

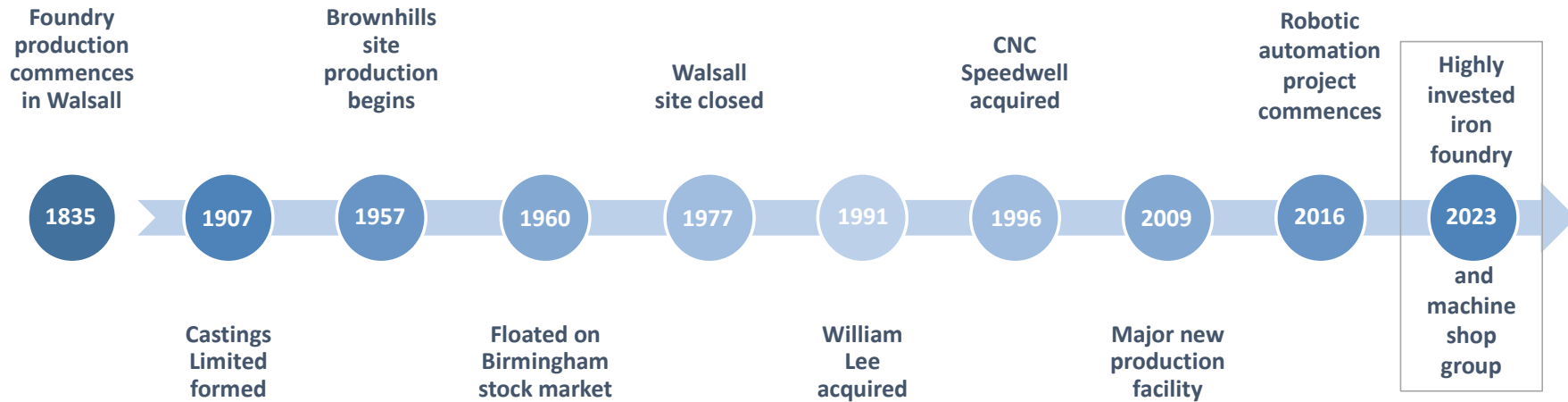


# Castings PLC Final results 31 March 2023



# 1. Introduction and overview

# Timeline



# The Castings group



## Wm Lee

## CNC Speedwell Ltd



Foundry | Brownhills

Founded 1835

30,000 tonnes capacity\*

392 employees



Foundry | Dronfield

Acquired 1991

40,000 tonnes capacity\*

456 employees



Machinist | Brownhills

Acquired 1996

Over 100 CNC machines

375 employees

\* production capacity which, after machining, converts to a sales capacity of c. 90%

# Financial headlines

## Results

- Despatch weight up 6.6% to 53,100 tonnes
- Revenue up 35% to £201m
  - Underlying revenue growth of 24% excluding energy related surcharges
- Operating profit up 36% to £16.4m
- Strong balance sheet with cash of £35.6m and no debt

## Dividends

- Final ordinary dividend declared of 13.51p (up 7.5%)
- Total dividend of 17.35p (up 6.9%)
- Uninterrupted 42-year track record of growing or maintaining dividend
- Supplementary dividend of 15p

# Highlights

- Strong growth in sales tonnes (6.6%)
- Mix of machined work at record high (59.2% by weight)
- Price increases to fully recover labour and general cost inflation
- Energy surcharges to recover energy cost inflation (at nil margin) in H2
- Operating margin maintained at 8.1% (8.8% excluding energy surcharge dilution)
- Machine shop returned to profit (first time in 6 years)
- Production rebalancing to cater for increasing heavy truck schedules
- Strong demand in US
- Growth in wind energy, trailer braking and trailer coupling sectors

## 2. Financial review

# Final results overview

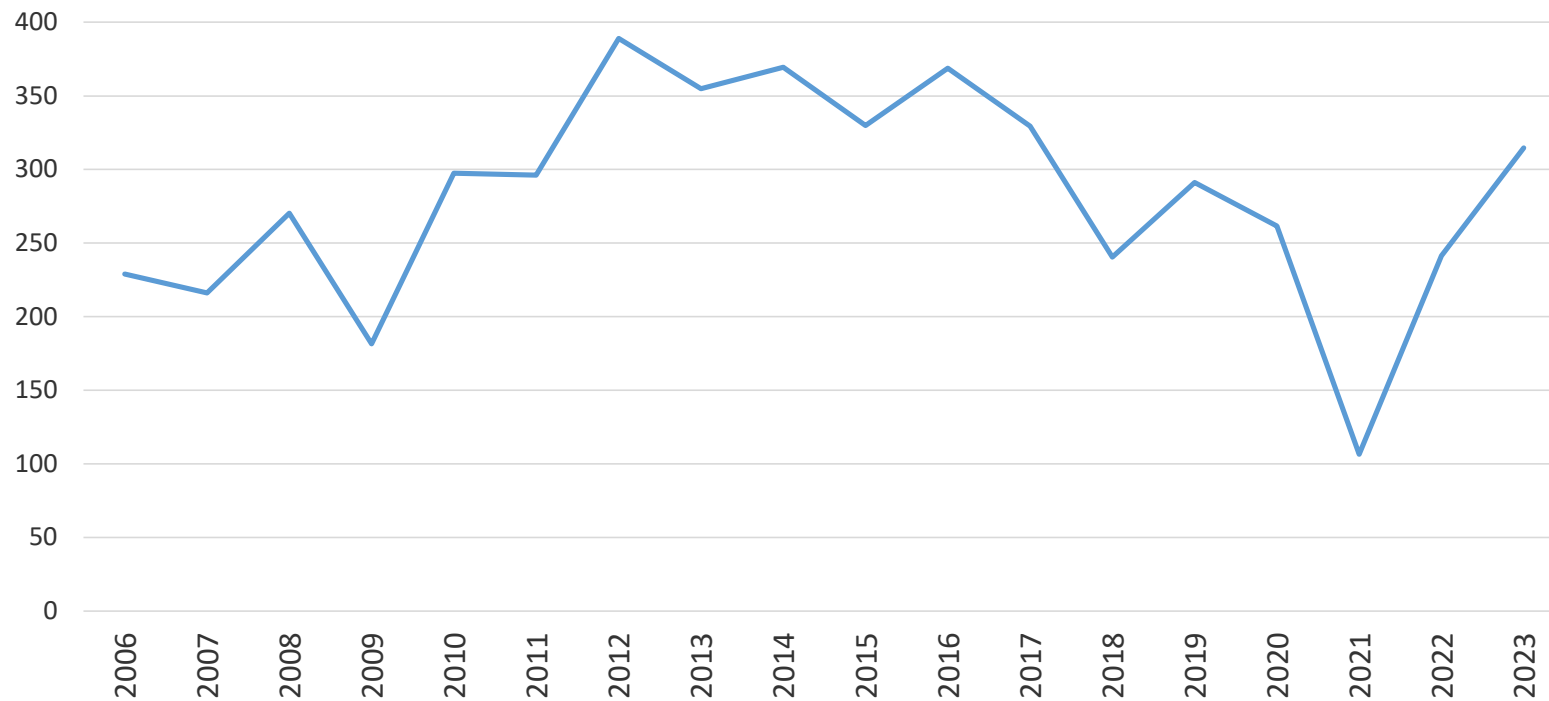
£m (unless stated)	2019	2020	2021 <sup>2</sup>	2022	2023	Growth
Revenue	150.2	138.7	114.7	148.6	201.0	35.3%
Operating profit <sup>1</sup>	15.2	12.5	4.3	12.0	16.4	36.1%
Operating margin	10.1%	9.0%	3.7%	8.1%	8.1%	-
EPS <sup>1</sup>	28.16p	23.05p	8.06p	19.60p	31.66p	61.5%
Return on capital employed <sup>1</sup>	14.7%	12.7%	4.6%	12.6%	17.0%	-
Ordinary dividend declared	14.78p	14.88p	15.26p	16.23p	17.35p	6.9%
Supplementary dividend	15.00p	-	-	15.00p	15.00p	0.0%
Free cash flow	12.9	9.2	20.7	6.4	13.7	114.1%
Net cash position	30.7	33.4	36.1	35.7	35.6	0.0%

<sup>1</sup> Excluding exceptional items

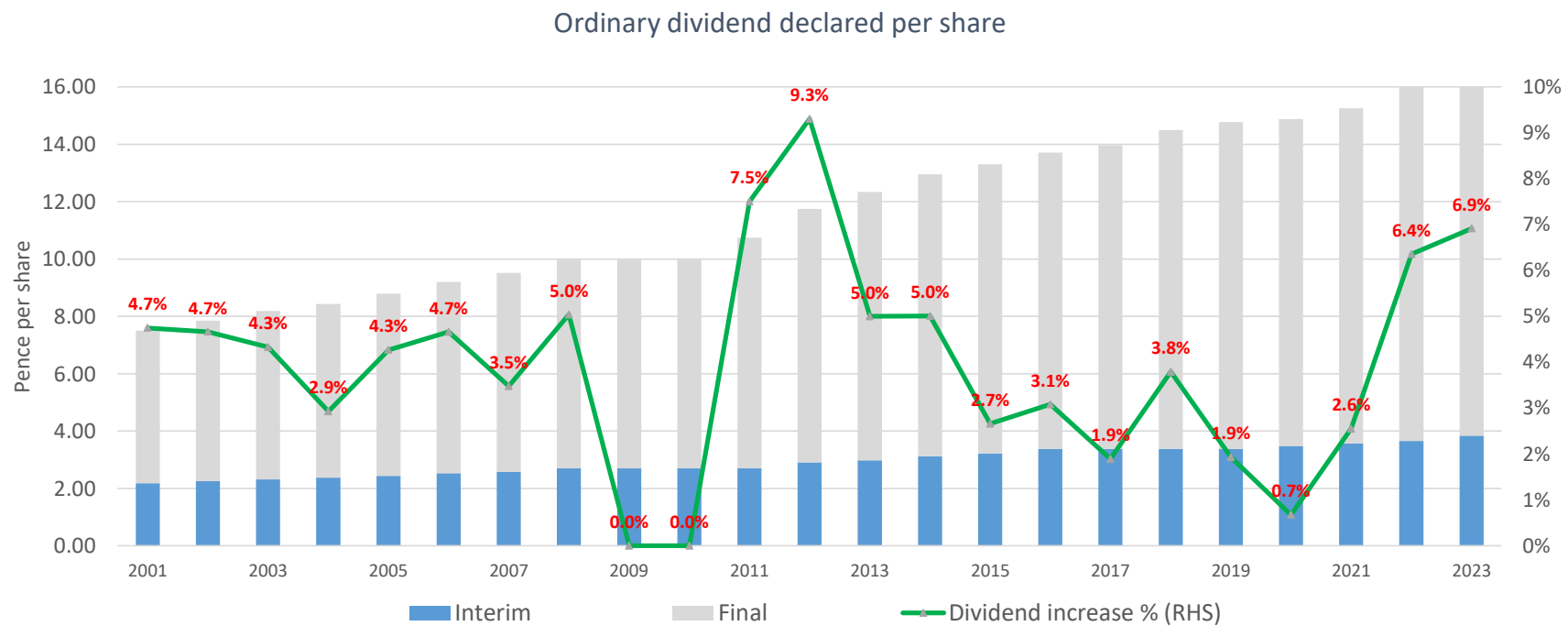
<sup>2</sup> Impact of COVID-19 pandemic most prevalent in this year



# Profit before tax per tonne sold



# Dividend growth record



Plus supplementary dividends declared in 2016 (30p/share), 2019 (15p/share), 2022 (15p/share) and 2023 (15p/share).

# Foundry segmental results

£m (unless stated)	2019	2020	2021	2022	2023	Growth
Revenue						
Gross	164.6	151.3	123.1	162.6	223.7	37.6%
Less: inter-group revenue	(21.5)	(17.7)	(11.1)	(17.0)	(24.7)	45.3%
External revenue	143.1	133.6	112.0	145.6	199.0	36.7%
Foundry sales weight (tonnes)	52,200	47,700	40,100	49,800	53,100	6.6%
Average selling price (£/tonne)	£2,741	£2,801	£2,793	£2,924	£3,747	28.1%
Segmental result	16.8	13.4	6.7	13.1	16.3	24.4%
Segmental margin on gross sales	10.2%	8.9%	5.4%	8.1%	7.3%	-

# Machining segmental results

£m (unless stated)	2019	2020	2021	2022	2023	Growth
Revenue						
Gross	27.8	24.5	18.3	22.5	27.7	23.1%
Less: inter-group revenue	(20.6)	(19.5)	(15.6)	(19.5)	(25.6)	31.3%
External revenue	7.2	5.0	2.7	3.0	2.0	-33.3%
Segmental result	(1.3)	(0.7)	(2.3)	(0.9)	0.2	-
Segmental margin on gross sales	-4.7%	-2.9%	-12.6%	-4.0%	0.6%	-
EBITDA	2.8	3.8	2.0	2.9	3.6	24.1%
Cash generation	0.4	2.7	(0.9)	2.7	1.3	-51.8%
Capex	1.9	2.5	1.5	1.0	1.1	10.0%

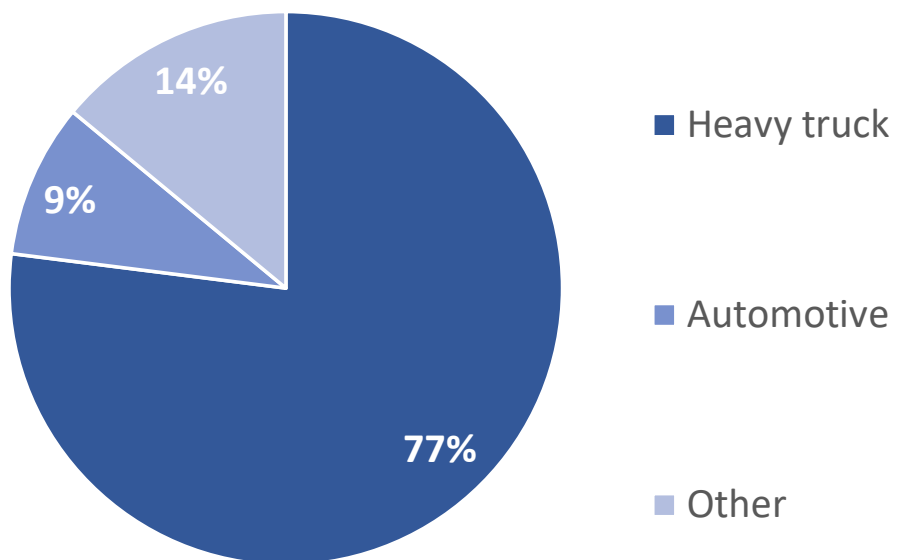
# Summary cash flow statement

£m	2019	2020	2021	2022	2023
PBT net of tax payments	12.6	8.3	4.3	9.5	13.8
Depreciation	8.3	8.9	8.8	8.6	8.6
Working capital movement	(5.2)	5.9	(0.7)	(7.7)	(2.7)
Capex (net)	(4.9)	(8.2)	(5.2)	(4.4)	(6.2)
Sale of property	-	-	1.7	-	-
Free cash flow (excluding pension payments)	10.8	14.9	8.9	6.0	13.5
Repayments from/(advances to) pension scheme	2.1	0.7	0.3	0.4	0.0
Dividend – ordinary	(6.3)	(6.5)	(6.5)	(6.7)	(7.2)
Dividend – supplementary	-	(6.5)	-	-	(6.5)
Net cash (outflow)/inflow	6.6	2.6	2.7	(0.3)	(0.2)

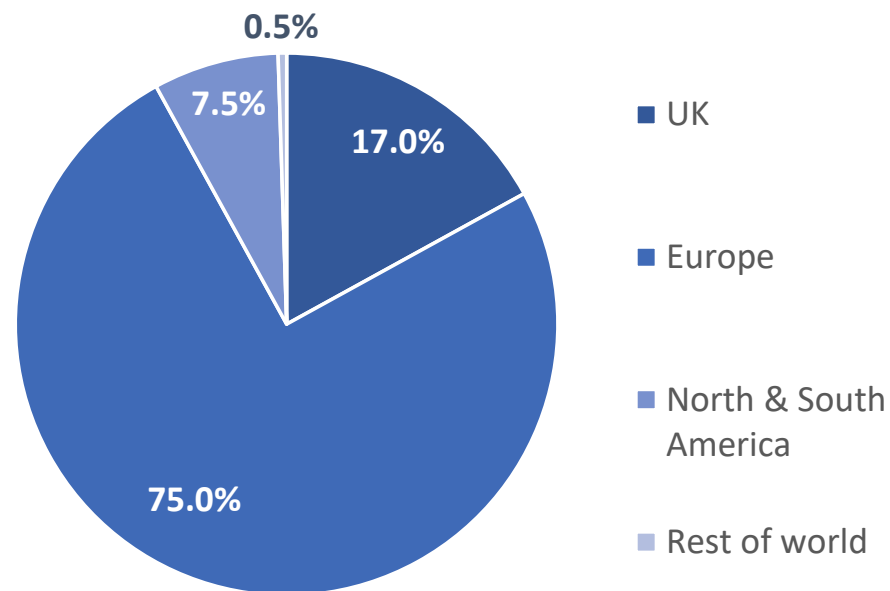
# 3. Business review

# Revenue profile

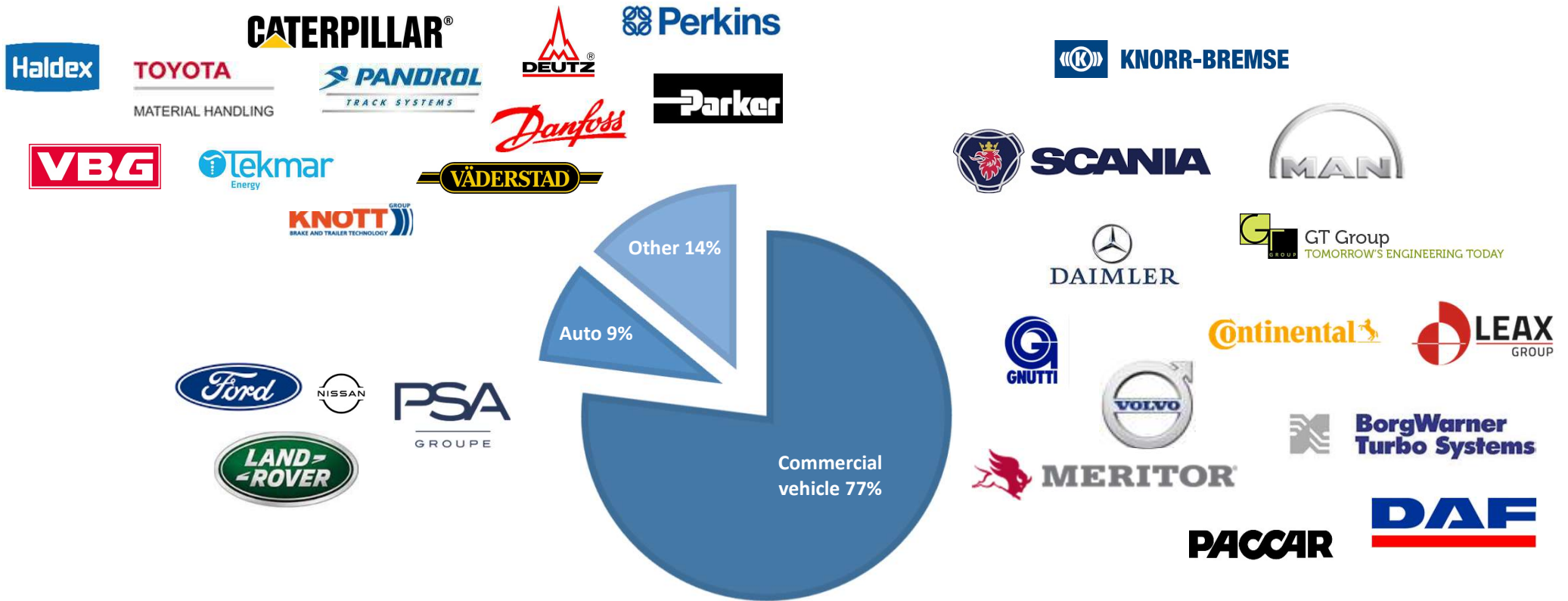
## Revenue by sector



## Revenue by location



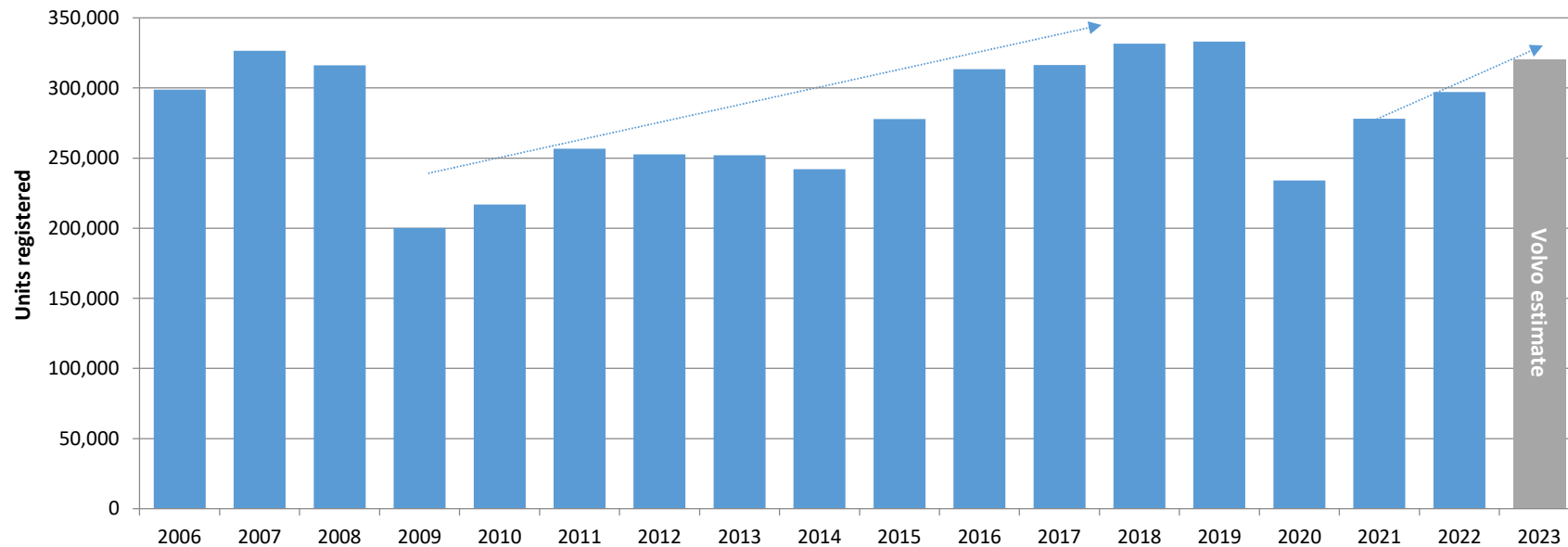
# Our customers





# Heavy truck registrations

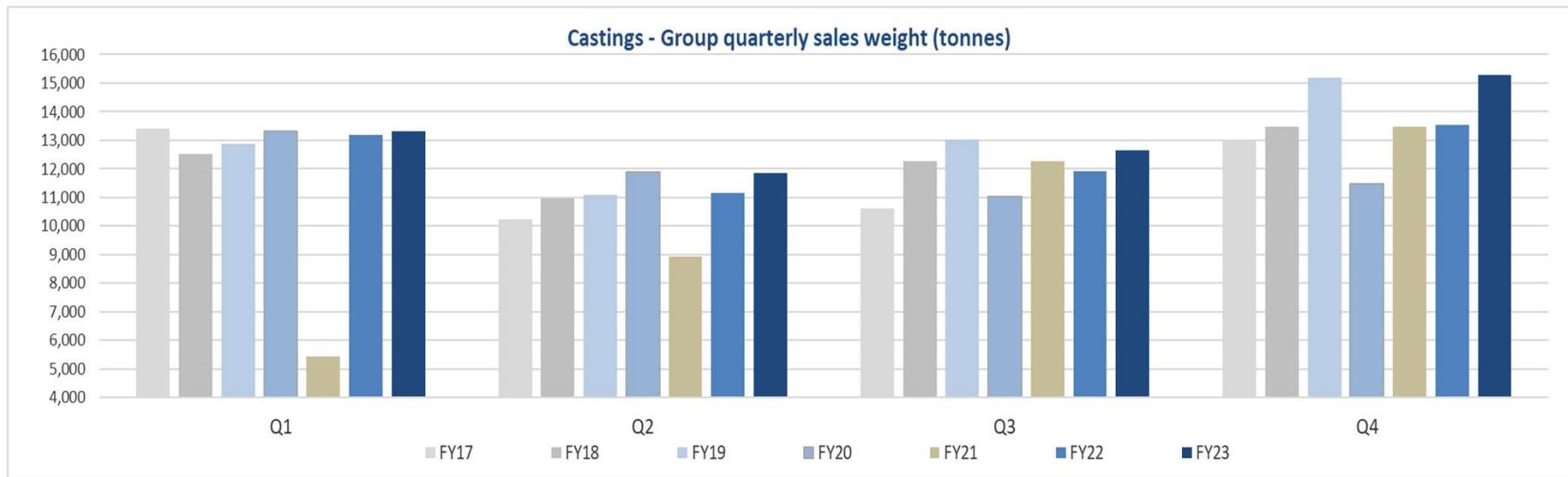
European heavy truck registrations (calendar year)



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

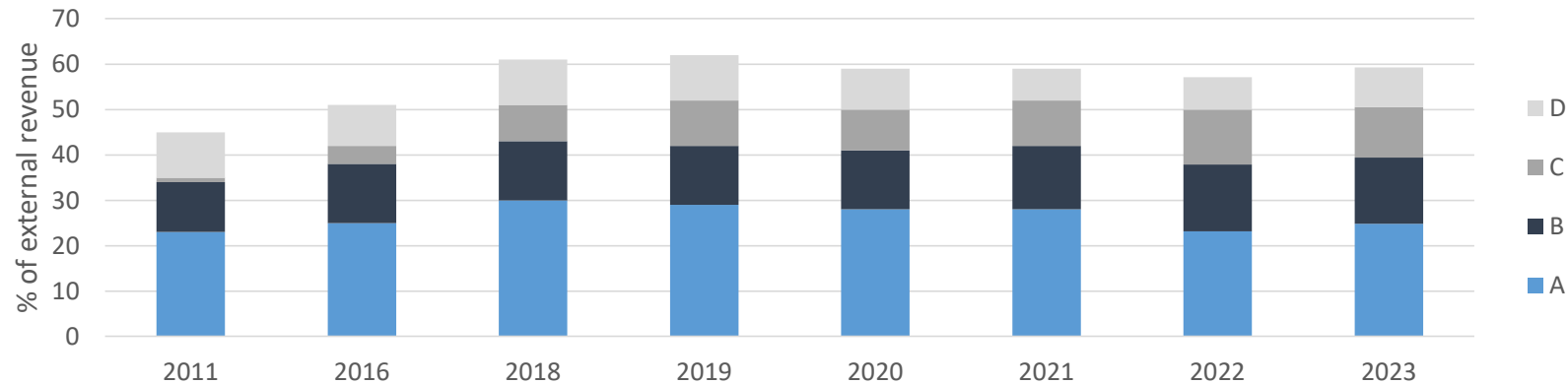
	2017	2018	2019	2020	2021	2022	2023
Foundry sales weight (tonnes)	47,200	49,200	52,200	47,700	40,100	49,800	53,100



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# Commercial vehicle customer revenue mix

	2011	2016	2018	2019	2020	2021	2022	2023
<b>Customer</b>								
A	23%	25%	30%	29%	28%	28%	23%	25%
B	11%	13%	13%	13%	13%	14%	15%	15%
C	1%	4%	8%	10%	9%	10%	12%	11%
D	10%	9%	10%	10%	9%	7%	7%	9%
<b>Total</b>	<b>45%</b>	<b>51%</b>	<b>61%</b>	<b>62%</b>	<b>59%</b>	<b>59%</b>	<b>57%</b>	<b>60%</b>



# Group performance

## Customers

- Pent-up truck demand
- OEMs seeking to increase
- New engine platforms for two customers
- Innovation on new platform
- US tier 2 growth available – capacity constraints
- Other sector growth coming through

## Production

- Automation investment
  - Robotic investment
  - AI quality inspection
- Rebalancing of production lines completed
- Recruitment issues behind us

## Costs / prices

- Input price rises
- Electricity contract ended 30 September 2022
- Labour costs
- Surcharge mechanisms
- Additional price increase from 1 April 2023

# Sustainability

- Castings plc is a recycler
- Overall tCO<sub>2</sub>e per tonne of castings produced reduced to 0.528 (from 0.547)
- Electric melting only, unlike a number of competitors
  - Electricity (scope 2) - 87% of our total energy kWh
  - 100% REGO backed supply
  - Nil emissions using market-based approach
- Natural gas (scope 1)
  - Emissions of 3,602 tCO<sub>2</sub>e in 2023 (location-based approach)
  - New green gas contract from October 2023
- On-going initiatives include:
  - 2<sup>nd</sup> centralised cooling plant at CNC – more efficient
  - Sand reclamation project being assessed – one of largest by-products currently
  - Reducing supply chain carbon miles by bringing finishing processes in-house
- Local sourcing by customers



# 4. Summary and outlook

# Outlook – short to medium term

- Volume increases
  - Pent-up demand in heavy truck
  - Schedule increases
  - Scania CBE engine to MAN from 2024
  - Other sectors strong
- Improved production efficiencies
  - Production rebalanced
  - Recruitment settled
  - Automation efficiencies continue
- Inflationary pressures passed on
  - 1 April 2023 price increase
  - Electricity revenue impact for full year
  - Surcharges continue
- Capital investment
  - Capacity
  - Automation / multi-manning
  - Energy efficient / recycling solutions
- Alternative materials (aluminium)
- Greater value add in-house
  - Innovative sealed manifold solution in production and further opportunity
  - Other sub-contract processes
  - Reduce the carbon miles in supply chain

# Outlook – longer term

- Electrification of trucks (BEV, FCEV, biofuels) over next two decades
  - Heavy trucks (our market) likely to be the last
- EU commission proposed heavy truck target to reduce on average compared to 2019 by:
  - 45% from 1 January 2030
  - 65% from 1 January 2035
  - 90% from 1 January 2040
- Threat to heavy truck engine business (primarily manifolds)
- Opportunity on wider truck range
- Group experienced in evolving product offering



Electric solutions to make up 10% of total vehicles sales volume by 2025 and 50% by 2030



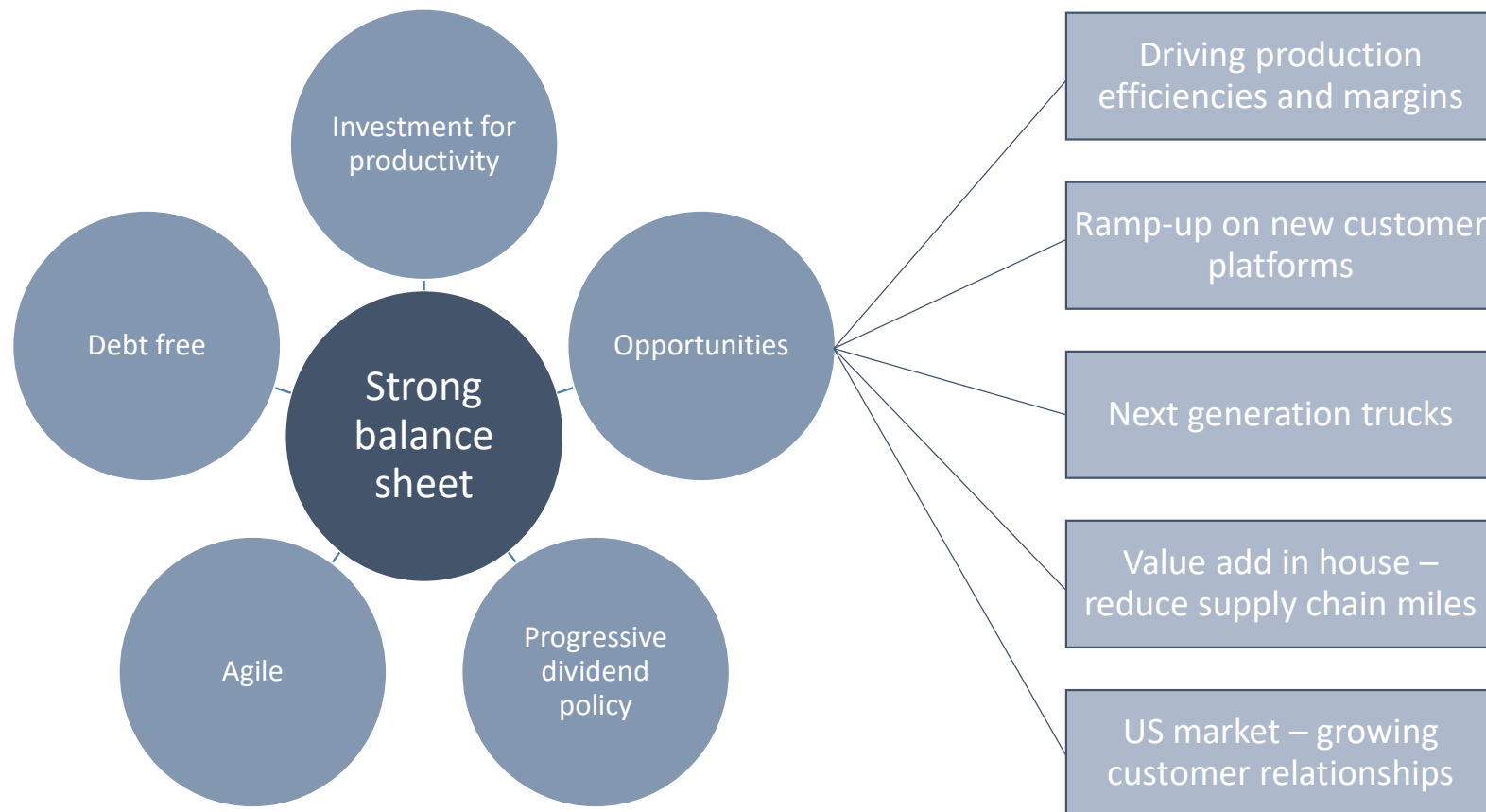
100% fossil-free vehicles by 2040



CO<sub>2</sub> neutral transportation on the road by 2050 is the ultimate goal

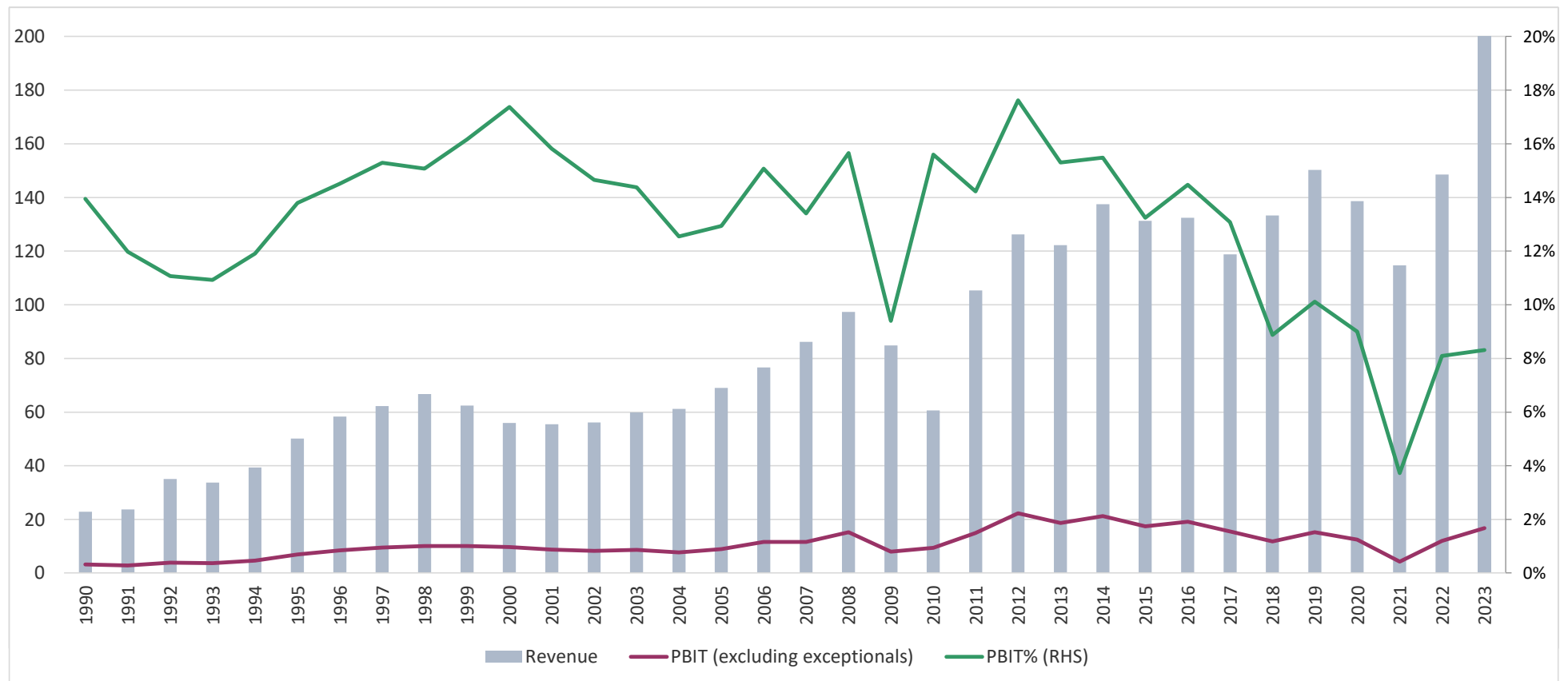


# In summary

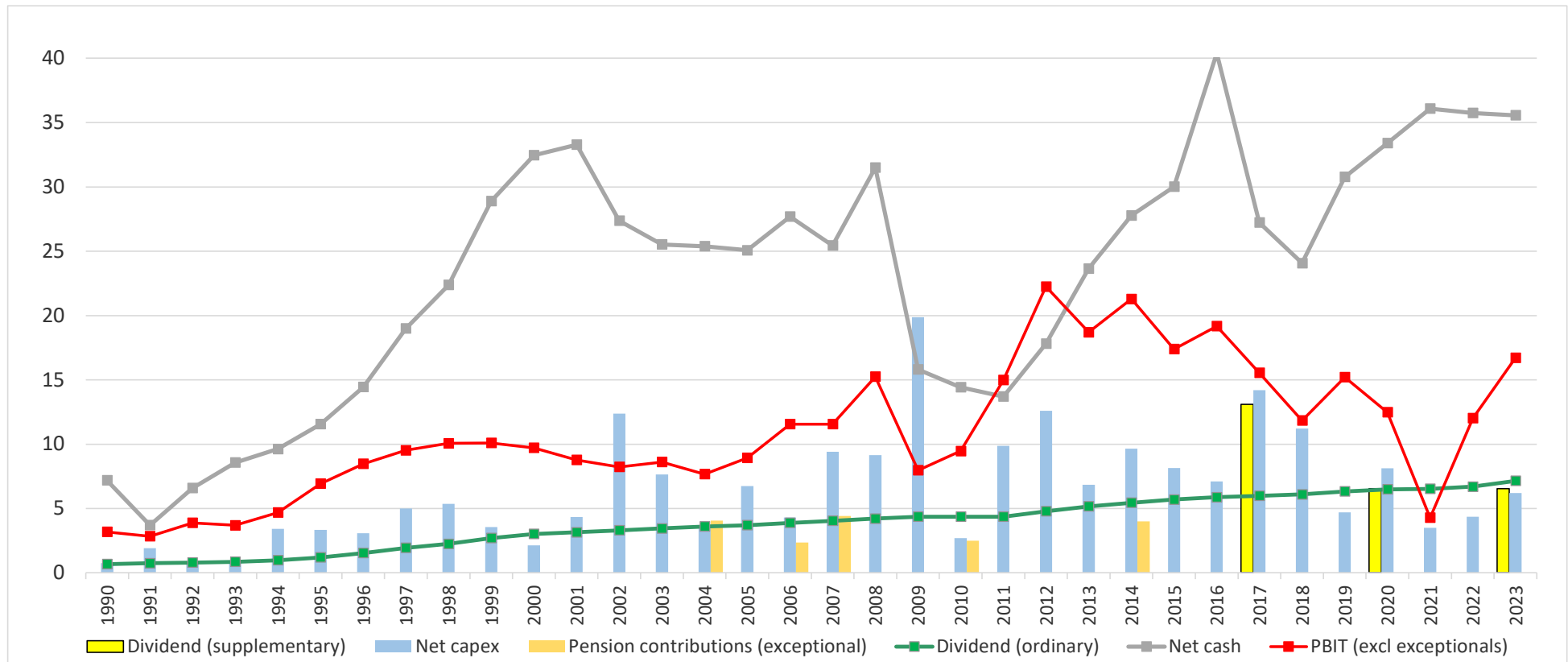


# Appendix - Additional information

# Revenue and PBIT



# Track record of strong cash generation



# 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 1,200 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

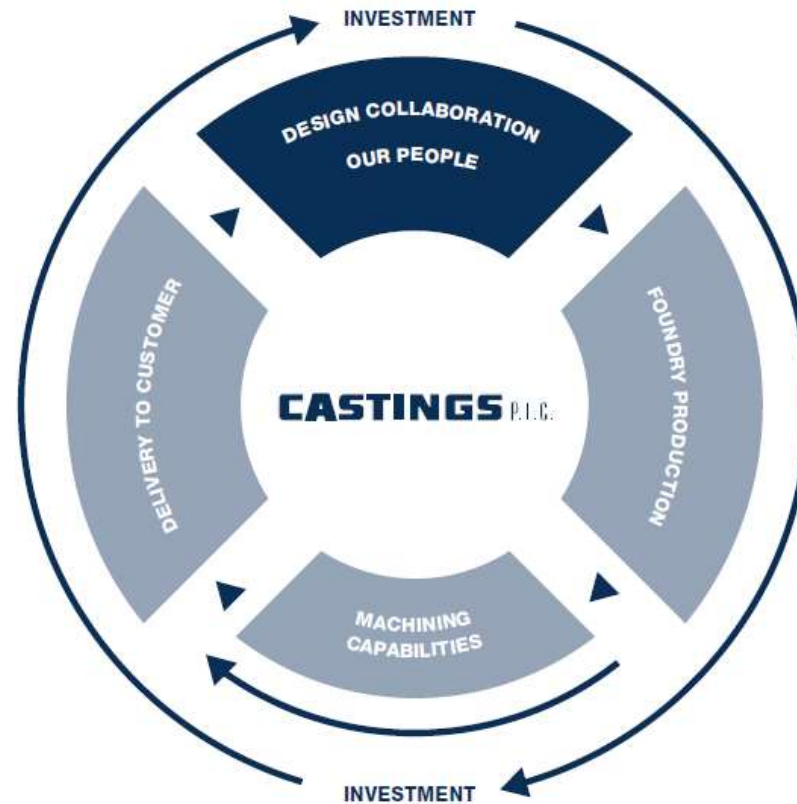
- High volume plant in low batch environment
- Flexibility
- Automation productivity

## 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

# Production facilities

- Sites:
  - Castings (Brownhills) – 14 acres
  - William Lee (Dronfield) – 14 acres
  - CNC Speedwell – 4 acres
- Production facilities:
  - Castings (Brownhills) – 32,000 m<sup>2</sup> (of which 5,000 m<sup>2</sup> 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<sup>2</sup> (of which 2,000 m<sup>2</sup> 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<sup>2</sup> (of which 5,000 m<sup>2</sup> is on Castings site)
    - 127 CNC machines

# Recent investments

- Robotic handling and processing (started 2016)
  - Over 62 robots across the group
  - £13m investment to date
  - Roll-out continues
- Warehouse management system (started 2017)
  - Bespoke FIFO system in Brownhills
  - £1m+ investment
- Heat treatment plant for alloyed parts (commissioned 2020)
  - £0.6m investment
- Disa moulding line upgrade (completed December 2021)
  - £2m investment in productivity improvement and increased output
  - Lower maintenance cost
- HWS automated pouring (completed August 2022)
  - £1.4m investment
  - H&S improvement
  - Productivity improvement, enhanced quality and increased output