Avingtrans plc
("Avingtrans" or the "Group")
Preliminary Results for the year ended 31 May 2019

Avingtrans plc, which designs, manufactures and supplies critical components, modules, systems and associated services to the energy, medical and industrial sectors, is pleased to announce its preliminary results for the twelve months ended 31 May 2019.

Financial Highlights

- Revenue from continuing operations increased by 34% to £105.5m (2018[1]: £78.9m)
  - Reflecting the full year impact of FY18 HTG acquisition and 11% underlying organic growth
- Gross Margin improved to 26.7% (2018[1]: 25.5%)
- Adjusted[2] EBITDA from continuing operations increased by 65% to £9.4m (2018[1]: £5.7m)
- Adjusted[2] PBT £5.3m (2018[1]: £2.4m)
- Adjusted[2] Diluted earnings per share were boosted to 14.9p (2018[1]: 8.4p)
- Cash inflow from operating activities £9.0m (2018: £6.9m outflow)
- Net Debt £2.0m (31 May 2018: £7.1m)
- Increased final dividend of 2.4p per share (2018: 2.3p). Full year 3.8p (2018: 3.6p)

[1] *2018 not restated for IFRS15*
[2] *Adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items*

Operational Highlights
Energy

- Revenues up 36% to £93.4m (2018: £68.4m) including first full year of HTG results
- Ormandy acquisition made a profit in its first full year
- Acquisitions of Booth and Energy Steel post-period end are proceeding to plan
- Sellafield 3M3 boxes now in serial production
- £10m nuclear life extension contract with Vattenfall for Forsmark
- £10m steam turbine contract for floating production vessel
- Exited Whiteley Read and Maloney sites, to rationalise oil and gas assets
- New Hayward Tyler Chinese factory in Kunshan (China) fully operational
- Aftermarket performance continuing to improve across all business units

Medical

- Revenues up to £12.1m (2018: £10.4m), transition to new markets continues
- Acquisition of Tecmag Inc, for £0.1m including costs, providing system capability
- Scientific Magnetics MRI system developments progressing broadly to plan
- Siemens shipments remained steady in the UK and China
- Composite Products had another solid year

Commenting on the results, Roger McDowell, Chairman, said:
"It has been a record year for the Group, in terms of orders, revenue and profit, reinforced by the deft execution of our now well-proven Pinpoint-Invest-Exit strategy (PIE). The former Hayward Tyler Group (HTG) businesses performed very well in their first full year with the Group and the Ormandy turnaround produced a solid, if modest profit in its first full year since acquisition in February 2018. The recent, tactical acquisitions of Tecmag, Texas; Booth, Bolton, UK; and Energy Steel, Michigan are all integrating well thus far. The Energy divisions and their management teams have proven themselves to be commercially astute and we continue to focus on profitable growth, to build valuable, enduring businesses. Our budding medical division continues to make slow, but steady progress, as it seeks to develop new technologies, to break through into new sectors.

We continue to concentrate on aftermarket opportunities, servicing end-user customers with comprehensive solutions, resulting in good growth and strong prospects. The nuclear life extension and decommissioning arenas are fertile ground for us, as demonstrated by contract wins in the period worldwide. Other market areas are also proving fruitful - such as renewable energy - and a more stable oil and gas environment has seen us win important contracts in that sector. Brexit and tariff wars are unwelcome distractions for the Group, but they will not cause us to deviate from our well-planned course. Despite the chill in the macroeconomic air, we remain quietly confident about our prospects in both Energy and Medical, with our strong Balance Sheet allowing us to be both agile and resilient. Recent order wins and our pipeline of opportunities underpin that outlook."

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About Avingtrans plc:
Avingtrans designs, manufactures and supplies original equipment, systems and associated aftermarket services to the energy, medical and industrial markets worldwide.

Business units

Hayward Tyler – Luton & East Kilbride, UK and USA, China and India
Specialises in the design, manufacture and servicing of performance-critical motors and pumps for challenging environments.

Energy Steel, Inc – Lapeer, Michigan, USA
Provider of custom fabrications for the nuclear industry, specialising in: OEM parts obsolescence; custom component fabrication; engineering design solutions; product refurbishment; on-site technical support.

Stainless Metalcraft Ltd – Chatteris, UK and Chengdu, China
Provider of safety-critical equipment for the energy, medical, science and research communities, worldwide, specialising in precision pressure and vacuum vessels and associated fabrications, sub-assemblies and systems.

Booth Industries – Bolton, UK
Designs, manufactures, installs and services specialist doors and walls which can be tailored to be: blast and explosion proof; fireproof; acoustically shielded; high security/safety; or combinations of the above.

Ormandy Group - Bradford, UK
Design, manufacturers and servicing of off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products.

Peter Brotherhood – Peterborough, UK
Specialises in the design, manufacture and servicing of performance-critical steam turbines, turbo gen-sets, compressors, gear boxes and combined heat and power systems.

Composite Products Ltd – Buckingham, UK
Centre for composite technology, parts and assemblies, serving customers in industrial markets.

Scientific Magnetics – Abingdon, UK
Designs and manufactures superconducting magnet systems and associated cryogenic systems for a variety of markets including MRI and provides service and support for Nuclear Magnetic Resonance instruments.

Tecmag Inc - Houston, USA
Designs, manufactures, tests and installs instrumentation, including full consoles, system upgrades, and solid-state probes, mainly for Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) systems.

Crown International Ltd – Portishead, UK
Designs and manufactures market-leading pole and support systems for roadside signage and safety cameras, rail track signalling and gantries.

Chairman's Statement

As the long-standing Chairman of Avingtrans, it is pleasing to be able to report on another record year of results for the Group. Orders, revenue, and profit all reached new highs and we are confident about the embedded value of the Pinpoint-Invest-Exit strategy (PIE), as the Group continues to hit target milestones along the path towards eventual value realisation. The former Hayward Tyler Group (HTG) businesses continued to improve, with further growth and cost savings achieved in HTG's first full year contribution. The combined businesses continue to demonstrate the anticipated synergies. Ormandy has also integrated well, in its first full turnaround year within the Group. It was a year in which we drove shareholder value through Investment, but we also Pinpointed Tecmag Inc in Houston, acquiring it to complement our technology capabilities in MRI and NMR in the Medical division.

Post-period end, we acquired the assets of Booth Industries in Bolton, UK and Energy Steel in Michigan, USA. Each of these turnaround opportunities were acquired following agile due diligence processes. They both augment our capabilities in the nuclear aftermarket and decommissioning sector and Booth brings Avingtrans into the wider Critical National Infrastructure (CNI) market. The acquisition of Energy Steel will broaden Hayward Tyler's product offering - particularly in precision manufacturing and solutions for "orphan" OEM components for the nuclear aftermarket - and provide cross-selling opportunities. Acquiring Booth Industries enables the Process Solutions and Rotating Equipment ("PSRE") division to expand its product and service offering and deepen its relationships with its existing customers.

The Energy divisional structures and management teams have shown themselves to be highly effective in the period, continuing to build upon two solid platforms displaying good global reach, product and service diversity. Their unwavering focus is now on growing into formidable and valuable businesses. The Group continues to carefully build its fledgling medical and industrial imaging division, which promises to produce a unique market offering in the longer-term. This division was reinforced in the period with the Tecmag acquisition, to give us the necessary electronics and software capability for full system production.

Aftermarket growth is a common strategic theme across all three divisions, to develop robust value propositions, in order to support OEM and end-user customers, who are either operating Group products or systems, or who have operational problems that the Group can solve. This improved end-user model not only provides a more predictable and repeatable pipeline, which in turn drives improved profitability, but also boosts product and service development and innovation. We are particularly keen to maximise the revenue opportunities arising from the aftermarket access afforded by recent acquisitions (eg Energy Steel) and partnerships (eg with ABC Compressors, Spain).

The Engineered Pumps and Motors (EPM) division bolstered its capability in India with a new motor rewind centre and officially opened a new 3,250 square metre facility in Kunshan, China. These enhanced units are securing end-user business in the region, including in the valuable aftermarket. Our facilities also act as operational hubs for the sale of original equipment, cost effective sourcing, engineering and tendering. Energy Steel, which manufactures components for the civil nuclear power industry, provides further access to the Nuclear aftermarket and is integrating into EPM well.

The PSRE division is continuing to refine its offering to the UK nuclear market – especially to Sellafield for nuclear decommissioning - whilst also using this capability to position for longer term new nuclear technologies. Ormandy had a profitable first full turnaround year with the group and the integration of Booth has been satisfactory to date.

The Medical and Industrial Imaging (MII) division continues to develop steadily, with both the UK and Chinese businesses consolidating their positions in the supply chain. Scientific Magnetics and Tecmag are working with their partners to produce new product offerings for the NMR and MRI markets. While these developments are still at a relatively early stage, the Board is excited about the long-term potential of the division which, given time to bring these developments to fruition, is expected to yield positive returns for the Group.

For the eighth successive year, the Board has declared an increased final dividend of 2.4 pence per share, producing a full year total of 3.8 pence per share, underlining our commitment to long term shareholder returns and our positive view about the prospects for the Group, underpinned by our prudent approach to debt and financial headroom.

Finally, since the last annual report, Ewan Lloyd-Baker resigned from the Board, having assisted Avingtrans with the transition of HTG and Colin Elcoate resigned from his position as CCO. The Board and I wish Ewan and Colin all the best with their future endeavours and thank them for their hard work whilst they were with us. I warmly welcome all of the staff in recent acquisitions to Avingtrans. Their commitment to reinvigorate their businesses will enrich the Group. On behalf of the shareholders, I thank all Avingtrans employees for their hard work and commitment to the Group during the past 12 months, as we look forward with enthusiasm to FY2020.

Roger McDowell
Chairman
17 September 2019

Strategy and business review

Group Performance

Group Strategy

Our core strategy is to buy and build engineering companies in niche markets, particularly where we see turnaround and consolidation prospects; a strategy we call Pinpoint-Invest-Exit ("PIE"). We have had a strong track record in returning significant shareholder value over the past decade and FY2019 was another successful year, cementing our turnaround of Ormandy and concluding the acquisition of Tecmag for the medical division. Post year end, there have been two further acquisitions, both being turnaround opportunities.

With an increased presence in our target markets, a focus on the aftermarket, strength in depth of the management teams and a lean central structure, the Group continues to grow profitably and the Board has renewed its focus on seeking additions to the Avingtrans value-add proposition. Conversely, we are also pragmatic when it comes to disposing of assets which become non-core, such as the exit of Whiteley Read in the period.

All of the Group's key financial metrics have trended positively, including the percentage of aftermarket penetration, despite a period of restructuring following the successful integration of HTG.

The business is focused on the global Energy and Medical markets, both of which play into some of the world's mega-trends, such as: continued urbanisation; an ageing population; and an accelerating transition towards a cleaner and healthier planet.

Divisional Strategies

Engineered Pumps and Motors (EPM, Energy): EPM continues to develop its nuclear installed base (civil and defence) – notably for life extension applications - and its offering to the fossil fuels market sectors. Post year end, this strategy was bolstered by the acquisition of Energy Steel in North America, which specialises in nuclear life extension. In addition, the EPM business continues to develop solutions for new nuclear technologies and other low carbon energy sources, such as concentrated solar, to capitalise on the global energy supply transition. In FY19 EPM secured a number of key contracts, including to provide high temperature molten salt, nuclear life extension equipment and spare parts to nuclear reactors. As part of the division's global business strategy and to support continued growth, Avingtrans opened a new state of the art factory in Kunshan, China in January 2019.

Process Solutions and Rotating Equipment (PSRE, Energy): The primary strategy is to develop a comprehensive offering to the nuclear decommissioning and reprocessing markets, building on the long-term contracts to build nuclear waste storage containers and the installed base of equipment across the vast Sellafield site. In parallel, to continue to support the nuclear submarine fleet and facilities for the UK MOD and targeted opportunities in the equally highly regulated offshore Oil & Gas markets. Post year end, the division's nuclear credentials were boosted by the acquisition of the assets of Booth Industries, which also broadened our market reach into Critical National Infrastructure (CNI).

Medical and Industrial Imaging (MII, Medical): The focus for the medical division is to become a niche market leader in the production of high integrity components and systems for medical and scientific equipment manufacturers including MRI, proton therapy and Nuclear Magnetic Resonance (NMR). In October 2018, we acquired Tecmag Inc in Texas, to strengthen our NMR/MRI capabilities. This business is able to design and manufacture the electronics and software systems required for these markets.

The common theme we are looking to exploit across energy and medical is the continued pressure on aftermarket expenditure, where operational efficiency, reliability and safety are paramount and operators are looking to their supply chain partners to provide long term support of aging infrastructure and legacy installations.

Pinpoint-Invest-Exit

Continuing its Pinpoint-Invest-Exit strategy, Avingtrans added a number of bolt-on acquisitions in the year, including Tecmag, Inc. in October 2018; adding expertise in Magnetic Resonance Imaging and Nuclear Magnetic Resonance systems to the Group's developing Medical division. Based in Texas, Tecmag designs, manufactures, tests and installs instrumentation such as consoles, spectrometers and solid-state probes for primarily Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) systems. It has strong technology and a material installed base from over 35 years of supplying custom products to these markets. Tecmag will be integrated into Scientific Magnetics, which has expertise in superconducting magnets and cryogenics and is focused on the same end markets. This will provide a platform for further product development and investment as management advances its buy, build and sell strategy in Medical & Industrial Imaging.

In June 2019, the Company announced the acquisition of Bolton-based Booth Industries Limited, a leading UK engineering company, for a consideration of £1.8m, from the administrators of AIM-quoted Redhall Group plc ("Redhall"), with significant read-across to the Group's Metalcraft operations.

Pinpoint-Invest-Exit (continued)
The Group also acquired the brand name and selected assets of Jordan Manufacturing, a provider of specialist manufacturing and fabrication services and another division of Redhall, in August 2019, which strengthens Metalcraft's position as a key player in the nuclear supply chain.

Also in June 2019, the Company acquired US-based Energy Steel & Supply Co. (Energy Steel), an established manufacturer of machined products and components to the civil nuclear power industry. US-based Energy Steel & Supply Co. (Energy Steel) is an established manufacturer of machined products and components to the civil nuclear power industry, acquired by Avingtrans for consideration of $0.6m. Hayward Tyler has over 600 pumps in active service in nuclear applications across the world and this acquisition expands the Company's nuclear capabilities and product lines for new and existing customers.

The integrations of Booth and Energy Steel are proceeding to plan thus far.

M&A activity in energy capital goods markets remains strong and businesses like ours continue to command high valuations. Avingtrans remains confident about the current strategic direction and potential future opportunities across its chosen markets.

Markets - Energy
The global demand for energy continues to rise, driven primarily by population increase, continued urbanisation and improved prosperity. Although in the longer term, the latest estimates show that overall demand may slow, due to increased efficiency and decarbonisation, but for the time being the global energy compound annual growth rate (CAGR) can be assumed to be of the order of 2%.

End User/Aftermarket
Operators and end-users are demanding a blend of quick response through local support with an overarching requirement to drive improvements through equipment upgrades and modernisation. In the West, where facilities are being operated for longer than their intended design lives – and often in a drive for increased capacity alongside tougher regulations – there is a strong demand for true solution providers in the supply chain to partner with end-users for the longer term. The Avingtrans energy divisions are well positioned to grow in this end-user market space. With increased relevance and global reach, balanced alongside heritage and renowned expertise, they can find niche positions and value propositions alongside the global players and the local independents.

Nuclear
Nuclear energy as a low carbon, baseload power source remains an uncertain market with respect to future growth. Almost all of the 1GW+ new build opportunities are currently in Asia, with the exception of the limited UK programme. However, we are still enjoying buoyant market segments, including supporting the operational fleet, continued safe operation and life extensions, decommissioning and reprocessing. We are also working on the long-term development of the next generation of technologies – i.e. Small Modular (SMR), or Advanced Generation IV Reactors. In addition, these segments all have the attractive backdrop of a consolidating supply chain and paucity of expert knowledge, all of which play directly to the expanding Avingtrans capability.

The USA still operates the biggest civil nuclear fleet in the world, with 99 reactors generating more than 30 per cent. of the world's nuclear electricity. When coupled with the heritage Westinghouse technology operating in Europe and Asia, the EPM division's long-standing position in this market provides fertile ground for further growth. Obsolescence is a key issue for nuclear operators worldwide and the Avingtrans Energy Divisions are well positioned to support operators in addressing this key operational issue; the recent acquisition of Energy Steel in the USA bolstering the Group's capabilities in this regard.

The UK remains pre-eminent when it comes to decommissioning and reprocessing, in terms of innovative technology and overall spend. The Group is embedded in the future manufacture of waste containers for Sellafield and will continue to expand its presence in the UK and globally in the longer term. The development of new nuclear technologies is ongoing, with pockets of activity in the UK, Russia and South Korea and the USA and China dominating development activity. The Group views these new technologies as an attractive route forwards for nuclear and is well positioned to develop as a global industry partner.

Power Generation
The world continues to electrify, with an increasing amount of primary energy going to the power sector which remains a key focus across the Group's energy divisions. Aside from nuclear, as discussed in the previous section, the main sub-sectors are as follows:

- **Coal** – the Group continues to see good aftermarket from coal fired power stations even though the demand for new power stations is in decline. Opportunities still exist in India, China, South East Asia, Eastern Europe and the Middle East. EPM is optimising its product line, to take market share and to create tomorrow's aftermarket.

Power Generation (continued)

- **Gas** – natural gas, primarily in the form of combined cycle gas turbine power plants is a growing market space, primarily in the West. Although not yet dominated by Asian EPCs and equipment suppliers, the Group is moving into this market with both existing and new product lines.
- **Renewables** – renewable technologies and their supporting infrastructure are a growing market globally. The Group has a broad range of products that can be applied directly to this market segment and also has expertise that can be used to develop new products for niche parts of this market such as molten salt for concentrated solar applications.

Oil & Gas

After several years of oversupply, the industry has become relatively more stable and the price of Brent crude now trades at over $60 a barrel. The industry is slowly recovering from the recent years of weak prices, low capital expenditure, portfolio realignments and productivity efficiencies, and the effect is starting to be seen across the Oil & Gas sector.

- **Upstream –** operating expenditure is now being released to secure current operations, resulting in additional capex spend for new projects. The Group is seeing increased bidding activity and is optimistic regarding future projects. The ongoing investments in disruptive technologies – such as the subsea recovery-boosting technology from F-Subsea, where EPM is an exclusive partner – are now poised to move through the development phase to full deployment.
- **Midstream** – the longer-term midstream trend of interest to the Group is the evolving liquefied natural gas (LNG) market, for which there is a growing demand and a continual import export transition developing. While market predictions for FLNG and FRSU vessels are bullish, real activity in the supply chain remains relatively sluggish.
- **Downstream** – slower growth in the demand for liquid, combined with continued growth of LNG and biofuels continues to put pressure on global refining. New refinery projects which are already planned or under construction for the next five years are judged to be sufficient to meet new capacity. However, the Group's equipment is installed in critical systems on existing plants where continued operation is key, so aftermarket opportunities are strong.

Digitalisation & Condition Monitoring

Companies across the energy market continue to invest in digital technologies to improve productivity, efficiency and predictability in the field. At the equipment level this translates to a series of devices, sensors and algorithms which can predict breakdowns before they occur and ensuring equipment is running at its optimum performance. The Group successfully launched its first monitoring product, DataHawkTM, for Boiler Circulating Pumps last year and will build on this success by adding this capability to both a wider set of original equipment and its aftermarket service offering. Peter Brotherhood now adds condition monitoring to its steam turbines as a standard part of the overall package.

Markets – Medical

The Diagnostic (medical) and molecular imaging markets are large global sectors, dominated by a few large systems manufacturers. The total Diagnostic Imaging Market will be worth $34bn by 2024, according to Bloomberg and is expected to continue to grow at c5% per annum over the next 10 years. The largest market is the USA (25%), followed by Europe (19%) and Japan (17%). The fastest growing markets are China and India, which currently comprise 12% and 3% of the global market respectively.

The Avingtrans Medical division is primarily targeting the Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) segments of these markets, due to the common thread requirements for superconducting magnets and cryogenics. These two segments account for approximately 85% of our business in the medical division. Market drivers for these segments include an ageing global population and the global pharmaceutical industry's research needs. MRI is approximately 16% by value of the total diagnostic Imaging market and is projected to grow at 5% p.a. NMR is a smaller market, currently estimated at $800m p.a. by industry sources and is also growing at c5% p.a., with Bruker enjoying a current market share of over 80%.

End User/Aftermarket

The MRI market segment is dominated by a handful of manufacturers, including GE, Siemens and Philips, who account for circa 80% of revenue globally. These players also dominate the aftermarket, though there are a few independent MRI service businesses in existence. Avingtrans is not present in the MRI aftermarket at this time.

The NMR market is similar, currently dominated by Bruker (CH/DE) and Jeol (JA). Avingtrans is aligned with MR Resources Inc, a well-established US business, which services the NMR aftermarket. The Avingtrans Medical division is well positioned in this end-user market space and has begun to win service contracts with European NMR users, following our partnership agreement with MR Resources.

Markets – Medical (continued)

MRI

As noted above, the MRI market segment is dominated by a handful of global manufacturers. For component and sub-system supply, Avingtrans is most aligned to the market leader, Siemens and also to Canon, which acquired the Toshiba MRI business in recent years. As far as full system supply is concerned, we are currently investigating a number of niche MRI applications (e.g. veterinary imaging) and their associated routes to market, with the intention of pinpointing the most promising of these for future investment.

NMR

We are aligned with new market entrant Q One Instruments of Wuhan, China and also with MR Resources of the USA, as noted above. Together, we form an alliance to challenge the dominance of the existing players and to provide customers with an additional source for NMR products, service and support. Former NMR customers of Agilent (formerly Varian) are also being given much needed support. Whilst it is still early days for this initiative, we are successfully winning support contracts for end users and the prospect list for Q One Instruments is promising. Having acquired Tecmag Inc in Houston in October 2018, to add software and electronics capabilities to our NMR/MRI systems, we also acquired some assets from Acorn NMR in California, to transfer to Tecmag and to broaden our NMR service offering into end-user sample analysis and characterisation.

Operations

Operational Key Performance Indicators (KPI's)

	2019	2018
• Percentage of total revenue deriving from aftermarket sales (%)	43.3	42.1
• Customer quality – defect free deliveries (%)	98.0	97.3
• Customer on-time in-full deliveries (%)	87.2	84.2
• Annualised staff turnover including restructuring (%)	13.0	17.3
• Health, Safety and Environment incidents per head per annum	0.10	0.14

We have added a new KPI this year, being aftermarket (AM) sales as a percentage of total revenue. This nudged up positively, as our initiatives at HT began to take effect. Note that recent acquisitions like Tecmag and Ormandy have very little AM sales at present, which dampens the overall figure in the mix. Other KPIs also trended positively, with customer quality and deliveries moving in the right direction and staff turnover reducing, as the disruptive effects of the HTG acquisition subsided, albeit that newer acquisitions tend to produce an initial bow wave of staff turnover, until we stabilise these businesses. It is pleasing to note the on-going positive trend in HSE related incidents, since we place a high priority on improving these processes at newly acquired businesses.

EPM Division – Energy

The EPM division, which represents the bulk of the former Hayward Tyler companies (excluding East Kilbride) has an enviable installed base across the globe and strong brand recognition. Coupled with its strong domain knowledge across the energy market and its core competencies in wet wound electrical motors, canned motor pumps and nuclear codes and standards, the division continues to expand its end-user offering.

The division finds itself in a relatively strong position, being more agile than some of its bigger competitors, having a respected OEM brand unlike the local independents and able to offer a strong solution-based offering for its own installed base, as well as other Original Equipment Manufacturers.

With a fully developed presence in Europe and North America, the division completed the opening of its new China facility in January 2019 and the new motor rewind centre in India. The integration of these regional centres alongside other regional partners in key territories will give the division expanded global reach, capability and the platform to expand its end-user business. This activity was underpinned by winning a £10m order with Vattenfall in Sweden in February 2019, as well as further orders from KHNP in S Korea and US nuclear operators.

In the UK and China, EPM signed an Authorised Channel and Service Partner agreement with Baker Hughes, a GE company (BHGE), which has a significant installed base in the UK, but no effective local facility to service, overhaul and upgrade their equipment.

In addition to the drive for improved end-user business, EPM is addressing the shift towards a low carbon energy future. Its experience and product knowledge allowed it to gain its first order from a Gen IV nuclear developer in the USA for molten salt technology and also funding from the US Department of Energy to develop molten salt pump technology for advanced concentrated solar applications. With its new range of pumps and its optimised seal-less circulating pumps for natural gas and a range of renewable technologies, EPM is slowly but surely reducing its reliance on coal fired power stations.

Operations (continued)

Post year end, EPM acquired Energy Steel (ES) – a specialist in nuclear aftermarket products – from Graham Corporation. This acquisition allows us to cross-sell between HT and ES into the North American nuclear fleet and bolsters our credentials in that market segment.

PSRE Division – Energy

The acquisition of the trade and assets of Ormandy Ltd last year has integrated well and has made a satisfactory, albeit modest, profit in its first full year with the Group. Ormandy manufactures off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products. Its success has meant that Whiteley Read (WRE) became non-core and this site was sold during the year to Glacier Energy, recovering the Group's investment. Post year end, we also closed the small Maloney site, with the remaining assets and trade from there being transferred to Ormandy and Fluid Handling, along with a few of the employees at Maloney.

The Fluid Handling business in East Kilbride, Scotland had an excellent year, as it expanded its capability to support the nuclear decommissioning and reprocessing market in the UK. This has further strengthened the division's strategic relationship with Sellafield Limited and the Nuclear Decommissioning Authority.

The Energy divisions' footprint was expanded, post year-end, when the Group acquired the assets of Booth Industries, a leading manufacturer of high integrity doors, used in the nuclear, oil and gas and critical national infrastructure markets. The integration of Booth is progressing to plan.

The Group also has a keen interest in both the UK nuclear submarine fleet and associated facilities, as well as developing new nuclear technologies like SMRs (Small Modular Reactors). The division has a good installed base on the UK submarine fleet, is the chosen manufacturing partner for the Astute steam turbines and through this experience has the right capability, nuclear culture and experience to support longer term nuclear technologies.

Aside from nuclear, the divisional brands also have a strong presence in the Oil and Gas market – eg through Peter Brotherhood (PB). This market is now improving, with PB securing an order for c£10m in the period for steam turbines for a floating production vessel.

Aligned with the overall Group strategy to focus on end-user business, the division has seen an increase in end-user sales. In particular, PB saw further increases in aftermarket sales and won a new £5m UK government end-user contract in June 2018. End-user service arrangements have been signed to gain better access to the reciprocating compressor installed base and an expansion of the channel partners and agents has been concluded. Overall, the ratio of aftermarket sales for the division has not improved in the year, but this is due to success in growing OE sales in parallel with the aftermarket.

Finally, the Crown business remains a small but positive performer in the division, although the year was quieter than anticipated, due to delays in the roll-out of smart motorways and also that of 5G telecoms networks.

MII - Medical Division

We are making gradual progress at Scientific Magnetics and at Tecmag, as we seek to integrate our various sub-systems to produce a prototype MRI demonstrator unit. We have now been able to take first images of inanimate objects in the system, which show that everything is working at a basic level. We are now into the next phase of image refinement, to bring the system up to the level expected in clinical diagnostic imaging. This next phase will take us a few months to complete and will continue to absorb some cash in the intervening period.

Meanwhile, concerning NMR, our service offering has been strengthened, both in the UK and the USA, so we are optimistic about seeing good progress over the next 12 months. We continue to work with QOne in China and Switzerland on new NMR systems, to challenge the market leader. QOne have been successful in selling initial systems to the market over the last year, albeit that the numbers are still small for this start-up business.

Following its acquisition in October 2018, Tecmag has performed relatively well initially and, with support from other Group resources, managed to achieve a break-even result in its first period with Avingtrans. We were pleased to find that there is a decent pipeline of legacy business to go for, pending our development of new products to provide additional new business opportunities. There is no doubt that Tecmag's IP will become indispensable in our pursuit of the targeted niche MRI and NMR markets.

Metalcraft UK's business with Siemens for MRI components continues to be stable, although progress in China with other vacuum vessel customers – e.g. Alltech – remains rather pedestrian. Composite Products (CP) had a reasonable year, with deliveries to Rapiscan continuing and support from other smaller accounts at this unit.

Financial Performance

Adoption of IFRS 15 and IFRS 9

The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 June 2018. Adoption of IFRS 15 has led to a number of changes in the way the Group recognises revenue including whether to recognise over time or at a point in time, the splitting of contracts into multiple performance conditions which are recognised separately, the aggregation of a series of products into a single performance condition, reassessment of contract losses in the prior period and a change in the methodology for the recognition of long term service agreements.

The Group has applied IFRS 15 and IFRS 9 using the cumulative effect of initially applying these new standards with an adjustment of £1.1m to the opening retained earnings at 1 June 2018. The comparative information has not been restated and continues to be reported under IAS11 and IAS 18.

Key Performance Indicators

The Group uses a number of financial key performance indicators to monitor the business, as set out below.

Revenue: 34% increase with underlying growth 11%

Overall Group revenue increased to £105.5m (2018: £78.9m), primarily driven by the effect of a full year results for the HTG acquisition. Underlying revenue growth, excluding acquisitions was 11.2%.

Profit margin: significant improvement in results, driven by FY18 acquisition of HTG

Adjusted EBITDA (note 4) increased by 65% to £9.4m (2018: £5.7m) with good further progression from the acquisitions made in FY18. Operating profit was £3.6m (2018: loss £3.8m) mainly due to the strong progression in profit and the non-recurrence of significant HTG exceptional costs which were incurred in FY18 and a reduction of the non underlying costs to £1.6m for the amortisation of intangibles from business combinations (2018: £3.3m).

Gross margin: solid progress continues

Group gross margin improved to 26.7% (2018: 25.5%) due to the higher HTG gross margins and an increase in the proportion of revenue derived from aftermarket services when compared to prior year.

Tax: future profits and cash protected by available losses

The effective rate of taxation at Group level was a 20% tax charge primarily due to the US tax charge offset by a deferred tax credit arising from the amortisation of business intangibles. The tax position will be aided in the coming years with the now reduced US rate being supported by utilisation losses in the UK and China. We continue to be cautious, not recognising all of the trading tax losses in the UK.

Adjusted Earnings per Share (EPS): a 77% improvement

Adjusted diluted earnings per share and diluted earnings per share for continuing operations improved to 14.9p (2018: 8.4p) and 8.0p (2018: loss 16.0p) respectively as higher margin aftermarket and cost savings work through.

Funding and Liquidity: net debt post acquisition remains low

Net debt at 31 May 2019 was £2.0m (31 May 2018: net debt: £7.1m). Underlying strong profits enhanced by a £1.6m positive working capital movement, skewed by advance payments on accounts for contracts drove a cash inflow from operating activities of £9m (2018 outflow £6.9m), which will partly reverse in FY20. The Directors consider that the Group has sufficient financial resources (note 22) to deliver its short term strategic objectives and is maintaining a strong relationship with its banking partners.

Dividend: steadily improving

The Board again proposes to underpin our progressive dividend policy. We are pleased to be able to recommend an improved final dividend of 2.4 pence per share (2018: 2.3 pence per share). We intend to continue on this progressive path, subject to the outcome of acquisition activities in the coming years. The dividend will be paid on 6 December 2019, to shareholders on the register at 25 October 2019.

People
At Board level, the only change in the period was that Ewan Lloyd Baker left the Group in November 2018. Ewan became a Non-Executive Director following the acquisition of the Hayward Tyler Group by Avingtrans in September 2017. Having overseen the successful handover, Ewan wished to move on and pursue other interests. Graham Thornton has expressed his intention to retire from the Board after the AGM this year. Within the Group structure, post-period end, Colin Elcoate resigned from his position as the Chief Commercial Officer for Avingtrans, to take up a CEO role elsewhere. The Board wish Ewan and Colin all the best in their future chosen careers. Top level divisional management teams were largely unchanged, with the exception of the promotion of Alvin Sim to General Manager of Hayward Tyler China, following the departure of Colin Elcoate.

In a broader sense, the management teams in each of the three divisions continue to be strengthened, with a number of key appointments being made in the year, and with emphasis on the importance of the aftermarket opportunities. Skills availability is always challenging, but we do not expect to be unduly constrained by shortages. Avingtrans continues to invest significant effort in developing skills in-house, both through structured apprenticeship programmes and graduate development plans. The Group continues to be recognised nationally for the strength of its apprenticeship and graduate training schemes. For example, Metalcraft won the top accolade for 'SME Investment in Skills' at the SEMTA (Scientific, Engineering, Manufacturing & Technology Alliance) 2018 Awards and is consistently rated in the Top 100 apprenticeship schemes in the UK.

Our global workforce is becoming more integrated and this provides additional capability, capacity and innovative thinking around the clock, to support to our global blue-chip customer base.

Health, Safety and Environment (HSE)
The Group takes HSE matters and its related responsibilities very seriously.

As regular acquirers of businesses, we find different levels of capability and knowledge in different businesses. Often, a key investment need in smaller acquisitions is to spread HSE best practice from other Group businesses and bring local processes up to required standards. Larger acquisitions like HTG have well developed HSE practices and we seek to learn from these in other business units.

Health and Safety incident reporting has improved across the Group and incident trends have generally been improving over recent years. Near miss reporting and knowledge exchange is also positively encouraged, to facilitate learning and improvement. At Board level, Les Thomas has HSE oversight and he conducts inspections with local management as appropriate.

The Group's environmental policy is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business.

During the period covered by this report, the Group has not incurred any significant fines or penalties, nor been investigated for any significant breach of HSE regulations.

Social Responsibility
It is paramount that the Group maintains the highest ethical and professional standards across all of its activities and that social responsibility should be embedded in operations and decision making. We understand the importance of managing the impact that the business can have on employees, customers, suppliers and other stakeholders. The impact is regularly reviewed to sustain improvements, which in turn support the long-term performance of the business.

Our focus is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

Employees

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them directly and on financial and broader economic factors affecting the Group. The Group regularly reviews its employment policies. The Group is committed to a global policy of equality, providing a working environment that maintains a culture of respect and reflects the diversity of our employees. We are committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability.

We believe that employees should be able to work safely in a healthy workplace, without fear of any form of discrimination, bullying or harassment. We have begun to roll-out "dignity and respect" training program across the Group. We believe that the Group should demonstrate a fair gender mix across all levels of our business, whilst recognising that the demographics of precision engineering and manufacturing remain predominantly male, which is largely beyond our control.

Ethical policy

The Group complies with the Bribery Act 2010. We do not tolerate bribery, corruption or other unethical behaviour on the part of any of our businesses or business partners in any part of the world. Employee training has been completed in all areas of the business to ensure that the Act is complied with.

Outlook

Avingtrans is a niche engineering market leader in the Energy and Medical sectors, with a successful profitable growth record, underpinned by our 'PIE' strategy. Recent acquisitions will provide further opportunities for the Group to build enduring value for investors in resilient engineering market niches. We will continue to be frugal and seek to crystallise value and return capital when the timing is right, as part of the PIE strategy implementation.

The Group continues to invest in its three divisions, with a focus on the global energy and medical markets, to position them for maximum shareholder value via eventual exits in the years to come. The HTG integration is now demonstrably complete and the integrations of Ormandy, Tecmag, Booth and Energy Steel are all proceeding to plan, as demonstrated by the results in the period. Our value creation targets continue to be accomplished as planned.

The energy divisions have a strong emphasis on the thermal power, nuclear and offshore oil & gas markets, all of which are showing positive signs of regeneration. The medical division continues to focus on high integrity components and systems for leading medical, industrial and scientific equipment manufacturers.

To drive profitability and market engagement, each division has a clear strategy to support end-user aftermarket operations, servicing their own equipment and that of pertinent third parties, to capitalise on the continued market demand for efficient, reliable and safe facilities.

We remain vigilant concerning Brexit, but we are not overly concerned, since our direct EU exposure is somewhat limited and we have taken appropriate evasive actions in our supply chains, with likely further such actions to follow, depending on the exact nature of the eventual Brexit outcome. Similarly, US and Chinese government tariff change risks have been largely mitigated by an agile supply chain response and we will continue to monitor this situation closely.

As our markets continue to develop, M&A activity is still strong and businesses like ours can command high valuations at the point of exit, as exemplified by the Sigma sale previously. The Board is confident about the current strategic direction and potential future opportunities across our markets. We will continue to refine our business by pinpointing specific additional acquisitions as the opportunities arise, to build businesses which can create superior shareholder value, whilst maintaining a prudent level of financial headroom, to enable us to endure any macroeconomic headwinds.

The Strategic Report was approved by the Board on 17 September 2019 and signed on its behalf by:

Roger McDowell	**Steve McQuillan**	**Stephen King**
Chairman	Chief Executive Officer	Chief Financial Officer
17 September 2019	17 September 2019	17 September 2019

Consolidated Income Statement
for the year ended 31 May 2019

	Note	2019 £'000	2018 £'000
Revenue	1	**105,516**	78,864
Cost of sales		**(77,314)**	(58,787)
Gross profit		**28,202**	20,077
Distribution costs		**(4,722)**	(4,050)
Other administrative expenses		**(19,852)**	(19,869)
Operating profit before amortisation of acquired intangibles, other non-underlying items and exceptional items		**5,805**	2,796
Amortisation of acquired intangibles	2	**(1,595)**	(3,303)
Other non-underlying items	2	**(98)**	(69)
Exceptional items	2	**(484)**	(3,266)
Operating profit/ (loss)	1	**3,628**	(3,842)
Finance income		**132**	36
Finance costs		**(616)**	(692)
Profit/ (loss) before taxation		**3,144**	(4,498)
Taxation	3	**(633)**	12
Profit/ (loss) for the financial year attributable to equity shareholders		**2,511**	(4,486)
Earnings/(loss) per share:			
From continuing operations			
- Basic	4	**8.0p**	(16.0)p
- Diluted	4	**8.0p**	(16.0)p

Consolidated statement of Comprehensive income

	2019 £'000	2018 £'000
Profit/(loss) for the year	**2,511**	(4,486)
Items that will not be subsequently be reclassified to profit or loss		
Remeasurement of net defined benefit liability	**(581)**	71
Income tax relating to items not reclassified	**99**	(14)
Items that may/will subsequently be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**445**	(137)
Total comprehensive income for the year attributable to equity shareholders	**(2,474)**	(4,566)

Consolidated statement of changes in equity at 31 May 2019

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Other reserves £'000	Investment in own shares £'000	Retained earnings £'000	Total £'000
At 1 June 2017	958	12,771	1,299	-	2	180	(2,250)	31,946	44,906
Ordinary shares issued	595	614	-	28,949	-	-	-	-	30,158
Dividends paid	-	-	-	-	-	-	-	(906)	(906)
Investment in own shares	-	-	-	-	-	-	(585)	-	(585)
Share-based payments	-	-	-	-	-	-	-	69	69
Transactions with owners	595	614	-	28,949	-	-	(585)	(837)	28,736
Loss for the year	-	-	-	-	-	-	-	(4,486)	(4,486)
Other comprehensive income									
Actuarial gain for the year on pension scheme	-	-	-	-	-	-	-	71	71
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	(14)	(14)
Exchange gain	-	-	-	-	(137)	-	-	-	(137)
Total comprehensive income for the year	-	-	-	-	(137)	-	-	(4,429)	(4,566)
Balance at 31 May 2018	**1,553**	**13,385**	**1,299**	**28,949**	**(135)**	**180**	**(2,835)**	**26,680**	**69,076**
At 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835	26,680	69,076
Adjustment of transitioning to IFRS 15 and 9	-	-	-	-	-	-	-	(1,284)	(1,284)
Adjusted equity as at 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835	25,396	67,792
Ordinary shares issued	15	633	-	-	-	-	-	-	648
Dividends paid	-	-	-	-	-	-	-	(1,118)	(1,118)
Investment in own shares	-	-	-	-	-	-	(600)	-	(600)
Share-based payments	-	-	-	-	-	-	-	98	98
Transactions with owners	15	633	-	-	-	-	(600)	(1,020)	(972)
Profit for the year	-	-	-	-	-	-	-	(2,511)	(2,511)
Other comprehensive income									
Actuarial loss for the year on pension scheme	-	-	-	-	-	-	-	(581)	(581)
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	99	99
Exchange gain	-	-	-	-	445	-	-	-	445
Total comprehensive income for the year	-	-	-	-	445	-	-	2,029	2,474
Balance at 31 May 2019	**1,568**	**14,018**	**1,299**	**28,949**	**310**	**180**	**(3,435)**	**26,405**	**69,294**

Consolidated Balance Sheet
at 31 May 2019

	2018 £'000	2018 £'000
Non current assets		
Goodwill	**23,369**	23,369
Other intangible assets	**14,483**	15,612
Property, plant and equipment	**26,576**	27,595
Deferred tax	**1,423**	1,454
Pension and other employee obligations	**1,299**	1,590
	67,150	69,620
Current assets		
Inventories	**14,441**	10,341
Trade and other receivables : amounts falling due within one year	**31,549**	34,606
Current tax asset	**234**	608
Cash and cash equivalents	**8,909**	6,574
	55,133	52,129
Total assets	**122,283**	121,749
Current liabilities		
Trade and other payables	**(31,405)**	(26,179)
Obligations under finance leases	**(750)**	(1,179)
Borrowings	**(4,945)**	(6,719)
Current tax liabilities	**(69)**	(15)
Provisions	**(5,340)**	(6,135)
Derivatives	**(44)**	(127)
Total current liabilities	**(42,553)**	(40,354)
Non current liabilities		
Borrowings	**(3,817)**	(4,435)
Obligations under finance leases	**(1,420)**	(1,375)
Deferred tax	**(2,073)**	(2,914)
Contingent consideration	**(256)**	(256)
Other creditors	**(2,870)**	(3,339)
Total non-current liabilities	**(10,436)**	(12,319)
Total liabilities	**(52,989)**	(52,673)
Net assets	**69,294**	69,076
Equity		
Share capital	**1,568**	1,553
Share premium account	**14,018**	13,385
Capital redemption reserve	**1,299**	1,299
Translation reserve	**310**	(135)
Merger reserve	**28,949**	28,949
Other reserves	**180**	180
Investment in own shares	**(3,435)**	(2,835)
Retained earnings	**26,405**	26,680
Total equity attributable to equity holders of the parent	**69,294**	69,076

Consolidated Cash Flow Statement
for the year ended 31 May 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Cash flows from operating activities		**10,468**	(6,142)
Finance costs paid		**(608)**	(363)
Income tax paid		**(589)**	(212)
Contributions to defined benefit plan		**(243)**	(175)
Net cash inflow/(outflow) from operating activities		**9,028**	(6,892)
Investing activities			
Acquisition of subsidiary undertakings , net of cash acquired	**5**	**(132)**	(11,896)
Finance income		**131**	13
Purchase of intangible assets		**(848)**	(712)
Purchase of property, plant and equipment		**(2,344)**	(2,654)
Proceeds from sale of property, plant and equipment		**248**	-
Net cash used by investing activities		**(2,945)**	(15,249)
Financing activities			
Equity dividends paid		**(1,118)**	(906)
Repayments of bank loans		**(3,278)**	(3,483)
Repayments of obligations under finance leases		**(1,033)**	(1,025)
Proceeds from issue of ordinary shares		**48**	47
Proceeds from borrowings		**597**	6,289
Net cash (outflow)/ inflow from financing activities		**(4,784)**	922
Net increase/(decrease) in cash and cash equivalents		**1,299**	(21,219)
Cash and cash equivalents at beginning of year		**6,565**	27,703
Effect of foreign exchange rate changes on cash		**189**	81
Cash and cash equivalents at end of year		**8,053**	6,565

Cash flows from operating activities:
for the year ended 31 May 2019

	2018	2018
	£'000	£'000
Continuing operations		
Profit/(loss) before income tax from continuing operations	**3,144**	(4,498)
Adjustments for:		
Depreciation	**3,240**	2,532
Amortisation of intangible assets	**393**	374
Amortisation of intangibles from business combinations	**1,595**	3,303
Gain on disposal of property, plant and equipment	**(13)**	-
Finance income	**(132)**	(36)
Finance expenses	**616**	692
Share based payment charge	**98**	69
Changes in working capital		
(Increase)/decrease in inventories	**(2,213)**	4,144
Decrease/(increase) in trade and other receivables	**1,158**	(8,618)
Increase/(decrease) in trade and other payables	**4,150**	(3,088)
Decrease in provisions	**(1,458)**	(1,039)
Other non cash changes	**(110)**	23
Cashflows from operating activities	**10,468**	(6,142)

Notes to the Preliminary Statement
31 May 2019

1 **Segmental analysis**

Year ended 31 May 2019	**Energy EPM £'000**	**Energy PSRE £'000**	**Medical MII £'000**	**Unallocated central items £'000**	**Total £'000**
Original Equipment	**13,888**	**31,527**	**12,048**	**-**	**57,463**
After Market	**35,069**	**12,884**	**100**	**-**	**48,053**
Revenue	**48,957**	**44,411**	**12,148**	**-**	**105,516**
Operating profit/(loss)	**2,874**	**1,939**	**(204)**	**(981)**	**3,628**
Net finance costs					**(484)**
Taxation					**(633)**
Profit after tax from continuing operations					**(2,511)**
Segment non-current assets	**44,285**	**17,903**	**4,962**	**-**	**67,150**
Segment current assets	**20,756**	**28,051**	**5,036**	**1,290**	**55,133**
Segment liabilities	**(27,563)**	**(21,040)**	**(1,417)**	**(2,969)**	**(52,989)**
Net assets	**37,478**	**24,914**	**8,581**	**(1,679)**	**69,294**
Non-current asset additions					
Intangible assets	**171**	**378**	**299**	**-**	**848**
Tangible assets	**1,258**	**826**	**261**	**-**	**2,344**
	1,428	**1,204**	**560**	**-**	**3,192**

Medical MII results include the acquisition of Tecmag which contributed £772,000 Group revenue and £13,000 profit after tax respectively (note 5).

Year ended 31 May 2018	**Energy EPM £'000**	**Energy PSRE £'000**	**Medical MII £'000**	**Unallocated central items £'000**	**Total £'000**
Original Equipment	15,194	20,096	10,410	-	45,700
After Market	21,581	11,583	-	-	33,164
Revenue	36,775	31,679	10,410	-	78,864
Operating profit/(loss)	(1,532)	425	(109)	(2,626)	(3,842)
Net finance costs					(656)
Taxation					12
Loss after tax from continuing operations					(4,486)
Segment non-current assets	37,636	27,174	4,810	-	69,620
Segment current assets	23,484	22,322	3,645	2,678	52,129
Segment liabilities	(28,632)	(15,933)	(2,572)	(5,536)	(52,673)
Net assets	32,488	33,563	5,883	(2,858)	69,076
Non-current asset additions					
Intangible assets	10	255	447	-	712
Tangible assets	1,438	854	362	-	2,654
	1,448	1,109	809	-	3,366

Notes to the Preliminary Statement (continued)
31 May 2019

Geographical

	2019	2018	**2019**	2018
			Non-current	Non-current
	Revenue	Revenue	**assets**	Assets
	£'000	£'000	**£'000**	£'000
United Kingdom	**38,592**	31,970	**50,660**	49,981
Europe (excl UK)	**11,057**	7,197	**-**	-
United States of America	**14,045**	14,210	**14,455**	17,792
Africa & Middle East	**3,867**	2,766	**-**	-
Americas & Caribbean (excl US)	**3,228**	1,190	**-**	-
China	**10,240**	5,286	**2,018**	1,841
Asia Pacific (excl.China)	**24,487**	16,117	**17**	6
Rest of World	**-**	128	**-**	-
	105,516	78,864	**67,150**	69,920

The Group had Energy - EPM revenue of £12,336,000 (2018: £6,987,000) with a single external customer which represented more than 10% of the Group's revenue.

2 Adjusted Earnings before interest, tax, depreciation and amortisation

	2019	2018
	£'000	£'000
Profit/(loss) before tax from continuing operations	**3,144**	(4,498)
Share based payment expense	**98**	69
Acquisition costs	**89**	1,567
Restructuring costs	**395**	1,699
(Gain)/loss on derivatives	**(83)**	172
Unwinding of discounting on dilapidation provision	**85**	62
Amortisation of intangibles from business combinations	**1,595**	3,303
Adjusted profit before tax	**5,323**	2,374
Finance income	**(132)**	(36)
Finance cost	**616**	692
Loss on derivatives/unwinding of discounting on dilapidation provision	**(2)**	(234)
Adjusted profit before interest, tax and amortisation from business combinations ('EBITA')	**5,805**	2,796
Depreciation	**3,240**	2,532
Amortisation of other intangible assets	**393**	375
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA')	**9,438**	5,703

The Directors believe that the above adjusted earnings are a more appropriate reflection of the Group performance.

3 Taxation

	2019	2018
	£'000	£'000
Current tax	**1,344**	1,156
Deferred tax	**(711)**	(1,168)
	633	(12)

Notes to the Preliminary Statement (continued)
31 May 2019

4 Earnings per ordinary share

	2019 Number	2018 Number
Weighted average number of shares – basic	**31,225,440**	27,952,066
Share option adjustment	**340,920**	360,448
Weighted average number of shares – diluted	**31,566,360**	28,312,514

	2019 £'000	2018 £'000
Profit/(loss) from continuing operations	**2,511**	(4,486)
Share-based payments expense	**98**	69
Acquisition costs	**89**	1,567
Restructuring costs	**395**	1,699
(Gain)/loss on derivatives	**(83)**	172
Unwinding of discounting on dilapidation provision	**85**	62
Amortisation of intangibles from business combinations	**1,595**	3,303
Adjusted earnings attributable to shareholders	**4,690**	2,386
Basic earnings/(loss) per share	**8.0p**	(16.0)p
Adjusted basic earnings per share	**15.0p**	8.5p
Diluted earnings/(loss) per share	**8.0p**	(16.0)p
Adjusted diluted earnings per share	**14.9p**	8.4p

The Directors believe that the above adjusted earnings per share calculation for continuing operations is a more appropriate reflection of the Group's underlying performance.

There are 490,000 share options at 31 May 2019 (2018: nil) that are not included within diluted earnings per share because they are anti-dilutive.

Notes to the Preliminary Statement (continued)
31 May 2019

5 Acquisitions

Business combination – Tecmag Inc

On 22 October 2018 the Group acquired 100 percent of the issued share capital of Tecmag Inc. for $1. The acquisition was made to enhance the Group's position in the Medical division. The net assets at the date of acquisition were as follows:

Fair value of assets and liabilities acquired	**£'000**
Property, plant and equipment	**-**
Inventories	**151**
Trade and other receivables	**105**
Cash and cash equivalents	**40**
Trade and other payables	**(95)**
Borrowings	**(170)**
Provisions	**(31)**
Net assets	**-**
Business combinations intangibles assets identified	**-**
Goodwill & IP	**-**
	-
Fair value of consideration transferred:	
Cash	**132**
Consideration	**132**
Acquisition costs charged to expenses	**89**
Net cash paid relating to the acquisition	**221**

Acquisition costs arising from this transaction of £89,000 have been included in administration expenses included in overheads before operating profit.

The impact of the Tecmag acquisition on the Consolidated income statement is as follows:	**£'000**
Revenue	**772**
Gross profit	**423**
Overheads	**(403)**
Operating profit	**20**
Finance costs	**(7)**
Profit before taxation	**13**
Taxation	**-**
Overall effect on the Consolidated income statement	**13**

Since acquisition Tecmag contributed the following to the Group's cashflows:	**2019** **£'000**
Operating cashflows	**(95)**
Investing activities	**(72)**
Financing activities	**77**

Notes to the Preliminary Statement (continued)
31 May 2019

6 Events after the balance sheet date

Booth Industries

On 10 June 2019 the Group acquired the trade and certain assets of Booth Industries Limited for total consideration of £1.8 million. In the 7 months to April 2019 Booth Industries had turnover of £4,537,000 and a trading loss before tax of £752,000 before exceptional costs of £358,000.

Business combination - Energy Steel

On 24 June 2019 the Group acquired 100 percent of the issued share capital of Energy Steel & Supply Co. for $0.6m with no debt assumed and $70k of associated transaction costs incurred. In its previous financial year Energy Steel & Supply Co. had turnover of $8.3m and a trading loss before tax of $1.6m.

Management are assessing assets and liabilities purchased and are unable to confirm the value, given that they are currently in the process of reviewing the records of the business.

7 Net debt and gearing

The gearing ratio at the year-end is as follows:

	2019	2018
	£'000	£'000
Debt	**(10,932)**	(13,708)
Cash and cash equivalents	**8,909**	6,565
Net debt	**(2,023)**	(7,143)
Equity	**69,294**	69,076
Net debt to equity ratio	**2.9%**	10.3%

8 Preliminary statement and basis of preparation

This preliminary statement, which has been agreed with the auditors, was approved by the Board on 17 September 2019. It is not the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The statutory accounts for the two years ended 31 May 2019 and 2018 received audit reports which were unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006. The statutory accounts for the year ended 31 May 2018 have been delivered to the Registrar of Companies but the 31 May 2019 accounts have not yet been filed.

The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 that apply to companies reporting under IFRS. The principal accounting policies adopted by the company, which remain unchanged, except for adoption of IFRS 15 and IFRS 9, are set out in the statutory financial statements for the year ended 31 May 2019.

9 Annual report and Accounts

The Report and Accounts for the year ended 31 May 2019 will be available on the Group's website www.avingtrans.plc.uk on or around 7 October 2019. Further copies will be available from the Avingtrans' registered office:

Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA.

10 Annual General Meeting

The Annual General Meeting of the Group will be held at Shakespeare Martineau LLP, No1 Colmore Square, Birmingham, B4 6AA on 14 November 2019 at 11:00am