

2016 Interim Results

28 July 2016

 **Bodycote**

Stephen Harris

Group Chief Executive



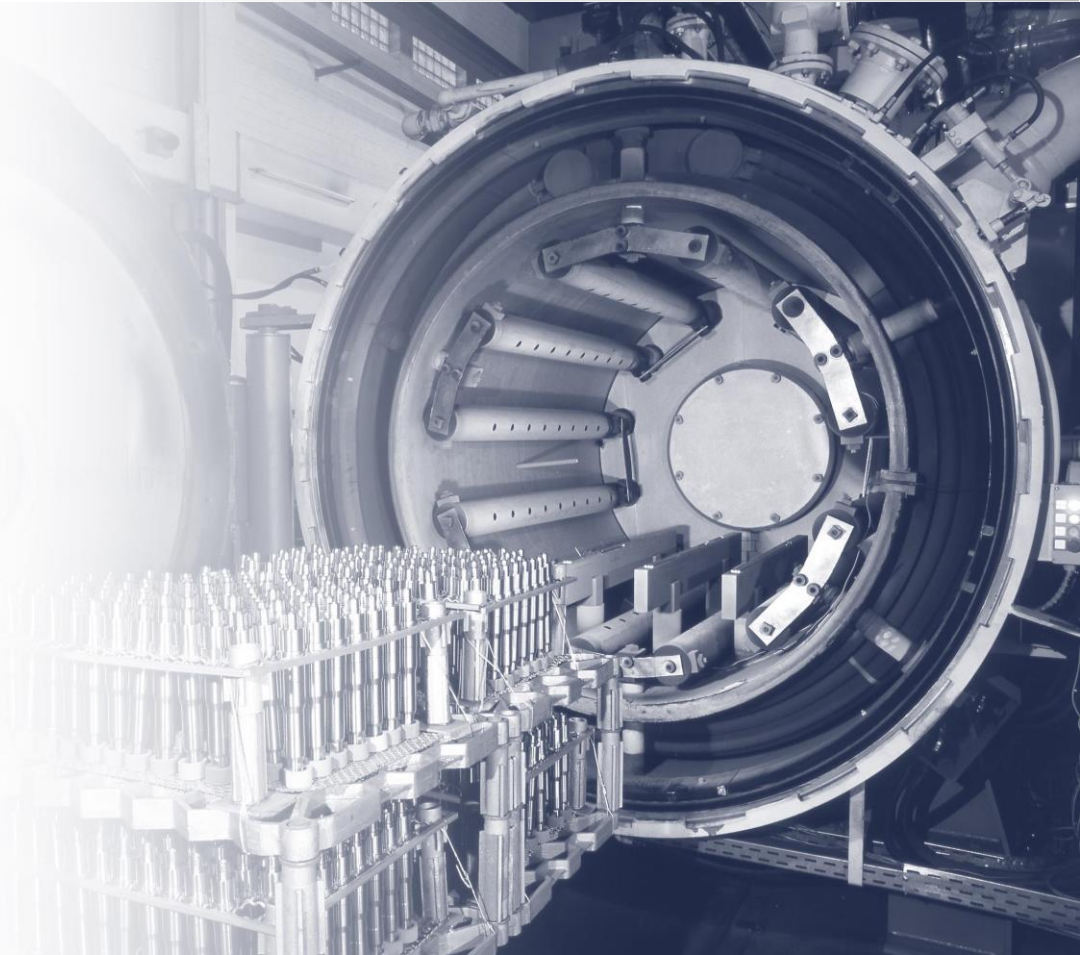
Agenda

Summary

Financial review

Business review

Outlook



- Revenue
 - Like-for-like* decline of 6%
 - Group – excl. energy -2%
 - Energy -34%

- Headline operating margin – 16.9% (H1 2015: 18.0%)

- Business development
 - Continued high rate of investment
 - Specialist Technologies now 41% of Group profits (2015: 39%)
 - Emerging market revenues up 14%*

- Balance sheet – Net debt £5.5m (30 June 2015: £7.0m)

- Interim dividend – 5.0p, up 4.2%

*Like-for-like sales growth rates are at constant exchange rates and exclude closed sites and Brazil
Total Group revenue decline at constant currency: -8%

David Landless

Group Finance Director



2016 Interim Results summary

£m	H1 2016	H1 2015	Constant exchange rates		Currency	Total change	
Revenue	291.0	299.8	(24.2)	-8%	15.4	(8.8)	-3%
Headline: Operating profit	49.3	54.1	(8.2)	-15%	3.4	(4.8)	-9%
Margin	16.9%	18.0%					
Profit before tax	48.1	52.6	(7.9)	-15%	3.4	(4.5)	-9%
Restructuring charge	-	(19.9)					
<i>Headline tax rate</i>	27.5%	23.7%					
Net debt	5.5	7.0					
Headline EPS	18.3p	21.1p					-13%
Dividend	5.0p	4.8p					4%

Divisional summary

ADE

£m	H1 2016	H1 2015	Constant exchange rates		Currency	Total change	
Revenue	121.9	128.8	(13.4)	-10%	6.5	(6.9)	-5%
Headline operating profit	27.4	31.5	(5.7)	-18%	1.6	(4.1)	-13%
<i>Margin</i>	<i>22.5%</i>	<i>24.5%</i>					

- Revenue decline caused by oil & gas, down 48% YoY
- Otherwise margin maintained

Divisional summary

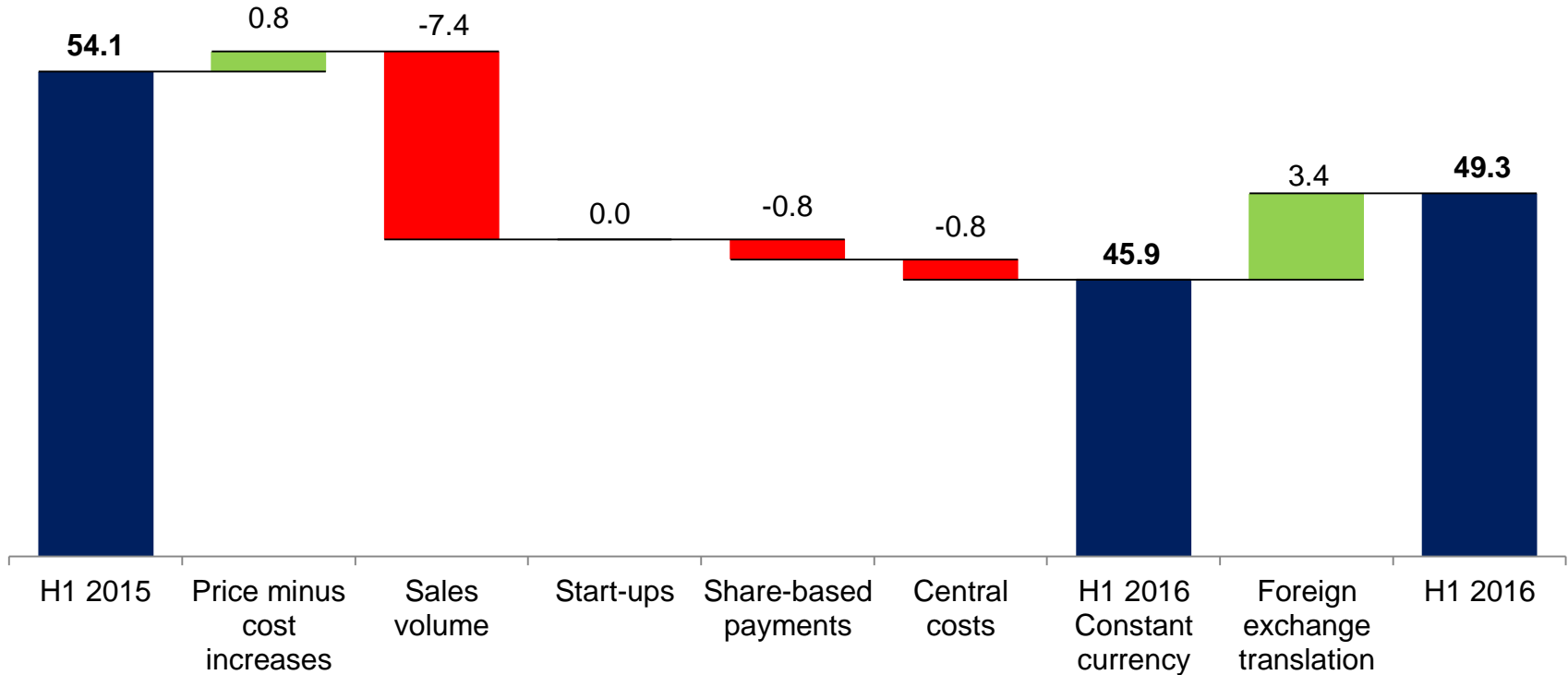
AGI

£m	H1 2016	H1 2015	Constant exchange rates		Currency	Total change	
Revenue	169.1	171.0	(10.8)	-6%	8.9	(1.9)	-1%
Headline operating profit	27.9	27.6	(1.5)	-5%	1.8	0.3	1%
<i>Margin</i>	<i>16.5%</i>	<i>16.1%</i>					

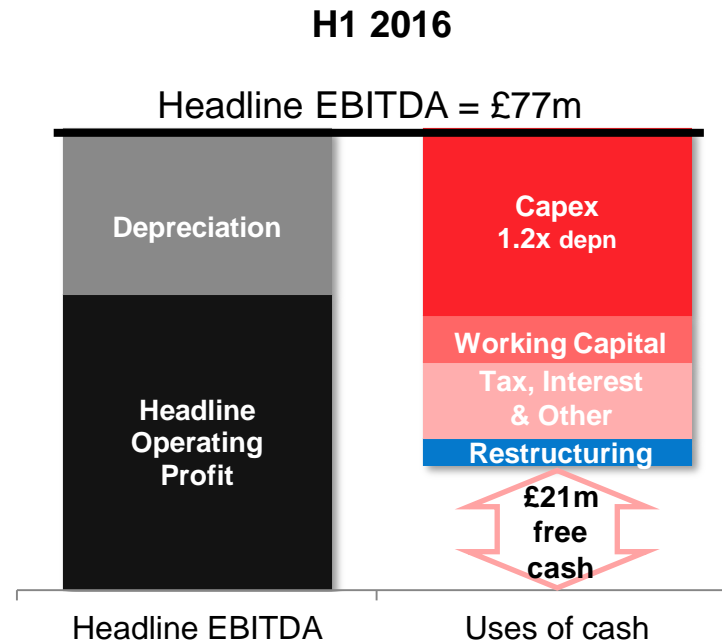
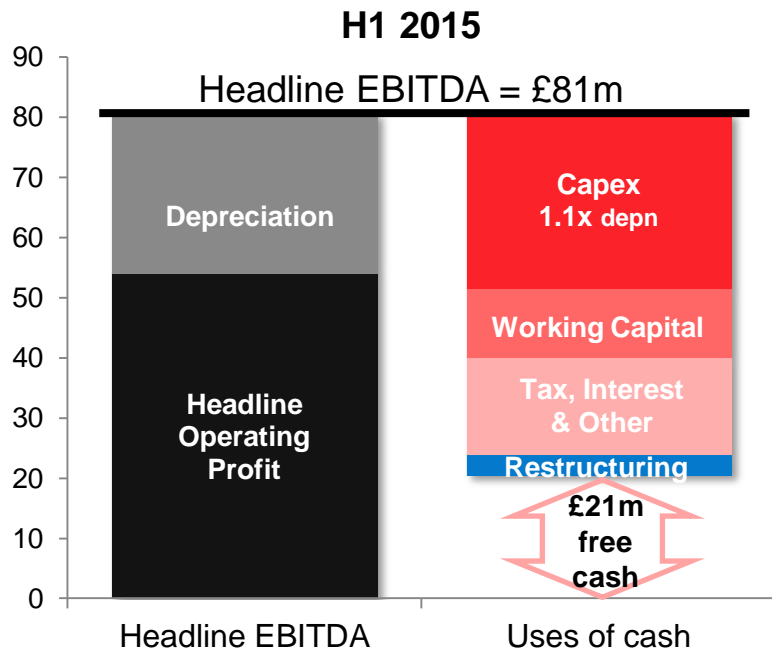
- Margin improved
- Minimal drop-through on revenue decline
- Aided by sale of Brazil

Headline operating profit bridge

£m



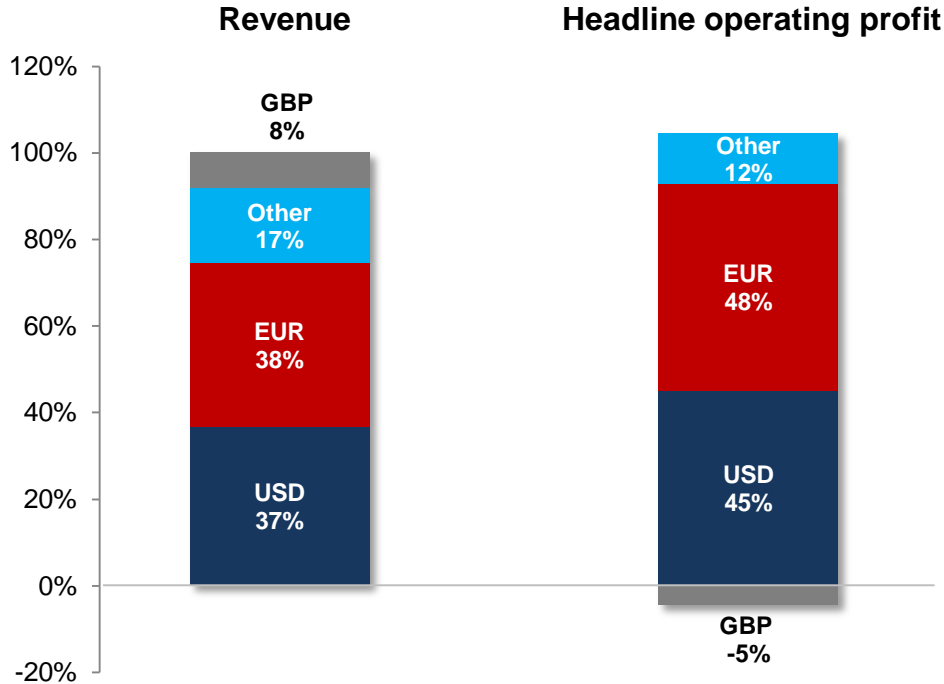
Cash flow



- Net capital expenditure £31m, up 6%

See slide 26 for detailed cash flow disclosure

H1 2016 Sales and operating profit by currency



- GBP stated net of central costs
- H1 operating profit benefit £3.4m

Taxation

Headline tax rate 27.5% (H1 2015: 23.7%)

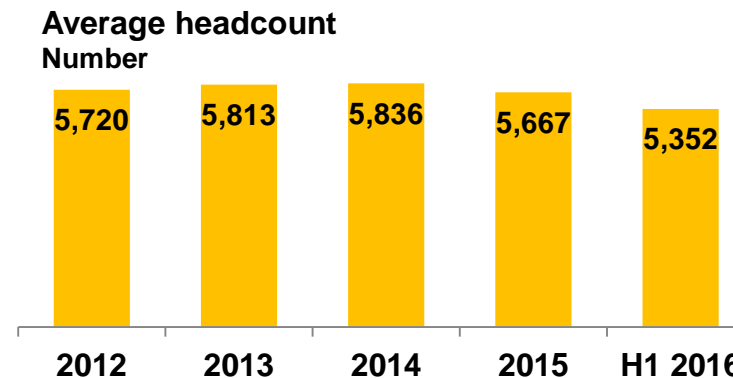
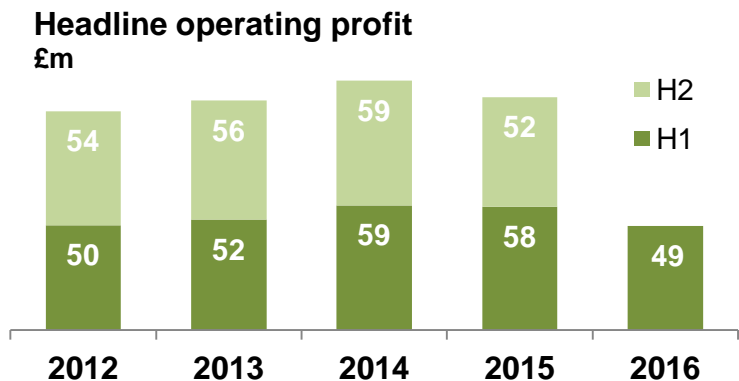
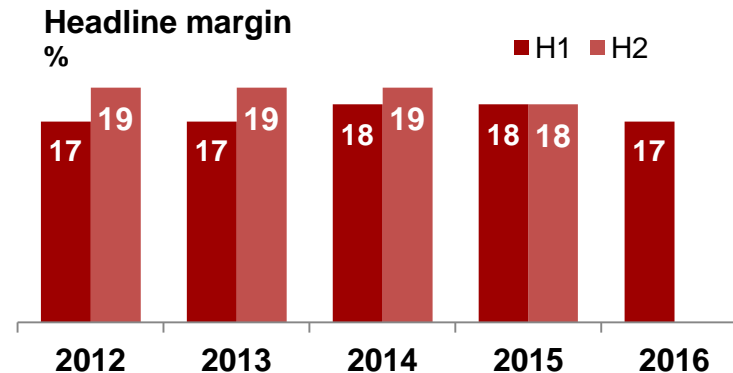
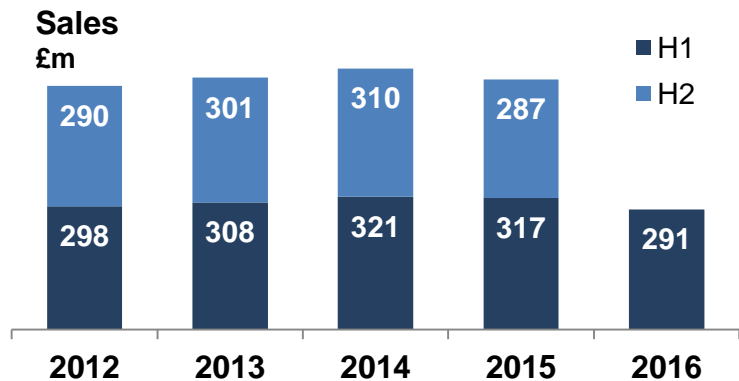
- Historical tax losses now largely exhausted
- Higher proportion of profits from higher tax jurisdictions

Finance charge

£m	H1 2016	H1 2015
Net interest payable	-	0.1
Financing and bank charges	1.0	1.2
Pension finance charge	0.2	0.2
Net finance charge	1.2	1.5

Five year perspective

At H1 2016 exchange rates



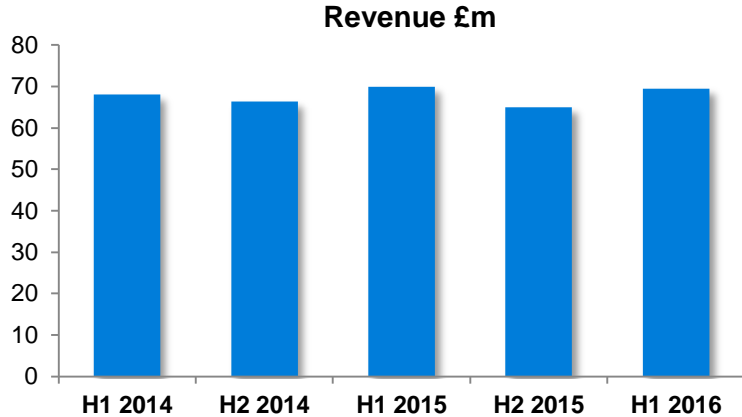
Stephen Harris

Group Chief Executive



Revenue: £74m

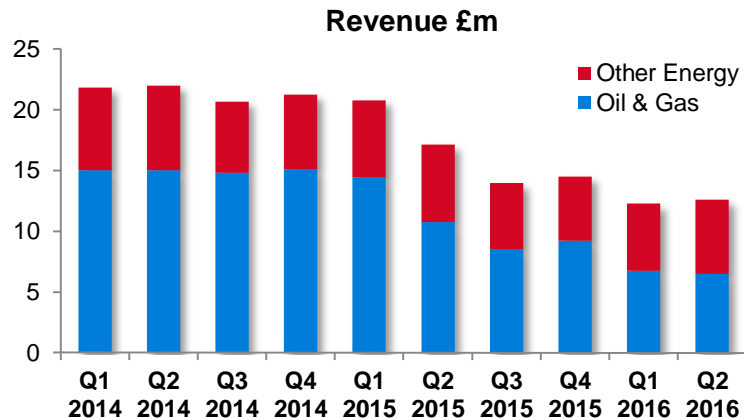
Constant currency decline: -0.6%



- UK aerospace up 1%, now growing strongly
- North America held back by 16% business jet decline
- Continued strong growth in France

Revenue: £26m

Constant currency decline: -34.3%

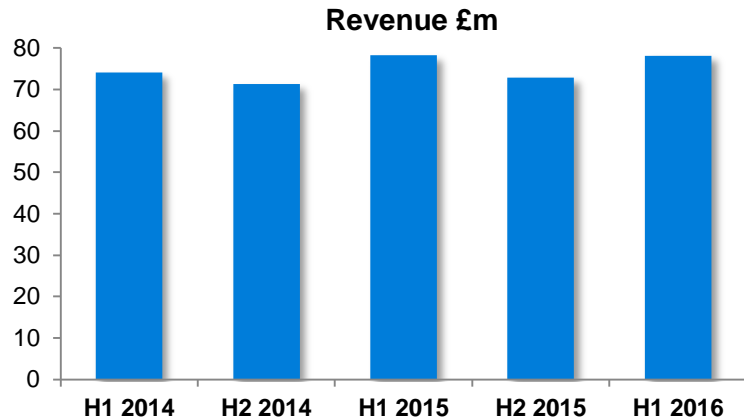


- Oil & gas decline stabilising
- No growth in other energy sectors
- Despite oil & gas downturn energy business still achieving high single-digit margins



Revenue: £82m

Like-for-like* growth: 0.3%

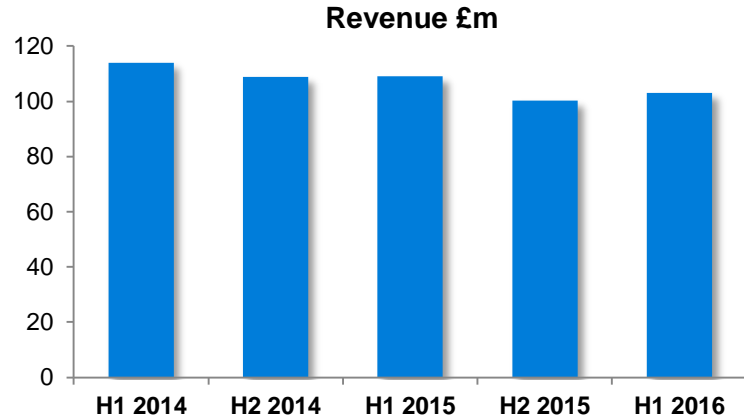


- Like-for-like car & light truck revenues up 3%
- Like-for-like heavy truck down 15%
- Specialist Technologies delivered strong growth

*Like-for-like sales growth rates are at constant exchange rates and exclude closed sites and Brazil
Total Automotive decline at constant currency: -2.1%

Revenue: £109m

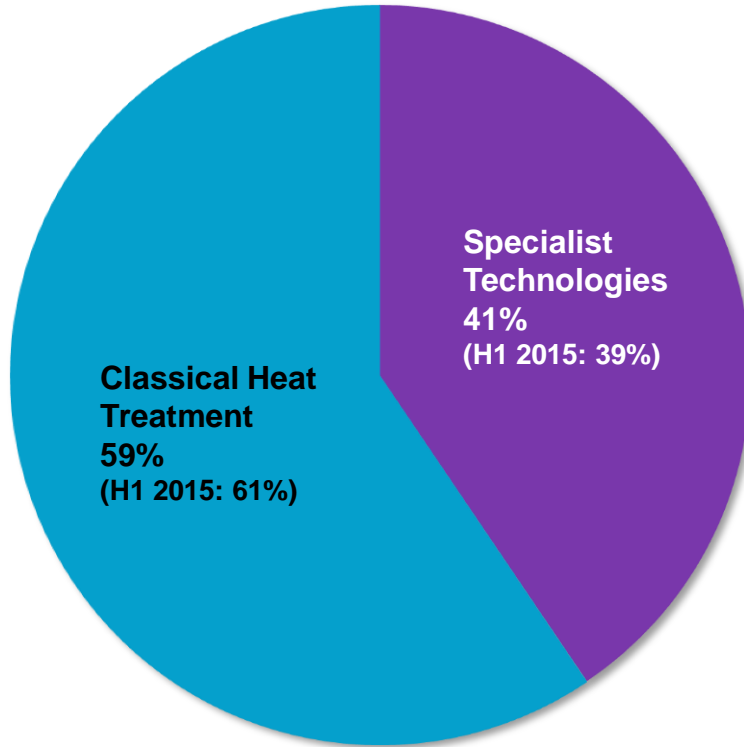
Like-for-like* decline: -5.0%



- Widespread softness in Industrial Production
- Capital equipment and aftermarket demand remain weak

*Like-for-like sales growth rates are at constant exchange rates and exclude closed sites and Brazil
Total General Industrial decline at constant currency: -8.1%

H1 2016 Headline operating profit



- Specialist Technologies profit now 41% of Group
- Investment in greenfield sites and additional capacity on track

- **Cross-border trading** Nil:
 - All countries served in territory

- **UK economy impact** Trivial:
 - UK non-aerospace only 5% of Group sales

- **FX translation** Beneficial:
 - 2015 Sterling averages \$1.53 and €1.38

Summary

- Energy — Down 34% YoY (oil & gas down 48%)
- Other revenues — Down 2% (like-for-like)
— Margin maintained
- Specialist Technologies — Increased share of Group profits
- FX impact — H1 operating profit benefit of £3.4m
- Interim dividend — 5.0p, up 4.2%
- Balance sheet — Minimal leverage

The Group has again demonstrated its ability to deal with challenging market conditions, including delivery of a continued improvement in the AGI margin. This has been achieved against a background of subdued demand for industrial machinery and a further substantial decline in oil & gas revenues.

Looking ahead, and noting the Group's lack of visibility, we expect growth in our aerospace and automotive markets to continue and the sequential decline in oil & gas activity to have largely abated. Recent demand in general industrial markets has been softer than expected and improvements are not anticipated in the second half. However, if current exchange rates prevail, we expect weakness in overall trading, for the year as a whole, to be offset by the benefit of currency translation.

The Group continues to benefit from the flexibility afforded by the strength of its balance sheet, with minimal leverage and continuing strong cash generation.

We will continue to follow our strategy of investing in areas of robust profit opportunity, notably in Specialist Technologies, and in further enriching the mix towards higher added value services in Classical Heat Treatment.

The background of the image is a classic marbled paper pattern, featuring intricate, swirling, and organic shapes in various shades of blue, grey, and white. The pattern is dense and covers the entire frame.

Bodycote

Definitions

Term	Definition
Headline operating profit	Operating profit before exceptional costs and amortisation of acquired intangibles
Headline profit before tax	Profit before tax, exceptional costs and amortisation of acquired intangibles
Headline operating cash flow	Cash generated by operations, less net capital expenditure and before cash flow relating to exceptional items
Headline EBITDA	Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets, profit or loss on disposal of property, plant and equipment, cash flow relating to restructuring, acquisition costs and share-based payments
Headline EPS	Earnings per share excluding exceptional costs and tax on exceptional costs

H1 2016 Statutory income statement

£m	H1 2016	H1 2015
Revenue	291.0	299.8
Headline operating profit	49.3	54.1
Amortisation of acquired intangible fixed assets	(2.2)	(2.1)
Reorganisation costs	-	(19.9)
Operating profit	47.1	32.1
Net finance costs	(1.2)	(1.5)
Profit before tax	45.9	30.6
Headline earnings per share (pence)	H1 2016	H1 2015
Basic	18.3p	21.1p

H1 2016 Cash flow

£m	H1 2016	H1 2015
Headline operating profit	49.3	54.1
Add back: Depreciation and amortisation	26.0	26.0
Share-based payments	1.6	0.8
Headline EBITDA	76.9	80.9
Net capital expenditure	(31.0)	(29.2)
Net working capital movement	(7.9)	(11.5)
Headline operating cash flow	38.0	40.2
Restructuring	(4.3)	(3.5)
Operating cash flow	33.7	36.7
Financing costs	(0.9)	(1.2)
Tax	(11.9)	(14.9)
Free cash flow	20.9	20.6
Dividends	(38.6)	(56.9)
Other	(0.1)	(6.4)
Reduction in net cash	(17.8)	(42.7)
Net debt	(5.5)	(7.0)

Net capex to depreciation ratio 1.2 times

Includes payment of 2015 Special Dividend (£19m)

Specialist Technologies

What are they?

 HIP	HIP Services <ul style="list-style-type: none">▪ Application of high temperature and pressure to densify cast material▪ Removal of porosity defects improves strength, toughness and machinability▪ Can eliminate internal voids created by additive manufacturing methods
 HIP PF	HIP Product Fabrication <ul style="list-style-type: none">▪ Method of manufacturing components by HIP technology using powder or solid▪ Can create parts with the complexity of a casting but the strength of a forging▪ Can be used to produce materials that can't be manufactured by any other means
 S3P	Specialty Stainless Steel Processes <ul style="list-style-type: none">▪ A family of proprietary technologies for the treatment of stainless steel▪ Unique solution for improving the strength, hardness and wear resistance of stainless steels▪ Does not affect the inherent corrosion-resistant properties of stainless steel
 ST	Surface Technology <ul style="list-style-type: none">▪ Comprises thermally sprayed ceramic and metallic coatings, and chemically-formed ceramics▪ Prolongs component life by protecting from corrosion, abrasion and temperature▪ Leads to reduced environmental impact by eliminating chrome
 LPC	Low Pressure Carburising <ul style="list-style-type: none">▪ A 'clean' heat treatment process carried out under vacuum▪ Provides a hardened surface and tough core – improves wear resistance and fatigue life▪ Environmentally friendly
 CI-D	Corr-I-Dur® <ul style="list-style-type: none">▪ Proprietary heat treatment process for improving corrosion resistance and wear properties▪ Successful alternative to hard chromium▪ Leads to reduced environmental impact by eliminating chrome
 I2P	Ion Implantation Processes <ul style="list-style-type: none">▪ Surface treatment using macro scale ion beams▪ Ideal for manipulating the material properties of temperature sensitive substrates such as thin metal parts and polymers

Net finance charge/facilities

£m	H1 2016	H1 2015
Net interest payable	-	0.1
Financing and bank charges	1.0	1.2
Pension finance charge	0.2	0.2
Net finance charge	1.2	1.5

- Committed facility headroom of £230m at 30 June 2016, £5.4m drawn
- The remaining life of the £230m committed facility is 3 years
- Closing net debt of £5.5m

Pension analysis

£m	H1 2016	H1 2015	FY 2015
UK Funded	(1.0)	0.8	2.7
Other Western Europe Funded	2.3	1.7	2.0
Other Western Europe Unfunded	14.3	12.6	12.6
Western Europe Total	15.6	15.1	17.3
North America Funded	0.5	0.6	0.5
Emerging Markets Unfunded	0.1	0.1	0.1
Total retirement benefit obligations	16.2	15.8	17.9

£m	H1 2016	H1 2015	FY 2015
Western Europe Unfunded:			
Italy	0.7	0.6	0.6
France	9.7	8.2	8.6
Germany	3.9	3.8	3.4
	14.3	12.6	12.6

Shares in issue	H1 2016	H1 2015
Weighted average	190.1m	190.0m

Exchange rates		H1 2016	H1 2015
EUR	Average (P&L)	1.29	1.37
	Closing (B/S)	1.20	1.41
USD	Average (P&L)	1.43	1.53
	Closing (B/S)	1.32	1.57
SEK	Average (P&L)	11.92	12.77
	Closing (B/S)	11.29	13.04

Analysis by currency, H1 2016:

	Sales	Operating profit
EUR	38%	48%
USD	37%	45%
SEK	6%	3%