Mercer

Annual General Meeting
18 October 2016

A PERIOD OF TRANSITION

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Annual General Meeting agenda

1. Chairman's introduction
2. CEO address
3. General business
4. Refreshments

Chairman:

John Dennehy

Overview – to 30 June 2016

- A year of significant changes resulting in poor financial performance.
- Restructuring largely completed.
- Divestment of loss making subsidiaries completed.
- Machines operations consolidated to Christchurch.
- Titan bought under control and moved to Christchurch.
- Debt reduced by $0.4m.
- S-Clave accelerated path to commercialisation.

Rights Issue

Underwritten renounceable Rights Issue:

- The offer amount $7,019,335.
- The offer price is $0.01 per New Share, payable on application.
- Underwriter fee 4% $0.28m

Use of funds as follows:

$3.5m
REDUCE SUBORDINATED DEBT, 12% P.A.

$1m
PARTIALLY REPAY BANK OF NEW ZEALAND

$2.52m
WORKING CAPITAL AND ISSUE EXPENSES

CEO:

Richard Rookes

Financial Performance

- Revenue of $26m, down from $32m.
- Group EBITDA a deficit of $3.2m, fabrication impacted by the low in dairy commodity cycle.
- Fabrication downsized in New Plymouth to mitigate future weakness in orders.
- Restructuring costs and several non-recurring items totalled $3.15m.
- Titan, final contract reversals recognised, $0.65m EBITDA cost.

Group Sales

figures $000's	Jun 16 000's	Jun 15 000's	Movement 000's
Stainless Fabrication	24,548	29,842	-5,294
Titan Slicer	2,820	4,081	-1,261
Mercer Technologies	71	69	2
Corporate		0	0
Inter segment eliminations	-4,131	-1,768	-2,363
Total Sales Revenue	23,308	32,224	-8,916

Group Performance

figures $000's	Jun 16 000's	Jun 15 000's	Movement 000's
Stainless Fabrication	-2,204	2,141	-4,345
Titan Slicer	-1,351	-1,307	-44
Mercer Technologies	-64	-70	6
Corporate	455	-1,274	1,729
Total EBITDA[1]	-3,164	-510	-2,654
Depreciation & Amortisation	-614	-637	23
Impairments Intangibles assets		-231	231
Finance Costs	-801	-599	-202
Discontinued Operations	-1,576	-5,486	3,910
Income tax credit (charge)	-573	422	-995
Share of profit (losses) associate		16	-16
Total Group loss after tax	-6,728	-7,025	297

[1] restated for discontinued operations

Financial Position

- Group debt to equity 56:44%.
- Cost of funding reduced by c2% p.a.
- Working capital release of $6.3m from divestments.
- Debt reduced by $0.4m during the year.
- Post rights issue balance sheet will be strengthened with debt to equity improving to 28:72%.

MERCER GROUP Capital Stack
figures NZ 000's

	30 Jun 16 Actual		30 Nov 16 Proforma (post rights)	
Capital		D/E		D/E
Net Debt	(10,526)	56%	(5,906)	28%
Equity	(8,337)	44%	(15,437)	72%
Total Capital Employed	-18,863		-21,343	
Funding Net Assets				
Current Assets	7,424		8,904	
Current Liabilities	(5,871)		(4,871)	
Non-Current Assets[1]	17,310		17,310	
Total Net Assets (TNA)	18,863		21,343	
Share Capital	33,475		40,575	

[1] includes deferred tax assets & intangibles of $4.5m & $ 4.7m respectively

The pillars of change

- From a fabricator to a food processing and packaging solutions provider.
- Skill set changes:
  - Controls
  - Design
  - Engineering
- Right people, right jobs.
- Actively pursue aquisition opportunities that align with strategy and skill set.
- S-Clave **commercialisation**. Moving towards revenue generation.

Mercer Group

FOOD PROCESSING
& PACKAGING
TECHNOLOGIES

&

S-CLAVE

The design and supply of innovative food processing and packaging technologies. This is an established business with a range of technology led machines that assist food companies in automation and efficiency.

The disruptive sterilisation technology that is in the final stages of development and commercialisation. Our view is that a significant opportunity exists if the technology is adapted.

Why change our focus

- **Better margins:** Mercer owned machines generate gross margins of 25%-35% versus fabrication margins of 15%-20%.
- **Business model:** Machines allow for a ‘service and spares’ business model to be built. We are actively building out that side of the business, with a recently appointed Service Manager.
- **Higher barriers to entry:** Greater technical requirements from design to installation coupled with ‘brand presence’ create loyalty from our customers who like consistency in equipment in their plants.
- **Branding:** Successful brands create brand equity and value over time.
- **Global:** Our machine ranges are sold globally offering greater growth opportunities than the domestic focused fabrication division.
- However, today we do not have the required scale so are actively seeking acquisition opportunities that offer scale, synergies (strategic and financial) and market access. We are currently looking at one such acquisition and will update shareholders if it progresses.

BETTER MARGIN

QUALITY BRANDS & VISION

Food processing & packaging

Moving the business from an hours based business to a value based business... focus on ‘machines’ rather than ‘jobs’.

Titan

The previous Titan strategy failed to deliver results and has cost a significant amount both financially and reputationally.

While we are still working to recover from this, the 100% control we now have and a more sensible approach to growth should provide a stable platform.

The North American market for slicers is greater than NZ$140m per annum, while the Australasian market is greater than NZ$20m.*

Industry drivers: pork consumption increasing, more pre-sliced meat, pre-packaged foods, theme of convenience.

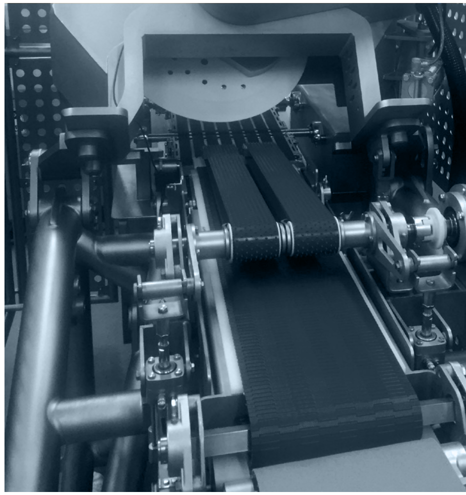
Installed base of over 160 machines globally.

Focus on:

- Currently reassessing our approach to North America.
  Direct versus distribution.
- NZ/AU – legacy installed base of over 40 Titan's that need upgrading provide an opportunity for the lower spec 200 model.

Other near term opportunities:

- Fish slicer
  Currently working with a leading NZ company on a salmon slicer
- More R&D spend
  - Hygiene
  - Controls system



*Source: Mercer management estimates.

Aico

Aico was acquired by Mercer in 1998. It designs and supplies carton equipment and packaging systems sold into Australasian markets.

Aico's key products are as follows:

- Carton lidders
- Carton erectors
- Carton closers
- Meat compactors

Route to market is generally through board companies: Aico is the preferred supplier to market leaders – Visy in Australia (over 50% of board market) and Oji in NZ.

There is an installed base of over 400 machines across Australia and NZ today.

Focus has been on the red meat industry.

We are looking for opportunities in the horticultural space.

We believe the opportunity exists to double the size of Aico from $3.5m to $7-10m.

An exciting R&D project that we have worked on with Visy will be commercialised in the next 3-6 months that offers a significant growth opportunity for Aico.

Beta range

Looking to extend our global position in cheese processing equipment.

US cheese production increased by 1.1% to 987m lbs in 2016.*

The Beta range of cheese packaging equipment is led by the BetaVac, which is recognised globally as the standard for vacuum packaging of 20kg blocks of cheese. The BetaVac is represented in North America by Sealed Air and in Europe by Cremfields.

In the past two years Mercer has extended and rebranded the Beta range.

Looking at growth opportunities in the cheese space. We believe it is a growth sector long-term.

*Source: USDA.

PV Valve

PV valves are industry standard in NZ today – our goal is to make them industry standard for the world.

Tanker pressure vacuum valve – offers protection against volume changes during transport and normal operations on road and rail tankers.

It also provides pressure and vacuum protection in potential failure situations, as well as overfilling protection.

Industry standard in New Zealand, the PV valve is on the vast majority of Fonterra tankers.

The export opportunity for the PV valve is significant:

- Recently sold first PV valve into Australia
- Seeking 3A approval to sell in the US as a longer-term goal.

According to our US partner Pacific Process, milk volumes in US are six times that of NZ and there are over 5,000 milk tankers in the US. They estimate selling over 1,000 PV valves in the first five years post 3A approval. Will cost $100k + to get the 3A approval.

Fabrication

The historical core business of Mercer – dating back to South Island Dairy Association.

Specialises in tanks, silos and specialist stainless fabrication for the dairy and food sectors. Very experienced and has a strong reputation.

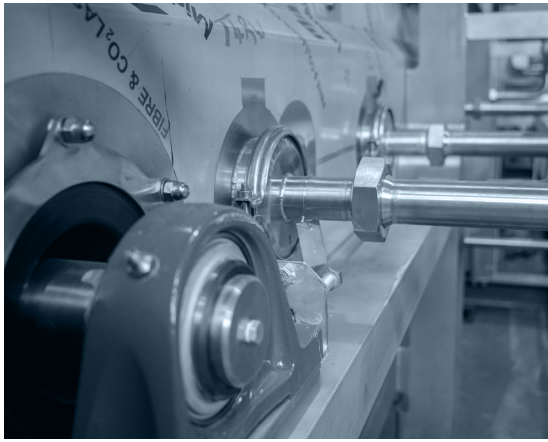
Has fabrication workshops in Christchurch and New Plymouth. Christchurch is the largest facility and is the head office. The New Plymouth facility has recently been downsized and is considered non-core.

The fabrication business services sectors core to the NZ economy, namely dairy and other food production.

Key clients in the dairy sector are Tetra Pak and GEA.

Mercer equipment is on the majority of dairy plants across NZ.

Mercer also do some export work, including recent Alpamatic for Fonterra Stanhope in Australia (through Tetra Pak).



The silo collapse at Fonterra's Edendale site is being worked through by our fabrication division. The cause and any impact on Mercer is unknown at this time.

Our future:

S–Clave

S-Clave is a medical steam sterilisation technology that sterilises medical equipment in a non-porous container or bag.

This is a disruptive technology with global opportunity.

$100m

REVENUE FORECAST IF WE ACHIEVE 5% GLOBAL MARKET SHARE

*Source: Management forcasts

The S-Clave difference

NON-POROUS

By using plastic materials the S-Clave guarantees sterilisity.

Existing process uses a porous wrap

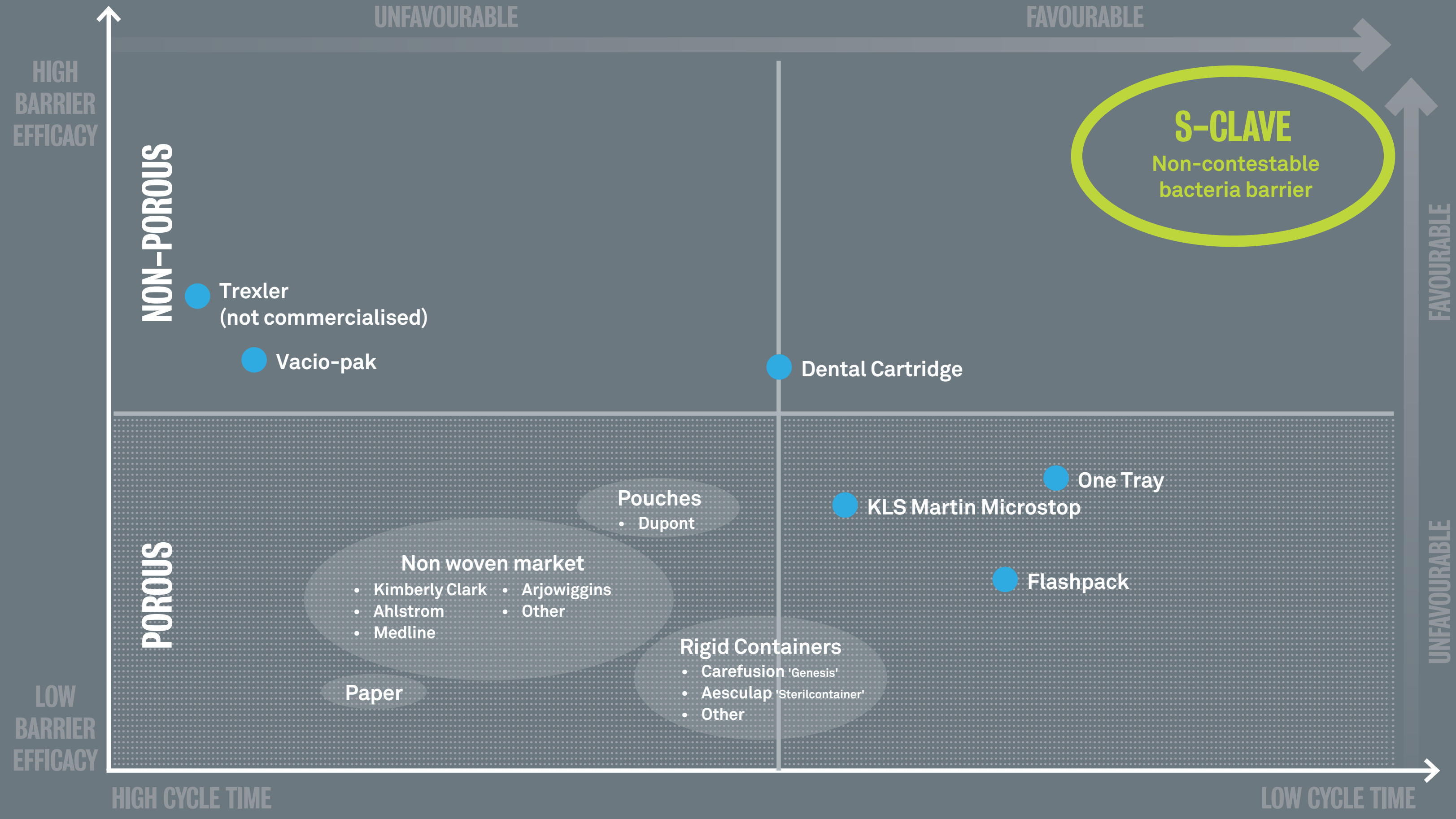
20min CYCLE

Sub 20 minute cycle time versus industry standard 45-60 minutes.

ROBUST & TRANSPORTABLE

COST SAVINGS

Global competitive landscape



Growth opportunity

- The global sterilisation market is projected to reach US$6.11 billion by 2020, a CAGR of 7.8%*.
- The moist heat sterilisation segment is projected to account for 81% of the sterilisation equipment market, reaching US$1.4 billion by 2020, a CAGR of 7.8%*.
- The moist heat segment presents two significant revenue opportunities for S-Clave:
  - Hospital acquisition of capital equipment and
  - Recurring revenues from consumables and accessories.

$6.11b

PROJECTED MARKET TOTAL FOR GLOBAL STERILISATION BY 2020

*Source: Market and Market Report 2015

Underlying fundamentals of sterilisation

- The rising incidences and cost of hospital acquired infections.
- Increasing numbers of surgical procedures.
- Increasing numbers of hospitals globally.
- Aging population.
- Growth of the food and beverage industry globally.

Business model:

CONSUMABLES

Sell the S-Clave and a contract to supply the **consumables**, being the single use bag or container. Mercer owns the IP across all these products. On average, each S-Clave machine is forecast to use over 10,000 single use containers or bags per annum.

Targeting launch of S-Clave in Australia initially by Q2 2017. Atherton's have sterilisers in over 600 hospitals in Australia alone.

If S-Clave achieves 5% global market share, we forecast revenues would be over $100m.

Current state

- Changed strategy to 'partnership' model in 2016.
- IP protection in place via existing and pending patents.
- Signed license agreement with US based global sterilisation company in 2013. In May 2017 they are required to pay US$1m or US$2m to retain their exclusive license depending on whether they have lodged the product with FDA.
- In June 2016 signed an HoA with leading Australasian sterilisation company Atherton who have committed resource to the final design and manufacturing of the S-Clave and will be appointed as distributor in AU/NZ.
- Working with two leading NZ plastics companies on the container solution including identification and testing of materials
- Prototypes of containers tested and shown to hospitals. Positive feedback.

Challenges to get to market

1. Capital / personnel.
2. Unforseen technical challenges.
3. Unforseen regulatory issues.
4. Market acceptance.
5. Partners.
6. Business model.

We will consider a stand alone capital structure for S-Clave to ensure it has the resources required to execute on commercialisation.

In summary

- Mercer is a 130 year old company with a rich and diverse history. In recent times the Company has not been as strategically focused as it should have been, which has resulted in poor performance, and therefore poor shareholder returns.
- We have made significant changes to the business over the past 15 months to position it strategically.
- The very nature of the business has changed from a commodity business to an export focused food processing and packaging technology business, with the S-Clave sitting along side.
- The opportunity to grow Titan, Aico, the Beta range and other IP driven products is real, but we need scale. They serve global markets and our existing product range has the ability to be expanded. Australia and the US are the near term opportunities.
- The proposed rights issue will give the company more relevant capital structure.

2017 priorities

1. Cashflow breakeven.
2. S-Clave into market.
3. Acquisition in food processing and packaging business. Currently assessing one acquisition that fits with our stated strategy.

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THANK YOU