



Thursday 28 May 2020

Bodycote plc
Trading Update

Bodycote, the world's leading provider of heat treatment and specialist thermal processing services, is issuing a trading update covering the four-month period from 1 January to 30 April 2020 ("the period"), ahead of the Company's 67th Annual General Meeting, which will be held at 12.00pm today.

COVID-19

Bodycote's primary concern remains the safety and well-being of our employees, customers and the wider community. We have taken action to provide a safe working environment for our employees and prevent the spread of infection, generally exceeding locally mandated requirements. Where necessary, we have made changes to our processes to maintain social distancing and we have also facilitated technology-enabled remote working where possible.

At the request of our customers, some of our facilities have been refocussed to provide support for production of tooling for PPE or the production of ventilator and other medical equipment components. This activity has been undertaken as part of the company's ESG responsibility and without regard to its profitability.

Indeed, almost all of our facilities provide some designated essential services and have been operating throughout the period during which restrictions have been in place.

Trading

Activity levels were relatively normal through to the third week of March with the exception of China, where there was significant disruption in February with business since returning to pre-COVID-19 levels.

From the third week of March, the business outside of China has been severely impacted by COVID-related lockdowns across a wide variety of geographies. In terms of our market sectors, since the COVID-19 related crisis has taken hold, we have seen the biggest immediate impact in our automotive and civil aerospace businesses, as many OEMs have had extended production halts. Bodycote's diversification by market sector and geography has been a benefit.

It is worth a reminder that Bodycote holds no inventory and supplies directly into our customers' inventories. Accordingly, when customers are running down their inventories, Bodycote tends to see a sharp revenue decrease that is typically more

pronounced than the revenue falls our customers see themselves. Once they stop destocking Bodycote revenues rebound to the ongoing levels of production at the customers' facilities. When our customers restock the rebound of Bodycote's revenues tends to be strong. At this stage, it is too early to reliably predict the trajectory of end-market demand and our customers' production, destocking and restocking patterns.

Total Group revenue for the first four months was 12% lower at £216m (down 11% at constant currency and 13% excluding the impact of acquisitions). The month of April experienced constant currency revenues 30% lower than in April last year (35% lower, excluding the impact of acquisitions).

By swift and decisive action, we have significantly mitigated the impact of the revenue decline on the Group's profitability, with the Group having positive Headline Operating Profit and generating net cash in each of the first four months of the year, including April.

Management actions

The pre-COVID-19 restructuring plan announced in March focused on our Classical Heat Treatment activities in Western Europe. With the onset of the COVID-19 pandemic, this restructuring plan has been extended in both scale and geography. Manning levels have been permanently reduced at facilities where the level of business is not expected to return to previous levels in the medium to longer term. Some facilities are being eliminated, with equipment redeployed to other sites. Overall, the production capacity in the Group will be largely unaffected but will be situated where there is greater long term demand and where it can be more efficiently utilised.

The restructuring activities underway will reduce full-time employees by more than 700 - some 13% of total headcount. Together with savings in infrastructure from closed plants, c.£45m of annualised costs will be permanently eliminated from the business. Savings from the restructuring program will be realised progressively through 2020, with most being completed by year-end and the full annualised savings in place from Q2 2021. The cash cost of the expanded restructuring program is now expected to be c.£25m, versus the c.£15m announced at the Full Year results.

The restructuring activity is designed to right-size our business, so that we will emerge from the current downturn in a strong position, with good, sustainable profitability and cash flow generation, as well as healthy margins and returns.

Bodycote has also looked to contain costs by a further temporary reduction in full-time employees and careful management of ongoing expenditure on utilities, consumables and other overheads. The current level of cost containment measures represents savings of c.£7m per month, which is over and above that achieved so far through the restructuring program.

Financial position and liquidity

Net debt as at 30 April 2020 was £44m (excluding lease liabilities), compared with net cash of £21m at 31 December 2019, after paying £94m in part settlement of the Ellison Surface Technologies acquisition on April 3. Free cash flow of £38m during the period compares favourably with free cash generation of £5m in the comparable period last year, reflecting both strong control over costs and a net working capital inflow.

With £80m currently drawn on its facility, the Group has £170m of facility headroom, having recently agreed an extension until 2025 to our revolving credit facility on favourable terms, which reflect the Group's credit strength. The Group also has cash in hand of over £40m. As indicated in our announcement last month, the Group is keeping the proposal for the final 2019 dividend under review and will update on this later in the year.

Summary and Outlook

The Group has moved rapidly to adjust its cost base in response to lower demand deriving from the COVID-19 crisis. Based on what we have seen to date, we are confident that the restructuring and cost reduction actions we are taking should enable us to operate profitably through the downturn and that we will emerge stronger as end markets recover.

Trading Update Conference Call

The Company will be hosting a conference call for analysts and investors at 08.00am today (Thursday 28 May 2020).

Participants' dial in numbers:

UK Toll-Free: 0800 358 2205

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Participants will be asked for names only, no PIN required

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