

Business review

Aerospace, Defence & Energy

Leading Edge

Nacelle lipskins

The forward section of the jet engine covering, or "nacelle", is contoured to direct air into the engine fan and compressor blades. The inlet leading edge of the nacelle is the "lipskin" which is subjected to hail in flight, airborne debris upon landing and potential damage from ground vehicles. The vast majority of lipskins are made from aluminium with a limited amount of stainless steel in business jets. The aluminium is solution treated followed by rapid quench, then ageing to strengthen the material and withstand the high temperatures of the anti-ice air.



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Within the Aerospace, Defence & Energy (ADE) business, our customers think and operate globally and increasingly expect Bodycote to service them in the same way. Consequently, the ADE business is organised globally. This gives Bodycote a notable advantage as the only thermal processing company with a global footprint and an understanding of operating in all of the world's key manufacturing areas. A number of Bodycote's multinational customers fall within the compass of ADE and Bodycote intends to continue to leverage its unique market position to increase revenues in these market sectors. The business incorporates the Group's activities in hot isostatic pressing and surface technology as well as the relevant heat treatment services, encompassing 63 facilities in total.

Results

Revenues for the ADE business were £250.9m in 2016 compared to £243.5m in 2015, an increase of 3.0% (6.7% decrease at constant exchange rates). Sales declined in the business' key geographies, with the weakness in the oil & gas market hitting both Western Europe and North America. On the positive side, Western Europe enjoyed strong aerospace sales in France throughout the year, as well as in the UK in the second half, and the IGT and power generation businesses also registered growth. North America had a tough year all round with lower aerospace revenues as the business jet market suffered and there was some Original Equipment Manufacturer (OEM) supply chain realignment.

Headline operating profit¹ for ADE was £55.6m (2015: £59.2m) and headline operating profit margin reduced from 24.3% to 22.2%, once again demonstrating good cost control in the face of reduced sales.

Net capital expenditure in 2016 was £19.9m (2015: £17.4m) which represents 1.0 times depreciation (2015: 0.9 times). The Group continued to invest in additional capacity, with investments in new facilities in Poland, France and the USA, as well as the relocation of a US facility. We will continue to add further capacity as we identify market opportunities and to support anticipated growth in the Group's Specialist Technologies and other high-value offerings.

Return on capital employed in 2016 was 19.7% (2015: 23.0%), reflecting the drop in ADE profitability noted above.

Achievements in 2016

The ADE business made further progress during the year as it continued to ramp up support for the new and growing civil aerospace programmes. The new facilities will ramp up in 2017, contributing to Group revenue. They will inevitably experience the normal start-up losses but will contribute to Group profitability beyond 2017.

Organisation and people

Total full-time equivalent headcount at 31 December 2016 was 1,706 (2015: 1,785), a decrease of 4.4% compared to the revenue decline in ADE of 6.7% (at constant exchange rates).

Looking ahead

We expect to see continued modest growth in our civil aerospace business and, depending on the actions of the new USA administration, we may see some pick up in our defence business. We anticipate no near-term improvement in the oil & gas sector and are likely to see continued negative year-on-year development as the business enters 2017 at a weaker level than a year ago. However, Bodycote believes it is well placed to respond to any developments in its markets and capitalise on its world-leading position in the aerospace, defence and energy markets.

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

ADE revenue by geography

£m



ADE revenue by market sector

£m

