

# IFRS Annual Report and Accounts 2018



# Company Information

IFRS Annual Report & Accounts **2018**

Year ended 31 December **2018**

DIRECTORS:	A J Langley - Chairman B J Langley B A Watson
SECRETARY:	B A Watson
REGISTERED OFFICE:	Enterprise Way Retford Nottinghamshire DN22 7HH England
REGISTERED NUMBER:	01321615
AUDITOR:	Nexia Smith & Williamson Chartered Accountants Statutory Auditor Portwall Place Portwall Lane Bristol BS1 6NA England
PRINCIPAL BANKERS:	Barclays Bank plc PO Box 3333 One Snowhill Snowhill Queensway Birmingham B4 6GN England  Deutsche Bank AG Adolphsplatz 7 20457 Hamburg Germany  Commerzbank AG Sand 5-7 21073 Hamburg Germany

# Key Highlights



Year ended 31 December **2018**

	Year ended 31 December 2018 €'000	Year ended 31 December 2017 €'000
REVENUE	848,387	903,529
OPERATING PROFIT	101,120	110,274
PROFIT BEFORE TAXATION	103,520	111,808
NET ASSETS	722,604	647,350
CASH AND CASH EQUIVALENTS	379,541	323,036
ORDERS ON HAND	208,363	275,841
EMPLOYEES	<b>No.</b> 4,255	<b>No.</b> 4,332



‘ Performance  
overall satisfactory  
and ahead of  
budget ’

Anthony J Langley  
Chairman

# Chairman's Review



Year ended 31 December **2018**

**In the year to 31 December 2018, the group recorded revenues of €848.4m (2017: €903.5m) and generated a profit before tax of €103.5m (2017: €111.8m) and a profit after tax of €73.8m (2017: €74.4m). There were no shareholder dividends paid during the period (2017: nil) and at the year end net assets stood at €722.6m (2017: €647.4m). The group had nil debt throughout the period (2017: nil) and at the year end the consolidated cash balance stood at €379.5m (2017: €323.0m). Orders on hand at the year end were €208.4m (2017: €275.8m).**

**[...at €722.6m net assets reached a new record high, as did the group's cash position at €379.5m ]**

After successive record profit years, 2017 being the best ever and after adjusting for currency effects, the group saw something of a much anticipated slow-down in 2018. Revenues reduced by around 6% on the previous year and pre-tax profits were down a similar percentage, although the 2017 result was burdened with a negative currency effect of €9.0m, whereas 2018 included a currency gain of €8.6m. However, at €722.6m, net assets reached a new record high, as did the group's cash position at €379.5m.

Under IFRS reporting rules, exchange variations between our non-euro cash holdings relative to euros are reflected in the Income Statement and the effect of translating US dollar, pounds sterling and various other cash holdings into euro values at year end results in a foreign exchange gain or loss, to the extent that exchange rates have moved from the opening positions a year earlier.

# Chairman's Review

Year ended 31 December **2018**

At year end 2018 the group's cash position of €379.5m was represented by 32% euros, 41% US dollars, 21% pounds sterling and 6% other currencies and it is the translation of the non-euro currency values, principally US dollars, to a relatively weak euro value that has given rise to the currency gain in these accounts

Ignoring currency effects, the underlying profit before tax was down from €120.8m to €94.9m. That said, the overall 2018 result was still very satisfactory and ahead of the budget that the board approved in March and at €726m, net assets were at a new record high at year end.

For some time now, I have been cautioning that the remarkably successful performance of the group in recent years, should not be considered "the new normal".

Although the extent to which our business slowed varied from division to division and some of the smaller subsidiaries actually bucked this trend. Piller and ARO were once again the main drivers and still performed strongly.

🔴 ...much-anticipated slowdown in 2018 after successive record years....profits satisfactory and ahead of budget 🔴

## MANROLAND DIVISION

**Revenue: €259.8m. (2017: €286.3m). Orders on hand: €27.4m. (2017: €41.3m).  
Headquarters: Germany. Employees: 1,520.**

Manroland Sheetfed GmbH, the German printing press builder, which we acquired in 2012, together with more than forty subsidiaries worldwide, remains the largest of our operating divisions in terms of revenues, manufacturing footprint, outposts and employee numbers.

The first quarter saw a record high order intake for new presses, only to plummet later in the year. China is Manroland's largest market and tensions between the USA and China have translated into a "wait and see" sentiment amongst many of the predominantly owner-managed print houses. The same sentiment, to a greater or lesser extent, prevails across other markets, but it is the slowdown in China that had the biggest impact.

🔴 ...a positive contribution, despite drop off in China orders 🔴

# Chairman's Review



## Year ended 31 December **2018**

Consequently the division contributed only nominally to the overall group result in 2018. However it was a positive contribution, and after non-recurring costs of around €2m to reorganise the European market organisations. Despite this, and much more substantial reorganisation costs in the early years of our ownership, the business has stood on its own feet financially since it was acquired and our initial investment has been more than recouped. The company has also been investing heavily in new product development and the company's *ROLAND 700 Evolution* press, developed entirely during our stewardship, is now widely recognised as "best in class".

Whereas tensions between the USA and China will no doubt be resolved sooner or later, I do not expect Manroland to be a significant contributor to the group result in the immediate future and certainly not in 2019. However, I do foresee another positive contribution in the current year. I also expect that the former Manroland headquarters building, vacated by the business and partially let to the German police authority in 2017, will be fully let to the Bundespolizei in due course, the second tranche having been committed to in 2018.

### ↳ ...*ROLAND 700 Evolution*: widely recognised as "best in class" ;

The facility, which has a manufacturing footprint of over a million square feet, although fully rationalised to the lowest common denominator required to build these highly complex machines, is significantly under-utilised and the search continues to find a suitable bolt-on acquisition for this state-of-the-art facility and world-class sales and service organisation. Investment also continues in product development and in apprentice training in Germany, although net employee numbers will reduce due to retirements in the coming year. As with all of our businesses, our perspective on Manroland is long term and I am satisfied with the performance of the division overall, when considering all of the circumstances.

# Chairman's Review

Year ended 31 December **2018**

## PILLER DIVISION

**Revenue: €220.6m. (2017: €249.4m). Orders on hand: €87.6m. (2017: €84.7m).**

**Headquarters: Germany. Employees: 968.**

Piller, our German producer of electrical systems - principally uninterruptible power supply (UPS) systems for data centres, along with its overseas sales and service subsidiaries - was once again the largest contributor to the group result.

However, management concerns over a possible slow down, finally materialised in 2018, mainly due to a drop in Piller's USA business. However, it was still a very strong performance overall, despite lower revenues.

Piller's result exceeded budget expectations, despite delays with significant orders from the USA, resulting in a reduction of bookings and revenues. At the close of the year, the order intake was slightly ahead of 2017, even though in the US alone, over €30m of orders had slipped out of 2018 into the current year.

A number of Piller's subsidiaries were at, or appreciably above, their respective budgets for order intake and revenues; notably Germany, Singapore, the UK, and France. Australia missed out on exceeding its order intake, due to a major data centre project slipping into 2019, whereas Piller India did very well on its order intake, but missed out on its revenue target due to end of year delays with local shipments.

🔴 ...a very strong performance overall, despite lower revenues...Active Power: another solid contribution 🔴

Active Power, the Texas based kinetic energy storage business, acquired by Piller at the end of 2016 is now integrated into the Piller USA organisation, with its former subsidiaries in the UK, Germany and Singapore now part of Piller's market organisation. The business made another solid contribution to the Piller result and the Austin manufacturing facility was finally fully rationalised with the closure of an adjacent satellite R&D unit. This is now part of the main freehold factory which the group acquired in 2017.

During the year, development of Active Power's XT multi-module system was completed and released to the market, following in the footsteps of the earlier single module release. Active Power brand products, were for the first time promoted alongside Piller brand products, during the 4th Piller International Power and Conditioning Symposium, (IPCS) 2018, held in the middle of the year which stimulated immediate interest from the market.

# Chairman's Review



Year ended 31 December **2018**

Major profit over-achievers were Piller Germany, Australia and Singapore, with solid contributions from the UK and France. The USA also made a major contribution, despite much reduced revenue, when compared with the previous year. All companies were profitable, and the aircraft ground power and military business of Piller also made a solid contribution to another excellent overall result.

## ARO DIVISION

**Revenue: €135.3m. (2017: €145.6m). Orders on hand: €21.7m. (2017: €37.8m).**  
**Headquarters: France. Employees: 503.**

The ARO Welding Technologies Division, headquartered between Tours and Le Mans in the Loire region of central France, recorded another remarkably good year. Although revenue was down by some 7% on last year - an all-time record in revenue and profit terms - ARO was the other main driver of the group result.

🔴 ...another remarkably good year 🔴

Whilst a much anticipated slowdown in ARO's principal market, the automotive sector, began to materialise in 2018, it started later than expected and the impact is now expected to have a greater effect in 2019 than in 2018.

The market became more uncertain in the second half of 2018, with projects appearing and disappearing at short notice, or being constantly reshuffled. A number of major car producers changed their investment plans several times during the year, while others have been vague in their planning communication.

🔴 ...slowdown in automotive expected to affect 2019, more than 2018 results 🔴

It seems that ARO is experiencing the beginning of the end of an investment cycle that has lasted some six to seven years; since the knock on from the financial crisis, now a distant memory for many, all but paralysed the industry.

Whilst I am not expecting ARO to have to manage such a seismic impact to its business this time, with European and North American car sales plateauing and Chinese domestic car sales down for the first time in thirty years, a slowdown was inevitable at some point and it seems to me that we have now reached that point.

# Chairman's Review

Year ended 31 December **2018**

How the new market cycle will look is not yet clear as worldwide car sales remain relatively strong. However another factor to consider is electric powertrain and autonomous driving technologies which are consuming so much R&D investment that OEM's are looking to cut costs in other areas. With production facilities now well invested for current technology, this may translate into revised investment strategies, potentially affecting ARO.

Ultimately, these new technologies will result in new investment and with no sign of steel ceasing to be the primary material of car construction, and the aim for structures to be more complex to save weight, resistance welding remains the primary manufacturing method thereby assuring a long term future for our ARO business.

## **CLAUDIUS PETERS DIVISION**

**Revenue: €102.8m (2017: €95.6m). Orders on hand: €56.8m (2017: €81.8m).  
Headquarters: Germany. Employees: 508.**

Claudius Peters, our plant machinery specialist based in Buxtehude, in northern Germany, had another disappointing year.

However, the business, which supplies materials handling equipment and machinery to the steel, alumina, cement and gypsum industries, remained profitable on still very low volumes. Only China exceeded expectations in what was otherwise a lack-lustre performance, although Claudius Peters in the USA managed to exceed its budgeted profit due a more favourable business mix.

🔴 Claudius Peters: disappointing, but remained profitable on low volumes 🔴

Claudius Peters came into 2018 with a healthier order book than the previous year and I was expecting a better performance. However, a number of major projects were postponed, principally for Russia, and an overspend on one major contract in Germany also added to the malaise.

Performance in the aerospace division of Claudius Peters, which manufactures longitudinal support stringers for Airbus aircraft fuselages, was in line with albeit modest expectations, with lower volumes principally due to reduced demand for A380 aircraft.

🔴 ...aerospace division in line with expectations 🔴

# Chairman's Review



Year ended 31 December **2018**

## OTHER BUSINESSES DIVISION

**Revenue: €130.0m. (2017: €126.6m). Orders on hand: €14.9m. (2017: €30.2m).**

**Located: United Kingdom, Europe & United States. Employees: 756.**

Overall our other businesses division - comprising separate businesses too small in themselves to warrant separate divisions - performed satisfactorily, notwithstanding there were under and over performers.

Overall, other businesses performed satisfactorily, notwithstanding there were under and over performers

**Druck Chemie (DC)**, the German print chemicals producer, had a challenging year with margins under pressure due to raw material price volatility and competitive pressures. However, the business contributed positively with Germany and France being the main drivers. The very small DC subsidiary in the UK posted a loss, but adding back margin to the German production business, resulted in a positive contribution overall. Subsidiaries in Belgium, Italy, Switzerland, the Czech Republic and Poland all contributed positively to an acceptable, overall result.

**Bradman Lake**, the food packaging machinery business had a poor 2018. Despite revenues close to budget, there were significant overspends on projects in the UK. Not a satisfactory situation and one that I do not expect to be repeated. However, the US business performed well, exceeding its target to keep the business overall just into positive territory.

**Reader Cement Products**, the cement blending and packing business, which we invested heavily in new plant and premises in 2014/15, once again exceeded 100,000 tonnes of production and its budgeted profit by a significant margin. The business mix improved in 2018, low margin contract packing being substituted by higher margin blended products for the home improvement market. The company also launched its own brand product range for that market during the year. A very satisfactory year for Reader and 2019 looks set to be similar.

# Chairman's Review

Year ended 31 December **2018**

**Clarke Chapman**, the specialist materials handler, had its best year since we acquired the business in 2000, appreciably over performing its budget.

Nuclear handling equipment for Sellafield, the British nuclear fuel reprocessing and nuclear decommissioning site, and services for the UK rail network, being the highlights, along with strong overseas aftermarket sales. 2019 looks set to be a similarly good year.

**Oakdale Homes**, the local house builder, which has been part of the group since 1985, continued to work through its land bank. The business made a small operating profit in the period but it is not intended to develop further, once the current build programme is completed.

## Property

Finally, whilst reviewing our other businesses, mention should be made of the property holding activities of the group. Principally these are the operating properties of our subsidiaries but include other commercial property investments. Rental income totalled €7.5m in 2018 and today, over 98% of operating locations are owned by the group.

## 🔴 Rental income totalled €7.5m in 2018 🔴

During the year, development of surplus land at the Clarke Chapman site at Gateshead, in the UK, was completed. Also in 2018, a second tranche of the former headquarters building of Manroland AG was let to the German police authority. As mentioned previously, I expect the entire building to be let to the same tenant in due course and surplus land to be sold for redevelopment as data centres during this year.

# Chairman's Review



Year ended 31 December **2018**

## OUR PEOPLE

As is customary, no review would be complete without mention of our employees, at year end numbering 4,255 worldwide and I am taking this opportunity to welcome newcomers to our family of businesses.

It is the hard work and diligence of all our employees, that makes the group the success it is today. The results produced by our companies, often substantially exceeding corporate and private equity owned peers are no accident. They come about by all of our employees knowing that the Langley culture is forged not from short-term profits, or from creating 'shareholder value' by buying and selling companies, but from long-term development of our businesses. I believe that this not only gives our people the will to excel, but also fosters confidence amongst our many customers, suppliers and other stakeholders.

In March 2018 I welcomed my daughter Charlotte to the group. She joined as a director of Piller's USA subsidiary, based in Austin TX with responsibility for the Active Power plant there, so becoming the third of my three children to be engaged in the business.



Finally whilst talking about people, in 2015 we introduced a policy whereby the group equally matches any charitable donations made by employees. In 2016, I extended the match funding to include money raised for charity by the immediate families of our employees, and I am pleased to report that in 2018 the company matched €94,464 of employee donations to a variety of causes.

**Charlotte Langley: joined the group in March 2018  
as head of Piller's Active Power manufacturing plant  
in Austin, TX**

## CONCLUSION & OUTLOOK

Although 2018 did not see the stellar results of recent years, the group's overall performance was nonetheless very satisfactory. Currency effects boosted the operating result by some €8.6m, and the group continued to strengthen its balance sheet and cash position.

During the year we examined a number of acquisition opportunities. The first half was taken up almost entirely with one particular target that, had it materialised, would have transformed

# Chairman's Review

Year ended 31 December **2018**

## **CONCLUSION & OUTLOOK (continued)**

the group. Major opportunities such as this do not come up frequently as our acquisition criteria are well defined and very specific. Also, we refuse to be drawn in to the euphoria that exists at the top of a market cycle to pay inflated prices and in the end we were out-bid. Historically, our major developments have taken place at or near the bottom of the cycle, where targets have underperformed largely due to a failure of management to adapt to a downturn. With €379.5m of cash and substantial non-target specific banking facilities available to the group, we have a solid war chest available for suitable acquisitions, as and when they arise.

🔴 Group cash: €379.5m...a solid war chest  
available for suitable acquisitions 🔴

In 2018, there was a palpable top of the cycle sense amongst members of the investment banking community who I met and many seasoned professionals are expecting a downturn. Growth in China was at a ten-year low in 2018 and with multiples in the global diversified industrials sector reducing substantially in the last quarter, it may well be that in global economic terms, the next down-wave has already begun.

How this would translate to our businesses is difficult to say. In previous downturns our businesses have actually fared very well, largely because they were not allowed to become bloated in times of plenty. The same holds true now and whereas the future economic climate may look uncertain, I do tend to look back on those previous downturns as less good, rather than bad, for our businesses.

Looking ahead to 2019, the opening order book at €208.4m is much reduced when compared to prior years. Although timing effects partly contributed, this is further indication that 2019 may not be an outstandingly good year, however I am confidently optimistic that 2019 will be another satisfactory year for the group.

**Anthony J Langley**

Chairman

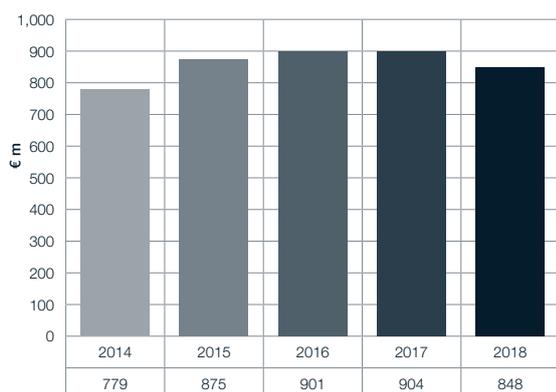
8 February 2019

# 5 Year Summary



Year ended 31 December 2018

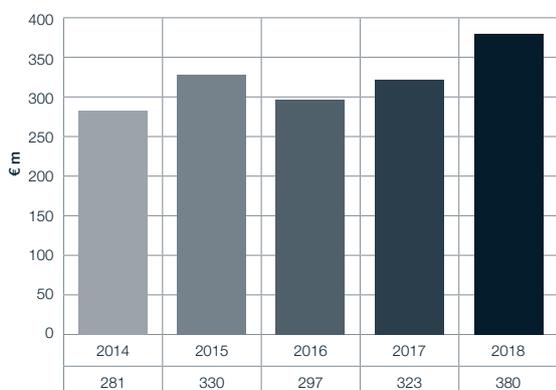
Revenue 2014 - 2018 (€m)



Profit Before Taxation (PBT) 2014 - 2018 (€m)



Cash 2014 - 2018 (€m)



Nett assets 2014 - 2018 (€m)

