

# Interim Results 2022

29 July 2022



# Introduction

**Stephen Harris**  
*Group Chief Executive*



# Agenda

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



# Key achievements

- Excellent pricing and surcharge execution – cost inflation being fully recovered by the end of H1
- Modest impact on plant operating efficiency from daily demand volatility, now stabilising
- Submitted emission reduction targets to the Science Based Targets initiative committing to a 28% reduction in absolute emissions by 2030
- Strong growth<sup>1</sup> on H1 2021 despite Automotive revenues being down 4%:
  - Civil Aerospace revenues up 30%
  - General Industrial revenues up 19%
  - Emerging Markets revenues up 22%
- No signs of reduction in demand



# Financial highlights

## Results

- Revenue up 14.6% to £358.5m (14.1% at constant currency)
- Pricing recovering cost inflation, drove nearly 10% revenue growth
- Headline operating profit up 6%<sup>1</sup> to £50.5m
- Net debt (excl. lease liabilities) of £57m
- Strong balance sheet provides optionality

## Dividends

- Interim dividend 6.4p, (2021: 6.2p)

## Outlook

- Full year expectation unchanged

# Financial Review

**Dominique Yates**  
*Chief Financial Officer*

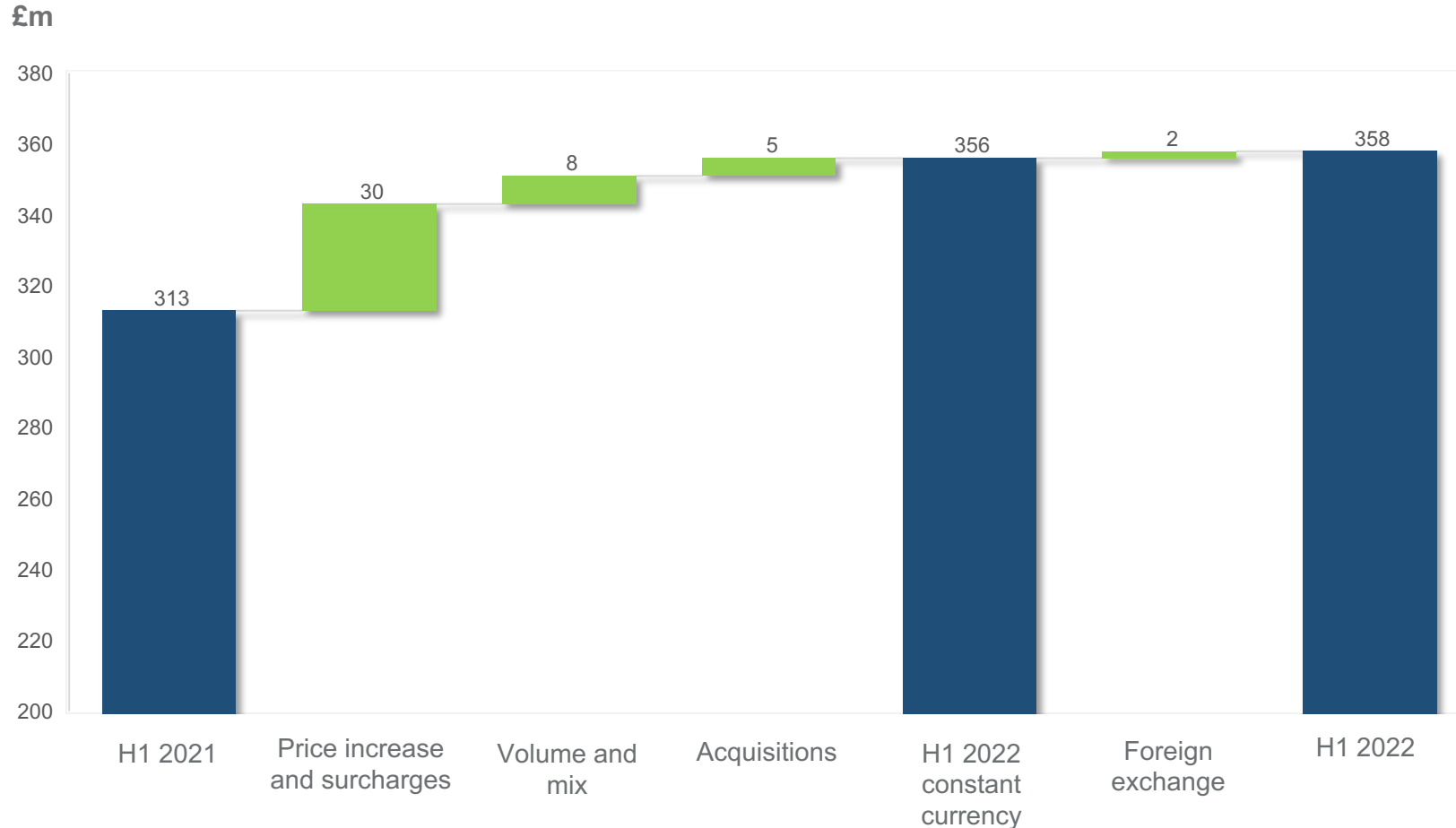


# H1 2022 results summary

£m	H1 2022	H1 2021	Growth constant currency	Growth
Revenue	<b>358.5</b>	<b>312.9</b>	<b>14.1%</b>	<b>14.6%</b>
Headline operating profit	<b>50.5</b>	<b>48.7</b>	<b>6%</b>	<b>4%</b>
Headline operating margin	<b>14.1%</b>	<b>15.6%</b>		
Headline profit before tax	<b>47.1</b>	<b>45.8</b>	<b>6%</b>	<b>3%</b>
Headline tax rate	<b>22.2%</b>	<b>22.5%</b>		
Free cash flow	<b>31.8</b>	<b>60.2</b>		<b>-47%</b>
Headline EPS	<b>19.1p</b>	<b>18.5p</b>	<b>6%</b>	<b>3%</b>
2022 interim dividend	<b>6.4p</b>	<b>6.2p</b>		



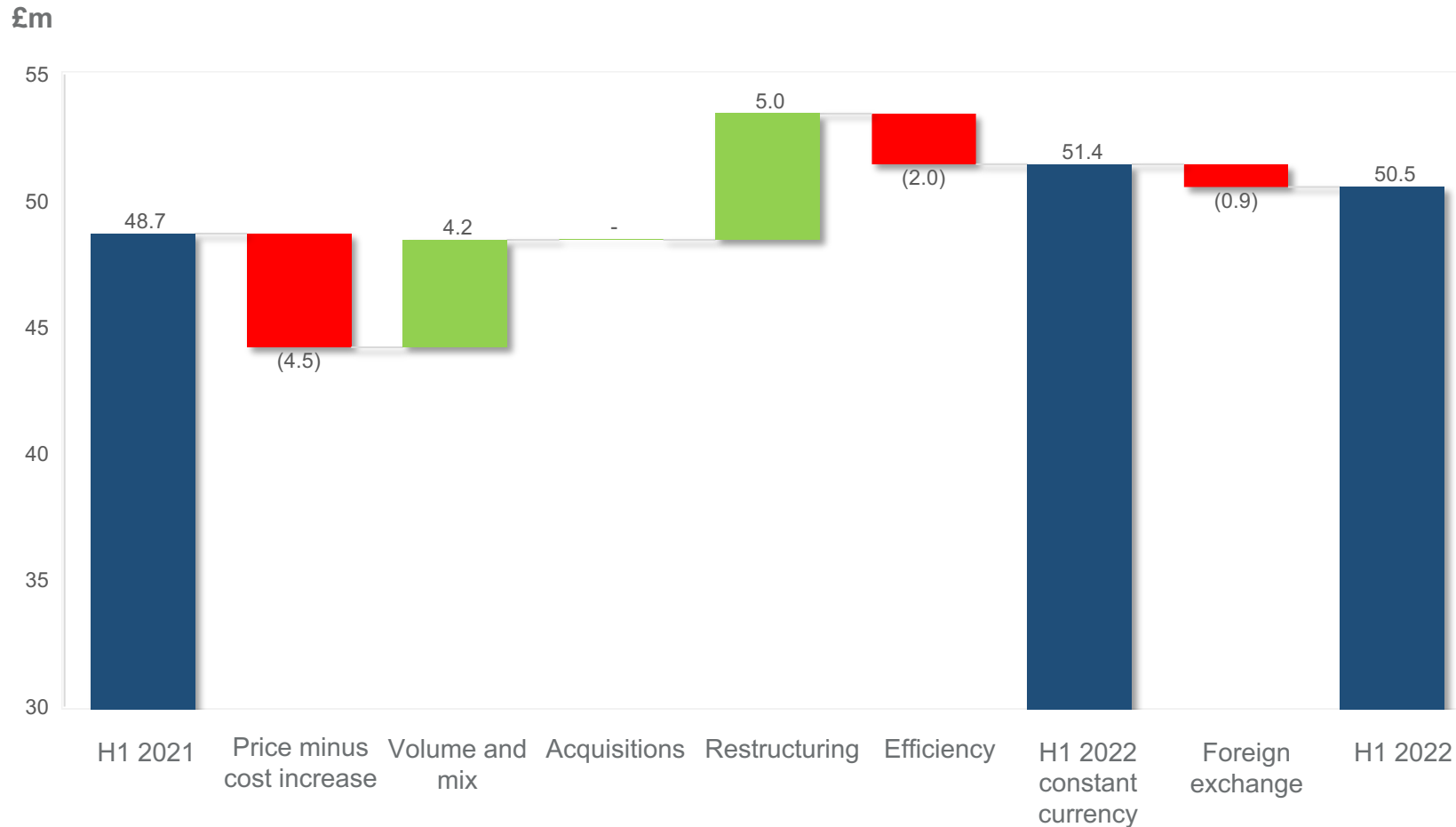
# Revenue bridge



- Pricing recovering cost inflation, drove nearly 10% revenue growth
- This impact varies from market to market, reflecting the variability in cost inflation experienced in different markets
- Q2 price effect higher than Q1



# Headline operating profit bridge

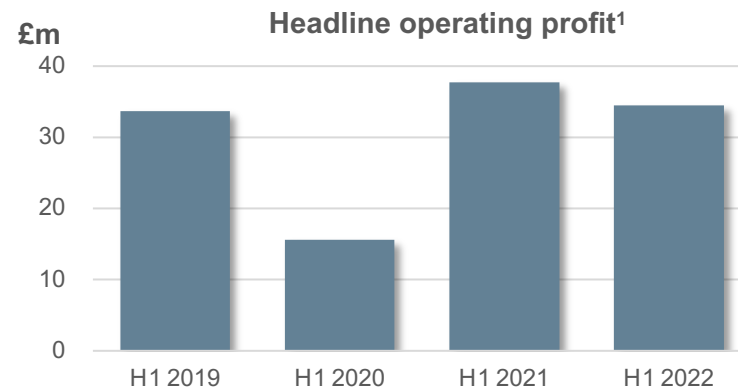
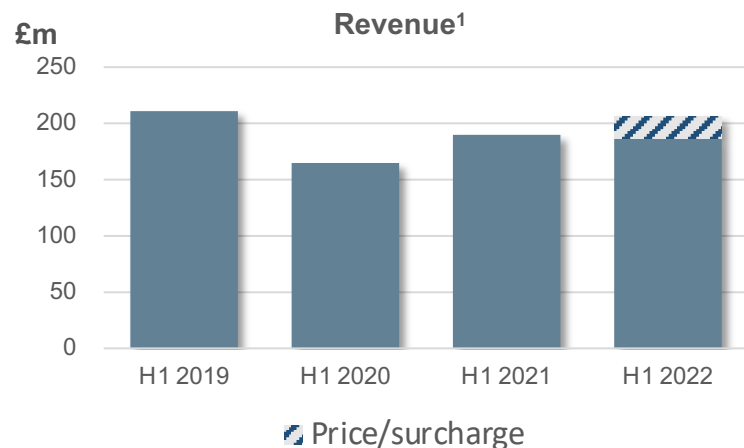


- Pricing lagged cost increases until the end of the half
- Pricing now covering cost inflation
- Incremental restructuring benefit delivered as expected (£30m annualised cost savings in total since 2019)
- Unprecedented daily volatility in demand impacted plant efficiency
- Good profit drop through on organic volume growth

# AGI summary

£m	H1 2022	H1 2021	Growth Organic constant currency	Growth
Revenue	209.6	192.5	10.3%	8.9%
Headline operating profit	35.0	38.9	-6%	-10%
<i>Headline operating margin</i>	<b>16.7%</b>	<b>20.2%</b>		

- Revenue growth entirely driven by price increases
- Strong General Industrial volume growth
- Automotive volume declined, and was highly volatile, negatively impacting operating efficiency
- H1 profits above H1 2019 levels despite lower volume



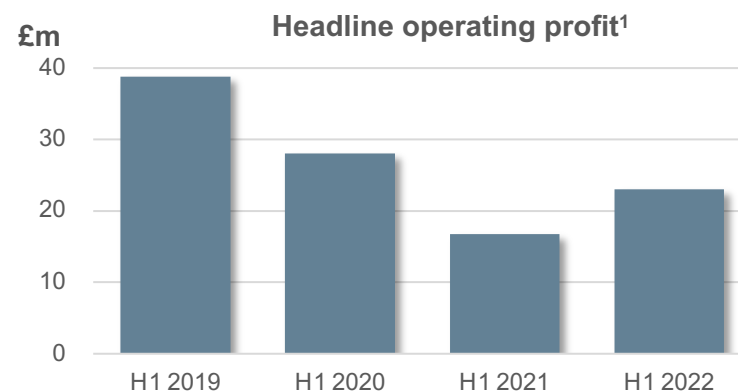
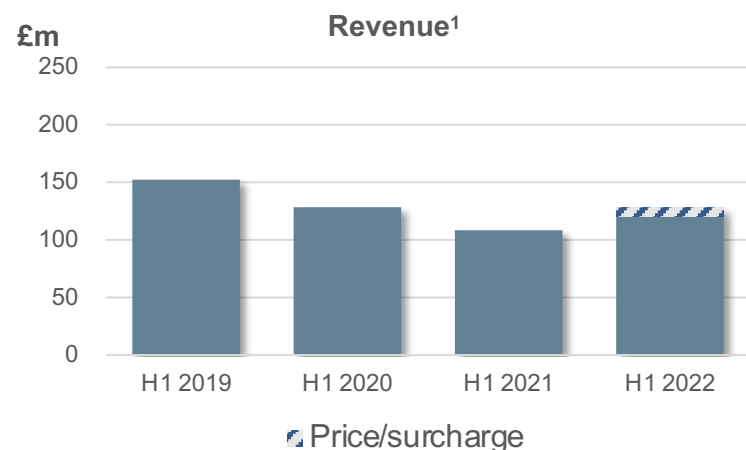
*The AGI business comprises more than 100 facilities primarily focused on Automotive and General Industrial customers.*

*Circa 60% of the AGI business is in Western Europe.*

# ADE summary

£m	H1 2022	H1 2021	Growth Organic constant currency	Growth
Revenue	148.9	120.4	16.1%	23.6%
Headline operating profit	23.3	17.6	28%	32%
<i>Headline operating margin</i>	<b>15.6%</b>	<b>14.6%</b>		

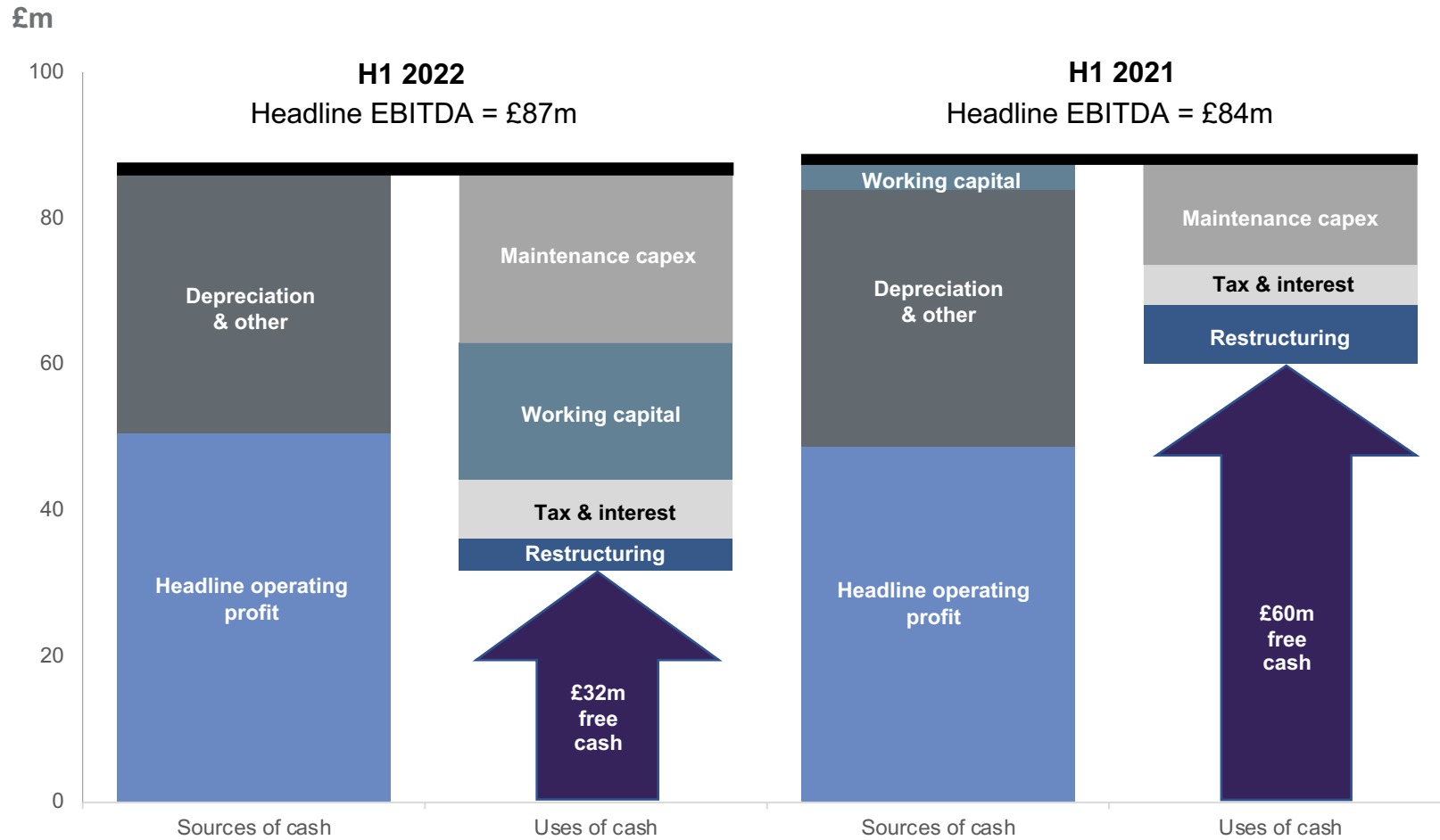
- Strong volume growth
- Margin diluted by price increase to cover cost inflation



*The ADE business comprises more than 50 facilities primarily focused on Aerospace, Defence and Energy customers, but also includes approximately 25% General Industrial business.*

*Circa 60% North America and 40% Western Europe.*

# Cash flow



- Working capital outflow reflects higher receivables from revenue growth
- Maintenance capex returned to more 'normal' levels
- Cash flow generation weighted towards H2



# Balance sheet and taxation

## Balance sheet

- Net debt<sup>1</sup> £57m after paying £26m of dividends
- Facility headroom of £164m at 30 June 2022
- £251m credit facility extended 1 year, now matures in May 2027

## Taxation

- Headline tax rate of 22.2%

## Currency

- Based on latest exchange rates, forex tailwind in H2 will offset headwind in H1

# Business Review

**Stephen Harris**  
*Group Chief Executive*



# ESG strategy as a catalyst for growth

## Supporting customers to combat climate change

- Carbon reduction targets submitted in line with the Science Based Targets initiative (SBTi) committing to an absolute reduction of 28% in emissions by 2030
  - Carbon reduction projects underway
  - Continue to move into lower carbon processes through targeted investments
- By aggregating multiple customers' work, we run at higher average fill rates than our customers are able to working individually. In addition, we continually drive energy consumption down. As a result, we operate far more efficiently than our customers and can process components with as much as 60% less carbon emissions than they can do themselves
- Taking advantage of green energy where available
- Converting customers from gas fuelled processes to lower carbon footprint, electrically powered processes



# Energy security

- Bodycote's strategy for many years has been to move away from natural gas processes
- Electrically powered processes generate three-quarters of Bodycote's profits in Europe
- If natural gas is rationed, customers will likely weight production to their supply chains in less impacted markets
- Bodycote has strong market shares and available capacity in countries with high energy security

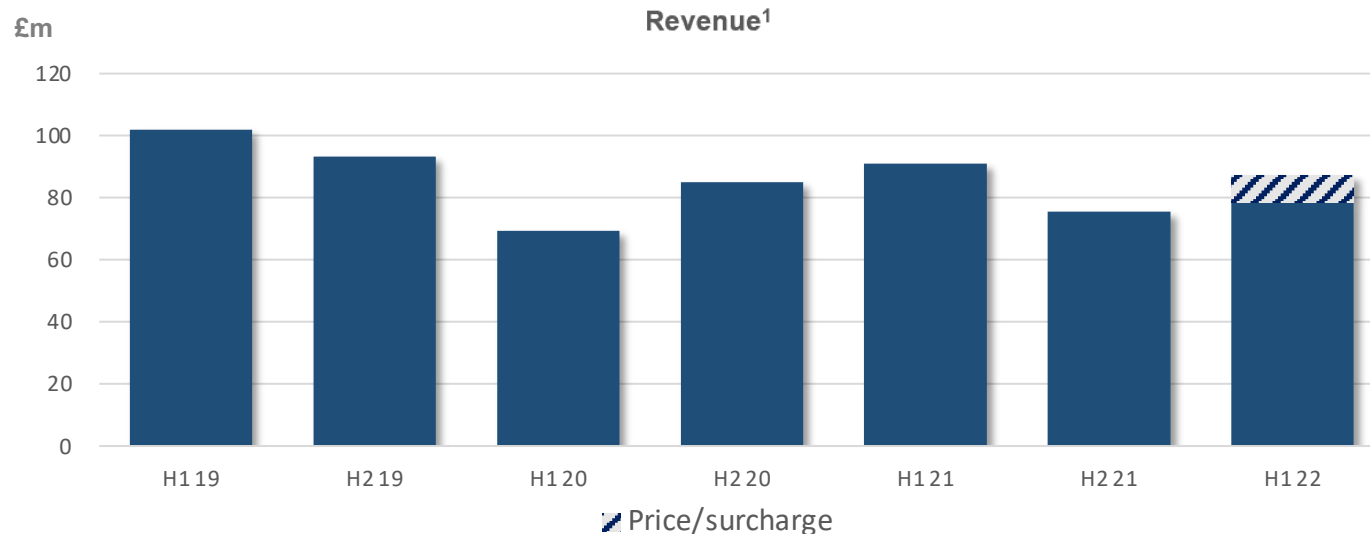




# Automotive

Revenue: £89m (25% of total revenue)

YoY Growth<sup>1</sup> : - 4%

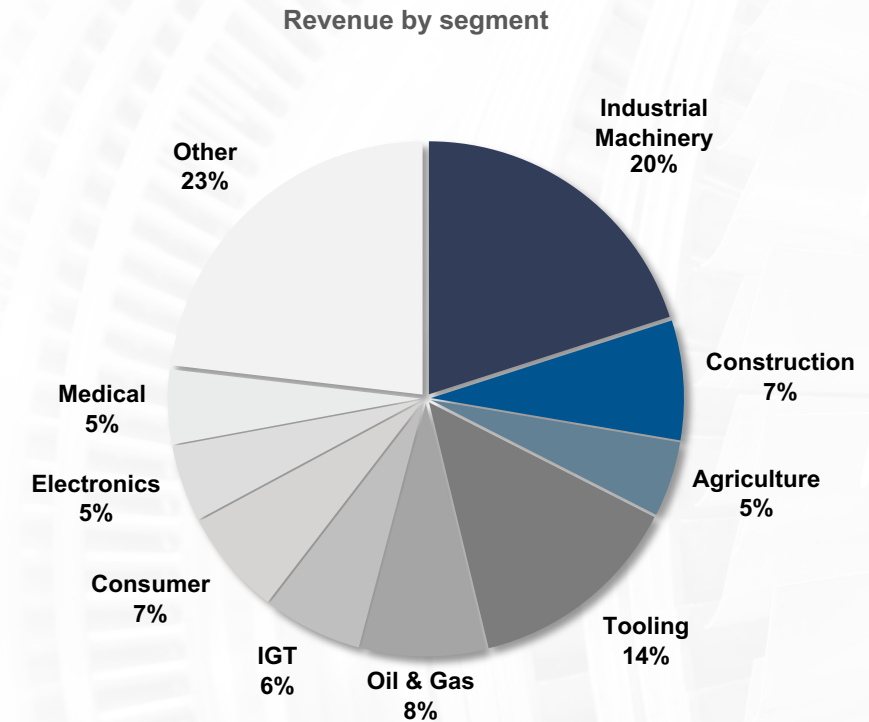
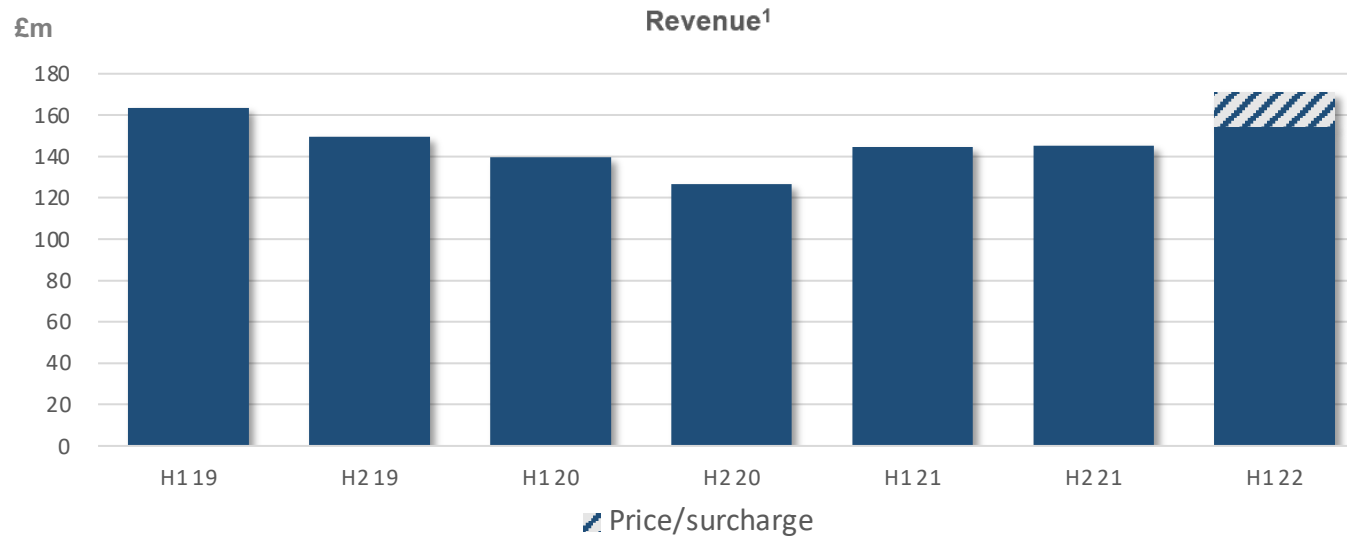


- Automotive sector production continued to be hampered by supply chain issues
- Shutdowns in China due to COVID-19 further intensified the situation
- Supply chain problems now easing, and daily demand volatility has reduced
- Significant pent-up demand for new vehicles remains
- IHS forecasts H2 sequential vehicle production in Europe and North America to grow in high single digit percentage, with 2023 growing by double digit percentage

# General Industrial

Revenue: £181m (50% of total revenue)

YoY Growth<sup>1</sup> : 19%

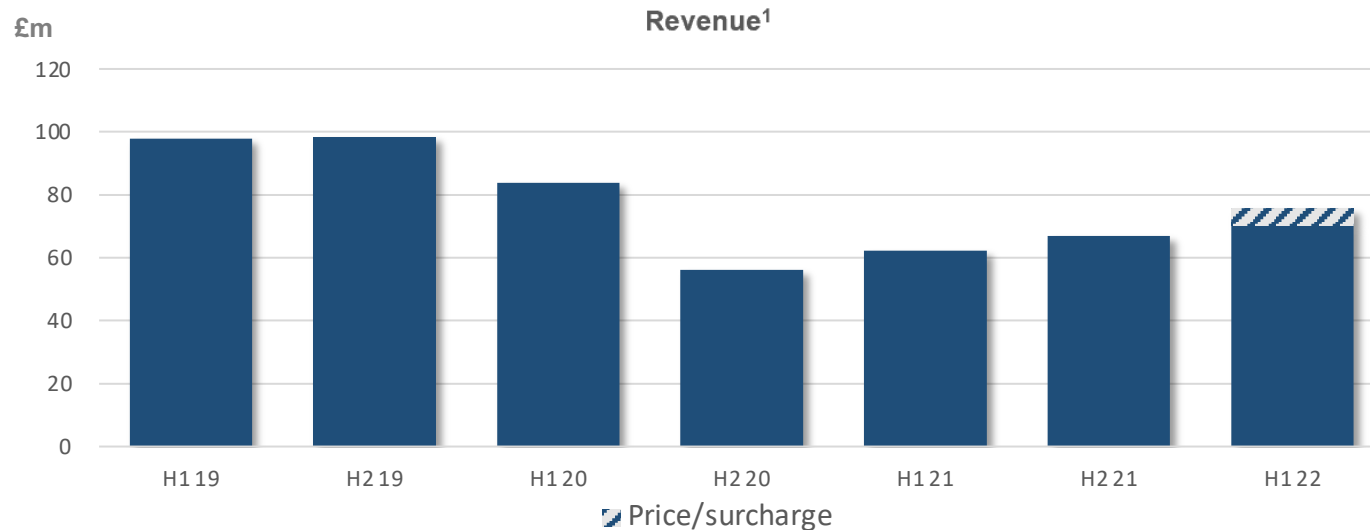


- General Industrial volumes showing strong growth across all geographies
- Segments where capital expenditure comprises the major part (e.g. industrial machinery, construction and agriculture) showed strong volume growth
- Tooling volumes also increased – a leading indicator for automotive

# Aerospace & Defence

Revenue: £89m (25% of total revenue)

YoY Growth<sup>1</sup> : 20%

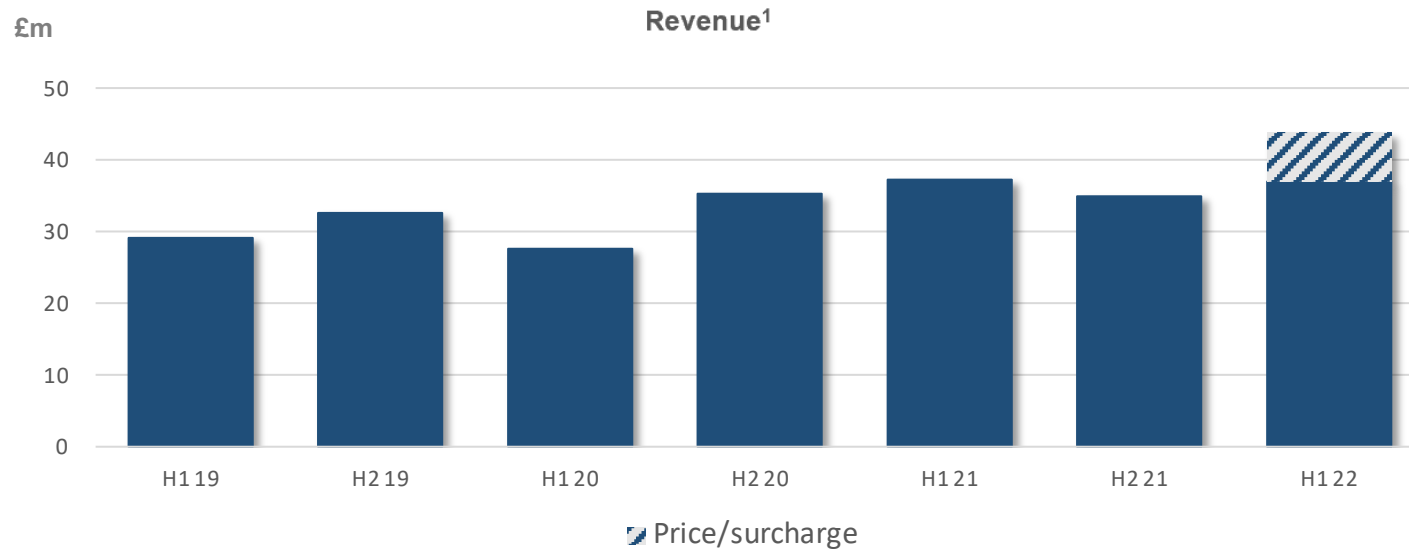


- Strong new aircraft production – Airbus sold 640 A320s in 2019 and expect to sell 700 in 2022. Ramping production to 900 units in 2025
- Global air freight tonnage well above pre-COVID levels, and growing consistently
- Short-haul passenger air travel returning strongly, particularly in Europe and the US, where passenger numbers are close to pre-pandemic levels
- Defence revenues are flat, expected to pick up from 2023 onwards

# Emerging Markets

Revenue: £43m (12% of total revenue)

YoY Growth<sup>1</sup> : 22%



- China COVID-19 shutdowns impacted growth
- Automotive volume declined (supply chain issues)
- Good growth in General Industrial volumes

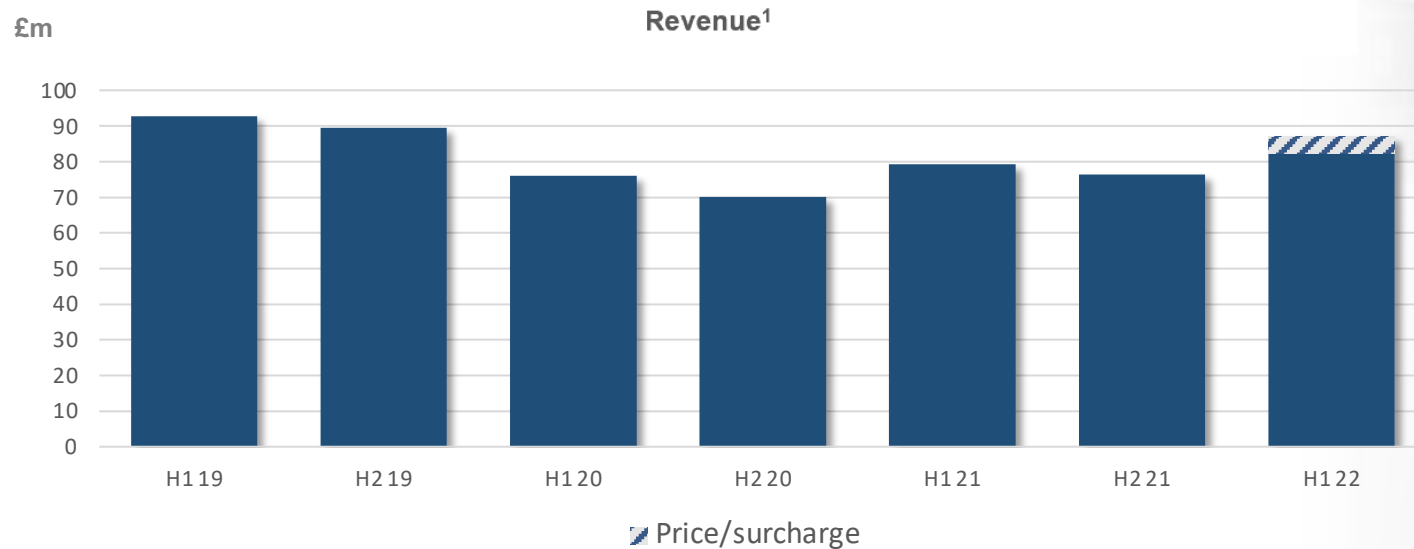
Emerging Markets include China, Mexico, Czech Republic, Poland, Turkey, Slovakia, Romania, Hungary



# Specialist Technologies

Revenue: £109m (30% of total revenue)

YoY Growth<sup>1</sup> : 10%



- Energy surcharge impact smaller, as these are generally lower energy technologies
- Long term agreement indexed pricing impacted ability to pass on cost increases in short term, as indexing typically occurs every 6 or 12 months

# Summary

- Headline operating profit up 6%<sup>1</sup>
- Inflation impact being successfully managed across the business
- Automotive market was impacted by supply chain issues reducing revenues by 4% – improvement expected in H2, particularly in North America
- Other market areas experienced strong growth<sup>1</sup> with continued momentum into H2
  - Civil Aerospace revenues up 30%
  - General Industrial revenues up 19%
  - Emerging Markets revenues up 22%
- No signs of reduction in demand



# Outlook

The significant daily demand volatility that we saw in April and May is now stabilising and we have managed to contain the impact on operating efficiency to modest proportions. The price increases implemented across the business, along with the decisive management actions we have taken over the past two years, including the £30m annualised cost savings achieved from the 2020 restructuring programme, position us well to adapt to changes in market conditions. Our strong balance sheet also allows us to take advantage of opportunities as they arise.

While there are obvious geopolitical uncertainties, as matters stand today, we see the prospect of volume growth in each of our key market sectors and geographies and we anticipate making progress in the second half.



The background of the image is a complex, light blue-toned microscopic pattern. It consists of a dense network of thin, dark lines that form irregular, interconnected shapes, resembling a cellular or fibrous structure. The overall appearance is that of a textured, organic material.

**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 2022 Statutory income statement

£m	H1 2022	H1 2021
<b>Revenue</b>	<b>358.5</b>	<b>312.9</b>
<b>Headline operating profit</b>	<b>50.5</b>	<b>48.7</b>
Amortisation of acquired intangible assets	(4.8)	(5.1)
Acquisition costs	(0.7)	(0.2)
Exceptional items	-	-
<b>Operating profit</b>	<b>45.0</b>	<b>43.4</b>
Net finance charge	(3.4)	(2.9)
<b>Profit before taxation</b>	<b>41.6</b>	<b>40.5</b>
<b>Headline earnings per share (pence)</b>	<b>19.1p</b>	<b>18.5p</b>

# H1 2022 Cash flow<sup>1</sup>

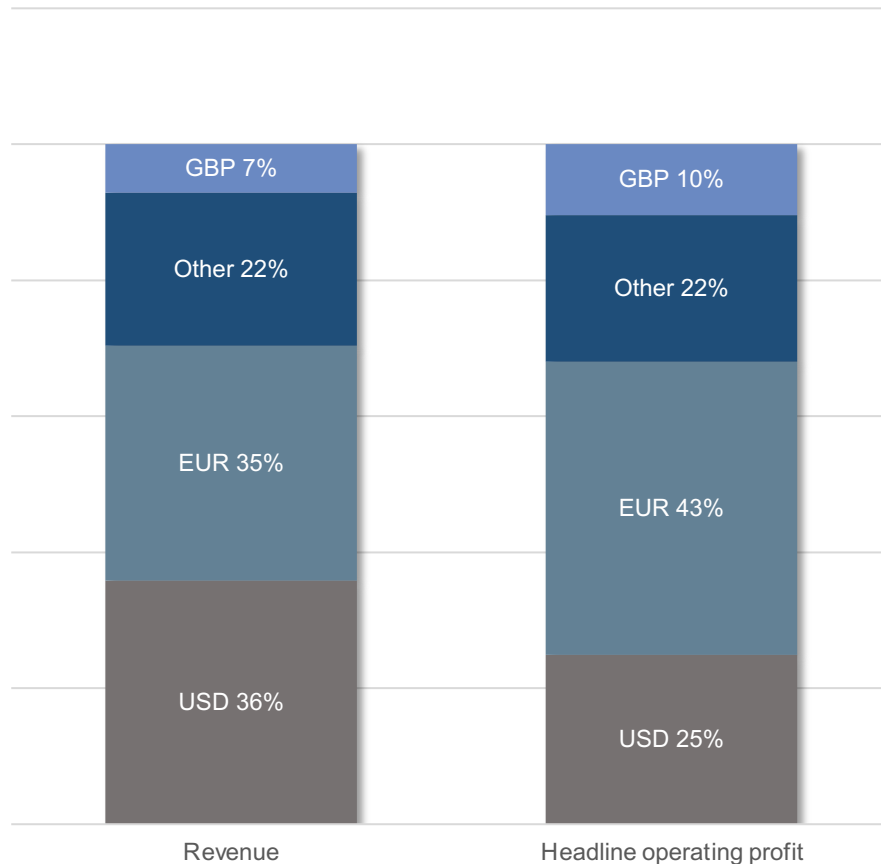
£m	H1 2022	H1 2021
<b>Headline operating profit</b>	<b>50.5</b>	<b>48.7</b>
Depreciation and amortisation	36.6	37.7
Income from associates	-	(0.2)
Profit on disposal of property, plant and equipment	(0.5)	(2.3)
<b>Headline EBITDA</b>	<b>86.6</b>	<b>83.9</b>
Net maintenance capital expenditure	(24.5)	(14.3)
Net working capital movement	(18.1)	4.1
<b>Headline operating cash flow</b>	<b>44.0</b>	<b>73.7</b>
Restructuring	(4.3)	(8.1)
Financing costs	(2.6)	(2.7)
Tax	(5.3)	(2.7)
<b>Free cash flow</b>	<b>31.8</b>	<b>60.2</b>
Expansionary capital expenditure	(7.2)	(10.3)
Ordinary dividend	(26.3)	(37.0)
Acquisition spend	(0.7)	(58.5)
Own shares purchased less SBP and others	2.9	1.7
<b>Increase/(reduction) in net cash</b>	<b>0.5</b>	<b>(43.9)</b>
Opening net debt	(116.3)	(98.1)
Foreign exchange movements	(5.8)	1.9
<b>Closing net debt</b>	<b>(121.6)</b>	<b>(140.1)</b>
IFRS 16 lease liabilities	64.1	70.3
<b>Net debt excluding lease liabilities</b>	<b>(57.5)</b>	<b>(69.8)</b>

# Net finance charge/facilities

£m	H1 2022	H1 2021
Interest received on bank deposits and loans	0.1	0.1
Interest on loans and bank overdrafts	(0.8)	(0.6)
Lease & other interest charges	(1.5)	(1.1)
Finance and bank charges	(1.2)	(1.3)
<b>Total finance charge</b>	<b>(3.5)</b>	<b>(3.0)</b>
<b>Net finance charge</b>	<b>(3.4)</b>	<b>(2.9)</b>

- Committed facility headroom of £164.2m at 30 June 2022, £90.8m drawn
- The remaining life of the facility is 4.9 years
- Closing net debt of £57m

# H1 2022 Sales and operating profit<sup>1</sup> by currency



- Operating profit translation decrease of £0.9m
- Average exchange rates: £1: €1.19 and £1: \$1.30
- 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	H1 2022	H1 2021
Weighted average	190.7M	190.7m

Exchange rates		H1 2022	H1 2021
EUR	Average (P&L)	1.19	1.15
	Closing (B/S)	1.16	1.17
USD	Average (P&L)	1.30	1.39
	Closing (B/S)	1.22	1.38
SEK	Average (P&L)	12.42	11.70
	Closing (B/S)	12.45	11.82

## Analysis by currency, H1 2022

	Sales	Operating profit
EUR	35%	43%
USD	36%	25%
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