Capital Markets Day
21st November 2014, London

Overview
Stephen Harris, Group Chief Executive
Agenda

- Bodycote today
- Strategic update
- A new insight
Agenda

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- Strategic update
- A new insight
What does Bodycote do?

Heat treatment
Highly precise improvement of material properties in metal components

Hot Isostatic Pressing (HIP)
The ultimate strengthening process

Surface Technology
Temperature, corrosion and wear protection

Thermal processing – an essential enabler of modern technology
Where is Bodycote?

- Network simplifies complexity
- Economies of scale

More than 190 plants / more than 2,000 process lines
Spread of activities
H1 2014 Revenue
Competitive landscape

- Overall market is estimated at around £20bn*
- Approximately 20%* of the overall market is outsourced to independents
- Bodycote the only global player
- Handful of regional players
- Mostly localised groups or single site operations

* Management estimates

Bodycote 3x bigger than next largest player
Agenda

- Bodycote today
- Strategic update
- A new insight
Strategic update
What we said three years ago...

- Divisional market focus
- Maximise return on existing assets
- Enhance business processes
- Migrate with our customers to emerging markets
- Accelerated growth from targeting specialist technologies
Progress so far ….

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Progress so far ....

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And we added acquisitions to the strategic agenda

- Divisional market focus
- Maximise return on existing assets
- Enhance business processes
- Migrate with our customers to emerging markets
- Accelerated growth from targeting specialist technologies
- Acquisitions on the strategic agenda
And successfully acquired and integrated £85 million worth of businesses

- Divisional market focus
- Maximise return on existing assets
- Enhance business processes
- Migrate with our customers to emerging markets
- Accelerated growth from targeting specialist technologies
- Acquisitions on the strategic agenda
At the 2011 Capital Markets Day we scaled future revenue growth around a 6% ‘median case’
We have delivered…

Revenue
Base = 100

Headline Margin %

Achievement =
We have delivered…

Revenue CAGR of 7.8% since 2011
Financial performance

Revenue £m

<table>
<thead>
<tr>
<th>Year</th>
<th>H1</th>
<th>H2</th>
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<tbody>
<tr>
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Headline margin %

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<th>H2</th>
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<td>2014</td>
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Return on capital employed

<table>
<thead>
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<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td></td>
<td>10%</td>
<td>16%</td>
<td>18%</td>
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Cash flow pence

<table>
<thead>
<tr>
<th>Year</th>
<th>Headline EPS</th>
<th>Free Cash PS</th>
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<td>2014</td>
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</table>
Agenda

- Bodycote today
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A new insight

Classical Heat Treatment and our Specialist Technologies

- Different scale
- Different growth rates
- Different margins
- Different development routes
Classical Heat Treatment

What is it?

- Heat treatment is used to alter the material properties of metals and alloys
- Heat treatment can improve hardness, wear resistance, temperature resistance, ductility, strength and many other fundamental material properties
Classical Heat Treatment

What is it?

- **Classical Heat Treatment** describes a group of mature processes such as Nitriding, Carburising, Annealing, Tempering (and many more) that are used to achieve the desired material properties of the metal or alloy.

- Today, Classical Heat Treatment utilises precisely controlled furnaces to process a huge variety of parts and materials to very exacting quality specifications.

- In the past these same processes were orchestrated with cruder equipment, but the underlying methods of transformation of the materials were essentially the same.
- Organic growth 9% over 3 years, including greenfields
- ‘Self-funded’ acquisitions added 13% to revenues

Margin transformation – profit more than doubled
Achieving margin gain
Classical Heat Treatment

It’s not just about ‘drop through’ from volume
– it’s mainly about mix…

We have refined our network

We have enhanced our management processes

We are more selective about the ‘quality’ of business

Generating…

Higher margins
Specialist Technologies
What are they?

- Hot Isostatic Pressing
  Product Fabrication

- HIP Services

- Low Pressure Carburising

- Specialty Stainless Steel Processes

- Surface Technology

- Corr-I-Dur®
Revenue growth
Specialist Technologies

2007 Revenue
- Classical Heat Treatment: 86%
- Specialist: 14%

2014 H1 Revenue
- Classical Heat Treatment: 74%
- Specialist: 26%

High growth
2010-2013 Cumulative growth
Specialist Technologies

S³P and HIP PF - growing the fastest and have the greatest potential
Much higher growth and much higher margin
The growth rates and margins of the Specialist technologies are enhancing Bodycote’s quality of earnings.
Summary

Classical Heat Treatment

Improving the footprint, aligning with opportunity

Focusing on higher added-value business

Improving the mix

9% cumulative organic growth over 3 years
Margin expanded 600bps over last 3 years – still further potential
39% cumulative organic growth over 3 years
High growth and higher margin – benefits overall Group margin
Further potential…
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Investment & Cash Flow
David Landless, Group Finance Director
Agenda

- Financial performance
- Market volatility
- Investment
- Cash generation
- Cash utilisation
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- Financial performance
- Market volatility
- Investment
- Cash generation
- Cash utilisation
Financial performance

Revenue (£m)

- H2
- H1

2010: 240, 229
2011: 266, 271
2012: 281, 291
2013: 291, 298
2014: 312

Return on capital employed

2010: 10%
2011: 16%
2012: 18%
2013: 20%

Headline margin (%)

2010: 9, 11
2011: 15, 15
2012: 16, 17
2013: 17, 18
2014: 18

Cash flow (pence)

- Headline EPS
- Free Cash PS

2010: 18, 31
2011: 33, 38
2012: 38, 44
2013: 41, 42

2014: 41, 42
Agenda

- Financial performance
- Market volatility
- Investment
- Cash generation
- Cash utilisation
Market volatility
H1 2014 Revenue by sector

- Aerospace & Defence
- Auto
- General Industrial
- Oil & Gas
- Tooling
- Construction
- Power Generation
- Consumer
- Agriculture
- Truck
- Medical
- Mining

Broad spread of served industries
Market volatility
H1 2014 Revenue by geography

Broad spread of geographies
Market volatility
US QoQ growth by sector

Individual markets can be volatile

Source: US Federal Reserve data
But Europe tends to be phased differently to the US
Result – volatility further reduced

Source: US Federal Reserve data weighted by Bodycote sales mix
Agenda

- Financial performance
- Market volatility
- Investment
- Cash generation
- Cash utilisation
Three years since last Capital Markets Day:

- Capital expenditure £150m
- Depreciation £154m
- Averaging 1.0x depreciation
Investment
What did it buy?

- Three years since last Capital Markets Day:

**Specialist Technologies:**
Large capacity increase, for example:
- Expanded S³P lines
- New HIP capacity added
- Greenfields

**Classical Heat Treatment:**
- Greenfields
- New capability
- Sustaining

Over half of investment enhances capacity / capability
Investment

Sustaining versus enhancement

- Capex to sustain the asset base and infrastructure totals some 50% of depreciation
- So expansion capex is funded from depreciation too…

*How is this possible?*

- The structure of a furnace lasts indefinitely
- Burners, elements, seals, controls and moving parts require periodic renewal
- Sustaining capex is additional to expensed maintenance
Agenda

- Financial performance
- Market volatility
- Investment
- **Cash generation**
- Cash utilisation
Cash generation

- No inventory
- Minimal pension deficit or other legacy spend
- Funding growth capex from depreciation

Leading to... Highly cash generative business model
Cash generation
Free cash and headline earnings per share

- Cash earnings exceeded EPS each year
- And in 2009 and 2010 too
- Operating cash conversion averaged 110%

Class-leading cash generation
Agenda

- Financial performance
- Market volatility
- Investment
- Cash generation
- Cash utilisation
Cash utilisation

Priorities

1. Organic growth
2. Enhancing core dividends
3. Acquisitions
4. Supplemental distributions as appropriate
Net *debt* at 31 December 2010 of £51m

- **Last 3 years’ free cash (before capex)**: £381m
- **Capital expenditure**: £150m
  - Averaging 1.0x depreciation
- **Ordinary dividends**: £63m
  - Dividend per share increased 55% over 3 years
- **Acquisitions**: £85m
  - Added 12% to operating profits
- **Supplemental distributions**: £19m (2014)
  - Surplus cash will be distributed

Net *cash* at 31 December 2013 of £15m
Summary

- Strong financial performance
- Market volatility not always as large an effect as perceived
- Investment programme focused on Specialist Technologies and adding capacity and capability to Classical Heat Treatment
- Strong cash generation
- Clear prioritisation for use of cash
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