

# 2017 Interim Results Presentation

28<sup>th</sup> July 2017

# Agenda

- Introduction and key highlights – Pete Raby
- 2017 interim results – Peter Turner
- Operational and strategic update – Pete Raby

# Key highlights

- Financial performance in line with management expectations
- Improving momentum with return to organic growth in 2Q 2017
- Strategy implementation progressing well with focus on increasing investment in technology and sales
- Two divestments completed, reducing complexity and net debt:EBITDA to 1.1x

# 2017 interim results

## Peter Turner

# Group performance summary

	1H 2017 <sup>1</sup>	1H 2016 <sup>1</sup>	% change from 1H 2016	Organic % change from 1H 2016
	£m	£m	As reported	At constant currency
<b>Revenue</b>	<b>518.9</b>	<b>475.4</b>	<b>9.2%</b>	<b>0.2%</b>
<b>Group headline operating profit<sup>2</sup></b>	<b>61.6</b>	<b>55.1</b>	<b>11.8%</b>	<b>1.5%</b>
<i>Group headline operating profit margin %<sup>2</sup></i>	<i>11.9%</i>	<i>11.6%</i>		
<b>Cash flow from operations</b>	<b>51.6</b>	<b>47.5</b>	<b>8.6%</b>	
<b>Free cash flow before acquisitions and dividends</b>	<b>16.8</b>	<b>11.1</b>		
<b>Headline earnings per share</b>	<b>11.6p</b>	<b>10.5p</b>	<b>10.5%</b>	
<b>Interim dividend per share</b>	<b>4.0p</b>	<b>4.0p</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

# Divisional performance

	Revenue (£m)		Headline Operating Profit (£m)		EBITA margin (%)	
	1H 2017	1H 2016	1H 2017	1H 2016	1H 2017	1H 2016
Thermal Ceramics	213.1	193.9	28.6	25.6	13.4%	13.2%
Molten Metal Systems	23.8	20.6	3.6	2.9	15.1%	14.1%
<b>Thermal Products</b>	<b>236.9</b>	<b>214.5</b>	<b>32.2</b>	<b>28.5</b>	<b>13.6%</b>	<b>13.3%</b>
Electrical Carbon	81.3	75.6	8.7	10.3	10.7%	13.6%
Seals and Bearings	55.9	47.6	9.1	6.6	16.3%	13.9%
Technical Ceramics	133.2	121.8	14.9	12.8	11.2%	10.5%
<b>Carbon and Technical Ceramics</b>	<b>270.4</b>	<b>245.0</b>	<b>32.7</b>	<b>29.7</b>	<b>12.1%</b>	<b>12.1%</b>
<b>Composites and Defence Systems</b>	<b>11.6</b>	<b>15.9</b>	<b>(0.4)</b>	<b>1.1</b>	<b>(3.4)%</b>	<b>6.9%</b>
<b>Corporate costs</b>			<b>(2.9)</b>	<b>(2.7)</b>		
<b>Restructuring Costs</b>			<b>-</b>	<b>(1.5)</b>		
<b>Group</b>	<b>518.9</b>	<b>475.4</b>	<b>61.6</b>	<b>55.1</b>	<b>11.9%</b>	<b>11.6%</b>

# Cash flow summary

	1H 2017 £m	1H 2016 £m
EBITDA	77.3	70.7
Change in working capital	(18.4)	(16.3)
Change in provisions & other	(7.3)	(6.9)
<b>Cash flow from operations</b>	<b>51.6</b>	<b>47.5</b>
Net capital expenditure	(13.9)	(17.7)
Net interest paid	(8.3)	(6.2)
Tax paid on ordinary activities	(12.0)	(8.3)
Restructuring costs and other one-off items	(0.6)	(4.2)
<b>Free cash flow before acquisitions and dividends</b>	<b>16.8</b>	<b>11.1</b>
Dividends paid	(20.0)	(20.0)
Cash flows from disposals and other investing and financing	75.4	(1.4)
Exchange movement	1.7	(15.3)
Opening net debt	(242.5)	(216.0)
<b>Closing net debt</b>	<b>(168.6)</b>	<b>(241.6)</b>

- Closing net debt significantly lower than prior year due to disposal proceeds
- Net debt:EBITDA at 1.1x (FY 2016: 1.6x)

# Pensions update

## Deficit movement since 31 Dec 2016 (£m)

<b>Deficit at 31 December 2016</b>	<b>(271)</b>
Foreign exchange	1
Return on assets	12
Contributions (net of service costs)	4
Disposal of Rotary Transfer Systems liability	2
Actuarial losses on liabilities	(7)
<b>Deficit at 30 June 2017</b>	<b>(259)</b>

£m	30 June 2017	31 December 2016	30 June 2016
Assets	531	524	530
Liabilities	(790)	(795)	(802)
<b>Deficit</b>	<b>(259)</b>	<b>(271)</b>	<b>(271)</b>
<i>UK bond yields</i>	2.6%	2.6%	2.8%
<i>US bond yields</i>	3.9%	4.2%	3.8%



# FY17 Guidance – financial items

Headline tax rate	c. 30%	
Interest charge (at half year 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

# Operational and strategic update

## Pete Raby

# Thermal Ceramics: performance summary

£m	1H 2017	1H 2016	% change from 1H 2016 As reported	Organic % change from 1H At constant currency
Revenue	213.1	193.9	9.9%	-1.8%
EBITA	28.6	25.6	11.7%	-2.0%
EBITA margin %	13.4%	13.2%		

## Performance commentary

- Strong growth in China and India
- North America and Europe stabilised but at lower levels than prior year
- Margin improvement driven by operational efficiencies and cost control

## Strategic focus

- Growth in automotive and passive fire protection
- Further Superwool® conversion
- Investment in sales and new product development to support growth
- Operational efficiency funding re-investment

## Main markets

- Industrial
- Chemical and petrochemical
- Metals
- Automotive

# Molten Metal Systems: performance summary

£m	1H 2017	1H 2016	% change from 1H 2016 As reported	Organic % change from 1H At constant currency
Revenue	23.8	20.6	15.5%	2.4%
EBITA	3.6	2.9	24.1%	10.3%
EBITA margin %	15.1%	14.1%		

## Performance commentary

- Modest growth across most markets
- Return to growth in China
- Margin growth driven by increased volume and operational improvements

## Strategic focus

- Sales effectiveness remains a priority, including focus on value selling and distribution in key growth markets
- Ongoing operational improvements funding R&D and sales effectiveness

## Main markets

- Automotive (aluminium)
- Construction (copper)

# Electrical Carbon: performance summary

£m	1H 2017	1H 2016	% change from 1H 2016 As reported	Organic % change from 1H At constant currency
Revenue	81.3	75.6	7.5%	1.1%
EBITA	8.7	10.3	-15.5%	-21.4%
EBITA margin %	10.7%	13.6%		

## Performance commentary

- Growth in China and Europe
- North America reflected modest decline against prior year
- Margin decline from a continuation of the adverse mix seen in 2H 2016 and dilution from the divestment of the Rotary Transfer Systems business

## Strategic focus

- Growth opportunities in transport and wind markets
- Development and introduction of new products through the Carbon Science Centre of Excellence
- Further operational and production efficiency needed to improve margins

## Main markets

- Rail
- Industrial drives
- Power generation
- Mining
- Wind

# Seals and Bearings: performance summary

£m	1H 2017	1H 2016	% change from 1H 2016 As reported	Organic % change from 1H At constant currency
Revenue	55.9	47.6	17.4%	7.6%
EBITA	9.1	6.6	37.9%	25.8%
EBITA margin %	16.3%	13.9%		

## Performance commentary

- Growth in sales to aerospace, oil and gas and water markets have offset declines in Korean automotive market
- Margins improving as a result of operational efficiency and volume increases

## Strategic focus

- Growth opportunities targeted in automotive, aerospace and consumer appliances
- Carbon Science Centre of Excellence to build our technical differentiation

## Main markets

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

# Technical Ceramics: performance summary

£m	1H 2017	1H 2016	% change from 1H 2016 As reported	Organic % change from 1H At constant currency
Revenue	133.2	121.8	9.4%	3.3%
EBITA	14.9	12.8	16.4%	13.3%
EBITA margin %	11.2%	10.5%		

## Performance commentary

- Improving revenue in the aerospace and semiconductor markets
- Improving profit margins from operational execution have offset the impacts of divestment

## Strategic focus

- Growth opportunities in aerospace, medical and semiconductor
- Increasing R&D investment
- Improving sales effectiveness, especially key account management
- Improving yields and reducing scrap

## Main markets

- Aerospace
- Medical
- Industrial
- Energy
- Electronics

# Composites and Defence Systems: performance summary

£m	1H 2017	1H 2016	% change from 1H 2016 As reported	Organic % change from 1H At constant currency
Revenue	11.6	15.9	-27.0%	-27.7%
EBITA	(0.4)	1.1		-136.4%
EBITA margin %	-3.4%	6.9%		

## Performance commentary

- Defence markets remain relatively subdued
- Margin decline due to the Danish vehicle programme which ended during 2016 and loss of contribution from declining sales

## Strategic focus

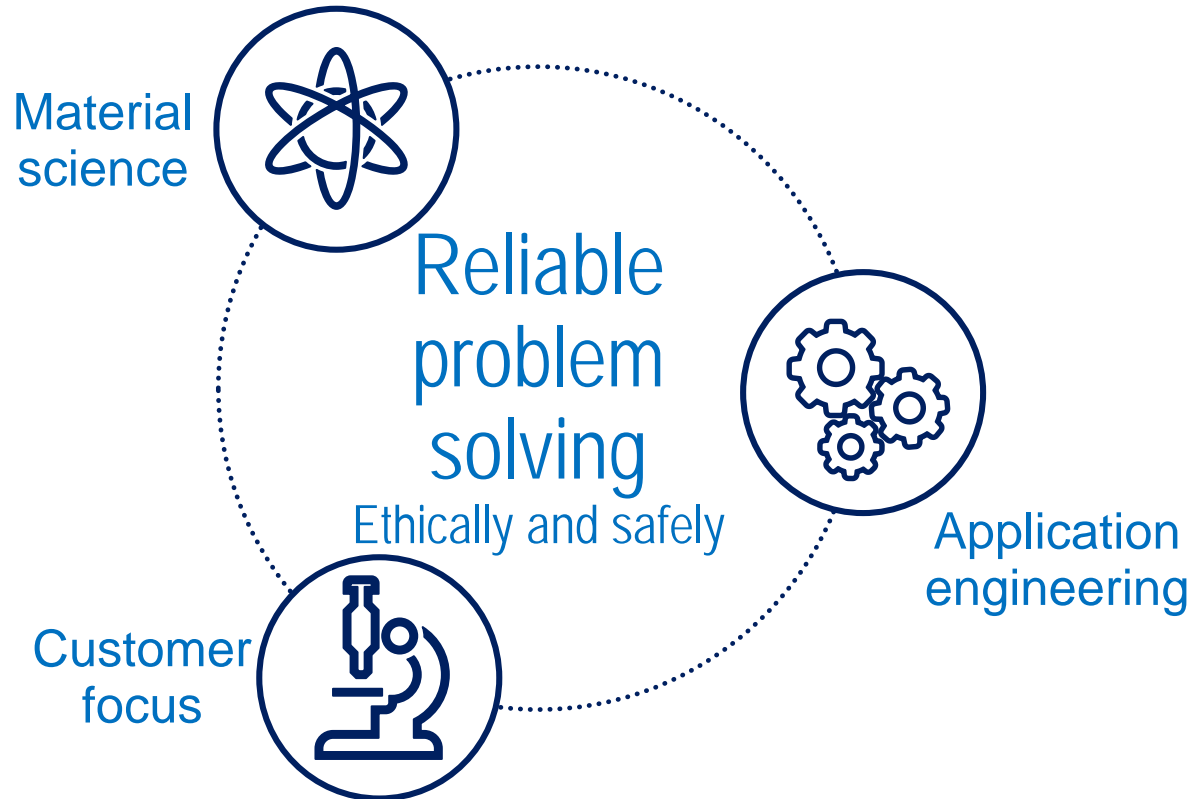
- New product development and introduction
- Sales effectiveness and diversification of customer base
- Operational improvements to support margins at lower volume levels

## Main markets

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



# 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

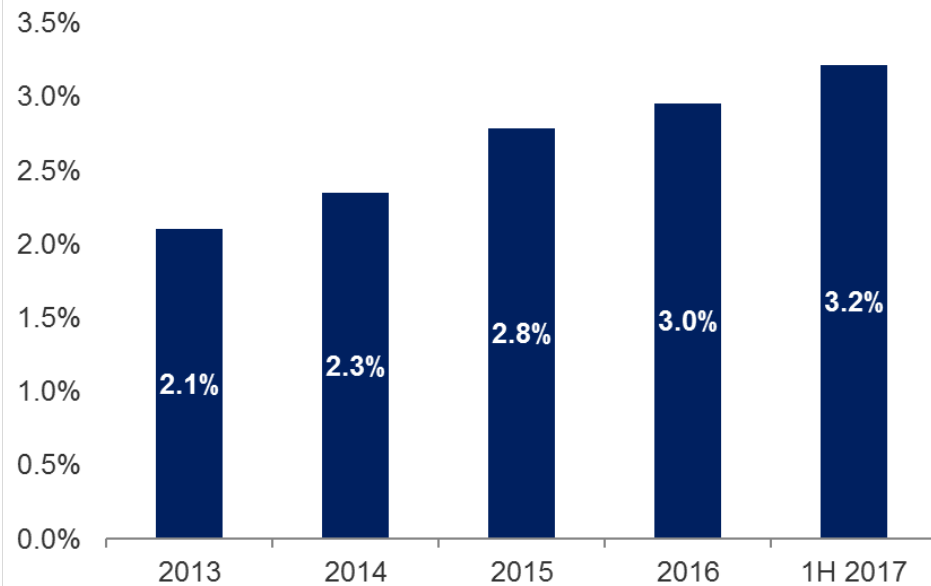
5. Increase investment in people management and development

6. Simplify the business

*Execution priorities highlighted in blue will be covered in following slides*

## 2. Technology investment on track

### R&D as a percentage of sales, 2013-2017 1H

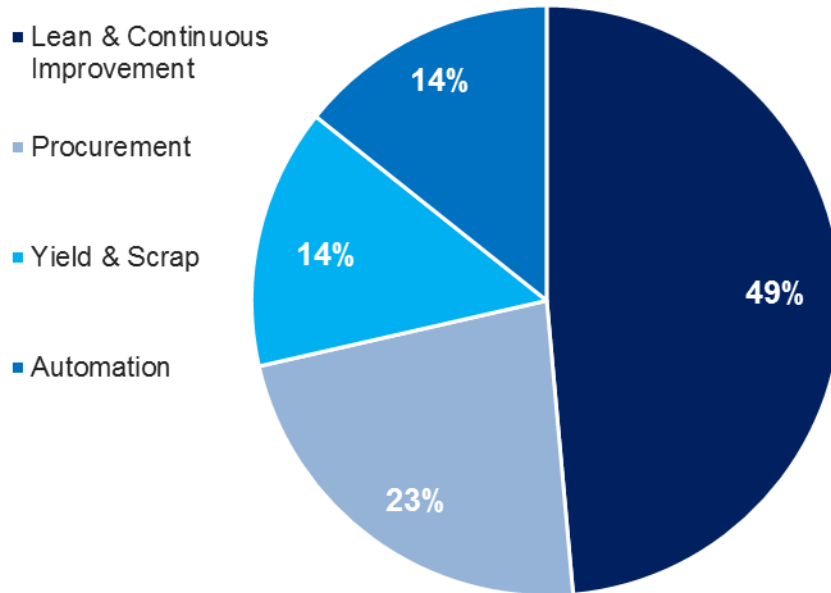


**In the next 2-4 years we plan to increase R&D investment towards 4%**

- Investment in R&D increased to 3.2% of sales
- Materials development activity now focused through four centres of excellence:
  - Fibre
  - Structural Ceramics
  - Carbon Science
  - Metals & Joining
- We are on track with the incremental investment in 2017, funded through operational improvements

# 3. Operational improvements funding investment in technology and sales

## Net operational efficiencies



**£3.5m operational efficiencies delivered**

**On track to deliver £6m for the full year**

## Key areas of focus

**Lean & Continuous Improvement:** Lean programme in Thermal Ceramics and site by site Continuous Improvement programmes across the business

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

**Automation:** increasing production automation across Thermal Ceramics, Electrical Carbon, Technical Ceramics and Seals & Bearings

**Procurement:** global focus on reducing raw material spend and maintenance services in Thermal Ceramics and Molten Metal Systems

# 3. Significant Savings Potential Identified Through Procurement of Packaging

## Current state

Total spend £10m p.a.

>120 suppliers globally

Packaging specified by individual sites with limited standardisation or use of best practice



## Key Improvement Levers

Re-tender existing packaging requirements

Standardise packaging and optimise specifications

Develop new packaging concepts leveraging best practice from other industries

Forecast savings 15% delivered over 2 years



# 4. We are focused on long term capability building in the sales teams

## Capability building

- Sales teams being reconfigured following assessment activity
  - Right people in right roles
  - Right mix of sales & business development

## Process improvement

- Two pilot projects complete in Thermal, long term implementation under way
  - China sales effectiveness
  - Global automotive sales
- Three further projects launching in 3Q/4Q in Thermal, Electrical Carbon and Seals & Bearings focused on pricing, value selling, segmentation and sales process

## Sales incentives

- Implementing redesigned sales incentives for the Thermal China sales team for the start of 2018
  - Follows the work to segment customers, align the sales team and strengthen processes

## 5. We are strengthening our talent management

- Head of talent recruited to focus on capability, development and succession
- HR capability being strengthened across the business
- Leadership behaviours defined, and implementation started, to support strategy implementation
- Development activity underway for senior leaders

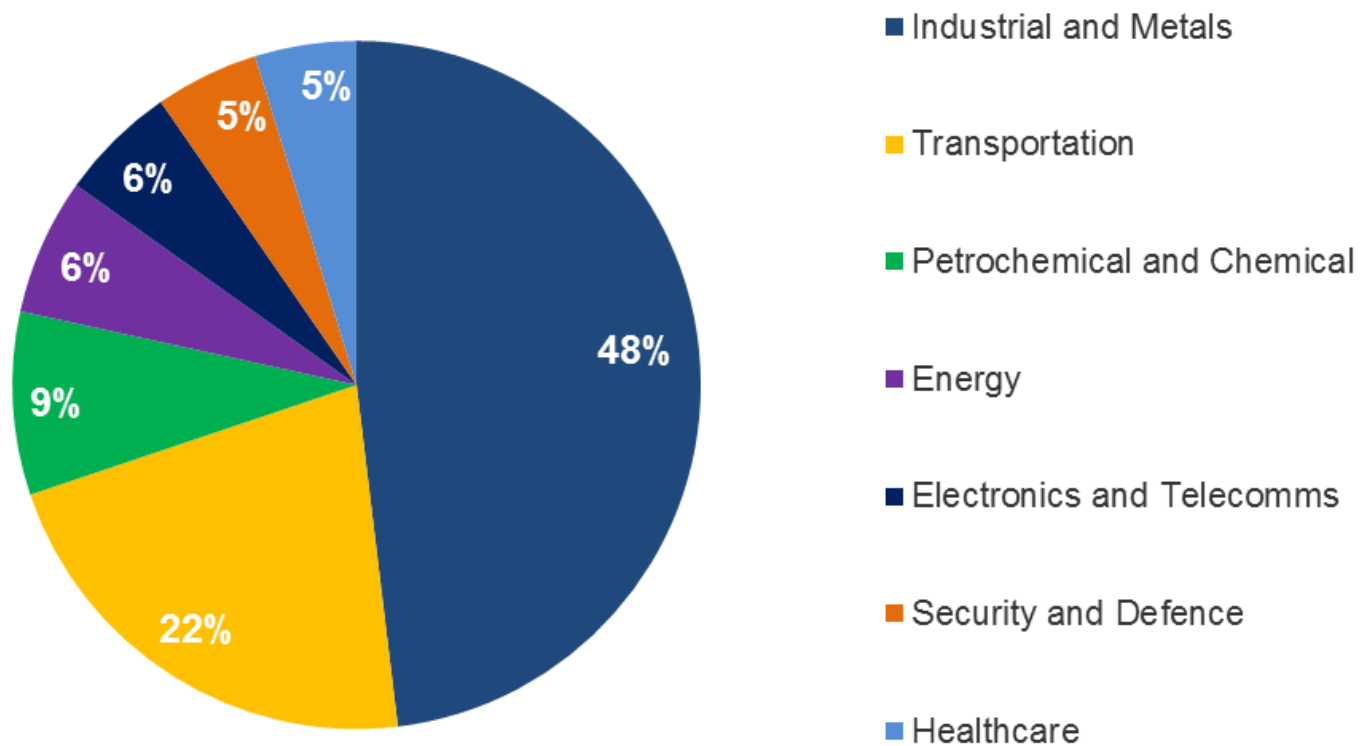
# Summary

- Financial performance in line with management expectations
- Improving momentum, return to organic growth in 2Q 2017
- Strategy implementation progressing well with focus on investment in technology and sales
- Balance sheet strengthened following the divestments



# Appendix

# End market mix (as a % of revenue)



# Reported statutory figures

	Results before specific adjusting items	Specific adjusting items	Total
	1H 2017 (£m)	1H 2017 (£m)	1H 2017 (£m)
<b>Revenue</b>	<b>518.9</b>		<b>518.9</b>
Operating costs before restructuring costs, other one-off items and amortisation / impairment of intangible assets	(457.3)	-	(457.3)
<b>Profit from operations before restructuring costs, other one-off items and amortisation / impairment of intangible assets</b>	<b>61.6</b>	-	<b>61.6</b>
Restructuring costs and other one-off items:	-	-	-
<b>Profit from operations before amortisation / impairment of intangible assets</b>	<b>61.6</b>	-	<b>61.6</b>
Amortisation of intangible assets	(3.6)	-	(3.6)
Impairment of intangible assets	-	-	-
<b>Operating profit</b>	<b>58.0</b>	-	<b>58.0</b>
Finance income	0.9	-	0.9
Finance expense	(12.7)	-	(12.7)
<b>Net financing costs</b>	<b>(11.8)</b>	-	<b>(11.8)</b>
Net profit / (loss) on disposal of businesses	-	46.1	46.1
Share of profit of associate (net of income tax)	-	-	-
<b>Profit before taxation</b>	<b>46.2</b>	<b>46.1</b>	<b>92.3</b>
Income tax expense	(13.8)	1.3	(12.5)
<b>Profit for the period</b>	<b>32.4</b>	<b>47.4</b>	<b>79.8</b>
Profit for the period attributable to:			
Owners of the parent	29.5	47.4	76.9
Non-controlling interests	2.9	-	2.9
<b>Profit for the period</b>	<b>32.4</b>	<b>47.4</b>	<b>79.8</b>

# Key exchange rates

GBP to:	1H 2017		1H 2016	
	Closing rate	Average rate	Closing rate	Average rate
USD	1.30	1.26	1.33	1.43
EUR	1.14	1.16	1.20	1.28

## Key exchange rate sensitivities on interim results

Increase in half year 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

+18.4

+10.4

## EBITA

£m

+2.6

+2.0

# Headline EPS

	1H 2017 £m	1H 2016 £m
Basic earnings from continuing operations	76.9	29.0
Amortisation	3.6	3.3
Specific adjusting items	(46.1)	(3.8)
Other	(1.3)	1.5
<b>Headline earnings</b>	<b>33.1</b>	<b>30.0</b>
Weighted average number of shares in the period	284.9m	284.8m
Headline earnings per share from continuing operations	11.6p	10.5p

# 2017 Interim Results Presentation

28<sup>th</sup> July 2017