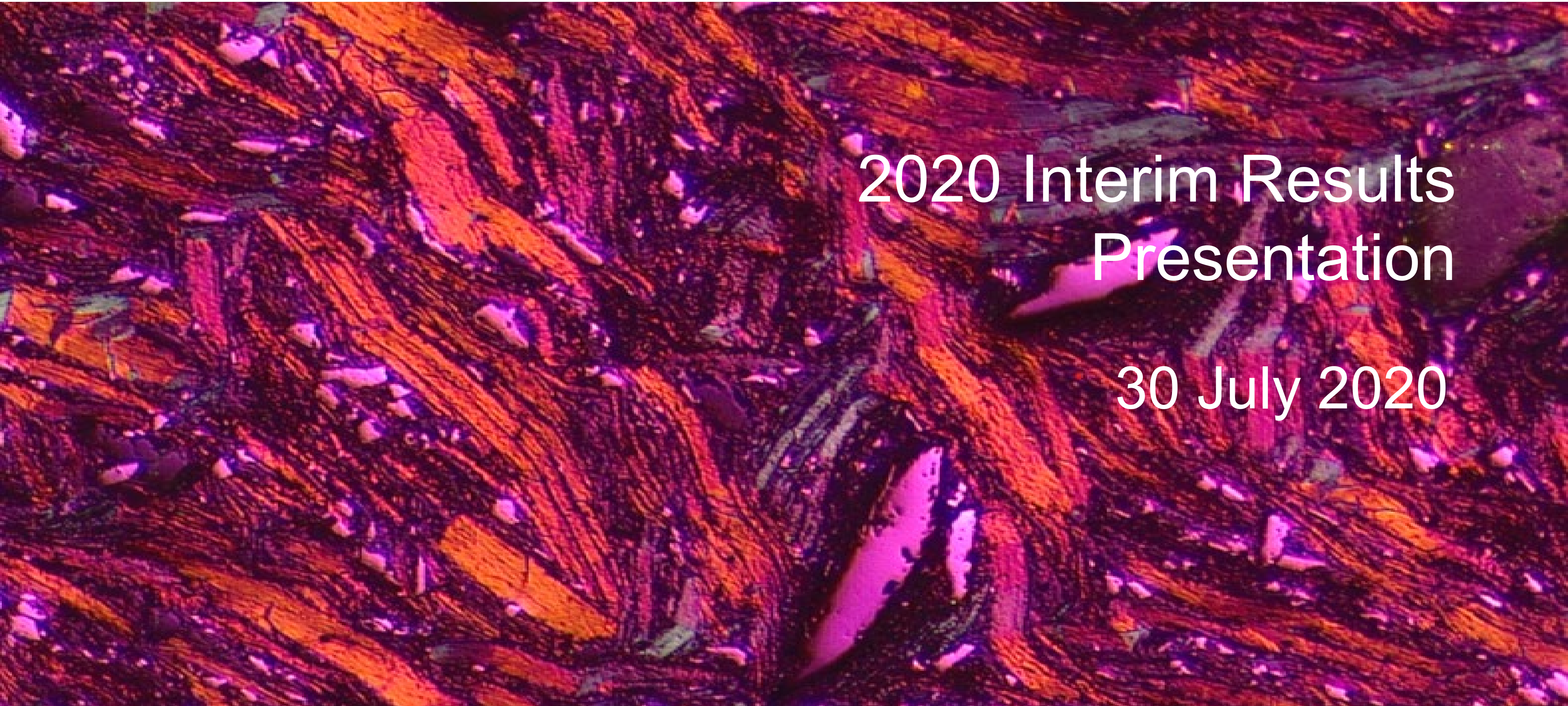
Morgan Advanced Materials

Advancing Materials Science



2020 Interim Results Presentation

30 July 2020

Agenda

- Introduction and summary – Pete Raby
- 2020 Interim results – Peter Turner
- Operational and strategic update – Pete Raby

Our Covid-19 response: clear priorities

Keeping our people safe	The safety of our people is our priority. In all of our manufacturing sites, we have changed our way of working to keep our people safe by introducing social distancing and hygiene measures as well as additional PPE where appropriate. We have enabled flexible working from home for all roles that can do so and will maintain all necessary measures to keep our people safe as the pandemic continues to evolve.
Supplying customers in essential sectors	We have continued supplying our key customers operating in essential sectors, such as in the healthcare and power generation industries, with our products during the pandemic, thereby supporting the UN sustainable development goals.
Plant shutdowns	We closed manufacturing plants in China, Mexico, India, South Africa and Italy for periods of time, in line with national and local government guidance. All plants are currently operational.

Summary

- Trading has been resilient with revenue decline of 8.8% on an organic constant-currency basis demonstrating the benefits of our diverse end-market segments.
- Growth in healthcare and defence segments offset by declines in other end-market segments.
- Group headline operating profit margin held at 11.1%, demonstrating the impact of our rapid cost management actions.
- Free cash flow improved to £26.4m to give a net debt to EBITDA position of 1.0 times, excluding lease liabilities, reflecting the decisive action we have taken to maintain good liquidity.
- Restructuring actions accelerated to position the business for a period of lower demand, targeting annual cost savings of £20m by 2022 for a cash cost of £30m.

2020 Interim results
Peter Turner

Group performance

£m	1H 2020	1H 2019	% change from 1H 2019	
			As reported	At organic constant-currency
Revenue	477.8	525.8	(9.1%)	(8.8%)
Group headline operating profit[1]	52.9	67.4	(21.5%)	(19.8%)
Group headline operating profit margin % [1]	*11.1%*	*12.8%*		
ROIC (excluding IFRS 16 Leases) %	*16.5%*	*18.1%*		
ROIC %	*15.6%*	*17.6%*		
Cash generated from continuing operations	59.0	61.1	(3.4%)	
Free cash flow before acquisitions, disposals and dividends[2]	26.4	8.4		
Headline earnings per share	11.5p	13.8p	(16.7%)	
Interim dividend per share	-	4.0p		

1 Group headline operating profit is before specific adjusting items and amortisation of intangible assets.
2 Free cash flow before acquisitions, disposals and dividends is re-presented for 1H 2019 to include lease payments and proceeds from the sale of property, plant and equipment within its definition.

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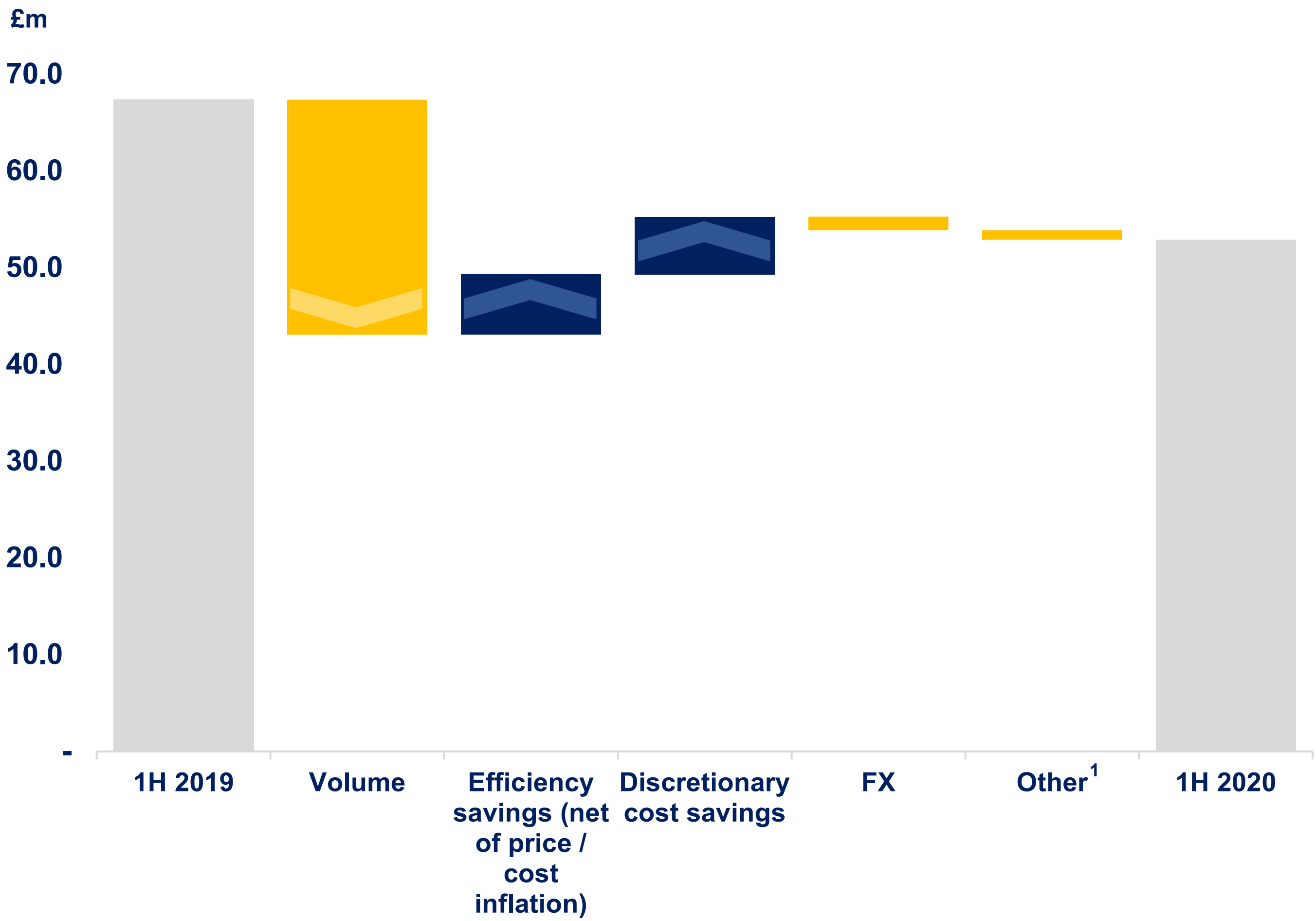
Group headline operating profit bridge



- Volume decline significantly impacted margin performance
- Continuous improvement target for the first half achieved despite disruption and lower activity levels
- Significant reductions in discretionary spend

1 Other comprises £1.5m of insurance receipts in Electrical Carbon and £2.5m of expected credit losses in Thermal Ceramics.

Emerging stronger: Group restructuring and efficiency programme

The Group restructuring and efficiency programme accelerates our existing plans to further simplify our structure, drive efficiency in our operations and align our capacity with the anticipated lower demand levels across the business:

- Closure of Technical Ceramics ceramic cores manufacturing sites in response to significant downturn in aerospace demand
- Closure of sites and under-utilised production lines in Thermal Ceramics to align our capacity to lower industrial and automotive demand
- Restructuring other roles across the Group to align our cost base to the lower overall demand position

These actions will further reduce costs by a targeted £20m per annum by 2022, with an anticipated cash cost of £30m to deliver these savings:

£m	FY2020	FY2021	FY2022	Total
Headline operating profit[1] benefits (incremental)	5	14	20	-
Cash cost to specific adjusting items	(15)	(14)	(1)	(30)

1 Headline operating profit is before specific adjusting items and amortisation of intangible assets.

Group performance: specific adjusting items

- Specific adjusting items were £68.9m (1H 2019: £nil)
- Redundancies and other initial costs of our restructuring programme were £5.5m
- Impairment losses of £63.4m were recognised in relation to:
  - Ceramic cores in Technical Ceramics
  - Closure of sites and under-utilised product lines and impairment of intangible assets in Thermal Ceramics

£m		1H 2020
Restructuring costs		(5.5)
Impairment of assets		(63.4)
Technical Ceramics	*(29.6)*	
Thermal Ceramics	*(33.8)*	
Total specific adjusting items		**(68.9)**

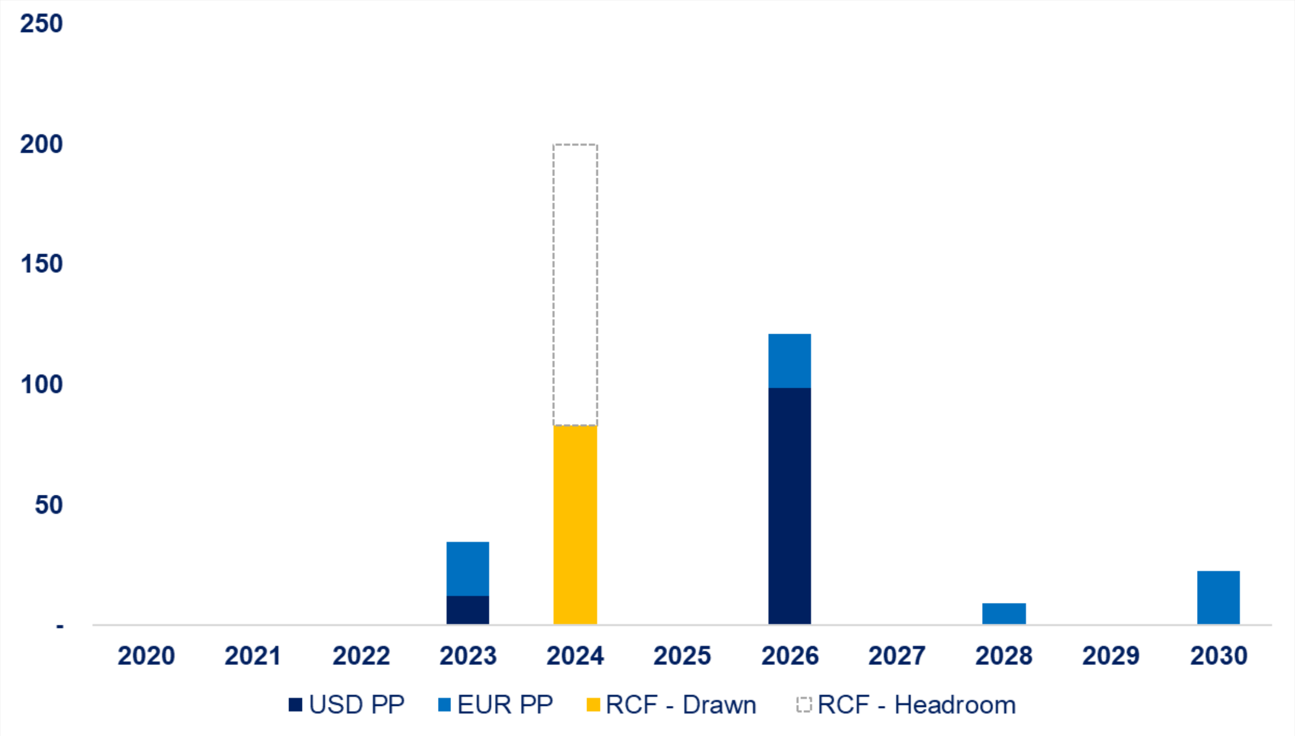
Cash flow summary

£m	1H 2020	1H 2019
EBITDA	75.3	88.0
Change in working capital	(4.4)	(20.2)
Change in provisions and other	(11.9)	(6.7)
Cash generated from continuing operations	**59.0**	**61.1**
Net capital expenditure	(15.8)	(27.9)
Net interest	(3.2)	(4.6)
Tax paid	(7.0)	(14.4)
Lease payments	(6.6)	(5.8)
Free cash flow before acquisitions, disposals and dividends	**26.4**	**8.4**
Dividends paid to external plc shareholders	-	(19.9)
Net cash flows from other investing and financing activities	(7.2)	(3.0)
Net cash flows from divestments and discontinued operations	(0.1)	0.3
Exchange movement and other non-cash movements	(10.6)	0.1
Opening net debt excluding lease liabilities	(156.8)	(179.8)
Closing net debt excluding lease liabilities	**(148.3)**	**(193.9)**
Closing lease liabilities	(63.5)	(69.0)
Closing net debt	**(211.8)**	**(262.9)**

- Improvement in working capital efficiency, especially debtors
- Free cash flow of £26.4m as a result of significant reduction in capex, lower net interest and tax paid
- Lease liabilities of £63.5m
- Net debt excluding lease liabilities of £148.3m

Significant liquidity and robust maturity profile

Facilities maturity profile



£m	1H 2020
Borrowings	271.0
Cash	(122.7)
Net debt excluding lease liabilities	**148.3**

Headroom on our banking covenants

- Net debt to EBITDA excluding lease liabilities 1.0x (FY2019: 1.0x) compared to a covenant not to exceed 3.0x

Significant liquidity

- Undrawn RCF headroom of £117m plus available cash of £122.7m
- Confirmed as eligible issuer under UK Governments' CCFF scheme with facility limit of £300m

Average cost of fixed rate debt = 2.90%

All figures are shown on a pre-IFRS16 basis to align more closely to banking covenants.

Pensions update

Deficit movement since 31 December 2019 (£m)	
Deficit at 31 December 2019	**(157)**
Return on assets	46
Contributions (net of service/finance costs)	7
Actuarial loss on liabilities	(58)
Currency adjustment	(3)
Deficit at 30 June 2020	**(165)**

£m	**30 June 2020**	**31 December 2019**	**31 December 2018**
Equities and growth assets	*163*	*153*	*106*
Bonds and LDI	*288*	*252*	*256*
Annuities	*171*	*168*	*175*
Other	*9*	*5*	*7*
Total assets	631	578	544
Liabilities	(796)	(735)	(734)
Deficit	**(165)**	**(157)**	**(190)**
UK discount rate	*1.47%*	*2.06%*	*2.74%*
US discount rate	*2.58%*	*3.21%*	*4.34%*
Europe discount rate	*0.90%*	*0.90%*	*1.70%*

FY20 financial framework

Headline tax rate	27%
Net finance charge: Interest charge (c. £7.0m) IAS 19 pensions net interest charge (c. £3.0m) IFRS 16 lease interest (c. £3.5m)	c. £13.5m
Funded pension scheme contributions	c. £21.0m
Foreign currency impacts	*see slide 31*
Portfolio impacts	
Capital expenditure	c. £30.0m

Operational and strategic update

Pete Raby

Growth in healthcare and chemical and petrochemical segments offset by decline in more traditional end-market segments

Organic % change at constant-currency

Segment	1H20 vs 1H19	2Q20 vs 2Q19	% of Group revenue	
Industrial	(18%)	(22%)	41%	• Volumes down across all regions with largest decline in North America
Transportation	(20%)	(34%)	18%	• Decline in aerospace in Technical Ceramics and Seals and Bearings as well as automotive in Thermal Ceramics
Chemical and petrochemical	15%	4%	12%	• Growth driven by Thermal Ceramics project activity in Asia and North America
Security and defence	45%	40%	11%	• Growth in Seals & Bearings ceramic armour sales and Technical Ceramics in North America
Semiconductor and electronics	(7%)	(8%)	7%	• Growth in Electrical Carbon Asia offset by decline in Technical Ceramics
Healthcare	12%	13%	6%	• Growth in Technical Ceramics and Seals and Bearings
Energy	(16%)	(14%)	5%	• Decline in renewable energy and power generation industry, particularly in Asia

Thermal Ceramics performance summary

£m	1H 2020	1H 2019	% change from 1H 2019	
			As reported	At organic constant-currency
Revenue	175.3	207.8	(15.6%)	(13.9%)
Headline operating profit	13.5	25.7	(47.5%)	(43.8%)
Headline operating profit margin %	*7.7%*	*12.4%*		

Performance commentary

- Revenue declined in the automotive, metals and industrial market segments and impacted by some temporary plant closures
- Strong growth in insulation projects for the chemical and petrochemical market segment, primarily in Asia and North America
- Overheads cost reductions partially mitigated lower volumes
- Margin decline included a prospective £2.5m credit loss

Molten Metal Systems performance summary

£m	1H 2020	1H 2019	% change from 1H 2019 As reported	% change from 1H 2019 At organic constant-currency
Revenue	20.4	24.7	(17.4%)	(15.7%)
Headline operating profit	1.7	2.7	(37.0%)	(34.6%)
Headline operating profit margin %	*8.3%*	*10.9%*		

Performance commentary

- Revenue decline resulting from reduced global demand within the aluminium and precious metals market segments and impacted by some temporary plant closures
- Margin decline partially offset by cost control measures

Electrical Carbon performance summary

£m	1H 2020	1H 2019	% change from 1H 2019	
			As reported	At organic constant-currency
Revenue	77.7	85.4	(9.0%)	(8.4%)
Headline operating profit	12.5	11.1	12.6%	15.7%
Headline operating profit margin %	*16.1%*	*13.0%*		

Performance commentary

- Revenues declined sharply in core industrial and transportation market segments, particularly in North America, and impacted by some temporary plant closures
- Strong growth in the semiconductor market segment
- Margin improvement driven by strong operational efficiencies and cost reduction actions along with one-off insurance receipts of £1.5m more than offsetting the impact of lower volume

Seals and Bearings performance summary

£m	1H 2020	1H 2019	% change from 1H 2019	
			As reported	At organic constant-currency
Revenue	77.6	71.1	9.1%	7.6%
Headline operating profit	15.5	13.4	15.7%	13.1%
Headline operating profit margin %	*20.0%*	*18.8%*		

Performance commentary

- Growth in armour and healthcare market segments partially offset by declines in industrial, aerospace and automotive industries:
  - Ceramic armour increased to £25m in the first half (1H 2019: £15m)
  - Growth in North America healthcare market segment offset by declines in aerospace and industrial market segments
  - Automotive revenue declined primarily in Asia
- Margin improvement driven by drop through on higher revenue and cost reduction actions

Technical Ceramics performance summary

£m	1H 2020	1H 2019	% change from 1H 2019	
			As reported	At organic constant-currency
Revenue	126.8	136.8	(7.3%)	(8.9%)
Headline operating profit	12.2	17.5	(30.3%)	(31.8%)
Headline operating profit margin %	*9.6%*	*12.8%*		

Performance commentary

- Significant downturn in ceramic cores in the commercial aerospace market as well as lower demand in the renewable energy and industrial market segments
- Growth in the healthcare and defence market segments
- Margin decline from lower volumes partially offset by cost efficiency actions
- Continuing investment in projects to support future growth in the semiconductor market segment

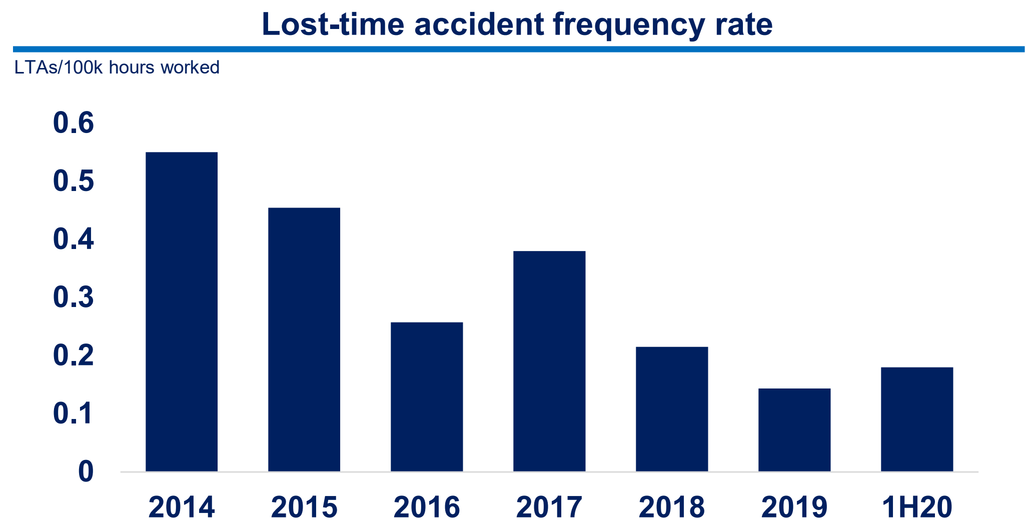
Our purpose

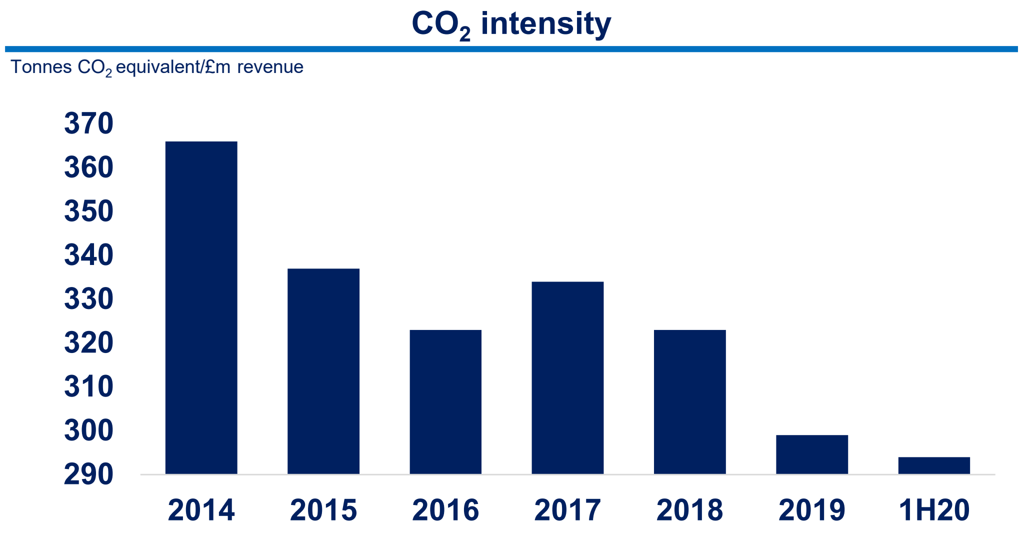
Our purpose is to use advanced materials to help make more efficient use of the world’s resources and to improve the quality of life

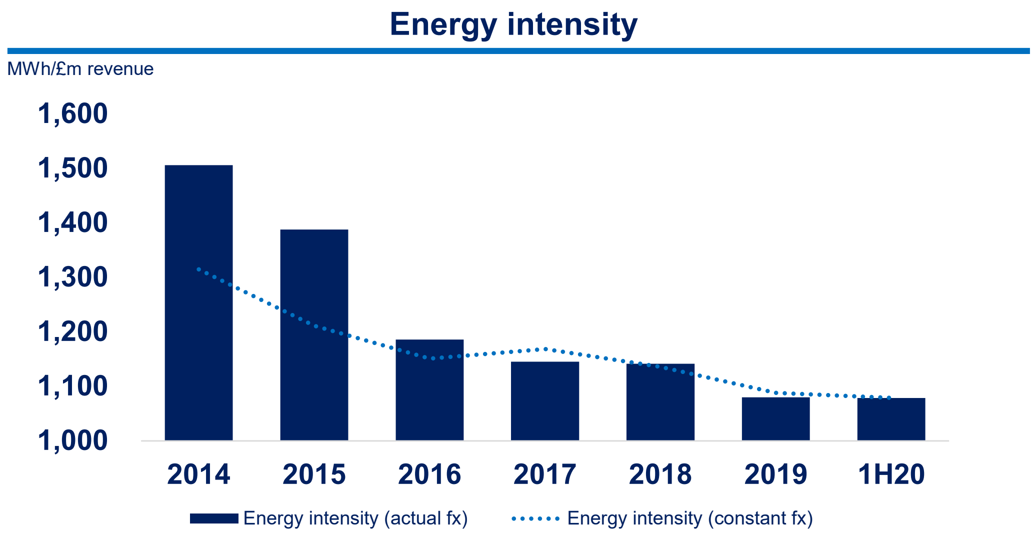
- We help to keep people safe
- We improve quality of life through medical applications
- We enable greener electricity generation
- We enable the digital world, and all the benefits to the environment and health that brings
- We enable electrification for cleaner public transport
- We help our customers manage heat, reducing their energy usage

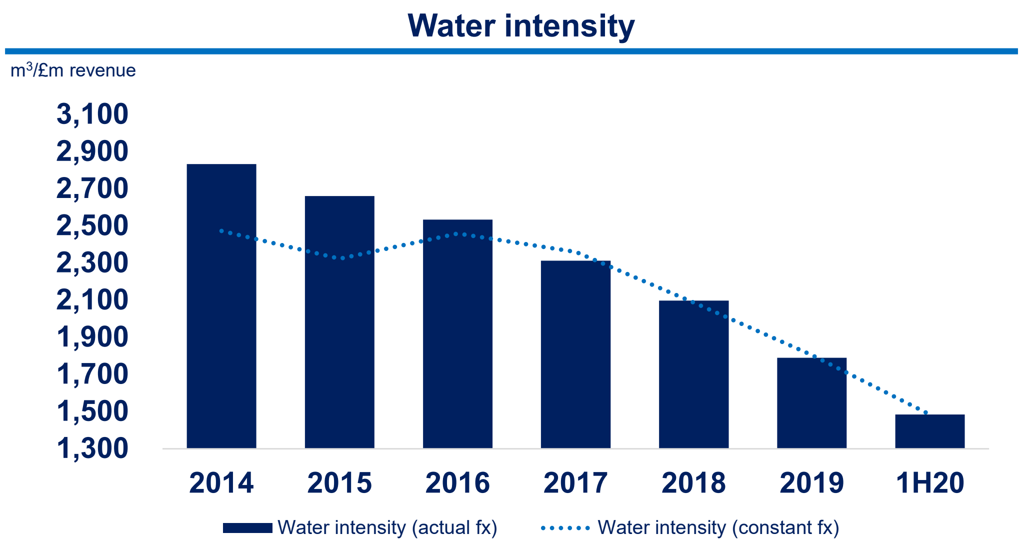
UN sustainable development goals

Improving our performance and reducing our impact



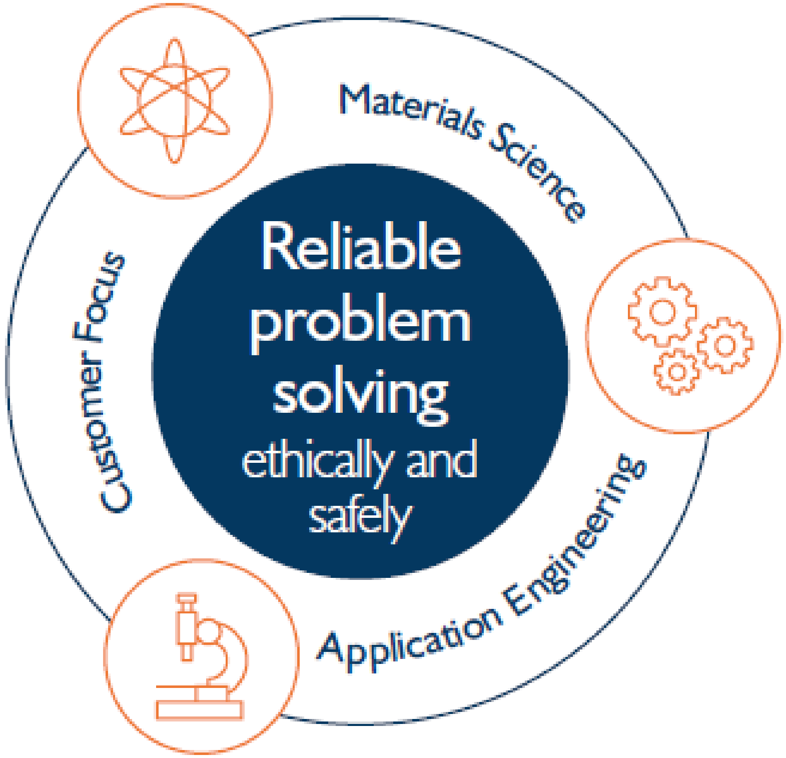






Our strategy for growth

We have a strategy to ensure we are the leaders in our field, with the customer and materials insight to apply our capabilities quickly and effectively



We apply these skills to a portfolio of businesses where:

- Our technical expertise and differentiation is valued
- We can operate on a global scale
- We are scalable
- Market segments are growing and we have room to grow

Strengthening the Group to deliver resilient financial performance and faster growth

Execution priorities

Drive sales effectiveness and market focus	Embedding changes we have made over the last three years across the organisation, including refining our pricing tools; completing the remaining training and deploying upgrades to our customer relationship management system.
Extend our technology leadership	Continued investment in the development of new materials and manufacturing processes further strengthening our technical capability and technology leadership.
Increase investment in people management and development	Continue to build our leadership teams and develop our future leaders through transition of our face-to-face training programmes to virtual training.
Improve operational execution	Continue with improvement projects tailored to each business unit and accelerate Group restructuring programme to drive savings to offset profitability pressure from volume decline and inflation.

Outlook

- Markets in North America and Europe were depressed through Q2, with Asia recovering
- Order intake in April and May was volatile and around 30% down on the prior year
- In June and July this improved slightly with orders still volatile and down around 20% on the prior year
- Given these trends we expect a continued revenue decline in Q3
- With considerable uncertainty around the virus and the impact on demand we are not in a position to provide full year guidance at this point

Summary

- The safety of our people is our priority and we have measures in place in all our facilities to ensure social distancing and appropriate hygiene and disinfection during the pandemic.
- Trading has been resilient with revenue decline of 8.8% on an organic constant-currency basis demonstrating the benefits of our diverse end-market segments.
- Growth in healthcare and defence segments offset by declines in other end-market segments.
- Group headline operating profit margin held at 11.1%, demonstrating the impact of our rapid cost management actions.
- Free cash flow improved to £26.4m to give a net debt to EBITDA position of 1.0 times, excluding lease liabilities, reflecting the decisive action we have taken to maintain good liquidity.
- Restructuring actions accelerated to position the business for a period of lower demand, targeting annual cost savings of £20m by 2022 for a cash cost of £30m.

Appendix

End-market mix (as a % of revenue)

Main markets by GBU

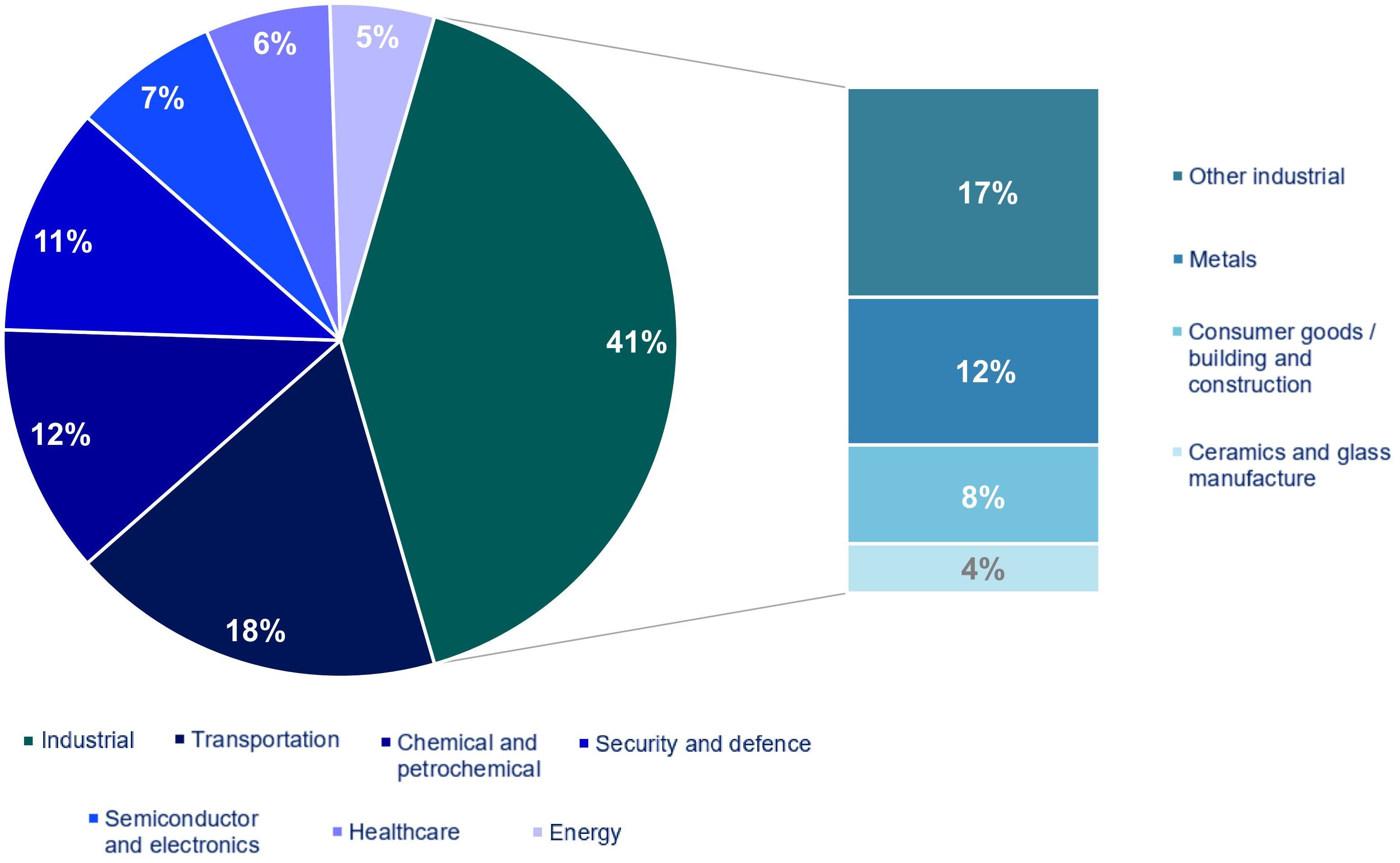
Thermal Ceramics:
Industrial, Chemical and petrochemical, Metals, Automotive

MMS:
Aluminium (automotive), Copper (construction), Precious metals

Electrical Carbon:
Rail, Industrial equipment, Power generation, Electronics and semiconductor

Seals and Bearings:
Petrochemical, Pumps, Aerospace, Automotive, Home appliances

Technical Ceramics:
Industrial equipment, Electronics, Aerospace, Healthcare, Energy



Divisional performance

	Revenue £m		Headline operating profit[1] £m		Headline operating profit[1] margin %	
	1H 2020	1H 2019	1H 2020	1H 2019	1H 2020	1H 2019
Thermal Ceramics	175.3	207.8	13.5	25.7	7.7%	12.4%
Molten Metal Systems	20.4	24.7	1.7	2.7	8.3%	10.9%
Thermal Products division	**195.7**	**232.5**	**15.2**	**28.4**	**7.8%**	**12.2%**
Electrical Carbon	77.7	85.4	12.5	11.1	16.1%	13.0%
Seals and Bearings	77.6	71.1	15.5	13.4	20.0%	18.8%
Technical Ceramics	126.8	136.8	12.2	17.5	9.6%	12.8%
Carbon and Technical Ceramics division	**282.1**	**293.3**	**40.2**	**42.0**	**14.3%**	**14.3%**
Corporate costs			**(2.5)**	**(3.0)**		
Group	**477.8**	**525.8**	**52.9**	**67.4**	**11.1%**	**12.8%**

1 Group headline operating profit is before specific adjusting items and amortisation of intangible assets.

Reported statutory figures

£m	Six months ended 30 June 2020 Results before specific adjusting items	Six months ended 30 June 2020 Specific adjusting items	Six months ended 30 June 2020 Total	Six months ended 30 June 2019 Results before specific adjusting items	Six months ended 30 June 2019 Specific adjusting items	Six months ended 30 June 2019 Total
Revenue	**477.8**	**-**	**477.8**	**525.8**	**-**	**525.8**
Operating costs before amortisation of intangible assets	(424.9)	(68.9)	(493.8)	(458.4)	-	(458.4)
Profit/(loss) from operations before amortisation of intangible assets	**52.9**	**(68.9)**	**(16.0)**	**67.4**	**-**	**67.4**
Amortisation of intangible assets	(3.7)	-	(3.7)	(4.1)	-	(4.1)
Operating profit/(loss)	**49.2**	**(68.9)**	**(19.7)**	**63.3**	**-**	**63.3**
Net financing costs	(5.9)	-	(5.9)	(8.6)	-	(8.6)
Share of profit of associate (net of income tax)	0.1	-	0.1	-	-	-
Profit/(loss) before taxation	**43.4**	**(68.9)**	**(25.5)**	**54.7**	**-**	**54.7**
Income tax (charge)/credit	(11.7)	10.2	(1.5)	(15.3)	-	(15.3)
Profit/(loss) from continuing operations	**31.7**	**(58.7)**	**(27.0)**	**39.4**	**-**	**39.4**
Profit/(loss) from discontinued operations	-	0.8	0.8	-	-	-
Profit/(loss) for the period	**31.7**	**(57.9)**	**(26.2)**	**39.4**	**-**	**39.4**
Profit/(loss) for the period attributable to:						
Shareholders of the Company	29.1	(56.5)	(27.4)	35.3	-	35.3
Non-controlling interests	2.6	(1.4)	1.2	4.1	-	4.1
Profit/(loss) for the period	**31.7**	**(57.9)**	**(26.2)**	**39.4**	**-**	**39.4**

Foreign currency impacts

The principal exchange rates used in the translation of the results of overseas subsidiaries were as follows:

	1H 2020		1H 2019	
GBP to:	Closing rate	Average rate	Closing rate	Average rate
USD	1.24	1.26	1.27	1.29
EUR	1.10	1.14	1.12	1.15

For illustrative purposes, the table below provides details of the impact on 1H 2020 revenue and headline operating profit if the actual reported results, calculated using 1H 2020 average exchange rates were restated for GBP weakening by 10 cents against the US dollar in isolation and 10 cents against the Euro in isolation:

Increase in 1H 2020 revenue/headline operating profit[1] if:	Revenue £m	Headline operating profit[1] £m
GBP weakens by 10c against the US dollar in isolation	19.4	3.0
GBP weakens by 10c against the Euro in isolation	8.6	0.9

1 Group headline operating profit is before specific adjusting items and amortisation of intangible assets.

Headline earnings per share

£m	1H 2020	1H 2019
Profit/(loss) for the period attributable to shareholders of the Company	(27.4)	35.3
(Profit)/loss from discontinued operations	(0.8)	-
Profit/(loss) from continuing operations	(28.2)	35.3
Specific adjusting items	68.9	-
Amortisation of intangible assets	3.7	4.1
Tax effect of the above	(10.2)	-
Non-controlling interests' share of the above adjustments	(1.4)	-
Headline earnings	**32.8**	**39.4**
Weighted average number of shares in the period	284.6m	284.6m
Headline earnings per share (pence)	**11.5**	**13.8**

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