

# 2016 Full Year Results

28 February 2017

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**

**Stephen Harris**

*Group Chief Executive*



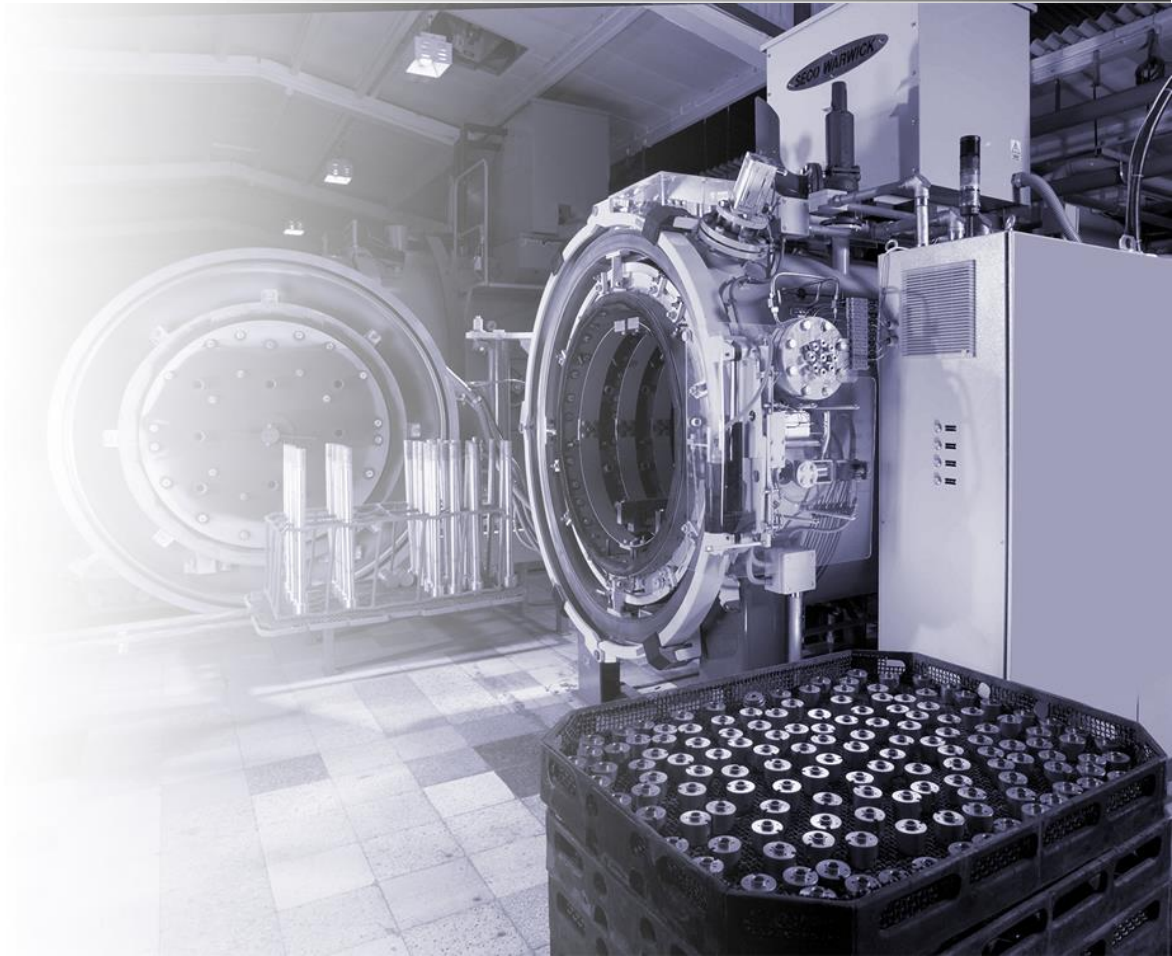
# Agenda

Overview

Financial review

Business review

Summary & Outlook



- Revenue
  - Like-for-like\* decline of 3.5%
  - Group – excl. energy flat
  - Energy -27%
- Headline operating margin – 16.6% (2015: 18.0%)
- Strong cash flow – £1m year end net cash
- Business development
  - Investment for growth, capex at 1.1x depreciation
  - 5 new AGI sites acquired for £30m
  - Specialist Technologies now 42% of operating profit
- Final dividend – 10.8p, up 4.9%
- Special dividend – Nil for 2016, attractive acquisition pipeline ahead

**Dominique Yates**  
*Chief Financial Officer*



# 2016 Results summary

£m	2016	2015	Constant exchange rates		Currency	Total change	
Revenue	600.6	567.2	(26.7)	-5%*	60.1	33.4	6%
Headline: Operating profit	99.6	102.1	(13.7)	-13%	11.2	(2.5)	-2%
Margin	16.6%	18.0%					
Profit before tax	97.0	99.2	(13.4)	-14%	11.2	(2.2)	-2%
Restructuring charge	-	(20.0)					
<i>Headline tax rate</i>	27.5%	24.4%					
Net cash	1.1	12.3					
Headline EPS	37.0p	39.5p					-6%
Return on Capital Employed	17.1%	19.0%					
Dividend							
Ordinary	15.8p	15.1p					5%
Special	-	10.0p					

# Divisional summary

## ADE

£m	2016	2015	Constant exchange rates		Currency	Total change	
Revenue	250.9	243.5	(16.4)	-7%	23.8	7.4	3%
Headline operating profit	55.6	59.2	(9.0)	-15%	5.4	(3.6)	-6%
<i>Margin</i>	<b>22.2%</b>	<b>24.3%</b>					

- Constant currency revenue decline entirely due to >40% oil & gas decline
- Cost discipline mitigated margin reduction
- Headline operating margins reduced to 22%

# Divisional summary

## AGI

£m	2016	2015	Constant exchange rates		Currency	Total change	
Revenue	349.7	323.7	(10.3)	-3%	36.3	26.0	8%
Headline operating profit	58.5	53.4	(1.2)	-2%	6.3	5.1	10%
<i>Margin</i>	<i>16.7%</i>	<i>16.5%</i>					

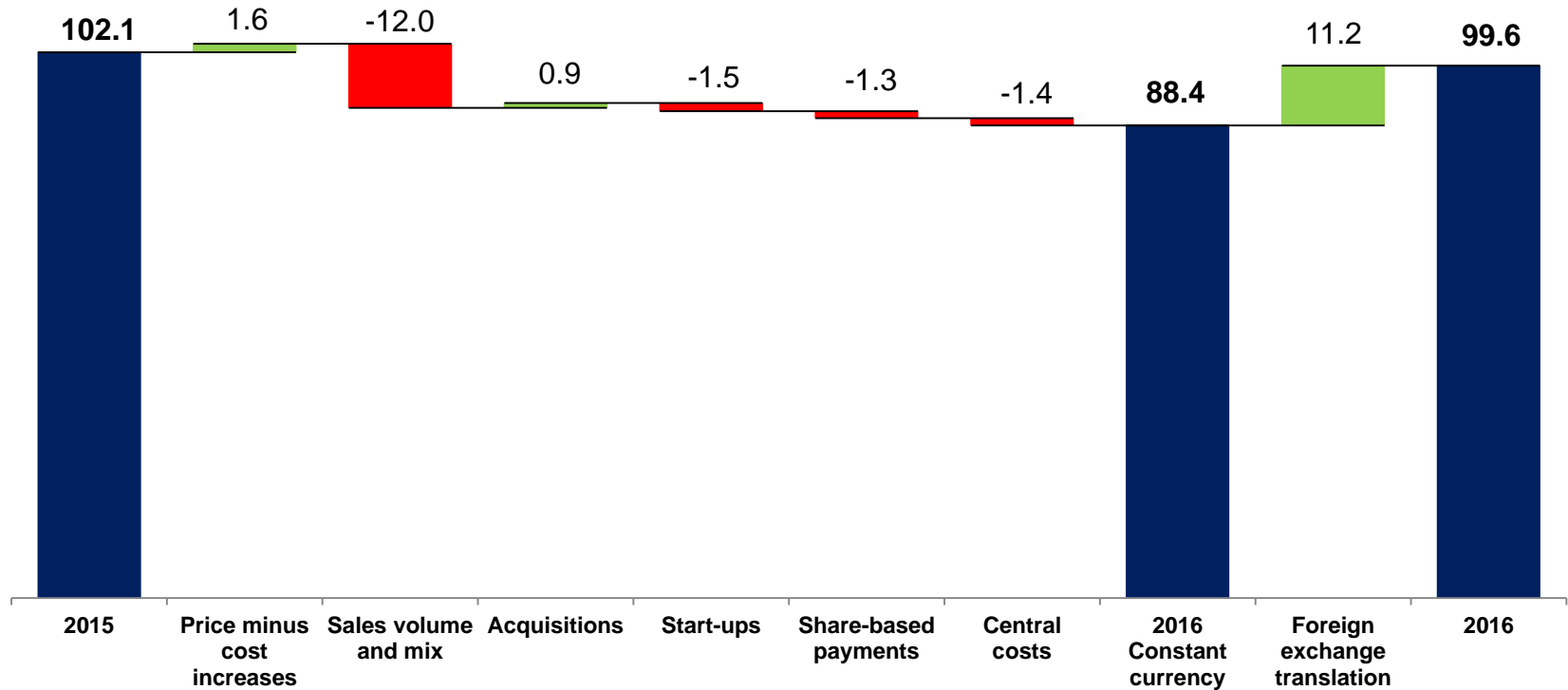
- Business mix continues to improve; tight cost control
- Headline margin up 20bps to 16.7%
- Like-for-like\* revenues declined only 1.8%

\*Like-for-like YoY revenue growth rates are at constant exchange rates and exclude acquisitions, closed sites and Brazil



# Headline operating profit bridge

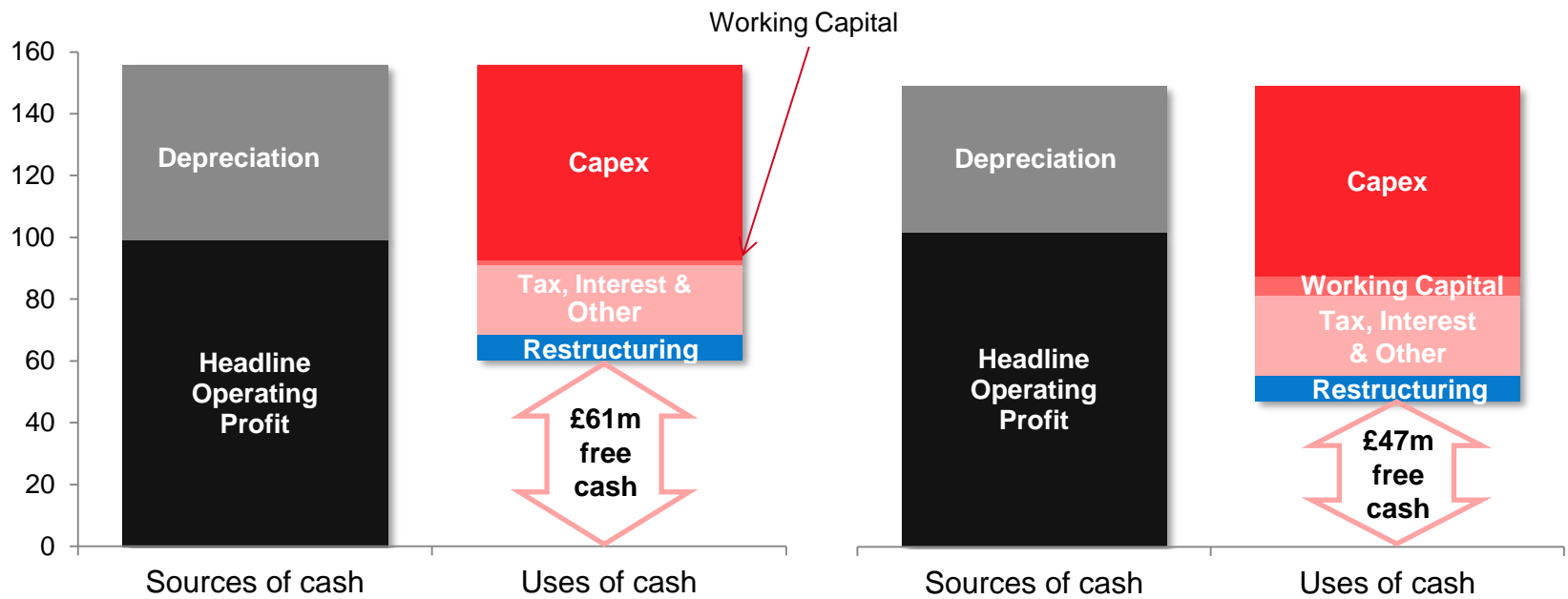
£m



# Cash flow

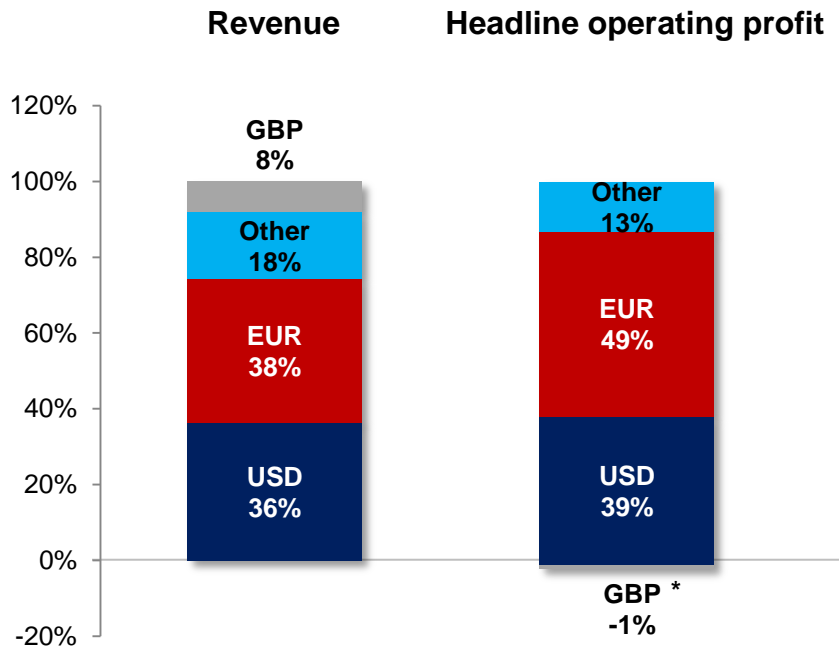
2016

2015



See slide 31 for detailed cash flow disclosure

# 2016 Sales and operating profit by currency



- Every US dollar cent worth c.£0.3m
- Every Euro cent worth c.£0.4m
- 2016 operating profit benefited by £11.2m translation gain, mainly part year effect of post-referendum sterling depreciation
- **Translating the 2016 results at year end rates would have added a further £6m and enhanced margin by 0.1%**

\*GBP profits negative due to central costs

# A newcomer's perspective

5 key attractions:

- Returns – The Group's strong margins support compelling returns on capital
- Cash flow – Intrinsic high cash generation
- Uniqueness – The only big player in an enduring industry where scale has clear benefits
- Technology – “Specialist Technologies” – clever stuff that requires significant expertise, with clear benefits for customers, and great margins
- The cycle – Resilient in the downturn, positive prospects in the upturn

**Stephen Harris**

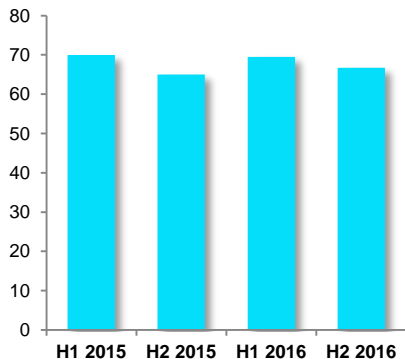
*Group Chief Executive*



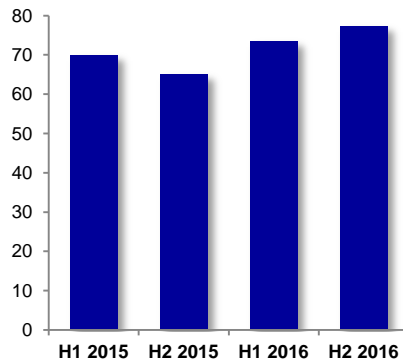
Revenue: £151m

Like-for-like\* growth: 1.0%

Revenue, £m  
At constant rates



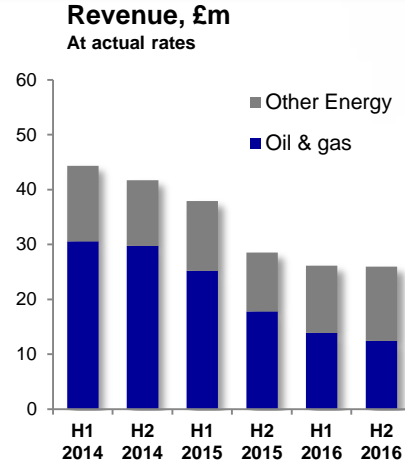
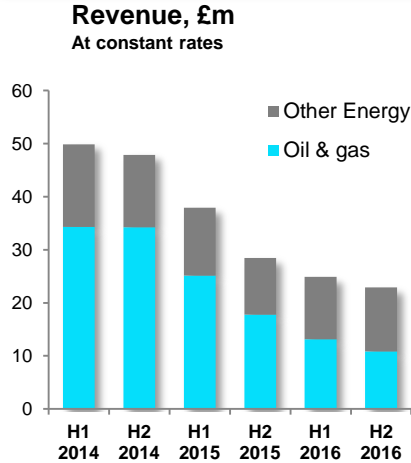
Revenue, £m  
At actual rates



- Strong growth in UK aerospace, particularly in H2
- Continued robust growth in France
- North America mixed

Revenue: £52m

Like-for-like\* decline: -26.8%



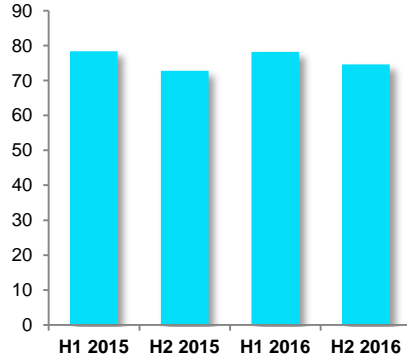
- Oil & gas decline stabilising
- Other energy sectors flat
- Energy business still achieving single-digit margins



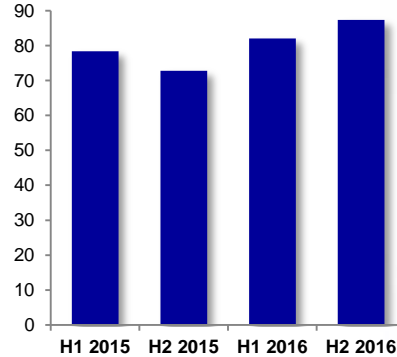
Revenue: £172m

Like-for-like\* growth: 1.6%

Revenue, £m  
At constant rates



Revenue, £m  
At actual rates



- Drive for fuel efficiency continues to grow revenues above background production rates
- Car and light truck H1 growth\* of 3% accelerated to 6% in H2
- Specialist Technologies contributing to revenue growth
- Reduced activity in heavy trucks

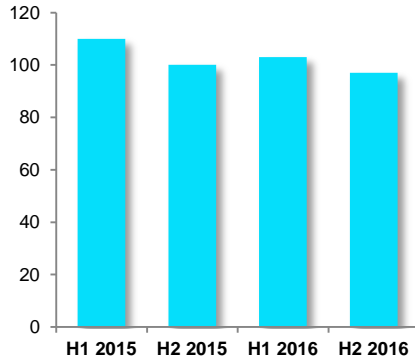
\*Like-for-like YoY revenue growth rates are at constant exchange rates and exclude acquisitions, closed sites and Brazil



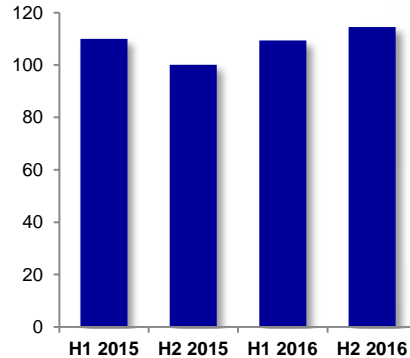
Revenue: £226m

Like-for-like\* decline: -3.3%

Revenue, £m  
At constant rates



Revenue, £m  
At actual rates

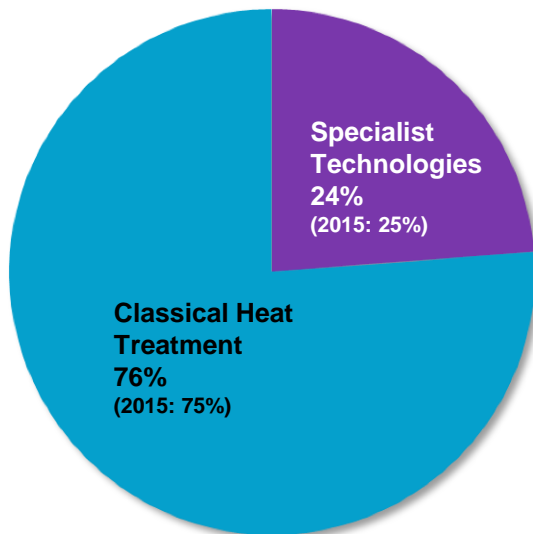


- Cyclical decline in general industrial abating
- Less downward pressure from feed-through effect of oil & gas and other resource sectors
- -5% in H1 revenue moderated to -1% in H2

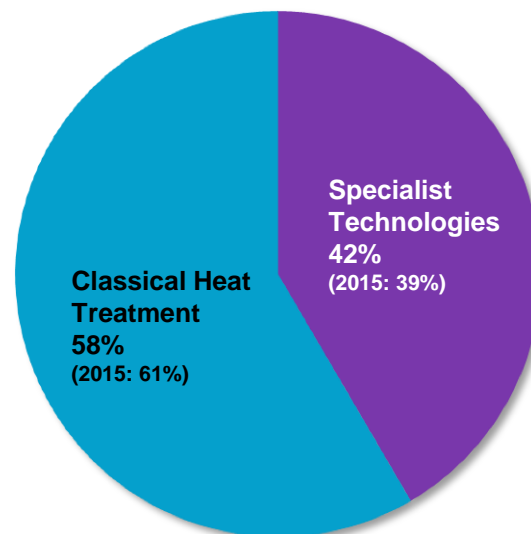


# 2016 Revenue & headline operating profit

## Revenue



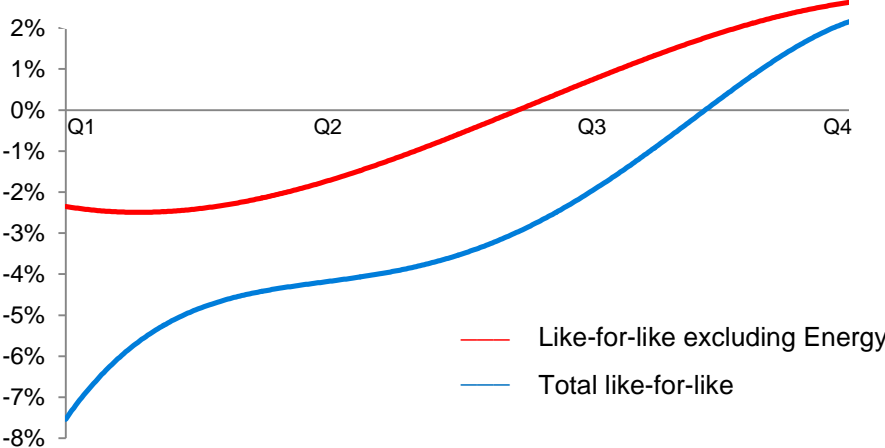
## Headline operating profit



- Specialist Technologies headline operating profit now 42% of Group
- Excluding oil & gas, Specialist Technologies constant currency revenues grew 8%

# Improving revenue trend through 2016

### YoY like-for-like\* revenue growth



\*Like-for-like YoY revenue growth rates are at constant exchange rates and exclude acquisitions, closed sites and Brazil

# Investing in future growth

## Classical Heat Treatment



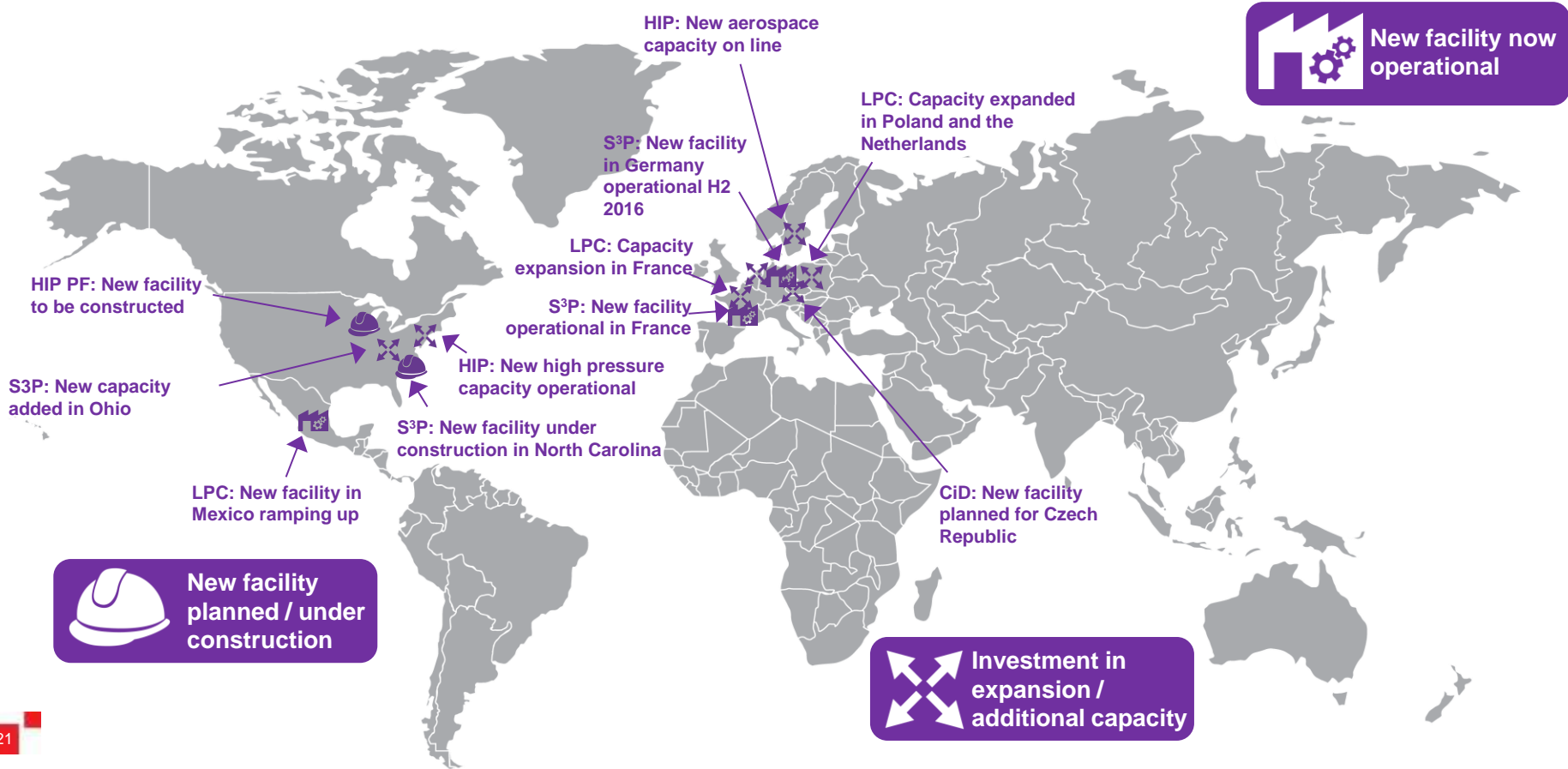
**AGI**  
Further expansion



**ADE**  
Significant investment in aerospace

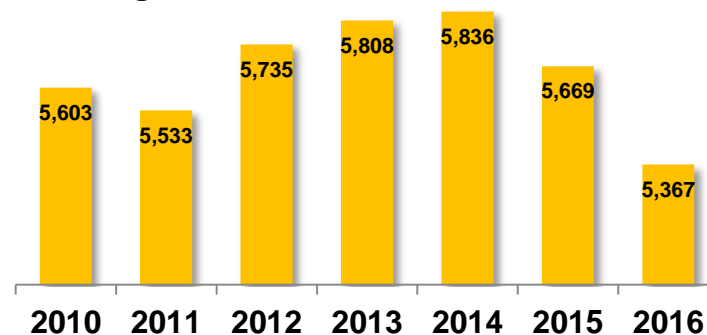
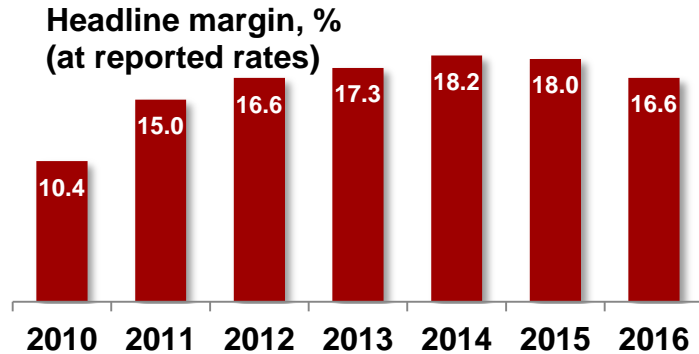
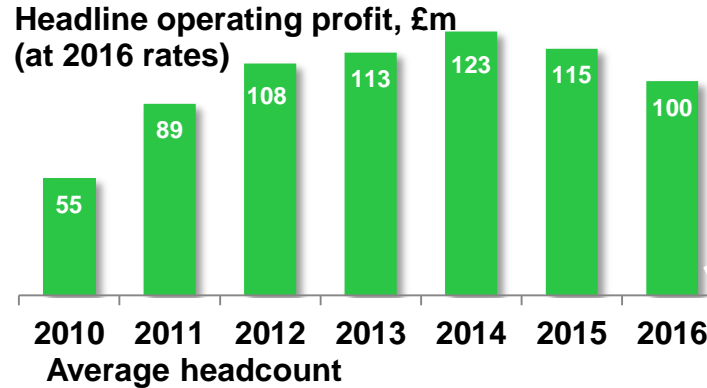
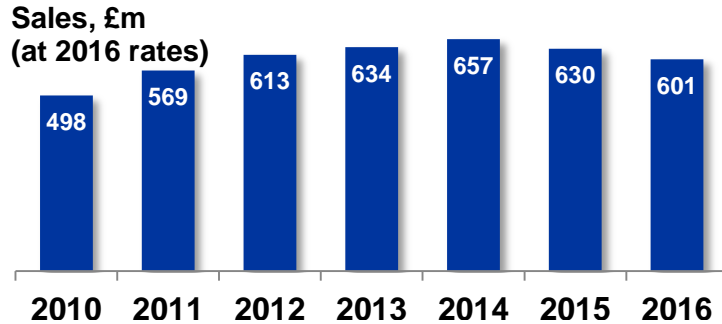
# Investing in future growth

## Specialist Technologies



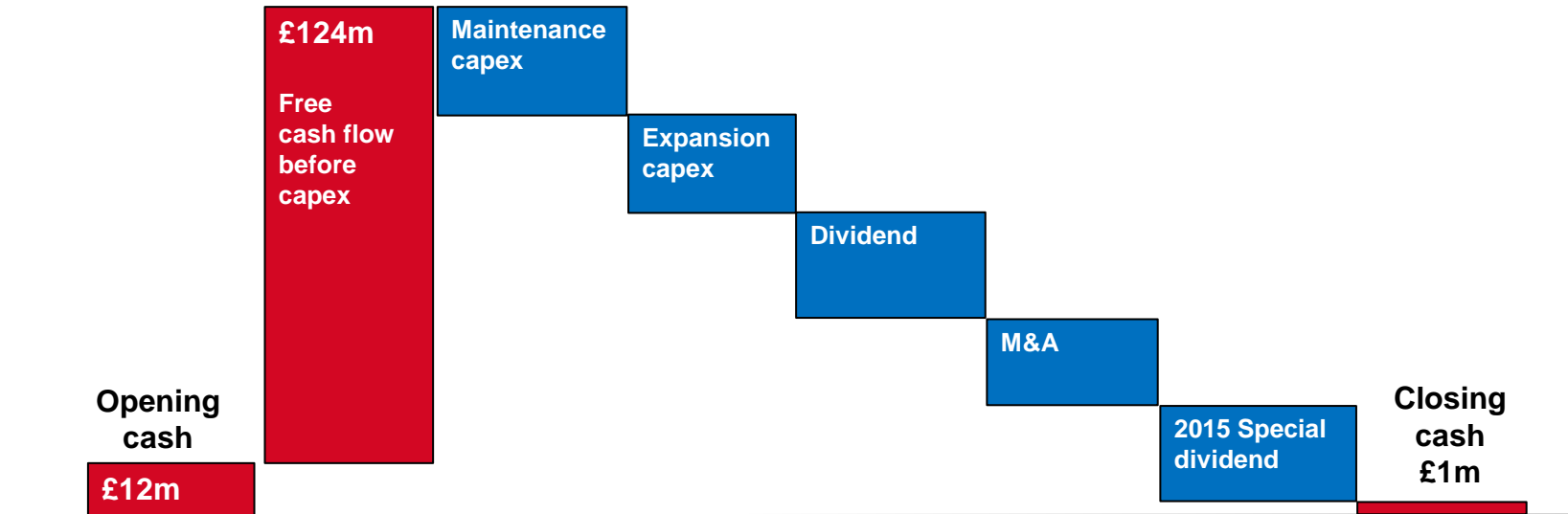
- £30m acquisition spend funded by free cash
- 5 new AGI sites acquired:
  - Burlington, Ontario - Adds new capability to serve growing nitriding market
  - Syracuse, New York - Enhances local cluster strength
  - Schmerbach, Germany - Builds logistics between existing German and European facilities
  - Steinbach, Germany - Adds specialist material handling capability
  - Hirzenhain, Germany - Expands brazing capability and capacity
- Combined annual revenue of c.£20m with average Group margins

# Managing through the cycle



- Margins have been resilient during the current cyclical downturn
- Managing headcount; labour force flexibility is key

# 2016 Cash flow and capital allocation



- No 2016 special dividend – encouraging acquisition pipeline



- Growth
  - Momentum built as the year progressed
  - Oil & gas headwind now abating
  - Part year sterling depreciation gain in 2016
  - Translating 2016 result at closing rates\* would have added £6m to headline profit
  
- Development
  - Investment in expansion capital continues
  - Specialist Technologies now 42% of Group operating profit
  
- Acquisitions
  - 5 new AGI sites acquired for £30m
  - Combined annual revenue c.£20m with average Group margins
  
- Cash flow
  - Strong £61m free cash generation

\*See slide 35

The Group delivered a robust performance in 2016 despite significant headwinds in some key business sectors. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, resulted in resilient margins.

While our business, by its nature, has limited forward visibility, we continue to demonstrate that we are capable of adapting with great agility to changes in market conditions. Our outlook is positive and we remain optimistic that we are well placed to take advantage of an upturn in our markets.

The Board is confident that management's continued focus on business improvements and execution of the Group strategy will generate good returns through the cycle.

The background of the image is a complex marbled paper pattern. It features a mix of dark blue, light blue, and white tones, with intricate, swirling, and vein-like patterns that resemble traditional marbling techniques. The overall effect is a rich, textured, and somewhat chaotic visual field.

**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)

# 2016 Statutory income statement

£m	2016	2015
<b>Revenue</b>	<b>600.6</b>	<b>567.2</b>
<b>Headline operating profit</b>	<b>99.6</b>	<b>102.1</b>
Amortisation of acquired intangible fixed assets	(4.5)	(4.2)
Acquisition costs	(0.6)	-
Reorganisation costs	-	(20.0)
<b>Operating profit</b>	<b>94.5</b>	<b>77.9</b>
Net finance costs	(2.6)	(2.9)
<b>Profit before tax</b>	<b>91.9</b>	<b>75.0</b>
Headline earnings per share (pence)	2016	2015
<b>Basic</b>	<b>37.0p</b>	<b>39.5p</b>

# 2016 Cash flow

£m	2016	2015
<b>Headline operating profit</b>	<b>99.6</b>	<b>102.1</b>
Add back: Depreciation and amortisation	55.2	49.6
Impairment of fixed assets	5.1	-
Share-based payments	0.5	(0.4)
Profit on disposal of fixed assets	(4.5)	(2.1)
<b>Headline EBITDA</b>	<b>155.9</b>	<b>149.2</b>
Net capital expenditure	(63.1)	(61.3)
Net working capital movement	(1.4)	(6.3)
<b>Headline operating cash flow</b>	<b>91.4</b>	<b>81.6</b>
Restructuring	(7.6)	(8.4)
Acquisition expenses	(0.6)	-
<b>Operating cash flow</b>	<b>83.2</b>	<b>73.2</b>
Financing costs	(2.3)	(2.6)
Tax	(20.4)	(23.2)
<b>Free cash flow</b>	<b>60.5</b>	<b>47.4</b>
Acquisition spend	(23.7)	-
Disposals	2.2	1.6
Dividends	(48.1)	(66.0)
Other	0.2	(6.4)
<b>Reduction in net cash</b>	<b>(8.9)</b>	<b>(23.4)</b>

**Net capex to depreciation ratio 1.1 times**

**Includes payment of 2015 Special Dividend (£19m)**

# Specialist Technologies

## What are they?

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

# Net finance charge/facilities

£m	2016	2015
Net interest payable	0.2	0.3
Financing and bank charges	2.1	2.3
Pension finance charge	0.3	0.3
<b>Net finance charge</b>	<b>2.6</b>	<b>2.9</b>

- Committed facility headroom of £225m at 31 December 2016, £5m drawn
- The remaining life of the £230m committed facility is 2.5 years
- Closing net cash of £1.1m



# Pension analysis - balance sheet

£m	2016	2015
UK Funded	3.6	2.7
Other Western Europe Funded	1.9	2.0
Other Western Europe Unfunded	15.5	12.6
<b>Western Europe Total</b>	<b>21.0</b>	<b>17.3</b>
North America Funded	0.4	0.5
Emerging Markets Unfunded	0.1	0.1
<b>Total retirement benefit obligations</b>	<b>21.5</b>	<b>17.9</b>

£m	2016	2015
<b>Western Europe Unfunded:</b>		
Italy	0.8	0.6
France	10.5	8.6
Germany	4.2	3.4
	<b>15.5</b>	<b>12.6</b>

# Financial information

Shares in issue	2016	2015
<b>Weighted average</b>	<b>190.2m</b>	<b>190.0m</b>

Exchange rates		2016	2015
<b>EUR</b>	Average (P&L)	<b>1.23</b>	<b>1.38</b>
	Closing (B/S)	<b>1.17</b>	<b>1.36</b>
<b>USD</b>	Average (P&L)	<b>1.35</b>	<b>1.53</b>
	Closing (B/S)	<b>1.24</b>	<b>1.47</b>
<b>SEK</b>	Average (P&L)	<b>11.59</b>	<b>12.89</b>
	Closing (B/S)	<b>11.23</b>	<b>12.43</b>

Financial ratios	2016	2015
Net Debt : Headline EBITDA	<b>net cash</b>	<b>net cash</b>
Headline EBITDA Interest Cover	<b>759x</b>	<b>498x</b>
Gearing (Net Debt:Total Equity)	<b>net cash</b>	<b>net cash</b>

## Analysis by currency, 2016:

	Sales	Operating profit
EUR	38%	49%
USD	36%	39%
SEK	6%	3%

# Divisional summary – 2016 H1 v H2

ADE Divisions	H1	H2	Total
Revenue	121.9	129.0	<b>250.9</b>
Headline operating profit	27.4	28.2	<b>55.6</b>
<i>Margin</i>	22.5%	21.9%	<b>22.2%</b>

AGI Divisions	H1	H2	Total
Revenue	169.1	180.6	<b>349.7</b>
Headline operating profit	27.9	30.6	<b>58.5</b>
<i>Margin</i>	16.5%	16.9%	<b>16.7%</b>