

2013 Full Year Results

27 February 2014

The logo for Bodycote, featuring a red square inside a black square, followed by the word "Bodycote" in a bold, black, sans-serif font with a white outline.

Bodycote

Stephen Harris

Chief Executive



Highlights

Financial review

Business review

Outlook



Hot Isostatic Pressing

Castings for critical applications are HIPed to eliminate internal microporosity thereby improving mechanical properties by removing defects. Hot isostatic pressing also enables the bonding, or cladding, of two or more materials together, either in the solid or powder form.

- Continuing to deliver on the strategy deployed in 2010
- Bodycote moved strongly ahead despite mixed markets
- Excellent performance from 2012 acquisitions
- New Technologies growing following capacity enhancement
- Mix improvements across the business
- Network adjusted to opportunity – expanded/contracted as needed
- Fourth year of strong free cash generation, net cash of £15.0m

David Landless

Finance Director



- 5% sales growth (3% constant currency)
- Headline margin up 70 basis points to 17.3%
- Operating profit and EPS up 10% on headline basis
- Return on capital employed increased to 19.9%
- Final dividend of 9.1p, 13.5p for the year, up 10%
- Special dividend of 10.0p

2013 Results summary



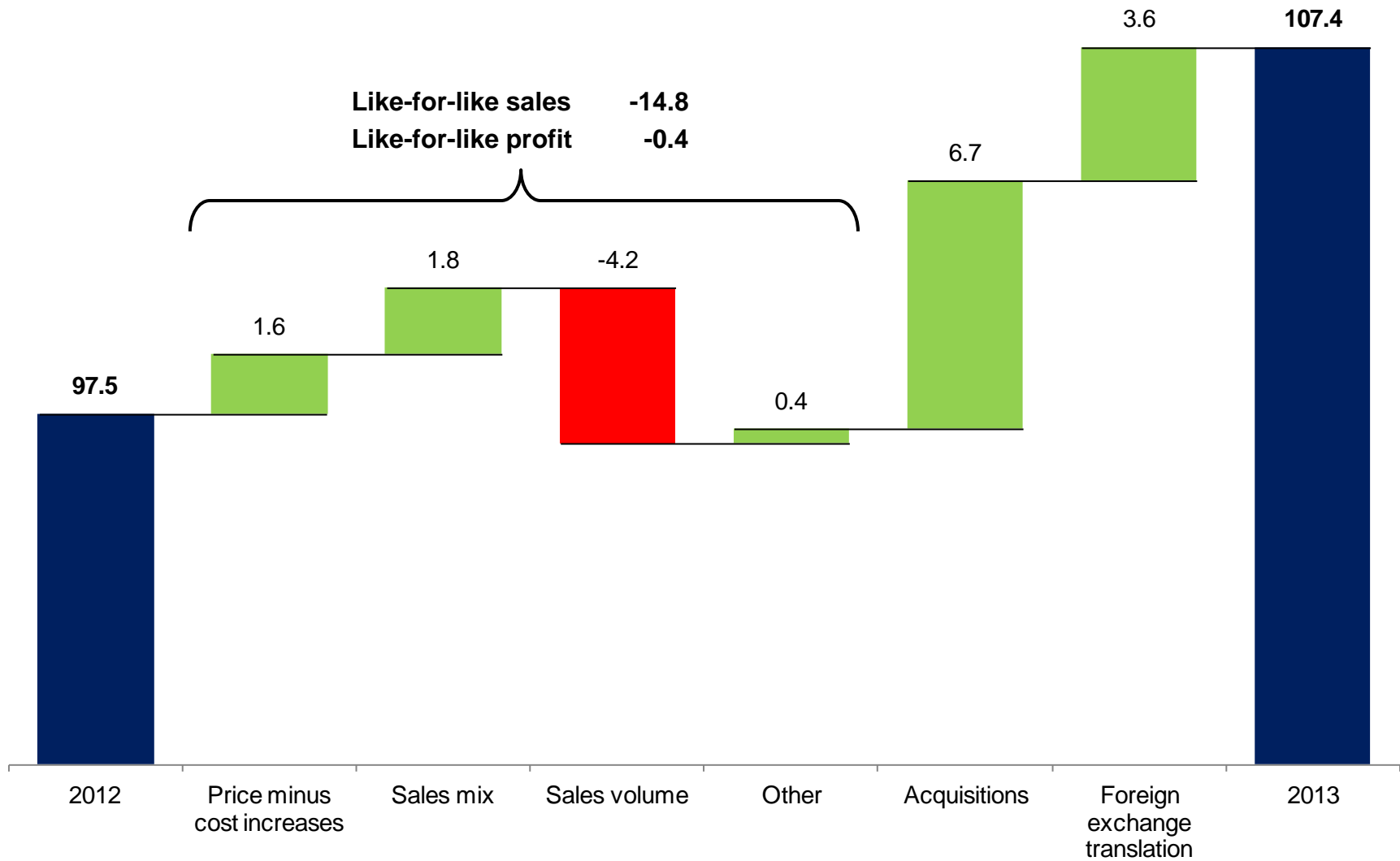
£m	2013	2012 ¹	change
Revenue	619.6	587.8	5%
Headline:			
Operating profit	107.4	97.5	10%
Margin	17.3%	16.6%	
Profit before tax	103.7	94.5	10%
Non-headline items²	(5.3)	(4.5)	
Headline operating cash flow	108.9	110.8	
Headline operating cash conversion	101%	114%	
Net cash/(debt)	15.0	(34.2)	
Headline EPS	41.2p	37.5p	10%
Dividend			
Ordinary	13.5p	12.3p	10%
Special	10.0p	-	
ROCE	19.9%	17.9%	

¹ The results for 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

² Amortisation of acquired intangibles of £4.5m (2012: £2.0m), reorganisation costs of £0.8m (2012: £2.4m), acquisition expenses of £nil (2012: £2.5m) and profit on disposal of investments £nil (2012: £2.4m).

Headline operating profit bridge

(£m)



Divisional summary



£m	2013	2012 ¹	YOY Growth:				
			Currency	Acquisition	Organic	Total	%
ADE Divisions							
Revenue	261.8	258.0	5.0	3.3	(4.5)	3.8	1%
Headline Operating Profit ²	70.7	69.1	1.3	1.2	(0.9)	1.6	2%
<i>Margin</i>	27.0%	26.8%					
AGI Divisions							
Revenue	357.8	329.8	9.2	29.1	(10.3)	28.0	8%
Headline Operating Profit ²	52.7	44.1	2.3	5.5	0.8	8.6	20%
<i>Margin</i>	14.7%	13.4%					
Group							
Revenue	619.6	587.8	14.2	32.4	(14.8)	31.8	5%
Headline Operating Profit	107.4	97.5	3.6	6.7	(0.4)	9.9	10%
<i>Margin</i>	17.3%	16.6%					

Organic change:
H1 = -4.5%
H2 = -0.5%

¹ The results for 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

² Headline operating profit before head office costs

Cash flow

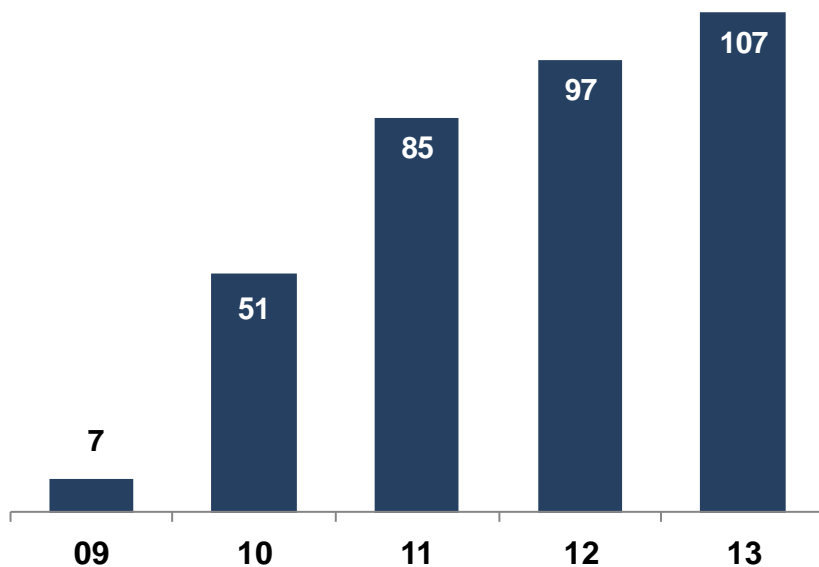
£m	2013	2012 ¹
Headline operating profit	107.4	97.5
Add back: Depreciation and amortisation	57.9	51.3
Share-based payments	3.6	3.9
Headline EBITDA	168.9	152.7
Net capital expenditure	(57.3)	(47.7)
Working capital	(2.7)	5.8
Headline operating cash flow	108.9	110.8
Restructuring	(4.3)	(5.3)
Acquisition expenses	-	(2.5)
Financing costs	(3.3)	(2.5)
Tax	(22.5)	(19.3)
Free cash flow	78.8	81.2
Sale of investments	-	2.4
Acquisitions	-	(84.7)
Dividends	(24.0)	(21.3)
Other	(5.6)	(11.9)
Reduction/(increase) in net debt	49.2	(34.3)
Net Cash/(Debt)	15.0	(34.2)

Capex to depreciation ratio
1.0 times (2012: 0.9 times)

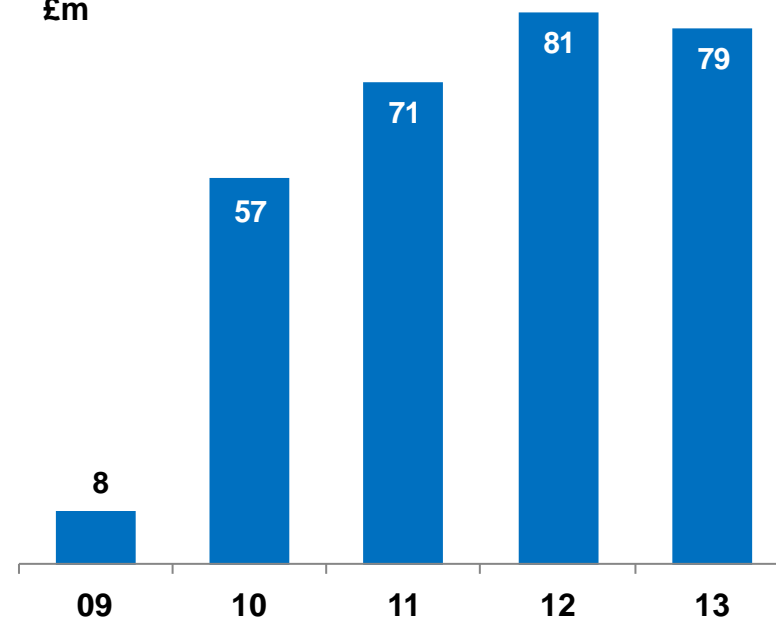
¹ The results for 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

Headline operating profit and Free cash flow

Headline operating profit
£m

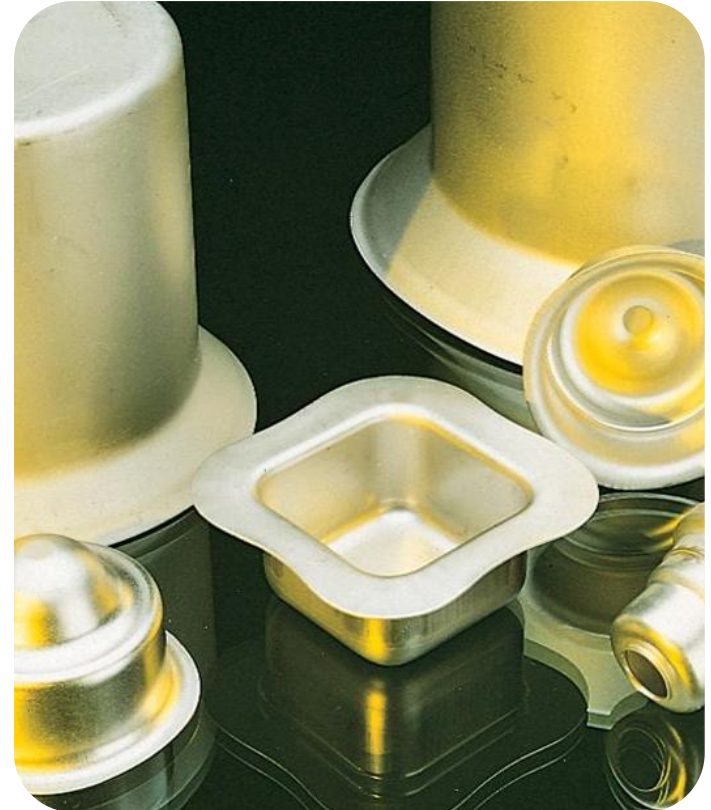


Free cash flow
£m



Stephen Harris

Chief Executive



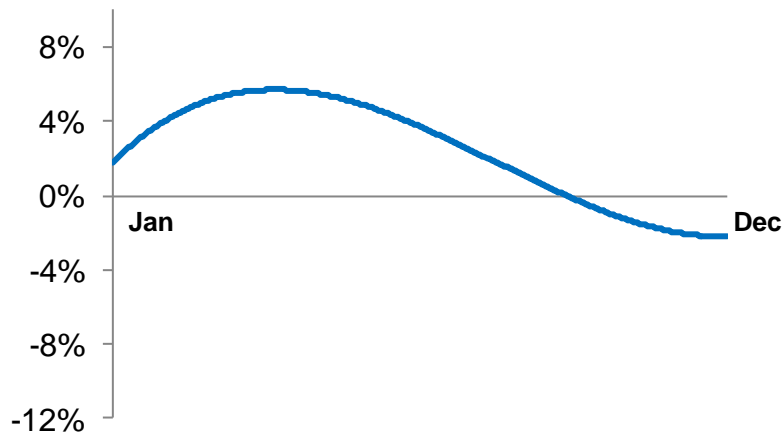
Annealing

Annealing is a softening process, used to improve hot and cold working characteristics, to increase machinability, to reduce internal stress due to working, welding etc, and also to condition components for subsequent hardening treatments.



Sales: £140m
Organic growth*: 1.5%

YOY organic growth trend



Market

- Aerospace build rates increased steadily
- Defence weakened (c. 5% of total Group)

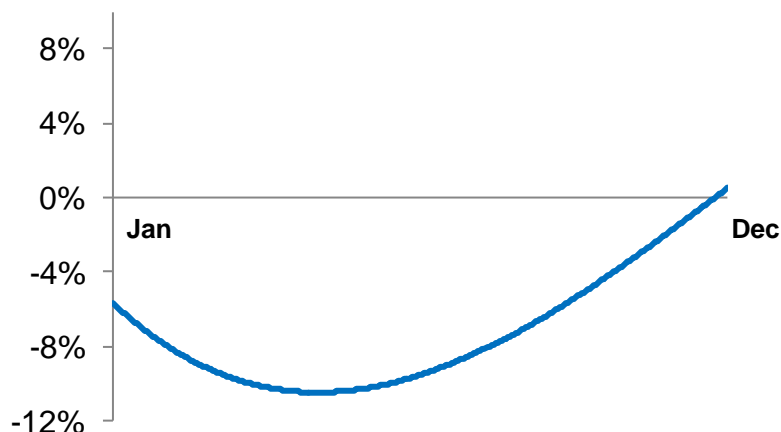
Bodycote growth and developments

- Civil aerospace up 5.4% like-for-like
- Q4 weakness relates to short-term inventory adjustments on specific programs
- Giga HIP (commissioned November) and other HIP capacity added in North America in addition to selective heat treatment investment



Sales: £83m
Organic growth*: -5.8%

YOY organic growth trend



Market

- US onshore oil & gas experienced sharp reduction in capex
- Fracking related cutbacks led to severe destocking

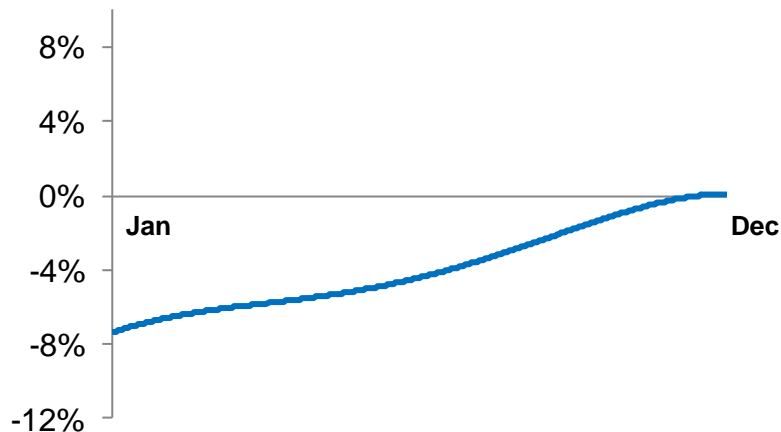
Bodycote growth and developments

- Oil & gas in North America down 32%* in H1, run-rate improved in H2
- Oil & gas flat in Europe
- Power generation up 11%* in H2 after flat H1
- HIP Product Fabrication grew strongly



Sales: £243m
Organic growth*: -5.2%

YOY organic growth trend



Market

- Mining & agricultural equipment significantly down, particularly in US
- Tooling demand flat across the year

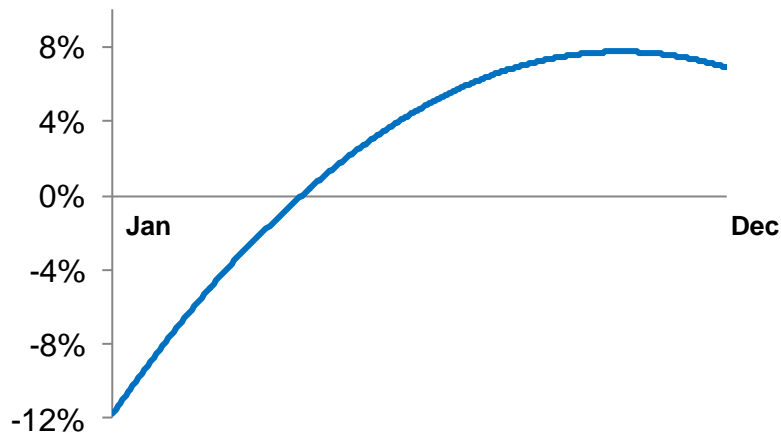
Bodycote growth and developments

- Q4 flat after weak first 9 months
- Europe and Emerging Markets stronger than North America – influence of mining sector
- Emerging Market expansion - new plants in Poland, Turkey and China
- Continued S³P capacity expansion



Sales: £154m
Organic growth*: 0.2%

YOY organic growth trend



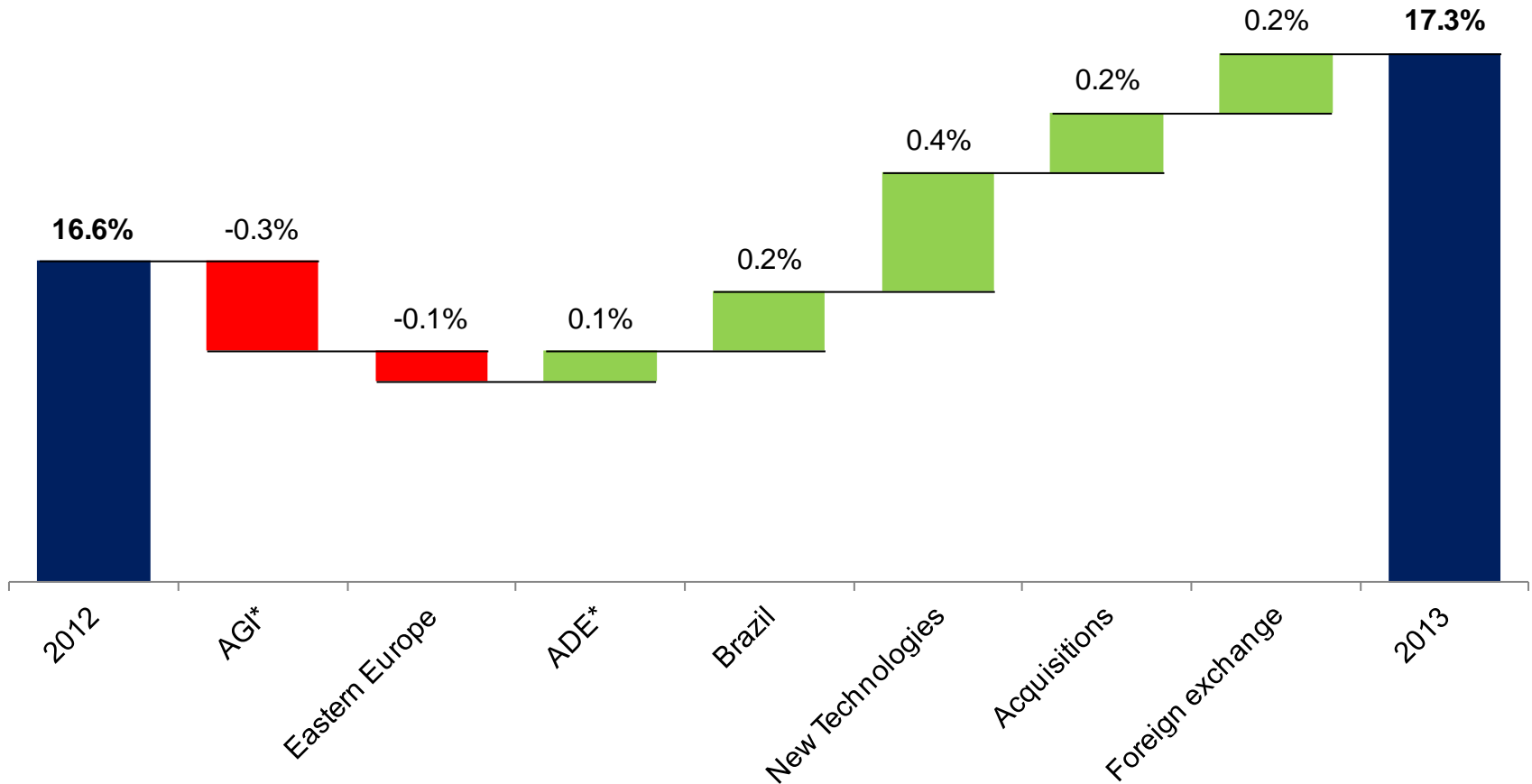
Market

- Car production strong in US, and in Europe premium sector
- European volume brands weak, particularly in H1
- Truck market highly cyclical, at low level in 2013

Bodycote growth and developments

- Car & light truck up 3.6%*
- Q1 weak with encouraging subsequent growth
- Good momentum in Emerging Markets, particularly in China and Mexico

Margin bridge

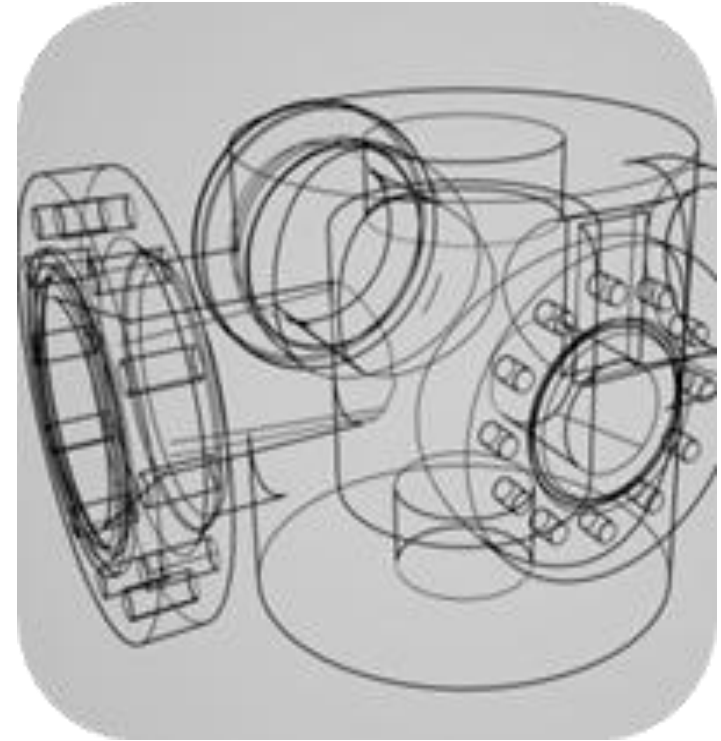
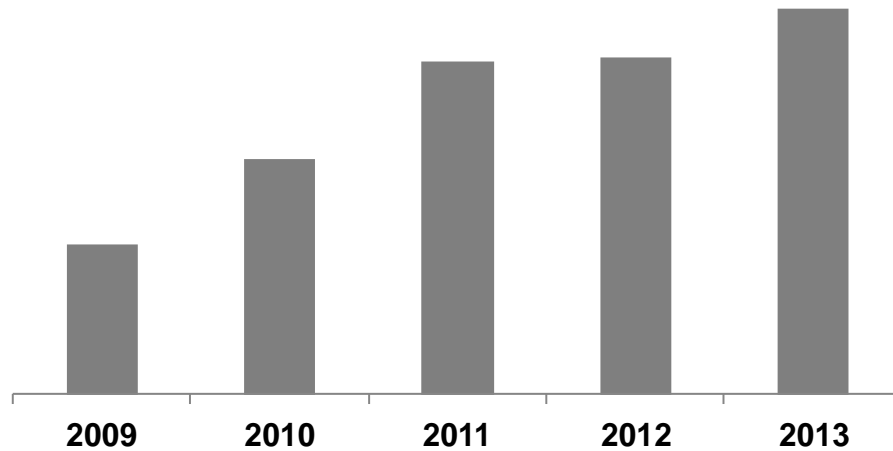


* ADE and AGI are shown excluding New Technologies, Eastern Europe and Brazil which are presented separately.

Elements of profit growth

New Technologies (S³P & HIP Product Fabrication)

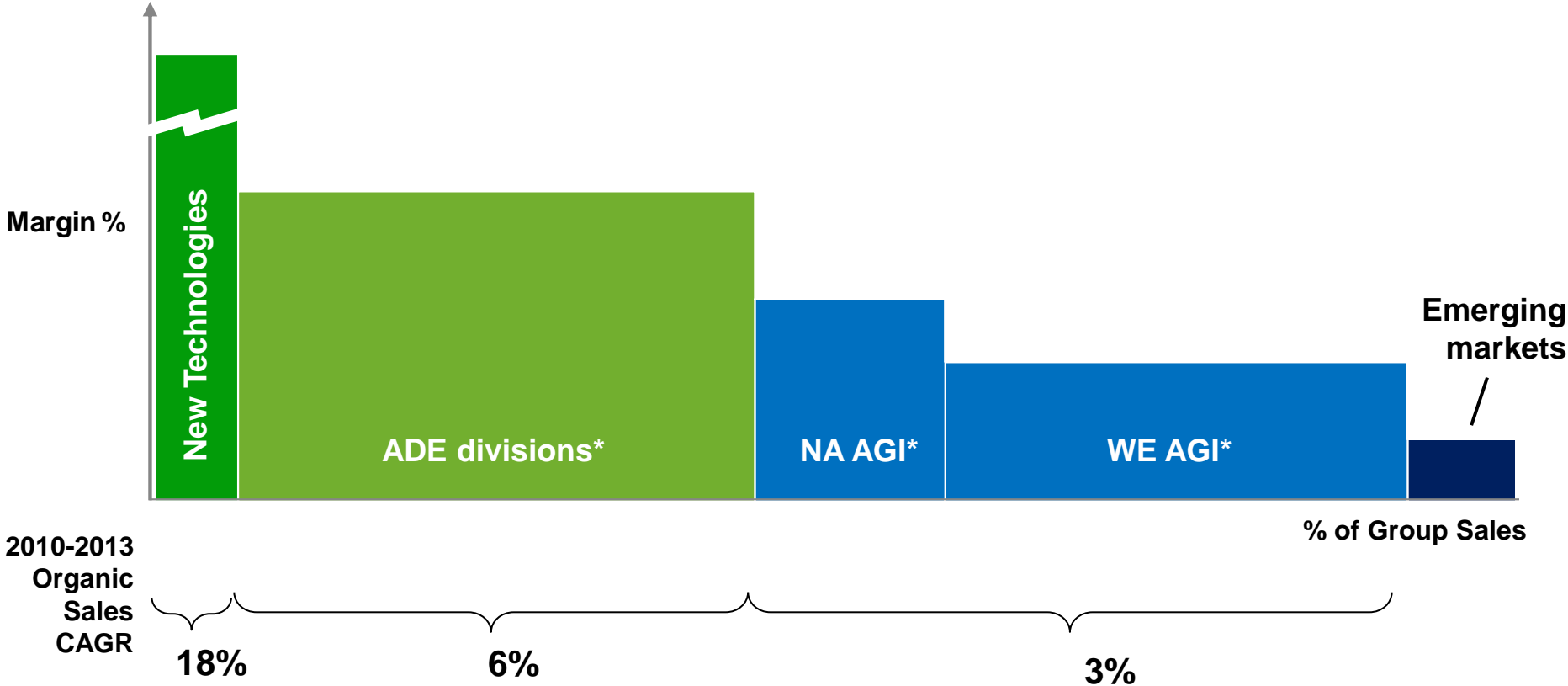
Sales
£m



- High growth
- Capacity-limited in 2012; capacity increased progressively through 2013
- Significant growth potential

Elements of profit growth

Improving business mix

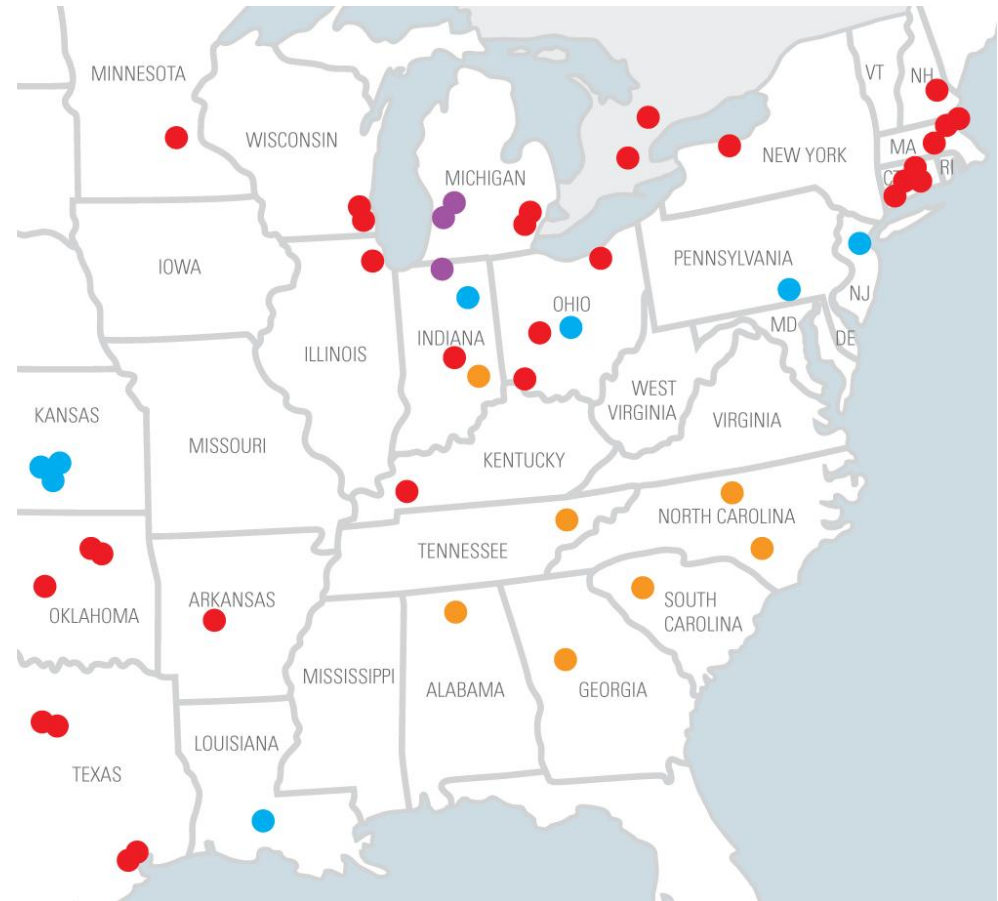


*Excluding New Technologies and Emerging Markets

Acquisition update

2012 acquisitions:

- Total spend £85m
- 18 plants, North America
- Full year performance:
 - £53m sales, 9% of Group
 - £11m operating profit
 - 21% margin
- 13% ROI in first year



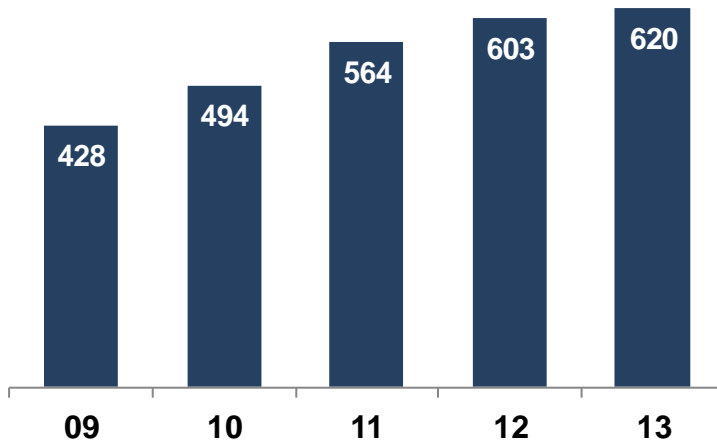
- *Bodycote Group – pre March 2012*
- *Curtiss-Wright HT, March 2012*
- *Carolina Commercial, October 2012*
- *Other acquisitions, December 2012*

Five year perspective

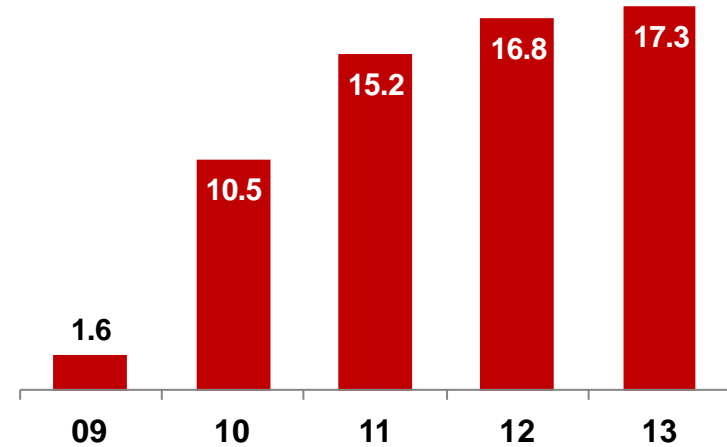
At 2013 exchange rates



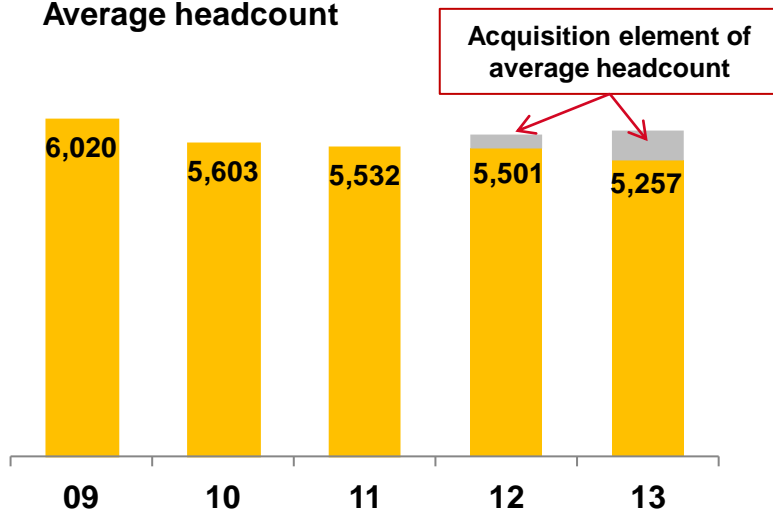
Revenue
£m



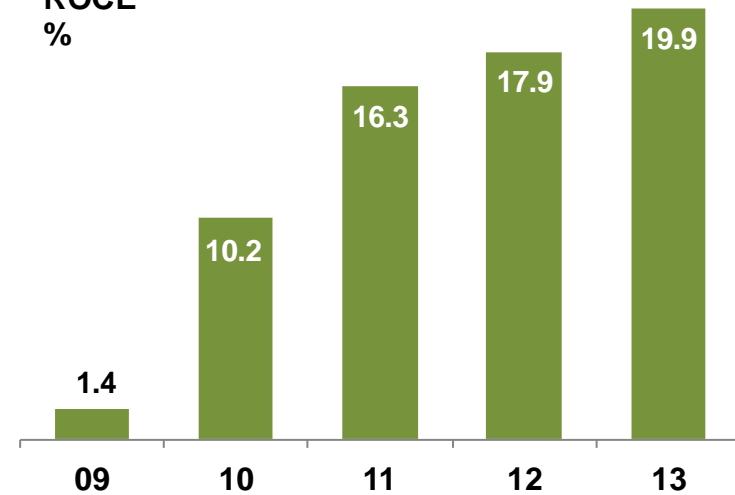
Margin
%



Average headcount



ROCE
%



Positive trends

- Aerospace
 - Build rates increasing on new platforms
 - Narrow body transition through 2016 increases opportunity
- Oil & gas re-stocking expected - timing uncertain
- General industrial - pick-up expected but not mining sector
- Automotive
 - Cars continue positive
 - Truck rebound expected

Areas of weakness

- Defence further softening
- General industrial – mining weakness will continue through 2014, destocking reverses beyond

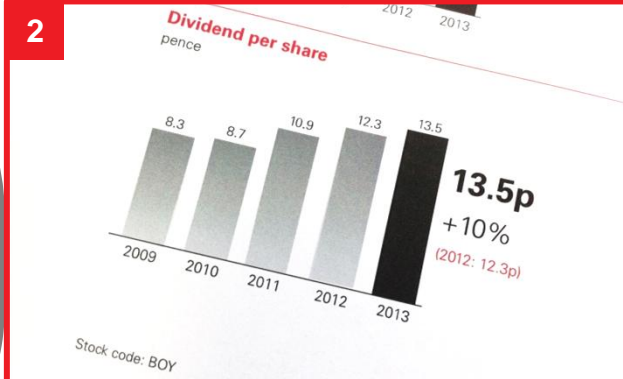
Cash utilisation priorities

1



Organic growth

2



Year	Dividend per share (pence)
2009	8.3
2010	8.7
2011	10.9
2012	12.3
2013	13.5

Enhancing core dividends

3



Acquisitions

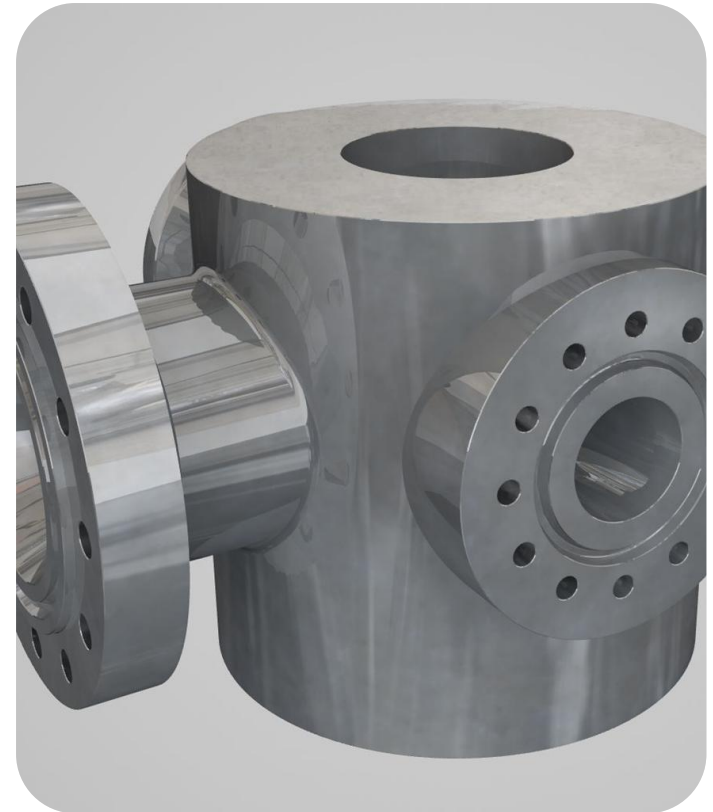
4



Supplemental distributions as appropriate

Stephen Harris

Chief Executive



HIP valve body

Following HIP and heat treatment the valve component can be pickled or machined to remove the capsule material. The result is a PM HIP near-net shaped valve body, free from internal flaws and with isotropic properties.

In 2013 improvements in business mix, plus the full year effect of the 2012 acquisitions, enabled Bodycote to achieve good growth and strong returns, despite weak markets in the early part of the year.

At this early stage in the year and on a constant currency basis, the Board expects Bodycote's growth initiatives to deliver further progress in 2014.

The background of the image is a complex, marbled paper pattern. It features a mix of earthy tones including shades of brown, tan, and olive green, interspersed with irregular, light-colored (off-white or cream) shapes that resemble cracks or peeling layers of paper. The overall texture is organic and layered.

Bodycote

Definitions

Term	Definition
Headline Operating Profit	Operating profit before exceptional costs and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, exceptional costs and amortisation of acquired intangibles
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, impairment of fixed assets, profit or loss on disposal of property, plant and equipment, cash flow relating to restructuring, acquisition costs and share-based payments
Headline EPS	Earnings per share excluding exceptional costs and tax on exceptional costs
Headline Operating Cash Conversion	Headline operating cash flow divided by headline operating profit
Organic revenue growth/decline	The change in revenue excluding the impact of foreign exchange rate movements and the impact of acquisitions
ROCE	Headline operating profit divided by the average of opening and closing capital employed as adjusted for certain items of goodwill written off
Capital Employed	Net assets adjusted for net cash/(debt)

IAS 19 Revised - Reconciliation

The adoption of IAS 19 Revised at 1 January 2013 has the following impact on the Group's financial statements:

£m	2012
Income statement:	
Headline operating profit - previously reported	97.9
Increase in operating costs	(0.4)
Headline operating profit - restated	97.5
Net finance costs - previously reported	(3.6)
Decrease in finance costs	0.6
Net finance costs - restated	(3.0)
Net profit - previously reported	67.0
Increase in operating costs	(0.4)
Decrease in finance costs	0.6
Net profit - restated	67.2

2013 Statutory income statement



£m	2013	2012 ¹
Revenue	619.6	587.8
Headline operating profit	107.4	97.5
Amortisation of acquired intangible fixed assets	(4.5)	(2.0)
Operating profit prior to exceptional items	102.9	95.5
Acquisition expenses	-	(2.5)
SSC establishment costs	(0.8)	(2.4)
Sale of investment	-	2.4
Operating profit	102.1	93.0
Net finance costs	(3.7)	(3.0)
Profit before tax	98.4	90.0
Headline earnings per share (pence)	2013	2012¹
Basic	41.2p	37.5p

¹ The results for 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided on the previous slide.

Net finance charge / facilities

£m	2013	2012 ¹
Net interest payable	0.6	0.5
Financing costs	1.5	1.1
Bank and other charges	1.0	0.8
Pension finance charge	0.6	0.6
Net finance charge	3.7	3.0

- Interest payable: increase due to higher average net debt following the 2012 acquisitions
- Financing costs: higher following refinancing of € RCF in Feb 2013
- Average remaining life of committed facilities is 3.3 years
- Committed facility headroom of £229m at 31 December 2013
- Closing net cash of £15m

¹ The results for 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

£m	2013	2012 ¹
UK Funded	4.8	4.2
Other Western Europe Funded	1.2	0.5
Other Western Europe Unfunded	12.1	13.1
Western Europe Total	18.1	17.8
North America Funded	0.2	0.9
Emerging Markets Unfunded	0.2	0.3
Total retirement benefit obligations	18.5	19.0

£m	2013	2012 ¹
Western Europe Unfunded:		
Italy	0.6	0.7
France	8.2	8.0
Germany	3.3	4.4
	12.1	13.1

¹ The results for 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

Financial information



Shares in issue	2013	2012
Weighted average	189.4m	187.0m

Exchange rates		2013	2012
EUR	Average (P&L)	1.18	1.23
	Closing (B/S)	1.20	1.23
USD	Average (P&L)	1.56	1.59
	Closing (B/S)	1.66	1.63
SEK	Average (P&L)	10.20	10.69
	Closing (B/S)	10.64	10.57

Analysis by currency:	Sales	Headline operating profit
EUR	36%	38%
USD	35%	59%
SEK	7%	8%

Financial ratios	2013	2012
Net Debt : Headline EBITDA	net cash	0.2x
Headline EBITDA Interest Cover	282x	306x
Gearing (Net Debt:Total Equity)	net cash	7%

Divisional summary - H1 vs H2



£m

ADE Divisions	H1	H2	Total
Revenue	133.8	128.0	261.8
Headline operating profit	34.5	36.2	70.7
<i>Margin</i>	25.8%	28.3%	27.0%

AGI Divisions	H1	H2	Total
Revenue	182.7	175.1	357.8
Headline operating profit	25.1	27.6	52.7
<i>Margin</i>	13.7%	15.8%	14.7%

Bodycote