

2019 Interim Results

25 July 2019

 **Bodycote**

Stephen Harris

Group Chief Executive



Agenda

Overview

Business review

Financial review

Summary & Outlook



Key points

- Civil aviation revenue growth of 21%¹
- Specialist Technologies' revenue growth of 4%¹
- Emerging Markets' revenue growth of 3%¹
- Western Europe car & light trucks' revenues decline 16%¹
- £38m invested in acquisitions and expansion projects

Results

- 1.5% revenue decline at constant currency, 0.4% at actual rates
- 7% decline in headline operating profit at constant currency; 6% down at actual rates
- Resilient margin performance at 18.3%

Dividend

- Dividend 6.0p, increase of 5.3%

H1 2019 Revenue and Growth Analysis¹

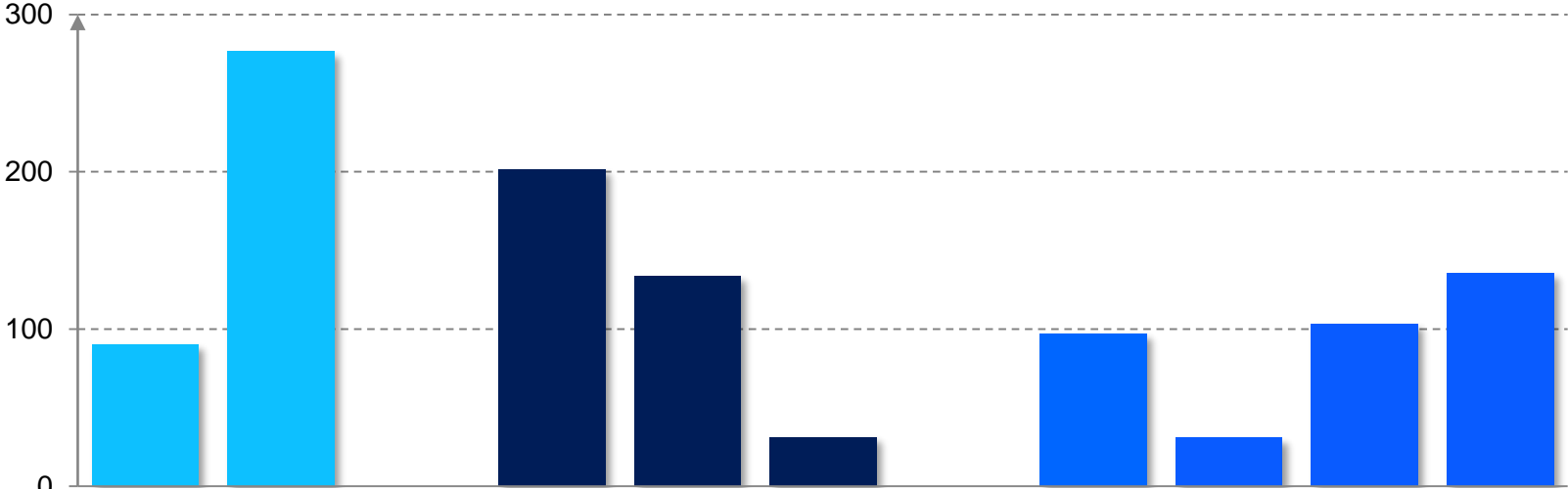


Revenue, £m

by Technology

by Geography

by Market



Growth, %



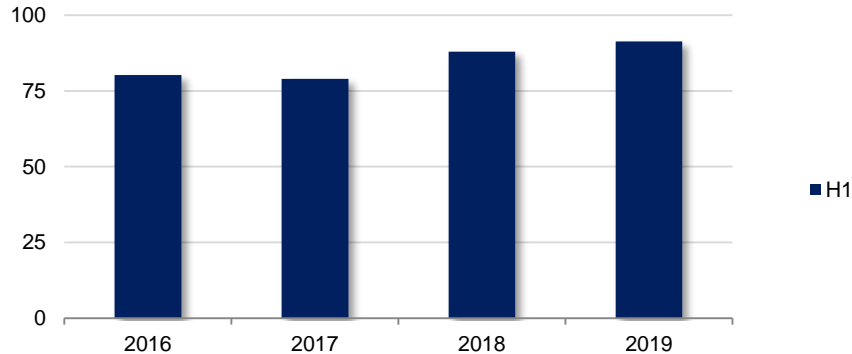
¹ At constant currency

Specialist Technologies

Revenue: £90.1m

Constant currency growth: 4%

Revenue, £m
At constant currency



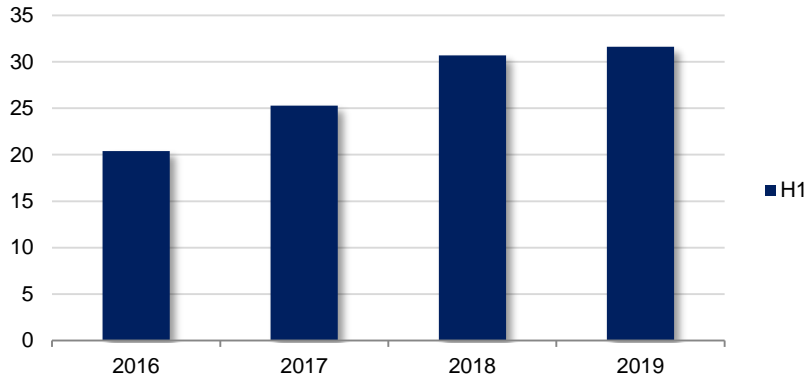
- Continued adoption of Specialist Technologies
- Strong growth in civil aviation revenues for HIP services
- Oil and gas (subsea) order book in Powdermet® growing strongly
- Major automotive customer product change resulted in lower S³P® volumes, now recovering
- Automotive programme cancellation in Europe adversely impacted LPC

Emerging Markets

Revenue: £31.2m

Constant currency growth: 3%

Revenue, £m
At constant currency

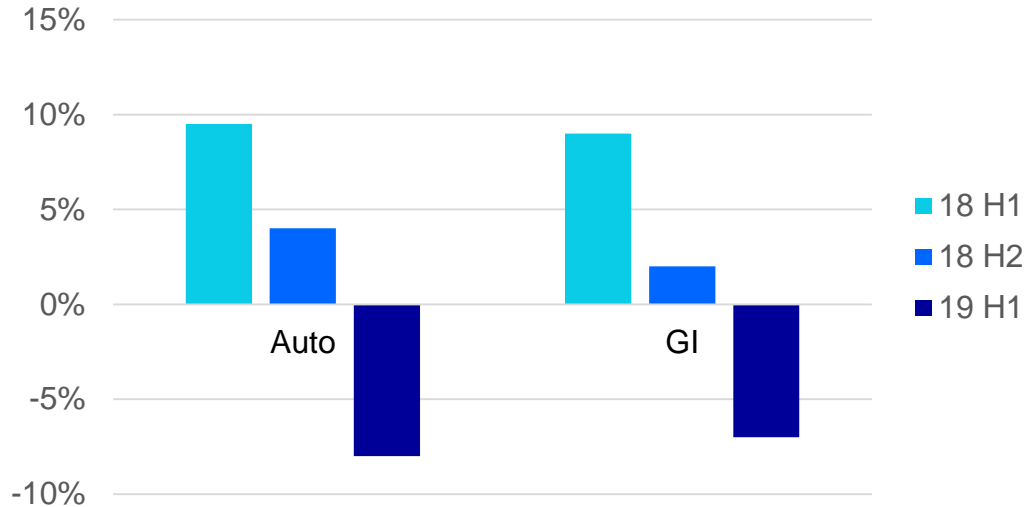


- China growth reduced to 5%
- Eastern European revenues moderated as German auto customers favoured domestic production



Our Market Sectors

Growth trend by half year

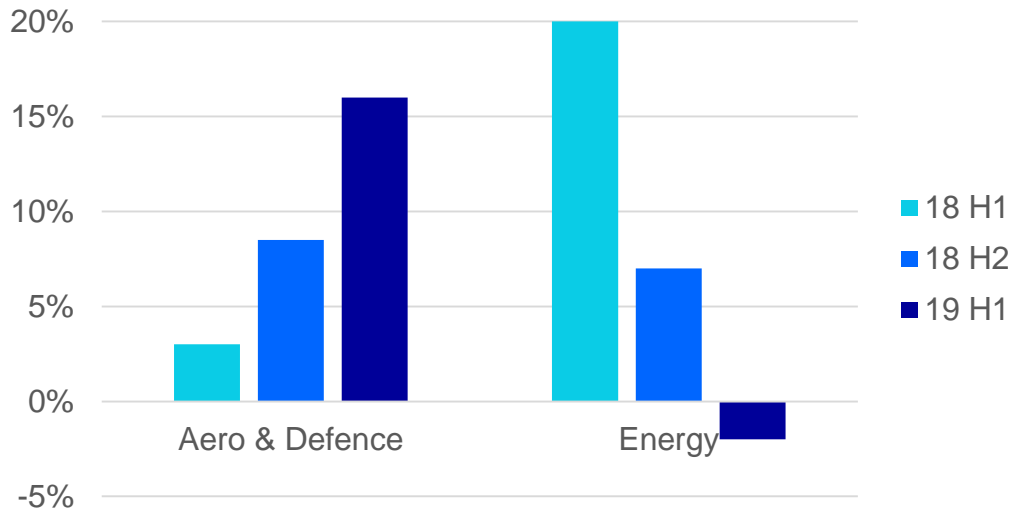


- **Automotive -8%**
 - Car & light truck down 16% in Western Europe
 - Strong H1 2018 comparatives (WLTP introduction)
- **General Industrial -7%**
 - 2% of decline relates to discontinued business
 - Widespread pause in customers' capital investment decisions



Our Market Sectors

Growth trend by half year



- **Aerospace & Defence +16%**
 - Civil aviation revenues up 21%
 - Content and volume growth on LEAP engine is a major driver
- **Energy -2%**
 - Industrial Gas Turbines continued weakness
 - Oil and Gas revenues flat with subsea growth offset by onshore weakness



All growth stated at constant currency

£38m Invested in Growth

- Two bolt-on acquisitions completed at the end of the first half
 - One in Scandinavia with exposure to mining
 - One in Slovakia, an additional country in Emerging Markets
- New HIP capacity now operational in Europe; New HIP capacity in North America scheduled for end of the year
- Continued investment in future S³P[®] capacity
- New greenfield facility opened in Czech Republic
- New greenfield facility in Hungary, scheduled to be operational in 2020



Dominique Yates
Chief Financial Officer

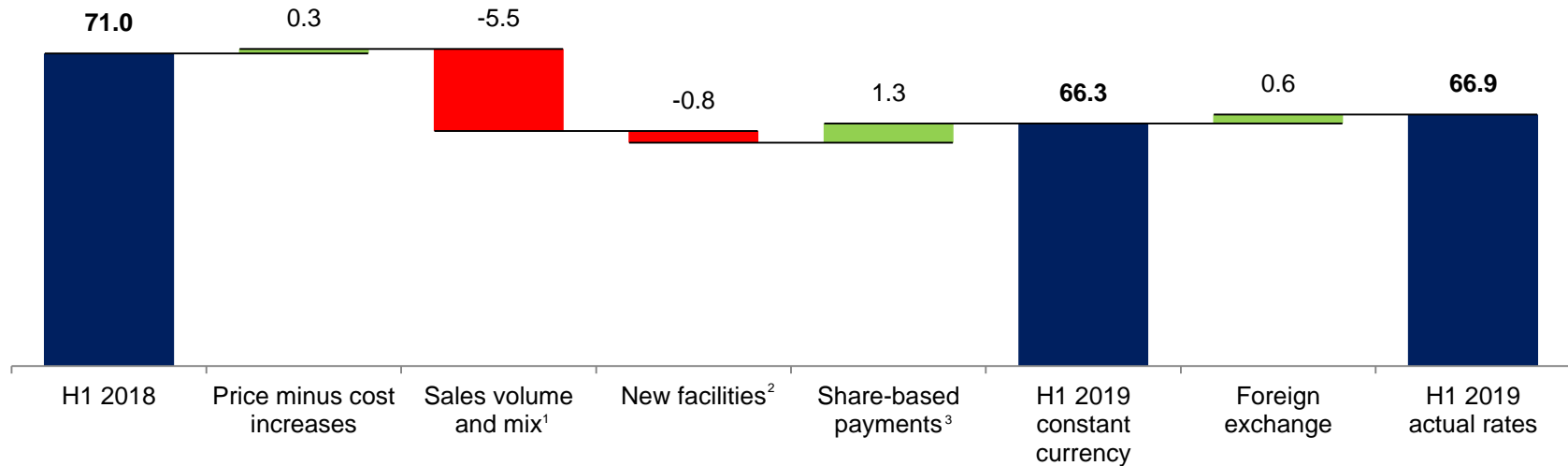


H1 2019 Results Summary

£m	H1 2019	H1 2018	Growth	Growth constant currency
Revenue	366.5	368.0	-0.4%	-1.5%
Headline operating profit	66.9	71.0	-6%	-7%
<i>Headline operating margin %</i>	18.3	19.3		
Headline profit before tax	64.7	68.9	-6%	-6%
Headline tax rate %	24.4	24.5		
Free cash flow	44.6	51.0		
Net debt/(cash)	25.5	(5.6)		
Net debt plus lease obligations	111.8	70.8		
Headline EPS	25.6p	27.2p	-6%	
Ordinary dividend	6.0p	5.7p	5.3%	

Headline Operating Profit Bridge

£m



- Significant utilities' and wage inflation mitigated by active management of costs
- Price increases more than covered cost increases

¹ Includes central costs

² Facilities opened between 2016 - 2019

³ Adjustments for 2017 - 2019 share-based awards

ADE and AGI Summary

The **ADE** business comprises more than 60 facilities primarily focused on Aerospace, Defence and Energy customers, but also includes almost 20% of revenues is General Industrial

£m	H1 2019	H1 2018	Growth	Growth Constant currency
Revenue	151.1	142.7	5.9%	3.3%
Headline operating profit	37.9	33.6	13%	10%
<i>Headline operating margin</i>	25.1%	23.5%		

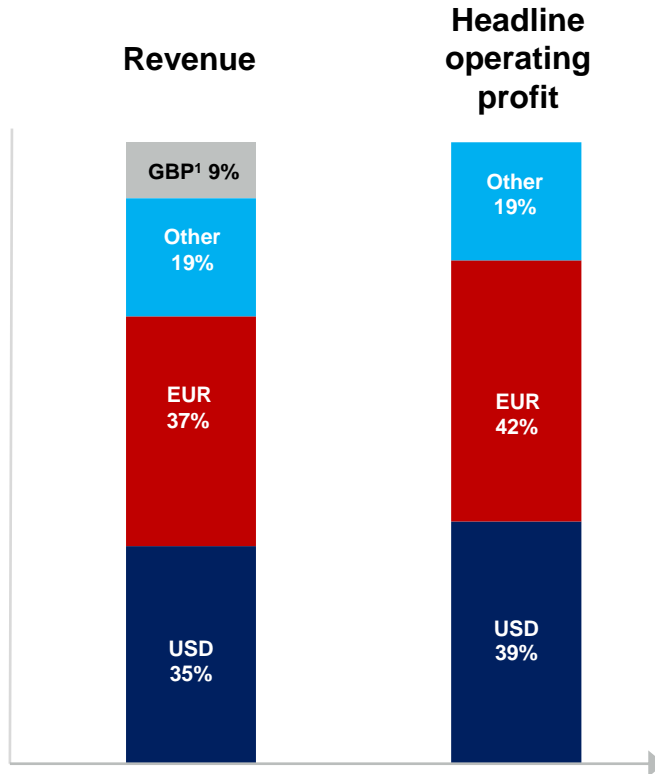
The **AGI** business comprises more than 120 facilities primarily focused on Automotive and General Industrial customers

£m	H1 2019	H1 2018	Growth	Growth Constant currency
Revenue	215.4	225.3	-4.4%	-4.6%
Headline operating profit	35.4	43.7	-19%	-18%
<i>Headline operating margin</i>	16.4%	19.4%		

- Constant currency revenue growth excluding the impact of discontinued business was 5.1%

- AGI margin decline due to revenue weakness in Western Europe, which represents 60% of the AGI business

H1 2019 Sales and Operating Profit by Currency



- Operating profit translation increase of £0.6m
- Average half 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.£0.4m of annual operating profit

Taxation

- Headline tax rate of 24.4%, in line with guidance

Balance sheet

- Facilities:
 - Committed facility headroom of £200m at 30 June 2019, £30m drawn
 - £230m revolving credit facility matures in 2022
- Net debt is £25.5m
- Net debt plus IFRS 16 obligations is £111.8m

P&L

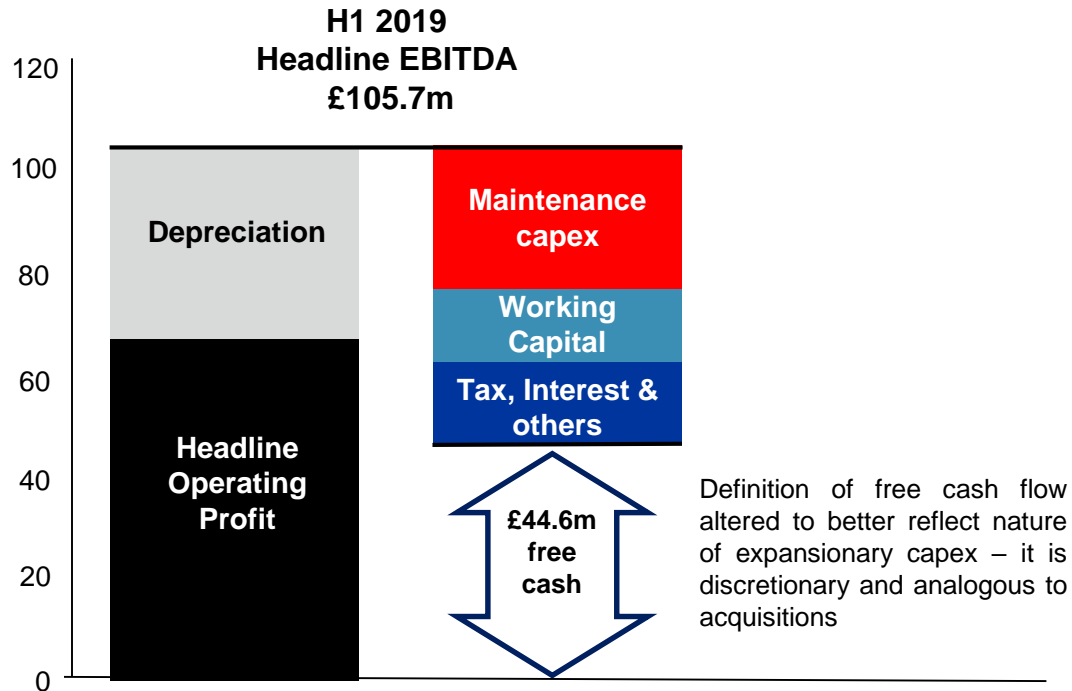
- £8.4m added to Headline EBITDA in the half year
- £1.2m added to Headline Operating Profit; corresponding increase in finance costs
- Zero impact on Pre-tax Profit and EPS

Balance sheet

- Added £80m to property assets and £86m to liabilities at June 2019

Cash flow

- Negligible impact on free cash flow



- Strong free cash generation continues – slightly lower than prior year mainly due to timing of maintenance capex payments
- First half cash flow always impacted by normal seasonal working capital outflow, which reverses in the second half

Full cash flow, pre and post IFRS 16, with comparatives in appendix, as well as 'old' format cash flow (pre 2019 format) for comparison

Capital Allocation Priorities

1



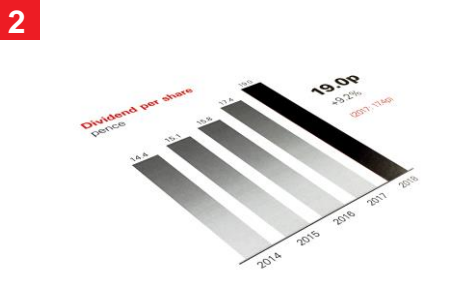
Investment for growth

3



Acquisitions

2



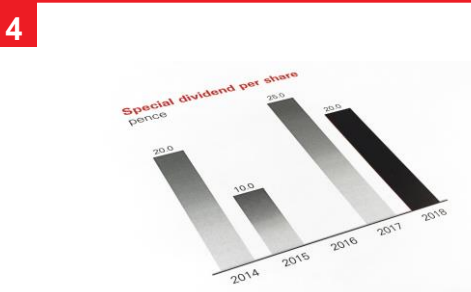
Dividend per share
pence

Year	Dividend per share (pence)
2014	14.4
2015	15.1
2016	15.8
2017	19.0

19.0p
+31.2%
2017-16p

Enhancing ordinary dividends

4



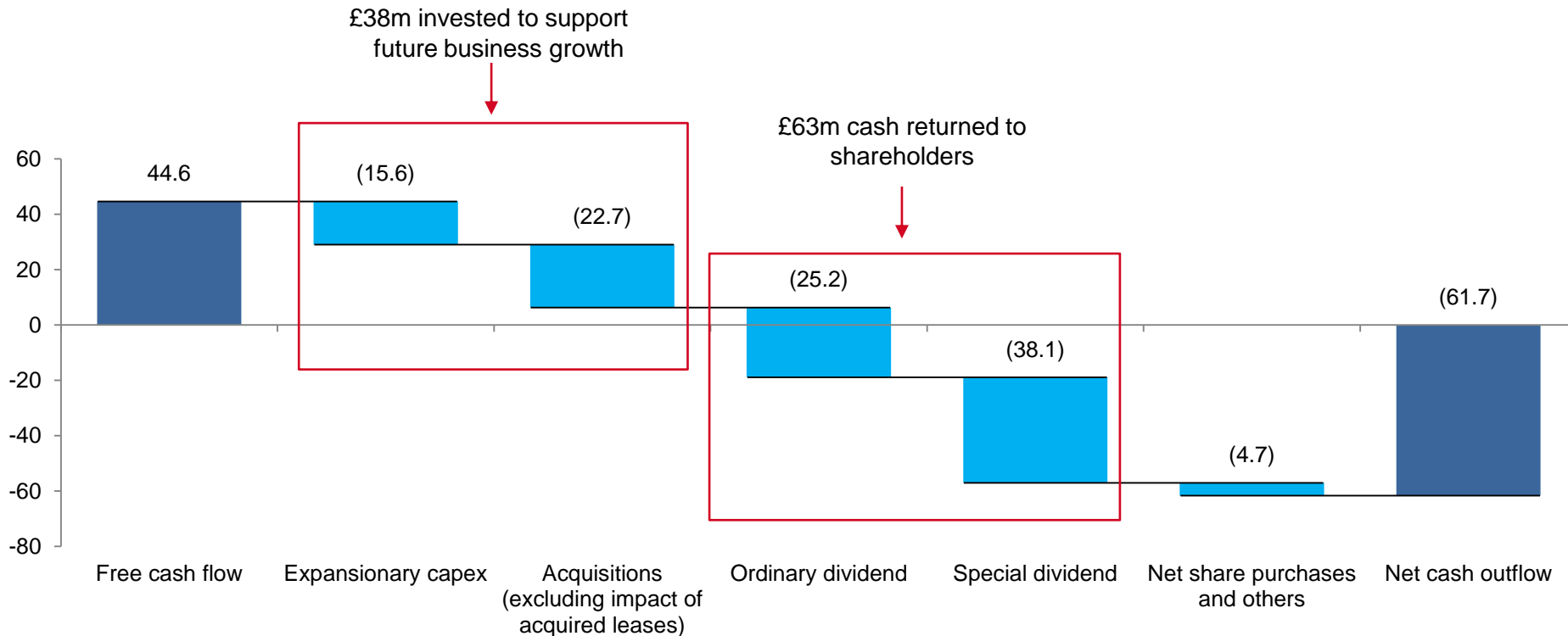
Special dividend per share
pence

Year	Special dividend per share (pence)
2014	20.0
2015	10.0
2016	26.9
2018	20.0

Supplemental distributions
as appropriate

H1 2019 Capital Allocation

£m



Stephen Harris

Group Chief Executive



Bodycote delivered a resilient set of results in the face of challenging automotive and general industrial markets. The strong performance in civil aviation is expected to continue and provides a solid footing for the second half. The return on sales, at 18.3%, demonstrates the ability of the Group to adapt effectively to changes in business conditions.

While trading conditions deteriorated in the second quarter, a number of areas of the Group's business remain strong and comparatives in the second half become easier. The Board's expectations for the full year remain unchanged.

The image shows a microscopic cross-section of a biological tissue, likely a blood vessel or duct. The upper portion is a dark, dense, reddish-brown area, possibly representing the lumen or a specific layer of the vessel wall. The lower portion is a lighter, fibrous, and textured area, likely representing the vessel wall or surrounding connective tissue. A thin, light-colored line separates the two regions. The word "Bodycote" is overlaid in the center, with a red square inside the letter 'B'.

Bodycote

Specialist Technologies



A selection of highly differentiated, early stage processes with high margins, large market opportunity and good growth prospects. Bodycote is either the clear market leader or one of the top players among few competitors

Hot Isostatic Pressing (HIP Services)

Improves component integrity and strength by application of extreme pressure & heat

HIP PF incl. Powdermet®

Additive manufacturing of often complex components in conjunction with HIP

Specialty Stainless Steel (S³P®)

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

CiD

Improves corrosion resistance & wear properties without use of chrome



Classical Heat Treatment

Classical Heat Treatment is the controlled heating and cooling process 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.

H1 2019 Statutory Income Statement

£m	H1 2019	H1 2018
Revenue	366.5	368.0
Headline operating profit	66.9	71.0
<i>Amortisation of acquired intangible fixed assets</i>	(2.1)	(1.9)
<i>Acquisition costs</i>	(0.4)	-
Operating profit	64.4	69.1
Net finance costs	(2.2)	(2.1)
Profit before tax	62.2	67.0
Headline earnings per share	25.6p	27.2p

H1 2019 Cash Flow - effect of IFRS 16

	H1 2019		H1 2018	
	Post IFRS 16	Pre IFRS 16	Post IFRS 16	Pre IFRS 16
Headline Operating Profit	66.9	65.7	71.0	70.1
Add back Dep'n, amortisation & impairment	39.0	31.7	37.3	30.1
Income from associates	(0.2)	(0.2)	-	-
Headline EBITDA	105.7	97.2	108.3	100.2
Net maintenance capex	(32.7)	(25.1)	(23.4)	(14.4)
Working Capital movement	(13.3)	(13.3)	(18.5)	(18.5)
Headline Operating cashflow	59.7	58.8	66.4	67.3
Restructuring	(1.2)	(1.2)	(2.1)	(2.1)
Financing costs	(2.1)	(0.9)	(2.0)	(0.8)
Tax	(11.8)	(11.8)	(11.3)	(11.3)
Free cash flow	44.6	44.9	51.0	53.1
Expansionary capital expenditure	(15.6)	(15.6)	(15.9)	(15.9)
Ordinary Dividends	(25.2)	(25.2)	(23.0)	(23.0)
Acquisitions expenditure	(28.6)	(22.7)	(1.3)	(1.3)
Special Dividends	(38.1)	(38.1)	(47.5)	(47.5)
Own shares purchased less SBP and others	(4.8)	(5.0)	0.9	0.9
Increase/reduction in net cash	(67.7)	(61.7)	(35.8)	(33.7)
Net cash / (debt)		(25.5)		5.6
Net cash / (debt) plus lease obligations	(111.8)		(70.8)	

- IFRS 16 treats outstanding lease obligations as a form of debt
- Bodycote has £86.3m of outstanding lease obligations at 30 June
- The overall impact on Group free cash flow is relatively immaterial

H1 2019 Cash flow – Old format pre IFRS16

£m	H1 2019	H1 2018
Headline operating profit	65.7	70.1
Add back: Depreciation and amortisation	31.7	29.9
Impairment of fixed assets	-	0.4
Share-based payments	1.2	2.1
Income from associates	(0.2)	-
Headline EBITDA	98.5	102.5
Net capital expenditure	(40.7)	(31.0)
Net working capital movement	(13.5)	(17.8)
Headline operating cash flow	44.3	53.7
Restructuring	(1.2)	(2.1)
Acquisition expenses	(0.4)	-
Operating cash flow	42.7	51.6
Financing costs	(0.9)	(0.9)
Tax	(11.8)	(11.3)
Free cash flow	30.0	39.4
Acquisition spend	(22.3)	(1.3)
Ordinary dividend	(24.8)	(23.0)
Special dividend	(38.3)	(47.5)
Other	(6.3)	(1.6)
Reduction in net cash	(61.7)	(34.0)
Closing net cash	(25.5)	5.6

Net finance charge/facilities

£m	H1 2019	H1 2018
Interest received on bank overdrafts and loans	0.2	0.1
Net interest payable	1.4	1.3
Financing and bank charges	0.9	0.8
Pension finance charge	0.1	0.1
Total finance charge	2.4	2.2
Net finance charge	(2.2)	(2.1)

- Committed facility headroom of £200m at period end
- The remaining life of the facility is 2.8 years
- Closing net debt of £25.5 and net debt plus lease obligations of £111.8m

Financial information

	H1 2019	H1 2018
Shares in issue		

Weighted average 189.8m 190.4m

	H1 2019	H1 2018
Exchange rates		

EUR Average (P/L) 1.15 1.14
 Closing (B/S) 1.12 1.13

USD Average (P/L) 1.30 1.37
 Closing (B/S) 1.27 1.32

SEK Average (P/L) 12.03 11.59
 Closing (B/S) 11.81 11.81

Analysis by currency, H1 2019

	Sales	Operating Profit
EUR	38%	42%
USD	34%	33%
SEK	7%	7%

Term	Definition
Headline Operating Profit	Operating profit before acquisition costs and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, acquisition costs 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, restructuring and acquisition costs
Headline Operating Cash Flow	Headline EBITDA adjusted for net working capital movements less net maintenance capital expenditure
Free Cash Flow	Headline operating cash flow less restructuring costs, finance costs and taxes
Headline EPS	Earnings per share excluding acquisition costs and amortisation of acquired intangible assets