2023 Interim results presentation

Encouraging progress; FY23 guidance unchanged

4 August 2023

Morgan
Advanced Materials

Agenda

- Introduction and summary – Pete Raby
- 2023 Interim results – Richard Armitage
- Operational and strategic update – Pete Raby

Encouraging progress; FY23 guidance unchanged

- Organic constant-currency revenue growth of 2.6%, with 5.6% from our faster growing markets
- Financial performance for the first half of the year reflects short term impact of the cyber incident in January, with subsequent recovery well progressed in line with management expectations
- Semiconductor expansion underway, further increasing exposure to faster growing markets over time
- Adjusted operating profit margin of 9.0%; pricing measures and continue to more than offset inflation
- Cash generated from continued operations of £12.9m; temporary working capital outflow of £45.2m to be substantially recovered by year end
- Strong balance sheet with net debt/EBITDA (excl. leasing) of 1.3 times
- Interim dividend maintained at 5.3p
- Absolute CO_2e emissions (from scope 1 and 2) reduced by 19% compared with H1 2022
- Outlook for FY2023 adjusted operating profit unchanged

Cyber incident recovery on track

- Manufacturing sites remained operational throughout
- Customer demand remained robust; H1 revenue growth +2.6%
- We are well on our way to recovery, with our ERP systems substantially restored
- IT modernisation programme accelerated
- Our employees have been at the heart of our response
- Financial impacts:
  - Sales volume -5%; £8m EBIT impact
  - Manufacturing inefficiencies £15m EBIT impact
  - FY23 cyber exceptional costs remain at around £15m

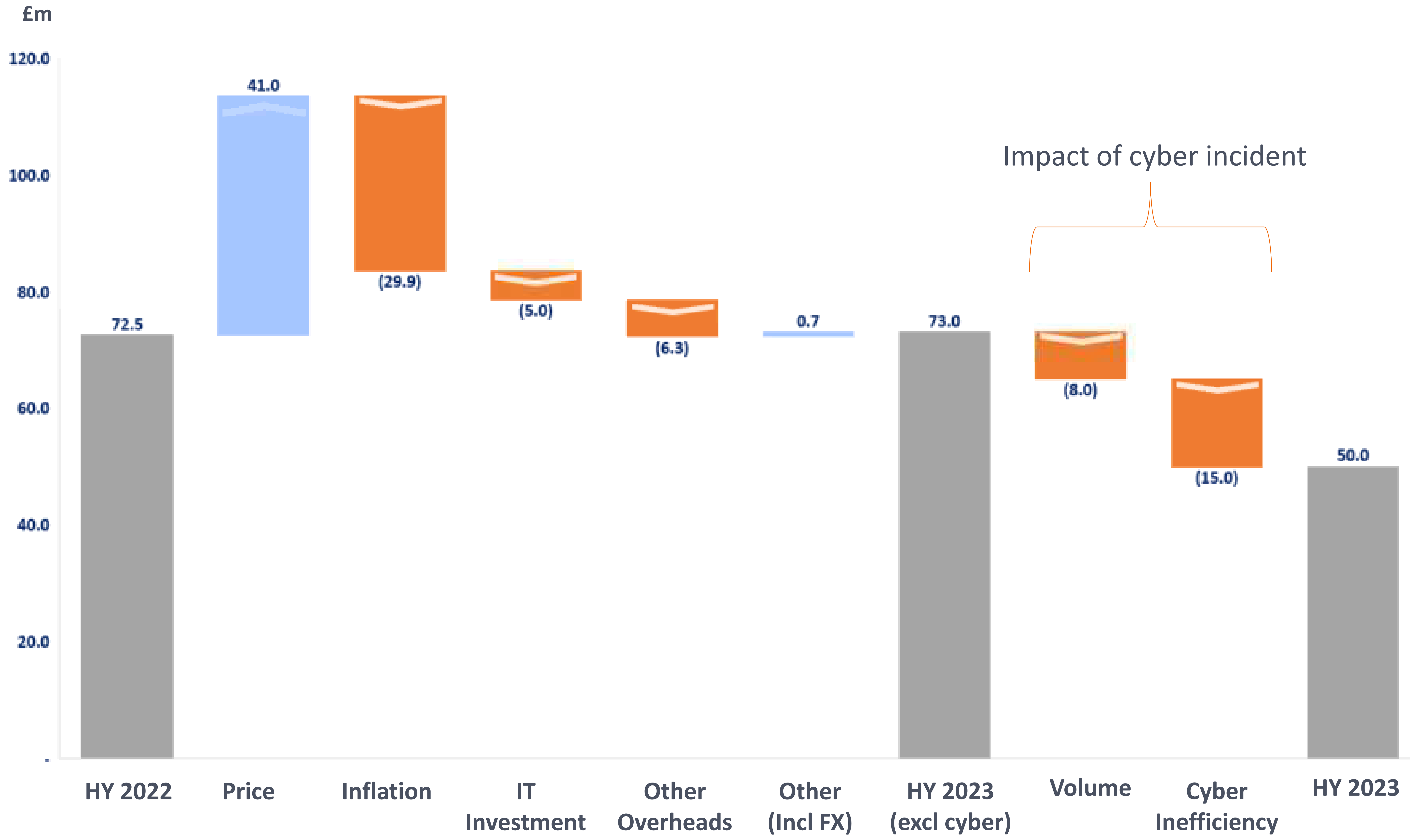
2023 Interim results
Richard Armitage

Group Performance

£m	1H 2023	1H 2022	% change from 1H 2022 As reported	% change from 1H 2022 At organic constant-currency
Revenue	553.9	530.2	4.5%	2.6%
Group adjusted operating profit[1]	50.0	72.5	(31.0)%	(31.4)%
Group adjusted operating profit margin %	*9.0%*	*13.7%*		
Return on invested capital %[2]	*18.7%*	*21.9%*		
Cash generated from continuing operations	12.9	45.2	(71.5)%	
Free cash flow before acquisitions, disposals and dividends	(37.1)	(1.0)		
Adjusted earnings per share	9.9p	15.9p	(37.7)%	
Total dividend per share	5.3p	5.3p	-%	

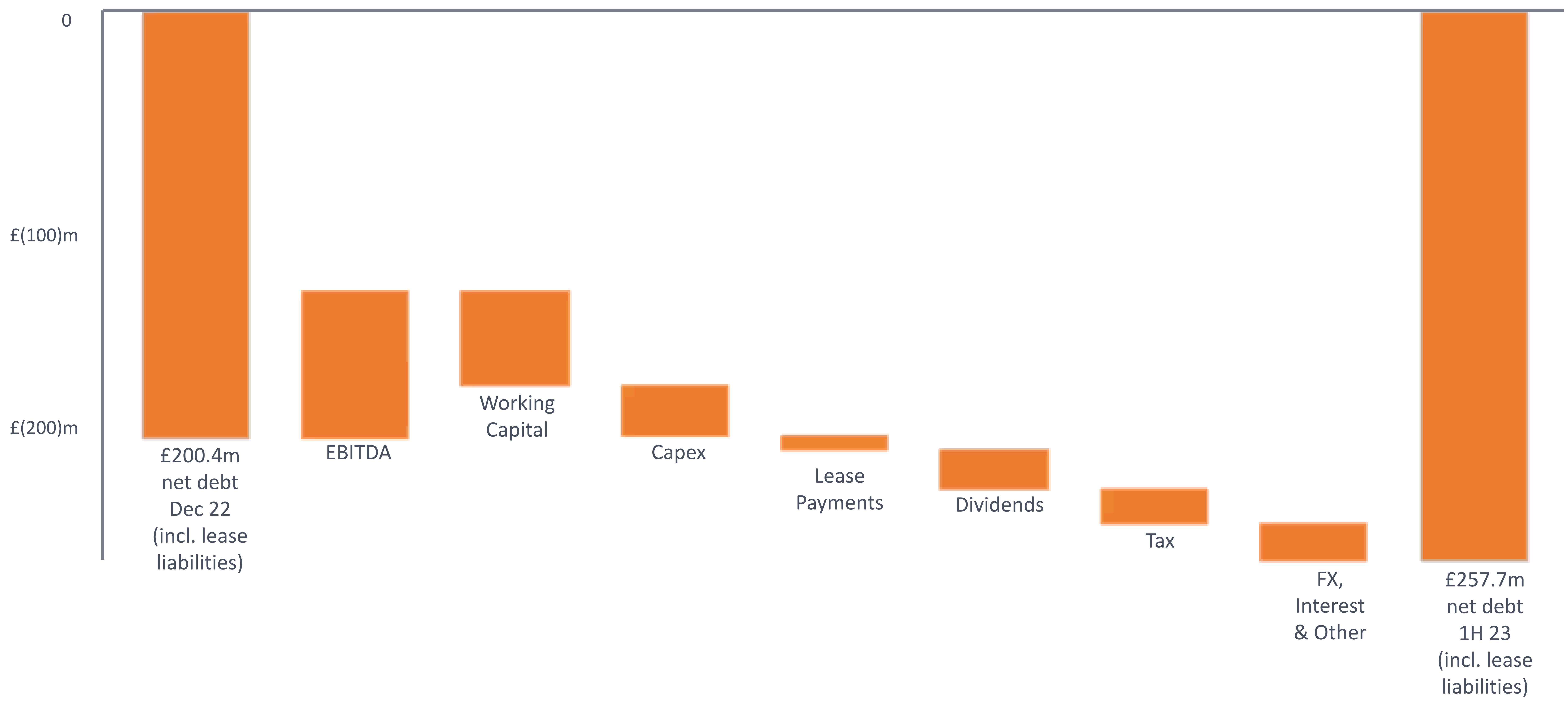
1 Group adjusted operating profit is before specific adjusting items and amortisation of intangible assets.
2. The ROIC calculation has been simplified so that it can be calculated from published information and the prior period comparative has been restated to follow the same methodology. See slide 33 in the appendix for details.

Group adjusted operating profit bridge



- Pricing measures continue to more than offset cost inflation
- Increased investment in IT infrastructure
- Small tailwind from foreign exchange
- The two principal impacts of the cyber event are:
  - lower volume due to capacity constraints; and
  - costs of inefficient operation during the cyber incident

Cash flow summary



Working capital outflow of **£(45.2)m**
Inventory £(17.2)m
Trade receivables £(34.3)m
Trade payables £6.3m
2022 1H: £(38.7)m

Capital investment of **£24.0m**
2022 1H: £22.9m

Free cash flow of **£(37.1)m**
2022 1H: £(1.0)m

Net debt (excl. lease liabilities) of £208.5m, net debt/EBITDA of **1.3x**
2022 1H: 0.5x

FY2023 technical guidance unchanged

Effective tax rate	27%
Net finance charge: Interest charges (c. £10-12m) IAS 19 pensions net interest charge (c. £0.5m) IFRS 16 lease interest (c. £2.3m)	c. £13-15m
Non-UK defined benefit pension scheme contributions	c. £3-4m
Foreign currency impacts	*see slide 31*
Capital expenditure	c. £70-80m
Dividend policy in the medium term	2.5 – 3.0x

A disciplined approach to delivering improving growth & returns

Delivering enhanced EPS growth

Organic revenue growth

+

Continuing profit growth

+

Accretive M&A

+

Additional shareholder returns

=

Enhanced EPS growth

Clear through cycle financial framework

3-6% organic revenue growth

12.5% to 15% adjusted operating profit margin

ROIC 17-20%

Leverage of 1.0x to 2.0x

Enhanced EPS growth

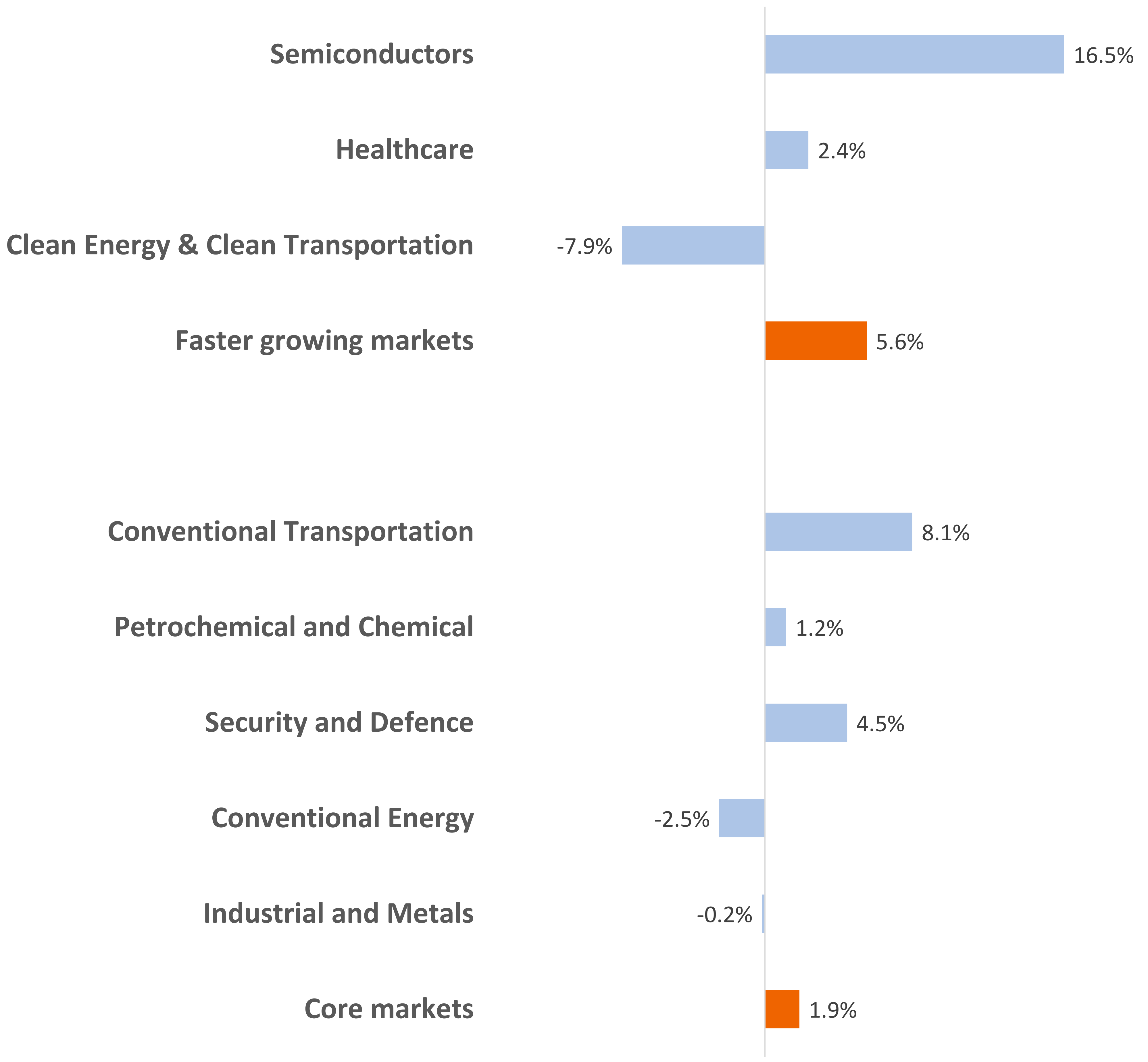
Operational and strategic update
Pete Raby

Leading differentiated positions

Market	Share of revenue (%) (1H 2023)	Market Position	Differentiation
Faster growing			L H
Semiconductors	9.3%	Emerging	
Healthcare	7.1%	Leader	
Clean energy + clean transportation	4.4%	Emerging	
	20.8%		
Core			L H
Industrial	30.7%	Leader/Top 3	
Metals	13.0%	Top 3	
Petrochemical	10.3%	Leader	
Aerospace	9.7%	Leader	
Other (inc. Defence & Automotive)	15.5%	Top 3	
	79.2%		

Growth across major market segments

Year-on-year organic % change at constant-currency



- Strong semiconductor growth in both carbon and ceramic products with SiC power electronics particularly strong
- Growth in vacuum insulation and medical seals
- Cyber impacts and destocking in European rail

- Aerospace growing strongly as demand recovers to pre-Covid levels
- Growth in Thermal projects in Europe and Asia
- Growth in wider Defence offsetting modest decline in armour
- Conventional energy tracking flat industrial demand
- Growth in the US offset by declines in Europe and Asia

Thermal Ceramics performance summary

£m	1H 2023	1H 2022	% change from 1H 2022 As reported	% change from 1H 2022 At organic constant-currency
Revenue	205.2	200.5	2.3%	2.1%
Adjusted operating profit[1]	14.0	22.7	(38.3)%	(35.5)%
Margin %	*6.8%*	*11.3%*		

Performance commentary

- Revenue growth of 2.1% at constant currency driven by modest increases in petrochemical and industrial revenues partially offset by decline in metals
- Revenue growth due to pricing partly offset by volume decline driven by cyber incident
- Margin decline due to the drop through of volume reduction and inefficiencies from the cyber incident

1 Adjusted operating profit is before specific adjusting items and amortisation of intangible assets.

Electrical Carbon performance summary

£m	1H 2023	1H 2022	% change from 1H 2022	
			As reported	At organic constant-currency
Revenue	95.5	91.3	4.6%	3.7%
Adjusted operating profit[1]	16.4	18.9	(13.2)%	(13.7)%
Margin %	*17.2%*	*20.7%*		

Performance commentary

- Revenue growth driven by semiconductors partially offset by decline in industrial markets
- Revenue growth due to pricing partly offset by volume decline driven by cyber incident
- Margin decline due to the drop through of volume reduction and inefficiencies from the cyber incident

1 Adjusted operating profit is before specific adjusting items and amortisation of intangible assets.

Molten Metal Systems performance summary

£m	1H 2023	1H 2022	% change from 1H 2022	
			As reported	At organic constant-currency
Revenue	26.1	28.1	(7.1)%	(8.4)%
Adjusted operating profit[1]	1.9	4.2	(54.8)%	(55.8)%
Margin %	*7.3%*	*14.9%*		

Performance commentary

- Revenue decline driven by weakness in metals markets and the impact of the cyber incident, partially offset by pricing
- Margin decline due to the drop through of volume reduction and inefficiencies from the cyber incident

1 Adjusted operating profit is before specific adjusting items and amortisation of intangible assets.

Seals & Bearings performance summary

£m	1H 2023	1H 2022	% change from 1H 2022	
			As reported	At organic constant-currency
Revenue	72.8	71.8	1.4%	(1.6)%
Adjusted operating profit[1]	5.9	10.9	(45.9)%	(47.3)%
Margin %	*8.1%*	*15.2%*		

Performance commentary

- Organic revenue decline of (1.6)% with weakness in industrial markets and the impact of the cyber incident, partially offset by pricing
- Armour volumes broadly flat with around £20-25m armour sales expected for the full year
- Margin decline due to the drop through of volume reduction and inefficiencies from the cyber incident

1 Adjusted operating profit is before specific adjusting items and amortisation of intangible assets.

Technical Ceramics performance summary

£m	1H 2023	1H 2022	% change from 1H 2022	
			As reported	At organic constant-currency
Revenue	154.3	138.5	11.4%	7.1%
Adjusted operating profit[1]	14.8	18.8	(21.3)%	(24.9)%
Margin %	*9.6%*	*13.6%*		

Performance commentary

- Revenue growth driven by semiconductor, industrial, defence and aerospace segments
- Margin decline from inefficiencies resulting from the cyber incident

1 Adjusted operating profit is before specific adjusting items and amortisation of intangible assets.

Environment, Social and Governance (ESG)

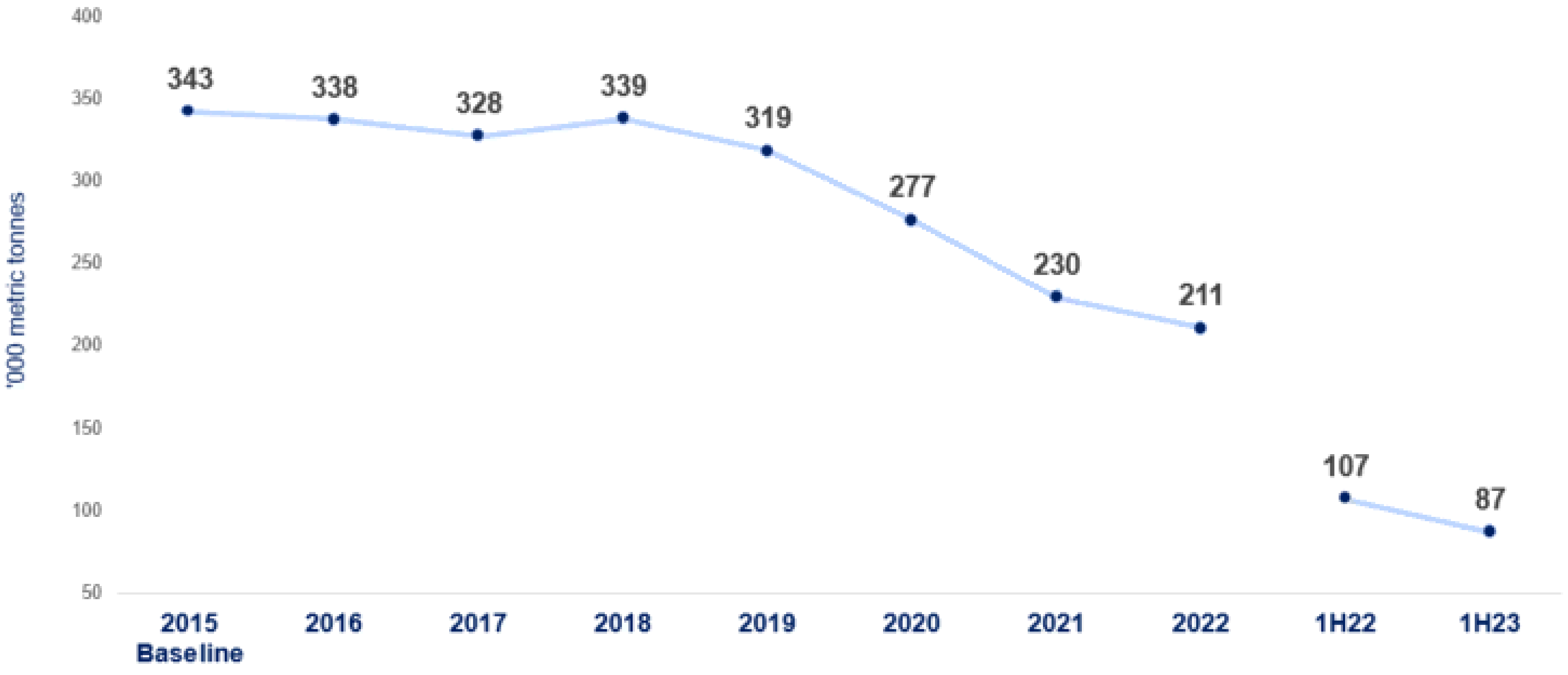
Our purpose is to use advanced materials to make the world more sustainable and to improve the quality of life.

	Our aspiration	Our 2030 goals[2]
PROTECT THE ENVIRONMENT	• A CO_2e net zero business by 2050[1] • Use water sustainably across our business	• 50% reduction in Scope 1 and Scope 2 CO_2e emissions[3] • 30% reduction in water use in high and extremely high stress areas • 30% reduction in total water usage
PROVIDE A SAFE, FAIR AND INCLUSIVE WORKPLACE	• Zero harm to our employees • A workforce reflective of the communities in which we operate • A welcoming and inclusive environment where employees can grow and thrive	• 0.10 lost time accident rate • 40% of our leadership population female • Top quartile engagement score

1 Excludes indirect emissions generated by our supply chain, distribution network and employee travel.
2 Reduction targets shown are compared to a 2015 baseline.
3 Scope 1 and 2 relate to CO_2e emissions from direct and indirect sources, respectively.

CO_2e emissions

Absolute CO_2e (Scope 1 and 2)[1]



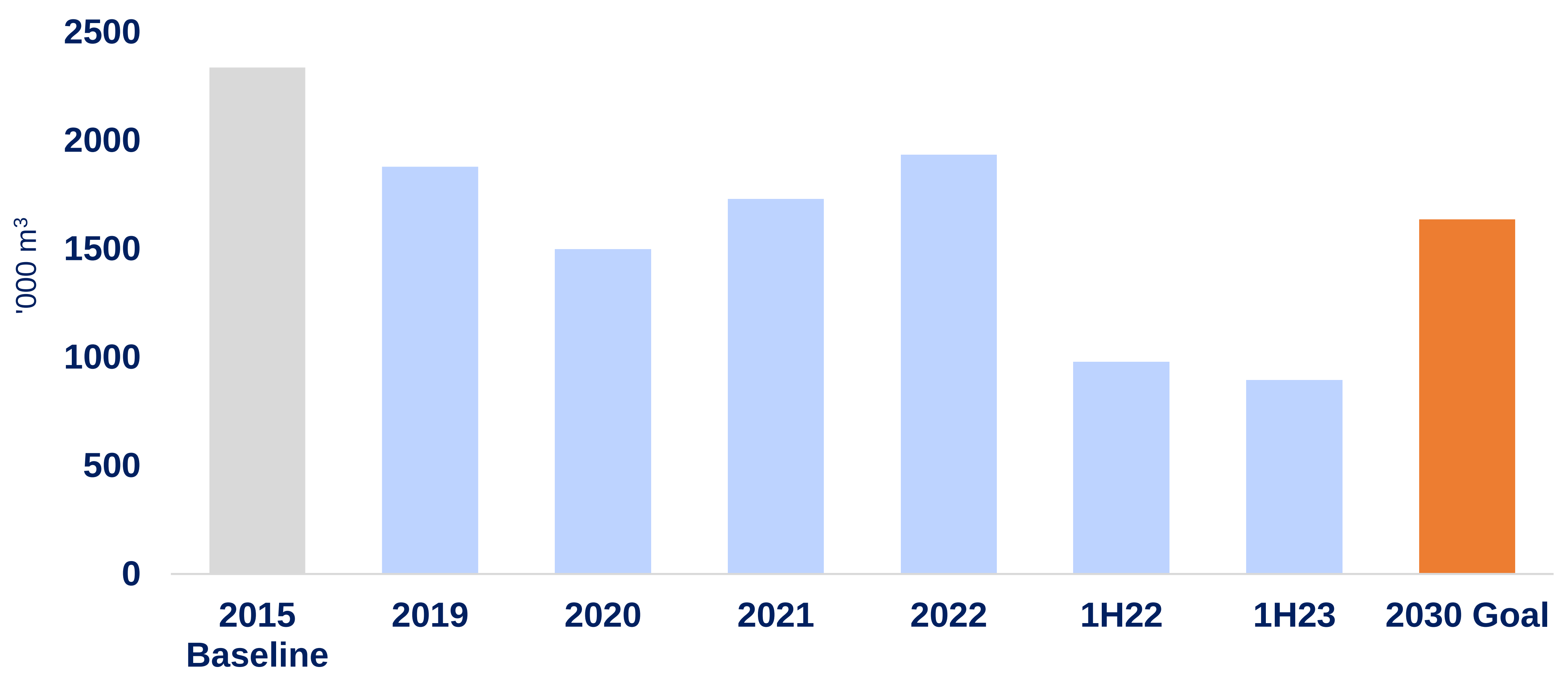
19% reduction in absolute CO_2e emissions compared with 1H 2022 driven by:

- **Green energy procurement:** transition to renewable and other carbon free energy sources
- **Efficiency & process optimisation actions:** changes to processes (e.g. kiln firing profiles) and equipment operating protocols e.g. equipment shutdowns and idling machines
- **Capital projects:** replacement of inefficient assets, transition from gas to electric fuel types, and improvement in control systems
- **Volume reduction:** Around 5% lower volume in H1 as a result of the cyber incident

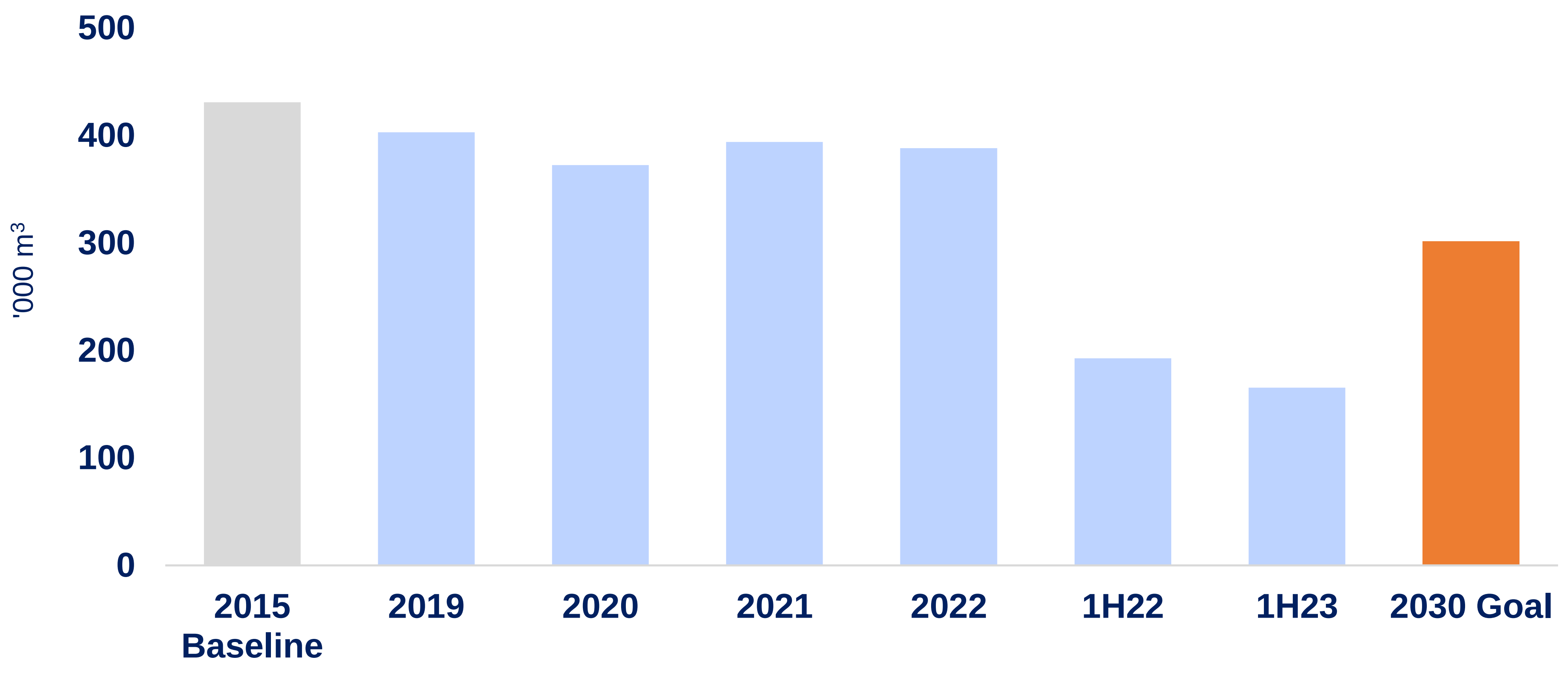
1 Scope 1 and 2 relate to CO_2e emissions from direct and indirect sources, respectively.

Water, Safety & Diversity

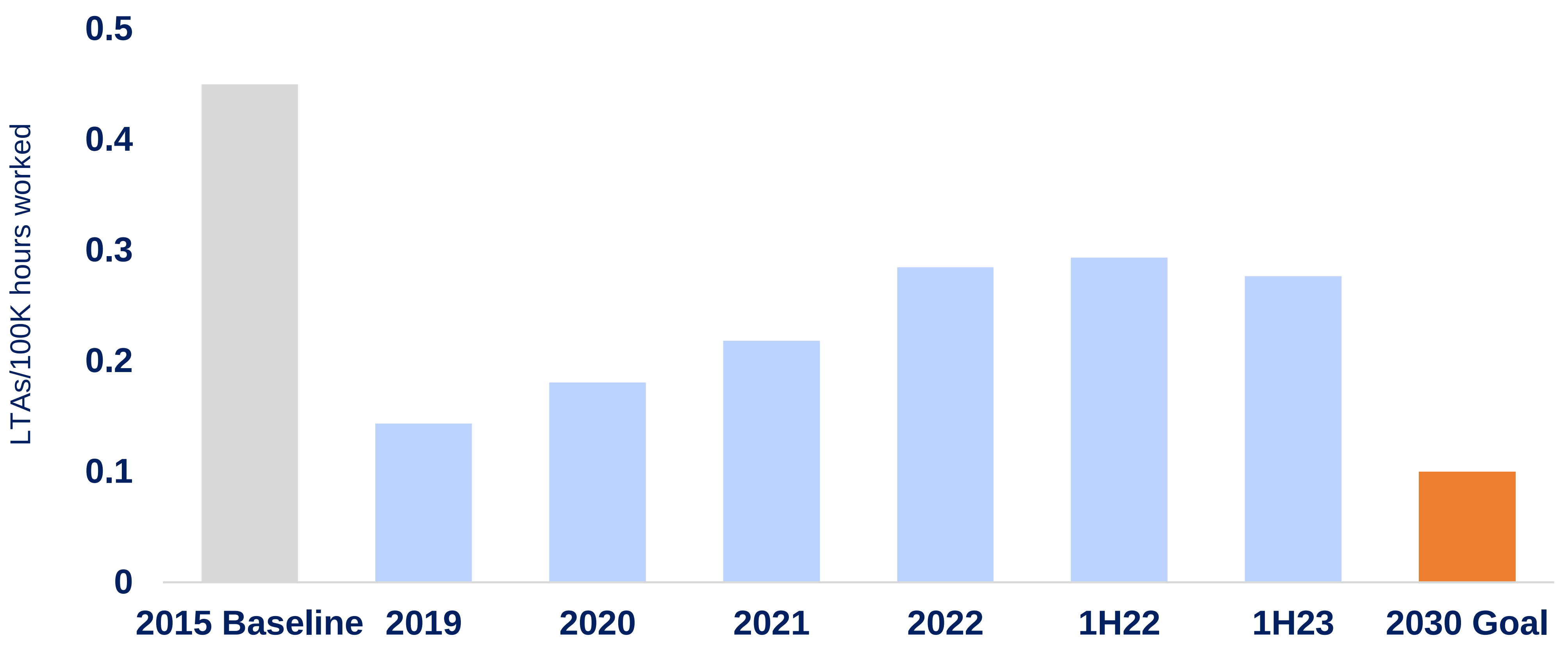
Water usage



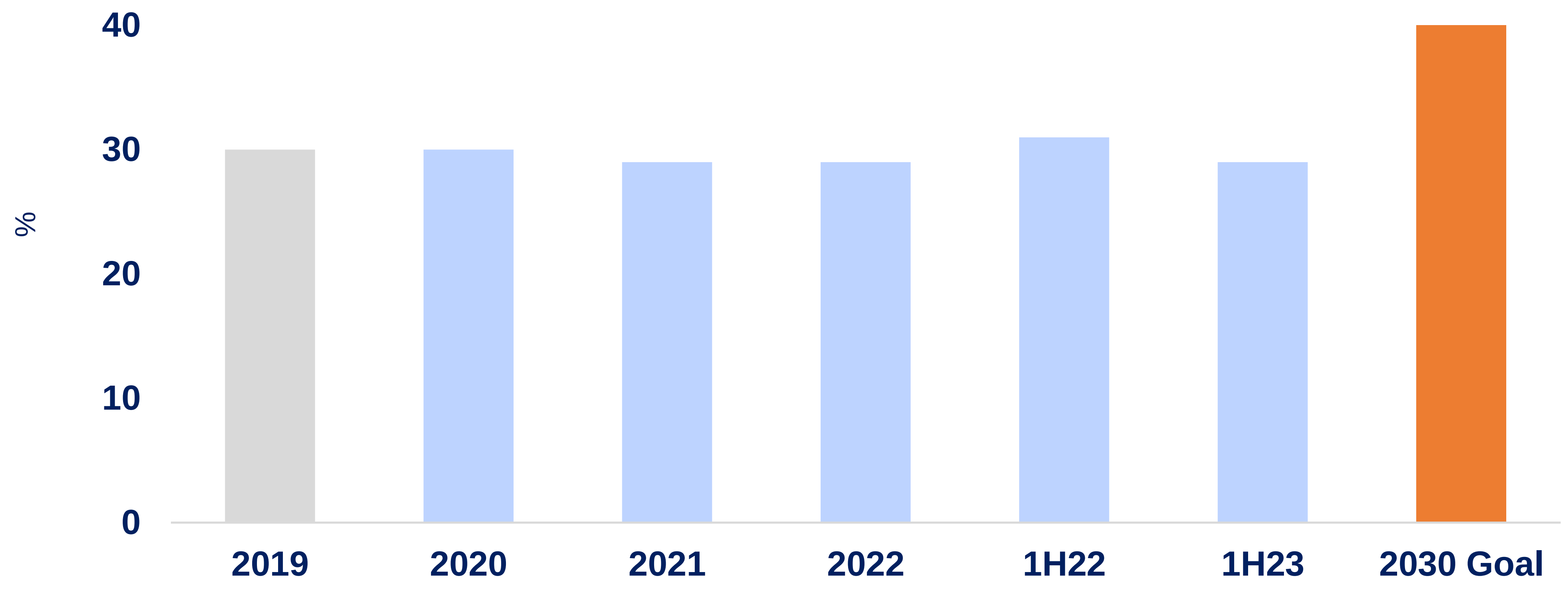
Water usage in stressed areas



Lost time accident rate



% Female leadership population[1]



1 Leadership population consists of approximately 400 of the most senior individuals in the organisation.

Outlook

Our recovery is well progressed and we have used this as an opportunity to accelerate investment in our IT infrastructure across the Group

Customer demand remains robust. Whilst mindful of market conditions, our outlook for full-year revenue growth remains unchanged at 2-4%, with adjusted operating profit recovering in the second half, in line with our financial framework

We continue to see inflation across the business and have more than offset this through pricing measures

We are accelerating investment in our faster growing segments in response to high levels of demand, and this provides us with a solid foundation to deliver in line with our strategy as we go into 2024

Summary

- Our employees have been at the heart of our response to the cyber incident; I would like to thank them for their hard work during a challenging period of recovery
- Customer demand for our products and technology remains robust
- We are positioned in attractive, high-growth markets and we are accelerating investment in capacity and capability in our faster growing segments to drive organic growth
- Our strong balance sheet underpins investment opportunities and additional shareholder returns
- There is continued focus and progress on the Group's ESG aspirations
- We are confident in our strategy and financial framework, as outlined in the December 2022 Capital Markets Event

Appendix

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

End-market mix (as a % of revenue)

Main markets by GBU[1]

Thermal Ceramics

Industrial, Chemical and petrochemical, Metals, Automotive

MMS

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

Electrical Carbon

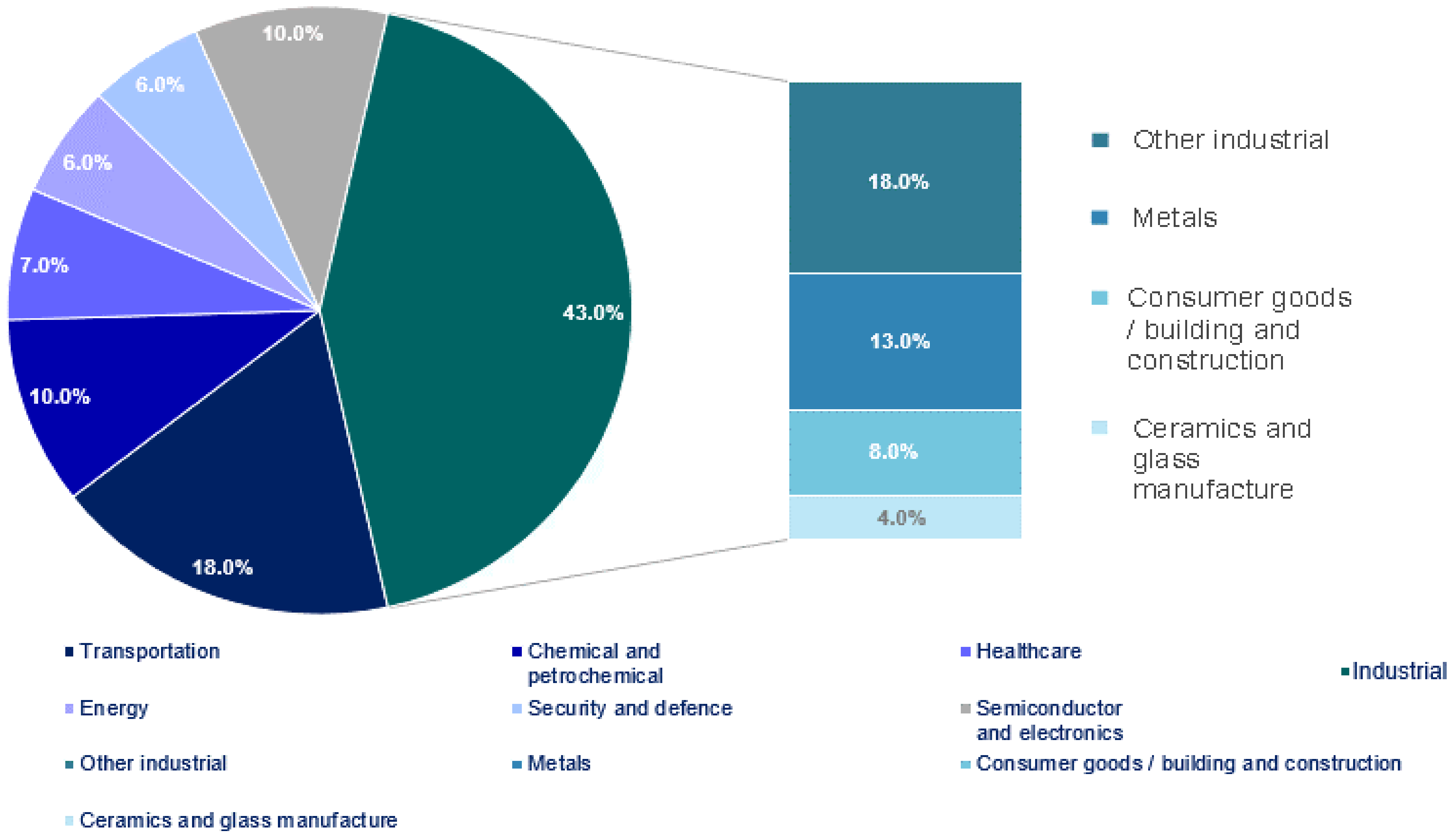
Rail, Industrial equipment, Power generation, Electronics and semiconductor

Seals and Bearings

Petrochemical, Pumps, Aerospace, Automotive, Home appliances

Technical Ceramics

Industrial equipment, Electronics, Aerospace, Healthcare, Energy



1. Categorisation includes both core and faster moving segments

Segmental performance

	Revenue £m		Adjusted operating profit[1] £m		Margin %	
	1H 2023	1H 2022	1H 2023	1H 2022	1H 2023	1H 2022
Thermal Ceramics	205.2	200.5	14.0	22.7	6.8%	11.3%
Molten Metal Systems	26.1	28.1	1.9	4.2	7.3%	14.9%
Electrical Carbon	95.5	91.3	16.4	18.9	17.2%	20.7%
Seals and Bearings	72.8	71.8	5.9	10.9	8.1%	15.2%
Technical Ceramics	154.3	138.5	14.8	18.8	9.6%	13.6%
Corporate costs	-	-	(3.0)	(3.0)	-	-
Group	**553.9**	**530.2**	**50.0**	**72.5**	**9.0%**	**13.7%**

1 Adjusted operating profit is before specific adjusting items and amortisation of intangible assets.

Reported statutory figures

£m	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Results before specific adjusting items	Specific adjusting items	Total	Results before specific adjusting items	Specific adjusting items	Total
Revenue	**553.9**	**-**	**553.9**	**530.2**	**-**	**530.2**
Operating costs before amortisation of intangible assets	(503.9)	(13.4)	(517.3)	(457.7)	-	(457.7)
Profit from operations before amortisation of intangible assets	**50.0**	**(13.4)**	**36.6**	**72.5**	**-**	**72.5**
Amortisation of intangible assets	(2.1)	-	(2.1)	(2.3)	-	(2.3)
Operating profit	**47.9**	**(13.4)**	**34.5**	**70.2**	**-**	**70.2**
Net financing costs	(6.1)	-	(6.1)	(4.5)	-	(4.5)
Share of profit of associate (net of income tax)	-	-	-	-	-	-
Profit before taxation	**41.8**	**(13.4)**	**28.4**	**65.7**	**-**	**65.7**
Income tax expense	(11.3)	2.2	(9.1)	(17.7)	-	(17.7)
Profit from continuing operations	**30.5**	**(11.2)**	**19.3**	**48.0**	**-**	**48.0**
Profit from discontinued operations	-	-	-	-	-	-
Profit for the period	**30.5**	**(11.2)**	**19.3**	**48.0**	**-**	**48.0**
Profit for the period attributable to:						
Shareholders of the Company	26.0	(11.2)	14.8	42.9	-	42.9
Non-controlling interests	4.5	-	4.5	5.1	-	5.1
Profit for the period	**30.5**	**(11.2)**	**19.3**	**48.0**	**-**	**48.0**

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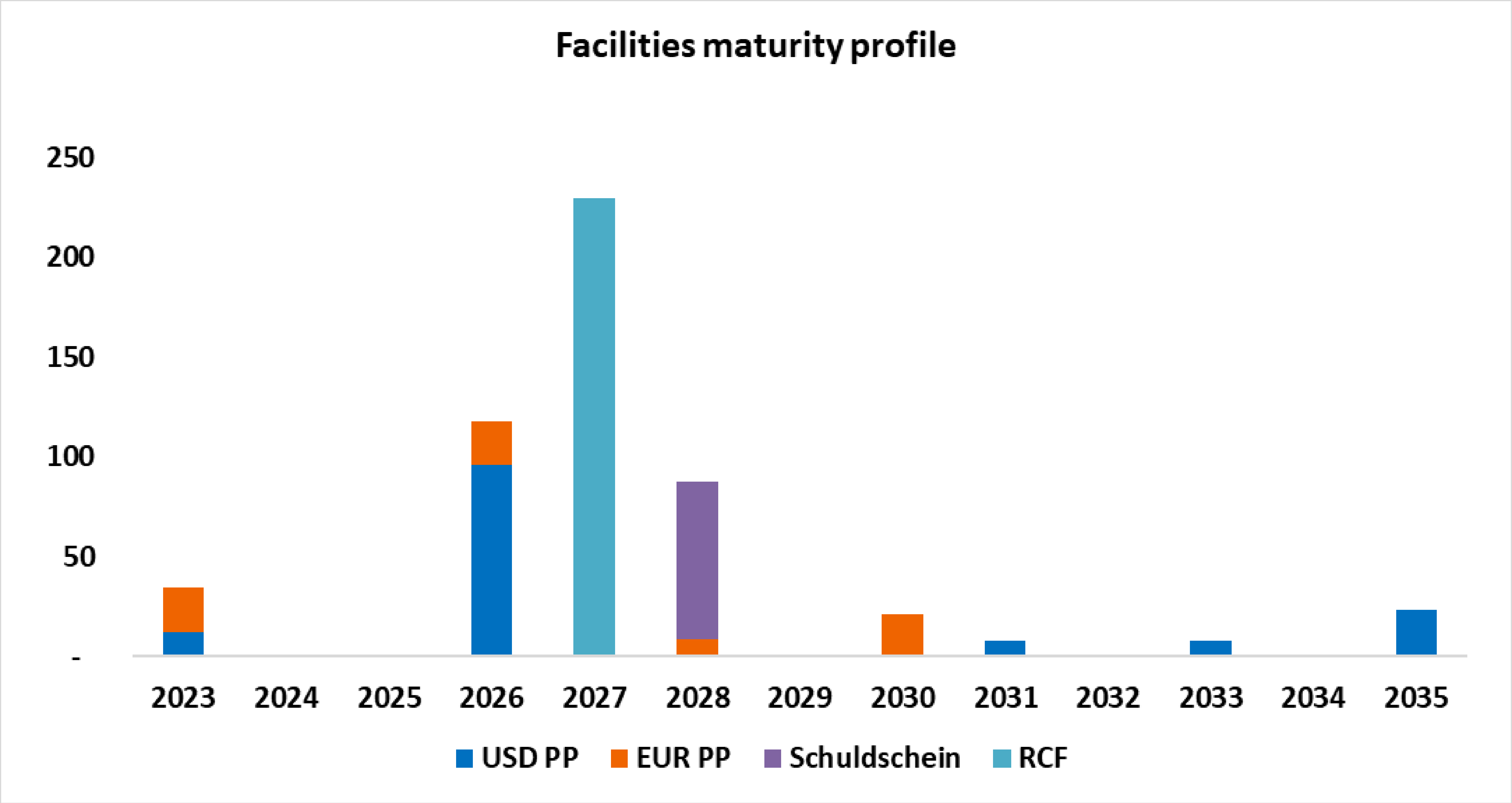
Cash flow summary

£m	1H 2023	1H 2022
EBITDA	69.5	90.8
Change in working capital	(45.2)	(38.7)
Change in provisions and other	(11.4)	(6.9)
Cash generated from continuing operations	**12.9**	**45.2**
Net capital expenditure	(24.0)	(22.5)
Net interest on cash and borrowings	(4.5)	(2.7)
Tax paid	(15.8)	(15.3)
Lease payments and interest	(5.7)	(5.7)
Free cash flow before acquisitions, disposals and dividends	**(37.1)**	**(1.0)**
Dividends paid to external plc shareholders	(19.1)	(16.5)
Net cash flows from other investing and financing activities	(2.4)	(2.6)
Exchange movement and other non-cash movements	(1.4)	(9.5)
Opening net debt excluding lease liabilities	(148.5)	(46.7)
Closing net debt excluding lease liabilities	**(208.5)**	**(76.3)**
Closing lease liabilities	(49.2)	(52.2)
Closing net debt	**(257.7)**	**(128.5)**

- The increase in working capital reflects collection challenges which arose as a result of the cyber incident and an increase in safety stocks held to protect against production delays. We expect this to reverse by the year end
- Free cash outflow of £(37.1)m, including an increase in capex capacity investment of £1.5m
- Effective tax rate remains at 27.0%
- Net debt (excluding lease liabilities) of £208.5m, Net Debt/EBITDA at 1.3x (FY 2022: 0.8x)

Strong balance sheet and available liquidity



Headroom on banking covenants

- Net debt to EBITDA excluding the impact of IFRS 16: 1.3x (FY2022: 0.8x)

Significant liquidity

- £190.2m available RCF plus available net cash and cash equivalents of £130.3m

Average cost of long term debt = 4%

All figures are shown on a pre-IFRS16 basis to align more closely to banking covenants.
Net cash and cash equivalents is defined as cash and cash equivalents less bank overdrafts.

Foreign currency impacts

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

GBP to:	1H 2023 Closing rate	1H 2023 Average rate	1H 2022 Closing rate	1H 2022 Average rate
USD	1.27	1.23	1.22	1.30
Euro	1.16	1.14	1.16	1.19

For illustrative purposes, the table below provides details of the impact on 1H 2023 revenue and adjusted operating profit[1] if the actual reported results, calculated using 1H 2023 average exchange rates, were restated for GBP weakening by 10 cents against USD in isolation and 10 cents against the Euro in isolation:

Increase in 1H 2023 revenue/adjusted operating profit if:	Revenue £m	Adjusted operating profit[1] £m
GBP weakens by 10c against USD in isolation	20.6	1.5
GBP weakens by 10c against the Euro in isolation	11.3	1.5

1 Adjusted operating profit is before specific adjusting items and amortisation of intangible assets.

Morgan Advanced Materials

Adjusted earnings per share

£m	1H 2023	1H 2022
Profit for the period attributable to shareholders of the Company	14.8	42.9
Profit from discontinued operations	-	-
Profit from continuing operations	14.8	42.9
Specific adjusting items	13.4	-
Amortisation of intangible assets	2.1	2.3
Tax effect of the above	(2.2)	-
Non-controlling interests' share of the above adjustments	-	-
Adjusted earnings	**28.1**	**45.2**
Weighted average number of shares in the period	284.5	284.4
Adjusted earnings per share (pence)	**9.9**	**15.9**

ROIC Definition Chart

Simplified ROIC Calculation

	2022 H2	2023 H1
Operating profit	70.6	34.5
Add back: Exceptionals	5.5	13.4
Add back: Amortisation	2.4	2.1
Adjusted operating profit	78.5	50.0
12 month adjusted operating profit		**128.5**

	2022 H1	2023 H1
Third party working capital:		
Inventory	169.0	181.4
Trade receivables	195.2	227.7
Trade payables	(186.2)	(192.2)
	178.0	216.9
Property, plant and equipment	268.1	275.6
Right-of-use assets	33.2	31.7
Goodwill	181.2	177.3
Other intangible assets	8.9	4.6
Capital employed	669.4	706.1
Average capital employed		**687.8**
H1 2023 ROIC		**18.7%**

Return on invested capital (ROIC) has been redefined so that it can be recalculated from published data. It is now defined as:

12-month adjusted operating profit (operating profit excluding specific adjusting items and amortisation of intangible assets) ***divided by*** the average adjusted net assets (excludes long-term employee benefits, deferred tax assets and liabilities, current tax payable, provisions, cash and cash equivalents, borrowings, bank overdrafts and lease liabilities).

12-month adjusted operating profit: sum of profit in 2H 2022 and 1H 2023.

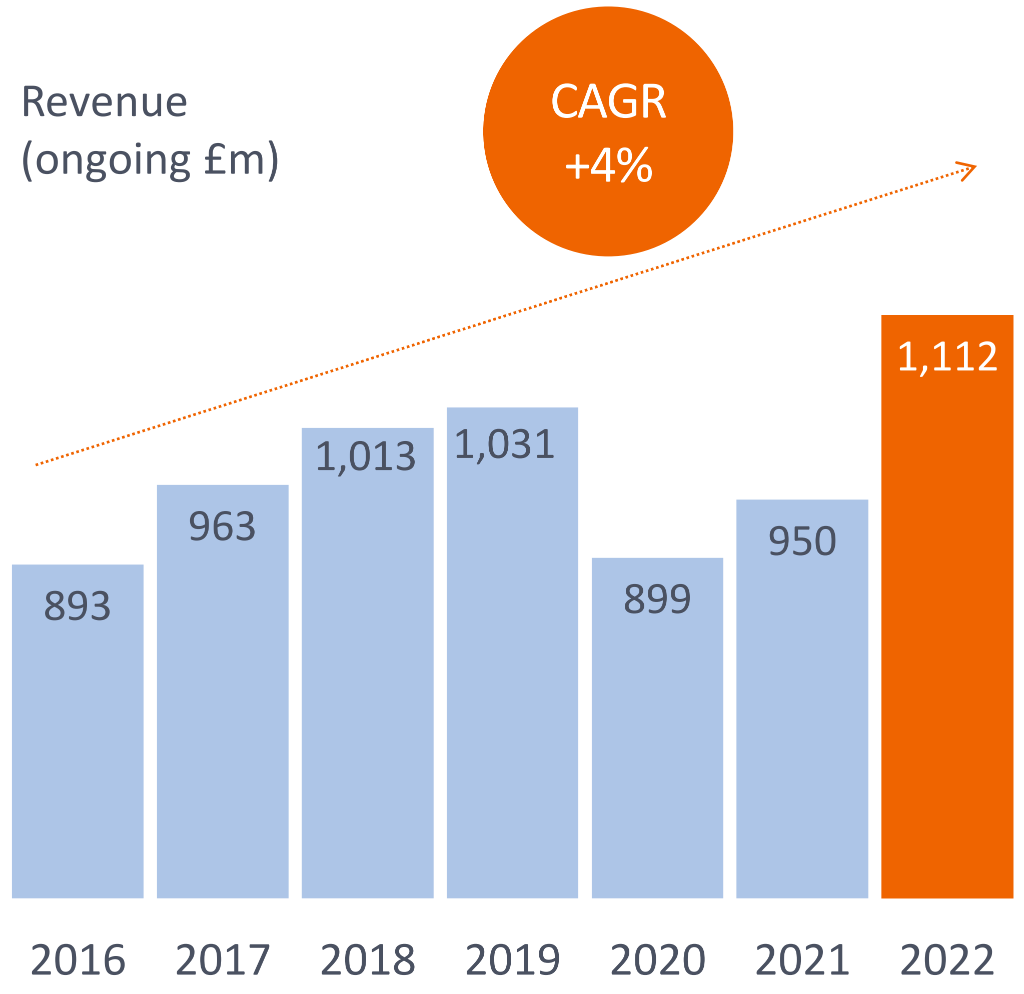
Average adjusted net assets: average closing position of 1H 2022 and 1H 2023.

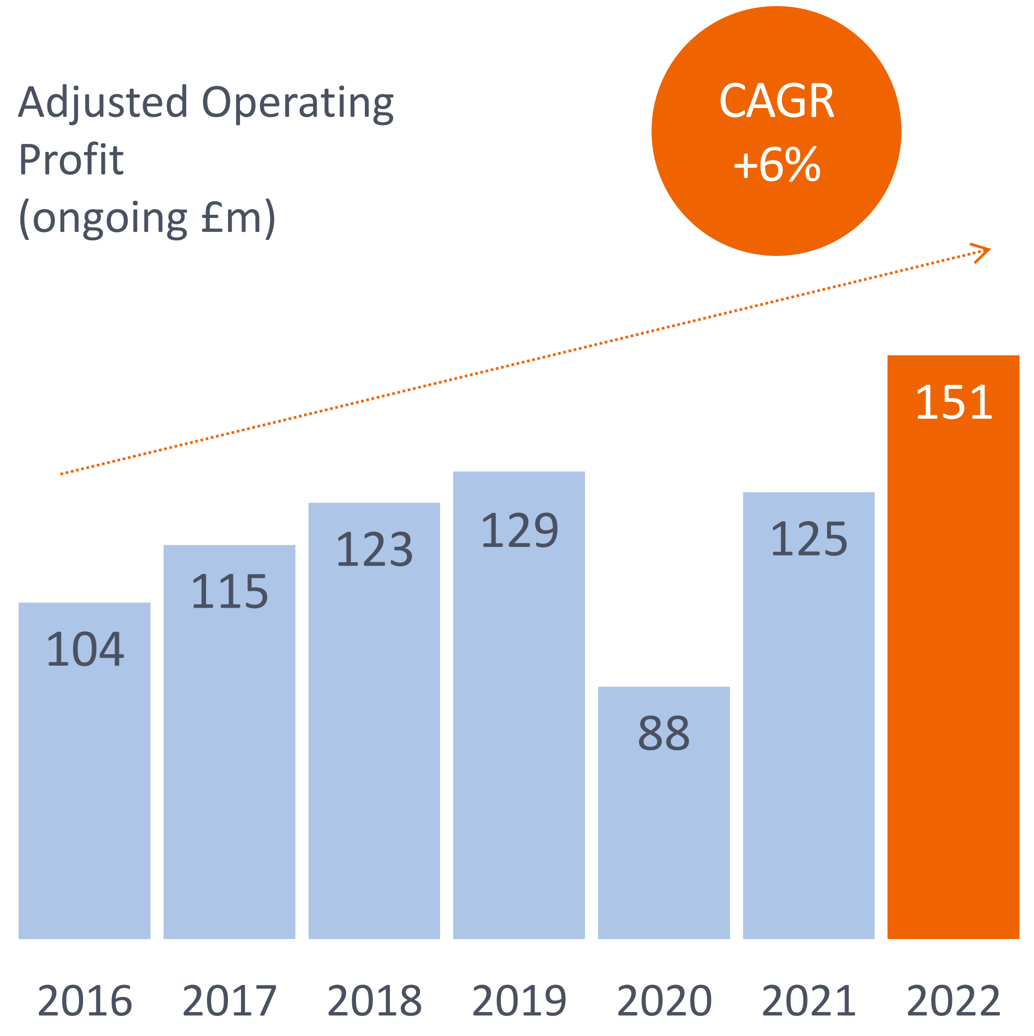
1H 2023 ROIC: 12-month adjusted operating profit / average adjusted net assets.

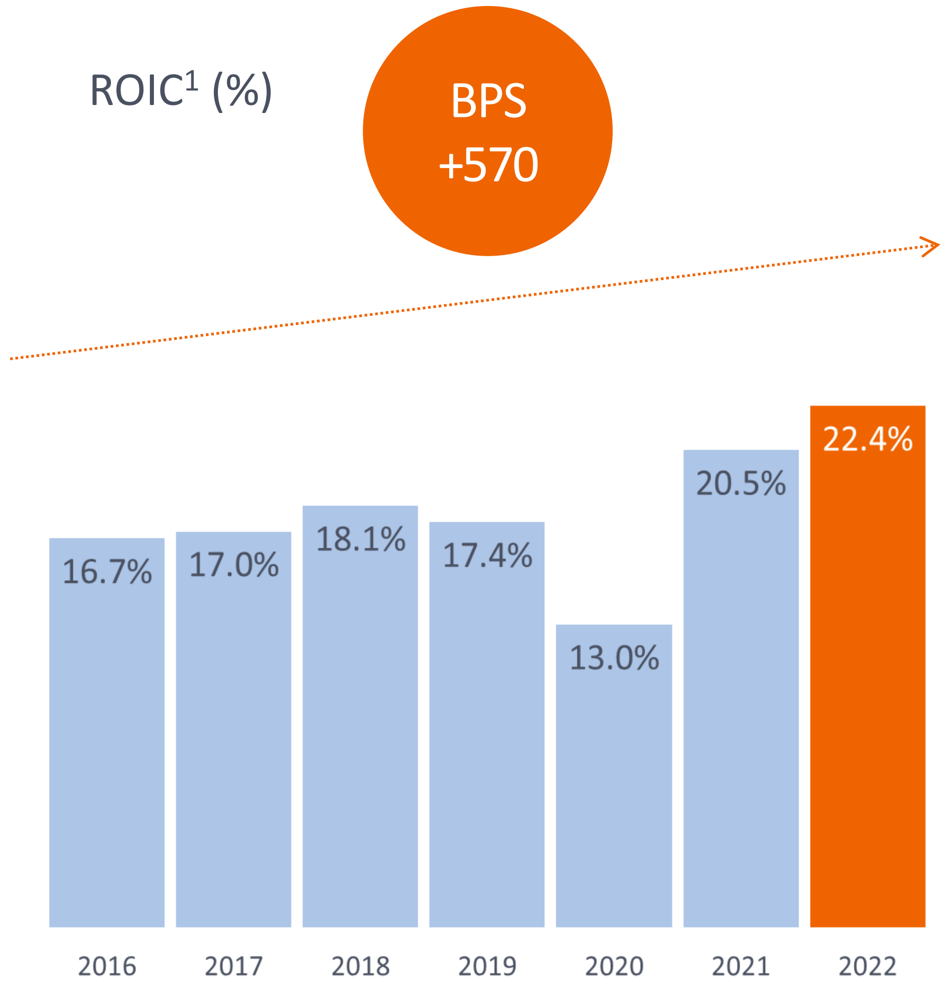
Under the previous methodology (which used 12-month adjusted operating profit and 12-month average adjusted net assets), ROIC as at 30 June 2023 was 18.1% (30 June 2022: 22.8%).

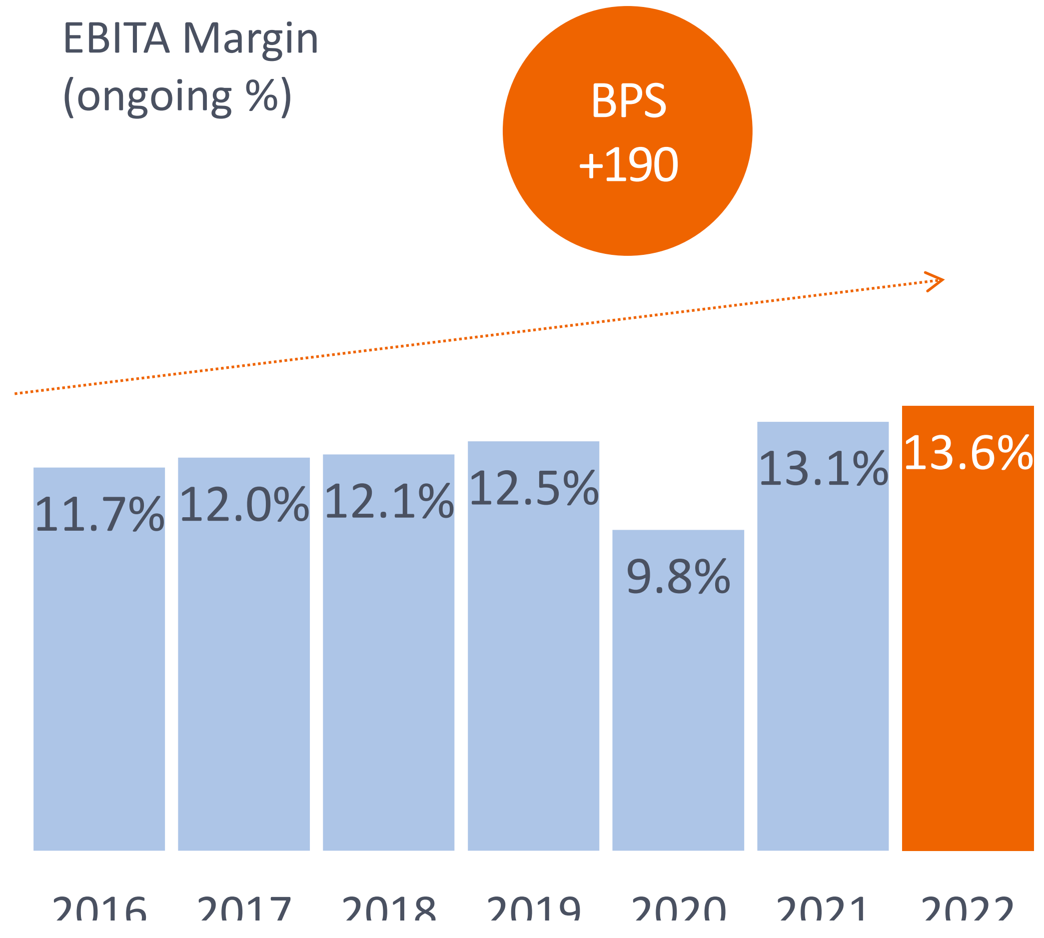
FY 2022 financial performance

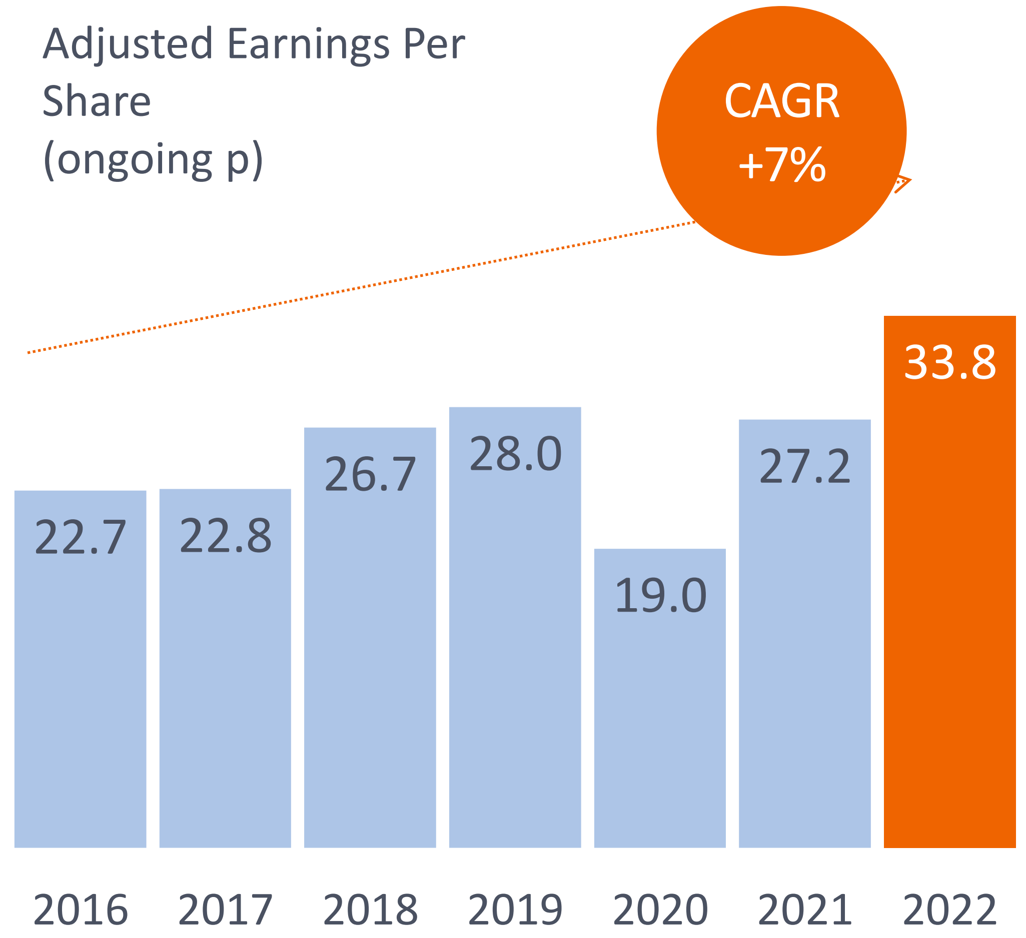
- A stronger more dynamic business
- Delivering growth in underlying revenue and earnings since 2016
- Resilience through the pandemic; accelerated recovery thereafter
- Inflation recovered in full
- Margin growth driving profitability











1. This slide was presented at the FY 2022 announcement, ROIC was therefore calculated under the old methodology and this has not been re-stated.

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