

# 2014 Interim Results

31 July 2014

 **Bodycote**

**Stephen Harris**

*Chief Executive*



# Agenda

Highlights

Financial review

Business review

Outlook

- Encouraging sales growth at constant exchange rates
- New Technologies moved ahead strongly
- Headline margin and operating profit continued to grow strongly
- Net cash at 30 June<sup>1</sup>
- Interim dividend of 4.6p, up 5%

<sup>1</sup> After total payment of £36.5m for the 2013 final (£17.4m) and special dividends (£19.1m)



**David Landless**

*Finance Director*



- Sales growth: Constant exchange rates +5%
- Exchange rate changes -6%
- Overall -1%
  
- Headline margin up 140 basis points to 18.0%
  
- Headline operating profit up 7%
  
- Net cash of £5.5m
  
- Bank facilities extended to 2019

# 2014 Interim results summary

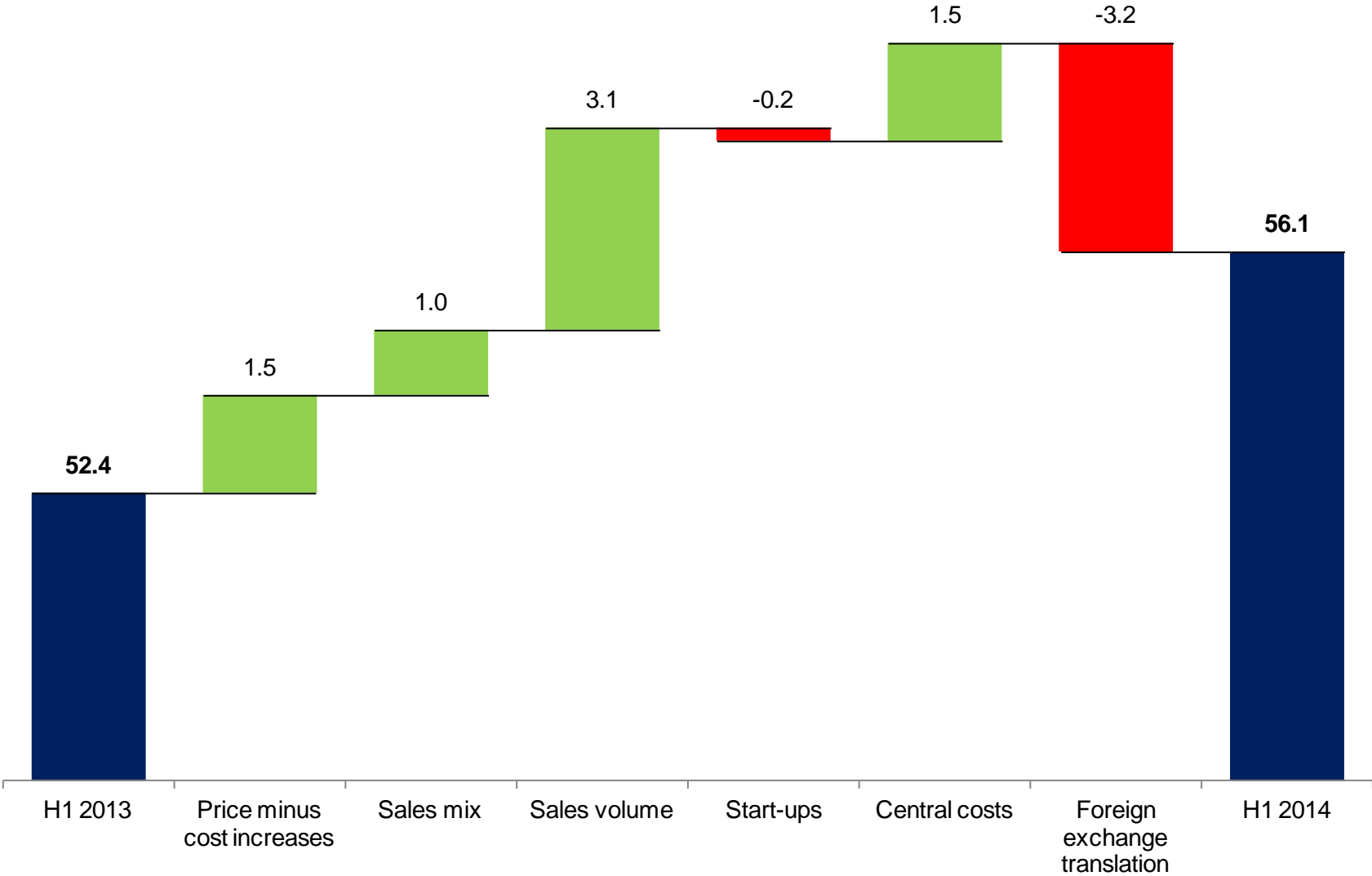


£m	H1 2014	H1 2013	change
<b>Revenue</b>	<b>312.3</b>	<b>316.5</b>	<b>-1%</b>
<b>Headline: Operating profit</b>	<b>56.1</b>	<b>52.4</b>	<b>7%</b>
<b>Margin</b>	<b>18.0%</b>	<b>16.6%</b>	<b>140bp</b>
<b>Profit before tax</b>	<b>54.5</b>	<b>50.6</b>	<b>8%</b>
<b>Amortisation of acquired intangibles</b>	<b>(1.9)</b>	<b>(2.1)</b>	
<b>Headline operating cash flow</b>	<b>44.0</b>	<b>46.5</b>	
<b>Headline operating cash conversion</b>	<b>78%</b>	<b>89%</b>	
<b>Net cash/(debt)</b>	<b>5.5</b>	<b>(27.1)</b>	
<b>Headline effective tax rate<sup>1</sup></b>	<b>22.8%</b>	<b>24.7%</b>	<b>-190bp</b>
<b>Headline EPS</b>	<b>22.1p</b>	<b>20.0p</b>	<b>11%</b>
<b>Ordinary dividend</b>	<b>4.6p</b>	<b>4.4p</b>	<b>5%</b>

<sup>1</sup> Headline effective tax rate benefits from one-off factors in H1 2014, will also be reflected in H2

# Headline operating profit bridge

(£m)





# Divisional summary



£m	H1 2014	H1 2013	YOY Growth:				
			Currency	Organic	%	Total	%
<b>ADE Divisions</b>							
Revenue	133.5	132.6	(7.3)	8.2	6%	0.9	1%
Headline Operating Profit <sup>1</sup>	36.0	34.2	(2.2)	4.0	12%	1.8	5%
<i>Margin</i>	27.0%	25.8%					
<b>AGI Divisions</b>							
Revenue	178.8	183.9	(11.4)	6.3	3%	(5.1)	-3%
Headline Operating Profit <sup>1</sup>	25.3	25.4	(1.4)	1.3	5%	(0.1)	0%
<i>Margin</i>	14.1%	13.8%					
<b>Group</b>							
Revenue	312.3	316.5	(18.7)	14.5	5%	(4.2)	-1%
Headline Operating Profit	56.1	52.4	(3.2)	6.9	13%	3.7	7%
<i>Margin</i>	18.0%	16.6%					

<sup>1</sup> Headline operating profit before central costs

# Cash flow

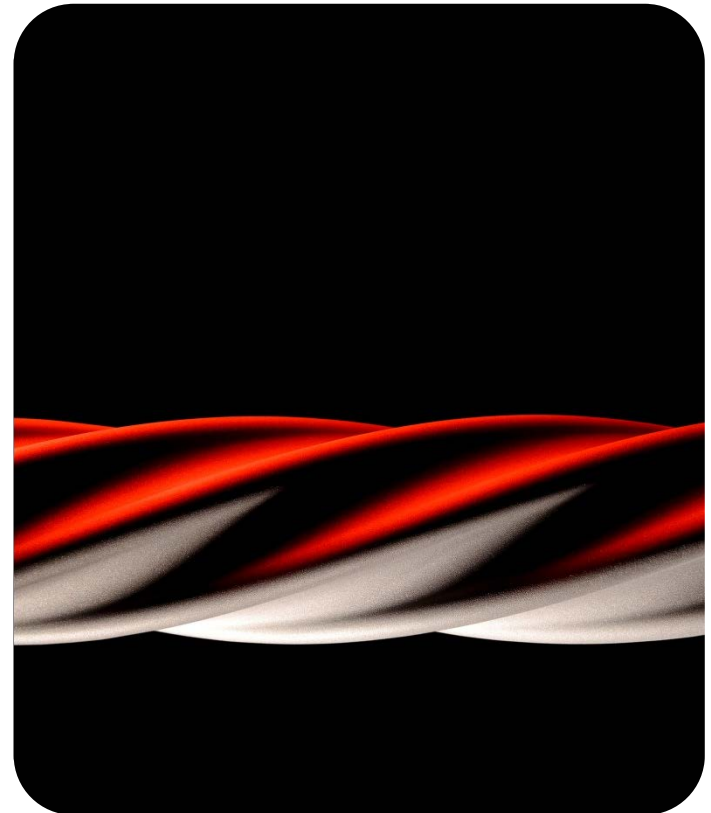
£m	H1 2014	H1 2013
<b>Headline operating profit</b>	<b>56.1</b>	<b>52.4</b>
Add back: Depreciation and amortisation	26.4	28.2
Share-based payments	1.9	3.0
<b>Headline EBITDA</b>	<b>84.4</b>	<b>83.6</b>
Net capital expenditure	(31.5)	(28.6)
Working capital	(8.9)	(8.5)
<b>Headline operating cash flow</b>	<b>44.0</b>	<b>46.5</b>
Restructuring	(1.2)	(3.0)
Financing costs	(1.3)	(1.7)
Tax	(9.4)	(14.3)
<b>Free cash flow</b>	<b>32.1</b>	<b>27.5</b>
Dividends	(36.5)	(15.7)
Other	(5.1)	(4.7)
<b>(Increase)/reduction in net debt</b>	<b>(9.5)</b>	<b>7.1</b>
<b>Net cash/(debt)</b>	<b>5.5</b>	<b>(27.1)</b>

Capex to depreciation ratio  
1.2 times (H1 2013: 1.0 times)  
- Greenfield investment and  
S<sup>3</sup>P capacity expansion

Includes payment of 2013  
Special Dividend (£19.1m)

## Stephen Harris

*Chief Executive*

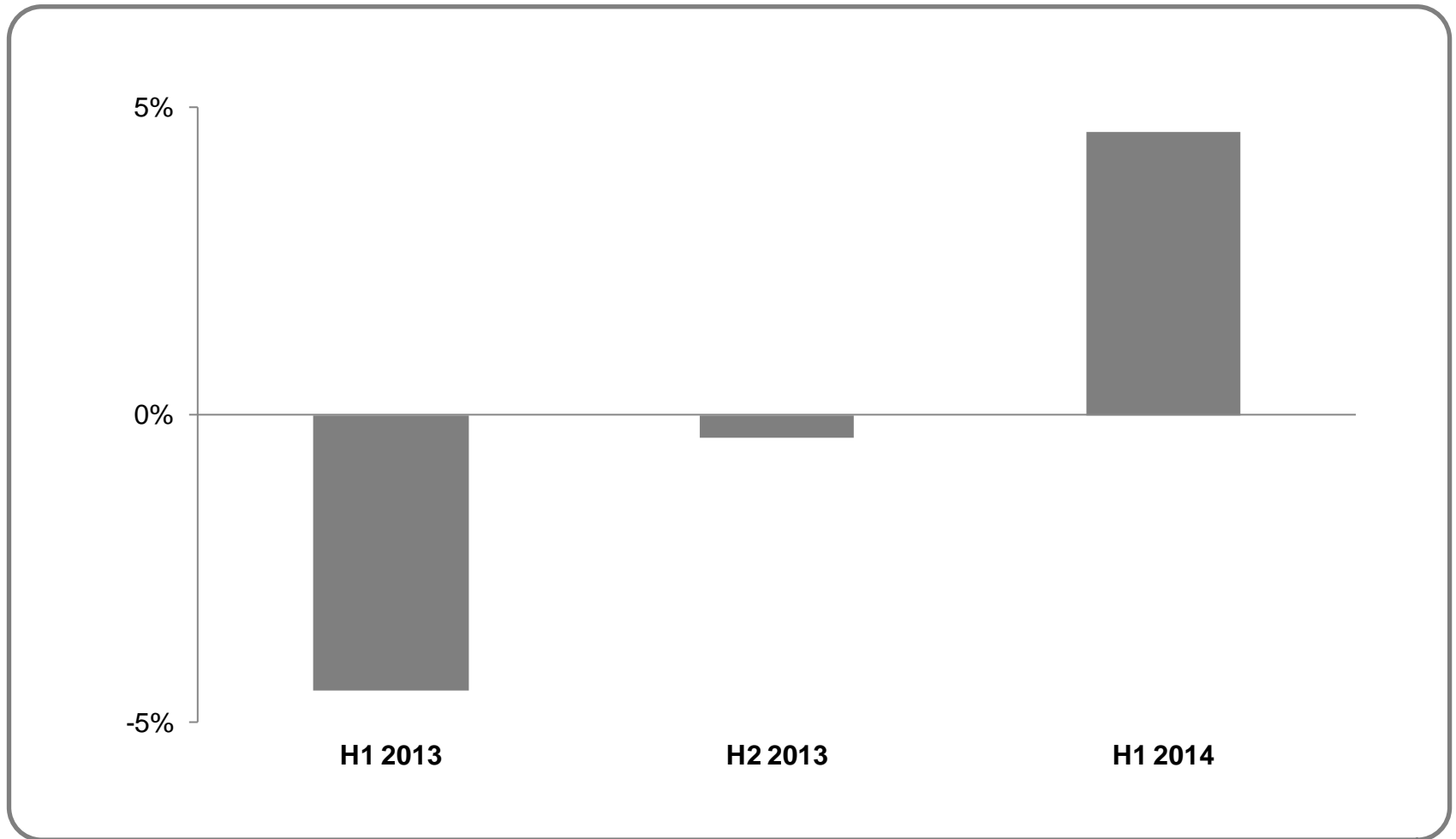


### **Ceramic coating**

Bodycote's ceramic coatings represent a significant advance in surface engineering technology. Can extend component lifetime by up to 25 times.

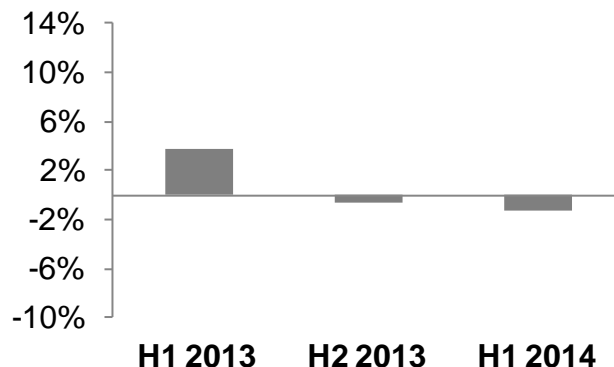
# Year on year sales growth

At constant exchange rates



## Aerospace & Defence

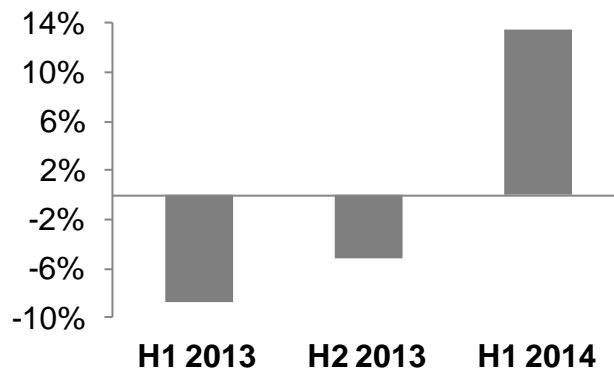
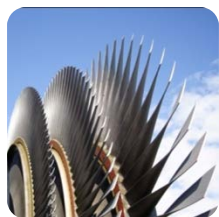
H1 2014 Sales £67m



- OEM supply chain structural changes
- Inventory adjustments ahead of platform changeovers
- Reduced defence spending

## Energy

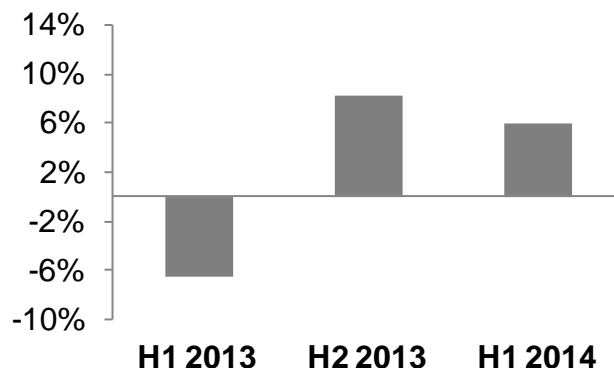
H1 2014 Sales £44m



- 2013 impacted by severe destocking in oil and gas
- HIP PF drives sub-sea growth
- IGT growth moderating

## Automotive

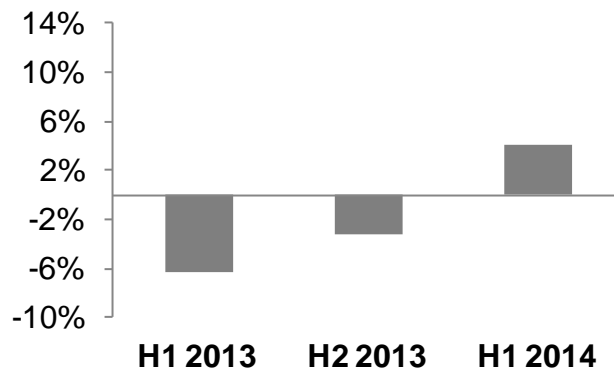
H1 2014 Sales £77m



- Car & light truck well up, led by Europe
- Heavy truck destocking impacted 2013 - demand not yet recovered

## General Industrial

H1 2014 Sales £124m

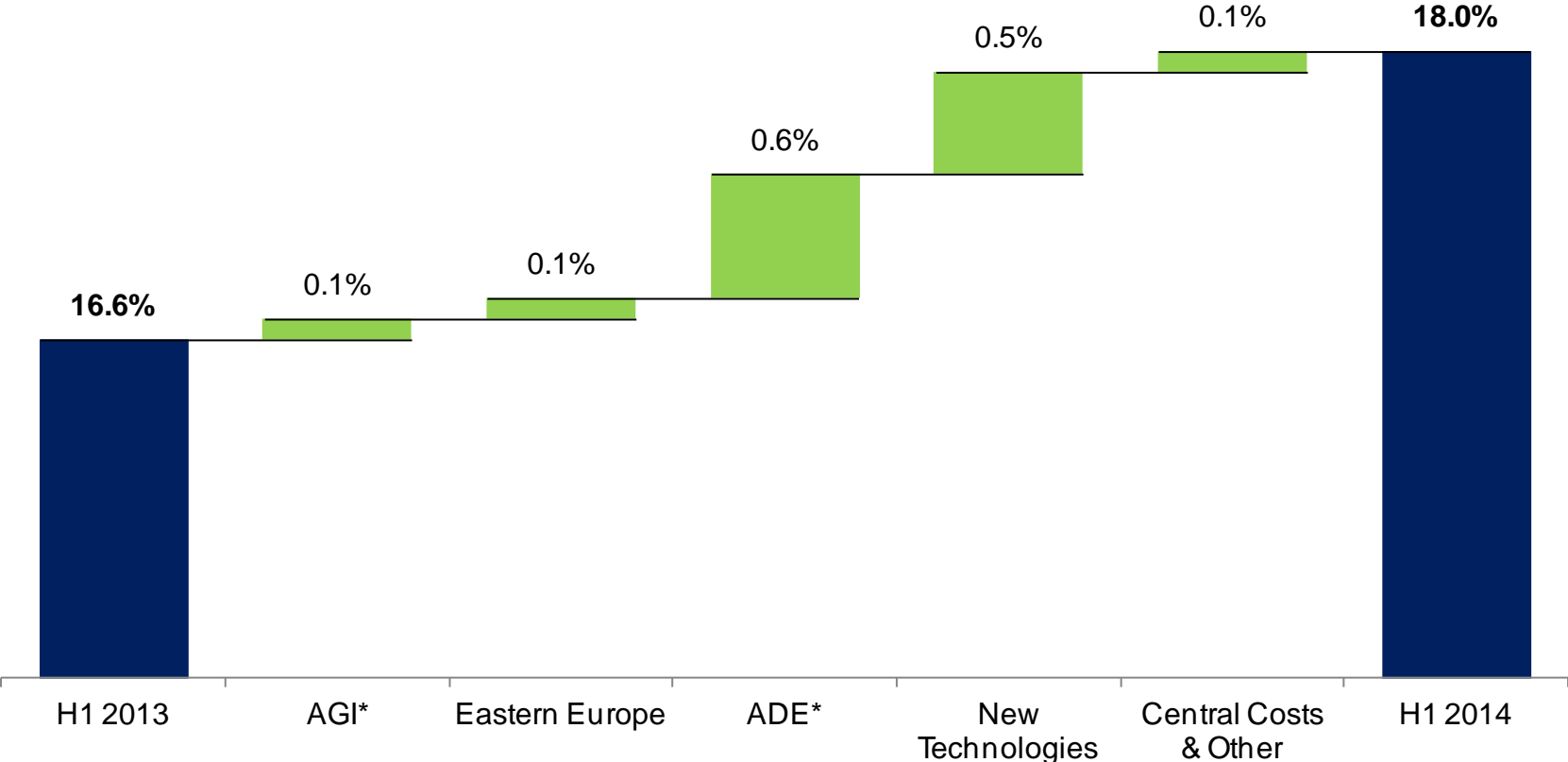


- Broad-based recovery in demand, despite continued mining weakness
- Europe stronger than North America



- New Giga HIP in US now fully operational, providing additional capacity for Aerospace and IGT
- Investment in HIP PF & S<sup>3</sup>P resulting in strong sales growth:
  - HIP PF - traction gained in subsea oil & gas
  - S<sup>3</sup>P - further penetration into medical and specialist automotive markets
- Network development in emerging markets:
  - Four new facilities
  - Supporting customers' expansion requirements

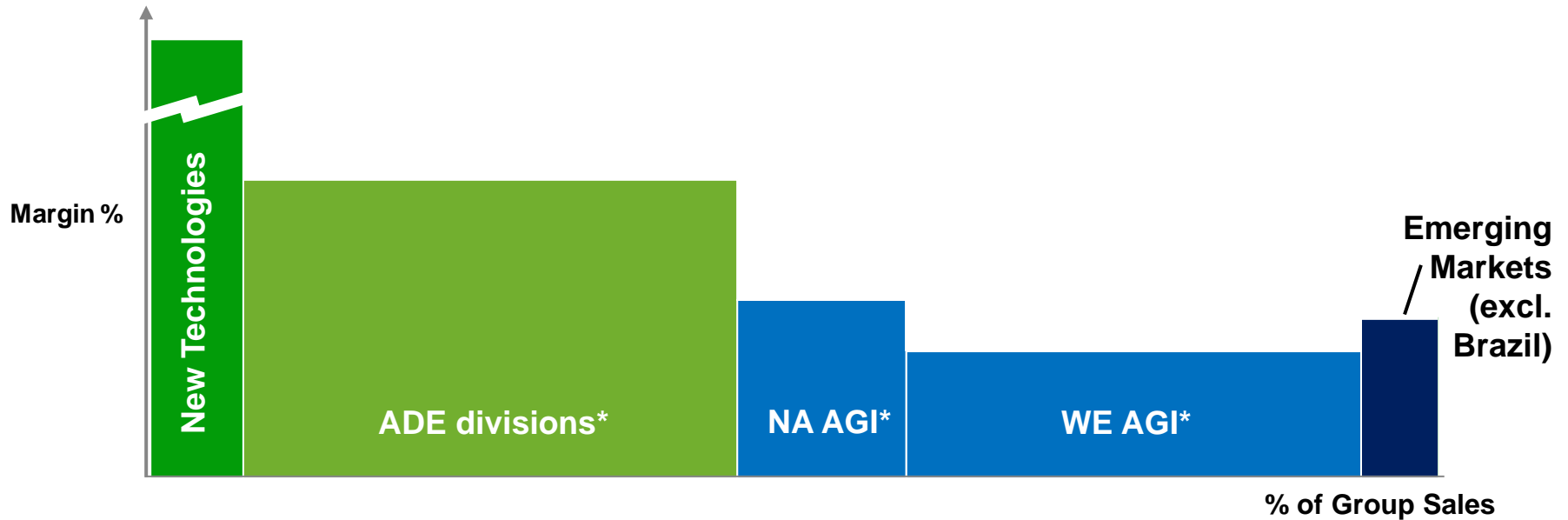
# Headline margin bridge



\* ADE and AGI are shown excluding New Technologies, Eastern Europe and Brazil

# Elements of profit growth

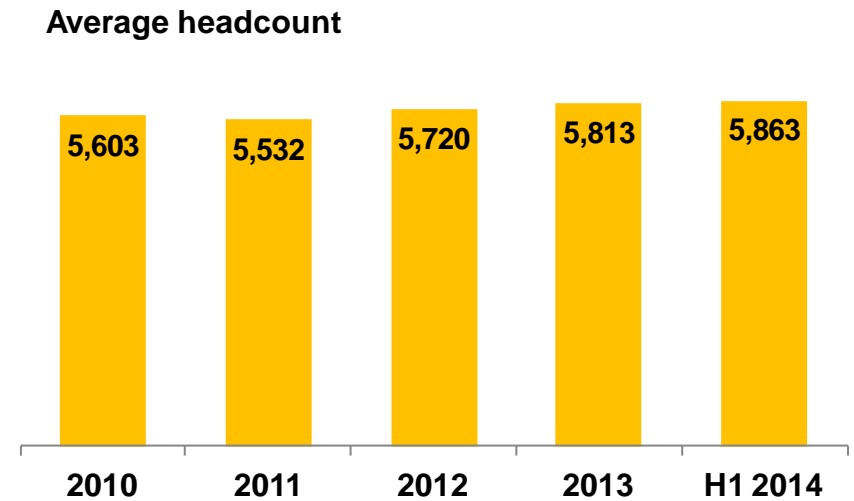
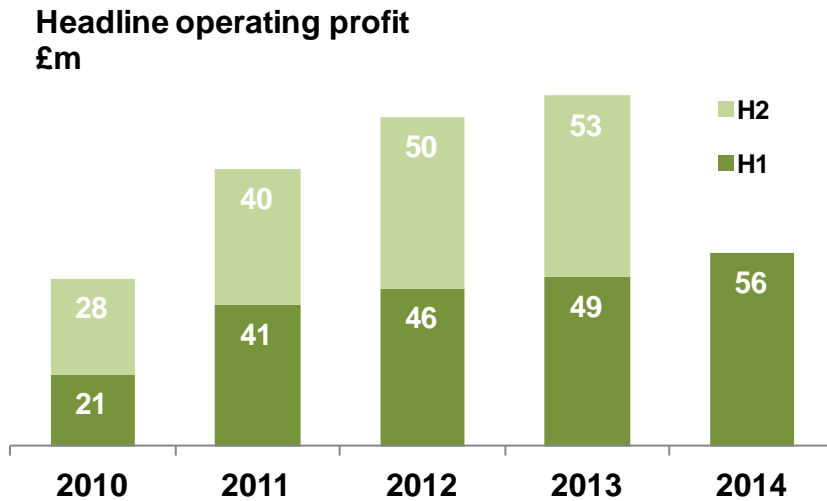
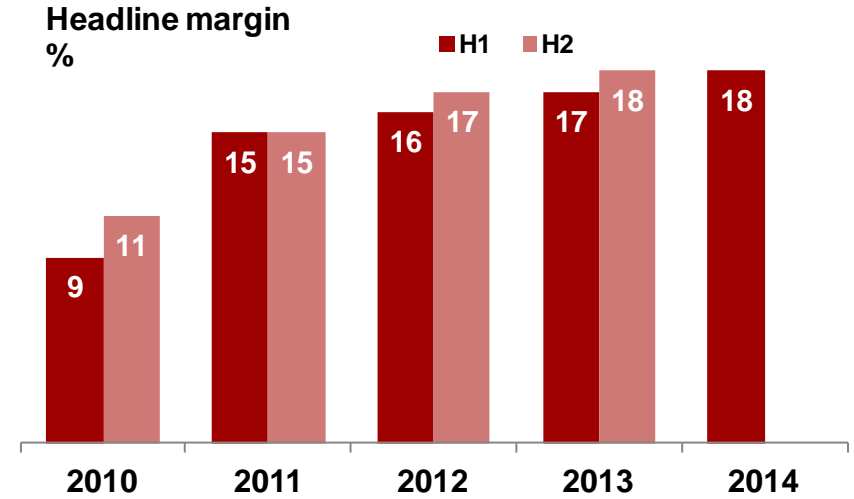
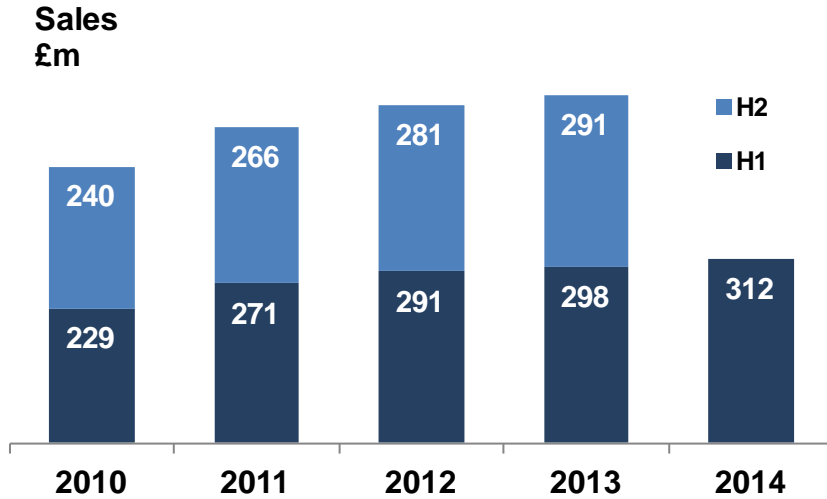
Improving business mix



- Highest growth in New Technologies
- Margin improvement in both divisions

# Five year perspective

At 2014 exchange rates



**New Technologies**



- **Benefiting overall margin by 50bp**

**Energy**



- **Increasing from 2013 lows**

**Aerospace & Defence**



- **Inventory adjustments to continue**

**General Industrial**



- **Broad-based pick up**

**Automotive**



- **Improving sales picture**

**Currency**



- **H1 headline operating profit impact £3.2m**  
**At current rates H2 impact c.£5.0m**

The Group delivered a strong first half performance. Organic growth and margin improvement were affected by currency headwinds, which at current exchange rates will have a greater impact in the second half.

Noting that the Group has limited forward visibility, the Board continues to expect further progress in 2014 on a constant currency basis.



# Save the date

## **Bodycote Capital Markets Day**

Friday 21<sup>st</sup> November 2014

The Royal Academy of Engineering, London SW1Y

*This is a morning event, concluding with lunch*

Invitation to follow...

[www.bodycote.com](http://www.bodycote.com)

The logo for Bodycote, featuring a red square followed by the word "Bodycote" in a bold, black, sans-serif font. The logo is positioned in the bottom right corner of the slide, partially overlapping a large, stylized graphic of a grey, curved shape that resembles a folded piece of paper or a metallic surface.



**Bodycote**

# Definitions

Term	Definition
Headline Operating Profit	Operating profit before exceptional costs and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, exceptional costs and amortisation of acquired intangibles
Headline Operating Cash Flow	Cash generated by operations, less net capital expenditure and before cash flow relating to exceptional items
Headline EBITDA	Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets, profit or loss on disposal of property, plant and equipment, cash flow relating to restructuring, acquisition costs and share-based payments
Headline EPS	Earnings per share excluding exceptional costs and tax on exceptional costs
Headline Operating Cash Conversion	Headline operating cash flow divided by headline operating profit
Organic revenue growth/decline	The change in revenue excluding the impact of foreign exchange rate movements and the impact of acquisitions

# H1 2014 Statutory income statement



£m	H1 2014	H1 2013
<b>Revenue</b>	<b>312.3</b>	<b>316.5</b>
<b>Headline operating profit</b>	<b>56.1</b>	<b>52.4</b>
Amortisation of acquired intangible fixed assets	(1.9)	(2.1)
<b>Operating profit</b>	<b>54.2</b>	<b>50.3</b>
Net finance costs	(1.6)	(1.8)
<b>Profit before tax</b>	<b>52.6</b>	<b>48.5</b>
Headline earnings per share (pence)	H1 2014	H1 2013
<b>Basic</b>	<b>22.1p</b>	<b>20.0p</b>



# Net finance charge / facilities

£m	H1 2014	H1 2013
Net interest payable	0.1	0.4
Financing costs	0.8	0.7
Other charges	0.4	0.4
Pension finance charge	0.3	0.3
<b>Net finance charge</b>	<b>1.6</b>	<b>1.8</b>

- Interest payable: decrease due to lower average net debt
- Financing costs: increase due to higher undrawn committed facilities costs
- Closing net cash of £5.5m, no debt drawn under committed facilities
- £125m and €125m RCF replaced with single facility for £230m, maturing July 2019, effective 3 July 2014
- Drawn margin and undrawn commitment fees are lower under the new arrangement

# Pensions

£m	H1 2014	H1 2013	FY 2013
UK Funded	4.6	3.9	4.8
Other Western Europe Funded	1.2	0.6	1.2
Other Western Europe Unfunded	11.9	14.2	12.1
<b>Western Europe Total</b>	<b>17.7</b>	<b>18.7</b>	<b>18.1</b>
North America Funded	0.2	0.9	0.2
Emerging Markets Unfunded	0.1	0.2	0.2
<b>Total retirement benefit obligations</b>	<b>18.0</b>	<b>19.8</b>	<b>18.5</b>

£m	H1 2014	H1 2013	FY 2013
<b>Western Europe Unfunded:</b>			
Italy	0.6	0.8	0.6
France	8.1	8.7	8.2
Germany	3.2	4.7	3.3
	<b>11.9</b>	<b>14.2</b>	<b>12.1</b>



# Financial information



Shares in issue		H1 2014	H1 2013
<b>Weighted average</b>		<b>190.2</b>	<b>189.3</b>

Exchange rates		H1 2014	H1 2013
<b>EUR</b>	Average (P&L)	<b>1.22</b>	<b>1.18</b>
	Closing (B/S)	<b>1.25</b>	<b>1.17</b>
<b>USD</b>	Average (P&L)	<b>1.67</b>	<b>1.54</b>
	Closing (B/S)	<b>1.71</b>	<b>1.52</b>
<b>SEK</b>	Average (P&L)	<b>10.92</b>	<b>10.05</b>
	Closing (B/S)	<b>11.43</b>	<b>10.24</b>

Analysis by currency:	Headline operating	
	Sales	profit
EUR	36%	36%
USD	33%	41%
SEK	8%	10%

Financial ratios	H1 2014	H1 2013
<b>Net Debt : Headline EBITDA*</b>	<b>net cash</b>	<b>0.2x</b>
<b>Headline EBITDA Interest Cover*</b>	<b>481x</b>	<b>297x</b>
<b>Gearing (Net Debt:Total Equity)</b>	<b>net cash</b>	<b>5%</b>

\* Calculated on a rolling 12 month basis

**Bodycote**