

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

TRADING UPDATE at 30th September, 2017

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 1 January 2017 to date, incorporating the first nine months of trading to 30th September, 2017.

In the numbers below we exclude the contingent gain and exceptional costs disclosed at the first half reporting. These were broadly neutral for earnings.

Key elements (comparison of nine months to end Q3, 2017 to the same period to end Q3, 2016):

- **Revenue up 29%**
 - Mincon engineered product sales up 32%
 - Third party product sales up 20%
- **Gross margin 39% compared to 41% in 2016**
- **Operating profit margin 15.7% from 14.3%**
(excluding Mincon Nordic start-up costs, 14.3% when included)
- **ebitda margin reaches 19%, excluding Mincon Nordic start-up costs**
- **Profit before tax margin of 13.2 % compared to 15.7%, after adverse forex charges**

Revenue continues to grow at 29% year on year

We had expected that growth would moderate in Q3 this year, as the second half of last year had a higher sales baseline. In fact the growth has been sustained so that revenue for the year continues at a level 29% ahead of last year (26% on a constant currency basis) at the end of Q3, and we are seeing a more favourable mix towards Mincon manufactured products as we move to replace the largest bought-in categories where this offers value to the Group. The acquisition growth is not very significant in 2017, so the great majority of the growth is organic.

We are seeing growth across all the business units and territories, save for South America where the loss of a key customer delivered a set-back at the end of last year. Africa has been strong, as has Northern Europe and the USA. The reorganization of Mincon Australia Group at the start of the year, and their beta testing of the new range for 2018, has great potential on top of their existing growth. Overall we are satisfied with the continued progress on revenue in the third quarter.

Mincon Nordic

Our Mincon Nordic hub has been a key area of investment for the Group this year. The hub now comprises the Viqing drillpipe factory, Mincon PPV, our business that addresses the markets for piling, construction and tunneling, and the new team for managing Mincon product sales in the region, both directly and indirectly.

Mincon Nordic therefore addresses a diverse set of markets and customers. Viqing is on an investment path to supply the Group, to a degree the same as Marshalls, the carbide plant we

acquired, while continuing to build external customers. We are developing an investment plan for that business to treble the turnover as quickly as is commercially sensible. The business has stepped up to three shifts already, recruited some new people, and is working with Group to develop the team and the capital investment path.

The market for the Mincon PPV products is mainly large scale projects extending over years, such as tunnels, piers, and foundations. We did not take on any projects in progress upon acquisition, so we have a time gap before we win new work, and the costs associated with that. We are currently selling some lower margin smaller product into established accounts. We are also now quoting across our sales network for a number of live projects, any one of which will be a substantial launch for the business to our Group. We are confident in the company, the products and the team.

We are staffing up the Tampere regional hub through the recruitment of experienced senior personnel, and expensing the start-up costs of the Mincon Nordic strategy. The losses this year are just over €750,000. While it is early days, we expect the sales run rate to approach €10 million on an annualized basis and, as we said at the half year, expect Mincon Nordic to move into profitability in 2018.

Margins

The mix of the start-up businesses with the existing sales network has brought down the gross margin a couple of per cent, but this should improve over time as the new businesses come up to expected volumes. In general, businesses have been moving inventory faster than expected and reordering more than planned in our production schedules, commensurate with the rate of growth. This sustained demand is now having to be planned into further capacity increases in the core factories.

While we have increased capacity through the downturn, this market share growth is beyond what we had anticipated. We are accelerating our systems development roll-out to improve communication in the Group. We will also be reviewing margins in the context of this order strength.

Excluding the Mincon Nordic start-up costs, the operating profit margin is 1.4% ahead of 2016 at 15.7% compared to 14.3% for the same period in 2016. We have an adverse foreign exchange charge of €844,000 in the first nine months compared to a gain of €785,000 for the same period last year which explains the change in the profit before tax. Work to mitigate the foreign exchange volatility continues.

The new product category

We successfully designed and manufactured the larger size of hammer requested by our development customer in Australia, and it has delivered some very encouraging early results. The project is managed by our own team on our own development rig on the customer site. We are analysing the results, and breaking down the product to see what modifications may be required to ensure the performance and longevity of the products in the range. This will continue through the rest of the year, as previously flagged, with capitalised expenditure at the end of Q3 rising to €936,000. The rest of the research and development expenditure on extending and improving our ranges has been expensed, in keeping with our policies on those project categories.

The balance sheet

The Group continues to have a strong balance sheet with €28.5 million of net cash after capital expenditure of €4.7 million, an acquisition spend of €5.6 million, and dividends of €4.2 million in the first nine months of this year.

Working capital has fallen by several million euro even as sales have risen by 29%. We believe this is the new sustainable sales baseline and as a result we will revisit our production capacities in the upcoming three year plan to reset inventories to support this new trading level.

Since availability of product plays a key role in sales we will need to rebuild the faster moving inventory to levels that satisfy the current needs of our customers. Our large hammer strategy is on hold while the plant we acquired to manufacture them has been applied to supporting existing ranges, or to meet the development requirements of the new product range being beta tested in Australia.

The operating margin growth to 15.7% for the first nine months, excluding the Nordic region start-up, is demonstrating the operational gearing in the Group, as we track the conversion of the gross margin to the operating profit line. We believe there is potential for additional margin gains if we can recreate the dynamic equilibrium between our production and sales over 2018 to improve efficiency scheduling and delivery. Part of that is rolling out the scheduling and ordering systems currently in planning, and this is a core objective for the coming year.

We may have to expand capacity again and to consider the balance of advantage on where products are manufactured, not to cheaper production locations, but to be closer to customers while continuing to improve the quality associated with the Mincon name. To that end the Executive has been tasked by the Board with the development of a rolling three year plan, in a process that is ongoing.

Market comment

The sector continues to make a broad based recovery, as can be seen by the results of the market leaders. We are producing and selling beyond our optimum levels at present and delivering those products in some cases uneconomically in order to maintain a high level of service to customers. That is acceptable in the short term as we come out of the sector downturn, and it is clear that we have the products to sell, and both the customer base and markets in which to sell and that these provide an excellent platform for the next phase of growth.

What we need to do now is plan what our new production levels should be to continue to build margins, quality and service delivery through this sector upturn. The planning we are engaged in over the next three and six months will be key to the performance of our business in this next phase. With this rate of organic sales growth, and the underlying operating profit improvement, the Group is in a very strong trading and cash position for the future.

ENDS

23rd October, 2017

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Forward looking statements

Any forward looking statements made in this document represent the Board's best judgement 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.