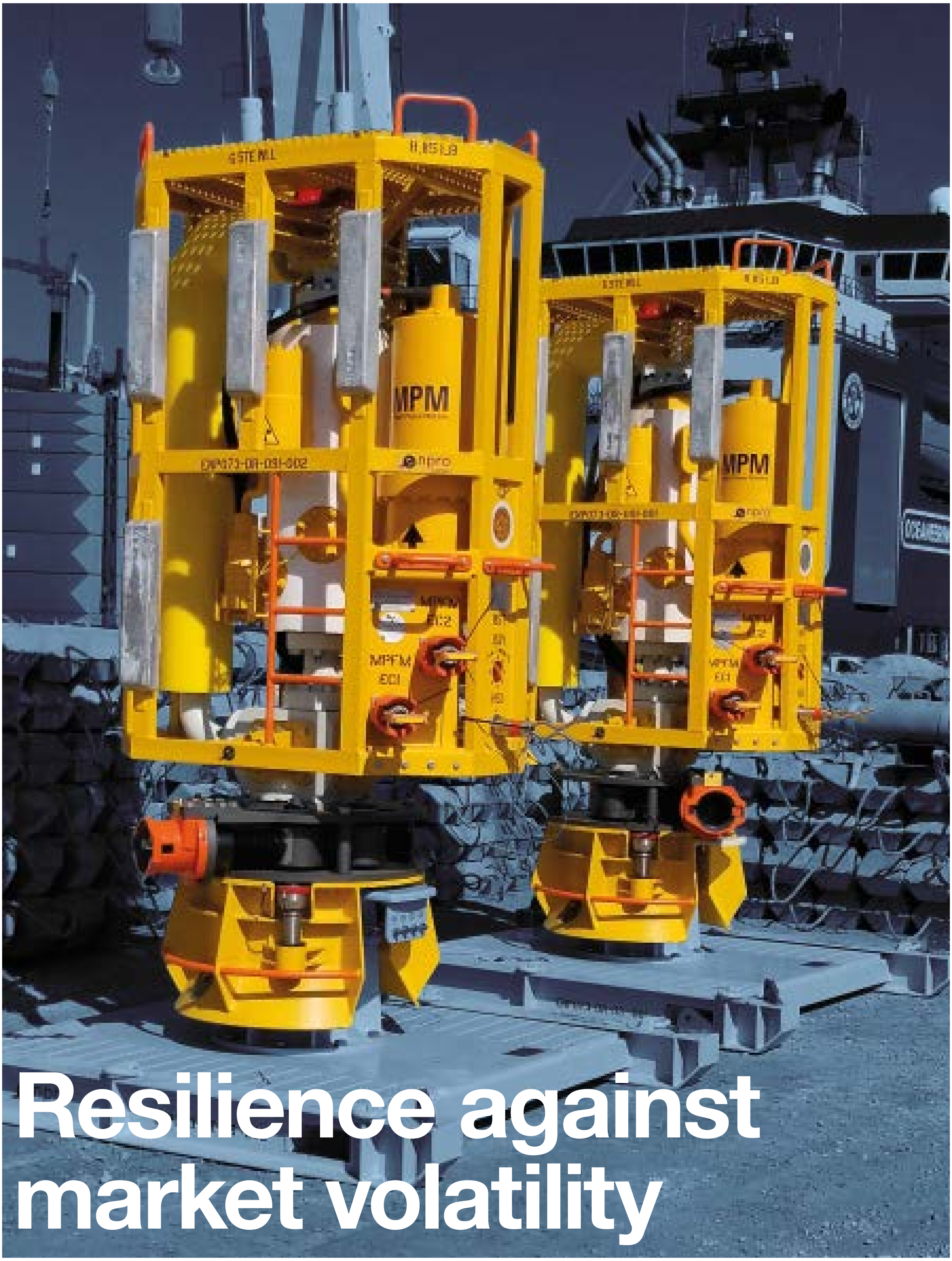
Hunting PLC
2020 Half Year Report



Resilience against market volatility

Hunting PLC
2020 Half Year Report

Hunting is a supplier to the upstream oil and gas industry.

Our strategy is to manufacture products and deliver services to our customers wherever in the world they are operating.

Hunting's product offering extends across the life cycle of an oil and gas well, and this focus allows us to create, distribute and sustain value for our shareholders.

Hunting is quoted on the London Stock Exchange and is a constituent of the FTSE All Share index.

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Half Year Management Report

Hunting PLC, the international energy services group, announces its results for the six months ended 30 June 2020.

Group Review

Introduction

The global events reported widely throughout the first half of 2020 in respect of the coronavirus pandemic ("COVID-19") and the consequent decline in the global WTI oil price due to the collapse in daily oil demand have had a material impact on the Group's businesses since March 2020. Despite these extremely volatile trading conditions, Hunting has generated positive EBITDA in the period, albeit largely in Q1, and retains a strong cash and bank position at 30 June 2020.

The Group has implemented swift cost reduction measures, which have recalibrated each business unit to the medium-term trading outlook. While this has been painful, particularly as we have lost some of our workforce, our core operating capability and expertise remains intact as the market aligns itself with the lower average oil price environment and general economic climate.

Further, while trading has been volatile in the year-to-date, and in particular since March 2020, at the time of publication of these results, management have noted areas of stability within a number of businesses as the WTI oil price reached c.$40 per barrel.

The Board believes that the Group's businesses have demonstrated resilience, including the ability to quickly right-size each business unit to the medium-term market outlook, as well as implement stringent cash and working capital controls. This operational flexibility demonstrates the strength of Hunting's business model and strategy and supports the Group's longer-term viability.

COVID-19

The health and safety of our employees is a key priority for the Group, with a range of measures introduced in the early part of the year to protect our staff as COVID-19 spread throughout each operating region.

As an essential industry, oil and gas companies have been allowed to remain open. Social distancing measures were put in place and utilisation levels reduced throughout each facility, with increased spacing between workstations and staggered shifts and breaks to protect the Group's employees. Protective equipment has been issued to relevant staff and enhanced cleaning processes have been introduced to mitigate the risk of infection. There have been bans on non-essential travel by staff and on visitors to the Group's facilities. Working-from-home measures have been adopted for personnel who are able to work remotely.

Across the US, the majority of facilities have remained operational throughout the whole of H1 2020, with restrictions based on Health and Safety best practice being implemented. In Canada, Europe and the Middle East, similar measures have been in place in accordance with government guidance. In Asia Pacific, the Group's China facility was shut for five days in January/February 2020 and in Singapore and Indonesia Hunting's facilities were subject to reduced utilisation levels, where maximum employee attendance was c.25%. During Q2 2020, the Group's Singapore, Indonesia and China facilities returned to utilisation levels of between 50% and 70%. In June 2020, the Group's US facilities also eased a number of operating restrictions to facilitate more normal shift patterns.

In the period, the Group has received $1.8m from government furlough and workforce assistance programmes, as economies were shut down and support initiatives introduced.

Market Overview

As expected, the global energy market started the year showing modest levels of activity, although with a slowing US onshore market. However, with the acceleration of the spread of COVID-19 and the response by global governments to shut down economies and limit travel, daily oil demand declined by an estimated one-third during early Q2 2020, a market movement never seen before in industry history. This event had an almost immediate impact on the Group's US onshore focused businesses, starting at the end of Q1 2020, but extending throughout the Group's other businesses in Q2 2020. US onshore rig counts have reduced by 68% during H1 2020, while the monthly international rig count has reduced by 28%, leading to the overall year-on-year decline in the Group's results. Declines seen during the reporting period are reflected in key industry performance indicators.

	At 1 January 2020	**At 30 June 2020**	**Average for the period**
WTI Oil Price – $ per barrel	61.06	**39.27**	**36.82**
Henry Hub Natural Gas Price – $ per mmBtu	2.19	**1.75**	**1.81**
US onshore rig count	782	**254**	**571**
US offshore rig count	23	**11**	**18**
International rig count	1,078	**781**	**954**

Source: Bloomberg/Spears & Associates/Baker Hughes

As the mid-point to the year was reached, the WTI oil price stabilised at c.$40 per barrel, as economies were slowly re-opened and restrictions were lifted by local governments.

Performance Summary

Based on these trading conditions, the Group delivered reasonable results in Q1 2020, with revenue and EBITDA in line with management's budget expectations, prior to the decline in trading during Q2. For the six-month period to 30 June 2020, the Group has reported revenue of $377.7m (H1 2019 – $508.9m; H2 2019 – $451.1m), underlying EBITDA of $28.4m (H1 2019 – $77.4m; H2 2019 – $62.3m) and an underlying profit from operations of $5.7m (H1 2019 – $55.6m; H2 2019 – $38.7m). The reported loss from operations for the period was $183.6m (H1 2019 – $41.1m profit; H2 2019 – $5.7m profit). Management are of the view that these are satisfactory results, given the unprecedented market conditions prevailing since mid-March.

Despite the year-on-year decline in profits, the Group has focused on retaining a strong balance sheet and is pleased to report that total cash and bank was $48.8m at 30 June 2020 (31 December 2019 – $127.0m), with net assets of $996.9m (31 December 2019 – $1,223.8m), following the charges for exceptional items and impairments noted below.

The Board is declaring a second interim dividend of 2.0 cents per share (H1 2019 – 5.0 cents), which will absorb $3.3m of cash (H1 2019 – $8.3m), to be paid on 23 October 2020. A 3.0 cents per share interim dividend was paid to shareholders on 15 May 2020, which replaced the 2019 Final Dividend.

Management Responses to the Current Trading Environment

Given the slowing US onshore market towards the end of 2019, management had put in place a number of cost-saving measures in January 2020 to address these deteriorating onshore market conditions. However, in response to the oil price shock in March 2020, and the overall trading environment for H1 2020, these measures were significantly extended across the Group's global operations and continued throughout the balance of the period. Annualised cost savings resulting in the year-to-date from the initiatives noted below total c.$62.3m.

Half Year Management Report continued

Facilities
Hunting commenced the winding down and closure of two manufacturing facilities in the first half of 2020, including the Hunting Titan facility at Oklahoma City, which is being moth-balled, and also the OCTG threading facility at Ramsey Road, which is being closed, in Houston, Texas. All production at these facilities is being relocated to other facilities within the Group. At the period-end, the Group retained 35 manufacturing facilities (31 December 2019 – 36) with a total operating square footage of 2.9 million sq ft compared to 3.0 million sq ft at 31 December 2019.

Four distribution centres in North America have been closed during H1 2020, including Lloydminster in Canada and Broussard, Hobbs and Woodward in the US. At the period-end, the Group retained 15 distribution centres (31 December 2019 – 19).

On 10 August 2020, the Group announced the closure of its Canadian manufacturing facility in Calgary, Alberta, given the medium-term market outlook across the region. A sales function will be retained in Calgary, however, all current and future orders will be completed by the Group's Hunting Titan and US operating segments. Further, the Group is also planning to amalgamate its manufacturing facilities in Singapore in the next few weeks as part of further consolidation and cost-saving measures planned.

Employees
Throughout H1 2020, reductions in the workforce have been implemented to reflect the current and medium-term trading outlook for each business unit. In total, 635 employees have been released with the majority of the reductions occurring within the Hunting Titan, US Manufacturing, Advanced Manufacturing, Drilling Tools and Specialty units. Offsetting this, 11 employees joined following the acquisition of Enpro, giving a closing headcount for the period of 2,332 (31 December 2019 – 2,956).

Balance Sheet and Capital Management
The Group entered the current global crisis with a strong balance sheet and healthy cash and bank position. As noted above, this position remains, giving the Group continued flexibility to execute selected strategic initiatives to develop and grow the Company in the longer term. As at 30 June 2020, the Group's $160m revolving credit facility remained undrawn, with Hunting remaining compliant with all terms and conditions of the covenants attached to the facility agreement. Accordingly, the Board is confident that the Group remains well positioned to capitalise on future opportunities.

Strategic Initiatives
New products
Hunting has continued to launch new products in H1 2020, which includes strategic investments in new product groups.

- Hunting Titan commissioned its detonation cord manufacturing line in July 2020, which complements other perforating products within the Group's portfolio. The manufacturing line, located at the Group's Milford facility, has capacity to produce 3 million feet of detonation cord annually, which will be used in Hunting's integrated perforating systems, as well as being sold as a stand-alone product for the wider market. The business also launched a new generation ControlFire® firing switch during Q2 2020, which introduces additional safety and reliability to the operator. In addition, Hunting Titan has commenced the manufacture of pre-loaded perforating guns for customers. The business has also introduced new size variants of the H–1, H–2 and E–SUB perforating systems.
- Within the US operating segment, the Group's Subsea business has launched a new high pressure hydraulic coupling and the Drilling Tools business has launched an updated range of mud motors with lower operating costs, achieved through a system re-design.
- The Europe, Middle East and Africa ("EMEA") operating segment has continued to trial an organic oil recovery well treatment technology, which improves production of end-of-life wells. During the first half of 2020, a number of laboratory tests were completed on behalf of customers, with positive well treatment results being observed. Wider field trials are planned in H2 2020, as lockdown measures are lifted.

Acquisition
On 21 February 2020, the Group announced the acquisition of Enpro Subsea Limited ("Enpro") for a cash consideration of $32.8m, net of cash acquired, with up to a further $3.0m consideration payable contingent on performance in 2020. Enpro's product offering focuses on delivering production enhancing technologies and includes Flow Access Modules, Flow Intervention Services and Decommissioning. These products offer low-cost, flexible field development solutions to clients, including production and intervention modules to enhance recovery from oil and gas wells. The business complements Hunting's existing subsea businesses, which manufacture hydraulic valves and couplings as well as stress joints and production risers, the latter technology being acquired as part of the asset acquisition of RTI Energy Systems ("RTI") in August 2019. The Group's subsea group reported revenue of $33.8m for the six months ended 30 June 2020, $14.9m ahead of H1 2019, with the acquisitions contributing $10.5m of the growth.

Non-oil and gas products
The Group has continued to develop its revenue streams in non-oil and gas markets, in particular within its Advanced Manufacturing group, where sales of aviation products have increased within the Hunting Dearborn unit and medical device sales have increased at the Hunting Electronics unit. Other operating segments have now been tasked with developing strategic initiatives to increase non-oil and gas sales.

Board Changes
As detailed in the Company's 2020 Notice of Annual General Meeting ("AGM"), Peter Rose retired as a Director of the Company on 15 April 2020, with Bruce Ferguson elected as a Director by shareholders at the AGM on the same date. Mr Ferguson has been appointed Hunting's Finance Director.

Outlook
Hunting has responded well to the challenging market conditions seen in H1 2020 and, not only reports a positive underlying EBITDA, but has continued to trade at or near to break-even at the EBITDA level since March 2020. Further, with a strong balance sheet and cash position, along with an undrawn borrowing facility, the Group will be able to respond rapidly to any improvements in activity and any market opportunities, as and when they arise going forward. Our ability to quickly resize the Group clearly demonstrates our flexibility and resilience against market volatility and the dividend declared today reflects the Board's and management's confidence in our chosen markets and business lines.

Further, the strategic actions completed, which includes our offshore-focused acquisitions completed in the last year comprising Enpro Subsea and RTI Energy Systems, have assisted in rebalancing our product offering to areas of the market that are less sensitive to movements in commodity prices. In the period, RTI has won a number of major offshore orders, while Enpro has made good order book progress, and our existing subsea business reports good period-on-period organic sales growth.

Hunting's performance for Q1 2020 was in line with management's expectations. The impact of COVID-19 and the actions of the OPEC+ group in late Q1 2020 led to the material decline in the global oil price, which has devastated the industry, firstly within the US onshore market, but followed by the weakening of US offshore and international markets. The asset impairments reported, while significant, reflect similar adjustments reported elsewhere in the energy industry. We continue to manage those business inputs that are in our control, which include tight controls over our cost-base, cash flows and inventories, all of which continue to move in the right direction.

The outlook for the remainder of the year remains uncertain, as COVID-19 prevention measures continue to change daily. However, enquiry levels have improved with the increasing average oil price and areas of the US onshore market indicate that the mid-point of the year could have been the bottom of the cycle, with cautious steps being taken by our clients to incrementally restart operations. Management anticipates an improving Q4 2020, subject to the impact of the pandemic remaining materially unchanged from the current position.

Results from Operations

Summary Group Results from Operations

	H1 2020 $m	H2 2019 $m	H1 2019 $m
Revenue	**377.7**	451.1	508.9
Underlying* EBITDA (NGM A)	**28.4**	62.3	77.4
Depreciation and non-acquisition amortisation	**(22.7)**	(23.6)	(21.8)
Underlying* profit from operations	**5.7**	38.7	55.6
Amortisation of acquired intangible assets and exceptional items (note 4)	**(189.3)**	(33.0)	(14.5)
Reported* (loss) profit from operations	**(183.6)**	5.7	41.1
Underlying* Diluted EPS (note 6)	**1.0c**	20.3c	23.6c
Reported* Diluted EPS (note 6)	**(125.7)c**	6.2c	17.3c
Underlying* Basic EPS (note 6)	**1.0c**	20.4c	24.6c
Reported* Basic EPS (note 6)	**(125.7)c**	6.0c	18.0c

* Underlying results are based on operations before amortisation of acquired intangible assets, impairments and exceptional items. Reported results are based on the statutory results for operations as reported under International Financial Reporting Standards.

Basis of Preparation

EBITDA, Working Capital and Free Cash Flow are non-GAAP measures ("NGMs"). The definition and calculation of these measures can be found on pages 32 and 33 of this report. For further information on the non-GAAP measures used by the Group, please refer to the 2019 Annual Report and Accounts.

Revenue

Revenue from operations, for the six months ended 30 June 2020, reduced by 26% to $377.7m compared to H1 2019 and by 16% compared to H2 2019. While the impact of the reduction in oil price had an immediate impact on the Group's onshore businesses at the end of Q1, as the general economic outlook deteriorated in Q2 coupled with reductions in global drilling expenditures being announced, most businesses across the Group subsequently reported declining sales across all products lines, the exception being within the Group's subsea group that benefited from a full contribution from RTI, which was acquired in H2 2019 and also Enpro, which was acquired in February 2020.

Inter-segment revenue reduced to $26.8m in H1 2020 compared to $39.9m in H1 2019 and $43.8m in H2 2019, reflecting the further slowing of the global manufacture of conventional perforating guns and other product lines and as existing inventories were worked off.

Profit Measures

Underlying gross profit decreased by 43%, compared to H1 2019, to $82.6m in the period (H1 2019 – $145.6m; H2 2019 – $120.8m), with underlying gross margin reducing to 22% (H1 2019 – 29%; H2 2019 – 27%).

Following the impairment to the carrying values of inventory totalling $33.3m (H1 2019 – $nil; H2 2019 – $nil); the impairment of property, plant and equipment ("PPE") of $14.4m (H1 2019 – $nil; H2 2019 – $19.0m) and restructuring costs of $1.8m (H1 2019 – $nil; H2 2019 – $nil) being charged to cost of sales as exceptional items, reported gross profit was $33.1m compared to $145.6m in H1 2019 and $101.8m in H2 2019. Reported gross margin was therefore 9% (H1 2019 – 29%; H2 2019 – 23%).

Underlying EBITDA was $28.4m, against $77.4m in H1 2019 and $62.3m in H2 2019, with EBITDA margin declining to 8% (H1 2019 – 15%; H2 2019 – 14%) for the reasons noted above.

Underlying profit from operations was $5.7m (H1 2019 – $55.6m; H2 2019 – $38.7m). The charges for amortisation, impairment and exceptional items, as noted above and below, totalled $189.3m (H1 2019 – $14.5m; H2 2019 – $33.0m), leading to a reported loss from operations of $183.6m (H1 2019 – $41.1m profit; H2 2019 – $5.7m profit).

Net finance expense was $1.8m (H1 2019 – $1.0m; H2 2019 – $0.2m). Underlying profit before tax from operations was $3.9m (H1 2019 – $54.6m; H2 2019 – $38.5m). The reported loss before tax from operations was $185.4m (H1 2019 – $40.1m profit; H2 2019 – $5.5m profit).

Amortisation and Exceptional Items

The charge before tax for amortisation of acquired intangible assets in the period was $12.3m (H1 2019 – $14.5m; H2 2019 – $14.0m).

Given the decline in market conditions seen in H1 2020, the Group has completed a review of the carrying values of current and non-current assets. This has led to the following impairment charges being recorded in the period, as exceptional items.

	H1 2020 Impairment charges $m
Inventory[1]	**33.3**
Property, plant and equipment[1/2]	**19.3**
Goodwill[2]	**79.8**
Other intangible assets[2]	**39.2**
Right-of-use assets[2]	**2.1**
Receivables[2]	**1.2**
Total	**174.9**

Notes:
1. Charged to cost of sales.
2. Charged to operating expenses.

Other exceptional items recognised in the period comprise restructuring costs of $3.4m, acquisition costs of $1.2m; and a credit for the reversal of the contingent consideration recognised on the acquisition of Enpro of $2.5m. The total charge in H1 2020 for amortisation and exceptional items was therefore $189.3m. An impairment charge to PPE of $19.0m was recognised in H2 2019. There were no exceptional items in H1 2019.

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Taxation

The underlying tax charge on operations was $2.6m (H1 2019 – $13.3m; H2 2019 – $3.7m) and reflects an effective tax rate of 67% (H1 2019 – 24%; H2 2019 – 10%) (NGM B). A tax charge of $19.9m has been included in the condensed consolidated income statement in respect of amortisation of acquired intangible assets and exceptional items (H1 2019 – $3.6m credit; H2 2019 – $9.2m credit). This charge mainly reflects the $22.9m reversal of net deferred tax assets no longer recognised for the US businesses as realisation of the tax benefit is not probable within an appropriate time frame. The reported tax charge on operations was, therefore, $22.5m (H1 2019 – $9.7m charge; H2 2019 – $5.5m credit).

Dividend

The Board is declaring a second interim dividend of 2.0 cents per share (H1 2019 – 5.0 cents) amounting to an estimated cash distribution of $3.3m (H1 2019 – $8.3m). The dividend will be paid in Sterling on 23 October 2020 and the Sterling value of the dividend payable per share will be fixed and announced approximately two weeks prior to the payment date, based on the average spot exchange rate over the three business days preceding the announcement date. The dividend will be paid to those shareholders on the register at the close of business on 2 October 2020, with an ex-dividend date of 1 October 2020. In the period, the Board replaced the 2019 Final Dividend with an interim dividend of 3.0 cents per share. This was paid to shareholders on 15 May 2020, absorbing $4.9m.

Group Funding and Position as at the Half Year

Cash Flow

Summary Group Cash Flow

	H1 2020 $m	H2 2019 $m	H1 2019 $m
Underlying EBITDA (NGM A)	**28.4**	62.3	77.4
Add: share-based payments	**4.9**	2.5	6.6
	33.3	64.8	84.0
Working capital movements	**(31.0)**	28.9	(21.3)
Net tax paid	**(6.0)**	(4.1)	(3.6)
Proceeds from business and asset disposals	**2.2**	4.2	4.7
Gains on business and asset disposals	**(1.0)**	(3.6)	(2.2)
Lease payments	**(6.0)**	(4.4)	(6.2)
Restructuring costs	**(2.4)**	–	–
Other	**(0.3)**	(0.8)	(1.6)
Free cash flow (NGM F)	**(11.2)**	85.0	53.8
Capital investment	**(10.5)**	(15.7)	(20.3)
Intangible assets investments	**(1.5)**	(8.0)	(2.2)
Acquisition of businesses	**(34.0)**	(12.5)	–
Dividends paid to equity shareholders and NCI	**(5.8)**	(8.3)	(8.3)
Net purchase of treasury shares	**(5.9)**	(0.5)	(4.2)
Share buyback	**(5.3)**	–	–
Share capital issued	**–**	–	0.6
Net cash flow	**(74.2)**	40.0	19.4
Foreign exchange	**(4.0)**	2.6	(0.2)
Movement in total cash and bank (note 16)	**(78.2)**	42.6	19.2

Hunting reports an underlying EBITDA of $28.4m (H1 2019 – $77.4m; H2 2019 – $62.3m). When adjusted for non-cash share-based payment charges, cash inflows were $33.3m (H1 2019 – $84.0m; H2 2019 – $64.8m).

There was an outflow of working capital in the period of $31.0m, $9.7m more than in the first half of 2019. The outflow in the period was mainly driven by a reduction in payables of $49.3m, with purchases in Q2 being scaled back significantly. Inventory increased from December 2019 by $11.8m, with a number of businesses committed to orders. This mainly occurred in Q1, with a modest decline in Q2 before impairment. Efforts are underway to reduce the inventory balance to generate cash. Receivable balances have decreased with the slow-down in trading, however receivable days have increased to 92 days (NGM D) in the period when compared to the year-end position of 79 days.

Net tax paid in the period was $6.0m, compared to net outflows of $3.6m in H1 2019 and $4.1m in H2 2019.

Proceeds from the disposal of assets and businesses totalled $2.2m (H1 2019 – $4.7m; H2 2019 – $4.2m). H1 2019 included the disposal of the Middle East Thru Tubing business, which totalled $2.4m, and H2 2019 included the sale of the Clear-Run intangible technology for $2.3m.

Further, in the period, $6.0m (H1 2019 – $6.2m; H2 2019 – $4.4m) was paid in relation to the Group's lease arrangements.

Restructuring costs paid totalled $2.4m in the period, reflecting the facility closures noted above and reductions in headcount.

As a result of the above, free cash flow recorded a net outflow of $11.2m. In H1 2019, the Group recorded a free cash inflow of $53.8m and $85.0m in H2 2019.

Capital investment totalled $10.5m in H1 2020 (H1 2019 – $20.3m; H2 2019 – $15.7m), which included investment in Hunting Titan's new detonation cord manufacturing facility at Milford, Texas, and investments in PPE in the US and Middle East. In line with the cost-saving measures implemented in March 2020, all non-essential capital investments have been deferred, leading to the period-on-period decline reported.

Intangible asset investment was $1.5m (H1 2019 – $2.2m; H2 2019 – $8.0m) as research and development costs of new products and technology were capitalised. During 2019, intangible asset spend largely related to technology and software development.

On 21 February 2020, the Group purchased Enpro Subsea Limited for a cash consideration of $32.8m, excluding cash acquired of $5.5m. Acquisition costs paid in the period were $1.2m.

An interim dividend was paid to equity shareholders on 15 May 2020, which absorbed $4.9m (H1 2019 – $8.3m final; H2 2019 – $8.3m interim). This replaced the 2019 Final Dividend, which was announced as part of the Group's 2019 Full Year Results. A dividend of $0.9m was also paid to non-controlling interests in the period.

In Q1 2020, the Company purchased 3.5 million Ordinary shares, for a total consideration of $11.3m (H1 2019 – $4.2m; H2 2019 – $0.5m), with 2 million Ordinary shares purchased for $5.3m through its corporate broker as part of the share buyback programme. These Ordinary shares were subsequently cancelled, thus reducing the Company's issued share capital. The balance of 1.5 million Ordinary shares were purchased as Treasury shares for $6.0m through Hunting's Employee Share Trust. These shares will be used to satisfy future awards under the Group's share award programme.

Overall, in the period, the Group recorded a net cash outflow of $74.2m (H1 2019 – $19.4m inflow; H2 2019 – $40.0m inflow). As a consequence of the above cash flows and $4.0m foreign exchange movements, total cash and bank (note 16) was $48.8m at 30 June 2020 (31 December 2019 – $127.0m).

Balance Sheet

Summary Group Balance Sheet

	As at 30 June 2020 $m	As at 31 December 2019 $m
Property, plant and equipment	**331.0**	354.7
Right-of-use assets	**30.5**	36.7
Goodwill	**162.8**	230.2
Other intangible assets	**44.2**	78.5
Working capital (NGM C)	**429.7**	433.3
Taxation (current and deferred)	**(0.2)**	19.8
Provisions	**(8.9)**	(8.4)
Other net assets	**2.3**	1.1
Capital employed	**991.4**	1,145.9
Total cash and bank	**48.8**	127.0
Lease liabilities	**(39.4)**	(45.2)
Other	**(3.9)**	(3.9)
Net cash (note 16)	**5.5**	77.9
Net assets	**996.9**	1,223.8

Property, plant and equipment was $331.0m at 30 June 2020. Additions of $16.5m, which included assets purchased as part of the Enpro acquisition of $5.8m, were offset by depreciation of $16.5m, the impairment charge of $19.3m and other items of $4.4m, giving the closing balance noted. The majority of the impairment occurred in our UK well intervention and US Drilling Tools businesses.

Right-of-use assets totalled $30.5m at 30 June 2020 compared to $36.7m at 31 December 2019. The movement during the period includes additions of $1.5m, as new lease arrangements were entered into, and additions of $0.3m as part of the Enpro acquisition, offset by depreciation of $3.8m, impairment of $2.1m, modifications of $1.1m and foreign exchange movements of $1.0m, leading to an overall net decline of $6.2m being recorded. The impairment and modification both largely relate to the proposed closure of the Group's Canada manufacturing facility.

Goodwill has reduced by $67.4m to $162.8m at the balance sheet date compared to the year-end position of $230.2m. Additional goodwill of $13.4m was recognised following the acquisition of Enpro. As part of the period-end asset impairment review, the carrying value of goodwill was written down by $79.8m, comprising $65.6m in respect of Hunting Titan and $14.2m in respect of other business units. $114.9m of goodwill in respect of Hunting Titan remains following the impairment exercise.

Other intangible assets ("OIA") have reduced by $34.3m to $44.2m at 30 June 2020. The amortisation charge for intangible assets totalled $14.7m (H1 2019 – $16.2m) and the impairment charge totalled $39.2m (H1 2019 – $nil). The impairment charge recorded in the period mainly comprises the write-off of customer relationships related to the Hunting Titan acquisition, following declines in revenue and profitability, and some smaller impairments for internally developed technology across the Group's perforating, OCTG and well intervention production lines. The total reduction to OIA was offset by additions of $19.2m that were recognised following the acquisition of Enpro.

Working capital (NGM C) has reduced by $3.6m, with the balance at 30 June 2020 being $429.7m (2019 – $433.3m). Reflecting the more challenging market conditions, trade and other receivables have declined by $27.0m, reducing working capital, despite a worsening of receivable days from 79 at December 2019 to 92 at June 2020 (NGM D). Net inventory has also reduced by $19.7m, improving working capital, but this was due to the net increase to provisions of $33.6m, with gross inventories increasing due to orders committed prior to the downturn.

We expect inventory to decline significantly in H2, given the scaling back of purchases and production. This scaling back has led to a reduction in trade and other payables, with the balance falling by $43.1m, thereby increasing working capital.

Current and deferred taxation recorded a net liability of $0.2m compared to 2019, which recorded a $19.8m net asset. The reduction was mainly due to the de-recognition of US deferred tax assets of $22.9m.

Provisions increased to $8.9m (2019 – $8.4m) in the period, with other net assets increasing to $2.3m (2019 – $1.1m), with the inclusion of held-for-sale assets of $1.3m.

Net cash (note 16) at 30 June 2020 was $5.5m (2019 – $77.9m). Total cash and bank balances have reduced by $78.2m, as described above, to $48.8m. Cash and bank balances have remained broadly at this level during Q2. Net cash includes $39.4m of lease liabilities, which have decreased since the year-end, mainly due to the lease payments made of $6.0m.

The overall decrease in net assets of $226.9m is driven by the reported loss in the period of $207.9m; dividends paid of $5.8m, of which $4.9m was paid to equity shareholders of Hunting PLC; the share buyback of $5.3m; the purchase of treasury shares of $6.0m; and foreign exchange and other items totalling $1.9m.

Segmental Review

Hunting Titan

Hunting Titan's revenue in the period decreased by 50% to $102.5m compared to H1 2019 and by 39% compared to H2 2019. The segment reported an underlying profit from operations of $1.7m in H1 2020 compared to $42.2m in H1 2019 and $26.4m in H2 2019. Following the amortisation of previously acquired intangible assets and exceptional impairment charges recorded, which totalled $116.1m, the reported loss from operations was $114.4m (H1 2019 – $29.3m profit; H2 2019 – $12.8m profit).

At the start of 2020, Hunting Titan was anticipating a reduction in US onshore activity, given the lower year-on-year WTI oil price and general increase in competition in a number of product sub-groups. In January 2020, the business began a process of restructuring to align itself with this general market outlook. Following the oil price reduction in March 2020, these restructuring initiatives were extended significantly as US onshore drilling and completion activity halted with the falling oil price. Trading reached a low point in June 2020, followed by a modest improvement in July 2020.

As noted above, the segment has moth-balled its manufacturing facility at Oklahoma City and shut four distribution centres to reduce its cost base. Additionally, the business has reduced its headcount from 702 at the year-end to 434 at 30 June 2020.

Hunting Titan has retained market leadership within the US onshore completions sector in this time, given its broad range of products. In the period, it has continued to develop and launch new products for its customer base, which lowers operating costs as well as increases field safety.

A key initiative completed in July 2020 has been the launch of its detonation cord product lines, following commissioning of a manufacturing line at the Group's Milford facility. The total cost of this investment has been $5.0m, with $2.4m spent in H1 2020. The product will be integrated into Hunting's smart perforating systems, as well as being a stand-alone product for its wider customer base.

Half Year Management Report continued

In the period, new size variants of the H–1, H–2 and E–SUB perforating systems have been launched, to provide a broader range of completion products. The business has also seen modest customer interest in its factory loaded perforating system offering in the period, prior to the market downturn.

During H1 2020, Hunting Titan has seen a year-on-year increase in sales of its EQUAfrac® shaped charge product line. New sizes of the EQUAfrac® charge have also been introduced to clients in the period.

In June 2020, a new ControlFire® switch was launched, which has the ability of detecting the presence of the firing detonator in addition to enhanced downhole functionality. This feature provides additional safety for operators. Following the successful launch of the T-Set One™ setting tool, Hunting Titan is now preparing to launch this product as a rental tool to customers in the second half of the year.

Hunting Titan has also reported increased international interest in its product offering, with orders completed for clients in Australia, China, Indonesia, Thailand, Vietnam and the Middle East.

US

Revenue within the US segment in the period was $167.0m compared to $181.1m in H1 2019 and $182.1m in H2 2019. The segment reported an underlying profit from operations of $4.6m in H1 2020 compared to $12.9m in H1 2019 and $14.0m in H2 2019. Following the exceptional amortisation and other charges recorded, which totalled $41.9m, the reported loss from operations was $37.3m (H1 2019 – $11.3m profit; H2 2019 – $5.4m loss).

In response to the decline in the oil price and the overall trading outlook, the segment is closing its OCTG threading facility at Ramsey Road, Houston, Texas, and has reduced its total headcount from 1,310 at the year-end to 984 at the period-end. The net change includes 11 employees joining the Group following the acquisition of Enpro, offset by 337 employees being released as market conditions declined.

The Group's Premium Connections business has reported good demand for its WEDGE-LOCK™ products in H1 2020. The business has also seen continued market acceptance of the TEC-LOCK™ wedge semi-premium connection, with new capacity being commissioned for this connection family at the Group's Ameriport facility.

Within the Advanced Manufacturing group, the Hunting Electronics business has reported reasonable results in H1 2020, driven by ongoing demand for downhole measurement tools as well as increasing non-oil and gas sales.

The business has received additional certifications to manufacture medical devices, and has successfully grown revenue in this area throughout the period. Inter-segment sales to Hunting Titan have declined, with onshore activity levels.

The Hunting Dearborn business has reported lower results during H1 2020 compared to the prior period. While oil and gas sales declined throughout H1 2020, aviation and other non-oil and gas sales have increased.

Hunting Specialty has been impacted by the declining US onshore rig count, which has led to losses being recorded and restructuring in the period.

The Group's Subsea business offering has been broadened following the acquisition of RTI Energy Systems ("RTI") in August 2019 and Enpro Subsea Limited ("Enpro") in February 2020. Hunting now has a strong product portfolio comprising hydraulic couplings and valves, stress joints and risers and production flow access modules. The Group's Stafford business has reported a year-on-year increase in sales as offshore projects continue to be sanctioned. RTI has secured a number of major orders during the reporting period to supply stress joints and risers to projects in the Gulf of Mexico, while Enpro has increased its order book following a number of contract wins.

During H1 2020, the Group's US Manufacturing business reported lower year-on-year results, despite recording a good performance in the early part of the year. As the decline in industry investment accelerated, order deferment and cancellations increased, impacting the unit's premium threading, well intervention and completion accessories order flows.

The segment's Drilling Tools business has been impacted by the decline in US onshore activity and restructuring of this unit has occurred during Q2 2020. As noted above, the Drilling Tools business has introduced new mud motor designs in the period, which lower overall running and maintenance costs.

Canada

Revenue within the Canada segment in H1 2020 was $12.8m (H1 2019 – $19.5m; H2 2019 – $16.2m). The segment reported an underlying loss from operations of $1.0m in the period compared to a $3.0m loss in H1 2019 and a $1.3m loss in H2 2019. Following the exceptional impairment charges recorded, which totalled $9.3m, the reported loss from operations was $10.3m (H1 2019 – $3.0m loss; H2 2019 – $1.3m loss).

Following a review of the medium-term outlook for the business, the Board has decided to cease manufacturing operations in Canada and close its facility in Calgary, Alberta. Operations will be wound down during H2 2020. A sales function will remain in Calgary to support the Group's presence in Canada, however, all ongoing customer requirements will be completed and reported within the Group's Hunting Titan and US operating segments going forward.

Segmental Results from Operations

	H1 2020			H2 2019			H1 2019		
Business Unit	**Revenue $m**	**Underlying* result from operations $m**	**Reported* result from operations $m**	Revenue $m	Underlying* result from operations $m	Reported* result from operations $m	Revenue $m	Underlying* result from operations $m	Reported* result from operations $m
Hunting Titan	**102.5**	**1.7**	**(114.4)**	169.4	26.4	12.8	206.1	42.2	29.3
US	**167.0**	**4.6**	**(37.3)**	182.1	14.0	(5.4)	181.1	12.9	11.3
Canada	**12.8**	**(1.0)**	**(10.3)**	16.2	(1.3)	(1.3)	19.5	(3.0)	(3.0)
EMEA	**50.9**	**(3.1)**	**(23.0)**	56.0	(1.5)	(1.5)	67.0	0.2	0.2
Asia Pacific	**71.3**	**3.5**	**1.4**	71.2	1.1	1.1	75.1	3.3	3.3
Inter-segment elimination	**(26.8)**	**–**	**–**	(43.8)	–	–	(39.9)	–	–
Group	**377.7**	**5.7**	**(183.6)**	451.1	38.7	5.7	508.9	55.6	41.1

* Underlying results are based on operations before amortisation of acquired intangible assets and exceptional items. Reported results are based on the statutory results for operations as reported under International Financial Reporting Standards.

EMEA

Revenue within the EMEA segment in the period was $50.9m compared to $67.0m in H1 2019 and $56.0m in H2 2019. The segment reported an underlying loss from operations of $3.1m in H1 2020 compared to a $0.2m profit in H1 2019 and a $1.5m loss in H2 2019. Following the exceptional charges recorded, which totalled $19.9m, the reported loss from operations was $23.0m (H1 2019 – $0.2m profit; H2 2019 – $1.5m loss).

The region's OCTG businesses in the UK and the Netherlands reported a modest performance in Q1 2020, as demand for chrome based OCTG remained stable despite the oil price collapse. However, in Q2 2020 both businesses reported a material decline in activity as clients deferred or cancelled orders. During Q2 2020, contract staff were released and shifts reduced to align with the lower trading environment.

The segment's well intervention business has reported a difficult H1 2020, as order flow and rental activity in the intervention sub-sector of the market declined. Hunting's Well Testing business has, however, reported reasonable results throughout the period. As noted above, the Group's TEK-HUB™ has successfully completed a number of laboratory trials for the licensed organic oil recovery product line. Field trials were planned in H1 2020, but were deferred to the second half of the year due to COVID-19 lockdown measures. Customer interest for this product now extends to Bahrain, Kazakhstan, Oman and the UK.

The Group's Norway business has also reported increasing results in H1 2020, with activity levels being consistent throughout the period.

In Saudi Arabia, activity levels have been supported by a stable rig count, however, pricing pressure remains within the business, due to the lower average oil price.

Asia Pacific

Revenue within the Asia Pacific segment was $71.3m compared to $75.1m in H1 2019 and $71.2m in H2 2019. The segment reported an underlying profit from operations of $3.5m in H1 2020 compared to $3.3m in H1 2019 and $1.1m in H2 2019. Following the impairment charges recorded, which totalled $2.1m, the reported profit from operations was $1.4m (H1 2019 – $3.3m profit; H2 2019 – $1.1m profit). As noted above, the segment was impacted by COVID-19 operating restrictions in H1 2020.

In the period, the segment has continued to complete orders for Asia Pacific and Middle East customers, including CNOOC in China, KOC in Kuwait and Oxy in Oman. While there were order cancellations in the period due to lockdown measures, an increase in activity in May/June 2020 in China has been reported. The segment continues to pursue opportunities within India, through its partner JindalSAW, with new order wins with ONGC being secured. Drilling activity in New Zealand has also increased as lockdown measures were lifted in May 2020. As noted above, non-oil and gas opportunities are being pursued, with progress on the development and testing of micro generation units continuing during H1 2020.

Principal Risks and Uncertainties Facing the Business

The Group has an established risk management reporting framework, as detailed in the Group's 2019 Annual Report and Accounts on pages 38 and 42, which includes the requirement for all businesses to identify, evaluate and monitor risks and take steps to reduce, eliminate or manage the risk.

There are a number of principal risks that could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. Some of the risks that Hunting is exposed to, which could have a material adverse impact on the Group, arise from the specific activities undertaken by the Group, whereas other risks are common to many international manufacturing companies. The principal risks are: competition; commodity prices; shale drilling; geopolitics; health, safety and environmental laws; loss of key executives; and product quality and reliability. Details of those principal risks facing the Group are on pages 44 to 47 of the Group's 2019 Annual Report and Accounts.

Two of the principal risks have increased since the publication of the 2019 Annual Report and Accounts as a direct result of the industry slowdown caused by the COVID-19 pandemic. These are the risk of reduced shale drilling activity and the risk of losing key executives. Shale drilling activity is an important market for the Group's principal segment, Hunting Titan. COVID-19 has slowed this market significantly and although an uptick in activity has been observed since the half-year end, returning to pre-pandemic levels is expected to be a gradual process, consequently raising the likelihood of this risk. In order to reduce costs during the pandemic, the Group has significantly scaled down its workforce, which in turn has increased the risk of losing key executives, either directly through future reduction-in-force programmes or indirectly possibly through management discontent with market conditions.

Further, the Directors continue to believe that Brexit will have minimal impact on the Group's operations.

Forward-looking Statements

Certain statements in this half year report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. As these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Jay Glick
Chairman

Jim Johnson
Chief Executive

27 August 2020

Statement of Directors' Responsibilities

The Directors confirm that, to the best of their knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union and that the Half Year Management Report includes a fair review of the information required by the Disclosure and Transparency Rules 4.2.7 and 4.2.8, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on these condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the 2019 Annual Report and Accounts.

The Directors believe that the Half Year Report taken as a whole is fair, balanced and understandable. In arriving at this conclusion the Board considered the opinion and recommendation of the Audit Committee who undertook the following work:

- review of early drafts of the Half Year Report;
- regular review of and discussion over the financial results during the period, including briefings by Group finance; and
- receipt and review of a report from the external auditors.

As detailed in the Company's 2020 Notice of Annual General Meeting ("AGM"), Peter Rose retired as a Director of the Company on 15 April 2020, with Bruce Ferguson elected as a Director by shareholders at the AGM on the same date. Mr Ferguson has been appointed Hunting's Finance Director. The Directors of the Company are listed on the Company's website: www.huntingplc.com.

On behalf of the Board

Bruce Ferguson
Finance Director

27 August 2020

Independent Review Report to Hunting PLC

We have been engaged by the Company to review the condensed set of financial statements in the Half Report for the six months ended 30 June 2020 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related notes 1 to 22. We have read the other information contained in the Half Year Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The Half Year Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Half Year Report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half Year Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half Year Report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom

27 August 2020