

Re-engineering our future.

Preliminary results for the
year ended 31 March 2014

Re-engineering our future: Progress Report

Robert Purcell, CEO

- Adjusted EPS more than doubled to 3.2 pence
- Underlying adjusted operating profit increased 56% to £11.1m (2013: £7.1m)
- Successfully delivered complex capacity reduction project to generate annualised savings of £3.2m from June 2014
- Operating cash flow before exceptional items increased 27% to £12.1m (2013: £9.5m) driven by improved profitability and gains in average working capital
- Self-financed £7.2m current year cash cost of the Bredbury closure project
- RoS% growth driven by contribution margin gains, focused on high value add products, and overhead reductions

We have successfully delivered the first year of steady and sustainable earnings growth through self-help and continuous improvement

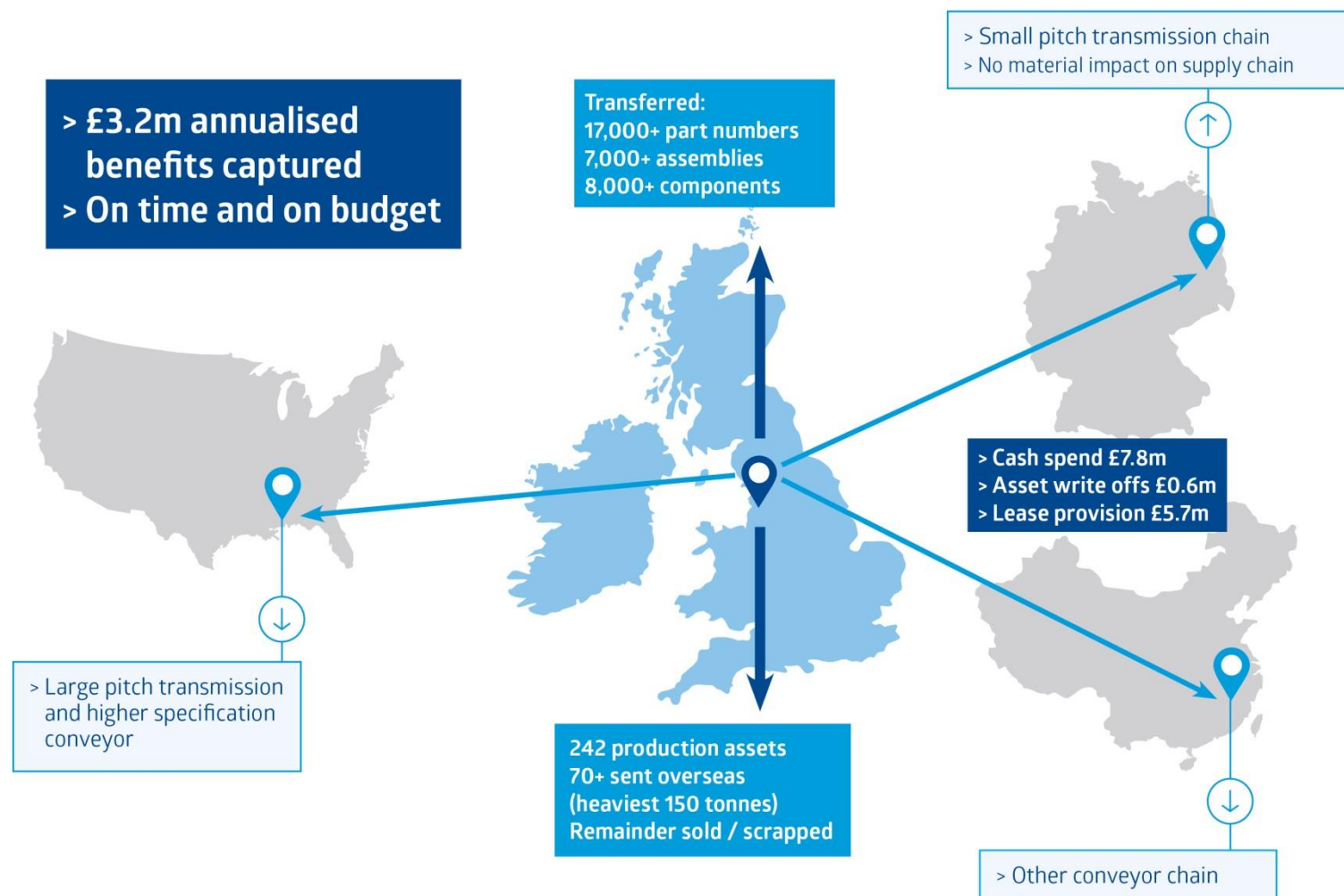
*Throughout this document the use of 'Underlying' means after eliminating the impact of movements in foreign exchange rates. 'Adjusted' excludes exceptional items and pension costs. Average working capital is a Key Performance Indicator in use in the business and is calculated as the average of each month's working capital value as a ratio of rolling 12 monthly sales.

- Step change in Health and Safety culture
 - **'The Framework' rolled out in all locations, with risk and action tracking** ✓
- Efficient, streamlined, forward-thinking operations across the Group
 - **Management team strengthened, developing externally focused structures** ✓
- Reduced cost base, right-sized capacity → lower breakeven point
 - **Contribution margins improving, net overheads down £3.4m** ✓
- Exit less viable assets, maintain interest in growth geographies and sectors for development over time
 - **Bredbury closure on time, recipient sites embedding production processes** ✓
 - **Investment in process and production capability in India and China** ✓
- Material improvement in customer service performance
 - **Quicker system based quotations. Shorter lead times for configured chain** ✓
- Improved operating margin (%) driven by market leading products in both Chain and TT
 - **RoS of 6.0% was an increase of 2.2% year on year** ✓

... the Bredbury closure project and other overhead reductions lay strong foundations for further material growth in earnings in the new financial year

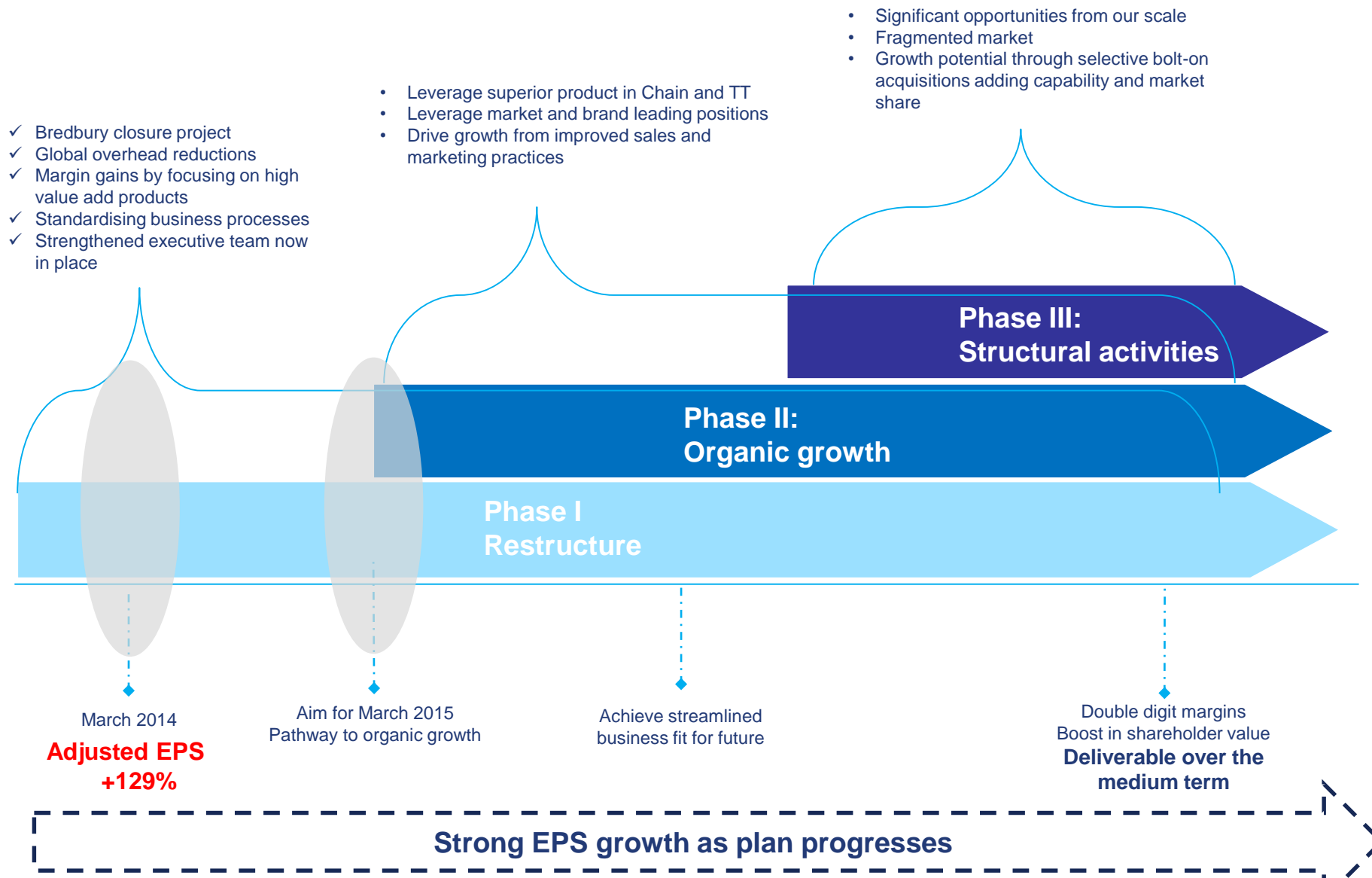
Bredbury project transferred c.£18m of Chain sales

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Progress on the three-phase plan

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Enhance Health and Safety performance and culture

- Delivery of global training program to all managers supporting drive to OHSAS 18001 certification in all production sites
- Launch of Health and Safety Excellence awards scheme

Strengthen commercial positioning

- Continued structural change to focus directly on our markets
- Monitor, measure and drive our sales channels to grow existing, and open new accounts
- Promising start for the UK configured chain cell

Embed excellent customer service

- Re-establishing closer connection with local customers
- UK service centre established, model may be replicated in other locations
- Manage our manufacturing footprint on an integrated basis to reduce lead times

Deliver ongoing cost reductions

- Fully embed Bredbury production in recipient sites to close out the project in Q1
- Identify and exploit operational leverage in recipient sites following the Bredbury moves (Bredbury phase 2 benefits)
- Investment in new equipment to upgrade manufacturing facilities and lower production costs

Build balance sheet strength

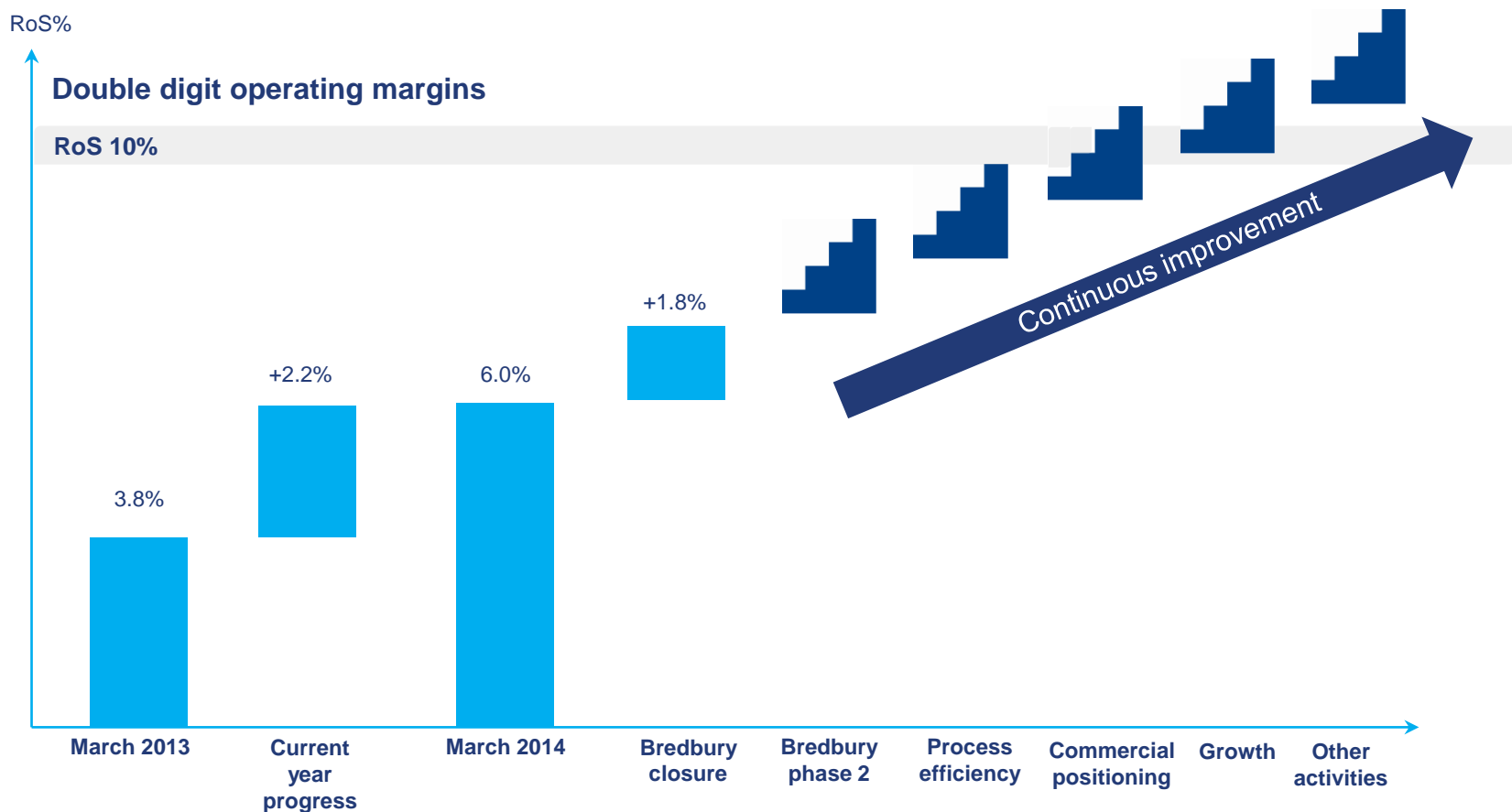
- Opportunities for further improvements in average working capital
- Further mitigation of pension risks as opportunities arise or schemes move into surplus
- Further reductions in financing costs as current year changes flow into new year

... to deliver continuous improvement in all business activities

Road map for earnings progression

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First step delivered, clear route to further margin gains



- Bredbury closure benefits are firm from June 2014
- Phase 2 benefits to be generated by manufacturing efficiency in recipient sites
- Future activity streams are made up of multiple projects which will combine to generate substantial benefits

Financial performance

Brian Tenner, CFO

Significant first step in margin improvement delivered

	13/14 £'m	12/13 £'m	Var £'m
Revenue as reported	184.0	190.3	
Impact of FX	-	(3.3)	
Underlying Revenue	184.0	187.0	(3.0)
Adjusted operating profit as reported	11.1	7.2	
Impact of FX	-	(0.1)	
Underlying adjusted operating profit	11.1	7.1	4.0
Underlying Return on Sales %	6.0%	3.8%	
Pensions administration costs	(0.6)	(1.3)	
Exceptional items / JV	(11.8)	(12.6)	
External interest	(1.8)	(2.7)	
IAS19 financing costs	(2.8)	(2.5)	
Loss before tax	(5.9)	(11.9)	
Adjusted earnings per share (pence)	3.2	1.4	1.8

- Underlying revenue fell by 1.6% in the year against mixed local macro-economic conditions
- Underlying adjusted operating profit rose by 56% despite £0.4m FX loss in the year
- Adjusted EPS gains enhanced by reductions in financing costs and low effective tax rate

Exceptional items

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Chain capacity reduction project on time and on budget

	13/14 £'m	12/13 £'m
Bredbury closure project redundancies	(2.6)	-
Other Bredbury closure project costs	(2.2)	-
Fixed assets and stock written off (non-cash)	(0.6)	(6.5)
Goodwill in Renold Hangzhou (non-cash)	-	(1.5)
ERP system impairment (non-cash)	-	(1.4)
Onerous lease provision - Bredbury	(5.7)	-
Chain capacity reduction / business review	(11.1)	(9.4)
Other restructuring charges	(0.7)	(3.1)
Total exceptional charges	(11.8)	(12.5)

- Key exceptional costs driven by implementation of the Bredbury closure project
- Cash cost of the project £7.8m (£7.2m in 2013/14) - £4.8m above plus £3.0m of capital spend
- Onerous lease provision is the discounted mitigated provision for Bredbury site through to 2030

Strong advance in margin while delivering the complex Bredbury project

	13/14 £'m	12/13 £'m	Var £'m
Revenue as reported	139.6	141.9	
Impact of FX	-	(2.1)	
Underlying Revenue	139.6	139.8	(0.2)
Operating profit as reported	9.9	6.9	
Impact of FX	-	(0.1)	
Underlying Operating Profit	9.9	6.8	3.1
Underlying Return on Sales %	7.1%	4.9%	

- Underlying order intake grew 1.4%, accelerating to 2.2% growth in H2 from 0.5% in H1
- Underlying sales were flat (down 0.2%) reflecting a mixed performance in the key regions:
 - Europe: 1.7% fall driven by weakness in French market
 - Americas: 5.3% growth with both USA and Canada ahead
 - Australasia: 7.6% fall driven by weakness in Australian natural resources sector
- Contribution margins improved with more stable production pattern
- Overhead reductions of £3.0m offset by £0.5m of additional ERP system depreciation

Torque Transmission margins advanced by focus on high value add products

	13/14 £'m	12/13 £'m	Var £'m
Revenue as reported	44.4	48.4	
Impact of FX	-	(1.2)	
Underlying Revenue	44.4	47.2	(2.8)
Operating profit as reported	5.8	5.3	
Impact of FX	-	-	
Underlying Operating Profit	5.8	5.3	0.5
Underlying Return on Sales %	13.1%	11.2%	

- Underlying order intake down 0.3% - H1 fall of 2.3% almost offset by H2 growth 2.1%
- Underlying sales down 5.9% - almost all due to the end of a mass transit contract in Q1
- Continuing economic uncertainty in the South African mining sector also had a negative impact
- Focus switched to higher value added products and drove up contribution margins
- Overheads reduced by £0.9m before £0.3m of extra ERP depreciation

Group Cash Flow Statement

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Self-financed £7.2m cash costs of Bredbury closure project

	13/14 £'m	12/13 £'m
EBITDA	16.5	11.8
Movement in working capital	0.8	4.2
Pensions	(4.4)	(5.8)
Taxes and other	(0.8)	(0.7)
Net cash from ordinary operations	12.1	9.5
Restructuring spend	(6.0)	(1.3)
Net cash from operating activities	6.1	8.2
Investing activities	(7.1)	(4.9)
Financing costs	(1.8)	(2.9)
Share issues under warrants	0.4	0.3
Impact of foreign exchange	0.4	(0.6)
(Increase) / decrease in net debt	(2.0)	0.1
Closing net debt	(24.8)	(22.8)

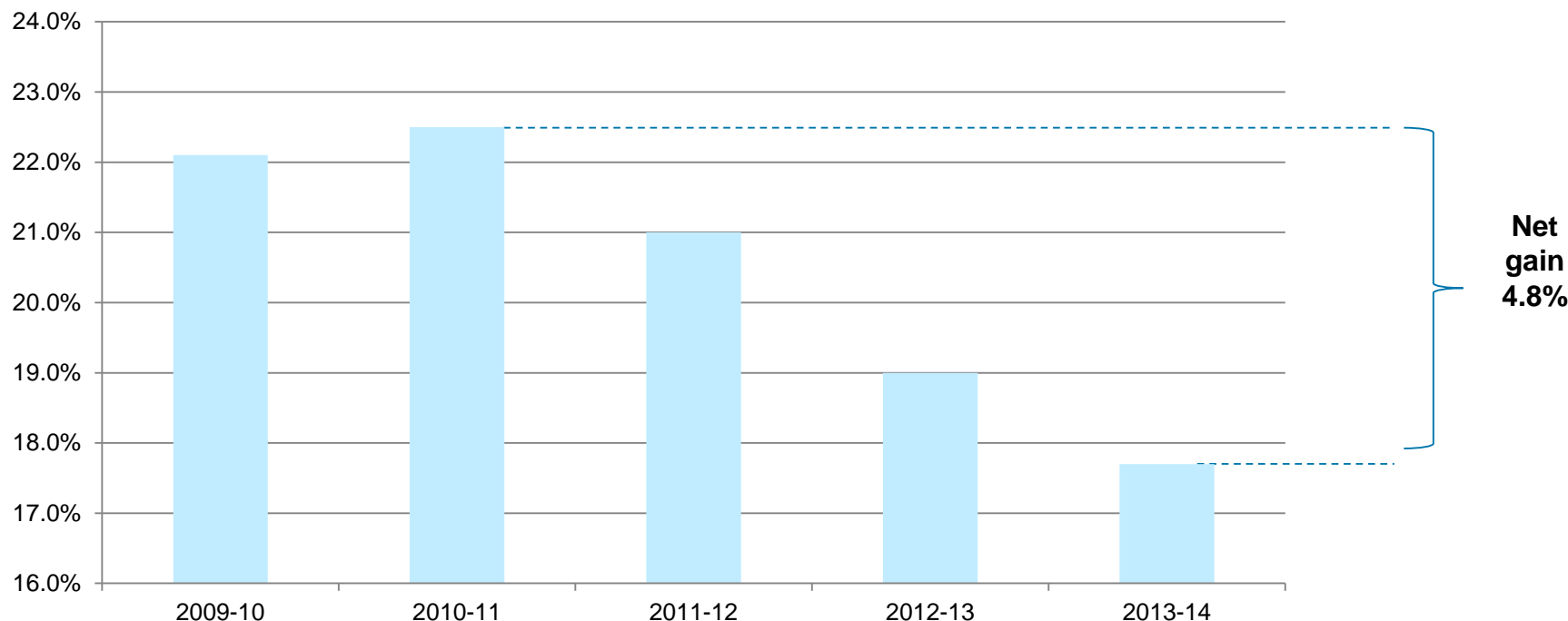


	13/14 £'m	12/13 £'m
Inventory	1.8	2.8
Debtors	0.8	1.3
Payables	(1.8)	0.1
Working capital cash flow	0.8	4.2

- Gains in working capital despite safety stock build for closure project – reduce in 2014/15
- Delivered an improved and more consistent working capital profile to match production profile
- Capital investment reflects £3.0m of spend associated with the Bredbury closure project

Delivered further gains in working capital management

Average working capital ratio to rolling annual sales



- Average working capital ratio improved further in the year from 19.0% to 17.7%
- Stock reduced in most locations while debtors and creditors unwound on lower activity levels
- Overdue debtors improved for fourth consecutive year to 15.3% (clear opportunity remains)
- Goal remains to optimise working capital while supporting business growth and service improvement

ROCE% improved to 11.1%, a year on year increase of 70%

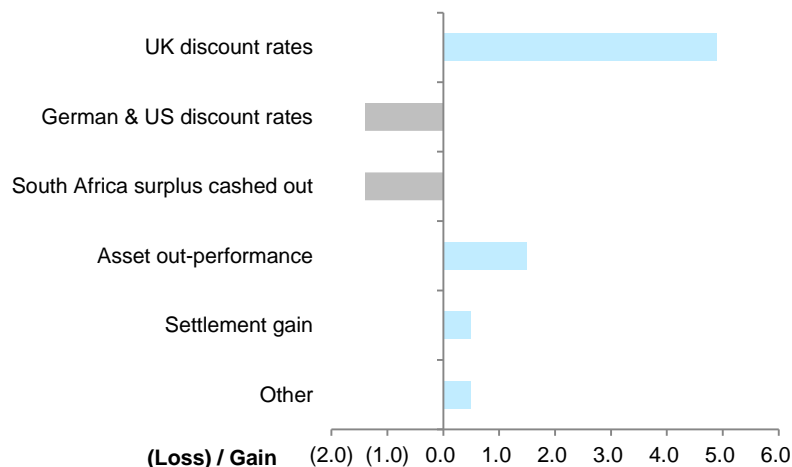
	31 March 2014 £'m	31 March 2013 Restated £'m
Goodwill	19.8	21.8
Fixed assets	45.4	49.3
Deferred tax	18.7	20.8
Inventories	35.9	40.9
Receivables	29.7	32.8
Payables	(35.5)	(40.6)
Net working capital	30.1	33.1
Net debt	(24.8)	(22.8)
Provisions	(7.7)	(1.9)
Retirement benefit obligations	(64.9)	(69.5)
Other assets	1.5	0.2
Net assets	18.1	31.0
Gearing (D/(D+E))	58%	42%

- Deferred tax assets a source of enduring value in reducing cash tax payments. Reduction reflects disposal of Bredbury trade
- Small increase in net debt driven by £7.2m current year spend on closure project
- Main provision is £5.7m for onerous lease arising from Bredbury plant closure

- Leverage ended the year at 1.5x net debt : EBITDA (covenant limit of 2.5 times, prior year 1.9x)

UK scheme merger delivered £1.0m annualised cash flow savings

Changes in Group deficit (£m)



Deficit £64.9m (£49.3m post tax)

- Rise in UK discount rate by 0.2%
- German and US discount rates fell by 0.35% and 0.3%
- South Africa cash surplus returned to the Group - no longer a pension asset
- Globally, assets returned £1.5m more than assumed under IAS19R (assumed equal to the discount rate)
- Settlement gain on merger of UK scheme

Group annual pension cash costs

£'m	2015	2014	2013
UK deficit	(2.6)	(2.7)	(2.3)
UK admin & PPF	(0.1)	(0.9)	(1.1)
Germany	(1.2)	(1.2)	(1.2)
Other overseas	(0.9)	(1.0)	(1.2)
South Africa surplus	-	1.4	-
Total	(4.8)	(4.4)	(5.8)

Cash flow

- UK merger delivered £1.0m annualised savings from Q2 2013/14
- UK administration includes merger costs in 2013 and 2014
- German cash costs are actual pensions in payment, moving with inflation and changes in pensioners
- Other overseas cash costs reduce as Australian scheme now in surplus

Self help remains key while preparing for Phase 2 of the Strategic Plan

- Market conditions around the globe remain mixed
 - Americas, China and India growing, Europe flat with French weakness, Australia difficult
 - Wide geographic, sector and customer mix will help
- Bredbury closure project to complete in Q1 of 2014/15
 - Annualised benefits of £3.2m and project complexity required full management attention
 - Phase 2 efficiency gains in the recipient sites to be targeted
- Contribution margin gains
 - Improved mix and value generation from excellent product base to continue
- Sustainable organic growth is a clear target
 - Work to develop the necessary building blocks is underway
 - Revenue expenditure to support preparation 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

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