



2nd May 2018

Market update

Mercer Group advises that there is a material risk that it will generate an EBITDA loss for the year to 30 June 2018 due to a slower than budgeted conversion of sales at Haden & Custance. While the Mercer Stainless business has continued to perform in line with expectations, our growth forecasts for Haden & Custance were too aggressive are being realigned to reflect the reality of longer lead times to secure orders.

As a result, Mercer may breach its EBITDA covenant for the full year to 30 June 2018 and has informed BNZ as such (noting, this EBITDA covenant was based on the forecasted growth for Haden & Custance that has not yet occurred). Discussions with BNZ are ongoing. Mercer has repaid the BNZ c.\$1.5m in the past 12 months.

Detail on the individual business units is provided below:

Mercer Stainless

Mercer Stainless has continued to generate good workflows and is forecast to meet budget EBITDA for the financial year. The outlook for this business heading into the 2019 financial year is adequate, based on existing workflows and strong quoting levels.

Haden & Custance

Haden & Custance (H&C) has recently gained some momentum securing a number of sizable orders. However, as a result of the slower than expected sales and increased costs in the past year as we have invested in new markets, it may now generate an EBITDA loss for the financial year.

We remain excited by the opportunity that H&C represents. As previously advised, since acquiring the business we have broadened the scope of the business, re-entering the Australian and New Zealand markets and diversifying into the protein market in North America. This will take time to convert into sales, but we have seen a significant uptick in quoting levels in the past three months which gives us confidence heading into the new financial year. We also note that the general manager of H&C has now left the business by mutual consent.

While the performance to date of H&C has not been as anticipated, we are committed to the growth strategy based on in market investment, rebranding and targeted new product development.



S-Clave

We have now received the tooling for the first size of single use sterile container and lid. Initial runs are very encouraging and we expect to be undertaking final testing within the next one to two months. We continue to target having an S-Clave unit operating in a hospital in the 2018 calendar year.

Edendale

Discussions with the various parties involved in the Edendale silo collapse are continuing.

A handwritten signature in blue ink, appearing to read "Richard Rookes".

Richard Rookes
CEO

A handwritten signature in blue ink, appearing to read "John Dennehy".

John Dennehy
Chairman