

VESUVIUS PLC

# 2019 HALF YEAR RESULTS

JULY 2019

LEADING THE WORLD OF MOLTEN METAL FLOW ENGINEERING



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# AGENDA

PERFORMANCE UPDATE

Patrick André, Chief Executive

FINANCIAL REVIEW

Guy Young, Chief Financial Officer

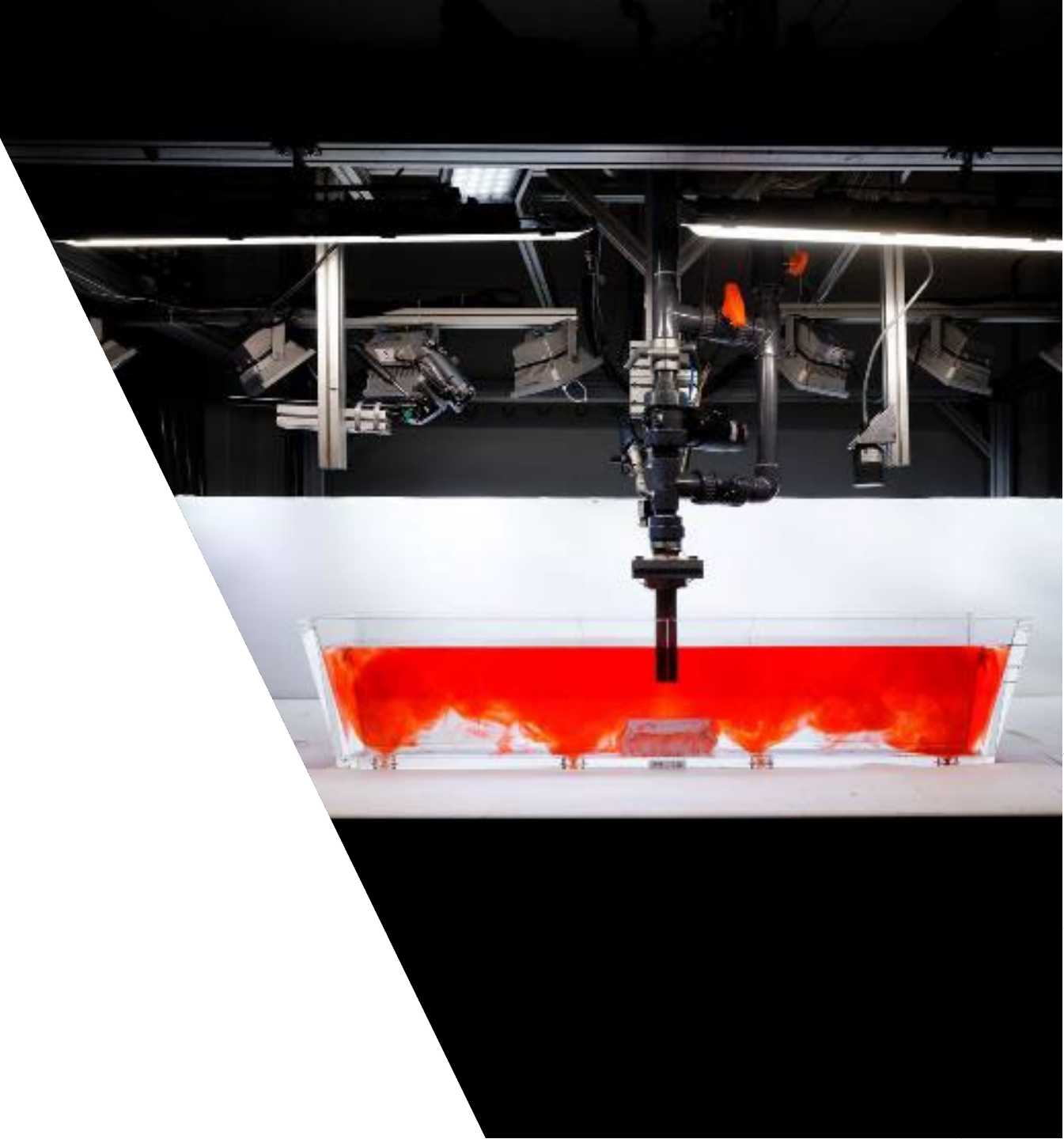
OUTLOOK

Patrick André, Chief Executive

Q&A

VESUVIUS PLC

# PERFORMANCE UPDATE



# RESILIENT H1 2019 PERFORMANCE DESPITE A CHALLENGING MARKET ENVIRONMENT

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## Revenue

**£889.4m**

**-0.9%**

*Reported change*

**-1.1%**

*Underlying change*

## Trading profit

**£98.9m**

**-0.7%**

*Reported change*

**-0.5%**

*Underlying change*

## Return on sales

**11.1%**

**+2bps**

*Reported change*

**+6bps**

*Underlying change*

## Headline EPS

**23.7p**

**-6.7%**

## Net debt / EBITDA

**1.3x**

**FY 2018: 1.0x**

## Interim dividend

**6.2p**

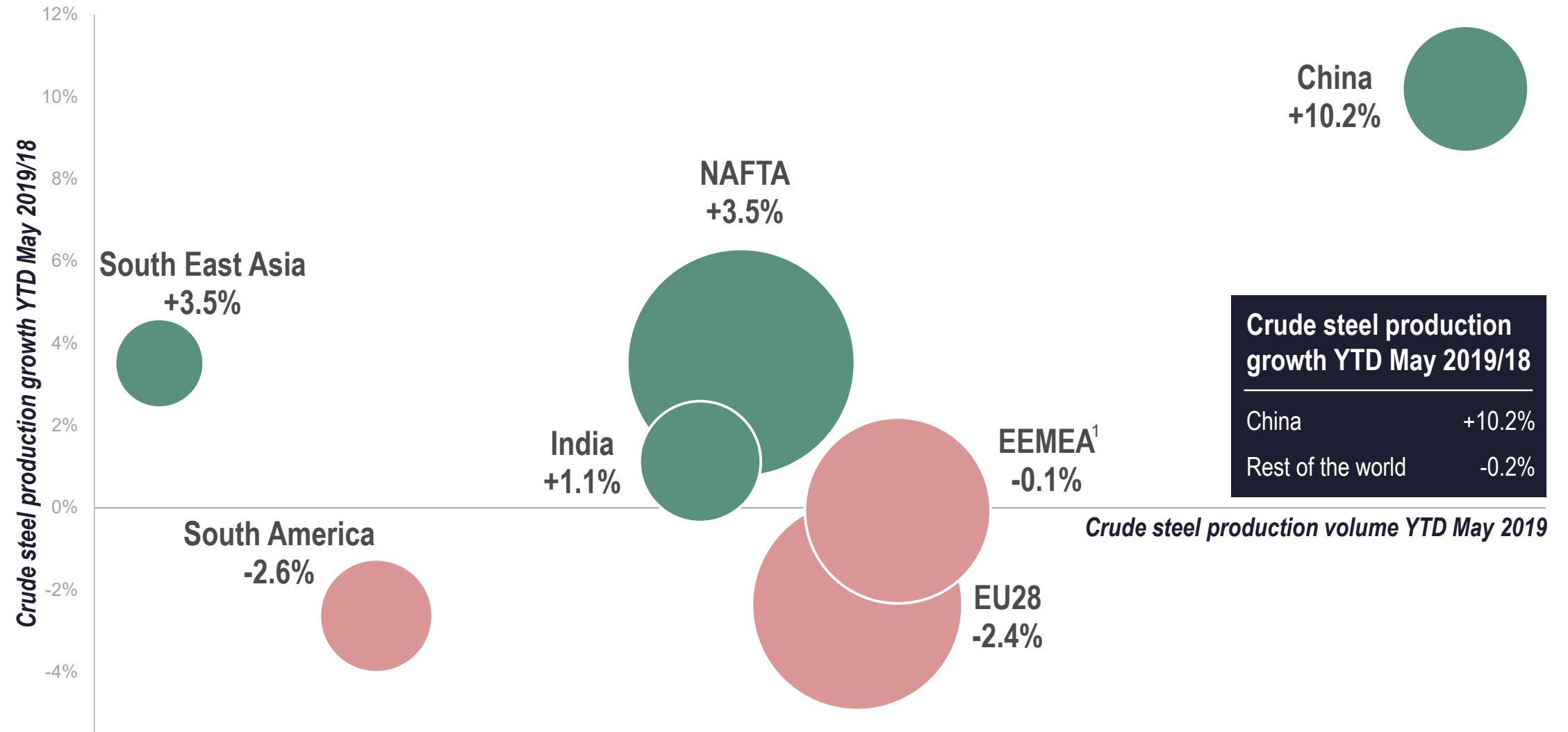
**+3.3%**

Note: Percentage change figures are H1 2019 versus H1 2018

# RESILIENT OPERATIONAL PERFORMANCE IN H1 2019

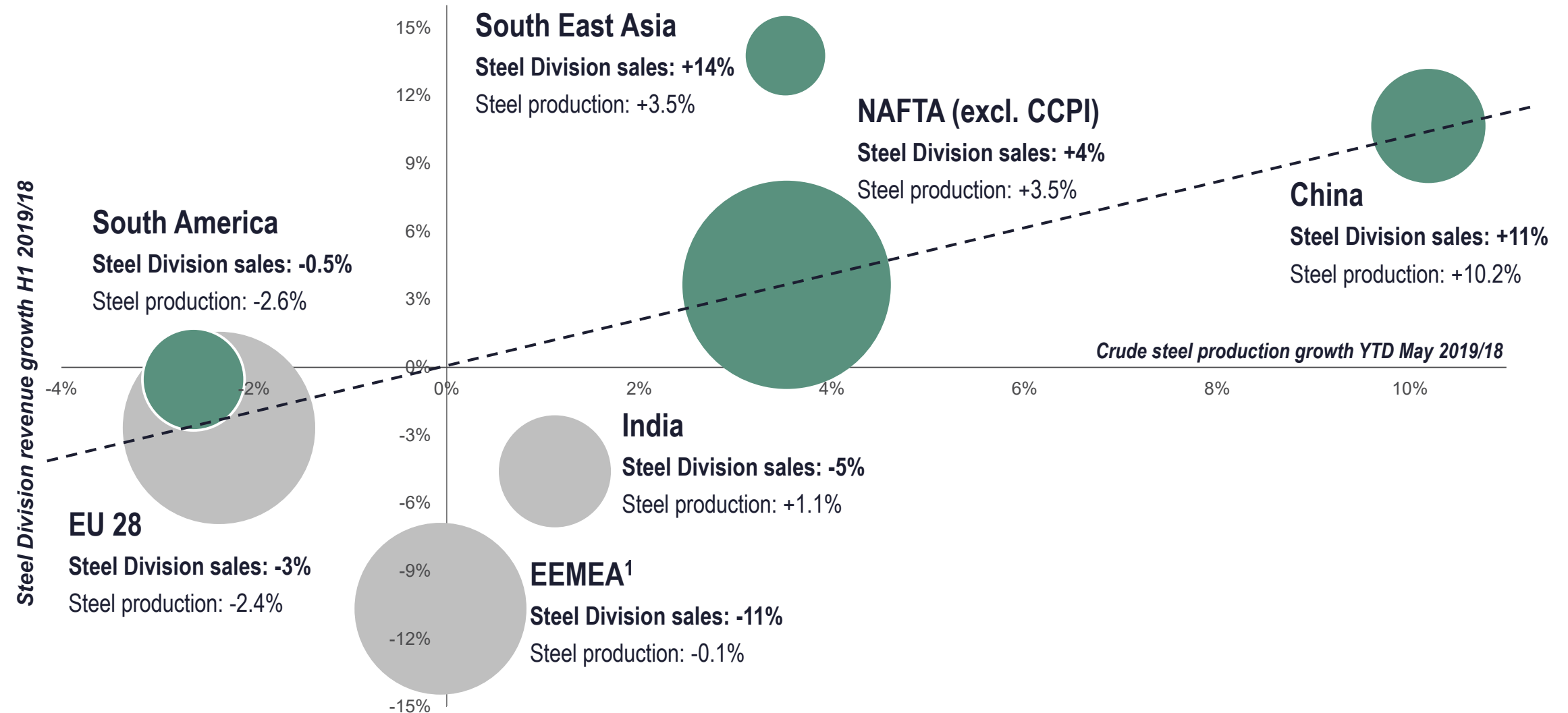
- ✓ CHALLENGING STEEL MARKETS OUTSIDE OF CHINA AND LIGHT VEHICLE RELATED MARKETS IN FOUNDRY
- ✓ £5.8M OF RESTRUCTURING SAVINGS DELIVERED IN H1 2019
- ✓ EXPANSION OF OUR RESTRUCTURING PROGRAMME WITH NEW RESTRUCTURING INITIATIVES TARGETING £16M OF INCREMENTAL ANNUAL SAVINGS BY 2021 (INCLUDING CCPI SYNERGIES)
- ✓ ACCELERATION OF LAUNCHES OF NEW PRODUCTS TO EXPAND OUR MARKET SHARE GOING FORWARD

# CHALLENGING ENVIRONMENT IN STEEL MARKETS OUTSIDE CHINA



*Size of bubble represents relative revenue of Vesuvius' Steel Division in H1 2019*

# STEEL DIVISION PERFORMANCE VS. REGIONAL STEEL VOLUMES



























**Size of bubble represents relative revenue of Vesuvius' Steel Division in H1 2019**

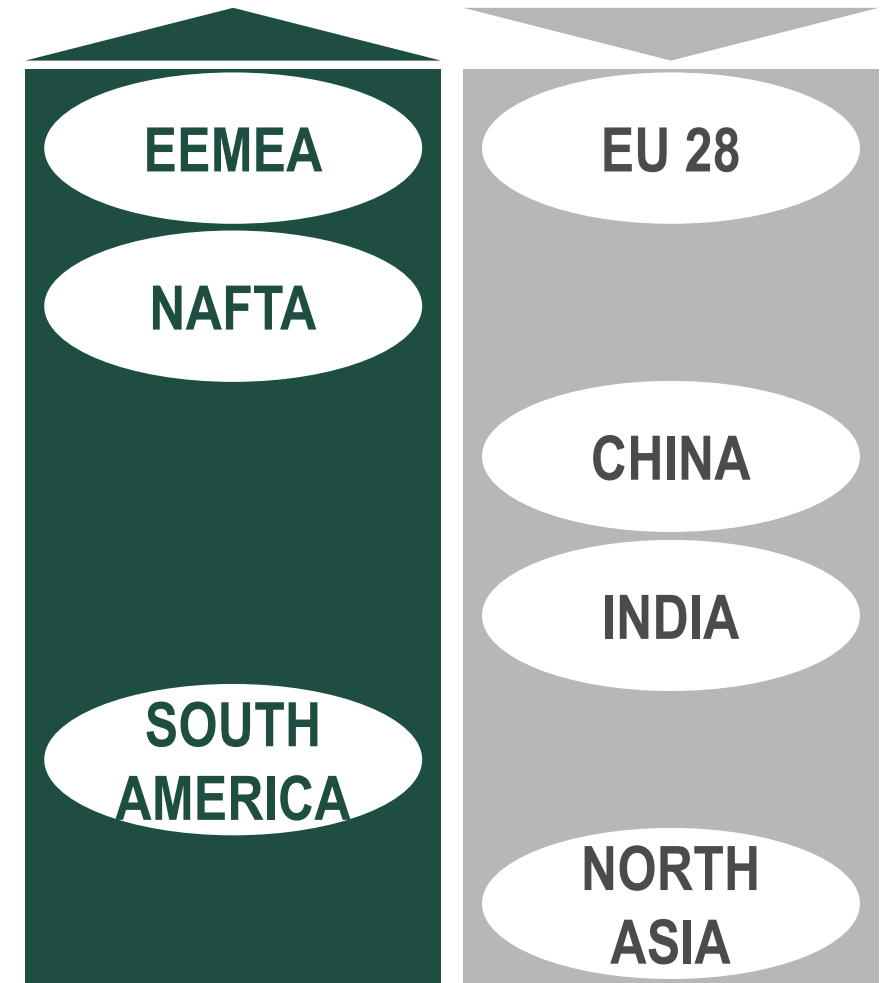


# CHALLENGING ENVIRONMENT IN FOUNDRY END-MARKETS

## END-MARKET PERFORMANCE IN H1 2019

	General engineering and mining	Light vehicles*	Medium/heavy commercial vehicles*	Construction / agriculture equipment
EMEA				
NAFTA				
CHINA				
INDIA				
SOUTH AMERICA				
NORTH ASIA				

## FOUNDRY DIVISION PERFORMANCE IN H1 2019



\* Light vehicles and medium/heavy commercial vehicles production

# IMPORTANT STRATEGIC PROGRESS IN H1 2019 IN LINE WITH OUR OBJECTIVES

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## Technology leadership

- ✓ Acceleration of our R&D efforts with the expansion of our research centre in Suzhou, China
- ✓ Successful launch in H1 2019 of several innovative new products
- ✓ Quarterly waves of new product launches planned over next 18 months

## Increased penetration in key developing markets

### Steel Division

*H1 2019/18 revenue growth*

**+11%**  
China

**+14%**  
South East Asia

### Foundry Division

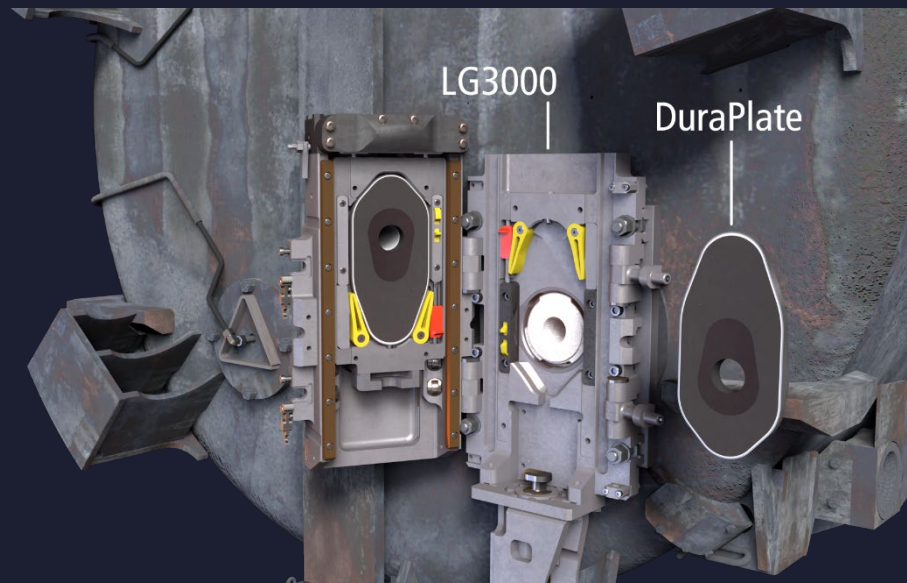
*H1 2019/18 revenue growth*

**+10%**  
EEMEA

**+6%**  
South America

# CONTINUED FOCUS ON VALUE-CREATING SOLUTIONS: STEEL

## LAUNCH OF OUR NEXT GENERATION HIGH PERFORMANCE SLIDE GATE PLATES AND SYSTEMS



Enhanced performance and significant improvements in safety, ergonomics and economics for our customers

## INCREASED PENETRATION OF OUR ROBOTIC INSTALLATION AND LASER MEASUREMENT CAPABILITIES



Continued penetration  
of our robots in Asia

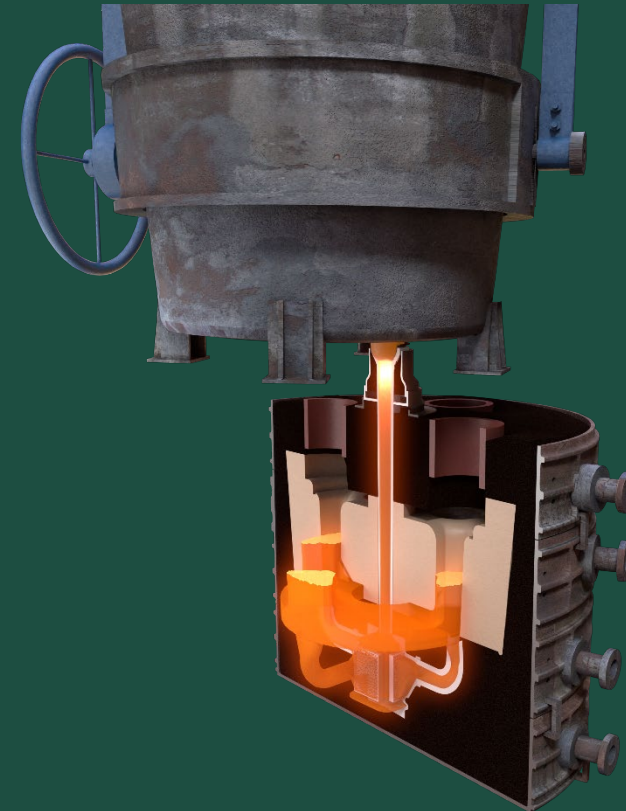


Next generation  
lasers with increased  
scanning speed

# CONTINUED FOCUS ON VALUE-CREATING SOLUTIONS: FOUNDRY

## LAUNCH OF OUR NEW FILTER TECHNOLOGY FOR LARGE, HIGH VALUE STEEL CASTINGS

- ✓ Minimisation of air entrainment in the metal stream, preventing the generation of oxides
- ✓ Cleaner metal
- ✓ Improved fluidity enabling the use of finer filters further improving final casting quality

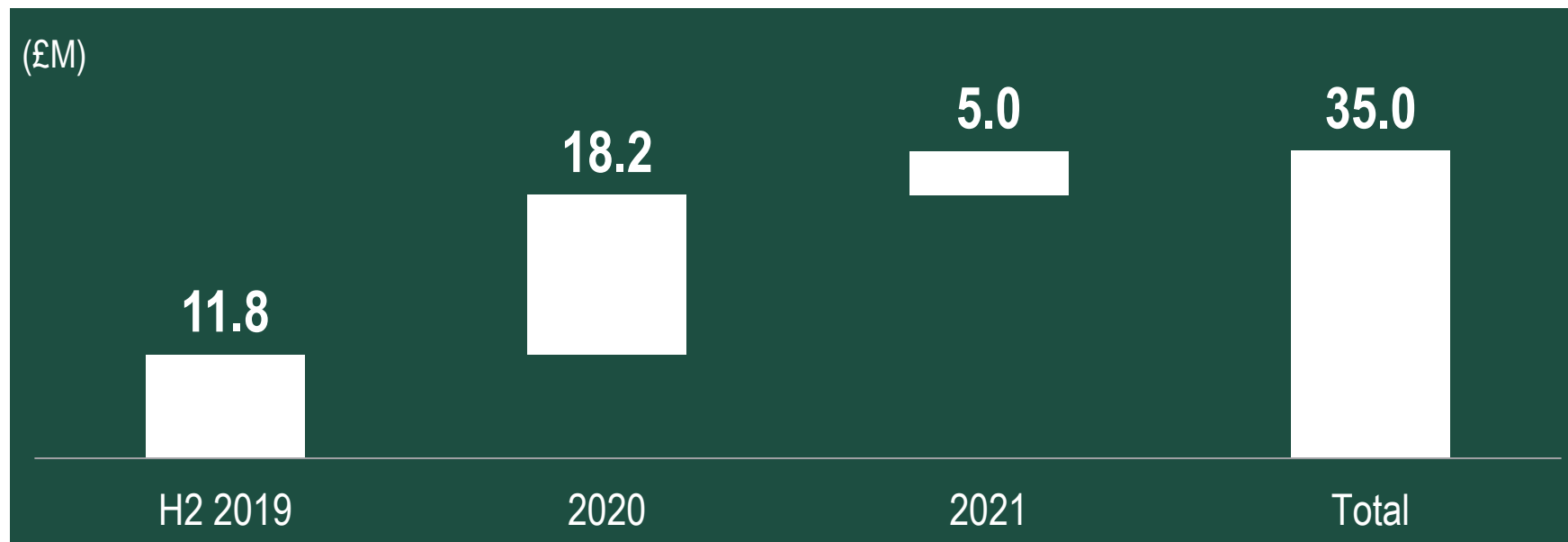


# CCPI SYNERGIES ARE AHEAD OF EXPECTATION

- ✓ Integration of CCPI Blanchester production into Vesuvius' existing North American manufacturing footprint
- ✓ Expected synergies increased materially
- ✓ Total of £4m synergies to be delivered in 2020
- ✓ Post synergies multiple c.4x EBITDA

# £16M INCREASE IN RECURRING RESTRUCTURING SAVINGS

RECURRING RESTRUCTURING SAVINGS REMAINING TO BE DELIVERED  
(CUMULATIVE ALL PROGRAMMES)



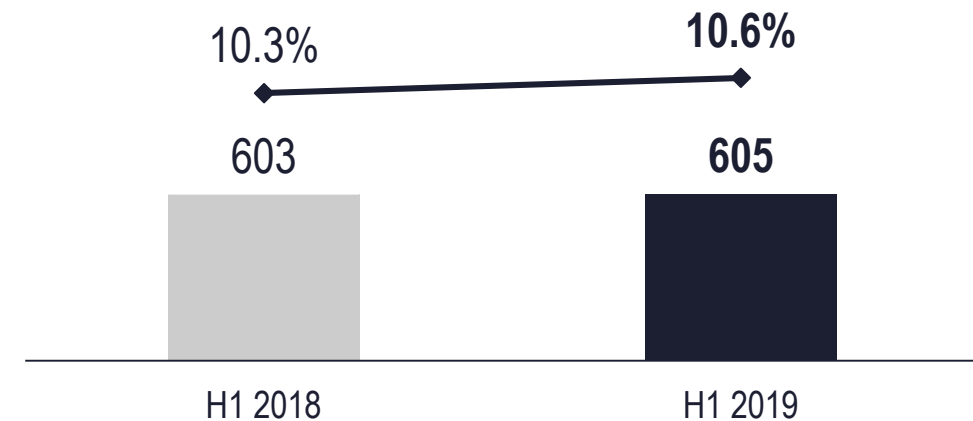
- In H1 2019 we delivered £5.8m of restructuring savings
- CCPI synergies are included in the restructuring savings target
- New restructuring initiatives have an incremental cost of £25.7m. We expect to incur the majority of these costs by the end of 2019, with the exception of £3.0m, which will be incurred in 2020

# DIVISIONAL PERFORMANCE STEEL

## KEY FINANCIALS

£m	Reported			Underlying change <sup>1</sup>
	H1 2019	H1 2018	Change	
Revenue	614.9	610.9	+0.6%	+0.4%
Trading profit	65.3	63.0	+3.7%	+3.3%
Return on Sales	10.6%	10.3%	+30bps	+30bps

### Underlying revenue<sup>1</sup> / Return on Sales<sup>1</sup>



## H1 2019 PERFORMANCE

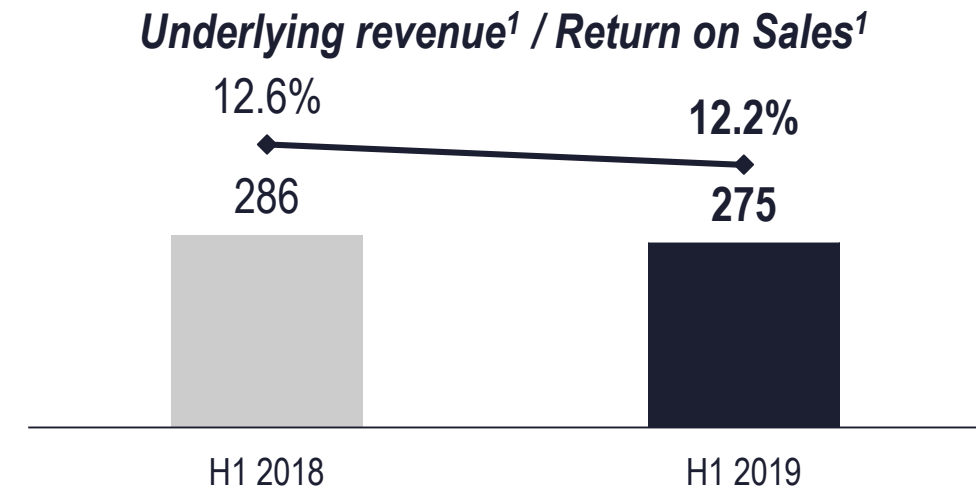
### Resilient H1 2019 performance despite challenging steel markets outside of China

- 1) Resilient top-line despite specific customer issues in EEMEA and challenging competitive environment in India
- 2) Successful implementation of restructuring programmes
- 3) Initial positive impact of the CCPI acquisition

# DIVISIONAL PERFORMANCE FOUNDRY

## KEY FINANCIALS

£m	Reported			Underlying change <sup>1</sup>
	H1 2019	H1 2018	Change	
Revenue	274.5	286.1	-4.0%	-4.1%
Trading profit	33.6	36.6	-8.2%	-7.3%
Return on Sales	12.2%	12.8%	-60bps	-40bps



## H1 2019 PERFORMANCE

**Foundry Division revenue was affected by a challenging environment in light vehicle related markets**

- Revenues down 7.8% in China and 7.6% in EU28
- On the positive side, prices have now been adjusted to compensate for historical raw material cost increases
- Implementation of restructuring actions in EMEA has been proceeding slower than planned. Corrective actions are underway



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# FINANCIAL REVIEW



# INCOME STATEMENT

(£m unless indicated)	H1 2019 Actual	H1 2018 Actual	Change (%)	
			As reported	Underlying
Revenue	889.4	897.0	-0.9%	-1.1%
Trading Profit	98.9	99.6	-0.7%	-0.5%
ROS %	11.1%	11.1%	+2bps	+6bps
Post tax Share of JV Results	0.5	2.6		
Net Finance Costs	(6.2)	(4.8)		
Headline Profit Before Tax	93.2	97.4	-4.3%	
Effective Tax Rate	28.0%	26.0%		
Tax	(26.0)	(24.6)		
Non-Controlling Interest	(3.4)	(4.1)		
Headline Earnings	63.8	68.7	-7.1%	
Headline EPS (pence)	23.7	25.4	-6.7%	

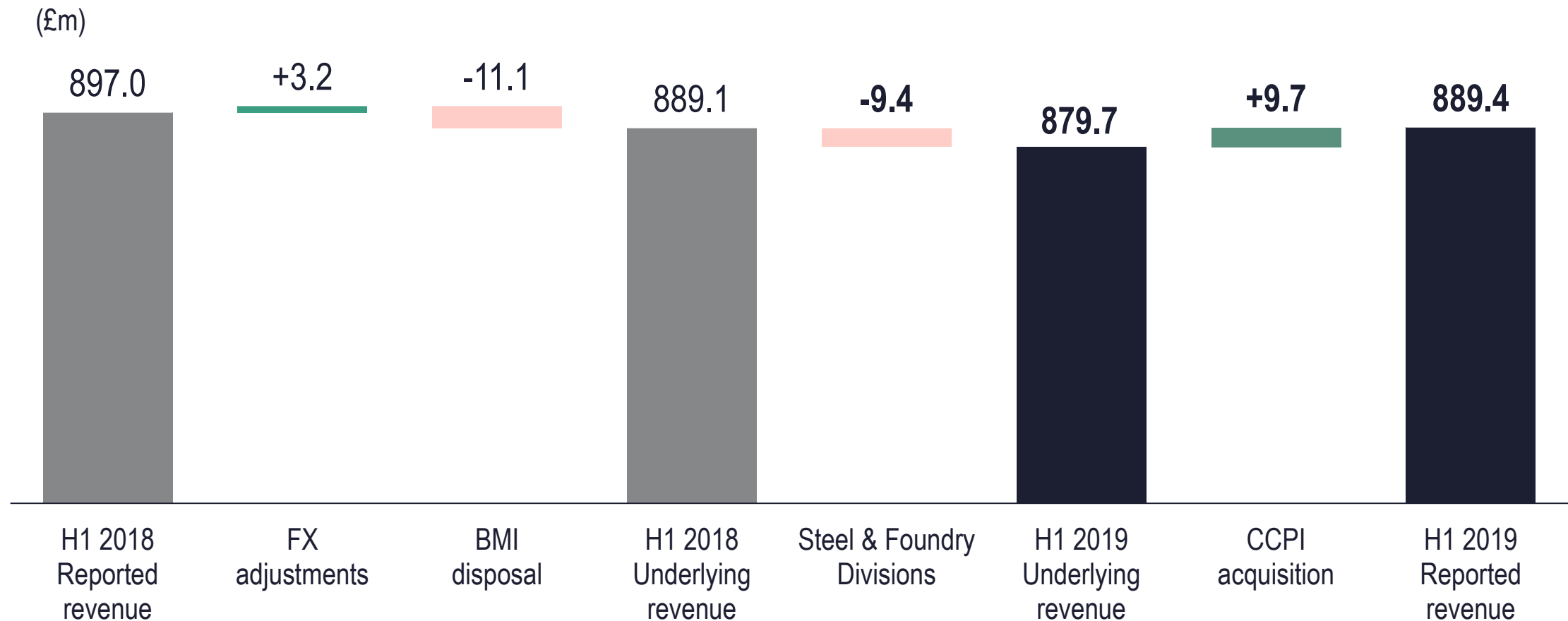
Notes:

Underlying basis is at constant currency and excludes separately reported items and the impact of acquisitions and disposals

Income tax associated with headline performance, divided by the headline profit before tax and before the Group's share of post-tax profit of joint ventures

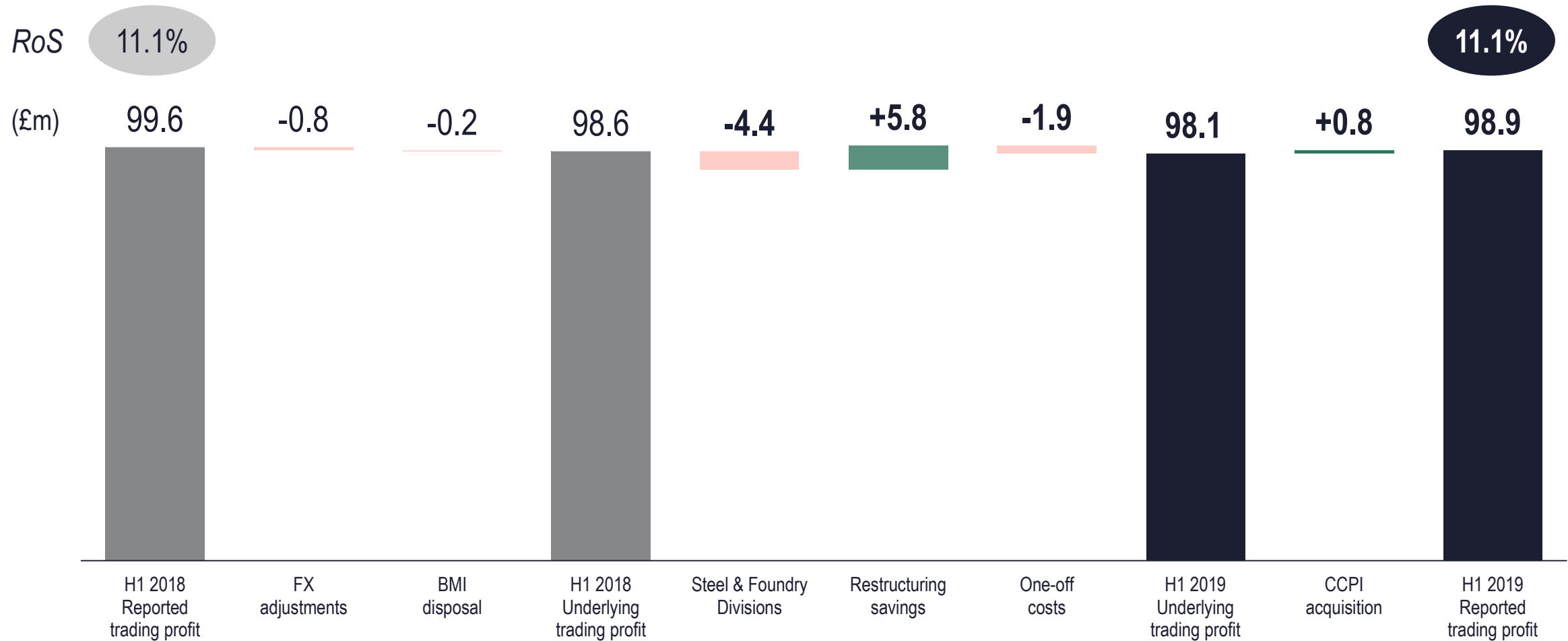
# RESILIENT REVENUE PERFORMANCE

- Revenue down £7.6m on a reported basis (-0.9%) and down £9.4m on an underlying basis (-1.1%)



# SOLID TRADING PROFIT

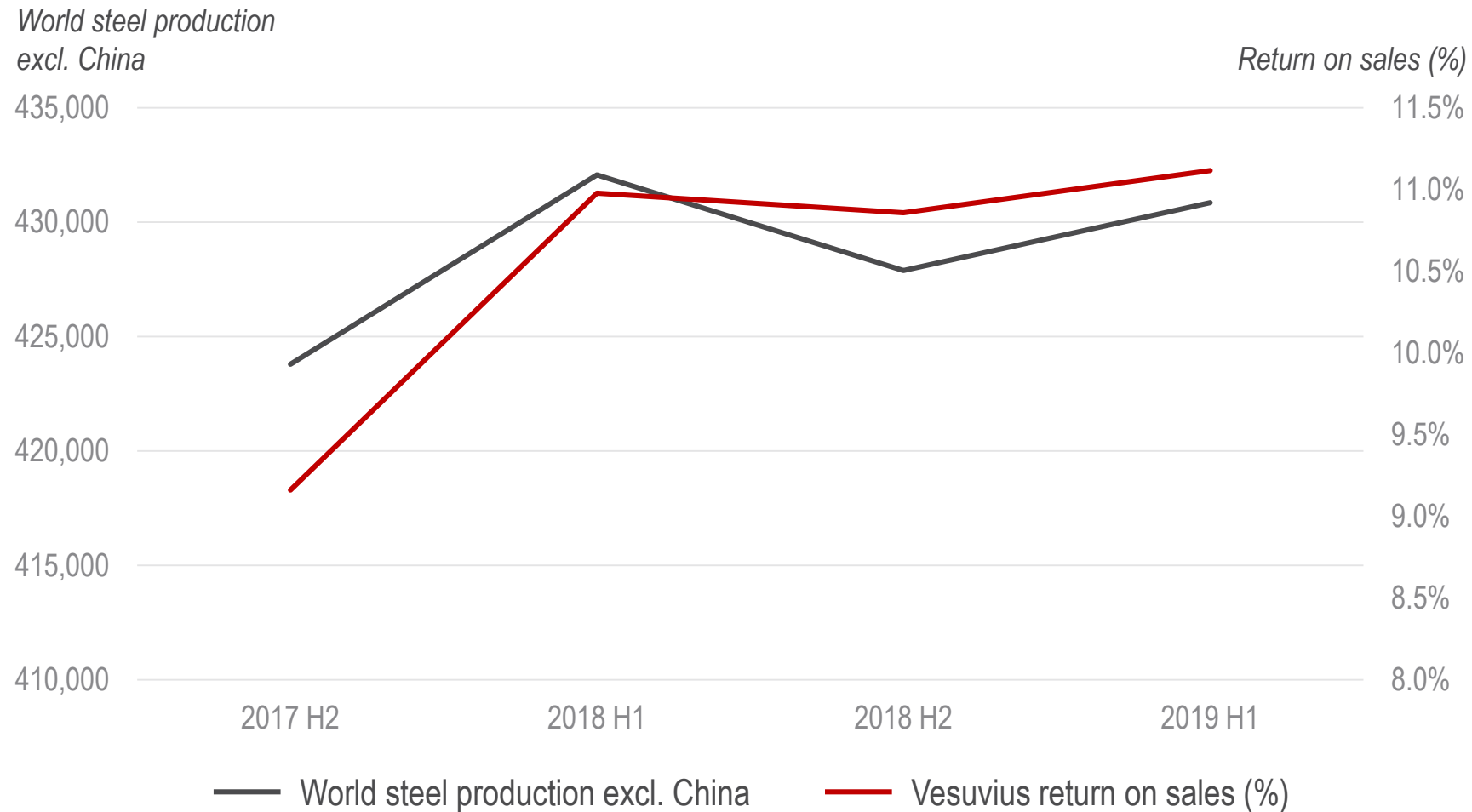
- Trading profit down £0.7m on a reported basis (-0.7%) and down £0.5m on an underlying basis (-0.5%)



# RESILIENT RETURN ON SALES PERFORMANCE IN A CHALLENGING ENVIRONMENT

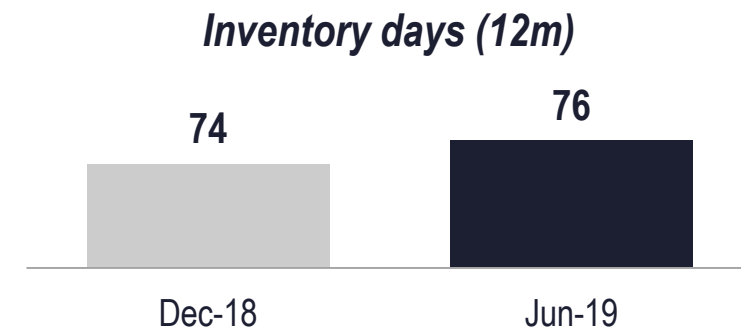
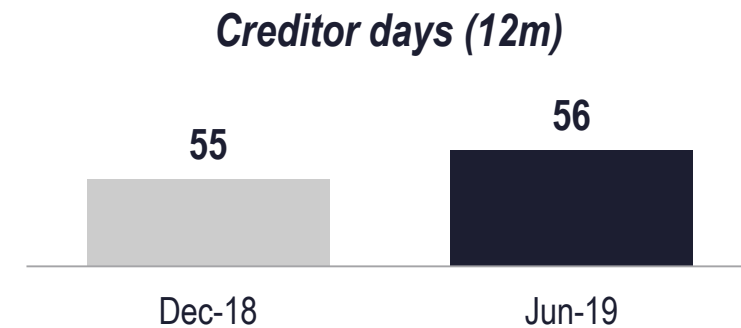
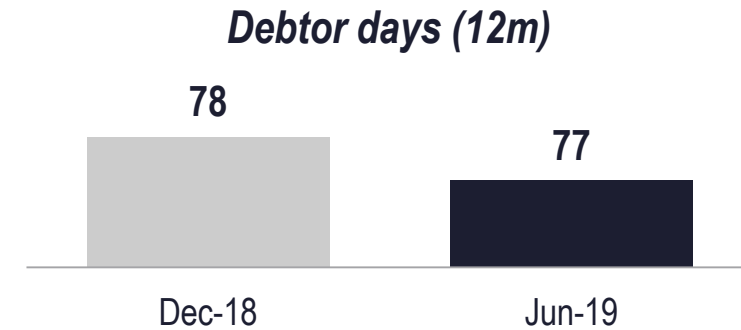
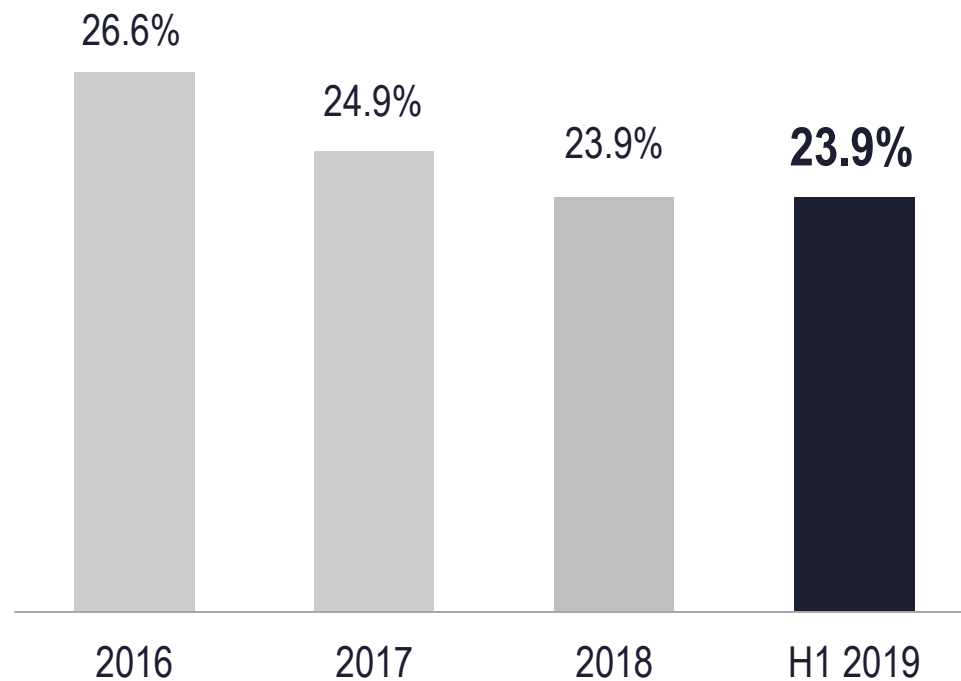
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Half yearly steel production volume for world excluding China vs. Vesuvius return on sales (%)



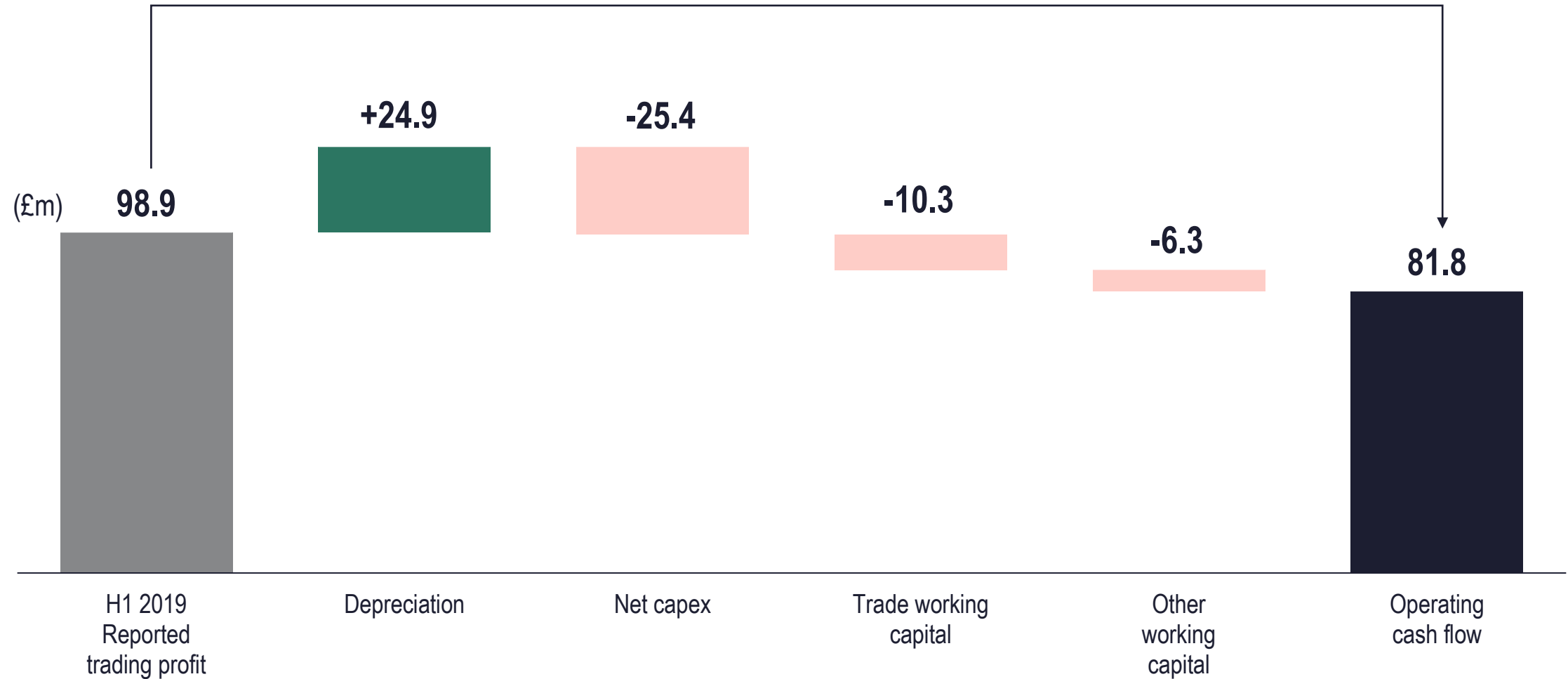
# TRADE WORKING CAPITAL DEVELOPMENT

## TRADE WORKING CAPITAL / REVENUE



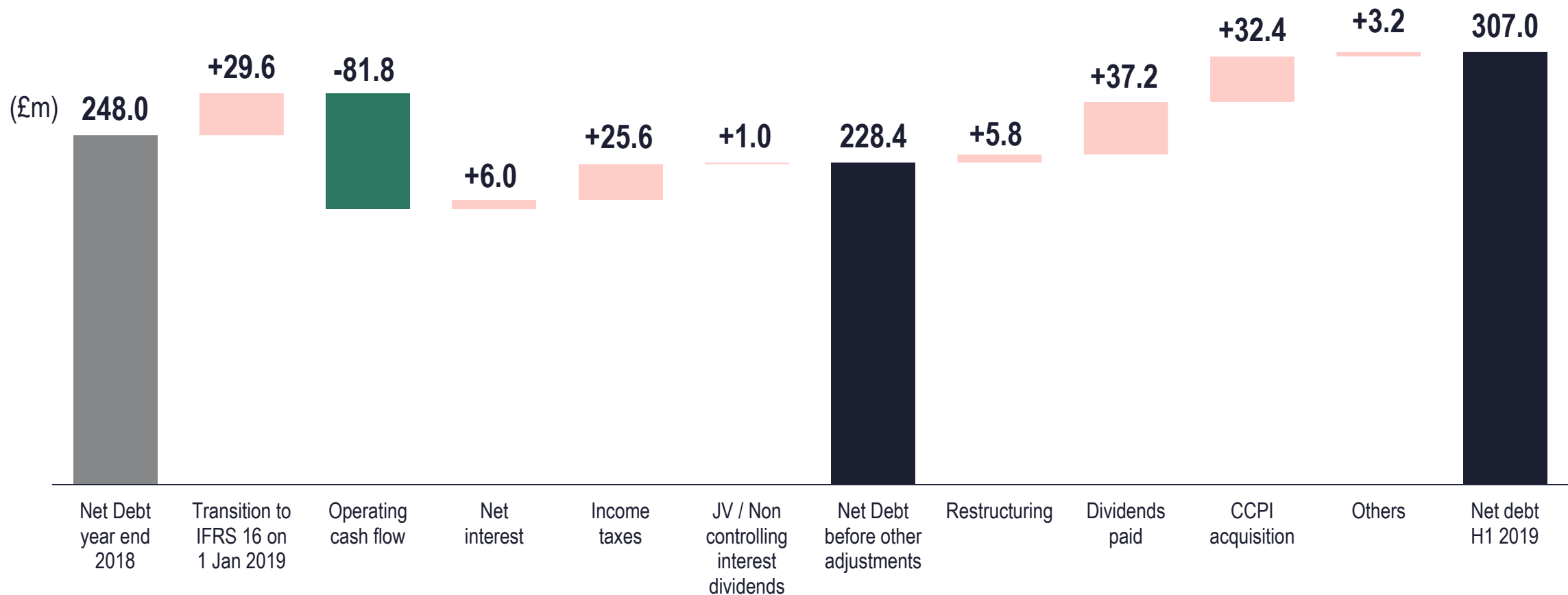
# CASH FLOW PROGRESS

**CASH CONVERSION: 82.7%**



# £307.0M NET DEBT AND 1.3x NET DEBT / LTM EBITDA

- Net debt up £59.0m at £307.0m, versus £248.0m at year end 2018
  - £81.8m operating cash flow generation from continuing operations offset by £25.6m income taxes, £37.2m dividend payment, £32.4m acquisition of CCPI and an adjustment of £29.6m to reflect the reclassification of leases under IFRS 16





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# OUTLOOK



# OUTLOOK

- We have experienced challenging end markets in H1 2019 and we do not expect a recovery in H2 2019
- Current market conditions do not change the fact that in the medium-term and beyond, our core end markets in both steel and foundry are structurally growing and we have the right strategy and teams in place to deliver
- Assuming a stabilisation of our end markets at current levels, we expect our trading profit (EBITA) for 2019 to be broadly in-line with market expectations, supported by the acceleration and intensification of efforts to optimise our costs and we remain confident in our ability to grow both trading profit (EBITA) and return-on-sales in the coming years

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Q&A














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# APPENDIX





# WHAT WE DO

	Steel Division			Foundry Division
Product Lines	Steel Flow Control	Steel Advanced Refractories	Digital Services	Foundry Technologies
Revenue <sup>(1)</sup> % of Group	36%	31%	2%	31%
Overview	Provides products, systems and services to regulate and protect the flow of steel in the continuous casting process	Installation expertise and materials that withstand extreme temperatures and offer corrosion resistance at customers' facilities	Provides products that enhance the control and monitoring of our customers' production processes	Improves casting quality and foundry process efficiency through the supply of products and application engineering to the global foundry industry
Products	 <b>Nozzles</b>  <b>Tube Changers</b>  <b>Robotic spray lining system</b>  <b>Turbostop</b>	 <b>Probes and sensors</b>		 <b>Sleeves</b>  <b>Coatings</b>
End Markets	Steel	Steel Aluminium, other industries	Steel Foundry	General Engineering & mining Light vehicle Medium / heavy commercial vehicles Construction equipment / agriculture
Brand				

Note: 1. Based on HY 2019 underlying revenue

# IMPACT OF NEW ACCOUNTING STANDARDS

SUMMARY AT 30 JUNE 2019

IFRS 16 Leases has had the following impact after transition (1 January 2019)

		Previous lease accounting, £m	After application of IFRS16, £m	Net impact, £m
Income statement	Revenue	-	-	-
	Depreciation	-	(4.6)	(4.6)
	Other operating costs	(5.6)	-	5.6
	<b>Headline operating profit</b>	<b>(5.6)</b>	<b>(4.6)</b>	<b>1.0</b>
	Finance charges	-	(0.6)	(0.6)
	<b>Profit before tax</b>	<b>(5.6)</b>	<b>(5.2)</b>	<b>0.4</b>
Cash flow	Headline operating profit	(5.6)	(4.6)	1.0
	Depreciation	-	4.6	4.6
	<b>Operating cash flow</b>	<b>(5.6)</b>	<b>-</b>	<b>5.6</b>
	Repayment of lease liabilities	-	(5.6)	(5.6)
	<b>Financing cash flow</b>	<b>-</b>	<b>(5.6)</b>	<b>(5.6)</b>
	<b>Net cash flow</b>	<b>(5.6)</b>	<b>(5.6)</b>	<b>-</b>
Balance sheet		31 Dec 2018	IFRS 16 impact	30 Jun 2019
	Right of use assets	4.4	32.7	36.7
	Trade and other receivables	3.1	(3.1)	-
	<b>Lease liabilities</b>	<b>(3.9)</b>	<b>(29.6)</b>	<b>(33.4)</b>

The transition to IFRS 16 resulted in an increase in right of use assets of £32.7m, a decrease in trade and other receivables of £3.1m and an increase in lease liabilities of £29.6m.

# IMPACT OF NEW ACCOUNTING STANDARDS

(PREVIOUS GUIDANCE- FEBRUARY 2019)

IFRS 16 Leases will have the following impact on transition (1 January 2019)

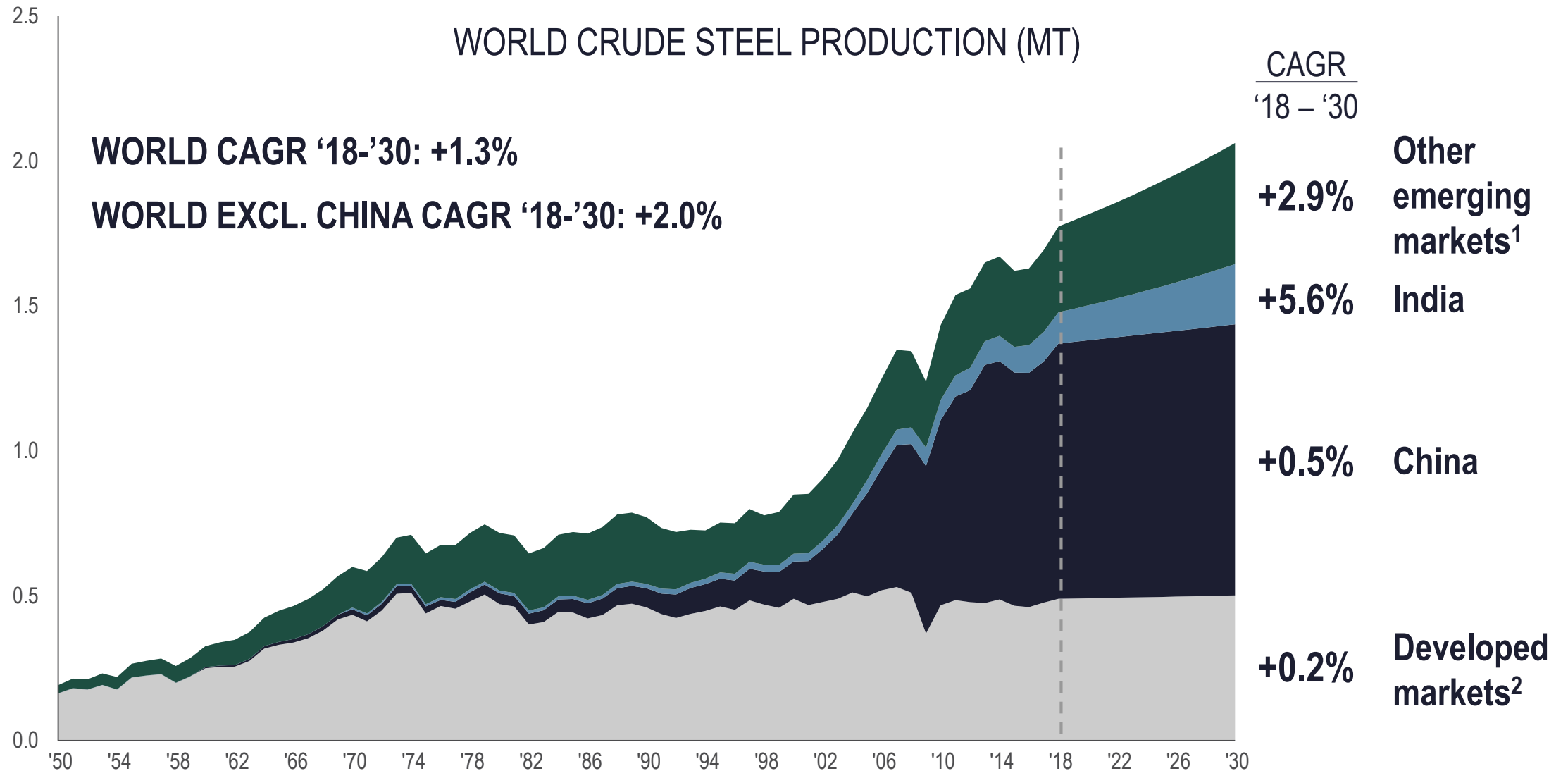
		Current lease accounting, £m	After application of IFRS16, £m	Net impact, £m
Income statement	Revenue	-	-	-
	Depreciation	-	(9)	(9)
	Other operating costs	(10)	-	10
	<b>Headline operating profit</b>	<b>(10)</b>	<b>(9)</b>	<b>1</b>
	Finance charges	-	(1)	(1)
	<b>Profit before tax</b>	<b>(10)</b>	<b>(10)</b>	<b>-</b>
Cash flow	Headline operating profit	(10)	(9)	1
	Depreciation	-	9	9
	Net interest	-	(1)	(1)
	<b>Operating cash flow</b>	<b>(10)</b>	<b>(1)</b>	<b>9</b>
	Repayment of lease liabilities	-	(9)	(9)
	<b>Financing cash flow</b>	<b>-</b>	<b>(9)</b>	<b>(9)</b>
	<b>Net cash flow</b>	<b>(10)</b>	<b>(10)</b>	<b>-</b>
Balance sheet at 1 Jan 19	<b>Right of use assets</b>	-	33	33
	<b>Lease liabilities</b>	-	(33)	(33)
	<b>Equity adjustment</b>	-	-	-

# TAX UPDATE

- In line with guidance provided at the 2018 full year results, our Effective Tax Rate (“ETR”) in H1 2019 was 28.0% (26.0% in H1 2018)
- This resulted in an H1 2019 headline tax charge of £26.0m, £1.4m higher than H1 2018’s figure of £24.6m
- The ETR increase is mainly due to a deferred tax charge of £6.2m in respect of the utilisation of our USA tax losses in the period



# CRUDE STEEL PRODUCTION IS STRUCTURALLY GROWING

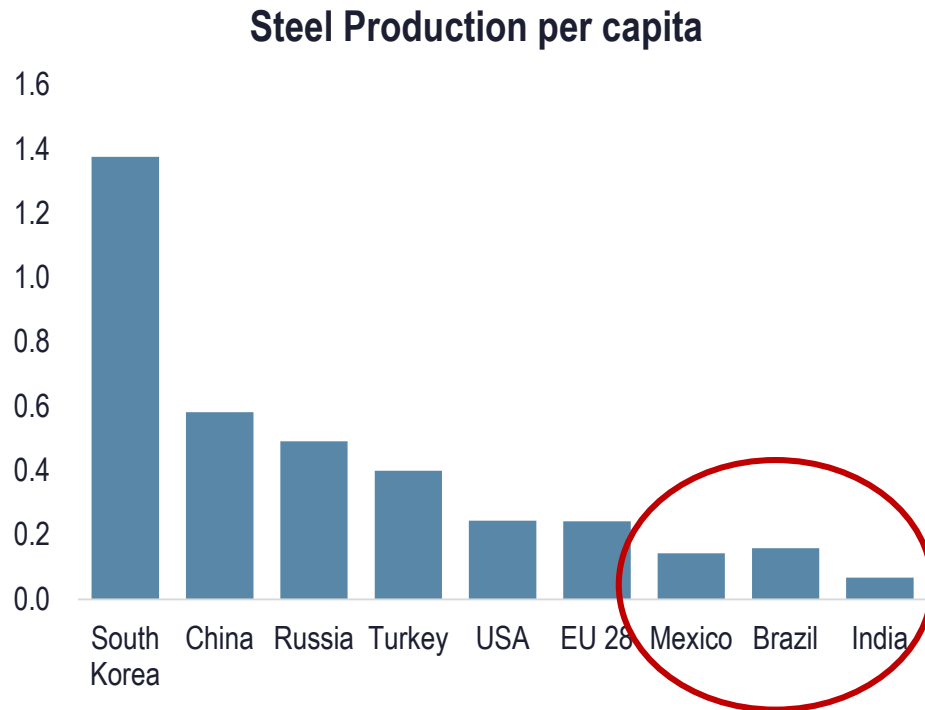


Sources: Historical data from World Steel Association. Forecasts are management estimates

Notes: 1. Eastern Europe, Middle East (incl. Turkey), Africa, Latin America and South East Asia

2. EU 28, USA, Canada and North Asia

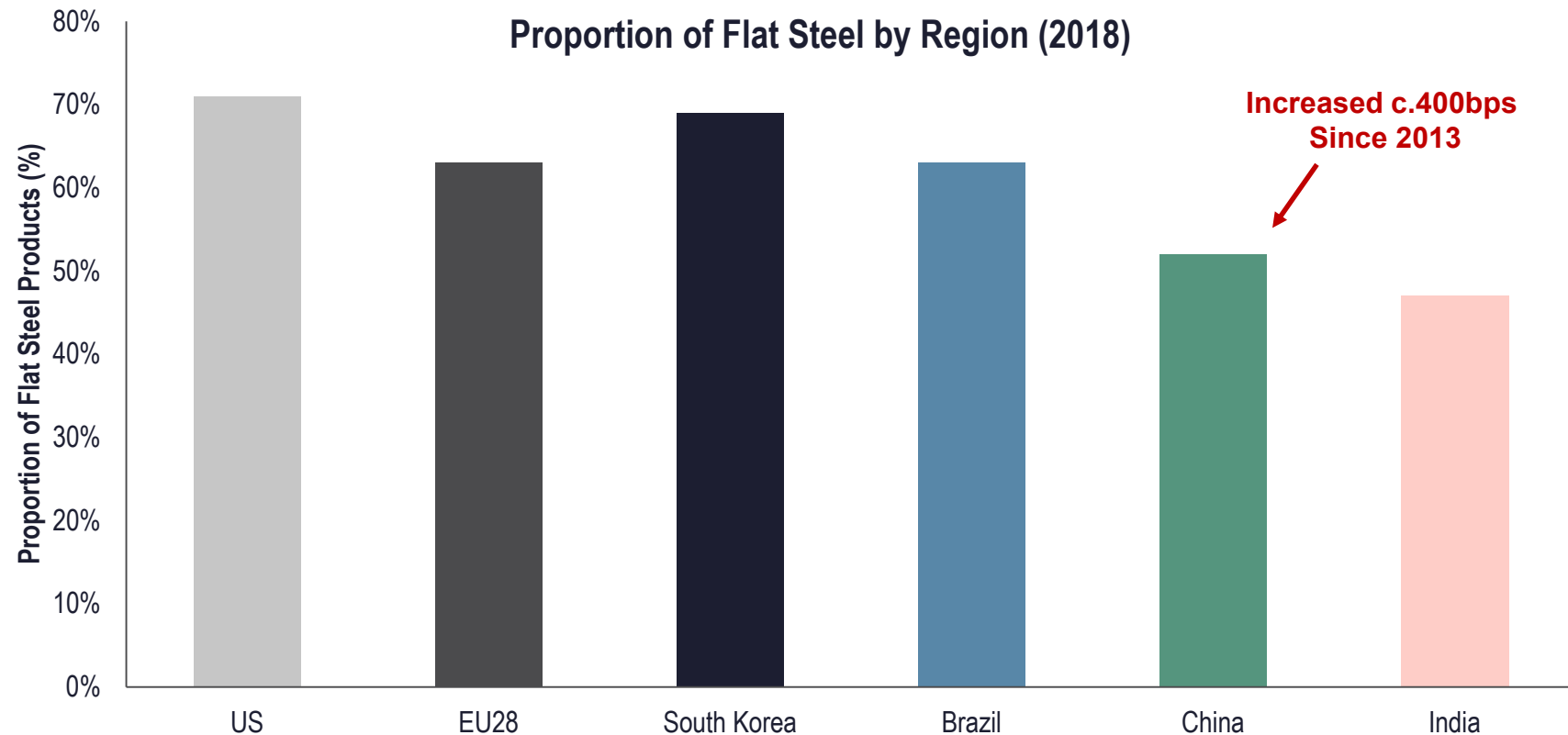
# GROWTH POTENTIAL FOR STEEL PER CAPITA



Source: WSA for steel (2018) and World Bank for population (2018)

- Three heavily populated countries constitute considerable potential for growth
- All have low steel production tonnes per capita vs. peers, indicating expected growth in infrastructure and construction development:
  - India
  - Brazil
  - Mexico

# GROWTH POTENTIAL FOR FLAT STEEL



- Typical consumption of Flow Control products in flat steel is £1.5/T of steel vs £0.5/T of steel in long

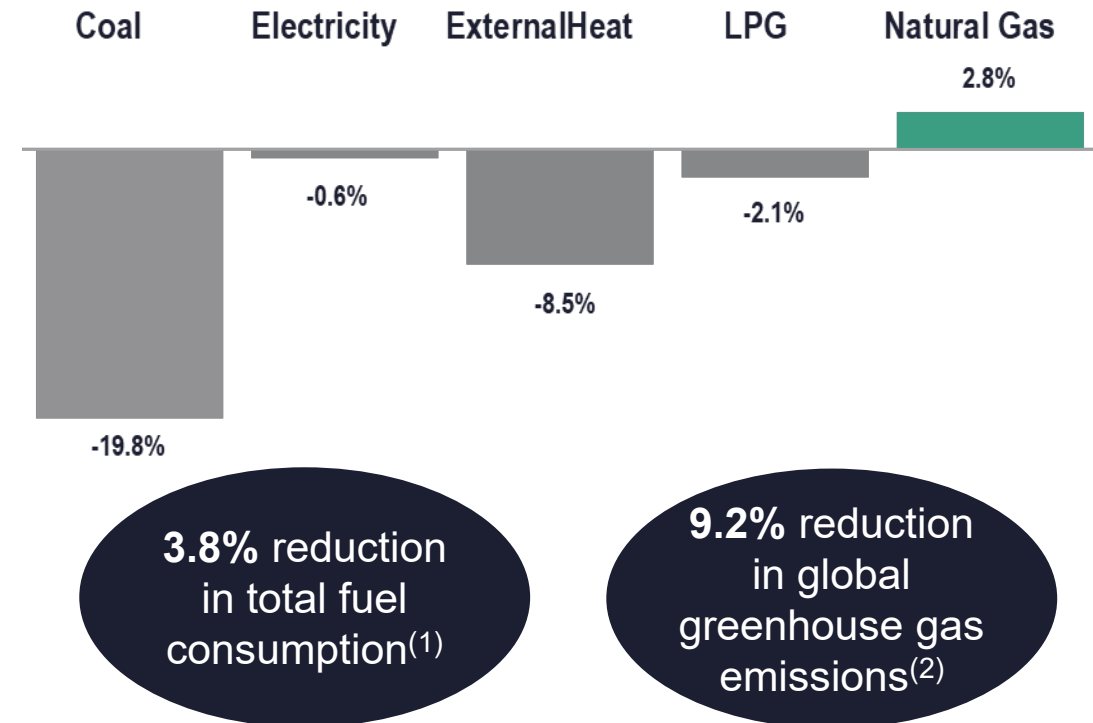
# SUSTAINABILITY

## REDUCING OUR CUSTOMERS' ENVIRONMENTAL FOOTPRINT:

- Vesuvius delivers a wide range of solutions that help our customers improve the productivity of their operations, reducing their environmental footprint in the process
- Our products contribute to the reduction of our customers' energy usage through aiding thermal optimisation, reject reduction and facilitation of extended manufacturing sequences, meaning less reheating
- We enable our customers to produce higher quality steels and lighter, more complex castings which support improved fuel efficiency in their end products

## REDUCING OUR OWN ENVIRONMENTAL FOOTPRINT:

### Change in fuel consumption across the Group in 2018



Notes:

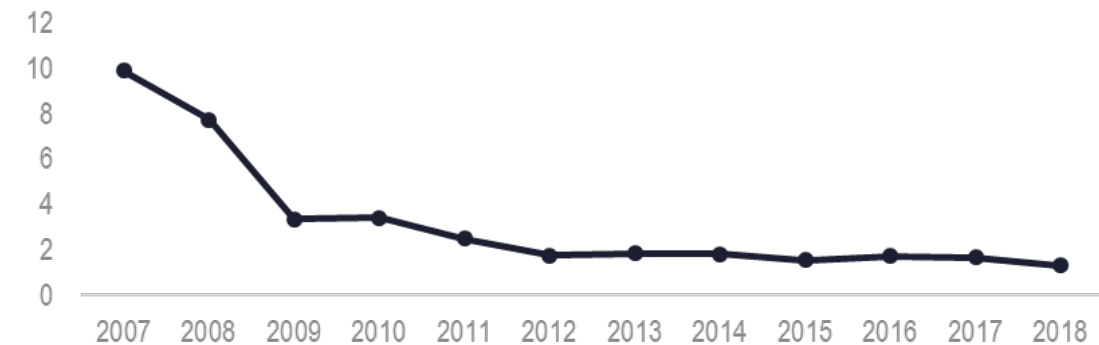
(1) Total reflects those fuels identified, not total consumption of all fuels in the Group as data for some minor forms of fuel are not currently collated.

(2) Kg of CO<sub>2</sub>e.

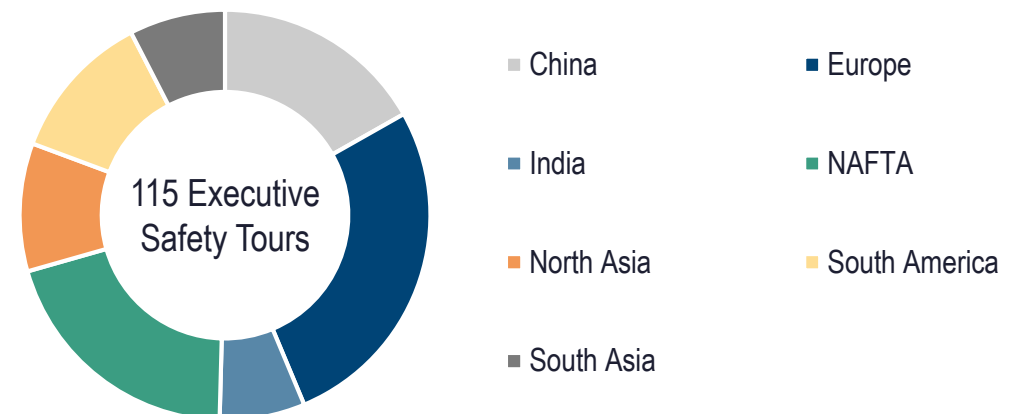
# HEALTH & SAFETY

- Health & Safety performance is linked to the remuneration of all senior managers
- Our objective is to identify, eliminate, reduce or control all workplace risk
- Ongoing system of training, assessment and improvement is in place to focus on achieving this
- 9,900 implemented safety improvement opportunities in 2018
- Safety improvement plans in place at all sites
- Initiative to standardise repetitive activities

Lost time injuries per million hours worked



Executive Safety Tours carried out in 2018



# PEOPLE AND COMMUNITY

## PEOPLE ARE AT THE CENTRE OF OUR BUSINESS

- Our objective is to support and drive a high-performance culture by truly engaged employees
- Our training programmes include:
  - Advance:** First generation management development
  - Wings:** Middle Management development programme
  - Ascent:** High potential and senior leadership development programme
  - Heat:** Technical training in the products of Vesuvius
- We also offer an international scholarship programme to assist children of Vesuvius employees finance higher education

## VESUVIUS IN THE LOCAL COMMUNITY

- We have decided to focus our corporate social responsibility activities on two key areas:
  1. Supporting educational opportunities for disadvantaged young people in developing countries
  2. Encouraging more women into scientific/ technical fields of education
- Selected activities in the local community from 2018:
  -  **Mexico:** Volunteering in a childrens' home and a home for the elderly
  -  **Italy:** Sponsor of the Aosta half marathon
  -  **France:** Employees took part in 'Pink October' Breast Cancer awareness
  -  **China:** Sponsor of the first Young Entrepreneur Form of the Chinese foundry industry

# CURRENCY READY RECKONER

Jun-19		
Trading profit	Unit	Approximate change in annual profits (£m)
USD	1 cent	0.5
EUR	1 cent	0.2
INR	1 rupee	0.2
RMB	0.1 RMB	0.4
JPY	1 Yen	0.1
BRL	0.01 reais	0.2
ZAR	1 rand	0.0

- Rule of thumb for impact of a movement in currency against sterling (1 unit change)
  - Amounts shown are movements for each currency
  - Works both for strengthening and weakening of currencies

# VESUVIUS PLC

**For further information, please contact:**

Euan Drysdale, Group Head of Corporate Finance  
[euan.drysdale@vesuvius.com](mailto:euan.drysdale@vesuvius.com)

Virginia Skroski, Investor Relations Manager  
[virginia.skroski@vesuvius.com](mailto:virginia.skroski@vesuvius.com)

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