Morgan Advanced Materials

2014 half year Group results

23rd July 2014

Agenda

Overview	Mark Robertshaw
2014 half year Group results	Kevin Dangerfield
Strategy update	Mark Robertshaw
Summary and outlook	Mark Robertshaw

Overview

- Solid H1 financial performance with encouraging year-on-year growth in order book, particularly in Asia

- Significant progress on portfolio reshaping
  - approximately half of the low margin business identified in our November Capital Markets presentation now exited
  - Electrical Carbon margins substantially improved into the mid-teen range
  - acquisition of Porextherm completed to further enhance our world-leading position in differentiated high-temperature insulating technologies

- Continued investment in both R&D and growth capex to drive future profitable growth

2014 half year Group results

Kevin Dangerfield

Improving margins year-on-year despite currency headwinds

	H1 2014*	H1 2013*	% change from H1 2013	
			As reported	At constant currency
	£m	£m	%	%
Revenue	**448.4**	**486.1**	**-7.8%**	**-0.9%**
EBITA before restructuring**	**56.4**	**58.3**	**-3.3%**	**+6.0%**
EBITA margin % before restructuring**	**12.6%**	**12.0%**		
EBITA after restructuring***	**54.3**	**51.6**	**+5.2%**	**+15.8%**
EBITA margin % after restructuring***	**12.1%**	**10.6%**		
PBT before amortisation	**43.8**	**39.7**	**+10.3%**	**+22.1%**
Underlying earnings per share	**10.6p**	**10.0p**	**+6.0%**	
Interim dividend per share	**3.9p**	**3.8p**	**+2.6%**	

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

Modest levels of one-off costs in H1

	Before specific adjusting items H1 2014 £m	Specific adjusting items H1 2014 £m	Total H1 2014 £m	Total H1 2013 £m
Revenue	**448.4**	**0.0**	**448.4**	**486.1**
EBITA before restructuring*	**56.4**	**0.0**	**56.4**	**58.3**
Net restructuring*	**(2.1)**	**0.0**	**(2.1)**	**(6.7)**
Amortisation and impairment of intangible assets	**(4.3)**	**0.0**	**(4.3)**	**(4.0)**
Net financing costs	**(10.5)**	**0.0**	**(10.5)**	**(11.9)**
Loss on disposal of business	**0.0**	**(2.0)**	**(2.0)**	**0.0**
Profit before tax	**39.5**	**(2.0)**	**37.5**	**35.7**
Tax	**(11.5)**	**0.0**	**(11.5)**	**(10.2)**
Profit after tax	**28.0**	**(2.0)**	**26.0**	**25.5**

* Restructuring includes the costs of restructuring activity, profit on disposal of properties and acquisition-related costs

- Restructuring costs relate mainly to overhead reduction and site rationalisation projects and £0.4m acquisition-related costs re: Porextherm
- Net financing costs include IAS 19 (revised) charge of £3.0m (H1 2013: £3.3m)
- Tax charge of £11.5m, effective tax rate of 29.1% (H1 2013: 28.5%)
- Net loss of £2.0m on two disposal of businesses

Net debt/EBITA at 1.3 times – estimate of 1.2 times by year end (at current FX rates)

	H1 2014 £m	H1 2013 £m
Cash from trading*	**70.4**	**73.8**
Change in working capital	**(21.4)**	**(11.5)**
Change in provisions	**(6.5)**	**(6.6)**
Cash flow from operations	**42.5**	**55.7**
Net capital expenditure	**(13.6)**	**(13.8)**
Net interest paid	**(7.7)**	**(8.5)**
Tax paid on ordinary activities	**(10.7)**	**(11.9)**
Restructuring costs and other one-off items	**(3.7)**	**(8.3)**
Free cash flow before acquisitions and dividends	**6.8**	**13.2**
Dividends paid	**(19.1)**	**(15.3)**
Cash flows from other investing and financing	**(1.7)**	**(5.1)**
Exchange movement	**6.2**	**(15.6)**
Opening net debt	**(186.5)**	**(192.8)**
Closing net debt	**(194.3)**	**(215.6)**

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

- Operating working capital/sales ratio of 22.9% (H1 2013: 23.4%)
- Gross capital expenditure of £13.6m – c.1.0x depreciation
- Net debt:EBITDA at 1.3 times (FY13: 1.3 times)
- FX impact from $ and € denominated debt

Year-on-year margin increase overall, with significant improvement in Asia/RoW

At reported rates

£ million	Revenue		EBITA*		Profit Margins %	
	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013
North America	171.7	183.9	26.2	27.3	**15.3%**	**14.8%**
Europe	159.4	180.4	17.8	20.2	**11.2%**	**11.2%**
Asia/Rest of World	117.3	121.8	14.9	13.1	**12.7%**	**10.8%**
Unallocated Costs **			(2.5)	(2.3)	**-**	**-**
EBITA before restructuring *	***448.4***	***486.1***	***56.4***	***58.3***	***12.6%***	***12.0%***
Restructuring ***			(2.1)	(6.7)		
EBITA after restructuring *			***54.3***	***51.6***	***12.1%***	***10.6%***

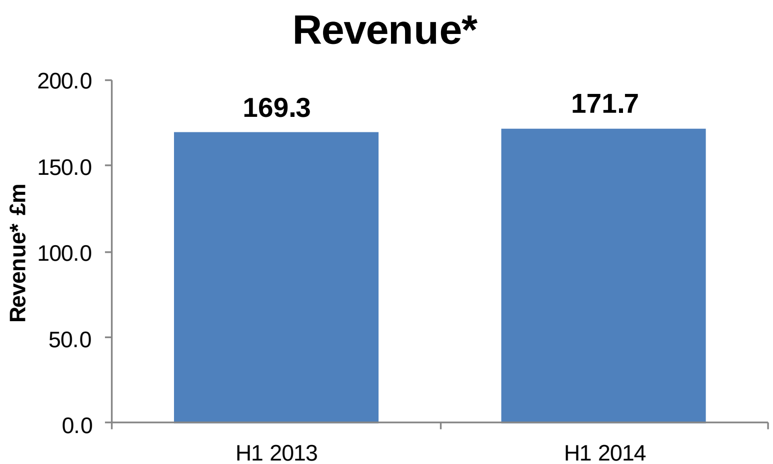
*** Results before specific adjusting items**

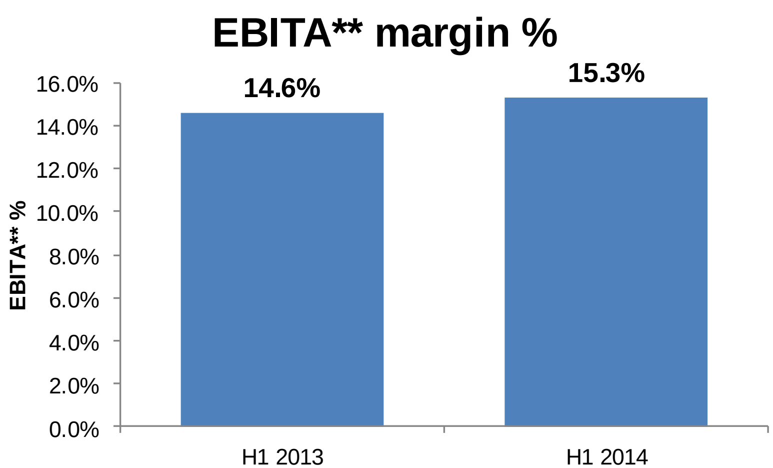
**** Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)**

***** Restructuring includes the costs of restructuring activity, profit on disposal of properties and acquisition-related costs**

Morgan Advanced Materials

North America – maintaining mid-teen margins

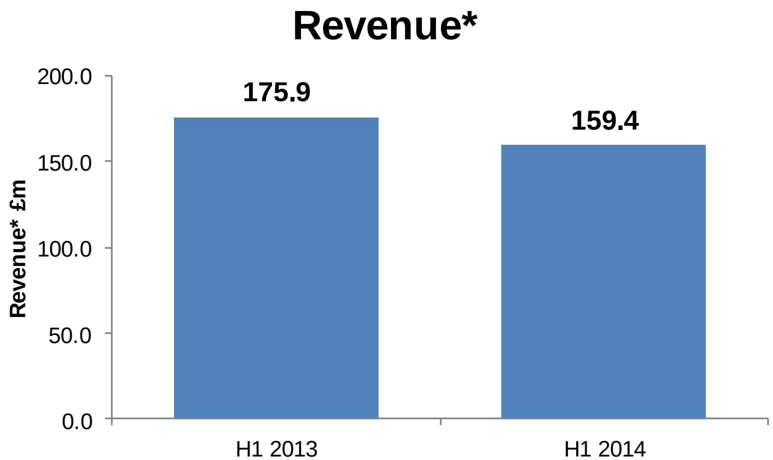


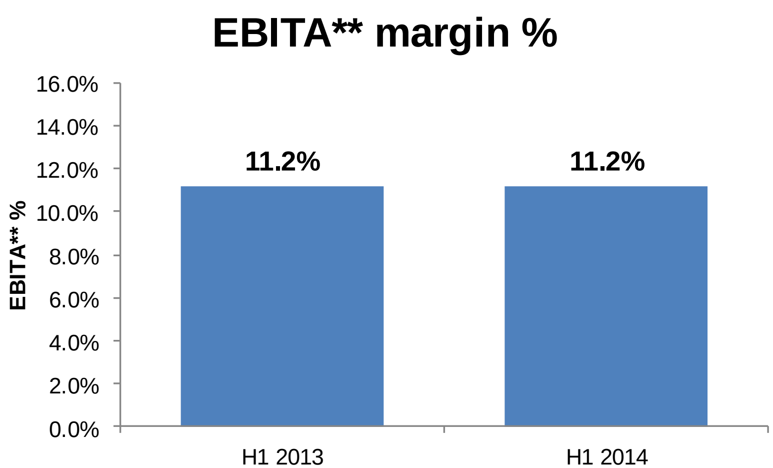


- H1 2014 revenue 1.4% higher than H1 2013 at constant currency
- Thermal, Electrical Carbon and Seals and Bearings good revenue and profit progress offset by weak Technical Ceramics, HDD down and the ceramics cores business had weak end-market demand (aerospace/IGT) and low operational yields

* Figures all stated at constant 2014 half-year average rates
** Results before specific adjusting items

Europe – performance impacted by C&DS

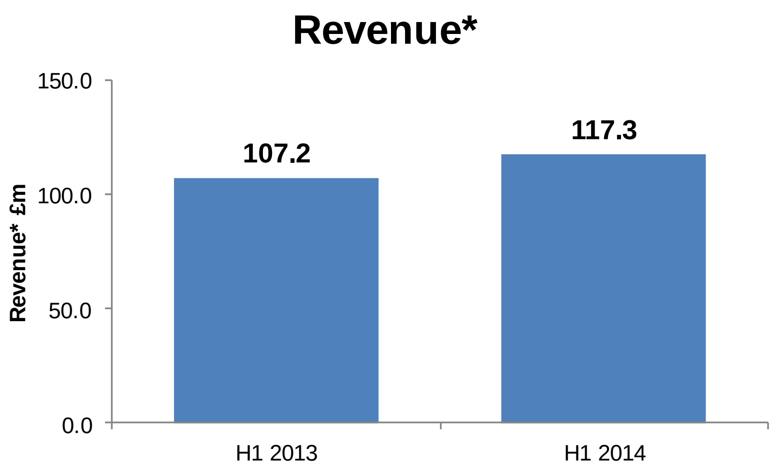


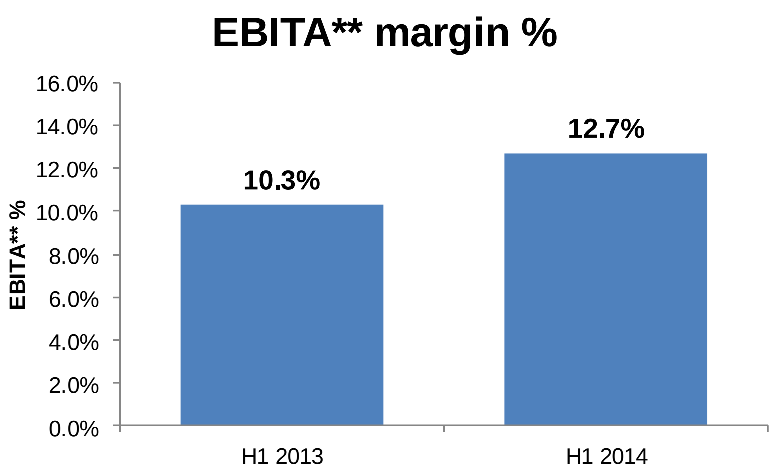


- H1 2014 revenue 1.8% lower than H1 2013 at constant currency excluding C&DS. Stable markets in general
- EBITA margin improvement at constant currency compared to H1 2013 excluding C&DS from 11.6% to 12.7%
- Continued margin progression in Electrical Carbon and Seals and Bearings businesses

* Figures all stated at constant 2014 half-year average rates
** Results before specific adjusting items

Asia/RoW – strong revenue growth and significant margin increase





- H1 2014 revenue 9.4% higher than H1 2013 at constant currency
- Recovery across most geographies, with growth in petrochem, energy and marine markets
- Good operational improvements across the region particularly in the Thermal businesses, contributing to higher margins

* Figures all stated at constant 2014 half-year average rates
** Results before specific adjusting items

Exchange rates: £ sterling has continued to strengthen against all major currencies during H1 2014

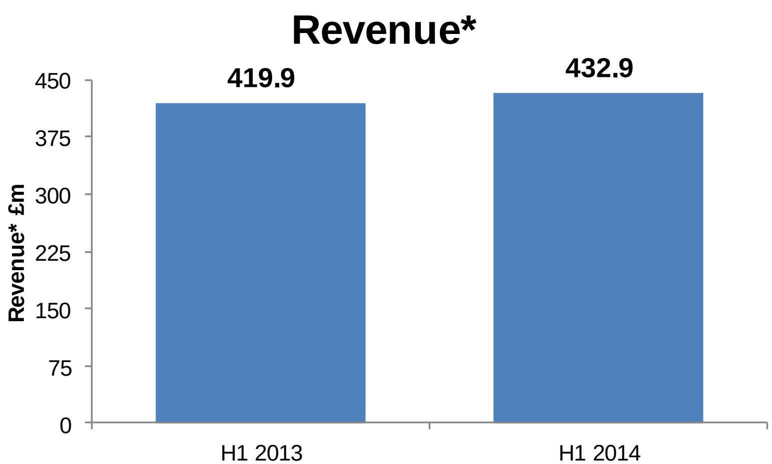
	HY 2014 Reported (average rates) £m	FX impact of using H1 2014 closing rates £m	HY 2014 at H1 2014 closing rates £m
Revenue	448.4	(8.1)	440.3
EBITA before restructuring**	56.4	(1.2)	55.2
EBITA margin %	12.6%		12.5%

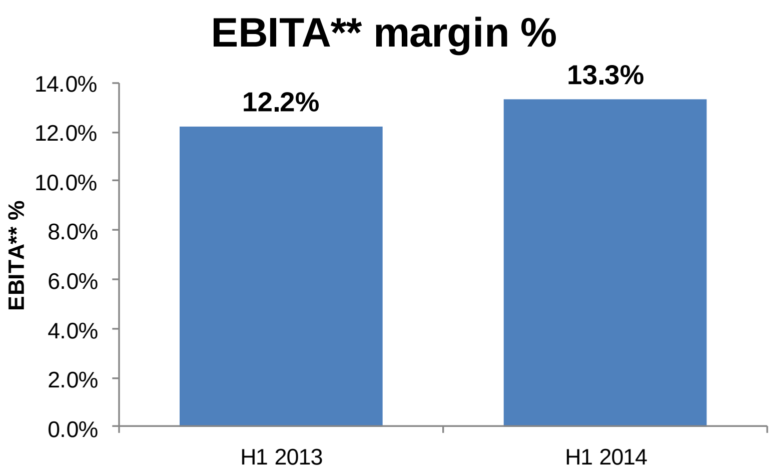
* Results before specific adjusting items

** Restructuring includes the costs of restructuring activity, profit on disposal of properties and acquisition-related costs

The above analysis is an illustration of the translation effect of using H1 2014 closing rates on the Group's reported revenue and EBITA for H1 2014

Encouraging progress across the majority of the Group's businesses





- Graphs at constant currency, adjusted for exited/sold businesses and Composites and Defence Systems (C&DS)
- H1 2014 revenue up 3.1% compared to H1 2013
- EBITA margin up 110bps to 13.3%

* Figures all stated at constant 2014 half-year average rates
** Results before specific adjusting items

Summary

- Solid growth at constant currency, excluding C&DS and exited businesses, at 3.1% (H1 2014 v H1 2013)
- Higher order book: book-to-bill ratio year to date at 1.06 times
- Profits and margins improved year-on-year at constant currency
- FX headwinds material to reported results
- Interim dividend increased by 2.6%

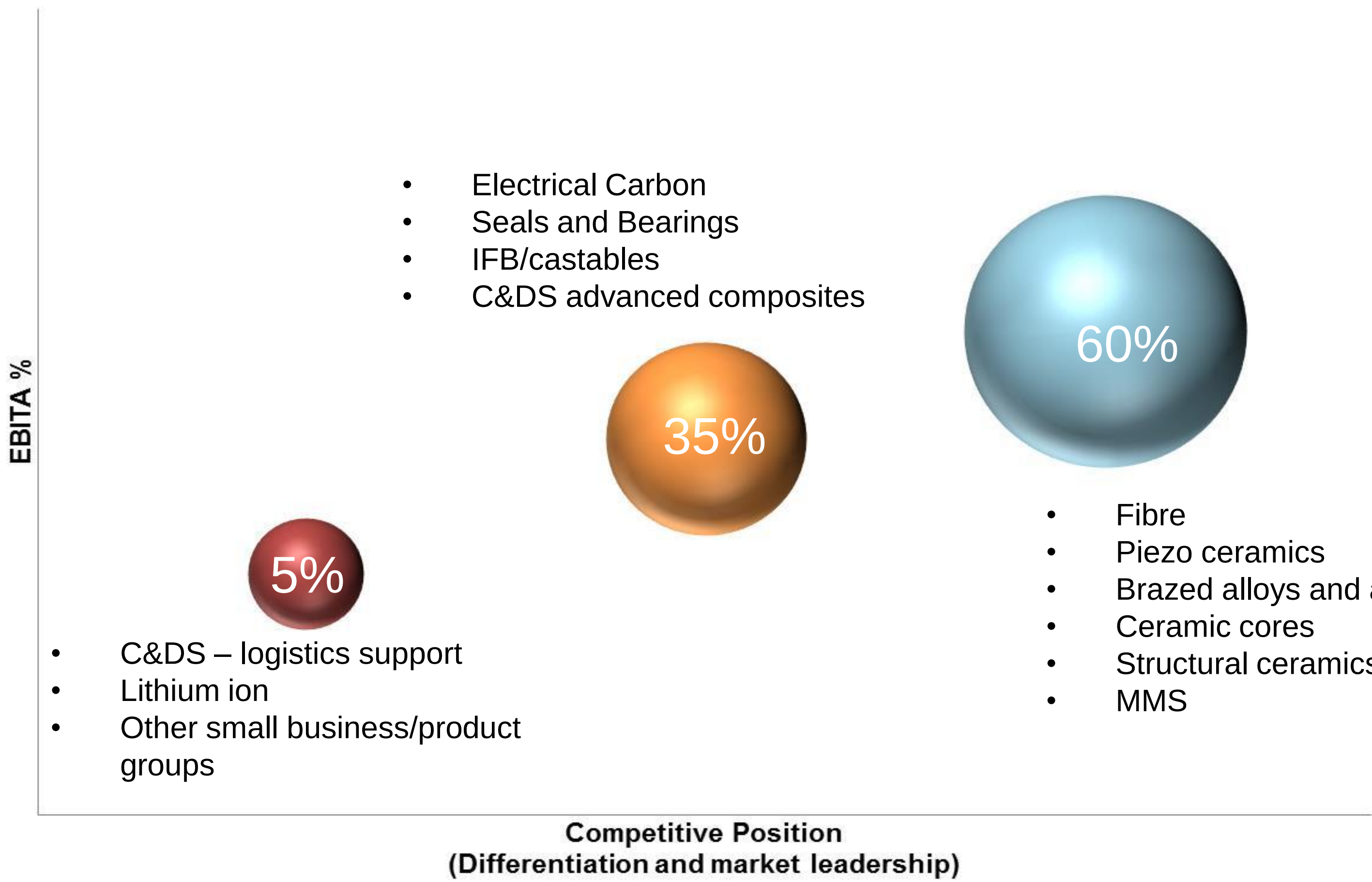
Strategy update

Mark Robertshaw

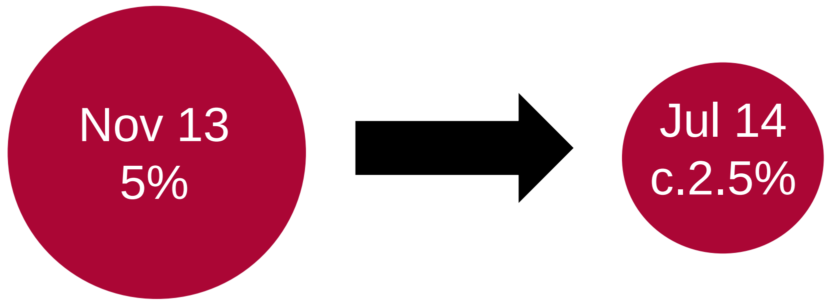
Strategy – key themes

- 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

Portfolio reshaping – status as at November 2013 Capital Markets presentation



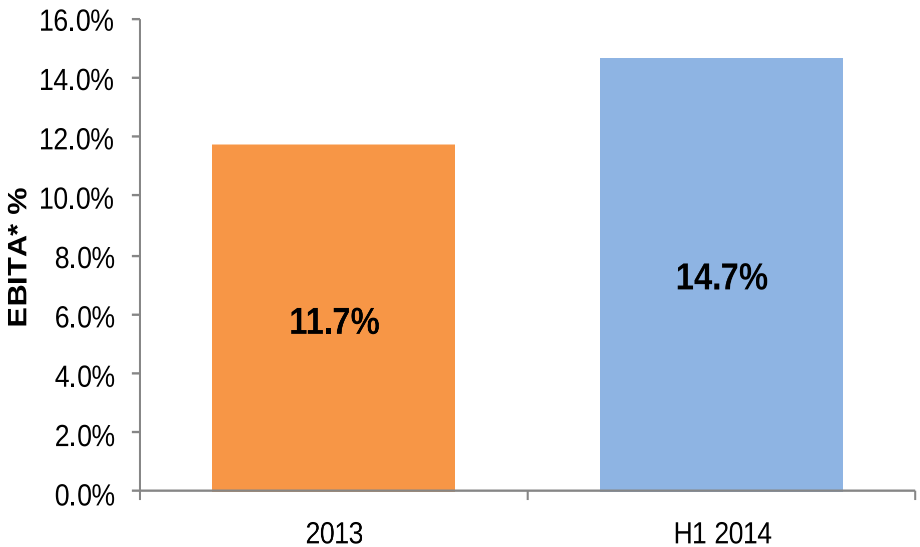
Continued progress made on addressing loss-making/low margin businesses



- Merger of UK fired shapes business with Magma fully completed
  - 35% minority stake in larger entity
- Disposal of loss-making Chinese lithium ion materials business (2013 revenue - £3.2m)
- Approximately half of the businesses identified in the November 2013 Capital Markets presentation have now been sold or exited
- Solutions being actively pursued for the remainder

Significant progress in Electrical Carbon – now into mid-teen margin territory

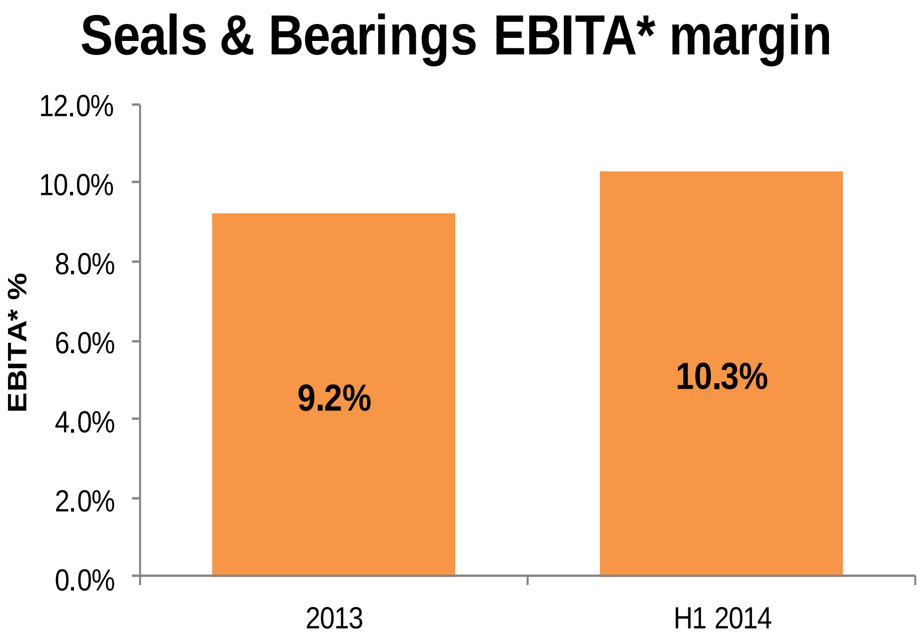
Electrical Carbon EBITA* margin



* Results before specific adjusting items and Unallocated Costs

- EBITA margin improved by 300bps since 2013 driven by:
  - positive mix shift
  - continued rationalisation of headcount and footprint in higher cost labour markets and transfer to lower cost countries e.g. Hungary and Mexico
- Further opportunities to drive margin over next 12 – 24 months through grade rationalisation and consolidation of materials plants

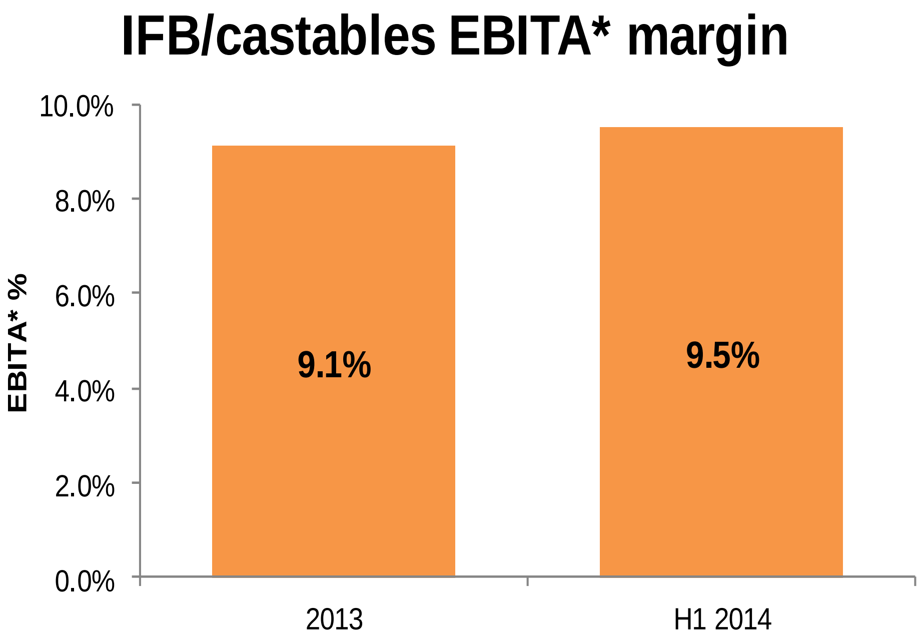
Good improvement made in Seals and Bearings



* Results before specific adjusting items
and Unallocated Costs

- Revenue up c.10% compared to H1 2013 at constant currency, driven by petrochem and water markets
- As with Electrical Carbon, further opportunities to drive margin over next 12 – 24 months through grade rationalisation and consolidation of materials plants and operating footprint

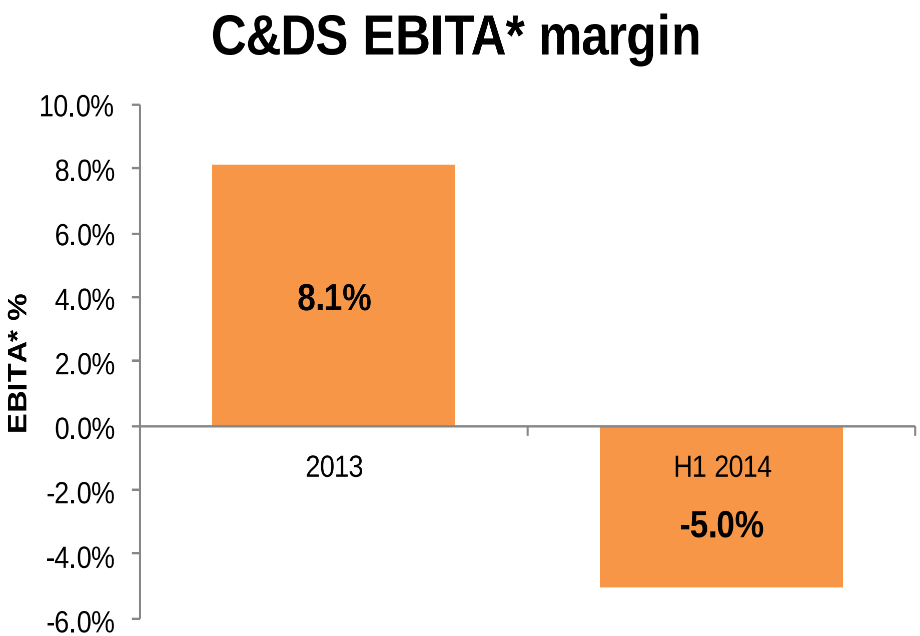
Improving signs in IFB/castables following slow down in 2013



* Results before specific adjusting items and Unallocated Costs
** IFB = Insulating Fire Bricks

- Margin beginning to benefit from increasing levels of project business, particularly in Asia and North America
- Targeting further EBITA improvement through:
  - enhanced product differentiation and pricing
  - tail management
  - continuous improvement projects

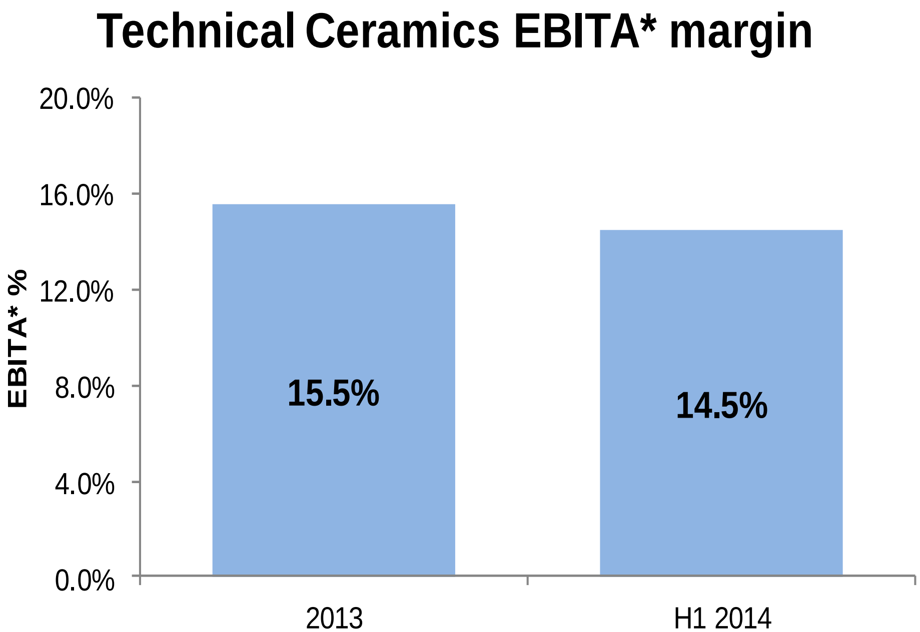
Business exits and phasing of shipments impacted C&DS



* Results before specific adjusting items and Unallocated Costs

- Revenues down c.50% compared to H1 2013:
  - Exit of the UK MoD vehicles logistics and spares contract
  - Phasing of shipments more weighted to H2
- Significant rationalisation of headcount and cost base
- H2 performance expected to be stronger as we deliver the contracts won in H1

Sustaining mid-teen margins in Technical Ceramics

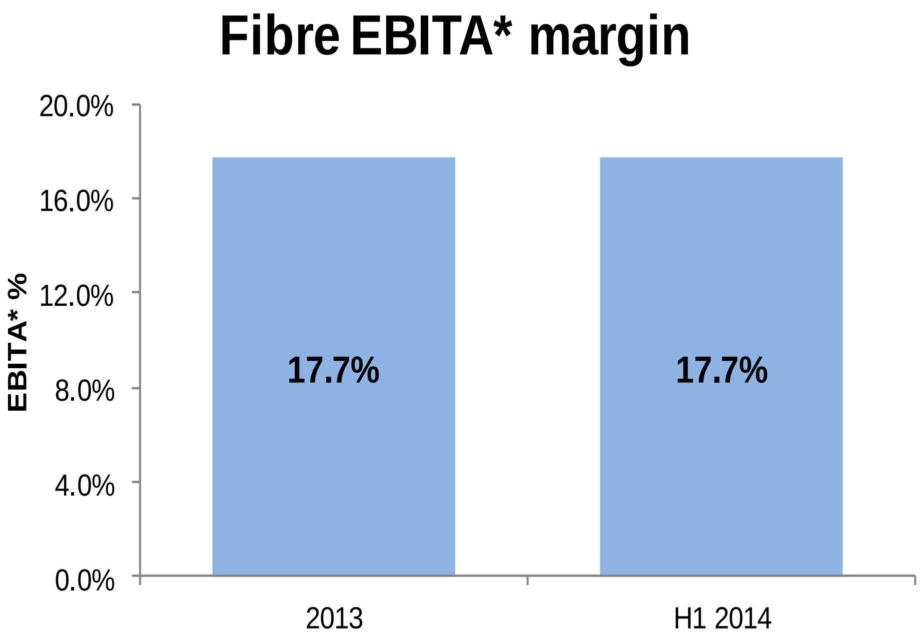


* Results before specific adjusting items and Unallocated Costs

- Revenue down c.7% compared to H1 2013 at constant currency, primarily driven by lower volumes for hard disk drive (HDD) and ceramic cores

- H1 2014 margin impacted by volume decline and lower than anticipated yields in our ceramic cores business – H2 expected to show some improvement as yield levels begin to recover

Fibre - a high-teen margin business



* Results before specific adjusting items and Unallocated Costs

- Positive mix shift with continued rollout of Superwool® fibre
- Growth in differentiated products e.g. vehicle emissions control
- Increased levels of investment in fibre R&D to further enhance technology leadership position

Growing our differentiated businesses: acquisition of Porextherm

- Group acquired 100% of Porextherm on 14 July 2014 for an enterprise value of c.€26.5m
- Single plant in Germany with 2013 revenue c.€24m that complements our existing microporous plants in North America and Asia
- Microporous is a low density, high performance insulating material with widespread use in commercial and military aircraft e.g. heat shields, but also other demanding applications such as petrochem
- Porextherm brings additional product range and process technology, and Morgan provides the distribution network to leverage this globally
- Creates world-leading position in highly differentiated microporous insulation: renowned for its low thermal conductivity and high durability

Continued investment for long-term profitable growth

- Key areas of growth capex:
  - Construction of new greenfield high-temperature ceramics manufacturing site in Dalian, China now completed with operational commissioning under way
  - Work started on new Superwool® greenfield site in Kizad, UAE with targeted completion in H2 2015
  - Superwool® fibre line conversion and capacity upgrades ongoing - £4.6m invested in H1 2014
- Continued increase in R&D investment – 2.4% of sales in H1 2014 (H1 2013: 2.1%)
  - New Global Material Centre of Excellence for Structural Ceramics announced in H1 to be located in the UK

Summary and outlook

Mark Robertshaw

Summary

- Significant progress on portfolio reshaping
- Continued investment to drive future profitable growth both organically in technology and growth capex and through acquisitions
- Encouraging year-on-year growth in order book

Outlook

- Focus remains on self-help initiatives:
  - positive mix
  - cost efficiencies
  - continued investment in technology and differentiation

- Continued self-help and an improved order book gives confidence of further progress in H2 2014

2014 half year Group results

23rd July 2014

Appendix

Revenue and EBITA as historically presented – strong margin progression in AM&T businesses

At reported rates

£ million	Revenue		EBITA*		Profit Margins %	
	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013
Technical Ceramics	118.9	135.5	17.2	21.0	**14.5%**	**15.5%**
Thermal Ceramics	177.4	178.6	24.4	21.7	**13.8%**	**12.2%**
Ceramics	**296.3**	**314.1**	**41.6**	**42.7**	**14.0%**	**13.6%**
AM&T	119.9	122.4	15.6	12.7	**13.0%**	**10.4%**
Composites & Defence Systems	13.9	27.7	(0.7)	2.2	**(5.0)%**	**7.9%**
Molten Metal Systems	18.3	21.9	2.4	3.0	**13.1%**	**13.7%**
Engineered Materials	**152.1**	**172.0**	**17.3**	**17.9**	**11.4%**	**10.4%**
Unallocated Costs **			(2.5)	(2.3)	-	-
EBITA before restructuring ***	***448.4***	***486.1***	***56.4***	***58.3***	***12.6%***	***12.0%***
Restructuring ***			(2.1)	(6.7)		
EBITA after restructuring ***			***54.3***	***51.6***	***12.1%***	***10.6%***

*** 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, profit on disposal of properties and acquisition-related costs**

Key exchange rates

GBP to:	H1 2014 Closing rate	H1 2014 Average rate	FY 2013 Closing rate	FY 2013 Average rate	H1 2013 Closing rate	H1 2013 Average rate
USD	1.71	1.67	1.66	1.56	1.52	1.54
EUR	1.25	1.22	1.20	1.18	1.17	1.18
CNY	10.61	10.30	10.03	9.62	9.31	9.55

Exchange rates: £ sterling has continued to strengthen against all major currencies throughout H1 2014

	FY 2013 Reported (average rates) £m	FX impact of using 2013 closing rates £m	**UPDATED** FX impact of using H1 2014 closing rates £m	FY 2013 at H1 2014 closing rates £m
Revenue	957.8	(44.2)	(69.1)	888.7
EBITA before restructuring**	119.0	(6.8)	(10.6)	108.4
EBITA margin %	12.4%			12.2%

* Results before specific adjusting items

** Restructuring includes the costs of restructuring activity, profit on disposal of properties and acquisition-related costs

Updated slide from February results presentation – FY 2013 results at HY 2014 closing rates

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During H1 2014 £ sterling strengthened substantially against most currencies that Morgan trades in

- The half year closing rates of exchange were materially different from the average rates used in the Income Statement
- The impact of 2014 half year closing foreign exchange rates on the Group's 2014 half year revenue and EBITA using these translation rates is to decrease revenue by £8.1 million and EBITA by £1.2 million

Currency	Revenue by currency £m	% of group revenue	FX rate change	Revenue impact £m	EBITA impact £m
USD	170.4	38.0%	-2.3%	(4.0)	(0.6)
EUR	95.5	21.3%	-2.4%	(2.3)	(0.3)
GBP	56.4	12.6%		0.0	0.0
CNY	42.7	9.5%	-2.9%	(1.2)	(0.2)
Other	83.4	18.6%	-0.7%*	(0.6)	(0.1)
	448.4			**(8.1)**	**(1.2)**

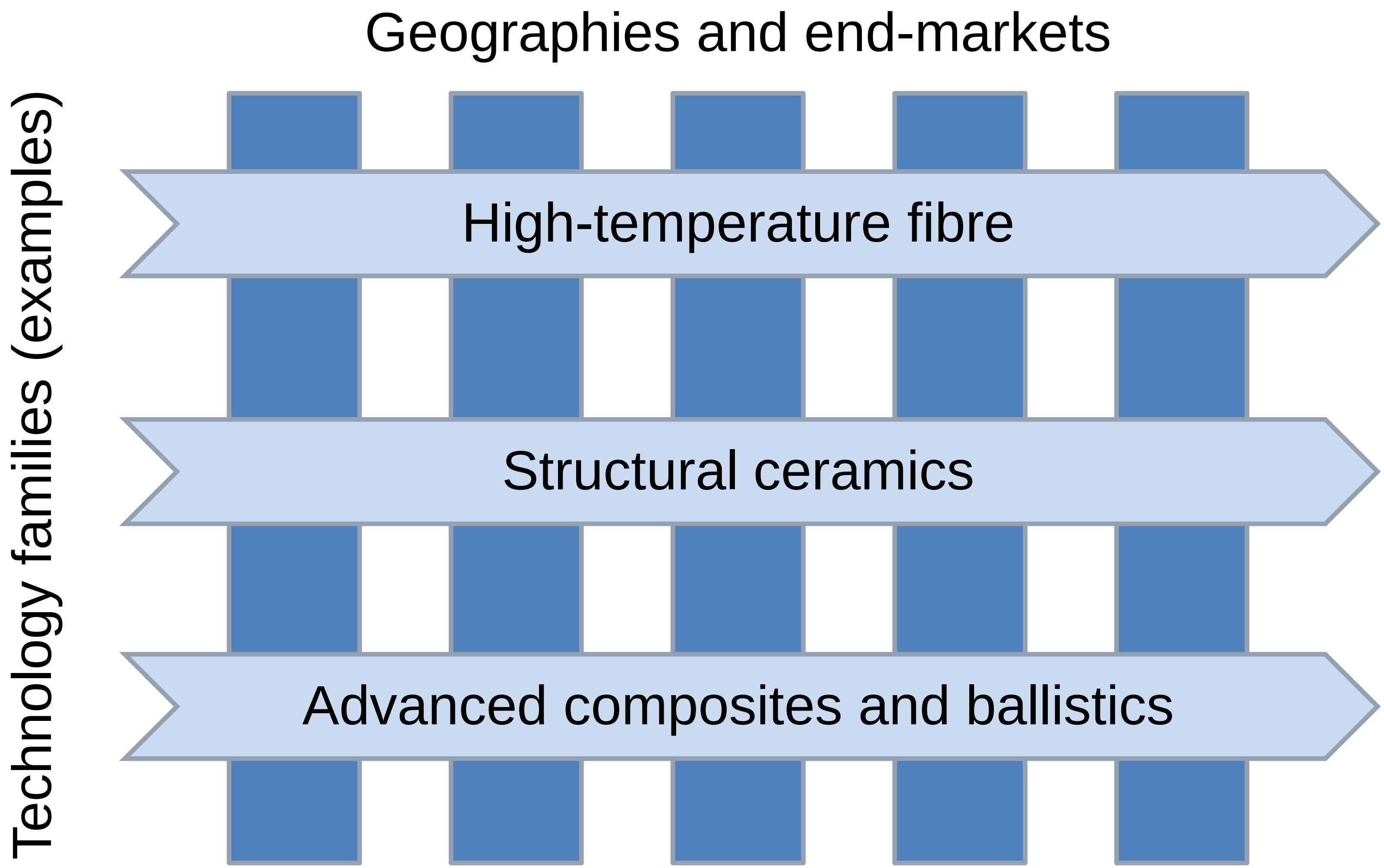
* Weighted average of a number of other currencies

Reconciliation of Group revenue

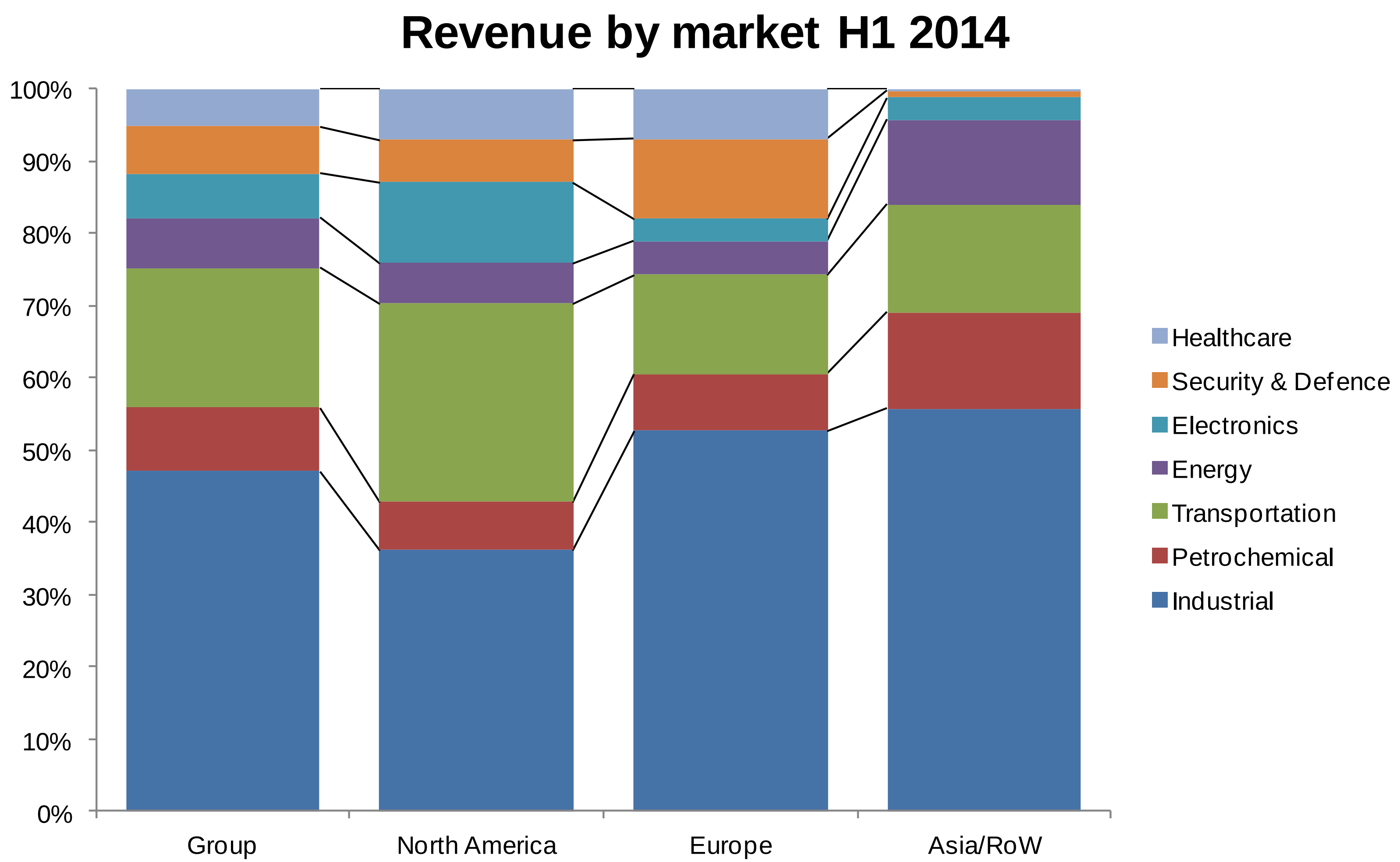
	H1 2014 £m	H1 2013 £m	H1 2014 £m	H1 2013 £m
	As reported		At constant currency*	
Revenue as disclosed	448.4	486.1	448.4	452.4
Revenue growth %	-7.8%		-0.9%	
Exits:				
C&DS spares	0.0	(4.8)	0.0	(4.8)
Indian loss making carbon business	0.0	(1.8)	0.0	(1.5)
UK fired shapes	(0.7)	(1.7)	(0.7)	(1.7)
Chinese lithium ion materials	(0.9)	(1.7)	(0.9)	(1.6)
	(1.6)	(10.0)	(1.6)	(9.6)
Revenue adjusted for exits	**446.8**	**476.1**	**446.8**	**442.8**
C&DS	(13.9)	(22.9)	(13.9)	(22.9)
Revenue adjusted for exits & C&DS	**432.9**	**453.2**	**432.9**	**419.9**
Revenue growth %	-4.5%		3.1%	

* Figures all stated at constant 2014 half-year average rates

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



End-market mix across regions



Insulating ceramics products

Product	Key properties/end-markets
Fibre (RCF and Superwool® range)	Up to circa 1400°C - unique low bio-persistence Superwool® fibre range offering typically 20% more energy efficiency across our market sectors
Alphawool	Up to 1600°C - high strength fibre with chemical and thermal stability at high temperatures for automotive and industrial markets
Microporous	Up to 1100°C - exceptional thermal efficiency at low weight for aerospace and industrial markets
IFB/castables	Up to 1800°C - high-temperature insulation with structural capability in high erosion and abrasive environments
Engineering	Brings together all the technologies in an integrated, package design for optimum insulation performance and reduced energy consumption
Other Thermal Ceramics product groups	Primarily fired shapes and building products

Operating ROCE

All £ million At reported rates	2014 Half Year	2013 Half Year
LTM Underlying EBITA	111.3	92.0
Change -v- 2013 Half Year	21.0%	
Operating Capital		
Land & Building - NBV	90.4	105.4
Plant & Equipment - NBV	138.8	146.7
Third Party Working Capital	167.1	181.5
	396.3	433.6
Change -v- 2013 Half Year	-8.6%	
Return on Operating Capital Employed	**28.1%**	**21.2%**

Net financing costs

	H1 2014 £m	H1 2013 £m
Bank interest charge	8.3	9.2
Bank interest income	(0.8)	(0.6)
Net interest on IAS19 obligations	3.0	3.3
	10.5	11.9

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Underlying EPS

	H1 2014 £m	H1 2013 £m
Basic earnings from continuing operations	23.9	24.0
Amortisation	4.3	4.0
Specific adjusting items	2.0	0.0
Underlying earnings	30.2	28.0
Weighted average number of shares in the period	285.2m	281.0m
Underlying earnings per share from continuing operations	10.6p	10.0p

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