Morgan Advanced Materials

Accelerating Growth

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What we do

We are the global manufacturer of advanced carbon and ceramic materials for complex and technologically demanding applications

We create value through our long-term, trusted, relationships with customers and an extensive understanding of their needs

We use our deep materials expertise, R&D and testing capabilities and considerable production know-how to produce differentiated products that are integral to our customers processes and products

We have differentiated positions in our Faster Growing Markets: Semiconductors, Healthcare, Clean Energy, and Clean Transportation and across our Core Markets that we expect to grow strongly supporting robust organic revenue and profit growth

Our investment proposition is stronger

1. Organic growth

Our organic growth will be **towards the higher end of our 4-7% range** over the next four years

2. Simplification

We have simplified the Group to improve our support to customers and reduce costs

3. Margin progression

Margins are well underpinned and will progress **towards the top of our 12.5%-15% range**

4. Capital allocation

The balance sheet is strong enabling us to fund rapid organic expansion and M&A

Our investment proposition is stronger than ever.

We have made further improvements to our growth and margin outlook during 2023, and developed our acquisition pipeline.

We are well placed for a period of rapid organic growth, supplemented by bolt-on acquisitions.

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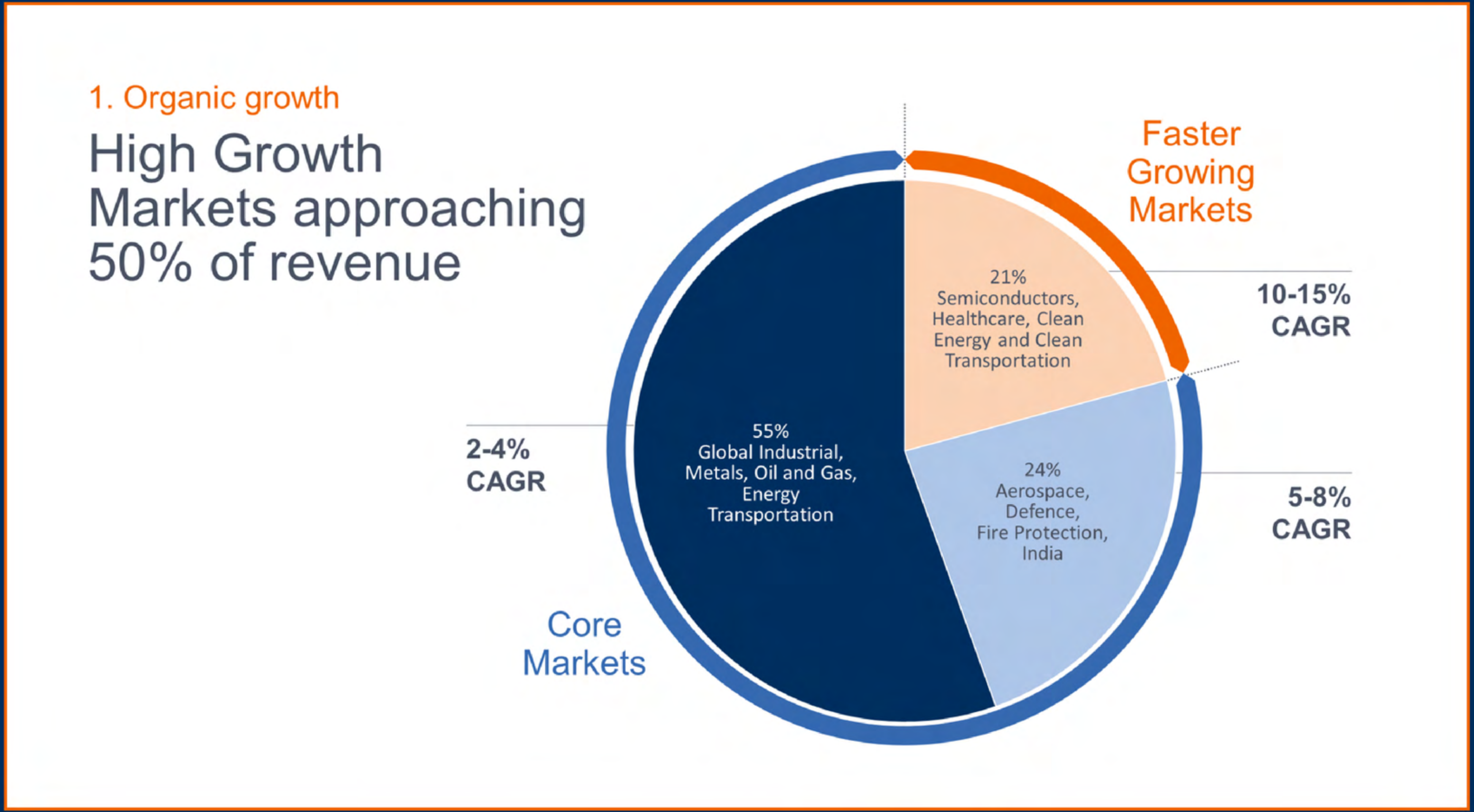

Our faster growing markets should grow 10-15% per year, our core (including India) should grow between 5-8% per year. Taken together these account for almost half of our revenues.

We expect the other markets in the core will grow too:

- Industrial markets will benefit as the developed economies grow
- Oil and gas demand will increase and demand for energy from conventional generation will grow in support of the energy transition.

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1. Organic growth

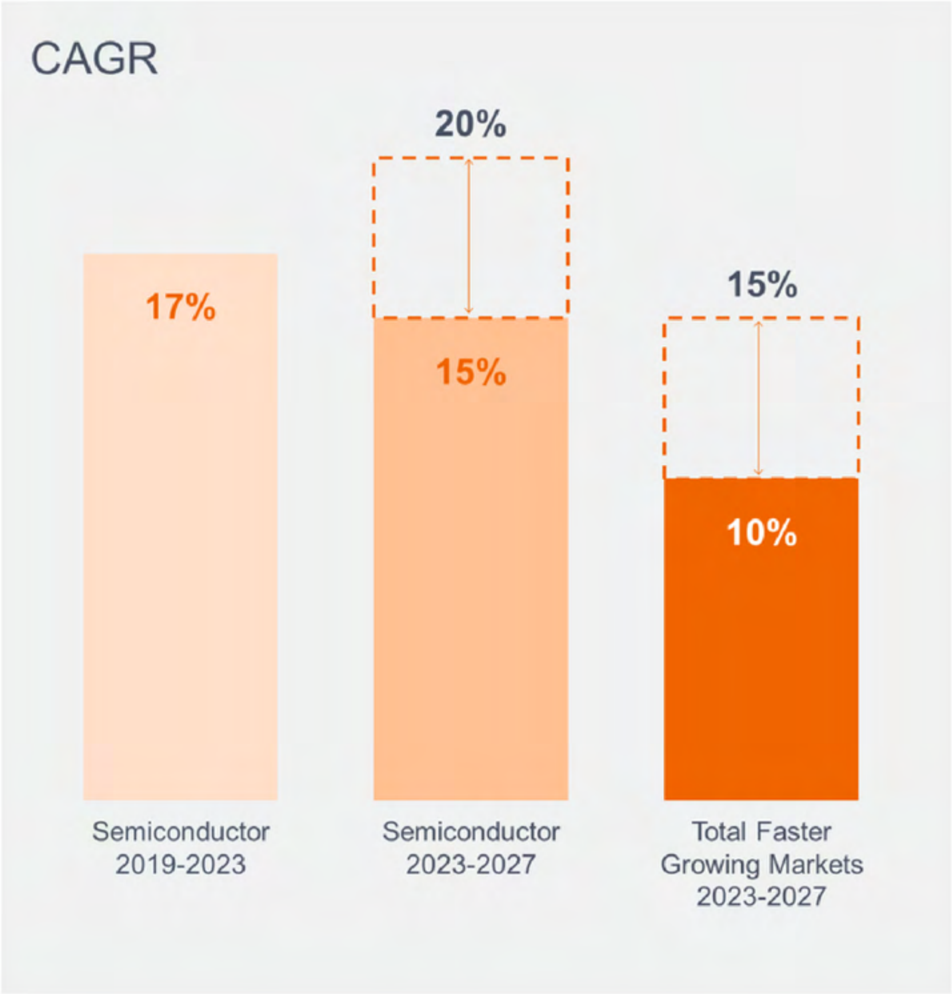
Growth accelerating in semiconductors

Semiconductor revenues are 50% wide band gap SiC power electronics and 50% conventional processors and devices

There are robust drivers for semiconductor demand:

- The energy transition: Growth in electric and hybrid vehicles and grid power conditioning
- Digitisation: The ongoing digitisation and networking of devices
- AI: The growth in AI applications

Faster Growing Markets:



We are seeing strong demand for our products that support the wide-band-gap power semiconductor market, driven by clean energy and clean transportation.

We expect the conventional semiconductor market to grow strongly in the next few years as digitisation progresses further, and AI demand continues to grow.

We have grown at a compound rate of 17% in semiconductors over the last four years. We expect our semiconductor revenues to grow at 15-20% per year between now and 2027.

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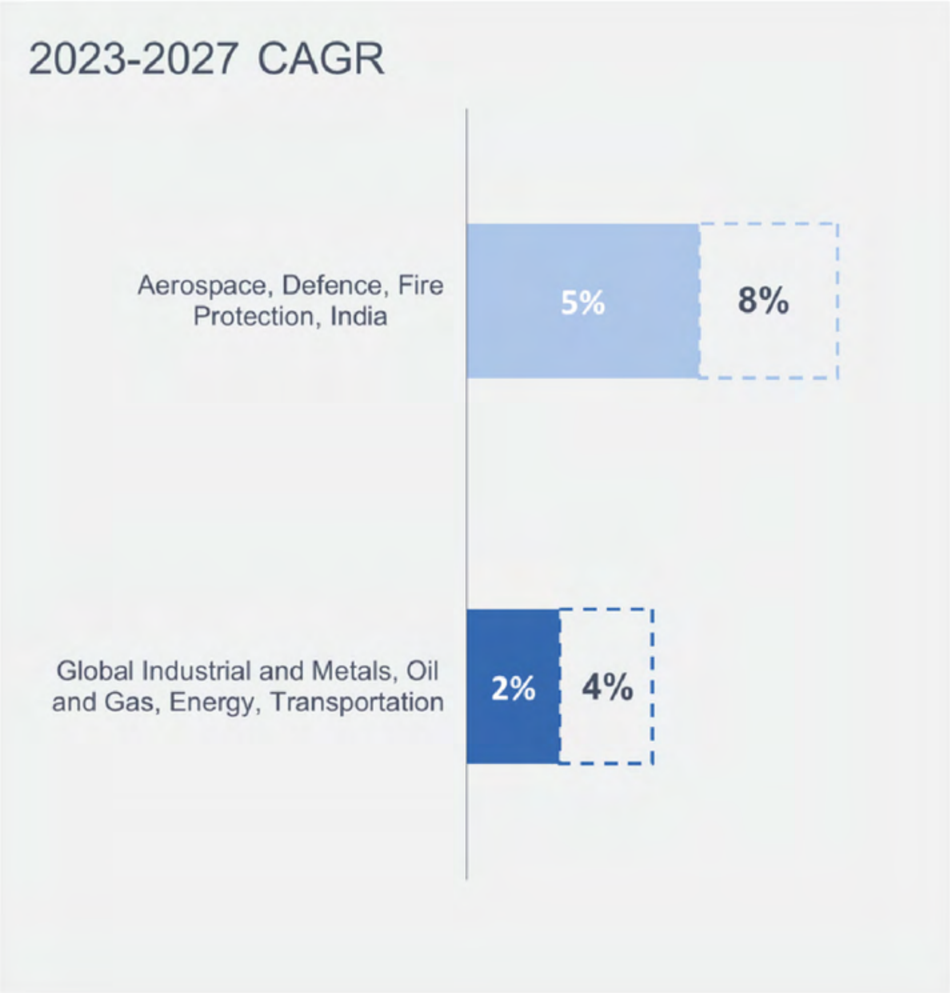
1. Organic growth

Core growth well underpinned

We expect Core to grow at or above the top of our guided 2-4% growth range driven by four Core markets representing around one third of our Core business:

- Aerospace
- Defence
- Fire Protection
- India

Core Growth Markets:



Aerospace is growing strongly as demand for air travel recovers, air travel expands with new orders in developing markets, and new and more efficient aircraft and engine models are delivered; all driving demand for our consumable products.

Defence spending is growing driven by geopolitical tensions. We provide equivalent products to civil and military aircraft, as well as other defence consumables, for example in night vision equipment.

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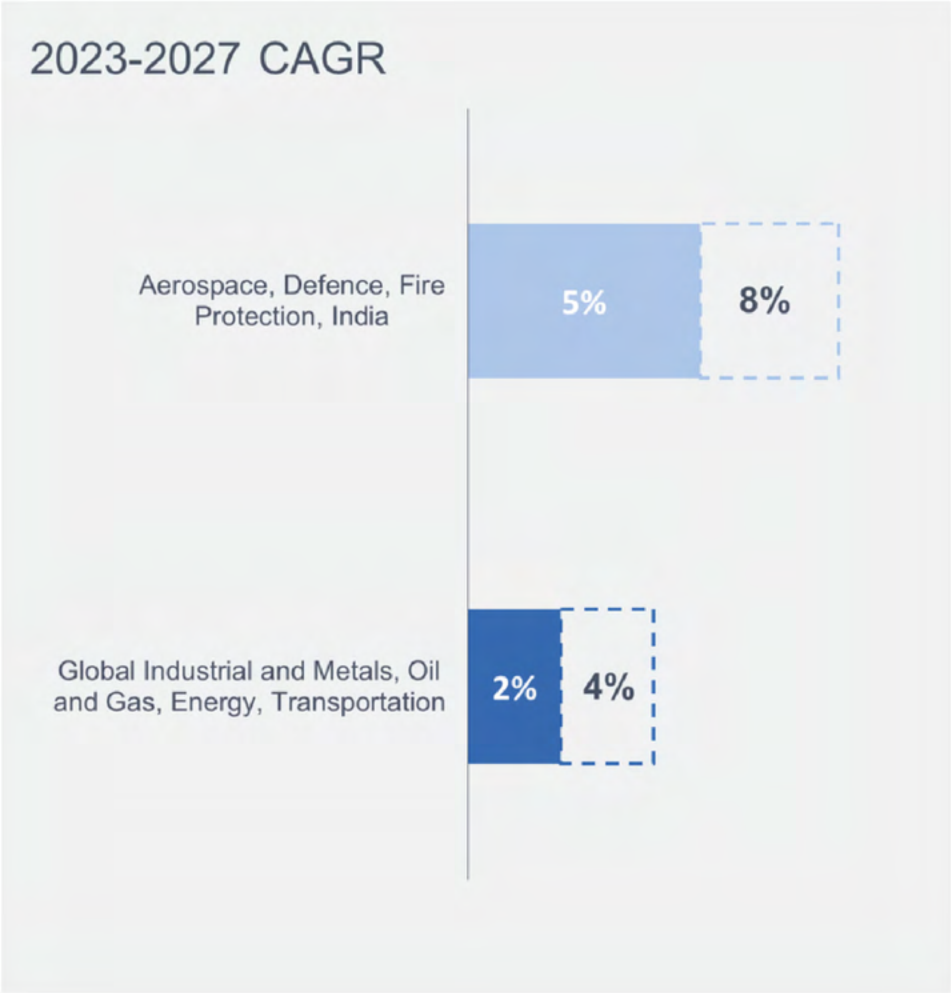
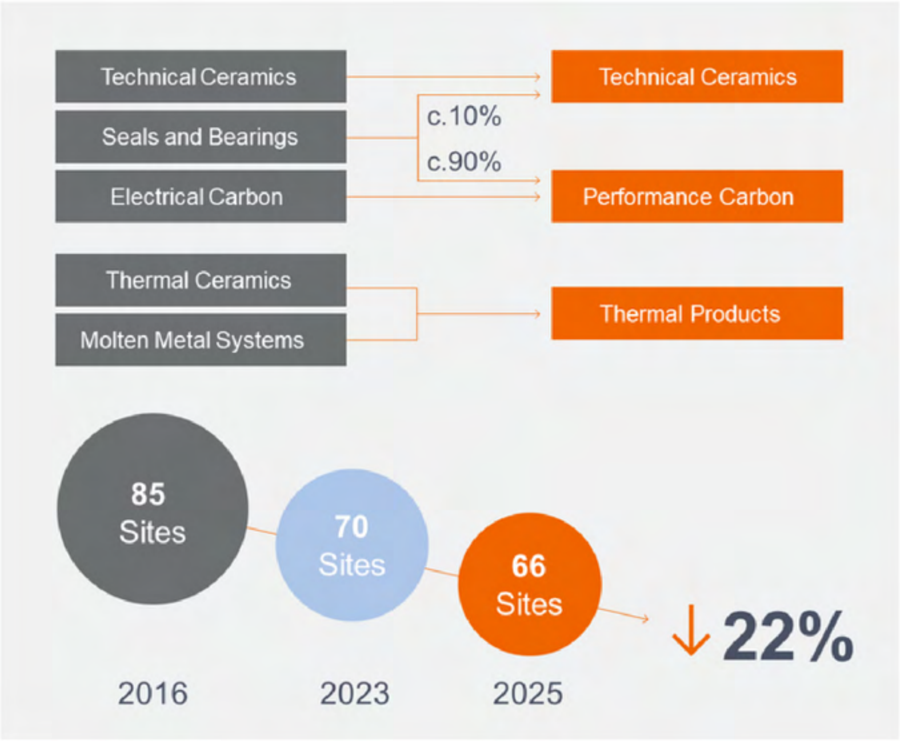


Fire protection is a regulation driven market where these regulations are becoming more demanding, and are increasing in scope. We have leading products in this space, the market is growing, and we are winning share.

The Indian economy is expanding quickly and that is driving demand for iron and steel, construction materials and petrochemical capacity. We grew over 20% in 2023. We are adding capacity in this market and we expect strong growth to continue in the coming years.

2. Simplification

Business simplification & cost savings



Commercial & operational benefits:

- More efficient leadership structure, combining equivalent assets and processes
- Resources focused on most attractive growth opportunities
- Footprint optimisation allowing for more flexible use of capacity

Cost benefits:

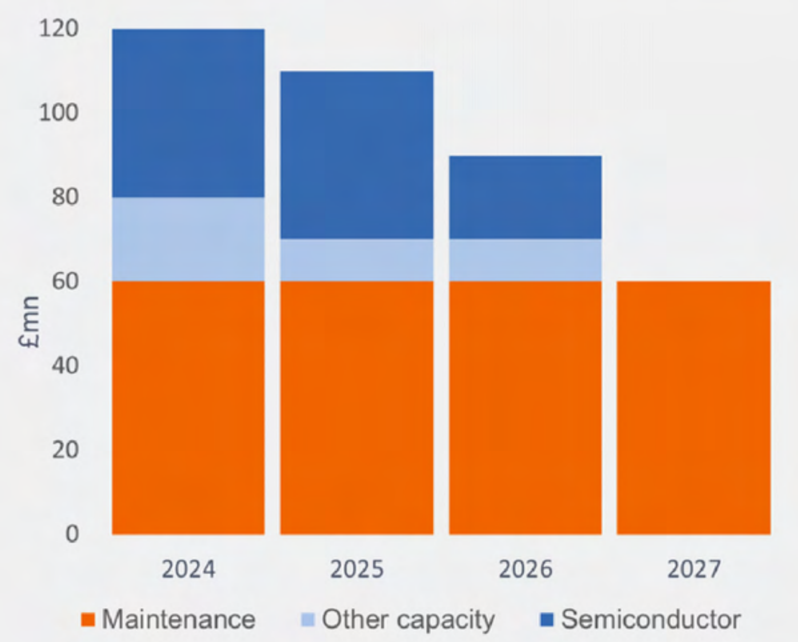
- Closure of four sites
- Savings of £10m per year
- £20m implementation costs
- Back-office and other simplification benefits

We are simplifying our business, reducing the number of global business units, and completing further consolidation of our site footprint.

This will improve our agility, allow for better service and support to our customers, deliver efficiencies that we can reinvest in the business, and in time, flow to margins.

3. Margin progression

Efficient capital investment driving margin and strong returns



- Investment of £100m in Semiconductor capacity over 3 years, incremental investment at existing sites giving minimum 25% ROI
- Other capacity investment in Faster Growing Markets and Core estimated at £40m with minimum 20% ROI
- Maintenance capex at c.1.2x depreciation, includes ongoing enhancement to environmental footprint

We have exciting plans for investment in markets for which we are confident of growing demand, and where we can achieve excellent returns as a result.

They present a significant usage of free cash flow, but we would expect to progress towards a free cash flow conversion of around 50% towards the end of the period.

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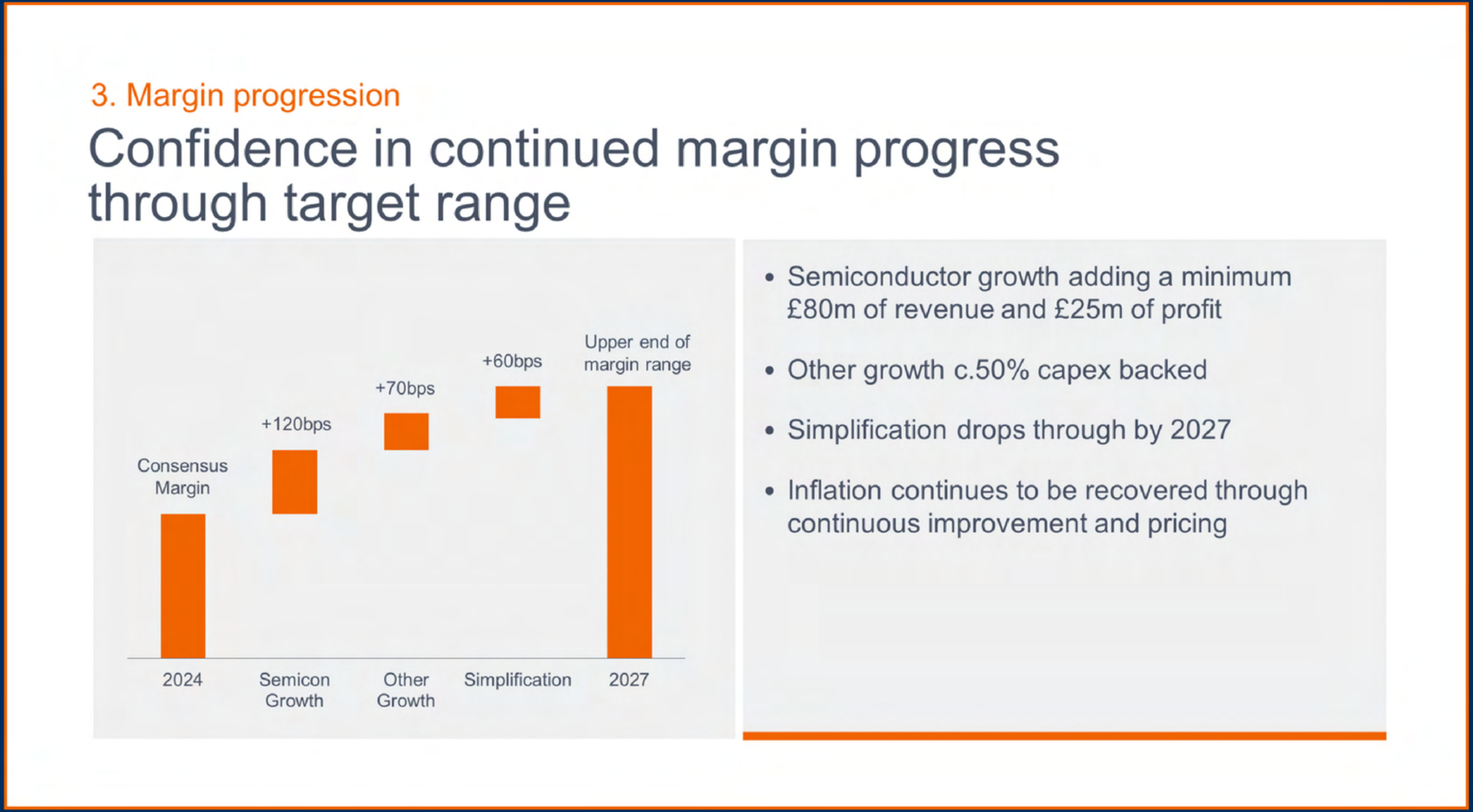

These returns underpin our ambition for margin expansion.

Taking this year's consensus expectation of 12.5% as a base, the £80m of incremental revenue and £25m of profit will add 120bps to Group margin.

We would expect growth from other end markets to add a further 70bps. The simplification and cost-out programme will add a further 60bps.

We continue to drive savings from improvement programmes together with pricing to offset inflation and any further overhead investments necessary to support growth.

4. Capital allocation

M&A

In depth strategic analysis refining our extensive pipeline list from 187 potential targets to 6 in discussion

A disciplined approach to selection:

- Component manufacturers
- Access to faster growing markets
- Operations in US, Europe, Asia
- Unlikely to be a pure consolidation/synergy play
- Must add technical/product capability and/or enhance supply chain

Robust financial metrics:

- Attractive growth potential
- Financially stable with potential to enhance Segment margin
- ROI to exceed cost of capital in third full year
- Clear synergy cases developed
- Valuation range of current shortlist £25-£75m

Now is the right time to pursue inorganic investment to support additional growth. We have carried out a thorough analysis of the range of potential targets, with 187 screened.

We expect to be in active dialogue with 5-10, with our focus being on securing some attractive bolt-ons. We are focused on component manufacturers (that have access to growing markets in US, Europe and parts of Asia), companies that add technical and/or product capability and/or that enhance our supply chains.

We are targeting returns that exceed cost of capital in the third full year of ownership.

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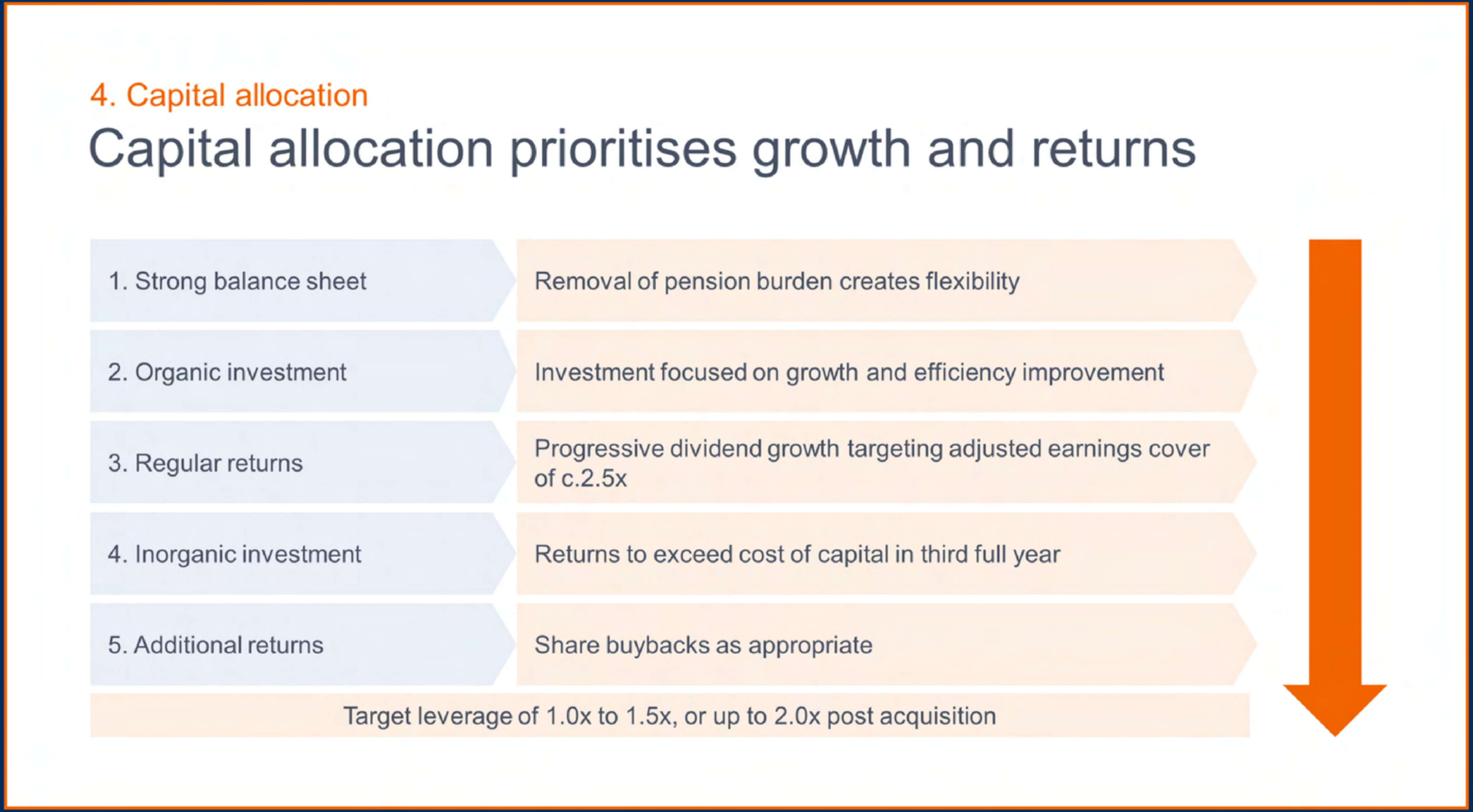

We increased the regular dividend by 32% in 2022, after an extended period in which it had been flat.The Board has adopted a dividend targeting adjusted earnings cover of around 2.5 times through the cycle, with 30% to 40% paid as an interim.

We will retain the financial flexibility to support our M&A plans and will prioritise that flexibility over additional returns to shareholders.

Our target leverage range remains in the 1.0x to 1.5x range in relation to ongoing operations.

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Upgraded financial framework

Delivering significant EPS growth	Clear through-cycle financial framework
Organic revenue growth	**4-7% organic revenue growth (increased from 3-6%)**
+	
Continuing profit growth	**12.5% to 15% adjusted operating profit margin**
+	
Accretive M&A	**ROIC 17-20%**
+	
Additional shareholder returns	**Leverage of 1.0x to 1.5x, up to 2.0x post acquisition**
=	
Significant EPS growth	**Enhanced EPS growth**

The recognition of additional growth opportunities in semiconductors has allowed us to increase our target sales growth range from 3-6% to 4-7%.

Our margin target remains a range of 12.5% to 15.0% through the cycle, with volume leverage allowing us to progress towards the upper end of the range over the medium term. This also allows us to sustain our return on invested capital in the 17-20% range.

Our ambition is to drive enhanced growth in adjusted EPS through accelerated organic revenue growth, a continuous focus on margin, accretive M&A, then enhanced returns to shareholders as appropriate. All leading to the potential for significant EPS growth through the cycle.

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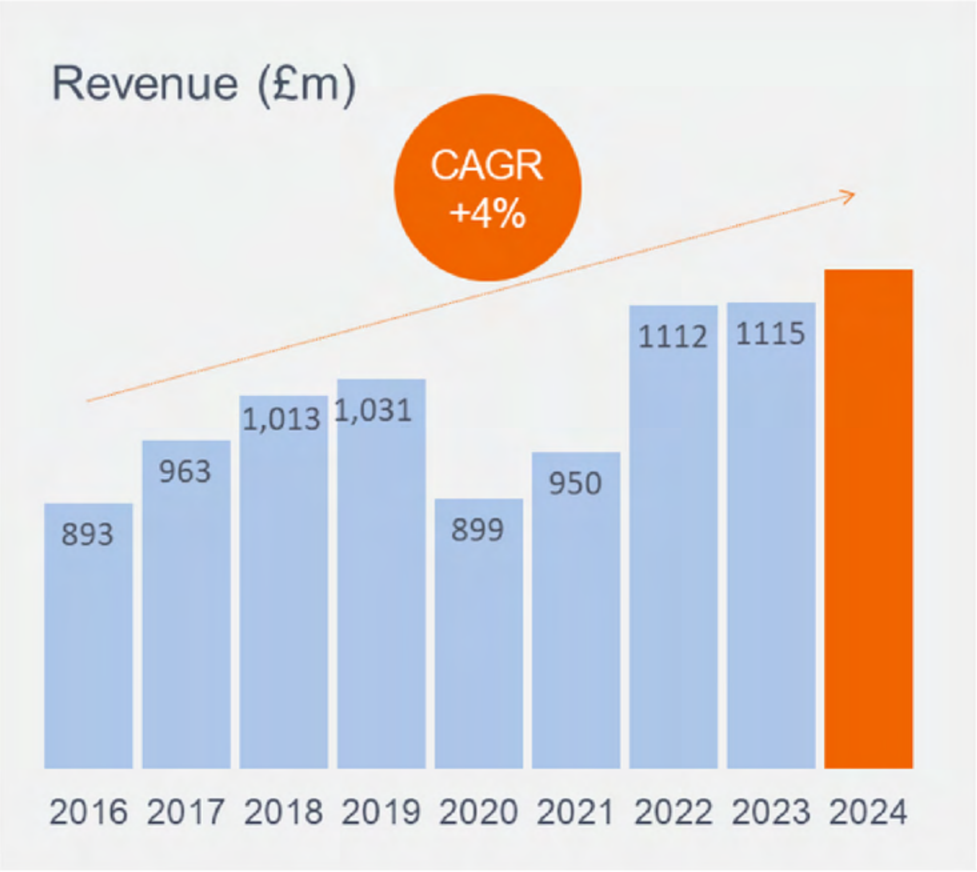
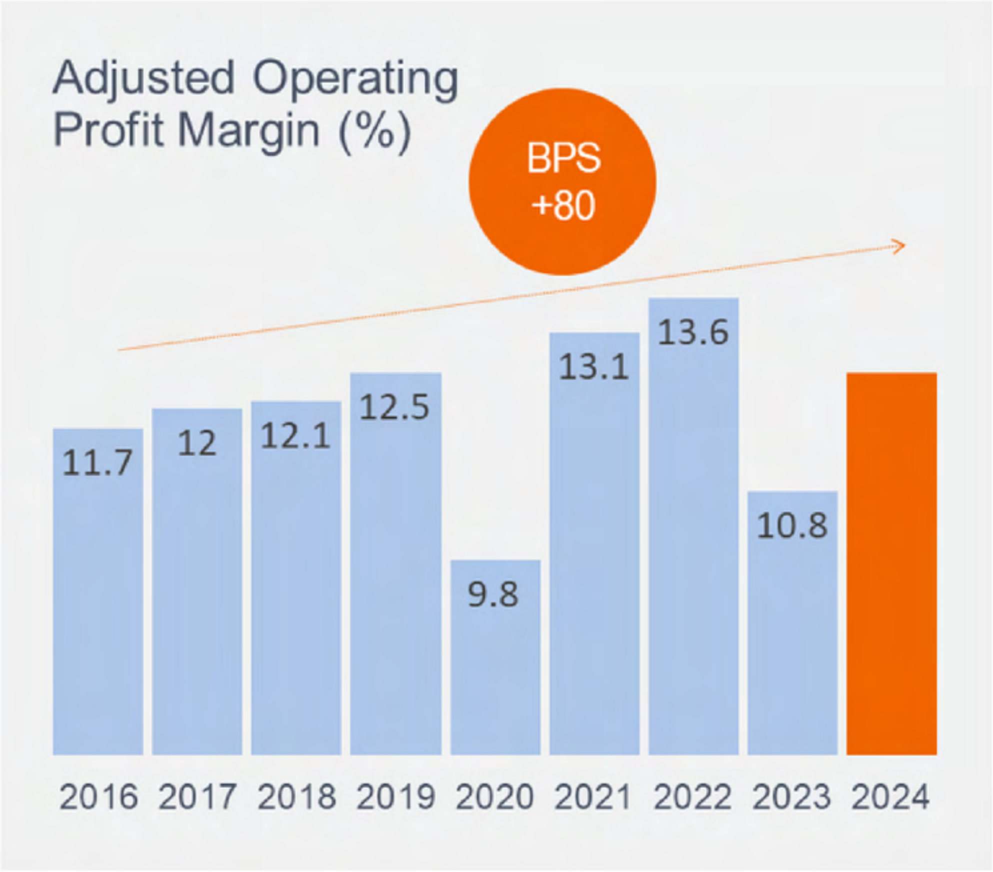
Financial track record





'Indicative 2024 outturn based on internally compiled consensus

Leading differentiated positions

Market	Share of revenue (%) (FY 2023)	Market Position	Differentiation
Faster growing			L H
Semiconductors	9.7%	Emerging/Top 3	
Healthcare	7.1%	Leader	
Clean energy + clean transportation	4.5%	Emerging	
	21.3%		
Core			L H
Industrial	28.3%	Leader/Top 3	
Metals	13.5%	Top 3	
Petrochemical	9.9%	Leader	
Aerospace & Defence	17.0%	Leader	
Other (inc Automotive)	10.0%	Top 3	
	78.7%		

In these faster growing segments we typically have a smaller share and an emerging position. These markets have good underlying long-term growth drivers, and we expect them to grow more quickly than our core markets over the cycle. We also expect higher margins in these segments as our products are typically newer and differentiated.

In 2023 these markets represented 21% of our sales, up from 20% in the prior year.

Our core, representing 79% of the business, includes more mature markets where we typically enjoy a strong market position, leading or among the leaders.

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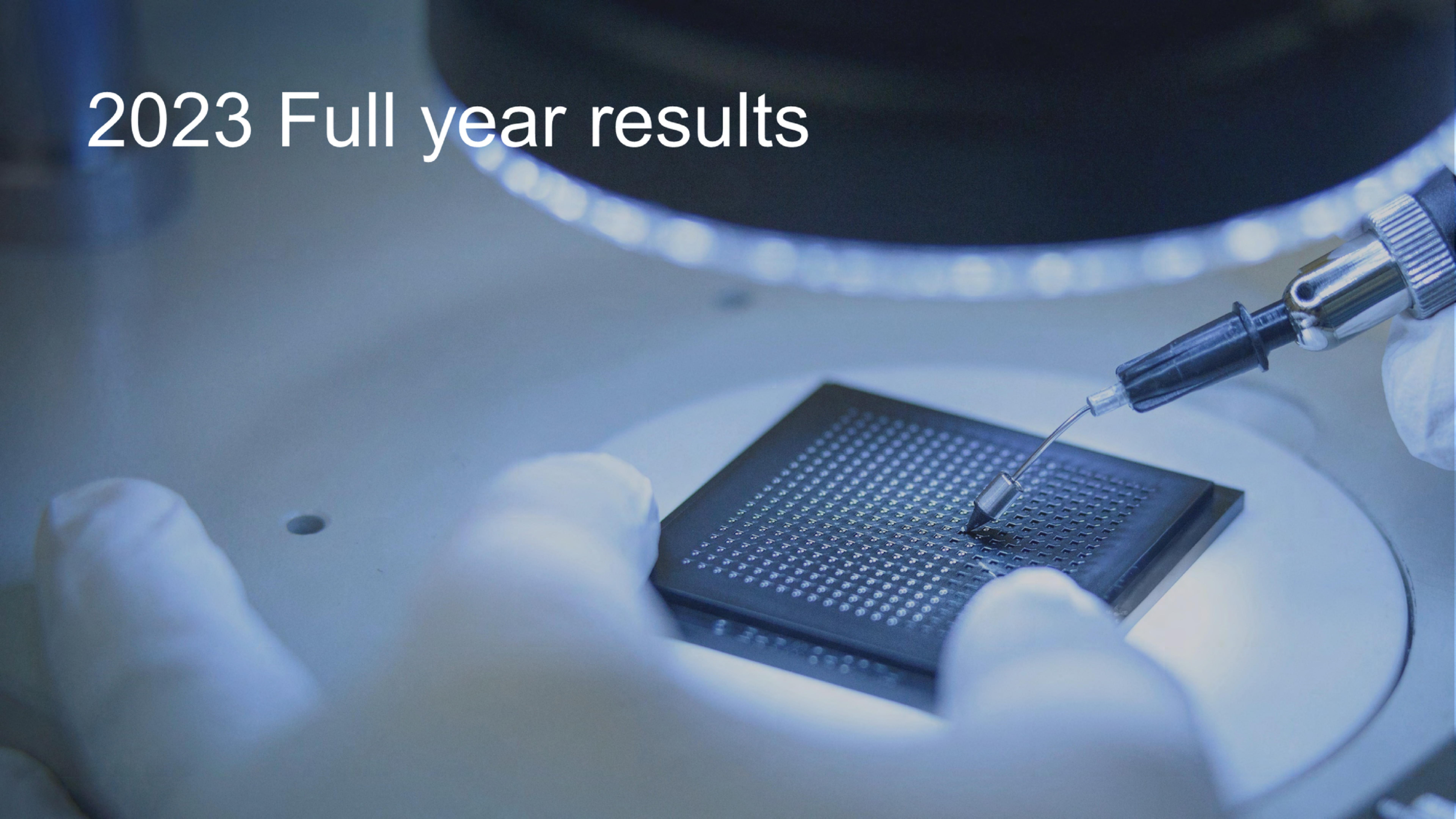
2023 Full year results



Group Performance

£m	FY 2023	FY 2022	% change from FY 2022	
			As reported	At organic constant-currency
Revenue	1,114.7	1,112.1	0.2%	2.5%
Group adjusted operating profit[1]	120.3	151.0	(20.3)%	(16.6)%
Group adjusted operating profit margin %	*10.8%*	*13.6%*		
Return on invested capital %[2]	*17.6%*	*23.7%*		
Cash generated from continuing operations	126.3	59.1	113.7%	
Free cash flow before acquisitions, disposals and dividends	14.6	(46.9)		
Adjusted earnings per share	25.0p	33.8p	(26.0)%	
Total dividend per share	12.0p	12.0p	-%	

1 Group adjusted operating profit is before specific adjusting items and amortisation of intangible assets.
2. The ROIC calculation has been simplified so that it can be calculated from published information and the prior period comparative has been restated to follow the same methodology. See slide 31 in the appendix for details.

Revenue at £1,114.7m was 2.5% higher than prior year on an organic, constant currency basis. This was driven by a volume decline of around 4.0%, offset by pricing benefit of around 6.5%. As expected, we did see some weakening in our industrial end-markets during the second half, although this was offset by an acceleration in the growth of our faster growing markets (to give overall growth in line with our first half).

Group adjusted operating profit was £120.3m. Adjusted operating margin was 10.8% for the year as a whole and had recovered to 12.5% in the second half, in line with our financial framework. Return on invested capital was 17.6%.

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Cash generated from continuing operations was £126.3m and free cash flow was an inflow of £14.6m, both benefitting from a solid working capital improvement during the second half as we recovered from the cyber incident. The year-on-year improvement was principally due to the non-repeat of the pension contribution made in December 2022.

Adjusted EPS was 25.0 pence per share, reflecting the lower operating profit and we have held the dividend for the year flat at 12.0 pence per share.

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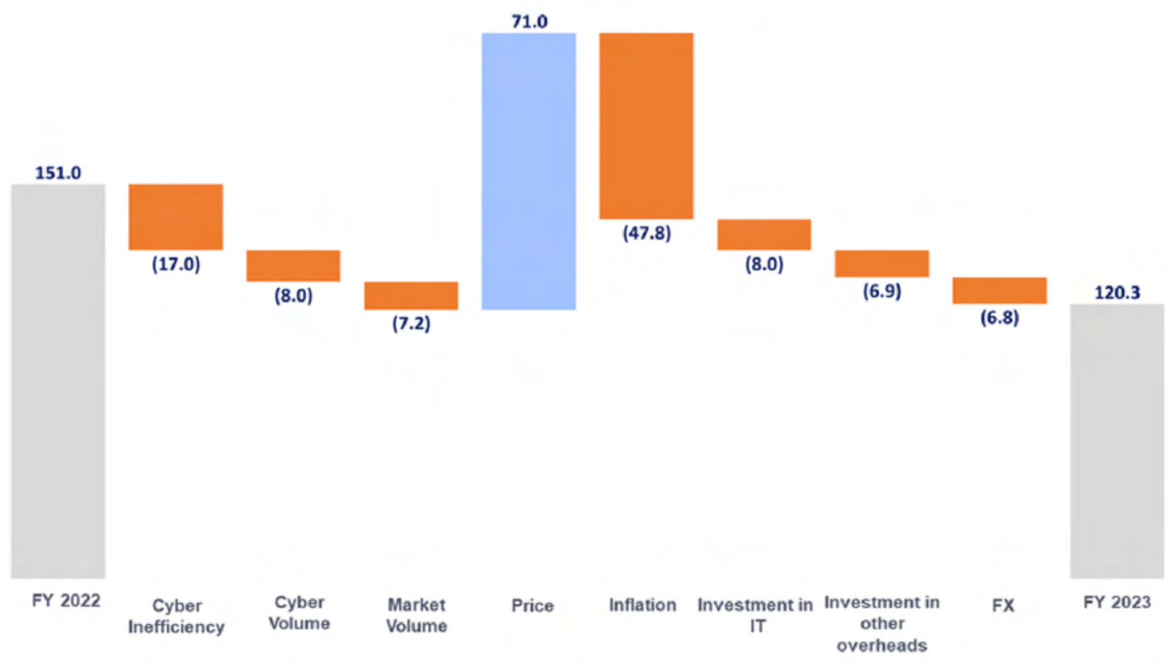
Group adjusted operating profit bridge



- Principal impacts of cyber security incident are:
  - lower volume due to capacity constraints; and
  - costs of inefficient operation during the cyber incident
- Volume shows impact of industrial slowdown impacting core markets in H2
- Pricing measures continue to more than offset cost inflation
- Increased investment in IT infrastructure
- Increase in overheads (excluding inflation) limited to £7m.

You can see the impact of the cyber incident. As expected, this did continue into our second half as a number of sites were still working to recover their efficiencies. We estimate the overall impact of the incident to have been around £25m.

Sales volume declined by 4.0% as noted, and we have attributed roughly 2.5% to 3.0% of this decline to the cyber incident.

Inflation continued to impact the year, averaging 6% on cost of goods sold, and was fully offset by pricing measures which averaged 6.5%.

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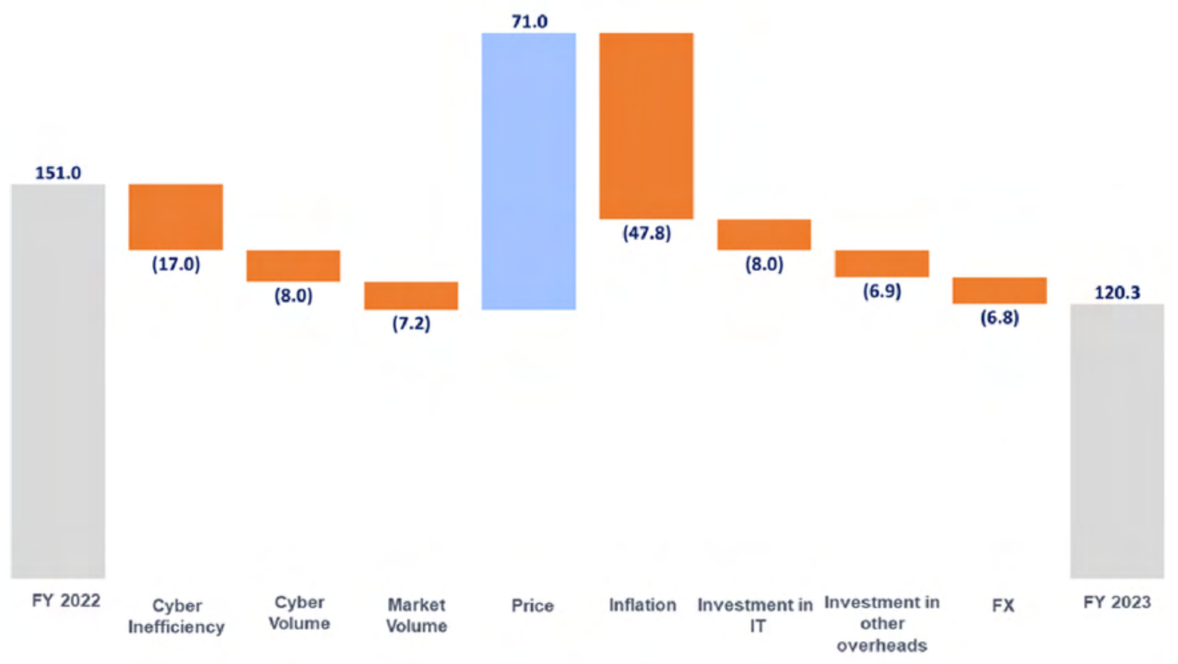
Group adjusted operating profit bridge



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We increased our IT spend by a run-rate of around £8 - 10m per annum, which includes investment in a more secure infrastructure, as well as the roll-out of our ERP system.

Finally, there was an increase of 7m in other overheads, mainly in sales and R&D as we continue to invest in the businesses' growth.

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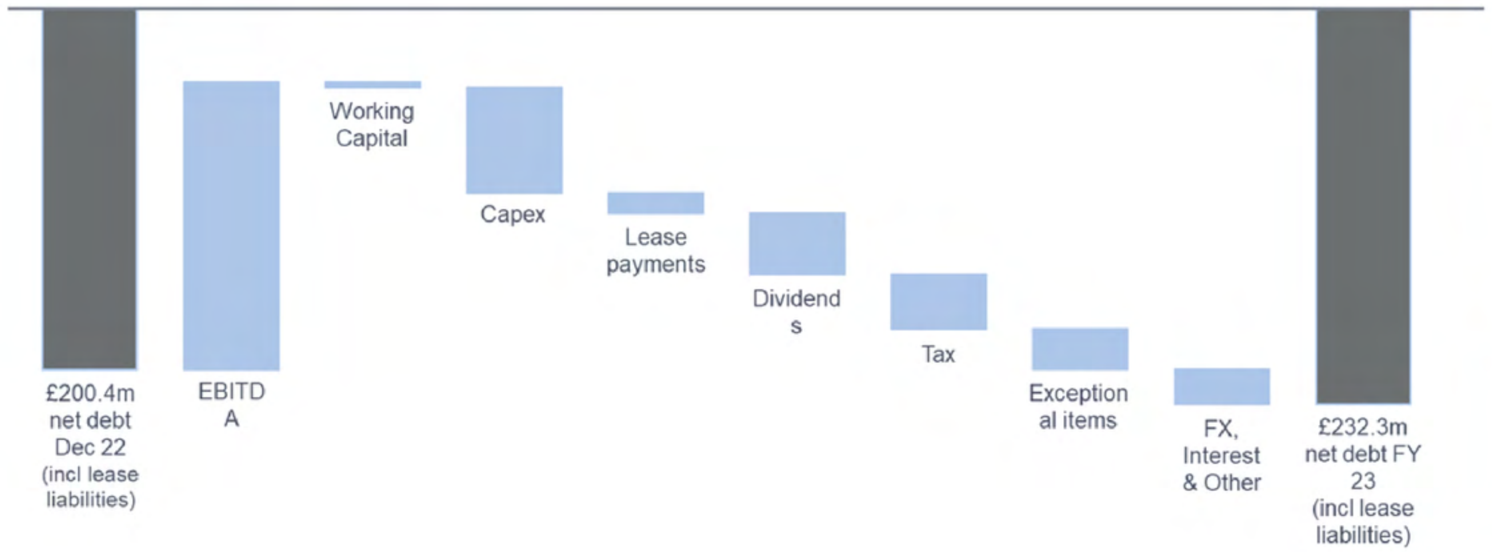
Cash flow summary



Working capital outflow of **£(3.0)m**

2022 : £(44.7)m

Capital investment of **£58.5m**

2022 : £57.4m

Free cash flow of **£14.6m**

2022 : £(46.9)m

Net debt (excl lease liabilities) of £185.2m, net debt/EBITDA of **1.2x**

2022 : 0.8x

Working capital cash outflow of £45.2m (which we had reported at the half year) reversed by the end of the year to leave a very small outflow overall.

After a slow start, our capital expenditure accelerated in the second half to reach £58.5m, with increased levels of expenditure on capacity for our faster growing markets.

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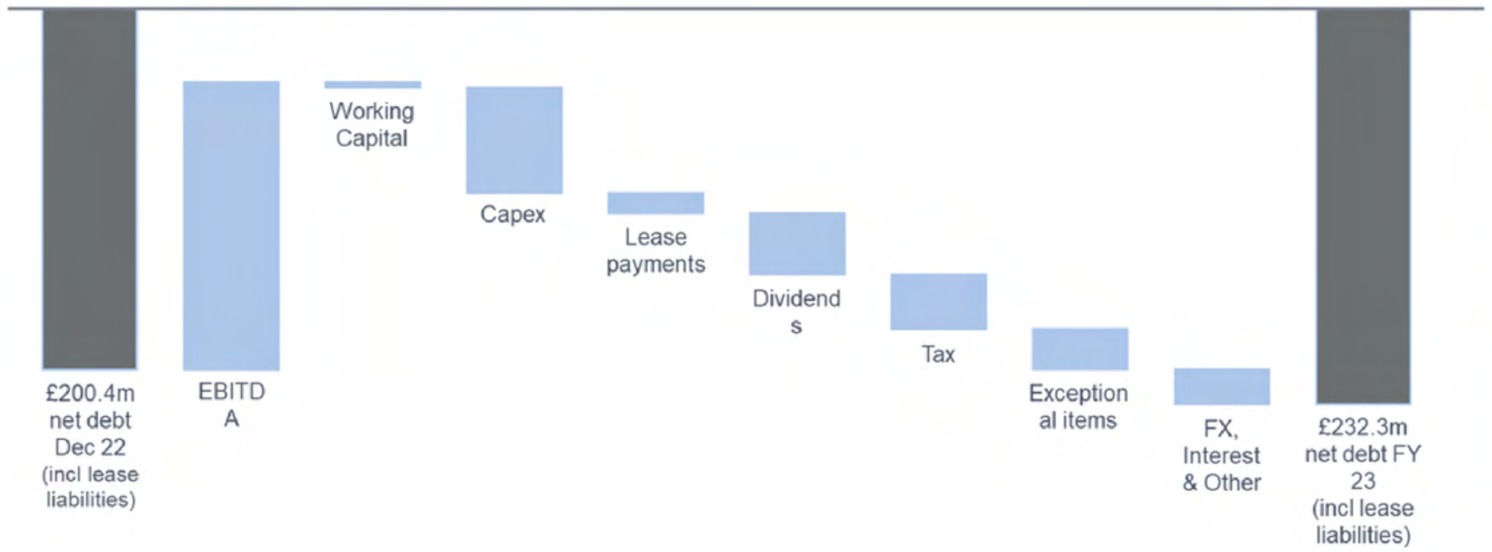
Cash flow summary



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2022 : 0.8x

Free cash flow before dividends was therefore an inflow of £14.6m, an improvement of £61.5m over the prior year.

Please note we made pension contributions totalling £86m in the prior year whereas in 2023 we made no contributions.

Cash flows relating to exceptional items totalled £22.3m, then those relating to FX, interest and other items comprised net interest payments of £11.6m and FX movements of £9.5m. Net debt finished the year at £185.2m excluding lease liabilities, representing 1.2x EBITDA.

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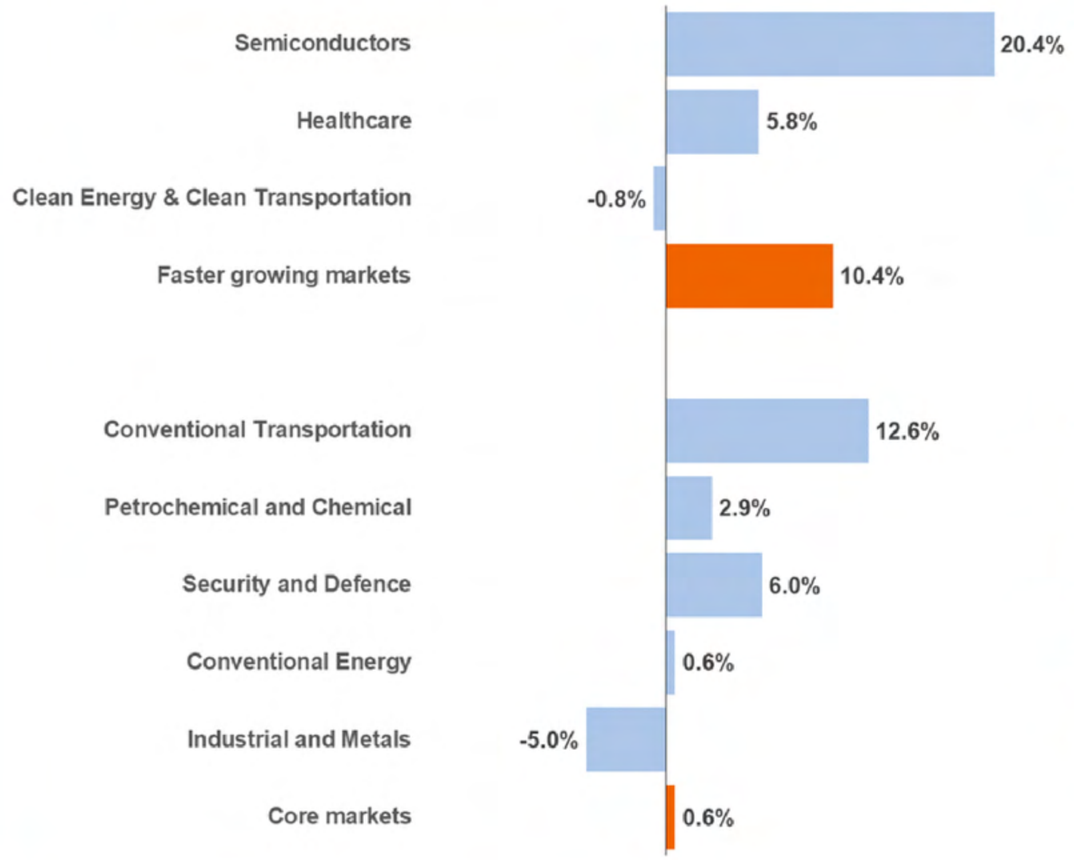
Growth across major market segments

Year-on-year organic % change at constant-currency



- Strong semiconductor growth in both carbon and ceramic products with SiC power electronics particularly strong
- Growth in vacuum insulation and medical seals
- Destocking in rail and weakness in China

- Aerospace driving the growth in this segment
- Growth in aftermarket Seals & Bearings
- Broad-based growth in Defence demand
- Conventional energy reflecting weaker economic demand
- Decline predominantly driven by weak industrial demand, particularly in Europe.

Our faster growing markets were up 10.4% in the year driven by semiconductors and healthcare.

Semiconductor saw a 20% rise on the prior year, a further very strong year reflecting continuing good momentum in the silicon carbide power electronics segment.

Healthcare was up 5.8% driven by medical seals and vacuum insulation for medicine transport and storage.

Transportation grew 12.6% with aerospace the driver as air traffic volumes recovered further. Aerospace grew 16% in the year.

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Growth across major market segments

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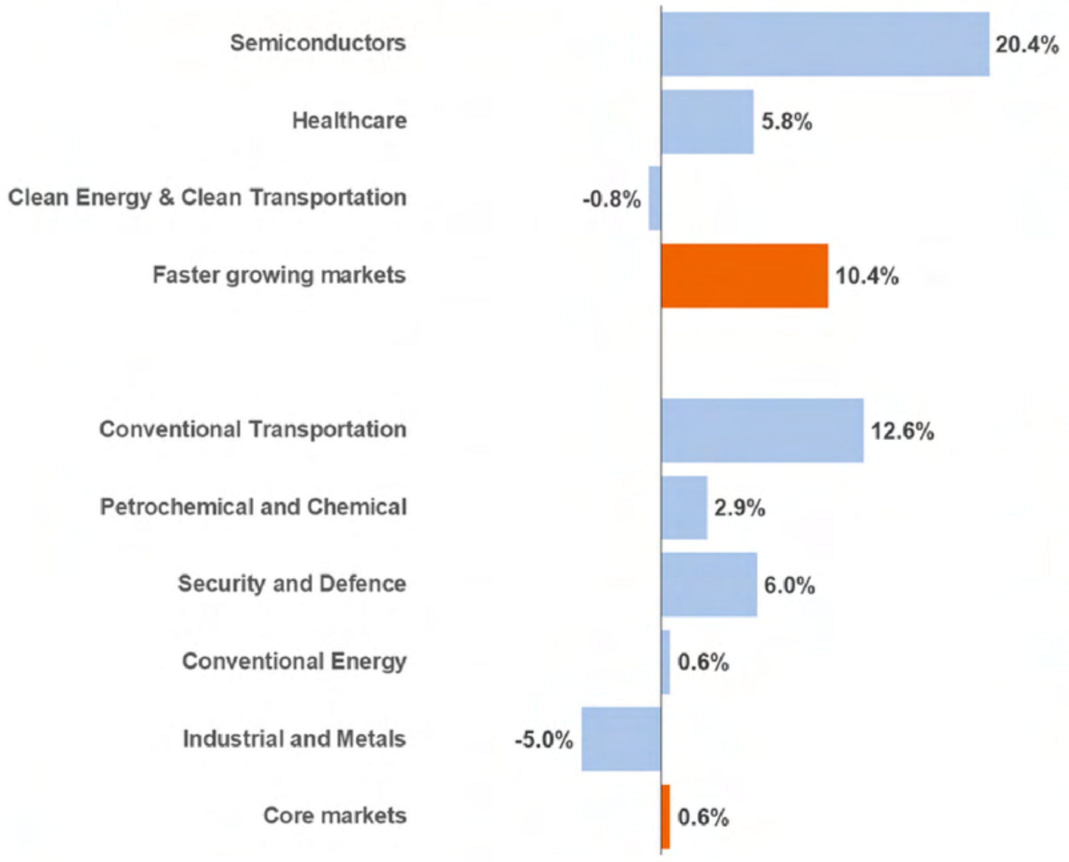

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Chemical and petrochemical sales were up 2.9% with higher thermal project activity and growth in aftermarket sales for seals and bearing products.

Security and defence grew 6% with flat armour sales and growth in wider defence applications.

Industrial and metals sales declined 5%, reflecting weak industrial market demand, particularly in Europe.

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Why Morgan?

1

Well positioned in attractive, high-growth markets

2

Leading, differentiated market positions

3

Sustainable solutions for a greener future

4

Resilient group delivering attractive through cycle returns
Sustainable solutions for a greener future

Summary

- Despite the cyber security incident, we have grown revenue +2.5%, with +10.4% growth from our faster growing markets
- Margins recovered to 12.5% in the second half, in line with our financial framework
- We are increasing our investment in capacity for the semiconductor market, lifting the group's growth rate
- We are restructuring and simplifying our structure and operational footprint
- Our strong balance sheet underpins investment opportunities and the ability to deliver good shareholder returns
- Underlying outlook for 2024 performance is unchanged and aligned with our financial framework, foreign exchange headwind anticipated, with slight weighting to the second half as additional capacity comes online

We have grown revenues 2.5% with 10.4% growth in our faster growing markets. Our margins recovered to 12.5% in the second half, in line with our financial framework.

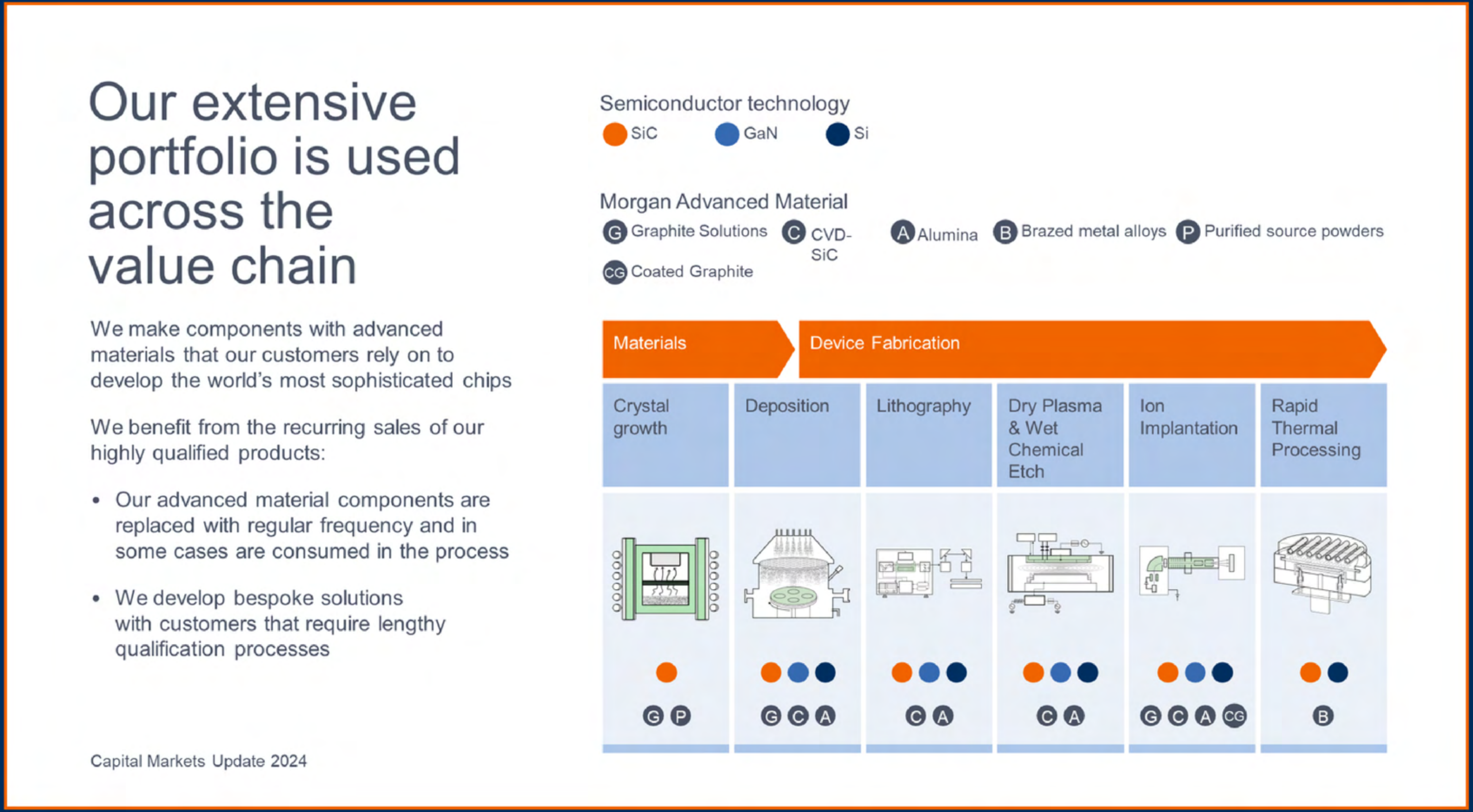
We are increasing investment in capacity for the semiconductor market and expect a higher organic growth rate for the next four years.

We are simplifying and restructuring the group to deliver efficiencies to support reinvestment and enhance margins.

We have a strong balance sheet enabling us to fund our organic investment and M&A, or capital returns to shareholders.

Our underlying outlook for 2024 is unchanged, with some fx headwinds expected. We expect revenues to be slightly second half weighted as we have new capacity coming on line in the second half.

Semiconductor Opportunity



Morgan's extensive product portfolio enables the production of silicon carbide, gallium nitride and silicon chips. They power multiple steps in the fabrication process.

Morgan technology is critical from crystal growth of the semiconducting material, at the very beginning of the value chain, on through the many wafer fabrication steps. We offer a broad portfolio of unique materials and components that are made from highly purified carbon, graphite, alumina, polycrystalline silicon carbide, and braze metal alloys.

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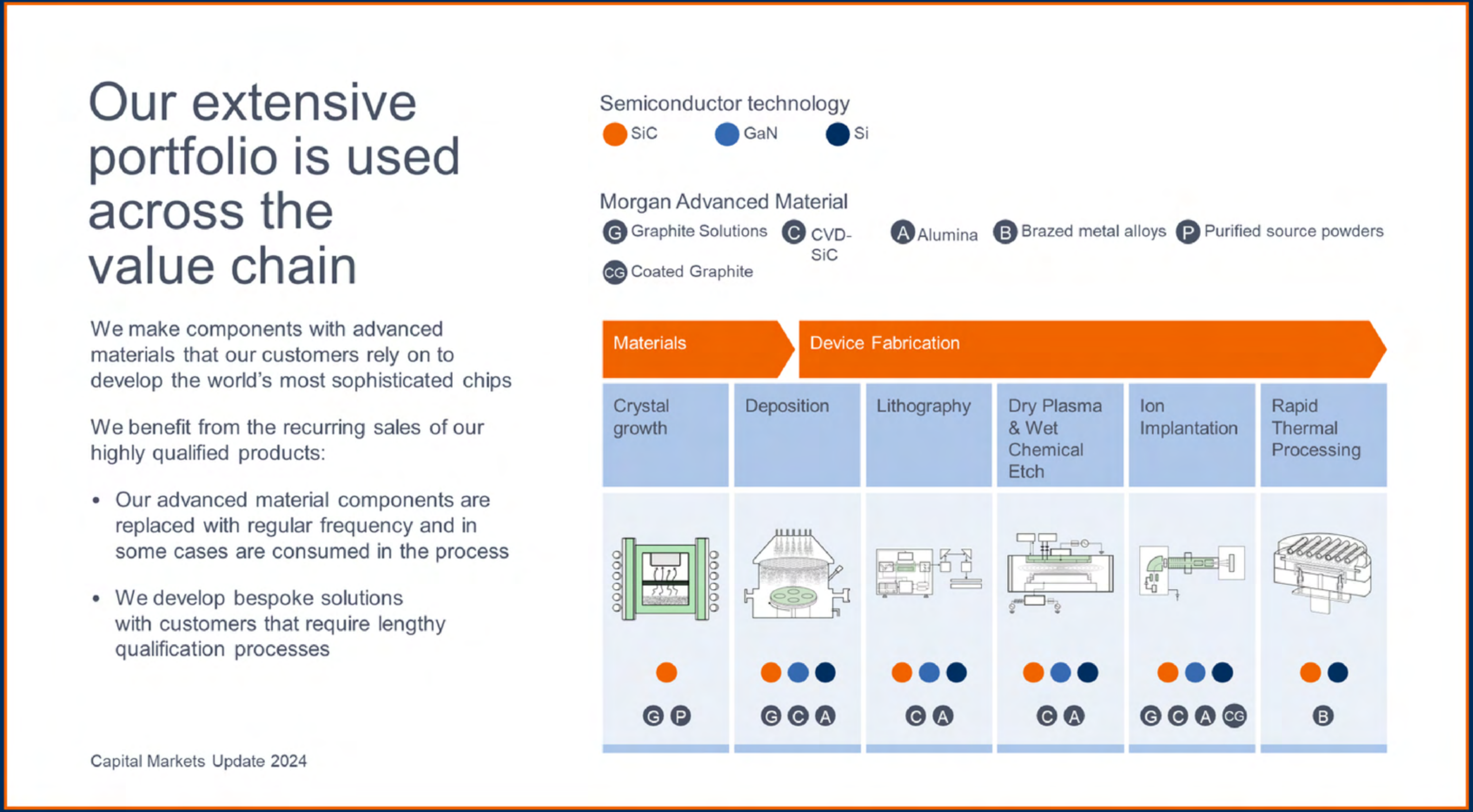

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Our business model thrives on the recurring sales of these highly-qualified products. The nature of our advanced material components is such that they are replaced with regular frequency, and in certain applications, they are fully consumed in the process. This cycle of use and replacement forms the backbone of our sustained revenue streams, ensuring long-term business stability and growth.

We collaborate closely with our customers to develop solutions that meet their unique needs. This process involves lengthy qualification stages, making the barrier to entry high. Our customers are leading wafer producers and fabrication original equipment manufacturers. They rely on our products as they push the boundaries of technology further.

Value we bring our customers

Two examples

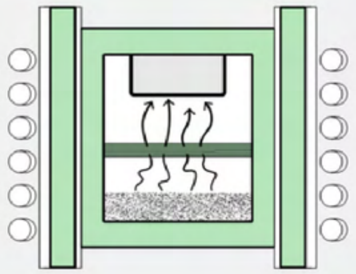
SiC Crystal growth process

Morgan's bespoke products bring consistency and stability to improve crystal reproducibility and quality

> 80% of top wafer makers now use Morgan products to optimise yield and reduce cost of this process, several supported by long term supply contracts

Our products include:

- Graphite high-temperature insulation
- Porous graphite membranes
- Isographite components
- Graphite and SiC source powders



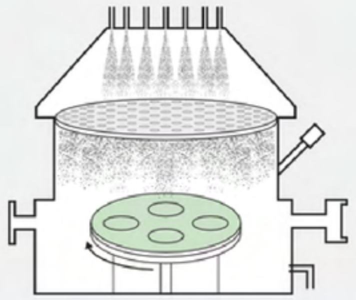
Epitaxial deposition

Morgan's custom machined products enable improved consumable lifetime, reduced chamber downtime and optimised yield, with chemical compatibility and a high level of purity

Our CVD SiC chamber components are used in > 30% of today's SiC and GaN epitaxy reactors

Our products include:

- CVD SiC wafer susceptors
- Shield and chamber rings
- Sputtering targets



Today, more than 80% of the leading silicon carbide wafer makers have embraced Morgan's products to help them optimise yield and reduce costs.

Examples of how we apply our technology to bring value to our customers:

SiC crystal growth process

This is where these remarkable materials are first created. Silicon carbide is tough to produce, and this held it back for many years. Producers have now mastered how to grow high quality material by using our products. SiC Crystals are made by a sublimation process at temperatures half that of the surface of the sun.

Our products include ultra-pure, high-temperature insulation, porous graphite membranes, isographite components, and source powders. They are used by our customers and replaced monthly to control important production criteria such as the temperature gradient, vapor chemistry, and the purity of the environment. This enables them to optimise yield as they scale-up wafer production and reduce costs.

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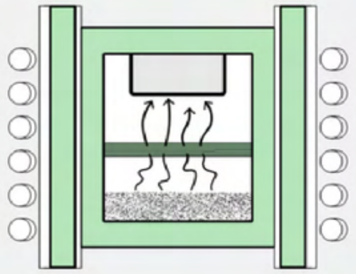

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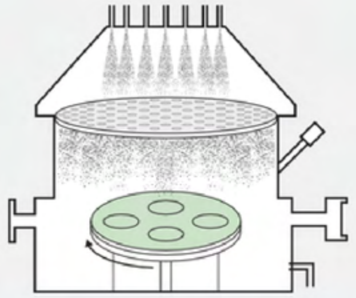
- Sputtering targets



Our new CVD SIC products have grown nicely, and are now used in more than 30% of today's SiC and GaN epitaxy reactors.

Examples of how we apply our technology to bring value to our customers:

Epitaxial deposition

This process is conducted at red hot temperatures within a highly reactive and harsh chemical environment (unique to these semiconductors).

To enable this process, we've worked with our customers and invested significantly over the to develop a new advanced material called CVD "SIC". This an ultra-pure polycrystalline silicon carbide material that is uniquely capable of withstanding this environment.

From this material, we make components that carry and protect wafers with unprecedented dimensional control. This is enabling the epitaxy process for wide band gap semiconductors.

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Appendix

Simplification and restructuring

£m	FY 2023	FY 2024	FY 2025	Total
Adjusted operating profit[1] benefits (incremental)	1	7	10	-
Costs charged to specific adjusting items	(7)	(11)	(2)	(20)

- Simplification into three segments supports our growth ambition by allowing resources to be focused on most attractive opportunities:
  - Thermal Products
  - Performance Carbon
  - Technical Ceramics
- Further improvement in efficiency through the closure of four manufacturing sites
- Cost savings from simplification, along with back-office streamlining and other cost reductions recognise weaker short-term demand in some of our Industrial end-markets.

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

Morgan has a successful business model based on the development of leading differentiated positions in attractive growth markets. In order to focus our resources on the most attractive opportunities, we will in future manage the group through three distinct segments.

We are also continuing to look for opportunities to improve efficiency by closing inefficient or poorly utilised sites. Four sites have been identified for closure, and we will also implement some back-office and other cost savings.

In part this recognises the need for us to manage our cost base effectively in the face of weaker short-term demand in some of our industrial end markets.

We expect implementation costs to amount to £20m over three years with £10m per annum of savings achieved by 2025.

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New segmental reporting format for 2024

	Revenue £m		Adjusted operating profit[1] £m		Margin %	
	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022
Thermal Products	454.4	479.2	40.2	56.5	8.8%	11.8%
Performance Carbon	327.2	321.7	50.0	57.3	15.3%	17.8%
Technical Ceramics	333.1	311.2	36.0	43.1	10.8%	13.8%
Corporate costs	-	-	(5.9)	(5.9)	-	-
Group	**1,114.7**	**1,112.1**	**120.3**	**151.0**	**10.8%**	**13.6%**

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

This slide shows the 2023 results presented in the new three business segments format.

We will use this format going forward.

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FY2023 Specific adjusting items

Cyber security incident: Legal, advisory, IT recovery and impairment charges arising from the cyber incident	£14.7m
Argentina: Impairment and currency adjustments arising from the devaluation of the Argentine Peso in December 2023	£5.8m
Restructuring programme: Staff redundancy and site closure costs associated with our new restructuring programme (£6.5m), partly offset by a release of £3.0m in relation to our 2020 restructuring programme	£3.5m
Others: Net business closure and exit costs of £1.9m, and a net credit of £0.8m from an impairment review of non-financial assets	£1.1m

£14.7m relates to legal, advisory and impairment charges arising from the cyber incident, and is in line with the estimate announced with our interim results.

A further £5.8m relates to the impact of the sharp devaluation in the Argentine Peso..

£3.2m arises from the impairment of inventory and fixed assets, whilst £2.6m relates principally to the impact of the currency devaluation on US$ denominated creditor balances.

The other main item is restructuring, where the programme we are announcing today has led to a £6.5m charge for projects initiated so far. This is partly offset by a release of £3.0m from a previous programme, mainly due to the settlement of an employee pension plan with lower than expected costs.

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FY2024 technical guidance

Capital expenditure	c. £120m
Net finance charge: Interest charges (c. £16-17m) IAS 19 pensions net interest charge (c. £0.5m) IFRS 16 lease interest (c. £2m)	c. £18-20m
Effective tax rate	25-27%
Non-UK defined benefit pension scheme contributions	c. £3-4m
Dividend Policy in the medium term	c. 2.5x
Foreign currency impacts	c.£5m headwind anticipated

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The acceleration of our investment in capacity will lead to an increase in our capital expenditure over the next three years. We are now expecting spend in 2024 to be around £120m, along with expenditure of at least £100m in each of 2025 and 2026.

In 2024 the increased capex will lead to a net cash outflow of around £40m to £60m with year-end net debt in the range £230m to £250m.

Whilst good progress was made with recovering working capital during 2023, there is more to do and we will target working capital reduction as a means of keeping our leverage down at around 1.2x by the end of the year. Our net finance charge will increase slightly into the £18 - £20 million range.

FY2024 technical guidance

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Effective tax rate	25-27%
Non-UK defined benefit pension scheme contributions	c. £3-4m
Dividend Policy in the medium term	c. 2.5x
Foreign currency impacts	c.£5m headwind anticipated

We expect our adjusted effective tax rate to continue at around 27%, contributions to non-UK defined benefit pension schemes to be £3-4m, and our dividend policy remains for cover of around 2.5x.

Finally, we have seen a weakening in Sterling against the US$, as well as versus several transactional currencies, and now expect a currency headwind of approximately £5m for the year.

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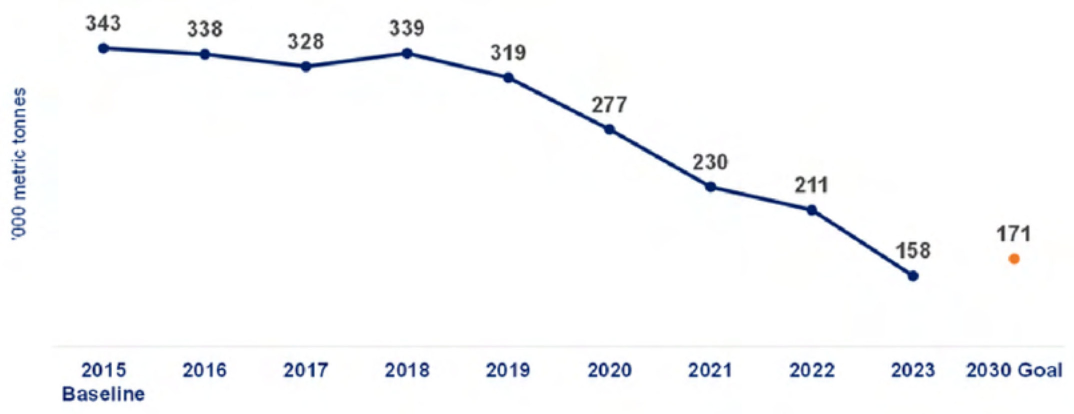
CO_2e emissions now 50% below 2015 baseline

Absolute CO_2e (Scope 1 and 2)[1]



1 Scope 1 and 2 relate to CO_2e emissions from direct and indirect sources, respectively.

25% reduction in absolute CO_2e emissions compared with FY 2022 driven by:

- **Green energy procurement:** transition to renewable and other carbon free energy sources
- **Efficiency and process optimisation actions:** changes to processes (eg kiln firing profiles) and equipment operating protocols eg equipment shutdowns and idling machines
- **Capital projects:** replacement of inefficient assets, transition from gas to electric fuel types, and improvement in control systems.

Our CO2 emissions in 2023 were down 25% on the prior year, with volumes down around 4%.

During the year, we improved our energy intensity, price adjusted, by around 11% and continued the transition to carbon free energy for a number of our sites.

Around 72% of our electricity now comes from green or carbon free sources.

We have reduced our absolute CO2 emissions by over 50% since 2015.

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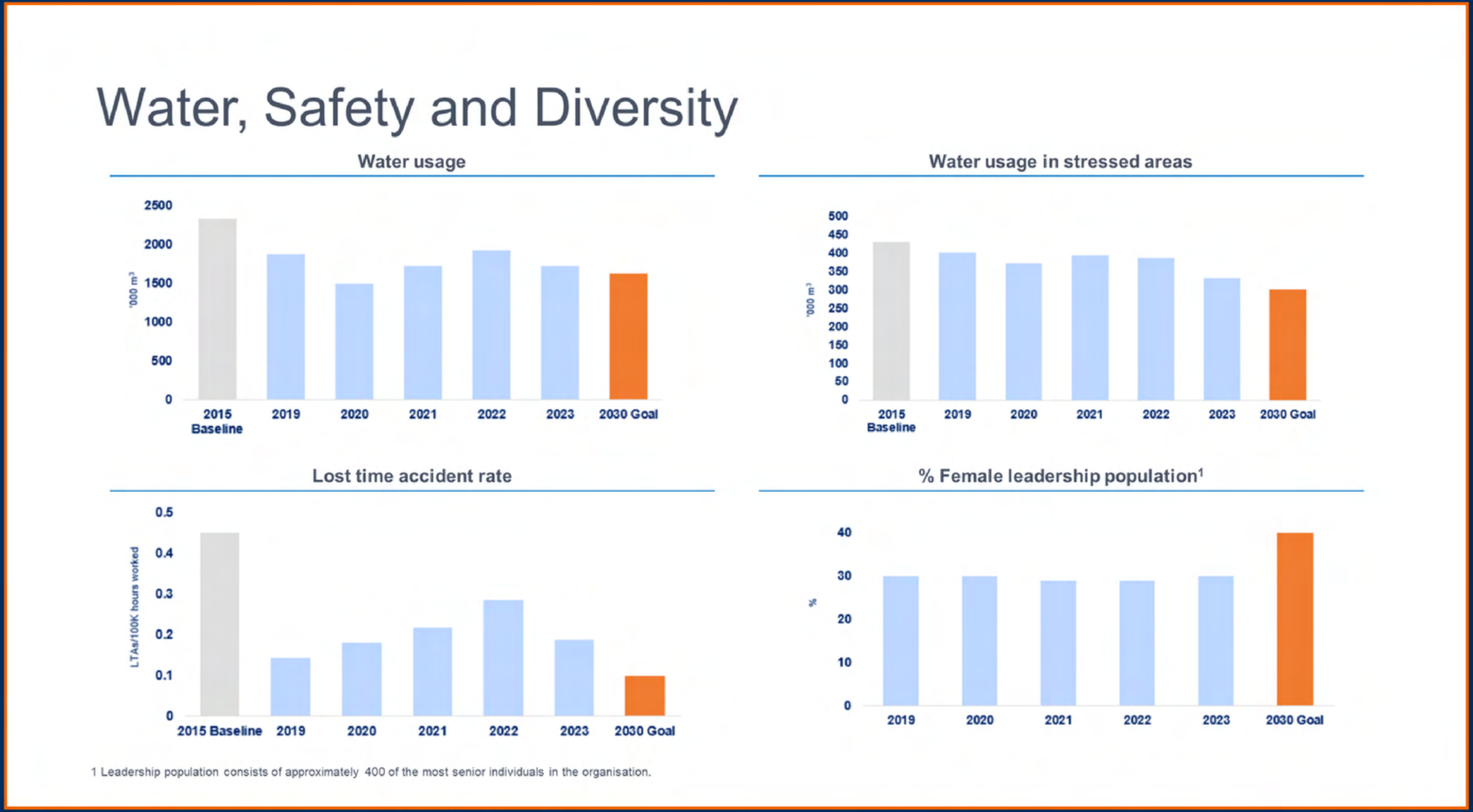

Our water usage reduced 11% during the year with efficiency measures, and the non-repeat of a couple of major leaks, driving the improvements.

Water usage in stressed areas reduced by 14% driven by efficiency projects in our plants. We are on track to meet our 2030 water goals.

Our safety performance improved with a lost time accident rate of 0.19 compared to 0.28 in the prior year.

We continue to have a high degree of focus on safety and we will be working in 2024 to further improve our process safety and to embed our behavioural safety tools more fully.

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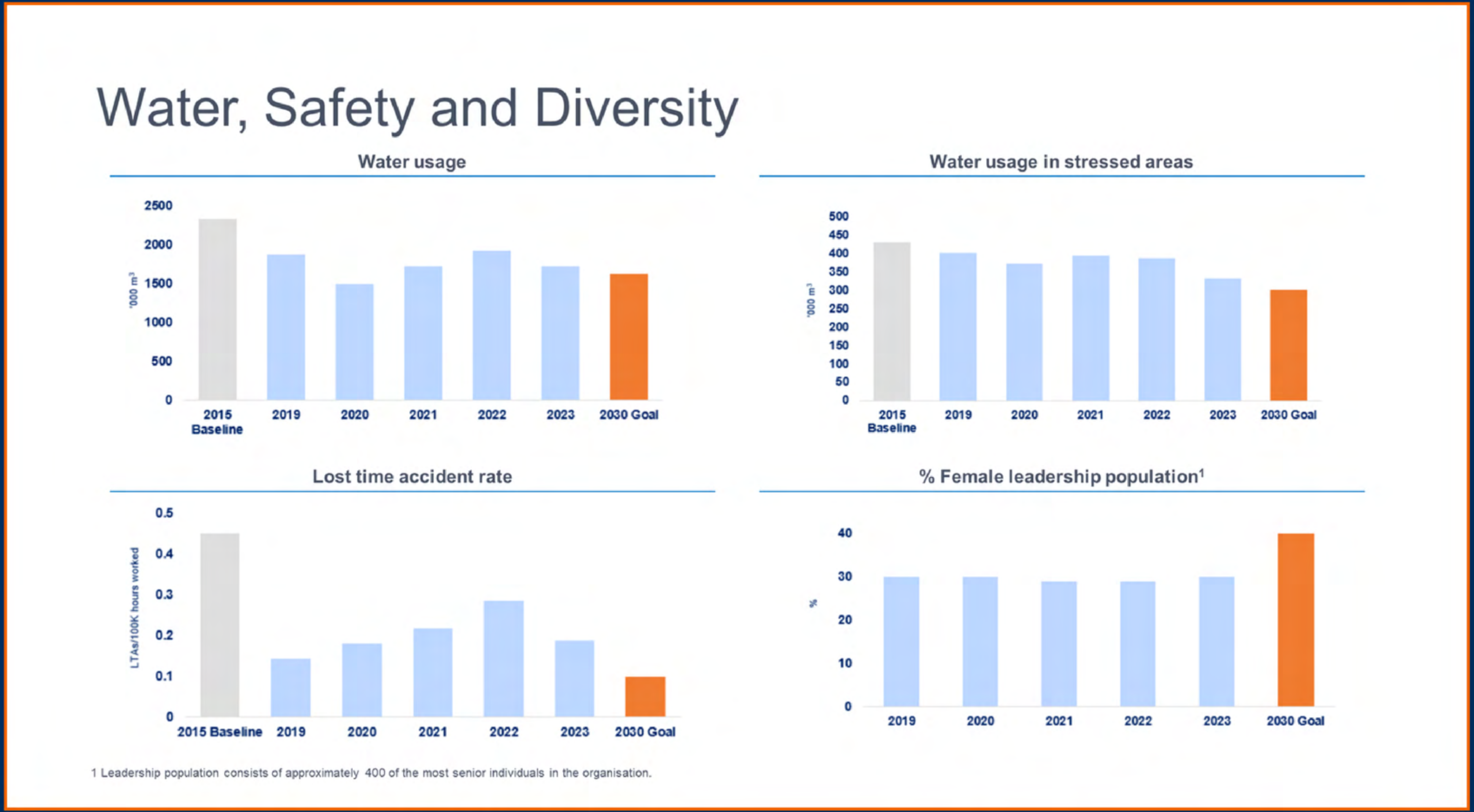

From a diversity and inclusion perspective our full year position is 30% of our senior leaders being female, slightly up on the prior year. This is receiving a high level of focus across our leadership teams as we look to make bigger improvements in the next few years.

Finally, turning to engagement, we completed a pulse engagement survey in December and recorded a 54% engagement level, a 1% decline on the same population in the prior year.

I was pleased with this result given the challenging year for our teams.

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Cautionary statement

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