

Redhall Group plc

David Jackson, Chairman
Phil Brierley, Chief Executive
Chris Kelly, Group Finance Director



Interim Results

for the six months ended 31 March 2014

June 2014

Agenda

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- First Half Overview
- Financial Review
- Operational Review
- Outlook and Prospects
- Questions

2014 – First Half Overview

- Operating profit before exceptional items up 9.0% to £1.1m (£1.0m)
- Revenue down by 9.4% to £51.3m (£56.6m)
- Good progress made in rebalancing the business towards Manufacturing
 - Ongoing Manufacturing profits up 80% and margin improvement from 5.9% to 9.5%
- Placing in March 2014, providing net proceeds of £7.0m
- Exceptional charge of £1.0m
- Order book currently stands at £85m
 - Due to recalculation of frameworks on current activity levels
- Excellent safety record within the business continues
- Focussed on growth in margins

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FINANCIAL REVIEW

Income Statement

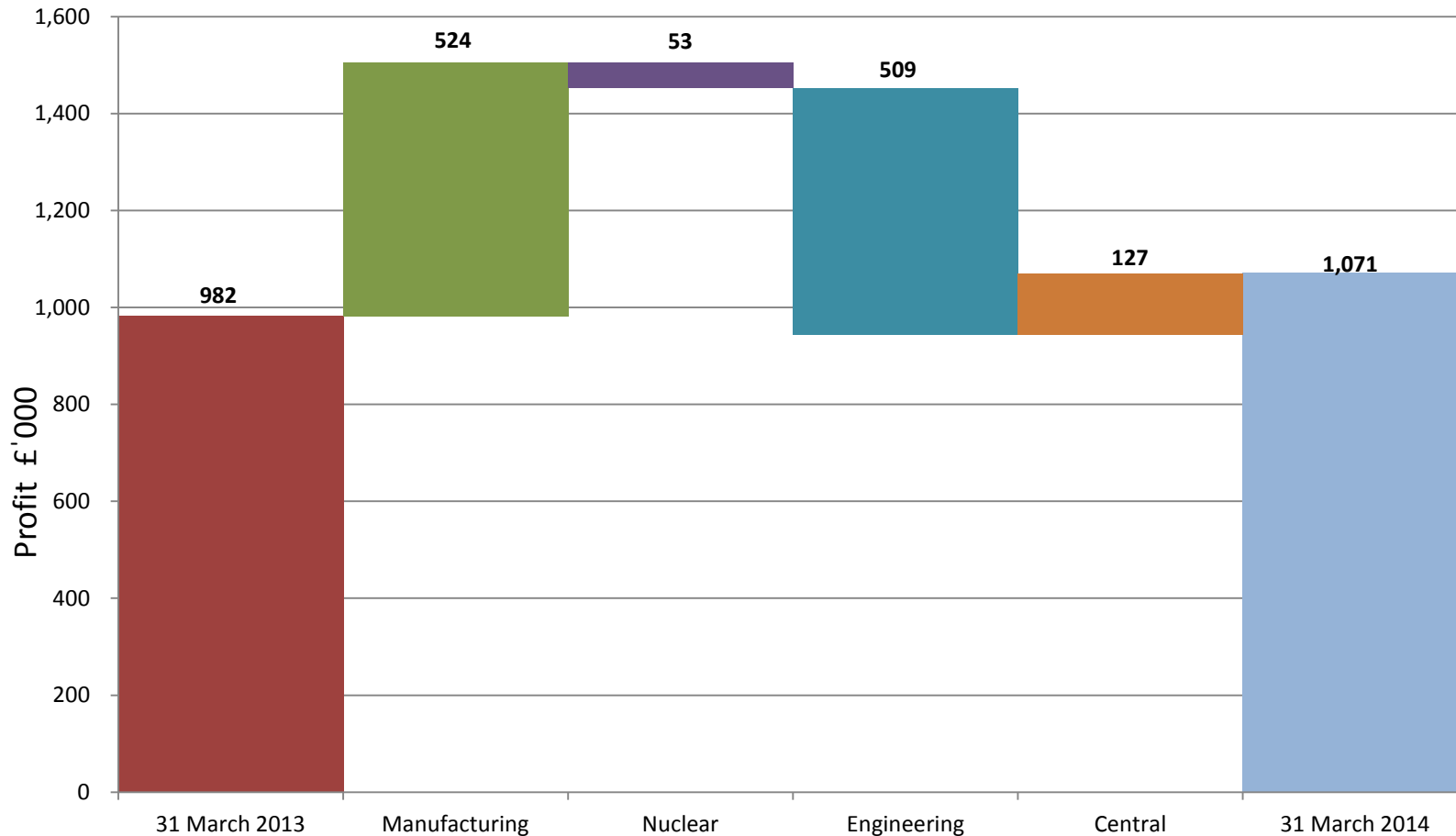
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- Underlying revenue fell by 9%
- Adjusted operating profit increased by 9%
- Net finance charge reflects higher average borrowings, rates and charges for facilities
- Exceptional items include provision against legacy balance sheet issues at Nuclear and disposal of CINIL

	H1 2014 £'000	H1 2013 £'000
Revenue*	51,325	56,645
Adjusted operating profit*	1,071	982
Net financial charge	(838)	(484)
Adjusted profit before tax*	233	498
Exceptional items	(1,003)	(697)
Amortisation of intangible assets	(250)	(250)
Loss before tax	(1,020)	(449)
Tax on profit on ordinary activities	92	53
Loss for period	(928)	(396)

* Before exceptional items and amortisation of intangible assets.

Income Statement Bridge*



* Before exceptional items and amortisation of intangibles

Segmental Analysis

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- Engineering impacted by lower levels of market activity especially in shutdown and maintenance
- Nuclear has seen reduced volumes on key framework contracts
- Manufacturing has grown, but growth materially impacted by contract delays in our key customers' programmes of work
- Significant annualised savings in overheads and cost of sales

	H1 2014		H1 2013	
	Rev £'000	Op. Profit £'000	Rev £'000	Op. Profit £'000
Engineering	22,490	514	28,082	1,023
		2.3%		3.6%
Nuclear	15,387	344	16,122	397
		2.2%		2.5%
Manufacturing	13,448	1,255	12,441	731
		9.3%		5.9%
Central costs	-	(1,042)	-	(1,169)
Total	51,325	1,071	56,645	982
		2.1%		1.7%

Before exceptional items and amortisation of intangible assets.

Exceptional Items

- Vivergo agreement reached at £2.1m – avoided further uncertainty and improved cash position
- H1 exceptionals consist of:
 - loss on disposal of CINIL
 - write-off on legacy Nuclear retention and work in progress balances
- H2 exceptionals announced in May 2014
 - c. £370k finance and Nuclear Division restructuring costs

	H1 2014 £'000	H1 2013 £'000
Disposal of CINIL	132	-
Legacy Nuclear balance sheet write offs	871	-
Other costs (including restructuring)	-	438
Legacy contract provisions	-	259
	1,003	697

Tax

- Minimal current tax payable due to losses in the year and utilisation of losses brought forward

	H1 2014 £'000	H1 2013 £'000
Current year	(8)	-
(Recovery of)/charge for tax relating to prior year	-	-
Deferred tax credit	100	53
	92	53

Cash Flows and Borrowings

- Cash from investing and operating activities

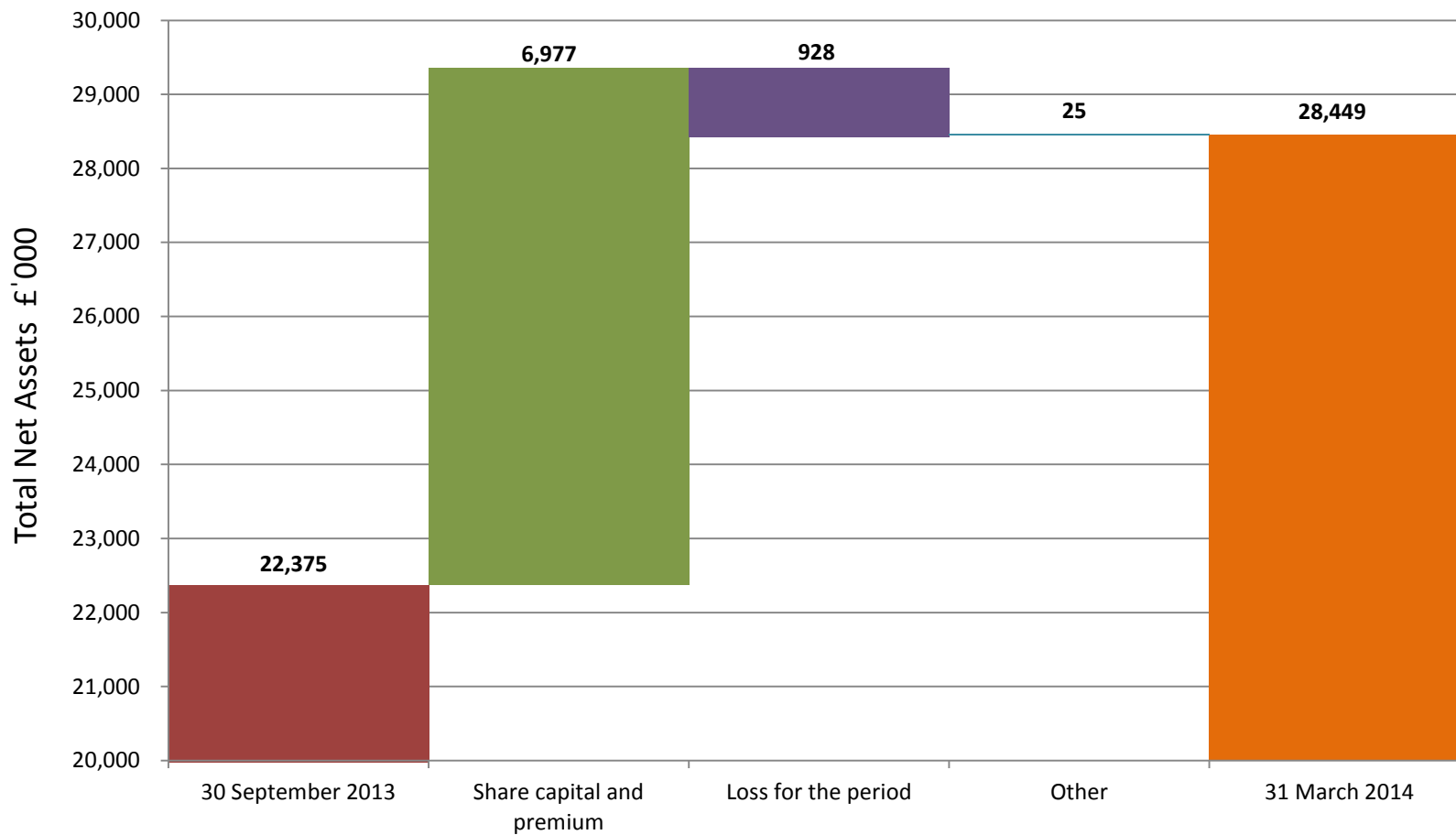
- £7m placing proceeds
- £2.1m Vivergo

- Bank facilities comprise:

- Term loans £11.75m
 - Revolving credit facility £ 4.0m
 - Overdraft £ 6.0m
 - Short term facility £ 1.0m
(Repaid April 2014)
-
- £22.75m

	H1 2014 £'000	H1 2013 £'000
Net cash from operating activities	86	(7,847)
Net cash from investing activities	6,852	(152)
Net cash from financing activities	750	3,000
Net cash flow	7,688	(4,999)
Opening net funds	(3,086)	2,407
Closing net funds	4,602	(2,592)
Borrowings	(16,750)	(16,000)
Net borrowings	(12,148)	(18,592)

Net Assets Bridge



Bank Facilities

- Total facilities at 31 March 2014 of £22.75m
- Facilities run to 30 September 2015
- Facilities to be refinanced prior to 31 September 2014 year end

	Current £m	>1 Year £m	Total
As at 31/03/14:			
Overdraft	6.0	-	6.0
Loans	2.0	14.75	16.75
	8.0	14.75	22.75

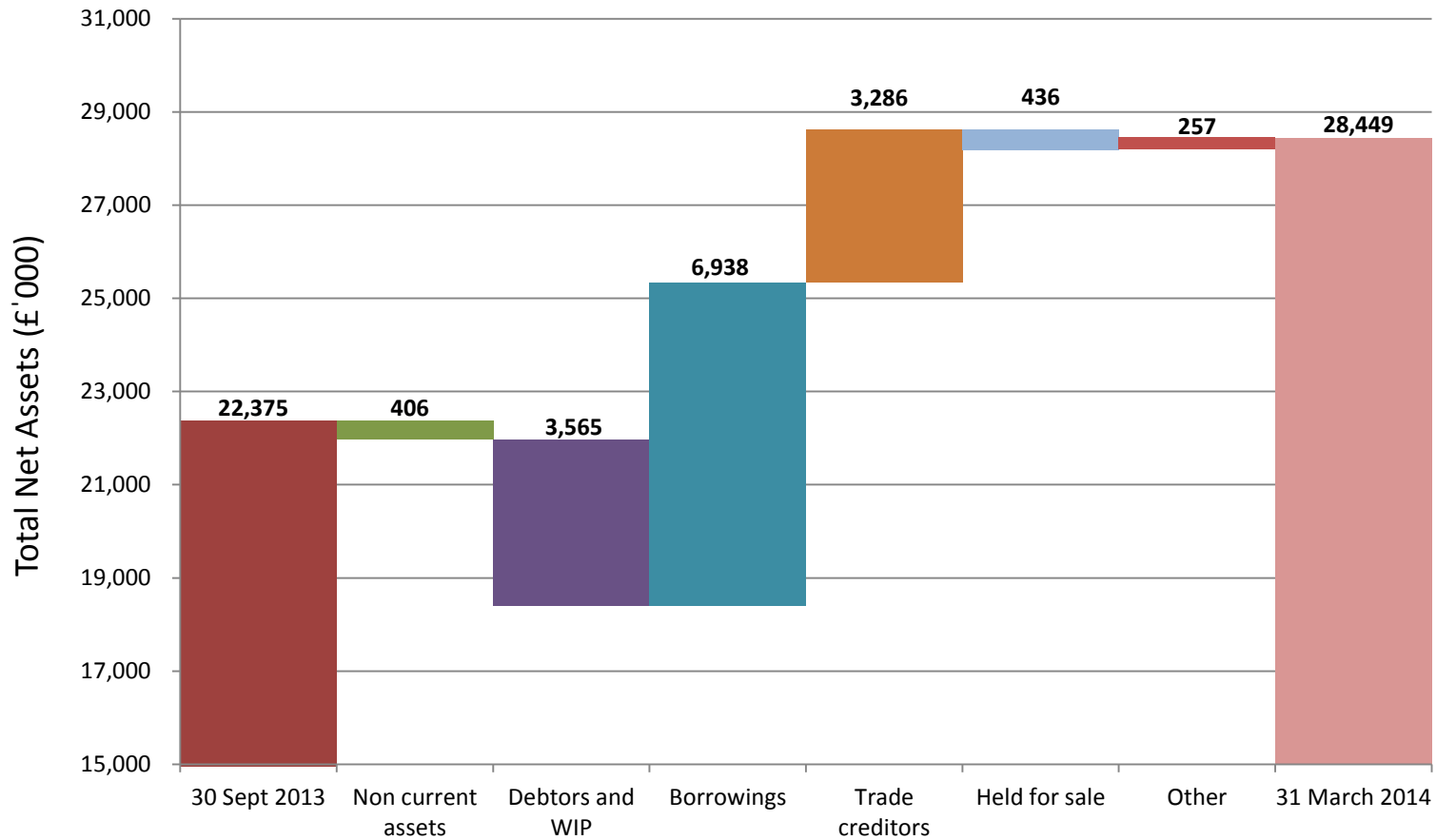
Balance Sheet

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- Impairment testing continues to justify carrying amount of goodwill
- Borrowings reduced by Vivergo (£2.1m) and placing (£7.0m) proceeds offset by increase in working capital

	H1 2014 £'000	H1 2013 £'000
Non-current assets	9,937	10,569
Goodwill	23,785	23,785
Non-cash current assets	29,664	42,759
Net assets held for sale	-	-
Non-cash current liabilities	(21,373)	(24,927)
Deferred tax	(174)	(291)
Pension scheme	(1,242)	(2,624)
Borrowings net of cash balance	(12,148)	(18,592)
Net assets	28,449	30,679

Balance Sheet Bridge



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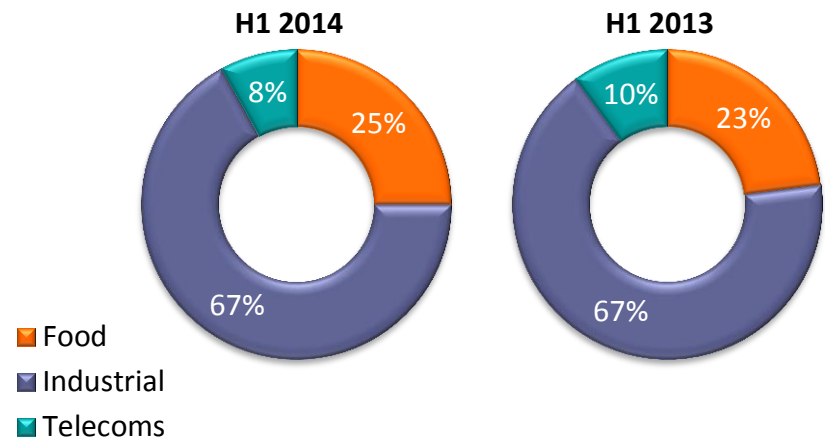
OPERATIONAL REVIEW

Engineering

- Food business restructuring delivering improved results
- General market activity lower than 2013, particularly in shutdown and maintenance work
- Challenging conditions for clients is evidenced by Polimeri decision to close their plant in Hythe
- Continuing to secure work for new clients generating future opportunities
- 6.2m man hours since Redhall Engineering Solutions Limited had a RIDDOR reportable lost time injury

	£k		Change
	H1 2014	H1 2013	
Revenue	22,490	28,082	(19.9%)
Adjusted operating profit	514	1,023	(49.8%)
Adjusted operating margin	2.3%	3.6%	

Revenue split by sector



Engineering - Outlook

Industrial

- Ageing infrastructure continues to provide opportunities but balanced against reduced client operating budgets
- Shale gas and power generation will provide future opportunities
- Short term tankage opportunities in defence and within the UK industrial heartlands
- Nuclear new build will make market more resource constrained in the longer term

Food

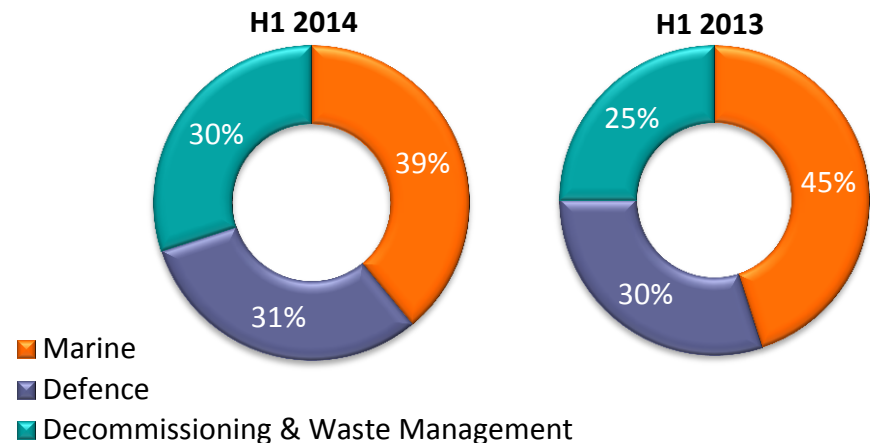
- Increased customer spend now materialising
 - Mondelez at Bourneville
 - Premier Foods five year investment plan
 - Nestlé at Tutbury
 - Mars at Slough

Nuclear

- Marine grew by 9% in the year as work continues on four submarines at Barrow
- Secured £2.4m from the LLWR framework agreement at Drigg which has been extended until April 2015
- Secured £2.3m from the Dounreay framework agreement
- Relationship being developed with EDF to support the Nuclear plant life extension programme
- Adjusted revenue and adjusted operating profit continue to be affected by reduced volume on two key framework contracts
- 5.8m man hours since last RIDDOR reportable lost time injury
- Presence established on Rolls Royce site at Derby

	£k		Change
	H1 2014	H1 2013	
Revenue	15,387	16,122	(4.6)%
Adjusted operating profit	344	397	(13.4)%
Adjusted operating margin	2.2%	2.5%	

Revenue split by sector



Nuclear - Outlook

- Civil Nuclear**
 - Tendering activities in decommissioning and power increasing
 - We continue to secure a significant proportion of the work under the Dounreay framework

- Marine**
 - Work projected at a similar level for 2014 whilst work continues on four submarines (Boats 3, 4, 5 and 6)
 - Successor class of submarine goes for main gate approval late 2014/early 2015 securing submarine production at Barrow for the foreseeable future

- Defence**
 - The improvement in the volume of work under the framework has not materialised but tendering levels are increasing
 - Further opportunities to support EDF in their plant life extension programme now we are established at Dungeness
 - Having secured a full-time presence at Rolls-Royce opportunities exist to support this new client at Derby

Nuclear - Outlook

Nuclear New Build

- European Commission investigation into government subsidy
- Judicial review on Ireland's claim that a transboundary consultation should have been carried out due to be heard in July 2014
- EDF commercial decision is not confirmed and may be delayed beyond the 2015 election
- No Nuclear new build work is currently included in our forecasts

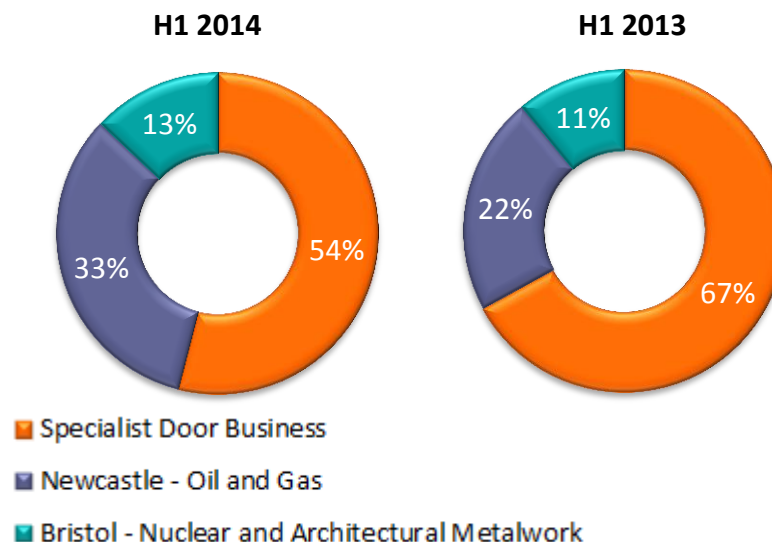
Manufacturing

- Adjusted operating margin increased from 5.9% to 9.5%
- Increased activity in our Newcastle and Bristol facility has helped drive improvement in margin
- Delay in awards of contracts in our specialist door business has impacted on volumes in the first half
- A partial contract award for £1.6m has been received for a major defence contract of £5.0m
- Newcastle facility has secured orders to deliver this year's forecast

	£k		Change
	H1 2014	H1 2013	
Revenue	12,967	11,683	11.0%
Adjusted operating profit	1,233	684	80.0%
Adjusted operating margin	9.5%	5.9%	

• Figures exclude CINIL

Revenue split by sector



Manufacturing - Outlook

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- End markets in the medium term for our Blast doors business in Bolton remains encouraging
- Delays on key defence contracts and Crossrail have pushed major contract awards back into 2015 and beyond
- North East market is buoyant with continuing opportunities identified for next year
- Contracts to be undertaken at our Bristol facility in the defence sector have been significantly delayed, but we are still well positioned to secure this work

Outlook and Prospects

- Progress made to move the business towards manufacturing
 - Manufacturing represents 59% of the divisional profit in the first half of 2014 (34% in H1 2013)
- The food business in Engineering is delivering improved results following restructure and has significant opportunities to support customers increased spending plans
- Plan to broaden the client base to dilute the impact of delays to individual client work programmes
- Business focusing on high margin profitable business rather than top line growth

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APPENDICES

Major Shareholders

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Shareholders	Shares 30 May 2014	%
1. Henderson Global Investors	13,587,179	27.69
2. Groupe Gorgé	5,809,194	11.84
3. Hargreave Hale	4,534,302	9.24
4. Octopus Investments	3,621,209	7.38
5. Harwood Capital LLP	2,500,000	5.09