Morgan Crucible

The Morgan Crucible Company plc

2009 Half Year Financial Results

29th July 2009

Agenda

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2009 Half Year Financial Results

Kevin Dangerfield

Robust revenue and profit performance in a challenging environment. Dividend maintained at 2.5 pence….

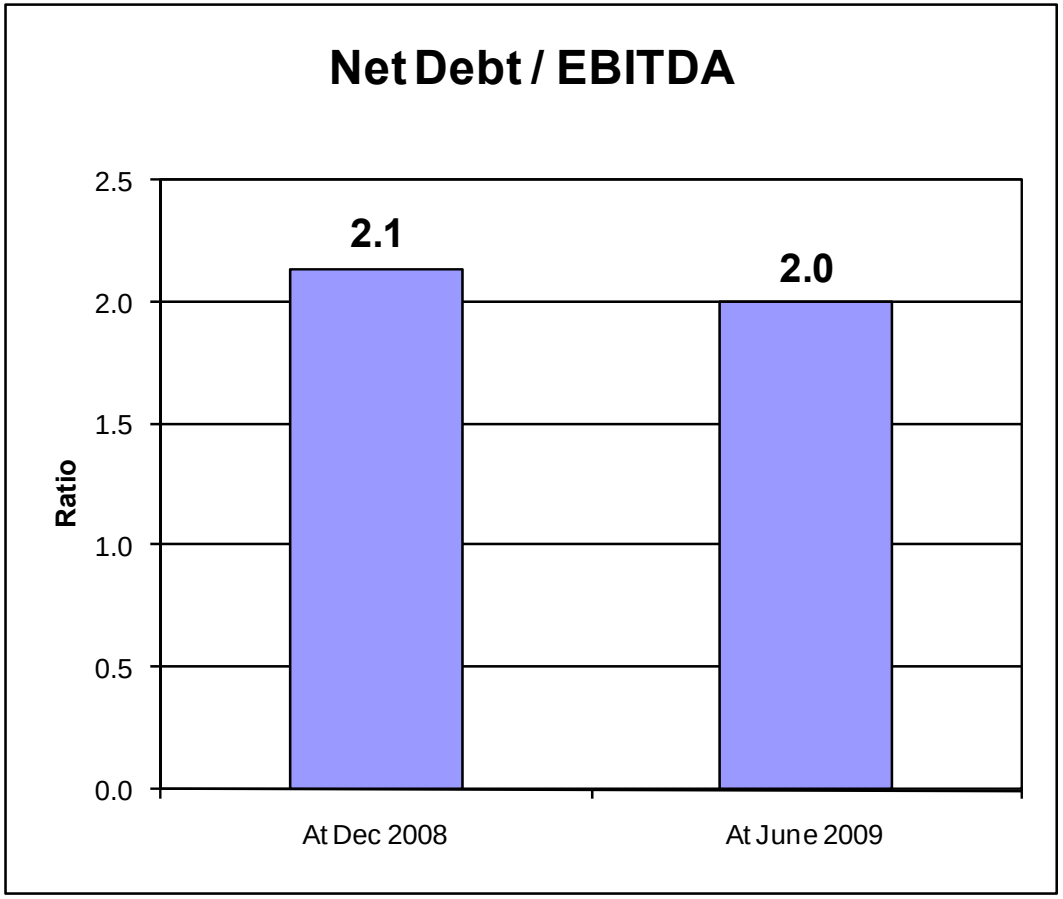
	HY09	HY08
Revenue	£492.0m	£401.2m
EBITA before restructuring and one-off items	£45.3m	£51.3m
EBITA Margin % before restructuring and one-off items	9.2%	12.8%
EBITA after restructuring and one-off items *	£38.2m	£46.4m
EBITA Margin % after restructuring and one-off items *	7.8%	11.6%
Underlying earnings per share	6.4p	11.3p
Interim dividend per share	2.5p	2.5p

** EBITA after restructuring and one-off items is defined as operating profit before amortisation of intangible assets*

…underpinned by significant positive operating cash flow generation

	HY09 £m	HY08 £m
Net cash flow from operating activities	58.6	33.0
Net capital expenditure	(9.3)	(12.3)
Net interest paid	(11.2)	(9.3)
Tax paid on ordinary activities	(7.5)	(13.1)
FREE CASH FLOW BEFORE ONE-OFF COSTS and DIVIDENDS	30.6	(1.7)
One-off costs:		
- Restructuring costs and other one-off items	(5.1)	(6.3)
- Tax Settlement	(19.0)	-
Dividends paid	-	(12.9)
Cash flows from other investing and financing activities	(31.2)	(88.7)
Exchange movement	32.2	2.5
Opening net debt	(290.4)	(119.7)
Closing net debt	(282.9)	(226.8)

Progress made in improving net debt to EBITDA ratios



- Absolute level of net debt reduced since 2008 year end – now at £282.9m
- New £280m banking facilities in place with ample headroom and a supportive banking group
- Well within our financial covenants
  - Net debt/EBITDA* ≥ 3
  - EBITDA*/Net Bank Interest ≥ 4

** EBITDA pre restructuring*

Accounting impact of consolidating NP Aerospace

	HY09 £m	HY08 £m
Revenue	**492.0**	**401.2**
EBITA after restructuring and one-off items *	**38.2**	**46.4**
Amortisation of intangible assets	**(8.1)**	**(1.3)**
Operating profit	**30.1**	**45.1**
Net finance charge	**(14.8)**	**(6.3)**
- Net bank interest	*(11.4)*	*(6.1)*
- Interest expense on unwinding of discount on deferred consideration	*(1.1)*	*-*
- Net IAS19 Employee Benefits charge	*(2.3)*	*(0.2)*
Share of profit of associate	**-**	**0.7**
Profit before tax	**15.3**	**39.5**
Tax	**(4.3)**	**(9.3)**
Profit for the period	**11.0**	**30.2**
Minority interest	**(2.0)**	**(1.4)**
Profit attributable to shareholders for the period	**9.0**	**28.8**

** Restructuring and one-off items include the costs of restructuring activity, profit/(loss) on disposal of property arising from restructuring activity and ongoing recovery/(costs) associated with the settlement of prior period anti trust litigation.*

Restructuring costs forecast to be c. £15m for the full year with annualised benefits of c. £12m

- Restructuring spend of £8.2m in H1
- Forecast of c£15m for the full year
- Annualised benefits of c£12m, progressively benefiting the second half of 2009 and full year 2010
- Significant additional cost reductions in place that do not have one-off cost implications

Summary of 2009 half year financials

- Resilient revenue and profit performance against the backdrop of a very challenging market environment
- Acquisitions performing well and successfully mitigating the impact of the global downturn in more traditional industrial markets
- Good operational cash generation driven by tight working capital management and rigorous capital expenditure control
- Encouraging progress made in improving net debt to EBITDA ratios year to date
- Dividend maintained at last year's level

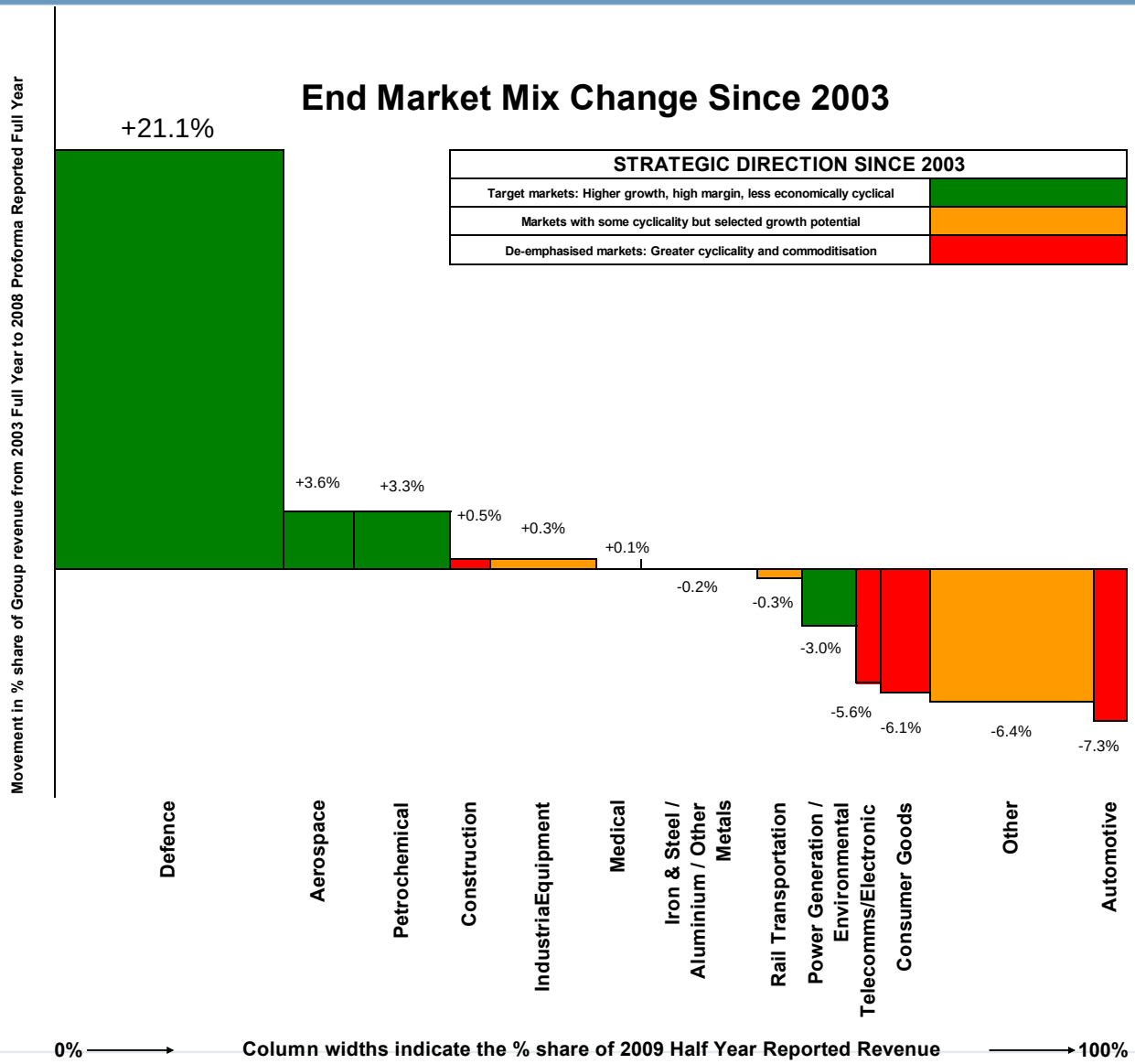
Group and
Divisional Business Review

Mark Robertshaw

The strategy we have been pursuing for a number of years is, as intended, serving us well in this downturn environment

- **Focus on higher growth, higher margin non economically cyclical markets**
- **High value-added to our customers**
- **Number 1 or 2 in our chosen market segments**
- **Culture of operational excellence and cost efficiency**
- **Finding, keeping and developing the right people**

We have delivered a fundamental and positive change in our end-market mix



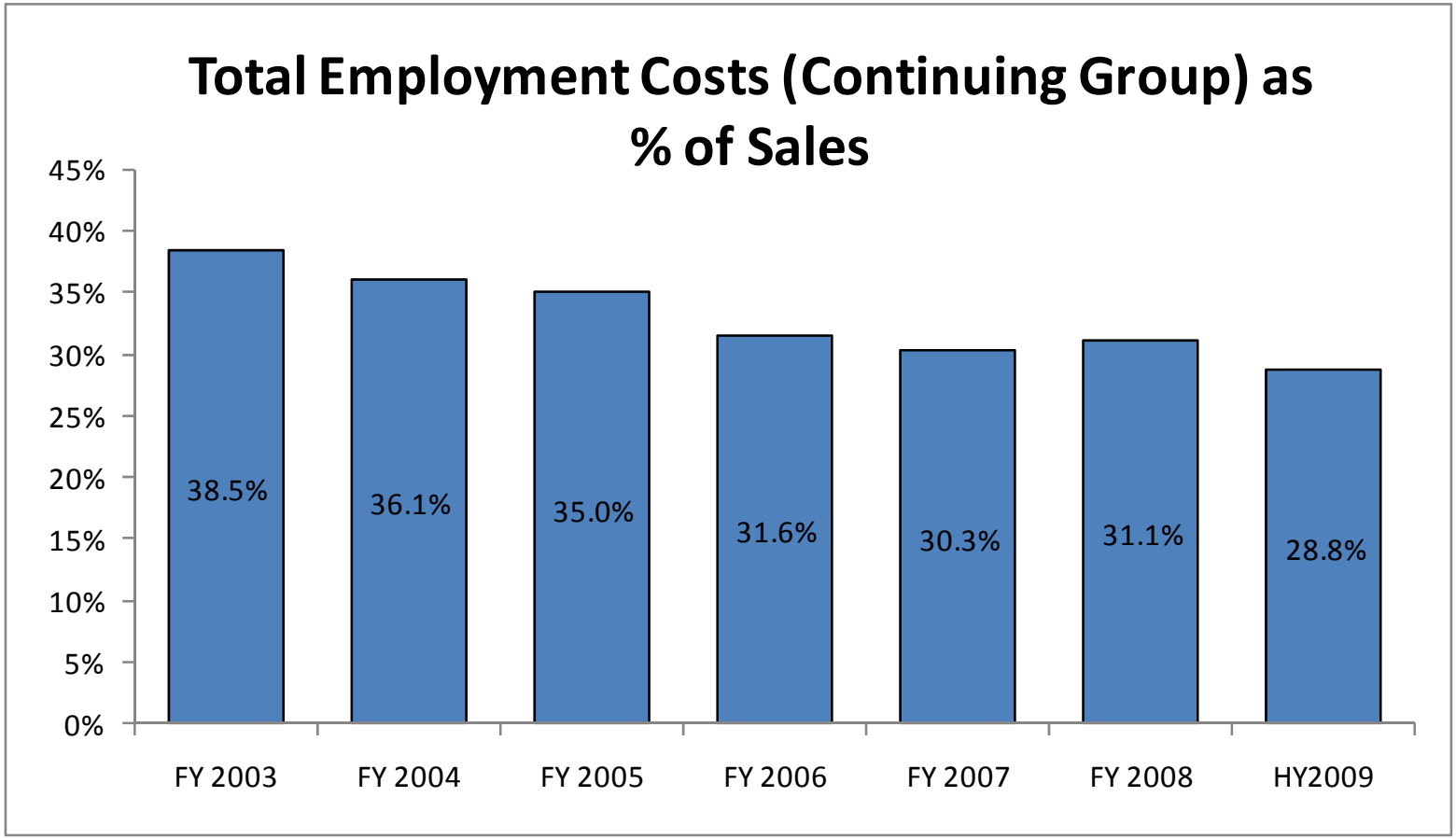
The mix changes have mitigated the worst impacts of the global downturn - like for like revenues down only 7.3% year on year

	Group		
	H1 2009	H1 2008	Year on Year % Change
Defence	108.2	59.7	81.2%
Metals	53.2	76.0	-30.0%
Industrial Equipment	49.9	64.8	-23.0%
Petrochemical	43.9	41.3	6.3%
Aerospace	32.6	37.8	-13.8%
Power Generation / Environmental	23.7	26.6	-10.9%
Consumer Goods	21.0	26.8	-21.6%
Rail Transportation	20.9	23.2	-9.9%
Medical	20.9	18.0	16.1%
Construction	16.3	17.4	-6.3%
Automotive	15.4	23.0	-33.0%
Telecommunications / Electronics	10.1	12.2	-17.2%
Other	75.9	103.9	-26.9%
Total	492.0	530.7	-7.3%

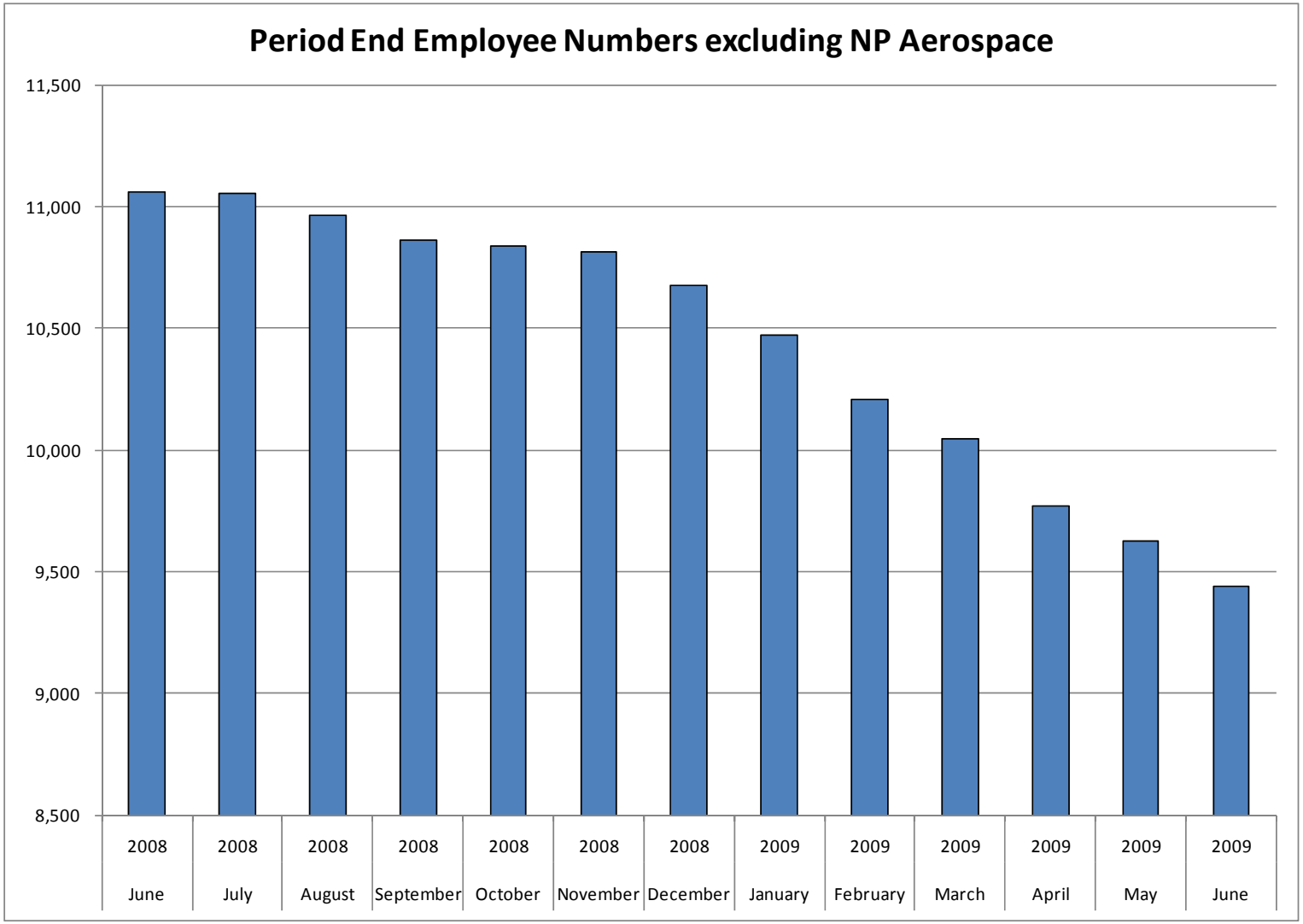
- **H1 pro forma numbers include the NP Aerospace and Carpenter businesses and are on a constant currency basis to allow a like for like comparison of the portfolio as it is now**

- **The greater resilience of Defence, Medical and Petrochemical sales have mitigated the downturns in the much more economically cyclical Automotive and Metals markets**

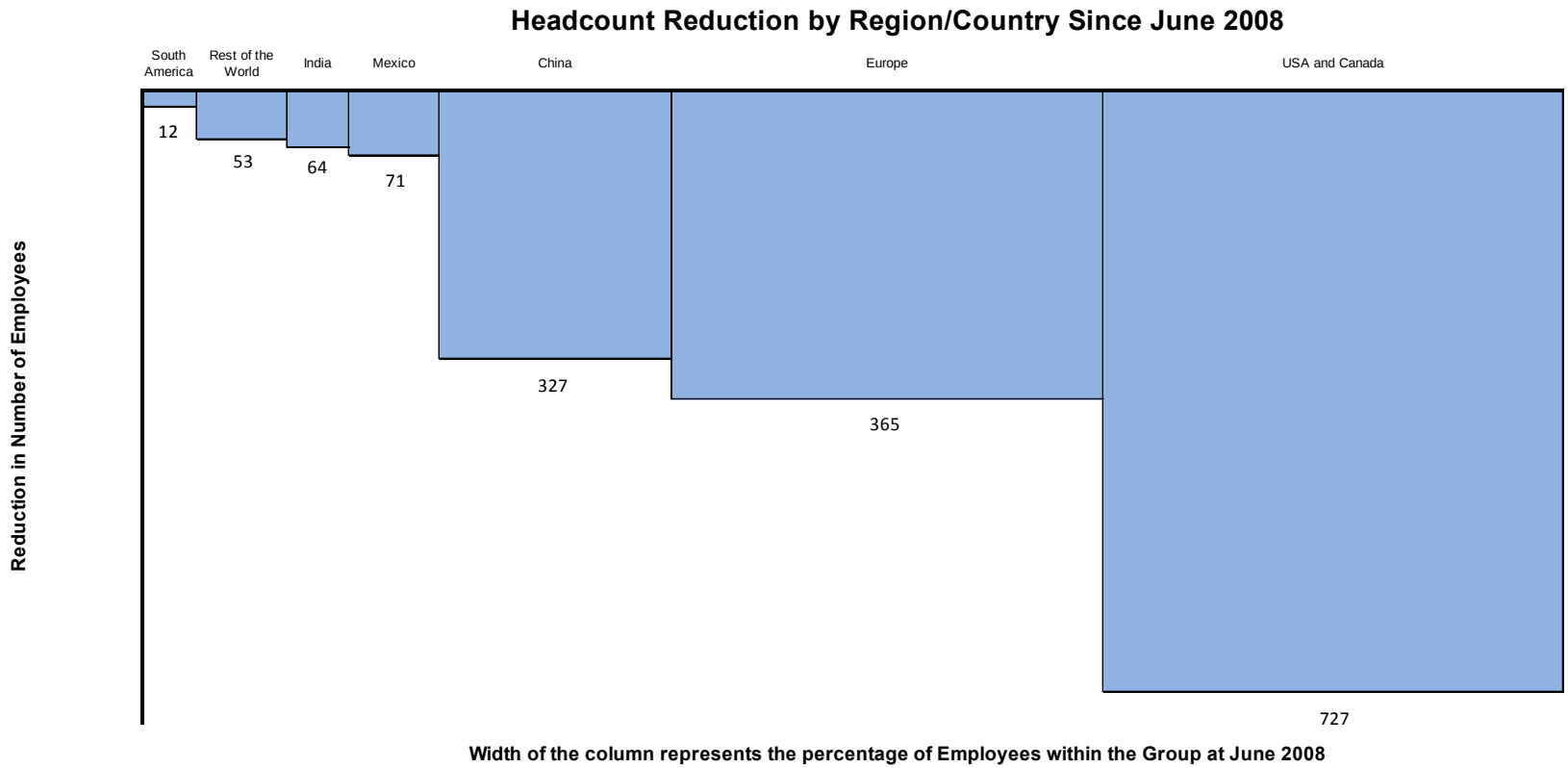
We have also continued to improve the Group's total employment costs to sales ratio which is now down to 28.8%



Group headcount reduced by over 1,600 in the past 12 months

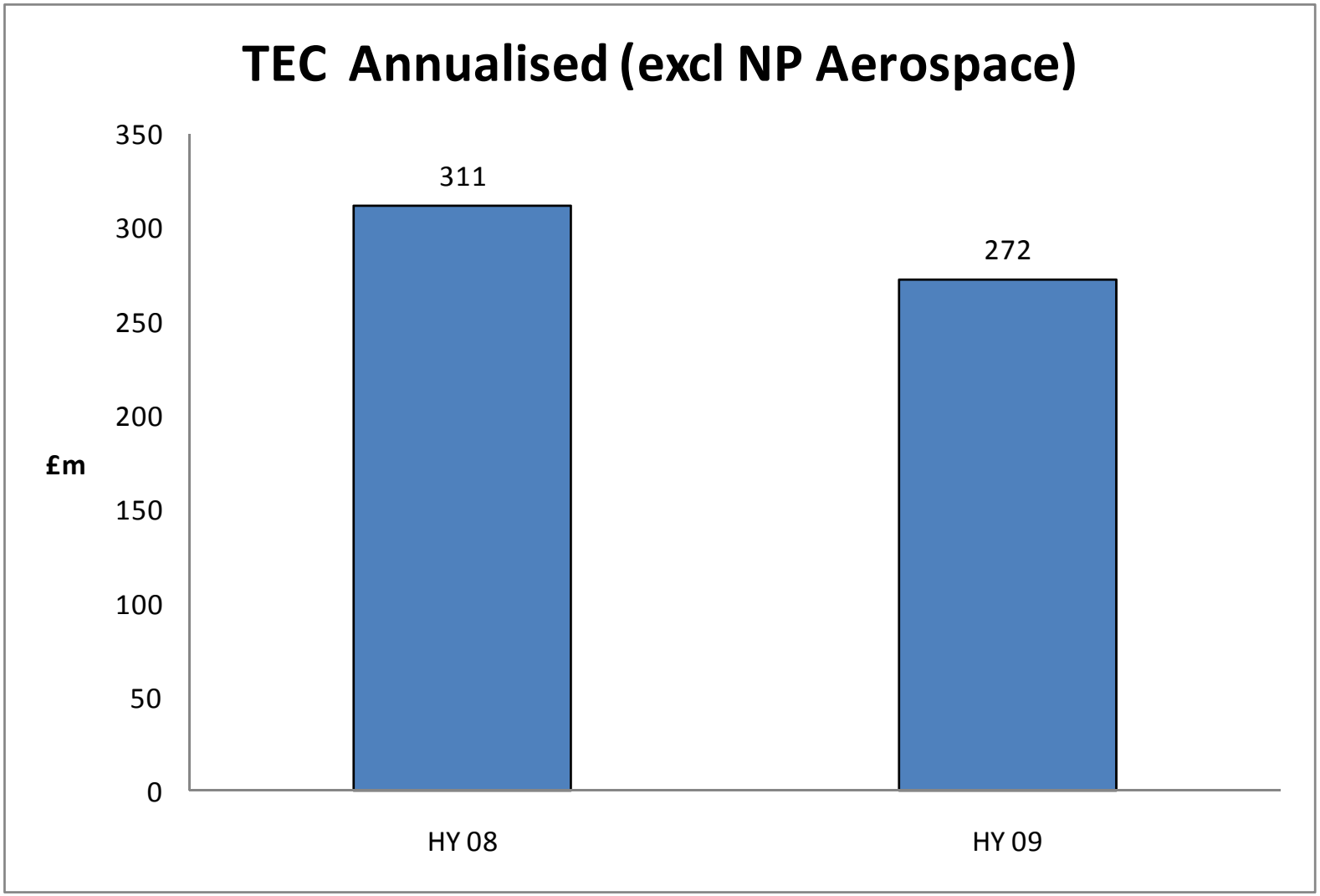


Headcount reduced worldwide but disproportionately more in the higher cost Western economies



- Greater use of reduced working hours and temporary shut down periods used in European markets

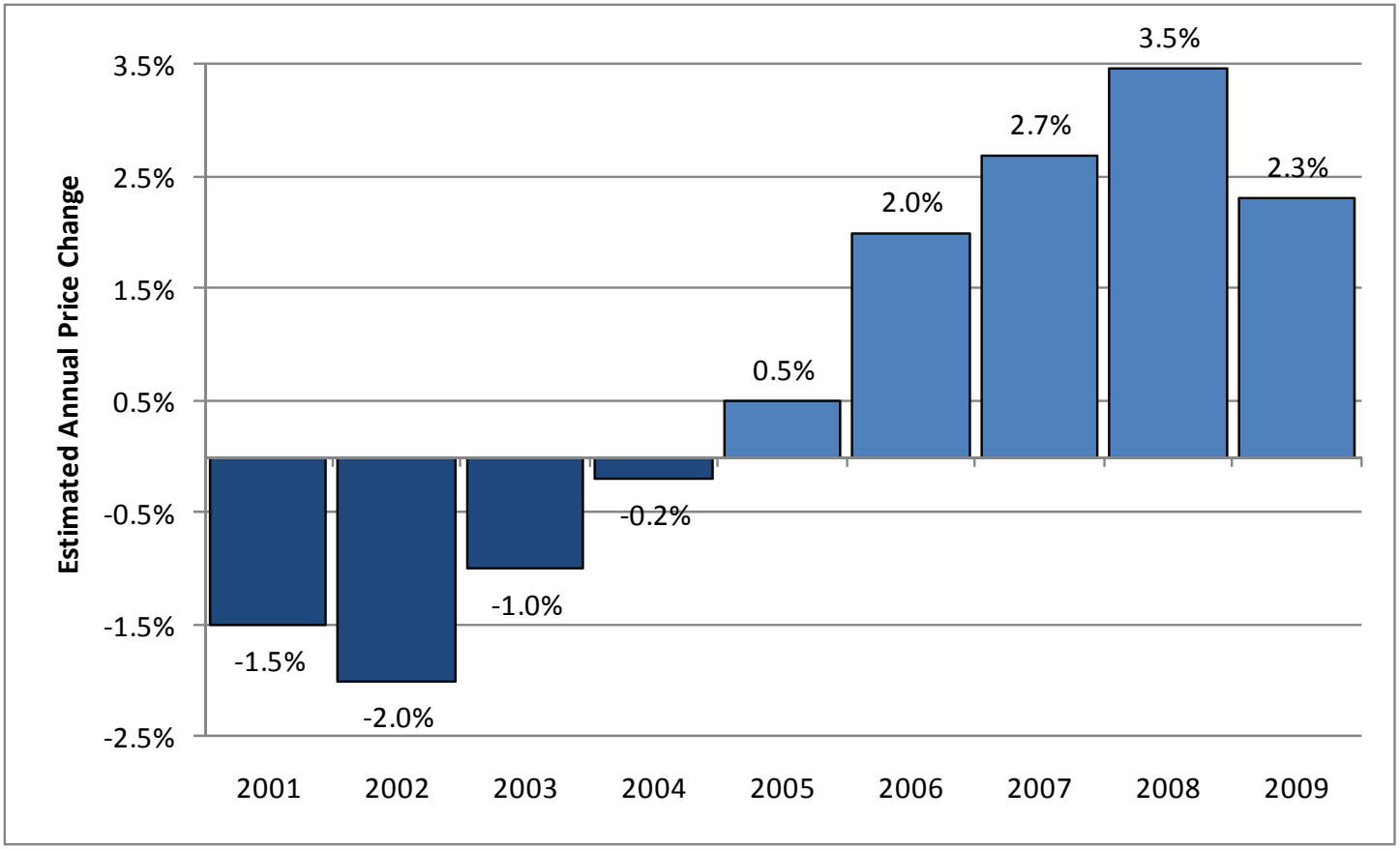
c.£40m of annualised savings in total employment costs*



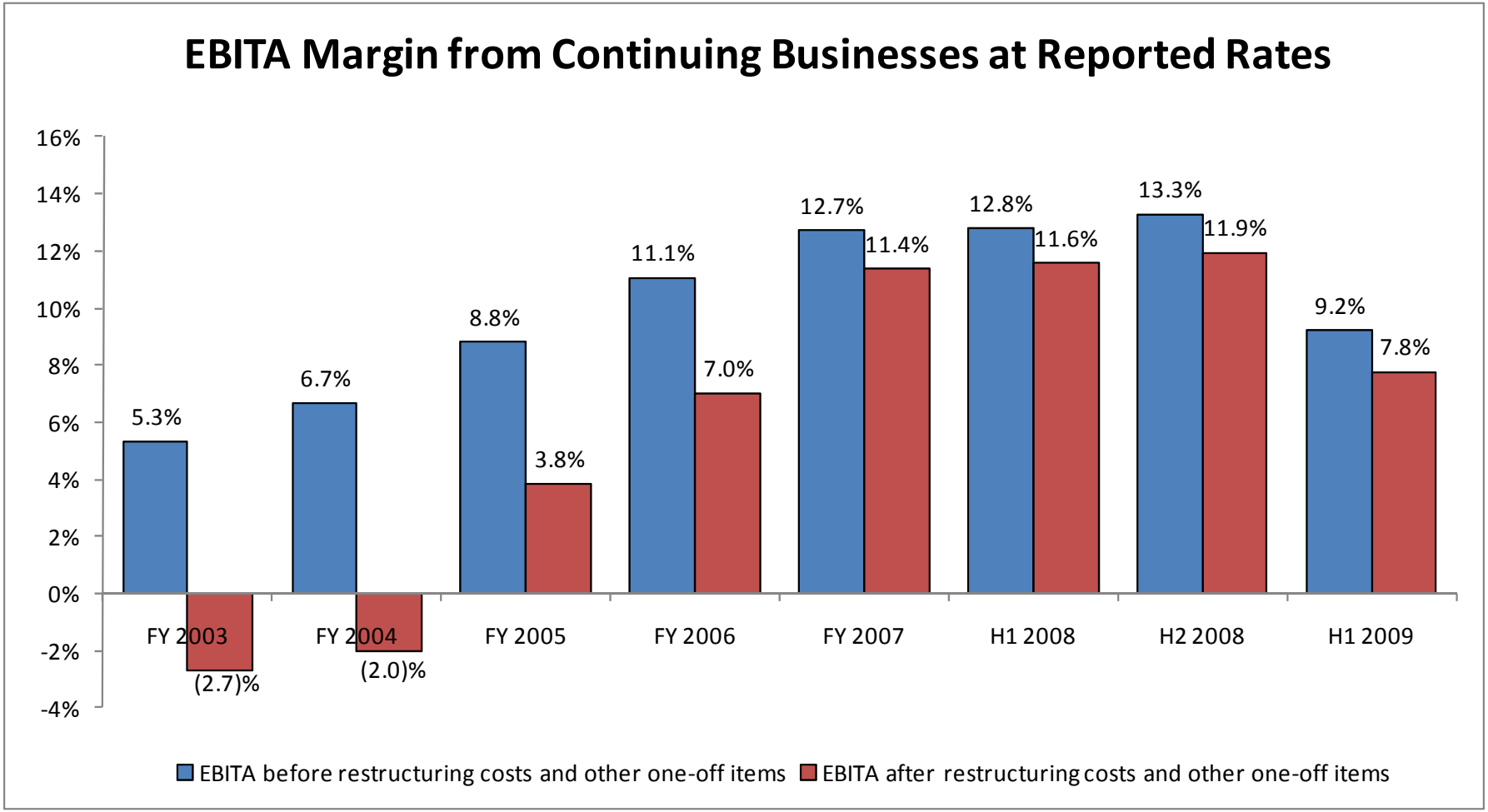
** (TEC) on a constant currency basis in H1 2009 compared to H1 2008*

Positive price pass through achieved

- Analysis shows like-for-like comparison only: new product introductions generally come in at a price premium. This upside is not captured below



The Group is delivering high single digit profit margins at a time when many of our peers have been struggling to reach breakeven



Divisional margins have remained close to 10% in the first half of 2009

£m	Revenue		EBITA		Profit Margins %	
	HY09	HY08	HY09	HY08	HY09	HY08
Technical Ceramics	110.6	98.3	12.3	14.0	11.1%	14.2%
Insulating Ceramics	180.8	184.8	15.8	21.9	8.7%	11.9%
Carbon	200.6	118.1	19.2	17.4	9.6%	14.7%
Unallocated Costs *			(2.0)	(2.0)	-	-
*EBITA pre one-off items **	*492.0*	*401.2*	*45.3*	*51.3*	*9.2%*	*12.8%*
One-off items **			(7.1)	(4.9)		
*EBITA post one-off items **			*38.2*	*46.4*	*7.8%*	*11.6%*

* Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)

** One-off items include the costs of restructuring activity, profit/(loss) on disposal of property and and ongoing recovery/(costs) associated with the settlement of prior period anti trust litigation.

Technical Ceramics – resilient organic performance and the Carpenter business acquisition successfully integrated

	HY09 £m	HY08 £m
Revenue	**110.6**	**98.3**
EBITA *	**12.3**	**14.0**
EBITA margin *	***11.1%***	***14.2%***

** Divisional EBITA and EBITA margins are quoted before the costs of restructuring activity and profit/(loss) on disposal of property arising from restructuring activity*

- **Underlying margins > 10% despite market conditions**
- **Carpenter acquisition has been well integrated and delivered margins close to 14%**
- **Aggressive and proactive cost reduction programme implemented – divisional headcount reduced by c600 employees since June of last year**
- **Benefits of cost reductions coming through in the second half will mitigate impact of any further weakening in end-markets**

Insulating Ceramics – revenues and profits held up well in H1

	HY09 £m	HY08 £m
Revenue	**180.8**	**184.8**
EBITA *	**15.8**	**21.9**
EBITA margin *	***8.7%***	***11.9%***

** Divisional EBITA and EBITA margins are quoted before the costs of restructuring activity and profit/(loss) on disposal of property arising from restructuring activity*

- **For the Thermal Ceramics business, resilience in Asia and Latin America offset reduced demand levels in USA & Europe**
- **Significant cost reduction initiatives including fibre plant closures announced in USA and Poland**
- **Later cycle characteristics of Thermal Ceramics likely to mean end market demand will be weaker in H2 than H1**
- **Molten Metal Systems business particularly impacted by the slowdown in H1 – improved level of profits expected in H2 with demand stabilising and benefits of cost reductions kicking in**

Carbon –strong performance from NP Aerospace offset weaker demand levels in the traditional businesses

	HY09 £m	HY08 £m
Revenue	**200.6**	**118.1**
EBITA *	**19.2**	**17.4**
EBITA margin *	***9.6%***	***14.7%***

** Divisional EBITA and EBITA margins are quoted before the costs of restructuring activity and profit/(loss) on disposal of property arising from restructuring activity*

- **NP Aerospace revenue up 160% driven primarily by UK vehicle armour; traditional electrical and seal and bearing businesses down c.18% year on year on a constant currency basis**
- **US ceramic armour business had limited sales in H1 2009: $9.4m vs $27.5m in H1 2008. Second half expected to be better**
- **Significant reductions in operating cost base will see progressive benefits to the bottom line in the second half**
- **Benefits of cost reductions combined with strong NP Aerospace order book likely to mean improved H2 performance compared to H1**

Summary and Outlook

Mark Robertshaw

Summary: a resilient set of results in a very challenging environment

- The strategy of reducing the Group's exposure to economically cyclical markets has, as intended, mitigated the worst effects of the significant downturn in global industrial demand
- Acquisitions are performing well, particularly NP Aerospace which is on track to deliver a record year of sales and profits
- We have acted rapidly and decisively on the cost base to align our operating expenses to much reduced market demand levels
- Rigorous focus on cash generation is delivering significant positive inflows

Outlook

- Our expectation is that industrial markets will remain weak in the second half of this year
- However, our strategy is predicated on self-help, rather than market recovery, with cost reductions delivering progressively greater benefits in the second half
- Overall, Morgan Crucible is a higher quality, more resilient business than in the past
- We look forward to continuing to demonstrate this improved resilience over the coming months

Morgan Crucible

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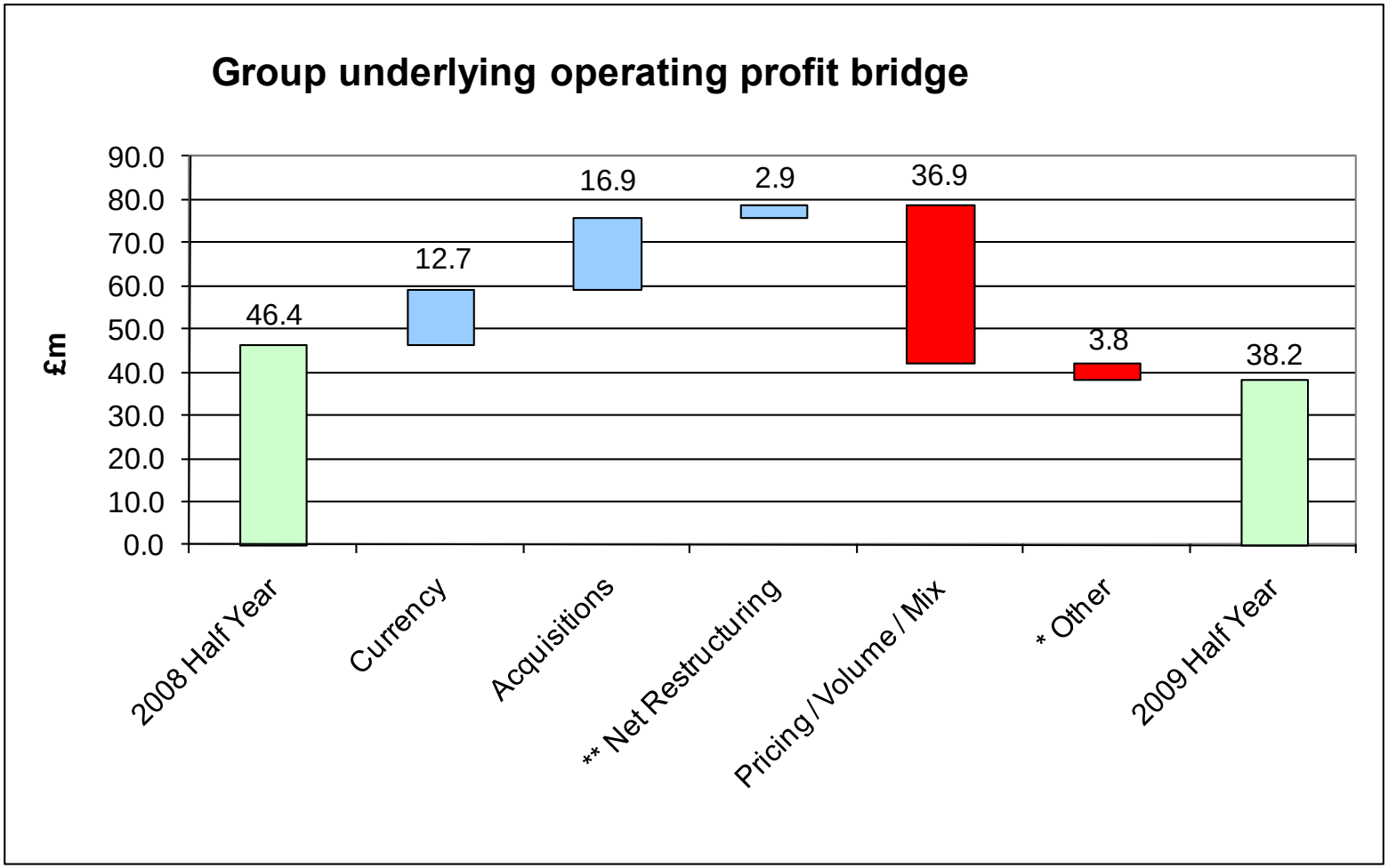
Appendix

Greater proportion of the Group's business in less economically cyclical, higher margin end-markets

	% of Total Revenue		
	2003 Full Year	2009 Half Year	% points change in mix
Defence	0.9%	22.0%	21.1%
Aerospace	3.0%	6.6%	3.6%
Industrial Equipment	9.8%	10.1%	0.3%
Iron & Steel / Aluminium / Other Metals	11.0%	10.8%	(0.2)%
Petrochemical	5.6%	8.9%	3.3%
Construction	2.8%	3.3%	0.5%
Rail Transportation	4.5%	4.2%	(0.3)%
Medical	4.1%	4.2%	0.1%
Power Generation / Environmental	7.8%	4.8%	(3.0)%
Other	22.0%	15.6%	(6.4)%
Telecommunications / Electronics	7.7%	2.1%	(5.6)%
Consumer Goods	10.4%	4.3%	(6.1)%
Automotive	10.4%	3.1%	(7.3)%
	100.0%	100.0%	

Significant year on year volume declines but encouraging contributions both from pricing and acquisitions



* e.g. impact of inflation on cost base, long term incentive costs, healthcare costs

** Net restructuring includes the benefits and costs of restructuring activity, ongoing costs associated with the settlement of prior period anti trust litigation and profit/(loss) on disposal of property.

Net Financing Costs

	HY09 £m	HY08 £m
Bank interest charge	12.3	9.5
Bank interest income	(0.9)	(3.4)
Interest expense on unwinding of discount on deferred consideration	1.1	-
IAS19 - Interest cost on liability	13.3	12.6
- Expected return on assets	(11.0)	(12.4)
	14.8	6.3

Underlying earnings per share

	HY09 £m	HY08 £m
Basic earnings	9.0	28.8
Amortisation	8.1	1.3
Underlying earnings	17.1	30.1
Weighted average number of shares in the period	267.9m	266.1m
Underlying earnings per share	6.4p	11.3p