Business review

The following review reflects constant currency growth rates unless stated otherwise.

The ADE divisions

We have 63 ADE facilities around the world including classical heat treatment, hot isostatic pressing (HIP) and Surface Technology Facilities.

Revenue for the first half of the year was £142.7m, an increase of 8.8% (4.8% at actual rates). Headline operating profit was £33.3m an increase of 13% (8% at actual rates), benefiting from positive operational leverage as revenues grew. Accordingly, return on sales improved to 23.3% (H1 2017: 22.6%). Statutory operating profit grew to £32.9m (H1 2017: £29.9m).

Net capital expenditure in the period was £11.0m (H1 2017: £10.8m), representing 1.0 times depreciation. We have invested in new HIP capacity in Europe with Belgium receiving a new HIP later this year and we have also placed an order to increase our HIP capacity in North America. In addition, we commenced investment in a new UK facility to support our growing UK civil aviation business.

The AGI divisions

Our extensive network of more than 120 AGI facilities enables the business to offer the widest range of technical capability and security of supply, while continuing to increase the proportion of technically differentiated services that it offers. Bodycote has a long and successful history of servicing this division's wide-ranging customer base.

Revenue was £225.3m, 8.6% ahead of the prior year (7.5% at actual rates). Our new facilities, including LPC and S^3P facilities and those in Emerging Markets, are developing in line with expectations. Emerging Market growth was above 20%, with growth in Mexico and China over 30%. The addition of LPC capacity in Mexico for specific automotive programmes has helped drive this significant growth.

Headline operating profit was £43.2m (H1 2017: £36.9m), 17% ahead of the prior period (17% at actual rates). Return on sales expansion has been a focus for our AGI business over many years now and, at 19.2%, we delivered return on sales improvement once again (H1 2017: 17.6%). Statutory operating profit grew to £41.7m (H1 2017: £35.4m).

Net capital expenditure was £18.9m (H1 2017: £16.2m) representing 1.0 times depreciation. We are continuing to invest in the rapid growth Emerging Markets, as well as supporting new capacity for auto programmes that we have won.

Financial overview

	Half year to 30 June	
	2018	2017
	£m	£m
Revenue	**368.0**	345.7
Headline operating profit	**70.1**	61.7
Amortisation of acquired intangible fixed assets	**(1.9)**	(2.3)
Operating profit	**68.2**	59.4
Net finance charge	**(1.0)**	(1.2)
Profit before taxation	**67.2**	58.2
Taxation	**(16.4)**	(14.6)
Profit for the period	**50.8**	43.6

Group revenue was £368.0m, an increase of 6.4% at actual exchange rates and 8.7% at constant currency. Headline operating profit for the six months increased by 14% to £70.1m (H1 2017: £61.7m), and return on sales increased to 19.0% (H1 2017: 17.8%). Headline operating profit at constant currency increased by 15% to £71.2m. Once again, increases in input costs were more than recovered via price increases and the Group maintained a strong focus on cost control and operational efficiency. Statutory operating profit grew to £68.2m (H1 2017: £59.4m).

Finance charge

The net finance charge was £1.0m compared to £1.2m in H1 2017.

As at 30 June 2018, the Group's £230m Revolving Credit Facility was drawn by £20m. It has a remaining life of 3 years and 10 months.

Taxation

The tax charge in the first half of 2018 was £16.4m, compared to a charge of £14.6m for the same period of 2017. The effective tax rate was 24.5% (H1 2017: 25.1%), representing an improvement on previous guidance of 26.5% as the Group benefits from the utilisation of some historic losses.

The headline tax rate, being stated after accounting for amortisation of goodwill and acquired intangibles, is 24.5% in the first six months of 2018 (H1 2017: 25.5%).

The final impact of the changes from the passing of the Tax Cuts and Jobs Act in the US in December 2017 are subject to a number of detailed provisions in the legislation and any implementation guidance issued by the Treasury Department and the IRS. The exact workings of these provisions remains unclear. Bodycote will continue to monitor any developments and give due consideration to the impact of any guidance, along with ongoing market interpretation and assessment on the accounting implications of this Act.

Nonetheless, we have revised guidance as we do not anticipate that the Group's headline tax rate for the full year will exceed 24.5%.