

SCOTT ANNOUNCES FY20 INTERIM RESULTS AND NEW STRATEGY

Automation and robotics solutions provider, Scott Technology Limited (NZX: SCT), has today released its unaudited interim results for the six months to 29 February 2020 (1H20).

Results Snapshot \$M	1H20	IFRS 16 adjustments	1H20 Pre IFRS 16	1H19
Revenue	101.8	-	101.8	111.4
EBITDA	(12.2)	(0.2)	(12.4)	10.4
Non-trading adjustments ¹	(11.8)	-	(11.8)	-
Normalised EBITDA ²	(0.4)	(0.2)	(0.2)	10.4
NPAT/NLAT	(13.7)	(0.2)	(13.9)	5.2
Normalised NPAT	0.8	(0.2)	0.6	5.2
Net Debt	20.2	-	20.2	12.9
Operating Cashflow	0.9	2.4	(1.5)	(6.4)

The results reflect strong growth in the USA offset by softening economic conditions in key markets, as noted last year; lower volumes and lost overhead recoveries; the impact of COVID-19 in the second quarter; and realising the financial impact on complex and challenging projects in New Zealand and Australia, which are now either completed or nearing completion.

Strong sales growth has been seen in the USA and in parts of the service business, and value continues to be added by acquired businesses, particularly Transbotics and Bladestop.

Revenues in Australasia, Europe and China softened as the economic slowdown and uncertainty around Brexit and global trade noted last year continued into the first half of the financial year. In addition, revenue in the second quarter was impacted by COVID-19 restrictions, particularly in Asia with the China shutdown in January and February.

The challenging projects in Australia and New Zealand, as previously discussed, are now either completed or nearing completion and the financial impact of these has been realised in 1H20. Strengthened project management and more rigorous risk assessment for new projects has been implemented to ensure delivery of projects on specification, on time and on budget. New projects which were underway prior to the COVID-19 lockdown are recommencing as restrictions ease, although there may be some deferral of timing. The start-up of the recently announced Rio Tinto project will benefit Australian revenue in 2H20.

Long term demand for smart automation and robotic solutions is expected to remain strong, driven by businesses wanting to remove labour costs, increase safety and improve efficiencies.

¹1H20 includes non-cash, non-trading adjustments of \$11.8m comprising \$10.4m impairment adjustments and a \$1.4m provision for the closure of the DC Ross operations. See Notes 4 and 5 of the FY20 Interim Financial Statements for further details.

² Normalised EBITDA and Normalised NPAT exclude non-trading adjustments.

For the six months to 29 February 2020, revenue was \$101.8m and EBITDA was \$(12.2)m including non-trading adjustments of \$(11.8)m, with the company reporting a Net Loss After Tax (NLAT) of \$(13.7)m.

Non-trading adjustments comprise a non-cash \$(10.4)m impairment adjustment and a \$(1.4)m restructuring provision for the closure of the DC Ross operations in Dunedin as previously announced³.

Excluding non-trading adjustments, Normalised EBITDA was \$(0.4)m with Normalised Net Profit After Tax of \$0.8m. The EBITDA result reflects the impact of reduced revenue, lower volumes leading to lower recoveries and margin erosion.

Net debt was \$20.2m as at 29 February 2020. The company has satisfactory debt facilities in place and a supportive banking arrangement, and also has support from its majority shareholder, JBS Australia.

The Board has resolved not to pay an interim dividend for the year ended 31 August 2020.

New Strategy

The past five years has been a period of rapid acquisition growth for the company, resulting in a diverse reach across sectors, customers and geographies. With a new leadership team in place and given the changing operating environment, Scott is now moving to streamline its business and will focus on leveraging core strengths and expertise which offer profitable sustainable growth and margins.

The company's new strategy will build on five pillars – Customer Partnerships, Leading Edge Technology, One Global Team, Operational Excellence and a Robust Global Platform. In particular, Scott will be increasing its focus on repeat, profitable sales of developed and proven technology, products and services which are core to the Scott Group; and increasing its service and support offering for customers. New project design & development will be carefully risk assessed and R&D activities will become highly focused on core technologies, with additional, carefully targeted strategic projects aimed at delivering positive commercial growth opportunities.

Business Restructure

In line with the new strategy, the company is transitioning to a streamlined, regionally focused business model with four regions - Australasia (New Zealand & Australia), Europe, North America and China. Each will be led by a Regional Director with local teams providing product expertise, sales and customer support.

Manufacturing plants will become Centres of Excellence where each plant will have a specific focus on a product or industry sector, rather than all plants striving to produce a number of different and often highly complex systems and products.

³ See Notes 4 and 5 in the Interim Financial Statements for further detail

The business and workforce will be right-sized for the new strategy and operating environment, resulting in a reduced cost base. This will include the consolidation or closure of a number of facilities including the closure of the Kürnbach facility in Germany with production moved to other plants, the proposed consolidation of Melbourne manufacturing into the Sydney plant and closure of the Brisbane office. Scott will also commence a sales process for its niche high temperature superconducting business in Wellington, HTS-110, which is considered non-core.

Outlook

The longer term outlook for the company remains positive and the impact of COVID-19 on businesses around the world has demonstrated the benefit of automation and robotics solutions, which allow work to be carried out safely and efficiently.

In line with its new strategy, Scott has identified four key sectors which leverage Scott's leading technology platforms and offerings - Mining, Meat, Appliances, Material Handling & Logistics - with strong growth opportunities in each.

COVID-19 will have a material impact on FY20 results, with travel restrictions and access to customer sites affecting Scott's ability to design, progress and commission a number of projects. A number of responses have been taken in response to COVID-19 and the financial impact of these will be seen in the FY20 full year results. This includes costs associated with the restructuring of the global business platform to make it more efficient and deliver improved customer outcomes. Revenue is expected to recover as restrictions are lifted and businesses recommence projects and capital expenditure.

CEO of Scott Technology, John Kippenberger, said: "Industries around the world will continue to search for innovative and reliable automation and robotic solutions to make their businesses safer, smarter, more productive and efficient. Scott's new strategy and streamlined regional business model positions the company to take advantage of this and deliver earnings growth and margin improvement while reducing risk.

"Scott is recognised as a leader in the industry. We have significant IP in the products and systems which we have developed and we will be commercialising these further, while continuing the innovative development of systems for which we are known. Our new strategy will build on our expertise and capabilities as we make our business more focused and more efficient."

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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, Belgium, Czech Republic, France, 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.