

2018 Interim Results

26 July 2018



Stephen Harris

Group Chief Executive



Agenda

Highlights

Financial review

Business review

Summary and Outlook



- Results
- 8.7% revenue growth to £368.0m¹
 - 15% growth in headline operating profit to £70.1m¹
 - Return on sales improved to 19.0% (H1 2017:17.8%)
 - EPS growth of 16% to 27.3p
 - Free cash flow of £39.4m
- Developments
- £16m capex invested for future growth
 - Specialist Technologies' revenue growth of 11%¹
 - Emerging Markets' revenue growth of 22%¹
- Dividend
- Dividend 5.7p, increase of 8%

Dominique Yates
Chief Financial Officer



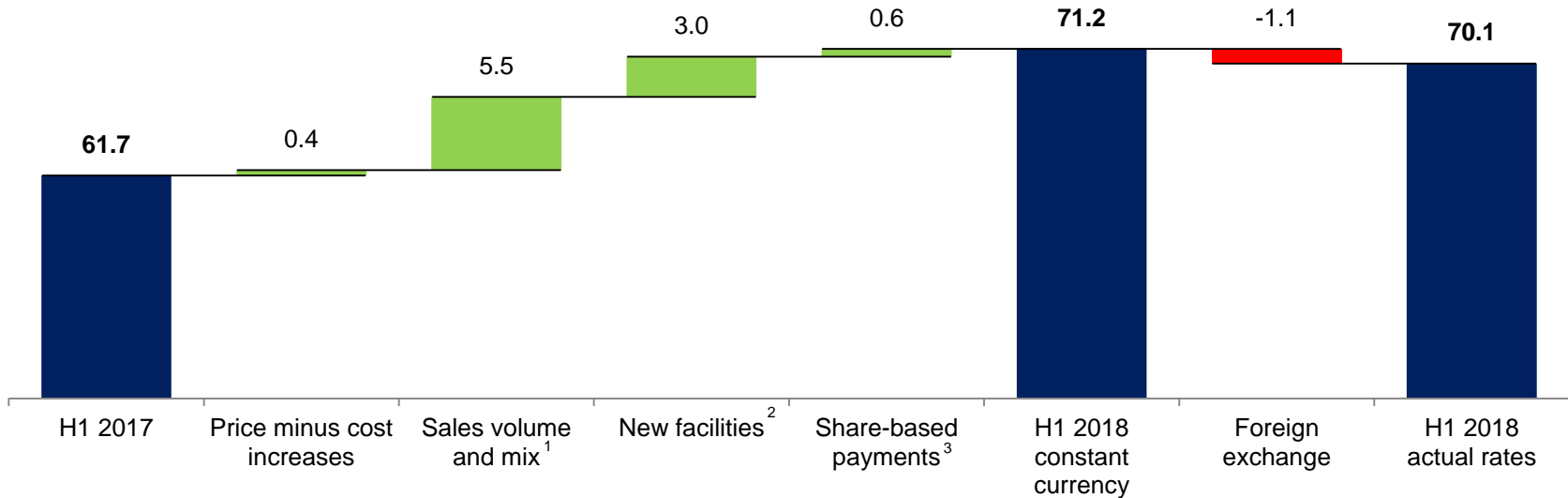
H1 2018 Results summary

£m	H1 2018 ¹	H1 2017 ¹	Growth	Growth Constant currency
Revenue	368.0	345.7	6.4%	8.7%
Headline operating profit	70.1	61.7	14%	15%
<i>Headline operating margin</i>	19.0%	17.8%		
Headline profit before tax	69.1	60.5	14%	16%
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<i>Headline tax rate</i>	24.5%	25.5%		
Net cash	5.6	17.7		
Headline EPS	27.3p	23.6p	16%	
Ordinary dividend	5.7p	5.3p	8%	

¹ At actual rates

Headline operating profit bridge

£m



¹ Includes central costs

² Facilities opened between 2015 - 2018

³ Adjustments for 2016 - 2018 share-based awards

Divisional summary

The ADE Divisions

The ADE divisions comprise 63 facilities primarily focused on Aerospace, Defence, and Energy customers

£m	H1 2018 ¹	H1 2017 ¹	Growth	Growth Constant currency
Revenue	142.7	136.1	4.8%	8.8%
Headline operating profit	33.3	30.7	8%	13%
<i>Headline operating margin</i>	23.3%	22.6%		

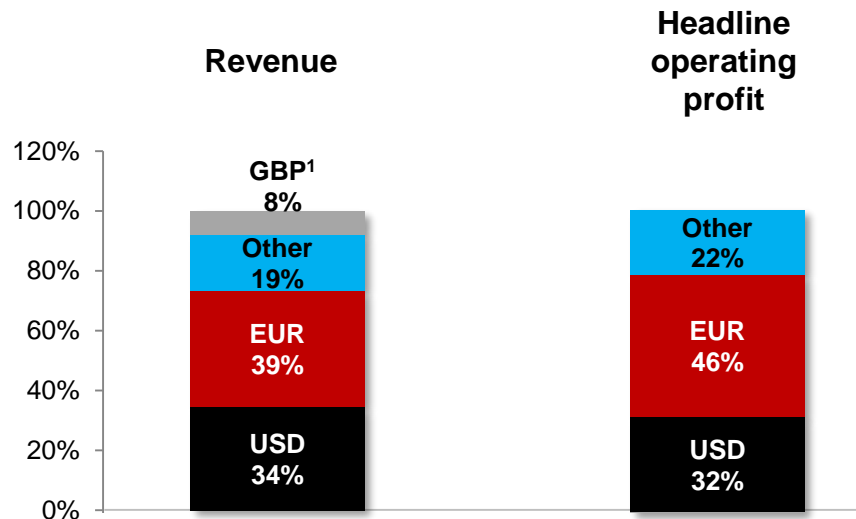
The AGI Divisions

The AGI divisions comprise 124 facilities primarily focused on Automotive and General Industrial customers

£m	H1 2018 ¹	H1 2017 ¹	Growth	Growth Constant currency
Revenue	225.3	209.6	7.5%	8.6%
Headline operating profit	43.2	36.9	17%	17%
<i>Headline operating margin</i>	19.2%	17.6%		

¹ At actual rates

H1 2018 Sales and operating profit by currency



- Operating profit translation reduction of £1.1m
- Average half year exchange rates
£1: €1.14 and £1: \$1.37
- Every cent change in the Euro is worth c.£0.5m of annual operating profit
- Every cent change in the US dollar is worth c.£0.3m of annual operating profit

Investment of £16m (more than 50% of overall capex) to support future growth of the business

- Long cycle aero programmes
 - New aerospace facility in UK

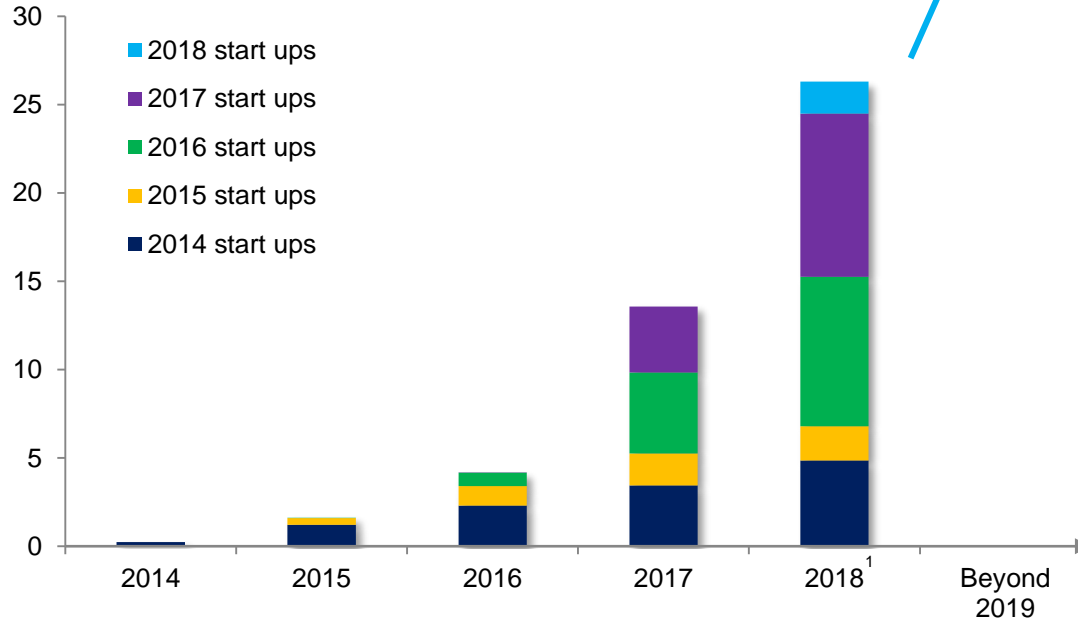
- Specialist Technologies¹
 - S³P facilities opened in Germany and the USA
 - Additional HIP capacity due in Belgium in 2018 and in the USA in 2019
 - Investment in HIP PF facility in the USA

- Emerging Markets
 - Additional LPC capacity for Mexico
 - New facilities in China, Eastern Europe and Mexico

¹ For further information on our Specialist Technologies see slide 26

Revenue progression of recent facilities

Revenue, £m
At constant currency

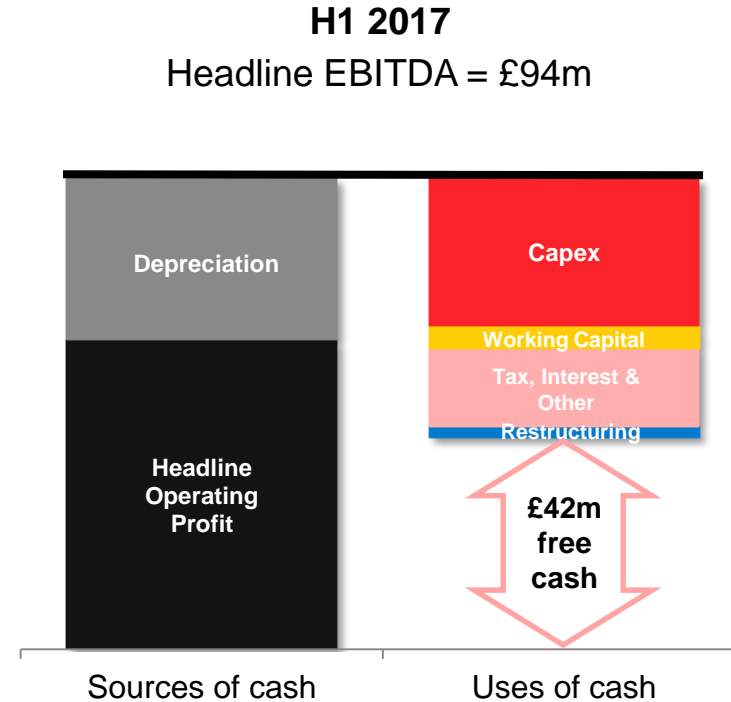
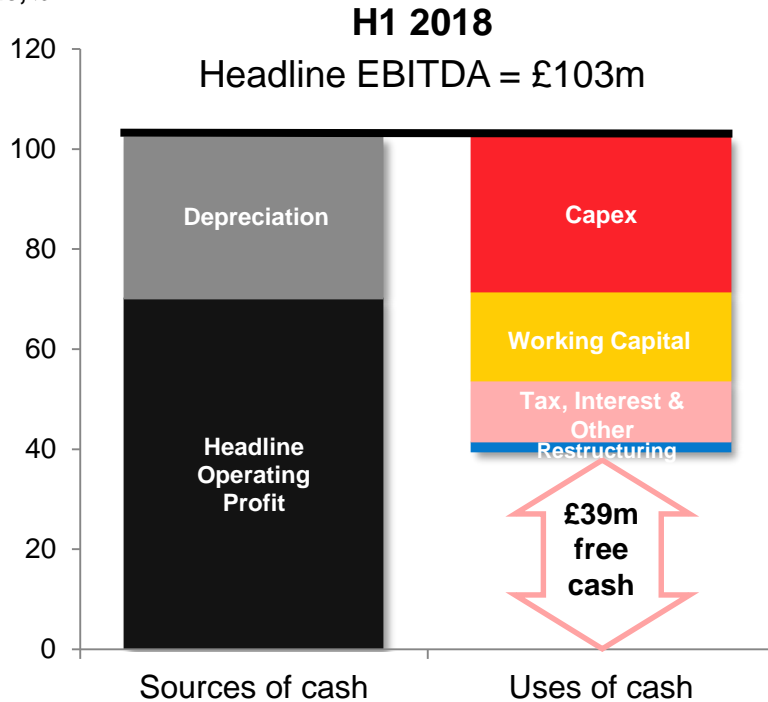


- 12 facilities opened since the beginning of 2014
- £45m invested across these 12 facilities
- Typically revenues build over a 3 to 5 year period
- 2015 start up represented one site that ramped up very quickly

¹ H1 2018 revenue has been annualized for the purposes of comparison

Cash flow¹

Revenue, £m



- 2018 working capital outflow reflects £11m seasonal H1 movement on debtors and £7m outflow from annual bonus payments paid in H1

¹ See slide 29 for detailed cash flow statement

Taxation

- Headline tax rate 24.5%
- Revised tax rate guidance; annual rate now not expected to exceed 24.5%

Balance sheet

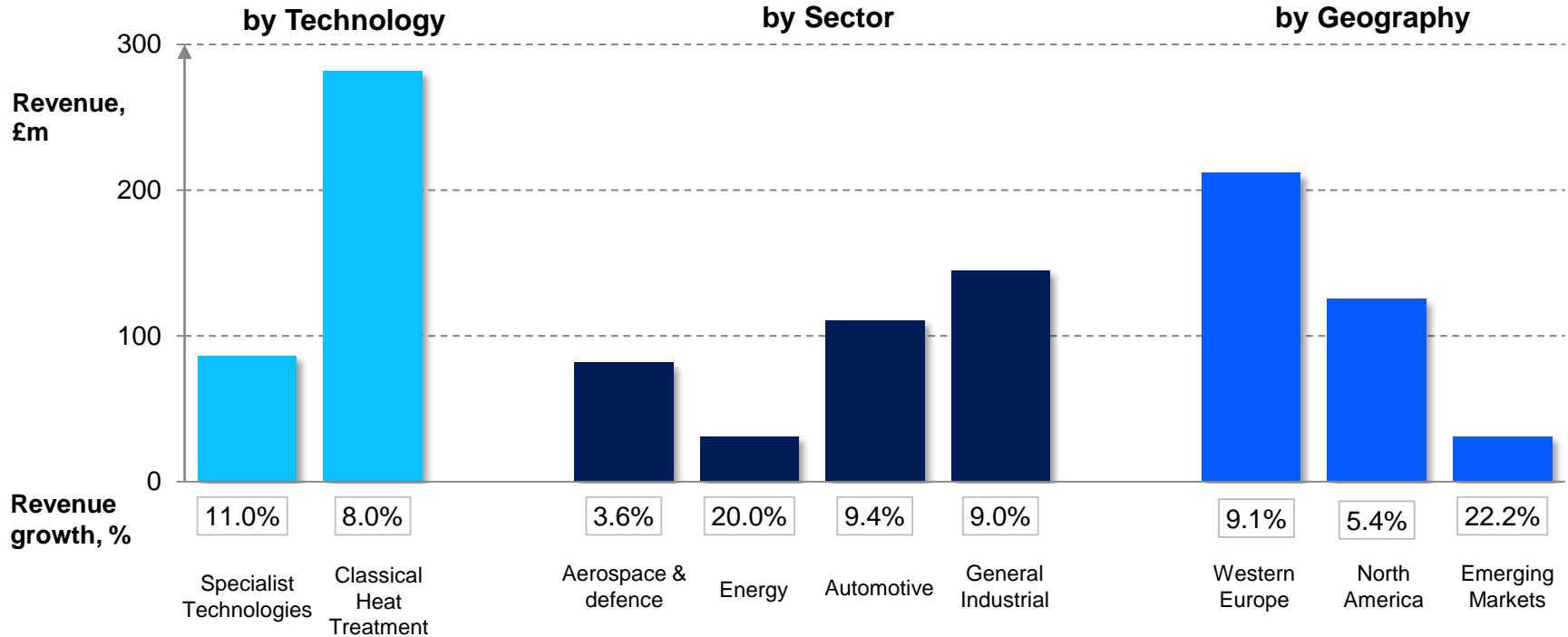
- Net cash £5.6m, after ordinary and special dividend payments of £71m
- Facilities:
 - Committed facility headroom of £210m at 30 June 2018
 - £230m revolving credit facility matures in 2022

Stephen Harris

Group Chief Executive



Revenue and growth analysis¹

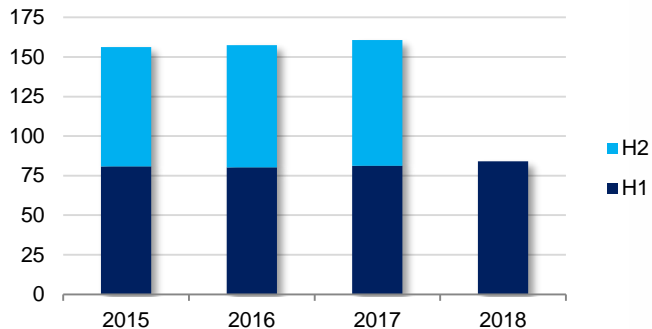


Aerospace & defence

Revenue: £82m

Constant currency growth: 3.6%

Revenue, £m
At constant currency



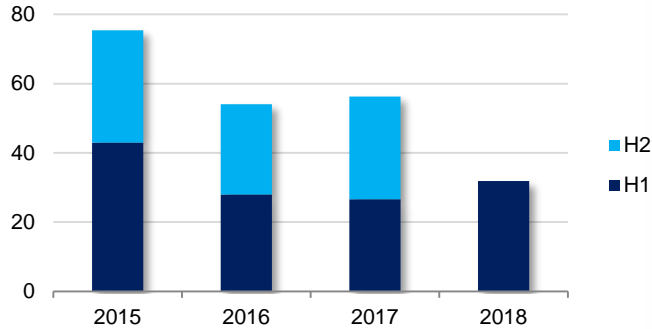
- Civil aviation revenues up 3%¹
- New facility opens in September to support future UK growth
- New long-term agreements with Rolls-Royce and Safran
- Defence revenues returned to growth

¹ At constant currency

Revenue: £31m

Constant currency growth: 20.0%

Revenue, £m
At constant currency



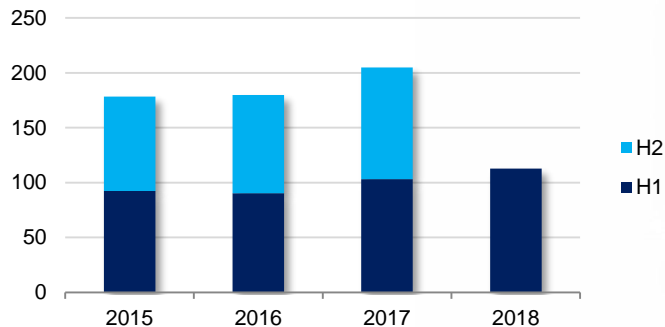
- Continued sequential improvement in North American onshore oil & gas
- Subsea revenues showing early signs of recovery
- Large frame industrial gas turbine (IGT) revenues down as previously indicated



Revenue: £110m

Constant currency growth: 9.4%

Revenue, £m
At constant currency

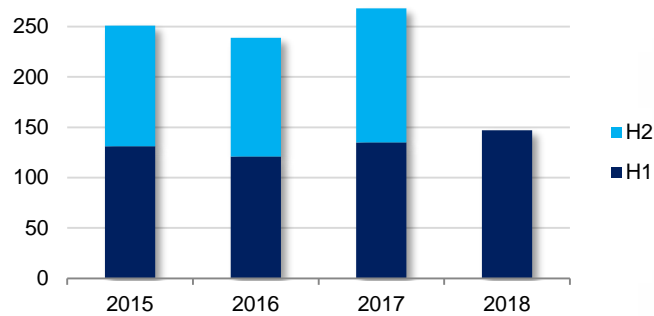


- Car & light truck revenue growth of 8%¹ well ahead of market
 - Continuing to win positions on new platforms
 - Strong growth in Western Europe and Emerging Markets
 - LPC and S³P technologies strong contribution to growth
- Heavy truck, whilst a small contributor to automotive revenues, saw strong growth

Revenue: £145m

Constant currency growth: 9.0%

Revenue, £m
At constant currency

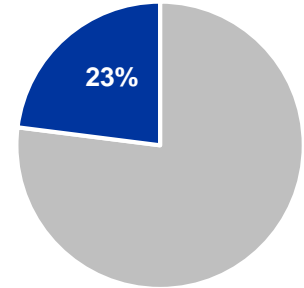


- Good growth across all key markets, led by Western Europe
- Secondary effect from increased demand from resources sector
- Specialist Technologies contributed 2.5% to overall sector growth

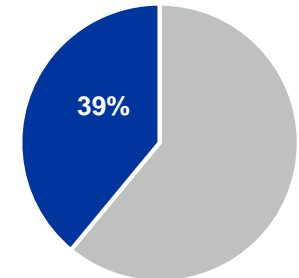
Specialist Technologies¹

- £86m revenue with 11% constant currency growth
 - Strong revenue growth from LPC & S³P in auto & GI market
 - HIP PF and Surface Technology both returned to growth as subsea revenue showed early signs of recovery
 - HIP Services growth held back by the decline in large frame IGT as previously indicated
- Continuing to invest ahead of customer demand to deliver revenue growth
 - LPC capacity expansion in Mexico
 - S³P new capacity in the USA
 - HIP capacity added in the UK and Belgium this year and in the USA for 2019
- Pace of adoption of Specialist Technologies increasing

Revenue



Headline Operating Profit

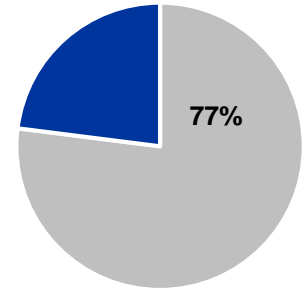


■ Specialist Technologies
■ Classical Heat Treatment

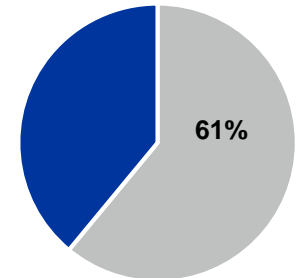
Classical Heat Treatment ¹

- £282m revenue with 8% constant currency growth
 - Growth in all markets and regions
 - Automotive boosted by contract wins on new platforms
 - Continued improvement in oil and gas markets
 - General industrial growth well ahead of global industrial production growth
- Continuing to invest in capacity to support aerospace and Emerging Markets

Revenue



Headline Operating Profit

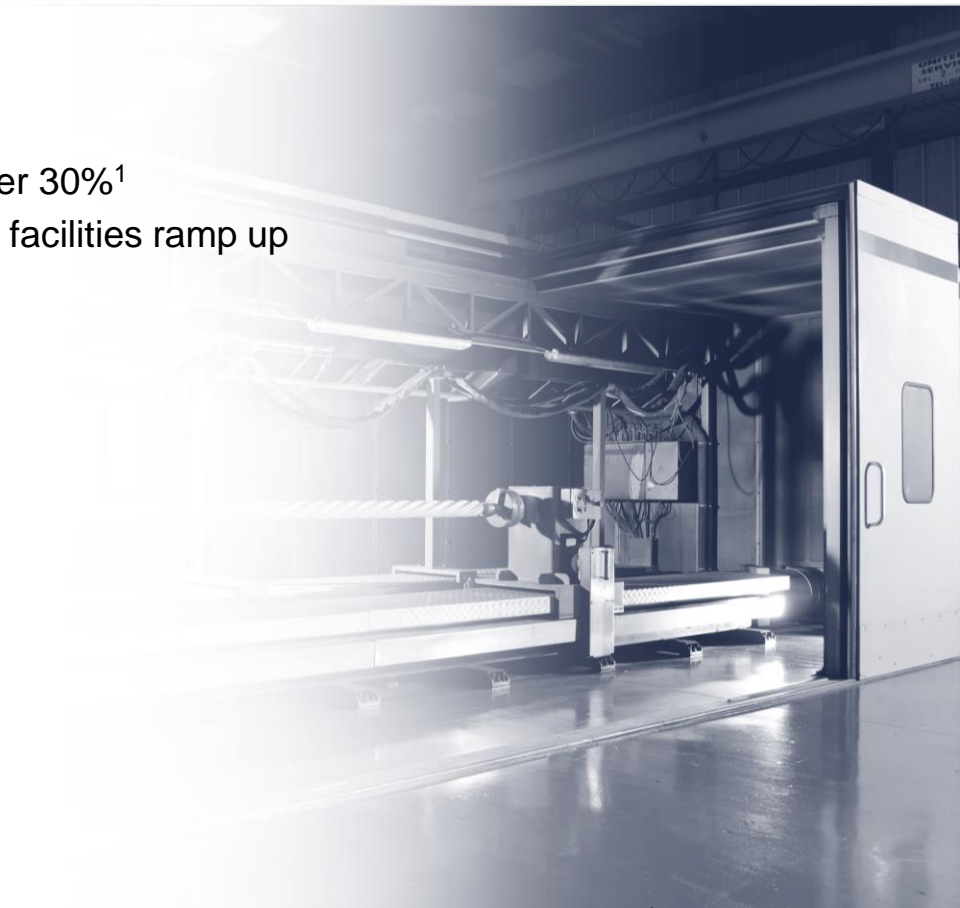
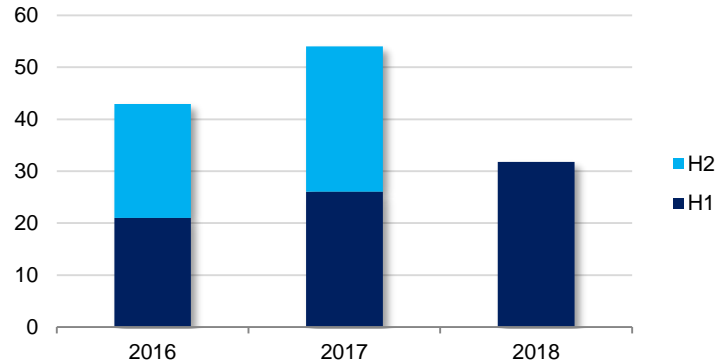


■ Specialist Technologies
■ Classical Heat Treatment

Emerging Markets

- 8% of Group revenue, with growth of 22%¹
- Revenue growth in both China and Mexico over 30%¹
- Embedded future revenue growth as four new facilities ramp up
- Continued investment in LPC

Revenue, £m
At constant currency



- Revenue growth well ahead of the market; headline operating profit up 15% at constant currency
- Further improvement in return on sales to 19.0%
- Cash generation remains strong
- Results reflect long-term investments in long-cycle aerospace programmes, Specialist Technologies, Emerging Market capacity expansion and increasing rate of significant contract wins
- Looking ahead:
 - More to come from recent initiatives (particularly auto and civil aviation)
 - Investment opportunities in new and existing facilities, as well as inorganic growth opportunities
 - Exciting future, in particular for Specialist Technologies and Emerging Markets

“Bodycote has enjoyed a strong first half of 2018. Robust growth has continued with double-digit revenue progression in Specialist Technologies, contract wins on automotive and aerospace programmes and excellent growth across the Emerging Markets. We continue to invest in the ongoing growth of the business through capital expenditure and increased resources.

“While our business, by its nature, has limited forward visibility, at current exchange rates, the Board expects that the full year result will be marginally ahead of current consensus¹.”

¹ Company compiled consensus forecast for headline operating profit is £135.3m

The background of the image is a microscopic view of tissue, showing various cellular structures and patterns. There are numerous small, dark, granular spots scattered throughout, along with larger, more organized clusters of cells. The overall color palette is a range of browns and tans, from light beige to dark chocolate and near-black tones.

Bodycote

Specialist Technologies

A set of differentiated processes giving customers the ability to produce unique high value adding products.



HIP Services



HIP Product Fabrication
(incl. Powdermet®)

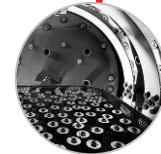


Surface Technology

S³P (Specialty Stainless Steel Processes)



LPC (Low Pressure Carburising)



CiD (Corr-i-Dur®)

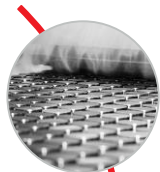


Bodycote's position

- Significant barriers to entry
- Resourced for growth
- Meaningful multi-year revenue growth potential
- Overall strong margins and returns for Bodycote

Classical Heat Treatment

A group of mature processes which are essential for treating all metal components. These tightly controlled processes condition the material properties including both the core properties and the surface characteristics.



Annealing



Hardening & tempering



Metal joining

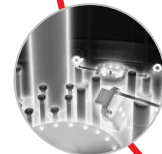
Carburising



Nitriding



Nitrocarburising



Bodycote's position

- Bodycote has well over 1000 process lines in 23 countries throughout Europe, North America and Emerging Markets
- By far the largest global supplier

H1 2018 Statutory income statement

£m	H1 2018	H1 2017
Revenue	368.0	345.7
Headline operating profit	70.1	61.7
Amortisation of acquired intangible fixed assets	(1.9)	(2.3)
Operating profit	68.2	59.4
Net finance costs	(1.0)	(1.2)
Profit before tax	67.2	58.2
Headline earnings per share (pence)	27.3p	23.6p

H1 2018 Cash flow

£m	H1 2018	H1 2017
Headline operating profit	70.1	61.7
Add back: Depreciation and amortisation	29.9	29.4
Impairment of fixed assets	0.4	0.4
Share-based payments	2.1	2.7
Profit on disposal of fixed assets	-	(0.1)
Headline EBITDA	102.5	94.1
Net capital expenditure	(31.0)	(29.7)
Net working capital movement	(17.8)	(4.5)
Headline operating cash flow	53.7	59.9
Restructuring	(2.1)	(2.3)
Operating cash flow	51.6	57.6
Financing costs	(0.9)	(1.2)
Tax	(11.3)	(14.3)
Free cash flow	39.4	42.1
Acquisition spend	(1.3)	(5.2)
Ordinary dividend	(23.0)	(20.5)
Special dividend	(47.5)	-
Other	(1.6)	0.2
(Reduction)/increase in net cash	(34.0)	16.6
Closing net cash	5.6	17.7

Net capex to depreciation
ratio 1.0 times

Net finance charge/facilities

£m	H1 2018	H1 2017	FY 2017
Net interest payable	-	-	-
Financing and bank charges	0.9	1.0	2.0
Pension finance charge	0.1	0.2	0.4
Net finance charge	1.0	1.2	2.4

- Committed facility headroom of £210m at 30 June 2018, £20m drawn
- The remaining life of the facility is 3.8 years
- Closing net cash of £5.6m

Financial information

Shares in issue	H1 2018	H1 2017
Weighted average	190.5m	190.3m

Exchange rates	H1 2018	H1 2017
EUR		
Average (P&L)	1.14	1.17
Closing (B/S)	1.13	1.14
USD		
Average (P&L)	1.37	1.27
Closing (B/S)	1.32	1.30
SEK		
Average (P&L)	11.59	11.20
Closing (B/S)	11.81	10.97

Analysis by currency, H1 2018

	Sales	Operating profit
EUR	39%	46%
USD	34%	32%
SEK	6%	6%

Divisional summary – 2017 H1 v H2

The ADE Divisions	H1	H2	Total ADE
Revenue	136.1	137.0	273.1
Headline operating profit	30.7	33.5	64.2
Margin	22.6%	24.5%	23.5%

The AGI Divisions	H1	H2	Total AGI
Revenue	209.6	207.5	417.1
Headline operating profit	36.9	37.3	74.2
Margin	17.6%	18.0%	17.8%

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
ROCE	Headline operating profit divided by the average of opening and closing capital employed
Capital Employed	Net assets adjusted for net cash/(debt)