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Company announcement

SCOTT TECHNOLOGY ANNOUNCES FY23 HALF YEAR RESULTS: FOCUS ON CORE SECTORS DELIVERS SALES AND PROFIT GROWTH

- The *Engineering Scott to High Performance* 2025 (Scott 2025) strategy delivers continued growth through focus on its core sectors of meat, materials handling and logistics (MHL), and mining, where it has proven, world class technology with strong commercials.
- Group revenue (from continuing operations) was up 11% to $127m, margins grew from 22% to 26% despite inflationary and supply chain pressures. EBITDA increased 20% to $15m while net profit after tax (from continuing operations) was up 66% to $8m.
- The sales and services of its three core sectors delivered 77% of group revenue and 92% of margin.
- Forward work remained strong, particularly across meat and MHL, combined with ongoing demand for the higher margin mining products, BladeStop products and service businesses.
- Dividend of 4.0 cents per share.

Automation and robotics solutions provider, Scott Technology Limited (NZX: SCT), has today released its results for the six months to 28 February 2023 (HY23).

The Scott 2025 strategy has continued to underpin the business' focus and investment in the growth of its three core sectors of meat, materials handling and logistics (MHL) and mining. It was pleasing to see this focus generate growth across revenue ($127m, +11%), margin percentage (26%, +372 basis points), and EBITDA ($15m, +20%).

The service business across all sectors also experienced significant growth in the half year, up 22% on the prior comparative period (pcp). Underlying the improved margin percentage, were mix improvements, headlined by BladeStop sales growth and increased Rocklabs aftermarket volumes and fewer high risk, non-core projects.

The business' sales pipeline remains ahead of expectation, with $184m in forward work comprising several MHL projects, continued strong mining and meat product orders, as well as more progress in secured service contracts.

Scott Technology CEO, John Kippenberger, says he's pleased with the business' solid H1 performance. "Global demand for automation remains strong as markets continue to experience labour shortages. Our technical expertise, sales capability and clear strategic focus has enabled us to capitalise on this demand, delivering another strong first half year. I'm extremely proud of the team as we've worked collectively to deliver these results despite ongoing inflationary and supply chain pressures."

ESG update

Momentum behind Scott's ESG strategy has continued to grow in H1 FY23, with strong engagement at every level of the organisation and deep support at a Board and Executive level. Good progress has been made against each of the three pillars as Scott lives its commitment to playing a role in building a better world.

People

Employee health, safety and wellbeing is the highest priority for Scott and good progress has been made in all the key metrics in H1. Increased lead indicators such as hazard reporting, have led to a significant decrease in both the Lost Time Injury Frequency Rate (LTIR) and Total Recordable Injury Frequency Rate (TRIFR) in the first half of FY23.

The recent engagement survey results saw Scott's highest ever level of participation (78%), coupled with the highest ever employee engagement score, at 83%. Employee retention remains high and turnover has reduced on the H1 FY22 period.

Finally, in March, as part of its commitment to encouraging women into engineering, Scott was proud to announce a partnership with the University of Canterbury Engineering School. The partnership sees the launch of the Scott Technology Women in Engineering Scholarship which will provide financial support and a paid internship opportunity to a female engineering student. Scott is also sponsoring the final year project which sees four final year engineering students take on a year-long project within the Scott business.

Purpose

As part of Scott's purpose of building a better world, the business is committed to educating its partners on how they too can play a role. In February, Scott hosted a climate change and carbon emissions seminar for its ANZ suppliers. This was well received with 100 suppliers in attendance and generated extremely positive feedback.

Place

Following the successful carbon footprinting of its Europe and ANZ businesses in FY22, H1 FY23 saw Scott collect the carbon data for its China and USA businesses. This is now in the process of being independently audited. Once auditing is finished, Scott will have a complete carbon footprint for the group.

Kippenberger, says: "I'm extremely proud of the progress we are making in ESG. Our strategy is only in its second year, yet the engagement, passion and support from our people is immense. This is reflected in our progress. I'm looking forward to sharing our full year achievements in this space as we continue to do our bit to build a better world."

Results overview

Results Snapshot $M	H1 F23	H1 F22[1]	var %
Revenue	126.5	113.8	11%
EBITDA	14.6	12.1	20%
Non-trading adjustments	-	(0.4)[2]	-
Normalised EBITDA	14.6	11.7	24%
Net Profit After Tax	7.8	4.7	66%
Dividend per share (cents, declared)	4.0	4.0	-
Net Cash / (Debt)	12.8	(12.8)	200%
Operating Cash Flow	26.0	(8.8)	395%

[1] Continuing Operations (excludes the Robotworx business divested in H2 F22)
[2] Receipt of wage subsidy

Revenue for the half year increased 11% on the prior comparative period (pcp) to $126.5m, as Scott's strategy of generating more revenue from repeatable core products and services continued to deliver sales growth.

Group margin grew from 22% to 26% due to the improved mix, and mix of repeatable core products and services, despite the still present inflation, supply chain pressures and talent availability challenges.

This strategically driven revenue and margin approach has resulted in EBITDA growth of 20% and generated $14.6m of EBITDA for the period.

Net profit after tax (NPAT) for the period was $7.8m, +66% on a like for like basis versus the pcp.

Operating cash flow of $26m was higher than pcp due to the strong underlying performance of the business but also the timing of significant cash deposits relating to large projects won, which in turn boosted the Group's net cash position to $12.8m.

In recognition of the ongoing progress made by the company, the Directors declared an (unimputed) dividend of 4.0 cents per share, payable on 11 May. The Dividend Reinvestment Plan will apply.

Core sectors

The Scott 2025 strategy emphasises the imperative of growing sales through product areas where Scott has established world-leading technology and away from the more bespoke design projects which are unproven and present higher risk to Scott.

This focus has seen core sector revenue grow by 18% in the period and move from 73% to 77% of total group revenue.

Meat processing

- Revenue up 10% primarily from continued strong sales of the BladeStop safety bandsaw, which grew by 24% in the period. The service business in meat again grew strongly, up 56% on pcp, whilst delivering further margin growth at 35%.
- The pipeline and forward order book for meat products and service remains strong as Australasian lamb processors continue to invest in the Scott Lamb Primal product (+$15 million per unit), our suite of smaller lamb products ($0.5m - $1.5m) and global

meat processors continue to buy the Scott BladeStop bandsaw to drive efficiency and staff safety.

- The latest Primal order (together with a firm pipeline) from New Zealand lamb processor Silver Fern Farms is another demonstration of the company's long-standing relationships with industry-leading companies looking to secure a safer, more efficient lamb processing line.
- Early-stage progress has been made on the beef automation project. With the learnings gathered and technology developed to date, the need for rescoping of the project has been identified. This will allow for staged commercialisation of the automated beef boning technology. The next stage will see Meat & Livestock Australia, Scott, and new partner JBS, focus on vision technology.

Materials handling and logistics (MHL)

- This sector largely comprises conveyors, automated palletising and sortation equipment which operates in the warehousing operations of the large food manufacturers and related industries. Customers include industry leaders such as Danone, Pfizer and McCain Foods Ltd.
- Having adapted to the challenges of the Ukraine war and supply chain crisis, MHL has delivered impressive growth of 39% on pcp and its importance to Scott is reflected by it being almost half of total core revenue.
- The growth is coming from both of Scott's key markets for MHL, Europe and the US.
- Having done well to maintain revenues during the COVID, supply chain and Ukraine war events, Europe has returned to growth (+10%) in the period and continues to maintain a significant ($44m) forward order book which includes a $12m installation at Clarebout's new facility in France and $6m of new business with Slovenian Ice Cream producer Incom Leone.
- Growth in MHL revenue and margins in US and Europe follows the successful change in management structure to bring the US business under the leadership of Scott Europe. This enables greater focus on the US market as global processor relationships from Europe are extended into the US.
- MHL service margins are of particular note, growing to 40% versus the pcp of 37%.

Mining

- Anchored off strong and reliable Rocklabs sample preparation sales, the mining sector continues to be a core part of the Scott group. These products are well proven in the large global mining sector and produce high margins given they are locked box design and cost.
- This sector had been growing at +20% CAGR but the Ukraine war forced a withdrawal from sales to a well-established dealer in Russia. As a result, revenue has fallen 8% compared to the pcp.
- A focus on price, product mix, aftermarket growth and operational efficiency, has seen margin rise further to now be in excess of 45% and as a result, despite the revenue drop, margin dollars have increased slightly.
- Through a structured prototyping processing Scott is developing a modular product to serve the high-complexity, and therefore historically high risk, end-to-end automated laboratory systems. This strategy is well proven at scale, producing high volume outputs, at quality, accuracy and efficiency for the large mining companies and independent laboratories.

- This modular product is in the early stages of commercialisation.

Service and aftermarket business

Scott's strategy of building its service and aftermarket business has been important for customers, maintaining Scott machine accuracy and reliability, and for shareholders as it provides important recurring revenue and lucrative margins.

The service business underpinning the core business segments saw strong growth of 22% in the period. This is 31% of the total revenue of the core business, with margin growing to 40%.

We have seen this important stream continuing to deliver sustainable profit growth as our customers look to the specialist skills of Scott technicians to support their own maintenance teams on what is often highly complex Scott equipment.

The service business also contains a strong stream of high margin recurring consumables.

Service revenue also grew across the total group (including non-core business) by 22% and continued to deliver strong margins of 39%. This demonstrates the importance of the service / aftermarket business to the overall performance and profitability of Scott.

Regional business update

Results Snapshot	H1 F23			H1 F22 (restated)		
$M	Revenue	Margin	%	Revenue	Margin	%
New Zealand	11.0	2.9	26%	3.8	1.2	32%
Australia	20.3	6.0	30%	36.5	7.0	19%
Europe	41.9	10.3	25%	31.2	7.2	23%
North America	45.6	11.0	24%	22.3	6.0	27%
China (+RoW)	7.8	2.7	34%	20.1	3.9	19%
Total	**126.5**	**32.8**	**26%**	**113.8**	**25.3**	**22%**

Scott New Zealand – Strong core performance as global hub for meat and Rocklabs

- Revenue growth from contract with Silver Fern Farms and subsequent commencement of build for a Lamb Primal machine for their Finegand plant.
- Scott's productisation strategy has led to sales of other meat products to the likes of Silver Fern Farms and JBS in Australia with several further orders pending.
- Despite Russia sanctions weighing on sales volumes, New Zealand as the global hub for Rocklabs, has managed price, mix and aftersales to maintain margin dollars.

Scott Australia – Revenue drops but margin percentage increases with move out of complex mining systems

- The most significant contributor to the revenue fall is the tail of the strategic withdrawal from the last of the large complex legacy projects. In turn this has improved the margin percentage of the region from 19% to 30%.
- Investment in the capacity and capability of service has seen revenue double in the period, with the greater utilisation of staff pushing up margin.

Scott Europe – Continued strong BladeStop and MHL converts large forward work to revenue

- Revenue stepped up delivering elevated growth of 34% as the COVID and supply chain pressures began to ease, allowing faster conversion of the large forward order book.

- MHL sales grew by 14% whilst new business in the period of $30m across customers such as the new Clarebout french fries factory and an ice cream plant for new customer Incom Leone, meant the region retained a significant forward order book of +$44m.
- Meat revenue grew 68% to $7m as a further 70 BladeStop machines were sold. This included aftermarket sales of $1.6m at +40% margin, which was up 75% on the back of a growing install base which now stands at 446 units.
- Europe also enjoyed growth from the sale of two appliance line projects which were manufactured by Scott China delivering good margins for the group.

Scott North America – Leadership change brings stability and focussed growth

- With the change in structure to bring North America underneath the leadership of Scott Europe, revenue doubled, and profitability has stabilised.
- Growth has come in the form of a second significant customer for our proprietary Poultry Trussing product, Costco Wholesale.
- Winning the Innovation Showcase at the recent International Production and Processing Expo in Atlanta has seen significant growth in enquiries for the Poultry Trusser.
- AGV sales have grown by 35% in the period from new business centred around our core capabilities and with blue chip organisations including Microsoft and Gulfstream.
- BladeStop sales remained strong in what is our largest installed market with unit sales being up 21% on pcp.

Scott China – Provided manufacturing capacity to Scott Group and secured significant forward work

- Despite being down in revenue for the period, China has been fully utilised, manufacturing appliance lines for the wider group for delivery into South America and Europe.
- Two recent and significant domestic contract wins for Midea ($13m), along with manufacturing support for large meat and appliance builds for other regions, will see China fully utilised through to the end of the financial year.

ENDS

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About Scott

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.

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