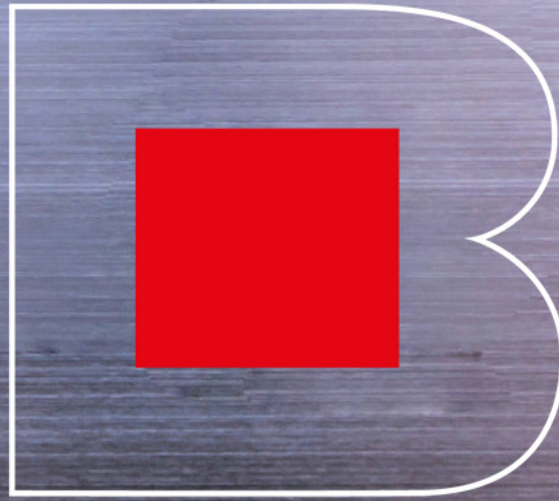


# Interim Results 2021

29 July



# Introduction

**Stephen Harris**  
*Group Chief Executive*





# Agenda

- Overview
- Financial Review
- Business Review
- Summary and Outlook

# Strong profit and cash performance

- Revenues up 5.9%<sup>1</sup> to £312.9m (2.0% at actual rates)
- Profit up 35%<sup>2</sup> to £48.7m
- Margin<sup>3</sup> increased to 15.6% (2020: 12.3%); with AGI margins above 20% for the first time
- Free cash flow of £60m (124% free cash conversion)
  
- Profits benefit strongly from restructuring and efficiency improvements, with gearing over 70%<sup>1</sup>
- On track to deliver targeted £20m net restructuring cost savings in 2021
- Specialist Technologies and Emerging Market strategies delivering strong outperformance against background markets
  
- Interim dividend 6.2p, (2020: 6.0p)
- Full year guidance raised

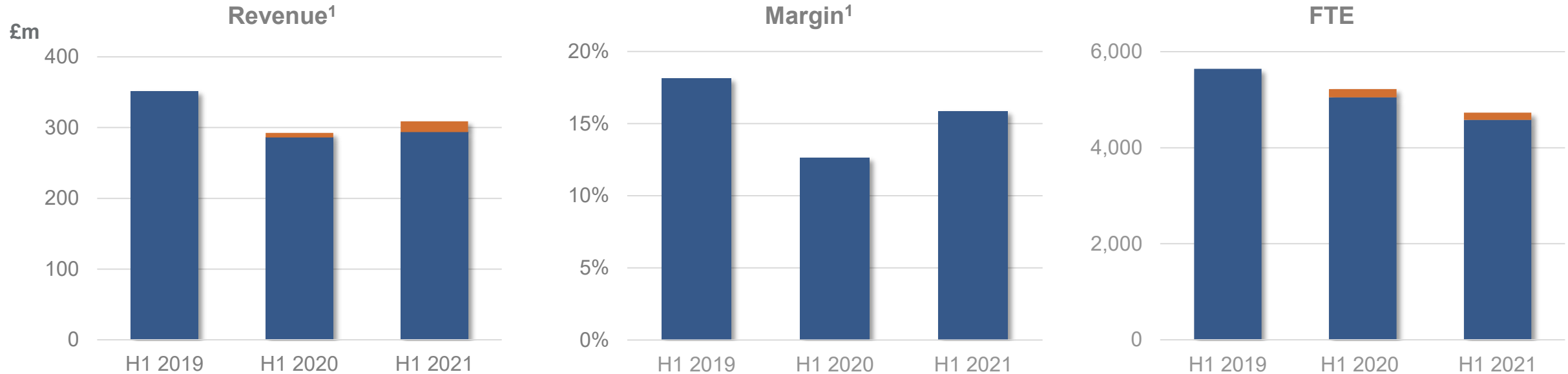
<sup>1</sup> At constant currency

<sup>2</sup> Headline operating profit at constant currency

<sup>3</sup> Headline operating margin

# Strong operational execution

Ellison  
Organic



- Good margin improvements coming through from restructuring savings and efficiency improvements

# Financial review

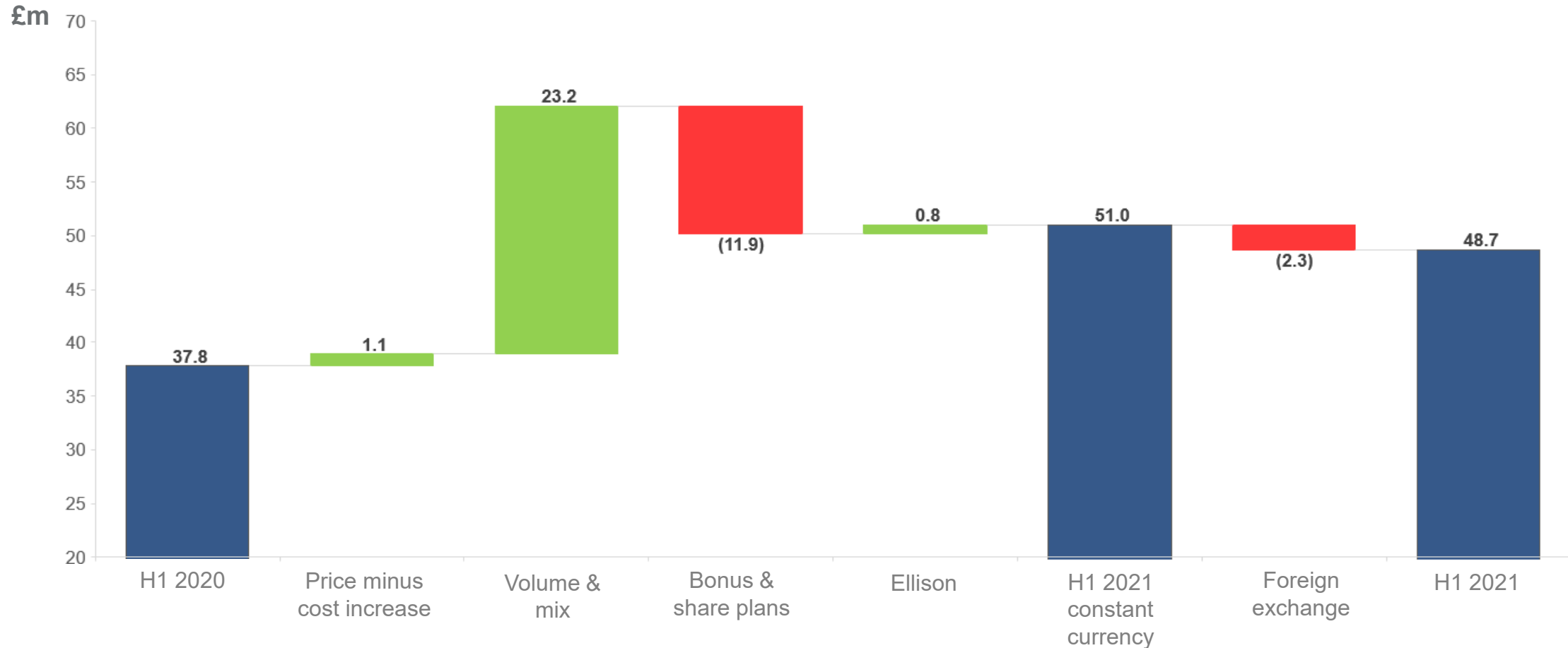
**Dominique Yates**  
*Chief Financial Officer*



# H1 2021 results summary

£m	H1 2021	H1 2020	Growth	Growth constant currency
Revenue	<b>312.9</b>	<b>306.7</b>	<b>2.0%</b>	<b>5.9%</b>
Headline operating profit	<b>48.7</b>	<b>37.8</b>	<b>29%</b>	<b>35%</b>
Headline operating margin	<b>15.6%</b>	<b>12.3%</b>		
Headline profit before tax	<b>45.8</b>	<b>35.0</b>	<b>31%</b>	
Headline tax rate	<b>22.5%</b>	<b>22.5%</b>		
Free cash flow	<b>60.2</b>	<b>69.7</b>	<b>-14%</b>	
Headline EPS	<b>18.5p</b>	<b>14.2p</b>	<b>30%</b>	
Exceptional restructuring costs	-	<b>32.1</b>		
2021 interim dividend	<b>6.2p</b>	<b>6.0p</b>		

# Headline operating profit bridge



- Inflation more than offset by price increases, once again
- Early indications of wage inflation in some geographies, which will be passed on in due course



# Restructuring progress on track

- Closure of 19 facilities completed by end of H1 (14 AGI plants; 5 ADE plants)
- Closure of remaining 7 facilities in restructuring programme (4 AGI plants; 3 ADE plants) will be completed in H2
- 3 new facilities in operation
- Restructuring costs in line with provision, £8m spent in H1
- End June headcount > 1,000 FTEs below January 2020 pro forma headcount
- Restructuring benefit of £20m in 2021 and increasing to annualised benefit of £30m in 2022



# AGI and ADE summary

## The AGI Business

£m	H1 2021	H1 2020	Growth	Growth constant currency
Revenue	<b>192.5</b>	<b>170.9</b>	<b>12.6%</b>	<b>15.8%</b>
Headline operating profit	<b>38.9</b>	<b>14.4</b>	<b>171%</b>	<b>178%</b>
<i>Headline operating margin</i>	<b>20.2%</b>	<b>8.4%</b>		

- The AGI business comprises more than 100 facilities primarily focused on Automotive and General Industrial customers
- Circa 60% of the AGI business is in Western Europe

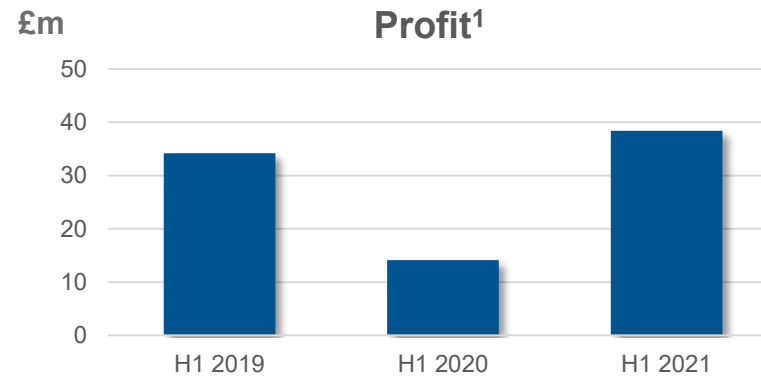
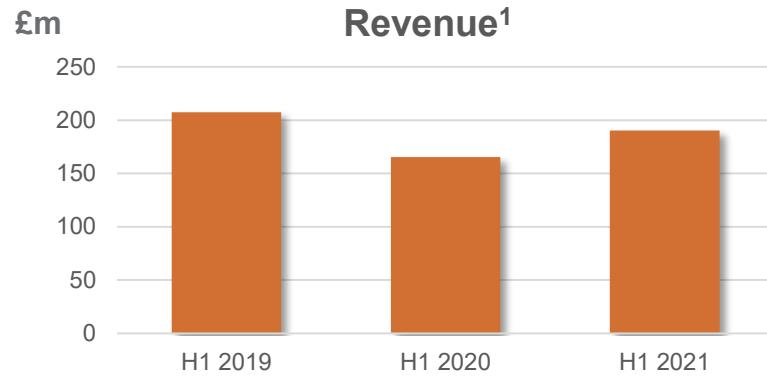
## The ADE Business

£m	H1 2021	H1 2020	Growth	Growth constant currency
Revenue	<b>120.4</b>	<b>135.8</b>	<b>-11.3%</b>	<b>-6.6%</b>
Headline operating profit	<b>17.6</b>	<b>27.1</b>	<b>-35%</b>	<b>-32%</b>
<i>Headline operating margin</i>	<b>14.6%</b>	<b>20.0%</b>		

- The ADE business comprises more than 60 facilities primarily focused on Aerospace, Defence and Energy customers, but also includes approximately 20% General Industrial business
- Excluding Ellison, constant currency revenues were down 15%

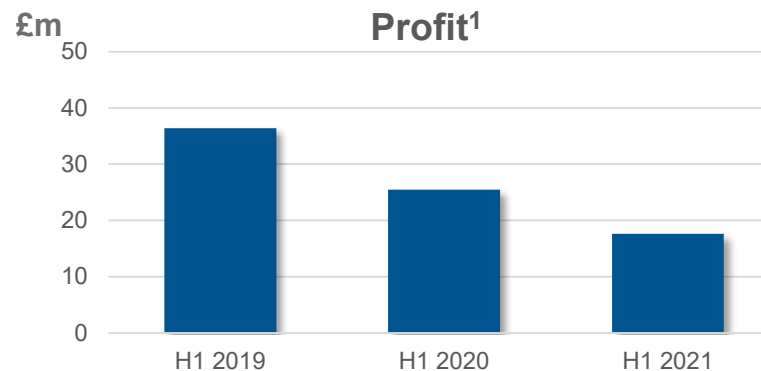
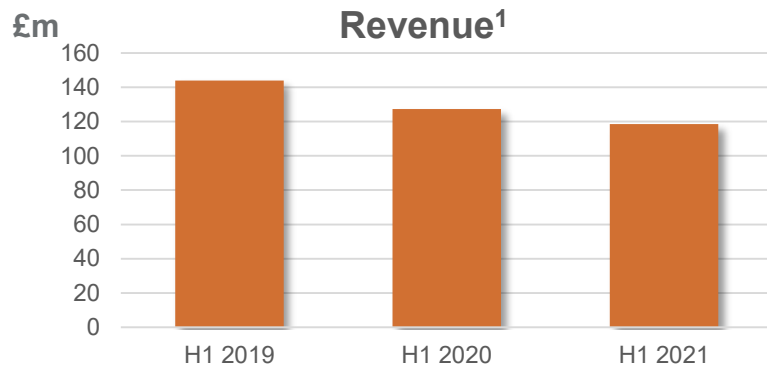
# Excellent performance in AGI with ADE expected to follow

## The AGI Business



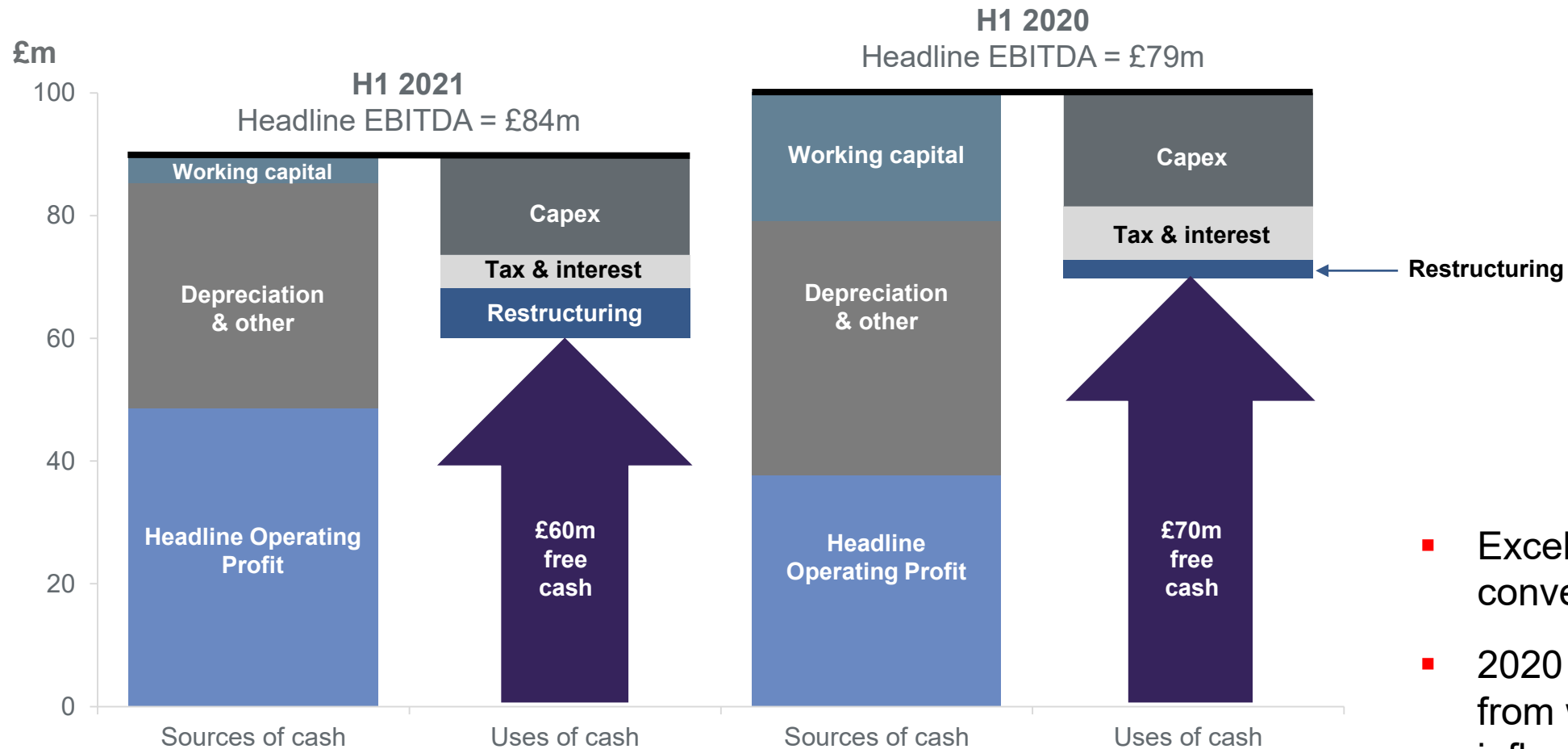
- AGI revenue recovery well under way boosted by Specialist Technologies and Emerging Markets
- AGI profits and margins benefiting from well advanced restructuring programme and efficiency improvements
- Record AGI margin of 20.2% notwithstanding lower revenues (previous high was 19.4%)

## The ADE Business



- No significant recovery in ADE revenues yet
- Sequential margin improvement 14.6% versus 8.6% in H2 2020
- Some revenue recovery required for meaningful margin recovery

# Cash flow



- Excellent free cash conversion of 124%
- 2020 cash flows benefited from working capital inflow from lower revenues, reducing trade receivables



# Balance sheet and taxation

## Balance sheet

- Net debt is £70m<sup>1</sup> (H1 2020: £24m), £58m consideration for Ellison and £37m of dividends paid in H1
- Financial leverage at 0.5x net debt : EBITDA
- Facility headroom of £152m at 30 June 2021
- £251m credit facility extended 1 year, now matures in May 2026
- IFRS16 lease liabilities of £70m

## Tax

- Headline tax rate of 22.5%, in line with guidance

## Currency

- H1 closing exchange rates indicate slight currency headwind in H2 vs H1

# Market sector review

**Stephen Harris**

*Group Chief Executive*

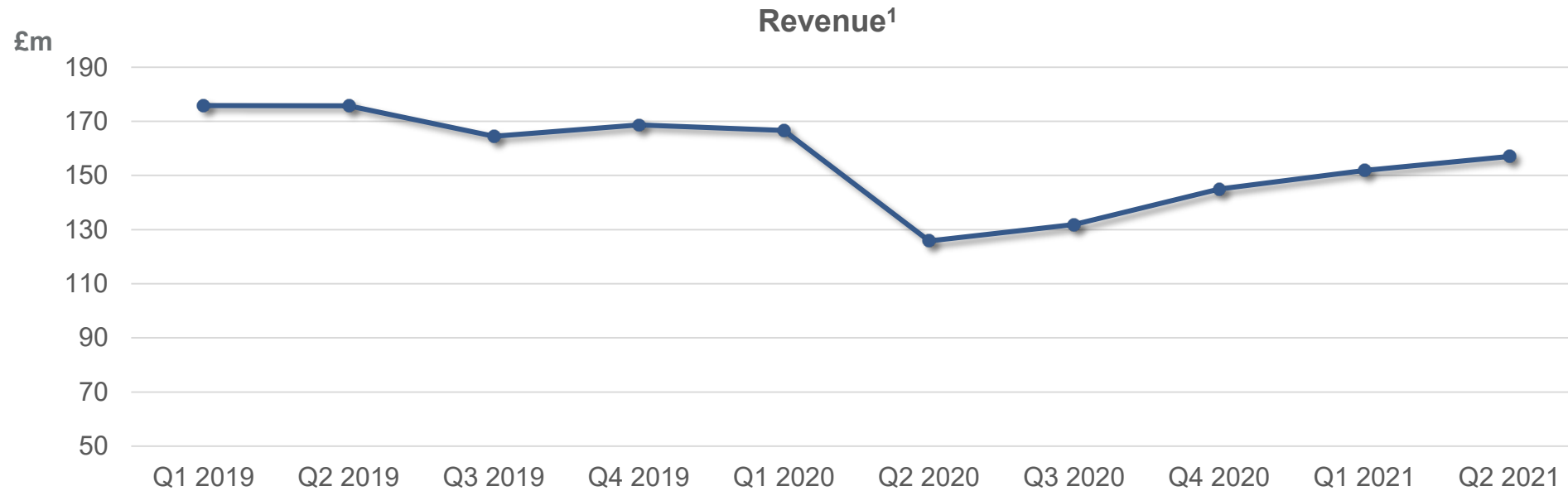


# Addressing climate change

- On the path to Net Zero emissions in line with Paris Agreement
- Developing our Science Based Targets
- Assessing and managing climate related risks in line with Task Force on Climate-Related Financial Disclosures (TCFD)
- Carbon reduction plan progressing well
- Moving fuel sources to electricity where practical to take advantage of green energy when available
- Strong focus on helping customers to reduce carbon emissions through outsourcing to Bodycote and conversion to processes with inherently lower carbon footprints



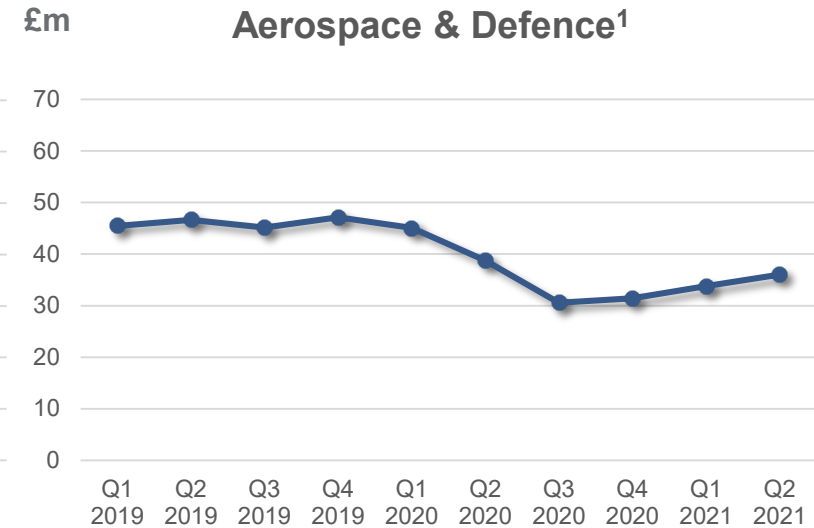
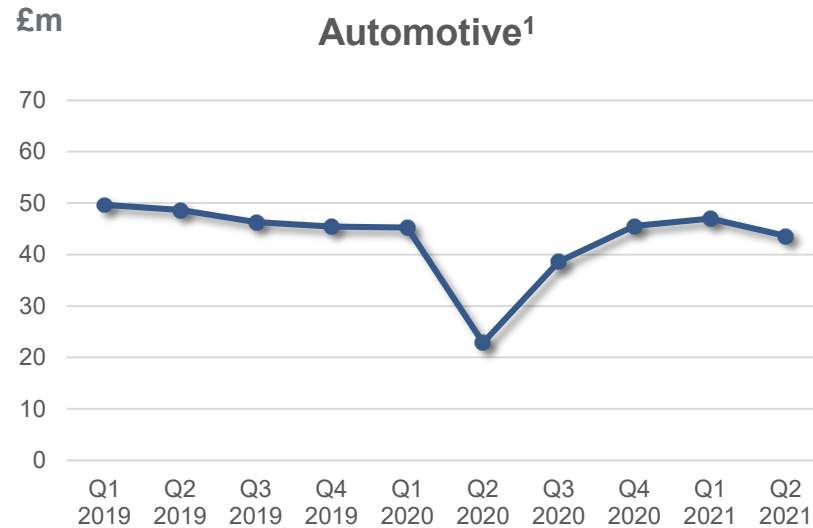
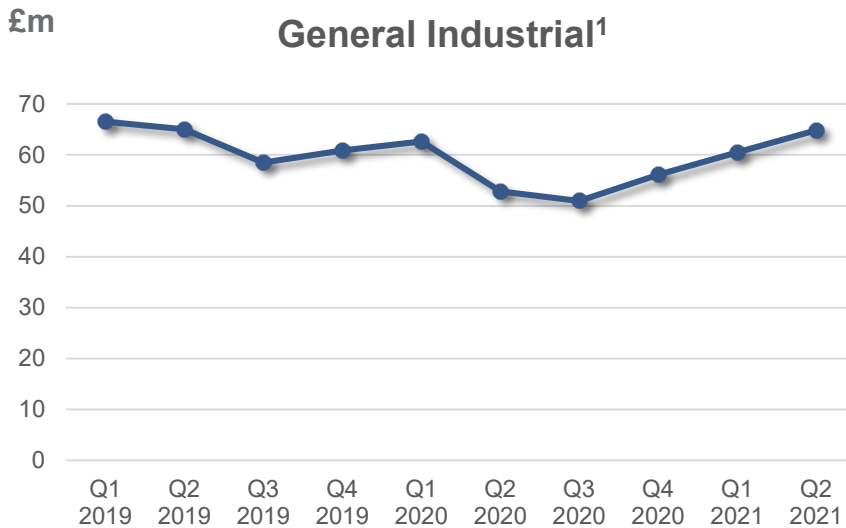
# Group revenue progression



- Group revenues showing steady sequential recovery, but Q2 run rate is still 10.6% below 2019 levels



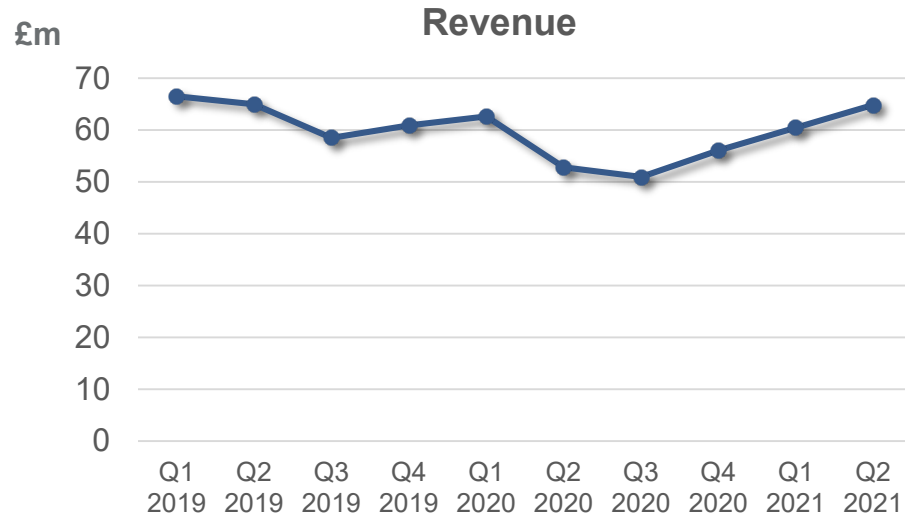
# Market sector quarterly revenue progression



# General Industrial

Revenue: £126.7m (41% of total revenue)

YoY Growth <sup>1</sup> : 9%

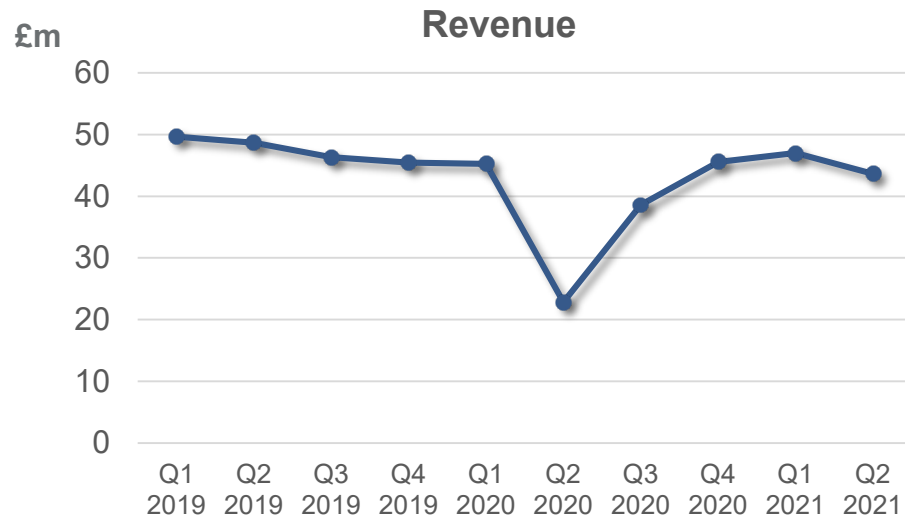


- General Industrial revenues showing steady growth – almost back to 2019 levels
- No major differences in growth between territories
- Restocking underway but held back by raw material shortages and supply chain blockages
- Growth patterns similar across sub sectors except tooling (leading indicator for automotive) – tooling stalled in early Q1 and growth has not yet restarted

# Automotive

Revenue: £91.7m (29% of total revenue)

YoY Growth <sup>1</sup> : 33%

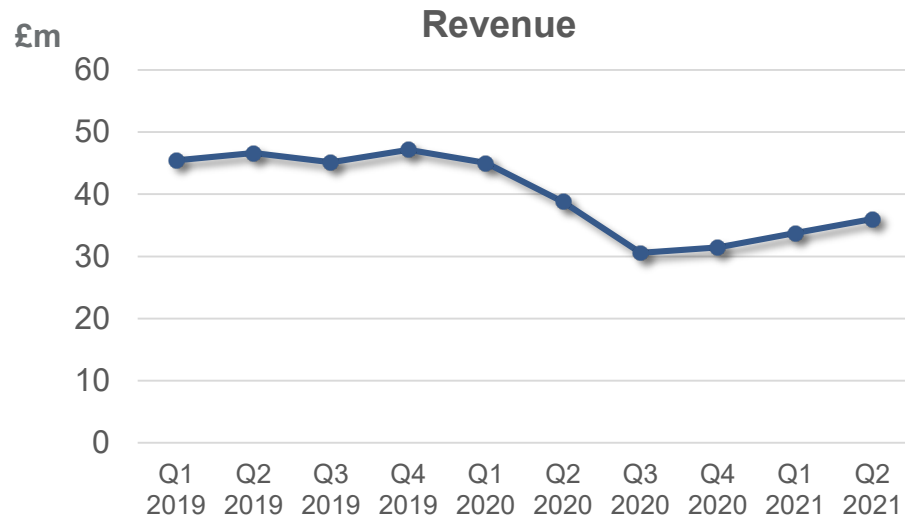


- Q2 revenue declined due to supply chain problems, including the impact of the global chip shortage
- No major improvement expected before 2022, but strong growth expected once supply chains operating smoothly

# Aerospace & Defence

Revenue: £71.0m (23% of total revenue)

YoY Change <sup>1</sup> : -25%



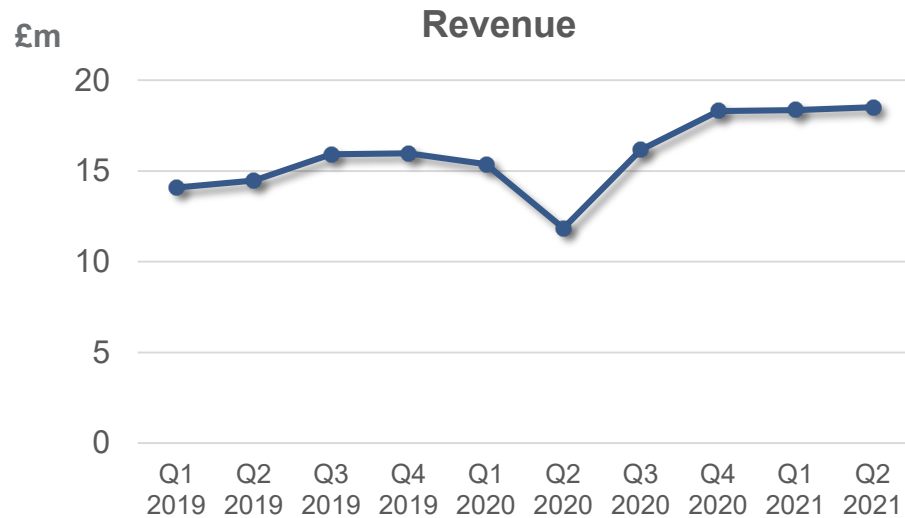
- Revenue recovery so far primarily driven by increased flying hours
- Revenues derived from business closest to final assembly starting to improve
- Plenty of inventory in the supply chain
- Overall, no meaningful upturn yet but expected to ramp strongly in 2022



# Emerging Markets

Revenue: £37.3m (12% of total revenue)

YoY Growth<sup>1</sup> : 36%



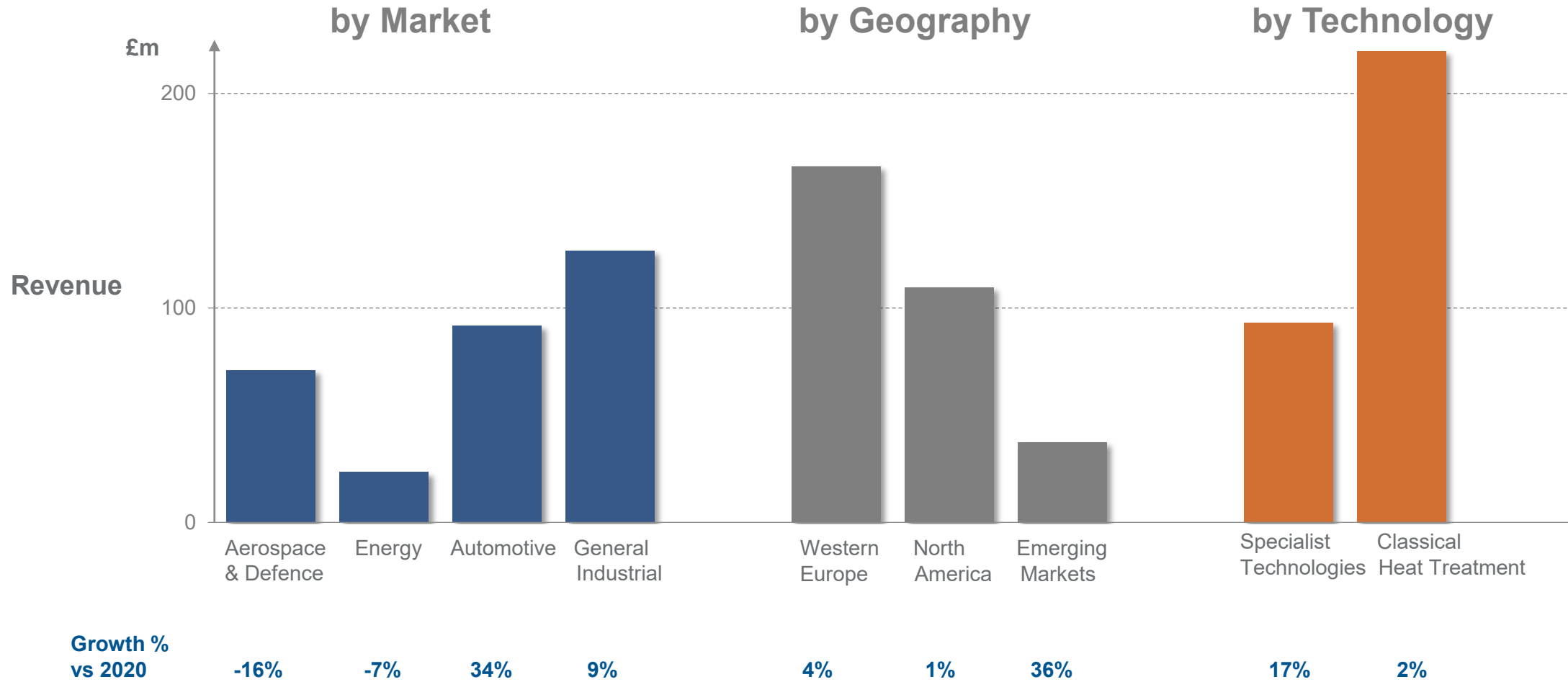
- 36% Emerging Markets growth vs. 16% growth in Western Europe and North America Automotive and General Industrial
- Emerging Markets organic revenues up 15% on 2019, driven largely by Automotive growth
- Emerging Markets margins at 25.0%

# Specialist Technologies



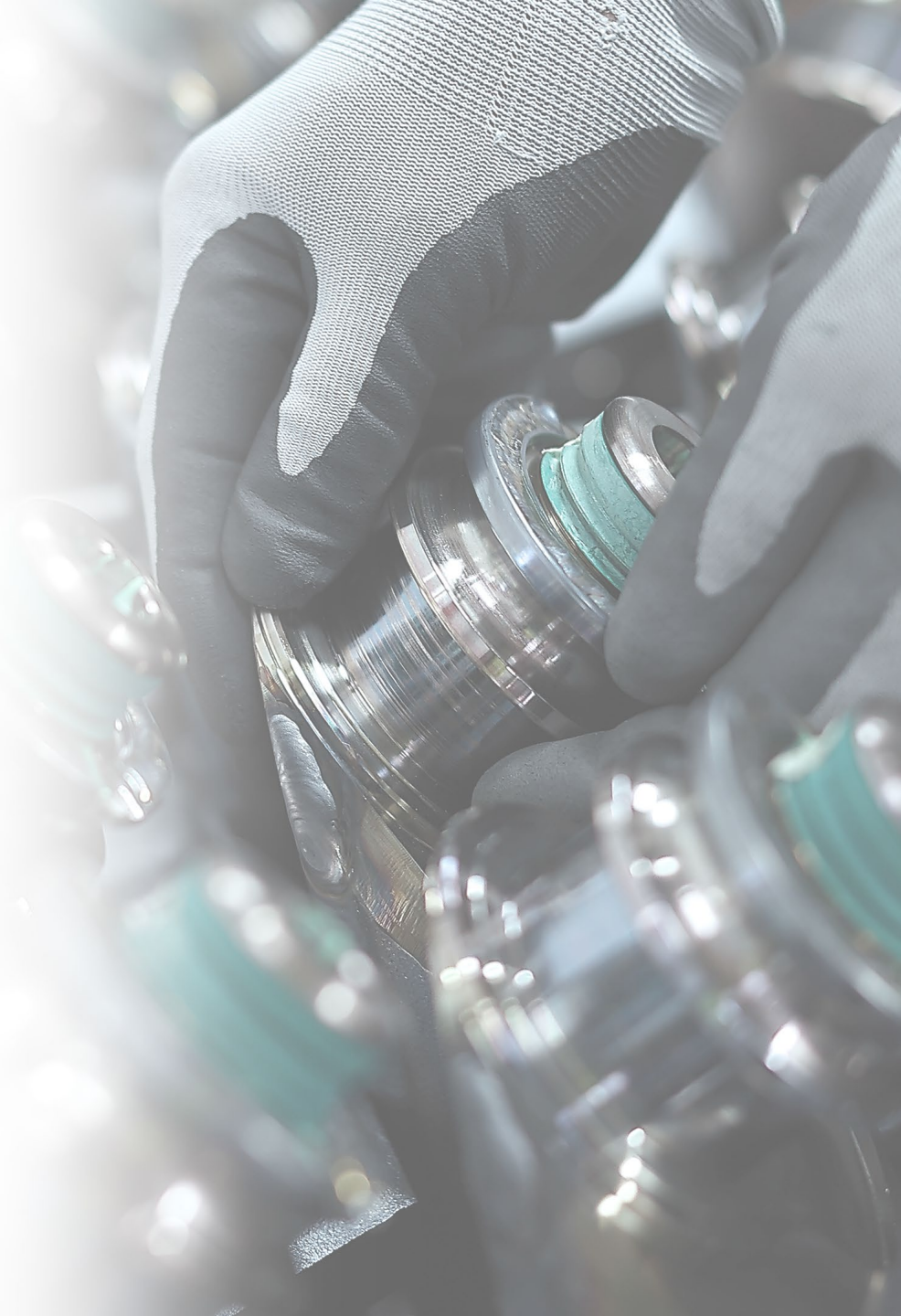
- Strategic focus on expanding Specialist Technologies continues to deliver
- AGI focused Specialist Technologies revenues up 42% on 2020, compared with 14% increase in Classical Heat Treatment revenues in the same markets
- ADE focused Specialist Technologies organic revenues declined 13%, compared with 23% drop in Classical Heat Treatment revenues for these market sectors

# H1 2021 revenue profile<sup>1</sup>



# Strategic progress

- Development of Specialist Technologies continues apace. Good growth compared to background markets
- Expansion in Emerging Markets showing excellent progress with revenues now well above 2019 revenues
- Increasing focus on supporting production for electric vehicles, particularly in Emerging Markets
- Civil aerospace narrow body programme continues to evolve – strong growth anticipated in 2022
- Cost savings and improving efficiencies delivering higher quality business
- Group margin trending to exceed 20% in due course





# Summary

- Profits<sup>1,2</sup> up 35% on revenues<sup>1,2</sup> up 5.9%
- Restructuring programme delivering savings as expected
- Production efficiencies improving with gearing of more than 70%<sup>2</sup>
- Excellent cash generation (124% free cash flow conversion)
- Growth due to accelerate once short-term supply chain issues for automotive and general industrial markets resolved and aerospace starts to ramp up significantly
- Faster growth, when it comes, will disproportionately benefit the bottom line



# Outlook

We expect growth to accelerate once short-term supply chain disruptions are eliminated in the Automotive and General Industrial markets and Civil Aerospace begins its upward climb, but none of these effects are expected to be material until 2022. However, the benefits of our 2020 restructuring programme continue to build and Bodycote is well placed to capitalise on increases in revenues as they occur. Given the developments in the first half and the anticipated second half performance, we now expect to deliver a result in the upper half of the range of expectations<sup>1</sup>.

<sup>1</sup> Company compiled analysts' expectation for the full year headline operating profit range from £91m to £104m



** 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 (S<sup>3</sup>P)

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

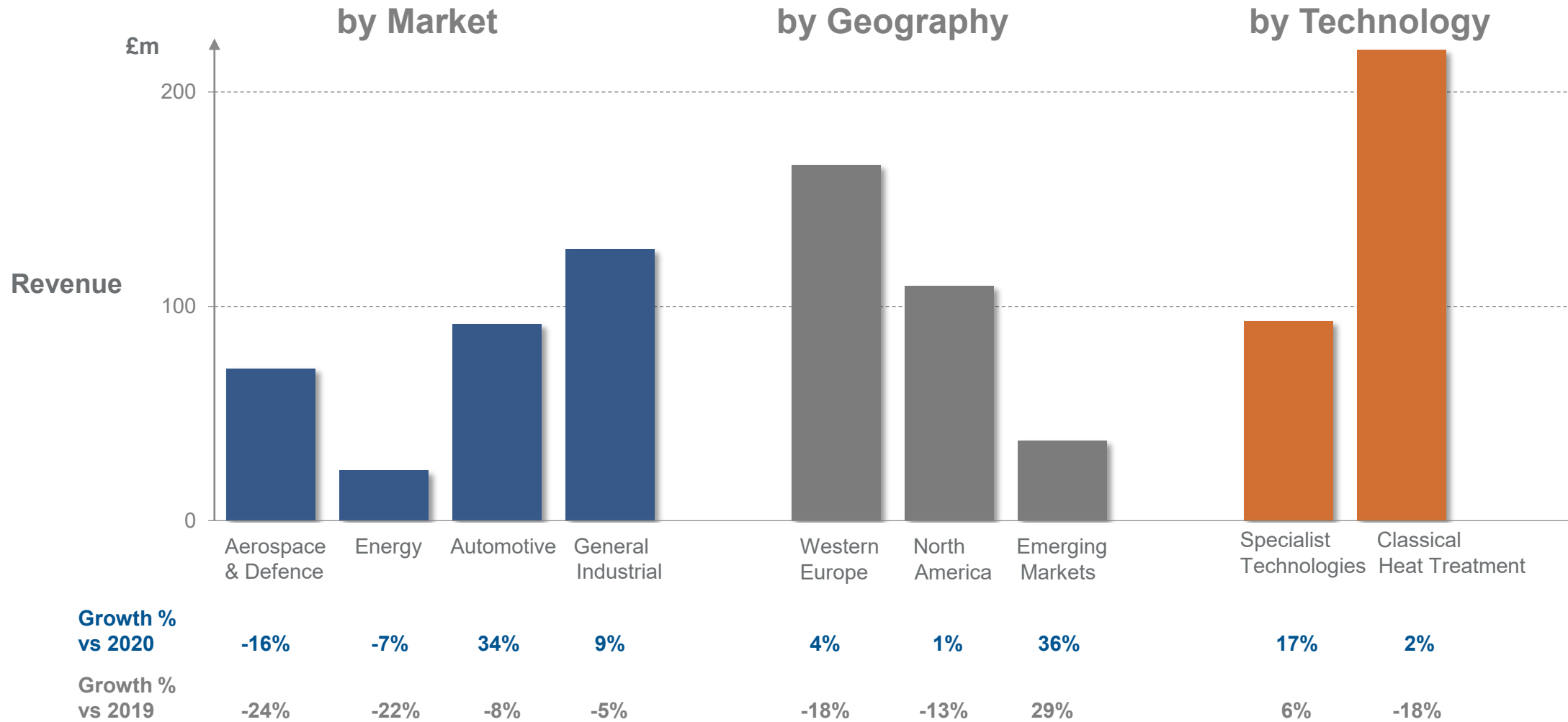
**Classical Heat Treatment is the process of controlled heating and cooling of metals in order to obtain the desired mechanical, chemical, and metallurgical properties during the manufacturing of a product.**

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 2021 revenue profile<sup>1</sup>



# 2021 Statutory income statement

£m	H1 2021	H1 2020
<b>Revenue</b>	<b>312.9</b>	<b>306.7</b>
<b>Headline operating profit</b>	<b>48.7</b>	<b>37.8</b>
Amortisation of acquired intangible assets	(5.1)	(4.7)
Acquisition costs	(0.2)	(2.0)
Exceptional items	-	(32.1)
<b>Operating profit/(loss)</b>	<b>43.4</b>	<b>(1.0)</b>
Net finance charge	(2.9)	(2.8)
<b>Profit/(loss) before taxation</b>	<b>40.5</b>	<b>(3.8)</b>
<b>Headline earnings per share (pence)</b>	<b>18.5p</b>	<b>14.2p</b>

# Cash flow<sup>1</sup>

£m	H1 2021		H1 2020	
	Post IFRS 16	Pre IFRS 16	Post IFRS 16	Pre IFRS 16
<b>Headline operating profit</b>	<b>48.7</b>	<b>47.5</b>	<b>37.8</b>	<b>36.6</b>
Add back: Depreciation and amortisation	37.7	30.8	41.0	33.7
Impairment of fixed assets	-	-	0.4	0.4
Income from associates	(0.2)	(0.2)	(0.2)	(0.2)
(Profit)/loss on disposal of fixed assets	(2.3)	(2.3)	0.1	0.1
<b>Headline EBITDA</b>	<b>83.9</b>	<b>75.8</b>	<b>79.1</b>	<b>70.6</b>
Net maintenance capital expenditure	(14.3)	(11.3)	(22.3)	(19.5)
Net working capital movement	4.1	4.1	24.7	24.7
<b>Headline operating cash flow</b>	<b>73.7</b>	<b>68.6</b>	<b>81.5</b>	<b>75.8</b>
Restructuring	(8.1)	(8.1)	(3.0)	(3.0)
Financing costs	(2.7)	(1.8)	(2.2)	(1.1)
Tax	(2.7)	(2.7)	(6.6)	(6.6)
<b>Free cash flow</b>	<b>60.2</b>	<b>56.0</b>	<b>69.7</b>	<b>65.1</b>
Expansionary capital expenditure	(10.3)	(9.6)	(12.9)	(12.4)
Ordinary dividend	(37.0)	(37.0)	-	-
Acquisition spend	(58.5)	(58.5)	(97.2)	(94.1)
Own shares purchased less SBP	1.7	1.7	(0.9)	(0.9)
<b>Increase in net debt</b>	<b>(43.9)</b>	<b>(47.4)</b>	<b>(41.3)</b>	<b>(42.3)</b>
<b>Net Debt</b>	<b>(140.1)</b>	<b>(69.8)</b>	<b>(106.6)</b>	<b>(23.6)</b>

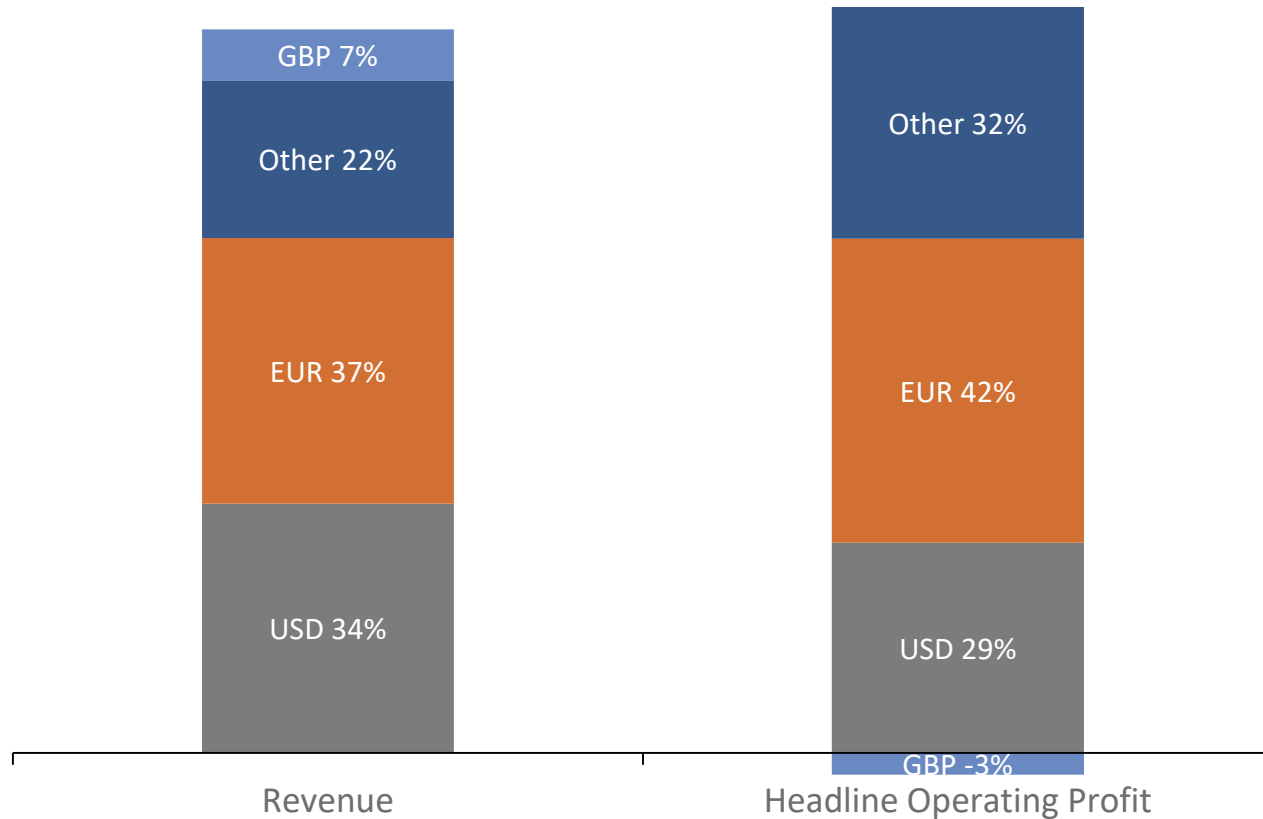


# Net finance charge/facilities

£m	H1 2021	H1 2020
Interest received on bank deposits and loans	-	<b>0.1</b>
Net interest expense	(1.5)	(1.7)
Financing and bank charges	(1.3)	(1.1)
Pension finance charge	(0.1)	(0.1)
<b>Total finance charge</b>	<b>(2.9)</b>	<b>(2.9)</b>
Net finance charge	<b>(2.9)</b>	<b>(2.8)</b>

- Committed facility headroom of £152.2m at 30 June 2021, £98.7m drawn
- The remaining life of the facility is 4.9 years
- Closing net debt of £69.8m

# 2021 Sales and operating profit<sup>1</sup> by currency



- Operating profit translation decrease of £2.3m
- Average full year exchange rates: £1: €1.15 and £1: \$1.39
- Every cent change in the Euro is worth c.£0.3m of annual operating profit
- Every cent change in the US dollar is worth c.£0.2m of annual operating profit

# Financial information

Shares in issue	H1 2021	H1 2020
Weighted average	190.7m	190.2m

Exchange rates		H1 2021	H1 2020
EUR	Average (P&L)	1.15	1.15
	Closing (B/S)	1.17	1.10
USD	Average (P&L)	1.39	1.27
	Closing (B/S)	1.38	1.24
SEK	Average (P&L)	11.70	12.22
	Closing (B/S)	11.82	11.5

## Analysis by currency, H1 2021

	Sales	Operating profit
EUR	37%	42%
USD	34%	29%
SEK	7%	10%

# 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 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
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.
FTE(s)	Full time equivalents
Gearing	The differential in headline operating profit divided into the differential in revenue on a constant currency basis.