

Redhall Group plc

Phil Brierley, Chief Executive
Chris Kelly, Group Finance Director



Preliminary Results

for the year ended 30 September 2014

December 2014

Agenda

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- Full year overview
- Strategic plan
- Financial review
- Operational review
- Outlook and prospects
- Questions

Full Year Overview

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- Operating profit before exceptional items £0.14m (2013: £2.64m) in line with management expectations
- Revenue of £103.2m (2013: £113.1m), reflecting contract delays and increased selectivity in choice of work
- New strategic plan announced
- Refinancing agreed, facility expiring 30 November 2016 underwritten by HSBC Bank plc
- Manufacturing business profit of £2.9m (2013: £1.5m) and operating margin 10.1% (2013: 5.6%)
- Nuclear business suffered poor trading results arising from over-capacity
- Order book of £52m (2013: £82m) with the quality of contracts improving
- Exceptional charges of £3.6m (2013: £10.9m) reflecting legacy contracts, restructuring and other items

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STRATEGIC PLAN

Strategic Plan

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- Extended bank facility underwritten by HSBC to 30 November 2016
- Removal of divisional management layer and centralised support functions, saving £1.2 million on an annualised basis
- Focus on higher margin Manufacturing capability
- Reduce nuclear contracting exposure and align delivery capability with manufacturing
- Growth targeted on nuclear and oil & gas markets, building on existing strengths
- Plan to reduce gearing by continuing to improve working capital and lower exposure to contracting

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FINANCE REVIEW

Income Statement

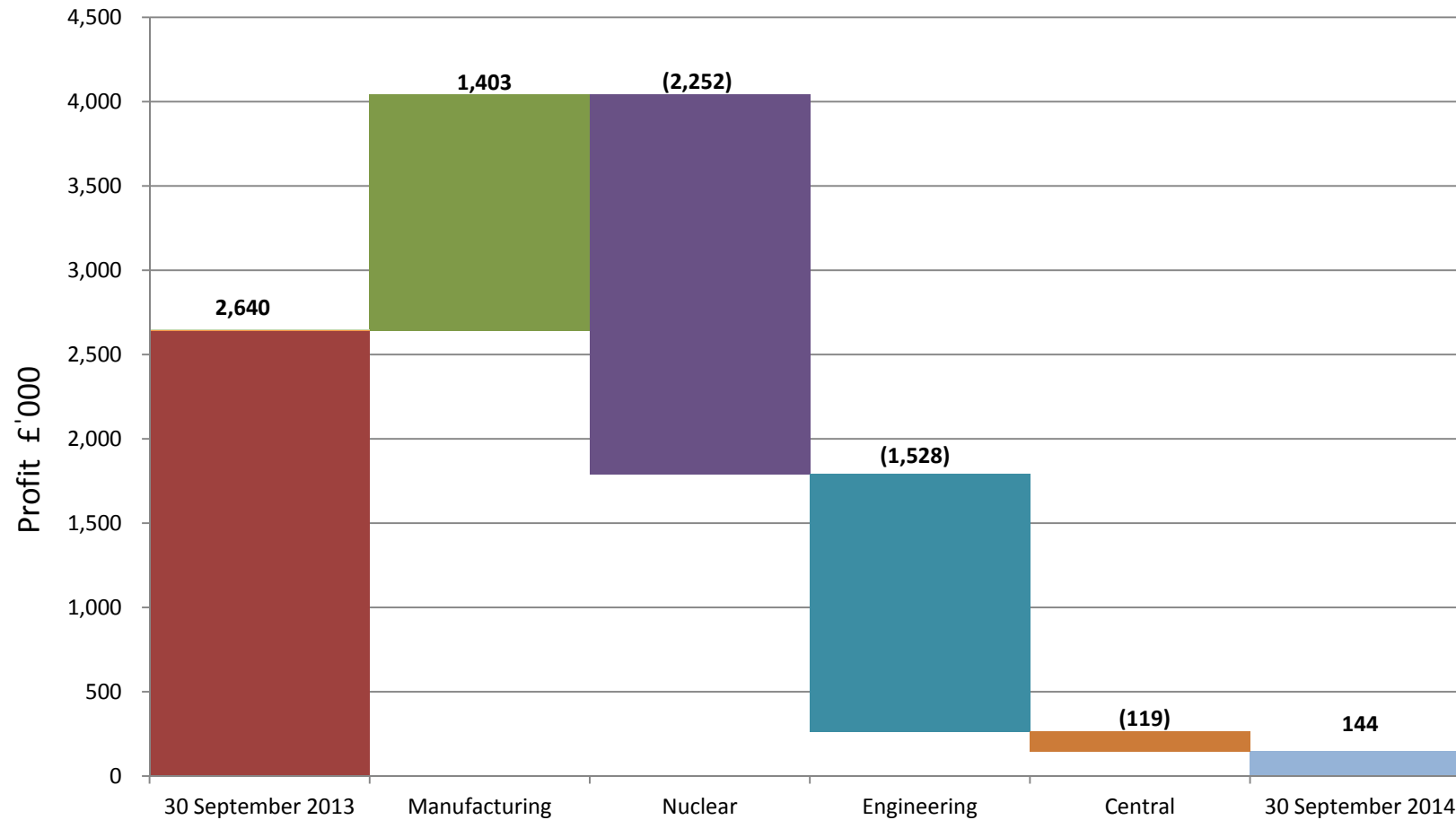
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- Underlying revenue fell by 8.8% as major customers deferred expenditure
- Adjusted operating profit at break even level as announced in July
- Net financial charge reflects higher average borrowings and charges for facilities
- Exceptional items of £3.6m due to legacy contract issues and redundancy and restructuring costs

	2014 £'000	2013 £'000
Revenue*	103,180	113,082
Adjusted operating profit*	144	2,640
Net financial charge	(1,788)	(1,214)
Adjusted (loss)/profit before tax*	(1,644)	1,426
Exceptional items	(3,620)	(10,856)
Amortisation of intangible assets	(501)	(504)
Loss before tax	(5,765)	(9,934)
Tax on profit on ordinary activities	85	432
Loss for period	(5,680)	(9,502)

*Before exceptional items and amortisation of intangible assets.
2013 restated for IAS19

Income Statement Bridge*



* Before exceptional items and amortisation of intangibles

Segmental Analysis



- Engineering was impacted by a continued decline in market activity especially in shutdown and maintenance. Operating margins reduced due to volume shortfall
- Nuclear experienced much reduced volumes on key framework contracts leading to significant trading losses. Action taken to reduce costs. Management continue to be vigilant
- Manufacturing volumes stable despite anticipated growth. Margin substantially improved. Key customer programmes of work continue to be delayed in short term
- Saving in overheads and cost of sales realised but further cost cutting announced to reflect ongoing level of business

	2014		2013	
	Rev £'000	Op. Profit £'000	Rev £'000	Op. Profit £'000
Engineering	44,746	682	54,949	2,210
		1.5%		4.0%
Nuclear	30,054	(1,278)	31,962	974
		(4.25%)		3.0%
Manufacturing	28,380	2,858	26,171	1,455
		10.1%		5.6%
Central costs	-	(2,118)	-	(1,999)
Total	103,180	144	113,082	2,640
		0.1%		2.3%

Before exceptional items and amortisation of intangible assets

Exceptional Items

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- Substantial exceptional costs reflect the need to
 - realise losses on legacy contracts
 - restructure business to reflect current levels of activity
- Operational governance processes have been improved with lower authority levels set

	2014 £'000	2013 £'000
Vivergo contract settlement	-	7,700
Vivergo legal and professional costs	(150)	100
Restructuring and other costs	1,285	2,385
Legacy contract provisions	2,073	671
Loss on sale of CINIL	203	-
Other	209	-
	3,620	10,856

Tax



- No current tax charge due to ongoing operating losses
- Substantial losses carried forward in Engineering and Nuclear segments

	2014 £'000	2013 £'000
Current year	-	-
(Recovery of)/charge for tax relating to prior year	-	(119)
Deferred tax credit	(85)	(313)
	(85)	(432)

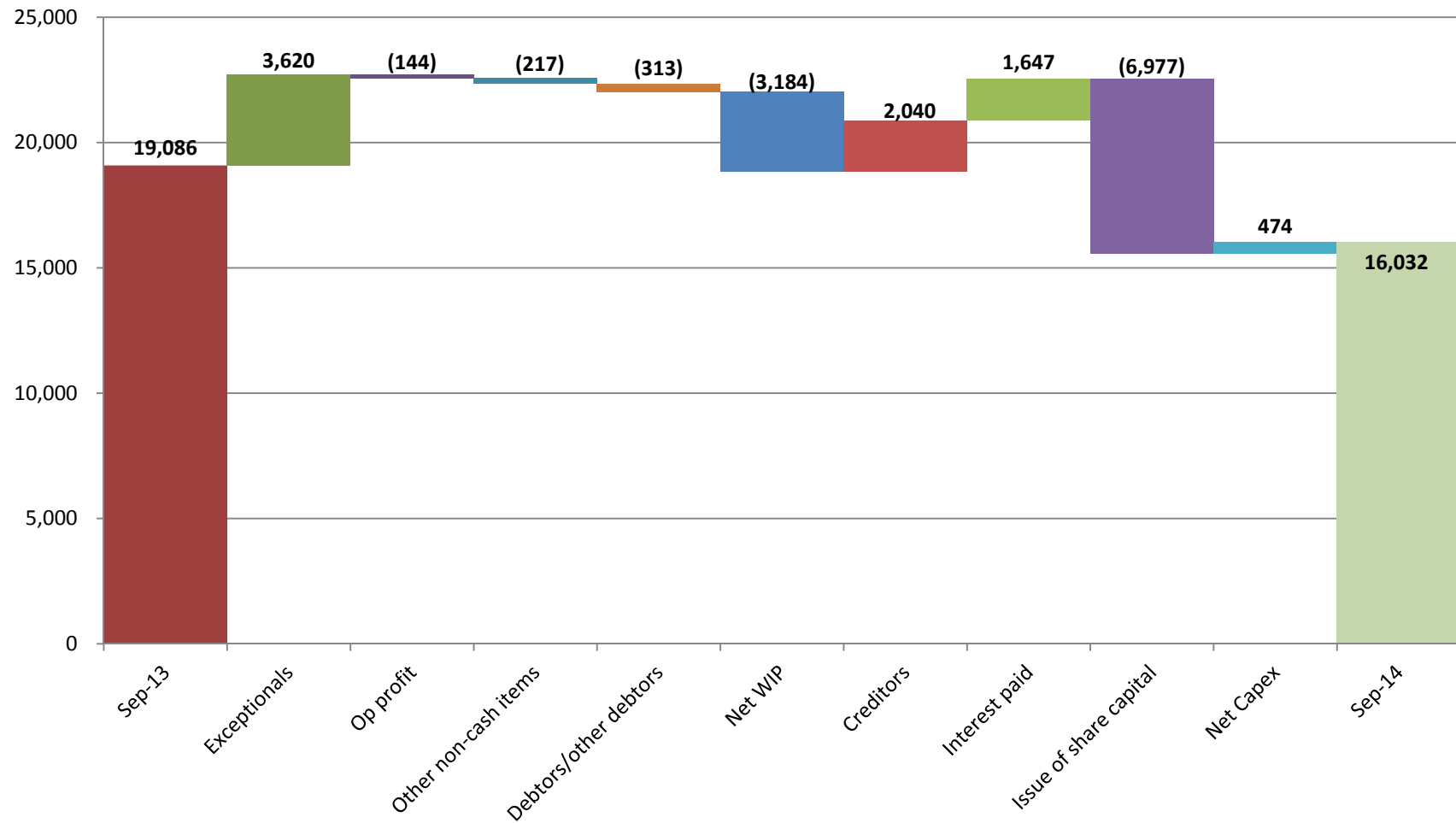
Cash Flows and Borrowings



- Cash inflows include
 - £7m placing proceeds
 - £2.1m Vivergo
- Bank facilities renewed
 - 2 years to November 2016
 - £ 4m RCF
 - £10m Term loans
 - £ 6m Overdraft facility
£20m

	2014 £'000	2013 £'000
Net cash from operating activities	(3,156)	(8,076)
Net cash from investing activities	(767)	(417)
Net cash from financing activities	5,227	3,000
Net cash flow	1,304	(5,493)
Opening net funds	(3,086)	2,407
Closing net funds	(1,782)	(3,086)
Borrowings	(14,250)	(16,000)
Net borrowings	(16,032)	(19,086)

Debt Bridge 2014/2015



Borrowings

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- Year end borrowings were well within facility limits
- Covenants in new facility based upon cash flows
- Continuing management of working capital

	Current £'000	>1 Year £'000	Total
As at 30/09/14:			
Overdraft	1,782	-	1,782
Loans	1,000	13,250	14,250
	2,782	13,250	16,032

Balance Sheet



- Goodwill testing performed based on Group budget and forecasts
- No impairment but headroom reduced on Engineering and Nuclear

	2014 £'000	2013 £'000
Non-current assets	9,644	10,343
Goodwill	23,785	23,785
Non-cash current assets	27,691	33,205
Net assets held for sale	-	436
Non-cash current liabilities	(20,141)	(24,651)
Deferred tax	(68)	(270)
Pension scheme	(1,698)	(1,387)
Borrowings net of cash balance	(16,032)	(19,086)
Net assets	23,181	22,375

Defined Benefit Pension Scheme

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- Small increase in deficit
- No material change in allocation of assets
- Adoption of revised accounting standard led to a charge in the year of £160k

	2014 £'000	2013 £'000
Market value of scheme assets	20,156	19,534
Present value of retirement benefit obligations	(21,854)	(20,921)
Net deficit	(1,698)	(1,387)
Discount rate on scheme liabilities	3.9%	4.4%
Inflation assumption: RPI	3.1%	3.2%
CPI	2.1%	2.2%

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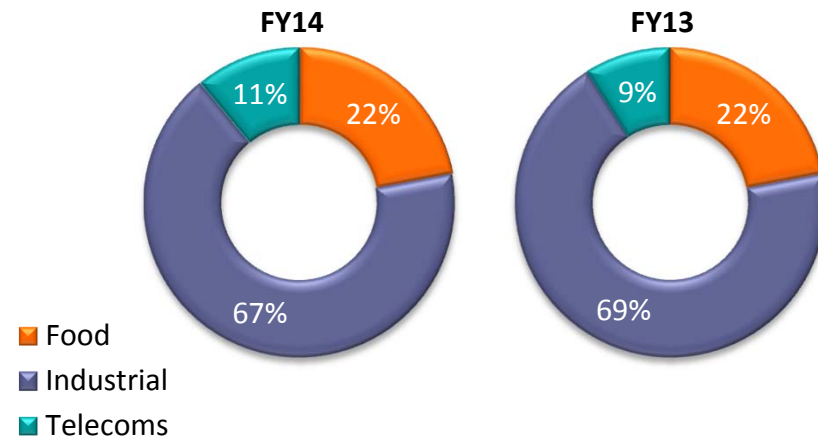
OPERATIONAL REVIEW

Engineering

- General level of market activity declined, particularly maintenance and shutdown work
- Improving levels of tendering activity since year end
- Food projects for Mondelez and Premier Foods won in recent weeks
- Lower major project activity due to planned reduction in higher risk project bids
- Telecoms market continues to deliver good operating margins with 4G infrastructure and associated network upgrades

	£k		Change
	FY14	FY13	
Revenue	44,746	54,949	(18.6%)
Adjusted operating profit	682	2,210	(69.1%)
Adjusted operating margin	1.5%	4.0%	

Revenue split by sector



Engineering - Outlook

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Industrial

- Continuing pressure on client operating budgets
- Increased level of opportunities in the short term, although tendering periods are extended

Food

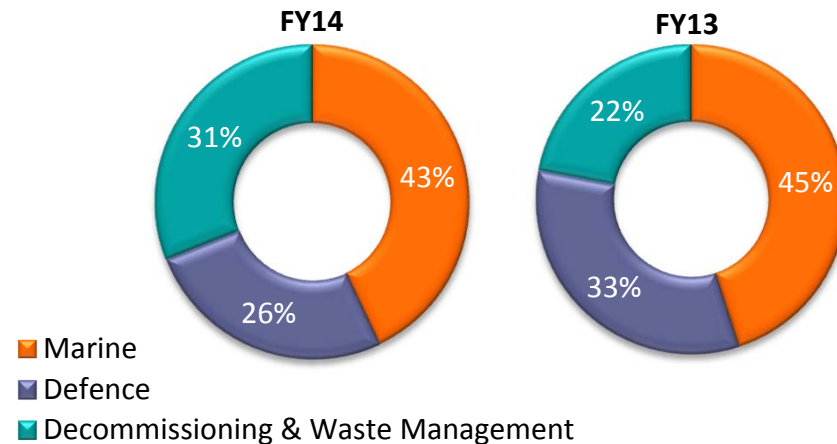
- Customer spending is showing signs of increasing
 - Mondelez
 - Premier Foods (Hovis)
 - Mars
 - Nestle

Nuclear

- A very challenging year for Defence business at Aldermaston
 - Capacity issues due to reduced framework volumes led to redundancies
- Marine continues to deliver good profitability with work on Boats 3, 4, 5 and 6 of Astute Class
 - Working closely with BAe to generate operational efficiencies in the contract
- Dounreay framework and other one-off manufacturing focused bids have produced good opportunities to prove performance under the new strategy by working closely with Jordan Manufacturing

	£k		Change
	FY14	FY13	
Revenue	30,054	31,962	(6.0%)
Adjusted operating (loss)/profit	(1,278)	974	(231%)
Adjusted operating margin	(4.3%)	3.0%	

Revenue split by sector



Nuclear - Outlook

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- Civil Nuclear**
 - Significant increases in tendering activity for longer term decommissioning and power projects with a manufacturing bias
 - Focus on delivering support to customers on end to end solutions
- Marine**
 - Strong working relationship with BAe on Boats 3, 4, 5 and 6
 - Opportunities in future on Successor Class
- Defence**
 - Support for key customers on major framework
 - Level of work monitored regularly and capacity management a priority

Nuclear - Outlook

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Nuclear New Build

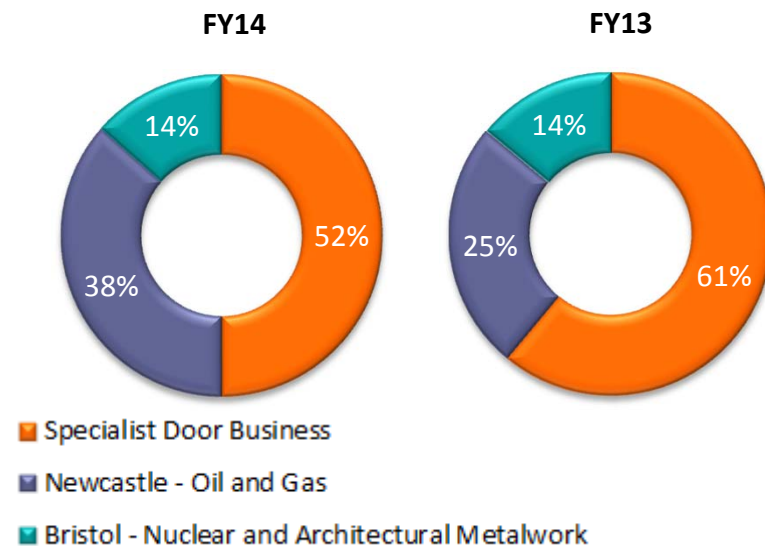
- Positive outlook for Hinkley C
- Redhall are well positioned to benefit from opportunities
- Joint ventures with French partners with significant nuclear new build experience
- Tender activity increasing
- No nuclear new build work in our 2015 forecast

Manufacturing

- Strong operating brands
 - Booth Industries (BIL)
 - Jordan Manufacturing (JML)
 - R Blckett Charlton (RBC)
- Increasing operating margins
- Significant improvement in volumes and profitability in RBC and JML
- Major delays to client programmes impacted volumes in H1
- JML has increasing focus on defence and decommissioning activity
- Bolton factory move deferred pending improved volumes

	£k		Change
	FY14	FY13	
Revenue	28,380	26,171	8.4%
Adjusted operating profit	2,858	1,455	96.4%
Adjusted operating margin	10.1%	5.6%	

Revenue split by sector



Manufacturing - Outlook

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- Longer term prospects in nuclear and oil & gas markets are good
- Other Defence and decommissioning opportunities are growing with additional tender activity
- Key defence contracts and Crossrail door delays have impacted on volumes and may continue to do so in next 6-12 months
- Nuclear new build opportunities are at tender stage but will have no short term impact on the business

Outlook and Prospects

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- Strategic Plan Review announced to provide platform for growth
- Strong focus on high integrity manufacturing capability – high margin
- Growth targeted on nuclear and oil & gas markets building on existing strengths
- Broader customer base in Manufacturing, particularly defence and decommissioning
- Actively bidding for major nuclear new build opportunities (e.g. Hinckley C)
- Significant improvement in Engineering sector opportunities since year end, particularly in food
- Nuclear business experiencing significant changes in customer volumes and focus on collaboration with Manufacturing

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APPENDICES

Major Shareholders



Shareholders	Shares	%
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. Harewood Capital LLP	2,500,000	5.09%
5. Others	22,646,794	46.14%
	49,077,469	100.00%