



**Bodycote plc**  
**Full year results for the year ended 31 December 2019**

Financial highlights	2019	Restated <sup>1</sup> 2018	% change	% change at constant currency
Revenue	<b>£719.7m</b>	£728.6m	-1.2%	-2.0%
Headline operating profit <sup>2</sup>	<b>£134.9m</b>	£140.7m	-4%	-5%
Return on sales <sup>3</sup>	<b>18.7%</b>	19.3%		
Headline profit before taxation <sup>2</sup>	<b>£130.2m</b>	£136.4m	-5%	-5%
Free cash flow <sup>4</sup>	<b>£123.1m</b>	£133.8m	-8%	
Basic headline earnings per share <sup>5</sup>	<b>52.1p</b>	55.9p	-7%	
Ordinary dividend per share	<b>20.0p</b>	19.0p		
Special dividend per share	–	20.0p		
Return on capital employed <sup>6</sup>	<b>17.7%</b>	18.9%		

**Audited statutory results**

Operating profit	<b>£128.6m</b>	£136.5m
Profit before taxation	<b>£123.9m</b>	£132.2m
Basic earnings per share	<b>49.4p</b>	54.2p

**Operational highlights**

- Resilient margin<sup>3</sup> of 18.7% despite some tough market conditions – significant actions taken to reduce costs
  - Civil Aerospace revenues up 17%
  - Specialist Technologies revenues up 3%, continuing to outperform Classical Heat Treatment (-4%)
  - Emerging Markets' revenues up 5%
- Strong free cash flow conversion of 91%<sup>7</sup>
- £61m expansionary investment in strategic growth areas in 2019
- £154m acquisition of Ellison Surface Technologies strengthens aerospace business and Specialist Technologies; expected to complete Q1.
- Full year ordinary dividend 20.0p, up 5.3%

**Commenting, Stephen Harris, Group Chief Executive, said:**

Bodycote delivered a robust performance in 2019, achieving a resilient operating margin despite challenging market conditions.

2020 has started with a number of challenges, notably Covid-19, and ongoing international trade tensions.

The potential impact of the Covid-19 health crisis is difficult to assess at this time. However, Bodycote has a proven track record of margin enhancement through cost management and improving the mix of business and we will continue to manage the cost base in response to

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market conditions whilst investing in our strategic growth areas of Aerospace, Specialist Technologies and Emerging Markets.

<sup>1</sup> The Group adopted IFRS 16 Leases which is effective from 1st January 2019 using the full retrospective approach. Consequently, prior periods have been restated to reflect IFRS 16 implementation. Further details are disclosed in notes 12 and 31 of the 2019 annual report.

<sup>2</sup> Headline operating profit and headline profit before taxation exclude amortisation of acquired intangibles of £4.6m (2018: £3.7m) and acquisition costs of £1.7m (2018: £0.5m).

<sup>3</sup> Return on sales is defined as headline operating profit as a percentage of revenue.

<sup>4</sup> Free cash flow is defined as net cash generated by operations of £177.3m (2018: £190.1m) adjusted for acquisition costs of £1.7m (2018: £0.5m) less net maintenance capital expenditure of £50.2m (2018: £48.7m); financing costs of £4.5m (2018 restated: £4.3m) and share-based payments of £1.1m (2018: 3.8m).

<sup>5</sup> A detailed EPS reconciliation is provided in note 6 to this announcement.

<sup>6</sup> Return on capital employed (ROCE) is defined as headline operating profit of £134.9m (2018 restated: £140.7m) divided by the average of opening and closing capital employed of £762.4m (2018 restated: £743.5m). Capital employed is defined as net assets adjusted for net cash/(debt).

<sup>7</sup> Headline operating cash conversion is defined as headline operating cash flow divided by headline operating profit.

- END -

## **Full Year Results Presentation**

Due to Covid-19, we will be presenting our results via webcast only. Please find the following instructions to connect to the video and audio:

08.30am UK on 12 March 2020

Webcast URL:

<https://www.investis-live.com/bodycote/5e426fab15f73f0b00239346/ellk>

Participant dial-in number from the United Kingdom **020 3936 2999**

(all other locations + 44 20 3936 2999).

Participant Access Code: 508864

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## **CEO Overview**

I am pleased to report that Bodycote, once again, demonstrated the ability to withstand adverse market conditions and deliver a resilient performance. This is testament to the success of the reshaping of the Group that has occurred over the years and the significant effort of our leadership teams and our employees.

Bodycote revenues declined 1.2% to £719.7m in 2019 compared with 2018, or 2.0% at constant currency.

Notwithstanding this decline, return on sales reduced only slightly to 18.7% (2018: 19.3%). This resilient margin performance was achieved in spite of challenging market conditions and inflationary pressures in labour and utility costs. These pressures were mitigated through good cost control while at the same time maintaining or improving our levels of customer service. Headline operating profit decreased 4% to £134.9m (2018: £140.7m), while statutory operating profit fell 6% to £128.6m.

The following commentary reflects constant currency growth rates unless stated otherwise.

## **Market sectors**

Investment in Civil Aerospace secular growth has been a strategic priority for the Group for nearly a decade. The Aerospace & Defence revenues of £197m represent a 14% growth on the prior year. This growth is well above the background secular growth of the aerospace and defence markets which is driven both by new platform introductions (offset to some degree by retirements), as well as the growing size of the global aircraft fleet and the replacement parts streams that result. Bodycote not only processes the original equipment parts but also those same parts in the replacement part market. The strong growth that the business is enjoying derives from a large percentage of the OEM replacement part market as well as the revenue boost from the stronger content that Bodycote has on a number of the new engine platforms, particularly LEAP. A further factor is the market share gains that are being won as the primes shake out the supply chains after overbuilding them in the initial ramp-up of production of the new platforms. The superior growth of the Aerospace & Defence business has increased its proportion of total Group revenues to 28% in the second half, overtaking the size of the automotive revenue weighting.

Automotive revenues declined 8% to £201m. Our largest automotive market is currently in Western Europe, where revenues declined 12%. While this was partly due to strong comparatives as European manufacturers accelerated deliveries in late 2018 ahead of the introduction of the Worldwide Harmonised Light Vehicles Test Procedure (WLTP) regulations, it also reflects the multi-year declines in output of the automotive OEMs in Western Europe. Car and light truck production in Germany, for example, declined by 8% in 2019 following a 9% decline in 2018.

General Industrial revenues declined 7% to £260m, including disposals and closures. On a like-for-like basis the decline was 4%, which is very much in line with the weakening trend we have seen since Q4 2018. This decline was broad-based and not concentrated in any one sub-sector or geography. It is apparent that customers have been delaying capital investments and have been destocking, which is in keeping with the global uncertainty surrounding macroeconomic growth and trade tensions that prevailed in 2019.

The Energy sector now only represents some 9% of Bodycote's business. Within this, oil & gas revenues grew strongly in the subsea segment. However, this was offset by weakness in the North American onshore oil & gas business (which is primarily driven by Permian Basin

activity). The issues relating to lost market share referred to in the first half announcement no longer featured strongly in the second half comparatives. Industrial Gas Turbine (IGT) revenues continued to decline so that, in aggregate, Energy revenues were 2% lower for the year at £62m.

### **Specialist Technologies**

Bodycote has for many years invested in 'Specialist Technologies' across its divisions (a description of these can be found on page 3 of the 2019 annual report). In 2019 the revenues from these Specialist Technologies grew 3%, some 7% ahead of the Classical Heat Treatment technologies. This growth differential has been similar or higher for a number of years. We believe that this level of differential growth is sustainable and a more appropriate way to assess the performance of our Specialist Technologies business in challenging market conditions. As and when market conditions improve we remain confident that Specialist Technologies growth is capable of stepping up again in absolute terms. HIP Services performed well in civil aerospace, while Powdermet<sup>®</sup> grew solidly in subsea applications. Exciting prospects for Powdermet<sup>®</sup> in aerospace started to contribute to revenue growth in the second half and our Surface Technology aerospace business achieved good growth.

LPC was adversely affected by the cancellation of an automotive programme in Western Europe that had been destined for the Chinese market. In addition, a major S<sup>3</sup>P contract came to an end due to a product change by a significant customer. The rest of the S<sup>3</sup>P business continues to grow well.

### **Emerging Markets**

Investment in Emerging Markets is another of our strategic priorities. Our growing presence in emerging markets is concentrated in the automotive sector, with plants in Eastern Europe, China and Mexico. It is notable, and probably unsurprising, that most incoming requests for proposal for electric vehicles (EVs) are for future production in these territories. This reflects not only the growing importance of EVs in China but also the realisation by Western OEMs that the new technology supply chains need to be in low-cost countries if they are to compete. Emerging Markets' revenues grew 5% during the period, a lower growth than achieved in previous years. The lower growth mainly reflects Eastern Europe weakness where German manufacturers favoured their domestic production facilities which are less easily flexed. Mexico revenues also eased, as the GM strike in the US in September impacted on our business there. China recovered its growth pace after a more subdued first half, recording second half revenue growth of 15%.

### **Investment in growth**

In 2019 we increased the pace of our investment to support future growth, spending a total of £61m (including acquired lease liabilities). We invested £29m in acquiring two bolt-on businesses, one in Scandinavia focused on mining, the other expanding Bodycote's emerging markets presence into Slovakia. Both fit well into our network of existing facilities.

The £32m balance of our investment in growth was partly on greenfield facilities, and partly on adding additional capacity to the established network where the demand is strong.

Our new facility in the Czech Republic went into operation in the first half and the new facility in Hungary will become operational in 2020. We are also well advanced with the new facilities in Illinois and upstate New York (USA).

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Additional HIP capacity in Europe came on stream during the year and additional HIP capacity in North America will become operational during 2020.

**Profit and earnings**

We continued to experience input cost inflation in a number of markets, with pressure coming from wage increases, as well as higher utility costs. Price increases and active management of costs once again enabled us to cover the impact of the cost increases

Overall volumes declined, while the performance across our served markets was mixed. Significant increases in certain sectors, such as aerospace, were more than offset by declines in other sectors, including the Western European automotive market and general industrial revenues in developed markets, in particular. Nonetheless, the 18.7% return on sales achieved in the period represents a resilient performance in light of the challenges that the business has faced, assisted by lower variable pay compensation in the year. The ability to quickly adapt and adjust its cost base as business conditions change remains critical to protecting the Group's margins.

At 23.8%, the Group's headline tax rate is in line with guidance given to the market during the year, but higher than last year's rate (2018: 21.7%). As a result, basic headline earnings per share were 52.1p (2018: 55.9p). Basic earnings per share were 49.4p (2018: 54.2p).

**Strategic progress**

Bodycote's strategy is to focus investment to drive long-term profitable growth. The priorities are markets with long-term structural growth such as civil aerospace, capability and capacity enhancement in Specialist Technologies, expansion of the Group's footprint in rapid growth Emerging Markets and targeted acquisitions.

The Group has a minimum 20% (pre-tax) hurdle rate return when appraising investments.

A further element of Bodycote's strategy is the drive for operational efficiency and a focus on business that can achieve strong return on sales and good return on capital employed.

In overall terms 2019 was a challenging year, with revenues, margin and return on capital all easing slightly, the latter reducing to 17.7% from 18.9% in 2018.

Nonetheless, we achieved notable revenue growth across all of our key strategic priority areas, 17% in civil aerospace, 5% in emerging markets, and 3% in Specialist Technologies. Our investment programme for the future continued unabated.

In late December we signed an agreement to acquire Ellison Surface Technologies, a significant enhancement to the Group's existing Surface Technology business, creating one of the world's largest providers of thermal spray and engineered coating surface technology services to the aerospace industry.

Together with the £61m of investment described above, this brings total investment committed during the year to over £200m, roughly equivalent to the total spent on acquisitions and expansionary capital expenditure over the prior four years together.

This investment reflects the excitement we have for growth prospects in the selected segments of our business.

## **Restructuring**

The macroeconomic uncertainties that held back some of our market sectors in 2019 still persist as we enter 2020. Moreover, while it is clear that we are at a weaker point in the business cycle, it has become evident that there are also some long term structural changes underway in the car & light truck markets. This is particularly the case in Western Europe. We believe that it is unlikely that the Western European car & light truck supply chains will recover to the same position and profile as before.

The combination of the macroeconomic uncertainties and longer-term structural shifts will require some consolidation of Bodycote's facilities.

As a result, we will be implementing a restructuring plan through 2020. The principal focus of the plan is on our Classical Heat Treatment activities in Western Europe, with particular emphasis on reducing exposure to the internal combustion engine. At the same time, we will continue to increase our exposure to the new car and light truck supply chains that are being set up in the Emerging Markets with a focus on supporting electric vehicle production. We anticipate a P&L charge for this restructuring of c.£30m, approximately half which will be cash cost. The payback on the cash cost is expected to be c.2.5 years.

## **Organisation and people**

Bodycote is a service business, and our first-class service is delivered by committed individuals, who understand their customers' needs and meet their demanding and changing requirements on a continual basis. Our people are the cornerstone of the business and it is through their efforts, day in and day out, that we create value and deliver on our objectives.

## **Summary and Outlook**

Bodycote delivered a robust performance in 2019, achieving a resilient operating margin despite challenging market conditions.

2020 has started with a number of challenges, notably Covid-19, and ongoing international trade tensions.

The potential impact of the Covid-19 health crisis is difficult to assess at this time. However, Bodycote has a proven track record of margin enhancement through cost management and improving the mix of business and we will continue to manage the cost base in response to market conditions whilst investing in our strategic growth areas of Aerospace, Specialist Technologies and Emerging Markets.

## **BUSINESS REVIEW**

The following review reflects constant currency growth rates unless stated otherwise.

Bodycote has more than 185 facilities around the world which are organised into two customer-focused businesses: the ADE business and the AGI business.

Our ADE business focuses on aerospace, defence and energy customers, who tend to think and operate globally. Our AGI business focuses on automotive and general industrial customers. These include many multinational companies which tend to operate on a regionally-focused basis, as well as numerous medium-sized and smaller businesses, and all of which are important to Bodycote. Much of the AGI business is locally oriented. Strategically we have focused on building customer relationships to enable our participation in long-term programmes, in particular in the civil aviation market. Not only do we have a competitive advantage as a result of our scale and capabilities, but our global reach allows customers to work with us on multiple projects simultaneously, making us a valued business partner.

## **THE ADE BUSINESS**

A large number of Bodycote's global customers fall within our ADE business and Bodycote intends to continue to leverage its unique market position to increase revenues in the aerospace, defence and energy sectors.

Within ADE, we have more than 60 facilities around the world, including Hot Isostatic Pressing (HIP) and Surface Technology facilities, alongside our Classical Heat Treatment plants.

Revenue in 2019 was £301.4m, an increase of 3% (5% at actual rates). Civil aerospace revenues registered good growth, driven by growth in Bodycote's after-market business. This was partially offset by lower energy revenues and lower general industrial revenues in the ADE business (while the focus of the ADE business is on aerospace, defence and energy customers, 19% of ADE revenues are derived from general industrial customers, where the market had been weak in 2019).

Headline operating profit was £75.8m, an increase of 7% (9% at actual rates). Consequently, return on sales improved to 25.1% (2018: 24.1%). Statutory operating profit grew to £73.4m (2018: £68.5m).

We spent £8.8m on expansionary capital expenditure, including investment in new HIP capacity in North America and Europe.

Return on capital employed increased to 24.2% (2018: 22.3%), with improved profitability and continued careful management of the balance sheet.

## **THE AGI BUSINESS**

Our extensive network of more than 120 AGI facilities enables the business to offer the broadest range of capability and security of supply. Bodycote has a long and successful history of servicing its wide-ranging customer base.

Each of our AGI facilities works with their customers to respond with the expertise and appropriate service level required, no matter the size of the customer's demand.

Revenue was £418.3m, a decline of 5% on the prior year (5% at actual rates). In automotive, again, the developed markets were weak, particularly in Western Europe. The significant

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majority of the Group's emerging markets business is in AGI and this registered growth, with a particularly pleasing 10% growth in revenues in China.

Headline operating profit was £65.9m (2018: £83.9m), representing a decline of 21% against the prior period (21% at actual rates). Return on sales correspondingly declined to 15.8% (2018: 19.0%), with the most significant drop in Western Europe where the revenue development was weakest. Statutory operating profit declined to £62.0m (2018: £80.6m).

We spent £45.4m on acquisitions and expansionary capital expenditure. The two acquired plants were in Slovakia and Sweden, and fit well with our existing business. We opened a new plant in the Czech Republic and are investing in a new plant in Hungary and two new plants in North America, all of which should become operational in 2020.

Return on capital employed decreased to 13.8% (2018: 18.6%), reflecting the lower profitability, as well as the continued investment behind acquisitions and expansionary investment projects described above, which typically take a number of years to reach full financial maturity and contribute fully to returns.



## Financial Overview

	<b>2019</b>	Restated
	<b>£m</b>	2018
		£m
Revenue	<b>719.7</b>	728.6
Headline operating profit	<b>134.9</b>	140.7
Amortisation of acquired intangible assets	<b>(4.6)</b>	(3.7)
Acquisition costs	<b>(1.7)</b>	(0.5)
Operating profit	<b>128.6</b>	136.5
Net finance charge	<b>(4.7)</b>	(4.3)
Profit before taxation	<b>123.9</b>	132.2
Taxation	<b>(29.9)</b>	(28.6)
Profit for the year	<b>94.0</b>	103.6

Group revenue was £719.7m, representing a decline of 1.2% at actual exchange rates, and 2.0% at constant currency.

Headline operating profit for the year declined by 4% to £134.9m (2018: £140.7m), and return on sales was a healthy 18.7% (2018: 19.3%). Statutory operating profit declined 6% to £128.6m (2018: £136.5m).

## Finance charge

The net finance charge was £4.7m in the year compared with £4.3m in 2018, analysed in the table below. The reader will note the inclusion of a finance charge associated with right-of-use assets, which appears for the first time following the introduction of IFRS 16, and which has increased the Group's finance charge.

	<b>2019</b>	Restated
	<b>£m</b>	2018
		£m
Interest received on bank overdrafts and loans	<b>0.2</b>	0.2
Loan interest payable	<b>0.3</b>	0.1
Interest on lease liabilities	<b>2.4</b>	2.4
Financing and bank charges	<b>1.9</b>	1.8
Pension finance charge	<b>0.3</b>	0.2
Total finance charge	<b>4.9</b>	4.5
Net finance charge	<b>4.7</b>	4.3

As at 31 December 2019, the Group's £230m Revolving Credit Facility was totally undrawn and has a remaining life of 2.3 years.

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**Profit before Taxation**

	<b>2019 £m</b>	Restated 2018 £m
Headline profit before taxation	<b>130.2</b>	136.4
Amortisation of intangibles	<b>(4.6)</b>	(3.7)
Acquisition costs	<b>(1.7)</b>	(0.5)
Profit before taxation	<b>123.9</b>	132.2

Statutory profit before tax decreased to £123.9m (2018: £132.2m), while headline profit before tax decreased 5% to £130.2m (2018: £136.4m). Acquisition costs increased as we completed two acquisitions in the first half and worked on the successful offer for Ellison Surface Technologies, which we expect to complete soon.

**Tax**

The headline tax rate for the Group was 23.8%, in line with guidance given to the market during the year. The increase compared with the 2018 rate of 21.7% results mainly from the restriction from 2019 onwards of certain benefits that we historically enjoyed on our financing arrangements in the US.

The statutory tax rate also increased to 24.1% from 21.7% in 2018. The Group's statutory tax risk is impacted by a certain level of tax risk related to jurisdictions in which the Group operates. Provisions of £15.3m are carried in respect of potential future additional tax assessments related to 'open' historic tax years. Refer to note 4 of the 2019 full-year results press release for more information.

During the year, the European Commission reached a decision that certain tax exemptions offered by the UK authorities constituted State Aid and, as such, will need to be recovered. The UK government has subsequently appealed against this decision. In the meantime, the UK tax authorities have indicated that they will be raising assessments on affected UK companies in line with the current judgement. To date, Bodycote has not had to make any payments, nor have we made any provision against this contingent liability.

**Earnings per Share**

Headline earnings per share fell 7% to 52.1p (2018: 55.9p) as a result of the lower headline operating profit and the higher headline tax rate. Basic earnings per share for the year fell to 49.4p (2018: 54.2p).

	<b>2019 £m</b>	Restated 2018 £m
Profit before taxation	<b>123.9</b>	132.2
Taxation	<b>(29.9)</b>	(28.6)
Profit for the year	<b>94.0</b>	103.6
Basic headline EPS	<b>52.1p</b>	55.9p
Basic EPS	<b>49.4p</b>	54.2p

## Return on Capital Employed (ROCE)

The introduction of IFRS 16 has resulted in changes to the balance sheet. The key impact on the return on capital employed calculation is that leased assets now appear on the balance sheet as right-of-use assets, increasing capital employed. Taking these into account, return on capital employed (including right-of-use assets) fell in the year to 17.7% from 18.9% in 2018. The decline in the return reflects the reduction in profitability, as well as the continued investment behind acquisitions and expansionary investment projects, which typically take a number of years to reach full financial maturity and contribute fully to Group returns.

For completeness, we have also performed the calculations consistent with previous years, excluding the impact of IFRS 16 on the profit and loss account and balance sheet. This measure of return on capital employed fell in the year to 19.2% from 20.5% in 2018.

## Cash Flow

	2019		2018	
	Post IFRS 16	Pre IFRS 16 £m	Post IFRS 16 £m	Pre IFRS 16 £m
<b>Headline operating profit</b>	<b>134.9</b>	<b>132.6</b>	140.7	138.3
Depreciation and amortisation	<b>79.6</b>	<b>65.1</b>	76.4	62.0
Impairment of PPE	–	–	1.8	1.8
Income from associates	<b>(0.2)</b>	<b>(0.2)</b>	–	–
Loss on disposal of business	–	–	0.6	0.6
Profit on disposal of PPE	<b>(4.4)</b>	<b>(4.4)</b>	(1.7)	(1.8)
<b>Headline EBITDA<sup>1</sup></b>	<b>209.9</b>	<b>193.1</b>	217.8	200.9
Net maintenance capital expenditure	<b>(50.2)</b>	<b>(39.1)</b>	(48.7)	(29.8)
Net working capital movement	<b>(4.2)</b>	<b>(4.2)</b>	(3.7)	(3.7)
<b>Headline operating cash flow</b>	<b>155.5</b>	<b>149.8</b>	165.4	167.4
Restructuring	<b>(3.2)</b>	<b>(3.2)</b>	(2.8)	(2.8)
Financing costs	<b>(4.5)</b>	<b>(2.1)</b>	(4.3)	(1.9)
Tax	<b>(24.7)</b>	<b>(24.7)</b>	(24.5)	(24.5)
<b>Free cash flow</b>	<b>123.1</b>	<b>119.8</b>	133.8	138.2
Expansionary capital expenditure	<b>(32.2)</b>	<b>(32.2)</b>	(44.1)	(44.1)
Ordinary dividend	<b>(36.8)</b>	<b>(36.8)</b>	(34.3)	(34.3)
Acquisition spend	<b>(29.0)</b>	<b>(22.9)</b>	(8.8)	(8.8)
Special dividend	<b>(38.1)</b>	<b>(38.1)</b>	(47.5)	(47.5)
Own shares purchased less SBP and others	<b>(4.9)</b>	<b>(4.9)</b>	(6.7)	(6.6)
<b>Reduction in net cash</b>	<b>(17.9)</b>	<b>(15.1)</b>	(7.6)	(3.1)
Opening net (debt)/cash	<b>(44.1)</b>	<b>36.2</b>	(34.8)	39.6
Foreign exchange movements	<b>3.5</b>	<b>(0.2)</b>	(1.7)	(0.3)
<b>Closing net (debt)/cash</b>	<b>(58.5)</b>	<b>20.9</b>	(44.1)	36.2

<sup>1</sup> Earnings before interest, tax, depreciation, amortisation, share-based payments, impairment of property, plant and equipment, profit or loss on disposal of property, plant and equipment.

The introduction of IFRS 16 has resulted in some changes to the management of cash flow. The key impact of IFRS 16 is that depreciation increases, thereby increasing EBITDA, whilst, in order to be able to reconcile the cash flows to the relevant net cash/debt movements, we have treated lease additions and extensions as a form of capital expenditure outlay.

For ease of reference, we have shown both the pre and post IFRS 16 cash flows for both years in the table above.

We have also taken the opportunity to make some other changes to the presentation of cash flow statement. The key change is to distinguish maintenance (stay in business) capital expenditure, which is required for the operations to continue to run smoothly, from expansionary capital expenditure, which is discretionary in nature. Expansionary capital expenditure is, therefore, no longer deducted from free cash flow. We have also taken the logical steps of combining acquisition costs with the acquisition consideration and combining the share-based payments add back with the cash outlay to purchase our own shares (given that we settle share-based payments by buying shares in the market).

The Group's headline operating cash flow fell 6% to £155.5m from £165.4m, reflecting the lower headline operating profit, as well as a higher level of expenditure on maintenance capital expenditure. Headline operating cash conversion was 115% as the Group continues its track record of converting profit into cash. Free cash flow correspondingly fell to £123.1m (2018: £133.8m), with free cash flow conversion at 91% (2018: 95%).

### **Expansionary capital expenditure and acquisitions**

In 2019, the Group continued to invest. Accordingly, £32m of capital expenditure was expended on expansionary projects, while £23m was expended on two acquisitions mid-year (excluding £6m of lease liabilities acquired). Taken together with the Ellison Surface Technologies acquisition, which should complete in the coming days, the Group committed over £200m of investment during the year for future profitable growth.

### **Dividend and Dividend Policy**

The Group aims to pay ordinary dividends so that dividend cover will be at or above 2.0 times earnings. The Board may also recommend payment of a supplemental distribution to shareholders. The amount of any supplemental distribution will be assessed in light of the cash position of the Group, along with funding requirements for both organic growth and acquisitions.

In line with this policy, the Board has recommended a final ordinary dividend of 14.0p (2018: 13.3p), bringing the total ordinary dividend to 20.0p (2018: 19.0p). In light of the imminent acquisition of Ellison Surface Technologies, the Board is not recommending a special dividend this year (2018: 20.0p). If approved by shareholders, the final ordinary dividend will be paid on 5 June 2020 to shareholders on the register at the close of business on 24 April 2020.

During the year, the Group became aware of an issue concerning technical compliance with the Companies Act 2006 in respect of the declaration and payment of the 2018 interim dividend and 2018 special dividend. Although the Group had such distributable reserves at the time of declaration and payment, the Group had not lodged interim accounts with Companies House to show that each of the dividends were supported by sufficient distributable reserves. The Group's historical reported trading results and financial condition

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are entirely unaffected, but the Group proposes to put a resolution to shareholders at the Company's annual general meeting to rectify the position.

### **Borrowing facilities**

The Group is financed by a mix of cash flows from operations, short-term borrowings, and leases. The Group's funding policy aims to ensure continuity of finance at reasonable cost, based on committed and uncommitted facilities and loans from several sources over a spread of maturities. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of long-term funding.

The total undrawn committed facility funding available to the Group at 31 December 2019 was £230.0m (2018: £230m). At 31 December 2019, the facility was undrawn.

Facility	Expiry date	Facility £m	Facility utilisation £m	Facility headroom £m
£230m Revolving Credit	3 April 2022	230.0	–	230.0

### **Post balance sheet events**

Bodycote announced the agreement to purchase Ellison Surface Technologies ('Ellison') in December 2019 for gross consideration of £154m excluding lease liabilities, to be settled through the Group's existing committed funding facilities. Refer to note 8 of the 2019 full-year results press release for more information.

### **Alternative performance measures**

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow, headline operating cash conversion and free cash flow, together with current measures restated at constant currency. These assist users of the financial statements to gain a clearer understanding of the underlying performance of the business, allowing the impact of restructuring and reorganisation activities, and acquisition costs to be identified separately. These alternative performance measures can be found in note 1 of the 2019 full-year results press release.

### **Going concern**

In determining the basis of preparation for the Annual Report and the Group's viability statement, the directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. This includes an overview of the Group's financial position, cash flows, liquidity position and borrowing facilities.

The Group meets its working capital requirements through a combination of cash resources, committed and uncommitted facilities, and overdrafts. The overdrafts and uncommitted facilities are repayable on demand but the committed facilities are due for renewal as set out below. There is sufficient headroom in the committed facility covenants to assume that these facilities can be operated as contracted for the foreseeable future.

The committed facilities as at 31 December 2019 were as follows:

- £230m Revolving Credit Facility maturing 3 April 2022

The December 2019 weighted average life of the committed facilities was 2.3 years.

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The Group's forecasts and projections, taking account of reasonable potential changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

The Directors have reviewed forecasts and projections for the Group's markets and services, assessing the committed facility and financial covenant headroom, central liquidity and the Group's ability to access further funding. The Directors also reviewed downside sensitivity analysis over the forecast period, thereby taking into account the uncertainties arising from the current economic environment. Following this review, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

### **Principal risks and uncertainties**

The Directors have reconsidered the principal risks and uncertainties of the Group. The Directors do not consider that the principal risks and uncertainties of the Group have significantly changed since the publication of the Annual Report for the year ended 31 December 2018. The risks which could have a material impact on the Group's performance for the remainder of the current financial year relate to: Markets; Loss of key customers; Competitor action; Safety and health; Environment; Service quality; Major disruption at a facility; Capital projects; Information Technology projects; and Regulatory and legislative compliance.

### **Directors' responsibilities statement**

The Group consolidated financial statements have been audited in accordance with the applicable requirements of the Companies Act 2006. This responsibility statement has been prepared in connection with the Group consolidated financial statements, extracts of which are included within this announcement. The Directors confirm that to the best of their knowledge:

- The condensed consolidated financial statements included in this document have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and are derived from the audited consolidated financial statements of the Group, prepared in accordance with IFRS (they do not contain sufficient information to comply with IFRS);
- The Group's condensed consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- There have been no significant individual related party transactions during the year; and
- There have been no significant changes in the Group's related party relationships from that reported in the half-yearly results for the six months ended 30 June 2019.

The Group's condensed consolidated financial statements, and related notes, including this responsibility statement, were approved by the Board and authorised for issue on 12 March 2020 and were signed on their behalf by:

<b>Director</b>	<b>Director</b>
S C Harris	D Yates

## **Consolidated income statement**

For the year ended 31 December 2019

	Note	2019 £m	Restated <sup>1</sup> 2018 £m
<b>Revenue</b>	2	<b>719.7</b>	728.6
Cost of sales and overheads		<b>(590.5)</b>	(592.3)
Net impairment (losses)/gains on financial assets		<b>(0.6)</b>	0.2
<b>Operating profit</b>	2,3	<b>128.6</b>	136.5
Finance income		<b>0.2</b>	0.2
Finance costs		<b>(4.9)</b>	(4.5)
<b>Profit before taxation</b>		<b>123.9</b>	132.2
Taxation charge	4	<b>(29.9)</b>	(28.6)
<b>Profit for the year</b>		<b>94.0</b>	103.6
Attributable to:			
Equity holders of the parent		<b>93.8</b>	103.2
Non-controlling interests		<b>0.2</b>	0.4
		<b>94.0</b>	103.6
<b>Earnings per share</b>	6		
		<b>Pence</b>	Pence
Basic		<b>49.4</b>	54.2
Diluted <sup>2</sup>		<b>49.2</b>	53.8

All activities have arisen from continuing operations.

1 Restated for IFRS 16 Leases.

2 The diluted EPS figure for 2018 has been re-presented to reflect certain dilutive share options.

## Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 £m	Restated <sup>1</sup> 2018 £m
<b>Profit for the year</b>	<b>94.0</b>	103.6
<b>Items that will not be reclassified to profit or loss:</b>		
Actuarial loss on defined benefit pension schemes	(2.0)	(0.8)
Tax on items that will not be reclassified	0.9	(0.5)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(1.1)</b>	(1.3)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange (losses)/gains on translation of overseas operations	(26.4)	15.8
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(26.4)</b>	15.8
<b>Other comprehensive (expense)/income for the year</b>	<b>(27.5)</b>	14.5
<b>Total comprehensive income for the year</b>	<b>66.5</b>	118.1
Attributable to:		
Equity holders of the parent	66.4	117.9
Non-controlling interests	0.1	0.2
	<b>66.5</b>	118.1

1 Restated for IFRS 16 Leases.



## Consolidated balance sheet

At 31 December 2019	Note	2019 £m	Restated <sup>1</sup> 2018 £m	Restated <sup>1</sup> 1 January 2018 £m
<b>Non-current assets</b>				
Goodwill		169.8	163.9	157.6
Other intangible assets		42.6	43.0	43.4
Property, plant and equipment		534.5	546.6	520.5
Right-of-use assets		73.3	73.7	67.9
Investment in associate		4.2	4.1	–
Deferred tax assets		6.1	9.1	9.8
Trade and other receivables		1.2	1.4	1.0
		<b>831.7</b>	<b>841.8</b>	<b>800.2</b>
<b>Current assets</b>				
Inventories		14.8	13.9	16.4
Current tax assets		15.7	7.0	12.8
Trade and other receivables		142.9	146.3	140.4
Cash and bank balances		22.0	38.5	41.0
Assets held for sale		–	1.8	2.1
		<b>195.4</b>	<b>207.5</b>	<b>212.7</b>
<b>Total assets</b>		<b>1,027.1</b>	<b>1,049.3</b>	<b>1,012.9</b>
<b>Current liabilities</b>				
Trade and other payables		127.4	140.4	138.4
Current tax liabilities		31.2	26.6	29.2
Borrowings		1.1	2.3	1.4
Lease liabilities		13.4	13.6	13.0
Provisions	7	4.0	4.7	8.7
		<b>177.1</b>	<b>187.6</b>	<b>190.7</b>
<b>Net current assets</b>		<b>18.3</b>	<b>19.9</b>	<b>22.0</b>
<b>Non-current liabilities</b>				
Lease liabilities		66.0	66.7	61.5
Retirement benefit obligations		17.9	16.8	15.2
Deferred tax liabilities		48.6	44.8	40.9
Provisions	7	9.5	11.9	11.0
Other payables		2.2	2.2	3.4
		<b>144.2</b>	<b>142.4</b>	<b>132.0</b>
<b>Total liabilities</b>		<b>321.3</b>	<b>330.0</b>	<b>322.7</b>
<b>Net assets</b>		<b>705.8</b>	<b>719.3</b>	<b>690.2</b>

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<b>Equity</b>			
Share capital	<b>33.1</b>	33.1	33.1
Share premium account	<b>177.1</b>	177.1	177.1
Own shares	<b>(11.6)</b>	(14.8)	(7.2)
Other reserves	<b>136.7</b>	141.4	141.0
Translation reserves	<b>37.9</b>	64.2	48.2
Retained earnings	<b>331.8</b>	317.6	297.5
<b>Equity attributable to equity holders of the parent</b>	<b>705.0</b>	718.6	689.7
Non-controlling interests	<b>0.8</b>	0.7	0.5
<b>Total equity</b>	<b>705.8</b>	<b>719.3</b>	<b>690.2</b>

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1 Restated for IFRS 16 Leases and deferred tax netting..

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 12 March 2020.

They were signed on its behalf by:

**S.C. Harris**  
Director

**D. Yates**  
Director

## Consolidated cash flow statement

For the year ended 31 December 2019

	Note	2019 £m	Restated <sup>1</sup> 2018 £m
<b>Net cash from operating activities</b>	<b>9</b>	<b>177.3</b>	190.1
<b>Investing activities</b>			
Purchases of property, plant and equipment		(77.7)	(82.4)
Proceeds on disposal of property, plant and equipment and intangible assets		7.4	10.2
Purchases of other intangible assets		(1.0)	(1.8)
Acquisition of businesses, net of cash acquired		(19.1)	(8.3)
Disposal of businesses		–	0.7
<b>Net cash used in investing activities</b>		<b>(90.4)</b>	(81.6)
<b>Financing activities</b>			
Interest received		0.2	0.2
Interest paid		(4.7)	(4.3)
Dividends paid		(74.9)	(81.8)
Repayments of bank loans		(37.3)	(40.7)
Principal elements of lease payments		(14.4)	(14.4)
Own shares purchased		(6.0)	(10.6)
New bank loans raised		35.0	40.0
<b>Net cash used in financing activities</b>		<b>(102.1)</b>	(111.6)
<b>Net decrease in cash and cash equivalents</b>		<b>(15.2)</b>	(3.1)
<b>Cash and cash equivalents at beginning of year</b>		<b>36.2</b>	39.6
Effect of foreign exchange rate changes		(0.1)	(0.3)
<b>Cash and cash equivalents at end of year</b>	<b>9</b>	<b>20.9</b>	36.2

1 Restated for IFRS 16 Leases.

## Consolidated statement of changes in equity

For the year ended 31 December 2019	Share capital £m	Share premium account £m	Own shares £m	Other reserves £m	Translation reserves £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non- controlling interests £m	Total equity £m
1 January 2018, as previously reported	33.1	177.1	(7.2)	141.0	45.9	307.1	697.0	0.5	697.5
Impact of change in accounting policy	–	–	–	–	2.3	(9.6)	(7.3)	–	(7.3)
Restated balance at 1 January 2018	33.1	177.1	(7.2)	141.0	48.2	297.5	689.7	0.5	690.2
Net profit for the year	–	–	–	–	–	103.2	103.2	0.4	103.6
Exchange differences on translation of overseas operations	–	–	–	–	16.0	–	16.0	(0.2)	15.8
Actuarial losses on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(1.3)	(1.3)	–	(1.3)
Total comprehensive income for the year	–	–	–	–	16.0	101.9	117.9	0.2	118.1
Return of capital to shareholders and redemption of B shares	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Acquired in the year/settlement of share options	–	–	(7.6)	(3.4)	–	0.4	(10.6)	–	(10.6)
Share-based payments	–	–	–	3.8	–	–	3.8	–	3.8
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Dividends	–	–	–	–	–	(81.8)	(81.8)	–	(81.8)
<b>Restated balance at 31 December 2018</b>	<b>33.1</b>	<b>177.1</b>	<b>(14.8)</b>	<b>141.4</b>	<b>64.2</b>	<b>317.6</b>	<b>718.6</b>	<b>0.7</b>	<b>719.3</b>
Net profit for the year	–	–	–	–	–	93.8	93.8	0.2	94.0
Exchange differences on translation of overseas operations	–	–	–	–	(26.3)	–	(26.3)	(0.1)	(26.4)
Actuarial gains on defined benefit pension schemes net of deferred tax	–	–	–	–	–	(1.1)	(1.1)	–	(1.1)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(26.3)</b>	<b>92.7</b>	<b>66.4</b>	<b>0.1</b>	<b>66.5</b>
Acquired in the year/settlement of share options	–	–	3.2	(5.8)	–	(3.4)	(6.0)	–	(6.0)
Share-based payments	–	–	–	1.1	–	–	1.1	–	1.1
Deferred tax on share-based payment transactions	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
Dividends	–	–	–	–	–	(74.7)	(74.7)	–	(74.7)
<b>31 December 2019</b>	<b>33.1</b>	<b>177.1</b>	<b>(11.6)</b>	<b>136.7</b>	<b>37.9</b>	<b>331.8</b>	<b>705.0</b>	<b>0.8</b>	<b>705.8</b>

Included in other reserves is a capital redemption reserve of £129.8m (2018: £129.8m) and a share-based payments reserve of £6.1m (2018: £10.8m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2019, 1,405,555 (2018: 1,839,860) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes.

# Notes to the consolidated financial statements

Year ended 31 December 2019

## 1. Alternative performance measures (APMs)

Bodycote uses various APMs, in addition to those reported under IFRS, as management consider these measures enable users of the financial statements to assess the underlying trading performance of the business. These APMs of financial performance, position or cash flows are not defined or specified according to International Financial Reporting Standards (IFRS) and are defined below and, where relevant, are reconciled to IFRS measures. APMs are prepared on a consistent basis for all periods presented in this report.

The APMs used include headline operating profit, return on sales, headline profit before taxation, EBITDA, headline EBITDA, headline tax charge, headline tax rate, headline earnings per share (EPS), headline operating cash flow, free cash flow, headline operating cash conversion, net cash, net cash plus lease liabilities and return on capital employed (ROCE). These measures reflect the underlying trading performance of the business as they exclude certain non-operational items, acquisition costs and amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, to better represent the underlying performance of the business. The measures described above are also used in the target setting process for executive and management annual bonuses (headline operating profit and headline operating cash flow) and share schemes (headline EPS and return on capital employed). During the year the Group made changes to the definition of headline EBITDA, and its cash flow related APMs, for more information refer to page 11.

The constant exchange rate comparison uses the current year reported segmental information, stated in the relevant functional currency, and translates the results into its presentational currency using the prior year's monthly exchange rates. Expansionary capital expenditure is defined as capital expenditure invested to grow the Group's business.

APMs are defined and reconciled to the IFRS statutory measure as follows:

### Headline operating profit

	2019 £m	Restated 2018 £m
<b>Operating profit</b>	<b>128.6</b>	136.5
Add back:		
Amortisation of acquired intangibles	4.6	3.7
Acquisition costs	1.7	0.5
<b>Headline operating profit</b>	<b>134.9</b>	140.7

### Return on sales

	2019 £m	Restated 2018 £m
Headline operating profit	134.9	140.7
Revenue	719.7	728.6
<b>Return on sales</b>	<b>18.7%</b>	19.3%

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**Headline profit before taxation**

	2019 £m	Restated 2018 £m
<b>Profit before taxation</b>	<b>123.9</b>	132.2
Add back:		
Amortisation of acquired intangibles	4.6	3.7
Acquisition costs	1.7	0.5
<b>Headline profit before taxation</b>	<b>130.2</b>	136.4

**EBITDA and Headline EBITDA (Earnings Before Interest, Taxation, Depreciation, and Amortisation)**

Restated

	2019 £m	2018 £m
<b>Operating profit</b>	<b>128.6</b>	136.5
Depreciation and amortisation	84.2	80.1
Impairment of property, plant and equipment	–	1.8
Profit on disposal of property, plant and equipment	(4.4)	(1.7)
Share-based payments	1.1	3.8
Loss on disposal of businesses	–	0.6
<b>Income from associate</b>	<b>(0.2)</b>	–
<b>EBITDA</b>	<b>209.3</b>	221.1
Acquisition costs	1.7	0.5
Share-based payments	(1.1)	(3.8)
<b>Headline EBITDA</b>	<b>209.9</b>	217.8

**Headline tax charge**

	2019 £m	Restated 2018 £m
Tax charge	29.9	28.6
Tax on amortisation of acquired intangibles	1.1	0.9
<b>Headline tax charge</b>	<b>31.0</b>	29.5

**Headline tax rate**

	2019 £m	Restated 2018 £m
Headline tax charge	31.0	29.5
Headline profit before taxation	130.2	136.4
<b>Headline tax rate</b>	<b>23.8%</b>	21.7%

**Headline earnings per share**

A detailed reconciliation is provided in note 6.

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**Headline operating cash flow**

	2019 £m	Restated 2018 £m
<b>Headline EBITDA</b>	<b>209.9</b>	217.8
Less:		
Net maintenance capital expenditure	<b>(50.2)</b>	(48.7)
Net working capital movement	<b>(4.2)</b>	(3.7)
<b>Headline operating cash flow</b>	<b>155.5</b>	165.4

**Free cash flow**

	2019 £m	Restated 2018 £m
<b>Headline operating cash flow</b>	<b>155.5</b>	165.4
Less:		
Restructuring cash flows	<b>(3.2)</b>	(2.8)
Income taxes paid	<b>(24.7)</b>	(24.5)
Interest paid	<b>(4.5)</b>	(4.3)
<b>Free cash flow</b>	<b>123.1</b>	133.8

**Headline operating cash conversion**

	2019 £m	Restated 2018 £m
Headline operating cash flow	<b>155.5</b>	165.4
Headline operating profit	<b>134.9</b>	140.7
<b>Headline operating cash conversion</b>	<b>115.3%</b>	117.6%

**Net cash and net cash plus lease liabilities**

	2019 £m	Restated 2018 £m
Cash and bank balances	<b>22.0</b>	38.5
Bank overdrafts (included in borrowings)	<b>(1.1)</b>	(2.3)
Net cash	<b>20.9</b>	36.2
Lease liabilities	<b>(79.4)</b>	(80.3)
<b>Net cash plus lease liabilities</b>	<b>(58.5)</b>	(44.1)

**Return on capital employed**

	2019 £m	Restated 2018 £m
Headline operating profit	<b>134.9</b>	140.7
Average capital employed <sup>1</sup>	<b>762.4</b>	743.5
<b>Return on capital employed</b>	<b>17.7%</b>	18.9%

1 Average capital employed is defined as the average opening and closing net assets adjusted for net cash plus lease liabilities.

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**Revenue and headline operating profit at constant exchange rates**

Reconciled to revenue and headline operating profit in the table below:

	Year to 31 December 2019			Consolidated £m
	ADE £m	AGI £m	Central cost and eliminations £m	
Revenue	301.4	418.3	–	719.7
Constant exchange rates adjustment	(5.0)	(0.7)	–	(5.7)
<b>Revenue at constant exchange rates</b>	<b>296.4</b>	<b>417.6</b>	<b>–</b>	<b>714.0</b>
Headline operating profit	75.8	65.9	(6.8)	134.9
Constant exchange rates adjustment	(1.3)	0.4	0.3	(0.6)
Headline operating profit at constant exchange rates	74.5	66.3	(6.5)	134.3

## 2. Business and geographical segments

The Group has more than 185 facilities across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

In accordance with IFRS 8 Operating Segments, the segmentation of Group activity reflects the way the Group is managed by the chief operating decision maker, being the Group Chief Executive, who regularly reviews the operating performance of six operating segments, split between the Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) business areas, as follows:

ADE – Western Europe;

ADE – North America;

ADE – Emerging markets;

AGI – Western Europe;

AGI – North America; and

AGI – Emerging markets.

The split of operating segments by geography reflects the business reporting structure of the Group.

We have also presented combined results of our two key business areas, ADE and AGI. The split being driven by customer behaviour and requirements, geography, and services provided. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

Bodycote plants do not exclusively supply services to customers of a given market sector. Allocations of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.



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<b>Group</b>	<b>ADE 2019 £m</b>	<b>AGI 2019 £m</b>	<b>Central costs and eliminations 2019 £m</b>	<b>Consolidated 2019 £m</b>
Revenue				
Total revenue	<b>301.4</b>	<b>418.3</b>	<b>–</b>	<b>719.7</b>
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated central costs	<b>76.8</b>	<b>65.6</b>	<b>–</b>	<b>142.4</b>
Share-based payments (including social charges)	<b>(1.0)</b>	<b>0.3</b>	<b>(0.6)</b>	<b>(1.3)</b>
Unallocated central costs	<b>–</b>	<b>–</b>	<b>(6.2)</b>	<b>(6.2)</b>
Headline operating profit/(loss)	<b>75.8</b>	<b>65.9</b>	<b>(6.8)</b>	<b>134.9</b>
Amortisation of acquired intangible assets	<b>(1.1)</b>	<b>(3.5)</b>	<b>–</b>	<b>(4.6)</b>
Acquisition costs	<b>(1.3)</b>	<b>(0.4)</b>	<b>–</b>	<b>(1.7)</b>
Segment result	<b>73.4</b>	<b>62.0</b>	<b>(6.8)</b>	<b>128.6</b>
Finance income				<b>0.2</b>
Finance costs				<b>(4.9)</b>
Profit before taxation				<b>123.9</b>
Taxation				<b>(29.9)</b>
<b>Profit for the year</b>				<b>94.0</b>

Inter-segment sales are not material in either year.

The Group does not rely on any individual major customers.

	<b>Western Europe 2019 £m</b>	<b>North America 2019 £m</b>	<b>Emerging markets 2019 £m</b>	<b>Total ADE 2019 £m</b>
<b>Aerospace, Defence &amp; Energy</b>				
Revenue				
Total revenue	<b>141.3</b>	<b>158.7</b>	<b>1.4</b>	<b>301.4</b>
<b>Result</b>				
Headline operating profit prior to share-based payments	<b>35.9</b>	<b>40.6</b>	<b>0.3</b>	<b>76.8</b>
Share-based payments (including social charges)	<b>(0.4)</b>	<b>(0.6)</b>	<b>–</b>	<b>(1.0)</b>
Headline operating profit	<b>35.5</b>	<b>40.0</b>	<b>0.3</b>	<b>75.8</b>
Amortisation of acquired intangible assets	<b>–</b>	<b>(1.1)</b>	<b>–</b>	<b>(1.1)</b>
Acquisition costs	<b>–</b>	<b>(1.3)</b>	<b>–</b>	<b>(1.3)</b>
Segment result	<b>35.5</b>	<b>37.6</b>	<b>0.3</b>	<b>73.4</b>

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<b>Automotive &amp; General Industrial</b>	<b>Western Europe 2019 £m</b>	<b>North America 2019 £m</b>	<b>Emerging markets 2019 £m</b>	<b>Total AGI 2019 £m</b>
<b>Revenue</b>				
Total revenue	<b>246.0</b>	<b>107.4</b>	<b>64.9</b>	<b>418.3</b>
<b>Result</b>				
Headline operating profit prior to share-based payments	<b>40.5</b>	<b>9.7</b>	<b>15.4</b>	<b>65.6</b>
Share-based payments (including social charges)	<b>0.6</b>	<b>(0.3)</b>	<b>–</b>	<b>0.3</b>
Headline operating profit	<b>41.1</b>	<b>9.4</b>	<b>15.4</b>	<b>65.9</b>
Amortisation of acquired intangible assets	<b>(0.4)</b>	<b>(2.9)</b>	<b>(0.2)</b>	<b>(3.5)</b>
Acquisition costs	<b>(0.4)</b>	<b>–</b>	<b>–</b>	<b>(0.4)</b>
Segment result	<b>40.3</b>	<b>6.5</b>	<b>15.2</b>	<b>62.0</b>

<b>Group</b>	Restated			Consolidated 2018 £m
	ADE 2018 £m	AGI 2018 £m	Central costs and eliminations 2018 £m	
<b>Revenue</b>				
Total revenue	288.0	440.6	–	728.6
<b>Result</b>				
Headline operating profit prior to share-based payments and unallocated central costs	69.7	87.2	–	156.9
Share-based payments (including social charges)	(0.3)	(3.3)	(1.8)	(5.4)
Unallocated central costs	–	–	(10.8)	(10.8)
Headline operating profit/(loss)	69.4	83.9	(12.6)	140.7
Amortisation of acquired intangible assets	(0.9)	(2.8)	–	(3.7)
Acquisition costs	–	(0.5)	–	(0.5)
Segment result	68.5	80.6	(12.6)	136.5
Finance income				0.2
Finance costs				(4.5)
Profit before taxation				132.2
Taxation				(28.6)
Profit for the year				103.6

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	Restated			Total ADE 2018 £m
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	
<b>Aerospace, Defence &amp; Energy</b>				
Revenue				
Total revenue	137.7	149.1	1.2	288.0
Result				
Headline operating profit/(loss) prior to share-based payments	33.8	36.4	(0.5)	69.7
Share-based payments (including social charges)	0.1	(0.4)	–	(0.3)
Headline operating profit/(loss)	33.9	36.0	(0.5)	69.4
Amortisation of acquired intangible assets	0.2	(1.1)	–	(0.9)
Segment result	34.1	34.9	(0.5)	68.5

	Restated			Total AGI 2018 £m
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	
<b>Automotive &amp; General Industrial</b>				
Revenue				
Total revenue	272.0	106.5	62.1	440.6
Result				
Headline operating profit prior to share-based payments	58.3	12.2	16.7	87.2
Share-based payments (including social charges)	(2.5)	(0.6)	(0.2)	(3.3)
Headline operating profit	55.8	11.6	16.5	83.9
Amortisation of acquired intangible assets	(0.3)	(2.5)	–	(2.8)
Acquisition costs	–	(0.5)	–	(0.5)
Segment result	55.5	8.6	16.5	80.6

**Other information**

Group	ADE 2019 £m	AGI 2019 £m	Central costs and eliminations 2019 £m	Consolidated 2019 £m
Gross capital additions	27.5	49.6	4.8	81.9
Depreciation and amortisation	29.1	52.8	2.3	84.2
<b>Balance sheet</b>				
Segment assets	375.5	607.1	44.5	1,027.1
Segment liabilities	(82.4)	(171.8)	(67.1)	(321.3)
Segment net assets	293.1	435.3	(22.6)	705.8

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	Western Europe 2019 £m	North America 2019 £m	Emerging markets 2019 £m	Total ADE 2019 £m
<b>Aerospace, Defence &amp; Energy</b>				
Gross capital additions	10.4	17.0	0.1	27.5
Depreciation and amortisation	13.1	15.9	0.1	29.1
<b>Balance sheet</b>				
Segment assets	181.5	189.2	4.8	375.5
Segment liabilities	(43.7)	(38.5)	(0.2)	(82.4)
Segment net assets	137.8	150.7	4.6	293.1

	Western Europe 2019 £m	North America 2019 £m	Emerging markets 2019 £m	Total AGI 2019 £m
<b>Automotive &amp; General Industrial</b>				
Gross capital additions	18.1	19.4	12.1	49.6
Depreciation and amortisation	27.4	15.3	10.1	52.8
<b>Balance sheet</b>				
Segment assets	289.2	182.2	135.7	607.1
Segment liabilities	(101.5)	(30.3)	(40.0)	(171.8)
Segment net assets	187.7	151.9	95.7	435.3

Group	Restated			Consolidated 2018 £m
	ADE 2018 £m	AGI 2018 £m	Central costs and eliminations 2018 £m	
Gross capital additions	31.3	68.6	3.1	103.0
Depreciation and amortisation	27.6	49.9	2.6	80.1
<b>Balance sheet</b>				
Segment assets	390.9	605.3	53.1	1,049.3
Segment liabilities	(84.4)	(185.4)	(60.2)	(330.0)
Segment net assets	306.5	419.9	(7.1)	719.3

Aerospace, Defence & Energy	Restated			Total ADE 2018 £m
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	
Gross capital additions	18.8	12.1	0.4	31.3
Depreciation and amortisation	12.4	14.8	0.4	27.6
<b>Balance sheet</b>				
Segment assets	189.9	194.7	6.3	390.9
Segment liabilities	(45.0)	(36.6)	(2.8)	(84.4)
Segment net assets	144.9	158.1	3.5	306.5

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	Restated			Total AGI 2018 £m
	Western Europe 2018 £m	North America 2018 £m	Emerging markets 2018 £m	
<b>Automotive &amp; General Industrial</b>				
Gross capital additions	29.8	20.6	18.2	68.6
Depreciation and amortisation	28.1	13.4	8.4	49.9
<b>Balance sheet</b>				
Segment assets	305.2	189.9	110.2	605.3
Segment liabilities	(119.1)	(36.7)	(29.6)	(185.4)
Segment net assets	186.1	153.2	80.6	419.9

**Geographical information**

The Group's revenue from external customers and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by country are detailed below:

	Revenue from external customers		Non-current assets			Restated 2018 £m
	2019 £m	2018 £m	As previously reported 2019 £m	As previously reported 2018 £m	Change in accounting policy 2018 £m	
USA	<b>255.3</b>	243.6	<b>315.2</b>	298.2	18.3	316.5
France	<b>102.6</b>	111.3	<b>71.9</b>	75.3	8.6	83.9
Germany	<b>87.6</b>	101.0	<b>82.9</b>	84.2	5.9	90.1
UK	<b>62.3</b>	58.7	<b>96.5</b>	91.9	8.5	100.4
Sweden	<b>44.2</b>	44.4	<b>40.4</b>	34.8	1.7	36.5
Netherlands	<b>26.9</b>	29.6	<b>23.3</b>	22.8	3.1	25.9
Others	<b>140.8</b>	140.0	<b>194.2</b>	147.7	30.3	178.0
	<b>719.7</b>	728.6	<b>824.4</b>	754.9	76.4	831.3

### 3. Operating profit

	2019 £m	Restated 2018 £m
Revenue	719.7	728.6
Cost of sales	(452.3)	(448.2)
Gross profit	267.4	280.4
Other operating income	14.4	13.2
Distribution costs	(21.6)	(20.2)
Administration expenses	(124.7)	(128.8)
Other operating expenses	(0.6)	(3.9)
Headline operating profit	134.9	140.7
Amortisation of acquired intangible assets	(4.6)	(3.7)
Acquisition costs	(1.7)	(0.5)
Operating profit	128.6	136.5

Further details of acquisition costs are included in the Chief Financial Officer's report.

Profit for the year has been arrived at after (crediting)/charging:

	2019 £m	Restated 2018 £m
Net foreign exchange gain	(0.1)	(0.1)
Inventory expensed	52.9	55.6
Depreciation of property, plant and equipment	63.3	60.1
Depreciation of Right-of-use assets	14.5	14.4
Amortisation of other intangible assets	6.4	5.6
Gain on disposal of property, plant and equipment	(4.4)	(1.7)
Sub-lease rental income	–	(0.1)
Staff costs	280.6	289.3
Acquisition costs	1.7	0.5
Impairment loss/(gain) on trade receivables	0.6	(0.2)
Impairment of property, plant and equipment – recognised in operating profit	–	1.8

The analysis of auditors' remuneration on a worldwide basis is as follows:

	2019 £m	2018 £m
Fees payable to the auditor for the audit of the annual accounts	0.4	0.2
Fees payable to the auditor and its associates for other services:		
The audit of the Group's subsidiaries	0.7	0.7
Total audit fees	1.1	0.9
Audit related assurance services <sup>1</sup>	0.1	0.1
Non-audit fees <sup>2</sup>	0.1	–
Total fees payable to the auditor	1.3	1.0

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In addition to the amounts shown in the table, the predecessor auditor received fees of £7,700 in 2018 for the audit of the Group's pension schemes.

A description of the work of the Audit Committee is set out in the Audit Committee report in the 2019 Annual Report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

1 This includes £0.1m (2018: £0.1m) for the review of the half year report.

2 Agreed upon procedures over adoption of IFRS 16, Leases.

#### 4. Taxation

	2019 £m	2018 £m
Current taxation – charge for the year	24.8	27.4
Current taxation – adjustments in respect of previous years	(3.9)	(0.4)
Deferred tax	9.0	1.6
	<b>29.9</b>	<b>28.6</b>

The Group uses a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison is 25.9% (2018: 26.5%).

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2019 £m	Restated 2018 £m
Profit before taxation	123.9	132.2
Tax at the weighted average country tax rate of 25.9% (2018: 26.5%)	32.1	35.0
Tax effect of expenses not deductible in determining taxable profit <sup>1</sup>	0.7	0.6
Impact of recognition or de-recognition of deferred tax balances	(0.5)	(0.9)
Tax effect of other adjustments in respect of previous years:		
Current tax <sup>2</sup>	(3.9)	(0.4)
Deferred tax <sup>2</sup>	2.9	0.2
Effect of financing activities between jurisdictions <sup>3</sup>	(3.6)	(7.9)
Impact of trade and minimum corporate taxes	1.1	1.5
Effect of changes in statutory tax rates on deferred tax assets and liabilities	(0.1)	(0.1)
Other tax risk provision movements <sup>4</sup>	1.2	0.6
Tax expense for the year	<b>29.9</b>	<b>28.6</b>

Tax on items taken directly to equity is a credit of £0.5m (2018: charge of £0.7m).

1 Those costs in various jurisdictions not deductible in calculating taxable profits.

2 2019 and 2018 adjustments in current and deferred tax in respect of previous years relate mainly to changes in assumptions and outcomes in UK and overseas tax positions.

3 The Group is externally financed by a mix of cash flows from operations and short-term borrowings. Internally, operating subsidiaries are predominantly financed via intercompany loans. The effect is net of provisions based on management's estimation of tax risk relating to the potential disallowance of interest. £1.7m of interest deductions were restricted in the US in 2019 (2018: £2.2m) following the passing of the Tax Cuts and Jobs Act.

4 Includes provisions for local tax risks and non-financing cross border transactions.

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As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax enquiries and in recognition of the multinational tax environment that Bodycote operates in where the nature of the tax positions that are taken is often complex and subject to change. Tax provisions totalling £15.3m were recognised at 31 December 2019 (2018: £16.1m). The provisions included are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. Management judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquires.

Note 30 in the 2019 annual report refers to a contingent liability in respect of the European Commission state aid investigation into the Group financing exemption in the UK controlled foreign company rules.

## 5. Dividends

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 13.3p (2017: 12.1p) per share	25.2	23.3
Special dividend for the year ended 31 December 2018 of 20.0p (2017: 25.0p) per share	38.1	47.6
Interim dividend for the year ended 31 December 2019 of 6.0p (2018: 5.7p) per share	11.4	10.9
	<b>74.7</b>	<b>81.8</b>
Proposed final dividend for the year ended 31 December 2019 of 14.0p (2018: 13.3p) per share	26.6	25.2
The Board is not recommending a special dividend for the year ended 31 December 2019 (2018: 20.0p).	–	38.3

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The dividends are waived on shares held by the Bodycote International Employee Benefit Trust.

During the year, the Group became aware of an issue concerning technical compliance with the Companies Act 2006 in respect of the declaration and payment of the 2018 interim dividend and 2018 special dividend. Although the Group had such distributable reserves at the time of declaration and payment, the Group had not lodged interim accounts with Companies House to show that each of the dividends were supported by sufficient distributable reserves. The Group's historical reported trading results and financial condition are entirely unaffected, but the Group proposes to put a resolution to shareholders at the Company's annual general meeting to rectify the position.



## 6. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2019 £m	Restated 2018 £m
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	<b>93.8</b>	103.2
	<b>Number</b>	Number
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>189,921,112</b>	190,289,981
Effect of dilutive potential ordinary shares:		
Shares subject to performance conditions	<b>794,287</b>	1,449,664
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>190,715,399</b>	191,739,645
	<b>Pence</b>	Pence
<b>Earnings per share:</b>		
Basic	<b>49.4</b>	54.2
Diluted	<b>49.2</b>	53.8
	<b>£m</b>	£m
<b>Headline earnings</b>		
Net profit attributable to equity holders of the parent	<b>93.8</b>	103.2
Add back:		
Amortisation of acquired intangible assets (net of tax)	<b>3.5</b>	2.8
Acquisition costs (net of tax)	<b>1.7</b>	0.5
<b>Headline earnings</b>	<b>99.0</b>	106.5
	<b>Pence</b>	Pence
<b>Headline earnings per share:</b>		
<b>Basic</b>	<b>52.1</b>	<b>55.9</b>
<b>Diluted</b>	<b>51.9</b>	<b>55.5</b>

## 7. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
31 December 2018, as previously reported	2.4	3.2	8.7	<b>14.3</b>
Impact of change in accounting policy	2.3	–	–	<b>2.3</b>
At 31 December 2018, restated	4.7	3.2	8.7	<b>16.6</b>

	Restructuring £m	Restructuring environmental £m	Environmental £m	Total £m
At 1 January 2019	4.7	3.2	8.7	<b>16.6</b>
Increase in provision	1.2	–	0.9	<b>2.1</b>
Release of provision	(0.3)	–	(0.2)	<b>(0.5)</b>
Utilisation of provision	(2.5)	(0.7)	(1.0)	<b>(4.2)</b>
Exchange differences	(0.1)	(0.1)	(0.3)	<b>(0.5)</b>
At 31 December 2019	3.0	2.4	8.1	<b>13.5</b>
Included in current liabilities				<b>4.0</b>
Included in non-current liabilities				<b>9.5</b>
				<b>13.5</b>

The restructuring provision relates to the costs associated with the closure of a number of Heat Treatment facilities over the last few years and the dilapidation of leases. Following the adoption of IFRS 16, Leases the Group retrospectively recognised a provision of £2.3m for the dilapidation of leased buildings at 1 January 2018.

The Group provides for the costs of environmental remediation that have been identified, either as part of acquisition due diligence, or in other circumstances where remediation by the Group is required. This provision is reviewed annually and is separated into restructuring environmental and environmental to identify separately environmental provisions relating to the restructuring programme from those arising in the ordinary course of business.

The majority of cash outflows in respect of these liabilities are expected to occur within five years.

Whilst the Group's use of chlorinated solvents and other hazardous chemicals continues to reduce, the Group remains exposed to contingent liabilities in respect of environmental remediation liabilities. In particular, the Group could be subjected to regulatory or legislative requirements to remediate sites in the future. However, it is not possible at this time to determine whether and to what extent any liabilities exist, other than for those recognised above. Therefore, no provision is recognised in relation to these items.

## 8. Post balance sheet event

### Acquisition of businesses

Following the Group's strategy of strengthening core divisions through the acquisition of complementary businesses, Bodycote announced the agreement to purchase Ellison Surface Technologies ('Ellison') in December 2019 for gross consideration of £154m, to be settled through the Group's existing committed funding facilities.

Ellison's business generated revenues of £38m in 2018 leading to pro-forma EBITDA of £6m. Anticipated revenue for 2019 will be £44m with pro-forma EBITDA of £9m. Ellison employs approximately 400 people across six sites located across the United States, Canada, and Mexico.

Completion of the acquisition is expected in March 2020 pending confirmation of regulatory filing processes.

## 9. Notes to the cash flow statement

	2019 £m	Restated 2018 £m
Profit for the year	<b>94.0</b>	103.6
Adjustments for:		
Finance income	<b>(0.2)</b>	(0.2)
Finance costs	<b>4.9</b>	4.5
Taxation	<b>29.9</b>	28.6
Operating profit	<b>128.6</b>	136.5
Adjustments for:		
Depreciation of property, plant and equipment	<b>63.3</b>	60.1
Depreciation of right-of-use assets	<b>14.5</b>	14.4
Amortisation of other intangible assets	<b>6.4</b>	5.6
Profit on disposal of property, plant and equipment	<b>(4.4)</b>	(1.7)
Share-based payments	<b>1.1</b>	3.8
Income from associate	<b>(0.2)</b>	–
Impairment of property, plant and equipment	<b>–</b>	1.8
Loss on disposal of businesses	<b>–</b>	0.6
EBITDA (See note 1)	<b>209.3</b>	221.1
Increase in inventories	<b>(1.5)</b>	(3.9)
Increase in receivables	<b>(1.1)</b>	(4.0)
(Decrease)/increase in payables	<b>(2.1)</b>	5.1
Decrease in provisions	<b>(2.6)</b>	(3.7)
Cash generated by operations	<b>202.0</b>	214.6
Income taxes paid	<b>(24.7)</b>	(24.5)
Net cash from operating activities	<b>177.3</b>	190.1

## 10. Basis of preparation

The financial information has been based on the Company's financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. Whilst the financial information contained in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with those standards. The Company expects to publish full financial statements that comply with IFRS in March 2020. The financial information has been prepared under the same accounting policies as the 2018 financial statements, subject to accounting standards which became effective for the financial period beginning on 1 January 2019.

## 11. Non-statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s.498 (2) or (3) Companies Act 2006.