Pressure Technologies

Full Year Results 2021

Chris Walters, Chief Executive | James Locking, Chief Financial Officer

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Pressure Technologies

Group Highlights

Good progress continued, results in line with market expectations, resilience through prolonged challenge of oil and gas market conditions and disruptive backdrop of Covid-19

RESULTS

- Overall Group revenue of £25.3 million (2020: £25.4 million) and adjusted operating loss* of £0.7 million (2020: £2.4 million adjusted operating loss)
- Strong performance from Chesterfield Special Cylinders (CSC) offset weak results in Precision Machined Components (PMC)
- CSC: Defence order book underpinned 69% revenue increase to £18.9 million (2020: £11.2 million), increase in adjusted EBITDA** to £3.5 million (2020: £0.6 million)
- PMC: Oil and gas trading conditions drove 55% revenue reduction to £6.4 million (2020: £14.2 million), negative adjusted EBITDA** of £0.8 million (2020: positive EBITDA £0.2 million)

** Adjusted operating loss is operating loss before amortisation, impairments and other exceptional costs*

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

OVERALL PROGRESS

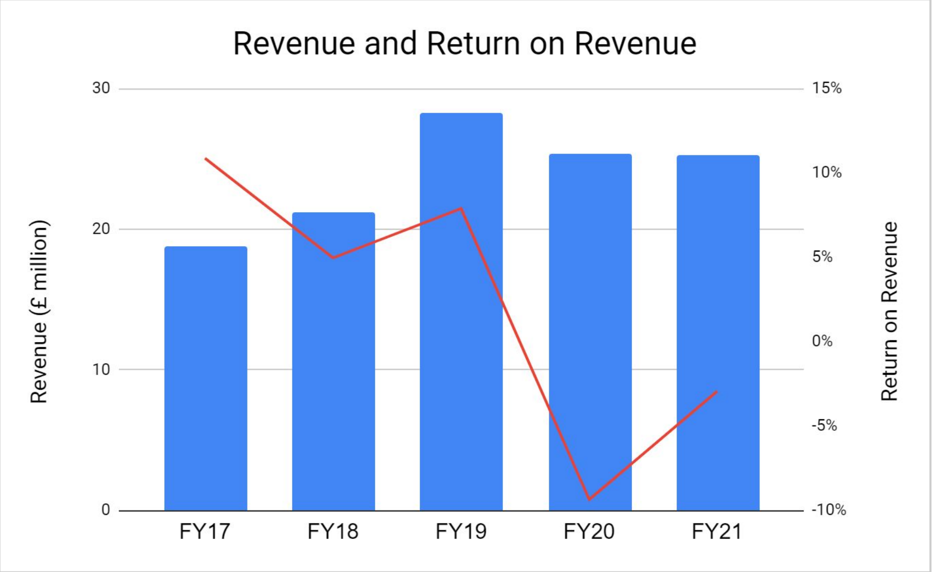
- Momentum in hydrogen energy market, revenue growth to £2.2 million (2020: £0.2 million)
- Efficient and highly competitive designs for hydrogen storage proving increasingly successful
- Collaboration strengthened with specialist steel tube suppliers, Tenaris and Vallourec
- Investment progressing to plan in CSC to meet expected growth in hydrogen energy demand
- Efficiencies and increased competitiveness across a more diverse customer base in PMC
- Revolving credit facility with Lloyds Bank plc amended and extended in October 2021

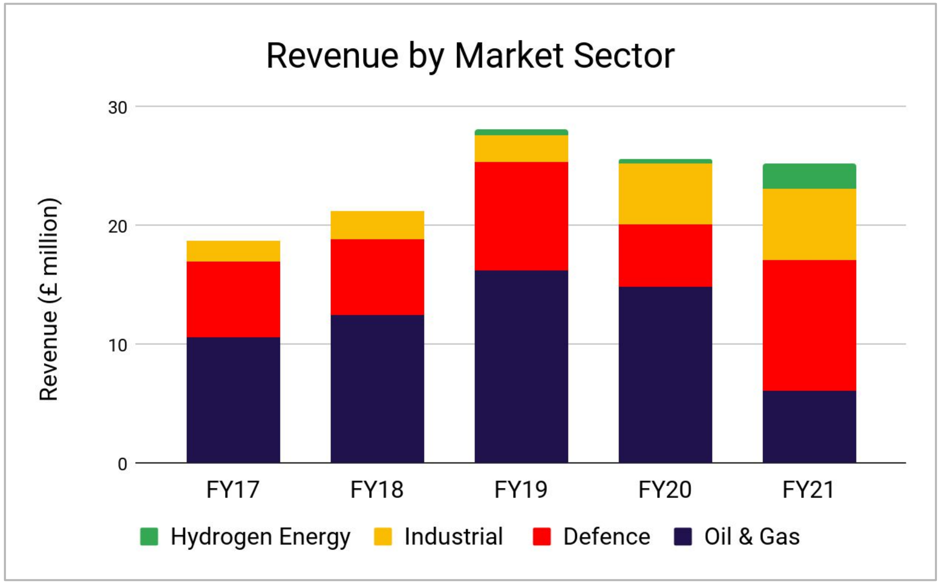
Pressure Technologies

Group Financial Results

Revenue **£25.3m** (2020: £25.4m)	Gross profit **£6.7m** (2020: £5.3m)
Adjusted operating loss* **£0.7m** (2020: £2.4m adjusted operating loss)	Loss before taxation **£4.2m** (2020: £20.0m loss before taxation)
Operating cash outflow** **-£6.6m** (2020: £1.7m inflow)	Closing Net Debt*** **£4.9m** (2020: £7.4m net debt)

** Adjusted operating loss is operating loss before amortisation, impairments and other exceptional costs*
*** Adjusted operating cash outflow is operating cash flow before cash flow for exceptional items*
**** Net debt includes gross borrowings, asset finance leases, right of use asset leases, less cash and cash equivalents*





Summary Profit & Loss

	FY21	FY20
Revenue (£m)	**25.3**	25.4
Chesterfield Special Cylinders Division	**18.9**	11.2
Precision Machined Components Division	**6.4**	14.2
Gross profit (£m)	**6.7**	5.3
Adjusted operating loss (£m)	**(0.7)**	(2.4)
Chesterfield Special Cylinders Division	**2.8**	(0.1)
Precision Machined Components Division	**(1.6)**	(0.6)
Group and Central costs	**(1.9)**	(1.7)
Exceptional items (£m)	**(3.1)**	(18.6)
Operating loss (£m)	**(3.8)**	(21.0)
Loss before taxation (£m)	**(4.2)**	(20.0)
EPS basic (pence)	**(12.0)**	(101.5)
EPS adjusted (pence)	**(2.2)**	(6.4)
Dividend (pence)	**nil**	nil

Strong performance in CSC from defence, industrial, nuclear and hydrogen contracts offset weakness in PMC results

CSC defence contract revenues more than doubled to £11.1m (2020: £5.1m), driven by UK and overseas naval submarine and surface ship programmes

PMC revenue and margin impacted by difficult oil and gas market conditions. Steadily improving order intake levels going into 2022 are encouraging

Exceptional items relate to:

- £1.1m - ERP impairment
- £0.7m - property impairment
- £0.4m - restructuring
- £0.3m - inventory write off
- £0.6m - other costs

Summary Balance Sheet

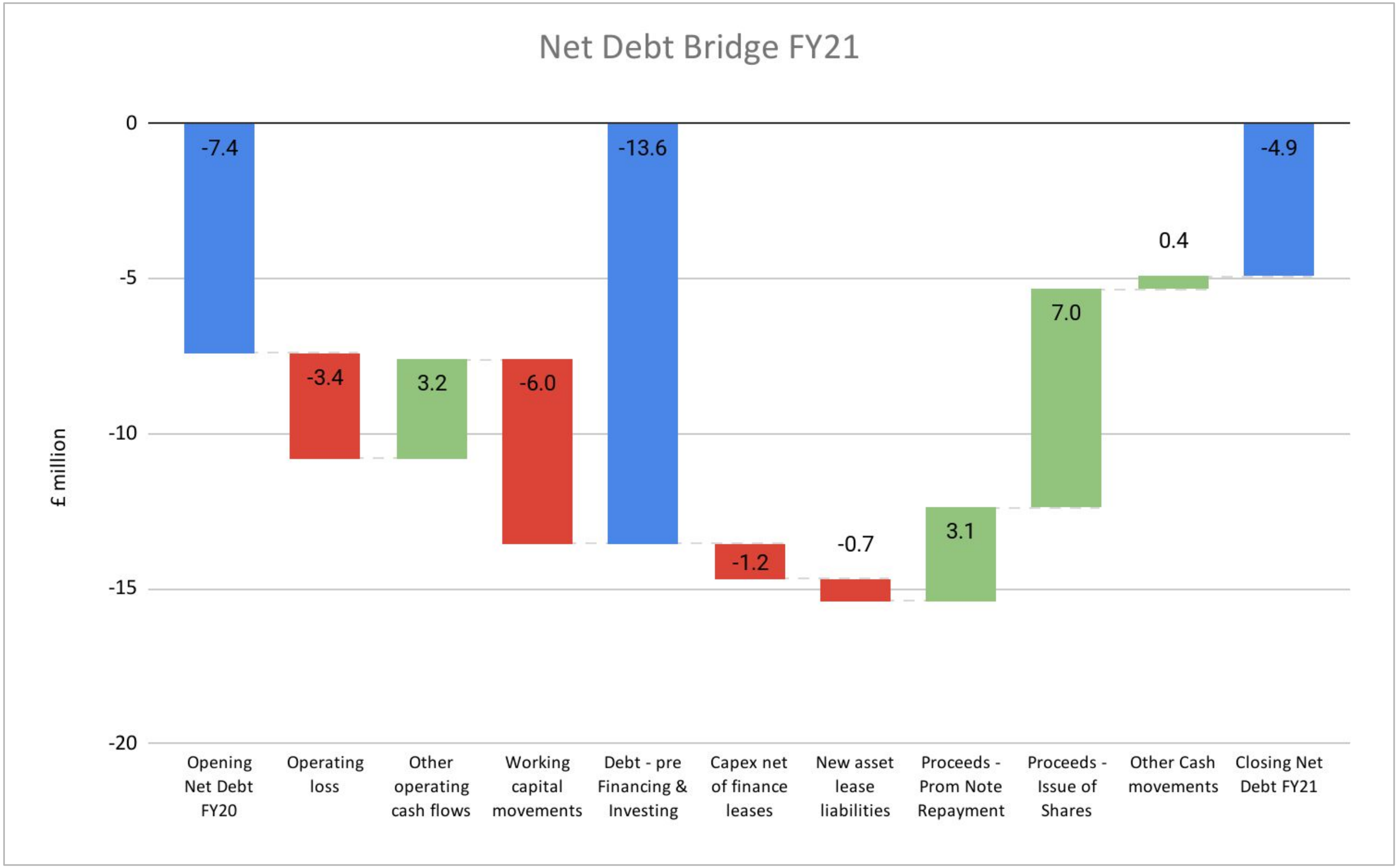
	FY21 £m	FY20 £m
Intangible Assets	**0.1**	0.3
Tangible fixed assets	**12.1**	13.8
Right of Use assets	**1.0**	1.1
Tangible Assets	**13.1**	14.9
Long-term financial assets/asset held for sale	**0.2**	3.7
Net Working Capital	**8.3**	2.6
Long-term Liabilities	**(0.2)**	(0.5)
Tax Asset/(Liabilities)	**0.5**	(0.3)
RCF facility drawn borrowing	**(4.8)**	(6.8)
Cash and cash equivalents	**3.2**	3.4
Asset finance and right of use asset lease debt	**(3.3)**	(4.0)
Total Net Debt	**(4.9)**	(7.4)
Net Assets	**17.1**	13.3

Strategic investment in facilities and equipment at CSC and maintenance expenditure at PMC took place in the period, with additions of c. £1.5m

Negative working capital movement in the year related to:
- creditor payments, predominantly HMRC for FY20 deferred tax payments
- purchase of hydrogen-related strategic material stock
- contract schedules increasing contract assets to be recovered in 2022

Receipt of Greenlane Renewables Inc. Promissory Note in Feb 2021 of £3.4m led to early bank debt repayment of £2.0m, reducing drawn debt to £4.8m at year end

Net Debt - leverage significantly reduced



Banking facility amendment and extension

AMENDED IN OCTOBER 2021

- Facility:
  - £4.0 million
  - Extended from November 2022 to June 2023
- Financial covenants to June 2022:
  - Liquidity test: Positive cash
  - Capital Expenditure Limit: £1.5 million in nine-month period to June 2022
  - Covenants do not constrain capacity to meet current growth outlook to 2023
- Financial covenants from September 2022:
  - Leverage test: Net Debt to Adjusted EBITDA < 3.0 times
  - Interest cover test: Adjusted EBITDA to Net Interest > 4.0 times
  - Covenants tested quarterly using rolling 12 months trailing EBITDA & Net Interest

Chesterfield Special Cylinders - Financial Results

Revenue up 69%

£18.9m

(2020: £11.2m)

Gross profit doubled

£6.1m

(2020: £2.9m)

Adjusted operating profit*

£2.8m

(2020: £0.1m adjusted operating loss)

Gross profit margin increased by 6ppt

32%

(2020: 26%)

Return on revenue

15%

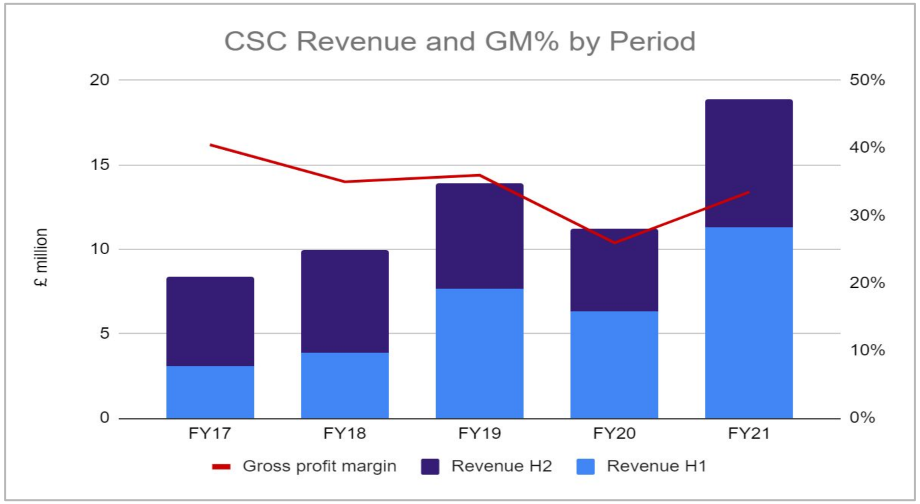
(2020: 0%)

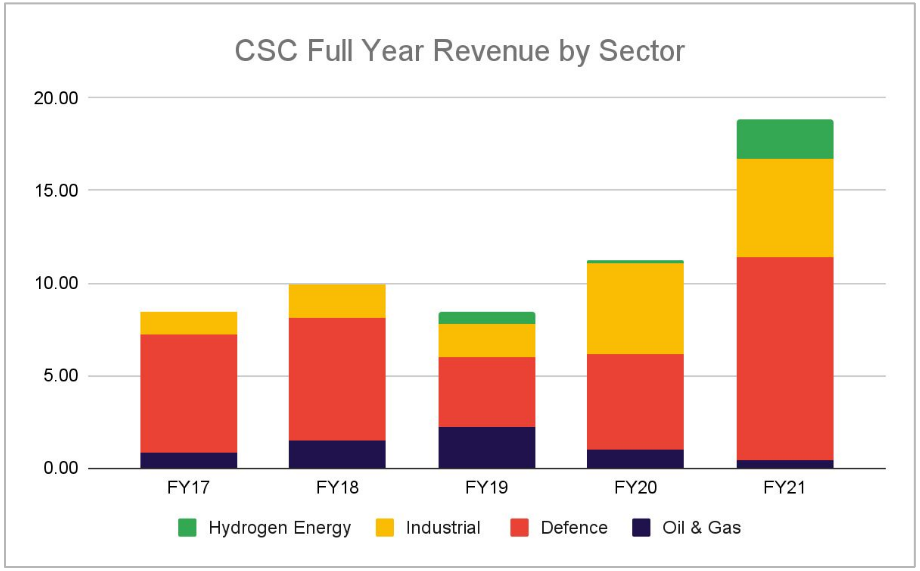
Headcount at September 2021

105

(at September 2020: 91)

**Adjusted operating profit/(loss) is operating profit before amortisation, impairments and other exceptional costs*





Chesterfield Special Cylinders

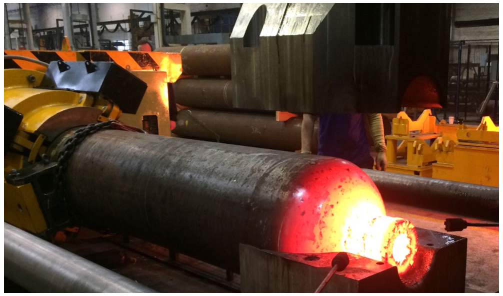
Strong performance from defence, industrial, nuclear and hydrogen contracts

FY21 PERFORMANCE & STRATEGIC PROGRESS

- Defence contract revenues more than doubled to £11.1 million (2020: £5.1 million), driven by UK and overseas naval submarine and surface ship programmes
- Revenue of £2.2 million from hydrogen refuelling station (HRS) contracts for Haskel Hydrogen Group, McPhy, Framatome, Arcola Energy and Plug Power
- First two orders placed by Shell Hydrogen under the five-year framework agreement signed in June 2020 to supply European refuelling station storage
- Process and system improvements and investment in operational capability have progressed under a strengthened management team and will continue throughout 2022

OUTLOOK

- Strong defence order book, opportunity pipeline going into FY22, with high-value projects and Integrity Management deployments weighted to the second half of the year
- Hydrogen energy remains a strategically important market for the Group and the pipeline of opportunities for static and mobile storage systems continues to grow
- The visibility of future hydrogen energy demand is improving, with refuelling station projects expected to ramp up sharply from 2023 onwards



Strong defence order book and outlook

Defence order book and contract pipeline remain strong, providing good visibility of naval new construction and refit programmes going into FY22

MAJOR UK AND OVERSEAS NAVAL SURFACE SHIP AND SUBMARINE CONTRACTS

- Revenue for defence contracts more than doubled to £11.1 million (2020: £5.1 million), representing 59% of the divisional total for the year
- Order book and pipeline remain strong for UK and overseas submarine programmes including Astute, Dreadnought and Barracuda classes
- UK MoD Type 26 frigate contracts secured. Pipeline remains strong for Type 26 Hunter class for Australian and Canadian navies

INTEGRITY MANAGEMENT SERVICES AND DEPLOYMENTS

- Covid-19 travel restrictions continued to significantly disrupt Integrity Management services and deployments to submarine and surface ship projects during FY21
- Recovery of deployment activity expected during FY22 and FY23

BAE SYSTEMS
NAVAL GROUP
ROLLS ROYCE
thyssenkrupp
babcock
CDWE 台船環海風電工程公司

Well positioned for total service in hydrogen storage

Market leading position is built upon over 100 years experience in the design, manufacturing and inspection of safety-critical high-pressure systems

RESPECTED KNOWLEDGE IN DEFENCE, NUCLEAR AND OIL & GAS SECTORS

- Leading reputation in design and manufacture of safety-critical high-pressure systems
- Influential role in the development of design and inspection standards

VALUED PRODUCTS AND THROUGH-LIFE SERVICES

- High-quality products designed to meet demanding standards
- Customers value unique in-situ Integrity Management services to maximise availability and to help reduce risk and cost

UNIQUE ONE-STOP SHOP FOR HIGH-PRESSURE HYDROGEN STORAGE

- Supporting customers from initial design, detailed engineering, manufacture, installation and through life
- Approved supplier to Shell Hydrogen for Type 1 steel cylinders for their European hydrogen refuelling stations
- Refuelling station projects completed or in progress for ITM Power, McPhy and Haskel, Framatome, Plug Power and Arcola Energy (now Ballard Motive Solutions)
- Growing pipeline of opportunities covering diverse hydrogen fuelling applications
- Steel high-pressure storage for static and mobile applications are targets for growth

Hydrogen success in FY21 - customers adopting CSC solutions

New orders and customers are being realised, as we see proof of concept projects replaced by more standardised solutions for bus, truck and mixed-use hydrogen refuelling stations

SUCCESSFUL YEAR FOR HYDROGEN STORAGE SOLUTIONS, GROWING WIDER AND STRONGER RELATIONSHIPS ACROSS EUROPEAN CUSTOMER BASE

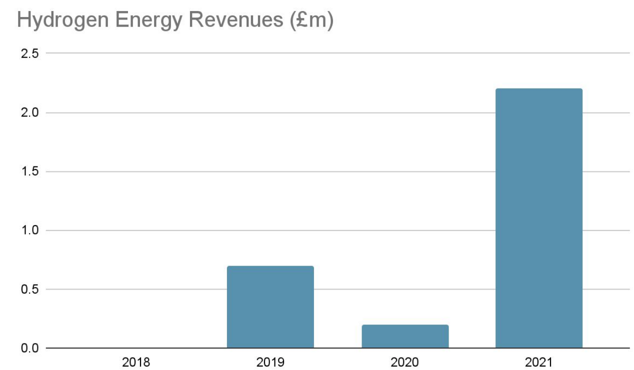
- All contracts to date utilise CSC's optimised Type 1 steel cylinder design
- Enables cost-effective in-situ inspection and recertification with maximum availability through life, using CSC's Integrity Management services
- Key existing and potential new customers value CSC's years of knowledge in design, production and re-certification of hydrogen storage systems
- Safety, proactive support through design choices, certainty of robust and reliable solutions are attractive CSC offerings in a sector with new entrants

ATTRACTIVE TO MOBILITY CUSTOMERS WHO NEED HIGH-DENSITY STORAGE

- Highly efficient CSC design is well matched to higher mass storage and compression requirements for bus, coach, train and truck fleets

ATTRACTIVE TO SAFETY-FIRST DECARBONISATION CUSTOMERS

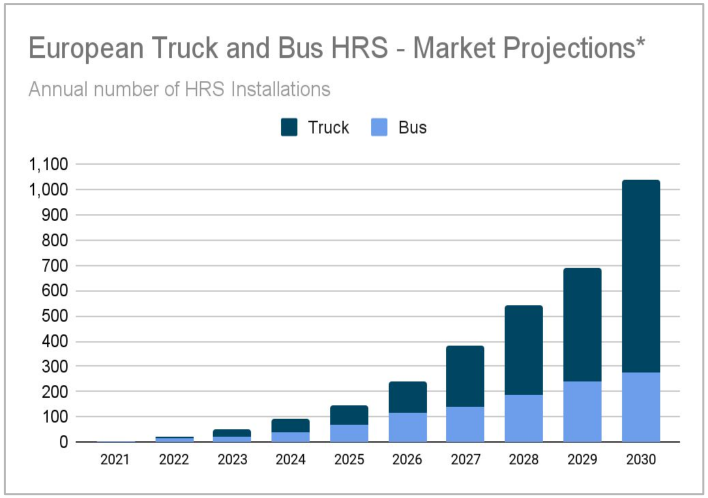
- More risk-averse energy companies transitioning to hydrogen, value CSC's longevity, knowledge and steel solutions over alternatives



Momentum and focus on growth in exciting hydrogen market

Hydrogen refuelling stations (HRS) will be commissioned at an increasing rate for medium and heavy duty applications and in logistics. Phase 1 focus to secure strong position in European mobility markets with efficient and competitive storage solutions. Phase 2 focus on green hydrogen and mobility solutions for other regions

PHASE 1: IMMEDIATE FOCUS - EUROPEAN MOBILITY PROJECTS (BUS, MEDIUM/HEAVY DUTY (MD/HD) TRUCK, LOGISTICS, TRAIN)



** Market projections by Pressure Technologies based on: (1) Element Energy HRS Market Report for CSC (2021) validated by HyEnergy, (2) National Implementation Plan, Hydrogen Refuelling Infrastructure Belgium. Waterstofnet (2015), (3) FCE Buses - Potential for Sustainable Public Transport, Roland Berger for FCH JU (2018) and (4) Hydrogen, Enabling a Zero Emission Europe: Technology Roadmaps, Hydrogen Europe (2018)*

- Buses/Coaches provide base load of enquiries/orders, MD truck fleets and mixed HRS starting, HD truck fleet HRS in 2023
- On top of this, train and logistics HRS orders already coming in, and some stronger recent interest from maritime and inland barges

PHASE 2: WITHIN 24 MONTHS - MOBILITY SOLUTIONS FOR AMERICAS, AUSTRALASIA, REST OF EMEA, GREEN HYDROGEN

- Already seeing European and global enquiries for green hydrogen storage for use close to hydrogen production
- Biorefineries, fertiliser plants, power farms and specialist residential green hydrogen projects, providing wide range of enquiries

CSC investment for growth in European HRS market on plan

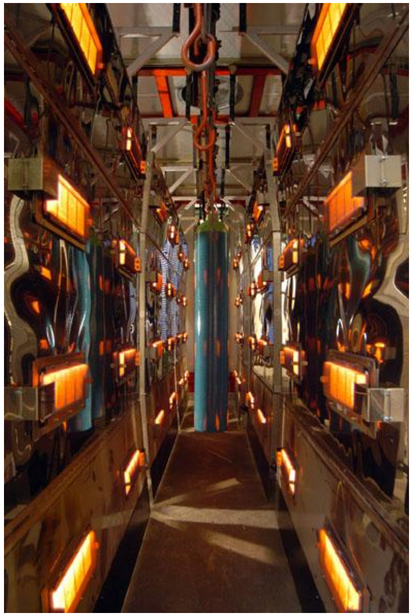
Investment in people and production facilities at the Sheffield site has commenced in line with plans set out during the December 2020 fundraise. This will significantly increase overall operational capacity by the end of 2022, as required to meet the expected growth in demand for hydrogen projects

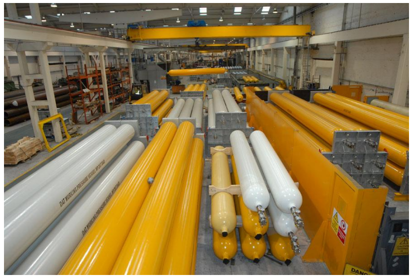
INCREASE PRODUCTION CAPACITY AND EFFICIENCY BY THE END OF 2022

- Planned and ongoing investment will expand finishing lines and upgrade hydrotest, shot-blast and painting facilities to shorten lead times and increase capacity
- New high-capacity nitrogen leak test facility and automated cylinder stamping technology will improve efficiency and throughput

INCREASE CAPABILITY, DEVELOP PARTNERSHIPS AND MARKET-LEADING PRODUCTS

- Continued strengthening of hydrogen business development and technical capability to reflect increased focus on hydrogen growth opportunities
- Partnerships with specialist steel tube manufacturers, Tenaris and Vallourec help reduce risk, underpin order book delivery and improve working capital requirements
- Significant material stock orders placed since December 2020 for optimised steel cylinder design to meet expected demand volumes
- Consignment stocks on site and at the steel mill help maintain customer service levels, shorten lead times and improve cash flows
- New products that play to CSC strengths and already in demand will be launched in 2022





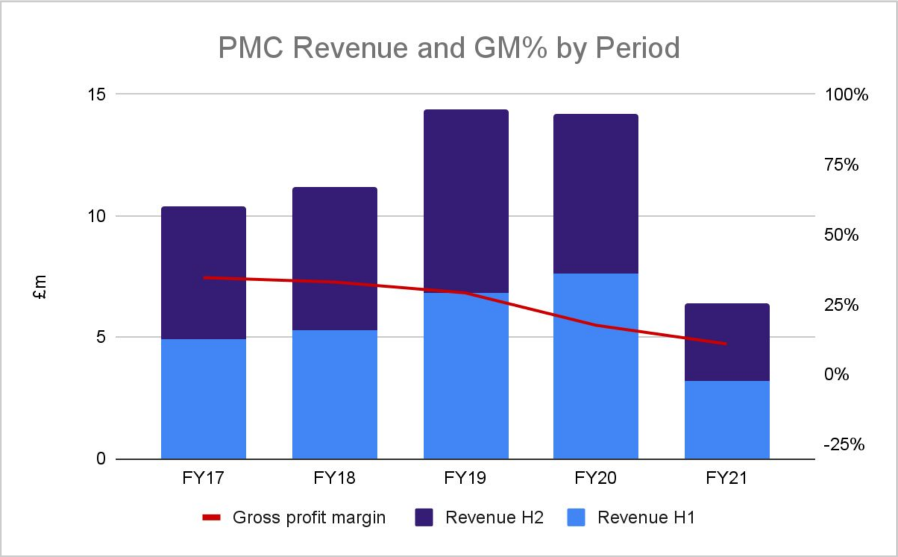
Precision Machined Components - Financial Results

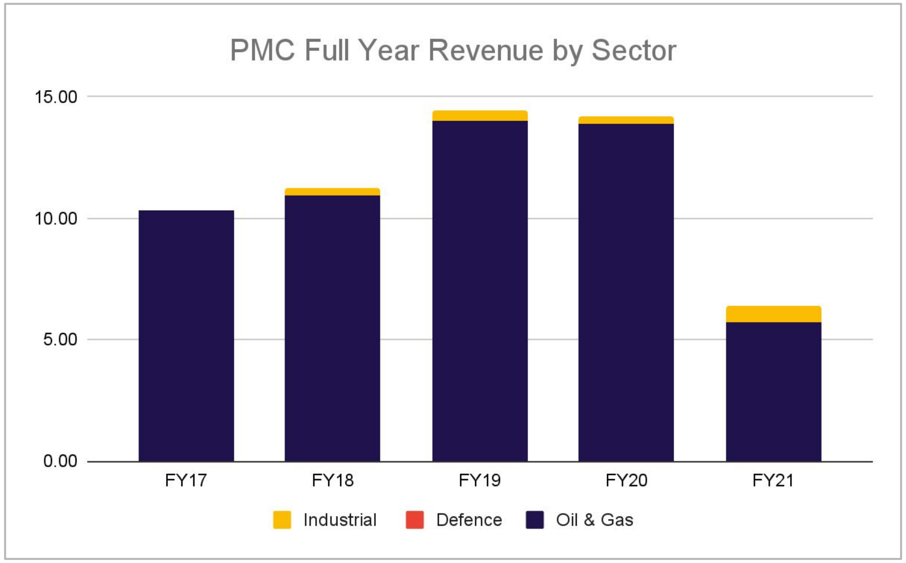
Revenue 55% down	Gross profit
£6.4m (2020: £14.2m)	£0.7m (2020: £2.5m)

Adjusted operating loss*	Gross profit margin
£1.6m (2020: £0.7m adjusted operating loss)	11% (2020: 18%)

Return on revenue	Revenue from non-oil and gas markets
-26% (2020: -5%)	£0.7m (2020: £0.3m)

**Adjusted operating loss is operating loss before amortisation, impairments and other exceptional costs*





Precision Machined Components

We are encouraged by recent order intake levels, new customer acquisitions and pipeline development, alongside new strategic supply agreements, but we remain cautious regarding the pace of recovery in the oil and gas market

FY21 PERFORMANCE & STRATEGIC PROGRESS

- Performance reflected very challenging trading conditions in the oil and gas market, while Covid-19 disruption and supply chain constraints impacted production schedules
- Order intake at our Roota and Martract sites recovered steadily from March to exceed pre-pandemic levels of output and profitability for well tool and valve components
- Slower than expected demand for flow control components severely impacted order intake at our Al-Met site, which remained loss-making throughout the year
- Non-oil and gas revenues totalled £0.7 million (2020: £0.3 million), being 12% of the divisional total, diversifying into offshore wind, defence and industrial markets

OUTLOOK

- Diversification from secured defence contracts, in collaboration with CSC
- OEM customers Schlumberger, Halliburton, Expro and Baker Hughes are reporting a stronger outlook for the oil and gas market during 2022
- Whilst we remain cautious regarding the pace of recovery, we expect improved performance in FY22, including restoring profitability in our Al-Met business

Summary

The Group is well positioned to take advantage of a strong defence order book, exciting growth opportunities in hydrogen energy and the prospect of steadily improving oil and gas market conditions

- Our strategy remains focused on delivering value from the growth and development of both divisions and the Board remains confident in the prospects and opportunities for the Group
- Strong defence order book in CSC going into FY22, with high-value naval projects and Integrity Management deployments weighted to the second half of the year
- Strategy and positioning in the hydrogen energy market are showing progress and delivering results, as the pipeline of opportunities for static and mobile storage systems continues to grow
- The visibility of future hydrogen energy demand is improving, with refuelling station projects expected to ramp up sharply from 2023 onwards
- Caution remains regarding the pace of recovery in oil and gas markets, steadily improving order intake levels are encouraging for PMC, OEM customers report a stronger outlook in 2022
- Board thanks Chairman, Sir Roy Gardner for his support, as he prepares to step down

Major Shareholders at 31 December 2021

Name of Shareholder	No. of Shares	Holding
Schroder Investment Management	8,137,304	26.19%
Harwood Capital	4,295,394	13.83%
Premier Miton Group	2,578,747	8.30%
James Sharp	1,684,745	5.42%
Gresham House	1,553,867	5.00%
Hargreaves Lansdown	1,471,941	4.74%
Interactive Investor Trading	1,207,030	3.89%
A J Bell Securities	1,152,628	3.71%

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