Business Review

Markets

Organic revenues from the aerospace and defence market grew 3.3% (in constant currencies) and would have been higher but for some slow down in the subcontracting strategy of some key US customers along with pressure on defence budgets, which together caused a temporary reduction in sales growth at a number of our facilities in the first half of the year.

The Group has seen very different conditions in oil & gas depending on the sub-sector. North American demand for onshore exploration and production equipment, particularly for gas fracking applications, weakened significantly in the first half as customers adjusted inventories to reflect the lower level of activity. Declines in North American sales were offset to some extent by growth in sales to customers serving the subsea market. Overall this resulted in an organic decline of 12.1% (in constant currencies) in Bodycote's global sales to oil & gas customers versus the same period in 2012. A greenfield facility for thermal spray was opened in Houston, Texas, giving the Group this capability in North America for the first time.

Sales to industrial gas turbine customers have continued to grow in North America and have begun to show some improvement in Europe. Organic revenues (in constant currencies) were ahead approximately 8% compared to the first half of 2012, although much of this gain was offset by a temporary reduction in demand from nuclear power customers.

Overall aerospace, defence and energy market revenues were up 5.1% compared to the same period in 2012.

Although market conditions in the European car and light truck sector have been weak, the Group has been able to maintain organic revenues (in constant currencies) in this region, as a result of continued share gains and a focus on premium models, sales of which have performed more strongly. Organic car and light truck sales in North America were modestly ahead (in constant currencies). In contrast, the heavy truck market has seen a sharp reduction in demand in both North America and Europe and overall revenues were down organically by over 20% (in constant currencies). Including acquisitions and at actual exchange rates, sales to automotive customers, including heavy truck, grew 8.3% in the first half of the year.

Demand from general industrial customers has been soft in all sectors. The tooling and mining equipment sectors saw the most significant declines but almost all markets were weaker. In total, organic revenues were down by 6.0% (in constant currencies) but with the benefit of acquisitions and at actual exchange rates, revenues were 3.0% higher than in the same period of 2012.

Demand in emerging markets has generally been weak, with sales in automotive and general industrial sectors down 5.8% (in constant currencies).

Overall automotive and general industrial market revenues were up 5.0% compared to the same period in 2012.

Aerospace, Defence & Energy

Revenues for the ADE business were £133.8m in the six months to June 2013 compared with £130.3m in 2012, an increase of 2.7% (0.5% in constant currencies), made up of an organic decline of 2.0% and growth from acquisitions of 2.5%.

Headline operating profit was £34.5m (2012: £31.3m), an increase of 10.2%. The headline operating margin improved from 24.0% to 25.8%.

Net capital expenditure was £17.3m (2012: £15.6m), representing a spend rate of 1.8 times depreciation (2012: 1.7 times). The majority of capital spend so far this year has been in North America. Notable projects include the expansion of HIP and thermal spray capacity.

Average capital employed for the period was £250.0m (2012: £228.7m).

Automotive & General Industrial

Revenues for the AGI business were £182.7m in the first half of 2013, compared with £171.0m in 2012, an increase of 6.8%. The growth in constant currencies was 4.1%, made up of an organic decline of 6.4% and growth from acquisitions of 10.5%.

Headline operating profit was £25.1m (2012: £22.8m), an increase of 10.1%. Despite the headwind of weak demand in a number of sectors, headline operating margin improved from 13.3% to 13.7%.

Net capital expenditure was £10.4m (2012: £9.5m) representing a spend rate of 0.6 times depreciation (2012: 0.6 times). The Group continues to focus investment and expand capacity in high added-value processes.

Average capital employed for the period was £317.2m (2012: £261.9m).