RENOLD

Re-engineering our future
Phase 2: Growth

Preliminary results for the year ended 31 March 2015

26 May 2015

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Re-engineering our future: Progress Report

Robert Purcell, CEO

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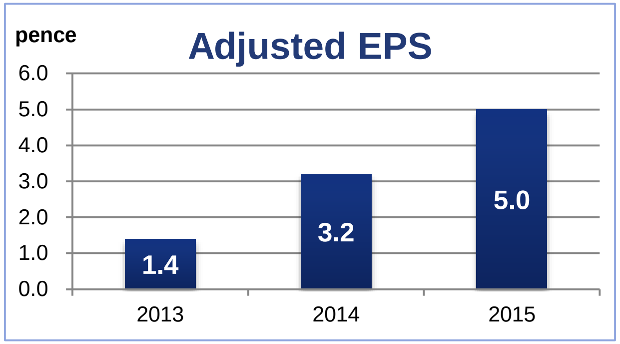
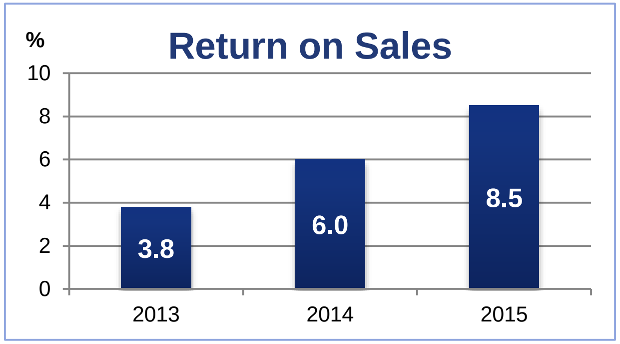
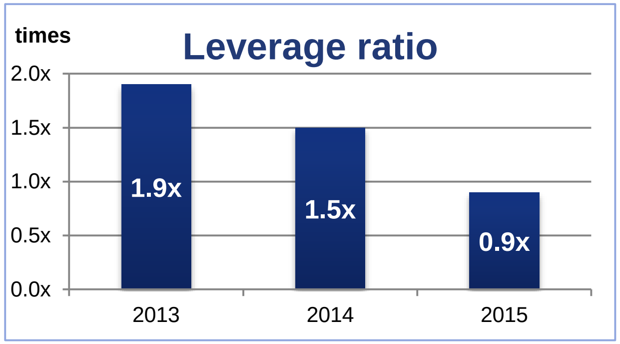
Delivering self help projects, identifying new opportunities and laying foundations for growth







- 56% growth in adjusted EPS to 5.0 pence, following 129% increase in the prior year
- Combination of growth and self-help measures drove underlying adjusted operating profit up 48% to £15.5m (2014: £10.5m)
- Bredbury closure project completed ahead of time and within budget. Annualised savings revised upwards from £3.2m to £3.8m
- Operating cash flow more than doubled to £14.2m (2014: £7.0m) driven by improved profitability and gains in working capital
- Leverage reduced again to 0.9x with strong free cash flow in the year
- New long term financing agreement underpinning Strategic Plan and delivering immediate interest cost reductions
- Detailed strategic plan developed to underpin new target for mid-teens operating margin by 2020

*Throughout this document, 'Underlying' means after eliminating the impact of movements in foreign exchange rates. 'Adjusted' excludes exceptional items and pension costs. The leverage ratio is calculated as Net Debt / Adjusted EBITDA.

Re-engineering our future: Financial Performance

Brian Tenner, CFO

Summary Group Income Statement

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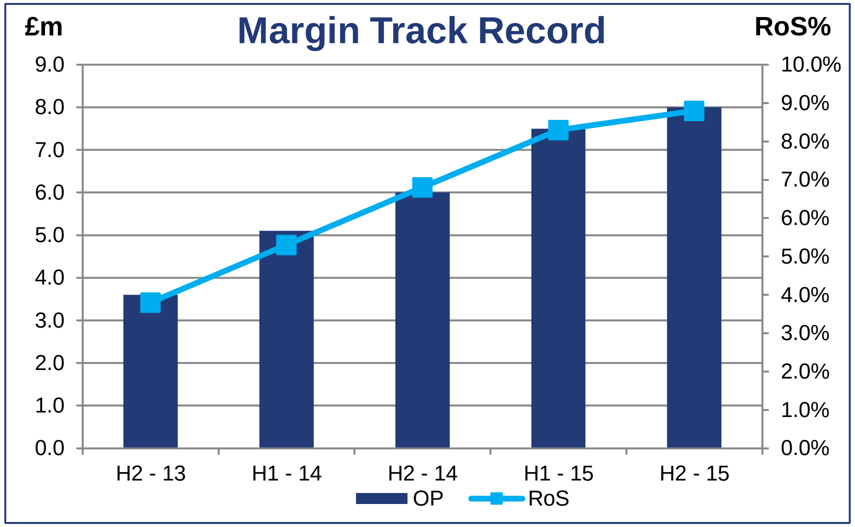
Second year of significant margin improvement

	2015 £m	2014 £m	Var £m
Revenue as reported	181.4	184.0	
Impact of FX	-	(6.1)	
Underlying revenue	**181.4**	**177.9**	**+3.5**
Reported adjusted operating profit	15.5	11.1	
Impact of FX	-	(0.6)	
Underlying adjusted operating profit	**15.5**	**10.5**	**+5.0**
Underlying Return on Sales %	*8.5%*	*5.9%*	*+2.6%*
Exceptional items	(2.9)	(11.8)	
Profit / (loss) before tax	7.7	(5.9)	
Adjusted EPS (pence)	**5.0**	**3.2**	**+1.8p**

- Overall growth in underlying external sales of 2.0%
    - Chain growth 3.0% with 4 of 5 regions ahead
    - TT decline slowed again to 1.1%
- Bredbury closure gave 10 months of savings (£2.7m)
- Other overhead reductions and manufacturing gains delivered £1.3m of cost savings
- Forward momentum in operating margins maintained for fourth consecutive half year
- Strong drop through to EPS growth of 56%



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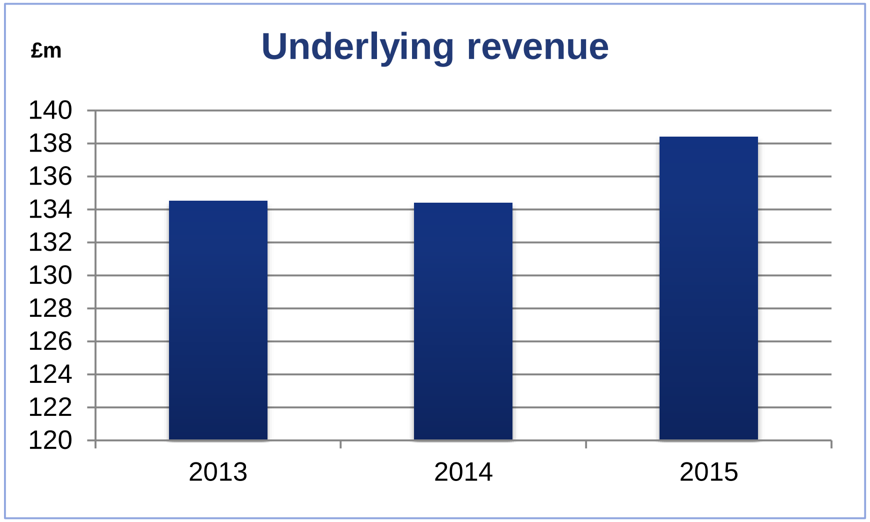
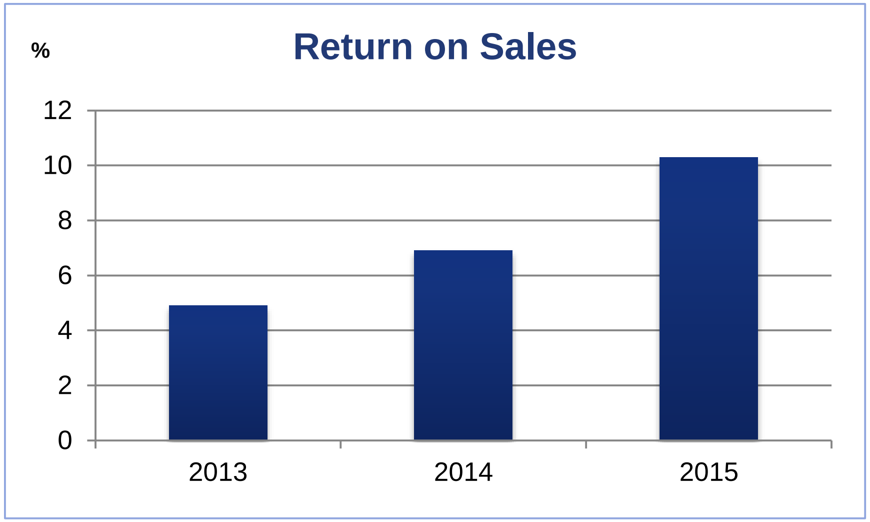
Adjusted operating profit increased 53% delivering Chain RoS above 10.0% target threshold



	2015 £m	2014 £m	Var %
Underlying revenue	138.3	134.3	+3.0%
Adjusted Operating Profit	14.2	9.3	+52.7%
RoS%	10.3%	6.9%	+49.3%



- Overall growth in underlying external sales of 3.0% delivered margin gains of approximately £1.4m
- Europe 4.5% growth with large Swiss project win, supported by UK, Germany and France also growing
- Americas more subdued though still positive
- Australasia down 0.1% with Australia down 7.3% almost fully offset by SE Asia growth
- Annualised benefits of Bredbury closure now £3.8m
- Other overhead reductions and manufacturing gains delivered £0.9m of gain
- Committed major investments in manufacturing

Segmental analysis – Torque Transmission

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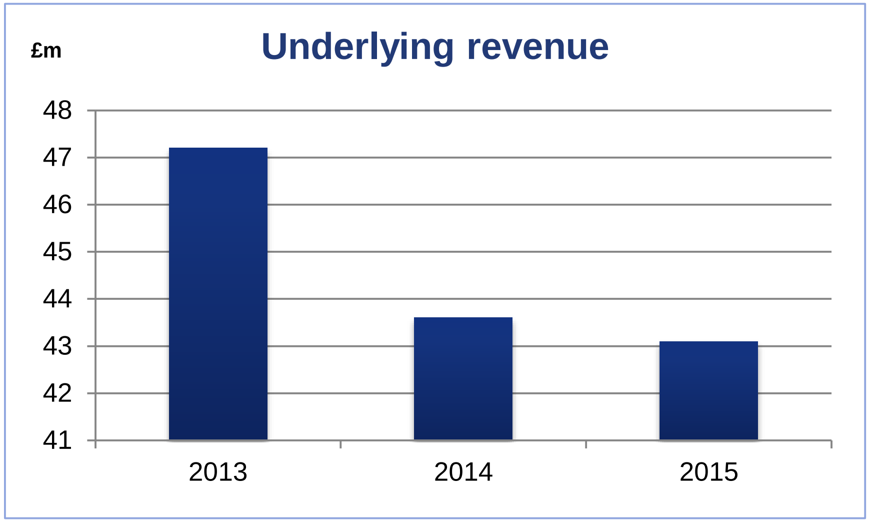
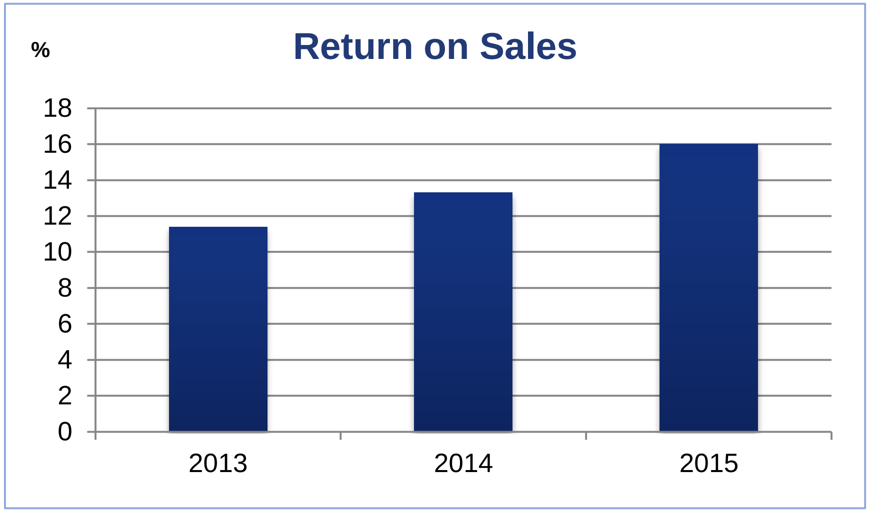
Leveraging higher value products and self-help initiatives delivered further gains in operating margins



	2015 £m	2014 £m	Var %
Underlying revenue	43.1	43.6	(1.1%)
Adjusted Operating Profit	6.9	5.8	+19.0%
RoS%	16.0%	13.3%	+20.3%

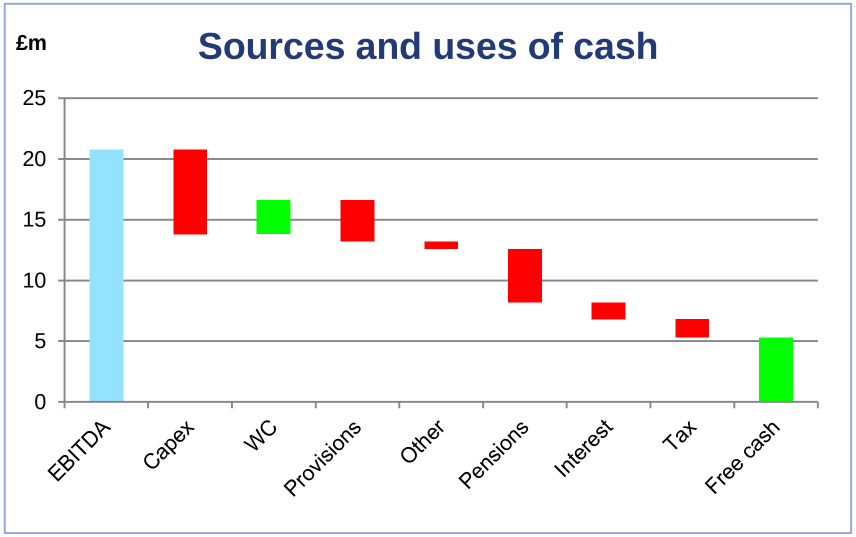


- Modest fall in underlying revenue with H1 fall of 3.9% partly offset by 2.0% growth in H2
- Adjusted operating profit increased 19.0%
- Sales decline largely driven by slower demand for components in power generation, particularly in China
- Further emphasis on higher value added products pushed up margins and more than offset fall in volume
- Self-help initiatives reduced overheads by £0.8m
- Second consecutive year of improvements in RoS% driven by a better sales mix and overhead reductions

First significant organic cash generation in over a decade

	2015 £m	2014 £m	Var £m
Adjusted EBITDA	**20.8**	**16.5**	**+4.3**
Movement in working capital	1.4	0.8	
Pensions provision movement	(4.4)	(3.8)	
Restructuring spend	(3.3)	(6.0)	
Taxes and other	(1.7)	(1.4)	
Net cash from operating activities	**12.8**	**6.1**	**+6.7**
Investing activities	(5.5)	(7.1)	
Financing costs paid	(1.4)	(1.5)	
Other movements / FX	(0.6)	0.5	
Change in net debt	**5.3**	**(2.0)**	**+7.3**
Opening net debt	(24.8)	(22.8)	
Closing net debt	**(19.5)**	**(24.8)**	**+5.3**

- Adjusted EBITDA supporting free cash generation
- H1 working capital ‘bulge’ following Bredbury closure worked down by year end
- Prior year pension surplus refund £1.4m
- Restructuring spend £2.2m primarily Bredbury costs
- Capex lower than anticipated due to focus on Bredbury and teething problems now resolved
- Significant increase in 2015/16 capex (above £10.0m)
- Re-fi executed at a cost c.£0.7m below 2012 exercise



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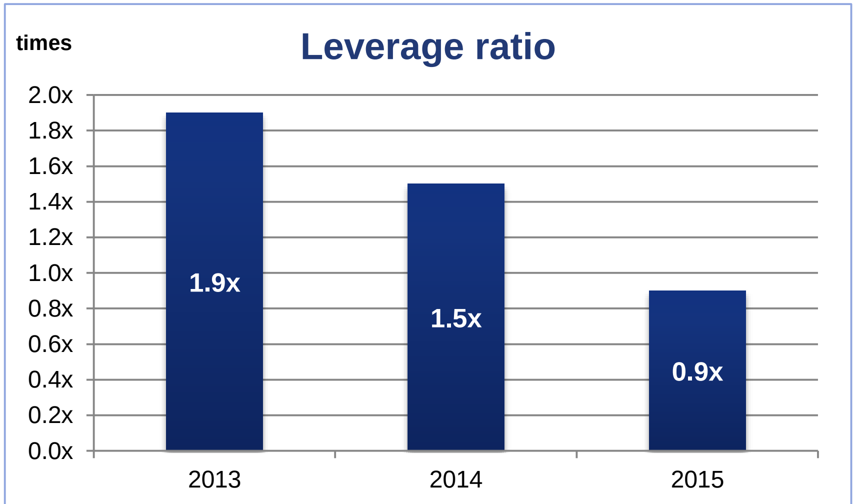
Significant reduction in net debt and leverage in the period

	2015 £m	2014 £m	Var £m
Goodwill	21.9	19.8	
Fixed assets	45.8	46.7	
Deferred tax	17.1	14.5	
Inventories	35.8	35.9	
Receivables	30.6	29.7	
Payables	(36.6)	(34.9)	
Net working capital	**29.8**	**30.7**	**(0.9)**
Net Borrowings	**(19.5)**	**(24.8)**	**+5.3**
Provisions	(6.4)	(7.7)	
Retirement benefit obligations	**(75.7)**	**(64.9)**	**(10.8)**
Other	(1.4)	(0.4)	
Net assets	**11.6**	**13.9**	**(2.3)**
Leverage(1) ratio	**0.9x**	**1.5x**	

(1) Leverage is calculated as Net debt / adjusted EBITDA

- Balance sheet impacted by FX movements – e.g. US goodwill, German pensions
- Working capital saw improved stock profile and better debtor collections
- Movement in provisions reflect final Bredbury closure costs and onerous lease payments
- Pension deficit driven by global gilt yields – see later
- Leverage ratio below 1.0x will deliver interest margin savings when compliance certificate submitted



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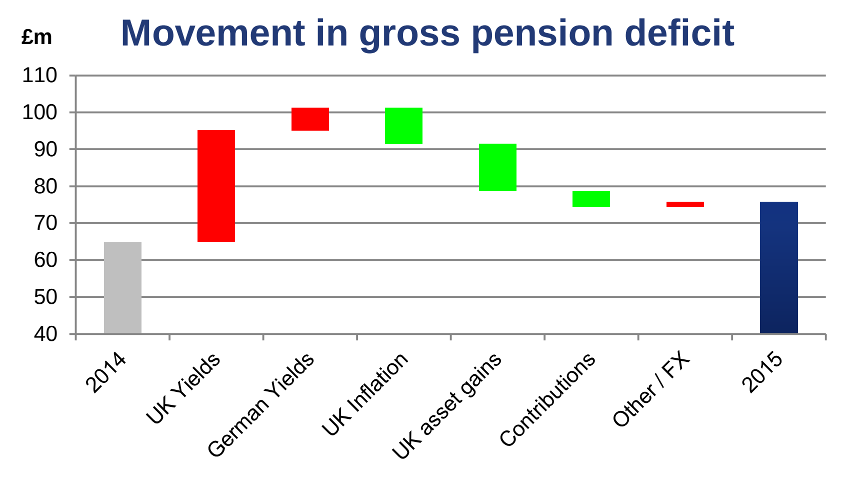
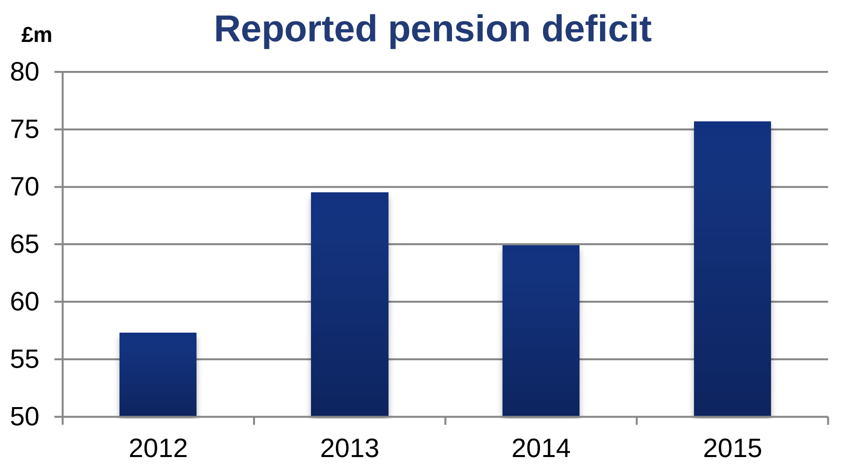
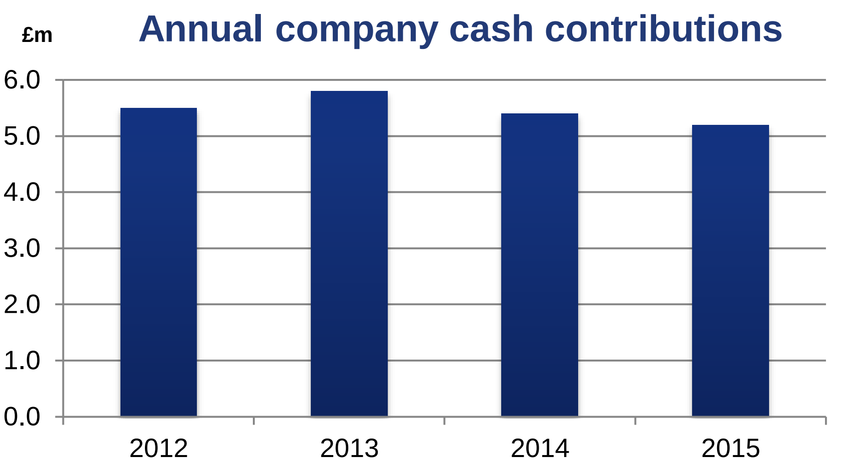
Stable and predictable cash flows but volatility in yield driven deficits



- Deficit rise driven by significant decrease in UK (1.2%) and German (1.9%) gilt yields
- Partly offset by very strong asset performance
- Also benefit from improved UK inflation (0.5% down)
- First of three US schemes liquidated during the year
- High risk UK pension liabilities of £25m fully de-risked just after year end
- Further initiatives under review following recent UK legislative changes
- Volatility in reported deficits but stability and predictability in company cash flows





Re-engineering our future: Next Steps

Robert Purcell, CEO


STEP 2020
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STEP 2020: three phase plan

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Delivering today while preparing for tomorrow

Restructuring activities

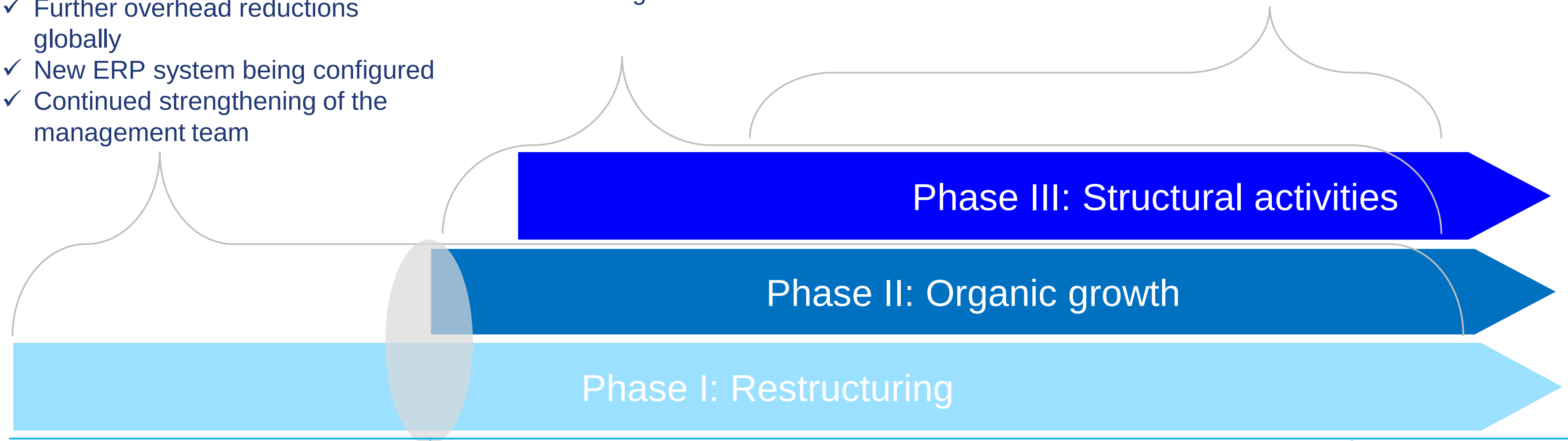
- ✓ Bredbury closed ahead of time and budget. Annual benefits revised upwards to £3.8m from £3.2m
- ✓ Investing in modern manufacturing
- ✓ Further overhead reductions globally
- ✓ New ERP system being configured
- ✓ Continued strengthening of the management team

Growth activities

- ✓ Improved service based market offerings (configured / adapted cells)
- ✓ Expanding footprint in growth territories
- ✓ Increasing market and product focus in existing territories

Structural activities

- ✓ Long term financing structure in place to support STEP 2020
- ✓ Potential for bolt on acquisitions, opportunistic in the short term
- ✓ Building market and competitor intelligence



March 2014
Adjusted EPS +129% since March 2013

March 2015
Transition to Phase 2
Adjusted EPS +257% since March 2013

Double digit margins
Boost in shareholder value

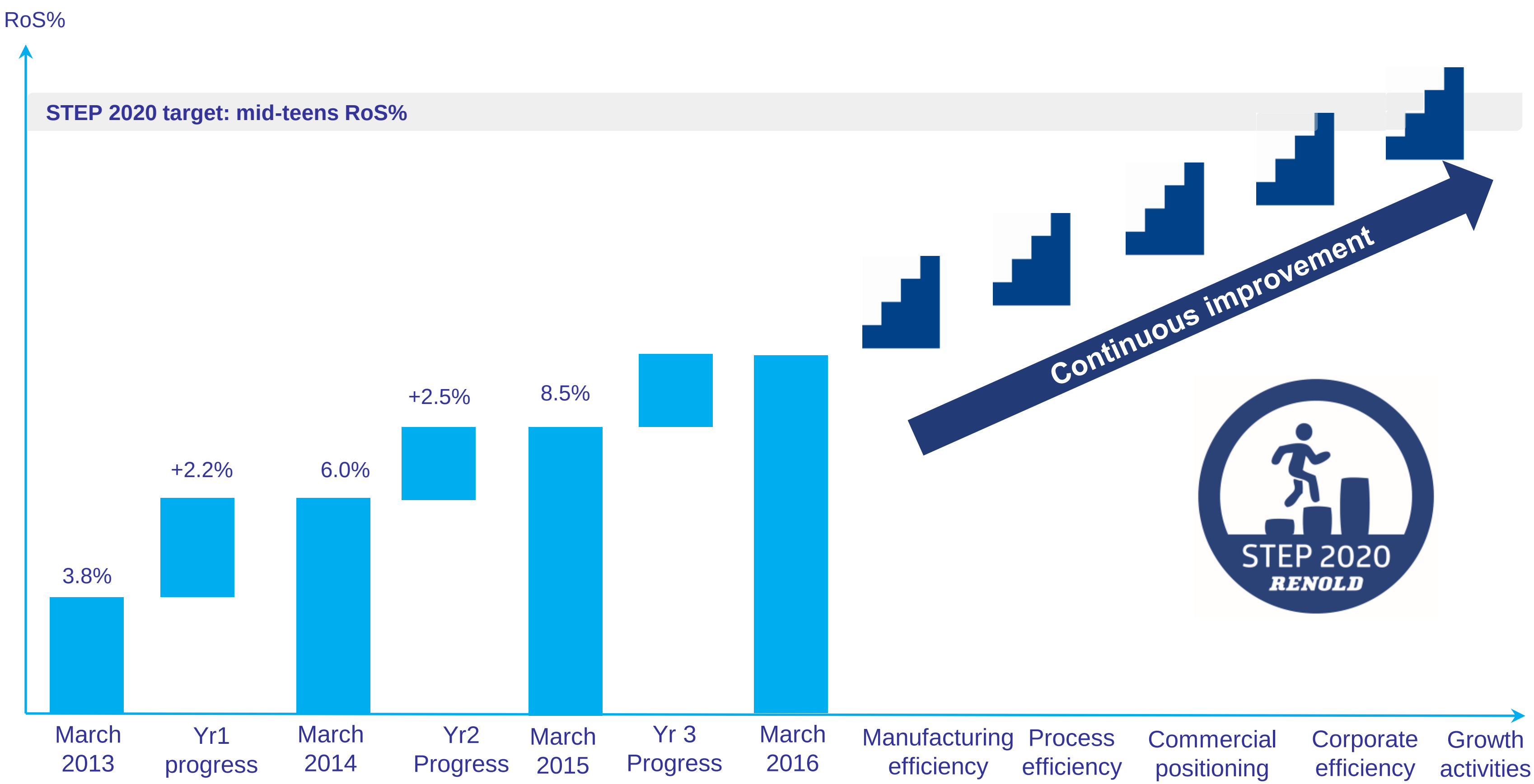
Deliverable in short term

Organic Case delivers
“Mid-teens” margins

Deliverable by 2020

Strong EPS growth as plan progresses

STEP 2020: road map for continued margin progression



- Clear and deliverable strategy for third consecutive year of operating margin growth, ‘double digit’ margins in sight
- STEP 2020 programme of detailed improvement initiatives underpins further gains in the medium term
- Medium term operating margin target now revised to mid-teens by 2020

STEP 2020: Progress and priorities (1)

Significant achievements delivered on each ‘staircase’

Health and Safety

- 5 more sites gained OHSAS 18001 in the year
- CEO H&S awards launched – 4 Bronze and 2 Improvement awards
- 2015/16: remaining 3 sites to gain OHSAS 18001
- 2015/16: Continue drive to win “hearts and minds”

Manufacturing Efficiency

- Bredbury production transfer complete and teething issues resolved
- Significant upgrade in capability commenced in a number of sites
- 2015/16: Bredbury ‘Phase 2’ efficiency savings to be captured
- 2015/16: Capital investments with over £10.0m of attractive projects

Process Efficiency

- Selection of Group wide ERP system – now in prototyping phase
- Barcoding project being piloted in major manufacturing facility
- 2015/16: First UK sites go live on new ERP system
- 2015/16: Continued standardisation of internal processes

STEP 2020: Progress and priorities (2)

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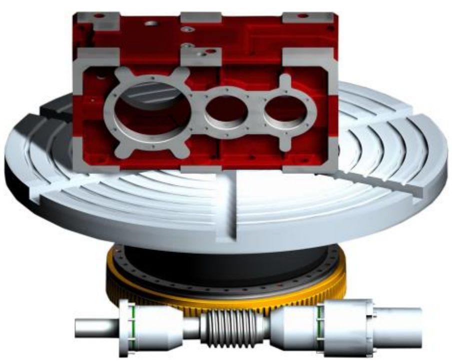
New initiatives already underway for 2015/16 delivery

Commercial Positioning

- Separation of Chain and TT sales teams in a number of locations to enhance focus
- New sales resource management and monitoring tools being deployed
- 2015/16: Product road maps to be developed
- 2015/16: Brand rationalisation and re-positioning to commence

Corporate Efficiency

- Completion of medium term re-financing with lower costs and greater flexibility
- Continued pension de-risking with insured buy in of higher risk liabilities
- 2015/16: Relocating Manchester head office – better space and £0.1m cost benefit
- 2015/16: Further pension liability management and de-risking projects



Growth Activity

- Re-opened local customer service offices in Benelux and Nordics
- First new TT product launches for many years
- 2015/16: New sales offices opening in high growth territories
- 2015/16: Focus on existing high growth territories and sales team development

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Transition to Growth Phase supported by ongoing continuous improvement

- **Market conditions around the globe remain mixed**
  - Local conditions change quickly and are variable
  - Mitigation of diverse geographic, sector and customer mix will help stabilise overall results
- **STEP 2020 to drive performance**
  - Cost improvement “staircases” will continue to bear down on overheads
  - Commercial and Growth “staircases” to support forward strategies
- **Increased capital investment to support growth**
  - Projects to improve quality, reduce lead times, increase capabilities and cut costs
- **Sustainable organic growth**
  - Investing in new growth territories
  - Development of brand, sector and product initiatives
- **Continued focus on operational cash flow**
- **Preparation for ‘Phase 3’ of strategic plan underway**

New medium term target of mid-teens operating margins and delivery of steady, continuous improvement in EPS


Thank you.
Q&A

Robert Purcell **robert.purcell@renold.com**	**CEO**	**0161 498 4517**
Brian Tenner **brian.tenner@renold.com**	**CFO**	**0161 498 4520**

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