Northbridge Industrial Services plc

Interim report and accounts 2016

Creating a fully integrated,
global industrial equipment group.

2016

Northbridge Industrial Services plc hires and sells specialist industrial equipment and has grown organically and by the acquisition of companies in the UK and abroad and through investing in those companies to make them more successful.

Key points

- Positive cash generation from operations of £1.7 million (2015: £3.3 million)
- Group revenue 36% lower at £11.8 million (2015: £18.6 million)
- Operating loss of £2.4 million (2015: £1.7 million)
- EBITDA (pre-exceptional) of £1.6 million (2015: £3.4 million)
- Ongoing reductions in operating expenses to reach £4.0 million on an annualised basis
- Net debt down 48% to £8.4 million (£16.2 million at 30 June 2015; £14.3 million at 31 December 2015)
- Net gearing decreased to 19.3% (39.8% at 31 December 2015)
- Positive entry into the US rental market and continued strong performance from the Loadbank and Transformer division in the UK and Europe
- Successful Placing and Open Offer raising net £5.3 million and broadening the shareholder base

Contents

Chairman's statement

The positive free cash flow generated from these businesses helps underpin the long term strategy of the Group.

As announced in the trading update in August 2016, despite a modest recovery in the crude oil price since its lowest point in February 2016, market conditions for the majority of global participants in the oil and gas industry deteriorated further during the first half of 2016 and investments in current projects continued to be cut. This had a detrimental "knock on" impact on our oil tool rental businesses, which are involved directly in this market. In response, we are continuing to take appropriate action to reduce our costs still further. Additionally, our load testing businesses in the Middle East and Asia-Pacific regions have also experienced challenging conditions which have affected both rentals and in particular sales, due to lower activity in core markets such as shipyards and the resources sector.

As stated in the trading update issued on 1 August 2016, we do not expect any upturn in either of these sectors during the rest of 2016. However, on a more positive note, our other activities, primarily focused on power reliability, continue to perform much better and remain a defensive hedge against the more volatile resources markets. The positive free cash flow generated from these businesses helps underpin the long term strategy of the Group.

Loadbank rentals in the UK and Europe continued to perform well and, as a result of ongoing R&D and product innovation, some new markets are appearing on the horizon. Our new service division based in Burton on Trent supports the aftermarket in our manufactured products and has outperformed our expectations.

The new rental operation in the USA traded well since it started operations at the end of 2015, with our new multi-voltage units, unique to the market, having had a very positive reception. We plan some further modest investment later this year to sustain the momentum we have created in this region. The North American market is the largest in the world for our products and represents a good long term growth opportunity.

The Group's small operation in China servicing the shipyards continued to grow and our business supplying rental transformers, frequently used on power projects, benefited from lower fuel costs and our equipment remained on hire for longer periods.

The successful Placing and Open Offer in April, which raised £5.3 million after costs, strengthened the balance sheet and gives us confidence in our future growth and we were pleased to welcome new institutional investors onto the register. The fund raising and the fall in Sterling following the EU referendum vote have made a very material reduction to our balance sheet gearing as the majority of our net assets are held outside the UK, and net debt almost halved to £8.4 million (2015: £16.2 million). Current trading, despite the decline in revenue, is continuing to generate sufficient cash flow to pay down existing debt as scheduled.

Looking forward to 2017 and beyond, there have been some more reassuring announcements from the oil service majors who form part of our customer base. They rely more on the activity levels in the oil fields rather than the oil price itself and they believe the worst is over and are predicting a return to more positive levels of business in the future. If this is the case, we remain well positioned to benefit from the market upturn as and when it arrives. In the meantime we will continue to reduce costs and maximise cash generation whilst competing hard for every opportunity.

We remain well positioned to benefit from the market upturn as and when it arrives. In the meantime we will continue to reduce costs and maximise cash generation whilst competing hard for every opportunity.

Financial results

Northbridge's revenue for the half year ended 30 June 2016 totalled £11.8 million (2015: £18.6 million) with gross profits of £4.8 million (2015: £8.1 million). Oil tool revenue and gross profits were £2.2 million and £0.2 million respectively (2015: £6.7 million and £3.1 million). Losses before tax totalled £2.7 million (2015: £2.1 million) after exceptional charges of £0.6 million (2015: £1.5 million) relating to the reorganisation.

Net assets at 30 June 2016 were £43.7 million (31 December 2015: £35.9 million). The fall in Sterling at the end of June following the EU referendum had a positive impact of £4.8 million on the balance sheet as more than 90% of our net assets were outside the UK.

The basic loss per share ("LPS") was 11.3 pence compared with a LPS in 2015 of 10.5 pence. Fully diluted LPS was 11.3 pence (2015: 10.4 pence).

Net assets per share at 30 June 2016 were £1.68 (31 December 2015: £1.94).

Financing and cash flow

Cash flow during the period continued to be positive, despite the continuing depressed market conditions. Cash flow from operating activities (before movements in working capital) was £1.0 million (2015: £1.9 million) and net cash from operating activities was £1.4 million (2015: £0.9 million). Capital expenditure into the hire fleet was £0.2 million (2015: £3.3 million).

In April, a further £5.3 million of equity (net of expenses) was raised by way of a Placing and Open Offer at 75 pence per share. This further strengthened the balance sheet and provided funds to secure our longer term future growth. These funds are currently held either on deposit or available for drawdown.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") and before exceptional costs in the first six months of 2016 were £1.6 million (2015: £3.4 million).

Debt repayments and covenants

During the period a further payment of deferred consideration in respect of Tasman New Zealand of £1.0 million was made (2015: £1.0 million). The final payment of $NZ2.0 million is due in 2017.

Also during the period, scheduled capital repayments under the finance leases of £0.5 million (2015: £0.9 million) and the scheduled payments due under the senior debt facility of £0.9 million were paid.

The Group's bank facilities are provided by RBS Bank and KBC Bank and are due for renewal in 2019. At 30 June 2016 the Group had £2.5 million of undrawn funds available on its revolving credit facility.

Based upon current and expected market conditions, the Directors have updated their forecasts of trading and cash flows, which take into account all reasonably foreseeable circumstances, and indicate that the existing banking facilities provide sufficient headroom throughout the period to 31 December 2017. The Directors also believe that there is sufficient headroom on the covenants associated with these facilities for the same period.

Dividends

No interim dividend is being declared for 2016 (2015: 1.0 pence).

Operations

Crestchic Loadbanks and Transformers

The electrical equipment business of Northbridge supplies two main markets: the developed world, where it is mostly focused on power reliability, and Emerging Markets ("EM"), where it is mostly focused on resources.

Total turnover during the period was £9.6 million (2015: £11.2 million) and gross profit was £4.7 million (2015: £4.8 million). Underlying this performance was a significant change in revenue mix with sales to the EM region down compared with 2015, compensated by an increase in higher margin rentals in Western Europe.

Net debt	Gearing
£8.4m	19.3%
2015: £16.2m	2015: 39.9%

Overall gross margin of 48.6% was an improvement on 2015 (42.6%), also due to the impact of the change in mix.

The EM operations of Crestchic continued to be affected by the downturn in the oil and gas industry, and sales of manufactured products were affected by a marked slowdown in two of its main markets, South Korea and the USA.

Rental in the UK and Western Europe continues to perform well and there are early signs of further opportunities with our rental operations in the USA.

Tasman Oil Tools

Our operations in Australia, New Zealand and the Middle East have suffered badly in the severe downturn affecting the oil and gas industries worldwide. Virtually all its services are provided to the Exploration and Production ("E&P") activities of the major oil companies and the last 18 months have seen very significant cut backs in investment across the world.

Oil companies themselves have concentrated on producing oil rather than developing new fields or further exploration, this in turn adds to the excess supply and depresses the price. We believe we are at or close to the bottom of this particular cycle and we will see some improvements in the future.

Total revenue for Tasman during the period was £2.2 million (2015: £6.7 million), gross profits were £0.2 million (2015: £3.1 million). Our overhead reduction programme is ongoing and we will continue to cut costs where we can.

In the meantime we will maintain our customer facing skills and our hire fleet and locate it where it is most likely to generate revenue. At the same time we are positioning ourselves for the future by focusing on developing the recently obtained Master Services Agreements ("MSA"), maintaining our Quality, Health, Safety and Environment ("QHSE") accreditation and forming partnerships in adjacent geographies.

Outlook

Whilst the immediate outlook is still challenging and we are experiencing further downward pressure on our sales of manufactured products, which tends to be a lagging indicator, there are some signs that we may have reached the bottom of this economic cycle with regard to the oil and gas industry. Some positive statements from the oil services majors and planned drilling campaigns for 2017 give hope that the market will start to turn soon.

We have already seen some modest geothermal drilling revenue from New Zealand and a planned increase in operating rigs in the Middle East. The oil surplus and the over supply problems facing the industry is beginning to be resolved and all the oil companies have now cut costs to the extent that further investment in E&P is worthwhile, despite the low oil price.

Having maintained the size of our hire fleet, expanded its geographical reach, reduced our overhead costs significantly and strengthened our balance sheet, we are in a very good position to take advantage when the opportunity of improved trading conditions arises.

Peter Harris
Chairman
29 September 2016

Consolidated statement of comprehensive income
For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 Unaudited £'000	Six months ended 30 June 2015 Unaudited £'000	Year ended 31 December 2015 Audited £'000
Revenue		**11,847**	18,560	34,090
Cost of sales		**(7,026)**	(10,477)	(19,286)
Gross profit		**4,821**	8,083	14,804
Operating costs				
Excluding exceptional costs		**(6,607)**	(8,336)	(15,549)
Exceptional costs	2	**(649)**	(1,475)	(7,189)
Total operating costs		**(7,256)**	(9,811)	(22,738)
Loss from operations		**(2,435)**	(1,728)	(7,934)
Finance income		**3**	3	8
Finance costs		**(315)**	(331)	(655)
Loss before taxation excluding exceptional costs		**(2,098)**	(581)	(1,392)
Exceptional costs		**(649)**	(1,475)	(7,189)
Loss before taxation		**(2,747)**	(2,056)	(8,581)
Income tax credit		**409**	120	430
Loss for the period attributable to the equity holders of the parent		**(2,338)**	(1,936)	(8,151)
Other comprehensive income				
Exchange differences on translating foreign operations		**4,757**	(2,737)	(1,156)
Other comprehensive income for the period, net of tax		**4,757**	(2,737)	(1,156)
Total comprehensive income for the period attributable to equity holders of the parent		**2,419**	(4,673)	(9,307)
Loss per share attributable to the equity holders of the parent	3			
– basic (pence)		**(11.3)**	(10.5)	(44.3)
– diluted (pence)		**(11.3)**	(10.4)	(44.3)

All amounts relate to continuing operations.

Consolidated balance sheet
As at 30 June 2016

	30 June 2016 Unaudited £'000	30 June 2015 Unaudited £'000	31 December 2015 Audited £'000
ASSETS			
Non-current assets			
Intangible assets	**14,141**	16,980	12,797
Property, plant and equipment	**36,647**	36,921	35,556
Deferred tax asset	**355**	—	316
	51,143	53,901	48,669
Current assets			
Inventories	**4,158**	4,848	4,440
Trade and other receivables	**8,082**	12,233	9,933
Cash and cash equivalents	**4,060**	2,356	3,852
	16,300	19,437	18,225
Total assets	**67,443**	73,338	66,894
LIABILITIES			
Current liabilities			
Trade and other payables	**6,452**	7,859	6,950
Financial liabilities	**3,321**	5,017	6,044
Other financial liabilities	**1,327**	1,867	1,160
Current tax liabilities	**85**	219	538
	11,185	14,962	14,692
Non-current liabilities			
Financial liabilities	**9,161**	13,572	12,090
Other financial liabilities	**—**	159	928
Deferred tax liabilities	**3,483**	3,993	3,303
	12,644	17,724	16,321
Total liabilities	**23,829**	32,686	31,013
Total net assets	**43,614**	40,652	35,881
Equity attributable to equity holders of the parent			
Share capital	**2,611**	1,864	1,864
Share premium	**27,786**	23,266	23,266
Merger reserve	**2,810**	2,810	2,810
Treasury share reserve	**(451)**	(451)	(451)
Foreign exchange reserve	**2,440**	(3,898)	(2,317)
Retained earnings	**8,418**	17,061	10,709
Total equity	**43,614**	40,652	35,881

Consolidated cash flow statement
For the six months ended 30 June 2016

	Six months ended 30 June 2016 Unaudited £'000	Six months ended 30 June 2015 Unaudited £'000	Year ended 31 December 2015 Audited £'000
Cash flows from operating activities			
Net loss from ordinary activities before taxation	**(2,747)**	(2,056)	(8,581)
Adjustments for:			
– amortisation and impairment of intangible fixed assets	**358**	831	5,733
– amortisation of capitalised debt fee	**66**	146	208
– depreciation of property, plant and equipment	**3,064**	2,853	5,881
– profit on disposal of property, plant and equipment	**(143)**	(343)	(458)
– non-cash movement in deferred consideration	**—**	77	(3)
– investment income	**(3)**	(3)	(8)
– finance costs	**315**	331	655
– share option expense	**48**	48	96
	958	1,884	3,523
(Increase)/decrease in inventories	**(570)**	(408)	348
Decrease in receivables	**2,538**	217	2,762
(Decrease)/increase in payables	**(1,234)**	1,597	306
Cash generated from operations	**1,692**	3,290	6,939
Finance costs	**(315)**	(331)	(655)
Taxation	**(199)**	(558)	(942)
Hire fleet expenditure	**(198)**	(3,322)	(4,080)
Sale of assets within hire fleet	**371**	1,825	2,493
Net cash from operating activities	**1,351**	904	3,755
Cash flows from investing activities			
Finance income	**3**	3	8
Payment of deferred consideration	**(974)**	(1,025)	(941)
Sale of property, plant and equipment	**197**	99	109
Purchase of property, plant and equipment	**(71)**	(230)	(494)
Net cash used in investing activities	**(845)**	(1,153)	(1,318)
Cash flows from financing activities			
Proceeds from share capital issued	**5,267**	83	83
Purchase of own shares	**—**	(250)	(250)
Proceeds from bank and other borrowings	**—**	14,064	12,957
Repayment of bank and other borrowings	**(3,653)**	(12,861)	(13,957)
Payment of finance lease creditors	**(520)**	(915)	(1,555)
Dividends paid in the year	**—**	(735)	(919)
Net cash from/(used in) financing activities	**1,094**	(614)	(3,641)
Net increase/(decrease) in cash and cash equivalents	**1,600**	(863)	(1,204)
Cash and cash equivalents at beginning of period	**2,175**	3,427	3,427
Exchange gains/(losses) on cash and cash equivalents	**285**	(208)	(48)
Cash and cash equivalents at end of period	**4,060**	2,356	2,175

During the period, the Group acquired total property, plant and equipment with an aggregate cost of £269,000 (2015: £3,769,000) of which £nil (2015: £217,000) was acquired by means of finance lease. This includes £198,000 (2015: £3,459,000) of hire fleet additions of which £nil (2015: £137,000) was acquired by means of finance lease.

Notes to the unaudited interim statements
For the six months ended 30 June 2016

1. Basis of preparation
This interim report has been prepared in accordance with the accounting policies disclosed in the full statutory accounts for the year ended 31 December 2015.

These policies are in accordance with International Financial Reporting Standards and International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board, as endorsed for use in the European Union, that are expected to be applicable for the year ending 31 December 2016.

The Group has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing the interim consolidated financial information.

The financial information in this statement relating to the six months ended 30 June 2016 and the six months ended 30 June 2015 has not been audited. The financial information in this statement relating to the six months ended 30 June 2015 has been reviewed pursuant to guidance issued by the Auditing Practices Board.

The financial information for the year ended 31 December 2015 does not constitute the full statutory accounts for that period. The annual report and financial statements for 2015 has been filed with the Registrar of Companies.

The Independent Auditor's Report on the annual report and financial statement for 2015 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The interim report for the period ended 30 June 2016 was approved by the Board of Directors on 29 September 2016.

2. Exceptional costs
The exceptional costs include £0.3 million of costs incurred in closing down businesses and £0.3 million of redundancy costs relating to continuing entities (2015: £0.9 million of costs incurred in closing down businesses, £0.2 million of redundancy costs relating to continuing entities, £0.1 million of acquisition costs and a £0.2 million impairment charge on the intangible assets relating to our loadcell business in Singapore).

3. Earnings per share
The earnings per share figure has been calculated by dividing the loss after taxation, £2,338,000 (2015: £1,936,000), by the weighted average number of shares in issue, 20,758,801 (2015: 18,384,877).

The diluted earnings per share assumes all share options are exercised at the start of the period or, if later, the date of issue of the share options. This increased the weighted average number of shares in issue by nil (2015: 303,860). At the end of the period, the Company had in issue 1,407,601 (2015: 440,980) share options which have not been included in the calculation of the diluted earnings per share because their effects are anti-dilutive, although these share options could be dilutive in the future.

4. Dividends
No interim dividend (2015: 1.00 pence) will be paid to shareholders.

5. Interim report
Copies of the interim report are being sent to all shareholders and are available to the public from the offices of Northbridge Industrial Services plc at Second Avenue, Centrum 100, Burton on Trent, Staffordshire DE14 2WF. The interim report and the interim announcement will also be available from the Group's website at www.northbridgegroup.co.uk.

Directors and advisors

Directors
Peter Harris
Non-executive Chairman

Eric Hook
Chief Executive

Ian Gardner
Regional Managing Director

Iwan Phillips
Finance Director

Ash Mehta
Non-executive Director (independent)

David Marshall
Non-executive Director (independent)

Michael Dodson
Non-executive Director (independent)

Secretary
Iwan Phillips

Company number
05326580

Registered office
Second Avenue
Centrum 100
Burton on Trent DE14 2WF
+44 (0)1283 531 645
www.northbridgegroup.co.uk

Country of incorporation of parent company
England and Wales

Legal form
Public limited company

Independent auditor
BDO LLP
Two Snowhill
Birmingham B4 6GA

Bankers
Royal Bank of Scotland Group
Cumberland Place
Nottingham NG1 7ZS

Solicitors
Freeths LLP
1 Heddon Street
Mayfair
London W1B 4BD

Nominated advisors and brokers
Stockdale Securities Limited
Beaufort House
15 St. Botolph Street
London EC3A 7BB

Registrars
Capita Asset Services
40 Dukes Place
London EC3A 7NH

Northbridge Industrial Services plc
Second Avenue
Centrum 100
Burton on Trent DE14 2WF

+44 (0)1283 531 645
www.northbridgegroup.co.uk