# Q2 2018

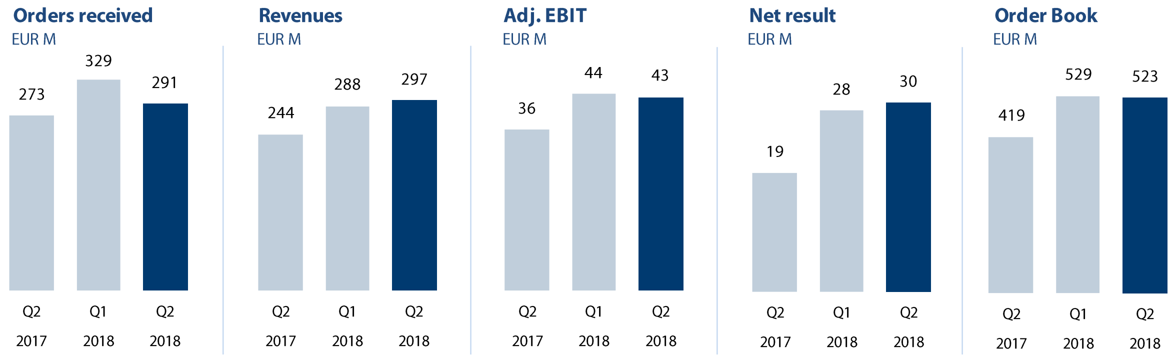
## Press Release

## Contents

# Executive summary - Strong revenue and EBIT growth

## Financial highlights

- Orders received were EUR 291.1m (2Q17: 272.7m).
- Revenues were EUR 296.7m (2Q17: 244.0m).
- EBIT* was EUR 43.2m (2Q17: 35.9m), translating to an EBIT* margin of 14.6% (2Q17: 14.7%).
- Net result was EUR 29.5m (2Q17: 18.6m) and earnings per share (EPS) were EUR 4.31 cents (2Q17: 2.62 cents).
- Cash flow from operating activities before interest and tax in the quarter was EUR 56.4m (2Q17: 61.2m).
- Net debt/EBITDA was x1.8 at quarter-end (1Q18: x2.0). Targeted capital structure is x2-3 net debt/EBITDA.
- The order book was EUR 523.2m (YE17: 472.3m).




## Arni Oddur Thordarson, CEO:

*"We continue on a good note with record revenues and stable profit margins in the second quarter. In the first 6 months of the year, revenues and EBIT were up 18% compared with the same period last year. It requires the passion and dedication of our 5,500 employees, as well as great partnership with our customers and suppliers, to deliver double digit organic growth as we anticipate this year. The order book is strong and cash flow remains robust enabling us to continue to invest in the platform to support further growth and value creation.*

*We are pleased to announce that Marel has reached an agreement to acquire MAJA, a German food processing equipment manufacturer focused on skinning, portioning and ice machines. Having worked with them through Sulmaq in Brazil in recent years, we know them to be a highly innovative and well managed business with around 200 employees and annual revenues of roughly EUR 30 million. We expect to finalize the transaction later this year.*

*Market conditions have been exceptionally favorable in recent quarters and are now adjusting towards more normalized levels. Driven by innovation and market penetration complemented with acquisitions, we aim to continue to grow faster than the long-term market rate."*

**Operating income adjusted for amortization of acquisition-related intangible assets (PPA).*

## Key figures

*(In EUR millions unless stated otherwise)*

| As per financial statements | Q2 2018 | Q2 2017 | Change | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|---|---|---|
| Revenues | 296.7 | 244.0 | 22% | 585.1 | 496.5 | 18% |
| Gross profit | 115.0 | 96.4 | 19% | 226.5 | 195.8 | 16% |
| Gross profit as a % of Revenues | 38.8% | 39.5% | | 38.7% | 39.5% | |
| Adjusted result from operations (EBIT) [1] | 43.2 | 35.9 | 20% | 87.0 | 73.6 | 18% |
| Adjusted EBIT as a % of Revenues [1] | 14.6% | 14.7% | | 14.9% | 14.8% | |
| EBITDA | 55.3 | 44.2 | 25% | 109.2 | 90.2 | 21% |
| EBITDA as a % of Revenues | 18.6% | 18.1% | | 18.7% | 18.2% | |
| Adjustment for amortization of acquisition-related (in)tangible assets | (2.3) | (6.3) | | (4.6) | (12.5) | |
| Result from operations (EBIT) | 40.9 | 29.6 | 38% | 82.4 | 61.1 | 35% |
| EBIT as a % of Revenues | 13.8% | 12.1% | | 14.1% | 12.3% | |
| Net result | 29.5 | 18.6 | 59% | 57.8 | 40.0 | 45% |
| Net result as a % of revenues | 9.9% | 7.6% | | 9.9% | 8.1% | |
| Orders Received | 291.1 | 272.7 | 7% | 620.4 | 565.9 | 10% |
| Order Book | | | | 523.2 | 418.9 | 25% |

[1] Operating income adjusted for amortization of acquisition-related (in)tangible assets (PPA)

| Cash flows | Q2 2018 | Q2 2017 | YTD 2018 | YTD 2017 |
|---|---|---|---|---|
| Cash generated from operating activities, before interest & tax | 56.4 | 61.2 | 112.0 | 99.1 |
| Net cash from (to) operating activities | 45.7 | 44.9 | 89.9 | 77.6 |
| Investing activities | (12.6) | (15.7) | (23.8) | (25.4) |
| Financing activities | (28.5) | (30.8) | (72.1) | (68.6) |
| Net cash flow | 4.6 | (1.6) | (6.0) | (16.4) |

| Financial position | 30/06 2018 | 31/12 2017 |
|---|---|---|
| Net Interest Bearing Debt | 390.5 | 365.0 |
| Operational working capital [2] | (8.4) | 1.7 |

[2] Trade receivables, Inventories, Net Work in Progress and Trade payables.

| Key ratios | Q2 2018 | Q2 2017 | YTD 2018 | YTD 2017 |
|---|---|---|---|---|
| Current ratio | | | 0.8 | 0.9 |
| Quick ratio | | | 0.5 | 0.6 |
| Number of outstanding shares (millions) | | | 684.8 | 707.2 |
| Market cap. in billions of Euros based on exchange rate at end of period | | | 2.3 | 2.0 |
| Return on equity | 22.7% | 14.2% | 21.4% | 15.2% |
| Earnings per share in euro cents | 4.31 | 2.62 | 8.42 | 5.62 |
| Leverage adjusted result [3] | | | 1.8 | 2.2 |

[3] Net Interest Bearing Debt / LTM EBITDA

# Business highlights

### Acquisition of MAJA, German food processing equipment manufacturer

Marel has signed an agreement to acquire 100% of the shares of MAJA-Maschinenfabrik Hermann Schill GmbH & Co. KG and related companies ("MAJA"). This transaction is in line with Marel's strategic objective to be a full-line supplier of advanced food processing solutions and accelerate market penetration through acquisitions.

Since its founding in 1955, MAJA has been a highly innovative manufacturer of food processing machinery, specializing in skinning and portioning with main focus on the meat market as well as ice machines for the preservation of fresh food. Based in Kehl-Goldscheuer in Germany, MAJA has around 200 employees and annual revenues of roughly EUR 30 million in 2017.

With MAJA's innovative product offering and complimentary geographical reach, Marel is able to offer full-line solutions for the meat industry globally and strengthen its market presence. Marel also aims to utilize MAJA's high-quality innovation and manufacturing site as an addition to existing production sites. MAJA's experienced management team will stay on board and continue to lead MAJA.

The closing date of this transaction is expected to be in the third quarter of 2018. Closing is subject to anti-trust approval and standard closing conditions. The transaction will be funded from cash on hand.

### Changes in the organizational structure and Executive Team

In June 2018, Marel announced an organizational change where the Commercial function was split into two new functions, Service and Global Markets and new appointments were made to Marel's Executive Team. This new structure will allow for closer proximity to customers and better scalability to support Marel's ambitious growth strategy going forward.

Ulrika Lindberg was appointed as the Executive Vice President of Service, and Einar Einarsson was appointed as the Executive Vice President of Global Markets. Ulrika has over 20 years of experience in global services having held senior positions at large international organizations such as Alfa Laval and Tetra Pak. Einar has managed Marel's sales and service operations in North America since he became President of Marel Inc. in the US in 2003. Prior to his US posting, Einar held several positions within Marel as a Sales Engineer, Area Sales Manager and Product Manager. Simultaneously, Petur Gudjonsson stepped down from his position as Executive Vice President of Commercial and will take on a new role within Marel.

# Financial performance in 2Q 2018

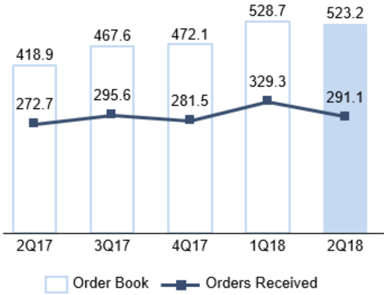
## Order book at good level, balanced across geographies

There was a solid intake of orders over the quarter. Marel's commercial position continues to benefit from its full-line offering and steady launch of innovative high-tech products for smarter processing. On the back of exceptionally strong orders received in 1Q18, orders received in 2Q18 totaled EUR 291m, up 7% from the EUR 273m in 2Q17. Orders were well spread geographically and across the three key industries.

The order book was EUR 523m at quarter-end, compared to 472m at year-end 2017. Greenfields and projects with longer lead times constitute the vast majority of the order book. The strong order book continues to provide a good foundation for the full operational year 2018. The order book was at a very good level at the end of 2Q18, equaling 46% of 12-month trailing revenues.

**Order Book & Orders Received**

**EUR m**






*Operating income adjusted for amortization of acquisition-related intangible assets (PPA).*

## Strong revenue growth with a stable profit margin

Marel continues to deliver strong revenue growth with a stable profit margin. Revenues were a record EUR 296.7m in 2Q18 and the adjusted EBIT margin was 14.6%. EBIT was EUR 43.2m, up 20.3% year-on-year.

Assembly and manufacturing load was very high in key locations. The recently implemented co-location strategy for manufacturing has allowed for better production management, which in addition to the recently extended Nitra facility and outsourcing has been a key success factor in the improved management of the production load.

Non-recurring advisory costs, relating to recently announced changes in the organizational structure to strengthen the global sales and service platform, M&A activities and the review of possible listing alternatives, were unusually high in the quarter and not especially adjusted for.

### Revenues & adjusted operating result

**EUR m**

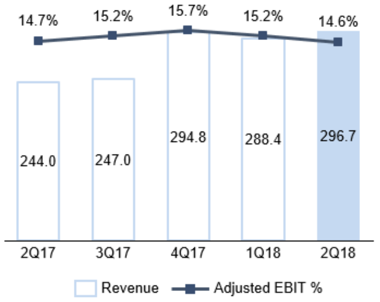
| | Q2 2018 | Q2 2017 | Change |
|---|---|---|---|
| Revenues | 296.7 | 244.0 | *21.6%* |
| Adjusted result from operations (EBIT) [1)] | 43.2 | 35.9 | *20.3%* |
| Adjusted EBIT as a % of Revenues [1)] | 14.6% | 14.7% | |

[1)] Operating income adjusted for amortization of acquisition-related (in)tangible assets (PPA).

All industries delivered strong revenues in 2Q18. Poultry continues to be the biggest driver with 52% of total revenues and EBIT of 17.4%. The meat industry showed marginal improvement in the quarter with 32% of revenues and EBIT* of 12.8%. The fish industry is on track with 15% of revenues and showing good margin for the second quarter in a row with EBIT margin of 8.5% in 2Q18, up from 5.0% at 4Q17.

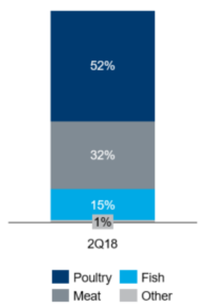
### Revenues & Adjusted EBIT %

**EUR m**




### Revenues split by industry

**%**




*Operating income adjusted for amortization of acquisition-related intangible assets (PPA).

## Robust cash flow continues to support substantial investments in innovation and the future platform

Cash flow remained robust in 2Q18. Cash flow from operating activities before interest and tax in the quarter was EUR 56.4 (2Q17: 61.2). Marel continues to invest in the business to prepare for future growth and its full potential. Investment activities are expected to be, on average, above normalized levels for the coming quarters.

Net interest bearing debt decreased by around EUR 28m in 2Q18. Net debt/EBITDA including lease liabilities was x1.8 at the end of 2Q18, compared to x2.0 at the end of 1Q18. Currently leverage is below the targeted capital structure of x2-3 net debt/EBITDA, which underpins the financial capacity to support further growth and value creation.

Net result in 2Q18 was EUR 29.5m, up 59% compared to EUR 18.6m in 2Q17, translating to Earnings per share (EPS) of EUR 4.31 cents (2Q17: EUR 2.62 cents).

## IFRS impact minimal and in line with previous estimates

On January 1, 2018, Marel implemented the new IFRS standards. For detailed impact and explanations of these new standards reference is made to the 2017 Consolidated Financial Statements and 2Q18 Condensed Consolidated Interim Financial Statements. The impact in 2Q18 was minimal and in line with previous estimates.

Impact of new IFRS standards in 2Q18:

- IFRS 9 (Financial instruments): Very limited with main impact on net finance costs which was EUR 0.3 m higher. Non material impact on adjusted EBIT.
- IFRS 15 (Revenues from contracts with customers): Very limited impact on revenues of negative EUR 0.1m and positive EBIT effect of EUR 0.5m. Revenues and adjusted EBIT are therefore EUR 297m and EUR 43m respectively both before and after IFRS.
- IFRS 16 (Leases): Minimal in 2Q18 and in line with what was estimated at year-end 2017. Non-material impact on adjusted EBIT, annual effect on EBITDA is estimated around EUR 8m and net interest bearing debt increased by EUR 31m.

Impact of new IFRS standards in 1Q18:

- Impact of IFRS 9 (Financial instruments): Very limited with main impact on net finance costs which was EUR 0.3 m higher. Non material impact on adjusted EBIT.
- Impact of IFRS 15 (Revenues from contracts with customers): Revenues were EUR 288m with an adjusted EBIT of 44m, but would have been EUR 292m and EUR 47m respectively before the IFRS 15 effect.
- Impact of IFRS 16 (Leases), was minimal in 1Q18 and in line with what was estimated at year-end 2017. Non-material impact on adjusted EBIT, annual effect on EBITDA is estimated around EUR 8m and net interest bearing debt increased by EUR 31m.

Impact of main items on opening balance sheet as at January 1, 2018:

- IFRS 9: an increase in retained earnings of EUR 4m relating to modifications in the Group's loan facilities.
- IFRS 15: deferred revenues of EUR 16m resulting in a decrease in retained earnings of EUR 9m, which deferral leads to an increase in the order book of EUR 16m (one time effect).
- IFRS 16 (early adopted): recognition of right of use assets and lease liability of EUR 33m. No impact on retained earnings.



*Operating income adjusted for amortization of acquisition-related intangible assets (PPA).

# Industry performance in Q2 2018

## Marel Poultry - 52% of total revenues and 17.4% EBIT margin

**Marel Poultry contributed EUR 155 million in revenues in 2Q18, or 52% of total revenues, and adjusted EBIT margin was 17.4%.**

With the most complete product range and the largest installed base worldwide, Marel Poultry is a leading global provider of advanced food processing systems and services for broilers, turkeys and ducks. Strong orders were received across all product groups in 2Q18. Projects were well distributed geographically with large orders booked in the UK and Oman.

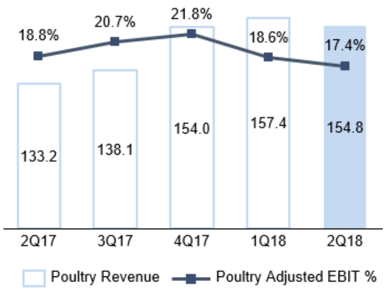
Revenues for Marel Poultry in 2Q18 were up 16% YoY or EUR 155m (2Q17: EUR 133m), EBIT was EUR 27m (2Q17: 25.0) and the EBIT margin was 17.4%.

**Key figures**
**EUR m**

| | Q2 2018 | Q2 2017 | Change |
|---|---|---|---|
| Revenues | 154.8 | 133.2 | *16.2%* |
| Adjusted result from operations (EBIT) [1] | 26.9 | 25.0 | *7.6%* |
| Adjusted EBIT as a % of Revenues [1] | 17.4% | 18.8% | |

[1] Operating income adjusted for amortization of acquisition-related (in)tangible assets (PPA).

**Revenues & Adjusted EBIT**
**EUR m**




## Marel Meat - 32% of total revenues and 12.8% EBIT* margin

**Marel Meat contributed EUR 94 million in revenues in 2Q18, or 32% of total revenues, and the adjusted EBIT margin was 12.8%.**

Marel Meat had good order intake in 2Q18. Projects were well distributed geographically, with large orders booked in Russia, Vietnam, Spain and China.

Revenues in 2Q18 were good for Marel Meat. Manufacturing load was very good in the quarter which improved revenues. Revenues were EUR 94m, up 19% YoY (2Q17: EUR 79m) and adjusted EBIT was EUR 12m, up 16% YoY (2Q17: 10m), resulting in an adjusted EBIT margin of 12.8%.

Recent acquisitions have made Marel Meat a full-line supplier to the meat processing industry, from live animal intake to finished consumer product, and larger installations and greenfield projects have become more prominent. To better align execution with strategy and ensure the best customer journey for our customers in the meat processing sector, Marel Meat introduced some internal organizational changes in April 2018. The two business units of primary and secondary processing were combined under a new management team, and a more focused approach was defined for the sales organization and other facets of the segment to ensure better scalability.

The agreement to acquire MAJA, a German food processing equipment manufacturer, will better position Marel in its full-line approach in the meat processing sector and support its growth objectives. MAJA is a highly innovative manufacturer of food processing machinery, specializing in skinning and portioning with main focus on the meat market as well as ice machines for the presentation of fresh food. With MAJA's complimentary product offering and geographic reach, Marel will be able to further accelerate market penetration in the meat processing sector.

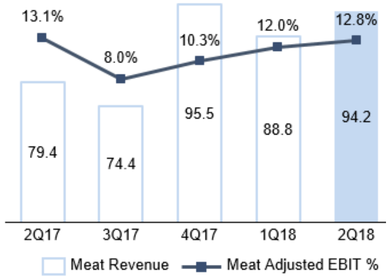
*Operating income adjusted for amortization of acquisition-related intangible assets (PPA).

### Key figures
**EUR m**

| | Q2 2018 | Q2 2017 | Change |
|---|---|---|---|
| Revenues | 94.2 | 79.4 | *18.6%* |
| Adjusted result from operations (EBIT) 1) | 12.1 | 10.4 | *16.3%* |
| Adjusted EBIT as a % of Revenues 1) | 12.8% | 13.1% | |

1) Operating income adjusted for amortization of acquisition-related (in)tangible assets (PPA).

### Revenues & Adjusted EBIT
**EUR m**




## Marel Fish - 15% of total revenues and 8.5% EBIT margin

**Marel Fish contributed EUR 45 million in revenues in 2Q18, or 15% of total revenues. The adjusted EBIT margin of 8.5% is in line with 1Q18 however still below long term targets.**

2Q18 was a good quarter for Marel Fish who have shown continued operational improvements, although results are still below long-term targets. Projects were well distributed geographically and between different products. Marel Fish is focused on becoming a full-line provider for wild whitefish, farmed salmon and farmed whitefish. Large orders were secured in Chile and Iceland.

In 2Q18, Marel Fish generated EUR 45m in revenues and EUR 4m in EBIT, translating to an EBIT margin of 8.5%. This is a 54% increase in revenues and a significant rebound in EBIT compared to 2Q17.

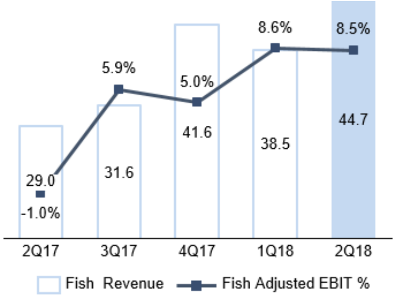
Marel Fish has been transformed in recent years and is delivering higher EBIT margins for the second quarter in a row. Higher investments in innovation to close application gaps, and greater emphasis on standardization of the business have delivered good orders received and improved margins. The landmark next generation salmon plant for Leroy in Norway is a recent example of excellent project execution for Marel Fish.

### Key figures
**EUR m**

| | Q2 2018 | Q2 2017 | Change |
|---|---|---|---|
| Revenues | 44.7 | 29.0 | *54.1%* |
| Adjusted result from operations (EBIT) 1) | 3.8 | -0.3 | *-1366.7%* |
| Adjusted EBIT as a % of Revenues 1) | 8.5% | -1.0% | |

1) Operating income adjusted for amortization of acquisition-related (in)tangible assets (PPA)

### Revenues & Adjusted EBIT
**EUR m**






*Operating income adjusted for amortization of acquisition-related intangible assets (PPA).

## Outlook

In light of the results delivered in the beginning of the year and robust order book, we expect strong organic revenue growth and good operational results for the full year 2018. The third quarter is expected to be softer than other quarters in 2018 due to seasonality and product mix.

Market conditions have been exceptionally good in recent quarters and are expected to adjust towards normalized levels. Marel's management expects 4-6% average annual market growth in the long term.

In the period 2017-2026, Marel is targeting 12% average annual revenue growth through market penetration and innovation, complemented by strategic partnerships and acquisitions.

- 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.
- Maintaining solid operational performance and strong cash flow supports average 5-7% revenues growth annually by acquisition.
- Marel's management expects Earnings per Share (EPS) to grow faster than revenues.

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.

## Investor meeting and webcast 26 July 2018

On Thursday July 26, 2018, at 8:30 am (GMT), Marel will host an investor meeting where CEO Arni Oddur Thordarson and CFO Linda Jonsdottir will give an overview of the financial results and operational highlights. The meeting is conducted in English and will be held at the Marel headquarters in Iceland.

Please note that the meeting will also be webcast live on marel.com.

## Financial calendar

Marel will publish its interim and annual Consolidated Financial Statements according to the below financial calendar:

- Q3 2018 results - 31 October 2018
- Q4 2018 results - 6 February 2019
- Annual General Meeting - 6 March 2019

Financial results will be disclosed and published after market closing.

## Investor relations contact

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## Forward-looking statements

Statements in this press release that are not based on historical facts are forward-looking statements. Although such statements are based on management's current estimates and expectations, forward-looking statements are inherently uncertain. We therefore caution the reader that there are



*Operating income adjusted for amortization of acquisition-related intangible assets (PPA).*

a variety of factors that could cause business conditions and results to differ materially from what is contained in our forward-looking statements, and that we do not undertake to update any forward-looking statements. All forward-looking statements are qualified in their entirety by this cautionary statement.

## Market share data

Statements regarding market share, including those regarding Marel's competitive position, are based on outside sources such as research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Marel, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.



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