H1 2024 Results

30 July 2024

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Introduction

Jim Fairbairn, Group CEO

Agenda

Key messages

Good performance in H1 in a mixed end market environment, led by Specialist Technologies

- **Organic growth delivered:** +7.0% headline operating profit growth, on 1.5% higher revenue excluding surcharges[1]
- **Margins improved:** +170bps to 16.7%, with margins +520bps in ADE and decisive cost actions in AGI
- **Progress on capital allocation:** completion of Lake City acquisition and first £30m tranche of share buyback
- **Full year outlook unchanged:** expect organic revenue growth and year-on-year margin progression

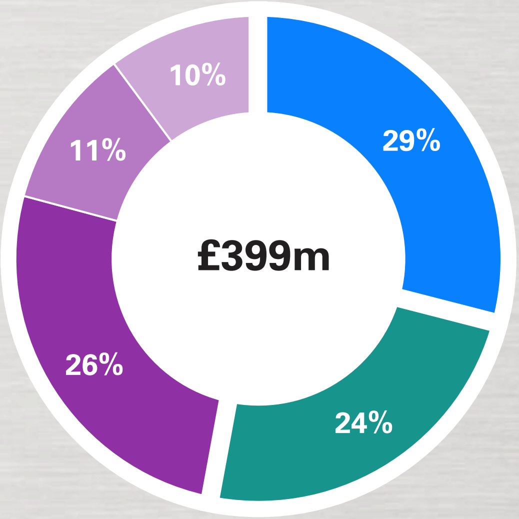
Initial views: strong foundations, with further opportunities to drive value

- **Strong position:** market leader, with a strong brand, differentiated processes, and a unique carbon proposition
- **Early focus:** learning the business and executing quick wins
- **Exploring further opportunities to drive value:** including optimising plant footprint and refining strategy

[1] Organic measures are stated at constant currency, excluding contributions from acquisitions and disposals

Growth delivered despite mixed end markets

Revenue by end market



Organic revenue growth
(excluding surcharges)

Aerospace & Defence	▲ 15%
Automotive	▼ 1%
Industrial Markets	▼ 7%
Energy	▲ 10%
Consumer, Medical & Other	▼ 9%

+1.5% organic growth, led by Specialist Technologies +8%

- Strong demand growth in A&D, near-term industry supply chain challenges
- Automotive and Industrial Markets remain soft, particularly in Europe
- Growing demand and market share gains in Energy
- Consumer, Medical & Other impacted by soft consumer demand and temporary de-stocking in medical

Ongoing actions to enhance performance

Aerospace, Defence & Energy

£m	2024 H1	Growth
Revenue excluding surcharges	**179.6**	+6.6%[1]
Headline operating margin	**23.0%**	+520 bps

Maximising performance in favourable conditions

>500bps margin expansion delivered in H1 2024

Headcount flat since H1 2023, despite 7% revenue growth

Improving operational execution (most notably in HIP business)

Structural pricing improvements (NA Surface Technology)

Automotive & General Industrial

£m	2024 H1	Growth
Revenue excluding surcharges	**199.6**	-2.6%[1]
Headline operating margin	**16.0%**	-220 bps

Decisive response to market weakness

Actions continuing to balance capacity with demand levels

5% headcount reduction vs H1 2023, including ~20% lower temporary labour

Reducing shift patterns & temporarily mothballing under-utilised equipment

Increasing sales focus to drive market share gains

[1] Organic constant currency

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H1 Results

Ben Fidler, Group CFO

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Key financials

Revenue
£399m
up **1.5%** organic[1] excl. surcharges
down **3.2%** organic[1]
2023 H1: **£420.1m**

Operating profit
£66.8m
up **7.0%** organic[1]
2023 H1: **£62.8m**

Operating margin
16.7%
up **170bps**
2023 H1: **15.0%**

EPS
25.0p
up **5.0%**
2023 H1: **23.8p**

Op. cash flow
£49.2m
up **0.8%**
2023 H1: **£48.8m**

Interim dividend
6.9p
up **3.0%**
2023 H1: **6.7p**

[1] Organic measures are stated at constant currency, excluding contributions from acquisitions and disposals

H1 2024 results summary

£m, unless stated	2024 H1	2023 H1	Growth Organic	Growth
Revenue	**399.0**	420.1	-3.2%	-5.0%
Revenue excluding surcharges	**379.2**	380.7	+1.5%	-0.4%
Headline operating profit	**66.8**	62.8	+7.0%	+6.4%
Headline operating margin	**16.7%**	15.0%		+170 bps
Margin excluding surcharges	*17.6%*	*16.5%*		*+110 bps*
Headline profit before tax	**62.2**	59.3		+4.9%
Headline EPS	**25.0p**	23.8p		+5.0%
Half year dividend	**6.9p**	6.7p		+3.0%
Headline operating cash flow	**49.2**	48.8		+0.8%
Free cash flow	**26.0**	42.9		-39.4%

Positive organic revenue growth excluding surcharges, with strong drop-through

Substantial margin improvement to 16.7%, led by ADE division

Stable operating cash flow; FCF impacted by higher tax (non-repeat of refund)

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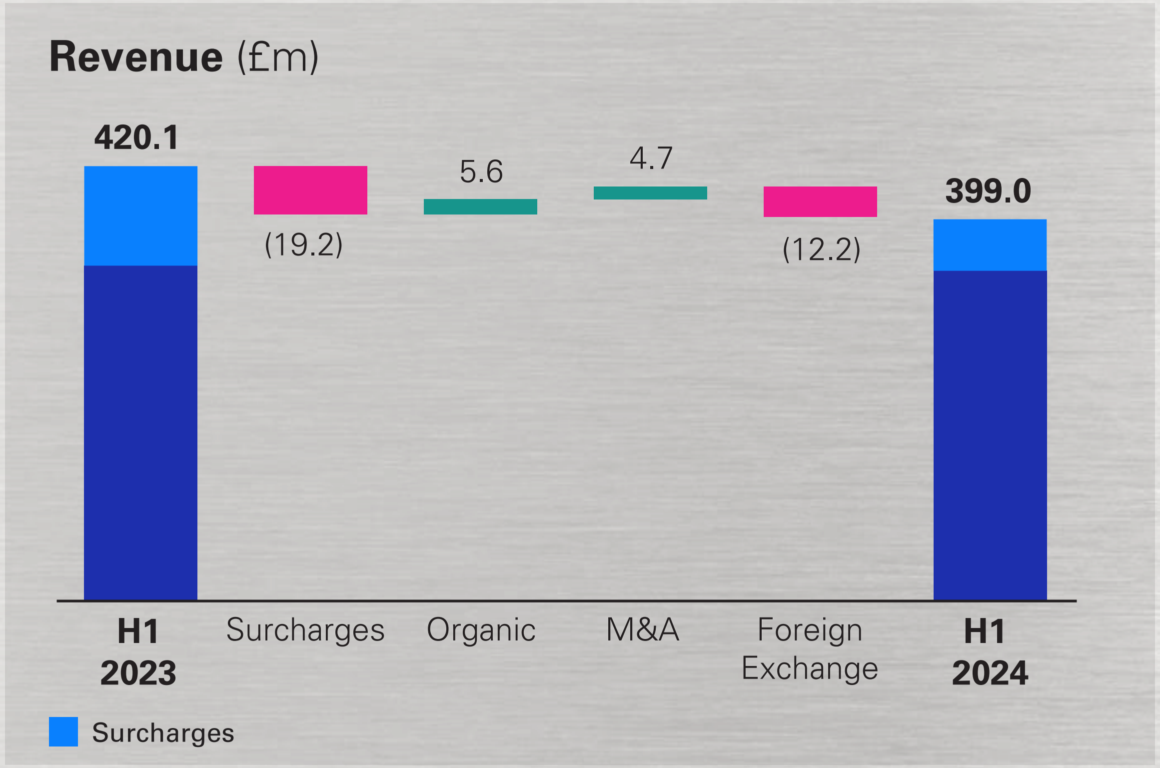
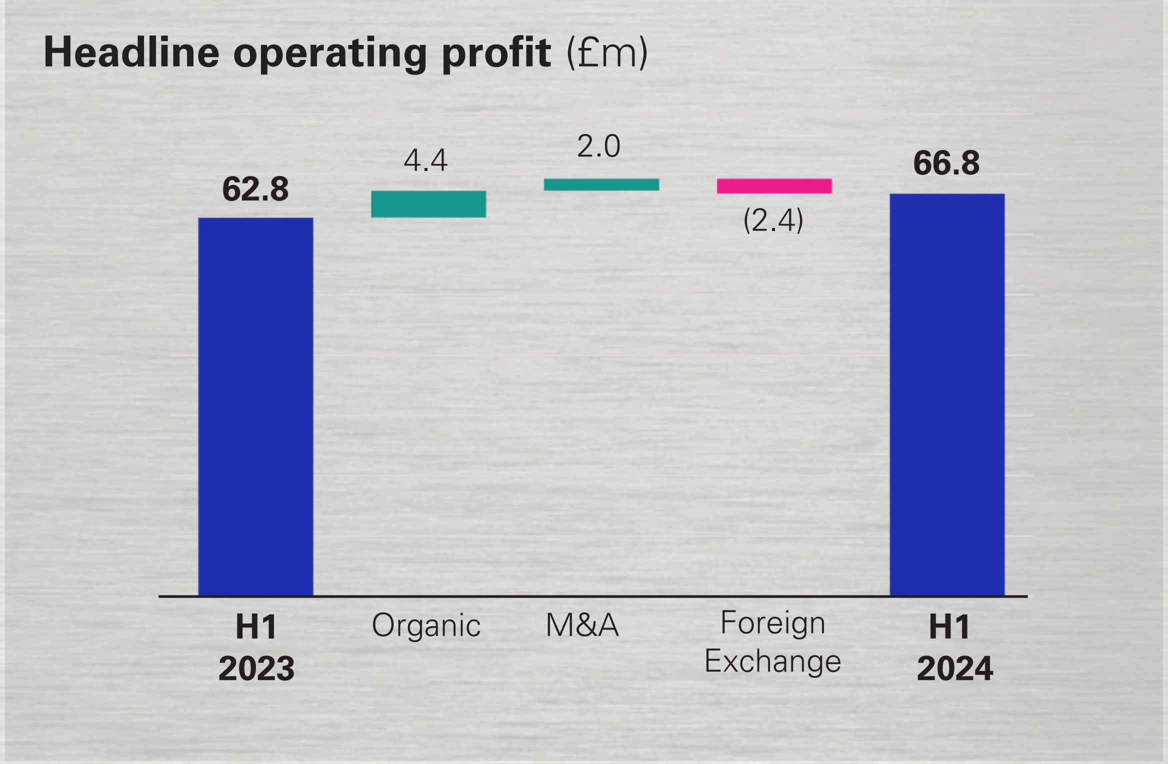
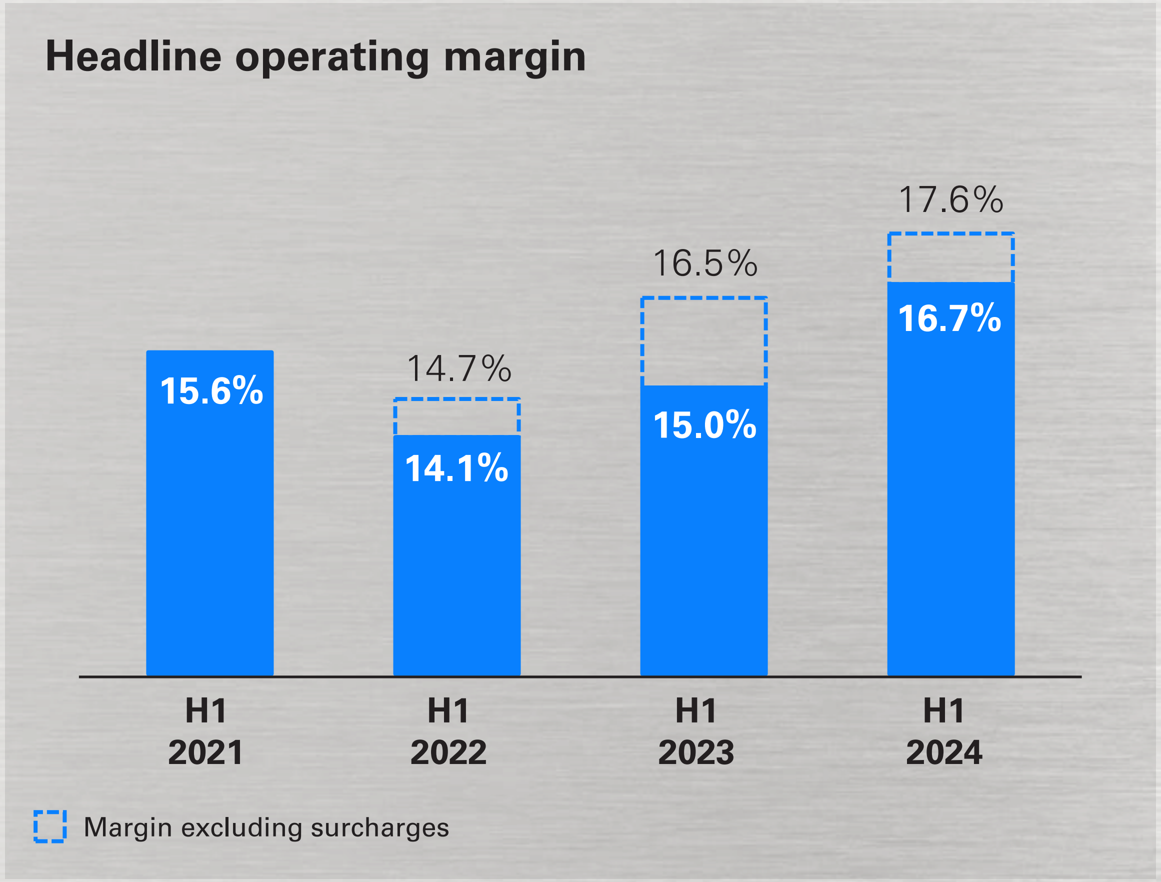
Drivers of growth

- Organic revenue growth and Lake City acquisition more than offset by lower surcharges and FX
- Strong operating profit growth driven by improving mix and near-term management actions





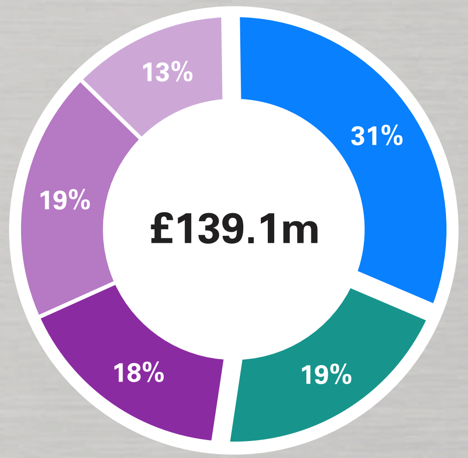
Further margin progress



- Margins up by 170bps to 16.7% (17.6% excluding surcharges)
- Continued mix shift towards Specialist Technologies
- Strong margin improvement in ADE with excellent operating leverage
- Actions taken in AGI to balance capacity with near-term demand levels

Specialist Technologies outperforming

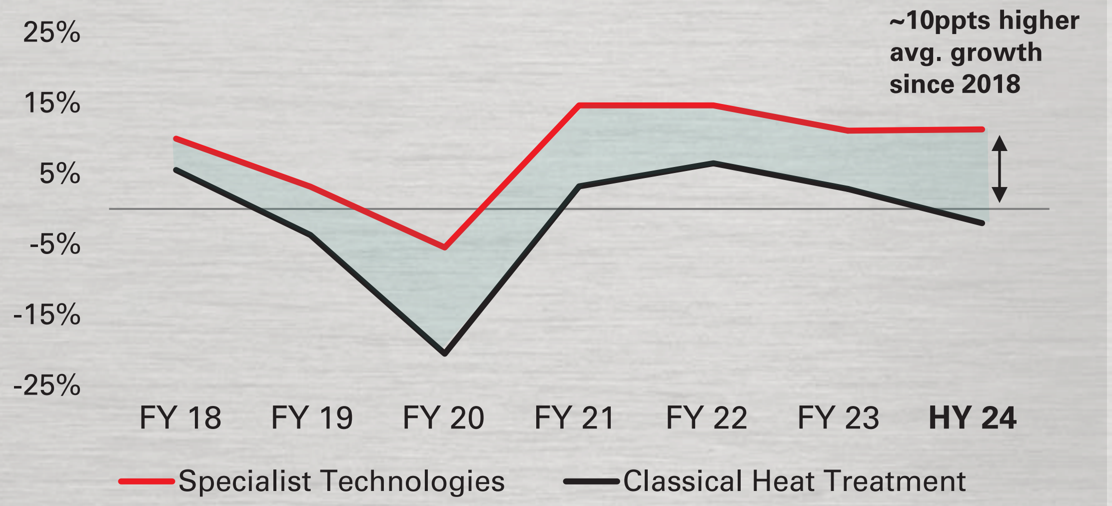
Revenue by end market
Specialist Technologies



Organic revenue growth
(excluding surcharges)

- Aerospace & Defence
- Automotive
- Industrial Markets
- Energy
- Consumer, Medical & Other

Revenue growth
Constant currency, excluding surcharges



- Continued outperformance in Specialist Technologies, which represent ~35% of Group revenue:
  - 8% organic growth in Specialist Technologies (+11% including Lake City)
  - Growing ahead of Classical Heat Treatment (-2% organic)
- Investment in additional capacity, including HIP in North America and Europe, and S3P in Europe

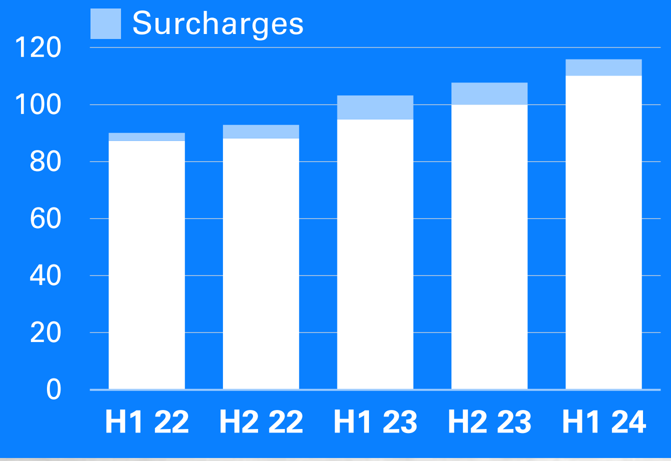
Aerospace & Defence

Revenue
£115.7m

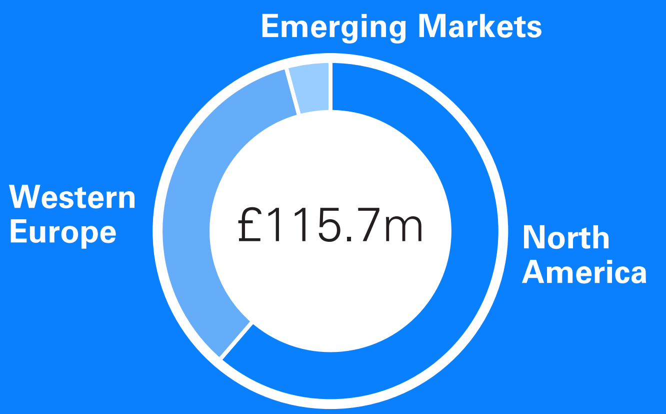
29%
of total revenue

11% **YoY organic growth**
15% **YoY organic** excl. surcharges

Revenue (constant currency)



Revenue by geography



- Commercial Aerospace organic revenue growth of 14% excluding surcharges
  - Strong mid-term outlook, underpinned by large build-rate increases at OEMs and aftermarket growth
  - Temporary growth rate moderation expected in H2, driven by aerospace supply chain re-balancing
- Strong growth in Defence, up 18% organically excluding surcharges, driven by both Europe and North America

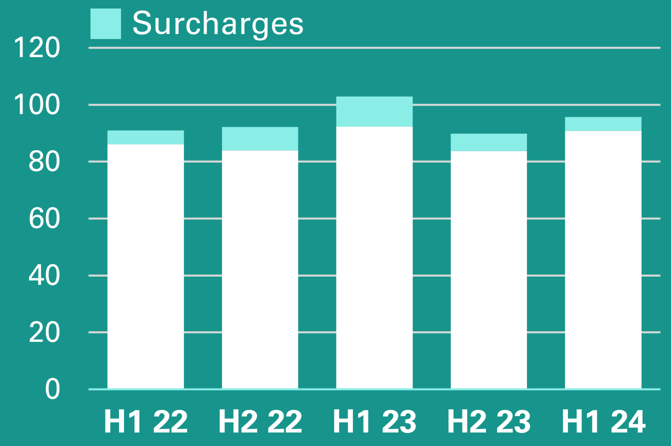
Automotive

Revenue
£94.4m

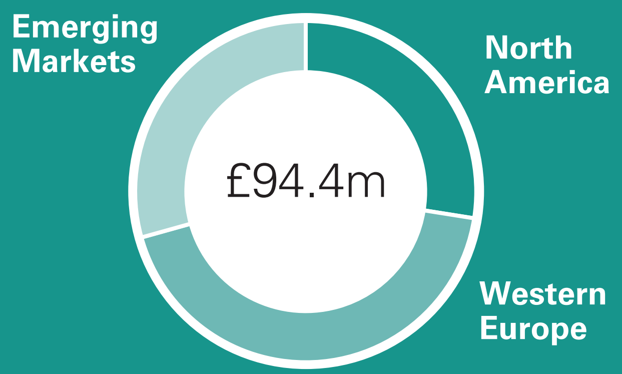
24%
of total revenue

(6)% **YoY organic growth**
(1)% **YoY organic** excl. surcharges

Revenue (constant currency)



Revenue by geography



- H1 growth reflects challenging prior year comparator
- Weak production environment: 8% decline in W. Europe light vehicle production in H1 and N. America flat (S&P)
- Well-positioned portfolio of hybrid, ICE, EV and powertrain agnostic exposures
- Progress made on increasing penetration with Chinese OEMs; China Automotive sales +10% organically

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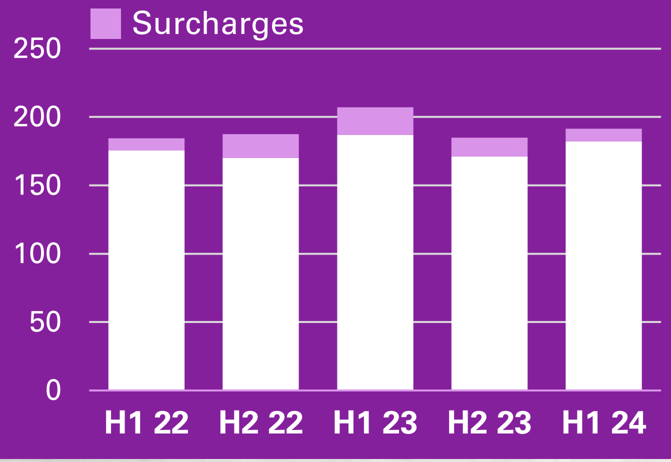
General Industrial

Revenue
£188.9m

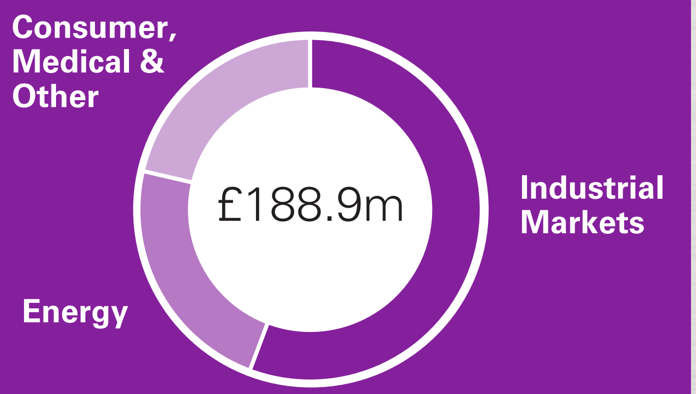
47% of total revenue

(9)% **YoY organic growth**
(4)% **YoY organic** excl. surcharges

Revenue (constant currency)



Revenue by market



- Industrial markets (including manufacturing, machining and related areas) remain soft
  - Revenue down 7% organically YoY excluding surcharges, versus tough comparator in H1 2023
  - Europe remains weaker than the US
- Strong demand and market share gains in Energy (+10% excluding surcharges) notably in IGT and Oil & Gas
- Consumer, Medical & Other broadly flat excluding surcharges, supported by Lake City acquisition

ERP programme review

Reducing the scope of the in-progress ERP implementation

- Group-wide ERP implementation programme has been ongoing, based on SAP
- After careful consideration, decision taken to reduce the scope of the roll-out:
  - The finance and purchasing modules add value and will continue (completing in early 2026)
  - The operations module halted – adds complexity and overhead cost without significant payback
- Operations will remain on current ERP systems, with a programme in place to ensure these remain fit-for-purpose

Reduced disruption risk and future implementation cost

£28.3m non-cash write-down taken as an exceptional item in H1

Cash flow

£m	2024 H1	2023 H1	Change
Headline operating profit	**66.8**	**62.8**	**+4.0**
Depreciation & amortisation	37.7	37.2	+0.5
Other	0.1	(1.0)	+1.1
Headline EBITDA	**104.6**	**99.0**	**+5.6**
Net maintenance capital expenditure	(27.1)	(24.7)	-2.4
Expansionary capital expenditure	(7.5)	(10.4)	+2.9
Principal element of lease payments	(6.7)	(6.6)	-0.1
Provisions movement	(6.4)	0.7	-7.1
Working capital movement	(7.7)	(9.2)	+1.5
Headline operating cash flow	**49.2**	**48.8**	**+0.4**
Restructuring	(0.4)	(1.0)	+0.6
Net financing costs	(3.8)	(3.3)	-0.5
Net tax	(19.0)	(1.6)	-17.4
Free cash flow	**26.0**	**42.9**	**-16.9**

Stable headline operating cash flow, with conversion of 74% (2023 H1: 78%)

Continued focus on working capital; provision outflow in H1 not expected to recur in H2

Higher cash tax reflecting non-repeat of H1 2023 refund and payments relating to prior-years

Cash flow has been restated to:
- Include outflows from expansionary capital expenditure (previously reported below free cash flow); and
- To include the cash impact of lease payments and exclude non-cash additions of right-of-use assets (2023 H1 net restatement to FCF of £(0.9)m)

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Capital allocation

- Deploying capital to drive shareholder value, including Lake City acquisition and share buyback
- Capital expenditure broadly stable in H1; expected full year spend to be modestly higher than 2023
- Net debt (excluding leases) of £68.0m; leverage remains low at 0.7x net debt / EBITDA

Capital expenditure	Ordinary dividends	Acquisitions	Supplemental distributions
2024 H1: **£34.6m**	2024 H1: **£30.1m**	2024 H1: **£52.2m**	2024 H1: **£25.8m**
2023 H1: £35.1m	2023 H1: £28.5m	2023 H1: £0m	2023 H1: £0m

Technical guidance

Translational foreign exchange	2024 H1	2024 FY Guidance
Revenue impact	£(12.2)m	~£(25)m
Headline operating profit impact	£(2.5)m	~£(5)m

Translational FX impacts based on current rates

Other items	2023 FY	2024 H1	2024 FY Guidance
P&L net finance charge	£(7.5)m	£(4.6)m	£(10)m - £(12)m
P&L headline tax rate	22.5%	23.5%	~23.5%
Cash tax	£(9.0)m	£(19.0)m	~£(30)m
Weighted average share count (million shares)	189.9m	188.4m	~186m

Cash tax guide increased from ~£20m due to catch-up payments in H1 and timing

Average share count assumes buyback is completed by year-end at current share price

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Opportunities

Jim Fairbairn, Group CEO

Global leader with strong foundations

Deep metallurgical competence

- Passionate team
- Strong customer relationships
- World class problem-solving

Market-leading brand

- Clear brand identity
- Well respected by customers
- Quality, trust and service

Differentiated technologies

- Specialist processes
- Market-leading positions
- High barriers to entry

Unique carbon opportunity

- Lower carbon processes
- Greater efficiency vs in-house
- Emissions reductions for customers – driving growth

Attractive & diversified markets

- Diversified global exposure
- Structural growth markets
- Mega trends (e.g. additive manufacturing)

Agile cost management

- Cost control mindset
- Flexibility built into cost base
- Able to repurpose assets across applications & geographies

Reflections & Priorities

- Significant number of site visits undertaken to assess the business, with three key conclusions:
  - High quality and attractive outlook of Specialist Technologies confirmed
  - The ‘Classical Heat Treatment’ badge is misleading; significant majority of activities require precision engineering, accreditations, and strong customer relationships
  - Wide range of operational and financial variability across plants

Timeline

Identify opportunities & secure early wins	Develop opportunities	Execute
• Understand the business & technology • Spend time at our sites & meet stakeholders • Early wins (cost actions)	• Review plant footprint • Optimise strategy • Strengthen teamworking & begin culture change	• Execute footprint actions • Launch improvement initiatives (operational & commercial)
Completed	In progress	To come

Opportunities to unlock significant value

Fine-tune plant footprint

High quality Group, but with a wide variation in performance across plants

Assess and develop granular plans for under-performers

Drive operational excellence

Varied operational performance with areas of excellence

Standardise, upgrade lean capability & leverage scale

Optimise growth strategy

Strong foundations and further potential for disciplined growth

Create growth strategy focused on high quality and high margin areas

Simplify reporting

Matrix of divisions, end markets, geographies and processes

Develop clearer reporting structure, aligned to our strategy

2024 Outlook

Outlook unchanged, despite mixed end markets:

- Full year organic revenue growth excluding surcharges, led by Specialist Technologies
- Year-on-year progress in headline operating margin
- Materially lower level of energy surcharges (H1: ~50% lower)
- £60m share buyback expected to be completed by end of 2024

Summary

Good first half performance in mixed end market conditions

Taking short-term actions to balance cost base with demand

Strong foundations, with significant further potential…

…strategy optimisation and footprint assessment underway

Appendix

H1 2024 Statutory Income Statement

£m	2024 H1	2023 H1
Revenue	**399.0**	**420.1**
Headline operating profit	**66.8**	**62.8**
Amortisation of acquired intangible assets	(5.3)	(4.1)
Acquisition costs	(2.4)	-
Exceptional items	(28.3)	-
Operating profit	**30.8**	**58.7**
Net finance charge	(4.6)	(3.5)
Profit before taxation	**26.2**	**55.2**
Earnings per share (basic[1])	**10.2p**	**22.2p**
Headline earnings per share (basic[1])	**25.0p**	**23.8p**

[1] Fully diluted earnings were not material in either year

H1 2024 Cash Flow

£m	2024 H1	2023 H1
Headline EBITDA	**104.6**	**99.0**
Net maintenance capital expenditure	(27.1)	(24.7)
Expansionary capital expenditure	(7.5)	(10.4)
Principal element of lease payments	(6.7)	(6.6)
Provisions movement	(6.4)	0.7
Working capital movement	(7.7)	(9.2)
Headline operating cash flow	**49.2**	**48.8**
Restructuring	(0.4)	(1.0)
Net financing costs	(3.8)	(3.3)
Net tax	(19.0)	(1.6)
Free cash flow	**26.0**	**42.9**
Net lease liability additions and disposals	(2.0)	0.9
Ordinary dividend	(30.1)	(28.5)
Acquisition spend	(54.9)	-
Ordinary shares purchased for share buyback programme	(25.8)	-
Own shares purchased less share based payments	3.6	(7.9)
(Increase)/decrease in net debt	**(83.2)**	**7.4**
Opening net debt	(51.7)	(99.4)
Foreign exchange movements	1.6	3.2
Closing net debt	**(133.3)**	**(88.8)**
Lease liabilities	65.3	62.2
Net debt excluding lease liabilities	**(68.0)**	**(26.6)**

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Foreign exchange

B/S currency (at closing rates)	**2024 H1**	**2023 H1**
EUR	**1.18**	1.16
USD	**1.26**	1.27
SEK	**13.40**	13.71
TRY	**41.43**	33.13

P&L currency (at average rates)	**2024 H1**	**2023 H1**	**% of H1 2024 revenue**	**Annual revenue sensitivity**[1]	**Annual profit sensitivity**[1]
EUR	**1.17**	1.14	33%	~£3m	~£0.5m
USD	**1.26**	1.23	38%	~£3m	~£0.5m
SEK	**13.38**	12.96	7%	~£0.5m	~£0.1m
TRY	**39.79**	23.87	1%	~£0.1m	~£0.05m

[1] Estimated impact of a 1% change in FX rate on annual revenue and headline operating profit

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Definitions

Term	Definition
Organic measures	At constant currency, and excluding corporate acquisition and disposal activities from the current and comparative periods
Headline operating profit	Operating profit before acquisition costs, exceptional items and amortisation of acquired intangibles
Headline profit before tax	Profit before tax, acquisition costs, exceptional items and amortisation of acquired intangibles
Headline EBITDA	Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets, profit or loss on disposal of property, plant and equipment, income from associate, exceptional items and acquisition costs
Headline operating margin	Headline operating profit divided by revenue
Headline operating cash flow	Headline EBITDA adjusted for working capital movements, provisions and capital expenditure
Free cash flow	Headline operating cash flow less restructuring cash flows, finance costs and taxes paid
Free cash flow conversion	Free cash flow as a percentage of headline operating profit
Headline EPS	Earnings per share excluding acquisition costs, exceptional items and amortisation of acquired intangible assets
RCF	Revolving Credit Facility
Exceptional items	Significant (by virtue of size or incidence) events or transactions including, but not limited to, impairment charges, costs associated with significant restructuring and reorganisation costs and other one-off items

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