RENOLD

Resilience by design

Half Year Results

Half year ended
30 September 2021

HY22 Highlights

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"Strong cash generation; net debt at a record low"

Financial highlights

- Revenue up 17% to £95.3m, 22% at constant exchange rates
- Adjusted operating profit £8.2m (HY21 £5.8m), £7.0m excluding non-recurring items; representing strong recovery from the Covid-19 pandemic
- Net debt at £13.9m; lowest level for more than a decade
- Adjusted EPS 2.3p; 2.0p after adding back non-recurring items (HY21: 1.1p)
- Cash generative and improving profitability despite significant cost inflation and global supply chain disruption

"Successful execution in a challenging environment"

Business highlights

- Renold's markets recovered strongly during the first half, as activity levels continued to rebound in the aftermath of the Covid-19 pandemic
- Strong order intake and record closing orderbooks (up 60% vs HY21 and 35% vs HY20 at constant exchange rates); all regions growing
- Significant £11.0m long-term military contract win
- Effective navigation of the uncertain economic environment and global supply chain disruption
- Leverage remains low, increased cash generation allows for acquisitions and strategic capital investment

Financial review

Jim Haughey
Group FD

Financial review – Group summary

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	HY22	HY21	Change	Constant exchange rates
	£m	£m	%	%
Revenue	**95.3**	81.5	+16.9%	+22.0%
Adjusted operating profit	**8.2**	5.8	+41.4%	+49.1%
Adjusted operating profit margin	***8.6%***	*7.1%*		
Non-recurring items	**1.2**	-	-	
Adjusted operating profit excl. non-recurring items	**7.0**	*5.8*	+20.7%	+27.3%
Adjusted operating profit margin	**7.4%**	*7.1%*		
Profit before tax	**6.2**	2.8	+121.4%	
Effective tax rate	***19.4%***	*28.6%*		
Adjusted EBITDA	**13.1**	11.0	+19.1%	
Adjusted EBITDA margin	***13.7%***	*13.5%*		
Net debt	**13.9**	26.4	*c.50% improvement*	
Adjusted EPS	**2.3p**	1.1p	+109.1%	
Adjusted EPS excl. non-recurring items	**2.0p**	1.1p	+80.3%	
Basic EPS	**2.3p**	0.9p	+155.6%	

- Activity levels continue to rebound; revenue growth reflects strong orderbooks
- Significant improvement in adjusted operating profit and margin, despite considerable material price, transport and energy inflation, and supply chain disruption
- Net debt reduced by a further 25% since the year end

Recovered revenues and strong cash generation, resulting in significant growth in EPS

Financial review - Divisional summary

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Chain

	HY22 £m	HY21 £m	Change %	Constant exchange rates %
Revenue	**76.6**	63.3	+21.0%	+26.2%
Adjusted operating profit	**10.7**	5.7	+87.7%	+94.5%
Adjusted operating profit margin	***14.0%***	*9.0%*		
Non-recurring items	**1.7**	-		
Adjusted operating profit excl. non-recurring items	***9.0***	*5.7*	+57.9%	+63.6%
Adjusted operating profit margin	***11.7%***	*9.0%*		

- Revenue recovered strongly across all regions
- £1.7m of loans forgiven under the US Government Payroll Protection Program
- Brooks conveyor chain acquisition; trading ahead of initial expectations

Torque Transmission

	HY22 £m	HY21 £m	Change %	Constant exchange rates %
Revenue	**20.6**	20.6	0.0%	+4.0%
Adjusted operating profit	***1.8***	*2.5*	-28.0%	-25.0%
Adjusted operating profit margin	***8.7%***	*12.1%*		

- £0.7m of government support in HY21, ended in HY22
- £0.2m legal fees incurred for new long-term contract

Central costs

	HY22 £m	HY21 £m
Intersegment revenue elimination	**(1.9)**	(2.4)
Central costs	**(4.3)**	(2.4)
Non-recurring items	**(0.5)**	-
Central costs excl. non-recurring items	***(3.8)***	*(2.4)*

- £0.5m non-recurring costs
- £0.8m increase in variable elements of pay
- £0.3m HY21 voluntary pay reductions normalised

Resilient margin despite inflationary cost pressures

Operating profit development

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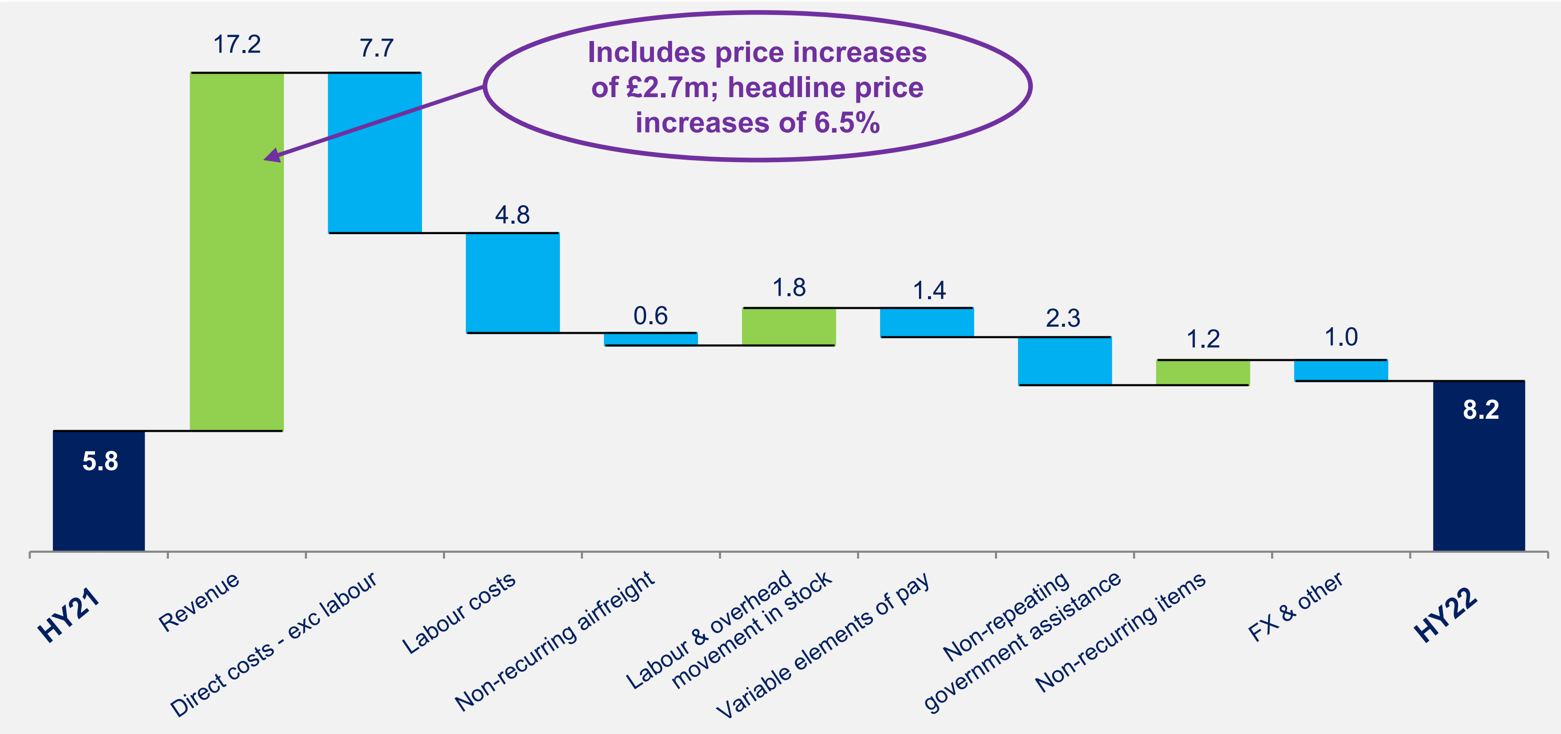
Adjusted operating profit bridge, £m



- Stock build resulted in benefit of capitalised labour and overhead
- Non-recurrence of government support schemes, mitigated by increased productivity
- Forgiveness of £1.7m US Government Payroll Protection Program loan
- Operating profit growth despite material, transport and energy cost headwinds

Increased activity while maintaining control of the cost base

Financial review – Cash flow

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	HY22 £m	HY21 £m
Adjusted operating profit	**8.2**	5.8
Depreciation and amortisation	**4.9**	5.2
Adjusted EBITDA	**13.1**	11.0
Movement in working capital	**0.5**	3.7
Net capital expenditure	**(1.3)**	(1.0)
Operating cash flow	**12.3**	13.7
Income taxes	**(1.3)**	1.0
Pensions cash costs	**(2.4)**	(1.1)
Repayment of principal under lease liabilities	**(1.4)**	(1.7)
Financing costs paid	**(1.0)**	(1.8)
Consideration paid for acquisition	**(0.3)**	-
Employee Benefit Trust share purchases	**(1.8)**	-
Other movements	**0.4**	0.1
Change in net debt	**4.5**	10.2
Closing net debt	**(13.9)**	(26.4)

Operating cash conversion 150% (HY21: 236%)

- Continued reduction in net debt; significant net financing cost reduction
- Focused working capital management and careful cost control
- Capital investment returning, albeit more slowly in the first half due to equipment supply delays
- UK Pension scheme contributions return, in line with Pension Trustee agreement
- Nil restructuring costs in the period
- Employee Benefit Trust share purchase of £1.8m
- PPP loan forgiveness of £1.7m bolsters closing cash position

Continued strong cash generation

Earnings per share

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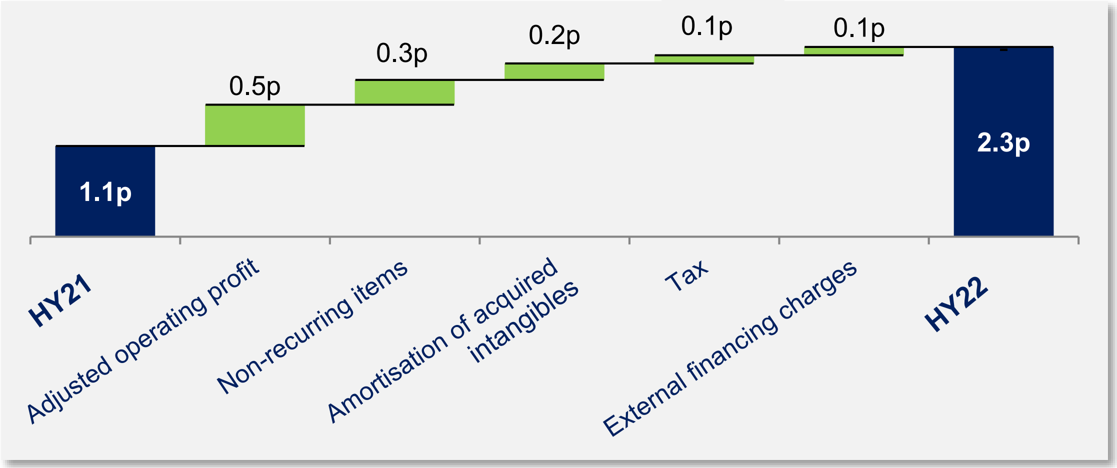
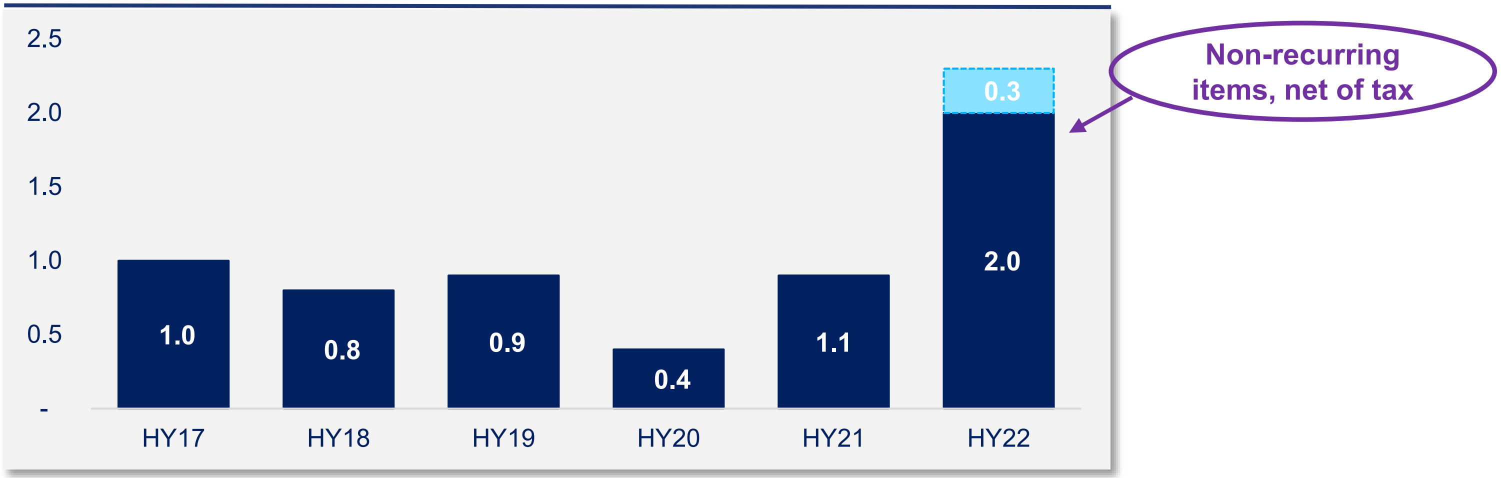
Adjusted EPS bridge, HY21 vs HY22



Half year basic EPS over time



High quality earnings

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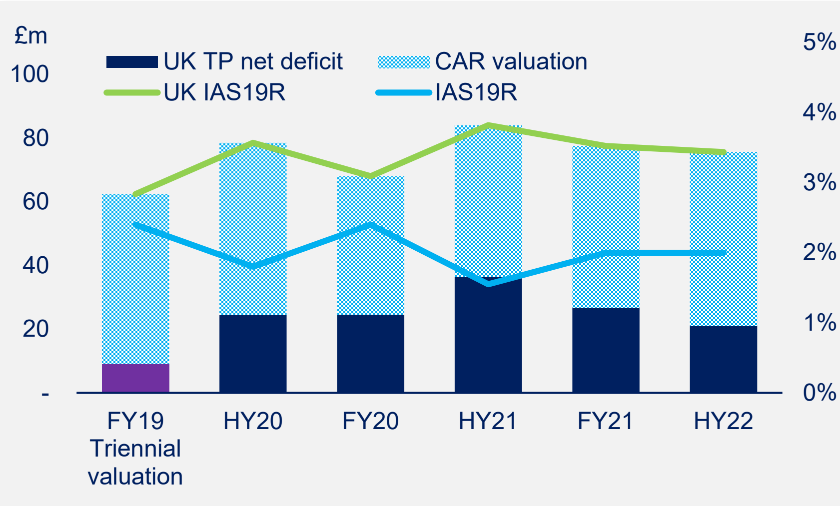
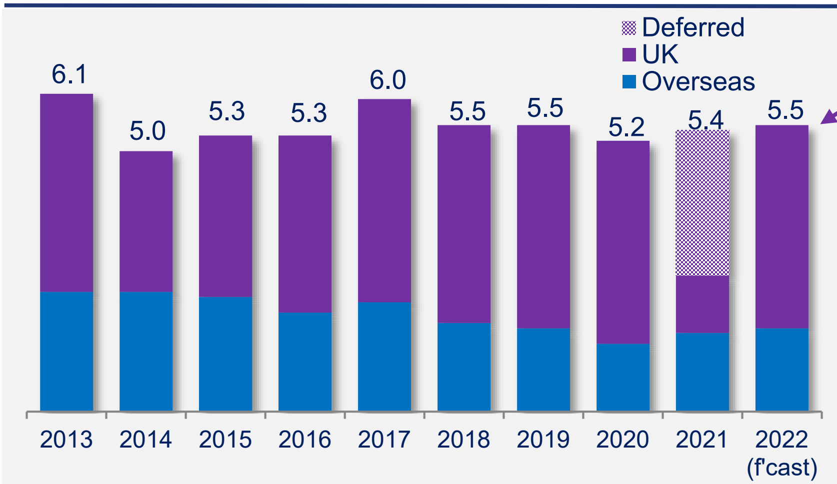
UK scheme deficit



- UK scheme IAS19R deficit of £75.6m
- Discount rates remained stable at 2%, whilst increase in CPI inflation was more than offset by strong asset returns (£1.9m deficit reduction from March 2021)
- The Group has a 25-year deficit reduction agreement (starting FY14) providing **long-term visibility** of cash contributions

Pension cash costs, £m



Cash costs include pension administration costs which are included within operating profit (FY22 f'cast: £0.6m)

Despite swings in the balance sheet deficit, pension cash costs have remained stable, predictable and **sustainable**

- Winding down overseas schemes where possible, limiting exposure
- Next triennial review due in 2022; latest triennial review was April 2019
- Deferral of 2021 contributions repaid from FY23

Sustainable and stable pension cash flows

Business review

Robert Purcell
CEO

Market backdrop

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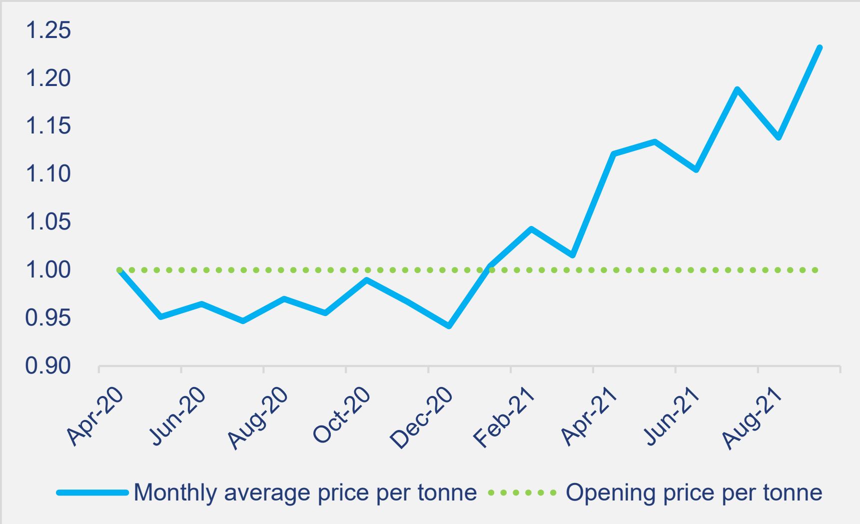
Group steel purchase price, indexed



Shipping time and costs, indexed

- Strong performance, despite global supply chain disruption and reduced material availability
- Inflationary pressures on material, transport and energy costs have been passed on to customers through proactive sales price increases
- Covid-19 related disruption continues; country specific restrictions throughout the Far East
- Ongoing Covid-19 related absenteeism and behavioral changes
- Business demonstrating growth whilst being cautious about the global backdrop
- Headwinds expected to continue in the second half of the year

Renold has successfully navigated the uncertain H1 economic and geopolitical climate

Divisional summary

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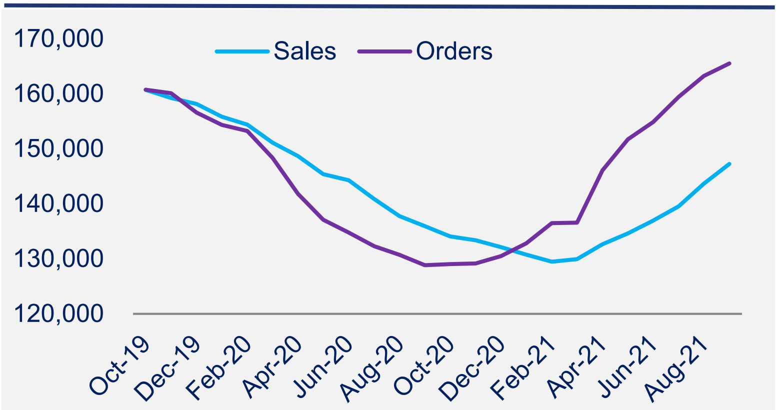
Chain

- Strong sales and order growth throughout the half, particularly in Americas and Europe
- Sales price increases effectively implemented to offset high cost inflation
- India performed well, despite a Covid-19 related lock down in the half
- Significant progress continues to be made in improving the performance of the new Chinese factory

Chain sales and orders[1], £



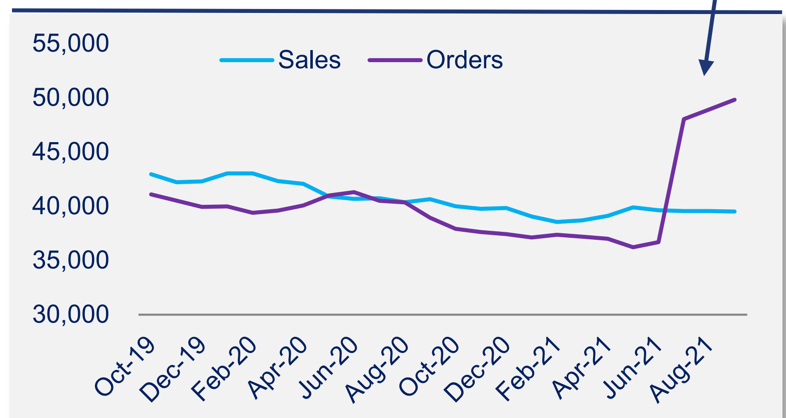
[1] Moving annual total at constant exchange rates

Torque Transmission

- Significant £11m long-term military contract secured; order intake up 66%
- Revenue in the Gears and Couplings units improved markedly
- Longer cycle business
- Non-recurrence of UK government Covid-19 related support

Long-term military order

TT sales and orders[1], £



[1] Moving annual total at constant exchange rates

Resilient margin despite inflationary cost pressures

Market dynamics

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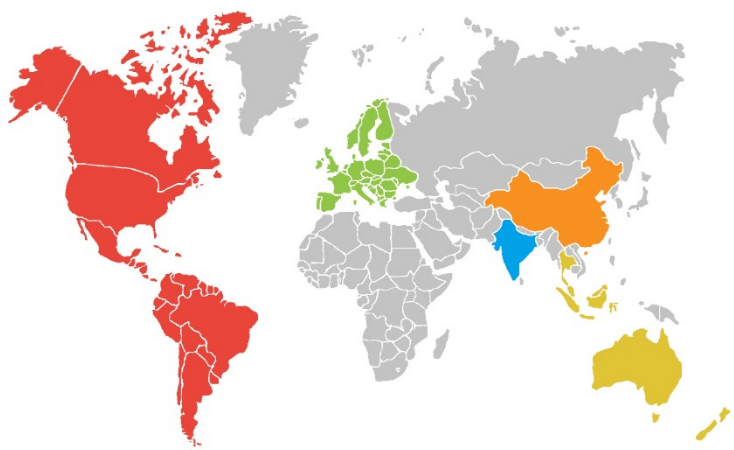
Revenue and orders by region, constant exchange rates

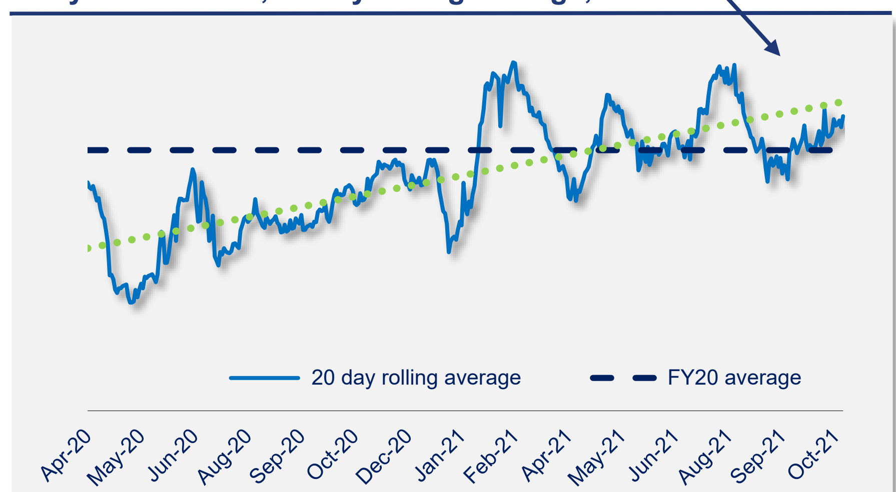
	Group	Americas (book to bill 104%)		Europe (book to bill 133%)		India* (book to bill 99%)		China (book to bill 112%)		Australasia (book to bill 124%)	
		Revenue	Orders	Revenue	Orders	Revenue	Orders	Revenue	Orders	Revenue	Orders
HY22 vs HY21	Revenue +22.0% Orders: +55.1%	19.3%	42.2%	32.5%	82.2%	69.7%	20.4%	5.1%	48.0%	-3.3%	22.7%
HY22 vs HY20	Revenue +1.8% Orders: +23.2%	-3.6%	6.6%	7.7%	51.3%	14.2%	0.2%	20.1%	16.0%	-4.8%	8.7%



Record closing orderbook; £72m at HY22

Ahead of pre pandemic levels

Daily order intake, 20 day rolling average, £



Note: External revenue and orders for key territories based on data to 30 Sept 2021, 30 Sept 2020 and 30 Sept 2019
Data combines Chain & Torque Transmission divisions
**India site was closed during April 2020 and May 2021 due to the Covid-19 pandemic*

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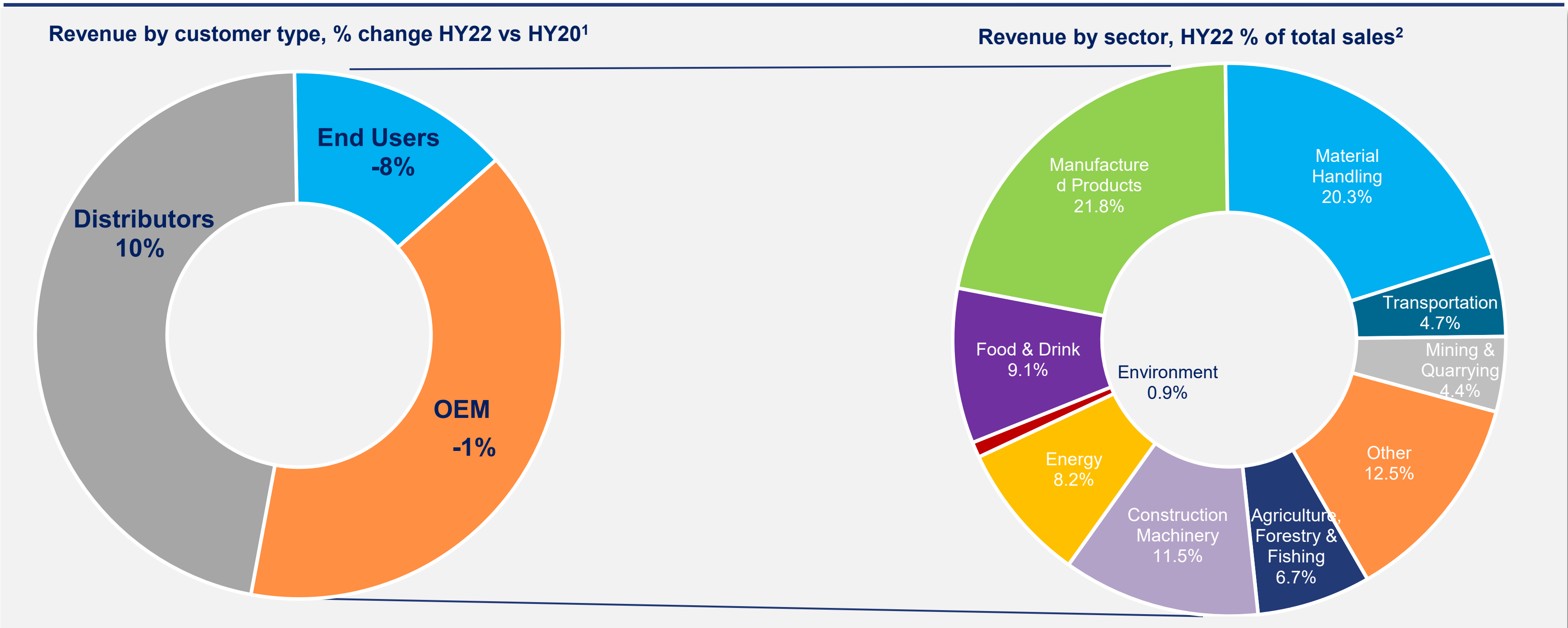
Revenue by sector and customer type



[1]At constant exchange rates [2]Analysis excludes distribution sales

- Order intake increasing significantly, ahead of pre Covid-19 pandemic levels
- Closing orderbook[1] up c.35% from HY20 and over 60% from HY21
- Strong Distributor growth in Europe
- Progressive recovery in every region, especially Chain Europe

Renold benefits from significant geographic, customer and sector diversity

"We will strive to act responsibly, balancing the expectations of all our stakeholders whilst reducing our impact on the environment and increasing our contribution to the communities we operate within."

Initial Centrally Driven Focus – Assessed as Best Opportunities

Environmental Sustainability

Energy

Goals

- Perform a review of current energy usage
- Identify both short and longer term energy reduction opportunities
- Set an overall longer term Renold Group energy reduction target
- Determine and cascade measurable and achievable site specific energy reduction targets which in aggregate at least deliver the Group target
- Establish an ongoing energy usage monitoring and reporting mechanism

Commercial Sustainability

Chain Product Benefits

Goals

- Quantify the benefit of Renold chain when compared to the market in terms of power consumption in use and product life expectancy
- Develop chain products that need less, or no, lubrication and consequently have a lower environmental impact
- Longer-term, document and quantify the ESG benefits of our products to assist our customers in achieving their own ESG goals and leverage competitive advantage for Renold

Centrally driven "top-down" projects complemented by localised "bottom-up" sustainability projects identified and driven at regional/site level.

Renold will make Sustainability a guiding principle

Sustainability - Health and Safety

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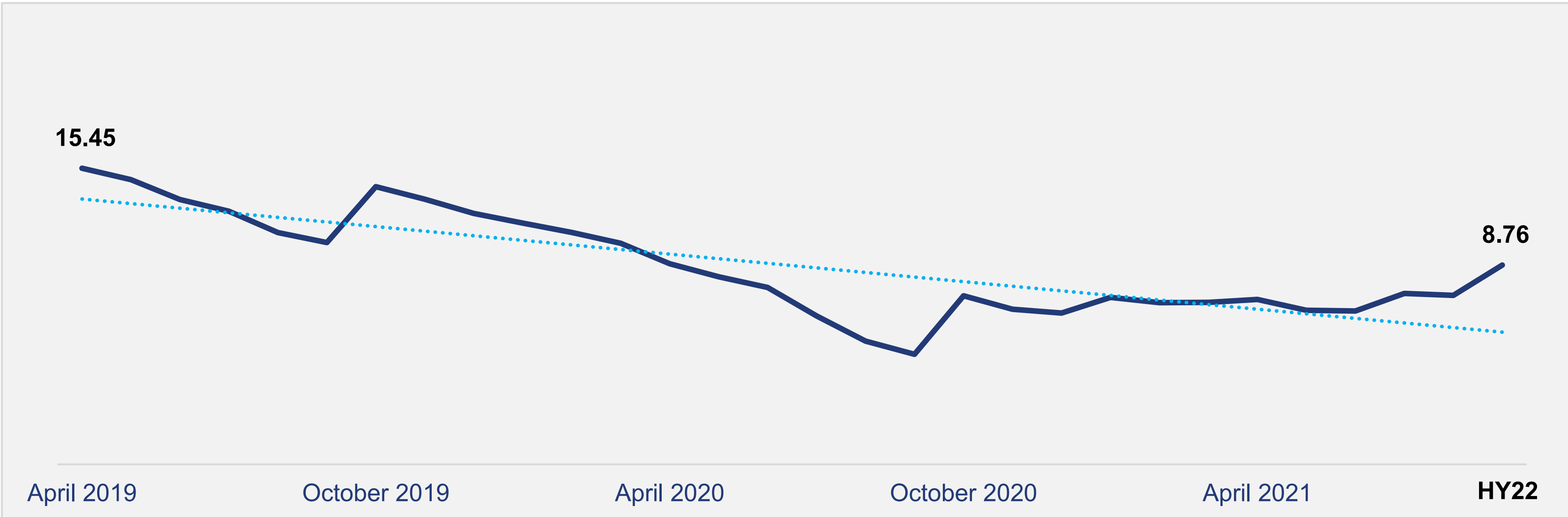
Lost time accident frequency rate



- The safety, health and wellbeing of our employees will always be our highest priority
- Accident reporting continues to be key agenda for all Board and Executive meetings
- Covid-19 response continually monitored and all public health measures followed
- All accidents are thoroughly investigated and lessons learnt are shared throughout the Group
- Continued drive to increase near miss reporting and the sharing of good practice

Health and Safety is our number one priority, and we are committed to providing a safe workplace

Acquisitions

Renold is positioned well to pursue acquisition opportunities, with a strong management team and low net debt. Our reputation, broad product range and geographic reach provide a strong foundation for integration.

Track record

Brooks Conveyor Chain; Apr 2021

- £0.7m consideration, including £0.3m deferred consideration
- Business has been fully integrated into the Renold UK Service centre in Manchester
- Performing ahead of expectation which was £1.0m additional revenue and £0.2m additional operating profit
- Valuable new customer relationships, complements existing product range and consolidates volume within existing Renold facility

Aventics Tooth Chain; Jan 2016

- €4.8m consideration, plus €1.4m contingent consideration
- New product offering
- Brought significant benefit to the Group in terms of new customers, relationships and technical ‘know-how’
- Performance exceeded expectations
- Renold’s international sales network able to sell more effectively across a bigger geographical area

Acquisition pipeline building, and under active management

Capital expenditure and manufacturing capabilities:

- Investment in automation and the upgrade of existing facilities in India and China to make higher specification products
- Standardising manufacturing capabilities, products and components; increasing efficiency/productivity
- Continued implementation and enhancement of Group business systems capabilities
- Geographic diversification; improving flexibility between manufacturing locations, especially in light of customer supply chain diversification and changing tariff environment
- Investment in heat treatment facilities, gaining significant cost savings, quality improvements and enabling increased energy efficiency and reduced carbon emissions

Increased flexibility and route to improved margins

Commercial development:

- Relentless drive for higher specification products
- Continued focus on Sustainability
- Acquisition and organic growth
- Improvement in customer satisfaction; reducing lead times with strategically placed service centres
- Alignment with high growth sectors and modern processes; focused development of specific markets and/or niches
- Build on core TT capabilities and products, capitalising on industry leading expertise

Our value generation

KNOWLEDGE
OF CUSTOMERS, PROBLEMS, PRODUCTS AND SOLUTIONS

SKILLS AND FACILITIES
THE ABILITY TO CONCEIVE AND DELIVER THESE SOLUTIONS

LOGISTICS
THE RIGHT PRODUCT IN THE RIGHT PLACE AT THE RIGHT TIME

SERVICE
WE CONTINUE TO DELIVER SUPERIOR AFTER-SALES SERVICE

Delivering operational and environmental benefits for customers

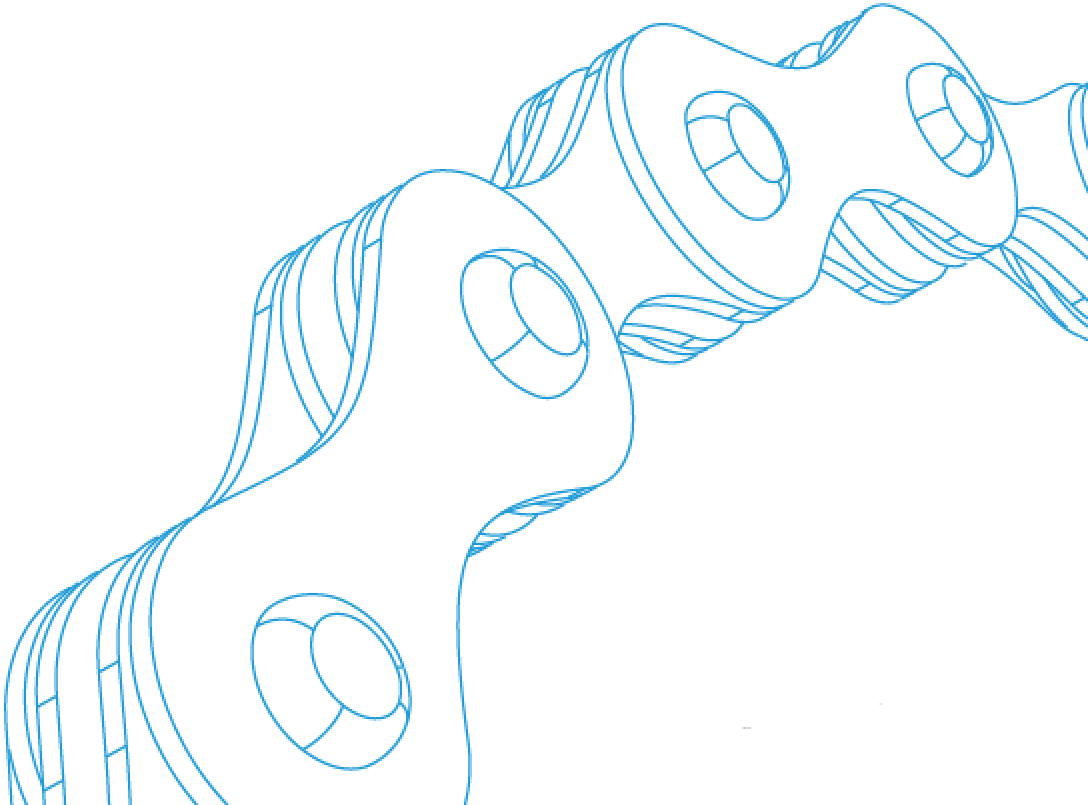
Summary

- Activity levels continue to rebound; strong recovery from the Covid-19 pandemic
- Record closing order book of £72.1m
- Significant £11m long-term military contract win
- Effective navigation of the uncertain economic environment
- 7.4% return on sales; improving profitability despite significant cost inflation and global supply chain disruption
- Focused working capital management, careful cost control, and gradual restoration of capital expenditure
- Lowest net debt for over a decade
- The Renold platform, with a strong management team, positions the Group well to pursue strategically and financially attractive acquisitions

We are emerging from the pandemic in a strong position, dealing with market wide headwinds and taking advantage of the rapidly rebounding global economy

Resilience by design:

Q&A



Appendices

Appendix – Introducing Renold

RENOLD

Renold plc is the second largest industrial chain company in the world, and from it's global manufacturing footprint delivers to customers in over 100 countries worldwide

- Renold are an international Group operating across two divisions; Chain and Torque Transmission
- Our annual turnover typically exceeds £185m, and we have 1800 employees worldwide
- Our Chain division is a market leading supplier of transmission, conveyor and lifting chain, whilst Torque Transmission manufacture and develop industrial couplings and gearbox solutions
- Our products are used in many demanding, high-tech and cutting edge end applications. This can range from automated warehousing systems to assembly of the latest model vehicles, from power stations to escalators, and from essential food manufacturing to rollercoaster rides
- Renold products are often a relatively low cost when compared to the customers final project costs, but they are critical to the performance of the entire system
- Around 40% of our Group revenue is generated in Europe and Americas respectively. The remaining 20% is spread across Australasia, China and India
- Whilst we are the second largest industrial chain manufacturer in the world, we have <10% market share
- Renold is amongst the world's leading industrial brands, with nearly 150 years of engineering know-how, providing premium products and engineered solutions that customers trust

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Renold has a truly global footprint, with major manufacturing in Europe, North America, Asia and Australia

Appendix - Renold market and product positioning

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. Our products are specified by a significant number of OEM's and 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, market sectors, for both MRO and capital projects, resulting in a huge spread of customers and industries served. There is no customer or sector dependency. Our product range is second to none.

High Specification Products that Deliver Operational and Environmental Benefits

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

- Longer life – reduced material and energy requirements, and improved efficiency
- Lower or no lubrication requirements – reduced contamination opportunity, lower cost to run
- Ability to operate in difficult or harsh environments
- Greater efficiency – reduced energy requirements

Global Market Position and Unique Geographical 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.

Relatively Low Cost but Critical Products

Renold products are often a relatively low cost when compared to the cost of the overall assembly or system of which they are part; but they are critical to the performance of the entire 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 markets.

Appendix – Liquidity, Currency & Tax

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Liquidity

- Access to sufficient liquidity via £61.5m multi-currency revolving credit facility maturing in March 2024
- Covenant tests have reverted to standard from 30 September 2021, following the amendment to accommodate the potential trading impact of the Covid-19 pandemic
- The Group continues to have clear headroom on all covenants

Covenants	At 30 September 2021
Net debt/EBITDA[1]: Max 2.5x	0.6
Interest cover: Min 4.0x	16.4

[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

Currency

- Every US dollar cent worth c.£30k of adjusted operating profit
- Every Euro cent worth c.£60k of adjusted operating profit

Analysis by currency, 6 months ended 30 September 2021

Taxation

- Effective tax rate of 19.4% (FY21: 36.0%, HY21: 28.6%)

Clear covenant headroom

Appendix – Income statement

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	HY22 £m	HY21 £m	Var £m
Revenue	**95.3**	81.5	13.8
Adjusted operating profit	**8.2**	5.8	2.4
Amortisation of acquired intangible assets	**-**	(0.5)	0.5
Operating profit	**8.2**	5.3	2.9
Pension scheme financing charges	**(0.9)**	(1.0)	0.1
External financing charges	**(0.6)**	(0.9)	0.3
Interest on lease liabilities	**(0.2)**	(0.3)	0.1
Other financing costs	**(0.3)**	(0.3)	-
Profit before tax	**6.2**	2.8	3.4
Taxation	**(1.2)**	(0.8)	(0.4)
Profit after tax	**5.0**	2.0	3.0
Adjusted EPS	**2.3p**	1.1p	
Basic EPS	**2.3p**	0.9p	

Appendix – Balance sheet

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	HY22 £m	HY21 £m	Var £m
Goodwill	**22.2**	23.5	(1.3)
Intangible assets	**6.3**	7.3	(1.0)
Fixed assets	**46.7**	52.0	(5.3)
Right-of-use assets	**10.8**	11.4	(0.6)
Deferred tax	**21.1**	19.5	1.6
Inventories	**44.7**	41.8	2.9
Receivables	**37.8**	31.5	6.3
Payables	**(45.5)**	(32.5)	(13.0)
Working capital	**37.0**	40.8	(3.8)
Net debt	**(13.9)**	(26.4)	12.5
Lease liabilities	**(15.5)**	(16.7)	1.2
Provisions	**(2.3)**	(0.7)	(1.6)
Retirement benefit deficit	**(100.3)**	(115.6)	15.3
Current tax (liability)/asset	**(2.8)**	(1.5)	(1.3)
Other	**(6.0)**	(5.1)	(0.9)
Net (liabilities)/assets	**3.3**	(11.5)	14.8
Leverage ratio[1]	**0.6 times**	1.2 times	

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

Revenue per employee, constant exchange rates