RENOLD

Re-engineering our future.

Interim results for the six months ended 30 September 2014

www.renold.com

25 November 2014

Re-engineering our future:

Progress Report

Robert Purcell - CEO

Executive Summary

Phase 1 of our Strategic Plan progressing well

- Self help measures drove underlying adjusted* operating profit up by 67%
- Adjusted EPS more than doubled to 2.3 pence
- Bredbury closure project completed ahead of time and within budget
- Double digit operating margin achieved in Chain division
- Leverage reduced further to 1.3x, to benefit finance costs
- Foundations being laid for the Organic Growth phase of our Strategic Plan

We continue to implement self help measures while identifying new efficiency opportunities and laying foundations for growth.

*Throughout this document the use of 'underlying' means after eliminating the impact of movements in foreign exchange rates. 'Adjusted' excludes exceptional items, pension costs and any associated tax thereon.

Progress report on this year's priorities

- **Enhance Health and Safety performance and culture**
  - Global training programme delivered to all managers, raising awareness and knowledge levels
  - Integrated risk management system rolled out in a number of new business units
  - Audited standards are rising

- **Strengthen commercial positioning**
  - New product based organisational structure implemented in the Torque Transmission division
  - Focus on value added products and new sales structures to enhance that focus
  - Investment in certain stock lines to support growth initiatives

- **Embed excellent customer service**
  - Re-established closer connection with local customers by opening new customer service offices
  - UK service centre model being expanded to cover some new territories
  - Investment in stock (noted above) to support shorter lead times
  - Aligning our service proposition with market expectations

- **Deliver ongoing cost reductions**
  - Bredbury transitional costs being worked down in recipient sites
  - Projects already underway to exploit operational leverage in recipient sites (known as 'Bredbury Phase 2' benefits)
  - New lower risk ERP system selected with no adverse impact on schedule or cost to complete

- **Build balance sheet strength**
  - Further mitigation of pension risks as opportunities arise: one US scheme nearing end of liquidation phase
  - Further reductions in financing costs as leverage ratio fell in September 2014
  - Average working capital ratio plateaued due to Bredbury transitional stocks and other inventory investments

…we have delivered a significant number of improvement projects, many new initiatives now in progress and more opportunities filling the pipeline

Financial Performance.

Brian Tenner - CFO

Group Income Statement

Self help delivering strong margin gains

	14/15 £'m	13/14 £'m	Var £'m
Revenue as reported	**90.5**	**95.6**	
Impact of FX	**-**	**(6.4)**	
Underlying Revenue	**90.5**	**89.2**	**1.3**
Adjusted operating profit as reported	**7.5**	**5.1**	
Impact of FX	**-**	**(0.6)**	
Underlying adjusted operating profit	**7.5**	**4.5**	**3.0**
Underlying Return on Sales %	**8.3%**	**5.0%**	
Pensions administration costs	(0.3)	(0.4)	
Exceptional items	(0.6)	(1.0)	
External interest	(0.9)	(1.1)	
IAS19 financing costs/provisions	(1.3)	(1.5)	
Profit before tax	**4.4**	**1.1**	
Adjusted earnings per share (pence)	**2.3**	**1.1**	**1.2**

- Group wide self help initiatives delivered £1.0m of net cost savings in addition to Bredbury savings of £1.0m in the period
- FX translational headwinds very severe, had anticipated £0.5m profit reduction in whole year
- Exceptional items relate to ongoing restructuring activities and the strategic decision to change our ERP system

Segmental Analysis - Chain

Major milestone delivered with operating margin over 10%

	14/15 £'m	13/14 £'m	Var £'m
Revenue as reported	**69.3**	**72.2**	
Impact of FX	**-**	**(5.0)**	
Underlying Revenue	**69.3**	**67.2**	**2.1**
Operating profit as reported	**7.1**	**4.3**	
Impact of FX	-	**(0.5)**	
Underlying Operating Profit	**7.1**	**3.8**	**3.3**
Underlying Return on Sales %	**10.2%**	**5.7%**	

- Overall net growth in underlying external sales of 3.1%
- Mixed geographic performance continues
  - Europe 8.0% growth on Swiss project win with UK, Germany and France also growing
  - Americas more subdued though still positive
  - Australasia down 7.0% with Australia down 15.7% down due to weak domestic mining sector
- Bredbury closure savings of £1.0m of were realised in the period, primarily in overheads
- Net efficiency gains of £0.3m were delivered in manufacturing activities as well as other overhead savings of £1.2m

Segmental Analysis - Torque Transmission

Leveraging higher value products and self help initiatives

	14/15 £'m	13/14 £'m	Var £'m
Revenue as reported	**21.2**	**23.4**	
Impact of FX	**-**	**(1.4)**	
Underlying Revenue	**21.2**	**22.0**	**(0.8)**
Operating profit as reported	**3.4**	**2.9**	
Impact of FX	-	(0.1)	
Underlying Operating Profit	**3.4**	**2.8**	**0.6**
Underlying Return on Sales %	**16.0%**	**12.7%**	

- Strong performance in operating profit and margin
- Sales down 3.6%:
  - end of a low margin major mass transit contract in prior year caused a sales fall of £1.0m
  - slow down in demand for components in power generation, particularly in China
- Further emphasis on higher value products more than offset fall in volume
- Self help initiatives reduced overheads by £0.3m

Group Cash Flow Statement

Reduction in net debt in the period

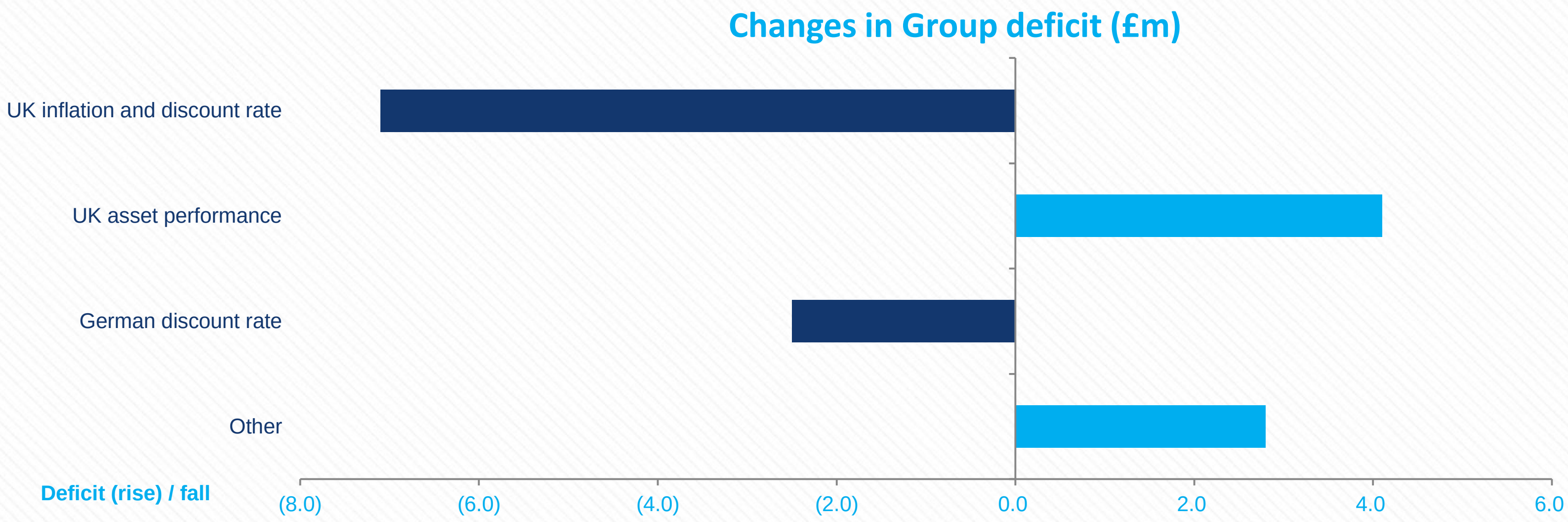
	14/15 £'m	13/14 £'m
Adjusted EBITDA	10.1	7.9
Movement in working capital	(0.9)	-
Pension payments and admin costs	(2.4)	(1.7)
Restructuring spend	(2.3)	(1.3)
Taxes and other	(0.4)	(0.6)
Net cash from operating activities	**4.1**	**4.3**
Investing activities	(2.7)	(3.0)
Financing activities	(0.8)	(1.0)
Other movements	(0.1)	0.3
Impact of foreign exchange	(0.1)	0.2
Change in net debt	**0.4**	**0.8**
Opening net debt	**(24.8)**	**(22.8)**
Closing net debt	**(24.4)**	**(22.0)**

	14/15 £'m	13/14 £'m
Inventory	(2.4)	0.1
Debtors	0.5	1.5
Payables	1.0	(1.6)
Working capital cash flow	**(0.9)**	**-**

- Restructuring spend primarily completion of Bredbury project, £1.2m accrued in prior year
- Prior year pensions benefitted from SA surplus return of £1.4m
- Working capital increase includes transitional stock to support Bredbury closure project

Pensions

Stable cash flows, deficit driven by market conditions



- Cash flows stable in all schemes around the world, for both contributions and benefits costs
- Deficit movement driven by changes in UK and European discount rates
- Partly offset by strong asset performance and improved outlook for UK inflation
- First of three US schemes now in final stages of liquidation (no funding shortfall)
- Further initiatives underway preparing for impact of recent UK legislative changes
- Range of other risk mitigation projects underway in various other territories

Strategic Plan:

Next steps

Robert Purcell - CEO

Progress on the three-phase plan

- ✓ Bredbury project complete
- ✓ Investing in modern manufacturing
- ✓ Cost base continues to reduce
- ✓ New lower risk ERP system selected
- ✓ Standardising business processes
- ✓ Continued strengthening of management team

- ✓ Leverage superior product in Chain and TT
- ✓ Leverage market and brand leading positions
- Drive growth from improved sales and marketing practices

- Significant opportunities from our scale
- Fragmented market
- Growth potential through selective bolt-on acquisitions adding capability and market share

Phase III:
Structural activities

Phase II:
Organic growth

Phase I
Restructure

March 2014
Adjusted EPS +129%

September 2014
Adjusted EPS +109%

March 2015 Target
Begin organic growth

Double digit margins
Boost in shareholder value

Achieve streamlined
business fit for future

Strong EPS growth as plan progresses

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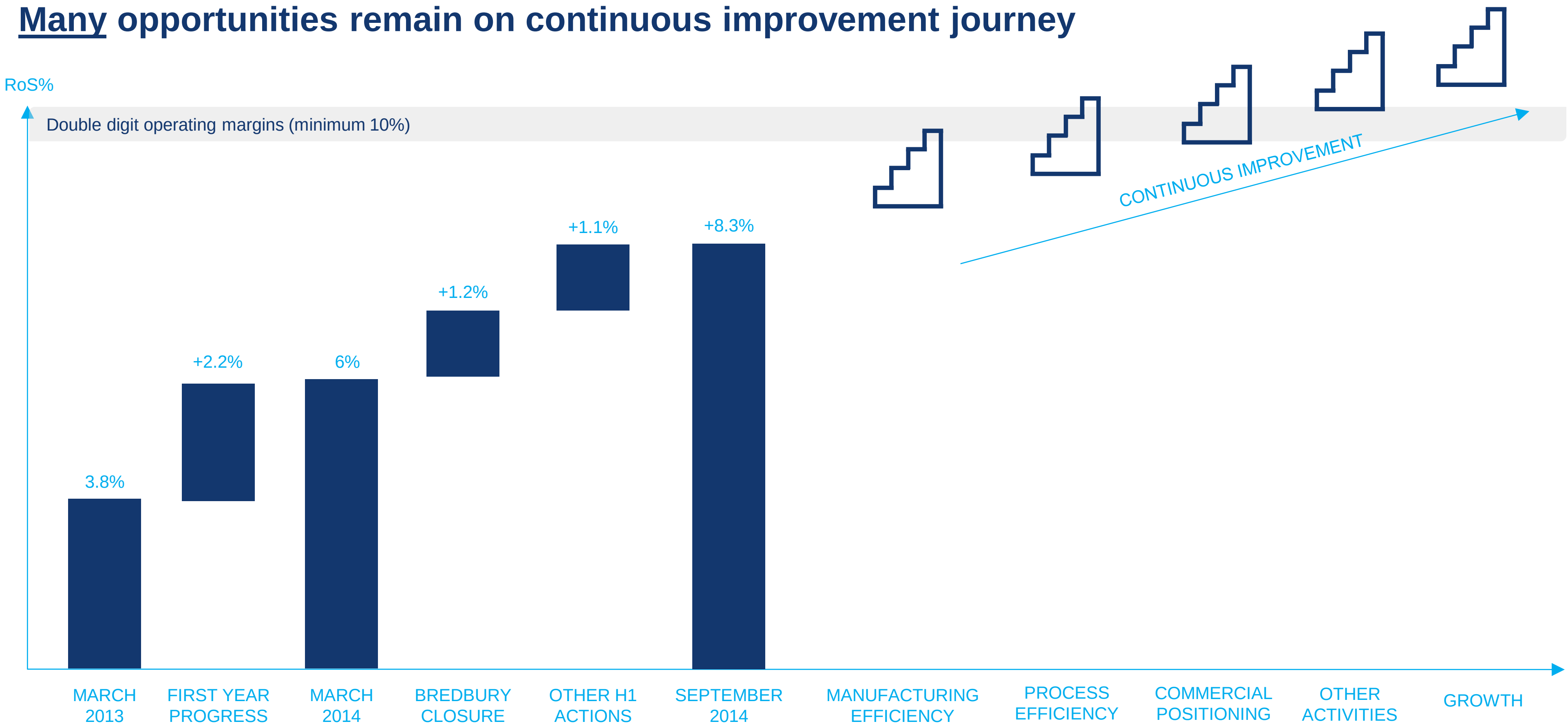
Road map for margin progression

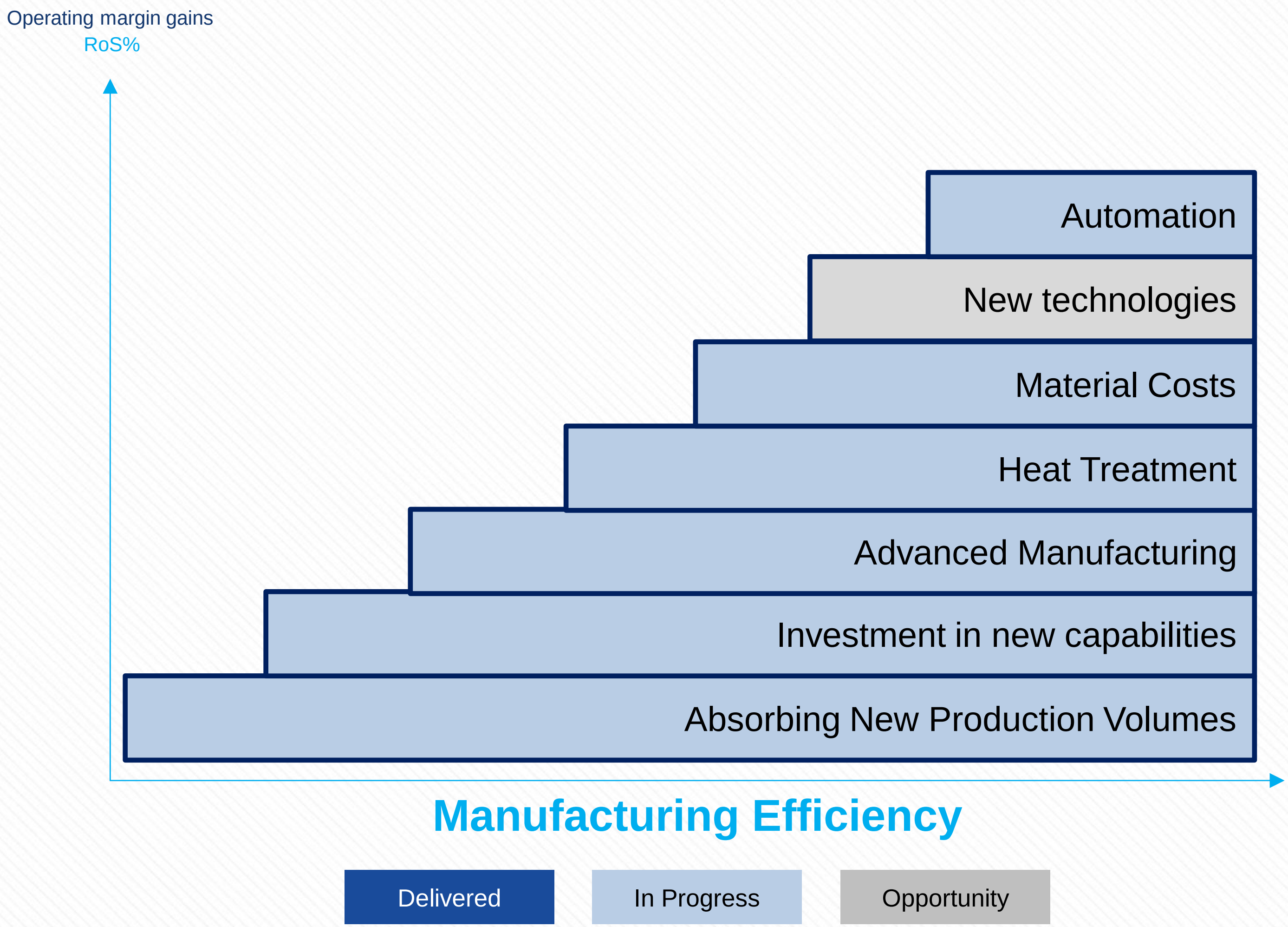
Many opportunities remain on continuous improvement journey



- Bredbury closure benefits were firm from June 2014, full year impact of Phase 1 will be 1.8%
- Manufacturing efficiencies underway with first ‘Bredbury Phase 2’ investment generating £0.2m p.a. in savings 2-15/16
- Multiple activities underway in each ‘staircase’ – examples set out in following slides

Manufacturing Efficiency

Many projects underway to upgrade to modern manufacturing standards



- Robotics being embedded in key location
- Studies underway elsewhere

- Exploring new methods of manufacturing our products
- Material and component rationalisation programmes started in two locations

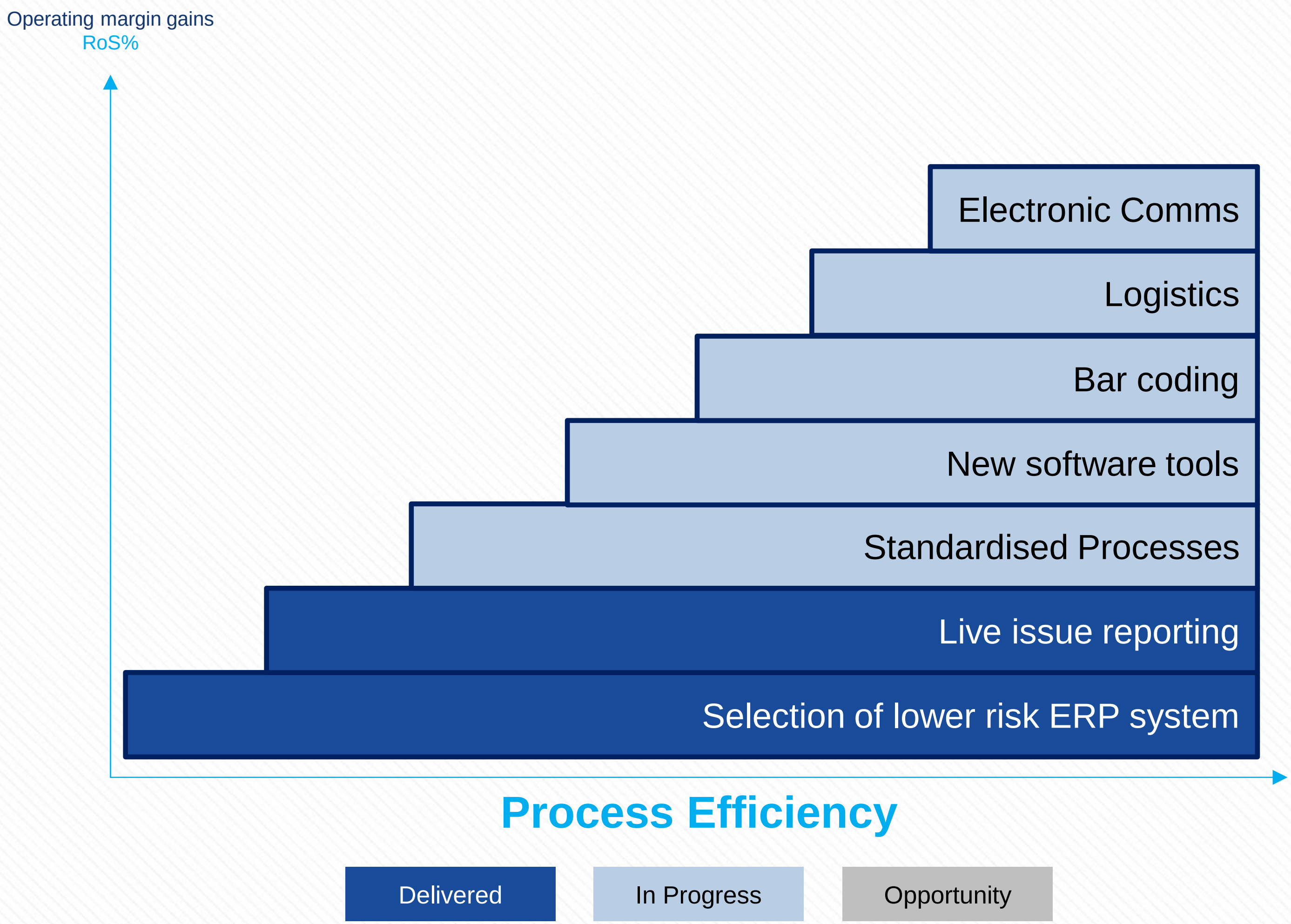
- Heat treatment a core Renold competency – upgrading furnaces

- Investment in fast, flexible and modern equipment
- Machine retirement and upgrade programme accelerating

- Transitional labour costs being worked down during the second half

Process Efficiency

Selection of lower risk ERP system to enable major savings over time



- Electronic communication with customers

- Reviewing provision of inbound and outbound logistics
- Pilot project being developed in Morristown facility

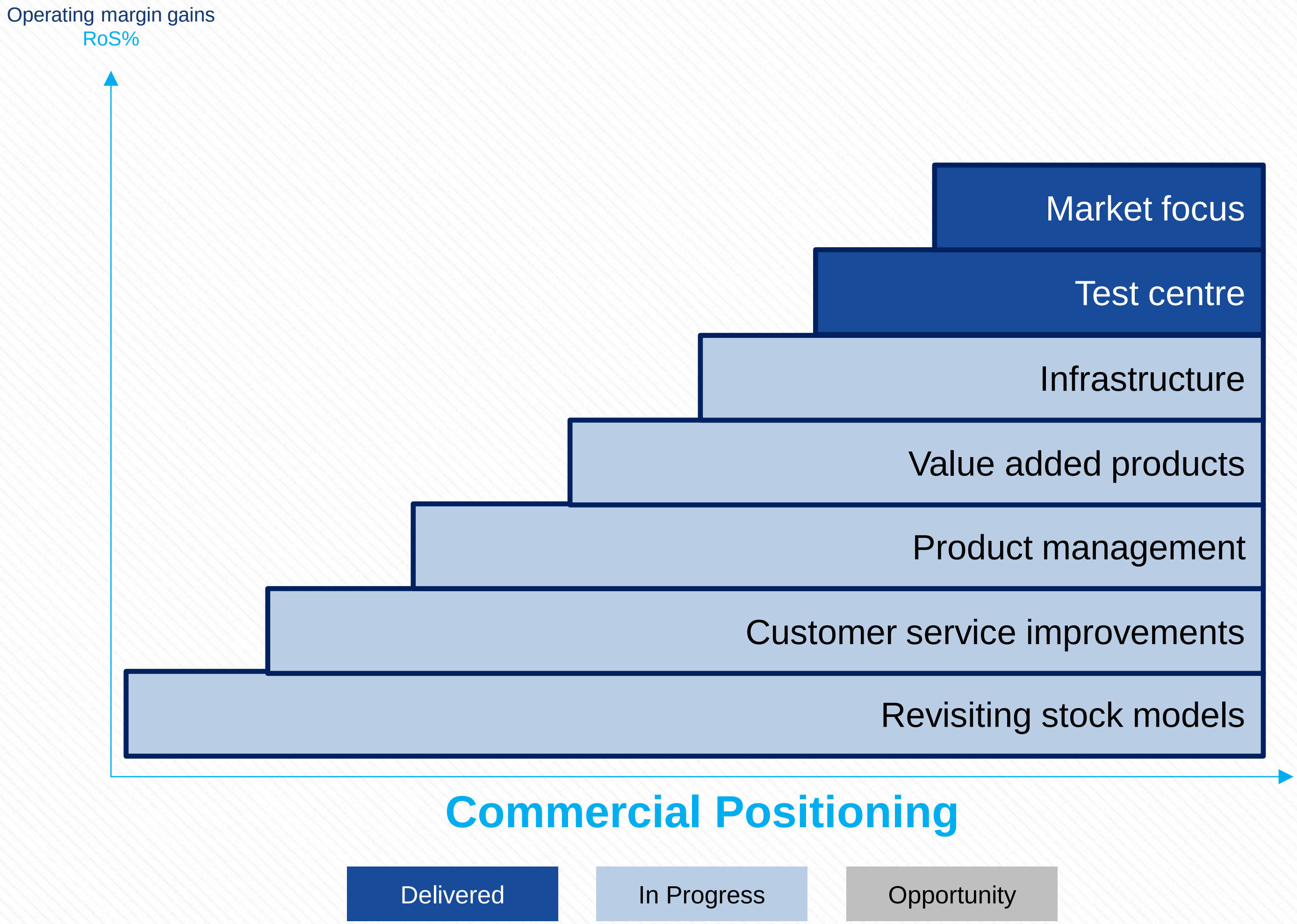
- Developing internal rapid response tools on product design and quotations

- Reduced complexity in quotation process leads to faster response times
- Live reporting processes accelerate issue identification and resolution

- New lower risk system selected at no extra cost or time to complete

Commercial Positioning

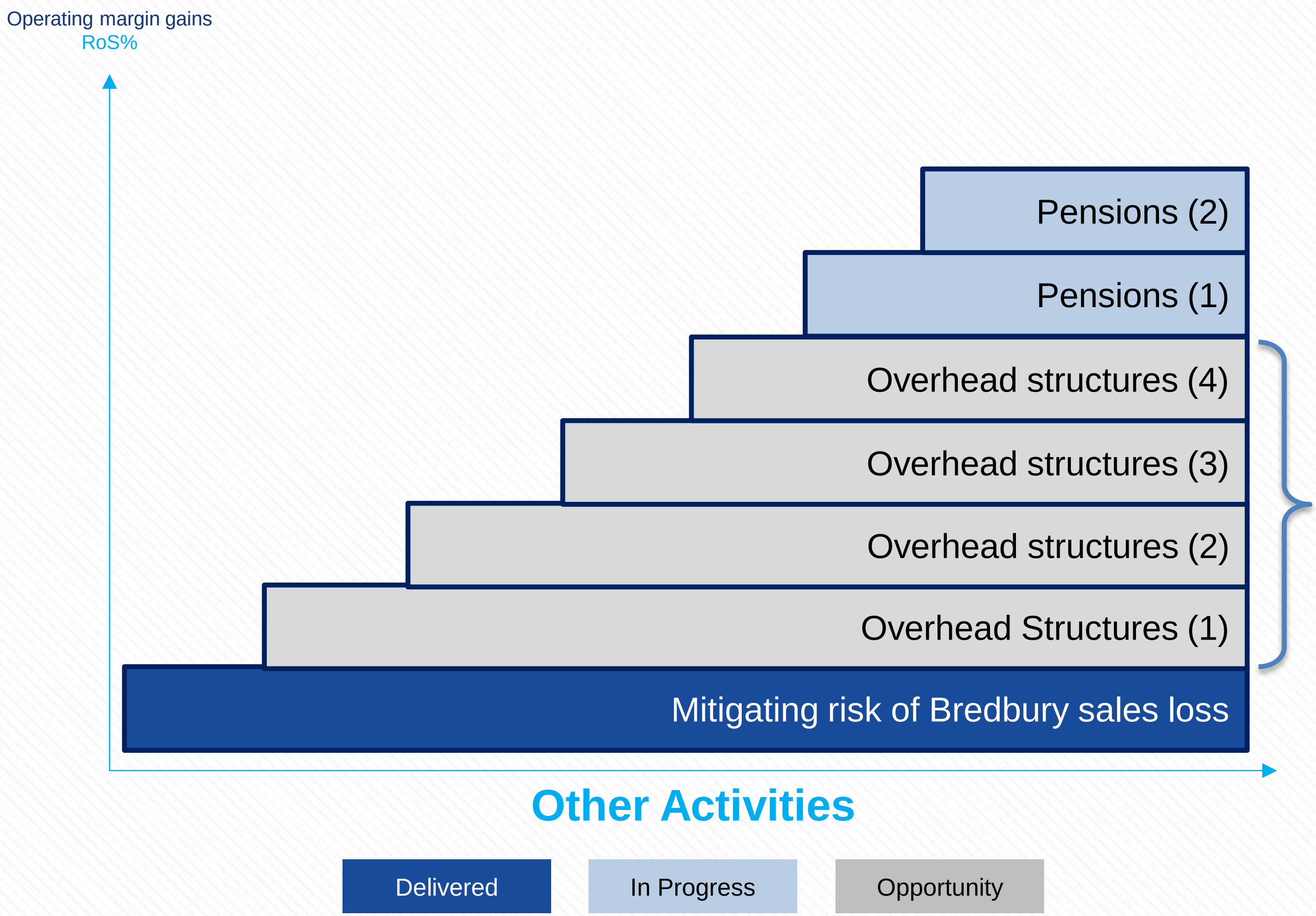
First building blocks being put into place



- New commercial structure established in TT division to improve sales focus
- New broad range test centre established to support product positioning
- Separating Chain and TT focus where market size meets critical mass
- Improving margins on key products
- Product management structure being built
- Service centre model being developed for other territories
- Reviewing stock models to support sales growth by reducing lead times

Other Activities

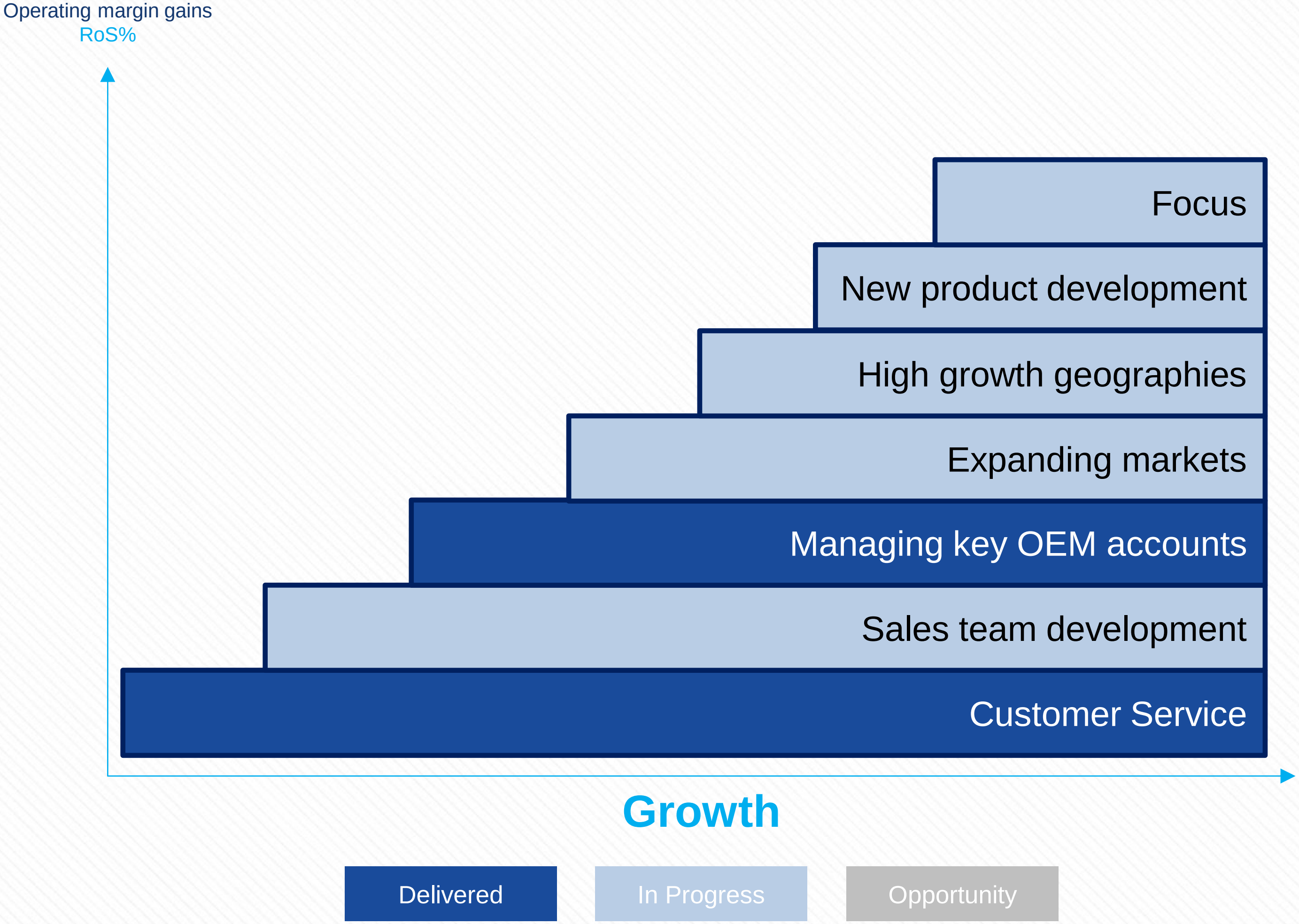
Opportunities to reduce overheads remain



- In discussions with one workforce re closure to future accrual
- Reviewing status of open defined benefit pension plans
- Continuing review of opportunities to reduce footprint overheads
- Seeking to reduce "over renting" as leases expire
- Transitional arrangements largely avoided sales losses to date

Preparing for the Growth Phase

Some preparatory actions already in delivery phase



- Developing clarity over target markets and products
- New products in testing for newly identified commercial opportunities
- New infrastructure in high growth territories
- New certification achieved, allowing local access to a key industry sector
- Exploiting new partnering opportunities with key customers
- Expanding, simplifying and developing global sales teams
- Opened customer service offices in Benelux and Nordics

Outlook

Self help continues while preparing to deliver organic growth

- **Market conditions around the globe remain mixed**
  - Europe and Americas growing, most European territories marginally ahead of prior year
  - India and South East Asia encouraging growth
  - Australia remains difficult with subdued domestic mining sector
- **Manufacturing efficiency**
  - Recipient sites of Bredbury production already identifying opportunities for incremental efficiencies
  - First capital investment delivering Bredbury Phase 2 benefits already underway
- **Contribution margin gains**
  - Improved mix and value generation from excellent product base to continue
- **Preparations for the Organic Growth phase of our Strategic Plan**
  - Building on the foundations already being laid
  - Revenue expenditure to increase in support of further preparations for organic growth
- **Operational cash flow to continue to improve, supporting ramp up in investment**

Focus remains on delivering steady, continuous improvement in EPS

Thank You.

Q&A

Appendix

Group Balance Sheet

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Significant tangible assets supporting the balance sheet

	30 September 2014 £'m	30 September 2013 £'m
Goodwill	20.1	20.3
Fixed assets	46.0	46.1
Deferred tax	19.1	17.5
Inventories	38.1	38.3
Receivables	29.0	29.7
Payables	(36.2)	(36.1)
Net working capital	**30.9**	**31.9**
Net Borrowings	**(24.4)**	**(22.0)**
Provisions	(6.0)	(1.4)
Retirement benefit obligations	(68.6)	(65.3)
Other	(0.2)	0.4
Net assets	**16.9**	**27.5**
Leverage[1] ratio	**1.3x**	**1.6x**

Increase reflects movement in pension deficit

Small H1 reduction, PY benefit of SA pension surplus

Provision for Bredbury onerous lease £5.2m

- Leverage ratio reduced to 1.3x in September 2014, to reduce interest rate by 25bps
- Reduction in net assets following closure of Bredbury plant in H2 of prior year

(1) Leverage ratio defined as Net debt / Adjusted EBITDA

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