Mercer Group Limited

NZX Release **20 February 2020**

Mercer Group Limited (MGL) delivers on its strategy of automation led growth

Highlights of the six month period to 31 December 2019 included:

1. 55% increase in Group revenue to $27.9m
2. Automation revenue was 76% of Group revenue, in line with the stated strategy to grow that side of the business
3. EBITDA increased 82% to $1.1m
4. Net Profit increased 176% to $447k
5. Net Debt reduced to $2.2m due to the strong cash position
6. Appointment of new Chair Trevor Burt

values NZD 000's	6 months 31-Dec-2019 unaudited	6 months 31-Dec-2018 unaudited	Change %
Automation			
H&C	10,482	9,339	12%
Milmeq	10,761	-	-
Total Automation Revenue	**21,243**	**9,339**	**127%**
Fabrication	6,621	8,901	-26%
Group Revenue	**27,864**	**18,025**	**55%**
Group EBITDA	**1,087**	**596**	**82%**
Net surplus before tax and finance costs	951	419	127%
Group After tax profit	**447**	**162**	**176%**
Net Debt* (comparative 30 June 2019)	(2,215)	(2,667)	17%
Finance costs (secured borrowing)	162	203	20%

* Net Debt: net cash balances and borrowings

Financial Performance

Mercer Group generated revenues of $27.9m for the six months to 31 December 2019. This was driven by the performance from the Automation side of the business on two fronts – the H&C business increased revenues 12% to $10.5m, while the newly acquired Milmeq business generated

$10.8m revenue. It has been the stated strategy of the Group to transition into an automation led future, so now we are generating over 76% of our revenue from that area is positive.

Mercer Stainless had a more challenging six months with decreased dairy sector investment impacting it, with revenues down 26% to $6.6m. We note however, that this does not include fabrication the business did for Milmeq internally, which was another benefit of the acquisition, assisted Mercer Stainless and kept margin within the Group.

EBITDA was $1.1m for the half year, an increase of 82% on the prior year period. Both the Automation business ($1.245m) and Stainless ($378k) generated positive EBITDA. The consolidated result was reduced with Corporate costs of $231k and S-Clave costs of $34k.

Net Profit was $447k, which includes a $296k tax expense (noting that given the Group's tax losses this is a non-cash expense).

Cash flow from operations remained strong at $2.6m inflow from the six months, based on the stronger workflows. This resulted in net debt reducing to $2.2m as 31st December 2019.

Outlook

We are pleased with the progress we continue to make, transitioning the Mercer Group towards an automation and technology led future. The acquisition of the Milmeq Chilling and Freezing business has provided us further scale and diversification in that regard. This is beginning to come through in the financial results.

The H&C business has good workflows through to the end of the financial year, with baseload work in the Milmeq product line through the full calendar year. The pipeline for new work is appropriate for our scale, but does need to be converted, noting that capital equipment sales can be lumpy. Mercer Stainless continues to operate in a difficult period in the dairy investment cycle, but the medium term outlook is adequate.

We are continuing to seek to diversify the businesses to ensure we are not too exposed to any one sector or market. All of our business units have suffered in the past from too narrower focus, and therefore we remain committed to opening new markets and entering new geographies with our core product set. We are making good progress in this regard.

We are confident that we will retain the momentum we currently have through this financial year, with increased EBITDA and net profit.

Richard Rookes, CEO

Trevor Burt, Chair