2015 Full Year Results

25 February 2016

Bodycote

Introduction

Stephen Harris

Group Chief Executive

Agenda

Summary

Financial review

Business review

Outlook

Summary

▪ Revenue	– Down 4% at constant currency – Group – excl. Energy* 0.4% – Energy* -22.1%
▪ Headline operating margin	– 18.0% (2014: 18.2%)
▪ Business development	– Restructuring virtually complete – Brazil sold – Investment accelerated for future growth
▪ Final dividend	– 10.3p, up 5.1%
▪ Balance sheet	– Net cash £12.3m – Special dividend of 10.0p

* Like-for-like sales growth rates are at constant exchange rates and exclude closed sites and Brazil

Financial review

David Landless

Group Finance Director

2015 Results summary

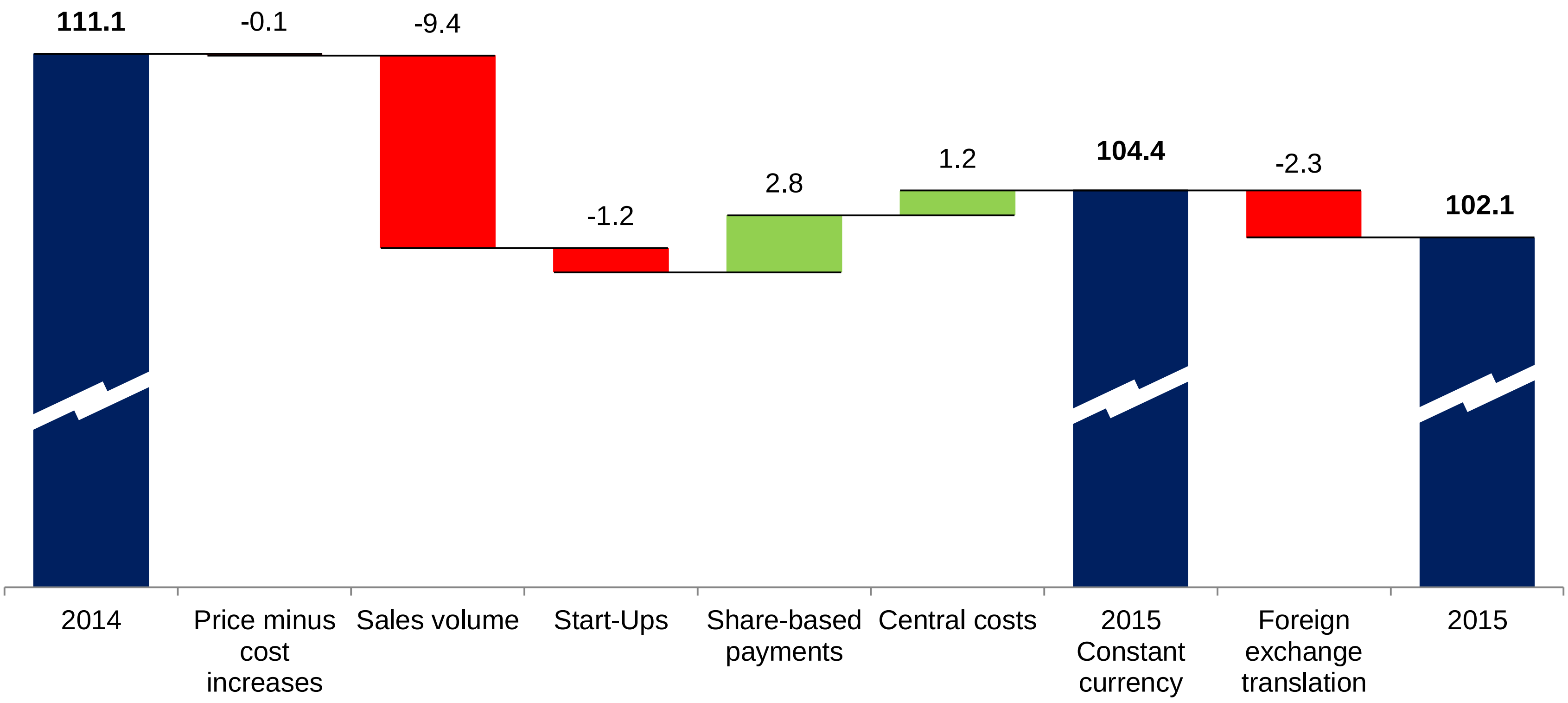
£m	2015	2014	Constant		Currency	Total change	
Revenue	**567.2**	609.1	**(25.0)**	*-4%*	**(16.9)**	**(41.9)**	*-7%*
Headline: **Operating profit**	**102.1**	111.1	**(6.7)**	*-6%*	**(2.3)**	**(9.0)**	*-8%*
Margin	***18.0%***	*18.2%*					
Profit before tax	**99.2**	107.8	**(6.2)**	*-6%*	**(2.3)**	**(8.6)**	*-8%*
Restructuring charge	**(20.0)**	-					
Headline tax rate	***24.4%***	*22.7%*					
Net cash	**12.3**	35.7					
Headline EPS	**39.5p**	43.8p					*-10%*
Return on Capital Employed	**19.0%**	20.7%					
Dividend							
Ordinary	**15.1p**	14.4p					*5%*
Special	**10.0p**	20.0p					

Divisional summary

£m	2015	2014	Constant exchange rates		Currency	Total change	
ADE Divisions							
Revenue	243.5	263.0	(21.2)	-8%	1.7	(19.5)	-7%
Headline Operating Profit	59.2	70.6	(12.4)	-18%	1.0	(11.4)	-16%
Margin	*24.3%*	*26.8%*					
AGI Divisions							
Revenue	323.7	346.1	(3.8)	-1%	(18.6)	(22.4)	-6%
Headline Operating Profit	53.4	54.1	2.6	5%	(3.3)	(0.7)	-1%
Margin	*16.5%*	*15.6%*					

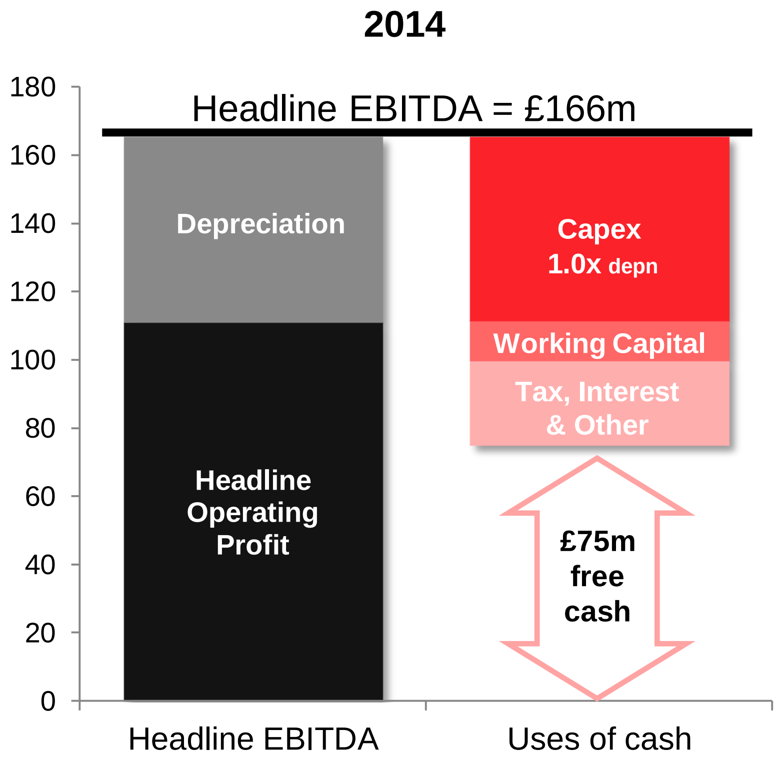
Headline operating profit bridge

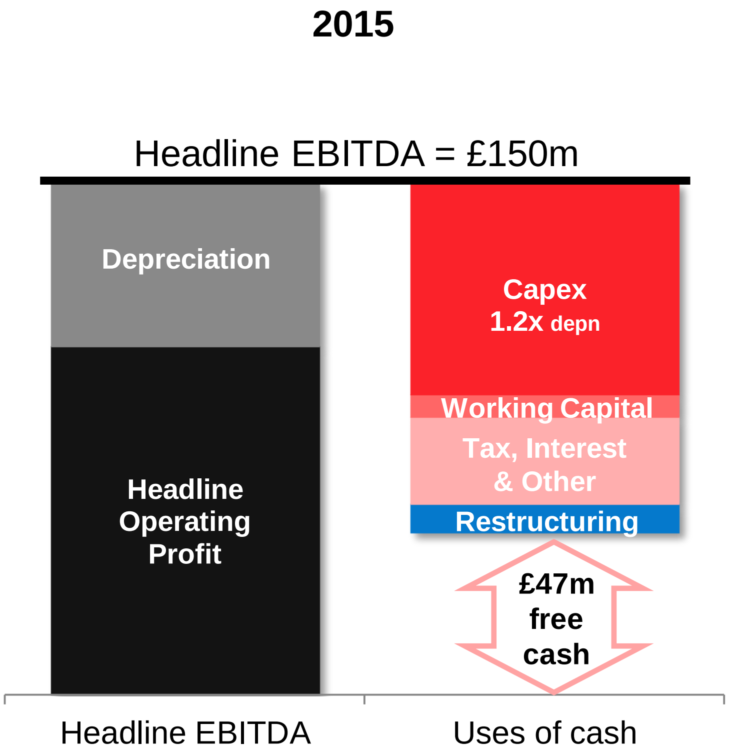
£m



Cash flow

£m





See slide 28 for detailed cash flow disclosure

Restructuring

- Half year restructuring programme, £20m charge (£9m non-cash impairment)
  - Brazil and India — Sold September
  - Oil & Gas — Fixed cost reduction completed July
  - AGI Europe — Exiting low margin activity
    3 facilities closed, further 2 in process of closure
    Rationalised an additional 5 sites
    Equipment and revenues transferred where possible

- Restructuring actions reduced headcount by 513

Total benefit £10m - £4m delivered H2 2015, £6m incremental benefit in 2016

Notes

Taxation

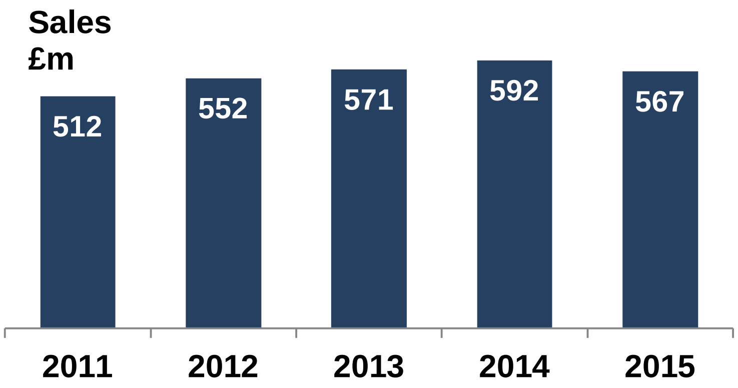
- Headline tax rate 24.4% (2014: 22.7%)
- Headline tax rate expected to be c.28% in 2016
  - Historical tax losses now largely exhausted
  - Proportion of profits from higher tax jurisdictions

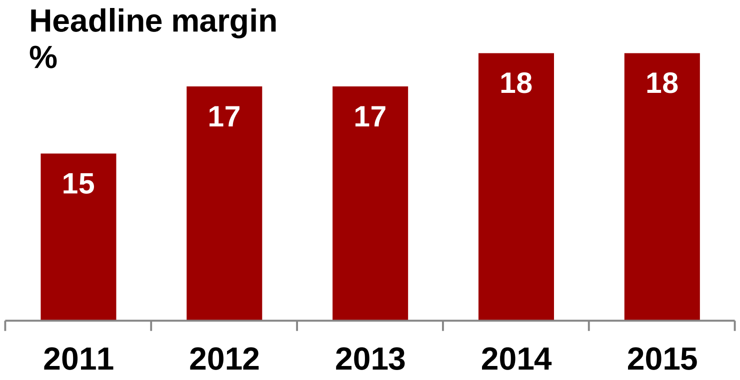
Currency

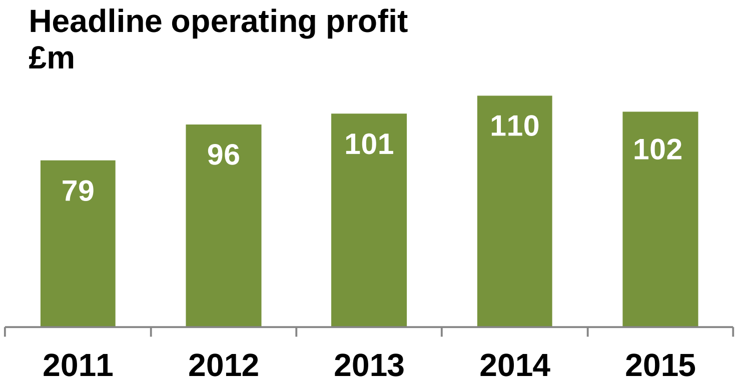
- Every cent change in the US dollar is worth c.£300k of operating profit
- Every cent change in the Euro is worth c.£400k of operating profit

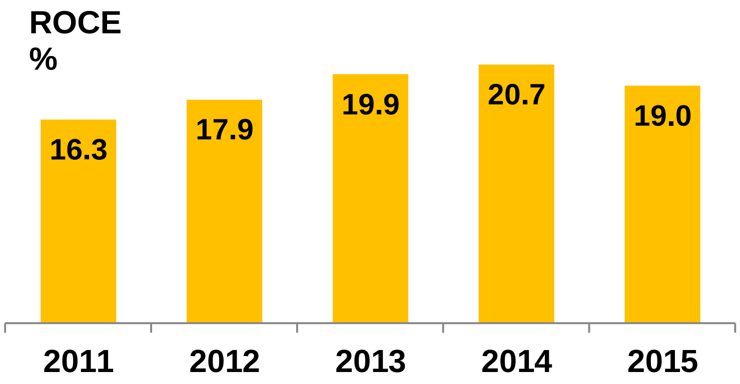
Five year perspective

At 2015 exchange rates









Business review

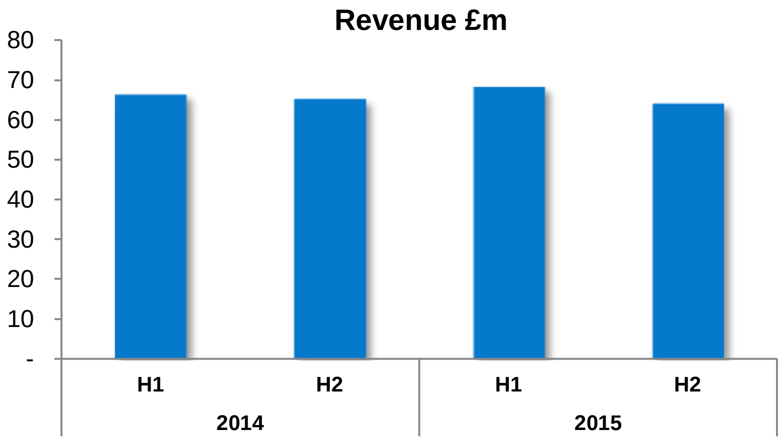
Stephen Harris

Group Chief Executive

Aerospace & Defence

Bodycote

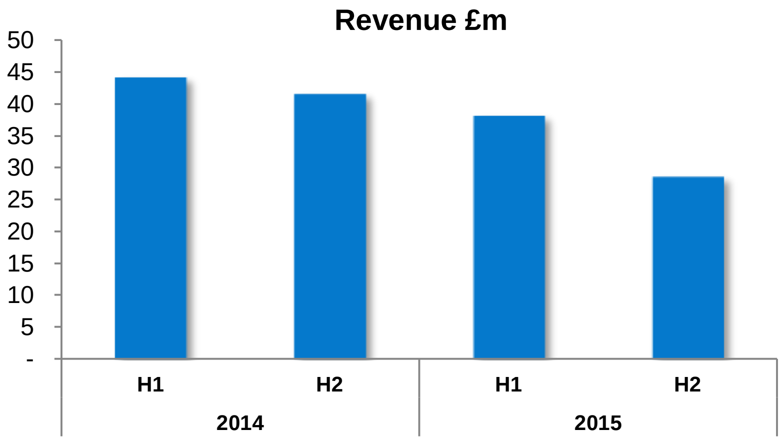
Revenue: £135m **Constant currency growth: 0.6%**



- Civil Aerospace up 1.1%
- Good growth on new generation engines, particularly in France
- UK Aerospace down 8%

Energy

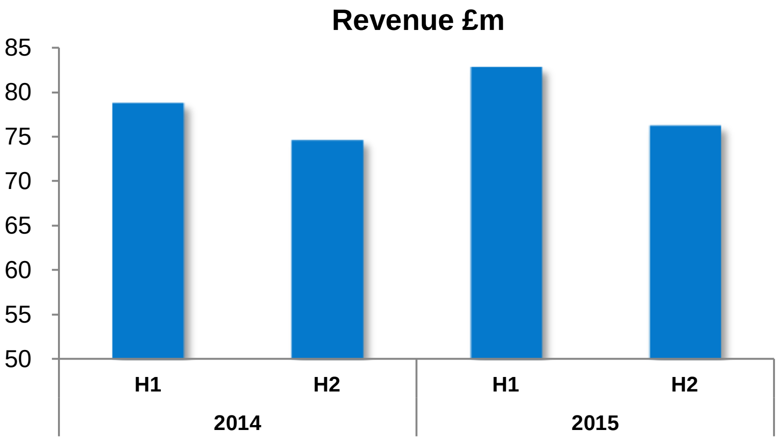
Revenue: £66m | **Constant currency decline: -22.1%**



- Sharp fall in Oil & Gas
- Impact mitigated by HIP PF
- IGT and power generation soft
- Energy business continues to generate good returns

Automotive

Revenue: £153m **Constant currency growth: 3.7% (Like-for-like growth*: 6.6%)**

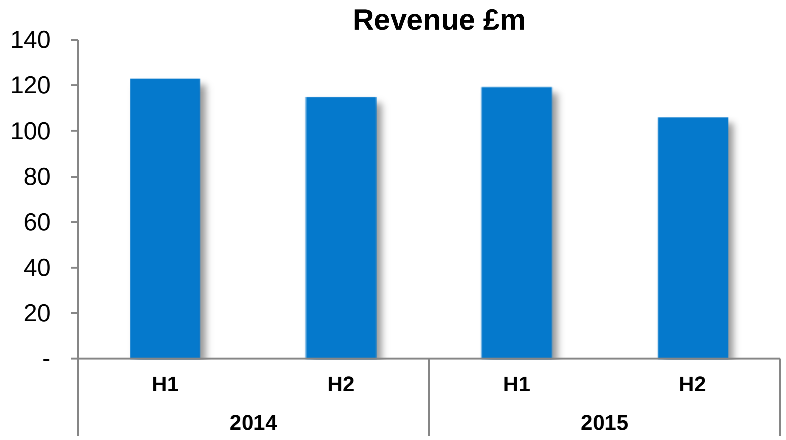


- Like-for-like* car & light truck revenues up 8%
- Heavy truck revenues declined marginally
- LPC, CiD and S^{3}P Specialist Technologies delivered strong growth

*Like-for-like sales growth rates are at constant exchange rates and exclude closed sites and Brazil

General Industrial

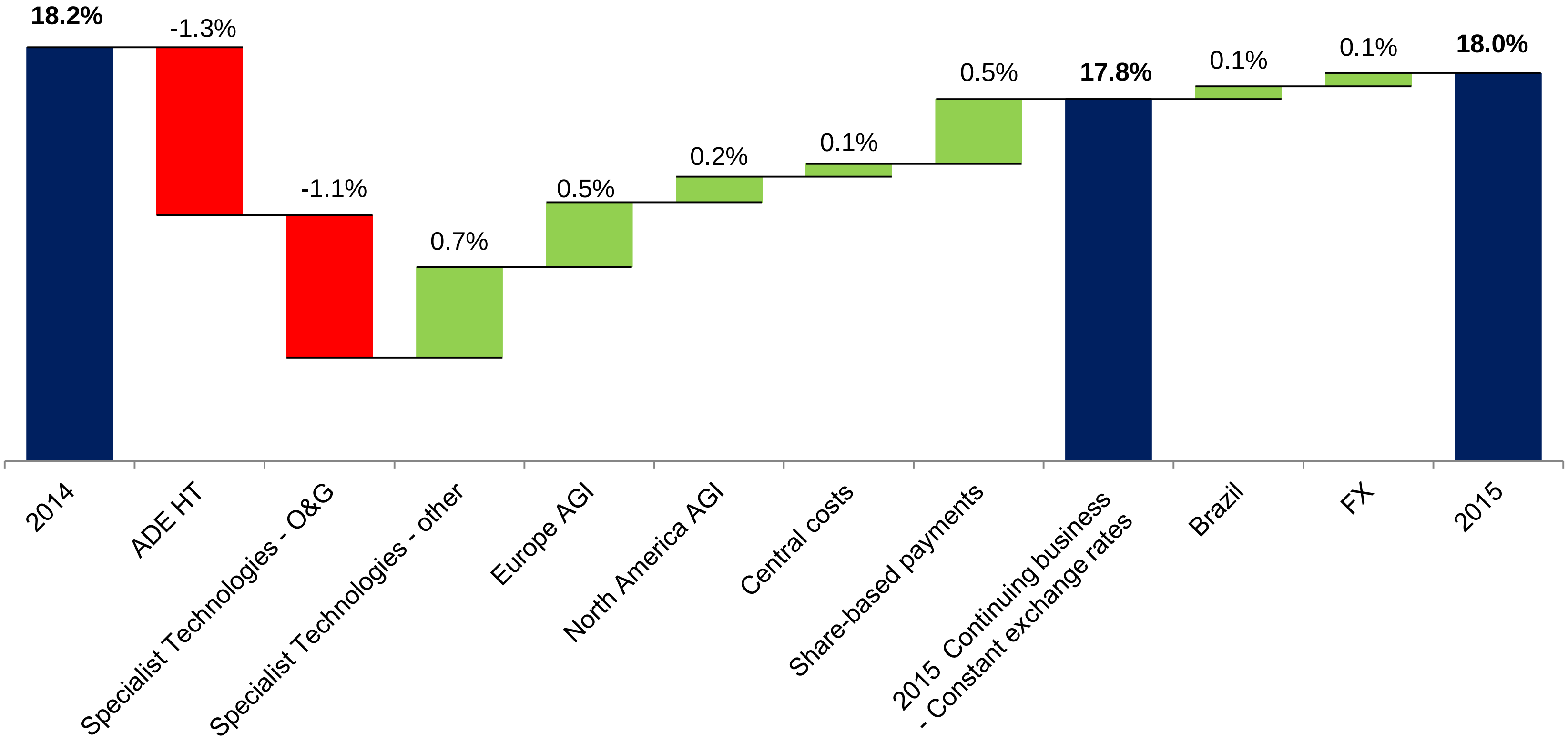
Revenue: £213m **Constant currency decline : -5.2%**



- Capital equipment demand weak
- Commodity price weakness affected industrial machinery
- Downward pressure from slowing growth in China and embargo on global trade with Russia

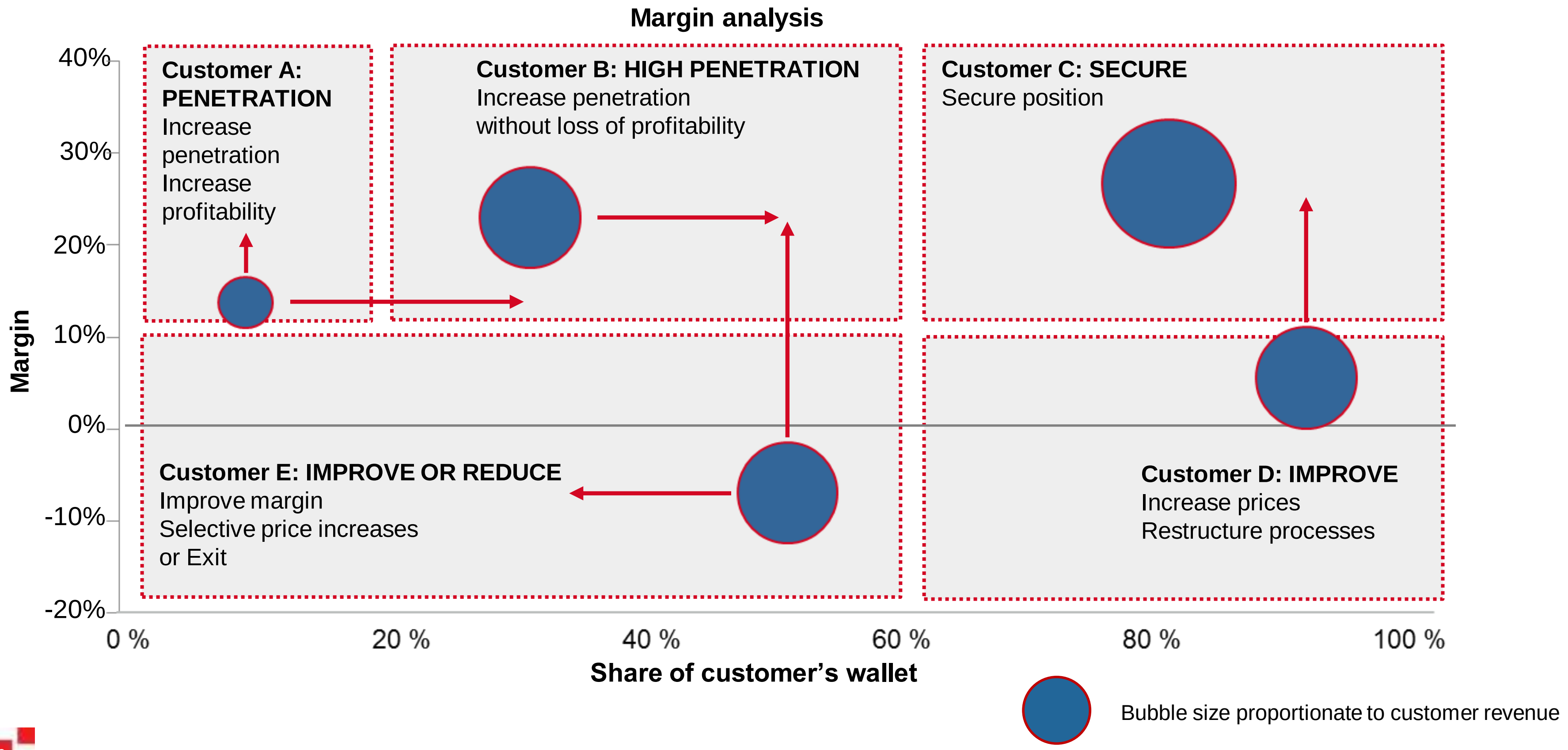
Headline operating margin bridge

%



Improving the mix

The Bodycote Margin Model



Improving the mix

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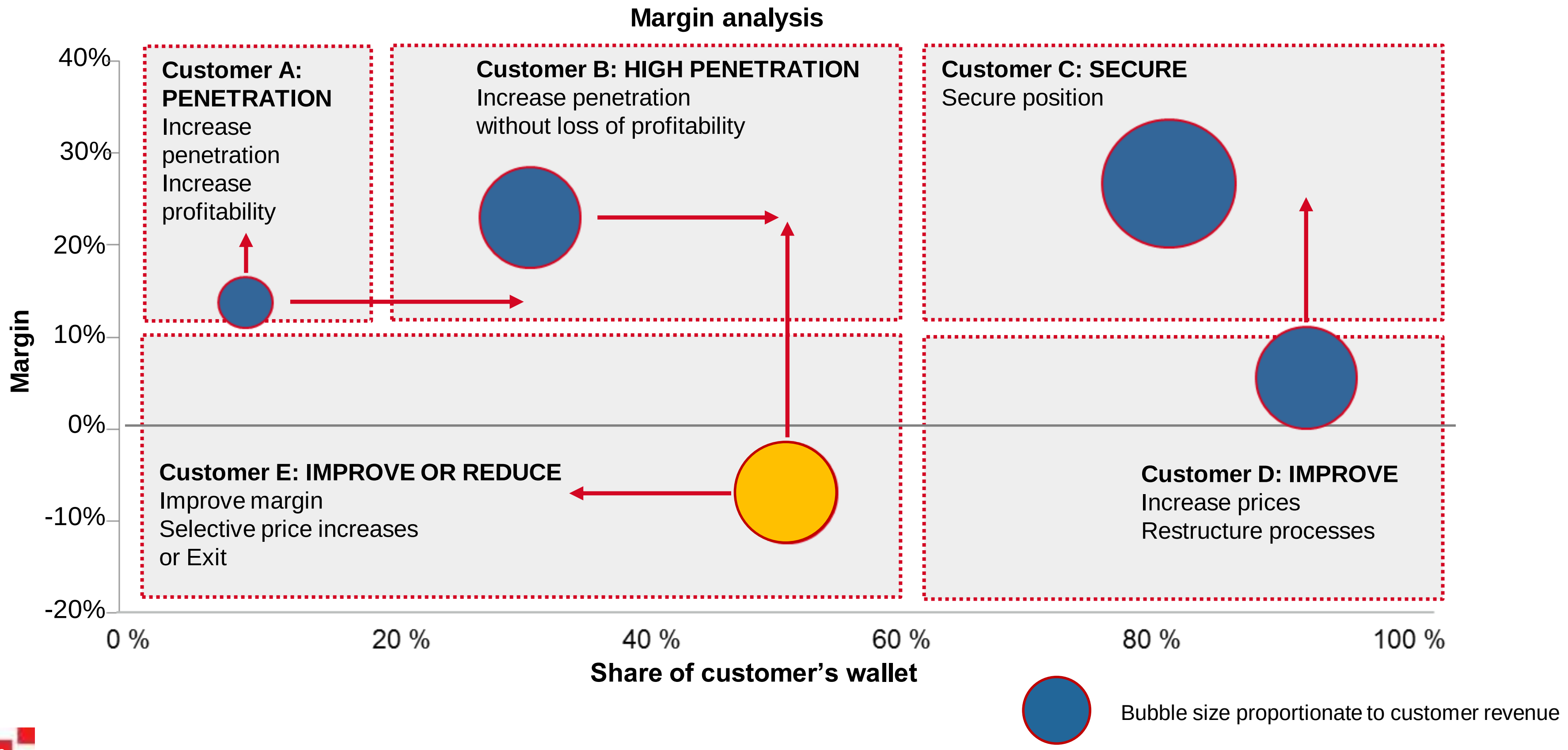
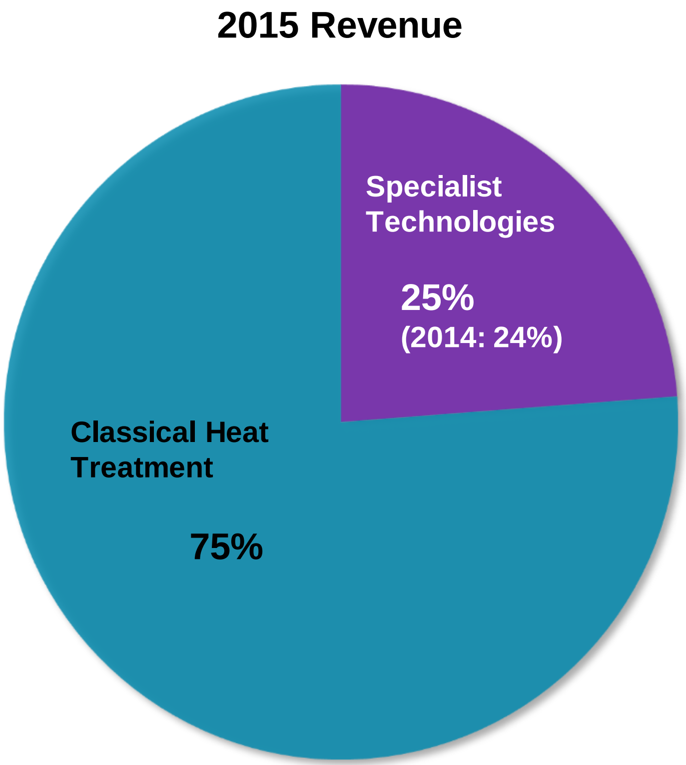
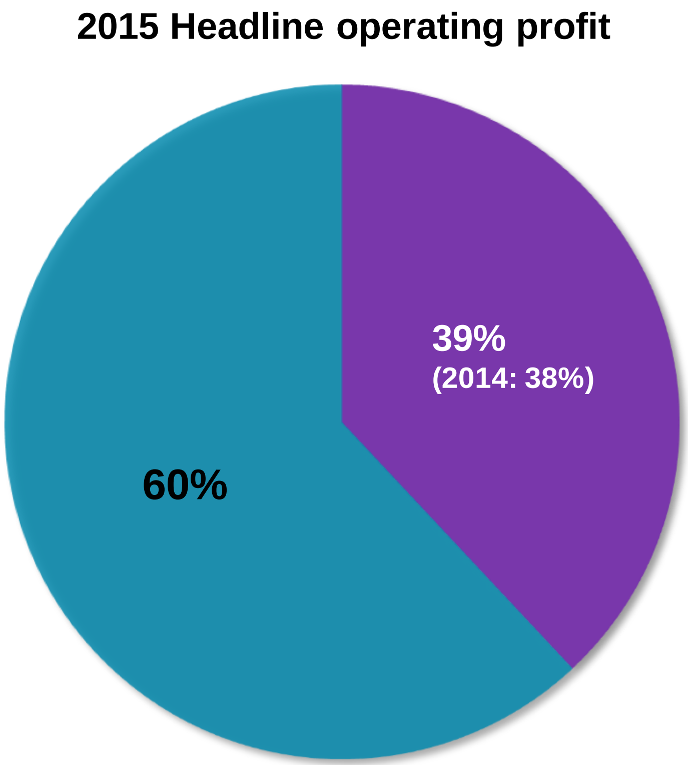


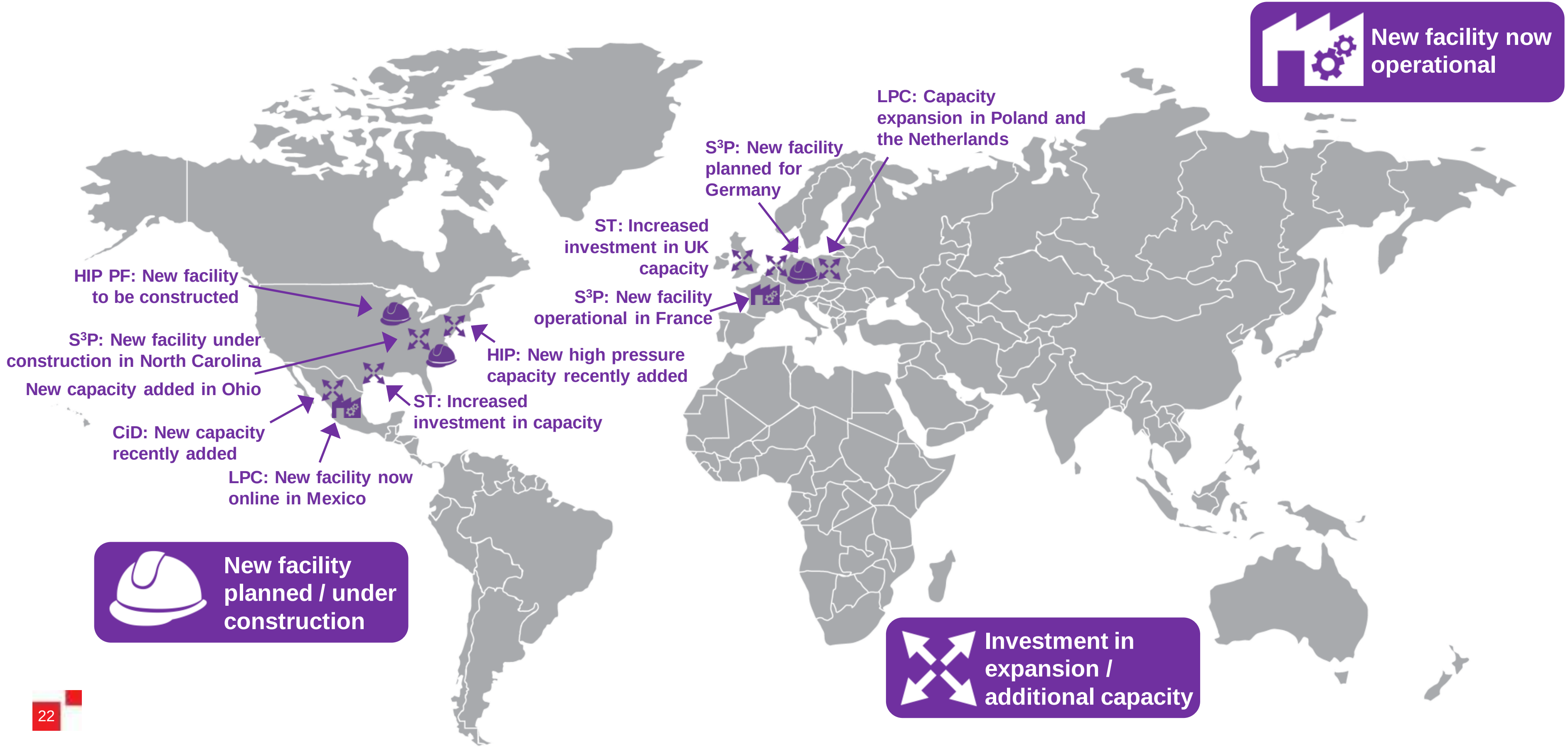
2015 Revenue & headline operating profit split





Investing in future growth

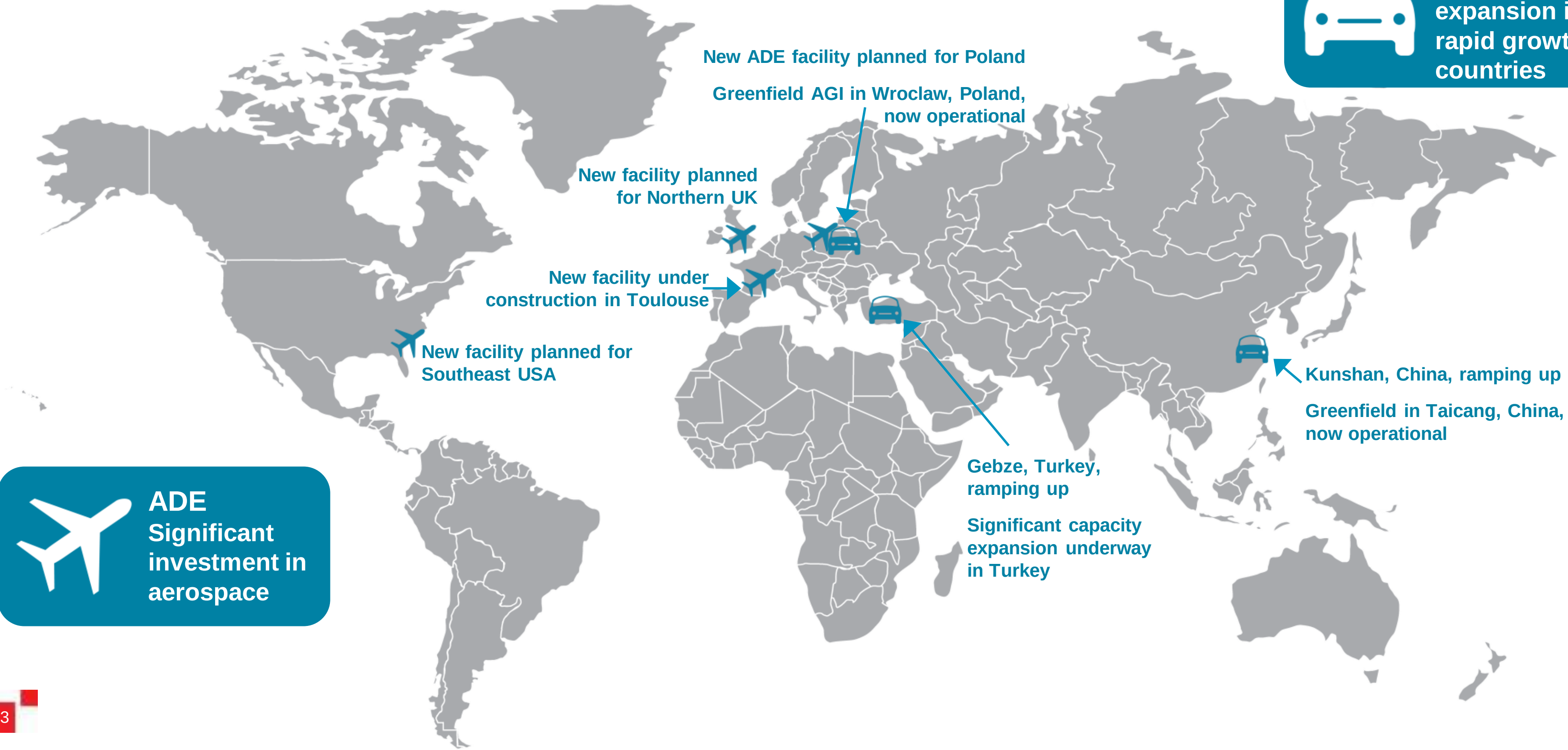
Specialist Technologies



Investing in future growth

Classical Heat Treatment

AGI
Further expansion into rapid growth countries



ADE
Significant investment in aerospace

Summary and outlook

The Group delivered a resilient performance in 2015. Automotive and aerospace revenues moved ahead. However, the decline in oil price combined with downward pressures on our general industrial business led to Group revenues falling by 4% at constant exchange rates. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, enabled headline operating margins to be sustained. Recognising the Group's net cash position, the Board is recommending a further special dividend.

The Group will continue to follow its strategy of investing in areas of robust revenue opportunity, notably in Specialist Technologies and in higher growth territories, as well as further enriching the mix towards higher added value services. The Board is confident that management's continued focus on business improvements will generate good returns throughout the cycle.


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

2015 Statutory income statement

£m	2015	2014
Revenue	**567.2**	**609.1**
Headline operating profit	**102.1**	**111.1**
Amortisation of acquired intangible fixed assets	(4.2)	(3.9)
Acquisition costs	-	(0.2)
Reorganisation costs	(20.0)	-
Operating profit	**77.9**	**107.0**
Net finance costs	(2.9)	(3.3)
Profit before tax	**75.0**	**103.7**

Headline earnings per share (pence)	2015	2014
Basic	**39.5p**	**43.8p**

Cash flow detail

Bodycote

£m		2015	2014
Headline operating profit		**102.1**	**111.1**
Add back:	Depreciation and amortisation	49.6	53.9
	Share-based payments	(0.4)	1.9
	Profit on disposal of fixed assets	(2.1)	(1.4)
Headline EBITDA		**149.2**	**165.5**
Net capital expenditure		(61.3)	(53.8)
Net working capital movement		(6.3)	(11.7)
Headline operating cash flow		**81.6**	**100.0**
Restructuring		(8.4)	(3.0)
Acquisition expenses		-	(0.2)
Operating cash flow		**73.2**	**96.8**
Financing costs		(2.6)	(2.7)
Tax		(23.2)	(19.0)
Free cash flow		**47.4**	**75.1**
Acquisitions		-	(2.7)
Disposals		1.6	-
Dividends		(66.0)	(45.2)
Other		(6.4)	(6.5)
Reduction in net cash		**(23.4)**	**20.7**
Net cash		**12.3**	**35.7**

Net capex to depreciation ratio 1.2 times

Includes payment of 2014 Special Dividend (£38m)

Specialist technologies

What are they?

HIP – HIP Services	▪ Application of high temperature and pressure to densify cast material ▪ Removal of porosity defects improves strength, toughness and machinability ▪ Can eliminate internal voids created by additive manufacturing methods
HIP PF – HIP Product Fabrication	▪ Method of manufacturing components by HIP technology using powder or solid ▪ Can create parts with the complexity of a casting but the strength of a forging ▪ Can be used to produce materials that can't be manufactured by any other means
S³P – Specialty Stainless Steel Processes	▪ A family of proprietary technologies for the treatment of stainless steel ▪ Unique solution for improving the strength, hardness and wear resistance of stainless steels ▪ Does not affect the inherent corrosion-resistant properties of stainless steel
ST – Surface Technology	▪ Comprises thermally sprayed ceramic and metallic coatings, and chemically-formed ceramics ▪ Prolongs component life by protecting from corrosion, abrasion and temperature ▪ Leads to reduced environmental impact by eliminating chrome
LPC – Low Pressure Carburising	▪ A 'clean' heat treatment process carried out under vacuum ▪ Provides a hardened surface and tough core – improves wear resistance and fatigue life ▪ Environmentally friendly
CiD – Corr-I-Dur®	▪ Proprietary heat treatment process for improving corrosion resistance and wear properties ▪ Successful alternative to hard chromium ▪ Leads to reduced environmental impact by eliminating chrome

Net finance charge/facilities

£m	2015	2014
Net interest payable	0.3	0.2
Financing and other costs	2.3	2.5
Pension finance charge	0.3	0.6
Net finance charge	**2.9**	**3.3**

- Committed facility headroom of £230m at 31 December 2015
- The remaining life of the £230m committed facility is 3.5 years
- Closing net cash of £12.3m

Pension analysis

£m	2015	2014
UK Funded	2.7	1.0
Other Western Europe Funded	2.0	1.6
Other Western Europe Unfunded	12.6	13.7
Western Europe Total	**17.3**	**16.3**
North America Funded	0.5	0.6
Emerging Markets Unfunded	0.1	0.1
Total retirement benefit obligations	**17.9**	**17.0**

£m	2015	2014
Western Europe Unfunded:		
Italy	0.6	0.7
France	8.6	8.9
Germany	3.4	4.1
	12.6	**13.7**

Financial information

Shares in issue	2015	2014
Weighted average	**190.0m**	190.2m

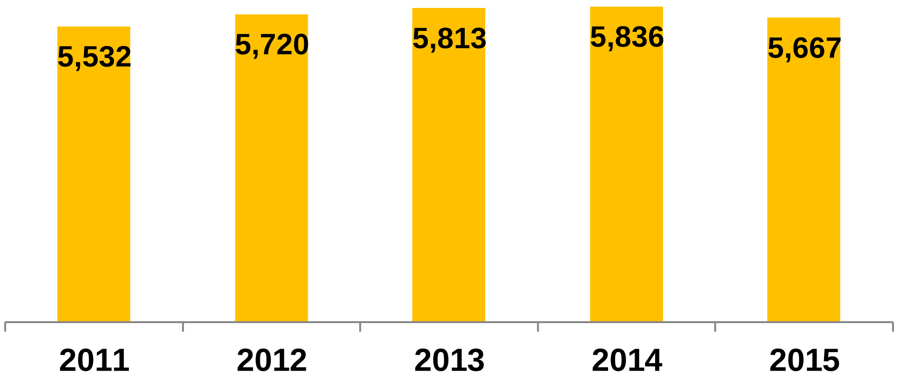
Exchange rates		2015	2014
EUR	Average (P&L)	**1.38**	1.24
	Closing (B/S)	**1.36**	1.29
USD	Average (P&L)	**1.53**	1.65
	Closing (B/S)	**1.47**	1.56
SEK	Average (P&L)	**12.89**	11.31
	Closing (B/S)	**12.43**	12.16

Analysis by currency, 2015:

	Sales	Operating Profit
EUR	35%	39%
USD	37%	49%
SEK	7%	5%

Financial ratios	2015	2014
Net Debt : Headline EBITDA	**net cash**	net cash
Headline EBITDA Interest Cover	**498x**	827x
Gearing (Net Debt:Total Equity)	**net cash**	net cash

Average headcount



Divisional summary – 2015 H1 v H2

£m

ADE Divisions	H1	H2	Total
Revenue	128.8	114.7	**243.5**
Headline operating profit	31.5	27.7	**59.2**
Margin	*24.5%*	*24.1%*	***24.3%***

AGI Divisions	H1	H2	Total
Revenue	171.0	152.7	**323.7**
Headline operating profit	27.6	25.8	**53.4**
Margin	*16.1%*	*16.9%*	***16.5%***