Mercer Group Limited
NZX Release 27 February 2017

H1 2017 results announcement

Overview:

Mercer Group Limited (MGL) is announcing a net after tax loss of $2.6m for the six months to 31 December 2016.

While this is a disappointing result, the group is anticipating a return to positive EBITDA for the second half of the financial year to 30 June 2017. This is a positive step forward following the extensive strategic review, the restructuring carried out over the past 18 months and the acquisition of Haden & Custance.

The principal factors which contributed to this result are:

1. A decline in our machinery business sales, particularly Titan sales as a result of which we have agreed to terminate the relationship with our US distributor Nu-Meat.
2. The underutilisation of our fabrication workshops in both Christchurch and New Plymouth.

During the reporting period the group also incurred significant non-recurring costs as follows:

EBITDA normalised for non-recurring costs

		$000
Reported EBITDA		(1,477)
Capital raising costs	392	
Cost relating to acquisition	50	
Restructuring costs	120	
Discontinued	200	
Total non-recurring items	762	762
Normalised EBITDA		(715)

After the capital raising, the reorganisation and restructuring, and the acquisition of the Haden and Custance business, the focus of the group is clear:

1. The commercialisation of the S-Clave and an associated potential capital raise.
2. The growth of our machinery business under the Haden & Custance banner.
3. Improving the operational efficiency of the industrial fabrication business.

S-Clave

We have continued to make progress with the S-Clave. Working closely with our Australian partner Atherton's we now have the design locked down for the S-Clave unit. Importantly, the S-Clave technology will be a retrofit to existing autoclaves in the marketplace, reducing the initial upfront cost to customers for adopting the technology. We are also working through the final structure and prototyping of the plastic containers and expect to be running final testing in the next two to three months.

In order to ensure we can get the S-Clave to market as rapidly as possible we are considering capital raising options for the S-Clave on a standalone basis from Mercer, and will update the market in due course.

Haden & Custance

Following the acquisition of Haden & Custance (H&C) we have restructured the group to separate our machinery business from the MGL fabrication business. This has seen the AiCo and the Beta ranges of machines move to H&C at Hastings.

To remind the market, H&C sells automated de-cartoning and de-bagging systems for the cheese industry globally (www.hadencustance.com). Demand for H&C's products is driven by customers looking to automate their production facilities in the growing worldwide market for prepared (shredded and sliced) cheese. Their customers are large, well-funded and growing. The challenge for H&C is to achieve profitable growth leveraging off a strong reputation, skill set and industry dynamics.

The amalgamation of these businesses has allowed us to rationalise resources that has resulted in immediate costs savings in the order of $1.25m annually.

Given the continued poor performance of Titan we are currently undertaking a full review of the technology, the operating model and market opportunity.

Fabrication

The fabrication business is currently focusing on improving its operational performance and filling its workshop capacity. The outlook for the next six months is much improved with good workflows enhanced by both orders for wine tanks following the Blenheim earthquake, and an increase in dairy related capex.

Outlook

In the past six months we were focused on the rights issue, further refining our strategies and the acquisition of H&C. We are now focused on organic growth initiatives, improved operating performance and the commercialisation of the S-Clave. The contract nature of both the H&C and fabrication businesses makes them susceptible to periods of underutilisation between contracts and therefore we are focused on building scale and ensuring we are operationally flexible to reduce this risk.

Given the different growth opportunities, capital requirements and organisational structures of the three business units we will be assessing how each one moves forward separately.

The group has no further updates on the Edendale silo collapse of September 2016.

For further information contact
Richard Rookes, CEO, 021 414 016