

5 April 2017

Listed Company Relations  
New Zealand Exchange Limited  
PO Box 2959  
Wellington

Dear Sir/Madam

### **COMMENTARY ON HALF YEAR REPORT TO 28 FEBRUARY 2017**

The Directors are pleased to report the company has achieved a surplus before tax of \$4.2 million for the six months ended 28 February 2017, an increase of 50% on the \$2.8 million recorded for the first half of the 2016 financial year. The current year's growth has been greatly assisted by the integration of recent acquisitions and the commercial uptake of the company's own developed technologies.

Reported revenue for the first half of 2017 was \$56.7 million, an increase of 32% on the \$42.8 million recorded in the first half of 2016.

There continues to be a significant trend toward automation and robotics around the world; at the same time the international markets we operate in remain volatile and unpredictable. Scott's strategy to grow our skill base and to establish critical mass in our key markets of Australasia, North America, China and Europe means we are well positioned to take advantage of and manage the impact of these trends and risks.

A strong operating cash inflow of \$10.2 million recorded for the first half of 2017 resulted in cash at bank of \$32.8 million at 28 February 2017. \$25 million of this is from the April 2016 capital raising, after repayment of all company bank debt. The company's strong balance sheet positions us well to deliver growth through planned organic and acquisition growth.

### **Review of Operations**

Operating performance across the group continued in line with the increase in sales. Economies of scale gained through a series of repeat builds for the food and industrial automation industries, together with a closer sharing of skills and resources on projects between Australia and New Zealand, resulted in the company's Australasian sales being up 34% from the previous corresponding period. The Australasian manufacturing segment also benefited from the purchase of the BladeStop bandsaw safety technology in October 2016 which sits alongside our expanding suite of food processing applications that focus on improving safety, efficiency and yield.

Within our Americas manufacturing segment, RobotWorx continues to experience pressure on margins and profitability as a result of the reduced availability of robots for refurbishment. However, the stronger 'local presence' in the US market provides benefits to the wider Scott group through access to many potential new customers; quicker in-market response for service work; and it provides a launching point into the North American market for the sale of BladeStop bandsaws.

Our Europe & Asia manufacturing segment was expanded in the second half of the previous financial year through the acquisition of the business assets of a German competitor who supplied equipment to the appliance industry. This acquisition provides us with critical mass to deliver and support Scott's engineered solutions into the large European market. The European market is very competitive and conversion of new sales will be slow initially, and we have taken a longer term strategic view to the development of this market and our business in Germany. The China market

has been lumpy for direct manufacturing sales into China, however, our China business provides a valuable source of lower cost manufactured components which are inputs to our Australasian activities.

A wide range of Research and Development activities continue to be undertaken and these will support and supplement future organic growth.

### **Dividend**

The Directors have declared an interim dividend of 4.0 cents, fully imputed, payable on 26 April 2017. This dividend, at the same level as the prior year, is being paid on the increased share capital introduced last year through the Scheme of Arrangement with JBS Australia. The dividend reflects the strong operating cash flows being generated by the business and the Directors' confidence of a strong full year result.

### **Looking Ahead**

The company is well positioned to take advantage of the increasing demand for our skills, our technology and our equipment. Commercialisation of the company's technologies will continue and will underpin organic growth, while potential acquisitions are regularly being reviewed and evaluated to further drive strategic growth where they provide strong value propositions for all stakeholders.

Yours faithfully



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### **About Scott**

*At Scott we automate the future. The production line machinery we design and build deliver productivity gains and exceptional reliability to many of the world's leading manufacturers. We also go a step beyond engineering production solutions to actually revolutionising entire industries – using robotics to automate manual processes and create genuine competitive advantage.*

*For over 100 years Scott has looked to tomorrow and rapidly responded to shifting needs. Today, we have production bases in the United States, Germany, China, Australia and New Zealand, customers in 88 countries, and a real commitment to developing new technology and bringing it to market. Across everything we do you will discover true quality, advanced engineering and a renowned design aesthetic.*

*Scott. Quality that lasts. Quality that inspires.*