



The Morgan Crucible Company plc

2004 Preliminary Results

22 February 2005

# Agenda

- Introduction
- 2004 Preliminary Results
- Strategy and Operations
- Global Business Unit Reviews:
  - Technical Ceramics Update (Andrew Hosty)
  - Thermal Ceramics Update (John Simons)
- Outlook and Conclusion

## **2004 Preliminary Results**

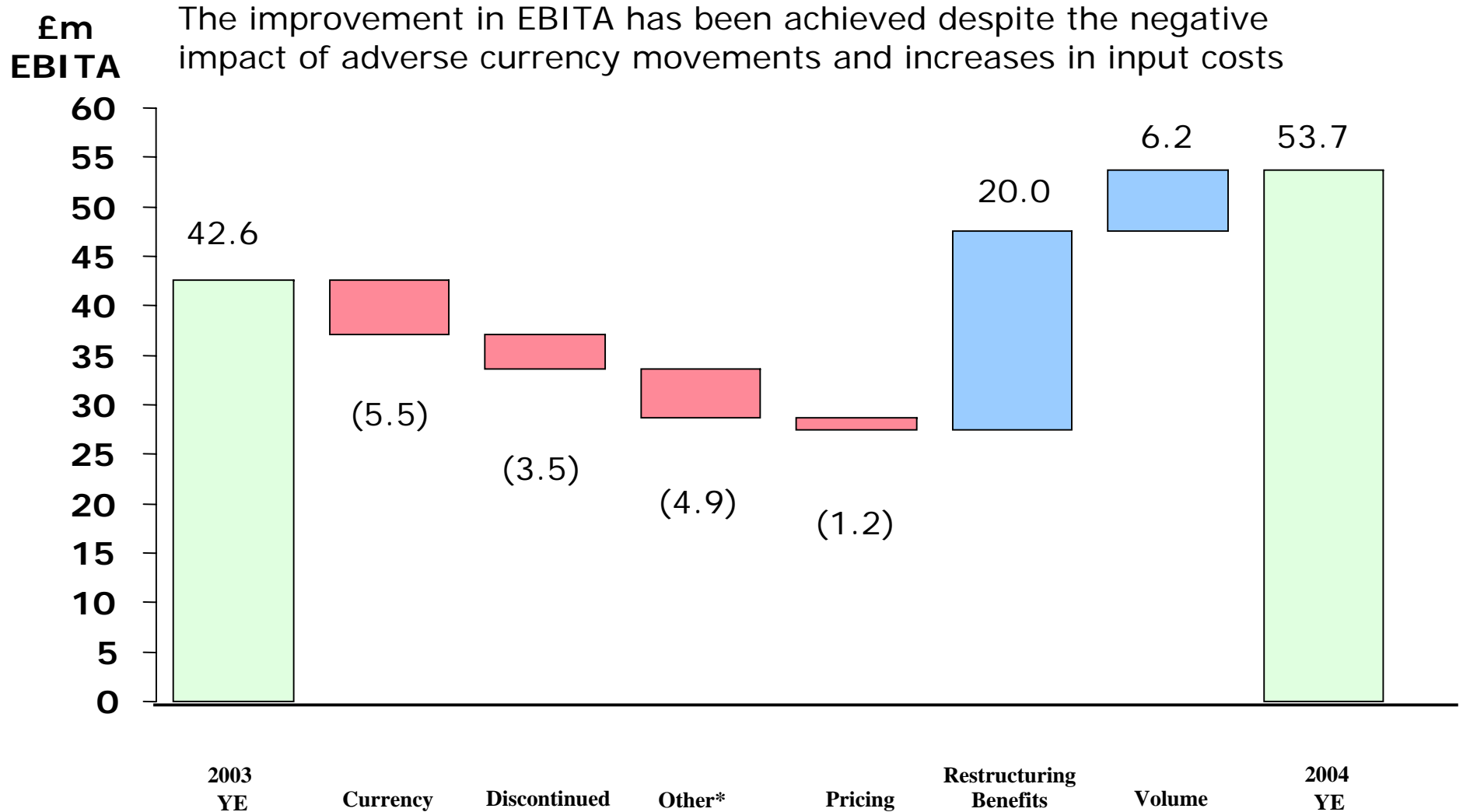
**Mark Robertshaw**

# Summary Profit and Loss Account

- Turnover on continuing business up by £14.1m despite adverse currency impact of c.£50m.
- Underlying EBITA on continuing business up by 37.2%.
- EBITA margin on continuing business up from 5.2% to 7.1%.

<u>Full Year £m</u>		<u>2004</u>	<u>2003</u>
Turnover	- continuing	762.8	748.7
	- discontinued	33.1	100.9
Underlying operating profit (EBITA)	- continuing	53.9	39.3
	- discontinued	(0.2)	3.3
Goodwill amortisation		(6.4)	(7.5)
Exceptional items	- operating	(58.7)	(67.3)
	- corporate	(54.8)	(30.1)
Net finance charge		(12.2)	(15.7)
Pre-tax loss		(78.4)	(78.0)
Underlying EPS (before goodwill amortisation)		10.4p	9.1p
Group EBITA/Sales ratio		6.7%	5.0%
Continuing business EBITA/Sales ratio		7.1%	5.2%

# Profit Bridge



# Cash Flow

- 47% increase in operating cash inflow
- Free cash flow of positive £23.0m even after operating exceptional spend vs (£8.8m) last year.

<u>Full Year £m Inflow/ (Outflow)</u>	<u>2004</u>	<u>2003</u>
Operating (loss)	(11.4)	(32.2)
Depreciation and amortisation	41.9	50.9
Loss on sale of plant and machinery	0.5	0.6
Exceptional non-cash operating costs	12.4	15.2
(Increase)/decrease in working capital	7.7	1.2
Increase in provisions	15.6	9.6
<b>Operating cash inflow</b>	<b>66.7</b>	<b>45.3</b>
Net interest	(13.3)	(13.5)
Taxation	(2.3)	(6.0)
Cash flow pre dividend	<b>51.1</b>	<b>25.8</b>
Dividends	-	(2.3)
Net cash flow before capex	51.1	23.5
Net capital spend	(28.1)	(32.3)
<b>Free cash flow</b>	<b>23.0</b>	<b>(8.8)</b>

# Borrowings and gearing

- Net borrowings reduced by £101.8m (41%) vs. 2003
- Financial coverage ratios now in line with investment grade debt
- Significant increase in headroom levels

Full Year £m	2004	2003
<b>Opening net borrowings</b>	<b>(249.3)</b>	<b>(251.6)</b>
Free cash inflow/(outflow)	23.0	(8.8)
Disposals / (acquisitions)	23.9	32.4
Other (inc. Rights issue net £54.1m in 2004)	54.9	(21.3)
<b>Closing net borrowings</b>	<b>(147.5)</b>	<b>(249.3)</b>
Net assets	240.4	259.8
Gearing (%)	61.4%	96.0%
Unutilised committed bank facilities ("Headroom")	59.6	22.3
Interest cover (EBITDA / net finance charge)	7.3	5.5
Net debt /EBITDA	1.7	2.9

# IAS - Main Areas that Affect Morgan

**IAS impact could create more volatility in reported results particularly from pensions accounting – but no impact on cash**

## Area of Impact

- Pensions
- Research and Development
- Share Based Payments
- Goodwill
- Leasing
- Financial instruments – Hedging, Derivatives, Embedded Derivatives

## Qualitative Assessment

Broadly in line with FRS17

Limited impact on expense items

P/L impact from charging for LTIP/ESOS/ESSS

Also amortisation and impairment testing; limited impact

Some capitalisation of leases

Limited impact

We will quantify the impact of IAS at our seminar on 18<sup>th</sup> April



# Divisional Performance

Every business showing year-on-year increase in operating profit despite adverse currency impacts

Particularly strong profit improvement from Magnetics and Technical Ceramics businesses

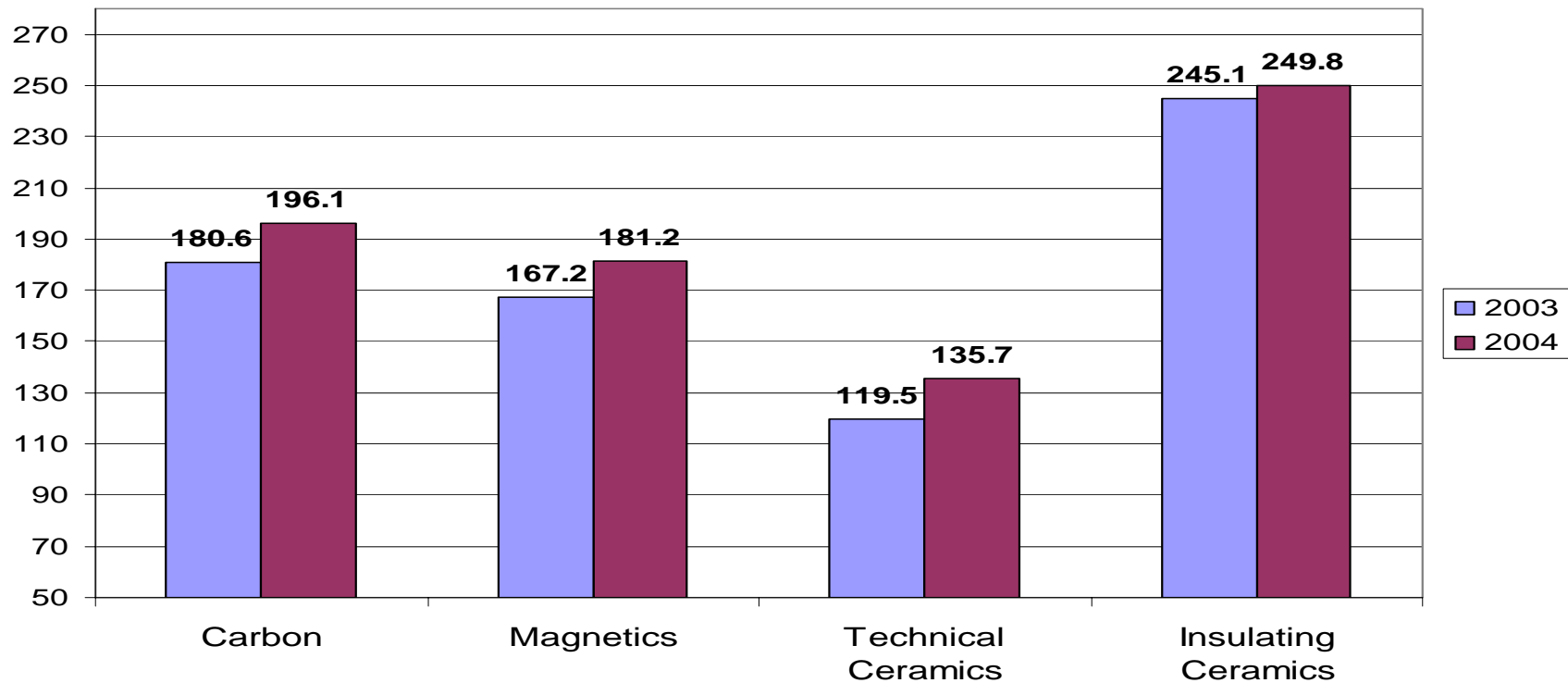
Full Year £m	Operating profit (EBITA)	
	2004	2003
Carbon	19.6	19.2
Magnetics	9.8	3.0
Technical Ceramics	6.6	0.4
Insulating Ceramics	17.9	16.7
Discontinued	(0.2)	3.3

**Notes:** Operating Profit is stated before goodwill amortisation and exceptional costs. Results inclusive of allocated corporate overhead and not adjusted for currency

# GBU Performance On a Constant Currency Basis

All continuing businesses showing year on year revenue growth on a constant currency basis (based on 2004 actual levels)

Revenue £m



% increase

8.6%

8.4%

13.6%

1.9%

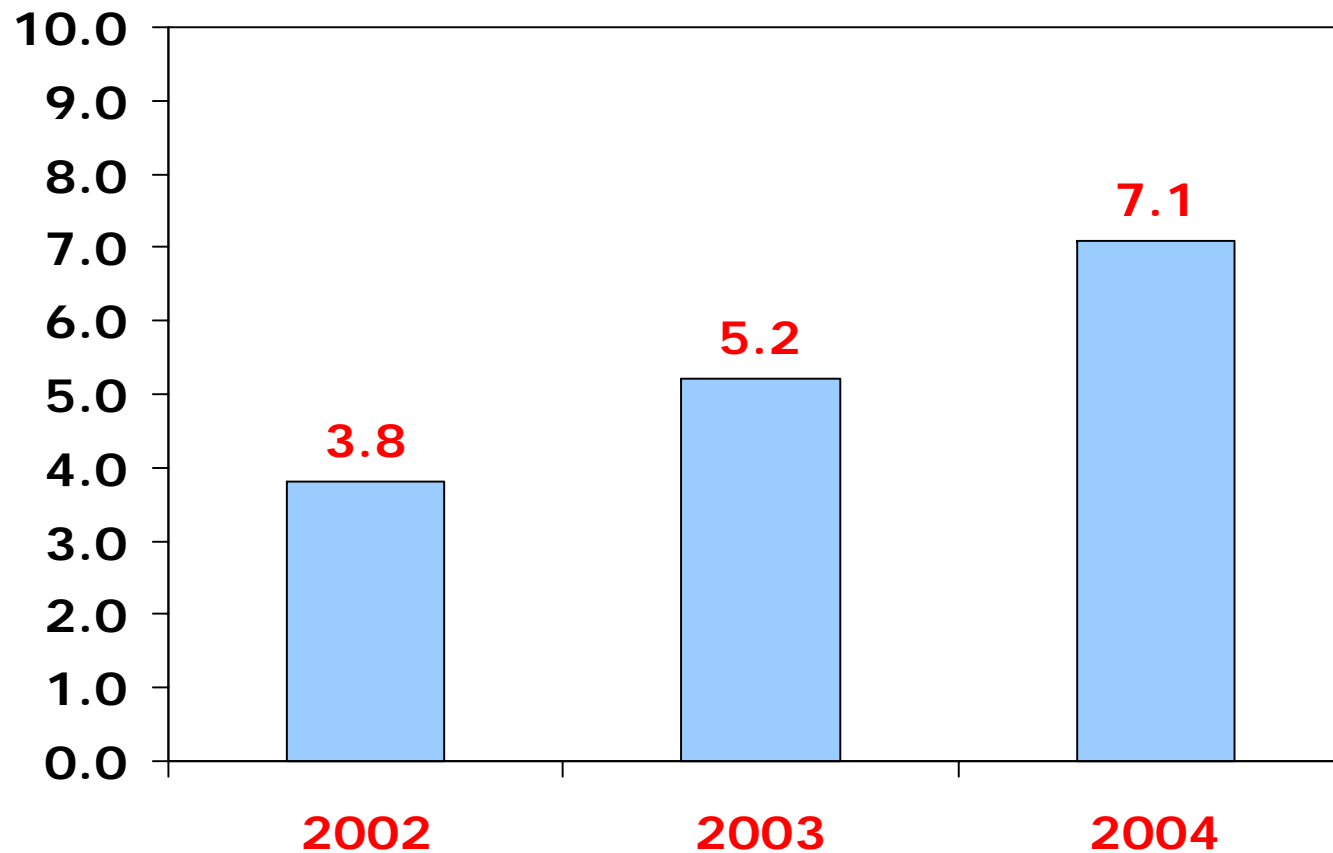
## **Strategy & Operations**

### **Warren Knowlton**

# EBITA / Sales Margin

EBITA margins on continuing businesses have increased significantly in the past two years

% EBITA Margin



# Cost Base Rationalisation

c.45 site disposals / closures / partial closures actioned or announced since 2003 - approximately one third of our total manufacturing portfolio



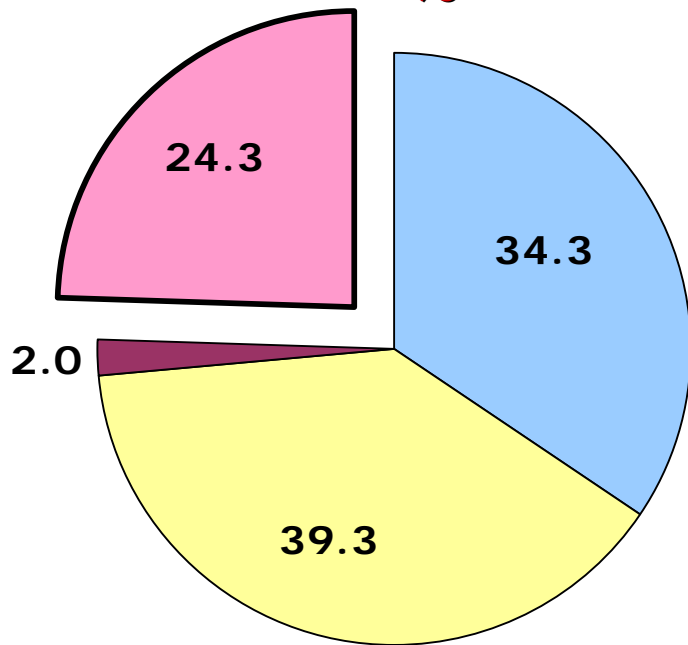
## Since August 2004

- Exeter, RI, USA
- Kings Lynn, UK
- Ahrweiler, Germany
- Fulmer, PA, USA
- Toronto, Canada
- Atella, Italy
- Windsor, UK

# Cost Base Rationalisation

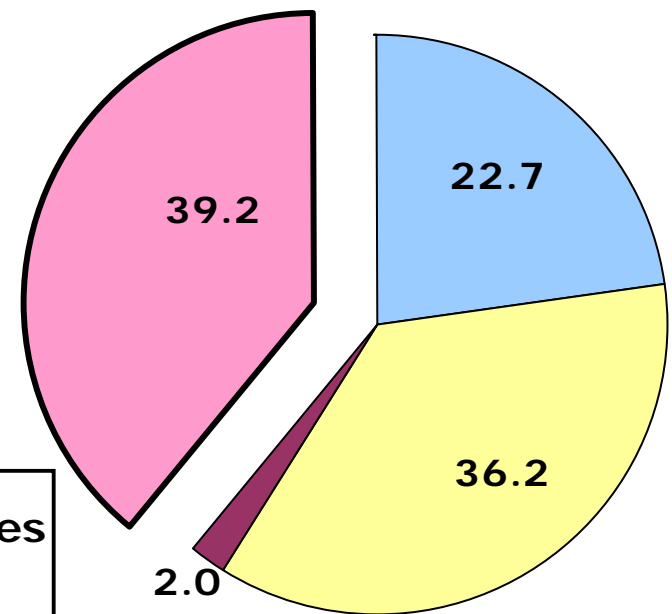
As a consequence of our manufacturing location strategy, there has been over a 60% increase in our headcount mix in lower cost regions

Headcount mix by region  
(Jan 2002)  
%

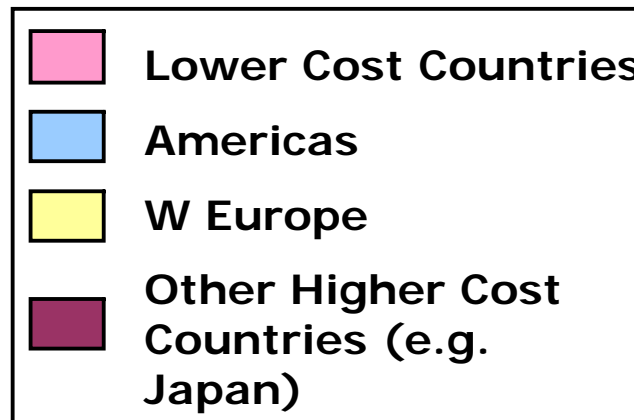


16,242  
Employees (incl.  
contractors)

Headcount mix by region  
(Dec 2004)  
%



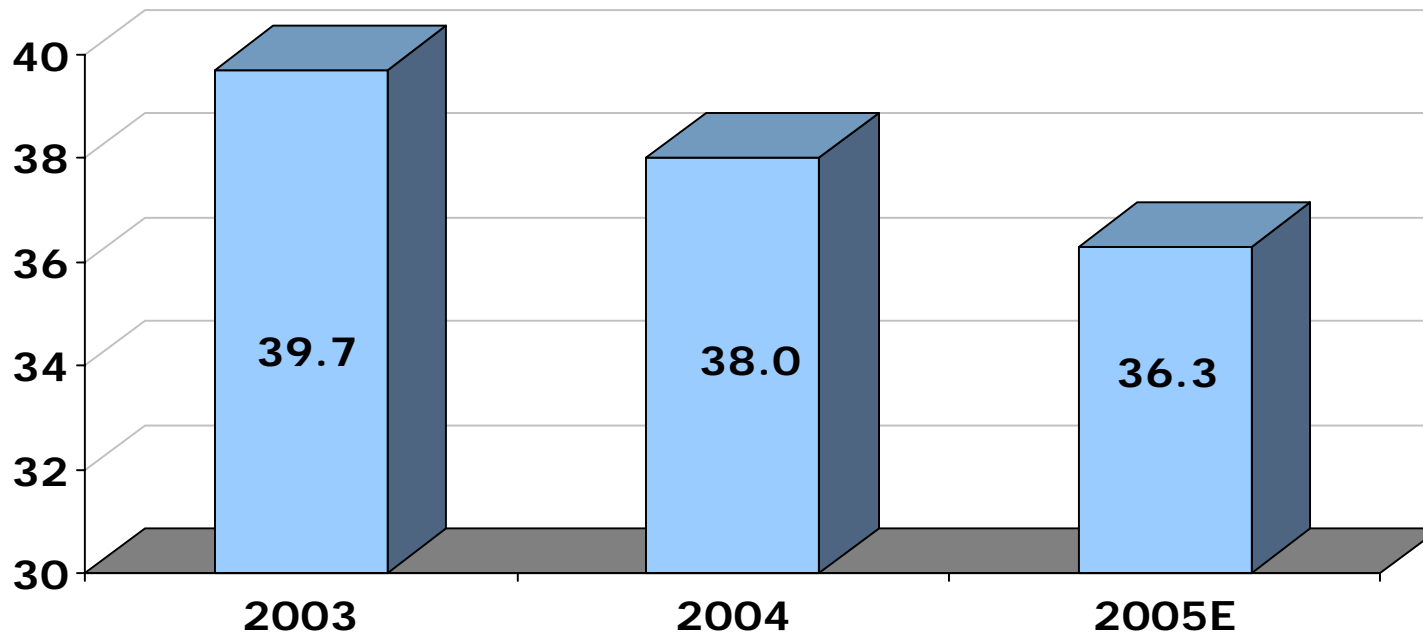
13,458  
Employees (incl.  
Contractors)



# Cost Base Rationalisation

The shift in manufacturing geographies, coupled with site and overhead rationalisation, has enabled Morgan to make significant reductions in total employment costs

**Total Employment Costs as % of Sales**



# Profitable Growth at Morgan

- Whilst cost reductions are fundamental to Morgan's success, shareholder value creation cannot come from rationalisation activities alone
- Morgan's long-term commercial health is also predicated on successfully delivering profitable growth
- Key characteristics of our target markets for profitable growth
  - market share advantage
  - differentiated products
  - sustainable margins
  - return on assets > cost of capital



# “Roadmap” for Profitable Growth

- Pro-active portfolio management focusing on higher value segments
- Entry into new markets by leveraging existing technologies and products
- Geographic expansion in targeted regions/economies
- Utilising Joint Ventures as a lower cost, lower risk route for accelerating growth

# Pro-active Portfolio / Market Management

- **Sale / Exit from structurally unattractive markets**

- Sale of Auto Consumer business
- Exit of Hard Disk drive market in Magnetics
- Exit of targeted bare ceramic markets in Technical Ceramics

} All segments  
suffered  
significant price  
downs year-on  
year

- **Transfer of manufacturing towards lower cost locations e.g. China.**

- Castables (Thermal Ceramics)
- Fused silica rollers (Technical Ceramics)
- Watt hour meters (Magnetics)
- Mechanical grades / technology transfer (Carbon)

# Entry Into New Markets By Leveraging Existing Technologies

## MAGNETICS

Article Surveillance

Watt Meters

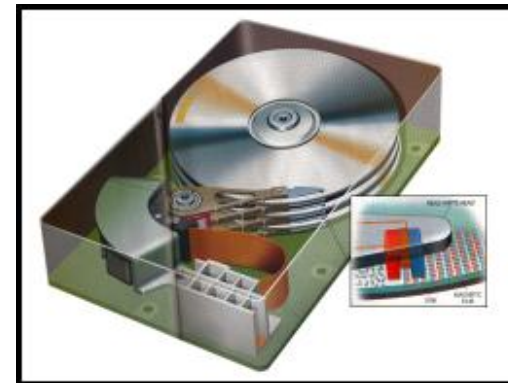


Keyless-go systems

## TECHNICAL CERAMICS

Ceramic Injection Moulding

Hard Disc Drive Activators



# Entry Into New Markets By Leveraging Existing Technologies

## CARBON

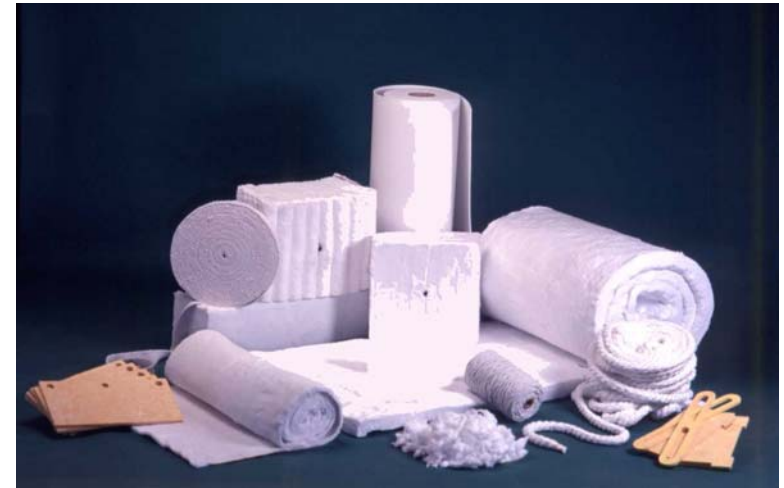
Industrial Diamond media

Body Armor



## INSULATING CERAMICS

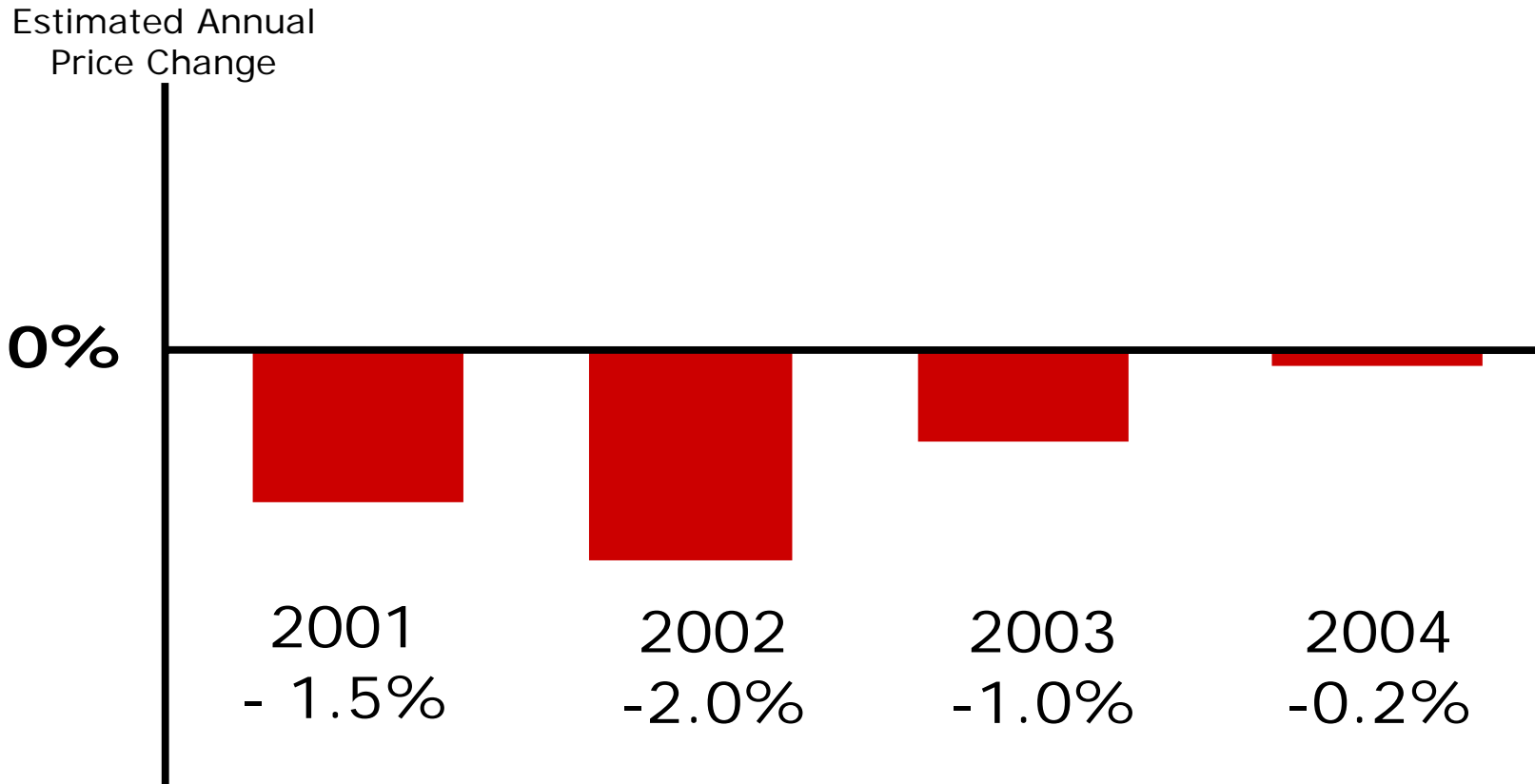
Superwool



Furnaces

# Portfolio Management / Resourcing Winning Technologies

Pricing position flattening in 2004 after years of erosion



# Geographic Expansion in Targeted Regions/ Economies

Approximately one third of our manufacturing footprint is now in lower-cost, high growth economies





# Joint Ventures – Lower Cost, Lower Risk Route For Accelerating Growth

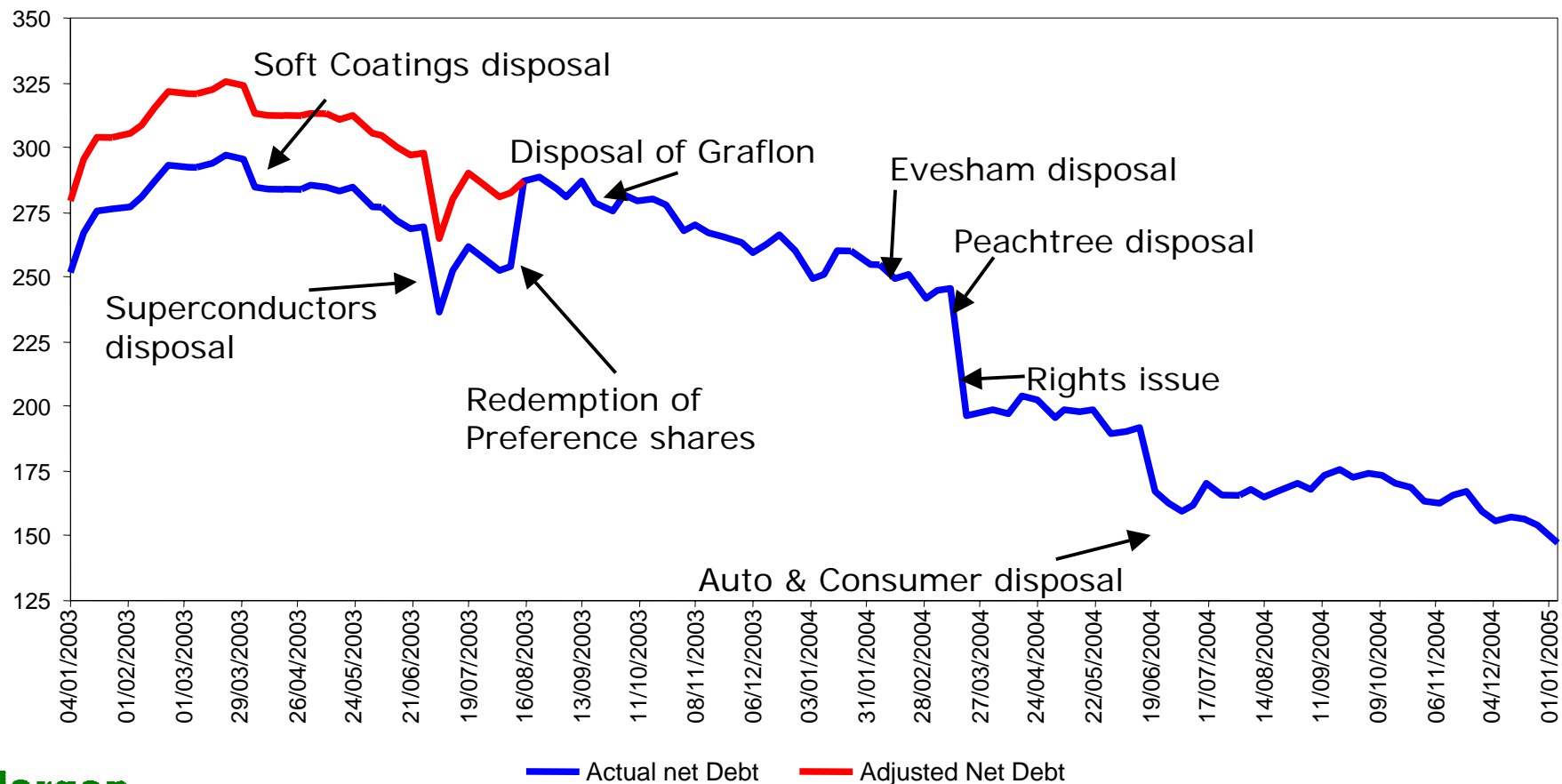
## EXAMPLE : CHINA



- Of Morgan's 9 manufacturing sites in China, 7 are joint ventures. Morgan ownership ranges from c. 49% to 90%.
- Benefits of Joint Ventures:-
  - high flexibility
  - low cost
  - speed to markets
  - reciprocal synergies
- Manufacturing capacity serves both the domestic markets and as a low cost base for export
- As a result, Morgan's sales from its Chinese businesses grew by over 20% in 2004.

# Net Debt Decrease Continues

- As a result of rationalisation and targeted growth, Morgan's financial health has improved significantly
- The year end debt position of £147.5m has more than halved in under two years





# Agenda

- Introduction
- 2004 Preliminary Results
- Strategy and Operations
- Global Business Unit Reviews:
  - Technical Ceramics Update (Andrew Hosty)
  - Thermal Ceramics Update (John Simons)
- Outlook and Conclusion

# Ceramics – what are they ?

## Ceramics

- Characteristics such as wear-resistance, chemical stability and electrical insulating ability
- Morgan introduced new materials that could withstand high temperatures, more chemical resistance, improved thermal conduction and also new industrial forming processes.

## Thermal Ceramics

- Products are extremely good thermal insulators with exceptional thermal shock resistance (e.g. kiln bricks and furniture)
- Ceramic systems were made into fibres which allowed very low density thermal insulation components to be made (e.g. blankets)

## Technical Ceramics

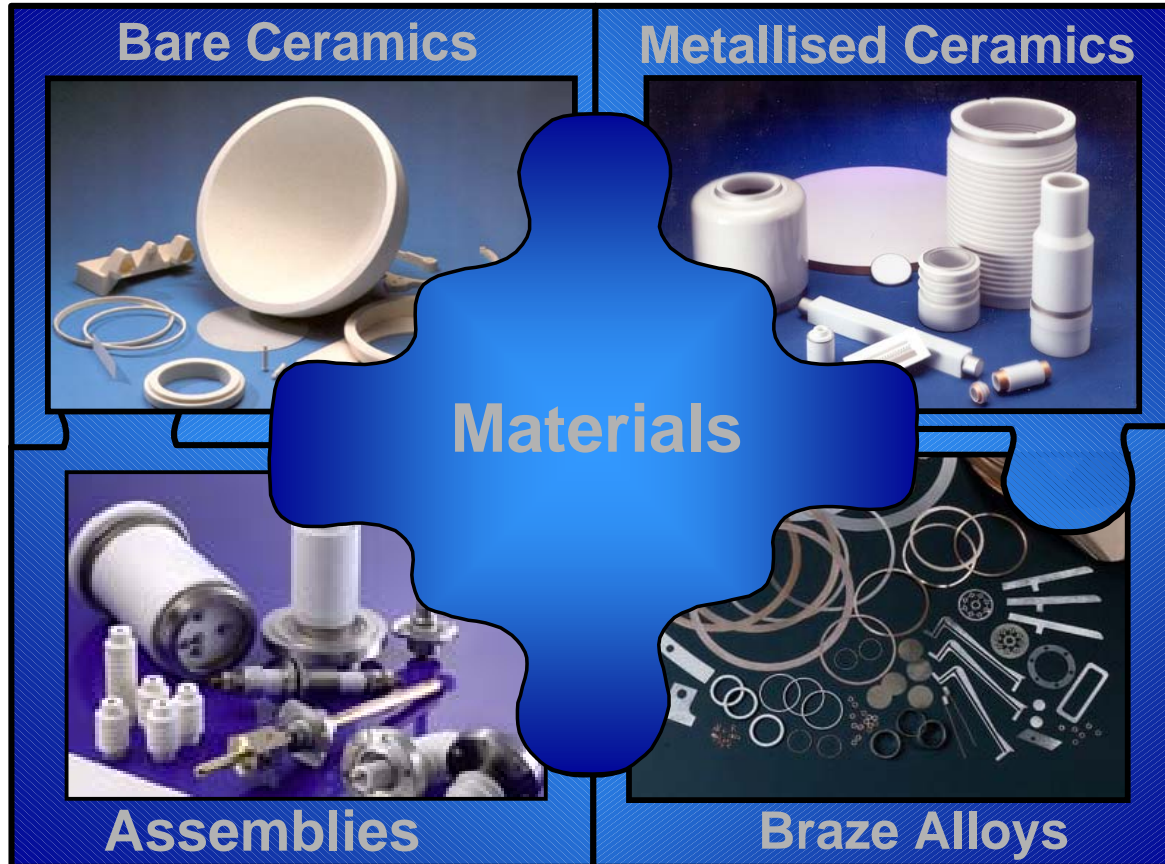
- Ceramics are nearly all made “fully dense” with fine microstructures, optimising the mechanical and electrical properties (e.g. for use in pacemakers)
- Ceramics can not only electrically insulate, but also change shape when a voltage is applied – “piezoelectrics” (e.g. space on hard disc drives)

## **TECHNICAL CERAMICS DIVISION**

**ANDREW HOSTY**

**CEO**

# Strategy



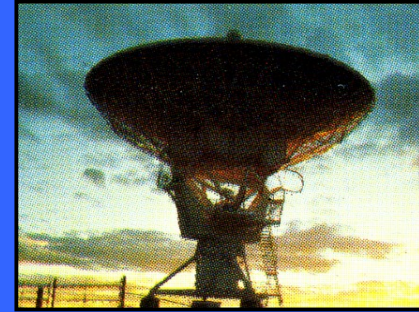
# Targeted Markets – Why?



**Medical**



**Aerospace**

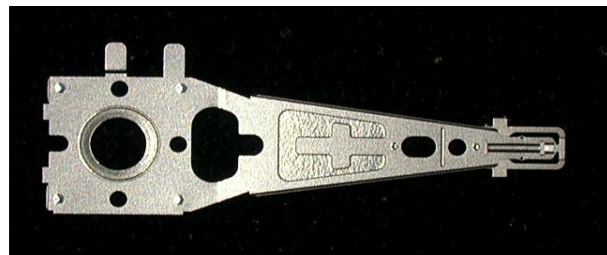
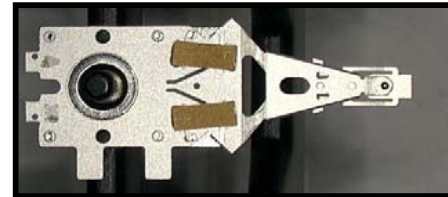
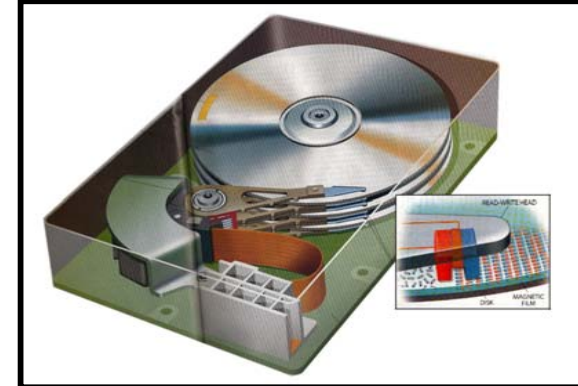


**Power Tubes**

- These markets are growing at a combined rate of 5 – 8%
- They purchase added value products that require application engineering
- New applications in these areas are being developed to fill the pipeline as well as in many other attractive niches

# Growth Products

- Hard Disc Drives
  - Seagate / HTI / WD / IBM
- Major growth potential
- Next generation products in development



# Growth Products

- Ceramic Injection Moulding (CIM)
  - World Class process control
- Customer has requested anonymity
  - Product launch is imminent
- Customer is sharing in capital investment
- Significant volume ramps by end H1 2005
- Next generation products in development



# Key Requisites for Success in 2005

- Continue to reduce costs
  - Move more work to China from Europe
  - Consolidate a plant in Texas into New Jersey
  - Specific plans at every site
- Work more effectively with our customers
  - Match our skills to their needs
- Deliver the pipeline to meet growth targets



## **THERMAL CERAMICS DIVISION**

**JOHN SIMONS**

**CEO**

# Strategy

## NEAR TERM

- Geographical Growth:
  - China
  - India
  - Eastern Europe

## LONGER TERM

- Develop new products and processes to meet growing environmentally driven markets e.g. automotive, aerospace, aluminium
- Aggressively grow Superwool <sup>TM</sup>
- Engineer new solutions e.g. diesel filters
- Improve processes and product development

# Targeted Markets – Why ?

## MARKET DRIVERS

- **Environmental**

- Energy conservation
- Pollution control
- Waste management

- **Regulatory safety**

- Customers demands for technically advanced solutions

# Growth Products – General

- **Superwool**

- Leading market producer in Europe
- From zero 3 years ago, half of our blanket production in North America is now Superwool
- Interest rapidly growing in Japan and spreading in Asia region

Going forward ..... A higher temperature bio-soluble fibre range is being launched

# Growth Products - Automotive

Growth market with potential sales of £20-30m p.a. by 2008, driven by environmental requirements

## ***Formed End Cones***

- A three-dimensional insulating piece to fit the end of a catalytic converter

## ***Non-Intumescent Mats***

- The next generation of catalytic converters will require controlled holding forces to avoid damage and will require mats made from low-biopersistence fibres

## ***Other Applications***

- Diesel filters, brake materials



# Key Requisites for Success in 2005

- Consolidate acquisition of Morgan Kailong Joint Venture
- Re-engineer management structure for China
- Complete Joint Ventures/partnerships in Eastern Europe
- Continue downward pressure on overheads
- Bring on line additional lower-cost production capacity

## **Outlook and Conclusion**

### **Warren Knowlton**

# Profit Improvement Plan

**Restructuring programme remains on track**

- **c. £70m cash spend**
- **£50m annualised profit improvement by early 2007 remains the goal**

	<b>Cash Spend</b>
2004	£ 32 m
2005 E	c. £ 20-25 m
2006 E	c. £ 10-15 m



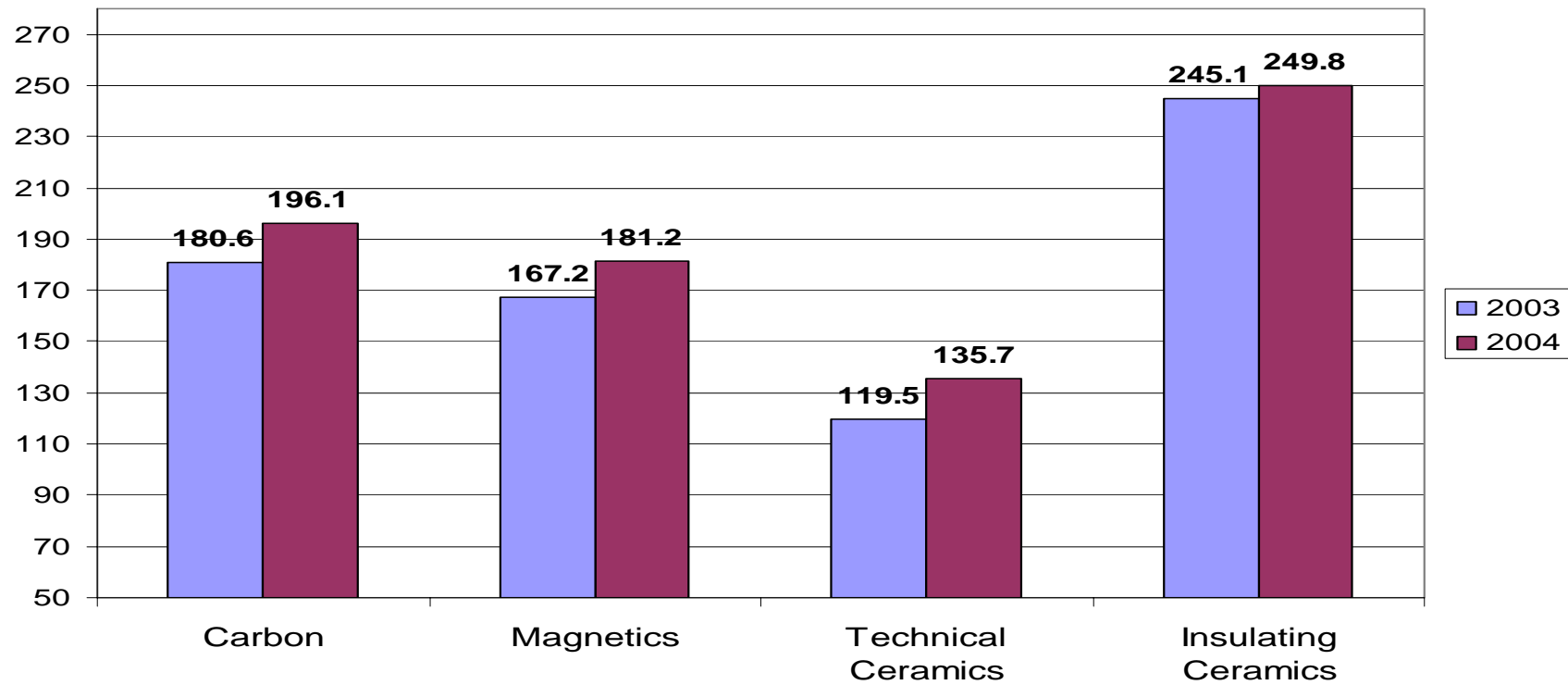
# Current Trading / Outlook

- Increasing presence in growth markets should deliver stronger long term results
- Continued delivery of restructuring programme supporting profitable growth strategy
- The major macro-economic variables of 2004 are likely to remain a factor for 2005 trading
  - Currency effects
  - Energy cost increases
  - Raw materials pricing inflation

# GBU Performance On a Constant Currency Basis

All continuing businesses showing year on year revenue growth on a constant currency basis (based on 2004 actual levels)

Revenue £m



% increase

8.6%

8.4%

13.6%

1.9%

# Communications Going Forward

- 18<sup>th</sup> April meeting at Magnetics plant, Germany
  - Review of IAS impact on accounts
  - Magnetics - in depth review
  - Site Tour

# Summary

- Restructuring on track
- Financial performance strengthening
- Manufacturing progressively in the right locations
- Strong product offerings position us for profitable growth



The Morgan Crucible Company plc

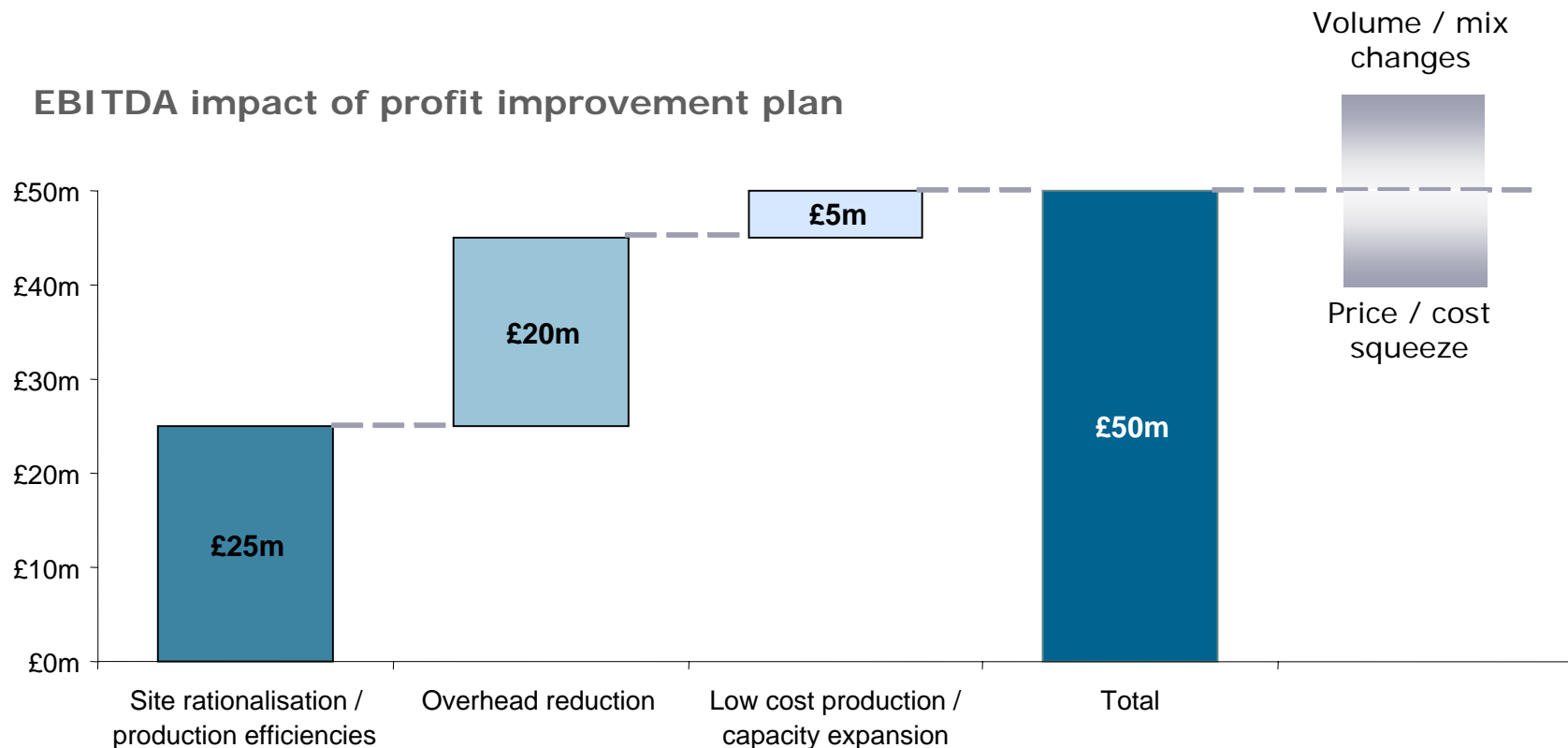
2004 Preliminary Results

22 February 2005

# APPENDIX

# Target £50m EBITDA improvement by 2006

- Targeted cost savings and profit improvement opportunities of up to £50m per annum by the end of 2006



Cash cost of up to £70m

# Joint Ventures as engines of growth

## **YIXING** (Thermal Ceramics)

- 51% owned
- Insulating firebricks for supply into ceramic and chemical processing market

## **HUBEI** (Thermal Ceramics)

- 70% owned
- Refractory ceramic fibre selling into heat treatment and ceramic markets with 60% domestic consumption

## **DALIAN** (Thermal Ceramics)

- 70% owned
- Refractory products focused on iron and steel industry

## **SANVAC** (Magnetics)

- 49 % owned
- Sintered rare-earth permanent magnetics with a capacity of 1000 tons p.a. for electric motors, generators and consumer products

## **SHANGHAI MORGAN CARBON** (Carbon)

- 70% owned
- Electrical brushes for traction and industrial applications, carbon seals for pumps

## **SHANGHAI MORGAN MATROC** (Technical Ceramics)

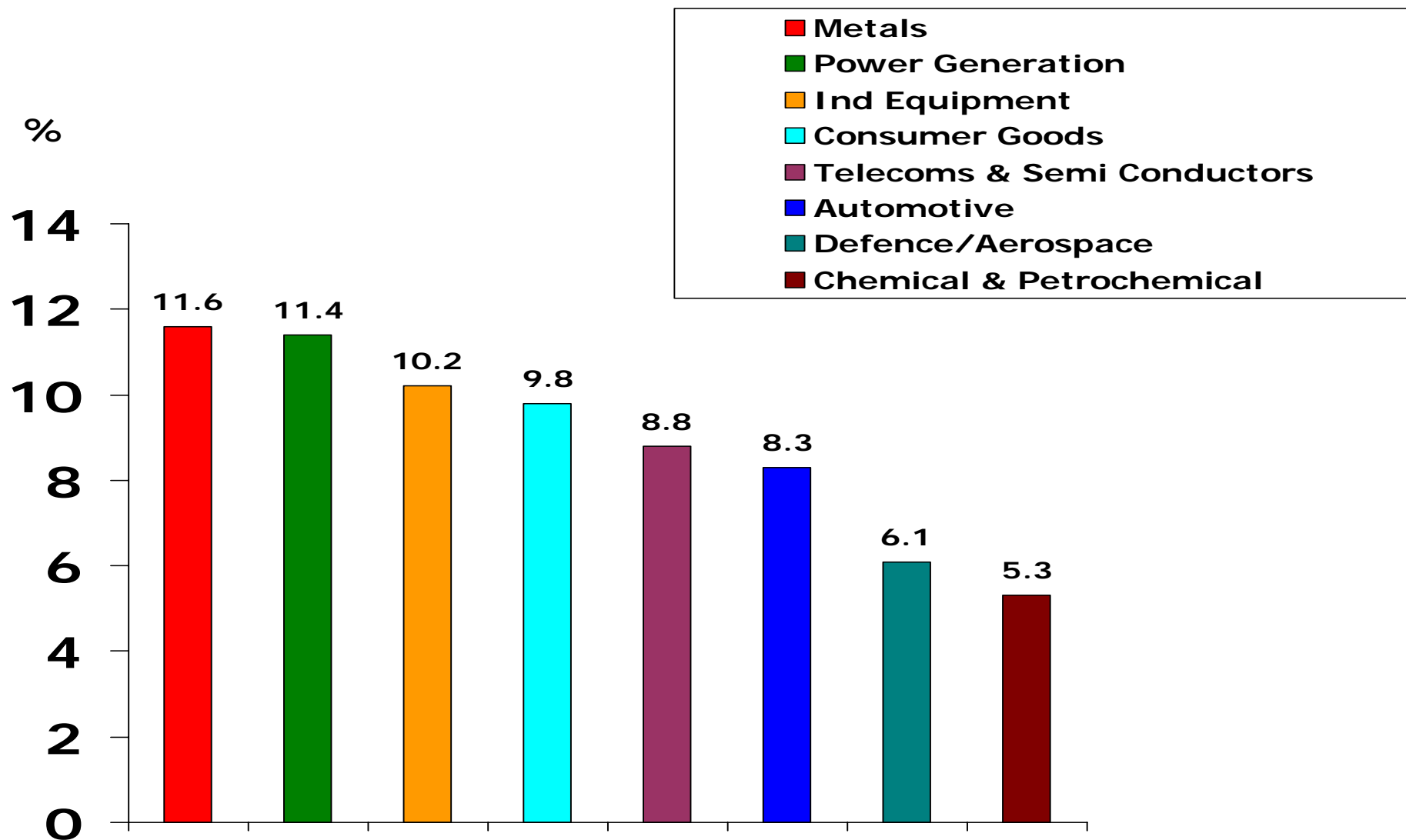
- 90% owned
- Welding nozzles and other advanced ceramic products for domestic use

## **YIXING HALDENWANGER** (Technical Ceramics)

- 70% owned (currently being increased to 100%)
- Ceramic rollers for kilns in domestic market and USA

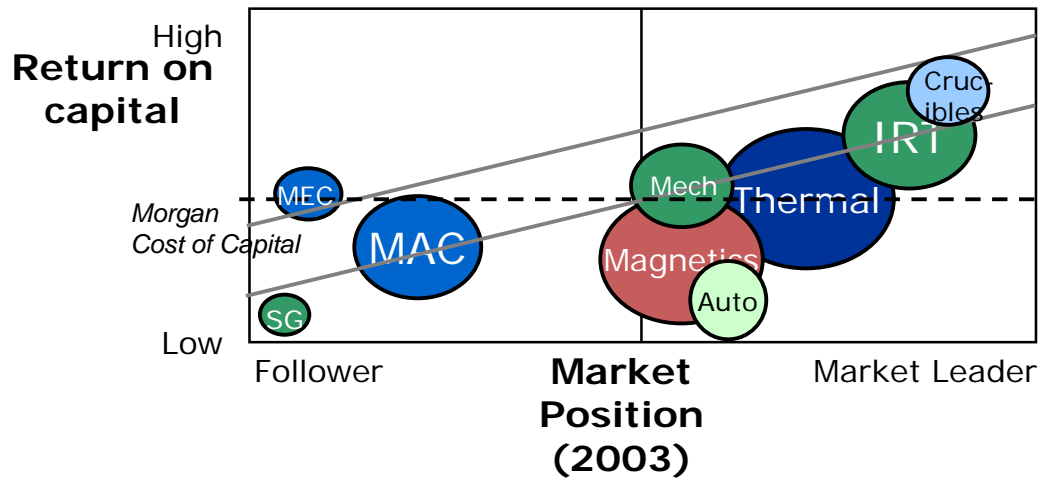


# Proportion of group turnover in selected end-use markets



# Overall Picture of Group Performance

## PRIOR TO BUSINESS UNIT CONSOLIDATION



## FUTURE GROUP ASPIRATION

