



RENOLD

Preliminary results 2016



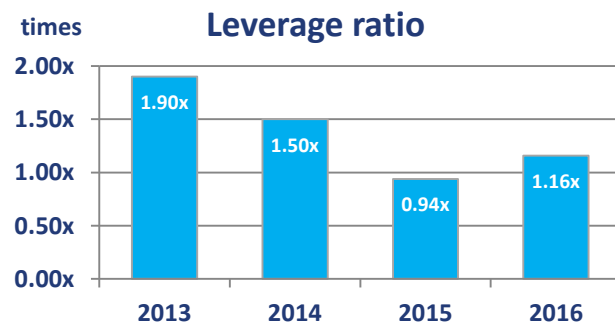
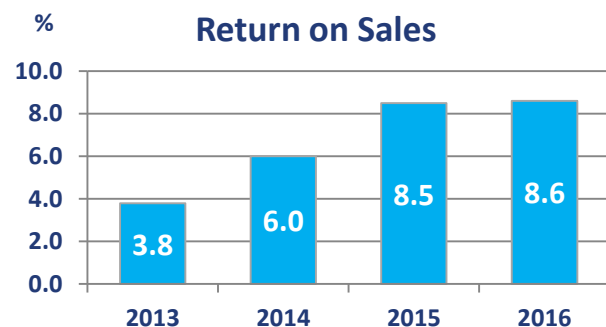
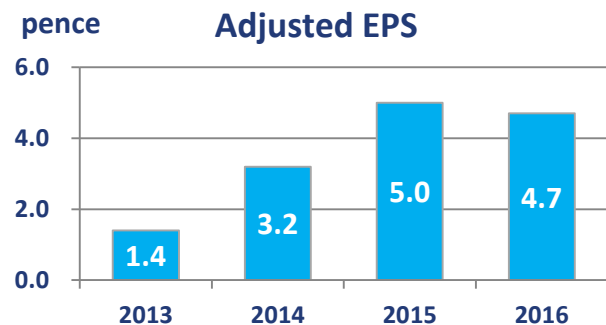
Robert Purcell
Brian Tenner

CEO
CFO

31 May 2016



STEP 2020 delivery lowered the breakeven point and maintained margins in volatile end markets



- Markets have been volatile in most sectors and geographies
- Sales and order shortfalls were concentrated in Q2 and Q3

- Breakeven point lowered for the third consecutive year
- Underlying RoS maintained despite 8.9% fall in underlying sales

- Chain local service offices opened in Indonesia, Thailand, Spain
- Focus increasing on New Product Development and service

- Tooth Chain acquisition an excellent strategic fit
- Integration proceeding well and synergies starting to emerge

- Capital investment programme expanded by 73% to £9.5m
- First site now live on our new global ERP system

- Five year re-financing in place as foundation for STEP 2020
- Leverage below 1.2x, scope for further bolt-on acquisitions

- Major pensions de-risking projects executed in three territories
- Increasing value being extracted from accumulated tax assets

*Throughout this document, 'Underlying' means after eliminating the impact of movements in foreign exchange rates. 'Adjusted' excludes exceptional items, pension costs, the amortisation of acquired intangible assets and any associated tax thereon. The leverage ratio is calculated as Net Debt / Adjusted EBITDA.



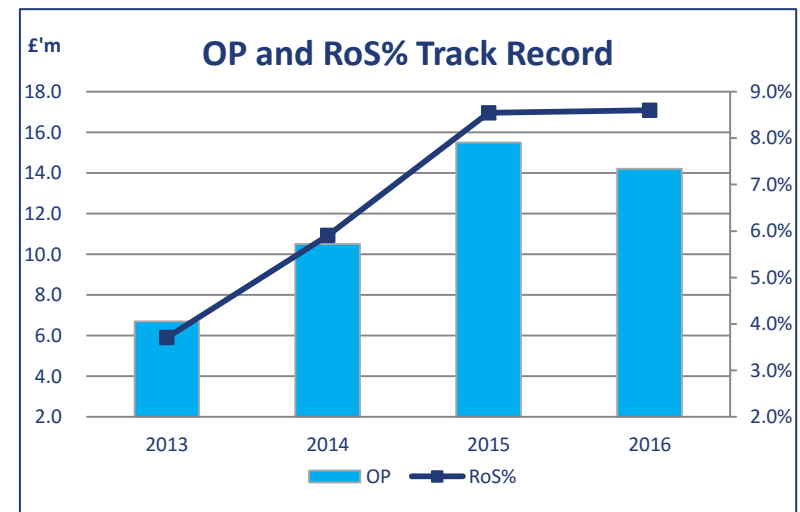
Re-engineering our future: Financial Performance

Brian Tenner, CFO

Volatility was widespread across market sectors, geographies and sales channels

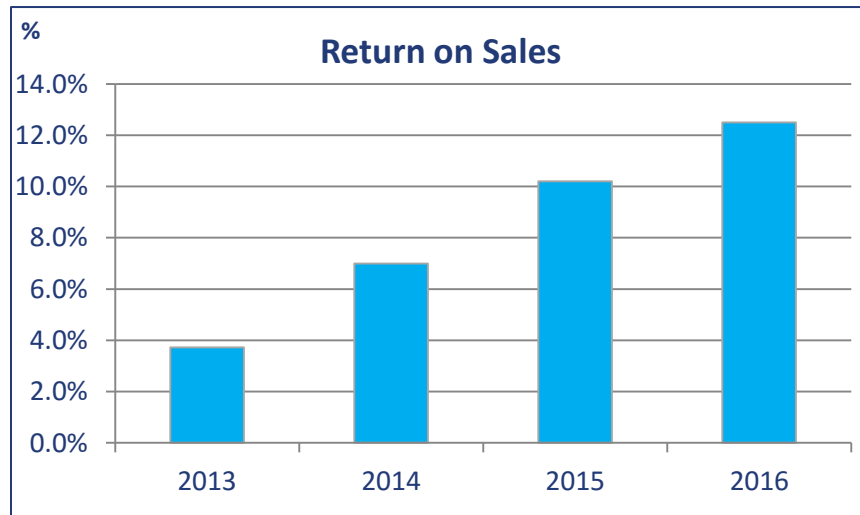
	2016 £m	2015 £m	Var £m
Revenue as reported	165.2	181.4	
Impact of FX	-	-	
Underlying revenue	165.2	181.4	↓ (16.2)
Reported adjusted operating profit	14.2	15.5	(1.3)
Impact of FX	-	0.2	
Underlying adjusted operating profit	14.2	15.7	↓ (1.5)
<i>Underlying Return on Sales %</i>	<i>8.6</i>	<i>8.6</i>	<i>↔ -</i>
Exceptional items	(2.2)	(2.9)	↓ 0.7
Profit before tax	7.4	7.7	↓ (0.3)
Adjusted EPS	4.7p	5.0p	↓ (0.3p)

- Underlying sales down 8.9%
- Book to bill ratio 96.4%
- Variable margin gains (operational gearing) of 2.8% delivered in the year
- Net overhead savings of £1.1m
- Operating margins maintained - shows depth of self-help available



Strong advance in operating margins driven by investments in factory efficiency and overhead reductions

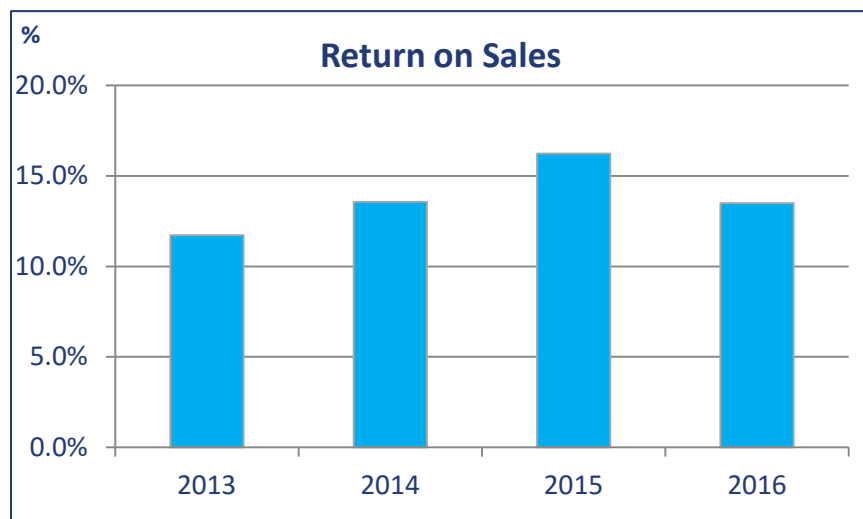
	2016 £m	2015 £m	Var %
Underlying revenue	126.8	135.6	↓ (6.5)
Underlying adjusted operating profit	15.4	13.8	↑ 11.6
<i>Underlying Return on Sales %</i>	12.1	10.2	↑ 18.6



- Orders lagged sales in the year delivering a book to bill ratio of 96%. Weakness focussed in Q2 and Q3
- Divisional underlying sales were down 6.5%. Similar pattern in all geographical regions
- Most market sectors saw reductions with the distribution and OEM channels seeing the largest falls due to de-stocking
- Factory costs benefitted from a full year of Bredbury Phase 1 closure savings
- Significant increase in capital spend in the year in key manufacturing locations
- Overheads down £0.7m on lower payroll overheads
- Tooth Chain will contribute approximately £1.0m to operating profit next year
- Chain target for operating margins remains mid-teens in a GDP+ growth environment

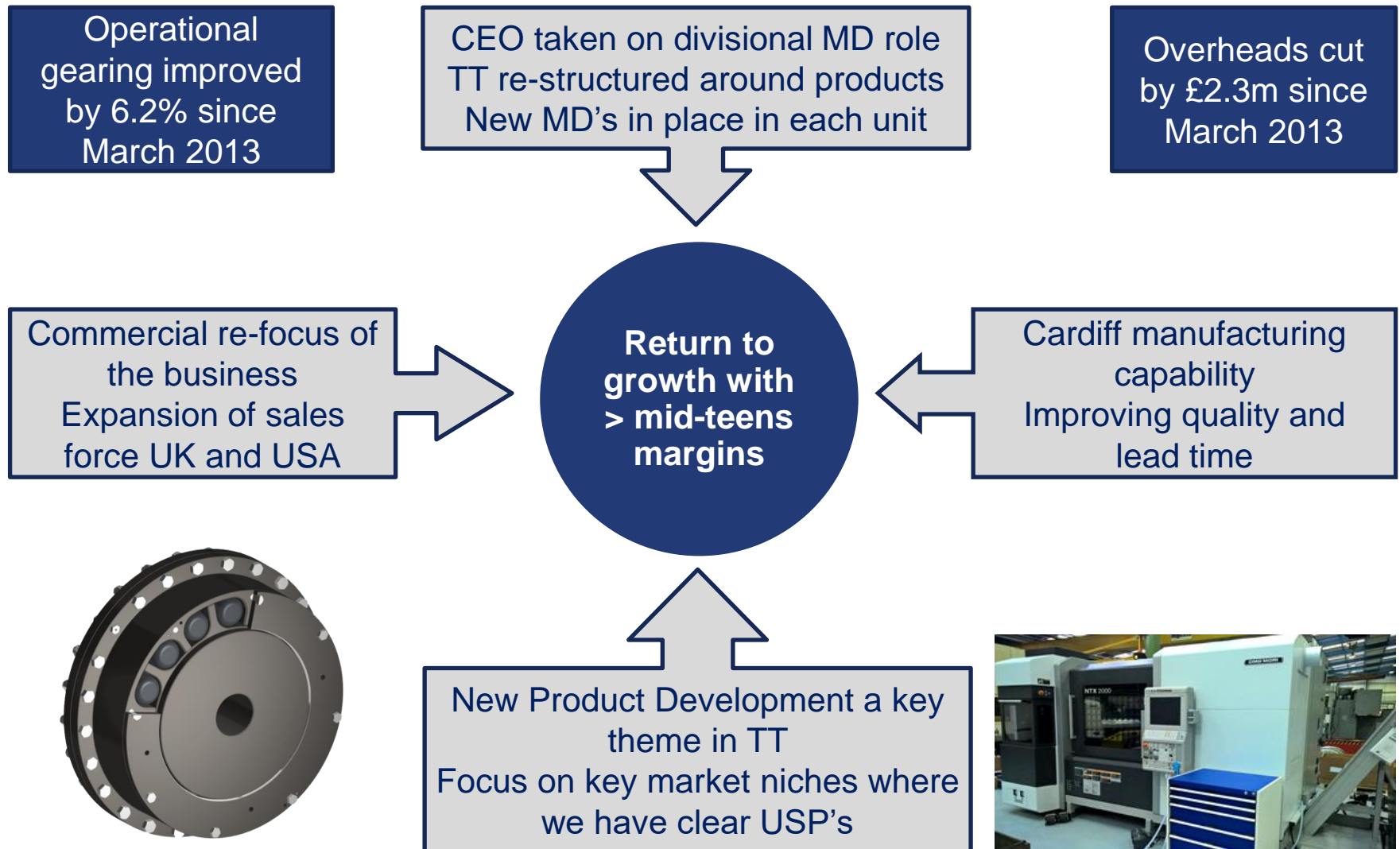
Challenging sales year in Torque Transmission partly mitigated by ongoing STEP 2020 continuous improvements

	2016 £m	2015 £m	Var %
Underlying revenue	38.4	45.8	↓ (16.2)
Underlying adjusted operating profit	5.0	7.5	↓ (33.3)
Underlying Return on Sales %	13.0	16.4	↓ (20.7)









- Orders in TT saw their greatest weakness in Q3 and Q4, the first two quarters combined having shown a modest fall (less than 2%)
- Sales followed a similar pattern with the reduction concentrated in the second half
- Demand in extractive and commodity sectors weak also impacting associated industries
- Variable margin gains from STEP 2020 initiatives and focus on higher value products
- Overheads cut by £0.7m in absolute terms primarily through payroll savings
- The overall fall in RoS% therefore reflects the reduction in sales outweighing variable margin and overhead gains
- Our short term goal is to return the division to mid-teens operating margins and growth

More focus on Torque Transmission as Chain recovery builds momentum







Financing costs and tax charges have both benefitted from active management

	2016 £m	2015 £m	Var £m
Adjusted operating profit	14.2	15.5 	(1.3)
Exceptional items	(2.2)	(2.9)	0.7
Pension admin costs	(0.7)	(0.5)	(0.2)
Amortisation of acquired intangible assets	(0.2)	-	(0.2)
Reported operating profit	11.1	12.1 	(1.0)
Pension scheme interest	(2.0)	(2.5) 	0.5
External financing charges	(1.5)	(1.7) 	0.2
Other interest charges	(0.2)	(0.2)	-
Profit before tax	7.4	7.7 	(0.3)
Taxation	(2.0)	(2.1)	0.1
Profit after tax	5.4	5.6 	(0.2)

- The main exceptional items were:
 - Tooth Chain acquisition costs £0.4m
 - STEP 2020 restructuring costs £1.9m
 - Net pension gain £1.2m in Germany and Australia
 - French property write down of £0.5m
 - Other restructuring charges £0.6m
- Pension scheme interest reduced due to lower corporate bond rates
- Financing charges lower due to:
 - Lower rates agreed in the re-financing completed in May 2015
 - Lower opening leverage: <1.0x
- The Group holds recognised and unrecognised tax assets
- Tax assets becoming accessible as profitability improves
- The adjusted effective tax rate for the year was 17% (STEP 2020 target <20%)

Operating cash flows support expanded capital programme and acquisition funding

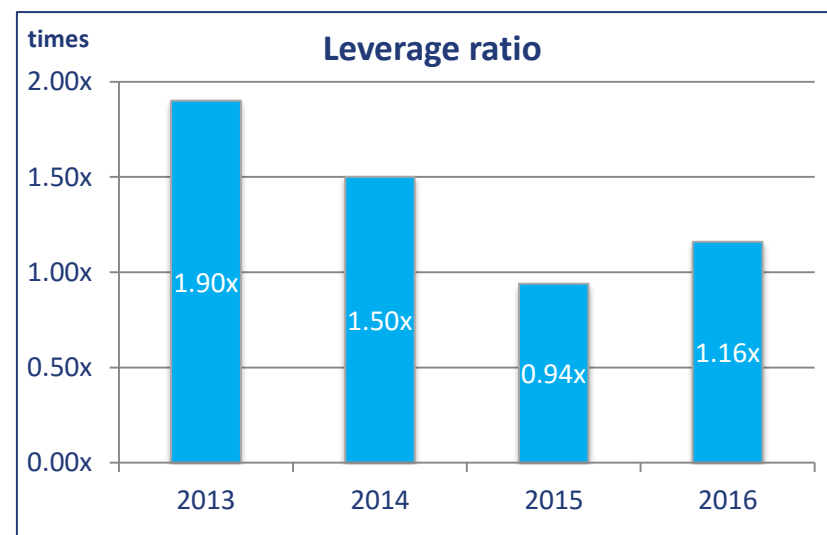
	2016 £m	2015 £m	Var £m
Adjusted EBITDA	20.2	20.8	 (0.6)
Movement in working capital	0.3	1.4	
Pensions cash costs	(5.4)	(5.1)	
Restructuring spend	(3.8)	(3.3)	
Taxes and other	(0.5)	(1.0)	
Net cash from operating activities	10.8	12.8	 (2.0)
Consideration paid for acquisition	(3.7)	-	
Investing activities	(9.5)	(5.5)	
Financing costs paid	(1.8)	(1.4)	
Other movements / FX	0.2	(0.6)	
Change in net debt	(4.0)	5.3	 (9.3)
Opening net debt	(19.5)	(24.8)	
Closing net debt	(23.5)	(19.5)	 (4.0)

- EBITDA maintained at an historically robust level to support Group's expenditure.
- Capital spend increased to improve efficiency and catch up infrastructure spend.
- Pension cash spend reflects costs associated with UK de-risking projects and higher PPF levy under new regime – to be mitigated.
- Almost half of restructuring spend relates to Bredbury onerous lease and refurbishment costs to enable potential sub-lease.
- Balance of restructuring costs relate to STEP 2020 initiatives and headcount reductions in response to slow down in demand.
- Cash tax £1.0m equivalent to 8.0% effective rate on adjusted PBT.
- Initial acquisition consideration £3.7m paid. Further potential £1.1m in 2 year earn out.
- Financing includes £0.5m one off costs, saving £0.8m on the prior re-financing.

Improving quality of underlying assets offset by higher pension deficit

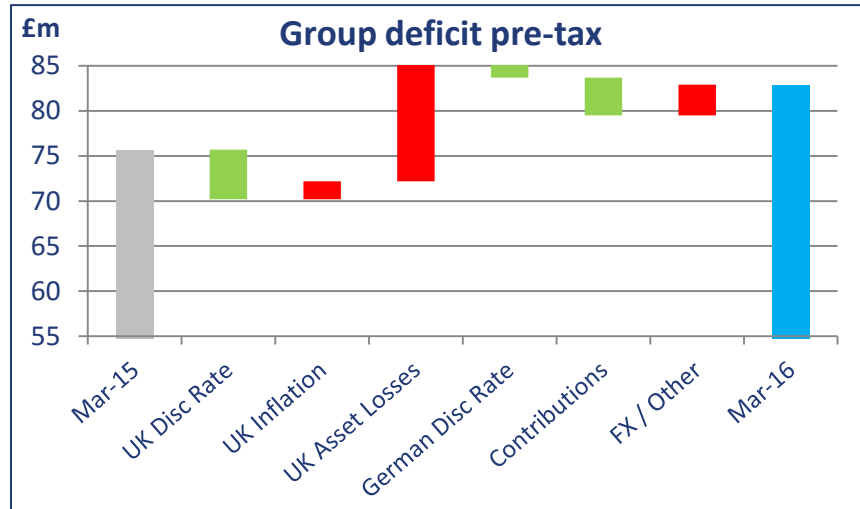
	2016 £m	2015 £m	Var £m
Goodwill	22.7	21.9	1.2
Intangible assets	10.3	6.1	4.2
Fixed assets	44.4	39.7	↑ 4.7
Deferred tax	16.7	17.1	↓ (0.4)
Inventories	36.3	35.8	0.5
Receivables	30.5	30.6	(0.1)
Payables	(36.2)	(36.6)	0.4
Net working capital	30.6	29.8	↑ 0.8
Net Borrowings	(23.5)	(19.5)	(4.0)
Provisions	(6.2)	(6.4)	0.3
Retirement benefit obligations	(82.9)	(75.7)	(7.2)
Other	(1.6)	(1.4)	
Net assets	10.5	11.6	↓ (1.1)
Leverage⁽¹⁾ ratio	1.16x	0.9x	↑

- Balance sheet impacted by FX changes
- Intangible assets acquired with the Tooth Chain business in January 2016
- Working capital includes Tooth Chain, underlying reduction
- Pension deficit driven by asset market values
- Leverage comfortable compared to 2.5x covenant

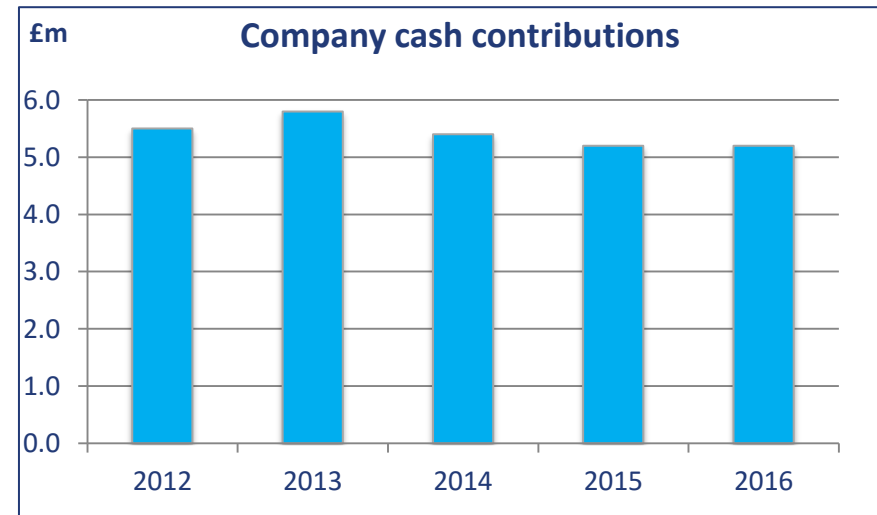
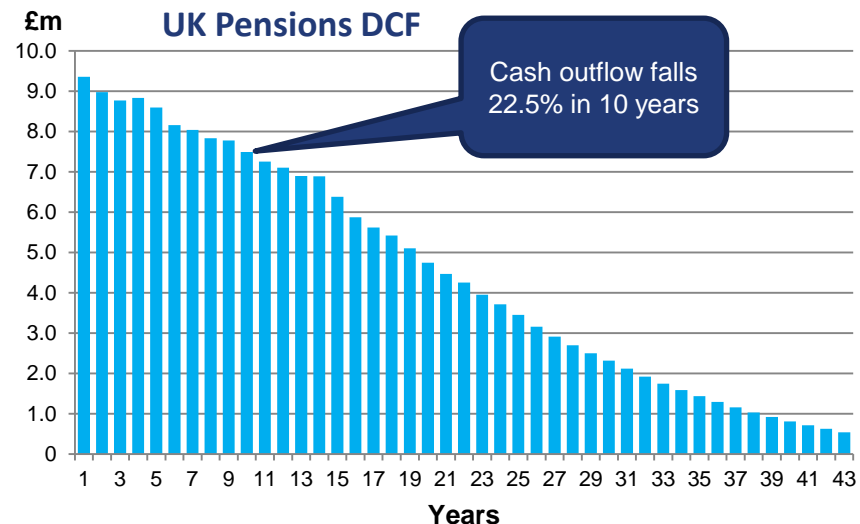


(1) Leverage is calculated as Net debt / adjusted EBITDA

Significant liability de-risking projects completed with stable cash costs



- Approximately £50.0m of UK pensioner liabilities fully de-risked in the year
- German scheme closure reduces liabilities by £1.6m and saves £0.2m p.a.
- Australian scheme terminated at a cost of £0.1m having eliminated deficit of A\$2.1m since June 2011
- UK membership reduced by 346 in year (10%) now down 47% in six years

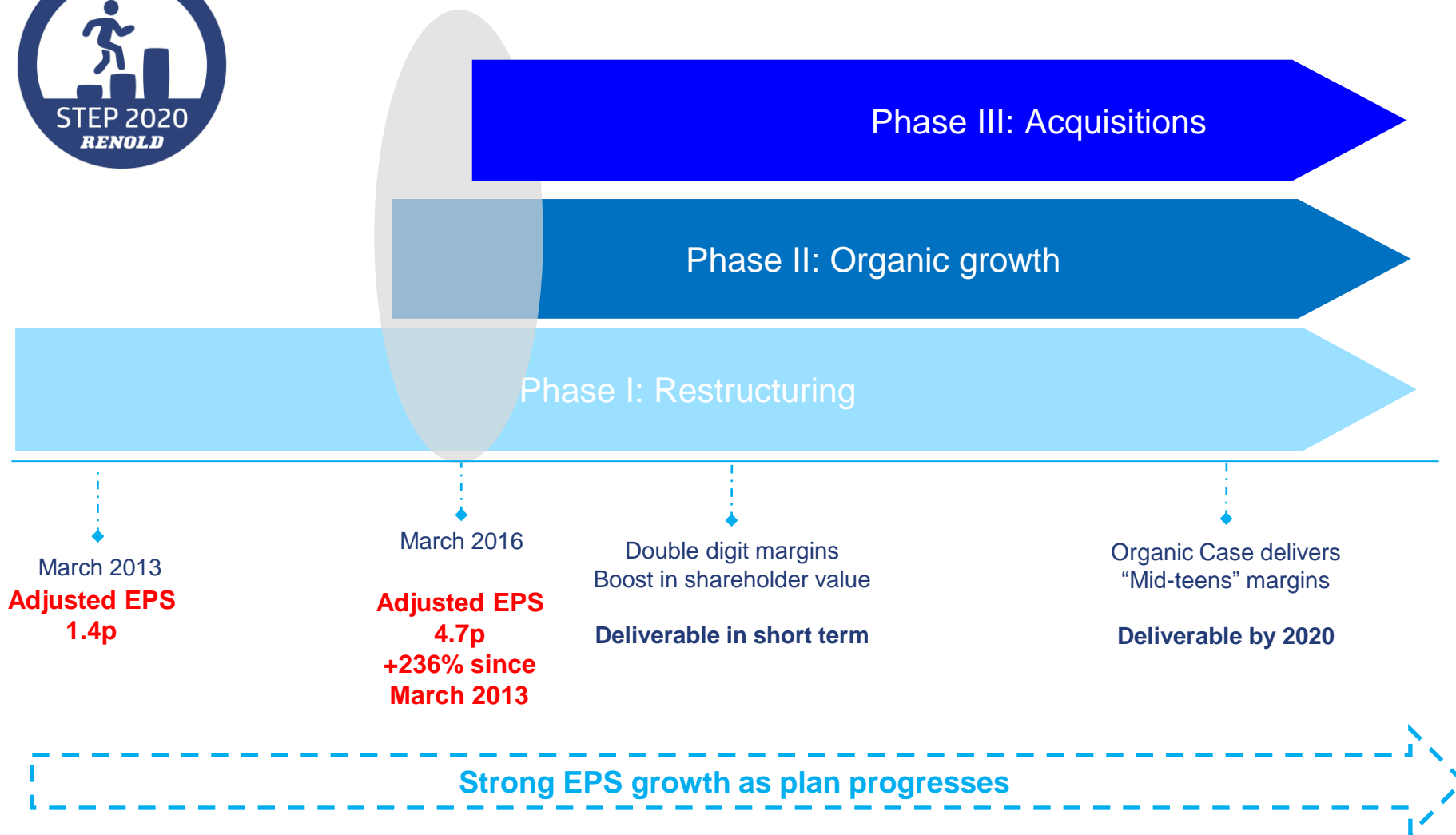




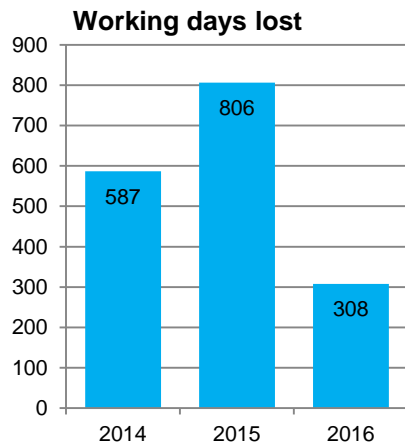
Re-engineering our future:
Next Steps

Robert Purcell, CEO

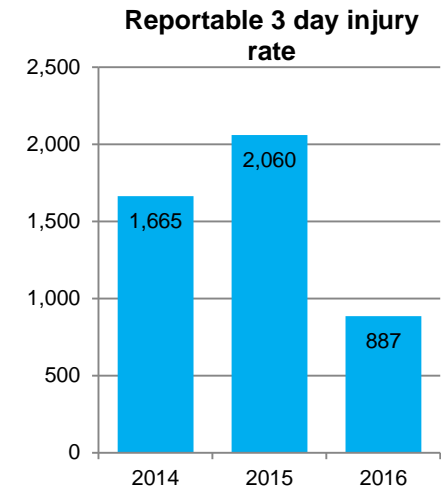
Good progress on all three phases of our Strategic Plan





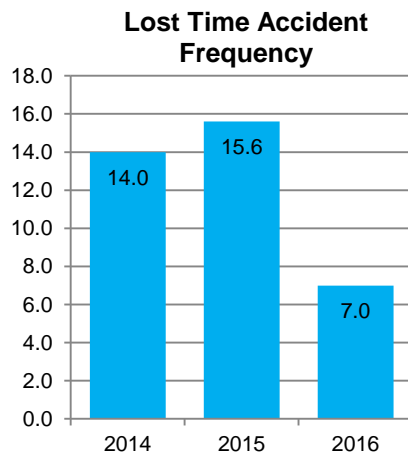


Significant improvement in all KPI's in the year



All major sites now certified to OHSAS 18001

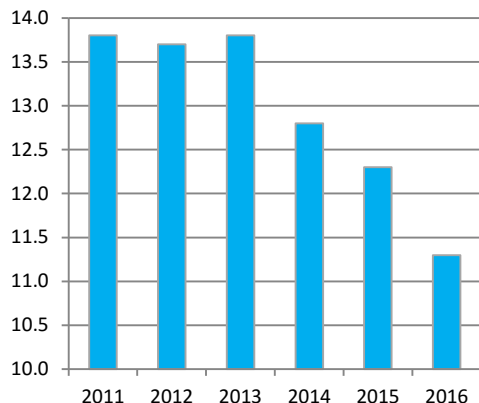
Completed over 2,700 H&S actions in 2016



CEO Awards scheme firmly established with clear improvement in submissions



£m Monthly break even sales



Business process improvements drive down overheads

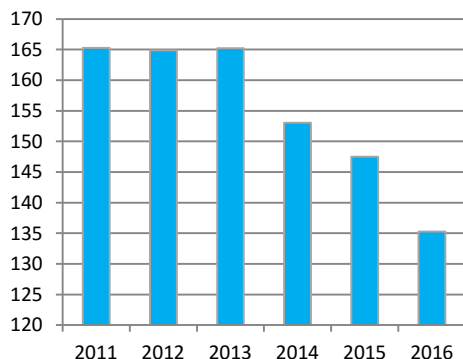
Overheads cut by £6.1m since March 2013

New trend in 2014, first year of STEP 2020

Break even point lowered by £30m in 3 years of STEP 2020

Bredbury closure formed the basis for 2015 and 2016 gains

£m Annual break even sales

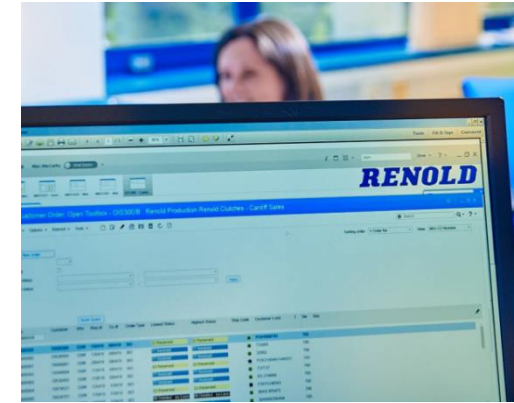


Manufacturing investments drive up operational gearing

Operational gearing improved by 5.1% since March 2013



Global ERP live in first pilot site
End loaded savings c.£3.0m p.a.
Enhances agility and service



Engineering systems
live at 8 of 12 sites
Integrating design and
manufacturing

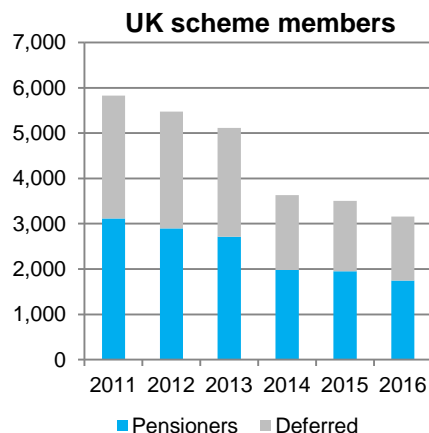
Optimising
business
processes

Other value adding
tools being deployed
CRM, scheduling,
reporting, barcoding

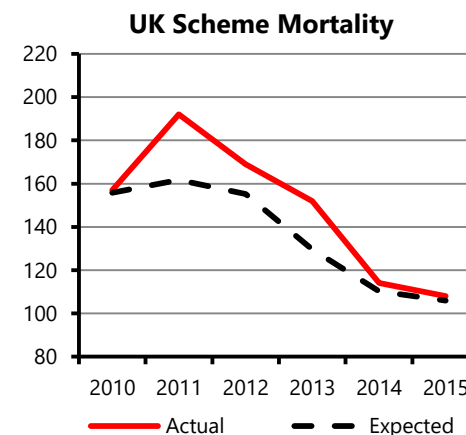


Critical infrastructure more robust
Global WAN roll out, server
outsourced





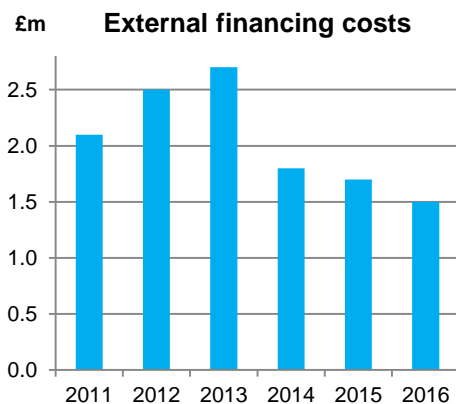
Insured buy-ins de-risked 50% (~£50.0m) of current UK pensioner
Small pot pay out to 207 members



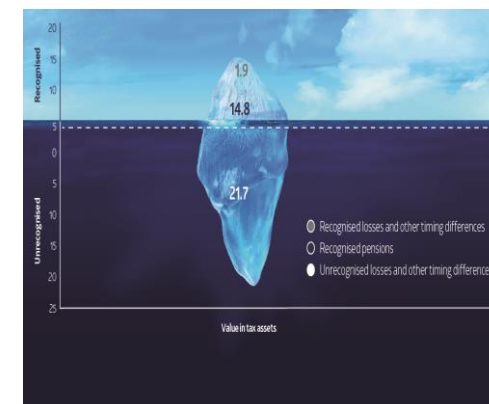
De-risking the balance sheet

New 5 year re-fi
Lower interest rates
Low renewal cost
£20m accordion

Hidden value in tax assets
Target ETR <20%
Cash tax <10%



German pension scheme fully closed to accrual and inflation
Saves €2.2m liabilities / €0.3m p.a.
Australian DB scheme liquidated





New Chain service presence in Spain, Indonesia, Thailand
 Dedicated TT staff in France

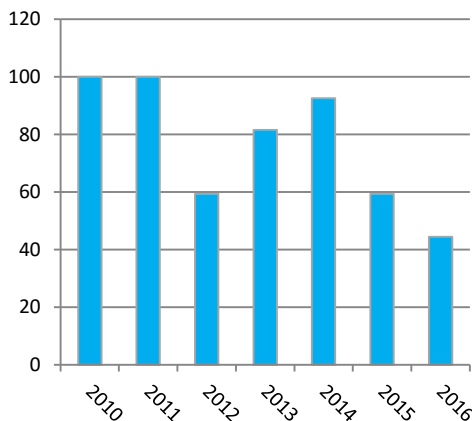


Configured chain cells in USA and Germany
 UK gearbox service offering initiated

Key products improved stock availability
 Responding to changing customer order patterns

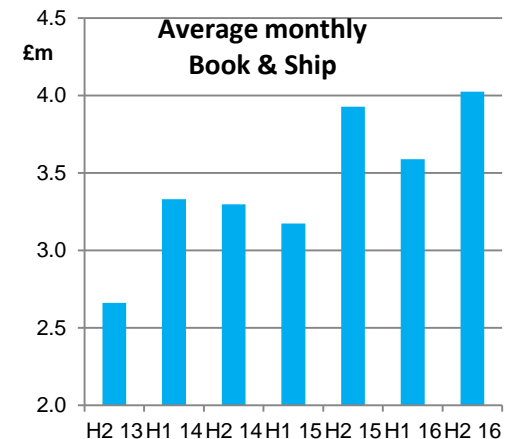
Enhancing customer service

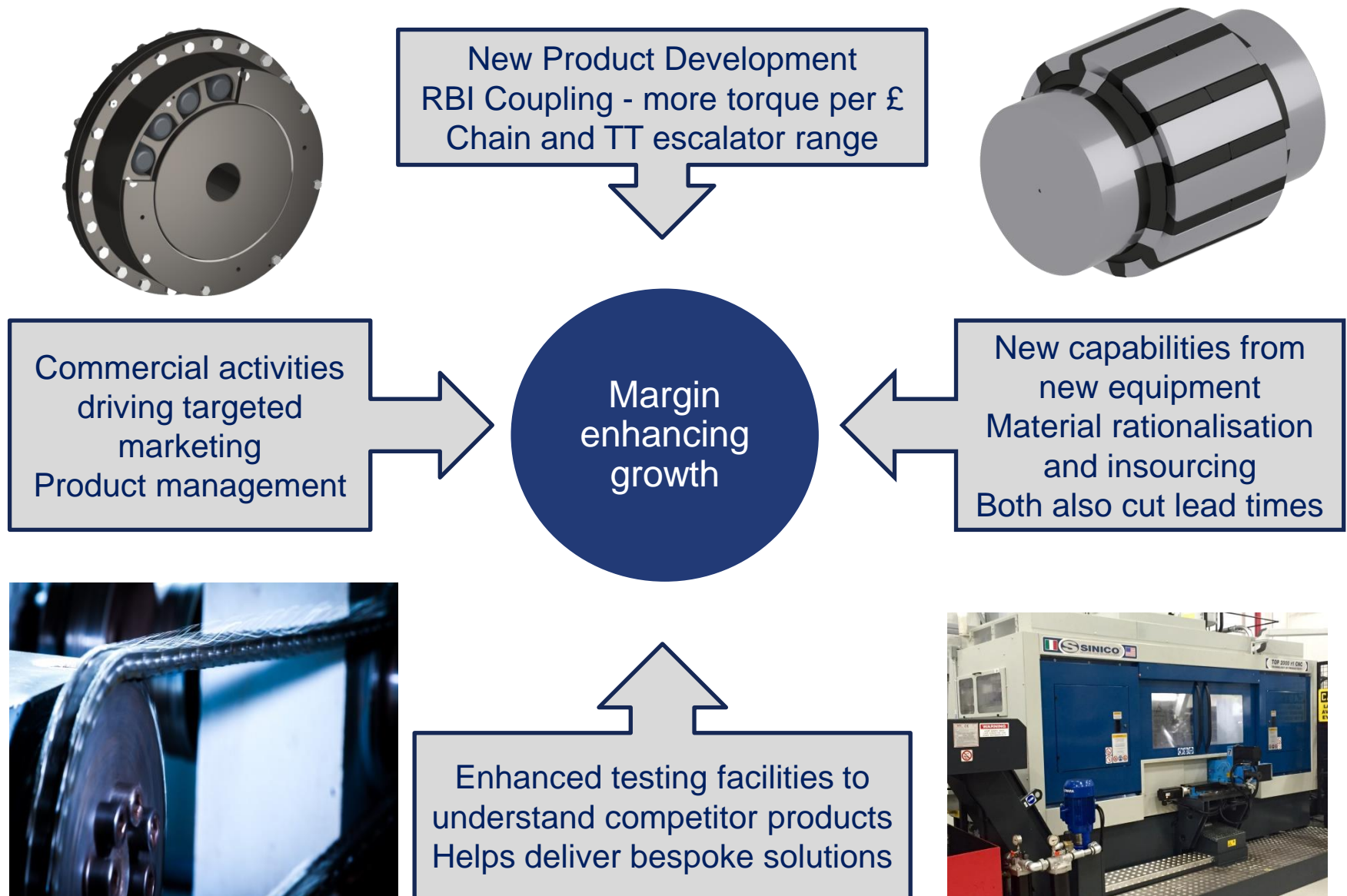
Overdue orders



Baseline 2010 = 100

Overdue customer orders cut by 52% since March 2013
 Progress with On Time In Full







First 'Future Leaders' European training programme intake
Now being expanded to USA



Performance Management System developed
Rolling out in 2016-17

Developing our people

Continued recruitment of management roles
Succession planning for senior roles

-  Operate with **integrity**
-  Value **our people**
-  **Work together** to achieve excellence
-  Accept **accountability**
-  Be **open-minded**

Active apprentice schemes
in Einbeck and Milnrow



Phase 3 of STEP 2020 focuses on acquisitions: our strategy identifies three different types of acquisition we would consider



- Short term acquisitions focus on products or selective consolidation
- Management bandwidth for proactive approach to acquisitions is increasing
- Accordion facility allows funding of smaller bolt-ons

Scale, reputation and expertise make Renold a natural consolidator in the Chain sector

Still moving forward in the face of strong headwinds



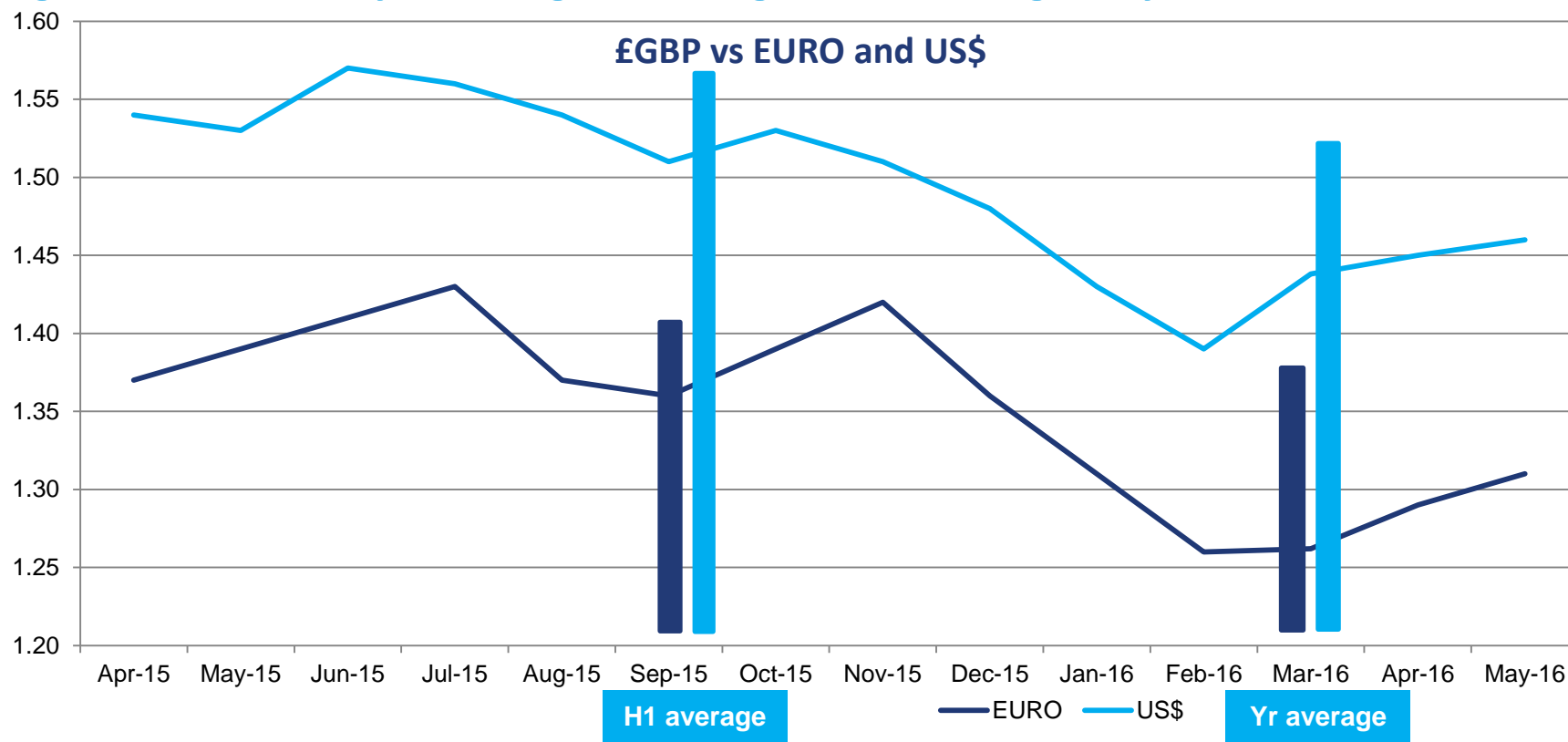


Thank you.
Q&A



Appendices

Significant volatility in foreign exchange rates during the year



- Sales denominated in US\$ represent 36.5% of the group total, and in Euro's 13.9%
- The primary impact of the volatility was translational. Full year transactional was limited to £0.2m
- Illustratively, reported sales for the year of £165.2m would have been approximately £7.0m higher at March 16 closing rates. Potential benefit to operating profit around £0.5m depending on mix
- FX rates remain volatile and EURO / US\$ have already weakened since 31 March 2016 (see above)

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