

2013 Interim Results

25 July 2013

The logo for Bodycote, featuring a red square inside a black square, followed by the word "Bodycote" in a bold, black, sans-serif font with a white outline.

Bodycote

Stephen Harris

Chief Executive



Titanium heat treatment

Titanium is light, strong and corrosion-resistant. Although 60% heavier than aluminium, it is twice as strong and is widely used in aerospace and other critical applications. Bodycote's largest air furnace is used to treat titanium bar destined for the aerospace industry.

Highlights

Financial review

Business review

Outlook



Gates and seats

Destined for severe service applications such as subsea oil & gas, gates and seats must withstand corrosion and wear. Typically, protection from extreme environmental factors is provided by a thermally sprayed tungsten carbide coating.

- 5% sales growth (3% constant currency)
- Headline margin up 90 basis points to 16.6%
 - Improving mix
 - New technology growth
 - Good cost control
- Headline operating profit up 11%
- Headline earnings per share up 9%
- Interim dividend of 4.4p, up 10%

David Landless

Finance Director



Low Pressure Carburising (LPC)

LPC is a case hardening process carried out in a vacuum furnace using hydrocarbon gases at very low pressure and elevated temperatures to obtain a hardened surface layer and a tough core. The treatment is used to increase the wear resistance and fatigue life of components.

2013 Interim results summary



£m		H1 2013	H1 2012 ¹	change
Revenue		316.5	301.3	5%
Headline:	Operating profit	52.4	47.3	11%
	Margin	16.6%	15.7%	
	Profit before tax	50.6	45.8	10%
Non-headline items²		(2.1)	(1.9)	
Headline operating cash flow		46.5	52.3	
Headline operating cash conversion		89%	111%	
Net debt		27.1	16.7	
Headline EPS	pence	20.0	18.3	9%
Dividend	pence	4.4	4.0	10%

¹ The results for H1 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

² Amortisation of acquired intangibles of £2.1m (H1 2012: £0.7m) and acquisition expenses of £nil (H1 2012: £1.2m).

Divisional summary



YOY Growth:

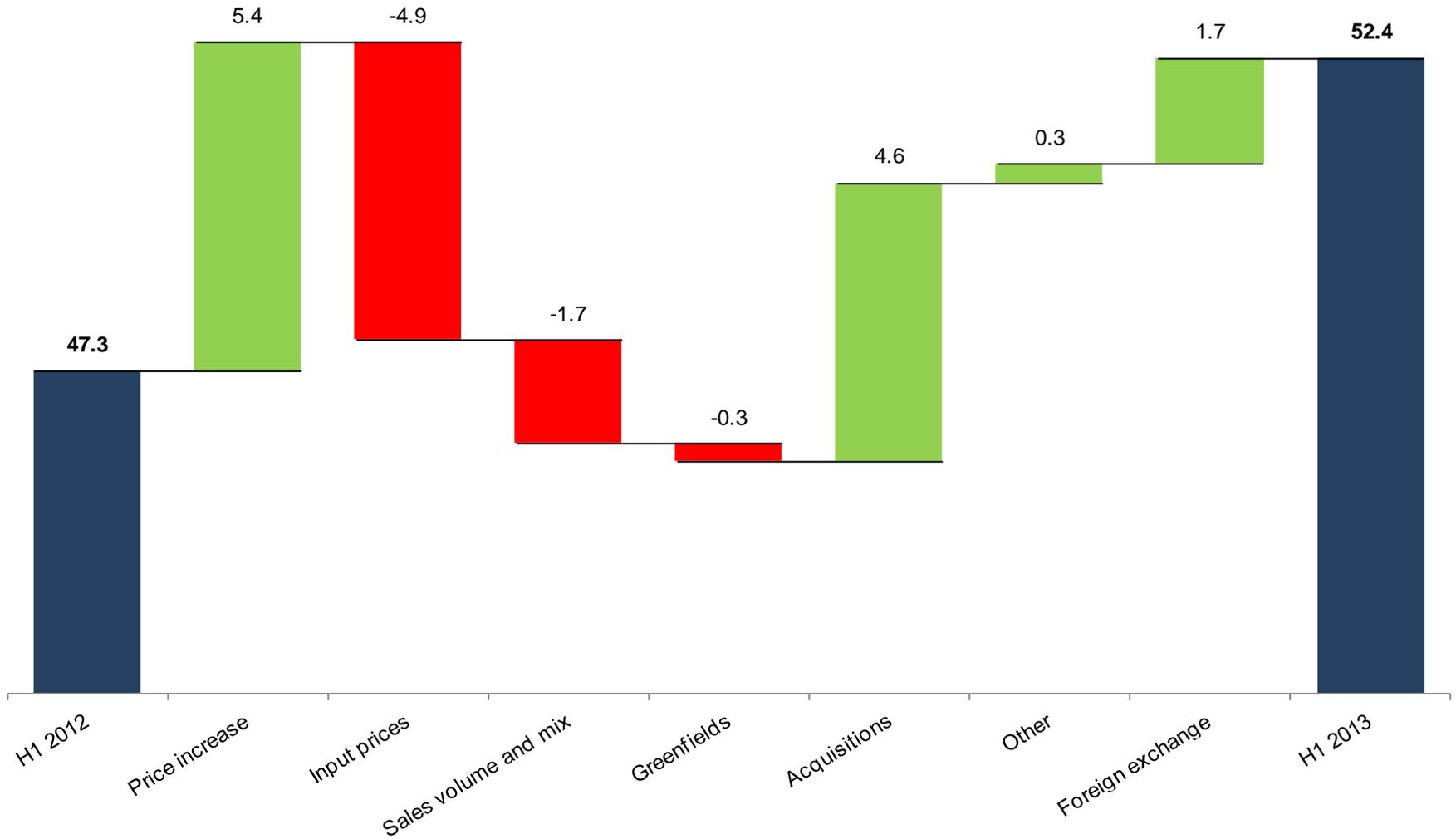
£m	H1 2013	H1 2012 ¹	Currency	Acquisition	Organic	Total	%
ADE Divisions							
Revenue	133.8	130.3	2.8	3.3	(2.6)	3.5	3%
Headline Operating Profit ²	34.5	31.3	0.8	1.2	1.2	3.2	10%
Margin	25.8%	24.0%					
AGI Divisions							
Revenue	182.7	171.0	4.7	17.9	(10.9)	11.7	7%
Headline Operating Profit ²	25.1	22.8	1.0	3.4	(2.1)	2.3	10%
Margin	13.7%	13.3%					
Group							
Revenue	316.5	301.3	7.5	21.2	(13.5)	15.2	5%
Headline Operating Profit	52.4	47.3	1.7	4.6	(1.2)	5.1	11%
Margin	16.6%	15.7%					

¹ The results for H1 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

² Headline operating profit before head office costs

Headline operating profit bridge

(£m)



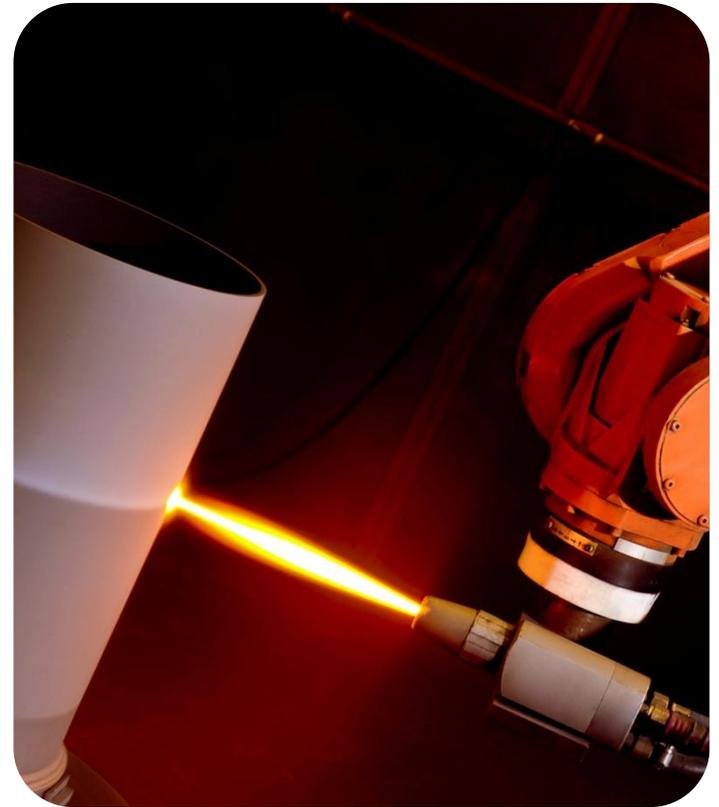
Cash flow

£m	H1 2013	H1 2012 ¹	
Headline operating profit	52.4	47.3	
Add back: Depreciation and amortisation	28.2	25.1	
Share-based payments	3.0	3.0	
Headline EBITDA	83.6	75.4	Capex to depreciation ratio 1.0 times (H1 2012: 1.1 times)
Net capital expenditure	(28.6)	(26.6)	
Working capital	(8.5)	3.5	Working capital flows reverting to normal seasonal trend
Headline operating cash flow	46.5	52.3	
Restructuring	(3.0)	(2.0)	
Acquisition expenses	-	(1.2)	
Financing costs	(1.7)	(1.2)	
Tax	(14.3)	(9.0)	Underlying rate unchanged, cash flow reflects timing of payment only
Free cash flow	27.5	38.9	
Acquisitions	-	(32.0)	
Dividends	(15.7)	(13.8)	
Other	(4.7)	(9.9)	
Reduction/(increase) in net debt	7.1	(16.8)	

¹ The results for H1 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

Stephen Harris

Chief Executive

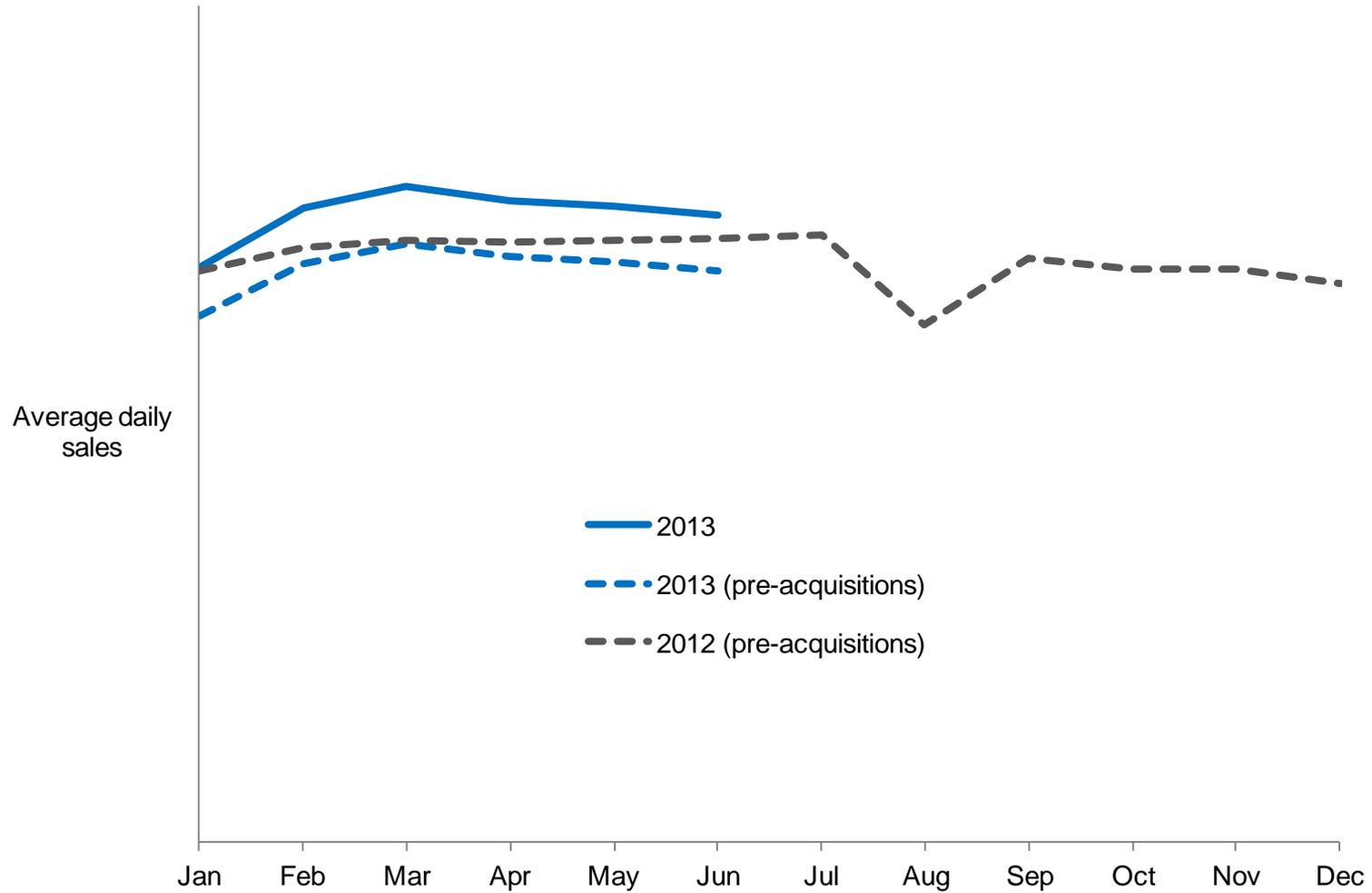


Thermal spray coating

Fine metallic or non-metallic materials, usually in powder form, are deposited in a semi molten state to form a thermal spray coating. Metals, alloys, ceramics and composites can all be thermally sprayed, providing varying coating thicknesses from a few micrometres to millimetres thick.

Daily sales trend

At constant exchange rates (£m)



First half organic sales

- Organic sales decline of 4.5% spread across:

Automotive

Revenue: £78m

Organic growth: -7%

- Sharp reduction in heavy truck

General Industrial

Revenue: £125m

Organic growth: -6%

- Weakness in all markets
- Tooling & mining hardest hit

Aerospace & Defence

Revenue: £72m

Organic growth: 3%

- North American civil aerospace not as strong as expected
- Some impact from defence weakness

Energy

Revenue: £42m

Organic growth: -8%

- North American onshore oil & gas very weak

Automotive

- Share gains result in North American car & light truck organic sales modestly ahead and Europe flat

General Industrial

- Management action on cost and improved mix limited organic downside gearing

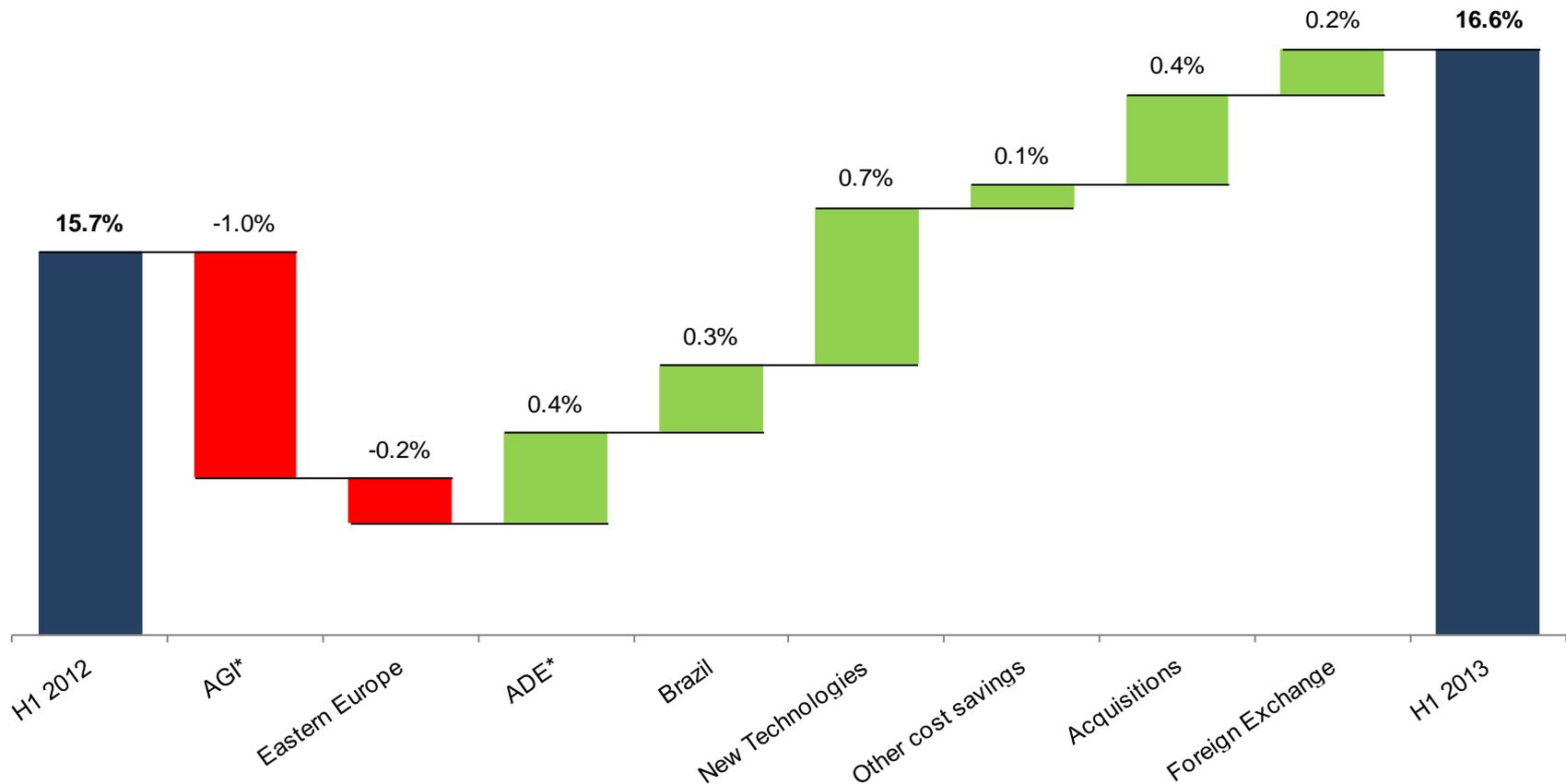
Aerospace & Defence

- European civil aerospace up 10% in line with increased market share and new platform growth

Energy

- Expanded capacity drove industrial gas turbine revenues up 8%
- Action on cost yielded improved profits despite organic sales decline
- Acquisition integration progressing well

Margin bridge

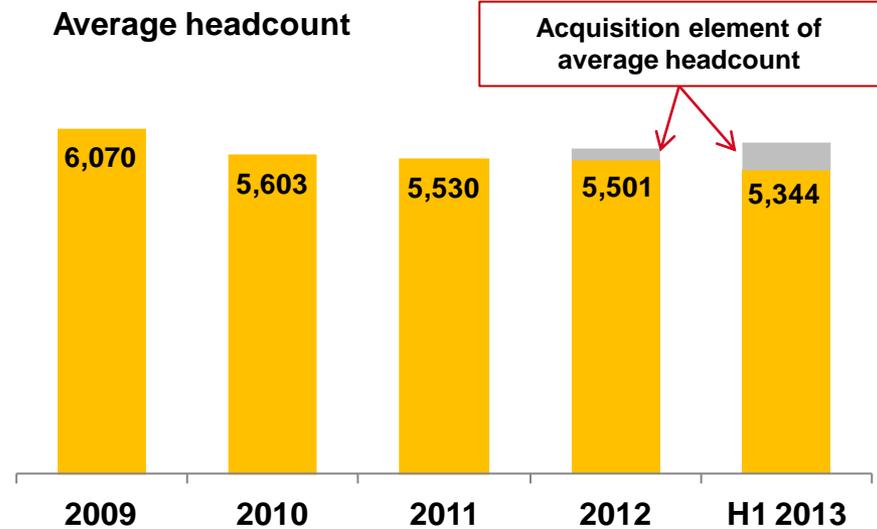
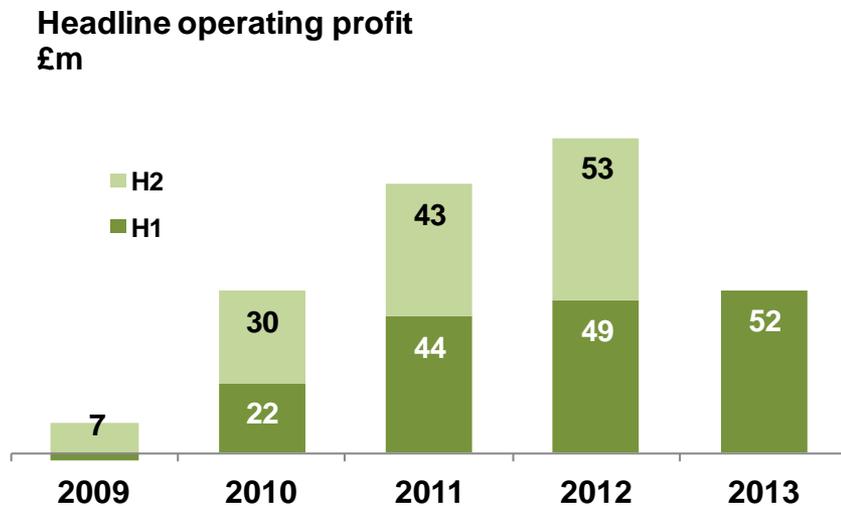
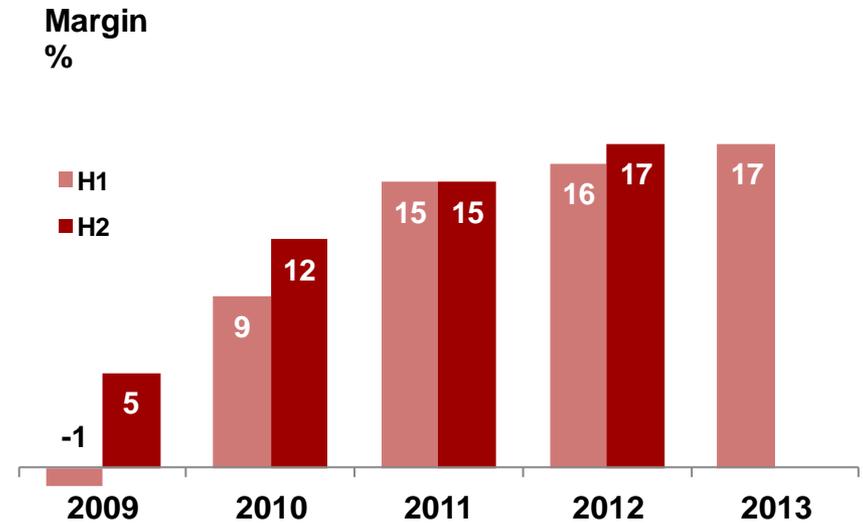
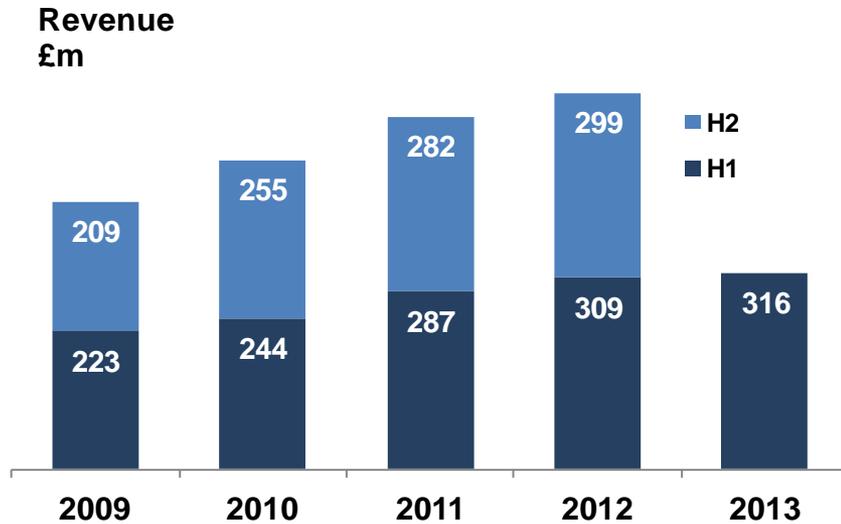


- Group margin up 90 basis points
- Rapid response to weakening demand - average headcount excluding acquisitions down 2.9%

* ADE and AGI are shown excluding New Technologies and Emerging Markets which are presented separately.

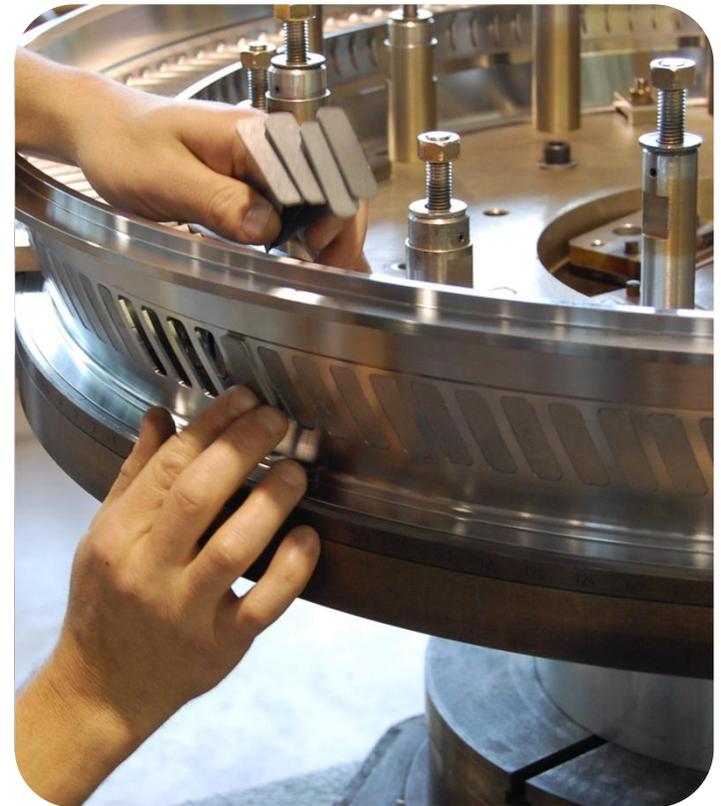
Five year perspective

At 2013 exchange rates



Stephen Harris

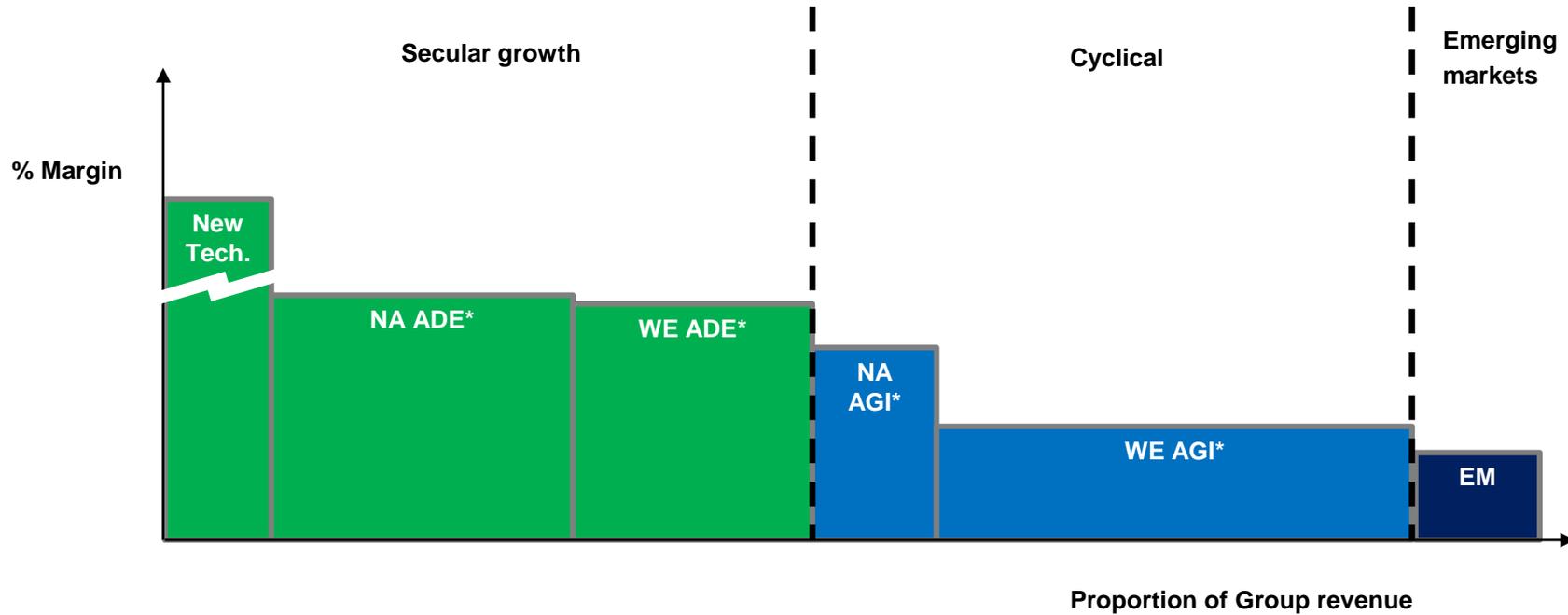
Chief Executive



Metal joining

Includes specialised processes such as electron beam welding, vacuum and honeycomb brazing; complex operations requiring a fusion of expertise and technology.

Margin profile



- Higher sales growth in high margin markets
- Margin improvements in lower growth sectors

* Excluding New Technologies and Emerging Markets which are shown separately.

- Near term:
 - Second half outcome broadly similar to first half

- Medium and longer term growth:
 - Continued expansion in the secular growth markets of aerospace and energy
 - HIP PF and S3P now making meaningful contribution
 - Emerging markets – expansion in China and healthier business in Brazil

The Group delivered a good first half result, with last year's acquisitions performing well. Improvements in mix and rigorous cost control outweighed softness in demand, resulting in increased margins.

Looking forward, we expect a broadly similar outcome in the second half and therefore the Board continues to expect modest progress for the year as a whole.

The Board remains confident that Bodycote's strategy will continue to deliver good profits, cash and returns through the business cycle.

The background of the image is a complex, marbled pattern. It features a mix of earthy tones including shades of brown, tan, and olive green, interspersed with irregular, light-colored (off-white or cream) patches that resemble cracked or peeling paint or stone. The overall texture is organic and layered.

Bodycote

Term	Definition
Headline Operating Profit	Operating profit before exceptional costs
Headline Profit Before Tax	Profit before tax and exceptional costs
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, gain 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

IAS 19 Revised - Reconciliation



The adoption of IAS19R at 1 January 2013 has the following impact on the Group's financial statements:

£m	FY 2011	FY 2012	H1 2012
Income statement:			
Headline operating profit - previously reported	85.5	97.9	47.5
Increase in operating costs	(0.6)	(0.4)	(0.2)
Headline operating profit - restated	84.9	97.5	47.3
Net finance costs - previously reported	(4.6)	(3.6)	(1.8)
Decrease in finance costs	0.4	0.6	0.3
Net finance costs - restated	(4.2)	(3.0)	(1.5)
Net profit - previously reported	56.0	67.0	32.6
Increase in operating costs	(0.6)	(0.4)	(0.2)
Decrease in finance costs	0.4	0.6	0.3
Net profit - restated	55.8	67.2	32.7

H1 2013 Statutory income statement



£m	H1 2013	H1 2012 ¹
Revenue	316.5	301.3
Headline operating profit	52.4	47.3
Cash exceptional items		
Acquisition expenses	-	(1.2)
	-	(1.2)
Non-cash exceptional items		
Amortisation of acquired intangible fixed assets	(2.1)	(0.7)
	(2.1)	(0.7)
Total exceptional items	(2.1)	(1.9)
Operating profit	50.3	45.4
Net finance costs	(1.8)	(1.5)
Profit before tax	48.5	43.9
Headline earnings per share (pence)	H1 2013	H1 2012
Basic	20.0	18.3

¹ The results for H1 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided on the previous slide.

Net finance charge / facilities



£m	H1 2013	H1 2012 ¹
Net interest payable	0.4	0.2
Financing costs	0.7	0.6
Bank and other charges	0.4	0.4
Pension finance charge	0.3	0.3
Net finance charge	1.8	1.5

- Interest payable: increase due to higher average net debt
- Financing costs: higher following refinancing of RCF in Feb 2013
- Average remaining life of committed facilities is 3.9 years
- Committed facility headroom of £216m at 30 June 2013

¹ The results for H1 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

Pensions

£m	H1 2013	FY 2012 ¹	H1 2012 ¹
UK Funded	3.9	4.2	2.4
Other Western Europe Funded	0.6	0.5	0.7
Other Western Europe Unfunded	14.2	13.1	11.7
Western Europe Total	18.7	17.8	14.8
North America Funded	0.9	0.9	0.8
Emerging Markets Unfunded	0.2	0.3	0.2
Total retirement benefit obligations	19.8	19.0	15.8

¹ The results for H1 2012 and FY 2012 have been restated following adoption of IAS 19 (revised) *Employee Benefits*. A reconciliation is provided in the Appendix.

Financial information



Shares in issue		H1 2013	H1 2012
Average		189.3m	188.4m

Exchange Rates		H1 2013	H1 2012
Euro	Average (P&L)	1.18	1.21
	Closing (B/S)	1.17	1.24
US Dollar	Average (P&L)	1.54	1.58
	Closing (B/S)	1.52	1.57
SEK	Average (P&L)	10.05	10.75
	Closing (B/S)	10.24	10.83

Financial Ratios		H1 2013	H1 2012
Net Debt : Headline EBITDA*		0.2x	0.1x
Headline EBITDA Interest Cover*		297x	197x
Gearing (Net Debt:Total Equity)		5%	3%

* Calculated on a rolling 12 month basis.

Bodycote