

A GLOBAL LEADER IN METAL FLOW ENGINEERING

2017 Full Year Results

1 March 2018
Patrick André
Chief Executive

VESUVIUS PLC

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Agenda

- Strategy and Performance Update
- Financial Review
- Outlook





Strategy and Performance Update



Strong results for the year ended 31 December 2017

Revenue

£1.7bn

+20.2%

Reported change

+12.5%

Underlying change

Trading profit

£165.5m

+24.2%

Reported change

+16.1%

Underlying change

Return on sales

9.8%

+30bps

Reported change

+30bps

Underlying change

Headline EPS

40.7p

+33.9%

Net debt / EBITDA

1.3x

2016: 1.8x

Full year dividend

18.0p

+8.8%



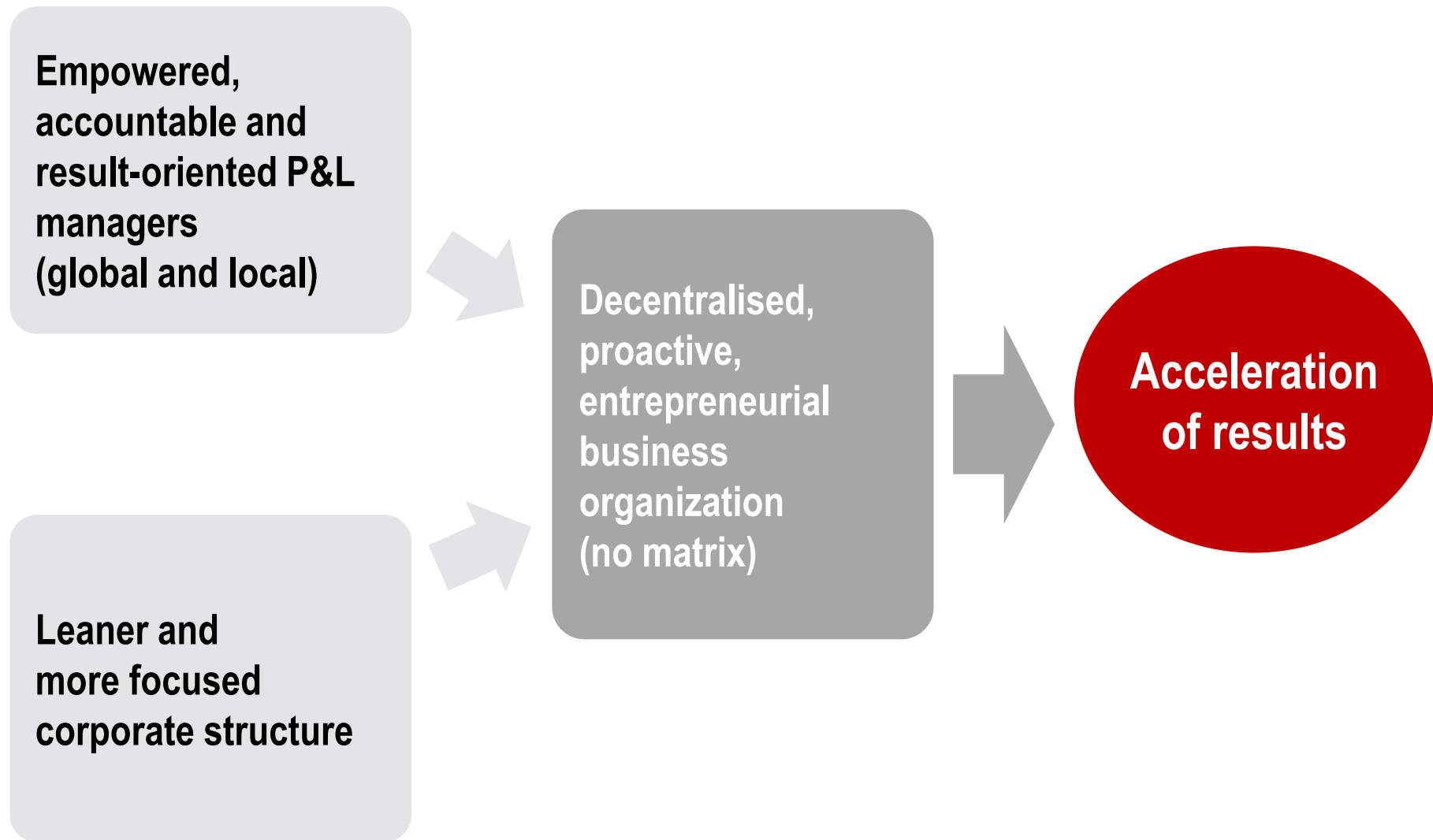
Main achievements 2017

- ✓ Global steel production up 5.3% in 2017 and positive momentum in the majority of Foundry end markets
- ✓ Significant outperformance of general market growth in both Steel and Foundry divisions due to market share gains and increased penetration of our value creating solutions
- ✓ Accelerating momentum in China with 9.2% underlying sales growth – Vesuvius is benefitting from a shift towards higher quality products
- ✓ Major progress made in mitigating temporary headwinds of both Steel Flow Control EMEA intercompany supply and significant raw material cost inflation. £14.4m headwind in 2017 will substantially unwind in 2018
- ✓ Restructuring savings of £16.2m achieved in 2017, materially exceeding expectations. Total expected restructuring savings from the existing programme, mainly in Steel Flow Control, increased to £60m from £55m
- ✓ Launch of a completely new restructuring programme for Advanced Refractories, Foundry and Group corporate functions targeting £15m of annual savings by 2020

Confirmation of the 5 execution priorities to support our profitable growth strategy



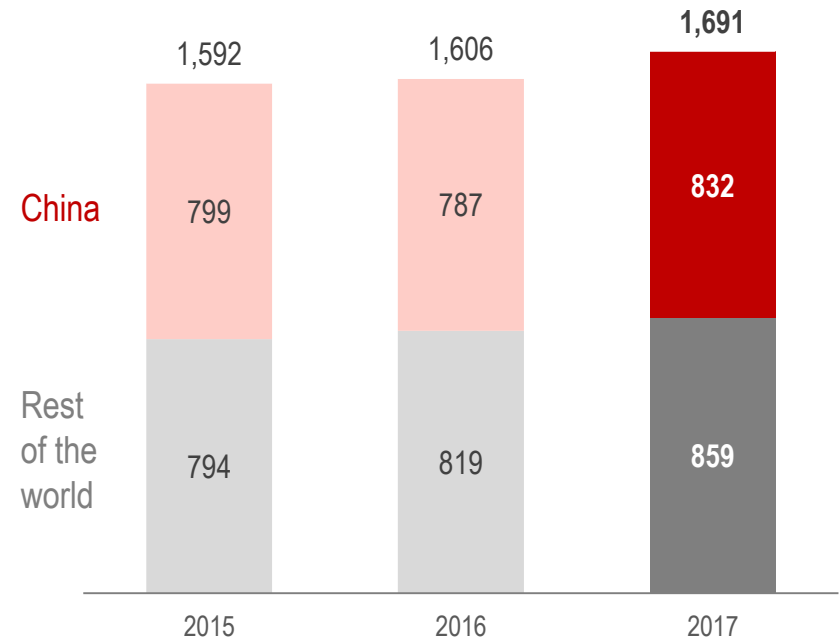
Focus on accelerating the delivery of results



Record growth rate of steel production outside China in 2017

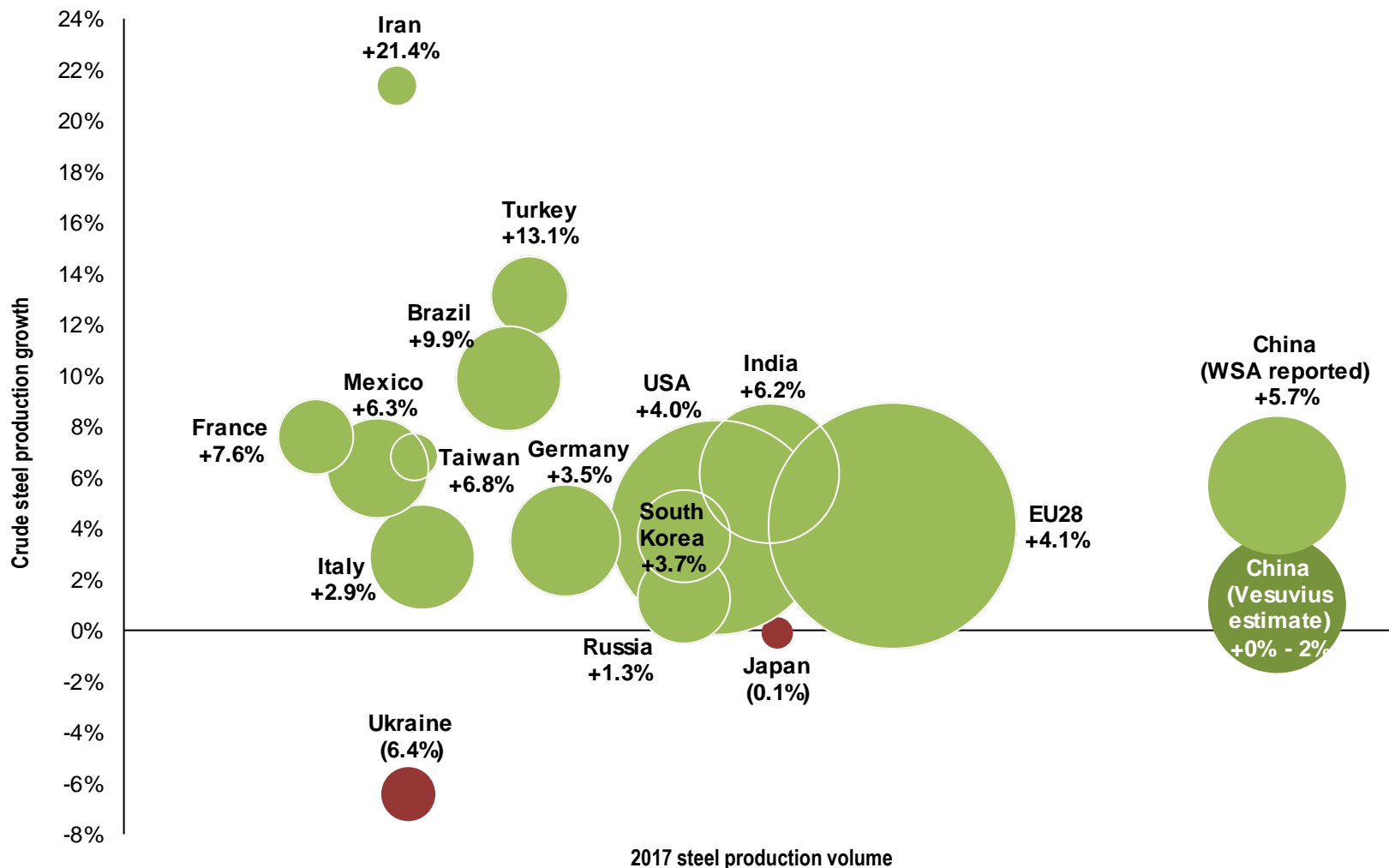
- Record growth rate for steel production in the world excluding China: +4.9%
- ...but, more than half of this growth is related to a 25mt decrease in Chinese steel exports
- Chinese reported steel production up 5.7% but underlying growth closer to +0% - 2% due to the closure of induction furnaces previously not reported in statistics

Annual global crude steel production (mt)
(World Steel Association)



Favourable trends in majority of top-15 steel producing countries

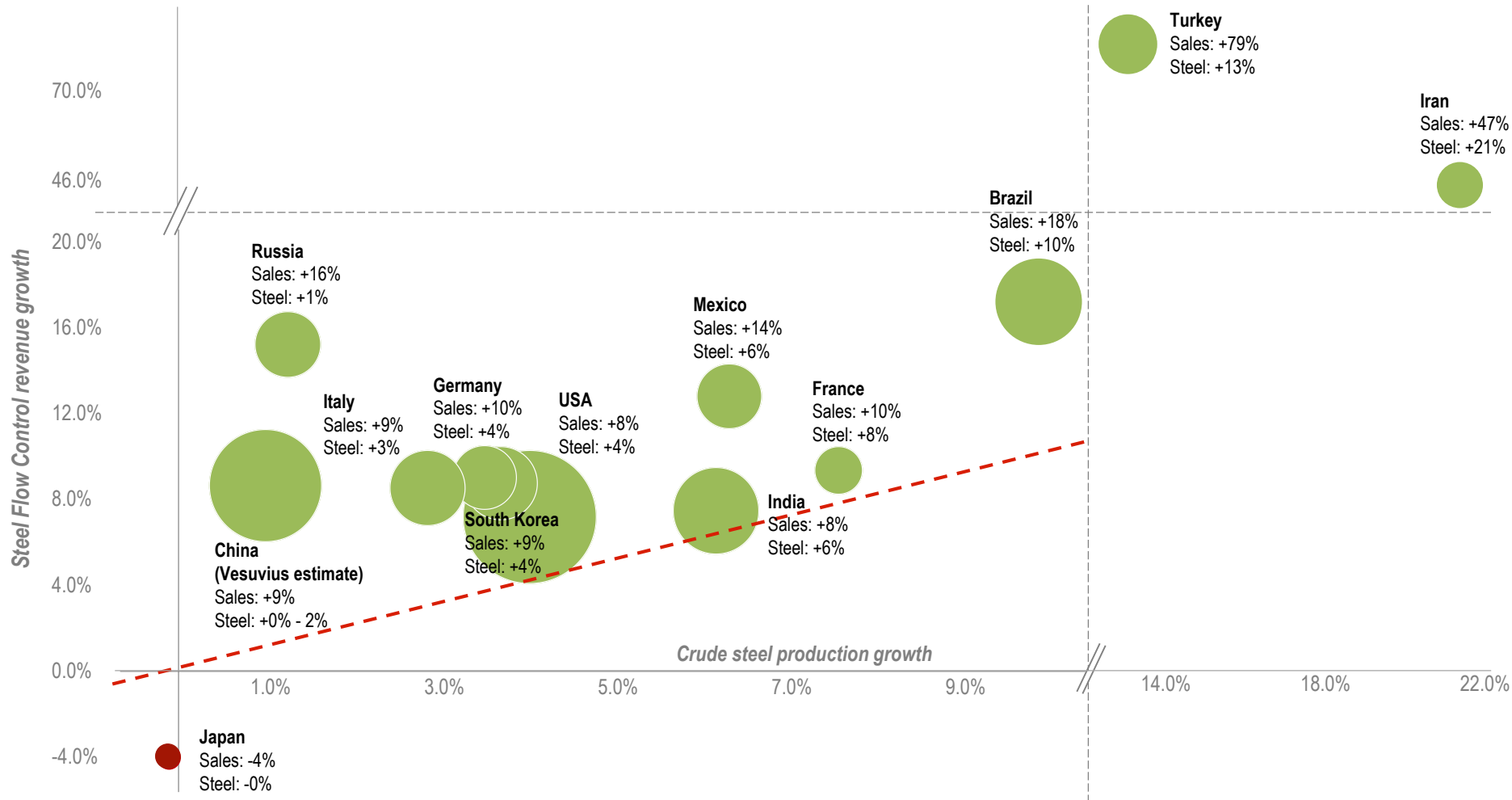
Growth in crude steel production (2017 vs. 2016) vs. 2017 steel production volume (Top-15 producers and EU-28)



Size of bubble represents relative revenue of Vesuvius' Steel Division

Strong market share gain by Steel Flow Control in key markets

Steel production vs. Steel Flow Control revenue growth (2017 vs. 2016) by country (Top-13 steel producing countries)



Size of bubble represents relative revenue of Steel Flow Control. Excluding Ukraine and Taiwan

Positive momentum in majority of Foundry end markets

	Light vehicles production	Medium/heavy commercial vehicles	Construction equipment / Agriculture	Mining	General engineering	Vesuvius Foundry Revenue growth 2016/17
NAFTA						+9%
EMEA						+10%
China						+13%
South America						+17%
India						+5%



Accelerating momentum in China *(8% of Group 2017 revenue)*

Steel Division

Revenue growth 2016/17

+7%

- Outperformance of steel production due to market share gains
- Increasing customer interest in our value added solutions
- Strong improvement in debtor collection

Foundry Division

Revenue growth 2016/17

+13%

- Double digit growth driven by strong underlying market performance and market share gains
- Strong performance of coating and filter product segments
- Development of a strong local sales and marketing organisation

Favourable market trends

- Continued shift from long steel to higher quality flat steel
- Steel industry consolidation expected to drive shift towards higher quality steel
- Chinese steel producers are increasingly adopting Western technologies



Increased penetration of value-creating solutions in China

Case study – Specialised products contract with major Chinese steel producer

Major Chinese steel producer

- Wanted to adopt a new steel production technology (Castrip® casting process, developed in the USA)
- The Chinese customer was licensed by the US technology owner to use the Castrip® technology in China

- A Vesuvius Transfer of Technology team was formed in China to transfer manufacturing know how from Vesuvius US plants to Vesuvius China plants
- The team was trained using Vesuvius' internal knowledge and experience of the Castrip® technology



- Vesuvius secured the contract to supply specialised products to the first Chinese Castrip® user

Vesuvius

- Is the approved supplier for the Castrip® casting process
- Has high quality manufacturing operations in China



Continued progress in developing markets

India

(8% of Group 2017 revenue)

Steel Division

Revenue growth
2016/17

+7%

Foundry Division

Revenue growth
2016/17

+5%

- Strong sales growth due to market share gain, especially in Steel Flow Control

- Positive performance supported by filters and feeding systems
- However, growth impacted by prioritisation of customer credit risk management

South America

(6% of Group 2017 revenue)

Steel Division

Revenue growth
2016/17

+18%

Foundry Division

Revenue growth
2016/17

+17%

- Steel Flow Control sales growth positively impacted by Mastercodi acquisition
- Success with robotic solutions penetration

- Strong sales performance supported by feeding systems and filters

EEMEA¹

(15% of Group 2017 revenue)

Steel Division

Revenue growth
2016/17

+41%

Foundry Division

Revenue growth
2016/17

+23%

- High growth in the region supported by increased penetration rate
- Continued shift from long to flat steel in Turkey

- Strong performance supported by market share gains especially in Turkey

Note 1: Eastern Europe, Middle East and Africa

Strong performance in EU-28 and NAFTA

EU-28

(29% of Group 2017 revenue)

Steel Division

Revenue growth 2016/17

+8%

- Outperformance of steel production in key European markets partially driven by customers diversifying their suppliers

Foundry Division

Revenue growth 2016/17

+7%

- Strong performance in heavy truck and construction
- Successful introduction of new products
- Strong growth in coatings, feeding systems and filters

NAFTA

(22% of Group 2017 revenue)

Steel Division

Revenue growth 2016/17

+8%

- Significant market share gain for Steel Flow Control in USA and for Advanced Refractories in Canada

Foundry Division

Revenue growth 2016/17

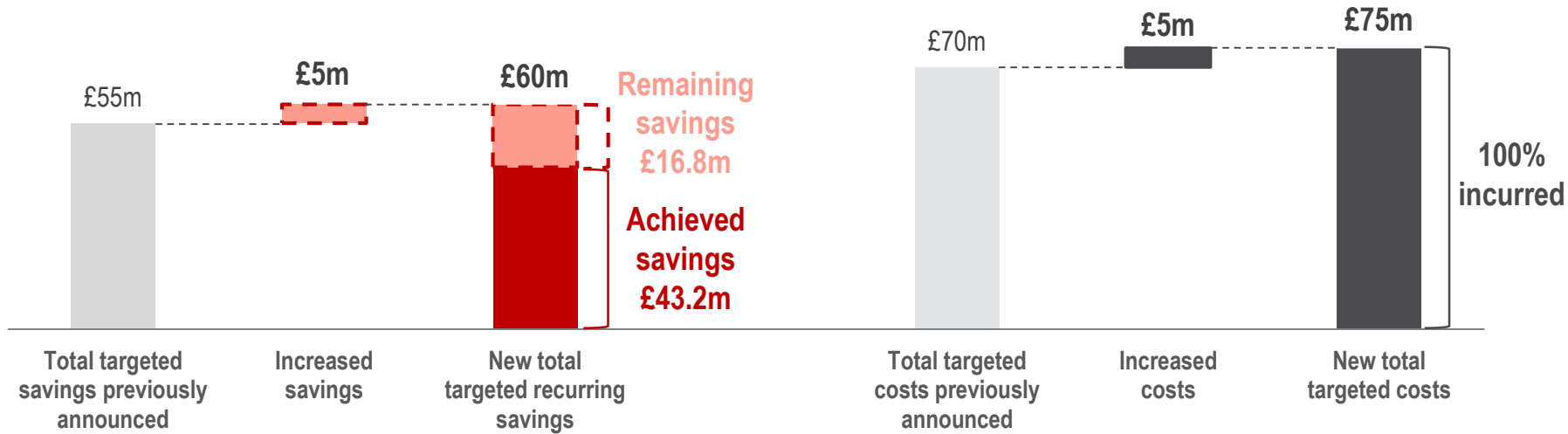
+9%

- Weakness in light vehicle and rail offset by heavy truck and construction and agricultural equipment
- Increased market share in coatings, filters and feeding systems

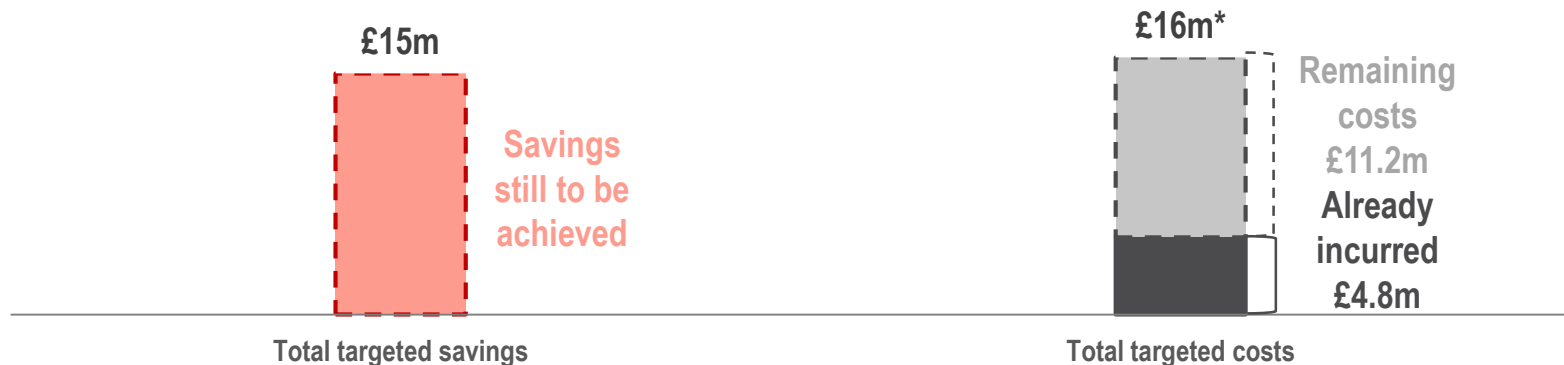


Previous restructuring programme above target + completely new £15m restructuring programme

Previously announced restructuring programme



Completely new restructuring programme for Advanced Refractories, Foundry and Group corporate functions



* £5m of capex will also be necessary to support implementation of the programme



Reinforcement of our technological leadership

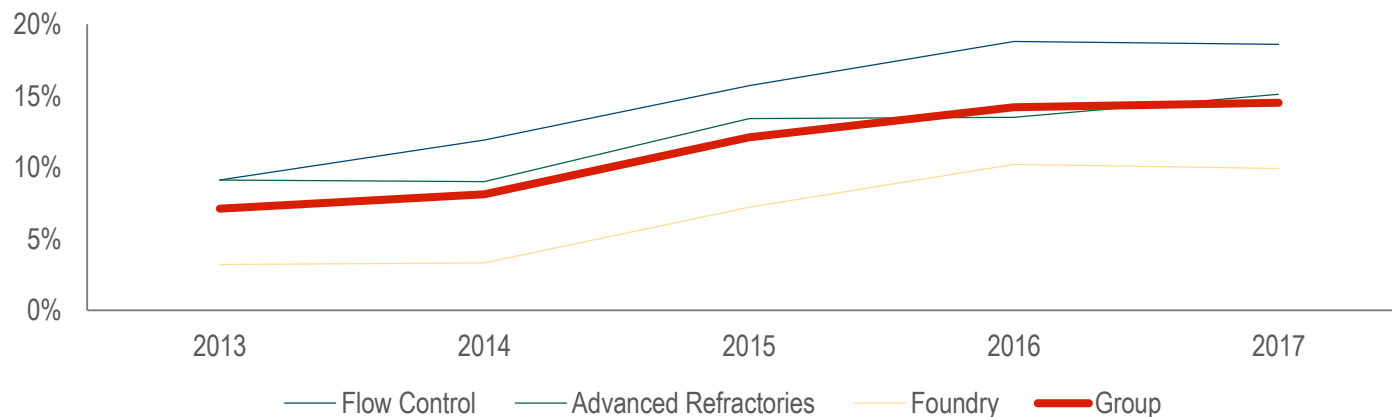
Significant R&D resources

- 300 R&D staff distributed across 17 R&D centres
 - New R&D centres in India and China
- Global R&D spend of £33.2m in 2017 (+£4.6m vs. 2016)

New product sales

- On track to reach 20% of sales from “new products”⁽¹⁾
 - Significant pipeline of new products to reach the market in the next three years
 - New products are typically higher margin and enable Vesuvius to reinforce its edge over competition

New product sales as percentage of total sales



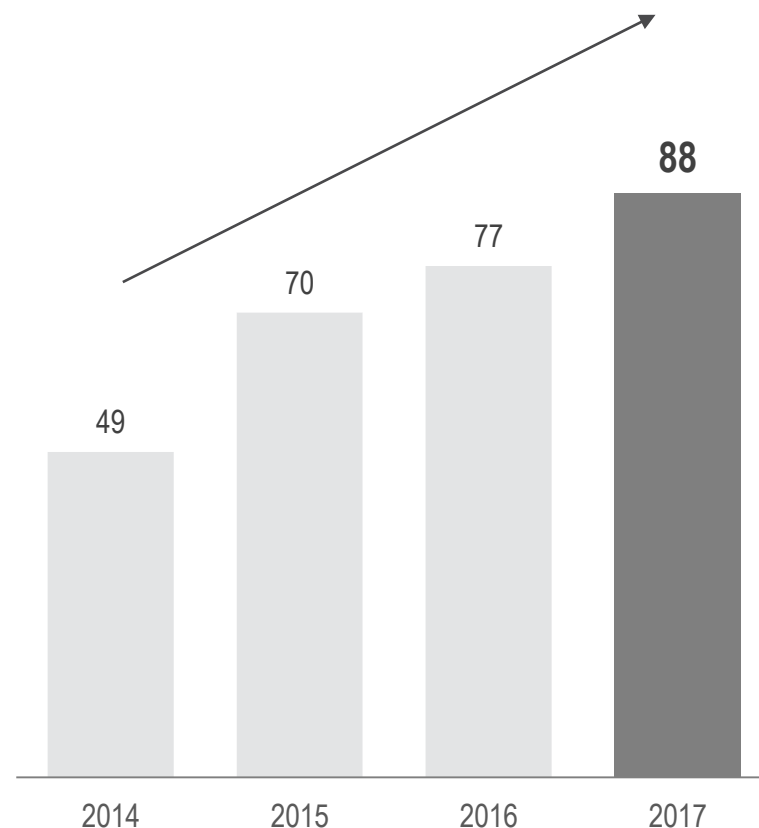
Note 1: Products launched in the past 5 years

Develop our Technical Services offering

- Vesuvius develops its Technical Services offering through:
 - The Digital Services business
 - Specialized entities in the other business units delivering sales not directly related to our consumables sales
- Our global Technical Services sales reached £88m in 2017
- In December 2017, we finalised a strategic investment in Sapotech, a technology company offering optical surface defect detection services for the continuous casting process

Technical Services offering reported revenue

£m





2017 Divisional Performance

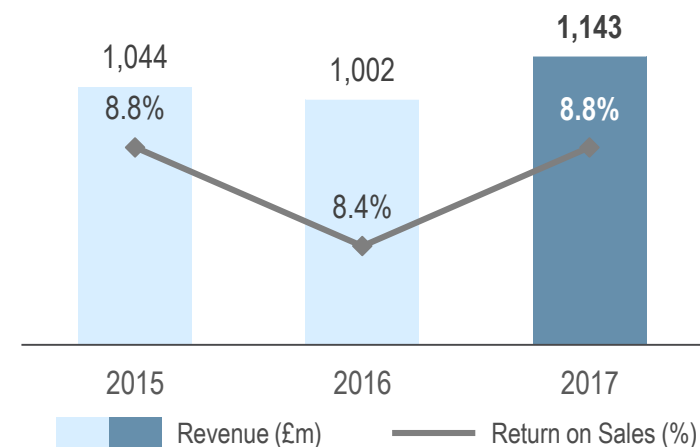


Steel Division

Key financials

£m	Reported			Underlying change
	2017	2016	Change	
Revenue	1,148.7	942.0	21.9%	14.1%
Trading profit	100.4	79.2	26.8%	18.9%
Return on Sales	8.7%	8.4%	+30bps	+40bps

Underlying revenue / Return on Sales



- Underlying trading profit up 18.9% on 2016 and underlying margin improvement +40bps
- Results could have been even better without temporary headwinds of EMEA supply and raw material price increase
- Mitigation of these headwinds mostly achieved by year end

Notes: Steel Division includes Flow Control, Advanced Refractories and Digital Services.

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

Steel Flow Control Europe – Imports returned to historic levels

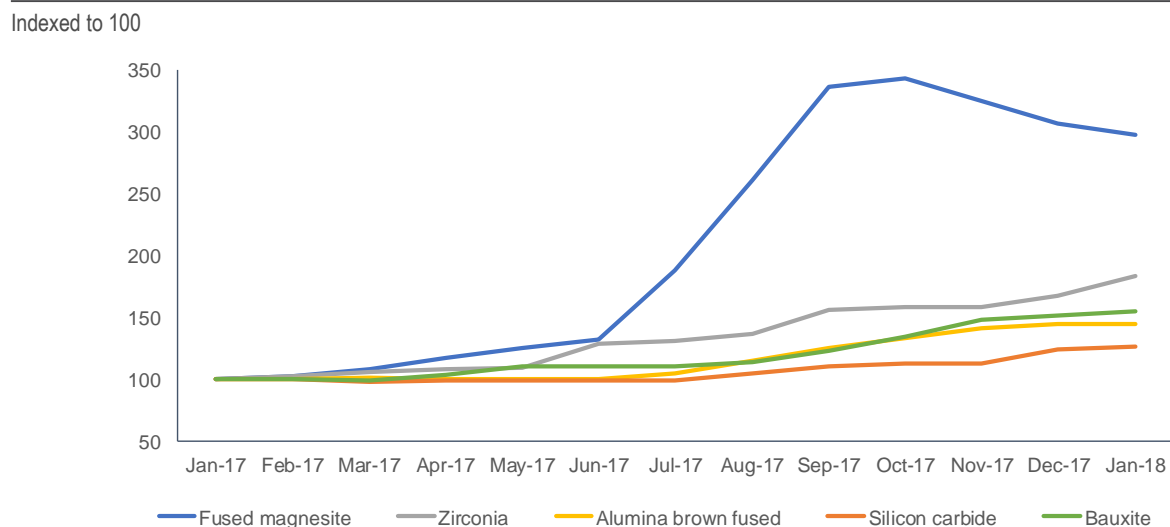
- Steel Flow Control EMEA achieved a 17.5% increase in underlying sales in 2017, exceeding our manufacturing capacity in the region
- As explained at the H1 results, a significant proportion of this increase was supplied by imports into EMEA which impacted profitability due to higher freight, export duty and overtime costs
- The full year additional cost of importing non-European production was £7.6m
- This ‘temporary headwind’ will be substantially recovered during 2018

- **Measures were immediately taken to increase the capacity of the Steel Flow Control EMEA plants**
- **This ramp-up is now complete, substituting imports from non-EMEA plants**

Successful pass through of raw material price inflation

- Raw material price inflation accelerated in Q3 2017, before showing some signs of stabilisation in Q4 2017
- Total Group wide impact on 2017 Trading Profit of £6.8m
- Measures taken to increase our own selling prices
- Confirmation of our ability to systematically pass-through raw material increases to customers, however with a time lag effect
- Some raw material prices are still on an upward trend

Market price development of key raw materials

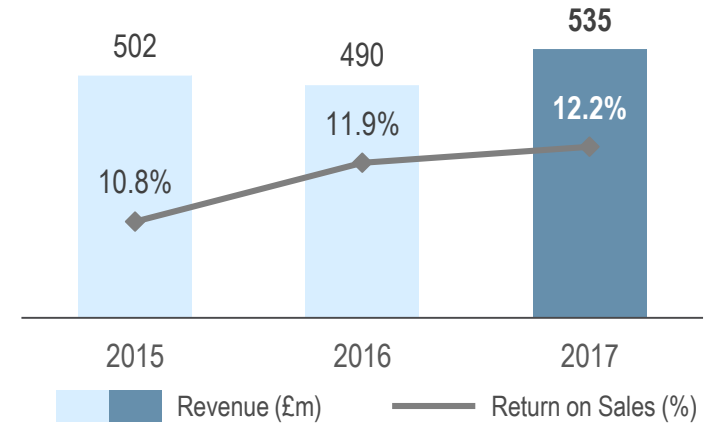


Foundry Division

Key financials

£m	Reported			Underlying change
	2017	2016	Change	
Revenue	535.2	459.4	16.5%	9.3%
Trading profit	65.1	54.1	20.3%	12.0%
Return on Sales	12.2%	11.8%	+40bps	+30bps

Underlying revenue / Return on Sales



- **Underlying trading profit up 12.0% on 2016 and underlying margin improvement c.30bps**

- Drop-through from higher sales resulting from market share gains and growth in end markets
- Record year for new product launches
- Benefits of restructuring programme
- Positive news partially offset by raw material price inflation, although has now been mostly mitigated and will substantially unwind during the year

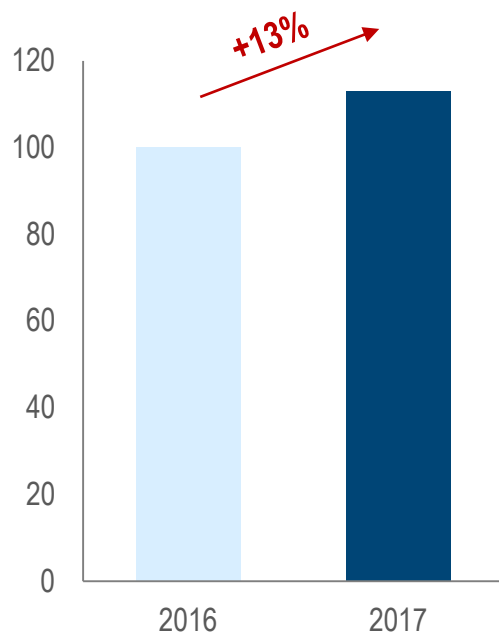
Note: Underlying basis is at constant currency and excludes separately reported items and the impact of acquisitions and disposals

Foundry Division (continued)

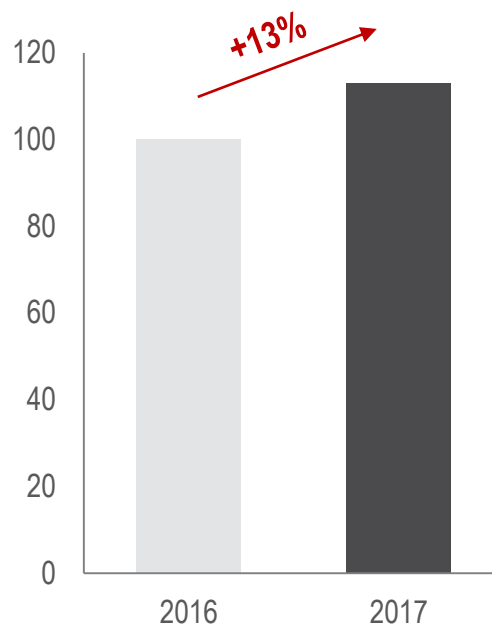
Foundry key high margin products – c.60% of revenue

Indexed to 100

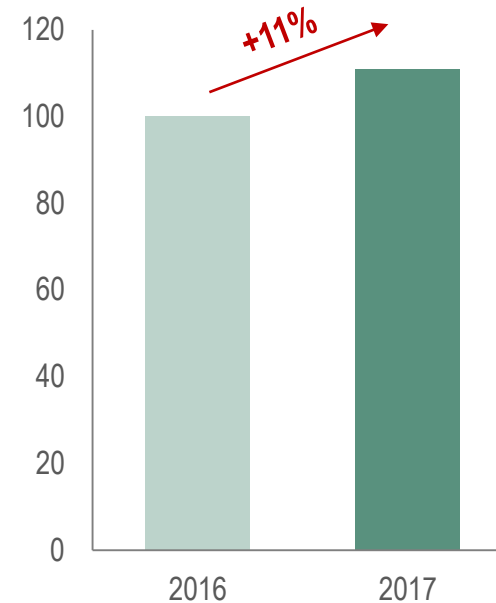
Feeding

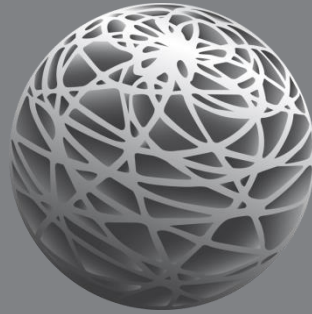


Filters



Coatings





A GLOBAL LEADER IN METAL FLOW ENGINEERING

Financial Review

Guy Young
Chief Financial Officer

VESUVIUS PLC

Income statement

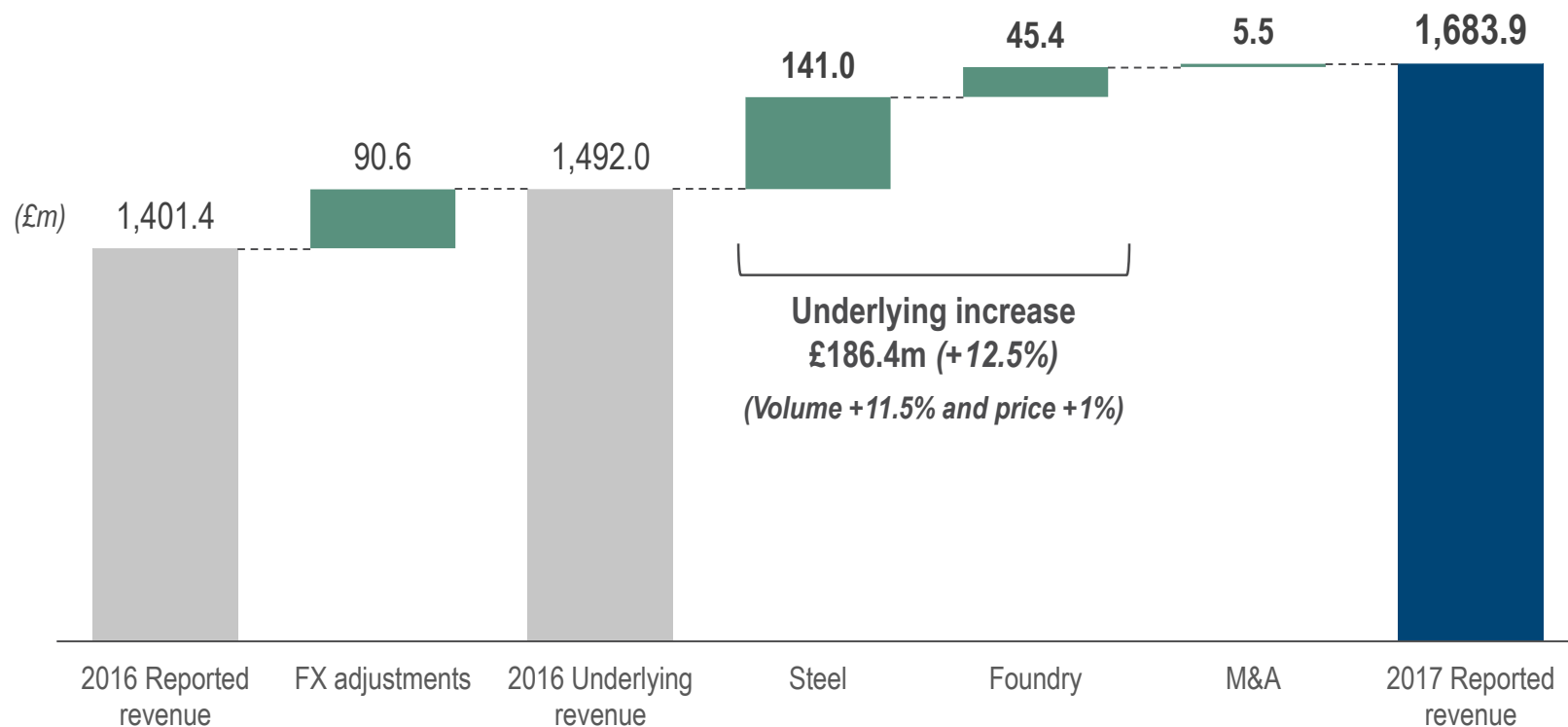
(£m unless indicated)	2017 Actual	2016 Actual	Change (%)	
			As reported	Underlying
Revenue	1,683.9	1,401.4	20.2%	12.5%
Trading Profit	165.5	133.3	24.2%	16.1%
ROS %	9.8%	9.5%	+30bps	+30bps
Post tax Share of JV Results	1.3	1.0		
Net Finance Costs	(13.9)	(14.5)		
Headline Profit Before Tax	152.9	119.8		
Effective Tax Rate	24.0%	26.4%		
Tax	(36.4)	(31.4)		
Non-Controlling Interest	(6.4)	(6.3)		
Headline Earnings	110.1	82.1	34.1%	
Headline EPS (pence)	40.7	30.4	33.9%	

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



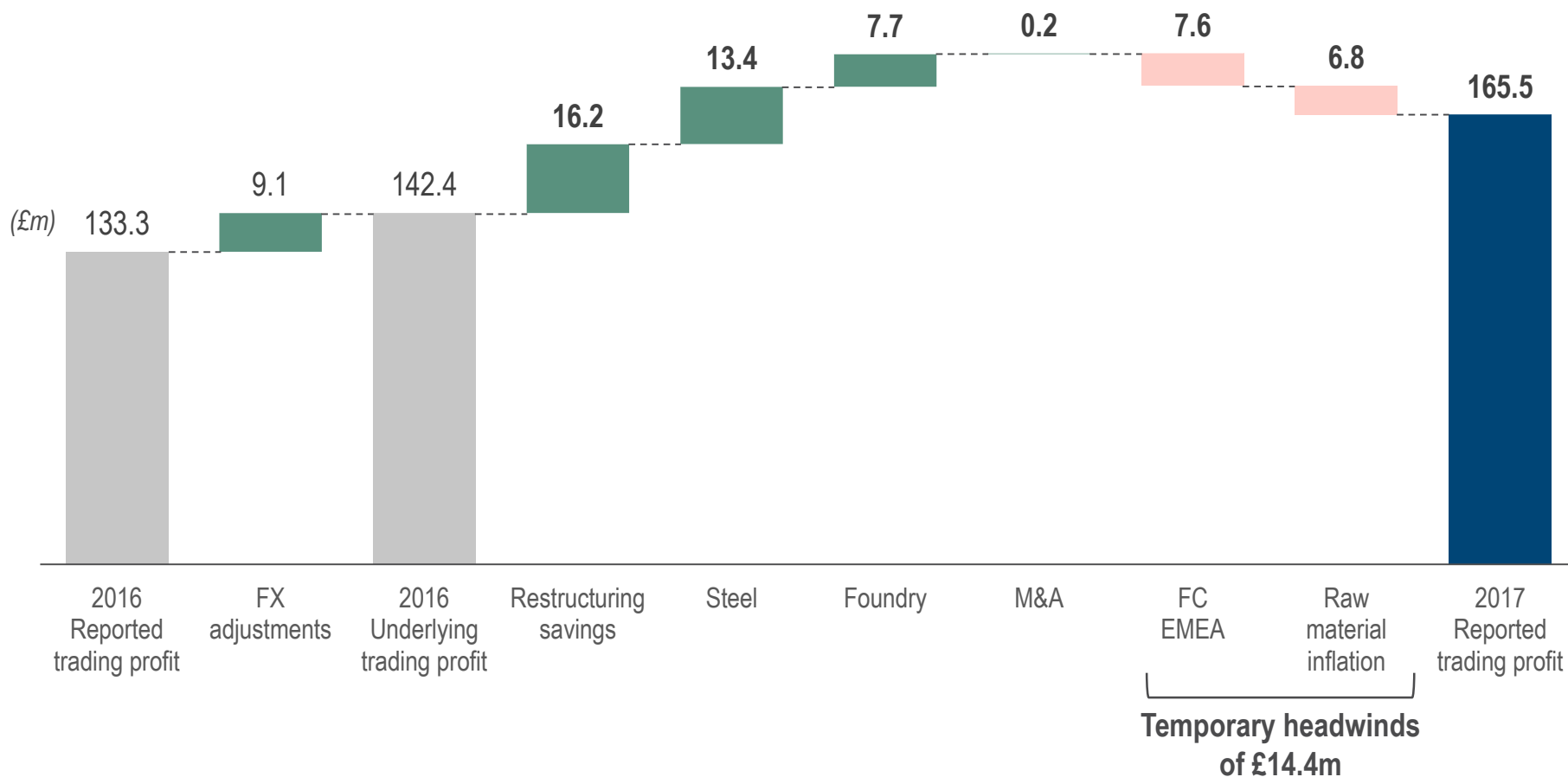
Underlying Vesuvius revenue up 12.5%

- Revenue up £283m on a reported basis (+20.2%) and up £186m on an underlying basis (+12.5%)
- £90.6m increase from FX due to GBP being weaker on average in 2017 versus 2016



Underlying Vesuvius trading profit up by 16.1%

- Trading Profit up £32.2m on a reported basis (+24.2%) and up £23.1m on an underlying basis (+16.1%)



Tax update

2017 effective tax rate on Headline performance before JVs and SRI (“ETR”)

- 2017 full year ETR of 24.0% versus 28.0% in H1 2017 and 26.4% in 2016
- Lower than expected for the following key reasons
 - Lower tax charge in Mexico due to foreign exchange fluctuation
 - Increased value derived from tax losses
 - Favourable litigation outcomes in India

US tax reform enacted 22 December 2017

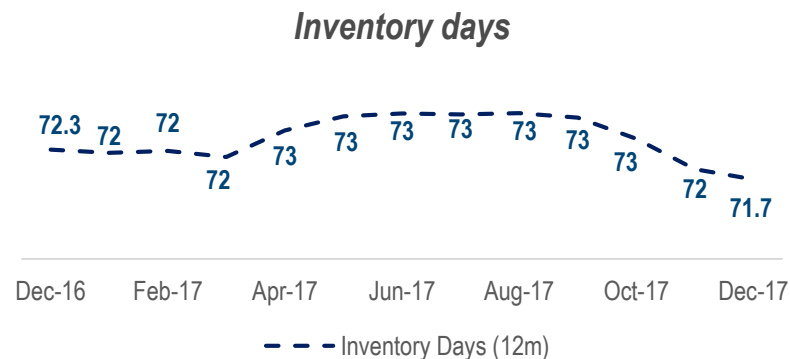
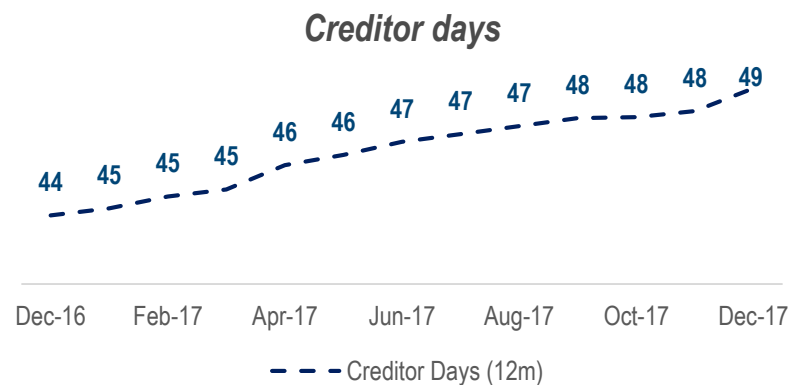
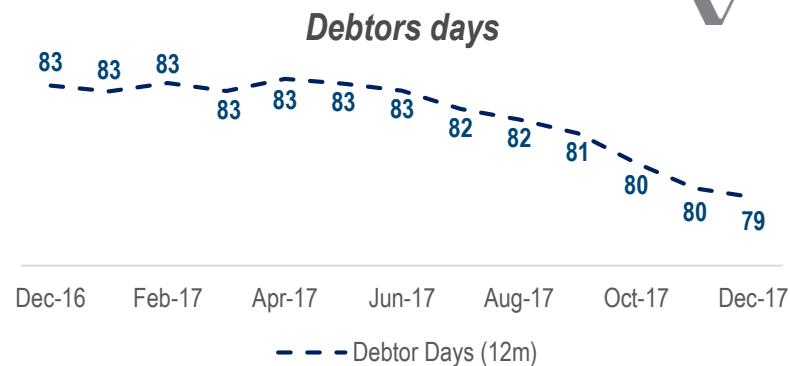
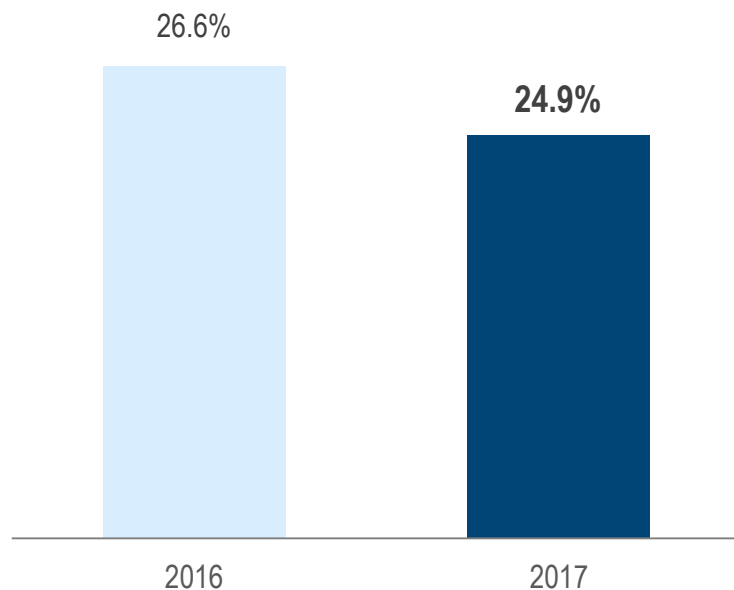
- A lower tax rate in the US (21% vs. 35% Federal rate post-reform) would clearly be good for our US business from a longer-term perspective
- Although still subject to clarification, we estimate the short/medium-term impacts are as follows:
 - Write-down of our US deferred tax asset from £65.9m (as at year end 2016) to £32.6m at the end of 2017, due to the impact of US tax reform and other normal movements. This does not impact our headline earnings as it is included in separately reported items
 - Increase in our Group ETR by 0.7% in 2018, and 1.2% in 2019

We expect the Group's effective tax rate for 2018 onwards to be between 27% and 28%, including the expected adverse impact of US tax reform, reflecting the tax benefit of initiatives being taken

Trade working capital progress

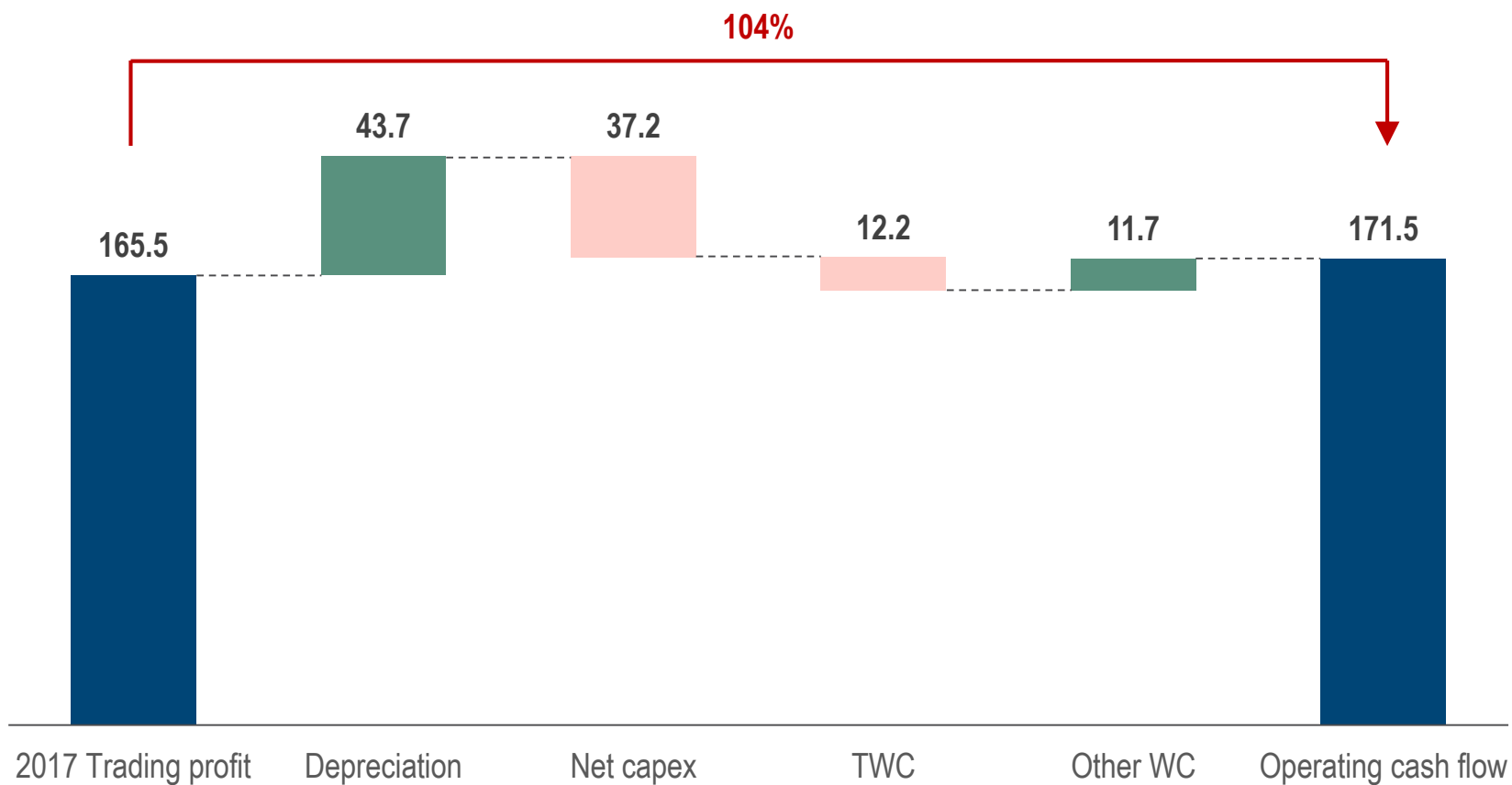
- We have made encouraging progress in our efforts to reduce trade working capital with the ratio of trade working capital / revenue down to 24.9% in 2017 from 26.6% in 2016

Trade working capital / Revenue



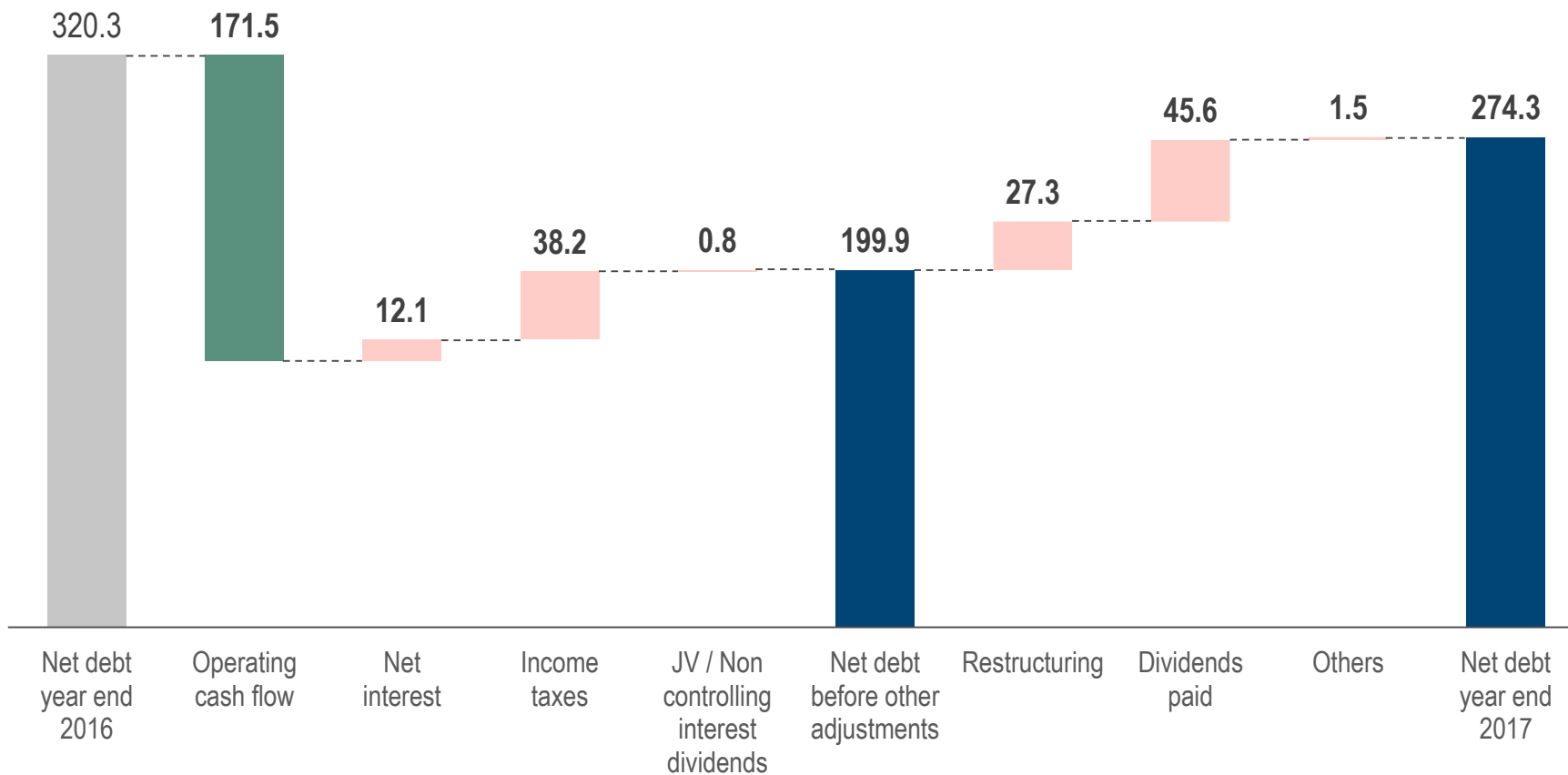
104% cash conversion rate

- Superior cash conversion performance versus 2016's level of 94% due to successful working capital optimisation initiatives
- Trade working capital increased by just £12.2m on a constant currency basis in 2017 despite sales growth of £191.9m on a constant currency basis



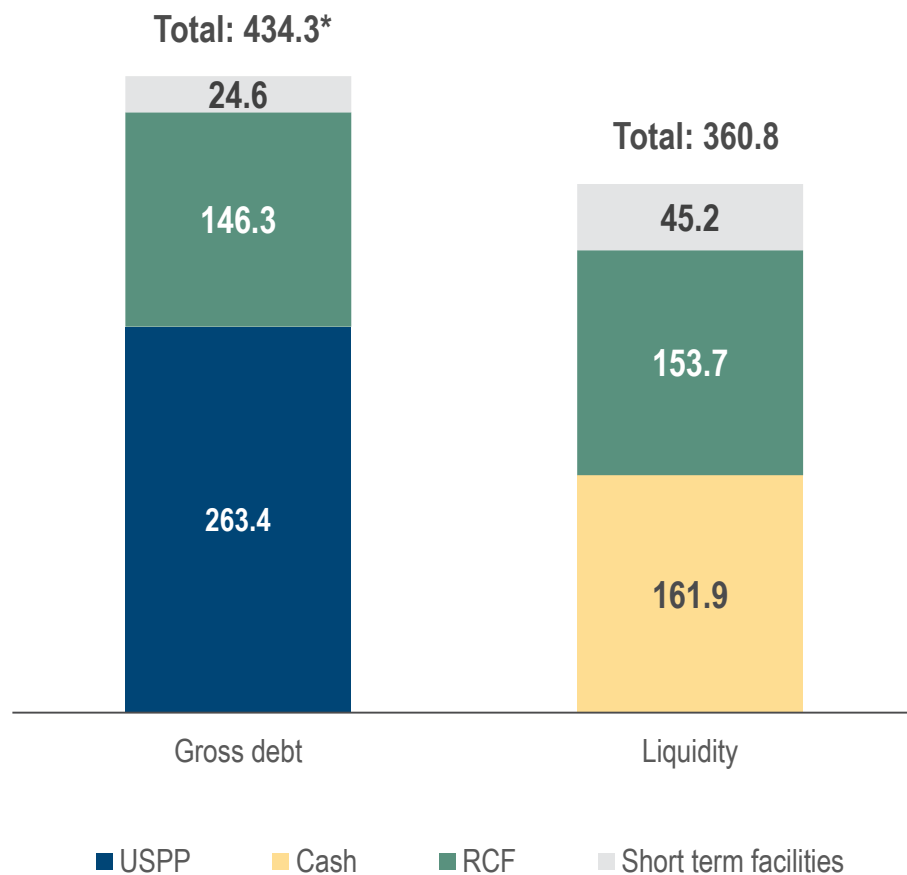
£274.3m Net Debt and 1.3x Net Debt / EBITDA

- Net debt down c.£46m at £274.3m, versus £320.3m at end 2016
 - £93.1m free cash flow generation from continuing operations offset by £45.6m dividend payments and £27.3m cash restructuring costs
- Strong balance sheet with Net Debt / LTM EBITDA at 1.3x

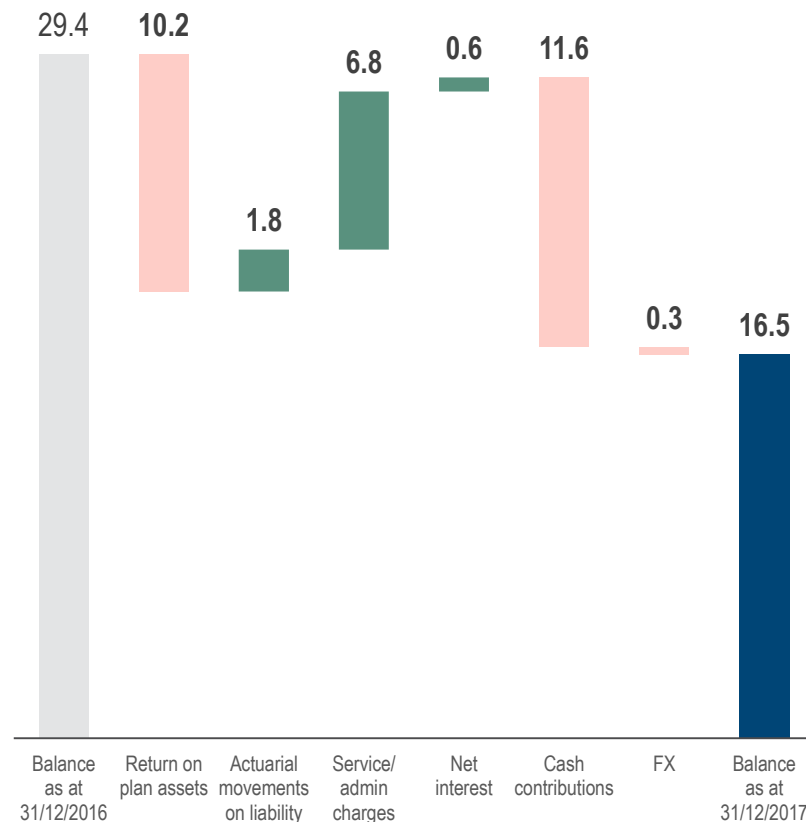


Strong balance sheet with significant liquidity

Gross debt and available liquidity (£m)



Update on pension deficit (£m)



*Excluding finance leases and capitalized financing costs

Focused financial objectives to maximise free cash flow



Cost control

- Vigilant cost control and pass through of input cost inflation

Restructuring

- Delivering restructuring programmes on-time and on-budget

Working capital optimisation

- Clear impact of initiatives but further work still to be done





Outlook



Outlook

- Our main Steel and Foundry markets remain positively oriented at the beginning of 2018
- However, we expect a lower growth rate of steel production outside China in 2018 compared to 2017, as the significant decrease in Chinese steel exports which occurred in 2017 may not repeat in 2018
- Our self-help and manufacturing optimisation programme will continue to develop and expand in 2018
- The temporary raw material and product supply headwinds that impacted our 2017 results have now been mostly mitigated and will substantially unwind during the year, subject to any further raw material cost increases
- We remain confident in our ability to further improve working capital management and generate strong operating cash flow
- For these reasons, the Board is confident that in comparison to 2017, further strong progress will be made in 2018





Q&A





Appendix



5 year history at constant currency⁽¹⁾

£m	2013	2014	2015	2016	2017
Group revenue	1,596.0	1,643.3	1,546.3	1,492.0	1,683.9
Steel ²	1,087.1	1,123.9	1,044.2	1,002.2	1,148.7
Foundry	508.9	519.4	502.1	489.8	535.2
Group trading profit	149.3	167.3	146.1	142.4	165.5
Steel ²	96.8	113.6	91.8	84.3	100.4
Foundry	52.5	53.7	54.3	58.1	65.1
Group return on sales	9.4%	10.2%	9.5%	9.5%	9.8%
Steel ²	8.9%	10.1%	8.8%	8.4%	8.7%
Foundry	10.3%	10.3%	10.8%	11.9%	12.2%

1. All numbers shown at December 2017 average exchange rates

2. Steel Division includes Steel Flow Control, Advanced Refractories and Digital Services

Currency Ready Reckoner

Dec-17		
Trading Profit	Unit	Approximate change in profits (£m)
USD	1 cent	0.3
EUR	1 cent	0.3
INR	1 rupee	0.3
RMB	0.1 RMB	0.3
JPY	1 Yen	0.1
BRL	0.01 reais	0.1
ZAR	1 rand	0.2

- 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