2019 Year End Results Presentation

25th February 2020

Agenda

- Introduction and key highlights – Pete Raby
- 2019 year end results – Peter Turner
- Operational and strategic update – Pete Raby

Key highlights

- A year of further strategic and financial progress
- Revenue growth of 0.8% on an organic constant-currency basis – our third year of successive organic growth
- Strong growth in our semiconductor and electronics, chemical and petrochemical, healthcare and aerospace segments more than offset declines in industrial and automotive markets
- Group headline operating profit margin of 12.8%, an improvement of 70bps from organic revenue growth and the ongoing benefit of our efficiency actions
- Headline EPS growth of 4.9% reflecting improvement in operating profit
- Free cash flow improved by £10.7m to £59.2m, with improved working capital performance
- Further reductions in leverage continued the strong trajectory of the last three years

2019 year end results

Peter Turner

Group performance summary

£m	FY 2019	FY 2018	% change from FY 2018	
			As reported	At organic constant-currency
Revenue	**1,049.5**	**1,033.9**	**1.5%**	**0.8%**
Group headline operating profit[1]	**134.2**	**124.8**	**7.5%**	**4.3%**
Group headline operating profit margin % [1]	*12.8%*	*12.1%*		
ROIC (excluding IFRS 16 Leases) % [1]	*18.2%*	*18.1%*		
ROIC % [1]	*17.4%*	*18.1%*		
Cash generated from continuing operations	**164.8**	**131.3**	**25.5%**	
Free cash flow before acquisitions, disposals and dividends	**59.2**	**48.5**		
Headline earnings per share	**28.0p**	**26.7p**	**4.9%**	
Total dividend per share	**11.0p**	**11.0p**		

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

Morgan Advanced Materials

Cash flow summary

£m	FY 2019	FY 2018
EBITDA	176.6	156.1
Change in working capital	(0.1)	(9.7)
Change in provisions and other	(11.7)	(15.1)
Cash generated from continuing operations	**164.8**	**131.3**
Net capital expenditure	(54.9)	(53.1)
Net interest	(12.3)	(8.4)
Tax paid	(28.8)	(20.9)
Lease payments	(9.6)	(0.4)
Free cash flow before acquisitions, disposals and dividends	**59.2**	**48.5**
Dividends paid to external plc shareholders	(31.3)	(31.4)
Cash flows from other investing and financing activities	(12.1)	(5.2)
Cash flows from divestments and discontinued operations	1.1	(1.2)
Exchange movement and other non-cash movements	6.1	(9.8)
Opening net debt excluding lease liabilities	(179.8)	(180.7)
Closing net debt excluding lease liabilities	**(156.8)**	**(179.8)**
Closing lease liabilities	(64.3)	(0.2)
Closing net debt	**(221.1)**	**(180.0)**

- Improvement in working capital efficiency, especially debtors
- Capex driven by investment for growth and efficiency
- Higher net interest following adoption of IFRS 16 *Leases*
- Net debt:EBITDA 1.0x (2018: 1.2x)[1]
- Lease liabilities of £64.3m following adoption of IFRS 16

1 Excluding the impacts of IFRS 16 *Leases*.

Pensions update

Deficit movement since 31 December 2018 (£m)	
Deficit at 31 December 2018	**(190)**
Return on assets	44
Contributions (net of service/finance costs)	10
Actuarial losses on liabilities	(24)
Currency adjustment	3
Deficit at 31 December 2019	**(157)**

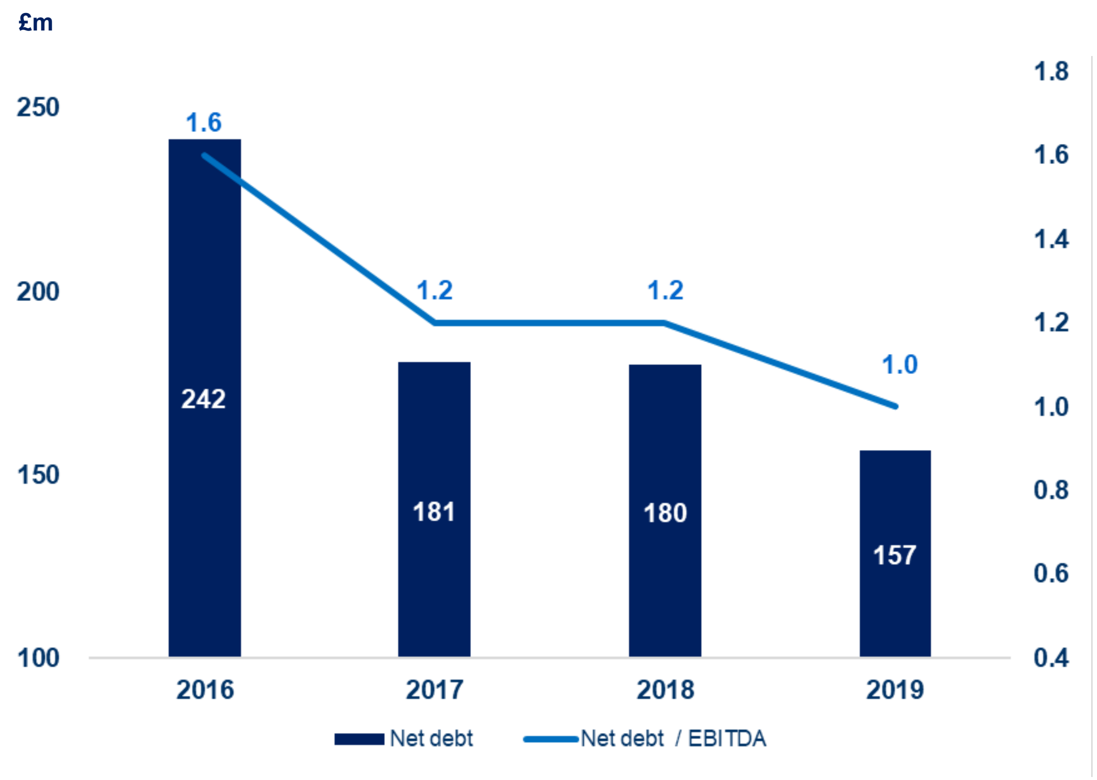
£m	31 December 2019	31 December 2018	31 December 2017
Equities and growth assets	*153*	*106*	*164*
Bonds and LDI	*252*	*256*	*211*
Annuities	*168*	*175*	*188*
Other	*5*	*7*	*9*
Total assets	578	544	572
Liabilities	(735)	(734)	(790)
Deficit	**(157)**	**(190)**	**(218)**
UK discount rate	*2.06%*	*2.74%*	*2.38%*
US discount rate	*3.21%*	*4.34%*	*3.65%*
Europe discount rate	*0.90%*	*1.70%*	*1.60%*

- Triennial review of UK Schemes completed with a combined deficit of £120.3m at 31 March 2019
- Agreed deficit recovery payments totalling £16.5m a year from January 2020, increasing by 2.75% pa, subject to regulatory approval

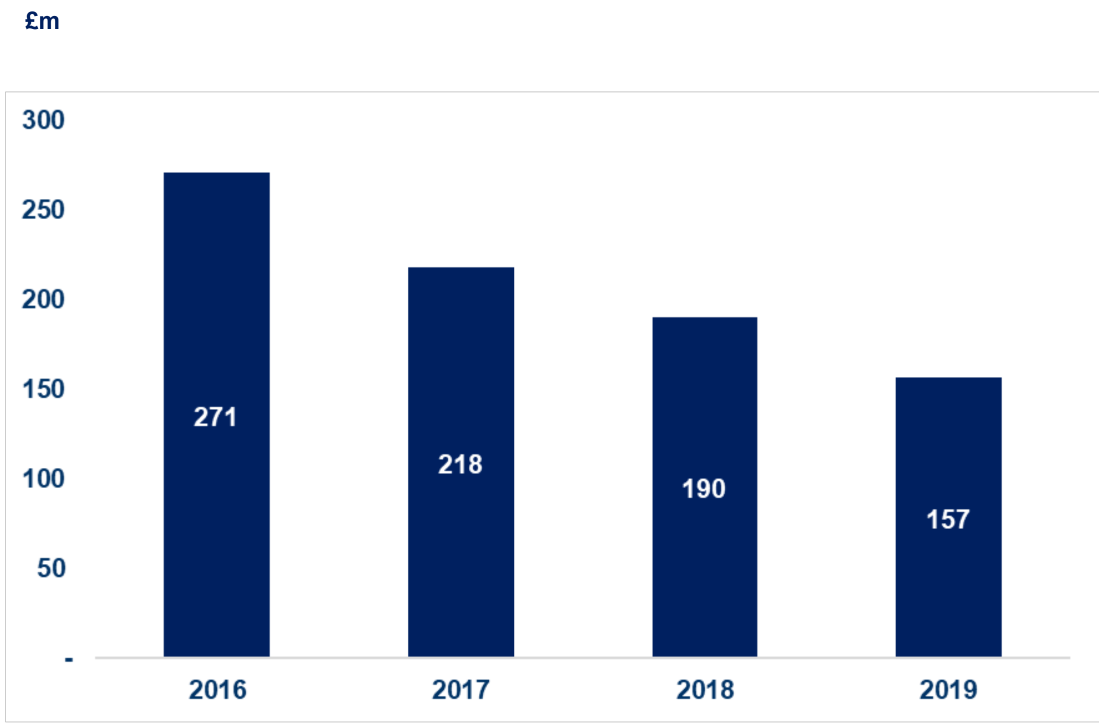
Our net leverage is improving

We have made significant progress in reducing leverage over the last three years

Net debt[1]



Defined benefit pensions deficit



1 Net debt is shown excluding lease liabilities.
2 EBITDA is presented on a pre-IFRS16 basis.

FY20 financial guidance

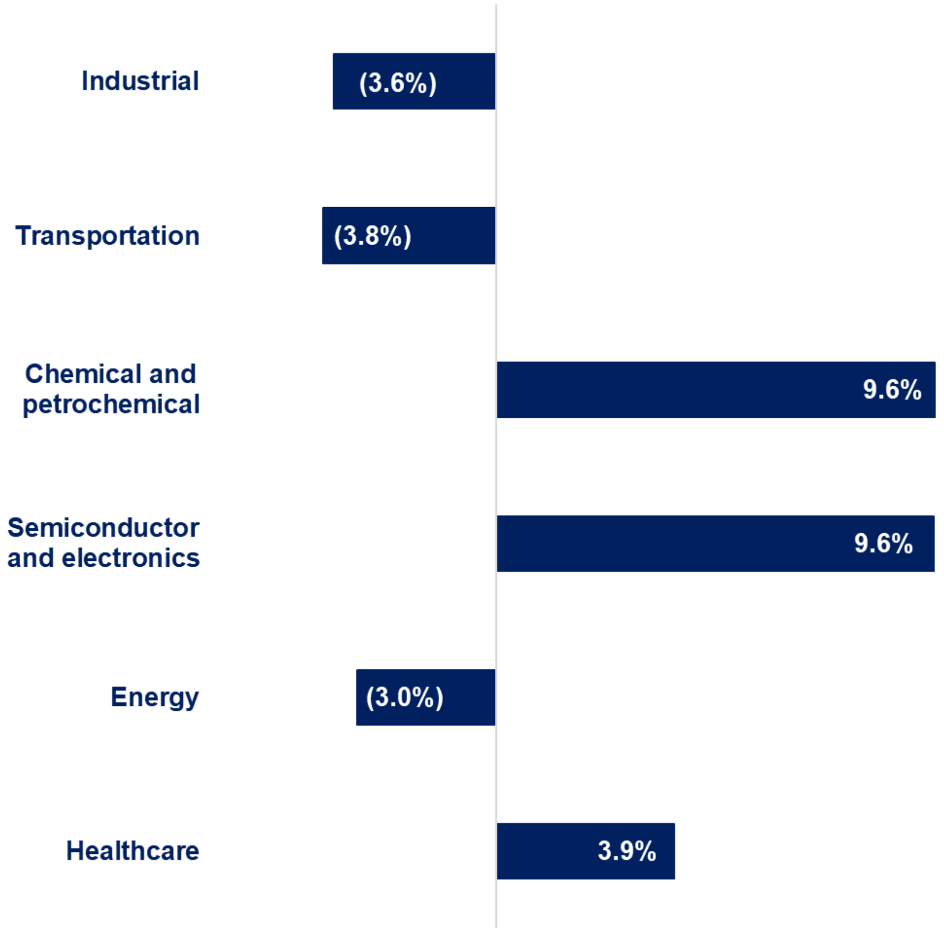
Headline tax rate	27%
Net finance charge: Interest charge (c. £7.0m) IAS 19 pensions net interest charge (c. £3.0m) IFRS 16 lease interest (c. £3.5m)	c. £13.5m
Funded pension scheme contributions	c. £21.0m
Foreign currency impacts	*see slide 33*
Portfolio impacts	

Operational and strategic update

Pete Raby

We have driven growth in our faster growing segments offsetting declines in industrial and automotive markets

Organic % change from FY 2018 at constant-currency



	% Group revenue	
Industrial	45%	Volumes down across all regions with largest declines in Europe
Transportation	21%	Aerospace growth offset by decline in automotive in Thermal Ceramics
Chemical and petrochemical	10%	Growth driven by Thermal Ceramics project activity and Seals and Bearings pump applications
Semiconductor and electronics	7%	Growth in Electrical Carbon and Technical Ceramics
Energy	5%	Renewable energy market growth offset by decline in power generation industry
Healthcare	5%	Growth in Seals and Bearings

1 Full reconciliation of end market mix as a % of Group revenue is provided on slide 28.

Thermal Ceramics: performance summary

year-on-year margin improvements despite challenging end market conditions

£m	FY 2019	FY 2018	% change from FY 2018	
			As reported	At organic constant-currency
Revenue	418.4	433.6	(3.5%)	(2.7%)
Headline operating profit	52.2	52.9	(1.3%)	(4.2%)
Headline operating profit margin %	*12.5%*	*12.2%*		

Performance commentary

- Automotive volumes down £15m (30%)
- Declines in the European market segment offset by growth in Asian petrochemical project activity
- Margin improvement driven by prior year plant closure and operational efficiency

Molten Metal Systems: performance summary

third successive year of organic revenue growth

£m	FY 2019	FY 2018	% change from FY 2018	
			As reported	At organic constant-currency
Revenue	49.1	48.6	*1.0%*	*0.6%*
Headline operating profit	5.9	6.6	*(10.6%)*	*(10.6%)*
Headline operating profit margin %	*12.0%*	*13.6%*		

Performance commentary

- Growth in aluminium casting market segments in N. America and Asia
- Margin decline resulting from one-off restructuring costs, and the annualised impact from prior year investment in research and development and sales effectiveness
- H2 margin at 13.1% improved on H1 at 10.9%

Electrical Carbon: performance summary

significant profit and margin growth offsetting challenging end market conditions

£m	FY 2019	FY 2018	% change from FY 2018	
			As reported	At organic constant-currency
Revenue	164.2	166.8	*(1.6%)*	*(2.4%)*
Headline operating profit	21.9	19.4	*12.9%*	*12.9%*
Headline operating profit margin %	*13.3%*	*11.6%*		

Performance commentary

- Semiconductor and electronics segments delivered strong growth on prior year
- Decline driven by industrial markets
- Margin improvement driven by operational efficiencies

Seals and Bearings: performance summary

third successive year of organic revenue, profit and margin growth

£m	FY 2019	FY 2018	% change from FY 2018	
			As reported	At organic constant-currency
Revenue	144.3	132.7	*8.7%*	*6.5%*
Headline operating profit	26.4	23.7	*11.4%*	*7.8%*
Headline operating profit margin %	*18.3%*	*17.9%*		

Performance commentary

- Growth driven by healthcare, petrochemical and ceramic armour (2019: £35m vs 2018: £24m) market segments partially offset by decline in the industrial and automotive markets
- Margin improvement driven by drop through on higher revenue, partially offset by increased investment

Technical Ceramics: performance summary

third successive year of organic revenue, profit and margin growth

£m	FY 2019	FY 2018	% change from FY 2018	
			As reported	At organic constant-currency
Revenue	273.5	252.2	*8.4%*	*5.7%*
Headline operating profit	33.7	28.1	*19.9%*	*13.9%*
Headline operating profit margin %	*12.3%*	*11.1%*		

Performance commentary

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

1 IFRS16 *Leases* benefitted margins by £1.6m.

Our purpose

Our purpose is to use advanced materials to help make more efficient use of the world's resources and to improve the quality of life

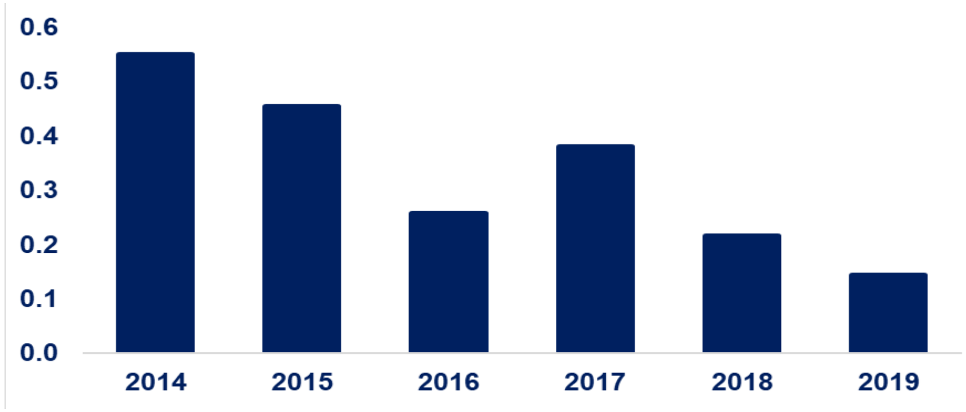
- We improve quality of life through medical applications
- We enable greener electricity generation
- We enable the digital world, and all the benefits to the environment and health that brings
- We help to keep people safe
- We enable electrification for cleaner public transport
- We help our customers manage heat, reducing their energy usage

UN sustainable development goals

Our safety performance is improving, our environmental impact is reducing

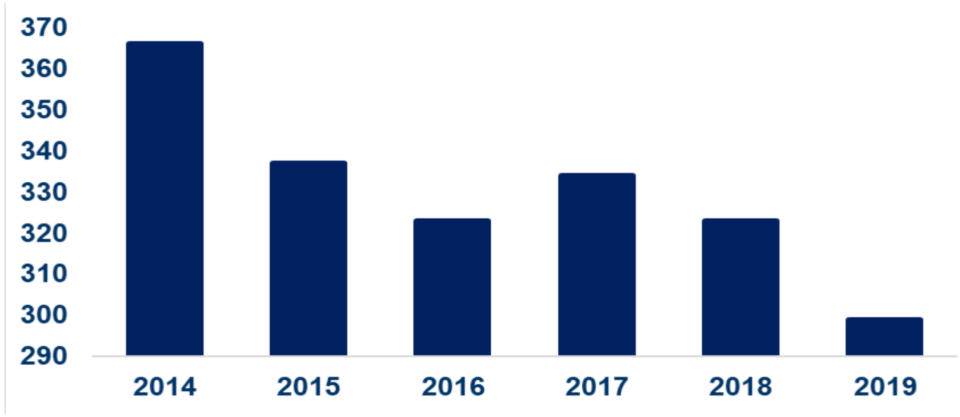
Lost-time accident frequency rate – 74% improvement in 5 years

LTAs/100k hours worked



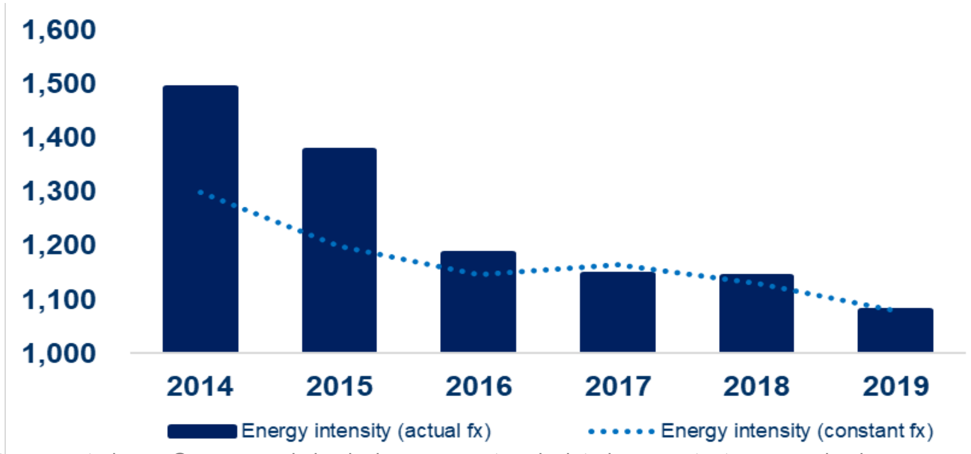
CO_2 intensity – 18% improvement in 5 years

Tonnes CO_2 equivalent/£m revenue



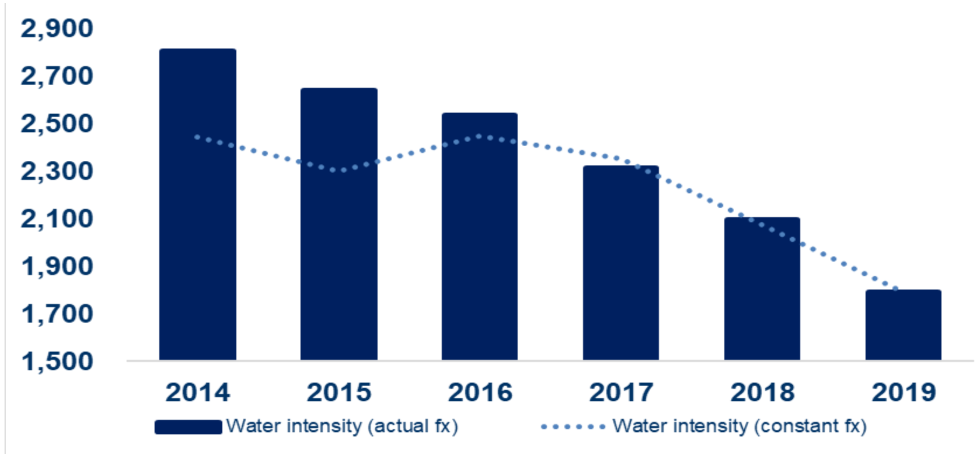
Energy intensity – 17% improvement in 5 years

MWh/£m revenue



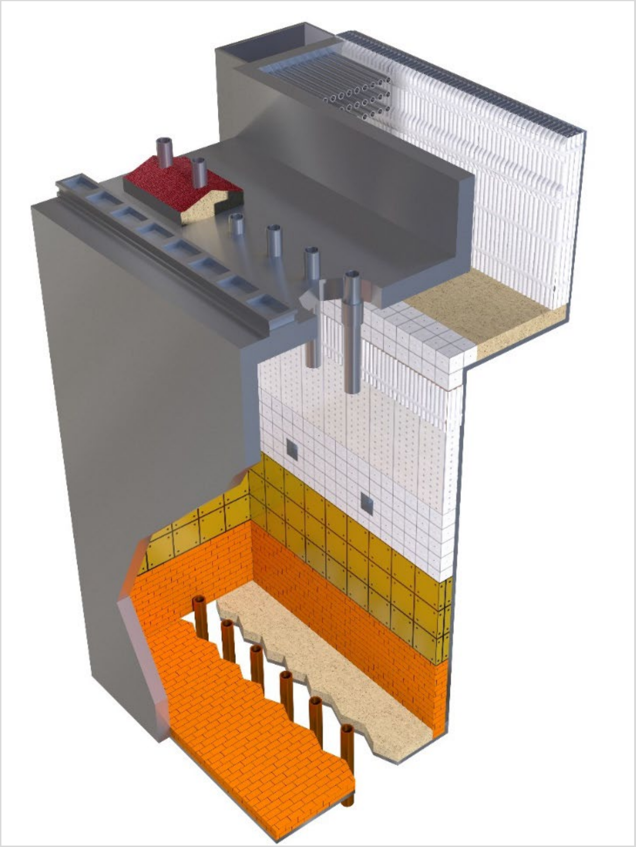
Water intensity – 27% improvement in 5 years

m^3/£m revenue



Data presented on a Group organic basis, improvements calculated on constant-currency basis.

Thermal insulation saves energy and reduces carbon emissions



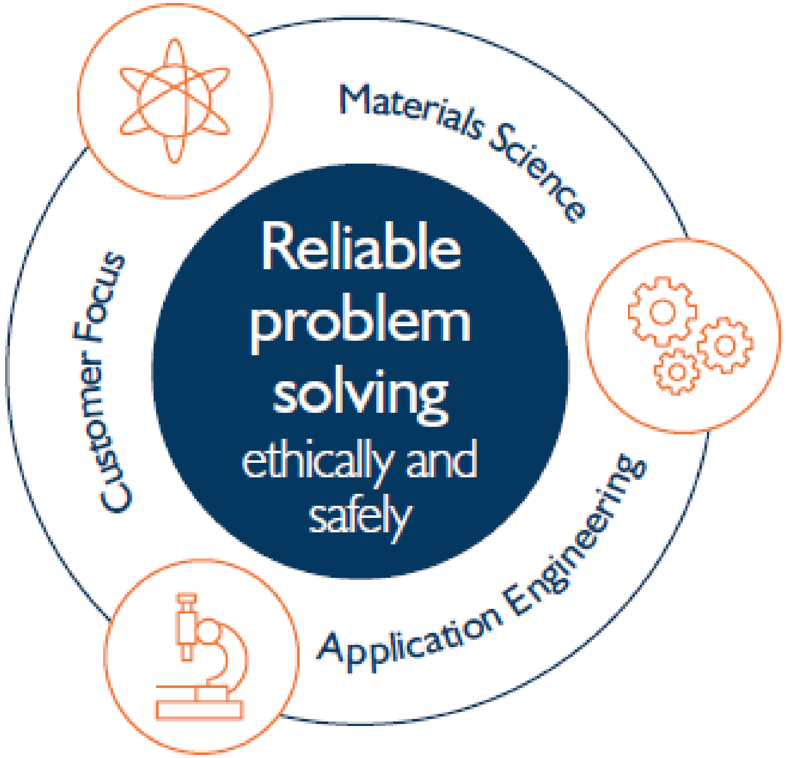
Ethylene Cracker – Sketch of radiant section

- We help customers improve efficiencies in their ethylene cracking units over the expected life of the unit
- Partnering with our customers on material selection and furnace design, savings can range from approximately 27 to 60 times[1] the CO_2 required to manufacture lining materials

1 Benefits do not include indirect emissions such as transportation of goods, waste, water, etc. and assume weight of lining materials required for typical radiant section of an ethylene cracker single cell and the use of natural gas.

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

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 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 fund reinvestment.

Our investment in research and development is starting to deliver

Our increased investment in R&D is starting deliver, with a new product development pipeline targeting key growth opportunities:

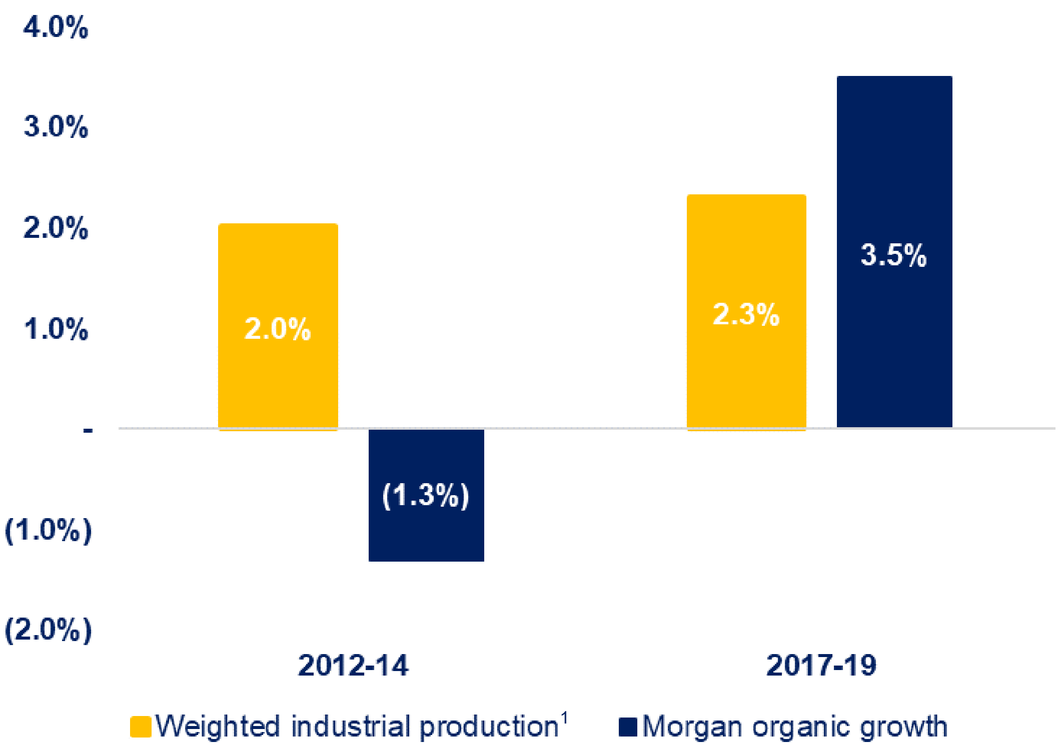
- Semiconductor applications
- Thermal management solutions
- Electric vehicle and rechargeable battery opportunities
- Renewable energy
- Implantable feedthroughs for medical applications
- Electrification of public transportation

Together these will drive £5 - 10m of incremental revenue growth in 2020

We are growing faster than our markets

We have delivered our third successive year of organic growth, outperforming our end markets

Organic growth vs industrial production[1]



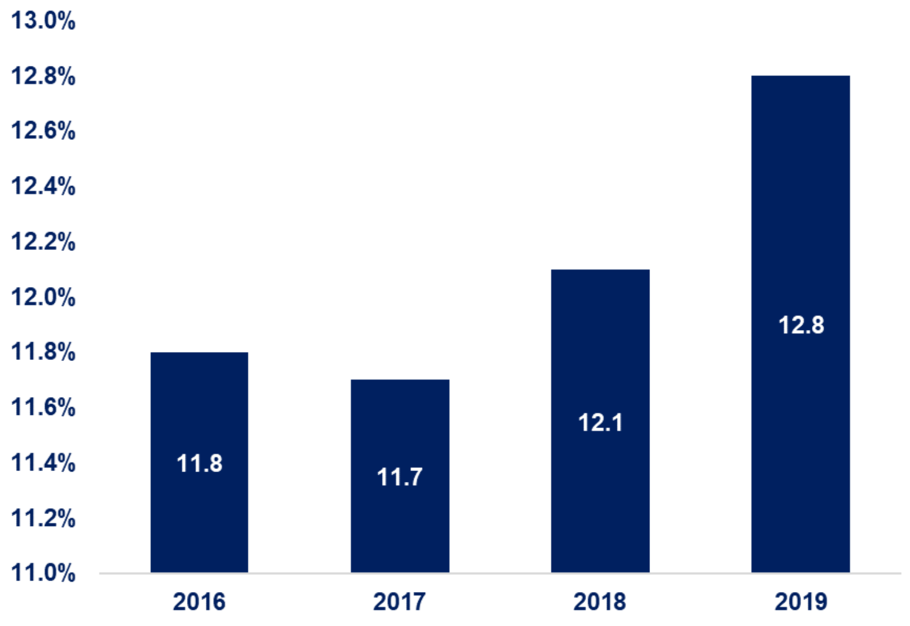
- Portfolio simplification
- Simplification of our internal structure
- Sales force effectiveness
- Investment in our faster growing market segments
- Operational efficiency

1 Source: Oxford Economics.

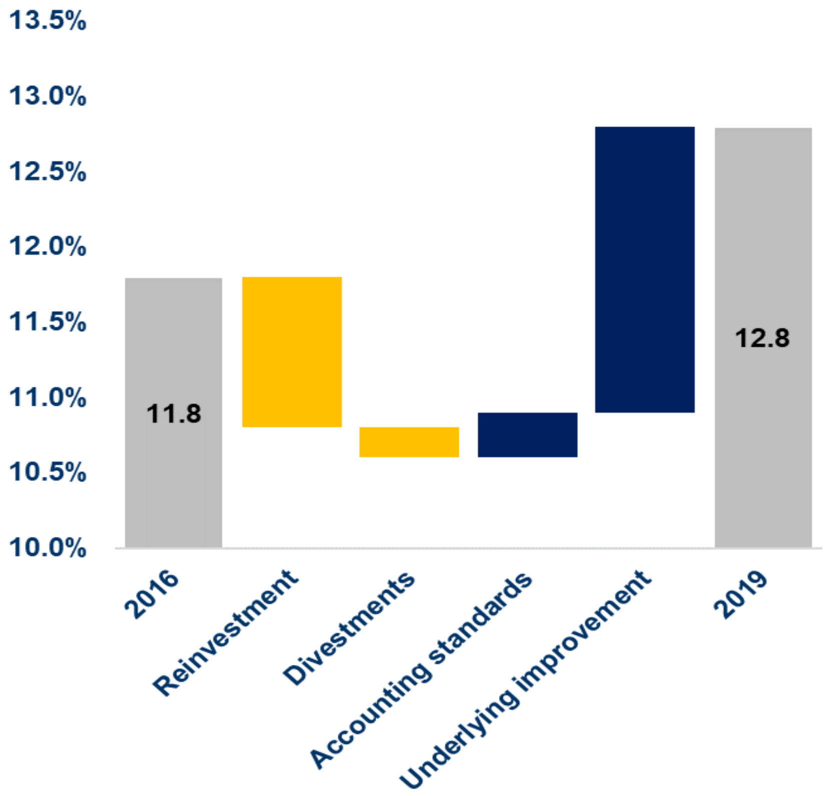
We are expanding our operating margins

Our operating profit margins are improving, now we have reached our targeted levels of reinvestment, driven by efficiency savings and volume leverage

Headline operating profit margins



Margin progression 2016 - 2019



Operating outlook

- In 2020 we are expecting similar market conditions to 2019 with weak industrial and automotive markets persisting and geo-political uncertainties remaining. However we expect revenue growth in our faster growing market segments to more than offset these market weaknesses.

- We expect to continue to make further strategic progress – continuing the implementation of our sales effectiveness programme, improving operational efficiency and driving a number of key new product developments forward.

- Overall, based on current assessment, we expect organic constant-currency revenue growth to be in the range of flat to modest growth, with the first half slightly below this trend due to the impact of the coronavirus.

Summary

- A year of further strategic and financial progress
- Revenue growth of 0.8% on an organic constant-currency basis – our third year of successive organic growth
- Strong growth in our semiconductor and electronics, chemical and petrochemical, healthcare and aerospace segments more than offset declines in industrial and automotive markets
- Group headline operating profit margin of 12.8%, an improvement of 70bps from organic revenue growth and the ongoing benefit of our efficiency actions
- Headline EPS growth of 4.9% reflecting improvement in operating profit
- Free cash flow improved by £10.7m to £59.2m, with improved working capital performance
- We are strengthening the Group to deliver resilient financial performance and faster growth

Appendix

End market mix (as a % of revenue)

Main markets by GBU

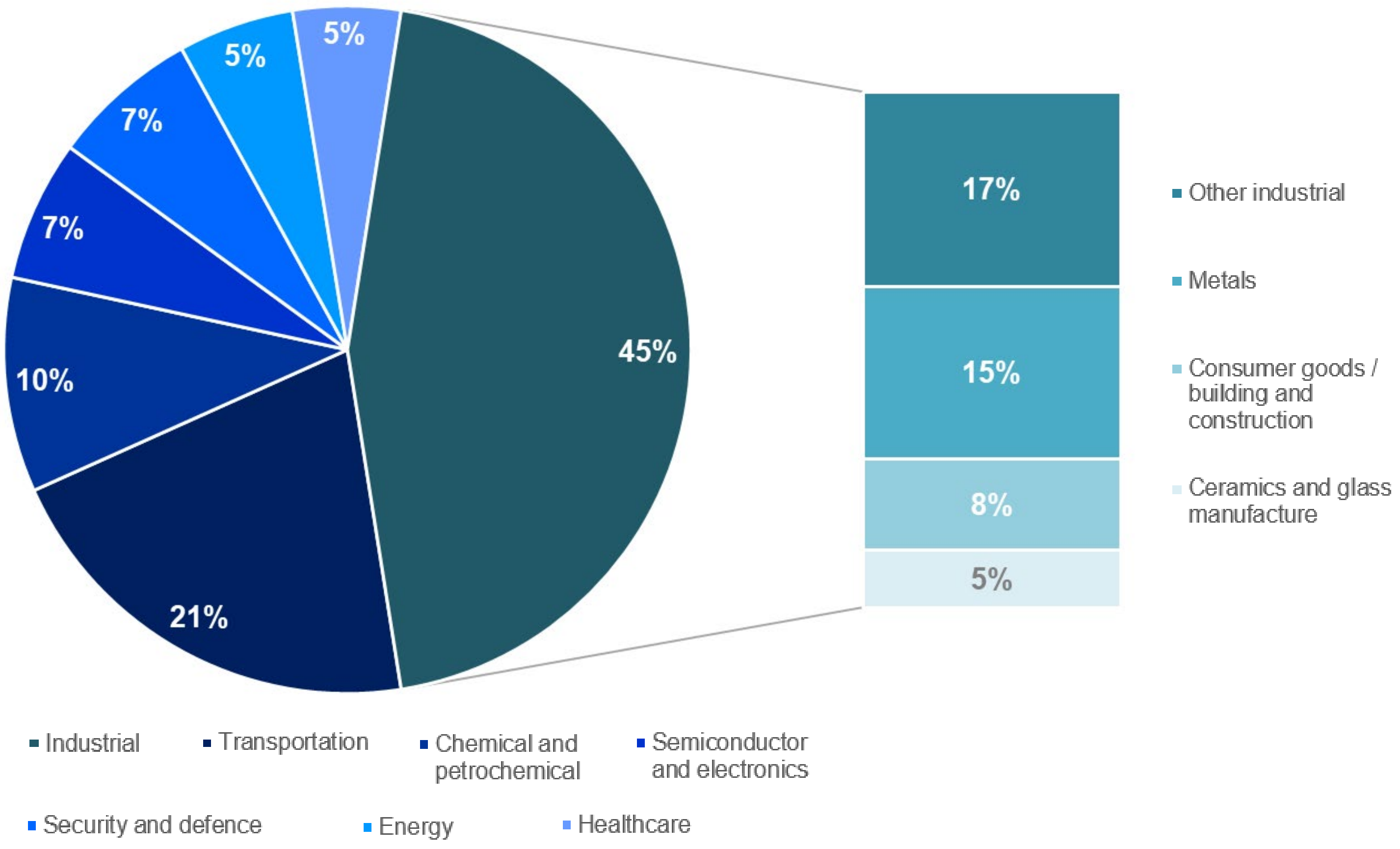
Thermal Ceramics:
Industrial, Chemical and petrochemical, Metals, Automotive

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

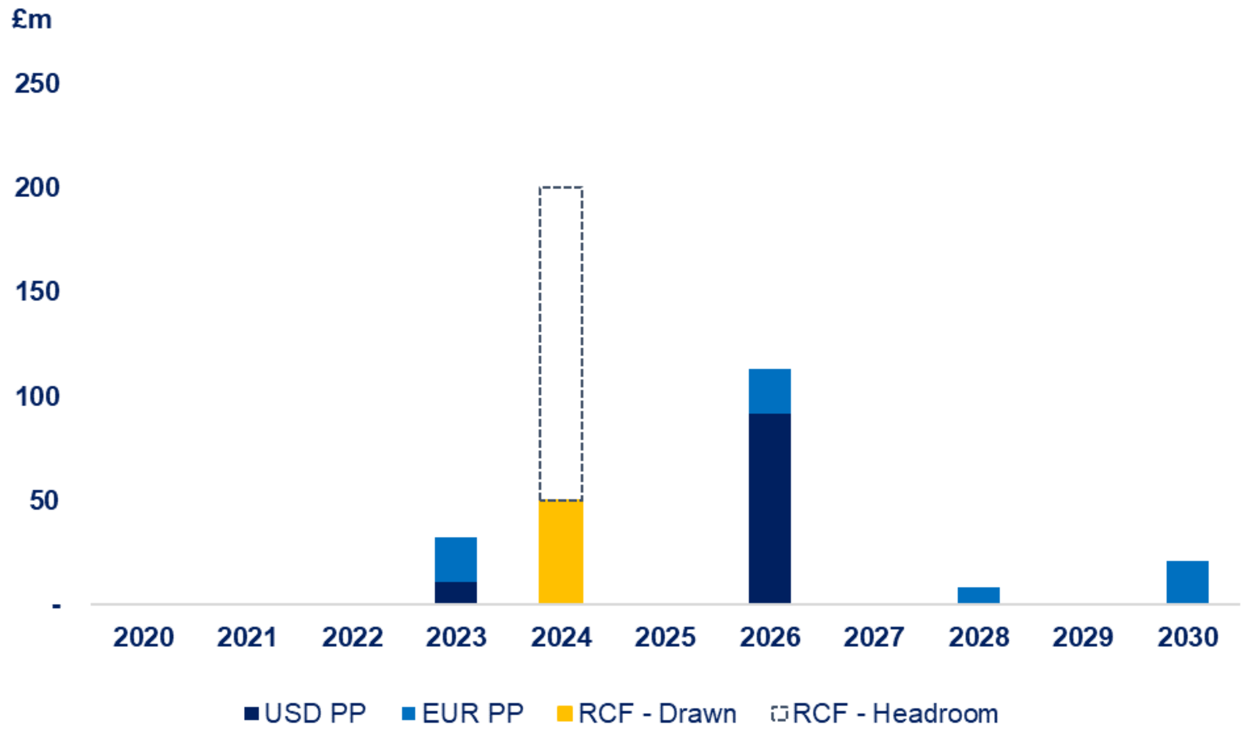
	Revenue £m		Headline operating profit £m		Headline operating profit margin %	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Thermal Ceramics	418.4	433.6	52.2	52.9	12.5%	12.2%
Molten Metal Systems	49.1	48.6	5.9	6.6	12.0%	13.6%
Thermal Products division	**467.5**	**482.2**	**58.1**	**59.5**	**12.4%**	**12.3%**
Electrical Carbon	164.2	166.8	21.9	19.4	13.3%	11.6%
Seals and Bearings	144.3	132.7	26.4	23.7	18.3%	17.9%
Technical Ceramics	273.5	252.2	33.7	28.1	12.3%	11.1%
Carbon and Technical Ceramics division	**582.0**	**551.7**	**82.0**	**71.2**	**14.1%**	**12.9%**
Corporate costs	**-**	**-**	**(5.9)**	**(5.9)**	**-**	**-**
Group	**1,049.5**	**1,033.9**	**134.2**	**124.8**	**12.8%**	**12.1%**

Reported statutory figures

£m	Year ended 31 December 2019 Results before specific adjusting items	Year ended 31 December 2019 Specific adjusting items	Year ended 31 December 2019 Total	Year ended 31 December 2018 Results before specific adjusting items	Year ended 31 December 2018 Specific adjusting items	Year ended 31 December 2018 Total
Revenue	1,049.5	-	1,049.5	1,033.9	-	1,033.9
Operating costs before amortisation of intangible assets	(915.3)	-	(915.3)	(909.1)	(9.5)	(918.6)
Profit from operations before amortisation of intangible assets	134.2	-	134.2	124.8	(9.5)	115.3
Amortisation of intangible assets	(8.1)	-	(8.1)	(8.0)	-	(8.0)
Operating profit	126.1	-	126.1	116.8	(9.5)	107.3
Net financing costs	(16.9)	-	(16.9)	(13.2)	-	(13.2)
Share of profit of associate (net of income tax)	0.5	-	0.5	0.8	-	0.8
Profit before taxation	109.7	-	109.7	104.4	(9.5)	94.9
Income tax expense	(29.9)	-	(29.9)	(29.0)	(1.7)	(30.7)
Profit from continuing operations	79.8	-	79.8	75.4	(11.2)	64.2
Profit/(loss) from discontinued operations	0.7	0.8	1.5	(1.4)	(9.3)	(10.7)
Profit for the period	80.5	0.8	81.3	74.0	(20.5)	53.5
Profit for the period attributable to:						
Shareholders of the Company	72.3	0.8	73.1	66.8	(20.5)	46.3
Non-controlling interests	8.2	-	8.2	7.2	-	7.2
Profit for the period	80.5	0.8	81.3	74.0	(20.5)	53.5

Strong maturity profile of debt at low cost of funding

Facilities maturity profile



Net debt	£m
Borrowings	225.5
Cash	(68.7)
Net debt excluding lease liabilities	**156.8**

- Net debt to EBITDA excluding the impact of IFRS 16: 1.0x (FY2018: 1.2x)
- £200m Revolving Credit Facility extended one year to mature September 2024
- $75m Private Placement repaid in 2019
- Average cost of fixed rate debt = 2.90%

All figures are shown on a pre-IFRS16 basis to align more closely to banking covenants.

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
Income statement	Revenue	-	-	-
	Depreciation	-	(9)	(9)
	Other operating costs	(12)	-	12
	Headline operating profit[1]	**(12)**	**(9)**	**3**
	Finance charges	-	(3)	(3)
	Profit before tax	**(12)**	**(12)**	**-**
Cash flow	Headline operating profit	(12)	(9)	3
	Depreciation	-	9	9
	Cash flow from operations	**(12)**	**-**	**12**
	Net interest	-	(3)	(3)
	Repayment of lease liabilities	-	(9)	(9)
	Net cash flow	**(12)**	**(12)**	**-**
Balance sheet at 1 Jan 19	Right of use assets	-	51	51
	Lease liabilities	-	(67)	(67)
	Equity adjustment	**-**	**16**	**16**

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

Morgan Advanced Materials

Foreign currency impacts

The principal exchange rates used in the translation of the results of overseas subsidiaries were as follows:

	2019		2018	
GBP to:	Closing rate	Average rate	Closing rate	Average rate
US dollar	1.33	1.28	1.28	1.33
Euro	1.18	1.14	1.11	1.13

For illustrative purposes, the table below provides details of the impact on 2019 revenue and headline operating profit if the actual reported results, calculated using 2019 average exchange rates were restated for GBP weakening by 10 cents against US dollar in isolation and 10 cents against the Euro in isolation:

Increase in 2019 revenue/ headline operating profit[1] if:	Revenue £m	Headline operating profit[1] £m
GBP weakens by 10c against the US dollar in isolation	39.7	6.3
GBP weakens by 10c against the Euro in isolation	19.9	2.9

Retranslating the 2019 full year results at the January 2020 closing exchange rates would lead to revenue of £1,017.3 million and headline operating profit of £128.0 million.

Headline earnings per share

£m	FY 2019	FY 2018
Profit for the period attributable to Ordinary shareholders	73.1	46.3
(Profit) / loss from discontinued operations	(1.5)	10.7
Profit from continuing operations	71.6	57.0
Specific adjusting items	-	9.5
Amortisation	8.1	8.0
Tax effect of the above	-	1.7
Headline earnings	**79.7**	**76.2**
Weighted average number of shares in the period	284.6m	285.2m
Headline earnings per share (pence)	**28.0**	**26.7**

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