

Business review

Markets

Revenues from the civil aviation and defence markets decreased 1.3% (at constant exchange rates). Inventory adjustments by some engine OEMs resulted in flat revenues (at constant exchange rates) in the civil aviation sector while the impact of lower defence spending was to reduce revenue overall.

Revenues from North American onshore oil & gas exploration and production equipment customers improved as heavy destocking, seen particularly in the first half of 2013, ended. The Group also enjoyed further strong growth for subsea applications driven by the increasing uptake of Hot Isostatic Pressing Product Fabrication (HIP PF) technology. These areas contributed to a substantial organic increase of 20.9% (at constant exchange rates) in Bodycote's global revenues to oil & gas customers compared to the same period in 2013.

Within the power generation market, revenues from industrial gas turbine customers were robust, supported by strong growth in our HIP business. This growth was partly offset by weaker demand in the nuclear sector.

Demand from the car & light truck sector was robust in all geographies. Together with continuing gradual gains for the Group's higher value-added processes, this resulted in organic growth of 7.3% (at constant exchange rates) when compared to the first half of 2013.

Revenue performance in the heavy truck market was varied. North America was much improved, following a downturn in 2013, and revenues were up 4.8% (at constant exchange rates) compared to the same period of 2013. In contrast, weak demand in Western Europe saw revenues decline 5.7% (at constant exchange rates) against the first half of 2013. Overall revenues in the heavy truck sector were flat year-on-year (at constant exchange rates).

There was a broad-based improvement in revenues from general industrial customers. The mining equipment sector remains depressed but revenues from the construction, tooling and medical markets were good. In total, revenues were up 4.2% (at constant exchange rates), driven by a 5.9% increase in Western Europe partially offset by flat sales in North America.

Growth in the emerging markets has generally been good, driven by revenues from the automotive and general industrial sectors, which were up 3.4% (at constant exchange rates).

Aerospace, Defence & Energy (ADE)

Revenues for the ADE business were £133.5m in the six months to June 2014 compared with £132.6m in 2013, an increase of 0.7%. At constant exchange rates revenues increased by 6.2%.

Headline operating profit¹ was £36.0m (2013: £34.2m), an increase of 5.3%, made up of organic growth of 11.7% and a 6.4% decline resulting from adverse foreign currency movements. The headline operating margin improved from 25.8% to 27.0%.

Net capital expenditure was £9.8m (2013: £17.4m), representing a typical spend rate of 1.0 times depreciation (2013: 1.8 times). Notable projects include additional HIP and aerospace-focused heat treatment capacity in the USA.

Average capital employed for the period was £233.7m (2013: £241.3m), with the decline a consequence of movements in foreign exchange rates.

Automotive & General Industrial (AGI)

Revenues for the AGI business were £178.8m in the first half of 2014, compared with £183.9m in 2013, a decrease of 2.8%. Revenues increased by 3.4% at constant exchange rates.

Headline operating profit¹ was £25.3m (2013: £25.4m), a fall of 0.4%, made up of a 5.5% decline resulting from foreign currency movements and organic growth of 5.1%. Headline operating margin improved from 13.8% to 14.1%.

Net capital expenditure was £19.9m (2013: £10.3m) representing a spend rate of 1.2 times depreciation (2013: 0.6 times), driven by expansion in S³P and emerging markets. The Group continues to target high value-added processes in developed markets and in additional greenfield capacity in Eastern Europe and China.

Average capital employed for the period was £299.3m (2013: £318.7m), with the decline a consequence of movements in foreign exchange rates.

¹ Headline operating profit is reconciled to operating profit in note 2. Bodycote plants do not exclusively supply services to customers of a given market sector (see note 2).