Morgan Advanced Materials

2014 full year Group results

12th February 2015

Agenda

- 2014 full year Group results
- Strategy and operational update
- Summary and outlook

Key highlights

- Positive revenue and EBITA margin momentum in mixed market conditions
- "One Morgan" model has improved the business through organisational restructuring and footprint rationalisation
- Exits of low growth/margin and non-differentiated businesses completed; addition of Porextherm to the portfolio
- Near record margins of 13.0% in H2 - investment in technology and innovation driving profitable growth

2014 full year Group results

Full year margin increased to 12.8%; 13.0% in H2 2014

	FY14*	FY13*	% change from FY13	
			As reported	At constant currency
	£m	£m	%	%
Revenue	**921.7**	**957.8**	**-3.8%**	**+1.8%**
EBITA before restructuring and one-off items**	**118.0**	**119.0**	**-0.8%**	**+6.2%**
EBITA margin % before restructuring and one-off items**	**12.8%**	**12.4%**		
EBITA after restructuring and one-off items***	**112.4**	**108.5**	**+3.6%**	**+11.0%**
EBITA margin % after restructuring and one-off items***	**12.2%**	**11.3%**		
PBT before amortisation	**91.6**	**85.2**	**+7.5%**	**+16.0%**
Underlying earnings per share	**22.1p**	**21.5p**	**+2.8%**	
Total dividend per share	**10.9p**	**10.5p**	**+3.8%**	

* 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)

Restructuring costs, net financing costs and tax

	Before specific adjusting items FY14 £m	Specific adjusting items FY14 £m	Total FY14 £m	Before specific adjusting items FY13 £m	Specific adjusting items FY13 £m	Total FY13 £m
Revenue	**921.7**	-	921.7	957.8	-	957.8
EBITA before restructuring and one-off items	**118.0**	-	118.0	119.0	-	119.0
Net restructuring and one-off items	**(5.6)**	(23.0)	(28.6)	(10.5)	(7.3)	(17.8)
Amortisation and impairment of intangible assets	**(8.2)**	(26.9)	(35.1)	(8.3)	(3.3)	(11.6)
Net financing costs	**(20.8)**	-	(20.8)	(23.3)	-	(23.3)
Loss on disposal of business	**-**	(2.0)	(2.0)	-	(2.3)	(2.3)
Profit before tax	**83.4**	(51.9)	31.5	76.9	(12.9)	64.0
Tax	**(24.7)**	5.5	(19.2)	(21.1)	1.8	(19.3)
Profit after tax	**58.7**	(46.4)	12.3	55.8	(11.1)	44.7

- Restructuring costs relate to overhead reduction and site rationalisation projects
- Net financing costs include IAS 19 (revised) charge of £5.7m (2013: £6.3m)
- Tax charge of £24.7m, effective tax rate of 29.6% (2013: 27.4%)

Specific adjusting items

	FY14 £m	FY13 £m
Restructuring costs (1)	**16.3**	**0.0**
Business exit costs (2)	**1.9**	**7.3**
Transaction related costs (3)	**1.2**	**0.0**
Settlement of prior period anti-trust litigation (4)	**3.6**	**0.0**
Impairment of intangible assets (5)	**26.9**	**3.3**
Loss on disposal of business (6)	**2.0**	**2.3**
Specific adjusting items before tax	**51.9**	**12.9**

1. Rationalisation of Electrical Carbon and Seals and Bearings footprint
2. Impairment of Thermal Ceramics business in Wissembourg, sold January 2015
3. Porextherm acquisition and Vesuvius bid defence
4. Charge for full and final settlement of European Anti-Trust actions and legal fees relating to pre-2000 cartel activity
5. C&DS goodwill/intangibles impairment charge following reduction of MoD business
6. Sale of UK fired shapes and Chinese lithium ion business

- Cash cost £11.9m (2014: £5.3m, 2015: £6.6m), non-cash charge £40.0m

Strong operating cash flow, with significant investment

	FY14 £m	FY13 £m
Cash from trading*	146.1	148.3
Change in working capital	(10.4)	(4.4)
Change in provisions	(15.7)	(16.9)
Cash flow from operations	**120.0**	**127.0**
Net capital expenditure	(32.5)	(33.7)
Net interest paid	(15.3)	(17.0)
Tax paid on ordinary activities	(20.0)	(24.9)
Restructuring costs and other one-off items	(12.1)	(14.0)
Free cash flow before acquisitions and dividends	**40.1**	**37.4**
Dividends paid	(30.2)	(24.7)
Cash flows from other investing and financing activities	(24.7)	(4.9)
Exchange movement and other items	(5.7)	(1.5)
Opening net debt	(186.5)	(192.8)
Closing net debt	**(207.0)**	**(186.5)**

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

- Operating working capital/sales ratio of 22.3% (2013: 20.5%)
- Gross capital expenditure of £33.8m – ratio of c.1.2x depreciation
- Acquisition of Porextherm in July 2014 for €26.0m
- Net debt:EBITDA at 1.4 times (2013: 1.3 times)

Significant margin improvement in Asia/RoW, progress in Europe and North America maintaining mid-teen margins

£ million	Revenue		EBITA*		Profit Margins %	
	FY14	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**
North America	353.1	359.9	52.5	55.5	**14.9%**	**15.4%**
Europe	325.7	357.3	39.8	42.0	**12.2%**	**11.8%**
Asia/Rest of World	242.9	240.6	31.2	26.4	**12.8%**	**11.0%**
Unallocated Costs **			(5.5)	(4.9)	-	-
EBITA before restructuring and one-off items ***	***921.7***	***957.8***	***118.0***	***119.0***	***12.8%***	***12.4%***
Restructuring and one-off items ***			(5.6)	(10.5)		
EBITA after restructuring and one-off items ***			***112.4***	***108.5***	***12.2%***	***11.3%***

*** 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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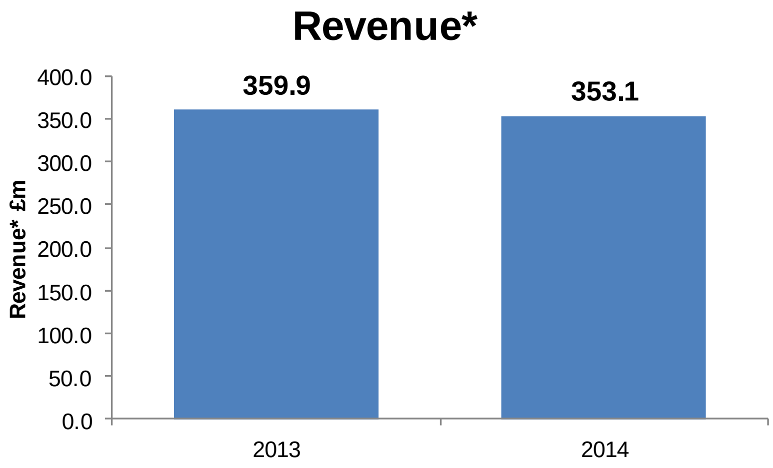
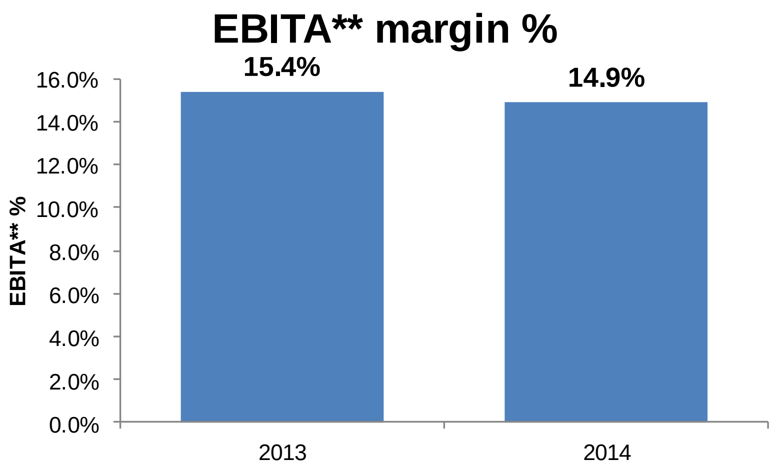
North America – maintaining mid-teen margins



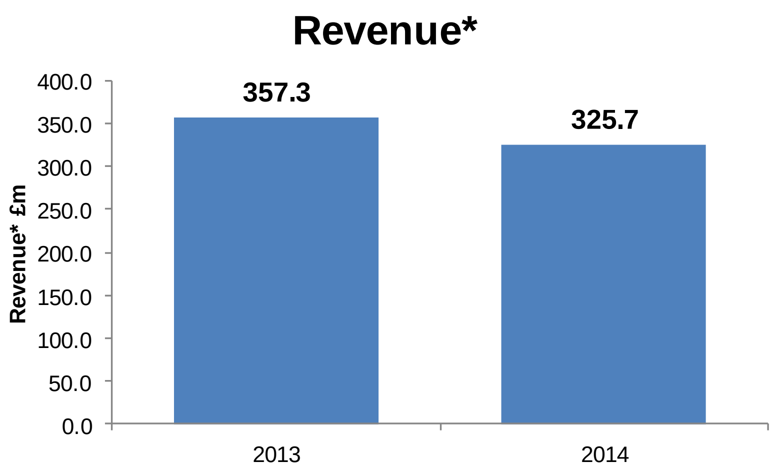


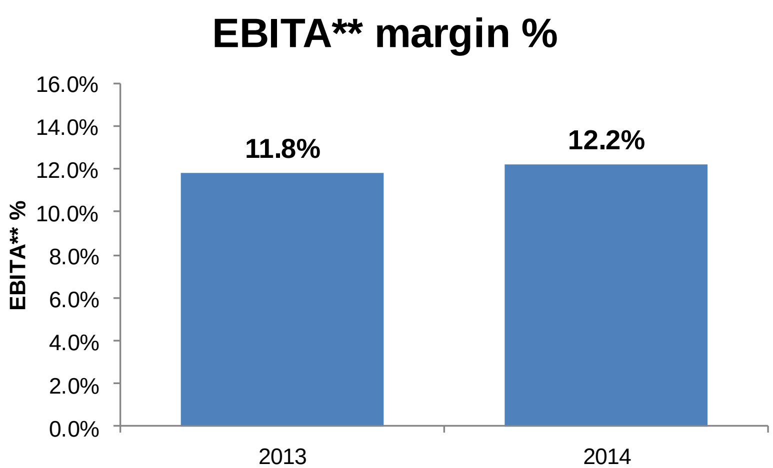
* Figures stated at reported rates
** Results before specific adjusting items

- 1.9% year-on-year decrease in revenue at reported rates, 3.6% growth at constant currency

- Strong performance by Thermal Ceramics and continued progress from Electrical Carbon and Seals and Bearings. Offset by Technical Ceramics, weaker end-market demand/low operational yields within ceramics cores business

Europe – margin improvement despite impact of C&DS

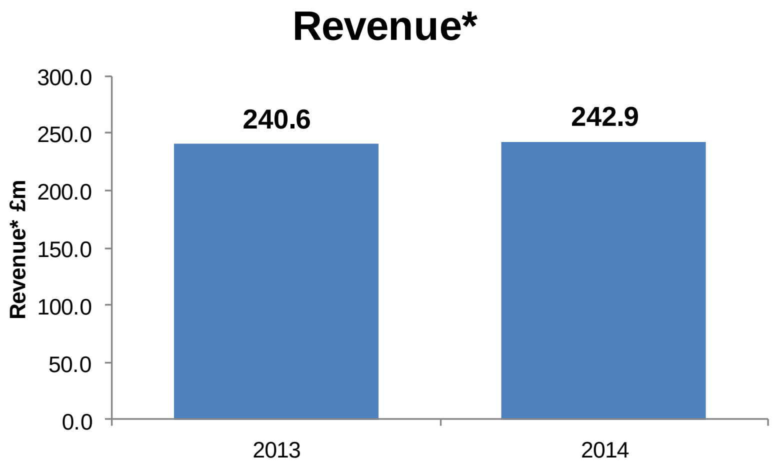


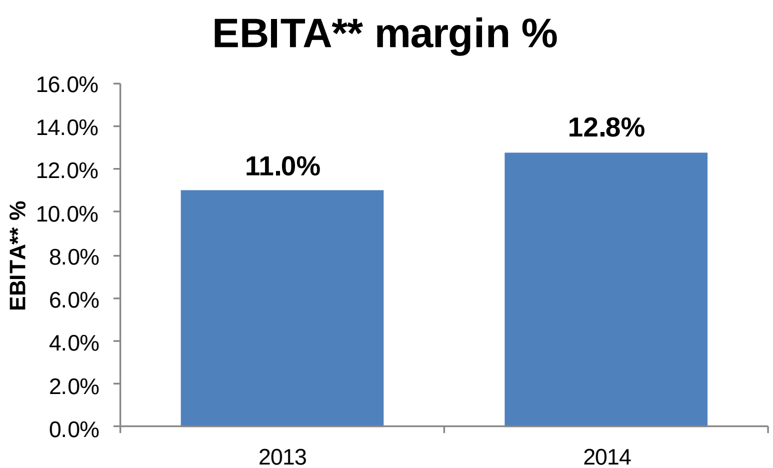


* Figures stated at reported rates
** Results before specific adjusting items

- 8.8% decrease in revenue at reported rates, 5.5% at constant currency. C&DS impacted by reduced MoD demand and its revenue reduced £25.3m; like-for-like revenue for rest of region was flat
- Mix and operational benefits, including restructuring actions, delivering improved margins
- Successful integration of Porextherm following acquisition in July 2014

Asia/RoW – strong revenue growth and margin progression





* Figures stated at reported rates
** Results before specific adjusting items

- Revenue growth of 1.0% at reported rates compared to 2013, 13.0% on a continuing basis and at constant currency
- Strong trading in all major geographies (China, India, South Korea and Middle East) and key end-markets (energy, transportation and petrochem)
- Margin improvement due to higher volumes, operational improvement and restructuring actions

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Material movement in exchange rates during 2014 impacting sterling reported numbers

	FY 2013 at 2013 average rates	FX impact of using 2014 average rates	Constant currency FY 2013 at 2014 average rates	Constant currency FY 2014 at 2014 average rates	FX impact of using 2014 closing rates	FY 2014 at 2014 closing rates
	£m	£m	£m	£m	£m	£m
Revenue	957.8	(52.3)	905.5	921.7	11.1	932.8
EBITA before restructuring and one-off items**	119.0	(7.9)	111.1	118.0	2.1	120.1
EBITA margin %	12.4%		12.3%	12.8%		12.9%

* Results before specific adjusting items

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

The above analysis shows:

- Translational effect of restating 2013 reported results at 2014 average rates
- Translational effect of restating 2014 reported results from 2014 average rates to 2014 year end closing rates

Note: Key exchange rates included in Appendix

Financial summary

- Revenue growth of 1.8% at constant currency, 3.8% higher H2 v H1 on an organic and constant currency basis

- 12.8% margins achieved in 2014, 13.0% in H2

- Strong operating cash flow and net debt at 1.4 times net debt:EBITDA ratio with significant investment in the Group

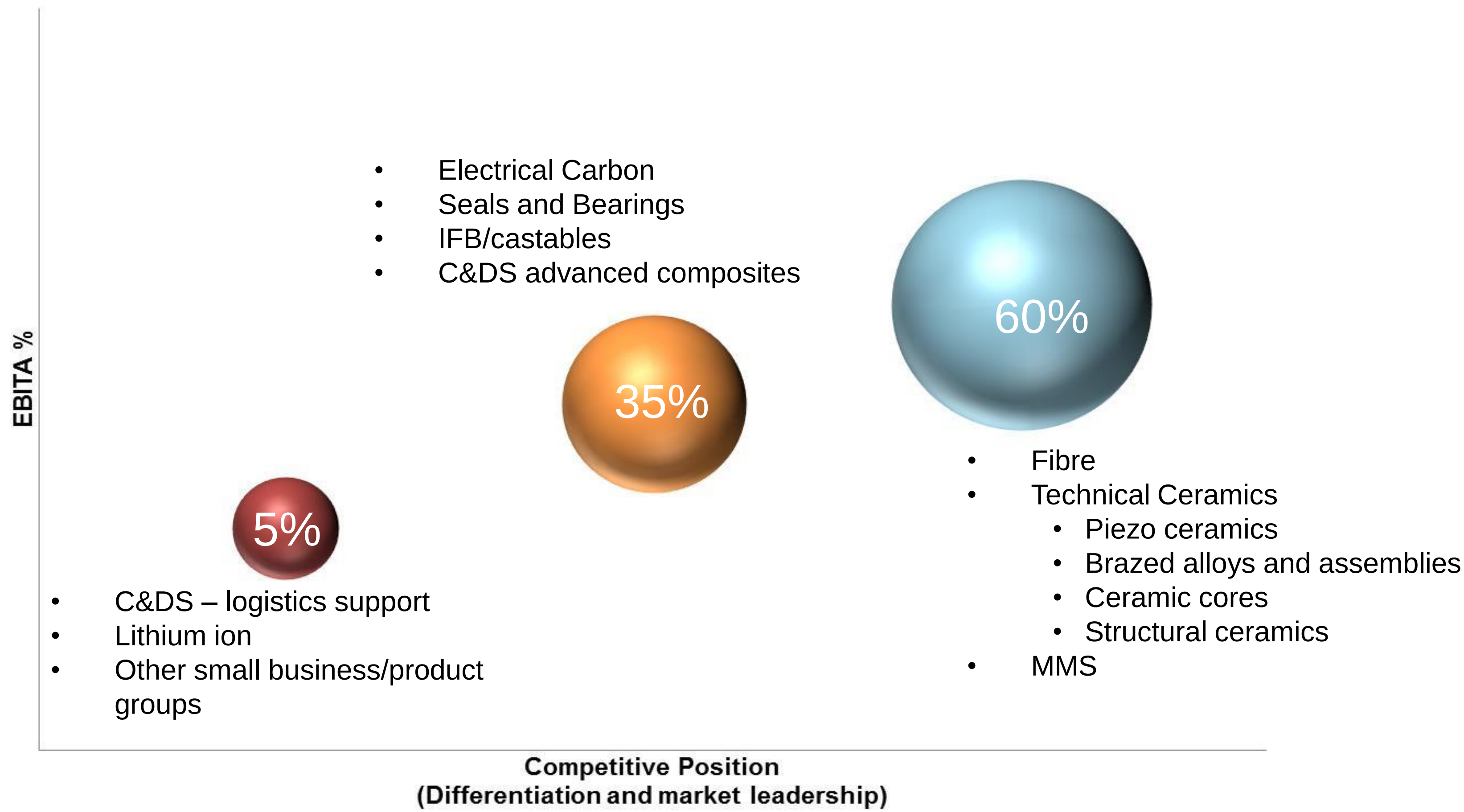
- Full-year dividend increased by 3.8%

Strategy and operational update

Strategy – reminder of key themes

- Building sustainable competitive advantage in attractive markets…
- …with truly, differentiated products underpinned by world-leading technology
- Our goal is for all of our businesses and technologies to have the potential to deliver mid-teen EBITA margins…
- …targeting through-cycle growth rates in excess of our end-markets

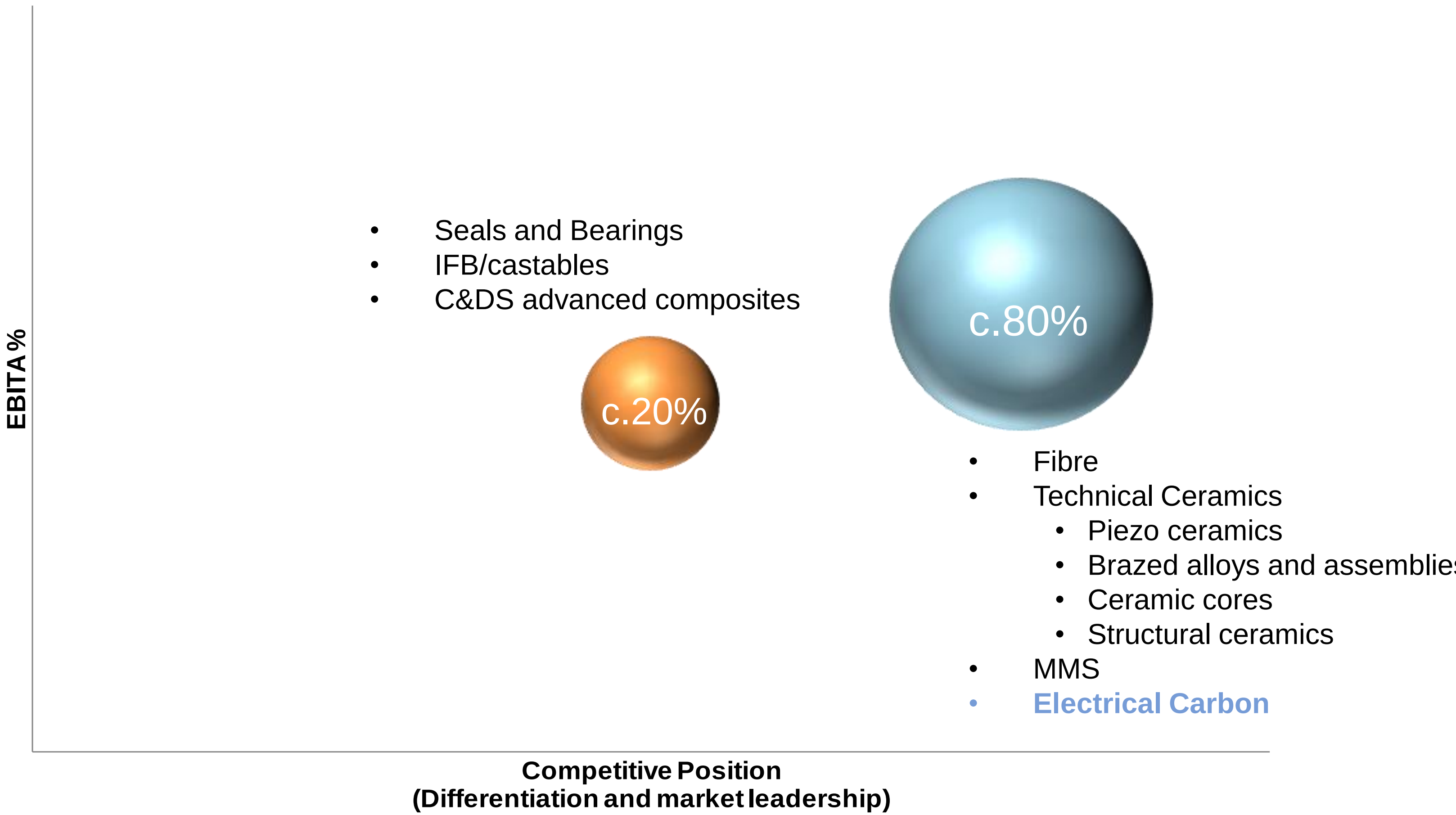
Portfolio reshaping – where we were



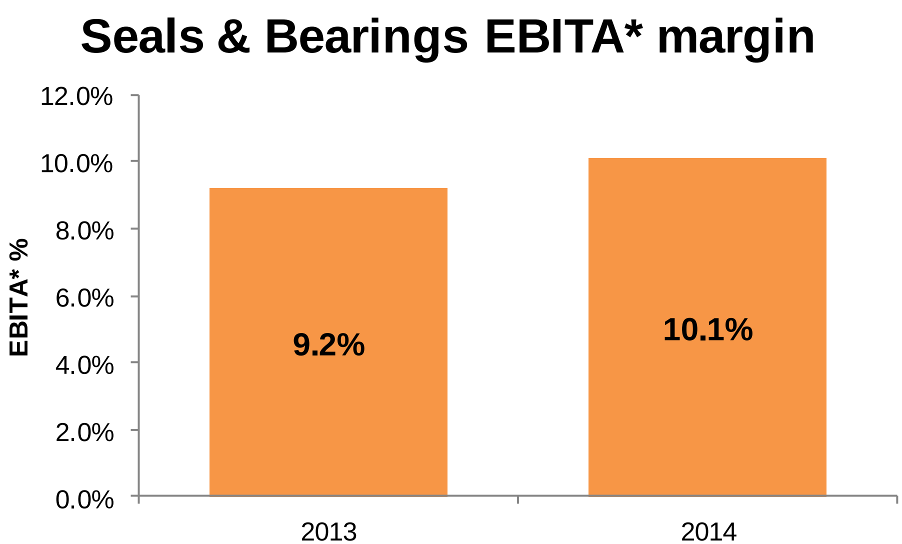
Solutions achieved for all low margin businesses

- Indian carbon business – reduced to minority stake
- UK MoD vehicles logistics/spares contract exited
- UK fired shapes business – JV arrangement
- Chinese lithium ion materials business sold
- Thermal Ceramics business in Wissembourg (France) sold in January 2015

Current status – exited/sold low margin businesses, good progress with margin improvement of Electrical Carbon



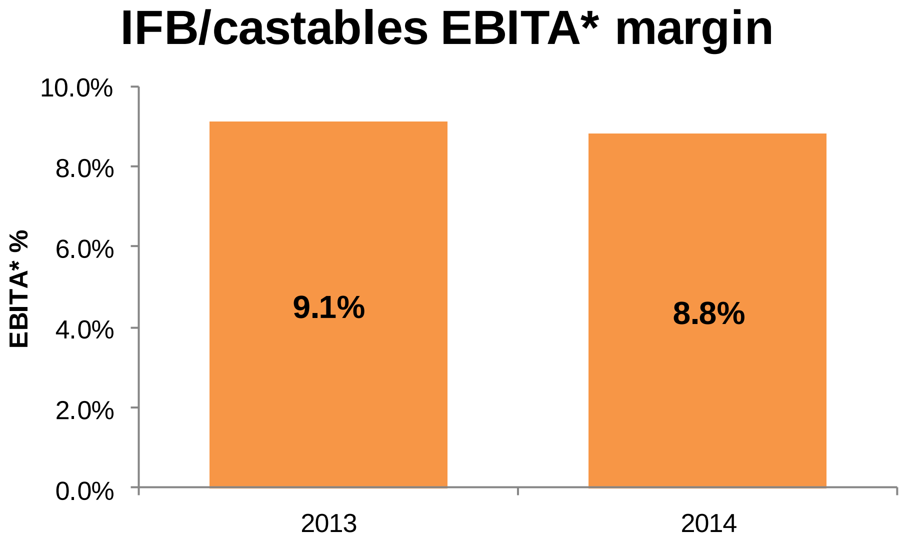
Continued improvement made in Seals and Bearings



* Results at reported rates before Unallocated Costs
** Results before specific adjusting items

- Revenue growth of c.8% at constant currency primarily driven by water and petrochem markets
- EBITA margin improvement from increased volumes and operational initiatives
- As with Electrical Carbon, materials plants consolidation and grade rationalisation project progressing well, margin benefits expected from H2 2015

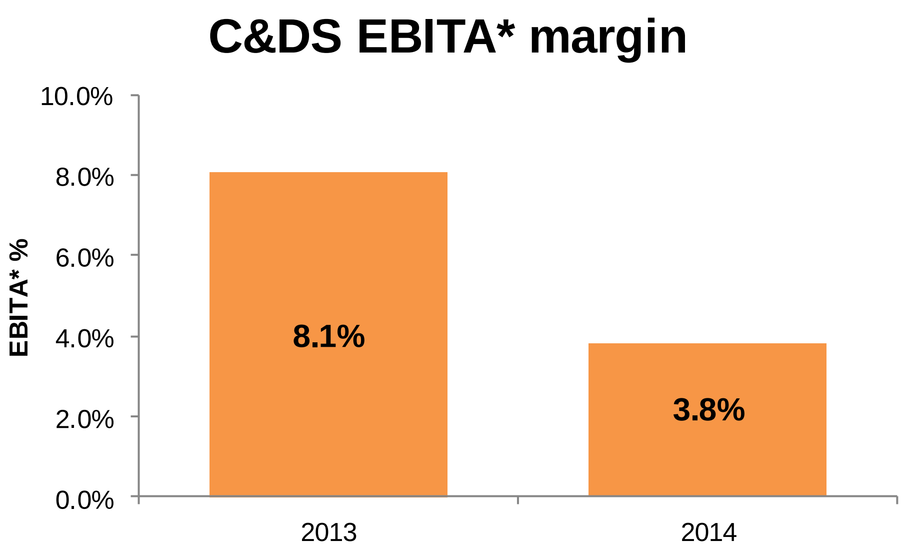
Top-line growth in IFB/castables, driven by increased project work



* Results at reported rates before Unallocated Costs
** Results before specific adjusting items
*** IFB = Insulating Fire Bricks

- Revenue growth due to increased project business volumes primarily in Asia and North America, but at lower margins
- Targeting EBITA improvement through enhanced product differentiation

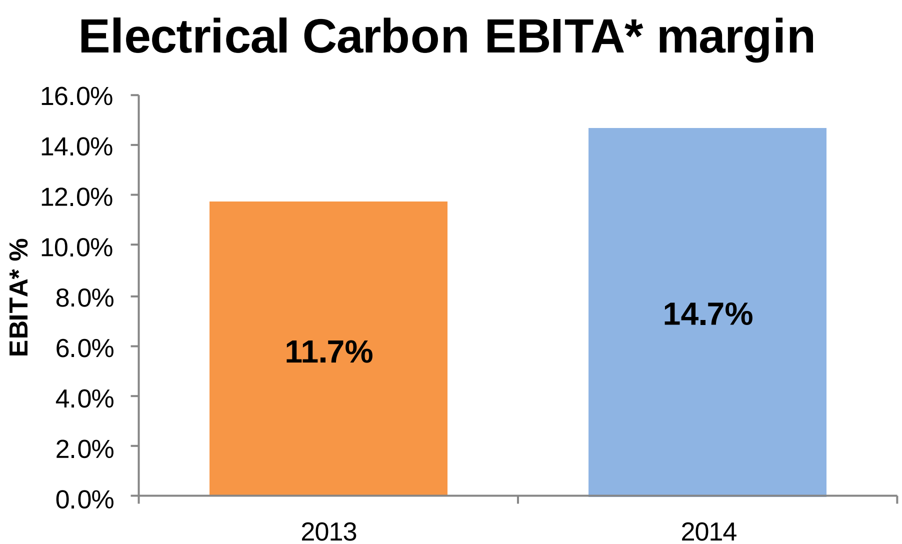
C&DS – business profile changing away from traditional UK MoD contracts



* Results at reported rates before Unallocated Costs
** Results before specific adjusting items

- Revenue in 2014 down to £31.5m due to continued reduction in MoD demand
- Significant reduction in UK MoD demand, leading to review and impairment of goodwill and intangibles of £26.9m
- Still important supplier to UK MoD; looking to develop international defence and commercial opportunities
- Expect to be a £30-40m revenue business in each of the next two years

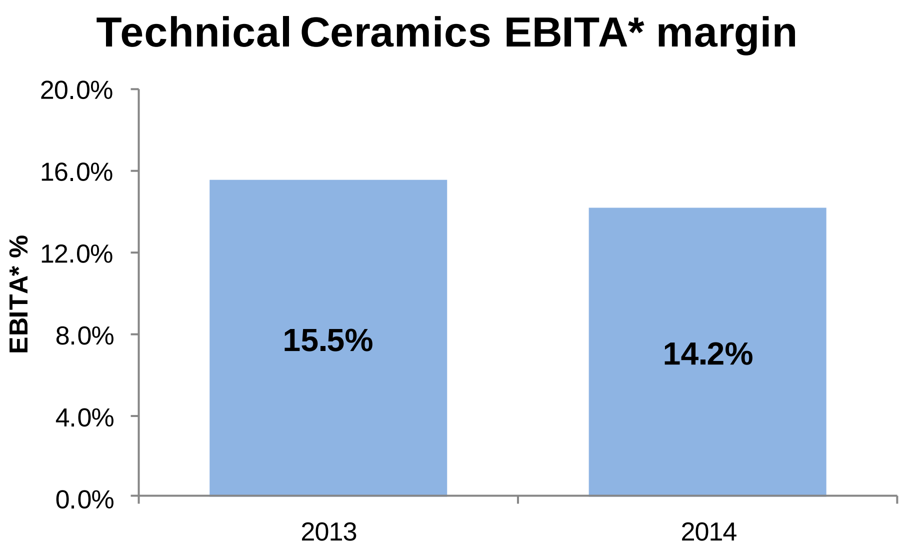
Significant progress in Electrical Carbon, further improvement to come from rationalisation project



* Results at reported rates before Unallocated Costs
** Results before specific adjusting items

- Year-on-year improvement of 300bps in EBITA margin driven by:
  - volume benefit – revenue up c.8% on a constant currency basis
  - cost reductions and increased use of lower cost manufacturing operations
- Materials plants consolidation and grade rationalisation project progressing well, margin benefits expected from H2 2015

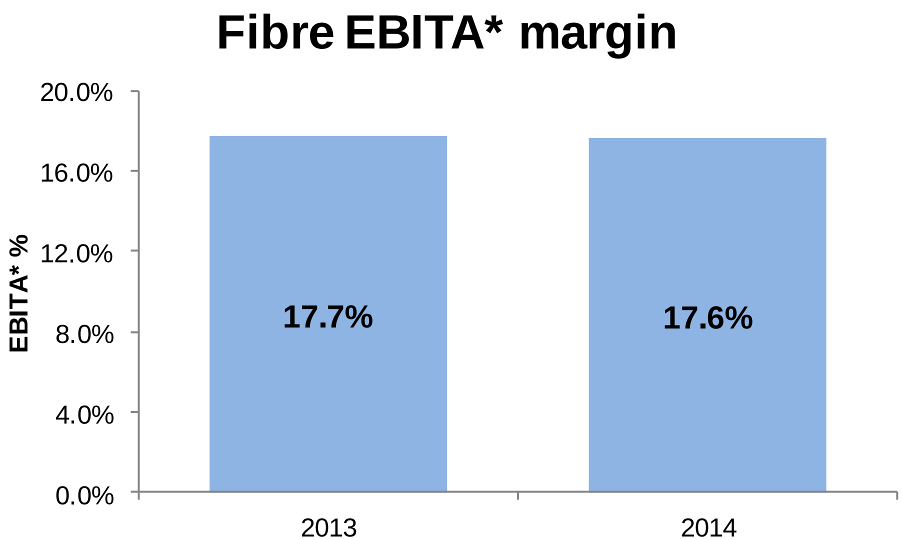
Technical Ceramics remains a mid-teen margin business despite impact of ceramic cores



* Results at reported rates before Unallocated Costs
** Results before specific adjusting items

- Revenue down c.5% at constant currency, primarily in North America due to lower volumes of ceramic cores
- EBITA adversely impacted by £4.6m due to operational and yield issues in North American ceramic cores business
- Opportunities in Asia/RoW in highly differentiated niche applications in medical and aerospace
- Agreement signed with Yongda to create ceramic cores Morgan-majority JV for Chinese market

Fibre – good growth and high-teen margins



* Results at reported rates before Unallocated Costs
** Results before specific adjusting items

- Organic revenue growth of c.9% at constant currency
- Opportunity for further margin improvement – continued positive mix shift from Superwool® fibre roll out and Porextherm products
- Continued R&D investment to further expand capability of fibre range

R&D investment increased to 2.3% of revenue

- Increasing investment in R&D – 2.3% of revenue (2013: 2.1%, 2012: 1.9%)
- Global Materials Centre of Excellence for Structural Ceramics (Stourport, UK) operational in H1 2015
- Additional Global Materials Centres of Excellence planned
- R&D investment focused on main technologies where we see the highest long term growth prospects e.g. next generation fibre technology and Structural Ceramics
- Increased collaboration with leading universities and research centres across the world

Capital investment for long-term profitable growth

- Capex c.1.2x depreciation in 2014
- Key projects:
  - High-temperature ceramics manufacturing site in Dalian, China
  - Superwool® greenfield site in Abu Dhabi
  - Expansion of South Korean carbon site
  - Ongoing Superwool® fibre line conversion and capacity upgrades
- £35m-£40m of investment projects for 2015:
  - Completion of above footprint projects and capacity for differentiated “added value” thermal product lines

Summary and outlook

Summary

- Positive revenue and EBITA margin momentum in mixed market conditions
- “One Morgan” model has improved the business through organisational restructuring and footprint rationalisation
- Exits of low growth/margin and non-differentiated businesses completed; addition of Porextherm to the portfolio
- Near record margins of 13.0% in H2 - investment in technology and innovation driving profitable growth

Outlook

- End-markets continue to be mixed as we enter 2015

- Continued focus and investment in key technology areas to drive differentiation, positive mix shift and sustainable growth

- This investment combined with a positive order book gives confidence that the Group can make further progress in 2015

2014 full year Group Results

12th February 2015

Appendix

Revenue and EBITA as historically presented – margin progression driven by AM&T business

£ million	Revenue		EBITA*		Profit Margins %	
	FY14	FY13	FY14	FY13	FY14	FY13
Technical Ceramics	237.0	258.6	33.7	40.2	**14.2%**	**15.5%**
Thermal Ceramics	376.1	359.5	51.9	49.2	**13.8%**	**13.7%**
Ceramics	**613.1**	**618.1**	**85.6**	**89.4**	**14.0%**	**14.5%**
AM&T	238.8	240.7	31.3	23.8	**13.1%**	**9.9%**
Composites & Defence Systems	31.5	56.8	1.2	4.6	**3.8%**	**8.1%**
Molten Metal Systems	38.3	42.2	5.4	6.1	**14.1%**	**14.5%**
Engineered Materials	**308.6**	**339.7**	**37.9**	**34.5**	**12.3%**	**10.2%**
Unallocated Costs **			(5.5)	(4.9)	-	-
EBITA before restructuring and one-off items ***	***921.7***	***957.8***	***118.0***	***119.0***	***12.8%***	***12.4%***
Restructuring and one-off items ***			(5.6)	(10.5)		
EBITA after restructuring and one-off items ***			***112.4***	***108.5***	***12.2%***	***11.3%***

*** Results before specific adjusting items**

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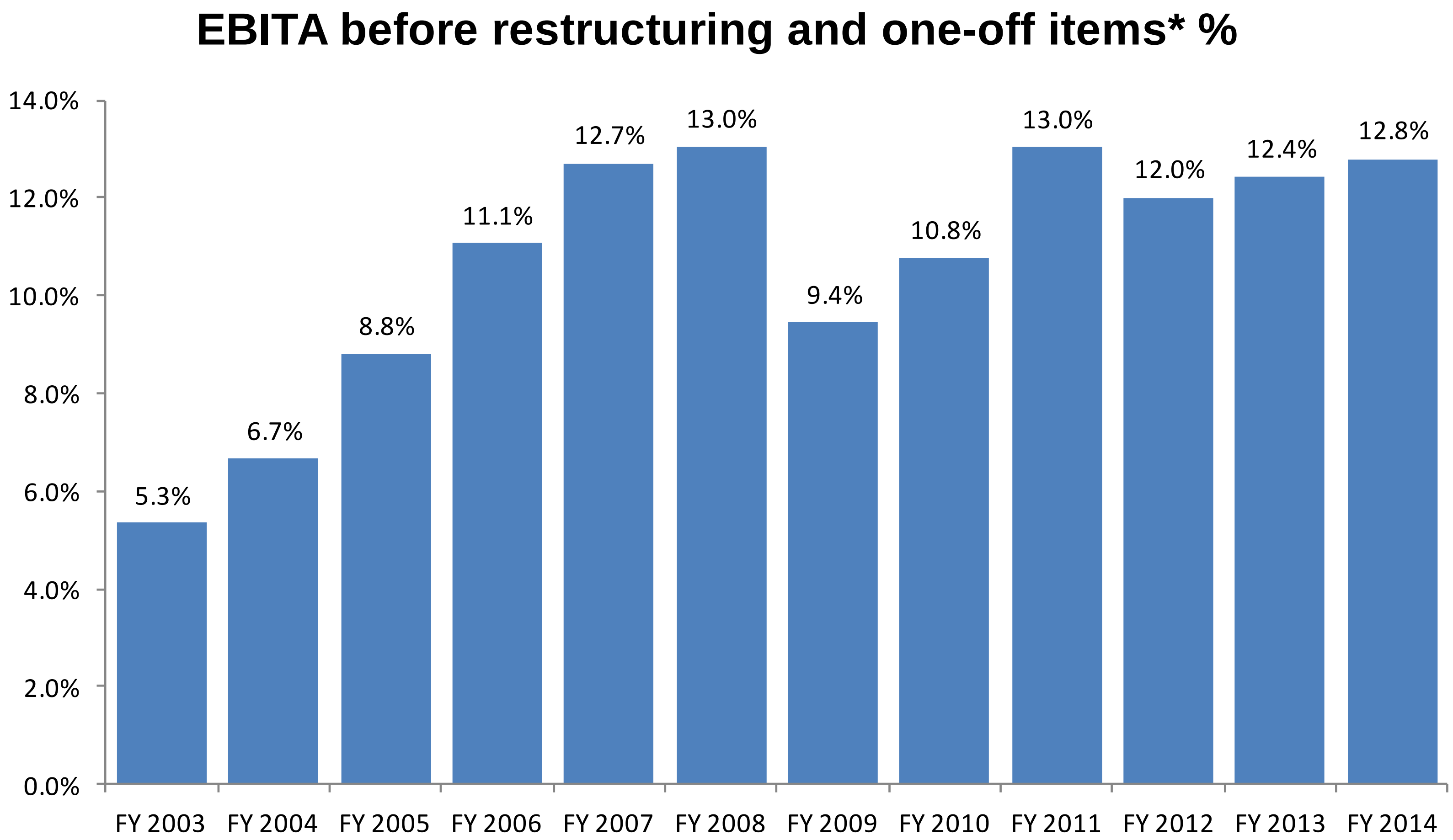
Key exchange rates

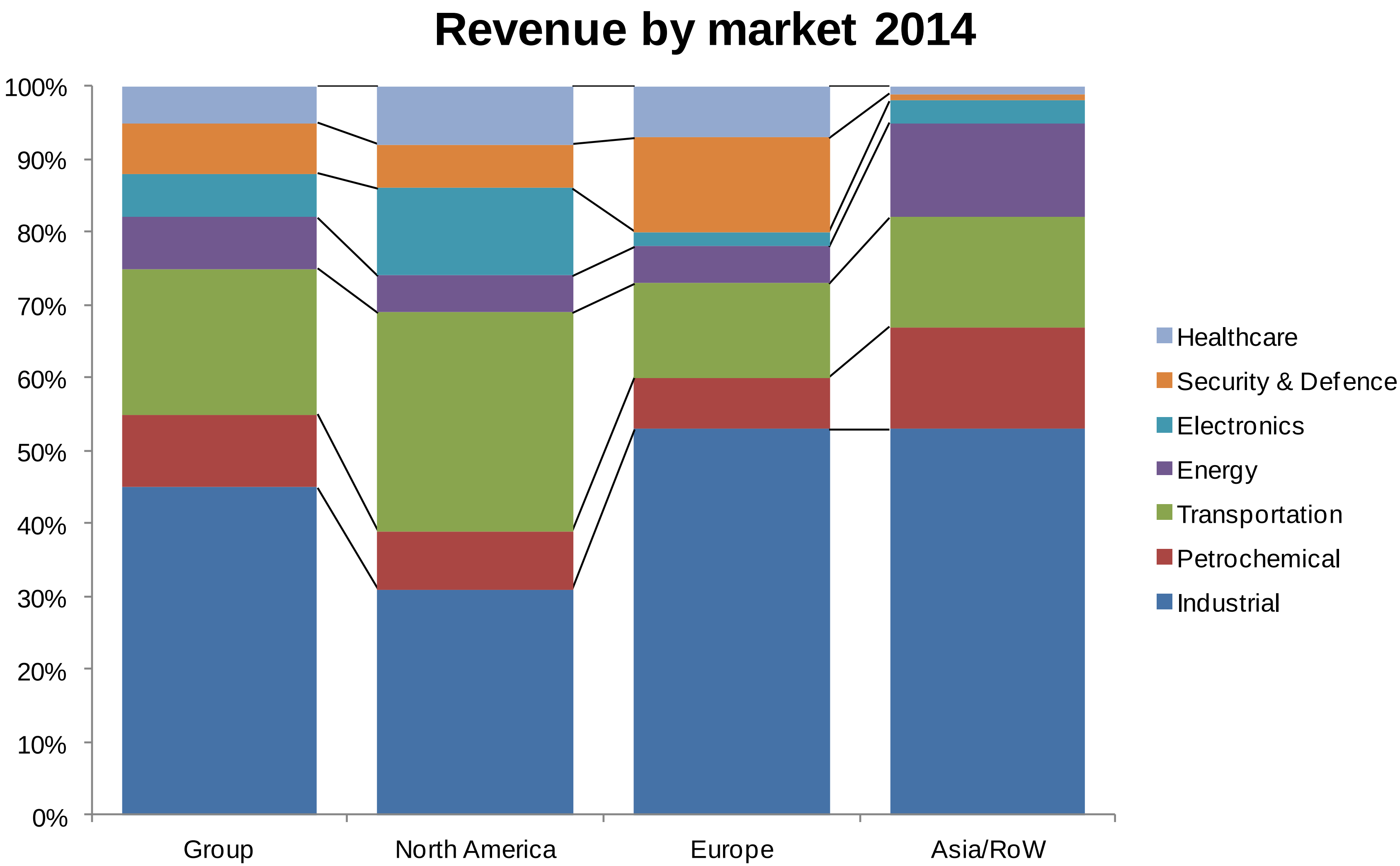
GBP to:	FY 2014 Closing rate	FY 2014 Average rate	H1 2014 Closing rate	H1 2014 Average rate	FY 2013 Closing rate	FY 2013 Average rate
USD	1.56	1.65	1.71	1.67	1.66	1.56
EUR	1.29	1.24	1.25	1.22	1.20	1.18
CNY	9.67	10.15	10.61	10.30	10.03	9.62

EBITA margins before restructuring and one-off items



* Results before specific adjusting items

End-market mix across regions – 2014 revenue by market



Operating ROCE

All £ million At reported rates	2014 Year End	2013 Year End
LTM Underlying EBITA	112.4	108.5
Change -v- 2013 Year End	3.6%	
Operating Capital		
Land & Building - NBV	93.1	97.9
Plant & Equipment - NBV	147.9	143.5
Third Party Working Capital	164.7	153.0
	405.7	394.4
Change -v- 2013 Year End	2.9%	
Return on Operating Capital Employed	**27.7%**	**27.5%**

Net financing costs

	FY14 £m	FY13 £m
Bank interest charge	17.2	18.3
Bank interest income	(1.4)	(1.3)
Amounts derived from financial instruments	(0.7)	0.0
Net interest on IAS19 obligations	5.7	6.3
	20.8	23.3

Underlying EPS

	FY14 £m	FY13 £m
Basic earnings from continuing operations	7.8	41.8
Amortisation	8.2	8.3
Specific adjusting items	47.0	10.6
Underlying earnings	63.0	60.7
Weighted average number of shares in the period	285.1m	282.9m
Underlying earnings per share from continuing operations	22.1p	21.5p

2014 full year Group results

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