



Delivering  
performance

Preliminary Results May 2011

***RENOLD***

[www.renold.com](http://www.renold.com)

## *Successful delivery of the objectives set out during the equity fund raising*

- **23% growth in underlying order intake in the year**
- **13% growth in underlying order book during the year**
- **19% growth in underlying sales**
- **£9.0m increase in underlying operating profit**
- **£21.5m reduction in net pension deficit**
- **£34.9m sales growth with no increase in working capital**
- **2.0p adjusted earnings per share compared to a loss of 1.4p**

\* Throughout this document the use of 'Underlying' means after eliminating the impact of movements in foreign exchange rates and exceptional items

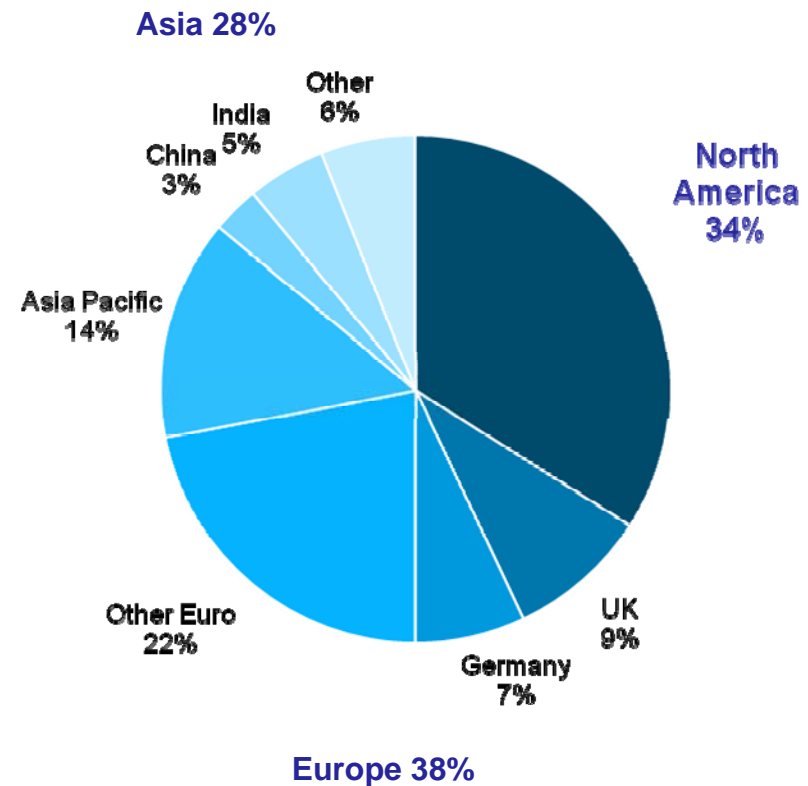
# Key elements of profit improvement

***Strong brand recognition and reputation for engineering enabled market share growth during recession***

- **Key elements of recovery**
  - End of destocking
  - Sales in over 105 countries enabled us to benefit from worldwide recovery in demand
  - Well placed manufacturing footprint with 13 sites worldwide
  - Retention of cost savings
- **Industrial steel chain is 76% of sales**
  - £1bn global market
  - Global player (#2)
  - A market leader in US, Europe, Australia and India
- **Torque Transmission division is 24% of sales**
  - Focus on growing markets
  - Mass Transit
  - Power generation
  - Steel
  - Mineral extraction

## Revenue by Geography

£191m 2010/11



# Group Income Statement

***Good drop through to operating profit from the 19% increase in sales with majority of the 2008/09 cost reductions retained***

<b>Underlying Analysis</b>	<b>10/11 £'m</b>	<b>09/10 £'m</b>	<b>Var £'m</b>
Revenue as reported	<b>191.0</b>	156.1	
Impact of FX	-	5.0	
<b>Underlying Revenue</b>	<b>191.0</b>	<b>161.1</b>	<b>29.9</b>
Operating Profit / (Loss) as reported	<b>7.0</b>	(2.1)	
Impact of FX	-	0.1	
<b>Underlying Operating Profit / (Loss)</b>	<b>7.0</b>	<b>(2.0)</b>	<b>9.0</b>
<b>Underlying Return on Sales %</b>	<b>3.7%</b>	<b>(1.2%)</b>	
Exceptional items	(2.7)	(2.7)	
Financing costs	(5.6)	(8.8)	
<b>Loss before tax</b>	<b>(1.3)</b>	<b>(13.6)</b>	<b>12.3</b>
<b>Adjusted earnings per share (pence)</b>	<b>2.0</b>	<b>(1.4)</b>	<b>3.4</b>

- Underlying revenue has increased by 19%
- Cost reduction with revenue growth delivered £9.0m increase in underlying operating profit
- Increase in underlying operating profit due to operational gearing

# Segmental Analysis - Chain

***Chain sales growth continued throughout the year and operational gearing impact added 7.1% to return on sales***

<b>Underlying Analysis</b>	<b>10/11 £'m</b>	<b>09/10 £'m</b>	<b>Var £'m</b>
Revenue as reported	<b>145.3</b>	111.2	
Impact of FX	-	3.7	
<b>Underlying Revenue</b>	<b>145.3</b>	<b>114.9</b>	<b>30.4</b>
Operating Profit / (Loss) as reported	<b>4.6</b>	(4.6)	
Impact of FX	-	0.1	
<b>Underlying Operating Profit / (Loss)</b>	<b>4.6</b>	<b>(4.5)</b>	<b>9.1</b>
<b>Underlying Return on Sales %</b>	<b>3.2%</b>	<b>(3.9%)</b>	

- Underlying revenue has increased by 26% with growth in all regions and market sectors
- Further investments in China and India to support additional growth
- Completed closure of Seclin manufacturing and Hebron warehouse for annualised savings ~£1.5m
- £9.1m turnaround from a loss in the prior period to the profit above

# Chain - Strategy

## *Exploit brand strength*

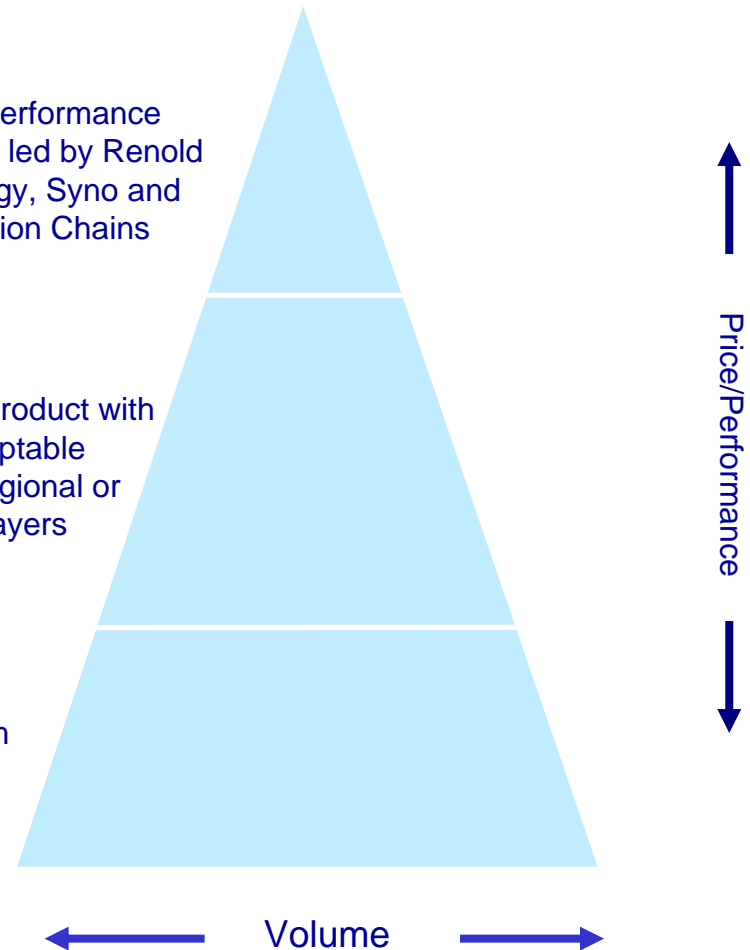
- Renold lead high quality top tier
- Renold Synergy has no rival and commands significant premium (wear characteristics)
- Acquisitions in China and India open the lower tiers to Renold product and increased Sales Addressable Market from £0.6bn to £1bn
- Renold approach
  - Consistent brand strategy
  - Cost competitive in all tiers
  - Access to emerging markets
  - Be immune to LCC Chain squeezing 'Standard Product' segment
  - Exploit low cost base in China and India differentiating on brand and local support
- Maintain Western plants to service customer lead time requirements and Solution products
- Manufacturing footprint now supports strategy
  - China
  - India
  - Malaysia

## *Competitive throughout the price/performance pyramid*

Premium performance and quality led by Renold with Synergy, Syno and other Solution Chains

Standard product with many acceptable branded regional or national players

Low cost mainly from India and China



# Segmental Analysis – TT

***Strong sales growth in second half offset completion of major contract in H2 prior year. Growth strategy focused on four key sectors***

<b>Underlying Analysis</b>	<b>10/11 £'m</b>	<b>09/10 £'m</b>	<b>Var £'m</b>
Revenue as reported	<b>45.7</b>	44.9	
Impact of FX	-	1.3	
<b>Underlying Revenue</b>	<b>45.7</b>	<b>46.2</b>	<b>(0.5)</b>
Operating profit as reported	<b>6.0</b>	4.1	
Impact of FX	-	-	
<b>Underlying Operating Profit</b>	<b>6.0</b>	<b>4.1</b>	<b>1.9</b>
<b>Underlying Return on Sales %</b>	<b>13.1%</b>	<b>8.9%</b>	

- Underlying revenue grew 26% excluding impact of completed mass transit contract in 2010
- Order book 16% ahead of the same time last year
- Underlying operating profit still grew by 46% with focus on higher value add products and sectors
- Return on sales increased further to 13.1%

# Torque Transmission - Strategy

***Accessible market of £1.6bn creates room for significant growth leveraging existing skills and product base in key focus markets***

## **Mass Transit**

- Propulsion gearboxes and couplings
- Gearboxes for rail infrastructure
- JV established in Q4 2010/11 to access Chinese market

## **Metals**

- Core competency for engineered gear couplings
- Spindles for steel rolling mills
- Wear item hence good aftermarket opportunities

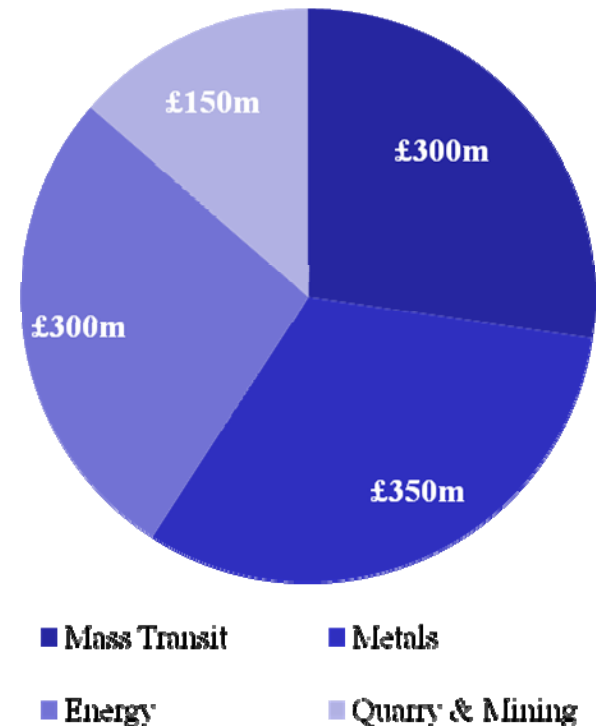
## **Energy**

- Power Generation:
  - Temporary power generators (Hi-Tec Coupling)
  - Fossil fuel power stations (Gearboxes & Couplings)
  - Marine power generators (Hi-Tec Coupling)
- Oil & Gas: Loose gears

## **Quarry & Mining**

- Strong gearbox service business in South Africa
- Growth opportunity in Latin America

**Products in TT Strategic Market Sectors £1.1bn**



# Group Cash Flow Statement

***Cash generation flowing from improved operating result and tight management of working capital***

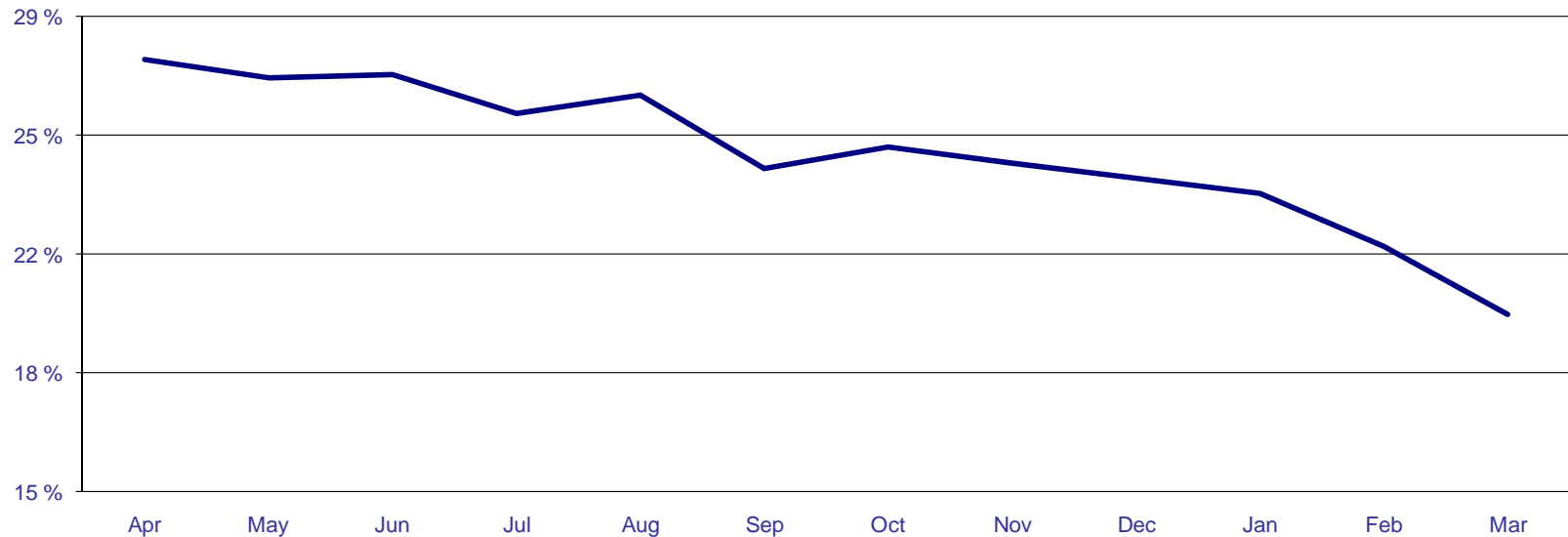
	10/11 £'m	09/10 £'m
Cash inflow from operating activities	6.6	0.9
Taxes (paid) / refunded	(0.1)	1.0
<b>Net cash from operating activities</b>	<b>6.5</b>	<b>1.9</b>
Investing activities	(7.0)	(4.4)
Financing activities	(2.0)	(5.6)
<b>Decrease in cash and cash equivalents</b>	<b>(2.5)</b>	<b>(8.1)</b>
Other movement in debt	(0.1)	27.2
Foreign currency differences	0.5	0.2
Net debt at start of period	(17.9)	(37.2)
<b>Net debt at end of period</b>	<b>(20.0)</b>	<b>(17.9)</b>

	2010/11 £m	2009/10 £m
OP	4.3	(4.8)
Dep/Amort	4.9	5.0
Debtors	(4.6)	8.6
Inventory	(1.6)	4.0
Payables	7.7	(5.3)
Provisions	0.0	(2.2)
Pensions	(4.4)	(5.1)
Other	0.3	0.7
	<u>6.6</u>	<u>0.9</u>

- Business operations generated an additional £9.0m of EBITDA
- Sales growth of £34.9m funded with no increase in value of working capital
- Investing cash flows focused on short payback capex, SAP project and final payment for India
- Financing activities in 2009/10 included exceptional re-financing costs of £2.8m

## *Tight working capital management has funded £34.9m of sales growth*

WCAP % Rolling 12 Months Sales



- The chart shows net working capital as a ratio of rolling twelve month sales for the last year
- Average working capital ratio improved in the year by 2.5% to 24.9%
- Sales growth of £34.9m added with no increase in the value of working capital
  - Only £1.2m of inventory increase despite £34.9m sales increase
  - 3 day reduction in debtor days (£2m) and overdue debtors reduced by 2%
  - Creditor terms returning to a more normal operating environment
- Aim for 2011/12 is to fund sales growth without increasing the value of net working capital

## *Balance sheet strength continues to build*

	31 Mar 2011 £'m	31 Mar 2010 £'m	31 Mar 2009 £'m
Goodwill	22.4	23.5	24.5
Fixed assets	53.0	51.5	52.2
Deferred tax	16.1	22.0	13.3
Inventories	44.1	42.9	46.4
Receivables	32.8	28.3	37.1
Payables	(39.6)	(33.0)	(37.6)
Net borrowings	(20.0)	(17.9)	(37.2)
Provisions	(1.2)	(1.1)	(3.4)
Retirement benefit obligations	(53.2)	(74.5)	(55.1)
Other assets	2.5	3.1	(0.1)
<b>Net assets</b>	<b>56.9</b>	<b>44.8</b>	<b>40.1</b>
<b>Gearing (D/(D+E))</b>	<b>26%</b>	<b>29%</b>	<b>48%</b>

- Changes in deferred tax asset values driven by falling pension deficit
- EBITDA borrowings leverage fallen from 6.0x to 1.6x
- Changes in pension deficit covered in more detail on slide 12

## ***Sustainable £16.4m reduction in pension deficit with cash costs maintained for the next three years***

Balance Sheet	31 Mar 2011 £m	31 Mar 2010 £m
UK deficits net of deferred tax	(22.1)	(35.8)
Overseas funded net deficits	0.6	0.2
<b>Total funded net pension obligation</b>	<b>(21.5)</b>	<b>(35.6)</b>
<b>Total unfunded schemes (all overseas)</b>	<b>(20.5)</b>	<b>(21.2)</b>

Variance	£m
Mortality (actual and forecast)	10.0
RPI / CPI change	6.4
Other inflation	3.2
Deferred tax asset	(6.7)
Net other	1.9
<b>Movement in Liability</b>	<b>14.8</b>

- UK deficit reduced significantly on a sustainable basis during the year
  - Actual mortality gains (£5m) and mortality trend gains (£5m)
  - RPI / CPI legislative change reduced liabilities by £6.4m
  - One UK scheme now in surplus (102% funded, scheme is 18% of all UK liabilities)
- 2010 Triennial Review results agreed in principal with Trustees:
  - Three year deficit repair contributions unchanged at £2.4m p.a. (+RPI)
  - Outstanding PPF levies of £3.1m reimbursed over five years
- The overseas net deficit is the unfunded German scheme (£19.8m net deficit) and this scheme is also closed to new members. Overseas funded surplus relates to the South African scheme.

# Clear road map for further profit improvement

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***Profit growth will be driven by further sales growth and cost reductions***

## **Sales growth**

- Q4 order intake was 23% ahead of LY and the opening order books 13% ahead of PY
- Chain growth supported by full product offering across the price / performance pyramid enabled by Chinese and Indian facilities (additional capacity being added in China)
- Torque Transmission growth through leverage of existing capabilities in key market sectors, focus on expanding Mass Transit footprint outside North America, JV created in China

## **Cost Reductions**

- Planning for additional cost savings of £2-3m
- France manufacturing facility closure and US warehouse consolidation completed in Q4 for full year benefit in 2011/12 of ~£1.5m
- European commercial reorganisation commenced
- Further automation in Western facilities
- SAP implementation creates opportunities for structural and business process efficiency, particularly around working capital

**Priorities are 10% RoS target by 2012/13 and strong cash conversion**

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***Increased order intake and activity levels continued throughout the year.  
13% higher order books create firm platform for 2011/12***

- Order intake and revenue growth in Q4 continued at rates seen throughout the year
- Recovering markets enhanced further by market share gains
- Strong opening position for Q1 of the new year
- Sentiment remains strong in Europe and has firmed up in the US
- Profitability and margin improvements targeted in 2011/12 through a combination of:
  - planned savings initiatives £2-3m (£1.5m already delivered)
  - targeted sales growth of around 10% supported by strong opening order book
- Further 2.5% reduction in average working capital ratio to self-fund sales growth
- EBITDA borrowings leverage set to fall below 1.0x