Global industrial equipment group

NORTHBRIDGE

Northbridge Industrial Services plc
Interim report and accounts 2019

Selling specialist industrial equipment around the world

Northbridge Industrial Services plc hires and sells specialist industrial equipment it 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 33% to £16.8 million (2018: £12.6 million)
- Gross profit significantly up by 50% to £7.5 million (2018: £5.0 million)
- EBITDA* up materially by 90% to £3.4 million (2018: £1.8 million)
- Cash generation from operations* up by 33% to £2.6 million (2018: £1.9 million)
- First reported profit before tax since 2014
- Improving conditions in the drilling tool market, with revenue up 29% year on year
- Continuing growth in the core power reliability market
- Operational gearing benefiting results

* Excluding the impact of IFRS 16; reconciliation included in the Finance Director's Report.

Contents

CHIEF EXECUTIVE'S STATEMENT

There has now been a significant improvement in the Group's performance, as our traditional energy markets begin to improve, and this has benefited both Crestchic and Tasman.

We are pleased to present our interim results for the six-month period ended 30 June 2019.

As stated in the trading update issued on 2 August 2019, the impact of a recovery in revenue has led to a significant improvement in cash flow as well as continued improvement in EBITDA. The gradual improvements to the stability of the oil and gas sector, which is one of the Group's main markets, has positively impacted both of our core businesses of Crestchic Loadbanks ("Crestchic") and Tasman Oil Tools ("Tasman"). This has enabled the Group to report its first profit before tax for the first half since 2014 and has seen EBITDA almost double to £3.4 million (2018: £1.8 million) since the same period last year.

The power reliability side of Crestchic started the year with its largest ever new year order book for manufactured equipment, with invoiced sales for the period increasing 34% to £5.9 million (2018: £3.8 million). Crestchic's rental division continued its improving trajectory, even compared to the good first half in 2018, which included a successful project in Russia for the World Cup, with rental revenue up 21% to £7.2 million (2018: £5.9 million). This was aided by a continuing growth in power reliability work, data centre investment and renewables, most notably in Europe, and the beginnings of stronger demand from energy projects in other parts of the world.

Tasman, the Group's Oil Tools business, continued to benefit from a recovery in the oil and gas market and its revenue, mostly generated by higher margin rentals, increased by 29%. The advantage of our operational gearing is now beginning to make a substantial impact on gross margins which increased to 33.9% (2018: 12.8%) and gross profit which was up 242% to £1.2 million (2018: £0.4 million). Tasman EBITDA also turned positive for the first time in five years. The strongest recovery is being experienced in Australia, which is now the largest exporter of LNG in the world and is also beginning to invest further in its local gas market. Tasman has improved its share in this market over the downturn by focusing on quality, service levels, customer relationships and selective capital investment.

Cash flows from operating activities, before movements in working capital, more than doubled to £3.7 million (2018: £1.7 million) and helped to enable further capital investment in the hire fleet, which increased to £1.6 million (2018: £0.2 million) as the Company invested into the upturn. The investment was spread between both Crestchic and Tasman and, despite the cost to both working capital, as a result of increased orders, and hire fleet expansion, net debt at the end of June was down to £8.5 million (2018: £8.7 million).

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 secondly, emerging markets, where it is mostly focused on resources, typically shipyards, oil and gas facilities and mines.

Crestchic's turnover during the period was £13.1 million (2018: £9.8 million) and gross profit was £6.3 million (2018: £4.6 million). Underlying this performance was a change in revenue mix, with a recovery in the higher margin rental activity turnover to £7.2 million (2018: £5.9 million). Sales of manufactured units were substantially higher than the previous year at £5.9 million (2018: £3.8 million) and represent an improvement in demand in some of our markets (noticeably the USA and Europe). There is evidence that the market recovery in the oil and gas market is complementing the additional growth from our traditional power reliability market.

Operations continued

Crestchic Loadbanks and Transformers continued

Rental in the UK and Western Europe continues to perform well, and we have enjoyed a recovery in the Middle East. The overall result for rental in the half year was an improvement from 2018, which benefited from the FIFA World Cup. The new venture in the USA continued its progress and is expected to provide a long-term growth opportunity for Crestchic. The relocation of the underutilised equipment from the Asia-Pacific region is in place and this 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 managing and proving the backup power sources. Investment in this type of Big Data is likely to grow for many years to come, providing further opportunity to Northbridge. We are now seeing interest for this service further afield.

Tasman Oil Tools

In total, our oil tool rental operations in Australia, New Zealand, Asia-Pacific and the Middle East have seen a sea change in their fortunes as the price of crude oil has stabilised and exploration and production activities begin to recover. This has been most noticeable in Australia where there is a renewed focus on gas and LNG exports.

Tasman suffered during the downturn in the oil market over the last four years but is now showing year on year improvements on a consistent basis. Total revenue in the six months was up 29% to £3.7 million (2018: £2.8 million). The majority of this revenue is derived from rental and the operational gearing this gives us began to show real benefits with gross margins up 242%. EBITDA showed significant gains to move into positive territory for the first time in five years.

Australia performed particularly well in the period with rental revenue up a further 32% following the 90% improvement from the first half of 2017 to the first half of 2018. As our market share has grown in this region, we have continued to invest in hire fleet equipment and have maintained our focus on quality, service levels and customer relationships.

Rental rates remain lower compared with earlier years but there are signs that prices have now stabilised and will begin to improve in the coming years. The relative stability in crude oil prices currently being experienced by the industry 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 an advantageous position for when market demand begins to grow more significantly.

The joint venture in Malaysia with our local partner, Olio Resources SDN BHD, has now been trading for more than a year. Market share is improving and volumes are also increasing, we are in a strong position in relation to the main market players and we will benefit from these relationships in the future. Whilst the joint venture is currently unprofitable, we believe this will change as contracts are renewed on more favourable terms and volumes improve. The joint venture's revenue for the first six months was £1.4 million (2018: £0.7 million) and the after-tax loss consolidated in these accounts is £0.3 million (2018: £0.1 million).

Outlook

There has now been a significant improvement in the Group's performance, as our traditional energy markets begin to improve, and this has benefited both Crestchic and Tasman. In addition, the new markets which Crestchic was able to exploit during the downturn, most noticeably in data centres and North America, remain available to us and will also provide additional future growth.

We are confident of trading volumes for the remainder of 2019 and, with a much-strengthened balance sheet, a growing cash flow and further organic opportunities to grow the business, we look forward to the future with optimism.

Eric Hook
Chief Executive
26 September 2019

FINANCE DIRECTOR'S REPORT

Revenue and profit before tax
The Group's revenues are derived principally from the rental of its hire fleet and also from the sale of manufactured equipment. Rental revenue made up 62% of total revenue in the first half of 2019 compared to 67% in 2018. This change is due to the relative increase in revenue from both streams with sales revenue increasing by 52% compared to 24% for hire.

The rental margin increased from 40% to 48% mainly due to a relatively stable depreciation charge against much improved revenue.

Operating costs increased from £6.1 million to £6.7 million, due to costs arising from the new Tasman venture servicing the Asian market outside Malaysia from Singapore, as well as some staff cost increases.

Balance sheet, debt and cash flow
Hire fleet additions have risen to £1.6 million in the year (2018: £0.2 million). The 2019 additions include the completion of the oil tool asset purchase from a distressed competitor in South East Asia that was mainly undertaken in late 2018, new oil tools for projects in Australia in the second half of 2019 and some smaller loadbanks for the data centre market.

Inventory levels have decreased since the previous year end to £3.9 million (2018: £4.3 million) mainly due to finished goods either sold to customers or transferred to the hire fleet.

Trade and other receivables have increased from £7.9 million at the previous year end to £9.9 million at the end of June. This is mainly due to the high level of revenue generated in the second quarter of 2019 with debtor days remaining in line with previous periods.

Period end net debt* (cash balances less financial liabilities) stood at £8.5 million (2018 year end: £8.7 million) which includes £3.9 million of debt convertible to equity at 125 pence per share. Net debt has decreased to £7.0 million by 31 August 2019 due to an expected unwinding of working capital.

The Group's leverage, as calculated by dividing net debt* by twelve-month rolling pre-exceptional EBITDA*, has decreased from 1.9 as at 31 December 2018 to 1.4 as at 30 June 2019. Excluding the convertible debt, the leverage is 0.8.

The Group continued to increase the cash generated from operating activities* which totalled £2.6 million during the period (2018: £1.9 million).

IFRS 16
IFRS 16 addresses the accounting for leases and requires lessees to recognise all leases on its balance sheet with limited exemptions. This results in the recognition of a right-of-use asset and corresponding liability on the balance sheet, with the associated depreciation and interest expense being recorded in the income statement over the lease period. Limited exemptions apply for short-term leases (leases with a term of twelve months or less) and low value leases. The payments for the exempt leases are recognised as an expense in the income statement on a straight line basis over the lease term.

The Group has adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application (£nil) is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information has not been restated and continues to be reported under IAS 17 "Leases" and IFRIC 4 "Determining Whether an Arrangement Contains a Lease".

On transition to IFRS 16 the Group recognised an additional £868,000 of right-of-use assets and £868,000 of lease liabilities. As at 30 June 2019 the right-of-use asset recognised is £650,000 with a corresponding lease liability of £650,000.

Iwan Phillips
Finance Director
26 September 2019

	30 June 2019 as reported	IFRS 16 impact	**30 June 2019 excluding IFRS 16 impact**	30 June 2018 as reported
EBITDA	3,597	218	**3,379**	1,778
Cash generated from operations	2,782	218	**2,564**	1,931

	30 June 2019 as reported	IFRS 16 impact	**30 June 2019 excluding IFRS 16 impact**	31 December 2018 as reported
Net debt	9,183	650	**8,533**	8,694

* All ratios used in this report use the 2019 figures after adjusting for the impact of IFRS 16 so that they are directly comparable with the 2018 reported figures.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Note	**Six months ended 30 June 2019 Unaudited £'000**	Six months ended 30 June 2018 Unaudited £'000	Year ended 31 December 2018 Audited £'000
Revenue		**16,759**	12,594	26,936
Cost of sales		**(9,268)**	(7,589)	(15,674)
Gross profit		**7,491**	5,005	11,262
Operating costs		**(6,741)**	(6,087)	(12,100)
Impairment loss on trade receivables:				
Excluding exceptional cost		**—**	—	(154)
Exceptional cost		**—**	—	(712)
Total impairment loss on trade receivables		**—**	—	(866)
Share of post-tax results of joint ventures		**(349)**	(139)	(364)
Profit/(loss) from operations		**401**	(1,221)	(2,068)
Finance costs		**(379)**	(288)	(654)
Profit/(loss) before tax excluding exceptional cost		**22**	(1,509)	(2,010)
Exceptional cost		**—**	—	(712)
Profit/(loss) before taxation		**22**	(1,509)	(2,722)
Income tax (charge)/credit		**(144)**	37	313
Loss for the period attributable to the equity holders of the parent		**(122)**	(1,472)	(2,409)
Other comprehensive (loss)/income				
Exchange differences on translating foreign operations		**(130)**	(473)	638
Other comprehensive (loss)/income for the period, net of tax		**(130)**	(473)	638
Total comprehensive loss for the period attributable to equity holders of the parent		**(152)**	(1,945)	(1,771)
Loss per share attributable to the equity holders of the parent	2			
– basic (pence)		**(0.4)**	(5.7)	(8.9)
– diluted (pence)		**(0.4)**	(5.7)	(8.9)

All amounts relate to continuing operations.

CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	30 June 2019 Unaudited £'000	30 June 2018 Unaudited £'000	31 December 2018 Audited £'000
ASSETS			
Non-current assets			
Intangible assets	**12,177**	12,277	12,333
Property, plant and equipment	**28,648**	26,903	28,872
	40,825	39,180	41,205
Current assets			
Inventories	**3,938**	4,031	4,288
Trade and other receivables	**9,965**	8,560	7,902
Cash and cash equivalents	**3,259**	3,855	2,302
	17,162	16,446	14,492
Total assets	**57,987**	55,626	55,697
LIABILITIES			
Current liabilities			
Trade and other payables	**6,380**	6,000	5,306
Financial liabilities	**4,161**	2,494	3,145
Current tax liabilities	**729**	674	660
	11,270	9,168	9,111
Non-current liabilities			
Financial liabilities	**8,281**	7,528	7,851
Deferred tax liabilities	**2,198**	2,765	2,276
	10,479	10,293	10,127
Total liabilities	**21,749**	19,461	19,238
Total net assets	**36,238**	36,165	36,459
Equity attributable to equity holders of the parent			
Share capital	**2,811**	2,811	2,811
Convertible debt option reserve	**201**	—	201
Share premium	**29,950**	29,974	29,950
Merger reserve	**2,810**	2,810	2,810
Treasury share reserve	**(451)**	(451)	(451)
Foreign exchange reserve	**3,518**	2,537	3,648
Retained earnings	**(2,601)**	(1,516)	(2,510)
Total equity	**36,238**	36,165	36,459

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Six months ended 30 June 2019 Unaudited £'000	Six months ended 30 June 2018 Unaudited £'000	Year ended 31 December 2018 Audited £'000
Cash flows from operating activities			
Net profit/(loss) from ordinary activities before taxation	**22**	(1,509)	(2,722)
Adjustments for:			
– amortisation of intangible fixed assets	**194**	354	576
– amortisation of capitalised debt fee	**84**	78	126
– depreciation of property, plant and equipment	**3,002**	2,645	5,379
– profit on disposal of property, plant and equipment	**(195)**	(343)	(537)
– share of post-tax results of joint ventures	**349**	139	364
– finance costs	**379**	288	654
– share option expense	**30**	30	50
	3,865	1,682	3,890
Decrease/(increase) in inventories	**350**	(609)	(853)
(Increase)/decrease in receivables	**(2,147)**	694	1,507
Increase/(decrease) in payables	**714**	164	(258)
Cash generated from operations	**2,782**	1,931	4,286
Finance costs	**(349)**	(288)	(574)
Taxation	**(156)**	(460)	(651)
Increase in receivables from joint ventures	**(266)**	(62)	(402)
Hire fleet expenditure	**(1,649)**	(236)	(4,469)
Sale of assets within hire fleet	**309**	443	844
Net cash from/(used in) operating activities	**671**	1,328	(966)
Cash flows from investing activities			
Payment of deferred consideration	**—**	(1,053)	(1,130)
Sale of property, plant and equipment	**21**	5	8
Purchase of property, plant and equipment	**(200)**	(32)	(243)
Net cash used in investing activities	**(179)**	(1,080)	(1,365)
Cash flows from financing activities			
Proceeds from share capital issued	**—**	2,395	2,371
Proceeds from bank and other borrowings	**1,679**	9,152	10,923
Debt issue costs	**(26)**	(413)	(437)
Repayment of bank and other borrowings	**(825)**	(8,547)	(9,116)
Payment of lease creditors	**(364)**	(149)	(299)
Net cash from financing activities	**464**	2,438	3,442
Net increase in cash and cash equivalents	**956**	2,686	1,111
Cash and cash equivalents at beginning of period	**2,302**	1,173	1,173
Exchange gains/(losses) on cash and cash equivalents	**1**	(4)	18
Cash and cash equivalents at end of period	**3,259**	3,855	2,302

NOTES TO THE UNAUDITED INTERIM STATEMENTS

For the six months ended 30 June 2019

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 2018.

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 2019.

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 2019 and the six months ended 30 June 2018 has not been audited.

The financial information for the year ended 31 December 2018 does not constitute the full statutory accounts for that period. The annual report and financial statements for 2018 has been filed with the Registrar of Companies.

The Independent Auditor's Report on the annual report and financial statement for 2018 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 2019 was approved by the Board of Directors on 26 September 2019.

2. Earnings per share

The earnings per share figure has been calculated by dividing the loss after taxation, £122,000 (2018: £1,472,000), by the weighted average number of shares in issue, 27,899,602 (2018: 25,999,050).

At the end of the period, the Company had in issue 2,119,451 (2018: 1,819,451) share options and £4,000,000 of convertible loan notes which can be converted to 3,200,000 (2018: 3,200,000) ordinary shares at a price of 125 pence per share which have not been included in the calculation of the diluted earnings per share because their effects are anti-dilutive. These share options and convertible loan notes could be dilutive in the future.

3. Dividends

No interim dividend (2018: 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, 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
Divisional Managing Director

Iwan Phillips
Finance Director

Ash Mehta
Non-executive Director (independent)

Nitin Kaul
Non-executive Director (independent)

Judith Aldersey-Williams
Non-executive Director (independent)

Secretary
I C 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
Shore Capital
Cassini House
57 St. James's Street
London SW1A 1LD

Registrars
Link Asset Services
65 Gresham Street
London EC2V 7NQ

Produced by
designportfolio

NORTHBRIDGE

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

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