

# 2019 Interim Results Presentation

25th July 2019

# Agenda

- Introduction and Key highlights – Pete Raby
- 2019 Interim Results – Peter Turner
- Operational and Strategic Update – Pete Raby

# Key highlights

- Strategy implementation continuing to progress well and remains on track
- Revenue growth of 1.0% on an organic constant-currency basis
- Group headline operating profit margin 12.8%, an improvement of 70bps from organic revenue growth and benefit of efficiency actions
- Headline EPS growth of 3.0% reflecting improvement in operating profit
- Looking ahead to 2H 2019 there are a number of global headwinds and uncertainties impacting our markets
- We expect revenue to be broadly flat in the second half compared to the prior year. Our expectations of profitability for the full year are unchanged

# 2019 Interim Results

## Peter Turner

# Group performance summary

	1H 2019	1H 2018	% change from 1H 2018	Organic % change from 1H 2018
	£m	£m	As reported	At constant-currency
Revenue	525.8	514.4	2.2%	1.0%
Group headline operating profit <sup>1</sup>	67.4	62.4	8.0%	3.1%
<i>Group headline operating profit margin %<sup>1</sup></i>	<i>12.8%</i>	<i>12.1%</i>		
Cash generated from continuing operations	61.1	55.2	10.7%	
Free cash flow before acquisitions, disposals and dividends	11.4	20.5		
Headline earnings per share	13.8p	13.4p	3.0%	
Interim dividend per share	4.0p	4.0p		

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

# Cash flow summary

	1H 2019 £m	1H 2018 £m
EBITDA	88.0	77.8
Change in working capital	(20.2)	(15.6)
Change in provisions and other	(6.7)	(7.0)
<b>Cash generated from continuing operations</b>	<b>61.1</b>	<b>55.2</b>
Capital expenditure	(29.2)	(23.1)
Net interest	(6.1)	(4.1)
Tax paid	(14.4)	(7.5)
<b>Free cash flow before acquisitions, disposals and dividends</b>	<b>11.4</b>	<b>20.5</b>
Dividends paid to external plc shareholders	(19.9)	(20.0)
Cash flows from other investing and financing activities	(1.7)	(1.3)
Cash flows from divestments and discontinued operations	0.3	(1.7)
Exchange movement and other non-cash movements	(5.6)	(4.4)
Opening net debt	(180.0)	(181.3)
Impact of change in accounting policy (IFRS 16 Leases)	(67.4)	-
<b>Closing net debt</b>	<b>(262.9)</b>	<b>(188.2)</b>
<b>Closing net debt excluding lease liabilities</b>	<b>(193.9)</b>	<b>(187.8)</b>

- Working capital outflow in 1H
- Capex driven by investment for growth and efficiency
- 2018 tax paid reduced by one-off US pension contribution
- Net debt (excluding lease liabilities): EBITDA 1.2x (2018 1.2x)
- Lease liabilities £67m following adoption of IFRS 16

# Pensions update

## Deficit movement since 31 December 2018 (£m)

<b>Deficit at 31 December 2018</b>	<b>(190)</b>
Return on assets	49
Contributions (net of service/finance costs)	4
Actuarial gain/(loss) on liabilities	(59)
Currency adjustment	-
<b>Deficit at 30 June 2019</b>	<b>(196)</b>

£m	30 June 2019	31 December 2018	31 December 2017
<i>Equities and growth assets</i>	132	106	164
<i>Bonds</i>	272	256	211
<i>Annuities</i>	180	175	188
<i>Other</i>	7	7	9
Total Assets	591	544	572
Liabilities	(787)	(734)	(790)
<b>Deficit</b>	<b>(196)</b>	<b>(190)</b>	<b>(218)</b>
<i>UK discount rate</i>	2.22%	2.74%	2.38%
<i>US discount rate</i>	3.53%	4.34%	3.65%
<i>EU discount rate</i>	1.00%	1.70%	1.60%

# FY19 financial guidance

Headline tax rate	<b>28%</b>	
Interest charge (at current fx rates)	<b>c. £8.5m</b>	<b>c. £16m</b>
IAS 19 pensions finance charge	<b>c. £4.5m</b>	
IFRS 16 lease interest	<b>c. £3m</b>	
Funded pension scheme contributions	<b>c. £17m</b>	

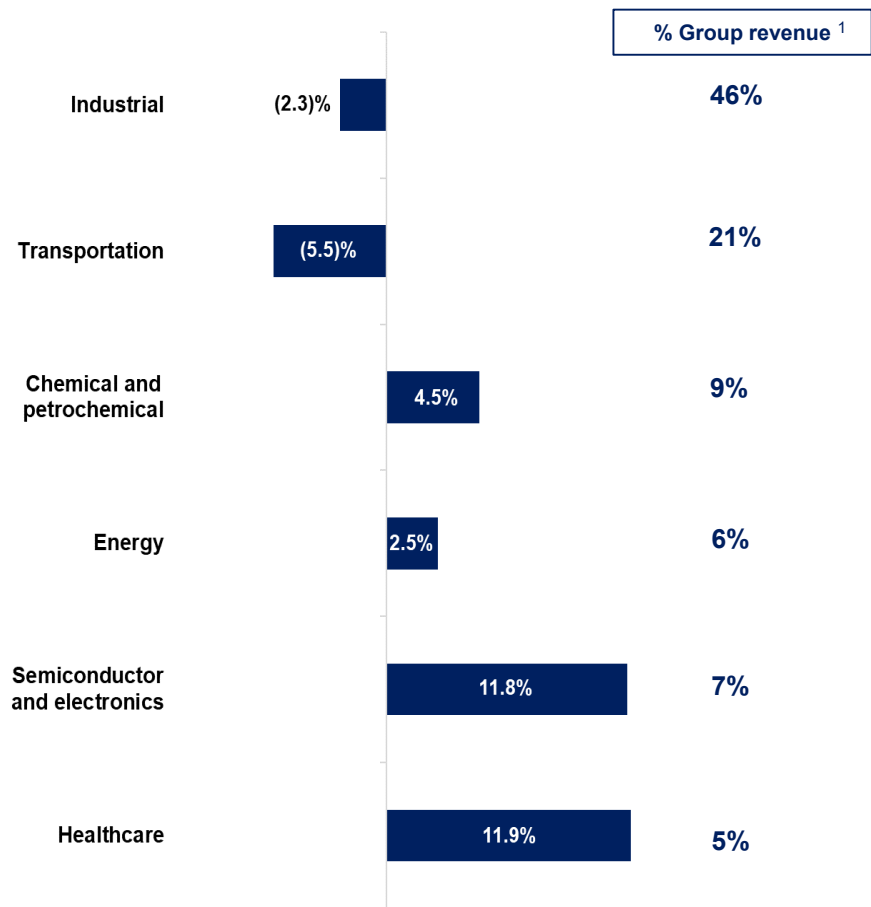


# Operational and Strategic Update

## Pete Raby

# Mixed market segment growth rates in the first half

## Organic % change from 1H 2018 at constant-currency



- Declines in European and Asian industrial markets, and modest growth in North America
- Aerospace growth offset by decline in automotive in Thermal Ceramics and Seals and Bearings
- Thermal Ceramics project activity and pump applications
- Growth in power generation
- Growth in specialty carbon for semiconductor applications
- Growth in Seals and Bearings and Technical Ceramics

1. Full reconciliation of end market mix as a % of Group revenue is provided on slide 21.

# Thermal Ceramics: performance summary

£m	1H 2019	1H 2018	% change from 1H 2018	Organic % change from 1H 2018
			As reported	At constant-currency
Revenue	207.8	217.3	(4.4)%	(3.8)%
EBITA	25.7	26.1	(1.5)%	(7.2)%
<i>EBITA margin %</i>	12.4%	12.0%		

## Performance commentary

- Automotive volumes down £7.7m (30%)
- Declines in the European industrial segment
- Margin improvement driven by prior year plant closure and operational efficiency

## Strategic focus

- Growth in petrochemical, passive fire protection and electric vehicles
- Further Superwool® conversion
- Investment in sales and new product development to support growth
- Operational efficiency

# Molten Metal Systems: performance summary

£m	1H 2019	1H 2018	% change from 1H 2018	Organic % change from 1H 2018
			As reported	At constant-currency
Revenue	24.7	24.5	0.8%	0.4%
EBITA	2.7	3.6	(25.0)%	(25.0)%
<i>EBITA margin %</i>	<i>10.9%</i>	<i>14.7%</i>		

## Performance commentary

- Flat precious metal refining and aluminium casting market segments
- Margin decline resulting from one-off restructuring costs, and the annualised impact from prior year investment in research and development and sales effectiveness

## Strategic focus

- Sales effectiveness remains a priority, including focus on value selling and distribution in key growth market segments
- Drive operational improvements to improve margin

# Electrical Carbon: performance summary

£m	1H 2019	1H 2018	% change from 1H 2018	Organic % change from 1H 2018
			As reported	At constant-currency
Revenue	85.4	82.9	3.0%	2.0%
EBITA	11.1	10.3	7.8%	6.7%
<i>EBITA margin %</i>	<i>13.0%</i>	<i>12.4%</i>		

## Performance commentary

- Semiconductor and electronics and wind market segments have delivered growth on prior year
- Industrial markets slowed through the first-half
- Margin improvement driven by higher revenue and operational efficiencies

## Strategic focus

- Growth opportunities in transport, wind, semiconductor and electronics segments
- Development and introduction of new products through the Carbon Science Centre of Excellence

# Seals and Bearings: performance summary

£m	1H 2019	1H 2018	% change from 1H 2018	Organic % change from 1H 2018
			As reported	At constant-currency
Revenue	71.1	65.6	8.4%	5.2%
EBITA	13.4	12.1	10.7%	5.5%
<i>EBITA margin %</i>	<i>18.8%</i>	<i>18.4%</i>		

## Performance commentary

- Growth driven by petrochemical, healthcare and ceramic armour (1H19 £15m vs. 1H18 £11m) market segments
- Declines in the automotive market segment
- Margin improvement driven by drop through on higher revenue

## Strategic focus

- Growth opportunities targeted in automotive, petrochemical, water pumps and consumer appliances
- New products and production process development to support growth priorities

# Technical Ceramics: performance summary

£m	1H 2019	1H 2018	% change from 1H 2018	Organic % change from 1H 2018
			As reported	At constant-currency
Revenue	136.8	124.1	10.2%	6.0%
EBITA	17.5	13.2	32.6%	25.9%
<i>EBITA margin %</i>	<i>12.8%</i>	<i>10.6%</i>		

## Performance commentary

- Growth in aerospace, renewable energy and medical market segments
- Margin improvements driven by additional volume and operational savings

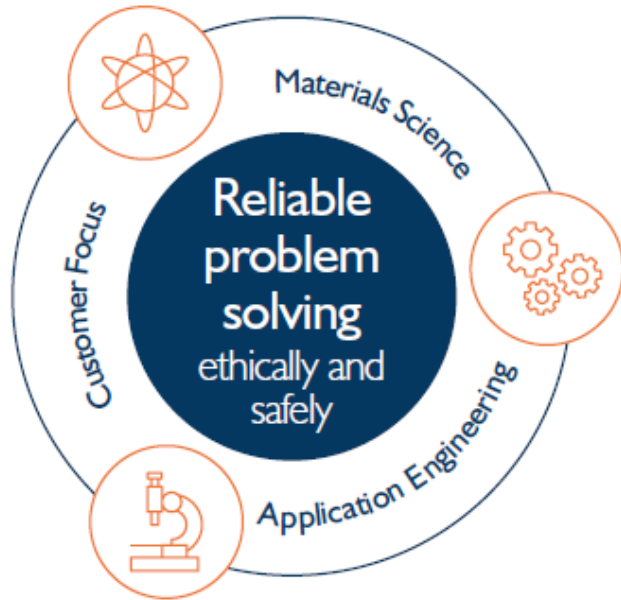
## Strategic focus

- Growth opportunities in aerospace, medical and semiconductor and electronics
- Improving sales effectiveness, especially key account management
- Driving operational efficiencies

1 IFRS 16 benefitted margins by £1m

# Our strategy for growth

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



We apply these skills to a portfolio of businesses where:

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

**Strengthening the Group to deliver resilient financial performance and faster growth**



# Execution priorities - 2019

Drive sales effectiveness and market focus

Continue the deployment of our tools, processes and training to build our capabilities and market insight and drive sales growth.

Extend our technology leadership

Accelerate the development of new materials and manufacturing processes, and strengthen our technical teams capability.

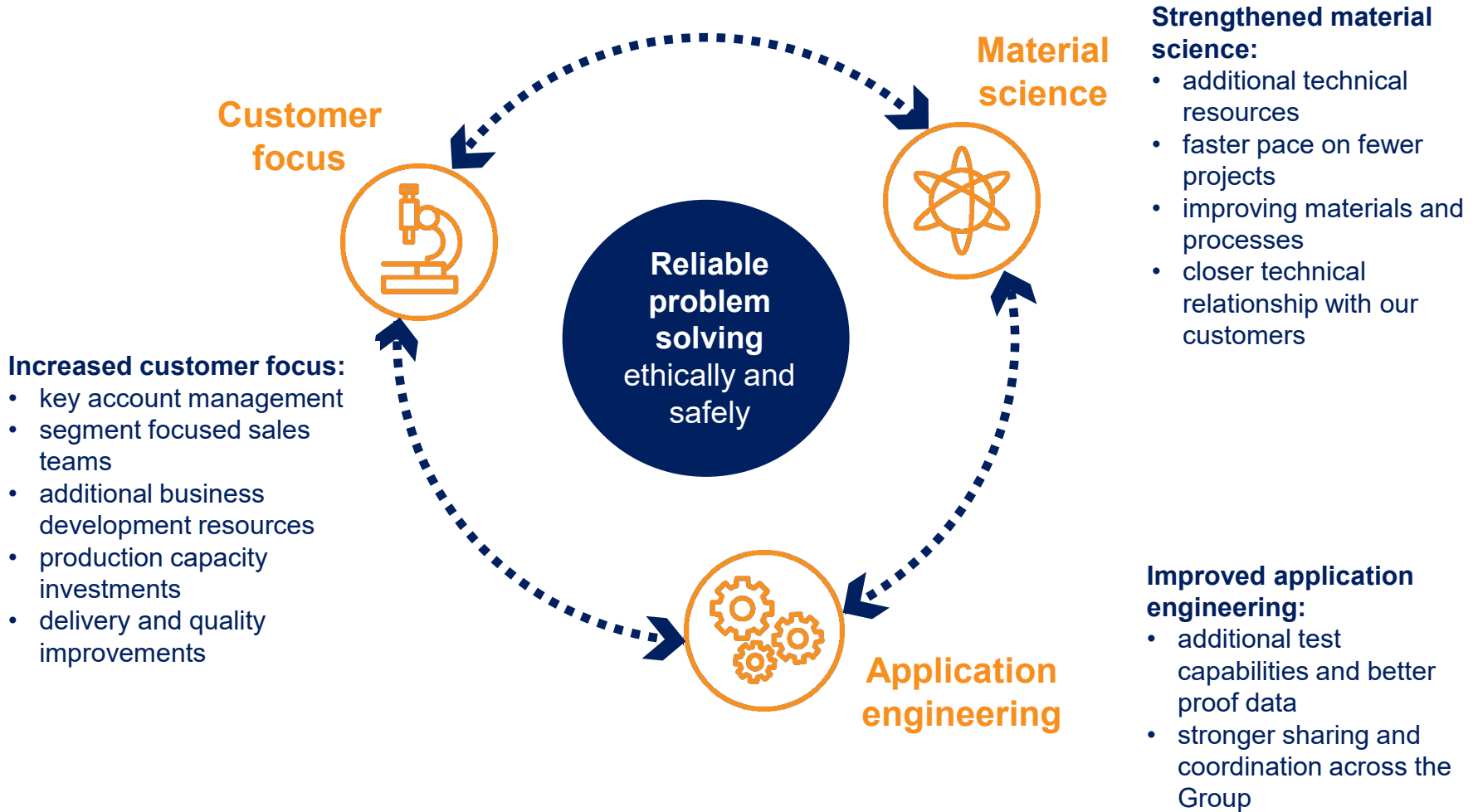
Increase investment in people management and development

Focus on building our leadership teams and launching new talent programmes to support the development of our future leaders.

Improve operational execution

Continue improvement projects tailored to each business unit to drive operational savings to offset material and labour inflation and enable reinvestment.

# Our strategy in action



# Summary

- Strategy implementation continuing to progress well and remains on track
- Revenue growth of 1.0% on an organic constant-currency basis
- Group headline operating profit margin 12.8%, an improvement of 70bps from organic revenue growth and benefit of efficiency actions
- Headline EPS growth of 3.0% reflecting improvement in operating profit
- Looking ahead to 2H 2019 there are a number of global headwinds and uncertainties impacting our markets
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# Appendix

# End market mix (as a % of revenue)

## Main markets by GBU

### Thermal Ceramics:

Industrial, Chemical & Petrochemical, Metals, Automotive

### MMS:

Aluminium (automotive), Copper (construction), Precious Metals

### Electrical Carbon:

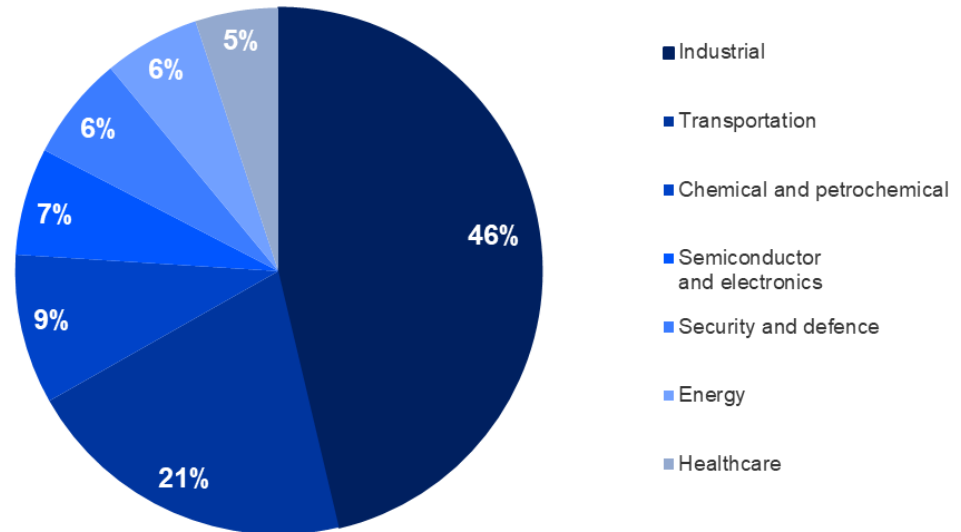
Rail, Industrial Equipment, Power Generation, Electronics and semiconductor

### Seals and Bearings:

Petrochemical, Pumps, Aerospace, Automotive, Home Appliances

### Technical Ceramics:

Industrial Equipment, Electronics, Aerospace, Healthcare, Energy



# Divisional performance

	Revenue £m		EBITA £m		EBITA Margin %	
	1H 2019	1H 2018	1H 2019	1H 2018	1H 2019	1H 2018
Thermal Ceramics	207.8	217.3	25.7	26.1	12.4%	12.0%
Molten Metal Systems	24.7	24.5	2.7	3.6	10.9%	14.7%
<b>Thermal Products Division</b>	<b>232.5</b>	<b>241.8</b>	<b>28.4</b>	<b>29.7</b>	<b>12.2%</b>	<b>12.3%</b>
Electrical Carbon	85.4	82.9	11.1	10.3	13.0%	12.4%
Seals and Bearings	71.1	65.6	13.4	12.1	18.8%	18.4%
Technical Ceramics	136.8	124.1	17.5	13.2	12.8%	10.6%
<b>Carbon and Technical Ceramics Division</b>	<b>293.3</b>	<b>272.6</b>	<b>42.0</b>	<b>35.6</b>	<b>14.3%</b>	<b>13.1%</b>
<b>Corporate costs</b>			(3.0)	(2.9)		
<b>Group</b>	<b>525.8</b>	<b>514.4</b>	<b>67.4</b>	<b>62.4</b>	<b>12.8%</b>	<b>12.1%</b>

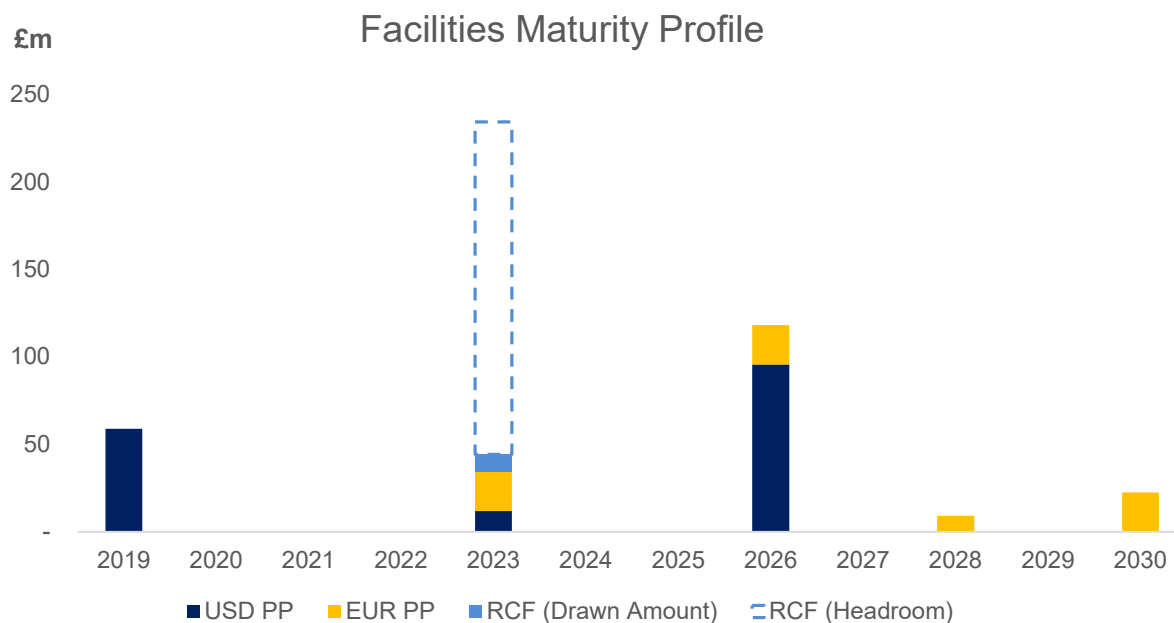
# Reported statutory figures

	Six months ended 30 June 2019			Six months ended 30 June 2018		
	Results before specific adjusting items	Specific adjusting items	Total	Results before specific adjusting items	Specific adjusting items	Total
	£m	£m	£m	£m	£m	£m
<b>Revenue</b>	<b>525.8</b>	-	<b>525.8</b>	514.4	-	514.4
Operating costs before amortisation of intangible assets	(458.4)	-	(458.4)	(452.0)	-	(452.0)
<b>Profit from operations before amortisation of intangible assets</b>	<b>67.4</b>	-	<b>67.4</b>	62.4	-	62.4
Amortisation of intangible assets	(4.1)	-	(4.1)	(3.8)	-	(3.8)
<b>Operating profit</b>	<b>63.3</b>	-	<b>63.3</b>	58.6	-	58.6
<b>Net financing costs</b>	<b>(8.6)</b>	-	<b>(8.6)</b>	(6.6)	-	(6.6)
Share of profit of associate (net of income tax)	-	-	-	0.4	-	0.4
<b>Profit before taxation</b>	<b>54.7</b>	-	<b>54.7</b>	52.4	-	52.4
Income tax expense	(15.3)	-	(15.3)	(14.4)	-	(14.4)
<b>Profit for the period from continuing operations</b>	<b>39.4</b>	-	<b>39.4</b>	38.0	-	38.0
Profit from discontinued operations	-	-	-	(0.9)	(7.6)	(8.5)
<b>Profit for the period</b>	<b>39.4</b>	-	<b>39.4</b>	37.1	(7.6)	29.5
Profit for the period attributable to:						
Shareholders of the Company	<b>35.3</b>	-	<b>35.3</b>	33.5	(7.6)	25.9
Non-controlling interests	<b>4.1</b>	-	<b>4.1</b>	3.6	-	3.6
<b>Profit for the period</b>	<b>39.4</b>	-	<b>39.4</b>	37.1	(7.6)	29.5

# Refinancing completed – strengthens balance sheet

- Net debt (excluding lease liabilities) to EBITDA: 1.2x (FY2018: 1.2x)
- \$75m Private Placement Notes due December 2019 to be repaid using cash and / or revolving credit facility
- Pre-financing completed December 2018/January 2019

Net debt	£'m
Borrowings	253.6
Cash	(59.7)
<b>Net debt excluding lease liabilities</b>	<b>193.9</b>





# Impact of new accounting standards

IFRS 16 *Leases* had the following impact on opening balances in 2019:

£m		Prior lease accounting	After application of IFRS 16	Net impact
<b>Income statement</b>	Revenue	-	-	-
	Depreciation	-	(9)	(9)
	Other operating costs	(12)	-	12
	<b>Headline operating profit<sup>1</sup></b>	<b>(12)</b>	<b>(9)</b>	<b>3</b>
	Finance charges	-	(3)	(3)
	<b>Profit before tax</b>	<b>(12)</b>	<b>(12)</b>	<b>-</b>
<b>Cash flow</b>	Headline operating profit	(12)	(9)	3
	Depreciation	-	9	9
	<b>Cash flow from operations</b>	<b>(12)</b>	<b>-</b>	<b>12</b>
	Net interest	-	(3)	(3)
	Repayment of lease liabilities	-	(9)	(9)
<b>Net cash flow</b>	<b>(12)</b>	<b>(12)</b>	<b>-</b>	
<b>Balance sheet at 1 Jan 19</b>	Right of use assets	-	51	51
	Lease liabilities	-	(67)	(67)
	<b>Equity adjustment</b>	<b>-</b>	<b>16</b>	<b>16</b>

1. The net increase in headline operating profit of £3m comprises £1m in Thermal Ceramics and £2m in Technical Ceramics.

# Key exchange rates

GBP to:	1H 2019		1H 2018	
	Closing rate	Average rate	Closing rate	Average rate
USD	1.27	1.29	1.32	1.38
EUR	1.12	1.15	1.13	1.14

Key exchange rate sensitivities on interim results £m	Revenue	Headline operating profit
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Increase in half year revenue / headline operating profit if:

GBP weakens by 10c against the US dollar in isolation	+19.6	+3.2
GBP weakens by 10c against the Euro in isolation	+9.9	+1.5

# Headline EPS

	1H 2019 £m	1H 2018 £m
Profit for the period attributable to Ordinary shareholders	35.3	25.9
Loss from discontinued operations	-	8.5
Profit from continuing operations	35.3	34.4
Amortisation	4.1	3.8
<b>Headline earnings</b>	<b>39.4</b>	<b>38.2</b>
Weighted average number of shares in the period	284.6m	285.3m
<b>Headline earnings per share (pence)</b>	<b>13.8</b>	<b>13.4</b>

# 2019 Interim Results Presentation

25th July 2019