2017 Interim Results

27 July 2017

Bodycote

Introduction

Stephen Harris

Group Chief Executive

Agenda

Summary

Financial review

Business review

Outlook

Summary

▪ Growth	- Strong constant currency revenue growth of 8.3%
	- 3.5% contribution from acquisitions
	- 2.0% contribution from recent greenfield investments
	- Continuing Specialist Technologies contribution
▪ Margins	- Headline operating margin 17.8% (H1 2016: 16.9%)
▪ Cash generation	- Strong free cash flow of £42.1m (H1 2016: £20.9m)
▪ Earnings per share	- Headline EPS up 29% to 23.6p
▪ Investment in growth	- £36m of growth investment projects approved in H1
▪ Interim dividend	- 5.3p, up 6%

Financial review

Dominique Yates

Chief Financial Officer

2017 Interim results summary

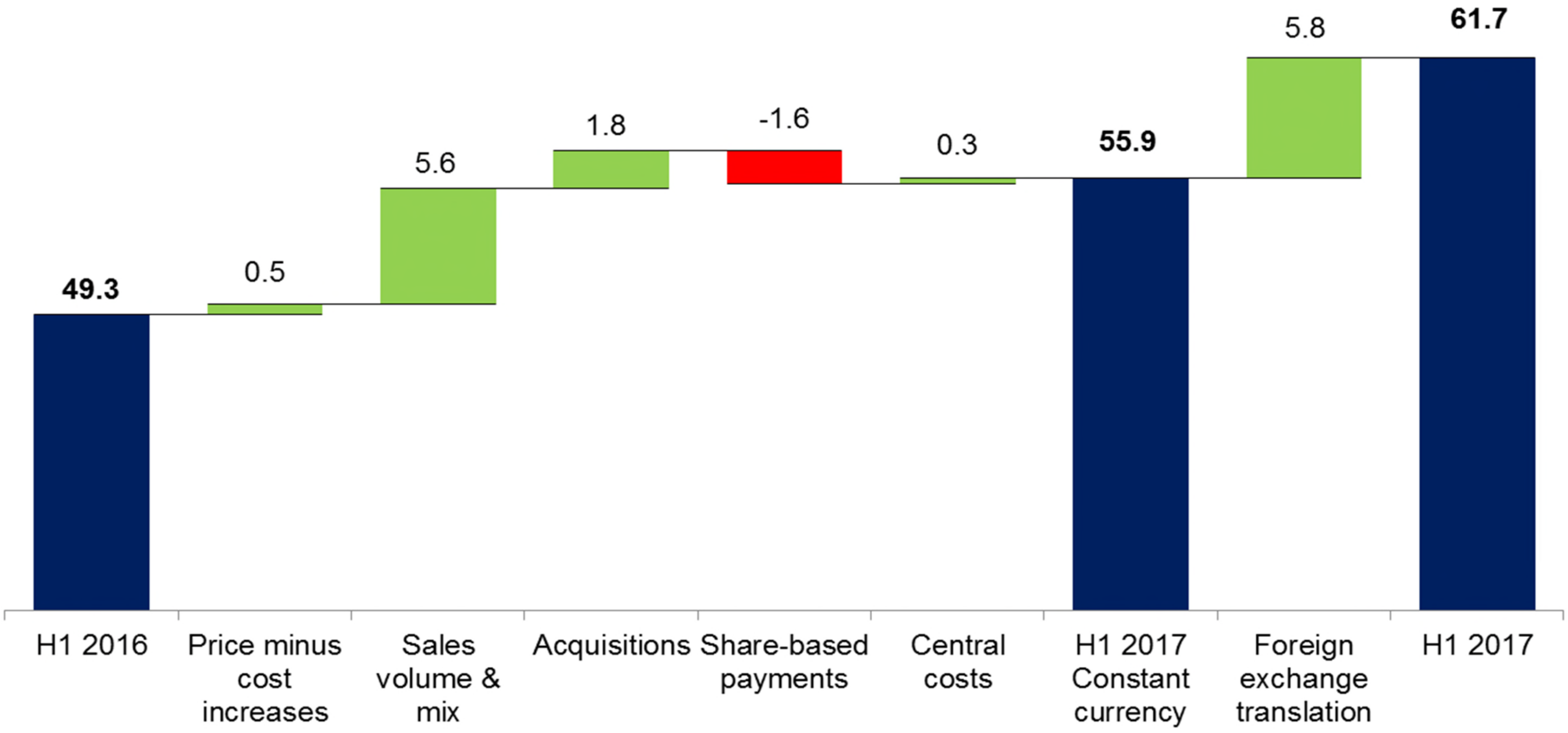
Bodycote

£m		H1 2017	H1 2016	Constant exchange rates		Currency	Total change	
Revenue		345.7	291.0	24.2	*8.3%*	30.5	54.7	*18.8%*
Headline:	Operating profit	61.7	49.3	6.6	*13%*	5.8	12.4	*25%*
	Margin	*17.8%*	*16.9%*					
	Profit before tax	60.5	48.1	6.6	*14%*	5.8	12.4	*26%*

Headline tax rate	*25.5%*	*27.5%*	
Net cash / (debt)	17.7	(5.5)	
Headline EPS	23.6p	18.3p	*29%*
Dividend	5.3p	5.0p	*6%*

Headline operating profit bridge

£m



Divisional summary
ADE

£m	H1 2017	H1 2016	Constant exchange rates		Currency	Total change	
Revenue	**136.1**	121.9	**2.5**	*2.1%*	**11.7**	**14.2**	*11.6%*
Headline operating profit	**30.7**	27.4	**0.6**	*2%*	**2.7**	**3.3**	*12%*
Margin	***22.6%***	*22.5%*					

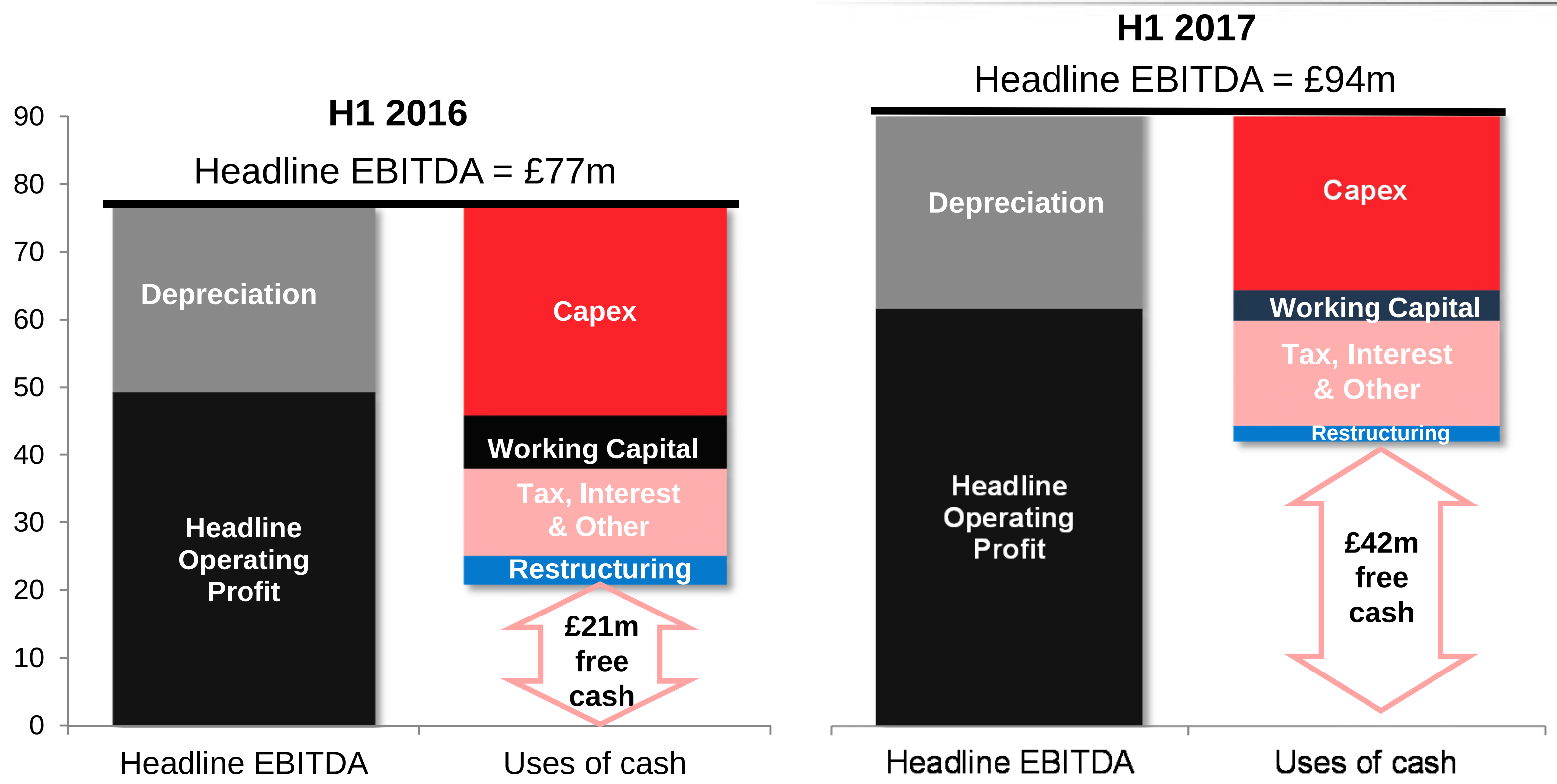
- Excl. oil & gas, constant currency revenue growth 3.6%
- Includes 1.1% incremental revenue growth from recent greenfield investments

Divisional summary
AGI

£m	H1 2017	H1 2016	Constant exchange rates		Currency	Total change	
Revenue	**209.6**	169.1	**21.7**	*12.8%*	**18.8**	**40.5**	*24.0%*
Headline operating profit	**36.9**	27.9	**5.8**	*21%*	**3.2**	**9.0**	*32%*
Margin	***17.6%***	*16.5%*					

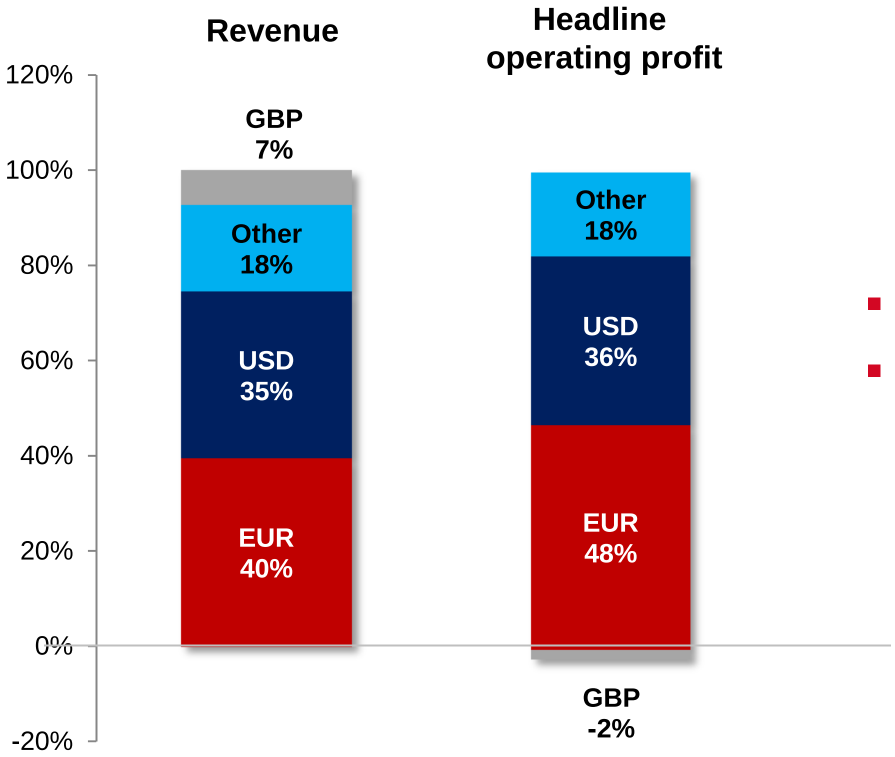
- Acquisitions contributed 6.1% to constant currency revenue growth
- 5 sites acquired last year integrated and performing well
- Includes 2.7% incremental revenue growth from recent greenfield investments
- AGI margin expansion strategy continues

Cash flow



- Free cash flow doubled in H1 to £42m

H1 2017 Revenue and operating profit by currency



- GBP stated net of central costs
- H1 operating profit translation benefit £6m

Taxation and balance sheet

Taxation

- Headline tax rate 25.5% (H1 2016: 27.5%)

Balance sheet

- Net cash £17.7m
- Facilities:
  - Committed facility headroom of £230m at 30 June 2017
  - Successful facility extension in H1 places facility maturity in 2022

Business review

Stephen Harris

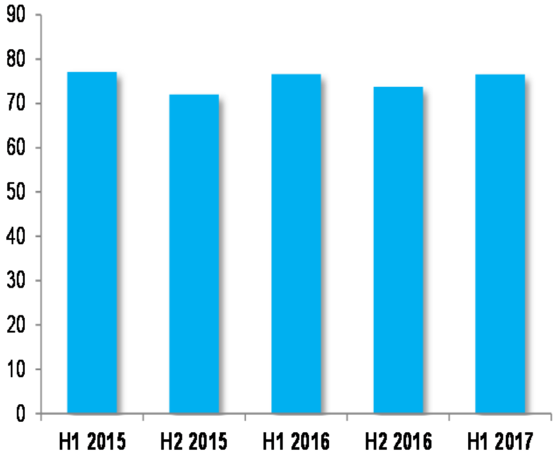
Group Chief Executive

Aerospace & defence

Bodycote

Revenue: £81m **Constant currency growth: 1.0%**

Revenue, £m
At constant rates

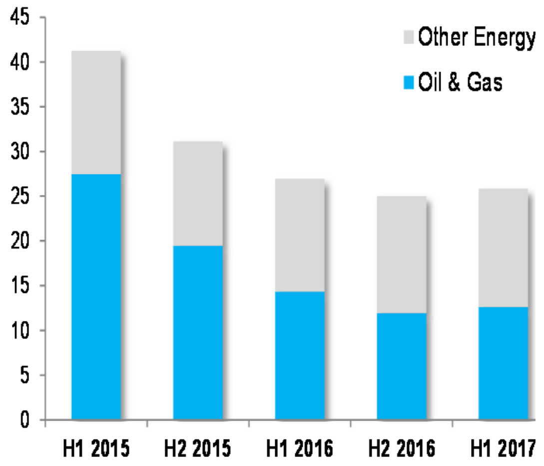


- Civil aerospace revenues up 4.4%
- Defence revenues (principally North America) declined
- Includes 1.3% incremental revenue growth from recent greenfield investments

Energy

Revenue: £27m **Constant currency decline: - 4.1%**

Revenue, £m
At constant rates

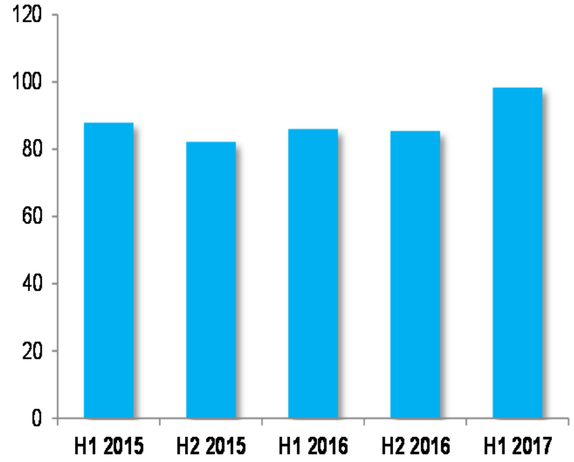


- Strong growth in onshore oil & gas in North America in Q2
- Declines in oil & gas elsewhere
- Includes 1.0% incremental revenue growth from recent greenfield investments

Automotive

Revenue: £103m | **Constant currency growth: 14.3%**

Revenue, £m
At constant rates

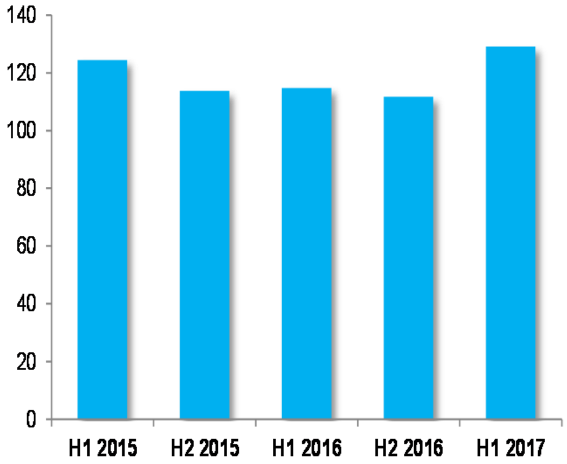


- Car & light truck constant currency revenues up 15.5%
  - Acquisitions contributed 5.3% to constant currency revenue growth
  - Includes 5.0% incremental revenue growth from recent greenfield investments

General industrial

Revenue: £135m **Constant currency growth: 11.8%**

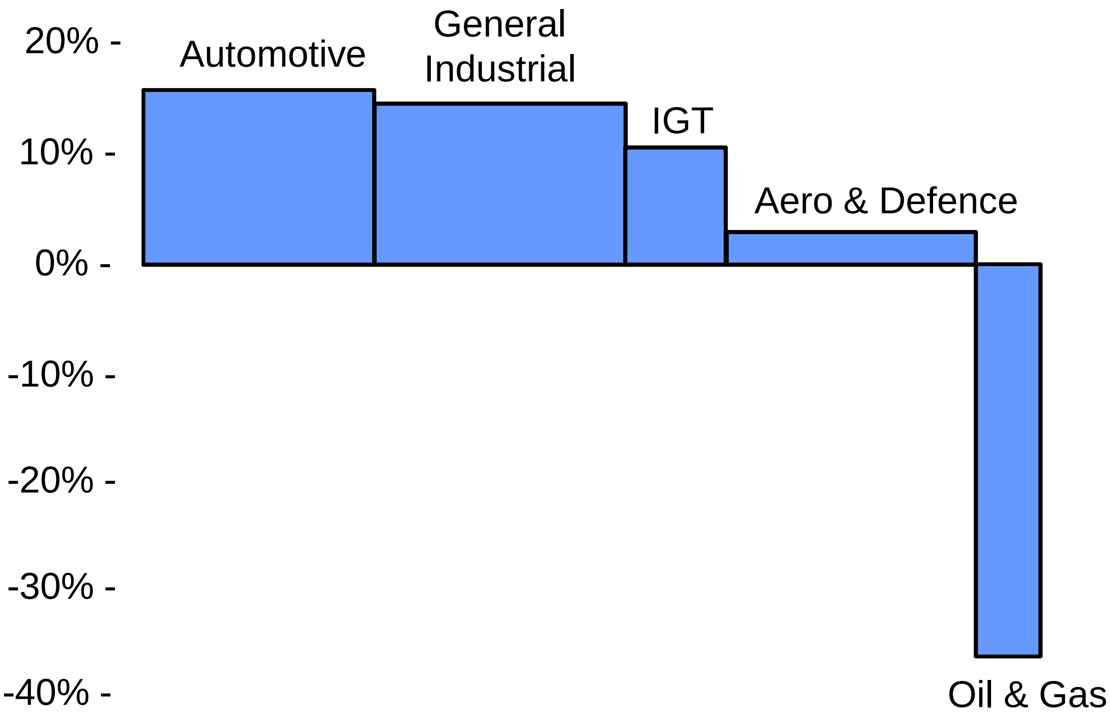
Revenue, £m
At constant rates



- Broad based recovery across all geographies reversing 3-year negative trend
- Acquisitions contributed 5.3% to constant currency revenue growth
- Includes 0.7% incremental revenue growth from recent greenfield investments

Specialist Technologies' revenues*

H1 2017 constant currency growth



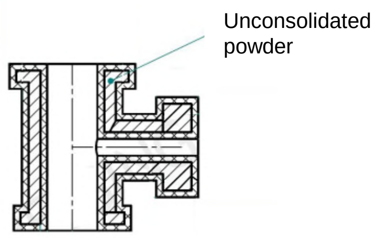
- Revenues £79.3m, up 5.6% at constant currency
- Excl. oil & gas, Specialist Technologies' revenues up 10.2%
- Margin exceeds 30%
- Recent launch of Powdermet ® Technologies encompassing 3D printing

* Width of bar indicates relative revenue

Powdermet® Hybrid with 3D printing

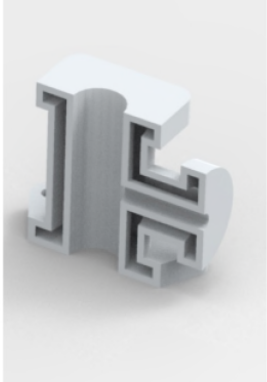
http://www.bodycote.com/en/services/hot-isostatic-pressing/powdermet.aspx

3D printed sectional view

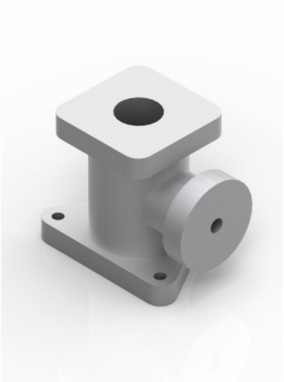


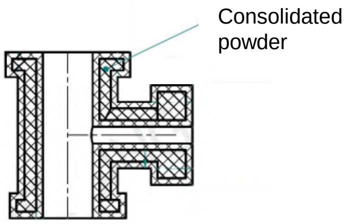
Unconsolidated powder

3D printed exterior



Finished component post HIP





100% consolidated

- Conventional 3D printing consolidates each layer – a very time consuming process
- With the Powdermet® Hybrid* process, the 3D printing only consolidates part of the component
- The hot isostatic pressing (HIP) process then consolidates the entire component
- The result is a lower cost component and much reduced production time

* Patents pending

Summary and Outlook

Bodycote achieved strong revenue growth in the first half, with good momentum in virtually all parts of the Group. Notably, the General Industrial business, which represents almost 40% of Group revenues, experienced a broad based recovery after over three years of decline. Automotive and Aerospace also moved ahead.

The growth strategy of bolt-on acquisitions and greenfield investment contributed 5.5% of the 8.3% constant currency growth. Investment in new projects has been stepped up.

The high margin Specialist Technologies continue to perform strongly and the margin expansion programme in European AGI is seeing further success.

The positive momentum achieved in the first half is expected to continue. While our business, by its nature, has limited forward visibility, the Board now expects the full year result to be towards the upper end of market expectations*.

*Company compiled analysts' estimates of full year headline operating profit range from £106.5m to £118.9m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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

H1 2017 Statutory income statement

£m	H1 2017	H1 2016
Revenue	**345.7**	**291.0**
Headline operating profit	**61.7**	**49.3**
Amortisation of acquired intangible fixed assets	(2.3)	(2.2)
Operating profit	**59.4**	**47.1**
Net finance costs	(1.2)	(1.2)
Profit before tax	**58.2**	**45.9**

Headline earnings per share (pence)	H1 2017	H1 2016
Basic	**23.6p**	**18.3p**

H1 2017 Cash flow

Bodycote

£m	H1 2017	H1 2016
Headline operating profit	**61.7**	**49.3**
Add back: Depreciation and amortisation	29.7	26.0
Share-based payments	2.7	1.6
Headline EBITDA	**94.1**	**76.9**
Net capital expenditure	(29.7)	(31.0)
Net working capital movement	(4.5)	(7.9)
Headline operating cash flow	**59.9**	**38.0**
Restructuring	(2.3)	(4.3)
Operating cash flow	**57.6**	**33.7**
Financing costs	(1.2)	(0.9)
Tax	(14.3)	(11.9)
Free cash flow	**42.1**	**20.9**
Dividends	(20.5)	(38.6)
Acquisition of Subsidiaries	(5.2)	-
Other	0.2	(0.1)
Increase / (reduction) in net cash	**16.6**	**(17.8)**
Net cash / (debt)	**17.7**	**(5.5)**

Net capex to depreciation ratio 1.0 times (2016: 1.2 times)

Includes payment of 2015 Special Dividend (£19m)

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
S^3P — **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
I^2P — **Ion Implantation Processes**	▪ Surface treatment using macro scale ion beams ▪ Ideal for manipulating the material properties of temperature sensitive substrates such as thin metal parts and polymers

Net finance charge

£m	H1 2017	H1 2016	FY 2016
Net interest payable	-	-	0.2
Financing and bank charges	1.0	1.0	2.1
Pension finance charge	0.2	0.2	0.3
Net finance charge	**1.2**	**1.2**	**2.6**

Financial information

Shares in issue	H1 2017	H1 2016
Weighted average	**190.3m**	190.1m

Exchange rates		H1 2017	H1 2016
EUR	Average (P&L)	**1.17**	1.29
	Closing (B/S)	**1.14**	1.20
USD	Average (P&L)	**1.27**	1.43
	Closing (B/S)	**1.30**	1.32
SEK	Average (P&L)	**11.20**	11.92
	Closing (B/S)	**10.97**	11.29