7 April 2022
Company announcement

SCOTT ANNOUNCES STRONG HALF YEAR PERFORMANCE FOR FY22

- Another period of both top and bottom-line growth as the two-year anniversary of the Scott 2025 strategy approaches.
- Year on year increases in revenue and EBITDA despite disruption from the external factors of COVID-19, the global supply chain crisis and geopolitical unrest.
- Continuing demand for automation drove revenue up 13% to $118.4m and grew Normalised EBITDA by 19% from $9.8m to $11.7m delivering net profit after tax of $4.7m.
- Forward work remains robust with system design and build contracts in Europe, USA, China and Australasia and continuing growth in product and service categories.
- Dividend declared of 4.0 cents per share.

Automation and robotics solutions provider, Scott Technology Limited (NZX: SCT), has today released its unaudited interim results for the six months to 28 February 2022 (H1 F22).

The capability of the business continues to grow as the second year of the Scott 2025 strategy nears its close. Targeted sales prospecting has generated significant high-quality systems contracts across Meat, Materials Handling and Appliances, while ongoing Bladestop and Rocklabs growth continues to underpin a flourishing product category. Investment in talent and a focus on the large install base has seen a 15% growth in service revenue.

Forward work programs in Europe, USA, China, and Australasia remained elevated as new system design and build contracts have been awarded at a steady and deliberate rate in the first half of the year.

Investment in the high margin product and service businesses has generated results which have underpinned the strong first half performance of Scott. Demand continues to grow for our key product brands of Rocklabs (the mining products and parts business) and BladeStop safety saw installations in the meat industry. Service revenues across most key markets grew due to strategic investment in people capability as well as deeper parts inventories. The service team has also executed several enterprise level agreements with a number of key customers.

Scott has invested in sales and marketing capability in key markets and are beginning to see customer prospects build as we emerge from the pandemic.

Employee safety and wellbeing continues to mature, with the launch this year of the 'Be Safe – Be Well – Be Scott' program and its associated six safety expectations. This is supported by a focus on the lead safety indicators of management conversations and reported near-misses and hazards. This is driving greater engagement and reinforcing the commitment from employees across the Scott Group.

Scott Technology CEO John Kippenberger, says: "We are encouraged as our regional teams continue to execute well against our 2025 strategy in their domestic markets and despite the headwinds of various external factors. This is evidenced by growth in both our top and bottom-line performance as well as a solid forward work pipeline in multiple markets."

"Our focus remains unchanged as we look to meet customer demand in our proven areas of expertise in systems technology, products and service. With each of the regions emerging from differing degrees of constraint caused by COVID-19, it is the strength of the Group as a whole that has delivered this strong result."

Results overview

Results Snapshot $M	H1 F22	H1 F21	H1 F20
Revenue	118.4	104.5	99.0
EBITDA	12.2	11.2	(12.2)
Non-trading adjustments[1]	(0.4)	(1.4)	11.8
Normalised EBITDA	11.7	9.8	(0.4)
Net Profit After Tax	4.7	4.7	(13.7)
Cash	13.7	6.2	0.0
Overdraft	(15.1)	0.0	(9.0)
Terms Loans	(11.6)	(9.1)	(11.2)
Net Debt	**(12.9)**	**(2.9)**	**(20.2)**
Operating Cash Flow	(8.8)	5.3	0.9

1: Non trading adjustments relate to receipt of the wage subsidy

H1 F22 revenue of $118.4m was 13% higher than the prior comparative period (pcp) as Scott's strategy of generating more revenue from proven systems, product and service delivers another period of growth.

EBITDA of $12.2m grew again, to exceed the prior half year by 9% and when normalised to remove the impact of wage subsidies received growth was 19%.

The higher revenue converted to a margin percentage only slightly down on prior half year at 22%, despite significant inflationary pressure on labour and materials due to COVID-19 and the effects of the global supply chain crisis.

The higher revenue also allowed better leverage of overheads, even with the targeted investment in sales and marketing capability, which meant overheads as a percentage of revenue fell by 7%.

Net profit after tax (NPAT) was $4.7m for the six months, in line with prior comparative period as a result of the mix of regional profits being in geographies with higher rates of income tax.

Operating cash flow was $(8.8)m and net debt increased by $10.0m to $12.9m. The primary cause was an increase in inventory of $9.7m, with $2.9m of the increase being due to revenue growth and the remaining $6.8m increase in inventory was because of the disruption caused by the global supply chain crisis. This required greater stock holdings to avoid stoppages in the production and parts sales of key growth businesses such as Rocklabs and BladeStop.

In recognition of the progress made by the company, the Directors are pleased to declare an interim (unimputed) dividend of 4.0 cents per share, payable on 11 May 2022. The Dividend Reinvestment Plan will apply.

Global environment

The three primary global external factors which are impacting on the trading environment of Scott are:

<u>COVID-19:</u>

Being in the third year of the pandemic our teams around the Scott Group are well versed on keeping teams safe and mitigating the issues resulting from the virus. During the past six months these have largely been in ongoing restrictions around transfer of our teams across state and country borders and maintaining workflows through periods of high absenteeism.

The good news is we are continuing to see a return to more normal conditions as the peak of the most recent wave passes in most parts of the world.

With the New Zealand borders starting to open up again, it is exciting to have recently had our CEO and Director - Marketing & People travel to the USA to visit customers and spend in-person time with our teams in America.

<u>Supply chain crisis:</u>

The ongoing disruption to global supply chains continues to create a moderate source of pressure on Scott's project, product and service supply. In particular lengthening lead times on supply of items such as computer chips, robots, servo drives and PLC's are causing some delays on project completion. Our teams are working closely with our major suppliers to secure long-term component supply and we will continue to invest in working capital to support this where required.

Supply chain issues have also seen some delays to customer infrastructure projects. Where this involves a slowdown in customer building projects Scott then experiences a similar extension to project timelines and commissioning. We have seen examples of delays in parts of Europe and as far south as Australia.

We do see these impacts on project completions as largely being short to medium term as the global supply chains start to recalibrate following the height of the pandemic.

<u>Global geopolitical pressures:</u>

Russia's attack on the Ukraine has resulted in the suspension of our supply of mining products to Russia from Rocklabs. While this business has been growing over recent years due to the growth in Russian mining and metals production, the overall order book for Rocklabs remains very strong. Therefore, we do not see this impact as being material on the overall Group.

At the time of the invasion Scott Europe was also in the process of building two conveying and palletising systems for large global food companies into their Russian operations. We are in discussions with both companies to re-purpose this equipment into other European operations.

Our team in Europe is closely managing all team travel which takes employees anywhere near to the borders which are identified as being at risk. As always, our team safety is paramount.

As the markets open up and industrial demand for automation continues to grow, the key priority for our team is to remain focused and committed to our core areas of proven expertise, avoiding unknown areas of risk. This is the central underlying theme of *Scott 2025*.

Regional Business Updates

Scott Europe – Growth despite a longer than expected emergence from COVID-19

From loss making in the first half of F20 to 11% EBITDA in F22 the European business is continuing to demonstrate its significance to the overall performance of Scott. Revenue grew by 9% on pcp and EBITDA by 25% despite a heavier than anticipated COVID-19 tail across Europe.

Our European business has again delivered an important lift in business performance for the first half as work levels build to match our production capacity – through projects including, but not limited to, McCain and Danone. The product business of BladeStop (meat) has had revenue growth of more than 198% as our sales and go to market strategy has generated demand from the likes of Danish Crown, Jarvis and Pilgrims.

Scott Europe is seeing a resurgence of appetite for its core business of Materials Handling solutions as companies across Europe shake free from the restrictions of COVID-19 – the early signs of this resurgence can be seen in the revenue from Materials Handling already being up 5% in the first half of this year.

Although there was some initial disruption from the Russian invasion of Ukraine, we have been able to largely mitigate the financial impact to the business.

Europe	H1 F22		H1 F21	
Results Snapshot	$M	%	$M	%
Revenue	30.5		28.2	
EBITDA	3.3	10.9%	2.6	9.3%

Scott Australasia – Strong mining products and meat systems

Strong global demand in our mining product business (Rocklabs) has continued, to the extent the sanctions on trade into Russia have not affected our sales run rate. Growth in our service business continues to provide important margin generation within our Australasian business. The BladeStop product business is also seeing steady demand due to the focus and investment applied to this important part of our business.

Completion of large meat automation systems for Alliance (NZ) and a leading meat processor in Australia has seen growth in profitability for our projects business. We are underway in NZ with the multiyear build of two appliance lines for GE Appliances and our mining team is deeply embedded in the commissioning of a large complex automated laboratory system at a new West Australian mine site for Rio Tinto.

Demand signals for our meat business, in both products and systems, mining products business and appliance lines continue to remain positive.

Australasia	H1 F22		H1 F21	
Results Snapshot			$M	%
Revenue	62.1		51.1	
EBITDA (normailised)	12.2	19.7%	5.8	11.4%

Scott China – manufacturing moves to a new larger site to provide support to the wider Group

The team in China have delivered the significant backlog of existing domestic appliance lines in the first half of FY22.

A strategic initiative has seen the relocation of the China operation to a larger and more fit for purpose facility so that it can provide manufacturing capacity and skills to the wider Scott group. The first significant example is an appliance line which will, in the coming months, be delivered from China to a global whiteware manufacturers' site in South America.

This shared facility approach for China manufacturing results in lower margins as intercompany transfer pricing rules are applied.

China	H1 F22		H1 F21	
Results Snapshot	$M	%	$M	%
Revenue	7.6		6.1	
EBITDA	0.3	3.9%	1.5	24.7%

Scott North America – COVID-19 leads to a heavily disrupted marketplace and working environment

With the pandemic rampaging across most US states in the first half of the year, our American team has seen projects delayed both by the customer and due to internal constraints on component availability and COVID-19 related staff absenteeism. This heavily affected productivity and margins.

It is testament to the team that this has had a relatively minor impact on revenue relative to last year.

The bolstering of the leadership group in the form of new roles such as a North American President and an After Sales Service Director has seen stability start to return to the business, as is evidenced by Service and Parts revenue being up across all divisions by 66% on the prior half year.

Our BladeStop safety saw business in North America continues to secure new Enterprise customers such as leading national foodservice distributor Sysco and Fortune 500 branded food producer Hormel Foods.

Our first chicken trussing system is installed and operating as part of the Pilgrims production line. We anticipate this system will generate significant demand across the poultry industry.

North America remains a core market for Scott due to the significant opportunity and we will continue to invest in capability and capacity to grow here.

North America	H1 F22		H1 F21	
Results Snapshot	$M	%	$M	%
Revenue	18.2		19.1	
EBITDA	(0.2)	-1.1%	3.5	18.2%

***Scott 2025* Strategy Update**

Scott 2025 nears its two-year anniversary and good progress has been made.

- **Authentic Customer Partnerships:** *Secured significant repeat business across all sectors e.g. Teys Food Group, GE Appliances, Bridgestone, Arconic, Danone and McCain*

- **Leading Edge Technology:** *Growth in our service category across the Group, which includes several multiyear enterprise agreements. Further growth across our Rocklabs sample preparation and BladeStop product businesses. The first installation of an automated poultry trussing system.*
- **One Global Team:** *Launch of Safety Expectations, and continued focus on employee retention, development, and wellness.*
- **Operational Excellence:** *Maintained margins despite significant global pressures.*
- **Robust Global Platforms:** *All open executive positions now filled with experienced leaders. Pipeline of forward work remains strong.*

Sector updates

Mining: The continuation of strong global precious metal prices and improved business confidence is underpinning ongoing investment in mining capacity globally (West Australia, Europe, North America and West Africa). We see this activity flowing through to our equipment, spare parts and service business and expect this will continue to support ongoing demand for our mining parts business, exporting to the global mining sector from our factory in Auckland, New Zealand.

Our mining laboratory design and build business will advance our reputation and strengths around the 'semi-automated' end of the standalone-product-to-fully-automated continuum.

Macro factors such as zero emissions, zero entry and zero harm coupled with the industry's growing willingness to adopt new analysis, automation, and electrification technologies are driving change. This provides Scott with product development opportunities to expand our contribution and footprint within the industry.

We have recently appointed a Global Director of Mining to drive further growth for Scott Mining, based in Western Australia.

Meat: Scott continues to experience strong, ongoing demand for systems, products and service in the meat sector off the back of high meat prices and lack of skilled labour availability.

Our primary focus remains on selling lamb systems within the ANZ region, as well as Poultry Trussing systems in the US. Demand is strong for BladeStop globally, slaughter equipment, standalone cutting equipment and carcass grading systems.

Scott is leveraging experience and key customer partnerships to expand our systems offerings into beef. We anticipate this will provide the next step change in growth for our meat business.

The large lamb primal automation project at the Alliance Lorneville plant, the largest lamb processing site in the world, has received final sign off and is now in production. This system commissioning consistently lifts processing yields, improves safety and allows Alliance to re-focus an already short labour supply on other areas of production.

Appliances: As consumer demand for whiteware returns to normal levels we are focused on providing quality design options towards the premium-end of the market, while driving for competitive pricing without exposing Scott to unacceptable risk.

Our newly relocated business in Qingdao, China, will capture both local opportunities and support Global manufacturing from our competitive design and build platform in Qingdao, China.

Material handling and logistics: New and repeat customer opportunities continue to emerge for this key part of Scott Europe, the centre of excellence for our materials handling business. At the same time, we are making positive inroads into our *Scott 2025* strategy of taking this technology out of Europe and into North America and Australasia. The Alliance New Zealand contract is the first example of this, while focus is growing on identifying and securing a large installation on this technology in the US together with our joint venture partner Savoye.

ENDS

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About Scott Technology

Scott delivers smart automation and robotic solutions that transform industries by making businesses safer, more productive and more efficient. Our diverse capability makes us the first choice for hundreds of the world's leading brands. With design and build operations across Australasia, China, Europe and America and over 100 years of engineering excellence, Scott is the global expert in automation.

www.scottautomation.com