

# LUXFER GROUP

a global materials technology company

2014 Q1 results

Market overview

Divisional performance

Financial results

Outlook

## Brian Purves

Chief Executive Officer

## Andy Beaden

Group Finance Director

## Q1 2014 Conference Call



THE INSTITUTE OF MATERIALS, MINERALS AND MINING

### 2013 GOLD MEDAL

"for a significant contribution to the industrial application of materials"

## FORWARD-LOOKING STATEMENTS

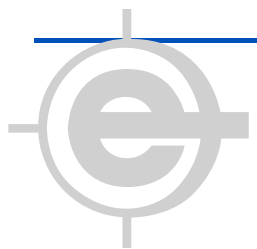
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## AGENDA

- **Chief Executive – Brian Purves**
  - Q1 2014 overview
  - Market situation
  - Divisional performance
  
- **Group Finance Director – Andy Beaden**
  - Q1 earnings review
  - Liquidity and capital resources
  - Financial issues
  
- **Chief Executive – Brian Purves**
  - Summary
  - Outlook
  
- **Questions?**

## Q1 2014 overview

- **Net revenue up 2.7% like-for-like.**
  - \$122.4m compared to \$119.2m Q1 2013.
- **Trading profit \$12.3m, down \$2.6m on Q1 2013.**
- **Adjusted EBITDA down \$1.8m on Q1 2013.**
- **EPS per ADS @ \$0.27 on net income and \$0.28 on adjusted net income (fully diluted).**
  - 4 cents below the consensus forecast.
- **Majority of modules for Australian virtual pipeline contract shipped in March.**
- **Delays in customers obtaining regulatory approval in US for SCBA cylinders.**
- **Weakness remains in US defense markets and traditional cylinder markets in Europe and US.**
- **Sales of Elektron high-performance alloys remain strong in aerospace and high-end engineering applications.**
- **Heavy expenditure in product development and marketing.**



	<b>Elektron Q1 \$m</b>
<i>Net revenue</i>	<b>50.8</b>
<i>RE surcharge</i>	<b>3.2</b>
<b>2013 Revenue analysis</b>	<b>54.0</b>
Changes in period:	
FX translation	<b>1.2</b>
Rare earth surcharge	<b>(2.3)</b>
Trading movements	<b>4.3</b>
<i>Net revenue</i>	<b>56.3</b>
<i>RE surcharge</i>	<b>0.9</b>
<b>2014 Revenue analysis</b>	<b>57.2</b>
Trading variance	<b>8.5%</b>

- Underlying Q1 revenue, (which excludes FX translation effects and surcharge), increased by \$4.3 million (8.5%) compared to Q1 2013.
  - Q1 2014 cerium surcharge is \$2.3m lower than in Q1 2013, down to just \$0.9m.
  - The key market of US defense remains weak. But some signs of impending improvement in European automotive.
  - Strong quarter for chemical catalysts for industrial applications.
  - Demand continues to be strong for high-performance alloys for North American aerospace and high-end engineering applications.
  - Improved sales of photo-engraving products and wrought magnesium compared to Q1 2013.

	Gas Cylinders Q1 \$m
<i>Net revenue</i>	<b>68.4</b>
<i>RE surcharge</i>	
<b>2013 Revenue analysis</b>	<b>68.4</b>
Changes in period:	
FX translation	<b>1.5</b>
Rare earth surcharge	
Trading movements	<b>(3.8)</b>
<i>Net revenue</i>	<b>66.1</b>
<i>RE surcharge</i>	
<b>2014 Revenue analysis</b>	<b>66.1</b>
Trading variance	<b>-5.6%</b>

- Q1 underlying revenue down \$3.8 million (5.6%) on Q1 2013.
  - Weaker demand in both Europe and US markets for aluminum cylinders.
  - Continued demand for composite cylinders for compressed natural gas (CNG) with sales of \$14.1m in Q1 2014.
  - Sales of composite life-support cylinders used in self-contained breathing apparatus (SCBA) were down (regulatory approval of compliance with new standard delayed in US).
  - Newly-acquired facility for manufacture of Type 4 composite cylinders for CNG market being integrated.
  - Type 4 cylinder range under development.

## Selected strategic growth initiatives - update

- **Alternative fuel containment**

- Developing range of Type 4 (polymer-lined) composite cylinders for larger diameters.
- Targeting emerging market for CNG-powered class 8 heavy-duty trucks in North America.
- New manufacturing facilities being prepared to facilitate this expansion.
- Exhibiting at Alternative Clean Technologies (ACT) Expo in Long Beach May 5-8.

- **Bulk gas transportation**

- First 'virtual pipeline' order in Australia – majority of deliveries shipped in March with balance scheduled during Q2.

- **Magnesium alloys for aircraft seating**

- FAA has published their required laboratory scale test for acceptable magnesium alloys.
- Exhibited at Hamburg aircraft interiors exhibition in April.
  - Magnesium parts for Zim Flugsitz seats on display.

- **IOS medical oxygen delivery system**

- Achieved ISO 13485 (medical devices) certification for quality system of UK cylinder plant.
- European CE marking (pre-requisite to enable commercial sales) planned for 2015.

GROUP FINANCE DIRECTOR  
**ANDY BEADEN**

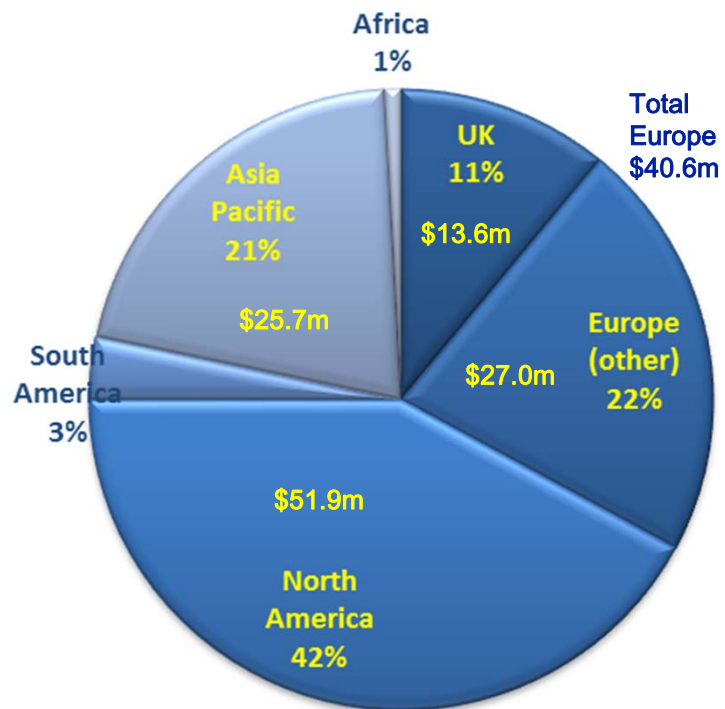


## Group revenue

	<b>Elektron Q1 \$m</b>	<b>Gas Cylinders Q1 \$m</b>	<b>Group Q1 \$m</b>
<i>Net revenue</i>	<b>50.8</b>	<b>68.4</b>	<b>119.2</b>
<i>RE surcharge</i>	<b>3.2</b>		<b>3.2</b>
<b>2013 Revenue analysis</b>	<b>54.0</b>	<b>68.4</b>	<b>122.4</b>
Changes in period:			
FX translation	<b>1.2</b>	<b>1.5</b>	<b>2.7</b>
Rare earth surcharge	<b>(2.3)</b>		<b>(2.3)</b>
Trading movements	<b>4.3</b>	<b>(3.8)</b>	<b>0.5</b>
<i>Net revenue</i>	<b>56.3</b>	<b>66.1</b>	<b>122.4</b>
<i>RE surcharge</i>	<b>0.9</b>		<b>0.9</b>
<b>2014 Revenue analysis</b>	<b>57.2</b>	<b>66.1</b>	<b>123.3</b>
Trading variance	8.5%	-5.6%	0.4%

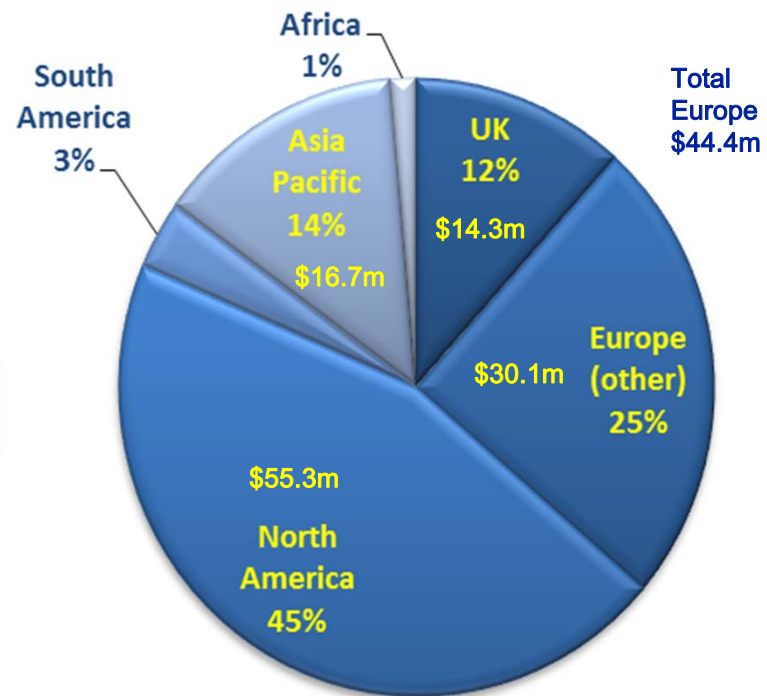
# Geographic sales trends

Q1 2014

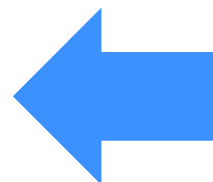


\$123.3 million

Q1 2013



\$122.4 million



## Trading profit analysis

		2014 Q1	2013 Q1
Gas Cylinders	Trading profit \$M	1.6	5.2
	ROS %	2.4%	7.6%
Elektron	Trading profit \$M	10.7	9.7
	ROS %	18.7%	18.0%
GROUP	Trading profit \$M	12.3	14.9
	ROS %	10.0%	12.2%
<i>Changes for 2014 v 2013</i>	<b>Gas Cylinders</b>	-69.2%	
	<b>Elektron</b>	10.3%	
	<b>GROUP</b>	-17.4%	

*N.B. Trading profit is Luxfer's IFRS 8 segment profit used by the CEO to measure divisional performance.*

## Summary income statement

\$m	2014	2013	Variance Q1	
	Q1	Q1	\$m	%
<b>Revenue</b>	<b>123.3</b>	<b>122.4</b>	<b>0.9</b>	0.7%
Costs of sales	(94.4)	(94.1)		
<b>Gross margin</b>	<b>28.9</b>	<b>28.3</b>	<b>0.6</b>	2.1%
<i>Gross margin %</i>	<i>23.4%</i>	<i>23.1%</i>		
Distribution	(2.1)	(1.6)		
Administrative exp	(14.5)	(11.8)		
Share of results of joint ventures				
<b>TRADING PROFIT</b>	<b>12.3</b>	<b>14.9</b>	<b>(2.6)</b>	(17.4%)
<i>Group ROS %</i>	<i>10.0%</i>	<i>12.2%</i>		
Restructuring & other		(0.4)		
<b>OPERATING PROFIT</b>	<b>12.3</b>	<b>14.5</b>	<b>(2.2)</b>	(15.2%)
Finance Costs:				
Acquisitions and disposals	(0.2)			
Net interest charges	(1.4)	(1.5)		
IAS 19 finance charge (non-cash)	(0.7)	(0.9)		
<b>PROFIT BEFORE TAX</b>	<b>10.0</b>	<b>12.1</b>	<b>(2.1)</b>	(17.4%)
Taxation	(2.8)	(3.8)		
<b>NET INCOME</b>	<b>7.2</b>	<b>8.3</b>	<b>(1.1)</b>	(13.3%)
<i>EPS £1 Ords (weighted av.)</i>	<i>\$0.54</i>	<i>\$0.62</i>		
<i>Earnings per ADS- Basic</i>	<i>\$0.27</i>	<i>\$0.31</i>		
<b>NET INCOME adj</b>	<b>8.0</b>	<b>9.4</b>	<b>(1.4)</b>	(14.9%)
<i>Adj. Earnings per ADS - Basic</i>	<i>\$0.30</i>	<i>\$0.35</i>		
<i>Adj. Earnings per ADS - Fully Diluted</i>	<i>\$0.28</i>	<i>\$0.34</i>		
Adj EBITDA	16.9	18.7	(1.8)	(9.6%)

**NOTE:** (i) Adj. Earnings per ADS – is Adjusted net income divided by 26.8 million, based on 13.4 ordinary shares outstanding and an ADS being ½ of an ordinary £1 share. IFRS – GAAP measure for EPS is on the £1 ordinary shares and is a weighted average calculation.

# Balance sheet analysis

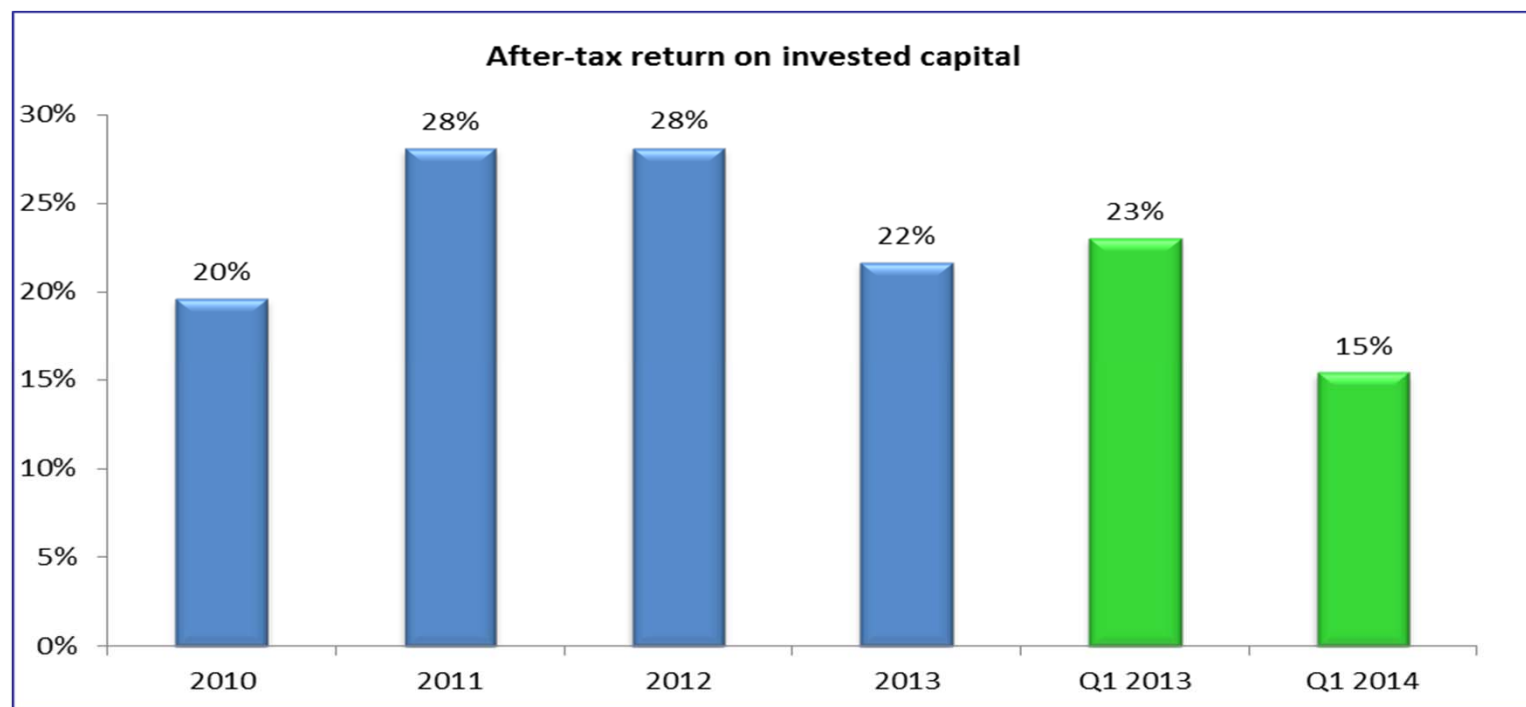
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	December 2013 \$M	Trading & exchange \$M	Acquisition \$M	March 2014 \$M
<b>Long term assets</b>	<b>203.0</b>	<b>0.4</b>	<b>6.9</b>	<b>210.3</b>
<i>Inventories</i>	94.1	12.7		106.8
<i>Receivables</i>	68.6	12.1	0.3	81.0
<i>Payables</i>	(63.2)	(11.4)	(0.3)	(74.9)
<b>Working capital</b>	<b>99.5</b>	<b>13.4</b>	<b>0.0</b>	<b>112.9</b>
Income taxes (current and deferred)	(3.8)	(1.7)		(5.5)
Provisions	(4.0)	0.1		(3.9)
<b>Capital employed</b>	<b>294.7</b>	<b>12.2</b>	<b>6.9</b>	<b>313.8</b>
Retirement benefit net liabilities	(67.6)	(6.5)		(74.1)
<b>Invested capital</b>	<b>227.1</b>	<b>5.7</b>	<b>6.9</b>	<b>239.7</b>
Deferred Consideration			(3.9)	(3.9)
Bank and other Loans			(0.3)	(0.3)
Net (revolver)/cash position	28.4	(7.2)	(2.7)	18.5
Senior notes 2018 (US Private Placement)	(63.8)			(63.8)
<b>Net assets</b>	<b>191.7</b>	<b>(1.5)</b>	<b>0.0</b>	<b>190.2</b>
<b>Total debt</b>	<b>(63.8)</b>	<b>0.0</b>	<b>(0.3)</b>	<b>(64.1)</b>
<b>Net debt</b>	<b>(35.4)</b>	<b>(7.2)</b>	<b>(3.0)</b>	<b>(45.6)</b>
<b>Capital &amp; reserves:</b>				
Ordinary share capital	25.3			25.3
Share premium	55.6			55.6
Deferred equity	150.9			150.9
Retained earnings	317.3	(1.3)		316.0
Other IFRS reserves & ESOP	(23.6)	(0.2)		(23.8)
Merger reserve	(333.8)			(333.8)
<b>Equity</b>	<b>191.7</b>	<b>(1.5)</b>	<b>0.0</b>	<b>190.2</b>

## Cash flow

	2014 Q1 \$m	2013 Q1 \$m
Operating profit	12.3	14.5
Depreciation & amortization	4.3	3.7
Share based compensation charges	0.3	0.3
Decrease / (increase) in working capital	(13.3)	(6.8)
Increase / (decrease) in provisions	(0.1)	(0.3)
Income tax received / (paid)	0.1	(0.2)
Movement in retirement benefit obligations	(2.3)	(1.6)
<b>Net cash from operating activities</b>	<b>1.3</b>	<b>9.6</b>
Purchase of PPE	(3.1)	(3.9)
Purchase of intangible assets	(0.3)	
Investment in joint ventures (equity)		(2.5)
Purchase of businesses (net of cash acquired)	(2.7)	
Interest income received from Joint Ventures	0.1	
<b>Net cash flow before financing</b>	<b>(4.7)</b>	<b>3.2</b>
Net interest paid	(1.2)	(1.2)
Dividends paid	(2.7)	(2.7)
IPO share issue costs		(0.3)
Amendment to banking facilities - financing costs	(1.3)	
<b>Cash flow</b>	<b>(9.9)</b>	<b>(1.0)</b>

## Return on Invested Capital (2012 restated for IAS 19 revised)



### Notes:

1. Return on Invested Capital (ROIC) is defined as : 
$$\frac{\text{Trading profit} \times (1 - \text{effective tax rate for the period})}{\text{Invested capital}}$$
2. Invested Capital is defined as shareholders' equity plus debt less cash ("Net debt").
3. Invested Capital is seen as a measure of the operating assets employed in the business to generate the trading profit.
4. Please see the appendices for the calculations and reconciliation to the financial statement GAAP figures.

CHIEF EXECUTIVE

**BRIAN PURVES**

SUMMARY AND OUTLOOK



# Summary Q1 2014

- **Gas Cylinders**

- Sales into SCBA market affected by regulatory delays on customers' products.
- Bulk of shipments achieved for Australian virtual pipeline contract.
- Continued weakness in several aluminum markets.
- ISO 13485 medical device certification obtained by UK cylinder plant quality system.
- Acquisition of additional CNG cylinder (Type 4) manufacturing facility.

- **Elektron**

- European market still weak, but some signs of impending recovery in automotive sector.
- Strong sales of high-performance alloys in aerospace and high-end engineering.
- Sales of military powders depressed, and latterly affected by outage at customer plant.
- Good sales of chemical catalysis products, but market remains 'lumpy'.

- **Summary**

- Q1 2014 trading weak as expected from above issues, and affected by acquisition / development costs.
- Q1 adjusted EPS (diluted) \$0.04 below consensus.

# Outlook for 2014

## • Elektron

- Defense likely to remain depressed, but continued gradual improvement expected in other markets.
  - Accident at customer's defense facility: will affect Q2 more than it did Q1 (part-quarter).
- Little impact yet from strategic projects on aircraft seating and bio-medical alloys, increased sales of industrial catalyst products, but no 'breakthrough' contract yet.
- Overall, modest growth being targeted in both revenue (exc. surcharges) and profit and expected to be ahead of prior year.

## • Gas Cylinders

- Tough trading conditions in market.
  - SCBA affected by delay in 2013 NIOSH standards: Q1 and, expected, Q2 affected.
  - Alternative Fuels order intake low in Q1 2014: strategic expectations for growth remains strong, but current lull in demand for vehicle conversions and pricing pressure.
  - New facility for Type 4 (polymer-lined) CNG cylinders expected to be in production during Q3, but net cost during Q2.
- Uplift in sales and profitability expected in second half, but unlikely to recover expected shortfall to prior year in first half.

## • Group

- Trading profit expected to improve in second half, subject to timing of recovery of impact of SCBA delays and outage at customer's countermeasures facility.
- Steady progress on strategic projects and investment continuing to support development of new products and their commercialization.

**QUESTIONS?**

# APPENDICES

## Adjusted net income and EBITDA:

	2014 Q1 \$m	2013 Q1 \$m
<b>Net income for the period - as reported</b>	<b>7.2</b>	<b>8.3</b>
Restructuring & other (income) / expense		0.4
Acquisitions and disposals	0.2	
Amortization of share based compensation charge	0.3	0.1
IAS 19 -retirement benefits finance charge (non-cash)	0.7	0.9
Tax thereon	(0.4)	(0.3)
<b>Adjusted net income</b>	<b>8.0</b>	<b>9.4</b>
Add back: tax thereon	0.4	0.3
Tax expense	2.8	3.8
Interest costs	1.4	1.5
Depreciation and amortization	4.3	3.7
<b>Adjusted EBITDA</b>	<b>16.9</b>	<b>18.7</b>

## Return on Invested Capital (ROIC):

	2010 (restated)	2011 (restated)	2012 (restated)	2013	Q1 2013	Q1 2014
	\$M	\$M	\$M	\$M	\$M	\$M
Trading profit - per income statement	44.7	63.7	68.5	59.2	14.9	12.3
<i>Effective rate tax per income statement</i>	27.8%	23.7%	28.8%	27.0%	31.4%	28.0%
Notional tax	-12.4	-15.1	-19.7	-16.0	-4.7	-3.4
Trading profit after notional tax	32.3	48.6	48.8	43.2	10.2	8.9
<b>Annualised after tax trading profit (A)</b>	<b>32.3</b>	<b>48.6</b>	<b>48.8</b>	<b>43.2</b>	<b>40.8</b>	<b>35.6</b>
Bank and other loans	115.9	132.5	63.5	63.8	63.5	64.1
Cash	-10.3	-22.2	-40.2	-28.4	-37.0	-18.5
Net debt	105.6	110.3	23.3	35.4	26.5	45.6
Total shareholders equity	65.2	64.8	148.8	191.7	155.8	190.2
<b>Invested capital</b>	<b>170.8</b>	<b>175.1</b>	<b>172.1</b>	<b>227.1</b>	<b>182.3</b>	<b>235.8</b>
<b>Average invested capital (B)</b>	<b>164.8</b>	<b>173.0</b>	<b>173.6</b>	<b>199.6</b>	<b>177.2</b>	<b>231.5</b>
<b>Return on invested capital (A) / (B)</b>	<b>20%</b>	<b>28%</b>	<b>28%</b>	<b>22%</b>	<b>23%</b>	<b>15%</b>