Interim Results 2020

23 July

Bodycote

Introduction

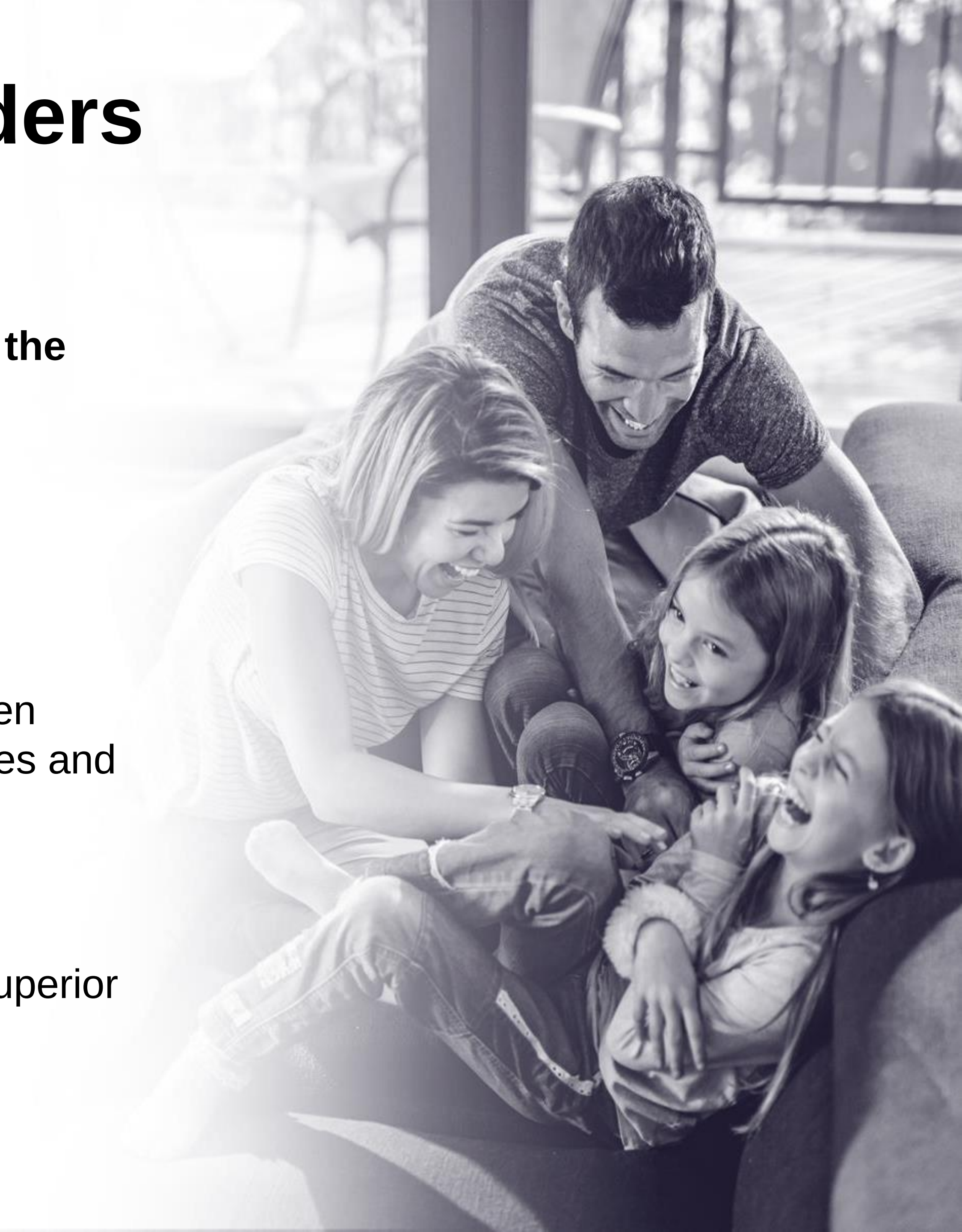
Stephen Harris

Group Chief Executive

Taking care of our stakeholders during COVID-19

Looking after employees, shareholders, customers, and the community

- Employee health, safety and welfare is paramount
- Support for employees on short-term lay-off with:
  - Pension contributions continued
  - Health insurance provided in the US
- Support for our customers as Bodycote facilities have been designated by governments as providing essential services and have remained open throughout the crisis
- Helping the wider community with essential services and production support for medical equipment
- Balanced with continued investment to ensure ongoing superior returns to shareholders



Agenda

Overview

Business review

Financial review

Outlook

Overview

Key points

- Results significantly impacted by pandemic related downturns
- Restructuring plans stepped up yielding £58m of permanent annualised savings
- £107m invested for future growth, including £94m for Ellison

Results

- Resilient margin performance at 12.3%
- Excellent free cash flow of £69.7m (H1 2019: £44.6m)
- Revenue of £306.7m (down 16.3% at actual rates, 16.6% at constant currency)
- Q2 organic revenues down 33%[2]
- Headline operating profit of £37.8m (H1 2019: £66.9m)
- Operational gearing at 42%[1]

Dividend

- 2019 deferred dividend of 13.3p to be paid in September 2020
- Decision on 2020 interim dividend will be made in due course

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[1] Operational gearing is the differential in headline operating profit divided into the differential in revenue on a like-for-like constant currency basis
[2] At constant currency

Bodycote well placed to respond to demand shocks

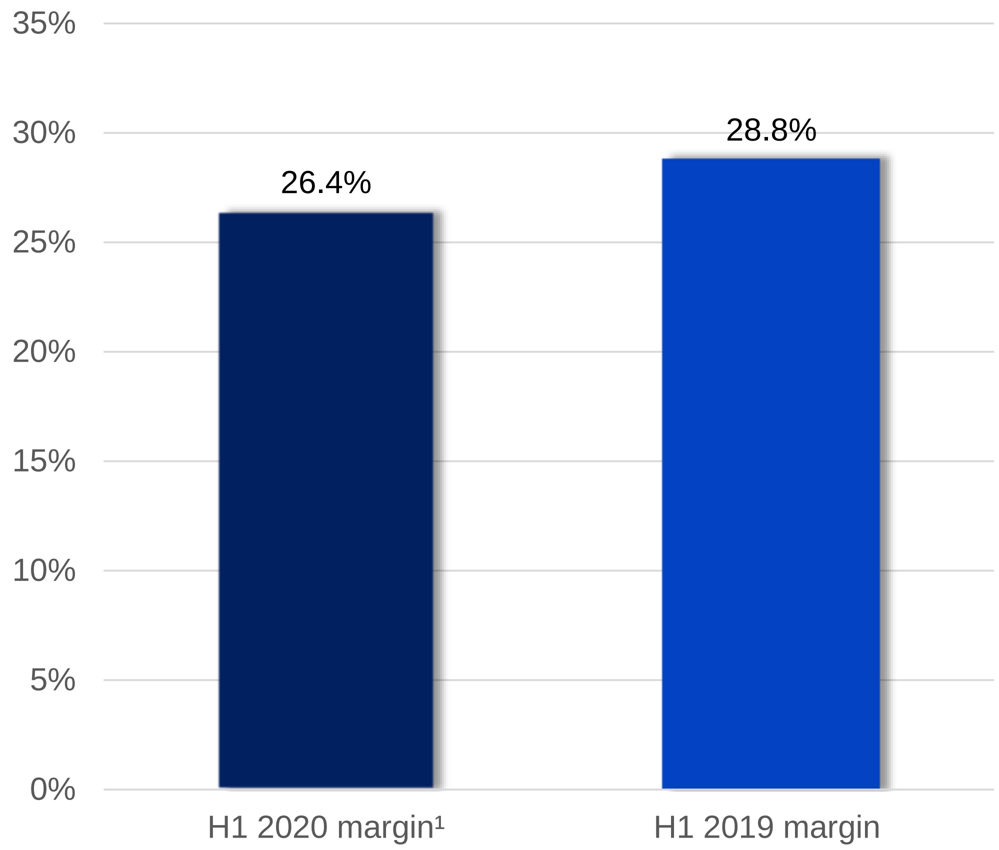
- Matching resources to demand is a core skill
- Comprehensive site and capacity review completed late 2019
- Annual planning activity includes site level contingency plans for demand shocks
- Strong margins
- Low level of debt
- Flexible business model

Immediate pandemic related actions

£7m per month of cost savings

- 797 FTEs laid-off (14% of workforce)
- 619 FTEs on short-term lay-offs (11% of workforce)
- £2.3m in total government labour subsidies received worldwide
  - UK government furlough support being repaid
- Discretionary spending significantly reduced
- Work temporarily consolidated into fewer sites to optimise equipment utilisation and efficiency
- No pandemic related cost taken to exceptionals

Headline EBITDA margin evolution



Clear impact of active cost management

- Revenues down 19% [2]
- Costs (excluding depreciation) down 17% [2]
- EBITDA margins down **only** 2.4%

[1] *Excluding Ellison*
[2] *Like-for-like constant currency basis*

Restructuring – permanent cost savings

£58m annualised cost savings **10% of operating expenses[1]**

18 plant closures announced, but production capacity maintained.….

- 13 in Western Europe (10 Automotive and 3 Aerospace)
- 4 in North America (3 Automotive and 1 Aerospace)
- 1 AGI plant in Eastern Europe

….. and 3 new greenfield facilities to be opened in H2 replacing outdated facilities that are part of the plant closures

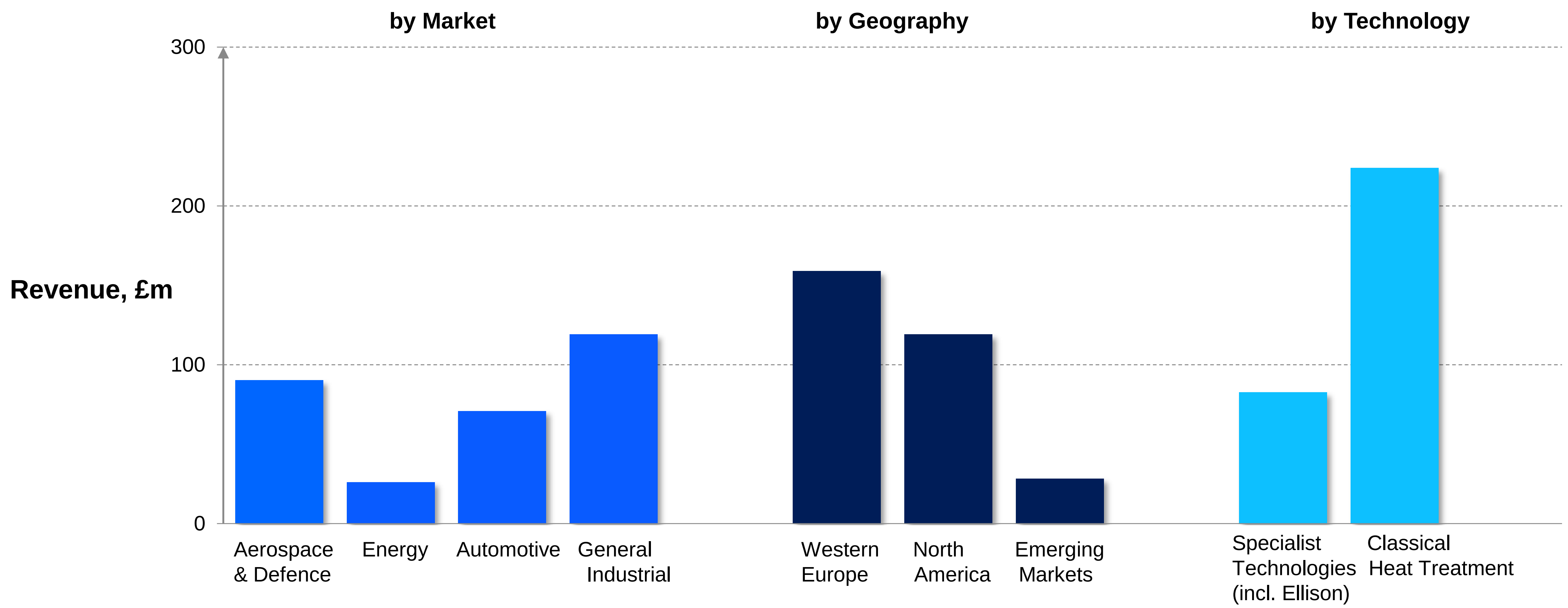
- 2 in North America
- 1 in Eastern Europe

Permanent reduction in headcount of 1,008 FTEs once programme complete (17% of workforce)

Full benefit of these savings from the start of 2021

[1] *Percentage of 2019 total operating expenses*

H1 2020 revenue evolution[1]

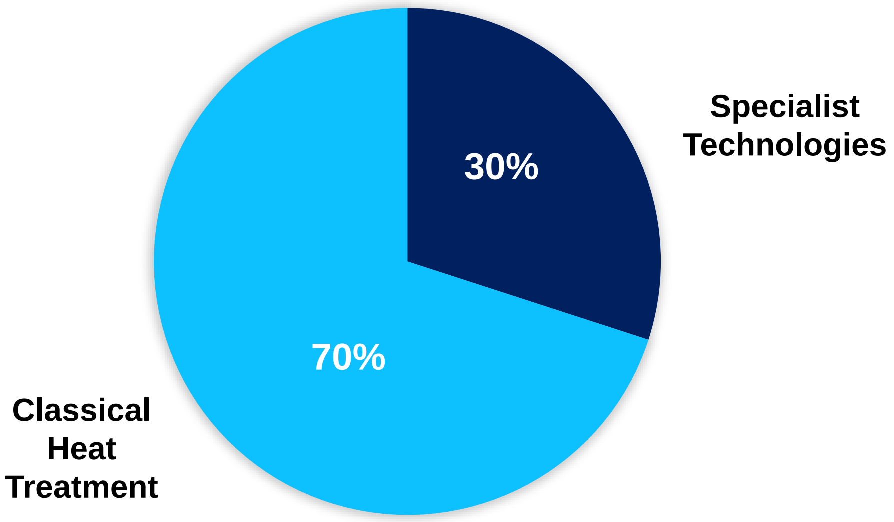


Growth %	**-8%**	**-16%**	**-31%**	**-12%**	**-21%**	**-13%**	**-7%**	**-8%**	**-20%**

[1] *At constant currency*

Growing prominence of Specialist Technologies

H1 2020 pro forma[1] revenue



- Classical Heat Treatment declined 21%[2]
- Specialist Technologies declined 8%
  - Excluding Ellison Surface Technologies, decline was 16%
- Specialist Technologies now 30% of Group revenue on pro forma basis

Ellison Surface Technology acquired in April 2020

- Ellison's decline in Q2 in line with GE plant shutdowns and is expected to rebound faster than the rest of the civil aerospace business as a result
- First impressions of the business in line with expectations and integration proceeding well

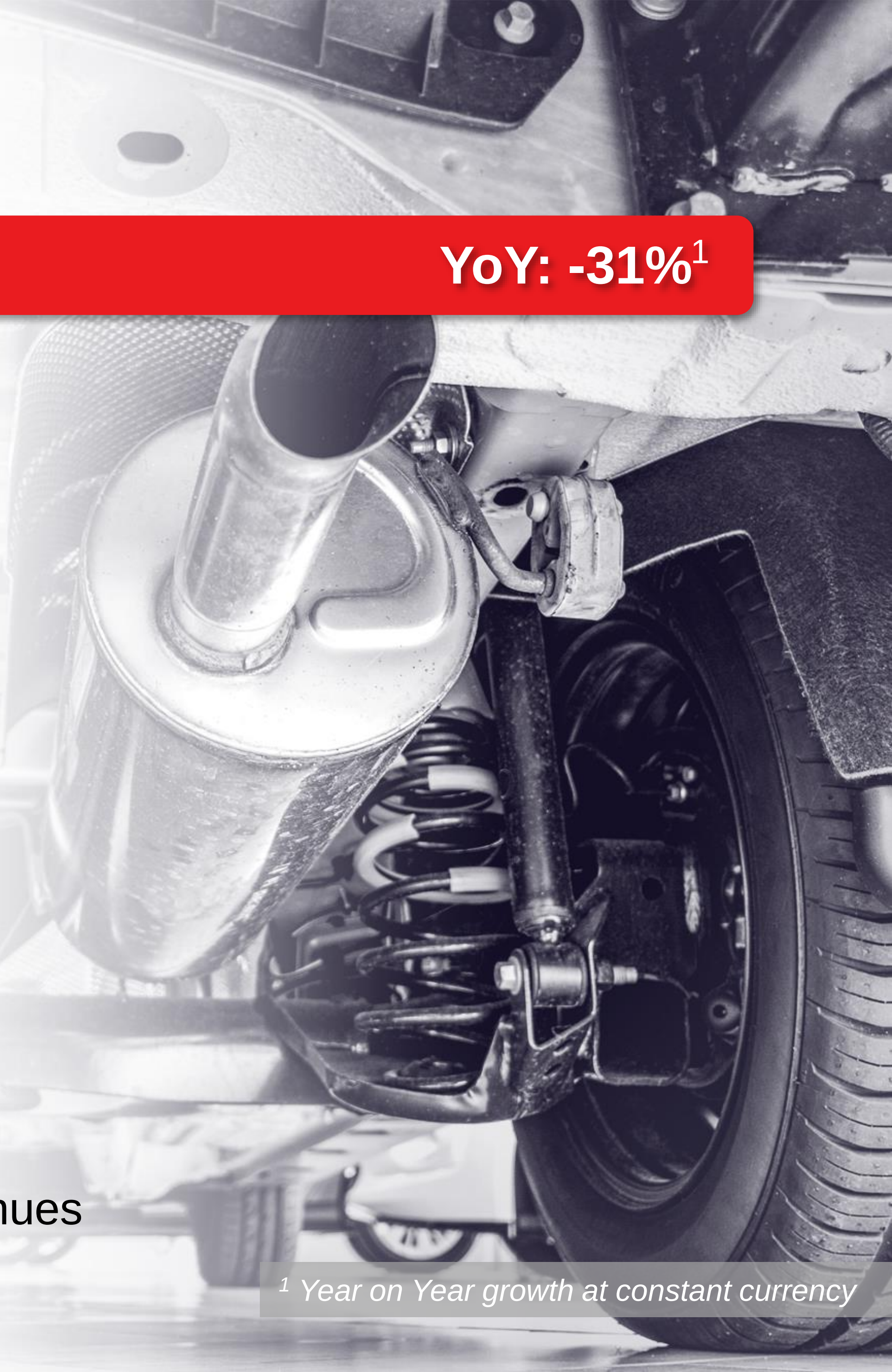
[1] Includes Ellison revenues pro forma from 1 Jan 2020
[2] Like-for-like constant currency basis

Automotive

Revenue: £71m (23% of total revenue) **YoY: -31%**[1]

	Revenue	Growth[1]
Q1	£46.8m	-9%
Q2	£24.1m	-53%

- OEM production shutdowns globally, concentrated in Q2 - now reopening
- Bodycote in North America heavily exposed to SUVs/Light Trucks
  - Demand now rebounding helped by low fuel prices
- European demand recovery lagging that in North America
  - European rebound in supply chains for Asia
  - Move to Electrical Vehicle production in Eastern Europe continues



[1] Year on Year growth at constant currency

Aerospace & Defence

Revenue: £91m (29% of total revenue) **YoY: -8%[1]**

	Revenue	Growth[1,2]
Q1	£47.5m	-1%
Q2	£42.8m	-28%

- Wide-body production currently down c.50% and narrow-body down 20% to 30% with future growth shifting to higher narrow body mix
- Total engines produced and Revenue Passenger Kilometres (RPKs) expected to exceed 2019 levels by 2023/24
- Bodycote well positioned to benefit from mix shift, with revenue from LEAP much greater than the predecessor CFM56
- Bodycote value add per engine now largely independent of engine size
- Bodycote medium term outlook is positive

[1] *Year on Year growth at constant currency*
[2] *Excluding Ellison*

General Industrial

Revenue: £119m (39% of total revenue) **YoY: -12%[1]**

	Revenue	Growth[1]
Q1	£63.7m	-6%
Q2	£55.5m	-19%

- General Industrial market segments highly diversified, providing downturn protection
  - Tooling revenues down 20% (linked to automotive)
  - Medical revenues up 2%
- Capital goods driven segments weak due to deferral of customer capex investments
- Supply chain destocking, but inventory levels already low coming into 2020

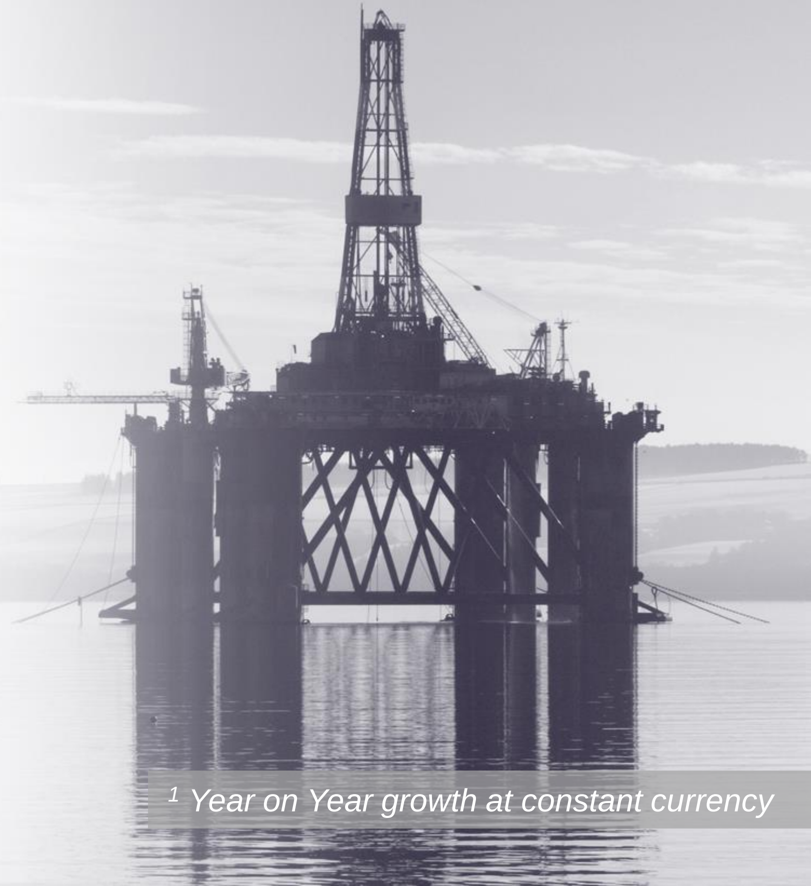
[1] *Year on Year growth at constant currency*

Energy

Revenue: £26m (9% of total revenue) **YoY: -16%**[1]

	Revenue	Growth[1]
Q1	£14.1m	-4%
Q2	£12.0m	-26%

- Onshore oil & gas – no further expansion of Bodycote business anticipated in medium term
- Subsea oil & gas – encouraging, but watching carefully



[1] *Year on Year growth at constant currency*

Summary

Decisive action during an extraordinary period:

- Excellent H1 free cash flow generation of £69.7m versus £44.6m last year
- Good operational gearing of 42%
- Resilient operating margin of 12.3%
- Solid balance sheet with net debt at 30 June 2020 of £23.6m (lower than H1 2019 net debt), after paying £94m consideration for Ellison

What to expect:

- Weak short term demand for aerospace
  - New build forecast to recover to 2019 levels by 2023/24
  - RPKs set to recover to 2019 levels by 2023/24
- Automotive markets improving from very low levels
- General Industrial markets gradually recovering from low base; end of destocking will accelerate this

Financial review

Dominique Yates

Chief Financial Officer

H1 2020 results summary

£m	H1 2020	H1 2019	Growth	Growth constant currency
Revenue	**306.7**	**366.5**	***-16.3%***	***-16.6%***
Headline operating profit	**37.8**	**66.9**	***-43%***	***-43%***
Headline operating margin	***12.3%***	***18.3%***		
Headline profit before tax	**35.0**	**64.7**	***-46%***	***-45%***
Headline tax rate	**22.5%**	**24.4%**		
Free cash flow	**69.7**	**44.6**	***56%***	
Headline EPS	**14.2p**	**25.6p**	***-45%***	
Exceptional restructuring costs	**32.1**	**-**		
2019 deferred dividend	**13.3p**			

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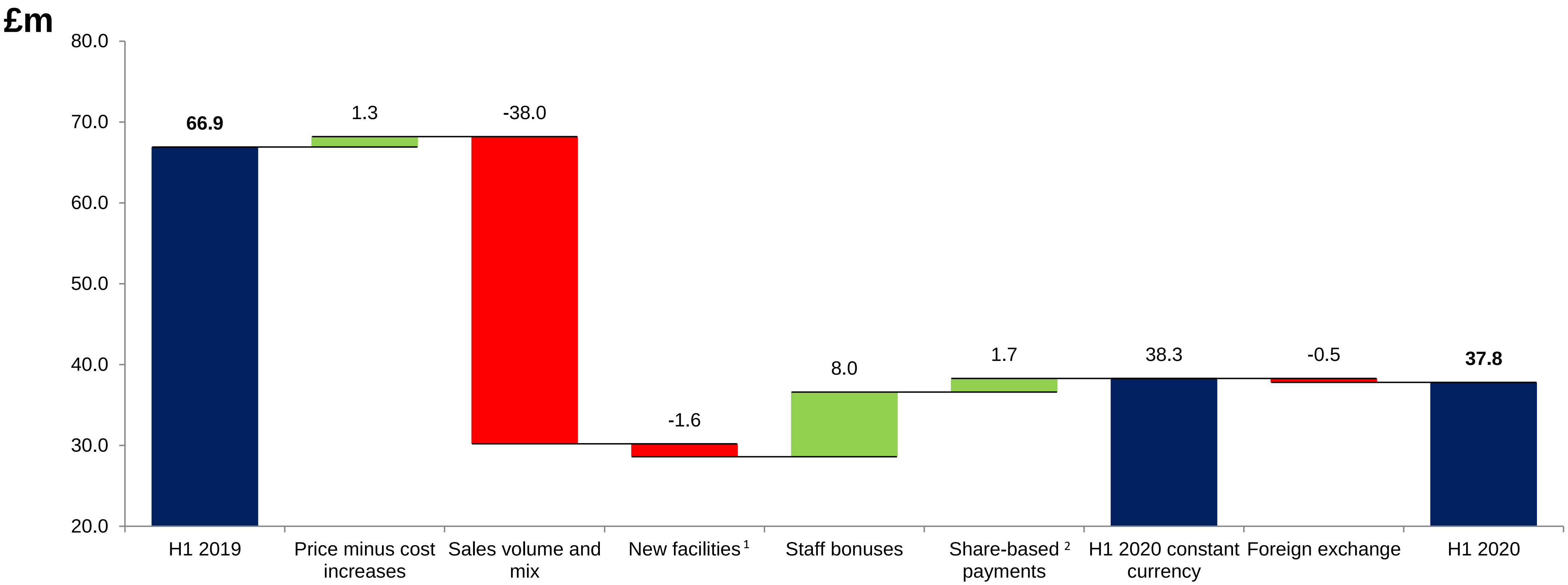
Headline operating profit bridge



- Lower variable pay partially offsets sales volume downturn

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[1] *Facilities opened between 2017 - 2020*
[2] *Adjustments for 2018 - 2020 share-based awards*

ADE and AGI summary

The ADE Business

£m	H1 2020	H1 2019	Growth	Growth constant currency
Revenue	**135.8**	**151.1**	***-10.2%***	***-11.2%***
Headline operating profit	***27.1***	***37.9***	-28%	-28%
Headline operating margin	***20.0%***	***25.1%***		

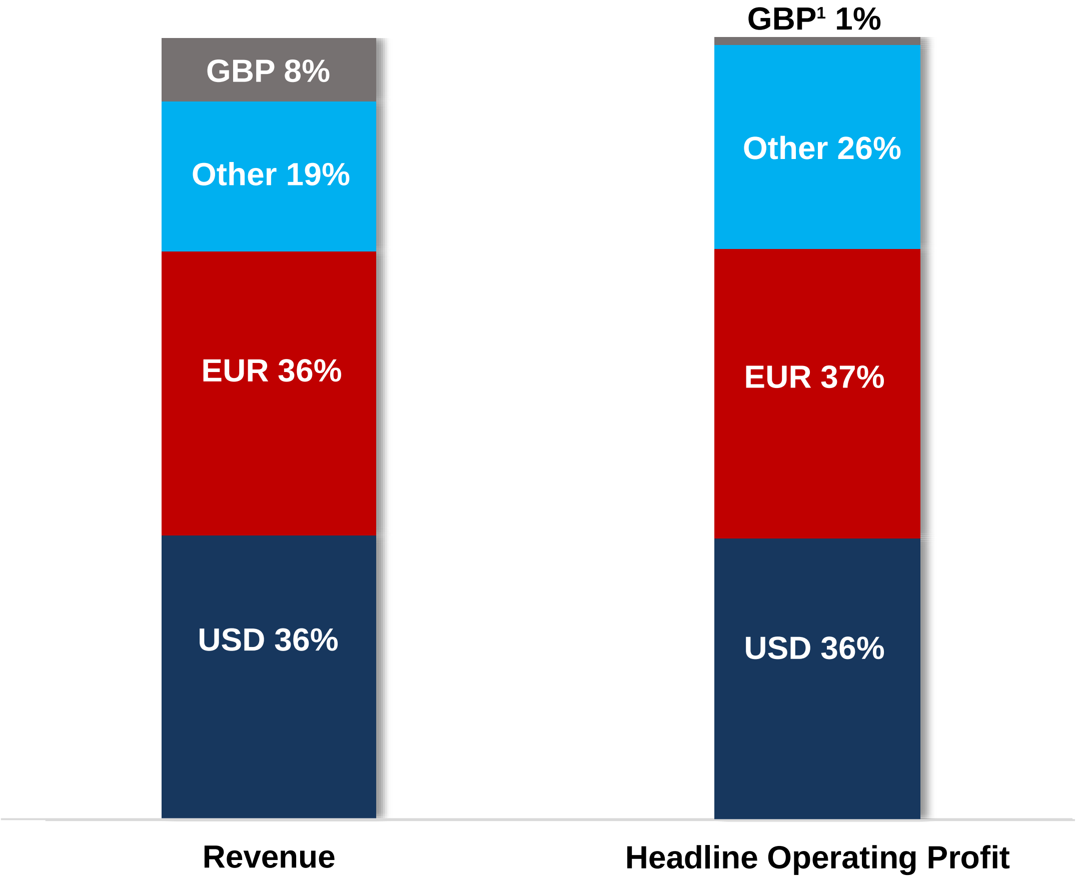
- The ADE business comprises more than 60 facilities primarily focused on Aerospace, Defence and Energy customers, but also includes almost 20% General Industrial business

The AGI Business

£m	H1 2020	H1 2019	Growth	Growth constant currency
Revenue	**170.9**	**215.4**	***-20.7%***	***-20.5%***
Headline operating profit	***14.4***	**35.4**	-59%	-57%
Headline operating margin	***8.4%***	***16.4%***		

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

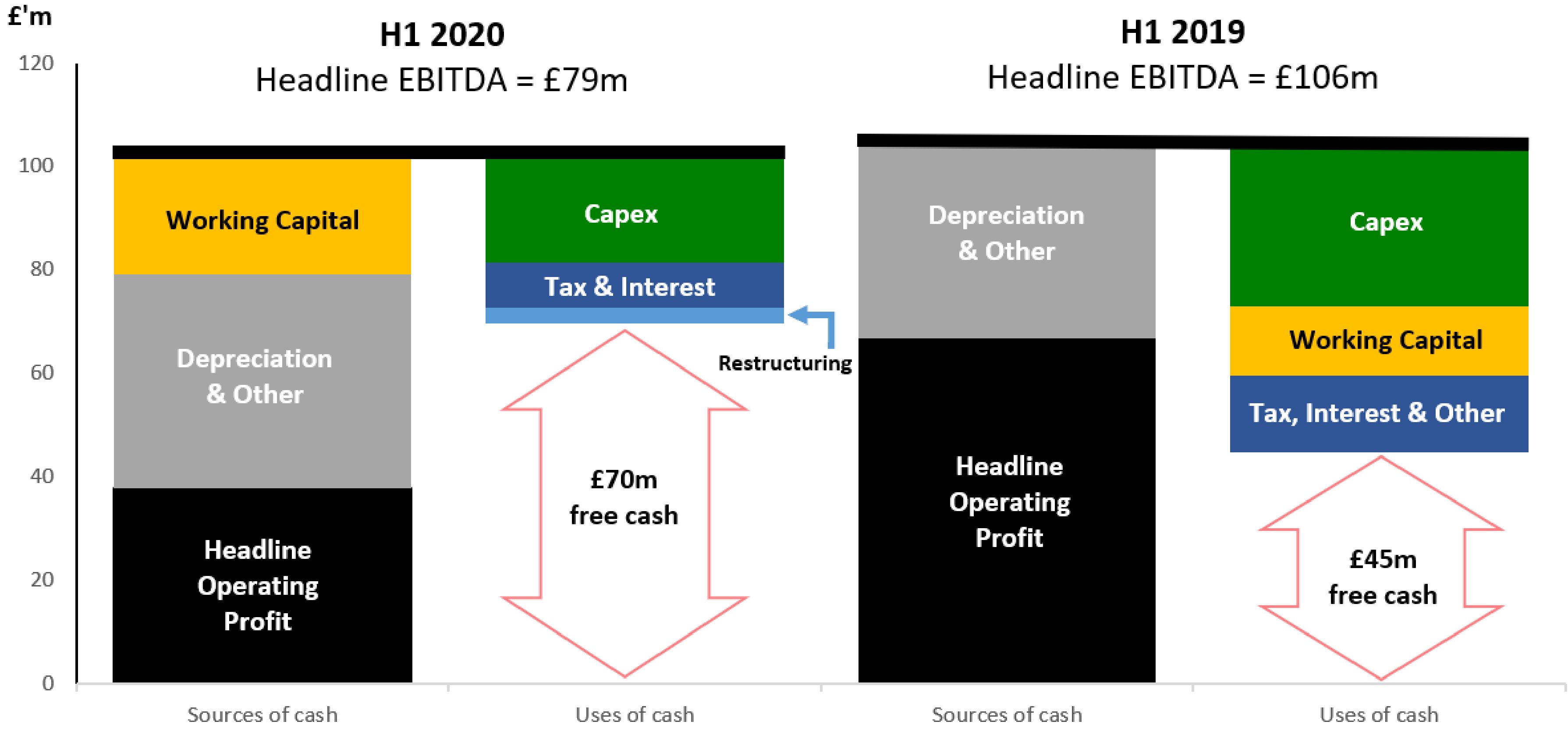
H1 2020 Sales and operating profit by currency



- Average half year exchange rates: £1: €1.15 and £1: $1.27
- Every cent change in the Euro is worth c.£0.3m of annualised operating profit
- Every cent change in the US dollar is worth c.£0.2m of annualised operating profit

[1] GBP profits due to central costs

Cash flow



- Consistently strong free cash flow conversion
- Maintenance capex reduced in line with lower equipment usage
- Majority of total £20.1m cash restructuring spend to be incurred in H2; £2.8m in H1

Balance sheet and taxation

Balance sheet

- Net debt (pre IFRS 16 impact) is £23.6m (H1 2019: £25.5m), after paying £94m consideration for Ellison
- IFRS 16 lease liabilities of £83.0m
- Facility headroom £204m at 30 June
- Credit facility increased to £250m and extended to 2025

Taxation

- Headline tax rate of 22.5%, in line with guidance

Outlook

Stephen Harris

Group Chief Executive

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Key attributes

- Highly cash generative business, even in downturns
- Resilient margins
- Low level of debt
- Flexible business model
- Right sized to generate good returns during recovery and beyond
- Operating margins will exceed historical levels as revenue recovers
- Well positioned to capitalise on growth opportunities across geographies and market sectors.

Outlook

Bodycote reacted swiftly to the sharp revenue declines arising from the pandemic related downturn. Most cost elements have been reduced in line with sales which has yielded a resilient operating margin of 12.3%. Moreover, the excellent free cash flow performance is testament to the cash generative nature of our business. The organisational restructuring programme announced in March has been expanded and accelerated and will permanently reduce operating expenses by around 10%. This allows good profits to be achieved at lower volumes and should enable margins to exceed historical levels when revenues recover.

The immediate outlook varies by sector and is difficult to predict for obvious reasons. Bodycote benefits from its geographic and sector diversification, and its strong business model. We remain focused on strong cash and cost discipline and expect to continue to generate sustainably attractive returns for our shareholders.

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Specialist Technologies

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 and heat

HIP PF inc. Powdermet®

Additive manufacturing of often complex components in conjunction with HIP

Specialty Stainless Steel Processes (S^3P)

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

Corr-I-Dur® (CiD)

Improves corrosion resistance and 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.

H1 2020 Statutory income statement

£m	H1 2020	H1 2019
Revenue	**306.7**	**366.5**
Headline operating profit	**37.8**	**66.9**
Exceptional Items	**(32.1)**	**-**
Amortisation of acquired intangible fixed assets	**(4.7)**	**(2.1)**
Acquisition costs	**(2.0)**	**(0.4)**
Operating profit	**(1.0)**	**64.4**
Net finance costs	**(2.8)**	**(2.2)**
Profit before tax	**(3.8)**	**62.2**
Headline earnings per share (pence)	**14.2p**	**25.6p**

Cash flow

£m	H1 2020 Post IFRS 16	H1 2020 Pre IFRS 16	H1 2019 Post IFRS 16	H1 2019 Pre IFRS 16
Headline operating profit	**37.8**	**36.6**	**66.9**	**65.7**
Add back: Depreciation and amortisation	41.0	33.7	39.0	31.7
Impairment of fixed assets	0.4	0.4	-	-
Income from associate	(0.2)	(0.2)	(0.2)	(0.2)
Profit on disposal of fixed assets	0.1	0.1	-	-
Headline EBITDA	**79.1**	**70.6**	**105.7**	**97.2**
Net maintenance capital expenditure	(22.3)	(19.5)	(32.7)	(25.1)
Net working capital movement	24.7	24.7	(13.3)	(13.3)
Headline operating cash flow	**81.5**	**75.8**	**59.7**	**58.8**
Restructuring	(3.0)	(3.0)	(1.2)	(1.2)
Financing costs	(2.2)	(1.1)	(2.1)	(0.9)
Tax	(6.6)	(6.6)	(11.8)	(11.8)
Free cash flow	**69.7**	**65.1**	**44.6**	**44.9**
Acquisition spend	(97.2)	(94.1)	(28.6)	(22.7)
Expansionary capital expenditure	(12.9)	(12.4)	(15.6)	(15.6)
Ordinary dividend	-	-	(25.2)	(25.2)
Special dividend	-	-	(38.1)	(38.1)
Own shares purchased less SBP	(0.9)	(0.9)	(4.8)	(5.0)
Increase in net debt	**(41.3)**	**(42.3)**	**(67.7)**	**(61.7)**
Net Debt	**(106.6)**	**(23.6)**	**(111.8)**	**(25.5)**

Net finance charge/facilities

£m	H1 2020	H1 2019
Interest received on bank overdrafts and loans	**0.1**	0.2
Net interest expense	**1.7**	1.4
Financing and bank charges	**1.1**	0.9
Pension finance charge	**0.1**	0.1
Total finance charge	**2.9**	2.4
Net finance charge	**(2.8)**	(2.2)

- Committed facility headroom of £203.8m at 30 June 2020, £46.2 drawn
- The remaining life of the facility is 5 years
- Closing net debt of £23.6m

Financial information

Shares in issue	H1 2020	H1 2019
Weighted average	190.2m	189.8m

Exchange rates		H1 2020	H1 2019
EUR	Average (P&L)	1.15	1.15
	Closing (B/S)	1.10	1.12
USD	Average (P&L)	1.27	1.30
	Closing (B/S)	1.24	1.27
SEK	Average (P&L)	12.22	12.03
	Closing (B/S)	11.5	11.81

Analysis by currency, H1 2020

	Sales	Operating profit
EUR	36%	37%
USD	36%	36%
SEK	7%	7%

Definitions

Term	Definition
Headline Operating Profit	Operating profit before acquisition costs, exceptional items and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, acquisition costs, exceptional items and amortisation of acquired intangibles
Headline EBITDA	Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets, profit or loss on disposal of property, plant and equipment, income from associate, exceptional items and acquisition costs
Headline Operating Cash Flow	Headline EBITDA adjusted for net working capital movements and net maintenance capital expenditure
Free Cash Flow	Headline operating cash flow less restructuring cash flows, interest and taxes paid
Headline EPS	Earnings per share excluding acquisition costs, exceptional items and amortisation of acquired intangible assets