

# INNOVATION & TECHNOLOGY

Interim Results
Presentation

**April 2020** 





### Agenda

- 1. Introduction | Tim Davies, CEO
- 2. COVID-19 | Tim Davies, CEO
- 3. Financial Results | Neil Austin, Group FD
- 4. Divisional Review | Tim Davies, CEO
- 5. Summary
- 6. Outlook
- 7. Q&A





## COVID-19 Overview

- We remain operational across both Agriculture and Engineering in the UK and overseas
- Health & Safety is our overriding objective
- Decisive action being taken and developments are being closely monitored
- To date, no material adverse impact on the Group
- Robust financial position
- High level of uncertainty remains





## COVID-19 Measures implemented

- Following all government guidelines
- Rigorous social distancing controls, hygiene measures and shift-working practices implemented across all locations
- Working from home wherever possible
- Supporting high risk and vulnerable people



## COVID-19 Agriculture

- UK and overseas manufacturing facilities remain operational
- UK retail outlets continue to service customers with feed, animal health product, fuel, machinery and a wide range of other products
- Agriculture industry designated key workers supporting global food supply chains



## COVID-19 Engineering

- Manufacturing facilities largely operational
- Continue to work on projects, many of which are of national importance and of a critical nature
- Close liaison with customers and supply chain partners to minimise any potential negative impact on the division



### COVID-19

#### Strong financial position

- Net debt 1.2 x adjusted EBITDA at end of H1
- Undrawn facilities £22.4m at end of H1
- Substantial committed facilities maturing 2021 to 2023
- Weekly and longer-term monthly cash forecasting in place
- Cash flow stress tested against various scenarios demonstrates that the Group has sufficient funding within current facilities





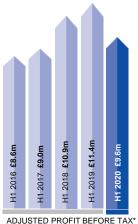
### COVID-19

#### Strong financial position (continued)

- Cash preservation measures
  - Restrict non-essential capital expenditure
  - Deferral of all non-critical expenses
  - Close monitoring of receivables
  - Deferral of interim dividend
- Review opportunities to appropriately utilise government assistance schemes



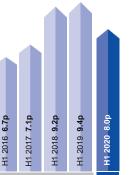
## Results Overview Continuing Operations



H1 2016 6.7p
H1 2016 6.7p
H1 2017 7.1p
H1 2017 819

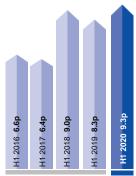
£9.6m

- Revenue **decreased** 3.0% to £200.0m (H1 2019: £206.2m)
- Adjusted\* EBITDA decreased 3.5% to £11.7m (H1 2019: £12.2m)
- Adjusted\* operating profit decreased 13.4% to £10.3m (H1 2019: £11.9m)
- Adjusted\* profit before tax **decreased** 16.0% to £9.6m (H1 2019: £11.4m)
- Reported profit before tax increased 1.7% to £10.5m (H1 2019: £10.3m)
- Basic EPS increased 12.0% to 9.3p (H1 2019: 8.3p)
- Adjusted\* EPS decreased 14.9% to 8.0p (H1 2019: 9.4p)
- Interim dividend deferred due to uncertainty surrounding COVID-19
- £25.4m net debt excluding leases (£20.9m as at 31 August 2019 excluding finance leases)



ADJUSTED EARNINGS PER SHARE\*

8.0p



BASIC EARNINGS PER SHARE

9.3p





## Financial Review

Segmental Analysis

	H1 2020 (£m)	H1 2019 (£m)	Change
Segmental revenue:			
Agriculture	175.0	185.2	-5.5%
Engineering	24.9	21.0	+18.4%
Total revenue	200.0	206.2	-3.0%
Adjusted EBITDA	11.7	12.2	-3.5%
Segmental adjusted operating profit:			
Agriculture	9.0	10.7	-15.5%
Engineering	1.2	2.0	-39.6%
Central	0.1	(0.7)	+114.3%
Total adjusted operating profit	10.3	11.9	-13.4%
Net finance costs	(0.7)	(0.5)	+46.6%
Adjusted profit before tax	9.6	11.4	-16.0%
EPS (p) – basic	9.3	8.3	+12.0%
EPS (p) – adjusted	8.0	9.4	-14.9%
Interest cover	15.5	21.8	



Adjusted profit measures are before non-recurring items of (-£0.9m): amortisation of acquired intangible assets (£0.7m); adjustments to contingent consideration in respect
of acquisitions (-£2.1m); and restructuring/closure costs (£0.5m)



## Financial Review Balance Sheet

	At 29 February 2020 £m	At 31 August 2019 £m	Change
Fixed assets	118.5	107.4	+10.3%
Net working capital	50.5	45.2	+11.7%
Assets employed	169.0	152.6	+10.7%
Pension surplus	6.6	7.8	-14.5%
Net debt (excluding leases)	(25.4)	(20.9)	+21.9%
Lease liabilities	(15.2)	(2.9)	+420.8%
Tax provisions	(4.1)	(5.6)	-27.4%
Net assets	130.9	131.0	-0.1%
Net debt (excluding leases): Adjusted EBITDA	1.23	0.99	

#### **Key points**

- Right-of-use assets increased fixed assets by £11.5m on transition to IFRS 16 on 1 September 2019
- Defined benefit pension scheme remains in surplus, although decrease primarily due to market conditions
- Lease liabilities increased by £12.7m on transition to IFRS 16 on 1 September 2019





### Financial Review

#### Cash Flow

	H1 2020 £m	H1 2019 £m
EBITDA	11.7	12.2
Working capital changes	(2.5)	(7.3)
Net interest	(8.0)	(0.5)
Taxation	(2.1)	(0.7)
Other	(1.4)	0.1
Cash flow from operating activities	4.9	3.8
Capex	(3.4)	(2.4)
Contingent consideration/acquisitions	(1.6)	(4.9)
Dividends	(3.3)	(3.1)
Transition to IFRS 16	(12.7)	-
Other	(8.0)	(1.3)
Increase in net debt (including leases)	(16.9)	(7.9)
Increase in lease liabilities	12.4	0.4
Increase in net debt (excluding leases)	(4.5)	(7.5)

	Expiry	Facility £m	Utilised H1 2020 £m
Working capital facilities (UK)	12 month rolling/2021	35.5	14.7
Working capital facilities (US)	12 month rolling	2.0	0.3
Working capital facilities (EU)	12 month rolling	3.1	-
Term loans	Various	9.6	9.6
Revolving credit facility	2023	27.0	21.9
Cash			(21.1)
Net debt (excluding leases)		77.2	25.4
Leases			15.2
Net debt (including leases)			40.7

#### **Key points**

- Seasonal working capital cash flow movement decreased year on year
- Transition to IFRS 16 adds £12.7m to lease liabilities



## Agriculture





### Supplements

#### Performance

- Revenues of £36.6m (H1 2019: £37.4m)
- Lower farm incomes, uncertainty, benign weather and large winter forage stocks resulted in lower sales
- Global feed block sales broadly in line with last year, but lower than previously anticipated
- · Impact on profitability mitigated by two factors:
  - Strong performance at Shelbyville, USA
  - Improved efficiencies from manufacturing and procurement
- Animax performance impacted by market pressures and milder weather resulting in lower sales

#### Investment/Research International Growth

- Shelbyville, Tennessee new low moisture block plant performing in line with expectations
- FesCool® launched in USA designed to mitigate impact of fescue toxicity on animal performance
- During the period, 19 trials were underway across the UK, Europe, North America and New Zealand
- Animax integration ongoing with focus on completing automated production system
- New Pick Block plant in Germany now in commercial production

- Feed block growth plans focused on Europe, New Zealand and North America
- Canadian feed block market increased access, product registrations and sales support. Supplied from manufacturing plant in South Dakota, USA
- Focus on international growth for Animax, although slower than planned due to delay in USA registrations







### **UK Agriculture**

#### Performance

- Revenues of £138.4m (H1 2019: £147.8m)
- Resilient performance despite reduced sales due to lower farm incomes, uncertainty, large winter forage stocks and very mild weather
- Compound feed volumes: 10% decrease in tonnes sold, in line with national average
- Fuel volumes: 6% decrease in litres sold
- Machinery: 20% increase in total revenues
- Retail: 2% like for like sales increase, 1% total sales increase
- Cost efficiencies, improved processes and purchasing being implemented to mitigate the impact on profitability
- Key appointments being made into the management team to effect change

#### Strategy

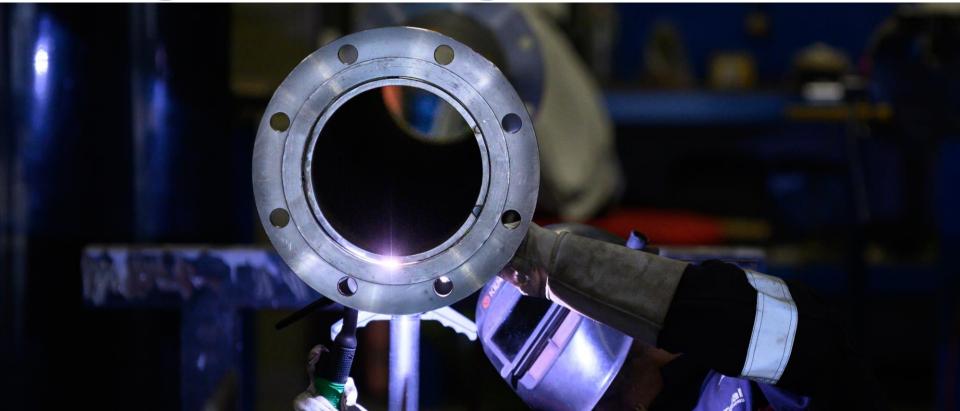
- Lead in dairy nutrition with focus on technical services
- Strengthen current geographical position
- Expand into areas where current offer would be aligned
- Focus on efficiency and cost reduction

#### Outlook

- COVID-19 uncertainty and impact on the industry
- We continue to adapt in order to effectively manage the short-term market challenges
- Remain confident in the medium and long-term prospects for UK Agriculture



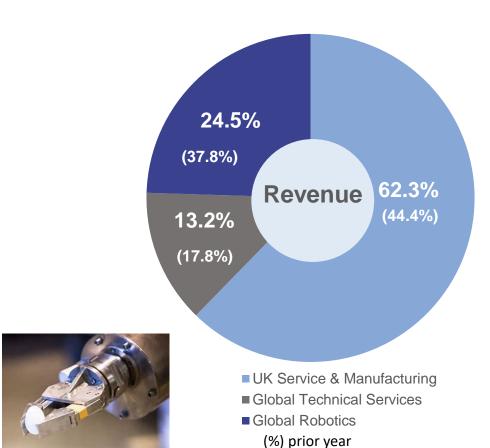






#### Performance

- As expected, slow start to the year due to contract phasing
- Revenue up 18.4% to £24.9m (H1 2019: £21.0m)
- Overall adjusted divisional operating profit down 39.6% to £1.2m (H1 2019: £2.0m)
- New divisional structure aligned to customers and markets driving improved new business development
- UK Service and Manufacturing performing well
- Global Technical Services performing in line with expectations
- Global Robotics impacted by delays in contract awards
- NW Total acquired in June 2019 now fully integrated and performing well





## UK Service and Manufacturing

- Revenues of £15.5m versus £9.3m in H1 2019
- Strong order books
- New management has overseen much improved business development approach
- Closer collaboration between businesses resulting in synergies and improved procurement
- NW Total acquired June 2019 fully integrated, strong order book and performing well, delivering new opportunities in both nuclear defence and nuclear decommissioning

#### Global Robotics

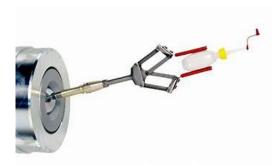
- Revenues of £6.1m versus £7.9m in H1 2019
- Delays in contract awards in Japan and China impacted H1 and will impact H2
- Medium term prospects remain robust
- New robotics demonstration showroom opened in Mooresville, USA





#### Global Technical Services

- Revenues of £3.3m versus £3.8m in H1 2019
- As expected, lower levels of activity due to phasing of multi-year MSIP® projects
- Strong order book and opportunity pipeline mainly benefitting the 2020/21 financial year, including new \$6.2m MSIP® contract
- US Department of Energy funded passive cooling technology project progressing well



#### Outlook

- Order books across the Division remain strong in particular UK Service and Manufacturing and Global Technical Services
- Global Robotics: while some uncertainty around timing of contracts into Asian markets, medium term outlook remains positive
- Acquisition of NW Total extends specialist service offer, increases synergy opportunities within the division and provides access to the nuclear defence market
- Division well positioned for future growth



### Summary

- Resilient performance in the period despite market challenges across both Agriculture and Engineering
- Performance in Agriculture impacted by:
  - Pressure on farm incomes due to rising costs and pressure on prices in UK and USA
  - Uncertainty in UK Agriculture surrounding future relationship with EU
  - Large winter forage stocks reducing demand for bought in feed in UK and USA
  - Mild weather reducing demand for a range of supplements and feed
- Performance in Engineering impacted by:
  - Delay in contract awards in both Japan and China in Global Robotics
  - Good performance in UK Service and Manufacturing
  - Global Technical Services performing as expected
  - NW Total performing above expectations following acquisition in June 2019
  - New divisional structure delivering synergies
  - Order books remain strong, particularly in UK Service and Manufacturing and Global Technical Services



### Outlook

- Full year forecast remains in line with revised expectations.
- We continue to monitor impact of COVID-19 closely
  - High level of uncertainty
  - Important steps have been taken to protect our people
  - We have taken action to protect our operations
  - Contingency planning in place to limit any negative impact on the Group's performance
- Interim dividend deferred given the level of uncertainty, will be reassessed in July 2020
- The Group is in a financially robust position, and well placed for growth in the longer term



# INNOVATION & TECHNOLOGY

Questions and Answers







### The Group An Overview

International business focused on two sectors: agriculture and engineering



#### **Agriculture**

- An international Supplements business:
  - Manufacturing molasses-based branded feed blocks for farm animals in the UK, Germany and USA, including Crystalyx®, Horslyx®, MegaLic® SmartLic®, FlaxLic® and FesCool®
  - Manufacturing livestock trace element supplements, including boluses, sold under the Tracesure® and Allsure® brands based in Suffolk
- A UK Agriculture business:
  - Operating over 40 rural retail outlets across the north of England and southern Scotland, including 7 machinery branches
  - Manufacturing and distributing circa 500,000 tonnes of animal feed produced at 3 plants in the UK
  - Servicing rural and farming communities in the UK with heating oil and fuel from 8 depots



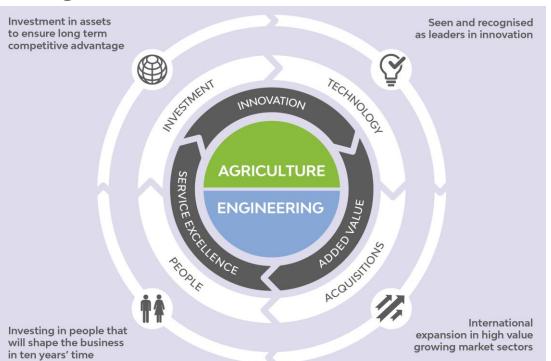
#### **Engineering**

- A Global Robotics business designing and manufacturing bespoke manipulators and robotics, based in Swindon, UK, Markdorf, Germany, and Charlotte, NC, USA
- A UK Service and Manufacturing business producing specialist fabrications, precision engineering and providing engineering solutions based in Carlisle, Newcastle upon Tyne and Barrow-in-Furness
- A Global Technical Services business delivering technology and engineering solutions based in Pittsburgh, PA, USA and Charlotte, NC, USA
- Products are used across the nuclear energy, nuclear defence, oil and gas, petrochemical and pharmaceutical industries

Innovation, technology and research is at the heart of our DNA and provides the common thread linking the two divisions



## Group Strategic Vision



To be recognised as a truly international business at the forefront of technology and innovation

#### **Strategic Objectives**

- 1. Build value by focusing on markets with growth potential
- 2. Grow our international footprint
- 3. Differentiate through innovation and technology
- 4. Lead in our chosen markets



### Geographic Footprint





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