



Full Year Results 2019

# Contents

	Page
<b>1. Introducing Pressure Technologies plc - Our Group &amp; Our Mission</b>	<b>3</b>
<b>2. Group Highlights</b>	<b>4</b>
• Key Figures	5
• Summary Profit & Loss	6
• Balance Sheet	7
• Operating Cash Flow	8
• Group RCF	9
<b>3. Divisional Highlights</b>	<b>11-17</b>
• Precision Machined Components	
<i><b>Overview / In Numbers / 5 Year Development / Outlook</b></i>	
• Chesterfield Special Cylinders	
<i><b>Overview / In Numbers / 5 Year Development / Outlook</b></i>	
<b>4. Strategy and Outlook</b>	<b>19-21</b>

## Our Group

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.

## Our Mission

To create value for our customers by enhancing the performance of their safety-critical supply chains.

To advance safety and reliability in demanding environments through technology, high-quality engineering and the skills of our people.



PRECISION MACHINED COMPONENTS (PMC)

**The Precision Machined Components division comprises the Rosta Engineering, Quadscot Precision Engineering, Al-Met and Martract brands, with world-class lead times, highly specialised precision engineering skills and a blue chip customer base in the global oil and gas market.**

FULL YEAR RESULTS TO 28 SEPTEMBER 2019

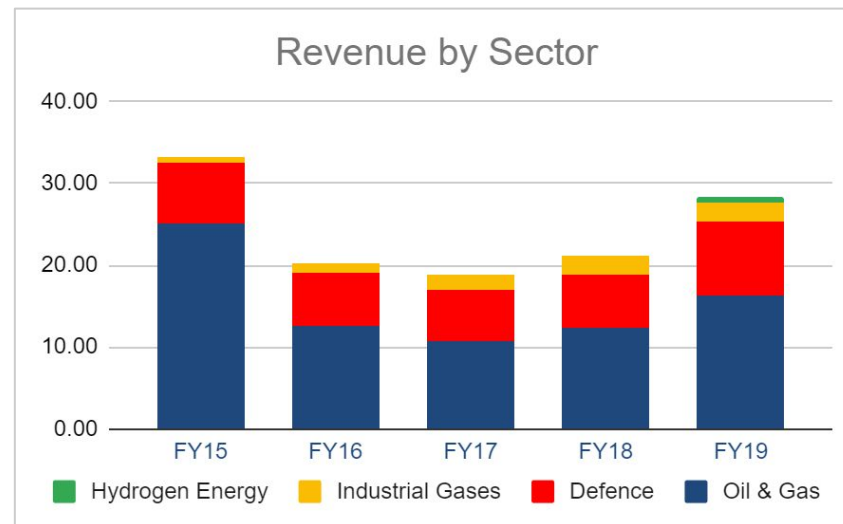
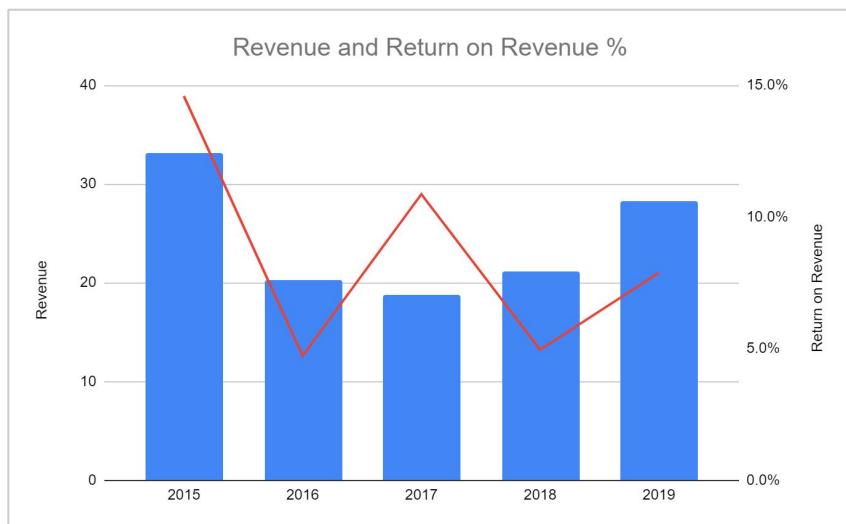


CHESTERFIELD SPECIAL CYLINDERS (CSC)

**Operating for over a century, Chesterfield Special Cylinders designs and manufactures high-pressure gas containment systems and provides through-life integrity management services for safety-critical applications in defence, oil and gas, industrial and energy markets.**

# Group Highlights

- Improved trading performance and results, driven by defence contracts and increasing momentum in the oil and gas market
- Strategic progress made with the divestment of non-core operations, recovery of profitability and organic growth in both divisions
- Integration of Precision Machined Components (PMC) subsidiary companies completed and operational improvements made
- Order backlog and output delays in PMC increased working capital during the year, expected to unwind in the first half of 2020
- PMC order intake for the year to November 2019 reached the highest level for over five years, order book 70% higher than a year ago
- Strong and increasingly diverse order book in Chesterfield Special Cylinders (CSC), following contract award from EDF Energy
- Outlook for CSC in UK and export defence programmes remains strong. Further growth forecast in Integrity Management services.



# Group Key Figures

Revenue\* 34% up to

**£28.3m**

(2018\*: £21.2m)

Operating profit\* more than doubled to

**£2.2m**

(2018\*: £1.0m)

Return on Revenue up to

**7.9%**

(2018: 5.0%)

Operating cash inflow\*\*

**£2.0m**

(2018: £1.9m)

Working capital % LTM revenue

**26%**

(2018: 25%)

Disposal of Alternative Energy Division

**£2.0m**

Cash consideration\*\*\*

Closing Net RCF Debt

**£8.6m**

(2018: £5.7m)

Closing finance lease debt

**£2.8m**

(2018: £1.1m)

\* continuing operations only

\*\* continuing operations only excluding cash outflow for exceptional costs

\*\*\* Further non-cash consideration of £2.0m in shares in Greenlane Renewables Inc. and £6.1m promissory note

# Summary Profit & Loss

	2019*	2018*
Revenue (£m)	28.3	21.2
Precision Machined Components Division	14.4	11.2
Chesterfield Special Cylinders Division	13.9	10.0
Gross profit (£m)	9.2	7.2
Adjusted operating profit (£m)	2.2	1.0
Exceptional items (£m)	(0.5)	(0.5)
Operating loss (£m)	0.0	(1.3)
Loss before taxation (£m)	(0.5)	(1.7)
EPS basic (pence)	(2.1)	(7.5)
EPS adjusted (pence)	2.9	7.8
Dividend (pence)	nil	nil

\*continuing operations only

Revenue up

**+34%**

Gross margin down 2 ppt to

**32%**

Return on Revenue up 2.9 ppt to

**7.9%**

Exceptional items below adjusted  
operating profit relate to:

£0.5m - reorganisation and  
redundancy  
£1.8m - Amortisation of acquisition  
related goodwill and intangible  
assets

# Summary Balance Sheet

	2019 £m As reported	2018 £m As reported
Goodwill & Intangible assets	16.1	25.8
Tangible Assets	14.0	12.0
Other long-term financial asset**	7.4	0.0
Inventories	5.1	4.4
Trade & other receivables	8.4	10.8
Trade & other Payables	(7.4)	(9.2)
Net Contract Balances	1.1	(2.6)
Net Working Capital	7.2	3.4
Tax Provisions	(1.2)	(1.2)
RCF facility borrowing	(10.8)	(11.8)
Cash and cash equivalents	2.2	6.1
Finance lease debt	(2.8)	(1.1)
Net Debt	(11.4)	(6.7)
Net Assets	32.1	33.4

\*\*shares in Greenlane Renewables Inc and Promissory Note received as part consideration on disposal.

Goodwill & Intangibles % Net Assets

**50.2%**

(2018:77.2%)

Measured leverage covenant ratio

**2.1x**

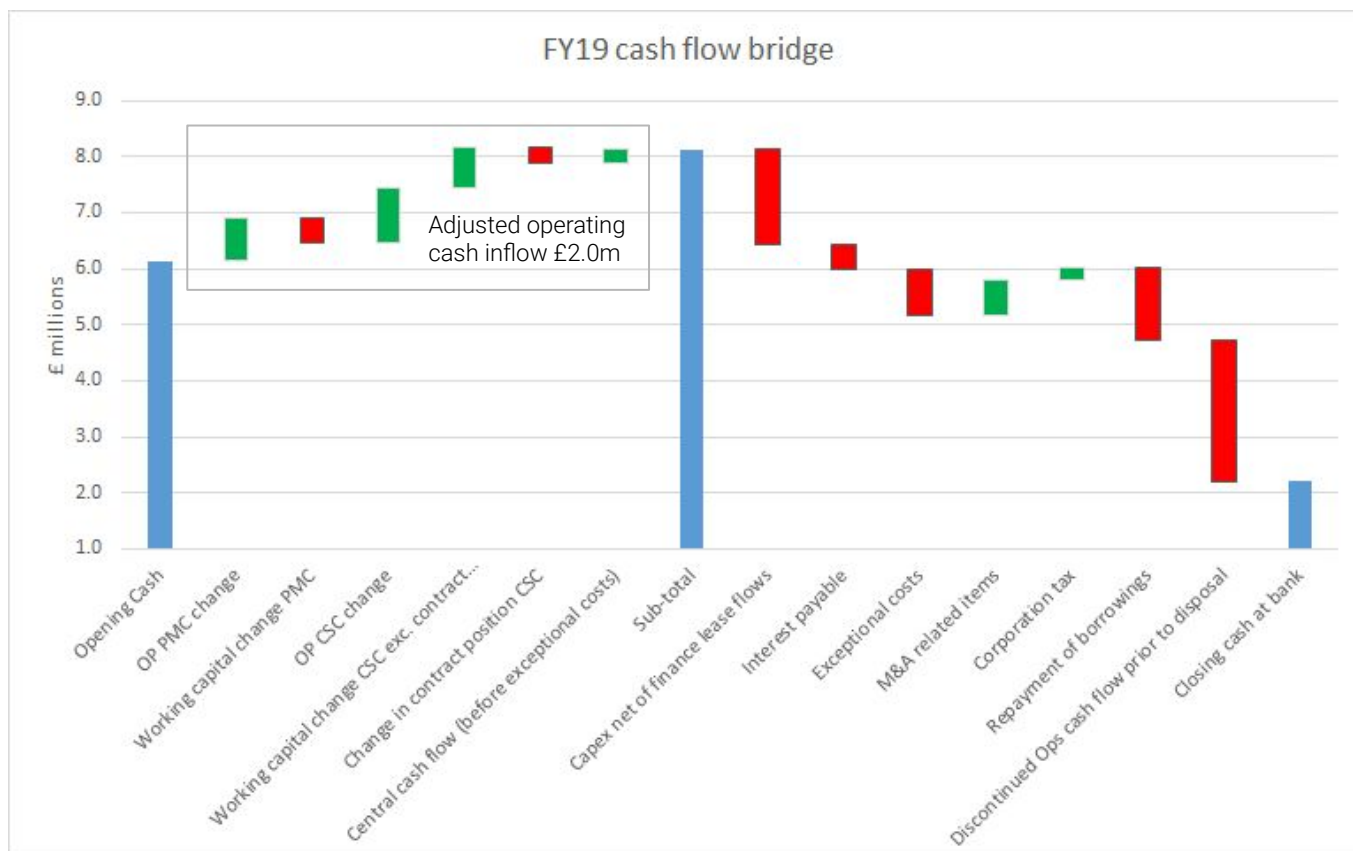
(2018:2.0x)

Net working capital % LTM sales

**25.8%**

(2018:24.5%)

# Summary Cash Flow



Adjusted operating cash inflow\*

£2.0m

Net investment in working capital

£2.2m

Operating cash outflow of AE division prior to disposal

£2.5m

Repayment of RCF facility

£1.0m

\*before cash outflow for exceptional costs



## Reconciliation of measured leverage covenant

Net debt: EBITDA leverage	2019	2018	Adjusted Net Debt	2019 £m	2018 £m
Reported last 12m EBITDA	£3.6m	£2.3m	Reported Net Debt	11.4	6.7
Reported Net Debt	£11.4m	£6.7m	Less: Non-BoS finance lease debt	(2.8)	(1.1)
Reported leverage	3.2x	2.9x	Adjusted Net Debt	8.6	5.6
Adjusted last 12m EBITDA	£4.1m	£2.8m			
Adjusted Net Debt	£8.6m	£5.6m			
<b>Facility covenant measured leverage</b>	<b>2.1x</b>	<b>2.0x</b>	Adjusted EBITDA	2019 £m	2018 £m
Cash headroom	£3.7m	£2.8m	Reported EBITDA	3.6	2.3
			Add: Non-cash accounting items	0.0	0.0
			Add: Non-statutory exceptional items	0.5	0.5
			Adjusted EBITDA	4.1	2.8

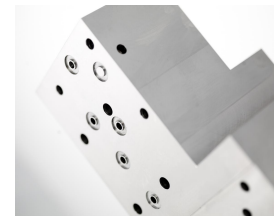


PRECISION  
MACHINED  
COMPONENTS

# Precision Machined Components - Products and Customers

## Products:

- Components supplied to OEMs for onshore & offshore capex and opex projects:
  - Drilling systems
  - Completions
  - Production systems
  - Flow control
  - Fishing systems
- Safety-critical, complex and independently certified components
- Cost of an individual component is very small in relation to overall system cost
- Impact and cost of installed system failure is very high



## Major Oil & Gas Customers:



**Weatherford**

**BAKER  
HUGHES**  
a GE company



**HALLIBURTON**

**CAMERON**  
A Schlumberger Company

**NOV**  
**NATIONAL  
OILWELL  
VARCO**

**OneSubsea**  
A Schlumberger Company

**MISWACO**

**OCEANEERING**

**EXPRO**

**AkerSolutions**

**TechnipFMC**

**Schlumberger**

# PMC in numbers



Revenue 30% up to

**£14.4m**

(2018: £11.2m)

Gross profit margin

**29%**

(2018: 33%)

Operating profit

**£1.9m**

(2018: £1.5m)

Return on revenue

**13%**

(2018: 13%)

Percentage of revenue from new customers

**11%**

Closing order book up

**+70%**

at November 2019 compared to November 2018

Working capital % of last twelve months sales

**23%**

(2018: 22%)

Investment in advanced CNC machine tools

**£2.1m**

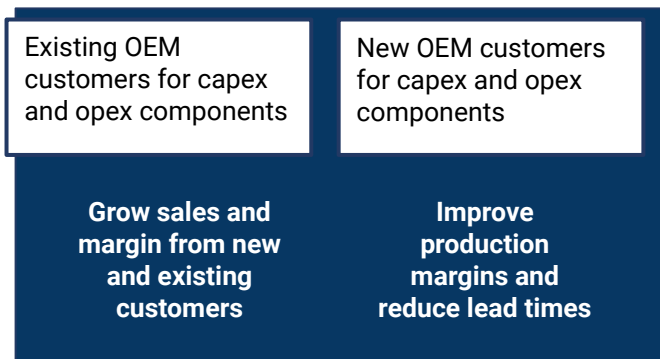
Headcount up

**+19%**

at September 2019 compared to September 2018

# PMC - Strategic Focus for Organic Growth

## Oil & Gas Capex and Opex Components



## Divisional Operating Model

- Management changes and transition to an integrated divisional operating structure completed
- Scalable model with advantages gained through sales coverage, capacity utilisation, product scope, leverage in purchasing and shared support functions



## Key initiatives to support organic growth plan

- Sales and margin growth, new customer acquisition:
  - Strengthen sales team
  - Drive sales effectiveness
  - Regional and customer focus
  - Key account management
  - Extended project scope and product range
  - Engineering design development for manufacturing
- Improve production margins and reduce lead times
  - New advanced machining centres
  - New Production Engineers on site
  - Centralised purchasing and supply chain management
  - Centralised load and capacity planning
  - New Manufacturing Resource Planning system

## Respected Brands





# CHESTERFIELD SPECIAL CYLINDERS

# CSC - Products, Markets and Customers

## Products and Markets:

- Ultra Large Cylinders
  - Defence - Naval UK
  - Defence - Naval Overseas
  - Oil & Gas - Exploration & Production
  - Oil & Gas - Diving Support
  - Industrial Gases Static Storage
  - Industrial Gases Transportation
  - Hydrogen Energy
  
- Small Cylinders
  - Defence - Aerospace

## Services:

- Integrity Management Services
  - Factory reconditioning, refurbishment, recertification
  - In-situ inspection, maintenance, reconditioning and recertification

## Defence Market Customers:



## Oil & Gas Market Customers:



## Gas Transportation Market Customers:



## Hydrogen Energy Market Customers:



# CSC in numbers



Revenue 39% up to

**£13.9m**

(2018: £9.9m)

Gross profit margin

**36%**

(2018: 35%)

Operating profit more than doubled to

**£2.1m**

(2018: £1.0m)

Return on revenue up 4ppt

**15%**

(2018: 11%)

Integrity Management Services Revenue up

**+48%**

Revenue from emerging hydrogen energy market

**£0.7m**

(2018: £nil)

Working capital % of last twelve months sales

**29%**

(2018: 32%)

Investment in advanced CNC machine tools

**£0.7m**

Headcount up

**+9%**

at September 2019 compared to September 2018



# CSC - Strategic Focus for Organic Growth

## Ultra-Large Cylinder Supply

UK naval submarine and surface ship programmes

Improve project production margins

Overseas naval submarine and surface ship programmes

Grow sales and margin from target programmes

Global hydrogen energy projects

Grow sales and margin from existing and new customers in target regions

Oil and gas projects for drilling, production and dive support

Add new customers, extend sales pipelines and grow share of projects

Storage for space, industrial and power generation projects

## Small Cylinder Supply

Military aerospace programmes

Improve project production margins

## Integrity Management Services

Factory reconditioning and recertification

In-situ reconditioning and recertification

Grow sales and margin from existing and new customers in target sectors and regions

## Key initiatives to support organic growth plan

- Sales and margin growth, new customer acquisition:
  - Strengthen sales team
  - Drive sales effectiveness
  - Clear focus on growth products and sectors
  - Key account management
- Improve production margins
  - New skills, production methods and advanced equipment
  - Process efficiencies
  - Supply chain management
  - Production planning and utilisation
- Develop and grow recurring revenue from high-margin Integrity Management services
  - Extend service scope and customer base for in-situ inspection, maintenance and recertification
  - New service offering for emerging hydrogen energy sector
  - Sales focus for factory reconditioning and recertification



# Strategic Progress & Outlook

# Vision for growth

**Creating value for investors, customers, colleagues and the communities we operate, measured through:**

- Quality of our products and services
- Financial Performance - revenue, operating profit, EPS, dividend
- Customer Preference - market share, repeat business, new customers
- Operational Excellence - margins, lead times, supply chain performance



# Strategic Progress in 2019

## Phase 1 (to mid-2020): Refocus

- Divestment of non-core divisions
- Recover profitability and cash generation
- Confirm strategic focus and growth plans

- sale of Engineered Products division in June 2018 and Alternative Energy division in June 2019. Group now focussed on two core divisions
- increase in operating profit and return on revenue delivered in 2019
- operating cash inflows from continuing operations in 2019, although working capital was higher than internal targets at the year end
- strategy review undertaken. Strategic focus areas, priorities and key initiatives set out in the 2019 interims
- management changes and reorganisation to bring clearer accountability and drive performance in both divisions
- integrated divisional operating structure in PMC underpins scalability and growth
- HR business partners to support management teams navigate change effectively, enable recruitment, training and address welfare matters

## Phase 2 (from mid-2019): Deliver organic growth plans

- Grow revenue and margin from existing and new customers
- Grow revenue and margin from extended product scopes and emerging sectors
- Grow margins through operational improvements

- increased revenue in both divisions from existing and new customers
- operational improvements demonstrating margin growth and reduced lead times
- major contract for CSC in new market with EDF Energy
- further growth in recurring revenue from CSC's Integrity Management services
- delivery of first projects into the Hydrogen Energy market by CSC
- increased sales effectiveness in PMC, with order book 70% higher in November 2019 than a year ago. New customer revenues represented 11% of 2019 total, showing progress in reducing customer concentration
- investment in advanced CNC machine tools across the Group, improving production efficiency and throughput capacity. New product scope and range delivered by PMC
- qualifying R&D projects supported new product development
- investment in IT systems and infrastructure to support operational improvements

## Phase 3 (from late-2021): Accelerate Growth and Build Scale

- Growth from new sectors
- Growth from new regions
- Scale from acquisitions

- focus remains on organic growth
- appraise growth and development through acquisition where we see opportunity to advance our scale, technical capability and reach into new sectors and regions.

## Conclusion and outlook

- Non-core divestments complete and refocused Group returned to profitability
- Focus on margin improvement, unwinding working capital and improvement of cash generation through the first half of 2020
- Strategic progress and favourable conditions in target markets underpin confidence in the outlook
- Strong order book in both divisions, recent major contract wins and increasingly diverse opportunities in the sales pipeline
- Record order intake and increased customer diversity for PMC, with order book 70% higher in November 2019 than a year ago
- Robust order book and diverse sales pipeline for CSC, with growing opportunities in the emerging hydrogen energy market
- Positive outlook and pipeline for CSC's Integrity Management services in defence, oil and gas and industrial markets
- Progress made with organisational development and culture that is key to sustainable growth and performance improvement
- Non-executive board appointments anticipated early in 2020.

*"I am pleased with the significant improvement in trading performance this year. We have made important management and operational changes within the business over the course of the year. I am also pleased with the way our teams have responded during this transitional period and encouraged by the progress we have made with organisational development and culture that is key to delivering sustainable growth."*

*"Order backlog and delayed output increased working capital during the year, but I am confident that this will unwind early in the new year as the backlog is cleared and operational initiatives take effect, delivering shorter lead times, improved margins and recovering cash flows."*

*"Good strategic progress and the favourable conditions in core markets underpin our confidence in the outlook for 2020 and beyond. Both divisions hold strong order books with reduced customer concentrations and have recently posted record contract wins from an increasingly diverse and buoyant sales pipeline."*

**Chris Walters, Chief Executive**



# SUPPORTING INFORMATION

## Executive Management Team



**Chris Walters**  
Chief Executive

**Appointed - September 2018**

### Relevant strengths

- Business regeneration and growth
- Engineering expertise and credentials
- Energy and marine sector knowledge and network
- Multi-division, multi-region operations management

### Relevant experience

- Master's degree-qualified Chartered Engineer with over 25 years of experience. MBA from Imperial College, London.
- Fellow of the Royal Institution of Naval Architects and Fellow of the Institution of Marine Engineers, Science & Technology.
- Background in engineering design, construction and through-life integrity management for marine and oil & gas operational assets.
- Senior executive career with Lloyd's Register Group, including roles in the UK and overseas and the management of the Group's global marine and oil & gas certification businesses.
- Chief Executive and co-owner of VCT-backed oil & gas technology SME, TSC Inspection Systems.

### External commitments

- Trustee of the Royal National Lifeboat Institution (RNLI) and Technical Committee Chairman.
- Freeman of the Company of Cutlers in Hallamshire.



**Joanna Allen**  
Chief Financial  
Officer

**Appointed - July 2015**

### Relevant strengths

- IFRS financial reporting for AIM companies
- M&A, in particular financial due diligence
- Management information and data analytics
- Audit

### Relevant experience

- AIM company board and committees, in particular Audit and Risk Committee function and effectiveness.
- Audit and Transaction Services Director with PwC, focused on manufacturing and engineering clients.
- Shortlisted in the 2018 and 2017 Northern Finance Director Awards and the 2018 Yorkshire Finance Leader Awards.
- Qualified Chartered Accountant with the ICAEW.
- Degree in Business Studies from the University of Sheffield.

### External commitments

- Governor of Sheffield Hallam University
- Vice-chair of Governors at Hunter's Bar Infant School in Sheffield
- Freeman of the Company of Cutlers in Hallamshire.

## Independent Non-Executive Directors



**Neil MacDonald**  
Independent  
Chair

### Appointed - June 2013

#### Relevant strengths

- M&A expertise
- Growing businesses
- Chartered accountant

#### Relevant experience

- A Chartered Accountant with 25 years of experience in the oil and gas and engineering industries.
- Former Group Finance Director of AES Engineering Limited the international mechanical seals manufacturer; and previously Group Finance Director of the international aerospace company, Firth Rixson.
- Numerous non-executive roles in the public and private sector.

#### External commitments

- Non-Executive Director Autins plc
- Governor of Sheffield Hallam University
- private sector Board Member of the Sheffield City Region Local Enterprise Partnership and a trustee of various charitable organisations.
- Member and Past Master of the Freeman of the Company of Cutlers in Hallamshire.



**Brian Newman**  
SID

### Appointed - September 2015

#### Relevant strengths

- Engineering expertise
- Knowledge of global industrial businesses, including cross-border M&A
- Divisional management experience

#### Relevant experience

- A Chartered Engineer with a degree in Engineering from Cambridge University and an MBA from Penn State University, USA.
- Former Divisional Director at two FTSE 100 companies, latterly at Melrose plc as EMEA Managing Director at its subsidiary, Bridon International Group.
- Former Divisional Managing Director at international engineering group GKN plc, with responsibility for its global Wheels and Axles Divisions.
- Over 40 years' experience in engineering having also previously served on the boards of two listed companies.

#### External commitments

- Non-executive Director with The Shrewsbury and Telford Hospital NHS Trust and a number of other organisations.



## Major Shareholders

Name of Shareholder	No. of Shares	Holding
Gresham House Asset Management	3,650,000	19.63%
Artemis Investment Management LLP	3,598,648	19.35%
Schroder Investment Management	1,232,304	6.63%
James Sharp	1,171,067	6.30%
J.T.S. Hayward	1,007,500	5.42%
Hargreaves Lansdown	762,185	4.10%
Interactive Investor Trading	595,028	3.20%
Matthew Crampin	575,214	3.09%
Unicorn Asset Management	567,167	3.05%

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And keep up to date with news from around the Group

<http://www.pressuretechnologies.com/news>

Contact us

[pressure@investor-focus.co.uk](mailto:pressure@investor-focus.co.uk)

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