30 October 2020
Company Announcement

SCOTT ANNOUNCES FY20 RESULTS

Automation and robotics solutions provider, Scott Technology Limited (NZX: SCT), has today released its financial results for the year ended 31 August 2020 (FY20).

$M	FY20	FY19
Revenue	186.1	225.1
EBITDA	(11.6)	20.0
Non-trading adjustments[1]	15.3	-
Normalised EBITDA[2]	3.7	20.0
Net (Loss) / Profit after Tax	(17.5)	8.6
Net Cash / (Overdraft)	7.7	(4.7)
Operating Cash flow	19.6	0.7

The results for the year ended 31 August 2020 reflect the material impact of COVID-19 on the business, the close out of several challenging legacy projects, the restructuring and write down of non-core assets as a result of Scott's new strategy.

In May 2020, Scott announced its new 'Engineering Scott to High Performance 2025' strategy, which is focused on positioning Scott as the first choice for customers around the world wanting smart automation and robotic solutions which make their businesses safer, more productive and more efficient. The strategy identifies five foundations to achieve profitable growth and a number of goals have been set under each of these. Scott is pleased to report that, despite the disruptions of the global pandemic, the team has made important strides forward on this strategy.

COVID-19 restrictions on travel and site access, as well as customer deferral of investment spend had a significant impact on Scott's ability to progress projects in a timely manner during the 2020 year. Pleasingly, many of these projects are now coming back online, with demand for automation growing in several regions and sectors.

FY20 revenue was down 17% on the prior year to $186.1m with a stronger performance in the USA in 1H20, partially offsetting the reduction in Australasia, Europe and China.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $(11.6)m was impacted by the revenue decrease with lower volumes leading to reduced overhead recoveries, most notably in the Appliance sector in Europe and the United States. In addition, margin erosion occurred in Australasia from a number of large projects which have incurred cost overruns through complexity combined with delays created by the pandemic.

[1] FY20 includes non-trading adjustments of $(15.3)m comprising $(7.6)m impairment of Australasian assets due to the new strategic direction, $(4.3)m restructuring provision, $(6.2)m revenue impairment on challenging legacy Australasian projects and $2.8m in wage subsidies recognised in FY20.
[2] Underlying EBITDA excludes non-trading adjustments.

EBITDA also includes non-trading adjustments of $(15.3)m related to the new strategy and restructure as well as the close-out of several challenging legacy Australasian projects and the Government wage subsidies received.

Excluding these adjustments, underlying EBITDA was $3.7m.

A considerable amount of energy and activity during the past year was spent on moving a number of challenging Australasian projects to either acceptable outcomes for both Scott and the customer, 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 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.

Moving forward, a mandatory pre-bid review has now been introduced 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 Scott's timing commitments and pricing to avoid Scott taking on a disproportionate part of any risk.

A global restructuring programme was undertaken during the year to ensure the global operational base and cost structure were aligned to Scott's strategy and near-to-medium term growth projections. This was completed in August 2020 and the full benefits are expected to be seen in FY21. In addition, to support the successful achievement of Scott's aspirations, important steps were taken to build additional strength and experience in the Executive Team, including the appointment of John Kippenberger as CEO.

Despite the challenges faced during the period, the company finished the year with a strong balance sheet and a net cash position of $7.7m. Total bank term loans were in line with the previous year at $11.2m. The company has satisfactory debt facilities in place and a supportive banking arrangement, and also has support from its majority shareholder, JBS Australia.

The team made good progress on disciplined cost management and working capital management, with a strong improvement in both debtors and creditors despite the COVID-19 environment. Scott reported strong operating cash flows of $19.6m for the year ended 31 August 2020, which management believes is more representative of the underlying business.

The bottom line result, including non-trading adjustments, was a net loss after tax of $(17.5)m.

The Directors have declared that no final dividend be paid for the year ended 31 August 2020. The Board deems this decision to be a prudent one due to the uncertainty that still exists around COVID-19 and its impact on the business.

Chair of Scott Technology, Stuart McLauchlan, said: "While the FY20 headline number is not as we would have liked, we are confident that our new strategy will lead to a return to sustainable and profitable returns in the years ahead. With the launch of our Scott 2025 strategy, we have a clear plan in place to grow our company over the next five years and add value to shareholders. Scott is a world leader in smart automation and robotics technology and we will continue to build on our expertise to deliver safer, more productive, higher quality solutions for businesses around the globe."

Outlook

While the initial shock of the global pandemic caused delays over some projects, several industries and regions have more recently started to make positive investment decisions around Scott's automation and robotic projects, products and services and demand is accelerating. 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.

Scott is focused on five key areas of expertise – Meat, Mining, Appliances, Industrial Automation and Materials Handling & Logistics - which leverage Scott's leading technology platforms and offerings offer profitable sustainable growth and margins. Growth pathways have been identified in each sector and the team are focused on building the sales pipeline in areas that offer the best returns while minimising risk.

While the challenges of the pandemic environment are expected to continue in FY21, Scott's new and more efficient organisational footprint will stand the company in good stead, with a leaner cost base and a more appropriate regional network that will allow the company to deliver an improved service for its customers.

CEO John Kippenberger, commented: "Despite the inevitable challenges and necessary distractions of the ever-moving pandemic, the Scott team continue to demonstrate resilience and commitment as we look to our future under our new Scott 2025 strategy.

The first two foundations of our strategy are focused on building authentic customer partnerships which yield repeat business, as well as pivoting our sales mix to include a higher percentage of repeat, profitable sales of our products and systems. This approach brings efficiencies and risk reduction to the commercial outcome.

Many of our global multinational customers have multiple factories across various parts of the world and our aim is to take a longer term partnership approach. In two existing examples in North America over the past six months, we have moved our engagement from focusing solely on completing one standalone system to now having an agreement whereby the customer will take a number of repeat systems over the next three to five years.

We are confident that the actions we are taking under our new strategy will deliver value to our customers, our staff and our shareholders."

ENDS

More information on Scott's FY20 results can be viewed in the FY20 Investor Presentation released to the NZX with this announcement on 30 October 2020.

For more information, visit www.scottautomation.com or contact:

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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, 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.