RENOLD

Resilience by design

Interim results

Half year ended 30 September 2020

RENOLD

"A resilient first half performance"

Financial highlights

- Strong cash generation, net debt at £26.4m, £10.2m improvement
- Resilient adjusted operating profit margin 7.1% (HY20: 7.8%)
- Adjusted operating profit of £5.8m (HY20: £7.7m)
- Order intake stable with steady improvement
- Adjusted EPS 1.1p (HY20: 1.5p); Basic EPS 0.9p (HY20: 0.3p)
- Revenue down 17%, impacted by Covid-19 pandemic

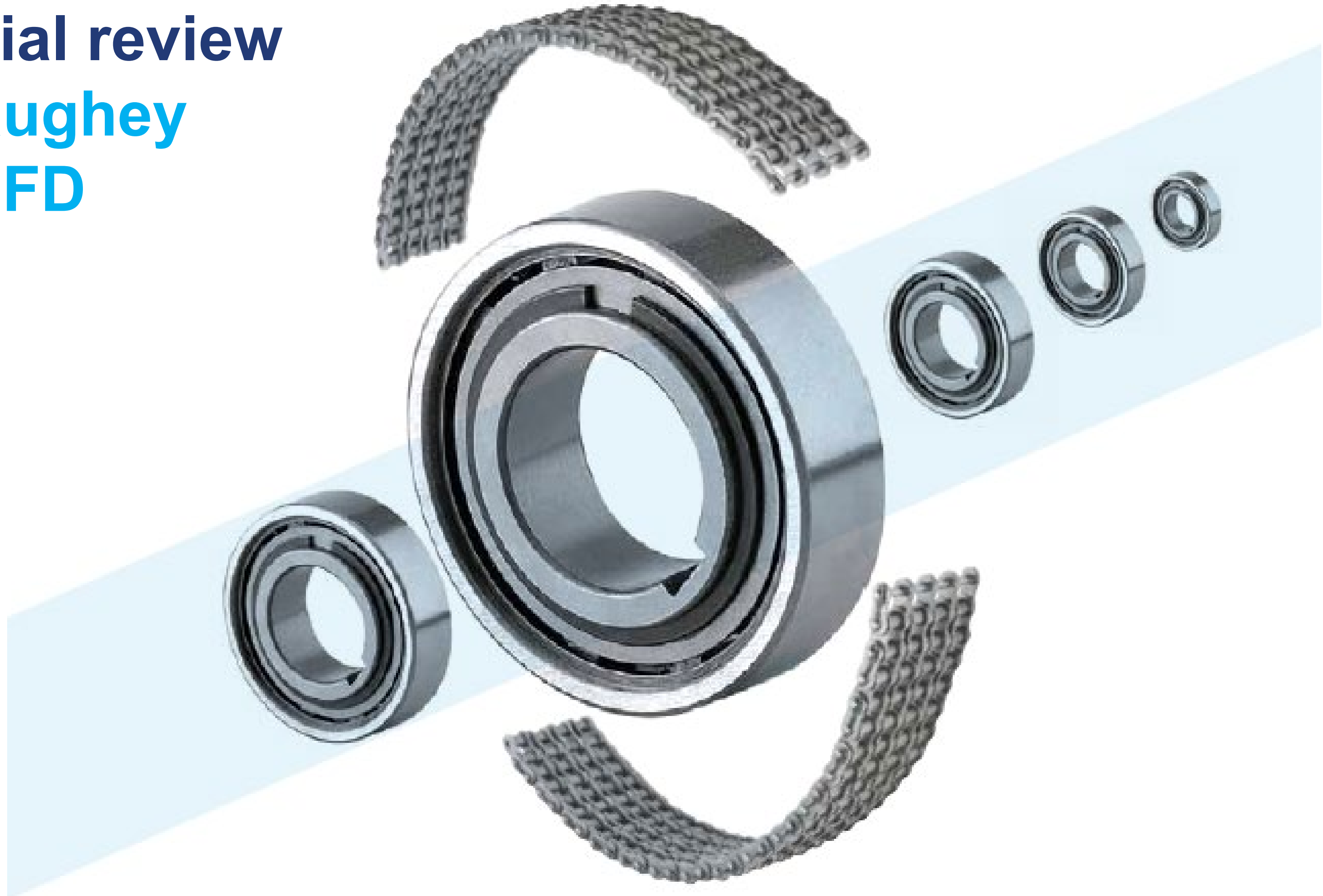
"Successful execution in a challenging environment"

Business highlights

- Careful and responsible management has delivered an increasingly flexible Group, well positioned for recovery
- Swift decision making and cost discipline mitigated sales reduction
- New Chinese factory performing well
- Major cash restructuring initiatives completed in prior years
- Leverage remains low; creating flexibility and providing opportunities
- Clear headroom on banking facility and associated covenants

Resilience by design:

Financial review
Jim Haughey
Group FD



Financial review – Group summary

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	HY21 £m	HY20 £m	Change %	Constant currency change %
Revenue	**81.5**	98.2	-17.0%	-16.3%
Adjusted operating profit	**5.8**	7.7	-24.7%	-24.7%
Adjusted operating profit margin	***7.1%***	*7.8%*		
Adjusted profit before tax	**3.3**	4.9	-32.7%	
Adjusted tax rate	***24%***	*31%*		
Adjusted EBITDA	**11.0**	12.8	-14.1%	
Adjusted EBITDA margin	***13.5%***	*13.0%*		
Net debt	**26.4**		(FY 2020: £36.6m)	
Adjusted EPS	**1.1p**	1.5p	-26.7%	
Basic EPS	**0.9p**	0.3p	+200%	

- Significant revenue impact of Covid-19 pandemic, down 17.0%
- Resilient adjusted operating profit margin declining just 70bps
- Adjusted EBITDA margin increased to 13.5% despite significant revenue headwind
- Net debt reduced by £10.2m to £26.4m

Strategic progression has delivered a lower cost base and a more flexible business

Financial review - Divisional summary

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Chain

	HY21 £m	HY20 £m	Change %	Constant currency change %
Revenue	**62.5**	76.5	-18.3%	-17.7%
Adjusted operating profit	**5.7**	8.1	-29.6%	-29.6%
Adjusted operating profit margin	***9.1%***	*10.6%*		

- Flexible cost base resulted in controlled operational gearing within the Chain division
- Growth in South East Asia

Torque Transmission

	HY21 £m	HY20 £m	Change %	Constant currency change %
Revenue	**19.0**	21.7	-12.4%	-11.6%
Adjusted operating profit	**2.5**	2.4	4.2%	8.7%
Adjusted operating profit margin	***13.2%***	*11.1%*		

- Strong increase in TT margin aided by growth in China
- Strong improvement in returns from Gears business

Head office

	HY21 £m	HY20 £m
Head office costs	**(2.4)**	(2.8)

Improved productivity and operational efficiency delivered a resilient margin

Financial review – Cash flow

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	HY21 £m	HY20 £m
Adjusted operating profit	**5.8**	7.7
Depreciation and amortisation	**5.2**	5.1
Adjusted EBITDA	**11.0**	12.8
Movement in working capital	**3.7**	(4.4)
Net capital expenditure	**(1.0)**	(4.6)
Operating cash flow	**13.7**	3.8
Income taxes	**1.0**	(1.5)
Pensions cash costs	**(1.1)**	(1.8)
Restructuring spend	**-**	(0.9)
Repayment of principal under lease liabilities	**(1.7)**	(1.6)
Financing costs paid	**(1.8)**	(1.6)
Other movements	**0.1**	(0.3)
Reduction/(increase) in net debt	**10.2**	(3.9)

Operating cash conversion 236%
(HY20: 49%)

- Significant reduction in net debt, £10.2m
- Working capital reduction delivered; driven by £4.9m of inventory reductions
- Capex reduced to maintenance level; enabled by focused investment programme over recent years
- UK Pension scheme contributions deferred due to strong alignment with pension trustee
- Major restructuring initiatives complete

Strong cash generation

Financial review – Cash allocation

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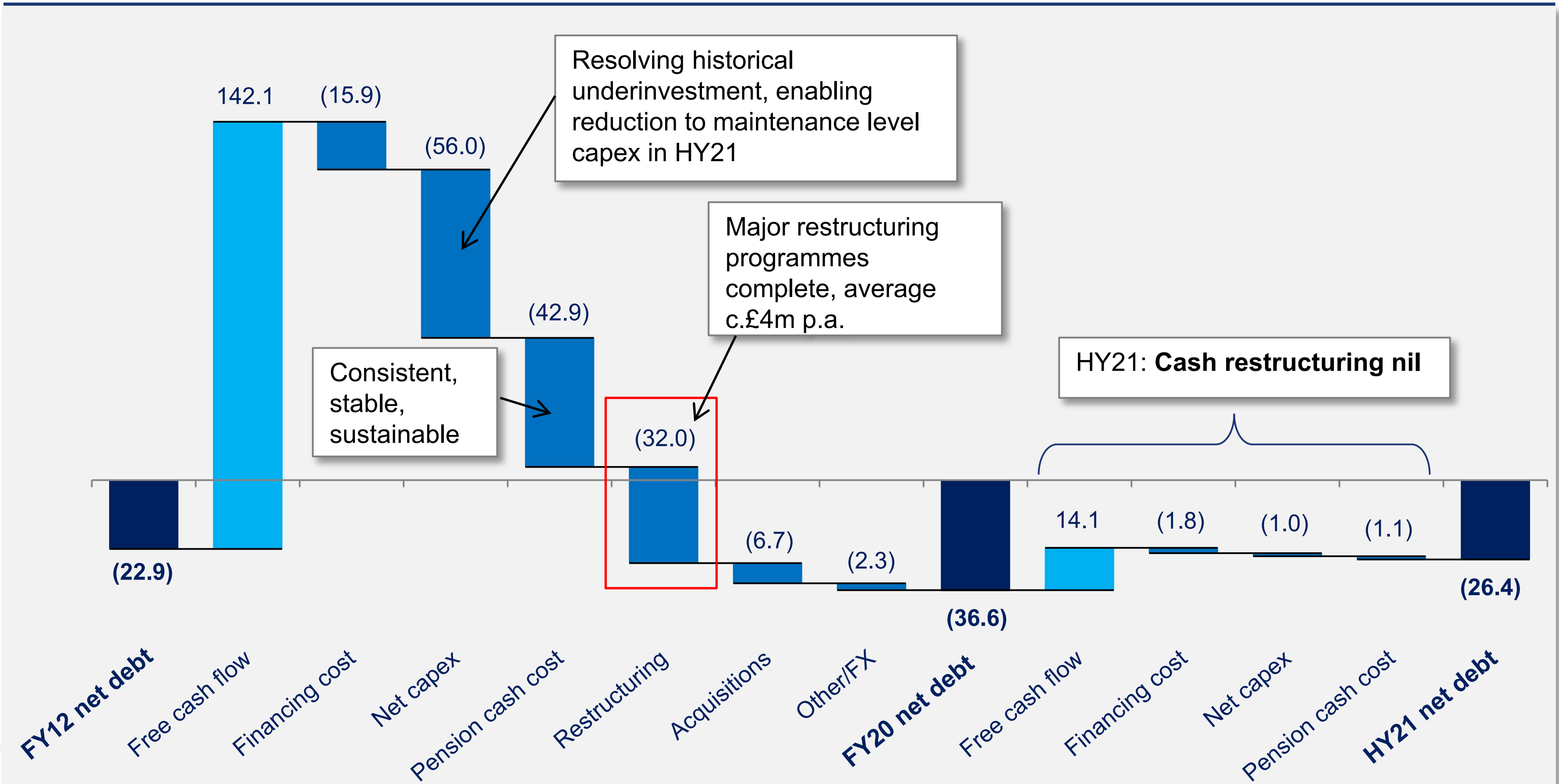
FY12 to HY21 Cash allocation, £m



Strong improvement in cash generation combined with completion of restructuring spend creates further strategic opportunities

Financial review – Cash flow summary

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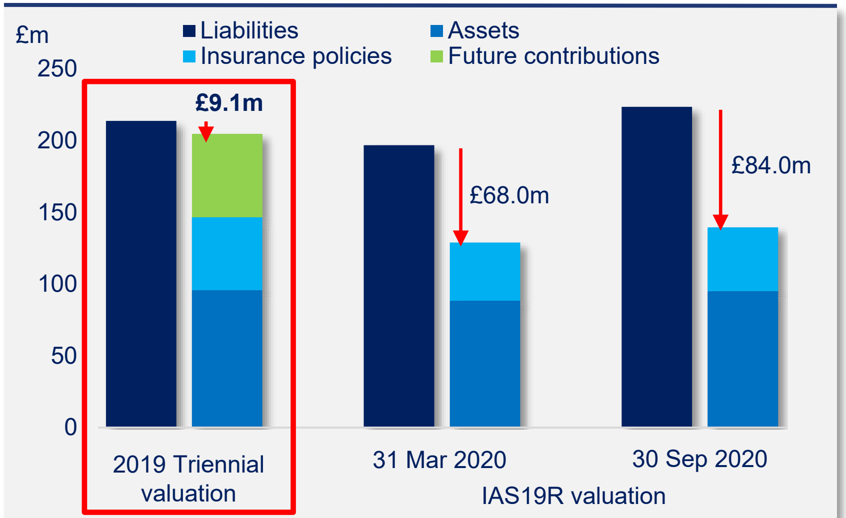
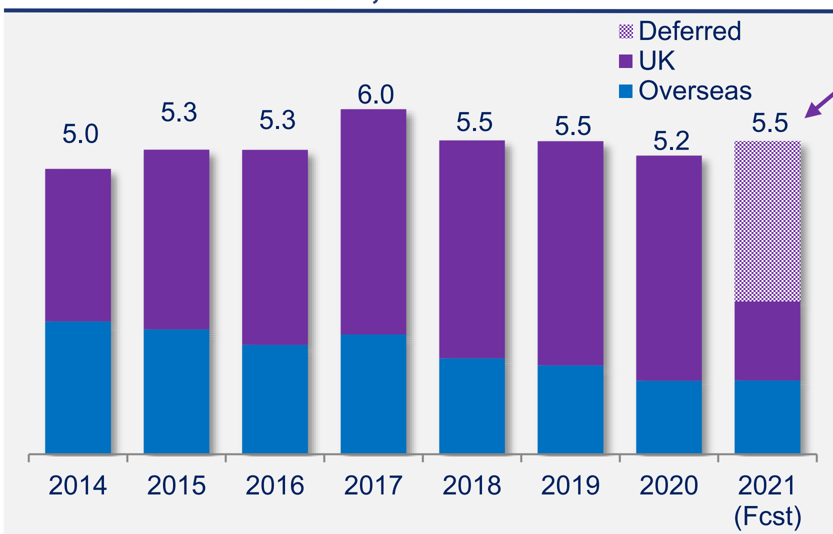
- Cash generative and profitable despite the significant pandemic headwind;
  – clear impact of the strategic transformation of the Group
- Strong cash generation resulted in a £10.2m reduction in net debt and a rapid improvement in operating cash conversion
- H2 is expected to see net debt reduction but at a lower rate
- The amended borrowing covenants provide increased flexibility and headroom
- The Group did comply with the original banking covenants on the current reported numbers
- The Group did comply with the original covenants excluding the impact of government support and pension contribution deferral
- The Group is well placed to respond to the future impact of the pandemic
- Improved cash generation and completion of restructuring spend provides flexibility to progress with other strategic initiatives

The transformed Group is cash generative, well placed to respond to future pandemic impacts and has the flexibility to move forward with the strategy

UK scheme deficit



Pension cash costs, £m



- UK scheme IAS19R deficit increase driven by discount rates and inflation, despite strong asset returns since 31 March 2020
- The Group has a 25-year deficit reduction agreement (starting FY14) providing **long-term visibility** of cash contributions

Despite swings in the balance sheet deficit, pension cash costs remain stable, predictable and sustainable

- Latest triennial review, April 2019, reported UK scheme deficit of just £9.1m compared to the current IAS19R deficit of £84.0m
- Strong alignment with UK Pension Trustee allowing temporary deferral of FY21 contributions
- Schemes remain in sound position

Sustainable and stable pension cash flows


Resilience by design:
Business review
Robert Purcell
CEO

Response to Covid-19

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Initial steps

- Prioritised the health, safety and well-being of our people
- Clear communication with employees, customers and suppliers
- Comprehensive risk assessments to provide Covid-secure facilities
- Focus on managing cash and liquidity
- A stable and conservative approach to cost control

Looking ahead

- Continuing to prioritise the health, safety and well-being of our people
- Transition to programme of growth and productivity improvements
- Investment to recommence as demand recovers
- Taking a balanced approach to managing the business through this challenging period
- Renold business units are essential service providers

“Looking after our people”

“A balanced approach to managing the business”

Renold is open for business

Market dynamics

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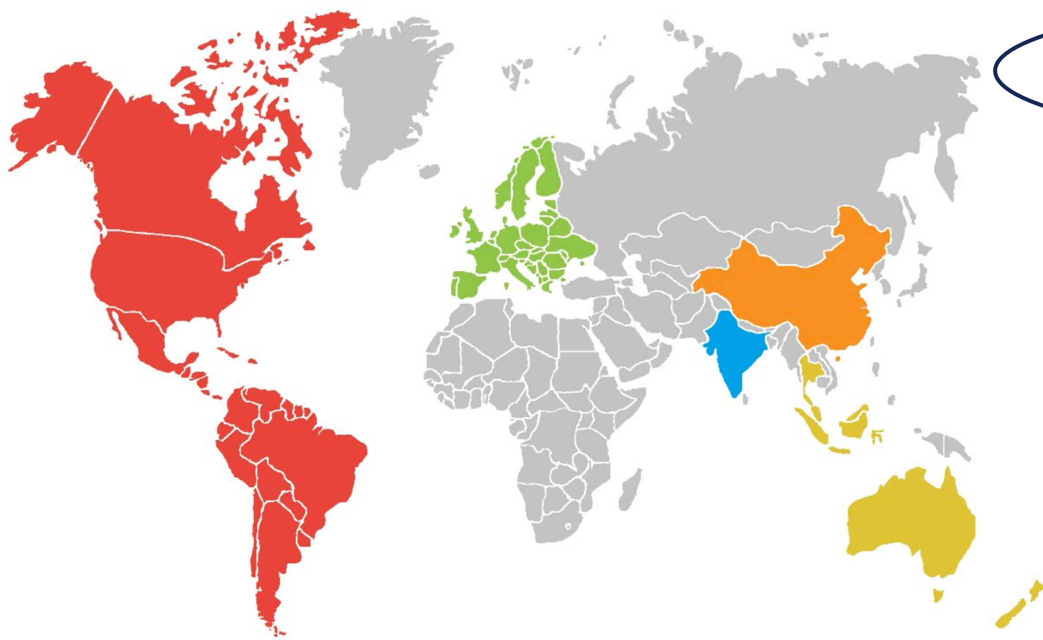
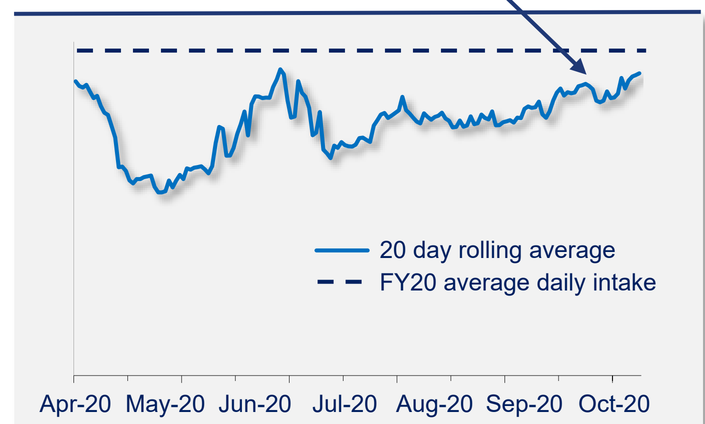
	Americas	Europe	India	China	Australasia
	(book to bill 87% 1.5 shutdown weeks)	(book to bill 96% 1.5 shutdown weeks)	(book to bill 140% 5 shutdown weeks)	(book to bill 80% nil shutdown weeks)	(book to bill 97% nil shutdown weeks)
HY21: Group Revenue: -16.3% — Revenue	-19.2%	-17.8%	-32.7%	+14.2%	-1.3%
HY21: Group Orders: -20.6% — Orders	-25.0%	-16.9%	-16.8%	-21.6%	-11.7%
Oct 20: Group Orders: -2.7% — Orders	-19.0%	+10.1%	+26.1%	-19.9%	+19.2%



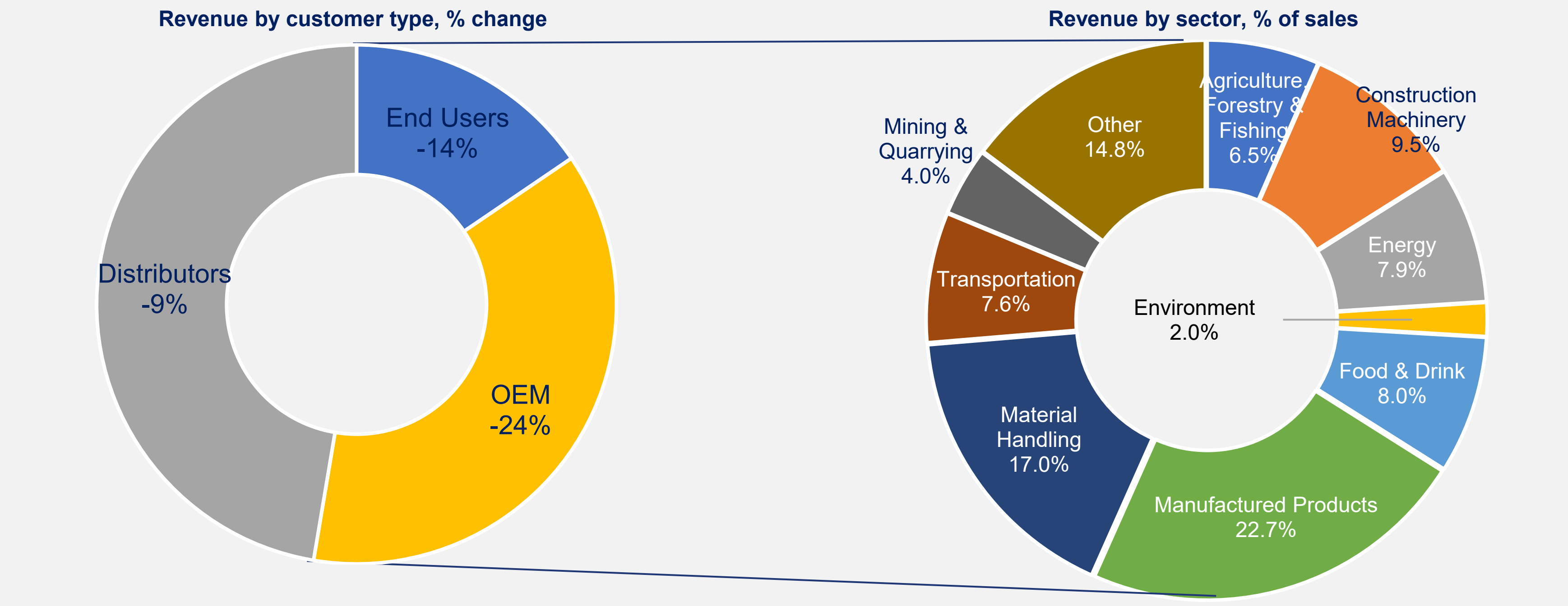
Order intake stable and slowly improving, albeit below prior year levels

Average daily order intake, £



Note: Year-on-year constant currency growth in external revenue and orders for key territories based on data to 30 September 2020. Data combines Chain & Torque Transmission divisions.

Revenue by sector and customer type



- Major country by country differences
- OEMs and distributors impacted by destocking in earlier months
- Capex related sales slowing; maintenance related sales stronger

Whilst considerable uncertainty remains, Renold benefits from significant geographic, customer and sector diversity

Operating profit development

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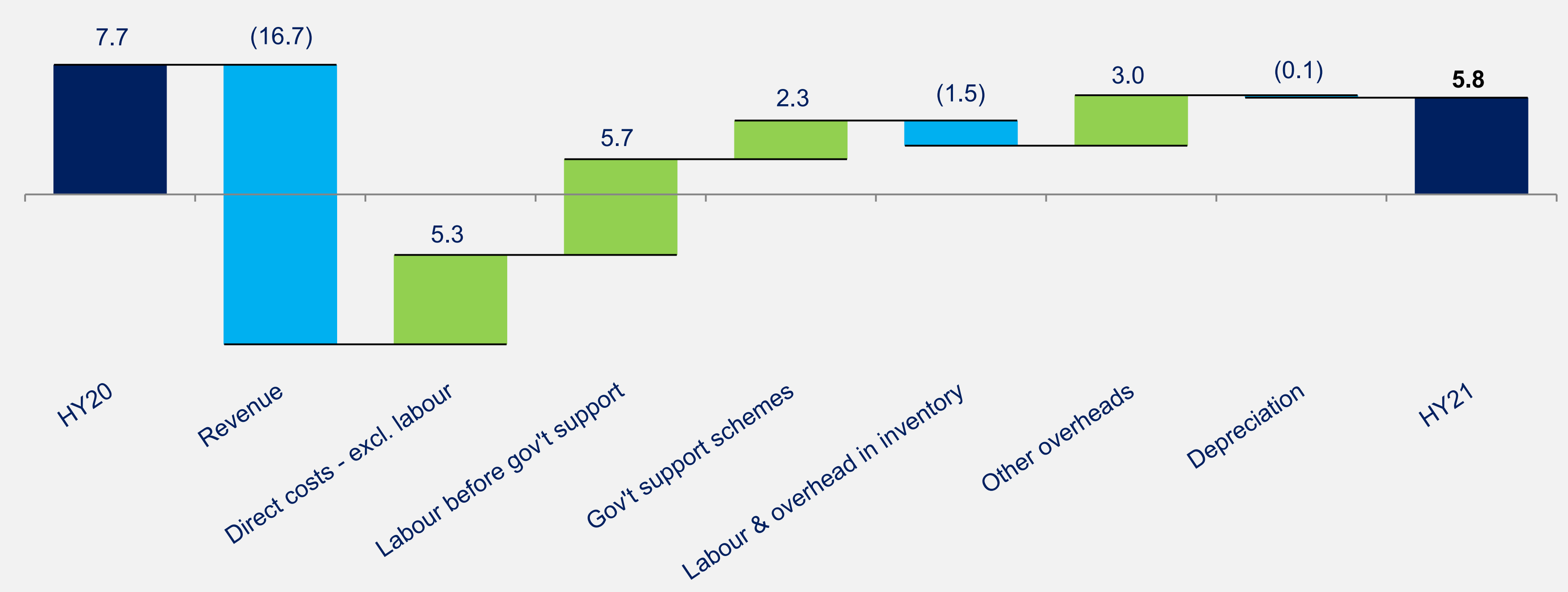
Adjusted operating profit bridge, £m



- Material costs reduced in line with activity
- Destocking resulted in expense of capitalised labour and overhead, with labour costs flexed to compensate
- Government support schemes allowed labour to be aligned with activity, avoiding some restructuring actions
- Discretionary overhead spend curtailed

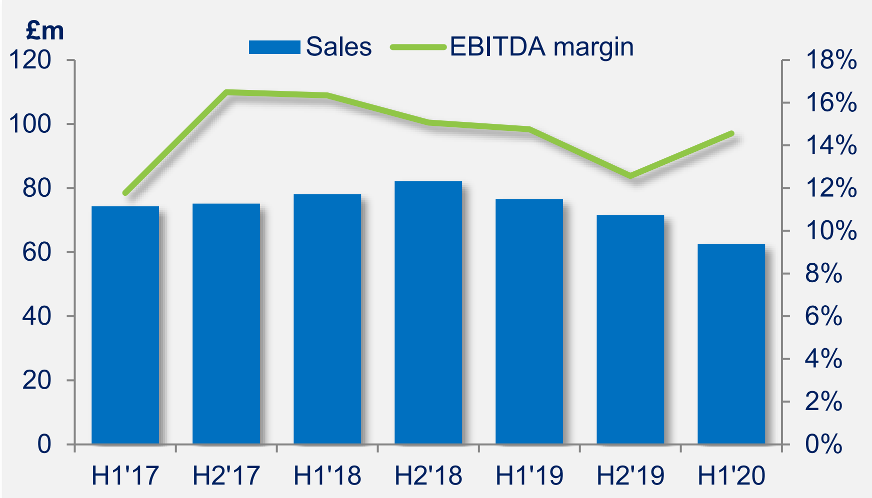
Strategy to build flexible cost base clearly evident

Chain – Performance summary

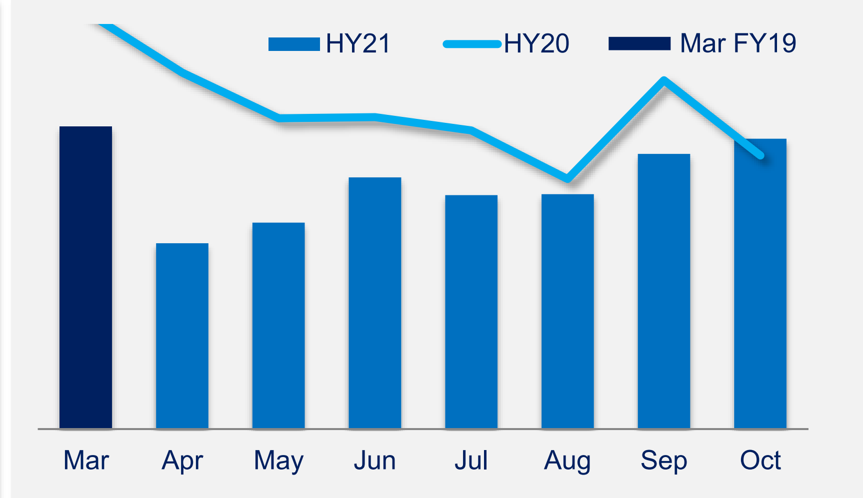
	HY21 £m	HY20 £m	Constant currency change %
Revenue	**62.5**	76.5	-17.7%
Adjusted operating profit	**5.7**	8.1	-29.6%
Adjusted operating profit margin	***9.1%***	*10.6%*	
Adjusted EBITDA	**9.1**	11.3	
Adjusted EBITDA margin	***14.6%***	*14.8%*	

- Business improvements and cost discipline have delivered operational efficiency and resilient margins
- New Chinese Chain factory delivered significant productivity gains
- Strong revenue and margin growth in South East Asia
- HY20 order intake -23%; Oct 20 order intake +2.3%

Revenue and adjusted EBITDA margin %



Daily Order Intake, £m



Business improvements enable further margin enhancement and a strong platform for growth

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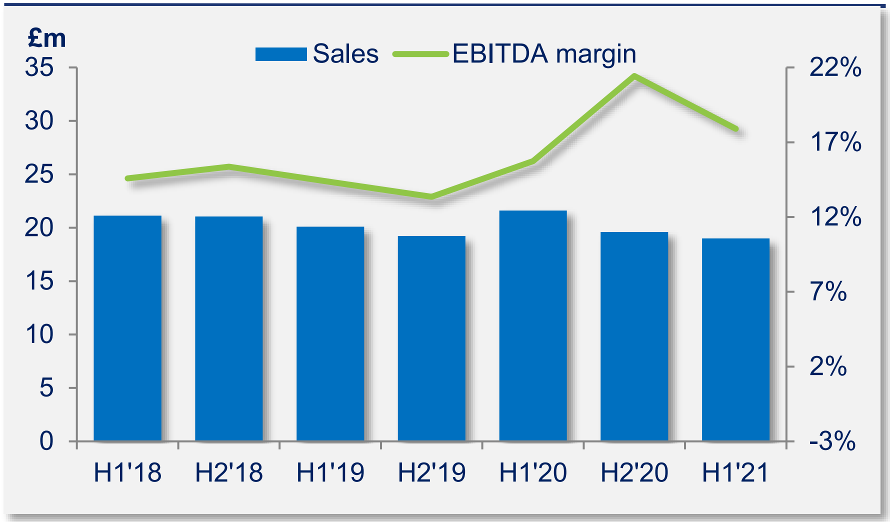
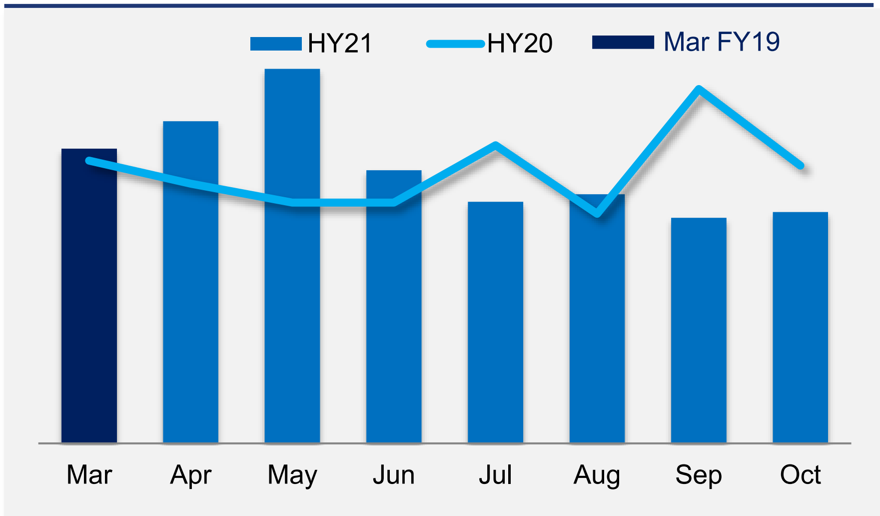
	HY21 £m	HY20 £m	Constant currency change %
Revenue	**19.0**	21.7	-11.6%
Adjusted operating profit	**2.5**	2.4	8.7%
Adjusted operating profit margin	***13.2%***	*11.1%*	
Adjusted EBITDA	**3.4**	3.4	
Adjusted EBITDA margin	***17.9%***	*15.7%*	

- TT revenue decline lags Chain division – longer lead times
- Strong growth in China
- H1 revenue drop of £0.5m on multi-year contract, H2 expected to be in line with prior year
- Strong improvement in returns from Gears business
- Adjusted operating margin increased despite revenue decline

Revenue and adjusted EBITDA margin %



Daily Order Intake, £m



Margin enhancement and improved profitability

Strategic transformation

Original strategic priorities:

- Costs and breakeven point too high
- Inflexible cost base
- Market leading products not delivering value to Renold
- Service ethos missing
- Manufacturing base underinvested and inconsistently managed
- Business systems and processes lacked consistency and relevance
- Lack of cash generation

Progress to date:

- Higher profits at lower volumes
- Restructured operating sites – spend complete
- Enhanced level of investment delivering improved manufacturing capability
- Much improved service culture and performance
- Well positioned for recovery and increasingly flexible in the event of any future economic shocks
- New systems and processes are improving productivity and operational effectiveness
- Strong cash generation and comfortable liquidity position

Successful execution… Resilient business… Well placed for the future

Summary

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- Covid-safe working methods installed; our employees' safety has been and continues to be top priority
- Our facilities remain open for business; locations often deemed an essential supplier.
- Standardisation programme and geographic footprint provide supply options even if shut-downs must occur
- Cash generative with resilient profitability and margins; a robust result even with the pandemic headwind
- Strong cash generation, £10.2m reduction in net debt; a further net debt reduction is expected in H2, but at a slower rate
- Demonstrable alignment with the UK pension scheme with stable, sustainable cash contributions over the long term
- Leverage remains low with clear headroom on banking facilities and covenants
- Careful and responsible management of the Group has delivered a lower cost base and a more resilient business which is well placed to respond to future impacts of the pandemic
- The improved productivity and operational efficiency enable further margin enhancement and a strong platform to capture significant opportunities as demand recovers
- The improved cash generation and completion of the major cash restructuring spend provides flexibility and options for further stages of the strategy

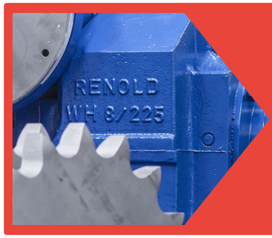
"Whilst the market environment continues to be challenging, the strategic actions taken in recent years, augmented by the measures taken earlier this year in response to the Covid-19 pandemic, have resulted in a more resilient business that is better placed to overcome today's challenges. Renold reacted quickly to the sharp decline in order intake arising from the pandemic and, as a result, delivered a robust operating margin and substantial reduction in net debt.

The tight focus on cost and cash management in the first half has created a platform from which we can manage through short-term disruption. We are focused on ensuring Renold can respond strongly as markets recover."

Resilience by design:

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.

Appendix – Significant available liquidity

RENOLD

- Access to sufficient liquidity via £61.5m multi-currency revolving credit facility maturing in March 2024
- As reported in June 2020 the covenant tests for the Group's core banking facility were amended to accommodate the potential trading impact of the Covid-19 pandemic, providing increased flexibility and headroom

Covenants	At 30 September 2020	
Net debt/EBITDA[1]: Max 3.5x	1.4	Reverting to max 2.5x from September 2021
Interest cover: Min 3.0x	9.9	Reverting to min 4.0x from September 2021

[1]Net debt/EBITDA calculated in accordance with the Group's banking agreement; this differs to the quoted leverage ratio following the adoption of IFRS 16

Clear covenant headroom

Appendix – Income statement

RENOLD

	HY21 £m	HY20 £m	Var £m
Revenue	**81.5**	98.2	(16.7)
Adjusted operating profit	**5.8**	7.7	(1.9)
Restructuring costs	**-**	(0.9)	0.9
Amortisation of acquired intangible assets	**(0.5)**	(0.5)	-
Operating profit	**5.3**	6.3	(1.0)
Pension scheme financing charges	**(1.0)**	(1.1)	0.1
External financing charges	**(1.2)**	(1.4)	0.2
Interest on lease liabilities	**(0.3)**	(0.3)	-
Profit before tax	**2.8**	3.5	(0.7)
Taxation	**(0.8)**	(1.2)	0.4
Discontinued operations	**-**	(1.5)	1.5
Profit after tax and discontinued operations	**2.0**	0.8	1.2
Adjusted EPS	**1.1p**	1.5p	
Basic EPS	**0.9p**	0.3p	

Appendix – Balance sheet

	HY21 £m	HY20 £m	Var £m
Goodwill	**23.5**	24.3	(0.8)
Intangible assets	**7.3**	6.0	1.3
Fixed assets	**52.0**	57.0	(5.0)
Right-of-use assets	**11.4**	9.5	1.9
Deferred tax	**19.5**	16.9	2.6
Inventories	**41.8**	49.1	(7.3)
Receivables	**31.5**	37.1	(5.6)
Payables	**(37.7)**	(46.7)	9.0
Working capital	**35.6**	39.5	(3.9)
Net debt	**(26.4)**	(34.2)	7.8
Right-of-use liabilities	**(16.7)**	(16.7)	-
Provisions	**(0.7)**	(0.2)	(0.5)
Retirement benefit deficit	**(115.6)**	(111.5)	(4.1)
Current tax asset/(liability)	**(1.5)**	0.5	(2.0)
Other	**0.1**	(0.5)	0.6
Net assets	**(11.5)**	(9.4)	(2.1)
Leverage ratio[1]	**1.2 times**	1.4 times	

[1]Leverage is calculated as net debt / adjusted EBITDA

Appendix – Currency and taxation

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Currency

- Every US dollar cent worth c.£50k of adjusted operating profit
- Every Euro cent worth c.£25k of adjusted operating profit

Analysis by currency, six months ended 30 September 2020:

Taxation

- Adjusted tax rate of 24% (HY20: 31%)
- Full year tax rate expected to be broadly in line with prior year

Appendix – Improving productivity

Revenue per employee