



ANNUAL GENERAL MEETING  
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MARCH 6, 2018

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# CEO'S OPERATIONAL REPORT

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Arni Oddur Thordarson,  
Chief Executive Officer



The Marel equity story  
is truly a compelling one





**2017**

**A YEAR OF GROWTH  
AND SOLID  
OPERATIONAL  
PERFORMANCE**

# ANNUAL REVENUES OF EUR 1 BILLION

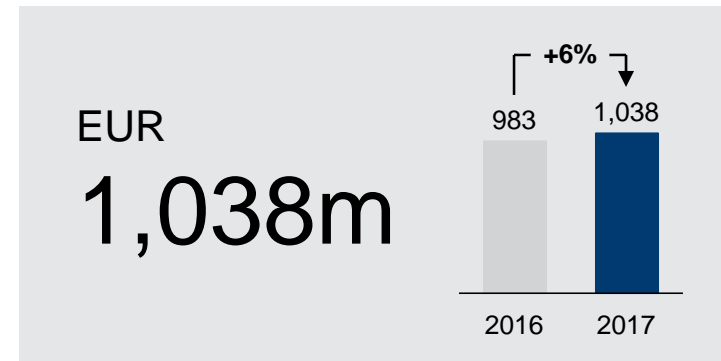


For the full year, revenues were over EUR 1 billion with 15% EBIT. In light of the good results delivered in 2017 and robust order book, we expect strong organic revenue growth in 2018.

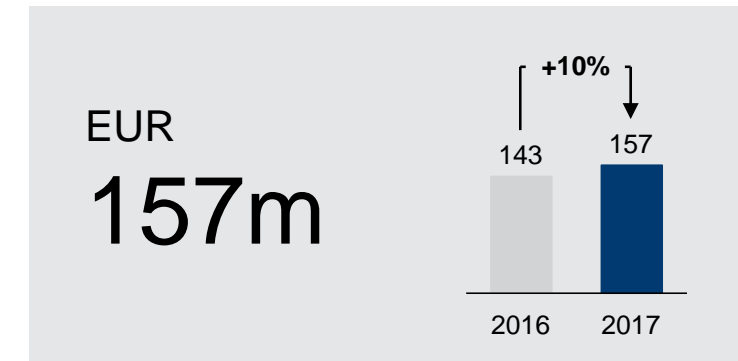
## 2017 HIGHLIGHTS

- Orders received increased by 13% over the year
- Revenues increased by 6%
- Operational EBIT increased 10%
- Earnings per share (EPS) was up 29%
- Strong operational cash flow and leverage at x1.9 net debt/EBITDA
- Marel starts 2018 with a strong order book, at EUR 472m, or x0.45 of trailing twelve month revenues

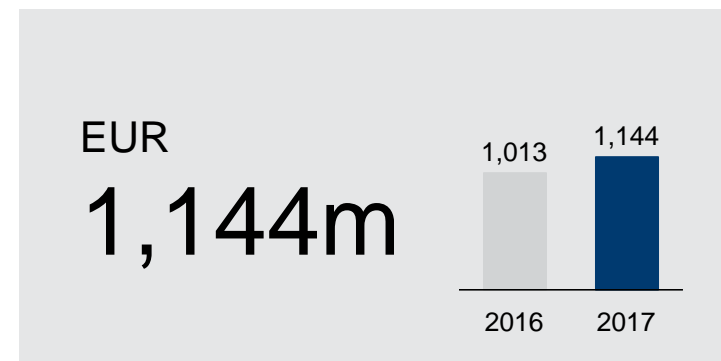
## REVENUES



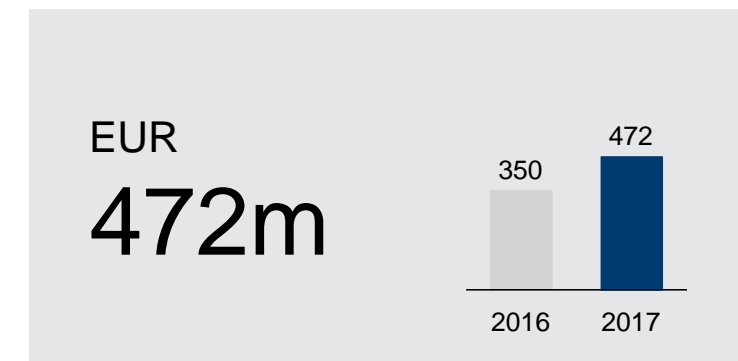
## ADJUSTED EBIT



## ORDERS RECEIVED



## ORDER BOOK



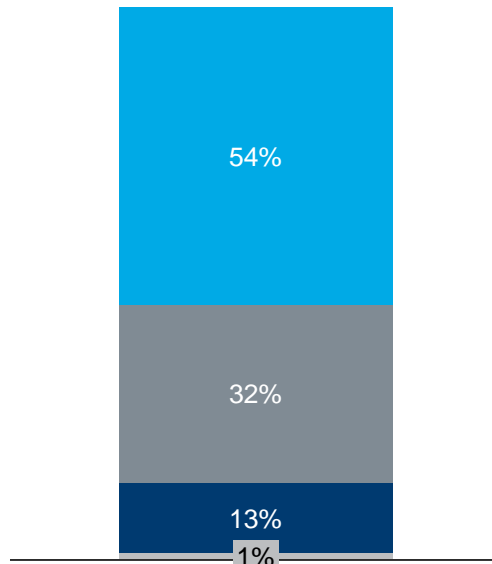
# GOOD QUALITY OF EARNINGS



Good market conditions in all industries, strong track record of a well diversified revenue structure across business segments and geographies

## REVENUES BY INDUSTRY

%

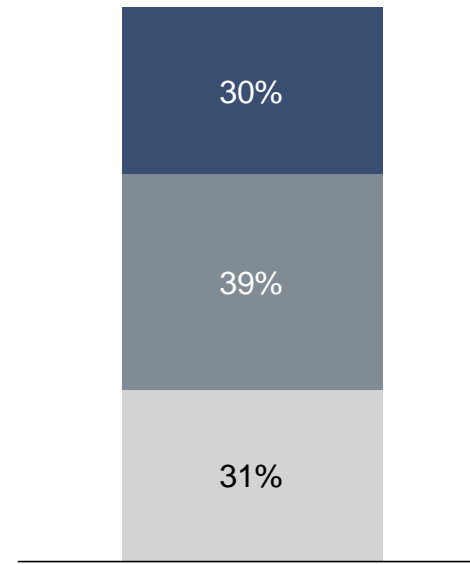


2017

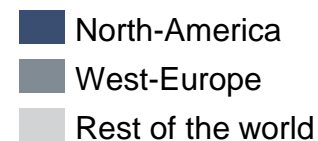


## REVENUES BY GEOGRAPHY

%

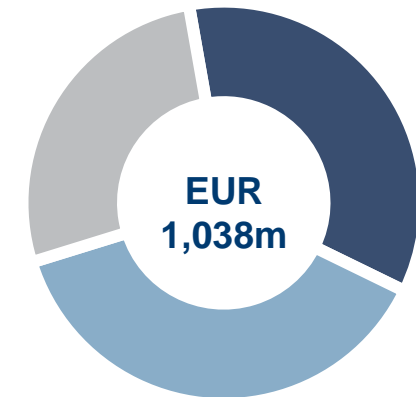


2017

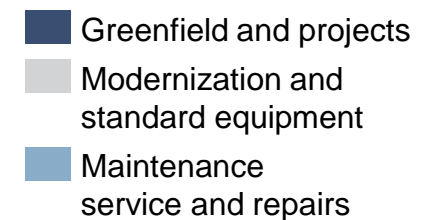


## REVENUES BY BUSINESS MIX

%



2017

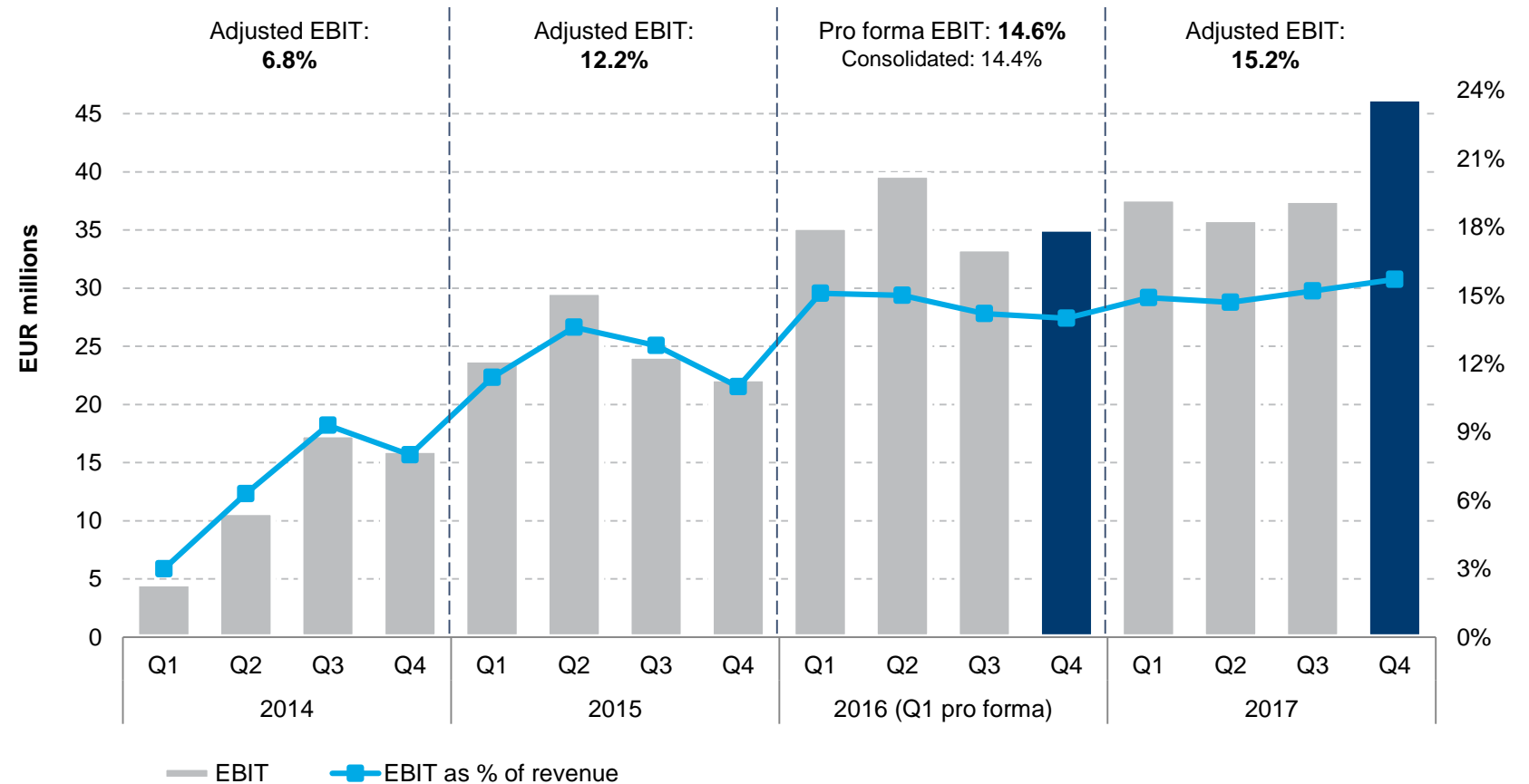


# FIRM STEPS TAKEN TO IMPROVE PROFITABILITY



Strong earnings growth with healthy profit margin of around 15% EBIT margin for eight consecutive quarters

- Ramp up of production well managed in 4Q17 with higher revenues and operational costs rising at slower pace, leading to higher EBIT
- Improved flexibility with more scalable operations following ‘Simpler, Smarter, Faster’ and strategic investments in innovation and infrastructure
- Ongoing and continued investment in future platform to serve customers’ needs better and sustain competitive edge



Note: Operating income adjusted for amortization of acquisition-related intangible assets (PPA) in 2016-2017. 2014-2015 EBIT adjusted for refocusing cost and acquisition costs.



# BALANCED REVENUE MIX

Good market conditions and overall balanced product mix. Focus on the three industries to counterbalance fluctuations in operations. Long term outlook is good for all industries.

## POULTRY



54% of revenues  
19.5% EBIT margin

- Very strong full year with robust order intake, strong volume and solid operational performance
- Good market conditions and strong competitive position

**Marel is reaping the benefits of a steady flow of innovative products with standard blocks and full line offering**

## MEAT



32% of revenues  
11.5% EBIT\* margin

- Good first half of the year, however 2H17 was affected by product mix and timing of deliveries of large orders, soft outlook expected to continue in the short term
- Marel is strengthening its position in South America with the acquisition of Brazilian meat processor Sulmaq

**Focus going forward on increased standardization and modularization**

## FISH



13% of revenues  
4.3% EBIT margin

- Marel Fish is on track and delivered good order intake and improved margins in core business while discontinuing customized onboard solutions in Seattle
- Operational performance below long term targets

**Focus on full line offering for wild whitefish, farmed salmon and farmed whitefish**



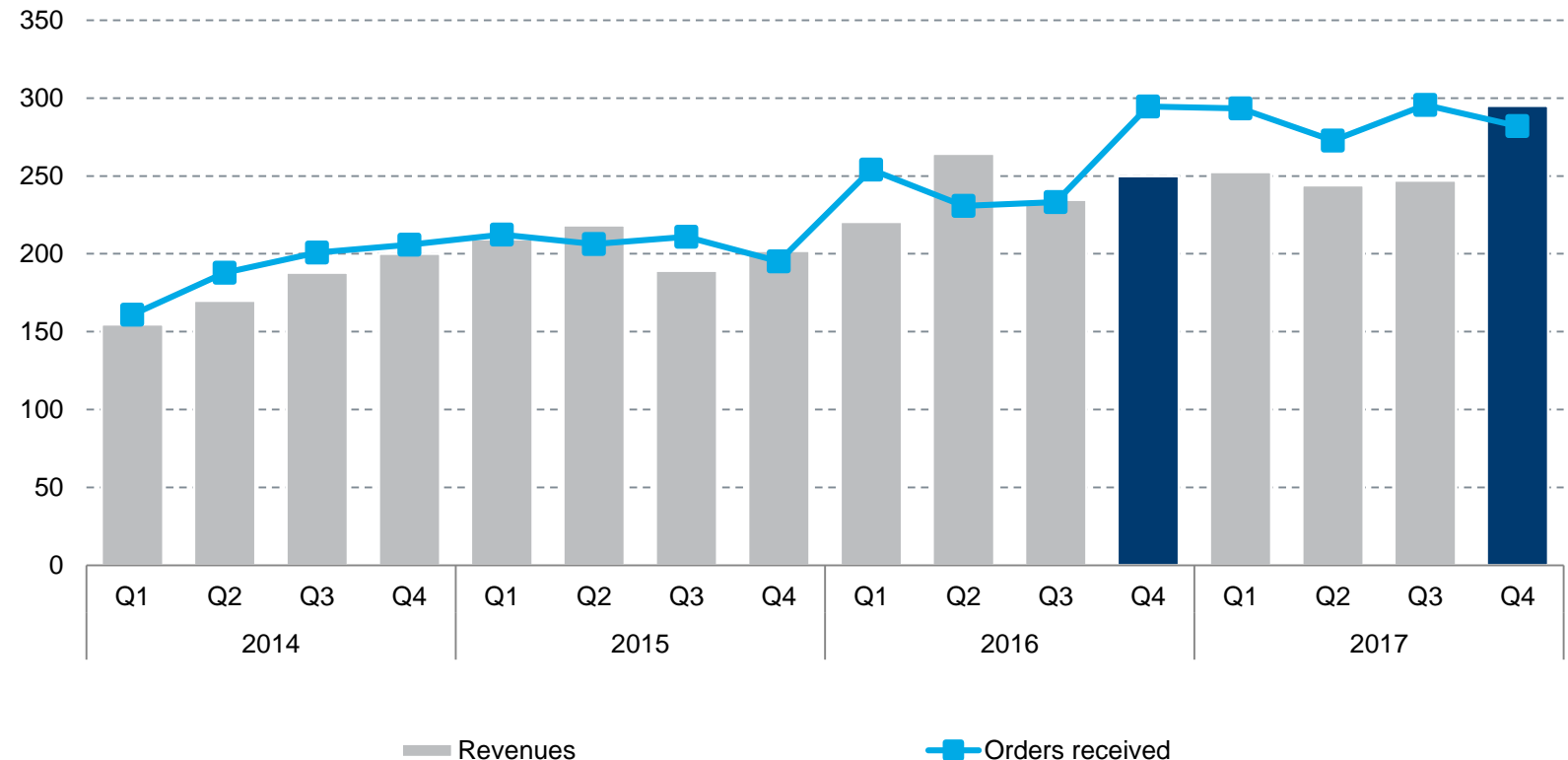
# ORDERS RECEIVED



Orders received in 2017 were robust amounting to EUR 1,144 million compared to revenues of EUR 1,038 million

- At year-end, the order book was x0.45 of trailing twelve months' revenues
- Greenfields and projects with long lead times constitute the vast majority of the order book
- Standard equipment and spare parts run with shorter cycles than larger projects
- Maintenance, spare parts and services are now close to 40% of revenues

**REVENUES AND ORDERS RECEIVED**  
EUR m



# INCOME STATEMENT - FULL YEAR 2017



Revenues in 2017 reached the EUR 1bn mark with an adjusted EBIT of EUR 157m or 15.2% EBIT margin. Gross profit was EUR 407m or 39.2% of revenues.

In EUR million unless stated otherwise	FY 2017	Of revenues	FY 2016	Of revenues	Change
Revenues	1,038.2		969.7		+7%
Cost of sales	(631.5)		(572.7)		+10%
<b>Gross profit</b>	<b>406.7</b>	<b>39.2%</b>	<b>397.0</b>	<b>40.9%</b>	<b>+2%</b>
Selling and marketing expenses	(120.5)	11.6%	(128.5)	13.2%	-6%
Research and development expenses	(57.8)	5.6%	(63.1)	6.5%	-8%
General and administrative expenses	(71.0)	6.8%	(66.2)	6.8%	+7%
Other operating income	-	-	0.2	0.0%	-
<b>Adjusted result from operations</b>	<b>157.4</b>	<b>15.2%</b>	<b>139.4</b>	<b>14.4%</b>	<b>+13%</b>
Amortization of acquisition-related (in) tangible assets	(17.1)		(24.6)		-30%
<b>Result from operations</b>	<b>140.3</b>	<b>13.5%</b>	<b>114.8</b>	<b>11.8%</b>	<b>+22%</b>
Net finance costs	(20.3)		(25.4)		-20%
<b>Result before income tax</b>	<b>120.0</b>		<b>89.4</b>		<b>+34%</b>
Income tax	(23.1)		(13.6)		+69%
<b>Net result</b>	<b>96.9</b>	<b>9.3%</b>	<b>75.8</b>	<b>7.8%</b>	<b>+28%</b>

# BALANCE SHEET - ASSETS



## 2017 Consolidated Financial Statements

### HIGHLIGHTS

- Marel is advancing the manufacturing and innovation facilities and improving the working environment across the company, as reflected in PP&E
- Goodwill is increasing because of the acquisition of Sulmaq that adds EUR 13m to goodwill
- Working capital items are impacted by increased volume
- Overall working capital is decreasing compared to 2016, primarily caused by down payments on projects

### ASSETS

In EUR million	2017	2016	Change
Property, plant and equipment	144.7	119.0	+22%
Goodwill	643.9	635.2	+1%
Intangible assets (excluding goodwill)	262.7	277.5	-5%
Other non-current assets	9.3	7.9	+18%
<b>Non-current assets</b>	<b>1,060.6</b>	<b>1,039.6</b>	<b>+2%</b>
Inventories	124.4	122.2	+2%
Production contracts	48.2	37.0	+30%
Trade receivables	128.9	115.3	+12%
Other receivables and prepayments	46.6	32.7	+42%
Derivative financial instruments		0.1	
Cash and cash equivalents	31.9	45.5	-31%
<b>Current assets</b>	<b>380.0</b>	<b>352.8</b>	<b>+8%</b>
<b>TOTAL ASSETS</b>	<b>1,440.6</b>	<b>1,392.4</b>	<b>+3%</b>



# BALANCE SHEET - EQUITY AND LIABILITIES



2017 Consolidated Financial Statements

## HIGHLIGHTS

- Borrowings are going down between years despite purchase of EUR 63.4m worth of treasury shares and the acquisition of Sulmaq
- Working capital items affected by volume
- Production contracts reflect down payments from customers on projects that will be produced

## EQUITY AND LIABILITIES

In EUR million	2017	2016	Change
<b>Group equity</b>	<b>541.9</b>	<b>525.6</b>	<b>+3%</b>
Borrowings	370.7	425.0	-13%
Deferred income tax liabilities	61.3	63.5	-3%
Provisions	8.6	7.4	16%
Other liabilities	3.6		
Derivative financial instruments	2.7	4.9	-45%
<b>Non-current liabilities</b>	<b>446.9</b>	<b>500.8</b>	<b>-11%</b>
Production contracts	209.6	150.8	39%
Trade and other payables	195.9	168.9	16%
Current income tax liabilities	11.0	9.1	21%
Borrowings	26.2	24.1	9%
Provisions	9.1	13.1	-31%
<b>Current liabilities</b>	<b>451.8</b>	<b>366.0</b>	<b>23%</b>
<b>Total liabilities</b>	<b>898.7</b>	<b>866.8</b>	<b>+4%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,440.6</b>	<b>1,392.4</b>	<b>+3%</b>

# CASH FLOW COMPOSITION - FULL YEAR 2017



2017 Consolidated Financial Statements

## HIGHLIGHTS

- Strong cash flow
- Part of the cash flow used to invest in innovation and the business, strengthening the platform to support future growth
- Net finance cost going down due to improved terms and conditions and lower net debt
- Net purchase of treasury shares in 2017 of around EUR 60m
- Dividends paid out in 2017 20% of net profit
- Business combinations, purchase of Sulmaq in 2017 and MPS in 2016.

## CASH FLOW FROM OPERATING ACTIVITIES

In EUR million	2017	2016	Change
Cash generated from operating activities	236.2	179.0	32%
Taxed paid	(26.2)	(8.1)	223%
Investing activities	(57.5)	(44.3)	30%
<b>Free cash flow</b>	<b>152.5</b>	<b>126.6</b>	<b>20%</b>
Net finance cost	(14.4)	(33.8)	-57%
Net sale of treasury shares	(59.8)	10.9	-
Proceeds from assets held for sale	0	4.6	-
Dividends paid	(15.3)	(11.3)	35%
Net proceeds from borrowings	(47.1)	220.8	-
Business combinations	(20.2)	(368.4)	-95%
<b>Other cash flow items</b>	<b>(156.9)</b>	<b>(177.2)</b>	<b>-11%</b>

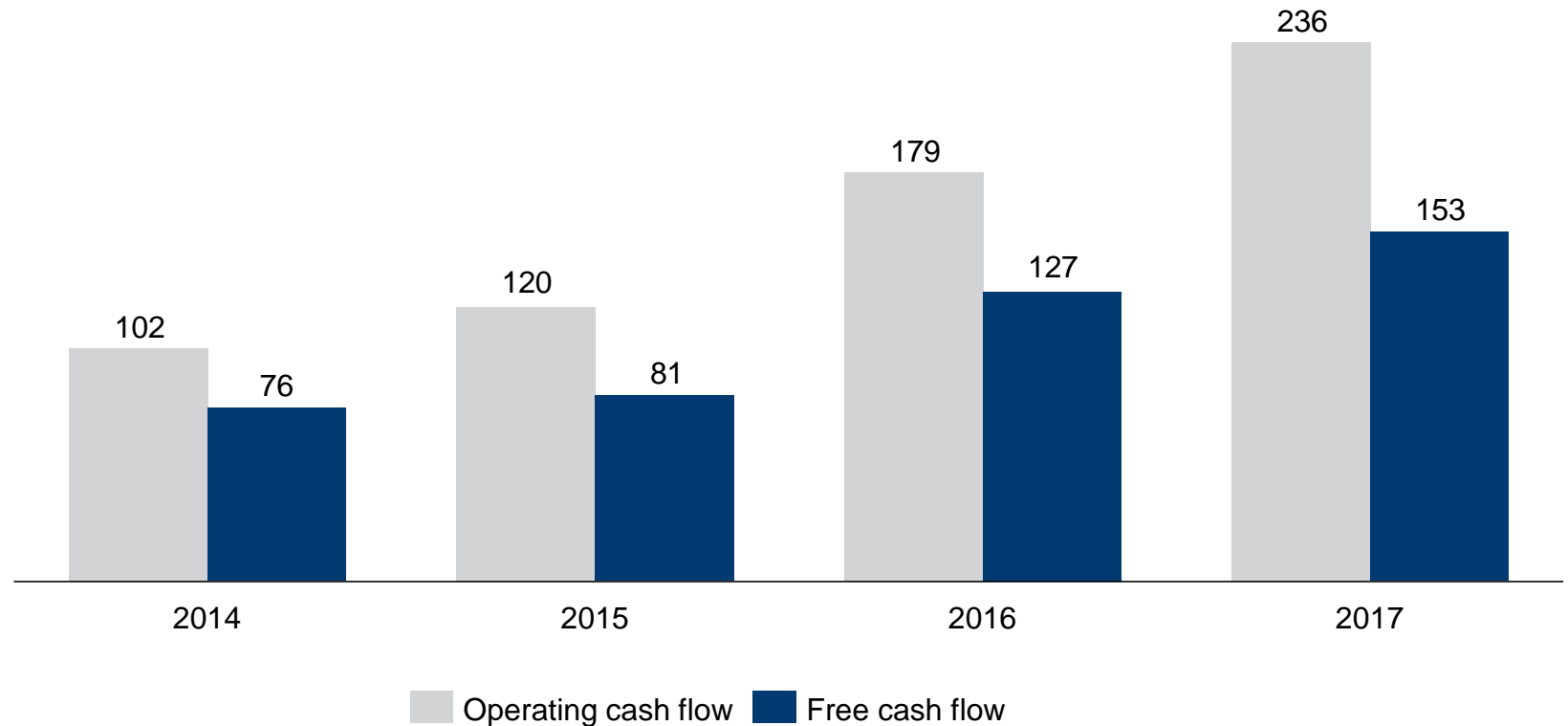
# STRONG CASH FLOW



Strong cash flow enabled both deleveraging and the undertaking of strategic acquisitions, free cash flow in 2017 amounted to EUR 153 million

- Free cash flow growing with operational improvement and revenue growth
- Strong order book results in working capital improvements
- Good cash conversion despite focus on investments to grow the business

**CASH FLOW**  
EUR m





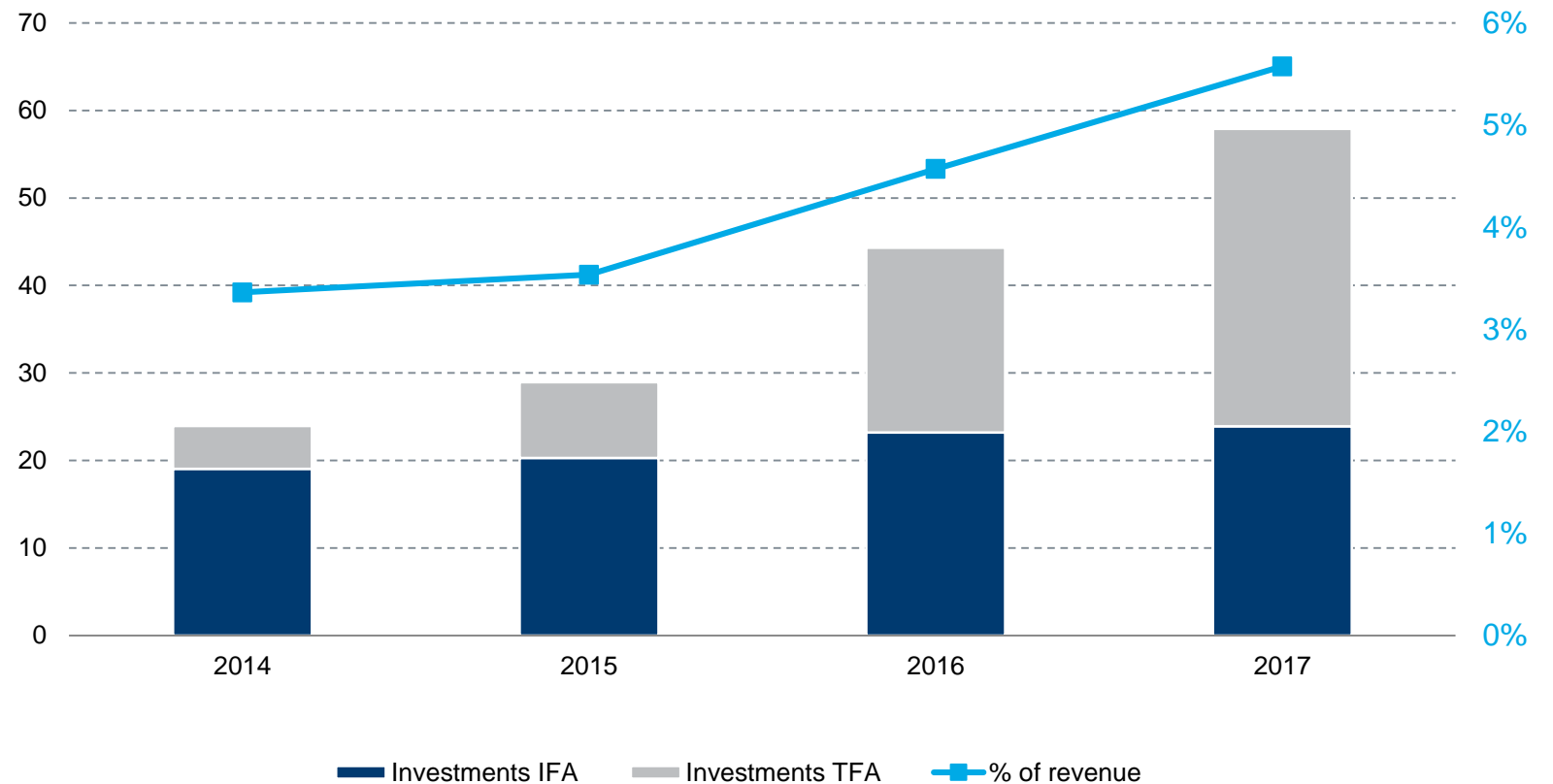
# INVESTING IN THE BUSINESS TO SUPPORT FUTURE GROWTH



Strong cash flow enables substantial investments in innovation and the future platform to the advantage of Marel and our customers

- Robust cash flow partly used to invest in infrastructure to support our ambitious growth strategy as laid out in the 2017 AGM
- Aligned IT platforms across the whole organization
- Significant investment in our facilities, in particular manufacturing and innovation

**CAPEX 2014-2017**  
EUR m



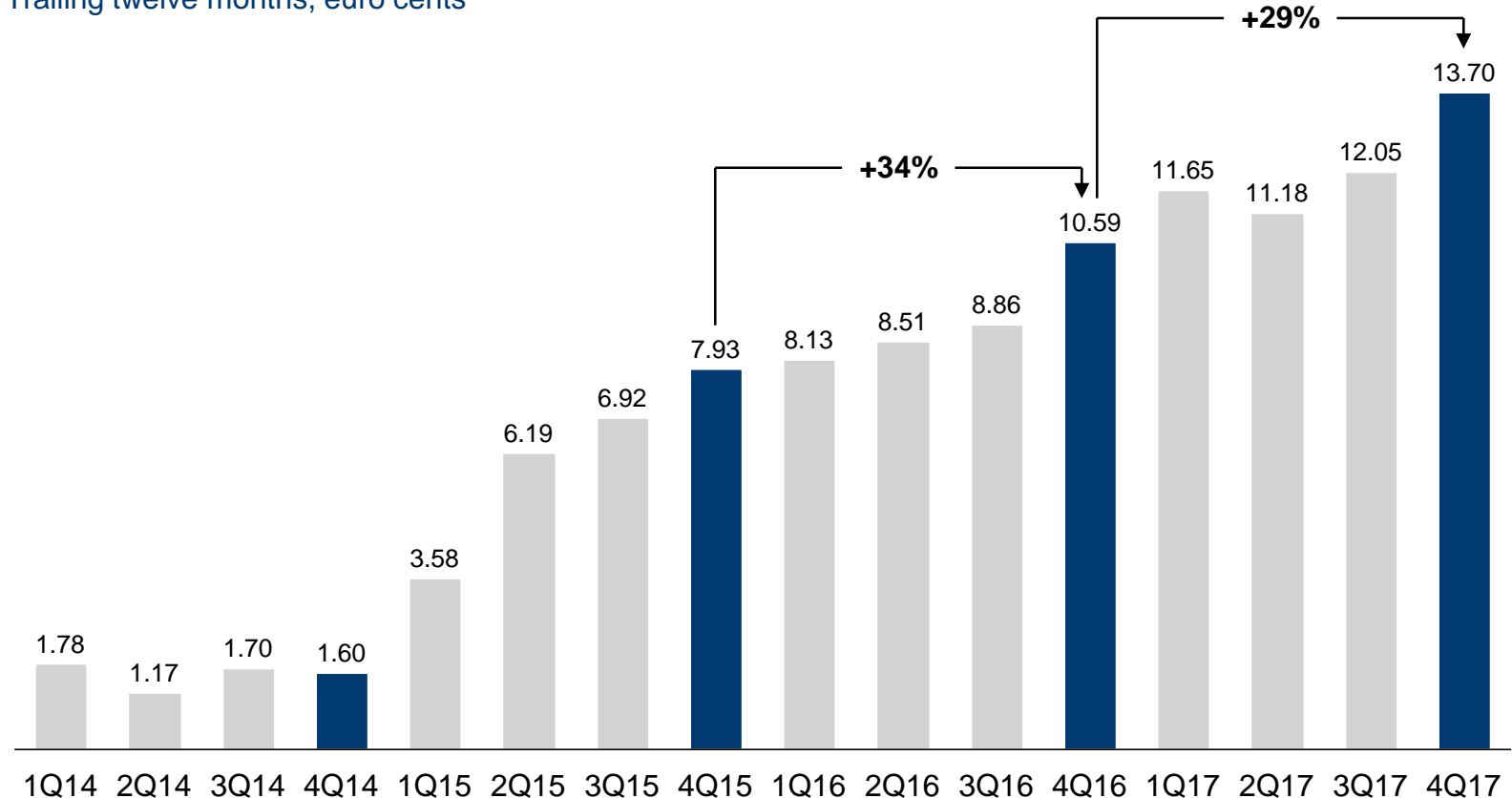
# EARNINGS PER SHARE



Favorable development in Earnings per Share (EPS) over recent quarters - management expects Earnings per Share to grow faster than revenues

- The Board of Directors has proposed a dividend of EUR 4.19 cents per share for the operating year 2017, the equivalent of 30% of 2017 net results
- This is proposed in accordance to Marel's dividend policy
- Dividends or share buy-backs are targeted at 20-40% of the net result
- The Board of Directors has authorized management to purchase own shares for nominal value of 20 million

**EARNINGS PER SHARE (EPS)**  
Trailing twelve months, euro cents



# LONG STANDING BANKING PARTNERS



Marel's funding structure is built on long term relationships with seven international first class banks



Rabobank

SENIOR FACILITY	MARGIN	MATURITY	AMORTIZATION p.a.	INTEREST HEDGES
<p>EUR 243m and USD 75m Term loans</p> <p>EUR 325m revolving facility</p>	<p>Margin moves in line with net debt leverage</p>	<p>Five year facility with final maturity in May 2022</p>	<p>EUR 15m (semi-annually)</p> <p>USD term loan is a bullet</p>	<p>Floating interest rate risk is hedged with interest rate swaps (hedging policy of 50-70% fixed)</p>
<p>EUR 600m</p>	<p>1.85%</p>	<p>2022</p>	<p>EUR 30m</p>	<p>~ 60% fixed</p>

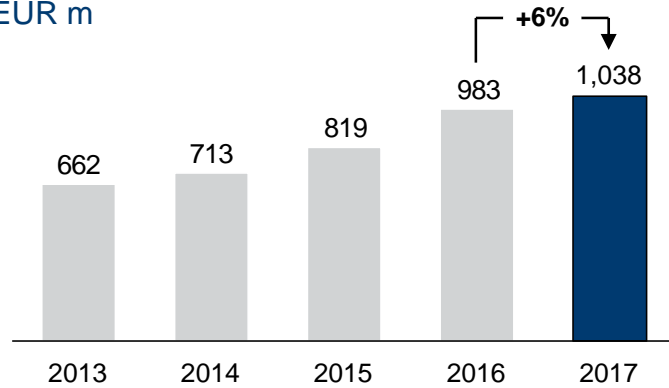


# KEY FIGURES

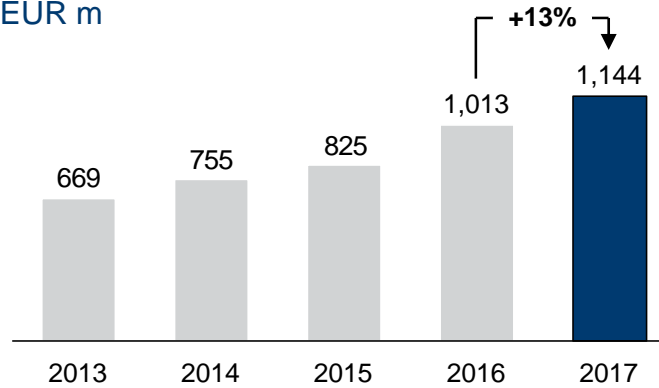


## Comparison of the 2017 Annual Consolidated Financial Results

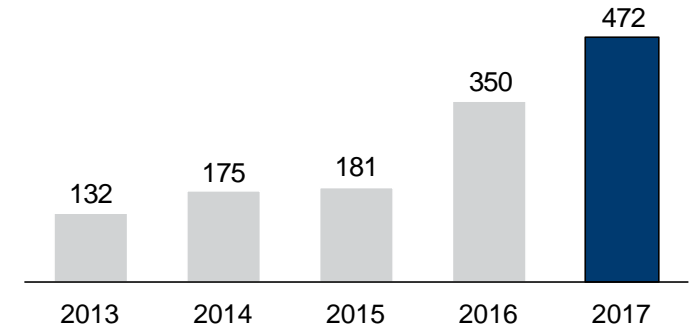
### REVENUES EUR m



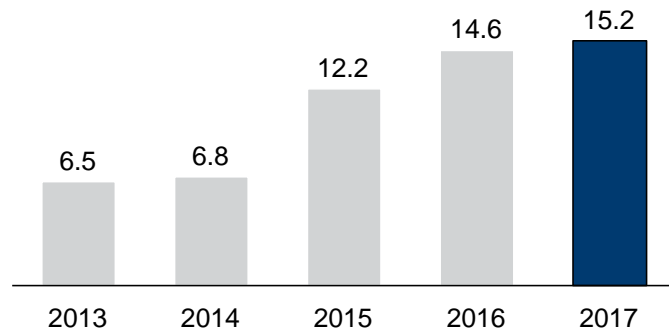
### ORDERS RECEIVED EUR m



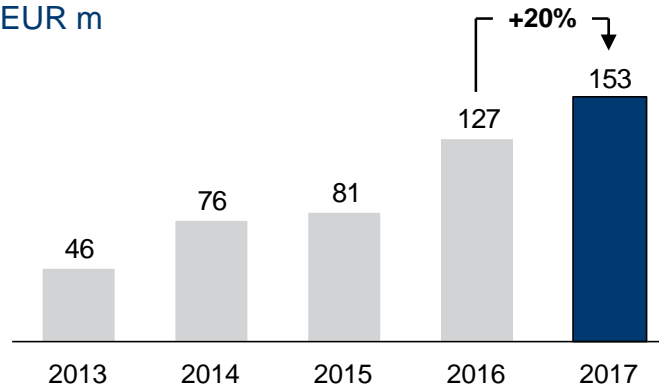
### ORDER BOOK EUR m



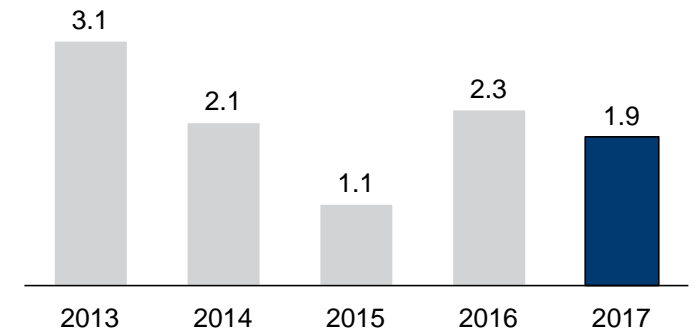
### EBIT %



### FREE CASH FLOW EUR m



### LEVERAGE Net debt/EBITDA



# FINANCIAL TARGETS



The growth strategy laid out in 2017 states the goal of achieving 12% average annual revenue growth in the next ten years

	TARGET	FY17	FY16	FY15	
<b>REVENUE GROWTH</b>	12% average annual revenue growth in 2017-2026	6%	20%	15%	Marel's management expects 4-6% average annual market growth in the long-term.* Marel aims to grow organically faster than the market, driven by innovation and market penetration. Solid operational performance and strong cash flow to support 5-7% revenue growth on average by acquisition.**
<b>INNOVATION INVESTMENT</b>	~6% of revenues	5.5%	6.5%	7%	To support new product development and ensure continued competitiveness of existing product offering.
<b>EPS (euro cent)***</b>	EPS to grow faster than revenue	13.7	10.6	7.9	Marel's management expects Earnings per Share (EPS) to grow faster than revenues.
<b>LEVERAGE</b>	2-3 times net debt/ EBITDA	x1.90	x2.25	x1.05	The leverage ratio is estimated to be in line with the targeted capital structure of the company.
<b>DIVIDEND POLICY</b>	20-40% of net profit	30%	20%	20%	Dividend or share buy-back targeted at 20-40% of net profits. Excess capital used to stimulate growth and value creation, as well as paying dividends.

\*Growth will not be linear but based on opportunities and economic fluctuations.

\*\*Operational results may vary from quarter to quarter due to general economic developments, fluctuations in orders received and timing of deliveries of larger systems.

\*\*\*Trailing twelve months, EUR cents



A blue-tinted background image of a modern building facade. The building features a prominent grid of windows, with some windows appearing as bright white rectangles against the darker blue background. The perspective is slightly angled, showing the depth of the building's structure. The overall mood is clean, professional, and architectural.

**UNITY**





## A DIVERSE TEAM OF 5,400 PEOPLE IN OVER 30 COUNTRIES

The playing field has gradually expanded to provide advanced solutions and services for the global poultry, meat and fish industries.



YIELD  
EFFICIENCY

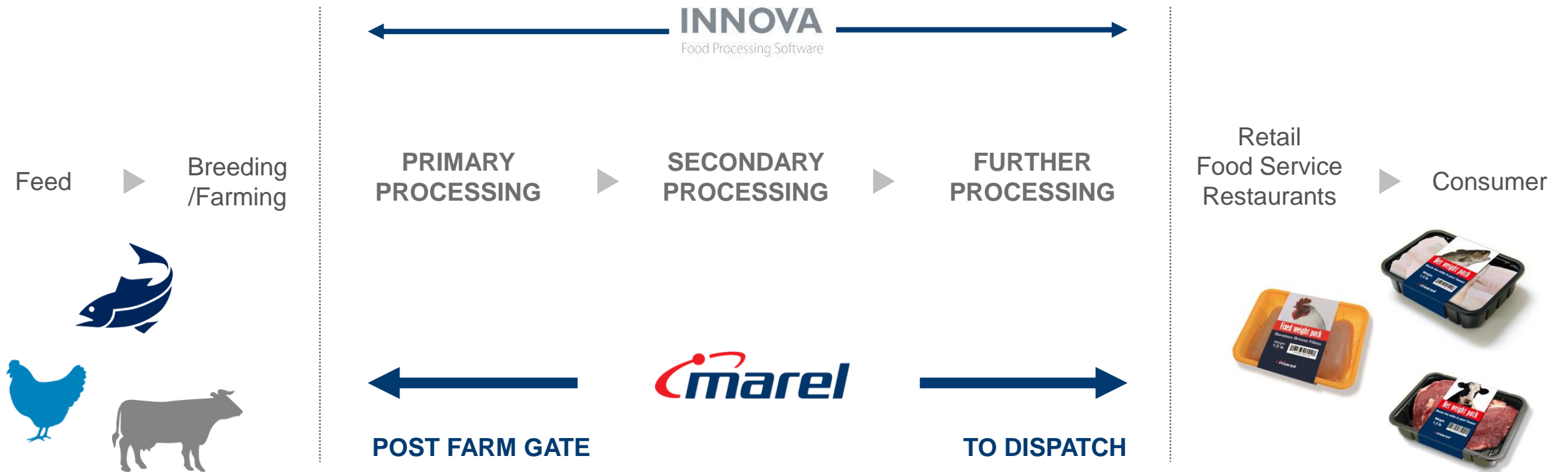


VALUE  
QUALITY  
FOOD SAFETY  
TRACEABILITY  
SUSTAINABILITY  
HEALTH & WELLNESS

# POST FARM GATE TO DISPATCH



Marel's playing field is gradually expanding



# IMPROVING THE GEOGRAPHICAL FOOTPRINT



The Sulmaq acquisition closed successfully in August 2017, improving foothold in the rapidly growing meat market in South and Central America and access to the talent pool in those markets

- Today the US and Canada, with 360 million inhabitants, account for around 30% of our revenues
- Latin America, including Mexico with 640 million inhabitants, accounts for around 8% of our revenues
- Solid workforce with strong engineering know-how
- Strong customer relationships
- Future manufacturing hub that can be scaled to support the region



**sulmaq**<sup>®</sup>



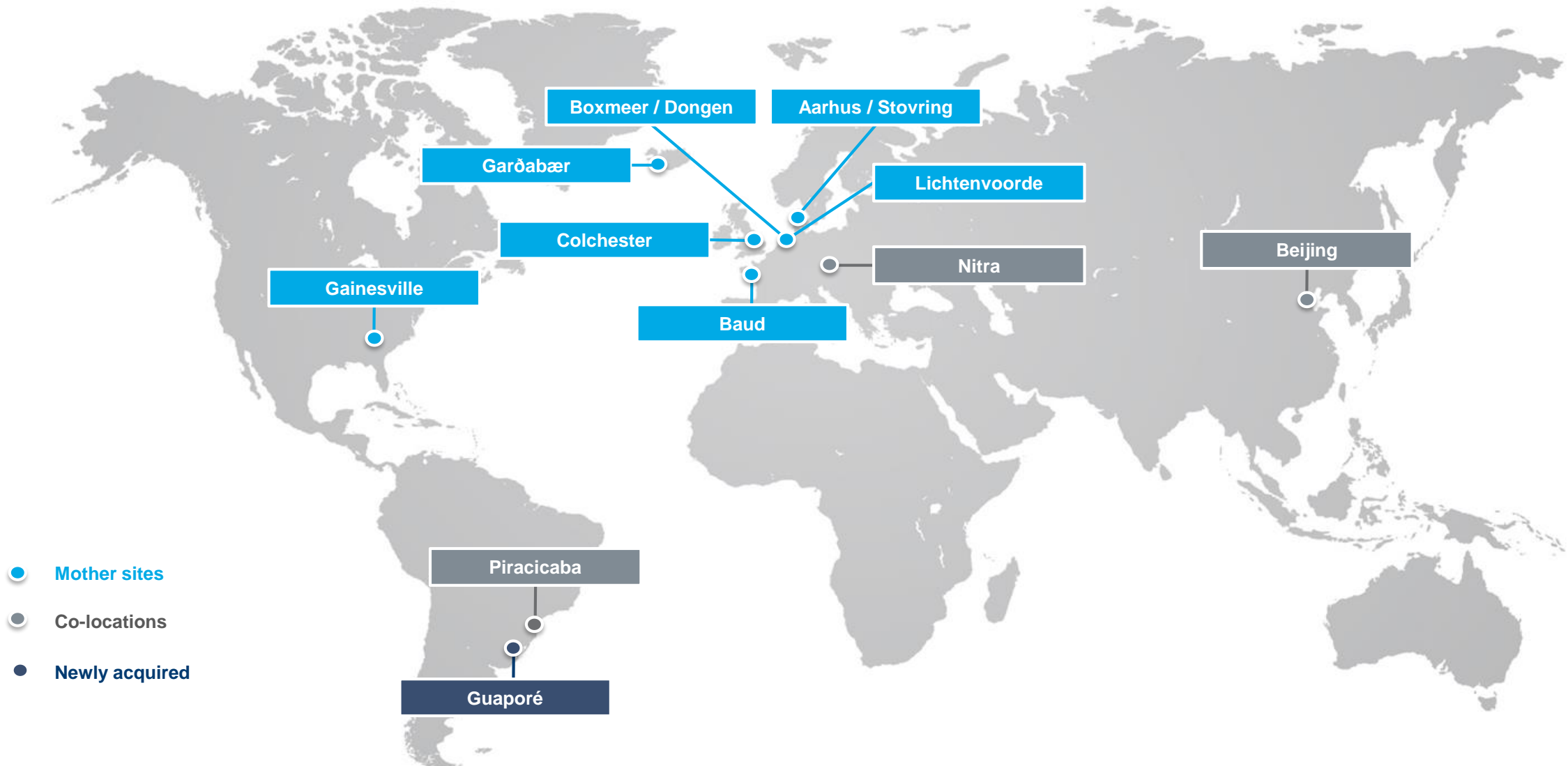
A close-up, blue-tinted image of a perforated metal surface. The surface is covered in a regular grid of small, elongated, oval-shaped holes. The lighting creates a strong sense of depth and texture, with the edges of the holes appearing slightly raised and catching the light. The overall color palette is a range of blues, from deep navy to a lighter, almost white, highlight on the edges of the perforations. The word "EXCELLENCE" is overlaid in the center-left area in a bold, white, sans-serif font.

**EXCELLENCE**

# OPTIMIZED MANUFACTURING PLATFORM



Today, there are 12 manufacturing sites strategically positioned around the world, thereby reducing complexity and optimizing the manufacturing footprint in order to better support further growth





# GROWTH PLATFORMS FOR THE FUTURE



Based on product characteristics and the geographical sales profile per product - Marel is gearing up for the future with more flexibility to rende operational excellence and scalability



# NITRA – EXPANDING FACILITIES



A good example of business platform investment that will support further growth - reshuffling operational capacity to best-cost geographies and provide access to talent at competitive cost

- A manufacturing facility in Nitra opened in 2005 and a new facility was built in 2008
- An extension has been built and formally opened in January 2018
- The new facility adds 9,000 m<sup>2</sup>, bringing all employees under one roof of 17,500 m<sup>2</sup>
- Will enable Nitra to increase its production capacity and to take on further growth
- 20% of the Marel manufacturing footprint







**INNOVATION**



# AT THE FOREFRONT OF INNOVATION



Marel invests ~6% of its revenue in product development and launched several new or improved products

<b>ATLAS</b> Live bird handling system		<b>Second Joint Wing Cutter</b> High yield		<b>TR-EC</b> High-speed transfer	
<b>AMF-i</b> Breast cap filleting system		<b>Vent Cutter</b> High capacity		<b>Strip Positioner</b> Strips & tender rotator	
<b>Multihead Weigher</b> Fixed-weight batching		<b>SingleFeed</b> High-speed singulating		<b>SensorX SmartSort</b> Bone detection & grading	
<b>FleXicut</b> Production of high value portions		<b>DeboFlex</b> Pork fore-end & leg deboning		<b>DeboFlex</b> Handheld skinner	
<b>Pre-Trim Line</b> Streamlined fillet infeed		<b>M360 Labeler</b> Flexible high speed		<b>StreamLine</b> Deboning & trimming system	
				<b>I-Cut 130</b> Fixed-weight & fixed-length portioning	

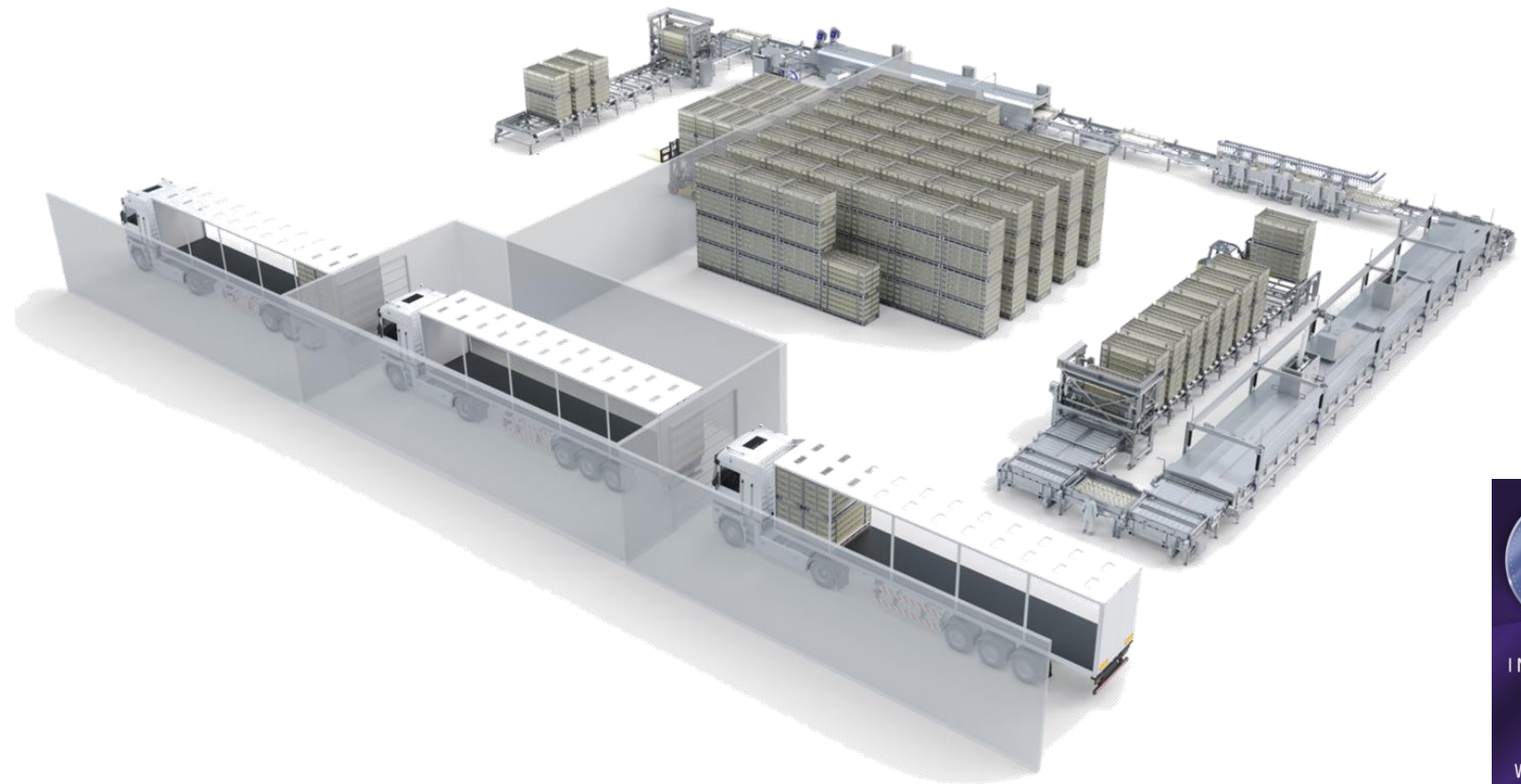


# ATLAS LIVE BIRD HANDLING SYSTEM



Featuring a high tech loadable pallet with a variable number of trays, the ATLAS not only gives high attention to animal welfare but also increases efficiency considerably

- Improved efficiency (loading, transport, cleaning and uptime)
- Loading capacity can increase up to 38%, which means fewer truck movements and less CO2 emission
- Avoids additional handling and human contact until after stunning
- Optimal cleaning sets new benchmark in the industry
- Robust design for high capacities
- Innova production control platform

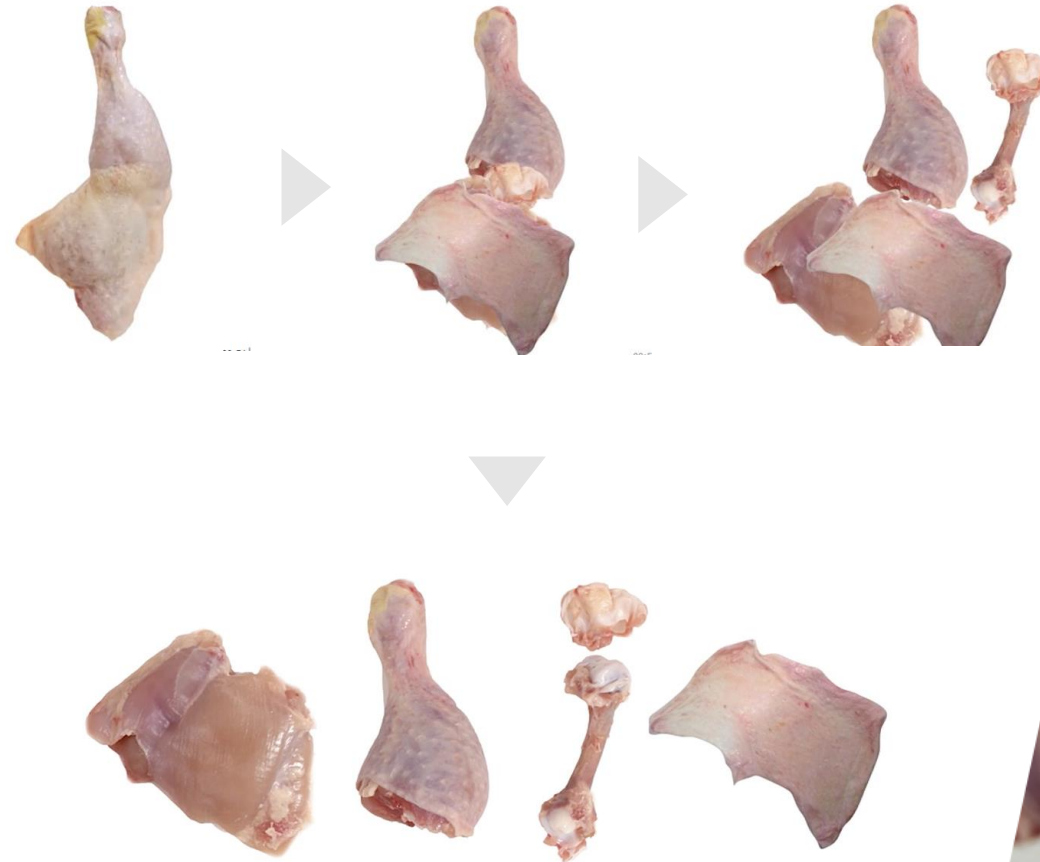


# THIGH FILLET SYSTEM



The Thigh Fillet System reproduces the work of a skilled manual operator in an industrial way, ensuring a retail quality thigh fillet and a more stable process

- Ability to create the highest added value out of thigh meat
- Guaranteed highest yield in the market
- Retail quality products
- In-line solution, high volume
- Low bone content
- Kneecap harvesting
- Labor saving (no loading, less trimming)
- Integrated with the ACM-NT cut-up system





# INNOVATION ACROSS INDUSTRIES



In the secondary and further processing parts of the value chain, the processing steps become more homogenous across industries, e.g. portioning, batching, weighing and marinating

The I-Cut PortionCutter uses a **3D scanner** to calculate product weight and decide where to cut to gain the best **possible yield**

- Same technology is used in all I-Cut portion cutters across industries, with slight variations
- For poultry, meat or fish products
- Poultry needs more capacity, so they use two lane machines and smaller knives
- Meat needs the machine to handle larger products so it has wider belts and larger knives



# KEY DIFFERENTIATING FACTORS



Marel has a unique position that is hard to replicate



## SUPERIOR TECHNOLOGY

Leading technology provider with innovation through customer partnerships.

Scale and efficiency enables higher investment in new product development.

Extensive process know-how and skills in food processing.



## FULL LINE PROVIDER

Seamless flow and integration between different applications result in higher overall efficiency.

Overarching software to monitor and control the process that is hard to replicate.

One-stop-shop for the customer both from an equipment and a service standpoint.



## LARGE INSTALLED BASE

Ensuring uptime and reliability resulting in high recurring revenue of spare parts and services.

Service level agreements (SLA) result in strong customer loyalty and repeat business.



## ECONOMIES OF SCALE

Global sales and service network that requires high capital investment to replicate.

Ongoing investment in software for a long period, resulting in great knowledge and capabilities.

Global manufacturing footprint.



## STRONG BRAND

Innovative and trustworthy partner.

High-performing reliable equipment.

Innovation is and has always  
been at the heart of Marel





THANK YOU