IFRS Annual Report and Accounts 2017

LANGLEY

Company Information

IFRS Annual Report & Accounts **2017**

Year ended 31 December **2017**

DIRECTORS:	A J Langley - Chairman B J Langley B A Watson
SECRETARY:	B A Watson
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REGISTERED NUMBER:	01321615
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Key Highlights

LANGLEY

Year ended 31 December **2017**

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
REVENUE	903,529	900,925
OPERATING PROFIT	110,274	121,472
PROFIT BEFORE TAXATION	111,808	122,730
NET ASSETS	647,350	587,377
CASH AND CASH EQUIVALENTS	323,036	296,923
ORDERS ON HAND	275,841	288,589
	No.	**No.**
EMPLOYEES	4,332	4,320

"Another remarkably successful year for the group"

Anthony J Langley
Chairman

Chairman's Review

LANGLEY

Year ended 31 December **2017**

> Underlying profits increased 7% from €113.1 million to €120.8 million

In the year to 31 December 2017 the group recorded revenues of €903.5 million (2016: €900.9 million) and generated a profit before tax of €111.8 million (2016: €122.7 million) and a profit after tax of €74.5 million (2016: €82.5 million). There were no shareholder dividends paid during the period (2016: €90.0 million) and at the year end net assets stood at €647.4 million (2016: €587.4 million). The group had nil debt throughout the period (2016: nil) and at the year end the consolidated cash balance stood at €323.0 million (2016: €296.9 million). Orders on hand were €275.8 million (2016: €288.6 million).

Although on the face of it 2017 was not as profitable a year as 2016, the underlying trading profit before tax actually increased by some 7%, from €113.1 million in 2016 to €120.8 million in 2017, the reported result in both years being skewed somewhat by currency effects.

Under IFRS reporting rules, variations in foreign exchange rates in our non-euro cash holdings are reflected in the Income Statement and the effect of translating our US dollar, pounds sterling and various other cash holdings into euro values at year end resulted in a foreign exchange gain of €9.6million in 2016 and a foreign exchange loss of €8.9 million in 2017. The gain / loss was not realized in either year, as there was no actual conversion to euros, merely a translated value at 31 December.

Chairman's Review

Year ended 31 December **2017**

The trading divisions have performed largely in line with expectations since my half year review and overall substantially ahead of the budgeted profit for the year, meaning that 2017 was another remarkably successful year for the group.

MANROLAND SHEETFED DIVISION

Revenue: €286.3m. (2016: €314.8m). Orders on hand: €41.3m. (2016: €52.8m). Headquarters: Germany. Employees: 1,545.

In terms of revenue and employee numbers Manroland Sheetfed GmbH, the German builder of printing presses acquired six years ago, is the largest of our operating divisions and accounts for almost a third of group revenues.

Within the first five of these six years the business steadily returned our investment in full and continues to contribute positively to the overall result. However, although contributing positively in 2017 and every year prior, that contribution is below par when comparing percentage profit on revenue to our other operating divisions. The reason for this is that the facility in Offenbach am Main, situated across the Main river from Frankfurt and with a manufacturing footprint of over a million square feet, although modern and efficient, is substantially under-utilized. Despite satellite locations having been closed and the operations consolidated onto a single site, volumes are still a way short of the optimum and as the facility is now fully integrated, no further rationalization is possible.

> ‘Investment recouped in first five of six year ownership… continued positive contribution in 2017’

The printing industry is still very much in a state of flux and through the course of 2017, the division underwent something of a roller coaster of order intake with a very good first quarter, only to be followed by a very weak second quarter. The second half of the year started strongly but lost momentum in late summer and the volatile pattern continued in the last quarter of 2017, only to see a new record high for order intake, during our six-year tenure, in January 2018.

New products continued to be developed and the Roland 700 Evolution Ultima® was announced to the market towards the end of the year. This was a further progression of the Roland 700 Evolution platform, itself developed in record time under our stewardship, which offers multiple specialist coatings and foils in a single pass of the press.

During the period an agreement was made to sell off several acres of surplus land for redevelopment as data centres. Offenbach is on the "Fibre Backbone", one of the major arteries for the internet, and as such attractive to data centre operators. Also, the former Manroland headquarters office building situated a short distance away from the factory, was partially let to the region's police force for training accommodation. This has prompted a relocation of the company's functions remaining in that building to the main factory site - where they came from originally - later this year. This will release the remainder of the former headquarters building to let.

Former Manroland HQ: to let.

In conclusion, I am satisfied that the cost structure at Manroland is correct and with the performance of the division overall, I am also satisfied with the investment in the print sector. This year we will explore suitable bolt-on acquisitions to fuller utilize this flagship of manufacturing and its excellent world wide sales and service organisation.

PILLER POWER SYSTEMS DIVISION

Revenue: €249.4m (2016: €225.8m). Orders on hand: €84.7m. (2016: €112.7m). Headquarters: Germany. Employees: 949.

Piller Group, the German parent of the Piller network of companies, which principally produces uninterruptible power (UPS) systems for data centres globally, was once again the largest contributor to the overall group result. Management concerns over a possible slow down in the data centre sector, following a record year in 2016 - a record not only during our tenure since 2005, but also over the one hundred year history of the company- failed to materialise and 2017 was another bumper year.

Piller UPS systems are built exclusively at the company's facilities in Germany and since 2017, with the acquisition of Active Power in November 2016, in Austin, TX. The principal facilities, in Osterode and Bilshausen near Hanover in Germany, once again saw optimum utilisation throughout 2017, a factor contributing greatly to the excellent results in both 2017 and also in the prior year.

On the product development front,Piller announced its PB60 Powerbridge®. The company introduced its original Powerbridge® concept to the market in 1996 and since then over 2,000 units have since been installed in data centres around the world. During this time data centre capacity has grown exponentially, demanding more and more UPS capacity and the latest incarnation of Powerbridge® produces a full one megawatt of power, and around four times the energy of the original.

Chairman's Review

Year ended 31 December **2017**

Demand for Piller systems was strong across all major territories, particularly the United States. The Far East and Europe were also buoyant, although less so the UK, whereas Piller Australia experienced continued record demand from its burgeoning data centre sector. In other relatively undeveloped data centre markets such as South America and India, Piller now has an established presence and continues to develop China, as yet a virtually untapped market save for a cornerstone installation at the Shanghai Stock Exchange. Meanwhile, Piller's aircraft ground power and military business made a solid contribution to an excellent overall result.

‘ Active Power - integrated and profitable ’

Active Power

Active Power, the kinetic energy storage business, acquired by Piller in late 2016, had its first full year under our stewardship. The freehold of Active Power's operating facilities in Austin, Texas, was acquired by the group during the period and the company, now a subsidiary of Piller Power Systems Inc, completed its reorganisation in the first quarter. Under Piller management, the former NASDAQ business made a profit for the first time since its IPO in 2001.

Active Power: freehold acquired by the group

ARO WELDING TECHNOLOGIES DIVISION

Revenue: €145.6m. (2016: €120.9m). Orders on hand: €37.8m. (2016: €44.0m). Headquarters: France. Employees: 548.

The ARO Welding Technologies Division, headquartered between Tours and Le Mans in the Loire region of central France, recorded a new all-time record high in both revenue and profit terms in 2017.

Demand for the company's state-of-the-art automotive welding technology continued unabated in 2017 as European, US and Chinese car makers alike continued to boom. ARO's principal manufacturing facilities in France and the United States reported exceptionally high utilization throughout the period. Global car and light commercial vehicle production came close to 100 million units in 2017 and over 90%, of those vehicles were produced from steel using resistance welding technology, of which ARO is widely regarded the technological

Chairman's Review

Year ended 31 December **2017**

> Car and light vehicle production reached almost 100 million units in 2017

leader. The company estimates that at least 20% of all cars produced world-wide are welded using ARO equipment.

Notably, ARO's success to date is without any business from Japanese car makers, that sector of the market effectively closed to non-Japanese producers due to protectionism.

Although the market has now been booming for over five years, it is prudent to remember that the automotive sector was among the hardest hit following the Financial Crisis a decade ago and continued growth should not be taken for granted. With this in mind, ARO operates flexible manufacturing and is capable of adjusting its production down, should it be necessary, without major cost impact.

Development wise, the industry is continually striving to save weight in cars and the use of lightweight composites is currently applicable only to the very high end of the market, due to cost constraints. Similarly aluminium, although less expensive than composites, is still more expensive to use than steel and is notoriously difficult to weld with satisfactorily quality in the volumes required.

Ford F-150 aluminium body welded by ARO technology

Therefore the more expensive method of riveting aluminium is commonplace, making aluminium the reserve of higher end vehicle production. Hence steel remains the staple material for producing cars and to save weight whilst preserving strength, structures have become increasingly more complex, which requires ever more complex welding procedures. In parallel, for several years now, ARO has been working on the challenges of high-volume aluminium welding with the Ford Motor Company and following satisfactory pilot trials, ARO equipment is today deployed in full production on Ford's F-150 lines in the United States, the first volume produced aluminium vehicles to be all welded.

> more than 20% of all cars welded with ARO equipment

Chairman's Review

Year ended 31 December **2017**

CLAUDIUS PETERS DIVISION

Revenue: €95.6m (2016: €106.3m). Orders on hand: €81.8m (2016: €50.3m). Headquarters: Germany. Employees: 535.

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

However, the business, which supplies materials handling equipment and machinery, principally to the cement and gypsum industry, was profitable although the problem being very low volumes at the headquarters in Germany.

> ‘overseas subsidiaries and aircraft components profitable as expected’

Subsidiaries in France, the United States and China all performed in line with expectations. Despite slightly lower revenue, they achieved or exceeded budgeted profitability; as did the smaller outposts in Spain, Italy, the United Kingdom and Romania, only Brazil posting a loss due to exceptional reasons. The aerospace division, which manufactures components for Airbus, also performed satisfactorily and in line with expectations.

It would be convenient to explain the underperformance by citing a still subdued cement and gypsum sector. However, despite the market being depressed, there were missed opportunities which would have transformed the outcome and therefore management changes have been made.

On a positive note, Claudius Peters came into 2018 with a much healthier order book than previously, and I expect 2018 will see a significant improvement on 2017.

OTHER BUSINESSES DIVISION

Revenue: €126.6m. (2016: €133.1m). Orders on hand: €30.2m. (2016: €28.8m). Located: United Kingdom, Europe & United States. Employees: 755.

Druck Chemie (DC), our German print chemicals business, had another satisfactory year, its third since we acquired the business at the end of 2014. Germany and France were the main drivers, whereas the small DC subsidiary in the UK posted a loss, although contributed positively to the overall result with margin on inter-company purchases. Subsidiaries in Belgium, Italy, Switzerland, the Czech Republic, Brazil and Poland all contributed positively to an acceptable overall result.

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Year ended 31 December **2017**

Bradman Lake, the food packaging machinery business, celebrated ten years of Langley stewardship in October and once again performed satisfactorily. The US operation returned an acceptable result following management changes.

In the U.K., Ibonhart Ltd, a specialist in bakery machinery was acquired and relocated to Bradman Lake's Beccles facility, thereby broadening Bradman Lake's offering to the bakery sector. At the other UK facility, in Bristol, delays in relocating to new premises, acquired by the group just over a year ago, were finally overcome and the move is now underway.

Clarke Chapman, the specialist materials handler, also had a very satisfactory year with contracts for nuclear handling equipment for Sellafield, the nuclear fuel reprocessing and nuclear decommissioning site, and an operating contract for rail delivery systems originally provided by the company to the UK railways authority, securing work into 2018 and beyond.

Reader's state of the art production facility

Reader Cement Products, with my son William at the helm for the second year, had its first full year of production at the six acre facility we acquired two years ago and invested in state-of-the-art plant, producing almost 100,000 tonnes of packed cement and cement products from bulk. It was a very satisfactory trading year for Reader with more potential still to be realised.

> ‘ Reader: new plant comes on stream 100,000 tonnes produced ’

Oakdale Homes, the small local house builder, which has been part of the group since 1985, ticked over steadily working through its land bank, which will take several years at current build rates. The business made a small operating loss in the period, although this should be recovered as margin in work in progress unwinds.

Finally, whist reviewing other businesses, I should just mention our property holding activities. Over the years,the group has taken every opportunity to acquire the freeholds to its principal operating locations and today over 98% of the freehold operating locations are owned by the group. The majority of these locations around the world are held in group owned holding entities with our operating companies as arms-length tenants.

Additionally, the group is developing and holding either as an investment or selling property surplus to existing and foreseeable operating requirements. Under development at the moment is surplus land at the Clarke Chapman site in Gateshead, UK. The former Manroland headquarters, now only partly occupied by the company, is being vacated and the business relocated. The entire building is offered to let, following the securing of an anchor tenant during the period.

In 2017 the total group rental income was €7.5 million.

> ‘ Over 98% of all operating locations now owned by the group ’

OUR PEOPLE

As is customary, no review would be complete without mention of our employees, at year end numbering 4,332 worldwide and I would like to take this opportunity to welcome any 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 our community 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 2015 we introduced a policy whereby the group equally matches any charitable donations made by employees. Last year I extended the match funding to include money raised for charity by the immediate family of our employees. During the year the company matched €86,828 of employee donations to a variety of causes.

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Year ended 31 December **2017**

BRITISH AMERICA'S CUP CHALLENGE

For some years now the group has sponsored the Gladiator sailing programme. Competitive sailing at the highest level is very much in line with Langley business culture and towards the end of 2017 the group agreed to partner with Sir Ben Ainslie's Land Rover BAR programme, in support of his challenge for the 36th America's Cup.

Langley and Ainslie: eyes on the America's Cup

In 2018 Sir Ben Ainslie, the most successful Olympic sailor in history, and his team will join the core Gladiator team to campaign in the TP52 Super Series, the world's foremost yacht racing circuit and other events as a precursor to the 36th America's Cup, to be held in Auckland in January 2021.

CONCLUSION & OUTLOOK

2017 was, once again, an outstandingly good year for the group. Ignoring currency effects, operating performance surpassed 2016, itself a record performance and the group continued to strengthen an already robust balance sheet and cash position. The main drivers in 2016 and 2017 were our Piller and ARO divisions, themselves achieving new records in both years. The performance of both these divisions is way above my expectations, not only a few years ago but inconceivable more than a decade earlier, when these businesses were acquired, barely breaking even.

The group goes into 2018 with healthy order books across all divisions and whereas I expect 2018 will be another successful year, clear visibility more than a few months beyond the next quarter is notoriously difficult in our businesses - hence my Interim Review at the half year.

The outstandingly good performance of recent years is not something that should be taken for granted or expected as the norm. The only thing that can be relied on is that nothing stays the same and when businesses do as well as most of ours are doing and keep doing, it is easily possible to be lulled into thinking that this is the new normal. Experience tells me that is not the case, evidenced by Claudius Peters, our strongest performing division in 2012 being the weakest in 2017. Rest assured that I always have a weather eye to a possible downturn in any of our businesses and management are prepared to respond as and when necessary.

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In the meantime with my eldest son Bernard, five years in the business and on the main board for two of those years, younger son William two years cutting his teeth in our Reader operating company and daughter Charlotte set to join Piller on the west coast of the USA this year, the next generation of family is now firmly established in the business and I continue to eye the future with confidence as we continue to seek out opportunities to develop the group still further for the long term.

Although no major acquisitions were made in 2017 a number of possible opportunities were reviewed and efforts to find more opportunities were re-doubled. Like my resolve, our reserves available for such transactions have only strengthened in the meantime.

Anthony J Langley

Chairman

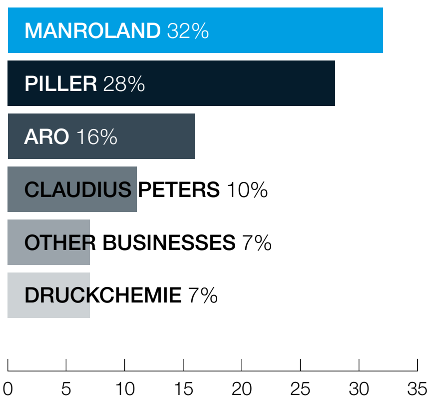
8 February 2018

Geographical Distribution

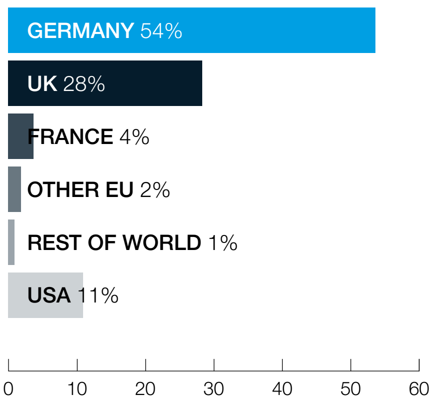
LANGLEY

Year ended 31 December **2017**

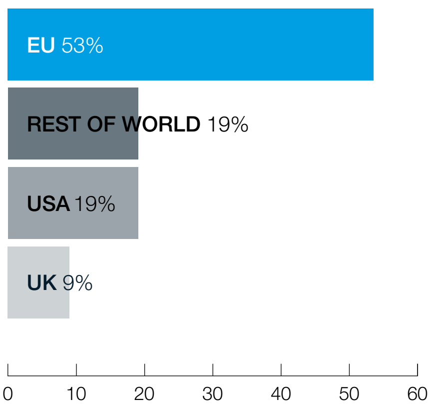
REVENUE BY DIVISION



SITU OF FIXED ASSETS



REVENUE BY ORIGIN



REVENUE BY DESTINATION