

# 2016 Results Presentation

23<sup>rd</sup> February 2017

# Agenda

- Introduction and key highlights – Pete Raby
- 2016 results – Peter Turner
- Strategy and operational update – Pete Raby

# Key highlights

- Financial performance in line with management expectations
- Strategy implementation is on track, with operational improvements and investment ahead of plan
- Refinancing completed successfully, providing secure long-term capital structure
- Two businesses divested, simplifying the Group and providing funds for re-investment in the core business

# 2016 results

## Peter Turner

# Group performance summary

	FY 2016 <sup>1</sup>	FY 2015 <sup>1</sup>	% change from FY 2015	
	£m	£m	As reported	At constant currency
<b>Revenue</b>	<b>989.2</b>	<b>911.8</b>	<b>8.5%</b>	<b>-1.5%</b>
<b>Group headline operating profit<sup>2</sup></b>	<b>116.9</b>	<b>106.0</b>	<b>10.3%</b>	<b>-2.5%</b>
<i>Group headline operating profit margin %<sup>2</sup></i>	<i>11.8%</i>	<i>11.6%</i>		
<b>Cash flow from operations<sup>3</sup></b>	<b>128.3</b>	<b>139.4</b>	<b>-8.0%</b>	
<b>Free cash flow before acquisitions and dividends<sup>3</sup></b>	<b>48.0</b>	<b>30.1</b>	<b>59.5%</b>	
<b>Headline earnings per share</b>	<b>22.7p</b>	<b>20.8p</b>	<b>9.1%</b>	
<b>Full-Year dividend per share</b>	<b>11.0p</b>	<b>11.0p</b>		

<sup>1</sup> Results before specific adjusting items

<sup>2</sup> Group headline operating profit is before specific adjusting items and amortisation of intangibles

<sup>3</sup> 2015 has been re-presented for the reclassification of £3.8 million of dividends paid to non-controlling interests from 'Cash flow from operations' to 'Net cash flows from other investing and financing activities'

# Divisional performance

	Revenue (£m)		EBITA (£m)		EBITA margin (%)	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Thermal Ceramics	413.3	372.4	55.0	55.2	13.3%	14.8%
Molten Metal Systems	43.5	39.7	6.7	5.3	15.4%	13.4%
<b>Thermal Products</b>	<b>456.8</b>	<b>412.1</b>	<b>61.7</b>	<b>60.5</b>	<b>13.5%</b>	<b>14.7%</b>
Electrical Carbon	156.2	145.6	19.7	19.3	12.6%	13.3%
Seals and Bearings	97.7	88.6	14.2	9.9	14.5%	11.2%
Technical Ceramics	248.1	237.8	26.6	26.1	10.7%	11.0%
<b>Carbon and Technical Ceramics</b>	<b>502.0</b>	<b>472.0</b>	<b>60.5</b>	<b>55.3</b>	<b>12.1%</b>	<b>11.7%</b>
<b>Composites and Defence Systems</b>	<b>30.4</b>	<b>27.7</b>	<b>1.1</b>	<b>(1.0)</b>	<b>3.6%</b>	<b>-3.6%</b>
<b>Corporate costs</b>			<b>(5.4)</b>	<b>(5.2)</b>		
<b>Restructuring costs (net of proceeds from disposal of assets)</b>			<b>(1.0)</b>	<b>(3.6)</b>		
<b>Group</b>	<b>989.2</b>	<b>911.8</b>	<b>116.9</b>	<b>106.0</b>	<b>11.8%</b>	<b>11.6%</b>

# Cash flow summary

	FY 2016 £m	FY 2015 £m
EBITDA	147.4	136.7
Change in working capital	(5.3)	15.9
Change in provisions & other	(13.8)	(13.2)
<b>Cash flow from operations</b>	<b>128.3</b>	<b>139.4</b>
Net capital expenditure	(38.4)	(62.7)
Net interest paid	(13.1)	(11.2)
Tax paid on ordinary activities	(22.2)	(29.9)
Restructuring costs and other one-off items	(6.6)	(5.5)
<b>Free cash flow before acquisitions and dividends</b>	<b>48.0</b>	<b>30.1</b>
Dividends paid	(31.4)	(31.4)
Cash flows from other investing and financing	(15.6)	(2.9)
Exchange movement	(27.5)	(4.8)
Opening net debt	(216.0)	(207.0)
<b>Closing net debt</b>	<b>(242.5)</b>	<b>(216.0)</b>

- Working capital outflow following strong performance in H2 2015
- Net capital expenditure significantly lower than prior year due to one-off Swansea site purchase in 2015
- Net debt:EBITDA at 1.6x (FY 2015: 1.6x), impacted by adverse foreign exchange movements

# Pensions update

## Deficit movement since 31 Dec 2015 (£m)

<b>Deficit at 31 December 2015</b>	<b>(205)</b>
Foreign exchange	(14)
Return on assets	46
Contributions (net of service costs)	16
Settlements	7
Change in liabilities	(121)
<b>Deficit at 31 December 2016</b>	<b>(271)</b>

£m	31 December 2016	30 June 2016	31 December 2015
Assets	524	531	519
Liabilities	(795)	(802)	(724)
<b>Deficit</b>	<b>(271)</b>	<b>(271)</b>	<b>(205)</b>
<i>UK bond yields</i>	2.6%	2.8%	3.7%
<i>US bond yields</i>	4.2%	3.8%	4.5%

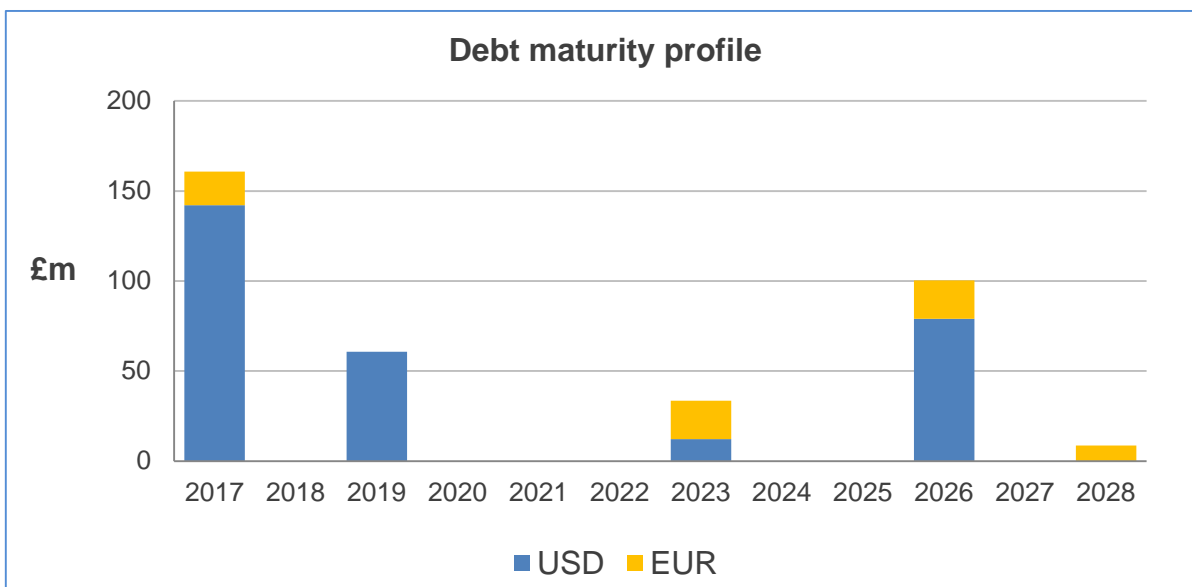


# Refinancing completed – strengthens balance sheet

- New private placements completed Oct-16 as pre-financing ahead of 2017 maturities, extending maturity of debt at lower cost of finance

Private Placement debt	Sterling equivalent (£m)	Average coupon	Weighted average maturity
Pre Oct-16	220.1	6.0%	1.5 yrs
Raised Oct-16	142.7	2.6%	9.2 yrs

Net debt	£m
Borrowings	364.9
Cash	(122.4)
<b>Net debt</b>	<b>242.5</b>



- Net debt to EBITDA: 1.6x (2015: 1.6x)
- £200m Undrawn Revolving Credit Facility matures October 2019
- Maturities due in 2017 will be repaid using cash and / or existing undrawn revolving credit facility

# FY17 Guidance – financial items

Headline tax rate	c. 30%	
Interest charge (at year end FX rates)	c. £16m*	} c. £23m
IAS19 pensions charge	c. £7m	
Funded pension scheme contributions	c. £25m	

\* Falls to c. £8m in FY18, following the effect of refinancing

# Financial summary

- Performance in line with management expectations
- Group headline operating profit margin at 11.8%
- Headline EPS at 22.7p
- Dividend maintained at 11.0p
- Refinancing completed securing long term capital structure

# Strategy and operational update

## Pete Raby

# Thermal Ceramics: performance summary

£m	FY 2016	FY 2015	% change from FY 2015	
			As reported	At constant currency
Revenue	413.3	372.4	11.0%	0.1%
EBITA	55.0	55.2	-0.4%	-11.4%
EBITA margin %	13.3%	14.8%		

## Performance commentary

- European sales slightly up on prior year
- Strong growth in Japan
- North America declined through 2016
- Order intake in China improved in H2
- Margin declines driven by geographic mix effects

## Strategic focus

- Continued focus on growth in automotive, passive fire protection and energy
- Operational efficiency improvements to fund re-investment
- Enhancing sales effectiveness
- Continued Superwool® conversion

## Main markets

- Industrial
- Chemical and petrochemical
- Metals
- Automotive

# Molten Metal Systems: performance summary

£m	FY 2016	FY 2015	% change from FY 2015	
			As reported	At constant currency
Revenue	43.5	39.7	9.6%	-0.1%
EBITA	6.7	5.3	26.4%	12.7%
EBITA margin %	15.4%	13.4%		

## Performance commentary

- European market slightly up
- Declines in China and North America offset by growth in rest of Asia
- Margin growth driven by operational improvements

## Strategic focus

- Ongoing operational improvements
- Investment in new product development
- Improving sales effectiveness and value selling in key growth markets, including China

## Main markets

- Automotive (aluminium)
- Construction (copper)

# Electrical Carbon: performance summary

£m	FY 2016	FY 2015	% change from FY 2015	
			As reported	At constant currency
Revenue	156.2	145.6	7.3%	-2.4%
EBITA	19.7	19.3	2.1%	-9.1%
EBITA margin %	12.6%	13.3%		

## Performance commentary

- Good growth in rail collectors, particularly in Asia
- Difficult market conditions in North America in mining, traction & industrial sectors
- Continuing weakness in the China wind market
- Margin decline due to volume reduction and mix

## Strategic focus

- Growth opportunities in rail and energy
- Increased automation
- Investment in a Carbon Science Centre of Excellence to develop new material grades
- Improving sales effectiveness

## Main markets

- Rail
- Industrial drives
- Power generation
- Iron and steel
- Mining
- Wind

# Seals and Bearings: performance summary

£m	FY 2016	FY 2015	% change from FY 2015	
			As reported	At constant currency
Revenue	97.7	88.6	10.3%	0.4%
EBITA	14.2	9.9	43.4%	27.9%
EBITA margin %	14.5%	11.2%		

## Performance commentary

- Growth in sales to aerospace, automotive and the water industry have offset declines in oil and gas and wider industrial
- Margins have increased as a result of operational efficiency

## Strategic focus

- Growth opportunities in Asia targeted in automotive and water pumps
- Carbon Science Centre of Excellence to improve product performance
- Expanding the application engineering capability in the business

## Main markets

- Oil and gas
- Automotive
- Industrial
- Water pumps
- Aerospace
- Home appliances



# Technical Ceramics: performance summary

£m	FY 2016	FY 2015	% change from FY 2015	
			As reported	At constant currency
Revenue	248.1	237.8	4.3%	-5.6%
EBITA	26.6	26.1	1.9%	-9.3%
EBITA margin %	10.7%	11.0%		

## Performance commentary

- Revenue and margin decline largely driven by electro-ceramic sales declining into hard disk drive (HDD) applications
- Growth in aerospace and medical applications in Europe and China

## Strategic focus

- Growth opportunities in aerospace, medical and electronics
- Improving yields and reducing scrap
- Establishing Metals & Joining Centre of Excellence
- Improving sales effectiveness, especially key account management

## Main markets

- Aerospace
- Medical
- Industrial
- Ceramics and glass
- Electronics

# Composites and Defence Systems: performance summary

£m	FY 2016	FY 2015	% change from FY 2015	
			As reported	At constant currency
Revenue	30.4	27.7	9.7%	9.7%
EBITA	1.1	(1.0)		
EBITA margin %	3.6%	-3.6%		

## Performance commentary

- Defence markets remain relatively subdued
- Diversified customer base during 2016, with order intake steadily improving
- Significant win in the armour market
- Margin improvement due to cost reduction and favourable mix

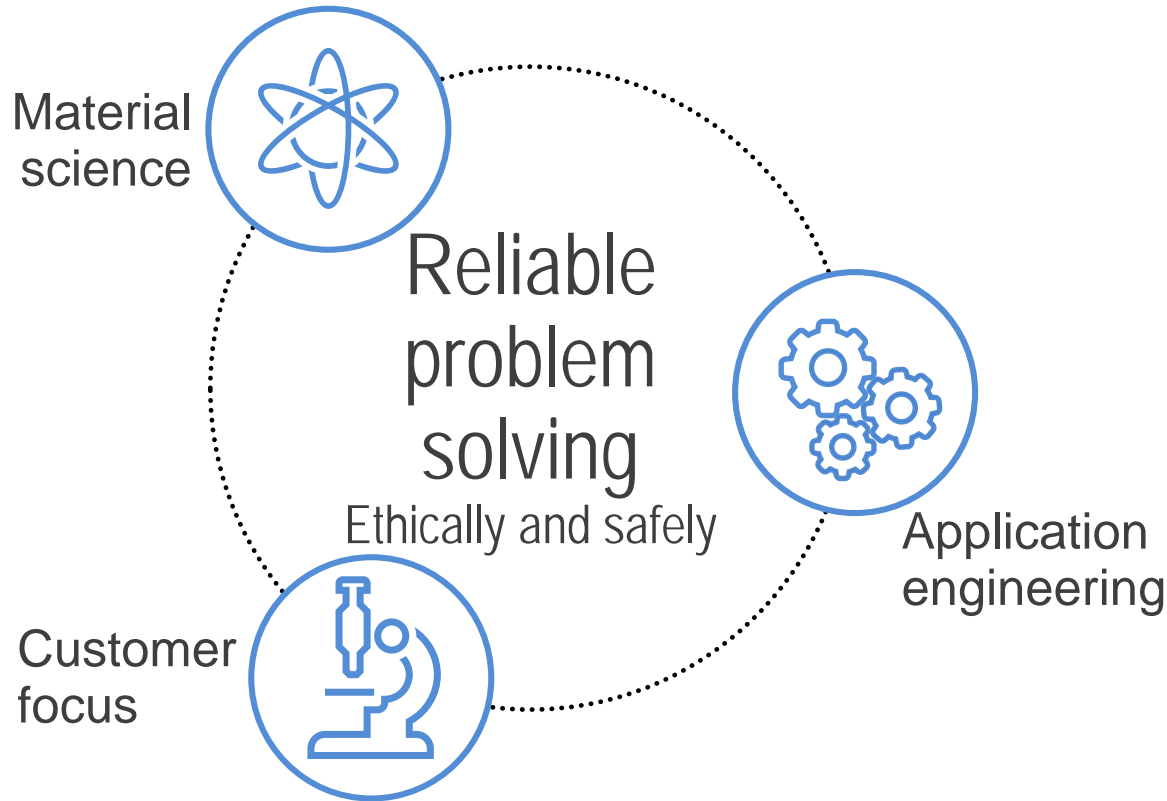
## Strategic focus

- Growth opportunities in personal protection, vehicle protection and non-ballistic composites
- Sales effectiveness and diversification of customer base
- New product development and introduction

## Main markets

- Military vehicles support (UK MoD)
- Soldier protection and bomb suits
- Vehicle armour

# Our vision is to be renowned for world-class material science, application engineering and customer focus



- Scalable global businesses
- In growing markets
- Where technical differentiation is valued

Strengthening the Group to deliver resilient financial performance and faster growth

# Six execution priorities

1. Move to a global structure

2. Extend our technology leadership

3. Improve operational execution

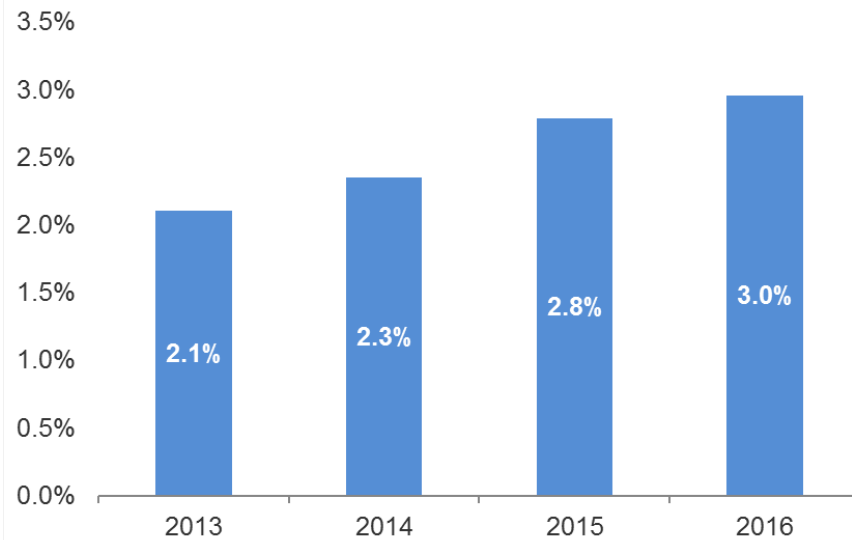
4. Drive sales effectiveness and market focus

5. Increase investment in people management and development

6. Simplify the business

## 2. Technology investment on track

### R&D as a percentage of sales, 2013-2016



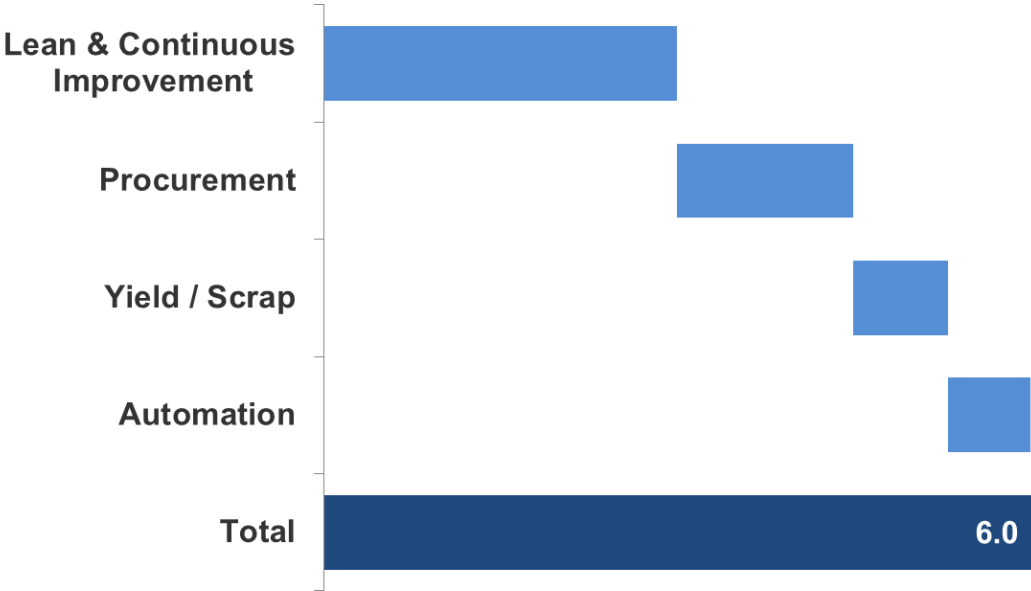
**In the next 2-4 years we plan to increase R&D investment towards 4%**

- Investment in R&D increased to 3% of sales
- Materials development activity now focused through four centres of excellence:
  - Fibre
  - Structural Ceramics
  - Carbon Science
  - Metals & Joining
- We are planning to invest a further £3 million in 2017, funded through operational improvements

# 3. Operational improvements ahead of plan, funding £3m investment in technology & £3m in sales

Expected FY17 operational efficiencies, net of inflation:

Key areas of focus:



**Lean & Continuous Improvement:** improving efficiency across all processes and manufacturing sites globally

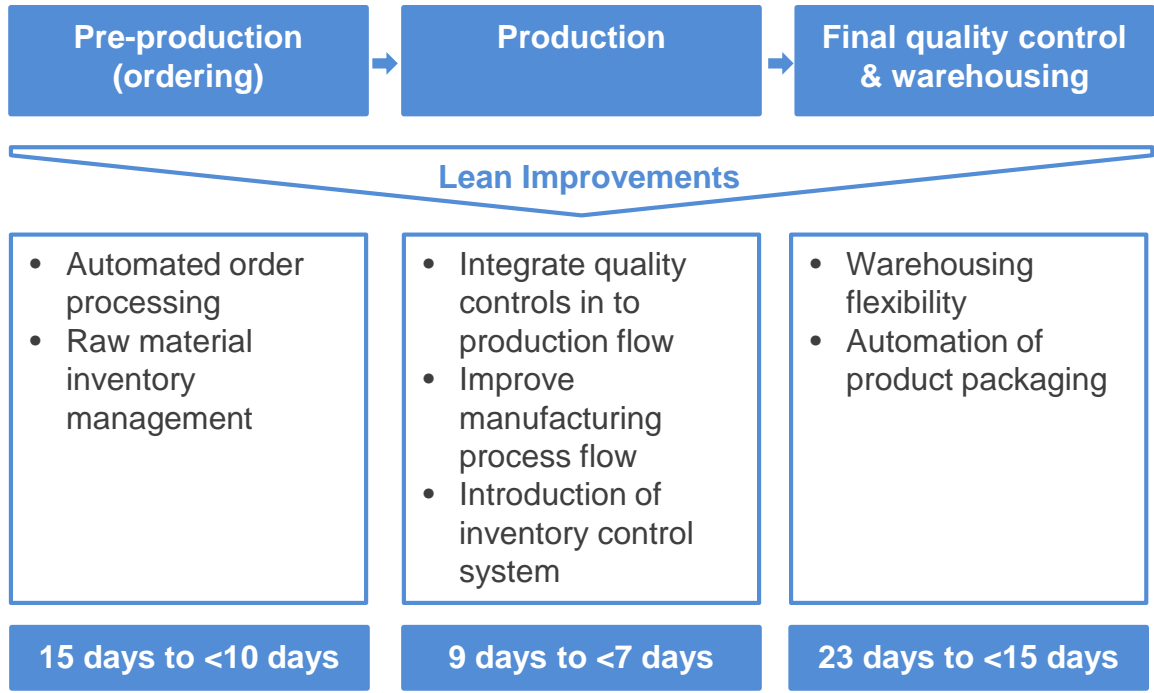
**Yield / Scrap:** Technical Ceramics focused on improving yields and reducing scrap

**Automation:** increasing production automation across the business, particularly within Electrical Carbon

**Procurement:** global focus on reducing raw material spend and maintenance services

# 3. Operational efficiency: LEAN manufacturing in Thermal Ceramics (case study)

Process flow for Engineered Fibre line at St. Marcellin:



## Lean Improvements

- Automated order processing
- Raw material inventory management

- Integrate quality controls in to production flow
- Improve manufacturing process flow
- Introduction of inventory control system

- Warehousing flexibility
- Automation of product packaging

15 days to <10 days

9 days to <7 days

23 days to <15 days

## Plant-wide improvements:

Total annualised savings of £0.5m identified plus reduction in inventory

## Group Improvements

- Automation of manual processes
- Reconfiguration of production flow to improve efficiency
- Global raw material procurement to leverage economies of scale and warehousing improvements
- Improve our use of flexible workforce to manage production peaks

# 4. We are investing £3m in sales resources, capability building and process improvements

## Process improvement

- Two pilot projects underway in Thermal, and a further pilot to be launched in Electrical Carbon:
  - Daily / weekly sales process
  - Account management
  - Performance management

## Capability building

- Assessments completed for the whole salesforce to enable:
  - Aligning individuals to their optimum roles
  - Training and development of sales personnel
  - Clear definition of roles & responsibilities

## Sales resource

- We are adding additional business development and application engineering resources across:
  - Rail collectors
  - Automotive
  - Fire Protection
- Circa 14 people added to grow our business in these markets



# 6. Portfolio simplification: two divestments announced with gross consideration c.£80m

## 1. Rotary Transfer Systems (Electrical Carbon GBU)

- small player, not scalable
- no synergy with Electrical Carbon
- limited material science content
- stand alone business

## 2. Electro-ceramics (Technical Ceramics GBU)

### UK sale

- eliminates technology risk
- limited synergy with Technical Ceramics
- stand alone business

### US closure

- closing a single site in the US



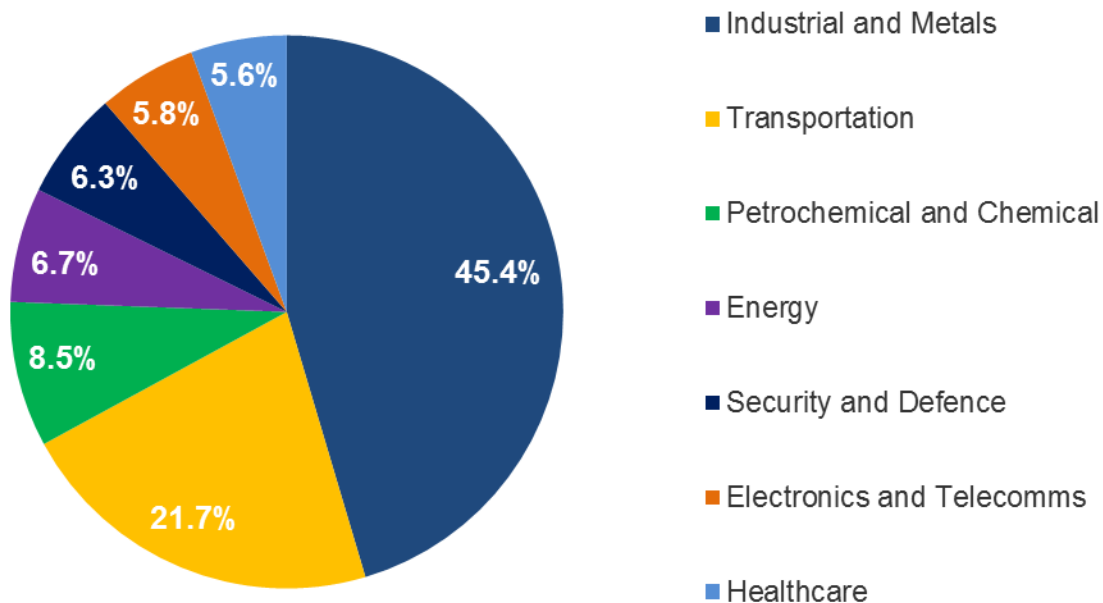
1. Reduces portfolio breadth and complexity
2. Enables streamlining of our cost structure
3. Increases focus on scaling core business
4. Provides proceeds for reinvestment in the core business

# Summary

- Financial performance in line with management expectations
- Strategy implementation on track with two divestments completed and re-investment ahead of plan, good progress on operational improvements
- Refinancing successfully completed
- We continue to take a cautious view on market conditions, focusing on improving efficiency and reinvesting in the business

# Appendix

# End market mix (as a % of revenue)



# Reported statutory figures

	Results before specific adjusting items	Specific adjusting items	Total
	FY 2016 (£m)	FY 2016 (£m)	FY 2016 (£m)
<b>Revenue</b>	<b>989.2</b>	-	<b>989.2</b>
Operating costs before restructuring costs, other one-off items and amortisation / impairment of intangible assets	(871.3)	-	(871.3)
<b>Profit from operations before restructuring costs, other one-off items and amortisation / impairment of intangible assets</b>	<b>117.9</b>	-	<b>117.9</b>
Restructuring costs and other one-off items:	(1.0)	6.8	5.8
<b>Profit from operations before amortisation / impairment of intangible assets</b>	<b>116.9</b>	<b>6.8</b>	<b>123.7</b>
Amortisation of intangible assets	(7.9)	-	(7.9)
Impairment of intangible assets	-	(8.5)	(8.5)
<b>Operating profit</b>	<b>109.0</b>	<b>(1.7)</b>	<b>107.3</b>
Finance income	2.3	-	2.3
Finance expense	(22.3)	-	(22.3)
<b>Net financing costs</b>	<b>(20.0)</b>	-	<b>(20.0)</b>
Share of profit of associate (net of income tax)	0.6	-	0.6
<b>Profit before taxation</b>	<b>89.6</b>	<b>(1.7)</b>	<b>87.9</b>
Income tax expense	(26.6)	(2.8)	(29.4)
<b>Profit for the period</b>	<b>63.0</b>	<b>(4.5)</b>	<b>58.5</b>
Profit for the period attributable to:			
Owners of the parent	56.8	(4.5)	52.3
Non-controlling interests	6.2	-	6.2
<b>Profit for the period</b>	<b>63.0</b>	<b>(4.5)</b>	<b>58.5</b>

# Key exchange rates

GBP to:	FY 2016		FY 2015	
	Closing rate	Average rate	Closing rate	Average rate
USD	1.23	1.35	1.47	1.53
EUR	1.17	1.22	1.36	1.38

## Key exchange rate sensitivities on FY results

Increase in FY revenue / Group EBITA if:

GBP weakens by 10c against the US dollar in isolation

GBP weakens by 10c against the Euro in isolation

## Revenue

£m

+29.0

+20.6

## EBITA

£m

+3.7

+2.8

# Headline EPS

	FY 2016 £m	FY 2015 £m
Basic earnings from continuing operations	52.3	33.9
Amortisation	7.9	7.1
Specific adjusting items	1.7	22.1
Other	2.8	(3.7)
<b>Headline earnings</b>	<b>64.7</b>	<b>59.4</b>
Weighted average number of shares in the period	284.9m	285.1m
Headline earnings per share from continuing operations	22.7p	20.8p

# 2016 Results Presentation

23<sup>rd</sup> February 2017