Hunting PLC
2021 Half Year Report

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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.

Our engineering capabilities are also applied to other sectors including aerospace, medical and utilities, which require strongly quality assured components.

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

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Hunting PLC, the international energy services group, announces its results for the six months ended 30 June 2021.

Group Review

Introduction

Hunting's performance in the first half of 2021 has been supported by increasing activity levels within the US onshore market, as crude oil and natural gas prices have strengthened. Management's priorities have remained keeping our employees safe and maintaining timely delivery to all our clients, while continuing to launch new products and introduce new technologies. This has been achieved against a challenging day-to-day trading backdrop of COVID-19 protocols and logistical pressures within the global supply chain as economies emerge from the pandemic.

Hunting Titan has benefited from improving US onshore activity, reporting sequential monthly increases in revenue throughout the reporting period, and has traded ahead of management's expectations. During the period, however, clients have remained focused on maintaining capital discipline and curtailing non-essential drilling spend. This, along with the continuing impact of COVID-19, has had an overall effect of dampening the speed of global economic recovery and has resulted in subdued activity within the Group's offshore and international focused businesses, leading to an operating loss at the Group level.

However, across the reporting period the Group moved from an EBITDA loss in Q1 2021 to a small positive EBITDA result being recorded in Q2 2021, underpinning management's view that Hunting will continue its path to positive earnings as economies reopen and energy demand increases.

Hunting's businesses have focused on cash generation from working capital reductions and minimising cash outflows, including capital expenditures. Inventory has reduced to $267.3m (31 December 2020 – $288.4m), which underpins a good performance in this area. At 30 June 2021, the Group recorded net assets of $940.0m (31 December 2020 – $976.6m) and total cash and bank of $105.7m (31 December 2020 – $101.7m), reflecting the strong capital discipline across all operating segments.

Strategic Initiatives

The Group has delivered on a number of strategic objectives during 2021:

Investment in Cumberland Additive Holdings LLC

In August 2021, the Group made a $5.0m equity investment in Cumberland Additive Holdings ("CAH"). CAH is a strong growth business providing 3D printing and additive manufacturing capabilities to clients operating in the oil and gas, aerospace and defence sectors. The investment provides Hunting with new manufacturing opportunities and new market channels, providing further potential for revenue diversification.

Investment in Well Data Labs

In February 2021, the Group entered into an agreement to provide $2.5m of convertible financing to Well Data Labs ("WDL"), a software business focused on oil and gas drilling data processing. The business has rapidly grown a blue-chip customer base within the upstream energy industry since the company was founded in 2014. Since the strategic investment was concluded, Hunting and WDL have begun a number of collaborative programmes, combining the Group's perforating products and instruments and the software of WDL.

Established Hunting Energy Services India

In March 2021, the Group completed the incorporation of an entity in India to address growth opportunities in-country, driven by the local content requirements of India's oil and gas industry. The Group has already benefited from a strong relationship with Jindal SAW, its partner in the country, and is exploring new collaboration projects in the supply of OCTG and accessories manufacturing.

Launch of H-3 Perforating System

In late Q2 2021, Hunting Titan launched the H-3 Perforating System to complement its existing integrated perforating systems portfolio. The H-3 Perforating System takes many of the reliability and safety features of Hunting's H-1 Perforating System and incorporates the industry's first wireless safe detonator and the latest switch technology, the ControlFire V3. The H-3 System is shorter than Hunting's H-1 System and other conventional guns, in line with industry efforts to reduce tool string length and weight. The H-3 System is also compatible with industry standard shaped charges, thus widening the appeal of this product to operators.

Increased Production of Factory-loaded Perforating Systems

A key initiative within the reporting period has been to increase production of factory-loaded perforating systems. During H2 2020, Hunting Titan completed an investment at its Milford, Texas, facility to address this customer requirement and during H1 2021 has seen strong sales for this offering, contributing to the strengthening revenue of the segment through the reporting period. As at 30 June 2021, more than 40% of total perforating gun sales were derived from this new offering.

Further Commercialisation of Organic Oil Recovery Technology

In H1 2021, the Group secured its first major well treatment programme with a major Bahraini operator. The c.$1.0m order will see the completion of a 30 well programme to increase production of mature fields. Hunting is in the process of negotiating an extension to its exclusive marketing agreement with the owner of the technology, which will extend the Group's geographic footprint to include all countries in the Eastern hemisphere, in addition to providing financial support for the construction of a test laboratory in the Middle East where a number of existing and potential customers are located. The technology continues to be closely monitored by major international energy groups.

Consolidation of Singapore Facilities

In the period, the Board approved a $3.0m project to consolidate the Group's existing sites in Singapore to a single, purpose-built location. The new operating site, to be operational by Q2 2022, will improve in-country synergies as it will combine the regional administration function and the OCTG, Accessories and Well Intervention manufacturing businesses.

Proposed launch of a Level 2 Sponsored American Depositary Receipt ("ADR") programme

The Board of Hunting has begun planning for the launch of a level 2 sponsored ADR programme, to enable Hunting shares to be traded more easily by US investors. The programme is likely to commence towards the end of 2021, following the appointment of a suitable sponsor and the receipt of approvals from the relevant US regulatory authorities. The Directors have commenced this process to increase the profile of Hunting with US investors, as the US has been the core of Hunting's business for a number of years, driving the majority of revenue and profits, and the US is where most of our quoted peers are listed.

Half Year Management Report

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Operational Footprint

At 30 June 2021, the Group's operating sites reduced by one to 30 (31 December 2020 – 31) and the number of distribution centres reduced by one to 15 (31 December 2020 – 16). During the period, the Group's Specialty business relocated to Conroe, Texas, utilising Hunting's former Drilling Tools facility, whilst its former facility at Cypress was closed. Hunting Titan has closed its distribution centre at Casper, Wyoming.

Market Overview

The WTI oil price strengthened during H1 2021, supported by the improving medium-term economic outlook. The oil price started the year at $48.52 per barrel and through the reporting period increased by 51% to close at $73.47 per barrel at 30 June 2021. This result is also a year-on-year improvement of 87%.

	At 30 June 2021	At 30 June 2020
WTI Oil Price – $/barrel	**73.47**	39.27
Henry Hub Natural Gas Price – $/mmBtu	**3.65**	1.75
US onshore rig count	**456**	254
US offshore rig count	**14**	11
International rig count	**758**	781

Source: Baker Hughes.

As noted in the table above, the US onshore rig count at the end of June 2021 was 456 units, reflecting a year-on-year increase of 80% compared to June 2020. The increase is partially reflected in the performance of Hunting Titan, as noted in this Half Year Report.

The international rig count has, however, declined year-on-year by 3% and averaged 758 units in June 2021 compared to 781 in the prior period, and underpins the challenges faced by Hunting's offshore and internationally focused businesses.

Performance Summary

For the six-month period to 30 June 2021, the Group reported revenue of $244.4m (H2 2020 – $248.3m; H1 2020 – $377.7m), an EBITDA loss of $3.6m (H2 2020 – $2.3m loss; H1 2020 – $28.4m profit) and an underlying loss from operations of $23.0m (H2 2020 – $22.1m loss; H1 2020 – $5.7m profit). The reported loss from operations for the period was $26.5m (H2 2020 – $36.4m loss; H1 2020 – $183.6m loss).

The Group has focused on retaining a strong balance sheet and is pleased to report that total cash and bank was $105.7m at 30 June 2021 (31 December 2020 – $101.7m) and net assets were $940.0m (31 December 2020 – $976.6m).

Dividend

The Board is declaring an interim dividend of 4.0 cents per share, which will absorb $6.5m of cash to be paid on 29 October 2021. In 2020, the Group paid two interim dividends, a 3.0 cents interim dividend that replaced the 2019 Final Dividend and a second interim dividend of 2.0 cents, which was declared at the Group's 2020 Half Year Results. The 2020 Final Dividend of 4.0 cents per share was paid to shareholders on 14 May 2021.

Market Outlook

The Board of Hunting has closely monitored industry commentators and activity projections published throughout the period. As noted in the tables below, there has been a significant improvement in the outlook for US onshore capital expenditures and rig counts for 2021 and beyond. Medium-term sentiment for the oil and gas industry indicates a good recovery driven by the anticipated growth in global economies, as the impact of the pandemic reduces.

Trading Outlook

The Group's results reported today reflect a similar performance when compared to H2 2020 as the global oil and gas industry slowly emerges from the impact of the COVID-19 pandemic. The market recovery in the US, while slower than anticipated, shows clear signs of growth, which is projected to accelerate as more global economies reopen and travel increases. The recovery within international markets, while still projected to grow in H2 2021 and into 2022, continues to be hampered by spiking COVID-19 infection rates, leading to ongoing caution within our client base.

Hunting has delivered on a number of strategic objectives in the period alongside our continuing drive for greater operating efficiency. These objectives include our new business investments in Well Data Labs and Cumberland Additive, which will assist the Group in diversifying our core competencies while increasing our overall technical offering to our clients. Management is further encouraged by the outlook for 2022, which is supported by a strengthening order book, as clients plan for new projects and robust commodity prices.

The Group continues to retain strong capital discipline across all areas of the business, which will see our balance sheet and cash and bank position remaining strong. However, given the overall trading seen in the current quarter and likely EBITDA run rate for the balance of the year, management now anticipates the 2021 full year EBITDA outturn to be c.$10m lower than the 2020 result, given the slower-than-anticipated recovery within our core energy markets.

	2021 Full Year Forecast Average Rig Count (#)			**2021 Full Year Forecast Capital Expenditure ($bn)**		
	US onshore	**US offshore**	**International**	**US onshore**	**US offshore**	**International**
December 2020	**352**	**16**	**652**	**37.5**	**2.7**	**55.5**
March 2021	**447**	**17**	**679**	**52.7**	**2.7**	**58.7**
June 2021	**451**	**15**	**665**	**60.6**	**2.4**	**57.9**

	2022 Full Year Forecast Average Rig Count (#)			**2022 Full Year Forecast Capital Expenditure ($bn)**		
	US onshore	**US offshore**	**International**	**US onshore**	**US offshore**	**International**
December 2020	**396**	**18**	**685**	**44.3**	**3.1**	**57.4**
March 2021	**557**	**19**	**724**	**63.7**	**3.2**	**61.3**
June 2021	**556**	**17**	**701**	**78.8**	**2.8**	**59.9**

Source: Spears & Associates Drilling and Production Reports dated December 2020, March 2021 and June 2021.

Results from Operations

Summary Group Results from Operations

	H1 2021 $m	H2 2020 $m	H1 2020 $m
Revenue	**244.4**	248.3	377.7
Cost of sales	**(200.3)**	(206.1)	(295.1)
Gross Profit	**44.1**	42.2	82.6
Other operating income	**2.4**	4.7	5.6
Other operating expenses	**(69.5)**	(69.0)	(82.5)
Underlying* (loss) profit from operations	**(23.0)**	(22.1)	5.7
Amortisation and exceptional items (note 5)	**(3.5)**	(14.3)	(189.3)
Reported* loss from operations	**(26.5)**	(36.4)	(183.6)
EBITDA (NGM A)	**(3.6)**	(2.3)	28.4
Underlying* Diluted EPS (note 7)	**(16.1)c**	(11.0)c	1.0c
Reported* Diluted EPS (note 7)	**(18.9)c**	(17.5)c	(125.7)c
Underlying* Basic EPS (note 7)	**(16.1)c**	(11.0)c	1.0c
Reported* Basic EPS (note 7)	**(18.9)c**	(17.5)c	(125.7)c

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

Basis of Preparation

As previously announced, on 1 January 2021 the Group merged its US and Canada operating segments, following the restructuring completed in 2020. The Group now reports a North America segment to reflect this change. EBITDA, Working Capital and Free Cash Flow are non-GAAP measures ("NGMs"). The definition and calculation of these measures can be found on pages 37 to 39 of this report. For further information on the non-GAAP measures used by the Group, please refer to the 2020 Annual Report and Accounts.

Revenue

Revenue from operations for the six months ended 30 June 2021 reduced by 35% to $244.4m compared to $377.7m in H1 2020. The result in H1 2020 was, for the most part, not impacted by COVID-19, with revenue thereafter reflecting the economic climate driven by the pandemic. Revenue in North America, Asia Pacific and EMEA was down by $57.2m, $52.2m and $23.3m respectively compared to H1 2020. Titan was impacted the least with revenue down 13% or $13.8m compared to H1 2020.

The Group's revenue for H1 2021 was broadly in line with revenue of $248.3m in H2 2020. In the reporting period, Hunting Titan increased its revenue by 50% compared to H2 2020. However, Titan's improved revenue was offset by Asia Pacific's revenue falling by $18.9m, as the region experienced a slower than anticipated recovery, and North America's revenue declining by $10.0m, as the delayed effect of the slowdown on Subsea businesses was felt and weak activity levels in the Gulf of Mexico impacted OCTG sales.

Inter-segment revenue reduced to $13.2m in H1 2021 compared to $26.4m in H1 2020, reflecting the general decline in activity levels.

Profit Measures

Underlying gross profit decreased by 47%, compared to H1 2020, to $44.1m in the period (H1 2020 – $82.6m), with underlying gross margin being 18% (H1 2020 – 22%).

However, underlying gross profit margin of 18% was broadly in line with H2 2020 of 17%.

Exceptional items charged to cost of sales totalled $0.1m in the period (H2 2020 – $7.2m; H1 2020 – $49.5m), reflecting restructuring costs of $0.9m offset by the reversal to inventory impairments charged in the prior period of $0.8m.

Reported gross profit was, therefore, $44.0m compared to $35.0m in H2 2020 and $33.1m in H1 2020. Reported gross margin was, therefore, 18% (H2 2020 – 14%; H1 2020 – 9%).

The underlying EBITDA loss was $3.6m, against an EBITDA loss of $2.3m in H2 2020 and $28.4m EBITDA profit in H1 2020. An EBITDA loss in Q1 2021 was partially offset by a small positive EBITDA result in Q2 as market conditions improved, which particularly benefited Hunting Titan. The EBITDA margin was (1)% in the period (H2 2020 – (1)%; H1 2020 – 8%).

The underlying loss from operations was $23.0m (H2 2020 – $22.1m loss; H1 2020 – $5.7m profit).

The charges for amortisation and exceptional items, as noted above and below, totalled $3.5m (H2 2020 – $14.3m; H1 2020 – $189.3m), leading to a reported loss from operations of $26.5m (H2 2020 – $36.4m; H1 2020 – $183.6m).

Net finance expense was $1.0m (H2 2020 – $1.2m; H1 2020 – $1.8m). The Group's share of associates' post-tax losses was $1.1m from its investment in Rival at the end of 2020. Underlying loss before tax from operations was $25.1m (H2 2020 – $23.3m loss; H1 2020 – $3.9m profit).

The reported loss before tax from operations was $28.6m (H2 2020 – $37.6m; H1 2020 – $185.4m).

Amortisation and Exceptional Items

The charge before tax for amortisation of acquired intangible assets in the period was $4.3m (H2 2020 – $5.0m; H1 2020 – $12.3m). In addition, the following charges and credits were recorded in the period, as exceptional items.

	H1 2021 $m
Restructuring costs	**(1.2)**
Profit on surrender of lease	**1.0**
Reversal of impairment of inventories	**0.8**
Profit on disposal of Canadian assets	**0.2**
Total	**0.8**

The total charge in H1 2021 for amortisation and exceptional items was, therefore, $3.5m (H2 2020 – $14.3m; H1 2020 – $189.3m).

Taxation

The underlying tax charge on operations was $2.1m (H2 2020 – $3.5m credit; H1 2020 – $2.6m charge) and reflects an effective tax rate ("ETR") of (8)% (H2 2020 – 15%; H1 2020 – 67%) (NGM B). A tax charge of $1.0m has been included in the condensed consolidated income statement in respect of amortisation of acquired intangible assets and exceptional items (H2 2020 – $3.8m credit; H1 2020 – $19.9m charge). The reported tax charge on operations was, therefore, $3.1m (H2 2020 – $7.3m credit; H1 2020 – $22.5m charge). The Group's ETR is significantly different to that which might be expected from prevailing jurisdictional rates as it is impacted by a mix of profits and losses in different businesses and is distorted when deferred tax is not fully recognised in loss-making jurisdictions.

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Dividend

As noted above, the Board is declaring an interim dividend of 4.0 cents per share (H1 2020 – 2.0 cents) amounting to an estimated cash distribution of $6.5m (H1 2020 – $3.3m). The dividend will be paid in Sterling on 29 October 2021 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 8 October 2021, with an ex-dividend date of 7 October 2021.

Group Funding and Position as at the Half Year

Cash Flow

Summary Group Cash Flow

	H1 2021 $m	H2 2020 $m	H1 2020 $m
Underlying EBITDA (NGM A)	**(3.6)**	(2.3)	28.4
Add: share-based payments	**5.1**	4.1	4.9
	1.5	1.8	33.3
Working capital movements (NGM F)	**24.0**	70.0	(31.2)
Net tax received (paid)	**1.1**	1.0	(6.0)
Proceeds from business and asset disposals	**4.4**	1.7	2.2
Gains on business and asset disposals	**(0.7)**	(1.4)	(1.0)
Lease payments	**(6.2)**	(4.4)	(6.0)
Restructuring costs	**(1.2)**	(8.3)	(2.4)
Other	**(0.5)**	(1.2)	(0.3)
Free cash flow (NGM G)	**22.4**	59.2	(11.4)
Capital investment	**(3.6)**	(4.2)	(10.5)
Intangible assets investments	**(1.1)**	(2.8)	(1.5)
Investment in Well Data Labs	**(2.5)**	–	–
Acquisition of businesses	**–**	(0.2)	(34.0)
Dividends paid to equity shareholders and NCI	**(6.4)**	(3.3)	(5.8)
Net purchase of treasury shares	**(5.0)**	(3.3)	(5.9)
Share buyback	**–**	–	(5.1)
Net cash flow	**3.8**	45.4	(74.2)
Foreign exchange	**0.2**	7.5	(4.0)
Movement in total cash and bank (note 13)	**4.0**	52.9	(78.2)
Opening total cash and bank	**101.7**	48.8	127.0
Closing total cash and bank	**105.7**	101.7	48.8

Hunting reported an underlying EBITDA loss of $3.6m (H2 2020 – $2.3m loss; H1 2020 – $28.4m profit). When adjusted for non-cash share-based payment charges, the inflow for the period was $1.5m (H2 2020 – $1.8m inflow; H1 2020 – $33.3m inflow).

In H1 2021, the Group recorded a $24.0m working capital inflow compared to an inflow of $70.0m in H2 2020 and a $31.2m outflow in H1 2020. Inventories have continued to reduce throughout the reporting period, with a $22.1m cash inflow recorded since 31 December 2020 and a reduction in inventory days (NGM D) from 270 days at the year end to 250 days at 30 June 2021. Trade payables increased slightly in the period with a $1.0m cash inflow, while trade receivables also had a small inflow of $0.9m.

Net tax received in the period was $1.1m (H2 2020 – $1.0m received; H1 2020 – $6.0m paid) and includes a refund in the UK of $2.4m due to an overpayment made in 2020.

Proceeds from the disposal of assets and businesses totalled $4.4m (H2 2020 – $1.7m; H1 2020 – $2.2m) and includes $2.2m from the disposal of a held-for-sale property.

During the period, the Group's leasing arrangements gave rise to cash payments of $6.2m (H2 2020 – $4.4m; H1 2020 – $6.0m), including $1.3m on the surrender of the Group's Biggin Hill lease.

Restructuring costs were $1.2m (H2 2020 – $8.3m; H1 2020 – $2.4m).

As a result of the above and other cash outflows of $0.5m, free cash net inflows were $22.4m compared to a net inflow of $59.2m in H2 2020 and a net outflow of $11.4m in H1 2020.

Capital and intangible investments have been minimised in the period. Capital investment totalled $3.6m in H1 2021 (H2 2020 – $4.2m; H1 2020 – $10.5m), with $0.4m spent on improvements at Conroe, which was vacated by US Drilling Tools and is now being used by Specialty.

Intangible asset investment was $1.1m (H2 2020 – $2.8m; H1 2020 – $1.5m), which includes $0.4m of expenditure on global data centres that will reduce the Group's IT running costs going forward. During 2020, intangible asset spend largely related to technology and software development.

On 3 February 2021, the Group provided $2.5m in convertible financing to Well Data Labs, as noted above.

The 2020 Final Dividend of 4.0 cents per share was paid to equity shareholders on 14 May 2021, which absorbed $6.4m. In H1 2020, equity shareholders received an interim dividend totalling 3.0 cents per share resulting in a payment of $4.9m, which replaced the 2019 Final Dividend, as noted above, and dividends totalling $0.9m were paid to non-controlling interests.

In H1 2021, the Company purchased 1.7m Ordinary shares (H1 2020 – 1.5m Ordinary shares) as treasury shares for a total consideration of $5.2m (H1 2020 – $6.0m) through Hunting's Employee Share Trust. These shares will be used to satisfy future awards under the Group's share award programme. The purchase of treasury shares is offset by proceeds on disposal of $0.2m. In H1 2020, the Company completed a share buyback programme whereby 2.0 million shares were purchased by Hunting's corporate brokers, which were subsequently cancelled.

Overall, in the period, the Group recorded a net cash inflow of $3.8m (H2 2020 – $45.4m inflow; H1 2020 – $74.2m outflow). As a consequence of the above cash flows and $0.2m foreign exchange movements, total cash and bank (note 13) was $105.7m at 30 June 2021 (31 December 2020 – $101.7m).

Balance Sheet

Summary Group Balance Sheet

	At 30 June 2021 $m	At 31 December 2020 $m
Property, plant and equipment	**295.0**	307.1
Right-of-use assets	**26.5**	29.8
Goodwill	**164.4**	164.2
Other intangible assets	**38.4**	42.9
Investments in associates	**17.0**	18.1
Working capital (NGM C)	**334.7**	358.3
Taxation (current and deferred)	**2.1**	6.0
Provisions	**(8.9)**	(8.9)
Other net assets	**3.2**	1.6
Capital employed	**872.4**	919.1
Total cash and bank	**105.7**	101.7
Lease liabilities	**(34.2)**	(40.3)
Other	**(3.9)**	(3.9)
Net cash (note 13)	**67.6**	57.5
Net assets	**940.0**	976.6

Property, plant and equipment was $295.0m at 30 June 2021 compared to $307.1m as at 31 December 2020, a reduction of $12.1m. Depreciation of $14.5m and other items of $1.3m were offset by additions of $3.7m, giving the closing balance noted.

Right-of-use assets totalled $26.5m at 30 June 2021 compared to $29.8m at 31 December 2020. The movement during the period includes additions of $0.5m, as new lease arrangements were entered into, modifications of $0.6m and foreign exchange movements of $0.1m, offset by depreciation of $3.4m and a disposal of $1.1m in respect of the surrender of the Group's lease at Biggin Hill, leading to an overall net decline of $3.3m being recorded.

Goodwill is materially unchanged at $164.4m at the balance sheet date compared to the 2020 year-end position of $164.2m.

Other intangible assets have reduced by $4.5m to $38.4m at 30 June 2021, with the amortisation charge of $5.8m (H1 2020 – $14.7m) being offset by additions of $1.1m, primarily related to the capitalisation of technology and IT data centres, and foreign exchange movements of $0.2m.

Investments in associates have declined by $1.1m, reflecting our share of the post-tax loss from Rival recognised in the period.

Working capital (NGM C) has reduced by $23.6m, largely due to the reduction in inventory of $21.1m. Receivables were materially unchanged at $137.2m. Receivable days were 89 at 30 June 2021 compared to 92 days at 31 December 2020 and 30 June 2020 (NGM E). The balance on working capital at 30 June 2021 was $334.7m (31 December 2020 – $358.3m).

Current and deferred taxation recorded a net asset of $2.1m compared to 31 December 2020, which was $6.0m.

Provisions were unchanged at $8.9m (31 December 2020 – $8.9m) in the period, with other net assets materially unchanged at $3.2m (31 December 2020 – $1.6m).

Net cash (note 13) at 30 June 2021 was $67.6m (31 December 2020 – $57.5m). Total cash and bank balances have increased since the year end to $105.7m at 30 June 2021 (31 December 2020 – $101.7m) due to a strong cash management focus, as described above. Net cash includes $34.2m of lease liabilities, which have decreased since the year end, mainly due to the lease payments made of $6.2m.

The overall decrease in net assets of $36.6m is driven by the reported loss in the period of $31.7m; dividends paid of $6.4m to equity shareholders of Hunting PLC; and the net purchase of treasury shares of $5.0m; offset by foreign exchange and other items totalling $6.5m.

Segmental Review of Operations

Hunting Titan

Hunting Titan's revenue in the period decreased by 13% to $88.7m compared to H1 2020; however, revenue increased by 50% compared to H2 2020 as the US onshore drilling market slowly recovered from the impact of COVID-19 and was driven, in part, by the strengthening oil price. Overall, Hunting Titan has traded ahead of management's expectations in the period.

The segment reported an underlying loss from operations of $1.6m in H1 2021, compared to a $1.7m profit in H1 2020, and a $7.3m loss in H2 2020. Following charges for the amortisation of acquired intangible assets and exceptional items, which totalled $3.5m, the reported loss from operations was $5.1m (H2 2020 – $11.6m loss; H1 2020 – $114.4m loss).

Segmental Review

*Segmental Results from Operations***

	H1 2021			H2 2020			H1 2020		
Operating Segment	**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	**88.7**	**(1.6)**	**(5.1)**	59.2	(7.3)	(11.6)	102.5	1.7	(114.4)
North America**	**122.2**	**(10.4)**	**(11.5)**	132.2	(7.1)	(14.4)	179.4	3.6	(47.6)
EMEA	**27.6**	**(6.6)**	**(6.5)**	27.9	(8.9)	(10.9)	50.9	(3.1)	(23.0)
Asia Pacific	**19.1**	**(4.4)**	**(4.4)**	38.0	1.2	0.5	71.3	3.5	1.4
Not allocated to a segment	**–**	**–**	**1.0**	–	–	–	–	–	–
Inter-segment elimination	**(13.2)**	**–**	**–**	(9.0)	–	–	(26.4)	–	–
Group	**244.4**	**(23.0)**	**(26.5)**	248.3	(22.1)	(36.4)	377.7	5.7	(183.6)

* 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 UK adopted International Financial Reporting Standards.

** On 1 January 2021, the Group's US and Canadian operating segments were merged following the restructuring in Canada in H2 2020.

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In the period, the business has seen good demand for its factory-loaded perforating gun offering (Payload™) following the investment at the Group's Milford facility in 2020. As market conditions improved, an increase in sales volumes was seen across most products lines, supported by sales of bundled products, reflecting evolving customer purchasing trends.

To address the increase in customer interest in the Group's pre-loaded gun offering, investments in the Group's Odessa and DuBois distribution centres are planned to enable these facilities to provide this product offering to clients located in key drilling regions.

An increasing trend within the segment's customer base is value-add technology, which supports safer and more cost efficient operations. Hunting Titan remains a technology leader in the sector and, in late Q2 2021, launched the H-3 Perforating System, which combines the industry's first wireless safe detonator and the latest switch technology, the ControlFire V3. The H-3 System also allows for a wider choice of charges to be incorporated into the system, enabling a broader customer appeal. The Group's detonation cord product continues to achieve good market acceptance, following the launch to clients in H2 2020.

The segment has seen good demand for its EQUAfrac™ charges in the period as market conditions improved, and as customers drive for better hole consistency in hydraulic fracturing operations. Hunting Titan has also expanded its T-Set One setting tool rental range during H1 2021 to address customer requirements in the field. This range of value-add technologies will continue to support client needs going forward as market acceptance increases for these higher margin products.

During the period, the distribution centre at Casper, Wyoming, was closed with clients to be serviced by the Greeley and Williston distribution centres. With continuing increases in activity at the start of H2 2021, the business has restarted manufacturing at its Oklahoma City facility and has reopened its distribution centre at Broussard, Louisiana.

In line with the increase in demand noted above, the headcount of the segment increased 14% to 432 compared to 380 at 31 December 2020.

North America

On 1 January 2021, the Group combined its US and Canadian operating segments, with prior period financial information being restated to reflect this change.

Revenue within the North America segment in H1 2021 was $122.2m compared to $132.2m in H2 2020 and $179.4m in H1 2020. The segment reported an underlying loss from operations of $10.4m in H1 2021 compared to a $7.1m loss in H2 2020 and a $3.6m profit in H1 2020. Following the charges for amortisation of acquired intangible assets and exceptional items, which totalled $1.1m, the reported loss from operations was $11.5m (H2 2020 – $14.4m loss; H1 2020 – $47.6m loss).

Despite the lower levels of US offshore and international activity, the Group's Premium Connections business has reported positive trading in the period compared to H2 2020, driven by demand for the Group's TEC-LOCK™ Wedge semi-premium connection and the WEDGE-LOCK™ premium connection. In addition, the business has seen good demand for the Group's other product lines in Canada, which has performed well following the adoption of the licensing business model in the country in H2 2020.

The segment's US Manufacturing business has seen challenging trading in H1 2021, as international and US offshore drilling projects continued to be deferred or cancelled. This led to a reduction-in-force programme being completed in the reporting period.

Within Advanced Manufacturing, the Electronics business has continued to develop its non-oil and gas sales and in H1 2021 commenced a number of medical-related orders, which were received following the award of the relevant certifications in 2020. Hunting Dearborn also continues to develop its non-oil and gas business, with continuing support for SpaceX and Blue Origin. Both units were, however, adversely impacted by lower oil- and gas-related sales in the period.

Hunting's Subsea group has seen mixed trading in H1 2021, with a number of large order wins within the Spring business unit (formerly RTI Energy Systems), for its titanium stress joints product offering, being offset by the Stafford business unit, which has been impacted by slowing offshore and international markets. Enpro Subsea continues to make progress within West Africa and Brazil; however it has been adversely impacted by lower international drilling expenditures. Enpro has reported increased decommissioning work, which partially offset declines elsewhere in the business.

The Trenchless business has also reported profitable trading in H1 2021, as the 5G fibre rollout in the US continues.

EMEA

Revenue within the EMEA segment in the period was $27.6m compared to $27.9m in H2 2020 and $50.9m in H1 2020. The segment reported an underlying loss from operations of $6.6m in H1 2021 compared to a loss of $8.9m in H2 2020 and a $3.1m loss in H1 2020. Following exceptional credits of $0.1m, the reported loss from operations was $6.5m (H2 2020 – $10.9m loss; H1 2020 – $23.0m loss).

The segment's OCTG businesses have seen a slow improvement in sentiment during the first half of 2021, as clients began to restart drilling programmes. While the trading results within the UK OCTG business were poor in the period, impacted by lockdown measures in the UK, activity is forecast to increase in H2 2021 and is projected to accelerate further in 2022.

The segment's Well Intervention business experienced a difficult H1 2021, as relatively good levels of rental business were offset by extremely subdued equipment sales, as customers maintained strict capital discipline.

Hunting's Well Testing business has reported modest results in the period, with clients recommitting to equipment capital expenditures since Q2 2021.

As noted above, the Group's Organic Oil Recovery business received its first major order in the period. The 30 well treatment programme with a major operator in Bahrain marks the commercial progress of the technology from laboratory testing to full field trials in 2020, leading to this order. The programme is being monitored closely by a number of major operators in the region, and, therefore, the Group is planning the construction of a purpose-built laboratory in the Middle East, to support further field testing programmes.

The Group's Norway business has also reported improving results in H1 2021 compared to H2 2020, principally due to improved sales of well intervention pressure control products.

Across the Middle East, business levels have been more sluggish as economies continue to be impacted by COVID-19 restrictions.

The EMEA segment has also progressed initiatives that form part of the energy transition, including exploring participation in carbon capture projects and geothermal developments, the latter being increasingly pursued across Europe, with new projects being commissioned.

Asia Pacific

Revenue within the Asia Pacific segment was $19.1m compared to $38.0m in H2 2020 and $71.3m in H1 2020. The segment reported an underlying loss from operations of $4.4m in H1 2021 compared to a $1.2m profit in H2 2020 and a $3.5m profit in H1 2020. The reported loss from operations was $4.4m (H2 2020 – $0.5m profit; H1 2020 – $1.4m profit).

The Asia Pacific segment was the only segment to remain profitable in 2020; however, it has faced an extremely challenging period in H1 2021, as countries across South East Asia, the Middle East and the Indian sub-continent continue to be impacted by COVID-19. The segment has also seen a number of trading headwinds within its markets during the period, including strong competition within OCTG tender processes, increasing raw material costs in China and adverse foreign exchange movements. However, new tenders continue to be issued across the Middle East and Asia Pacific driven by the higher oil price, with clients restarting cancelled projects.

To address the growth opportunities in India, the Group has established a legal entity in-country in H1 2021, which will provide new collaboration opportunities with Jindal SAW, supporting Hunting's ambition of becoming a key in-country supplier to India's oil and gas industry.

During H1 2021, the segment received its first order for its micro hydro-generators, as the segment also pursues non-oil and gas sales.

Half Year Management Report

continued

Principal Risks and Uncertainties Facing the Business

The Group has an established risk management reporting framework, as detailed in the Group's 2020 Annual Report and Accounts on pages 50 to 54, 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: commodity prices; competition; 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 55 to 59 of the Group's 2020 Annual Report and Accounts.

As a result of the ongoing COVID-19 pandemic dampening the speed of global economic recovery and therefore continuing to impact the Group through the first half of 2021, the risks have remained at their heightened levels and there has been no change to the principal risks since the publication of the 2020 Annual Report and Accounts. COVID-19 has continued to slow the Group's offshore and international markets and although an uptick in activity has been observed in the US onshore market since the year end, returning to pre-pandemic levels is expected to be a gradual process, consequently maintaining the likelihood of the Group's principal risks occurring. The Group continues to report climate as an emerging risk.

Formation of Ethics and Sustainability Committee

As announced on 29 June 2021, the Board has reviewed its governance framework and has formed an Ethics and Sustainability Committee which will comprise of Hunting's independent non-executive Directors and will be chaired by Jay Glick, non-executive Chairman.

The Committee will have oversight of Hunting's ethics, environmental, social and governance reporting matters and will monitor the Group's evolving carbon and climate strategies, its stakeholder initiatives, including its employee, customer and supplier engagement programmes, while also assuming oversight of the Group's anti-bribery and corruption, modern slavery, sanctions and related procedures.

Hunting Executive Committee

In addition to the formation of the Ethics and Sustainability Committee, the membership of the Hunting Executive Committee ("ExCo") has been reviewed and the Board has appointed the following managers to the ExCo:

Liese Borden
Chief HR Officer

Ryan Elliott
Chief Information Officer

Greg Farmer
Director of Health, Safety and Environment and Quality Assurance

Ben Willey
Company Secretary

All new members of the ExCo are now Persons Discharging Managerial Responsibilities of the Company.

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

26 August 2021

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 United Kingdom adopted IAS 34 Interim Financial Reporting 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 2020 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.

On behalf of the Board

Bruce Ferguson
Finance Director

26 August 2021

Independent Review Report to Hunting PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the Half Year Report for the six months ended 30 June 2021, which comprises the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 18. We have read the other information contained in the half-yearly financial 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 will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this Half Year Report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, Interim Financial Reporting.

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 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 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

26 August 2021