

# Capital Markets Day

21<sup>st</sup> November 2014, London

## Overview

*Stephen Harris, Group Chief Executive*



# Agenda

- Bodycote today
- Strategic update
- A new insight

- **Bodycote today**
- Strategic update
- A new insight

# What does Bodycote do?



## Heat treatment

Highly precise improvement of material properties in metal components



## Hot Isostatic Pressing (HIP)

The ultimate strengthening process



## Surface Technology

Temperature, corrosion and wear protection

**Thermal processing – an essential enabler of modern technology**

# Where is Bodycote?



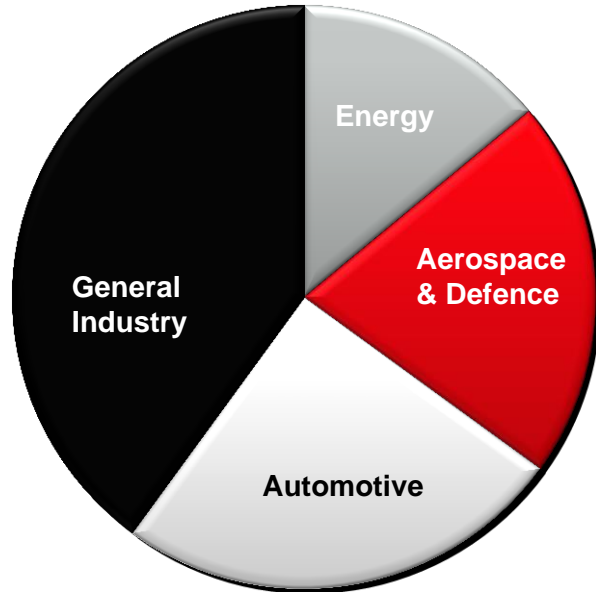
- Network simplifies complexity
- Economies of scale

More than 190 plants / more than 2,000 process lines

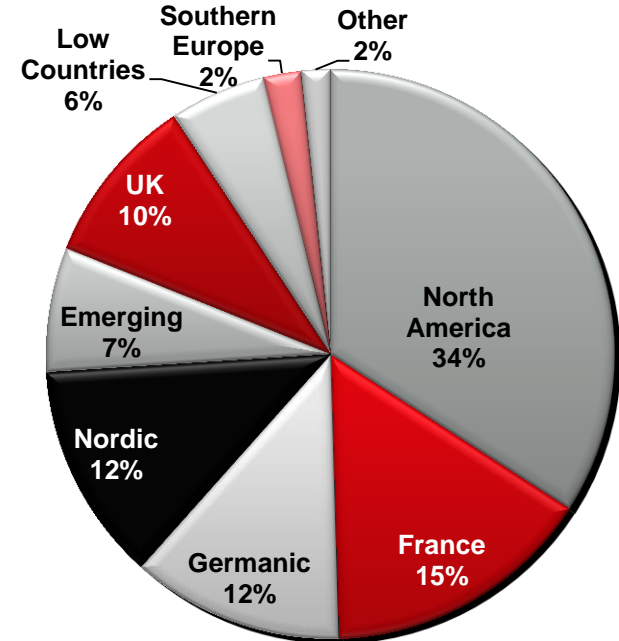
# Spread of activities

H1 2014 Revenue

### Markets

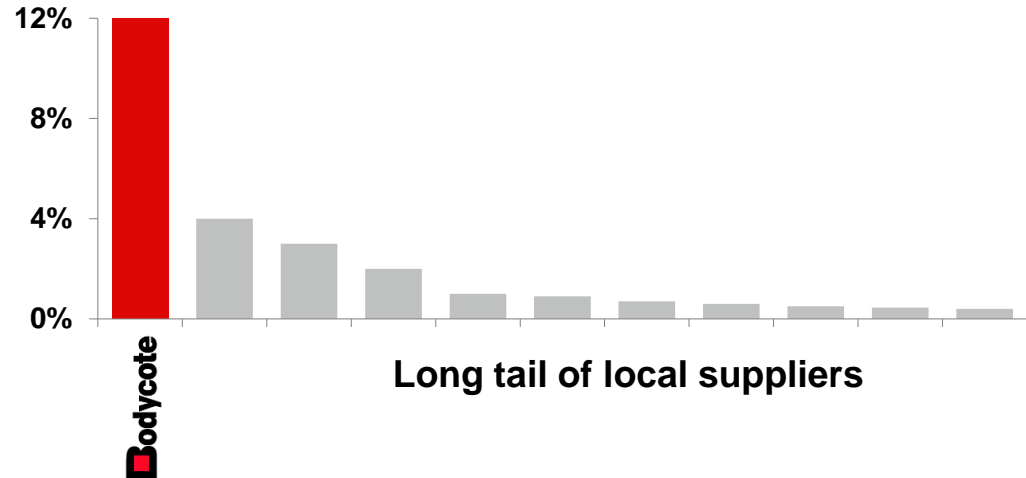


### Geography



# Competitive landscape

- Overall market is estimated at around £20bn\*
- Approximately 20%\* of the overall market is outsourced to independents
- Bodycote the only global player
- Handful of regional players
- Mostly localised groups or single site operations



**Bodycote 3x bigger than next largest player**

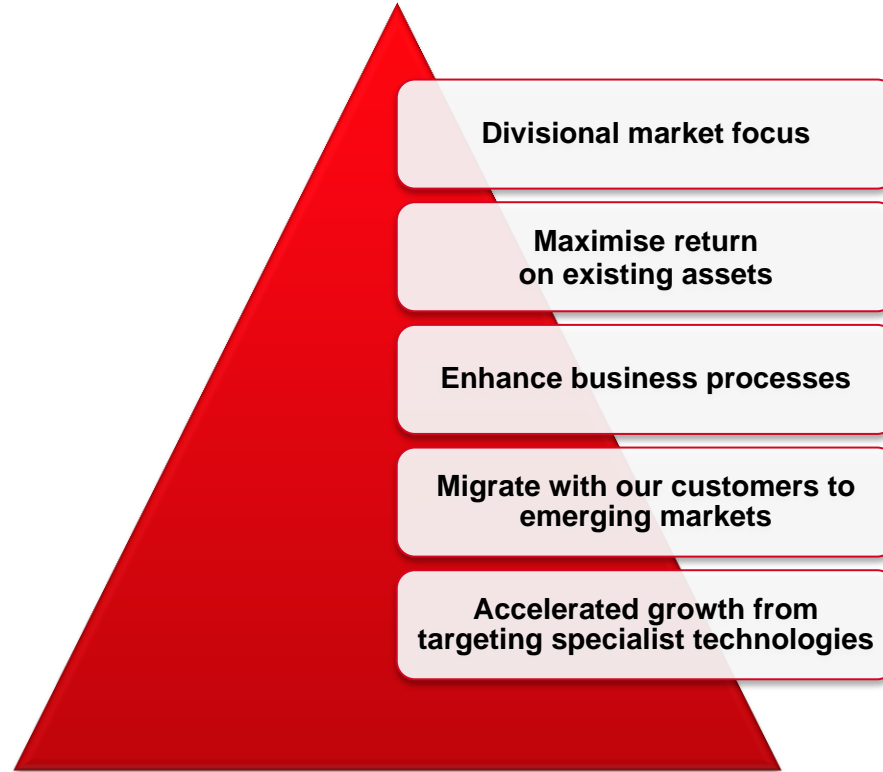
\* Management estimates

- Bodycote today
- **Strategic update**
- A new insight

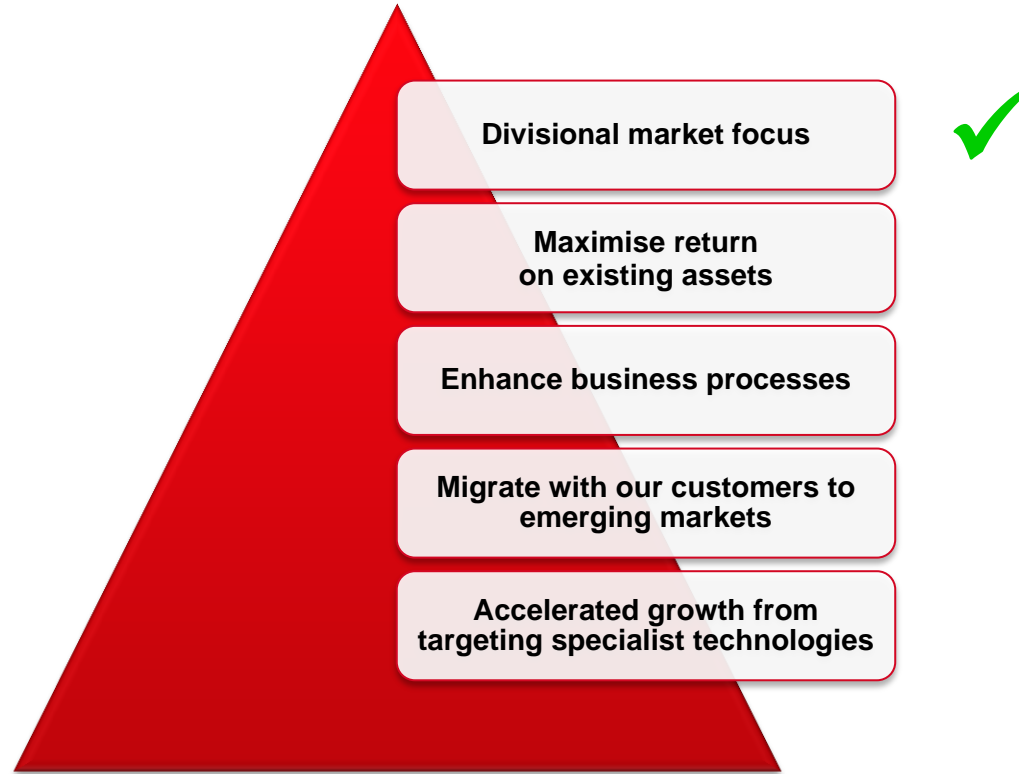


# Strategic update

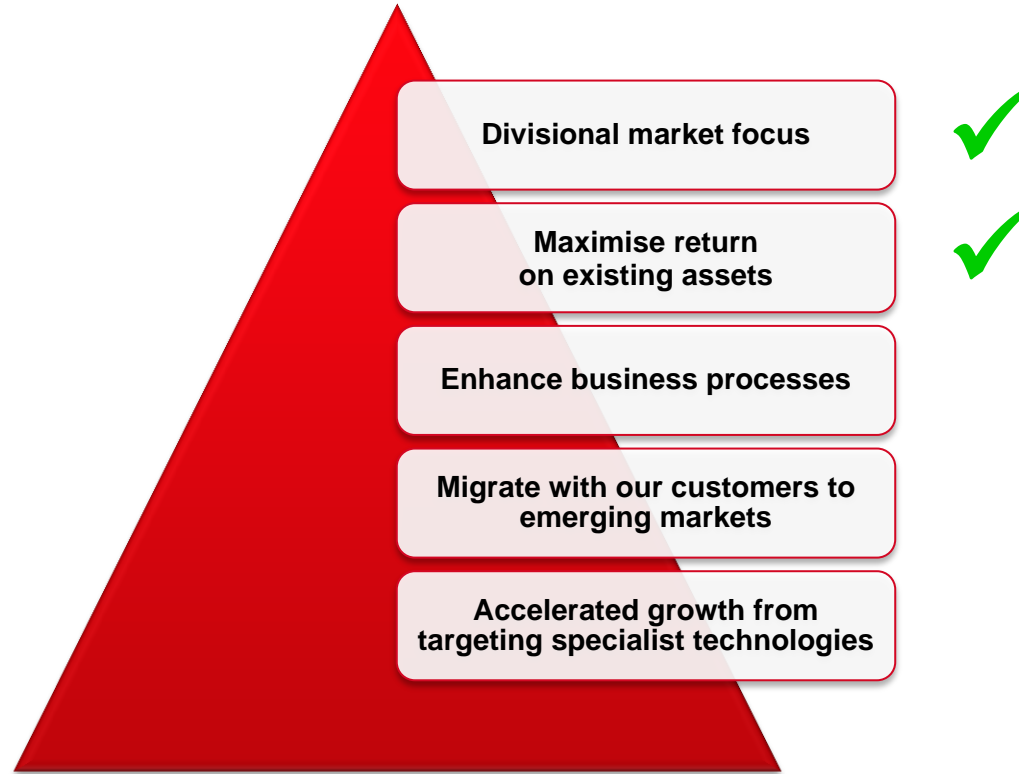
What we said three years ago...



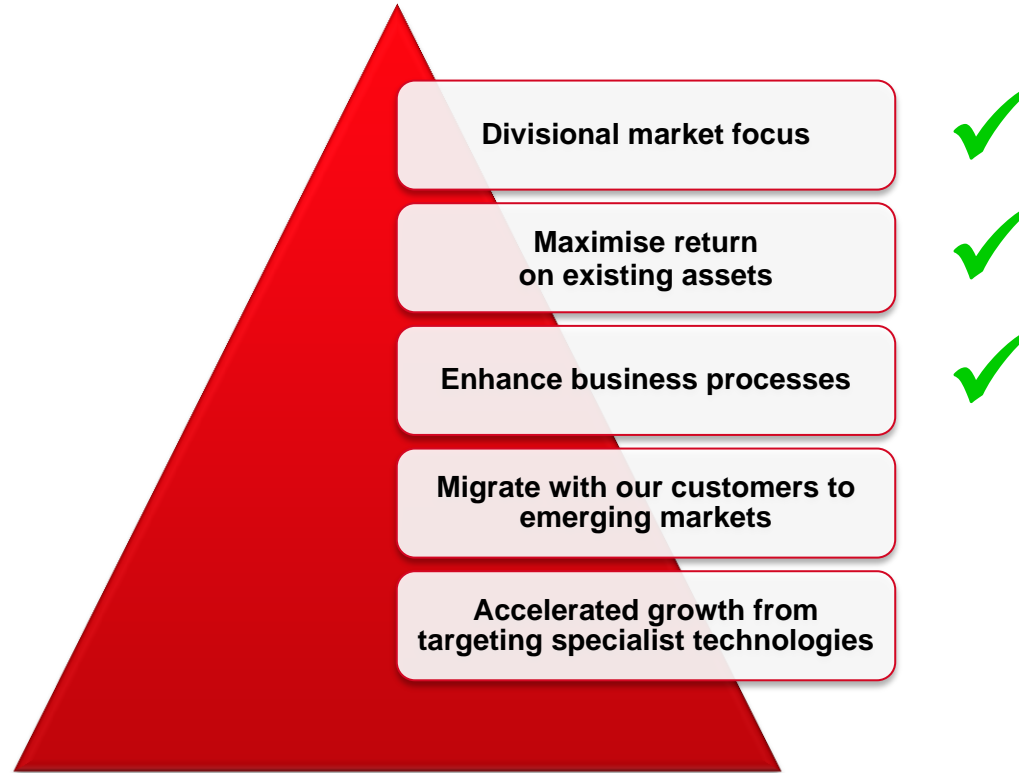
# Progress so far ....



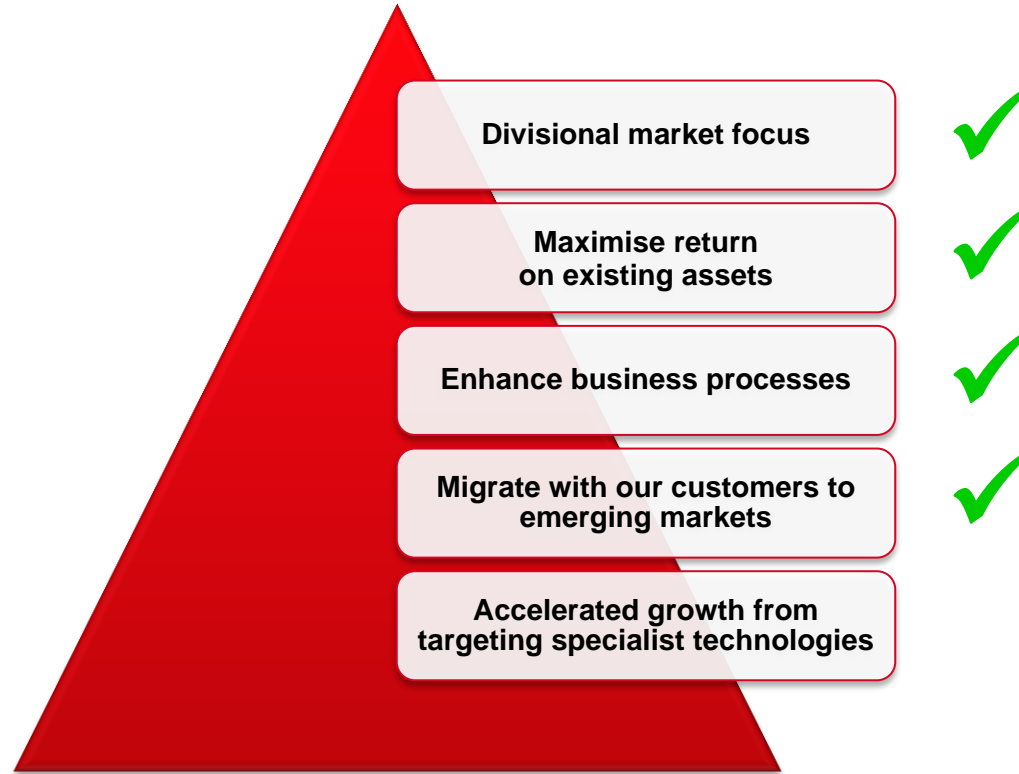
# Progress so far ....



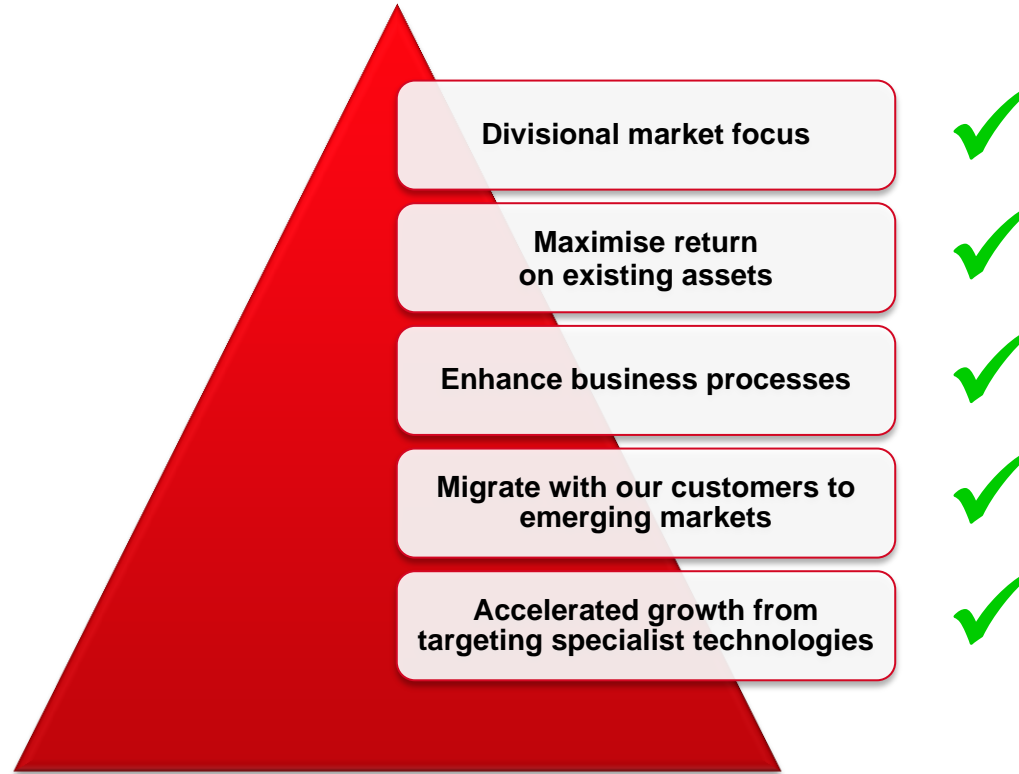
# Progress so far ....



# Progress so far ....



# Progress so far ....



# And we added acquisitions to the strategic agenda



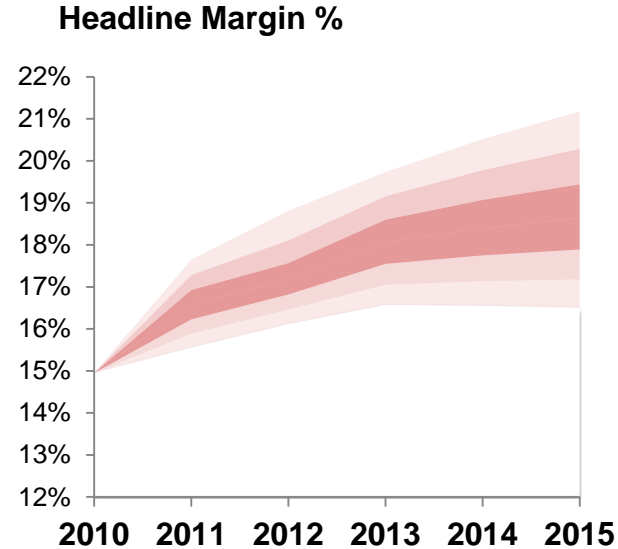
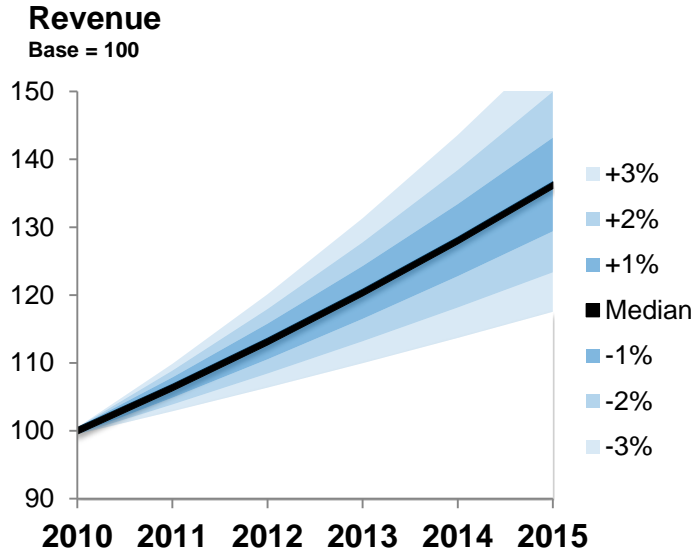
# And successfully acquired and integrated £85 million worth of businesses





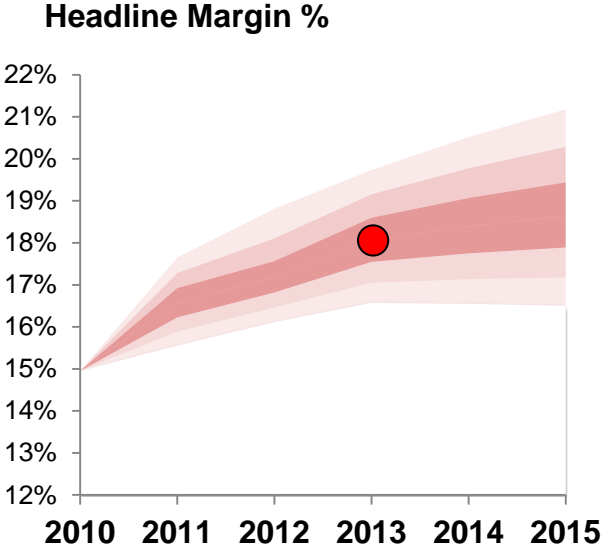
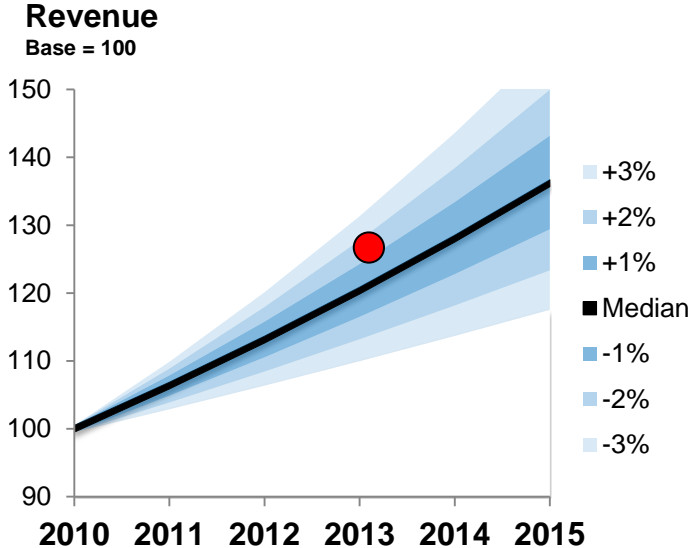
# Strategic update

What we said three years ago...



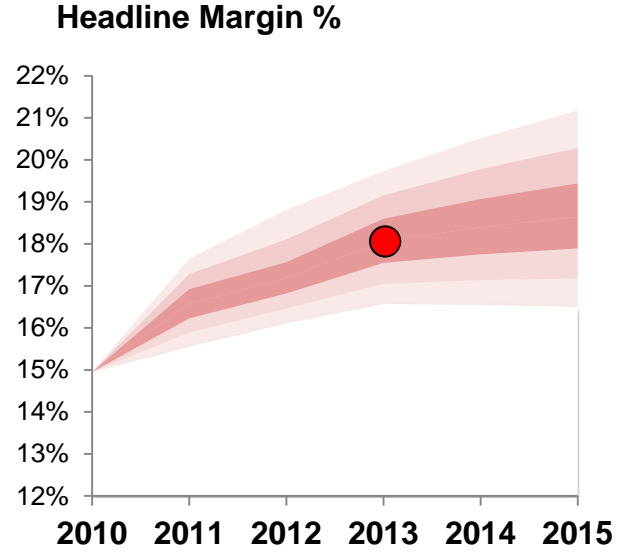
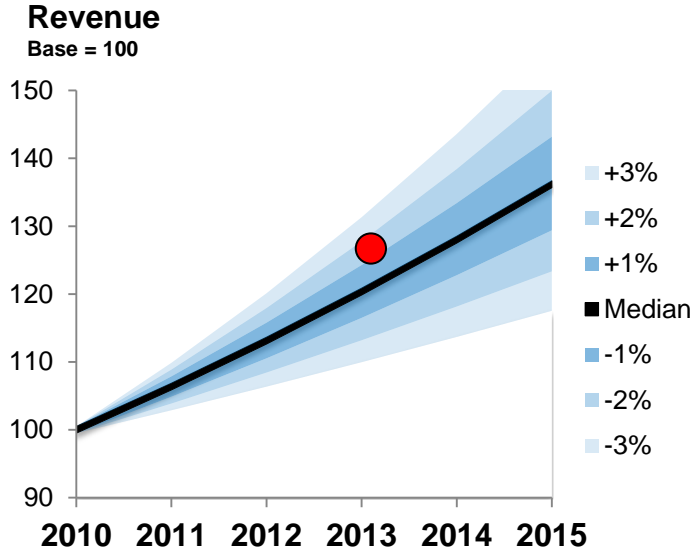
- At the 2011 Capital Markets Day we scaled future revenue growth around a 6% ‘median case’

# We have delivered...



Achievement = ●

# We have delivered...

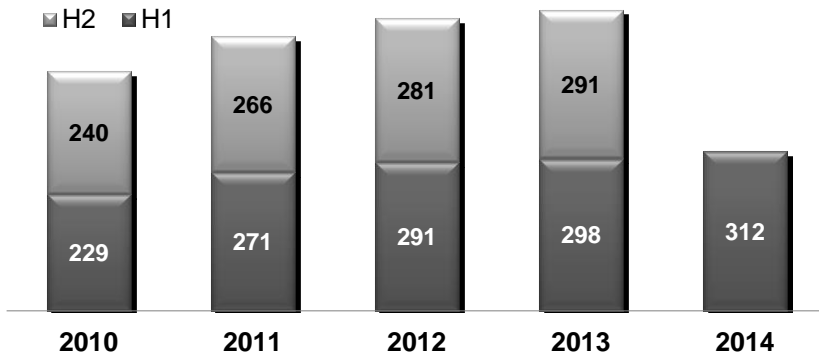


**Revenue CAGR of 7.8% since 2011**

# Financial performance

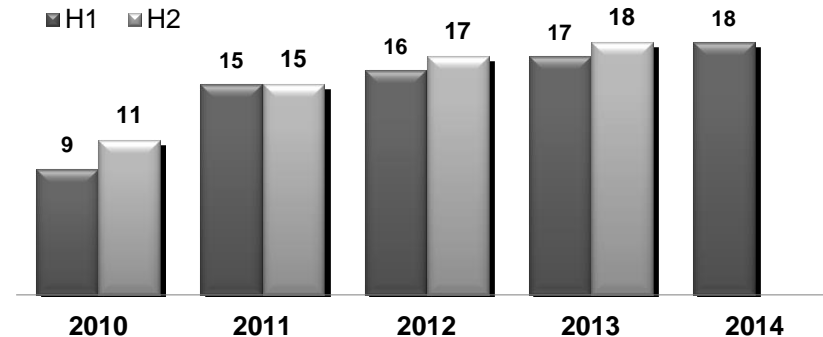
## Revenue £m

■ H2 ■ H1

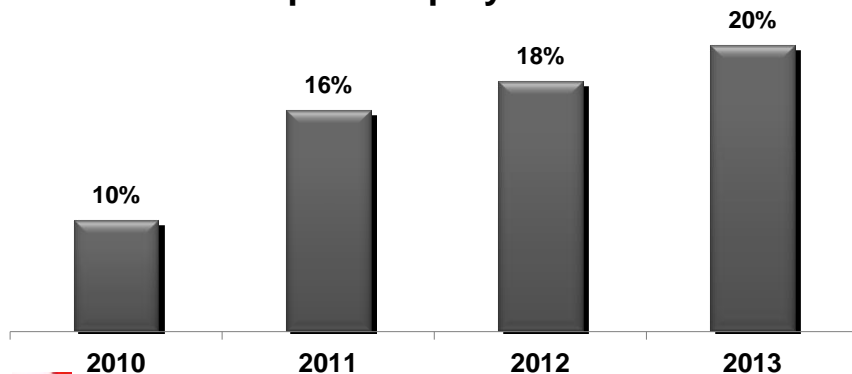


## Headline margin %

■ H1 ■ H2

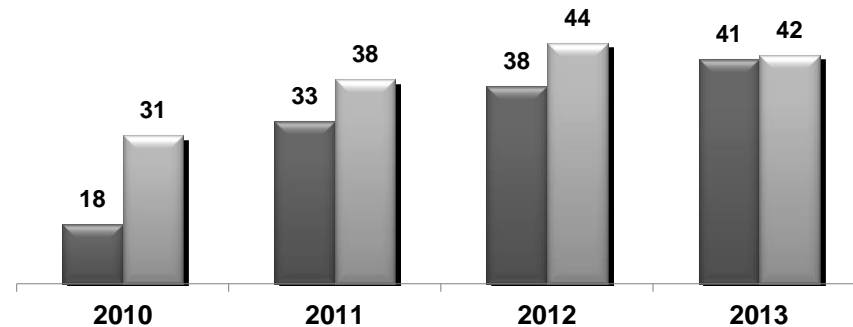


## Return on capital employed



## Cash flow pence

■ Headline EPS ■ Free Cash PS



# Agenda

- Bodycote today
- Strategic update
- **A new insight**

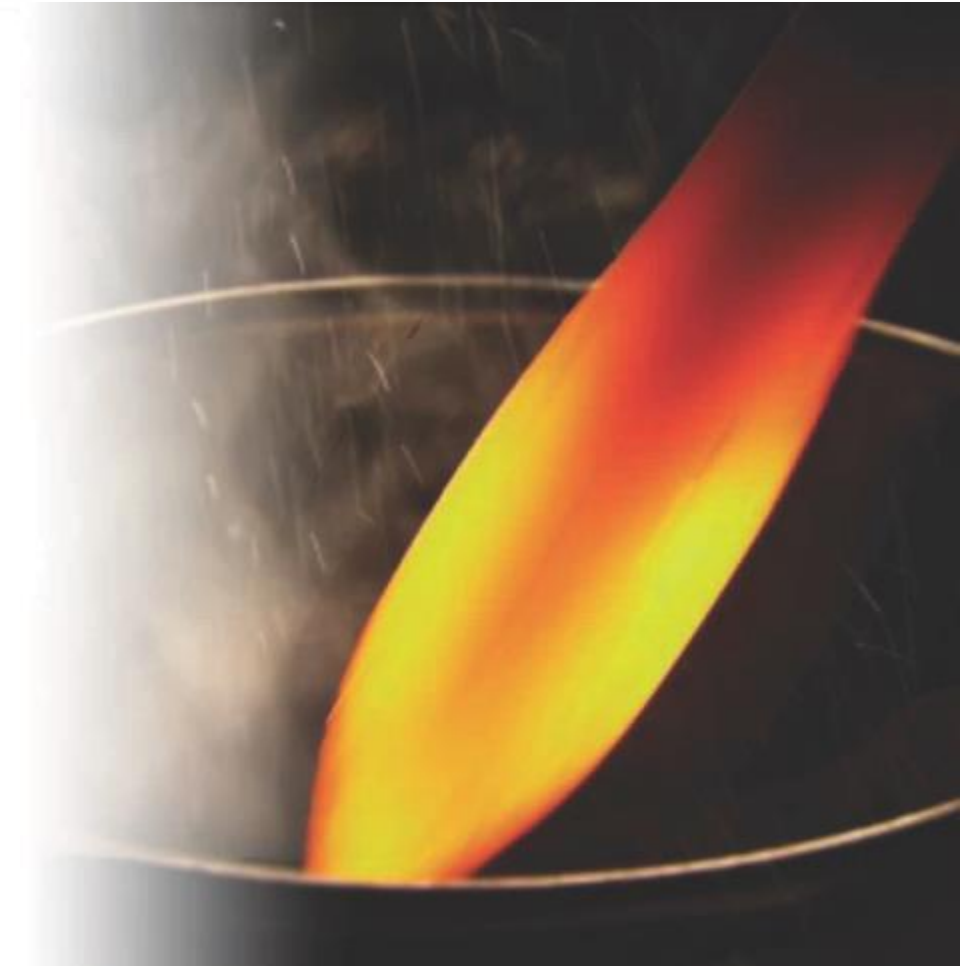
## Classical Heat Treatment and our Specialist Technologies

- Different scale
- Different growth rates
- Different margins
- Different development routes

# Classical Heat Treatment

## What is it?

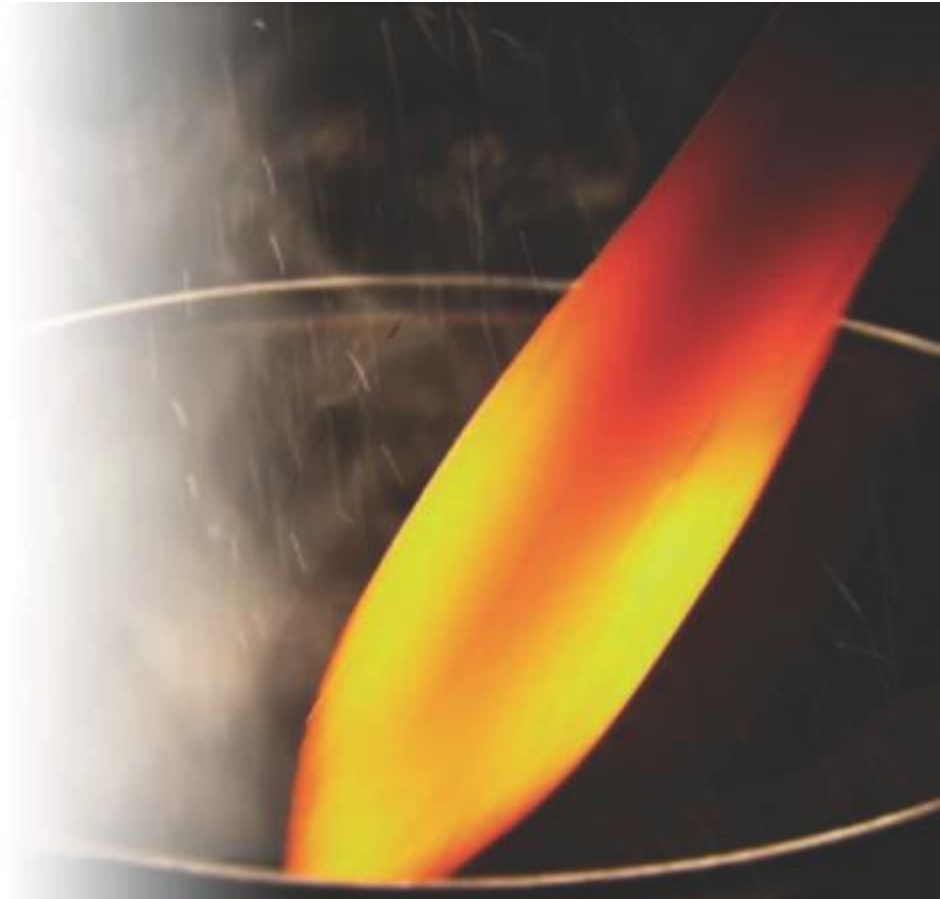
- **Heat treatment** is used to alter the material properties of metals and alloys
- Heat treatment can improve hardness, wear resistance, temperature resistance, ductility, strength and many other fundamental material properties



# Classical Heat Treatment

## What is it?

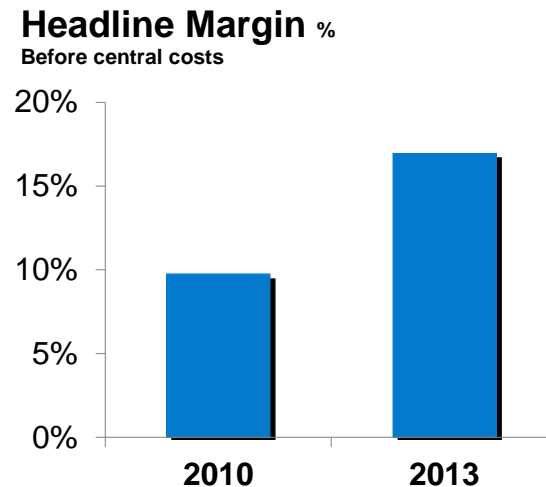
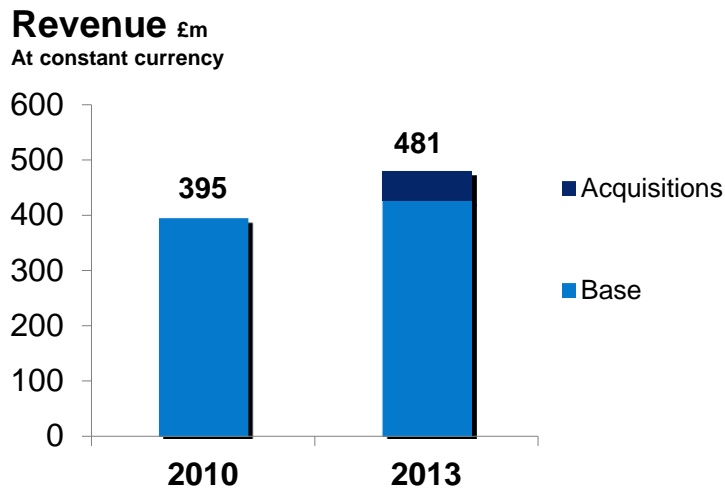
- **Classical Heat Treatment** describes a group of **mature processes** such as Nitriding, Carburising, Annealing, Tempering (and many more) that are used to achieve the desired material properties of the metal or alloy
- Today, Classical Heat Treatment utilises precisely controlled furnaces to process a huge variety of parts and materials to very exacting quality specifications
- In the past these same processes were orchestrated with cruder equipment, but the underlying methods of transformation of the materials were essentially the same





# Performance

## Classical Heat Treatment



- Organic growth 9% over 3 years, including greenfields
- 'Self-funded' acquisitions added 13% to revenues

**Margin transformation – profit more than doubled**

# Achieving margin gain

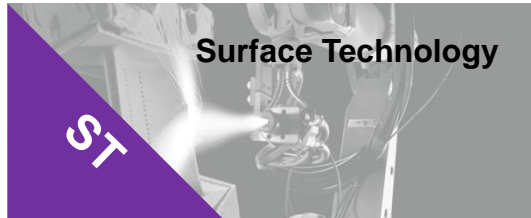
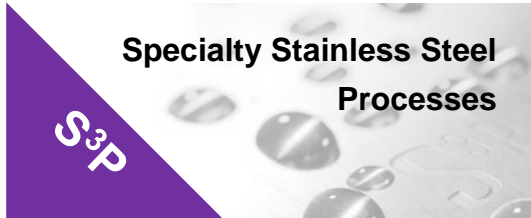
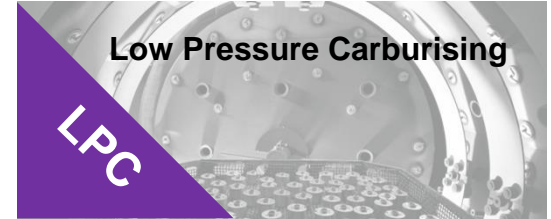
## Classical Heat Treatment

It's not just about 'drop through' from volume  
– it's mainly about mix...



# Specialist Technologies

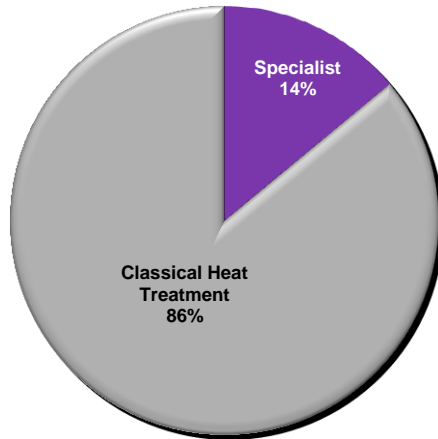
What are they?



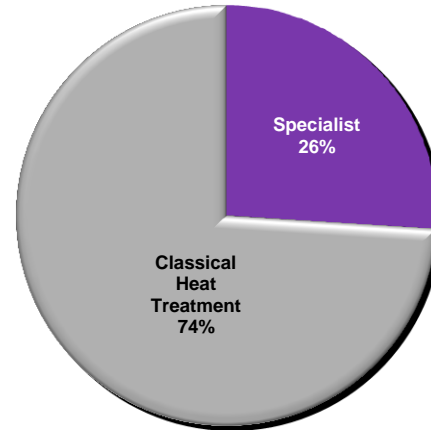
# Revenue growth

## Specialist Technologies

### 2007 Revenue



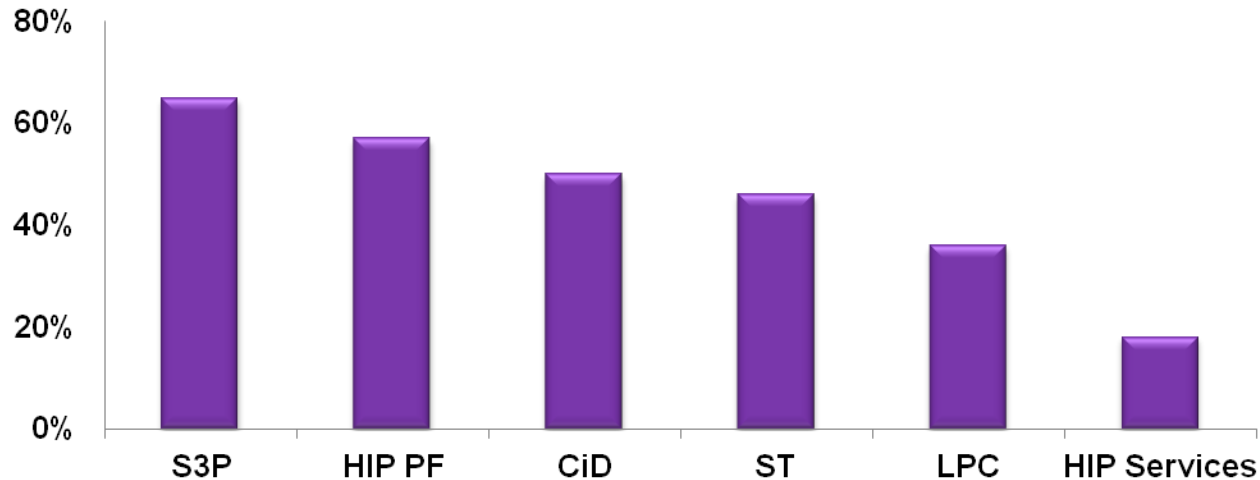
### 2014 H1 Revenue



High growth

# 2010-2013 Cumulative growth

## Specialist Technologies

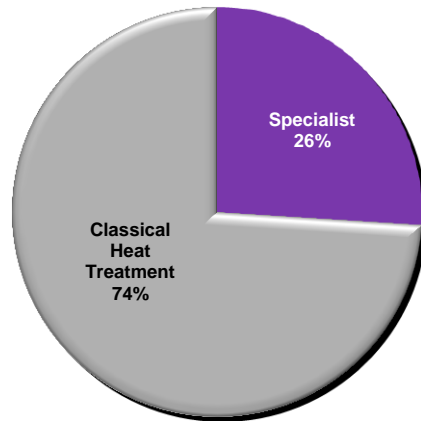


**S<sup>3</sup>P and HIP PF - growing the fastest and have the greatest potential**

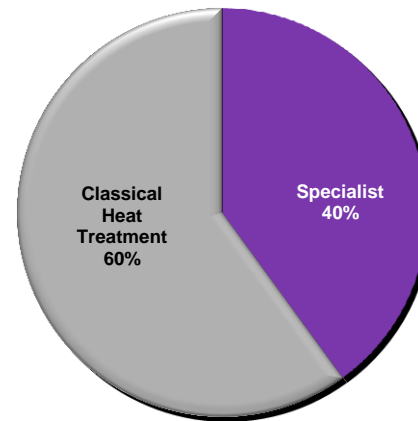
# 2014 H1 Revenue & operating profit split

## Specialist Technologies

### Revenue



### Operating Profit

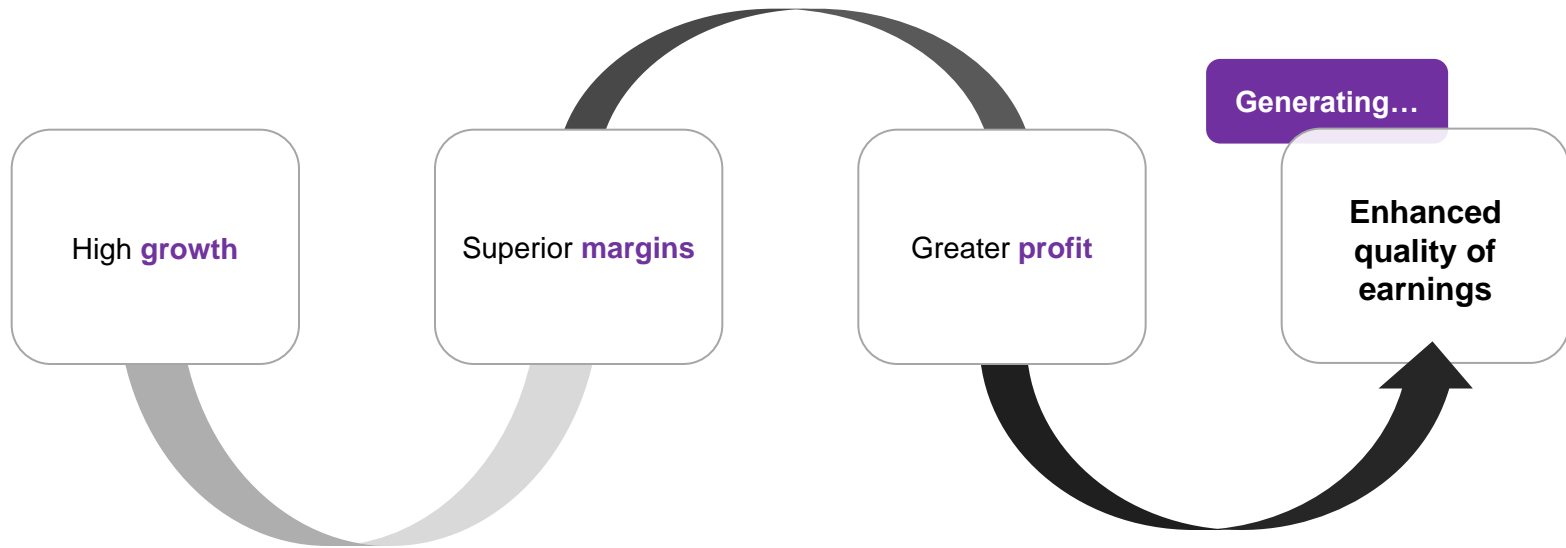


**Much higher growth *and* much higher margin**

# Enhancing quality of earnings

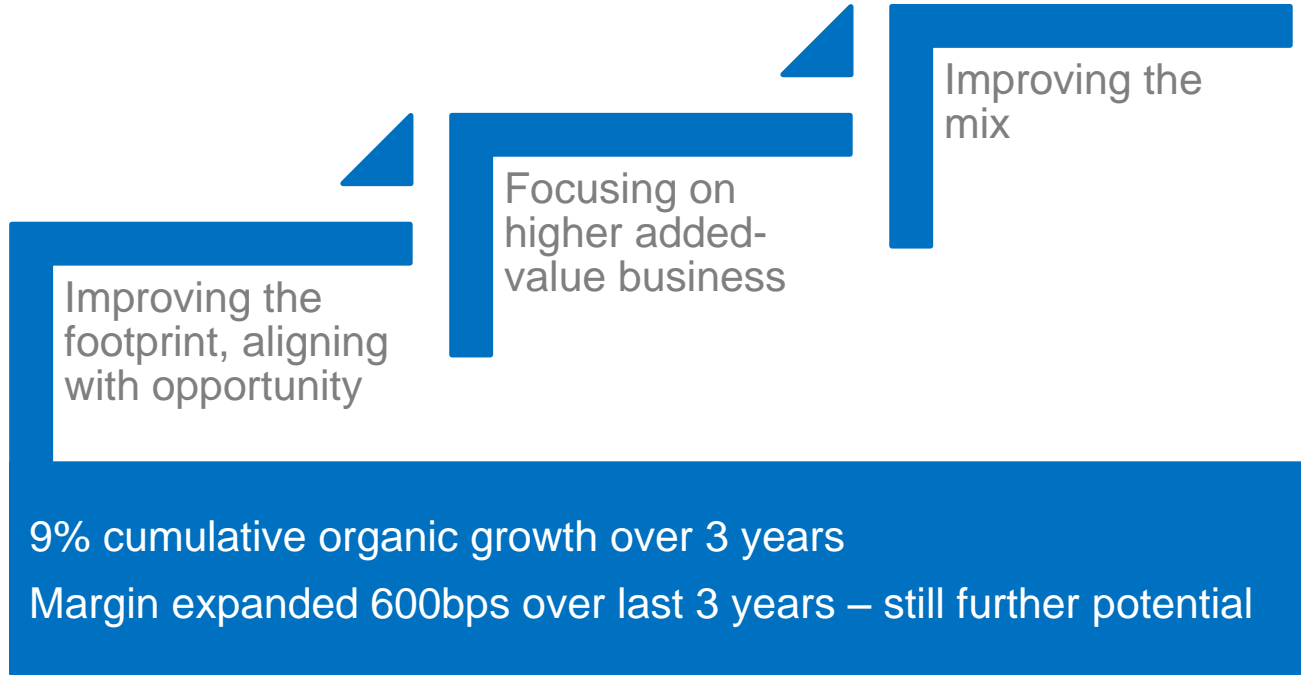
## Specialist Technologies

The growth rates and margins of the Specialist technologies are enhancing Bodycote's quality of earnings



# Summary

## Classical Heat Treatment





# Summary

## Specialist Technologies



# Capital Markets Day

21<sup>st</sup> November 2014, London

The logo for Bodycote, featuring a red square icon to the left of the word "Bodycote" in a bold, black, sans-serif font.

**Bodycote**

# Capital Markets Day

21<sup>st</sup> November 2014, London

## Investment & Cash Flow

*David Landless, Group Finance Director*



# Agenda

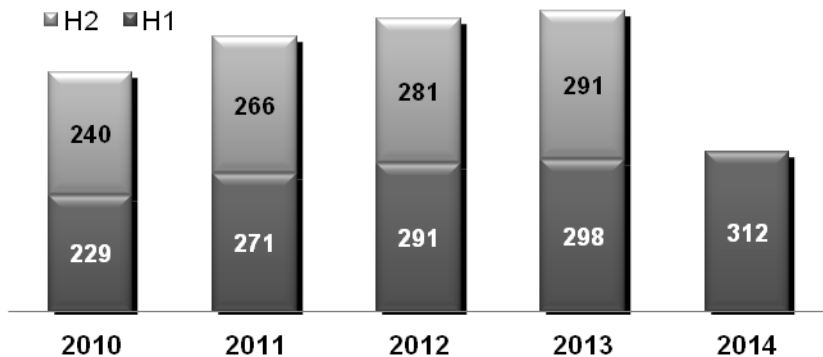
- Financial performance
- Market volatility
- Investment
- Cash generation
- Cash utilisation

- **Financial performance**
- Market volatility
- Investment
- Cash generation
- Cash utilisation

# Financial performance

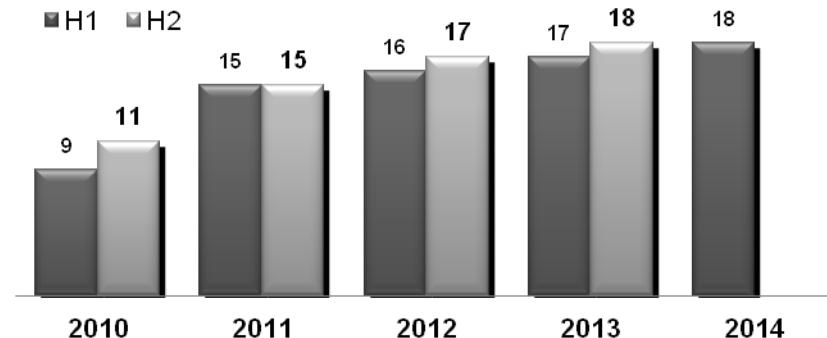
## Revenue £m

■ H2 ■ H1

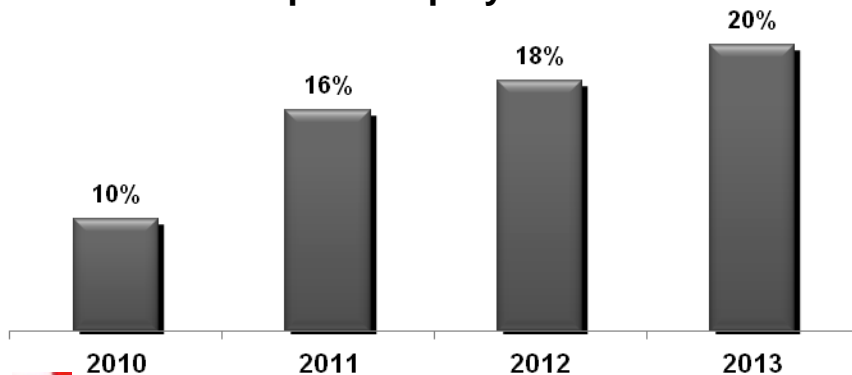


## Headline margin %

■ H1 ■ H2

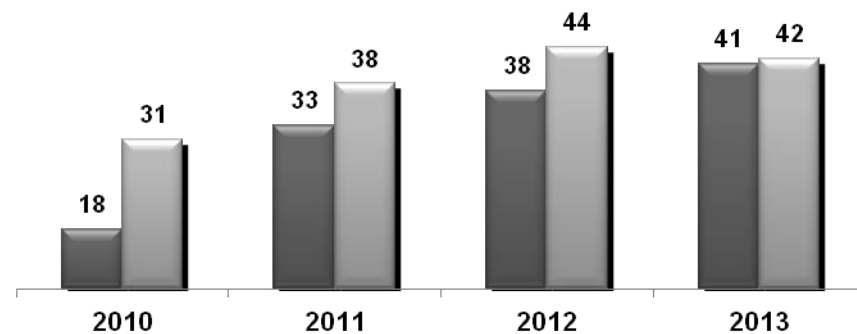


## Return on capital employed



## Cash flow pence

■ Headline EPS ■ Free Cash PS

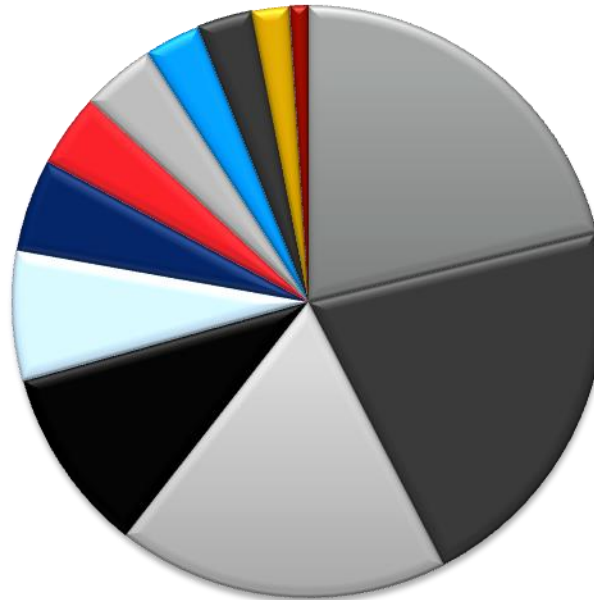


# Agenda

- Financial performance
- **Market volatility**
- Investment
- Cash generation
- Cash utilisation

# Market volatility

## H1 2014 Revenue by sector



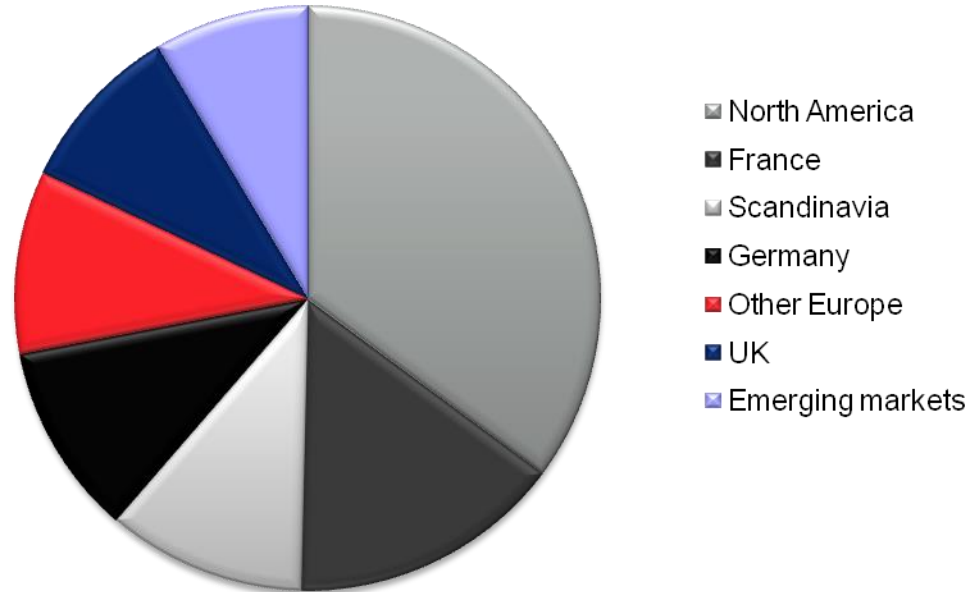
- Aerospace & Defence
- Auto
- General Industrial
- Oil & Gas
- Tooling
- Construction
- Power Generation
- Consumer
- Agriculture
- Truck
- Medical
- Mining

**Broad spread of served industries**



# Market volatility

## H1 2014 Revenue by geography



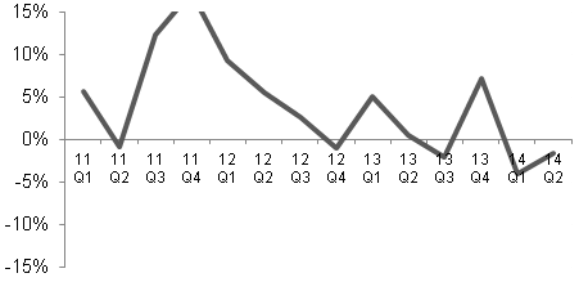
**Broad spread of geographies**

# Market volatility

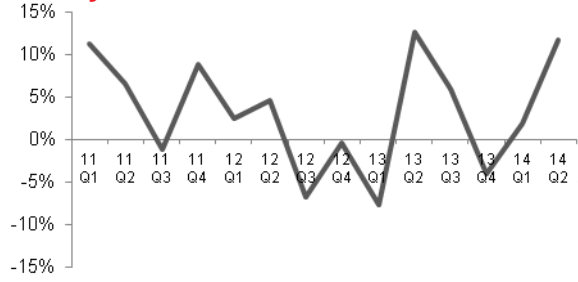
## US QoQ growth by sector

Source: US Federal Reserve data

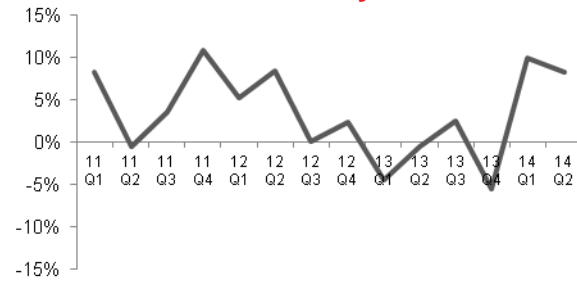
### Automotive



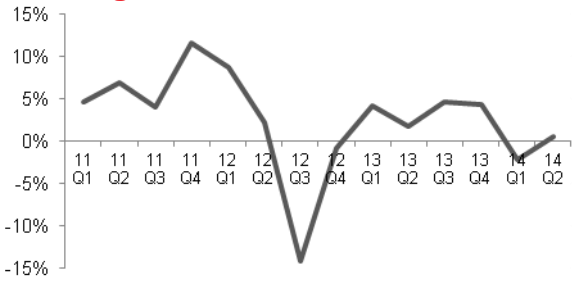
### Heavy Truck



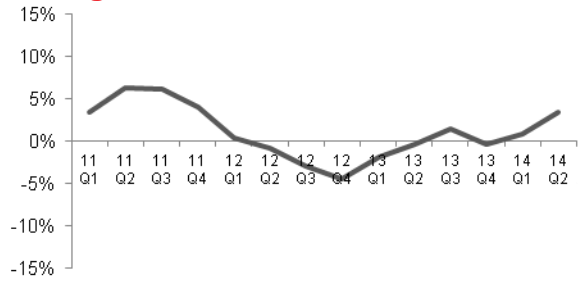
### Construction Machinery



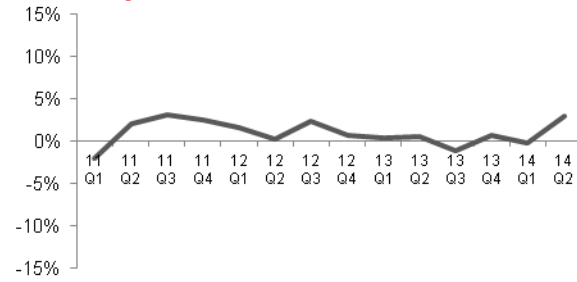
### Power generation



### Drilling, Oil & Gas Wells



### Aircraft parts



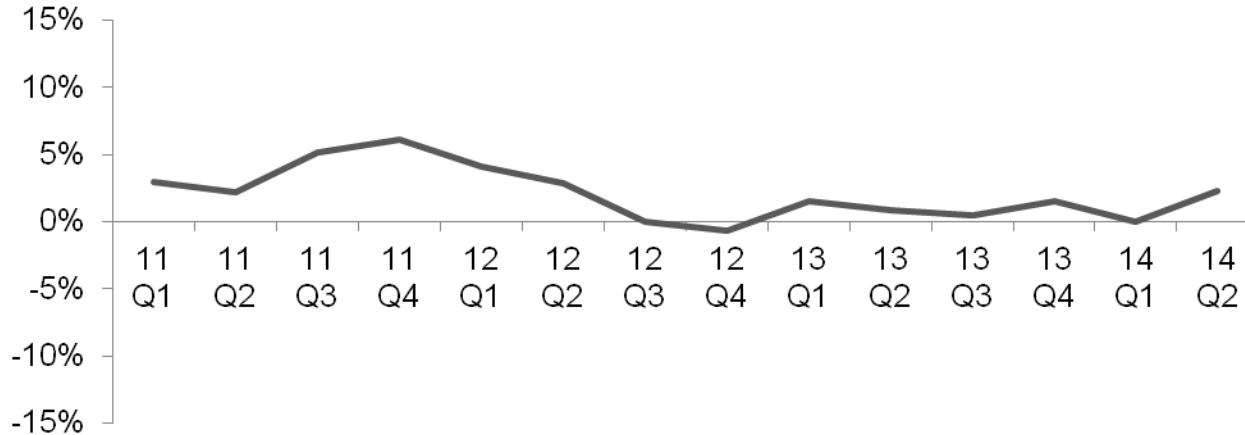
**Individual markets can be volatile**

# Market volatility

## Managing volatility

Source: US Federal Reserve data  
weighted by Bodycote sales mix

### US Market amalgam – QoQ growth



- But Europe tends to be phased differently to the US
- Result – volatility further reduced

# Agenda

- Financial performance
- Market volatility
- **Investment**
- Cash generation
- Cash utilisation

# Investment

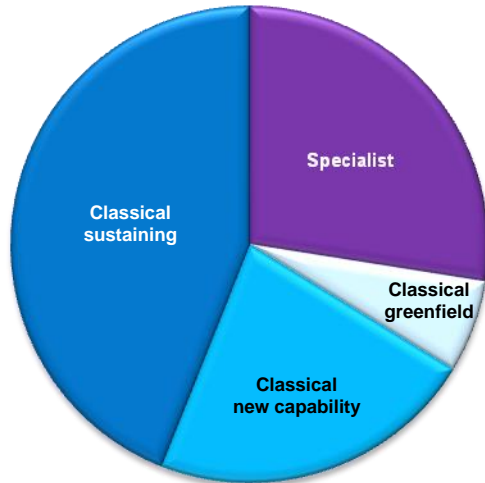
## Enhancing the business

- Three years since last Capital Markets Day:
  - Capital expenditure                      £150m
  - Depreciation                                      £154m
  - Averaging 1.0x depreciation

# Investment

What did it buy?

- Three years since last Capital Markets Day:



## Specialist Technologies:

Large capacity increase, for example:

- Expanded S<sup>3</sup>P lines
- New HIP capacity added
- Greenfields

## Classical Heat Treatment:

- Greenfields
- New capability
- Sustaining

**Over half of investment enhances capacity / capability**

# Investment

## Sustaining versus enhancement

- Capex to sustain the asset base and infrastructure totals some 50% of depreciation
- So expansion capex is funded from depreciation too...

### *How is this possible?*

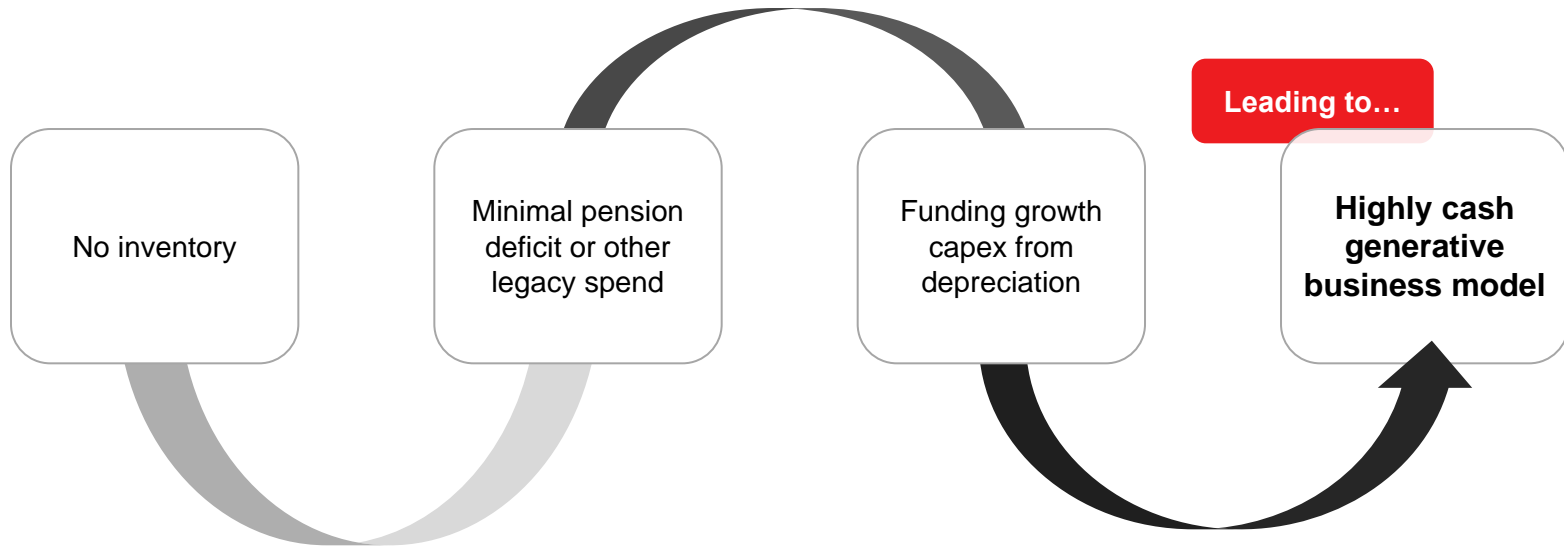
- The structure of a furnace lasts indefinitely
- Burners, elements, seals, controls and moving parts require periodic renewal
- Sustaining capex is additional to expensed maintenance

# Agenda

- Financial performance
- Market volatility
- Investment
- **Cash generation**
- Cash utilisation

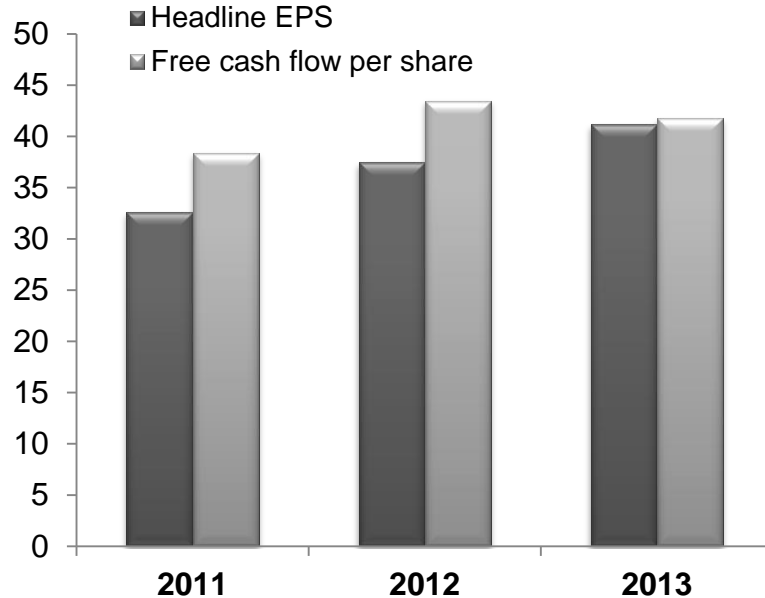


# Cash generation



# Cash generation

## Free cash and headline earnings per share



- Cash earnings exceeded EPS each year
- And in 2009 and 2010 too
- Operating cash conversion averaged 110%

**Class-leading cash generation**

# Agenda

- Financial performance
- Market volatility
- Investment
- Cash generation
- **Cash utilisation**

# Cash utilisation

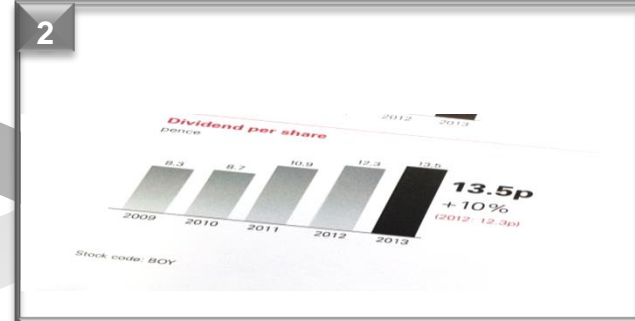
## Priorities



Organic growth



Acquisitions



Enhancing core dividends

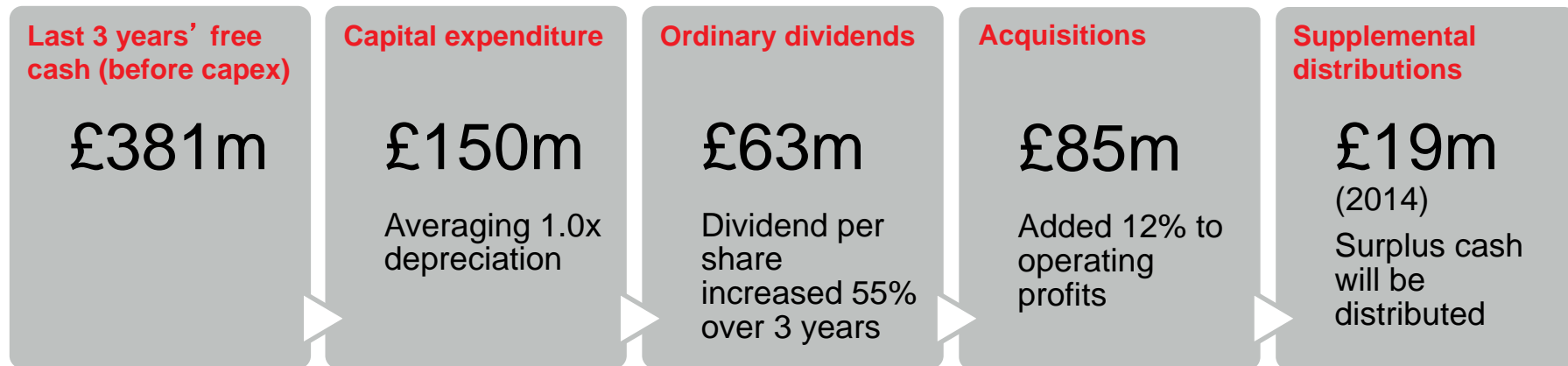


Supplemental distributions as appropriate

# Cash utilisation

2010-2013 Cash usage

Net *debt* at 31 December 2010 of £51m ▶



▶ Net *cash* at 31 December 2013 of £15m

- Strong financial performance
- Market volatility not always as large an effect as perceived
- Investment programme focused on Specialist Technologies and adding capacity and capability to Classical Heat Treatment
- Strong cash generation
- Clear prioritisation for use of cash

# Capital Markets Day

21<sup>st</sup> November 2014, London

The logo for Bodycote, featuring a red square icon to the left of the word "Bodycote" in a bold, black, sans-serif font.

**Bodycote**