

Interim Results 2023

27 July 2023



Stephen Harris

Group Chief Executive



Introduction

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- Summary
- Outlook

Strong first half performance, modestly ahead of expectations

Results

- Revenue up 17.2% to £420.1m (13.8% at constant currency)
- 8.0% underlying revenue growth¹ excluding energy-related surcharges
- Headline operating profit 23%¹ higher at £62.8m
- Operating margin excluding energy surcharges of 16.5%, up 180 bps. Headline operating margin up 90 bps to 15.0%
- Free cash flow improved to £56.2m with cash flow conversion of 90% (H1 2022: £31.8m, conversion of 63%)

Dividends

- Interim dividend 6.7p (2022: 6.4p)

Progressing our strategic priorities

Focused on Specialist Technologies, Emerging Markets, Civil Aerospace and electric vehicles

- In H1, we delivered good progress in our strategic focus areas:
 - Our ongoing investments in Specialist Technologies delivered 13%¹ growth with adoption and market penetration continuing to accelerate
 - Emerging Markets grew 10%¹ and we are investing to further drive progress
 - We delivered 10%¹ growth in Civil Aerospace and we remain well positioned to capitalise on this ongoing structural demand growth
 - Recently secured major electric vehicle contracts now in pre-production stage; start of production Q1 2024
 - Internal carbon reduction initiatives progressing well
 - Deploying our expertise to reduce our customers' carbon emissions

Surcharges and pricing update

Surcharges

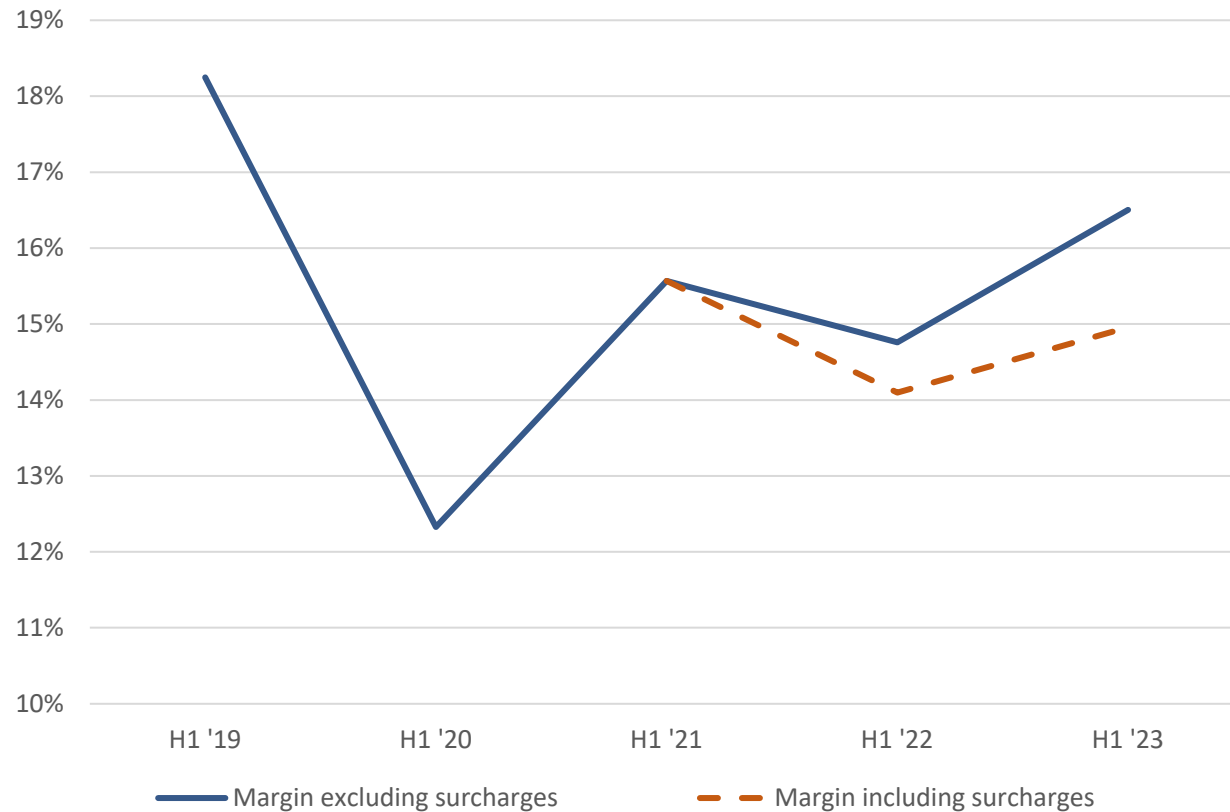
- Implemented since Q1 2022 to cover the high levels of gas and electricity inflation
- Protects the Group from energy inflation effects, though dilutes margin
- Surcharge levels have reduced from their peak as energy prices have fallen
- Surcharges fully recovered energy costs in the first half

Price increases

- Price increases successfully implemented
- Recover labour and other cost inflation, and include a margin
- Permanent and implemented each year



Headline operating margin



- Headline operating margin excluding surcharges 16.5%, up 180 bps year-on-year
- Headline operating margin 15.0%, up 90 bps year-on-year
- Volume growth and unwind of surcharges will drive margin above 20% over the medium term

Financial Review

Ben Fidler

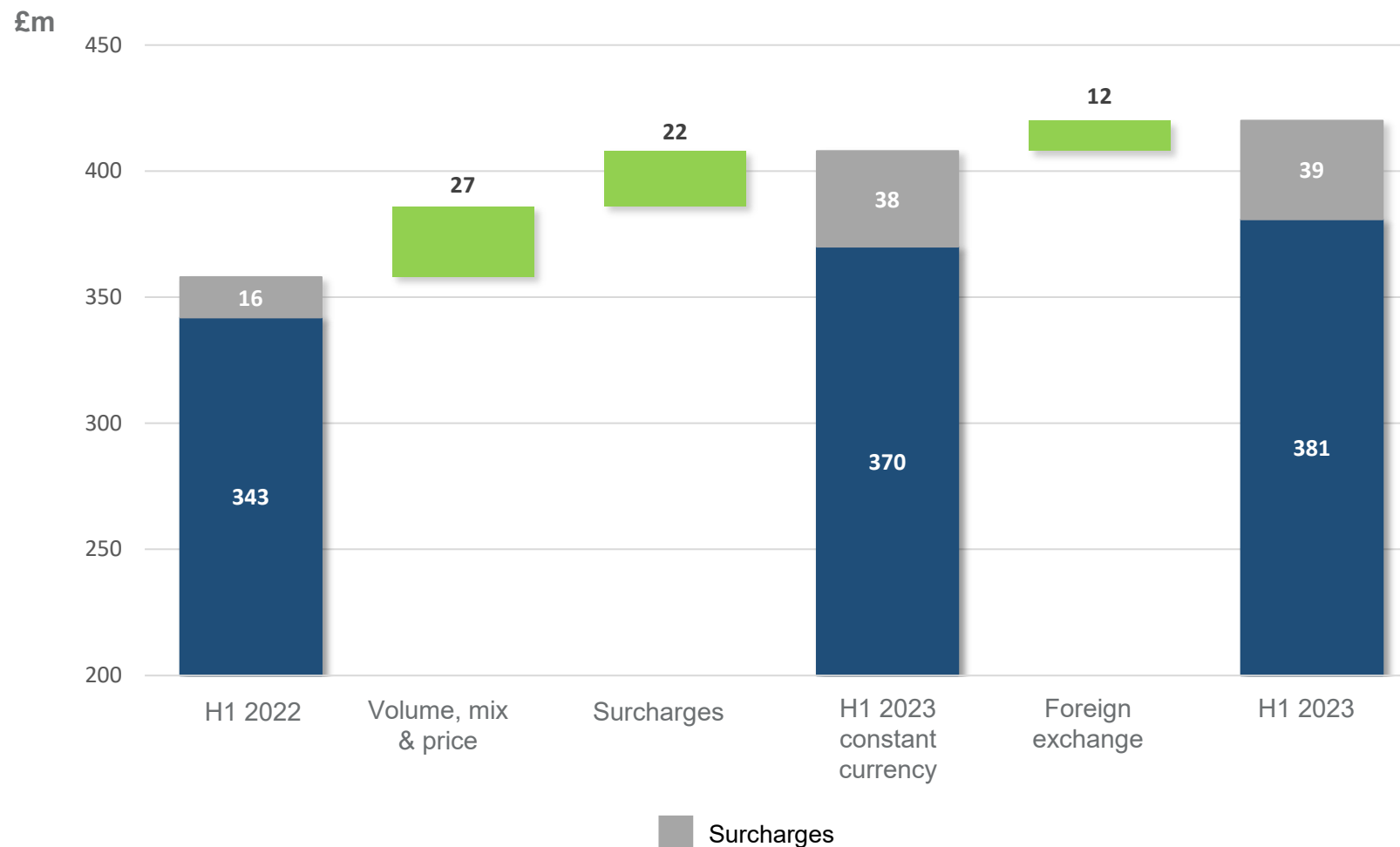
Chief Financial Officer



H1 2023 results summary

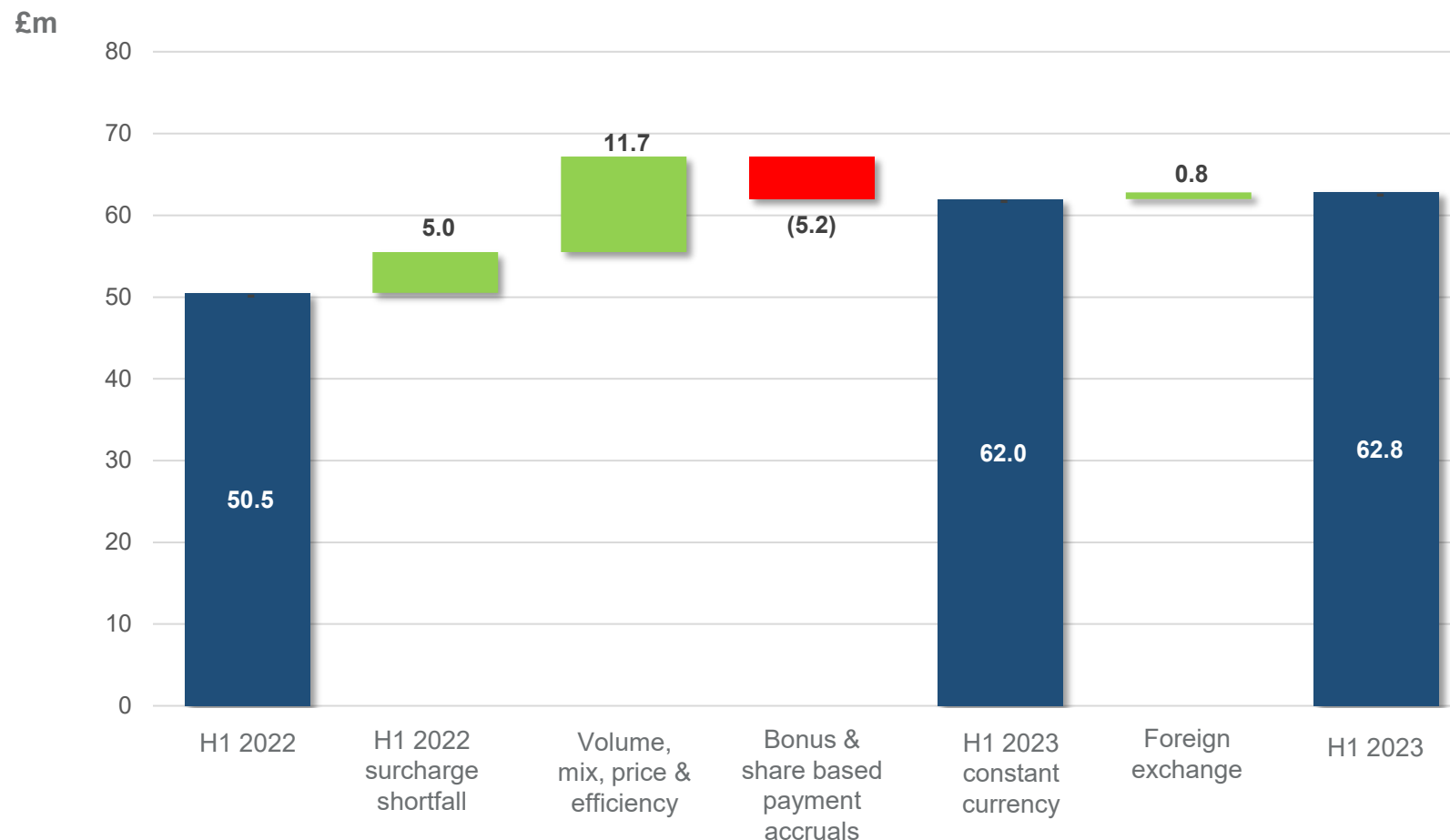
£m	H1 2023	H1 2022	Growth constant currency	Growth
Revenue	420.1	358.5	13.8%	17.2%
<i>Headline operating margin</i>	<i>15.0%</i>	<i>14.1%</i>		<i>+90 bps</i>
Headline operating profit	62.8	50.5	23%	24%
Revenue excluding surcharges	380.7	342.5	8.0%	11.2%
<i>Headline operating margin excl. surcharges</i>	<i>16.5%</i>	<i>14.7%</i>		<i>+180 bps</i>
Headline profit before tax	59.3	47.2	24%	26%
Headline EPS	23.8	19.1		25%
Interim dividend	6.7p	6.4p		5%
Free cash flow	56.2	31.8		77%

Revenue bridge



- Underlying revenue growth of 8.0%
- Surcharges reducing but still added £22m to year-on-year revenue growth
- FX benefited H1, at current rates expected to be a headwind in H2 (£15-£20m)

Headline operating profit bridge



- Non-recurrence of the H1 2022 surcharge shortfall
- Good profit contribution from higher underlying revenues and improved efficiencies
- Bonus and share based accruals returned to more normal levels
- FX modest benefit in H1, likely to be a headwind in H2 (£3-4m at current rates)

AGI and ADE summary

The AGI Business

Comprised of over 100 facilities focused on Automotive & General Industrial customers

£m	H1 2023	H1 2022	Growth constant currency	Growth excluding surcharges
Revenue	239.6	209.6	11.1%	4.9%
Headline operating profit	43.7	35.0	24%	
<i>Headline operating margin</i>	18.2%	16.7%		

- 5% revenue growth excluding surcharges led by good growth in Automotive; more modest growth in General Industrial
- Headline operating profit up 24% and now 10% above H1 2019
- Good margin progress. Margin now 210 bps above H1 2019 reflecting restructuring benefits

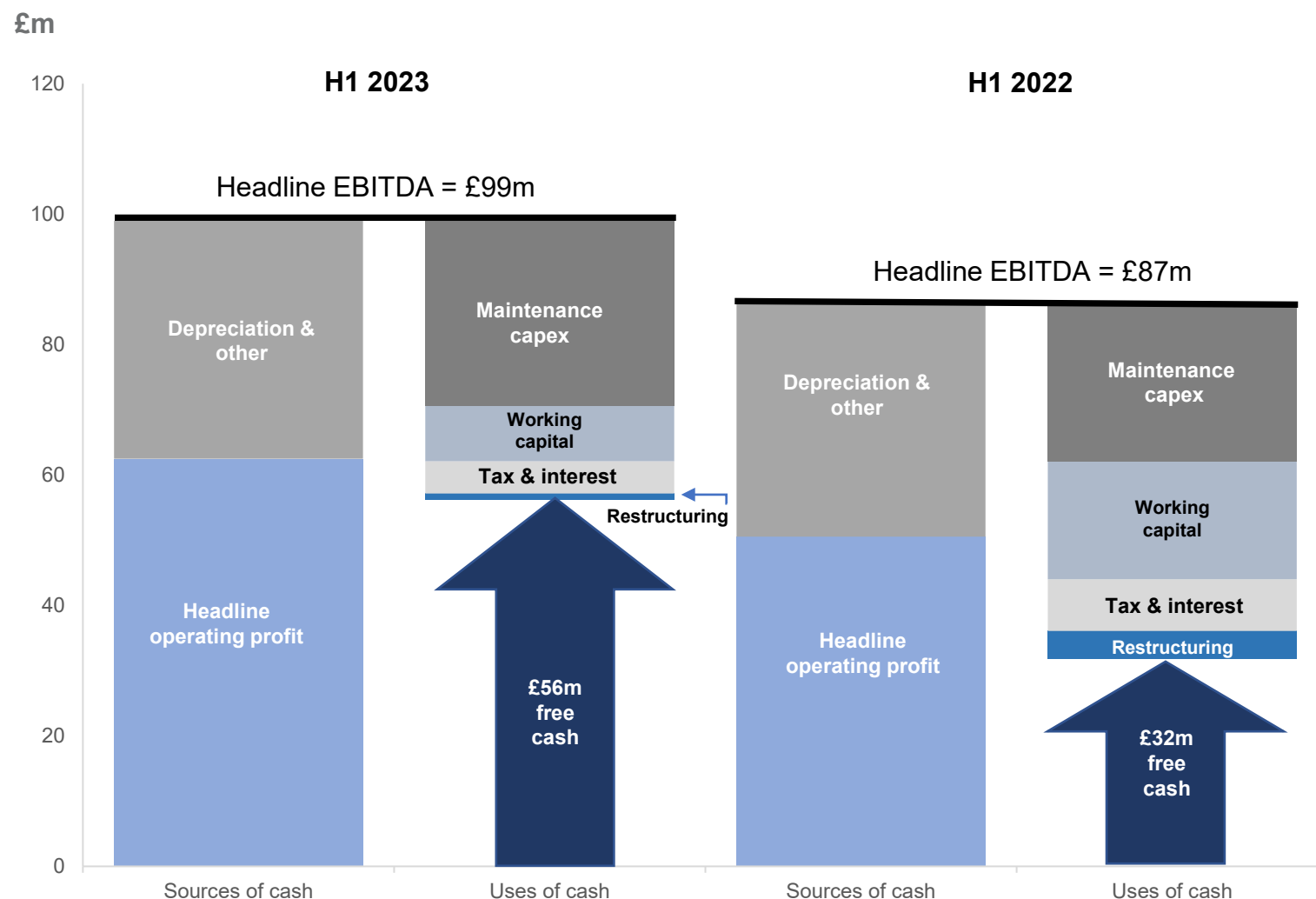
The ADE Business

Comprised of over 55 facilities focused on Aerospace & Defence customers

£m	H1 2023	H1 2022	Growth constant currency	Growth excluding surcharges
Revenue	180.5	148.9	17.5%	12.1%
Headline operating profit	32.2	23.3	35%	
<i>Headline operating margin</i>	17.8%	15.6%		

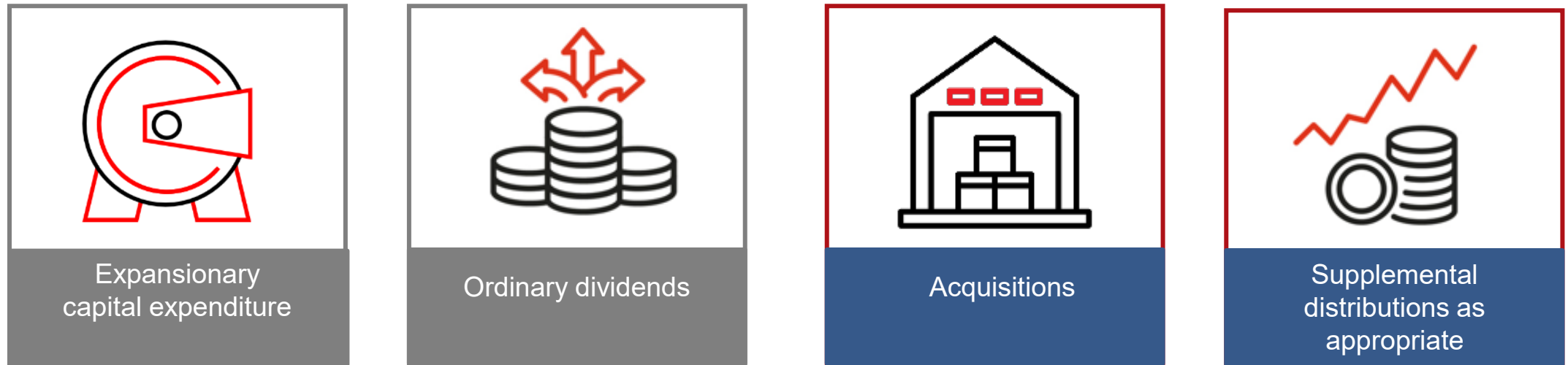
- 12% revenue growth excluding surcharges with strong growth in Oil & Gas and good progress in Civil Aerospace
- Headline operating profit up 35%
- Margin of 17.8%, an improvement of 220 bps year-on-year

Cash flow¹



- Improved free cash flow conversion of 90% (£56.2m), up from 63% (£31.8m)
- Driven by higher profitability and improved working capital control, with lower DSO
- Investment increased in maintenance capex
- Net debt reduced to £26.6m (£33.4m at December 2022) after:
 - Expansionary capex: £12.4m
 - Dividends: £28.5m
 - Employee benefit trust share purchases: £12.2m

Uses of free cash



Strong balance sheet provides good optionality

Business Review

Stephen Harris

Group Chief Executive



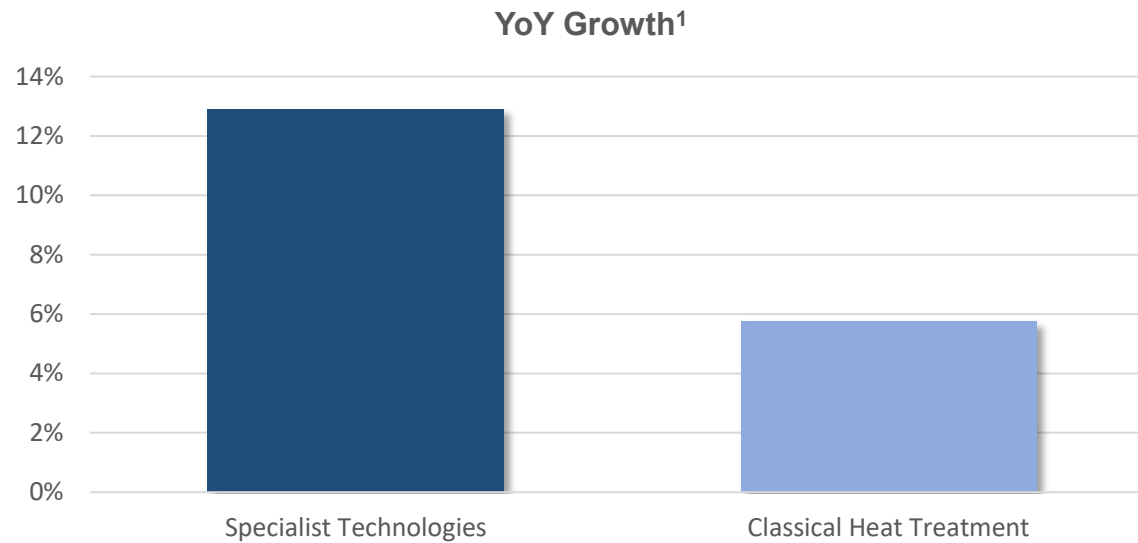


Specialist Technologies

A selection of highly differentiated, early-stage processes with high margins, significant market opportunities, low carbon intensity and good growth prospects.

Bodycote is either the clear market leader or one of the top players among a small number of competitors.

Specialist Technologies outperform



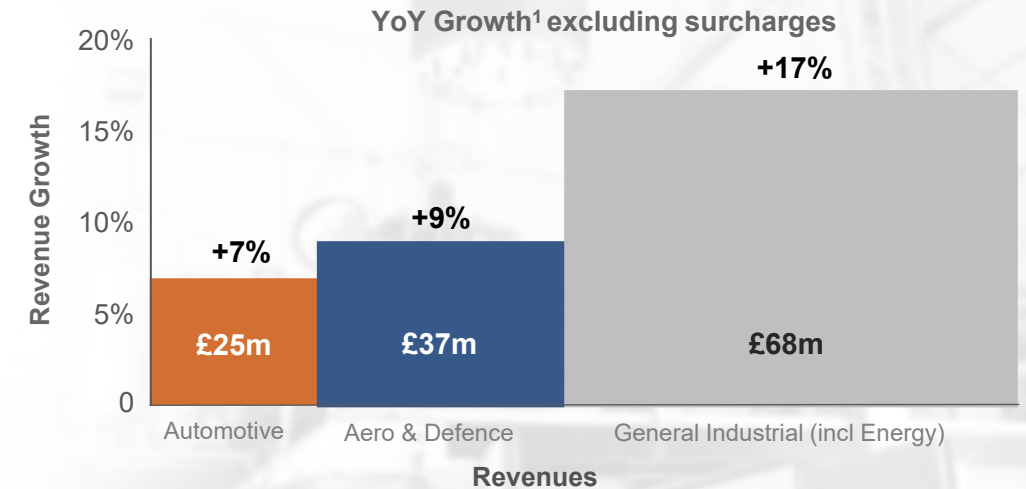
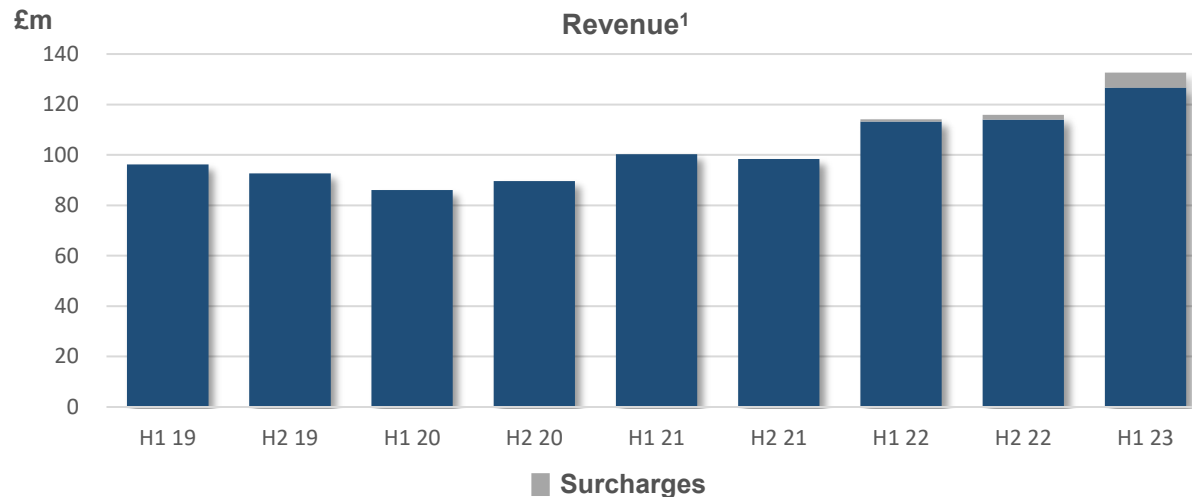
- Superior organic growth in Specialist Technologies continues to be driven both by existing customers' growth and new customer adoption
- Increased Sales and Marketing efforts driving market penetration
- Growth in all our key end markets enabled by significant investment in additional capacity

Specialist Technologies

Revenue: £130m (31% of total revenue)

YoY Growth¹ : 16%

YoY Growth¹ excl. surcharges: 13%



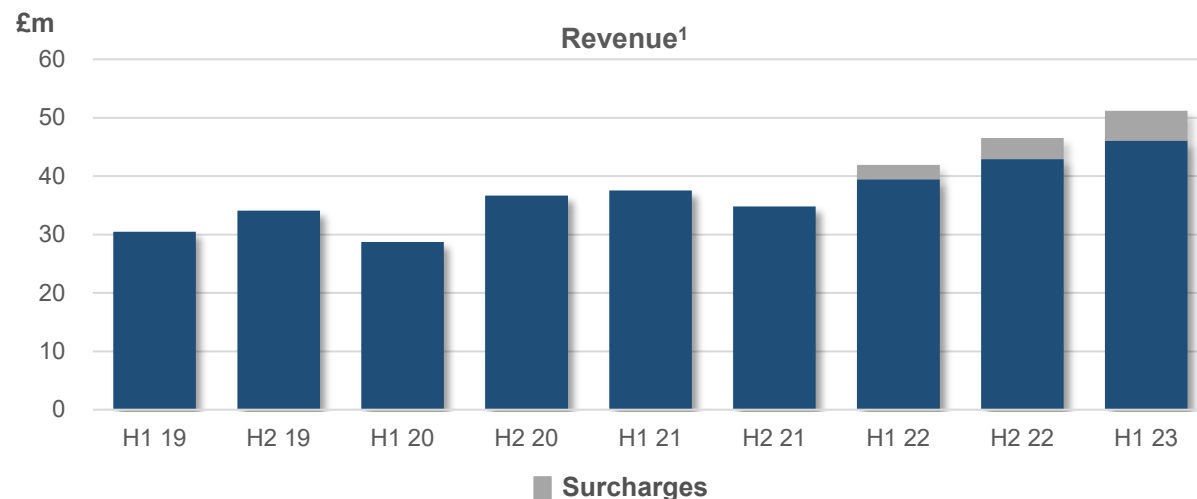
- Ongoing expansionary capex concentrated in Specialist Technologies
 - S³P capacity expansion in USA and Nordics
 - Expanded HIP capacity in multiple locations in USA
 - New Corr-I-Dur capabilities in China
 - LPC capacity in Hungary
 - New Surface Technology capacity in the Middle East

Emerging Markets

Revenue: £53m (13% of total revenue)

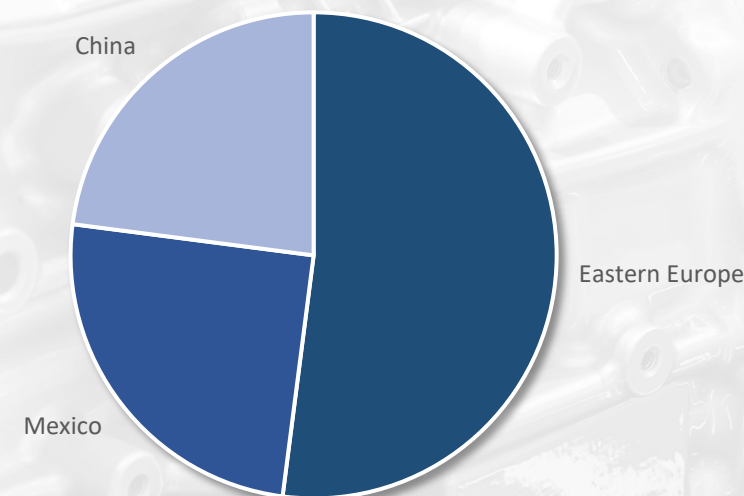
YoY Growth¹ : 16%

YoY Growth¹ excl. surcharges: 10%



- Growth continues to be driven by strong progress in Eastern Europe, up 20%
- Growth in China restrained by slow recovery post-COVID
- Now expanding capacity in Slovakia and Hungary
- Adding additional facilities in Turkey and China

Revenue excluding surcharges by geography

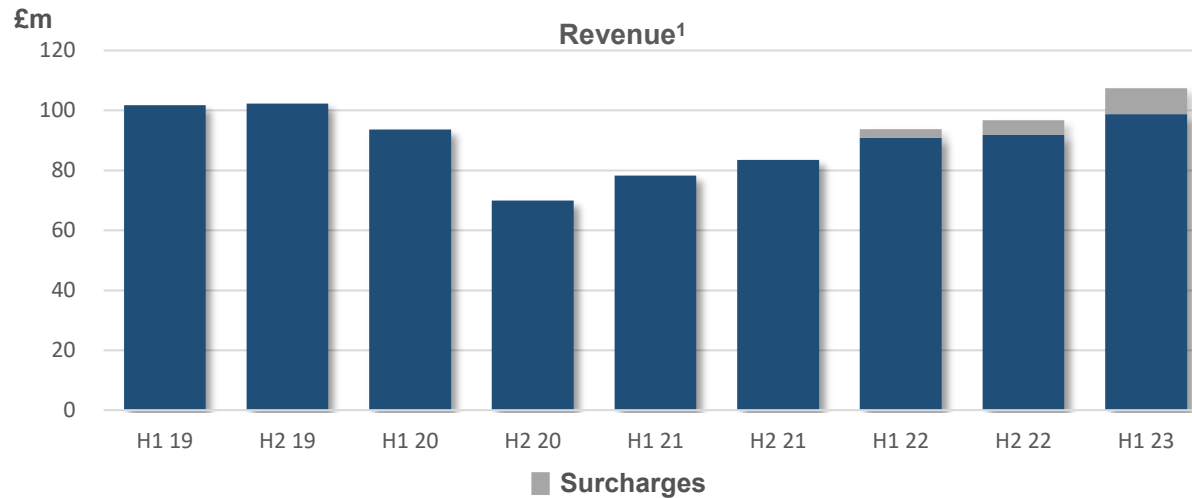


Aerospace & Defence

Revenue: £105m (25% of total revenue)

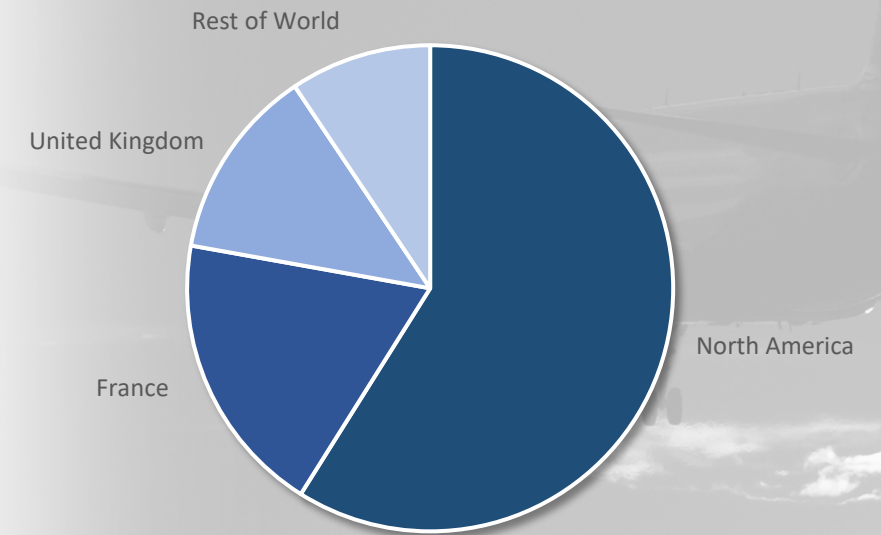
YoY Growth¹ : 15%

YoY Growth¹ excl. surcharges: 9%



- Civil Aerospace revenue growth of 10%²
 - Ongoing increases in aircraft OEM build rates
 - Good growth in aftermarket as aircraft utilisation increases
 - North American growth tempered by customers' supply chains ramp-up challenges
 - Organic revenue still c.25%² below pre-COVID levels
- Benefiting from increased presence on new aircraft and engine platforms

Revenue excluding surcharges by geography

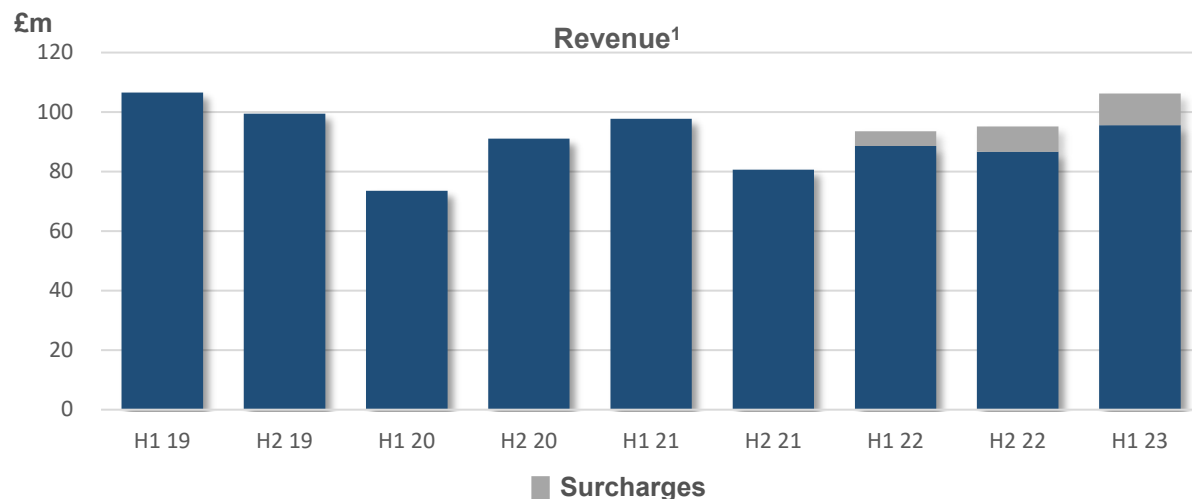


Automotive

Revenue: £105m (25% of total revenue)

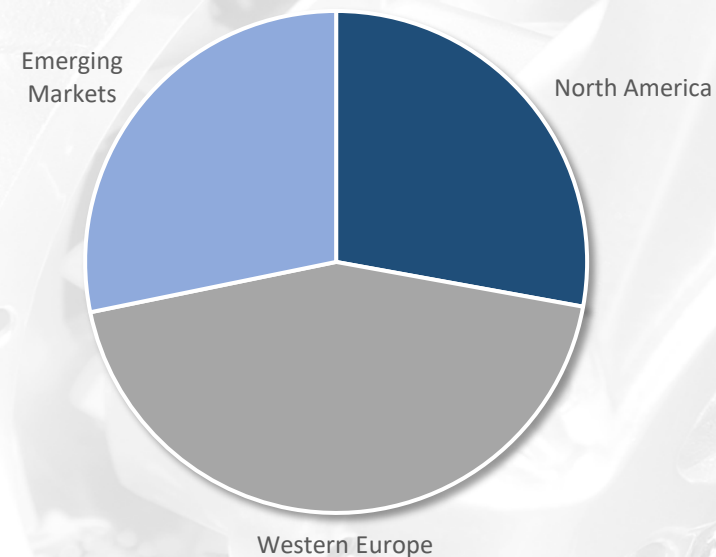
YoY Growth¹ : 14%

YoY Growth¹ excl. surcharges: 8%



- Strong growth in Eastern Europe and Specialist Technologies
- Car & Light Truck growth led by Eastern Europe and North America
- Heavy Truck & Bus growth driven by Western Europe
- Major OE contracts for electric vehicles in pre-production stage; start of production Q1 2024

Revenue excluding surcharges by geography

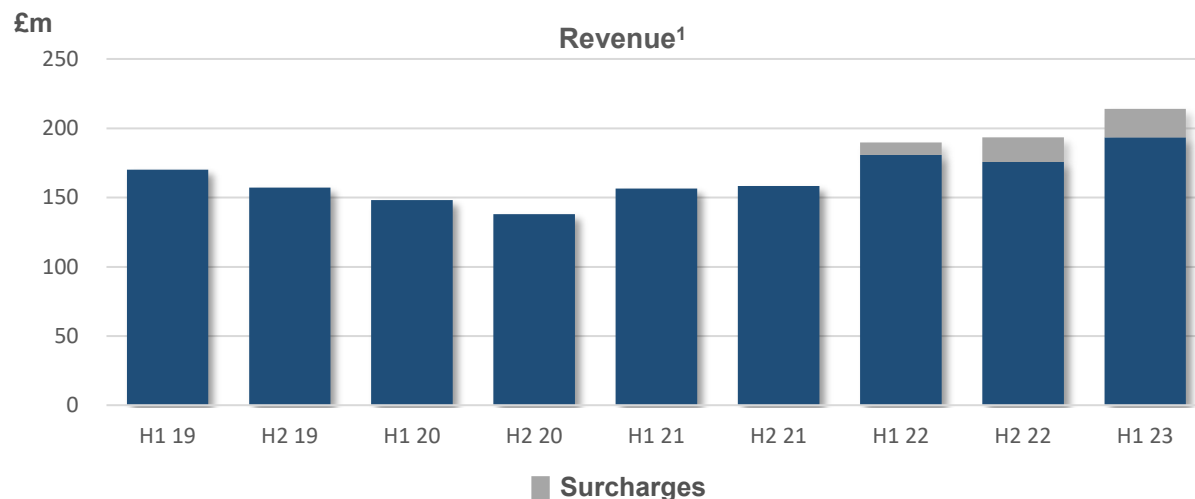


General Industrial

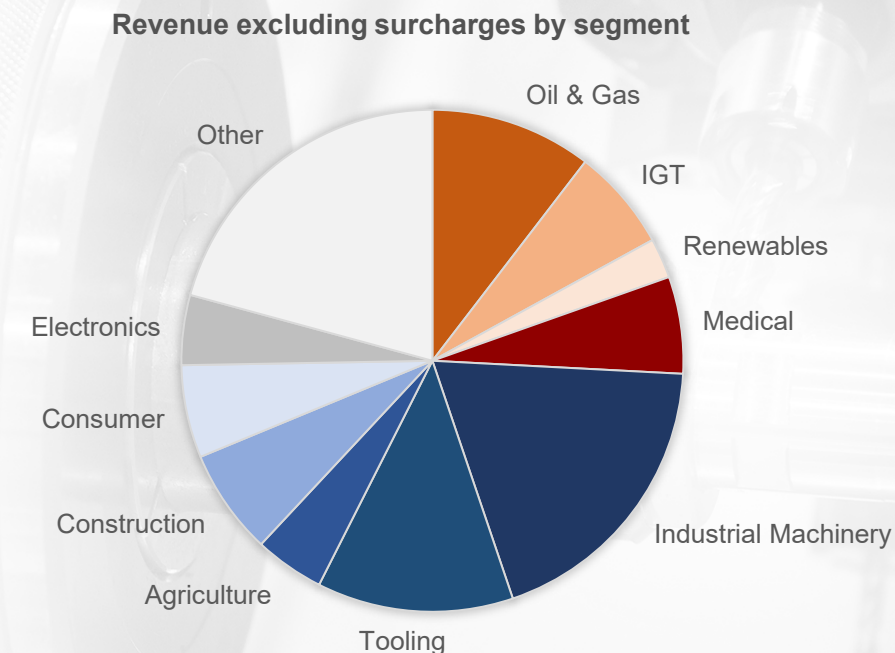
Revenue: £210m (50% of total revenue)

YoY Growth¹ : 13%

YoY Growth¹ excl. surcharges: 8%



- Strong growth achieved in Oil & Gas and Medical end market segments of 40%¹
- Slower growth in Tooling and Industrial Machinery continuing from Q4 2022
- Revenue 9%² above pre-COVID levels



Key Achievements

- Strong first half performance, modestly ahead of expectations
- Energy surcharges recovered energy cost inflation
- Price increases successfully implemented, covering labour and other cost inflation
- 8% revenue growth¹ achieved in H1 led by:
 - Specialist Technologies up 13%
 - Emerging Markets up 10%
 - Civil Aerospace up 10%
 - Oil & Gas up 46%
 - Automotive up 8%
- Delivering on all strategic priorities and on track to achieve a margin in excess of 20% over the medium term



Summary & Outlook

We have delivered a strong performance in the first half, which was modestly ahead of our expectations and with broad-based growth across most of our end markets. In particular, we achieved good progress in our strategic focus areas of Specialist Technologies, Emerging Markets, Civil Aerospace and electric vehicles. We continue to manage inflationary cost pressures well through energy surcharges and price increases. The Group remains on track to achieve a margin in excess of 20% over the medium term.

Cash conversion improved and net debt reduced in the period. The strength of our balance sheet continues to provide options to drive shareholder value, in line with our disciplined capital allocation framework.

The strong first half performance underpins our confidence in delivering progress for the full year.

Looking beyond 2023, the Board remains confident in the Group's prospects for continued profitable growth.



Bodycote



Specialist Technologies

A selection of highly differentiated, early-stage processes with high margins, significant market opportunities, and good growth prospects. Bodycote is either the clear market leader or one of the top players among a small number of competitors.

Hot Isostatic Pressing (HIP) Services

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

HIP PF inc. Powdermet®

Additive manufacturing of often complex components in conjunction with HIP

Specialty Stainless Steel Processes (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

Corr-I-Dur® (CiD)

Improves corrosion resistance and wear properties, and is primarily used as an environmentally friendly substitute for hard chrome



Classical Heat Treatment

Classical Heat Treatment is the process of controlled heating and cooling 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.

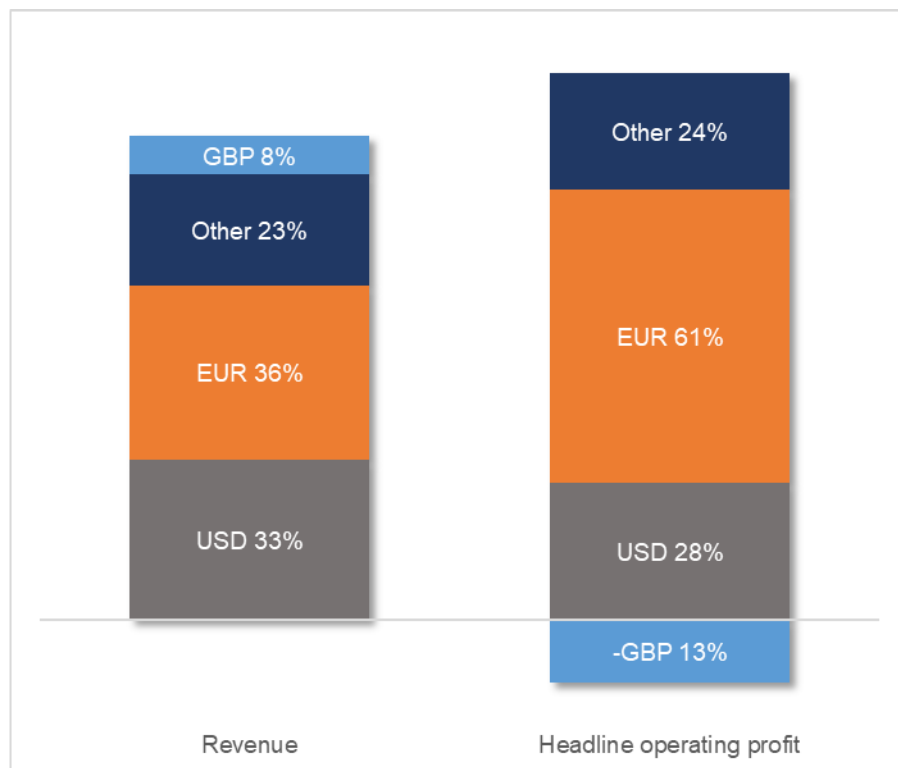
H1 2023 Statutory income statement

£m	H1 2023	H1 2022
Revenue	420.1	358.5
Headline operating profit	62.8	50.5
Amortisation of acquired intangible assets	(4.1)	(4.8)
Acquisition costs	-	(0.7)
Operating profit	58.7	45.0
Net finance charge	(3.5)	(3.4)
Profit before taxation	55.2	41.6
Earnings per share (basic¹)	22.2p	16.9p
Headline earnings per share (basic¹)	23.8p	19.1p

H1 2023 Cash flow¹

£m	H1 2023	H1 2022
Headline operating profit	62.8	50.5
Depreciation and amortisation	37.2	36.6
Other, including impairment and profit on disposal of PPE	(1.0)	(0.5)
Headline EBITDA	99.0	86.6
Net maintenance capital expenditure	(28.4)	(24.5)
Net working capital movement	(8.5)	(18.1)
Headline operating cash flow	62.1	44.0
Restructuring costs	(1.0)	(4.3)
Financing costs, net	(3.3)	(2.6)
Tax	(1.6)	(5.3)
Free cash flow	56.2	31.8
Expansionary capital expenditure	(12.4)	(7.2)
Free cash flow post expansionary capital expenditure	43.8	24.6
Acquisition spend	-	(0.7)
Ordinary dividend	(28.5)	(26.3)
Own shares purchased less SBP and others	(7.9)	2.9
Reduction in net debt	7.4	0.5
Opening net debt	(99.4)	(116.3)
Foreign exchange movements	3.2	(5.8)
Closing net debt	(88.8)	(121.6)
Lease liabilities	62.2	64.1
Net debt excluding lease liabilities	(26.6)	(57.5)

H1 2023 Sales and operating profit¹ by currency



- Average exchange rates: £1: €1.14 and £1: \$1.23
- Every cent change in the euro is worth c.£0.3m of annual headline operating profit
- Every cent change in the US dollar is worth c.£0.1m of annual headline operating profit
- FX translation had a £0.8m benefit year-on-year to headline operating profit in H1. Likely to be a year-on-year headwind in H2 of £3-4m at current rates.

Financial information

Shares in issue	H1 2023	H1 2022
Weighted average	190.6m	190.7m

Exchange rates		H1 2023	H1 2022
EUR	Average (P&L)	1.14	1.19
	Closing (B/S)	1.16	1.16
USD	Average (P&L)	1.23	1.30
	Closing (B/S)	1.27	1.22
SEK	Average (P&L)	12.96	12.42
	Closing (B/S)	13.71	12.45

Net finance charge, balance sheet, taxation

Net finance charge

£m	H1 2023	H1 2022
Interest on loans and bank overdrafts	(1.5)	(0.8)
Lease and other interest charges	(1.4)	(1.5)
Finance and bank charges	(1.1)	(1.2)
Total finance charge	(4.0)	(3.5)
 Interest received	 0.5	 0.1
Net finance charge	(3.5)	(3.4)

Balance sheet

- Net debt¹ £27m after £28.5m of dividends and £12.2m employee benefit trust share purchases
- £251m RCF maturing in May 2027
- RCF and other facility headroom of £203m at 30 June 2023

Taxation

- Headline tax rate of 22.5%

Definitions

Term	Definition
Headline operating profit	Operating profit before acquisition costs, exceptional items and amortisation of acquired intangibles
Headline profit before tax	Profit before tax, acquisition costs, exceptional items 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, income from associate, exceptional items and acquisition costs
Headline operating margin	Headline operating profit divided by revenue
Headline operating cash flow	Headline EBITDA adjusted for net working capital movements and net maintenance capital expenditure
Free cash flow	Headline operating cash flow less restructuring cash flows, interest and taxes paid
Free cash flow conversion	Free cash flow divided into headline operating profit
Headline EPS	Earnings per share excluding acquisition costs, exceptional items and amortisation of acquired intangible assets
Organic result	Excludes corporate acquisition and disposal activities from the current and comparative period
RCF	Revolving Credit Facility
Exceptional items	Significant (by virtue of size or incidence) events or transactions including, but not limited to, impairment charges, costs associated with significant restructuring and reorganisation costs and other one-off items