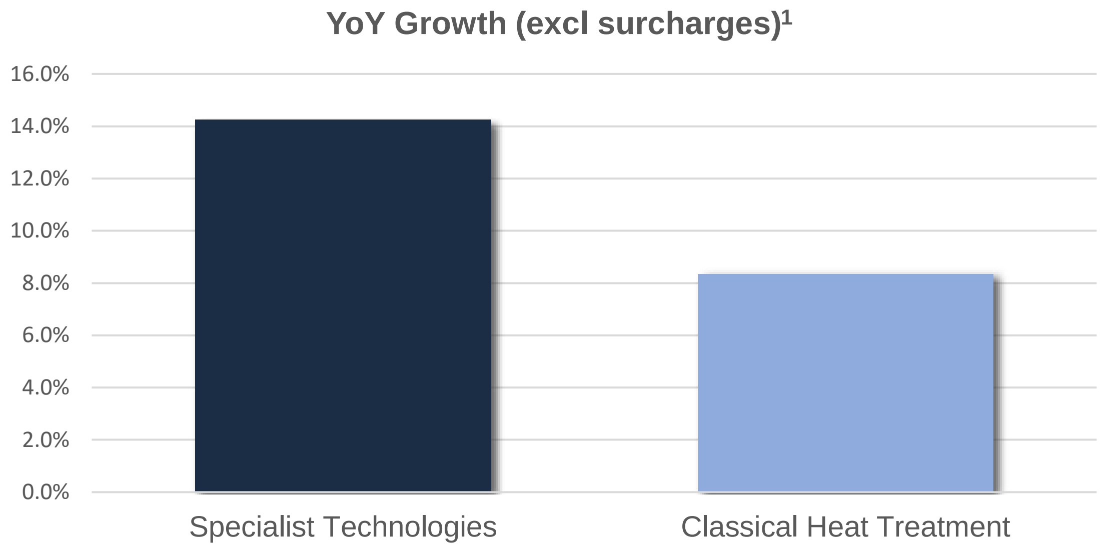


- Bodycote aggregates multiple customers' demand driving higher utilisation
- Bodycote's technology, load management and process optimisation reduce carbon emissions for customers
- These efficiencies less the transportation impact allows us to provide significant carbon emissions reductions vs in-house processing

28% reduction in CO_2e just through increasing equipment utilisation from 50% to 85%

45% net reduction in CO_2e for each component processed by Bodycote

Specialist Technologies outperform



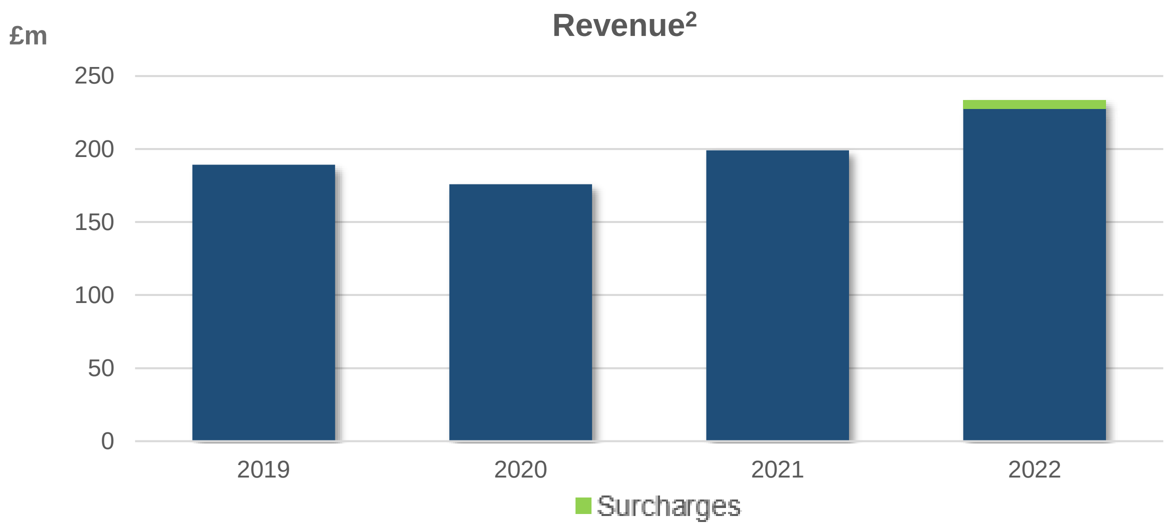
- Superior organic growth in Specialist Technologies driven both by existing customers' growth and new customer adoption
- The HIP acquisition in 2021 accounted for 4% of the growth

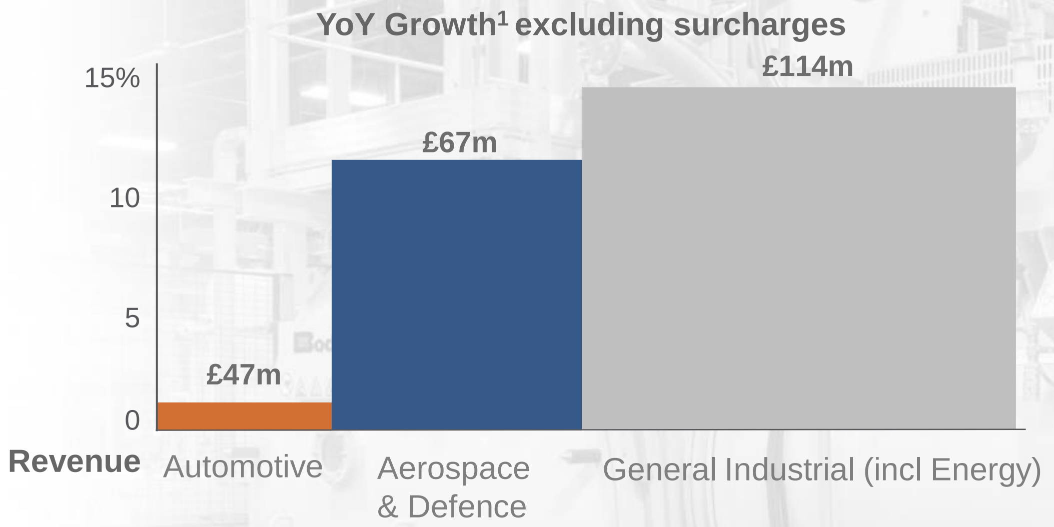
[1] *Constant currency growth*

Specialist Technologies

Revenue: £228m (31% of total revenue)

YoY Growth[1] : 14%
YoY Growth[1] excl. surcharges: 10%





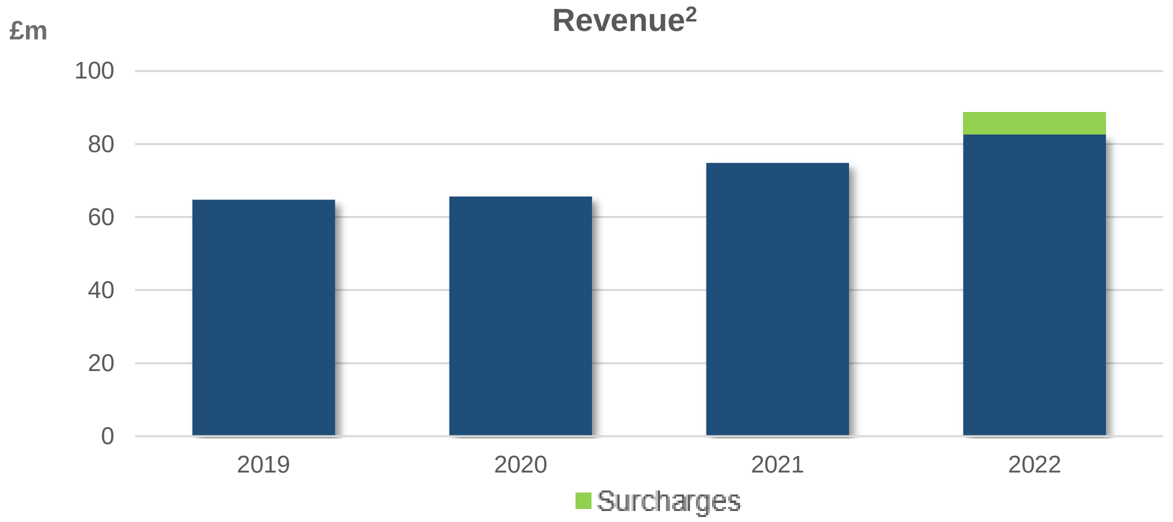
- Good momentum in Specialist Technologies driven by:
  - S³P capacity expansion in US and Nordics
  - Expanded HIP Product Fabrication/Powdermet® capabilities
  - Record additive manufacturing sales
- Energy surcharge impact smaller than Classical Heat Treatment, as these are lower energy technologies and have proportionately more long-term agreements (LTAs)

[1] *Organic constant currency*
[2] *Constant currency*

Emerging Markets

Revenue: £93m (13% of total revenue)

YoY Growth[1] : 24%
YoY Growth[1] excl. surcharges: 16%



- 13% volume growth in H2 driven by Automotive recovery in Eastern Europe
- New LTAs to support growing electric vehicle demand
- COVID-19 lockdowns in China reduced revenue in H1, now returning to growth

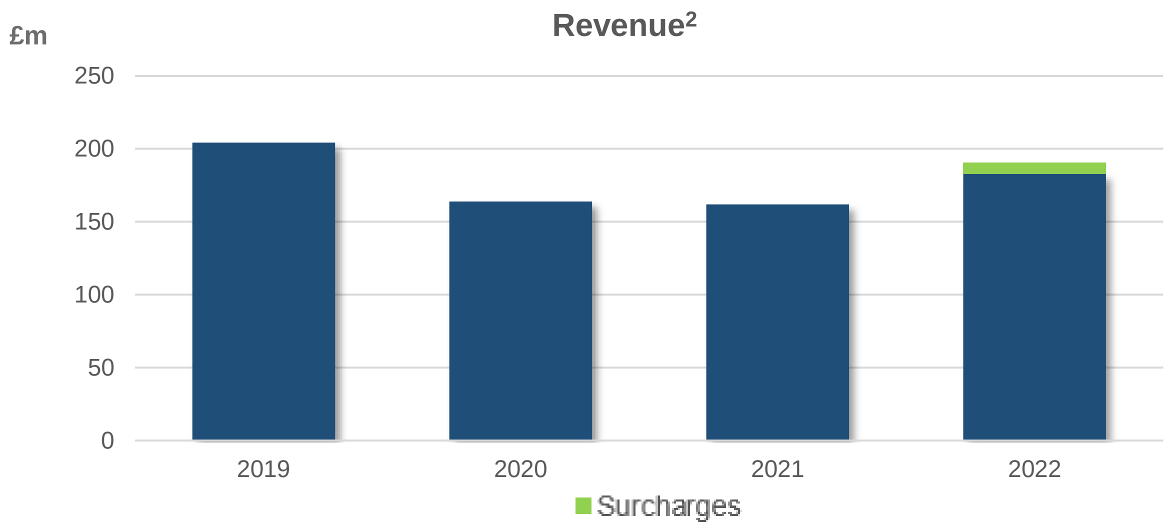
Emerging Markets include China, Mexico, Czech Republic, Poland, Turkey, Romania, Slovakia & Hungary

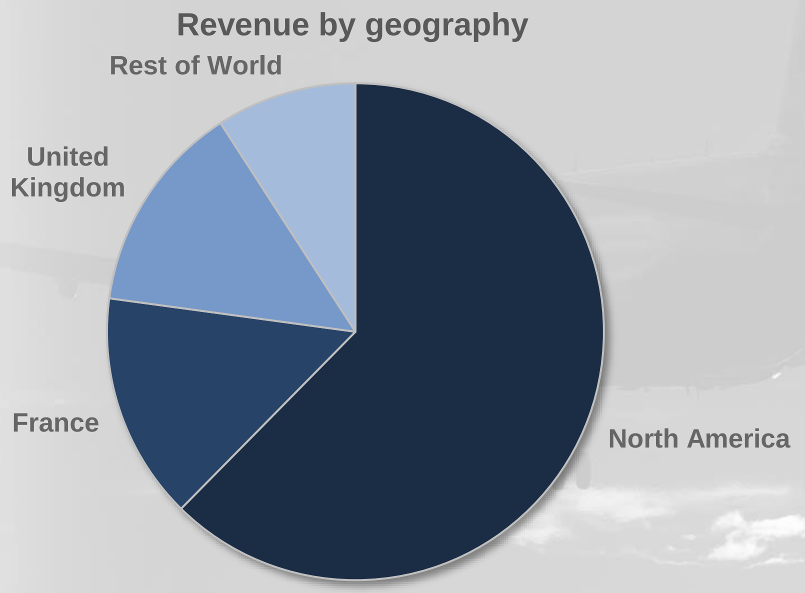
[1] *Organic constant currency*
[2] *Constant currency*

Aerospace & Defence

Revenue: £186m (25% of total revenue)

YoY Growth[1] : 18%
YoY Growth[1] excl. surcharges: 13%





- Grew civil aerospace revenue[2] by 19% (excluding surcharges)
- Strong new aircraft production
  - Airbus delivered 516 in 2022 vs 642 A320s in 2019, now ramping production to 900 units in 2026
- Secured multiple new LTAs to support A320 Neo

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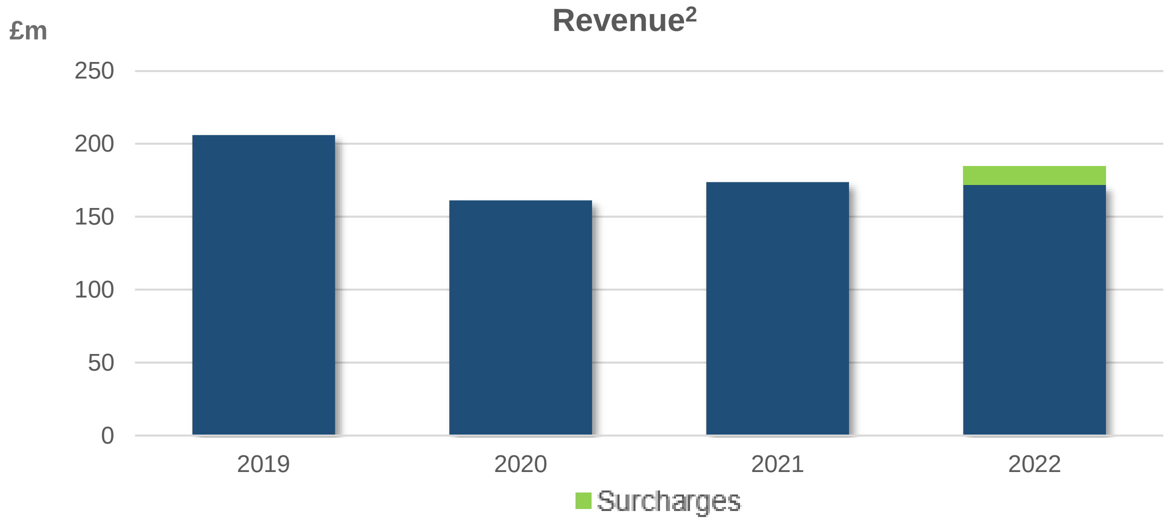
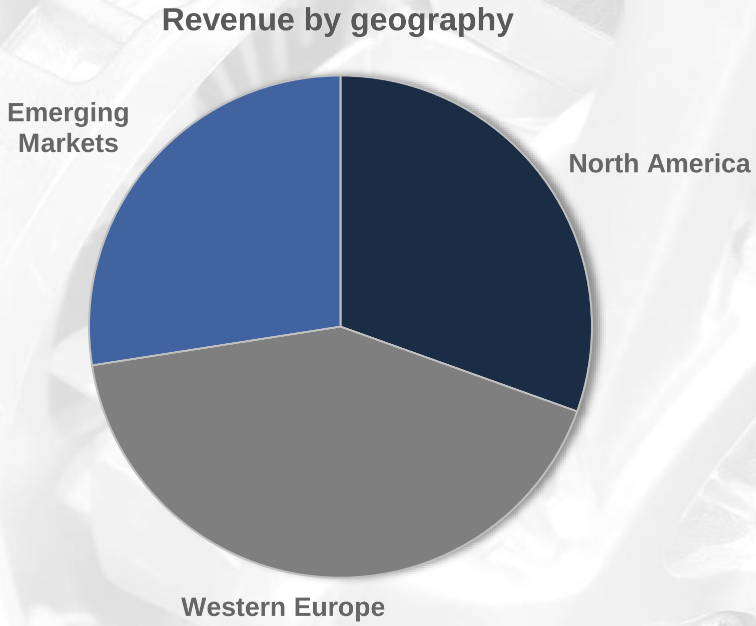
[1] Organic constant currency
[2] Constant currency

Automotive

Revenue: £184m (25% of total revenue)

YoY Growth[1] : 7%
YoY Growth[1] excl. surcharges: -1%





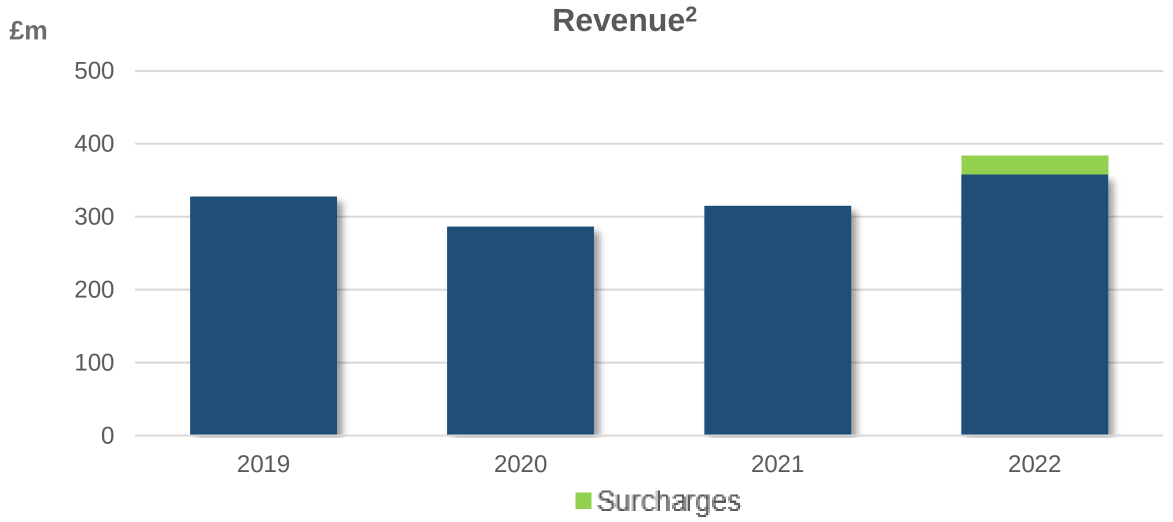
- Supply chain problems easing
- Pent-up demand for new vehicles remains, however economic uncertainty holding back growth
- Encouraging electric vehicle quotation activity and new contracts
- Investing to serve growing electric vehicle demand

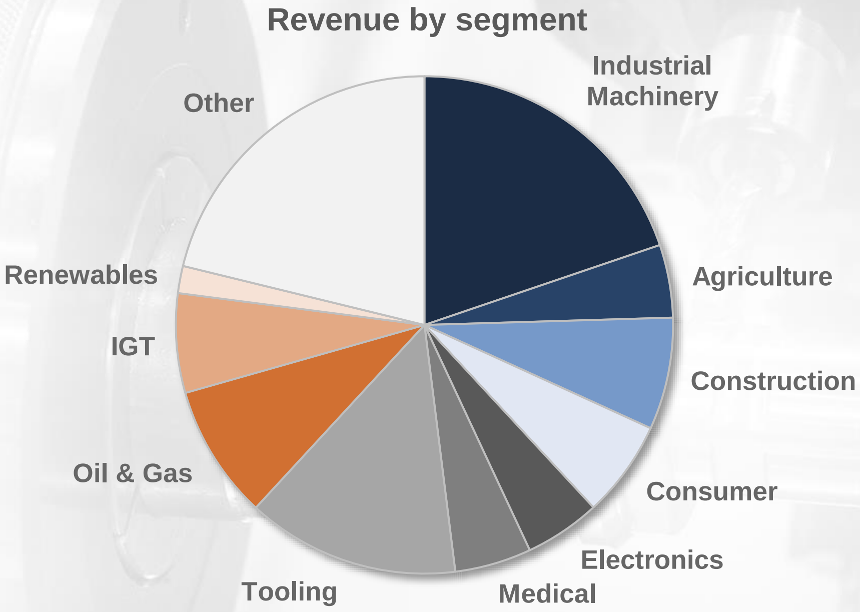
[1] *Organic constant currency*
[2] *Constant currency*

General Industrial

Revenue: £373m (50% of total revenue)

YoY Growth[1] : 20%
YoY Growth[1] excl. surcharges: 12%





- Growth well above industrial production brought about by expanded commercial sales teams with stronger business development skills
- Broad based growth across geographies and subsectors
- Strong energy sales
- Notable revenue growth in IGT and renewables with key European customers

[1] *Organic constant currency*
[2] *Constant currency*

Expansionary capex driving growth

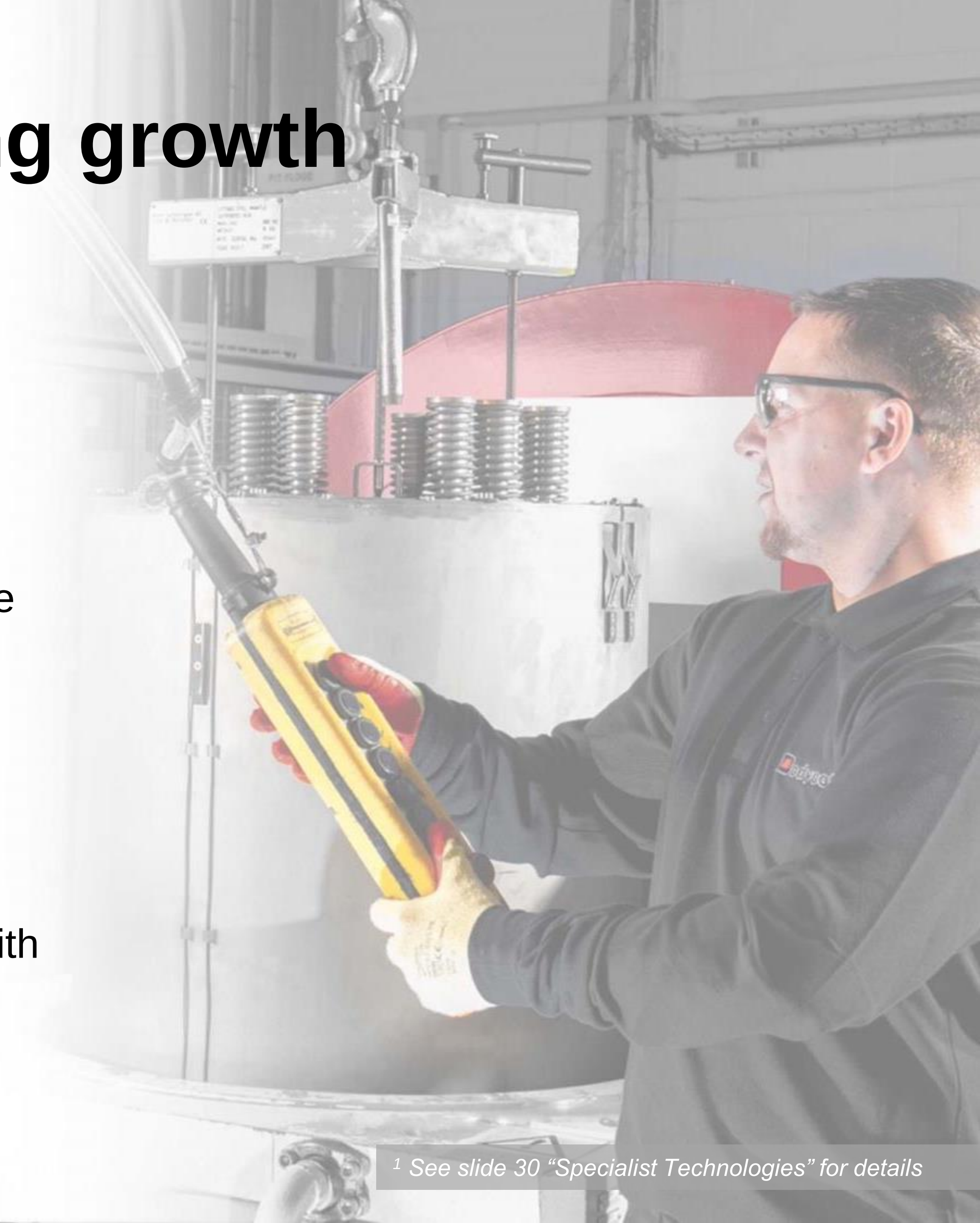
Focused on Specialist Technologies, Emerging Markets, Civil Aerospace and Electric Vehicles

Key 2022 projects benefiting 2023 onwards

- New HIP[1] facility on East Coast, US, serving additive manufacturing
- Major HIP expansion in the Midwest, US
- Capacity expansions to support growing electric vehicle demand in Emerging Markets and fuel cell markets in Western Europe and US

Upcoming in 2023 benefiting 2024 onwards

- Capacity expansion in Poland, Hungary and Turkey, including installation of LPC[1] technology
- Nitriding, CiD[1] and LPC capacity expansion in China with new greenfield facilities
- New S^{3}P greenfield facilities in Western Europe and Emerging Markets



[1] See slide 30 “Specialist Technologies” for details

Summary

- Headline operating profit[1] up 19%
- Inflation impact being successfully managed across the business
- Automotive market was impacted by supply chain constraints, now easing. Strong end market demand
- General Industrial revenues driven well above background industrial production
- Higher growth markets benefiting from investment, and now represent 62% of headline operating profit:
  - Specialist Technologies revenue[2] up 14% (10% organic)
  - Emerging Markets revenue[2] up 16%
  - Civil Aerospace revenue[2] up 19%
- Carbon reduction strategy working well

[1] Constant currency
[2] Excluding surcharges

Outlook

While there are near term macroeconomic uncertainties, we expect underlying volume to continue to grow ahead of the background markets, and margins are expected to expand as surcharges moderate.

Beyond 2023, we expect robust growth, leading to further margin expansion. Civil Aerospace will benefit from higher OEM build rates and increasing airline flying hours, and our investments in Emerging Markets and Specialist Technologies will drive higher growth in these areas.

The Board remains confident in the Group’s prospects for continued profitable growth.

Bodycote

Specialist Technologies

A selection of highly differentiated, early-stage processes with high margins, significant market opportunities, and good growth prospects. Bodycote is either the clear market leader or one of the top players among a small number of 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^3P)
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, and is primarily used as an environmentally friendly substitute for hard chrome

Classical Heat Treatment

Classical Heat Treatment is the process of controlled heating and cooling 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.

2022 Statutory income statement

£m	2022	2021
Revenue	**743.6**	**615.8**
Headline operating profit	**112.2**	**94.8**
Amortisation of acquired intangible assets	**(9.3)**	**(10.3)**
Acquisition costs	**(0.9)**	**(0.7)**
Exceptional items	**-**	**-**
Operating profit	**102.0**	**83.8**
Net finance charge	**(6.7)**	**(6.3)**
Profit/(loss) before taxation	**95.3**	**77.5**
Headline earnings per share (basic)	**42.7p**	**35.8p**

2022 Cash flow[1]

£m	2022	2021
Headline operating profit	**112.2**	**94.8**
Depreciation and amortisation	74.9	73.4
Other, including impairment and profit on disposal of PPE	3.0	0.3
Headline EBITDA	**190.1**	**168.5**
Net maintenance capital expenditure	(52.2)	(43.1)
Net working capital movement	(25.3)	(3.4)
Headline operating cash flow	**112.6**	**122.0**
Restructuring	(7.4)	(2.3)
Financing costs	(5.8)	(5.2)
Tax	(15.4)	(9.5)
Free cash flow	**84.0**	**105.0**
Expansionary capital expenditure	(22.1)	(15.6)
Ordinary dividend	(38.5)	(49.0)
Acquisition spend	(0.9)	(65.4)
Own shares purchased less SBP and others	1.7	4.7
Increase/(reduction) in net cash	**24.2**	**(20.3)**
Opening net debt cash	(116.4)	(98.1)
Foreign exchange movements	(7.2)	2.0
Closing net debt	**(99.4)**	**(116.4)**
IFRS 16 lease liabilities	66.0	64.5
Net debt excluding lease liabilities	**(33.4)**	**(51.9)**

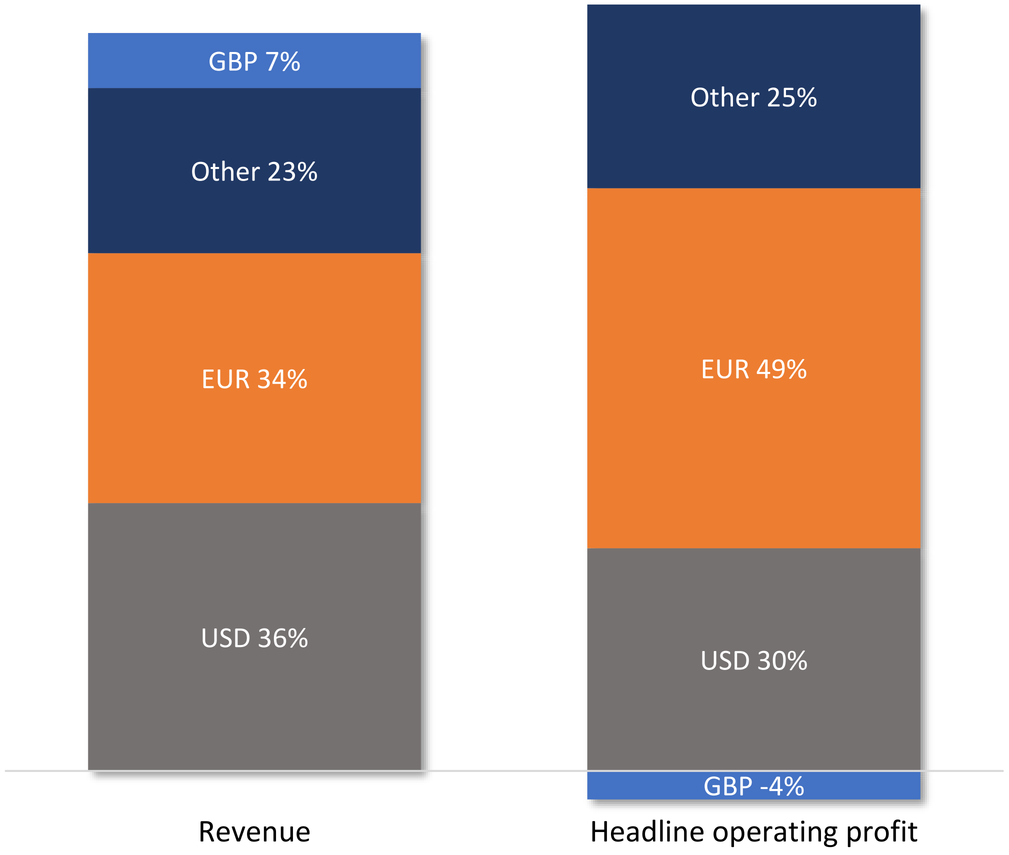
[1] *Reflects movement on net debt*

Net finance charge/facilities

£m	2022	2021
Interest on loans and bank overdrafts	(2.3)	(1.3)
Interest charges	(1.9)	(2.0)
Financing and bank charges	(2.9)	(3.3)
Total finance charge	**(7.1)**	**(6.6)**
Interest received	**0.4**	**0.3**
Net finance charge	**(6.7)**	**(6.3)**

- Committed facility headroom of £186m at 31 December 2022, £70m drawn
- The remaining life of the facility is 4.4 years
- Closing net debt (including lease liabilities) of £99m

2022 Sales and operating profit by currency



- Operating profit translation decrease of £0.3m
- Average full year exchange rates: £1: €1.17 and £1: $1.24
- Every cent change in the euro is worth c.£0.5m of annual operating profit
- Every cent change in the US dollar is worth c.£0.2m of annual operating profit

Financial information

Shares in issue	2022	2021
Weighted average	190.7m	190.7m

Exchange rates		2022	2021
EUR	Average (P&L)	1.17	1.16
	Closing (B/S)	1.13	1.19
USD	Average (P&L)	1.24	1.37
	Closing (B/S)	1.20	1.35
SEK	Average (P&L)	12.47	11.80
	Closing (B/S)	12.54	12.24

Definitions

Term	Definition
Headline Operating Profit	Operating profit before acquisition costs, exceptional items and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, acquisition costs, exceptional items 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, income from associate, exceptional items 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 cash flows, interest and taxes paid
Free Cash Flow conversion	Free cash flow divided into headline operating profit
Headline EPS	Earnings per share excluding acquisition costs, exceptional items and amortisation of acquired intangible assets
Organic result	Excludes corporate acquisition and disposal activities from the current and comparative period
Exceptional items	Significant (by virtue of size or incidence) events or transactions including, but not limited to, impairment charges, costs associated with significant restructuring and reorganisation costs and other one-off items