

**MINCON GROUP PLC**  
**(“Mincon” or the “Group”)**

**INTERIM TRADING UPDATE**

Mincon Group plc (ESM:MIO AIM:MCON), the Irish engineering group specialising in the design, manufacture, sale and servicing of rock drilling tools and associated products, today provides an interim trading update for the period from 1st January 2019 to date, incorporating the first quarter to 31st March 2019.

**Key elements (comparison of Q1, 2019 to Q1, 2018):**

**Continued improvement in our product sales mix:**

- Mincon manufactured product sales up 30%
  - Being organic growth of c. 4% and
  - Acquisition growth of 26%
- Third party product sales down 5%

**Resulting in:**

- Revenue up 24% overall
- Profitability slightly behind last year in Q1

We continue our strategy of improving our product mix by manufacturing what we sell, where this provides commercial advantage. This has resulted in Mincon product representing 86% of sales in the quarter compared to 81% last year and in the period under review our manufacturing capability has now built to a level where we are able to meet customer orders in a normal commercial timeframe. This allows us to focus on the efficiency of delivery and margins, and to reduce the extra overhead that had come into place to meet the last phase of growth, before we meet the service requirements of the new direct sales coming on stream through the rest of the year.

**Revenue**

In the quarter the Group caught up with the order book, is current with its orders, and has additional capacity available in the production facilities of certainly 10% to 20% even at the new levels of throughput.

The heat treatment facilities are now coming on stream in Benton, Illinois this month after a successful series of commissioning throughput, and are expected to come on-line in Perth, Australia in June/July this year. The additional vacuum furnace capacity has been commissioned in the Marshalls Carbide plant, and the final furnace arrives in Shannon in July. These capital commitments extend back several years in some cases, and in the last year new plant and equipment capital commitments are running well below the depreciation run rate of c. €4m a year.

Factories are, in the main, well specified now for the product range and sales level. In the first quarter we continued to reduce our inventory of rigs, with the later ones getting sold at cost less commission and a degree of refurbishment, certainly above the written down value they were held in prior to the year end. We had eleven rigs, and we have sold six in the last few months. This was an important objective, and to some degree it suggests we are reasonably well into the mining recovery flagged two years ago.

**The Challenger brand**

We found, as we completed our drill string build out, and extended our ranges of hammers and bits, that we began to be able to compete in supplying complete drill consumable solutions directly to mines. As we build out our revenue in construction piling, we find that the natural shape of the business is higher value contracts extending over a number of years. The investment in our engineers and engineering, together with the experience of drilling held by key service team members, means we can advise on the consumables solutions for the end customers.

This is a relatively new business structure for us, but it both fits with the ambition to build out relationships with the end-customers, and with the engineering philosophy in the Group. We have to offer better value, whether it is the service commitment, the engineering, the pricing or, as we find, a combination of all three. Dealing directly with the end customers allows us to create the breadth in relationship that positions the Group as a reliable element of the construction or mining process.

We have to be reliable. So much of what we do is at the start of the processes, whether it is delivering the ore tonnage, or the piling that supports buildings and harbours, that the fault tolerance of the end customers is low, and the potential liabilities higher than simply replacing a hammer or a bit. We are getting much deeper into the service element. This dependence by customers on our service and engineering means that we also have to keep the requisite inventory near the contract site, and service individuals proximate to the service delivery. This is an emerging model for us, and each contract requires people, investment, service-guarantees and time.

We have recently won multi-million dollar business in Chesapeake Virginia, in Indonesia, in Chile, and in Finland which are not reflected in this growth as yet to any degree. These will require some restructuring and build out in the Group to support the end customers, incur some initiation and front-end costs, and this is causing a rethink of our management structure to lean towards a regional footprint, mapping the thinking behind the investment in the key factories in the Americas, Australasia/Asia Pacific (APAC) and EMEA (Europe Middle East Africa)

## **Gross margin**

Gross margin was at about the budgeted level considering the expected product mix changes, at 35%, as this includes a full quarter of the lower margin Driconeq Group in Q1, 2019, and nothing from this acquisition in the previous year. The drill pipe business (excluding their profitable heat treatment activity) has a gross margin of c. 20%, and the turnover is about a sixth of our revenue. It's a good acquisition and a good team, and there is additional margin to play for in the supply costs side of the business in phase 2 of the on-boarding. Overall in the Group we can comfortably produce what we couldn't deliver a year ago, and our eyes are inward now on overhead reduction, factory efficiency, and the realisation of assets and disposal of businesses that don't sit with the current three year plan.

## **Group review and streamlining**

We have developed a complex business model over the last few years as we added factories, customer service centres and products, organically and through acquisition.

We have decided to overhaul the Group, reduce the overhead by a targeted €3 million a year, and reorganize on a regional basis into three zones; Americas, EMEA, and Australasia/Asia Pacific. This will cost some money, take some time, but we have already reduced overhead by a run rate of €1 million a year since the recent budgeting and review planning. It is our expectation that the reduction in expenses will become self-financing in the current year and provide the service level and response needed to support the positioning of the Group and the brand as a challenger to the incumbent market structure.

Initially this will not substantially disrupt the Group, but develop the reporting structure, and increasingly as the other Group reviews take place from the operational side, we will be making decisions through 2019 on what we make and where we make it. We have flagged this before. Since we expect low margin, less engineered products to come increasingly under pressure in an interconnected world, Mincon Group is repositioning with the full consumables offering and a higher service element, directly to the larger end customers. We aim to combine this with product systems that are more fuel efficient, offer better value in use overall and are more environmentally friendly.

## **The Greenhammer hydraulic systems**

We expected the system to go back into the beta testing on site in Australia in March, but the mine was evacuated for the first time in nine years as cyclone Veronica blew through Western Australia. In consequence the mine suffered flooding and the production schedules were severely disrupted. The rigs had to go back into full production to catch up on the ore shortfall, and we now expect to be back on site in May. We have spent the time improving the system

in accordance with our own testing and constant development, and we are ready to re-engage the system when the rig comes off-line.

The smaller size system is also available, and we continue to develop the thinking and engineering around different applications and hammer types to continue to increase the addressable market for the system suites.

## **Market comment**

We have seen the quarter deliver increased revenue with only moderate profit movement, and the growth is mostly from the addition of a distributor, and the additional quarter of the Driconeq Group, both lower margin activities. We have seen the full quarter impact of the overhead build out while the business growth in the direct model will be realised through the coming months and years.

Our manufacturing and delivery, which has been an issue for the last two years, has caught up with our sales growth, and now that we can deliver in accordance with the customer requirements, we can focus on the efficiency of our factories and the value from our customer centres. Other than that, we have to take each new direct customer opportunity as a separate project, and make sure that we engage cross-functionally to meet the service requirements while earning a return commensurate with the investment and risks.

## **Annual general meeting**

The annual general meeting of Mincon Group plc will be held later today, Thursday 25<sup>th</sup> April 2019 at 10.00 am in the Park Inn by Radisson, Shannon, Ireland.

## **Forward looking statements**

Any forward looking statements made in this document represent the Board's best judgment as to what may occur in the future. However, the Group's actual results for the current and future financial periods and corporate developments will depend on a number of economic, competitive and other factors, some of which will be outside the control of the Group. Such factors could cause the Group's actual results for future periods to differ materially from those expressed in any forward looking statements included in this announcement.

**Ends**

**25<sup>th</sup> April 2019**

**For further information please contact**

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