

RENOLD

Preliminary results 2018

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29 May 2018

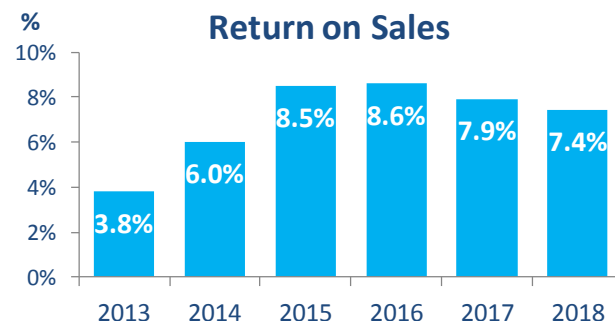
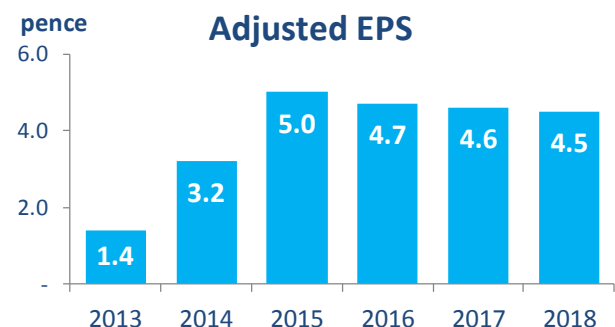
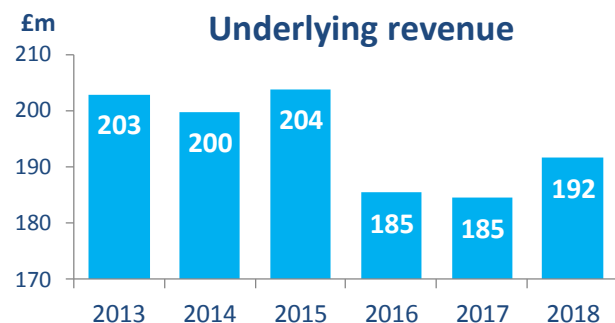


STEP 2020 has improved the quality of our business; it remains the right strategy for future progress

- The business is delivering substantially improved and more consistent performance than pre-STEP 2020
- Specific H1 challenges around steel costs and Einbeck supply disruption have been addressed
- 2018 saw a return to revenue growth and 2019 outlook is improving
- The business has continued to:
 - deal with legacy issues;
 - deliver on major restructuring projects; and
 - is increasingly undertaking wider business improvement programmes
- STEP 2020 remains the right strategy for Renold and will deliver revenue growth and improved margins



Return to organic growth; profitability stable despite disruptive factors in Chain; improved performance delivered in H2



- Underlying business performance improving
- Short term challenges impacted profitability in H1
- Improved trading performance in H2

- Underlying* organic growth of 3.8% delivered following market recovery and investment in commercial teams
- Strong order intake with orders 5.4% ahead of revenue for the year

- Continued progress with STEP 2020 Strategic plan
- Closed sub-scale manufacturing in New Zealand and China
- Relocation of Chinese chain manufacturing facility well advanced

- Profitability impacted by raw material increases and factory disruption due to machine breakdowns
- Adjusted* return on sales of 7.4% reflects disappointing H1 (6.3%) with significant progress made in H2 (8.5%)

- Trading performance in the year impacted by short-term factors in the first half of the year
- Strategic progress continues to be made to position the Group for sustainable growth in profitability

*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

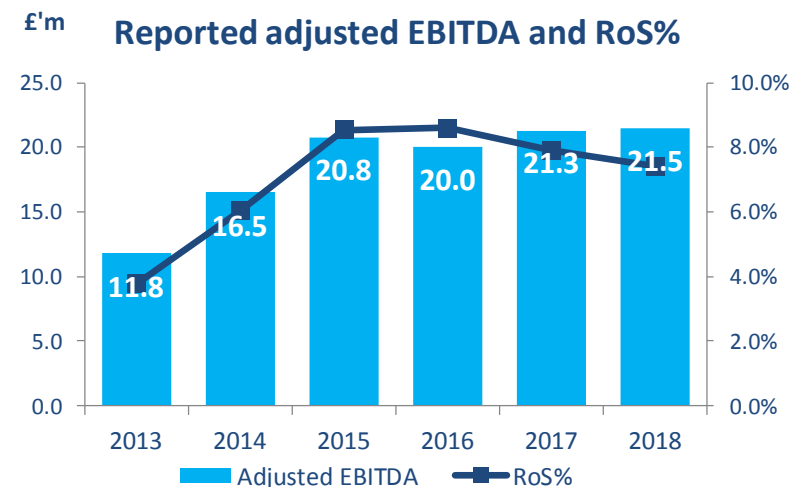
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Organic growth being delivered; Chain impacted by disruptive factors; TT recovering

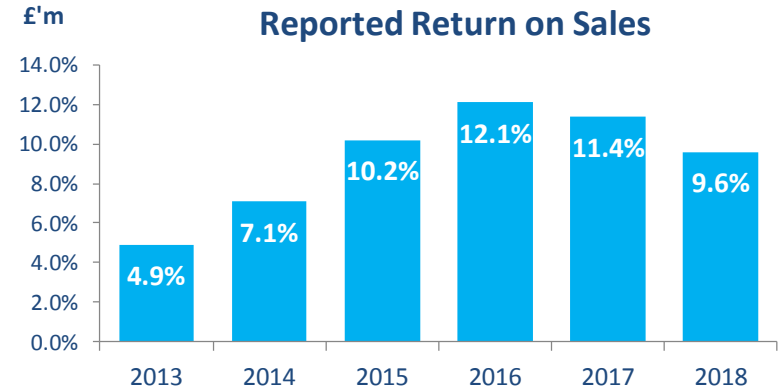
| | 2018 £m | 2017 £m | Var £m |
|---|--------------|--------------|---------------|
| Revenue as reported | 191.6 | 183.4 | |
| Impact of FX | - | 1.2 | |
| Underlying revenue | 191.6 | 184.6 | 7.0 |
| Reported adjusted operating profit | 14.2 | 14.5 | |
| Impact of FX | - | 0.4 | |
| Underlying adjusted operating profit | 14.2 | 14.9 | (0.7) |
| <i>Underlying Return on Sales %</i> | 7.4 | 8.1 | |
| Restructuring costs | (4.7) | (1.7) | (3.0) |
| Profit before tax | 1.4 | 6.7 | (5.3) |
| Adjusted EPS | 4.5p | 4.6p | (0.1p) |

- Reported revenue increased by 4.5%
- Underlying revenue up 3.8%
 - H1 underlying growth of 2.7%
 - H2 underlying growth of 4.9%
- Underlying order intake 7.2% ahead of PY
 - Orders ahead of revenue by 5.4%
- Operating margins of 7.4% with reported adjusted EBITDA increasing to £21.5m



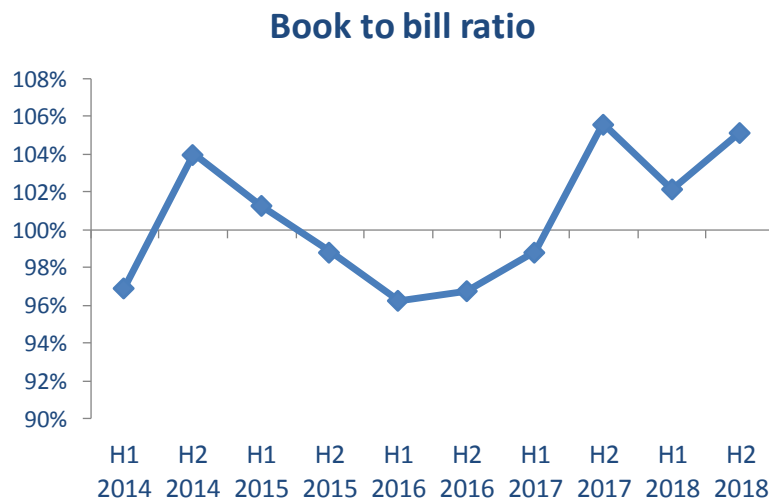
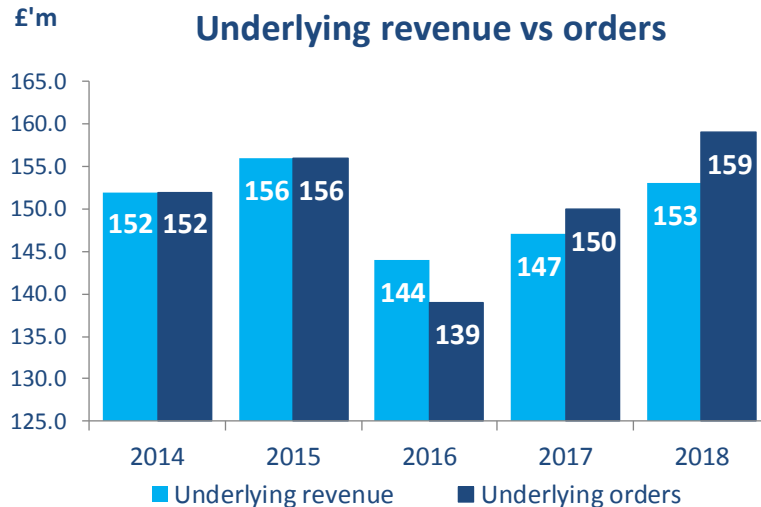
Progress on organic growth; profit impacted by raw material prices and machine breakdowns

| | 2018 £m | 2017 £m | Var % |
|--------------------------------------|------------|-------------|----------|
| Underlying revenue | 153.1 | 147.2 | 4.0% |
| Underlying adjusted operating profit | 14.7 | 17.1 | (14.0%) |
| <i>Underlying Return on Sales %</i> | <i>9.6</i> | <i>11.6</i> | |



- Underlying revenue 4.0% ahead of prior year
 - 1.9% growth for H1 accelerating to 6.2% for H2 as sale price increases combine with volume growth
- Growth spread across all Chain regions
 - Europe growing, despite factory disruption in the year
 - Americas demonstrating improvement through the second half
 - India and China continue to make progress in their domestic markets
 - Australasia continues to lag, but revenue decline from H1 recovered in H2 resulting in growth for the full year
- Variable margins circa 2% lower reflecting increased raw material costs off-set by direct labour efficiencies, mainly impacting H1
- Return on sales improving through the year as short-term challenges overcome
 - H1 reported return on sales – 8.0%
 - H2 reported return on sales – 11.2%

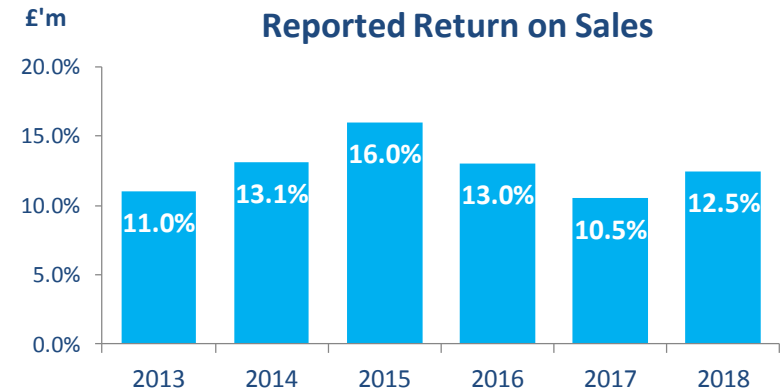
Continued strong order intake indicative of improving outlook; efficient production output remains key to improving returns



- Orders were ahead of revenue for the year with a book to bill ratio of 104%
 - Book to bill particularly strong for Americas, China and India – over 105% in each case
- H1 book to bill of 102%
 - Underlying order intake growth in H1 of 5.2%
 - Strong growth in Americas, China and India, but slower growth in Europe
- H2 book to bill of 105%
 - Underlying order intake growth for H2 of 4.7% against strong prior year comparator
 - Americas growth continued; Europe recovered supported by sales pricing benefits
- Strong order intake points to improving outlook for FY19

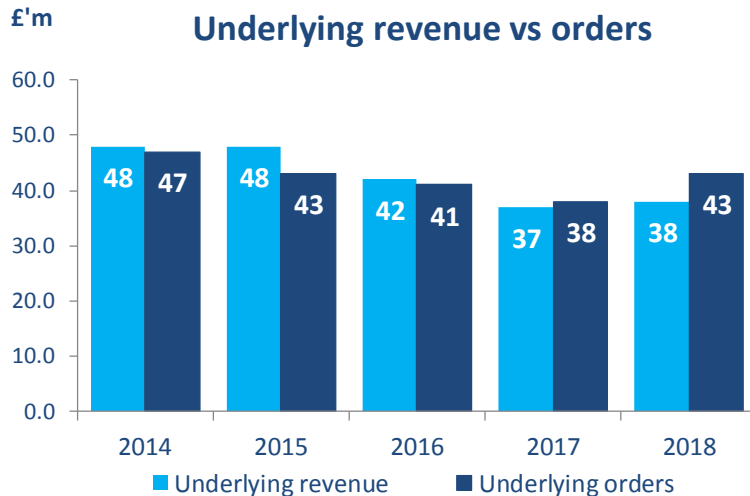
Improving year for Torque Transmission; Couplings delivered good growth

| | 2018 £m | 2017 £m | Var % |
|--------------------------------------|-------------|------------|----------|
| Underlying revenue | 38.5 | 37.4 | 2.9% |
| Underlying adjusted operating profit | 4.8 | 3.8 | 26.3% |
| <i>Underlying Return on Sales %</i> | 12.5 | 10.2 | |

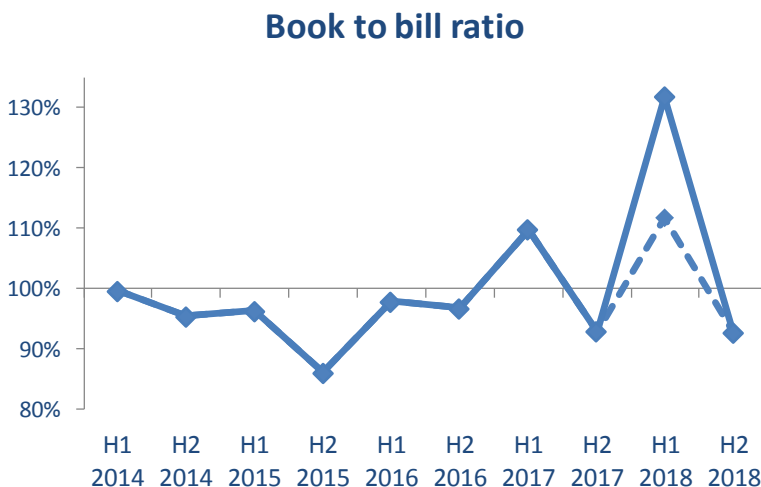


- As expected, TT performance improved in the year
 - Revenue growth being delivered by Couplings
 - Other business units; revenue stable or small declines
- Couplings is key reason for improving profitability; revenue growth supported by benefits of UK consolidation
- Efficiencies and cost control continue to support stable or improving profits in other business units
- Demand remained subdued for gears
- US demand improved in the latter part of the year
- Restructuring activities delivered in UK Couplings and in China have helped support margin improvement

Couplings improved; stronger order intake in US; Gears remains subdued



- Orders were significantly ahead of revenue for the year with a book to bill ratio of 112%
- Strong order intake in H1 2018 was bolstered by large multi-year Couplings order for the marine industry
 - Excluding the element which extends beyond FY18, book to bill ratio was 109% and order intake grew by 4.0%
 - Revenue for the next coupling under this major order is expected in FY20



- Order intake in the US grew by 12.5%, with the largest element of growth in H2, supporting order book into the new year
- Growth expected in FY19 despite phasing of major Couplings contract

One-off items weighing on profit after tax; adjusted PAT of £10.2m (2017: £10.5m)

| | 2018 £m | 2017 £m | Var £m |
|--|--------------|-------------|--------------|
| Adjusted operating profit | 14.2 | 14.5 | (0.3) |
| Restructuring costs | (4.7) | (1.7) | (3.0) |
| Pension admin costs | (0.9) | (0.7) | (0.2) |
| Impairment of goodwill | (2.1) | - | (2.1) |
| Amortisation of acquired intangible assets | (0.9) | (1.1) | 0.2 |
| Reported operating profit | 5.6 | 11.0 | (5.4) |
| Pension scheme financing charges | (2.4) | (2.5) | 0.1 |
| External financing charges | (1.7) | (1.7) | - |
| Other interest charges | (0.1) | (0.1) | - |
| Profit before tax | 1.4 | 6.7 | (5.3) |
| Taxation | (3.6) | (1.9) | (1.7) |
| Profit after tax | (2.2) | 4.8 | (7.0) |

- The main restructuring costs were:
 - £3.9m of cost relating the Chinese factory move, of which £3.1m is provision for future costs
 - Other STEP 2020 restructuring costs of £0.8m
- Impairment of goodwill relates to goodwill established on the acquisition of Jeffrey Chain in 2000, following performance in the year and change in discount rate
- Amortisation of intangibles relate to the Tooth Chain acquisition
- Increased tax charge includes £2.4m relating to US tax reform
 - 18.4% effective tax rate of adjusted PBT

Net cash outflow as planned; net debt better than expected

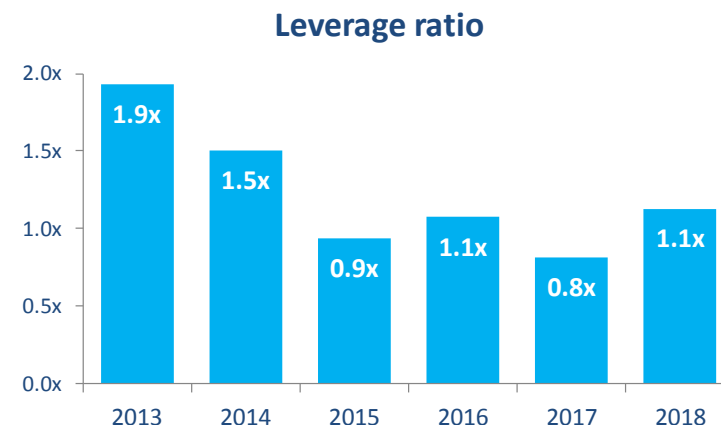
| | 2018 £m | 2017 £m | Var £m |
|---|---------------|---------------|---------------|
| Adjusted EBITDA | 21.5 | 21.3 | 0.2 |
| Movement in working capital | (2.6) | (2.5) | |
| Pensions cash costs | (5.5) | (6.0) | |
| Restructuring spend | (3.7) | (5.1) | |
| Taxes and other | (3.6) | (0.3) | |
| Net cash from operating activities | 6.1 | 7.4 | (1.3) |
| Acquisition consideration | (1.2) | - | |
| Property disposal proceeds | 0.5 | 10.2 | |
| Investing activities | (10.1) | (9.6) | |
| Financing costs paid | (1.7) | (1.5) | |
| Other movements / FX | (0.5) | (0.4) | |
| Change in net debt | (6.9) | 6.1 | (13.0) |
| Opening net debt | (17.4) | (23.5) | |
| Closing net debt | (24.3) | (17.4) | (6.9) |

- EBITDA increased, reflecting additional depreciation from capex
- Increased working capital reflects increased inventory value as raw material prices increase
- Pension cash costs reduced
- Restructuring spend includes:
 - costs of Bredbury onerous lease
 - STEP 2020 restructuring initiatives
 - Initial stages of China factory move
- Cash tax of £3.8m
 - losses expired in Germany and move to payment on account
 - return to normalised levels in FY19
- Capex increased from prior year
 - decreased capital creditor at March 2018 of £0.8m
 - some China factory capex deferred into FY19

Leverage remains low despite continued investment

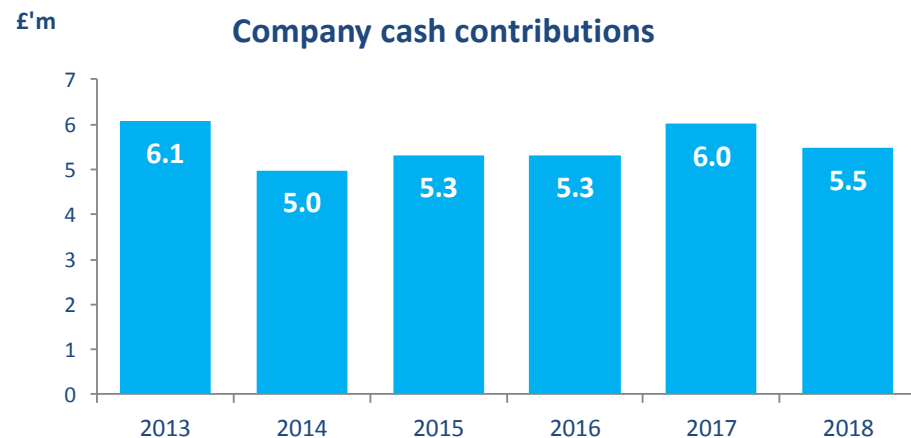
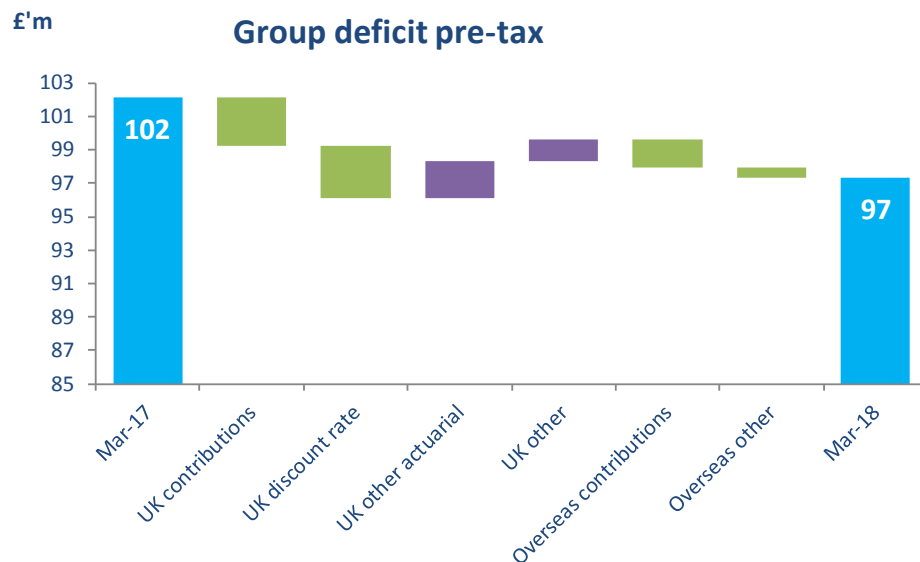
| | 2018 £m | 2017 £m | Var £m |
|-------------------------------------|-------------|-------------|--------------|
| Goodwill | 21.6 | 26.4 | (4.8) |
| Intangible assets | 8.3 | 9.7 | (1.4) |
| Fixed assets | 47.7 | 47.2 | 0.5 |
| Deferred tax | 16.4 | 20.6 | (4.2) |
| Inventories | 41.0 | 40.4 | 0.6 |
| Receivables | 36.8 | 36.8 | - |
| Payables | (39.9) | (41.9) | 2.0 |
| Net working capital | 37.9 | 35.3 | 2.6 |
| Net debt | (24.3) | (17.4) | (6.9) |
| Provisions | (7.9) | (7.7) | (0.2) |
| Retirement benefit obligations | (97.4) | (102.0) | 4.6 |
| Current tax liability | (1.2) | (4.2) | 3.0 |
| Other | - | (0.1) | 0.1 |
| Net assets | 1.1 | 7.8 | (6.7) |
| Leverage⁽¹⁾ ratio | 1.1x | 0.8x | |

- Balance sheet impacted by FX changes
- Working capital increase from reduced capital creditors and payment of deferred consideration
- IAS19 pension deficit driven by liability assumptions
- Tax liability reflects lower future tax payments
- Leverage of 1.1x comfortable compared to 2.5x covenant



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

Cash costs remain stable; deficit demonstrating small reduction as discount rates start to increase



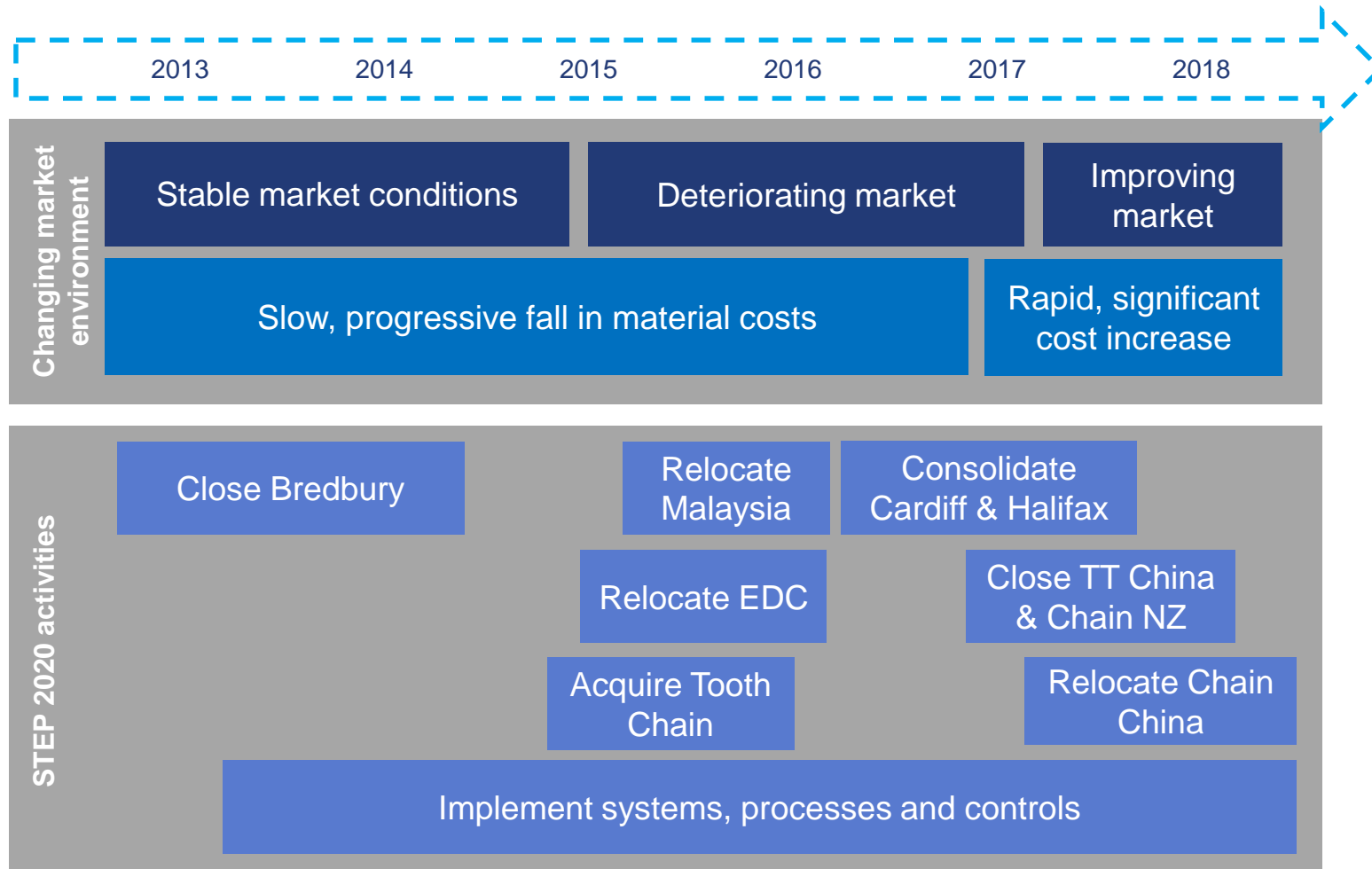
- Greater stability than in previous few years
- Contributions and small increases in discount rate starting the journey to lower deficits
- UK deficit decreased from £72.0m to £69.6m
- Overseas schemes deficit also reducing; deficit of £27.8m (2017: £30.0m)
- Deficit remains subject to movement in discount rates
 - 0.25% increase in rate reduces deficit by c.£8.5m
- Cash costs remain stable and predictable
 - Slight increase in admin costs to £0.9m (2017: £0.7m)
 - One-off contribution to UK scheme in FY17 not repeated

Re-shaping for success: Next Steps

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CEO



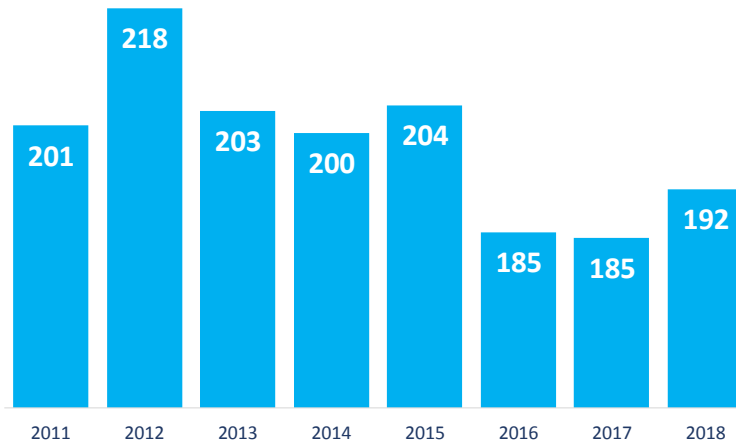
Progress is being made; execution of strategy is improving underlying business



- Strategy is being implemented against a changing market environment
- Underlying revenue fell significantly in 2015 as markets deteriorated
- Strategic actions are delivering improvement, sheltering profitability

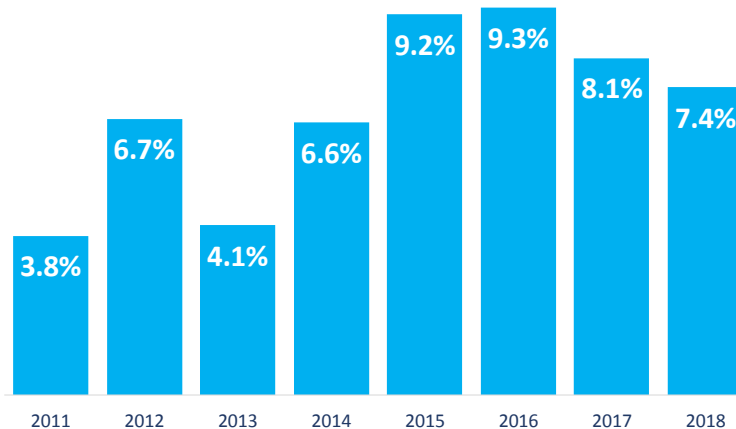
Strategic programme building a more robust business

Underlying revenue (£m)



- Underlying revenue was impacted by deterioration of market conditions in FY16
 - Acquisition of Tooth Chain in December 2015 masks overall scale of decline
- Progress made in recovering revenue in FY18
 - Underlying organic growth of 3.8%
 - Strong order intake remains ahead of revenue

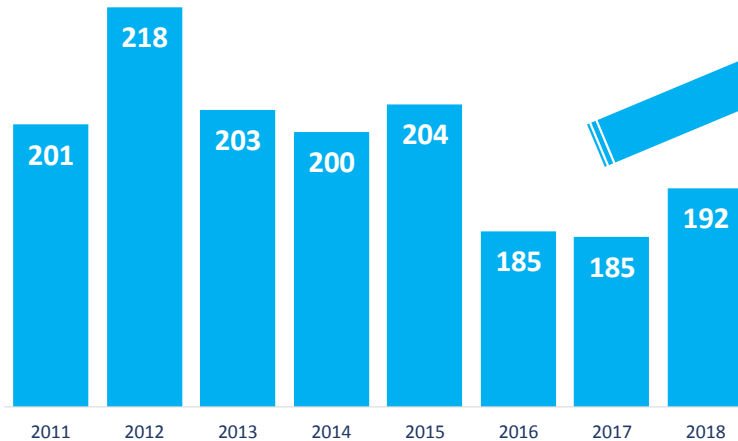
Underlying adjusted operating margin (%)



- Operating margins remain ahead of historical levels
 - Strategic plan offsetting impact of reduced revenue
 - Short-term disruptive factors impacted FY18, although this remains ahead of historical levels
- Business is increasingly robust and more resilient; STEP 2020 actions are improving the underlying business

Route to delivery of improved margins is unchanged; STEP 2020 continues

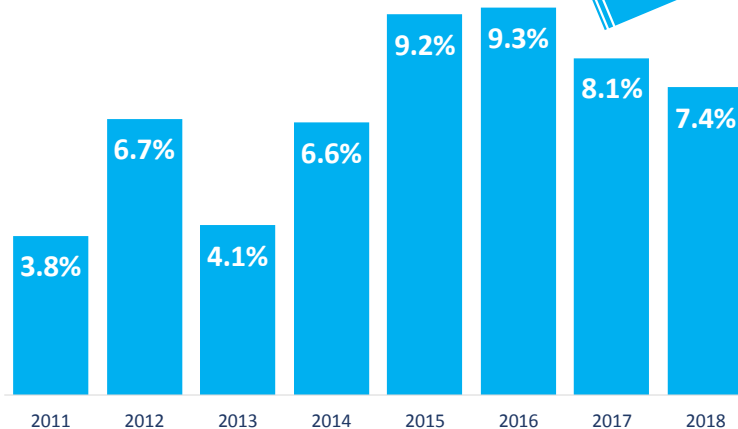
Underlying revenue (£m)



Revenue growth

- Organic growth
 - STEP 2020 – Phase 2
- Acquisitive growth
 - STEP 2020 – Phase 3

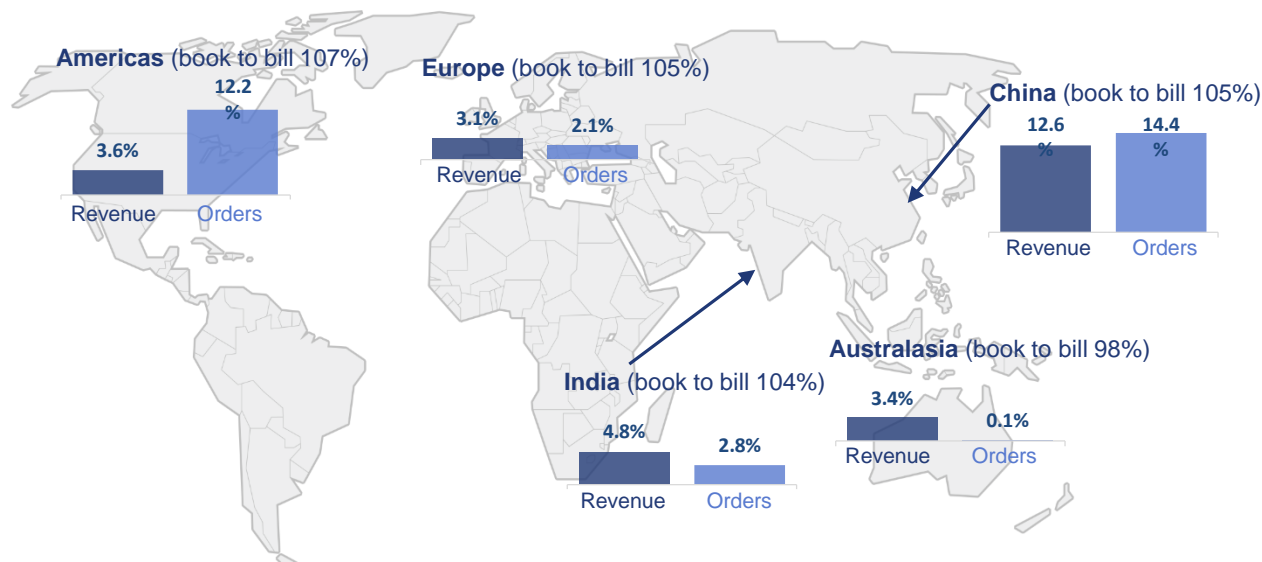
Underlying adjusted operating margin (%)



Margin growth

- Operational gearing benefit of Phases 2 and 3; plus
- Short-term issues addressed
- Restructuring
 - STEP 2020 – Phase 1a
- Business improvement
 - STEP 2020 – Phase 1b

Underlying organic revenue growth of 3.8%; book to bill remains strong



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

- Underlying revenue growth across all major territories in year
- Segmented market sector approach is working well where implemented and benefitting from restructuring of commercial teams
- Domestic Chinese revenue growing strongly, albeit from a small base
- Orders ahead of revenue (book to bill) in all territories other than Australasia
- Americas orders particularly strong, with a partial return of major capital project orders for both Chain and Torque Transmission
- Strong order intake continued into the first few weeks of the new financial year

Creates scale and provides the opportunity to leverage operational gearing

- Acquisitions are a core part of the strategy
- Acquisitive growth creates additional scale, but also creates opportunity to leverage operational gearing

Renold Transaction Types

| | Growth opportunity | Margin opportunity |
|-------------------|---|---|
| Product or sector | <ul style="list-style-type: none">• Expand presence into new products niches or sectors | <ul style="list-style-type: none">• Additional volume through acquired facility generated from incremental growth using Renold's global network |
| Geography | <ul style="list-style-type: none">• Fill gaps in geographical footprint | <ul style="list-style-type: none">• Additional volume through Renold facilities from sales of existing products into target's customer network |
| Consolidation | <ul style="list-style-type: none">• Recent investment in capacity and capability creates scope for fold in acquisitions | <ul style="list-style-type: none">• Additional volume through fewer manufacturing facilities creating economies of scale |

H1 impacted by raw material increases and factory disruption; impact on H2 significantly reduced

Raw material price increases

- Rapid increase in raw material costs experienced in all territories; impact greatest in Chain division
- Customer prices increased to reflect increase in cost base
- Time lag for raw material price increases to be reflected in sales prices impacted profit in first half of the year

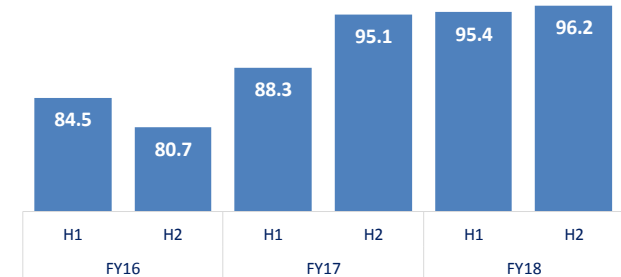
Factory disruption

- Sustained machine breakdowns in our Germany facility impacted output in the first half
 - Resulted in lost revenue and increased freight charges

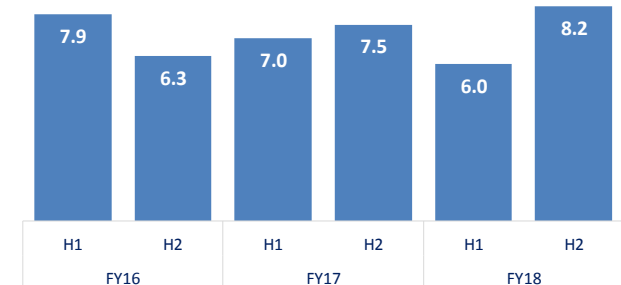
Improved performance in H2

- Above factors impacted profitability in the first half of the year
- Margin improved for H2 as progress was made in addressing the issues

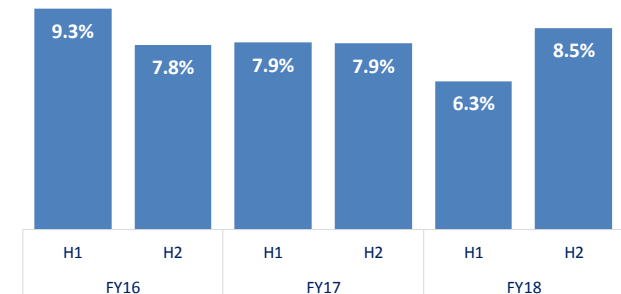
Half yearly revenue (£m)



Half yearly adjusted operating profit (£m)

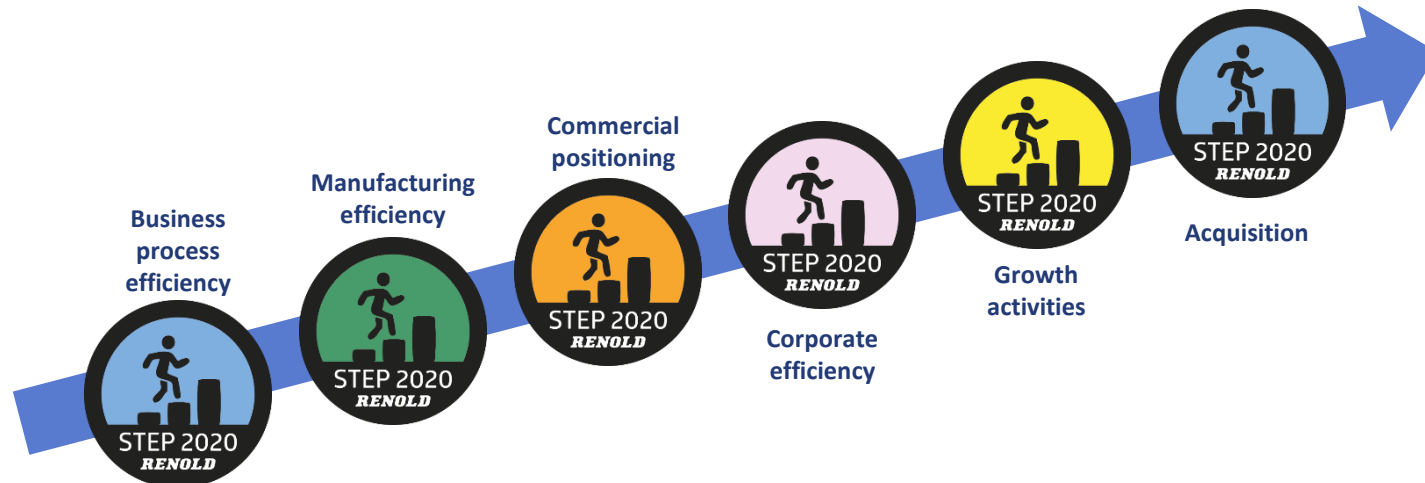


Half yearly adjusted operating margin (%)



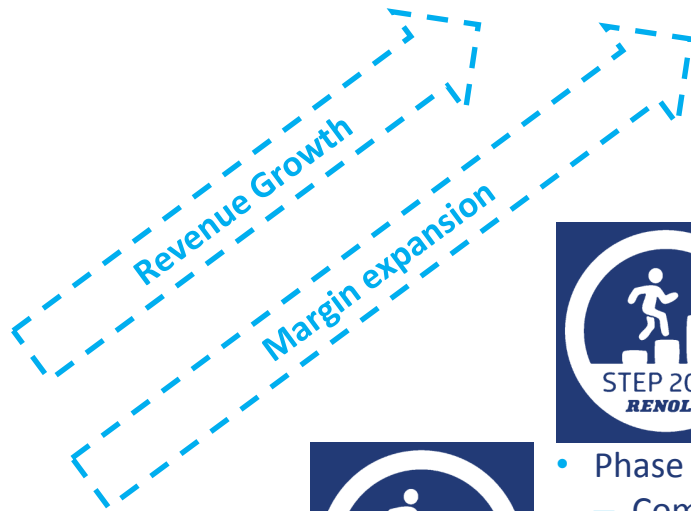
| | Activity | Benefits |
|---|---|---|
| Consolidation of Couplings onto single Cardiff site | <ul style="list-style-type: none"> Completed the transfer of HiTec couplings manufacturing from Halifax to Cardiff | <ul style="list-style-type: none"> Reduced costs Improved effectiveness of capital investment Released capital from surplus property Improved customer alignment |
| Closure of sub-scale manufacturing operations | <ul style="list-style-type: none"> Closure of New Zealand (Chain) and China (Torque Transmission) manufacturing operations Sales and distribution operations remain to service customers from other manufacturing sites | <ul style="list-style-type: none"> Improved efficiency Reduced costs Released capital investment Avoided future ineffective capital investment |
| Consolidate Singapore sales office | <ul style="list-style-type: none"> Completed the process to close the Singapore sales office and service customer base from Malaysia | <ul style="list-style-type: none"> Reduced costs Shorten supply chains Improve service |
| Ongoing relocation of Chinese chain manufacturing facility | <ul style="list-style-type: none"> Relocation of Chinese chain manufacturing facility to purpose-built, owned location Construction phase well progressed; relocation expected to complete by end of financial year | <ul style="list-style-type: none"> Owned manufacturing site in key territory Create potential to improve efficiency Additional capacity to support in-sourcing from acquisitions Platform to target domestic market |

Efficiency programmes underway; benefits will improve business and margin



| | | | | | | |
|-------------------------------|--|--|--|--|--|--|
| Product development | | | | | | |
| Product standardisation | | | | | | |
| ERP & process standardisation | | | | | | |
| STEP 2 Service | | | | | | |
| Manufacturing technology | | | | | | |
| People & management | | | | | | |

Step 2020 is improving the underlying business and will deliver improved and sustainable margins



- Phase 3 – Acquisitions
 - Geographic expansion
 - Complementary products & markets
 - Operational integration



- Phase 2 – Organic Growth
 - Product offering & branding
 - Commercial footprint & approach
 - Service improvement



- Phase 1b – Underlying Business Improvement
 - Complete business system & process roll out
 - Product standardisation
 - Manufacturing technology investment



- Phase 1a – Restructuring
 - Complete relocation of Chinese chain manufacturing facility
 - Relocate Australian chain facility to smaller premises

- Third year of stable adjusted operating profits above pre-STEP 2020 levels
 - Demonstrates the benefits being delivered
- Short-term challenges have been overcome
- STEP 2020 is the correct approach to delivering a more robust, higher margin business

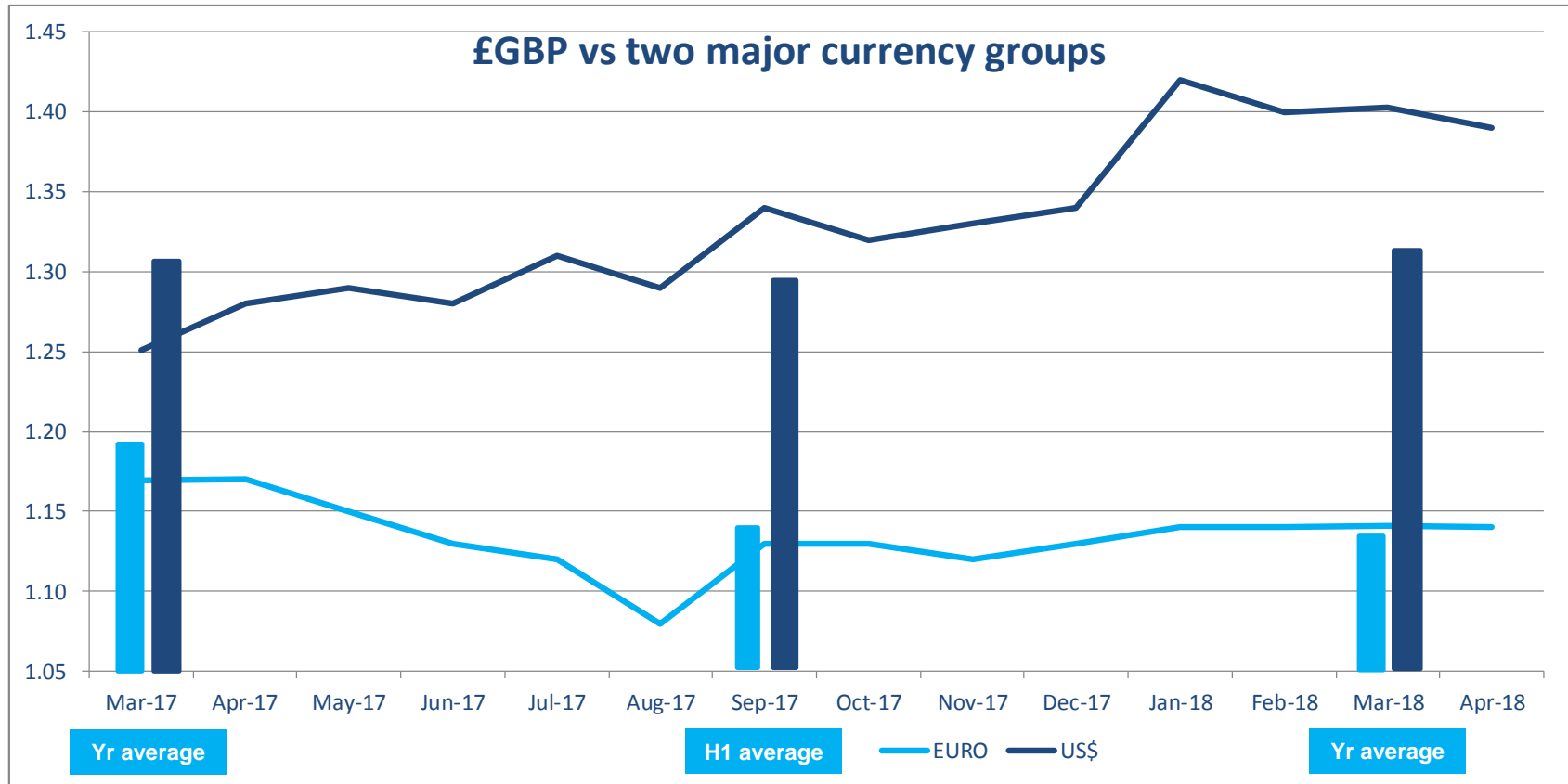
Thank you
Q&A



Appendices Q&A

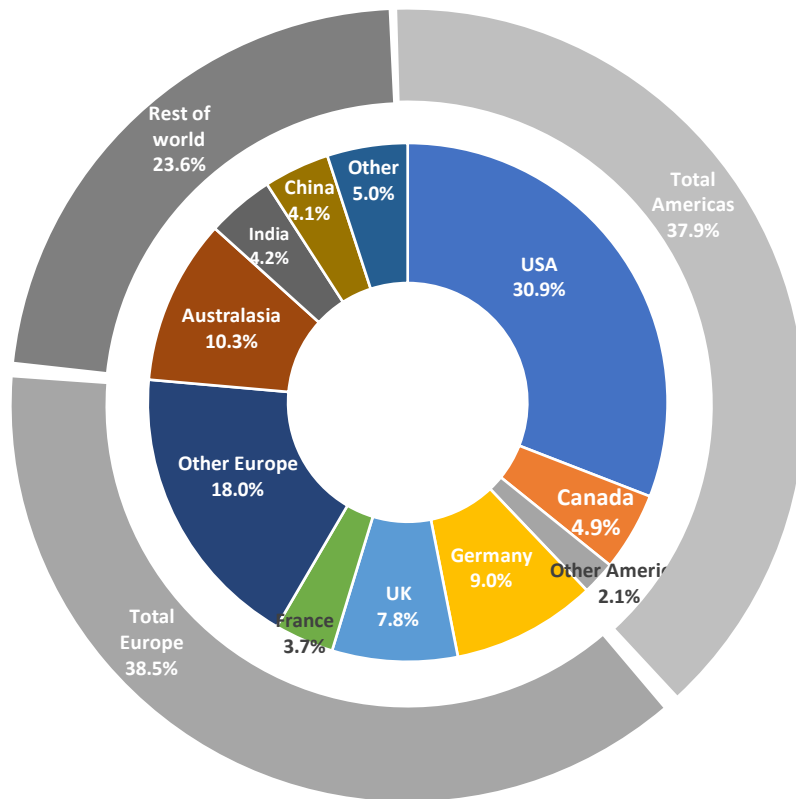


Significant movement in US\$ rate during the year; but average stable

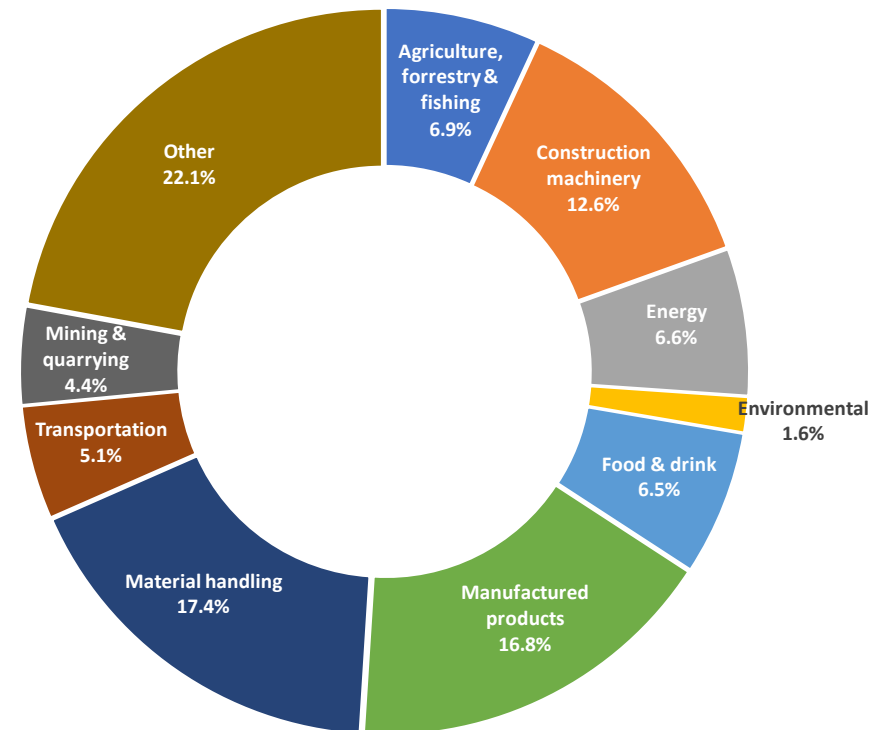


- Sales denominated in US\$ represent 33% of the group total, and in Euro's 31%
- Illustratively, reported sales for the year of £191.6m would have been approximately £5.8m lower at March 17 closing rates. Potential impact on operating profit around £0.3m depending on mix

Revenue by geography



Revenue by sector



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

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