Pressure Technologies

Interim Results Presentation

Period ended 2 April 2016

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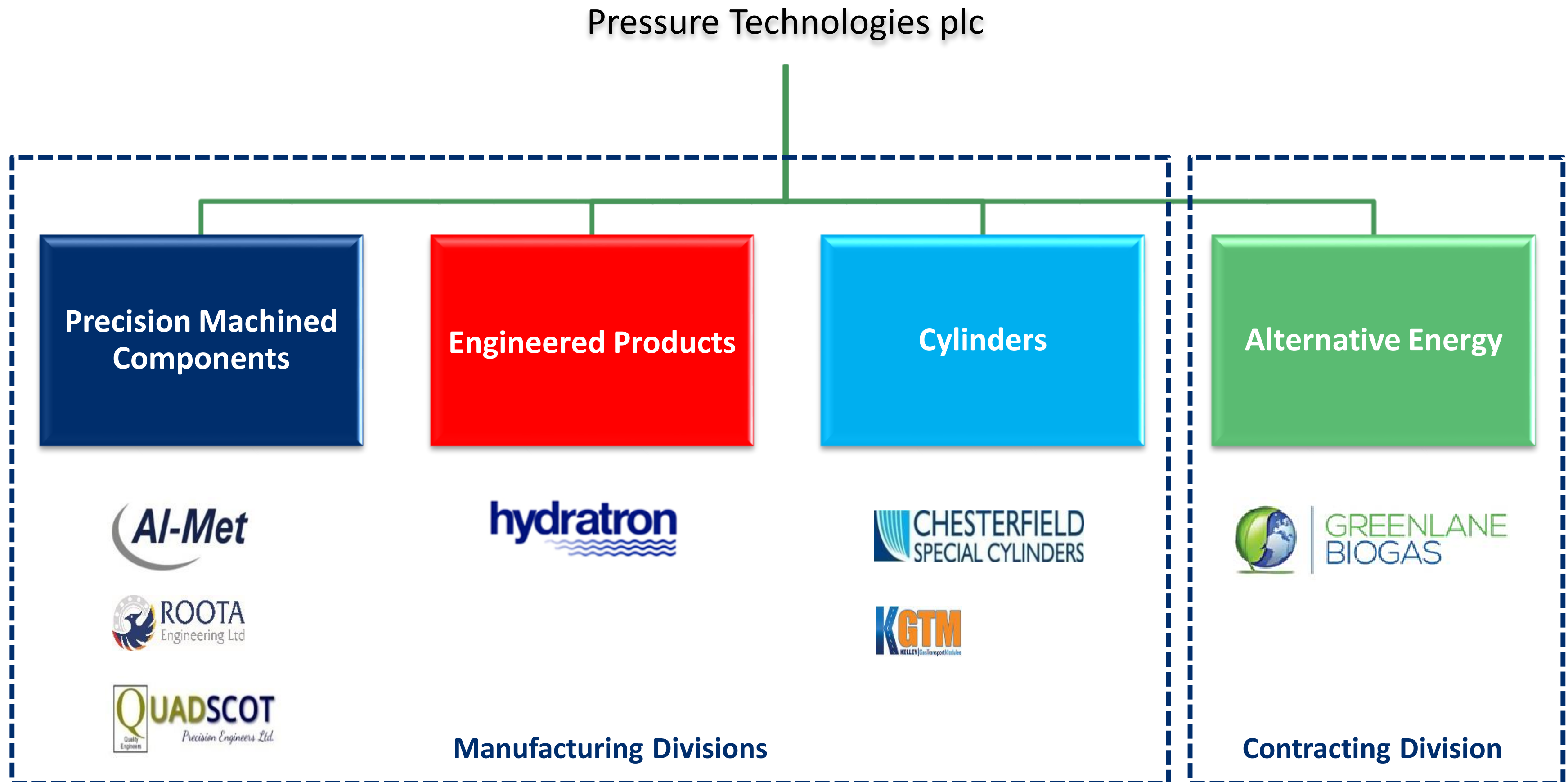
A specialist engineering group supplying niche products & services to the global oil and gas, defence, industrial gases and AE markets



Key metrics

	H116	H115	*FY15 Full Year*
Sales	£17.0m	£32.1m	*£55.6m*
Adjusted Operating (Loss)/Profit	£(0.9)m	£2.6m	*£3.3m*
Gross Profit Margin	31.9%	30.1%	*28.2%*
Return on sales – manufacturing divisions	5.1%	18.4%	*15.1%*
AE Upgrader orders taken in period*	5	1	*4*
Exceptional credits/(costs)	£1.9m	£(1.3)m	£(0.7)m
Profit/(loss) before tax	£0.7m	£(0.5)m	*£0.5m*
Net operating cash inflow**	£2.1m	£3.8m	*£5.9m*
Net Debt	£6.1m	£7.5m	*£7.1m*
Closing headcount	303***	381	*351*

** A further order received in period to date making 6 in total*
***after payment of exceptional redundancy and reorganisation costs*
**** headcount has reduced by a further 41 to the end of May 2016*

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The impact of unprecedented drop in oil price has been significant, O&G revenues fell 49.2% from H115

Customers forecasting no recovery in the oil and gas market before 2017

Devastating effect on the wider industry

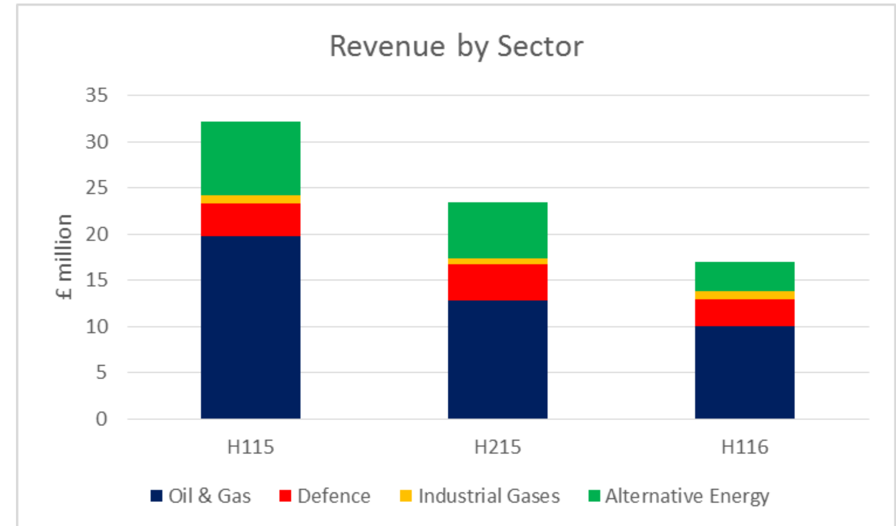
Total investment over next 30 years should be unaffected - changes to oil prices only affect the rate of spend

We are seen as niche supplier recognised for quality and OTIF

Core skills are being maintained during restructuring which will allow a rapid response as market recovers

When market recovery begins PMC and EP market pick up typically 2 to 4 months and Cylinders typically 12 months

AE unaffected by oil and gas market as driven by renewable energy targets and incentives



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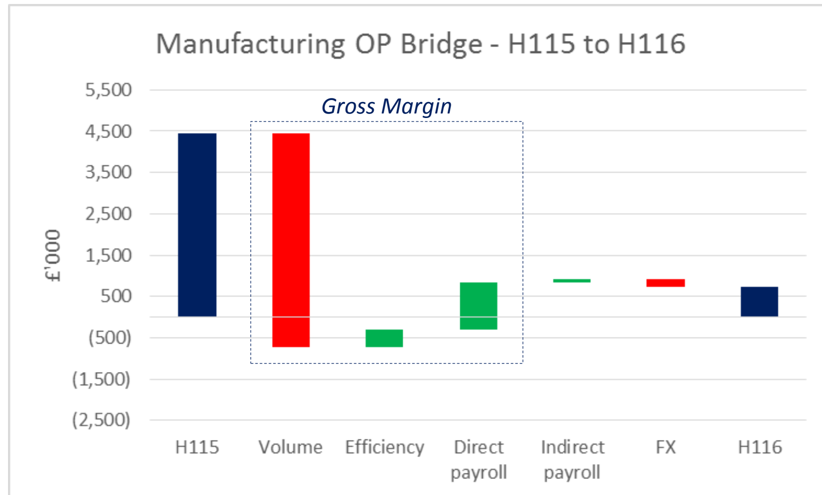
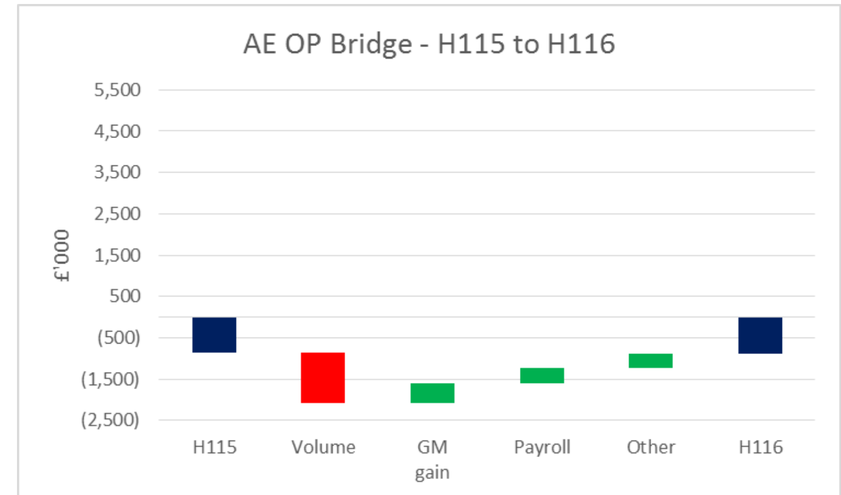
This O&G volume decline is the most significant factor in reduction in operating profit across the Group since H115





- The fundamental shift in the O&G market volumes combined with the phasing of sales in AE division saw an adverse variance in volumes across the Group
- This has been off-set to some extent by reduction in payroll costs, particularly in the Manufacturing divisions where short time working and significantly reduced overtime has added to the savings following headcount reduction.
- The low volumes in the Manufacturing divisions mean the full benefit of synergies and production efficiencies are masked, notably gross margin was preserved through the actions taken across these divisions which is a significant achievement given the market conditions. The absolute drop in operating profit is caused by the volume decline.
- The AE gross margin gain has resulted from the completion of legacy Greenlane contracts which featured in H115 at comparatively lower margins and combined with the benefits of restructuring in the prior year have offset the impact of the phasing of sales in this division

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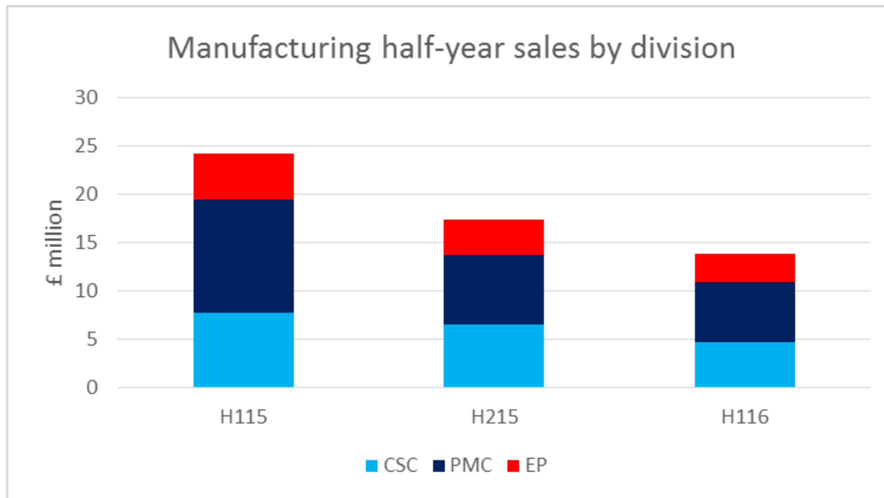
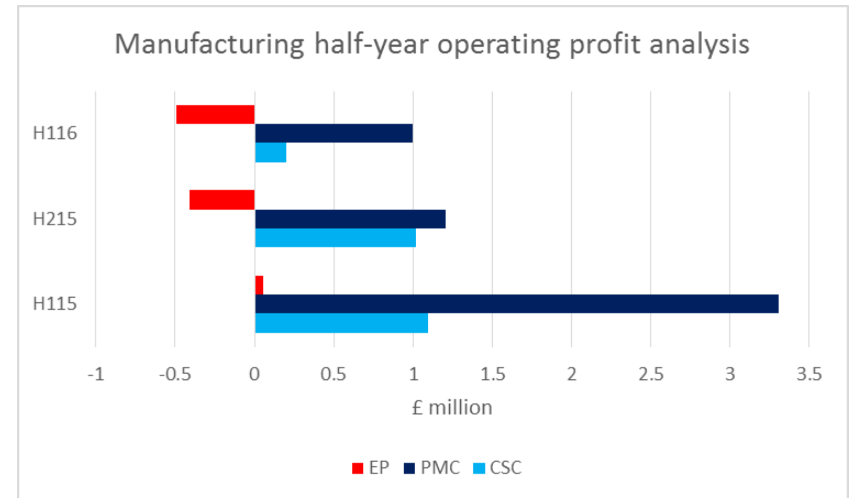
The impact of the O&G decline can be seen in Manufacturing divisions sales and operating profit performance





- Compared to the first half of 2015 financial year, Group revenues from the oil and gas market fell by 49.2% continuing the decline experienced in the second half of 2015 financial year, which was itself down 34.3% on the first half of 2015.
- PMC and CSC continue to be profitable at the current volumes.
- EP has had a disappointing first half. It has suffered from the decline in discretionary spend in the oil and gas market and that had a significant impact on its profitability for the period.

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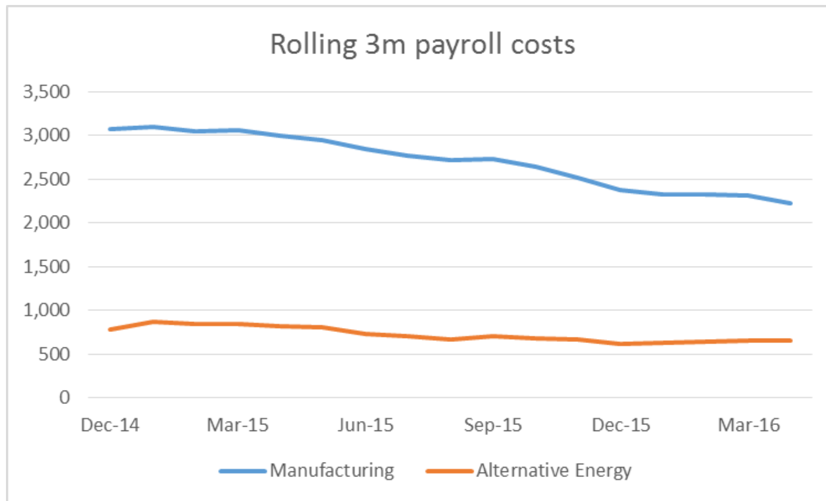
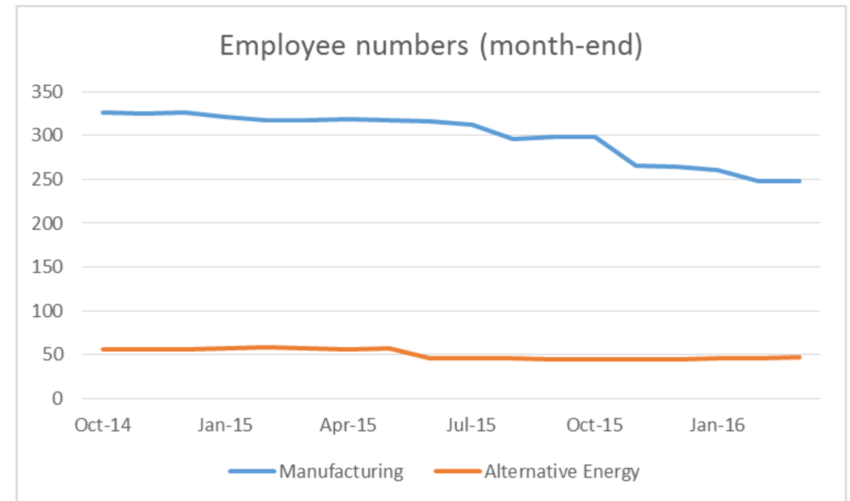
The full benefit of reorganisation, synergies and production efficiencies will only be realised when volume improves





- Payroll costs have progressively declined as action has been taken to align headcount to market conditions
- Across the Manufacturing divisions overtime has been largely eliminated and 4 day working (staff and production) and annualised hours contracts implemented where necessary.
- As a result of this, when market volumes do return there is up to 50% latent capacity across the manufacturing divisions.
- Central costs have also reduced by £0.2m compared to H115.

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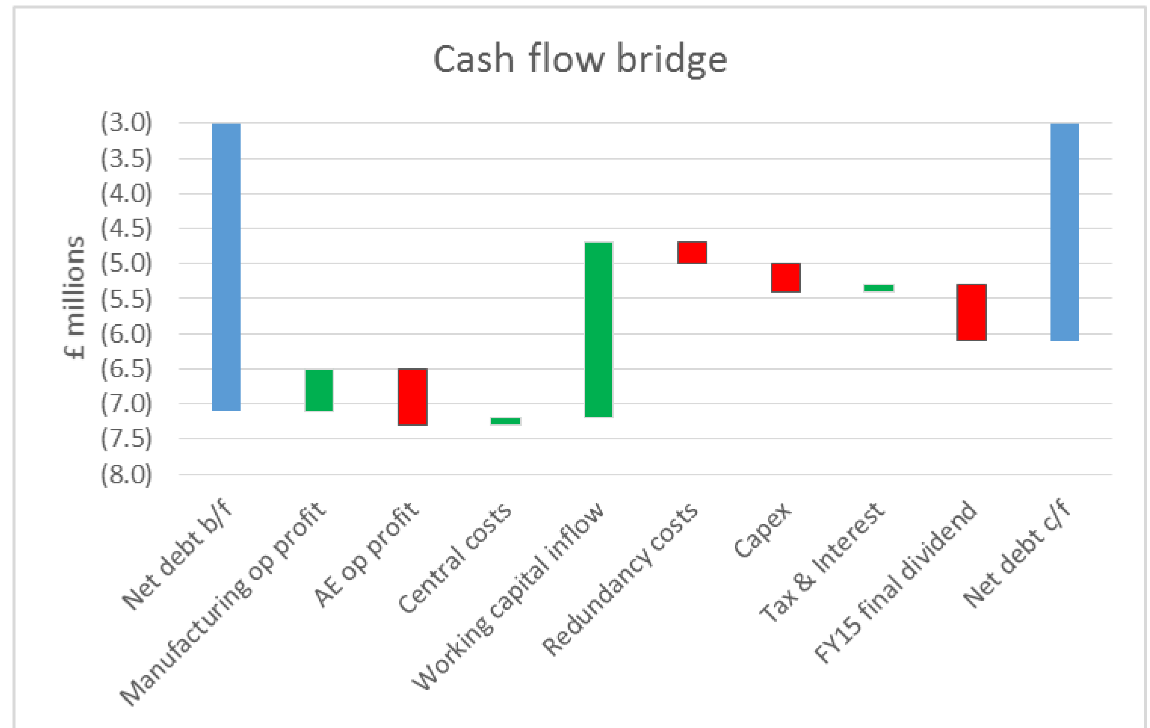
Cash generated from operations before exceptional costs was £2.4m

- Cash generated from operations before exceptional reorganisation costs was £2.4m, compared to £3.8m in H115.
- PMC continues to be the most significant contributor of operating cash flows
- In H116, the majority of cash flows related to normal trading activity and the net debt reduced by £1.0m
- The Group remains within its banking facilities and complied with all banking covenants
- The payment of the final Roota deferred consideration (£2.5m) in H216 will largely consume the operational cash flows if the sales revenues continue at current levels



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Summary results

	H116	H115	FY15
Revenue (£m)	**17.0**	32.1	55.6
Adjusted operating profit (£m)	**(0.9)**	2.6	3.3
Operating profit (£m)	**0.9**	1.3	1.2
PBT (£m)	**0.7**	(0.5)	0.6
EPS basic (pence)	**7.0**	(3.4)	4.9
EPS adjusted (pence)	**(8.5)**	12.1	14.5
Dividend (pence)	**-**	2.8	8.4
Gross margin %	**31.9**	30.1	28.2
Return on sales (%)	**-5.5**	8.1	5.9

- Significant exceptional items to note in the period:
  - Write back of deferred consideration in respect of Greenlane of £3.3m
  - Amortisation of intangible assets £1.1m
  - Reorganisation and redundancy costs of £0.3m
- The Group has a number of investments to make to underpin profitability at current trading levels and any upturn in our core oil and gas market will lead to a short-term requirement to increase working capital.
- As a consequence of this the Board has taken the decision not to pay an interim dividend. A decision on a recommendation for the full year dividend will be taken prior to release of the preliminary results in December 2016.

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Summary balance sheet

	Mar16 £m	Sep15 £m
Intangible assets	**27.4**	28.5
Fixed assets	**14.0**	14.3
Inventories	***6.6***	*7.4*
Trade Receivables	***9.5***	*13.5*
Trade Payables	***(9.3)***	*(12.1)*
Working capital	**6.8**	8.8
Tax provisions	**(2.2)**	(2.3)
Deferred consideration	**(2.5)**	(6.0)
Net debt	**(6.1)**	(7.1)
Net Assets	**36.6**	36.5

- A provision for deferred consideration of £3.3 million relating to Greenlane has been released. The £2.5m remaining relates to Roota and is due to be paid in full by early Q4.
- Whilst the Alternative Energy Division will be profitable, the delays in timing of orders in the relevant businesses will no longer meet the trigger point for earn out payments.
- Net working capital represents 16.8% of LTM sales (2015: 15.8%). Slight deterioration due to the challenge of reducing stock holding to desired levels in low volume market.
- Covenants complied with throughout the period

Precision Machined Components Division

Division remains profitable despite trading conditions in the oil and gas market

Forecasting difficult due to low market activity and unpredictable customer ordering patterns

AL-Met and Roota gaining market share and customers in the falling market but Quadscot affected by low-ball pricing in a very competitive sector of the market

Costs aligned with the market to ensure continued profitability with major headcount reduction and short-time working

Technical capability strengthened through recruitment and Al-Met has gained 'Fit for Nuclear' accreditation

Significant latent capacity created through investment in technology and productivity gains

Revenue

£6.6m

2015: £11.6m

Adjusted operating profit

£1.0m

2015: £3.3m

Engineered Products Division

Business restructured over the last 12 months as cuts in capital expenditure and discretionary service spend in the oil and gas market continue to impact sales revenues and profitability

Headcount reduced by a third whilst at the same time senior management and commercial teams have been strengthened

Commercial focus on expanding distributor networks with additional distributors appointed in the Arabian Gulf

Equipment rental service launched in the US to counter reduction in customer capital expenditure budgets

Business implementation of 'lean' operating system and product rationalisation which will yield further cost reductions in the second-half

Revenue

£2.9m

2015: £4.7m

Adjusted operating loss

£(0.5)m

2015: £0.1m profit

Cylinders Division

Division remains profitable despite major reduction in orders fro the oil and gas market

Defence market continues to provide a firm base load of orders with naval defence orders of £10 million through to 2020 already secured

Potential for significant additional orders for the Australian submarine build programme

USA, making slow but steady progress in the defence market and opportunities opening up in the industrial gases market as our pricing is competitive

Expanding Integrity Management business focused on defence and transportable industrial gases market as oil and gas market has cut back maintenance spend

Long order lead-times give confidence for continued profitability in the second-half

Revenue

£4.8m

2015: £7.8m

Adjusted operating profit

£0.2m

2015: £1.1m

Alternative Energy Division

Sales order phasing and strong immediate pipeline should give strong second-half performance

Good momentum building with six contracts secured to date this year worth £10 million

- Two repeat orders with existing customers in the UK
- One in Europe
- Three in North America including the first to meet California's rule 30

Core markets, UK North America and Europe continue to show growth with an immediate prospective pipeline of 11 projects worth £26 million

Developing markets in China, Brazil, Australia, India and South East Asia

Kauri upgrader, world's largest single upgrader plant capable of processing 5000 cubic meters of biogas per hour launched

Revenue

£3.2m

2015: £8.0m

Adjusted operating loss

£(0.9)m

2015: £(0.9)m

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Summary & Outlook

Oil and gas market continues to be difficult but the Group is in good shape to weather these conditions and more importantly is well placed to take advantage when they improve

Alternative Energy Division which is not driven by the oil price, is showing solid momentum and the pipeline for orders is very strong, but timing remains an issue for meeting market expectations

Cylinders and PMC divisions profitable and expected to remain so

Alternative Energy should reverse first half losses as strong contract delivery expected in the second half

Gross Margins have been preserved as direct costs have been reduced in line with reductions in sales revenues

Productivity gains and improved technical capabilities have been achieved across the Group

The Board remains confident in the medium to long-term prospects for the Group

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