16 April 2024
Company Announcement

SCOTT TECHNOLOGY ANNOUNCES FY24 HALF-YEAR RESULTS

- Dedication to Scott 2025 strategy enabled delivery of sustainable growth, and achievements across the business see strategy extended out to 2027.
- Group revenue is up 11% to $141m, margins maintained at 26% with a focus on both core and service, supported by improved delivery of rest of business.
- Sales and service in Scott's three core sectors delivered 85% (+8ps) of group revenue.
- Operating EBITDA increased 14% to $17m, outpacing revenue growth.
- Net profit after tax was down 42% to $4.5m due to one-off strategic review costs, higher lease and financing costs.
- Forward work of $161m remains positive, comprising of MHL, minerals, protein orders and service agreements.
- An interim dividend of 5 cents per share was declared, up from 4 cents in H1 F23.

Automation and robotic solutions provider, Scott Technology Limited (NZX: SCT), has today released its results for the six months to 29 February 2024 (H1 F24).

Dedication to the *Engineering Scott to High Performance* (Scott 2027) strategy, which emphasises core sectors and productisation, has enabled Scott to deliver sustainable growth and continued leadership across protein, materials handling (MHL) and minerals sectors.

The Scott 2027 strategy has continued to underpin the business' focus and investment in the growth of its three core sectors with revenue up 11% to $141m and operating EBITDA up 14% to $17m.

The business' sales pipeline remains positive and on strategy, with $161m in forward work comprising of MHL projects, continued strong minerals and protein product orders, as well as significant progress in secured service contracts.

Scott Technology CEO, John Kippenberger, says he's pleased with the business' solid H1 performance.

"With our emphasis on building a more sales-oriented organisation, and growing and investing in our teams, we are well positioned for continued success in the dynamic global markets.

"Our unwavering commitment to operational excellence is bolstered by investing in productisation and leading innovation. This ensures we harness the current momentum for continued success as we lean into 2025 and beyond," says Kippenberger.

ESG update

The momentum driving Scott's ESG strategy has continued during H1 F24, marked by robust engagement across all levels of the organisation and support from the Board and Executive leadership. Significant strides have been made across each of the three pillars of Scott's ESG commitment as the business remains steadfast in its dedication to leading a sustainable future.

Scott has now formalised its ESG governance structure, progressed carbon reduction programs, and witnessed a positive uptick in engagement scores from teams worldwide following the bolstering of its awards and recognition programs. Its approach extends to actively engaging with suppliers, and supporting customers' sustainability goals, reflecting Scott's commitment to fostering environmental stewardship and social responsibility.

People

Employee health, safety and well-being remain the highest priority, and good progress has been made in all the key metrics in H1 F24. Improvement in lead indicators, including strengthened hazard reporting, has significantly decreased the Lost Time Injury Frequency Rate (LTIR) and Total Recordable Injury Frequency Rate (TRIFR). Following the launch of the Critical Risk program in November, Scott is poised to begin global critical risk workshops in its 2024 focus areas, Mobile Plant and Potential Energy.

The recent employee engagement survey results saw Scott's highest-ever level of participation of 80%, coupled with the highest-ever employee engagement score of 85%. Employee retention remains high, and turnover rates reduced on H1 F23, from 7% to 3%.

Results overview

Results Snapshot $M	H1 F24	H1 F23	var %
Revenue	140.9	126.5	11%
Operating EBITDA	16.6	14.6	14%
Non-recurring adjustments[1]	(2.4)	-	-
EBITDA	14.1	14.6	(3%)
Net Profit After Tax	4.5	7.8	(42%)
Dividend per share (cents, declared)	5.0	4.0	25%
Net Cash / (Debt)	(20.7)	12.8	(262%)
Operating Cash Flow	(7.7)	26.0	(130%)

[1] Strategic review costs

Revenue for H1 F24 increased 11% on the prior comparative period (pcp) to $140.9m, as Scott's strategy of generating more revenue from repeatable core products and services along with growing MHL and protein solutions in North America continued to deliver sales growth.

The group margin of 26% was maintained, despite the sales mix reflecting several lower margin, high value MHL and minerals solutions.

This strategic revenue and margin approach has resulted in operating EBITDA growth of 14% to $16.6m for the period.

Net profit after tax (NPAT) of $4.5m for the period (-42% on pcp) reduced due to the one-off costs of

$2.4m associated with the strategic review; increased IFRS16 amortisation costs (+$1.3m) in relation to new leased premises; increased financing costs (+$0.9m) in relation to higher effective interest rates on term debt; and an increase in IFRS16 interest (+$0.3m) associated with the expanded footprint for Minerals and MHL businesses.

Operating cash outflow of $7.7m was due to timing associated with a number of significant projects currently underway with cash due to be received in arrears compared with pcp where a number of significant projects had received deposits in advance. Cash has also been applied to footprint expansion and other capital investments. This has resulted in the Group's net debt position of $20.7m.

In recognition of the ongoing progress made by the company, the Directors declared a (partially imputed) dividend of 5.0 cents per share, payable on 15 May. The Dividend Reinvestment Plan will apply.

Core sectors

Results Snapshot	H1 F24			H1 F23		
$M	**Revenue**	**Margin**	**%**	**Revenue**	**Margin**	**%**
Protein	31.3	9.9	32%	34.4	12.2	36%
Minerals	25.6	8.7	34%	16.8	7.7	46%
Materials Handling & Logistics	62.7	12.1	19%	46.5	10.4	22%
Core Business	119.7	30.7	26%	97.7	30.2	31%
Rest Of Business	21.2	6.3	30%	28.8	2.6	9%
Total	**140.9**	**37.0**	**26%**	**126.5**	**32.8**	**26%**

The Scott 2027 strategy continues to emphasize 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 the business.

This focus has seen core sector revenue grow by 22% in the period and move from 77% to 85% of total group revenue.

Materials handling and logistics (MHL)

- This sector largely comprises conveyors, automated palletizing and sortation equipment used in the warehousing operations of large food manufacturers and related industries. Customers include industry leaders such as Danone, Pfizer and McCain Foods.

- Revenue grew at 35% on pcp due to completion of the ASRS system for Alliance NZ, and progress made with JBS Brooks and McCain Canada, alongside continued strong growth in the existing Europe market.

- MHL continues to maintain a significant forward order book of $113m which includes an installation at Clarebout's new facility in France, an installation at McCain Netherlands new AGV (Autonomous Guided Vehicle) business in North America with Logan Aluminum and long-term customer Bridgestone.

- Scott is currently developing a modular AGV solution for the growing AGV market in North America. A standardised offer of vehicles with a range of attachments is being developed with a prototype being available during H2 F24.

Minerals

- 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.

- Scott's minerals business has delivered significant growth of 53% compared to pcp largely driven by Rocklabs automated solution for Mineral Resources Ltd and the automated energy transfer system (AETS) for Caterpillar.

- Although revenue increased by 53%, the shift in the mineral's product mix towards these new solutions resulted in a lower margin, from 46% to 34%.

- The launch of AMS has seen strong market engagement with several of the world's largest mining companies trialing the demonstration unit with positive results.

- A renewed focus on product development will position the minerals business to expand into untapped markets in coming years.

Protein

- This sector largely comprises meat processing equipment which operates in the secondary processing operations of the large meat processors and related industries.

- While the period included the successful commissioning of the Silver Fern Farms Primal solutions and repeat trussing units from Costco, protein revenue declined 9% on pcp, impacted by global pressure on red meat reduces customer demand and meat processors investments.

- Despite those challenges, protein service revenue grew 39% on pcp due to the increased equipment installation base and a focus on securing long term service and maintenance agreements.

- The pipeline conversion for protein products has slowed for the reasons outlined above. Despite this, several long-term Australasian customers have signed up to long term service agreements worth over $10m.

- The successful installation of the first two Poultry Trussing lines into US retailer CostCo is opening up this channel with industry-leading companies looking to secure a safer, automated poultry trussing line. Other poultry prospects have shown a significant amount of Positive progress continues in the development of the world's first fully-automated beef boning solution, with first beef chine modules prototype underway at JBS Brooklyn.

- Early-stage progress has been made on the lamb frenching automation which will increase yield and product quality while addressing labour challenges. This product is being developed in association with our partners Robotic Technologies and Meat & Livestock Australia.

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 13% in the period.

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 Scott's highly specialised equipment.

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

This growth is evident in the protein sector where service revenue grew 39% on pcp. The 2-year CAGR on protein service is 47% (H1 F22 to H1 F24) which follows protein equipment sales of 46% for the previous two years (H1 F21 to H1 F23). The service lag contributes to growth, especially during cyclical times, such as the current red meat headwinds, where equipment sales soften.

Service revenue also grew across the total group (including non-core business) by 10% and continued to deliver strong margins of 35%. This demonstrates the importance of the service / aftermarket business to the overall performance and profitability of Scott.

Regional business update

Results Snapshot	H1 F24			H1 F23		
$M	**Revenue**	**Margin**	**%**	**Revenue**	**Margin**	**%**
New Zealand	9.7	3.1	32%	11.0	2.9	26%
Australia	23.3	5.5	24%	20.3	6.0	30%
Europe	44.3	12.2	25%	41.9	10.3	25%
North America	51.0	12.1	28%	45.6	11.0	24%
China (+RoW)	12.6	4.1	33%	7.8	2.7	34%
Total	**140.9**	**37.0**	**26%**	**126.5**	**32.8**	**26%**

- New Zealand revenue reduced as the Alliance palletisation and Silver Fern Farms lamb boning room were commissioned. A focus on service resulted in a revenue increase of 29% on pcp.

- Australia income increased considerably based on the mineral AMS solution being produced for Mineral Resources. The aftermarket business grew by 11% on increased protein installation-base.

- Coming off the back of a strong prior period for BladeStop saw protein decline in Europe. However, the region delivered significant and continued growth in MHL, resulting in an increase of 15% in core revenue. The intentional contraction of the appliance sector resulted in total lower growth for the period.

- In North America the CostCo Poultry Trussing lines (protein), CAT energise solution (minerals), and JBS Brooks and McCain Canada (MHL) gave a strong presence for Scott as the North American MHL market is opened up.

- China and Rest of the World has seen growth in the minerals business through a solid account management focus working with agents in those areas.

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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