

2018 Preliminary Results

8 March 2019

 **Bodycote**

Stephen Harris

Group Chief Executive



Agenda

Highlights

Business review

Financial review

Summary

Outlook



- Results
- 6.7% revenue growth at constant currency, 5.6% at actual rates
 - 13% headline operating profit growth at constant currency, 12% at actual rates
 - Basic headline EPS growth of 14% to 55.9p (2017: 49.2p)
 - Free cash flow of £97.4m (2017: £83.0m)
 - ROCE increased to 20.5% (2017:19.3%)
- Key points
- Further margin improvement to 19.0% (2017:18.0%)
 - £44m invested in expansion projects
 - Specialist Technologies' revenue growth of 12%¹
 - Civil aviation revenue growth of 8%¹
 - Emerging Markets' revenue growth of 21%¹
- Dividend
- Final dividend 13.3p, Total dividend 19.0p, increase of 9%
 - Special dividend of 20.0p

Strategic progress

- Growing the business
 - Continued investment in Specialist Technologies
 - Continued investment in Emerging Markets
 - Continued investment in long term structural growth opportunities
 - Continued investment in Classical Heat Treatment through Bolt-on acquisitions and Sales effectiveness

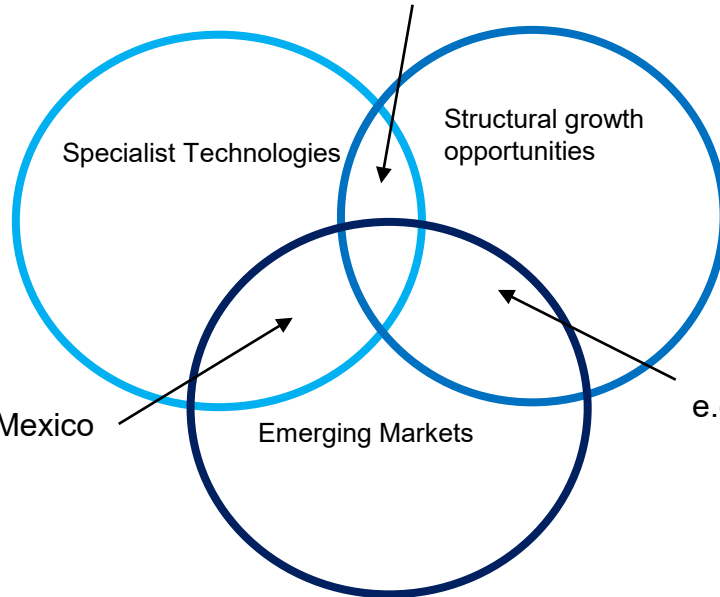
- Margin enhancement
 - Improving AGI Classical Heat Treatment margins
 - Mix improvement from Specialist Technologies



Strategic Progress

Expansionary investments

e.g. New HIP in North America



e.g. LPC greenfield facility, Mexico

e.g. Aerospace greenfield facility, Poland

- 2018 expansionary capex of £44m
- A number of our investments incorporate one or more areas of our strategy
- Good pipeline of investments in new facilities and capacity expansion

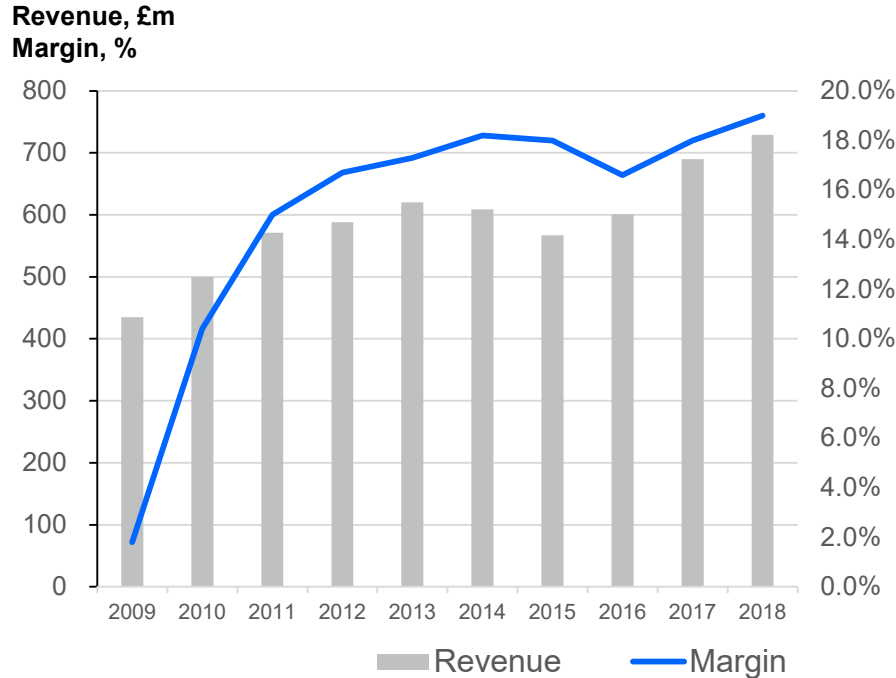
Strategic Progress

Margin improvement of 100bp to 19.0%

With over 180 plants across 23 countries there is a rich variety of contributors to margin improvement. The main drivers are:

- AGI margin improvement
 - Continuation of the drive to improve AGI margins, up to 18.7% (2017: 17.8%)
- Faster revenue growth of Specialist Technologies
 - Specialist Technologies grew 12% vs 5% for Classical Heat Treatment
 - Specialist Technologies margin is double Classical Heat Treatment margin
- Greenfield sites
 - Maturing start-ups a positive
 - In 2018 overall positive benefit

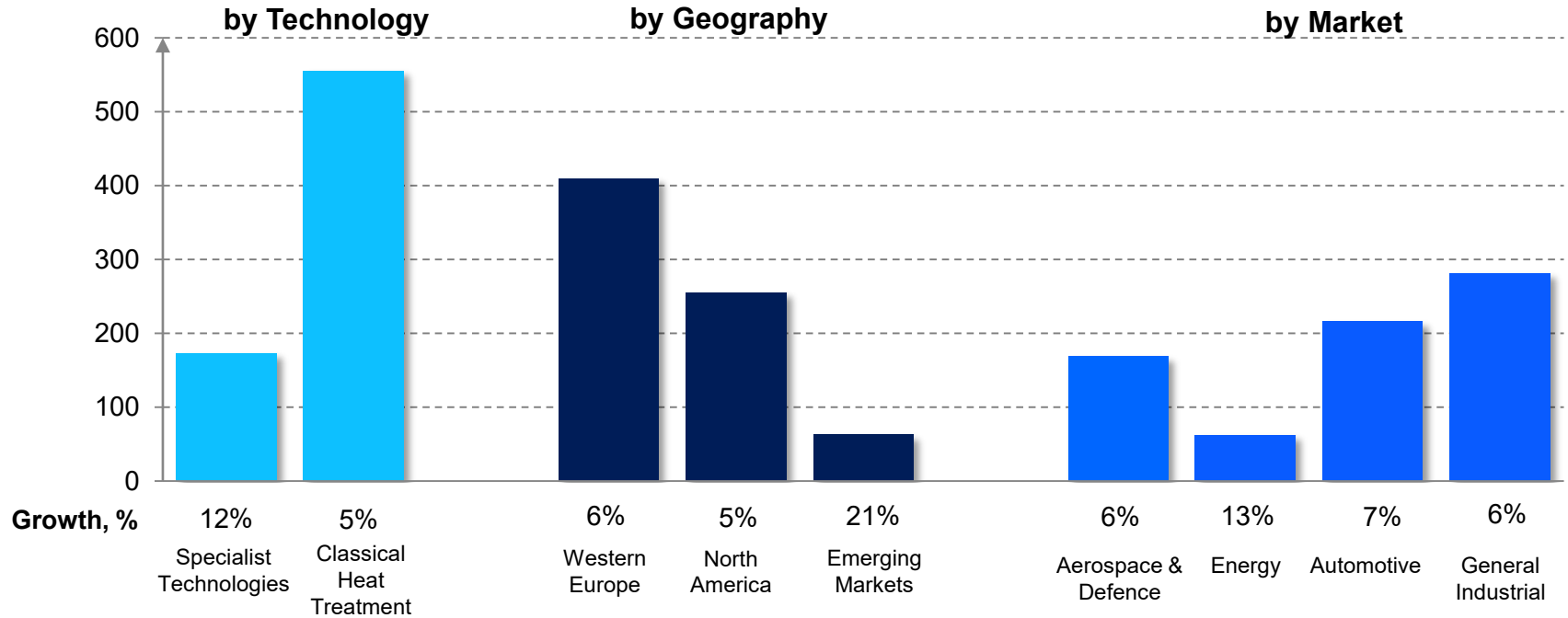
Margin and revenue progression



- Good 10 year record of margin and revenue growth
- Testament to the resilience of the margin and business model

2018 Revenue and growth analysis¹

Revenue, £m



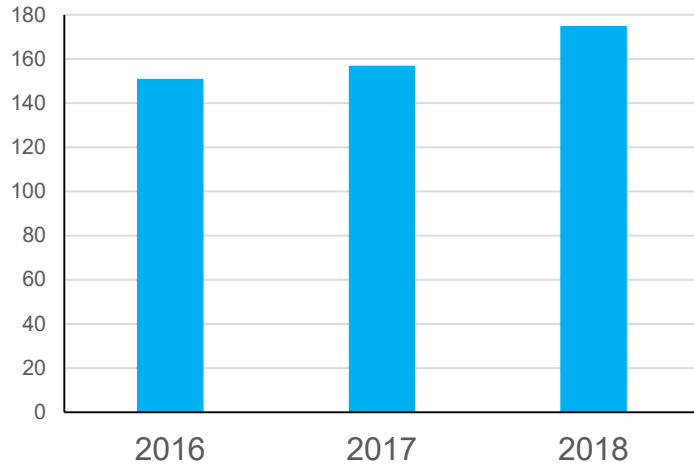
¹ At constant currency

Specialist Technologies

Revenue: £175m

Constant currency growth: 12%

Revenue, £m
At constant currency



- High margins and high returns



Specialist Technologies

24% of Group Revenues

36% of Group Profits

- Specialist Technologies growth highlights:
 - LPC and CiD grew over 20%¹
 - HIP PF grew over 30%¹
 - Maturing of new 2017 facilities
- Continued adoption of Specialist Technologies
- Ongoing investment in new capacity and capability
- Margins above 30%



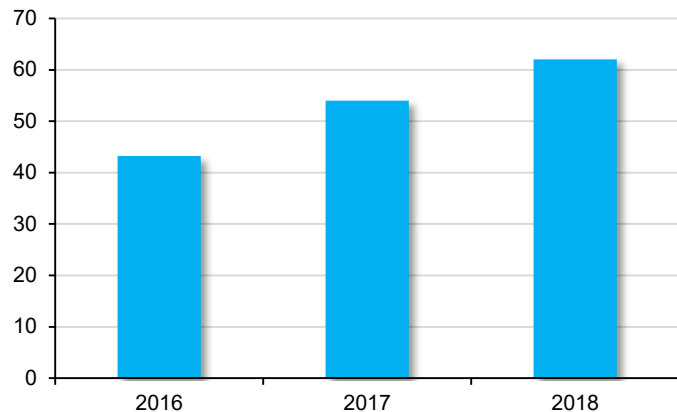
¹At constant currency

Emerging Markets

Revenue: £63m

Constant currency growth: 21%

Revenue, £m
At constant currency



- Eastern Europe, Mexico, China



Emerging Markets

9% of Group Revenues

10% of Group Profits

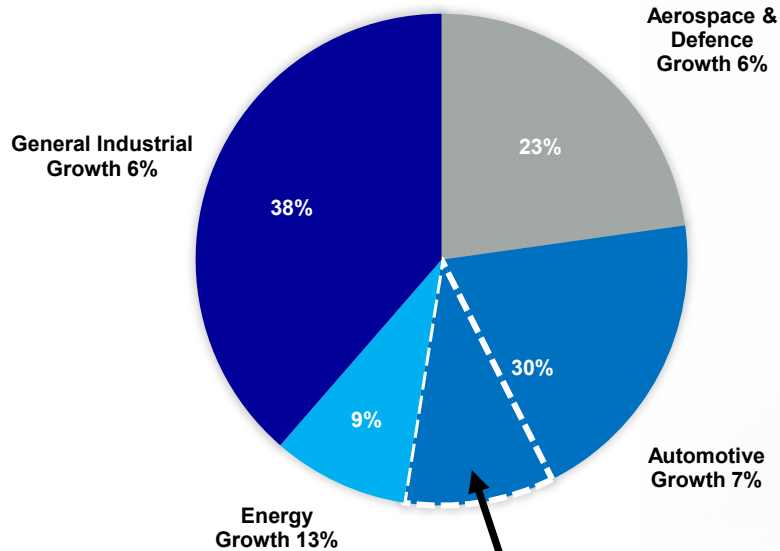
- China growth mainly from increased penetration of auto supply chain
- Mexico growth driven by growth of automotive exports to USA
- Embedded future revenue growth as four new facilities continue ramp up
- Continued opportunity for new investments

Our Market Sectors

Revenue: £728.6m

Group constant currency growth: 6.7%

Growth¹ & Share of Revenue



Proportion of automotive dependent on internal combustion engine (max 11% of Group revenues)



¹ At constant currency

Our Markets¹

- **Aerospace & Defence** - revenue growth of **6%**
 - Civil aviation revenues up 8%
 - UK operations performed strongly
 - Major position on the Leap engine

- **Energy** - revenue growth of **13%**
 - Strong oil & gas revenue growth largely Permian Basin
 - Partially offset by IGT weakness

- **Automotive** - revenue growth of **7%**
 - Car & light truck revenue growth of 5%

- **General Industrial** - revenue growth **6%**
 - Gains in all key geographies



Dominique Yates
Chief Financial Officer



2018 Results summary

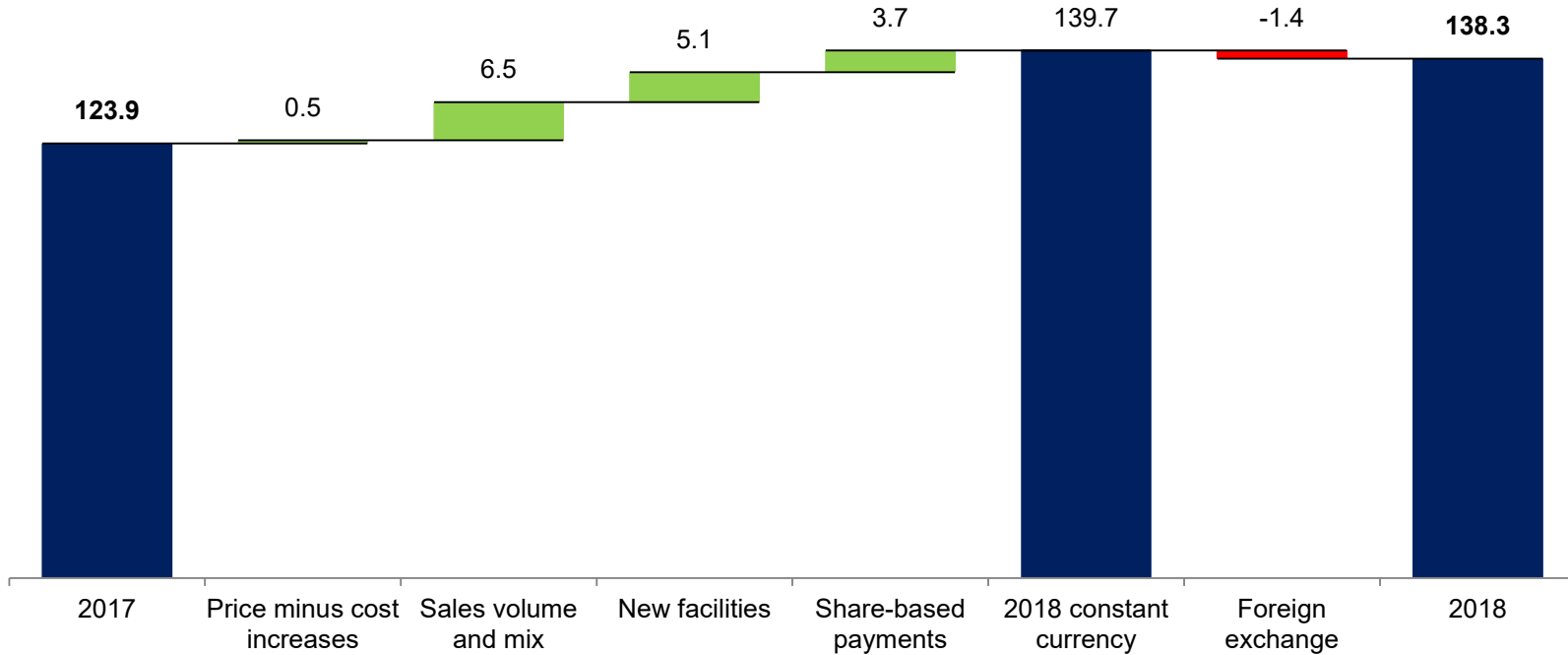
£m	2018 ¹	2017 ¹	Growth	Growth Constant currency
Revenue	728.6	690.2	5.6%	6.7%
Headline operating profit	138.3	123.9	12%	13%
Headline operating margin	19.0%	18.0%		
Headline profit before tax	136.4	121.5	12%	13%

Headline tax rate	21.7%	22.9%		
Free cash flow	97.4	83.0		
Net cash	36.2	39.6		
Headline EPS	55.9p	49.2p	14%	
Return on capital employed	20.5%	19.3%		
Ordinary dividend	19.0p	17.4p	9%	
Special dividend	20.0p	25.0p		

¹ At actual rates

Headline operating profit bridge

£m



ADE and AGI summary

The ADE Business

The ADE Business comprises more than 60 facilities primarily focused on Aerospace, Defence, and Energy customers

£m	2018 ¹	2017 ¹	Growth	Growth Constant currency
Revenue	288.0	273.1	5.5%	6.9%
Headline operating profit	68.7	64.2	7%	8%
<i>Headline operating margin</i>	23.9%	23.5%		

The AGI Business

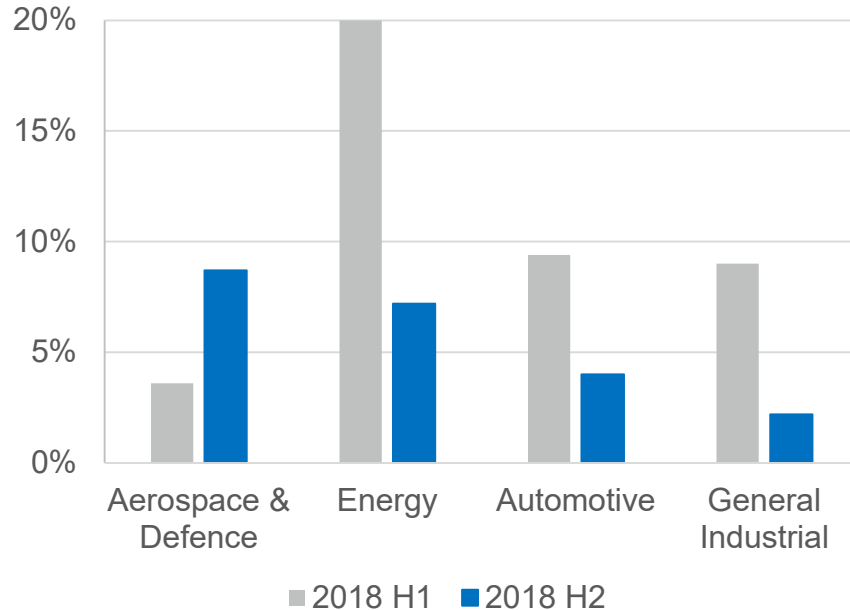
The AGI Business comprises more than 120 facilities primarily focused on Automotive and General Industrial customers

£m	2018 ¹	2017 ¹	Growth	Growth Constant currency
Revenue	440.6	417.1	5.6%	6.5%
Headline operating profit	82.4	74.2	11%	12%
<i>Headline operating margin</i>	18.7%	17.8%		

¹ At actual rates

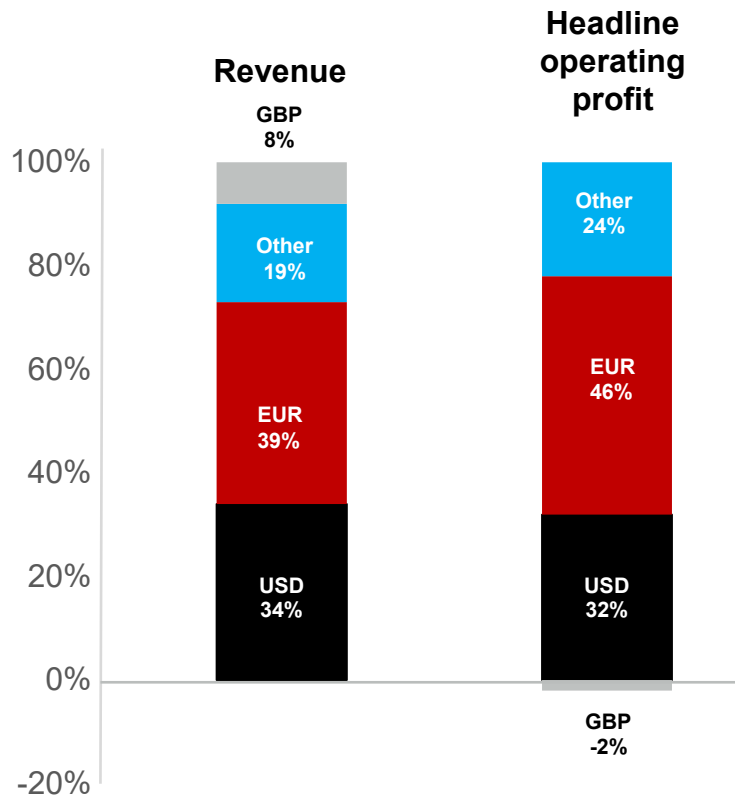
2018 H1 and H2 revenue growth

Revenue growth
At constant currency



- Automotive H2 2018 weak in Europe, compared to H1 2018 market growth (stock increase pre introduction of WLTP)
- General Industrial slowing growth trend
- Tail wind in civil aviation & probably energy continues into 2019

2018 Sales and operating profit by currency



- Operating profit translation reduction of £1.4m
- Average full year exchange rates
£1: €1.13 and £1: \$1.33
- 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

Taxation

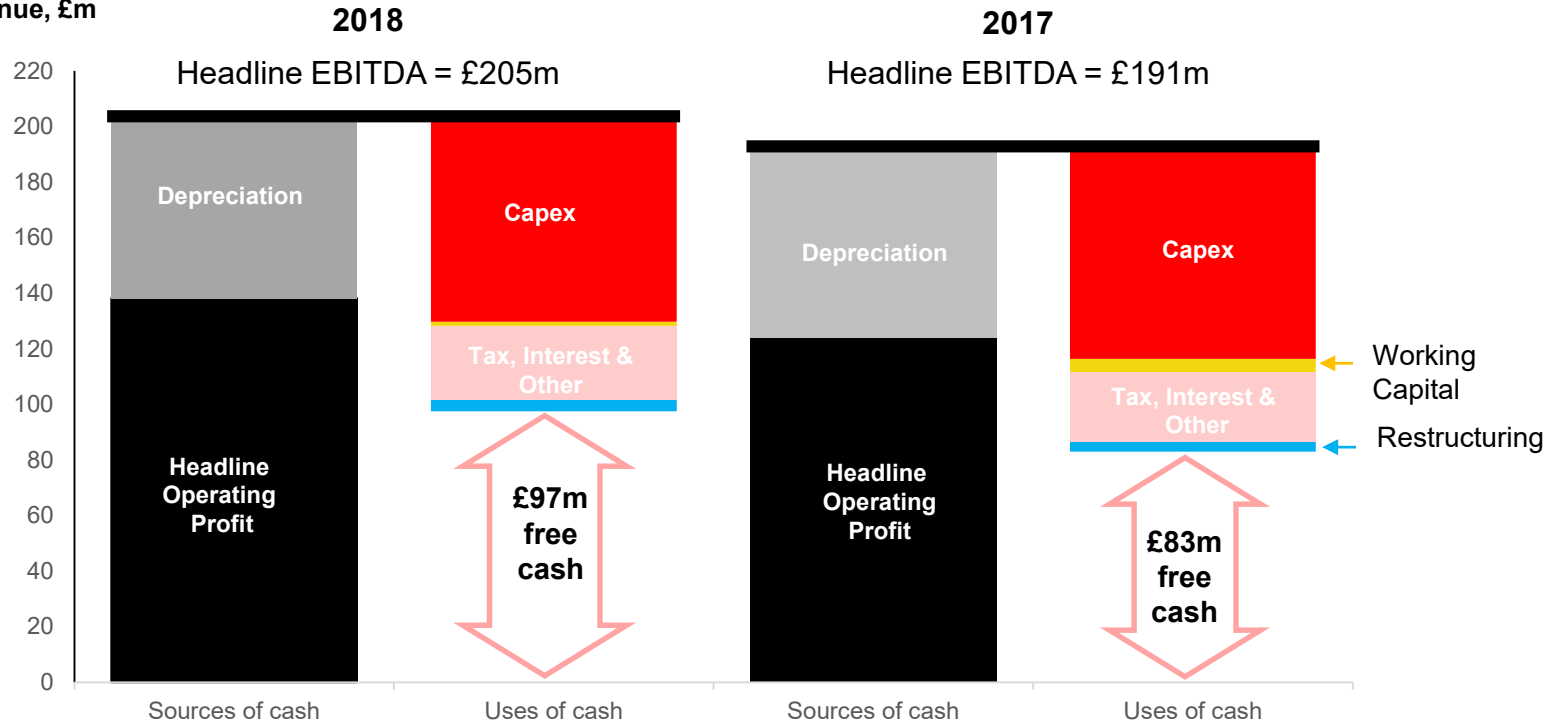
- Headline tax rate of 21.7%, reflecting benefit of existing financing structures
- Guidance for 2019 is 24.5%

Balance sheet

- Net cash £36.2m, reflecting strong cash flow
- IFRS16 impact +£2m to headline operating profit, EPS unchanged and adds debt of +c.£80m
- Facilities:
 - Committed facility headroom of £230m at 31 December 2018
 - £230m revolving credit facility matures in 2022

Cash flow¹

Revenue, £m



¹ See slide 33 for detailed cash flow statement

Capital allocation priorities

1



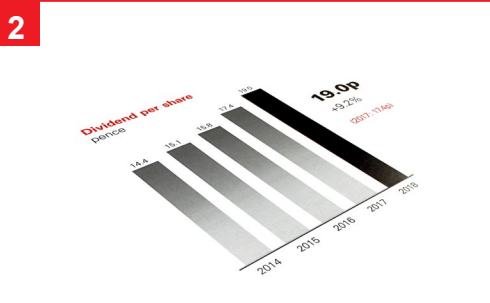
Investment for growth

3



Acquisitions

2



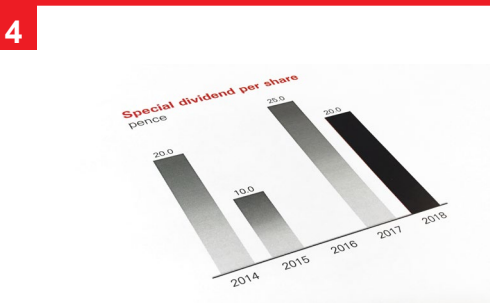
Dividend per share
pence

Year	Dividend per share (pence)
2014	16.4
2015	16.5
2016	17.4
2017	19.0p
2018	19.9p

33.2%
2014-2018

Enhancing ordinary dividends

4



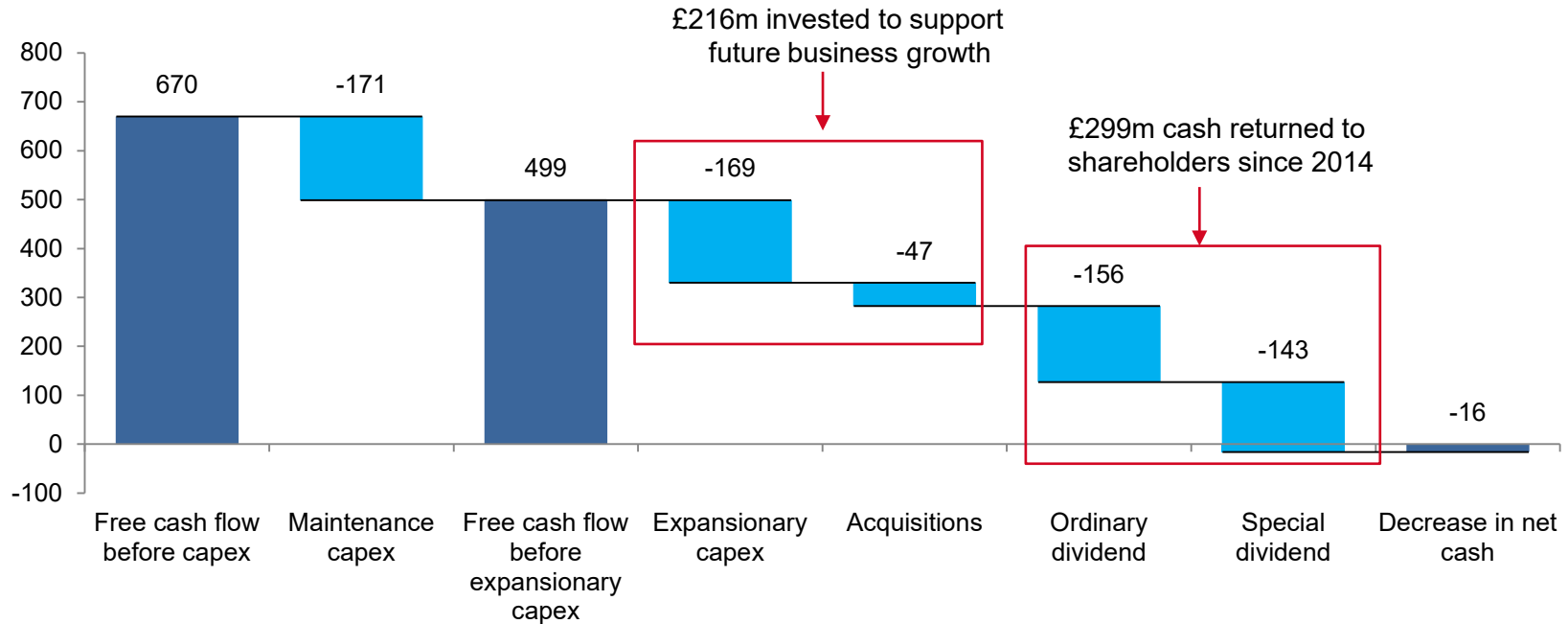
Special dividend per share
pence

Year	Special dividend per share (pence)
2014	20.0
2015	10.0
2016	25.9
2017	20.0
2018	20.0

Supplemental distributions
as appropriate

2014 - 2018 capital allocation

£m

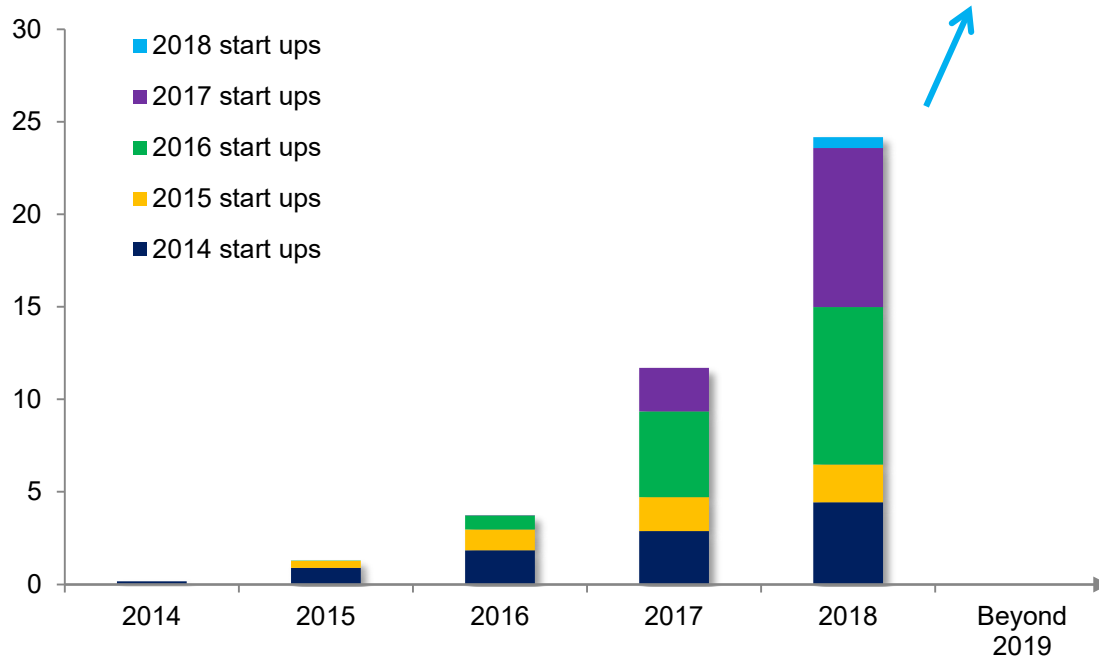


- New facilities can take 3-5 years to ramp up to our expected returns
- Much of the £216m invested in new capacity is recently installed with higher returns to come

The ordinary and special dividends shown reflect announced dividends for financial years 2014 to 2018

Revenue progression of recent facilities

Revenue, £m
At constant currency



- 12 facilities opened since the beginning of 2014
- £51m invested across these 12 facilities
- Typically revenues build over a 3 to 5 year period
- Strongly underpinned by contracts from anchor customers

Stephen Harris

Group Chief Executive



2018 has once again demonstrated the strength of Bodycote's strategy and business. We achieved double-digit growth in Specialist Technologies' revenues, an excellent performance in our Emerging Markets and robust growth in civil aviation revenues.

Combined with pricing discipline in the face of significant cost pressures, the Group was able to improve return on sales. Together with the revenue growth this delivered a healthy increase in headline earnings per share. Our performance is testament to the Group's resilient operating model, with our focus on cashflow generation, operational efficiency and improving returns.

While we are conscious of the global macro-economic backdrop, we have entered 2019 well positioned and at this early point in the year, our expectations for 2019 remain unchanged.

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 across the field, along with larger, more organized clusters of cells. The overall color palette is a mix of light tan and dark brown/black, typical of histological staining.

Bodycote

A selection of highly differentiated, early stage processes with high margins, large market opportunity and good growth prospects. Bodycote is either the clear market leader or one of the top players among few competitors

Hot Isostatic Pressing (HIP Services)

Improves component integrity and strength by application of extreme pressure & heat

HIP PF inc. Powdermet

Additive manufacturing of often complex components in conjunction with HIP

Specialty Stainless Steel (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

CiD

Improves corrosion resistance & wear properties without use of chrome



Classical Heat Treatment

Classical Heat Treatment is the controlled heating and cooling process 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.

2018 Statutory income statement

£m	2018	2017
Revenue	728.6	690.2
Headline operating profit	138.3	123.9
Amortisation of acquired intangible fixed assets	(3.7)	(4.5)
Acquisition costs	(0.5)	-
Operating profit	134.1	119.4
Net finance costs	(1.9)	(2.4)
Profit before tax	132.2	117.0
Headline earnings per share (pence)	55.9p	49.2p

2018 Cash flow

£m	2018 Post IFRS16	IFRS16	2018 Pre IFRS16	2017
Headline operating profit	140.7	2.4	138.3	123.9
Add back: Depreciation and amortisation	76.6	14.6	62.0	59.8
Impairment of fixed assets	1.8	-	1.8	0.4
Share-based payments	3.8	-	3.8	7.8
Profit on disposal of fixed assets	(1.7)	-	(1.7)	(0.7)
Loss on disposal of businesses	0.6	-	0.6	-
Headline EBITDA	221.8	17.0	204.8	191.2
Net capital expenditure	(92.9)	(18.9)	(74.0)	(74.8)
Net working capital movement	(2.1)	-	(2.1)	(4.7)
Headline operating cash flow	126.8	(1.9)	128.7	111.7
Restructuring	(4.4)	-	(4.4)	(3.7)
Acquisition expenses	(0.5)	-	(0.5)	-
Operating cash flow	121.9	(1.9)	123.8	108.0
Financing costs	(4.3)	(2.4)	(1.9)	(2.1)
Tax	(24.5)	-	(24.5)	(22.9)
Free cash flow	93.1	(4.3)	97.4	83.0
Acquisition spend	(8.3)	-	(8.3)	(14.2)
Disposals	0.7	-	0.7	-
Ordinary dividend	(34.2)	-	(34.2)	(30.6)
Special dividend	(47.6)	-	(47.6)	-
Own shares purchased	(10.6)	-	(10.6)	-
Other	(0.1)	-	(0.1)	0.3
Increase/(reduction) in net cash	(7.0)	(4.3)	(2.7)	38.5
Net cash / (debt)	(43.7)	(80.4)	36.2	39.6

Net capex to depreciation ratio 1.2 times (includes £44.1m of expansionary capex)

Net finance charge/facilities

£m	2018	2017
Interest received on bank overdrafts and loans	0.2	0.1
Net interest payable	0.1	0.1
Financing and bank charges	1.8	2.0
Pension finance charge	0.2	0.4
Total finance charge	2.1	2.5
Net finance charge	1.9	2.4

- Committed facility headroom of £230m at 31 December 2018, undrawn
- The remaining life of the facility is 3.3 years
- Closing net cash of £36.2m

Financial information

Shares in issue	2018	2017
Weighted average	190.5m	190.3m

Exchange rates	2018	2017
EUR		
Average (P&L)	1.13	1.15
Closing (B/S)	1.11	1.13
USD		
Average (P&L)	1.33	1.30
Closing (B/S)	1.27	1.35
SEK		
Average (P&L)	11.61	11.04
Closing (B/S)	11.29	11.07

Analysis by currency, 2018

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

ADE and AGI summary – 2018 H1 v H2

The ADE Business	H1	H2	Total ADE
Revenue	142.7	145.3	288.0
Headline operating profit	33.3	35.4	68.7
Margin	23.3%	24.4%	23.9%

The AGI Business	H1	H2	Total AGI
Revenue	225.3	215.3	440.6
Headline operating profit	43.2	39.2	82.4
Margin	19.2%	18.2%	18.7%

Term	Definition
Headline Operating Profit	Operating profit before acquisition costs and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, acquisition costs and amortisation of acquired intangibles
Headline Operating Cash Flow	Cash generated by operations, less net capital expenditure and before cash flow relating to restructuring and acquisition costs
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 acquisition costs and amortisation of acquired intangible assets
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)