2015 full year Group results

23rd February 2016

Agenda

- Introduction and key highlights – Pete Raby
- 2015 full year Group results – Kevin Dangerfield
- Strategy and operational update – Pete Raby

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Key highlights

- A solid set of results in very challenging market conditions
- Review of strategy performed and overall vision and direction established
- Execution priorities set to deliver resilient financial performance and faster growth

2015 full year Group results

Kevin Dangerfield

A solid set of results in a very challenging market

	FY15*	FY14*	% change from FY14	
			As reported	At constant currency
	£m	£m	%	%
Revenue	911.8	921.7	-1.1%	-1.2%
EBITA before restructuring and one-off items**	109.6	118.0	-7.1%	-7.7%
EBITA margin % before restructuring and one-off items**	12.0%	12.8%		
EBITA after restructuring and one-off items***	106.0	112.4	-5.7%	-6.2%
EBITA margin % after restructuring and one-off items***	11.6%	12.2%		
PBT before amortisation	88.2	91.6	-3.7%	
Underlying earnings per share	20.8p	22.1p	-5.9%	
Cash flow from operations	135.6	120.0	+13.0%	
Total dividend per share	11.0p	10.9p	+0.9%	

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

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Restructuring costs, net financing costs and tax

	Before specific adjusting items FY15 £m	Specific adjusting items FY15 £m	Total FY15 £m	Before specific adjusting items FY14 £m	Specific adjusting items FY14 £m	Total FY14 £m
Revenue	**911.8**	-	911.8	921.7	-	921.7
EBITA before restructuring and one-off items	**109.6**	-	109.6	118.0	-	118.0
Net restructuring and one-off items	**(3.6)**	(10.2)	(13.8)	(5.6)	(23.0)	(28.6)
Amortisation and impairment of intangible assets	**(7.1)**	(5.8)	(12.9)	(8.2)	(26.9)	(35.1)
Net financing costs	**(18.1)**	-	(18.1)	(20.8)	-	(20.8)
Loss on disposal of business	**-**	(6.1)	(6.1)	-	(2.0)	(2.0)
Share of profit of associate	**0.3**	-	0.3	-	-	-
Profit before tax	**81.1**	(22.1)	59.0	83.4	(51.9)	31.5
Tax	**(24.2)**	3.3	(20.9)	(24.7)	5.5	(19.2)
Profit after tax	**56.9**	(18.8)	38.1	58.7	(46.4)	12.3

- Restructuring costs relate to overhead reduction and site rationalisation projects
- Net financing costs include IAS 19 (revised) charge of £6.9m (2014: £5.7m)
- Tax charge of £24.2m, effective tax rate of 29.8% (2014: 29.6%)

Specific adjusting items – 2015 items all non-cash
(except £0.5 million)

	FY15 £m	FY14 £m
Restructuring costs (1)	1.5	16.3
Business exit costs (2)	2.8	1.9
Impairment of property plant and equipment (3)	5.9	0.0
Transaction related costs	0.0	1.2
Settlement of prior period anti-trust litigation	0.0	3.6
Impairment of intangible assets (4)	5.8	26.9
Loss on disposal of business (5)	6.1	2.0
Specific adjusting items before tax	**22.1**	**51.9**

1. Rationalisation of Electrical Carbon footprint in China
2. Deconsolidation and write-down of investment value in Russian Thermal Ceramics business
3. Impairment of high temperature and US armour assets
4. C&DS intangibles impairment charge following reduction of MoD business
5. Loss on sale of Thermal Ceramics business in Wissembourg

Of the 2015 charge only £0.5m is cash

Strong operating cash flow, with significant investment

	FY15 £m	FY14 £m
Cash from trading*	**136.8**	**146.1**
Change in working capital	**12.1**	**(10.4)**
Change in provisions	**(13.3)**	**(15.7)**
Cash flow from operations	**135.6**	**120.0**
Net capital expenditure	**(62.7)**	**(32.5)**
Net interest paid	**(11.2)**	**(15.3)**
Tax paid on ordinary activities	**(29.9)**	**(20.0)**
Restructuring costs and other one-off items	**(5.5)**	**(12.1)**
Free cash flow before acquisitions and dividends	**26.3**	**40.1**
Dividends paid	**(31.4)**	**(30.2)**
Cash flows from other investing and financing activities	**0.9**	**(23.0)**
Exchange movement and other items	**(4.8)**	**(7.4)**
Opening net debt	**(207.0)**	**(186.5)**
Closing net debt	**(216.0)**	**(207.0)**

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

- Operating working capital/sales reduced to 20.7% (2014: 22.3%)
- Capex includes £12m for Swansea freehold; other major spend on capacity and capability in USA, Middle East, Korea and China, particularly Thermal
- Net debt:EBITDA at 1.6 times (2014: 1.4 times); impacted by $ and € strength at year end

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Second half performance impacted by deteriorating markets, particularly in North America

£ million	Revenue		EBITA*		Profit Margins %	
	FY15	FY14	FY15	FY14	FY15	FY14
North America	368.4	353.1	51.5	52.5	**14.0%**	**14.9%**
Europe	305.7	325.7	35.8	39.8	**11.7%**	**12.2%**
Asia/Rest of World	237.7	242.9	27.5	31.2	**11.6%**	**12.8%**
Unallocated Costs **			(5.2)	(5.5)	-	-
EBITA before restructuring and one-off items ***	***911.8***	***921.7***	***109.6***	***118.0***	***12.0%***	***12.8%***
Restructuring and one-off items ***			(3.6)	(5.6)		
EBITA after restructuring and one-off items ***			***106.0***	***112.4***	***11.6%***	***12.2%***

*** 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 and one-off items include the costs of restructuring activity and profit on disposal of properties**

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North America – maintaining mid-teen margins despite a difficult second half

	FY 2015	FY 2014	Reported change %	Like-for-like change %***
Revenue*	368.4	353.1	+4.3%	-2.3%
EBITA**	51.5 14.0%	52.5 14.9%		

- 2.3% decrease in revenue on a like-for-like basis; H2 revenue 6.7% down on H1
- H2 performance across all businesses was impacted by very mixed market conditions: large projects for Thermal down; oil and gas, automotive and general industrial sectors all down
- Order book decline through H2 2015 to a YTD book-to-bill ratio of 0.98x

* Figures stated at reported rates
** EBITA before restructuring and one-off items and specific adjusting items
*** Like-for-like figures are based on constant currency and adjusting for the impact of acquisitions/disposals

Europe – like-for-like revenue growth of 1.7%

	FY 2015	FY 2014	Reported change %	Like-for-like change %***
Revenue*	305.7	325.7	-6.1%	+1.7%
EBITA**	35.8 11.7%	39.8 12.2%		

- Growth in Europe impacted by a more difficult H2
- Thermal Ceramics outstanding revenue increase of 10.7% offset by other businesses
- EBITA margin impacted by C&DS performance
- Order book decline through H2 2015 to a YTD book-to-bill ratio of 0.98x

* Figures stated at reported rates
** EBITA before restructuring and one-off items and specific adjusting items
*** Like-for-like figures are based on constant currency and adjusting for the impact of acquisitions/disposals

Asia/RoW – mixed trading conditions in 2015

	FY 2015	FY 2014	Reported change %	Like-for-like change %***
Revenue*	237.7	242.9	-2.1%	-1.5%
EBITA**	27.5 11.6%	31.2 12.8%		

- Like-for-like revenue down 1.5% - very mixed trading conditions across the region in 2015
- China revenue down 11.2%, India down 3.0%, South East Asia up 13.3% and Middle East flat
- Main driver of margin decline was China slowdown
- Order book steady through H2 2015 with YTD book-to-bill ratio of 1.04x

* Figures stated at reported rates
** EBITA before restructuring and one-off items and specific adjusting items
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Financial summary

- Full year like-for-like revenue 0.8% lower than 2014 following weaker market demand in H2

- 12.0% EBITA margins achieved in 2015

- Strong operating cash flow of £135.6 million, 13.0% increase versus 2014

- Full-year dividend of 11.0 pence

Strategy and operational update

Pete Raby

First impressions

Strengths

- Leading technology and material science capability and process know-how
- Application engineering
- Customer focus, reputation and brand
- Strong market positions
- People and culture



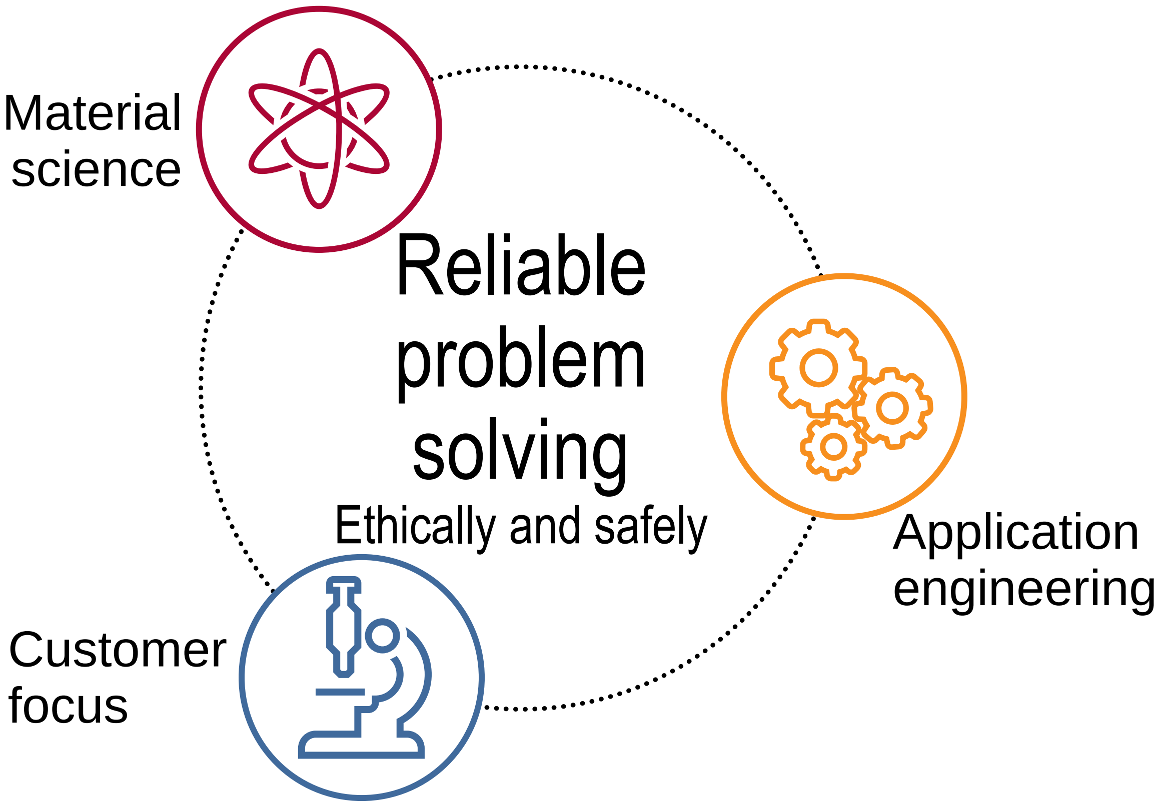




Opportunities to improve

- Complexity of the business
- Global coordination of the business
- Operational execution
- Sales effectiveness and market focus
- Talent management and development

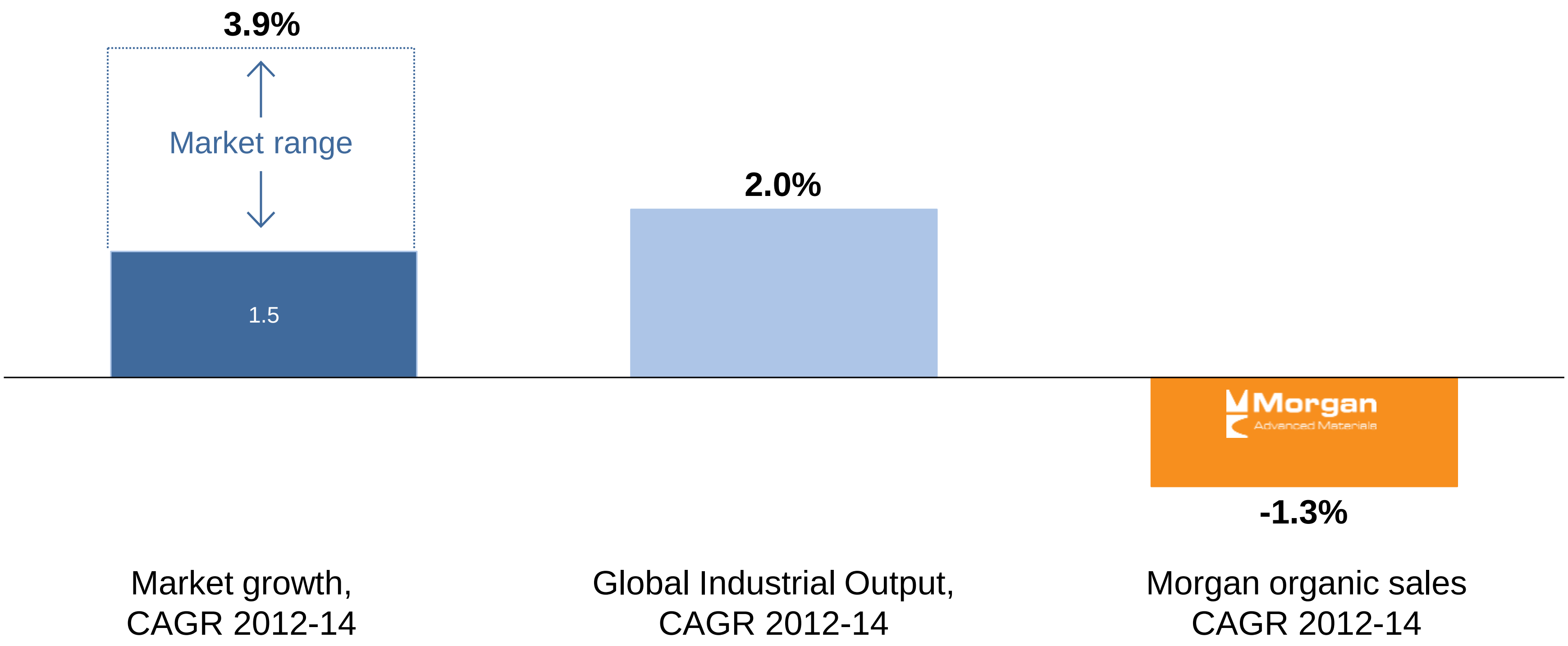
Our vision is to be renowned for world-class material science, application engineering and customer focus



- Scalable global businesses
- In growing markets
- Where technical differentiation is valued

➜ Strengthen the Group to deliver **resilient financial performance and faster growth**

Our markets and historic growth



➔ key priority is to **close the gap**

1) Market figures have been prepared using a combination of global market reports and a bottom up market sizing and forecasting exercise. As far as possible, market forecasts have been based on Morgan's accessible geographies and product offerings and using sources of data such as IHS, IEA, Teal, Technavio and Oxford Economics.

Six execution priorities

1. Move to a global structure
2. Extend our technology leadership
3. Improve operational execution
4. Drive sales effectiveness and market focus
5. Increase investment in people management and development
6. Simplify the business

Move to a global structure …

Organisational structure development

1

"One Morgan"

3 regional divisions:

- Europe
- North America
- Asia and Rest of World

New organisational structure

2 global divisions with 6 product based Global Business Units

- Thermal Products Division
- Carbon and Technical Ceramics Division
- Composites and Defence Systems Global Business Unit

2013

2016

Issues "One Morgan" addressed

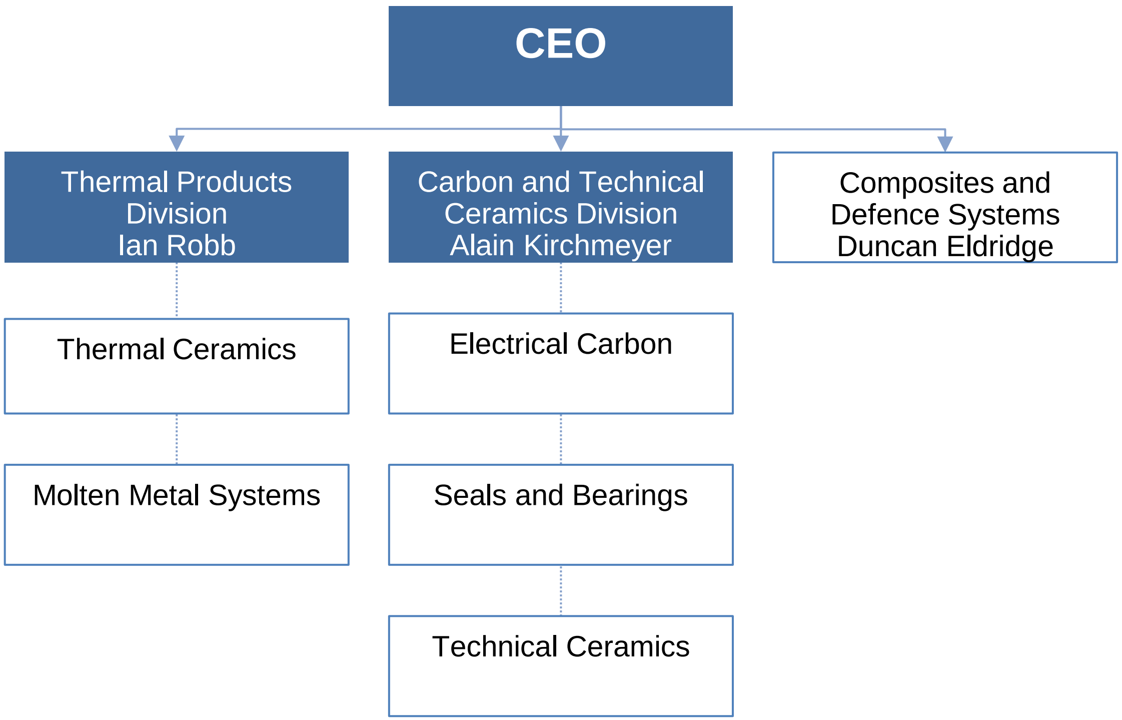
- Lack of cooperation within regions
- Lack of shared service provision driving increased overhead costs
- Focus on Asian growth market

Need to focus globally

- Benefits of "One Morgan" delivered, in particular in Asia
- Greater emphasis on scale and scalable Global Business Units now requires a change in structure

… two divisions and 6 Global Business Units

1



- Simplified approach to global customers and market opportunities
- Improving operational efficiency through global best practice
- Leveraging R&D investment across regions
- Better global synergies
- Leaner cost structure

Two global divisions and six product-based Global Business Units

Six Global Business Units

1

Our business units	Revenue £m	EBITA margin	Position
Thermal Ceramics	372	14.7%	Leader
Molten Metal Systems	40	13.9%	Leader
Electrical Carbon	146	12.8%	Top 3
Seals and Bearings	88	11.2%	Leader
Technical Ceramics	238	11.4%	Niche
Composites and Defence Systems	28	(3.6%)	Niche
Group	**912**	**12.0%**	

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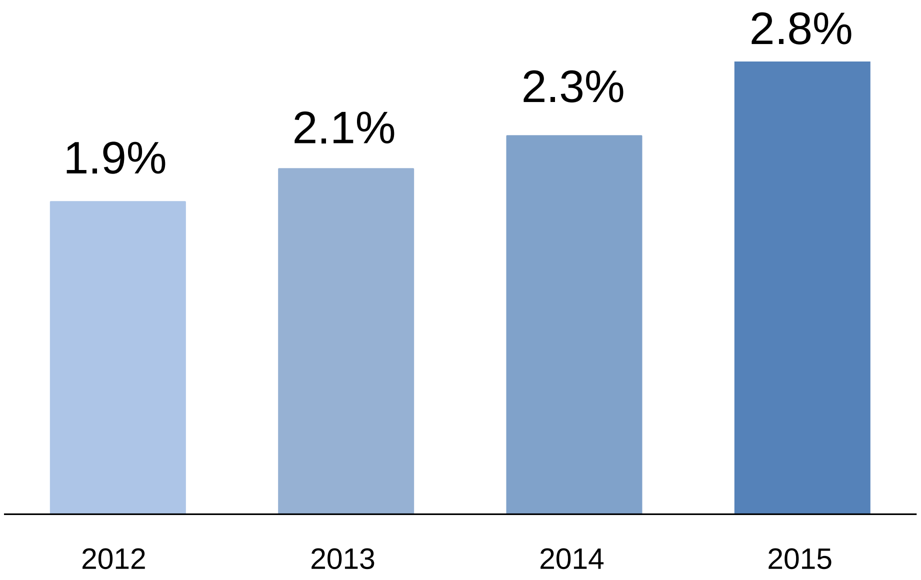
Extend our technology leadership by increasing R&D investment

2

R&D as a percentage of sales, 2012-15



1 **Increase and redirect R&D spend**
To accelerate current technology projects and enable new R&D priorities

2 **Create two new global Centres of Excellence**
Carbon science
Brazing and joining

3 **Strengthen and embed our stage gate processes**
To benefit further from both customer pull and technology push effects

➔ In the next 3-5 years we plan to

increase R&D investment by around 1% of sales

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Improve operational execution

3

Capital allocation and productivity

	Delivery	Quality	Efficiency
Thermal Ceramics Global procurement, manufacturing strategy and plant utilisation	○	●	●●
Molten Metal Systems Global sourcing and streamlined global manufacturing strategy	●	○	●
Electrical Carbon Focus on increasing utilisation and plant optimisation	●	●	●
Seals and Bearings Reduce turnaround times and product cost	○	○	●
Technical Ceramics Focus on improving yield, scrap rates, quality and lead times	●●	●●	●
Composites and Defence Systems Targeted product cost out	●	○	●

●● Major focus ○ Minor focus

→ Reduce costs

to re-invest in the business

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Case study: Thermal Ceramics

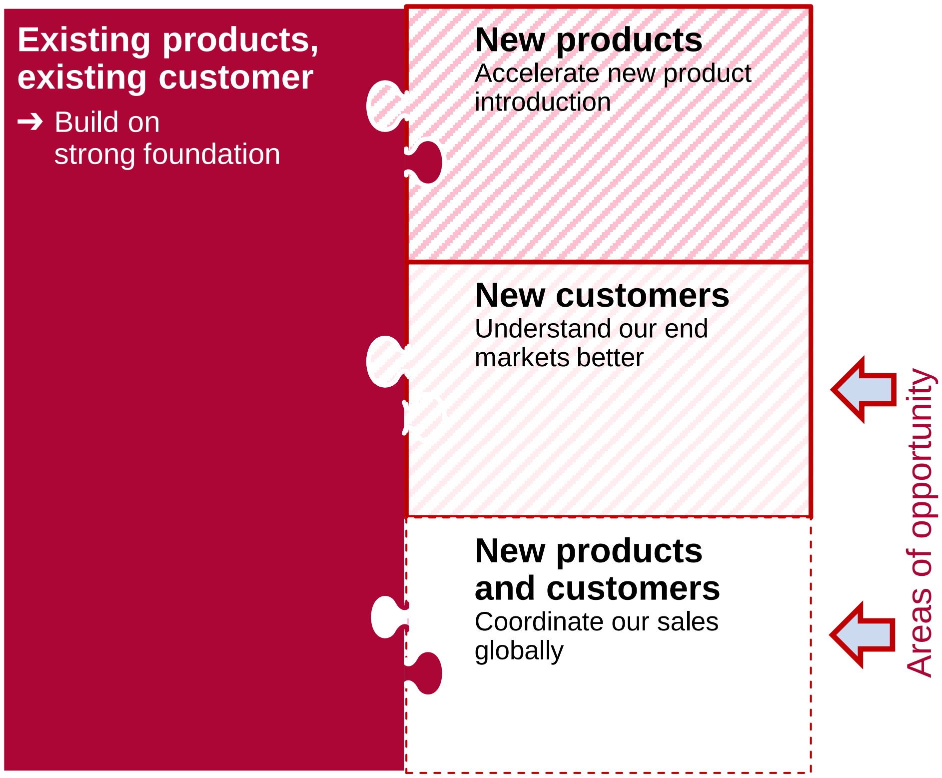
3

Improvement category	Description	Key outlined levers
Global sourcing	Move from local to regional or global sourcing for raw materials	• Price renegotiations • Increase sourcing from low cost countries • Process optimisation
Lean transformation	Identify and eliminate waste within the production process, accelerate continuous improvement	• Reduced material waste and line downtime • Improved energy management • Increased labour productivity
Manufacturing strategy	Improve global capacity management and planning	• Enhanced capacity utilisation • Improved labour productivity • Optimised inventory
Benchmarking	Share best practice across divisions and regions to achieve and monitor cost savings	• Transfer of best practice • League tables to increase competition between sites • Performance oversight and measured KPIs

➔ Reduce costs
to re-invest in the business

Driving sales effectiveness and market focus

4



We will focus on

- ➔ Sales process, structure and efficiency
- ➔ Key account management
- ➔ Channel management
- ➔ End market understanding and market hotspots

➔ Increase sales with new products and new customers

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Increasing investment in people management and developing Morgan's future leaders

5

- Strengthen senior management talent pool
- Grow our graduate programme
- Strengthen talent pool in sales and engineering functions

Ultimately we are focused on simplifying the business to do fewer things better

6

1. Move to a global structure
2. Extend our technology leadership
3. Improve operational execution
4. Drive sales effectiveness and market focus
5. Increase investment in people management and development
6. Simplify the business

➔ Do fewer things better

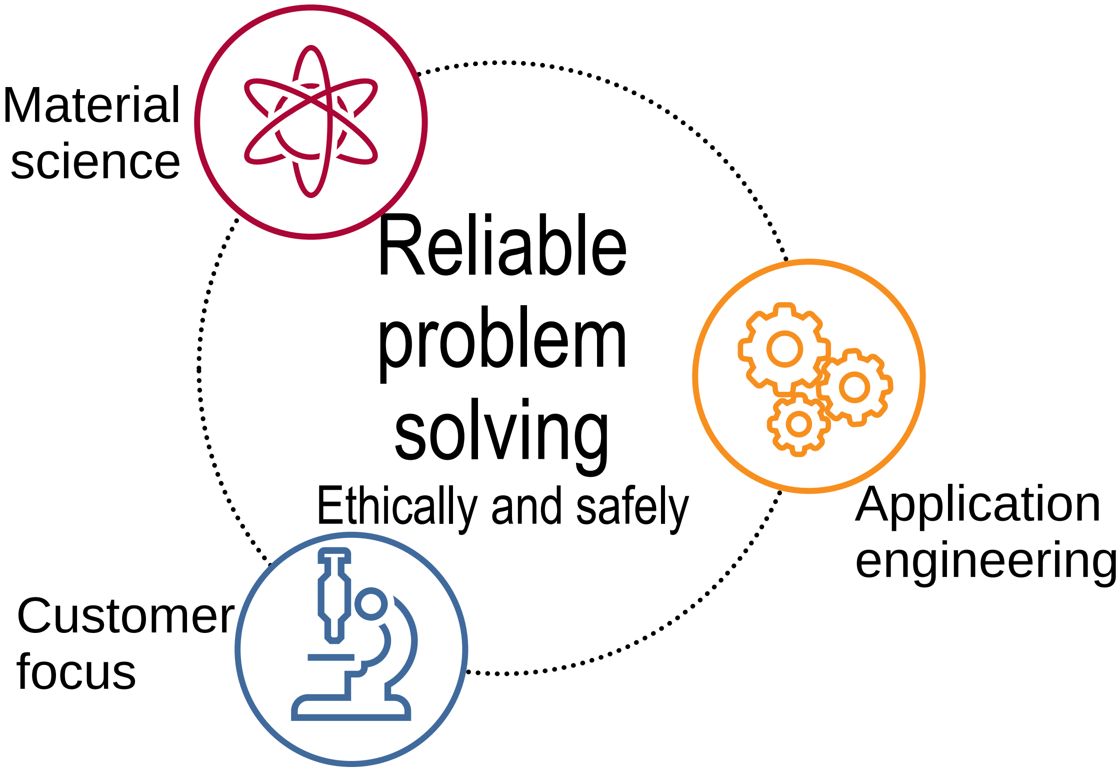
Characteristics of a Morgan business

6

- Scale and scalable global businesses
- Attractive growing markets
- Ability to add value - fit with our core capabilities
- Synergies with the rest of the portfolio
- Organisationally robust
- Delivering, or capable of delivering, strong financial performance

We will focus on our three core strengths and simplify the business to do fewer things better

Summary of Morgan's strategy



- Morgan is in attractive markets and should grow in the mid-term
- Solid foundation with a technology and customer portfolio to build on
- We will fix our execution issues over the next 3 years, funded through cost savings

➔ Market growth and self help will support revenue and margin growth

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Summary

- A solid set of results in very challenging market conditions
- Review of strategy performed and overall vision and direction established
- Execution priorities set to deliver resilient financial performance and faster growth
- We take a cautious view of market conditions, focusing on increasing our efficiency and reinvesting in the business

Appendix

Revenue and EBITA for the new organisation structure

£ million	Revenue		EBITA*		Profit Margins %	
	FY15	FY14	FY15	FY14	FY15	FY14
Thermal Ceramics	372.4	373.1	54.8	51.4	**14.7%**	**13.8%**
Molten Metal Systems	39.7	41.2	5.5	5.9	**13.9%**	**14.3%**
Thermal Products	**412.1**	**414.3**	**60.3**	**57.3**	**14.6%**	**13.8%**
Electrical Carbon	145.6	154.9	18.6	22.3	**12.8%**	**14.4%**
Seals and Bearings	88.6	91.5	9.9	11.7	**11.2%**	**12.8%**
Technical Ceramics	237.8	229.1	27.0	31.4	**11.4%**	**13.7%**
Carbon and Technical Ceramics	**472.0**	**475.5**	**55.5**	**65.4**	**11.8%**	**13.8%**
Composites and Defence Systems	27.7	31.9	(1.0)	0.8	**(3.6)%**	**2.5%**
Unallocated Costs **			(5.2)	(5.5)	-	-
EBITA before restructuring and one-off items *	***911.8***	***921.7***	***109.6***	***118.0***	***12.0%***	***12.8%***
Restructuring and one-off items ***			(3.6)	(5.6)		
EBITA after restructuring and one-off items *			***106.0***	***112.4***	***11.6%***	***12.2%***

*** Results before specific adjusting items**

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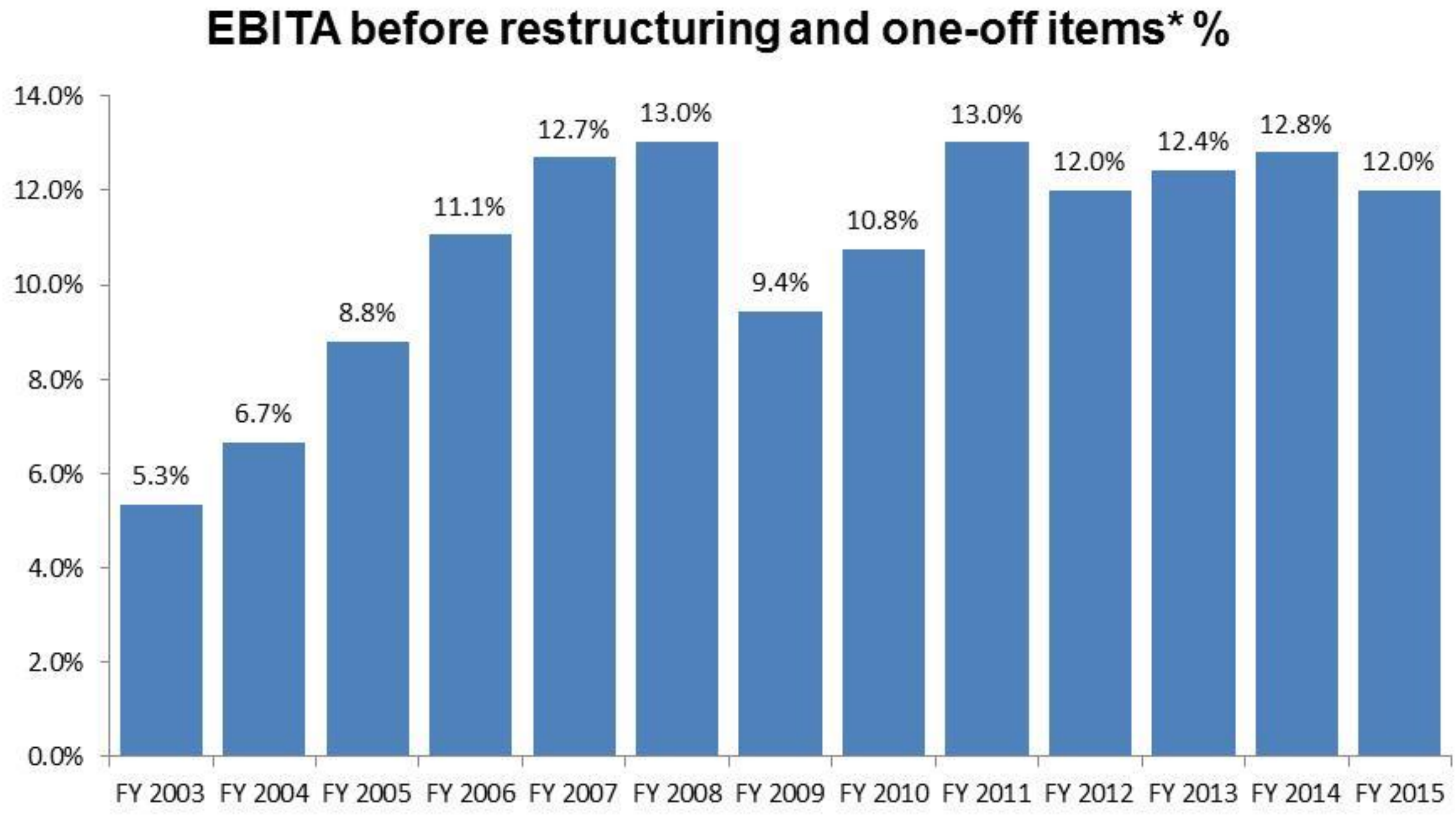
Key exchange rates

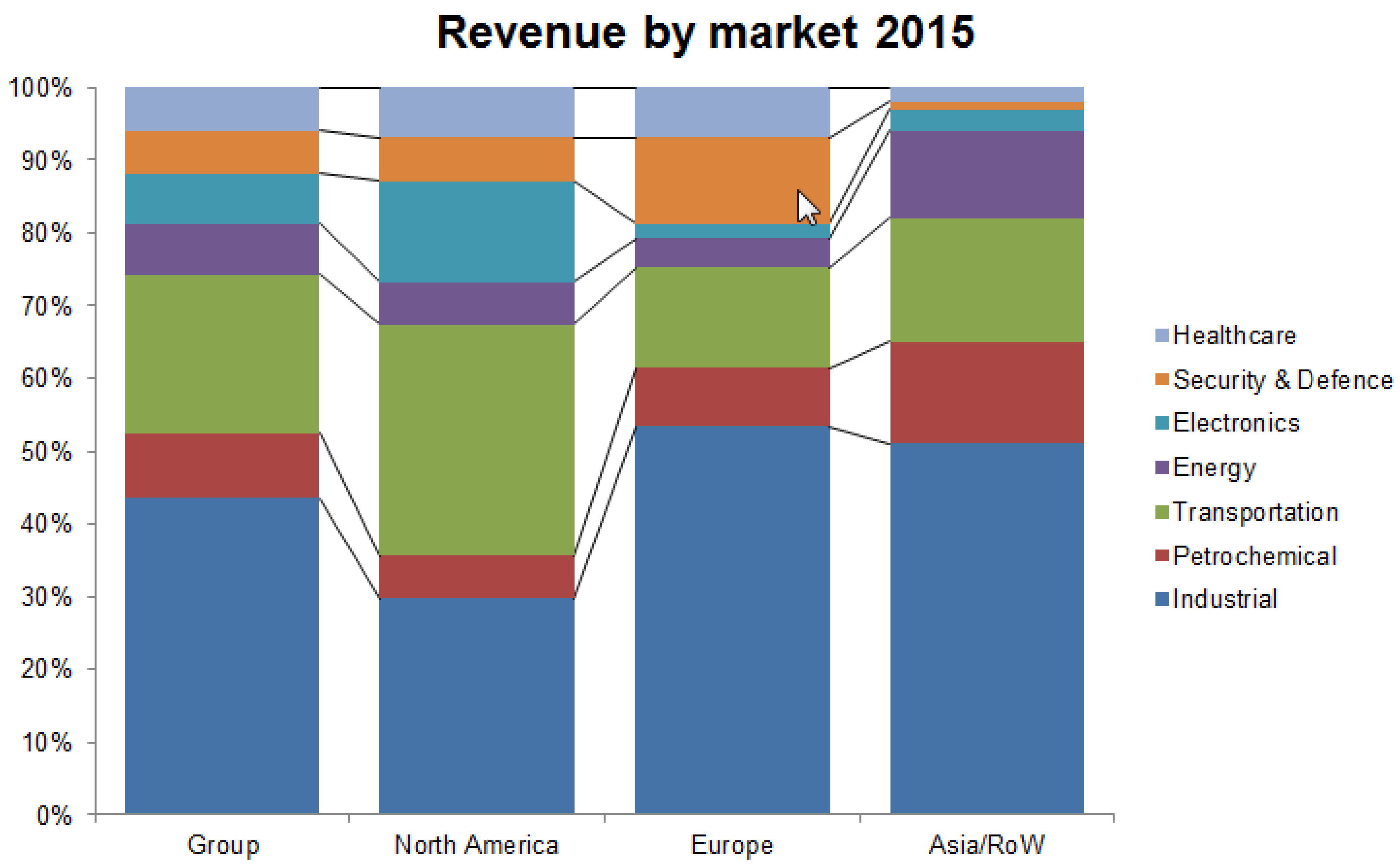
GBP to:	FY 2015 Closing rate	FY 2015 Average rate	H1 2015 Closing rate	H1 2015 Average rate	FY 2014 Closing rate	FY 2014 Average rate
USD	1.47	1.53	1.57	1.52	1.56	1.65
EUR	1.36	1.38	1.41	1.37	1.29	1.24
CNY	9.57	9.60	9.74	9.47	9.67	10.15

EBITA margins before restructuring and one-off items



* Results before specific adjusting items

End-market mix across regions – 2015 revenue by market



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Operating ROCE

All £ million At reported rates	2015 Year End	2014 Year End
LTM Underlying EBITA	106.0	112.4
Change -v- 2014 Year End	-5.7%	
Operating Capital		
Land & Building - NBV	97.9	93.1
Plant & Equipment - NBV	158.8	147.9
Third Party Working Capital	134.2	164.7
	390.9	405.7
Change -v- 2014 Year End	-3.7%	
Return on Operating Capital Employed	**27.1%**	**27.7%**

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Net financing costs

	FY15 £m	FY14 £m
Bank interest charge	13.7	17.2
Bank interest income	(1.5)	(1.4)
Amounts derived from financial instruments	(1.0)	(0.7)
Net interest on IAS19 obligations	6.9	5.7
	18.1	20.8

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Underlying EPS

	FY15 £m	FY14 £m
Basic earnings from continuing operations	33.9	7.8
Amortisation	7.1	8.2
Specific adjusting items	18.4	47.0
Underlying earnings	59.4	63.0
Weighted average number of shares in the period	285.1m	285.1m
Underlying earnings per share from continuing operations	20.8p	22.1p

2015 full year Group results

23rd February 2016