Brammer PLC - BRAM Update on Q3 Trading and Financial Position
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7 October 2016

Brammer plc
("Brammer" or the "Group")

Update on Q3 Trading and Financial Position

Brammer, a pan-European distributor of industrial supplies and services, today issues an update on the Group's trading and financial position.

Key points

- Group sales per working day ("SPWD") at constant currency declined 2% in the quarter

- UK SPWD was down 1% versus prior year, with an improved Buck & Hickman performance

- Bearing and Power Transmission SPWD down a further 6% in Q3 versus prior year

- Stock reduction of £30 million achieved as at 30 September at constant currency, in line with plan

- Declining sales and reduced levels of supplier support have led to an operating loss in Q3; accordingly, the Group does not expect to report a pre-tax profit for the full year 2016

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Business review to develop a detailed plan to improve the operational and financial performance of the Group remains on track; conclusions expected in November 2016

- Standby underwriting agreement entered into with Investec for a rights issue (the "Rights Issue") of up to £100 million, to be launched no later than the announcement of the Group's full year results for the year ending 31 December 2016 in Q1 2017

- Discussions will be held with the Group's debt providers to seek appropriate amendments to the current facilities, including the operation of certain financial covenants, to ensure the Group has the appropriate level of committed debt facilities for its medium term requirements

- Medium term target capital structure of 1.0x - 1.5x net debt to EBITDA

- No final dividend will be proposed for the year ending 31 December 2016

Meinie Oldersma, Chief Executive, said:

"I have been impressed by the market position and the expertise and the quality of people the Group has built over the last few years. However, an over-emphasis on expansion of the products and services has resulted in a lack of focus on some of Brammer's core key areas, whilst significantly increasing costs in other areas. This is a good business, but it will require time to get that focus back onto core products, with the effective processes to support it.

In the near term, we are anticipating continuing decline in sales in our more profitable core products, which, combined with our drive to reduce levels of stock, has led to reduced levels of supplier support and a significant impact on our margins. These factors have led to an operating loss in the third quarter, and accordingly we do not expect to report a pre-tax profit for the full year 2016.

We are actively developing our plans to move the business forward and there is a strong recognition within the business of the need for change. The proposed rights issue will reduce the Group's structural indebtedness significantly and provide the Group with the appropriate capital structure to deliver this improved performance."

Update on the Business Review

Meinie Oldersma joined the Group as Chief Executive Officer on 1 August 2016 and has spent the first 10 weeks reviewing the business, visiting the Group's operations in the UK and overseas and talking to customers, suppliers and employees, as well as external stakeholders. The initial conclusions of this review are being developed into a detailed business plan, to improve the operational and financial performance of the business, with the assistance of an external firm of strategic consultants. The detailed conclusions of this review will be announced in November 2016, as previously indicated.

The preliminary themes that are emerging from this business review are:

- the Group has a unique European footprint and a strong position in a number of geographic markets;

- a previous focus on top-line growth meant that the Group lost focus in some of its core products and markets;

- the expansion of the product range has broadened the Group's ability to make savings for its customers, but it has introduced significant complexity into the business and incremental cost;

- there is a need to bring greater clarity to the Group's preferred sales channels, for different types of products and customers, to ensure that the Group can deliver cash generative profitable growth; and

- there is a need to improve the Group's core business systems and processes, including improved e-commerce capability over time.

Current trading

SPWD at constant currency	**Q1 Growth**	**Q2 Growth**	**H1 Growth**	**Q3 Growth**	**Q3 £'000**
By geography:					
UK	(7)%	(5)%	(6)%	(1)%	1,044
Germany	3%	(1)%	1%	(2)%	495
France	3%	1%	2%	(2)%	346
Nordic	(21)%	(13)%	(17)%	(13)%	147
Other territories	2%	-%	1%	(3)%	764
Total Group	**(3)%**	**(3)%**	**(3)%**	**(2)%**	**2,795**
By product:					
Bearings and Power Transmission	(5)%	(10)%	(8)%	(6)%	1,260
T&GM	(3)%	1%	(1)%	7%	639
Other	1%	5%	3%	(3)%	896
Total Group	**(3)%**	**(3)%**	**(3)%**	**(2)%**	**2,795**
By customer:					
Key Accounts	-%	(1)%	-%	2%	1,652
Base Business	(6)%	(5)%	(6)%	(8)%	1,143
Total Group	**(3)%**	**(3)%**	**(3)%**	**(2)%**	**2,795**

We expected Q3 to see an improvement on the first half and a small improvement on last year, due to the actions taken to refocus the business on our core sales and increase the sales force in the UK. However, overall SPWD declined by 2%, five percentage points below our expectations. As announced in our interims, SPWD for July was in line with last year. However, this has been followed by a decline of 5% in August and a decline of 2% in September.

Within the overall Group decline, the UK showed signs of improvement in reversing the sales trend. Overall for the quarter SPWD was down 1% versus prior year. This was the best quarterly performance versus prior year since Q2 2015. Within that there were three consecutive months of growth for Buck & Hickman up year on year by 0.4% in July, 2% in August, and 6% in September, which followed on from an average year on year decline of 15% in the first half. However, the improved Buck & Hickman performance was more than offset by continued weakness in the Brammer UK business.

Germany was down 2% in Q3 in SPWD versus prior year, with a weak September, down 6%. France continued the volatile pattern of the first half, with a 7% decline in July, followed by a 9% increase in August, followed by a 3% decline in September, to leave the quarter as a whole down 2%.

In the Nordics, the start-up of a large tools and general maintenance contract in Norway was not sufficient to offset the continued decline in the OEM business and the losses in the Swedish MRO business, where the costs of investing in the branch network and new distribution centre are not covered by the current volumes. Order intake in Q3 was low, and we expect that the loss for the second half will be greater than the first half. Whilst we believe that the route to returning the business to profitability is to grow the MRO and Tools and General Maintenance ("T&GM") business, we are thoroughly reviewing our plans and will be assessing the carrying value of the business as part of the normal year end process.

In Other Territories, Q3 SPWD was down 3%. Spain in particular weakened through the quarter, with year on year changes of +4% in July, +2% in August but a decline of 4% in September.

Looking at the trends for the business through Q3, it is clear that our revenue expectations for the full year will not be achieved, and we are now anticipating these to be c. 5% below previous expectations.

Within the overall sales, the decline in Bearings and Power Transmission is the most marked, and we have consequently reduced our forecasts for Bearing sales for the full year. The reduced forecast level of sales and the stock reduction programme means our purchases for the year will be significantly down year on year. Given the tiered nature of our rebates the impact on our margin is more significant. In the first half, the impact of rebates was to reduce our gross margin percentage year on year by 0.8 percentage points and we now expect the impact for the year as a whole will be to reduce the Group gross margin percentage by approximately 2 percentage points.

Sales to Key Accounts increased by 2% in the period whilst in contrast the Base business declined by 8%. As previously noted, we are refocusing our sales efforts back to the Base business.

Revenue from direct and indirect sales at customer sites with vending machines now accounts for 11% of our total revenues, and these customers grew by 13% in the quarter, a significantly higher growth rate than any other group of customers. However, whilst vending continues to be a good driver of top-line growth, given the cash investment the programme requires, and the current profitability of the model due to incremental costs involved, we have reduced the rate of roll out of vending machines and the sales resource dedicated to the programme, whilst at the same time increased the profitability hurdles for agreeing to install machines. We are now targeting that as a minimum for a machine to be installed it needs to make a positive contribution from direct sales alone within 12 months, excluding the benefit of indirect sales. At the end of the period we had an installed base of 1,945 machines, up 135 machines from the 1,810 installed at the end of Q2.

Overall the Group recorded an operating loss in Q3 and accordingly the Group does not now expect to report a pre-tax profit for the full year 2016.

Reduction in stock levels

At the start of the year, we implemented a stock reduction programme to reduce the Group's inventory levels by £30 million by the end of Q3. This programme has been successfully implemented with the target reduction of £30 million at constant currency being achieved as at 30 September. For the balance of the year, we expect inventory to remain around current levels, with further reductions in overstock, largely in bearings, offset by selective increases in products where stock levels are below optimum levels.

Capital structure and Standby Rights Issue

The Group's €120 million revolving credit facility and $175 million USPP Note Agreement both include a net debt to EBITDA covenant of not greater than 3.0x and an interest cover covenant of not less than 4.5x.

Although net debt as at 30 June 2016 was £107.7 million (resulting in a net debt to EBITDA ratio of 2.8x), the Group typically experiences a material working capital outflow between reporting periods, which, in the current year, has resulted in the Group's average net debt (which excludes debt factoring) being approximately £50 million - £60 million higher than at period ends. The intra-period working capital movement is funded by drawings under the Group's revolving credit facility and the use of non-recourse debtor factoring.

Despite the initiatives in 2016 to reduce the level of stock and reduce the capex investment in Vending, the difficult trading environment and the weakening of sterling means that it is likely that, unless amended or waived, one or both of the Group's financial covenants will be breached at the next testing date of 31 December 2016.

The Board has concluded that in any event it is in the best interests of the Group to reduce its structural indebtedness significantly and that the appropriate leverage target for the Group over the medium term is a net debt to EBITDA ratio of 1.0x - 1.5x. As a result, the Board intends to undertake a Rights Issue to raise up to £100 million, conditional on the

Group securing appropriate covenant amendments and committed debt facilities for its medium term requirements. The Rights Issue is expected to be launched by no later than the announcement of the Group's results for the year ending 31 December 2016 in Q1 2017. The Rights Issue has been fully underwritten on a standby basis by Investec. The standby agreement contains certain representations and warranties, undertakings, conditions, and termination rights (including relating to completion of documentation and due diligence) and is subject to Investec's review of the Group's new business plan.

The Group has maintained an active dialogue with its banks and loan note holder and will be notifying the banks providing its revolving credit facility and its loan note holder of the matters described in this announcement. Brammer will seek necessary amendments and/or waivers to its current facilities, to ensure that the Group remains in compliance with the terms of its debt facilities and to reflect the Group's intention to strengthen its capital structure through the Rights Issue.

Dividend

In view of the Group's anticipated performance for 2016 and the focus on cash generation and debt reduction, the Board currently intends not to propose a final dividend for the year ending 31 December 2016. The Board will determine the appropriate future dividend policy for the Group in conjunction with the business review and proposed equity fund raising.

The person responsible for arranging for the release of this announcement on behalf of Brammer is Duncan Magrath.

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