Northbridge Industrial Services

Operationally leveraged

29 January 2019

The share price of Northbridge declined sharply during Q4 2018, reflecting the fall in the price of oil and a belief that any recovery in rig count is likely to be delayed. Although the Group's dependence on the oil & gas industry has lessened in recent years, a recovery to normality in the industry is important to Northbridge. Management strategy has, meanwhile, targeted additional growth areas, not least the fast-growing data centre and renewable energy sectors. That said, even at the current oil price, we still expect rig count to continue to expand during FY2019F and beyond.

We expect the recovery in revenues, coupled with the sharp reduction in the cost base, to return the Group to profitability during H2 2019F. Our valuation methodology suggests the market capitalisation undervalues the business by approximately 49%, with further upside likely as new M&A activity occurs and attention on a re-instated dividend builds.

Return to profits and dividends on the cards? Following a period in which Northbridge removed significant cost from the Group, while maintaining its geographical presence, **we expect the rising top-line to result in strong operational leverage in the Group's bottom-line**. We expect the Group to move to a break-even position in FY2019 with the potential for a return to paying dividends in FY2020.

Organic growth Rental sales, across both divisions, continues to be the primary means of growing the top-line, evident in the progress in gross margins. As such, the Group maintained the number of outlets throughout more difficult markets and, more recently, opened a rental operation in the US. Investment in fleet and service levels is building, in general reflecting new contract wins. The recent joint venture (Olio Tasman) continues to make progress, widening the Group's footprint in SE Asia. Management remains interested in further joint ventures.

Acquisition vehicle Northbridge was formed as an acquisition vehicle within industrial services markets and as such, we do not expect November 2018's purchase of PPC to be the last, particularly in view of the strong balance sheet and improving cash flow. PPC both increases the scale of the downhole fleet and widens the Group's customer base within SE Asia.

Strong cash flow Cash flow has remained positive in recent years, notwithstanding the move into losses. We anticipate cash generation to build as the Group moves to a profit in H2 of the current year, resulting in a further strengthening of the balance sheet, investment in the rental fleet and further M&A activity. The strong cash flow should allow the Group to re-commence dividend payments during the FY2020F year.

Good value We think that the shares are lowly rated in comparison to our DCF analysis and considering its net asset value / share (128p).

Our valuation calculation suggests a fair share price value of 173p, representing a significant premium to the existing share price.

Company Data

EPIC	**AIM : NBI**
Price	112p
52 week Hi / Lo	151p / 107p
Market cap	£31.6m
ED valuation / share	173p
Net debt	£8.5m

Share Price, p

Source: ADVFN

Description

Northbridge Industrial Services is a holding company focused on two divisions. Crestchic, the larger division, is a specialist provider of electrical equipment used primarily to commission, test and service within power reliability and power security markets globally. Tasman Oil Tools is a rental specialist of down-hole tools to the oil & gas, geothermal energy and coal bed methane markets.

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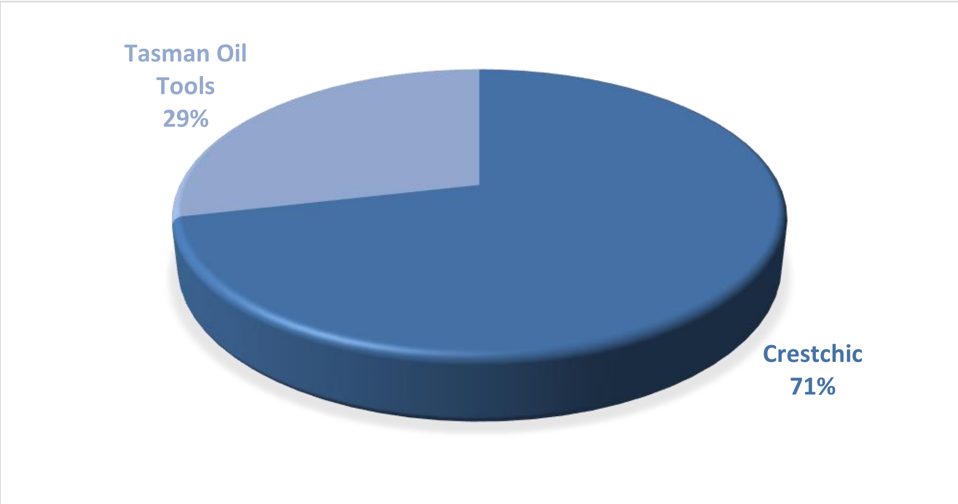
Contents

Overview

Northbridge Industrial Services ("Northbridge") is a holding company, focused on two divisions, specialising in industrial equipment:

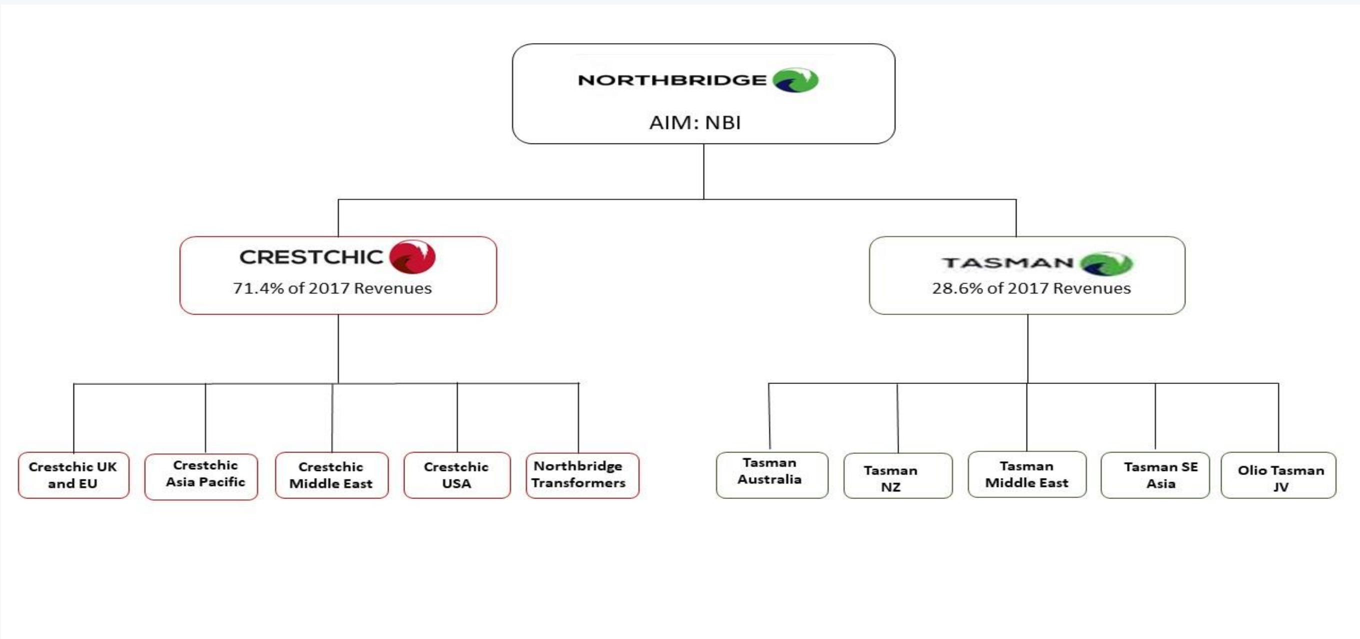
- **Crestchic** is a specialist manufacturer, seller and renter of electrical equipment used primarily to commission, test and service independent power plants, with a strong position in the power reliability markets in Western economies.
- **Tasman Oil Tools** is a down hole tool rental specialist, specialising in drilling tools, drill pipes and other equipment to the oil & gas, geothermal and coal bed methane industries.

Split of revenue by division, H1 2018A



Source: Company

Group structure



Source: Company

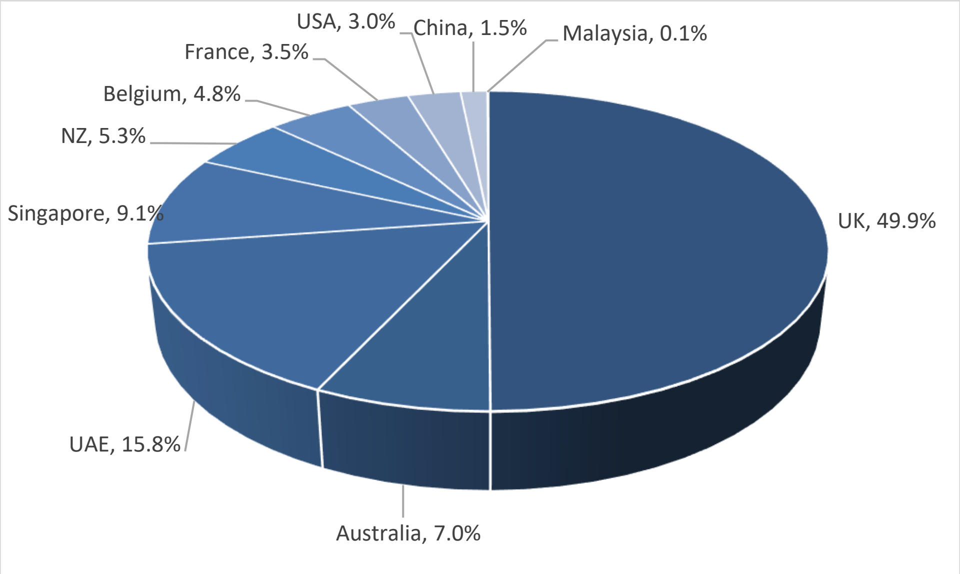
Crestchic is currently the largest division, accounting for **71.4% of revenues** in H1 2018A and has remained profitable during what has proved to be a challenging climate, particularly within the oil & gas and shipbuilding industries from 2014 onwards.

Revenues are derived globally, while invoices can be raised locally and delivery to the client anywhere in the world. As a result, the bias in revenues to the UK (approximately half of revenues) is misleading and rather highlights the UK manufacturing base of Crestchic. On the same basis, invoices derived from Europe equated to c.8% of revenues, with similarly, the Middle East (c.16%) and Asia Pacific (c.24%). With a reasonable proportion of product sold via distributors, this means that analysis of sales by industry is a difficult task.

Since the FY2017A year-end Tasman Oil Tools has secured contracts in Australia and Malaysia, the latter reflecting a joint venture entered during late 2017. The acquisition of the assets of PPC in November 2018, in Malaysia and Singapore, not only secures additional customers in the wider region but also ensures there is enough rental fleet to service the joint venture (Olio Tasman, which is 49% owned). We consequently envisage that Tasman will grow revenues at a faster pace than at Crestchic over the short to medium term and, as a result, see its share of revenues rise beyond the proportion it commanded at the previous peak in FY2015A (31%).

Crestchic opened a rental depot in the US in 2015, with revenues first generated in 2016. The US accounts for just 3% of revenues currently. We therefore believe that over the medium term, the region is likely to provide strong opportunities for growth.

Geographical split of where invoices are raised, FY2017A



Source: Company

We are encouraged by the short-to-medium term prospects of the Group, particularly regarding the newer contracts (Tasman); joint venture in Malaysia (Olio Tasman); the growth of data centres globally (Crestchic), the new business in the US and the strength of the rental market across both divisions. But are more circumspect on the oil & gas recovery following the decline in the oil price during Q4 2018, reflecting the current stocks in reserves within the demand-supply balance.

Management has been proactive in ensuring the Group has remained in the best competitive shape possible, having taken almost £4m of cost out of the business since FY2015A, while maintaining fleet and keeping key locations operating. Comments within the September interims that the Group was beginning to invest in fleet, backed by contract wins strongly suggests that the cost cutting phase is over, with inflation within the cost base and selective investment likely moving forward. However, this is likely to be measured, with an eye on returning the Group to profitability.

The Group's strategy to grow the business is focused on both organic growth and via further bolt-on acquisitions. In terms of the former, growth is expected through investment in the hire fleet; both improving quality systems and customer service and, expanding geographically via partnerships. The first three methods seek to improve customer retention, particularly where supplier numbers are being consolidated.

As for growth by acquisition, management continues to look for companies who complement current activities but can widen the Group's footprint by both clients and geography, enabling the Group to consolidate its markets. The latest results covering the first six months of 2018 suggested an expansion in both gross and EBITDA margins, resulting in a reduction in the Group's operating loss and a marked increase in the level of cash generated from operations. We expect this trend to continue, **with operational gearing from an improving top-line to result in a move back into the black by H2 2019F.**

We see the recovery driven by a continuation of improving higher margin hire revenues, particularly at Tasman Tools, where conditions in the drilling tool market have begun to ease, resulting in a 19% increase in rental revenues. Crestchic's new rental venture in the US continued its progress, with a rising number of rental opportunities in both data centres and renewable power generation presenting themselves during the period. Hence, gains more than offsetting the decline in sales of loadbanks and transformers.

The Australian arm of Tasman delivered an almost doubling of rental revenues y-o-y in H1. Rental rates remained depressed, however, notwithstanding the uplift in volumes. Early results for the Olio Tasman joint venture were encouraging, with Tasman's own tools being utilised. Improving sentiment in the oil & gas industry from previous lows has begun to translate into rising activity levels in exploration and production. The signs of optimism, coupled with contract wins, have resulted in investment within the Group's rental fleet.

With regards to the medium-term, we point to strong growth in the renewable energy and data centre markets, a degree of recovery in the oil & gas industry, coupled with improving rental revenues and trend towards smart grids at Crestchic. The improvement in the oil price and resulting rise in rig count, JV in Malaysia and additional customers and available fleet for hire are drivers for growth at Tasman Oil Tools.

Our current analysis of the Group yields a value of 173.1p per share. The suggested share valuation equates to a premium of over 50% to the existing share price.

Furthermore, the share price currently sits at a 14.5% discount to the Group's H1 2018A book value. We expect value to increase in line with our forecast earnings/cash flow momentum, as recovery takes hold and the operational gearing feeds through to results.

Valuation

Owing to the loss-making status of the Company, we are unable to utilise more traditional methods of valuation such as peer group comparisons or Gordon's growth model, owing to either negative earnings or currently no projected dividend payments. As such, we choose to rely on a DCF model for valuation purposes, which recognises the strong cash flow of the business.

Discounted cash flow model

We highlight the DCF in the table below. We have used relatively conservative assumptions within the model, such as a weighted average cost of capital of 8.25% and a terminal growth rate of 2.25%.

This methodology suggests a value per share of 173.1p

Using a common-sense check, the book value of the Group amounted to £36.2m at the end of H1 2018A. This equates to 128.2p per share and is 14.5% above the current share price, supporting our belief that the shares are undervalued.

DCF calculation

£m	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Free cash flow	1.9	3.7	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4
WACC (%)	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Timing factor	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Discount rate	0.92	0.85	0.79	0.73	0.67	0.62	0.57	0.53	0.49	0.45
Present value	1.8	3.1	2.9	2.8	2.6	2.5	2.3	2.2	2.1	2.0
Sum of discounted cash flows	24.4									
Terminal growth rate (%)	2.25									
Terminal value	32.9									
Net debt	-8.5									
Equity value	48.8									
No. of shares (m)	28.2									
Value per share, p	173									

Source: Equity Development

History

Northbridge was set up in 2005 by a team led by the current CEO, Eric Hook, as an acquisition vehicle in a 'buy and build' operation in the industrial services sector, particularly focused on rental. The first acquisition, which coincided with the Group's listing on AIM in March 2006, was Crestchic (founded in 1983), based in Burton-on-Trent. The consideration amounted to £6.0m. Crestchic at the time hired and sold loadbanks, used for testing in commissioning and maintenance functions within power generation applications.

In March 2007, Loadbank Hire Services was acquired for £0.9m, based in SE London and providing loadbanks and cables to a wide customer base. In August 2007, the Company terminated the agency agreement with its previous partner and established Northbridge (Middle East) FZE, in Dubai, as its regional hub for equipment rental and services in the Middle East and Central Asia. This business supplied oil services companies, energy businesses and pipeline operators. In the following month the Company acquired a majority stake in Rutland Diesel Services (RDS) for £0.65m. RDS rents and services generators, loadbanks, pumps, compressors and transformers to the oil and gas industry in the Caspian basin.

Tyne Technical Equipment Rental Services was acquired in April 2009. Tyne, registered in Dubai, was involved in the rental of generators and provision of associated services to the oil & gas industry in the UAE. Allied Industrial Resources was established in July 2009, following the purchase of a fleet of high-power air compressors and dryers to a range of industrial sectors.

The business also operates in the oil field services sector, originally serving the Middle East and the Caspian Basin via its loadbank offering. The Company was expanded following the acquisition of Tasman Oil Tools, based in Perth, Australia in July 2010 and with depots in Darwin and in Victoria, as well as an agent in Queensland. This purchase establishing a second leg to the business, that of the rental of oilfield tools and drilling equipment within the oil & gas and mining industries. In addition, it sells consumables and spare parts, as well as repairing equipment on behalf of clients.

In late 2011 the Company acquired two related businesses, Loadcell Services and DSG Rental. Loadcell, acquired for an initial £1m, provides certification, anchor tension monitoring, strain testing services and, lifting equipment, pumps and drilling instrumentation for sale and rental. Its customers in SE Asia are serviced from operations in Singapore, Vietnam and Indonesia.

DSG Rental, based near Antwerp, Belgium, specialises in the rental of containerised medium and low-voltage transformers and switchgear on a global basis. Its customer base included industrial companies, other rental operators and international power projects in Europe, Africa and the Middle East. The consideration amounted to €2.9m.

In September 2013 the Group purchased Crestchic (Asia-Pacific) PTE, an independent distributor of Crestchic loadbank products. The acquired company, based in Singapore, sells and rents loadbanks and transformers to customers in Singapore, Malaysia, China, Vietnam, Japan and Australia. The consideration amounted to £6.63m.

In November of the same year the Group acquired OMM BVI, a rental provider of drilling tools for the oil & gas industry to customers in the Middle East, North Africa and the C.I.S. This was subsequently re-named Tasman Middle East. The initial consideration amounted to £1.9m, with further consideration of at least £1.6m.

In 2014 the group purchased Tasman Oil Tools Limited and Tasman Oil Tools Leasing Limited in New Zealand. The consideration amounted to £13.0m. Tasman rents drilling tools for the onshore and offshore oil and gas industry and the geothermal power industry.

In 2016, the assets of Allied Industrial Resources, RDS, Tyne Technical and Loadcell were sold as management focused on the areas it believed had much better opportunities for growth. These assets were primarily engined plant, generators, compressors et cetera and were sold to concentrate on higher margin products with few moving parts.

Tasman extended its operations into Egypt and Qatar in 2016. In 2017, the oilfield services division was expanded following the commencement of a joint venture with a Malaysian company, Olio Resources, targeting customers in South East Asia and, in late 2018, through the purchase of the rental assets of PPC, with sales in Singapore, Vietnam and Thailand.

The strategy of management has been to integrate new acquisitions, re-naming them in order to reflect the brand (Crestchic or Tasman, dependent on the products and markets served), which have strong names and marketing identities in the areas in which they operate.

Group activities

The business is focused on the sale and hire of specialist industrial equipment globally, for use in critical applications. The Group is focused across the marine, natural resources, power reliability, data storage and utility sectors.

Clients are blue chip, ranging from:

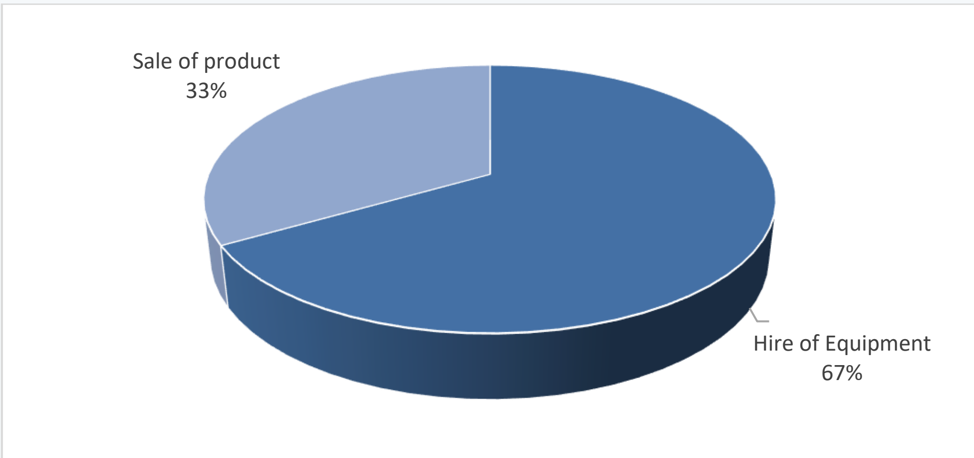
- Oil & gas producers and related services **(Total, APR Energy, Socar, Halliburton, Santos, Woodside Petroleum, Weatherford, Origin Energy, Baker Hughes, Lamprell, Hess, Murphy, Shell, Repsol and Single Buoy Moorings Inc.)**
- Industrial conglomerates whose activities include shipbuilding **(Hyundai, Daewoo, Samsung and Fincantieri)**
- Generator and turbine manufacturers **(Rolls-Royce, Siemens, Wartsila and General Electric)**
- Energy and related services **(TechnipFMC and Vertiv)**
- Diesel generator manufacturers **(Aggreko, Caterpillar, Cummins and SDMO).** The Group moved out of rental of diesel generators to avoid competing with their clients.

Revenues are generated through two core activities, Crestchic and Tasman Oil Tools. While Crestchic manufactures both what it sells and rents to customers, Tasman is almost exclusively a rental operation (some service and maintenance fees, plus the sale of lost and damaged equipment). The Group scraps all obsolete equipment, rather than selling on to third parties in any recognised aftermarket.

The level of support required by customers while kit is on hire is limited, unlike engined plant with rather, the bulk of activity being within the depot once the equipment is returned.

The split of revenues between sales and rental was approximately 33%:67% during H1 2018A, demonstrating a higher proportion of rental in comparison to FY2017A (38%:62%). H1 2018A included the contract to supply the FIFA World Cup in Russia.

Split of revenues by type, H1 2018A



Source: Company

Crestchic

Crestchic is the largest designer, manufacturer, supplier and renter of specialist loadbanks globally, also supplying transformers and related accessories across its network.

Loadbanks are primarily used for the commissioning and maintenance of independent power sources such as diesel generators, gas turbines, batteries and in recent years include renewable energy sources. Loadbanks increasingly are involved in the synchronisation of multiple units together, within the commissioning package provided.

A loadbank is a calibrated device that creates a sustainable electrical load safely. The load is applied to a power source in order to validate system design performance and capacity under any operating condition, thereby determining the operating status of the customers' primary power systems. Loadbanks typically provide a faster and safer method of testing of primary power sources than alternative methods and as a result, is ultimately a cheaper solution. Loadbanks are also used as an auxiliary load to maintain stability in gas engines and turbines.

Loadbank testing is an important part of electrical preventative maintenance program. Preventive maintenance is essential in mission-critical industries such as power, defence, data centres, and healthcare. The rising cost of downtime in such industries is also leading to an increased focus on preventive maintenance.

The loadbanks supplied by Crestchic are fitted either with forklift bases or with wheels for ease of movement on site and loading, while for larger applications are packaged in ISO containers for safe handling onto either trailers or container ships.

The loadbanks manufactured and supplied by Crestchic range from AC or DC, 10kW to 6000kW, 110v to 33kV, 50kVA to 6250 kVA, 50-60 HZ and are one or three phase, in permanent or transportable modes. In addition, there is a choice of control systems for all units. In more complex rental contracts the Group supplies engineers to oversee the smooth set up and running of the project. The division regularly completes contracts comprising 30MW or greater, as the units are modular and can be aggregated to create larger loads.

The DC range of products ensures the smooth running of batteries and UPS systems (uninterruptible power supply), in the provision of critical parallel emergency power to essential systems. A specialist range of loadbanks are supplied to specifically test aircraft ground power units.

The Group also supplies containerised step-up/step-down transformers/sub-stations, which range from 2000kVA to 8000kVA, are multi-tap and operate at voltages from 600v to 34.6kV. All Crestchic transformers are fitted with medium and low voltage switchgear, supplied in a containerised form, for rapid deployment. The division also supplies temporary packaged substations worldwide in order to complement the range of loadbanks.

Crestchic also provides accessories, in the form of cabling, controllers and switchgear. Support in the form of servicing, to provide regular maintenance, software upgrades and data module calibration ensures the products remain both accurate and in peak condition. Its key operations are in:

- Burton-on-Trent, which is the divisional and manufacturing headquarters
- France and Germany, supplying the rest of mainland Europe

- Belgium, is the transformer sub-station operation for Europe
- Singapore, servicing the Asia Pacific region
- Dubai, operating as the key hub in the Middle East and,
- The USA, with each coast supplied by locations in Pennsylvania and California respectively.

In addition, the business has depots in China and agents in Australia and Brazil.

Crestchic operates across several industries, testing reliability in mission critical situations.

In Western economies it tends to focus on supporting the power reliability, power security and increasingly, the renewables markets in on-grid situations. In the developing world it is mostly focused on resources related industries, such as oil & gas, mines and shipyards, which are predominantly off the power grid, instead relying on their own generators.

In terms of **on-grid**, this is generally ensuring that back-up power kicks in as and when required. Areas of focus include:

- Diesel generator and turbine testing
- Uninterruptible power supplies
- Emergency power systems – hospitals/banks/financial services
- Digitisation – data centres/telecoms/process industries/cloud storage (data centres also require heat load management testing)
- Independent power producers, increasingly within the renewables sector
- Balancing reserve/smart grids

With regards to **off-grid** locations, this generally focuses on:

- Marine engineering & ship building
    - Electric propulsion system
    - Navigation system
    - Emergency back-up
- Oil & gas
    - Offshore drilling platforms and drill ships
    - LNG industry/LNG transportation/FPSOs
    - Refinieries
- Mining, loadbanks are used to supplement loads for turbines and thereby preventing damage to the generators
- Cement works, used predominantly in the testing of primary and back-up power, and to supplement equipment loads.

All equipment sold and rented by Crestchic is manufactured at its facility in Burton-on-Trent. Generally, weekly hire rates for the containerised equipment tends to be in the range of £1,500 to £3,500 per week, globally.

Many of the larger tests involve high voltage systems requiring transformers, with the average rental period of this type in the UK amounts to 17 days but internationally it tends to be longer, at approximately 90 days. Utilisation rates tend to be low, reflecting the relative frequency of large projects and the need to have stock availability.

As a result, management needs to reserve equipment, to avoid letting customers down. One of the Group's largest project in 2018 was as the exclusive loadbank provider to the FIFA World Cup in Russia.

The payback on the cost of loadbanks and transformers that are rented **is less than one year**, even considering the relatively low utilisation rates.

No single Crestchic customer accounts for in excess of 5% of revenues.

Large loadbank test at Oman project

Source: Company

Loadbank testing of a ship's generators

Source: Company

Loadbank testing of a datacentre

Source: Company

Crestchic at the 2018 World Cup

Source: Company

Tasman Oil & Gas

Tasman is a rental operation, specialising in drilling tools predominantly for the on-and-offshore oil and gas drilling markets, as well as alternative energy sources such as coal bed methane and geothermal drilling. The equipment rented includes not just drilling rental tools but also well intervention equipment. In all, 4,000-plus different products are supplied to customers. In addition, the division provides in-house maintenance of both own equipment and that of customers and other specialised services.

Tasman has key operations in four major international hubs, with additional regional support in the form of both depots and agents:

- Perth, servicing Australia
- Kuala Lumpur, focused on South East Asia
- New Plymouth, operating in New Zealand and,
- Dubai, targeting the Middle East.

In addition, Tasman runs several agents/depots across North Africa and the Middle East, specifically in Egypt, Qatar and Saudi Arabia.

The products and services provided include:

- Downhole drilling rental tools
    - Bottom hole assembly
    - Tubulars
    - Handling tools
    - Mud management tools
- Fishing and re-entry tools
- Pressure control equipment rental
- Third-party tool servicing and management.

Tasman provides two important services to customers, certification and a wide range of equipment. When renting for relatively short periods (contracts typically less than a year), oil and gas companies need to ensure the origin, service, inspection records and non-destructive testing record of equipment it wishes to hire, in order to provide peace of mind to the hiree. The wide range of equipment results in ease of hire for the customer, with Tasman viewed by customers as a one-stop shop. The strong service levels result in customers regularly returning to Tasman.

The oil and gas industry is heavily regulated with high health, safety and environmental standards, with any breaches resulting in serious consequences for the operators. This is particularly true in Australia where much of the drilling takes place in nature reserves and on ancestral lands.

Tasman acquired the oil tool assets of a South East Asian rival, Petroleum Pipe Company (PPC) from its administrator in November for a maximum consideration of US$4.0m (£3.1m).

The original cost of the assets purchased is in the region of US$12m. The oil tool rental fleet is based in Asia and is similar in size and make-up to Tasman's own fleet in the region. As well as servicing Tasman's joint venture in Malaysia, the acquisition further expands Tasman's activities into Singapore, Thailand and Vietnam.

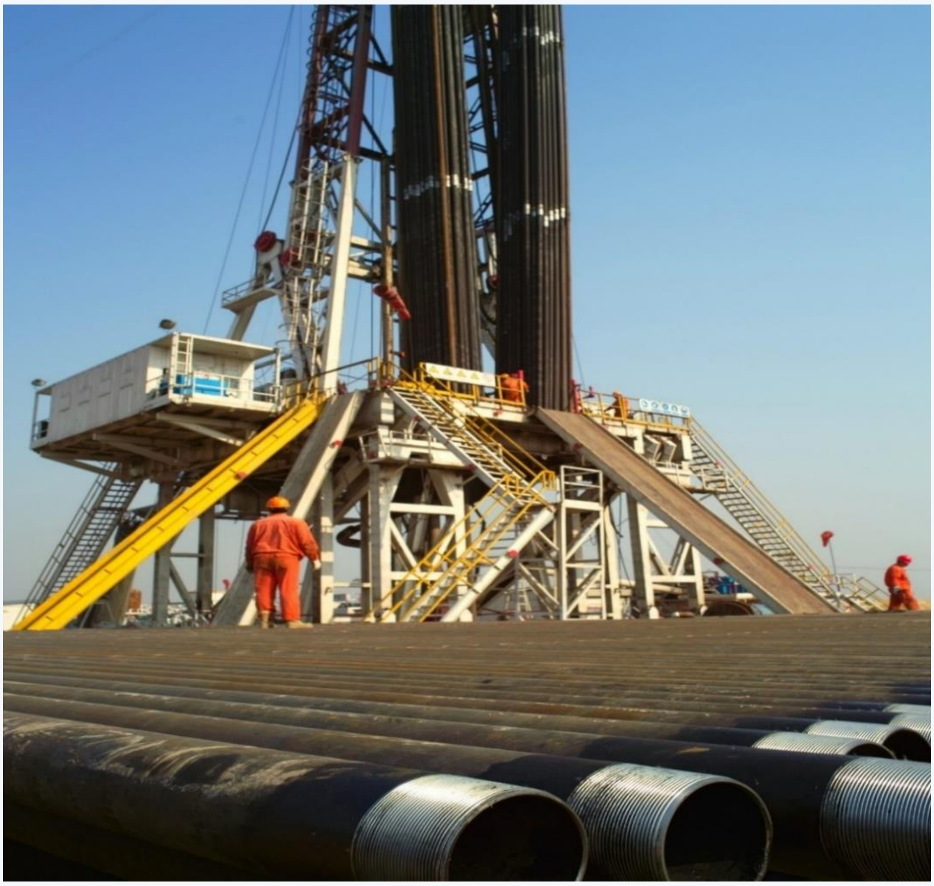
The fleet will also be made available to the Group's operations elsewhere in Asia and in the Middle East. The fleet will operate from the Group's current depots and therefore, there is no significant increase in operating costs required. PPC was already supplying the Group's JV in Malaysia and therefore, the acquisition markedly reduces the costs of cross-hire.

Most of the fleet acquired from the administrators was originally purchased in the period 2014 to 2016 and owing to the difficulties in the oil & gas market, has been lightly used since. The acquisition reduces the average age of the fleet.

While there is always uncertainty in retaining customers following the acquisition of a business following its administration, a proportion of the tools remain out on hire with clients. This gives management hope that a high proportion of customers will be retained.

The joint venture in Malaysia commenced in 2017, between Tasman and Olio Resources Sdn Bhd (Olio). The new entity, Olio Tasman Oil Tools Sdn Bhd, is 51% owned by Olio and 49% by Northbridge. Tasman and Olio each supply equipment to the JV's depot in Malaysia. Olio held key contracts for the provision of oil tools to oil majors in Malaysia at the start of the contract. The JV supplies drilling rental tools, wellbore clean-up and pressure control solutions to the South East Asia region.

Tasman oil pipe on a rig



Source: Company

Tasman tubing

Source: Company

Rental is highly dependent upon three factors:

- **Demand**
- **Utilisation rates**
- **Price**

Those three key determinants of rental can be summarised currently by comments made by Shelf Drilling Inc., in their Q3 2018 results. While utilisation rates had continued to improve for the global jack up fleet, the pricing recovery is taking longer to develop than initially expected. The CEO of Shelf Drilling went on to suggest that even following the recent drop in the oil price, this continues to support a continuing growth in activity across its key markets, resulting in further improvements in utilisation anticipated in 2019.

Activity levels, utilisation and day rates are likely to improve much faster for jack-up rigs than deep water rigs due to the lower break-even prices and shorter cycle times for many workover and development programmes in shallow water basins.

Currently, however, price competition amongst jack-up rig contractors is intense and market day rates remain at historically low levels. This remains an issue as longer-term contracts expire, with some rigs re-contracted at the prevailing low rates.

Shelf has noticed an increase in marketing and tendering activity in the Middle East and West Africa, with oil & gas companies in those regions indicating they will increase their activity in 2019 and beyond.

Management

The management team of Northbridge Industrial Services are highly experienced in the fields in which the Group operates of manufacturing, designing, selling and rental of industrial equipment. Management's stake in the business amounts to 8.9% of the issued share capital or if one were to include Western Selection, where David Marshall is Chairman, 20.7%. This suggests that the Board has a meaningful stake in the business.

Peter Harris – Non-Executive Chairman, aged 67. Peter qualified as a Chartered Accountant in 1976 with Grant Thornton, he moved to PwC, before spending 13 years at Borden Inc., a Fortune 50 multinational food packaging and industrial product company in various senior financial roles in South Africa, the UK and the US. In 1994 Peter was appointed as Finance Director of Lex Service, which in turn, became RAC plc. He was additionally responsible for several of the business's operations from 1999 until the acquisition of RAC plc by Aviva plc in 2006, Peter was appointed CEO of Dawson Holdings, where he remained until his formal retirement three years later. Peter is also the Chairman of Atmaana Business Consulting Ltd, Chairman of the Four Winds Partnership Limited and Senior Advisor to Chetwode SAS.

Eric Hook – Chief Executive Officer, aged 65. Eric qualified as a Chartered Certified Accountant in 1983 and was employed in various financial roles until his appointment in 1989 as Finance Director of Harvey Plant Ltd, a subsidiary of Lex Service plc (to later become RAC plc). In 1994, Eric was appointed CEO of Andrews Sykes Group plc, where he led the turnaround of the then loss-making support services business. In 1999, Eric joined the Longville Group as CEO, leading the private equity backed industrial equipment hire business to a market leading position in pumps, fluid chillers and diesel generators. Eric resigned from the Longville Group to establish Northbridge Industrial Services in 2004.

Iwan Philips – Chief Financial Officer, aged 35. Iwan joined BDO in 2005, qualifying as a Chartered Accountant in 2008. In July 2010, Iwan joined Northbridge as the Group Accountant, following five years working on the audits of several fully listed and AIM quoted businesses. In 2011, Iwan was appointed Company Secretary, in 2012 Group Financial Controller and in 2016, Group Finance Director.

Ian Gardner - Divisional COO of Tasman Oil Tools, aged 52. Ian has 29 years' experience in the industrial services and rental sector, of which, 19 are in international roles, driving start-ups and leading acquisitions particularly, in the Middle East and Asia Pacific. Ian joined the Group in 2007 from Arabian Equipment LLC, following a year as Managing Director of Longville Ltd. Ian was instrumental in the start-up and resulting growth of Northbridge Middle East and Northbridge Asia Pacific (May 2007 onwards), before taking over responsibility for running the Group's oil & gas division, Tasman Oil Tools. He is currently based in Kuala Lumpur, Malaysia, heavily involved in the joint venture, Olio Tasman.

Nitin Kaul – Non-Executive Director, aged 44. Nitin joined Arthur Anderson in 1996, working across Europe, Asia and North America in various roles, before joining Tomkins in 2002. Nitin spent 13 years with the business in a number of senior finance, M&A and operating roles. In the latter role, Nitin headed several oil & gas businesses.

David Marshall – Non-Executive Director, aged 74. David is Chairman of Western Selection PLC, a substantial shareholder of Northbridge Industrial Services plc and cornerstone investor at IPO. He is also the Chairman of other listed businesses.

David has previously been involved in the reorganisation and development of several medium-sized listed businesses in the UK and overseas.

Ash Mehta – Non-Executive Director, aged 53. Ash qualified as a Chartered Accountant with KPMG, since working in finance and commercial roles for Eli Lilly, Parexel International. As well as a career that includes the part-time Finance Director at Northbridge Industrial Services plc from 2007 to 2011 and Finance Director of both Ultrasis plc and Raft International plc. Ash is currently the Chief Financial Officer of Avicenna, a position he expects to leave in Q1 2019.

Judith Aldersey-Williams – Non-Executive Director, aged 55. Judith joined Northbridge as an independent Non-Executive Director in January 2019. She is currently a partner at CMS Cameron McKenna Nabarro Olswang LLP, a full-service practice. Judith specialises in the oil & gas industry. Judith has 25 years-experience as a commercial lawyer in London and Aberdeen, advising UK and international clients.

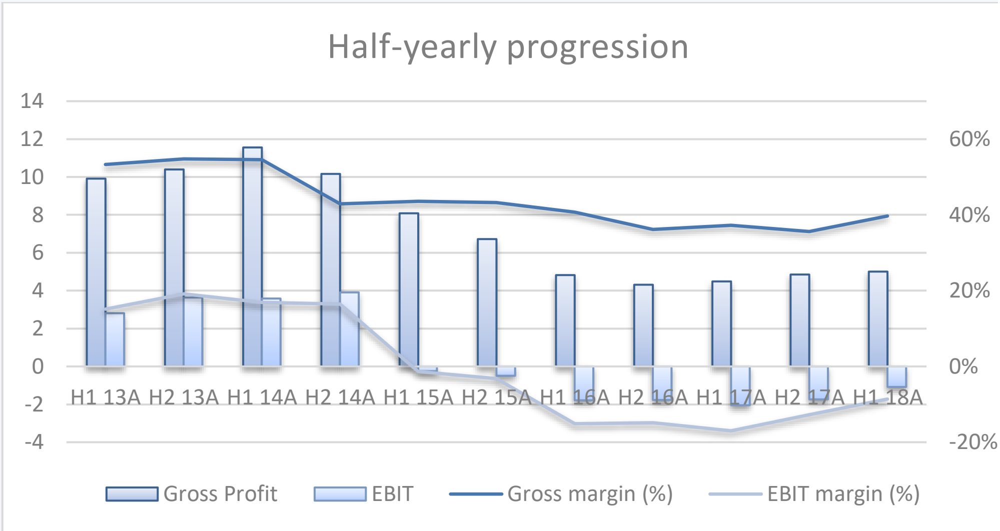
Financials

We expect the company to issue a trading update for the year to end December 2018 in early February. At the same time, we believe management is likely to update investors on the outcome of the acquisition of PPC, not least giving some indication of customer retention.

The chart below highlights the half-yearly progression of gross and EBIT margins. While the Group remained loss-making in the period to June 2018, the trend in margins continues its upward path from the nadir witnessed in H1 2017 at the EBIT level (and H2 2017 at the gross profit level).

This encourages us that the group remains on track to break-even during FY2019F and back into profitability in H2 2019F. We think that only the rise in depreciation following the acquisition of PPC at the end of 2018 prevented the Group from moving to a small profit in FY2019F.

Half-yearly progression in gross and EBIT margins



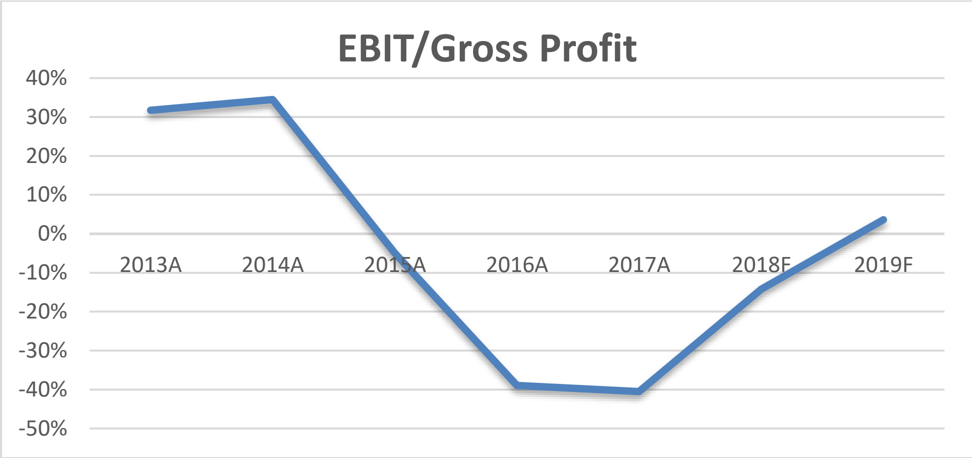
Source: Company

The reduction of costs, coupled with the improving top-line, should ensure that the operationally geared nature of the business kicks in as revenues continue to improve. We measure operational gearing by seeing how much of each £1 of gross profit falls through to operating profit.

We see the previous peak in FY2014A at 34.5% when revenues stood at £44.9m to the nadir in FY2017A of -40.5%, on turnover of £25.7m. We demonstrate in the following chart our expectation of a move back into profitability in H2 2019F, with an anticipated 3.6% of gross profit feeding through to EBIT. We therefore anticipate further strong recovery in profitability, approaching peak levels as turnover moves closer to £40m over the medium to long term.

Throughout the period, historic gross margins have remained high, buoyed by rental activity. Hire revenues accounted for in excess of 60% of revenues in all but FY2015A. In H2 2017A, rental revenues accounted for 72.9% of overall turnover. Gross margins peaked in recent years in FY2014A at 48.4%, reaching a nadir of 36.4% in FY2017A. The H1 2018A gross margin improved to 39.7% and we anticipate the outcome for the full-year to be 40.2%, the highest level since H1 2016A.

Operational gearing, 2013-2019F



Source: Equity Development

We previously highlighted the anticipated drivers of the top-line moving forward, expecting revenues to rise by a CAGR of 8.5% between FY2017A and FY2019F. Part of this uplift reflects the acquisition of PPC in November 2018. Management has previously stated that it continues to seek geographical and customer expansion via new joint venture agreements, partnerships and agencies. The company has been very active on the M&A front since it was formed in 2006. Northbridge should further consolidate its markets over the medium to longer term.

The Group's strategy throughout the downturn has been to reduce the cost base. **However, the operational assets and depots have still been maintained**. In terms of overall costs, they declined from £37.4m in FY2014A (represented by CoGS plus OpEx) to £29.3m in FY2017A. In H1 2018A, Group costs amounted to £13.7m, suggesting an annualised run-rate, pre-acquisition of the assets of PPC of £27.4m. We would anticipate some inflation creeping back into the cost base during FY2019F, following several years of rationalising the cost base, coupled with rising revenues (and the need to support such growth).

The Group's rental asset base stood at a gross cost of £43.5m in FY2014A and by the end of FY2017A amounted to £48.2m. Clearly, this improvement demonstrates the ongoing investment in the rental fleet, ensuring that the business has a wide range of equipment available across its depots, available when clients require them. That said, in view of the very difficult oil & gas industry, management had unsurprisingly chosen not to add to Tasman's rental fleet until H1 2018, following the securing of contracts in Australia and Malaysia. The acquisition of PPC adds a further £3.1m to the gross rental fleet cost.

The acquisition by Tasman Oil Tools of the assets of Petroleum Pipeline Company Ltd (PPC) for £3.1m in November was funded via a combination of the cash resources within the Group following the placing in June 2018 and an increase in the current three-year loan facilities with the Group's banking partner.

The acquisition of a significant oil drill and pipeline rental fleet will reduce the expected capex requirements moving forward, with the acquired assets to be utilised across the Group's depots in Asia and in the Middle East. With the average age of the fleet reduced, at a substantial discount (c.60%) to replacement value, the level of depreciation is likely to rise, albeit not substantially.

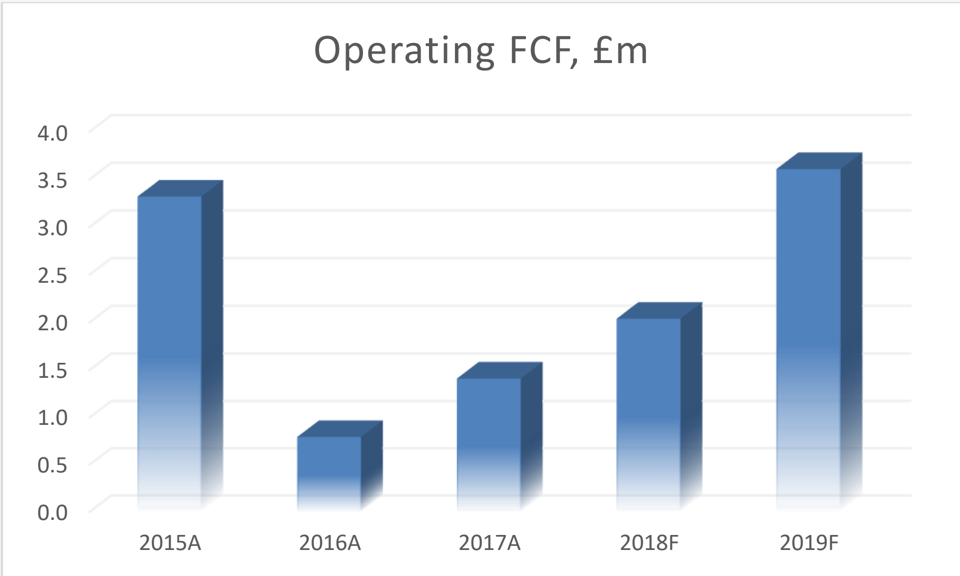
Typically, depreciation of the rental fleet is over ten years, reflecting the slow obsolescence of kit, particularly within the Tasman Oil Tools division. Depreciation of the PPC assets is to be over seven years, highlighting the second-hand nature of the equipment purchased.

Management, like external shareholders, are keen to return the Company to paying dividends. While we anticipate that the Group is likely to be profitable in H2 2019F, we expect the Group to return to the dividend list as profits build. However, owing to the large depreciation costs, reflecting the rental fleet, cash should be available for dividends during FY2020F, in our opinion. On that basis, dividend cover relative to EPS is likely to be low to begin with, albeit covered more comfortably by free cash flow.

Cashflow

We highlight in the chart below the progress of free cash flow generated by the business. **Even at the nadir in FY2017A, the Group managed to generate £1.4m of free cash flow.** This level remains below the recent peak witnessed in FY2015A of £3.3m. Our expectation is that the inherently cash generative nature of the business will become even more obvious as the group moves in to the black and beyond as recovery in its markets build.

Free cash flow, actual and projected



Source: Company historicals, ED estimates

In terms of taxation, we expect the Group to broadly be ahead of the UK rate as it moves into greater profitability, in view of the higher rate jurisdictions in which it operates. Tax losses ultimately will be available at Tasman Oil Tools in Australia, the Middle East (Dubai), lasting for several years. With the remainder of the business profitable in recent years, especially in Europe and therefore subject to the prevailing rate.

While the purchase of PPC has reduced the capex requirements of Tasman Oil Tools for the foreseeable future, Crestchic is still likely to require further investment moving forward. That said, we anticipate that capex will continue to below depreciation levels within the forecast period, emphasised by the relatively low utilisation rates in recent years.

We forecast working capital to grow broadly in line with revenues in FY2019F (outflow of £0.6m) and broadly flat y-o-y in FY2018F. The slightly better performance in FY2018F reflects that customers pushed payments into the new year at the end of FY2017A.

Funding

The Group has raised cash on two occasions during FY2018F. The first time was in April, as its banking facility was renewed early (originally expected to occur in May 2019) following the issue of £4m in 8% loan notes, with one of the Group's bankers fully repaid. The loan notes are convertible into ordinary shares and should holders not wish to do so, will be repaid in July 2021. The loan notes were predominantly placed with a supportive shareholder.

In late June, the Group placed 2m ordinary shares at 125p per share, raising a gross £2.5m. The shares were placed with existing shareholders. The proceeds were used to pay the deferred consideration due to the vendor of Tasman Oil Tools (New Zealand). The remainder was used as part payment for the acquisition of the assets of PPC in Malaysia in November 2018.

In terms of the year end net debt, we expect net borrowings to decline marginally to £8.5m (FY2017A: £8.8m). The decline would have been more marked were it not for the M&A costs of £4.2m expensed during the year. At this point we have not factored in any potential M&A activity during FY2019F and as such, expect net debt levels to decline to £4.9m by the year end. This represents gearing of 15.4%, which remains at comfortable levels.

Summary Profit & Loss

Year to Dec, £m	2015A	2016A	2017A	2018F	2019F
Crestchic	22.8	19.3	20.2	20.2	21.6
Tasman Oil Tools	10.5	4.5	5.6	6.2	8.6
Other	0.8	0.0	0.0	0.0	0.0
Revenues	**34.1**	**23.8**	**25.8**	**26.5**	**30.2**
CoGS	-19.3	-14.7	-16.3	-15.8	-17.1
Gross profit	14.8	9.1	9.5	10.6	13.1
Gross margin (%)	43.4%	38.4%	36.8%	40.2%	43.4%
Op costs	15.5	12.7	12.9	11.9	12.8
Other operating income	0.0	0.0	-0.2	-0.3	0.2
Operating profit	-0.7	-3.6	-3.6	-1.5	0.5
Op margin (%)	-2.2%	-14.9%	-14.0%	-5.7%	1.6%
Net Interest	-0.6	-0.6	-0.6	-0.5	-0.5
PBT (Adjusted)	**-1.4**	**-4.1**	**-4.2**	**-2.0**	**0.0**
Exceptionals	-7.2	-1.4	0.0	0.0	0.0
PBT (Reported)	**-8.6**	**-5.5**	**-4.2**	**-2.0**	**0.0**
Tax	0.4	-0.8	-0.2	-0.5	-0.5
PAT	-8.2	-6.3	-4.5	-2.5	-0.5
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-8.2	-6.3	-4.5	-2.5	-0.5
Ordinary Dividends	0.0	0.0	0.0	0.0	0.0
Retained Profit	-8.2	-6.3	-4.5	-2.5	-0.5
EPS (adjusted) (p)	**-10.7**	**7.9**	**-23.7**	**-12.7**	**1.9**
DPS (p)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Fully diluted weighted average shares (m)	19.7	24.0	25.9	27.2	28.2

Source: Company historic data, Equity Development estimates

Summary Cash Flow

Year to Dec. £m	2015A	2016A	2017A	2018F	2019F
Operating profit	-0.7	-3.6	-3.8	-1.5	0.5
Depn. & Amortn.	6.9	7.1	7.2	5.8	5.9
Working capital movement	3.4	-0.2	-0.9	0.0	-0.6
Other	-2.7	-1.5	0.0	0.1	0.1
Operating cash flow	6.9	1.8	2.6	4.5	5.9
Net Interest	-0.6	-0.6	-0.6	-0.5	-0.5
Taxation	-0.9	-0.4	-0.3	-0.4	-0.5
Net capex	-2.0	-0.1	-0.2	-1.5	-1.3
Operating FCF	3.3	0.8	1.4	2.0	3.6
Net (Acquisitions)/Disposals	-0.9	-1.3	-0.3	-4.2	0.0
Dividends	-0.9	0.0	0.0	0.0	0.0
Share Issues	-0.2	5.3	0.0	2.2	0.0
Minority payment	0.0	0.0	0.0	0.0	0.0
Other financial	-0.9	0.0	-0.4	0.1	0.0
Increase Cash/(Debt)	0.4	4.8	0.7	0.2	3.6
Opening Net Cash/(Debt)	-14.7	-14.3	-9.5	-8.7	-8.5
Closing Net Cash/(Debt)	-14.3	-9.5	-8.7	-8.5	-4.9

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2015A	2016A	2017A	2018F	2019F
Intangible Assets	12.8	14.1	12.8	12.2	11.8
Tangible Assets	35.6	35.6	29.3	28.7	24.5
Investments/other	0.3	0.0	0.0	0.0	0.0
Net Working Capital	5.7	5.2	5.3	5.3	6.0
Capital Employed	54.4	54.9	47.4	46.2	42.2
Other	-0.9	0.0	0.0	0.0	0.0
Net Cash/(Debt)	-14.3	-9.5	-8.7	-8.5	-4.9
Provisions Liabilities/Charges	-3.3	-3.6	-3.0	-2.8	-2.5
Net Assets	35.9	41.8	35.7	35.0	34.8

Source: Company historics, Equity Development estimates

Key ratios					
Year to Dec	**2015A**	**2016A**	**2017A**	**2018F**	**2019F**
Continuing revenue grwth %	-24.0%	-30.2%	8.6%	2.4%	14.3%
Operating profit Growth %	-109.9%	377.2%	1.9%	N/A	N/A
PBT Growth (Adjusted) %	-120.0%	197.8%	1.8%	N/A	N/A
EPS Growth (A) %	N/A	N/A	N/A	N/A	N/A
Dividend Growth %	N/A	N/A	N/A	N/A	N/A
Gross Margin %	43.4%	38.4%	36.8%	40.2%	43.4%
Op margin %	-2.2%	-14.9%	-14.0%	-5.7%	1.6%
PBT Margin (Adjusted) %	-4.1%	-17.4%	-16.3%	-7.6%	0.1%
Net Debt/EBITDA x	2.3	2.7	2.6	2.0	0.8
Gearing %	39.8%	22.7%	24.5%	24.3%	14.0%
Net Capex / Depreciation x	-0.3	0.0	0.0	-0.3	-0.2
Working Capital / Sales %	16.8%	21.7%	20.5%	20.2%	19.7%
Net Capex / Sales %	5.8%	0.3%	0.9%	5.7%	4.3%
Interest Cover x	-1.2	-6.0	-6.1	-3.0	1.1
Dividend Cover x	N/A	N/A	N/A	N/A	N/A
EV/Sales x	1.0	1.6	1.5	1.5	1.2
EV/EBITDA x	5.9	11.4	11.9	9.3	5.7
EV/CFBIT x	5.1	21.4	14.8	9.0	6.2
PER (Adjusted) x	-10.4	14.1	-4.7	-8.8	59.9
PEG x	N/A	N/A	N/A	N/A	N/A
Dividend Yield %	0.0	0.0	0.0	0.0	0.0
Price/book value x	0.6	0.7	0.8	0.9	0.9

Source: Equity Development

Appendix: Markets & competitors

Drivers of demand

Given the diverse nature of the markets from which Crestchic's revenues are generated, there are a wide range of factors driving demand for both loadbanks and transformers. By contrast, business at Tasman is predominantly driven by the oil price, which in turn determines client decisions on whether to commence new drilling activity.

Crestchic

In terms of off-grid, the key opportunities for the division are in the oil & gas, mining and new build shipping. Meanwhile, the most exciting on-grid opportunities include the renewable energy sector and data centres.

In oil & gas, Crestchic follows the trend in activity, albeit with a lag. Shipyard orders have increased in FY2018, particularly in the conversion of FPSOs (floating production storage and offloading unit). However, new build shipping remains slow.

The growth in data centres across W. Europe continues to provide opportunities in using loadbanks to simulate heat from computer servers and, in managing and testing the back-up power sources.

The rise in the proportion of power generated from renewables, which continues to gather pace, has created new markets for Crestchic, both for loadbanks and transformers and other services.

We discuss such market opportunities in greater detail within the markets section.

Tasman Oil Tools

Market opportunities within the drilling tools market include:

- Growth potential in the targeted regional markets as normal conditions return
- Comprehensive rental fleet offering, which has been expanded following the acquisition of the assets of The Petroleum Pipe Company Ltd in Malaysia in early November
- Highest levels of QHSE maintained and accredited
- Drilling activity set to increase in all the Group's markets, with rising rig count in Australia YTD and anticipated in New Zealand in 2019
- Geothermal drilling activity has increased in New Zealand
- Opportunities to expand the product range offering and the number of geographical locations
- The JV in Malaysia has recorded a good start, with Tasman providing increasing levels of equipment

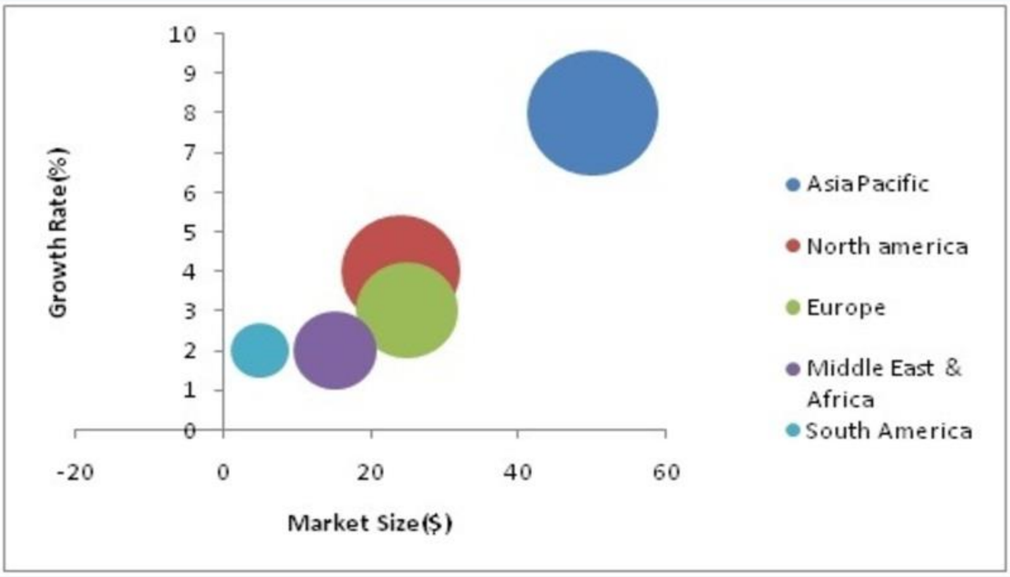
Global loadbank market

The global loadbank market is currently worth in the region of US$270m and is expected to grow at a CAGR of 2.96% to 2021, to a value of US$293.5m (*source: Technavio*). In size and growth terms, the market is dominated by the Asia Pacific region, largely reflecting the rapid growth in industrialisation in China and India. In W. Europe and N. America, the markets are relatively mature, albeit the higher growth levels in N. America reflects a combination of the replacement programme of the power infrastructure and marked rise of data centres. The markets in the Middle East and South America are both small and are growing very modestly (*source: Market Research Future*)

The drivers behind the growth of this relatively mature market include:

- The implementation of stringent EU emission standards driving renewable energy power generation
- The resultant growth in alternative electricity transmission systems
- Growth of the smart grid market
- The compliance and adoption of stringent energy codes within the APAC region are driving the strongest geographical growth during the forecast period
- Rapid growth of data centres
- Recovery in oil & gas, mining and ship building globally.

Loadbank market, by region (US$m)



Source: Market Research Future

The amendment of the Kyoto Protocol and the implementation of stringent emission standards has greatly increased renewable energy development projects and, in particular, wind and solar energy projects. The fragmentation of generating capacity, that is away from large carbon-based power stations and towards renewable sources, introduces both risk and opportunity for Crestchic. Risk is introduced as relationships must be built with new customers in the newer areas of power generation, where previously the brand was little known.

The opportunity open to Crestchic is that the burgeoning renewables sector historically has had a poor record in terms of reliability, although, the combination of load bank testing and improving technology in large scale battery applications has improved this.

Smart grids greatly enhance the energy distribution by using distributed energy resources (DER) such as power from renewable energy sources to aid utilities to adapt to demand patterns.

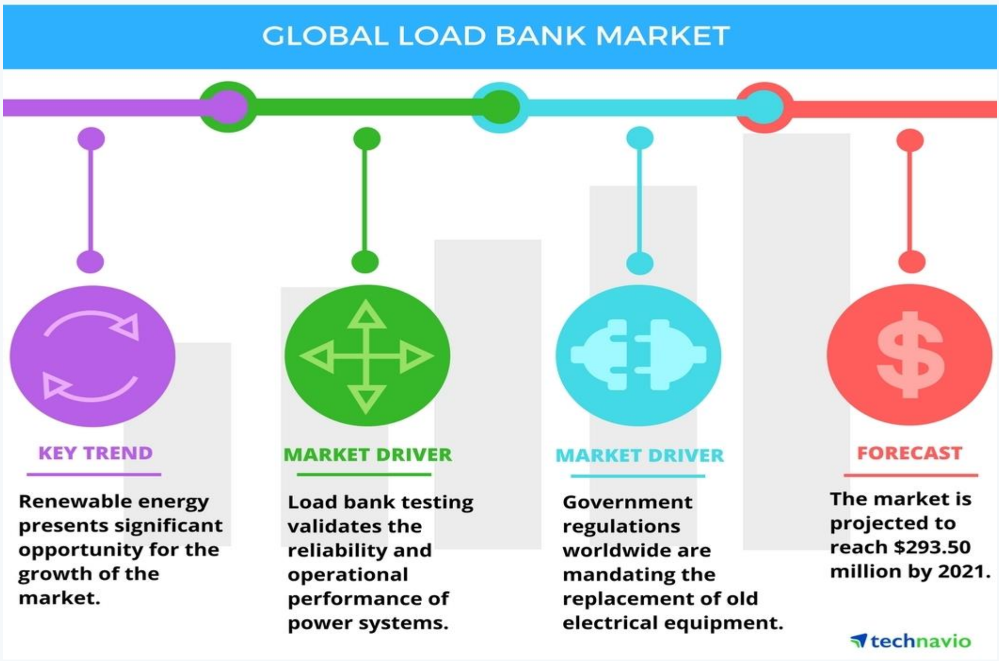
Smart grids converge both analogue and digital information using computer-based remote control and automation mechanisms to connect consumers and businesses to wind/solar farms or power plants. Loadbanks become necessary in a smart grid system to ensure safe and fast commissioning of substation components. Productive loadbanking is being increasingly adopted to enhance the demand response capabilities of a building connected to a smart grid.

Distributed power generation systems are highly dependent on loadbank applications to test interconnections with the grid and other electrical connections. Loadbanks allow real load step scenarios to be replicated, thereby providing a greater level of control and leading to enhanced compliance of the systems. In using loadbanks for testing, results in shorter lead times and fewer man hours compared to the alternative means of testing said systems.

Our revenue estimate for Crestchic for FY2018F currently stands at £20.2m (US$26.1m), of which approximately 90% is derived from the sale and rental of loadbanks. On this basis, we estimate that Crestchic has a c.8.7% share of the overall loadbank market during the period.

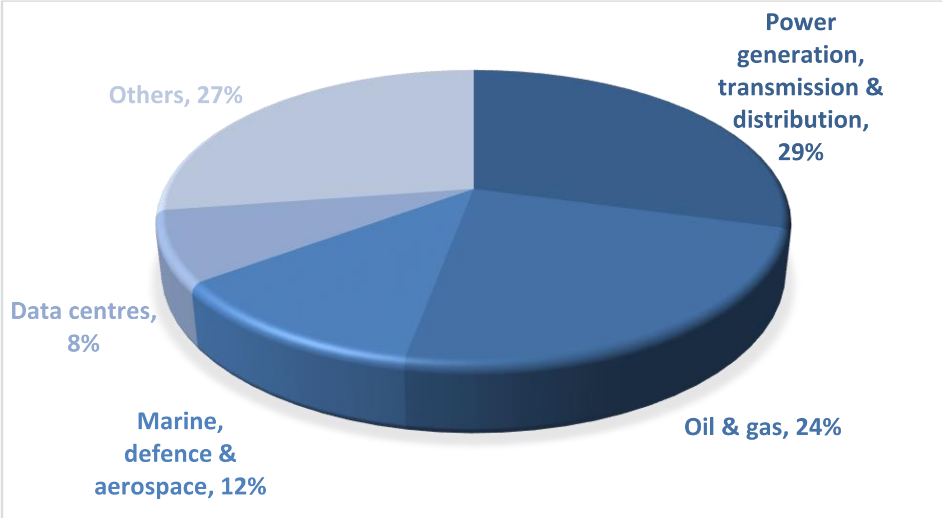
In addition to Northbridge, the key players in the market include the private companies: Cressall (owned by Telema SpA), Vertiv, Coudoint S.A.S, Jovyatlas, MS Resistances, Metal Deploye Resistor, Hillstone, Astro Geo Marine Inc., Essex Electro, MCM Engineering Inc., Aurora Generators and Chromalox.

Emerging trends impacting the global loadbank market, 2017-2021



Source: Technavio

Global loadbank market – Share by end use, %



Source: Technavio

Bloomberg New Energy Finance forecasts a 58% increase in global power demand between now and 2040.

The drivers of this growth, reflecting regulatory, environmental and societal change, are relatively common within five global megatrends:

- Increasing demand for power
- Removal of restrictive legislation
- Policies supporting emission reductions
- Ageing infrastructure
- Requirement to secure energy supplies affordably and sustainably

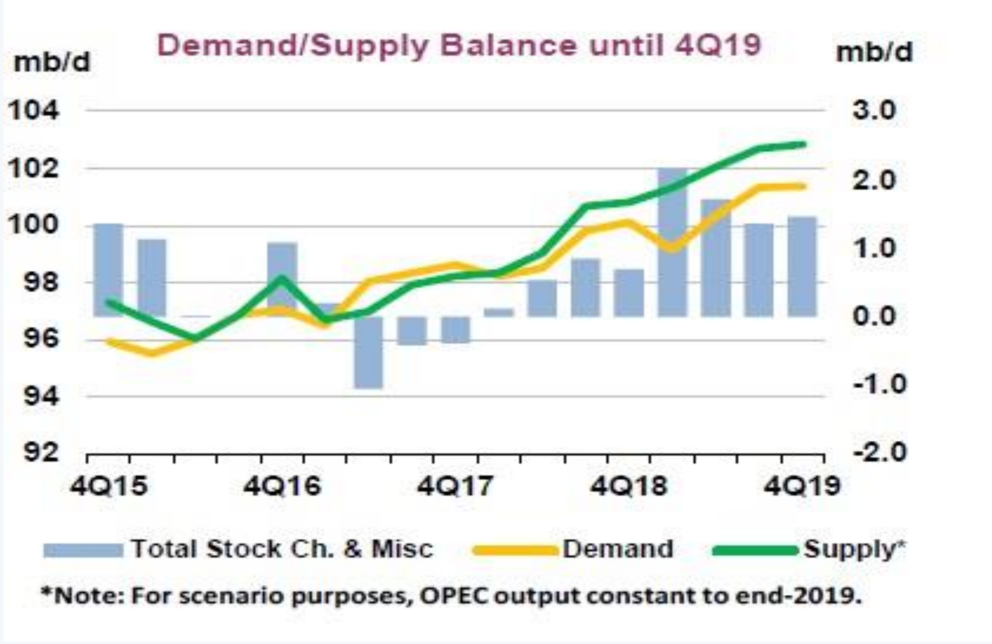
We now look at the wider markets which Northbridge sell or hire products into.

Oil & Gas

In mid-November, the International Energy Agency forecast in its 2019 Oil Market Report that it anticipates that global oil supply will outpace demand throughout 2019. Owing to a combination of increases in production in the Middle East, Russia and the US, more than offsetting declines in Iran and Venezuela, which has resulted in a stock build of c.700,000 b/d during Q4 2018. As a result, oil stocks within the OECD have climbed for four continuous months to October, with products back above the five-year average.

In October 2018, world oil output of 100.7m b/d was 2.6m b/d up y-o-y, with non-OPEC producers accounting for much of the increase (in particular the US), with OPEC oil supply rising 0.38m b/d year-on-year. The International Energy Agency expect the growth in supply to rise a further 1.9m b/d in 2019.

Demand/supply balance in the global oil & gas market



Source: International Energy Agency

While the growth in global demand for oil is also projected to rise in both 2018 and 2019 by 1.3m b/d and 1.4m b/d, respectively, the pace of growth continues to be below that of the expansion in supply. Asia is the main source of global growth at+0.9m b/d in 2018 and +0.82m b/d in 2019, with China and India dominant.

A recent report from PwC has highlighted that the oil and gas sector face a number of supply-related challenges:

- Ongoing decline in new discoveries
- The slowness of the rise in exploration spending since 2014-16 oil price collapse

At c.3.5bn barrels of liquids (crude condensate and natural gas liquids) discovered in 2017, this represents the lowest level since the early 1950s. This reflects the fact that it is becoming more difficult to find the large discoveries, as most prospective areas have already been explored.

Globally, exploration spending declined c.60% from a high of US$153bn in 2014 to US$58bn in 2017. The IEA expects spending to rise by a CAGR of 7% per annum over the short to medium term. However, the normal lag of between three-to-six years between the sanctioning of a project and when it comes onstream, means that the uplift in spending on exploration needs to rise at a much faster rate in order to ensure that the supply doesn't decline soon.

Oil demand is expected to plateau by 2030 owing to the demand for a lower carbon world, as highlighted by the growing electrification of transport and the move towards sustainable energy.

That said, the International Energy Agency (IEA) has suggested in Q4 2018 that it expects plastics and other petrochemical products will drive global oil demand to 2050, offsetting the slower consumption from transportation.

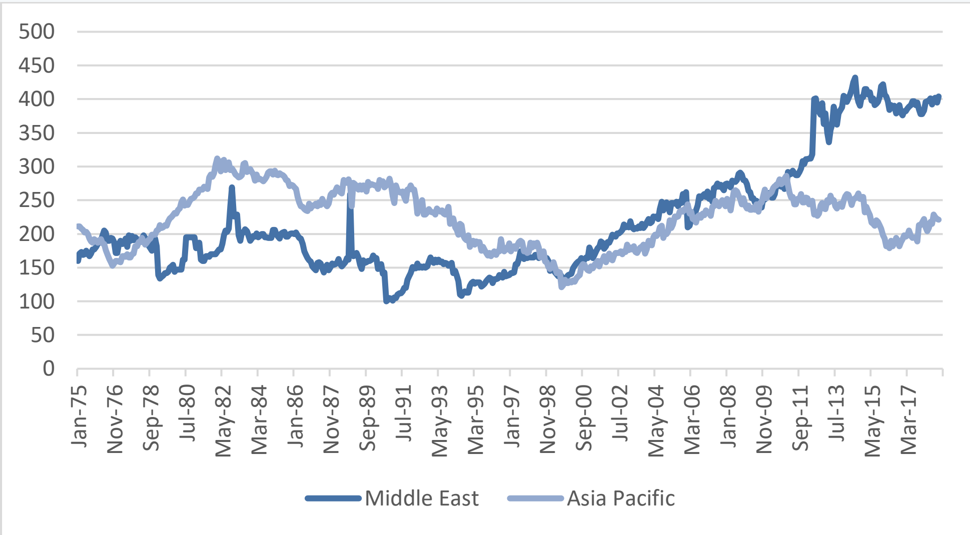
This belief is supported by the rapid growth of emerging economies, not least China and India. In fact, the IEA is of the opinion that the petrochemical sector will account for a third of global oil demand growth by 2030 and by 50% by 2050. Global demand for petrochemical feedstock accounted for 12 million barrels per day (bpd), or 12% of total demand in 2017. This is expected to rise to 18m bpd by 2050 (source: IEA). Much of this demand growth is likely to arise in the Middle East and China, where large petrochemical plants are in the process of being built or are in the planning stages.

Rig count has previously proved to be a good indicator of activity in the oil & gas sector for the Group and particularly at Tasman Oil Tools. **However, the figures tend to ignore rig activity in the geothermal water power generation market and in the coal bed methane market.**

The chart below highlights rig count in the Middle East and Asia Pacific, areas where Tasman is at its most active. That said, Tasman operates no contracts in Saudi Arabia, where rig count is at its highest in the region. From peak levels in early 2012 to the nadir in mid-2016, global rig count declined 64.0% overall. During this time period, the Middle East delivered an increase in the number of operational rigs of 25.7&, since increasing 3.3% in the last 30 months, while in Asia Pacific, the number of rigs declined 24.9% peak to trough, since recovering by 16.3% (*source: Baker Hughes*).

Management stated within the H1 2018A half-year results that the Middle East remains slow, competitive and there are problems with bad debtors currently.

Rig count, Middle East and Asia Pacific

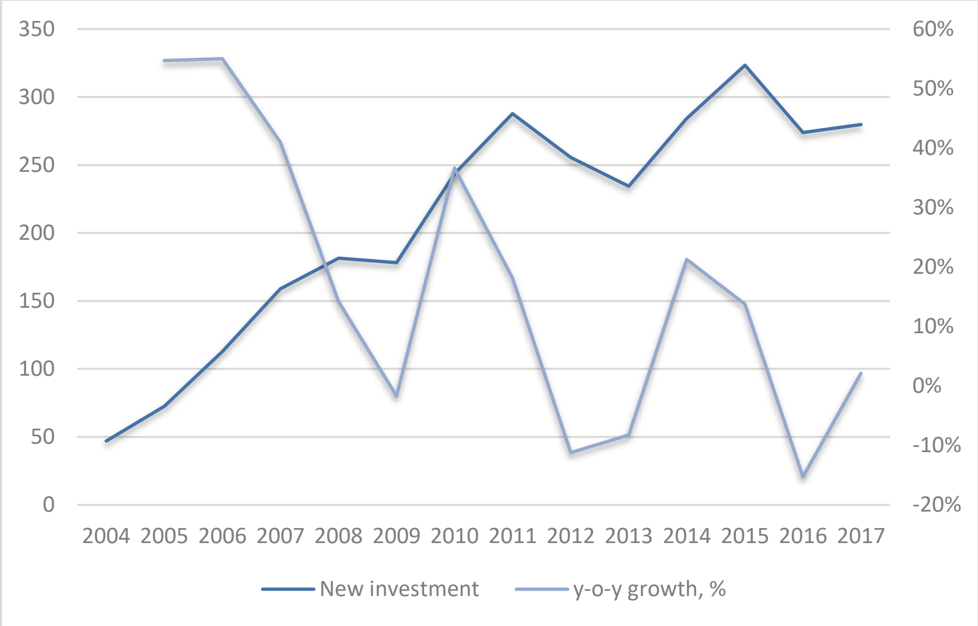


Source: Baker Hughes

Renewable Energy

A record 157 GW of renewable power was commissioned in 2017, up from 143GW in 2016 and significantly ahead of the 70GW of fossil fuel powered generating capacity added in the same year. The proportion of world electricity generated by renewable sources rose from 11% in 2016 to 12.1% in 2017. Global investment in renewable energy increased 2% year-on-year to US$279.8bn (*source: UN Environment*). Allied Market Research expects the renewable energy market to increase by a CAGR of 4.9% from 2017 to 2025.

Investment in renewable energy, 2004-2017, US$bn



Source: UN Environmental

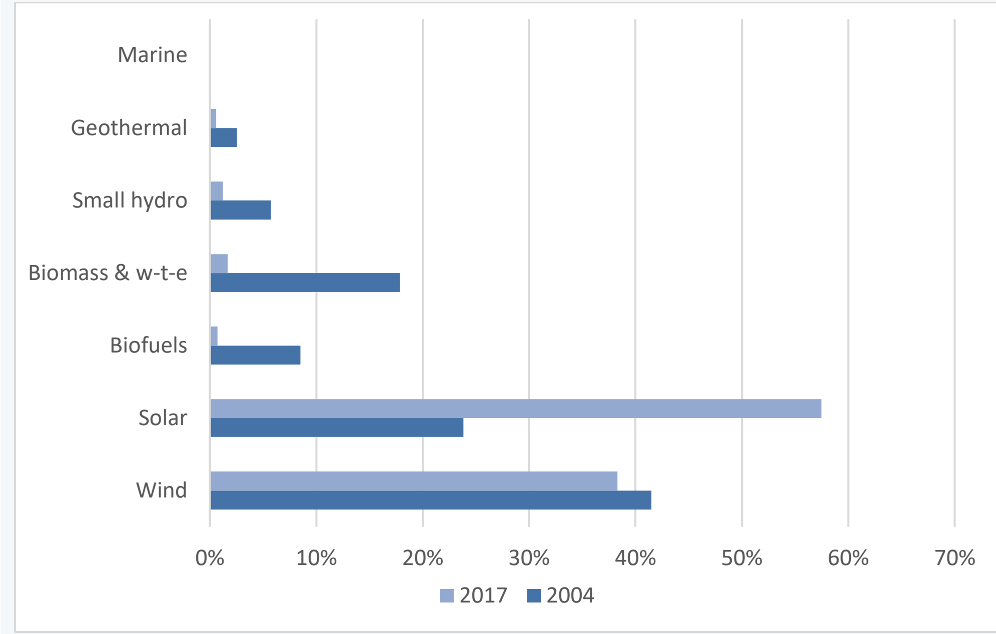
There are several trends driving the growth in renewable energy:

- Closer proximity to price and performance parity versus traditional electricity generation
- Solar and wind can cost effectively help balance the grid
- New technologies are improving the competitive edge of wind and solar
- Increased demand from consumers in favour of renewable energy sources

The introduction of increasingly affordable battery storage and other innovations have enabled a smoothing of the intermittency of supply from renewable sources, thereby improving their reliability. Onshore wind has become the lowest-cost energy source for power generation, with an unsubsidised levelized cost of energy (LCOE) range of US$30-US$60 per megawatt hour (MWh), below the range of the cheapest fossil fuel, natural gas (US$42-US$78 per MWh).

Utility-scale solar is catching up quickly to wind, with an unsubsidised LCOE range of US$43-US$53/MWh. In the case of renewables, however, the cost of the additional storage required pushes up the cost beyond that of natural gas-fired generation (*source: Deloitte*).

Investment in renewables by sector, 2004 and 2017, % of total

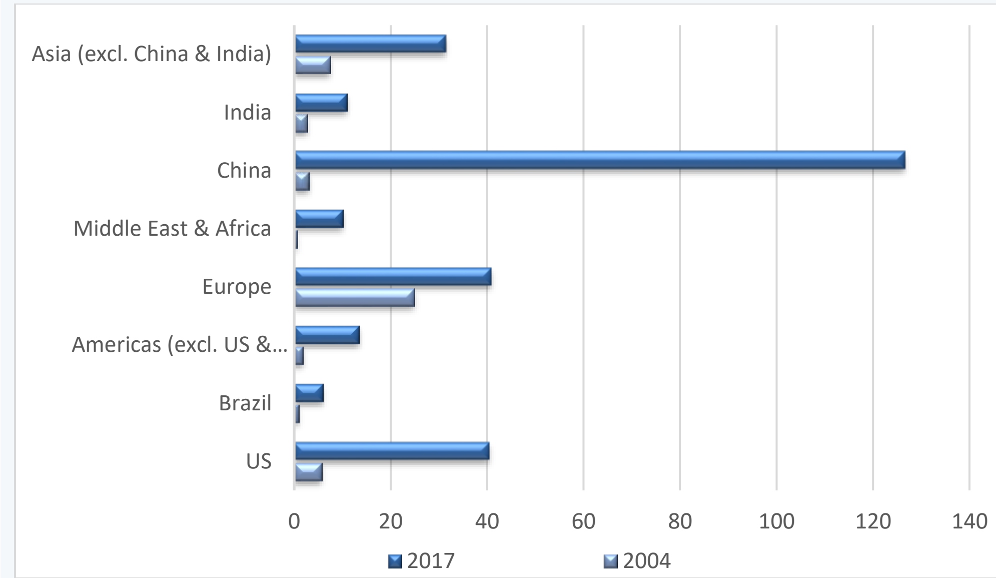


Source: UN Environmental

Three-quarters of the top 20 US solar and wind power generation states have electricity prices below the national average. Meanwhile in Europe, the continent's top solar and wind market, Germany, has seen wholesale prices of electricity halved over the last decade. In Denmark, which has the world's highest share of intermittent renewables (53%), electricity prices are amongst the lowest in Europe.

Grid reliability has resulted in the number of outages fall markedly over the last decade in Western economies (*source: Deloitte*).

Investment in renewable energy by region, 2004 and 2017, US$bn



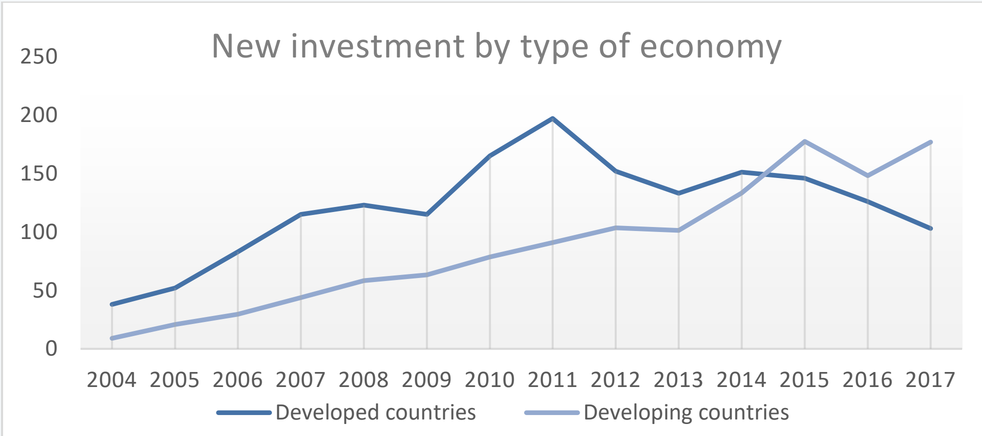
Source: UN Environmental

China accounts for 45% of the overall investment in renewable energy, at US$126.6bn in 2017, with solar accounting for 68.3% of the total spend and delivering 53GW of generating capacity (*source: UN Environment*).

New technologies involving automation (inspection drones and advanced manufacturing), AI (in weather forecasting) and advanced materials (3-D printing and perovskite, which improve manufacturing times and efficiency versus traditional methods) are, combined, improving the competitive edge of wind and solar power generation.

2017 was also the third consecutive year in which developing economies outspent developed economies, to the tune of US$177bn versus US$103bn (*source: UN Environment*).

Renewables: areas of expansion



Source: UN Environmental

Frost & Sullivan believes that capacity of the renewable power generation market is set to grow 13.3% in 2018 to 154.6GW, with investment of US$228.3bn. Europe is expected to deliver the highest growth rate in alternative energy, rising at a CAGR of 6.2%.

In the developing world, South Africa is expected to deliver growth of a CAGR of 27.6% between 2017 and 2025. The Asia Pacific region, which accounted for a 41.6% market share in 2016 is expected to grow at a CAGR of 4.8% during the period (*source: Allied Market Research*).

The EU has suggested that it is on track to deliver 20% of all power generated from renewables by 2020 and has committed the region to hit 32% by 2030. What is undoubtable is that the market for renewable energy is now in the mainstream and is a huge market, giving Northbridge a great deal of scope in seeking to continue to build its revenue base.

Shipping

The global shipping market is important to Northbridge within its testing division (Crestchic). The global merchant fleet stood at 52,183 ships at the beginning of 2017, representing a 17.1% growth from the beginning of 2008 (or a CAGR of 1.8% during the period). However, the growth during the period was skewed largely in favour of bulk cargo and chemical tanker build.

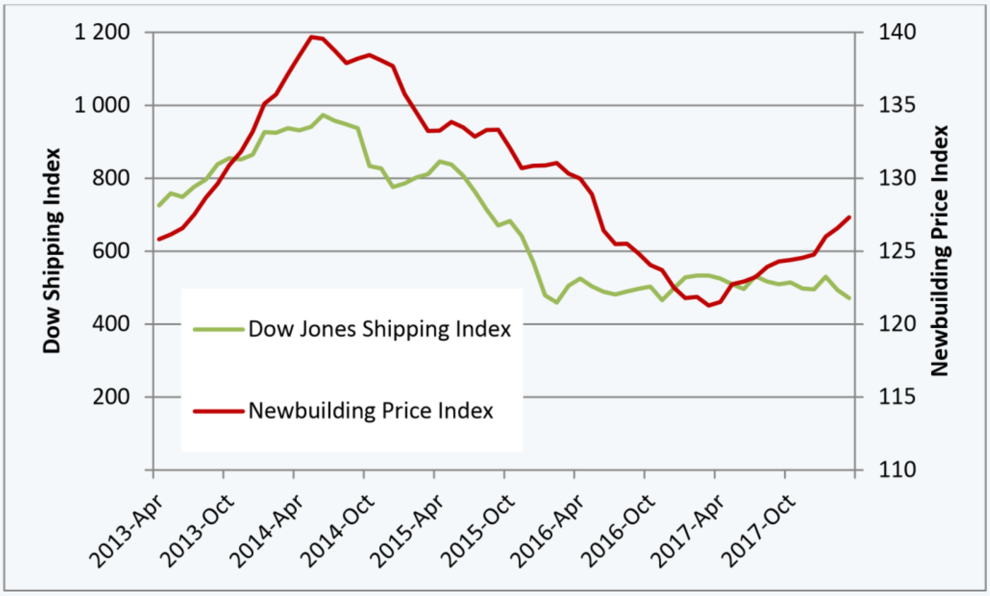
The largest shipbuilding nations in 2017, based on completions in gross tonnage were China, South Korea, Japan and the US. Europe commands five of the remaining top ten nations.

Europe's focus in recent years on special high-tech and high value ships has stood it in good stead, particularly at a time when the Asian shipyards have struggled owing to the dramatic reduction in in orders of commodity transportation ships and offshore vessels from 2015-16.

Rates for the sub-contracting of tankers have begun to improve, particularly in Q4 2018, signalling that as fleet utilisation rates continue to rise, shipbuilding rates should also improve. According to BIMCO, the improvement in tanker rates has been particularly marked in the crude oil market, with rates rising from US$4,000 per day in the Summer to US$33,500 by October. However, the improvement in rates has yet to result in much new activity, with BIMCO expecting the tanker fleet to increase by just 1.6% in 2018, with a modest uplift anticipated in 2019.

However, we anticipate that two factors: the accelerating environmental agenda, which includes the 2020 global sulphur cap, this means that owners will soon have to make decisions on the replacement of older vessels. The Lloyd's List Intelligence Forecast in 2016 suggested that the order book-to-fleet ratio will be at 10% in 2018. This is the lowest level since 2002. Within the same forecast it suggested the global shipbuilding market would grow by a CAGR of 3.5% to 2020.

Dow Jones Shipping Index and the New Build Price Index



Source: OECD/Clarkson's Research

Global power rental market

The significance of the global power rental market to Crestchic, is that loadbanks are used in the testing of the rented generators ahead of them supplying power to the local network.

A recent study by ResearchAndMarkets on the power rental market, suggests that globally the market is set to grow by a CAGR of 7.89% to US$21.2bn by 2023, from US$14.5bn in 2018. The growth is mostly attributable to two factors:

- Current limited access to electricity in rural areas
- Power loss due to ageing infrastructure

Local or rural grids in developing nations generally lack a reliable power supply, reflecting gaps in the transmission network, particularly in parts of Africa and Asia Pacific. Businesses operating in such rural areas, such as oil & gas, mining and process industries require generators to provide a reliable source of power. In addition, utility companies rent banks of generators in order to meet demand during peak periods.

In developed economies, standby generators comprise the bulk of the power rental market. A back-up system kicks-into life immediately, necessary for use in key areas such as: hospitals, banks, data centres amongst many other areas where any power outage would be critical.

Of the key regions globally, North America is estimated to be the largest, due to increasing power demand, ageing and fragmented infrastructure and the deficit in power between what is produced domestically and what is imported. In the case of the latter, the US imported 72.1 tWh of electricity from Canada in 2017.

Data centres

The growth of data centres globally is expected to focus on the development of both modular and hyperscale data centres. The latter reflects the focus by the larger technology stocks, such as FAANG and Microsoft.

The combination of the following is likely to continue to drive the growth of data centres:

- Faster and more widespread adoption of technologies such as cloud-based services, big data and the internet of things (IoT)
- Improved access to broadband both regionally and internationally
- The move from 4G to 5G mobile telecom networks and increased personal demand for data
- Significant investment globally in submarine cable projects by telecomms providers
- Demand for reduced power consumption, lower carbon emissions and more advanced cooling systems within data centres is also driving new construction

The data centre market is expected to grow by a CAGR of 4% between 2018 to 2023, to global revenues of US$174bn *(source: ResearchAndMarkets.com)*. Investment during the period within the global datacentre colocation market is expected to reach a combined US$31bn during the same period.

ResearchAndmarkets.com expects Latin America and the Middle East and Africa to deliver the highest CAGR in global revenues arising from data centres during 2018-2023. North America is expected to continue to be the largest data centre market by the end of the period.

Competitors

The group's main competitors and/or comparators are as follows, covering all aspects of Northbridge's activities:

Aggreko provides rental services in two main product areas: mobile electricity generators and temperature control equipment. In addition, the company supplies diesel compressors used to eliminate oil-based contaminants in the food, pharmaceutical and textile industries. The business operates through approximately 118 depots in 23 countries and selling in over 100 countries worldwide. The company is listed on the LSE (Ticker: AGK).

Ashtead is an international equipment rental company servicing companies nationwide in the US and the UK, focusing on construction and industrial equipment. The business has approximately 388 locations across the US (c.85% of revenues) and 106 in the UK (c.15% of revenues). The company is listed on the LSE (AHT).

Borr Drilling, based in Norway, provides international oil and gas drilling services. The company offers a 20-plus strong fleet of high specification jack-up rigs to the exploration and production industry worldwide in water depths up to approximately 400 feet. The size of fleet places Borr Drilling in the top five premium jack-up companies globally. The company is quoted on the Oslo Stock Exchange. (BORLL.NO).

Caterpillar Inc. is the world's leading manufacturer of construction and mining machinery. It also manufactures diesel and natural gas engines, industrial gas turbines, diesel-electric locomotives and forestry machinery and, offers finance and insurance. Caterpillar distributes its products via a worldwide dealership network. The company is quoted on the NYSE. (CAT.US).

Hunting is an international energy services provider to upstream oil and gas companies. The company manufactures, supplies and distributes high end downhole metal tools and components required to extract hydrocarbons across the well construction, completion and intervention stages of the well's lifecycle. The company is listed on the LSE (HTG).

National Oilwell Varco Inc. is a global provider of equipment and components used in oil and gas drilling and production operations, oilfield services and supply chain integration services to the upstream oil and gas industry. The company is listed on the NYSE (NOV:US).

Odfjell Drilling Ltd. operates as a holding company. Based in Norway, the Company, through its subsidiaries, provides mobile offshore drilling, platform drilling, well services, and engineering services worldwide. The company is listed on the Oslo Stock Exchange (ODL:NO).

Parker Drilling, based in Houston, provides offshore and onshore contract drilling and drilling-related services. The Company offers drilling services, rental tools, and project management, including rig design, construction, and operations management. Parker Drilling services the energy industry worldwide. The company is listed on the OTC Pink Marketplace (PKDSQ:US), after filing for Chapter 11 bankruptcy protection on 12/12/18.

Petrolia, based in Oslo, operates via two divisions, exploration & production (E&P) and Oil Service. The business owns several rental equipment companies, providing jack-up and deep-water drilling rigs, as well as accessories such as drilling tools. In addition, the company owns 49.9% of Petrolia NOCO AS, an independent oil & gas company operating on the Norwegian Continental shelf. The company is listed on the Oslo Stock Exchange (PSE: NO).

United Rentals, Inc., through its subsidiary, is an equipment rental company operating in 57 states/provinces in the United States and Canada. The Group's branch network currently stands at 1,086 locations, with an 11% market share in North America. The Company serves the construction industry, industrial (oil & gas, chemical, manufacturing, food & beverage and pulp & paper), non-residential construction markets, government agencies & municipalities and homeowners. The company is listed on the NYSE (URI:US).

VP Plc rents specialized equipment to the oil and gas, rail, quarrying and construction industries. Within the oil & gas sector it provides specialist compressed air and steam generation services. Following its acquisition of Brandon Hire, Tool Station is one of the UK's leading tool hire businesses. Torrent trackside provides portable plant and trackside services to the rail industry. The Group supplies portable roadways in the temporary access market in the UK and Germany. VP hires all-terrain, material handling equipment to residential and commercial construction. The company is listed on the LSE (VP.).

Weatherford International is an Irish domiciled, multinational oilfield service company. The Company provides drilling services, electronic well measurement and monitoring, completion, production and evaluation products and services. In particular, the company has developed directional drilling, tubular running services, sand screen systems and production optimisation systems used extensively throughout the oil and gas industry. The company operates in more than 90 countries globally. The company is listed on the NYSE (WFT:US).

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