



**A diversified industrial engineering company**

# **Building a platform for growth**

Results for the half year ended 29 September 2018

# Strategic & Operational review

# Summary

- Healthy trading and profitable growth
- Restructuring and cost base rationalisation implemented
- Strengthened management team
- Continued new product development and customer offering
- Enhanced direct sales and distribution resource to support organic growth
- Opportunities for Divisional operational and distribution synergy benefits
- \$270m pension scheme buy-out; post-tax cash surplus of c. \$4m - \$5m
- Orderbook up 5% providing good visibility
- Dividend restoration - interim dividend of 0.25p per share

# Group activities



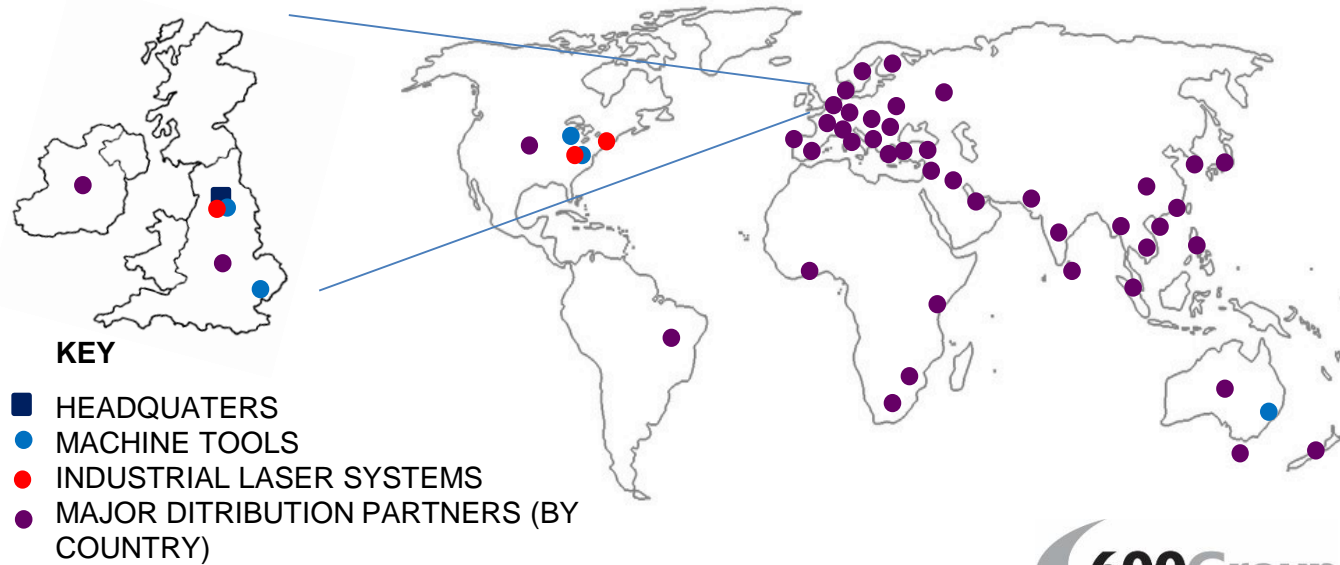
- TWO REPORTING DIVISIONS
- STRONG OPERATING BRANDS
- DIVERSIFIED END MARKETS
- LOYAL, BLUE CHIP CUSTOMERS
- BROAD PRODUCT PORTFOLIO
- GLOBAL DISTRIBUTION NETWORK
- REPUTATION FOR QUALITY
- EXTENSIVE CUSTOMER SERVICE OPERATION
- EXPERIENCED MANAGEMENT

**MACHINE TOOLS AND  
PRECISION ENGINEERED COMPONENTS**  
(70% revenue, 58% operating profit)

**INDUSTRIAL LASER SYSTEMS**  
(30% revenue, 42% operating profit)

Industrial Laser Systems

Automotive   Transport   Aerospace   Oil & Gas   Industrial   Military/Defence   Education



# Building a platform for growth

## De-risking the business – progress and priorities

- UK restructuring and cost base rationalisation
- \$270m pension scheme buy-out de-risks balance sheet
- De-risking cyclicalities by targeting non-discretionary, recurring revenue streams

## Growth agenda

- Leverage strong global brands into new geographies and growth markets
- Active approach to new product development across both divisions
- Enhance direct sales and distribution resource to support organic growth
- Opportunities for Divisional operational and distribution synergy benefits
- Fragmented market provides targeted acquisition opportunity

# Divisional overview

# Machine Tools: World-recognised operating brands

- Recognised world wide brands
- 100,000 machines in operation globally
- Direct sales in Europe / North America / Australia
- Distribution in 50 countries
- Over 400 distributors in North America

## Metal cutting



## Precision components

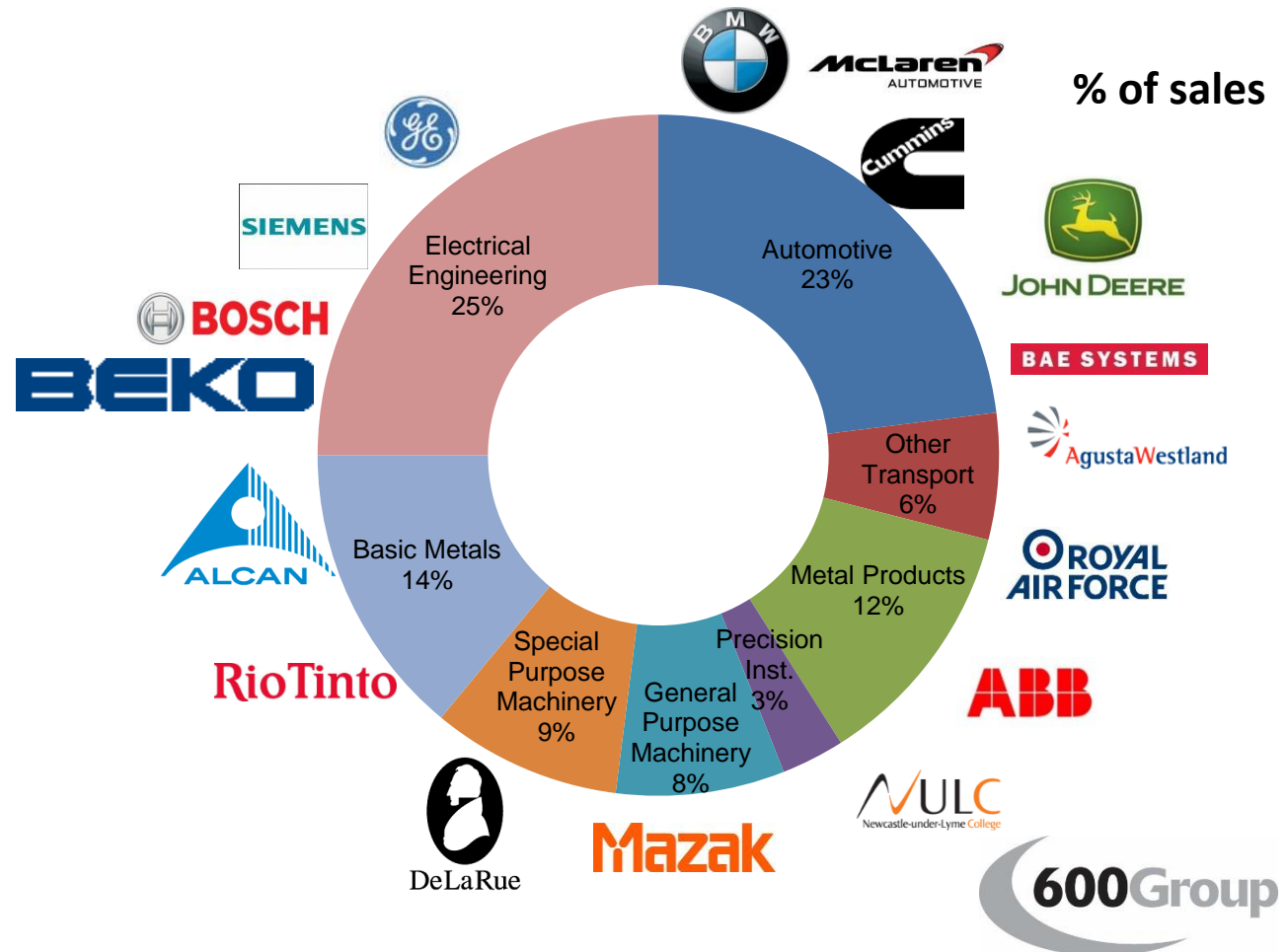


600 UK Spares & Service



# Supplying world class customers across diverse end markets

- Serving a broad customer base
- High degree of loyalty
- Top 10 customers represent less than 23% of revenues





# Targeting growth

## **Strong market fundamentals:**

- Large global market (and growing) - \$89bn annual market with growth projection to over \$99bn by 2022
- Structural evolution of machine tool industry driven by technology advances
- Capital good innovation central to global economic growth

## **Growth strategy:**

- Enhanced and new product development within existing markets
- Product extension into new geographies/ high growth emerging markets
- Increased focus on international markets to leverage brand strength
- Enhance direct sales and distribution resource to support organic growth
- Grow high margin parts and services revenue stream

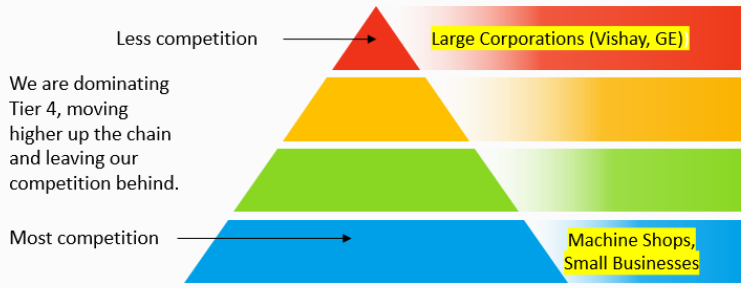
# Industrial Lasers

- Industrial Laser Systems provide a technologically superior alternative to traditional techniques
- Applications include marking, engraving and micro-material processing
- Broad addressable market across a wide range of industries

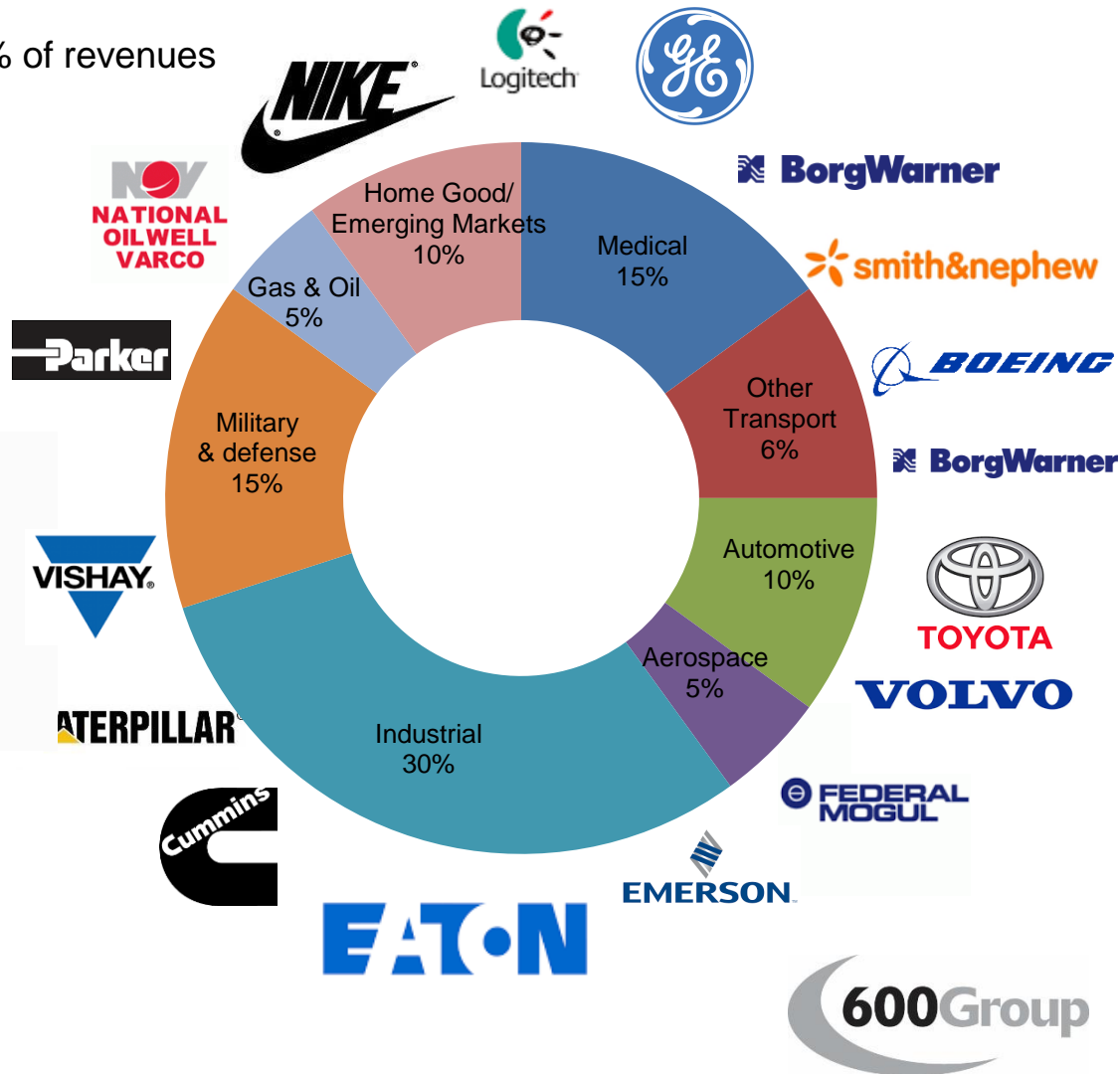


# Supplying world class customers across diverse end markets

- Serving a broad customer base
- High degree of loyalty
- Top10 customers represent less than 39% of revenues



Driving market penetration across the value chain - tier 4 to tier 1



# Strong drivers underpin growth

## Strong market drivers

- Increase regulation around product traceability
- Environmental agenda driving reduction in consumables
- Product superiority versus traditional alternatives: permanence, durability, cosmetics and cost effectiveness
- Increasing adoption across a growing range of industry sectors

## Growth strategy

- Develop global customer base through distributor expansion
- Extensive product development programme
- Target new industry segments
- Move up the customer value chain – tier 4 to tier 1
- Product extension into new geographies/ high growth emerging markets
- Highly fragmented global market provides M&A opportunity

# Financial review

## Neil Carrick

# Financial priorities to support growth

- Maintain robust management of working capital
- Expand margins through higher margin product mix
- Reduce indebtedness - on an annual declining trend
- Pension buy-out with expected post-tax cash surplus of c. \$4m - \$5m
- Balance shareholder returns with investment in growth

# Summary

- Healthy trading and profitable growth
- Restructuring and cost base rationalisation underway
- \$270m pension scheme buy-out; post-tax cash surplus of c. \$4m - \$5m
- Orderbook up 5% providing good visibility
- Dividend restoration - interim dividend of 0.25p per share

# UK pension scheme buy out

- \$270m of contingent liabilities neutralised– no further risk to Group
- Remaining surplus to be repaid to the Company after deduction of 35% statutory tax on Scheme wind up – estimated at \$4m-\$5m
- Onerous undertakings and trustee debenture over Group assets removed
- Individual member benefits secured with Pensions Insurance Corporation for 2,000 pensioners and 800 deferred members



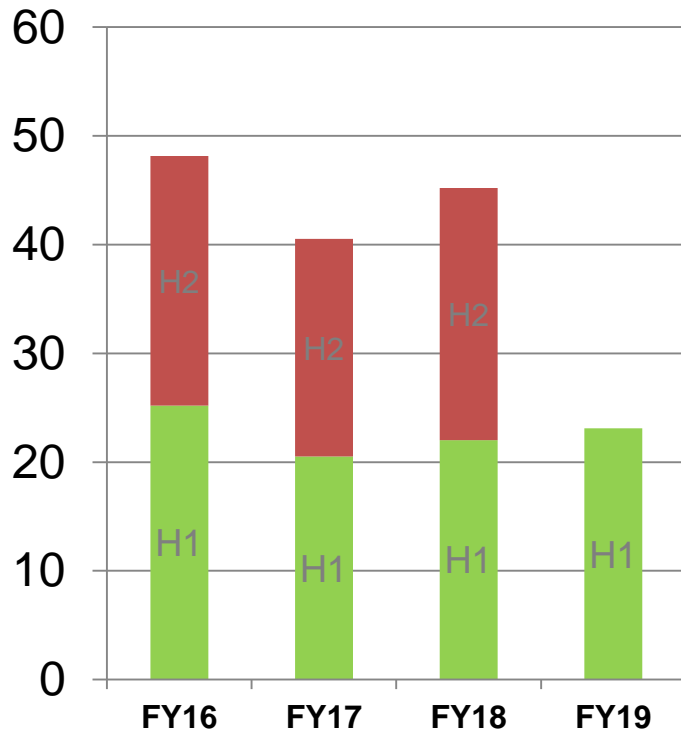
# Loan notes & warrants

- The £8.5m of 8% loan notes entitle holders to warrants at 20p
- There are 43.95m warrants outstanding
- Loan notes mature and warrants expire 14th February 2020
- Loan notes will be covered by funds from investors exercising warrants or the 600 Group will re-finance the loan
- If warrants are exercised the Group would save loan note interest of £680k pa and with no tax effect (due to substantial carry forward losses in the UK) the net effect on EPS is just over 10% dilution if all warrants are exercised
- A large percentage (over 2/3rds) of the warrants (over 29m) are owned by institutional holders/ existing shareholders. These investors are more likely to retain these shares and if this were the case there is only likely to be about 12% of total share capital becoming liquid

# Machine Tools division financials

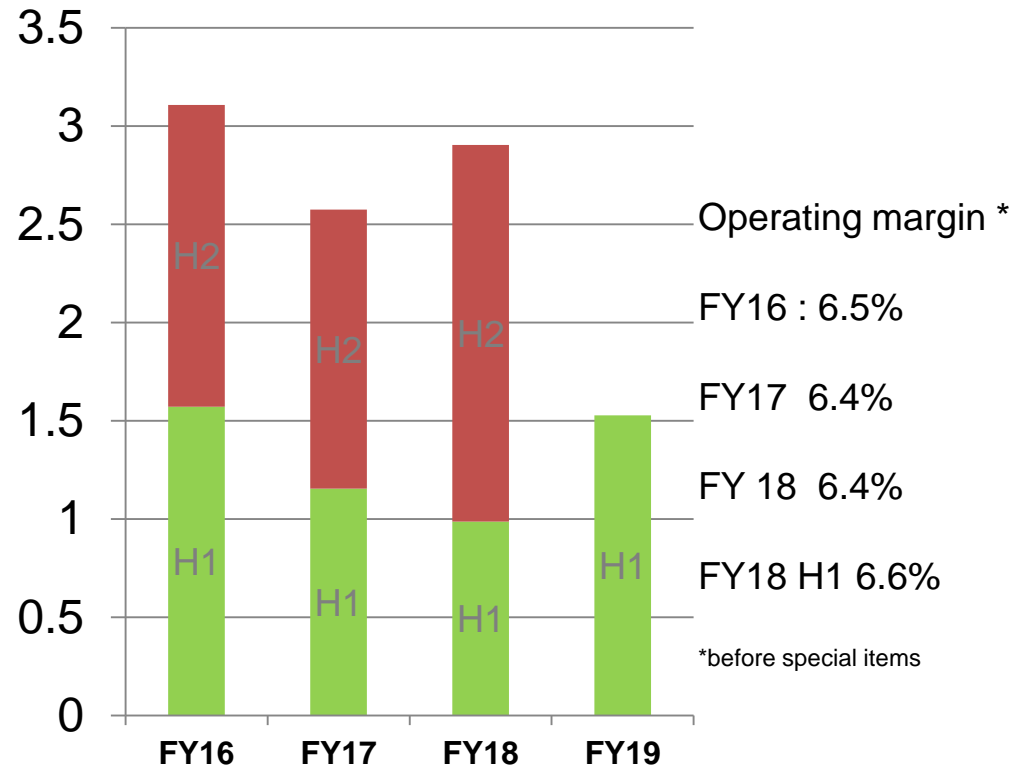
## REVENUE - FY16 to FY18

\$m (years to end of March)



## EBIT – FY16 to FY18

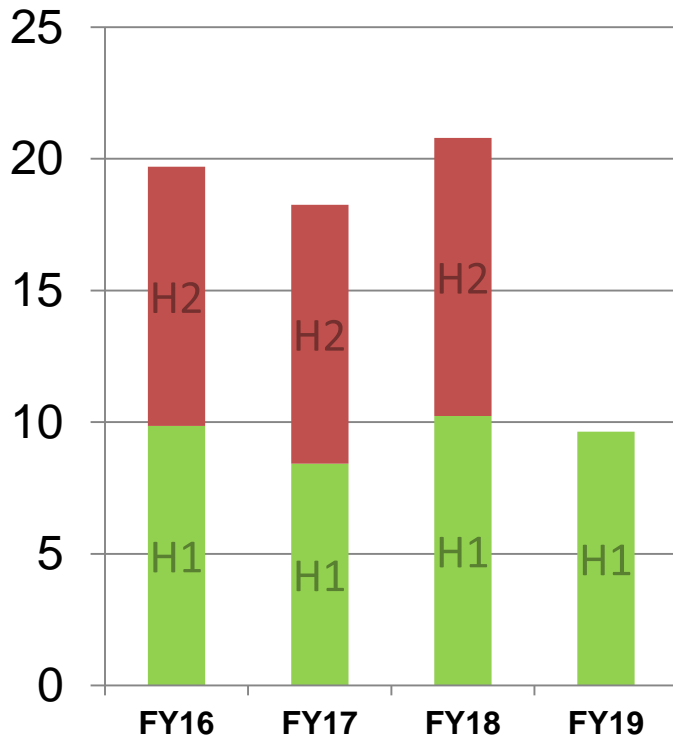
\$m



# Industrial Lasers division financials

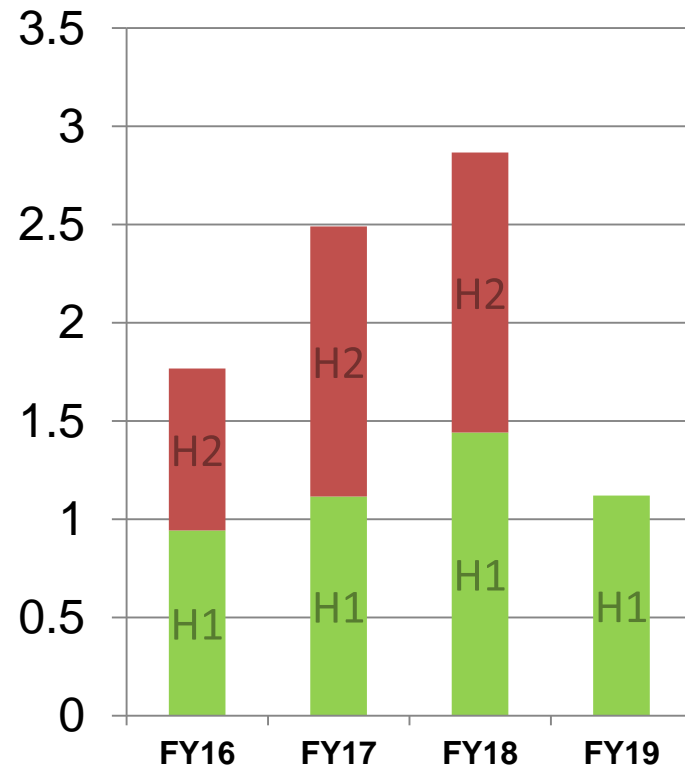
## Revenues – FY16-FY18

\$m (years to end of March)



## EBIT – FY16 to FY18

\$m



Operating margin\*

FY16: 8.9%

FY17 13.6%

FY18 13.8%

FY19 H1 11.6%

\*before special items

# Consolidated income statement

\$m	FY19 H1		FY18 H1
REVENUE	32.80		32.19
GROSS PROFIT*	11.80		11.09
GROSS MARGIN*	36%		34%
OPERATING PROFIT*	1.98		1.64
OPERATING MARGIN*	6%		5%
Bank and loan note interest	(0.52)		(0.57)
ADJUSTED PBT*	1.46		1.07
OTHER ITEMS (including ProPhotonix profit \$1.26m 2018)	(0.48)		1.60
TAXATION	0.18		(0.30)
NET PROFIT FOR THE PERIOD	1.16		2.37
Basic Earnings per share (c)	1.03c		2.26c
Underlying earnings per share (c)*	1.25c		1.02c
Underlying earnings per share (p)* equivalent	0.92p		0.79p
*from continuing activities, before special items			

Gross margins up 2%

Operating margins up 1%

Underlying PBT up 36%

Substantial UK b/f losses

Underlying EPS up 22.5%

# Statement of financial position

\$m	SEPT 18	Mar 18
FIXED ASSETS & DEVELOPMENT COSTS	4.80	4.52
GOODWILL	10.33	10.33
NET PENSION SURPLUS - UK (Net of associated deferred taxation)	4.48	35.31
NET PENSION / RETIREE HEALTH DEEFICIT - USA (Net of associated deferred taxation)	(1.03)	(0.97)
<b>WORKING CAPITAL</b>		
Inventory	19.09	19.60
Receivables	9.91	10.27
Payables	<u>(6.63)</u>	<u>(9.20)</u>
	<u>22.37</u>	<u>20.67</u>
<b>NET DEBT</b>		
Cash & cash equivalents	0.75	1.68
Bank and financial leases	(7.22)	(5.99)
Loan Notes	<u>(10.63)</u>	<u>(11.29)</u>
	<u>(17.10)</u>	<u>(15.60)</u>
<b>OTHER ASSETS (NET)</b>	<u>4.46</u>	<u>4.48</u>
<b>NET ASSETS</b>	<u>28.31</u>	<u>58.74</u>

\$0.5m Investment in Laser software

Insurance policy taken to match all liabilities of UK scheme

\$0.8m redundancy paid

# Cash flow statement

\$m	FY19 H1		FY18 H1
<b>PROFIT FOR PERIOD</b>	<b>1.16</b>		<b>2.37</b>
ADJUSTMENT FOR NON CASH ITEMS	1.41		(0.40)
WORKING CAPITAL AND OTHER ITEMS	(2.57)		(2.79)
<b>TRADING CASH FLOW</b>	<b>(0.00)</b>		<b>(0.82)</b>
INTEREST AND TAXATION PAID	(0.90)		(0.57)
<b>OPERATING CASH FLOW</b>	<b>(0.90)</b>		<b>(1.39)</b>
INVESTING ACTIVITIES	(0.56)		(0.27)
SALE OF PROPHOTONIX	-		1.97
EQUITY RAISED	-		1.52
DIVIDEND PAID	(0.74)		
DEBT DRAWN / (REPAID)	1.31		(2.48)
<b>NET CASH FLOW</b>	<b>(0.89)</b>		<b>(0.65)</b>
DEBT FINANCING	(1.31)		2.48
FX MOVEMENTS/ LOAN AMORTISATION	0.7		(0.99)
<b>MOVEMENT IN NET DEBT</b>	<b>(1.50)</b>		<b>0.84</b>

Stock reduced \$0.5m  
 Debtors reduced \$0.4m  
 Creditors down \$2.8m including \$0.8m redundancy  
 Tax paid \$0.36m in USA

Capex \$0.9m – asset sales \$0.3m

# Summary & outlook

- Healthy trading and profitable growth
- Continued new product development and customer offering
- \$270m pension scheme buy-out; post-tax cash surplus of c. \$4m - \$5m
- Orderbook up 5% providing good visibility
- Dividend restoration - interim dividend of 0.25p per share
- Strategy in place to drive growth

# Q&A



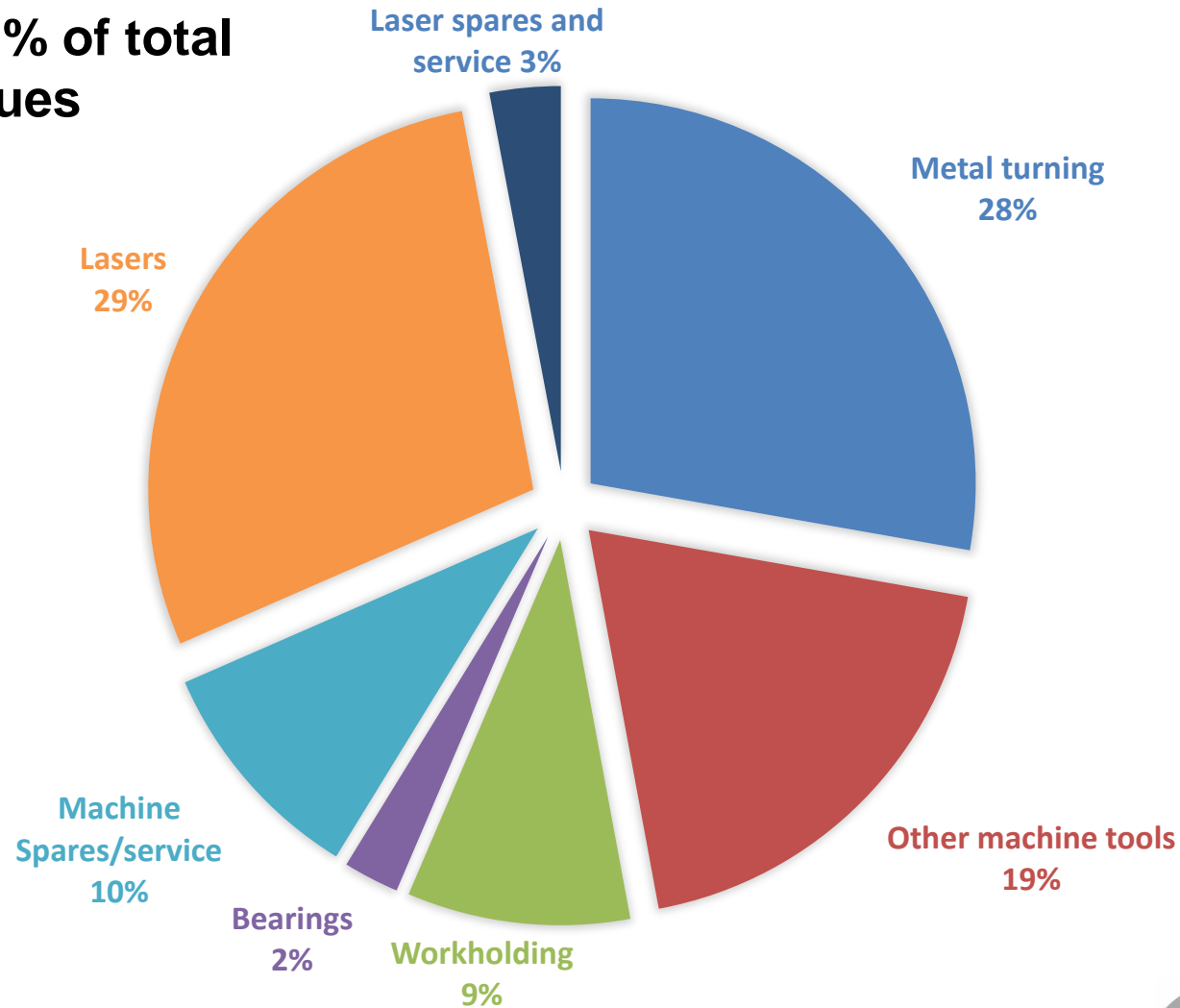
# Appendix

# Board of Directors

- **Paul Dupee**  
Appointed to the Board as a non-executive Director on 2 February 2011, appointed Chairman on 14 September 2011 and appointed Executive Chairman on 30 April 2015. A private investor and currently Managing Partner of Haddeo Partners LLP. He has been involved in the management of both public and private companies in the USA and UK over many years and has extensive experience in corporate transactions
- **Neil Carrick**  
Appointed to the Board as Group Finance Director on 3 October 2011. Previously Group Finance Director and Company Secretary of Cosalt plc. He has over 29 years' experience at board level in a finance role in public companies with overseas operations and has substantial experience in corporate transactions.
- **Derek Zissman\***  
Appointed to the Board as a non-executive Director on 2 February 2011 and the senior non-executive Director. Currently a non-executive director of a number of companies including Amiad Water Solutions Ltd (AIM Listed), Lakehouse plc (AIM listed) and HelloFresh SE (listed on the Frankfurt SE). He was a previous Vice Chairman of KPMG LLP and has considerable experience in both public and private companies throughout the World and extensive City and private equity experience.
- **Stephen Fiamma\***  
Appointed to the Board as a non-executive Director on 13 May 2015. Until 2014 he was a partner in the tax practice of Allen & Overy LLP and has significant experience of multinational tax planning, particularly involving the USA.
- **Stephen Rutherford\***  
A non-executive Director since 1 October 2007. Managing Director of Neofil Limited and Cares UK Limited. He is a Chartered engineer by background and has managed several multinational engineering and manufacturing companies and has extensive experience in the Far East, where a substantial proportion of the Group's suppliers are based.
- \* Non-executive Director and member of the Audit Committee and member of the Remuneration Committee.

# Group revenues by product range

**FY 18 % of total Revenues**



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