

2017 Full Year Results

6 March 2018

 **Bodycote**

Stephen Harris

Group Chief Executive



Agenda

Highlights

Financial review

Business review

Summary and Outlook



Results Highlights

- 14.9% growth in revenue (9.6% constant currency)
- 24% growth in Headline Operating Profit
- Return on sales improved to 18.0% (2016:16.6%)
- Free cash flow of £83m

Business Development

- Classical Heat Treatment
 - Operational improvements continued
 - Further investment in capacity pinch points
- Specialist Technologies
 - Continued investment in HIP Services, LPC & S³P capacity¹
 - Powdermet[®] technologies launched

Ordinary dividend

- Final dividend 12.1p, Total dividend 17.4p, increase of 10%

Special dividend

- 25p (2016: nil)

¹ HIP Services, Low Pressure Carburising, Specialty Stainless Steel Processes see slide 26

Dominique Yates
Chief Financial Officer



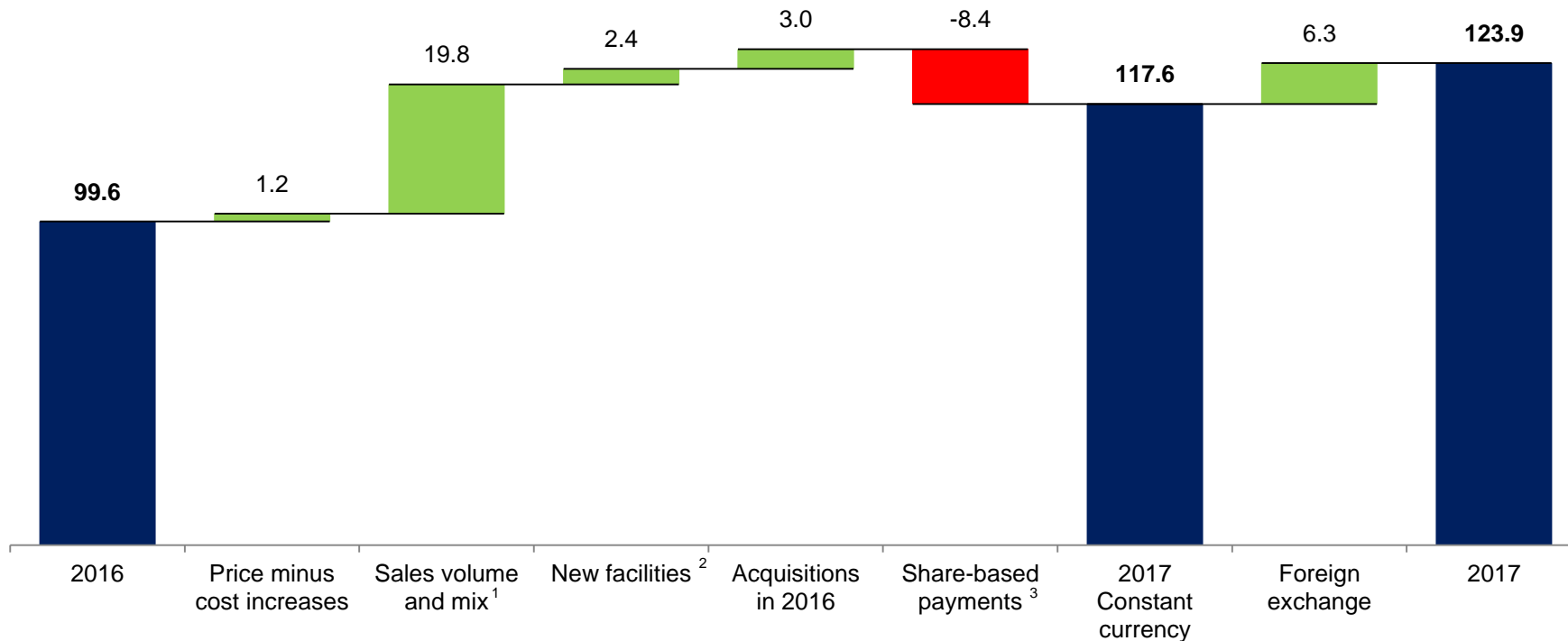
2017 Results summary

£m	2017	2016	Constant currency growth	Actual growth rates
Revenue	690.2	600.6	9.6%	14.9%
Headline operating profit	123.9	99.6	18%	24%
<i>Headline operating margin</i>	18.0%	16.6%		
Headline profit before tax	121.5	97.0	19%	25%

<i>Headline tax rate</i>	22.9%	27.5%		
Net cash	39.6	1.1		
Headline EPS	49.2p	37.0p		
Return on capital employed	19.3%	17.1%		
Ordinary dividend	17.4p	15.8p		10 %
Special dividend	25p	-		

Headline operating profit bridge

£m



¹ Includes central costs

² New facilities 2014 - 2017

³ Adjustments for 2015 - 2017 share-based awards

Divisional summary

ADE

£m	2017	2016	Constant currency growth	Actual growth rates
Revenue	273.1	250.9	4.7%	8.8%
Headline operating profit	64.2	55.6	11%	15%
<i>Headline operating margin</i>	23.5%	22.2%		

- Revenue growth accelerated from 2.1%¹ in H1 to 7.2%¹ in H2
 - North American onshore oil & gas market recovery
 - North American civil aviation revenues picked up through year

The ADE divisions comprise 63 facilities primarily focused on Aerospace, Defence, and Energy customers

Divisional summary

AGI

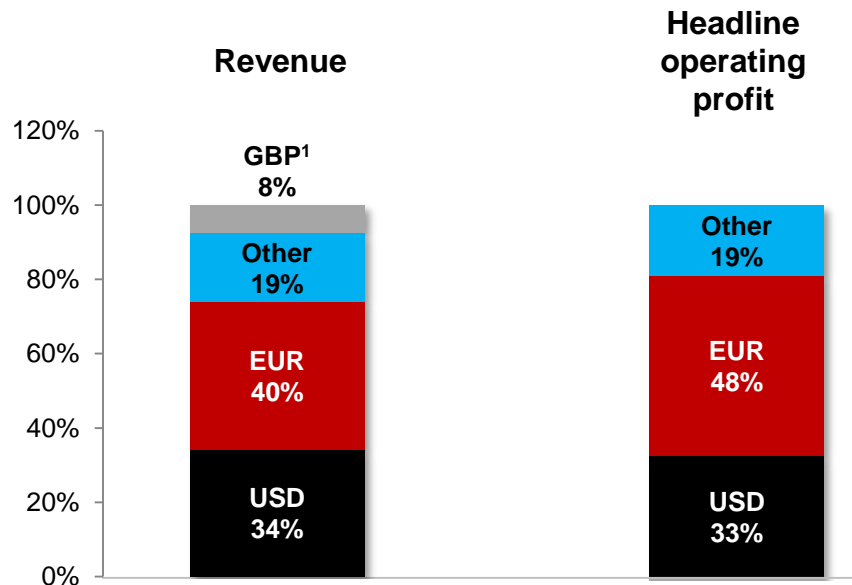
£m	2017	2016	Constant currency growth	Actual growth rates
Revenue	417.1	349.7	13.1%	19.3%
Headline operating profit	74.2	58.5	20%	27%
<i>Headline operating margin</i>	17.8%	16.7%		

- Acquisitions made in 2016 contributed 5.0%¹ to revenue growth
- The five acquired sites have been integrated and are performing well
- Strong growth in China and Mexico, both above 40%¹
- Margin increased through operational improvements particularly in Europe and Emerging Markets

The AGI divisions comprise 124 facilities primarily focused on Automotive and General Industrial customers

¹ At constant currency

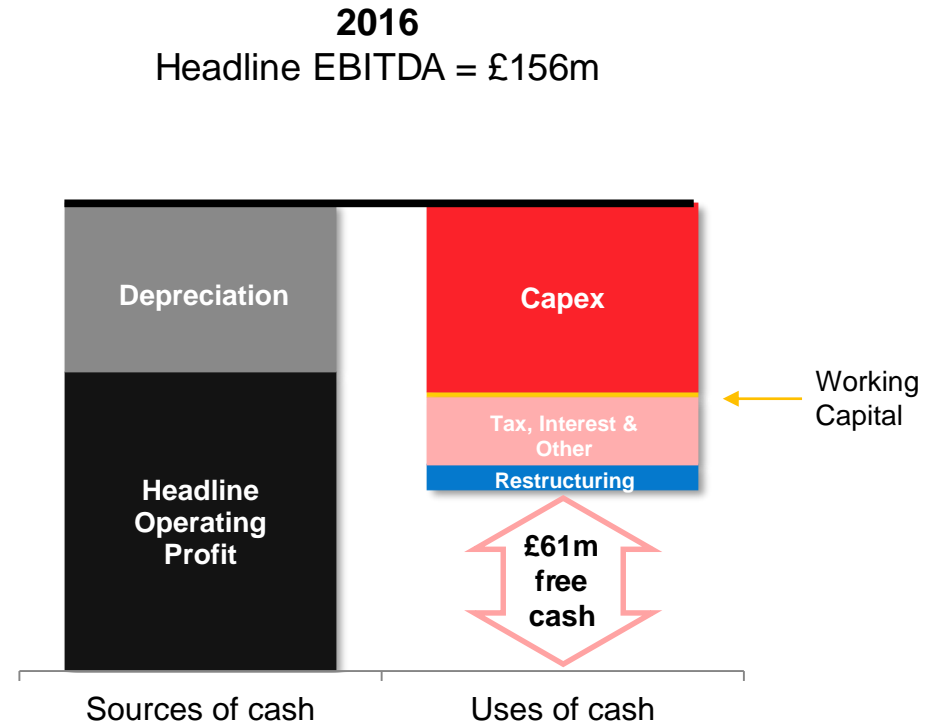
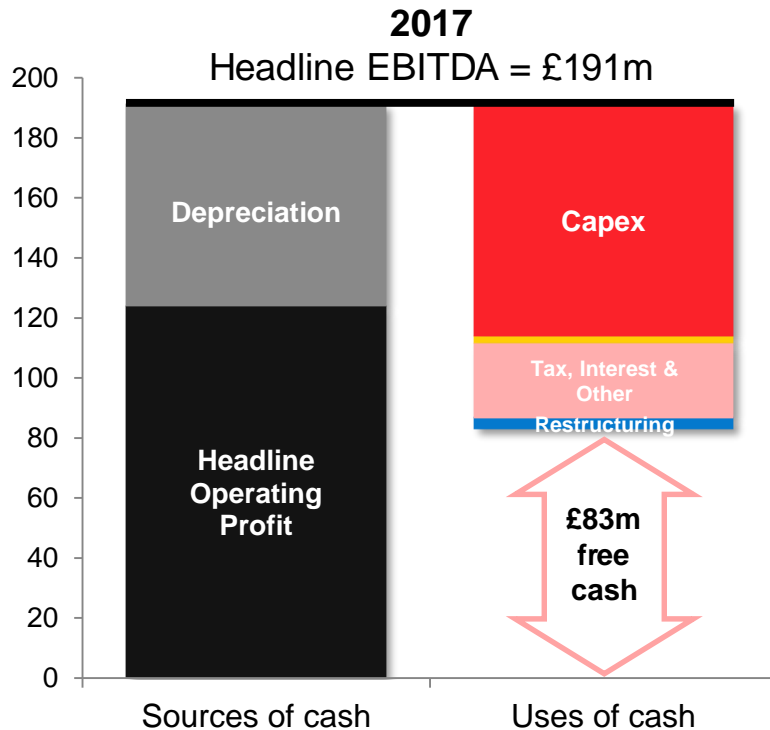
2017 Sales and operating profit by currency



- Operating profit translation benefit of £6m
- Average full year exchange rates
£1: €1.15, and £1: \$1.30
- 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.£0.3m of annual operating profit

Cash flow

£m



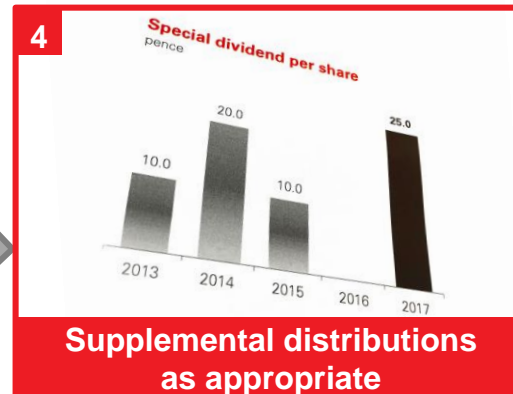
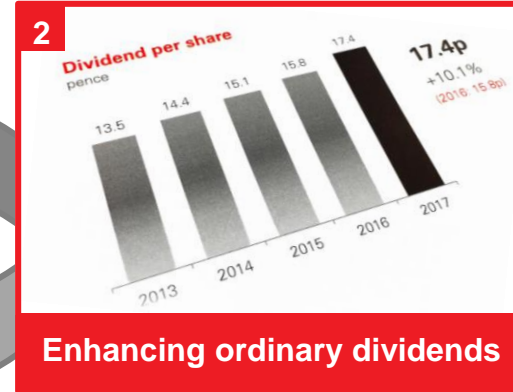
Taxation

- Headline tax rate 22.9% (2016: 27.5%), benefiting from impact on 2017 from announced lower US tax rates
- Impact of US tax changes on Group tax result for 2018 subject to implementation guidance from the US Treasury and IRS; tax rate should be no greater than previously guided 26.5%

Balance sheet

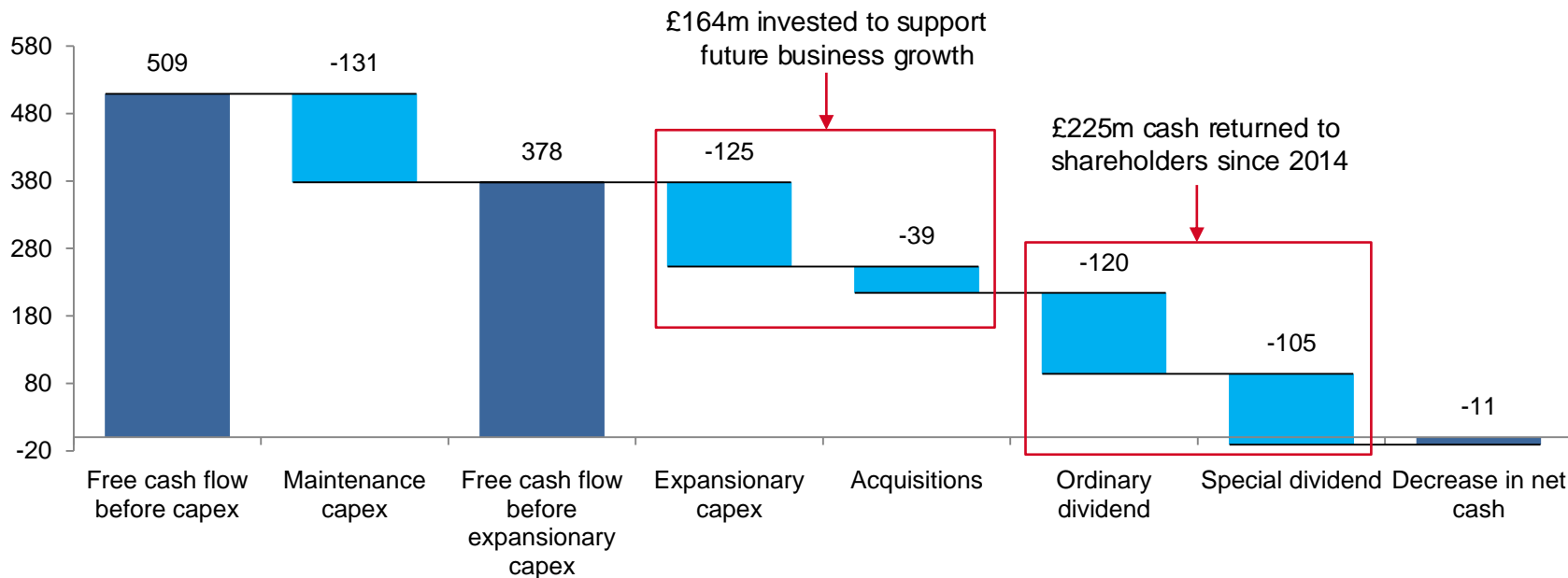
- Net cash £39.6m; 25p special dividend will cost £47.5m
- Facilities:
 - Committed facility headroom of £230m at 31 December 2017
 - £230m revolving credit facility matures in 2022

Capital allocation priorities



2014 - 2017 capital allocation

£m



- New facilities can take 3-5 years to ramp up to our expected returns
- Much of the £125m invested in new capacity is recently installed with higher returns to come

The ordinary and special dividends shown reflect announced dividends for financial years 2014 to 2017

Business review

Stephen Harris

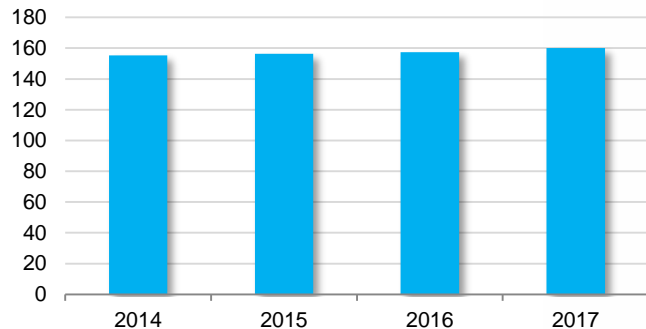
Group Chief Executive



Revenue: £161m

Constant currency growth: 2.3%

Revenue, £m
At constant currency



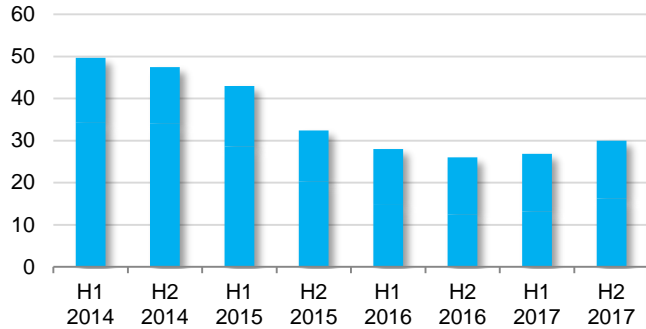
- Civil aviation revenues up 5.6%¹
 - Continued strong growth in UK, new facilities required in 2018
 - North American revenues picking up
- Defence revenues (principally North America) declined

¹ At constant currency

Revenue: £56m

Constant currency growth: 4.4%

Revenue, £m
At constant currency



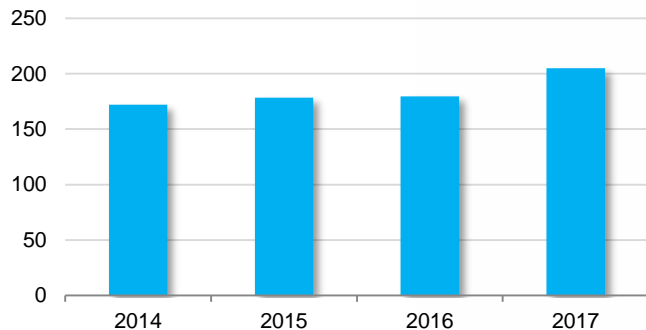
- Significant sequential recovery in onshore North America oil & gas
- Subsea revenues down, but RFQs increasing
- Large frame IGT OEM production cuts started to impact revenues



Revenue: £205m

Constant currency growth: 14.1%

Revenue, £m
At constant currency

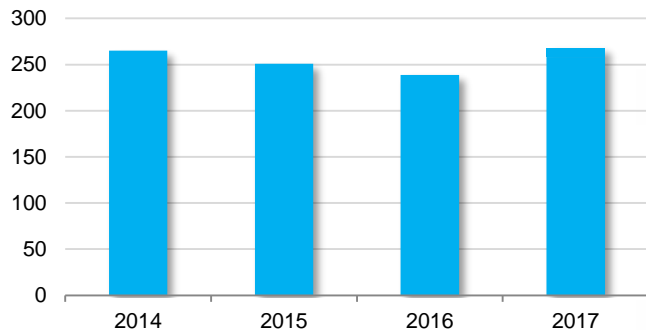


- Car & light truck revenues up 14.2%¹
 - 2016 acquisitions contributed 3.9%¹ to revenue growth in 2017
 - Investments in LPC technology contributed strongly
- Heavy truck revenues up 13.2%¹

Revenue: £268m

Constant currency growth: 10.4%

Revenue, £m
At constant currency

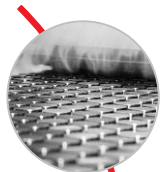


- Broad-based growth across all geographies
- Good contribution from S³P
- 2016 acquisitions contributed 4.3%¹ to revenue growth
- Underlying business still some way below 2014 levels



Classical Heat Treatment

A group of mature processes which are essential for treating all metal components. These tightly controlled processes condition the material properties including both the core properties and the surface characteristics.



Annealing



Hardening & tempering



Metal joining

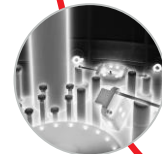
Carburising



Nitriding



Nitrocarburising



Bodycote's position

- Bodycote has well over 1000 process lines in 23 countries throughout Europe, North America and Emerging Markets
- By far the largest global supplier

Specialist Technologies

A set of differentiated processes giving customers the ability to produce unique high value adding products.



HIP Services



HIP Product Fabrication
(incl. Powdermet®)

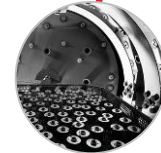


Surface Technology

S³P (Specialty Stainless Steel Processes)



Low Pressure Carburising



CiD (Corr-i-Dur®)



Bodycote's position

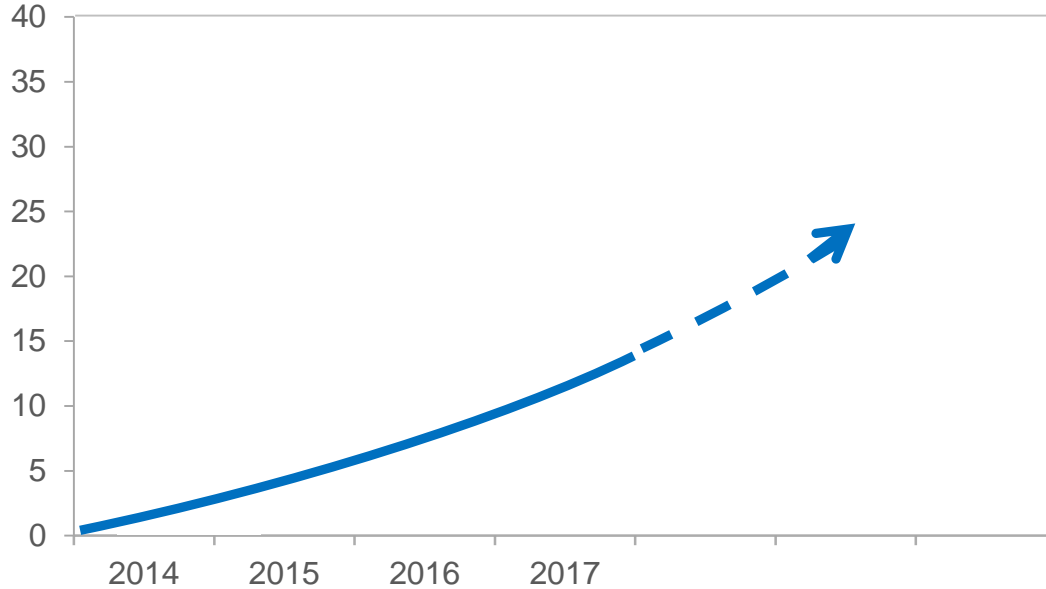
- Significant barriers to entry
- Resourced for growth
- Meaningful multi-year revenue growth potential
- Overall strong margins and returns for Bodycote

£m	2017	2016	Constant currency growth	Actual growth rates
Revenue	157.6	143.9	4.5%	9.5%

- Double-digit revenue growth across our S³P, LPC and CiD technologies
- Overall growth was held back by:
 - Impact of oil & gas on HIP PF and Surface Technology
 - HIP Services unplanned outage (fully resolved by year end) and weaker IGT volumes during H2
- Specialist Technologies' return on sales above 30%
- HIP capacity from Doncasters' assets bought in December
- Additional HIP capacity coming online in North America and Europe in 2018
- Accelerating investment in S³P capacity
- Forecast growth in all the Specialist Technologies looks strong
- Powdermet[®] Technologies launched during the year; exciting prospects

New facilities since 2014

Revenue, £m
At constant currency



- Investment of £37m across these 10 newly built facilities
- Typically revenues build over a 3 to 5 year period

2014: 3 sites
2015: +1 site (4 sites in total)
2016: +4 sites (8 sites in total)
2017: +2 sites (10 sites in total)

2017 has once again demonstrated the quality of Bodycote's business. Strong growth was achieved through contributions from contract wins on automotive and aerospace programmes, excellent growth in Emerging Markets (where our investments are yielding good returns), and broad-based growth across the general industrial sectors, an element of which was due to some customer restocking.

The Group's revenue growth, combined with continued discipline on costs, helped lift headline operating profit by 24%. Return on sales increased to 18.0% from 16.6%.

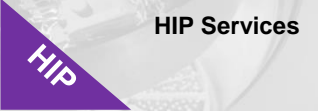



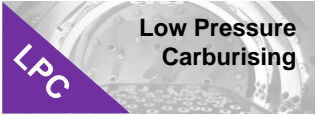

To ensure that the business continues to deliver good results, we will continue to focus on efficiency, maintaining price discipline in light of increasing inflation across many economies, and the execution of our successful strategy.

Our business, by its nature, has limited forward visibility, but we have entered the year with good momentum. Accordingly, and in spite of the foreign exchange headwind at current exchange rates, 2018 has started in line with our expectations.

The background of the image is a microscopic view of plant tissue, showing a network of cell walls and various cellular structures. The overall color is a light green, with darker green and blackish spots scattered throughout, representing chloroplasts and other organelles.

Bodycote

Specialist Technologies

 <p>HIP HIP Services</p>	<ul style="list-style-type: none">Improves component integrity and strength by application of extreme pressure & heat
 <p>HIP PF Powdermet®</p>	<ul style="list-style-type: none">Additive manufacturing of often complex components in conjunction with HIP
 <p>S³P Specialty Stainless Steel Processes</p>	<ul style="list-style-type: none">Improves the strength, hardness and wear resistance of stainless steels
 <p>ST Surface Technology</p>	<ul style="list-style-type: none">Enhances component life by ceramic and metal coatings
 <p>LPC Low Pressure Carburising</p>	<ul style="list-style-type: none">Provides a hardened surface and tough core in a “clean” process under vacuum
 <p>CI-D Corr-I-Dur®</p>	<ul style="list-style-type: none">Improves corrosion resistance & wear properties without use of chrome

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
Capital Employed	Net assets adjusted for net cash/(debt)

2017 Statutory income statement

£m	2017	2016
Revenue	690.2	600.6
Headline operating profit	123.9	99.6
Amortisation of acquired intangible fixed assets	(4.5)	(4.5)
Acquisition costs	-	(0.6)
Operating profit	119.4	94.5
Net finance costs	(2.4)	(2.6)
Profit before tax	117.0	91.9
Headline earnings per share (pence)	49.2p	37.0p

2017 Cash flow

£m	2017	2016
Headline operating profit	123.9	99.6
Add back: Depreciation and amortisation	59.8	55.2
Impairment of fixed assets	0.4	5.1
Share-based payments	7.8	0.5
Profit on disposal of fixed assets	(0.7)	(4.5)
Headline EBITDA	191.2	155.9
Net capital expenditure	(74.8)	(63.1)
Net working capital movement	(4.7)	(1.4)
Headline operating cash flow	111.7	91.4
Restructuring	(3.7)	(7.6)
Acquisition expenses	-	(0.6)
Operating cash flow	108.0	83.2
Financing costs	(2.1)	(2.3)
Tax	(22.9)	(20.4)
Free cash flow	83.0	60.5
Acquisition spend	(14.2)	(23.7)
Disposals	-	2.2
Ordinary dividend	(30.6)	(29.1)
Special dividend	-	(19.0)
Other	0.3	0.2
Increase/(reduction) in net cash	38.5	(8.9)
Net cash	39.6	1.1

Net capex to depreciation
ratio 1.3 times

Net finance charge/facilities

£m	2017	2016
Net interest payable	-	0.2
Financing and bank charges	2.0	2.1
Pension finance charge	0.4	0.3
Net finance charge	2.4	2.6

- Committed facility headroom of £230m at 31 December 2017, £nil drawn
- The remaining life of the facility is 4.3 years
- Closing net cash of £39.6m

Financial information

Shares in issue	2017	2016
Weighted average	190.3m	190.2m

Exchange rates	2017	2016
EUR		
Average (P&L)	1.15	1.23
Closing (B/S)	1.13	1.17
USD		
Average (P&L)	1.30	1.35
Closing (B/S)	1.35	1.24
SEK		
Average (P&L)	11.04	11.59
Closing (B/S)	11.07	11.23

Analysis by currency, 2017

	Sales	Operating profit
EUR	40%	48%
USD	34%	33%
SEK	6%	4%

Divisional summary – 2017 H1 v H2

ADE Divisions	H1	H2	Total ADE
Revenue	136.1	137.0	273.1
Headline operating profit	30.7	33.5	64.2
Margin	22.6%	24.5%	23.5%

AGI Divisions	H1	H2	Total AGI
Revenue	209.6	207.5	417.1
Headline operating profit	36.9	37.3	74.2
Margin	17.6%	18.0%	17.8%