2026 Half Year Results webcast transcript

06 August 2026

This transcript should be read in conjunction with the 2026 Half Year Results presentation available on our website.

INTRODUCTION
Damien Caby, CEO (Slides 1-5)
Good morning everyone, I am Damien Caby, Chief Executive of Morgan Advanced Materials and I am joined on the call today by Richard Armitage, our CFO.

I'll start with a summary of our half year results, Richard will then take you through the financial position, outlook and Technical guidance, and I will come back to share progress against the strategy we unveiled in December last year. We will then move on to Q&A.

I am pleased to report that performance for the first six months of the year is in line with expectations. Revenue shows positive momentum and operating profit margin is improving sequentially. We are making clear progress against our strategy to unlock our potential by transforming our operational effectiveness; driving stronger and more profitable growth.

Within our transforming effectiveness strategic lever we are progressing well on two large site turnarounds, and on the delivery of benefits from our new Group procurement approach.

In driving growth, we have established focused teams to accelerate in selected key markets, and have already started to deliver wins from our enhanced OEM engagement strategy.

In maximising our portfolio, as previously announced, the Group is undertaking a strategic review of its Thermal Products division, with a full range of options under consideration, including a potential disposal. We have made good progress in assessing the division's growth prospects and are preparing for a number of options. Further updates will be provided in due course, as appropriate.

We are on track to achieve our financial framework and deliver our 12% margin target in 2028.

During the first half of 2026, excluding the positive impact of the phasing of a take-or-pay agreement - which Richard will explain shortly - the Group grew revenues by 3% organically at constant currency.

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This was primarily driven in two areas. Firstly, in our Energy business, our strategy to combine collaboration with OEMs at the design stage to benefit from the strong investment cycle and generate after-market pull, with alignment with operators and their priorities to secure strong after-market sales helped us to take advantage of increased investment in power supply and storage.

Secondly, our Aerospace & Defence business has continued to grow, driven by aviation with new engine and MRO orders. This was partly offset by lower demand for body armour in Defence. Elsewhere, our sales were resilient.

This first half demonstrates our strategic momentum to drive stronger growth and transform our operational effectiveness. I am pleased by our visible progress towards unlocking our potential.

I'll now hand over to Richard.

FINANCIAL PERFORMANCE
Richard Arimtage, CFO (Slides 7-16)
Thank you Damien, and good morning everyone. I would like to start with an overview of the financial results for the six months to 30th June 2026.

Revenue was £518 million, an increase of 4.8% on an organic constant currency basis, resulting from growth in our Aerospace and Energy end markets. Our revenue includes an £8.9m phasing benefit from a take-or-pay arrangement with one of our Semiconductor customers which will not repeat in H2. If we exclude this phasing benefit, Revenue grew by 3% on an organic constant currency basis.

Group headline adjusted operating profit was £57.8m, giving an adjusted operating margin of 11.2%. Operating margin also reflects the £8.9m phasing benefit, without which it would have been 9.6%. Return on invested capital was 14.5%, slightly below our through-cycle range, but showing an improving trajectory. Free cash flow saw an inflow of £3.5m, broadly in line with the first half of 2025 and reflecting the investments we continue to make into the Group.

Adjusted EPS was 10.7 pence per share, and we have held the interim dividend flat at 5.4 pence. Specific adjusting items amounted to £18.4m for the half year, driven primarily by expenditure on the implementation of our Group-wide ERP system.

Turning to look at the reporting segments in more detail, we can see that Performance Carbon revenue increased by 4.0% on an organic constant currency basis, which includes the £8.9m take or pay revenue.

This take-or-pay contract related to the reduction in our outlook for Semiconductor revenue that we announced during the second half of 2025 arising from sourcing of certain products moving to China. Whilst we had expected to supply these products during the second half of 2026, the customer has settled their contractual commitments in full during the first half.

Excluding this phasing item, revenue declined by 1.8% versus the prior year with strong growth in energy, notably in Wind, more than offset by reduced demand for body armour and industrial equipment. As has been seen before, the demand for body armour is driven by uneven government procurement patterns, and we do expect to see an increase in demand going into 2027 with new products being launched.

We would also note some caution around the outlook within our European Industrial segments where we are starting to see slightly softer demand. Margin improved by 70bps driven by the £8.9m take or pay income which will not repeat in H2. Excluding this item, margin showed a deterioration, caused primarily by the lower armour sales.

Technical Ceramics saw strong growth during the first half, growing 7.8% on an organic constant currency basis. The main growth driver continues to be Aerospace and Defence with growth driven by demand for Ceramic Cores, a critical component in the manufacture of jet engine turbine blades. Aerospace and Defence now accounts for 39% of divisional revenues following strong growth over the last few years.

We also saw strong growth in Energy driven by increasing demand for industrial gas turbines to power data centres. Operating margin improved by 130bps to 13.0% mainly due to a strong drop through on revenue growth. We have spoken before of the opportunity for revenue growth to help drive margin expansion in this way which was clearly demonstrated by Technical Ceramics in the first half.

Thermal Products returned to growth during the first half of 2026, showing 2.5% growth on an organic constant currency basis.

We saw a strong performance in Asia driven by growth in Metals processing in India and China. In North America, increased CPI project revenue and demand for our innovative energy storage solutions also supported growth. However, European revenue is being impacted by weaker investment in process industries, attributed to the geopolitical environment.

Coming into the year, we did experience a number of operational challenges arising mainly from equipment failures in our main North American facility affecting margin. These have been addressed, and we are starting to see a steady improvement in performance.

Turning now to our profit margin bridge, we have attempted to illustrate the movement firstly from the first half of last year to the second, and then from the second half of last year to the first half of this year.

The comparison from H1 to H2 of last year was firstly driven by a number of one-off items in the first half that did not repeat in the second. However, the principal driver was volume and mix, where we saw a sharp decline in demand from industrial markets, as well as declines in revenue from Armour, Semiconductor and Healthcare that affected our margin mix.

We have then started to see a solid improvement in margin this year, driven by a 250 bps contribution from efficiency and simplification, which substantially reversed the decline in the second half of last year. We did experience some operational issues earlier in the year, primarily affecting Thermal Ceramics as noted. I would also note that we have successfully offset inflation through pricing of around 2% as is our usual practice.

Finally, the payment under a take-or-pay agreement added 160 bps to margin. Excluding this, operating margin in our first half would have been 9.6%, a significant improvement over the second half of last year and a result that gives us confidence in being able to make further progress towards our target of 12% margin by 2028.

In the first half we incurred specific adjusting costs of £18.4m. Restructuring costs of £9.4m include the costs associated with the closure of a Technical Ceramics site in the US. This investment will allow us to optimise margin over the longer term and Damien will talk more about our site turnaround plans which are progressing well.

Once completed, this closure will bring our simplification programme to an end, delivering a total annual run rate of £27m of ongoing cost benefits for an implementation cost of £45m. The work we have done to reduce our manufacturing cost base over the last three years, coupled with our planned optimisation opportunities, will accelerate margin improvement via a healthy drop-through as end-markets recover. This will support the achievement during 2028 of our 12% margin target.

Expenditure on our ERP roll-out plan has progressed as planned with £11.5m incurred on configuration and implementation in the period. We expect to incur between £22m and £24m of total spend during 2026, before the programme starts to wind down towards the end of 2027. We have also recorded a gain in the fair value of our shares in Foseco India limited as at 30th June, of £2.5m, which values our holding at £49m.

Moving on to cash flow, I would firstly note that working capital showed an outflow of £23.5m during the period, reflecting normal first-half seasonality. We expect this to substantially reverse during the second half. Net Capital expenditure amounted to £12.5m, significantly lower than the prior year as our investment in Semiconductor capacity came to an end, and due to the phasing of spend on certain other projects.

Exceptional items totalled £15.2m and free cash flow was therefore an inflow of £3.5m. Cashflow includes a further £4.4m benefit from supplier financing and non-recourse debt factoring programmes which totalled £42.6m at 30th June. Net debt finished at £253m excluding lease liabilities, in line with our expectations and representing 2.0x EBITDA. We anticipate that Leverage will improve during the second half as free cashflow continues to normalise and as we realise the proceeds from the disposal of our shares in Foseco India. As a result of this, we expect year-end Leverage to be around 1.7x.

As a reminder of our capital allocation policy, our target leverage remains in the 1.0x to 1.5x range in relation to ongoing operations, which we will make progress towards reaching over the next twelve months. As before, once our leverage is within this range, we would consider a temporary increase into the 1.5x to 2.0x range in the event of a compelling acquisition.

Whilst capital investment remains a priority to support organic growth opportunities, we foresee limited needs for capacity investment and expect to be able to maintain overall capex at around £50m or 1.2x depreciation for the next three years. We will maintain the dividend for now, then grow it in line with adjusted earnings once cover returns to around 2.5x.

Once stabilised, we will consider the need to fund inorganic investment alongside additional returns to shareholders. The Board will review this situation regularly, recognising the opportunity that additional returns present to return cash to shareholders and enhance earnings.

Now, I will move on to technical guidance. Simplification costs for 2026 are expected to amount to around £10m bringing the programme to a close. ERP expenditure is expected to be in the range £22 - £24m. We continue to expect capital expenditure of around £50m during 2026, weighted to the second half due to phasing.

Our net finance charge will be around £24m, increasing on the prior year in part due to the expiry of £94m of fixed debt during the year on which we had been paying an average interest rate of 3%. Our effective tax rate is expected to be in the 27 to 29% range due to our geographic mix of profitability.

We expect year-end leverage to be around 1.7x, showing a positive trajectory towards our target range of 1.0x to 1.5x. It is worth highlighting that, with our simplification and ERP programmes coming to an end in 2027, and with capital expenditure expected to remain close to 1.0x depreciation in the medium term, we expect to be generating positive free cash flow by the end of 2027.

Finally, I will move on to the Outlook for 2026. We are mindful of the current geopolitical and macroeconomic environment, particularly within European Industrial markets. We expect organic constant-currency revenue growth of around 2% for the full-year. Noting a headwind due to foreign exchange, we expect an adjusted operating profit margin for the second half broadly in-line with that of the first, excluding the £8.9m phasing benefit from the take-or-pay agreement. Thank you, and I would now like to hand back to Damien.

STRATEGIC EXECUTION
Damien Caby, CEO (Slides 17-25)
Thank you, Richard. Let me now shift the focus towards our strategic progress.

We have been executing at pace on our strategy to unlock our potential, achieve 12% margin by 2028 and then reach 14% margin via stronger margin enhancing growth.

Our strategy is founded on three levers: transforming operational effectiveness, driving stronger growth, and maximising portfolio value.

In Transforming operational effectiveness, we are carrying on and moving beyond continuous improvement. We are addressing large underperforming sites, we are leveraging the group's scale for procurement and back-office efficiency, and we are enhancing business analytics for faster, better informed decisions.

In Driving stronger growth, we are adding incremental capacity to fulfil multi-year contracts, and we are proactively pursuing customer collaborations in selected markets, focusing where we have the strongest "right to win". Stronger partnerships with key customers help us embed more into the installed base to benefit from aftermarket related recurring revenues.

In Maximising our portfolio value, we continue to shape our portfolio and establish partnerships to achieve or expand advantaged positions in our selected areas. This chart summarises the significant progress we have made over the first half of 2026 and our next steps. There is a lot ongoing and we are managing our initiatives and priorities via a new operating cadence. The adoption and engagement have been strong, and I am very pleased to report we are on track on all key actions and confident in our ability to continue to progress on all fronts and achieve our goals.

During 2025 we launched our first large site turnaround. In 2026, we initiated at a second large site. I will provide more information on these two sites later in my presentation. Both transformations will be completed by the end 2027 and further sites are under review.

The implementation of our new Group Procurement function remains firmly on track. We have established spend visibility and initiated the shift from reactive purchasing to proactive category management. This will unlock better cost, higher supply resilience and lower working capital. We are already executing on savings initiatives, and will see the first tangible benefits in the second half of 2026. Our goal is to embed category management across the business by the end of the year and quickly expand the scope of the savings.

We remain confident that the site turnaround and procurement initiatives will deliver at least £20m of margin improvement by 2028, supporting our 12% margin target.

Digitalisation – Significant progress has been made in the deployment of our Group-wide ERP system, which remains on track for completion as planned in 2027. It has been an effort of high intensity, backed by rigorous project and risk management.

I am very satisfied that we have successfully deployed into 13 sites with very little impact on our day-to-day activities. We continue to make progress in shared services alongside the ERP roll out.

The first wave of deployment of ERP focuses on our Performance Carbon division. It will enable us to start implementing margin management, supply chain and working capital optimisation initiatives early next year. There is a strong appetite across our sites for the capabilities of the new system and high commitment to the project.

Moving on to Drive growth. The teams at Thermal Products in the US and Performance Carbon have increase delivery reliability, which has contributed to higher revenue.

Across our businesses, focused teams have been set up or reinforced in selected markets to drive stronger growth. Our business leaders set a rigorous commercial operating cadence, to drive cross functional project management and pace on commercial opportunities. They have been increasing their engagement with key customers to enhance the way we collaborate with OEMs. I will come back to this in a few minutes.

We have been rapidly deploying incremental capital to expand our capacity for parts used in Ion implantation in Silicon Semiconductor fabrication and are seeing a 15% growth in sales.
As previously reported, we are enhancing the capabilities of our armour business to support future growth opportunities for vehicles. This is backed by government contracts and will support our growth during 2027.

To maximise our portfolio value, we are pursuing partnerships along our strategic value chains. And, as previously announced, we are undertaking a strategic review of Thermal Products, with a full range of options under consideration, including a potential disposal. We have made good progress in assessing the division’s growth prospects and are preparing for a number of options.

I would now like to spend a few minutes to share more detail on some of our high impact initiatives, starting with the large site turnarounds.

The opportunity to transform operational effectiveness at a few of our larger sites is significant, and will allow us to unlock growth and improve margins. We have identified sites representing 20% of Group Revenue as targets for this initiative.

During 2025, we started our first large site turnaround, at our site in Augusta, Georgia. Augusta is one of the largest facilities in the Group – manufacturing multiple thermal product lines for our North America customer base. It has been facing increasing supply chain and product line complexity and reliability challenges. This has resulted over time in productivity and delivery issues which have in turn impacted revenue and profit.

During 2025, we launched a multi-year programme of work to create a more predictable, scalable and competitive manufacturing operation. It is a comprehensive programme which includes changes to production and inventory planning, optimisation of the product portfolio, operational effectiveness and reliability improvements.

The turnaround is progressing well. The new finished inventory concept is 70% implemented and has been underpinning a more than 50% reduction in lead times and 12% growth in sales. Across several production lines where the deployment of improved operating principles and management systems is in progress, we have seen meaningful, sustained improvements in productivity, yield and equipment effectiveness.

While the turnaround is not complete and there is much more to go for, these are tangible signs of progress. We are expanding and accelerating the deployment to achieve material and sustainable margin improvements from 2027 onwards.

This year, we have initiated action on our Ceramics site at Hayward in California. We announced its closure in March, and the relocation of its production to alternative sites in the US and Europe to optimise asset utilisation.

The qualification of the new manufacturing locations and the phased transfer of assets is well underway. We expect to see the benefits of this relocation start to drop through from 2028. We are also seeing benefits from our Driving stronger growth strategic lever. We are taking focused action to accelerate growth in selected key markets.

Let me illustrate how this works in Energy, an attractive segment underpinned by the electricity requirements of AI and Data Centres, the intermittency of low carbon power generation and the grid resilience challenges. The reinforcement of our collaboration with leading OEMs has contributed to make it one of our fastest-growing end markets.

In Battery Energy Storage Systems, our growth is driven by differentiated materials for higher performance, rather than like-for-like products. In this application, our microporous products are increasingly replacing aerogels in thermal runaway protection applications due to the attractive cost and performance proposition of our solutions in Lithium Iron Phosphate chemistry.

In Fuel Cells, we are providing complete multiproduct thermal insulation solutions, and we are gaining share with a global leader.

Our engagement with wind turbine OEMs has also contributed to drive our growth in Energy. The qualifications we have achieved via best in class materials and designs / generate aftermarket pull through revenue.

In Rail, we have been regularly achieving above market growth. To drive further growth in the aftermarket, we are reinforcing our collaboration with leading OEMs to be better built into the installed base. We are also reinforcing our presence in Asia where we have recently secured new electricity collector business.

These are just four examples of OEM partnerships in an attractive and growing market, where we are building on our strengths and establishing a spec'd in, sustainable position / and driving our share gain.

So, to conclude our presentation today.

- We have achieved positive momentum in revenue and profit during the first half
- I am very pleased with the progress of our Strategy. All three levers are on track. The Strategy will continue to drive benefits during H2 2026, and increasing benefits during 2027 and 2028
- We are on track to achieve our financial framework and deliver our 12% margin target in 2028
- As previously noted regarding the Strategic Review of Thermal Products, we are making good progress in assessing the division's growth prospects and are preparing for a number of options

Our commercial and strategic agendas are ambitious. The Morgan team has embraced them with strong engagement and energy, while keeping focus the safety of our operations and the quality of our products and supply to our customers. Many people across the organisation are resolutely stepping out of their comfort zone, to participate in the implementation of our new ERP, to redesign processes, transform the way we operate some of our sites, to contribute to cross functional market or customer focused teams.

My greatest satisfaction is to see our strategy and this commitment unlock our potential. Thank you, that ends our formal presentation. We will now take questions, and I will hand back to the operator to coordinate.

Q&A

Damien Caby, CEO

Thank you everyone for attending our presentation today. I am pleased with our progress during the first six months of the year.

- The Group has shown positive momentum in revenue and profit during the first half
- We are making strong progress in executing our strategy to unlock the Group's full potential through enhanced operational effectiveness and the delivery of stronger, higher-quality growth
- We are on track to achieve our financial framework and deliver our 12% margin target in 2028