Pressure Technologies

INTERIM REPORT 2021

Leading UK designers and manufacturers of high-integrity, safety critical components and systems serving global supply chains in oil and gas, defence, industrial gases and hydrogen energy markets.

Pressure Technologies (AIM: PRES), the specialist engineering group, announces its interim results for the 26 weeks to 3 April 2021.

The Group's strategy remains focused on the continued development and growth of both divisions and the Board is pleased with the progress being made.

Strong performance in the first half of the year was driven by major defence and nuclear contracts in Chesterfield Special Cylinders, more than offsetting the weakness in its Precision Machined Components division which continues to be impacted by the challenging trading conditions across the oil and gas industry.

The backdrop of Covid-19 related challenges continues to impact the outlook in the second half. In Chesterfield Special Cylinders, project delays have affected the outlook for Integrity Management deployments, while defence contract phasing, late steel deliveries and several delayed customer orders are also expected to push significant revenue and margin from the second half of FY21 into FY22.

However, the order book in Chesterfield Special Cylinders remains strong and momentum continues to gather in the fast-developing hydrogen energy market, with over £1.4 million of refuelling station contract wins since December 2020 and improving visibility of future demand. The Group has also secured its first order with Shell under the five-year framework agreement announced in June 2020.

Despite the impact of operational delays in Chesterfield Special Cylinders and the slower than expected recovery in the oil and gas market affecting Precision Machined Components, the Board remains confident in the prospects and opportunities for the business in the medium term.

Chris Walters
Chief Executive

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FINANCIAL RESULTS

Group revenue

£14.5M

(2020: £13.9 million)

Gross profit

£4.7M

(2020: £4.0 million)

Adjusted operating profit[1]

£1.1M

(2020: loss £0.1 million)

Reported profit before tax

£0.2M

(2020: loss £1.5 million)

1 Adjusted operating profit is operating profit before amortisation, impairments and other exceptional items

2 Adjusted basic earnings per share is reported earnings per share before amortisation, impairments and other exceptional items

Reported basic earnings per share

0.8P

(2020: loss per share 5.9p)

Adjusted basic earnings per share[2]

2.9P

(2020: nil)

Adjusted operating cash outflow[3]

£1.4M

(2020: inflow £1.4 million)

Net cash[4]

£0.2M

(3 October 2020: net borrowings of £7.4 million)

3 Adjusted operating cash outflow is operating cash flow before cash flow for exceptional items

4 Net cash/(borrowings) comprises cash and cash equivalents, bank borrowings, asset finance lease liabilities and right of use asset lease liabilities

OPERATIONAL HIGHLIGHTS

- Overall Group revenue was 4% higher than the prior period, with a strong performance from Chesterfield Special Cylinders (CSC) more than offsetting continued weakness in Precision Machined Components (PMC)
- Strong defence order book underpinned a 79% increase in revenue for CSC and an increase in adjusted EBITDA[1] to £3.3 million (2020: £0.7 million)
- Momentum gathering in the fast-developing hydrogen energy market, with over £1.4 million of refuelling station contract wins since December 2020 and improving visibility of future demand
- First hydrogen storage order placed by Shell under the five-year framework agreement announced in June 2020. Second order expected imminently; both are for European refuelling station projects
- Investment in people and production facilities to support hydrogen growth has continued at the CSC Sheffield site and will deliver significant capacity increases by the end of 2022
- Long-term supply agreement established with steel tube manufacturer Vallourec and strategic stock orders placed to meet hydrogen-related demand outlook and lead times
- Oil and gas trading conditions resulted in a 58% reduction in revenue for PMC and a negative adjusted EBITDA[1] of £0.6 million (2020: positive EBITDA £0.7 million)
- PMC order book at May 2021 reached the highest level since October 2020 and OEM customers are reporting an improving outlook for the second half of 2021 and a steady recovery in 2022
- Long-term global supply agreement established by PMC with Schlumberger Technology Corporation, covering a wide range of precision machined parts for oilfield service applications
- Fundraising of £7.5 million in December 2020 supports exciting growth opportunities for CSC in the hydrogen energy market and in the Integrity Management services business and significantly strengthens the balance sheet.

1 Adjusted EBITDA is operating profit/(loss) before depreciation, amortisation, impairments and other exceptional items

Chris Walters
Chief Executive

Strong performance in the first half of the year was driven by major defence and nuclear contracts in Chesterfield Special Cylinders, more than offsetting the weakness in its Precision Machined Components division which continues to be impacted by the challenging trading conditions across the oil and gas industry.

Overview

Trading in the first half of the financial year was in line with the Board's expectations. This has been achieved against a backdrop of ongoing Covid-19 challenges which have been felt to varying degrees throughout our markets but particularly across the oil and gas industry, where global macro-economic uncertainty continues to hamper recovery.

Nevertheless, the Group has achieved further momentum against its strategic priorities. With a strong and increasingly diverse order book, Chesterfield Special Cylinders (CSC) continues to make good progress on major contracts for defence, industrial, nuclear and hydrogen energy customers. The performance in CSC more than offset the continued weakness in Precision Machined Components (PMC), where we remain focused on recovering profitability and cash generation as we await an improvement in oil and gas market conditions.

The successful £7.5 million fundraise completed in December 2020 has reinforced the Group's balance sheet and provided a platform from which we can begin to capitalise on the significant growth prospects for CSC in the hydrogen energy market and accelerate growth in our Integrity Management services business.

Overall Group revenue for the period was £14.5 million (2020: £13.9 million) and gross profit was £4.7 million (2020: £4.0 million), resulting in an overall adjusted operating profit of £1.1 million (2020: loss £0.1 million).

Chesterfield Special Cylinders (CSC)

CSC achieved a good performance with strong order intake in the first half of the year across a wider customer base in the defence, industrial, nuclear and hydrogen energy markets. Revenue of £11.3 million (2020: £6.3 million) and adjusted EBITDA[1] of £3.3 million (2020: £0.7 million) were significantly ahead of the prior year, reflecting the phasing of major defence contracts.

Overall gross margin of 41% (2020: 34%) reflected the margin levels expected for contracts delivered in the period and £3.2 million of contracted revenue remains to be invoiced on projects which were in progress at the period end. Return on sales[2] was 26% (2020: 7%).

1 Adjusted EBITDA is operating profit/(loss) before depreciation, amortisation, impairments and other exceptional items

2 Return on sales is operating profit before amortisation, impairments and other exceptional items divided by revenue

The fast-developing hydrogen energy market has continued to gather momentum, with £1.4 million of order intake and several major new customer acquisitions since December 2020. Hydrogen contract revenue in the first half of the year was £0.4 million (2020: £nil).

The current hydrogen order book for the second half of FY21 and FY22 includes contracts with established customers Haskel Hydrogen Group and McPhy for European refuelling station projects. Contracts have also been secured with Framatome, Arcola Energy and US fuel cell technology major Plug Power. In May, Shell placed the first order for hydrogen storage under the five-year framework agreement announced in June 2020 and a second order is expected imminently; both orders are for European refuelling station projects.

All contracts placed to date utilise CSC's optimised Type 1 steel cylinder design that has been developed to allow modular expansion to meet future demand and configured to enable cost-effective in-situ inspection and recertification with maximum availability through life, using CSC's Integrity Management services. To support the hydrogen-related demand outlook and required customer lead times, a long-term supply agreement has been established with steel tube manufacturer Vallourec and strategic stock orders have been placed.

The pipeline of opportunities with established and new customers for static and mobile hydrogen storage systems continues to grow and the visibility of future demand is improving through discussions with key customers regarding long-term strategic supply agreements. In addition to refuelling station opportunities, enquiries are also increasing for green hydrogen storage facilities and road trailers for hydrogen transport.

Investment in people and production facilities has continued at the CSC Sheffield site in line with plans set out during the December 2020 fundraise. By the end of 2022, the investment will significantly increase overall operational capacity to produce finished cylinders and modular storage systems required to meet the expected growth in demand for hydrogen projects. We have also strengthened our operational teams, making key appointments across research and development, engineering, sales, production and supply chain functions.

Covid-19 travel restrictions have continued to disrupt Integrity Management deployments. Several UK and overseas projects were completed for offshore services and defence customers in the first half of the year, but the extended UK lockdown, travel restrictions and postponed customer projects had a negative impact on revenues for the period. A recovery of deployment activity was previously expected during the second half, but we now expect significant defence project delays late into the first half of FY22.

In addition, the late delivery of steel for new cylinder projects and delayed confirmation of customer orders in the first half of the year have adversely impacted performance in the third quarter to date and are expected to impact overall CSC revenue and margin in the second half.

Precision Machined Components (PMC)

The third round of lockdown restrictions in the UK inevitably impacted customer confidence in the already challenged outlook for the oil and gas market. This is reflected in the performance of PMC, resulting in revenue of £3.2 million (2020: £7.6 million) and a negative adjusted EBITDA of £0.6 million (2020: positive EBITDA £0.7 million).

In anticipation of this, the Group completed a further phase of restructuring across the PMC business at its Al-Met and Roota facilities in February 2021 to minimise losses and conserve cash. Cost-saving measures completed over the past year have reduced the divisional cost base by around 40%. Our ongoing priority throughout this period has been to stabilise and protect the consolidated PMC operations, while operational improvements have been accelerated to support efficiency gains and margin improvements to underpin competitiveness and service levels for our OEM customers.

Order intake levels remained low throughout the first half of the year as customers continued to postpone and cancel projects. However, there has been a steady increase in enquiry levels and opportunities since February. Order intake in March reached the highest level since July 2020 and intake levels continued to improve through April and May. Although it is still too early to be confident that the improvement is sustainable, given the continuing economic uncertainty and its impact on the oil and gas market, our PMC order book has steadily increased to its highest value in May since October 2020. OEM customers are reporting an improving outlook for the second half of 2021 and a steady recovery in 2022.

Investments made in machinery, systems and people for production planning, engineering, quality control and purchasing functions continue to underpin increased operational efficiency levels. Machinery and tooling investment completed in 2019 has also enabled PMC to quote and manufacture components that were previously too complex or too large and this has opened new opportunities that are an important part of the more diverse order book today.

Despite the difficult trading conditions, further strategic progress has been made on reducing customer concentration and establishing long-term supply agreements with key customers. In June, a global supply agreement was signed with Schlumberger Technology Corporation, covering a wide range of precision machined parts for their oilfield service applications. We have also made initial progress with diversifying our customer base and product scope in other sectors, including defence, nuclear power and renewable energy, collaborating on several joint projects with CSC.

Balance sheet, bank facility and going concern

In December 2020, as previously highlighted, the Group was pleased to complete successfully a £7.5 million (before expenses) fundraise from new and existing shareholders to support exciting growth opportunities for CSC in the hydrogen energy market and in the Integrity Management services business. The fundraise also provides additional balance sheet strength for the Group.

The Group has maintained tight control of costs throughout the period with proactive steps taken which have included management restructuring where appropriate. We are also pleased to have received support from our bank who during the period approved amendments to, and an extension of, the Group's revolving credit facility (RCF) which now runs to the end of November 2022 with updated financial covenants to reflect the fundraise.

At the end of March 2021, the Group had net cash of £0.2 million (2020: net debt of £10.8 million). Due to the early repayment of £3.4 million of the Promissory Note from Greenlane Renewables Inc. in February 2021 we were able to reduce our bank facility drawn debt down to £4.8 million, the lowest bank debt position for several years.

Whilst the Group's financial leverage remains low, the also relatively low level of current Group profitability, particularly in respect of PMC, is resulting in issues around the Group's compliance with the two financial covenants contained within the RCF relating to leverage and interest cover.

The Group has prepared forecasts for the remainder of the financial year and next year. These show that the Group's bank borrowings would remain well within the amount of the facility and the Group would operate within the leverage covenant, albeit with limited headroom at the next quarterly testing date of 30 June 2021. The headroom in the leverage covenant is forecast to improve significantly by 30 September 2021. As at 3 April 2021, the latest covenant testing date, the Group was in compliance with the leverage covenant. However, the interest cover covenant was very marginally breached and, as a result, the Group is technically in default under the credit facility. Further details are presented in Note 1 to these interim financial statements.

The Group is currently in dialogue with Lloyds Bank regarding the breach as at 3 April 2021 and ongoing facility requirements and covenants. As at 31 May 2021, the Group had bank borrowings of £4.8 million and cash and cash equivalents of £6.7 million such that, if required to do so, it could repay all the amounts outstanding to the bank from existing resources.

Whilst a material uncertainty exists in respect of the Group's banking facilities, which may cast significant doubt over the Group's ability to continue as a going concern, the Directors believe that the Group has sufficient financial headroom to continue its operations and is in a position to manage its financing and other business risks satisfactorily for at least the next 15 months from the signing date of this interim financial information. Therefore, these interim financial statements have been prepared on the going concern basis.

Board

On 11 May 2021, the Board was pleased to confirm the appointment of James Locking as Chief Financial Officer. Appointed Interim Group Finance Director in October 2020, James qualified with KPMG and brings over 20 years of experience in Finance Director and Financial Controller roles across a range of sectors.

Outlook

The Group's strategy remains focused on the continued development and growth of both divisions and the Board is pleased with the progress being made.

We are encouraged by recent order intake levels, new customer acquisitions and pipeline development in PMC, alongside new strategic supply agreements, but we remain cautious regarding the pace of recovery in the oil and gas market. Whilst our OEM customers are reporting an improving outlook for the second half of 2021 and a steady recovery in 2022, this is later than we had previously expected and therefore performance in the second half is expected to be only marginally improved over the first half.

Extended Covid-19 restrictions and project delays have affected the second-half outlook for Integrity Management deployments, while defence contract phasing, late steel deliveries and several delayed customer orders are also expected to push significant revenue and margin from the second half of FY21 into FY22. However, the CSC order book remains strong and the pipeline of hydrogen opportunities continues to develop, with order intake from this exciting market expected to grow significantly in FY22.

Despite the impact of operational delays in CSC and the slower than expected recovery in the oil and gas market for PMC, the Board remains confident in the prospects and opportunities for the business in the medium term.

Chris Walters
Chief Executive

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 26 weeks ended 3 April 2021

	Notes	**Unaudited 26 weeks ended 3 April 2021 £'000**	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Revenue		**14,494**	13,901	25,403
Cost of sales	3	**(9,823)**	(9,924)	(20,054)
Gross profit		**4,671**	3,977	5,349
Administration expenses		**(3,603)**	(4,038)	(7,728)
Operating profit/(loss) before amortisation, impairments and other exceptional items		**1,068**	(61)	(2,379)
Separately disclosed items of administrative expenses:				
Amortisation	4	**(113)**	(932)	(1,958)
Impairments	4	**–**	–	(13,878)
Other exceptional items	5	**(558)**	(956)	(2,751)
Operating profit/(loss)		**397**	(1,949)	(20,966)
Finance (costs)/income		**(157)**	(102)	977
Other financial items		**–**	578	–
Profit/(loss) before taxation		**240**	(1,473)	(19,989)
Taxation	6	**(46)**	372	1,113
Profit/(loss) for the period attributable to owners of the parent		**194**	(1,101)	(18,876)
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Currency exchange differences on translation of foreign operations		**88**	(10)	(13)
Total comprehensive income/(expense) for the period attributable to the owners of the parent		**282**	(1,111)	(18,889)
Earnings/(loss) per share – basic and diluted				
From profit/(loss) for the period	7	**0.8p**	(5.9)p	(101.5)p

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 3 April 2021

	Notes	**Unaudited 26 weeks ended 3 April 2021 £'000**	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Non-current assets				
Goodwill	8	**–**	9,510	–
Intangible assets	8	**212**	5,715	325
Property, plant and equipment and right of use assets	8	**14,579**	15,711	14,910
Deferred tax asset		**464**	278	464
Other financial assets	9	**–**	5,928	–
		15,255	37,142	15,699
Current assets				
Inventories		**6,907**	6,665	5,487
Trade and other receivables		**13,859**	12,284	11,543
Asset held for sale		**392**	–	580
Other financial assets	9	**–**	–	5,115
Cash and cash equivalents	10	**8,638**	2,598	3,416
Current tax asset		**–**	221	–
		29,796	21,768	24,100
Total assets		**45,051**	58,910	39,799
Current liabilities				
Trade and other payables		**(14,788)**	(12,325)	(14,370)
Lease liabilities	10	**(1,154)**	(1,026)	(1,209)
Current tax liabilities		**(48)**	–	–
		(15,990)	(13,351)	(15,579)
Non-current liabilities				
Other payables		**(388)**	(698)	(538)
Lease liabilities	10	**(2,477)**	(3,102)	(2,843)
Borrowings – revolving credit facility	10	**(4,773)**	(9,319)	(6,773)
Deferred tax liabilities		**(750)**	(1,411)	(752)
		(8,388)	(14,530)	(10,906)
Total liabilities		**(24,378)**	(27,881)	(26,485)
Net assets		**20,673**	31,029	13,314
Equity				
Share capital	11	**1,553**	930	930
Share premium account	11	**32,573**	26,172	26,172
Translation reserve		**(205)**	(290)	(293)
Retained earnings		**(13,248)**	4,217	(13,495)
Total equity		**20,673**	31,029	13,314

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 26 weeks ended 3 April 2021

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 3 October 2020 (audited)	930	26,172	(293)	(13,495)	13,314
Share based payments	–	–	–	53	53
Shares issued	623	6,401	–	–	7,024
Transactions with owners	623	6,401	–	53	7,077
Profit for the period	–	–	–	194	194
Exchange differences arising on retranslation of foreign operations	–	–	88	–	88
Total comprehensive income	–	–	88	194	282
Balance at 3 April 2021 (unaudited)	1,553	32,573	(205)	(13,248)	20,673

For the 26 weeks ended 28 March 2020

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 28 September 2019 (audited)	930	26,172	(280)	5,264	32,086
Share based payments	–	–	–	54	54
Transactions with owners	–	–	–	54	54
Loss for the period	–	–	–	(1,101)	(1,101)
Exchange differences arising on retranslation of foreign operations	–	–	(10)	–	(10)
Total comprehensive expense	–	–	(10)	(1,101)	(1,111)
Balance at 28 March 2020 (unaudited)	930	26,172	(290)	4,217	31,029

For the 53 weeks ended 3 October 2020

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 28 September 2019 (audited)	930	26,172	(280)	5,264	32,086
Share based payments	–	–	–	117	117
Transactions with owners	–	–	–	117	117
Loss for the period	–	–	–	(18,876)	(18,876)
Exchange differences arising on translating foreign operations	–	–	(13)	–	(13)
Total comprehensive expense	–	–	(13)	(18,876)	(18,889)
Balance at 3 October 2020 (audited)	930	26,172	(293)	(13,495)	13,314

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the 26 weeks ended 3 April 2021

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Cash flows from operating activities			
Profit/(loss) after tax	**194**	(1,101)	(18,876)
Adjustments for:			
Depreciation of property, plant and equipment	**819**	855	1,726
Finance costs – net	**157**	102	189
Amortisation of intangible assets	**113**	932	1,958
Exchange differences	**88**	(10)	–
Profit on disposal of property, plant and equipment	**–**	–	(61)
Profit on sale of associate	**–**	–	(1,895)
Profit on disposal of shareholding in Greenlane Renewables Inc.	**–**	–	1,026
Modification of Promissory Note receivable	**–**	–	13,878
Impairment of goodwill and intangible assets	**–**		
Gain on revaluation of equity investment	**–**	(578)	–
Share option costs	**53**	54	117
Income tax charge/(credit)	**46**	(372)	(1,113)
Changes in working capital:			
Increase in inventories	**(1,420)**	(1,550)	(372)
Increase in trade and other receivables	**(2,316)**	(2,457)	(2,002)
Increase in trade and other payables	**268**	4,532	7,429
Increase in other long-term payables	**–**	700	–
Cash (outflow)/inflow from operating activities	**(1,998)**	1,107	1,707
Finance costs paid net of interest income received	**(157)**	(115)	(188)
Income tax refunded	**–**	96	213
Net cash (outflow)/inflow from operating activities	**(2,155)**	1,088	1,732
Cash flows from investing activities			
Purchase of property, plant and equipment	**(637)**	(1,246)	(2,103)
Proceeds from sale of financial assets held at FVTPL	**–**	–	3,145
Proceeds from sale of associate	**–**	–	297
Proceeds from disposal of fixed assets and asset held for sale	**213**	5	268
Proceeds from repayment of Promissory Note	**3,074**	2,000	2,000
Net cash inflow from investing activities	**2,650**	759	3,607
Financing activities			
Proceeds from new borrowings	**–**	–	223
Repayment of lease liabilities	**(538)**	(490)	(1,301)
Proceeds from asset financing	**241**	514	1,197
Repayment of borrowings	**(2,000)**	(1,481)	(4,250)
Shares issued	**7,024**	–	–
Net cash inflow/(outflow) from financing activities	**4,727**	(1,457)	(4,131)
Net increase in cash and cash equivalents	**5,222**	390	1,208
Cash and cash equivalents at beginning of period	**3,416**	2,208	2,208
Cash and cash equivalents at end of period	**8,638**	2,598	3,416

1. Basis of preparation and going concern

The Group's interim results for the 26 weeks ended 3 April 2021 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of the international accounting standards in conformity with the requirements of the Companies Act 2006 and effective from 4 October 2020. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 "Interim financial reporting" and therefore the interim information is not in full compliance with international accounting standards. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2020 annual report and financial statements. The principal risks and uncertainties of the Group are also set out in the Group's 2020 annual report and financial statements and, with the exception of risks relating to the Covid-19 pandemic and Brexit, are unchanged in the period.

The Group's 2020 financial statements for the 53 weeks ended 3 October 2020 were prepared under IFRS. The auditor's report on these financial statements was unmodified and did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 and they have been filed with the Registrar of Companies.

The Directors have assessed the risks presented by Covid-19 and reforecast the original FY21 budget and the FY22 projection ("the forecasts") to reflect the current and likely future impact of Covid-19 on the Group's operations and financial results. Whilst restrictions relating to Covid-19 are starting to ease in the UK, Europe and US, the situation in some of the other overseas markets where the Group generates its revenue is less clear. These baseline forecasts reflect:

- Limited impact of Covid-19 on the CSC division, other than a short-term reduction in the level of Integrity Management business due to continued UK and global travel restrictions and potential supply chain disruption
- Reductions in the level of activity across the PMC division as a result of Covid-19, reflecting the impact of a reduction in revenue due to the depressed oil and gas market for a further short-term period.

The implementation of Brexit has neither had a material impact on the Group's operations to date nor is forecast to over the forecast period.

Over the forecast period, the Group generates underlying operating profit and is cash-generative.

On 18 December 2020, the Group undertook a fundraising through the issue of new shares which raised cash proceeds of £7.0 million, net of expenses.

On 12 February 2021, the remaining Promissory Note and associated rolled up interest due from Greenlane Renewables Inc. ("Greenlane") was repaid. The Group received cash of £3.4 million and this settled all remaining liabilities with Greenlane. The Group has now received a total cash consideration of £10.1 million in respect of the sale of its former Alternative Energy division in June 2019.

On 23 March 2021, and in response to the successful fundraising that took place in December 2020, the Group agreed amendments to the two-year revolving credit facility to November 2022 with Lloyds Bank plc (Lloyds Bank) reducing the facility amount to £7 million up to 30 September 2021 and £6 million up to 30 November 2022. The Group also agreed with Lloyds Bank to tighten the leverage covenant, which is tested quarterly, to a maximum permitted net debt to trailing 12 months adjusted EBITDA ratio of 3.0 times as at 31 March and 30 June 2021 (from a maximum of 5.5 times and 3.5 times respectively). The covenant would continue then at the previously agreed level of a maximum ratio of 3.0 times thereafter. The credit facility also includes a second financial covenant, also tested quarterly and calculated on a trailing 12-month basis, by which the ratio of adjusted EBITDA to net interest must exceed 4.0 times.

1. Basis of preparation and statement of compliance with IFRS continued

Based on the baseline reforecasts prepared on the assumptions described above for the period at least 15 months from this interim financial information, the Group's bank borrowings would remain well within the amount of the facility and the Group would operate within the leverage covenant, albeit with limited headroom as at 30 June 2021. The headroom in the leverage covenant is forecast to improve significantly by 30 September 2021, principally as a result of the very depressed trading in the fourth quarter of FY20 no longer being taken into account in the calculation of the covenant. As at 3 April 2021, the latest covenant testing date, the Group was in compliance with the leverage covenant. However, the interest cover ratio covenant as at 3 April 2021 was very marginally breached and, as a result, the Group is technically in default under the credit facility. Lloyds Bank has notified the Group that the breach of the covenant is an event of default under the terms of the credit facility which could require immediate repayment of all amounts currently outstanding under the facility. Whilst Lloyds Bank has not yet requested immediate repayment it has reserved its rights to do so in the future. It should be noted that as at 31 May 2021, the Group had bank borrowings of £4.8 million and cash and cash equivalents of £6.7 million such that, if required to do so, it could repay all the amounts outstanding to the bank from existing resources. Based on the baseline forecasts noted above, the interest cover ratio covenant is also expected to be breached at the next testing date of 30 June 2021. The Group is currently in dialogue with Lloyds Bank in respect of the interest cover ratio, both with regard to the breach as at 3 April 2021 and the anticipated breach as at 30 June 2021.

Given the above, there exists a material uncertainty as to both the future provision of banking facilities to the Group by Lloyds Bank and the terms, including revised financial covenants, of any such facilities going forward and this may cast significant doubt over the Group's ability to continue as a going concern. However, including consideration as to the status of the dialogue with Lloyds Bank, ongoing uncertainty relating to the future impact of the continued Covid-19 pandemic, and the Group's existing cash resources, the Group believes it has sufficient financial headroom to be able to continue its operations for the foreseeable future. The Directors believe that the Group is in a position to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 15 months from the signing date of this interim financial information. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of certain financial instruments.

The financial information for the 26 weeks ended 3 April 2021 and 28 March 2020 has not been audited and does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006. The unaudited interim financial statements were approved for issue by the Board of Directors on 14 June 2021.

2. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 3 October 2020, except for the adoption of amendments to existing standards as of 4 October 2020, as noted below.

New standards adopted as at 4 October 2020

The following amendments to existing standards and interpretations were effective in the period to 3 April 2021, but were either not applicable or did not have a material impact on the Group:

- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective date 1 January 2020)
- IFRS 3 Amendments to the definition of a business (effective date 1 January 2020)
- IAS 1 Amendments to the definition of material to align with the Revised Conceptual Framework (effective date 1 January 2020)
- IFRS 9, IAS 39 and IFRS 7 Amendments in Interest Rate Benchmark Reform when accounting for hedging (effective date 1 January 2020)

3. Segmental analysis and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)

Revenue by destination

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
United Kingdom	**11,024**	9,230	16,053
Europe	**1,582**	3,492	5,573
Rest of the World	**1,888**	1,179	3,777
	14,494	13,901	25,403

Revenue by sector

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Oil and gas	**3,163**	8,137	14,901
Defence	**6,319**	2,021	5,142
Industrial gases	**4,604**	3,743	5,219
Hydrogen energy	**408**	–	141
	14,494	13,901	25,403

3. Segmental analysis and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) continued

Revenue by activity

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Cylinders	**11,288**	6,272	11,218
Precision Machined Components	**3,656**	7,872	14,185
Intra divisional	**(450)**	(243)	–
	14,494	13,901	25,403

The Group's revenue disaggregated by pattern of revenue recognition and category is as follows:

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Sale of goods transferred at a point in time	**3,770**	8,582	16,201
Sale of goods transferred over time	**9,657**	3,863	4,958
Rendering of services	**1,067**	1,456	4,244
	14,494	13,901	25,403

The following aggregated amounts of transaction values relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied as at 3 April 2021:

	Deliverable within next 12 months £'000
Contracted revenue yet to be invoiced – Cylinders	3,169

3. Segmental analysis and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) continued

Profit/(loss) before taxation by activity

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Cylinders	**2,979**	441	(58)
Precision Machined Components	**(987)**	330	(656)
Manufacturing subtotal	**1,992**	771	(714)
Unallocated central costs	**(924)**	(832)	(1,665)
Operating profit/(loss) before amortisation, impairment and other exceptional items	**1,068**	(61)	(2,379)
Amortisation and impairment (Note 4)	**(113)**	(932)	(15,836)
Other exceptional items (Note 5)	**(558)**	(956)	(2,751)
Operating profit/(loss)	**397**	(1,949)	(20,966)
Finance (costs)/income	**(157)**	(102)	977
Other financial items	**–**	578	–
Profit/(loss) before tax	**240**	(1,473)	(19,989)

The Operating profit/(loss) by activity is stated before the allocation of Group management charges which are included within 'Unallocated central costs'.

Earnings before Interest, Taxation, Depreciation, and Amortisation (EBITDA)

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Adjusted EBITDA	**1,887**	794	(653)
Other exceptional items (Note 5)	**(558)**	(956)	(2,751)
EBITDA	**1,329**	(162)	(3,404)
Depreciation	**(819)**	(855)	(1,726)
Amortisation and impairments (Note 4)	**(113)**	(932)	(15,836)
Finance (costs)/income	**(157)**	(102)	977
Other financial items	**–**	578	–
Profit/(loss) before tax	**240**	(1,473)	(19,989)

4. Amortisation and impairments

Amortisation of intangible assets and other asset impairments are both shown separately in the Condensed Consolidated Statement of Comprehensive Income. A breakdown of those non-cash costs can be seen below.

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Amortisation of intangible assets	**(113)**	(932)	(1,958)
Goodwill and intangible asset impairment	**–**	–	(13,878)
	(113)	(932)	(15,836)

Amortisation on acquired businesses as set out above consists of the amortisation charged on intangible assets acquired as a result of business combinations in previous periods. The impairment of goodwill and intangible assets in the 53 weeks ended 3 October 2020 relates to the Precision Machined Components division.

5. Other exceptional items

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are disclosed separately on the face of the Condensed Consolidated Statement of Comprehensive Income.

An analysis of the amounts presented as exceptional items in these financial statements is given below:

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Reorganisation and redundancy	**(364)**	(256)	(424)
Costs in relation to HSE fine	**–**	(700)	(700)
Impairment of inventory and work in progress	**–**	–	(504)
Closure of Precision Machined Components facility (Quadscot)	**–**	–	(690)
Release of doubtful debt provision	**–**	–	–
Other costs	**(383)**	–	(433)
	(558)	(956)	(2,751)

The reorganisation costs relate to various costs of restructuring across the Group. They are recognised in accordance with IAS 19. The release of the doubtful debt provision relates to the Greenlane Renewables Inc. trade debt which was fully repaid, along with the Promissory Note, in February 2021. Other costs primarily consist of bank refinancing and related legal costs.

Given that these costs do not relate to underlying trading, the Directors consider it appropriate to disclose these as exceptional items.

6. Taxation

	Unaudited 26 weeks ended 3 April 2021 £'000	Unaudited 26 weeks ended 28 March 2020 £'000	Audited 53 weeks ended 3 October 2020 £'000
Current tax (charge)/credit	**(49)**	221	118
Deferred taxation credit	**3**	151	995
Taxation (charge)/credit to the income statement	**(46)**	372	1,113

7. Earnings/(loss) per ordinary share

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is based on basic earnings per share, adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

Adjusted earnings per share shows earnings per share, adjusting for the impact of the amortisation charged on intangible assets acquired as a result of business combinations, impairments of goodwill and intangible assets, and any other exceptional items, and for the estimated tax impact, if any, of those costs. Adjusted earnings per share is based on the profits as adjusted divided by the weighted average number of shares in issue.

For the 26 week period ended 3 April 2021

	Total £'000
Profit after tax	**194**
	No.
Weighted average number of shares – basic	**25,859,076**
Dilutive effect of share options	**–**
Weighted average number of shares – diluted	**25,859,076**
Earnings per share – basic and diluted	**0.8p**
The Group adjusted earnings per share is calculated as follows:	
Profit after tax	**194**
Amortisation and impairments (Note 4)	**113**
Other exceptional items (Note 5)	**558**
Theoretical tax effect of above adjustments	**(125)**
Adjusted earnings	**740**
Adjusted earnings per share – basic	**2.9p**
Adjusted earnings per share – diluted	**2.9p**

7. Earnings/(loss) per ordinary share continued

For the 26 week period ended 28 March 2020

	Total £'000
Loss after tax	(1,101)

	No.
Weighted average number of shares – basic	18,595,165
Dilutive effect of share options	44,974
Weighted average number of shares – diluted	18,640,139
Loss per share – basic and diluted	(5.9)p

The Group adjusted earnings/(loss) per share is calculated as follows:

Loss after tax	(1,101)
Amortisation and impairments (Note 4)	932
Other exceptional items (Note 5)	956
Gain on revaluation of equity investment	(578)
Theoretical tax effect of above adjustments	(207)
Adjusted earnings	2
Adjusted earnings per share – basic and diluted	nil

For the 53 week period ended 3 October 2020

	Total £'000
Loss after tax	(18,876)

	No.
Weighted average number of shares – basic	18,595,165
Dilutive effect of share options	–
Weighted average number of shares – diluted	18,595,165
Loss per share – basic and diluted	(101.5)p

The Group adjusted earnings/(loss) per share is calculated as follows:

For the 53 week period ended 3 October 2020

	Total £'000
Loss after tax	(18,876)
Amortisation and impairments (Note 4)	15,836
Other exceptional items (Note 5)	2,751
Theoretical tax effect of above adjustments	(895)
Adjusted loss	(1,184)
Adjusted loss per share – basic	(6.4)p

8. Asset Impairment Review

The Group tests annually for impairment, or more frequently if there are indicators that goodwill, other intangible and tangible fixed assets might be impaired. The continued pandemic is a global issue affecting every single business sector and every country to some degree. It has already had a significant impact on the global economy, and whilst its impacts are reducing in the principal countries in which the Group operates, some level of uncertainty remains going forward. Consequently, the impact of the pandemic is considered to remain an indicator that the carrying value of our intangible and tangible assets in one of the Group's cash generating units (CGU) – the Precision Machined Components (PMC) division – may be impaired.

In light of the continued pandemic, the Group has considered a range of economic conditions for the sectors in which the Group operates that may exist over the next three years. These economic conditions, together with reasonable and supportable assumptions, have been used to estimate the future cash inflows and outflows for the PMC CGU over the next three years.

These forecasts have been approved by management and the Board of Directors and are based on a bottom-up assessment of costs and use the current and estimated future sales pipeline. The forecasts used for years two to three assume revenue growth, along with a 2% long-term rate of growth or inflation incorporated into the perpetuity calculation at the end of year three. A value in use calculation has been calculated by applying a discount rate of 13.0% (Sep 2020: 13.0%) to the cash flows in these forecasts.

Management's key assumptions are based on their past experience and future expectations of the market over the longer term. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, changes in customer sector mix, and expected changes to selling prices and direct costs. A baseline reforecast was produced reflecting management's best estimate of the likely impact of the pandemic on the Group's businesses.

Carrying amount of assets allocated to the PMC CGU

	Unaudited 3 April 2021 £'000
Carrying value of tangible fixed assets	**4,658**
Carrying value of other intangibles	**189**
	4,847

In the 53 weeks ended 3 October 2020, the Group recorded an impairment charge of £13,878,000 representing both the entire value of goodwill and the substantial majority of the intangible assets of the PMC division.

The value in use calculation for the PMC CGU based on the baseline reforecast resulted in minimal headroom of £0.1 million over the total carrying value of £4.8 million, such that no additional impairment, or write back of previous impairments, is required for the PMC division in these interim results. The recoverable amount is most sensitive to the assumptions regarding expected future cash inflows and the discount rate. Given the limited headroom, a relatively small change in the assumptions used in the baseline forecasts for the division's profitability and/or the discount rate applied to the cash flows could cause the carrying value to exceed the recoverable amount, thus indicating that an impairment may be required. This will be next reviewed at the annual impairment test in September 2021.

9. Other financial assets

	Unaudited 3 April 2021 £'000	Unaudited 28 March 2020 £'000	Audited 3 October 2020 £'000
Amounts due within 12 months			
Promissory Note	–	–	3,074
Total due within 12 months	–	–	3,074
Amounts due after 12 months			
Promissory Note	–	4,100	–
Listed security	–	1,828	–
Total due after 12 months	–	5,928	–

The Promissory Note held at the start of the prior year was valued at amortised cost. The original term of the note was four years with a repayment date of no later than 3 June 2023 at Greenlane Renewables Inc. discretion. In February 2020, a prepayment of £2.1 million was received. Interest was charged at 7% on the outstanding Promissory Note rolled up into the principal unless a trigger event occurred under the terms of the Note which caused interest payments to be satisfied in cash. On initial recognition the value was assessed to be the face value. The note was denominated 50% in GBP and 50% in Canadian dollars. The asset was held solely to collect associated cash flows which related to principal and interest only.

In June and July 2020, the Group sold its 21% shareholding in Greenlane Renewables Inc. Linked to the disposal of this shareholding during the year, the terms of the related attached Promissory Note were amended to reduce the value of the Note and to accelerate the repayment date for the outstanding amount to 30 June 2021 (or an earlier date at Greenlane Renewables Inc. discretion). As a result, a modification of £1,026,298 was reflected as an exceptional charge within Finance income/(costs) in the prior year.

The amended Promissory Note was classified as being held at fair value through profit and loss as its value at the point of the modification was linked to the value at which the Greenlane Renewables Inc. shareholding was sold, thereby failing the solely payments of principal and interest test. The fair value was assessed at the prior year end and is reflected in the value shown in the table above.

On 12 February 2021, Greenlane Renewables Inc. repaid the remaining principal and accrued interest in full, which means the Group has no outstanding debts with Greenlane due and has received a total of £10.1 million consideration following the sale of its former Alternative Energy division in June 2019.

10. Reconciliation of net cash/(borrowings)

	Unaudited 3 April 2021 £'000	Unaudited 28 March 2020 £'000	Audited 3 October 2020 £'000
Cash and cash equivalents	**8,638**	2,598	3,416
Bank borrowings	**(4,773)**	(9,319)	(6,773)
Net cash/(borrowings) excluding lease liabilities	**3,865**	(6,721)	(3,357)
Asset finance lease liabilities	**(2,787)**	(2,916)	(2,958)
Right of use asset lease liabilities	**(844)**	(1,212)	(1,094)
Net cash/(borrowings)	**234**	(10,849)	(7,409)

During the period the bank agreed to a change in the leverage covenant ratios (net debt to EBITDA) included as part of the revolving credit facility, following the fundraise that took place on 18 December 2020. The quarterly covenant ratios for the periods to June 2021 were reduced from 5.5x to 3.0x in line with the improved balance sheet position of the Group. The termination date for the facility was not adjusted and remains as 30 November 2022. Accordingly, the Directors have concluded that it is appropriate to present the loan as due for repayment after one year.

11. Called up share capital and share premium

On 18 December 2020, 12,471,998 new 5p ordinary shares were issued at 60 pence as part of a fundraising which raised total gross proceeds of £7,483,199. Expenses totalled £458,854, resulting in net proceeds received in cash of £7,024,345.

	Share Capital No.	Share Capital £'000
Share Capital – allotted, issued and fully paid ordinary 5p shares		
At 3 October 2020 and 28 March 2020	18,595,165	930
Movement due to fundraising	12,471,998	623
At 3 April 2021	**31,067,163**	**1,553**

	Share Premium £'000
Share Premium reserve	
At 3 October 2020 and 28 March 2020	26,172
Movement due to fundraising	6,401
At 3 April 2021	**32,573**

12. Dividends

No final or interim dividend was paid for either of the 53 week period ended 3 October 2020 or the 52 week period ended 28 September 2019. No interim dividend for the 26 week period ended 3 April 2021 is proposed.

13. Related party transactions

During the period ended 3 April 2021, Pressure Technologies incurred costs of £12,500 (2020: £6,250) with RAG Associates Limited with whom one of the Non-Executive Directors, Sir Roy Gardner, is a connected person. £7,500 was outstanding to be paid as at 3 April 2021 (2020: £7,500). The transactions were made on an arm's length basis.

A copy of the Interim Report will be sent to shareholders shortly and will be available on the Company's website: www.pressuretechnologies.com.

Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the 26 weeks to 3 April 2021 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half yearly financial report which comprises only the Business review and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation, international accounting standards in conformity with the requirements of the Companies Act 2006, as detailed in Note 1.

Our responsibility

Our responsibility is to express to the company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of macro-economic uncertainties on our review

Our review of the condensed set of financial statements in the half-yearly financial report requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All reviews assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the 26 weeks ended 3 April 2021 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

Material uncertainty related to going concern

We draw attention to Note 1 in the half-yearly financial report, which indicates that as at 3 April 2021, the latest covenant testing date, the Group was in breach of one of their financial covenants and, as a result, the Group is technically in default under its credit facility. As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Use of our report

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to it in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusion we have formed.

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield

14 June 2021

For further information, please contact:

Pressure Technologies plc

Chris Walters, Chief Executive	Tel: 0330 015 0710
James Locking, Chief Financial Officer	PressureTechnologies@houston.co.uk

N+1 Singer (Nomad and Broker)

Mark Taylor / Asha Chotai	Tel: 0207 496 3000

Houston (Financial PR and Investor Relations)

Kate Hoare / Kay Larsen / Ben Robinson	Tel: 0203 701 7660

Company description

Pressure Technologies plc – www.pressuretechnologies.com

With its head office in Sheffield, the Pressure Technologies Group was founded on its leading market position as a designer and manufacturer of high-integrity, safety-critical components and systems serving global supply chains in oil and gas, defence, industrial gases and hydrogen energy markets.

The Group has two divisions, Chesterfield Special Cylinders and Precision Machined Components.

Chesterfield Special Cylinders (CSC) – www.chesterfieldcylinders.com

- Chesterfield Special Cylinders, Sheffield, includes CSC Deutschland GmbH.

Precision Machined Components (PMC) – www.pt-pmc.com

- Precision Machined Components includes the Al-Met, Roota Engineering, Quadscot Precision Engineers and Martract brands.

Design & Production
www.carrkamasa.co.uk

Pressure Technologies plc
Pressure Technologies Building
Meadowhall Road
Sheffield
South Yorkshire
S9 1BT
UK

+44 (0) 333 015 0710
www.pressuretechnologies.com