RENOLD

Interim results

Half year ended 30 September 2018

Robert Purcell CEO

Ian Scapens CFO

14 November 2018

Key Themes

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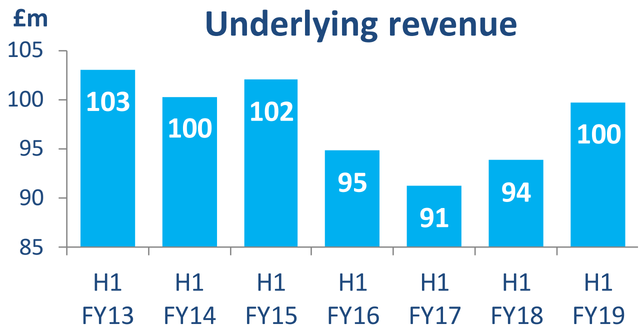
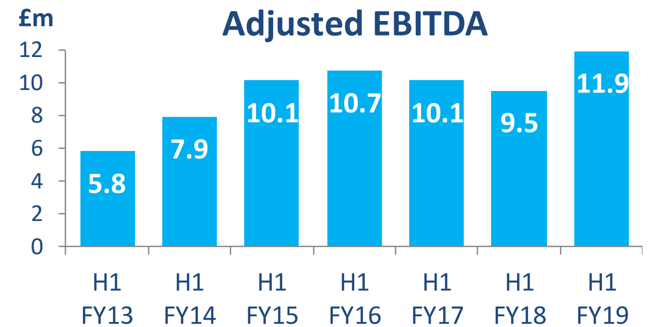
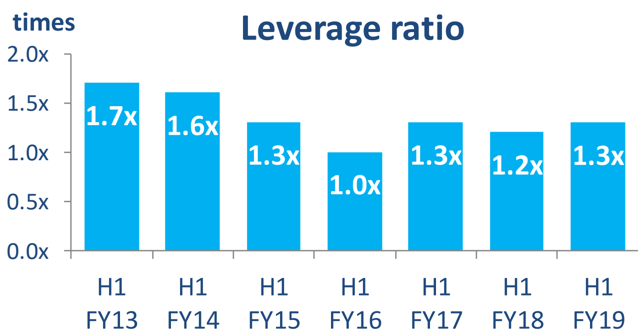
Short-term issues resolved; profitability improved in Chain division







- Underlying* adjusted* operating profit up by 36.7% to £8.2m
- Short term challenges overcome
- Strategic actions improving business performance

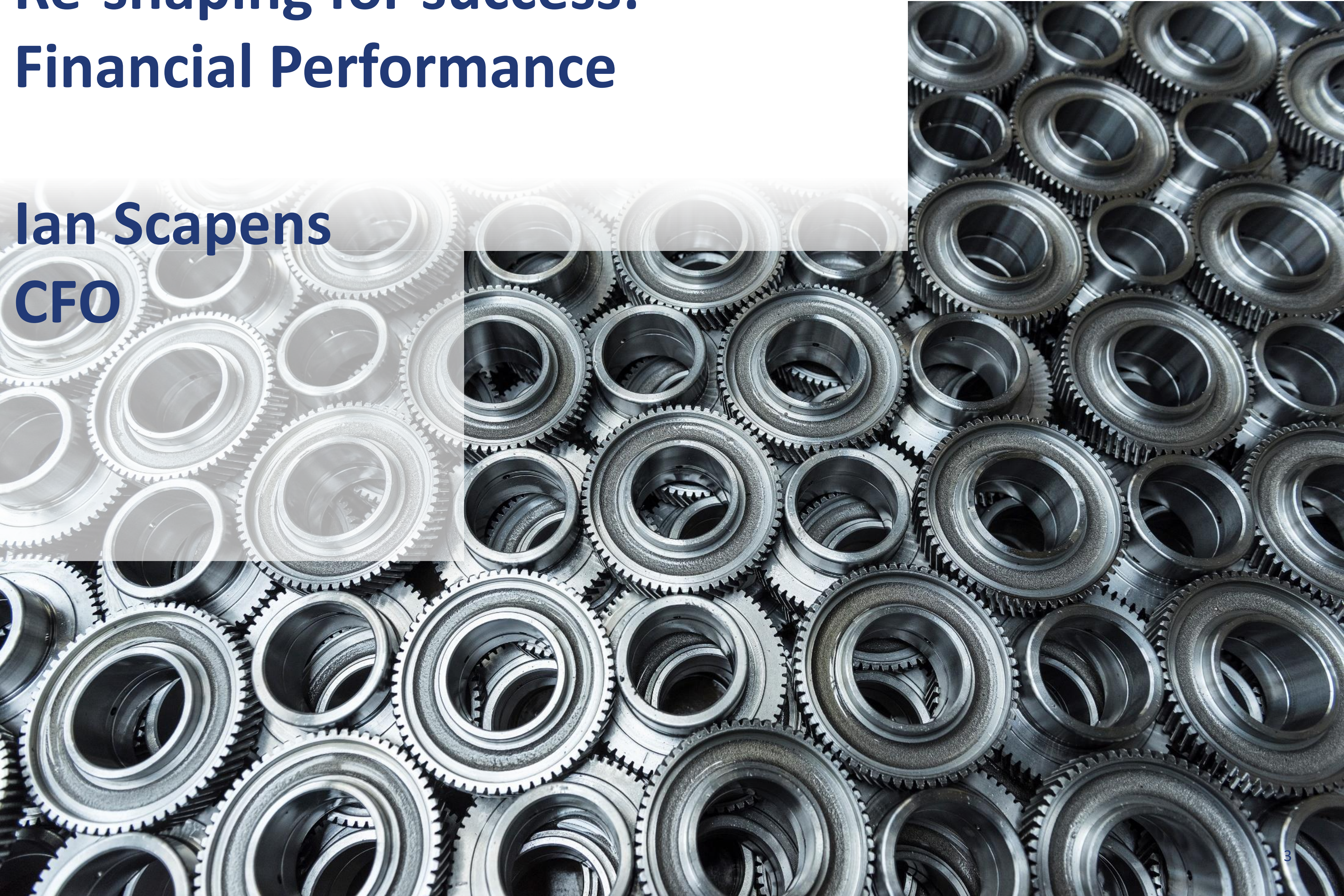
- Underlying revenue growth of 6.3%
- Strong order intake with orders 3.4% ahead of revenue

- Adjusted EBITDA at highest levels since strategic plan commenced
- Adjusted return on sales of 8.2% recovering towards previous highs

- Good progress on relocation of Chinese chain manufacturing facility
- Build programme complete; phased transfer underway

*Throughout this document, 'Underlying' means after eliminating the impact of movements in foreign exchange rates. 'Adjusted' excludes restructuring costs, pension costs, amortisation of acquired intangible assets, impairment of goodwill and any associated tax thereon.

Re-shaping for success: Financial Performance



Ian Scapens
CFO

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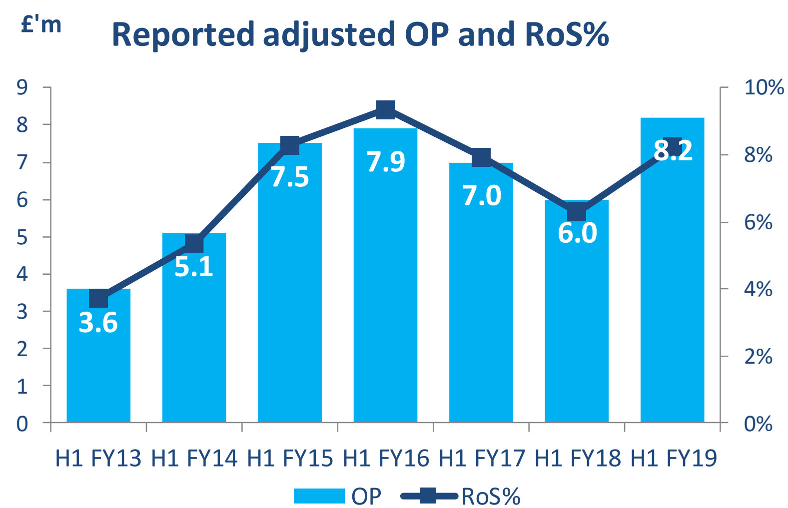
Improving revenue; improving profit; short-term issues addressed

	2019 Interim £m	2018 Interim £m	Var £m
Revenue as reported	**99.7**	95.4	
Impact of FX	**-**	(1.6)	
Underlying revenue	**99.7**	**93.8**	**5.9**
Reported adjusted operating profit	**8.2**	6.0	
Impact of FX	**-**	-	
Underlying adjusted operating profit	**8.2**	**6.0**	**2.2**
Underlying Return on Sales %	***8.2***	*6.4*	
Restructuring costs	**(1.0)**	(0.6)	(0.4)
Profit before tax	**4.1**	2.4	1.7
Adjusted EPS	**2.6p**	**1.8p**	**0.8p**

- Underlying revenue up 6.3%
- Reported revenue increased by 4.5%
- Underlying adjusted operating profit up 36.7% to £8.2m
  - Improved and stable factory output
  - Sales prices recovering raw material cost increase
  - Growth in North American markets
- Operating margins increased to 8.2%



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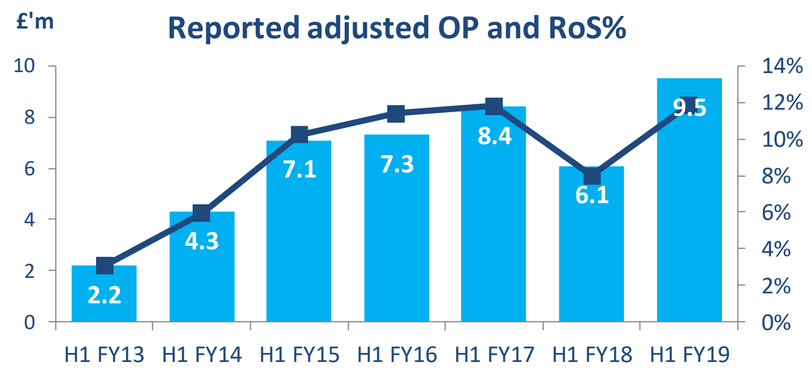
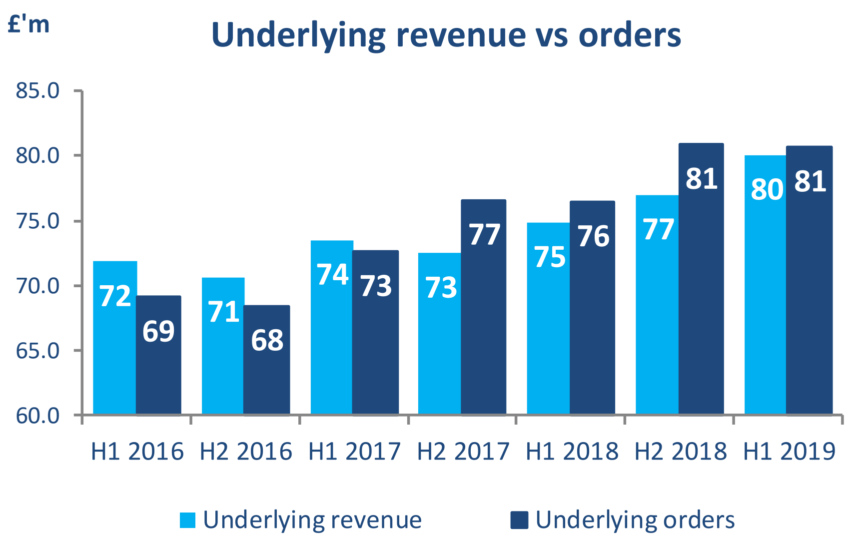
Significant step forward; adjusted operating margins at highest level under strategic plan

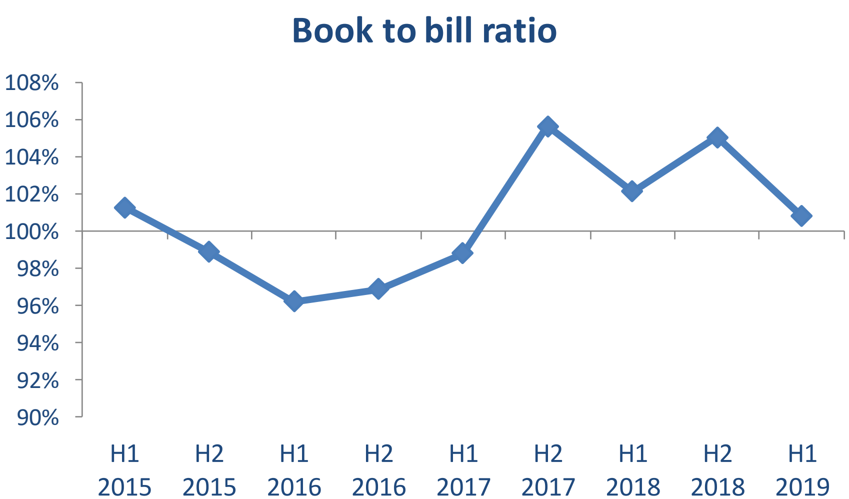
	2019 Interim £m	2018 Interim £m	Var %
Underlying revenue	**80.0**	74.9	6.8%
Underlying adjusted operating profit	**9.5**	6.1	55.7%
Underlying Return on Sales %	***11.9***	*8.1*	



- Underlying revenue 6.8% ahead of prior year
  - Growth comprises pricing and volume
- Growth well spread across Chain regions
  - Europe growing; largely pricing; volumes stable
  - Americas demonstrating improvement as strong orders convert to revenue
  - India and China continue progress in their domestic markets
  - Australasia continues to lag with revenue falls in South East Asia markets
- Raw material costs stable in most markets
  - US increases following introduction of tariffs
- Improved operating margin despite cost increases from German union and legislative changes
- Return on sales recovered and surpassing previous years

Order intake consistent with strong H2 2018 levels

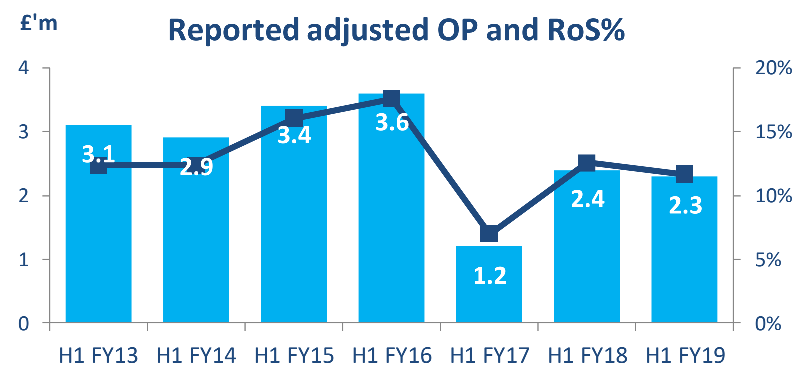




- Order intake remains strong at £81m for H1
  - H2 2018 order intake strengthened by seasonal orders and large projects, particularly in the US
  - H1 2019 order intake consistent with strong H2 2018 levels
- Orders were ahead of revenue for the period with a book to bill ratio of 101%
- Book to bill particularly strong in Australasia at 115% following weaker revenue in H1
- Strong order book and stable order intake points to continued momentum in H2

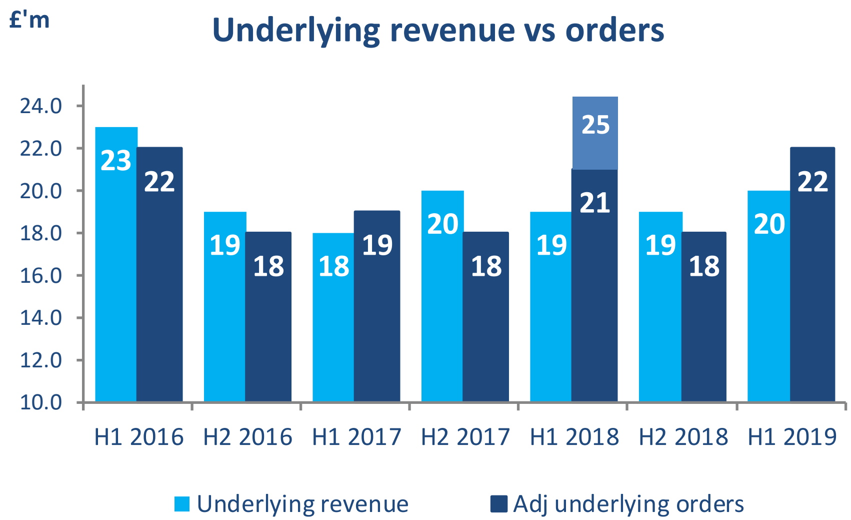
Phasing of multi-year Couplings order offset by US growth

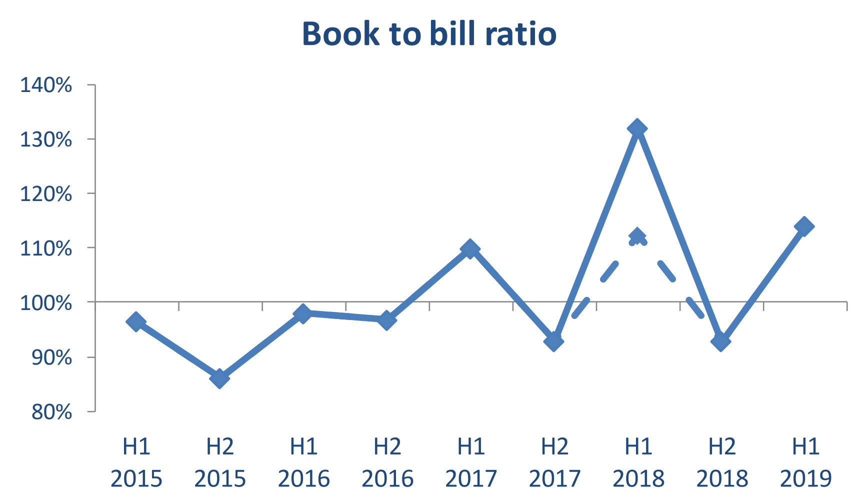
	2019 Interim £m	2018 Interim £m	Var %
Underlying revenue	**19.7**	18.9	4.2%
Underlying adjusted operating profit	**2.3**	2.4	(4.2%)
Underlying Return on Sales %	***11.7***	*12.7*	



- As expected, TT performance was more stable
  - Phasing of large multi-year Couplings order generates lower revenue in FY19
  - Subdued order intake in H2 of prior year for Gears has been reflected in revenue, but order intake improving
  - Growth in US revenue from strong order intake in H2 of prior year
- Operating margins of 11.7%
- Business growth mix resulting in margin drag

Strong order intake in most business units





Charts adjusted to show impact on orders of the large multi-year project for UK Couplings

- Strong order intake in US includes improving order flow in key markets – steel mills, large capital goods, mass transit
- Order intake showing some improvement for Gears following subdued market conditions over last couple of years
- Orders were significantly ahead of revenue with a book to bill ratio of 114% for H1
- Division positioned for growth in H2

Net cash outflow; investment continues

	2019 Interim £m	2018 Interim £m	Var £m
Adjusted EBITDA	**11.9**	**9.5**	**2.4**
Movement in working capital	**(5.8)**	(2.3)	
Pensions cash costs	**(2.6)**	(3.0)	
Restructuring spend	**(1.5)**	(1.7)	
Taxes and other	**(1.2)**	(3.4)	
Other operating cashflows	**-**	(0.7)	
Net cash from operating activities	**0.8**	**(1.6)**	**2.4**
Acquisition consideration	**-**	(0.5)	
Property disposal proceeds	**-**	0.5	
Investing activities	**(5.8)**	(6.4)	
Financing costs paid	**(1.1)**	(0.7)	
Other movements / FX	**(0.6)**	0.1	
Change in net debt	**(6.7)**	**(8.6)**	**1.9**
Opening net debt	**(24.3)**	(17.4)	
Closing net debt	**(31.0)**	**(26.0)**	**(5.0)**

- EBITDA increased, reflecting improved profitability
- Increased working capital as inventories increased
  - Increased raw material prices
  - WIP increasing with factory output
  - Greater holding of core product ranges
  - Higher raw material holdings in certain markets
- Restructuring spend includes:
  - Initial stages of China factory move
  - Costs of Bredbury onerous lease
  - Other restructuring initiatives
- Cash tax of £1.2m
  - Return to normalised levels in FY19 following increases in FY18
- Largest element of capex relates to investment in China
  - Prior period capex included land purchase for China factory

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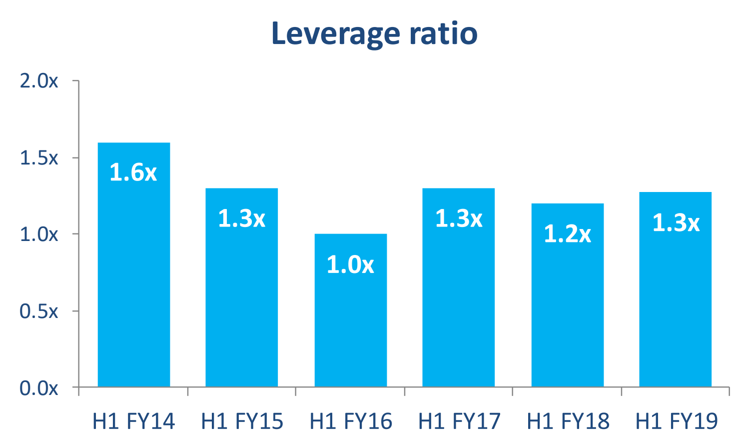
Leverage remains low despite continued investment

	2019 Interim £m	2018 Interim £m	Var £m
Goodwill	**22.9**	24.7	(1.8)
Intangible assets	**7.5**	9.1	(1.6)
Fixed assets	**51.2**	48.2	3.0
Deferred tax	**15.6**	20.3	(4.7)
Inventories	**46.4**	40.7	5.7
Receivables	**40.7**	38.1	2.6
Payables	**(43.0)**	(41.0)	(2.0)
Net working capital	**44.1**	**37.8**	**6.3**
Net debt	**(31.0)**	(26.0)	(5.0)
Provisions	**(7.4)**	(6.0)	(1.4)
Retirement benefit obligations	**(94.7)**	(100.9)	6.2
Current tax liability	**(1.0)**	(1.3)	0.3
Other	**(0.1)**	(0.2)	0.1
Net assets	**7.1**	**5.7**	**1.4**
Leverage[(1)] ratio	**1.3x**	**1.2x**	

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

- Fixed assets increase as investment continues
- Working capital increase from higher levels of inventory
- Increase in receivables reflects higher levels of trading through second quarter
- Leverage of 1.3x compared to 2.5x covenant
  - Leverage remains low despite continuing investment



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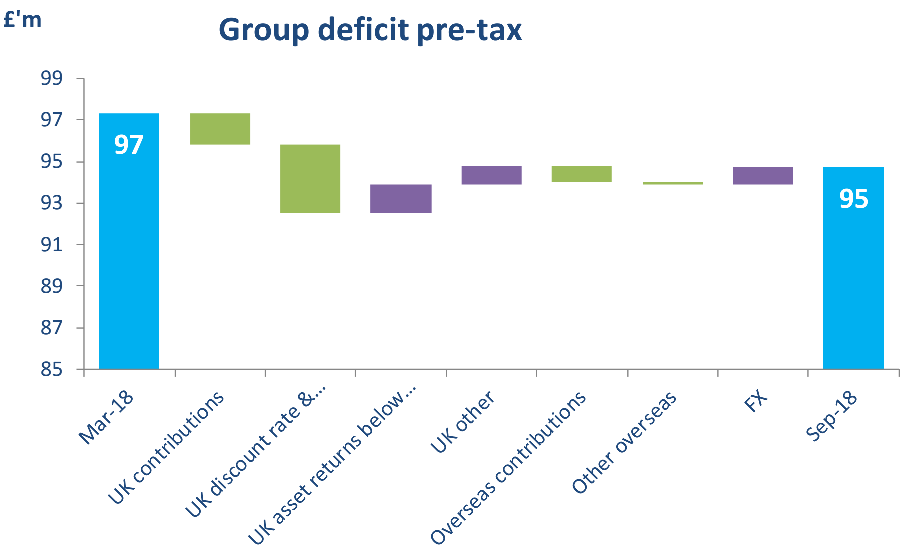
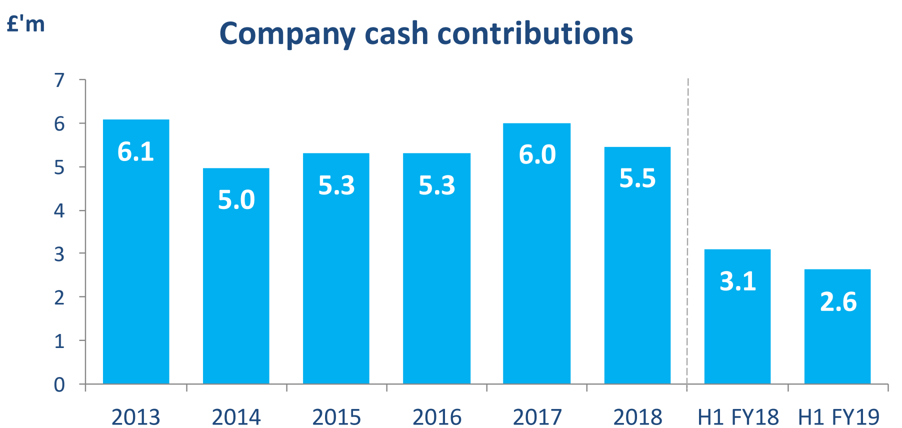
Cash costs remain stable; deficit reducing as discount rates start to increase



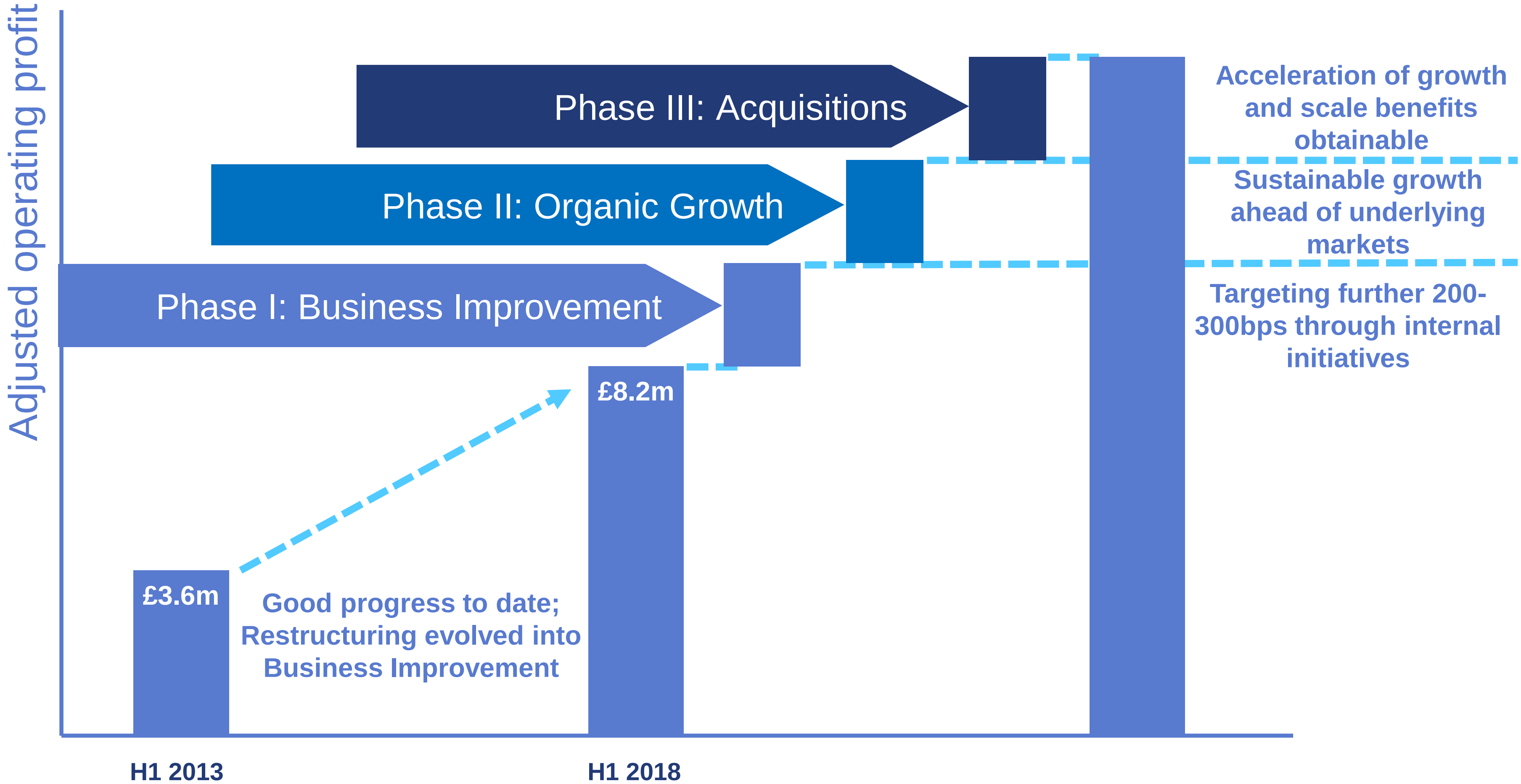


- Greater stability than in previous few years
- Contributions and small increases in discount rate starting the journey to lower deficits
- UK deficit decreased from £69.6m to £67.1m
- Overseas schemes deficit broadly stable at £27.6m
  - £0.8m of deficit reduction offset by £0.6m adverse FX movements
- Deficit remains subject to movement in discount rates
  - 0.25% increase in rate reduces liabilities by c.£8.5m
- Cash costs remain stable and predictable

Re-shaping for success: Next Steps

Robert Purcell
CEO

Strategy unchanged; underlying business is improving



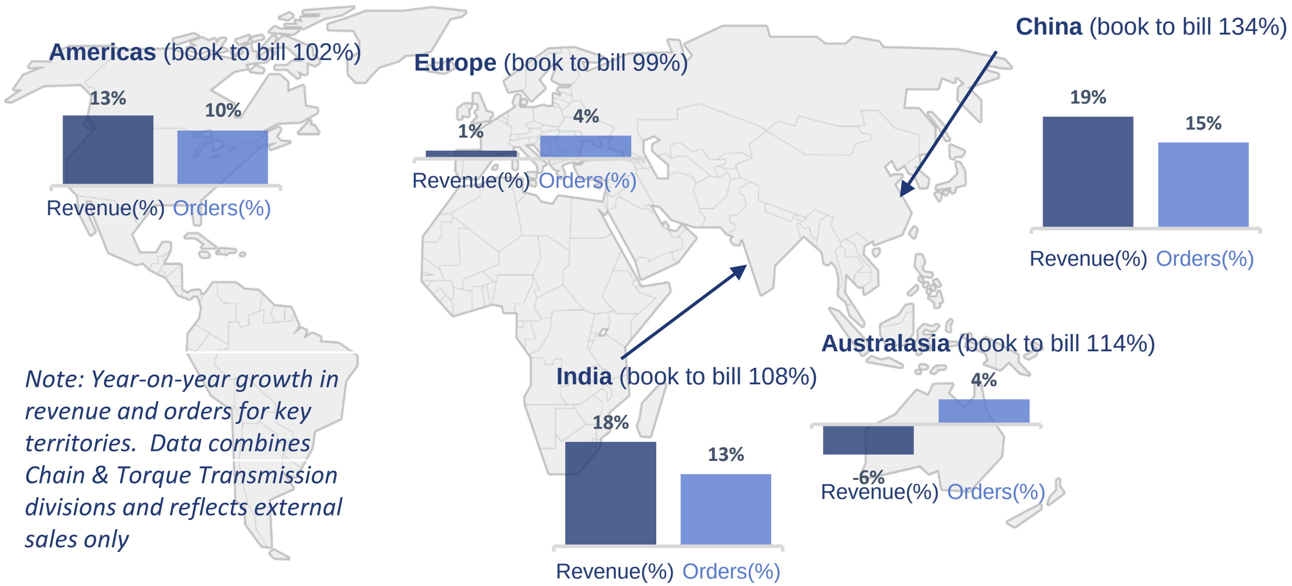
Double-digit margins to be delivered through internal initiatives; mid-teen margins achievable with sustainable organic and M&A growth

Future margin enhancement from underlying business improvement – net 200-300 bps

	Business improvement opportunity	Phasing
Business systems infrastructure	• Existing multiple systems causing inefficient transactions and excess cost • Multi-year project well underway • Includes ancillary systems in addition to ERP	• Roll-out will run to 2021 • Benefits back-end loaded
Capital investment	• Historically underinvested factories • Opportunities to develop new processes and new technologies • Investment to deliver scale efficiencies	• Current levels of capex to continue • Benefits accrue as equipment introduced
Product positioning	• Gain value for high specification premium products • Service enhancement • Improve brand proposition/positioning	• Progressive benefit • Delivered as products are positioned over time
Product standardisation	• Extensive product lines developed over many years • Standardisation of products and components to deliver efficiency	• Supported by capital investment programme • Phased as manufacturing processes are aligned

- 200-300bps objective is a net benefit; overall benefits from business improvement reduced by reinvestment into product development and growth initiatives

Underlying revenue growth of 6.3% in H1; book to bill of 103%

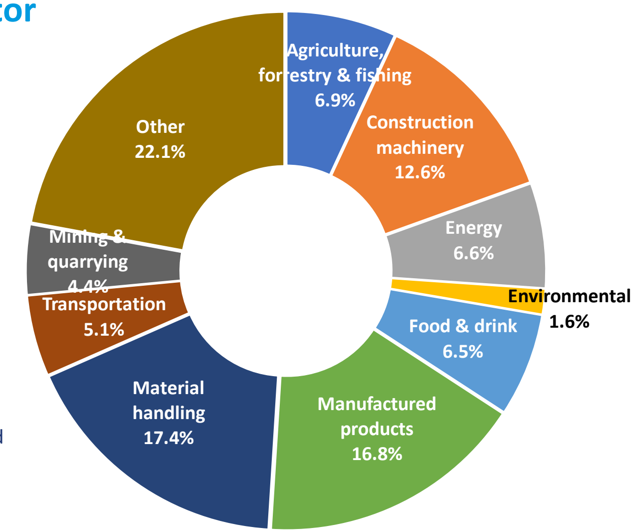


Note: Year-on-year growth in revenue and orders for key territories. Data combines Chain & Torque Transmission divisions and reflects external sales only

Renold Chain market share

Global number 2 in industrial chain market with less than 10% market share

Revenue by sector (FY18 data)



Data represents 57% of Renold's revenue as the remaining 43% 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

- Organic growth being delivered across Renold's global network
- End use markets are highly diversified with limited customer concentration
- Renold is global number 2 in industrial chain, with market highly fragmented
- Continuing opportunity to win market share through brand, product quality and range

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Future growth being targeted using key Renold strengths, delivering GDP+ over the cycle

Growing share in established markets

- Improved customer service – inventory availability; on time delivery; lead times
- New product development/product evolution
- Better commercial execution

Growing presence in attractive market sectors

- Benefits of Renold's brand, product quality and specification to generate value for customers
- Segments where growth drivers are favourable
- Local presence in high growth territories

Leveraging global footprint

- Leveraging relationships with major customers internationally
- Effective cross selling of products across territories
- Shared best practice and marketing opportunities

- Broad global reach servicing both developing markets and more mature markets
- Fragmented nature of market permits market share gains
- Diverse end-markets servicing OEM, maintenance and capital projects
- Opportunity to grow at GDP+ over the cycle

Create scale and provides the opportunity for operational gearing and acceleration of commercial strategy

- Acquisitions are a core part of the growth strategy
- Renold is well placed to lead consolidation
- Considering moving the Group's stock exchange listing to AIM to create greater flexibility and certainty to support future acquisitions

Renold Transaction Types

Product or sector

- Expand presence into products, niches or sectors
    - Additional volume for acquired facility generated from incremental growth using Renold's international network

Geography

- Fill gaps in geographical footprint
    - Additional volume through Renold facilities from sales of existing products into target's customer network

Consolidation

- Recent investment in capacity and capability creates scope for fold in acquisitions
    - Additional volume through fewer manufacturing facilities creating economies of scale

Short term issues resolved; revenue growth being delivered

- Strategy remains the correct route to sustainable business improvement and stronger margins and is progressing well
- Underlying revenue growth of 6.3% being delivered
- Benefits of strategic actions resulting in improved profitability
  - Chain division operating margin of 11.9% despite labour cost headwinds in Germany
- Issues encountered in the first half of prior year resolved
  - Raw material cost increases being passed on demonstrating Renold's value-added proposition
  - Factory output in Germany improved
  - Higher inventories of core product lines supporting customer service improvement
- Order intake remains strong (book to bill of 103%) with robust order books heading into H2

Continuing momentum into the second half
Strategic progress being delivered

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Thank you
Q&A

Appendices

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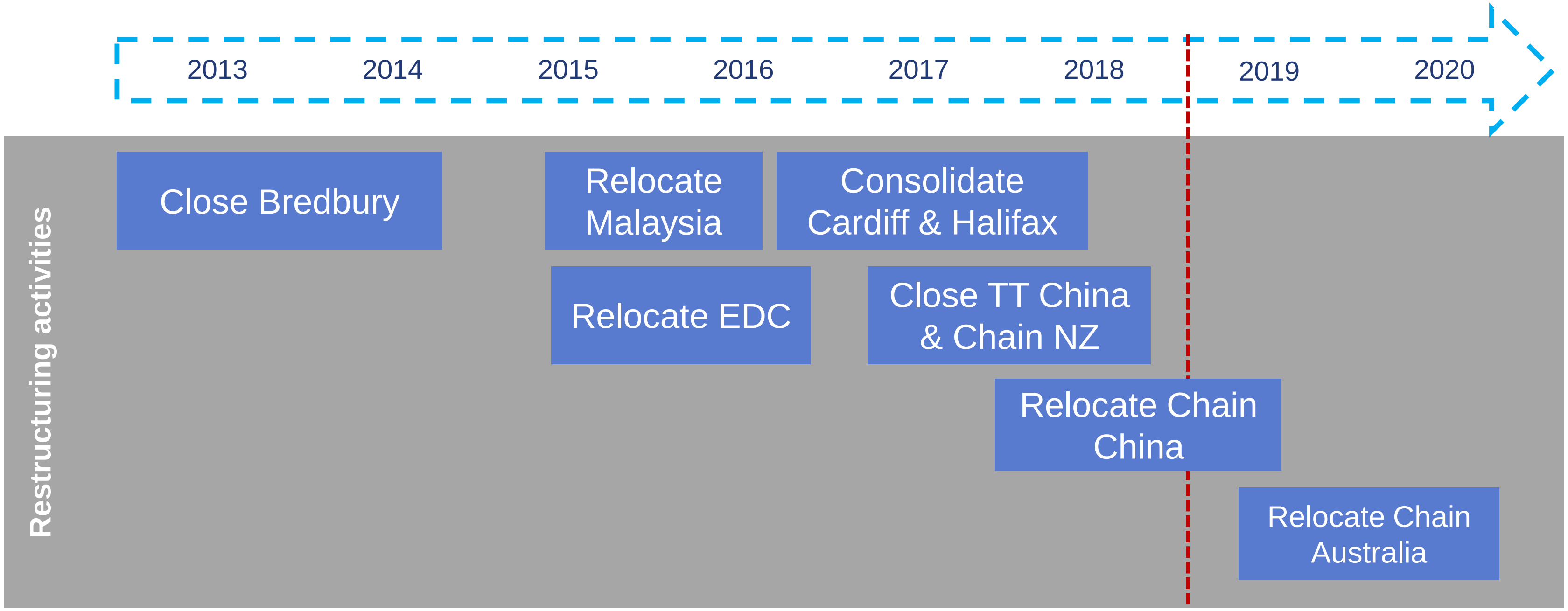
Restructuring well progressed; China factory move is last major change



Change programme

- Major elements of the restructuring programme have been completed
- China factory move is underway
- Last remaining relocation is a smaller move of the Australian factory following sale of site in FY17

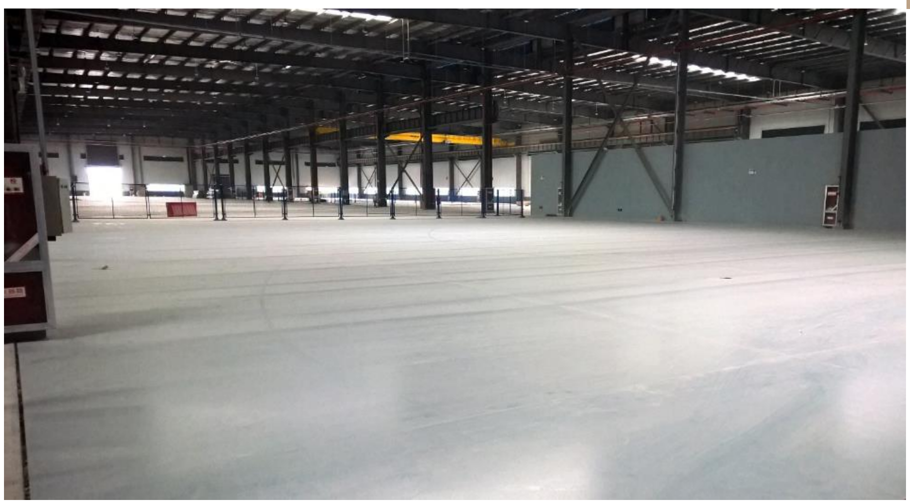
Result

- Chain manufacturing presence in all major regions
- Chain facilities now capable of process improvement and suitable for investment
- Consolidated Torque Transmission facilities which permit investment

China factory move well progressed; will be complete by March 2019

Progress to date

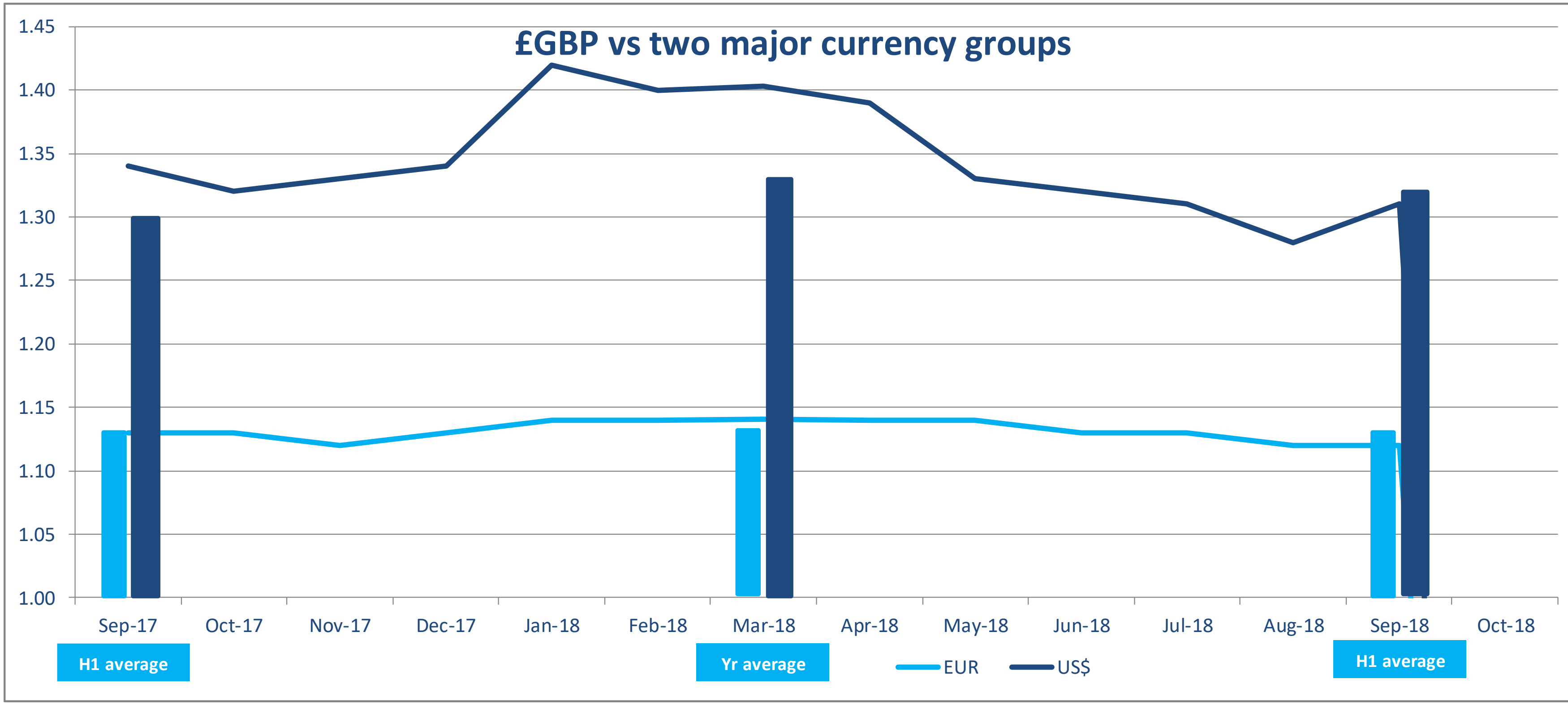
- Factory build and fit-out largely complete
- Finished goods warehouse and distribution activities being transferred to new location
- Transfer of manufacturing processes phased and will be complete by March 2019
- New location operating on Group's standard ERP and ancillary systems



Benefits

- New facility that permits investment in manufacturing technology
- Creates additional capacity to support the Group's international markets, to target growing Chinese chain market and support in-sourcing from acquisitions
- New systems and processes create the building blocks for improved efficiency

Significant movement in US$ rate; but average stable



- Sales denominated in US$ represent 33% of the group total, and in Euro's 31%
- Illustratively, reported sales for the period of £99.7m would have been approximately £0.4m higher at September 2018 closing rates. Impact on operating profit is minimal