

2018 Interim Presentation

26th July 2018

Agenda

- Introduction and key highlights – Pete Raby
- 2018 interim results – Peter Turner
- Operational and strategic update – Pete Raby

Key highlights

- Strategy implementation remains firmly on track, with the strategy contributing to growth in the first half:
 - Further incremental investment of £7 million in research and development, sales effectiveness, and wider business infrastructure funded through £7 million of operational efficiency savings.
- Revenue growth of 7.8% and Group headline operating profit growth of 12.4% on an organic constant currency basis.
- Group headline operating profit margin was 11.8%.
- Headline EPS growth of 13.9% reflected improvement in operating profit, lower financing charges and a lower effective tax rate.
- Continued improvement in cash generation, with net debt:EBITDA 1.2 times.
- Our expectations for the full-year are now slightly higher than previously anticipated.

2018 interim results

Peter Turner

Group performance summary

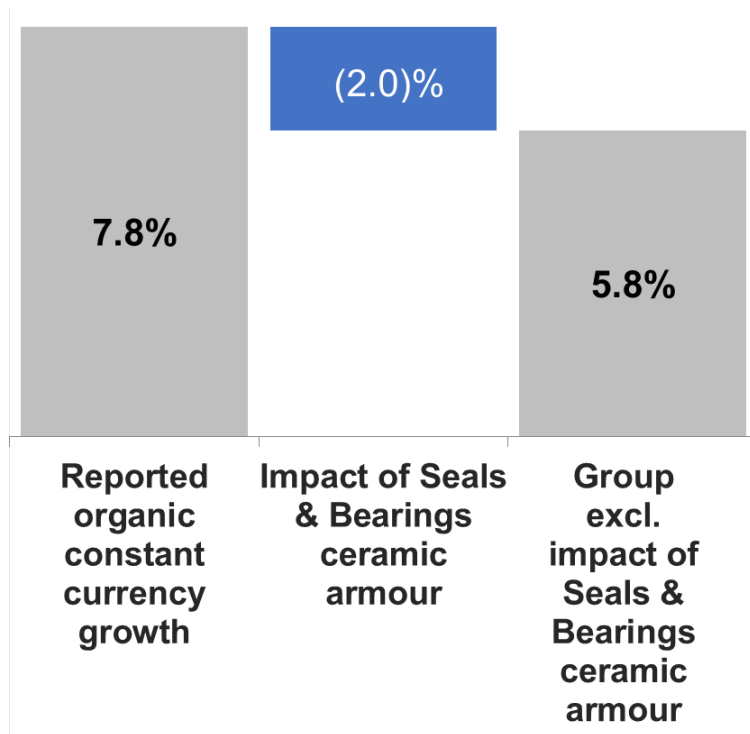
	1H 2018 ¹	1H 2017 ¹	% change from 1H 2017	Organic % change from 1H 2017
	£m	£m	As reported	At constant currency
Revenue	521.8	518.8	0.6%	7.8%
Group headline operating profit ²	61.5	61.2	0.5%	12.4%
<i>Group headline operating profit margin %²</i>	11.8%	11.8%		
Cash flow from operations	53.5	51.6	3.7%	
Free cash flow before acquisitions and dividends	18.8	16.8		
Headline earnings per share	13.1p	11.5p	13.9%	
Interim dividend per share	4.0p	4.0p		

¹ Results before specific adjusting items

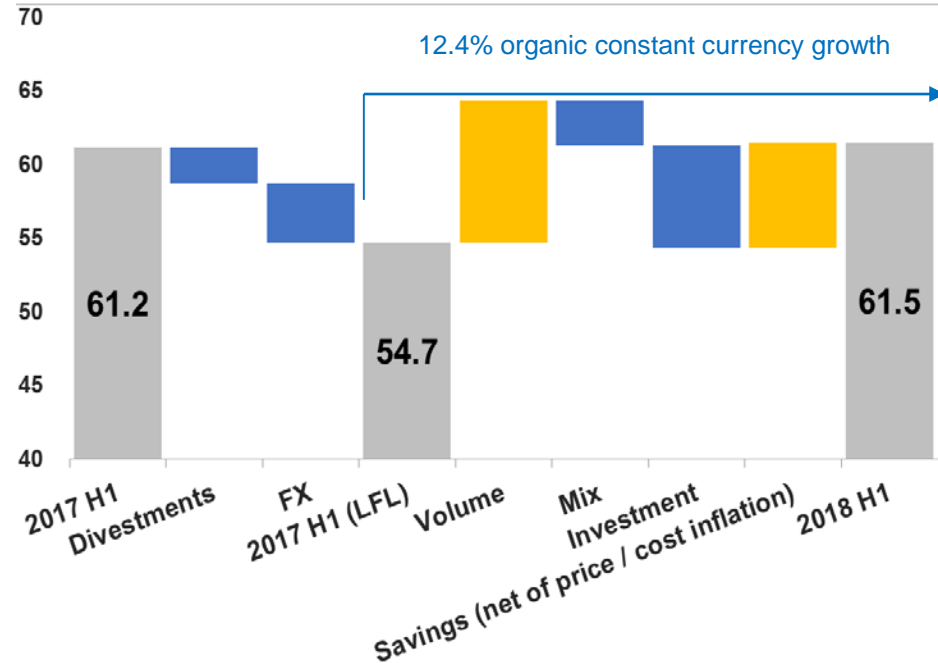
² Group headline operating profit is before specific adjusting items and amortisation of intangibles

Revenue & margin progression

Underlying organic growth 1H 2018



Group headline operating profit progression 1H 2018



Divisional performance

	Revenue (£m)		Divisional EBITA (£m)		Margin (%)	
	1H 2018	1H 2017	1H 2018	1H 2017	1H 2018	1H 2017
Thermal Ceramics	217.3	213.4	26.1	28.2	12.0%	13.2%
Molten Metal Systems	24.5	23.9	3.6	3.6	14.7%	15.1%
Thermal Products	241.8	237.3	29.7	31.8	12.3%	13.4%
Electrical Carbon	82.9	80.9	10.3	8.6	12.4%	10.6%
Seals and Bearings	65.6	55.9	12.1	9.1	18.4%	16.3%
Technical Ceramics	124.1	133.2	13.2	15.0	10.6%	11.3%
Carbon and Technical Ceramics	272.6	270.0	35.6	32.7	13.1%	12.1%
Composites and Defence Systems	7.4	11.5	(0.9)	(0.4)	(12.2)%	(3.5)%
Corporate costs			(2.9)	(2.9)		
Group	521.8	518.8	61.5	61.2	11.8%	11.8%

Cash flow summary

	1H 2018 £m	1H 2017 £m
EBITDA	77.2	76.9
Change in working capital	(16.7)	(18.0)
Change in provisions & other	(7.0)	(7.3)
Cash flow from operations	53.5	51.6
Capital expenditure	(23.1)	(13.9)
Net interest	(4.1)	(8.3)
Tax paid on ordinary activities	(7.5)	(12.0)
Restructuring costs and other one-off items	-	(0.6)
Free cash flow before acquisitions and dividends	18.8	16.8
Dividends paid	(20.0)	(20.0)
Cash flows from other investing and financing	(1.3)	75.4
Exchange movement	(4.4)	1.7
Opening net debt	(181.3)	(242.5)
Closing net debt	(188.2)	(168.6)

- Capex:depreciation at 1.5x, supporting growth and efficiency
- Lower interest charge reflecting revised debt structure
- Lower tax paid due to tax offset from US pension deficit funding payments in December 2017
- Net debt:EBITDA at 1.2x (FY 2017: 1.2x)

Pensions update – funding position continues to improve

Deficit movement since 31 Dec 2017 (£m)

Deficit at 31 December 2017	(218)
Return on assets	(15)
Contributions (net of service and finance costs)	4
Actuarial gains on liabilities	38
Deficit at 30 June 2018	(191)

£m	30 June 2018	31 December 2017	31 December 2016
<i>Equities</i>	138	164	208
<i>Bonds</i>	225	211	85
<i>Annuities</i>	180	188	194
<i>Other</i>	14	9	37
Total Assets	557	572	524
Liabilities	(748)	(790)	(795)
Deficit	(191)	(218)	(271)
<i>UK bond yields</i>	2.6%	2.4%	2.6%
<i>US bond yields</i>	4.3%	3.7%	4.2%

Matching Assets

2016: 53%
2017: 70%
1H18: 73%

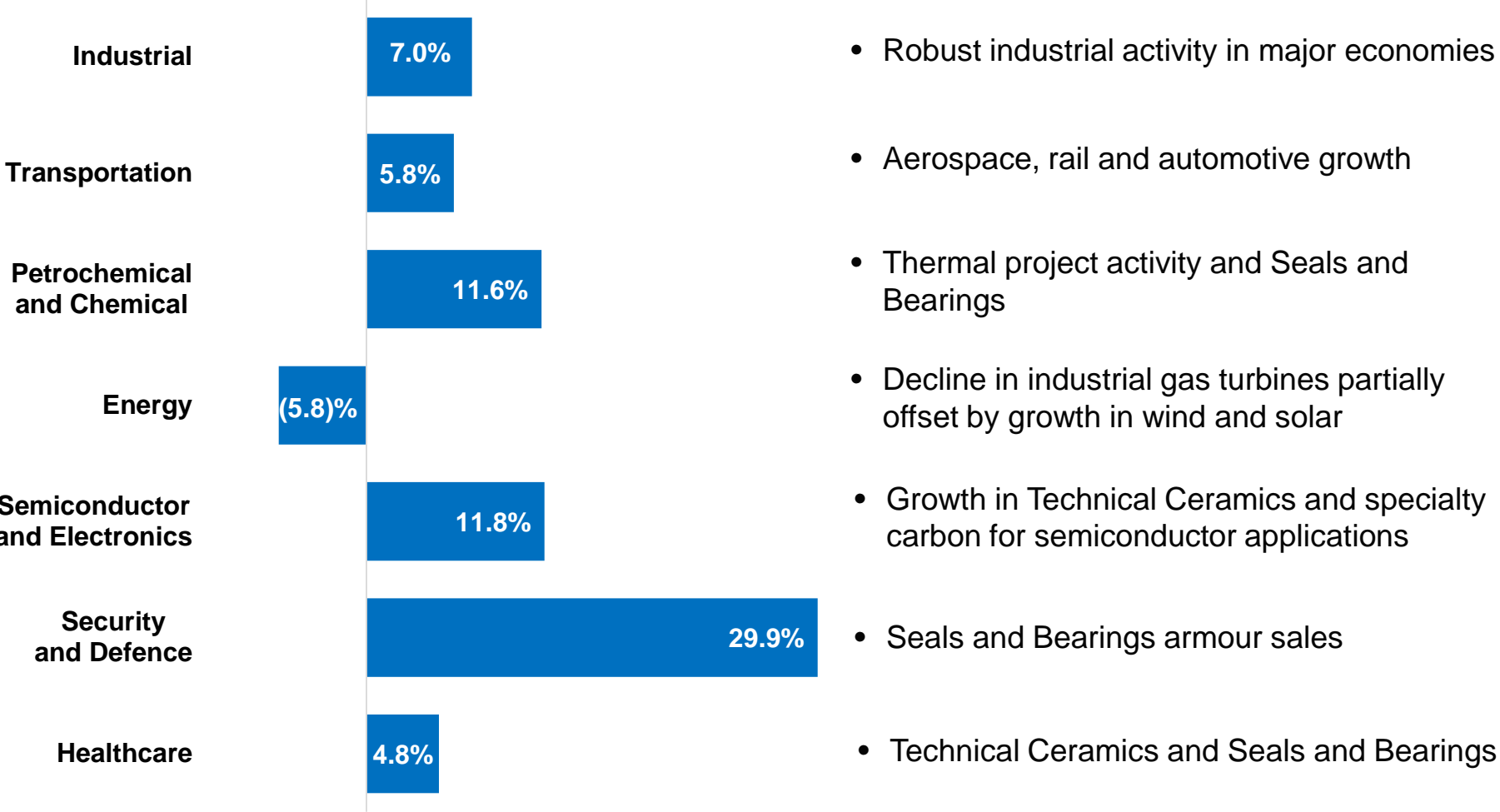
FY18 Guidance – financial items

Headline tax rate	c. 28%	
Interest charge (at current FX rates)	c. £8m	} c. £13m
IAS19 pensions finance charge	c. £5m	
Funded pension scheme contributions	c. £16m	

Operational and strategic update

Pete Raby

Broad based growth across most major market segments



Organic % change from 1H 2017 at constant-currency

Thermal Ceramics: performance summary

£m	1H 2018	1H 2017	% change from 1H 2017 As reported	Organic % change from 1H 2017 At constant-currency
Revenue	217.3	213.4	1.8%	7.4%
EBITA	26.1	28.2	(7.4)%	0.8%
EBITA margin %	12.0%	13.2%		

Performance commentary

- Strong project growth in Asia and Europe
- Margin decline driven by higher project activity, lower sales in the US and lower profitability in South America
- Higher Superwool® conversion

Strategic focus

- Growth in automotive and passive fire protection
- Further Superwool® conversion
- Investment in sales and new product development to support growth
- Operational efficiency funding re-investment

Molten Metal Systems: performance summary

£m	1H 2018	1H 2017	% change from 1H 2017 As reported	Organic % change from 1H 2017 At constant-currency
Revenue	24.5	23.9	2.5%	7.5%
EBITA	3.6	3.6	0.0%	5.9%
EBITA margin %	14.7%	15.1%		

Performance commentary

- Growth driven by a strong performance in North America and Asia, in particular India, in precious metal refining and aluminium casting for the automotive industry
- Margin declined slightly following planned investment in research and development

Strategic focus

- Sales effectiveness remains a priority, including focus on value selling and distribution in key growth markets
- Ongoing operational improvements funding research and development and sales effectiveness

Electrical Carbon: performance summary

£m	1H 2018	1H 2017	% change from 1H 2017 As reported	Organic % change from 1H 2017 At constant-currency
Revenue	82.9	80.9	2.5%	13.3%
EBITA	10.3	8.6	19.8%	47.1%
EBITA margin %	12.4%	10.6%		

Performance commentary

- Growth in all regions, with particularly strong performance in Asia and North America
- Rail, wind, other renewable energy and semiconductor markets have delivered significant growth on prior year
- Margin improvement driven predominantly by volume increases offsetting the dilutive impact of divestments

Strategic focus

- Growth opportunities in transport and wind markets
- Development and introduction of new products through the Carbon Science Centre of Excellence

Seals and Bearings: performance summary

£m	1H 2018	1H 2017	% change from 1H 2017 As reported	Organic % change from 1H 2017 At constant-currency
Revenue	65.6	55.9	17.4%	21.9%
EBITA	12.1	9.1	33.0%	40.7%
EBITA margin %	18.4%	16.3%		

Performance commentary

- Organic growth driven by the water, chemical and petrochemical markets partially offset by continuing weakness in the Korean automotive market
- Strong in year performance on armour programmes
- Excluding armour, organic revenue growth on core business was 5%
- Margins improved due to volume increases

Strategic focus

- Growth opportunities targeted in automotive, aerospace, water pumps and consumer appliances
- Carbon Science Centre of Excellence to build our technical differentiation

Technical Ceramics: performance summary

£m	1H 2018	1H 2017	% change from 1H 2017 As reported	Organic % change from 1H 2017 At constant-currency
Revenue	124.1	133.2	(6.8)%	3.0%
EBITA	13.2	15.0	(12.0)%	1.5%
EBITA margin %	10.6%	11.3%		

Performance commentary

- Aerospace, defence, semiconductor and medical markets all delivered strong growth
- Margins impacted by mix, notably a reduction in higher margin IGT sales, and the dilutive impact of divestments

Strategic focus

- Growth opportunities in aerospace, medical and semiconductor
- Increasing research and development investment
- Improving sales effectiveness, especially key account management
- Improving yields and reducing scrap

Composites and Defence Systems: performance summary

£m	1H 2018	1H 2017	% change from 1H 2017 As reported	Organic % change from 1H 2017 At constant-currency
Revenue	7.4	11.5	(35.7)%	(35.7)%
EBITA	(0.9)	(0.4)		
EBITA margin %	(12.2)%	(3.5)%		

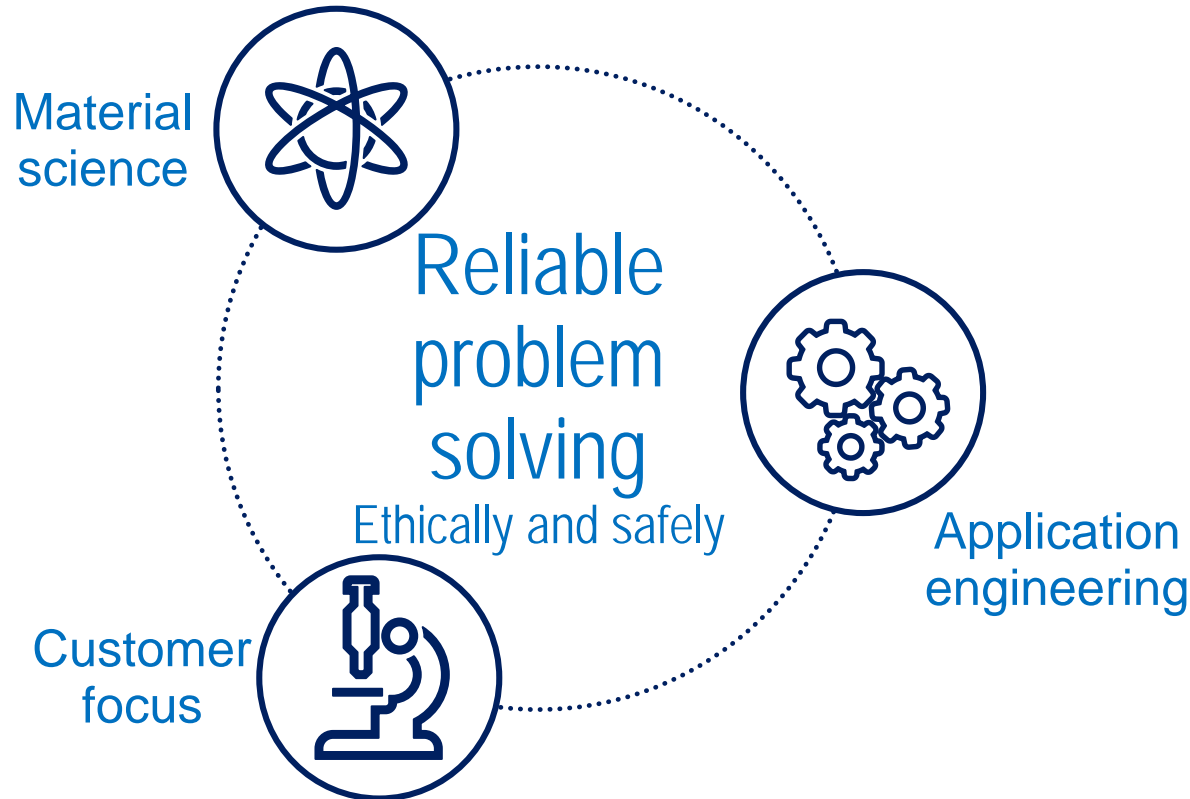
Performance commentary

- Lower sales to defence customers, leading to increased operating losses

Strategic focus

- Business exit announced, exploring potential divestment and closure options

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

Strengthening the Group to deliver resilient financial performance and faster growth

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

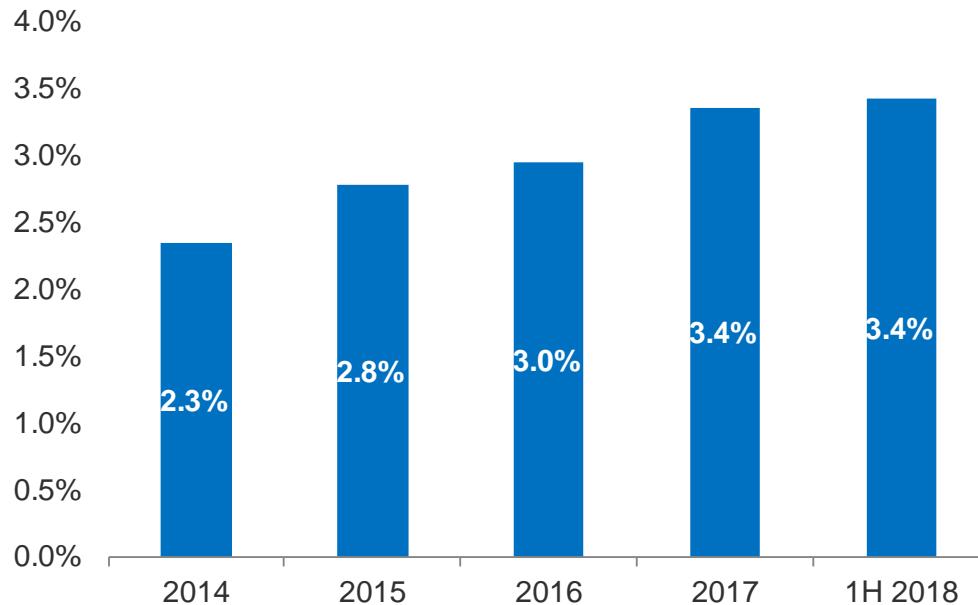
5. Increase investment in people management and development

6. Simplify the business

Execution priorities highlighted in blue will be covered in the following slides

2. Technology investment on track

Research and development as a percentage of sales 2014 – 1H 2018



- Investment in research and development increased by £2m on a continuing basis
- We expect to be spending an incremental £10m per year in 2018 compared to 2015, funded by operational improvements
- The four Centres of Excellence are driving a range of materials and process developments

4. We are focused on long-term process and capability development in our sales teams

Process and capability improvement

- Pricing deployment underway in Electrical Carbon North America and Europe using the tools developed in the Thermal Europe pilot
- Sales teams restructured in Thermal and Electrical Carbon in North America and Seals and Bearings in Europe to bring greater focus on growth markets
- Design of our core training programme completed and first training event completed
- Wider training deployment starts in 3Q

Systems

- CRM deployment underway
- Analytical tools being trialled to provide a consolidated dashboard from multiple systems

Incentivising for growth

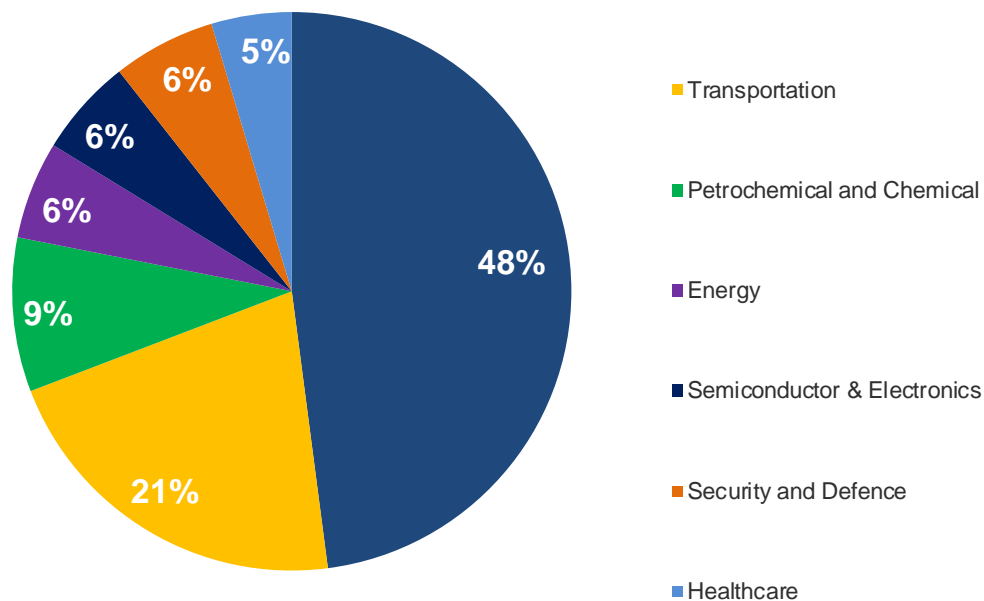
- Sales incentive trials continue for four sales teams, with encouraging results so far
- Wider deployment planned in 2H to achieve broad coverage for 2019

Summary

- Strategy implementation remains firmly on track, with the strategy contributing to growth in the first half.
- Revenue growth of 7.8% and Group headline operating profit growth of 12.4% on an organic constant currency basis.
- Headline EPS growth of 13.9% reflected improvement in operating profit, lower financing charges and a lower effective tax rate.
- Continued improvement in cash generation, with net debt:EBITDA 1.2 times.
- Our expectations for the full-year are now slightly higher than previously anticipated.

Appendix

End market mix (as a % of revenue)



Main markets by GBU

Thermal Ceramics:

Industrial, Chemical & Petrochemical, Metals, Automotive

MMS:

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

Electrical Carbon:

Rail, Industrial Equipment, Power generation

Seals and Bearings:

Petrochemical, Industrial and Water pumps, Aerospace, Automotive, Home appliances, Ceramic armour

Technical Ceramics:

Industrial Equipment, Electronics, Aerospace, Healthcare, Energy

Composites and Defence Systems:

Defence (military vehicles support, soldier protection and bomb suits, vehicle armour), Commercial composites

Reported statutory figures

	Results before specific adjusting items	Specific adjusting items	Total
	1H 2018 (£m)	1H 2018 (£m)	1H 2018 (£m)
Revenue	521.8	-	521.8
Operating costs before restructuring costs and other items and amortisation of intangible assets	(460.3)	-	(460.3)
Profit from operations before restructuring costs and other items and amortisation of intangible assets	61.5	-	61.5
Restructuring costs and other items:	-	(7.6)	(7.6)
Profit from operations before amortisation of intangible assets	61.5	(7.6)	53.9
Amortisation of intangible assets	(3.8)	-	(3.8)
Operating profit	57.7	(7.6)	50.1
Finance income	0.5	-	0.5
Finance expense	(7.1)	-	(7.1)
Net financing costs	(6.6)	-	(6.6)
Share of profit of associate (net of income tax)	0.4	-	0.4
Profit before taxation	51.5	(7.6)	43.9
Income tax expense	(14.4)	-	(14.4)
Profit for the period	37.1	(7.6)	29.5
Profit for the period attributable to:			
External plc shareholders	33.5	(7.6)	25.9
Non-controlling interests	3.6	-	3.6
Profit for the period	37.1	(7.6)	29.5

Key exchange rates

GBP to:	1H 2018		1H 2017	
	Closing rate	Average rate	Closing rate	Average rate
USD	1.32	1.38	1.30	1.26
EUR	1.13	1.14	1.14	1.16
CNY	8.75	8.76	8.83	8.66

Key exchange rate sensitivities on interim results

Revenue

Profit

Increase in half year revenue / Group headline operating profit if:

GBP weakens by 10c against the US dollar in isolation

£m

£m

GBP weakens by 10c against the Euro in isolation

+16.5

+2.5

GBP weakens by 10c against the Euro in isolation

+11.0

+2.1

Headline EPS

	1H 2018 £m	1H 2017 £m
Profit for the period attributable to ordinary shareholders	25.9	76.5
Amortisation	3.8	3.6
Total specific adjusting items post-income tax	7.6	(47.4)
Headline earnings	37.3	32.7
Weighted average number of shares in the period	285.3m	284.9m
Headline earnings per share	13.1p	11.5p

2018 Interim Presentation

26th July 2018