



**Mercer Group Ltd**  
**Annual Meeting**  
29 November 2018

# Important Notice



This document contains summary information about Mercer Group Limited (MGL) as at 29 November 2018. The information is subject to change without notice and does not purport to be complete or comprehensive. It should be read in conjunction with MGL's other periodic and continuous disclosure announcements lodged with the NZX, which are available at [www.nzx.com](http://www.nzx.com). The information in this document has been obtained from or based on sources believed by MGL to be reliable. To the maximum extent permitted by law, MGL, its affiliates, officers, employees, agents and advisors do not make any warranty, express or implied, as to the currency, accuracy, reliability or completeness of the information in this document and disclaim all responsibility and liability for the information (including, without limitation, liability for negligence). This document is not an offer or an invitation to acquire MGL's shares or any other financial products and is not a prospectus, product disclosure statement or other offering document under New Zealand law or any other law. It is for information purposes only. The information contained in this document is not investment or financial advice or a recommendation to acquire MGL's securities. It has been prepared without taking into

account any investor's objectives, financial decision, situation or needs. This document contains "forward looking" statements.

The words "anticipated", "expected", "projections", "forecast", "estimates", "could", "may", "target", "consider", and "will" and other similar expressions are intended to identify forward looking statements.

Forward looking statements, opinions and estimates are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, indications or guidance on future earnings or financial position and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. There can be no assurance that actual outcomes will not differ materially from the statements. Past performance information given in this document is given for illustration purposes only and should not be relied upon as (and is not) an indication of future performance. Actual results could differ materially from those referred to in this document.



# Agenda

- 1 | Welcome
- 2 | Chairman's address
- 3 | CEO review
- 4 | General business
- 5 | Refreshments



# Welcome

## Our Vision

To design and supply innovative food processing and packaging systems to the world

### Responsible

We care about our people, our customers and our environment

### Committed

Each of us is accountable to deliver results to all our stakeholders



### Customer focus

We build long term partnerships by providing quality solutions to our customers

### Professional

We communicate openly, act with integrity, and strive for excellence

A grayscale photograph of an industrial robotic arm, likely a KUKA model, positioned over a wooden pallet loaded with several boxes. The background shows a factory floor with metal grating and other industrial equipment. The entire image is overlaid with a semi-transparent blue filter.

# Chairman's address: John Dennehy

# FY 2018 Review



**These were the outcomes of the general goals we set for FY 2018**

- 1. We have broadened and successfully targeted local (Australia and NZ) customers in H&C**
- 2. We have widened our H&C scope of offerings in the US, and are optimistic of near term tangible outcomes**
- 3. Mercer Stainless has both consolidated its place in the dairy sector, and widened its customer base in the wine sector**
- 4. S-Clave commercialisation is close, subject to final testing**
- 5. Health & Safety remained a priority, with an increasing focus on well being alongside the traditional focus on safety.**

# FY 2018 Review



- **Financial performance not satisfactory**
  - H&C failed to perform but strategy broadened and required changes made
  - Mercer Stainless had a good year with EBITDA on budget
  - Significant asset write downs:
    - Titan legacy – stock, goodwill and other assets
    - De recognised tax losses
- **Diversity:**
  - At 30 June 2018, Mercer employed 120 staff, including 55 in the workshop, of which 111 (93%) were male and 9 (7%) were female.
  - MGL encourages representation across both genders and all ethnicities and have a policy hiring on merit.

# FY 2019



- **Necessary changes made in 2018 – a year behind our plans**
- **Mercer Stainless continuing its profitable performance from last year**
- **Changes made at H&C have yielded positive results**
- **Expect to generate net profit for the half and full year**





- **Continuing to work through the process with Fonterra and our insurers.**
- **All parties have been and are currently, working towards a mutually agreeable resolution.**
- **Mediation is possible, as are legal proceedings.**
- **Given the complexity of the issues, MGL's insurers have not as yet agreed the scope of cover.**
- **Based on advice received, MGL is comfortable with its insurance and liability position.**

**In summary, MGL is focused on achieving a negotiated outcome and remains confident, based on advice received, as to its insurance and liability position.**

# CEO review: Richard Rookes

# Year in review



Good Health & Safety record across the Group



**Strong financial performance from Mercer Stainless**



Poor performance at Haden & Custance  
Changes made, positioning  
it for stronger 2019 financial year



**Further progress in S-Clave commercialisation**



Group EBITDA loss and material asset write downs

# Financial performance



## Group Sales by segment - figures 000's

Cr/(Dr)

	Jun-18	Jun-17	change
Stainless Fabrication	18,514	21,570	(3,056)
Haden & Custance	12,503	8,222	4,281
Mercer Technologies	6	65	(59)
Corporate	0	0	0
Intercompany eliminations	(2,204)	(3,235)	1,031
<b>Total Revenue</b>	<b>28,819</b>	<b>26,622</b>	<b>2,197</b>



- Total Revenue increased 10% year on year.
- Stainless revenue down \$3m or 12%
- Haden & Custance revenue of \$12m, down on expectations due to delayed sales pipeline

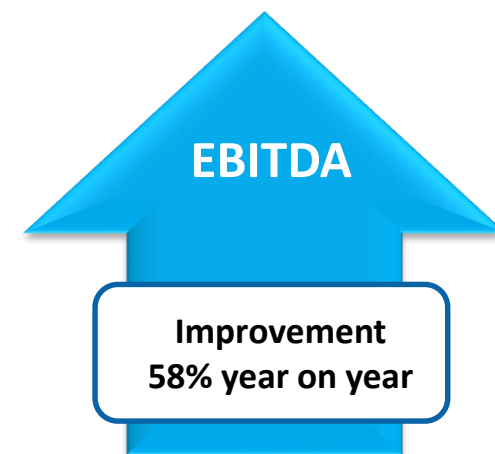
# Financial performance



## Group Earnings by segment - figures 000's

Cr/(Dr)

	Jun-18	Jun-17	change
Stainless Fabrication	1,055	(298)	1,353
Haden & Custance	(1,595)	(1,626)	31
Mercer Technologies	5	28	(23)
Corporate	(887)	(1,576)	689
<b>Reported EBITDA</b>	<b>(1,422)</b>	<b>(3,472)</b>	<b>2,050</b>



- Reported Group EBITDA was a \$1.4m loss, a \$2m improvement from the prior year
- Stainless Fabrication posted a \$1.1m EBITDA profit, a \$1.3m increase on prior year
- H&C performance was poor, but was based on low sales – gross margins were maintained and we continued to invest in the key US market



# Financial position



figures NZ 000's

	30 Jun 18		30 Jun 17		Movement		
	Audited		Audited		2017 to 2018		
		D/E		D/E		D/E	
<b><u>Capital</u></b>							
Net Debt	(6,562)	59.6%	(7,919)	45.4%	1,357	14.2%	\$1.4m Debt reduction
Equity	(4,444)	40.4%	(9,510)	54.6%	5,066	-14.2%	
Total Capital Employed	(11,006)		(17,429)		6,423		
<b><u>Funding Net Assets</u></b>							
Current Assets	5,444		8,469		(3,025)		\$2.0m Titan impairments
Current Liabilities	(5,948)		(5,686)		(262)		
Non-Current Assets	11,510		14,646		(3,136)		\$1.9m derecognised tax assets, \$1.2m Titan impairments
<b>Total Net Assets (TNA)</b>	11,006		17,429		(6,423)		

D/E = Debt to Equity

- New capital of \$2.9m introduced
  - Debt reduction of \$1.4m, \$0.5m investment in H&C US sales & Marketing & \$1m working capital.
- The Group retains off balance sheet \$5.4m of tax assets to offset future taxable profits
- Underlying operating cashflow improvement, \$(0.6m) vs. prior year \$(4.7m)

# Mercer Group today



Hastings based automation company with an office in the US. Specialist systems for de-boxing and de-bagging of bulk cheese, but is now taking this technology into red meat sector in US, while also growing general automation presence in NZ / AU



Fabricator of stainless products for the dairy, wine and food sectors with plants in Christchurch and New Plymouth



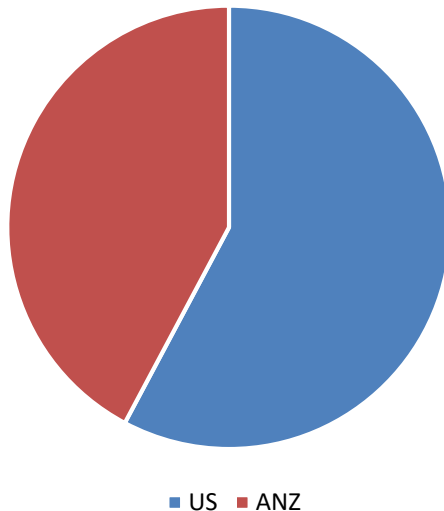
Sterilisation technology that is close to commercialisation

# H&C Automation

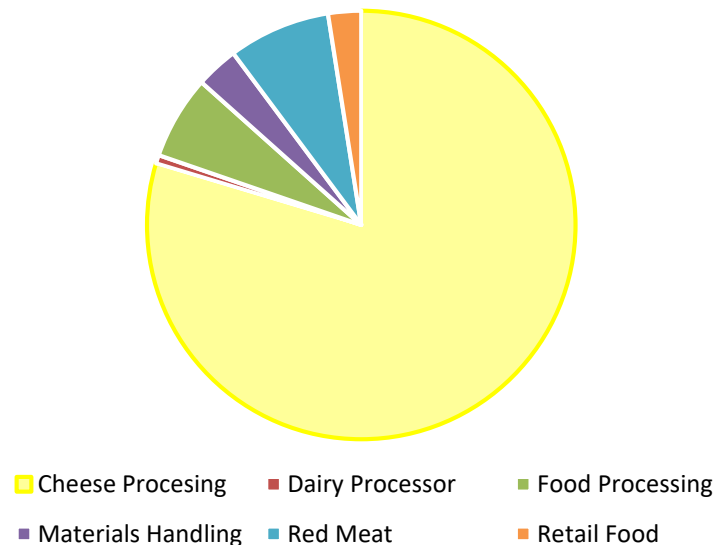


- H&C Automation ('H&C') is an automation business that prepares products for processing. It is based in Hastings, with a presence in Green Bay, Wisconsin.
- The business had a poor year in terms of sales – this being the result of a narrow focus on specialist systems for the cheese converting industry in the US.
- Despite this, H&C delivered all significant projects on time, on budget and generated forecast gross margins – the business has a great record for delivery which gives a solid platform for growth

**H&C Geographic Sales split**



**H&C Market Sectors**



# H&C Automation



We drove a strategic change through the business during the year:

Market	Strategy	Today
USA	Building on excellent reputation with existing customers in the core cheese converting industry	Continuing to originate new opportunities, broader pipeline with more general automation opportunities
USA	Take specialist de-palletizing, de-box systems into other sectors	Close to first sale into the red meat industry, opportunities being driven by recruitment of experienced industry professional. Significant upside in this space, but is requiring investment in market and R&D / Product Development
NZ / AU	Re-engage with dormant customer base	Significantly larger and broader sales pipeline, with first large system secured in the key horticulture industry



## Other opportunities for growth:

1. Asia: increasing cheese consumption – opportunity to sell our specialist systems into the cheese converting industry
2. Europe: Re-engage with historical customer base in the cheese industry
3. Other sectors: increasing opportunities in e-commerce and logistics
4. After sales support and service: growing recurring revenue streams
5. New product development underway:
  1. Universal box opener to provide more flexibility for systems
  2. High speed ASRS system (already delivered first pallet ASRS)
  3. Specialist technologies for the horticulture sector

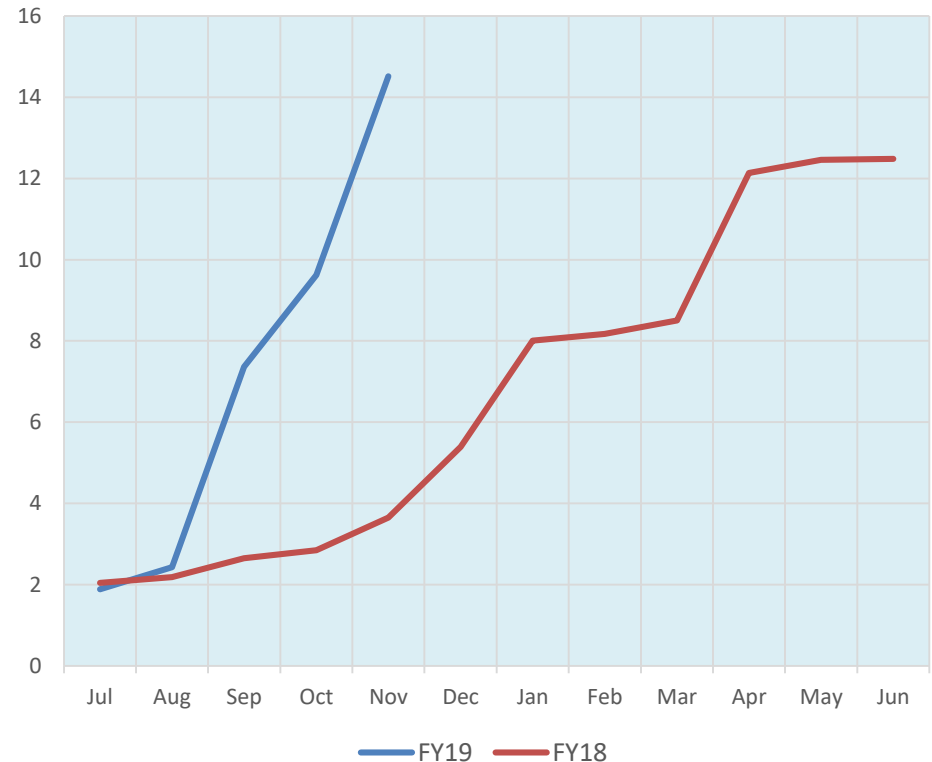


# H&C Automation



- Workloads are strong through first quarter of calendar 2019 – currently experiencing capacity constraints
- AiCo product line has been stronger than ever before based on large orders from red meat and horticulture industries
- First large automation project secured in NZ horticulture industry
- More sales revenue secured in first five months of 2019 financial year than the entire previous year
- Forecasting a turnaround from last years financial performance – revenue up c.50% and return to profitability
- Focus on continuing to broaden and deepen sales pipeline by product, sector and geography through increased sales and marketing effort and new product development

**H&C Sales Orders Won  
Cumulative Comparatives (NZD m's)**



# H&C Automation



## Examples of more diverse automation jobs secured in this year:

### 1. Large NZ Apple Packhouse - \$2m+

1. Customer building new packhouse. Significant amount of new equipment required
2. H&C providing cartoning equipment through cardboard supplier
3. H&C providing turnkey solution of entire packhouse line, proprietary H&C design and integrating several other vendors equipment.
4. Key was H&C's ability to provide a service from design, manufacture, delivery and commissioning

### 2. Australian based dairy company - \$2m+

1. Palletizing and automated pallet handling system, including AGV system
2. Repeat customer, so knew the business and added value through the concept/design stage
3. H&C able to provide full turnkey solution

### 3. US based cheese converting company - \$3m+

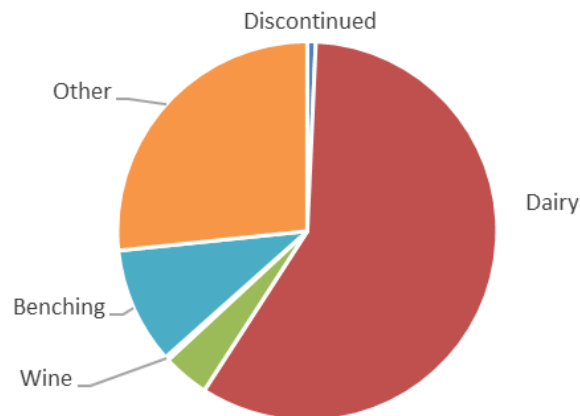
1. Repeat customer having previously delivered \$8m system successfully to the site
2. Deep understanding of the business and site and reputation for delivering on time and on budget
3. Further automation to existing system

# Mercer Stainless



- Mercer Stainless had a good year in 2018, building off the momentum gained the year before
- Despite lower revenue, profitability was significantly increased, with EBITDA of \$1.1m
- Cost structures are right and operationally the business is focused on its core capability – fabrication of stainless equipment for the NZ dairy, wine and food sectors
- Continued drive to diversify revenue streams – looking at new sectors and increasing sales and marketing efforts
- Outlook for the 2019 financial year is good – the business has had a strong start and has baseload work secured through to April 2019. We are forecasting a result in line with last year

Mercer Stainless Market Sectors





- We continue to work towards commercialisation of the S-Clave
- We were frustrated at delays in the manufacture of the tooling at the start of the year.
- Once received, testing has been positive, albeit time consuming. Refinements to the tooling and testing of various lid clamping systems has taken more time than expected
- Final testing is currently underway
- We now expect to be undertaking hospital trials in H1 calendar 2019
- The partnership with Atherton's continues positively
- All conversations with hospitals and other medical operators continue to be positive – we are pushing as hard as possible to commercialise on a tight capital budget

# Where to from here



Mercer Group's vision is to **design and supply innovative food processing and packaging systems to the world.**

Our message remains consistent with last year – we were clearly too aggressive in our forecasts for H&C, but we still believe it is the right strategy, and the changes we have made have been positive. We still lack scale, so are focused on growth, both organically and through acquisitions

- ✓ Automation is the future for our group – we will continue to invest and seek growth opportunities in this area
- ✓ We have a deep customer base across NZ/AU through H&C and Mercer Stainless and a growing position in North America. We have a broad offering of technology-led products and solutions that there is a market need for.
- ✓ We need to grow to give us scale and diversification – we are still too reliant on a small number of sectors – we are driving to diversity our revenue streams through more products, selling to more sectors and into more geographies.
- ✓ This will be organic but we will continue to look for acquisitions that align with our strategy and vision.
- ✓ The S-Clave continues to represent a significant value creation opportunity.



# Outlook



- We are forecasting a strong first half of the 2019 financial year, generating a EBITDA and net profit. This represents a significant and long overdue milestone
- Given workflows in both H&C and Mercer Stainless we expect to maintain this performance through the full financial year – we are focused on maintaining and expanding this momentum
- We continue to look at acquisitions that align with our technology led strategy – we are in detailed discussions with one such opportunity currently and, if concluded, will be done before the end of 2018
- We are targeting having the S-Clave in market in the first half of the 2019 calendar year

We thank shareholders for their ongoing support

# General business

# Resolutions



- 1. Election and rotation of director**
- 2. Appointment of auditors**

# Thank you

Christchurch  
53 Lunns Road, Middleton,  
Christchurch  
Ph: +64 (3) 348 7039  
[www.mercers.co.nz](http://www.mercers.co.nz)