

2014 Full Year Results

26 February 2015

 **Bodycote**

Introduction



Stephen Harris

Chief Executive



Agenda



Highlights

Financial review

Business review

Outlook



Highlights

- Encouraging revenue growth, before adverse exchange effects
- Further increases in Group headline margin and operating profit
- Return on Capital Employed increased 80 basis points to 20.7%
- Net cash of £36m
- Final ordinary dividend of 9.8p, 14.4p for the year, up 7%
- Special dividend of 20.0p

Financial review



David Landless

Finance Director



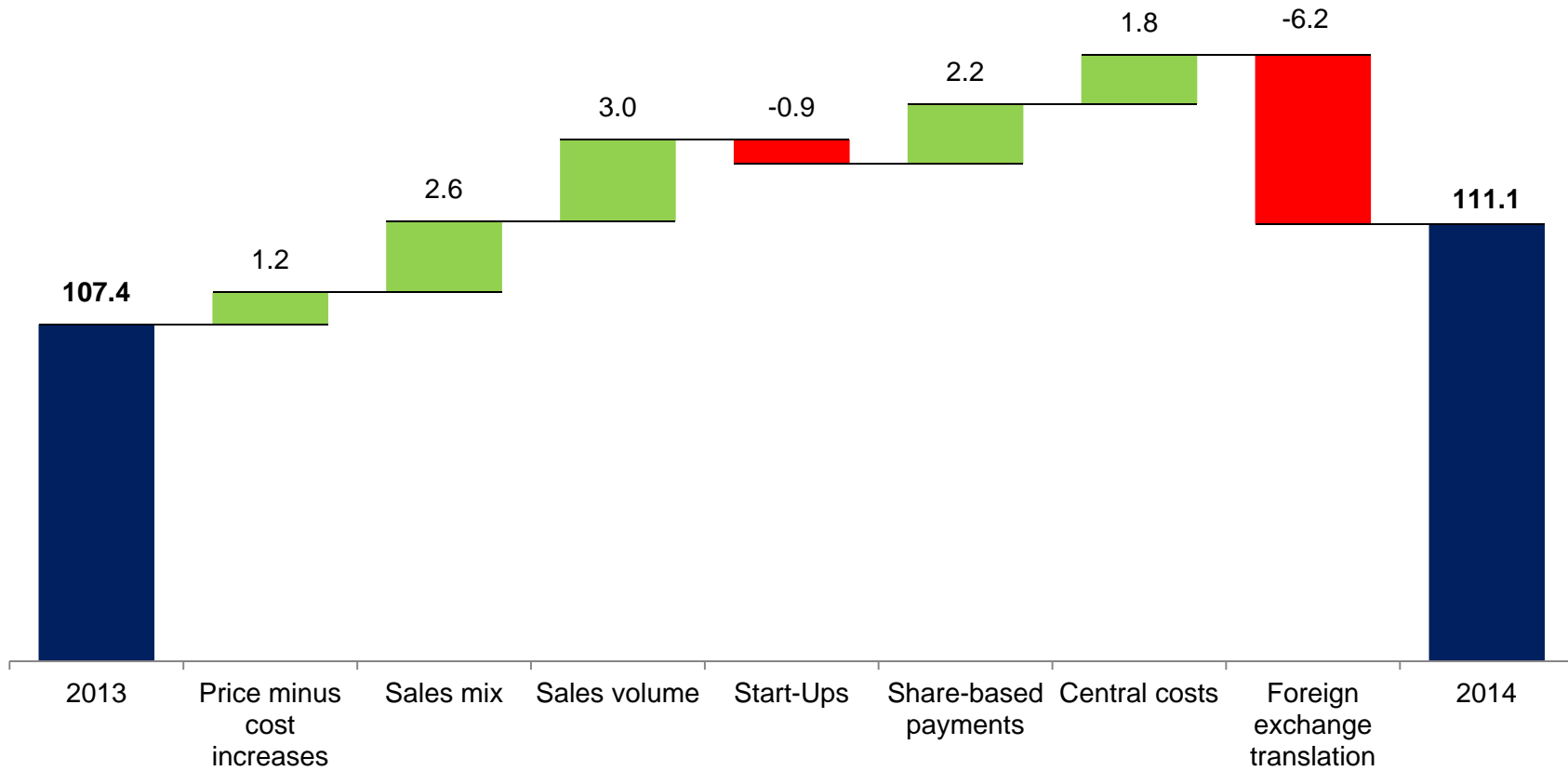
2014 Results summary



£m		2014	2013	change	constant currency
Revenue		609.1	619.6	-2%	4%
Headline:	Operating profit	111.1	107.4	3%	9%
	Margin	18.2%	17.3%	90 bp	
	Profit before tax	107.8	103.7	4%	10%
Net cash		35.7	15.0		
Headline EPS		43.8p	41.2p	6%	
Return on Capital Employed		20.7%	19.9%	80 bp	
Dividend					
	Ordinary	14.4p	13.5p	7%	
	Special	20.0p	10.0p		

Headline operating profit bridge

£m



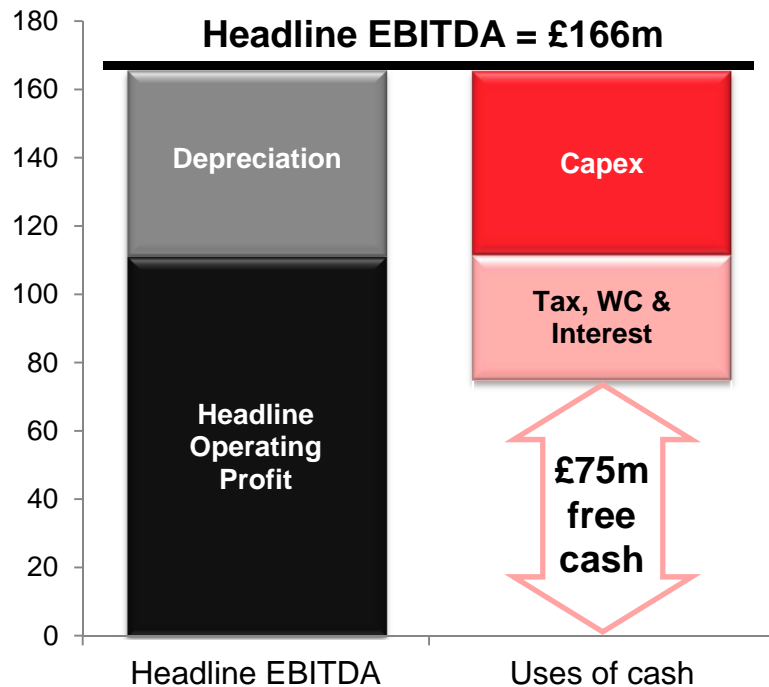
Divisional summary



£m	2014	2013	change	constant currency
ADE Divisions				
Revenue	263.0	261.8	-	5%
Headline Operating Profit	70.6	70.7	-	4%
<i>Margin</i>	26.8%	27.0%		
AGI Divisions				
Revenue	346.1	357.8	-3%	3%
Headline Operating Profit	54.1	52.7	3%	9%
<i>Margin</i>	15.6%	14.7%		

2014 Cash flow

£m

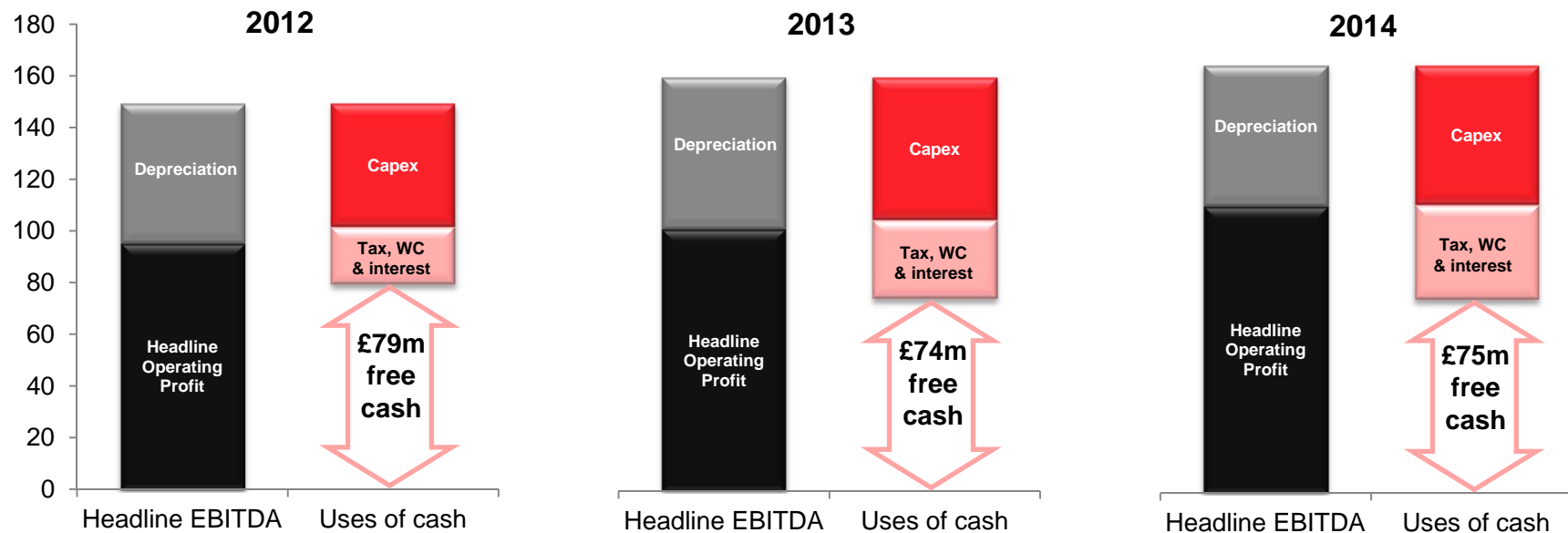


- Capex covered by depreciation
- Maintenance / expansionary capex split approx 50:50
- Low working capital
- 39.5p free cash per share

See slide 33 for detailed cash flow disclosure

Cash performance

£m, at constant currency

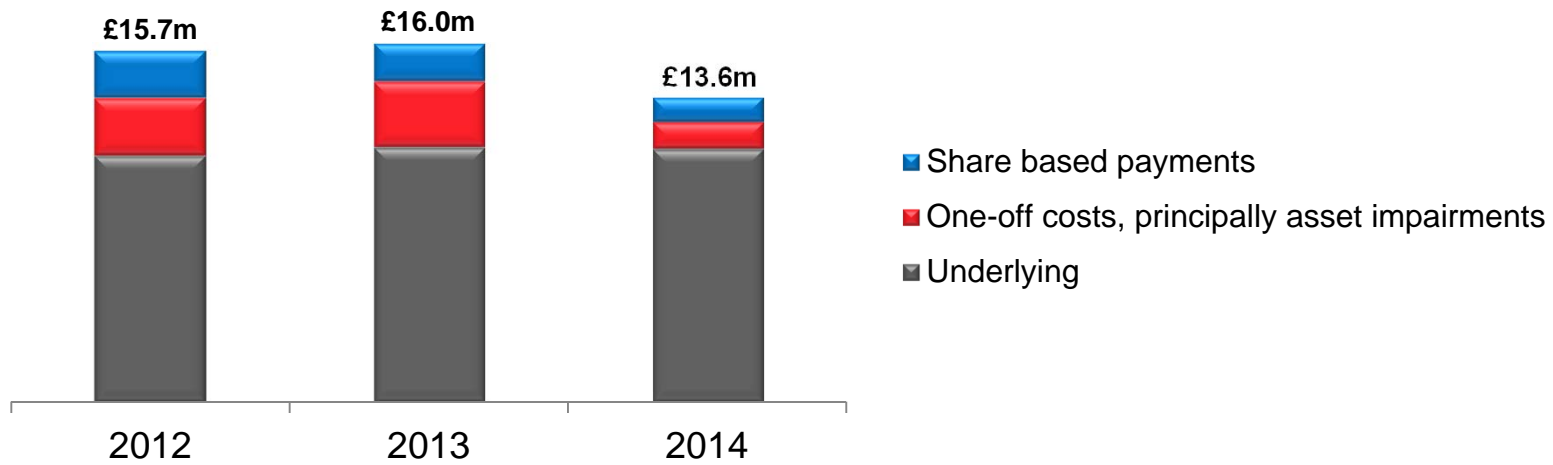


- Consistent alignment of capex and depreciation
- Free cash a major element of Bodycote's value creation – whether invested in acquisitions or returned to shareholders

Central costs



Underlying central costs



Notes



Currency

	\$	€
2014 Average exchange rate	1.65	1.24
Today's exchange rate	1.54	1.36
Potential effect on 2015 headline operating profit (£m)	4.4	(4.8)

Finance charges

£m	2014	2013
Net interest payable	0.2	0.6
Financing & other costs	2.5	2.5
Pension finance charge	0.6	0.6
Net finance charge	3.3	3.7

Taxation

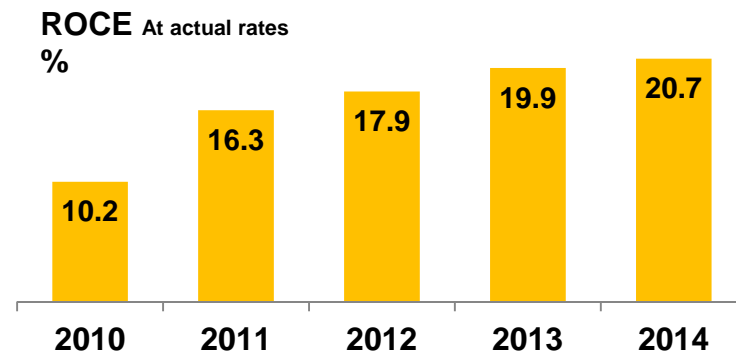
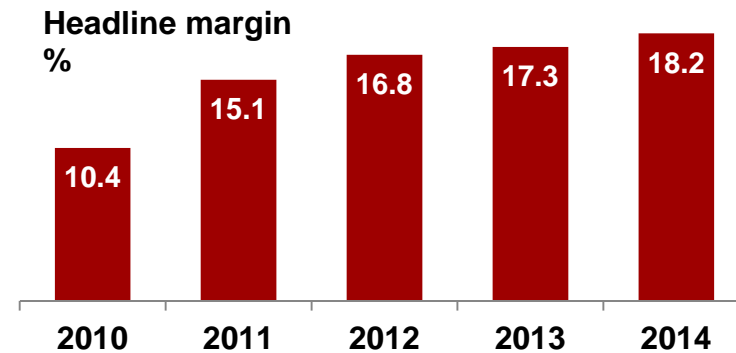
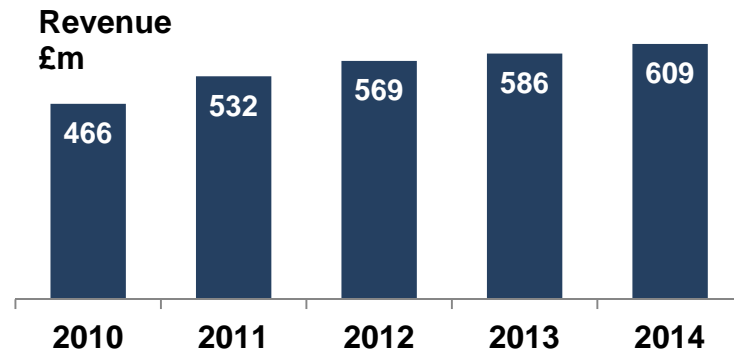
- Effective tax rate 23.5% (2013: 25.7%)
- 2014 benefitted from a one-off settlement

Financial summary

- 4% constant currency revenue growth
- Headline operating profit up 9% at constant currency
- Headline margin 18.2%, up 90 basis points
- Return on capital employed up 80 basis points to 20.7%
- Headline operating cash of £100m, 90% conversion
- Net cash of £36m

Five year perspective

At 2014 exchange rates



Business review



Stephen Harris

Chief Executive



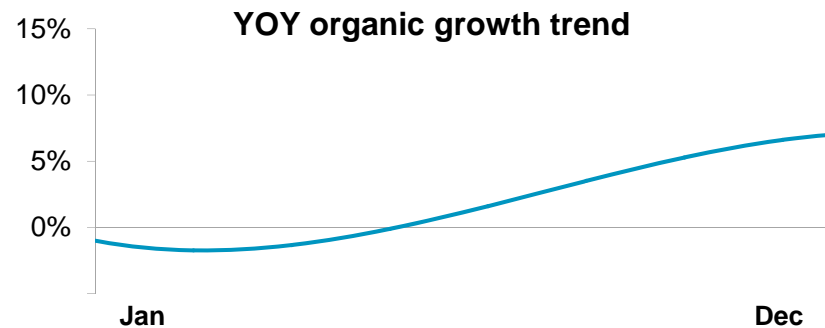
Low Pressure Carburising (LPC)

LPC is a case hardening process carried out in a vacuum furnace using hydrocarbon gases at very low pressure and elevated temperatures to obtain a hardened surface layer of tempered martensite and a tough core. The treatment is used to increase the wear resistance and fatigue life of components.

Aerospace & Defence

Revenue: £133m

Constant currency growth: 1.7%

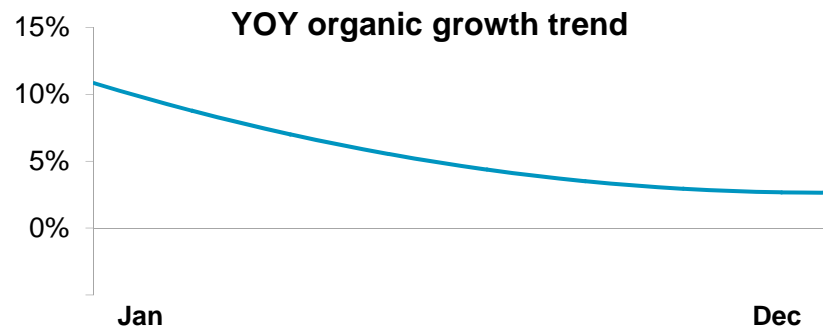


- Defence down 6%, weak in both North America and Europe
- Defence (including dual-use) approx 5% of total Group revenue
- Aerospace up 4%
- UK Aero revenue down 7%, impacted by OEM structural changes
- North America and France achieved good Q4 growth, following earlier weakness from platform changeovers

Energy

Revenue: £84m

Constant currency growth: 7.4%



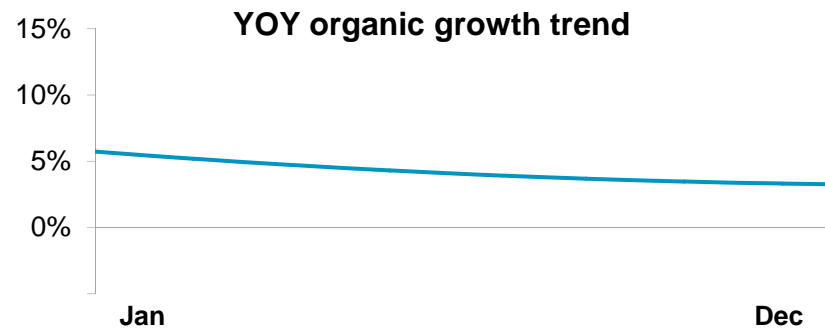
- Oil & Gas strongly ahead; 2013 impacted by severe destocking
- On-shore growth weakened as year progressed
- Strong sub-sea growth, driven by rapid adoption of HIP PF
- Power generation revenue softened with falling demand for new industrial gas turbines

Automotive



Revenue: £151m

Constant currency growth: 4.1%



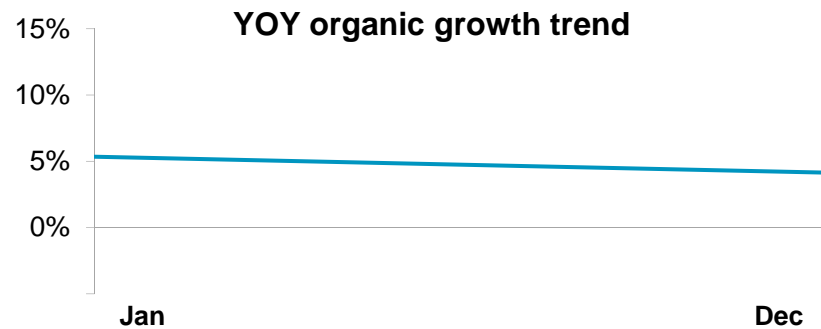
- Car & light truck up 5%
- North America grew strongly driven by continued market share gains
- Improved sales & marketing efforts, particularly in France and Germany, delivered good growth in Europe
- Heavy truck down 1%, growth in North America offset by decline in Western Europe
- Emerging markets grew strongly

General Industrial



Revenue: £241m

Constant currency growth: 4.2%



- Strong outperformance versus the market in Western Europe
- Tooling, construction equipment and general machinery sales were robust
- S³P market expansion delivered strong growth, particularly in Medical
- Mining now <1% of Group revenue

Classical Heat Treatment and Specialist Technologies

Classical Heat Treatment

- Bodycote's traditional business including:
 - Nitriding
 - Carburising
 - Annealing
 - Tempering
 - and many more...

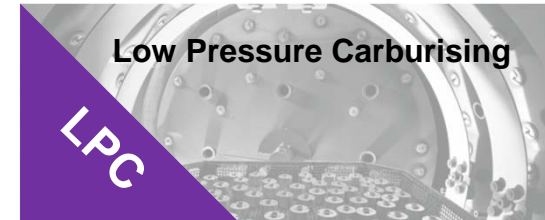
Specialist Technologies

- Six Bodycote technologies with:
 - high growth rates
 - margins in excess of 30%
 - great future potential
- Increasingly the focus of Group investment

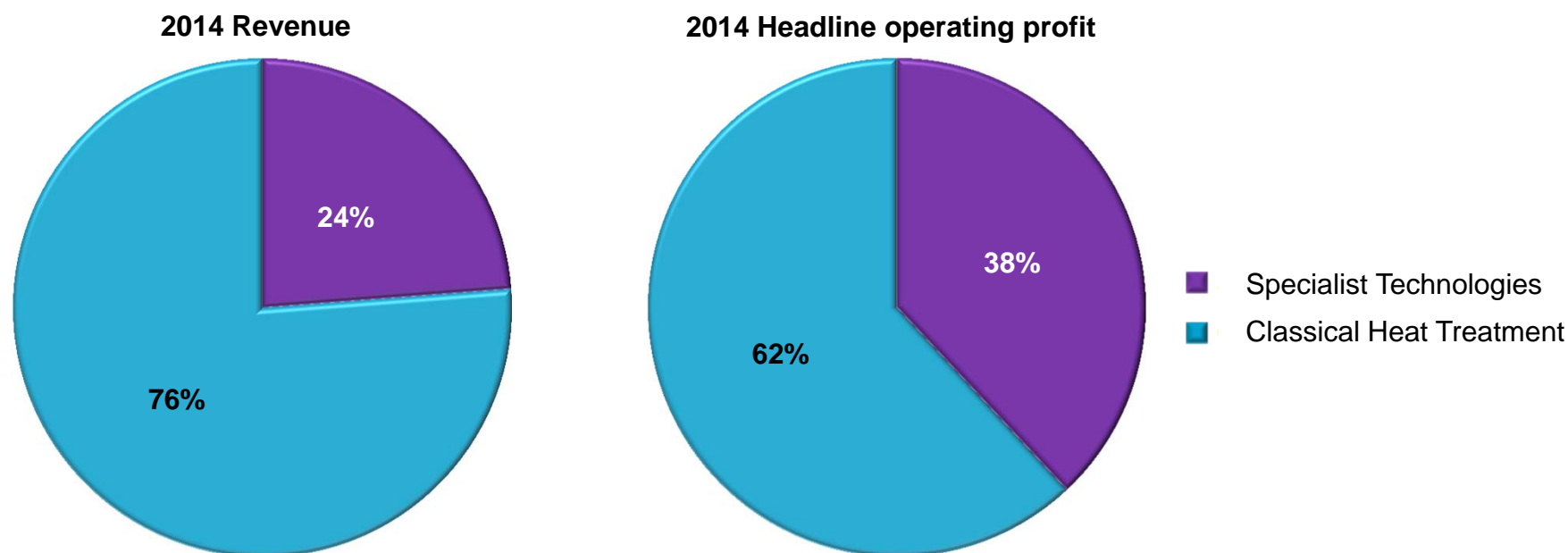
Different growth rates, margins and development routes

Specialist Technologies

What are they?



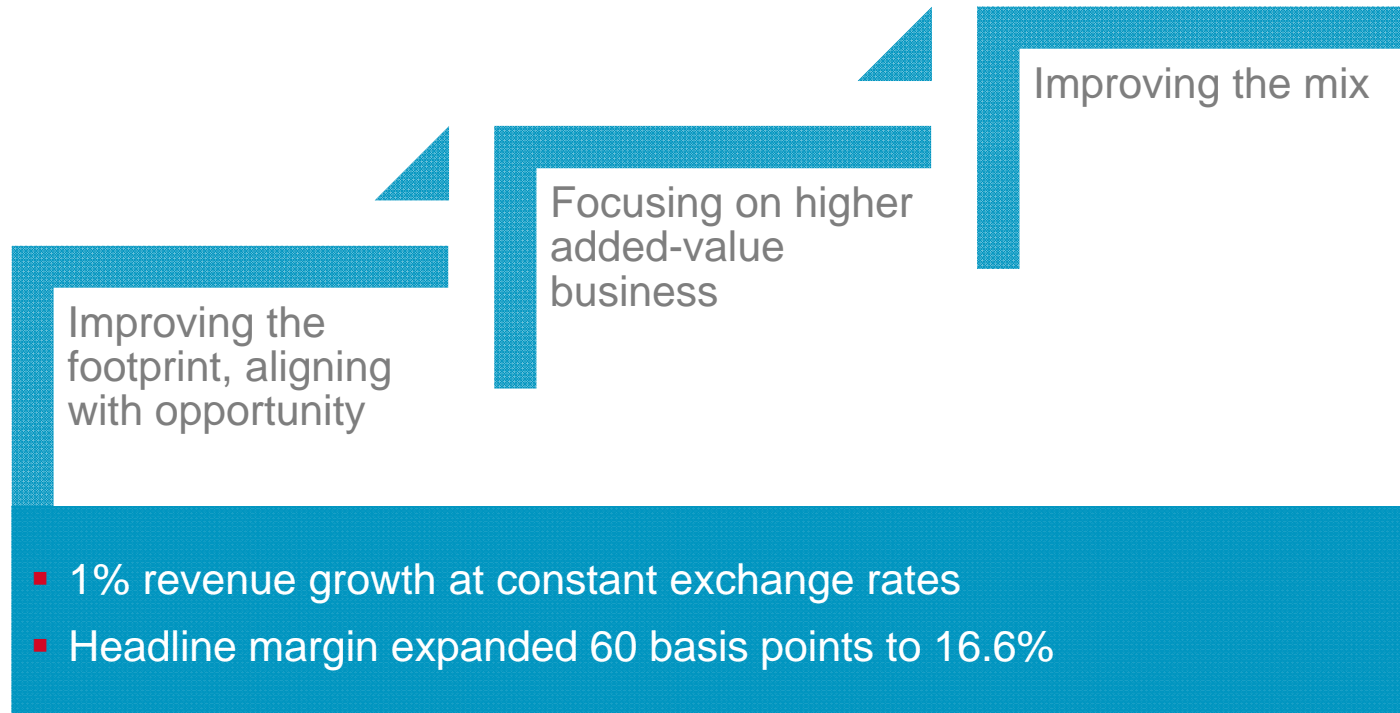
2014 Revenue & headline operating profit split



- Specialist Technologies now 24% of total Group revenue, up from 14% in 2007

Performance

Classical Heat Treatment



Business developments

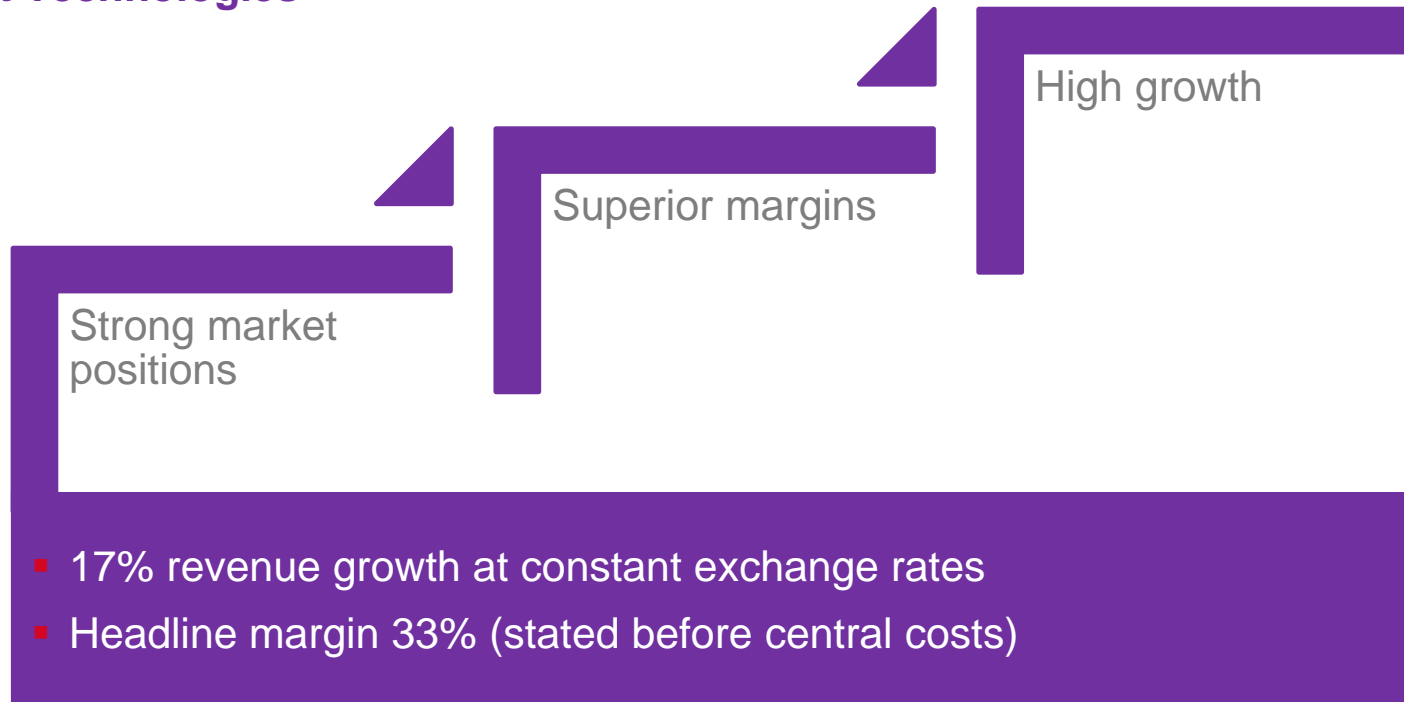
Classical Heat Treatment



- Further expansion into rapid growth countries (greenfields opened in China and Turkey; capacity additions in Mexico)
- Focus on improved efficiency including exit from several uneconomic, commodity oriented facilities in Europe
- Continued mix improvements utilising the Bodycote Margin Model
- Aerospace capacity expanded in France and North America

Performance

Specialist Technologies



Business developments

Specialist Technologies

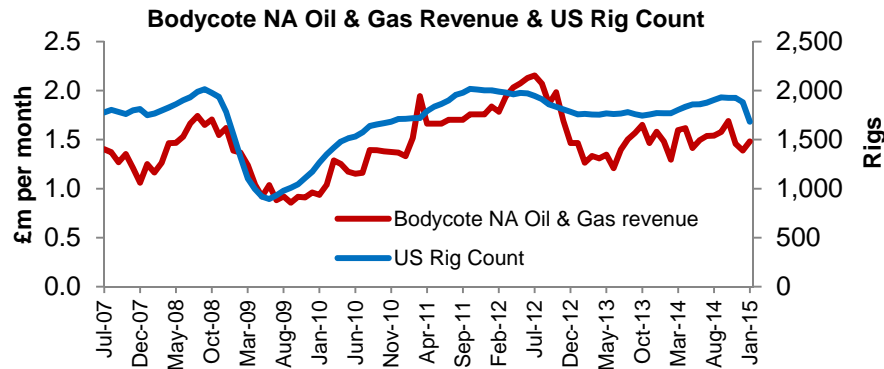


- S³P - Capacity enhanced, good revenue growth
- ST - Contract win for thermal spray on landing gear
- HIP Services - High pressure capacity added in North America
- HIP PF - Very strong revenue growth, mainly from sub-sea
- CiD - Good revenue growth in developed economies, capacity added in Eastern Europe
- LPC - New contract wins with Automotive OEMs in both North America and Europe

Looking ahead

Oil & Gas

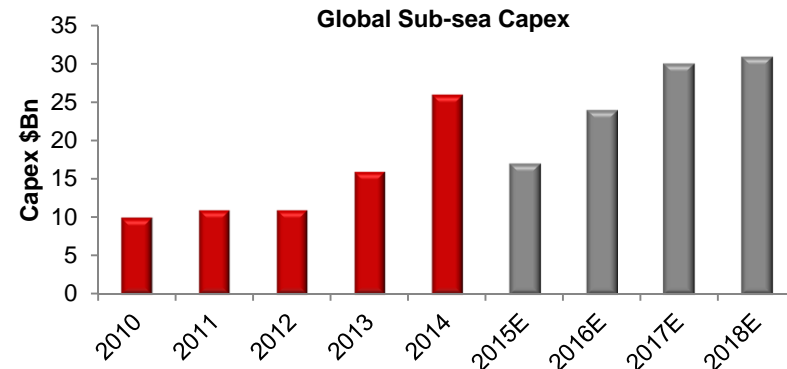
10% of Group revenue



Source: Baker Hughes, Bodycote revenue

Onshore & offshore

- High correlation of revenue with rig count
- Approximate 3 month lag
- Majority of work is wear parts
- Demand expected to reduce as the year progresses



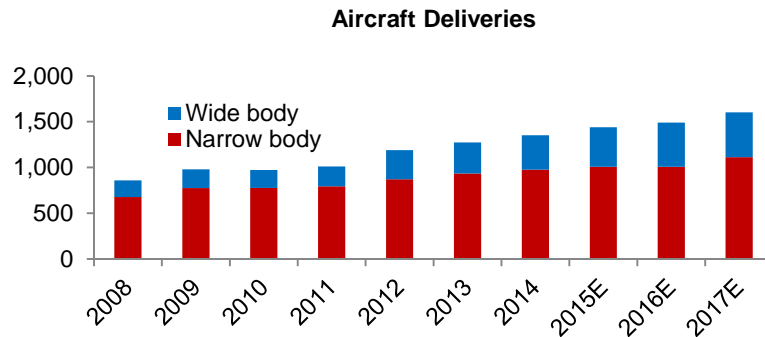
Source: Infield Systems, Jan 2015

Sub-sea

- Major projects, long lead times
- Long-term trend positive
- Oil price effect on new sub-sea projects uncertain

Looking ahead

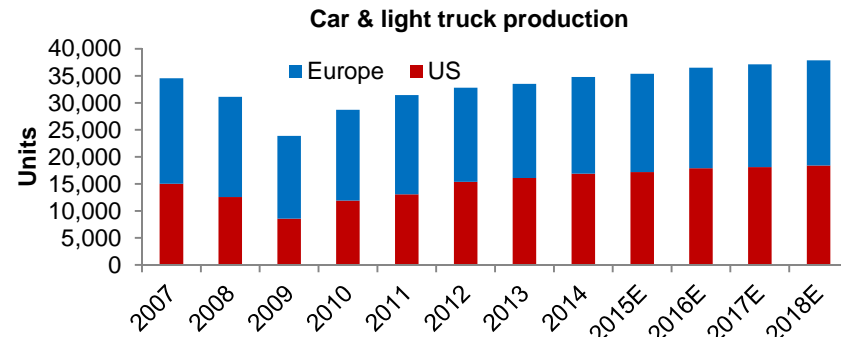
Aerospace 17% of Group revenue



Source: Boeing & Airbus, Credit Suisse estimates

- Good penetration on LEAP engine programme
- UK will continue to be affected by OEM structural changes, recovery expected post 2016
- Expansion in France driven by A350 build rate

Automotive – Car & light truck 20% of Group revenue



Source: Robert W. Baird & Co.

- Steady build-rate growth forecast to continue in US and Europe
- Low oil prices should boost automotive demand
- Expect to outperform general Auto demand due to:
 - Benefit from adoption of Specialist Technologies – LPC, S³P and CiD
 - Weighting towards premium autos

The Group delivered another good performance in 2014. Revenue, at constant exchange rates, was ahead 4% and we achieved further improvement in margin and return on capital employed, in addition to strong cash generation.

As we begin 2015 a number of macro-economic uncertainties persist. Nevertheless, at this early stage in the year, the Board believes that the strength of the Group's Specialist Technologies and management's continued focus on business improvement, particularly in the Classical Heat Treatment business, should enable further progress in 2015.



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
Headline Operating Cash Conversion	Headline operating cash flow divided by headline operating profit
ROCE	Headline operating profit divided by the average of opening and closing capital employed as adjusted for certain items of goodwill written off
Capital Employed	Net assets adjusted for net cash/(debt)

2014 Statutory income statement



£m	2014	2013
Revenue	609.1	619.6
Headline operating profit	111.1	107.4
Amortisation of acquired intangible fixed assets	(3.9)	(4.5)
Acquisition costs	(0.2)	-
Reorganisation costs	-	(0.8)
Operating profit	107.0	102.1
Net finance costs	(3.3)	(3.7)
Profit before tax	103.7	98.4
Headline earnings per share (pence)	2014	2013
Basic	43.8p	41.2p

Cash flow detail



£m	2014	2013
Headline operating profit	111.1	107.4
Add back: Depreciation and amortisation	52.5	57.9
Share-based payments	1.9	3.6
Headline EBITDA	165.5	168.9
Net capital expenditure	(53.8)	(57.3)
Net working capital movement	(11.7)	(2.7)
Headline operating cash flow	100.0	108.9
Restructuring	(3.0)	(4.3)
Acquisition expenses	(0.2)	-
Operating cash flow	96.8	104.6
Financing costs	(2.7)	(3.3)
Tax	(19.0)	(22.5)
Free cash flow	75.1	78.8
Acquisitions	(2.7)	-
Dividends	(45.2)	(24.0)
Other	(6.5)	(5.6)
Increase in net cash	20.7	49.2

Net capex to depreciation ratio
1.0 times (Gross ratio = 1.1 x)

Includes payment of 2013
Special Dividend (£19.1m)

Specialist Technologies

What are they?

<p>HIP</p> <p>HIP Services</p>	<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
<p>HIP PF</p> <p>HIP Product Fabrication</p>	<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
<p>S₃P</p> <p>Specialty Stainless Steel Processes</p>	<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
<p>ST</p> <p>Surface Technology</p>	<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
<p>LPC</p> <p>Low Pressure Carburising</p>	<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
<p>CiD</p> <p>Corr-I-Dur®</p>	<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

Net finance charge/facilities



£m	2014	2013
Net interest payable	0.2	0.6
Financing costs	1.6	1.5
Other charges	0.9	1.0
Pension finance charge	0.6	0.6
Net finance charge	3.3	3.7

- Interest payable: decrease due to lower average net debt
- Financing costs: higher following extension of RCF in July 2014
- Average remaining life of committed facility is 4.5 years
- Committed facility headroom of £230m at 31 December 2014
- Closing net cash of £36m

Pension analysis



£m	2014	2013
UK Funded	1.0	4.8
Other Western Europe Funded	1.6	1.2
Other Western Europe Unfunded	13.7	12.1
Western Europe Total	16.3	18.1
North America Funded	0.6	0.2
Emerging Markets Unfunded	0.1	0.2
Total retirement benefit obligations	17.0	18.5

£m	2014	2013
Western Europe Unfunded:		
Italy	0.7	0.6
France	8.9	8.2
Germany	4.1	3.3
	13.7	12.1

Financial information

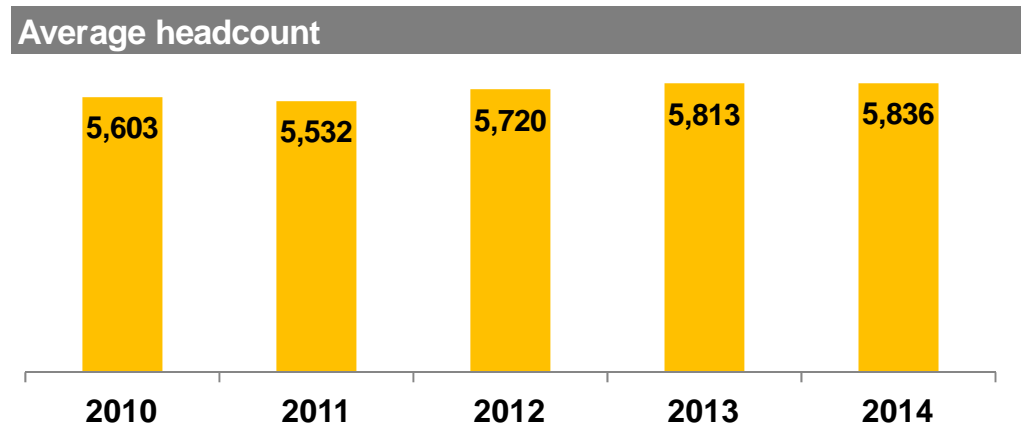


Shares in issue	2014	2013
Weighted average	190.2m	189.4m

Exchange rates		2014	2013
EUR	Average (P&L)	1.24	1.18
	Closing (B/S)	1.29	1.20
USD	Average (P&L)	1.65	1.56
	Closing (B/S)	1.56	1.66
SEK	Average (P&L)	11.31	10.20
	Closing (B/S)	12.16	10.64

Analysis by currency:	Sales	Profit
EUR	36%	38%
USD	34%	44%
SEK	8%	8%

Financial ratios	2014	2013
Net Debt : Headline EBITDA	net cash	net cash
Headline EBITDA Interest Cover	827x	282x
Gearing (Net Debt:Total Equity)	net cash	net cash



Divisional summary – 2014 H1 v H2



£m

ADE Divisions	H1	H2	Total
Revenue	133.5	129.5	263.0
Headline operating profit	36.0	34.6	70.6
<i>Margin</i>	27.0%	26.7%	26.8%

AGI Divisions	H1	H2	Total
Revenue	178.8	167.3	346.1
Headline operating profit	25.3	28.8	54.1
<i>Margin</i>	14.1%	17.2%	15.6%