2013 Full Year Financial Results

13th February 2014

Agenda

Overview	Mark Robertshaw
2013 Full year Group results	Kevin Dangerfield
Strategy update and key themes for 2014	Mark Robertshaw
Summary and outlook	Mark Robertshaw

Overview

- Trading conditions in H2 2013 similar to those experienced in H1 2013 with revenue stable at constant currency
- EBITA margins improved across all three regions in H2 2013, with Group EBITA margin increasing by 90 basis points to 12.9% compared with H1 2013
- New organisational model well embedded and driving accelerated pace of change and increased level of ambition
- Our key priorities for 2014:
  - continued investment in innovation and differentiation to drive profitable growth
  - positive mix shift
  - operational improvements
  - active portfolio reshaping

2013 Full year Group results

Kevin Dangerfield

EBITA margin improved year-on-year and full-year dividend up 5%

	FY13* £m	FY12 Restated £m	% Change
Revenue	957.8	1,007.5	-4.9%
EBITA before restructuring**	119.0	120.9	-1.6%
EBITA margin % before restructuring**	12.4%	12.0%	
EBITA after restructuring***	108.5	107.7	+0.7%
EBITA margin % after restructuring***	11.3%	10.7%	
PBT before amortisation	85.2	85.0	+0.2%
Underlying earnings per share	21.5p	21.7p	-0.9%
Total dividend per share	10.50p	10.00p	+5.0%

* Results before specific adjusting items
** Restructuring includes the costs of restructuring activity and profit on disposal of properties
*** EBITA after restructuring is also referred to as underlying operating profit (operating profit before amortisation of intangible assets)

Restructuring costs, portfolio management, net financing costs, tax

	Before specific adjusting items FY13 £m	Specific adjusting items FY13 £m	Total FY13 £m	Restated FY12 £m
Revenue	**957.8**	**0.0**	**957.8**	**1,007.5**
EBITA before restructuring*	**119.0**	**0.0**	**119.0**	**120.9**
Net restructuring*	**(10.5)**	**(7.3)**	**(17.8)**	**(13.2)**
Amortisation and impairment of intangible assets	**(8.3)**	**(3.3)**	**(11.6)**	**(8.3)**
Net financing costs	**(23.3)**	**0.0**	**(23.3)**	**(22.7)**
Loss on disposal of business	**0.0**	**(2.3)**	**(2.3)**	**0.0**
Profit before tax	**76.9**	**(12.9)**	**64.0**	**76.7**
Tax	**(21.1)**	**1.8**	**(19.3)**	**(21.6)**
Profit after tax	**55.8**	**(11.1)**	**44.7**	**55.1**

* Restructuring includes the costs of restructuring activity and profit on disposal of properties

- Restructuring costs mainly from implementation of One Morgan model - £10m of benefits achieved in 2013
- Net financing costs include IAS 19 (revised) charge of £6.3m
- Tax charge of £21.1m, effective tax rate of 27.4% (2012: 28.2%)

Good progress made on exiting loss-making/low margin businesses

	FY13 £m	FY12 £m
Business exit costs	7.3	0.0
Impairment of intangible assets	3.3	0.0
Loss on disposal of business	2.3	0.0
Specific adjusting items before tax	12.9	0.0
Tax in relation to specific adjusting items	(1.8)	0.0
Specific adjusting items after tax	11.1	0.0

- Business exit costs – Composites & Defence Systems (C&DS) – impact of the exit of spares and logistics contract and related historic Urgent Operational Requirements vehicle build programmes for the UK MoD
- Impairment of intangible assets – Hairong lithium ion business
- Loss on disposal of business – sale of shares, reducing shareholding to a 28.8% minority holding in loss-making Indian carbon business

Strong operating cash flow with significant investment in growth capex

	FY13 £m	FY12 £m
Cash from trading	**148.3**	**151.9**
Change in working capital	**(4.4)**	**(12.6)**
Change in provisions	**(16.9)**	**(12.5)**
Cash flow from operations	**127.0**	**126.8**
Net capital expenditure	**(33.7)**	**(26.7)**
Net interest paid	**(17.0)**	**(18.5)**
Tax paid on ordinary activities	**(24.9)**	**(26.8)**
Restructuring costs	**(14.0)**	**(5.9)**
Free cash flow before acquisitions and dividends	**37.4**	**48.9**
Dividends paid	**(24.7)**	**(16.1)**
Cash flows from other investing and financing activities	**(4.9)**	**(16.0)**
Exchange movement	**(1.5)**	**5.8**
Opening net debt	**(192.8)**	**(215.4)**
Closing net debt	**(186.5)**	**(192.8)**

- Cash from operations in line with 2012
- Operating working capital/sales ratio of 20.5% (2012: 20.9%)
- Gross capital expenditure of £36.3m – ratio of c.1.25x depreciation
- 3 dividends paid in year
- Net debt:EBITDA at 1.3 times (2012: 1.3 times)

* Cash from trading is EBITA adjusted for depreciation and profit on sale of plant and machinery

Improving margins in Europe and North America; Asia/RoW impacted by drop in volume in H1 2013

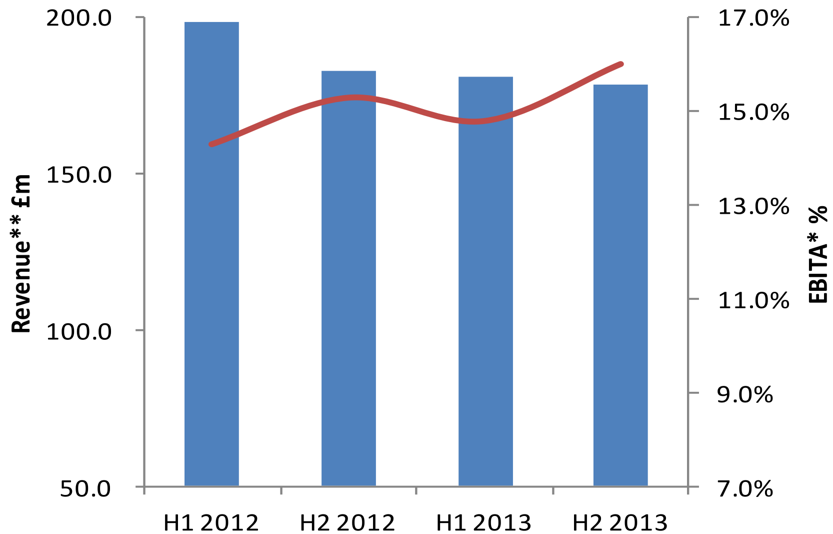
£ million	Revenue		EBITA*		Profit Margins %	
	FY13	FY12	FY13	FY12	FY13	FY12
North America	359.9	376.3	55.5	55.7	**15.4%**	**14.8%**
Europe	357.3	361.7	42.0	37.5	**11.8%**	**10.4%**
Asia/Rest of World	240.6	269.5	26.4	32.8	**11.0%**	**12.2%**
Unallocated Costs **			(4.9)	(5.1)	-	-
EBITA before restructuring ***	***957.8***	***1,007.5***	***119.0***	***120.9***	***12.4%***	***12.0%***
Restructuring ***			(10.5)	(13.2)		
EBITA after restructuring ***			***108.5***	***107.7***	***11.3%***	***10.7%***

*** Results before specific adjusting items**

**** Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)**

***** Restructuring includes the costs of restructuring activity and profit on disposal of properties**

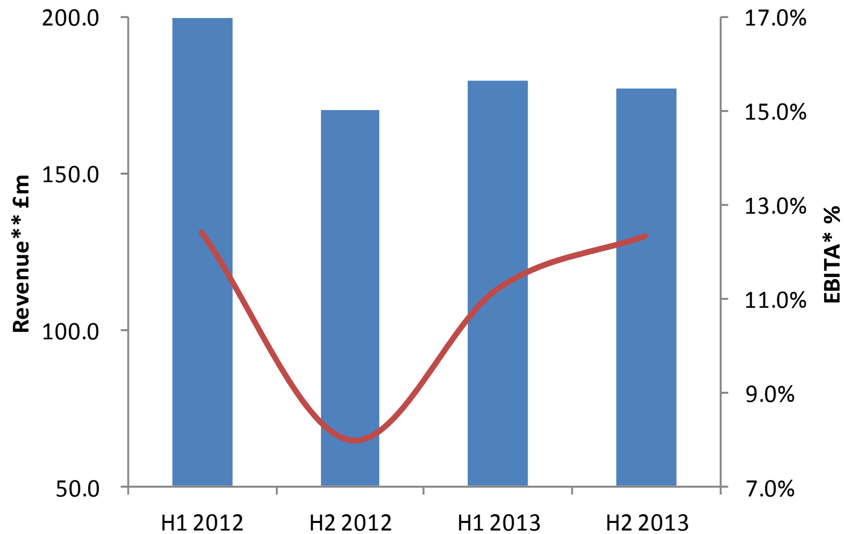
North America – delivering improvement on already mid-teen margins through 2013



- Strong Thermal Ceramics performance offset in part by reductions in HDD, semicon and H2 revenue in aerospace/IGT
- North American EBITA margin improved to 16% in H2 driven by positive mix shift and One Morgan benefits

* Results before specific adjusting items
** Revenue is stated at constant 2013 full-year average rates

Europe – continued margin improvement as businesses benefit from One Morgan initiatives

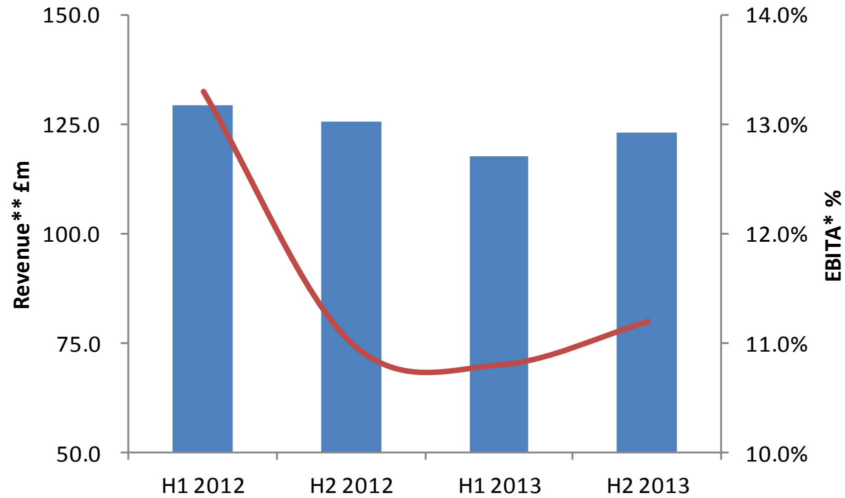


- Growth in medical business and market share gains in electrical carbon offset by reduction in larger petrochem project business
- C&DS profitability improved in H2, exit of low margin spares and logistics business at end of 2013
- Benefits of the One Morgan initiatives, particularly in the electrical carbon and seals and bearings businesses

* Results before specific adjusting items

** Revenue is stated at constant 2013 full-year average rates

Asia/RoW – challenging markets in 2013; some signs of improvement entering 2014



- Growth in niche businesses such as automotive offset by challenging trading in industrial, steel and petrochem
- H2 revenue 4.4% higher than H1 at constant currency
- EBITA margins adversely effected by lower volumes but mitigated by overhead cost and footprint rationalisation, with exit of high-cost fibre production in Australia, Japan and South Africa

* Results before specific adjusting items

** Revenue is stated at constant 2013 full-year average rates

Exchange rates: £ sterling has strengthened against all major currencies during H2 2013

	FY 2013 Reported (average rates) £m	FX impact of using 2013 closing rates £m	FY 2013 at 2013 closing rates £m	H2 2013 at 2013 closing rates £m
Revenue	957.8	(44.2)	913.6	456.5
EBITA before restructuring**	119.0	(6.8)	112.2	58.3
EBITA margin %	12.4%		12.3%	12.8%

* Results before specific adjusting items

** Restructuring includes the costs of restructuring activity and profit on disposal of properties

The above analysis is an illustration of the translation effect of using 2013 closing rates on the Group's reported revenue and EBITA for the full-year and for the second half 2013 results

Summary

- Stable revenue H2 v H1 at constant currency
- EBITA margins improved by 90bps to 12.9% in H2
- Strong operating cash flow and net debt at 1.3 times net debt:EBITDA ratio
- Full-year dividend increased by 5%

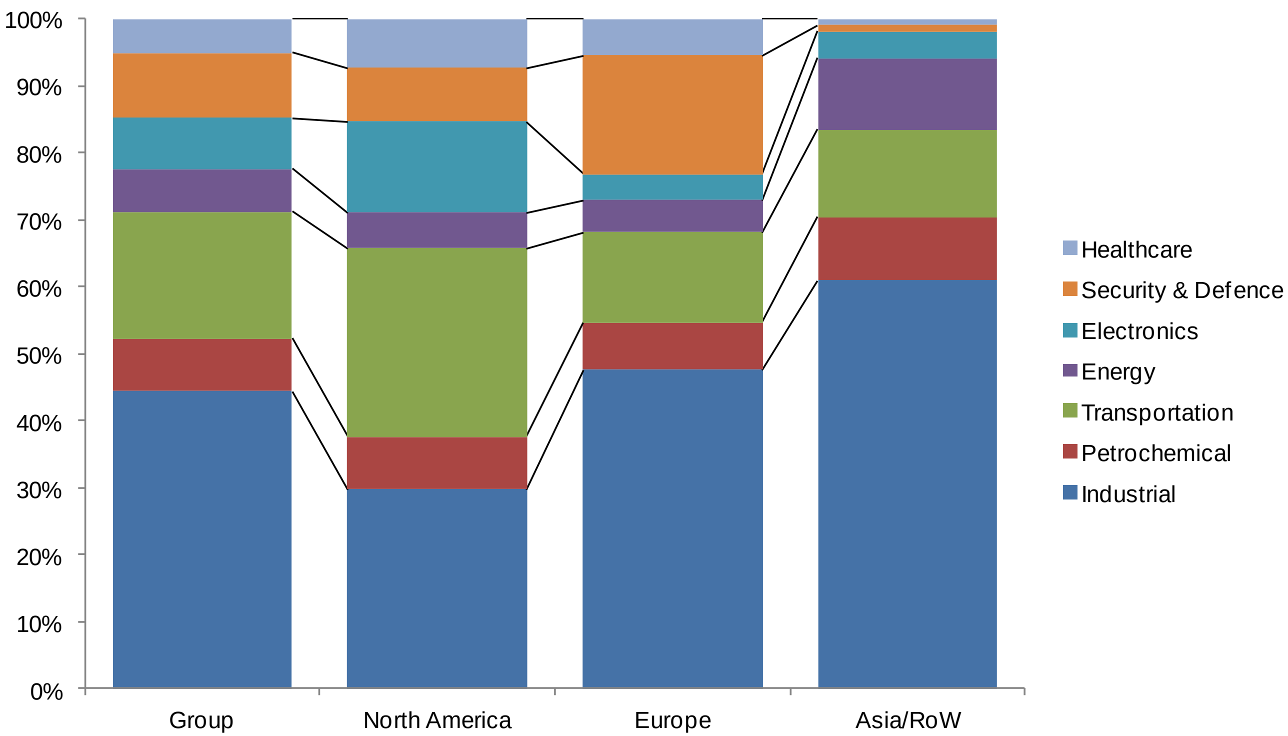
Strategy update and key themes for 2014

Mark Robertshaw

Strategy update – key themes

- Building sustainable competitive advantage in attractive markets…
- …with truly, differentiated products underpinned by world-leading technology
- Our goal is for all of our businesses and technologies to have the potential to deliver mid-teen EBITA margins…
- …targeting through-cycle growth rates in excess of our end-markets

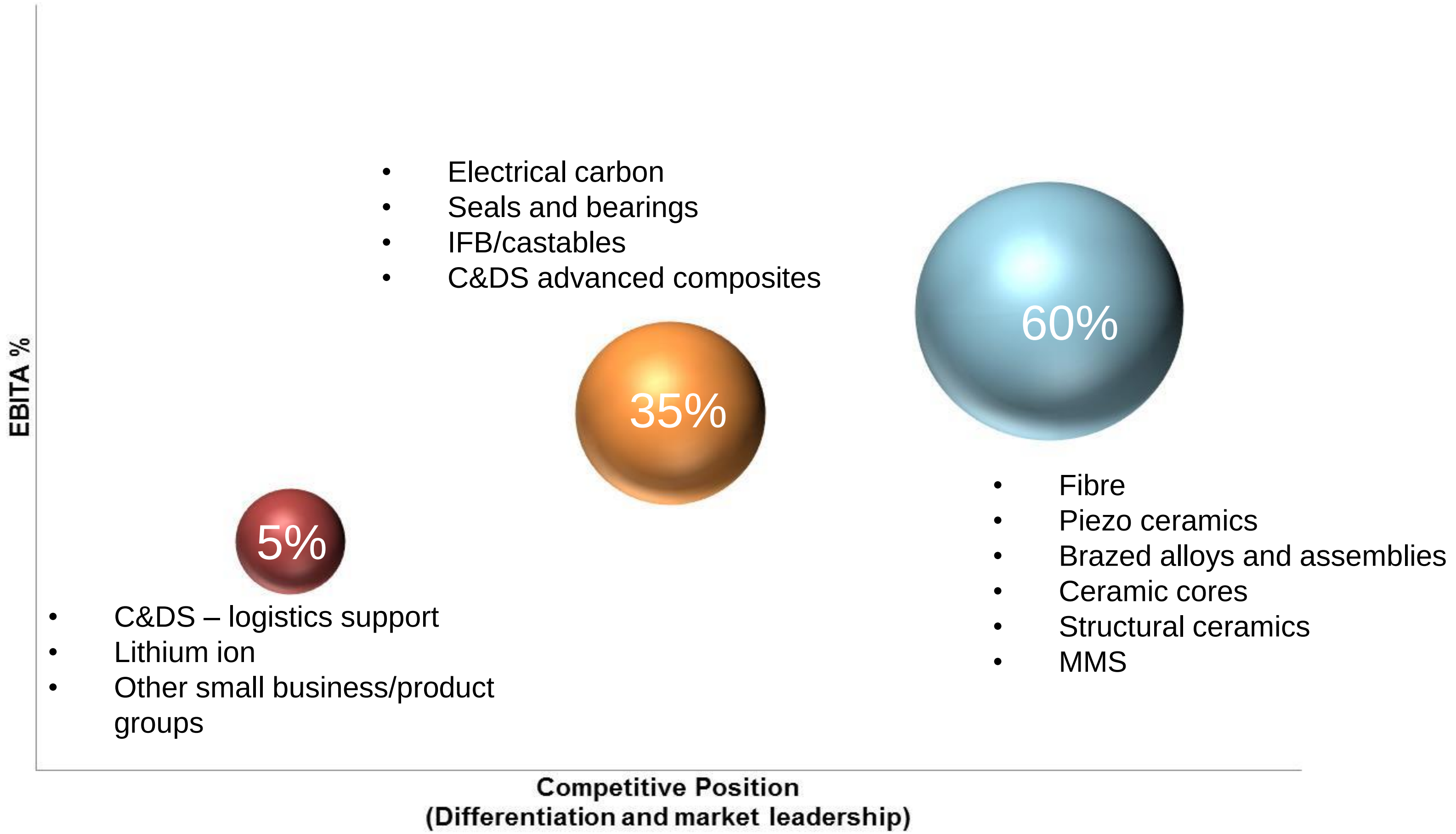
Focus remains on continuing to drive positive mix shift towards attractive end-markets



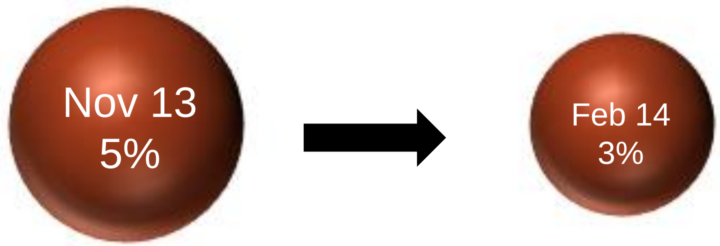
Revenue by market 2013

- North America region currently has greatest proportion of higher margin end-markets e.g. aerospace and healthcare
- Significant opportunity to drive positive mix shift in Asia/RoW: new business wins in medical coming through in 2013

Portfolio reshaping a key priority for 2014



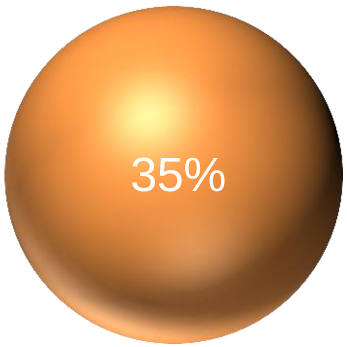
Good progress made on resolving loss-making/low margin businesses



Additional sales or exits being actively pursued for the remaining c.£30m of revenue

- Exit of the UK MoD vehicles logistics and spares contract (2013 revenue - £12.0m)
- Disposal of loss-making Indian carbon business (2013 revenue - £3.1m); now a minority stake
- Synergistic deal for thermal fired shapes business (2013 revenue - £3.2m). Morgan business to merge with Magma, UK-based fired shapes specialist, in return for a 35% minority stake in the new, larger entity

Enhancing margins of businesses currently below mid-teen margin target range



Change in 2013 EBITA margin %

Electrical carbon

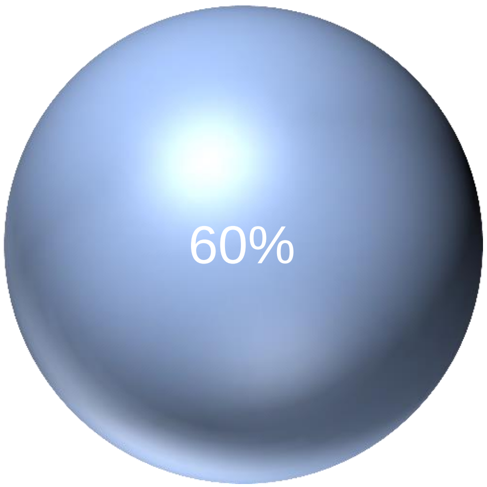
Seals and bearings

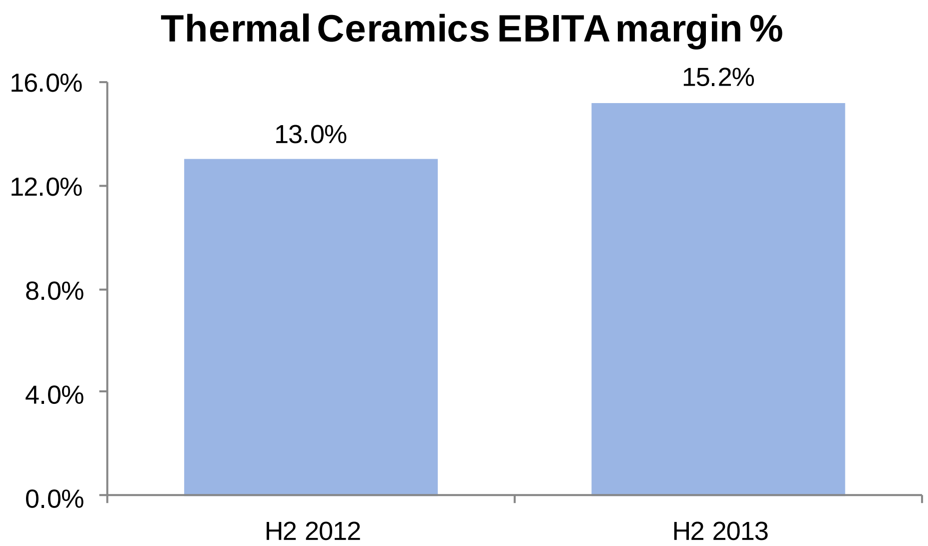
C&DS advanced composites

IFB/castables

- Margin progress made on three of the four businesses in this high single digit to double digit margin category
- Significant improvement in European electrical carbon
- IFB/castables margin impacted by subdued project business in 2013 – some signs of potential upturn in 2014 coming through with new contract wins received in past couple of months

Targeting both revenue growth and further margin increase in differentiated businesses





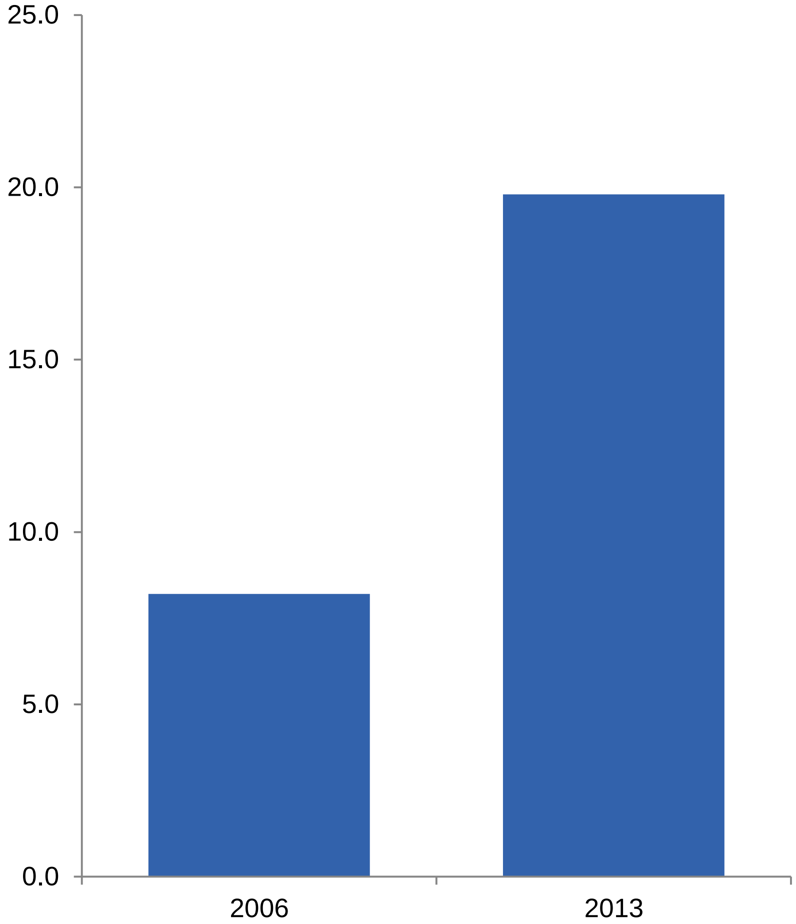
- Positive mix shift with ongoing rollout of Superwool® fibre: overall fibre business margins now into high-teens
- Good growth in differentiated, high value-added applications e.g. vehicle emission control and fire protection
- Best-practice benchmarking programme driving ongoing operational efficiencies

One Morgan organisational structure aims to accelerate profitable growth

- Increasingly higher levels of investment in R&D
- New Global Materials Centre of Excellence announced today for structural ceramics
- 23% increase in year-on-year gross capex to drive profitable growth
- Significant step-up in investment in talent

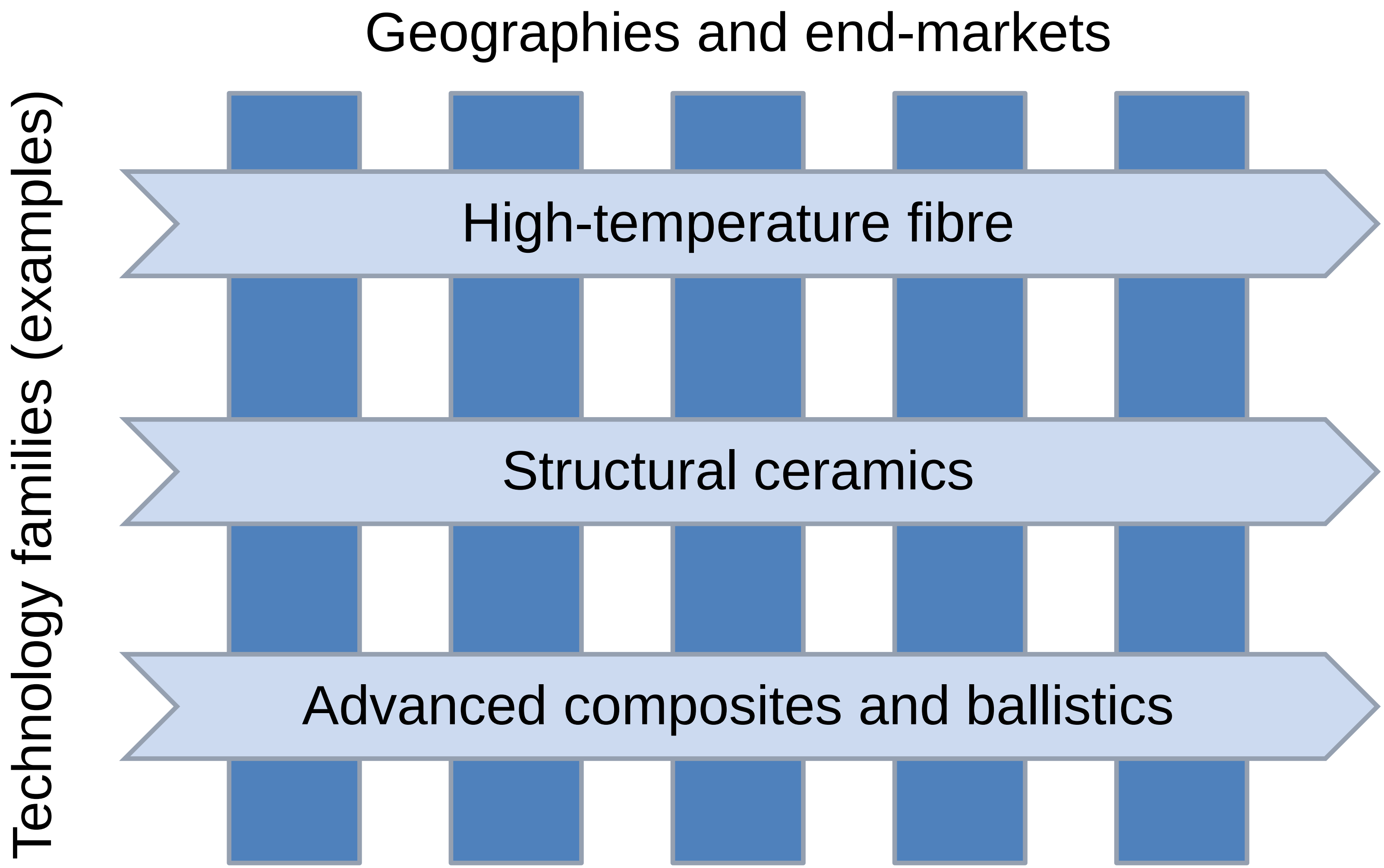
Investing in innovation and profitable growth

R&D investment £m



- R&D investment now c.2.5 times higher than it was in 2006
- R&D investment increased once more in 2013 both in absolute terms and as a % of revenue (2013: 2.1%, 2012: 1.9%)
- New Group Chief Technology Officer (CTO) in place under the One Morgan structure driving technology and innovation across our businesses around the world

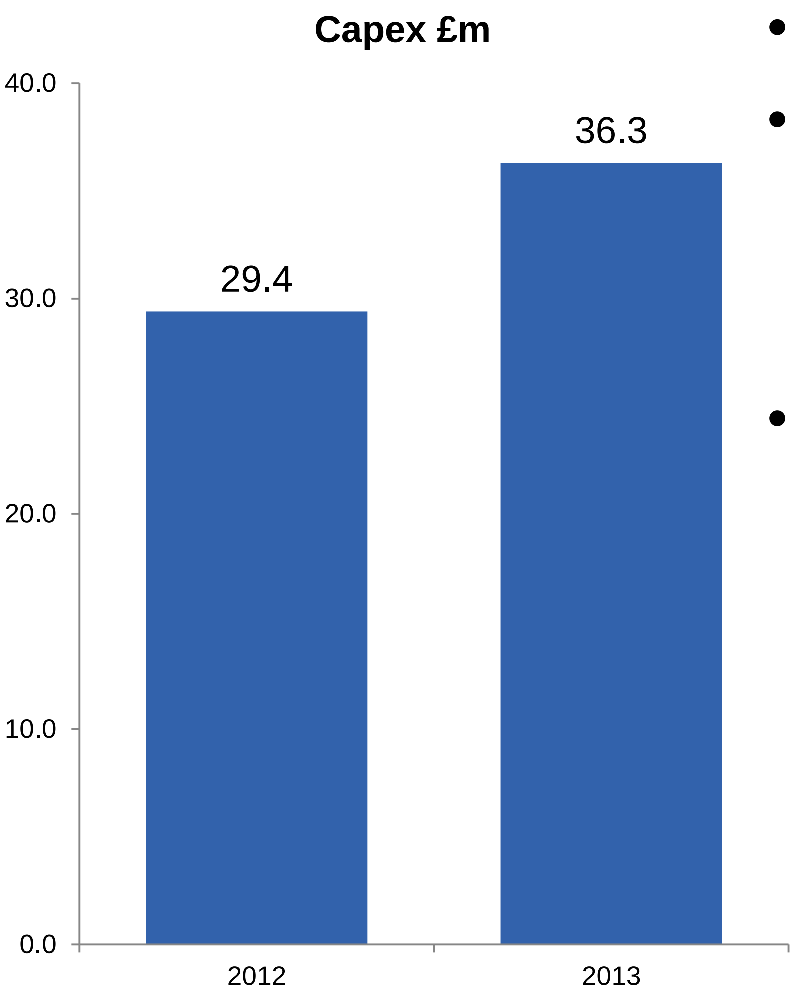
We aim to leverage innovation and differentiation across the full breadth of our geographies and end-markets



Announcement today of a new Global Materials Centre of Excellence for structural ceramics

- Aims to emulate in structural ceramics the world-leading breakthroughs we have already made in chemistries and processes in our Superwool® fibre range
- This will be the Group's third Global Materials Centre of Excellence established in recent years
  - Bromborough, UK (high-temperature fibre, 2008)
  - Coventry, UK (advanced composites and ballistics, 2011)
  - Stourport, UK (structural ceramics, 2014)
- Additional Global Materials Centres of Excellence planned

23% increase in capex to drive profitable growth

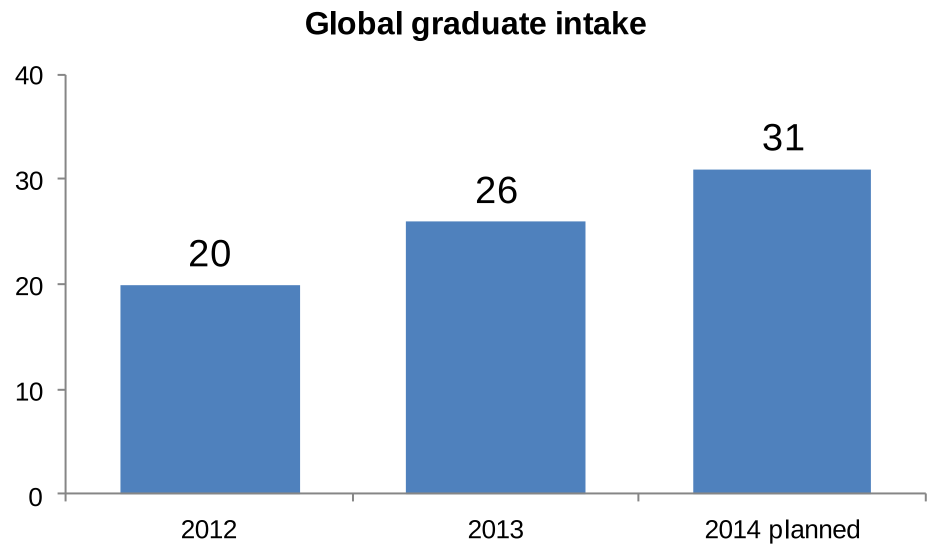


- Capex c.1.25x depreciation in 2013
- Key projects
  - Conversion of fibre lines to be Superwool® enabled (c.£12.6m)
  - Greenfield site Dalian, China (c.£4.2m)
- Ongoing investment in growth capex in our 2014 plans (c.£40m)
  - Greenfield Superwool® fibre plant in the Middle East to leverage local market opportunities in petrochem, aluminium and fire protection and also to access low cost energy
  - Growth expansion at Korean site for differentiated product sales into Asia
  - Additional Superwool® fibre line conversions

Morgan Advanced Materials

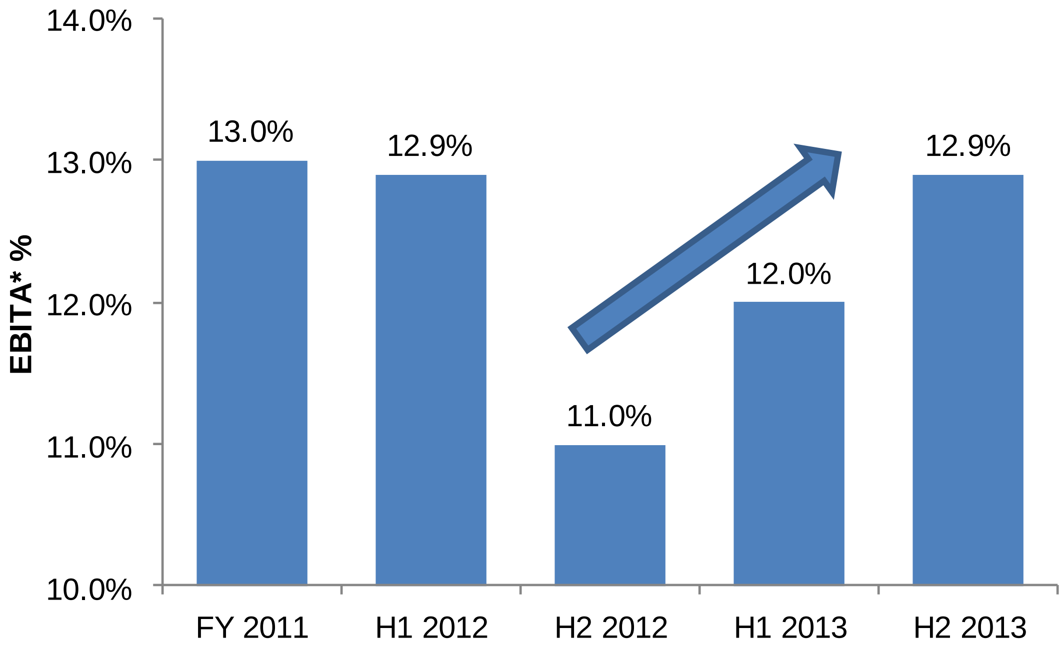
Significant increase in engineering and future leadership talent

- Increasing investment in graduates as part of the Graduate Leadership Programme



- Advanced Development Programme for future management – regional winner of 2013 “Investing in Skills” EEF Future Manufacturing award and national runner-up out of c.240 entries

Outcome of our self-help actions: 190bps margin improvement over the last 12 months



Key drivers:

- Positive mix shift and overhead and footprint streamlining
- Biggest step-up in margin came from electrical carbon and seals and bearings businesses
- Margins enhanced whilst continuing to invest for the future

* Results before specific adjusting items

Summary and outlook

Mark Robertshaw

Summary

- 190bps margin progression over the past 12 months
- The new streamlined Group organisation structure announced last year now well embedded and driving an accelerated pace of change and increased level of ambition
- Continued investment in world-leading technology and innovation to enhance our differentiation and sustainable competitive advantage to drive profitable growth

Outlook

- Our expectation for H1 2014 is that end-market conditions overall remain similar to recent months

- Key areas of focus for 2014:
  - positive mix shift
  - active portfolio reshaping
  - operational improvements
  - continued investment in innovation and differentiation to drive profitable growth

Ambition is to drive margins <u>and</u> profitable growth

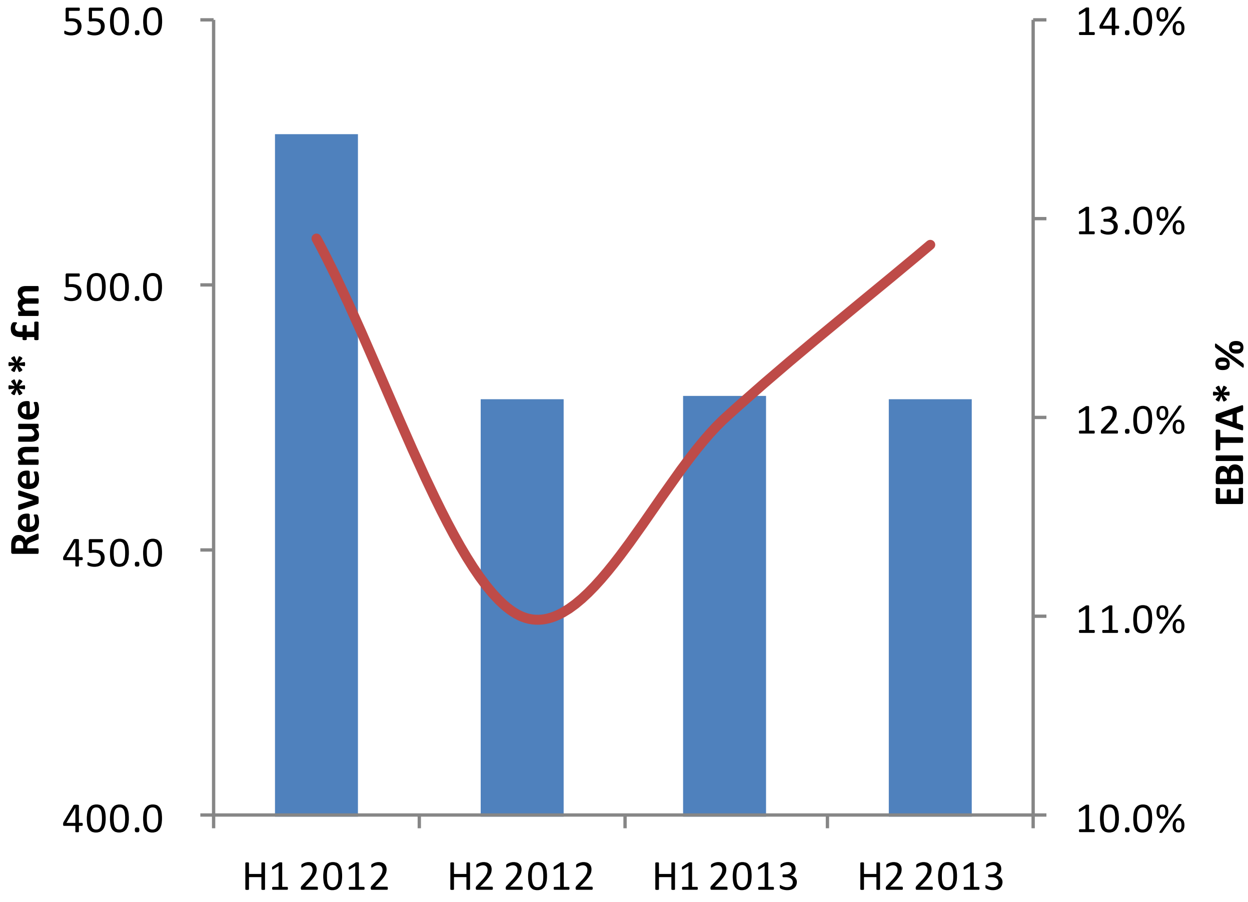
Morgan Advanced Materials

2013 Full Year Financial Results

13th February 2014

Appendix

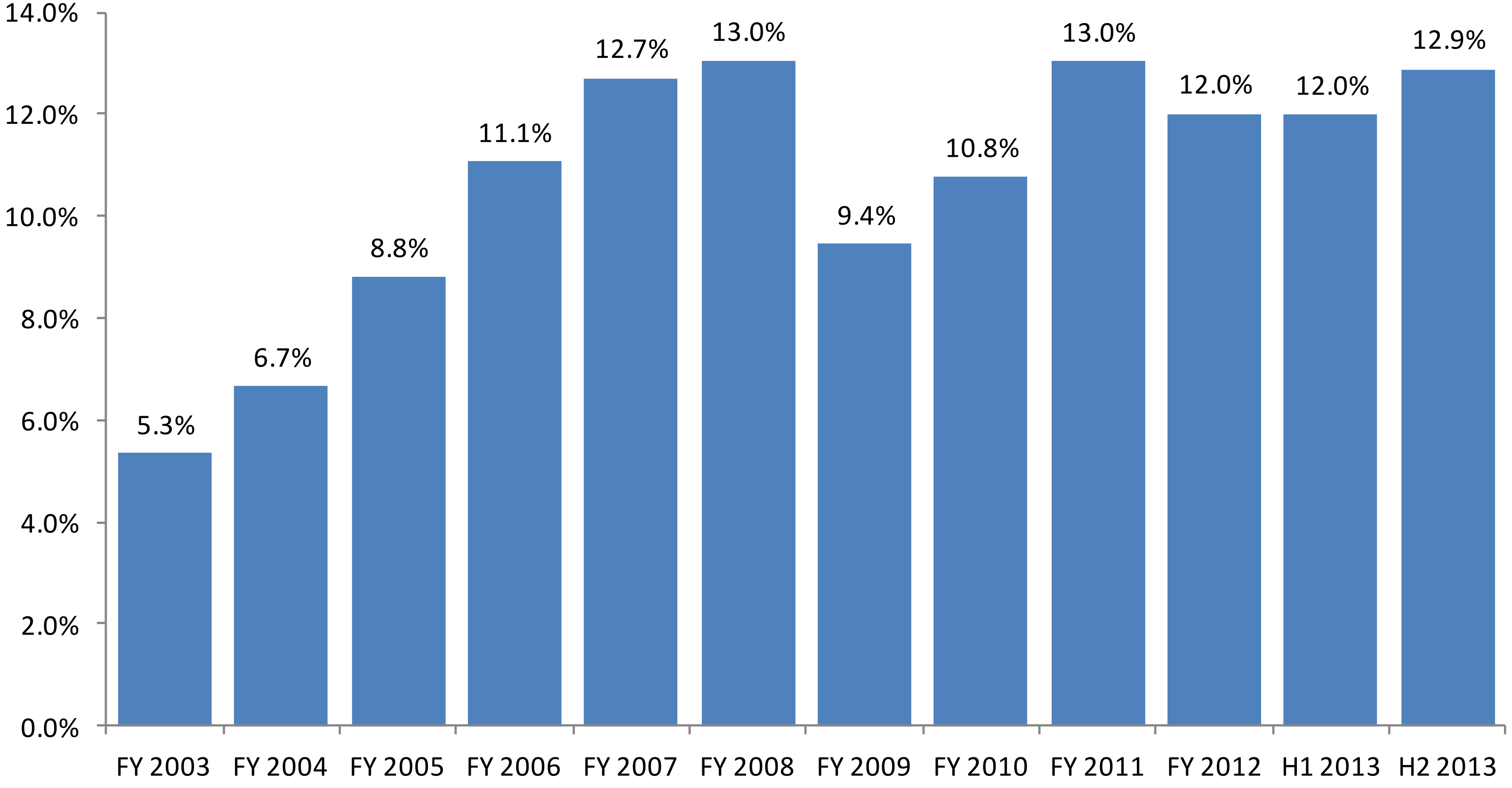
Significant margin improvement on stable top line



* Results before specific adjusting items

** Revenue is stated at constant 2013 full-year average rates

EBITA margins before restructuring



* Results before specific adjusting items

Revenue and EBITA as historically presented – margin progression in most businesses

£ million	Revenue		EBITA*		Profit Margins %	
	FY13	FY12	FY13	FY12	FY13	FY12
Technical Ceramics	258.6	273.3	40.2	42.1	**15.5%**	**15.4%**
Thermal Ceramics	359.5	387.2	49.2	51.7	**13.7%**	**13.4%**
Ceramics	**618.1**	**660.5**	**89.4**	**93.8**	**14.5%**	**14.2%**
AM&T	240.7	243.4	23.8	20.6	**9.9%**	**8.5%**
Composites & Defence Systems	56.8	57.8	4.6	3.6	**8.1%**	**6.2%**
Molten Metal Systems	42.2	45.8	6.1	8.0	**14.5%**	**17.5%**
Engineered Materials	**339.7**	**347.0**	**34.5**	**32.2**	**10.2%**	**9.3%**
Unallocated Costs **			(4.9)	(5.1)	-	-
EBITA before restructuring ***	***957.8***	***1,007.5***	***119.0***	***120.9***	***12.4%***	***12.0%***
Restructuring ***			(10.5)	(13.2)		
EBITA after restructuring ***			***108.5***	***107.7***	***11.3%***	***10.7%***

*** Results before specific adjusting items**

**** Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)**

***** Restructuring includes the costs of restructuring activity and profit on disposal of properties**

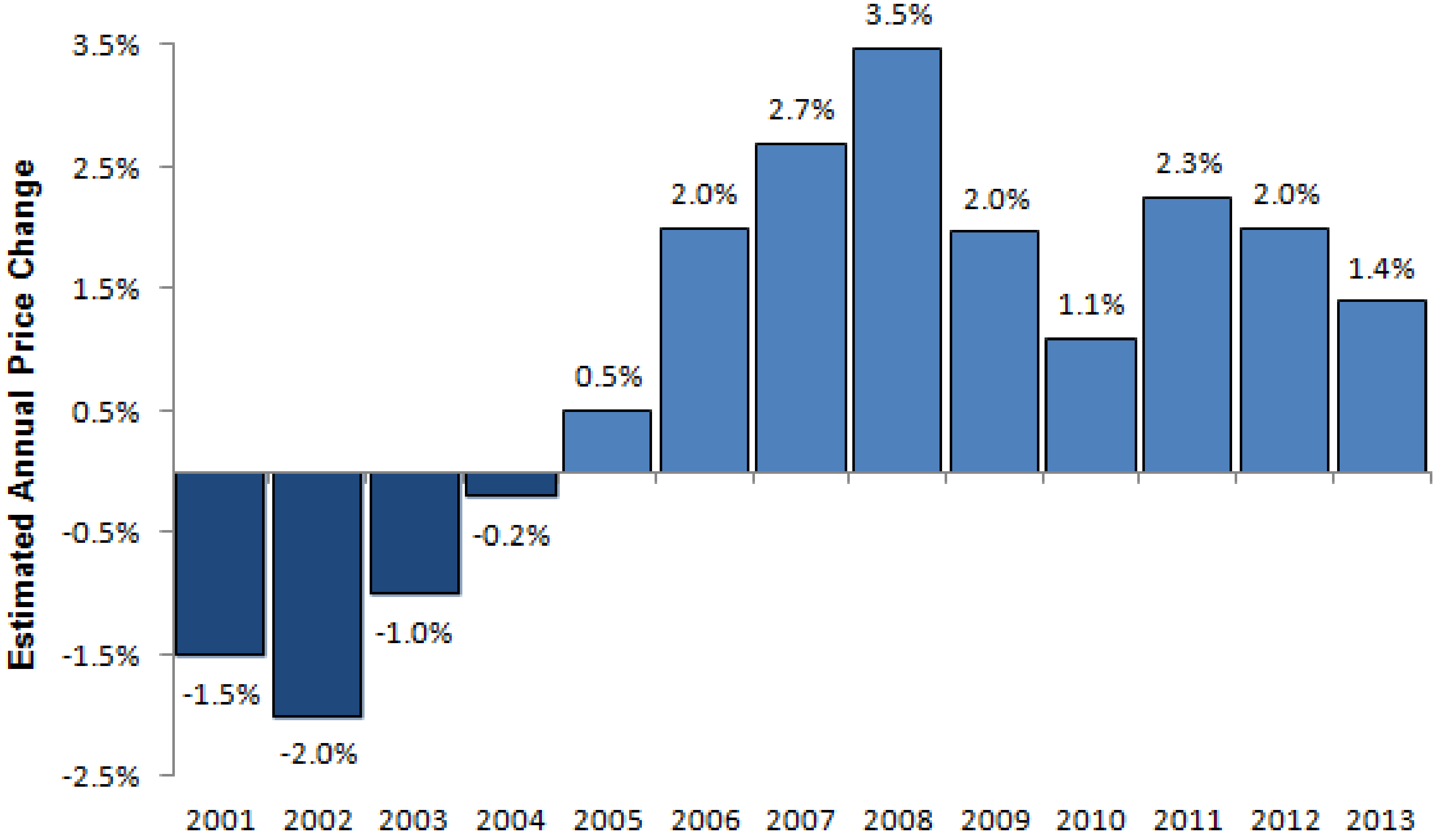
During H2 2013 £ sterling strengthened substantially against most currencies that Morgan trades in

- By year end the closing rates of exchange were materially different from the average rates used in the Income Statement
- The impact of 2013 year end foreign exchange rates on the Groups 2013 revenue and EBITA using these translation rates is to decrease revenue by £44.2 million and EBITA by £6.8 million

Currency	Revenue by currency £m	% of group revenue	FX rate change	Revenue impact £m	EBITA impact £m
USD	355.0	37.1%	-5.5%	(19.7)	(3.1)
EUR	195.2	20.4%	-2.0%	(3.9)	(0.6)
GBP	143.8	15.0%		0.0	0.0
CNY	87.6	9.1%	-4.1%	(3.6)	(0.5)
Other	176.2	18.4%	-9.6%*	(17.0)	(2.6)
	957.8			**(44.2)**	**(6.8)**

* Weighted average of a number of other currencies - larger movements being Indian Rupee, Australian Dollar and Brazilian Real

Continued positive pricing through differentiation and focus on attractive end-markets



Morgan Advanced Materials

Pensions IAS19 Revised – Restatement of 2012 comparatives

	Previously reported FY12 £m	IAS 19 revised FY12 £m	Restated FY12 £m
Revenue	1,007.5		1,007.5
EBITA before restructuring*	122.0	(1.1)	120.9
Net restructuring*	(13.2)		(13.2)
EBITA after restructuring*	108.8		107.7
Amortisation and impairment of intangible assets	(8.3)		(8.3)
Operating profit	100.5		99.4
Net financing costs	(19.1)	(3.6)	(22.7)
Profit before tax	81.4		76.7
Tax	(22.1)	0.5	(21.6)
Profit after tax	59.3		55.1
Discontinued operations	21.0		21.0
Profit for the period	80.3		76.1
Non-controlling interest	(3.3)		(3.3)
Profit attributable to owners of the parent for the period	77.0		72.8

* Restructuring includes the costs of restructuring activity and profit on disposal of properties

Operating ROCE

All £ million At reported rates	2013 Year End	2012 Year End Restated
LTM Underlying EBITA	108.5	107.7
Change -v- 2012 Year End	0.7%	
Operating Capital		
Land & Building - NBV	97.9	98.9
Plant & Equipment - NBV	143.5	146.6
Third Party Working Capital	153.0	164.4
	394.4	409.9
Change -v- 2012 Year End	-3.8%	
Return on Operating Capital Employed	**27.5%**	**26.3%**

Net financing costs

	FY13 £m	FY12 Restated £m
Bank interest charge	18.3	18.5
Bank interest income	(1.3)	(1.6)
Interest expense on unwinding of discount on deferred consideration	0.0	0.2
Net interest on IAS19 obligations	6.3	5.6
	23.3	22.7

Morgan Advanced Materials

Underlying EPS

	FY13 £m	FY12 Restated £m
Basic earnings from continuing operations	41.8	51.8
Amortisation	8.3	8.3
Specific adjusting items	10.6	0.0
Underlying earnings	60.7	60.1
Weighted average number of shares in the period	282.9m	277.0m
Underlying earnings per share from continuing operations	21.5p	21.7p

Morgan Advanced Materials

2013 Full Year Financial Results

13th February 2014