

# Renold plc

## ("Renold" or the "Group")

Preliminary results for the year ended 31 March 2019

28 May 2019

### ***15% growth in adjusted operating profit; strong organic growth delivered in the Chain division***

*Renold, a leading international supplier of industrial chains and related power transmission products, today announces its preliminary results for the year ended 31 March 2019, together with an update on the progress of the Group's Strategic Plan.*

#### **Financial highlights**

	<b>Year ended 31 March</b>	
	<b>2019</b>	2018
	<b>£m</b>	£m
Underlying <sup>1</sup> revenue	<b>202.4</b>	190.8
Adjusted <sup>2</sup> operating profit	<b>16.4</b>	14.2
Adjusted <sup>2</sup> operating profit margin	<b>8.1%</b>	7.4%
Statutory operating profit	<b>16.2</b>	5.6
Basic earnings/(losses) per share	<b>3.3p</b>	(1.00p)
Adjusted earnings per share	<b>4.9p</b>	4.5p

- Organic growth in underlying revenue 6.1%; benefiting from strong growth in the Chain division
- Adjusted operating profit up by 15.5% to £16.4m (2018: £14.2m); the highest adjusted operating profit for more than 15 years
- Statutory operating profit increased to £16.2m (2018: £5.6m)
- Return on sales 8.1% (2018: 7.4%); adjusted EBITDA £24.1m (2018: £21.5m)
- Net debt £30.0m; net debt to adjusted EBITDA of 1.2x (2018: 1.1x), following a year of significant investment in the Chinese factory relocation

#### **Trading and operational highlights**

- Year on year growth in underlying order intake 5.5% (adjusted to remove the major, multi-year Couplings order won in 2018); order book at 31 March 2019 8.0% ahead of prior year
- Completed the relocation of the Chinese chain manufacturing facility
- Strong performance in the Chain division with underlying revenue growth 7.5%; return on sales 11.2% (2018: 9.6%)
- Stable revenue in the Torque Transmission division with continued growth in US markets
- Move to AIM in support of acquisition strategy on schedule following shareholder approval
- Group debt facilities amended and extended in the year; now committed until March 2024

<sup>1</sup> Underlying adjusts prior year results to the current year exchange rates to give a like-for-like comparison as set out in Note 2.

<sup>2</sup> Adjusted means excluding the impact of restructuring costs, amortisation of acquired intangible assets, impairment of goodwill, pension administration costs and any associated tax thereon. Adjusting items are separately identified in the Consolidated Statement of Comprehensive Income.

**Robert Purcell, Chief Executive of Renold plc, said:**

*"The Chain division has delivered encouraging organic growth as well as improved operational efficiency, increasing adjusted operating profit to record levels. The continued successful execution of the strategic plan has enabled margin improvement to be delivered in spite of labour cost inflation and the significant relocation of our Chinese factory, which will take time to ramp up to targeted output and productivity levels. We are mindful of these factors entering the new year, but remain confident that our strategic initiatives provide us with a clear pathway to further future progress."*

*"Whilst not immediately visible in the trading performance in the year to March 2019, the operational improvements in Torque Transmission, along with additional revenue from the Couplings long-term contract in the year ahead provide a platform for further organic growth and margin improvement."*

*"Our strategy has delivered strong results and is the optimum approach to creating and maintaining a higher quality, higher margin business. Robust order books provide the basis for continued improvement in the new financial year. We see significant opportunity to build on the platform established, both through ongoing organic growth initiatives and through an effective acquisition strategy, the execution of which will be simplified by the move to AIM. Delivering sustainable growth through these initiatives, when combined with the benefits of further operational efficiency, continues to support the expectation that mid-teens operating margins can be delivered over time."*

**ENQUIRIES:**

**Renold plc**

**0161 498 4500**

Robert Purcell, Chief Executive  
Ian Scapens, Group Finance Director

**Peel Hunt LLP**

**020 7418 8900**

Mike Bell  
Ross Allister  
Ed Allsopp

**Instinctif Partners**

**020 7457 2020**

Mark Garraway  
Rosie Driscoll

**Cautionary statement regarding forward-looking statements**

Some of the information in this document may contain projections or other forward-looking statements regarding future events or the future financial performance of Renold Plc and its subsidiaries (the Group). You can identify forward-looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could", "may" or "might", the negative of such terms or other similar expressions. Renold Plc (the Company) wishes to caution you that these statements are only predictions and that actual events or results may differ materially. The Company does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of the Group, including among others, general economic conditions, the competitive environment as well as many other risks specifically related to the Group and its operations. Past performance of the Group cannot be relied on as a guide to future performance.

**ANALYSTS AND INVESTORS**

A meeting for investors and analysts will be held on 29 May 2018 at 9.30 am at Instinctif, 65 Gresham Street, London, EC2V 7NQ. For those unable to attend, a conference call facility is available as follows:

Dial in: UK Dial-In: 0800 376 7922

Standard International Dial-In Number: +44 (0) 2071 928000

Conference ID: 8498502

**NOTES FOR EDITORS**

Renold is a global leader in the manufacture of industrial chains and also manufactures a range of torque transmission products which are sold throughout the world to a broad range of original equipment manufacturers and distributors. The Company has a reputation for quality that is recognised worldwide. Its products are used in a wide variety of industries including manufacturing, transportation, energy, metals and mining.

Further information about Renold can be found on their website at: [www.renold.com](http://www.renold.com)

## Chairman's Letter

### Overview

During the year ended 31 March 2019, Renold has continued to make progress in the delivery of its strategic plan. The Chain division has achieved significant performance improvement over the prior year, delivering the highest adjusted operating profit within the current strategic plan, and possibly ever. Performance in the Torque Transmission division was slightly behind the prior year level, reflecting a combination of expected lower long-term contract revenues and a short-term change in product mix affecting margin. The combined effect for the Group was the delivery of the highest adjusted operating profit in recent history, along with adjusted operating margins recovering towards the peak levels achieved in the years ended 31 March 2015 and 31 March 2016.

### Our markets

Overall market conditions remained robust through the year. The exceptionally strong growth experienced in the US in the latter part of the prior year has stabilised to more sustainable levels. Revenue growth in the developing markets of China and India continue to out-perform growth rates in more developed markets. Strong order intake continued through the year, with orders for the full year ahead of revenue (book-to-bill of 102%).

### Trading performance

Revenue grew by 5.6% in the year (6.1% on an underlying basis), reflecting the combined effects of targeted recovery of material price increases alongside organic volume growth.

Having resolved the issues that depressed the Chain division's performance in the prior year, adjusted return on sales for the division improved significantly to 11.2% (2018: 9.6%). The Chain division's improved trading performance is after absorbing cost headwinds, particularly German wage costs as a result of union and legislative changes.

This is the highest adjusted operating profit delivered by the Chain division within the current strategic plan, and beyond this, in recent history. While the progress of the plan has been slower than originally envisaged, and greater cost headwinds have been encountered, I remain certain that our strategic actions are improving the underlying quality of the business and will further improve margins on a sustainable basis.

Torque Transmission's adjusted return on sales declined in the year to 10.6% (2018: 12.5%) as phasing of revenue on the multi-year couplings contract combined with growth in lower margin product areas to reduce divisional adjusted operating profit.

Adjusted operating profit of £16.4m (2018: £14.2m) represents the highest annual adjusted operating profit delivered under the current strategic plan. Statutory operating profit was £16.2m (2018: £5.6m).

### Step 2020 Strategic Plan

I am pleased to be able to report that we continue to make strong progress in delivering key projects in support of the Step 2020 Strategic Plan.

We have completed the construction of and relocation to our new purpose-built Chinese factory in Jintan, near Changzhou in Jiangsu province.

We continue with our programme to roll out our chosen suite of business systems solutions, including a standard ERP system and associated scheduling and engineering packages. Our manufacturing efficiency programmes are delivering increased efficiency with sales per employee improving by 3.7%.

Off-setting this positive progress, our health and safety statistics have been a disappointment in the year. Despite the improved health and safety environment and framework that has been introduced as a core element of the strategic plan, an increase in volume at our manufacturing sites has coincided with an increase in accidents and a deterioration in our health and safety KPIs. Health and safety is a core element of our strategic plan and we will redouble our efforts in this area to ensure that health and safety performance returns to the improving trend that we have experienced in preceding years.

The third element of the Step 2020 Strategic Plan addresses acquisitions and the Group's appetite to grow through selective acquisitions. In the November 2018 interim results, we highlighted that the Board was considering whether to move the Group's stock exchange listing to AIM. Following consideration by the Board, we concluded that such a move would improve the Group's ability to execute transactions, and in April we initiated the first steps of the programme to implement the move by calling a General Meeting and putting resolutions to shareholders for approval. At the General Meeting on 8 May 2019, these resolutions were duly passed with an overwhelming vote in support, and we remain on track with the timetable outlined in the Circular for the Company's shares to be admitted to trading on AIM on 6 June 2019.

We continue to be committed to the acquisition phase of the strategy and consider the move to AIM to be part of the preparations for ensuring we are correctly positioned to execute acquisitions as and when they arise.

## **The Board and people**

As previously reported, Tim Cooper was appointed to the Board as a Non-Executive Director with effect from 14 November 2018 as part of a programme of orderly Board succession. It is intended that Tim will become Chairman of the Remuneration Committee after he has completed 12 months service. To facilitate a smooth handover period, Ian Griffith's term of office as a Non-Executive Director has been extended beyond the usual nine-year tenure until the conclusion of the 2020 AGM.

The Board continues to support the Executive team in reviewing and monitoring key activities under the Step 2020 Strategic Plan. The Board remains closely involved in the oversight of the major project deliverables and all Board members have continued to give additional time and support on a wide range of issues during the year.

On behalf of the Board, I would like to thank all our employees for their continued commitment and hard work during the year as we progress the Group's strategy. The contribution of each employee is valued and appreciated.

## **Debt facilities**

In late March 2019, we completed an amendment and extension to our core banking facilities, including the Group's core £61.5m revolving credit facility. The revised facilities give access to longer-term financing which now expires in March 2024 and adds a £20.5m accordion facility, permitting an increase in debt if required, for example, in support of acquisitions.

The amendment and extension resulted in changes to the banking syndicate, which now includes HSBC, Allied Irish Bank (GB) and Citibank. We welcome the new lending partners who complement Renold's extensive geographic reach and can support our operations across the world.

## **Pensions**

The Group's net retirement benefit obligations increased to £101.9m (2018: £97.4m), with the largest element of the increase relating to reducing discount rates and increasing inflation. This increase in the net deficit is despite actions that have been implemented in the year to realign certain future inflation measures to the consumer prices index rather than the retail prices index used historically.

The Group remains committed to progressively de-risking this position over time through a combination of agreed contributions to the schemes and specific de-risking projects as they become viable.

## **Future governance**

Upon admission to AIM, the Company is required to adopt a governance code. The recent changes to the UK Corporate Governance Code introduce significant additional requirements that are not considered by the Board to be appropriate for a company of Renold's size and resources. Upon admission to AIM, the Company proposes to adopt the Corporate Governance Code published by the Quoted Companies Alliance. However, as outlined in the recent circular proposing the move to AIM, the Directors intend to operate the Company's reporting and governance in substantially the same manner as at present.

## **Dividend**

The Board fully recognises the importance of dividends to shareholders. However, given the investment in the business in the year to March 2019, particularly in the new Chinese facility, and the resultant increase in net debt, the Board has decided not to recommend the payment of a dividend on ordinary shares for the year ended 31 March 2019. This approach will remain under active review for future periods.

## **Summary**

A great deal has been accomplished this year, with the Group's financing facilities extended, the move to AIM well progressed, and at the same time, delivering record adjusted operating margins in the Chain division and the highest adjusted operating profit for the Group in recent history.

There still remains a great deal of work yet to be done, but we believe the actions delivered this year provide the platform to progress the strategic plan further.

## **Mark Harper**

CHAIRMAN

28 May 2019

## Chief Executive's Review

### Overview

I am pleased to be able to report a performance in the year that has delivered revenue growth combined with improved margins, two of our key strategic objectives. The result is the delivery of the highest adjusted operating profit in recent history and the recovery of adjusted operating margins towards the peak level delivered in the year ended 31 March 2015.

We have been working diligently on improving performance for a number of years as part of the strategic plan. This has involved major restructuring projects such as factory moves and closures, but has also been focused on attention to detail in manufacturing processes and commercial capabilities. Our ability to demonstrate the benefits of these actions in financial results has been limited over the last few years by wider market issues. However, as revenue growth has been achieved, the benefit of the actions implemented has become visible and is reflected in the improvement in adjusted operating profit margins.

Margin improvement in the year to 31 March 2019 has been focused in the Chain division where underlying adjusted operating profit margins increased to 11.2% (2018: 9.6%). These margins have been delivered despite a number of headwinds, including the impact of German wage inflation following union and legislative change and a temporary reduction in profitability of our Chinese Chain operations as we delivered the major factory move. This margin improvement, along with further capacity for improvement in a number of areas, demonstrates the potential for further increases in margin as we continue with our strategic initiatives.

Performance of the Torque Transmission division has been more challenging and the operating profit margin achieved in the year is a disappointment. However, this performance masks a number of underlying improvements, particularly in the US and in continued strength of order intake, which give me confidence that performance should improve in the coming year.

Group revenue grew by 6.1% to £202.4m on an underlying basis, returning towards previous peak levels. Adjusted operating profit increased to £16.4m (2018: £14.2m) which is a record adjusted operating profit delivered in recent history.

Group order intake remained robust through the year, with total orders growing by 5.5% on an underlying basis, and adjusted to remove the impact of the major, multi-year contract won by Couplings in the prior year. The Group's closing order book at 31 March 2019 is 8.0% ahead of the prior year on an underlying basis.

### Step 2020 Strategic Plan – update on progress

#### PHASE I – Business Improvement

##### Manufacturing efficiency

As noted above, we have been working diligently on improving production efficiency as part of the strategic plan. As growth has delivered a recovery in revenue to levels previously experienced in the year ended 31 March 2015, the benefits of the strategic actions are becoming visible. For the Chain division, particular improvement is apparent in the margins being achieved in Chain Americas and in India, with both being able to support the growing volumes with limited additional resources as improvement programmes delivered cost efficiencies and increased productivity. Chain Europe has also been able to support growth with limited additional resources; however, the impact of German labour cost inflation has constrained margin improvement.

A further temporary constraint on margin improvement was experienced, as anticipated, due to the reduced production output of Chain China as we transferred to the new factory. We previously outlined our programme to relocate the Chinese chain manufacturing facility to a purpose-built facility near Changzhou in Jiangsu province. This significant factory move was completed in the latter part of the year, following two years of planning and construction. This new facility is now fully operational and was delivered on time and ahead of the deadline of 31 March 2019. The trading performance of this business unit was impacted in the final quarter of the year as the entire operation was relocated and a substantially new workforce went through a 'learning curve'.

In order to deliver manufacturing efficiencies, one area of focus during the year was on planning and scheduling systems across the Group. As volumes increased in certain business units, the capacity of their legacy processes to effectively support this growth was proved to be inadequate. As a result, we have accelerated the roll-out of scheduling systems and processes in some areas, supporting improved service.

Over the last five years, we have invested in a number of capital projects aimed at improving existing facilities and adding new manufacturing capabilities and technologies. These initiatives have improved reliability and efficiency, allowing us to reduce costs, while at the same time enhance product quality and service levels. There remains significant scope for further investment in projects with attractive financial returns and we will continue to invest in a disciplined manner, ahead of depreciation, to deliver these.

On a more disappointing note, based on our KPIs, health and safety performance deteriorated in the year. The health and safety programmes which have been implemented as a core part of the strategic plan remain appropriate and provide the framework to ensure improved performance. As the sites become busier, we will continue to refine and develop our processes and procedures defined by the health and safety framework to ensure that our performance in this area is on an improving trend.

### **Business process efficiency**

The most significant element of the programme to improve business process efficiency is the implementation of the Group's ERP and associated business systems across all its sites. Progress continues and the new Chinese factory and sales office are now operating on the new systems. The preparation of the roll-out to India is well progressed, but was ultimately delayed as we elected to reduce the risk exposure of changing systems in both China and India at the same time. India is expected to go live on the new systems early in the new financial year.

This time last year, I outlined the launch of our Step 2 Service programme which is focused on improving customer service. Customer service has been a long-standing achilles heel for Renold, and the programme is delivering initial improvements. However, there remains more to do to deliver exceptional service to customers at all times, and our management teams around the Group are assessing all aspects of their business processes to identify and improve processes that can enhance customer service.

## **PHASE II – Organic Growth**

### **Growth activities**

Over the last few years, Renold has been restructuring and strengthening the commercial and sales teams around the world. This has provided a platform for growth, which, in the year ended 31 March 2019, comprised a combination of pricing and volume growth. Following the step-change increases in raw material prices experienced in the year ended 31 March 2018, sales price increases were implemented, providing benefit in the second half of the year to 31 March 2018 and in the year ended 31 March 2019. Volume-driven organic growth has been particularly strong in the US markets, across both Chain and Torque Transmission divisions.

Underlying revenue growth was sustained throughout the year with 6.4% delivered for the first half, and 5.7% for the second half, resulting in underlying growth for the year of 6.1%.

Renold's brand recognition and engineering capability are key differentiators in the market and enable us to focus on premium performance segments and applications with complex and challenging requirements. As such, we continue to target non-traditional sectors where we believe Renold's products can provide a differentiated offering and where we can reduce our exposure to the cyclical nature of core industrial markets. We are seeing continued progress from this approach in growth markets such as logistics and ports and anticipate further benefits in the future.

### **Commercial positioning**

We have been working towards product standardisation for some time. This programme has further future potential, and in the year to 31 March 2019, we delivered measurable success from the programme. As part of the relocation of the Chinese factory, our Indian facility provided identical specification chain to that normally manufactured in China. This capability ensured continued supply during the factory move, preventing any customer service issues, but also providing an element of de-risking to the factory transfer. This is part of an ongoing programme to increase manufacturing flexibility at our sites, and to ensure that we provide a consistent Renold specification and Renold quality, independently of where the product is made.

I referred to our Step 2 Service programme earlier under the manufacturing efficiency heading. Ultimately, Step 2 Service is focused on ensuring that our customer service is befitting of Renold's premium position in the market. As we use this programme to diagnose process issues and improve customer experience, we are focusing on ensuring that we get the basics right. This is drawing together root causes from a number of business areas, and driving a culture change across the organisation. Solutions are often simple, but require a consistent approach from all areas of the business to deliver improvement.

## **PHASE III – Acquisitions**

Acquisitions remain a core component of our strategic plan. Acquisitions that can deliver growth or enhance margin, either through access to new markets and products or through consolidation of production, have the potential to deliver value while reinforcing Renold's reputation as a leading global supplier of chain and torque transmission products.

The organic initiatives implemented in respect of the first two phases of the strategic plan have created a stronger platform from which to pursue acquisitions. Our improved commercial structures and processes have given us greater insight and clarity as to the most strategically attractive opportunities for consolidation in our established markets and expansion into complementary markets and product areas. Furthermore, we are confident our operational platform, following the restructuring and efficiency investments made, will enable us to integrate acquired businesses effectively and realise the financial and strategic synergy potential these would bring.

The objective of moving Renold's stock exchange listing to AIM is to ensure we have the flexibility to execute transactions more quickly, more cost effectively and with greater certainty.

We are pursuing acquisition opportunities although, by their nature, the timing of acquisitions is unpredictable and is dependent upon availability of suitable targets. We have clear acquisition criteria by which we will measure opportunities as they arise.

### Chain performance review

	2019 £m	2018 £m
Revenue	<b>163.9</b>	153.1
Foreign exchange	–	(0.7)
Underlying revenue	<b>163.9</b>	152.4
Adjusted operating profit	<b>18.4</b>	14.7
Foreign exchange	–	(0.1)
Underlying adjusted operating profit	<b>18.4</b>	14.6
Statutory operating profit	<b>15.3</b>	7.8

The Chain division delivered strong performance in the year as organic growth was delivered alongside operational improvements. The raw material cost increases experienced in the prior year have been passed on successfully and have combined with organic volume growth and improved operational effectiveness to enhance performance. As a result, the division delivered the highest adjusted operating profit in recent history. This performance is in spite of certain cost headwinds, most notably labour costs in Germany following legislative and union-driven changes.

Underlying revenue of £163.9m was £11.5m (7.5%) ahead of the prior year. Stronger macroeconomic conditions and sales price increases have combined with an enhanced commercial team and improved levels of customer service to deliver organic revenue growth across all Chain regions. While regional performance has varied, growth for the division as a whole increased through the year with underlying revenue growth of 8.0% in the second half of the year compared with 7.1% for the first half.

European revenue growth accelerated through the year with underlying growth of 3.1% in the first half of the year, increasing to 7.7% in the second half. The acceleration resulted from price increases in the first half of the year being supplemented in the second half with volume growth. Underlying revenue growth for the year was 5.4%.

In the Americas, the improving demand experienced in the latter part of the prior year continued during the year ended 31 March 2019, with an underlying revenue increase of 11.3%. This level of growth reflects not only improvements in the underlying US market, but also Renold's improved ability to access this market demand through increased product and sector focus.

In Australasia, underlying revenue growth for the year as a whole was marginal. However, this reflects an underlying revenue decline in the first half of the year of 5.6% off-set by growth of 6.3% in the second half. This largely reflects volatility in revenues in our South-East Asia regions of Malaysia and Indonesia.

Domestic revenues in India grew strongly with underlying revenue growth of 13.3%. In addition, and as a result of our strategic product standardisation programme, India, for the first time, supplied other Group companies with a specification of chain that would normally be supplied from our Chinese factory. This mitigated the risk of disruption as we moved our Chinese factory, but also demonstrates the manufacturing flexibility benefits being delivered by this programme.

Growth in domestic Chinese revenues was subdued in the year as we relocated the factory. In spite of this, underlying revenue grew by 7.0%, albeit from a low absolute base.

Underlying order intake of £165.5m was up by £7.5m (4.7%) on the previous year. At a regional level, European underlying order intake increased by 4.5%, and orders remain ahead of revenue for the year. In the Americas, following particularly strong growth in the year to 31 March 2018, underlying order intake grew at a more sustainable 4.5%. Order intake in Australasia followed a similar trend to revenue and was marginally up by 1.1%. Order intake increased by 22.1% in China and 8.1% in India. Total orders for the year finished £1.6m (1.0%) ahead of sales.

Contribution margin, the margin after all variable production costs, fell by 49bps (as a percentage of revenue), with the most significant cost increase relating to direct labour. Underlying revenue per employee improved by 3.6% demonstrating improved labour productivity from the various programmes underway. However, the cost headwind largely resulted from union and legislation-driven labour rate inflation in Germany, which was sufficient to more than off-set these productivity gains. Steel prices were more stable than in the prior year, although specific factors, such as US steel tariffs, continue to create distortions in the market.

The combined effect of these movements was the delivery of the highest revenue by the Chain division since the commencement of the strategic plan at the highest adjusted operating profit margin of 11.2% (2018: 9.6%).

The Chain division made strong progress in the year and is delivering the best results in recent times. Despite the cost headwinds being encountered, the division continues to progress, with further opportunity to improve margins.

### **Torque Transmission performance review**

	<b>2019</b>	2018
	<b>£m</b>	£m
Revenue	<b>38.5</b>	38.5
Foreign exchange	–	(0.1)
Underlying revenue	<b>38.5</b>	38.4
Adjusted operating profit	<b>4.1</b>	4.8
Foreign exchange	–	0.1
Underlying adjusted operating profit	<b>4.1</b>	4.9
Statutory operating profit	<b>4.1</b>	4.6

Underlying external revenue of £38.5m was largely unchanged from the £38.4m delivered in the prior year.

For the division as a whole, the limited overall growth masks a number of underlying movements. The production phasing for the large, multi-year contract won by Couplings in the prior year requires delivery in alternate years. Following the first year of revenue from this contract in the year ended 31 March 2018, revenue reduced for the year ended 31 March 2019. In the Couplings business unit, this revenue was not replaced by other revenue streams, and Couplings experienced a revenue decline in the year.

While this revenue 'gap' was not replaced in Couplings, other Torque Transmission business units delivered growth to recover this shortfall, but at lower margins. Growth was most significant in our US operations which delivered underlying revenue growth of 12.5%. The potential for growth was even greater, but was ultimately constrained by supply chain limitations in servicing the levels of order growth experienced. These supply chain constraints are being progressively overcome, but will require continued focus in order to service the levels of demand; the US order book at 31 March 2019 was 47.7% higher than the prior year position.

Underlying adjusted operating profit improved in all business units with the exception of Couplings, with the scale of decline in Couplings reflecting the impact of revenue phasing. A number of management changes have been made in Couplings to refocus the business and to ensure management actions reflect the environment in which the business operates.

Order intake was £41.1m, which, after removing the large multi-year order won by UK Couplings in the prior year, represents underlying growth of 8.8%. This level of order intake has remained robust through the year and has contributed to the order book at 31 March 2019 being 15.0% ahead of the prior year.

We continue with our programme of product development, encompassing RBI Couplings, escalator drives and bespoke gearbox solutions for OEMs, amongst others. The timeline for introducing new products and for customers to adopt those new products in industrial markets is long but we continue to believe that these actions will deliver future growth in Torque Transmission.

The performance of Couplings masks the underlying improvements that are being delivered in the other Torque Transmission business units.

Strong order intake and an improved opening orderbook as we head into the new financial year should combine with a recovering Couplings performance, supported by a return of major contract revenues, to provide the platform for revenue growth and margin improvement.

### **Macroeconomic landscape and Brexit**

There are a number of well-publicised macroeconomic risks, but due to the lack of certainty as to whether or how these risks will crystallise, we continue to deliver our strategy, cognisant of the risks, but similarly very aware that these should not delay our progress.

In Europe, the Brexit process creates uncertainty for Renold and for our customers. However, with only 7% of our Group revenues generated in the UK and with the majority of export sales from our UK Torque Transmission plants to non-European destinations, we do not believe that we are overly exposed to risk in this area.

In the US, which represents 34% of Group revenue, the threat of increased tariff restrictions has the potential to disrupt the markets in which we operate. However, Renold's US markets have remained robust despite the tariffs already introduced. The additional costs, either directly or indirectly related to the tariffs, have been passed on to customers in increased sales prices. While we cannot predict future changes, our operating model includes US-manufactured product combined with imports of products from other global Renold manufacturing locations. As a result, we have flexibility to adjust our manufacturing strategy and adapt our approach if required in response to longer-term changes in the competitive environment.



**Outlook**

The Chain division has delivered encouraging organic growth as well as improved operational efficiency, increasing adjusted operating profit to record levels. The continued successful execution of the strategic plan has enabled margin improvement to be delivered in spite of labour cost inflation and the significant relocation of our Chinese factory, which will take time to ramp up to targeted output and productivity levels. We are mindful of these factors entering the new year, but remain confident that our strategic initiatives provide us with a clear pathway to further future progress.

While not immediately visible in the trading performance in the year to March 2019, the underlying improvements in Torque Transmission, along with additional revenue from the Couplings long-term contract in the year ahead, provide a platform for further organic growth and margin improvement.

Our strategy has delivered strong results and is the optimum approach to creating and maintaining a higher quality, higher margin business. Robust order books provide the basis for continued improvement in the new financial year. We see significant opportunity to build on the platform established, both through ongoing organic growth initiatives and through an effective acquisition strategy, the execution of which will be simplified by the move to AIM. Delivering sustainable growth through these initiatives, when combined with the benefits of further operational efficiency, continues to support the expectation that mid-teens operating margins can be delivered over time.

**Robert Purcell**

CHIEF EXECUTIVE

28 May 2019

## Finance Director's Review

An improved performance of the Chain division has increased the Group's adjusted operating profit to the highest levels in recent years. Continued investment, particularly in the new Chinese factory, has increased net debt, but with leverage remaining low.

### Orders and revenue

	2019			2018		
	Order intake £m	Revenue £m	Operating profit £m	Order intake £m	Revenue £m	Operating profit £m
Reconciliation to reported results						
As reported	206.6	202.4	16.2	201.9	191.6	5.6
Impact of foreign exchange	—	—	—	(0.9)	(0.8)	—
Pension administration costs	—	—	0.8	—	—	0.9
Restructuring costs	—	—	2.9	—	—	4.7
Pension past service credits	—	—	(4.4)	—	—	—
Amortisation of acquired intangible assets	—	—	0.9	—	—	0.9
Impairment of goodwill	—	—	—	—	—	2.1
Underlying adjusted	206.6	202.4	16.4	201.0	190.8	14.2

Underlying order intake for the Chain division progressed well in the year with growth in the second half of 4.4% over the strong second half of the prior year (2018: 5.7%). This compared to growth of 5.5% for the first half (2018: 5.3%), and together resulted in order intake growth for the full year of 4.7% (2018: 5.5%). Order intake in the Chain division remained higher than revenue with the underlying ratio of orders to revenue (book-to-bill) being 101.0% in the year (2018: 103.7%).

Underlying orders in the Torque Transmission division grew strongly, by 8.8% (2018: 0.2%) when the impact of the major multi-year order for UK Couplings is removed. The book-to-bill ratio for the division was 107.8% (2018: 102.4%, adjusted for the major multi-year order).

Group revenue for the year increased by £10.8m (5.6%) to £202.4m. Underlying revenue increased similarly by £11.6m (6.1%). Revenue benefited from a combination of organic volume growth and increased sales prices to recover material cost increases. Underlying growth was broadly consistent across the year with growth of 6.4% for the first half moderating slightly, as sales price increases fully annualised, to 5.7% for the second half.

On a divisional basis, the Chain division saw underlying revenue increase by 7.5% and Torque Transmission by 0.3%.

### Operating profit

The Group generated an adjusted operating profit for the year of £16.4m (2018: £14.2m). Reported operating profit after adjusting items was £16.2m (2018: £5.6m).

Adjusted operating margins increased during the year to 8.1% (2018: 7.4%), largely as a result of improved performance of the Chain division where adjusted operating margins increased to 11.2% (2018: 9.6%). The adjusted operating profit delivered by the Chain division is the highest in recent history and demonstrates the progress that is being made through the strategic plan.

Due to phasing of revenue and growth in lower margin product areas, the adjusted operating margins for the Torque Transmission division declined in the year to 10.6% (2018: 12.5%).

### Foreign exchange rates

Foreign exchange rates have remained volatile during the year, reflecting a depreciation of sterling against a number of currencies through the year, but with a slight recovery in the last few months of the year. The most significant movement for Renold has been the 7% strengthening of the US dollar against sterling between March 2018 to March 2019. However, due to the phasing of movements over the current and prior years, the weighted average exchange rate used to translate US dollar only reflects a 2% strengthening of the US Dollar based on a weighted average rate of 1.31 for the year ended 31 March 2019 (2018: 1.33).

The sterling to euro rate has remained more stable, with the euro 2% weaker at 31 March 2019 when compared to 31 March 2018. Again, phasing of movements over the current and prior year mean the weighted average exchange rate used to translate euro trading results is unchanged based on a rate of 1.13 for the year ended 31 March 2019 (2018: 1.13).

FX Rates (% of Group sales)	Mar 18 FX rate	Sep 18 FX rate	Sep 18 Var %	Mar 19 FX rate	Mar 19 Var %
£GBP / Euro (29%)	1.14	1.12	(2%)	1.16	2%
£GBP / US\$ (37%)	1.40	1.31	(6%)	1.30	(7%)
£GBP / C\$ (4%)	1.81	1.71	(6%)	1.74	(4%)
£GBP / A\$ (5%)	1.83	1.82	(1%)	1.83	nil%

If the year-end exchange rates had applied throughout the year, there would be an estimated decrease of £0.4m to revenue and £0.1m to operating profit.

### Restructuring costs

Various restructuring costs were incurred in the year as part of the Step 2020 Strategic Plan. The most significant costs were in connection with redundancy and restructuring costs arising on the relocation of the Chinese factory of £1.8m.

Other costs incurred related to management changes, final costs on the closure of the Singapore office and with the move of stock exchange listing to AIM.

### Other adjusting items

Other adjusting items include legacy pension scheme administration costs of £0.8m (2018: £0.9m) and amortisation of acquired intangible assets of £0.9m (2018: £0.9m).

More significant in the year is the past service credit for the UK pension scheme of £4.4m which is the net impact of a gain following the move of certain future pension increases from RPI to CPI of £8.2m, partially off-set by a past service cost relating to GMP equalisation of £3.8m. Further details on these pension adjustments are outlined below.

### Financing costs

External net interest costs in the year were £2.2m (2018: £1.7m). The annual charge includes £0.3m (2018: £0.3m charge) in respect of amortisation of the residual refinancing costs paid in 2012, 2015 and in 2017. Financing costs also include £0.1m of unwinding discounts on onerous lease provisions established for the Bredbury factory site.

The net IAS 19R finance charge (which is a non-cash item) remained stable at £2.4m (2018: £2.4m) and is treated as an adjusting item. A further adjusting item included within finance costs is a £0.3m cost write-off of all remaining bank facility arrangement fees from the old facility, as a result of amending and extending the facility in the year.

### Result before tax

Profit before tax was £11.2m (2018: £1.4m). Adjusted profit before tax, which excludes restructuring costs, IAS 19R financing costs, amortisation of acquired intangible assets, legacy pension scheme costs, amortisation of financing costs and discounts on provisions, was £14.2m (2018: £12.5m).

### Taxation

The current year tax charge of £3.5m (2018: £3.6m) is made up of a current tax charge of £1.1m (2018: £1.1m) and a deferred tax charge of £2.4m (2018: £2.5m). Following an increased tax charge in the prior year resulting from US tax reform, the tax charge remained high in the year to 31 March 2019 as a result of the deferred tax charge on the pension past service credit arising in the year.

The Group cash tax paid reduced to £1.8m (2018: £3.8m).

### Group results for the financial period

A profit after tax of £7.7m was achieved for the financial year ended 31 March 2019 (2018: loss of £2.2m). Basic adjusted earnings per share was 4.9p (2018: 4.5p). Basic earnings per share of 3.3p compares with a loss per share of 1.0p for the year ended 31 March 2018.

### Balance sheet

Net assets at 31 March 2019 were £1.6m (2018: £1.1m). Although net profit of £7.7m was delivered for the year, net assets increased only slightly as the impact of remeasurement losses on retirement benefit obligations (driven by decreases in discount rates and increases in inflation), reduced retained profit by £11.2m.

Net assets continue to be impacted by the net pension deficit which increased to £101.9m (2018: £97.4m). The net liability for pension benefit obligations was £85.3m (2018: £81.7m) after allowing for a net deferred tax asset of £16.6m (2018: £15.7m). Overseas schemes now account for £29.3m (29%) of the net pension deficits and £25.5m of this is in respect of the German scheme which is unfunded.

### Cash flow and borrowings

Cash generated from operations was £8.5m (2018: £6.1m). Gross capital expenditure in the year was £10.7m (2018: £10.1m), with the largest element relating to the new Chinese factory.

The absolute level of working capital was £2.3m higher than in the prior year, reflecting increased inventory holdings in support of improving customer service through the Step to Service programme.

Group net borrowings at 31 March 2019 of £30.0m were £5.7m higher than the opening position of £24.3m comprising cash and cash equivalents of £17.9m (2018: £13.9m) and borrowings of £47.9m (2018: £38.2m). The increase in net debt reflects the investment in the new Chinese factory, both through capital investment and through cash restructuring costs.

### Debt facility and capital structure

The Group's core banking facilities were amended and extended in March 2019. Following the amendment, the Group's committed multi-currency revolving credit facility (MCRF) totalled £61.5m, with an additional £20.5m accordion facility providing a route to additional funding if required, although this element is not committed. As a result of the extension of term, the facility matures in March 2024. Borrowing under the facility at 31 March 2019 was £48.3m.

The Group continues to operate comfortably within covenant limits. The net debt/adjusted EBITDA ratio as at 31 March 2019 is 1.22 times (covenant requirement: up to 2.5 times; 2018: 1.12 times), based on the reported figures for the period as adjusted for the banking agreement. The adjusted EBITDA/interest cover as at 31 March 2019 is 10.5 times (covenant requirement: greater than 4.0 times; 2018: 12.0 times), again on a banking basis.

At 31 March 2019, the Group had unused credit facilities totalling £12.8m and cash balances of £17.9m. Total Group credit facilities amounted to £63.2m, all of which were committed.

### Treasury and financial instruments

The Group's treasury policy, approved by the Board, is to manage its funding requirements and treasury risks without undertaking any speculative risks. Treasury and financing matters are assessed further in the section on Principal Risks and Uncertainties.

To manage foreign currency exchange risk on the translation of net investments, certain US dollar denominated borrowings taken out in the UK to finance US acquisitions are designated as a hedge of the net investment in US subsidiaries. At 31 March 2019 this hedge was fully effective. The carrying value of these borrowings at 31 March 2019 was £6.7m (2018: £6.2m).

At 31 March 2019, the Group had 1% (2018: 1%) of its gross debt at fixed interest rates. Cash deposits are placed short-term with banks where security and liquidity are the primary objectives. The Group has no significant concentrations of credit risk with sales made to a wide spread of customers, industries and geographies. Policies are in place to ensure that credit risk on individual customers is kept to a minimum.

### Pension assets and liabilities

The Group has a mix of UK (83% of gross liabilities) and overseas (17%) defined benefit pension obligations as shown below.

	2019			2018		
	Assets £m	Liabilities £m	Deficit £m	Assets £m	Liabilities £m	Deficit £m
Defined benefit schemes						
UK scheme	138.6	(211.2)	(72.6)	140.7	(210.3)	(69.6)
Overseas schemes	13.8	(43.1)	(29.3)	13.1	(40.9)	(27.8)
	152.4	(254.3)	(101.9)	153.8	(251.2)	(97.4)
Deferred tax asset			16.6			15.7
Net deficit			(85.3)			(81.7)

The Group's retirement benefit obligations increased from £97.4m (£81.7m net of deferred tax) at 31 March 2018 to £101.9m (£85.3m net of deferred tax) at 31 March 2019. The largest element of the increase relates to the UK scheme where the deficit increased from £69.6m to £72.6m. Reflecting changes in assumptions for discount rates and inflation rates, the deficit of the overseas schemes increased by £1.5m to £29.3m.

### **UK funded scheme**

The deficit of the UK scheme increased in the year to £72.6m (2018: £69.6m) reflecting a number of changes in assumptions and factors. Following the High Court judgment in the year, Renold, along with many other pension scheme sponsors, is recognising an estimate of the future cost of GMP equalisation in the valuation of liabilities. This increases the liabilities by £3.8m.

As a continuation of the management of future liabilities, agreement was reached with the Trustee to use the consumer prices index (CPI) rather than the retail prices index (RPI) for future increases of certain elements of the scheme where such a change is permitted. This reduces the liabilities by £8.2m.

The net reduction in liabilities of £4.4m, from the combined effects of GMP equalisation and the RPI to CPI change, is a past service credit and is therefore included as operating income in the Statement of Comprehensive Income.

Off-setting the reduction in deficit from the past service credits is the impact of changes to the assumptions for discount rate and inflation. The assumed discount rate has reduced by 0.2% to 2.4%, increasing liabilities by £6.1m, while the assumed CPI inflation rate has increased by 0.2% to 2.4%, further increasing liabilities by £4.2m.

The latest triennial actuarial valuation of the UK Scheme, with an effective date of 5 April 2016, was agreed in May 2017. The next triennial valuation date will be as at 5 April 2019.

Total cash costs for UK deficit repair payments were £3.0m (2018: £2.9m).

### **Overseas schemes**

The largest element of the overseas schemes is the German unfunded scheme, with a total deficit of £25.5m. Other overseas funded schemes comprise a number of smaller schemes around the world, with a combined deficit of £3.8m. The increase in combined deficits of all the overseas schemes of £1.5m is most significantly impacted by the discount rate and inflation financial assumptions, which together result in a £2.0m increase in deficit.

For overseas pension schemes, the Company contributions in the year were £1.6m (2018: £1.7m).

### **Future accounting changes**

For the year ending 31 March 2020, Renold will adopt IFRS 16 'Leases'. The requirements of this standard have not been adopted for the year ended 31 March 2019, but we have estimated the impact on the financial statements. Based on the Group's existing leases, a right of use asset of c.£9.9m would be recognised, offset by future lease liabilities of c.£17.6m.

In the statement of comprehensive income, in order to reflect the change in recognition of annual lease costs, EBITDA would increase by c.£2.9m, being offset by an increase in depreciation of the right of use asset of c.£2.3m and an increase in financing costs of c.£0.4m.

### **Ian Scapens**

GROUP FINANCE DIRECTOR

28 May 2019

# Consolidated Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	2019 Statutory £m	2019 Adjustments £m	2019 Adjusted <sup>1</sup> £m	2018 Statutory £m	2018 Adjustments £m	2018 Adjusted <sup>1</sup> £m
<b>Revenue</b>	2	<b>202.4</b>	<b>–</b>	<b>202.4</b>	191.6	–	191.6
Operating costs	3	(186.2)	0.2	(186.0)	(186.0)	8.6	(177.4)
<b>Operating profit</b>		<b>16.2</b>	<b>0.2</b>	<b>16.4</b>	5.6	8.6	14.2
<b>Operating profit is analysed as:</b>	3						
Before adjusting items		16.2	–	16.2	5.6	–	5.6
Restructuring costs		–	2.9	2.9	–	4.7	4.7
Amortisation of acquired intangible assets		–	0.9	0.9	–	0.9	0.9
Impairment of goodwill		–	–	–	–	2.1	2.1
Pension past service credits		–	(4.4)	(4.4)	–	–	–
Pension administration costs		–	0.8	0.8	–	0.9	0.9
<b>Operating profit</b>		<b>16.2</b>	<b>0.2</b>	<b>16.4</b>	5.6	8.6	14.2
Financial costs		(2.6)	0.4	(2.2)	(1.8)	0.1	(1.7)
Net IAS 19R financing costs		(2.4)	2.4	–	(2.4)	2.4	–
Net financing costs	4	(5.0)	2.8	(2.2)	(4.2)	2.5	(1.7)
<b>Profit before tax</b>		<b>11.2</b>	<b>3.0</b>	<b>14.2</b>	1.4	11.1	12.5
Taxation	5	(3.5)	0.6	(2.9)	(3.6)	1.3	(2.3)
<b>Profit/(loss) for the financial year</b>		<b>7.7</b>	<b>3.6</b>	<b>11.3</b>	(2.2)	12.4	10.2
<b>Other comprehensive income/(expense):</b>							
<b>Items that may be reclassified to the income statement in subsequent periods:</b>							
Foreign exchange translation differences		2.7			(5.9)		
Foreign exchange differences on loans hedging the net investment in foreign operations		(0.5)			0.8		
Gains arising on cash flow hedges		(0.7)			0.4		
		1.5			(4.7)		
<b>Items not to be reclassified to the income statement in subsequent periods:</b>							
Remeasurement losses on retirement benefit obligations		(11.2)			2.8		
Tax on remeasurement losses on retirement benefit obligations		2.1			(1.6)		
		(9.1)			1.2		
<b>Other comprehensive expense for the year, net of tax</b>		<b>(7.6)</b>			<b>(3.5)</b>		
<b>Total comprehensive income/(expense) for the year, net of tax</b>		<b>0.1</b>			<b>(5.7)</b>		
<b>Attributable to:</b>							
Owners of the parent		(0.1)			(5.8)		
Non-controlling interest		0.2			0.1		
		0.1			(5.7)		
<b>Earnings/(loss) per share</b>	6						
Basic earnings/(loss) per share		3.3p		4.9p	(1.0p)		4.5p
Diluted earnings/(loss) per share		3.2p		4.8p	(1.0p)		4.5p

All results are from continuing operations.

- Adjusted for the after tax effects of pension administration costs, restructuring costs, changes in the provision discounts, IAS 19R financing costs, impairment of goodwill and amortisation of acquired intangible assets (see Note 3).

# Consolidated Balance Sheet

as at 31 March 2019

	Note	2019 £m	2018 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	8	23.1	21.6
Other intangible assets	9	6.6	8.3
Property, plant and equipment	10	55.8	47.7
Deferred tax assets		21.5	20.6
		<b>107.0</b>	<b>98.2</b>
<b>Current assets</b>			
Inventories	12	44.8	41.0
Trade and other receivables	13	37.8	36.4
Derivative financial instruments		–	0.4
Cash and cash equivalents	14	17.9	13.9
		<b>100.5</b>	<b>91.7</b>
<b>TOTAL ASSETS</b>		<b>207.5</b>	<b>189.9</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	15	–	(1.3)
Trade and other payables	16	(41.0)	(39.6)
Current tax		(0.4)	(1.2)
Derivative financial instruments		(0.4)	–
Provisions	17	(0.8)	(4.6)
		<b>(42.6)</b>	<b>(46.7)</b>
<b>NET CURRENT ASSETS</b>		<b>57.9</b>	<b>45.0</b>
<b>Non-current liabilities</b>			
Borrowings	15	(47.4)	(36.4)
Preference stock	15	(0.5)	(0.5)
Trade and other payables	16	(5.4)	(0.3)
Deferred tax liabilities		(5.6)	(4.2)
Retirement benefit obligations		(101.9)	(97.4)
Provisions	17	(2.5)	(3.3)
		<b>(163.3)</b>	<b>(142.1)</b>
<b>TOTAL LIABILITIES</b>		<b>(205.9)</b>	<b>(188.8)</b>
<b>NET ASSETS</b>		<b>1.6</b>	<b>1.1</b>
<b>EQUITY</b>			
Issued share capital		11.3	11.3
Share premium account		30.1	30.1
Capital redemption reserve		15.4	15.4
Currency translation reserve		10.4	7.1
Other reserves		(0.4)	1.4
Retained earnings		(67.4)	(66.2)
<b>Equity attributable to equity holders of the parent</b>		<b>(0.6)</b>	<b>(0.9)</b>
<b>Non-controlling interests</b>		<b>2.2</b>	<b>2.0</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1.6</b>	<b>1.1</b>

Approved by the Board on 28 May 2019 and signed on its behalf by:

**Robert Purcell**  
CHIEF EXECUTIVE

**Ian Scapens**  
FINANCE DIRECTOR

## Consolidated Statement of Changes in Equity

for the year ended 31 March 2019

	Share capital £m	Share premium account £m	Retained earnings £m	Currency translation reserve £m	Capital redemption reserve £m	Other reserves £m	Attributable to owners of parent £m	Non- controlling interests £m	Total equity £m
At 31 March 2017	26.7	30.1	(64.9)	12.2	–	1.0	5.1	2.7	7.8
Loss for the year	–	–	(2.3)	–	–	–	(2.3)	0.1	(2.2)
Other comprehensive income/(expense)	–	–	1.2	(5.1)	–	0.4	(3.5)	(0.8)	(4.3)
Total comprehensive income/(expense) for the year	–	–	(1.1)	(5.1)	–	0.4	(5.8)	(0.7)	(6.5)
Reclassification for cancellation of deferred shares	(15.4)	–	–	–	15.4	–	–	–	–
Employee share options: – value of employee services	–	–	(0.2)	–	–	–	(0.2)	–	(0.2)
<b>At 31 March 2018</b>	<b>11.3</b>	<b>30.1</b>	<b>(66.2)</b>	<b>7.1</b>	<b>15.4</b>	<b>1.4</b>	<b>(0.9)</b>	<b>2.0</b>	<b>1.1</b>
Profit for the year	–	–	7.5	–	–	–	7.5	0.2	7.7
Other comprehensive income/(expense)	–	–	(9.1)	3.3	–	(1.8)	(7.6)	–	(7.6)
Total comprehensive income/(expense) for the year	–	–	(1.6)	3.3	–	(1.8)	(0.1)	0.2	0.1
Employee share options: – value of employee services	–	–	0.4	–	–	–	0.4	–	0.4
<b>At 31 March 2019</b>	<b>11.3</b>	<b>30.1</b>	<b>(67.4)</b>	<b>10.4</b>	<b>15.4</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>2.2</b>	<b>1.6</b>



## Consolidated Statement of Cash Flows

for the year ended 31 March 2019

	2019 £m	2018 £m
<b>Cash flows from operating activities (Note 18)</b>		
Cash generated from operations	10.3	9.9
Income taxes paid	(1.8)	(3.8)
<b>Net cash from operating activities</b>	<b>8.5</b>	<b>6.1</b>
<b>Cash flows from investing activities</b>		
Proceeds from property disposals	–	0.5
Purchase of property, plant and equipment	(9.1)	(8.7)
Purchase of intangible assets	(1.6)	(1.4)
Consideration paid for acquisition	–	(1.2)
<b>Net cash from investing activities</b>	<b>(10.7)</b>	<b>(10.8)</b>
<b>Cash flows from financing activities</b>		
Financing costs paid	(3.0)	(1.7)
Proceeds from borrowings	12.0	3.9
Repayment of borrowings	–	(0.1)
<b>Net cash from financing activities</b>	<b>9.0</b>	<b>2.1</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>6.8</b>	<b>(2.6)</b>
<b>Net cash and cash equivalents at beginning of year</b>	<b>12.3</b>	<b>15.4</b>
Effects of exchange rate changes	(1.4)	(0.5)
<b>Net cash and cash equivalents at end of year (Note 14)</b>	<b>17.7</b>	<b>12.3</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **1. Basis of preparation**

The preliminary statement was approved by the Board on 28 May 2019. The preliminary statement does not represent the full consolidated financial statements of Renold plc and its subsidiaries which will be delivered to the Registrar of Companies following the Annual General Meeting. The audited consolidated financial statements of Renold plc for the year ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in June 2019.

The preliminary statement has been prepared on a consistent basis using the accounting policies set out in the Renold plc annual report for the year ended 31 March 2018. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2018 or 2019, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

### ***Changes in accounting policies and disclosures***

The Group has adopted all applicable amendments to standards with an effective date from 1 April 2018. Adoption of these standards did not have any material impact on financial performance or position of the Group.

### ***Going concern***

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the level of available borrowing facilities. The assessment included a detailed review of financial and cash flow forecasts, financial instruments and hedging arrangements for at least the twelve month period from the date of signing the Annual Report and Accounts. The Directors consider a range of potential scenarios within the key markets the Group serves and how these might impact on the Group's cash flow, facility headroom and banking covenants. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences. The Group's forecasts and projections, taking account of reasonably possible scenarios show that the Group should be able to operate within the level of its borrowing facilities and covenants.

Having undertaken this work, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the consolidated financial statements.

## 2. Segmental information

For management purposes, the Group is organised into two operating segments according to the nature of their products and services and these are considered by the Directors to be the reportable operating segments of Renold plc as shown below:

- The Chain segment manufactures and sells power transmission and conveyor chain and also includes sales of torque transmission products through Chain National Sales Companies (NSCs); and
- The Torque Transmission segment manufactures and sells torque transmission products such as gearboxes and couplings.

No operating segments have been aggregated to form the above reportable segments.

The Chief Operating Decision Maker (CODM) for the purposes of IFRS 8: 'Operating Segments' is considered to be the Board of Directors of Renold plc. Management monitor the results of the separate reportable operating segments based on operating profit and loss which is measured consistently with operating profit and loss in the consolidated financial statements. The same segmental basis applies to decisions about resource allocation. Disclosure has not been included in respect of the operating assets of each segment as they are not reported to the CODM on a regular basis. However, Group net financing costs, retirement benefit obligations and income taxes are managed on a Group basis and therefore are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Year ended 31 March 2019	Chain <sup>2</sup> £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	163.9	38.5	–	202.4
Inter-segment <sup>1</sup>	(1.3)	4.4	(3.1)	–
<b>Total revenue</b>	<b>162.6</b>	<b>42.9</b>	<b>(3.1)</b>	<b>202.4</b>
Adjusted operating profit/(loss)	18.4	4.1	(6.1)	16.4
Pension administration costs	–	–	(0.8)	(0.8)
Pension past service costs	–	–	4.4	4.4
Restructuring costs	(2.2)	–	(0.7)	(2.9)
Amortisation of acquired intangible assets	(0.9)	–	–	(0.9)
<b>Operating profit/(loss)</b>	<b>15.3</b>	<b>4.1</b>	<b>(3.2)</b>	<b>16.2</b>
Net financing costs				(5.0)
<b>Profit before tax</b>				<b>11.2</b>
<b>Other disclosures</b>				
Working capital <sup>3</sup>	26.8	12.5	2.0	41.3
Capital expenditure <sup>4</sup>	13.0	0.9	1.3	15.2
Depreciation and amortisation included in adjusted operating profit/loss	5.1	1.6	1.1	7.8
Amortisation of acquired intangibles	0.9	–	–	0.9
<b>Total depreciation and amortisation</b>	<b>6.0</b>	<b>1.6</b>	<b>1.1</b>	<b>8.7</b>

## 2. Segmental information (continued)

Year ended 31 March 2018	Chain <sup>2</sup> £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	153.1	38.5	–	191.6
Inter-segment <sup>1</sup>	1.4	3.9	(5.3)	–
<b>Total revenue</b>	<b>154.5</b>	<b>42.4</b>	<b>(5.3)</b>	<b>191.6</b>
Adjusted operating profit/(loss)	14.7	4.8	(5.3)	14.2
Pension administration costs	–	–	(0.9)	(0.9)
Restructuring costs	(3.9)	(0.2)	(0.6)	(4.7)
Impairment of goodwill	(2.1)	–	–	(2.1)
Amortisation of acquired intangible assets	(0.9)	–	–	(0.9)
<b>Operating profit/(loss)</b>	<b>7.8</b>	<b>4.6</b>	<b>(6.8)</b>	<b>5.6</b>
Net financing costs				(4.2)
<b>Profit before tax</b>				<b>1.4</b>
<b>Other disclosures</b>				
Working capital <sup>3</sup>	25.9	11.6	0.1	37.6
Capital expenditure <sup>4</sup>	7.2	0.9	1.3	9.4
Depreciation and amortisation included in adjusted operating profit/(loss)	4.8	1.6	0.9	7.3
Amortisation of acquired intangibles	0.9	–	–	0.9
<b>Total depreciation and amortisation</b>	<b>5.7</b>	<b>1.6</b>	<b>0.9</b>	<b>8.2</b>

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business by adjusting for volatility created by one-off items and non-trading performance related costs such as amortisation and legacy pensions costs.

The two consistently applied performance measures which are disclosed within this annual report and accounts include adjusted results and underlying results.

Adjusted results exclude the impact of restructuring costs, pension financing charges, pension administration costs, pension past service costs, impairment of goodwill and the amortisation of acquired intangible assets and the tax thereon. A reconciliation of these results is shown on the face of the consolidated statement of comprehensive income and in the tables opposite. Adjusted profit of £16.4m is derived from the statutory profit of £16.2m.

Underlying results are retranslated to current year exchange rates and therefore only prior year comparatives would be deemed an alternative performance measure. A reconciliation is provided below.

Year ended 31 March 2018	Chain <sup>2</sup> £m	Torque Transmission £m	Head office costs and eliminations £m	Consolidated £m
Revenue				
External customer	153.1	38.5	–	191.6
Foreign exchange retranslation	(0.7)	(0.1)	–	(0.8)
<b>Underlying external sales</b>	<b>152.4</b>	<b>38.4</b>	<b>–</b>	<b>190.8</b>
Adjusted operating profit/(loss)	14.7	4.8	(5.3)	14.2
Foreign exchange retranslation	(0.1)	0.1	–	–
<b>Underlying adjusted operating profit/(loss)</b>	<b>14.6</b>	<b>4.9</b>	<b>(5.3)</b>	<b>14.2</b>

1. Inter-segment revenues are eliminated on consolidation.

2. Included in Chain external sales is £4.2m (2018: £4.9m) of Torque Transmission product sold through the Chain NSCs, usually in countries where Torque Transmission does not have its own presence.

3. The measure of segment assets reviewed by the CODM is total working capital, defined as inventories and trade and other receivables, less trade and other payables. Working capital is also measured as a ratio of rolling annual sales.

4. Capital expenditure consists of additions to property, plant and equipment and intangible assets.

## 2. Segmental information (continued)

### **Geographical analysis of external sales by destination, non-current asset location and average employee numbers**

The UK is the home country of the parent company, Renold plc. The principal operating territories, the proportions of Group external revenue generated in each (customer location), external revenues, non-current assets (asset location) and average employee numbers in each are as follows:

	Revenue ratio		External revenues		Non-current assets		Employee numbers	
	2019	2018	2019	2018	2019	2018	2019	2018
	%	%	£m	£m	£m	£m		
United Kingdom	7.4	7.8	15.0	15.0	12.8	13.9	321	355
Rest of Europe	30.4	30.7	61.5	58.9	18.9	19.0	558	557
Americas	41.2	38.0	83.4	72.8	31.1	30.1	328	323
Australasia	9.6	10.3	19.4	19.7	2.7	2.8	125	128
China	4.1	4.1	8.4	7.9	14.1	5.7	339	258
India	4.1	4.2	8.4	8.0	5.1	5.0	392	379
Other countries	3.1	4.9	6.3	9.3	0.8	1.1	35	49
	<b>100.0</b>	<b>100.0</b>	<b>202.4</b>	<b>191.6</b>	<b>85.5</b>	<b>77.6</b>	<b>2,098</b>	<b>2,049</b>

All revenue relates to the sale of goods and services. No individual customer, or group of customers, represents more than 10% of Group revenue (2018: None).

Non-current assets consist of goodwill, other intangible assets, property, plant and equipment and investment property. Other non-current assets and deferred tax assets are not included above.

## 3. Adjusting items

	2019 £m	2018 £m
<b>Included in operating costs</b>		
Step 2020 restructuring costs – China factory relocation	<b>1.8</b>	3.9
Step 2020 restructuring costs – other	<b>0.6</b>	0.8
AIM listing provision	<b>0.5</b>	-
<b>Restructuring costs</b>	<b>2.9</b>	4.7
Pension administration costs	<b>0.8</b>	0.9
Pension past service credit	<b>(4.4)</b>	-
Impairment of goodwill (Note 8)	-	2.1
Amortisation of acquired intangible assets (Note 9)	<b>0.9</b>	0.9
<b>Adjusting items</b>	<b>0.2</b>	8.6

	2019 £m	2018 £m
<b>Included in net financing costs</b>		
Discount unwind on onerous lease provision	<b>0.1</b>	0.1
Amortisation of financing costs on refinancing	<b>0.3</b>	-
Net IAS 19R financing costs	<b>2.4</b>	2.4
	<b>2.8</b>	2.5

Various restructuring costs were incurred in the year as part of the Step 2020 Strategic Plan. A restructuring cost of £1.8m was incurred in the year as we continued a multi-year project to transfer the China Chain manufacturing facility from leased premises in Hangzhou to a purpose-built facility near Changzhou in Jiangsu province.

A further £0.6m was incurred in relation to other projects including European restructuring and in relation for the closure of our Singapore site. In addition £0.5m has been provided for costs associated with transferring the company's stock market listing to AIM.

Prior year restructuring costs included £3.9m for the multi-year project to transfer the China Chain manufacturing facility, other cost included the final restructuring costs associated with the European distribution and sales operations and the transfer of the HiTec Couplings business.

The past service credit of £4.4m for the UK pension scheme is the net impact of an £8.2m gain following the move of certain future pension increases from RPI to CPI, off-set by a £3.8m past service cost relating to GMP equalisation. The change in inflation measure to consumer prices index (CPI) rather than the retail prices index (RPI) applies to future increases of certain elements of the scheme where such a change is permitted. Following the High Court judgment in the year, the Group, along with many other pension scheme sponsors, is recognising an estimate of the future cost of GMP equalisation in the valuation of liabilities.

#### 4. Net financing costs

	2019 £m	2018 £m
<b>Financing costs:</b>		
Interest payable on bank loans and overdrafts	(1.9)	(1.4)
Amortised financing costs	(0.3)	(0.3)
Amortisation of financing costs on refinancing	(0.3)	–
<b>Loan financing costs</b>	<b>(2.5)</b>	<b>(1.7)</b>
Net IAS 19R financing costs	(2.4)	(2.4)
Discount unwind on provisions	(0.1)	(0.1)
<b>Net financing costs</b>	<b>(5.0)</b>	<b>(4.2)</b>

#### 5. Taxation

##### *Analysis of tax charge in the year*

	2019 £m	2018 £m
<b>United Kingdom</b>		
UK corporation tax at 19% (2018: 19%)	–	–
<b>Overseas taxes</b>		
Corporation taxes	1.6	1.0
Adjustments in respect of prior periods	(0.6)	–
Withholding taxes	0.1	0.1
Current income tax charge	1.1	1.1
<b>Deferred tax</b>		
UK – origination and reversal of temporary differences	1.0	0.2
Overseas – origination and reversal of temporary differences	1.8	–
Effect of changes in corporate tax rates	–	2.4
Adjustments in respect of prior periods	(0.4)	(0.1)
Total deferred tax charge	2.4	2.5
<b>Tax charge on profit on ordinary activities</b>	<b>3.5</b>	<b>3.6</b>

	2019 £m	2018 £m
<b>Tax on items taken to other comprehensive income</b>		
Deferred tax on changes in net pension deficits	(2.1)	1.6
<b>Tax (credit)/charge in the statement of other comprehensive income</b>	<b>(2.1)</b>	<b>1.6</b>

##### *Factors affecting the Group tax charge for the year*

The current year UK deferred tax charge relates to pensions with the charge arising on the net of the past service credit, interest charges, and cash contributions. Overseas deferred tax relates to the utilisation of recognised deferred tax assets. The increase in overseas current corporate tax relates to jurisdictions where historical tax losses have now been fully utilised.

The US Government has enacted substantial tax reforms during the prior year. The impact on our US operations was to reduce the value of deferred tax assets and liabilities in relation to the reduced tax rate, and to increase the restrictions on interest deductibility which led to the derecognition of the related deferred tax asset given the current capital structure of our US operations. Accordingly, the US deferred tax balances were reduced by £2.4m.

The Group's tax charge in future years will be affected by the profit mix, effective tax rates in the different countries where the Group operates and utilisation of tax losses. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries in accordance with IAS 12.39.

## 5. Taxation (continued)

The actual tax on the Group's profit before tax differs from the theoretical amount using the UK corporation tax rate as follows:

	2019 £m	2018 £m
Profit on ordinary activities before tax	11.2	1.4
Theoretical tax charge at 19% (2018: 19%)	2.1	0.3
Effects of:		
Permanent differences	0.3	(0.3)
Overseas tax rate differences	0.7	0.3
Effect of changes in corporate tax rates	–	2.4
Adjustments in respect of prior periods	(1.0)	(0.1)
Movement in unrecognised deferred tax	1.4	1.0
<b>Total tax charge</b>	<b>3.5</b>	<b>3.6</b>

### **Effective tax rate**

The effective tax rate of 31% (2018: 225%) is higher than the UK tax rate of 19% (2018: 19%) due to the following factors:

- Losses in jurisdictions where, due to uncertain future profitability, deferred tax assets are not recognised;
- Permanent differences including items that are disallowed from a tax perspective such as entertaining and certain employee costs;
- Prior year adjustments arising as tax submissions are finalised and agreed in specific jurisdictions; and
- Differences in overseas tax rates, typically being higher than the rates in the UK.

### **Tax payments**

Cash tax paid in the year of £1.8m (2018: £3.8m) is higher than the current tax charge as payments on account exceeded the calculated liabilities for the year.

## 6. Earnings per share

Earnings per share (EPS) is calculated by reference to the earnings for the year and the weighted average number of shares in issue during the year as follows:

	2019			2018		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
<b>Basic EPS</b>						
Profit attributed to ordinary shareholders	7.5	225,418	3.3	(2.3)	225,418	(1.0)
<b>Basic EPS</b>	<b>7.5</b>	<b>225,418</b>	<b>3.3</b>	<b>(2.3)</b>	<b>225,418</b>	<b>(1.0)</b>

	2019			2018		
	Earnings £m	Shares (thousands)	Per share amount (pence)	Earnings £m	Shares (thousands)	Per share amount (pence)
<b>Adjusted EPS</b>						
Basic EPS	7.5	225,418	3.3	(2.3)	225,418	(1.0)
Effect of adjusting items, after tax:						
Restructuring costs in operating costs	2.9		1.3	4.6		2.0
Pension administration costs included in operating costs	0.7		0.3	0.8		0.4
Pension past service cost	(3.6)		(1.6)	—		—
Refinancing costs	0.3		0.1	—		—
Discount unwind on restructuring costs	-		-	0.1		—
Amortisation of acquired intangible assets	0.6		0.3	0.6		0.3
Impairment of goodwill	-		-	1.7		0.8
US tax reform	-		-	2.4		1.0
Net pension financing costs	2.7		1.2	2.2		1.0
<b>Adjusted EPS</b>	<b>11.1</b>	<b>225,418</b>	<b>4.9</b>	<b>10.1</b>	<b>225,418</b>	<b>4.5</b>

Inclusion of the dilutive securities, comprising 7,820,809 (2018: 4,367,312) additional shares due to share options, in the calculation of basic and adjusted EPS changes the amounts shown above to 3.2p and 4.8p respectively (2018: no dilutive effect).

The adjusted EPS numbers have been provided in order to give a useful indication of underlying performance by the exclusion of adjusting items. Due to the existence of unrecognised deferred tax assets there were no associated tax credits on some of the adjusting items and in these instances adjusting items are added back in full.

## 7. Dividends

No ordinary dividend payments were paid or proposed in either the current or prior year.



## 8. Goodwill

	Goodwill £m
<b>Cost</b>	
At 1 April 2017	27.8
Exchange adjustment	(2.8)
<b>At 1 April 2018</b>	<b>25.0</b>
Exchange adjustment	1.6
<b>At 31 March 2019</b>	<b>26.6</b>
<b>Accumulated amortisation and impairment</b>	
At 1 April 2017	1.4
Impairment charge	2.1
Exchange adjustment	(0.1)
<b>At 1 April 2018</b>	<b>3.4</b>
Exchange adjustment	0.1
<b>At 31 March 2019</b>	<b>3.5</b>
<b>Net book amount at 31 March 2019</b>	<b>23.1</b>
Net book amount at 31 March 2018	21.6
Net book amount at 31 March 2017	26.4

The Group performed its annual impairment test of goodwill at 31 March 2019 which compares the current book value to the recoverable amount from the continued use or sale of the related business.

No impairment charge has been recognised in the period for any CGUs.

The recoverable amount of each Cash Generating Unit (CGU) has been determined on a value in use basis. Value in use is calculated as the net present value of cash flows derived from detailed financial plans for the next two financial years as approved by the Board. Cash flows beyond this are extrapolated using the long-term country growth rates disclosed below:

	Growth rates		CGU discount rates		Carrying values	
	2019	2018	2019	2018	2019	2018
	%	%	%	%	£m	£m
Jeffrey Chain, USA	1.4	1.4	17.0	14.9	20.2	18.7
Ace Chains, Australia	2.6	2.8	16.9	11.6	0.5	0.5
Renold Chain, India	7.7	8.1	27.7	25.0	1.9	1.9
Renold Tooth Chain, Germany	1.2	1.2	15.6	15.5	0.5	0.5
					23.1	21.6

### Key assumptions used in the value in use calculations:

#### **Sales volumes, selling prices and cost changes**

The Group prepares cash flow forecasts based on the latest management estimates for the next two financial years. The expected sales prices and volumes reflect management's experience of how sales will develop at this point of the economic cycle. The expected profit margin reflects management's experience of each CGU's profitability at the forecast level of sales and incorporates the impact of any restructuring that took place during the year ended 31 March 2019.

Cash flows beyond the period of projections are extrapolated using long-term growth rates published by the Organisation for Economic Co-operation and Development for the territory in which the CGU is based. The discount rates applied to the cash flows of each of the CGUs are based on the risk free rate for long-term bonds issued by the government in the respective market. This is then adjusted to reflect both the increased risk of investing in equities and the systematic risk of the specific CGU (using an average of the betas of comparable companies).

Management believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of any CGU to fall below the relevant carrying values.

## 9. Intangible assets

	Customer orderbook £m	Customer lists £m	Technical know-how £m	Computer software £m	Total £m
<b>Cost</b>					
At 1 April 2017	0.3	4.0	0.2	15.0	19.5
Exchange adjustment	–	0.2	–	(0.2)	–
Additions	–	–	–	1.4	1.4
Disposals	–	–	–	(0.3)	(0.3)
<b>At 31 March 2018</b>	<b>0.3</b>	<b>4.2</b>	<b>0.2</b>	<b>15.9</b>	<b>20.6</b>
Exchange adjustment	–	–	–	(0.2)	(0.2)
Additions	–	–	–	1.5	1.5
<b>At 31 March 2019</b>	<b>0.3</b>	<b>4.2</b>	<b>0.2</b>	<b>17.2</b>	<b>21.9</b>
<b>Accumulated amortisation and impairment</b>					
At 1 April 2017	0.3	1.0	–	8.5	9.8
Exchange adjustment	–	–	–	(0.2)	(0.2)
Amortisation charge	–	0.8	0.1	2.1	3.0
Disposals	–	–	–	(0.3)	(0.3)
<b>At 31 March 2018</b>	<b>0.3</b>	<b>1.8</b>	<b>0.1</b>	<b>10.1</b>	<b>12.3</b>
Exchange adjustment	–	0.1	–	(0.2)	(0.1)
Amortisation charge	–	0.8	0.1	2.2	3.1
<b>At 31 March 2019</b>	<b>0.3</b>	<b>2.7</b>	<b>0.2</b>	<b>12.1</b>	<b>15.3</b>
<b>Net book amount at 31 March 2019</b>	<b>–</b>	<b>1.5</b>	<b>–</b>	<b>5.1</b>	<b>6.6</b>
Net book amount at 31 March 2018	–	2.4	0.1	5.8	8.3
Net book amount at 31 March 2017	–	3.0	0.2	6.5	9.7

The acquisition of the Tooth Chain business in January 2016 brought significant benefit to the Group in terms of new customers, relationships and technical 'know-how'. These benefits have been valued under IFRS 3 using estimates of useful lives and discounted cash flows of expected income. The values are being amortised as follows:

### **Customer orderbook**

Customer orderbook is amortised when the orderbook at the date of acquisition has been fulfilled. This is now fully amortised.

### **Customer lists and technical know-how**

Customer lists and technical know-how is being amortised over five years as the benefits are likely to crystallise over a longer period.

No brand names were acquired as part of the acquisition.

## 10. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 April 2017	18.1	116.7	134.8
Exchange adjustment	(0.3)	(3.8)	(4.1)
Additions	2.8	5.3	8.1
Disposals	–	(4.6)	(4.6)
<b>At 31 March 2018</b>	<b>20.6</b>	<b>113.6</b>	<b>134.2</b>
Exchange adjustment	0.7	0.7	1.4
Additions	3.9	9.8	13.7
Disposals	–	(3.9)	(3.9)
<b>At 31 March 2019</b>	<b>25.2</b>	<b>120.2</b>	<b>145.4</b>
<b>Accumulated depreciation and impairment</b>			
At 1 April 2017	3.5	84.1	87.6
Exchange adjustment	0.3	(2.2)	(1.9)
Charge for the year	0.3	4.9	5.2
Disposals	–	(4.4)	(4.4)
<b>At 31 March 2018</b>	<b>4.1</b>	<b>82.4</b>	<b>86.5</b>
Exchange adjustment	0.1	0.5	0.6
Charge for the year	0.4	5.1	5.5
Disposals	–	(3.0)	(3.0)
<b>At 31 March 2019</b>	<b>4.6</b>	<b>85.0</b>	<b>89.6</b>
<b>Net book amount at 31 March 2019</b>	<b>20.6</b>	<b>35.2</b>	<b>55.8</b>
Net book amount at 31 March 2018	16.5	31.2	47.7
Net book amount at 31 March 2017	14.6	32.6	47.2

Property, plant and equipment pledged as security for liabilities amounted to £36.5m (2018: £34.8m).

### **Future capital expenditure**

At 31 March 2019 capital expenditure contracted for but not provided for in these accounts amounted to £2.2m (2018: £2.7m).

### **Asset held for sale**

In the prior year the former HiTec Couplings manufacturing site located in Halifax, UK was sold for net proceeds of £0.5m realising a gain of £0.2m. This site was formerly classed as an asset held for sale (see Note 11).

## 11. Asset held for sale

	2019 £m	2018 £m
<b>At 1 April</b>	<b>–</b>	<b>0.3</b>
Disposal	–	(0.3)
<b>At 31 March</b>	<b>–</b>	<b>–</b>

During the previous year, the HiTec Couplings' Halifax site was sold for net proceeds of £0.5m realising a gain of £0.2m.

## 12. Inventories

	2019 £m	2018 £m
Raw materials	6.4	8.1
Work in progress	5.4	4.8
Finished products and production tooling	33.0	28.1
	<b>44.8</b>	<b>41.0</b>

Inventories pledged as security for liabilities amounted to £36.3m (2018: £33.0m).

### 13. Trade and other receivables

	2019 Current £m	2018 Current £m
Trade receivables <sup>1</sup>	32.2	31.0
Less: impairment provision	(0.5)	(0.5)
Trade receivables: net	31.7	30.5
Other receivables <sup>1</sup>	3.8	3.4
Prepayments	2.3	2.5
	37.8	36.4

1. Financial assets carried at amortised cost.

The Group has no significant concentration of credit risk but does have a concentration of translational and transactional foreign exchange risk in both US Dollars and Euros, however, the Group hedges against these risks.

Trade receivables are non-interest bearing and are generally on 30–90 days terms. As at 31 March, the ageing analysis of trade receivables is as follows:

	Total (not impaired) £m	Neither past due nor impaired £m	Past due but not impaired			
			<30 days £m	30–60 days £m	60–90 days £m	>90 days £m
2019	31.7	24.9	4.9	1.0	0.4	0.5
2018	30.5	24.9	3.5	0.8	0.3	1.0

	2019 £m	2018 £m
<b>Movement on impairment provision</b>		
Opening provision	0.5	0.3
Net charge to income statement	0.3	0.2
Utilised in year through assets written off	(0.3)	–
Closing provision	0.5	0.5

### 14. Cash and cash equivalents

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts as follows:

	2019 £m	2018 £m
Cash and cash equivalents	17.9	13.9
Less: Overdrafts (Note 15)	(0.2)	(1.6)
Net cash and cash equivalents	17.7	12.3

## 15. Borrowings

	2019 £m	2018 £m
<b>Amounts falling due within one year:</b>		
Overdrafts	0.2	1.6
Capitalised costs	(0.2)	(0.3)
	–	1.3
<b>Amounts falling due after more than one year:</b>		
Bank loans	48.1	36.7
Capitalised costs	(0.7)	(0.3)
Preference stock	0.5	0.5
	47.9	36.9
<b>Total borrowings</b>	<b>47.9</b>	<b>38.2</b>

All financial liabilities above are carried at amortised cost.

### Core banking facilities

On 29 March 2019 the Group renewed its £61.5m Multi-Currency Revolving Facility banking facilities with HSBC UK, Allied Irish Bank (GB), and Citibank. The facility matures in March 2024 and is fully committed and available until maturity.

At the year end the undrawn core banking facility was £12.8m (2018: £23.0m). The Group pays interest at LIBOR plus a variable margin in respect of this facility. The average rate of interest paid in the year was LIBOR plus 1.95% for Sterling, Euro and US Dollar denominated facilities (2018: LIBOR plus 1.94% for Sterling denominated facility and LIBOR plus 1.84% for the Euro and US Dollar denominated facility). This facility has two primary financial covenants which are tested on a six monthly basis. The first is net debt as a ratio of rolling annual EBITDA with a maximum ratio of 2.5 times. The second is interest cover with a minimum ratio of 4.0 times (rolling annual EBITDA divided by net financial interest cost). The Group also benefits from a number of overseas facilities totalling £1.4m (2018: £2.0m) with availability at year end of £1.3m.

### Secured borrowings

Included in Group borrowings are secured borrowings of £47.5m (2018: £36.1m). Security is provided by fixed and floating charges over assets (including certain property, plant and equipment and inventory) primarily in the UK, USA, France, Germany and Australia. Certain group companies have provided cross-guarantees in respect of these borrowings.

### Preference Stock

At 31 March 2019, there were 580,482 units of Preference Stock in issue (2018: 580,482).

All payments of dividends on the Preference Stock have been paid on the due dates. The Preference Stock has the following rights:

- a fixed cumulative preferential dividend at the rate of 6% per annum payable half yearly on 1 January and 1 July in each year;
- rank both with regard to dividend (including any arrears on the commencement of a winding up) and return of capital in priority to all other stock or shares in the Company, but with no further right to participate in profits or assets;
- no right to attend or vote, either in person or by proxy, at any general meeting of the Company or to have notice of any such meeting, unless the dividend on the Preference Stock is in arrears for six calendar months; and
- no redemption entitlement and no fixed repayment date.

There is no significant difference between the carrying value of financial liabilities and their equivalent fair value.

## 16. Trade and other payables

	2019 Current £m	2019 Non-current £m	2018 Current £m	2018 Non-current £m
Trade payables	21.9	–	20.7	–
Other tax and social security	2.9	–	1.9	–
Other payables	1.0	5.1	0.9	–
Accruals	15.2	0.3	16.1	0.3
	41.0	5.4	39.6	0.3

Trade payables are non-interest bearing and are normally settled within 60 day terms. The Group does have a concentration of translational foreign exchange risk in both US Dollars and Euros, however, the Group hedges against this risk. The non-current other payables is the deferred element of the construction costs for the new Chinese factory in Jintan.

## 17. Provisions

	Business restructuring £m	Onerous lease £m	Contingent consideration £m	Total provisions £m
At 1 April 2018	3.2	4.0	0.7	7.9
Exchange	–	(0.1)	0.1	–
Arising during the year	–	–	–	–
Utilised in the year	(3.1)	(0.8)	(0.8)	(4.7)
Discount unwind on provision	–	0.1	–	0.1
<b>At 31 March 2019</b>	<b>0.1</b>	<b>3.2</b>	<b>–</b>	<b>3.3</b>

Allocated as:	2019 £m	2018 £m
Current provisions	<b>0.8</b>	4.6
Non-current provisions	<b>2.5</b>	3.3
	<b>3.3</b>	7.9

### **Business restructuring**

At 31 March 2018, a provision of £3.1m was made against costs to be incurred as part of the closure and relocation of our Chinese Chain manufacturing facility.

At 31 March 2019, a provision of £0.1m has been made for site closure and clean up costs.

Restructuring provisions are expected to be utilised within 12 months.

### **Onerous lease**

This provision relates to onerous lease costs in respect of the lease of the Bredbury plant in the UK and the Mulgrave facility in Australia. The Bredbury lease expires in May 2030. In August 2016, it was agreed to sublet a significant part of the property for a five year term for an annual rent of £0.6m. £0.3m of the provision was utilised in the year (2018: £0.2m) leaving a provision of £2.7m in respect of this lease (2018: £3.0m).

In addition, as part of the sale agreement of the Mulgrave facility in Australia completed in March 2017, it was agreed that the business could remain in the property for a maximum of three additional years for an annual rent of £0.5m. This lease was deemed to be onerous and as a result a provision was established in relation to the total lease cost of £1.6m. Costs of £0.5m were incurred in the year offset by exchange of £0.1m, resulting in a provision at 31 March 2019 of £0.5m.

### **Contingent consideration**

#### **Renold (Hangzhou) Co Limited, China**

The provision for the purchase of the outstanding 10% of the equity in Renold (Hangzhou) Co Limited was utilised in the period ended 31 March 2019.

## 18. Additional cash flow information

Reconciliation of operating profit to net cash flows from operations:

	2019 £m	2018 £m
<b>Cash generated from operations:</b>		
Operating profit	16.2	5.6
Depreciation and amortisation	8.6	8.2
Impairment of goodwill	–	2.1
Loss on disposals of plant and equipment	0.9	–
Equity share plans	0.4	–
Increase in inventories	(2.9)	(2.6)
Increase in receivables	(0.8)	(1.1)
Increase in payables	1.4	1.1
(Decrease)/increase in provisions	(4.6)	1.0
Cash contribution to pensions	(4.5)	(4.4)
Pension past service credit (non-cash)	(4.4)	–
<b>Cash generated from operations</b>	<b>10.3</b>	<b>9.9</b>

Reconciliation of net change in cash and cash equivalents to movement in net debt:

	2019 £m	2018 £m
Increase/(decrease) in cash and cash equivalents	6.8	(2.6)
Change in net debt resulting from cash flows	(12.0)	(3.8)
Foreign currency translation differences	(1.4)	(0.5)
Non-cash movement on capitalised finance costs	0.9	–
Change in net debt during the period	(5.7)	(6.9)
Net debt at start of year	(24.3)	(17.4)
<b>Net debt at end of year</b>	<b>(30.0)</b>	<b>(24.3)</b>

### Net debt comprises:

Cash and cash equivalents (Note 14)	17.9	13.9
Total borrowings (Note 15)	(47.9)	(38.2)
	<b>(30.0)</b>	<b>(24.3)</b>

## 19. Post balance sheet events

There were no significant post balance sheet events to report.