26 November 2020

Bodycote plc

Trading Update

Bodycote, the world's leading provider of heat treatment and specialist thermal processing services, is issuing the following trading update, covering the four-month period from 1 July to 31 October 2020 ("the period").

COVID-19 has severely impacted the global economy and Bodycote's business with it. We have responded to this challenge and, through this response, we have ensured that a stronger Bodycote will emerge as the global economy recovers. Overall, profitability has held up relatively well in light of the significant drop in revenues. We have continued to prioritise the health and safety of our employees and other stakeholders. We are taking all necessary actions to maintain a safe working environment for our employees, who have responded magnificently to this year's challenges.

Group revenue for the period was £193.6m, 20% lower than last year (18% lower at constant currency). This represents a recovery from the 28% decline in constant currency revenues in the second quarter when the COVID-19 related downturn was at its peak. Group revenue for the 10 months to 31 October 2020 was £500.3m, 18% down on last year (17% lower at constant currency).

All percentage movements in the following review of the Group's markets compare to the same period from July to October 2019, at constant currency, unless otherwise stated.

Our two divisions experienced differing fortunes during the period, with revenues in the ADE business declining 33% (excluding the £10.3m revenue contribution from the Ellison acquisition), while revenues in the AGI division were down 15%.

As anticipated, civil aerospace revenue declined the most, with like-for-like revenues down 50%. This reflects the impact throughout the period of the downturn in civil aerospace that has affected our business from May onwards. The impact is across all our geographies, but is most acute in Western Europe, where the weighting in our wide-bodied business is greater.

Energy revenue declined 18% as a result of weakness in our onshore US oil & gas business, which is dependent on the fortunes of the Permian Basin. Lower oil prices have reduced activity in this area among our customers.

Car and light truck revenue declined 11%, which represents a very significant bounce back from the more than 50% decline in the second quarter. The recovery was strongest in North America, where inventory levels were also lowest following the production shutdowns seen in the second quarter.

General industrial revenue was 13% lower, with most categories continuing to experience weakness and the negative impact of destocking continuing to weigh on performance.

Emerging markets, dominated by automotive and general industrial revenues, returned to growth, increasing 2%, with a 20% increase in our revenues in China more than offsetting continued weakness across Eastern Europe.

Specialist Technologies' revenues, with their relative bias towards the harder hit ADE business, declined 21% in the period, excluding the contribution from Ellison. Each of the Specialist Technologies in the AGI business registered revenue growth in the period and, as expected, Specialist Technologies continued to outperform the background market.

Management Actions

The restructuring announced in the first half was mainly focused on our AGI business, which was most immediately impacted by the COVID-19 related downturn. As this restructuring programme continues to be implemented, Bodycote's headcount has reduced to 4,813 FTEs at 31 October. This compares with proforma FTEs of 5,764 at the beginning of the year. Once the restructuring announced in the first half has been fully completed, headcount will be reduced by a further 100 FTEs.

Our expectation is that the civil aerospace market will remain near the current low levels for at least the next 18 months. This provides us with the opportunity to consolidate our ADE footprint into fewer, larger facilities. The exercise to do this requires significant study, since we expect the civil aerospace market to recover strongly in due course and we want to be in the best position possible to take full advantage as this happens. There will, therefore, be a further restructuring programme, similar to the programme already announced in the first half, but which will be more focused on our ADE business. We will provide further details with our full year results in March.

Cash Flow and Financial position

Underlying cash flows in the period remained strong, although, as revenue recovered from the low levels in the second quarter and trade receivables correspondingly increased, there was an element of unwinding of the working capital benefit that had such a positive impact on cash flows in the first half. Accordingly, with the payment of the deferred 2019 dividend in September (£25.1m) and c£4m expenditure associated with the restructuring programme in the period, net debt (excluding lease liabilities) at 31 October 2020 was £46.6m, compared with net debt of £23.6m at 30 June 2020.

Dividend

The Board has also approved the payment of an interim dividend for 2020 of 6.0p to be paid on 12 February 2021 to shareholders on the register at the close of business on 8 January 2021. This will cost £11.4m.

Outlook

Our AGI business has recovered strongly from the steep revenue declines that we saw in the second quarter. Indeed, as we have reduced our cost base, significant parts of this business are exiting the period with higher margin levels than at the back end of 2019, despite continued lower revenues. As revenues recover further, therefore, we are well placed to benefit from the step change improvement in the quality of this business.

The ADE business remains under pressure, given the scale of the impact on revenues. We are taking necessary actions to improve the business in the short term, while protecting our ability to take advantage of the upturn when it comes. Through these actions, we continue to reinforce the long-term quality of this business and remain confident that it will deliver strong margins as the civil aerospace market recovers.

Trading Update Conference Call

Stephen Harris and Dominique Yates will be hosting a conference call for analysts and investors at 8.00am today (Thursday, 26 November 2020).

Participant's dial in number: +443333009267 (Direct)
Participants will be asked for names only, no PIN required

For further information, please contact:

Bodycote plc
Stephen Harris, Group Chief Executive
Dominique Yates, Chief Financial Officer
Tel No +44(0) 1625 505300

FTI Consulting
Richard Mountain
Susanne Yule
Tel No +44 (0) 2037271340