

9 November 2023

Dowlais Group plc

Trading update

Continued margin expansion, UAW strike impact absorbed, full year expectations unchanged

Dowlais Group plc (“Dowlais” or the “Group”), the specialist engineering group focussed on the Automotive sector, provides a trading update for the four month period to 31 October 2023 (“the period”).

The Group has continued to execute successfully on its key strategic priorities:

- **Profitable growth:** Adjusted ¹ revenues of £1.8 billion in the period, delivering 4.7% ² growth compared to the same period in the prior year, above global light vehicle production of 3.6% ³.
- **Margin expansion:** Group adjusted operating margin of 6.8% in the period. Excluding central costs this is an increase on the equivalent prior year period of 100bps and of 90bps versus H1 2023. The continued operating margin expansion is the result of successfully flowing volume to profit at target drop-through margins of approximately 30% in the businesses, while fully offsetting inflation and absorbing the impact of the UAW strikes in North America.
- **Cash generation:** Dowlais continues to generate healthy free cashflow and remains on track to reduce net debt at year-end whilst continuing to invest in organic growth, expanding our best cost country manufacturing footprint and executing ongoing restructuring programmes.
- **Portfolio transition:** The businesses continue to secure orders across their entire product portfolio. Most notably, GKN Automotive has already delivered a record year of new business bookings of £5.4 billion in forecast lifetime revenues, of which £2.4 billion was awarded in the four month period.

Impact of UAW strike action in North America

The full year financial impact of the UAW strike action on the Group is expected to be in the range of £30m - £45m of adjusted revenue and £10m - £15m of adjusted operating profit. Despite this, strong operational execution within the businesses has resulted in the strikes not impacting our ability to deliver on our full year expectations. This assumes the ratification of the proposed terms by union members and a smooth ramp up of production at the impacted customer plants.

Business Unit Performance

GKN Automotive

In the period, GKN Automotive adjusted revenues grew by 4.8%, resulting in adjusted operating margins of 7.6%, an increase on the equivalent prior year period of 120bps and of 110bps versus H1 2023. Within Automotive, the market leading Driveline ⁴ and ePowertrain ⁵ portfolios both delivered growth slightly ahead of market. New business bookings continue to be strong, with the business already achieving a new full-year lifetime bookings record of £5.4bn by the end of October. Notably, the balanced nature of these bookings underlines the business’ ability to deliver profitable growth regardless of the rate of vehicle electrification.

GKN Powder Metallurgy

GKN Powder Metallurgy adjusted revenues in the period grew by 4.2%. Adjusted operating margins of 9.0% were in line with the equivalent prior year period and the first half. Powder Metallurgy has continued to increase its EV portfolio offering and secured profitable new business wins in the period which position the business for medium-term growth. In October, it announced that commercial agreements for the supply of magnets, outlined in our interim results, were signed with Schaeffler, representing a significant milestone for this exciting future growth opportunity.

Outlook

Full year expectations remain unchanged⁶. As we look into 2024 our largest business, GKN Automotive, has a number of major new programme launches planned across its portfolio, which are expected to drive profitable growth ahead of market.

The Group's full year results are expected to be announced on 21 March 2024.

Liam Butterworth, CEO of Dowlais, said:

"Following a strong first half, we have continued to execute well on our strategic priorities and leverage the strength of our operating businesses. We have delivered strong growth and continued to expand margins as well as fully absorbing the impact of the UAW strike. Thanks to the outstanding quality of our market leading businesses we remain confident of delivering sector leading financial performance, regardless of the speed of electrification transition."

Notes

1. All Adjusted Financial measures are defined in the Glossary to the Interim Financial Statements published on 12 September 2023.
2. This and all other prior period comparators contained in this trading update are expressed on a constant currency basis, eliminating the impact of translational foreign exchange movements.
3. Based on the October 2023 forecast by S&P Global.
4. Sideshafts and Propshafts.
5. All Wheel Drive systems, ePowertrain components and eDrive systems.
6. It is noted that the average full year adjusted operating profit derived from company-compiled consensus is £352 million.

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