17 October 2024
Company announcement

SCOTT TECHNOLOGY ANNOUNCES FY24 FULL YEAR RESULTS:

- Scott's commitment to the "Engineering Scott to High Performance" strategy has driven sustainable growth, sector leadership, and resilience, leading to its extension through 2027.
- Group revenue up 3% to $276m, margins remain steady at 27%. Strong performances in MHL and minerals have been offset by softer volumes in protein.
- Operating EBITDA has remained stable at $30.2m, in-line with FY23.
- Net profit after tax was down 50% to $7.7m due to one-off strategic costs, higher lease and financing costs and change in tax legislation relating to building depreciation.
- Sales and services in Scott's three core sectors delivered 85% (+6ps) of group revenue.
- Forward work of $160m remains positive, comprising of MHL, minerals, protein orders and service orders.
- Final dividend of 3.0 cents per share declared to take full year total to 8.0 cents per share.

Automation and robotics solutions provider, Scott Technology Limited (NZX: SCT), has today released its results for the year ended 31 August 2024 (FY24).

Scott's commitment to its "Engineering Scott to High Performance 2020-2025" strategy, which has driven sustainable growth and leadership across core sectors, has resulted in the extension of the strategy through 2027. The strategy has continued to underpin the businesses' focus and investment in the growth of its three core sectors delivering revenue growth of 3% to $276m and stable operating EBITDA of $30.2m despite the challenging macroeconomic landscape.

The business' sales pipeline remains positive and on strategy, with $160m in forward work comprising of MHL projects, continued strong minerals and protein product orders, as well as significant progress in secured service contracts which has been a strategic focus during the year.

Scott Technology's Interim CEO, Aaron Vanwalleghem, expressed satisfaction with the company's steady progress. "Despite the challenging macroeconomic environment, marked by inflation, rising interest rates, and evolving market demands, Scott has demonstrated measured growth. Our MHL and Minerals sectors have achieved solid results, along with our service and aftermarket business. To build on this momentum, we have made targeted investments to upscale our facilities and strengthen our market presence, particularly in North America. This strategic approach positions us to expand in priority markets, seize new opportunities through market diversification, and fully capitalise on existing prospects."

ESG update

Scott's commitment to sustainable growth extends beyond financial success, reflecting its responsibility to society and the environment. The momentum behind Scott's ESG strategy has continuously evolved since its introduction in FY21, with strong engagement across all levels of the organisation and deep support from both the Board and Executive team. In the past year, Scott conducted an external materiality assessment, ensuring that its initiatives align with the priorities of customers, stakeholders and its and wider ecosystem. As part of this ongoing commitment, Scott will release its Climate-Related Disclosure on November 20, 2024.

Employee safety and wellbeing continues to be the highest priority for Scott. The 'BeScott' Health and Safety programme continues to drive Scott's safety culture and more importantly a significant improvement across all safety metrics in FY24. Increases in lead indicators such as safety conversations and near-miss reporting, have led to a decrease in Lost Time Injury's (LTI), Medical Treatment Injury's (MTI) and first aid injuries contributing to an outstanding achievement of a zero Lost Time Injury Frequency Rate (LTIFR) over the last 12 months. Additionally, Scott continues to offers alternative pathways into technology through its graduate, internship and apprenticeship programmes which plays a crucial role in developing technical talent, with a current enrolment of 24 across its operations.

The increased investment in people-led initiatives has resulted in an outstanding eNPS engagement score of 85% across the group, alongside the highest-ever level of employee engagement survey participation (80%).

As part of its commitment to encouraging women into engineering, Scott is proud to continue its partnership with the University of Canterbury Engineering School. After launching the Scott Technology Women in Engineering Scholarship last year, Scott has now awarded its second scholarship and looks forward to continuing to support these programmes in FY25 and beyond.

Results overview

Results Snapshot $M	FY24	FY23	Var %	FY22[2]	2 Year CAGR
Revenue	276.1	267.5	3%	221.7	12%
Operating EBITDA	30.2	30.4	(0%)	23.9	13%
Non-recurring adjustments[1]	(3.8)	(0.7)	443%	-	100%
EBITDA	26.4	29.7	(11%)	23.9	5%
Net Profit After Tax	7.7	15.4	(50%)	12.7	(22%)
Dividend per share (cents, declared)	8.0	8.0	0%	8.0	0%
Net Cash / (Debt)	(7.3)	12.4	(159%)	3.9	
Operating Cash Flow	6.0	20.2	(70%)	6.3	

[1] Strategic review and refining core business costs (Christchurch appliance operation and Australia industrial automation)
[2] Continuing Operations (excludes the Robotworx business divested in FY22)

Revenue for the year increased 3% on the prior year to $276m as Scott's strategy of generating more revenue from repeatable core sector products and services delivered core revenue growth of 12% for the year. In a challenging market, the strategy has enabled measured growth while key investment across the global operations has positioned the business for market expansion.

The group margin remained in-line with prior year at 27%, despite the sales mix reflecting several lower-margin, high-value MHL and minerals solutions and reduced volumes in protein.

This strategically driven revenue and margin approach has resulted in stable operating EBITDA of $30.2m for the period.

Net profit after tax (NPAT) of $7.7m for the period, down 50% on prior year, due to the one-off costs of $3.8m associated with the strategic review and restructuring costs as part of refining our core business areas, increased depreciation and amortisation costs of +$2.5m in relation to expanding operational facilities and investment in fabrication equipment, increased financing costs +$1.7m in relation to higher effective interest rates on debt, an increase in IFRS16 interest +$0.8m and change in tax legislation removing allowance for building depreciation +$0.8m.

Operating cash flow for FY24 was $6.0m, down from prior year, due to timing associated with several significant projects currently underway with cash due to be received in arrears compared with prior period where several significant projects had received deposits in advance. On a positive note, operating cash in H2 FY24 was $13.7m showing signs of normalising after cycling several large one-offs. Cash has also been applied to footprint expansion, targeted pre-build of equipment for FY25, enhancing infrastructure to support long-term growth and increased dividends and tax payments in the period. This results in the Group's total net debt position of $20.1m, slightly ahead of H1 FY24 results.

In recognition of the progress made by the company, the Directors declared a (partially imputed) dividend of 3.0 cents per share, payable on 20 November 2024, to take the full year total dividend to 8.0 cents. The Dividend Reinvestment Plan will apply.

Core sectors

Results Snapshot $M	FY24 Revenue	FY24 Margin	FY24 %	FY23 Revenue	FY23 Margin	FY23 %
Protein	59.9	16.8	28%	76.0	25.4	33%
Minerals	48.8	17.4	36%	41.2	16.6	40%
Materials Handling & Logistics	127.3	28.3	22%	94.3	21.6	23%
Core Business	**236.1**	**62.6**	**27%**	**211.4**	**63.7**	**30%**
Rest Of Business	40.1	10.6	26%	56.1	7.8	14%
Total	**276.1**	**73.2**	**27%**	**267.5**	**71.5**	**27%**

The Scott 2027 strategy emphasises moving from custom-built systems to scalable products has opened new opportunities, especially in Scott's core areas MHL, Protein, and Minerals. This focus has seen core sector revenue grow by 12% in the year and move from 79% to 85% of total group revenue.

Core sector margin has reduced from 30% to 27% due to change in sector mix including several lower-margin, high-value MHL and minerals solutions and reduced protein volumes. Rest of Business provided an important margin contribution with a strategic focus on executing selected lower risk projects well.

Materials handling and logistics (MHL)

- This sector largely comprises conveyors, automated palletizing and sortation equipment used in the warehousing operations of large food manufacturers and related industries. Customers include industry leaders such as Danone, Pfizer and Pepsico.

- Revenue grew 35% on prior year due to the completion of the ASRS system for Alliance NZ, and good progress made with JBS Brooks and a large North American potato processor, alongside continued strong growth in the existing Europe market including the completion of Incom Leone's Slovenian ice cream multiline palletising system and reaching the final stages of Clarebout's new French facility.

- MHL continues to maintain a significant forward order book of $95m with important deals closed in Q4 FY24 including Agristo, Danone, Cranswick and a major global potato processing operator in North America. These deals continue to emphasise the capability the MHL business has in deploying sophisticated automation systems in a wide range of industries. The addressable market is large and there is still significant opportunity for continued growth for MHL.

- A key strategic focus area for MHL has been the development of its new moderate-speed to complement its mid and high speed palletiser solutions and its all-new fleet of modular Automated Guided Vehicles (AGV) for the growing AGV market in North America that can be easily tailored to meet customer needs. Go to market of the new AGV fleet is foreseen in H1 FY25.

Minerals

- Anchored off strong and reliable Rocklabs sample preparation sales, the minerals business continues to be a core part of the Scott group. These products are well proven in the large global minerals sector and produce high margins.

Revenue in this sector grew by 19%, supported by new product innovations like the Automated Modular Solution (AMS) for Minerals Resources and the Energise for Caterpillar (also known as the automated energy transfer systems AETS).

- The launch of AMS has seen strong market engagement with several of the world's largest mining companies and commercial labs trialing the demonstration unit with positive results. The MRL project successfully completed factory acceptance testing with final commissioning at the West Pilbara mine site scheduled in H1 FY25. This key milestone has seen Scott secured a new modular order another major mining customer in Australia.

- Margin reduced from 40% to 36% driven by a shift in product mix towards new solutions, added development costs for AMS and a softer period of Rocklabs' parts sales with reduced sample throughput via mineral exploration in the labs.

- A renewed focus on product development will position the minerals business to expand into untapped markets in coming years.

Protein

- This sector largely comprises meat processing equipment which operates in the secondary processing operation of the large-scale meat processors and related industries. With new product innovations, this sector has also expanded offering to cater to mid-sized processors such as grocery stores, supermarkets, and independent butchers.

- While the period included the successful commissioning of the Silver Fern Farms Primal solutions, a lamb loin deboner unit for ANZCO and repeat poultry trussing units from Costco USA, protein revenue declined 21% on prior year.

- In the protein sector, Scott faced specific challenges, particularly driven by environmental conditions impacting cattle supplies in North America and ANZ experiencing reduced lamb demand and tightened margins for lamb processors.

- Strategically important lamb primal order secured in Oct-24 for JBS in Australia which will positively contribute to FY25.

- Protein margins were down from 33% to 28% driven by a combination of lower volumes efficiencies, a shift in the sales mix with reduced BladeStop volumes due to the reasons above and cycling a large and lucrative development project in FY23. On a positive note, protein service revenue grew by 20% leveraging the growing installed base from strong prior years of equipment sales and a focus on having attractive service contract options for Scott's customers.

- The protein sector has an exciting development roadmap with the recent introduction of the BladeStop T300 to meet the needs of medium-sized processors such as grocery stores, supermarkets and independent butchers, improving Scott's automated lamb system with several modules that will ultimately integrate into a fully automated processing room and development on the world's first fully automated beef boning solution which has a significant addressable market particularly in North America, home of the largest processing plants.

Service and aftermarket business

Scott's strategy of building its service and aftermarket business has contributed to 28% of Scott's total revenue. As the company's installed product base continues to expand, more customers are turning to Scott's expert technicians and consumables to keep their operations running smoothly. It also provides a steady, recurring revenue stream with strong margins.

The service and aftermarket business supporting our core segments experienced robust growth of 8% during the period. This strong performance was driven by significant revenue increases in the protein and MHL sectors, which grew by 20% and 7% respectively. The growth in protein highlights the strategic importance of this revenue stream considering softer equipment sales during the period for protein. The growth in service has been driven by an increased installed base of equipment following several strong prior years of equipment sales, a focus on developing our value proposition for service and aftermarket and making service contracts that are attractive to the customer.

Scott sees this important stream continuing to deliver sustainable profitable growth as its customers look to the specialist skills of Scott technicians to support their own maintenance teams, on Scott's highly specialised equipment.

The service business also contains a strong stream of high margin recurring consumables across the portfolio.

Service continued to deliver strong margins of 35%. This demonstrates the importance of the service and aftermarket business to the overall performance and profitability of Scott.

Geographical business update:

Results Snapshot $M	FY24 Revenue	FY23 Revenue	Var	Var %
New Zealand	23.4	17.9	5.5	31%
Australia	31.6	45.6	(14.0)	(31%)
Europe	117.8	70.8	47.0	66%
North America	75.4	105.8	(30.4)	(29%)
China (+RoW)	27.9	27.4	0.5	2%
Group	**276.1**	**267.5**	**8.6**	**3%**

The Group sells into different geographical regions. Above shows the Group's revenue from external customers by geographical location (of the customer).

- **New Zealand** revenue increased with the Alliance palletisation and Silver Fern Farms lamb boning room projects were commissioned in H1 and loin deboner for ANZCO in H2. Strong period for New Zealand service despite softer order in-take from NZ meat processors during the challenging economic and trade conditions.

- **Australia** revenue decreased based on the business strategically exiting Industrial Automation in FY24 and softer Rocklabs part sales through the Australian labs. This was partly offset by the minerals AMS solution being produced for Mineral Resources.

- **Europe** experienced significant growth with an impressive number of projects completed and started during the FY24 for MHL. Also, strong growth in Europe service across both MHL and BladeStop following with an increasing installed base and good coverage across the region.

- **North America** cycled a significant appliances project for GEA. Aside from that there was a mix of strong growth in MHL with the JBS Brooks and a major potato processor company projects offset by soft demand for BladeStop with beef processors holding capital tight with reduced cattle supplies and reduced Rocklabs sales via our distributor. Poultry trussing broadly in-line year on year with installs for Costco in FY23 and FY24.

- **China and Rest of the World** remained steady with solid workflow of appliance work for China and a stable minerals business with a focus working with agents in those areas.

ENDS

Aaron Vanwalleghem
Interim CEO
T: +32 55 33 57 41
E a.vanwalleghem@scottautomation.com

Media and investor
Annabel Cotton
Merlin Consulting Ltd
T: +64 27 473 7330
E: annabel@merlinconsulting.co.nz

About Scott

Scott delivers smart automation and robotic solutions that transform industries by making businesses safer, more productive and more efficient. Our diverse capability makes us the first choice for hundreds of the world's leading brands. With design and build operations across Australasia, China, Europe and America and 110 years of engineering excellence, Scott is the global expert in automation.

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