

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, 2018 to date, incorporating the first quarter to 31st March 2018.

The **Driconeq** acquisition is not reflected in any of the figures below, as this transaction completed in late March, and will only be included in the Group consolidation from Q2 forward.

Key elements (comparison of Q1, 2018 to Q1, 2017)

Continued improvement in our product sales mix:

- Mincon manufactured product sales up 19%
- Third party product sales down 27%

Resulting in:

- Revenue up 6% overall
- Gross margin: up to 39.5% from 37.4%
- Operating profit: 13.6% up from 11.5%
- Profit before tax: 12.4% up from 10.8%
- EBITDA: up to 17% from 14.7%

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 81% of sales in the quarter compared to 73% last year. The mix improvement has resulted in an improvement in margins alongside the revenue uplift.

Revenue

The Group continues to develop the full range of hammers, bits, and the drill string elements. We continue to invest in better engineering as our core proposition, delivering value, and positioning ourselves where this quality provides differentiation in the markets and with the customers we serve.

Revenue from Mincon manufactured products rose 19% in Q1, 2018 compared to the same period last year, and while we continue to run key factories, machinery and our people beyond the levels of maximum efficiency, this increase in own manufactured revenue underwrites our profit uplift. We will continue to seek growth for our own manufactured products, as this is where our margin is created, with third party products as ancillary to our own sales.

As additional capacity and the planned process upgrades are scheduled to come on-stream during the remainder of 2018, the Group is confident that the quality of our products will continue to improve, and some cost inefficiencies will be mitigated. Mincon product sales rose to 81% of total revenue, from 73% last year for Q1, with strong growth in Mincon Nordic and Australia in particular.

The Group did not increase prices through the quarter, but flagged a wide ranging and general uplift through the rest of the year where the competitive context facilitates this. However if we are able to improve cost efficiency by normalizing manufacturing and delivery, this may mitigate the need for price increases.

In the same quarter last year we noted that we had delivered third party rigs in Africa at very little margin, so

the third party product in the first quarter this year represents a more normal level, and the reduction in revenue from third party sales has not been as significant in profit terms. We have not set revenue growth for its own sake as an objective of the Group; instead we have placed focus on improving our manufacturing mix which should drive continued improvement in our margins and profits.

Margins

As the sales mix improved, so did the gross margin, by 2% from 37.4% to 39.5%, and we managed to keep all of that improvement at the operating profit line as the operating margin improved to 13.6% from 11.5%. The EBITDA margin improved to 17% in Q1, 2018, from the first quarter comparative for 2017 of 14.7%.

The Group is still making start-up losses in Mincon Nordic as it begins to mature from the start-up phase, but we expect to see volumes continue to ramp up with the build out of the full service team in the region. We have also absorbed some forex losses in the numbers above, but the margins are still making progress.

We should bear in mind that the Driconeq Group, which we recently acquired, currently makes a gross margin of about 22%, and as this represents approximately a fifth of our revenue going forward, this will have a dilutionary effect in the period immediately following acquisition. Improving the gross margin of Driconeq is a key objective for the year, and we believe efficiency in production, and normalization of supply terms will assist in this regard.

Balance sheet

During the first quarter of the year, the Group completed the acquisition of Driconeq for c. €8 million, and some €2 million was additionally invested in inventory. In H2, 2017 we decided to put another €5 million into raw materials and work in progress, to mitigate price increases and to reduce stock depletions due to demand. Even with this we have still seen lengthening order periods and while we are gaining market share, we believe we are losing further opportunity due to constraints in key factories.

After these investments the Group had net cash of some €18 million at the end of March.

Capacity is beginning to arrive, with;

- a new machining plant established in Sheffield, beside our Marshalls carbide operation, which went live in April 2018
- the Prototype factory in Shannon which is being commissioned for short run and prototype engineering work. This was a former warehouse and will go live in June 2018.
 - this will clear the main factory floor for longer run production,
- phase 3 of our factory build out in Benton, Illinois bringing new plant on-stream in H2, 2018
 - this continues the programme that has seen US\$ 6 million invested over the last two years in the new factory and heat treatment facilities at our main USA plant

This year will see us bring the factories to greater capacities, with better lay outs and with key processes brought in house. We are, in addition, stepping up the headcount in our factories and introducing new shifts.

It is our view that this will bring this significant build-out phase to an end, and we should normalize capital expenditure in 2019 at or around the depreciation charge unless we continue to see growth at these current levels.

Acquisition of Driconeq

At the quarter end Mincon acquired the Driconeq group and it is not included in the comparative numbers referred to above. However, the Mincon team is very actively on site in the various member companies in Perth, Sunne, Sweden, and in Johannesburg looking at efficiencies, and dealing with the inherited issues.

Driconeq Group had sales of some €24 million in 2017, on which, under its own policies, it broke even. Some €4 million of that was supplied to the Mincon Group, so the addition to net revenue in a full year will be about €20 million.

Mincon paid €7.2 million for the group, and with costs and contingent payments this will rise to €8 million.

We have, in addition, addressed the working capital needs of that group to facilitate efficient ordering on the supply side, and we have assured key customers of continued supply. The Australian subsidiary had been placed into Administration by the previous owners, and Mincon funded that business being brought out of Administration prior to completion, in order to protect the brand and the team on site.

The Driconeq Australia business came through an administrative process prior to acquisition whereby creditors at that time were to be paid out over an eighteen month period. As a subsidiary of the Mincon Group we believe this is not required, and we have elected to pay out the agreed balances with the creditors of Driconeq Australia as soon as possible and will fund Driconeq Australia with AUD 1.5 million (€1 million) to back this decision.

We do this to normalize supply terms, to protect the brand, and to reduce hardship on the many businesses that supported Driconeq Australia prior to them joining the Mincon Group plc.

Market comment and position

We have seen strength in the revenue line from early last year, reflected in our organic growth. While we had further organic growth in Mincon product of 19% in Q1, this is beyond what we expected as we thought our capacity would not accommodate it. However additional capacity is now coming on stream, and we should be better able to manage our efficiencies through the rest of the year.

We have, to a degree, slowed order intake as an inability to deliver is not helpful to our business or that of our customers. Our business has continued to grow well with the early sector recovery, though we see some caution from market commentators about certain commodities and pricing.

We aim to produce consumables that deliver better performance for their cost rather than adopt price competition as our main product positioning. This relies on our engineering programmes delivering scheduled product improvement for the existing catalogue and a stream of new products being delivered into the market. Key among these is the Greenhammer project, still expected to go live at the end of the half year.

Annual General Meeting

The Annual General Meeting of Mincon Group plc will be held later today, Thursday 26th April 2018 at 10.00 a.m. 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

26th April, 2018

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