

Full Year Results 2021

14 March 2022



Introduction

Stephen Harris
Group Chief Executive



Agenda

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

Highlights

Results

- Revenues up 7.1% at constant currency to £615.8m (organic revenues up 5.2%)
- Headline operating margin at 15.4% (Prior year: 12.6%)
- Free cash flow of £105m
- Closing net debt of £52m

Strategic Progress

- 2020 restructuring programme completed, with permanent cost savings of £20m delivered in 2021
- Incremental £10m of permanent cost savings to come in 2022
- Emerging Market revenues up 17% at constant currency
- Specialist Technologies' organic constant currency revenues up 7%, outperforming Classical Heat Treatment
- Strong margin improvement anticipated as revenues grow

Dividends

- Final ordinary dividend 13.8p, total year 20.0p (Prior year: 19.4p)

Emerging Markets include China, Mexico, Czech Republic, Poland, Turkey, Slovakia, Romania, Hungary

Strategic progress

- Energy and Carbon reduction programme gathering pace
- Restructuring programme completed successfully in the year
- Refocused Western Europe businesses on higher quality opportunities
- Transferred equipment to Eastern Europe where our business is more flexible and prospective growth stronger
- Increased focus on Emerging Market investment, particularly on automotive EV projects
- Opened 3 new facilities in the year including one in Emerging Markets – all in early ramp-up phase
- Investment in Specialist Technologies continues with a major expansion of one HIP plant and one new HIP plant nearing completion
- Small HIP business acquired in Western Europe in December (proforma revenue £7m)



Managing cost inflation

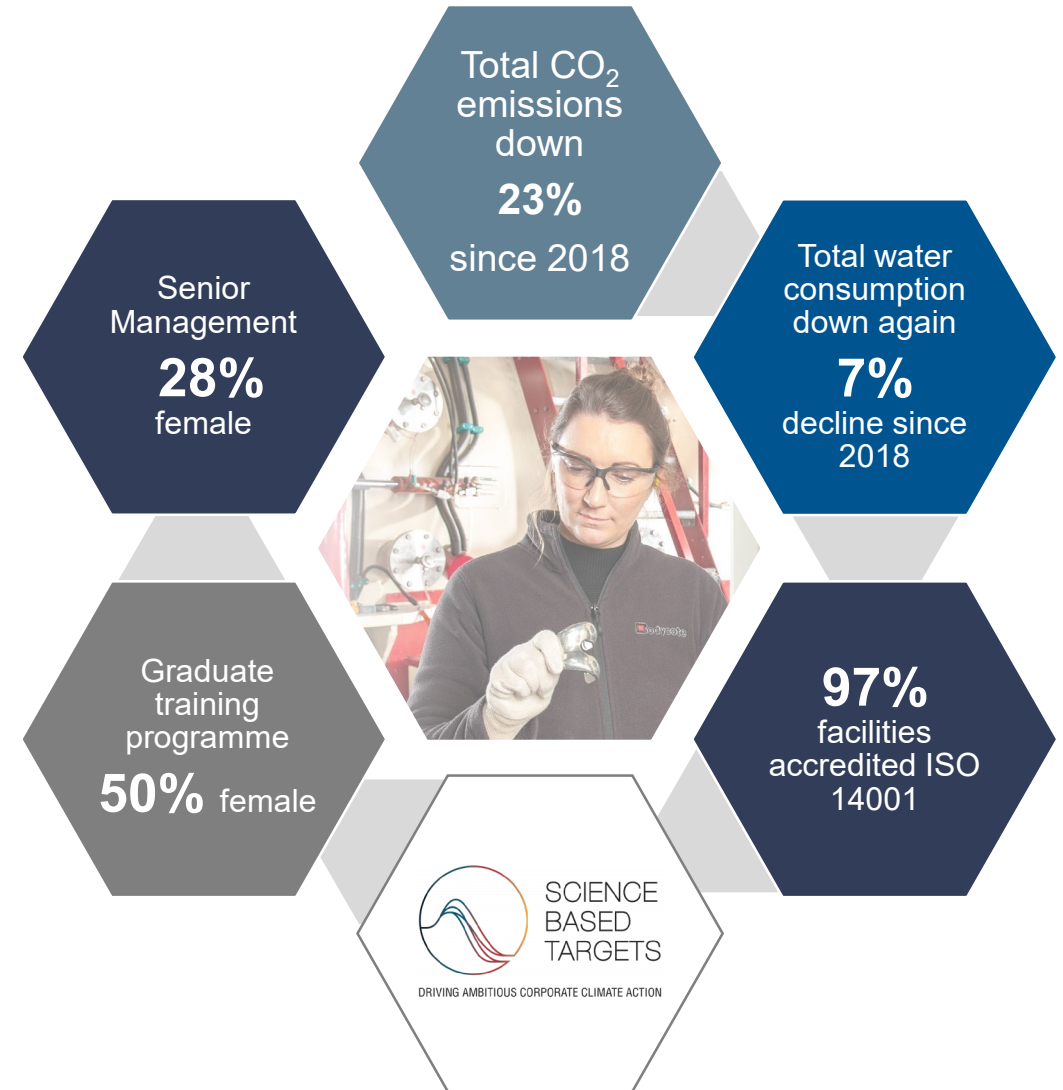
- Cost inflation was successfully passed on, albeit with the usual lags
- Significant cost inflation in energy and labour impacted Q4 profitability which will continue in early 2022
- Energy cost increases¹ managed by surcharges or contractual indexation
- Labour cost inflation (c.40% of revenues) addressed by price increases or contractual indexation
- Energy typically bought forward a quarter in advance
- Surcharges and price increases typically take effect in 1 to 3 months
- Contractual indexation lags cost impact by 6 to 12 months



Progressing our ESG strategy

Combatting Climate Change

- Bodycote has committed to the Science Based Targets Initiative (SBTi)
- We will be publishing our 5 year targets later in the year
- Our environmental strategy is based around reduction of carbon emissions as we have no other emissions of note
- We are not only reducing our own carbon footprint through targeted investment but are also helping a significant number of other companies reduce their own carbon emissions
- Bodycote has inherently higher utilisation and more energy efficient processes than in-house facilities
- Customers outsourcing their thermal processing to Bodycote enjoy up to a 40% reduction in their carbon footprint



Financial Review

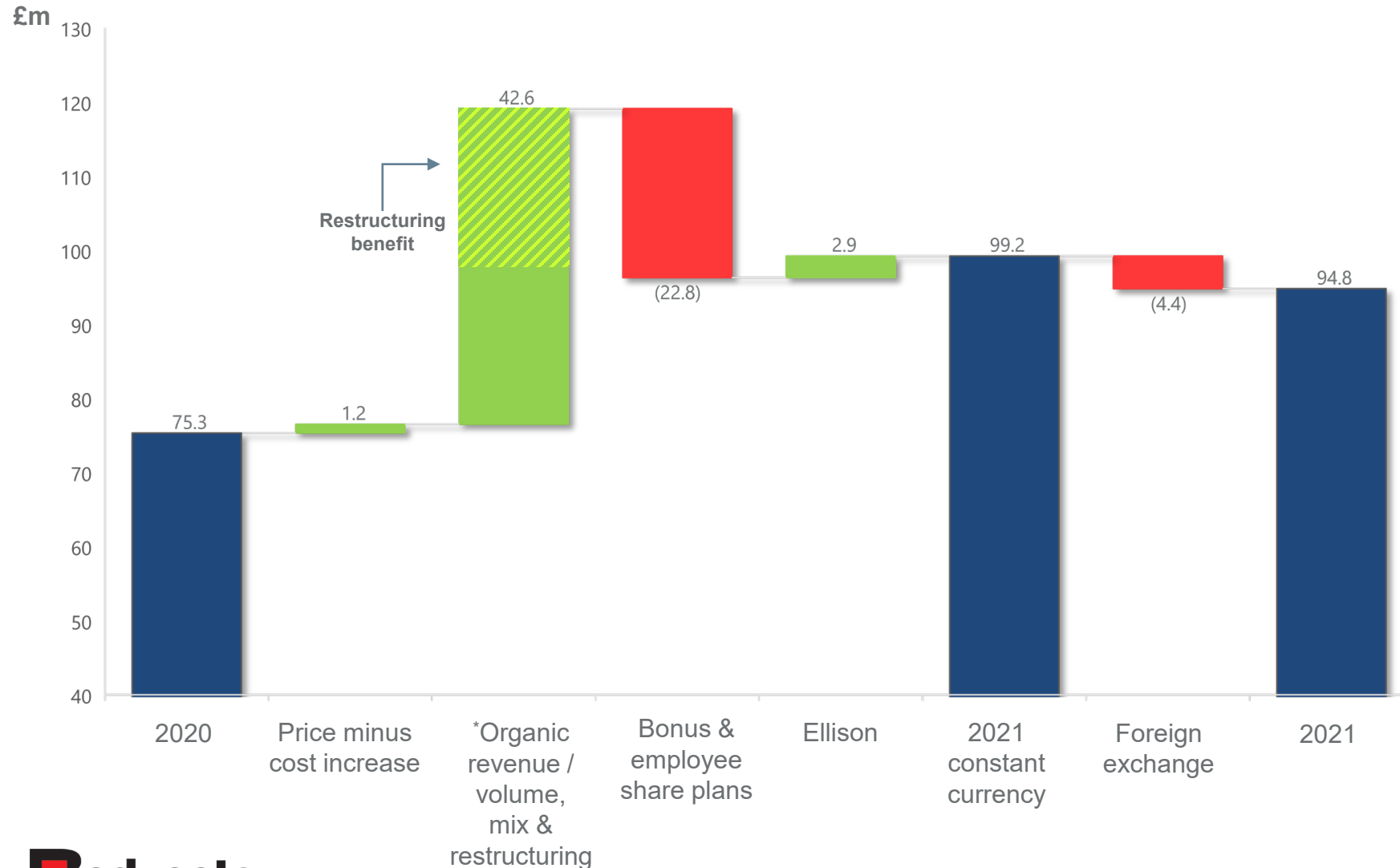
Dominique Yates
Chief Financial Officer



2021 Results summary

£m	2021	2020	Growth constant currency	Growth
Revenue	615.8	598.0	7.1%	3.0%
Headline operating profit	94.8	75.3	32%	26%
Headline operating margin	15.4%	12.6%		
Headline profit before tax	88.4	68.8	33%	28%
Headline tax rate	22.3%	22.5%		
Free cash flow	105.0	106.1		-1%
Headline EPS	35.8p	27.8p	34%	29%
Return on capital employed	12.0%	9.8%		
Ordinary dividend	20.0p	19.4p		3.1%

Headline operating profit growth



- Cost inflation recovered once again
- Profit improvement due to combination of the £30m *organic revenue / volume increase, as well as mix and restructuring benefit
- Nil bonus in 2020
- Ellison's margins improved

ADE and AGI summary¹

The ADE Business

£m	2021	2020	Growth organic constant currency	Growth
Revenue	245.6	249.2	-2.0%	-1.5%
Headline operating profit	44.2	36.8	16%	20%
<i>Headline operating margin</i>	18.0%	14.8%		

- The ADE business comprises more than 55 facilities primarily focused on Aerospace, Defence and Energy customers, but also includes more than 20% General Industrial business
- Almost 60% of the ADE business is in North America

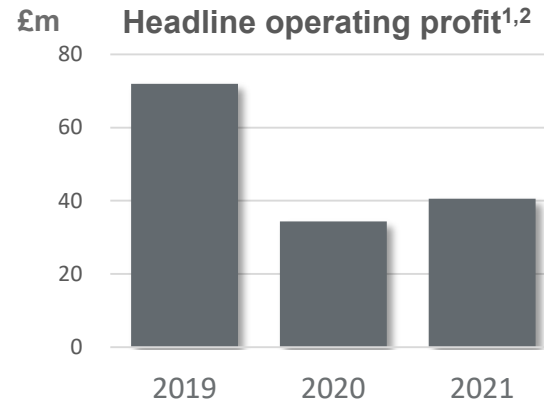
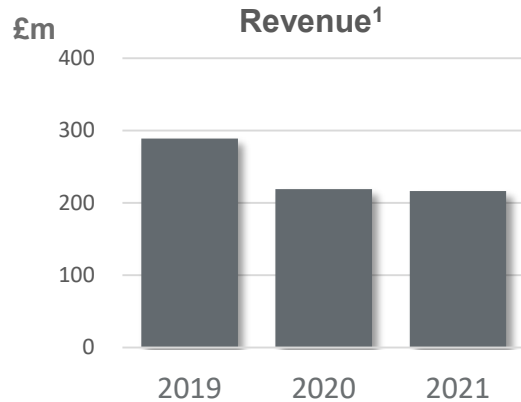
The AGI Business

£m	2021	2020	Growth organic constant currency	Growth
Revenue	370.2	348.8	10.1%	6.1%
Headline operating profit	69.5	41.0	76%	69%
<i>Headline operating margin</i>	18.8%	11.8%		

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

Organic performance in ADE and AGI

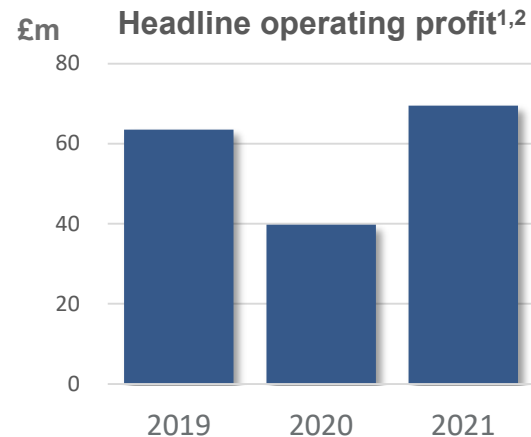
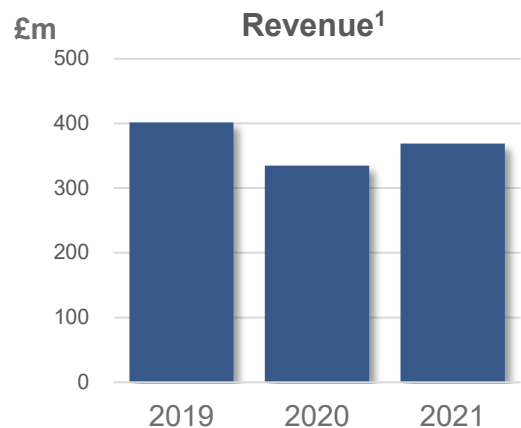
The ADE Business



ADE margin up 3.0 percentage points

- Good progress on cost savings and efficiency gains
- No overall revenue recovery in 2021, but progressive improvement quarter by quarter through the year
- Substantial profit and margin improvement anticipated as revenues recover

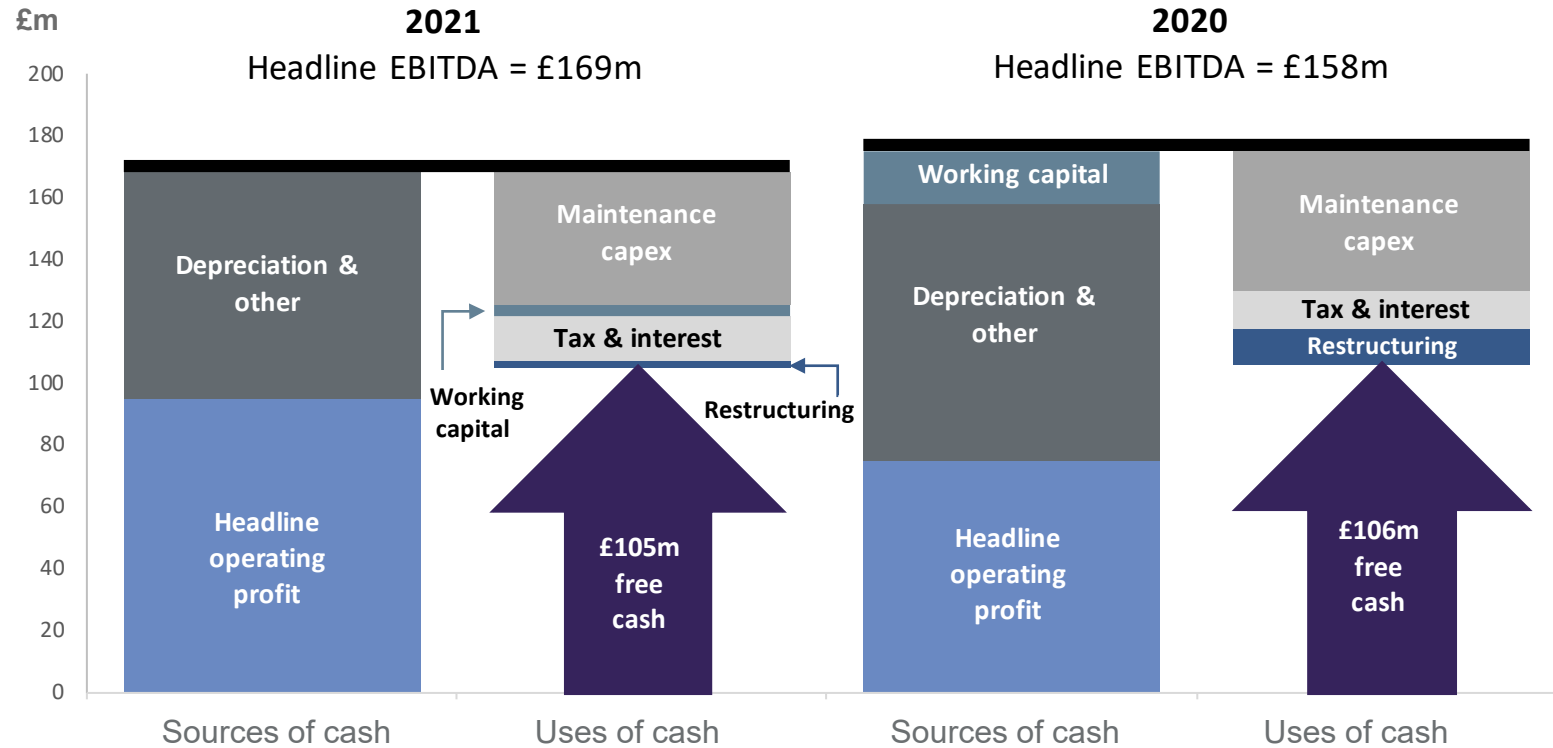
The AGI Business



AGI margin up 7.0 percentage points

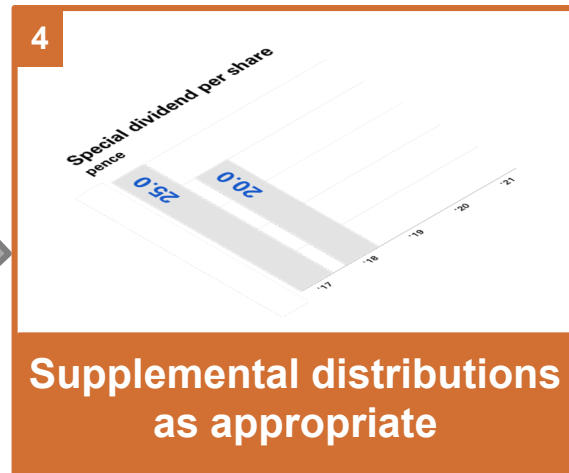
- Good recovery in General Industrial revenues
- Automotive revenues held back by supply chain issues
- Constant currency profit already above 2019
- Further profit and margin improvement as automotive revenues recover

Free cash flow



- Strong free cash flow
- Excellent conversion rate of 111%
- 2021 working capital flows back to 'normal'

Uses of free cash



Balance sheet and taxation

Balance sheet

- Net debt¹ £52m after paying £58m of deferred consideration for Ellison and £49m of dividends
- IFRS16 lease liabilities of £65m
- Facility headroom of £161m at 31 December 2021
- £251m credit facility matures in 2026

Taxation

- Headline tax rate of 22.3%, in line with guidance

Currency

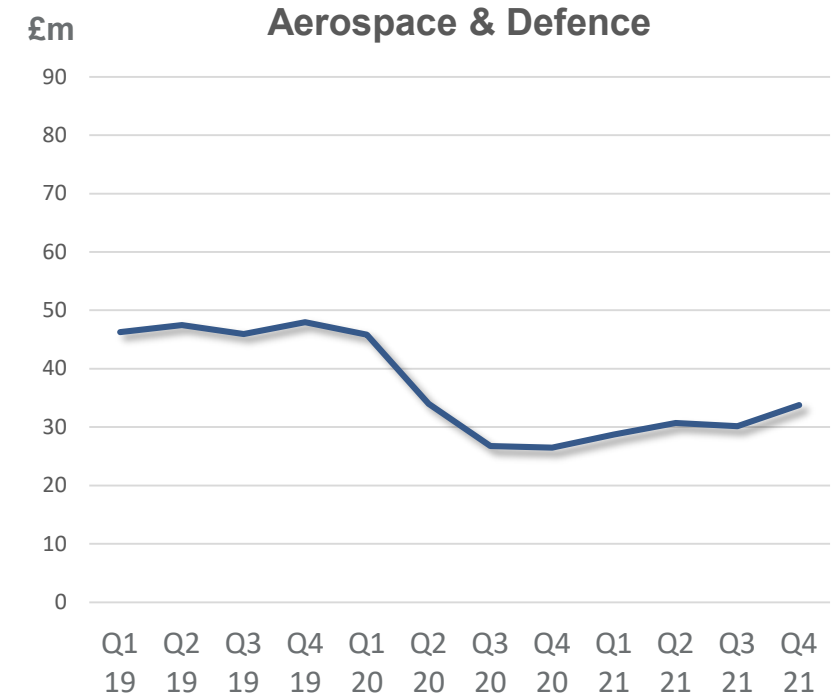
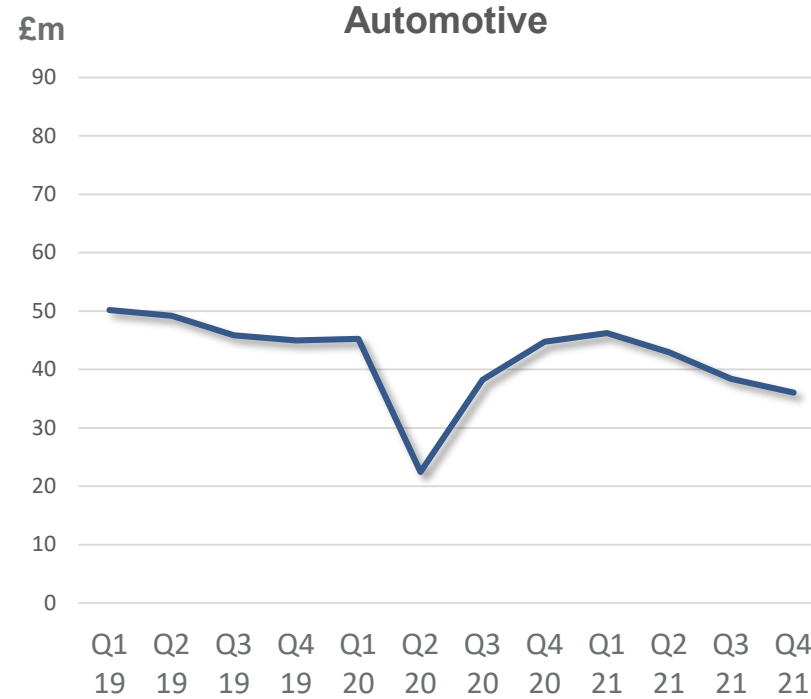
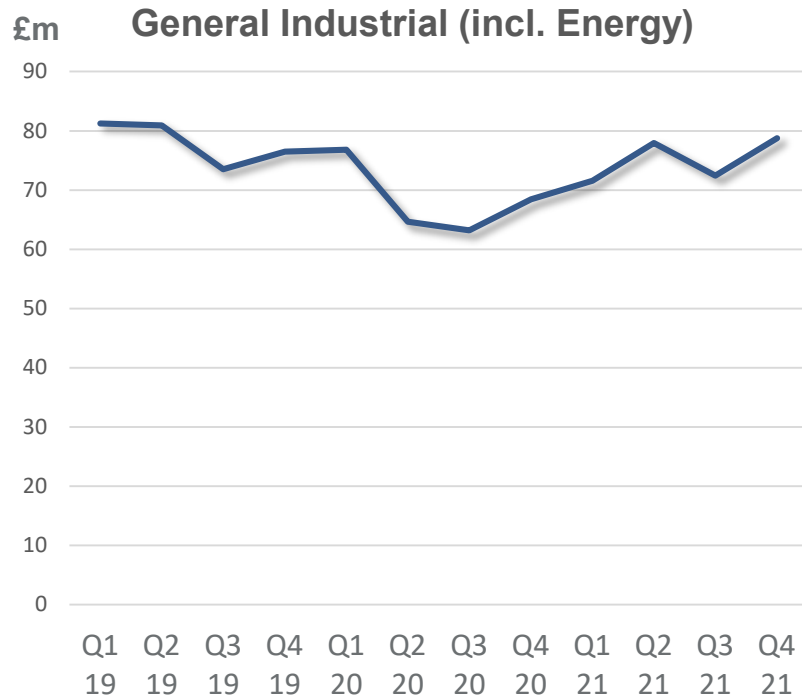
- Translating the 2021 results at latest exchange rates would have reduced headline operating profit by c.£2m

Business Review

Stephen Harris
Group Chief Executive



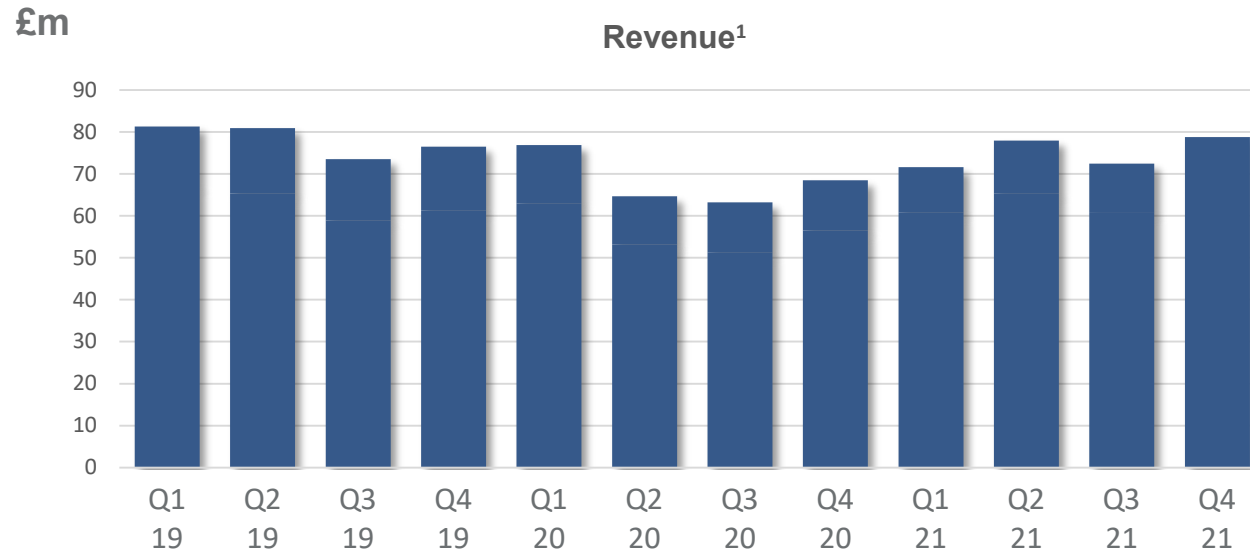
Market sector quarterly revenue¹ progression



General Industrial (including Energy)

Revenue: £301m (49% of total revenue, incl. 8% energy)

YoY change¹: 10%



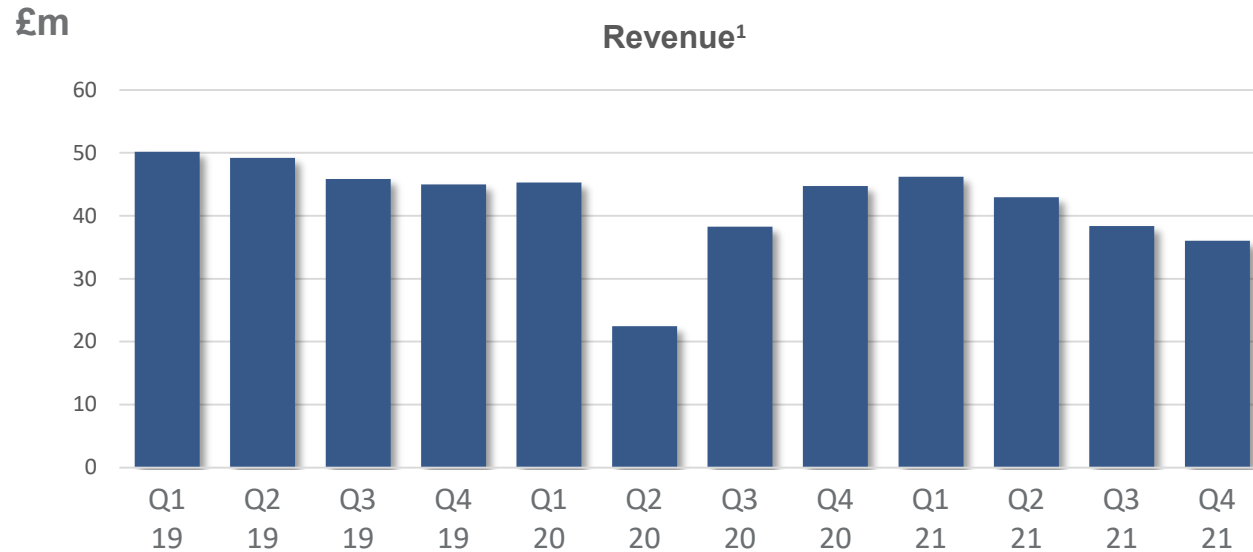
- Exit rate revenues already above pre-pandemic levels
- Initial recovery from customers' Opex as production lines switched back on
- Now seeing additional revenue growth as Capex cycle ramps up



Automotive

Revenue: £168m (27% of total revenue)

YoY change¹ : 9%

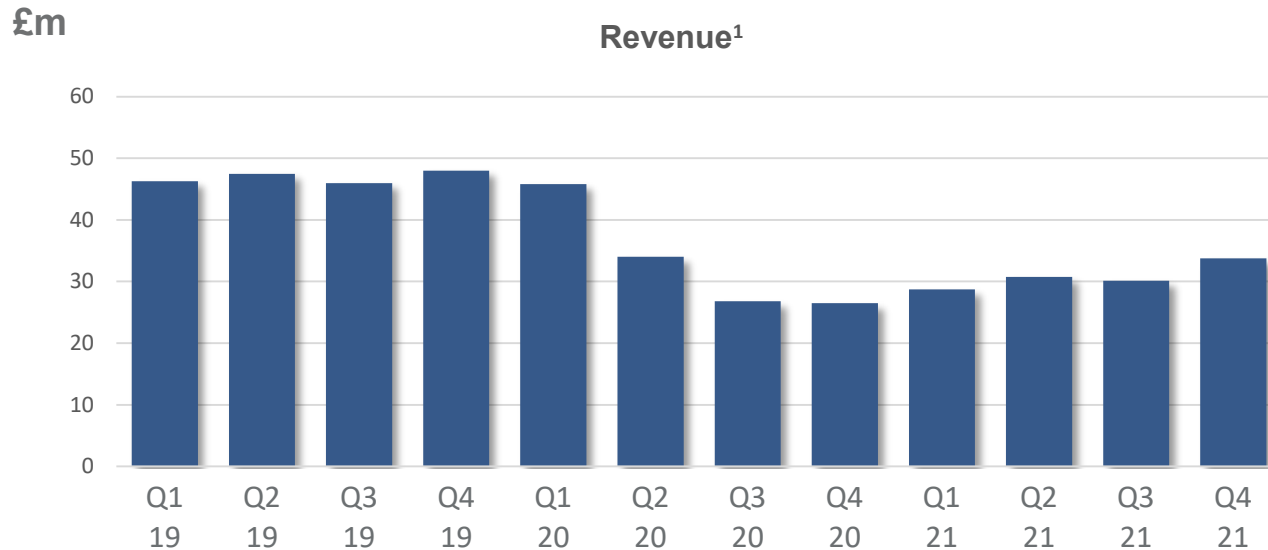


- Sequential quarterly revenue declines through the year due to supply chain issues
- 16% growth in China, now 10% of automotive revenues
- Significant pent-up demand for new vehicles
- Streamlined and positioned for growth in automotive, particularly with EV targeted technologies

Aerospace & Defence

Revenue: £147m (24% of total revenue)

YoY change¹ : -7%

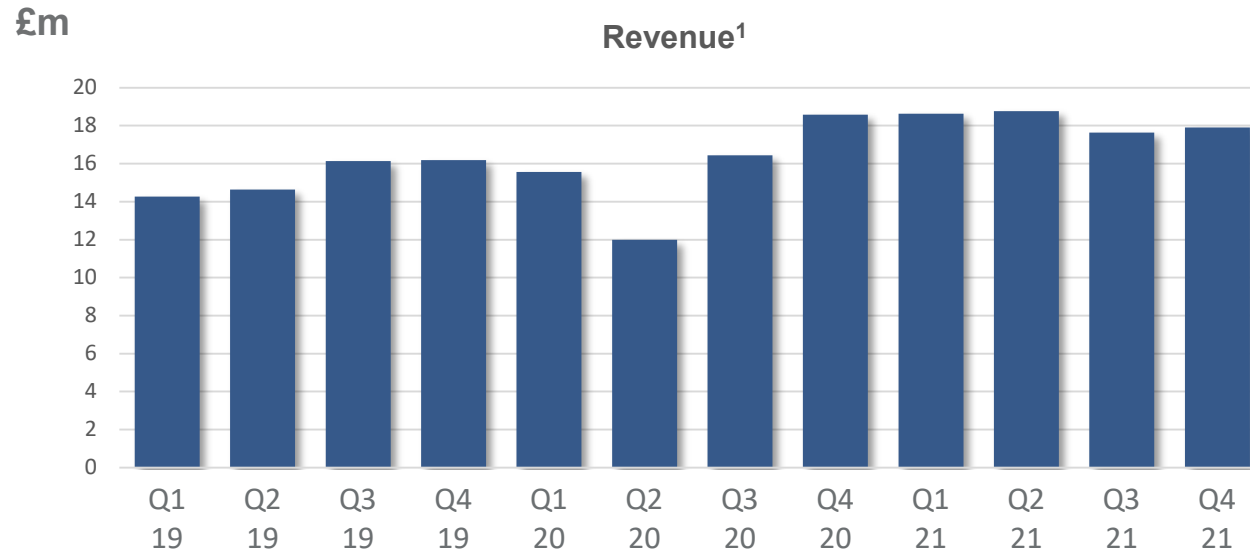


- Progressive improvement through the year but 2021 still 34% down versus 2019
- Civil aerospace revenues up 37% YoY in the fourth quarter
- Improving narrow-body new build and wide-body aftermarket
- Aerospace and defence mid-term revenues will climb well above 2019 due to higher platform content

Emerging Markets

Revenue: £72m (12% of total revenue)

YoY change¹ : 14%

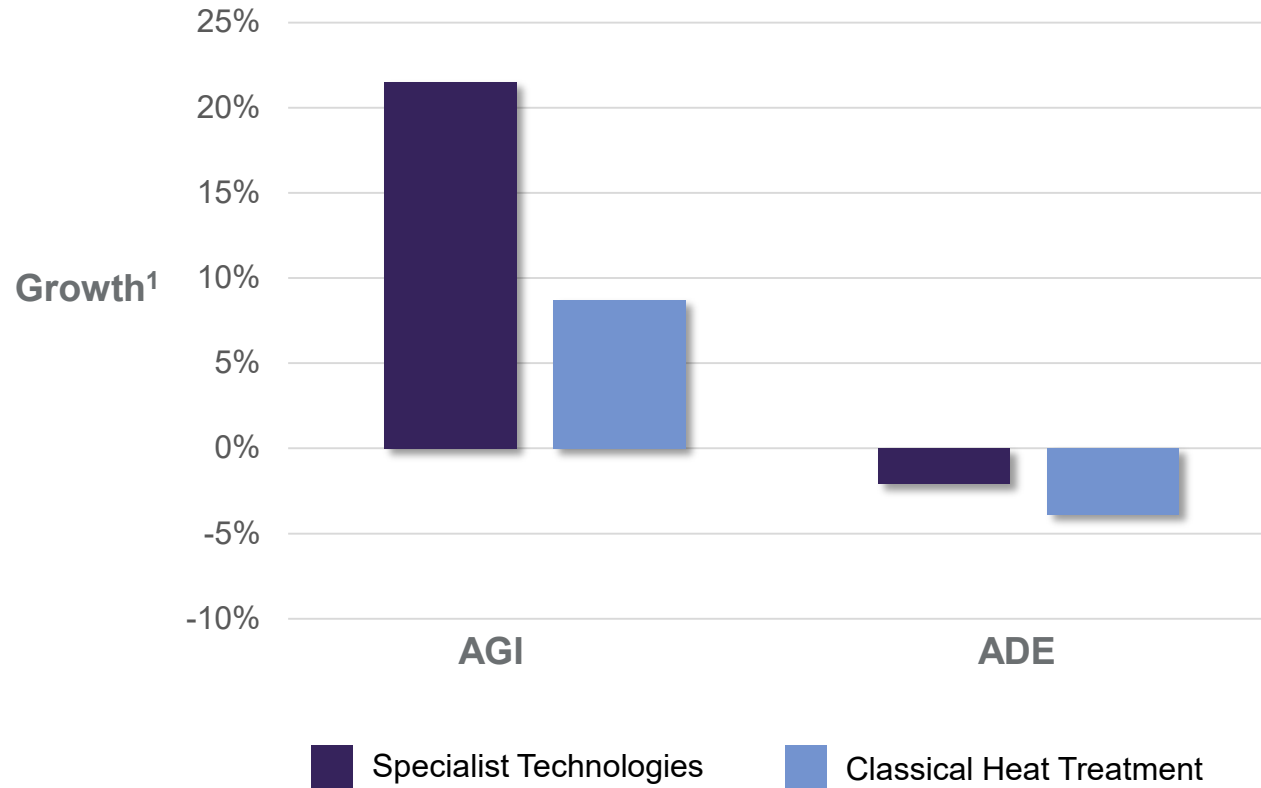


- Growth held back by weak automotive revenues in Mexico
- Automotive revenues up 20% elsewhere
- General Industrial revenues up 30%

Emerging Markets include China, Mexico, Czech Republic, Poland, Turkey, Slovakia, Romania, Hungary



Specialist Technologies outperform



- Continued outperformance of Specialist Technologies compared with Classical Heat Treatment
- Specialist Technologies now represents 30% of revenues; 42% of headline operating profit

Summary

- Total of £30m permanent cost savings with £20m benefitting 2021 and additional £10m in 2022
- Overall mix/quality of business improved
- Margin improvement to 15.4% (2020: 12.6%)
- Cost inflation being successfully passed on, albeit with the usual lags
- Automotive recovering but still held back by supply chain issues
- Aerospace now accelerating, but supply chain volatility ahead
- General Industrial growing strongly
- Good progress on strategic objectives
- Strong margin and profit improvement anticipated with revenue growth



Outlook

As we moved into 2022, General Industrial continued to perform strongly, and Civil Aerospace growth has accelerated. Bodycote's Automotive business continued to be impacted by supply chain disruption for our customers, but signs of improvements are evident. And while we expect cost inflation to persist, we will continue to manage its impact on the business. In summary, the Board expects further progress this year, but remains mindful of the current geopolitical and macro-economic landscape.

Looking further ahead, the outlook for the business remains positive as we benefit from high profit drop through on expected revenue growth across all our market sectors.

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 (S³P)
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.

2021 Statutory income statement

£m	2021	2020
Revenue	615.8	598.0
Headline operating profit	94.8	75.3
Amortisation of acquired intangible assets	(10.3)	(9.8)
Acquisition costs	(0.7)	(2.1)
Exceptional items	-	(58.4)
Operating profit	83.8	5.0
Net finance charge	(6.3)	(6.5)
Profit/(loss) before taxation	77.5	(1.5)
Headline earnings per share (basic)	35.8p	27.8p

2021 Cash flow¹

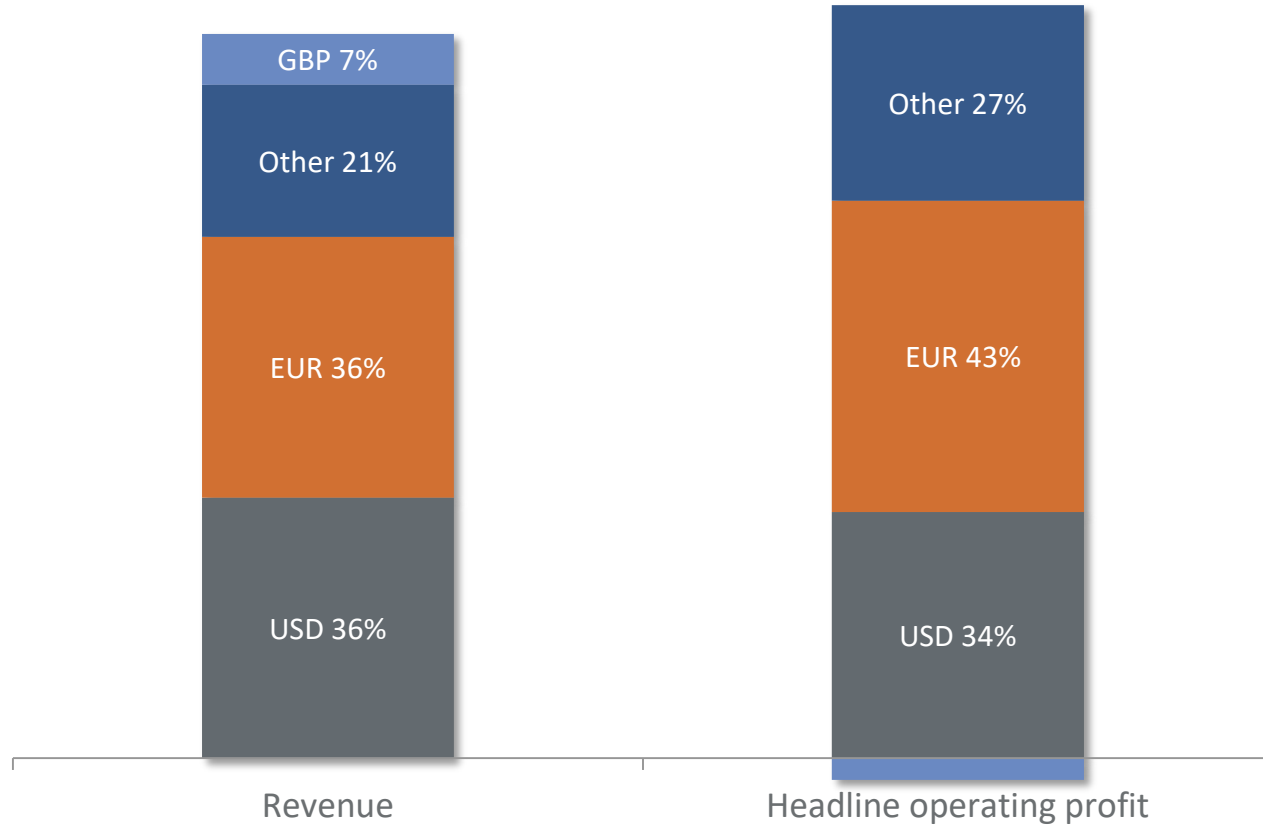
£m	2021	2020
Headline operating profit	94.8	75.3
Depreciation and amortisation	73.4	82.0
Impairment of PPE	-	0.4
Income from associates	0.3	(0.2)
(Profit)/loss on disposal of PPE	-	0.6
Headline EBITDA	168.5	158.1
Net maintenance capital expenditure	(43.1)	(45.1)
Net working capital movement	(3.4)	17.2
Headline operating cash flow	122.0	130.2
Restructuring	(2.3)	(11.6)
Financing costs	(5.2)	(4.7)
Tax	(9.5)	(7.8)
Free cash flow	105.0	106.1
Expansionary capital expenditure	(15.6)	(20.0)
Ordinary dividend	(49.0)	(25.1)
Acquisition spend	(65.4)	(99.3)
Own shares purchased less SBP and others	4.7	(0.1)
Reduction in net cash	(20.3)	(38.4)
Opening net (debt)/cash	(98.1)	(58.5)
Foreign exchange movements	2.0	(1.2)
Closing net debt	(116.4)	(98.1)
IFRS 16 lease liabilities	64.5	75.6
Net debt excluding lease liabilities	(51.9)	(22.5)

Net finance charge/facilities

£m	2021	2020
Interest received	0.3	0.2
Interest on loans and bank overdrafts	(1.3)	(0.7)
Interest charges	(2.0)	(3.0)
Finance and bank charges	(3.3)	(3.0)
Total finance charge	(6.6)	(6.7)
Net finance charge	(6.3)	(6.5)

- Committed facility headroom of £161m at 31 December 2021, £90m drawn
- The remaining life of the facility is 4.4 years
- Closing net debt (including lease liabilities) of £116m

2021 Sales and operating profit by currency



- Operating profit translation decrease of £4.4m
- Average full year exchange rates: £1: €1.16 and £1: \$1.37
- Every cent change in the euro is worth c.£0.4m 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	2021	2020
Weighted average	190.7m	190.4m

Exchange rates	2021	2020	
EUR	Average (P&L)	1.16	1.13
	Closing (B/S)	1.19	1.12
USD	Average (P&L)	1.37	1.29
	Closing (B/S)	1.35	1.37
SEK	Average (P&L)	11.80	11.85
	Closing (B/S)	12.24	11.22

ADE and AGI summary – 2021 H1 v H2

The ADE Business	H1	H2	Total ADE
Revenue	120.4	125.2	245.6
Headline operating profit	17.6	26.6	44.2
Margin	14.6%	21.2%	18.0%

The AGI Business	H1	H2	Total AGI
Revenue	192.5	177.7	370.2
Headline operating profit	38.9	30.6	69.5
Margin	20.2%	17.2%	18.8%

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
Average FTE(s)	Monthly average of full time equivalents
Opex	Operational expenditure
OCC	Organic constant currency