Castings PLC
Final results
31 March 2022

15 June 2022

Group overview

CASTINGS P.L.C.
DUCTILE CAST PRODUCTS

CASTINGS P.L.C. DUCTILE CAST PRODUCTS	Wm Lee	CNC Speedwell Ltd
Brownhills	Dronfield	Brownhills
Foundry	Foundry	Machinist
Founded 1835	Acquired in 1991	Acquired in 1996
Relocated in 1957	40,000 tonnes/year	Over 100 CNC m/c
30,000 tonnes/year	441 employees	350 employees
390 employees		

Timeline

- **1835** – Foundry production commences in Walsall
- **1907** – Castings Limited formed
- **1957** – Brownhills site production begins
- **1960** – Floated on Birmingham stock market
- **1977** – Walsall site closed
- **1991** – William Lee acquired
- **1996** – CNC Speedwell acquired
- **2009** – Major new production facility
- **2016** – Robotic automation project commences
- **2022** – Highly invested iron foundry and machine shop group

Headlines

Q1

- Sales volumes in line with pre-COVID years
- Machining business profitable
- Rising scrap prices

Q2

- Supply chain issues - OEM facility closures
- Scrap prices continue to rise
- Labour market difficulties

Strong heavy truck demand

Q3

- Unpredictable schedule conversion
- Production inefficiencies
- Inventory build

Q4

- Improving schedule conversion by the end
- Recruitment settling down
- Foundry processing efficiency gains

Final results overview

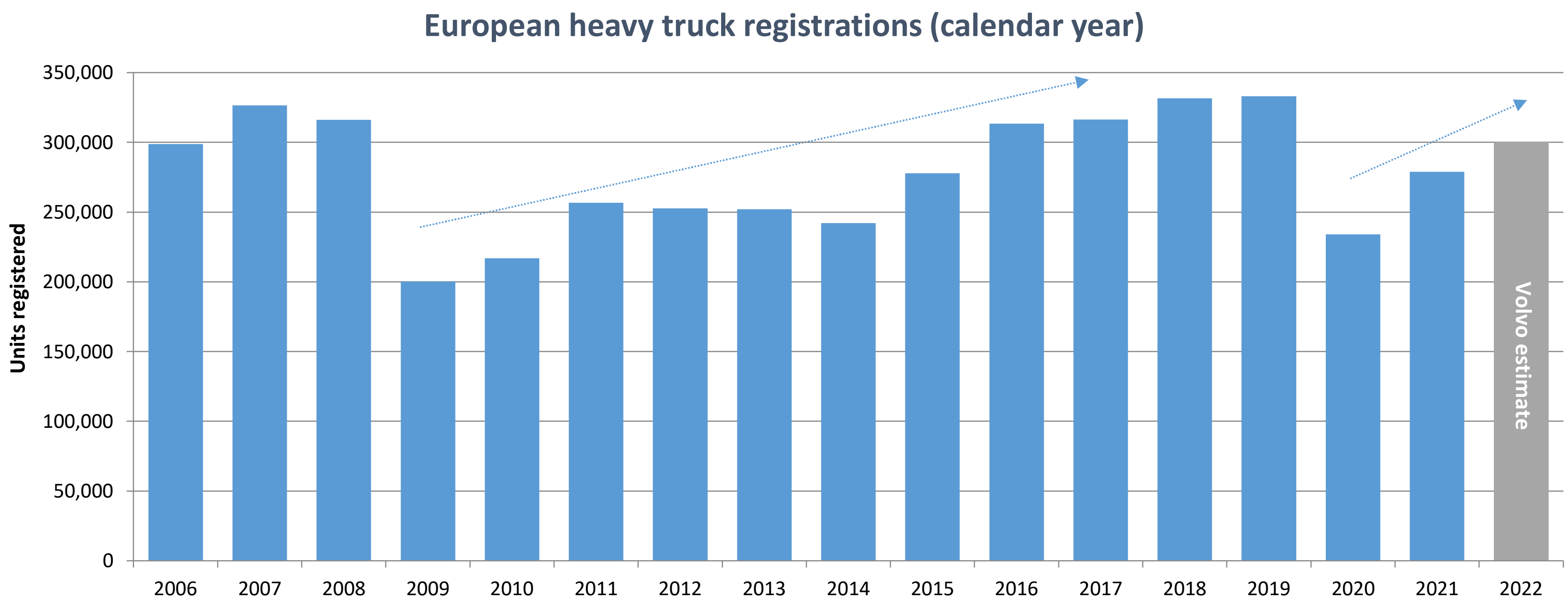
£m (unless stated)	2018	2019	2020	2021	2022
Revenue					
Gross	170.8	192.4	175.8	141.4	185.1
Less: inter-group revenue	(37.5)	(42.2)	(37.1)	(26.7)	(36.5)
Reported revenue	133.3	150.2	138.7	114.7	148.6
Profit before tax (excluding exceptional items)	11.8	15.3	12.7	4.3	12.0
Net margin	8.9%	10.2%	9.2%	3.7%	8.1%
EPS (excluding exceptional items)	22.46p	28.16p	23.05p	8.06p	19.57p
Ordinary dividend per share declared	14.50p	14.78p	14.88p	15.26p	16.23p
Supplementary dividend per share declared	-	15.00p	-	-	15.00p
Net cash position	24.1	30.7	33.4	36.1	35.7

Current revenue profile

33% engine
37% chassis

	2011	2016	2018	2019	2020	2022	Comment
Customer sector							
Heavy truck	59%	64%	70%	70%	69%	70%	Core market (trucks >= 16t) – 4 key OEM groups
Automotive	15%	23%	11%	12%	12%	12%	Non-core market
Other	26%	13%	19%	18%	19%	18%	Includes agriculture, rail and wind power
Geographic split							
UK	40%	33%	27%	24%	26%	21%	Relatively stable
Europe	57%	63%	70%	71%	68%	71%	Increase value add, broaden customer base
Rest of world	3%	4%	3%	5%	6%	8%	US growth to existing and new machine shops

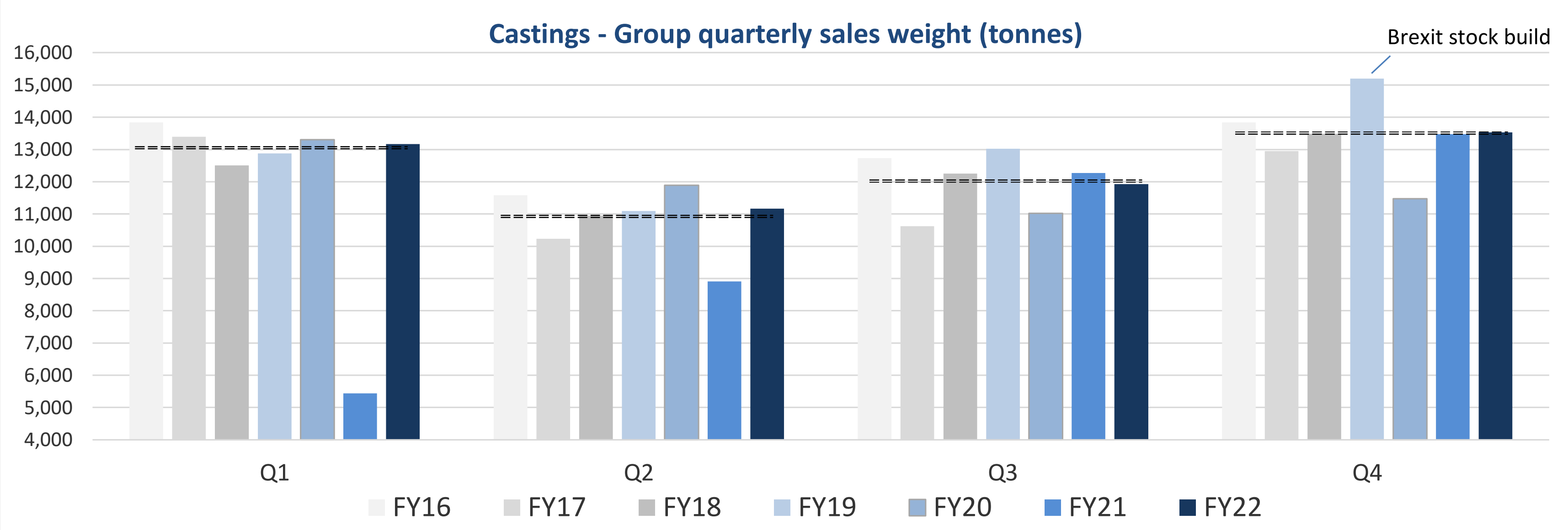
Heavy truck registrations



Source: Data from Scania website (https://www.scania.com/group/en/home/investors/truck-registrations.html), ACEA & Volvo First Quarter 2022 Results

Foundry sales weight

	2016	2017	2018	2019	2020	2021	2022
Foundry sales weight (tonnes)	52,000	47,200	49,200	52,200	47,700	40,100	49,800



------- = average of FY16 to FY20 (i.e. excluding COVID impacted FY21)

Foundry segmental results

£m (unless stated)	2017	2018	2019	2020	2021	2022
Foundry sales weight (tonnes)	47,200	49,200	52,200	47,700	40,100	49,800
Average selling price (£/tonne)	£2,371	£2,581	£2,741	£2,801	£2,793	£2,924
Revenue						
Gross	128.7	146.0	164.6	151.3	123.1	162.6
Less: inter-group revenue	(16.8)	(19.0)	(21.5)	(17.7)	(11.1)	(17.0)
External revenue	111.9	127.0	143.1	133.6	112.0	145.6
Segmental result	14.5	16.1	16.8	13.4	6.7	13.1
Segmental margin on gross sales	11.3%	11.0%	10.2%	8.9%	5.4%	8.1%

Machining segmental results

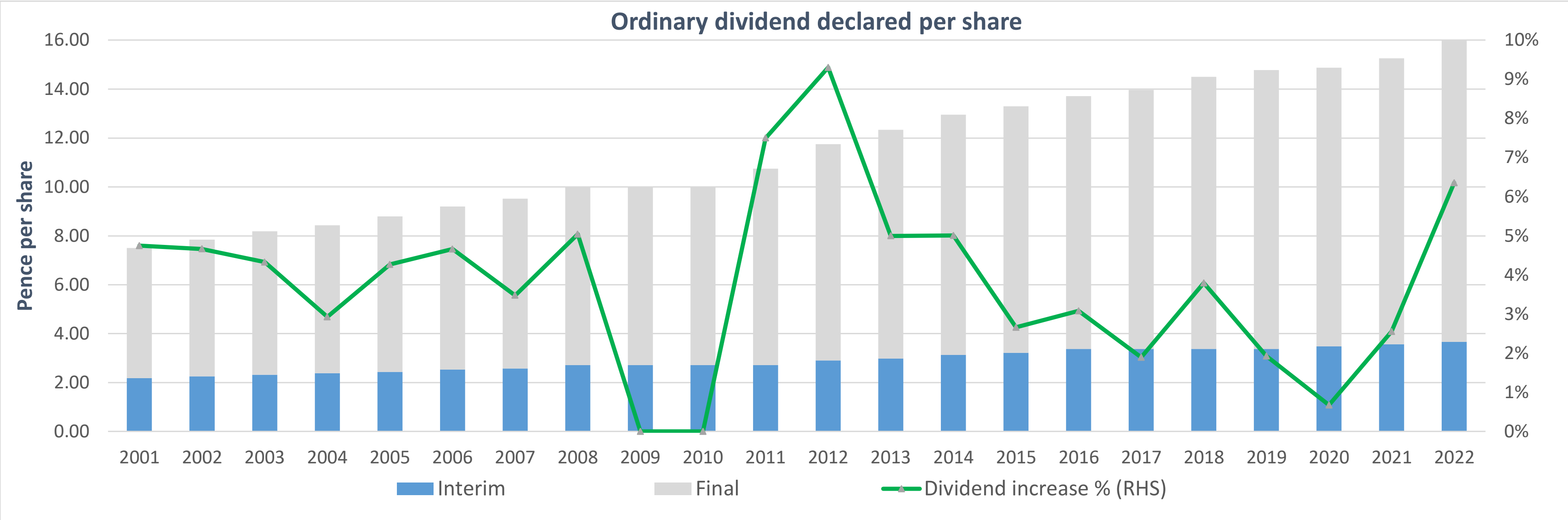
£m (unless stated)	2017	2018	2019	2020	2021	2022
Revenue						
Gross	23.3	24.8	27.8	24.5	18.3	22.5
Less: inter-group revenue	(16.3)	(18.6)	(20.6)	(19.5)	(15.6)	(19.5)
External revenue	7.0	6.2	7.2	5.0	2.7	3.0
Segmental result	1.5	(4.0)	(1.3)	(0.7)	(2.3)	(0.9)
Segmental margin on gross sales	6.4%	-16.1%	-4.7%	-2.9%	-12.6%	-4.0%
EBITDA	5.3	0.7	2.8	3.8	2.0	1.8
Cash generation	(1.5)	(5.9)	0.4	2.7	(0.9)	2.9
Capex	5.1	7.1	1.9	2.5	1.5	1.0

Summary cash flow statement

£m	2017	2018	2019	2020	2021	2022
PBT net of tax payments	12.5	8.9	12.6	8.3	4.3	9.5
Depreciation	7.3	8.5	8.3	8.9	8.8	8.6
Working capital movement	(1.5)	(3.0)	(5.2)	5.9	(0.7)	(7.7)
Capex (net)	(14.2)	(11.2)	(4.9)	(8.2)	(5.2)	(4.4)
Sale of property	-	-	-	-	1.7	-
Free cash flow (excluding pension payments)	4.1	3.2	10.8	14.9	8.9	6.0
Repayments from/(advances to) pension scheme*	1.8	(0.2)	2.1	0.7	0.3	0.4
Dividend – ordinary	(6.0)	(6.1)	(6.3)	(6.5)	(6.5)	(6.7)
Dividend – special	(13.1)	-	-	(6.5)	-	-
Net cash (outflow)/inflow	(13.2)	(3.1)	6.6	2.6	2.7	(0.3)

** expected to cease by end of FY23 with pension buy-out*

Dividend growth record



Plus supplementary dividends declared in 2016 (30p/share), 2019 (15p/share) and 2022 (15p/share).

Outlook – current year

- Volume increases
  - Pent-up demand
  - OEM supply chain issues easing
- Improved production efficiencies
  - Greater schedule consistency
  - Recruitment concerns easing
  - Automation impact continues
- Inflationary pressures passed on
  - Monthly surcharges when necessary
  - Electricity
- New business wins
  - Greater content on new platforms
  - US opportunities
  - Other sector successes
    - Wind power
    - Agricultural
    - Trailer braking
    - Trailer coupling
    - Rail
    - Smaller BEV trucks

Outlook – short to medium term

- Heavy truck OEMs developed/ing new, more efficient ICE
  - Scania new CBE engine launching and ramping up plus MAN volumes from 2024
  - Typical life of 10+ years
- Increasing volumes from other sector wins
- US market
- Alternative materials, e.g. aluminium
- Greater value add in-house
  - Innovating sealed manifold solution in production and further opportunity
  - Other sub-contract processes
  - Reduce the supply chain miles

Outlook – longer term

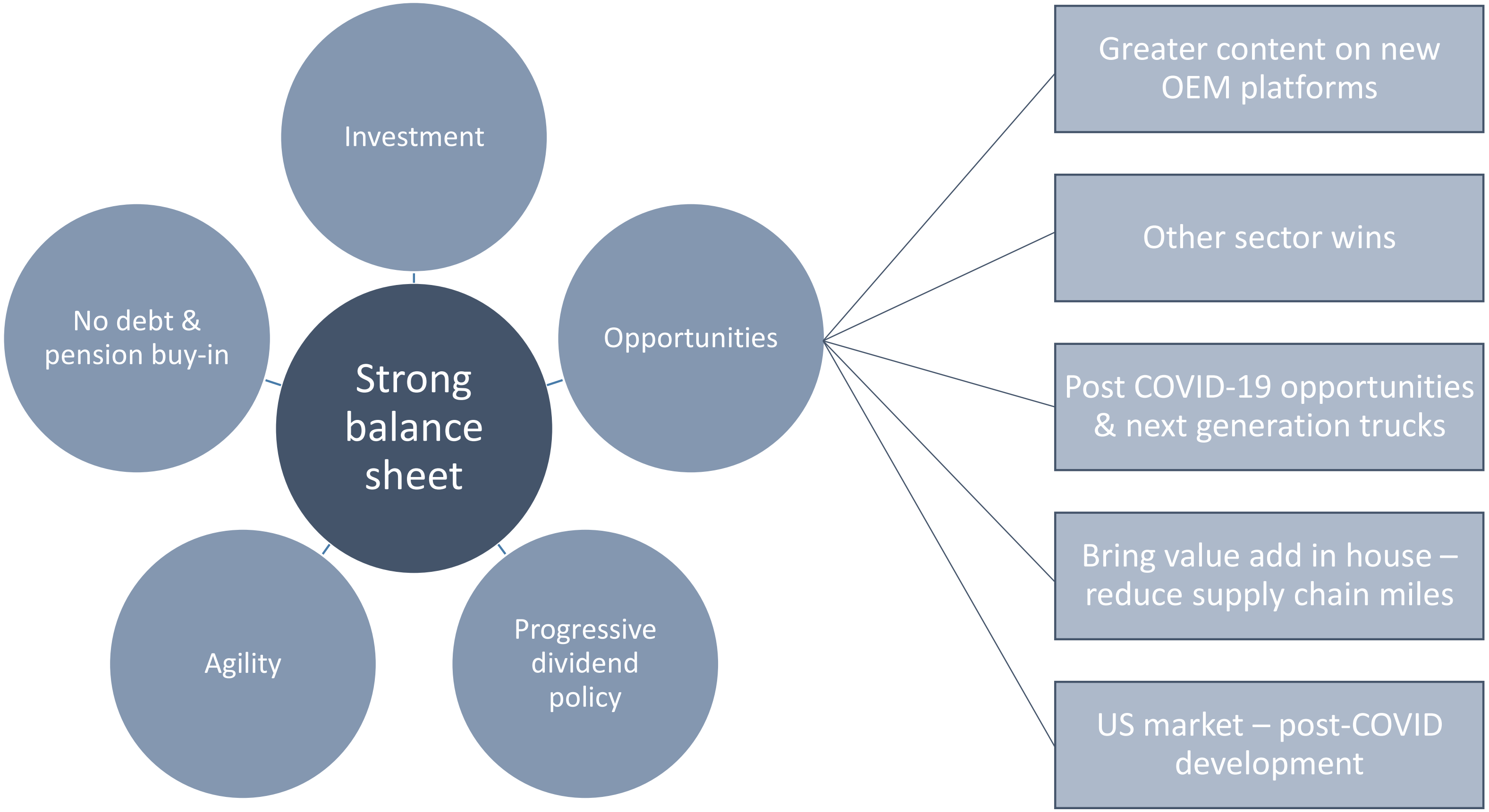
- Electrification of trucks (BEV, FCEV, biofuels) over next two decades
- What our customers are saying:
  - Target is for electric solutions to make up 10 percent of total vehicles sales volume by 2025 and 50 percent by 2030
  - Roadmap suggesting by 2025: 40T with > 4.5 hours driving; 50km driving per 1 hour charge
  - Combination of BEV, FCEV and ICEs using renewable fuels
  - By 2030 – at least 50% reduction in CO_2 emissions from Volvo trucks
  - By 2040 – 100% reduction in CO_2 emissions
  - Ambition to offer only new vehicles that are carbon-neutral in driving operation in its global core markets by 2039
  - CO_2 neutral transportation on the road by 2050 is the ultimate goal.
- Threat to heavy truck engine business (primarily manifolds), but opportunity on wider truck range
- Group experienced in evolving product offering

Sustainability

- Recycler of scrap metal, locally sourced
- Electric melting only, unlike a number of competitors
  - Reducing intensity – 1kWh per £1 of revenue (down from 1.02kWh)
  - Electricity (scope 2) - 89% of our total energy kWh in FY22
  - All from renewable sources[1]
  - Nil emissions using market based approach
- Natural gas (scope 1)
  - Emissions of 2,974 tCO_2e in FY22 (location based approach)
  - Reviewing alternative fuel sources
- On-going initiatives include:
  - Reducing supply chain miles by bringing finishing processes in-house
  - Waste reduction and recycling
- Greater customer emphasis on local sourcing

1. As defined by OFGEM due to the associated Renewable Energy Guarantee of Origin (“REGO”) certificates.

In summary


Investment
No debt & pension buy-in
Strong balance sheet
Opportunities
Agility
Progressive dividend policy
Greater content on new OEM platforms
Other sector wins
Post COVID-19 opportunities & next generation trucks
Bring value add in house – reduce supply chain miles
US market – post-COVID development

Additional information

Strategy

Deliver long term sustainable revenues and higher average margins through the following strategic priorities:

Reinvestment for innovation and efficiency
- Innovative design processes
- Reinvestment in automation
- Balanced with return to shareholders

Increase OEM market share
- Collaborative, dedicated customer teams
- Increase share within customer base
- React to opportunities

Strength of balance sheet
- Financial stability
- Agile to react to opportunities
- Supports strategic objectives

Investment in our people
- Over 1,150 employees in the UK
- Targeted and balanced training
- Strong apprenticeship programme

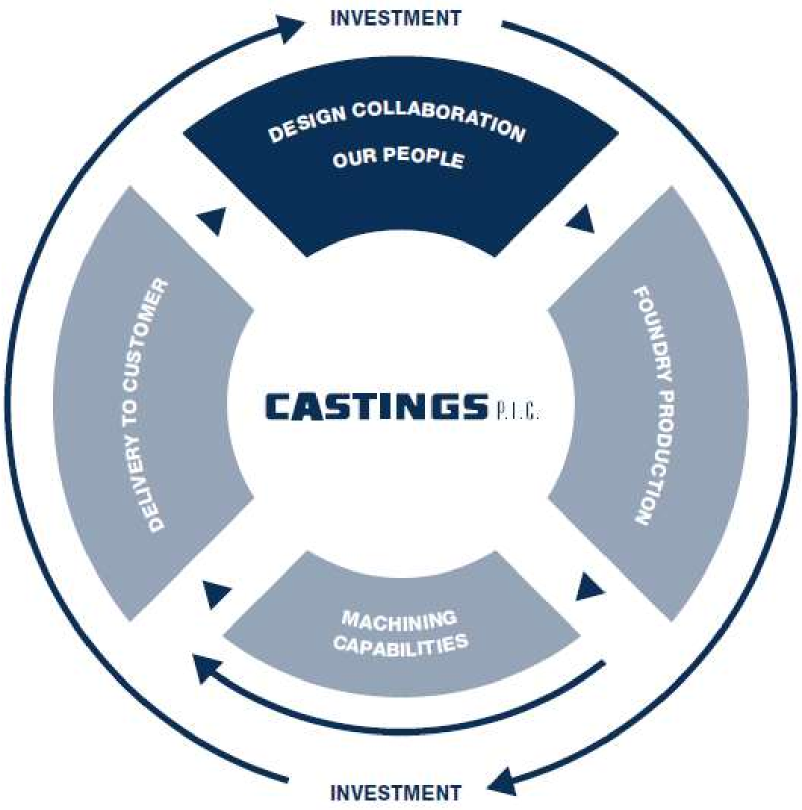
Business Model

Design collaboration & our people
- Experienced teams
- Technical knowledge
- Close customer relationships
- Latest design simulation

Foundry production
- High volume plant in low batch environment
- Flexibility
- Automation productivity

Machining capabilities
- Well invested
- Automation roll-out
- Vertical integration – assembly

Delivery to customer
- Investment in logistics
- Experienced teams



Value for stakeholders

Customers
- Flexibility, cost-effective, quality
- Capability for diverse range
- Long term security

Employees
- Investment in training
- Challenged and ambitious

Shareholders
- Competitive position
- Growth opportunities
- Strong cash generation
- Progressive dividend policy

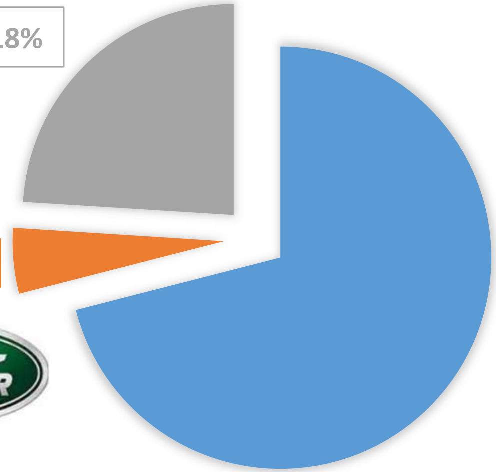
Communities and environment
- Recycler of steel scrap metal produced in UK
- Contribution to communities

The casting process

https://www.youtube.com/watch?v=vottPvv0Th0

Our customers

Haldex
CATERPILLAR
DEUTZ
PANDROL TRACK SYSTEMS
PALL Pall Corporation
Perkins
Danfoss
spirax sarco
KNOTT GROUP BRAKE AND TRAILER TECHNOLOGY
Parker
VÄDERSTAD
Tekmar Energy
TOYOTA MATERIAL HANDLING
VBG

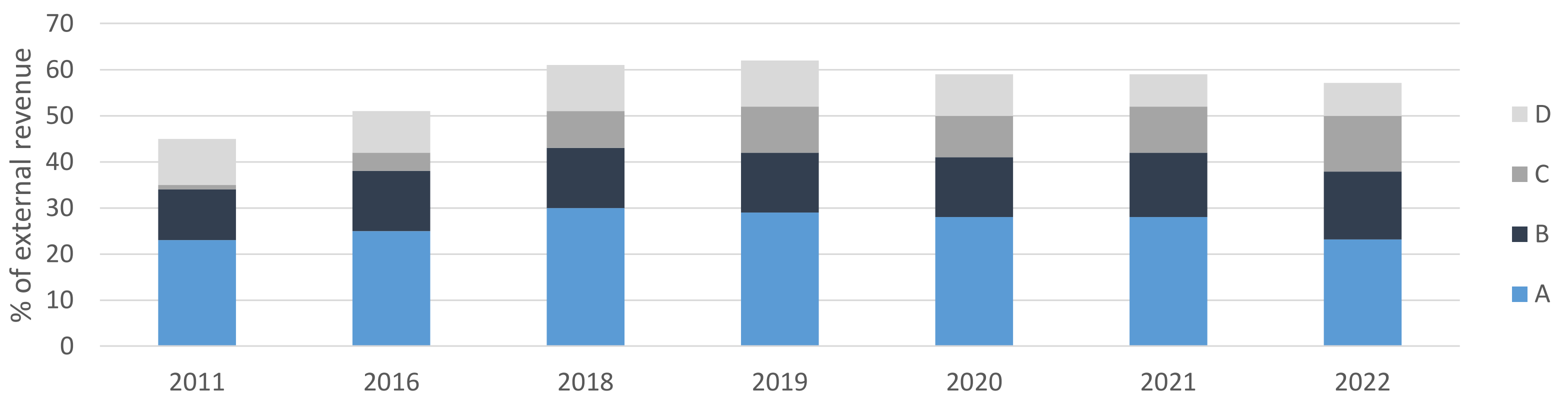


NISSAN
PSA GROUPE
Ford
JAGUAR
LAND ROVER

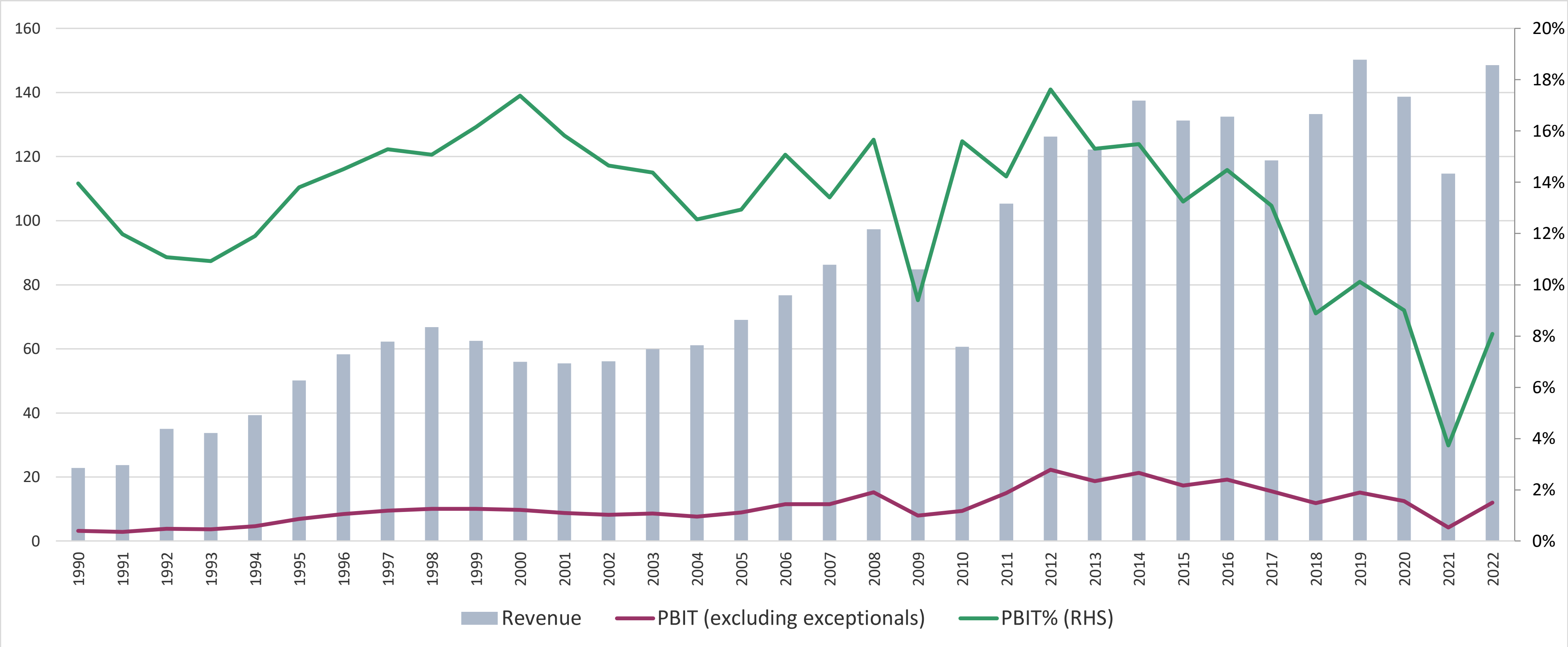
SCANIA
MAN
GNUTTI
DAIMLER
GT Group TOMORROW'S ENGINEERING TODAY
Continental
LEAX GROUP
VOLVO
BorgWarner Turbo Systems
MERITOR
PACCAR
DAF

Commercial vehicle customer revenue mix

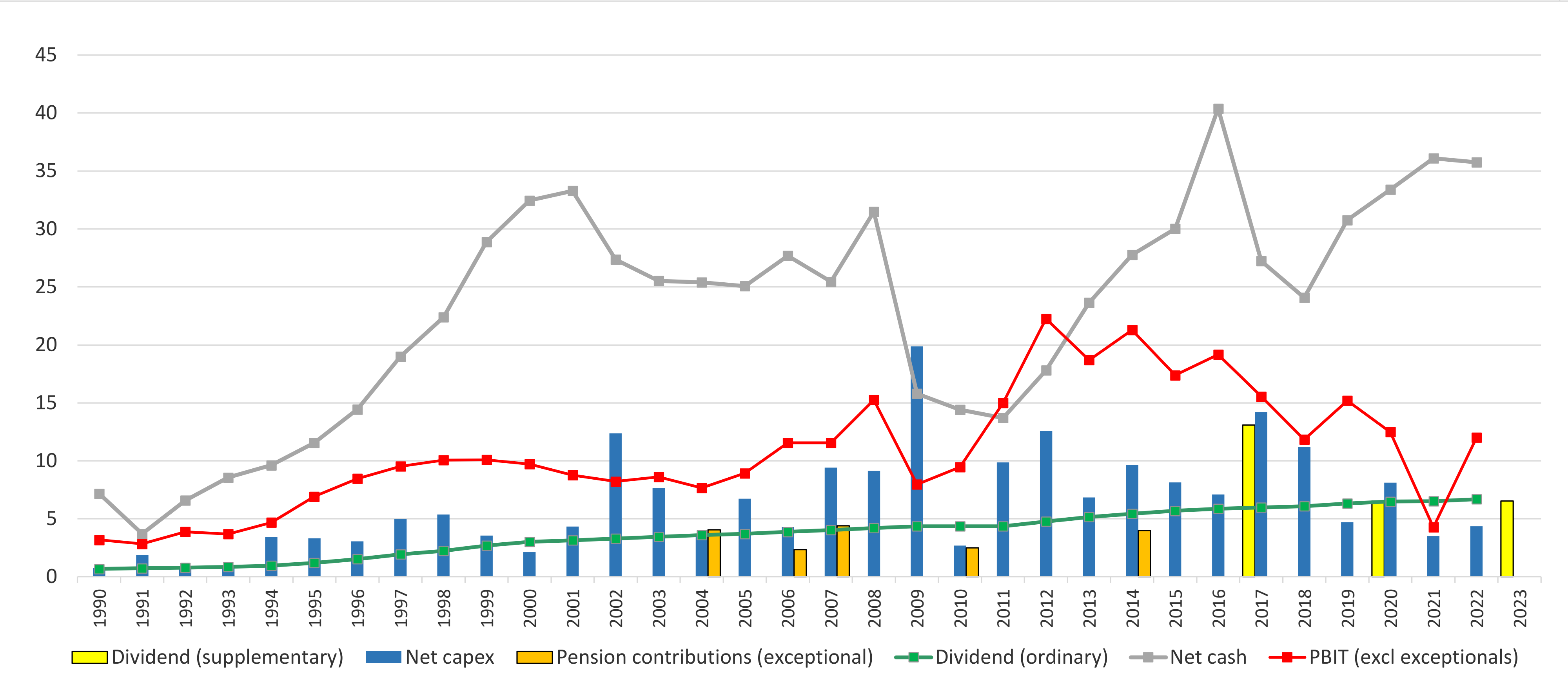
	2011	2016	2018	2019	2020	2021	2022
Customer							
A	23%	25%	30%	29%	28%	28%	23%
B	11%	13%	13%	13%	13%	14%	15%
C	1%	4%	8%	10%	9%	10%	12%
D	10%	9%	10%	10%	9%	7%	7%
Total	45%	51%	61%	62%	59%	59%	57%



Revenue and PBIT



Strong cash generation



Facilities and recent investments

- Sites:
  - Castings (Brownhills) – 14 acres
  - William Lee (Dronfield) – 14 acres
  - CNC Speedwell – 4 acres

- Production facilities:
  - Castings (Brownhills) – 32,000 m^2 (of which 5,000 m^2 is warehousing)
    - 2 x Disamatic vertical moulding lines (up to 15kg part weight)
    - 1 x GF/Disa horizontal moulding line (up to 25kg part weight)

  - William Lee (Dronfield) – 26,500 m^2 (of which 2,000 m^2 is warehousing)
    - 1 x Disamatic vertical moulding line (up to 15kg part weight)
    - 1 x GF/Disa horizontal moulding line (up to 25kg part weight)
    - 1 x HWS horizontal moulding line (up to 45kg part weight)

  - CNC Speedwell – 15,500 m^2 (of which 5,000 m^2 is on Castings site)
    - 127 CNC machines

Facilities and recent investments

- Robotic handling and processing
  - Investment programme commenced 2016
  - 55 robotic cells across the group
  - £1m investment in FY22 and £10m to date
  - 4 currently on order and roll-out will continue

- Heat treatment plant for alloyed parts
  - Commissioned in FY21
  - £0.6m investment

- Disa moulding line upgrade
  - £2m investment completed in December 2021
  - Productivity improvement, increased output and lower maintenance cost

- Auto-pour on foundry line
  - £1.2m investment, commissioning in August 2022
  - Productivity improvements
  - H&S enhancement