

CEO's Address

FY20 Snapshot

It has now been 12 months since I started my role with Scott at the end of November last year. And what a year it has been!

As well as learning the business my first priority was to undertake a review of the existing Scott strategy and cost base. Almost just as this work had begun, the pandemic started to spread rapidly around the world, and the focus very much extended to working with the global Scott team to protect the safety of our employees and the financial stability of our company.

While revenues of the Group had grown during the prior two years, in part due to the completion of several important acquisitions, it was timely to review the size of our global operational base and cost structure relative to our near-to-medium term growth projections.

This review set the plans for a restructure and right sizing of the Group, both in terms of closing down some areas of excess capacity, as well as re-setting the organisation structure across our four clear regional business units - Australasia, China, Europe and North America.

We also developed our new five year strategy, Scott 2025, which is focused on delivering sustainable growth and profitable returns, and a reduction in risk.

To support the successful achievement of our aspirations, we have added further strength and experience to the Executive Team of the Group. This has included; the recruitment of a new Chief Operating Officer; the establishment of Regional Director roles for each of our business units; appointment of a new Regional Director for Australasia; and expansion of a new Marketing and People Director role. We were pleased that a number of these were internal appointments, reflecting the strength and calibre of our team.

The COVID-19 pandemic was unexpected and had a significant impact on our business, further exacerbating the softer economic conditions we had noted in several key markets in the back-end of 2019 and first half of this year.

We looked to minimise the impact on our global operations as much as possible, with innovative ways of working and a focus on working capital disciplines and cost management to protect our balance sheet.

Restructuring Programme

Our restructuring programme has now been completed and our business has a strong regional footprint for the future.

We have created Centres of Excellence where each plant has 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. This approach will help drive efficiency and reduce risks which has resulted in the past when technologies are moved around the Group without the accompanying levels of required domain knowledge and experience.

We have also moved to a more streamlined regionally focused platform with local teams providing product expertise, sales and customer support. This model will continue to expand in the United States in particular as the need to have qualified resources on the ground to support our US appliance customers and growing meat business, is now critical under the COVID environment with limited travel from New Zealand for the foreseeable future.

Other changes include; the relocation of our appliance manufacturing from Germany to China and New Zealand; consolidation of our sites in New Zealand; and the planned divestment of our high temperature super-conductor business in New Zealand, a process which is underway.

FY20 Results Summary

Scott's results for the year ended 31 August 2020 reflected the material impact of COVID-19 on our business, as well as the right sizing of the organisation, the timing of projects and milestone payments, and legacy projects which are in the process of being closed out.

While we have not measured the impact of COVID-19 in terms of lost revenue and gross margin, we do know that restricted access to sites during the height of the pandemic, working from home rather than in larger design teams, travel restrictions, and, customer deferral of investment spend, have had a significant impact on our ability to close-out, or progress projects, in a timely and efficient manner.

Revenue was down 17% on the prior year to \$186.1m, and we reported a net loss after tax of \$17.5m. This included non-trading adjustments of \$15.3m related to the restructuring, project impairments and a positive contribution from wage subsidies. Excluding these impairments, earnings were a positive \$3.7m.

A considerable amount of energy and activity during the past year has been spent on moving a number of challenging Australasian projects which involved inherently high levels of development risk, to either acceptable outcomes for both Scott and our customers, or to an exit.

Some of these financial provisions were taken at the half-year in anticipation of the challenges Scott was facing at that point on the respective projects. However, in two cases the pathways, which looked like potential positive outcomes at the time, have subsequently closed as the team reflected on operational progress and the commercial position of the project, versus the remaining completion risk.

Critically, we have now introduced a mandatory pre-bid review on all large project bids. The objective is to fully understand the development risk inherent in a project, and ensure this is sufficiently factored into our timing commitments, pricing and contract terms - such as liquidated damages - to avoid Scott taking on a disproportionate part of any risk. This process, together with our focus on keeping to our proven 'core' systems and technologies, will deliver a more stable and sustainable gross margin and profit performance for the future.

Despite the challenges faced during the year, the company finished FY20 with a strong balance sheet and a net cash position of \$7.7m. We delivered strong operating cash flows of \$19.6m, which we believe are now more representative of the underlying business.

While these results were not as we would have liked, we are confident that our new strategy will lead to sustainable growth and profitable returns to shareholders in the years ahead.

Engineering Scott to High Performance

I would now like to talk you through our new strategy which we announced with our half year presentation.

Implementation has commenced and we are making good progress across several areas, despite the disruption and major energy which has been consumed by the pandemic.

Our strategy is built on five core strategic drivers which provide the foundation for profitable growth.

At the centre of our strategy lies a commitment to being the best-in-class in our core systems, products and services, and supporting these growth engines with a highly capable team operating off a strong and reliable delivery platform.

Authentic Customer Partnerships

Our first pillar is focused on building long-term customer partnerships which yield repeat business and growth opportunities.

The current projects with Rio Tinto follow this path. They are proven technologies in mining laboratories and leverage off our Auckland and Sydney mining centres of excellence. The focus is on taking this system to other new and existing Rio Tinto and other mining companies across the gold fields of West Australia and North America.

We have a similar approach with JBS Pork in America and the JBS poultry business Pilgrims. Both of these will involve the delivery of high-speed automation and robotic systems to multiple plants over the next several years. We are in the final stages of the design and build phases of both of these new platforms.

In the New Zealand lambing sector we are focused on playing to our strengths where we have already delivered successful customer and commercial outcomes in the past.

NZ Lamb

This slide shows we have delivered large vision and automated boning systems into eight plants around New Zealand with significant commercial benefits to the sector. You can see the opportunity is to deploy this same technology into the rest of the market, which is more than two-thirds of the total market. So plenty of penetration opportunity ahead for us to focus on realising.

The recently announced boning system going into Alliance's Lorneville plant is the latest example of this strategy.

Leading Edge Technology

We have undertaken a detailed review of our offering and know that we can improve our margins and profitability by leveraging our existing leading edge technology and IP. We have also learnt from the past, specifically around the degree of development risk which Scott has previously taken on in new projects in unproven grounds.

So while R&D still remains a part of our fabric – albeit with a stronger focus around the evolution of our core systems and products - over the next 5 years we will drive a higher proportion of sales from our developed and proven systems, products and services. The two primary examples of our 'product' businesses are Rocklabs and Bladestop. Both of these have recognised global brand leadership positions in their respective domains.

Rocklabs Product

The Rocklabs product business is an important part of our Group. The IP and quality of our Rocklabs products allows us to command strong margins and an enviable global brand reputation to the mining sector. As you can see this this business is growing due in part to record precious metal prices. These products are exported from our Auckland facility to markets around the world.

Finally, as a further indication of our commitment to leading technology in our chosen domains I am pleased to announce today that we have signed a global joint venture agreement with Savoye, the world's leading high-speed storage and retrieval system organisation.

Our relationship with Savoye will allow us to expand our material handling and logistics systems to include this critical component of automated carton storage and retrieval technology. This will seamlessly integrate with our own Scott conveying, sorting and palletising applications and takes us to a new position of being able to offer a true end-to-end solution for global food companies, E-Commerce businesses and the like.

We are already well advanced on two large project opportunities with Savoye, one in Australasia and the other in the United States.

One Global Team

Our people are the backbone of our business and we are further empowering them to drive change and improvements in their areas of responsibility.

We recently welcomed new executive members to the team who bring with them a deep knowledge and experience in managing global engineering businesses. These executives are already introducing new ways of working which bring increased structure and discipline to our business.

We will continue to strive to build a highly engaged and effective global team, investing in our people to keep them safe, help develop their strengths and capabilities, and realise their own individual personal growth ambitions.

Operational Excellence

The key objective for our operations team is to develop robust systems and controls to ensure delivery of projects on spec, on time and on budget.

As mentioned this includes enforcing compliance with our pre-bid reviews. It also involves substantially building our project management capabilities as this is a critical part of successfully designing, building and commissioning large, complex, multimillion dollar projects around the world.

Achieving this will improve customer satisfaction, support our global brand positioning, provide higher profits for Scott, and attract repeat business.

Finally, we will support improved decision making and reporting around the Group by rolling out an effective ERP system over the next 12 to 36 months.

Robust Global Platform

Last, but not least, is having a robust and efficient global platform with an operations infrastructure matched to our growth curve.

In addition to the changes mentioned earlier – which are largely around facilities and infrastructure - our team has had to work with maximum initiative and agility to overcome the major disruptive impact of the pandemic.

So where we would usually cross either state or international borders to carry-out an install, our team has had to find innovative workarounds to deliver positive outcomes within this highly restrictive environment, and at the lowest commercial impact to Scott.

This has meant expanding our network of contractors in several markets around the world, through to conducting factory acceptance tests through the use of live cameras and audio feeds for customers who under normal circumstances would travel to our build facility for such inspections. As I say this has been a huge battle in a constantly changing landscape as we try to keep projects, and therefore cashflows moving ahead, while protecting our people and margins.

Overcoming delays to global shipping networks is the latest stage of COVID related events that Scott and the global economy are now dealing with.

Opportunities and Outlook

A lot of work has been done to position us for future growth and we have identified a number of opportunities for our business.

Our Business

In summary, we now have four regional areas of operation, and in each of these we have a Regional Director in charge of driving safety, positive customer outcomes, and profitable growth.

Our opportunity is to grow our market share in each of these markets and focused sectors, while strategically widening our scope within a region where it makes sense. We do not have the resources to expect that we can sell all products and systems across all four regions.

However, we are confident that we have substantial growth opportunities in front of us which are relevant to our core systems and technologies, and which we can access by applying a clear focus and a considered, staged approach to growth.

Regional Focus

Europe is our largest sales region but one which has certainly been the most impacted, by both COVID and Brexit. We expect to see deferred projects coming back on stream in the next year as both of these events are resolved.

Notwithstanding the difficulties of the current environment we are pleased to announce today that we have recently secured a multi-million dollar material handling and logistics design and build project for McCain, the world's largest frozen food manufacture. This is a further positive testament to our capability on the world stage and is an important example of the green shoots we are beginning to see as Europe makes its way through the second wave of the pandemic.

The **United States** is our second largest market and one that offers significant growth potential for the medium-to-long term. Currently our sales are mostly in Industrial Automation through the design and build of autonomous guided vehicles. Our customers include manufacturers in food, defence and tyres as examples.

Similar, but slightly ahead of Europe in terms of timing, we are seeing deferred projects coming back on stream. We also continue to experience strong growth in demand for BladeStop given the increasing pressures on driving safety across all meat plants in the US.

We are also currently working on large design and build systems for the North American meat sector. This is driven by a convergence of forces of; safety, the relative lack of investment versus other industries in automation over past decades in the US meat sector; the tightening labour supply in the US; the ongoing pressures to drive yield and efficiency; and, now the COVID-19 risks associated with chilled, intensely populated meat plants.

Australia and New Zealand combined made up 22% of our sales in FY20. The focus is mainly on meat processing in New Zealand and mining in Australia.

Our growth potential lies in providing more of our products and systems range to existing customers and building on customer partnerships for new projects. We have already signed a number of new agreements this year in both sectors.

China offers good growth potential.

We operate in the Appliances sector out of our Qingdao facility where the team has built an exceptional reputation for delivering high-end technology to the likes of Bosch, GE and Candy Haier.

There is increasing demand for appliance automation in China, being driven by investment in new manufacturing capacity by companies looking to meet the strong global consumer demand in white goods. It is also supported by Government promotion, increasing labour costs, and the impact of COVID-19 on manufacturing sites.

We are pleased to announce that in the second quarter of 2021 Scott China will be moving to a large, purpose-built manufacturing site. This will be integral in supporting our future growth ambitions for our China appliance business, as well as being well positioned to supply our future European demand.

Review of Projects

We would like to conclude by showing you some updates on 3 important projects taking place or recently completed across the Scott Group.

Bosch Washer Cabinet Assembly Line

- This was a successful build and installation of a washer cabinet assembly line for Bosch.
- This project was an evolution of an existing system originally designed in Christchurch and built in our Scott China facility in Qingdao.
- This fully automatic assembly line runs at a cycle time of one washer cabinet produced every 20 seconds! Brackets are loaded automatically by a robot and guided by a vision system.
- It runs on an intelligent security system and very low noise emission.
- The project was affected by Covid in China, however, the project team discussed the problem points with the Bosch team, and through excellent communication and agility, this project was completed safely and on time.

Alliance X-Ray lamb boning system

- Scott was recently awarded the multi-million dollar contract for Alliance's Lorneville plant.
- This will be New Zealand's most advanced lamb processing system and this video is an example of our boning technology at another plant.
- The system utilises advanced x-ray and vision technology to deliver a high accuracy of cutting, while also bringing significant developments in health and safety.
- This project supports Scott's 2025 strategy to build authentic customer relationships while focusing on our core areas of expertise to deliver strong outcomes for our customers.

Rio Tinto Automated Laboratory in Western Australia

- Scott was awarded this circa \$30 million dollar contract for Rio Tinto to design and build an automated mine site laboratory for the Koodaideri Iron Ore project in West Australia.
- The contract highlights Scott's evolution in the mining sector, from a world leading supplier of sample preparation equipment, to a complete end-to-end automation and analysis solution provider.
- It supports our strategic objective of strengthening customer relationships which deliver repeat growth opportunities.
- Once completed and in production in 2021, the Koodaideri laboratory will be the safest, most productive, highest quality iron ore laboratory facility in the world.
- The project is now well and truly coming out of the ground with the building works underway and the equipment design process deep into the final stages.
- From the success to date on this project we were able to recently announce that we were also awarded the Rio Tinto Robe Valley project. Again, a large multi-million dollar laboratory installation.

In closing I would like to thank our Chairman Stuart McLauchlan, our Scott directors, and all shareholders for your support over this challenging year. We could not have achieved the progress we have, while coping with the ongoing pressure and disruptions of the global pandemic, without your ongoing support.

I would also like to recognise the significant efforts, commitment and resolve of the entire team at Scott. This has been an extremely challenging and exhausting year, and without your tireless efforts we would not have a business in the strong shape that Scott is today.

We are nearing the end of year one of a five year transformation and growth of Scott. We are collectively confident and excited about the future of Scott as we continue bringing focused, and successful, smart automation to our core markets around the world.