MOLINS PLC

Half-Year Results

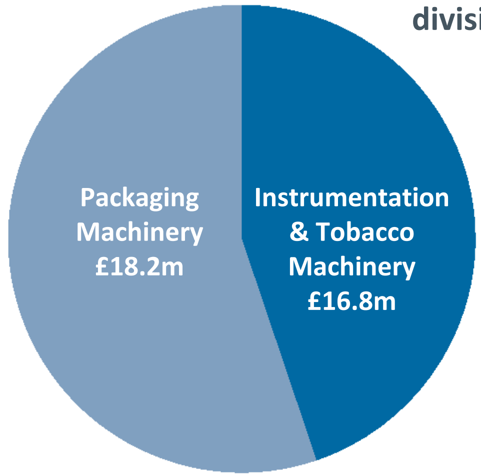
Six months to 30 June 2016

24 August 2016

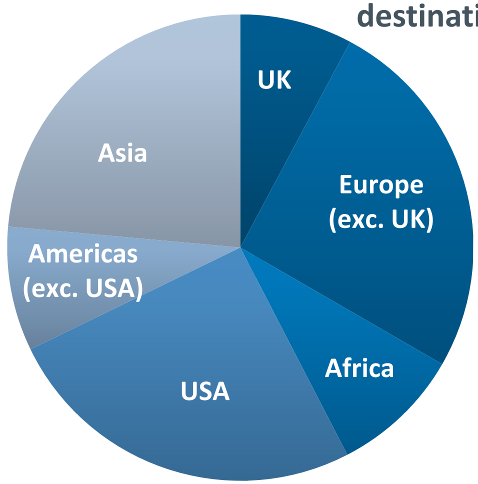
The Business

- Molins is a world-leading provider of processing & packaging machinery solutions and instrumentation, with a global service offering, to the nutrition, beverage, healthcare, pharmaceutical and tobacco markets
- Two operating divisions
  - Packaging Machinery
  - Instrumentation & Tobacco Machinery
- International presence – 90% of sales are non-UK
- Emphasis on customer service and growth in emerging markets

H1 2016 sales by division



FY 2015 sales by destination



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H1 Results: Operational Key Points

- Results in line with management expectations
- Softer trading conditions in Packaging Machinery division led to reduced sales
- Continued challenging market conditions for the Instrumentation & Tobacco Machinery division, although demand for instrumentation improved in the period
- Sales of aftermarket products increased across the Group
- Both divisions are expected to deliver H2 weighted performances but with a more cautious view of the short-term trading conditions, such that trading expectations for the current year have been revised downwards
- Appointment of Tony Steels as CEO on 6 June 2016
- Comprehensive review of strategic direction initiated to ensure the Group is in the best position to serve its customers, and is focused on market opportunities and operational efficiency

H1 Results: Financial Key Points

- Sales of £35.0m (2015: £39.5m)
- Underlying profit before tax of £0.1m (2015: £1.3m)
- Underlying profit per share of 0.2p (2015: 5.1p)
- Net debt of £4.6m (Dec 2015: £3.2m)
- Reduced interim dividend of 1.25p per share (2015: 2.5p) – in line with rebased 2015 final dividend

Divisional Trading Results

Sales	H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Packaging Machinery	18.2	21.8	51.0
Instrumentation & Tobacco Machinery	16.8	17.7	36.0
Total	**35.0**	**39.5**	**87.0**
Underlying operating profit*			
Packaging Machinery	-	1.1	3.9
Instrumentation & Tobacco Machinery	0.2	0.3	0.1
Total	**0.2**	**1.4**	**4.0**

* Before non-underlying items

Financial Review: Income Statement

	H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Sales	**35.0**	**39.5**	**87.0**
Underlying operating profit*	**0.2**	**1.4**	**4.0**
Non-underlying items	(0.4)	(0.5)	(1.1)
Operating (loss)/profit	**(0.2)**	**0.9**	**2.9**
Net interest expense	(0.1)	(0.5)	(0.9)
Loss from discontinued operations	-	(5.7)	(5.8)
Loss before tax	**(0.3)**	**(5.3)**	**(3.8)**
Taxation	-	-	(0.3)
Loss for the period	**(0.3)**	**(5.3)**	**(4.1)**
Underlying EPS*	**0.2p**	**5.1p**	**15.1p**
Basic loss per share	(1.5)p	(26.9)p	(20.9)p

- Flat performance in Instrumentation & Tobacco Machinery division
- Decline in Packaging Machinery sales and profit due to lengthening order cycle
- Non-underlying items relate to pension administration costs (plus reorganisation costs of £0.1m in HY 2015)
- Underlying net interest of £0.1m (2015: £0.1m), less pension interest of £nil (2015: £0.4m)
- Taxation charge on underlying profit of £nil

* Before non-underlying items

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Financial Review: Cash Flows

	H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Cash flows from operating activities	0.1	0.5	3.6
Cash flows from investing activities	(1.3)	(1.6)	(2.7)
Cash flows from financing activities	(0.5)	(0.7)	(1.5)
Net cash flow	**(1.7)**	**(1.8)**	**(0.6)**
Opening net debt	(3.2)	(2.1)	(2.1)
Exchange	0.3	-	(0.5)
Closing net debt	**(4.6)**	**(3.9)**	**(3.2)**

- Cash flow from operating activities includes:
  - £0.2m working capital increase
  - £0.9m pension payments to UK defined benefit pension scheme (2015: £0.9m)
  - £0.1m net outflow from discontinued operations (2015: £0.9m)
  - £0.3m tax paid (2015: £0.1m)
- Cash flow from investing activities includes:
  - £0.6m net capital expenditure (2015: £0.4m)
  - £0.8m product development expenditure (2015: £1.2m)
- Cash flow from financing activities includes:
  - £0.3m dividends paid

Financial Review: Balance Sheet

Net assets		H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Intangible assets:	Goodwill	7.6	7.4	7.4
	Product development	7.5	7.4	7.3
	Other intangibles	0.2	0.2	0.2
	Total	15.3	15.0	14.9
Property, plant & equipment		9.5	8.9	8.8
Net working capital (exc. pensions & tax)		15.4	12.6	12.7
Pension schemes (after tax)		(6.4)	(9.7)	2.9
Current & deferred tax (exc. pensions)		1.2	0.7	0.5
Net debt		(4.6)	(3.9)	(3.2)
Equity		**30.4**	**23.6**	**36.6**
Net assets per share		151p	117p	181p

- Goodwill at June 2016 relates to Cerulean only
- Property, plant and equipment includes £0.8m of investment property (land & property which is subject to a planning application/appeal)
- Tax balance includes £0.1m of net current tax payable
- Main equity movements: £9.3m actuarial losses (net of tax); £0.3m dividends paid; £0.3m loss after tax; £2.9m translation gains; £0.7m favourable change in fair value of cash flow hedges (net of tax)

Packaging Machinery: Business Overview

- Leading supplier of complex highly automated product handling, cartoning and robotic end-of-line packaging and processing equipment
- Innovative technology tailored for specific niches within the following sectors
  - nutrition
  - beverages
  - healthcare
  - pharmaceutical
  - tobacco
- Key supplier to a number of leading FMCG and pharmaceutical multinationals
- Global presence with locations in UK, Netherlands, Canada and Singapore
  - activity across all markets, with expansion in Asia and South America

Packaging Machinery: Operating Performance

	H1 Jun 16	H1 Jun 15	FY Dec 15
Sales	£18.2m	£21.8m	£51.0m
Operating profit	-	£1.1m	£3.9m
Operating margin	-	5.0%	7.6%

- Softer trading in H2 2015 continued into 2016 and order intake was lower in H1 as prospects continue to take extended time to confirm orders
- Sales decline compared to 2015 reflects lower activity
- Increased activity within the aftermarket product groups
- Robust level of prospects but conversion is more difficult to predict in current environment

Instrumentation & Tobacco Machinery: Business Overview

- Supplier of instrumentation, machinery and aftermarket services, predominantly to the tobacco industry
- Global presence – UK, USA, Brazil, Singapore, Czech Republic, Egypt, India and China
- Well developed supply chain, with instrumentation assembly in the UK and main manufacturing facility in Czech Republic
- Central product development and logistics functions in the UK
- Customers include multinational, independent and state-owned cigarette manufacturers and non-tobacco FMCG businesses

Instrumentation & Tobacco Machinery: Operating Performance

	H1 Jun 16	H1 Jun 15	FY Dec 15
Sales	£16.8m	£17.7m	£36.0m
Operating profit*	£0.2m	£0.3m	£0.1m
Operating margin*	1.2%	1.7%	0.3%

*Before reorganisation costs of £nil (Jun 2015: £0.1m; Dec 2015: £0.4m)

- Demand for new cigarette making and packing machines remained challenging but orders for instrumentation increased in the period
- Aftermarket demand held up well
- Recently completed product development initiatives:
  - enhanced instrumentation product range to consolidate position as market-leader
  - field trials of Alto (10,000 per minute cigarette maker) successfully completed and subsequent orders received
  - field trial of Optima (cigarette packing machine) with first customer expected to be completed in H2, with a second customer field trial confirmed
- Challenging outlook continues but new extended product offering positions the division better for any upturn

Outlook

- As in previous years, the full year trading performance will be significantly weighted towards H2
- Prospects for the Packaging Machinery division are more challenging as conversion of prospects to orders continues to be slow
- Instrumentation & Tobacco Machinery division continues to be affected by challenging market conditions but the division is well placed to benefit as the market improves
- With delays in order intake, a more cautious view of the short-term outlook is being taken, such that the Board has revised downwards its trading expectations for the current year
- Strategic review underway to ensure the Group is in the best position to serve its customers

Supplementary Information

- Taxation and EPS
- Cash Flow
- Working Capital
- Banking Facilities
- Pensions

Taxation and EPS

Taxation

	H1 Jun 16	H1 Jun 15	FY Dec 15
Underlying tax charge*	-	£0.3m	£0.9m
Tax credit on pension scheme balances	-	£(0.3)m	£(0.6)m
Total tax charge	-	**-**	**£0.3m**
Effective rate on underlying profits	12%	24%	24%

* Before non-underlying items

Earnings per share

	H1 Jun 16	H1 Jun 15	FY Dec 15
Underlying EPS	0.2p	5.1p	15.1p
Profit before non-underlying items	£0.1m	£1.0m	£2.9m
Basic loss per share	(1.5)p	(26.9)p	(20.9)p
Loss for the period	£(0.3)m	£(5.3)m	£(4.1)m
Average number of shares (000's)~	19,708	19,522	19,575
Number of shares in issue (000's)	20,172	20,172	20,172

~ Average number of shares used for non-diluted loss per share calculations excludes shares held by employee trust

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Cash Flow

	H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Underlying operating profit*	0.2	1.4	4.0
Depreciation, amortisation and amortisation charge	1.4	1.1	2.6
Other non-cash items	-	(0.1)	0.2
Pension payments	(0.9)	(0.9)	(1.9)
Working capital movements	(0.2)	0.2	0.4
Cash generated from operations	**0.5**	**1.7**	**5.3**
Discontinued operations	(0.1)	(0.9)	(1.2)
Reorganisation	-	(0.2)	(0.4)
Taxation paid	(0.3)	(0.1)	(0.1)
Cash flow from operating activities	**0.1**	**0.5**	**3.6**

* Before non-underlying items

	H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Interest received	0.1	-	0.1
Capital expenditure (net)	(0.6)	(0.4)	(0.9)
Development expenditure	(0.8)	(1.2)	(1.9)
Purchase of intellectual property	-	(0.2)	(0.2)
Net proceeds on disposal of discontinued operations	-	0.2	0.2
Cash flow from investing activities	**(1.3)**	**(1.6)**	**(2.7)**
Interest paid	(0.2)	(0.1)	(0.3)
Purchase of own shares	-	-	(0.1)
Dividends paid	(0.3)	(0.6)	(1.1)
Net cash from financing activities	**(0.5)**	**(0.7)**	**(1.5)**
Cash flow flow	**(1.7)**	**(1.8)**	**(0.6)**
Opening net debt	(3.2)	(2.1)	(2.1)
Exchange	0.3	-	(0.5)
Closing net debt	**(4.6)**	**(3.9)**	**(3.2)**

Working Capital

	H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Inventories (increase)/decrease	(0.5)	(2.5)	2.2
Receivables decrease	2.1	2.6	6.4
Payables (decrease)/increase	(1.7)	0.2	(8.1)
Provisions decrease	(0.1)	(0.1)	(0.1)
Net working capital (increase)/decrease	**(0.2)**	**0.2**	**0.4**

Banking Facilities

- UK borrowing facilities of £13.0m committed to September 2018, secured on the Group's assets
- Ancillary facilities in place to cover Group's bonding, guarantees and foreign exchange requirements

Pensions

		H1 Jun 16 £m	H1 Jun 15 £m	FY Dec 15 £m
Value of assets	UK	370.9	349.3	346.9
	US	16.8	14.6	14.9
	Total	**387.7**	**363.9**	**361.8**
Net (liability)/asset	UK	(1.9)	(7.6)	10.6
	US	(8.1)	(6.0)	(6.6)
	Net before tax	**(10.0)**	**(13.6)**	**4.0**
	Deferred tax	3.6	3.9	(1.1)
	Net after tax	**(6.4)**	**(9.7)**	**2.9**

- Accounting valuation of the UK scheme deteriorated mainly due to lower discount rates, partly compensated by strong investment performance
- Funding of UK scheme at £1.8m (+2.1%) per annum (17 year recovery period as from July 2012)
- Triennial funding valuation as at June 2015 commenced and ongoing

Pension administration costs	0.4	0.4	0.7
Interest cost less other income on pension scheme balances	-	0.4	0.4
Net pension charge before tax	**0.4**	**0.8**	**1.1**

- Pension administration costs are funded by the pension schemes
- Interest cost calculated by applying the discount rate at the beginning of the year to the opening IAS 19 valuation

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