2012 Full Year Results

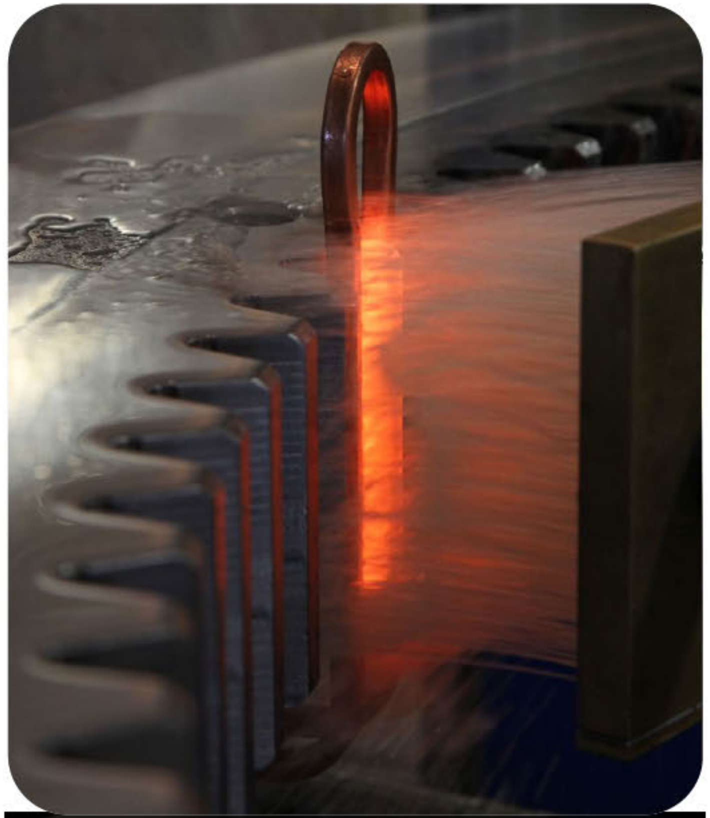
27 February 2013

Bodycote

Introduction

Stephen Harris

Chief Executive



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Agenda

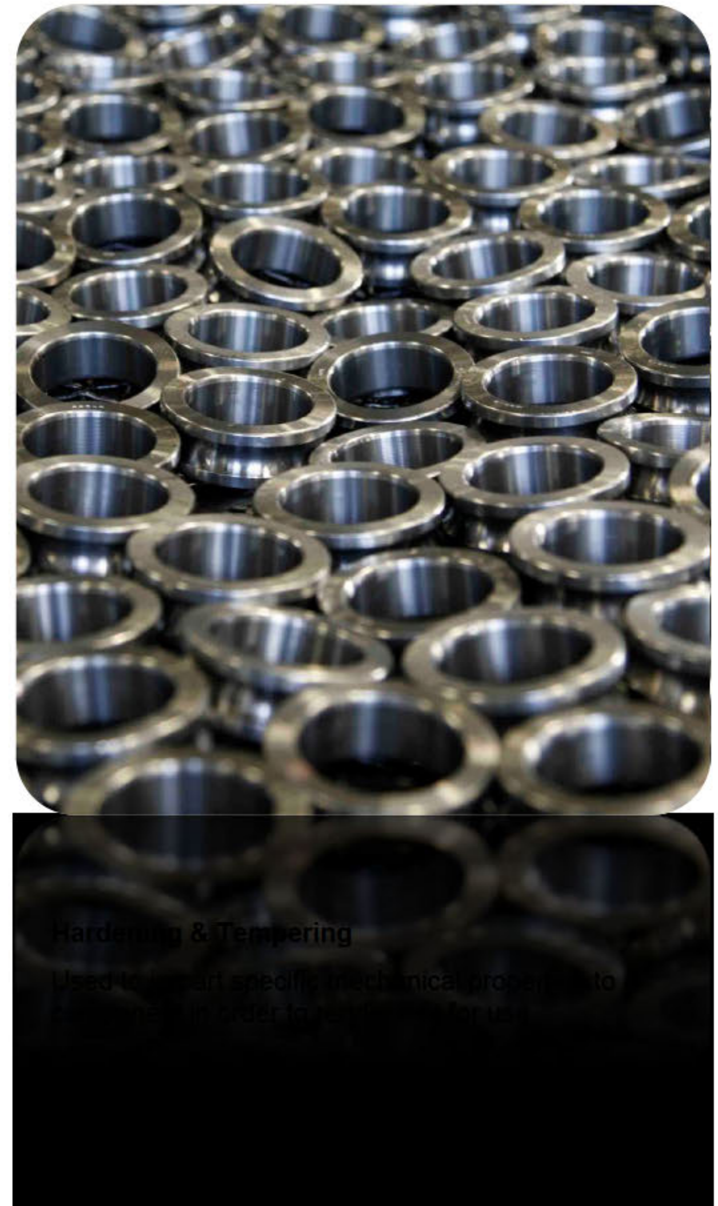
Highlights

Financial review

Business review

Strategic development

Outlook



Highlights

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Growth

- Another year of good progress
- 3% sales growth (6% at constant currency)
- Headline operating profit up 14%

Resilience

- Enhanced mix and operational efficiency
- Margin up to 16.6% from 15.0%
- Resilience despite European headwinds

Cash

- 113% headline operating cash conversion
- £85m of acquisitions enhanced North American network

Final dividend of 8.3p, 12.3p for the year, up 13%

Financial review

David Landless

Finance Director

2012 Results summary

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£m		2012	2011	*change*
Revenue		**587.8**	570.7	*3%*
Headline:	**Operating profit**	**97.9**	85.5	*14%*
	Margin	***16.6%***	*15.0%*	
	Profit before tax	**94.3**	80.9	*17%*
Exceptional items[1]		**(4.5)**	(5.1)	
Headline operating cash flow		**110.8**	96.0	
Headline operating cash conversion		***113%***	*112%*	
Net debt (cash)		**34.2**	(0.1)	
Headline EPS	pence	**37.4**	32.7	*14%*
Dividend	pence	**12.3**	10.9	*13%*
ROCE		**19.5%**	16.9%	

[1] Amortisation of acquired intangibles of £2.0m (2011: £0.9m), acquisition expenses of £2.5m (2011: £nil), reorganisation costs of £2.4m (2011: £nil), profit on disposal of investments of £2.4m (2011: £nil) and goodwill impairment of £nil (2011: £4.2m)

Divisional summary

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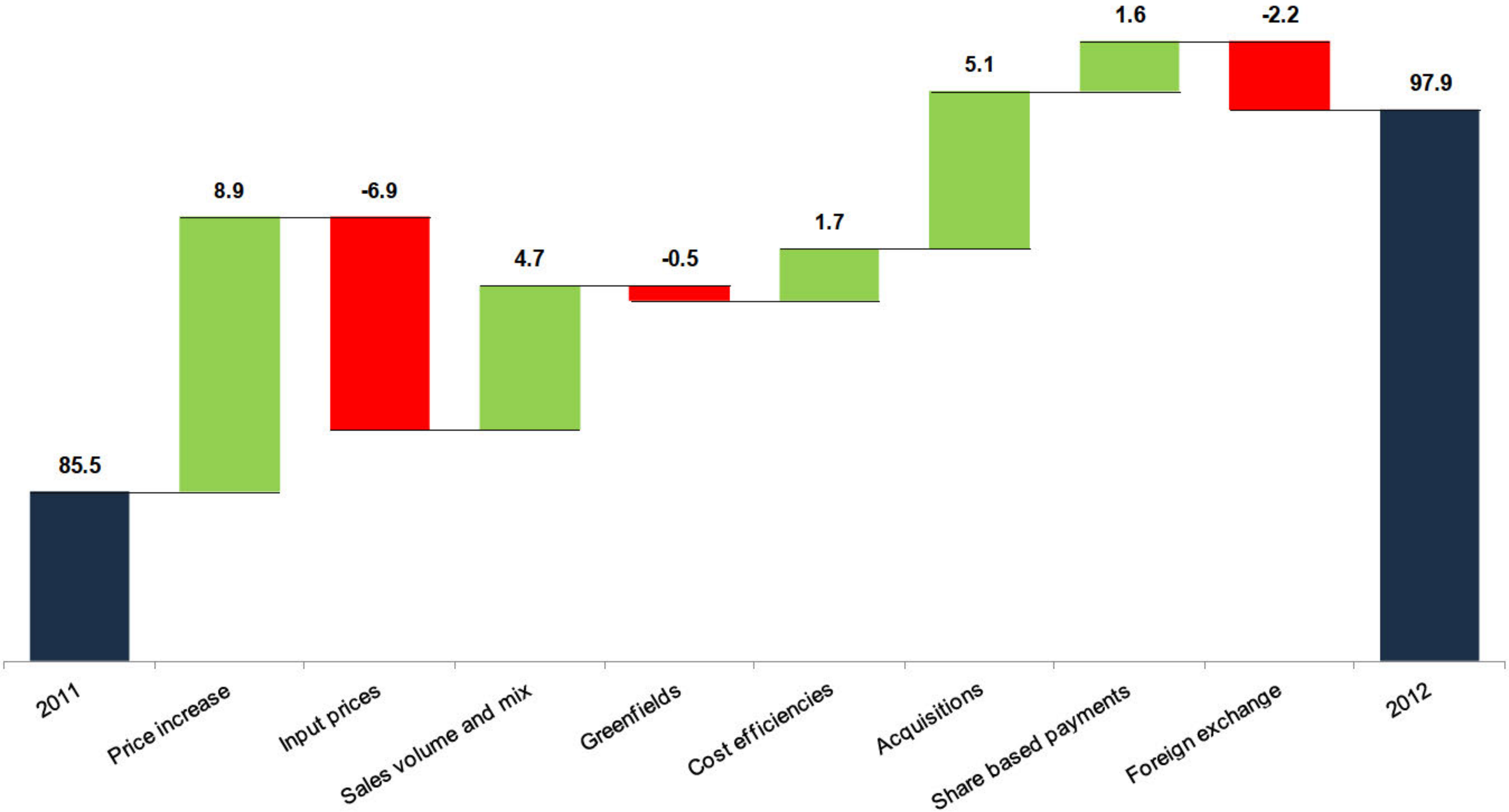
£m	2012	2011	Underlying growth		FX	Acquisitions	Total growth	
ADE								
Revenue	**260.4**	233.5	19.8	*8%*	(2.6)	9.7	26.9	*12%*
Headline Operating Profit[1]	**69.6**	51.1	15.8	*31%*	(0.4)	3.1	18.5	*36%*
Margin	***26.7%***	*21.9%*						
AGI								
Revenue	**327.4**	337.2	(5.5)	*-2%*	(17.0)	12.7	(9.8)	*-3%*
Headline Operating Profit[1]	**43.6**	44.7	(1.2)	*-3%*	(1.9)	2.0	(1.1)	*-2%*
Margin	***13.3%***	*13.3%*						
Group								
Revenue	587.8	570.7	14.3	*3%*	(19.6)	22.4	17.1	*3%*
Headline Operating Profit	97.9	85.5	9.5	*11%*	(2.2)	5.1	12.4	*14%*
Margin	*16.6%*	*15.0%*						

[1] Headline operating profit before head office costs

Headline operating profit bridge
(£m)



Cash flow

£m	2012	2011
Headline operating profit	**97.9**	**85.5**
Add back: Depreciation and amortisation	51.3	51.4
Share-based payments	3.9	5.4
Headline EBITDA	**153.1**	**142.3**
Net capital expenditure	$\boxed{(47.7)}$	(44.5)
Working capital	5.4	(1.8)
Headline operating cash flow	$\boxed{\mathbf{110.8}}$	**96.0**
Restructuring	(5.3)	(5.7)
Acquisition expenses	(2.5)	-
Financing costs	(2.5)	(4.5)
Tax	(19.3)	(15.3)
Free cash flow	**81.2**	**70.5**
Sale of investment[1]	2.4	-
Acquisitions	(84.7)	-
Dividends	(21.3)	(17.5)
Other	$\boxed{(11.9)}$	(1.6)
(Increase)/reduction in net debt	**(34.3)**	**51.4**

Capex to depreciation ratio 0.9 times (2011: 0.9 times)

113% headline operating cash conversion

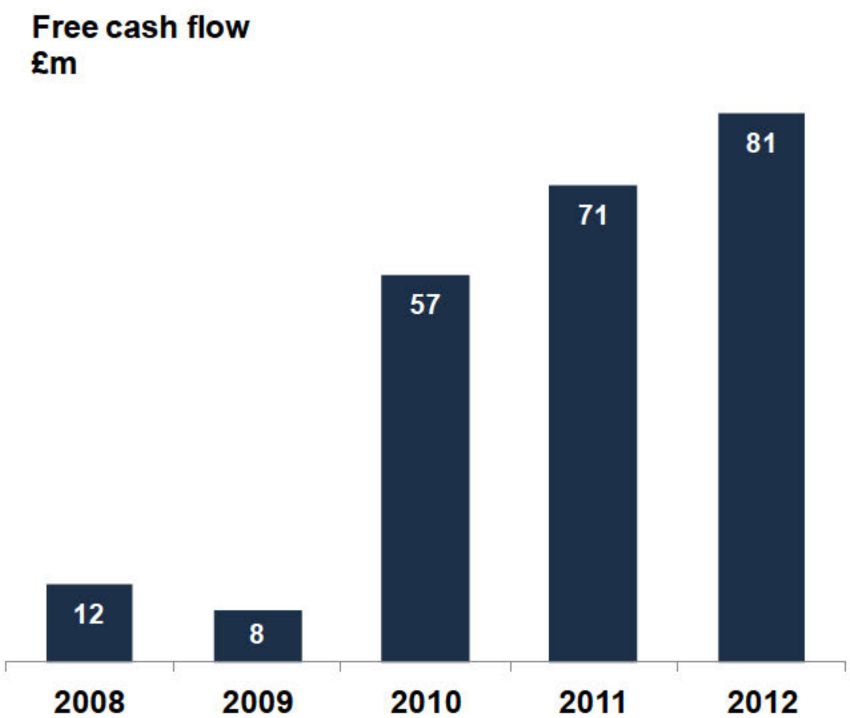
Acquisition of own shares for EBT

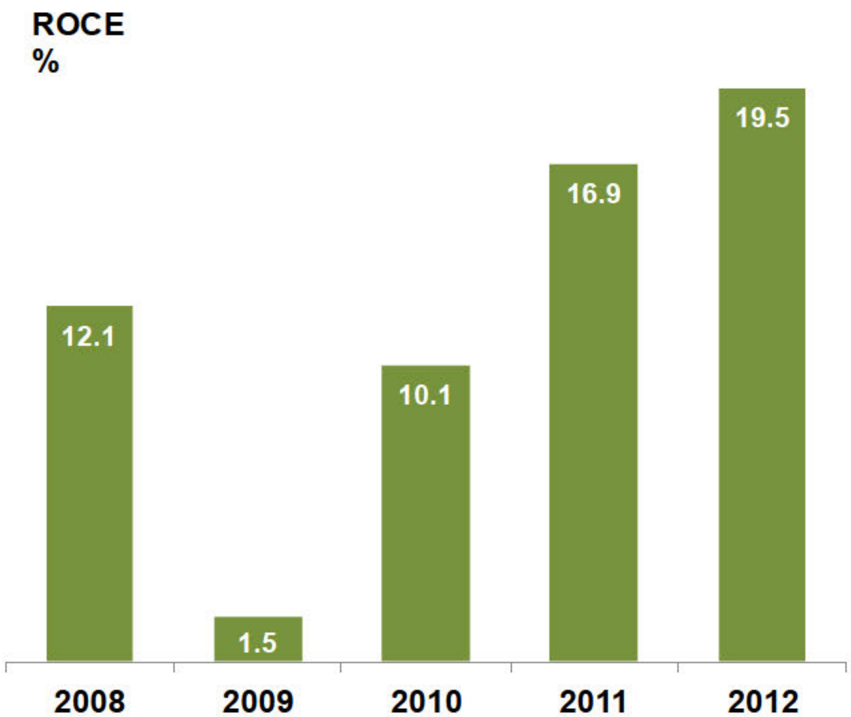
[1] Sale of the residual holding of the Group's investment in Ionbond

Refinancing

- €125m facility refinanced for 5 years to March 2018
- Committed facilities continue at £226m, with weighted average maturity increased to 4.2 years
- Average margin will increase by 25 basis points in 2013 compared to 2012
- Financial covenants unchanged

Five year perspective
At actual exchange rates





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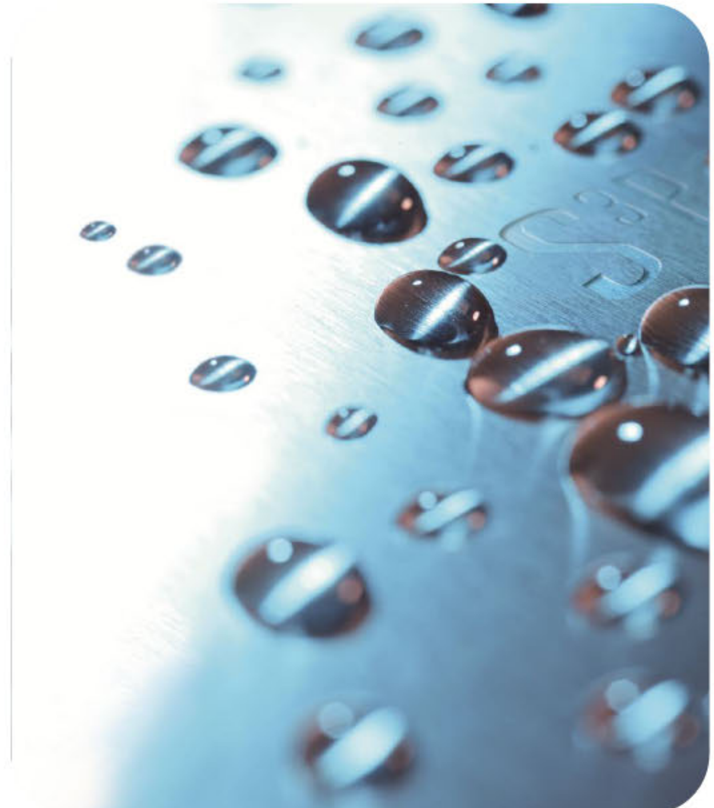
Stephen Harris

Chief Executive



S^3P – Specialty Stainless Steel Processes

Offer unique surface hardening solutions for stainless steel, nickel-based and cobalt-chromium

General Industrial

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End markets

		2011	2012
Europe:	Heavy machinery	↑	↓
	General capital goods	↑	↓
	Supply chain stock build	↑	↓
N. America:	Heavy machinery	↑	↑
	General capital goods	↑	→
Technology driven change		↑	↑

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Europe & ROW

Sales: £181m

Growth*: flat

- Weakening through year
- Outperformed end markets

North America

Sales: £56m

Growth*: 7%

- New accounts bolstered growth

*Organic growth at constant currency

Automotive

End markets

		2011	2012
Europe:	Car production	↑	↓
	Heavy truck	↑	↓
	Supply chain stock build	→	↓
N. America:	Car production	↑	↑
	Heavy truck	↑	↑
Technology driven change		↑	↑

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Europe & ROW

Sales: **£105m**

Growth*: **-10%**

- Eastern Europe particularly weak
- Q4 destocking

North America

Sales: **£30m**

Growth*: **6%**

- Share growth from specialty processes
- Heavy trucks weak in Q4

*Organic growth at constant currency

Aerospace & Defence

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End markets

	2011	2012
Commercial new build	↑	↑
Spares requirement	↑	↑
Defence	→	→
Supply chain stock build	↑	→

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Sales: **£133m**

Growth*: **13%**

- Aerospace buoyant globally
- European supply chain for narrow body platforms particularly strong
- Defence sales robust

*Organic growth at constant currency

Energy

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End markets

	2011	2012
Oil & Gas		
Supply chain stock build		
Power Generation		

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Oil & Gas

Sales: £58m

Growth*: 15%

- Share gains and subsea growth
- Overall rig count flat, Bodycote benefiting from rig relocations

Power Generation

Sales: £25m

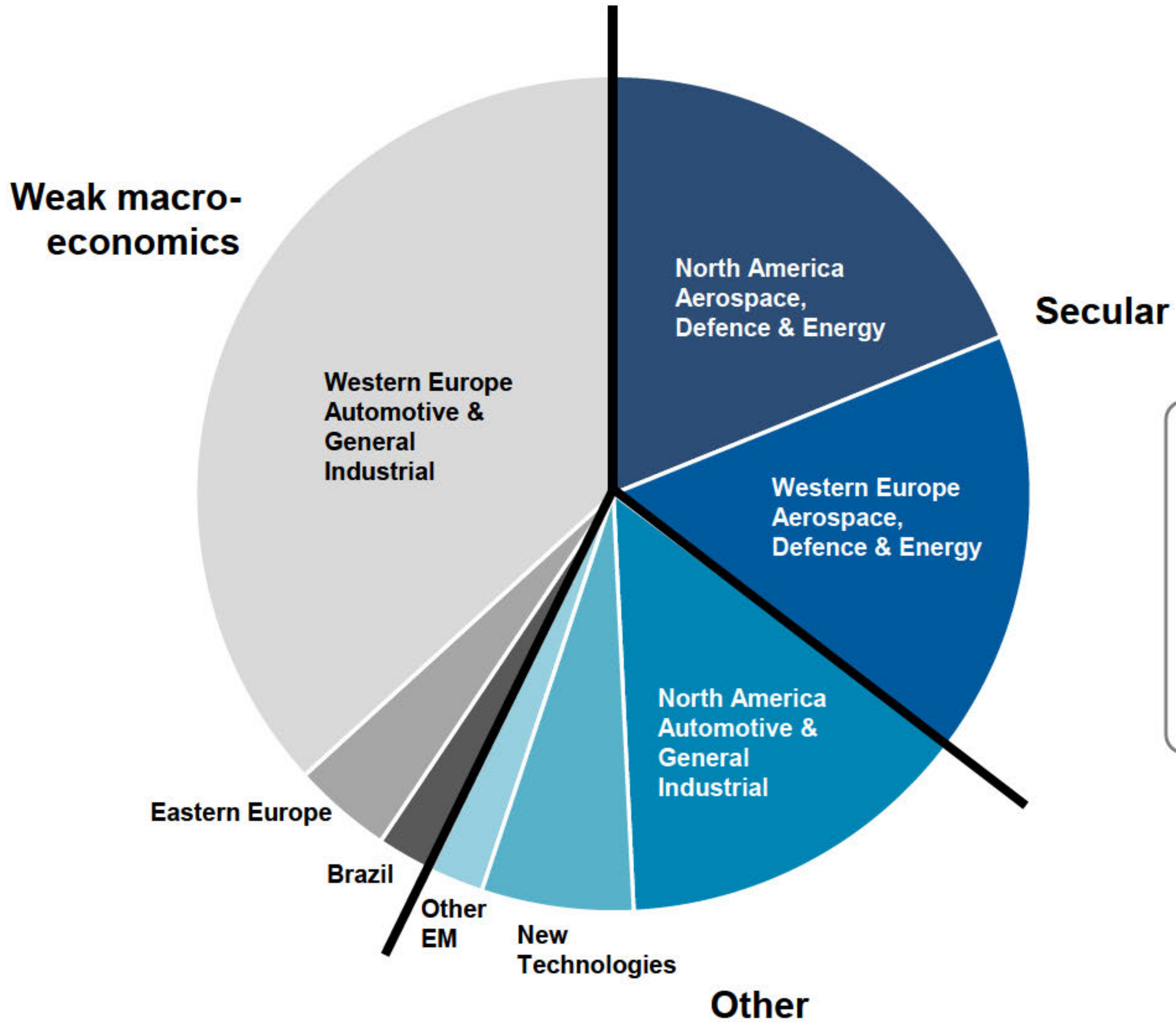
Growth*: 3%

- Constrained by available HIP capacity in North America

*Organic growth at constant currency

Revenue mix overview

Growth at constant exchange rates



	YOY Growth
Secular	13%
Other	5%
Weak macroeconomics	-5%
Total organic growth	**3%**

Resilient despite Eurozone headwinds

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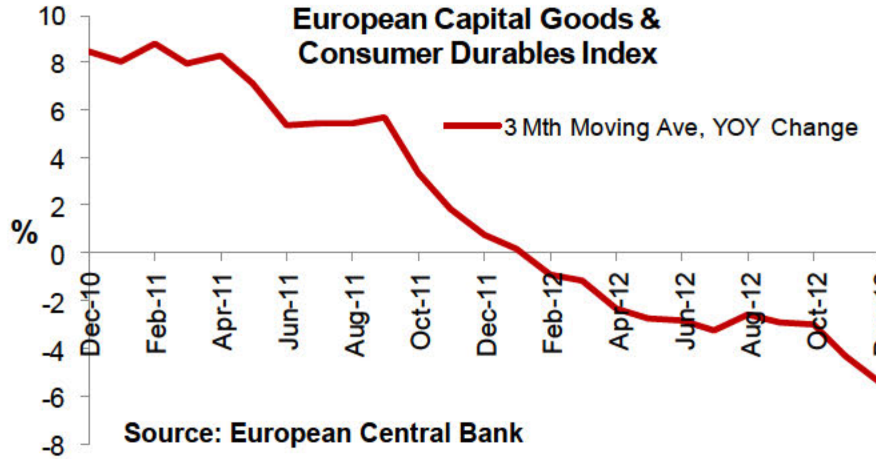
End markets

- Weakening economy in Europe
- Impacts supply chain, particularly Eastern Europe
- Aerospace and Energy markets in Europe not affected



Bodycote – AGI in Europe

Revenue

Margin (%)

econd half sales down 7.5%*

argin reduced by 170 basis points

ıt benefits from:

- improved cost flexibility
- business mix

*At constant currency

Strategic development

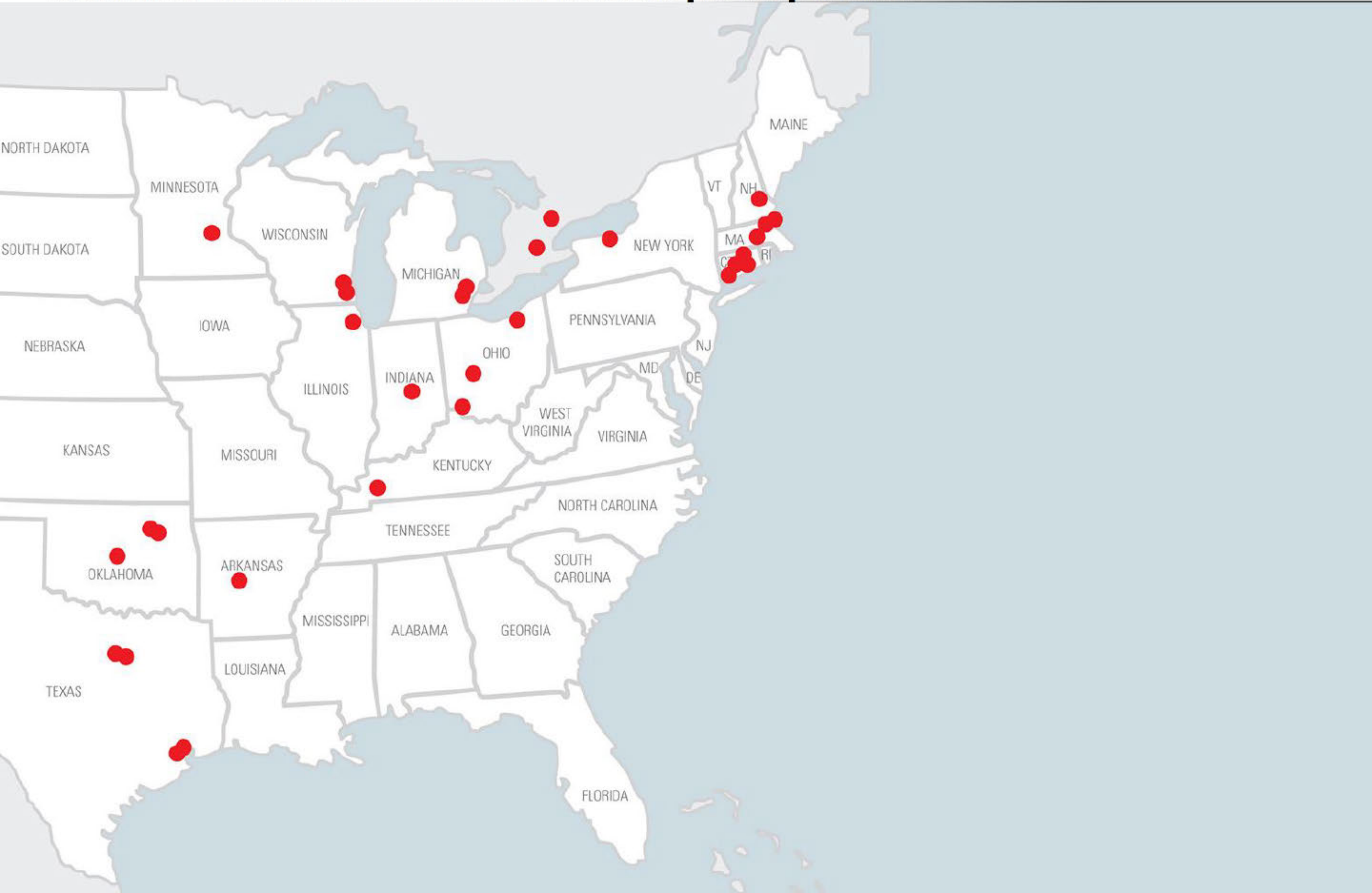
Bodycote

Stephen Harris

Chief Executive

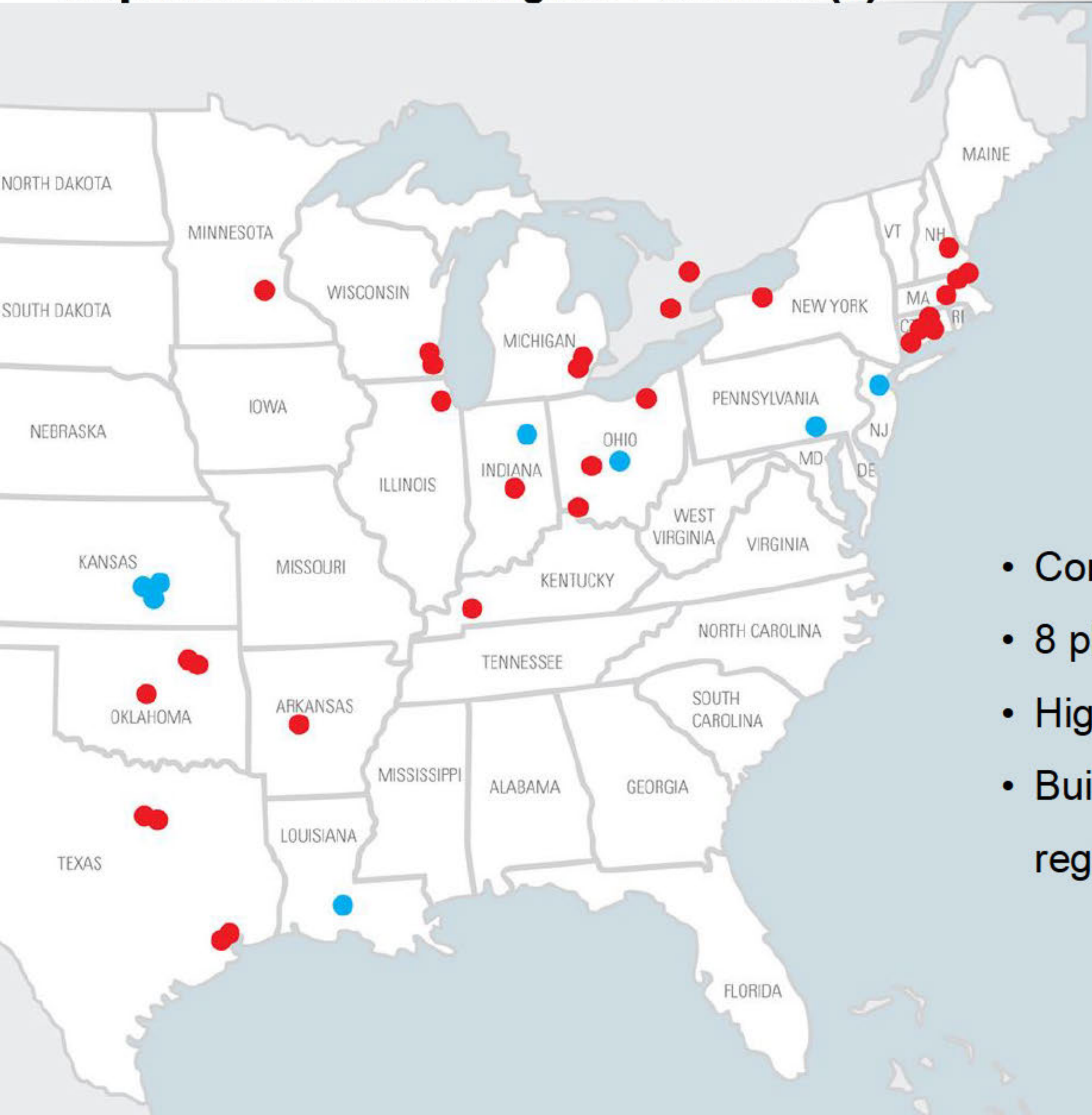
Developing the business in 2012

Central & Eastern North American network pre-acquisitions



Developing the business in 2012

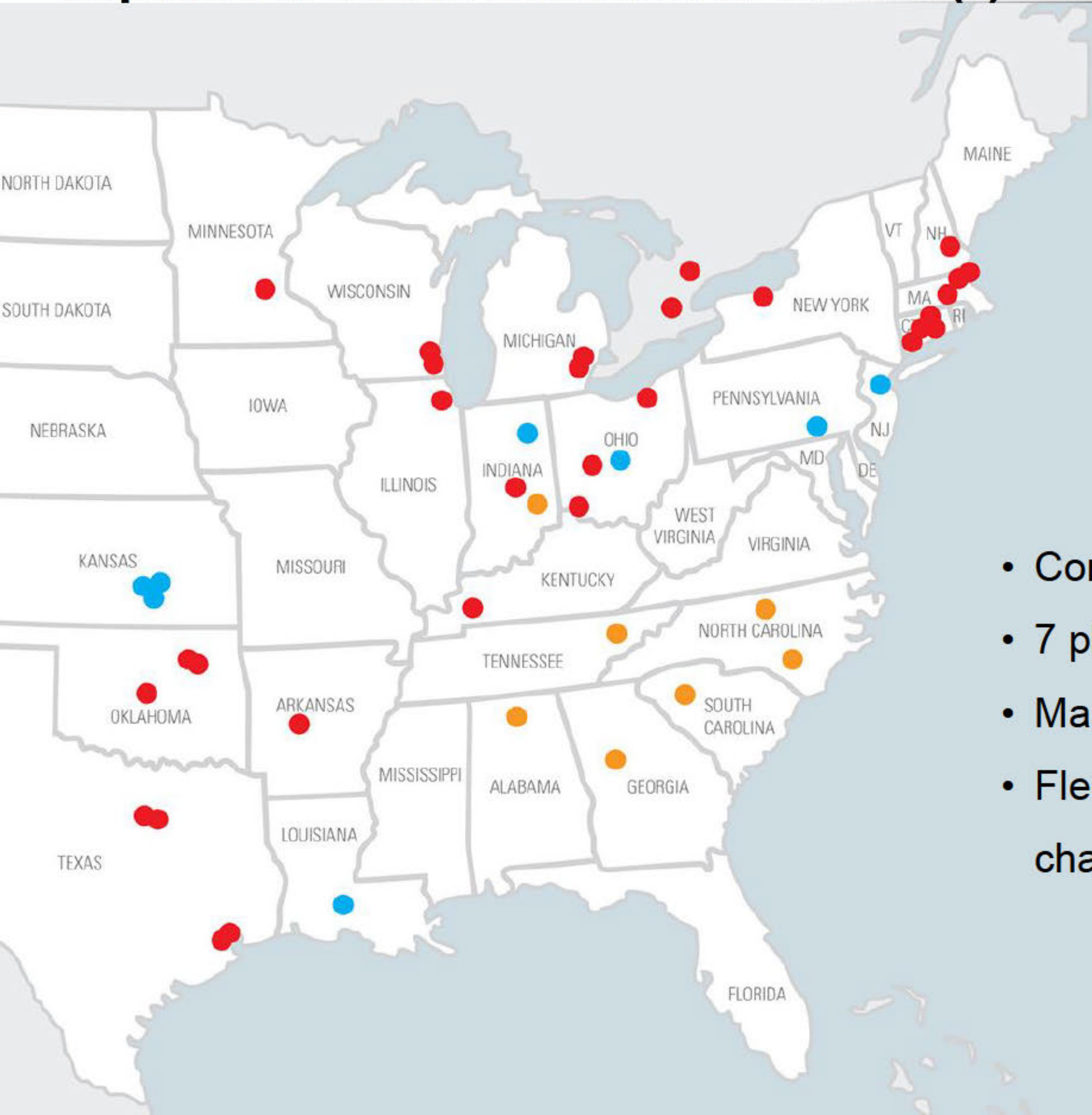
Acquisition of Curtiss-Wright HT business (●)



- Completed April 2012
- 8 plants
- High Aerospace & Energy content
- Builds logistics network in central region

Developing the business in 2012

Acquisition of Carolina Commercial HT business (●)



- Completed October 2012
- 7 plants
- Market leader in the South East
- Fledgling aerospace supply chain

Developing the business in 2012

Other acquisitions (●)

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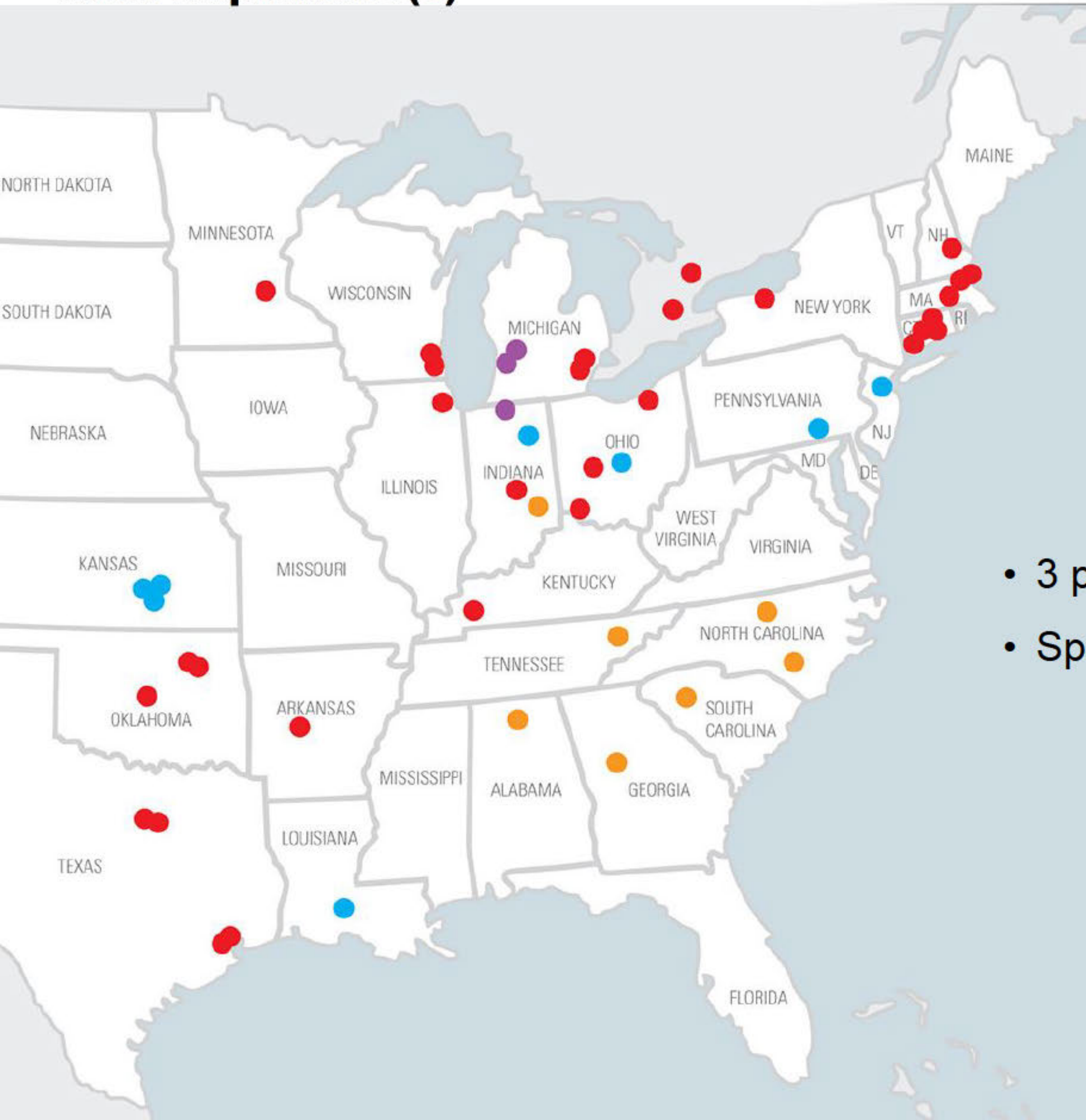

- 3 plants - Michigan & Indiana
- Specialised high-growth processes

Developing the business in 2012

Acquisitions

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Pre Acquisitions

North American business

Plants:	37
Revenue:	£180m
ADE margin:	*30%*
AGI margin:	*21%*

£85m cost

Post Acquisitions

North American business[1]

Plants:	55
Revenue:	£235m
ADE margin:	*30%*
AGI margin:	*20%*

- Acquisitions help balance the Group geographically:
  - Add 9% to Group revenue
  - Expand North America from 32% to 38% of Group revenue
- Funded from free cash
- Strong part year contribution - £5.1m on £22.4m sales
- Integration progressing well:
  - Sales channels
  - Logistics efficiencies
  - Enhanced network coverage
- Performing in line with expectations

[1] 2012 revenue and margins assuming ownership of acquisitions from 1/1/2012

Developing the business in 2012

Greenfield sites & growth markets

- Three Greenfields for ADE:
  - Airframe components, France
  - Aero engine components, Mexico
  - Oil & Gas, USA
- Three Greenfields for AGI:
  - Heavy truck, China
  - S^3P, Sweden
  - Automotive, USA
- Capacity enhancements
  - HIP in USA for Aero & Power Generation
  - S^3P

More Greenfields to come in 2013…

The strategy in action

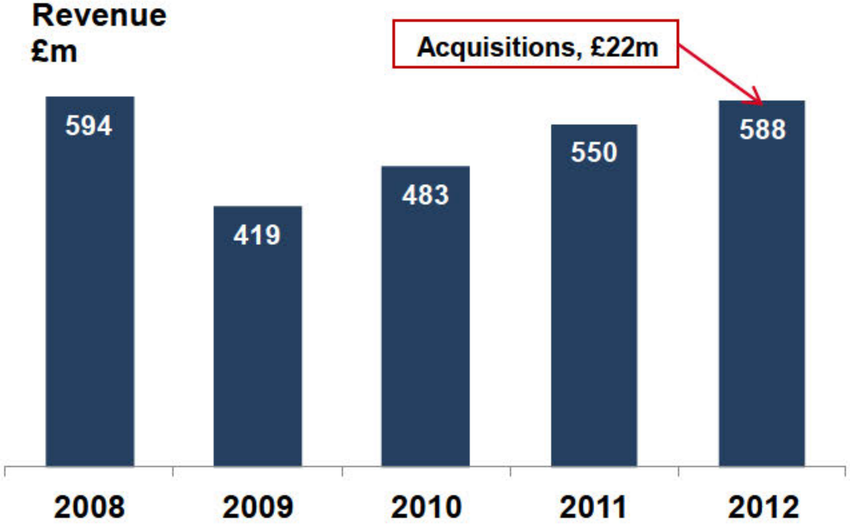
Bodycote

Divisional market focus	▪ Investing where returns are attractive
Enhance business processes	▪ Improved cost efficiency, enhanced margins
Maximise return on existing assets	▪ ROCE 19.5%
Expand with our customers to emerging markets	▪ Eastern Europe, Mexico and China
Longer term growth from targeting specific technologies	▪ Capacity expansion ongoing
Acquisitions	▪ North American network enhanced

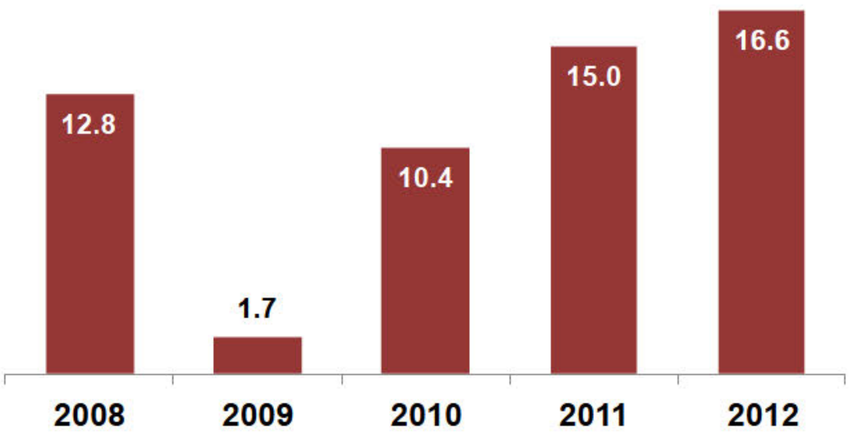
Five year perspective

At 2012 exchange rates (£m)

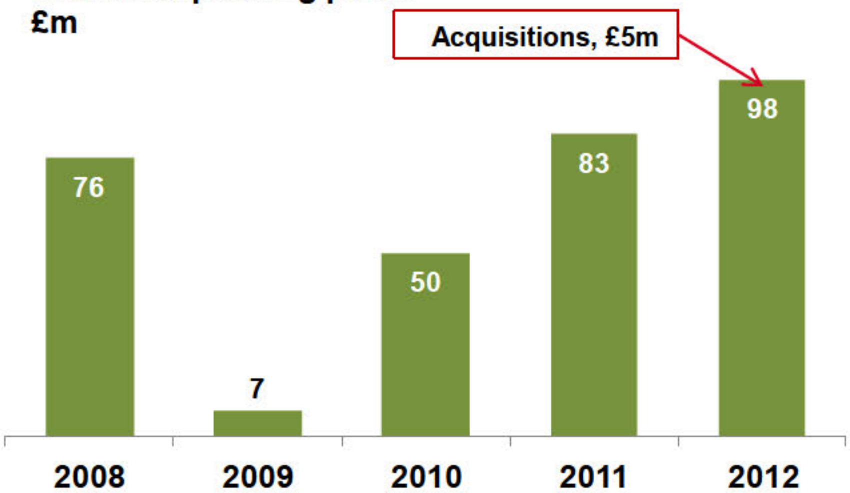
Revenue
£m



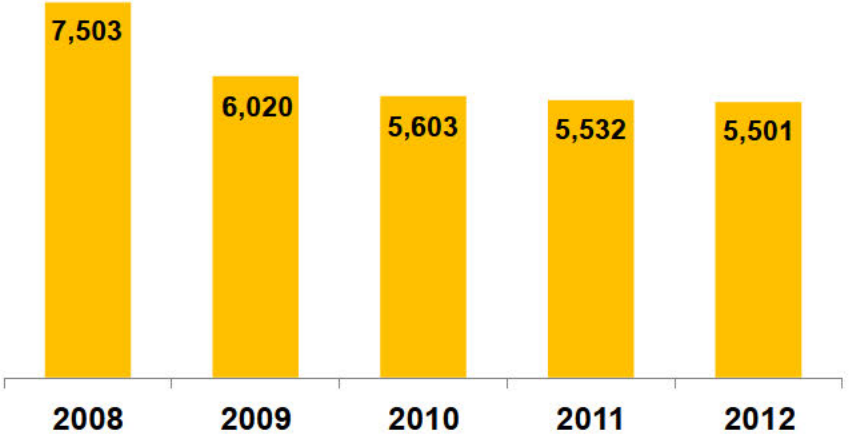
Margin
%



Headline operating profit
£m



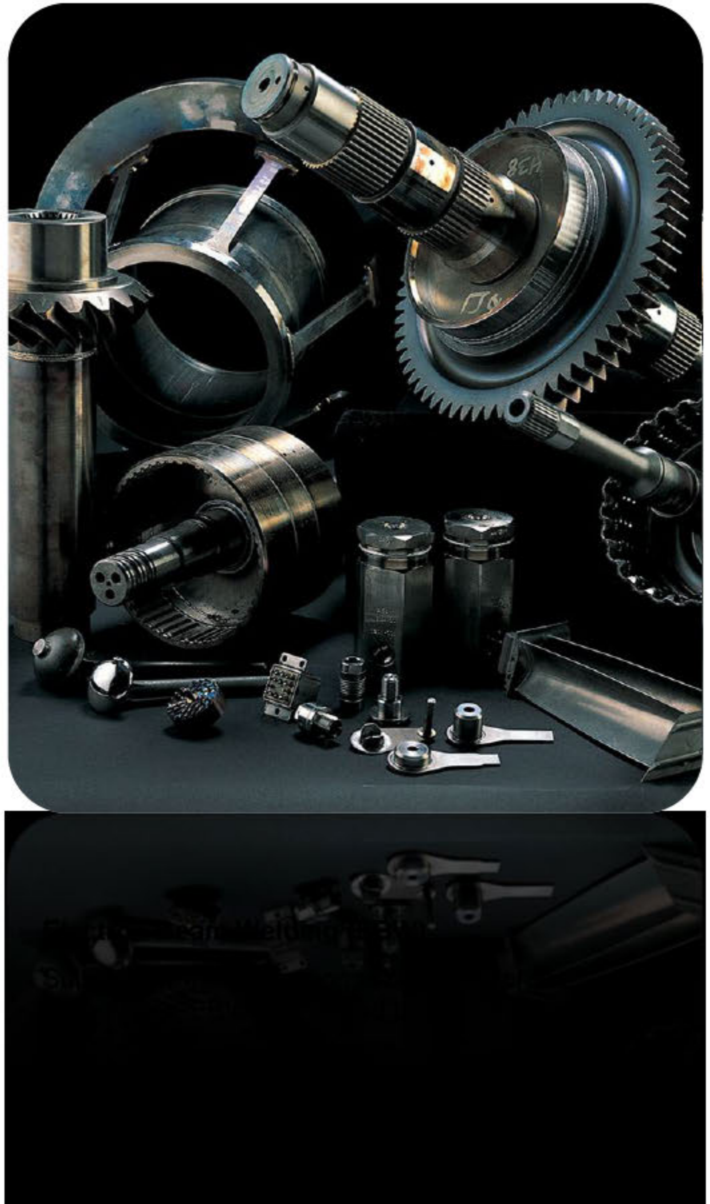
Average headcount - excl. 2012 acquisitions
(acquisitions add 547 people)



Outlook

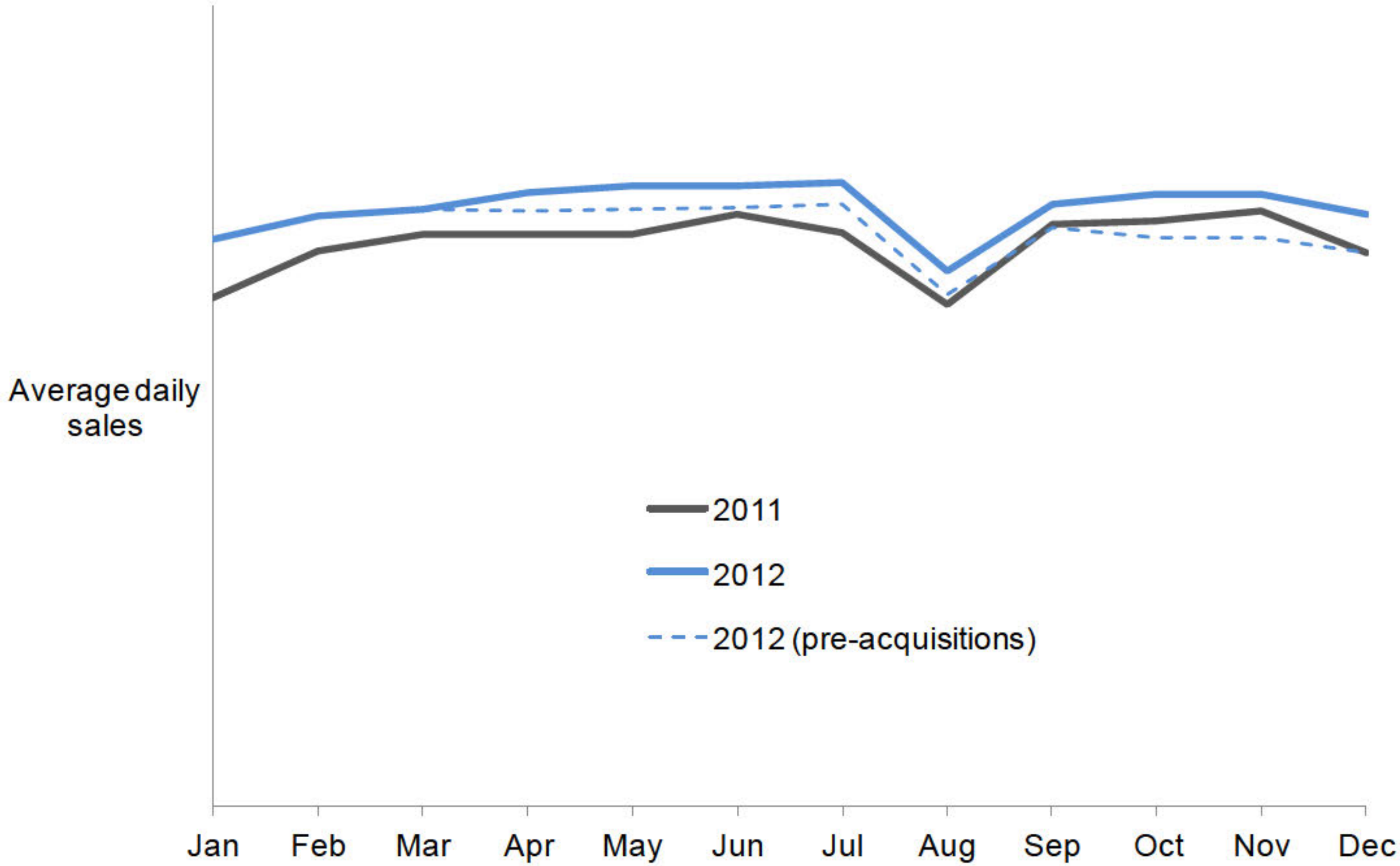
Stephen Harris

Chief Executive



Daily sales trend

At constant exchange rates (£m)



Bodycote outlook

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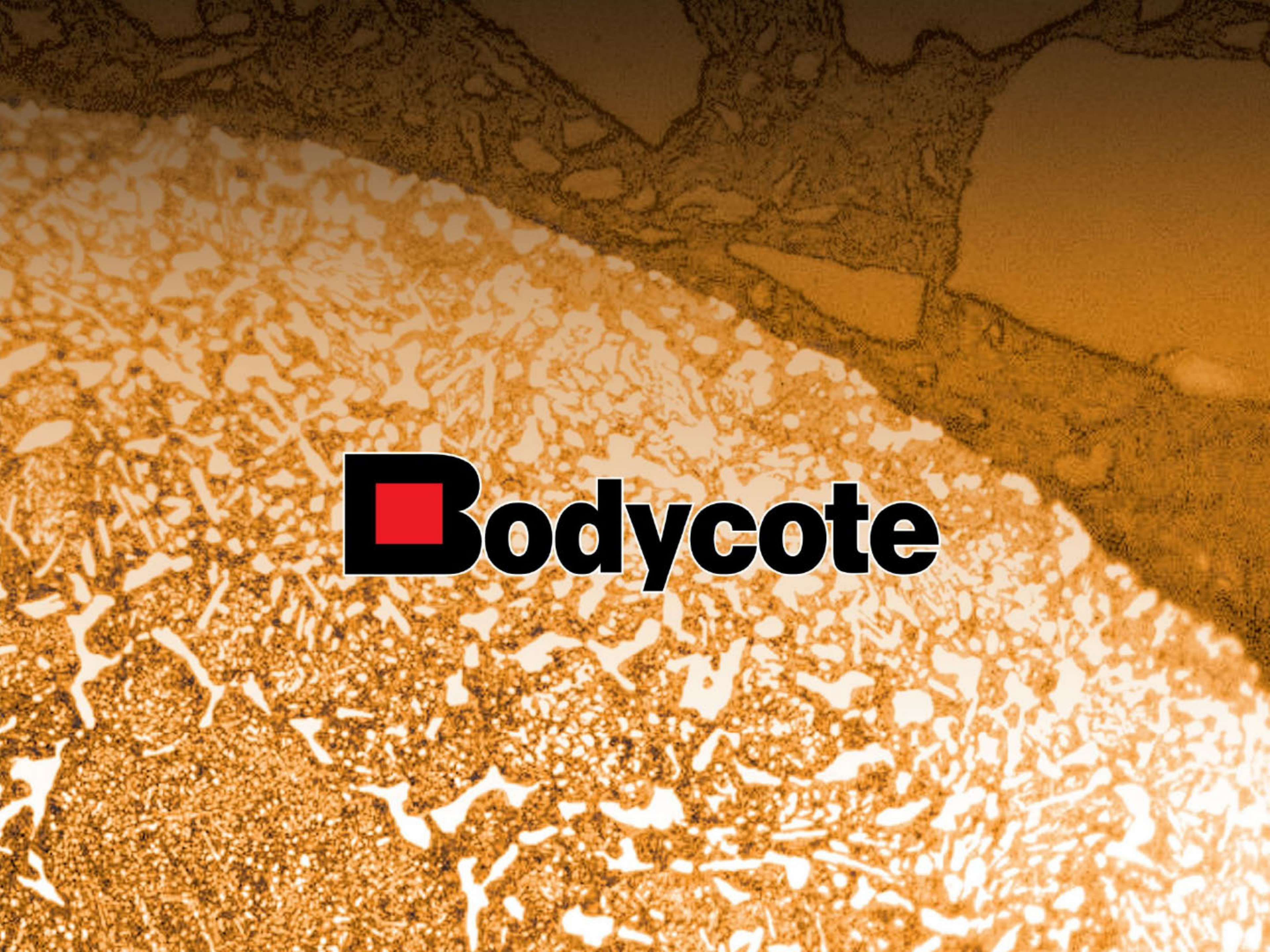
	Immediate	Looking forward
General Industrial	Europe yet to improve North American sales flat	Progressive recovery
Automotive	Europe yet to improve North American sales flat	European car sales will eventually recover from 4 year downturn
Aerospace & Defence	Aerospace growth moderating Defence sales flat	Growing with Boeing and Airbus deliveries
Energy	Oil & Gas destocking Power Generation steady	Growth in oil exploration, strong growth in Power Generation in 2014 onwards

Outlook

"2012 has been another year of good progress. Growth in our global Aerospace and Energy business outweighed the decline in Automotive and General Industrial markets in Europe. Improving business mix and the part-year benefit of acquisitions have enabled further improvements in performance and enhanced the Group's geographic balance.

2013 has started slowly and we are mindful of the near term macroeconomic environment. Nevertheless, at this early stage in the year the Board expects modest progress in 2013.

Looking further ahead, the improvements made to the business in recent years give the Board confidence that Bodycote will continue to deliver good profits and cash through the business cycle."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Definitions

Term	Definition
Headline Operating Profit	Operating profit before exceptional costs
Headline Profit Before Tax	Profit before tax and exceptional costs
Headline Operating Cash Flow	Cash generated by operations, less net capital expenditure and before cash flow relating to exceptional items
Headline EBITDA	Earnings before interest, tax, depreciation, amortisation, loss on disposal of plant, property and equipment and share-based payments
Headline EPS	Earnings per share excluding exceptional costs and tax on exceptional costs
ROCE	Headline operating profit divided by monthly average capital employed
Capital Employed	Net assets adjusted for net debt / (cash)
Headline Operating Cash Conversion	Headline operating cash flow divided by headline operating profit

2012 Statutory income statement

Bodycote

£m	2012	2011
Revenue	**587.8**	570.7
Headline operating profit	**97.9**	85.5
Cash exceptional items		
Acquisition expenses	(2.5)	-
SSC establishment costs	(2.4)	-
Sale of investment	2.4	-
	(2.5)	-
Non-cash exceptional items		
Amortisation of acquired intangible fixed assets	(2.0)	(0.9)
Impairment of goodwill	-	(4.2)
Total exceptional items	**(4.5)**	(5.1)
Operating profit	**93.4**	80.4
Net finance costs	(3.6)	(4.6)
Profit before tax	**89.8**	75.8

Headline earnings per share (pence)	2012	2011
Basic	**37.4**	32.7

Net finance charge / facilities

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£m	2012	2011
Net interest payable	0.5	1.2
Financing costs	1.1	2.0
Bank and other charges	0.8	0.7
Pension finance charge	1.2	0.7
Net finance charge	**3.6**	**4.6**

- Interest payable: reduction driven by lower average net debt
- Financing costs: lower due to 2011 refinanced facility
- Facility headroom of £194m at 31 December 2012

Pensions

Bodycote

£m	2012	2011
UK Funded	4.2	1.8
Other Western Europe Funded	0.5	0.7
Other Western Europe Unfunded	12.6	9.9
Western Europe Total	**17.3**	**12.4**
North America Funded	0.9	0.9
Emerging Markets Unfunded	0.3	0.2
Total retirement benefit obligations	**18.5**	**13.5**

IAS19 (revised) *Employee Benefits*

For the year ended 31 December 2013 the Group is required to adopt IAS 19 (revised) *Employee Benefits*. The standard requires pension scheme administration costs to be moved from net finance costs to operating profit. In addition, the expected return on assets is to be calculated by applying the corporate bond yield discount rate to pension-related assets.

The table below demonstrates the impact of the revised standard on the 2012 income statement:

£m	2012	2012R	Change
Operating profit	93.4	93.0	(0.4)
Net finance costs	(3.6)	(3.0)	0.6
Profit before tax	**89.8**	**90.0**	**0.2**

The Group expects the 2012 pension deficit to increase by £0.5m, relating to the Bodycote arrangement in France, due to the removal of the option to amortise past service costs over the vesting period.

Financial information

Shares in issue		2012	2011
Average		187.0m	185.8m

Exchange Rates		2012	2011
Euro	Average (P&L)	1.23	1.15
	Closing (B/S)	1.23	1.19
US Dollar	Average (P&L)	1.59	1.60
	Closing (B/S)	1.63	1.54
SEK	Average (P&L)	10.69	10.34
	Closing (B/S)	10.57	10.65

Financial Ratios	2012	2011
Net Debt : Headline EBITDA	0.2x	Net cash
Headline EBITDA Interest Cover	306.2x	118.6x
Gearing (Net Debt:Total Equity)	7%	Net cash

Divisional summary - H1 vs H2

£m

ADE Divisions	H1	H2	Total
Revenue	130.3	130.1	**260.4**
Headline operating profit	31.3	38.3	**69.6**
Margin	*24.0%*	*29.4%*	***26.7%***

AGI Divisions	H1	H2	Total
Revenue	171.0	156.4	**327.4**
Headline operating profit	22.8	20.8	**43.6**
Margin	*13.3%*	*13.3%*	***13.3%***

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