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# Resilience by design

# Preliminary results 2020

Robert Purcell CEO
Ian Scapens CFO

16 June 2020



# The strategic plan has delivered a business far more resilient and better placed to overcome the current challenges

# Contents

- Key highlights
- Financial performance
- Response to the Covid-19 pandemic
- Strategic programme and actions delivering a more resilient business

## *Financial highlights*

- Revenue reduced by 6.2% (constant exchange rate) reflecting challenging markets through the year and Covid-19 disruption in the final quarter
- Stable adjusted* operating margin of 7.1% (2019: 7.4%), despite revenue reductions
- Adjusted earnings per share (now after pension costs) of 2.9p

## *Other highlights*

- Swift action taken in response to Covid-19 pandemic to reduce cost and preserve cash
- New covenant structure agreed with lenders, increasing flexibility
- Net UK pension contributions deferred, in addition to other rent and tax deferrals, creating greater cash headroom
- Cash generative and profitable in the first months of new financial year

**Swift action taken to protect our people, to ensure continuity of supply and to reduce costs and preserve cash**

*Throughout this document, 'adjusted' excludes impairment of goodwill, restructuring costs and other one-off items and any associated tax thereon.

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# Resilience by design:

## Financial Performance

## Ian Scapens
## CFO

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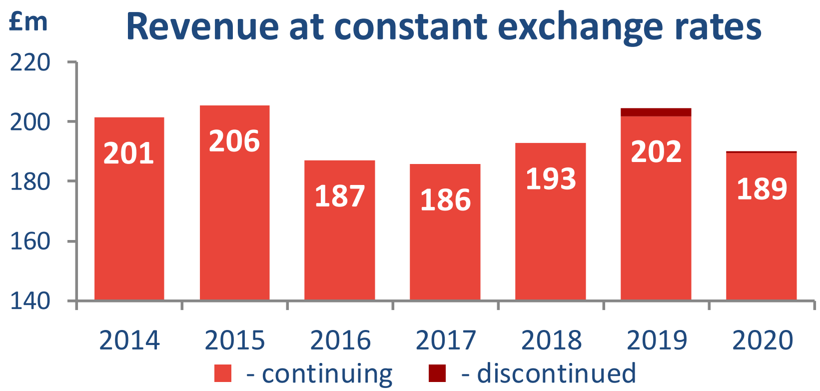
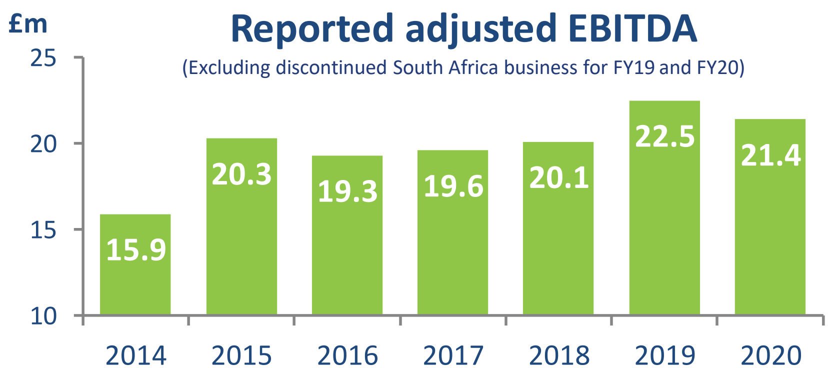
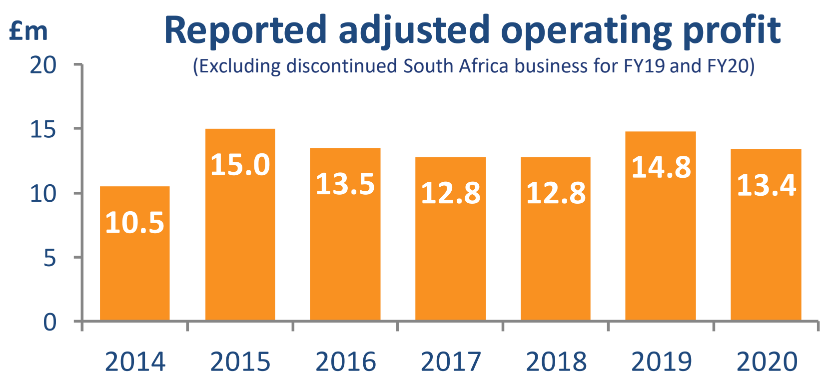
## Embedded efficiency improvements from strategic programme have created a stronger platform

| (from continuing operations) | 2020 £m | 2019 £m | Var £m | Var % |
|---|---|---|---|---|
| Reported revenue | **189.4** | 199.6 | | |
| Impact of FX | **-** | 2.3 | | |
| **Revenue at constant exchange rate** | **189.4** | **201.9** | **(12.5)** | **-6.2%** |
| Reported adjusted operating profit | **13.4** | 14.8 | | |
| Impact of FX | **-** | 0.2 | | |
| **Adjusted operating profit at constant exchange rate** | **13.4** | **15.0** | **(1.6)** | **-10.7%** |
| *Return on Sales %* | ***7.1*** | *7.4* | | |
| **Adjusted profit before tax** | **8.2** | **10.2** | **(2.0)** | **-19.6%** |
| **Adjusted EPS** | **2.9p** | **3.1p** | **(0.2p)** | **-6.5%** |




Note: For consistency, depreciation of right of use assets for leases not added back in calculating EBITDA

## Adjusted operating profit margin stable, despite weaker market conditions

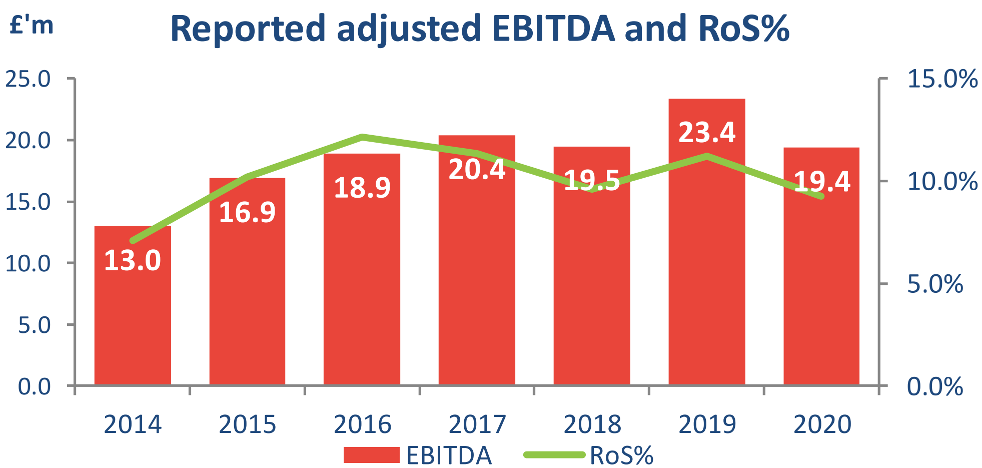
- 6.2% decline in revenue from continuing operations
- Revenue from South African discontinued operation not significant
- Revenue declines are within Chain division

- EBITDA remained robust despite revenue reduction
- Improving profit in Torque Transmission and cost control/operational efficiency in Chain

- Depreciation becoming a larger element of cost base reflecting recent investment
- Stable adjusted operating margin of 7.1% (2019: 7.4%)

# Challenging market and Covid-19 reducing revenue

| (at constant exchange rates) | 2020 £m | 2019 £m | Var % |
|---|---|---|---|
| Revenue | **151.4** | 165.7 | (8.6%) |
| Adjusted operating profit | **14.0** | 18.5 | (24.3%) |
| *Return on Sales %* | ***9.2*** | *11.2* | |




- Revenue 8.6% below prior year (constant exchange rate)
  - 4.4% for H1; 12.7% for H2
- Market deterioration pronounced in US with reduction in major projects; revenue down 12.0% vs prior year
- Europe impacted by distributor destocking; revenue down 6.4% vs prior year
- Covid-19 impact most significant in final months in Australasia and China
  - Australasia revenue down 6.4% (vs prior year); Malaysia factory closed in March
  - China grew by 5.8% over prior year
    - productivity improved following factory move
    - growth despite extended Covid-19 shutdown
- YTD revenue in April and May 2020 was 23% lower than the prior year

Note: For consistency, depreciation of right of use assets for leases not added back in calculating EBITDA

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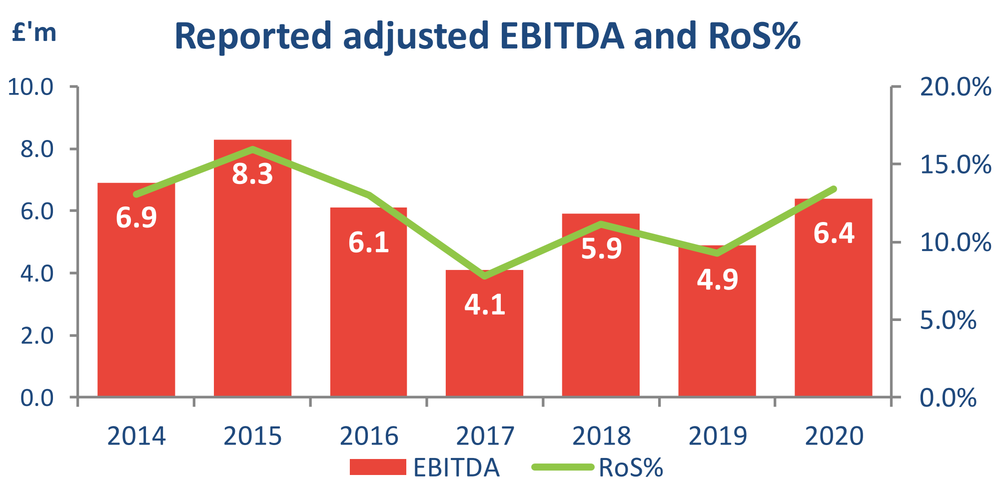
# Strong improvement; project wins offset broader market challenges

| (from continuing operations at constant exchange rates) | 2020 £m | 2019 £m | Var % |
|---|---|---|---|
| Revenue | **38.0** | 36.2 | 5.0% |
| Adjusted operating profit | **5.1** | 3.4 | 50.0% |
| *Return on Sales %* | ***13.4*** | *9.4* | |




- Revenue up 5.0% to £38.0m
  - Growth from US; project wins offsetting broader market challenges
  - Other business units stable; Couplings supported by phasing of multi-year contract
- Strong profit improvement, increasing return on sales to 13.4%
- Profit improvement spread across division
  - Couplings – productivity improvement
  - Gears – improving performance from actions taken following accounting issues
  - US – volume growth improving profits
- YTD revenue in April and May 2020 was 13% lower than the prior year

Note: For consistency, depreciation of right of use assets for leases not added back in calculating EBITDA

# Group Profit After Tax

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| | 2020 £m | 2019 £m | Var £m |
|---|---|---|---|
| **Adjusted operating profit** | **13.4** | **14.8** | **(1.4)** |
| Restructuring costs | **(2.4)** | (2.9) | 0.5 |
| Pension past service credit | **-** | 4.4 | (4.4) |
| Amortisation of acquired intangible assets | **(0.9)** | (0.9) | - |
| **Reported operating profit** | **10.1** | **15.4** | **(5.3)** |
| Pension scheme financing charges | **(2.2)** | (2.4) | 0.2 |
| External financing charges | **(2.3)** | (2.2) | (0.1) |
| Interest on lease liabilities | **(0.5)** | - | (0.5) |
| Other interest charges | **(0.2)** | (0.4) | 0.2 |
| **Profit before tax** | **4.9** | **10.4** | **(5.5)** |
| Taxation | **(1.5)** | (3.5) | 2.0 |
| **Profit/(loss) after tax** | **3.4** | **6.9** | **(3.5)** |

- Restructuring costs support headcount reductions in Germany and China
- One-off UK pension gain in prior year as inflation moved from RPI to CPI
  - Largest element of year on year reduction in operating profit and PBT
- Finance charges include £0.5m of leasing interest on adoption of IFRS 16
- Tax charge benefits from deductible restructuring costs
  - Prior year tax charge includes £0.8m deferred tax charge for one-off pension gain
  - 18% effective tax rate of adjusted PBT (2019: 29%) – benefits from reduced tax charges in Germany

# Summary Group Cash Flow Statement

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| | 2020 £m | 2019 £m | Var £m |
|---|---|---|---|
| **Adjusted operating profit** | **13.4** | **14.8** | **(1.4)** |
| Depreciation and amortisation | **8.0** | 7.7 | |
| Depreciation of right of use assets | **2.5** | - | |
| Loss from discontinued operations | **(0.3)** | (0.2) | |
| Movement in working capital | **(4.5)** | (1.5) | |
| Pensions cash costs | **(4.4)** | (4.7) | |
| Restructuring spend | **(1.8)** | (7.0) | |
| Taxes and other | **(2.0)** | (0.8) | |
| **Net cash from operating activities** | **10.9** | **8.3** | **2.6** |
| Acquisition consideration | **(1.8)** | - | |
| Investing activities | **(9.2)** | (10.8) | |
| Financing costs paid | **(2.7)** | (2.1) | |
| Repayment of principal under leases | **(3.3)** | - | |
| Other movements / FX | **(0.2)** | (1.4) | |
| **Change in net debt** | **(6.3)** | **(6.0)** | **(0.3)** |
| Opening net debt | **(30.3)** | (24.3) | |
| **Closing net debt** | **(36.6)** | **(30.3)** | **(6.3)** |

- Right of use depreciation (leases) included for first time
- Increased working capital; most significantly reduced payables at 31 March 2020
- Pension cash costs slightly reduced
  - One-off benefit from insurance policy crystallising
  - Note: adjusted operating profit includes £0.8m of pension admin costs
- Restructuring spend
  - Significant prior year cost for China factory move
  - Significantly lower in current year
- Cash tax of £1.6m
  - Consistent with prior year cash tax of £1.8m
- Capex reduced
  - Already slowing ahead of Covid-19 tightening

# Summary Group Balance Sheet

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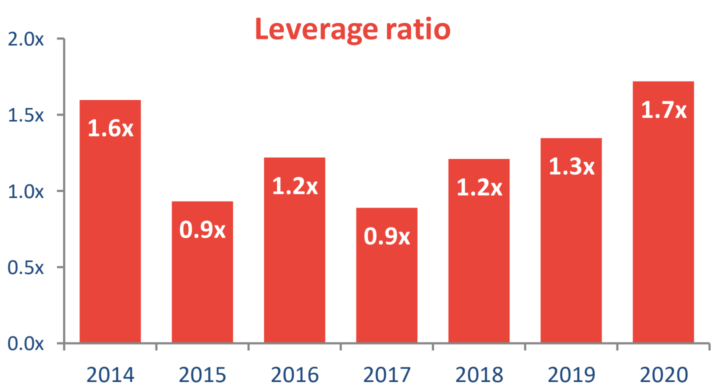
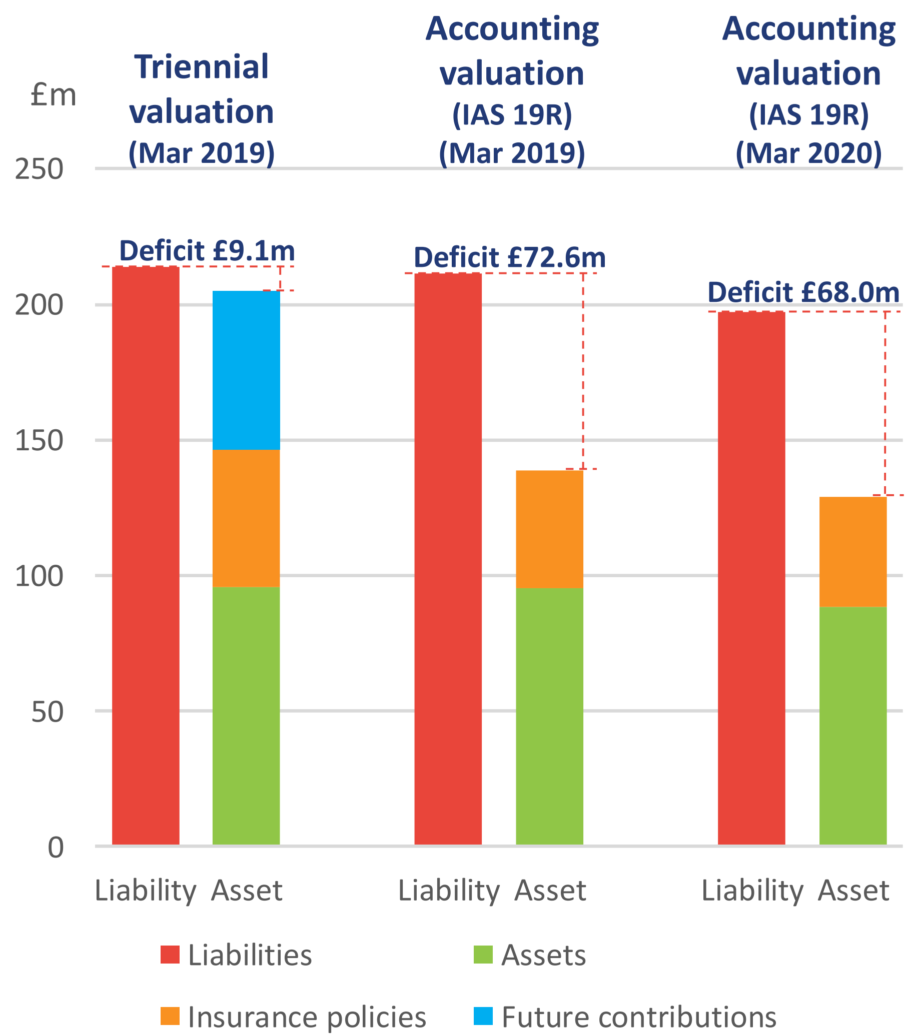
| | 2020 £m | 2019 £m | Var £m |
|---|---|---|---|
| Goodwill | **24.0** | 23.1 | 0.9 |
| Intangible assets | **8.0** | 6.6 | 1.4 |
| Fixed assets | **53.3** | 55.5 | (2.2) |
| Right-of-use asset | **11.3** | - | 11.3 |
| Deferred tax | **15.8** | 15.9 | (0.1) |
| Inventories | **46.1** | 44.3 | 1.8 |
| Receivables | **35.8** | 37.5 | (1.7) |
| Payables | **(42.9)** | (47.5) | 4.6 |
| **Net working capital** | **39.0** | **34.3** | **4.7** |
| Net debt | **(36.6)** | (30.3) | (6.3) |
| Provisions | **(0.7)** | (3.3) | 2.6 |
| Lease liabilities | **(17.1)** | - | (17.1) |
| Retirement benefit obligations | **(97.6)** | (101.9) | 4.3 |
| Derivative financial instruments | **(0.3)** | (0.4) | 0.1 |
| Current tax liability | **0.5** | (0.4) | 0.9 |
| **Net liabilities** | **(0.4)** | **(0.9)** | **0.5** |
| **Leverage[(1)] ratio** | **1.7x** | **1.3x** | |

- Right of use asset included for first time, off-set by lease liabilities
- Working capital increased, most significantly from lower payables
  - Prior year peak at March not repeated
- Inventory increase from FX plus inventory in support of customer service projects
- Provisions largely absorbed into lease liabilities
- Net debt of £36.6m represents 1.7x EBITDA




(1) Leverage is calculated as net debt / adjusted EBITDA (without adding back depreciation of right-of-use assets in FY20)

## UK triennial valuation completed; no change in contributions




- Triennial valuation, with an effective date of March 2019, completed
  - £9.1m deficit
- Triennial deficit lower than IAS 19R value shown in accounts
  - Future contributions are included due to structure of Renold's scheme
- No change to contribution structure (other than Covid-19 deferral) from triennial valuation
  - Contribution of £3.1m p.a. increasing by RPI plus 1.5%
  - Additional payment of 25% of any dividend
  - Additional £1.0m p.a. contribution if adjusted operating profit is greater than £16m
- Cash costs continue to be stable and predictable

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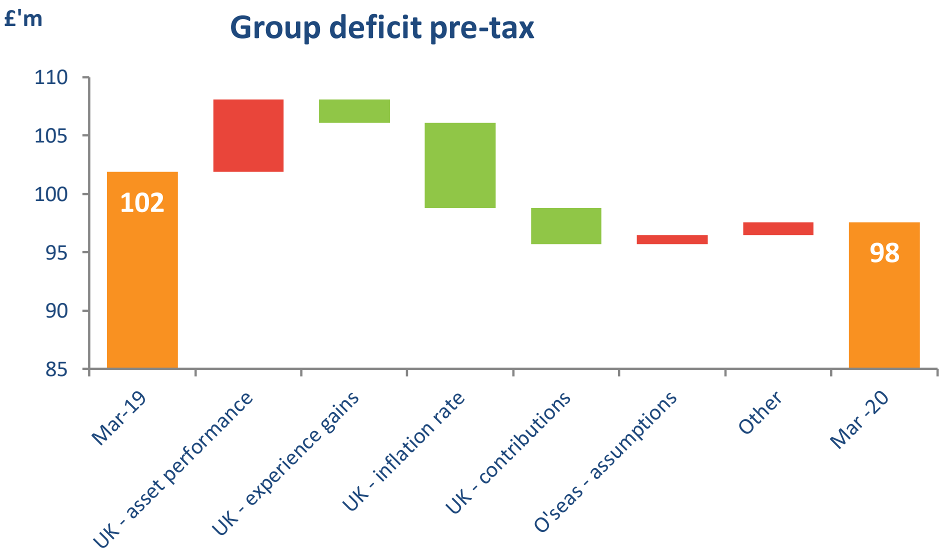
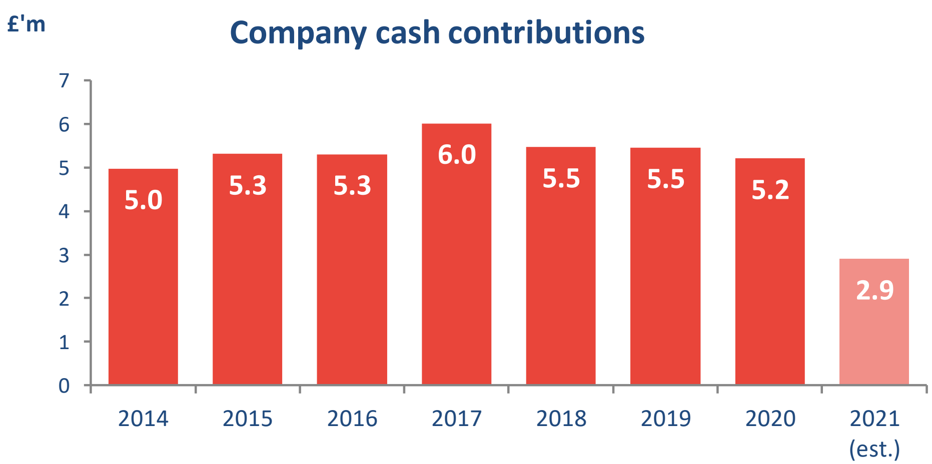
# Pension deficit reduced; cash costs broadly stable

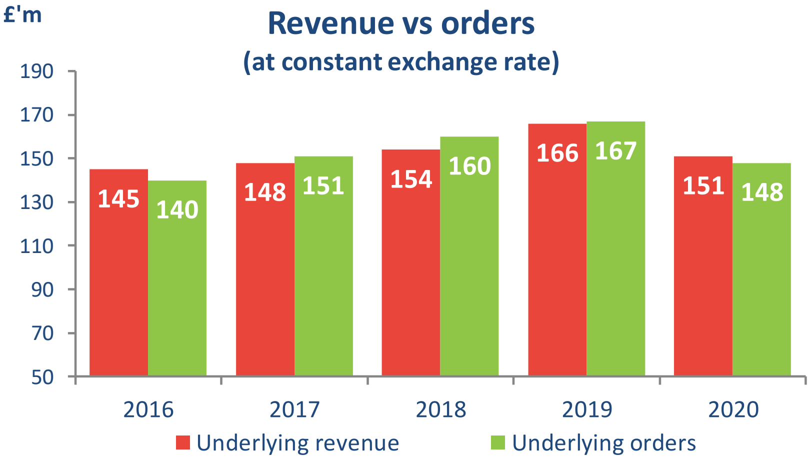



- Deficit reduced
  - Experience gains combine with lower inflation
  - Asset prices impacted by Covid-19 related reductions in value at March
- Cash costs remain stable and predictable
  - One-off benefit from insurance policy crystallising
  - Cash costs include £0.8m of pension admin costs now included in adjusted operating profit
- Agreement with UK Pension Trustee to defer net contributions due to uncertainty arising from Covid-19
  - Deferral from 1 April 2020 to 31 March 2021
  - Reduces cash outflow by c£2.6m
  - Deferral made good over 5 years commencing 1 April 2022
  - Increased matching of dividends paid until deferral made good
    - Additional contribution of 50% of any dividend (normal agreement is 25%)

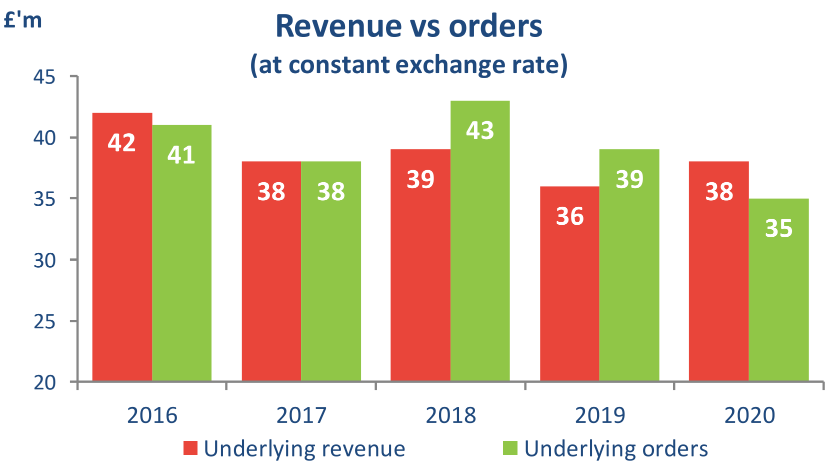
# Orders reflect market conditions and Covid-19 in final months of year

## Chain




- Order intake reduced by 11.4% (constant exchange rate)
  - 6.0% for H1
  - 17.5% for H2
- March 2020 average weekly orders 26% behind March 2019
- Orders behind revenue; book to bill ratio of 98%

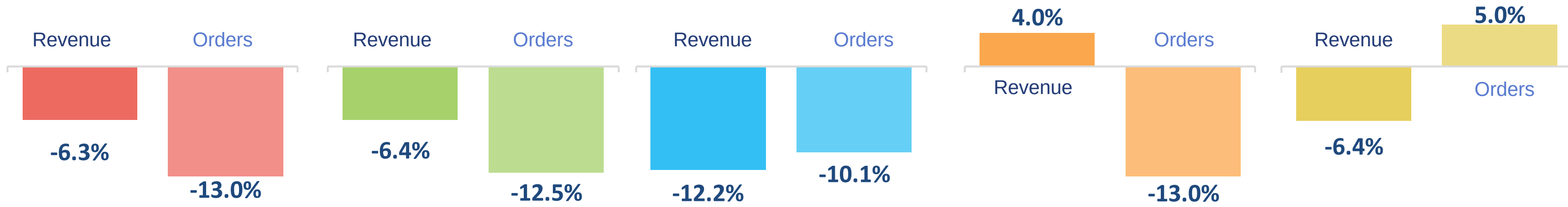
## TT

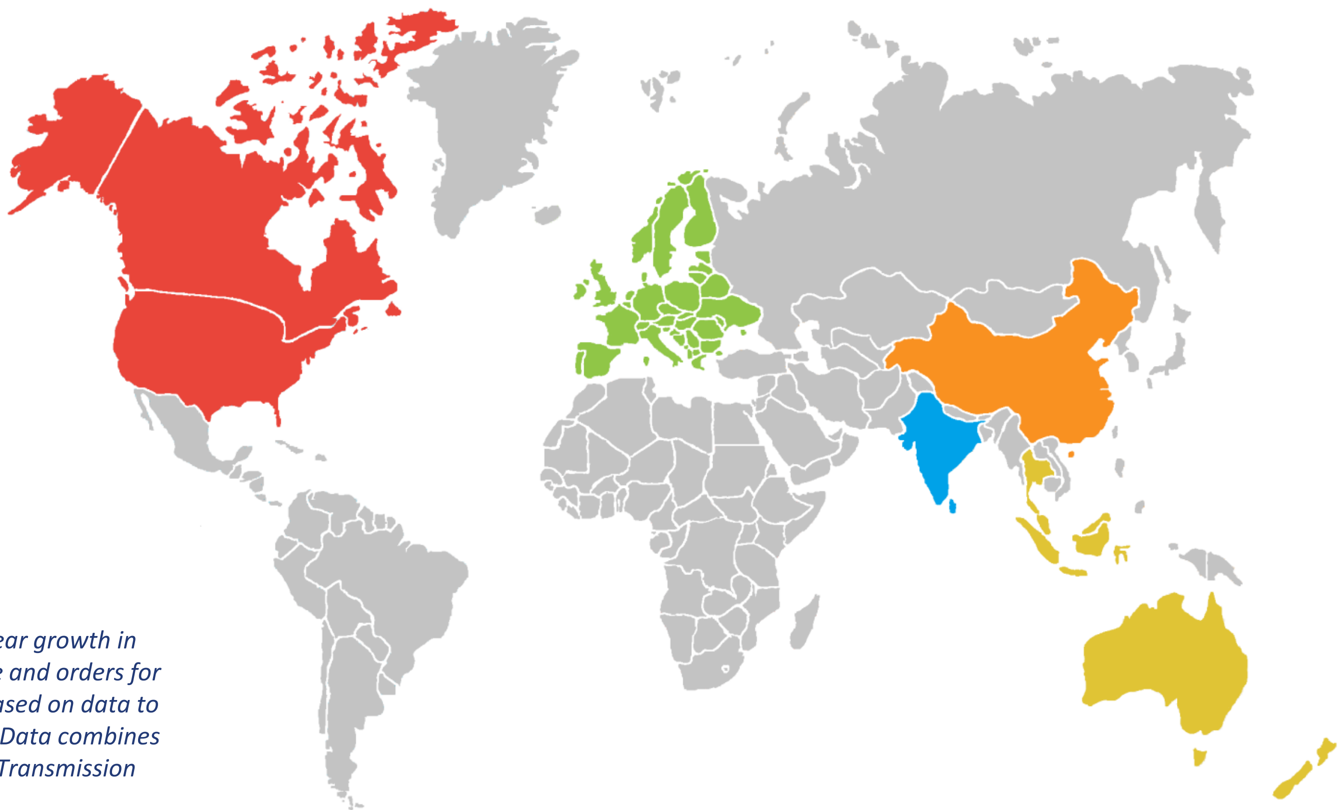



- Reduction in order intake of 9.7% (constant exchange rate) largely reflects strong intake in H1 of the prior year
  - 16.3% for H1, following strong prior year
  - 2.6% for H2
- Average weekly orders in March 2020 were 22% behind March 2019
- Orders behind revenue; book to bill of 92%

# *Market Dynamics – to March 2020*

**Americas** (book to bill 96%) | **Europe** (book to bill 94%) | **India** (book to bill 103%) | **China** (book to bill 95%) | **Australasia** (book to bill 111%)



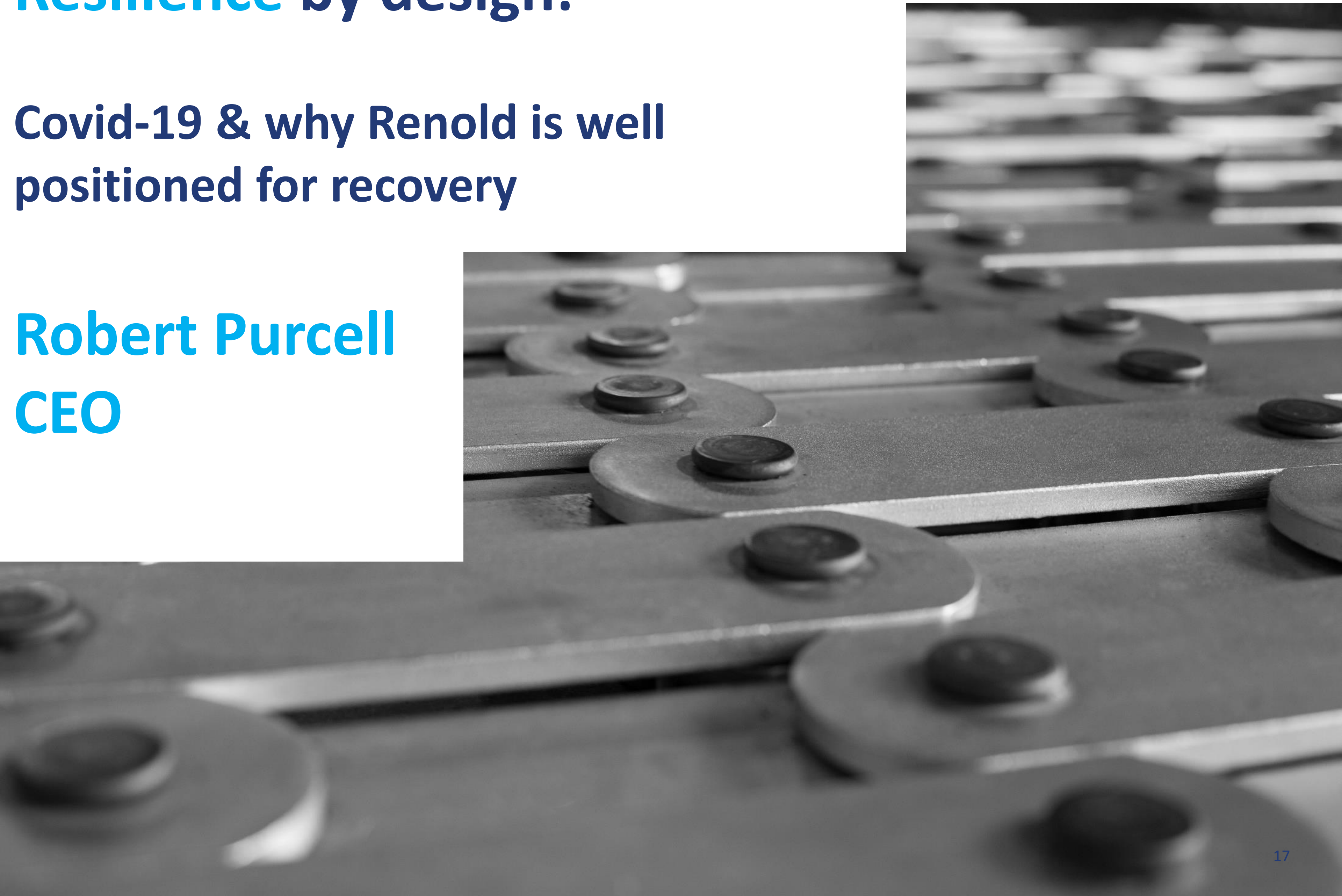



*Note: Year-on-year growth in external revenue and orders for key territories based on data to 31 March 2020. Data combines Chain & Torque Transmission divisions*

# Resilience by design:

## Covid-19 & why Renold is well positioned for recovery

## Robert Purcell
## CEO



# Impact of Covid-19 to Date

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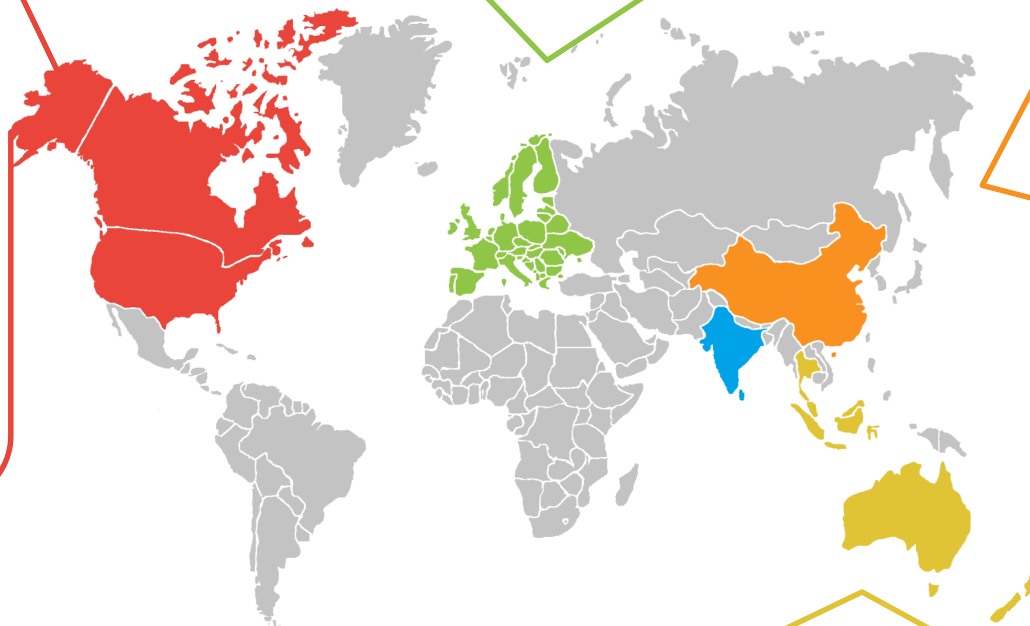

### Americas
- Chain and TT designated essential suppliers
- Greater mix of conveyor chain
- Reduced large project orders and future pipeline
- OEM customers on reduced production schedules
- Distributors destocking
- Customers progressively reopening
- No supply chain issues

### Europe
- National lock-downs impacting different countries
- Germany chain manufacturing remains open
- TT sites closed during May, but reopened on reduced hours in June
- Reduced order flow through lockdown
- No supply chain issues

### China
- Earlier shutdown during February and March
- Site fully reopened and operating at improved productivity
- Overdue orders from shutdown largely caught up
- Impacted by slowing domestic market and lower overseas demand
- No supply chain issues

### India
- Countrywide shutdown into early May
- Reopening, but with headcount restrictions
- Currently operating at c50% capacity
- Customers re-establishing operations
- Distribution networks reopening
- No supply chain issues

### Australasia
- Australia minimally impacted
- Supply chains from China disrupted, but recovering
- NZ reopened
- Malaysia factory reopened
- South-East Asia customers not fully operational impacting demand

# Response to Covid-19 – Profitable and Cash Generative

| | April/May | Current | Future |
|---|---|---|---|
| **Employees** | • Immediate action ensuring welfare and safety, including site closure and working from home | • Site specific procedures<br>• Remote working for office staff | • Flexible arrangements matching resource to demand |
| **Customers** | • Clear communication<br>• Serving essential industries; continuity of supply wherever possible | • Enquiry rates remain high<br>• Customers starting to request technical visits | • Provide solutions as customers redefine supply chain priorities |
| **Operations** | • Investment and change programmes curtailed<br>• Focus on delivery and service | • Localised solutions to manage geographic and site-specific challenges | • Return to programme of productivity improvements |
| **Group-wide** | • Reduce cost<br>• Manage cash<br>• Protect balance sheet | • Stable, conservative approach<br>• Control cost / manage cash | • Investment recommences as demand recovers<br>• Cash generation |

**Swift action; flexing capacity with demand; reduced cost; increased cash headroom**

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- Discretionary spend suspended
- Flexing capacity and cost to match orders
  - Changes to shift patterns
  - Reduced working hours
  - Temporary operational closures
- Some increased costs for split shifts and hygiene; logistics and maintenance difficulties
- Temporary pay reductions for indirect employees
  - 20% cost reduction, including Board
  - Initially four months, but to be flexed according to demand / market
- Revenue down c.22% in April and May through period of most significant global lock-downs

**Group remained profitable through April and May**

# Response to Covid-19 – Cash Preservation and Headroom

- Non-committed capital expenditure suspended
- Renegotiating or rephasing payments to manage cash
  - Property leases
  - Direct and indirect taxes
- Deferral of net contributions to UK pension scheme
- Covenant tests under Group's borrowing facility amended, increasing flexibility and headroom
  - Original covenants; net debt to EBITDA (2.5x) and EBITDA to financing costs (4.0x)
  - Replaced with minimum EBITDA and minimum liquidity tests until March 2021
  - At March 2021, original tests reinstated, but with greater headroom
    - Net debt to EBITDA no greater than 3.5x
    - EBITDA to financing costs no less than 3.5x
  - Revert to original covenant tests from September 2021

**Cash preservation actions delivering;**
**net debt reduced since 31 March 2020**

| | Strategic Progress Delivered | Future Opportunities | Future Benefit |
|---|---|---|---|
| BUSINESS IMPROVEMENT | • Restructured operating sites – largely complete<br>• Introducing systems and processes to improve productivity and operational effectiveness<br>• Investment delivering improved manufacturing capability | • Major infrastructure change complete<br>• Platform established for efficiency investment<br>• Engineering standardisation to deliver lower cost and better service<br>• Manufacturing flexibility to deliver resilience and lower cost | **Significant margin improvement; cost of change already incurred** |
| ORGANIC GROWTH | • Improved customer service<br>• Improved marketing and product management<br>• Brand linked to sustainability<br>• Increasingly competitive cost base | • Major range and service improvement delivery<br>• Growth in market sub-sectors of niche markets where Renold does not have a presence | **Faster growth; higher margins** |
| ACQUISITIONS | • Small but meaningful acquisitions delivered:<br>  • Specialist tooth chain manufacturer<br>  • Minority stakes in India and China | • Acquisitions accelerate growth delivering greater returns<br>• Accelerates growth in "sticky" product markets<br>• Accelerates entry into new sectors or geographies | **Infrastructure built onto which acquisitions deliver immediate value** |

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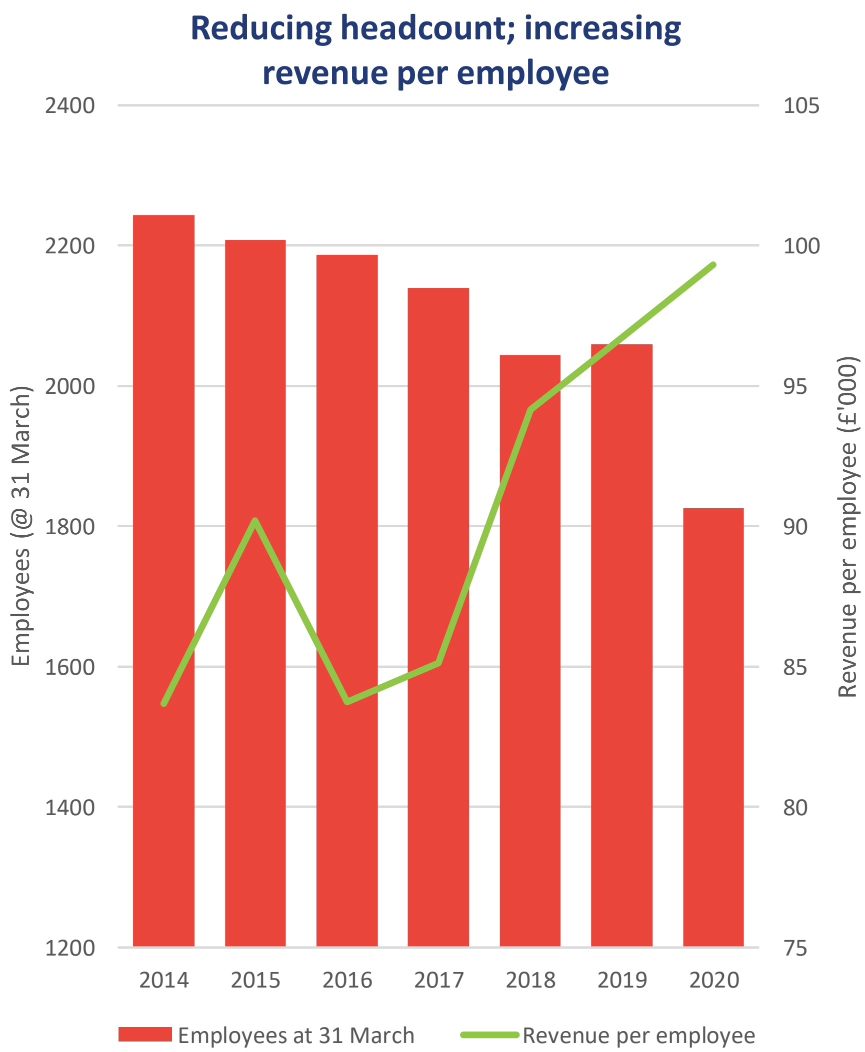
# On-going productivity focus; delivering increased operational efficiency




- Progressive reduction in headcount as investment drives change
  - Increased employees at March 2019 due to Chinese factory move
  - Progress with operational efficiency continues to reduce headcount
- Revenue per employee increasing
  - Breaking direct link between employee hours and output
    - Critical for effective flexing of capacity
- Significant progress in the year, particularly in China and Germany
- Further opportunities exist to continue this trend

**Progressive improvement in operational efficiency; more opportunity for further benefit**

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## Minority JV stakes acquired; creates supply chain flexibility

- Chinese factory move
  - Created infrastructure that can support investment
  - Bought out minority partner
  - Increasing capability and productivity
- India JV purchase
  - Bought out minority partner
  - Increasing capability
- Opportunity
  - Standardise product specification
  - Standardise manufacturing capability
- Benefit
  - Increased economies of scale
  - Greater cost effectiveness
  - Reduced robustness of operating model

## Increased flexibility and route to improved margins

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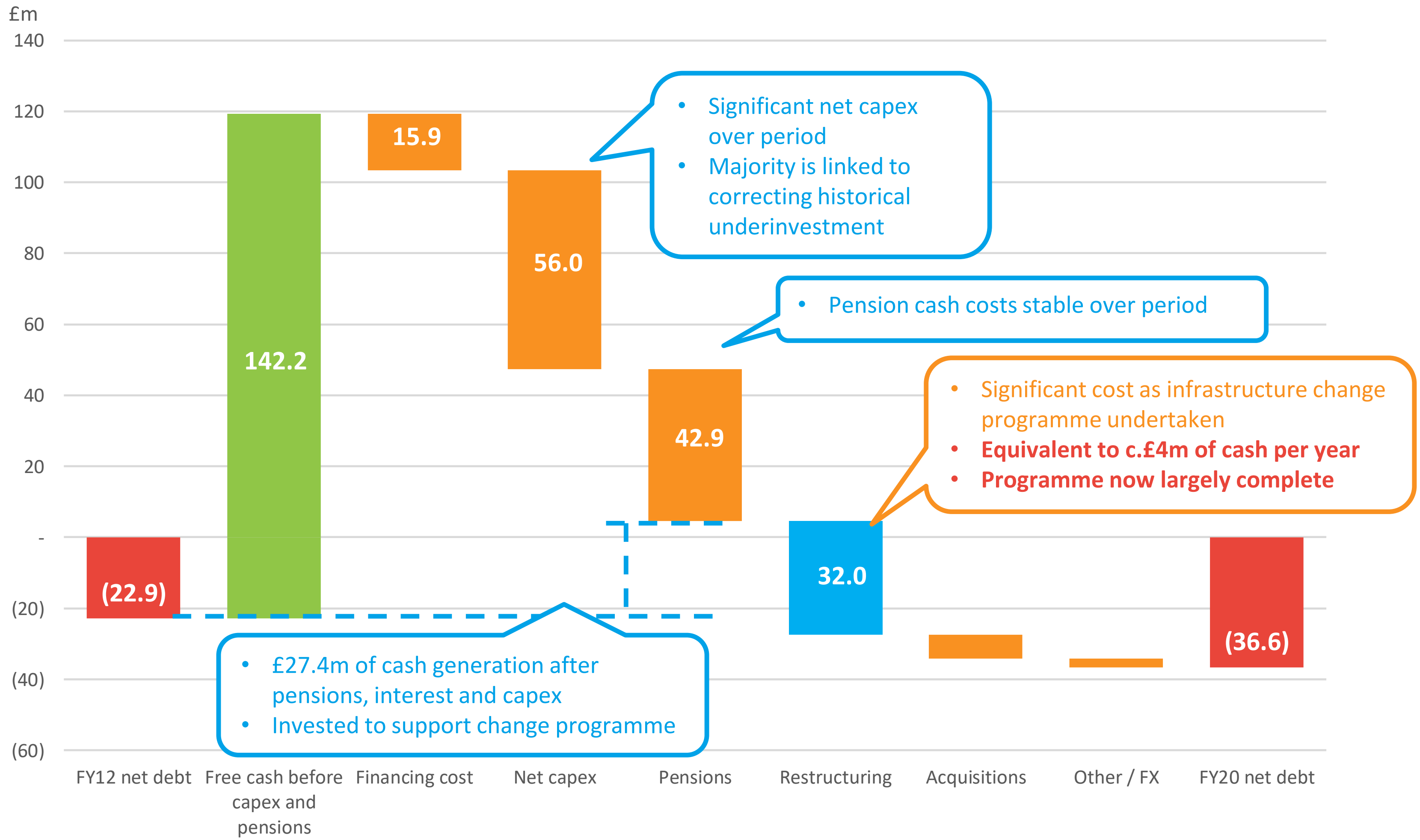
## Cash flow bridge over Strategic Plan period




**Strong cash generation before restructuring costs; infrastructure change programme complete**

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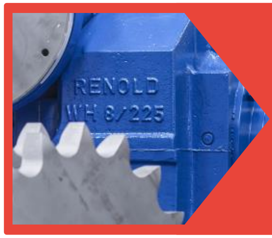
- Prior to Covid-19, Group on track to deliver improved operating margins despite challenging market backdrop
- We have reacted quickly to the Covid-19 pandemic with cost and cash preservation actions resulting in:
  - Cash generation across April and May
  - Profits being delivered as we traded through the peak lockdown months
- All facilities now reopened from lock down, albeit at reduced levels of output
- Strategic actions over recent years have lowered the cost base, made it more flexible and improved customer service
- Increased flexibility under bank facilities and deferral of UK pension contributions create greater headroom as we navigate short term uncertainty
- Longer-term potential unchanged; ready to win market share, improve margins and generate net cash flow as markets recover

**Group well positioned to capture significant opportunities as markets stabilise and demand recovers**

# Thank you
# Q&A

# Appendices




## Valued and Recognised Brand and Engineering Expertise

With over 150 years of history, within its sectors, Renold is amongst the world's leading industrial brands providing premium products and engineered solutions that customers trust. Customers frequently ask for our products by name.

## Broad Base of Customers and End-user Markets

Renold's products are used in an extremely broad base of final applications, industrial sectors, MRO, OEM and capital goods resulting in a huge spread of customers and markets served. There is no customer or sector dependency. Our product range is second to none.

## High Specification Products that Deliver Environmental Benefits

Our products are engineered and manufactured to class-leading specifications, delivering major benefits to customers:

- Longer life – reduced material and energy requirements
- Lower or no lubrication requirements – reduced contamination opportunity
- Ability to operate in difficult environments
- Greater efficiency – reduced energy requirements

## Global Market Position; Unique Manufacturing Capability

Renold is a global market-leading supplier of industrial chain and torque transmission products produced across the world utilising a unique manufacturing footprint. We are the second largest industrial chain company in the world with less than 10% market share in a highly fragmented market.

## Low Component Cost but Critical Products

Renold's products are often a relatively low component cost when compared to the cost of the overall assembly of which they are part; but they are critical to the performance of the system. The consistent, reliable performance of our class leading products for over a century has demonstrated to customers the value proposition we offer both in MRO and OEM.

# Adoption of IFRS 16 – Leases

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- IFRS 16 was adopted in the period and the table below outlines the impact of adoption on the results

| | | Pre-IFRS16 adoption £m | Post-IFRS16 adoption £m | Impact of adoption £m |
|---|---|---|---|---|
| Income statement | Revenue | - | - | - |
| | Depreciation | - | (2.5) | (2.5) |
| | Other operating costs | (3.0) | - | 3.0 |
| | **Adjusted operating profit** | **(3.0)** | **(2.5)** | **0.5** |
| | Finance charges | - | (0.5) | (0.5) |
| | **Adjusted profit before tax** | **(3.0)** | **(3.0)** | **-** |
| Cash Flow Statement | Adjusted operating profit | (3.0) | (2.5) | 0.5 |
| | Onerous lease cost | (0.8) | - | 0.8 |
| | Depreciation | - | 2.5 | 2.5 |
| | **Cash flow from operations** | **(3.8)** | - | **3.8** |
| | Repayment of interest element of lease liabilities | - | (0.5) | (0.5) |
| | Repayment of lease liabilities | - | (3.3) | (3.3) |
| | **Net cash flow** | **(3.8)** | **(3.8)** | **-** |
| Balance sheet at 1 April 2019 | Right of use asset | - | 10.4 | 10.4 |
| | Property, plant and equipment | 0.9 | - | (0.9) |
| | Onerous lease provision | (3.2) | - | 3.2 |
| | Lease liability | - | (17.0) | (17.0) |
| | **Equity adjustment** | **(2.3)** | **(6.6)** | **(4.3)** |

# Reconciliation of 'Adjusted' profit

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| Year ended 31 March | FY15 £m | FY16 £m | FY17 £m | FY18 £m | FY19 £m |
|---|---|---|---|---|---|
| **Adjusted operating profit** | | | | | |
| Previously reported | 15.5 | 14.2 | 14.5 | 14.2 | 15.4 |
| Restatement[1] | - | - | (1.0) | (0.5) | - |
| Discontinued operations[2] | - | - | - | - | 0.2 |
| Pension administration costs[3] | (0.5) | (0.7) | (0.7) | (0.9) | (0.8) |
| **Adjusted operating profit** | **15.0** | **13.5** | **12.8** | **12.8** | **14.8** |
| **Adjusted profit before tax** | | | | | |
| Previously reported adjusted profit before tax | 13.6 | 12.7 | 12.8 | 12.5 | 13.2 |
| Restatement[1] | - | - | (1.0) | (0.5) | - |
| Discontinued operations[2] | - | - | - | - | 0.2 |
| Pension administration costs[3] | (0.5) | (0.7) | (0.7) | (0.9) | (0.8) |
| Net IAS 19R finance charges[4] | (2.5) | (2.0) | (2.5) | (2.4) | (2.4) |
| **Adjusted profit before tax** | **10.6** | **10.0** | **8.6** | **8.7** | **10.2** |

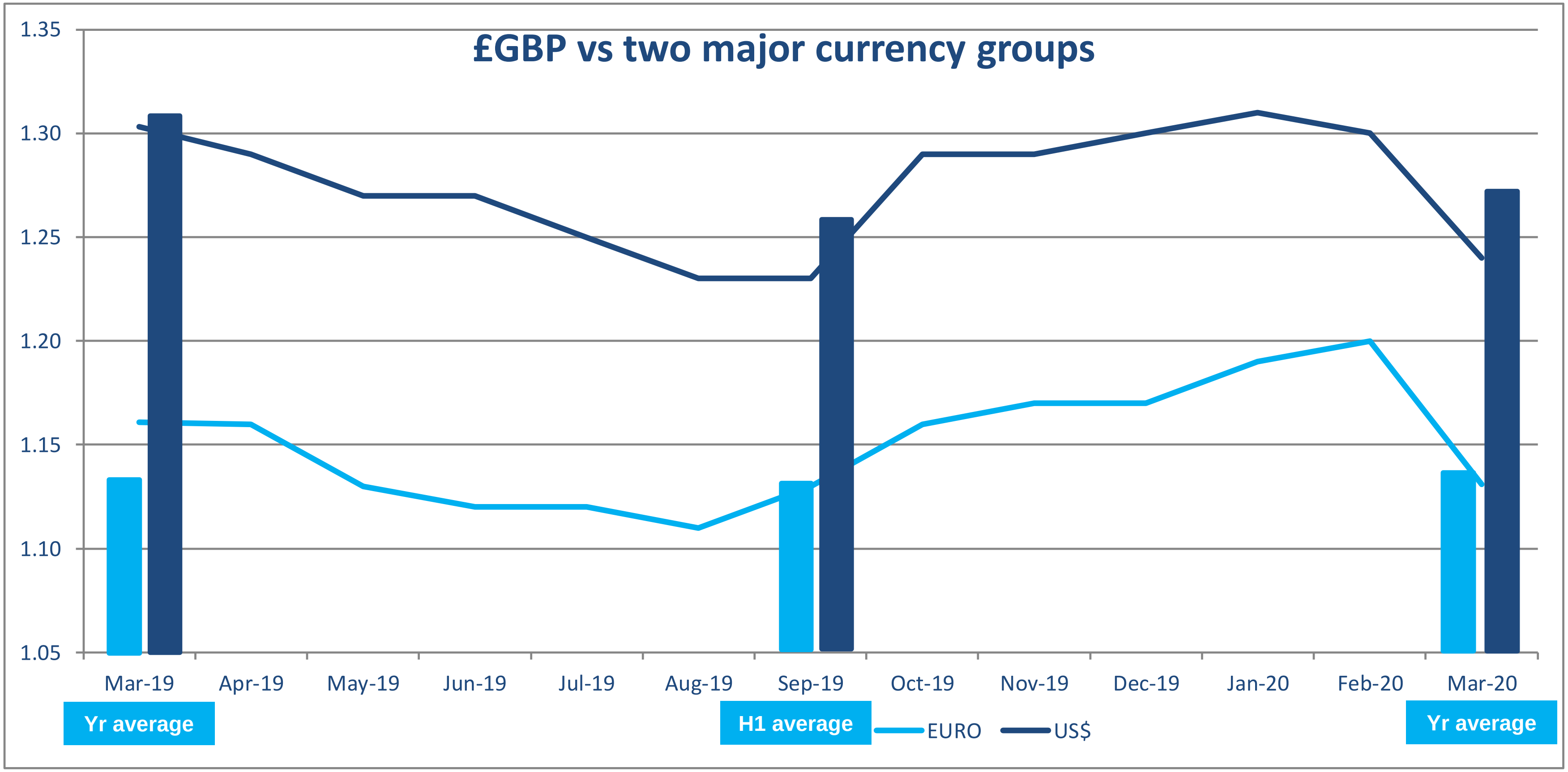
(1) Restatement to correct the historical misstatements identified in the Gears business unit

(2) Discontinued operations arise from the disposal of the South African Torque Transmission business unit in the period

(3) Re-presentation of pension admin costs is an adjustment to no longer treat pension related costs as adjusting items

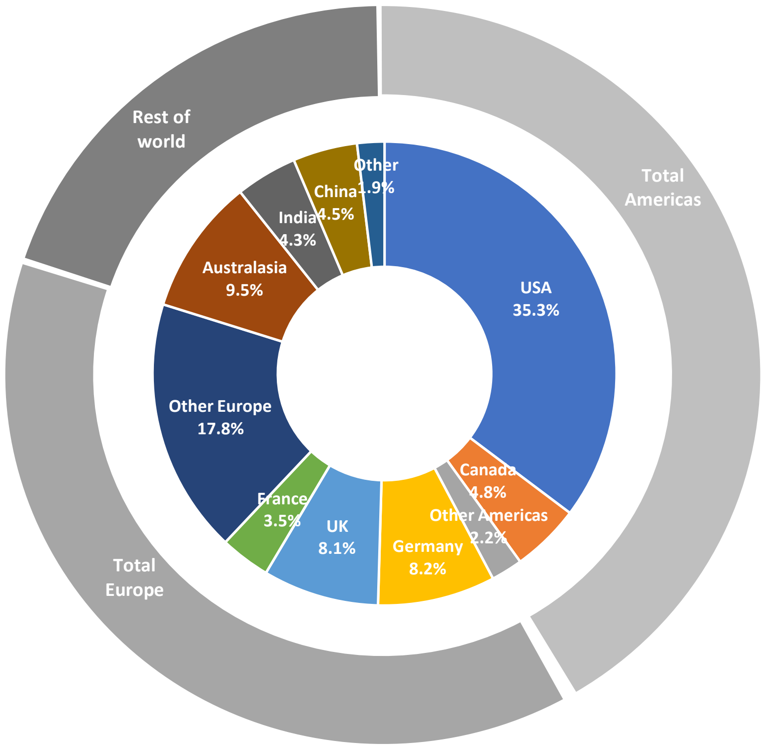
(4) Re-presentation of IAS 19R finance charges is an adjustment to no longer treat pension related costs as adjusting items

RENOLD

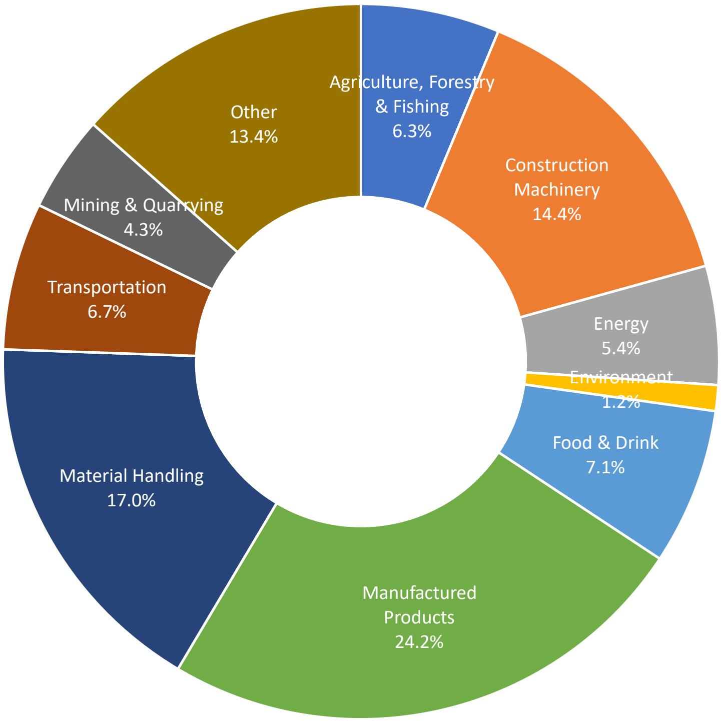



- Sales denominated in US$ represent 37% of the group total, and in Euro's 27%
- Illustratively, reported sales for the year of £189.4m would have been approximately £0.9m higher at March 19 closing rates with adjusted operating profit unchanged

## Revenue by geography




## Revenue by sector




Data represents 56% of Renold’s revenue as the remaining 44% is supplied by Renold to distributor customers who will in-turn supply products to their end customers who are likely to further diversify the end-customer sector.