Pressure Technologies - 2018 Full Year Results

Key messages and highlights

Manufacturing revenue up 13% YOY with second-half 32% up on the first-half as the businesses experience an uplift in activity from core markets

PMC closing order book up 54% on 2017, with highest intake levels in October 2018 since April 2014.
CSC closing order book 36% up on 2017

Manufacturing gross margins at 33% as the benefits of efficiency improvements are realised, offsetting the impact of higher base material costs

Net debt reduced to £6.7 million (H118: £9.3 million)

Sale of Hydratron completed for an initial consideration of £1.1 million, with additional consideration up to £2.25 million payable on future trading

Post year-end conditional sale of Greenlane Biogas for £11.1 million via a spin-out listing on the TSX-V exchange

Pressure Technologies

Summary Group results

	2018	2017
Revenue (£m)	32.2	34.6
Manufacturing Divisions	21.2	18.8
Alternative Energy Division	11.1	15.8
Gross profit (£m)	9.6	9.7
Adjusted operating profit (£m)	0.5	1.6
Exceptional items (£m)	(3.2)	(2.7)
Operating loss (£m)	(2.7)	(1.1)
LBT (£m)	(3.1)	(1.4)
EPS basic* (pence)	(13.9)	(4.0)
EPS adjusted (pence)	0.7	10.0
Dividend (pence)	nil	nil

Revenue down

-7%

To £32.6m (2017: £34.9m)

Gross margin up 2 ppt to

+30%

(2017: 28.%)

Return on Revenue down

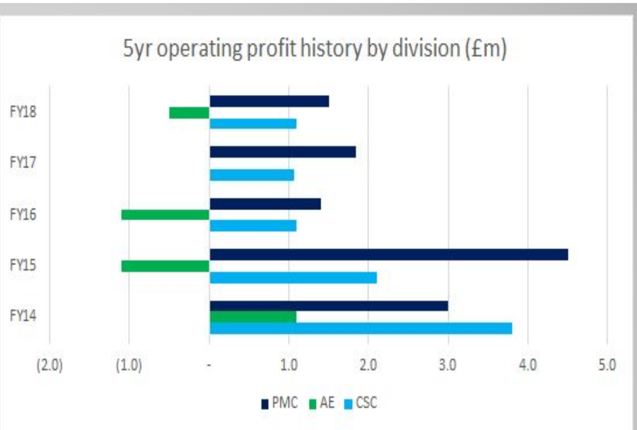
-3ppt

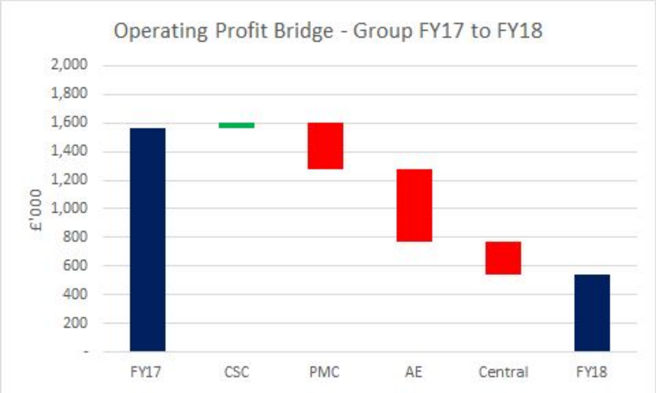
to 2% (2017: 5%)

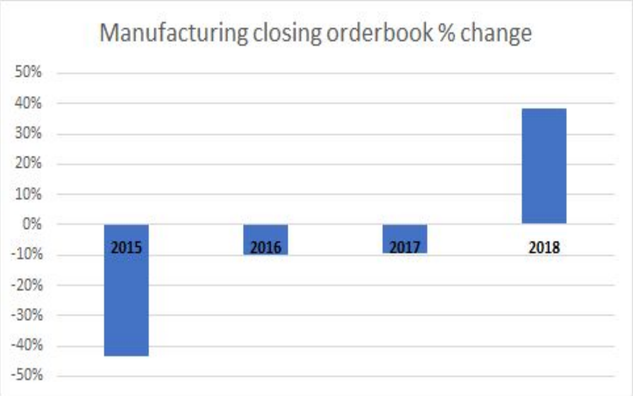
Exceptional items below adjusted operating profit relate to:

- £0.3m - CEO retirement costs
- £0.3m - Restructuring
- £2.6m - Amortisation of acquisition related goodwill and intangible assets

Revenue and profits impacted by fewer renewable energy projects and losses in AE, mix of work in Manufacturing Divisions and investment in people







* EP Division is presented as a discontinued operation and excluded from analysis

- The continuing Manufacturing Divisions* show revenues 13% up on the prior year. Second half was particularly strong, 32% up on the first half reflecting both the momentum of work in the oil and gas sector and phasing of large defence projects.
- The closing order book in PMC was 54% up on the same period in 2017, with 14% of the total order book coming from new customers secured through 2018.
- PMC order intake reached its highest level in October 2018 for over four years, with a rolling 12-month order intake 26% higher than at the same time in 2017.
- Across the Group, we have continued to invest in new equipment and technology. £1.1 million in new plant and machinery has been invested in the Manufacturing Divisions.
- We are investing in systems and processes to focus on business insight and real-time analysis to support commercial decision making.

Summary Group balance sheet

	2018 £m	2017 £m
Goodwill & Intangible assets	25.8	29.7
Tangible Assets	12.0	12.6
Inventories	4.4	5.0
Trade & other receivables	10.9	10.1
Trade & other Payables	(9.2)	(10.6)
Net Contract Balances	(2.6)	(0.1)
Net Working Capital	3.4	4.3
Tax Provisions	(1.2)	(1.8)
Net Debt	(6.7)	(11.1)
Net Assets	33.4	33.8

Closing Net Debt down

£4.3m

to £6.7m (2018: £11.1m)

Measured leverage covenant ratio

2.3x

(2018: 3.1x)

Net working capital % sales*

23.6%

(2017: 20.9%)

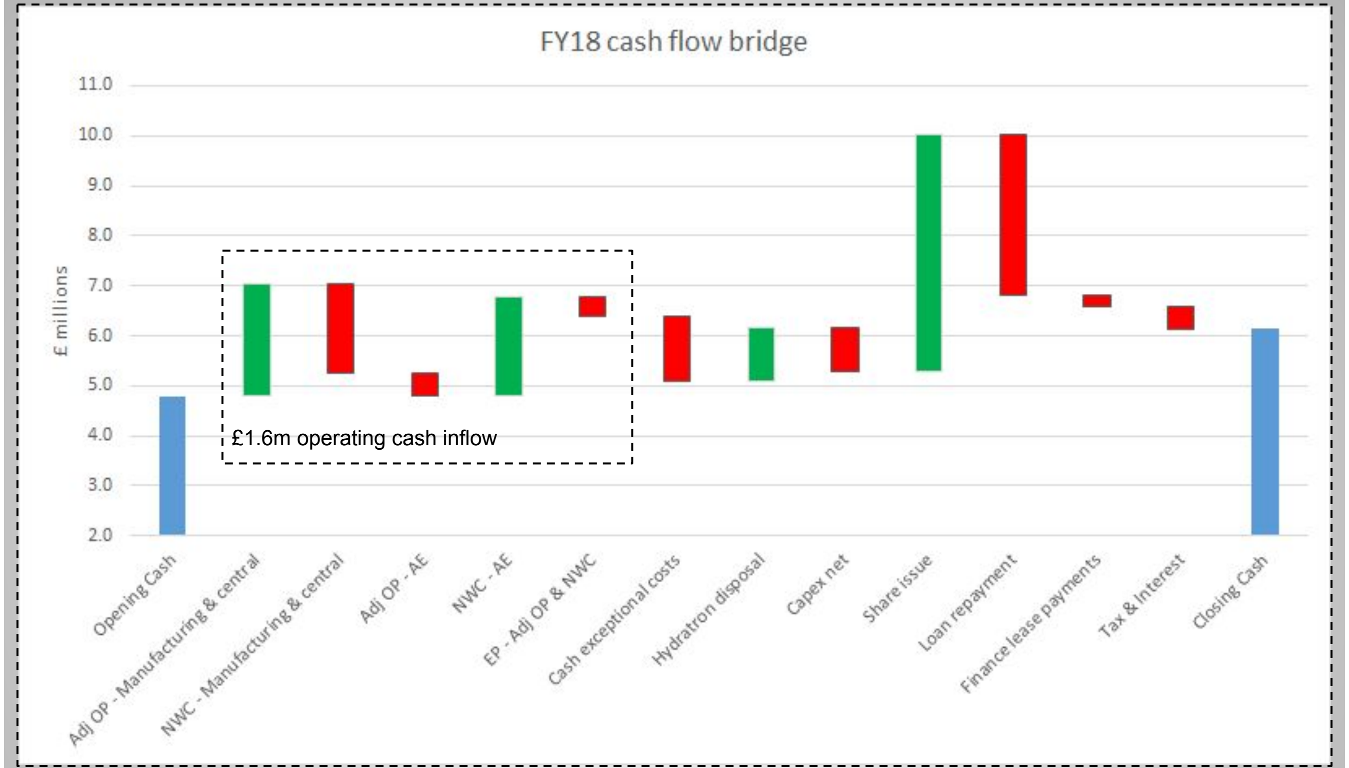
Goodwill & Intangibles % Net Assets

77.3%

(2017: 87.9%)

*Manufacturing and Central only - excluding AE

Summary Group cash flow - 12 months to September 2018



*before cash outflow for exceptional costs

Operating cash inflow*

£1.6m

(2017: £1.9m)

Net investment in working capital*

£nil

(2017: increase of £1.5m)

Net fundraising in 2018

£4.7m

(2017: nil)

Repayment of RCF facility

£3.2m

(2017: increase £2.7m)

Manufacturing financial highlights

Revenue up 13% to

£21m

(2017: £18.8m)

Gross Profit margin down 3.2ppt to

34%

(2017: 37%)

Operating Profit*

£2.6m

(2017: £2.9m)

Return on Revenue

12%

(2017: (15)%)

Net investment in working capital

£1.1m

(2017: £0.6m)

Operating cash inflow/(outflow)***

£1.6m

(2017: inflow £2.8m)

Revenue per employee down 1% to

£121k**

(2017: £122k)

Restructuring costs

£0.1m

(2017: £0.1m)

** before central costs, M&A costs, amortisation on acquired businesses and exceptional charges and credits. Including 9m post-acquisition result of Martract.*

*** based on straight average number of employees excluding group and AE*

****before cash outflow for exceptional costs*

Alternative Energy financial highlights

Revenue
£11.1m
(2017: £15.8m)

Gross Profit margin
22%
(2017: 17%)

Operating Loss*
£(0.5)m
(2017: £0.0m)

Return on Revenue
-5%
(2017: 0%)

Revenue per employee down 5% to
£344k**
(2017: £362k)

Operating cash inflow/(outflow)***
£1.5m
(2017: outflow £0.6m)

Closing biogas upgrader order book
£7.0m
(2017: £5.12m)

Restructuring costs
£0.2m
(2017: £0.4m)

** before central costs, M&A costs, amortisation on acquired businesses and exceptional charges and credits.*

*** based on straight average number of employees excluding group and Manufacturing*

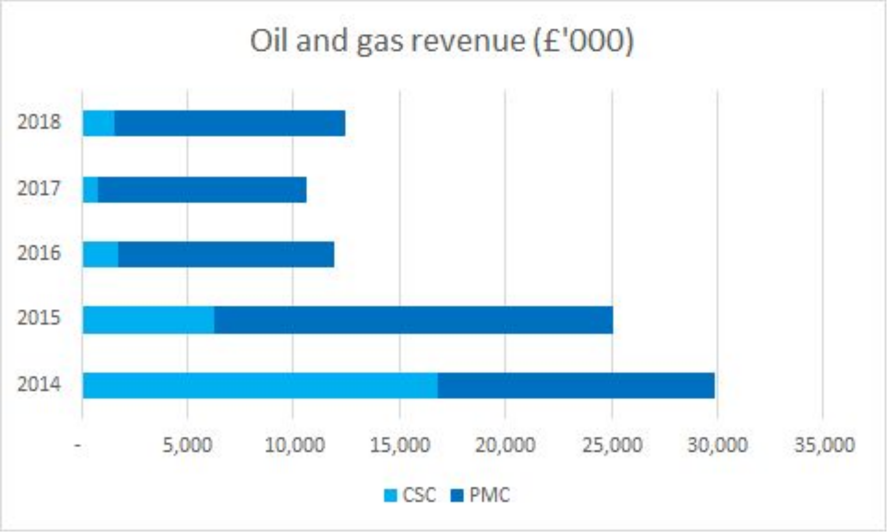
****before cash outflow for exceptional restructuring costs*

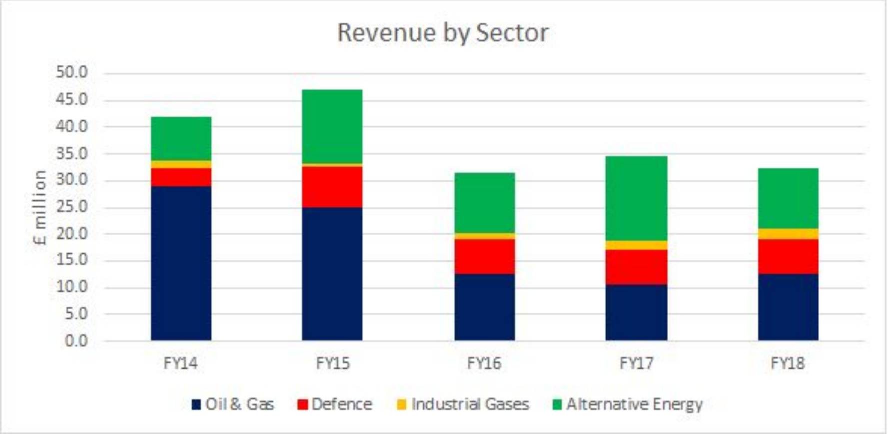
Performance

Oil and gas sector

Cylinders and Precision Machined Components

- Revenue from oil and gas increased 18% from £10.6 million in 2017 to £12.5 million as activity in the sector increased
- Volume was mostly driven from increased revenues in PMC but also includes the delivery of drillship air pressure vessels in Cylinders
- The muted activity experienced in PMC in the third quarter was a result of customers focused on internal planning and resources and generated a tendering surge in the fourth quarter
- Gross margins have remained above 30% in PMC throughout the downturn, they reduced slightly from 2017 to 2018 as result of mix of work and increased material costs, although this was offset by production efficiency improvements
- A total of 15 new customers contributed 8% of revenue to PMC in the year

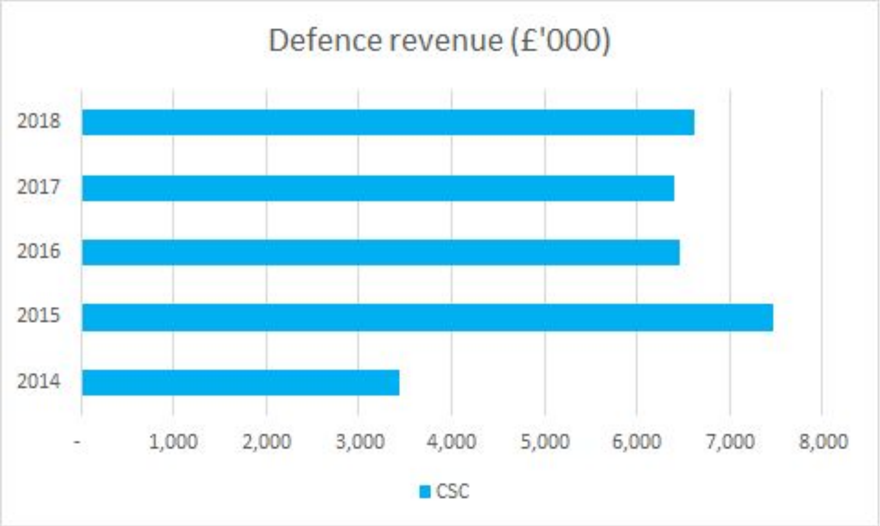


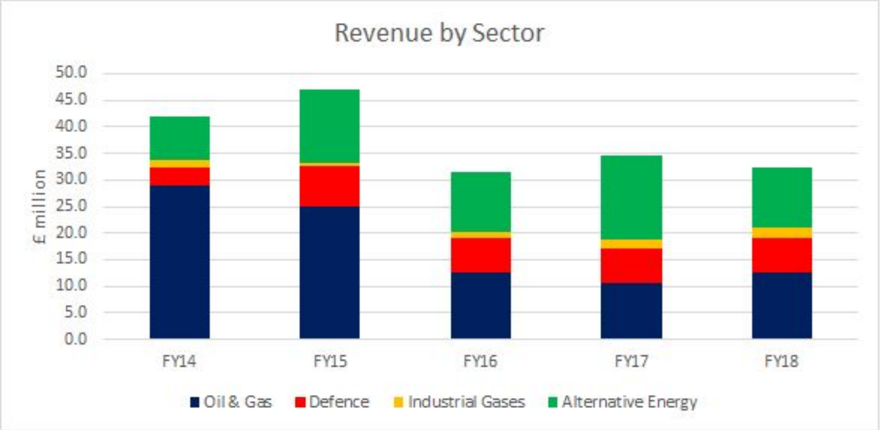


Defence sector

Cylinders

- Revenue was up slightly to £6.6 million from £6.4 million in the prior year
- Delays to several key projects meant revenue was strongly weighted to the second-half
- Standard and bespoke cylinders for the Dreadnought submarine programme made a significant contribution
- A contract for cylinders for the Type 26 frigate project were secured in the first half and also contributed to second half revenue
- Export naval revenue increased significantly, driven by successful projects in South Korea
- Integrity management revenue, increased by 21% to £0.8 million, as support for the UK naval contract ramped up, having been delayed from the first half
- Gross margins remained strong at 35% but were below the peak of 2017 due predominantly to a reduced volume of high-margin aerospace orders, product development work and increased direct labour costs





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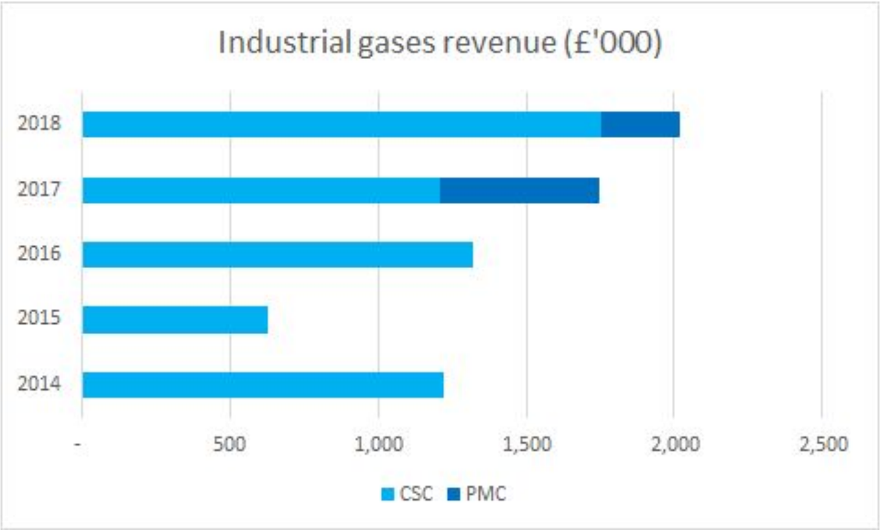
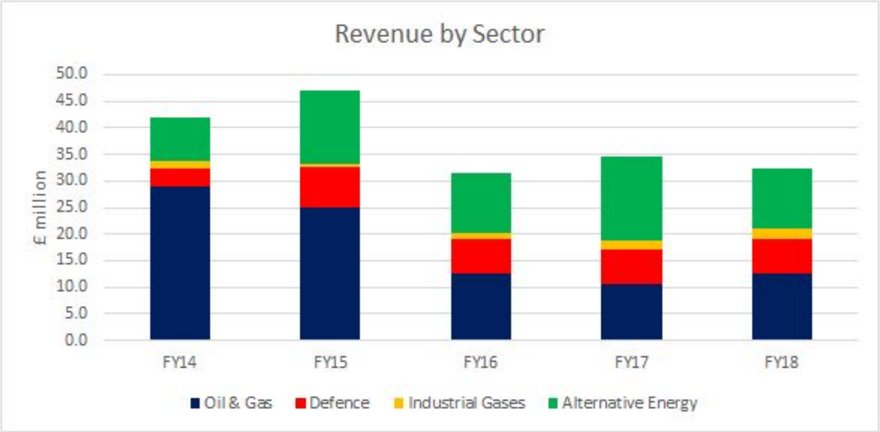
Industrial gas sector

Cylinders and Precision Machined Components

- Revenue increased 16% as result of favourable phasing of cyclical refurbishment work from our largest customer

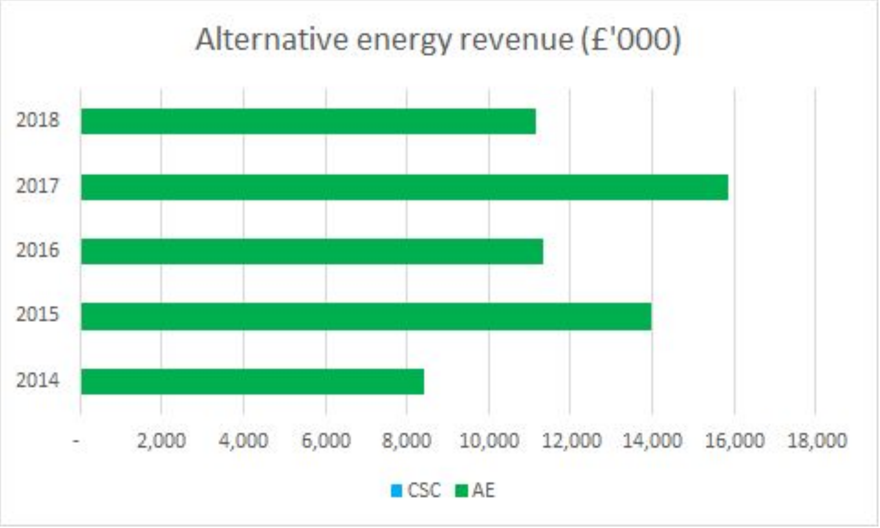


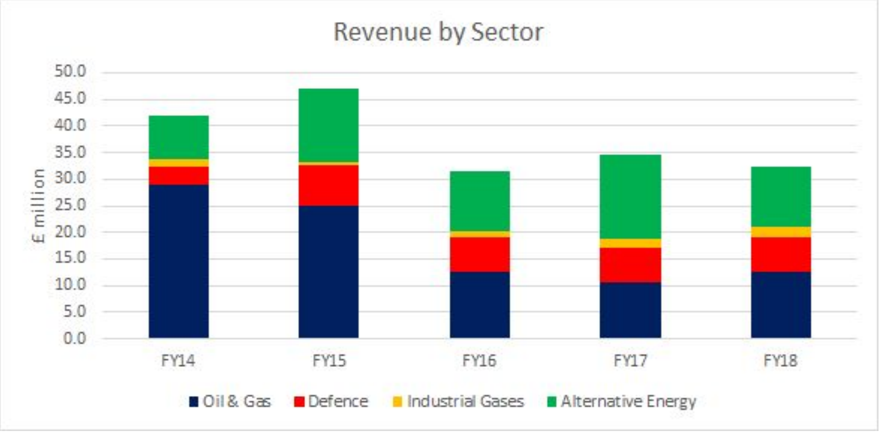


Renewable energy sector

Cylinders and Alternative Energy

- Revenue was down to £11.1 million as a result of fewer biogas upgrading projects in the first half
- Work began on three new projects in the second-half and contributed £8.3 million to revenue
- Delays to orders were as a result of the UK Renewable Heat Incentive amendments, complexity and client funding delays
- In the Americas, the divisional restructuring, which saw the business strategically centred in Vancouver, disrupted the commercial activity but improved overall gross margin to 22% from 17% in 2017





Strategy and Outlook

PMC strategy and outlook

Delivery of high-quality, safety-critical components for the oil and gas industry remains the predominant focus for PMC in the medium-term

- Tendering activity increased sharply towards the end of the year and has continued to rise
- The closing order book in September 2018 was 54% up on the same period in 2017, with 14% of the total order book coming from new customers secured in the year
- The divisional order intake reached its highest level in October 2018 for over four years, with a rolling 12-month order intake 24% higher than at the same time in 2017
- Capex investment programme will accelerate through 2019 to support a widening range of products for our customers, as they consolidate their approved supplier lists and to value-engineer their designs with our input
- Margin improvement remains a focus, supported by further investment in skills and training, the development of innovative manufacturing processes and more effective management of our supply chain and subcontracted services
- Beyond the organic growth seen in our rising order book, increasing our capability, scale and reach through acquisitions remains a strategic focus.
- Recent standardisation of operating models has helped blueprint an effective Group approach to future acquisitions

Increase in Revenue

8%

in 2018 to £11.2 million

Decrease in Gross Margin

2 ppt

in 2018 to 33%

Return on Revenue

13%

-3.9ppt from 2017

Revenue per employee

£117k

-4.7% from 2017

Closing order book up

54%

from September 2017

Cylinder’s strategy and outlook

Cylinders divisional strategy remains firmly on course to achieve greater inroads in target markets, the diversification into global defence markets from 2014 has proved highly successful

- The defence sector remains the organic growth focus for the foreseeable future with strong potential to replicate the success seen with the Royal Navy across NATO-friendly navies worldwide.
- In the UK, submarine and surface warship build programmes remain largely unaffected by cuts in defence spending and we are established suppliers to the extensive Dreadnought submarine and Type 26 frigate projects, with order book visibility to 2023 and project horizons out to at least 2030.
- Our Integrity Management services have established a strong presence and an enviable reputation in the UK defence market with the in-service submarine programme. This business has tremendous potential for growth outside the UK and Europe and is a focus area for accelerated development.
- In oil and gas markets, we are well positioned to respond to a predicted upturn in drillship and semi-submersible projects from 2020.
- As the focus on renewable energy usage grows globally, we are set to build on our breakthrough order in 2018 for the supply of hydrogen refuelling station cylinders in the UK.
- Closing order book 36% up on 2017.
- Investment in new technology to advance our production, handling and finishing processes is underway, bringing improved efficiency and reliability.

Revenue up

18%

To £9.9m (2017: £8.4m)

Decrease in Gross Margin

-5ppt

in 2018 to 35%

Return on Revenue

11%

-2 ppt from 2017

Services revenue

£2.9 m

2017: £2.4m

Revenue per employee

£126k

Up 3% from 2017

Alternative Energy

Conditional sale of the Division to Creation Capital Corp (TSX-V: CRN.P) a capital pool company listed on the TSX Venture Exchange ("TSX-V") announced on 10 December 2018

- The strategic decision to centre the Division in Vancouver positions Greenlane Biogas perfectly to take advantage of new opportunities.
- The global outlook for renewable natural gas (RNG) has improved again throughout the year with governments and energy majors increasing their commitment to renewables in the global energy mix, with RNG playing a significant role, particularly in the US and Europe
- With a closing order book of £7m and a £30m pipeline of high-probability opportunities for order placement in 2019, the potential for Greenlane in this growing sector appears to be very strong.
- In June we announced that strategic options would be evaluated that would help unlock value for our shareholders and refocus the Group on core specialist manufacturing activities in defence and oil and gas markets.
- On 10 December 2018 an agreement to sell Greenlane Biogas via a listing on the Canadian TSX Venture Exchange was announced and we anticipate this will conclude during the first quarter of 2019
  - £5.0 million in cash on completion
  - £2.0 million in common shares
  - £4.1 million in promissory loan notes

Revenue down -30% to

£11.1m

Due to volume and timing of new order wins

Increase in Gross Margin %

5ppt

Through improved governance and operational structure

Return on Revenue

-5%

2017: 0%

Revenue per employee

£344k

-5% from 2017

Closing order book

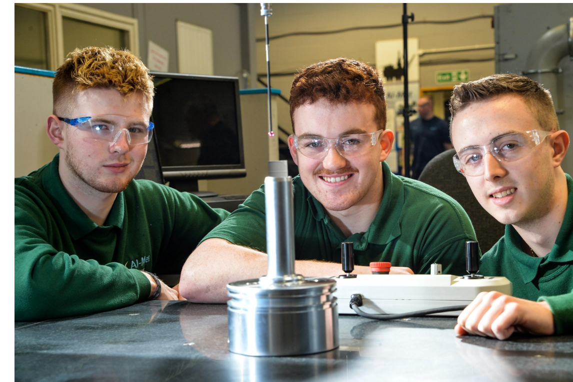
£7.0m

2017: £5.4m

People

The success of the Group comes from our people

- Recruitment to meet the growing workload and new skill requirements has progressed successfully and we have invested further in apprenticeships across the Group.
- Earlier this year, we carried out a Group-wide engagement survey to objectively gather views from our colleagues on how they feel about a range of factors related to working within the Group. Overall, the results were positive, showing a high degree of colleague engagement and a strong sense of pride in the companies they work for.
- We recently launched a Group management development programme, bringing directors, managers and supervisors together for a tailored course, focusing on key skills and knowledge of employment legislation and giving our management teams a practical toolkit for best practice in people management.
- Further progress has been made with standardising our people management policies and guidelines, giving our managers and staff access to an efficient and supportive centralised resource, improving compliance and consistency across the Group.



Group outlook

- Recent trading performance, order intake and general bidding activity indicates that we're seeing a period of increased market activity, particularly for oil and gas, so the Board expects a much better trading performance from the Group this year
- Increase in activity has been fuelled by greater confidence in the global oil and gas market, where most international oil companies have recently reported strong quarterly profits, which has in turn spurred a flurry of investment in capital projects
- The trading outlook for next year is much more encouraging, with year-end order books in our core manufacturing Divisions between 36-54% higher than at the same time last year
- The Board anticipates that funds generated from the portfolio rationalisation will provide the Group with a strengthened balance sheet, so we are actively looking at how we may be able to leverage that to accelerate growth in target markets.
- Beyond the organic growth seen in our rising order book, increasing our capability, scale and reach through acquisitions remains a strategic focus.

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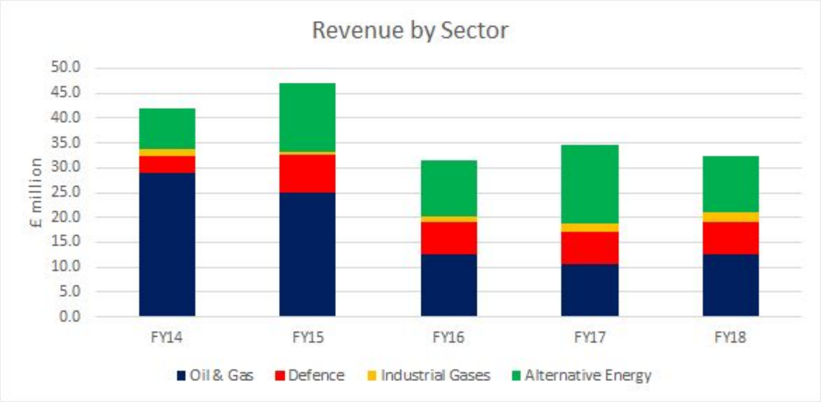
Supporting Information

Oil and Gas sector revenue improving from H216 low point across the Manufacturing divisions



The Group's £15m RCF facility* was £11.8m drawn at the half year date. Leverage has continued to fluctuate with volatility in the AE performance and timing of large project work in both AE and CSC.

Net debt: EBITDA leverage	FY18	FY17
Reported last 12m EBITDA	£1.9m	£3.0m
Reported Net Debt	£6.7m	£11.1m
Reported leverage	3.5x	3.7x
Adjusted last 12m EBITDA	£2.5m	£3.3m
Adjusted Net Debt	£5.6m	£10.2m
Facility covenant measured leverage	**2.3x**	**3.1x**
Cash headroom	£2.3m	£1.5m

Adjusted Net Debt	FY18 £m	FY17 £m
Reported Net Debt	6.7	11.1
Less: Non-BoS finance lease debt	(1.1)	(0.9)
Adjusted Net Debt	5.6	10.2

Adjusted EBITDA	FY18 £m	FY17 £m
Reported EBITDA	1.9	3.0
Add: Non-cash accounting items	0.0	0.0
Add: Non-statutory exceptional items	0.6	0.3
Adjusted EBITDA	2.5	3.3

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