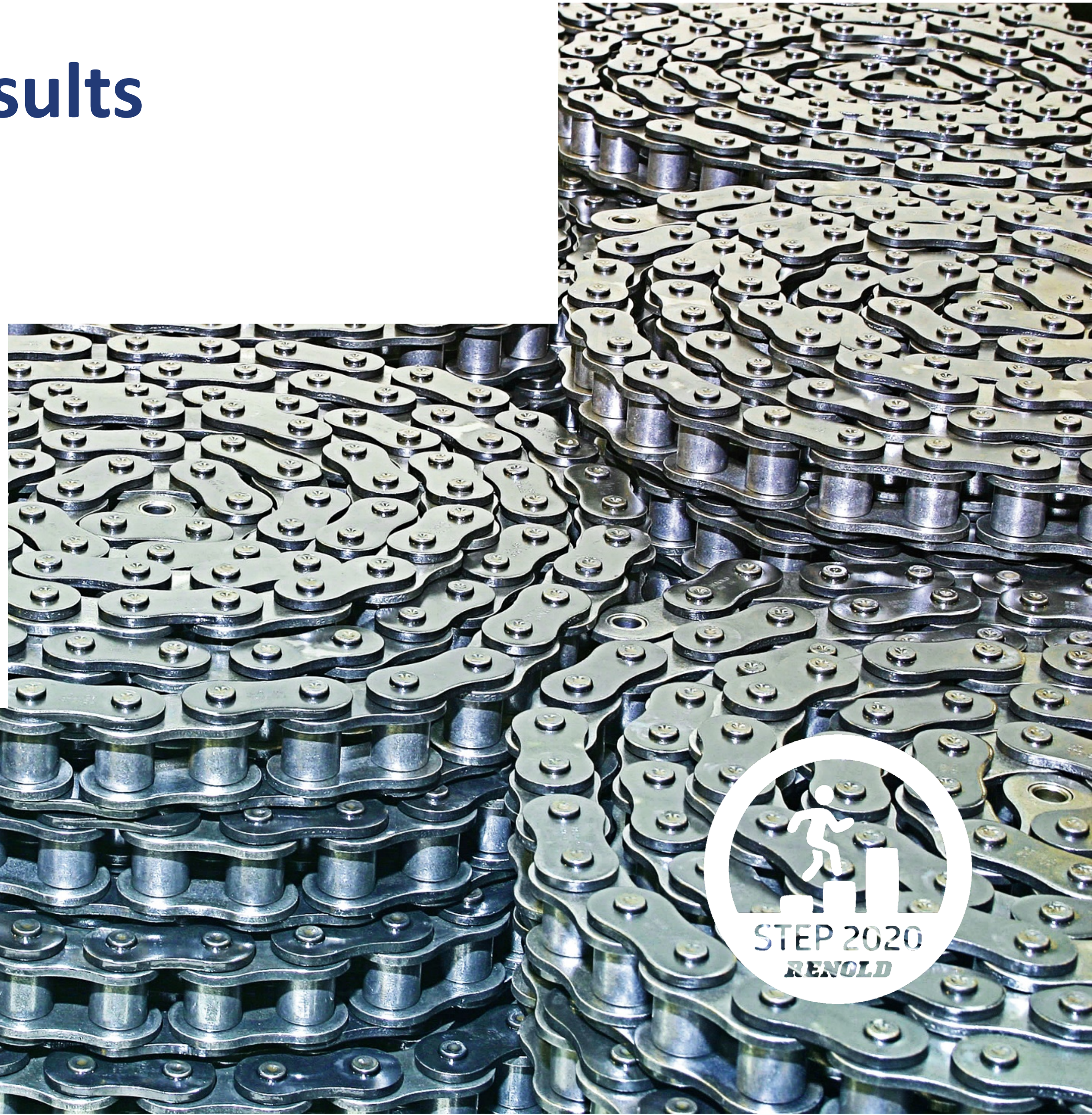
RENOLD

Preliminary results 2019

Robert Purcell CEO
Ian Scapens CFO

28 May 2019



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Financial highlights

• Strong organic growth in underlying* revenue	+6.1%
• Adjusted* operating profit up	+15.5%
• Highest adjusted EBITDA under Step 2020 Strategic Plan	£24.1m
• Adjusted operating profit margin	8.1%
• Net debt to adjusted EBITDA	1.2x
• Growth in order intake	+5.5%

Other highlights

- Completed the relocation of our Chinese chain manufacturing facility
- Move to AIM in support of acquisition strategy on schedule
- Group debt facilities amended and extended in the year; committed until 2024

Improved performance, stronger platform; ready for Phase 3 of strategy

*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

Ian Scapens
CFO

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Strong organic growth; improving operational efficiency; delivering improvement in profitability

	2019 £m	2018 £m	Var £m	Var %
Revenue as reported	**202.4**	191.6		
Impact of FX	**-**	(0.8)		
Underlying revenue	**202.4**	**190.8**	**11.6**	**+6.1%**
Reported adjusted operating profit	**16.4**	14.2		
Impact of FX	**-**	-		
Underlying adjusted operating profit	**16.4**	**14.2**	**2.2**	**+15.5%**
Underlying Return on Sales %	***8.1***	*7.4*		
Adjusted profit before tax	**14.2**	12.5	1.7	+13.6%
Adjusted EPS	**4.9p**	**4.5p**	**0.4p**	**+8.9%**

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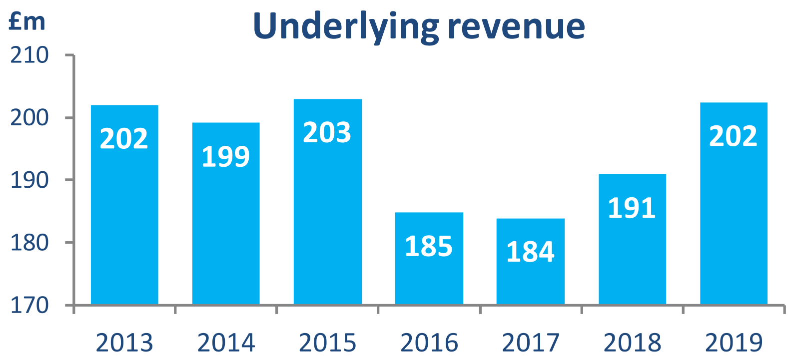
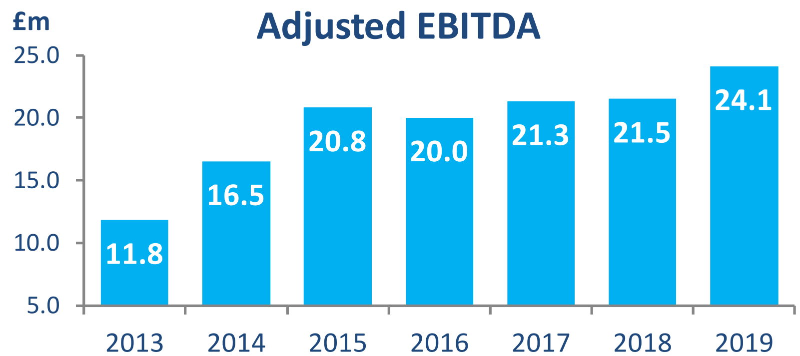
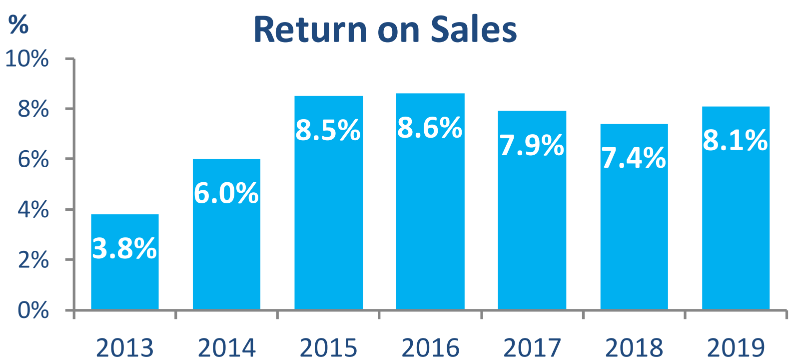
Underlying revenue recovered; highest adjusted EBITDA under the strategic plan; return on sales recovering towards previous highs



- Underlying revenue recovered to previous peaks

- Adjusted EBITDA progression clear
- Highest adjusted EBITDA under strategic plan





- Return on sales recovering towards previous peak
- Underpins confidence of further improvement under strategic plan

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One-off items impact profit after tax; adjusted PAT of £11.3m (2018: £10.2m)

	2019 £m	2018 £m	Var £m
Adjusted operating profit	**16.4**	**14.2**	**2.2**
Restructuring costs	**(2.9)**	(4.7)	1.8
Pension admin costs	**(0.8)**	(0.9)	0.1
Impairment of goodwill	**-**	(2.1)	2.1
Pension past service credit	**4.4**	-	4.4
Amortisation of acquired intangible assets	**(0.9)**	(0.9)	-
Reported operating profit	**16.2**	**5.6**	**10.6**
Pension scheme financing charges	**(2.4)**	(2.4)	-
External financing charges	**(2.2)**	(1.7)	(0.5)
Amortisation of arrangement fees	**(0.3)**	-	(0.3)
Other interest charges	**(0.1)**	(0.1)	-
Profit before tax	**11.2**	**1.4**	**9.8**
Taxation	**(3.5)**	(3.6)	0.1
Profit/(loss) after tax	**7.7**	**(2.2)**	**9.9**

- Restructuring costs include:
  - £1.8m of cost relating to the Chinese factory move
  - Further Step 2020 restructuring costs
  - Costs associated with the move to AIM
- Pension past service credits are:
  - Benefit of RPI to CPI change
  - Cost of GMP equalisation
- Increased external financing charges
  - Increase in base rate
  - Amortisation of arrangement fee on accordion
  - Higher average net debt through the period, due to investment in China
- Increased tax charge includes £0.8m deferred tax charge for pension credits
  - 20.4% effective tax rate of adjusted PBT

Summary Group Cash Flow Statement

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Net cash outflow as anticipated; major investment in Chinese factory move

	2019 £m	2018 £m	Var £m
Adjusted EBITDA	**24.1**	**21.5**	**2.6**
Movement in working capital	**(2.3)**	(2.6)	
Pensions cash costs	**(5.5)**	(5.5)	
Restructuring spend	**(7.0)**	(3.7)	
Taxes and other	**(0.8)**	(3.6)	
Net cash from operating activities	**8.5**	**6.1**	**2.4**
Acquisition consideration	**-**	(1.2)	
Property disposal proceeds	**-**	0.5	
Investing activities	**(10.7)**	(10.1)	
Financing costs paid	**(2.2)**	(1.7)	
Other movements / FX	**(1.3)**	(0.5)	
Change in net debt	**(5.7)**	**(6.9)**	**1.2**
Opening net debt	**(24.3)**	(17.4)	
Closing net debt	**(30.0)**	**(24.3)**	**(5.7)**

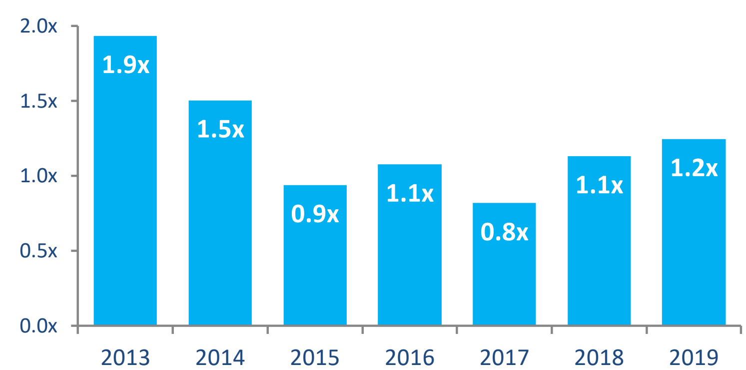
- EBITDA increased, reflecting increased profitability
- Increased working capital reflects increased inventory supporting growth and customer service improvement
- Pension cash costs stable
- Restructuring spend
  - Major element for China factory
  - Costs of Bredbury & Australia onerous leases
  - Other Step 2020 restructuring initiatives
- Cash tax of £1.8m
  - Cash cost reduced following peak in FY18
  - Return to normalised levels in FY19
- Capex increased from prior year
  - Most significant element for Chinese factory
  - Continuing to invest ahead of depreciation

Leverage remains low despite continued investment

	2019 £m	2018 £m	Var £m
Goodwill	**23.1**	21.6	1.5
Intangible assets	**6.6**	8.3	(1.7)
Fixed assets	**55.8**	47.7	8.1
Deferred tax	**15.9**	16.4	(0.5)
Inventories	**44.8**	41.0	3.8
Receivables	**37.8**	36.8	1.0
Payables	**(46.8)**	(39.9)	(6.9)
Net working capital	**35.8**	**37.9**	**(2.1)**
Net debt	**(30.0)**	(24.3)	(5.7)
Provisions	**(3.3)**	(7.9)	4.6
Retirement benefit obligations	**(101.9)**	(97.4)	(4.5)
Current tax liability	**(0.4)**	(1.2)	0.8
Net assets	**1.6**	**1.1**	**0.5**
Leverage[(1)] ratio	**1.2x**	**1.1x**	

- Balance sheet impacted by FX changes
- Fixed assets reflect Chinese factory investment; deferred payment of build costs benefits payables
- Inventory increase from FX plus inventory in support of customer service projects
- Provisions reduced as costs for China factory move largely incurred in FY19
- Leverage of 1.2x increased slightly from investment in China, but remains comfortable

Leverage ratio



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

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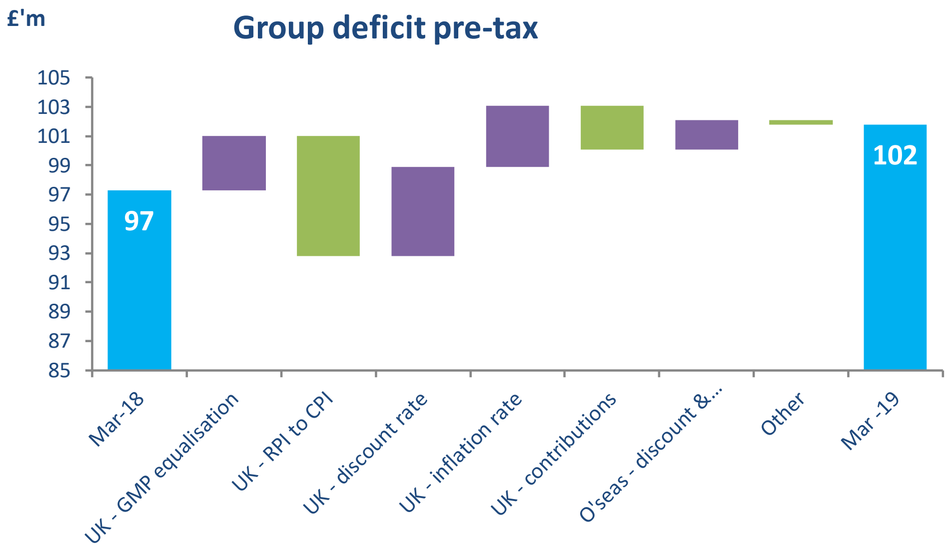
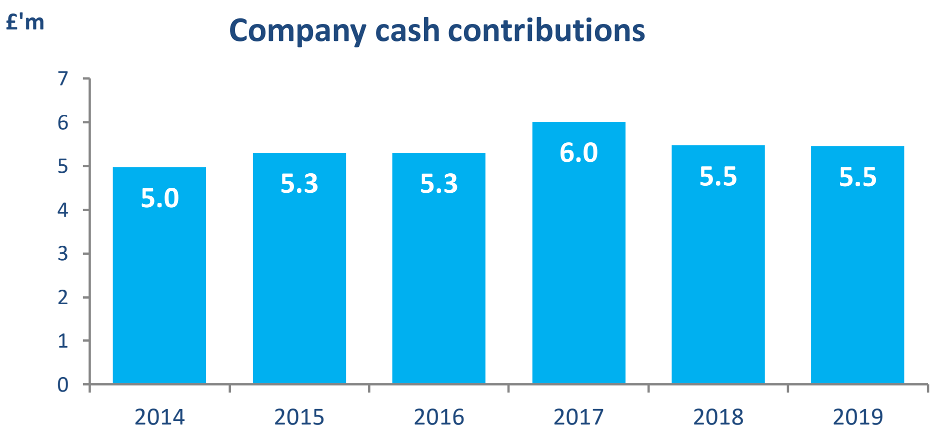
Significant improvement from RPI to CPI change; more than off-set by GMP equalisation and inflation and discount rate assumptions





- Agreement with UK Trustee to move certain future inflation measures to CPI from RPI
  - Reduction in liabilities of £8.2m
- Benefit of positive actions more than off-set by GMP equalisation* (£3.8m) and combined effect of discount rate and inflation assumptions (£10.3m)
- Combined effect is an increase in deficit for the UK scheme of £3.0m to £72.6m
- Overseas schemes impacted by discount rate and inflation assumptions; deficit of £29.3m (2018: £27.8m)
- Cash costs remain stable and predictable
- Contributions to the UK scheme will increase by £1m as the profit trigger has been achieved

*Following a High Court judgment, schemes are now required to equalise guaranteed minimum pensions (GMP) benefits for male and female members – referred to as GMP equalisation

IFRS 16 is expected to impact on presentation of financial results

- Renold will adopt IFRS 16 for the year ending 31 March 2020 – the table below outlines the pro-forma estimated impact

		Current lease accounting £m	After IFRS16 application £m	Net impact £m
Income statement	Revenue	-	-	-
	Depreciation	-	(2.3)	(2.3)
	Other operating costs	(2.9)	-	2.9
	Adjusted operating profit	**(2.9)**	**(2.3)**	**0.6**
	Finance charges	-	(0.4)	(0.4)
	Adjusted profit before tax	**(2.9)**	**(2.7)**	**0.2**
Cash Flow Statement	Adjusted operating profit	(2.9)	(2.3)	0.6
	Onerous lease cost	(0.7)	-	0.7
	Depreciation	-	2.3	2.3
	Cash flow from operations	**(3.6)**	-	**3.6**
	Repayment of lease liabilities	-	(3.6)	(3.6)
	Net cash flow	**(3.6)**	**(3.6)**	**-**
Balance sheet at 1 April 2019	Right of use asset	-	9.9	9.9
	Onerous lease provision	(3.2)	-	3.2
	Lease liability	-	(17.6)	(17.6)
	Equity adjustment	**(3.2)**	**(7.7)**	**(4.5)**

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Renold has historically adjusted profit for pension related costs; proposed change to improve comparability to peers

- Renold has historically adjusted profit and EPS to add back costs associated with pension schemes
- This improves visibility of trading performance, but is different to treatments applied by others in the sector
- To aid comparability for investors, for the new financial year, Renold will no longer adjust for pension costs as set out below

Non-GAAP		2019 £m	2018 £m	2017 £m
Adjusted Operating Profit	Adjusted operating profit	**16.4**	14.2	14.5
	Pension administration costs	**(0.8)**	(0.9)	(0.7)
	'New' adjusted operating profit	**15.6**	**13.3**	**13.8**
Adjusted Profit Before Tax	Adjusted profit before tax	**14.2**	12.5	12.8
	Pension administration costs	**(0.8)**	(0.9)	(0.7)
	Net IAS 19R finance charges	**(2.4)**	(2.4)	(2.5)
	'New' adjusted profit before tax	**11.0**	**9.2**	**9.6**
Adjusted Earnings per Share (pence)	Adjusted earnings per share	**4.9p**	4.5p	4.6p
	Pension administration costs	**(0.3)p**	(0.4)p	(0.3)p
	Net IAS 19R finance charges	**(1.2)p**	(1.2)p	(1.2)p
	'New' adjusted earnings per share	**3.4p**	**2.9p**	**3.1p**

- Organic revenue growth is being delivered
- Operational performance is improving
- Return on sales progressing
- Despite significant investment in the business, leverage remains low
- Group debt facilities amended and extended in the year; committed until 2024
- Pension cash costs remain consistent
- Opportunities for further self-help improvement

Improved performance, stronger platform

Re-shaping for success: Next Steps

Robert Purcell
CEO

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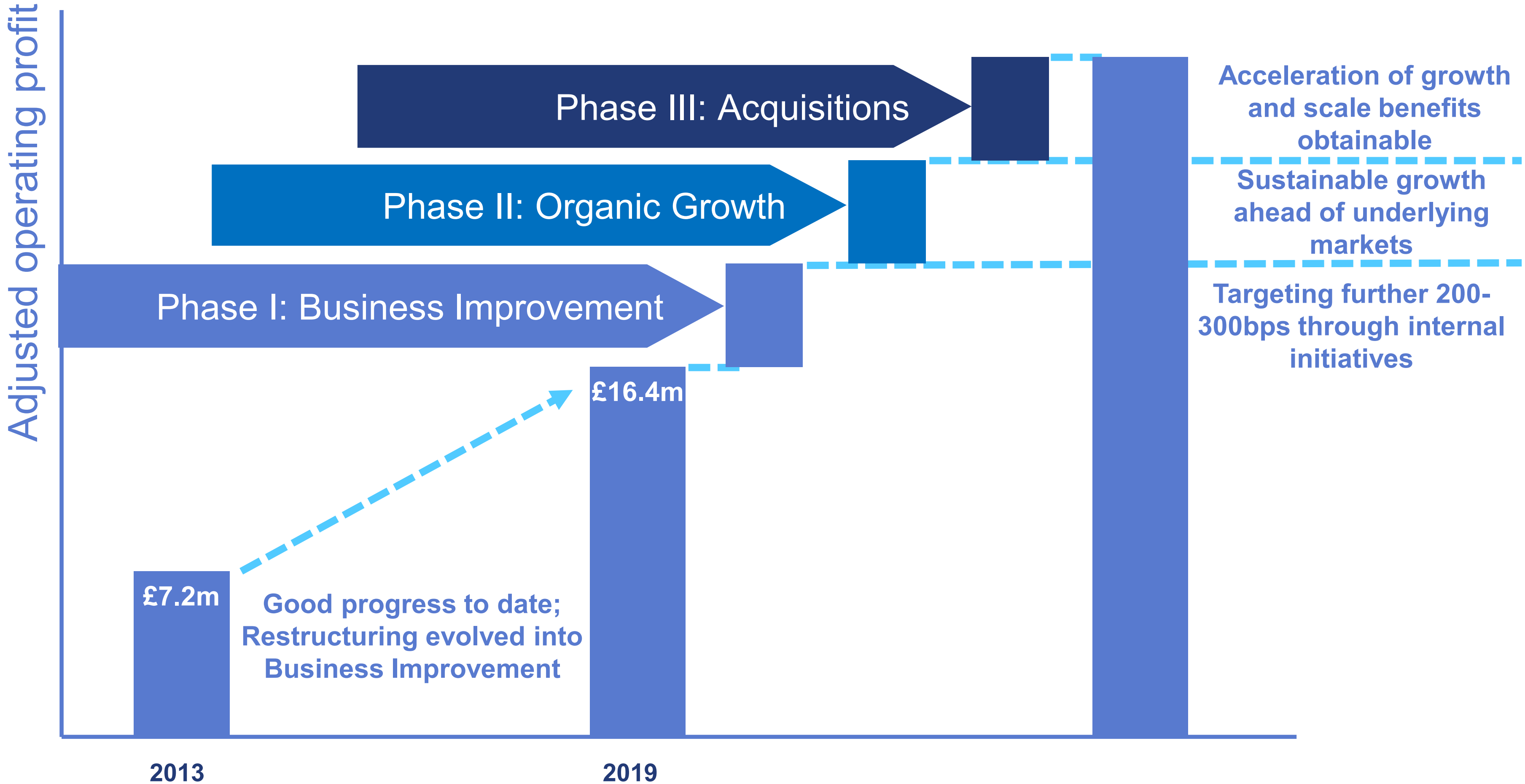
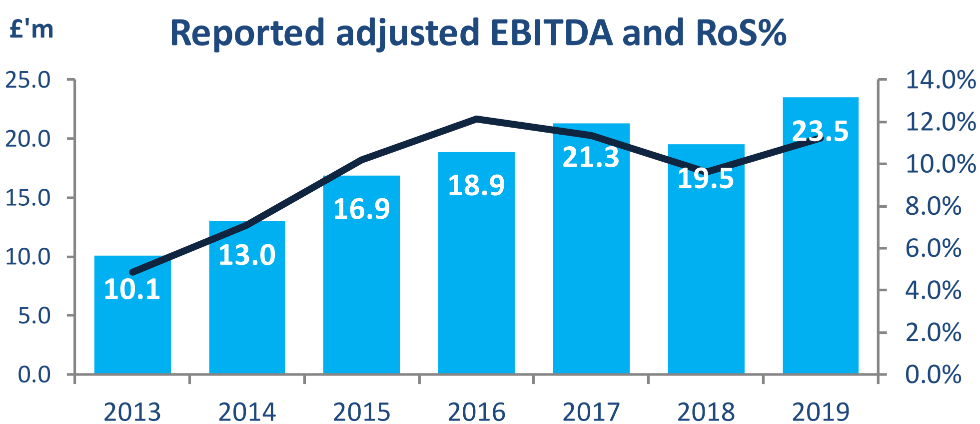
Strategy unchanged; underlying business is improving



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

Significant step forward; adjusted operating profit at highest level for over 15 years

	2019 £m	2018 £m	Var %
Underlying revenue	**163.9**	152.4	7.5%
Underlying adjusted operating profit	**18.4**	14.6	26.0%
Underlying Return on Sales %	***11.2***	*9.6*	



- Underlying revenue growth 7.5% ahead of prior year
  - 7.1% for H1
  - 8.0% for H2
- Growth well spread across Chain regions
  - Europe growth of 5.4%; volume growth more significant in H2
  - Americas growth remained strong at 11.3%
  - India and China continue to progress in their domestic markets
  - Australasia stable, with falls in H1 recovered in H2
- Adjusted EBITDA up by 20.5% and adjusted operating profit up by 26.0%
  - …..despite increased labour costs driven by German legislative and union changes
- China relocation complete; productivity ramp up expected in FY20
- The Chain division continues to make strong progress

Chain – Chinese factory relocation

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China factory move completed; new site operational

Relocation delivered

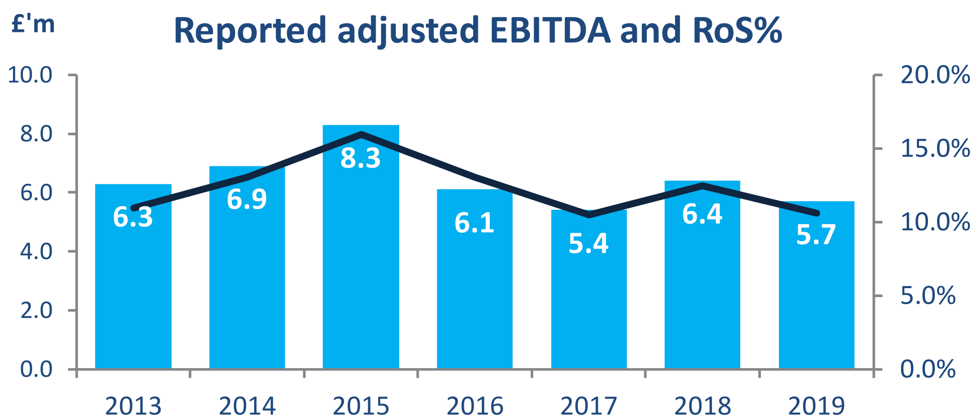
- Factory build and fit-out complete
- Finished goods warehouse and distribution transferred in Q3
- Manufacturing processes transferred in Q4
- New location operating on Group's new standard ERP and ancillary systems

Benefits

- New facility permits investment in manufacturing technology
- Additional capacity to support the Group's international markets, to target growing Chinese chain market and support in-sourcing from acquisitions
- New systems and processes provide platform for improved efficiency and better service

Disappointing year for Torque Transmission; Couplings performance masks positive improvement in other units

	2019 £m	2018 £m	Var %
Underlying revenue	**38.5**	38.4	0.3%
Underlying adjusted operating profit	**4.1**	4.9	(16.3%)
Underlying Return on Sales %	***10.6***	*12.8*	



- Revenue stable at £38.5m
  - Decline in Couplings
  - Improved performance for other business units
- Couplings impacted by phasing of revenue on major multi-year contract
- Strong underlying growth in US of 12.5%
  - Growth ultimately constrained by supply chain limitations rather than available orders
- Product mix and inflexible cost structures ultimately resulted in reduction in adjusted operating profit
- Continued investment in commercial resources for growth and product development

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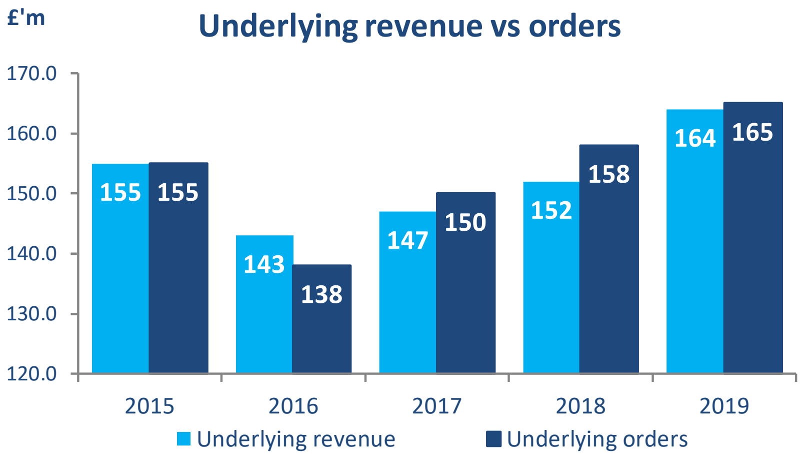
Orders continue to be ahead of revenue

Chain



- Underlying order intake growth of 4.7%
  - 5.5% for H1
  - 4.4% for H2
  - H1 benefits from annualisation of sales prices implemented in 2018 to recover raw material price increases
- Orders ahead of revenue, with a book to bill ratio of 101%

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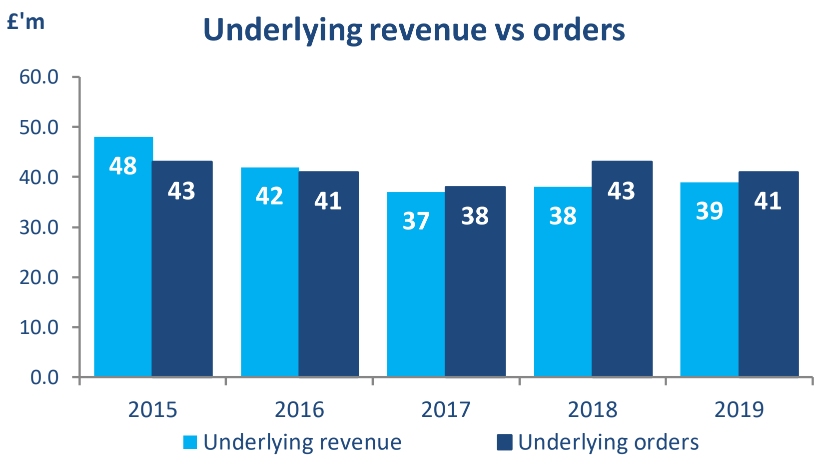

- Total underlying orders were behind prior year, which includes major, multi-year contract win
  - Excluding this major PY win, underlying order intake grew by 8.8%
  - Particular strength in US and Gears
- Underlying order intake at highest level since 2016 – after adjustment for major contract
- Orders were ahead of revenue with a book to bill of 107%; order book at 31 March 2019 15% up

Organic growth being delivered

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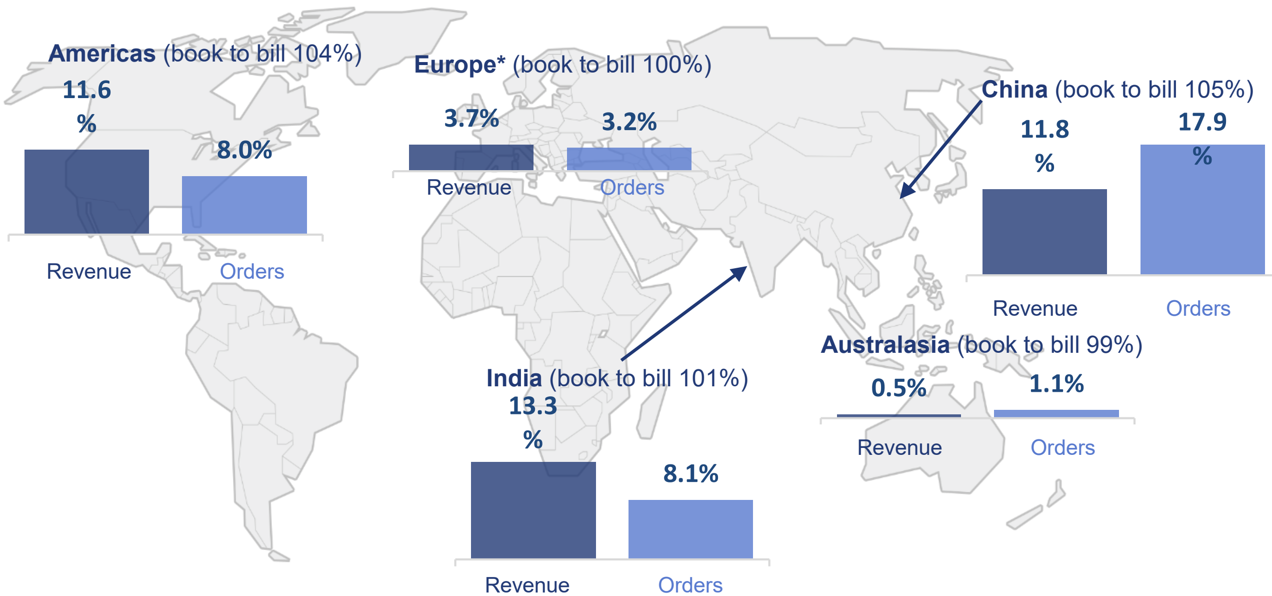
Underlying organic revenue +6.1%; order growth +5.5%



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

** Europe orders and revenue adjusted to remove multi-year Couplings order from prior year*

- Underlying revenue growth across all territories in year
- Americas remains a strong territory with underlying revenue and orders demonstrating strong growth and with book to bill of 104%
- Europe orders remain robust and growth improved through the second half of the year
- India and China continue to demonstrate strong domestic growth, but from lower base
- Australasia continues to drag when compared to other regions, but broadly stable in the year

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Creates scale and provides the opportunity to leverage operational gearing

- Improving underlying platform in Chain division
  - Business improvement delivering:
    - operational efficiency
    - growing margin
  - Improving backbone of core manufacturing sites across
    - US, Europe, India and China
  - Commercial activities delivering organic growth
- Major restructuring elements of Step 2020 Strategic Plan delivered
  - Business improvement activities ongoing
- Improved capability to deliver acquisitive growth
  - Investment and process improvement is creating additional capacity
  - Greater commercial capability
  - Stronger platform to support acquisitions
- Objective to acquire businesses which support strategic objectives – building sustainable growth and higher margins; will improve medium term EPS delivery and quality of earnings
- Move to AIM creates flexibility to execute more quickly, with greater certainty

Renold Transaction Types

	Growth opportunity	Margin opportunity
Product or sector	• Expand presence into new products niches or sectors	• Additional volume through acquired facility generated from incremental growth using Renold's global network
Geography	• Fill gaps in geographical footprint	• Additional volume through Renold facilities from sales of existing products into target's customer network
Consolidation	• Recent investment in capacity and capability creates scope for fold in acquisitions	• Additional volume through fewer manufacturing facilities creating economies of scale

- No change in acquisition criteria
- Focused bolt-on opportunities, capable of delivering strong margins through synergy and scale benefits
- Clear sector gaps in existing Renold range
  - Specialist sectors
  - Power transmission vs conveyor capability

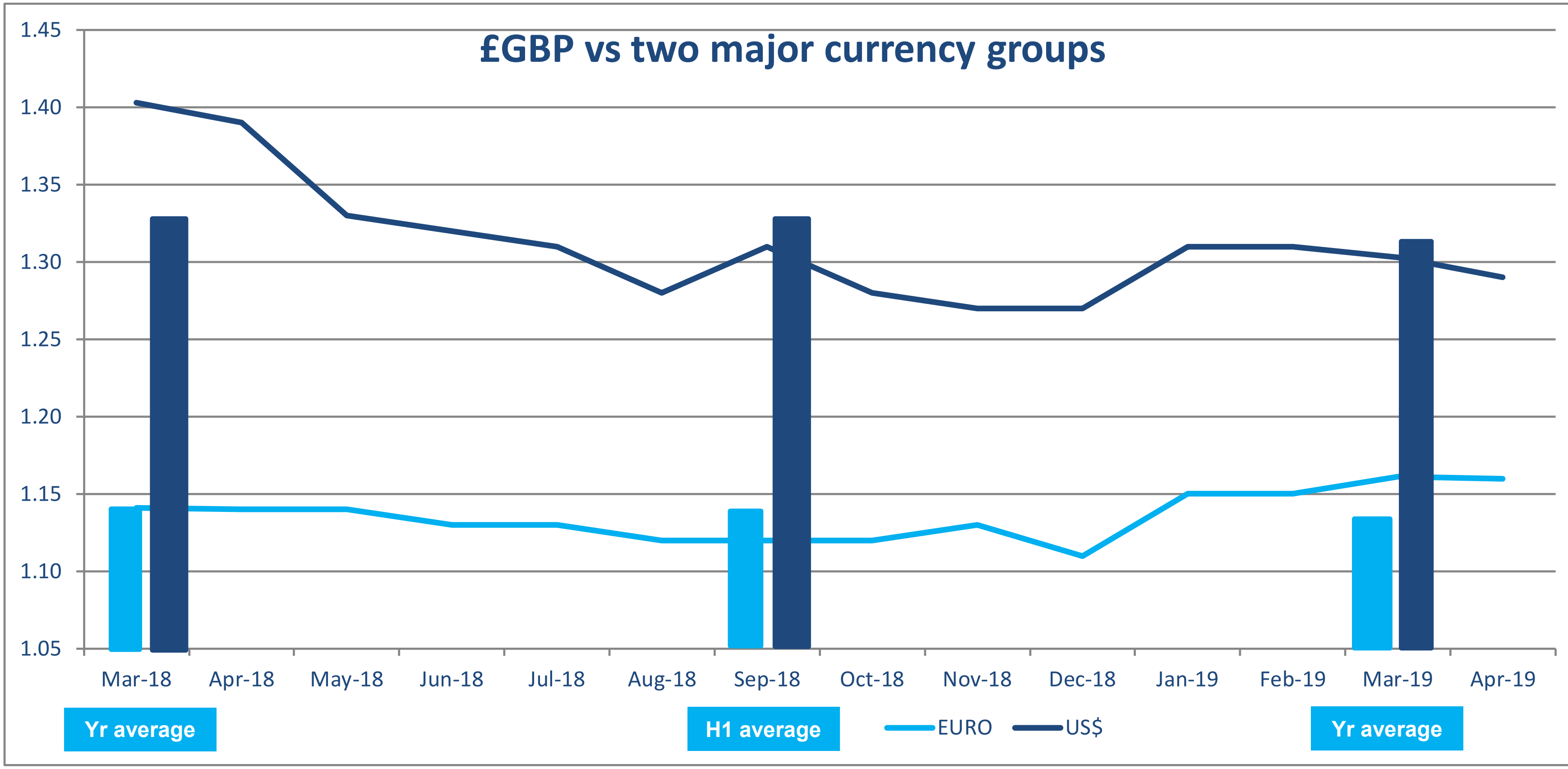
- Business improvement and organic growth being delivered
- Underlying revenue growth of 6.1% for the Group; 7.5% for Chain division
- Improved adjusted operating profit margin to 8.1%
  - Despite labour cost headwind and major factory move in the year
- Major factory move programme in China complete
- Debt facilities refinanced and committed to 2024
- Move to AIM creates acquisition flexibility and certainty
- Group now positioned to pursue 3rd phase of strategic plan – acquisitions
- Objective remains
  - Double digit return on sales without growth
  - Mid-teens return on sales with sustainable organic growth and synergistic acquisitions

Improved performance, stronger platform; ready for Phase 3 of strategy

Thank you
Q&A

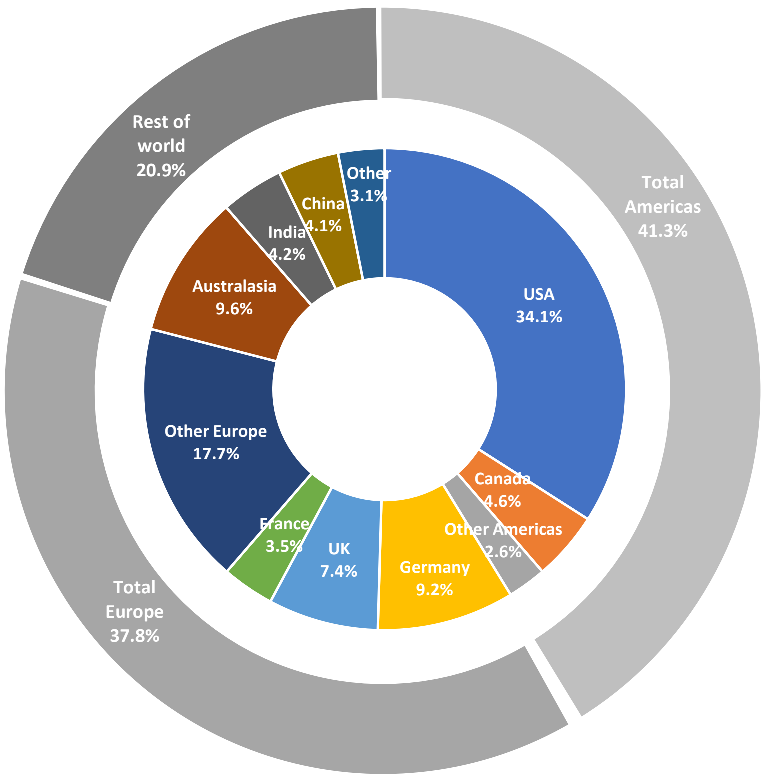
Appendices
Q&A

Significant strengthening of US$ during the year; but averages remain stable

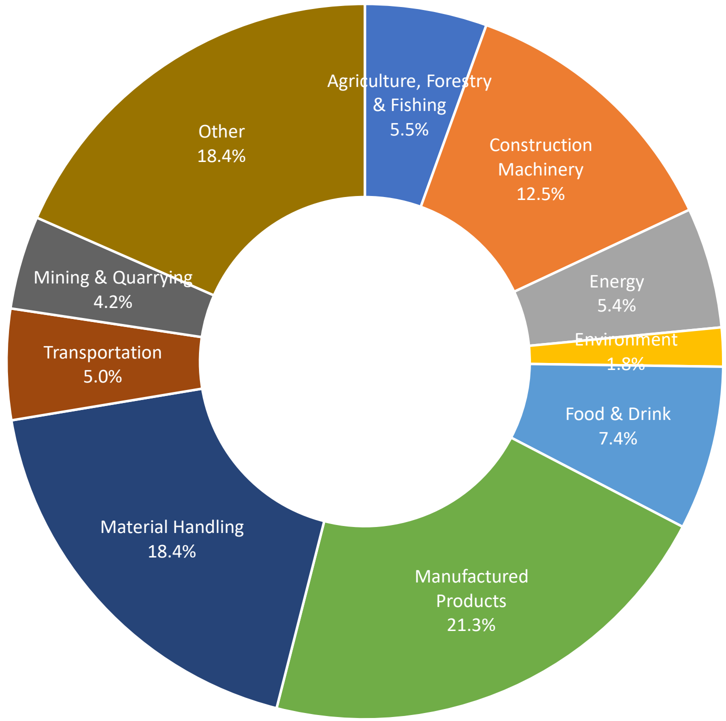


- Sales denominated in US$ represent 37% of the group total, and in Euro's 29%
- Illustratively, reported sales for the year of £202.4m would have been approximately £0.4m lower at March 19 closing rates. Potential impact on operating profit around £0.1m depending on mix

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