



## T. Bailey Weekly Update

21<sup>st</sup> September 2026

### A Challenging Recipe to Copy

In this week's Weekly Update, members of the T. Bailey investment team take us inside Morgan Advanced Materials' technical ceramics site in Rugby following a recent company visit.

From components produced in their millions to bespoke engineering solutions that can take months to manufacture, the visit offered an opportunity to see what makes the business difficult to replicate – and why accumulated expertise, consistency and customer relationships form an important part of the investment case.

*From penny components to global scientific research projects, a day at Morgan Advanced Materials' Rugby site showed us what makes its engineering so hard to replicate.*

There's only so much you can glean from an annual report. Lots of numbers, strategy slides and market updates alongside a few carefully selected photos of factory floors – useful, but somewhat flat and uninspiring. It's easy to lose sight of what a company actually makes, and why that might matter to anyone.

This week, a small group from the T. Bailey investment team spent the day at Morgan Advanced Materials' technical ceramics site in Rugby, Warwickshire. Morgan is a FTSE 250 engineering business with roots going back to 1856, turning over around £1 billion a year – the kind of company that can slip under the radar despite sitting in most people's everyday lives without them knowing it.

Morgan makes engineered ceramic, carbon and composite parts designed to survive punishing heat, wear or electrical stress. These are the sort of essential products that most of us will never notice. But they can be found inside trains, medical scanners, aircraft, and specialist scientific equipment.

Perhaps what struck us the most was the sheer quantity and variety of what's produced on the site. At one end, large, complex ceramic-and-metal assemblies for international specialist applications made through a lengthy and carefully controlled process. At the other, tiny components costing pennies, produced in the millions for high-volume industrial customers.

Between those extremes sits a substantial bespoke engineering business. For some products, it can take on average six months to move from customer order to finished part. Often, the process begins not with a detailed technical specification but with a customer's problem. Morgan's own engineers work with the customer to develop or refine a solution before the component ever reaches production.

Walking the floor, the equipment itself was clearly high-specification albeit not particularly unique – some machinery had been imported from Asia, and similar capital equipment could, in principle,



be bought by competitors. The harder-to-replicate part though, by the company's own account, is the "recipe" - the precise combination of binders mixed into the ceramic powder before firing, which determines density, flexibility and how the material behaves under stress. Change the binder, or the way the powder is compressed, and you get a materially different product.

For a customer making safety-critical or highly specified products, producing a good initial sample is only the beginning. The real challenge is making the same component consistently, batch after batch, year after year. We consider this a moat that's hard to compete away. Indeed, management were candid that lower-cost competitors can sometimes produce impressive samples, but that long-term repeatability can be much harder to achieve. In many of Morgan's applications, reliability, security of supply and consistency may matter more to customers than obtaining the lowest possible unit price. We came away feeling that this accumulated know-how - the materials science, manufacturing experience and ability to produce reliably at scale - represents an important competitive advantage.

Strategically, Morgan is something of a self-help story targeting a return to a 12% adjusted operating margin by 2028. This fell to 9.4% in 2025 but recovered to 11.2% in the first half of 2026. That was an encouraging development, although part of the improvement reflected a £8.9m one-off semiconductor-related benefit, so it should not be treated as a clean indication of underlying profitability. A more useful indication of progress may be its efficiency programme. Morgan delivered £16m of incremental savings in 2025 and is targeting cumulative savings of £27m by the end of 2026, compared with its 2023 cost base.

What we saw on the ground at Rugby was that strategy in miniature. The business has been moving away from a historically siloed site structure and is now trying to work in a more connected way, sharing capacity and moving production to its factories best placed to make a particular component. That may not sound dramatic, but better use of machinery, skills and available factory capacity can make a meaningful difference to cost, service and investment requirements over time.

One question that often comes up when visiting a UK manufacturer is why the work remains here at all. Management's answer was not primarily about labour costs. It was about specialist skills, established technical expertise and the increasingly important need for customers to have diversified and resilient supply chains. After several years of global supply disruption, many customers are placing greater value on having geographically varied sources of supply. For highly specialised components, a qualified supplier close to key customers can be valuable - not just because of logistics, but because of technical collaboration, responsiveness and confidence in consistent quality.

The company still has areas of work to do. Thermal Products, its lower-margin division, remains under strategic review. Net debt stood at £253.1m at the end of the first half of 2026, equivalent to 2.0 times EBITDA, and demand in some industrial and semiconductor markets remains uncertain.

But the visit helped us understand why Morgan may be more than a conventional cyclical industrial business. Its specialist products, long-standing customer relationships and manufacturing knowledge can be difficult to reproduce. The value lies not only in the component itself, but in Morgan's ability to make it reliably, consistently and at scale.

Morgan Advanced Materials is a holding within the T. Bailey UK Responsibly Invested Equity Fund, and this visit was a useful opportunity to see that investment case up close. Sometimes the best way to understand a company is to step away from the spreadsheets and stand on the factory floor.

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