

A GLOBAL LEADER IN METAL FLOW ENGINEERING

## 2014 Half Year Results

1 August 2014

VESUVIUS PLC

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# Highlights

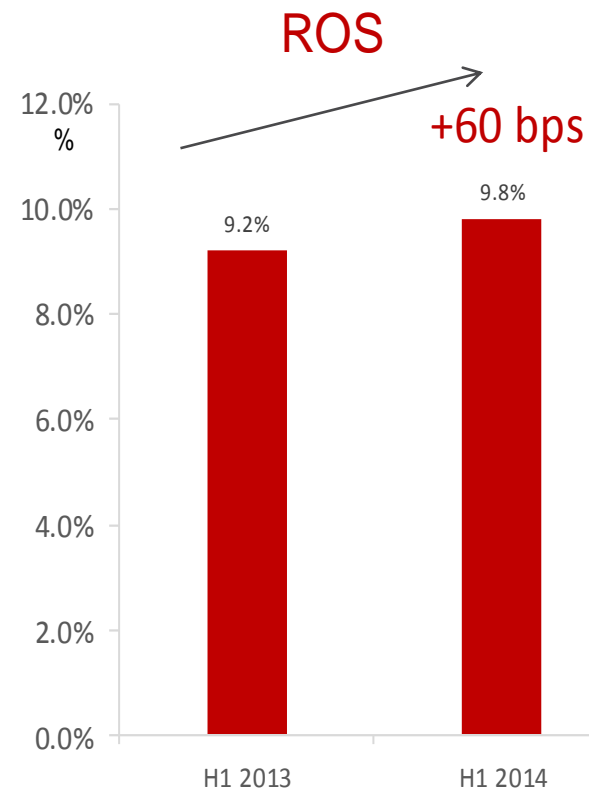
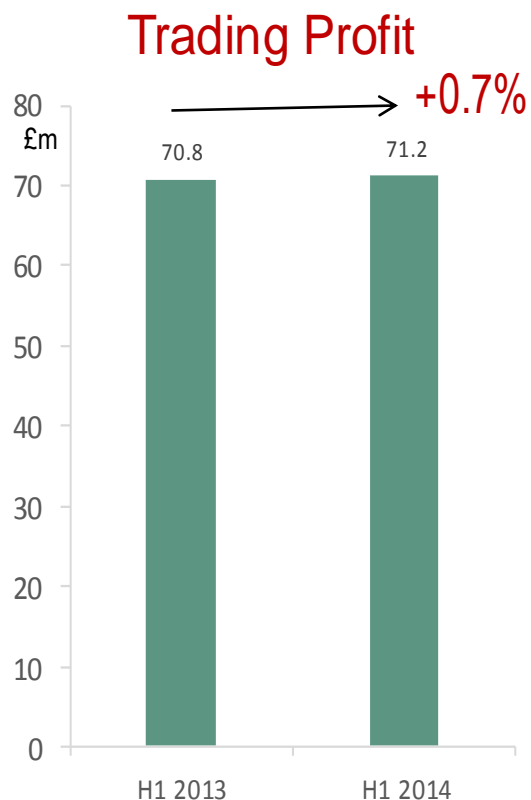
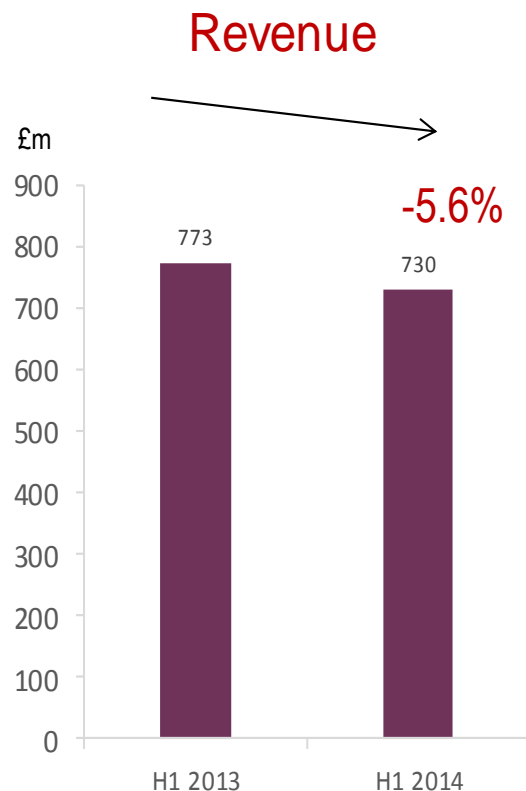
- Strong underlying performance – reported numbers impacted by Forex
- Revenue of £729.8m, up 4.7% on an underlying basis<sup>(1)</sup>; down 5.6% on a reported basis (H1 2013: £772.7m)
- Trading profit<sup>(2)</sup> of £71.2m, up 14.3% on an underlying basis<sup>(1)</sup>; up 0.7% on a reported basis (H1 2013: £70.8m)
- Return on sales<sup>(2)</sup> improved by 83 bps to 9.8% on an underlying basis; up 60 bps on a reported basis<sup>(1)</sup>
- Half year net debt<sup>(2)</sup> £261.7m
- Headline<sup>(3)</sup> earnings per share of 16.4 pence; up 17.3% on an underlying basis; up 3.2% on a reported basis (H1 2013: 15.9 pence)
- Interim dividend increased by 5.3% to 5.0 pence per share (2013: 4.75 pence per share)

<sup>(1)</sup> Underlying basis is at constant currency and excludes separately reported items and the impact of acquisitions and disposals

<sup>(2)</sup> For definitions of non-GAAP measures, refer to note 17 of the financial statements

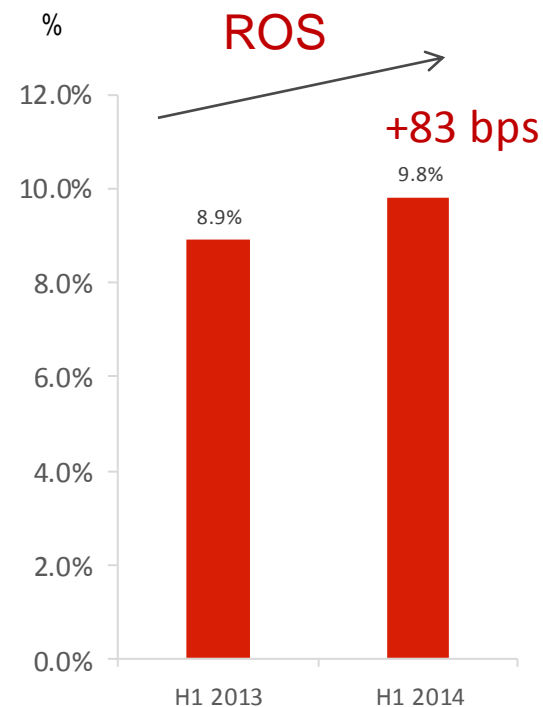
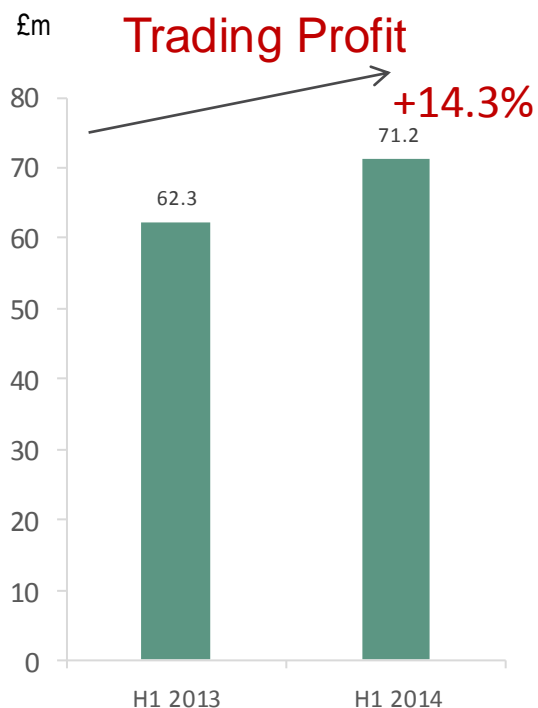
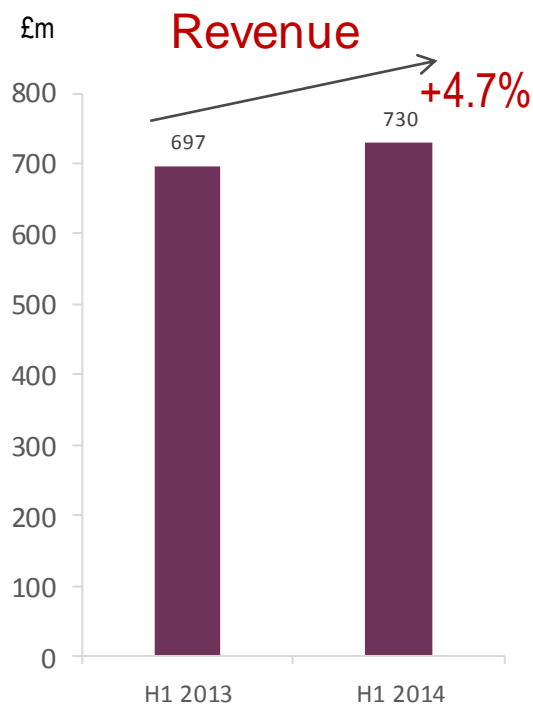
<sup>(3)</sup> Headline results refer to continuing operations and exclude separately reported items

# H1 Trading performance as reported; lower sales, higher margins



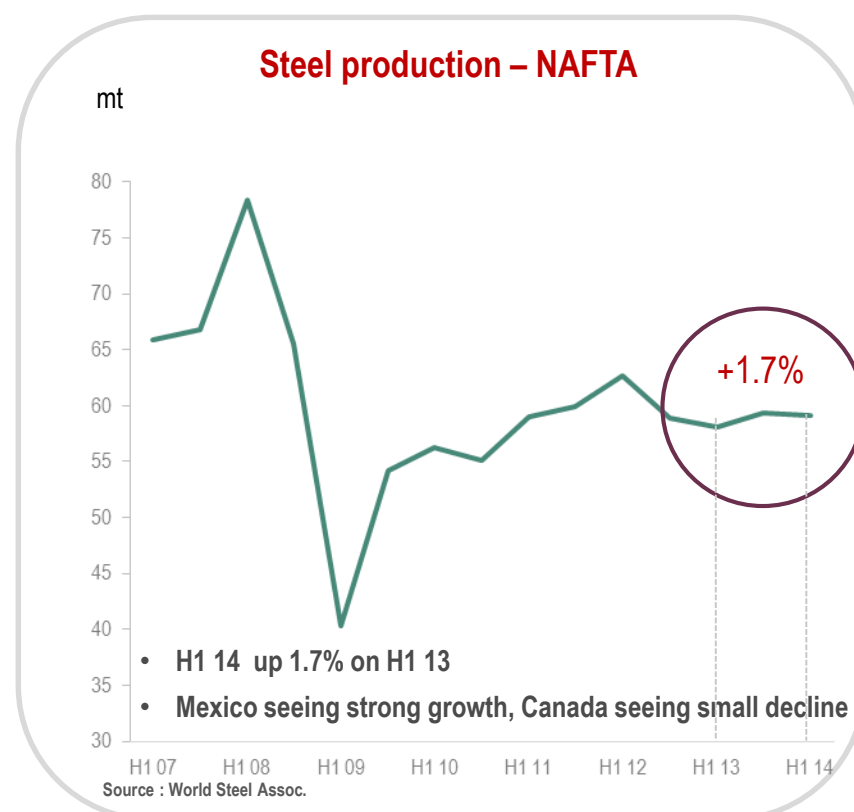
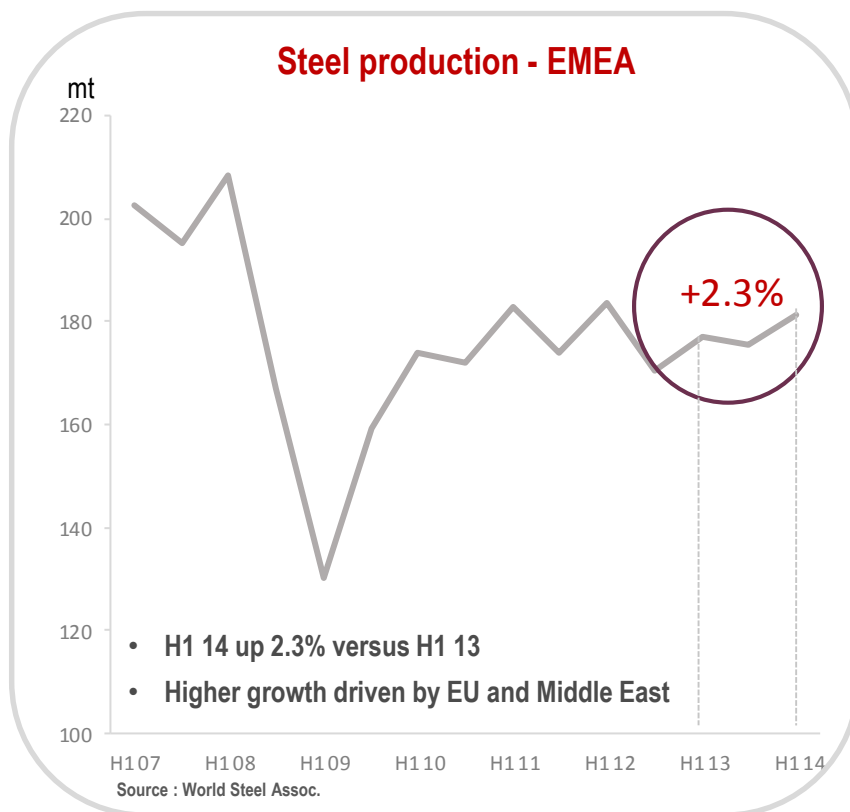
- Reported revenue and trading profit impacted by strength of Sterling
- Positive margin trend due to continued benefits from operating and strategic initiatives

# H1 Underlying trading performance



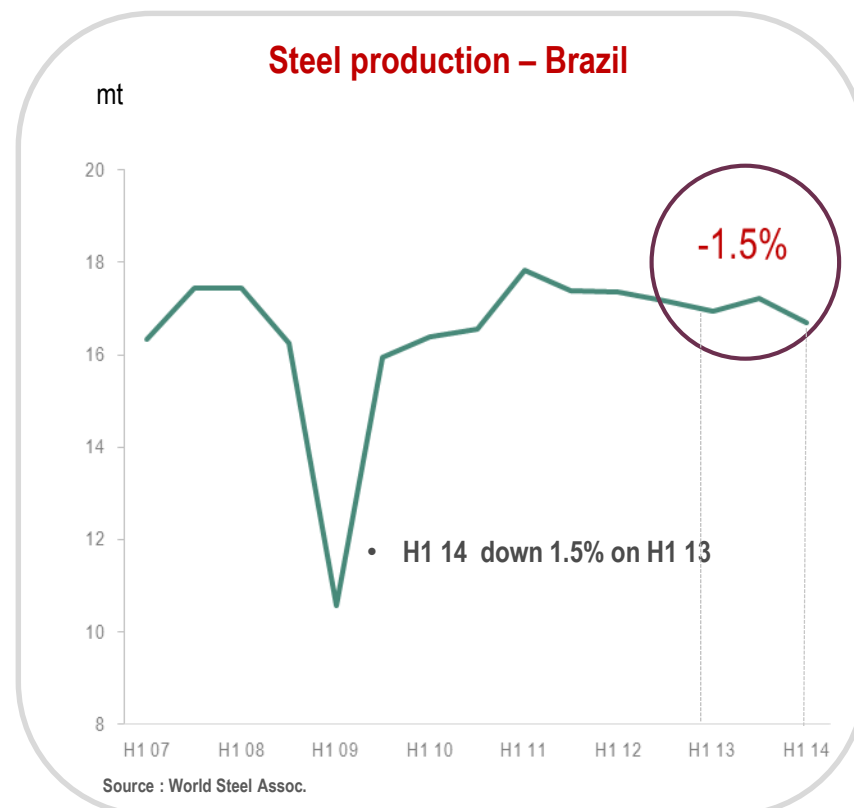
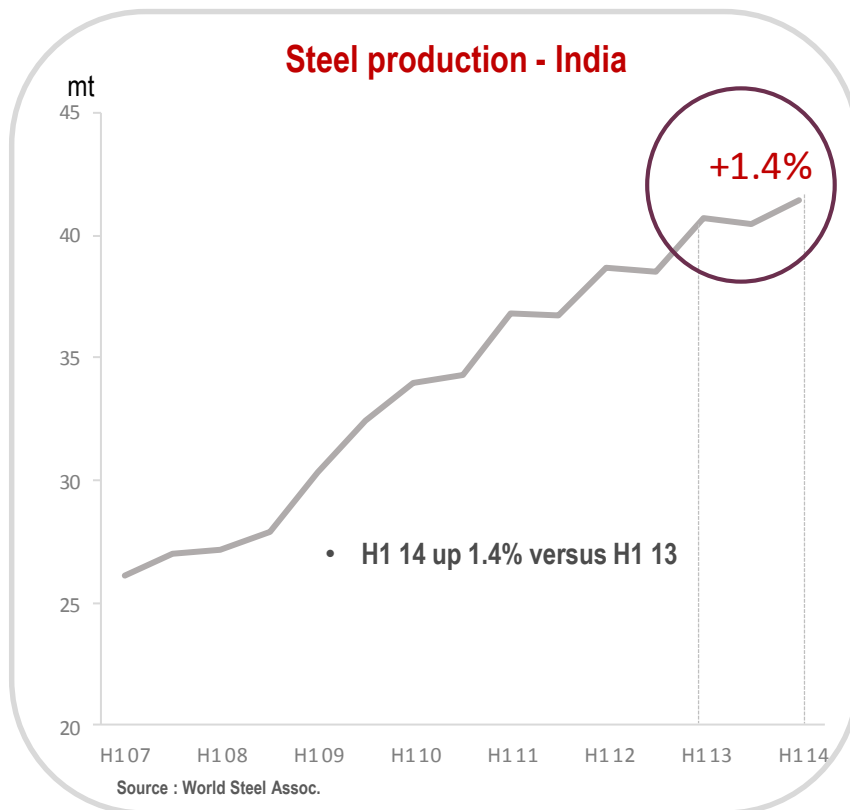
- Revenue growth ahead of the underlying market trend
- Profit growing substantially due to penetration of innovative products, better quality performance allowing better pricing and continued efforts on costs and productivity through our Lean manufacturing program
- 83 bps ROS improvement delivered on an underlying basis

# Steel markets



- Steel Production moderately up year-on-year in our 2 biggest markets
  - EU 28 recovering - +3.8%
  - Middle East strongly growing - +9.3%
  - Russia flat

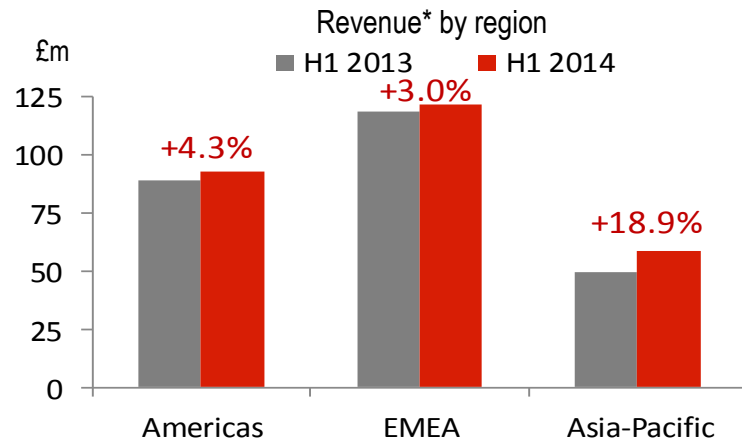
# Steel markets continued



- Recent moderation in growth in some developing markets

# Trading review: Steel division revenue

## Steel Flow Control



**Strategy – constant innovation to drive market growth**

### Americas:

- Grew at twice the steel market trend in NAFTA
- Slight growth in South America

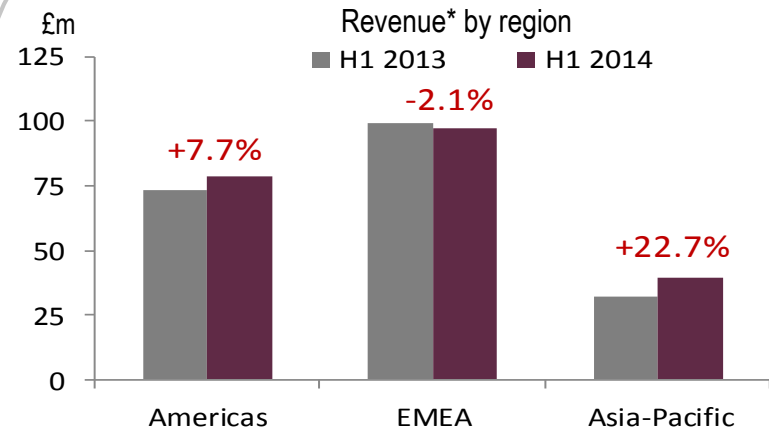
### EMEA:

- Increased sales in EU and Gulf area
- Declining sales in Ukraine

### Asia-Pacific:

- Increased penetration in South Korea
- Strong progression in India and South East Asia
- Slight growth in China

## Advanced Refractories



**Strategy – focus on higher margin products and solutions**

### Americas:

- Introduction of new premium product ranges in North America

### EMEA:

- Declining sales in Russia and Ukraine

### Asia-Pacific:

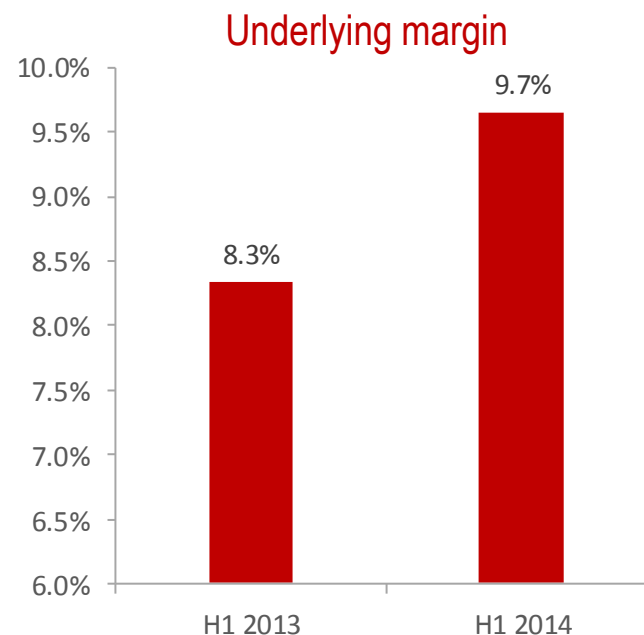
- Strong progression in South East Asia
- Stability in India

*\*On an underlying basis: at constant currency and excluding the impact of acquisitions and disposals*



# Trading review: Steel division margins

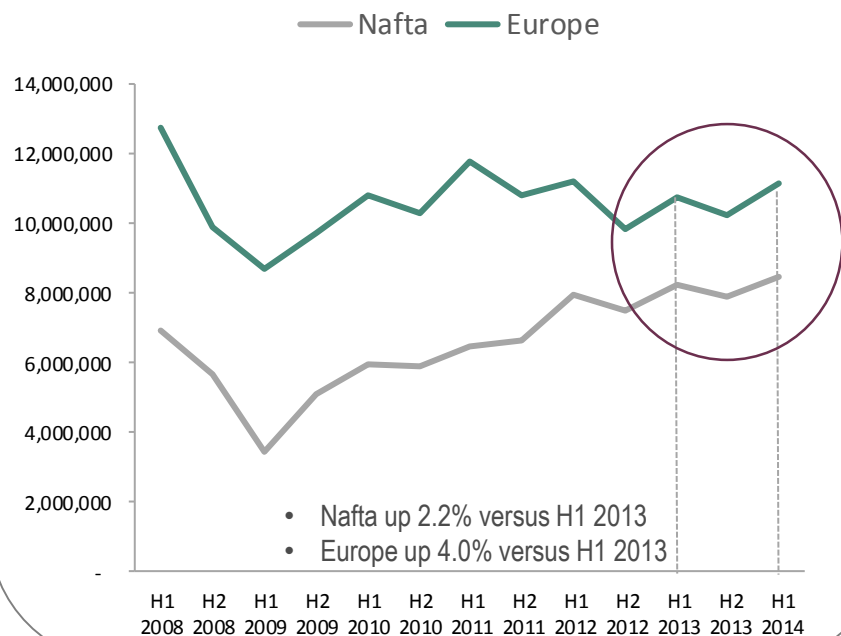
£m (on an underlying basis)	H1 2013	H1 2014	% Change
<b>Revenue</b>			
Steel Flow Control	257.1	273.9	6.5%
Advanced Refractories	204.6	215.6	5.3%
<b>Total Revenue</b>	461.8	489.5	6.0%
<b>Total Trading Profit</b>	38.5	47.2	22.7%
<b>Trading Margin %</b>	8.3%	9.7%	+131 bps



- Underlying trading profit up 22.7% reflecting operational and strategic initiatives, including:
  - Disposal of low-margin businesses in 2013
  - Product range rationalisation in Advanced Refractories
  - Increased penetration of premium products and new solutions
  - Lean manufacturing programme
- Underlying margin improvement of 131 bps year on year

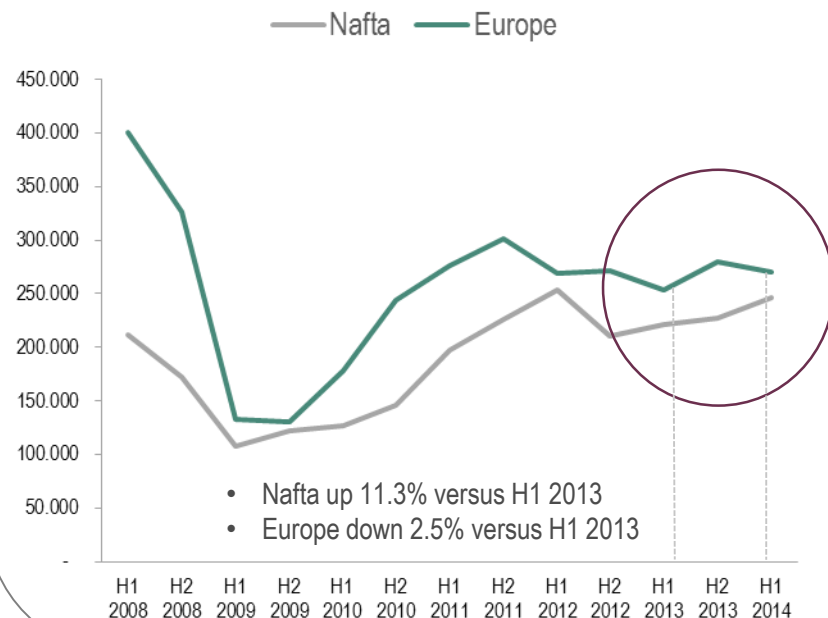
# Foundry market

## Light vehicle production



Source : LMC Automotive.

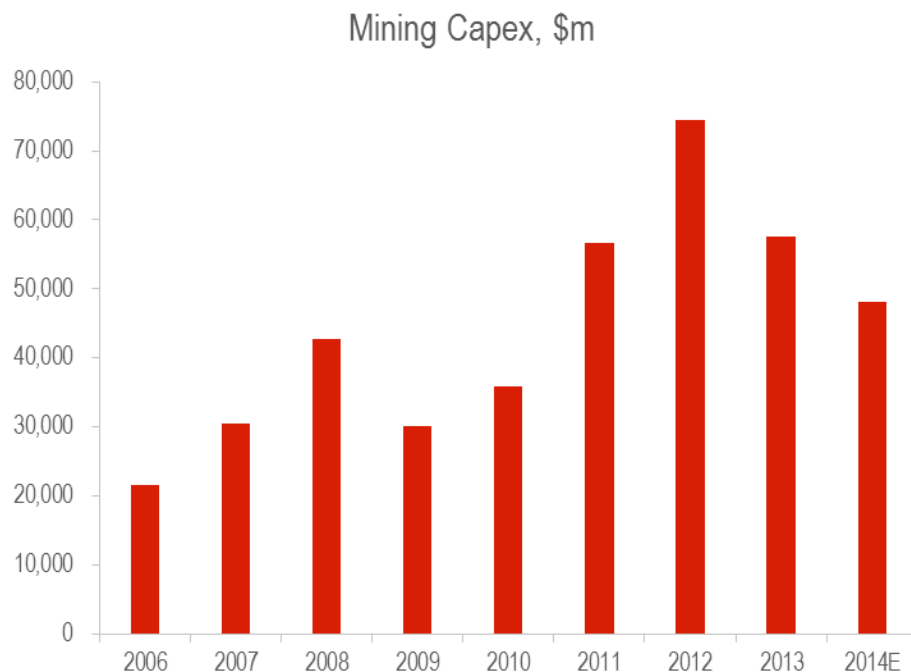
## Truck production



Source : LMC Automotive and company estimates.

- Truck and Light Vehicle markets represent approximately 26% of Foundry sales in Nafta and 38% in Europe
- Weakness in the Thai automotive sector and South American car component industry

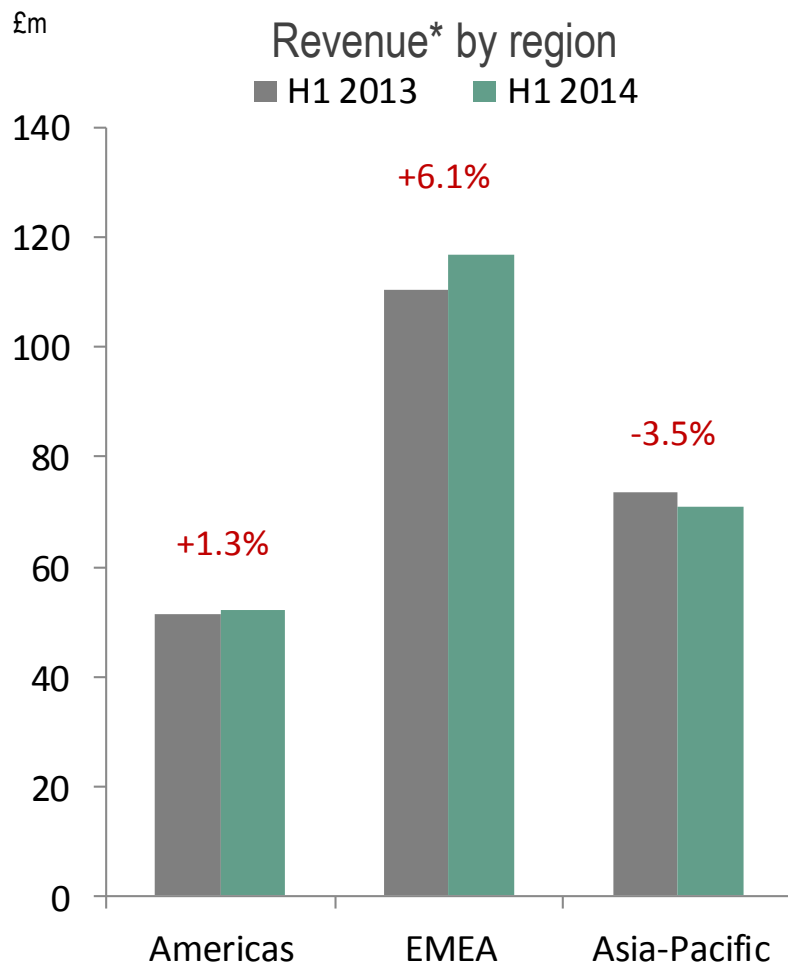
# Mining capital expenditure



Source: Renaissance Capital estimates, Company data

- Mining is an important market for the Foundry division counting for about 7% of sales in average, mostly in the high value added steel casting segment
- Mining capex being significantly reduced over 2013-2014
- Any increase in capex will take some time to filter through to end-markets
- Reduction in Indonesia due to an embargo on iron ore exports

# Trading review: Foundry revenue



## Strategy – Extend the penetration of our value creating solutions

Mixed performance across the division

### Americas:

- Continued softness in the mining sector
- Lower automotive parts production volumes in Brazil

### EMEA:

- Increased penetration of products and solutions
- Substantial progression in Eastern Europe and Middle East moderated by difficulties in Ukraine
- Weakness in the South African mining sector

### Asia-Pacific:

- Lower automotive production volumes in Thailand
- Lower levels of investment in Indonesian and Australian mining industries

*\*On an underlying basis: at constant currency and excluding the impact of acquisitions and disposals*

# Trading review: Foundry division margins

£m (on an underlying basis)	H1 2013	H1 2014	% Change
Revenue	235.5	<b>240.3</b>	<b>2.0%</b>
Trading Profit	23.8	<b>24.0</b>	<b>0.8%</b>
Return on Sales %	10.1%	<b>10.0%</b>	<b>-12 bps</b>

## Underlying margin



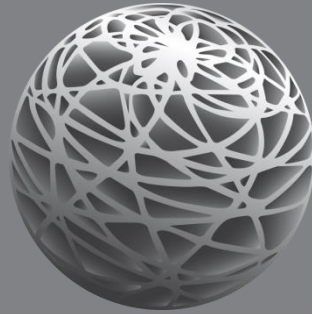
- Underlying trading profit up 0.8% reflecting challenging conditions in end-markets
- Volatile environment in certain high margin markets
  - Excluding these countries (< 15% of sales ) ROS would have been up 60 bps
- Active management to mitigate;
  - Re-alignment of cost base to lower volumes
  - Lean manufacturing programme

# H1 2014 Trading Summary



- Solid underlying revenue growth with Vesuvius outperforming underlying markets
- Strong growth in underlying trading profit
- Margin recovery in line with our plan: 174 bps delivered since demerger
- Internal focus continues on operational and strategic initiatives - disciplined approach to implementing our strategy





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## Financial Review

Chris O'Shea

VESUVIUS PLC

# Income statement



(Headline, pro-forma)	H1 2014	H1 2013 Underlying	Change (vs. H1 2014)	H1 2013 As reported	Change (vs. H1 2014)
	£m	£m		£m	
Revenue	729.8	697.2	+4.7%	772.7	-5.6%
Trading Profit	71.2	62.3	+14.3%	70.8	+0.7%
Return on Sales %	9.8%	8.9%	+83bps	9.2%	+60bps
Net Interest	(9.2)	(8.2)		(8.5)	
Share of JV	0.8	1.3		1.4	
Profit before Tax	62.8	55.4	+13.4%	63.7	-1.4%
Tax	(16.4)	(14.0)		(16.5)	
Non-controlling Interest	(2.1)	(2.6)		(3.1)	
Net Earnings	44.3	38.8	+14.1%	44.1	+0.5%
Earnings per share (p)	16.4	14.0	+17.3%	15.9	+3.2%
Dividend per share (p)	5.00	4.75	+5.3%	4.75	+5.3%



# Strength of currency continues to impact results

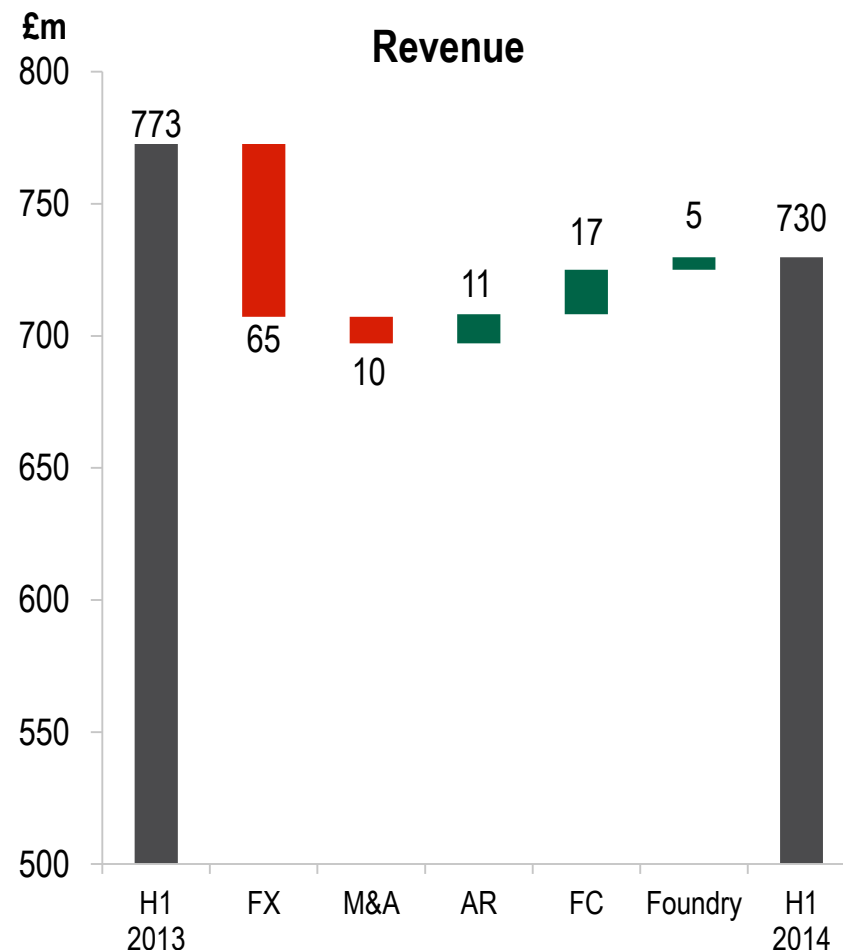
- Strengthening of sterling in the second half of 2013 has continued into the first half of 2014
- Relatively benign FX environment in H1 2013
- Further strengthening of sterling would negatively impact reported growth

	2014 H1 Average Rates	2013 H1 Average Rates	2014 H1 v 2013 H1
USD	1.67	1.54	-8.0%
EUR	1.22	1.18	-3.5%
BRL	3.83	3.13	-22.3%
INR	101.38	84.74	-19.6%
JPY	170.94	147.31	-16.0%
RMB	10.29	9.56	-7.6%
ZAR	17.80	14.15	-25.8%

2014 H1 Period End Rates	2014 H1 Average v Period End Rates
1.71	-2.5%
1.25	-2.7%
3.79	1.2%
102.70	-1.3%
173.26	-1.4%
10.61	-3.1%
18.19	-2.2%

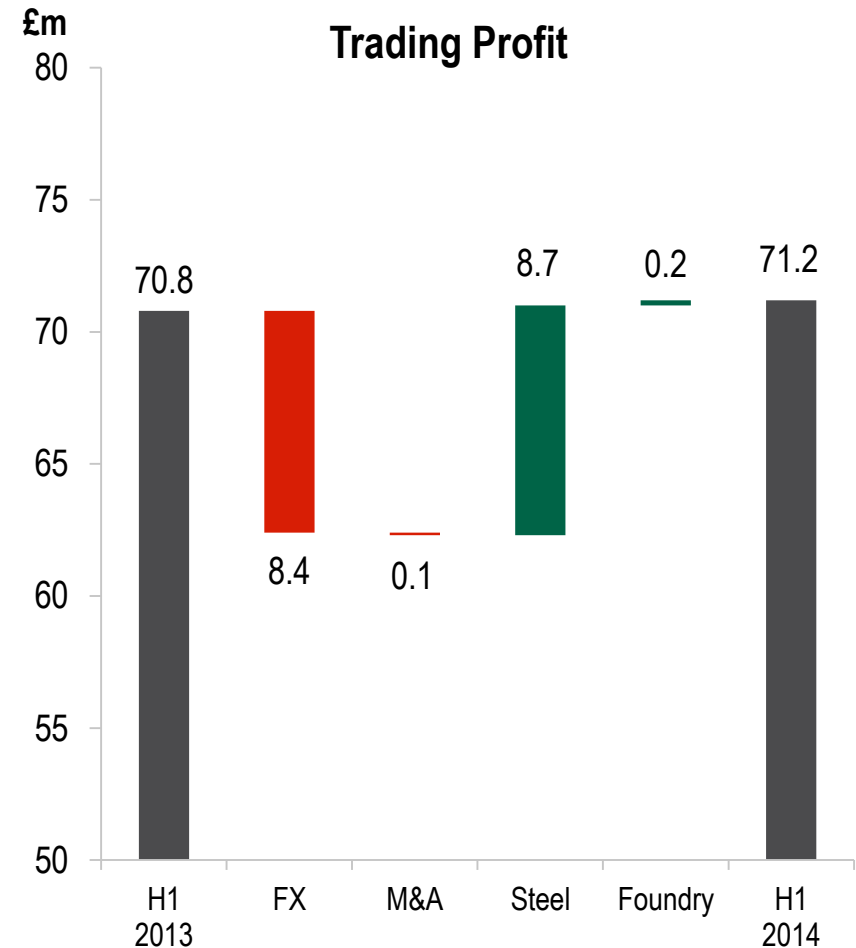
# Underlying revenue grew 4.7% to £730 million...

- Revenue grew £33 million adjusting for effect of disposal of VGT and Canadian construction
- Revenue grew £23 million (3.2%) at constant currency rates
- Underlying revenue growth in all regions
  - EMEA 2.5% £9m
  - Americas 4.8% £10m
  - Asia 9.1% £14m



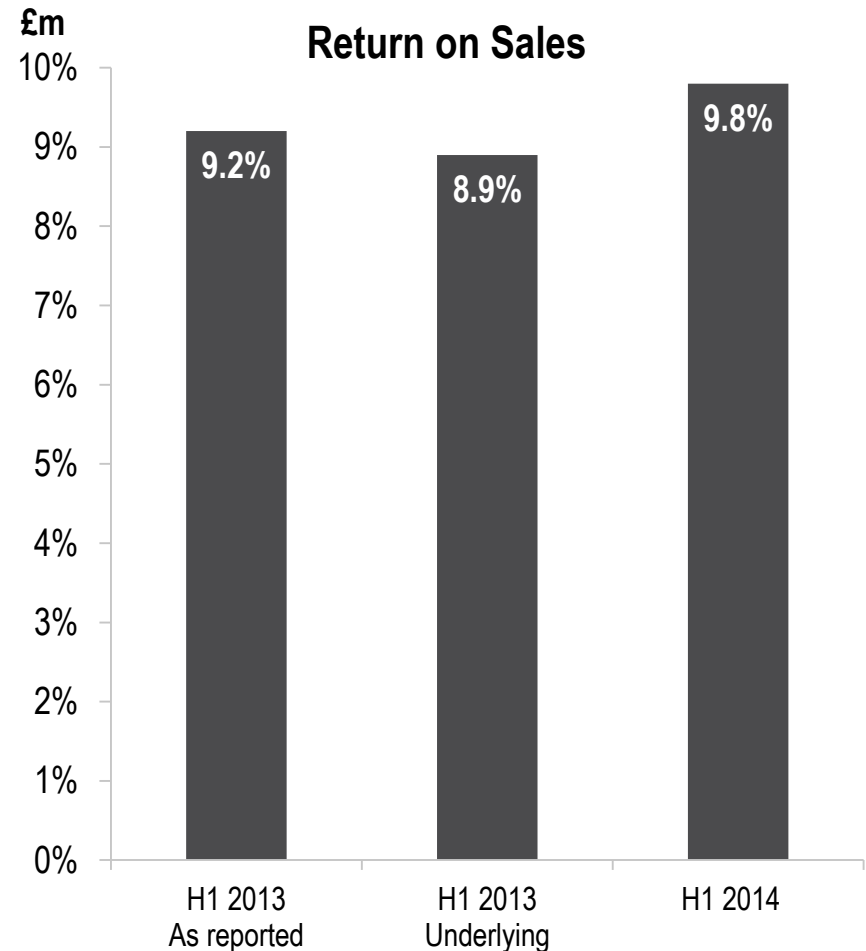
## ...whilst underlying trading profit grew 14.3% to £71.2 million...

- Trading profit grew £8.9 million adjusting for effect of disposal of VGT and Canadian construction
- Trading profit grew £8.8 million (14.1%) at constant currency rates

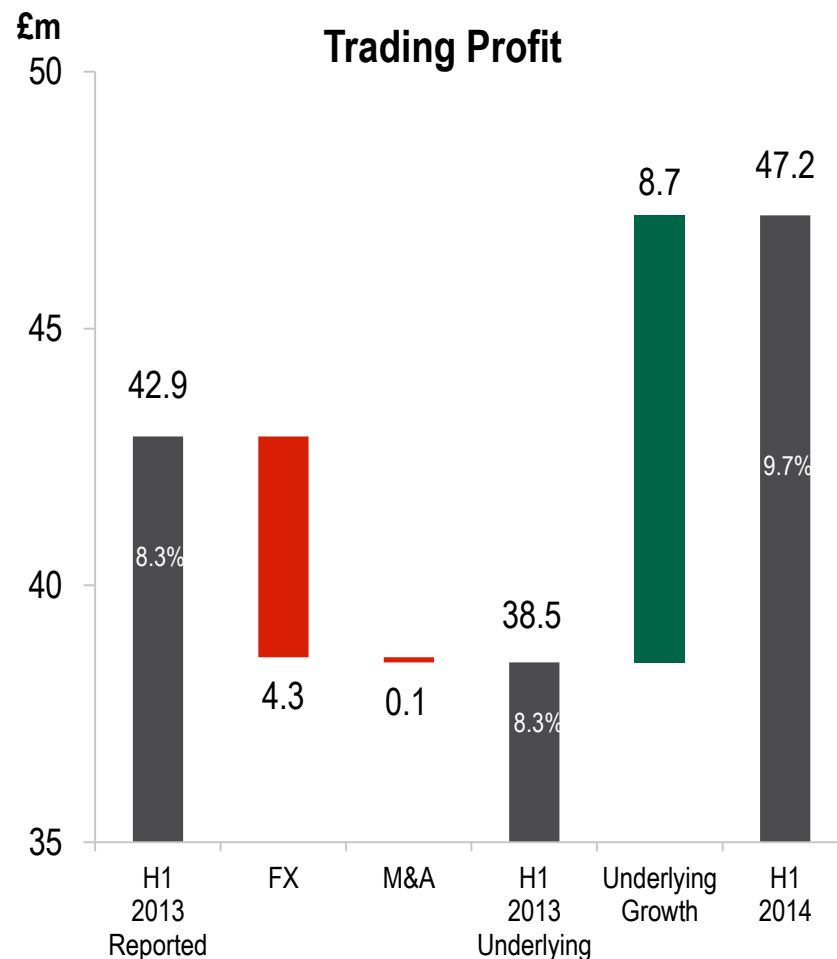
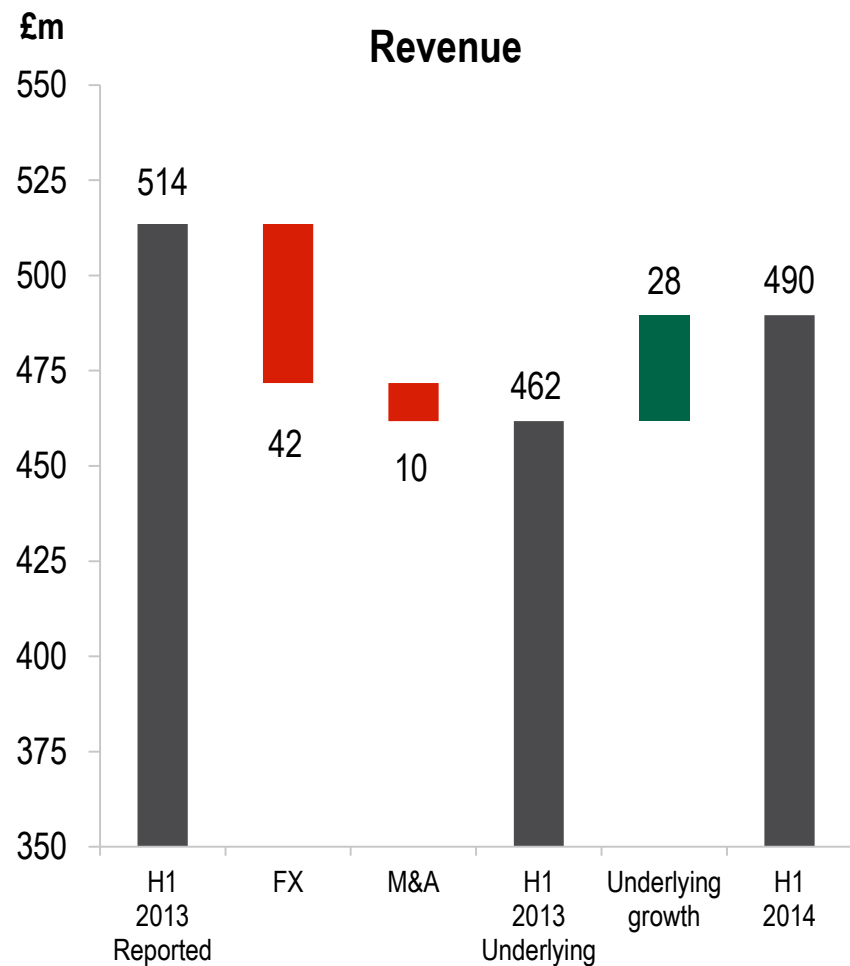


## ...delivering further improvements in Return on Sales

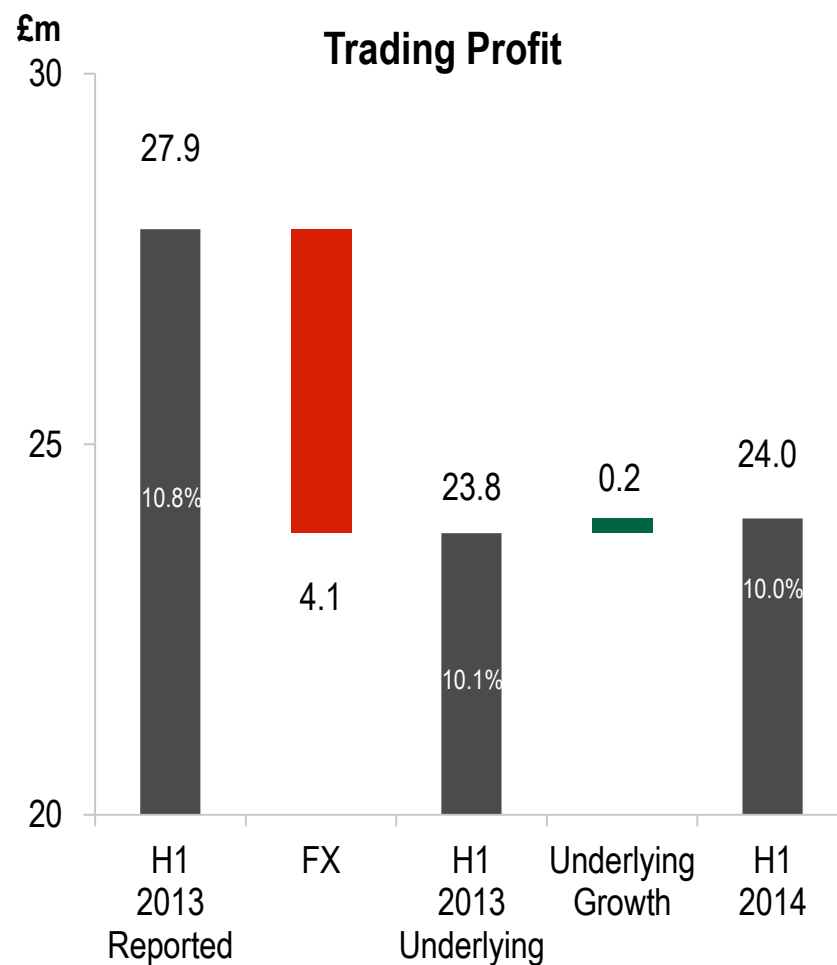
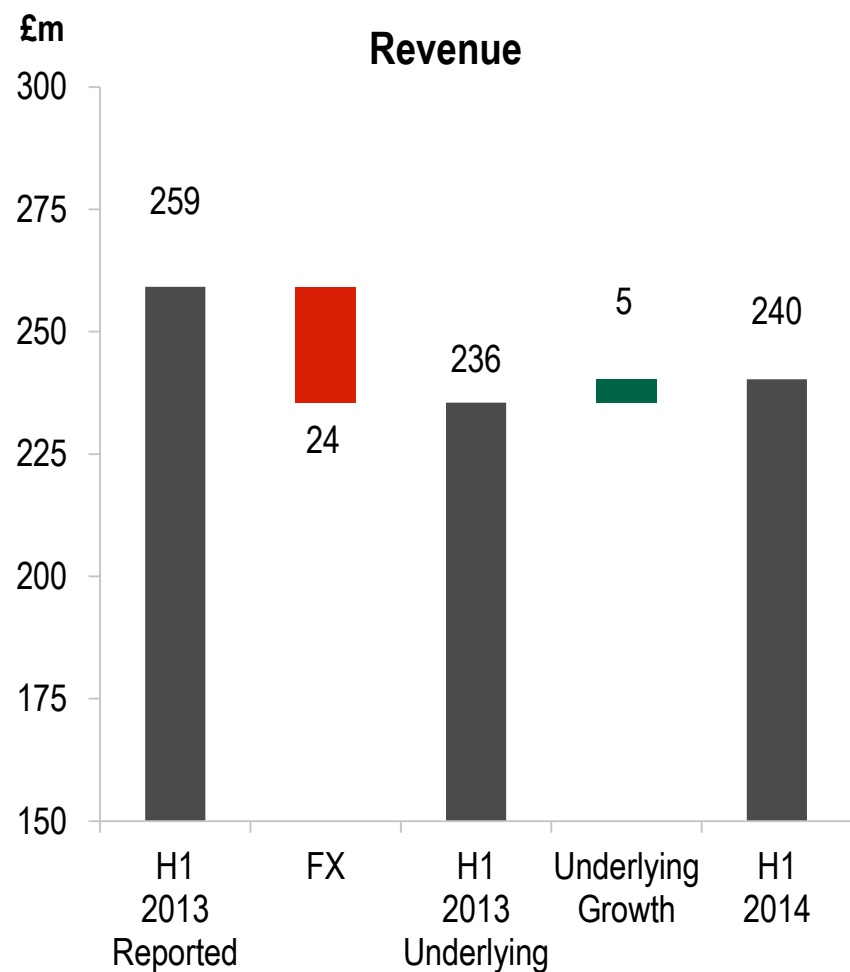
- Cost discipline maintained in operating expenses
- Stable raw material price environment
- Improved market penetration
- Currency translation effects reduce 2013 margins
- Partially offset by market challenges in higher margin locations, primarily in the foundry division



# Underlying Steel division profitability improved by 131 bps

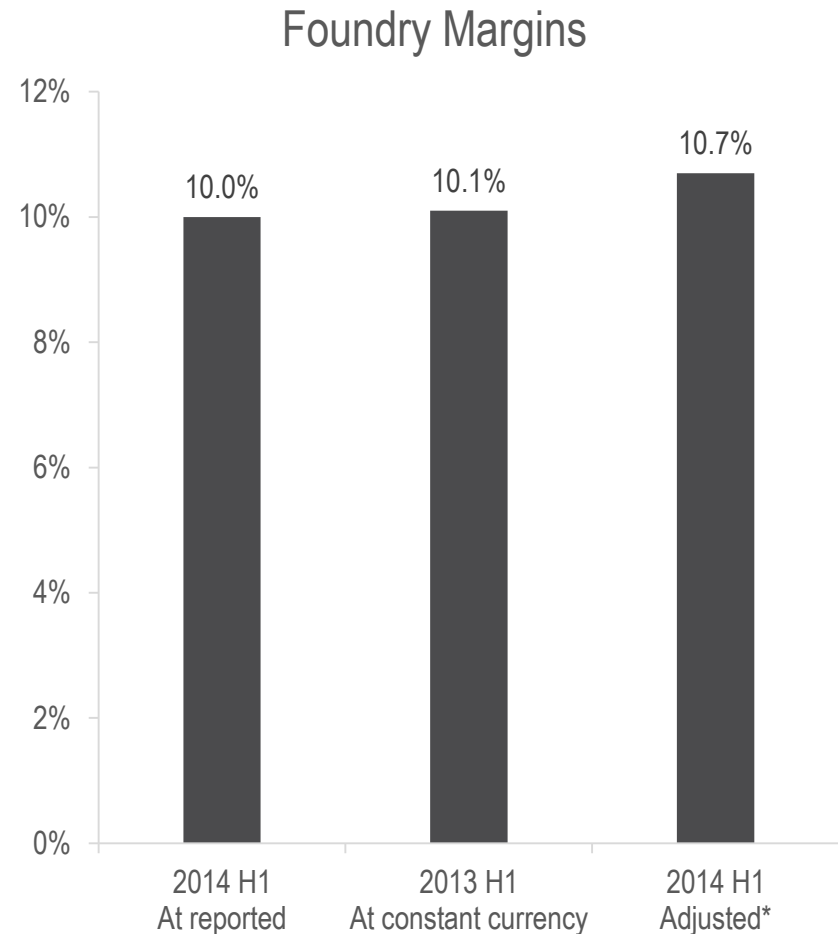


# Underlying Foundry division profitability fell by 12 bps



# High margin foundry markets experienced challenging conditions

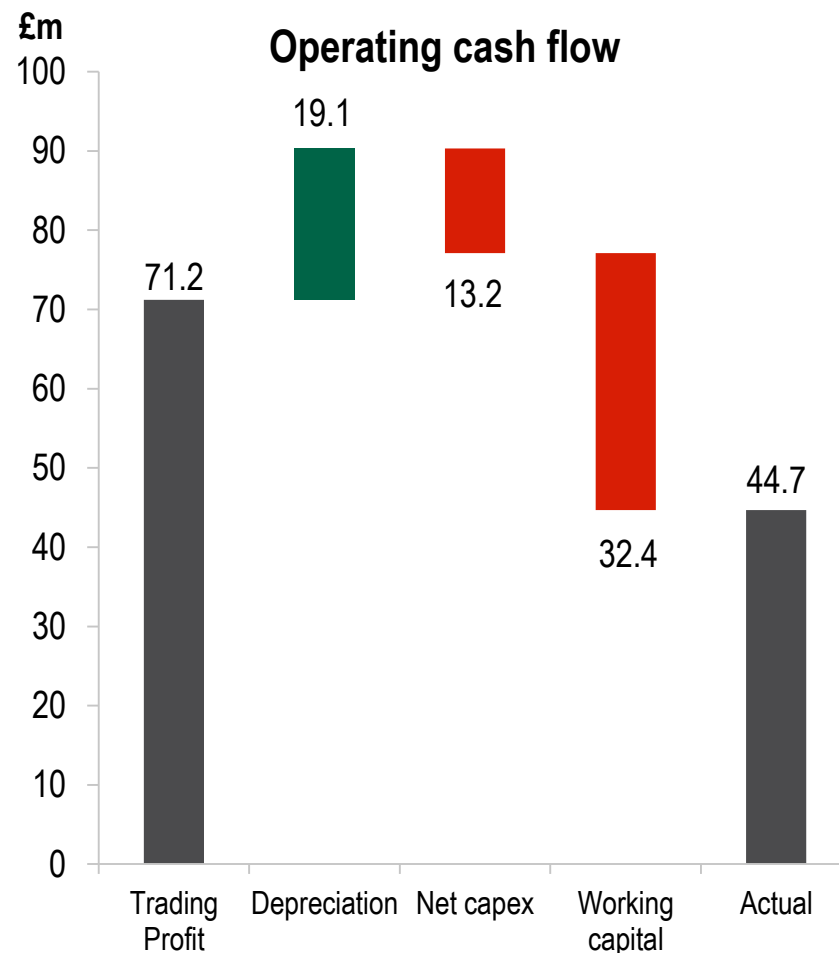
- Political issues impacting higher margin businesses
  - Thailand
  - Ukraine
- Economic turbulence negatively affecting activity at key foundry customers
  - Australia
  - Brazil
  - Indonesia
  - South Africa



\*Removing effects of issues mentioned on this slide from H1 2014 results

# Cash conversion of 63% driven by working capital...

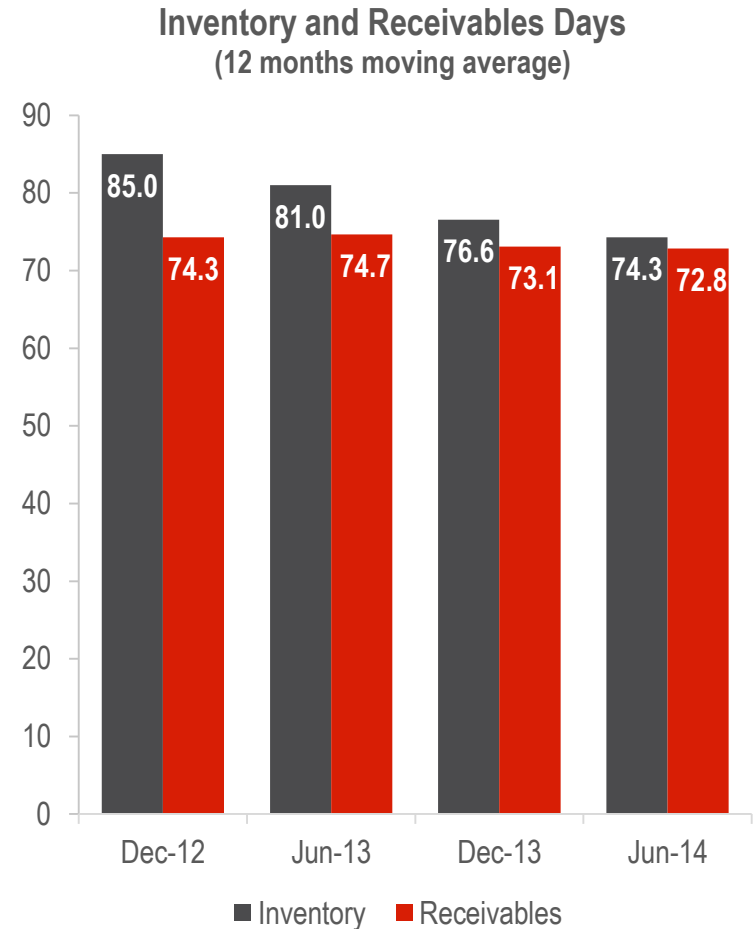
- Capital expenditure weighted towards second half of year
  - Full year capex expectation c.3.5% of full year revenue
- Working capital outflow in line with normal seasonality
  - Sales higher in Q2 than in Q4
- Growth in business driving working capital outflow
- Key metrics continue to move in right direction





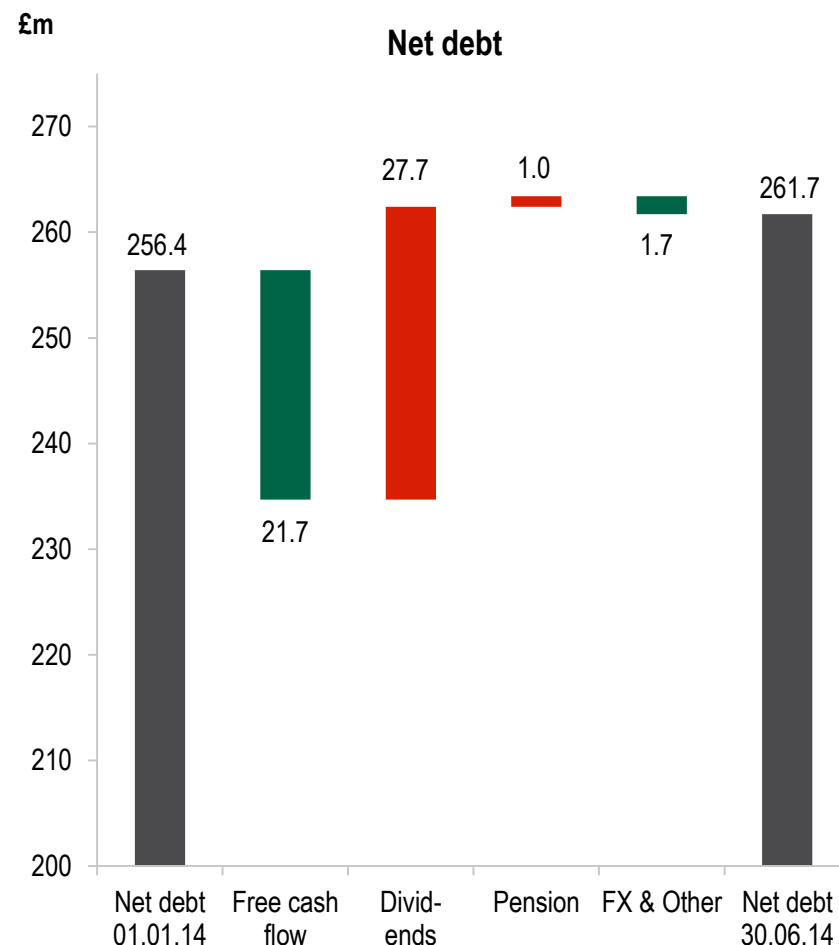
## ...with improving metrics for receivables and inventory

- Consistent reduction of working capital metrics
  - 8% reduction in inventory days compared to June 2013
  - 3% reduction in receivables days compared to June 2013
- There has been sustained progress through 2013 and 2014
  - Efforts continue to reduce working capital further



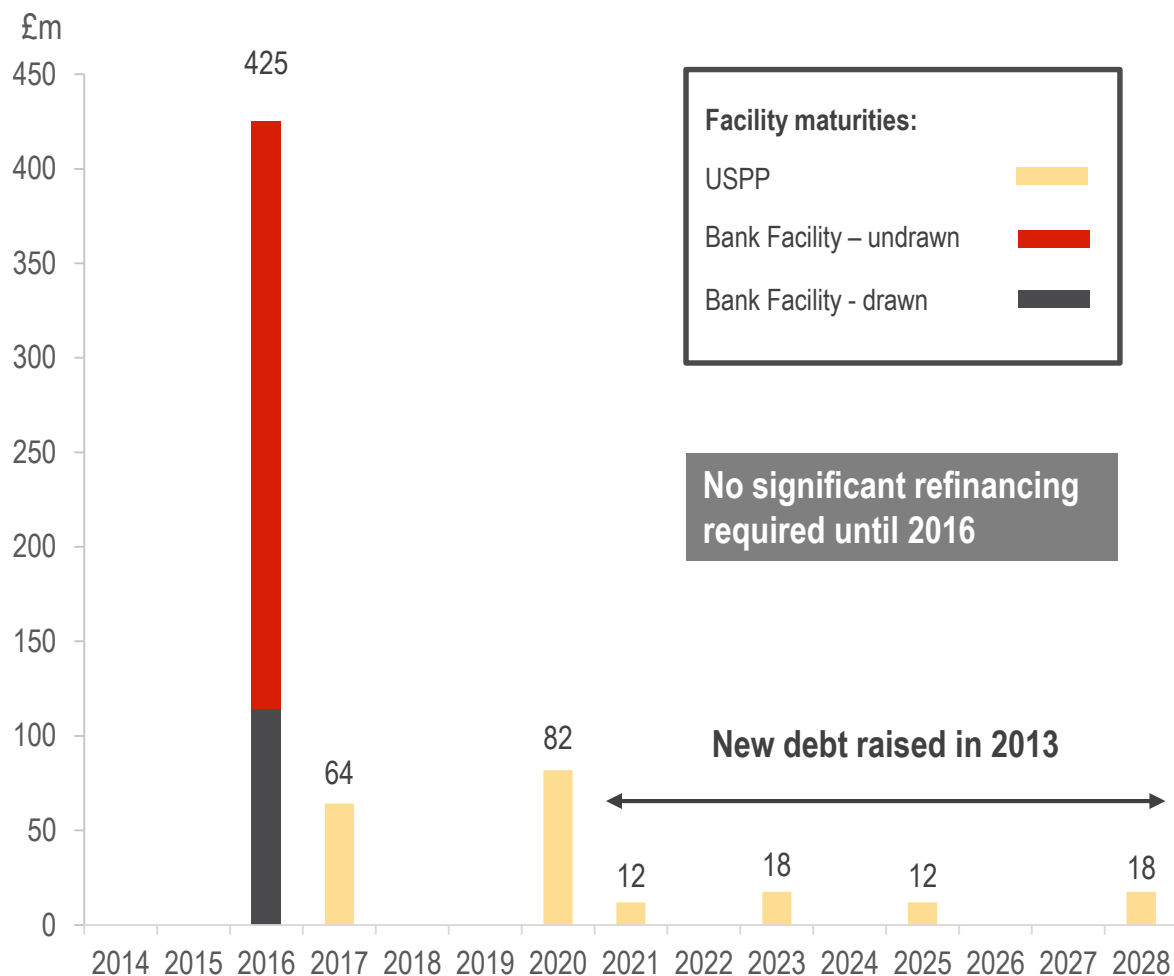
# Net debt increased by 2% to £261.7 million...

- Normal seasonality sees increase in net debt
- c.65% of full year dividend is paid in the first half
- Reduced additional payments in pension scheme reflecting UK scheme surplus
- £3.9 million of cash restructuring costs from prior year provisions incurred in period



# ..whilst the Group has significant headroom in its debt facilities

- £630 million of committed facilities
  - Further £73 million of uncommitted facilities
- Weighted average maturity of committed facilities
  - 3.4 years
- Undrawn facilities at 30 June 2014
  - Committed £311m
  - Uncommitted £60m



# Defined benefit employee benefit schemes

- UK, USA and Germany comprise over 90% of Group's gross pension liabilities
- Increase in deficit due to reduction in long term corporate bond yields
  - UK 4.15% (down 0.25%)
  - USA 3.90% (down 0.60%)
  - Germany 3.15% (down 0.60%)

£ million	30 Jun 2014	31 Dec 2013
<b>Net Pension Deficits</b>		
Germany	35.1	32.6
USA	27.8	23.3
Rest of World	<u>13.4</u>	<u>12.6</u>
	76.3	68.5
<b>Net Pension Surpluses</b>		
UK	<u>(17.9)</u>	<u>(28.7)</u>
<b>Net Pension Deficit</b>	<b>58.4</b>	<b>39.8</b>
Net Deficit on Other Post Retirement Benefit Schemes		
	<u>8.1</u>	<u>8.1</u>
<b>Net deficit on Employee Benefit Schemes</b>	<b><u>66.5</u></b>	<b><u>47.9</u></b>

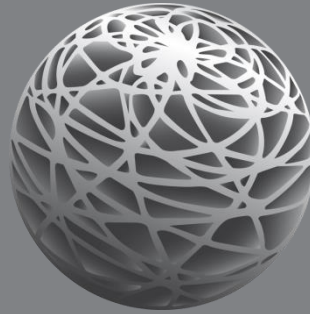
# Financial strategy remains consistent

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- Financial flexibility essential
- Conservative balance sheet stewardship
- Focus on cash generation
- Cost control
- Efficient working capital management
- Improve returns





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## Strategy and Outlook

Francois Wanecq, Chief Executive

VESUVIUS PLC

# Delivering on the strategy

- Maintain technology leadership

New R&D facilities to open in Enschede in H2 2014.  
New location selected in Pittsburgh

- Increase penetration of value creating solutions

Success of robotics handling operations

- Capture growth in developing markets

New Foundry Plant inaugurated in China – Second phase anticipated

- Improve cost leadership

Lean manufacturing programme.  
Inventory days reduced by 7.5% yoy

- Build technical services offering

Final discussions for 2 acquisitions  
Success of Accuoptix in Germany

# Robots in operation at Hyundai



- In July we celebrated the 1000th robotic tube change operation in Hyundai with no failures
- Installation on new casters is due to continue in 2015

Video to play in meeting







## FY 2014:

- Expect underlying trading environment to remain broadly similar for the second half of the year
- If recent strength of Sterling continues it will have a negative impact on our reported growth for FY 2014
- Progressing with our plan to improve operational efficiency in all segments
- Continuing focus on working capital and cash generation
- Investing for future growth
- Full year expectations remain unchanged



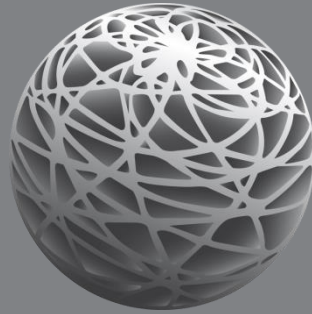
# Primary objectives for the medium term

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- Improve margins further
- Increase our effort in research and development
- Sustain our global leadership in core businesses
- Further develop our penetration in China
- Retain strong balance sheet to keep our financial flexibility
- Progress our overall strategy of providing superior technical products and services for the steel and foundry industries

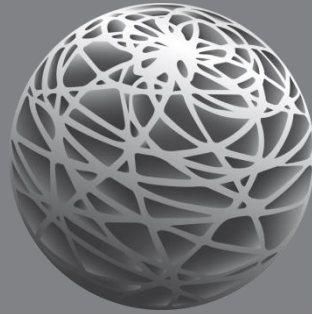




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Q&A

VESUVIUS PLC



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## Appendix

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## 5 year history at constant currency

	2009	2010	2011	2012	2013	2014 H1
<b>Revenue</b>	<b>1,057.3</b>	<b>1,347.2</b>	<b>1,507.4</b>	<b>1,441.0</b>	<b>1,411.2</b>	<b>729.8</b>
Steel	708.1	888.3	970.2	953.3	953.2	489.5
Foundry	349.2	458.8	537.3	487.7	458.0	240.3

<b>Trading Profit</b>	<b>54.4</b>	<b>148.4</b>	<b>157.5</b>	<b>116.6</b>	<b>128.8</b>	<b>71.2</b>
Steel	44.3	90.0	93.0	76.2	82.9	47.2
Foundry	10.1	58.4	64.5	40.4	45.9	24.0

<b>Return on Sales</b>	<b>5.1%</b>	<b>11.0%</b>	<b>10.5%</b>	<b>8.1%</b>	<b>9.1%</b>	<b>9.8%</b>
Steel	6.2%	10.1%	9.6%	8.0%	8.7%	9.7%
Foundry	2.9%	12.7%	12.0%	8.3%	10.0%	10.0%



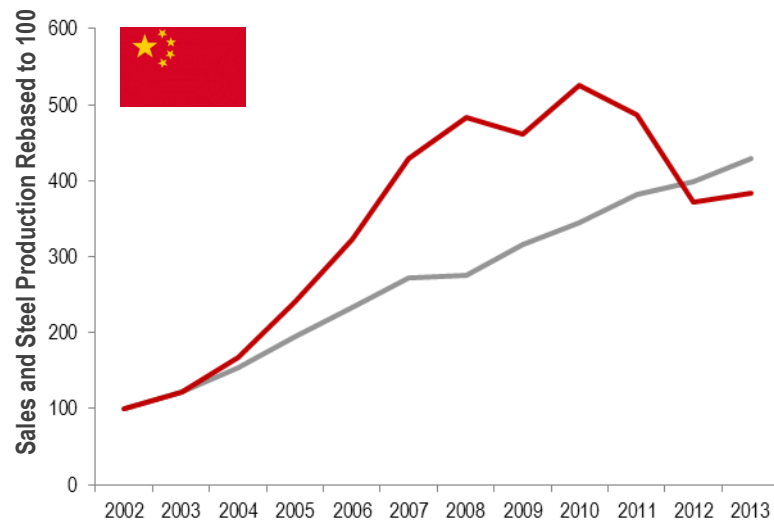
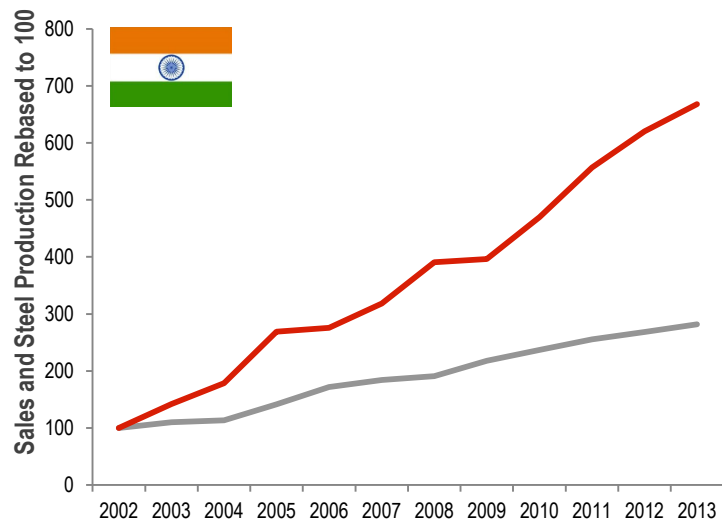
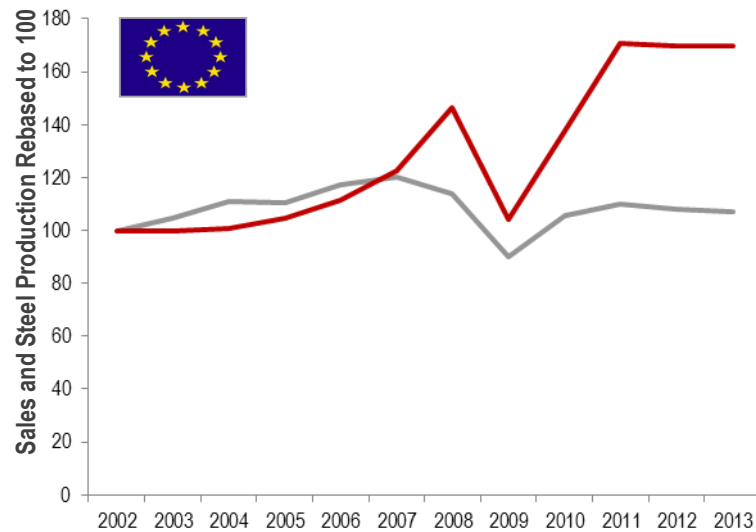
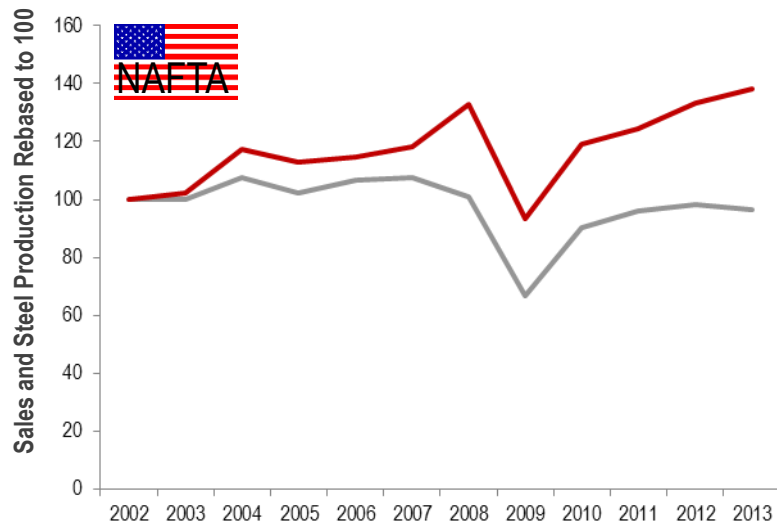
# Currency – Ready Reckoner

Currencies	Approximate Change in annual profits
US Dollar	£0.4 million
Euro	£0.3 million
Indian Rupee Chinese Renminbi	£0.2 million
Brazilian Real Japanese Yen South African Rand	£0.1 million

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



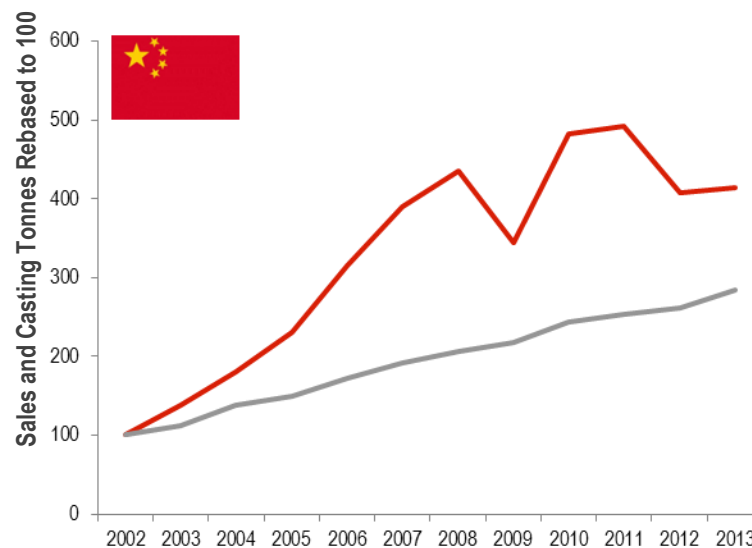
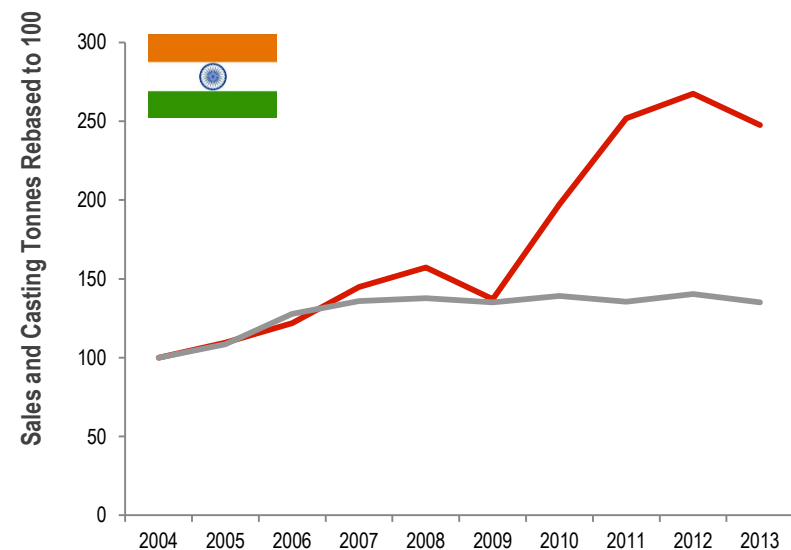
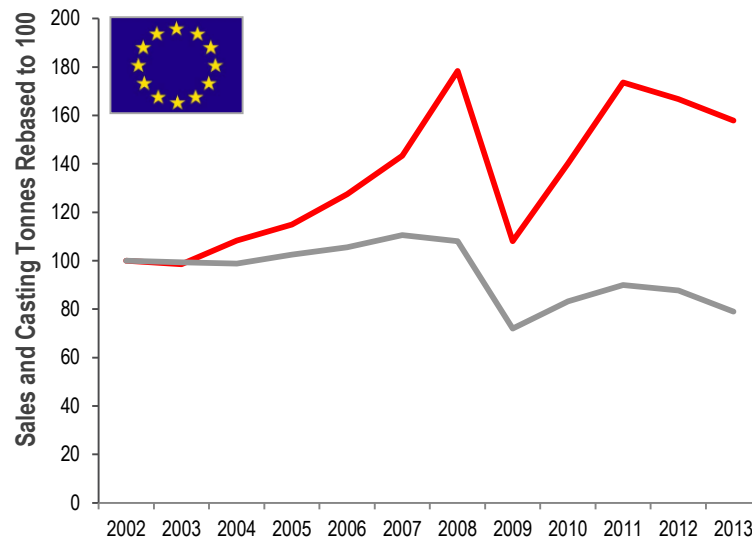
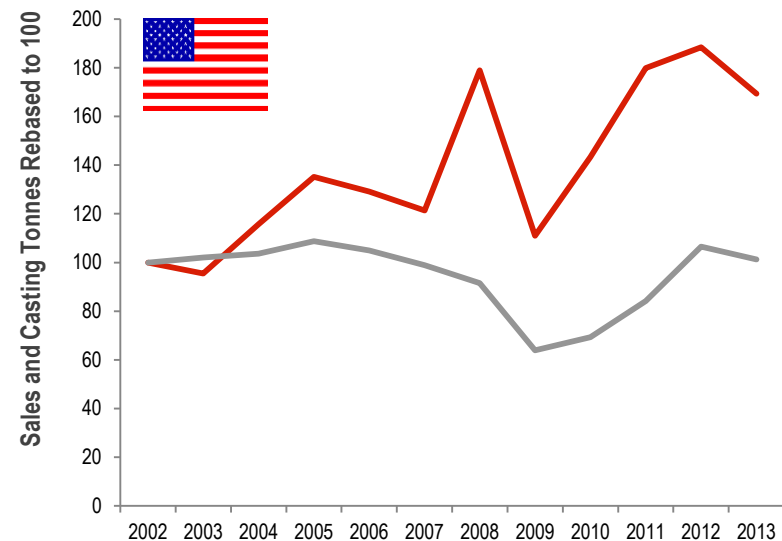
# Steel: Outperforming the underlying markets



**— Vesuvius Sales Value**  
**— Steel Production Volumes**

Source WSA for steel production volumes, Vesuvius internal data for Vesuvius sales  
Note 2002 figures are rebased to 100

# Foundry: Outperforming the underlying markets



**Vesuvius Sales Value**

**Casting Tonnes**

Source Modern Casting and Vesuvius estimates for casting tonnes, Vesuvius internal data for Vesuvius sales  
Note 2002 figures are rebased to 100

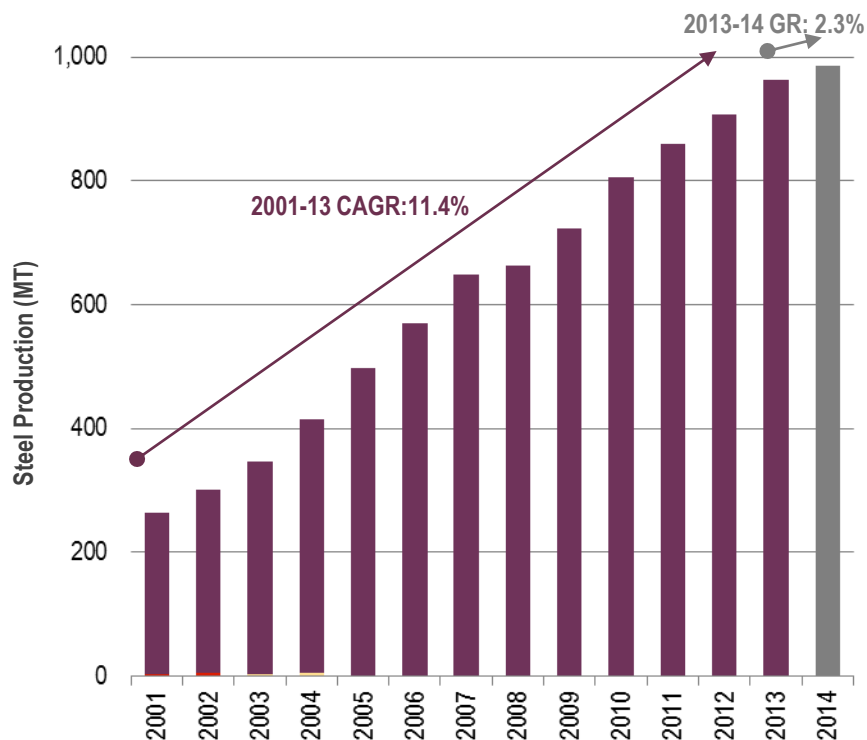


# Growth opportunities - Steel

Vesuvius serves mainly the flat products market which will grow at a higher pace than global steel as developing markets evolve towards consumption driven economies

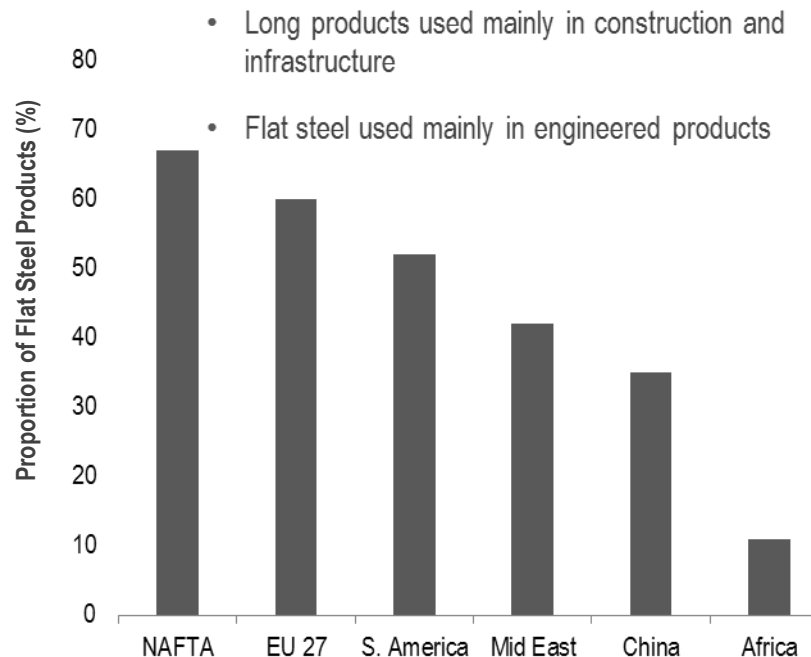
Typical consumption of Flow Control products in flat steel is £1.5 /T of steel vs £0.5/T of steel in long

## Steel production forecasts – BRIC countries



Source WSA 2001 – 2013, MEPS - 2014

## Proportion of flat vs. long steel by region

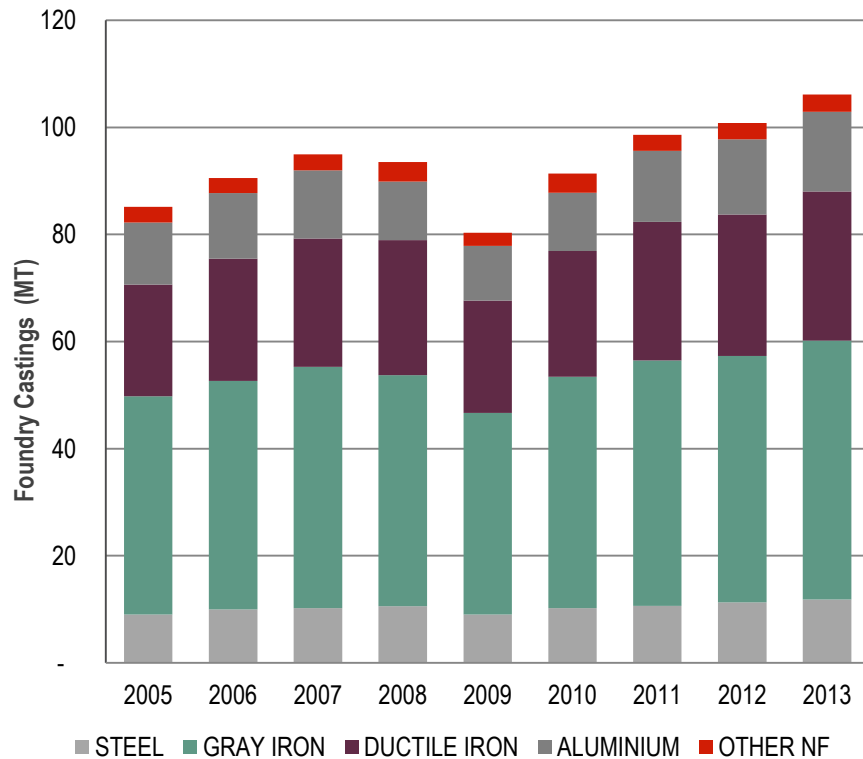


Source Based on data from WSA & SBB, with Vesuvius assumptions used for China

# Growth opportunities - Foundry

## Foundry output

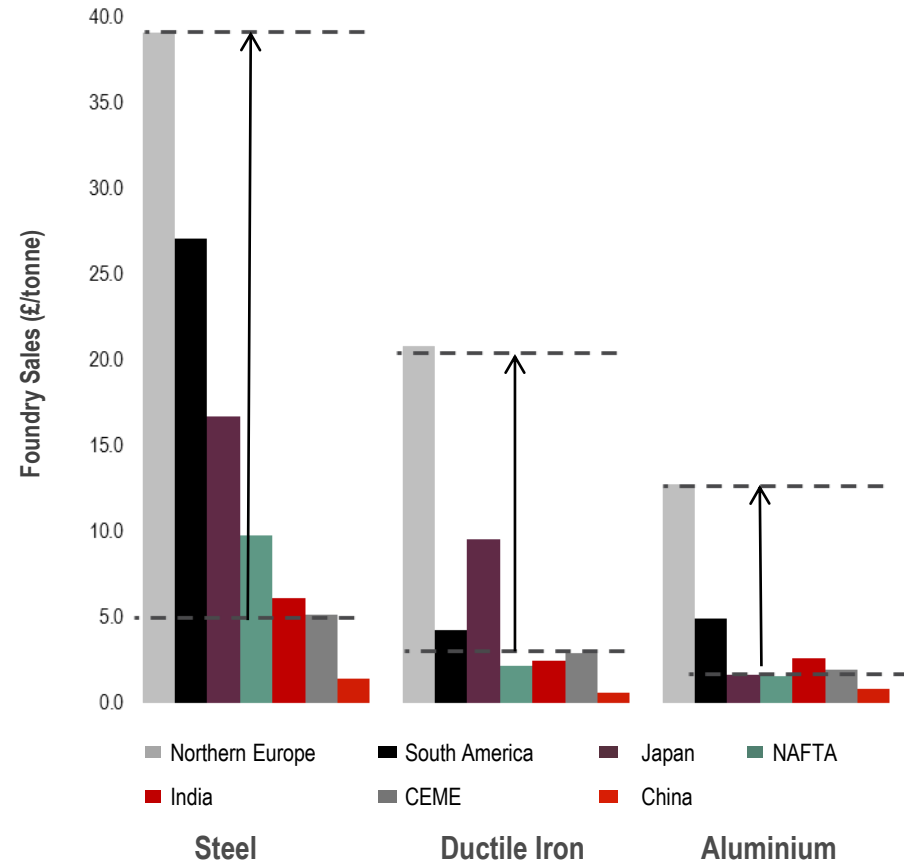
Major segments requiring Vesuvius solutions have the highest growth: Ductile iron, Steel and Aluminium



Source Modern Casting, Vesuvius estimate for 2013

## Foundry sales £/T of total market casting (2013)

Significant upside potential through continuing market penetration as emerging markets move towards higher quality foundry castings ... and as we improve penetration of our solutions in NAFTA and Japan



# Market leading positions across many of our products

## Molten metal in steel industry



A world leader in flow control systems (slide gates)

A world leader in isostatically pressed refractories

A world leader in flow control pre-cast solutions

A world leader in mould & tundish fluxes

### Steel Flow Control Competitors



## Molten metal in foundries



A world leader in filters

A world leader in feeding systems

A world leader in coatings

### Foundry Technologies Competitors



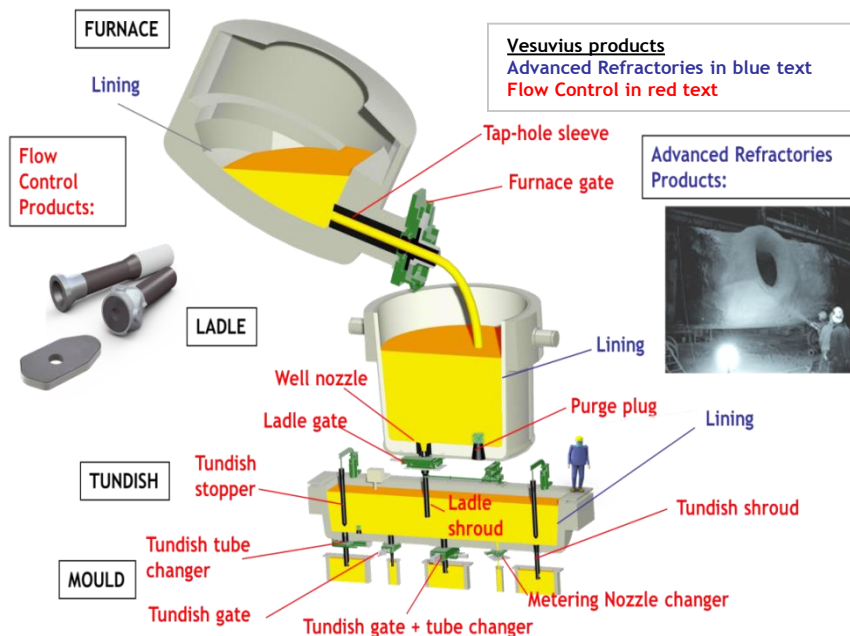
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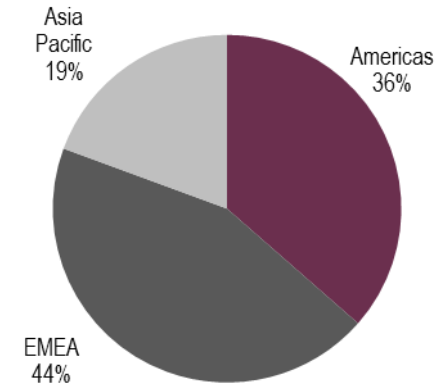
# Main products and markets – Steel business segment

## Steel business segment overview

- World leader in the supply of consumable **Steel Flow Control** products used in the enclosed continuous casting process and a leading supplier of **Advanced Refractories** used as high temperature linings



## Steel business segment revenue by operating location



Source Vesuvius breakdown of 2013 Reported Revenues

Well balanced presence in all major areas

- Vesuvius is the only truly global player in Flow Control
- Asia Pacific major volume growth potential
- Europe and NAFTA as laboratories for innovation

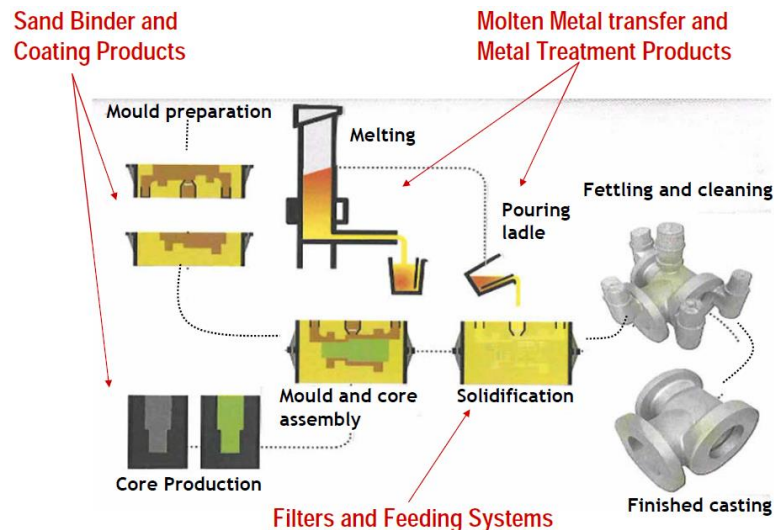


**A global leader for steel flow control consumable ceramics**

# Main products and markets – Foundry business segment

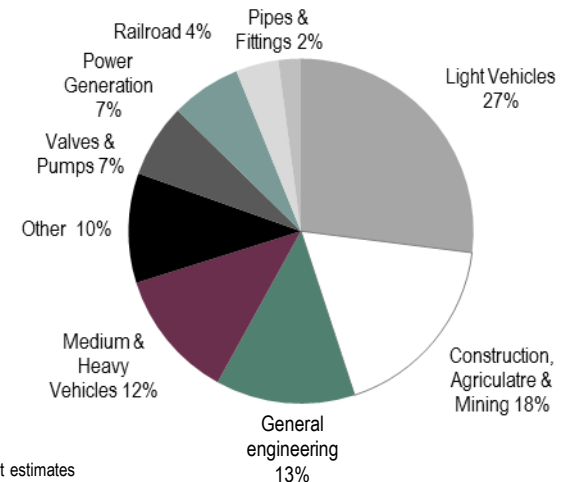
## Foundry casting process

- World leader in the supply of consumable products and technical services used in the production of metal castings which themselves have a wide variety of uses in engineered products



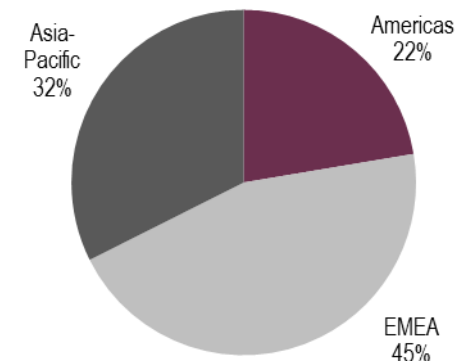
Note Red text denotes Vesuvius products

## Ultimate end markets for castings



Source Management estimates

## Foundry business segment revenue by operating location

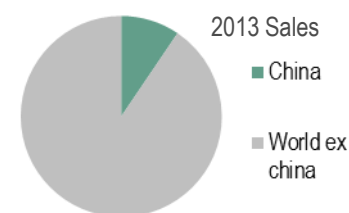
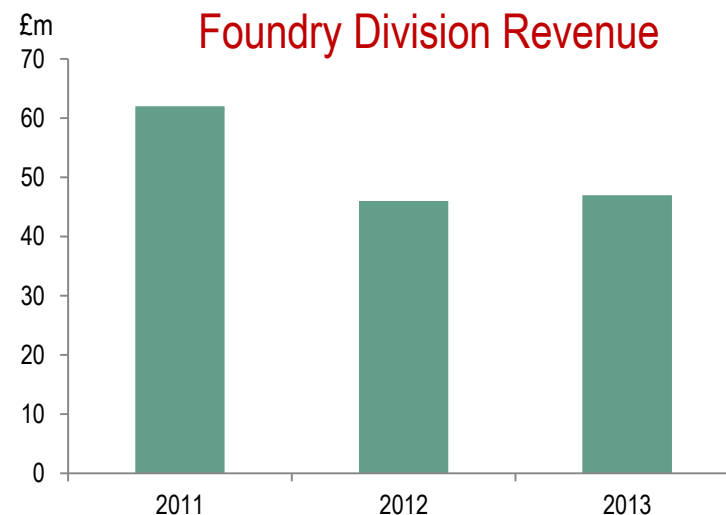
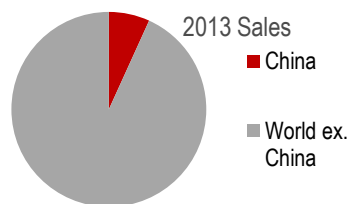


Source Vesuvius breakdown of 2013 Reported Revenues



**A global leader in consumables for mould & methoding**

# Our presence in China



- Sales in China represent less than 10% of revenue in both divisions
- Recent management change in China has realigned local focus on quality and improved profitability
- Steel – growth opportunity from restructuring of Chinese steel industry and shift from long to flat steel production
- Foundry – growth opportunity as Chinese foundry industry becomes more competitive and increases its focus on quality