Pressure Technologies

2017 Investor Presentation

Pressure Technologies plc

Specialist engineering • Engineering excellence • Organic growth • Future growth • Acquisition of Martract • Unique solutions • Integrity management services • World leader • 120 years of engineering heritage • Highly skilled craftsmen • Creativity and ingenuity • Close collaboration with customers • Creation of PMC brand • Collaboration • Investment in people • Investment in IT • Investment in systems • Substantial potential • New customers • New markets • Product development • Trusted suppliers • Niche specialism • Niche markets • Precision Machined Components • Cylinders • Engineered Products • Alternative Energy • Oil and Gas • Industrial gases • Defence • Design and development • Safety critical

Our Group Structure

PMC Precision Machined Components
hydratron
CHESTERFIELD SPECIAL CYLINDERS
GREENLANE BIOGAS
Al-Met
QUADSCOT PRECISION ENGINEERS LTD
ROOTA Engineering Ltd
MARTRACT
INTEGRITY MANAGEMENT CHESTERFIELD SPECIAL CYLINDERS

Manufacturing Divisions

AE Division

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How We Run our Business

Defence	Oil and Gas	Renewable Energy
Our Cylinder Division is the world leader in naval and aviation defence markets for high-pressure cylinders and integrity management services.	Our Manufacturing Divisions design and manufacture bespoke components and products for customers who often face unique challenges in harsh operating environments.	Greenlane Biogas has installed the largest population of biogas upgraders in the world. World leaders in water-wash technology and the only company to also offer membrane and PSA technologies.

Market Sectors

- Oil and gas
- Defence
- Renewable energy
- Industrial gases

Customer value proposition

- World class
- Niche specialism
- Technical capability
- Agility

Growth model

- Organic development through investment and acquisition
- Synergy
- Value chain
- Market and technical development

Revenue model

- Low volume/high margin
- Strategic partnerships
- Long-term relationships/contracts
- Services and aftercare

Shareholders	Employees	Customers
We deliver shareholder value by growing our businesses in profitable niche markets. We have demonstrated strong resilience in adverse market conditions.	We strive to create a working environment where our employees can fulfill their potential. By doing so, we get the best from our people and they enjoy working with us. Our aim is to be the employer of choice within our industry.	Our customers are pioneers in what they do and we work in close collaboration with them. These strong relationships are built on the honest and open way in which we do business and our culture of delivering excellence.

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Financial highlights

Revenue up 7.3% to

£38.4m

(2016: £35.8m)

Operating Profit*

£1.1m

(2016: loss £(0.4)m)

Operating cash inflow***

£1.0m

(2016: £5.1m)

Acquisition of Martract Ltd

£3.6m

Revenue per employee up 27% to

£161k**

(2016: £126k)

Return on Revenue

2.9%

(2016: -1.2%)

Closing Net Debt

£11.1m

(2016: £6.6m)

Post year-end fundraising of

£4.8m

* excluding acquisition costs, amortisation on acquired businesses and exceptional charges and credits. Including 9m post-acquisition result of Martract.

** based on straight average number of employees

***before cash outflow for exceptional costs

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Operational highlights

Oil and gas market improvement

PMC order intake more consistent with strong second-half growth

Cylinders profitability

Underpinned by defence market and industrial gases service market

Restructuring

Alternative Energy restructured and broke even (2016: loss £(1.1) million)

Acquisition

Martract acquired December 2016

Marketing

Creation of a PMC brand to give improved customer offer

Actions taken evident in results

Manufacturing gross margins increased to 35% (2016: 31%)

Management review

Full review of management capability across the Group

Senior appointments

Group Head of HR
Alternative Energy President
PMC MD and BDD

Strategic investment

Investment in IT systems to improve communication and promote collaboration

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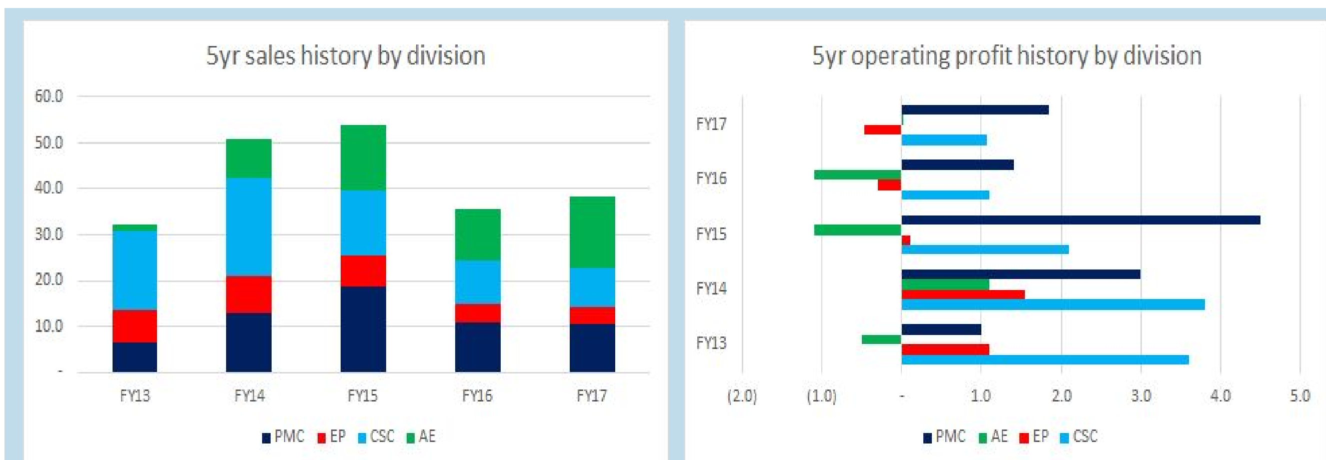
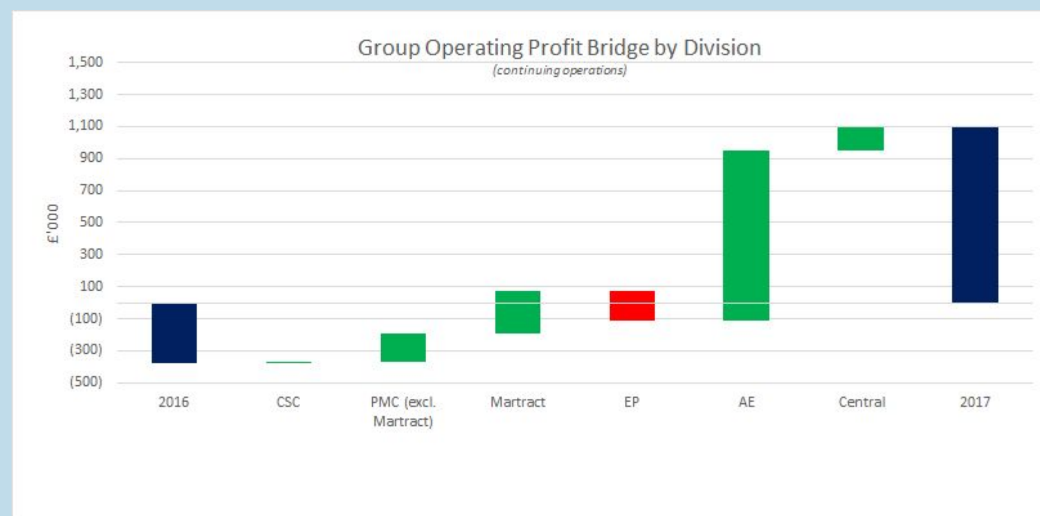
PMC, including the recent acquisition, and CSC continue to achieve strong returns for the Group. AE has progressed significantly in the year breaking even for the first time since the acquisition of Greenlane





- The sustained impact of the O&G market conditions can be seen in the 5 year trend.
- PMC continues to contribute most Operating Profit and represents 46% of the Group operating profit (before central costs)
- EP continues to be impacted by reduced capital expenditure and discretionary spend from the oil and gas market
- CSC is underpinned by defence and services and continues to see very low O&G volumes, although the first drillship order for 3 years was placed in the second half
- AE has achieved a breakeven position, the first since the acquisition of Greenlane, which is a significant improvement from prior years.

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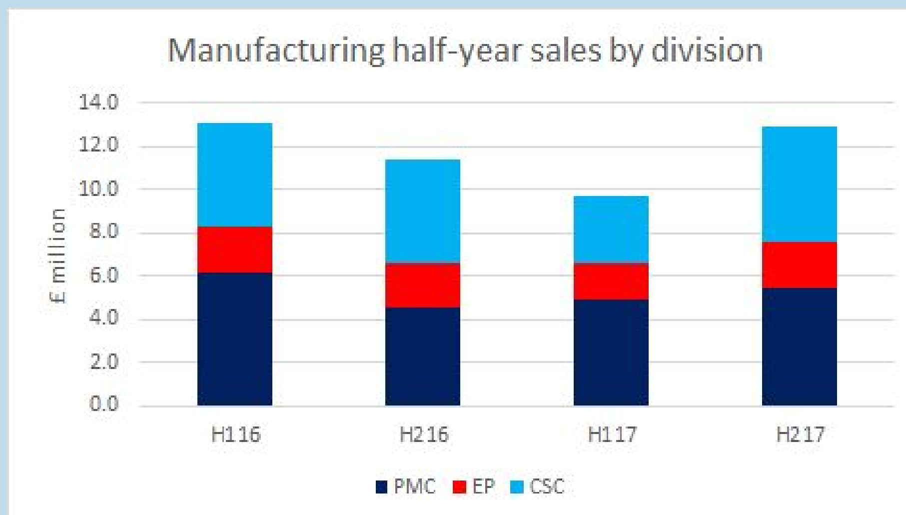
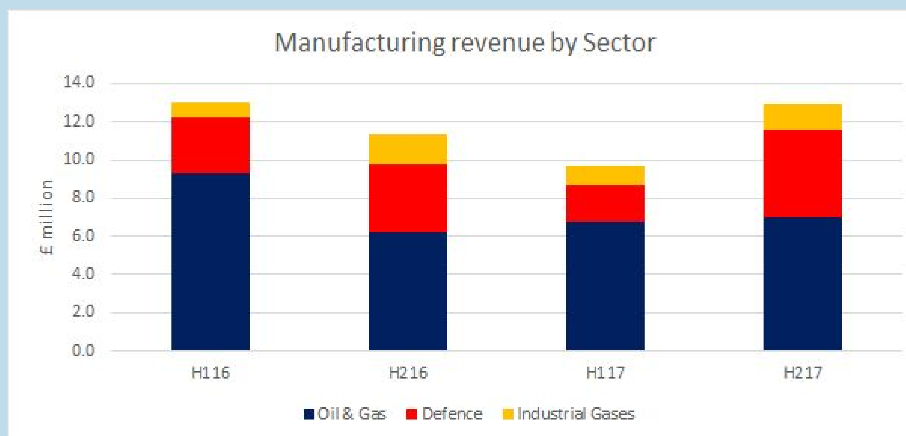
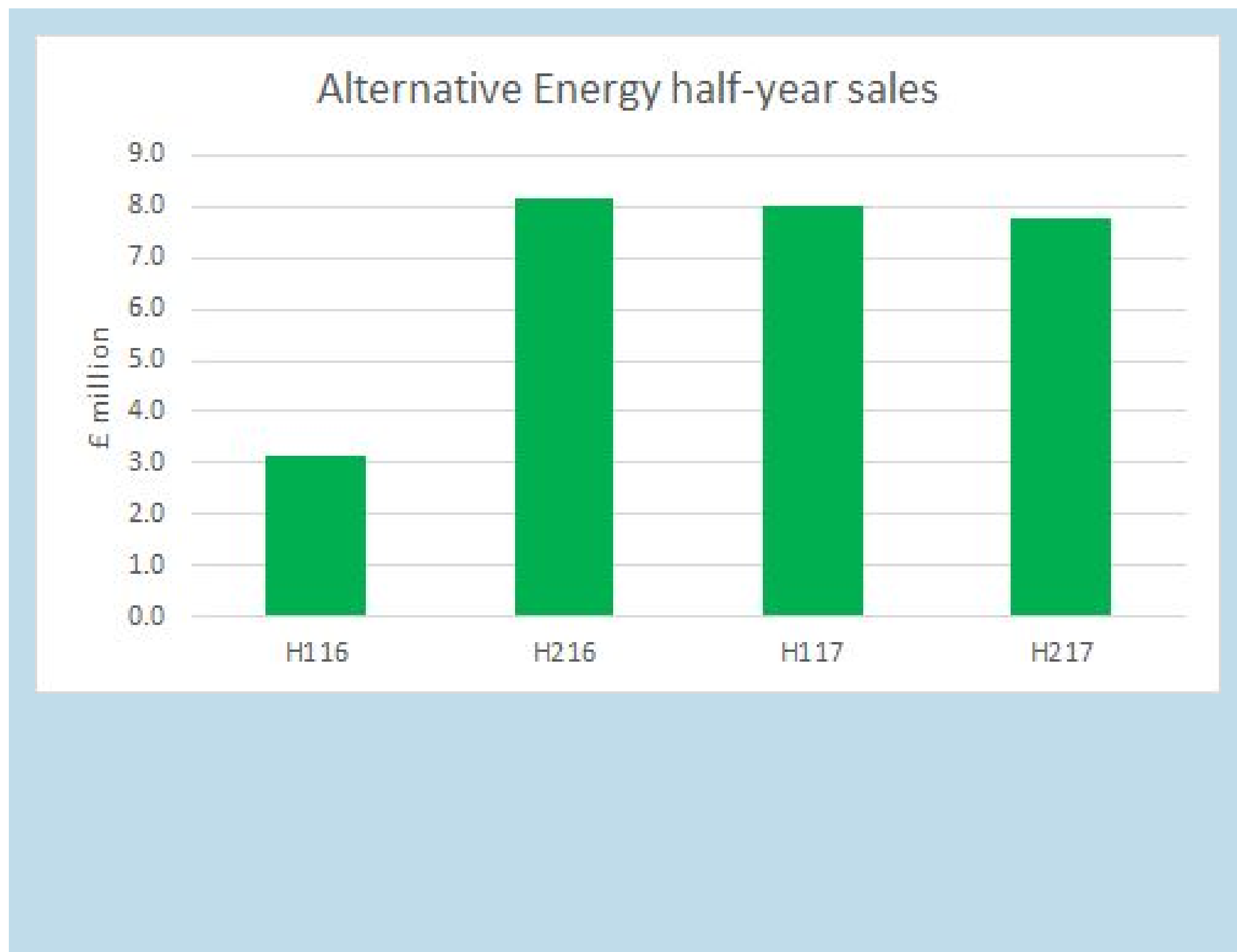
Oil and Gas sector revenue improving throughout 2017 from H216 low point across the Manufacturing divisions





- As reported in the Interim statement H216 was the low point for the Group's O&G revenue
- OPEC production cuts and consequent oil price increases combined with actions taken on business development by management have contributed to the momentum which built through 2017
- Defence work, particularly on the Dreadnought programme will continue to deliver incremental revenue through 2018 and beyond
- EP business remains hardest hit by the low O&G market volumes. Q417 however saw and upward volume trend from the lowest point in H216

The AE division has delivered on the £14 m order book that was brought forward into 2017



- The AE division has delivered on the £14 m order book that was brought forward into 2017
- Closing order book going into 2018 was £5 million
- Since year end, one contract has been secured in the UK and three projects are at final negotiation in the UK, USA and Brazil

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Summary results

	2017	2016
Revenue	38.4	35.8
Adjusted operating profit	1.1	(0.4)
Operating profit	(1.6)	(0.1)
LBT (£m)	(1.9)	(0.4)
EPS basic* (pence)	(7.9)	4.4
EPS adjusted (pence)	6.3	(2.6)
Dividend (pence)	nil	nil

- Exceptional items below adjusted operating profit relate to:
  - £0.2m - M&A costs
  - £0.7m - restructuring
  - £2.4m - amortisation of intangible assets
  - £0.6m - write back of deferred contingent consideration in respect of Matract
- No dividend to be paid, as reserves will be key to funding profitable growth in the coming months.

continuing operations

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Manufacturing Divisions

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Manufacturing financial highlights

Revenue down 5.6% to

£22.6m

(2016: £24.4m)

Gross Profit margin up 4.4ppt to

35%

(2016: 31%)

Operating Profit* up 12.5% to

£2.4m

(2016: £2.2m)

Return on Revenue

10.7%

(2016: 8.8%)

Revenue per employee up 13.1% to

£124k**

(2016: £109k)

Operating cash inflow***

£2.7m

(2016: £5.0m)

Cash conversion

1.1:1

(2016: 2.4:1)

Restructuring costs

£0.1m

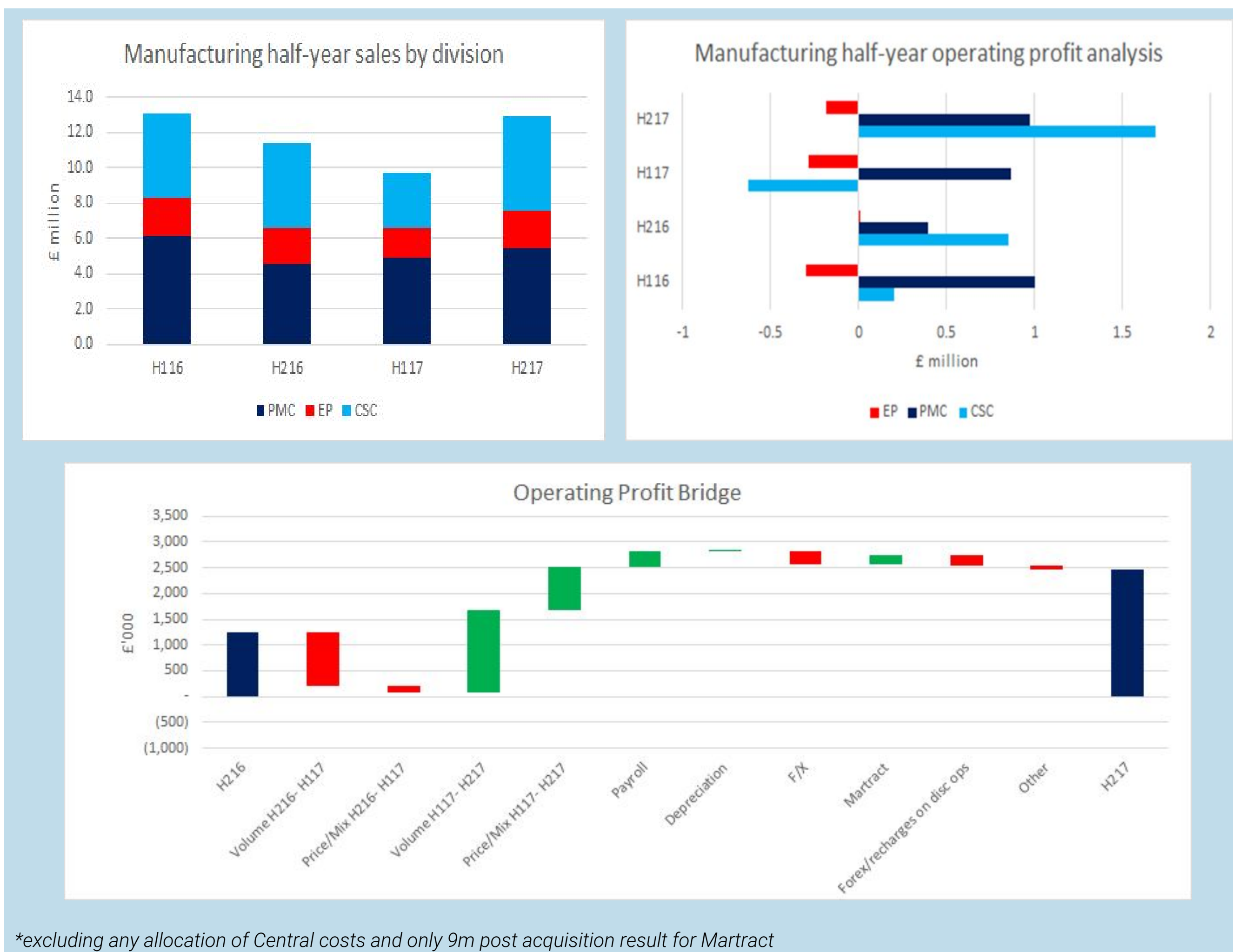
(2016: £0.8m)

* before central costs, acquisition costs, amortisation on acquired businesses and exceptional charges and credits. Including 9m post-acquisition result of Martract.

** based on straight average number of employees excluding group and AE

***before cash outflow for exceptional costs

The Manufacturing Divisions saw a bottoming out of O&G sector volumes in the second half of 2016. Over 2017 volume, margin and mix continued to improve



*excluding any allocation of Central costs and only 9m post acquisition result for Martract

- As highlighted in the interim results H216 was the low point for the Group's O&G revenue which is evident in the PMC and EP revenue development through the last two years
- As forecast the defence work in CSC, ramped up in H217
- EP has been hardest hit by the O&G downturn and market volume, particularly over the summer months, was low
- The significant contribution of the acquisitions through the downturn in the PMC Divisions is also clear. In 2017 the division (all of which arel acquisitions) contributed £1.9m Operating Profit*, a Return on Revenue of 17.7%

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PMC Division continues to achieve strong results. Margin improvement continued in the second half as volume and mix resulted in LFL 12.5% increase in Operating Profit

- Increasing revenue and profit since the second-half of the 2016 financial year low point for order intake from the oil and gas market
- 2017, first and second-half sales were 1.7% and 10.4% higher than the second-half of 2016 respectively
- More consistent order intake patterns resulting in improved gross margins for Roota and Al-Met
- Quadscot remained affected by reduced customer demand but increased activity from core and new customers lifted final-quarter sales
- Business Development Director appointment in March resulted in 8 new customers for PMC
- Martract purchased in December 2016 giving access to new markets as only 40% oil and gas
- PMC brand created to highlight strength in depth of the Division and market “one supplier four businesses”
- Near-term prospects for PMC remain positive, with our core customers expressing a more upbeat outlook for 2018 and significant potential for growth from new customers and markets
- Recruiting additional skilled engineers and operators and investing in new equipment
- Divisional Managing Director appointed, joining Q2 2018

Decrease in Revenue

-9.8% LFL*

in 2017 to £9.7 million

Increase in Gross Margin

2ppt LFL*

in 2017 to 33%

LFL* Return on Revenue

16.3%

+3.3ppt from 2016

Revenue per employee

£122k

+17% from 2016

Operating Profit

£0.3m

Contributed by Martract in 9 month period since acquisition

** Like-for-like “LFL” - i.e. excluding result of Martract Ltd which was acquired part way through the year*

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EP has seen volume increase in fourth quarter of 2017 but this, and product mix, continues to be unpredictable in a competitive and cost sensitive market

- Revenue for the year 7% lower than 2016 due to continuing reduced capital expenditure and discretionary spend from the oil and gas market, so sales were 7% lower than 2016
- Action taken in 2016 to reduce costs and improve productivity, contained the losses in 2017
- Second-half saw some patchy improvement in order intake and revenue but profit impacted by mix
- Engineered systems sales team expanded to meet this increased level of activity
- Seven new distributors appointed, which are forecast to yield increasing revenues as 2018 progresses
- 2018 Q1 witnessing a continuation of the improved but still unpredictable ordering pattern, with a more profitable mix of projects

Second half revenue up

22.9%

From first half but the mix of work weighted to lower margin products

Increase in Gross Margin

2ppt

in 2017 to 26% as a result of continued focus on LEAN operations

Return on Revenue

-12.2%

down 5.2ppt from 2016

Revenue per employee

£129k

+41% from 2016

Number of new distributors appointed

7

(2016: 2)

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As expected CSC had a significant second half as the defence work gathered pace. First order in 3 years received for O&G drillship project for delivery in 2018/9

- Defence market
  - Mainstay of the Division with over 80 years of experience in providing cylinders and services to the naval and military aerospace markets
  - Awarded cylinder design for the Dreadnought, first boat-set to be delivered in 2018
  - Significant orders for other overseas markets
  - Business Development efforts continue to focus on breaking into the substantial US defence market and the Pittsburgh sales team sales team has recently been strengthened
- Oil and gas market
  - Market is large capital asset based
  - Remains depressed with revenue in 2017 limited to small projects for floating cranes
  - Awarded a contract to supply APVs for delivery in 2018 for a new drillship, the only such order placed in the last three years
- Industrial gases market
  - Revenue principally from service work
  - Upturn in the volume of high-pressure gas trailer statutory re-test and refurbishment arising from the phasing of prior capital expenditure by the Gas Majors
  - Service related revenue grown by almost 45% since 2014 and further increase forecast in 2018
- Capital investment in 2017 centred on the ultra large cylinder forge project
- Capital investment in 2018 is planned to improve CSC's small cylinder spinning capability
- 2018 outlook positive, underpinned by the Dreadnought and further expansion of service offerings

Second half revenue up

70%

From the first half due to phasing of defence work

Increase in Gross Margin

6.7ppt

in 2017 to 41% driven predominantly by the mix of work

Return on Revenue

12.7%

+1.6ppt from 2016

services revenue

+ 45%

since 2014

Revenue per employee

£122k

comparable to 2016

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Alternative Energy Division

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Alternative Energy financial highlights

Revenue

£15.8m

(2016: £11.3m)

Gross Profit margin

17.3%

(2016: 17.4%)

Operating Profit*

£0.0m

(2016: loss £(1.1)m)

Return on Revenue

0.0%

(2016: -9.4%)

Revenue per employee up 40% to

£353k**

(2016: £252k)

Operating cash outflow***

£(0.8)m

(2016: inflow £0.9m)

Closing order book

£5.0m

(2016: £14.2m)

Restructuring costs

£0.4m

(2016: £0.8m)

* before central costs, acquisition costs, amortisation on acquired businesses and exceptional charges and credits.

** based on straight average number of employees excluding group and Manufacturing

***before cash outflow for exceptional restructuring costs

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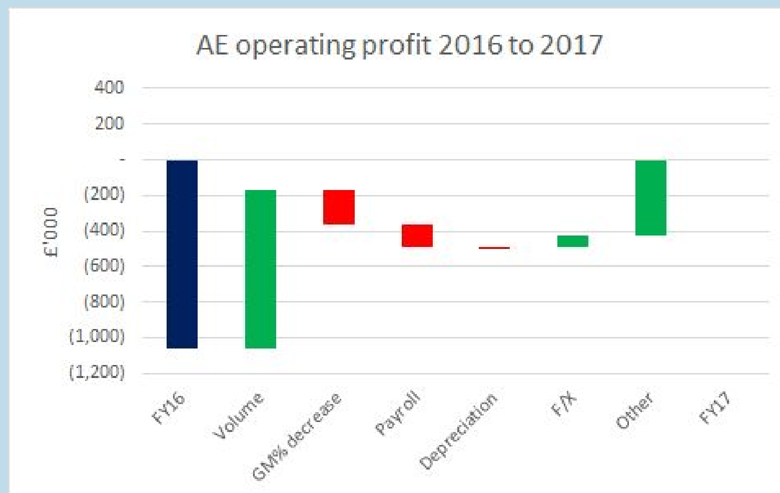
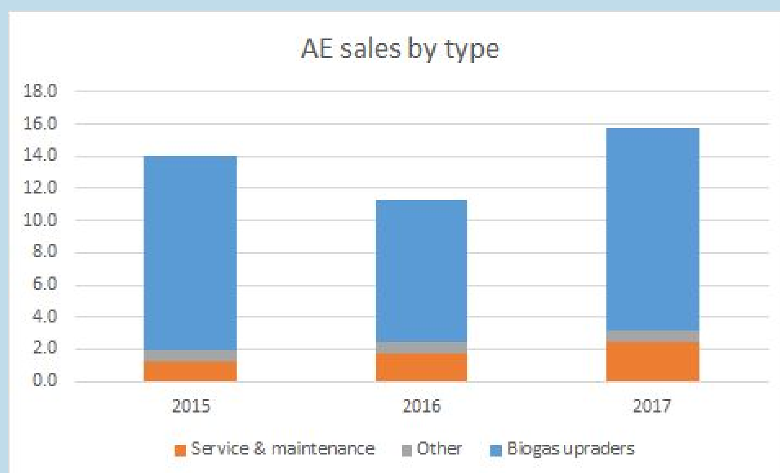
AE has delivered the opening order book but margin has been adversely impacted by cost overruns on projects and the full benefits of the restructuring at the start of H217 have yet to be seen





Revenue

£15.8m

Due to slipping on timing of new order wins

Decrease in Gross Margin

-0.1ppt

in 2017 due to cost overruns on projects completed in H217 offsetting the benefit of improved margins in H117

Return on Revenue

+9.4ppt

From 2016

Revenue per employee

£353k

+40% from 2016

CAGR increase in service revenue

28%

From 2015

Pressure Technologies

AE has delivered the opening order book but margin has been adversely impacted by cost overruns on some projects and the full benefits of the restructuring at the start of H217 have yet to be seen

- Break-even achieved for first time since Greenlane acquired
- Restructured from a regional to a functional structure
    - Centred in Vancouver, Canada.
    - Sales and engineering support regionally based
        - Vancouver - the Americas and China
        - Sheffield - Europe, Africa and Asia
    - Headcount reduced by 20%, whilst at the same time, sales resources have been strengthened
    - New President for the Division joined in November 2017
- Product development a priority
    - Kauri upgrader, the world's largest single upgrader plant, first project in commissioning
    - Second generation, entry level, Kanuka upgrader installed and commissioned in Finland
    - Technology agnostic as able to offer water-wash, pressure swing adsorption technology and membrane technologies for upgrading biogas
- Commercial
    - Closing order book at year end £5 million (2016: £14 million)
    - Pipeline of good quality sales opportunities in excess of $200 million but slow to convert to orders
    - 2018 Q1 one new contract secured in the UK and three projects are at final negotiation in the UK, USA and Brazil.
    - Collaboration model being developed with anaerobic digester manufacturers
    - Licence model for markets that are too small or complicated for direct selling

Revenue

£15.8m

Due to slipping on timing of new order wins

Decrease in Gross Margin

-0.1ppt

in 2017 due to cost overruns on projects completed in H217 offsetting the benefit of improved margins in H117

Return on Revenue

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Balance sheet and cash flow

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Summary balance sheet

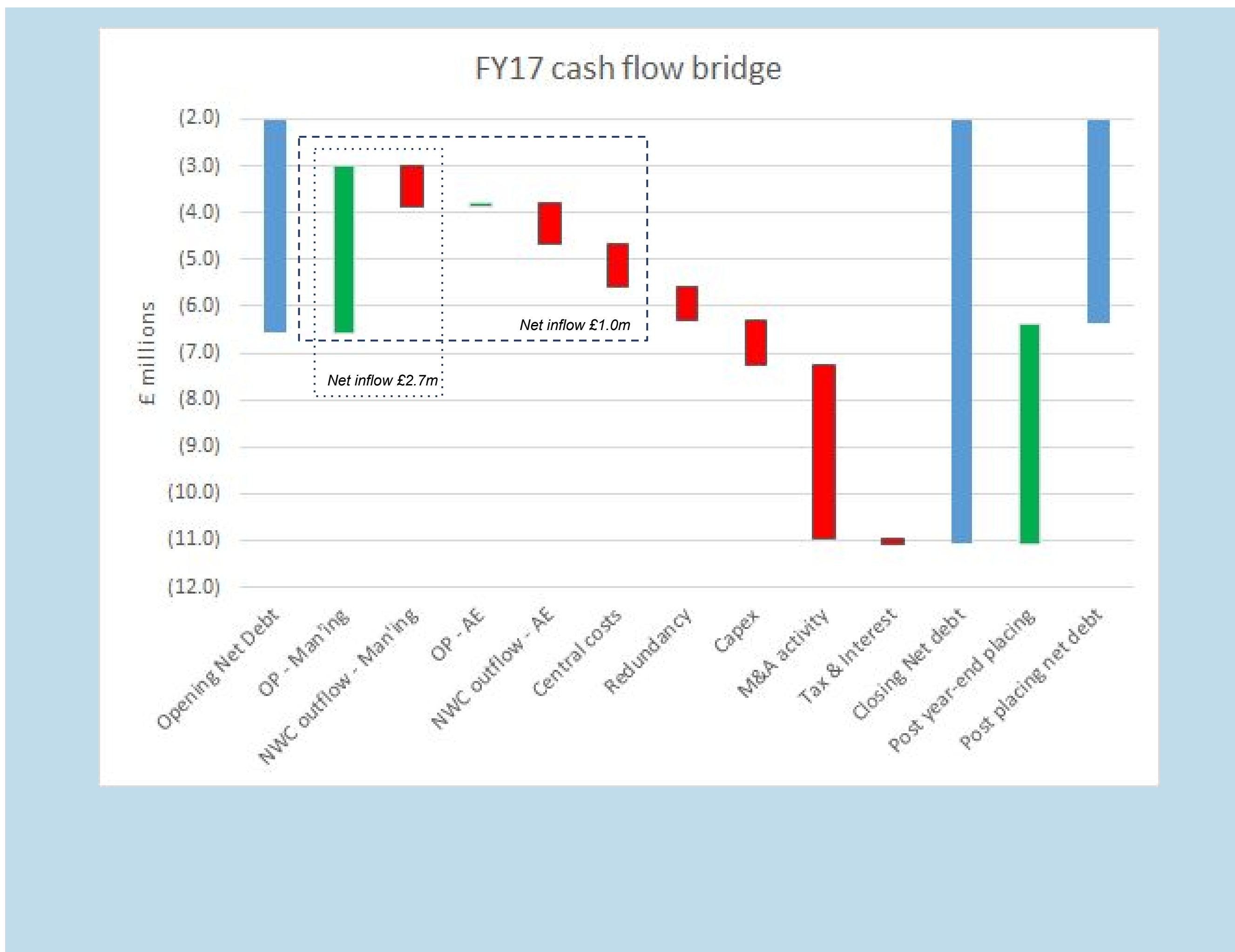
	2017 £m	2016 £m
Goodwill & Intangible assets	29.7	26.3
Tangible Assets	12.6	13.8
Inventories	4.9	5.2
Trade receivables	10.1	9.5
Trade Payables	(10.6)	(11.4)
Net Contract Balances	(0.1)	(0.2)
Net Working Capital	4.3	3.1
Tax Provisions	(2.0)	(2.3)
Net Debt	11.1	6.6
Net Assets	33.6	34.8

- Increase in goodwill and intangibles in respect of the Martract acquisition (£4.8m), product development in CSC and AE (£0.6m) and investment in IT systems & software (£0.4m)
- Net Working Capital ("NWC") represents 11.3% of last twelve months ("LTM") revenue, compared to 8.4% at end 2016.
- Volatility in NWC% arises predominantly due to the timing of large contract projects:

NWC%	Group	Manufacturing & Central	AE
2017	11.3%	17.3%	2.7%
H117	2.5%	14.3%	-12.7%
2016	8.4%	14.3%	-2.6%
H116	16.8%	17.8%	13.0%

- DSO has seen an adverse variance from 47 at end 2016 to 61 in 2017. This is predominantly due to a few specific O&G majors that have not only demanded longer credit terms, but routinely stretch these further at quarter ends

Strong operational cash generation in Manufacturing offset by investment in working capital and the acquisition of Martract resulting in closing net debt of £11.1m



- Operating cash inflow before movements in working capital and reorganisation and redundancy costs was £2.0 million higher at £2.5 million
- Net investment in working capital of £1.5 million (2016: net reduction £4.6 million) driven by the timing of large contract down payments, phasing of contract revenue and the adverse impact of certain major customers stretching payment terms at the end of 2017.
- Aside from trading activity the acquisition of Martract Ltd was the single largest cash flow in the year
- Post year-end the Group completed a share placing raising net proceeds of £4.8m. £2.7m immediately repaid a tranche of debt leaving the group £12.3m drawn on the £15m facility as at the time of the preliminary announcement.
- The RCF facility has been extended by six months to March 2019

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£15m RCF facility* was fully drawn at the year-end date. Leverage has continued to improve as EBITDA increases. Volatility in the AE working capital in particular can however lead to pressure on the headroom depending on number and stage of completion of projects.

Net debt: EBITDA leverage	2017	2016
Reported last 12m EBITDA	£2.5m	£1.1m
Reported Net Debt	£11.1m	£6.6m
Reported leverage	4.4x	6.0x
Adjusted last 12m EBITDA	£3.3m	£1.7m
Adjusted Net Debt	£10.2m	£6.2m
Facility covenant measured leverage	3.1x	3.7x
Cash headroom	£1.4m	£0.2m

The impact on the leverage of the Manufacturing Division customers who actively delayed payment of invoices due prior to the year-end date had a 0.1x adverse variance on the 2017 measured leverage covenant.

Adjusted Net Debt	2017 £m	2016 £m
Reported Net Debt	11.1	6.6
Less: Non-BoS finance release debt	(0.9)	(0.4)
Adjusted Net Debt	10.2	6.2

Adjusted EBITDA	2017 £m	2016 £m
Reported EBITDA	2.5	1.1
Add: Non-cash accounting items	0.1	0.3
Add: Non-statutory exceptional items	0.7	0.3
Adjusted EBITDA	3.3	1.7

**provided by the Bank of Scotland brand of Lloyds Bank*

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Outlook

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The recent share issue improves the Group's ability to support large-scale organic growth, and with no immediate major capital expenditure required the Group is in good shape

- Increasing confidence in the oil and gas market is driving growth in PMC, continuing the trend from 2017
- EP 2018 Q1 witnessing a continuation of improved but still unpredictable ordering patterns, with a more profitable mix of projects
- CSC outlook positive, underpinned by defence projects and further expansion of service offerings
- AE shaped for success in the biomethane/RNG market which is forecast for rapid growth
- Group-wide reorganisation in recent years gives potential for significant operational gearing gains to be made as volumes increase
- Additional management resource gives strength in depth across the Group and a leadership platform for profitable growth
- The recent share issue improves the Group's ability to support large-scale organic growth, and with no immediate major capital expenditure required the Group is in good shape

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