DOWLAIS

DOWLAIS GROUP PLC

HALF YEAR RESULTS PRESENTATION TRANSCRIPT

7th AUGUST 2025

Dowlais

Liam Butterworth, Chief Executive Officer
Roberto Fioroni, Chief Financial Officer
Pier Falcione, Investor Relations

Questions on the webinar from

Vanessa Jeffriess, Jefferies

Operator

(audio in progress) year 2025 results. The presentation will commence shortly. (Operator Instructions) Please note this call is being live stream to a webcast for a wider audience and will be recorded.

I would now like to hand over to Liam Butterworth, Chief Executive Officer, to open the presentation. Please go ahead.

Liam Butterworth ***Dowlais Group PLC - Chief Executive Officer, Director***

Good morning and thank you for joining our 2025 interim results presentation. I will start with a brief update on our first-half performance and the progress made on the American Axle combination, before handing over to Roberto for the financial review. I'll then return to cover our divisional performance and then leave time for the usual Q&A session.

The first half was marked by ongoing macroeconomic uncertainty and market volatility, largely driven by tariff-related disruption and other geopolitical events. Despite this challenging environment, we delivered a solid set of results. Strong execution of our restructuring and performance initiatives more than offset the impact of lower volumes and tariffs, enabling us to deliver margin expansion. Although tariffs did impact H1, the effect was lower than initially anticipated, and we continue to expect to recover these costs in the second half. As a result, we do not anticipate tariffs having a material direct impact on our full-year results. Commercially, both divisions continued to make good progress. Powder Metallurgy secured £55 million in new business wins, 62% of which was for EV or propulsion-agnostic products. Automotive achieved bookings worth over £1.5 billion in forecast lifetime revenue, well diversified across products, customers, and geographies. Around 54% of contracts won were either extensions or new wins on ICE and mild- hybrid programmes, while 46% were on electric or full-hybrid platforms, reflecting a continuation of a broader slowdown in electrification. Finally, we continue to make good progress on the planned combination with American Axle.

Roberto Fioroni ***Dowlais Group PLC - Chief Financial Officer, Director***

Thank you, Liam, and good morning, everyone. Let me walk you through the group's financial performance for the first half of 2025. We delivered a resilient set of results in a volatile macroeconomic environment. Revenue was down 1.6% at constant currency, primarily due to lower volumes in Driveline and Powder Metallurgy. Foreign exchange headwinds driven by Sterling strength further impacted reported revenue, leading to a 4.2% year-on-year decline.

Despite this, adjusted operating profit grew to GBP154 million and we expanded our operating margin by 40 basis points to 6.3%, reflecting strong execution in our performance and restructuring initiatives. Adjusted basic earnings per share was 5.6 pence, an increase of 14% as a result of higher earnings and lower finance costs. Adjusted free cash flow was GBP29 million cash outflow compared to a GBP10 million cash inflow in the first half of 2024, primarily due to the impact of tariffs, higher restructuring outflows in line with expectations, and the timing of dividend receipts from our China joint venture.

Net debt increased to GBP1.034 million, resulting in a leverage ratio of 2 times EBITDA. Adjusted revenue declined 1.6% as growth in the ePowertrain product line and China joint venture was more than offset by a decline in the Driveline product line and Powder Metallurgy. Foreign exchange was a headwind, reducing reported revenue by GBP67 million, with the pound strengthening against the USD, the euro and the CNY during the period.

Adjusted operating profits increased to GBP154 million with margin expanding 40 basis points to 6.3%. The increase in adjusted operating profit was primarily driven by GBP23 million of efficiencies resulting from a footprint restructuring and volume reduction initiatives, and GBP15 million from last year's decision to right size engineering investments, largely in the ePowertrain product line.

The full-year net benefit from engineering spend is expected to be approximately GBP10 million due to the impact of lower customer funded engineering spend in the second half in line with previous guidance in our 2024 full year results. The impact of trade-related tariffs was GBP12 million, lower than initially anticipated due to several exemptions and postponements introduced since the US administration's original announcement in April.

In line with our financial model, approximately GBP7 million of pricing impact was broadly offset by other ongoing performance initiatives. The margin improvement underlines the strength of our operating model and our ability to mitigate headwinds through disciplined execution. Foreign exchange headwinds in the period were GBP5 million higher than prior year, resulting in a reported adjusted operating profit increase of 2%.

Moving to GKN Automotive, adjusted revenue declined 0.9% year-on-year to GBP1.98 billion. The primarily driver was a 4.6% decline in Driveline revenue, reflecting a mix of weaker volumes and adverse customer mix. Additionally, we also saw the phasing out of legacy programs with new platform ramp ups expected to be more heavily weighted to the second half of the year.

ePowertrain revenue grew 5%, benefiting from a low base and the recovery of volumes on an all-wheel drive platform previously impacted by production delays. Adjusted operating profit was GBP132 million, up 11%, with margin improving by 70 basis points to 6.7%. This performance was supported by restructuring benefits, right sizing of engineering spend and disciplined execution on other ongoing performance initiatives.

In Powder Metallurgy, adjusted revenue declined by 4% to GBP489 million, impacted by volume softness in North America and Europe. China performed better, helping to partially offset the weakness. Adjusted operating profit declined 16% to GBP41 million, with operating margin at 8.4%, largely as a result of lower volumes.

Adjusted basic earnings per share for the period was 5.6p, up 14% year-on-year. This reflects both higher adjusted operating profit and a reduction in finance charges. Adjusted net finance charges were GBP50 million, GBP6 million lower than the prior year, largely as a result of higher interest income. Tax charges were GBP27 million resulting in an effective tax rate of 26% due to higher withholding tax on account of dividend receipts from our subsidiaries. The lower share count following the conclusion of our buyback program in January 2025 also contributed to EPS growth.

Adjusted free cash flow was an outflow of GBP29 million compared to an inflow of GBP10 million in the first half of 2024. The decline reflects high restructuring and tax outflows in line with plan and several temporary effects, which include tariff costs, which we expect to recover in the second half. The timing of dividend receipts from our China joint venture with only 70% received in H1 compared to 100% received in the prior year.

Pension payments, slightly higher in the first half but expected to be GBP30 million for the full year, slightly lower than in the prior year. And finally, a temporary increase in inventory to support footprint transitions. These headwinds are timing related, and we expect an improved cash performance in the second half, albeit I still expect adjusted free cash flow to be lower than prior year.

In addition, interest payments totalled GBP47 million broadly in line with the prior year. Tax payments were GBP31 million, up slightly due to legislative changes in Italy and a tax audit settlement in Germany. Both items have been previously communicated. Restructuring cash outflows was GBP63 million, up GBP12 million versus the prior year. This was consistent with expectations and supports a wider performance and footprint initiative. Expectations for full-year outflows remain unchanged at GBP120 million to GBP130 million.

Looking ahead at the remainder of the year, a full year guidance remains unchanged, despite macroeconomic and specific market volatility as a result of US trade actions. We continue to expect performance to be towards the lower end of our previously stated range of flat to mid-single digit decline in adjusted revenue and an adjusted operating margin of between 6.5% and 7% on a constant currency basis.

Adjusted free cash flow is anticipated to be below the prior year, reflecting the impact of lower volumes and increased restructuring expenditure. We remain confident in our ability to recover tariff-related costs in the second half through commercial and operational actions.

Finally, on slide 14, you can find our usual guidance slide to help you with the modelling. If you have any questions on this or other modelling methods, please speak to Pier or me.

Thank you. I will now hand back to Liam.

Liam Butterworth ***Dowlais Group PLC - Chief Executive Officer, Director***

Thank you, Roberto. Now, let me start with automotive outside of China. Driveline revenue declined 4.6% while ePowertrain grew 5%. As shown on the chart, Driveline outperformed the market in the Americas and was broadly in line with Asia, but underperformance in EMEA drove the overall decline.

This was mainly due to adverse customer mix and platform timing as the phase out of older programs were not yet fully offset by new platform ramp-ups. Many OEMs have also postponed product launches amid tariff uncertainty adding to the short-term volatility. ePowertrain revenue growth reflected the stabilization of e-Drive platforms that impacted last year and the recovery in All-wheel drive volumes previously hit by production delays.

Moving to China, revenue from our China joint venture grew 3.4% year-on-year but underperformed the 12% growth in local light vehicle production. This was due to customer mix as about 85% of market growth came from five OEMs where we have underweighted exposure. While we work with the majority of leading local players like BYD and Geely, we are underweight relative to their market share and have not grown at the same pace as the market. We remain laser focused on increasing our share with Chinese OEMs to ensure we capture long-term profitable growth in this important and fast evolving market.

Let me briefly update you on the execution of our restructuring initiatives, which all remain fully on track. In North America, we're in the final stage of streamlining operations with the transfer of production from the US to Mexico fully on track for completion by the end of 2025.

In Europe, the transfer from Germany to Hungary is also on track and progressing well with expected completion by the end of 2026. We also continue to optimize headcount and our cost structure to mitigate softer volumes and economic headwinds. These actions delivered GBP20 million in net benefits in the first half.

In addition, we made strong progress in right-sizing our ePowertrain engineering spend and generated a further GBP15 million of net benefits in the period. These results are a testament to the strength and capability of our teams, who continue to execute complex multi-geographic restructuring initiatives on track and to the highest standards.

Moving to Powder Metallurgy, our strategic focus remains on diversifying the portfolio beyond the core into new growth areas, and we made good progress in this direction. Our acceleration platform segment, which consolidates revenues from these new areas, grew at 5.7% year-on-year. We continue to expand in metal additive manufacturing, securing another customer in computing thermal management space, a key area for AI infrastructure.

Activity in our magnets projects also increased as customers seek localized supply chains. The project remains on track with all equipment now installed in Germany and the first industrial scale samples successfully produced. By leveraging our market leading core, diversification and innovation, we are executing our strategy to ensure Powder Metallurgy is well positioned to adapt to evolving market trends and drive sustainable growth.

So to summarize, in a challenging macroeconomic environment, we delivered a solid performance. Our strong execution of restructuring programs and performance initiatives drove 40 basis points of margin expansion, more than offsetting the impact of tariffs and lower volumes. We continue to engage constructively with customers and remain confident that the direct impact of tariffs will be offset in the second half through commercial recoveries and performance actions.

Looking ahead, our full-year guidance remains unchanged, and the combination with American Axle is on track for completion in Q4 2025. Finally, I want to thank all our employees. While this may feel like a period of uncertainty for some, your hard work and dedication in challenging circumstances have made these results possible. Thank you.

We'll now open the call for questions. As we remain in an offer period under the UK takeover code, we are restricted in our ability to answer some of your possible questions. So please bear that in mind with any queries you may have. Over to your operator.

Operator

(Operator Instructions) Vanessa Jeffriess, Jefferies.

Vanessa Jeffriess ***Jefferies LLC - Equity Analyst***

Just a question on the sales guidance. So you're minus 2% in the first half, expecting mid-single digit decline for the year. S&P, as in minus 2% for the second half. And just curious, it seems like a bit of a bearish view on the second half, but probably at the highest single digit decline level. Does that seem a bit conservative? Is there anything specific in that? Especially because at the midpoint of your margin guidance, you're expecting, what, 90 bps sequential improvement in margins.

Roberto Fioroni ***Dowlais Group PLC - Chief Financial Officer, Director***

So the midpoint being 6.75% margin, Vanessa, I think that the improvement is slightly less than 90 bps versus prior year. But on the revenue side, as stated, the volatility remains high. I mean, just look at the US approach to trade. There's new news pretty much on a daily basis. And then, we're waiting for the full impact of the August shutdowns of the OEMs to become clearer to us. So as of now, we feel that not changing the guidance is the right approach.

Liam Butterworth ***Dowlais Group PLC - Chief Executive Officer, Director***

Yeah. And Vanessa, we've also got a number of new programs that are that are scheduled to be launched in the second half. And as we said in our comments that a number of OEMs have been changing their schedules quite regularly during the first half, so we're just being prudent regarding the timing of those ramp ups in the second half.

Vanessa Jeffriess ***Jefferies LLC - Equity Analyst***

Thank you. And then, I think this is one of the smallest gaps we've seen between the Auto and Powder Met margins. Just given the challenges that Powder Met is facing and the restructuring progress you're making in order, maybe you could speak about how you see that dynamic between the two? And if Powder Met even should be making much higher margins than Auto in the future?

Roberto Fioroni ***Dowlais Group PLC - Chief Financial Officer, Director***

So as you know, we don't really compare the gap between one of the business units and the other, but what we're seeing is if I just take the two strategies separate for a second, which on auto has always been the focus on marginal expansion as we benefit from all the restructuring activities that are coming to an end. We stated in a couple of years back, I think early '23 that automotive had started the last major round of restructuring, which was going to result in 2 percentage points of margin expansion or an absolute pound benefit of roughly GBP80 million of EBIT growth.

This is now what we're through. We're halfway through the second year of those benefits. I always hinted that those benefits were going to be split in between '24, '25 and '26 P&Ls at about 20, 40 and GBP20 million, cadence in terms of -- that amount split. And very happy to see that the execution of that strategy is fully on time and on budget, right? So you saw that in the first half results with about GBP23 million of benefits flowing through to the P&L.

On Powder Met, we've always said the strategy there is to solve for the headwind of BEV to -- sorry, ICE to BEV transition which we've always said is a double whammy impact for the team. One, because for every BEV car that is produced there's one less ICE and, therefore, no content per vehicle. Or as you remember, 50% -- sorry, more than 50% of Powder Met's content is for ICE.

The second one is the current ICE engines that are being produced have lower content per vehicle as we're seeing smaller engines, so V6s instead of V8s for example. And the strategy there was to find alternative growth platforms. And again there's -- we talked about that we are making good progress in the accelerated platforms but not as fast as the decline in the ICE platforms.

So what that is resulting because there hasn't been any major restructuring in Powder Met is that the volume essentially flows through at 30%. But I would say I wouldn't compare one business versus the other, it's more the execution of the strategy of one versus the other.

Vanessa Jeffriess ***Jefferies LLC - Equity Analyst***

That's helpful. And then just finally, unless I missed this, I know you gave us the percentage of sales as local OEMs in China, but are you able to give us a percentage of the order book at all?

Roberto Fioroni ***Dowlais Group PLC - Chief Financial Officer, Director***

No, we don't do that. Okay.

Operator

(Operator Instructions) There are no further questions on the webinar. I will now hand over to Pier to read out written questions submitted via the webcast page.

Pier Falcione ***Dowlais Group PLC - Head of Investor Relations***

So there's a couple of questions. One is if you can please elaborate or confirm any regulatory conditions that are currently outstanding before the deal can complete.

Liam Butterworth ***Dowlais Group PLC - Chief Executive Officer, Director***

Yeah, so we're obviously -- we're actively engaged with all the authorities to get the regulatory approvals. As we said, we've got nine approvals completed and there's five outstanding which are the merger controls in Europe, Mexico, Brazil and China, and then there's an FDI approval in France. And we're confident that those will continue to progress well. We're in a detailed dialogue with the authorities to get lots of approval through and we remain on target for a Q4 closure.

Pier Falcione ***Dowlais Group PLC - Head of Investor Relations***

Thank you. And a couple more questions. Particularly in EMEA, the underperformance in Driveline, is it driven by sideshafts? And if that's the case, are you losing market share and to whom?

Liam Butterworth ***Dowlais Group PLC - Chief Executive Officer, Director***

No, so I think we elaborated a little bit during the comments. It's more to do with platform time. We've got a number of new platforms that are ramping up in the second half. Some of those platforms have been delayed. So it's really more to do with platform timing as we transition from old programs onto the new ones.

Pier Falcione ***Dowlais Group PLC - Head of Investor Relations***

And regarding magnets, can you provide an update on the long-term roadmap and size of the price? And what milestones should we expect in the coming years. So how big business could this become?

Liam Butterworth ***Dowlais Group PLC - Chief Executive Officer, Director***

Yeah, so we're actively engaged in introducing our pilot facility in Germany, which we've commented on previously, which is now operational and started to produce test parts. And we're obviously very much engaged with a number of OEMs and Tier 1s, especially in Europe, as they're looking to localize or find alternative sources for magnets.

Until that capacity is sold and we've got the acceptable commercial conditions, once that's in place, we'll then look at expanding that capacity into our facility in Romania. But as I say, we're actively engaged with a number of OEMs and we're very happy with the progress that we're making.

Pier Falcione ***Dowlais Group PLC - Head of Investor Relations***

Thank you. And if there are no more questions on the line, then we can close.

Operator

Thank you for joining today's call. We are no longer live. Have a nice day.

Liam Butterworth ***Dowlais Group PLC - Chief Executive Officer, Director***

Thank you.

Roberto Fioroni ***Dowlais Group PLC - Chief Financial Officer, Director***

Thank you.
