2018

CRESTCHIC

TASMAN OIL TOOLS

NORTHBRIDGE

Northbridge Industrial Services plc
Interim report and accounts 2018

CREATING A FULLY INTEGRATED, GLOBAL INDUSTRIAL EQUIPMENT GROUP

Northbridge Industrial Services plc hires and sells specialist industrial equipment to a non-cyclical customer base 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.

Highlights

- Group revenue up 4.5% to £12.6 million (2017: £12.0 million)
- Gross profit increased by 11.5% to £5.0 million (2017: £4.5 million)
- EBITDA up materially by 24.3% to £1.8 million (2017: £1.4 million)
- Significantly increased cash generation from operations of £1.9 million (2017: £0.6 million)
- Reduced operating loss of £1.2 million (2017: £2.0 million)
- Issue of £4 million convertible loan notes on 12 April 2018
- Net debt reduced substantially to £6.2 million (£9.5 million at 30 June 2017; £8.7 million at 31 December 2017)
- Placing of 2 million shares at 125 pence which raised £2.4 million after expenses
- Final £1.1 million paid for deferred consideration on the acquisition of Tasman New Zealand in September 2014
- Improving conditions in the drilling tool market, with rental revenue up 19% year on year

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CHAIRMAN'S STATEMENT

Having taken the opportunity to refinance our debt and raise further equity our gearing has been reduced substantially and our balance sheet considerably strengthened.

We are pleased to present our unaudited interim results for the six-month period to 30 June 2018.

As stated in the trading update issued on 2 August 2018, improvement in sentiment in the oil and gas market has continued and begun to be evidenced in increased activity in our rental businesses of Tasman Oil Tools ("Tasman"). As we also commented at the AGM in May, we felt confident enough in the future of Tasman to selectively invest further capital in our hire fleet for the first time in four years. This was specifically to meet new contracts won in Malaysia and Australia, which in turn will benefit the second half of 2018.

The power reliability business of Crestchic Loadbanks ("Crestchic") continued to be resilient, with its European division showing encouraging growth in rental, supported by a successful project in Russia for the World Cup.

Having taken the opportunity to refinance our debt and to raise further equity during the six-month period under review, our gearing has been reduced substantially and our balance sheet considerably strengthened.

The two core activities, Crestchic Loadbanks and Tasman, both have good opportunities to grow their businesses in an ever-growing power reliability market and a recovering oil and gas industry.

Crestchic is a specialist provider of electrical equipment which is used primarily to commission, test and service independent power plants. It has a strong position in the power reliability market, particularly in Western economies. In addition, it also provides loadbanks and transformers for testing large power projects across the globe, typically in shipyards, oil refineries and mines. Crestchic has a manufacturing base in Burton on Trent in the UK, and sells, services and rents its equipment from its depots in the UK, Europe, the Middle East, Singapore, China and the USA.

Tasman Oil Tools is a "down hole" tool rental specialist, which rents equipment to the Oil & Gas and Geothermal industries from its depots in Australia, New Zealand and the Middle East, and through a recently established joint venture with Olio Resources in Malaysia.

Financial results

Northbridge's revenue for the half year ended 30 June 2018 totalled £12.6 million (2017: £12.0 million) with gross profits of £5.0 million (2017: £4.6 million). Oil tool revenues and gross profit were £2.8 million and £0.4 million respectively (2017: £2.6 million and £0.1 million). Group losses before tax were significantly reduced to £1.5 million (2017: £2.4 million). There were no exceptional charges in the first six-month period of 2018 (2017: nil).

Net assets at 30 June 2018 were £36.2 million (31 December 2017: £35.7 million). The basic and diluted loss per share (LPS) was 5.7 pence (2017: 8.9 pence). Net assets per share were £1.29 (31 December 2017: £1.38) and EBITDA per share increased to 6.3 pence for the period (2017: 5.5 pence).

Financing and cash flow

Cash flow during the period continued to be positive and showed a marked improvement on last year, despite the continued slow market conditions in the period. Cash flow from operating activities was £1.9 million (2017: £0.6 million).

Capital expenditure on the hire fleet remained unchanged at £0.2 million (2017: £0.2 million).

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") and before exceptional costs in the first six months of 2018 were £1.8 million (2017: £1.4 million). Depreciation and amortisation in the period totalled £3.0 million (2017: £3.5 million), of which depreciation alone was £2.6 million (2017: £3.1 million).

Debt repayments and issue of new equity

During the period, the Group issued a convertible loan note for £4.0 million carrying a fixed interest rate of 8%. This, in conjunction with the early renewal of our banking facilities with our senior lender, Royal Bank of Scotland ("RBS"), enabled the Group to consolidate future bank funding solely with the RBS Group, fully repaying KBC Bank in the process, and reducing capital repayments, which in turn, allows for further investment into the recovering market. The loan notes are convertible into ordinary 10 pence shares in Northbridge at the discretion of the bond holders at a conversion price of 125 pence.

Additionally, on 20 June 2018 the Company announced a placing of a further 2 million shares to raise £2.5 million in new equity. Approximately £1.05 million of the proceeds from the placing was used to pay the outstanding deferred consideration due to the vendor of the Tasman companies in New Zealand.

The placing of new equity and improved operating cash flow has enabled gearing to be reduced to 17.1% (30 June 2017: 24.5%) and the half-year closing cash balances were £3.9 million and net debt was £6.2m.

Dividends

No interim dividend is being declared for 2018 (2017: nil).

Operations

Crestchic loadbanks and transformers

The electrical equipment business of Northbridge, manufactures, sells and rents loadbanks and transformers, and supplies two main markets. Firstly, the developed world, where it is focused on supporting the power reliability and power security markets and increasingly renewables; and secondly, emerging markets ("EM"), where it is mostly focused on resources related businesses, typically oil and gas facilities and mines, as well as shipyards.

Total turnover during the period was £9.8 million (2017: £9.5 million) and gross profit was £4.6 million (2017: £4.5 million). Underlying this performance was a change in revenue mix, with a recovery in the higher margin rental activity to £5.9 million (2017: £5.2 million). Sales of manufactured units were down on the previous year at £3.9 million (2017: £4.3 million) and represents a continuation of the slow demand from EM for Crestchic's products. There is evidence that these markets for our products, which have traditionally been strong, will return to growth over the medium term.

Rental in the UK and Western Europe continued to perform well, and the contract to supply the FIFA World Cup stadiums helped rental revenue during the period. The new venture in the USA continued its progress and is expected to provide a long-term growth opportunity for Crestchic. Relocation of underutilised equipment from the Asia-Pacific region has doubled our fleet size in North America at minimal cost.

The continuing growth in data centres throughout Western Europe has given Northbridge two additional opportunities, firstly, in heat load management, by using loadbanks to simulate the heat from computer servers, and then, secondly, managing and proving the backup power sources. Investments in these types of "big data" facilities is likely to grow for many years to come providing ongoing demand for our equipment.

The more recent growth in renewable power generation in advanced economies is continuing to gather pace and has created new markets for our equipment and services. This also represents another long-term growth opportunity for the Company, and we are currently supporting this growth through the further technical development of our products.

“We believe that we have weathered the worst of the downturn and look forward to the future with more optimism.”

Peter Harris
Chairman

Eric Hook
Chief Executive

Tasman Oil Tools
Our oil tool rental operations in Australia, New Zealand and the Middle East, which suffered heavily during the downturn in the oil market over the last three years, have shown signs of recovery. Total revenue in the six months was £2.8 million (2017: £2.6 million). Rental, on its own during the period, was up 19% to £2.5 million (2017: £2.1 million). Within this, Australia, achieved an increase in revenue of 96.5% to £1.2 million (2017: £0.6 million) and we have been able to support this growth with further capital expenditure for specific contracts.

During the period, volumes still remained too low in aggregate to make a material difference to our overall profitability, but we are encouraged that these are moving in the right direction. Rental rates remain depressed and are expected to take some time to recover to previous levels. The relative stability in crude oil prices currently being experienced by the industry we believe will, in the longer term, encourage further exploration and production. By maintaining our infrastructure and hire fleet whilst cutting costs, we have put the Company in a strong position for when market demand recovers more significantly.

The joint venture in Malaysia with our local partner, Olio Resources SDN BHD, started trading well during the six months. Early results are encouraging, and the proportion of revenue generated by our own oil tools is beginning to increase. Further modest capital expenditure will ensure this momentum continues. The JV’s revenue for the first six months was RM3.9 million (£0.7 million) and the after-tax loss consolidated in these accounts was £0.1 million.

Outlook
The sentiment in the Oil & Gas industry has continued to improve and this is beginning to translate into increased activity in exploration and production. With a strengthened balance sheet and additional resources, we believe that we have weathered the worst of the down turn and look forward to the future with more optimism. We are now in a position to invest judiciously into growth areas of our business, and the outlook remains in line with expectations.

Peter Harris
Chairman
27 September 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	**Six months ended 30 June 2018 Unaudited £'000**	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Revenue		**12,594**	12,046	25,669
Cost of sales		**(7,589)**	(7,559)	(16,331)
Gross profit		**5,005**	4,487	9,338
Operating costs		**(6,087)**	(6,533)	(12,934)
Share of post-tax results of joint ventures		**(139)**	—	(188)
Loss from operations		**(1,221)**	(2,046)	(3,784)
Finance costs		**(288)**	(312)	(597)
Loss before taxation		**(1,509)**	(2,358)	(4,381)
Income tax credit/(charge)		**37**	50	(245)
Loss for the period attributable to the equity holders of the parent		**(1,472)**	(2,308)	(4,626)
Other comprehensive loss				
Exchange differences on translating foreign operations		**(473)**	(539)	(1,519)
Other comprehensive loss for the period, net of tax		**(473)**	(539)	(1,519)
Total comprehensive loss for the period attributable to equity holders of the parent		**(1,945)**	(2,847)	(6,145)
Loss per share attributable to the equity holders of the parent	2			
– basic (pence)		**(5.7)**	(8.9)	(17.9)
– diluted (pence)		**(5.7)**	(8.9)	(17.9)

All amounts relate to continuing operations.

CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
ASSETS			
Non-current assets			
Intangible assets	**12,277**	13,757	12,833
Property, plant and equipment	**26,903**	32,242	29,281
	39,180	45,999	42,114
Current assets			
Inventories	**4,031**	3,758	3,429
Trade and other receivables	**8,560**	8,798	9,322
Cash and cash equivalents	**3,855**	1,198	1,903
	16,446	13,754	14,654
Total assets	**55,626**	59,753	56,768
LIABILITIES			
Current liabilities			
Trade and other payables	**6,000**	4,927	5,383
Financial liabilities	**2,494**	2,810	3,617
Other financial liabilities	**—**	1,126	1,053
Current tax liabilities	**674**	488	1,015
	9,168	9,351	11,068
Non-current liabilities			
Financial liabilities	**7,528**	7,932	7,013
Deferred tax liabilities	**2,765**	3,484	3,002
	10,293	11,416	10,015
Total liabilities	**19,461**	20,767	21,083
Total net assets	**36,165**	38,986	35,685
Equity attributable to equity holders of the parent			
Share capital	**2,811**	2,611	2,611
Share premium	**29,974**	27,779	27,779
Merger reserve	**2,810**	2,810	2,810
Treasury share reserve	**(451)**	(451)	(451)
Foreign exchange reserve	**2,537**	3,990	3,010
Retained earnings	**(1,516)**	2,247	(74)
Total equity	**36,165**	38,986	35,685

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

	Six months ended 30 June 2018 Unaudited £'000	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Cash flows from operating activities			
Net loss from ordinary activities before taxation	**(1,509)**	(2,358)	(4,381)
Adjustments for:			
– amortisation of intangible fixed assets	**354**	383	750
– amortisation of capitalised debt fee	**78**	69	229
– depreciation of property, plant and equipment	**2,645**	3,093	6,227
– profit on disposal of property, plant and equipment	**(343)**	(121)	(255)
– share of post-tax results of joint ventures	**139**	—	188
– finance costs	**288**	312	597
– share option expense	**30**	48	45
	1,682	1,426	3,400
(Increase)/decrease in inventories	**(609)**	(260)	42
Decrease/(increase) in receivables	**694**	12	(620)
Increase/(decrease) in payables	**164**	(566)	(204)
Cash generated from operations	**1,931**	612	2,618
Finance costs	**(288)**	(312)	(597)
Taxation	**(460)**	(251)	(309)
Hire fleet expenditure	**(236)**	(180)	(542)
Sale of assets within hire fleet	**443**	175	350
Net cash from operating activities	**1,390**	44	1,520
Cash flows from investing activities			
Investment in joint ventures	**—**	—	(183)
Increase in receivables from joint ventures	**(62)**	—	(123)
Payment of deferred consideration	**(1,053)**	—	—
Sale of property, plant and equipment	**5**	2	70
Purchase of property, plant and equipment	**(32)**	(26)	(123)
Net cash used in investing activities	**(1,142)**	(24)	(359)
Cash flows from financing activities			
Proceeds from share capital issued (net of issue costs)	**2,395**	—	—
Proceeds from bank and other borrowings (net of issue costs)	**8,739**	599	820
Repayment of bank and other borrowings	**(8,547)**	(1,089)	(2,154)
Payment of finance lease creditors	**(149)**	(472)	(780)
Net cash from/(used in) financing activities	**2,438**	(962)	(2,114)
Net increase/(decrease) in cash and cash equivalents	**2,686**	(942)	(953)
Cash and cash equivalents at beginning of period	**1,173**	2,146	2,146
Exchange losses on cash and cash equivalents	**(4)**	(6)	(20)
Cash and cash equivalents at end of period	**3,855**	1,198	1,173

NOTES TO THE UNAUDITED INTERIM STATEMENTS

For the six months ended 30 June 2018

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 2017.

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 2018.

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 2018 and the six months ended 30 June 2017 has not been audited.

The financial information for the year ended 31 December 2017 does not constitute the full statutory accounts for that period. The annual report and financial statements for 2017 has been filed with the Registrar of Companies.

The Independent Auditor’s Report on the annual report and financial statement for 2017 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 2018 was approved by the Board of Directors on 27 September 2018.

2. Earnings per share

The earnings per share figure has been calculated by dividing the loss after taxation, £1,472,000 (2017: £2,308,000), by the weighted average number of shares in issue, 25,999,050 (2017: 25,899,602).

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 had no effect on the weighted average number of shares in issue (2017: nil). At the end of the period, the Company had in issue 1,819,451 (2017: 1,594,451) 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.

3. Dividends

No interim dividend (2017: nil) will be paid to shareholders.

4. 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

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Peter Harris
Non-executive Chairman

Eric Hook
Chief Executive

Ian Gardner
Divisional Managing Director

Iwan Phillips
Finance Director

Ash Mehta
Non-executive Director (independent)

David Marshall
Non-executive Director (independent)

Nitin Kaul
Non-executive Director (independent)

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