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 nine months of trading to 30th September, 2018.

The results incorporate the contribution from Driconeq, which we acquired in March this year.

Key elements (comparison of the first nine months of 2018 to 2017):

- Revenue up 22% for the first nine months
  - Mincon product sales increased 37%
    - of which Driconeq accounted for c. 26%
    - and the residual group growth was c. 11%
  - Third party product sales down 26%
- **Gross margin excluding Driconeq up to 41% from 38.7%**
  - Gross margin of 38.3% when Driconeq is included
- **Operating profit excluding Driconeq at 15.8% up from 14.3%**
  - 14% when Driconeq is included
- **Profit before tax excluding Driconeq at 15.2% up from 13.1%**
  - 13.3% when Driconeq is included
- **EBITDA excluding Driconeq up to 19% from 17.6%**
  - 17.2% when Driconeq is included

Driconeq is a substantial acquisition with a low gross profit margin and a high material content, and unless separately commented on, distorts the understanding of the underlying margin performance of the rest of the Group.

Mincon product expressed as a percentage of our total sales continues to grow, from 76% to end Q3 last year to 85% for the year to date in 2018, 86% in Q3 alone. We have been driving a strategy where we manufacture and sell our own engineered products to give us superior control on our quality and distribution, and better margin where our engineering delivers advantage to our customers. Exclusive of Driconeq, the change to Mincon manufactured products continues to deliver an improved gross margin, to 41% compared to 38.7% for the comparable group to last year, or 38.3% when Driconeq is included.

Revenue

The Group continues to grow, albeit this has moderated as we reflect comparatives on the higher levels of turnover achieved in the latter part of last year. Of more note is that the capacity investment which we initiated in 2016, and which continues to arrive and be installed, is returning the Group to a dynamic equilibrium, where we can grow and maintain our lead times for delivery at the four and five week level.

We can now begin to redeploy resource to focus again on more of the higher value products, new products where we have been unable to allocate production time, and building out, for example, hammer ranges where we have the engineering work completed but have had no capacity to produce.

We plan to increase profits next year by improving efficiency, reducing waste on freight and other overheads, and in allocating labour to higher value added activities. We should take this opportunity to thank our whole team in the factories and customer service centres for their hard work and commitment over the last two years in creating this step change in our business.

There are two significant changes in our management model for the coming year. The first is in the creation of the "product manager" category to provide focus on each of our main business lines, and the second is in the build out of our engineering team. Working together with the factories , these teams will co-ordinate the service model to our customers, the development of our product ranges, and provide the commercial and engineering direction for the Group in the coming years.

Driconeq acquisition
Driconeq is a substantial acquisition, and the investment of time and funding required to bring it into the Group in a coherent fashion has been extensive. The acquisition included businesses and factories in Sunne, Sweden, Johannesburg South Africa, and Perth, Australia, with the Australian company having to be taken out of administration. As we previously mentioned, the Australian business required an additional A$1 million to prepay creditors who had entered into an arrangement through the court, which has accommodated the transfer of the business and people into our Australian operations.

In Sunne, similarly, we have combined the drillpipe businesses and transferred our own business and people into Driconeq, all of which has been amicable and in compliance with local regulations. In South Africa the management teams have been working together, though we have no plans to combine them. In Sweden our heat treatment plant in Kristenhamm remains unchanged, as a well-run profitable business serving the group, among others. Overall the performance of the Driconeq Group is improving, and beginning to meet expectations.

We are beginning to see the benefits of the reorganization with an improving operating margin benefitting from the consolidation, and we are optimistic that the performance in 2019 will be in line with the expectations we had on acquisition.

The hydraulic hammer range
As announced by the Company on 15 October, this project continues on its development path, and while we have been expecting the system to go on a key customer rig during this year, we have had minor delays for fitting, specifically in relation to the threading of the drill string. These are not significant engineering set-backs, rather they are the fitting elements through which we continue to build the IP of the system. We find the problems and solve them, and while doing so, build a more robust system with a higher barrier to entry.

We expect to have the engineering work done on the drill string by the end of the November 2018 and be ready to install the system from then. Achieving high levels of engineering efficiency and quality will always be a priority of Mincon and we remain focused on bringing this system to market once we are satisfied it is ready to launch.

Margins
The gross margin of the underlying business continued to improve, to 41% for the year to the end of September, compared to 38.7% last year, and this supported a 1.5% improvement in the operating margin for the Mincon Group (excluding Driconeq) to 15.8%.

Excluding Driconeq, the profit before tax at the end of September came out at 15.2% compared to 13.1% last year, and when including Driconeq, this netted out at 13.3% overall.

Balance sheet

We have directed our cash into acquisitions, inventory and capital expenditure in the last year in particular, to match capacity with the strength in orders, and to gain control of key processes like heat treatment, which allows us to base production in three key factories in Shannon, Perth and Benton Illinois, and allocate it efficiently according to customer needs and manufacturing advantage.

This phase of investment came to an end, as planned, in H1, and while we continue to install contracted capital expenditure, we have substantially finished this build out, and expenditure levels should glide towards the depreciation charge over the next year. The inventory spend has also peaked, and with the normalising of turnover and orders at the current level, we can improve efficiencies across the entire Group. We see the lead time on supply also shrinking so that we do not need to maintain investment in raw materials at the current levels through the next six months.

Market comment and position

We have probably reached the dynamic equilibrium we have been seeking through the last eighteen months, where we can supply customers within a more normal four or five weeks lead time, and maintain a reasonable organic growth rate. While we have brought on new capacity, so have competitors and suppliers, so the market is stabilizing at the current higher level. To gain much more from here means taking market share, and that means bringing through the next generation of products, widening the product range, and delivering new fuel efficient engineering to the market.

While we have not set price competition as our market position, we will address challenges as they arise, while continuing to carry out case studies that establish the value of our products to the end customer. The success of this approach can be seen in our improving margins, but we do not take these for granted.

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

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