Annual Results 2023

15 March 2024

Stephen Harris

Group Chief Executive

Introduction

- Overview
- Financial Review
- Business Review
- Outlook

Another year of strong growth and margin progression

Results

- Revenue up 8% to £802.5m. Revenue growth[1] of 6% excluding energy-related surcharges
- Headline operating profit 17%[1] higher at £127.6m
- Headline operating margin of 15.9%, up 80bps. 17.3% margin excluding energy surcharges, up 120 bps
- Headline EPS growth of 13% to 48.4p
- Return on capital employed[1] up 150bps to 14.8%
- Free cash flow improved by £38.5m to £122.5m, with cash conversion returning to more typical levels at 96% (2022: 75%)
- Year-end net cash of £12.6m excluding leases (2022: net debt of £33.4m)

Dividends

- Final dividend of 16.0p, full year dividend of 22.7p (2022: 21.3p), uninterrupted 36-year track record of growing or maintaining dividend

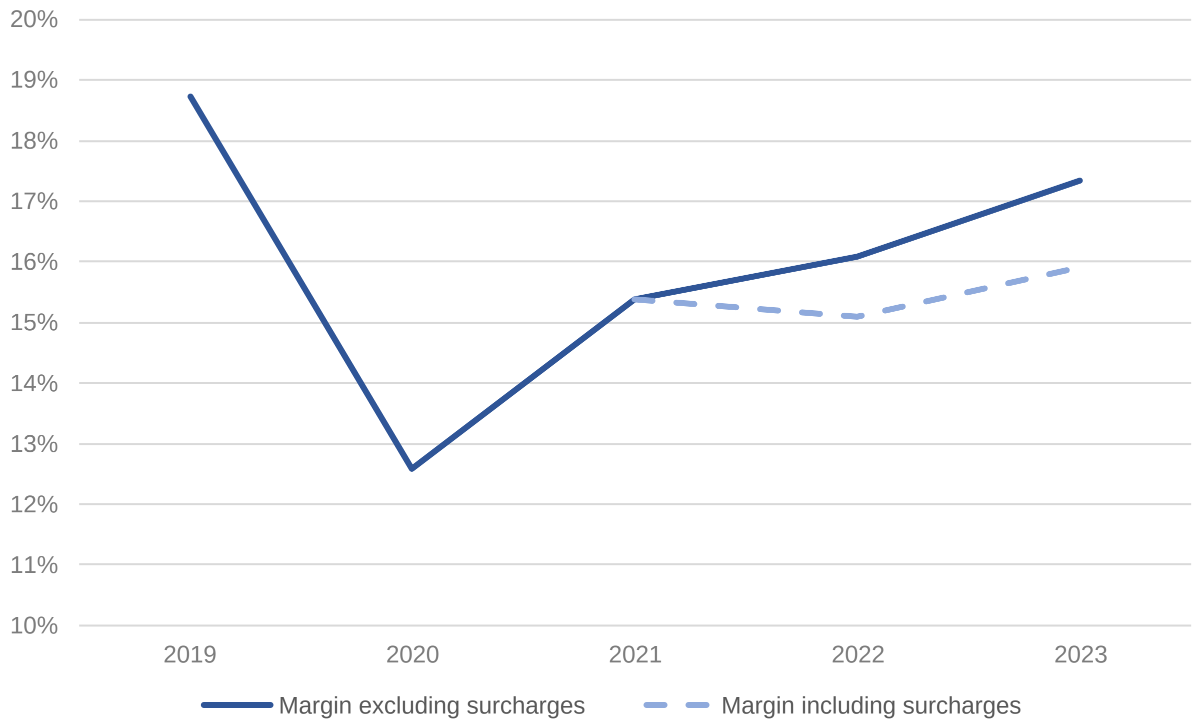
[1] *At constant currency*

Strategic progress

- Strong revenue growth, led by strategic focus areas
  - Outperformance in Specialist Technologies (+12%[1]) versus Classical Heat Treatment (+4%[1])
  - Delivered strong growth in Aerospace & Defence (+11%[1]) and medical (+24%[1]) markets
  - Major projects secured for electric vehicles (EV[2]) in Emerging Markets, Europe and North America
  - Improving energy efficiency: 4% reduction in energy usage despite 8%[1] revenue growth
  - New contracts secured through reducing customer carbon emissions (scope 4)
- Margin improvement – further step delivered towards our 20%+ medium-term target
  - ADE margins continue to increase (+410bps[3]); AGI sustained above historical peak levels
- Capital deployed in line with our disciplined and balanced strategy:
  - Capex of £86m, up £11m vs 2023 (+15%), with a greater proportion of expansionary spend
  - £52m Lake City acquisition, increasing scale in Specialist Technologies and medical market
  - £60m share buyback to commence on 15 March

[1] *At constant currency, excluding surcharges*
[2] *All electric vehicles including hybrids and BEVs*
[3] *Headline operating profit margin excluding surcharges*

On track to achieve margins above 20%

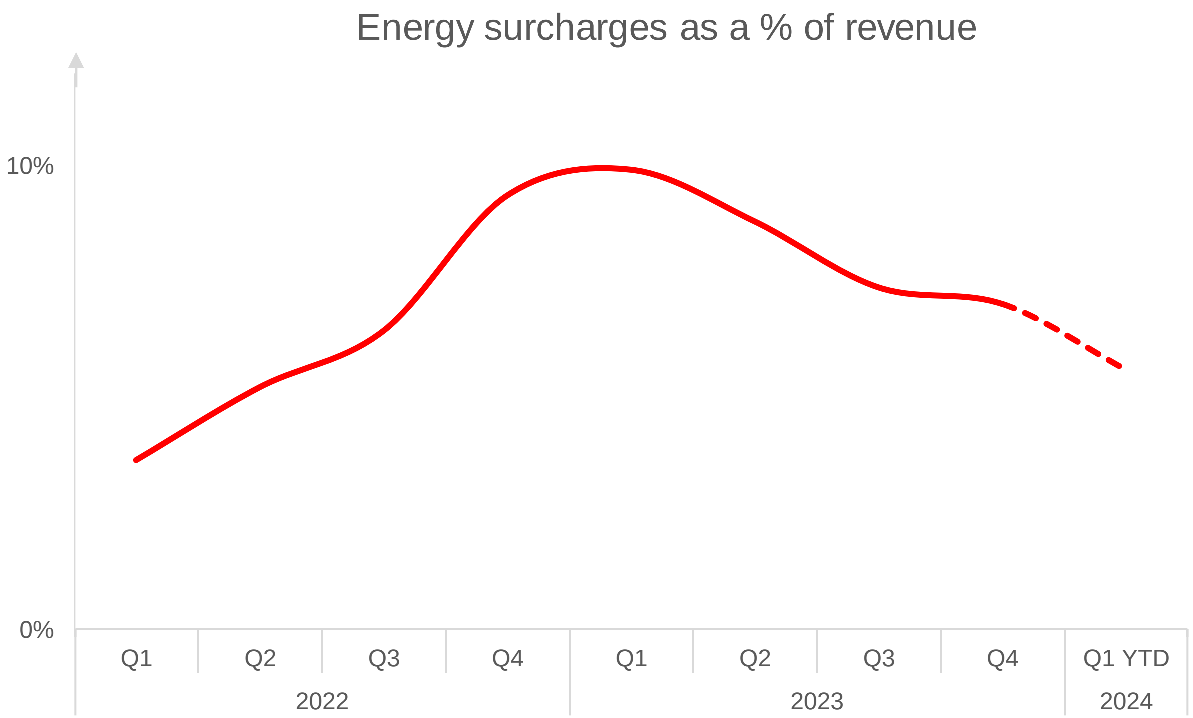


- Headline operating margin excluding surcharges 17.3%, +120 bps
  - Higher volumes and continued mix shift towards Specialist Technologies
  - AGI margins sustained above historical peak levels[1]
  - ADE margins +410bps[1], including improved pricing and operational performance in Surface Technology
- Volume growth, mix and improved efficiency will drive margins above 20%

Bodycote

[1] *Headline operating profit margin excluding surcharges*

Energy surcharges falling

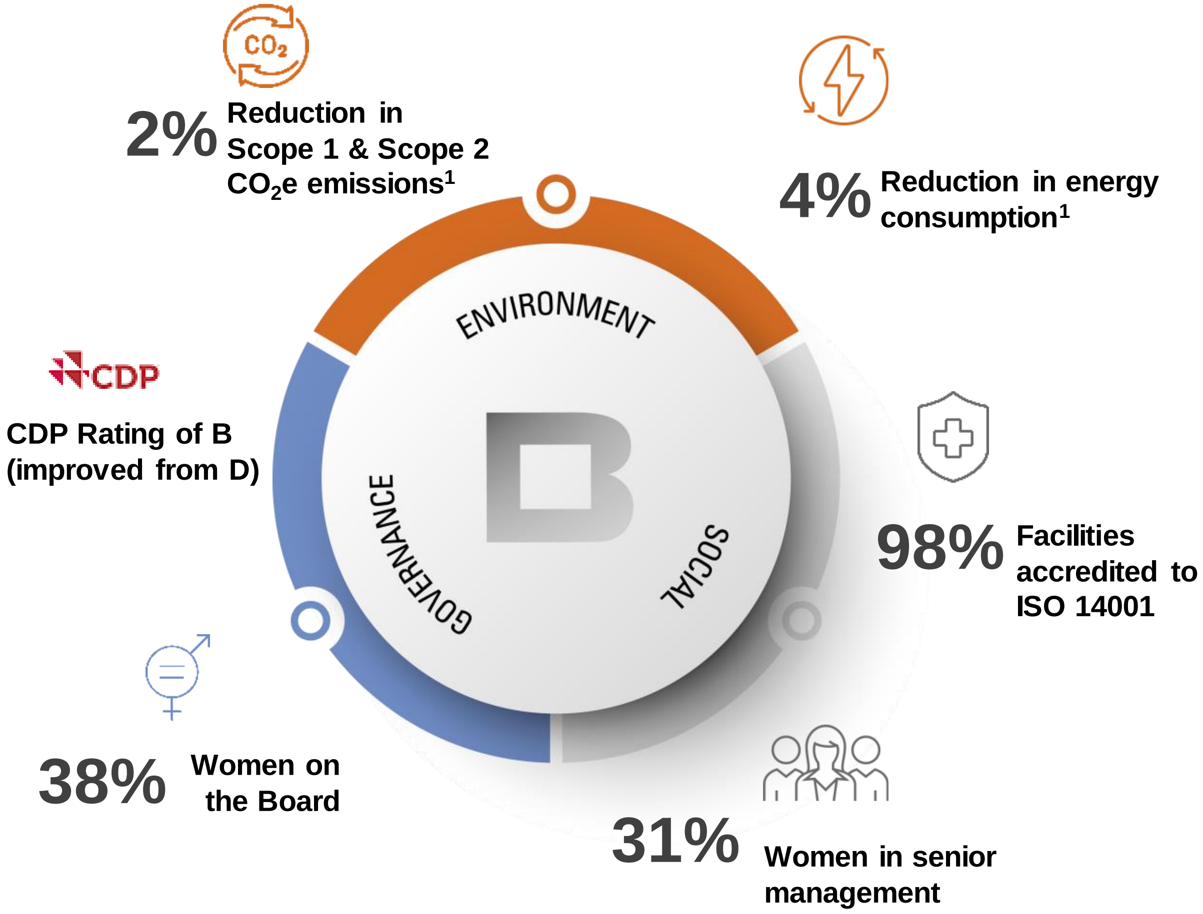


- Successfully implemented surcharges from early 2022 to protect against unprecedented energy price volatility
- Fully recovered energy costs in 2023
- Surcharges have reduced from their peak in Q1 2023 as energy prices have fallen
- Continued reduction in surcharges expected in 2024

Strong progress on our ESG agenda

Priority areas of our sustainability approach:

- **People:** fostering a safe, healthy environment in which colleagues can thrive and support the delivery of our strategic priorities
- **Customers:** offering some of the most energy-efficient processes available on the market to provide maximum benefit to our customers
- **Environment:** increasing energy efficiency and reducing CO_2e emissions in our operations to achieve our SBTi target
- **Ethical Business:** conducting our business activities to the highest standards of ethical and responsible behaviour



[1] *Performance in FY 2023 compared with 2022*

Financial Review

Ben Fidler

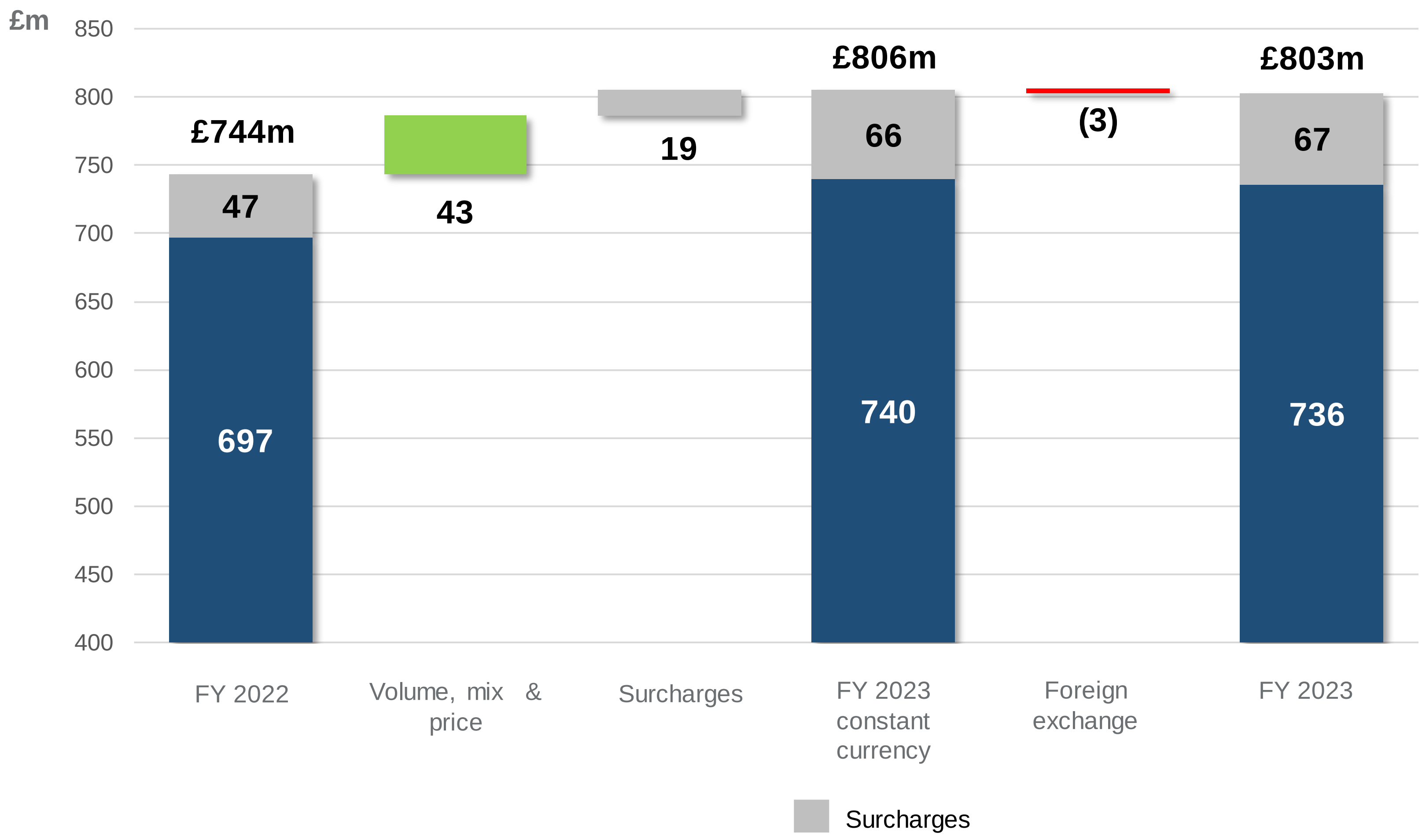
Chief Financial Officer

Bodycote

2023 results summary

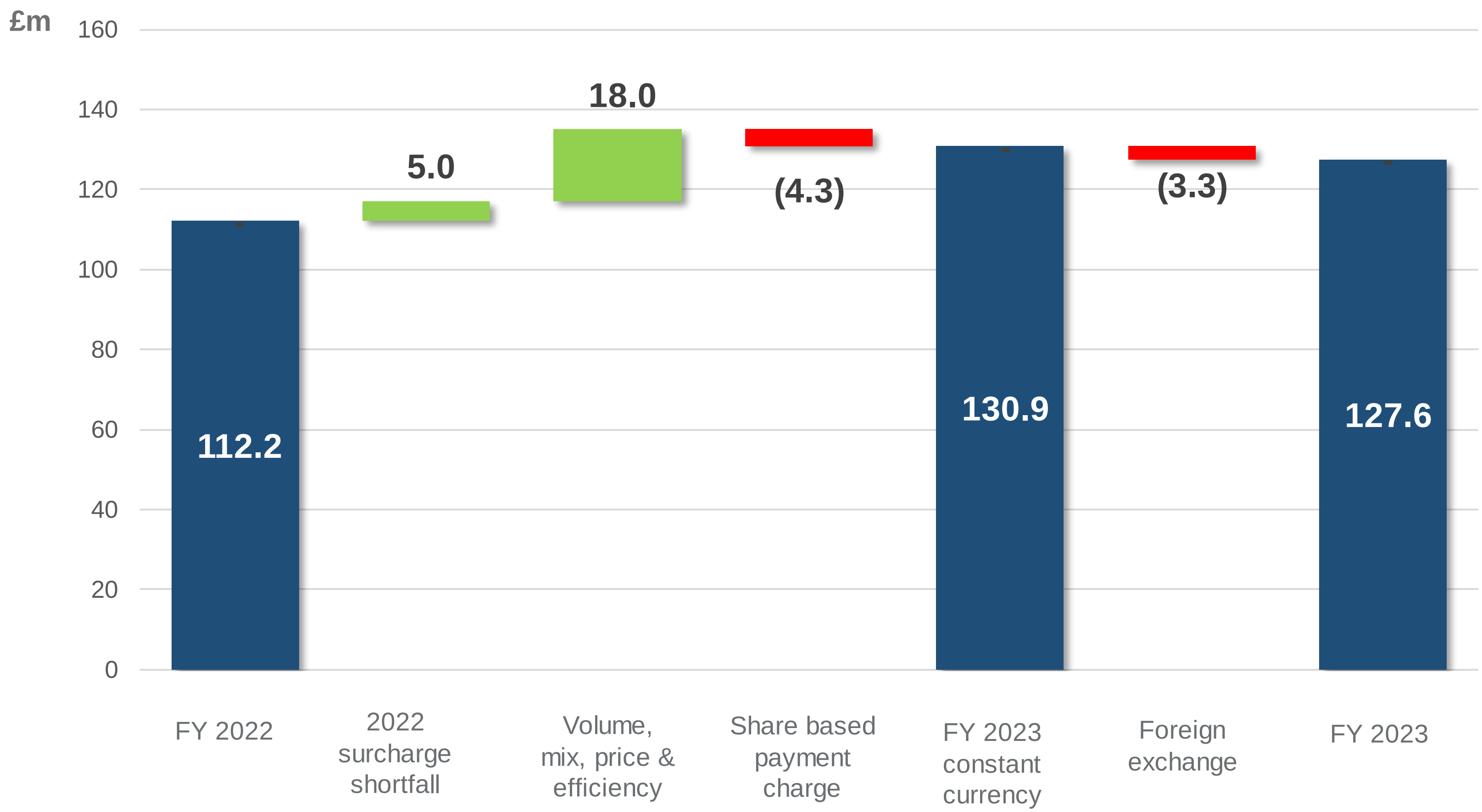
£m	2023	2022	Growth constant currency	Growth
Revenue	**802.5**	**743.6**	8%	8%
Headline operating margin	***15.9%***	***15.1%***		*+80 bps*
Headline operating profit	**127.6**	**112.2**	17%	14%
Revenue excluding surcharges	**735.7**	**697.0**	6%	6%
Headline operating margin excl. surcharges	***17.3%***	***16.1%***		*+120 bps*
Headline profit before tax	**120.1**	**105.5**	17%	14%
Headline EPS	**48.4**	**42.7**		13%
Full year dividend	**22.7p**	**21.3p**		7%
Free cash flow	**122.5**	**84.0**		46%
Return on capital employed	***14.8%***	***13.3%***		*+150 bps*

Revenue bridge



- Growth before surcharges of 6%, led by Specialist Technologies
- Surcharges added £19m to year-on-year revenue growth; level is reducing as energy prices fall
- Modest FX translation headwind of £3m

Headline operating profit bridge



- Non-recurrence of H1 2022 energy surcharge shortfall
- Other input costs successfully covered by price increases
- Good profit contribution from higher revenue and improved efficiencies
- Share based payment charge returned to more normal levels
- FX translation headwind of £3.3m in 2023

AGI and ADE summary

The AGI Business

Focused on Automotive & General Industrial customers

£m	2023	2022	Growth constant currency
Revenue excl. surcharges	404.8	396.6	3%
Revenue	447.0	430.9	4%
Headline operating profit[1]	79.3	80.8	1%
Headline operating margin[2]	*20%*	*20%*	

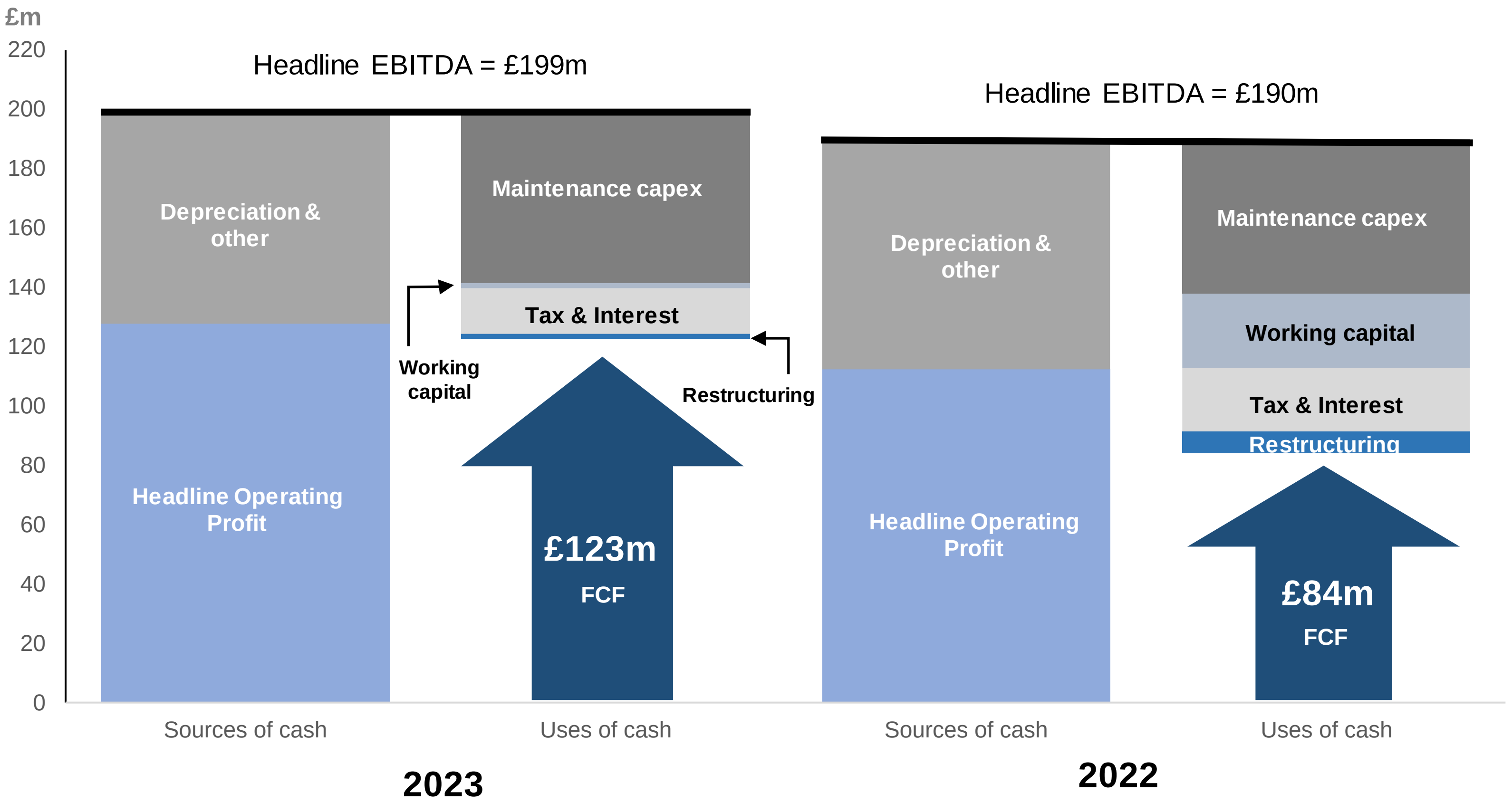
The ADE Business

Focused on Aerospace & Defence customers

£m	2023	2022	Growth constant currency
Revenue excl. surcharges	330.9	300.4	11%
Revenue	355.5	312.7	14%
Headline operating profit[1]	69.5	50.8	38%
Headline operating margin[2]	*21%*	*17%*	

[1] Profit figures exclude unallocated central costs
[2] Margin excluding surcharges

Cash flow



- Cash generation improved significantly, with free cash flow up £39m to £123m
- Driven by higher profit and a sustainable improvement in working capital
- Maintenance capex increased by £6m
- Free cash flow after expansionary capex increased by £33m to £95m

Full cash flow statement in appendix on slide 35

Change to cash flow definition in 2024

- Definitions of headline operating cash flow and free cash flow to change (from interim results 2024) to include expansionary capex
  - Aligns with common market practice; free cash flow will better reflect the cash available for inorganic growth and shareholder returns
  - Reduces the reported headline operating cash flow and free cash flow, with total cash flow and change in net debt unchanged

Current presentation
(expansionary capex below headline operating cash flow and free cash flow)

£m	2023
Headline operating profit	**127.6**
Depreciation and amortisation	74.0
Other, including impairment and profit on disposal of PPE	(2.7)
Headline EBITDA	**198.9**
Net maintenance capital expenditure	(57.7)
Net working capital movement	(1.7)
Headline operating cash flow	**139.5**
Restructuring costs	(1.6)
Financing costs, net	(6.4)
Tax	(9.0)
Free cash flow	**122.5**
Expansionary capital expenditure	(27.8)
Acquisition spend	(0.1)
Ordinary dividend	(40.6)
Own shares purchased less SBP and others	(8.1)
Reduction in net debt	**45.9**

Future presentation
(expansionary capex included within headline operating cash flow and free cash flow)

£m	2023
Headline operating profit	**127.6**
Depreciation and amortisation	74.0
Other, including impairment and profit on disposal of PPE	(2.7)
Headline EBITDA	**198.9**
Net maintenance capital expenditure	(57.7)
Expansionary capital expenditure	(27.8)
Net working capital movement	(1.7)
Headline operating cash flow	**111.7**
Restructuring costs	(1.6)
Financing costs, net	(6.4)
Tax	(9.0)
Free cash flow	**94.7**
Acquisition spend	(0.1)
Ordinary dividend	(40.6)
Own shares purchased less SBP and others	(8.1)
Reduction in net debt	**45.9**

Disciplined capital allocation

Expansionary capital expenditure	Ordinary dividends	Acquisitions	Supplemental distributions
2023: £27.8m 2022: £22.1m	**2023: £40.6m** 2022: £38.5m	**£52m** Completed acquisition of Lake City	**£60m** Announced £60m share buyback

Strong financial position enabling a balanced deployment of capital

- Year-end net cash position of £12.6m, improved from prior year net debt of £33.4m
- Pro forma net debt of c. £40m after acquisition of Lake City, completed on 19 January 2024
- Share buyback of £60m announced, which commences on 15 March

Technical Guidance

Translational FX impact Based on current FX rates	**2023**	**2024**
Revenue impact	**£(3)m**	**~£(18)m**
Profit impact	**£(3.3)m**	**~£(4)m**

Finance costs & tax	**2023**	**2024**
P&L net finance charge	**£7.5m**	**£10m - £12m**
P&L headline tax rate	***22.5%***	***~23.5%***
Cash tax	**£9.0m**	**~£20m**

Business Review

Stephen Harris

Group Chief Executive

Bodycote's role in the transition to a low-carbon economy

Major enabler of avoided emissions (Scope 4)

Bodycote's processing has a lower carbon footprint:

- CO_2e reduced by up to 60% per part
- Outsourcing to Bodycote also directly reduces customers' Scopes 1 & 2

Services that deliver real carbon reduction benefits for customers

Providing essential parts for clean tech solutions of the future

- Wind, solar, wave and fuel cell tech, hybrid & electric vehicles

Extending component lifespan to reduce resource consumption

- Increased durability of parts for less frequent repair / replacement

Enabling lighter, thinner parts to be adopted – with lower emissions

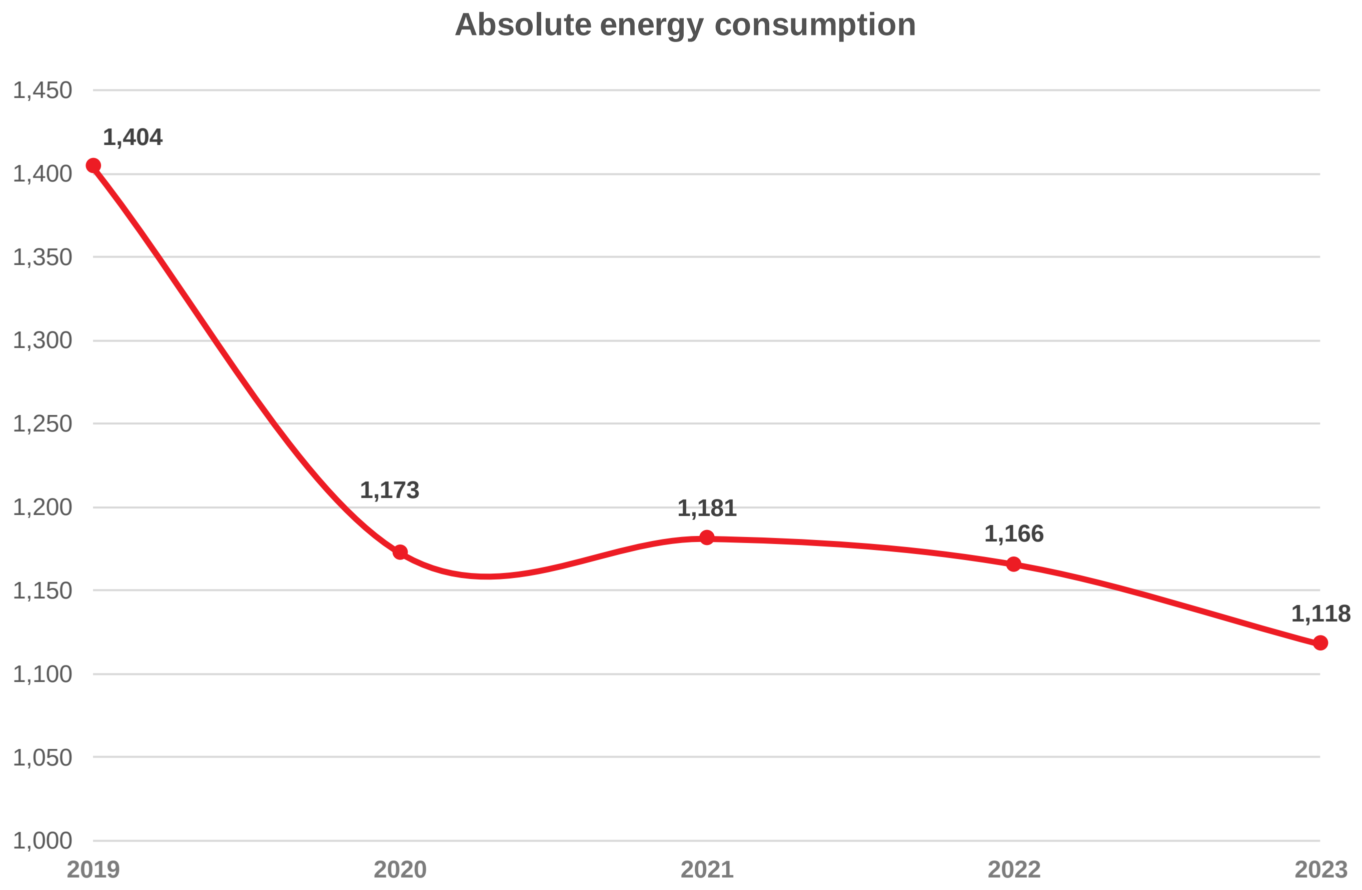
- Reduced environmental impacts during manufacturing and end-use

Winning on carbon – a case study in Europe

- Major new multi-year contract won for hybrid vehicle driveline parts
- Avoided emissions – Scope 4 – a critical factor for our customer
- Using low pressure carburising (one of our Specialist Technologies) to achieve a lower environmental impact:
  - 50% less energy
  - 99% less process gas
  - 20% shorter processing time
- Creating a win-win result:
  - Significantly reducing the customer's product carbon footprint
  - Providing low carbon revenue growth with superior margins

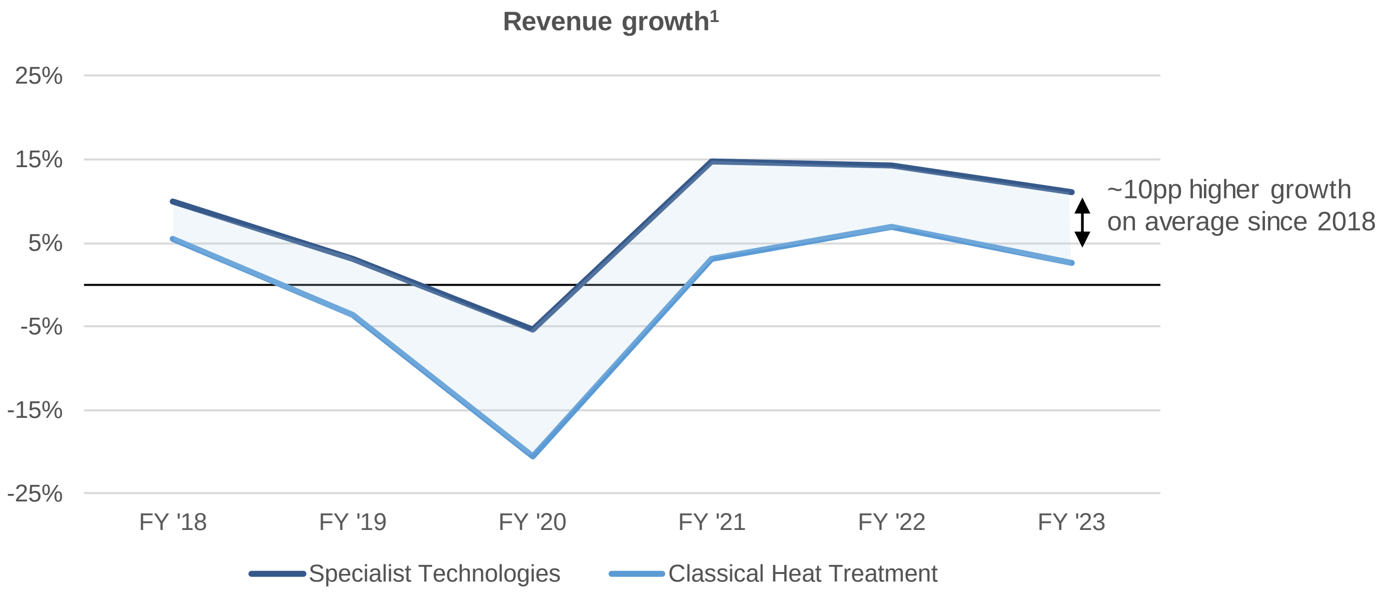
Good progress towards our SBTi target

- 24% CO_2e reduction achieved versus 2019
- On track to achieve SBTi target notwithstanding growing revenues
- Climate-related capital investment projects gaining momentum
- Absolute energy consumption reduced by 4% in 2023 vs 2022
- New business won transitioning customers to lower-carbon technologies



Annual energy consumption, GWh

Specialist Technologies outperform



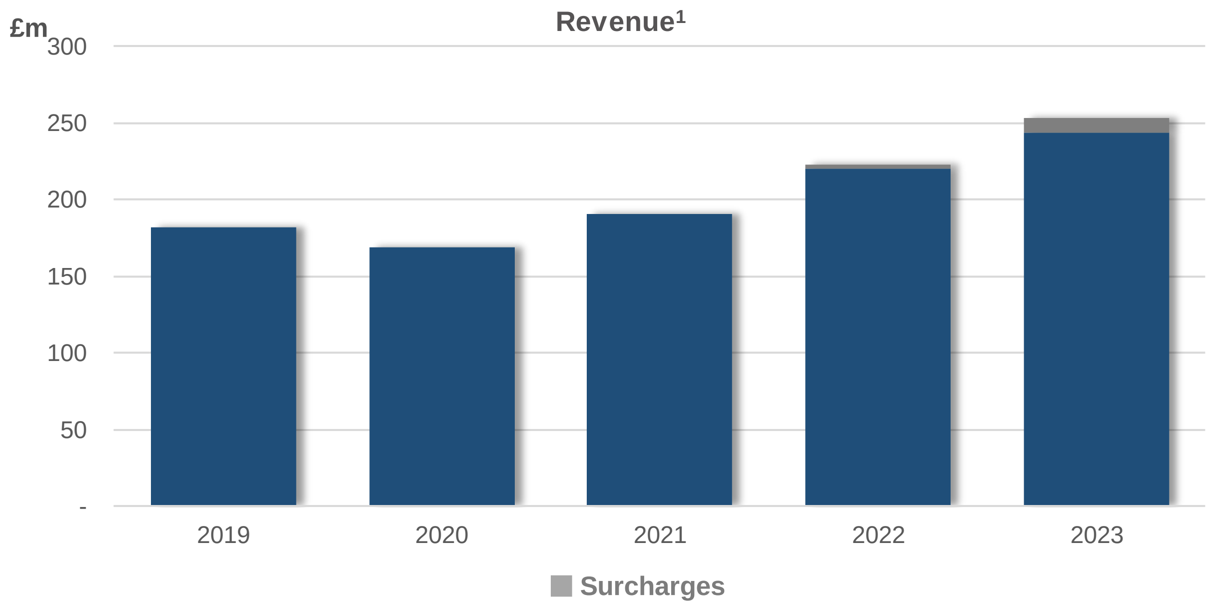
- Superior organic growth in Specialist Technologies continues to be driven both by existing customers' growth and new customer adoption
- Specialist Technologies are inherently less cyclical, with the degree of outperformance more pronounced in more challenging market conditions
- Growth supported by significant investment in additional capacity, with 58% (£16m) of 2023 expansionary capex invested in Specialist Technologies

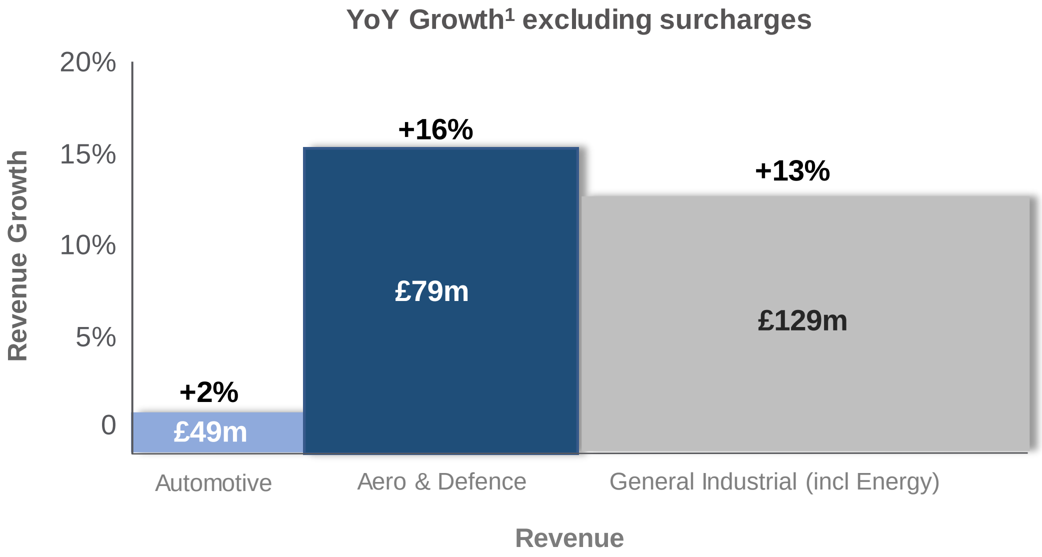
[1] *Constant currency growth excluding surcharges*

Specialist Technologies

Revenue: £257m (32% of total revenue)

YoY Growth[1] : 13%
YoY Growth[1] excl. surcharges: 12%





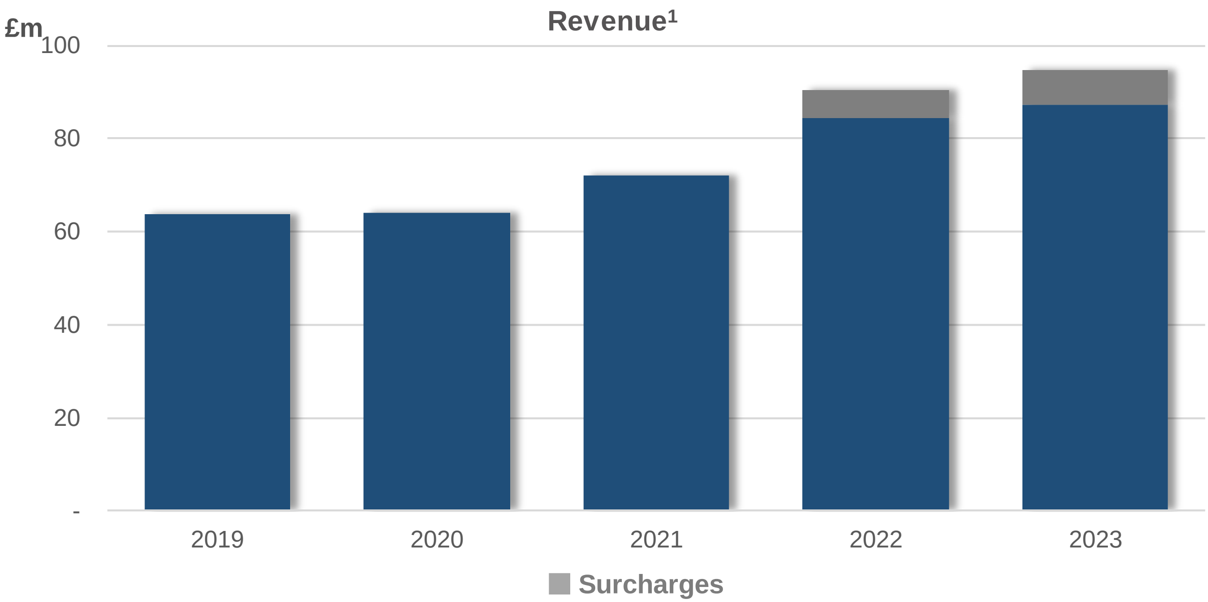
- Growth led by Civil Aerospace, up 16%, reflecting higher OE build volumes and strong aftermarket activity
- Within Specialist Technologies, General Industrial revenue was up 13%, driven by good performance in two sub-sectors:
  - Energy up by 33%, led by strong market conditions and share gains in Surface Technology
  - Medical up by close to 50%, reflecting expansion and market share gains in HIP

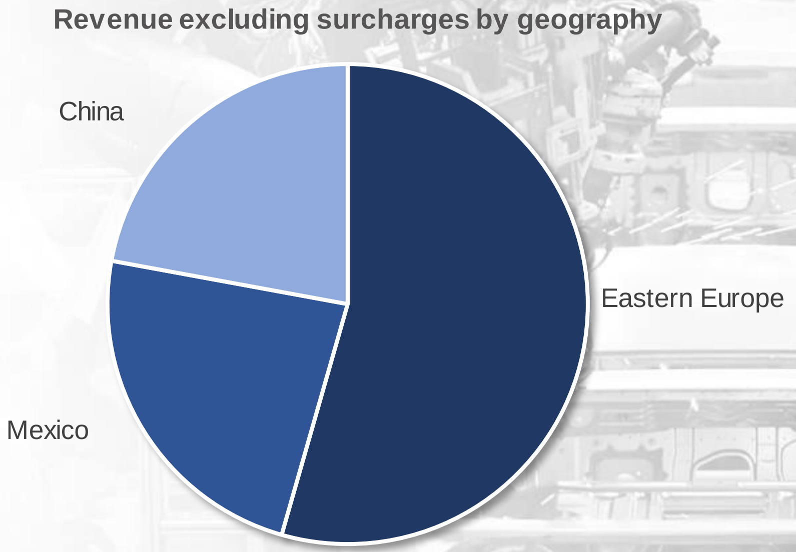
[1] *Constant currency*

Emerging Markets

Revenue: £98m (12% of total revenue)

YoY Growth[1] : 2%
YoY Growth[1] excl. surcharges: 1%





- Growth continues to be driven by Eastern Europe, up 5% excluding surcharges
- Modest decline in China, impacted by the economic slowdown in the second half
- Encouraging project bid pipeline for new electric vehicle (EV) contracts in Eastern Europe and increased traction with Chinese EV OEMs
- Investments made in anticipation of future growth in Eastern Europe, China and Turkey

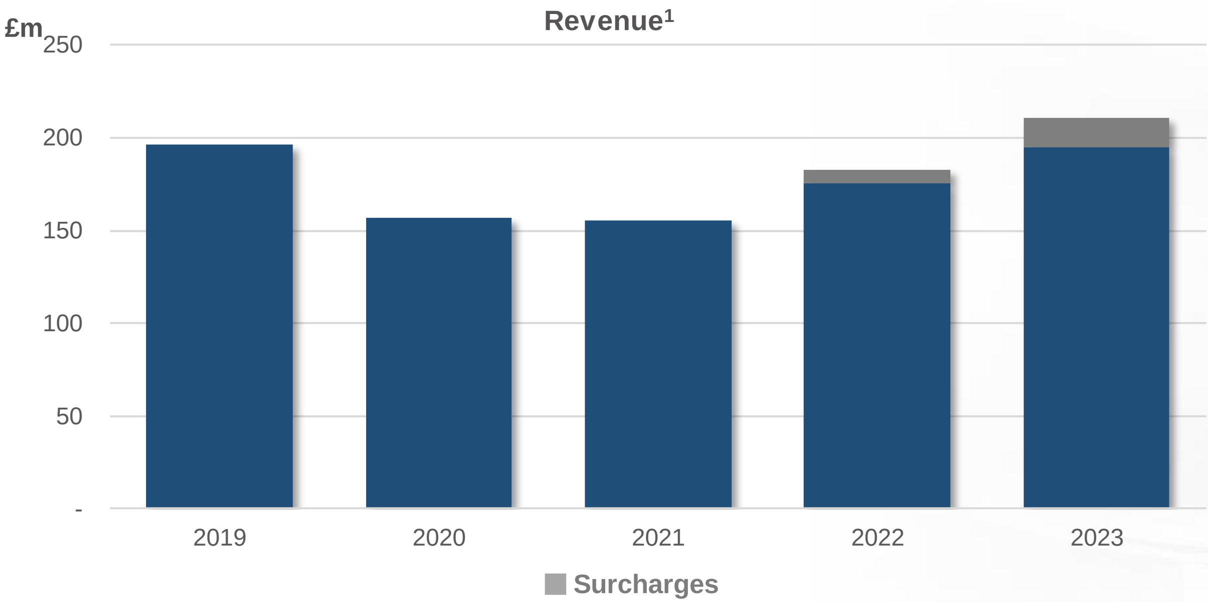
[1] Constant currency

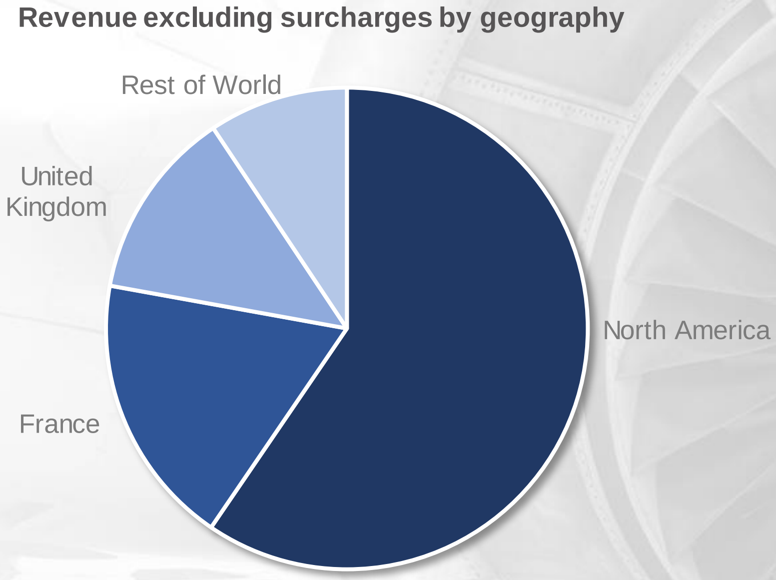
Emerging Markets include China, Mexico, Czech Republic, Poland, Turkey, Romania, Slovakia & Hungary

Aerospace & Defence

Revenue: £214m (27% of total revenue)

YoY Growth[1] : 15%
YoY Growth[1] excl. surcharges: 11%





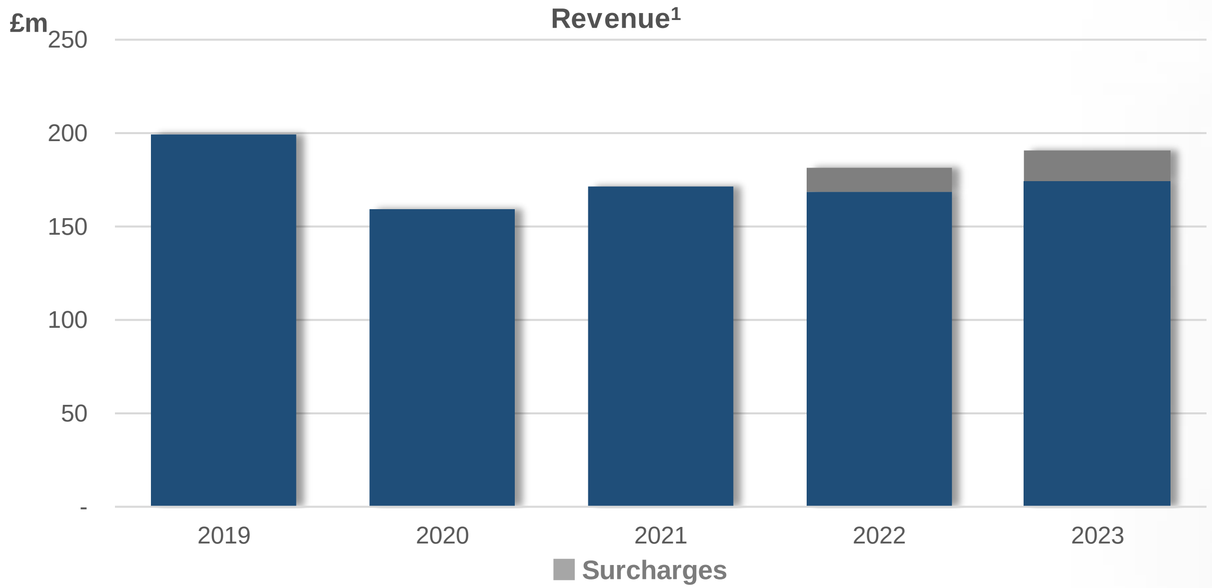
- Revenue growth led by civil aerospace, +12% excluding surcharges, driven by:
  - Ongoing increases in aircraft deliveries and aftermarket improving as air traffic continues to grow
  - Growth tempered by ongoing industry-wide supply chain challenges
- Good growth in defence (+10%), notably in France and the US
- Outlook remains strong as industry growth continues, supported by exposure to newer platforms

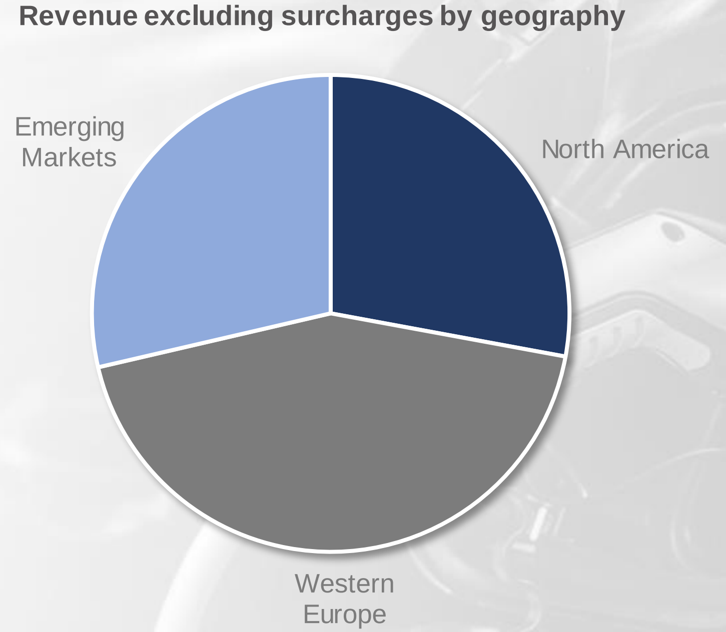
[1] *Constant currency*

Automotive

Revenue: £195m (24% of total revenue)

YoY Growth[1] : 6%
YoY Growth[1] excl. surcharges: 5%





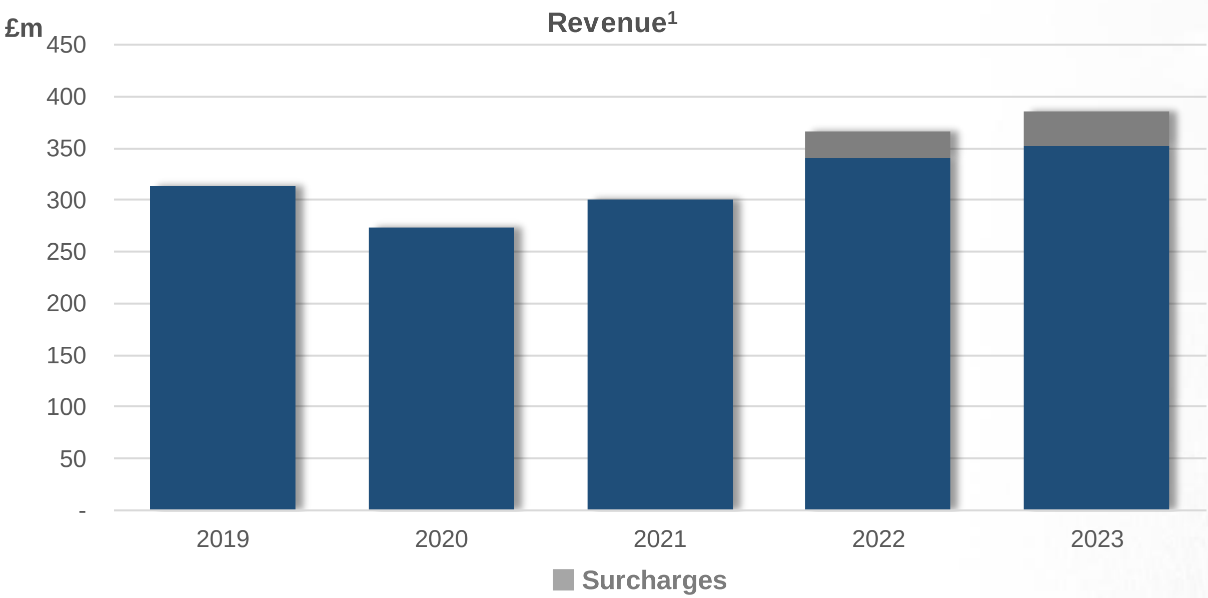
- Eastern Europe up 24% (excl. surcharges), partly offset by weakness in China and Mexico
- Modest growth in Western Europe, led by heavy truck & bus (+18% excl. surcharges) with flat revenue in car and light truck
- Low single-digit growth in North America
- Secured further major OEM contracts for EVs which will support future growth

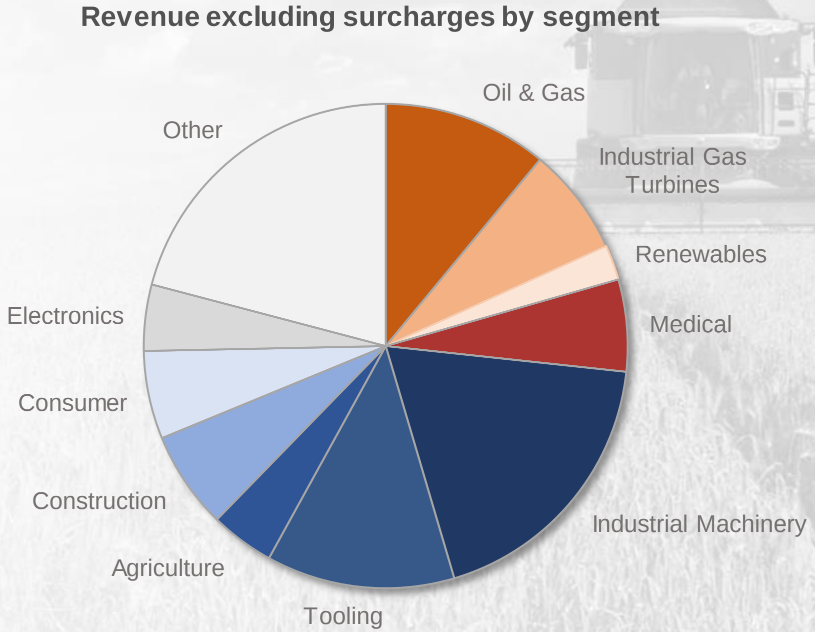
[1] *Constant currency*

General Industrial

Revenue: £394m (49% of total revenue)

YoY Growth[1] : 6%
YoY Growth[1] excl. surcharges: 4%





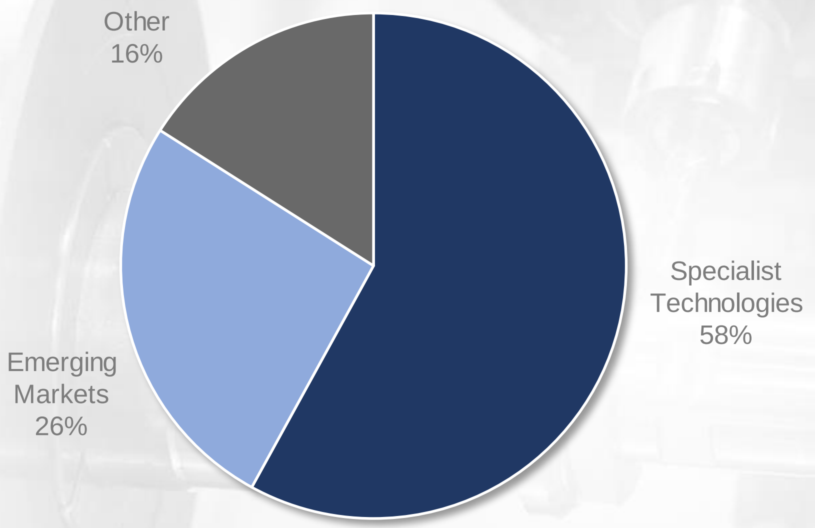
- Strong growth achieved in energy and medical, both up c. 25% driven by underlying market growth and increases in our market penetration
- Partly offset by declines in industrial machinery and tooling revenues, reflecting end market trends

[1] Constant currency

Investing for future growth

- Over 80% of 2023 expansionary capex deployed in our strategic focus areas of Specialist Technologies, Emerging Markets, civil aerospace and electric vehicles
  - US HIP capacity increased on East Coast and in the Midwest
  - Nitriding, CiD® and LPC capacity expansion in Emerging Markets with new greenfield facilities
  - Capacity expansion to support growing electric vehicle demand in Emerging Markets and fuel cell markets in Western Europe and US
  - New EV-focused facility underway in China
  - Capacity increases in Poland, Hungary and Turkey
- New S^3P greenfield facility planned in Western Europe

2023 expansionary capex £28m



For definitions of Specialist Technologies please see slide 32

Outlook

We will continue to deliver on our strategic focus areas in 2024, including driving growth in Specialist Technologies, capitalising on the growth opportunities from delivering carbon reductions for our customers, and integrating the newly acquired Lake City business.

Despite macroeconomic uncertainty we expect to deliver further progress in 2024. We anticipate a reduction in the level of energy surcharges, reflecting further normalisation of energy prices.

2024 should see us take another step towards our medium term margin target of more than 20%.

The Board remains confident in the Group’s prospects for continued profitable growth.

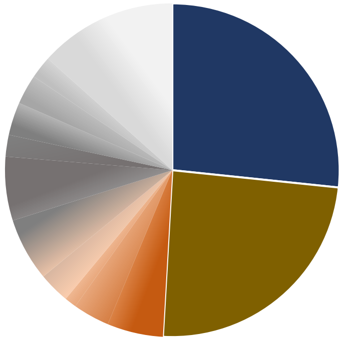
Well positioned for the future

World's leading provider of thermal processing services

Expertise	Scale	Breadth	Low Carbon
Wide range of processes & extensive technical resources	Diversified end markets and >40,000 customers	>165 facilities bringing economies of scale and security of supply	Major enabler of avoided carbon for customers

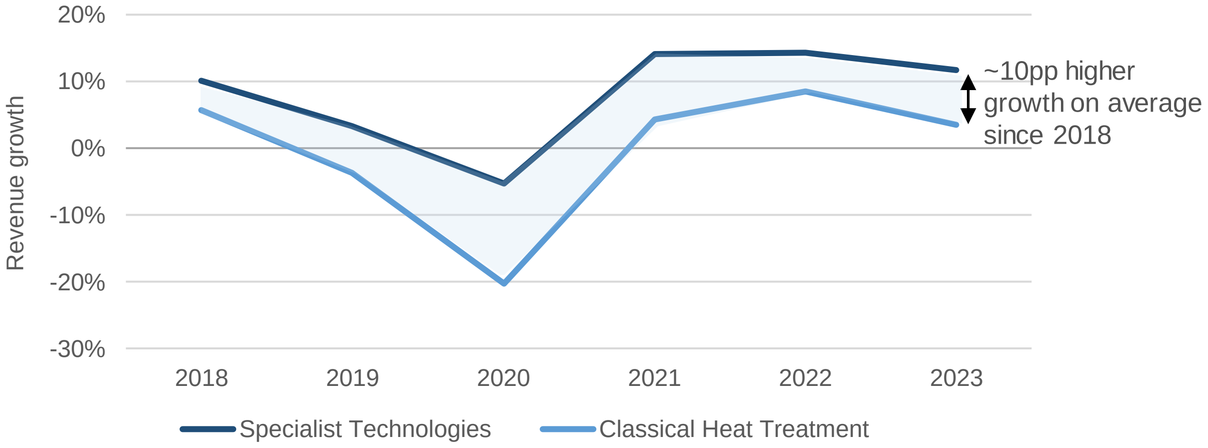
Diversified markets & structural growth opportunities

% of FY 2023 Group revenue



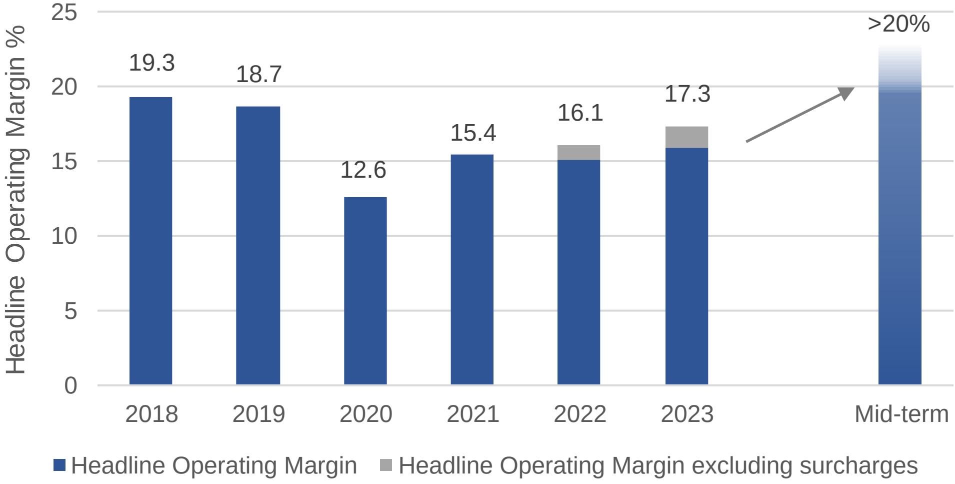
Specialist technologies is outperforming…

Revenue growth at constant currency, excluding surcharges



…driving margins to >20% in the medium term

Headline Operating Margin (%)



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^3P)
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.

2023 Statutory income statement

£m	2023	2022	% change
Revenue	**802.5**	**743.6**	**8%**
Headline operating profit	**127.6**	**112.2**	**14%**
Amortisation of acquired intangible assets	(8.1)	(9.3)	(13)%
Acquisition costs	(0.3)	(0.9)	(67)%
Operating profit	**119.2**	**102.0**	**17%**
Net finance charge	(7.5)	(6.7)	12%
Profit before taxation	**111.7**	**95.3**	**17%**
Earnings per share (basic[1])	**45.1p**	**38.6p**	**17%**
Headline earnings per share (basic[1])	**48.4p**	**42.7p**	**13%**

[1] *Fully diluted earnings were not material in either year*

2023 Cash flow

£m	2023	2022
Headline operating profit	**127.6**	**112.2**
Depreciation and amortisation	74.0	74.9
Other, including impairment and profit on disposal of PPE	(2.7)	3.0
Headline EBITDA	**198.9**	**190.1**
Net maintenance capital expenditure	(57.7)	(52.2)
Net working capital movement	(1.7)	(25.3)
Headline operating cash flow	**139.5**	**112.6**
Restructuring costs	(1.6)	(7.4)
Financing costs, net	(6.4)	(5.8)
Tax	(9.0)	(15.4)
Free cash flow	**122.5**	**84.0**
Expansionary capital expenditure	(27.8)	(22.1)
Acquisition spend	(0.1)	(0.9)
Ordinary dividend	(40.6)	(38.5)
Own shares purchased less SBP and others	(8.1)	1.7
Reduction in net debt	**45.9**	**24.2**
Opening net debt	(99.4)	(116.4)
Foreign exchange movements	1.8	(7.2)
Closing net debt	**(51.7)**	**(99.4)**
Lease liabilities	64.3	66.0
Net cash/(debt) excluding lease liabilities	**12.6**	**(33.4)**

Financial information

B/S Currency (at closing rates)	**2023**	**2022**
EUR	1.15	1.13
USD	1.27	1.20
SEK	12.76	12.54
TRY	37.59	22.52

P&L Currency (at average rates)	**2023**	**2022**	% of 2023 revenues	Revenue sensitivity[1]	Profit sensitivity[1]
EUR	1.15	1.17	37%	~£3m	~£0.6m
USD	1.24	1.24	34%	~£3m	~£0.3m
SEK	13.18	12.47	6%	~£0.5m	~£0.1m
TRY	29.37	20.50	2%	~£0.1m	~£0.05m

[1] *Impact of a 1% change in the exchange rate*

Net finance charge, balance sheet & tax

Net finance charge

£m	2023	2022
Interest on bank loans and overdrafts	(2.7)	(2.3)
Interest on lease liabilities	(2.7)	(1.8)
Other finance charges	(2.9)	(3.0)
Total finance charge	**(8.3)**	**(7.1)**
Total finance income	**0.8**	**0.4**
Net finance charge	**(7.5)**	**(6.7)**

Key balance sheet items

£m	2023	2022
Cash & cash equivalents	45.2	37.2
Drawn debt/overdrafts	(32.6)	(70.6)
Net cash / (debt)[1]	**12.6**	**(33.4)**
Committed facilities	260.6	255.4
Other[2]	0.3	1.0
Liquidity	**273.5**	**223.0**

- The key facility is a £251m RCF maturing in May 2027 (£32m drawn)

Tax

	2023	2022
Headline tax rate	22.5%	22.3%

[1] Excluding lease liabilities
[2] Represents utilisation of an uncommitted overdraft facility

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 margin	Headline operating profit divided by revenue
Headline operating cash flow	Headline EBITDA adjusted for net working capital movements and maintenance capital expenditure
Free cash flow	Headline operating cash flow less restructuring cash flows, finance costs and taxes paid
Free cash flow conversion	Free cash flow as a percentage of 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 periods
RCF	Revolving Credit Facility
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