Morgan Crucible
The Advanced Materials Group

14th February 2013

"One Morgan" – Mark Robertshaw, CEO

Q: What are you announcing today?

A: What we're announcing today is a move to a new organisational model; we're describing it as the "One Morgan" model, and it brings together all the range and breadth and depth of our capabilities under a single, regional-based product offering. And, at the same time, we're changing the Group's name to Morgan Advanced Materials. The Morgan part of our name has real resonance, but we think that's a much better reflection to our customers of what it is that we do as a Company.

Q: And, why are you moving to this regional structure? And, what difference do you think it will make?

A: I would say, at the heart of the regional structure is really about looking to enhance our ability to grow in the future. The reason we think we can grow more rapidly is by being able to take to our customers that full range of materials capabilities. We also think that there's more commonality within regions, given the differences of the macro-economic environment in those regions; clearly growth in places like Asia. In the Western world, it's more about moving towards the positive mix shift of markets such as aerospace and medical, and there are a lot of common themes within those regions.

Q: And so, does this mean an end to the two existing industrial divisions?

A: What it means is a continuation of a journey now that we've been on for a number of years. A decade ago we had nine divisions. Over that period we've been simplifying, we've been unifying the Group. This is then the next natural step in that evolution.

Q: What's prompted this exactly? How have you determined that customers will benefit from this unified proposition?

A: As a very good case in point, back in 2010 we brought together our Technical and our Thermal ceramics businesses. On the back of that we found it opened up a whole range of new market opportunities, both geographic and by end market. And, we anticipate something very similar coming through with this latest stage of the organisational design.

Q: Some will say this is a reaction to your profit warning and the alarm that that caused in the market. Could this cause further alarm?

A: I think far from it. As I said, if you look over the past decade we've gone from having nine divisions now into one. This is just a natural step in that evolution. It's been consistent really with our direction of travel for a number of years now.

Q: And, do you stick by your three year targets? Or will they change as a result of this announcement?

A: Well, we need to bear in mind that we put those targets out some two years ago; the world was quite a different place there. Certainly the macro environment in 2012 was more challenging. But, at the heart, our goals remain the same, which is we expect to get to mid-teen operating profit margins; we expect to get to return on capital employed of 35 per cent. And, we think that the changes that we're announcing today put us in an even better position to enable us to do that.

Q: Will we see any management changes as a result?

A: Inevitably, on the back of any organisational change there are some changes of roles and responsibilities. If I were to highlight a few coming from the announcement today, we're putting in place a new role of Chief Operating Officer that will be Andrew Hosty; the regions will report into Andrew. I'm also creating some new global functional roles, for example a Chief Technology Officer and a Head of Marketing, and those roles will report into me.

Q: How else could this affect headcount or footprint?

A: The primary driver about this is about growth. It's about putting us in a better position to go to our customers with the full range of our products and our capabilities. We do expect that there may be some streamlining and some rationalisation benefits on the back of this. But, predominantly, this is really about enhancing our ability to grow.

Q: So, you could be buying and selling a lot of businesses?

A: Our strategy still remains to look for bolt-on acquisitions. We've been very active in that front in the last several months; trying to find good businesses with good technologies that fit with the essence of what we do.

Q: And, will you be planning to serve fewer markets?

A: Absolutely not. The strategy of Morgan Crucible is to focus on differentiated, high-value-added applications in a broad range of markets, and that will continue to be at the heart of what we do.

"One Morgan" – Andrew Hosty, COO

Q: Talk us through the new regional structure and the advantages as you see them.

A: The new structure in the Morgan Group is mainly centred round North America, Europe and Asia. In addition, there are some coordination roles in the fibre business and the engineered business. We also have the global businesses of NP Aerospace, Seals and Bearings and MMS.

Seals and Bearings is a new global business for us in Morgan. We've identified it as an area of great opportunity going forwards for us as a business.

Q: And how will the global roles interconnect with the regional roles?

A: The global roles are there to provide focus on those business activities and sectors. They will interact with the regions, because they'll be able to get a lot of support and infrastructure from each of the large regions. I anticipate them working very closely together.

So, for example, when we put the Technical Ceramics and Thermal Ceramics businesses together we found the Asian organisation was much more developed in the Thermal organisation than it was in Technical. And, we were able to leverage off that Asian organisation, and we've now got some very exciting new business opportunities as a result. For example, the cochlea implant business, where we've recently won very substantial orders in Asia. And, we've also seen very significant enquiries for our CVD technologies coming through that Asia organisation.

Now, I can anticipate the same thing happening for the MEM businesses as they get the opportunity to leverage off those regional structures.

Q: And, you've got a new role. So, what are your immediate priorities?

A: Well, my immediate priorities are to get out, meet and work with the businesses and the leadership teams in the various regions. The purpose of those meetings is one, for the people to get to know me a bit better in the regions, for me to get to know them. And, to sit down and agree what are the key priorities for each of those important businesses and business regions through 2013 and beyond.

Q: How much work do you have to do to understand the Engineered Materials business?

A: Well, fortunately I've been with the Morgan Group for a number of years. In fact in one of my previous existences I did actually work in what is now called the MEM division. So, I'm very familiar with all of the materials and technologies that are in that part of our business. And, I'm very much looking forward to reacquainting myself with some of the customers and all of the people in our business.

Results – Kevin Dangerfield, CFO

Q: Before we get to the results. How much will the changes announced today cost? And, what level of financial benefit do you see?

A: Let's just remember that the announcement today is about creating a “One Morgan” model. The principal reason for doing that is about profitable growth. However, coming out of this is a range of restructuring actions that will take place; there's efficiency gains to be had in terms of overheads, etc., in this new organisational model.

As a result of that, the cost this year will be around £8m in terms of cash costs. By 2014 we should see a £6m to £8m worth of benefit from those changes.

Q: And, what difference will the market see in terms of reporting lines and disclosure?

A: In terms of reporting lines, the market at the moment sees two divisions, the Ceramics and the Engineered Materials division. Going forward it's going to see

three regions; North America, Europe and what we describe as Asia/Rest of World. So, it's going to go from seeing two sets of numbers to three sets of numbers.

But, as always, as we do today, what you will see, actually, is a range of other analyses that goes below those. But what's important in this is that the market will see three regions and we're driving that profitable growth in those three regions, and that's the most important part.

Q: And, turning to results. Underlying pre-tax profits were down by a quarter in the full-year. And that wasn't just down to Engineered Materials.

A: Well there's two aspects to that 25 per cent. Operating profit was down about 13 per cent year-on-year. A large portion of that was Engineered Materials and the majority of the Engineered Materials decline was in the defence and renewables sectors and that's where it was hit hardest in 2012.

When you look at the group as a whole, 90 per cent of the group was fairly resilient from an operating profit point of view and from a revenue point of view. Where we saw the decline was in, as I say, the defence and the renewables, most of which is in the Engineered Materials division.

Now as a consequence of that profit decline and margin decline going into the second half of 2012, what we undertook was a range of restructuring actions and those restructuring actions cost us around £13m. That £13m makes up a large portion of the remaining percentage you're describing, the 25 per cent.

Q: And you have been focused on these three-year targets. Will you primarily be now focused on defending the Group margins?

A: The whole reason why we're actually doing this project and actually changing the organisational structure for Morgan is all about profitable growth. So it is about actually improving our margin profile. In all of those three regions that I've just been describing, we are talking about improving the margins across all three. And, we're talking about mid-teen operating profit margins going forward, in all regions.

Q: There's been a large increase in the pension deficit, almost 50 per cent in the UK. So, what's behind that?

A: Like many corporates in the UK, what we've seen is a further decline in 2012, as we did in 2011, from bond yields, which go directly to the discount rate that you use for

calculating your liabilities. And, that meant that our liabilities increased significantly more than the assets. In fact, our assets actually grew rather well in 2012, but they didn't grow as fast as the liability position. And, that is in the same vein as many other corporates' balance sheets in the UK today.

Q: And talk to us about why you've decided to increase the dividend.

A: Well, the dividend is very much about a longer-term decision. When the Board reviews the dividend for the year it looks at our earnings profile, our cash profile, the quality of the business and how we feel about the world going forward, and our ability to keep improving those margins and those cash flows going forward. Even though 2012, our earnings declined compared to the high of 2011, our cash flow was still very good, and that's where we expect it to be going forward. Taking all of those things in the round, with the fact that we had increased our dividend at the interim as well, we decided to increase our final by just under 7 per cent as a consequence. And, it underlines the confidence in the Group going forward.

Q: This isn't just placating the market after the profit warning?

A: No, this is very much about our progressive dividend that we've been undertaking for the last three years or so. And, one of the most important parts of this is about the ability of Morgan Crucible to generate cash through cycle. And, Morgan, now over the last few years has shown that, in good or bad times, we're able to produce a good level of free cash flow before dividends, and therefore return some of that cash to our shareholders.

Business development – Mark Robertshaw, CEO

Q: Looking across the divisions, how would you characterise performance in 2012?

A: I'd split performance into two major areas for the Group. 90 per cent of the business performed very resiliently. So Technical Ceramics, Thermal Ceramics, Molten Metal Systems all increased their margins in what was a more difficult macro environment in 2012.

On the Engineered Materials side of the business, in truth I was a little disappointed by the performance there. And that was primarily associated with a decline in two of our key end markets, which were defence and renewables. And what we've

done about that is we've immediately taken actions to reduce the cost base to align it to a lower level of on-going demand.

Q: And NP Aerospace has seen a drop in demand from the UK Ministry of Defence, and you don't see that reversing anytime soon. So, how successful have you been at selling those products outside the UK?

A: Our expectation for NP Aerospace is that we think that we will deliver a similar level of revenue in 2013 as that which we've just delivered in 2012. Progressively, I would expect more of that to be coming from international programmes rather than the UK. And we are beginning to see some new business opportunities and indeed some wins, not just in the US, but for other friendly militaries around the world.

Q: And you talk about “break-through developments”. So, what do you mean by that? And, what's the opportunity here?

A: We genuinely think that we have the world's very best, lightweight, advanced material ballistic technologies, that's both in terms of personal protection, so things like body armour, but also vehicle protection. We've continued to invest in innovation and in product development. And, we're quite excited about the pipeline of some of the new opportunities coming through there.

Q: And there's been positive performance from Molten Metal Systems, despite a decline in Europe. So, what's behind that?

A: That's a really good example of a business which, several years ago, was predominantly in the Western world, where its markets over time are clearly growing much more rapidly in the places like China and India. And, we've changed its footprint, really fundamentally, over the last four or five years. It has five manufacturing sites around the world, four of them are in the emerging markets, and that's giving you the real impetus for growth in those various geographies.

Business development – Andrew Hosty, COO

Q: Looking to Thermal Ceramics, what update can you give us on your key investments in products, such as Superwool?

A: Well, in Superwool in 2012 we made some very significant capital investments in North America and in Asia which will allow us to take a step change in conversion of

our capacities from old RCF materials to Superwool materials. At the end of 2012, with just under 40 per cent of our revenues in fibre that were with Superwool, I anticipate by the end of 2013 it will be over 60 per cent of our sales will be from the Superwool family of materials.

Q: And you talk about a move in Technical Ceramics to newer more differentiated products and a concentration on higher margin application areas, like health. So, what's the size of the opportunity here?

A: The size of the opportunity's very considerable. We estimate we've got less than 10 per cent market share in these particular areas of interest, like aerospace and medical, and, we have a very healthy new business pipeline of circa £200m per annum. So, as you can see, a very significant opportunity is there that we've identified. And, we continue to move our business towards these more attractive marketplaces.

Q: And, can you give an example of one of those differentiated products?

A: Absolutely. For a number of years we've been making cochlea implants, which are implanted into people's heads to help deaf people to hear. We just won our first orders in Asia for the cochlea implant products that we've been making in North America for a number of years, and we can see that as a springboard to other countries in Asia, and also potentially in South America.

I see this as a pattern that will be repeated for other technologies and products that we currently supply into Western markets as our sales teams get more familiar with those products and technologies, and they're able to introduce those to other countries in Asia and also in Latin America.

Outlook – Mark Robertshaw, CEO

Q: The seasonal rebound failed to materialise in September. So, how long do you see the markets remaining subdued?

A: I think our experience is that order intake levels appear to have stabilised over the last two or three months. Certainly, in talking to our leaders around the business, if anything there's a sense of more optimism about 2013, particularly in markets, such as China, where we certainly think that there's evidence of green shoots beginning to appear in places like that.

Q: And you say the restructuring is primarily about growth. So, where do you see the key growth areas? And, what will you do about underperforming products?

A: For us growth, it's really about two dimensions. It's about growth geographies and growth end markets. In terms of growth end markets, we've continued to focus on areas that we think have secular growth trends and real aspects of differentiation. So, markets like aerospace, like medical, like chemical and petroleum, and we see a rich seam of opportunities there.

Hand in hand with that, we also think there's still a huge opportunity in the dynamic growth economies, of places like China, India, the Middle East, Latin America. And, hand in hand, we think that's a very potent combination between end markets and geographies.

In terms of underperforming areas, our strategy is to deliver mid-teen operating profit margins in all of our businesses. Where demand has come down then we've cut our cloth accordingly in terms of the cost base and right-sized the cost base to look to make mid-teen operating profit margins at reduced demand levels.

Q: And, what products do you see as the leaders going forward?

A: Really for us it's about designed-in, bespoke, technically demanding applications. So, rather than one single product, it's really a series of unifying themes, around taking our advanced materials science and our application engineering and tailoring it to very demanding customer requirements.

Q: And, you say that the order book is soft, but stabilising. What can you tell us about customer sentiment?

A: What I would say about customer sentiment is the world is not getting any easier to forecast. I think it's still quite a fluid environment, and that uncertainty can be reflected in our customers.

What we've tended to find is that they have increased the number of orders, but with smaller volumes. And, that's a reflection of the difficulty that they have in forecasting.

If anything, I would say that the sentiment is beginning to improve, and a bit of a feeling from our customers that the worst of times that we were seeing in 2012 is now behind us.

Q: And following the changes you're announcing today, you believe Morgan Crucible is in the right shape to respond to that customer demand?

A: Morgan Crucible's been around 156 years. 2011 was the record ever set of results in our 156 year history. 2012, whilst a little bit down on 2011 was still our second-best ever year. I think we're in great shape for the future.