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5 April 2018

Listed Company Relations
New Zealand Exchange Limited
PO Box 2959
Wellington

Dear Sir/Madam

COMMENTARY ON HALF YEAR REPORT TO 28 FEBRUARY 2018

The Directors are pleased to report the company has achieved a surplus before tax of $4.8 million for the six months ended 28 February 2018, an increase of 13% on the $4.2 million recorded for the first half of the 2017 financial year.

For this six months, the company's EBITDA of $6.4m is an increase of 25% over the previous corresponding period's $5.1m delivering 4.2 cents earnings per share, an increase of 27% over the 3.3 cents per share in 2017. Total revenue of $67.5m is a 19% increase on the $56.7m recorded in 2017. The growth experienced during this half year has been driven from organic activities, through uptake of the company's own developed technologies, and continues the trend set in the prior year.

Scott Technology continues to see strong demand for our automation and robotics technology and capability. A strong order intake over recent months has pushed forward work for large projects to a record high and we anticipate operating at near full capacity providing the confidence to continue to expand our capabilities in certain areas. As part of this, our plans for the Dunedin site expansion are complete, awaiting final building consents.

Recent acquisitions have been successfully integrated with the global team working effectively as one. The recent announcement and pending completion of the acquisition of Alvey Europe supports our strategy to grow our skill base and to establish critical mass in our key markets.

The operating cash outflow of $2.6m reflects increased inventory and billings driven by growth, along with our position where the company is at the early stage of our significant forward work. Our strong balance sheet with cash of $21.7m, has been utilised to support substantial growth and we expect this to continue as we enter our next growth phase.

Review of Operations

Our operating margins for the half year ended 28 February 2018 were ahead of those reported for the first half of 2017. For the six months to February 2018, EBITDA margin was 9.5%, an increase from the 9.0% recorded in the six months to February 2017.

Major growth during the period occurred within the company's activities in the Americas, Asia and Europe. Collectively, revenue across these geographies increased 74% to $20.1m. This international growth is underpinned by the continued rollout of our Bladestop bandsaw safety technology beyond Australasia and further supported by strong demand for our automated systems in Germany, China, and the USA. Operating profit in the Americas increased 20%, while Asia and Europe moved from a loss to a $0.3m profit. We see exciting prospects for Europe for both organic growth and with the additional opportunities provided by the pending Alvey acquisition.

During the year we achieved a major milestone with our first complete system design and build in China. This has provided the confidence to take on further complete system builds in the current year.

In Australia and New Zealand our operating margins improved slightly on revenues that increased 5% over the previous corresponding period. Growth in the sale and uptake of our meat processing technologies is expected to accelerate in the second half of the year following a longer than expected completion time for previous projects and a period of reduced activity in Australia caused in part by the ongoing discussions and uncertainty over the Red Meat Industry roll out of DEXA systems into all Ausmeat accredited facilities.

During the first half of this year we commenced substantial development projects for our meat processing customers, including a start in the Pork and Poultry sector in addition to Beef and Lamb.

Our research and development activities underpin our ongoing growth and are undertaken, both alone and with customer, industry or Government support. The commitment to develop technologies and capabilities is significant and spread across all areas of the business.

Dividend

The Directors have declared an interim dividend of 4.0 cents, unchanged from 2017. The dividend will be fully imputed, payable on 24 April 2018 and the Dividend Reinvestment Plan will apply.

Looking Ahead

With a full order book providing momentum into the second half of the 2018 year, and the contribution expected from the acquisition of Alvey, the Directors are confident that building on strong foundations will deliver growth in line with our strategic intent.

The company continues to see strong demand for our skills and capabilities and this, combined with commercialisation of the company's technologies, will underpin organic growth. The Directors and management are confident that adding acquisition growth to organic growth will provide strong value propositions for all stakeholders.

Yours faithfully

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About Scott

At Scott we automate the future. The production line machinery we design and build deliver productivity gains and exceptional reliability to many of the world's leading manufacturers. We also go a step beyond engineering production solutions to actually revolutionising entire industries – using robotics to automate manual processes and create genuine competitive advantage.

For over 100 years Scott has looked to tomorrow and rapidly responded to shifting needs. Today, we have production bases in the United States, Germany, China, Australia and New Zealand, customers in 88 countries, and a real commitment to developing new technology and bringing it to market. Across everything we do you will discover true quality, advanced engineering and a renowned design aesthetic.

Scott. Quality that lasts. Quality that inspires.