NZX Release **17 February 2022**

MHM Automation Limited (MHM) increases revenue and profitability in half year to 31 December 2021 and has strong order book moving forward

MHM Automation (NZX: MHM) today announced its interim results for the six months to 31 December 2021.

Highlights of the six-months to 31 December 2021:

- Revenue growth of 19% to $29.5m
- EBITDA growth of 45% to $2.12m
- Net profit after tax $1.4m
- The successful completion of a number of large scale projects across Australia and USA despite Covid disruptions
- Continuation of sales momentum and strength of sales pipeline
- Strong performance from our fabrication business showing the benefits of our diversification strategy
- Payment of the $1m Special Dividend
- The successful implementation of our ERP project, which provides us a single platform across the group to drive operational improvement, cost efficiencies and more seamless integration of acquisitions
- Completion of our head office refurbishment, allowing a $2.6m uplift on book value of the property

Financial Performance

values are 000's. (Debit)/Credit	6 months to 31-Dec-2021	6 months to 31-Dec-2020	% Change
Sales Revenue			
Automation	21,374	20,897	2%
Fabrication	8,149	3,832	113%
Sales Revenue	29,523	24,729	19%
EBITDA	2,121	1,459	45%
Net Proft after Tax	1,409	372	279%

Revenue for the half year increased 19% to $29.5m up from $24.7m in the previous period. A focus on cost and supply chain management contributed to a 45% increase in EBITDA to $2.1m (FY21 H1: $1.46m). Net profit after tax increased 279% to $1.41m.

The increased revenue was driven by the Milmeq Chilling and Freezing business, particularly in the Australian red meat sector, which offset a slower period in our reverse packaging business, which has been impacted by Covid issues more than other areas of the Group. We saw a far stronger performance from the fabrication business with the stainless business producing good workflows, particularly in cheese processing equipment, and the addition of Southern Cross Engineering.

Operating EBITDA of $2.1m was an increase of 45% up from the same period in FY21. We continue to focus on margin improvement across our operations, but have been impacted by increased costs of project completion with the use of contract resource in market and other Covid related costs such as MIQ.

Our project delivery performed well given the impact of Covid on travel and logistics. As a result of the border restrictions we contracted a US based company to assist with the installation and commissioning of a number of key projects, including a large cheese de-boxing line. These contractors were supported by key automation and mechanical staff that travelled from New Zealand and Australia. We used this same model for the installation and commissioning of our first de boxing system into the red meat industry. This ability to continue to deliver projects was only possible thanks to dedicated staff who were prepared to travel in uncertain circumstances. We welcomed the news of the re-opening of New Zealand's borders from February as this reduces our project delivery risk and costs significantly going forward.

The after-tax profit of $1.4m was 279% up on the prior period. This includes the balance of the ERP project expense of $300k.

The group remains undrawn on bank facilities, with closing cash of $3m. Total liquidity from cash and undrawn facilities was $9m at balance date.

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We continue to make progress towards commercialisation, working closely with Atherton's and our other partners. The technical difficulties that we were encountering with the lidding have now been resolved and we are now actively engaging with hospitals in Melbourne for final feedback before running in-hospital trials. We are targeting hospital trials before the end of the financial year.

Outlook

As at 31 December 2021 our contracted forward revenue was $40m to be delivered in the 2022 and 2023 calendar years. Our focus is on delivering this strong forward order book, which is requiring increased investment in people and resource while preserving and improving our margins in an inflationary environment. Our Australasian customers continue to dominate our current workload with a continuation of projects to be delivered over the next twelve months in chilling and freezing.

Our sales pipeline remains strong. We are seeing the benefits of our diversification strategy, with strength across the board. We continue to see demand for our chilling and freezing systems in Australia and increasingly in other markets such as the USA. Having had a slower period through 2021 due to Covid disruptions, our reverse packaging business in the USA is seeing significant opportunities converting, particularly in the cheese industry. Our stainless fabrication business is also seeing good demand for its specialist skills in cheese equipment and has secured of a number of large projects with repeat customers. We are pleased to report that we have secured our first grainstacker project which is specialist IP we acquired with Southern Cross Engineering ('SCE'). The SCE acquisition has exceeded expectations and given us exposure to the grain, timber and associated industries.

We do face some headwinds with a shortage of people and increasing costs. We are currently around 20 people short across the Group, in areas from controls and mechanical engineers to skilled tradespeople. The NZ Government immigration policies continue to restrict our ability to attract the right staff at the same time as we are seeing wage inflation.

Our Step 100 plan to grow MHM Automation to $100m revenue and $10m EBITDA by 2025 remains on track. We continue to assess a number of strategic acquisition opportunities and invest in the business to allow us to execute on the market opportunities that we see. Automation remains a strategic driver for our global customer base and the re-opening of the borders as we progress through 2022 will allow us to be closer to our customers and markets again.

We are forecasting a full year result to 30 June 2022 of revenue in the range of $57-60m and EBITDA in the range of $4m-$4.5m. The timing of projects and ability to deliver will drive this forecast and we will keep shareholders and the market updated as we move through the next period.

We are advancing our acquisition strategy and are in discussion with a number of potential targets. Until these are finalised we will delay any announcement on future dividend policy.

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