LANGLEY

IFRS Annual Report and Accounts 2019

Company Information

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Key Highlights

Year ended 31 December 2019

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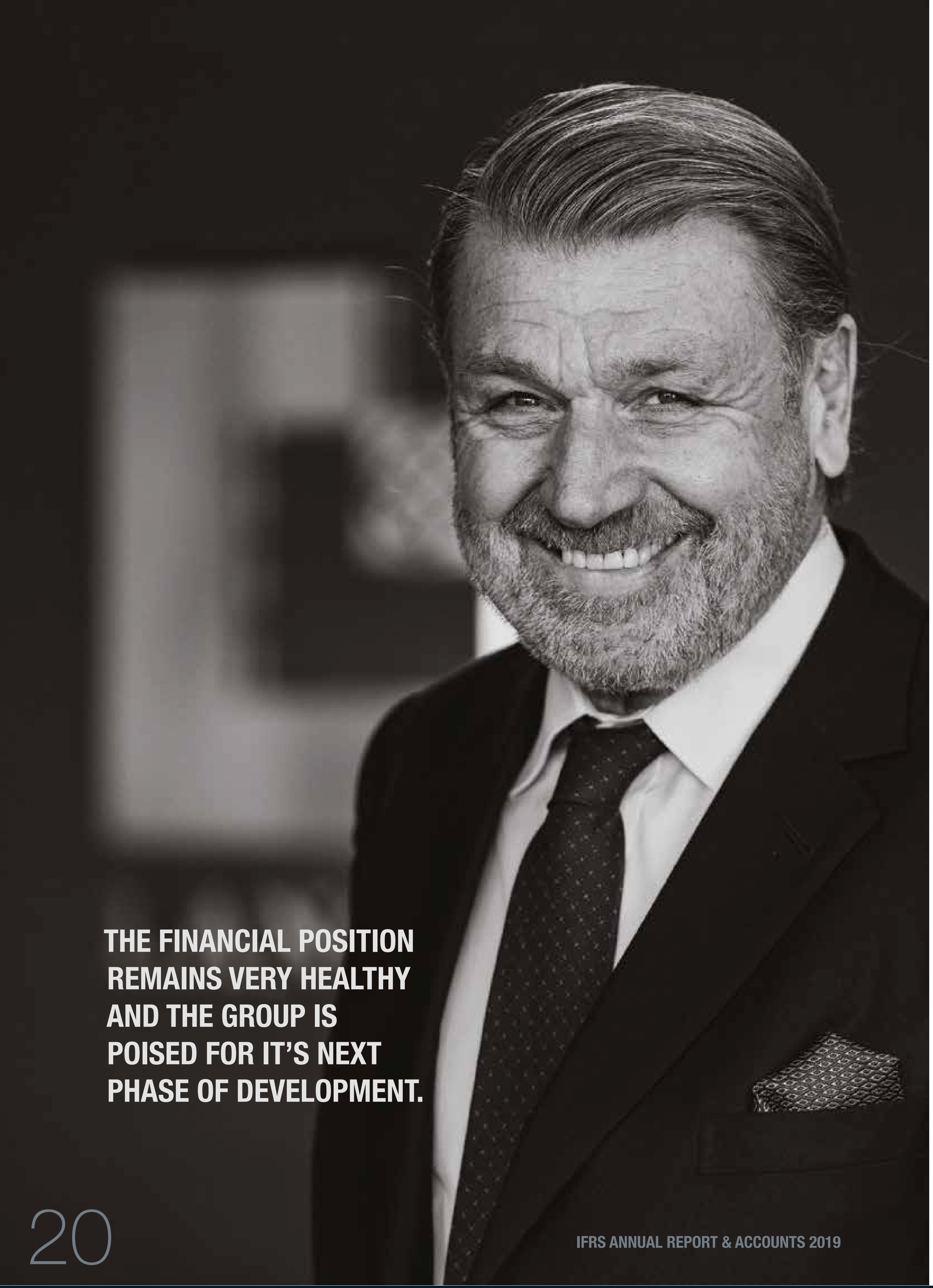
	Year ended 31 December 2019 €'000	Year ended 31 December 2018 €'000
REVENUE	820,194	848,387
PROFIT BEFORE TAXATION & NON-RECURRING ITEMS	59,910	103,520
NON-RECURRING COSTS	(4,073)	-
NET ASSETS	707,394	722,604
CASH AND CASH EQUIVALENTS	238,858	379,541
ORDERS ON HAND	254,300	208,363
	No.	**No.**
EMPLOYEES	4,918	4,255



Chairman's Review

Year ended 31 December 2019

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In the year to 31 December 2019 the group recorded revenues of €820.2 million (2018: €848.4 million) and generated a profit of €59.9 million (2018: €103.5 million) before tax and non-recurring costs of €4.1 million (€2018: nil) associated with the acquisition and subsequent reorganisation of Marelli Motori, the Italian electric motor and generator producer, acquired by the group in May.

Profit after tax for the year was €41.7 million (2018: €73.8 million) and there was a shareholder dividend of €90.0 million paid in April (2018: €nil). At year-end the consolidated cash balance stood at €238.9 million (2018: €379.5 million) and net assets were €707.4m (2018: €722.6 million). The group had nil net debt throughout the period (2018: nil) and orders on hand at year-end were €254.3 million (2018: €208.4 million).

The slow down which began in 2018, after successive years of increasingly record profits, continued into 2019 for much of the group. The extent to which our business slowed varied from division to division; some of the smaller subsidiaries actually bucking the trend and Piller's excellent performance in 2019 was very similar when compared to 2018. At circa €750 million, revenues excluding those from the Marelli Motori business acquired in May, were down by just over €100 million (12%) on the previous year.

However, profit before tax of 7% was achieved on the reduced volume overall and after cash outflows of some €150 million on dividends and acquisition, net assets still stand at over €700 million and the consolidated cash position at almost €240 million. With no debt in the group, the financial position remains very healthy and the group is poised for its next phase of development.

Acquisition of Marelli Motori

In May the group acquired Marelli Motori, the Italian manufacturer of electric motors and generators, from Carlyle Group.

Marelli Motori was founded in the northern Italian town of Arzignano in 1891 and is one of the oldest producers of electric motors and generators in the world. Today the company enjoys worldwide brand recognition in the marine, oil & gas, power generation, co-generation and other industrial sectors.

The company currently employs around 750 people and operates extensive manufacturing facilities in Italy and Malaysia, with sales, distribution and service subsidiaries in the United States, Germany, and South Africa and an extended sales, distribution and service network across four continents, supplying its technologically advanced products in more than 120 countries.

The Marelli Motori business had been languishing in recent years and during the second half of 2019 reorganisation measures were initiated at the Arzignano facility. The business made a small trading loss after re-organisation costs in the seven months of 2019 under our stewardship, but with re-organisation all but completed by the year end, the new division is expected to return to profitability in the current year.

Revenues for 2020 are expected to be fairly flat at around €125 million and at this level the business will only contribute nominally. Management have been challenged to grow the business in the medium term, which is achievable without significant additional investment. As volumes increase I expect the contribution to the group will increase accordingly.

The Arzignano factory and headquarters extends to some 60,000 square metres (640,000 square feet) and is owned by the company outright. The company's second plant, in Kuala Lumpur, is about half that size and is occupied leasehold. The Malaysian facility is both too large and too high a specification for the needs of the business and the intention is to acquire more suitable freehold premises in reasonably close proximity before the current lease agreement expires in April 2021. In the meantime the business is burdened with disproportionate rent.

Marelli Motori SpA acquired by the group in May, 2019.

The acquisition included the full repayment of Marelli's €55 million bank debt, and a further €4.1 million, relating to the acquisition and subsequent reorganisation of the business, which is included as a non-recurring item in these accounts. The acquisition, together with working capital for the business going forward, was funded entirely from group resources.

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Manroland Sheetfed Division

Revenue: €203.5 million. (2018: €259.8 million). Orders on hand: €61.2 million. (2018: €27.4 million). Headquarters: Germany. Employees: 1,472.

The first two quarters of 2019 saw particularly aggressive competitor behaviour in the market, as supply continues to exceed demand in the sector. Hitherto I was content for the business to principally serve its installed base. However, order intake was substantially impaired in the first half and in July, I gave licence for the business to respond in the market 'gloves off'.

Order intake improved significantly in the second half and new orders for printing presses in the last quarter more or less equalled those of the first half, albeit at lower margins. Unfortunately it was not possible to translate sufficient of these orders into revenue in 2019 and subsequently the factory under-recovered for much of the year, working short time until November.

However, the order book is now at a healthy level with production at its highest level since we acquired the business in 2012. At the current run-rate, the division is contributing positively again and I have instructed the business to continue with the 'gloves off' initiative.

Our Manroland business has a far lower cost base than its principal competitors and the company's presses are highly regarded in the market. Moreover, the company is saddled with neither debt nor disproportionate overhead costs and is part of a financially strong group. And the shareholder is patient.

During our stewardship of the company, investment in product development has continued unabated and 2019 was no exception. In 2016, the company unveiled its ROLAND 700 *Evolution* press, developed entirely during our stewardship and formally launched at DRUPA 2016, is now widely regarded as 'best in class'. The company will unveil its latest offering to the market at DRUPA 2020 in June this year.

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Senefelderhaus, the former Manroland AG headquarters building is to become a police training academy.

During the year, the second phase of alterations at Senefelderhaus, the former Manroland AG headquarters, located in nearby Mühlheim, were completed and occupied by the Bundespolizei as a training academy. A letter of intent was received for the remaining three floors with a fresh lease anticipated, once the entire building is occupied. Work has now commenced on both the modifications to the remainder of the building, and on the conversion of the company's former apprentice training building, to a sports hall for use by the academy. Manroland's apprentice training facility has been relocated to the factory site.

Investment in apprentice training at Manroland has continued unabated under our eight-year stewardship. As with all of our businesses, our perspective on Manroland is long term and it takes time to train the necessary skills to build these highly sophisticated machines.

Finally during the year, a contract to sell approximately 15 hectares (37 acres) of surplus land for development became effective. Preconditions to the sale contract were all finally met in 2019 and circa €19 million of cash is expected in March 2020.

Manroland apprentices – training unabated under Langley stewardship.

Piller Division

Revenue: €217.9 million. (2018: €220.6 million). Orders on hand: €74.0 million. (2018 €87.6 million). Headquarters: Germany. Employees: 945.

Piller, our German producer of electrical equipment – principally UPS systems for data centres, along with its overseas sales and service subsidiaries – was once again the largest contributor to the group result.

Revenues and profits were very similar in 2019, when compared with the excellent 2018 result. The very good results came about from a particularly strong performance in Germany, with the US also being a major contributor, despite headwinds against Piller technology in the hyper scale sector in the US, weighing on their performance. Other subsidiaries in the UK, Italy, France, Australia and India were broadly in line with expectations. All companies were profitable, and Piller's aircraft ground power and military business also made a solid contribution to another excellent overall result.

Last month the company unveiled the latest iteration of its highly successful 'Uniblock™' UPS to the market. Four years in the developing and offering up to 3.2MW of UPS from a single unit, the UB-V Series platform is Piller's flagship offering for the 2020's and it is fitting that the launch came at the very beginning of the decade.

3.2MW is around twice the capacity of the company's largest machines when we acquired the business in 2004 and as data centres continue to become ever larger, so too does the requirement for ever higher power UPS systems. The group's recently acquired Marelli Motori business has considerable experience of producing higher output electrical machines than Piller and later in the decade, Piller is planning to offer 5MW and higher UPS solutions, in collaboration with Marelli.

Piller celebrates 100 years in Osterode.

In August, Piller celebrated '100 Years in Osterode' and I was invited by the Mayor of Osterode to have the honour of signing the 'Golden Book' of the city. Employees past and present and their families attended the Spa Park Convention Centre to mark the occasion and over 4,000 people, which seemed like the entire population of Osterode, turned out to join the celebrations afterwards.

Active Power Inc, Austin TX – became a standalone business within Piller from January 2020.

Active Power, the kinetic energy storage business, based in Austin, Texas, which was acquired by Piller in November 2016 and integrated into the Piller USA organisation in 2017, became a standalone subsidiary from January this year. Integration was proving problematic and in September the decision was taken to separate the business. From January this year US sales and service are being managed directly out of Austin by the new Active Power Inc. Overseas sales and service continue to be managed by Piller subsidiaries around the world. Also in September, Active Power announced a significant product upgrade to the market, offering a 20% improvement in output from its core CleanSource® product. Despite the tensions and slow machinery sales, Active Power made up approximately 8% of Piller group profits in 2019 and I expect that both US entities will do better under the new structure going forward.

ARO Division

Revenue: €100.4 million. (2018: €135.3 million). Orders on hand: €17.8 million. (2018: €21.7 million). Headquarters: Chateau-du-Loir, France. Employees: 508.

Our ARO Welding Technologies Division, headquartered between Tours and Le Mans in the Loire region of central France, saw an increased slow-down of its principal market, the automotive manufacturing sector, which started in 2018, following the company's best ever year in 2017.

At circa €100 million, revenues were down by a little over 26% on 2018 and by 31% on 2017. Of ARO's European customers, only Renault and Daimler maintained significant investments in 2019, while other car producers reduced or postponed investments. ARO in the USA, reported a similar scenario with a slow start to 2020, although they are expecting significant investments by General Motors to go ahead in the second half. ARO China experienced the sharpest decline, with numerous projects by Chinese car manufacturers either postponed or cancelled. Revenues from ARO China were down by 60% and profits down by 50%. As I write ARO China's facility in Wuhan is closed due to the Coronavirus outbreak, it is too early to say what impact that will have although China does represent less than 10% of ARO's overall business.

CHAIRMAN'S REVIEW (CONTINUED) YEAR ENDED 31 DECEMBER 2019

Profits from the division were significantly lower than previous years, but due to ARO's flexible structure, the business was able to respond to the reduced demand with relative ease. The downturn was foreseen and overall profits were on budget and entirely satisfactory. The business is expecting activity in 2020 to be at a similar level .

Claudius Peters Division

Revenue: €98.8 million (2018: €102.8 million). Orders on hand: €43.9 million (2018: €56.8 million). Headquarters: Germany. Employees: 494.

Claudius Peters, our plant machinery specialist based in Buxtehude, in northern Germany, had a particularly disappointing year. For the first time during our stewardship which began in 2002, the division made a negative contribution to the group, although the overall loss was mitigated to a certain extent by positive contributions from subsidiaries in China, USA, UK, Italy, Romania and Brazil. India and Spain broke even whilst Claudius Peters France posted an albeit small loss. The French business is reliant on a small number of relatively large materials handling projects, mainly in French speaking North Africa and the Middle East. Gestation times for these projects are notoriously difficult to predict and projects expected throughout 2019 all slipped into 2020, although decisions are expected imminently.

The aerospace division which produces stringers, the longitudinal strengthening in aircraft structures, for Airbus, had a low volume year as production of the A380 has now been suspended indefinitely, although the activity did contribute positively.

Aftermarket revenues and contribution were both in line with expectations and satisfactory, and it was the Buxtehude plant machinery project activity which was problematic. The business, which supplies equipment to the coal, steel, alumina, cement and gypsum industries, experienced low volumes and there was a substantial impairment on one particular problem contract, now resolved and fully provided. It was the execution of projects generally that was the main issue and in the final quarter, I decided that a change of management was necessary. Cost cutting measures are also required, together with a change in working practices and revitalised sales, all of which are currently in hand.

Other Businesses

Revenue: €127.2 million. (2018: €130.0 million). Orders on hand: €18.8 million. (2018: €14.9 million). Located: United Kingdom, Europe & United States. Employees: 749.

Overall our Other Businesses Division performed satisfactorily, notwithstanding there were under and over performers.

Druck Chemie (DC), the German print chemicals producer, had another challenging year with margins under pressure and a shrinking market. However, the business contributed positively and broadly in line with expectations with Germany and France being the main drivers. The very small DC subsidiary in the UK posted a small loss, but contributed margin to the German production, whereas subsidiaries in Belgium, Italy, Switzerland, the Czech Republic and Poland all contributed positively, with only Brazil going into negative territory. Overall a satisfactory result.

Bradman Lake, the food packaging machinery business had a disappointing year in 2018 and 2019 was much improved. Revenues were slightly short of target but better gross margin and lower than budgeted costs, added up to an improvement in budgeted profit overall, the two UK factories making up the majority with a solid contribution from the US operation.

Reader Cement Products, the cement blending and packing business, exceeded 100,000 tonnes of production for the fourth successive year but the business mix was not quite as favourable in 2019 and the result fell slightly short of target. A satisfactory performance nonetheless and sales of the company's own-brand products for the home improvement market, launched in 2018, continued to gain popularity.

Clarke Chapman, the specialist materials handler, had a similarly successful year to 2018, its best performance since we acquired the business from Rolls Royce plc in 2000. Nuclear handling equipment for Sellafield, the British nuclear fuel reprocessing and nuclear decommissioning site, together with services for the UK rail network, made a solid contribution, as did aftermarket sales. 2020 looks set to be a similarly good year for Clarke Chapman.

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 negligible operating loss 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 €7.6 million in 2019 and today, over 98% of our operating footprint is owned by the group.

Our People

As is customary, no review would be complete without mention of our employees, at year end numbering 4,918 worldwide and I take this opportunity to welcome all newcomers to our family of businesses. It is the hard work and diligence of all our employees that makes the group the success that it is today.

Group Board Changes

BERNARD WATSON
Stepping down

At the end of 2019 Mr Bernard Watson stepped down from the board. Bernard joined the group when we acquired our first business in 1990. He has been a key part of the group's development ever since. I would like to thank him for his service and to wish him well in his retirement.

WILL LANGLEY
Joined the board in June

In June this year I invited my son William to join the group board, some four years after coming into the business to head our Reader Cement Products business. Welcome to the parent company board William.

MIKE NEALE
Appointed in July

I would also like to welcome to the Langley Holdings plc board, Mr Mike Neale. My confidant and trusted advisor of almost forty years, Mike retired as a partner with our advisors and auditors, Smith & Williamson last summer and I had no hesitation in immediately inviting him to join our board. Consequently Smith & Williamson resigned as the Auditors but will continue to provide advisory services to the group.

In June Piller MD's raised over €100,000 with a charity bike ride as part of Piller's '100 Years in Osterode' celebrations.

Finally whilst talking about our 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 2019 our companies matched €116,377 of employee donations to a variety of causes. Of particular note was '100 for 100', a gruelling 100 km bike ride through the Harz Mountains, undertaken by Piller MD's in June, to mark 100 years of the company's presence in Osterode-am-Harz, which raised over €100,000 including match funding.

Conclusion & Outlook

2019 saw a much reduced level of activity, when compared with 2018 and prior years, and the group experienced significant headwinds on several fronts. Nevertheless profits before tax was still a respectable 7% of revenue overall.

During the year we examined a number of acquisition opportunities and for the first time since 2014 a transaction was completed. Historically, our major developments have taken place where targets have underperformed largely due to a failure of management to adapt to a downturn. Marelli fits this description and the acquisition, turn-around and rebuilding of the target whilst dealing with the issues in the existing group, is valuable experience for the next generation members of this family business.

Looking ahead to 2020, with overall global growth forecast by the IMF to increase from 2.9% last year to 3.3% in 2020, trade tensions between the USA and China all but resolved and the possibility of a no-deal Brexit significantly diminished, macro-economic conditions do at least seem to be reasonably favourable although as I write, it is too early to say what impact the recent Coronavirus outbreak may have but without doubt the longer it goes on, the greater that impact will be.

At the group's level the opening order book is much improved on a year ago, reorganisation is all but completed at the recently acquired Marelli business and the principal problem areas in the divisions are being addressed.

Although I do not expect a return to the stellar performances of recent years in 2020, the group is poised for the future in good shape and I anticipate another reasonable performance overall in the current year.

Anthony J Langley
Chairman
7 February 2020

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