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Interim results

Half year ended 30 September 2019

Robert Purcell CEO
Ian Scapens CFO

13 November 2019

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Financial highlights (from continuing operations)

- Underlying* revenue down 2.6%
- Underlying adjusted* operating profit up to £7.7m (2018: £7.5m)
- Underlying* adjusted operating margin improved to 7.8% (7.4%)
- Adjusted* EPS of 1.5p – after deduction of pension related costs
- Net debt to adjusted EBITDA of 1.4x (2018: 1.4x)

Other highlights

- Impact of market conditions being offset by improved efficiency
- New factory in China continuing to make progress and expecting accelerating performance in the second half
- Disposal of loss making South African Torque Transmission business unit to management
- Share buy-back to buy-out JV partner's share of Indian Chain business

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

Re-shaping for success: Financial Performance

Ian Scapens
CFO

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Challenging macro environment; operational efficiency delivering improving return on sales

(from continuing operations)	2020 Interim £m	2019 Interim (restated) £m	Var £m	Var %
Reported revenue	**98.2**	98.2		
Impact of FX	**-**	2.6		
Underlying revenue	**98.2**	**100.8**	**(2.6)**	**-2.6%**
Reported adjusted operating profit	**7.7**	7.4		
Impact of FX	**-**	0.1		
Underlying adjusted operating profit	**7.7**	**7.5**	**0.2**	**+2.7%**
Underlying adjusted return on sales %	***7.8***	*7.4*		
Adjusted profit before tax	**4.9**	5.1	(0.2)	-3.9%
Adjusted EPS	**1.5p**	**1.6p**	**(0.1p)**	**-6.3%**

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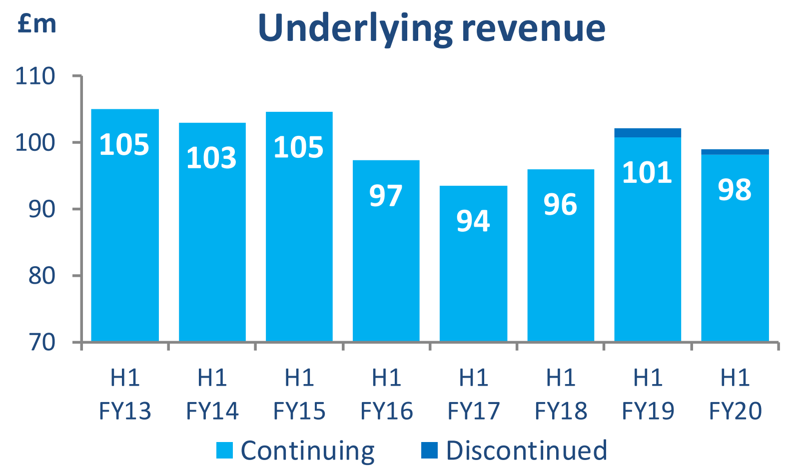

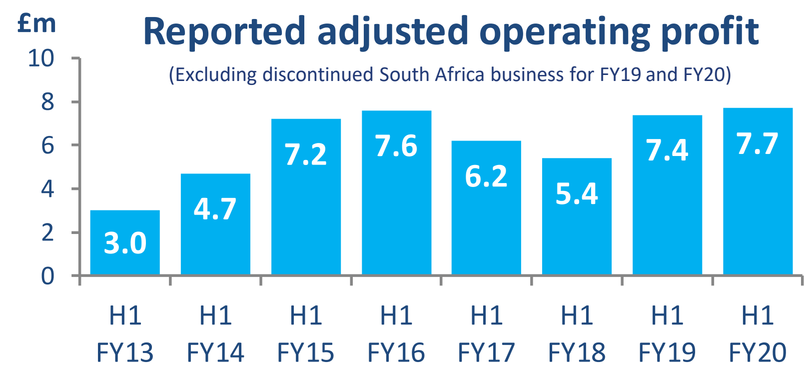

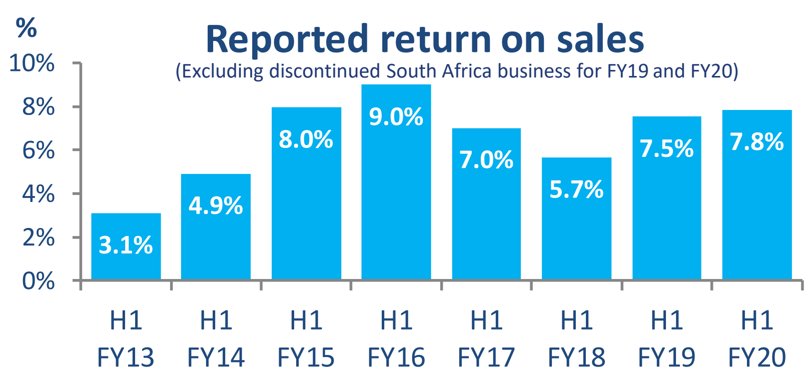

Adjusted operating profit stable, despite weaker market conditions

- 2.6% decline in underlying revenue from continuing operations
- Revenue from South African discontinued operations not significant
- Revenue declines in H1 are within Chain division

- Adjusted operating profit stable
- Cost control and operational efficiencies being delivered

- Improved return on sales despite lower revenue
- Benefits from strategic investment in capital and service delivery

Group Profit After Tax

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	2020 Interim £m	2019 Interim (restated) £m	Var £m
Adjusted operating profit	**7.7**	**7.4**	**0.3**
Restructuring costs	**(0.9)**	(1.0)	0.1
Amortisation of acquired intangible assets	**(0.5)**	(0.5)	-
Reported operating profit	**6.3**	**5.9**	**0.4**
Pension scheme financing charges	**(1.1)**	(1.2)	0.1
External financing charges	**(1.4)**	(1.1)	(0.3)
Interest on leases	**(0.3)**	-	(0.3)
Profit before tax	**3.5**	**3.6**	**(0.1)**
Taxation	**(1.2)**	(1.4)	0.2
Discontinued operations	**(1.5)**	(0.1)	(1.4)
Profit after tax	**0.8**	**2.1**	**(1.3)**

- Restructuring costs include:
  - Costs relating to headcount reductions and restructuring
  - Costs of investigating accounting misstatements
- Pension costs
  - Admin costs now deducted in adjusted operating profit
  - Pension financing charges deducted in adjusted profit before tax
- Discontinued operations is the South African Torque Transmission business unit; including
  - YTD adjusted operating losses of £0.3m
  - Disposal costs of £1.2m; mainly non-cash asset write downs
- Tax charge remains stable
  - 28.6% effective tax rate of adjusted PBT
  - Effective rate higher than historically presented as pension admin and interest costs deducted in adjusted PBT

Summary Group Cash Flow Statement

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	2020 Interim £m	2019 Interim (restated) £m	Var £m
Adjusted continuing EBITDA	**12.8**	**11.1**	**1.7**
Loss from discontinued operations	**(0.3)**	(0.1)	
Movement in working capital	**(4.4)**	(5.7)	
Pensions cash costs	**(1.8)**	(2.3)	
Restructuring spend	**(0.9)**	(1.5)	
Taxes	**(1.4)**	(1.2)	
Other operating cashflows	**(0.1)**	-	
Net cash from operating activities	**3.9**	**0.3**	**3.6**
Investing activities	**(4.6)**	(5.8)	
Leasing - payment of principal	**(1.6)**	-	
Financing costs paid	**(1.6)**	(1.1)	
Other movements / FX	**-**	(0.6)	
Change in net debt	**(3.9)**	**(7.2)**	**3.3**
Opening net debt	**(30.3)**	(24.3)	
Closing net debt	**(34.2)**	**(31.5)**	**(2.7)**

- EBITDA increased
  - Largely impact of adopting leasing accounting standard
- Increased working capital reflects increased inventory supporting growth and customer service improvement
- Pensions - contributions to schemes stable
  - One-off recovery of German insurance asset reduces cash flow in the period
- Restructuring spend reduced
  - Costs associated with headcount reductions
  - Includes costs of investigating historical overstatement of profit
- Capex focused on plant and machinery
  - Investment to improve efficiency
- IAS 16 leases
  - Principal element of leasing costs shown separately
  - Financing costs include £0.3m of interest on leases

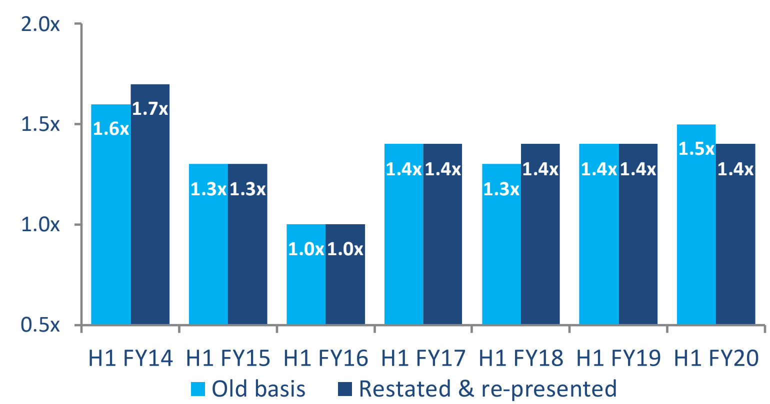
Summary Group Balance Sheet

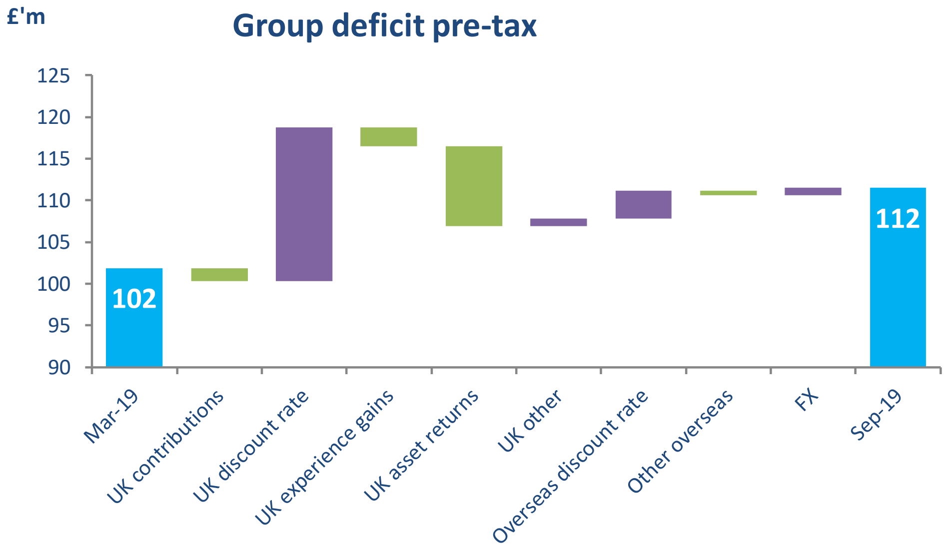
	2020 Interim £m	2019 Interim (restated) £m	Var £m
Goodwill	**24.3**	22.9	1.4
Intangible assets	**6.0**	7.5	(1.5)
Fixed assets	**57.0**	50.8	6.2
Right-of-use assets	**9.5**	-	9.5
Deferred tax	**16.9**	15.6	1.3
Inventories	**49.1**	46.2	2.9
Receivables	**37.1**	40.1	(3.0)
Payables	**(46.7)**	(43.4)	(3.3)
Net working capital	**39.5**	**42.9**	**(3.4)**
Net debt	**(34.2)**	(31.5)	(2.7)
Right-of-use liabilities	**(16.9)**	-	(16.9)
Provisions	**(0.2)**	(7.4)	7.2
Retirement benefit obligations	**(111.5)**	(94.7)	(16.8)
Current tax asset/(liability)	**0.5**	(1.0)	1.5
Other	**(0.5)**	(0.1)	(0.4)
Net assets	**(9.6)**	**5.0**	**(14.6)**
Leverage[1] ratio	**1.4x**	**1.4x**	

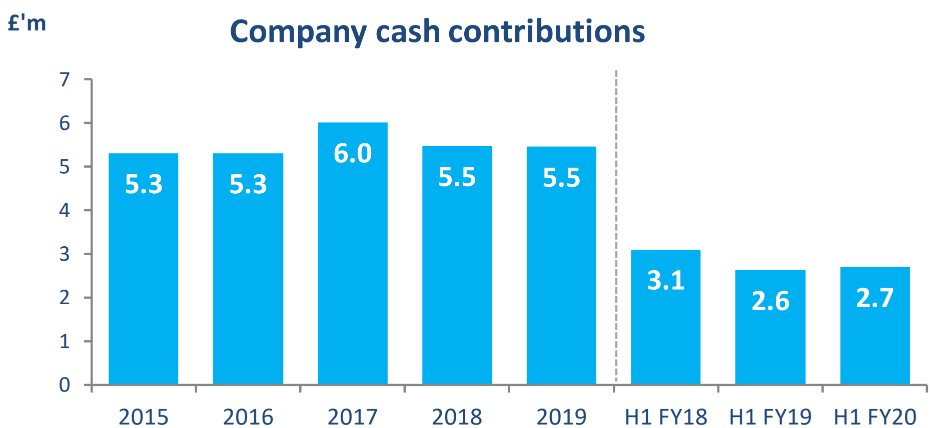
(1) Leverage is calculated as net debt / adjusted EBITDA

- Fixed assets increase includes investment in Chinese factory in second half of prior year
- Leasing standard introduces right of use assets and liabilities
  - Net impact on opening reserves of £4.5m from long-lease properties
- Net working capital broadly stable after adjusting for fx and capital creditors
- Leverage calculation changed for treatment of pension costs, restatement, leases etc
  - Chart shows old and new calculations
  - Leverage broadly constant at 1.4x

Leverage ratio







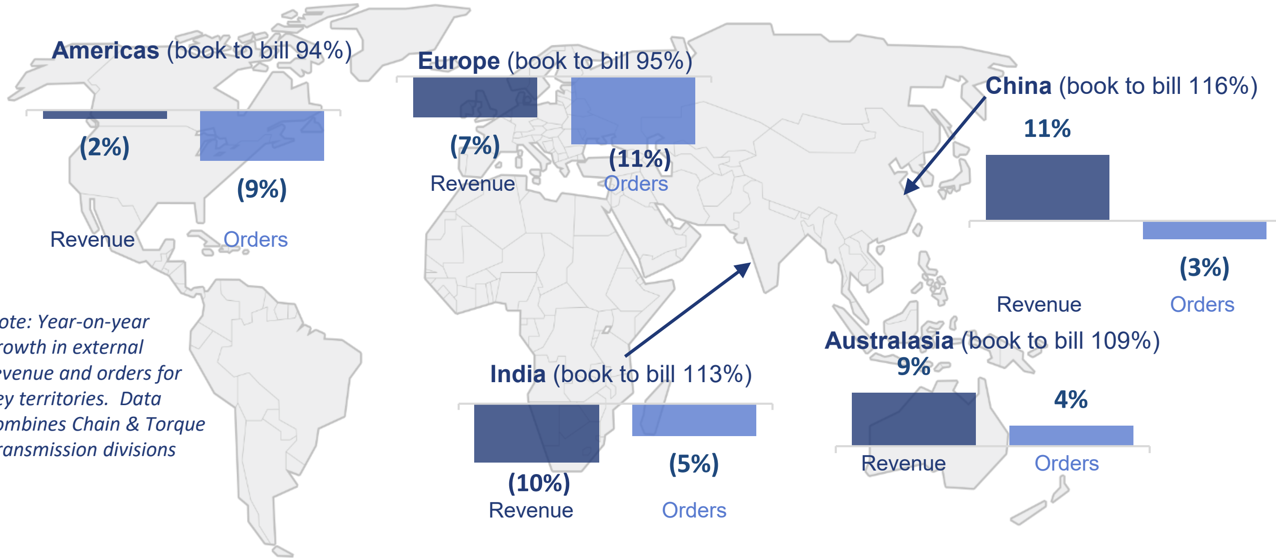
- Discount rates continue to fall
  - 1.8% at Sept vs 2.4% at March for UK scheme
  - Increases UK deficit by £18.5m
- Experience gains of £2.3m
  - Actual mortality greater than forecast
- Assets returns offset some of discount rate impact – partially hedged through LDI
- Overseas schemes impacted by discount rate and foreign exchange; deficit of £33.0m (March 2019: £29.3m)
- Cash costs remain stable and predictable

Discount rate reduction influencing deficit; experience gains continue; cash costs stable

Re-shaping for success: Next Steps

Robert Purcell
CEO

Revenue and orders by geography

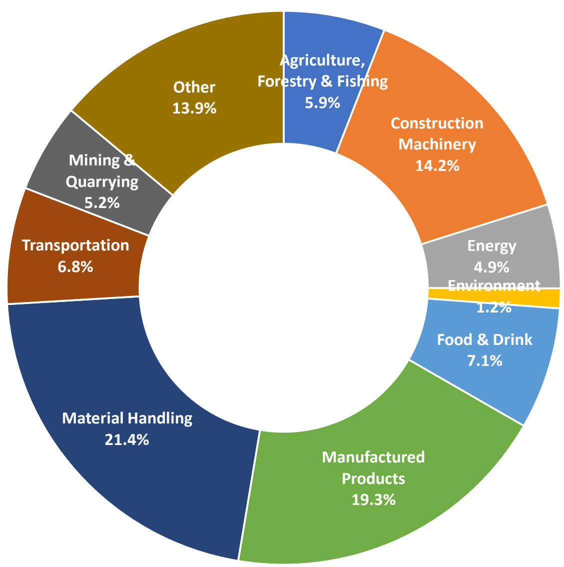


Note: Year-on-year growth in external revenue and orders for key territories. Data combines Chain & Torque Transmission divisions

- Broad based market volatility
  - not limited by geography
- Slowdown more pronounced in mature markets of Americas and Europe
- Continuing to identify significant opportunities where Renold is under-represented

Revenue end-user sector

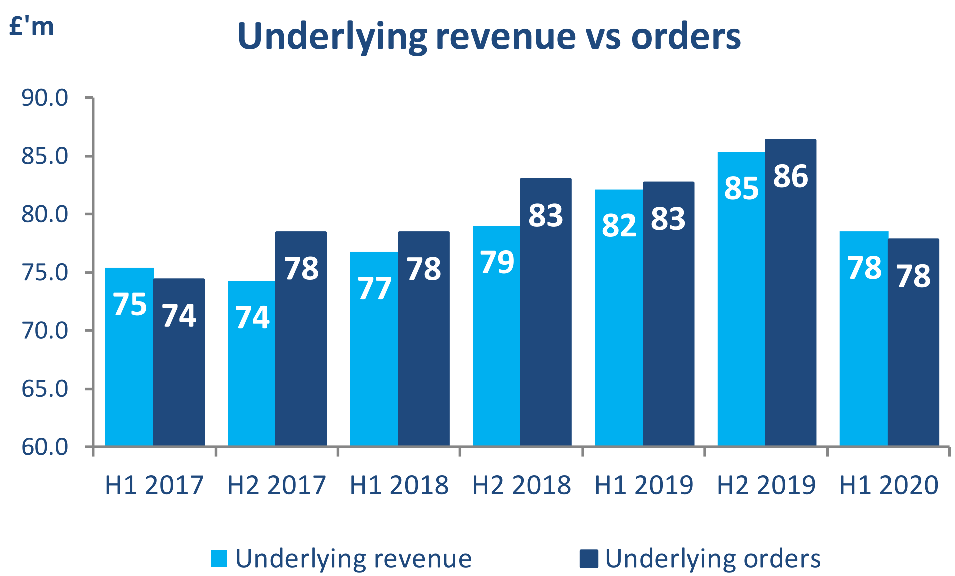
Chart data represents 57% of revenue as the remaining 43% is supplied to distributor customers who will in turn supply products to their end customers, further diversifying end-customer sectors



Change in revenue by channel to market

	% of total revenue	Chain	TT
Distributors	43%	↓↓	↑
OEMs	40%	↓	↑↑
End users	17%	↓	↓

	2020 Interim £m	2019 Interim £m	Var %
Underlying revenue	**78.5**	82.1	(4.4%)
Underlying adjusted operating profit	**8.4**	9.7	(13.4%)
Underlying Return on Sales %	***10.7***	*11.8*	

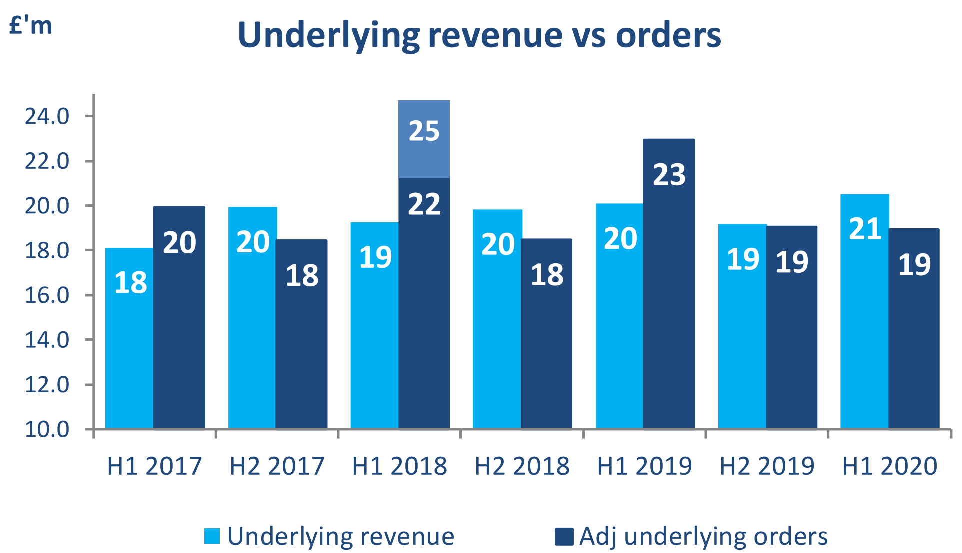


- Underlying revenue 4.4% below prior year
  - Europe – down 4.9%
  - Americas – down 7.6%
- Contribution margin improved through efficiency programmes
- Underlying order intake decline of 6.0%
- Evidence of destocking by distributors in Europe and America
- Orders behind revenue, with a book to bill ratio of 99% for division
- Tougher conditions in Europe and America where book to bill ratios are 97% and 95% respectively
- Australasia, China and India slowing, but book to bill remains above 100%

Torque Transmission – Performance Summary

	2020 Interim £m	2019 Interim (restated) £m	Var %
Underlying revenue[1]	**19.7**	18.7	5.3%
Underlying adjusted operating profit[1]	**2.1**	1.7	23.5%
Underlying Return on Sales %[1]	***10.7***	*9.1*	

(1) Continuing operations



- Underlying revenue up 5.3%
- Strong growth in US markets
  - Delivering against strong order intake in prior year
- Strong inter-group demand in US helping to stabilise Gears business unit
- Gears performance improvement plan commenced and delivering initial benefits
- Improved return on sales at 10.7%
- Underlying order intake declined by 16.4% against exceptionally strong prior year comparator
- Order weakness spread across all business units
- Pipeline of opportunities remains strong, particularly in the US
  - Customers lack appetite to commit to orders

Continuing To Make Progress

Chain

- New Chinese factory
  - Continuing to make progress
  - Initial ramp-up through inefficient period – considerable scope for further improvement
  - Platform for future development
- Restructuring, headcount reduction and investment
  - Focus on efficiency/productivity, increasing geographic flexibility
  - Generating value from investment
- Product/process standardisation
  - Continued drive to lowest cost processes and components at a given specification level
- Commercial developments
  - Drive new focused product management approach to develop substantial opportunities at a faster rate
- Extract value from 100% ownership of Indian business

Torque Transmission

- Gears – continue with business turnaround
- Couplings – substantial revenue opportunities need to be converted in H2
- America – continue to develop the US market across all product categories, maximising recent commercial successes

Strategic Plan Has Delivered More Robust Platform

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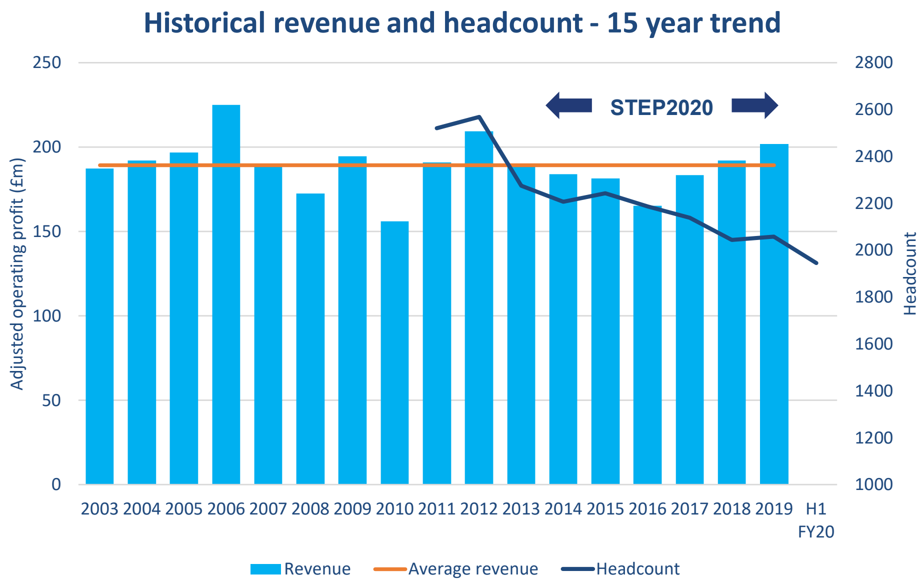

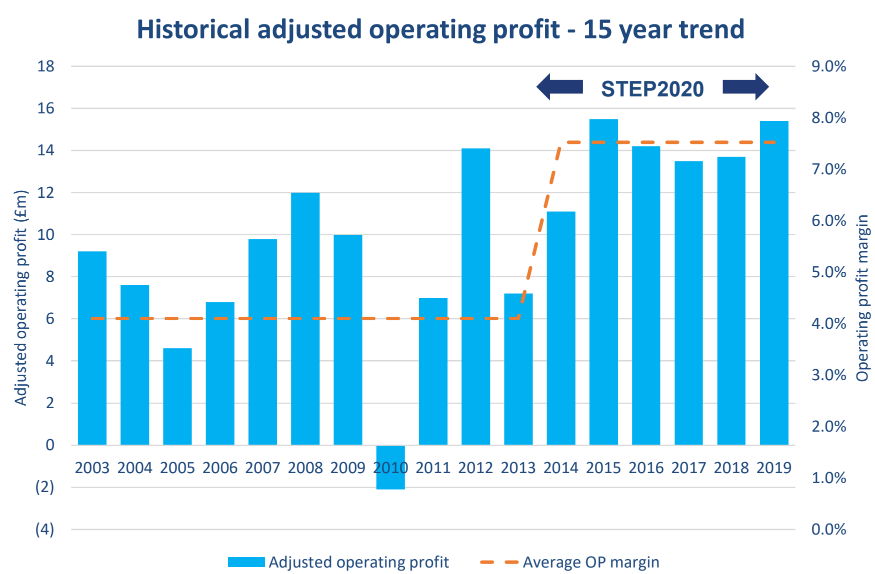

- STEP 2020 plan has delivered more stable platform delivering higher margins
- Actions delivered have reduced cost base whilst delivering stable revenue
  - Headcount 20% lower than at start of strategic plan
  - Increased productivity being delivered
- Continued strategic delivery
  - Chinese facility investment
  - Sale of South Africa
  - Purchase of JV share of India
- Better positioned to provide resilience through uncertain markets
- Capable of outperforming underlying market and delivering improved returns

Summary

- H1 delivered underlying adjusted operating profit of £7.7m despite tough international industrial market conditions
- Adjusted operating margin expanded to 7.8%
- Continued strategic improvement of the Group with:
  - Sale of South Africa – removing operating losses and avoiding capital investment
  - Buyout of Indian JV partner – creates opportunity to retain 100% of India developments and immediately improves EPS
- Chinese factory ramped up and demonstrating potential for further performance improvement
- Capital investment programme delivering results – to be continued on a focused basis
- Improvements provide resilience in uncertain markets
- Strengthened platform enables further margin enhancement as market conditions improve

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Thank you
Q&A

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Appendices

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	Impact of adoption £m	Post-IFRS16 application £m
Income statement	Revenue	-	-	-
	Depreciation	-	(1.2)	(1.2)
	Other operating costs	(1.5)	1.5	-
	Adjusted operating profit	**(1.5)**	**0.3**	**(1.2)**
	Finance charges	-	(0.3)	(0.3)
	Adjusted profit before tax	**(1.5)**	**-**	**(1.5)**
Cash Flow Statement	Adjusted operating profit	(1.5)	0.3	(1.2)
	Depreciation	-	1.2	1.2
	Change in provisions for onerous leases	(0.4)	0.4	-
	Cash flow from operations	**(1.9)**	**1.9**	**-**
	Repayment of lease principal	-	(1.6)	(1.6)
	Repayment of lease interest	-	(0.3)	(0.3)
	Net cash flow	**(1.9)**	**-**	**(1.9)**
Balance sheet at 1 April 2019	Right of use asset	-	10.2	10.2
	Onerous lease provision	(3.2)	3.2	-
	Lease liability	-	(17.9)	(17.9)
	Equity adjustment	**(3.2)**	**(4.5)**	**(7.7)**

Reconciliation of 'Adjusted' profit

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Half year ended 30 September	H1 FY15 £m	H1 FY16 £m	H1 FY17 £m	H1 FY18 £m	H1 FY19 £m
Adjusted operating profit					
Previously reported	7.5	7.9	7.0	6.0	8.2
Restatement[1]	-	-	(0.5)	(0.2)	(0.6)
Discontinued operations[2]	-	-	-	-	0.1
Pension administration costs[3]	(0.3)	(0.3)	(0.3)	(0.4)	(0.3)
Adjusted operating profit	**7.2**	**7.6**	**6.2**	**5.4**	**7.4**
Adjusted profit before tax					
Previously reported	6.5	7.1	6.3	5.2	7.1
Restatement[1]	-	-	(0.5)	(0.2)	(0.6)
Discontinued operations[2]	-	-	-	-	0.1
Pension administration costs[3]	(0.3)	(0.3)	(0.3)	(0.4)	(0.3)
Net IAS 19R finance charges[4]	(1.2)	(1.3)	(1.3)	(1.2)	(1.2)
Adjusted profit before tax	**5.0**	**5.5**	**4.2**	**3.4**	**5.1**

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 is the 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

Reconciliation of 'Adjusted' profit by division

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	Six months to September 2018				Year ended 31 March 2019			
	Chain	Torque Trans-mission	Head Office	Group	Chain	Torque Trans-mission	Head Office	Group
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
Previously reported	80.0	19.7	-	99.7	163.9	38.5	-	202.4
Exchange impact	2.1	0.5	-	2.6	3.5	0.8	-	4.3
Discontinued operations[1]	-	(1.5)	-	(1.5)	-	(2.8)	-	(2.8)
Underlying revenue from continuing operations	**82.1**	**18.7**	**-**	**100.8**	**167.4**	**36.5**	**-**	**203.9**
Adjusted operating profit								
Previously reported	9.5	2.3	(3.6)	8.2	18.4	3.1	(6.1)	15.4
Exchange impact	0.2	(0.1)	-	0.1	0.3	0.1	-	0.4
Restatement[2]	-	(0.6)	-	(0.6)	-	-	-	-
Representation of pension admin costs[3]	-	-	(0.3)	(0.3)	-	-	(0.8)	(0.8)
Discontinued operations[1]	-	0.1	-	0.1	-	0.2	-	0.2
Underlying adjusted operating profit from continuing operations	**9.7**	**1.7**	**(3.9)**	**7.5**	**18.7**	**3.4**	**(6.9)**	**15.2**
Adjusted profit before tax								
Previously reported				7.1				13.2
Restatement[2]				(0.6)				-
Representation of pension admin costs[3]				(0.3)				(0.8)
Representation of IAS 19R finance charges[4]				(1.2)				(2.4)
Discontinued operations[1]				0.1				0.2
Adjusted profit before tax from continuing operations				**5.1**				**10.2**

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

(2) Restatement is the restatement to correct the historical misstatements identified in the Gears business unit

(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

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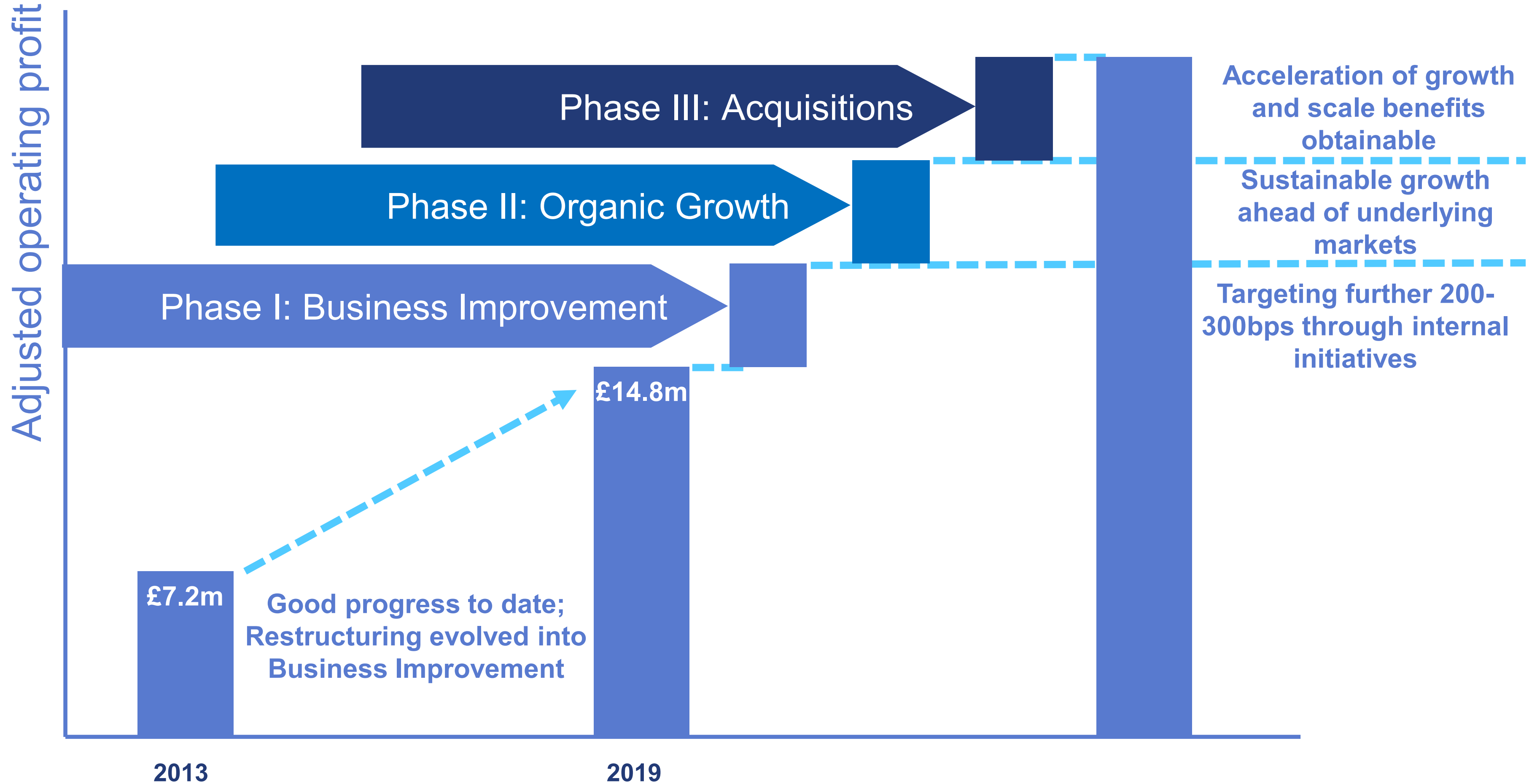
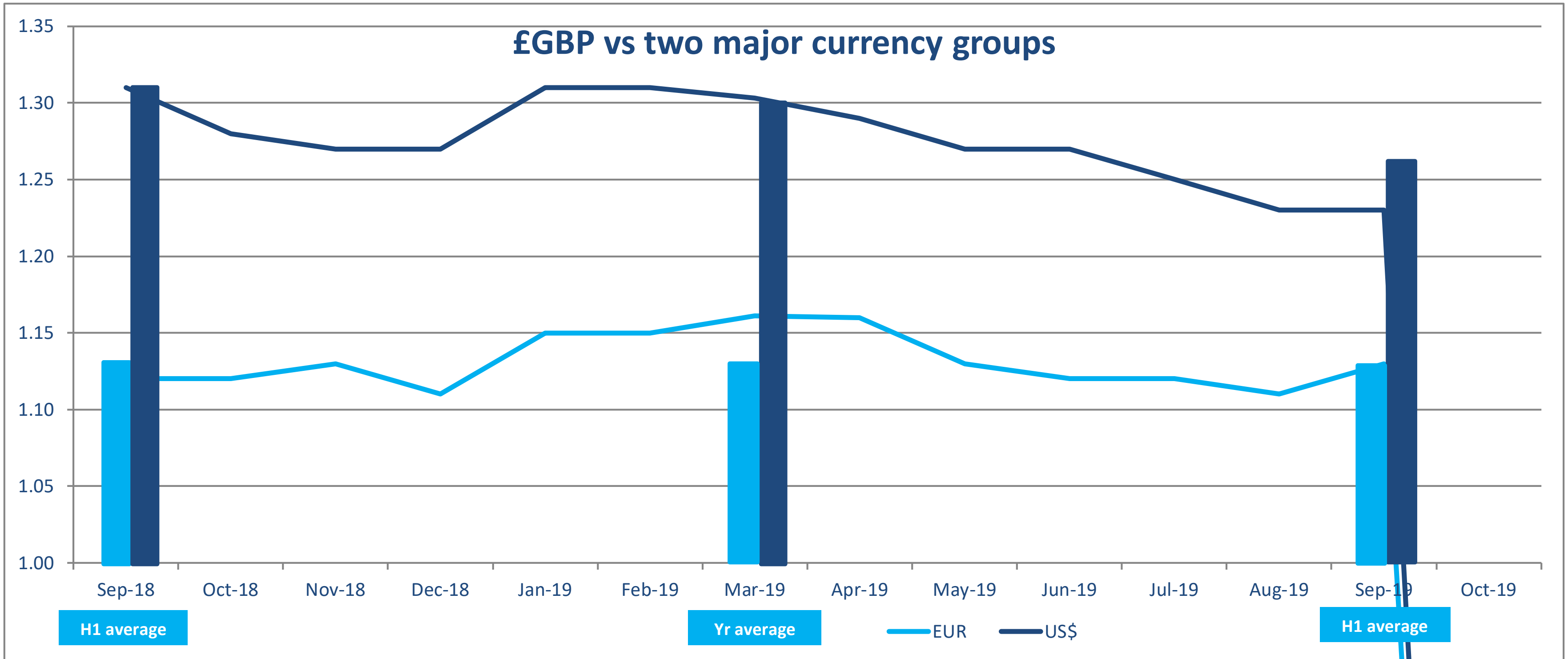
Strategy unchanged; underlying business is improving



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

US$ strengthening; Euro stable



- Sales denominated in US$ represent 37% of the group total, and in Euro's 28%
- Illustratively, reported sales from continuing operations for the six months of £98.2m would have been approximately £1.0m higher at September 2019 closing rates. Potential improvement in operating profit around £0.1m depending on mix