Mercer Group announces 2016 audited financial results and underwritten rights issue

29th August 2015

Mercer Group Limited (NZX:MGL) today announced a Net Loss after Tax of $6.7m. While acknowledging that this result is by any measure unsatisfactory, it represents the cost of the continuing refocusing of the business, the significant restructuring initiatives undertaken and weakness in the dairy sector.

Last year, MGL announced a change in strategic direction. As outlined at the time, MGL's history of poor operating performance was in the view of the board and management, a result of operating in effect as a 'mini conglomerate' but lacking the necessary scale and resources, systems and operational focus to generate meaningful returns for shareholders. The past year has therefore been one of further restructuring and change that has seen the following key initiatives undertaken:

- The sale of the Medical division in October 2015
- The sale of the Interiors division in February 2016
- The closure of the loss making Brisbane manufacturing facility in February 2016
- The restructuring of the Stainless Fabrication business to focus on Mercer owned IP products that saw the downsizing of the New Plymouth facility and consolidation of all machine design, engineering and manufacturing to Christchurch
- The acquisition of the remaining 25% of Titan Slicer Limited to take 100% ownership and the subsequent move of the Titan business to Christchurch
- The relocation of the Head Office of the company to Christchurch.

This change program has been costly, but MGL is now largely restructured and has two key business units that it is focusing on:

1. S-Clave: the disruptive sterilisation technology owned by MGL that is nearing commercialisation
2. Food Processing and Packaging: MGL owned IP driven products, Titan, Aico, Beta range and PV valve, as well as the predominantly dairy focused fabrication business.

The board and management are now focused on improving the operational performance of the business while driving a strategic shift. The 2017 financial year will be one of transition and we are forecasting the company will be cash flow breakeven, setting a platform for future sustainable profitable growth.

The BNZ continue to be supportive as our banker, recently terming out our core $6.5m facilities beyond 30 June 2017.

<u>Food Processing and Packaging:</u>

The Food Processing and Packaging business is the historical core business of MGL and is recognised in the financial statements as Stainless Fabrication and Titan Slicer. In the financial year ended 30 June 2016 the Stainless Fabrication business made an operating loss of $2.2m and Titan Slicer made an operating loss of $1.35m. Following the acquisition of the remaining 25% of Titan Slicer Ltd in December 2015, these divisions have now been merged.

During the financial year we changed the focus of the business from industrial fabrication for the dairy sector to IP driven machines. This decision was based on the cyclicality of large scale dairy investment, which impacted MGL this year, and to align the business with our vision of designing and supplying of innovative food processing and packaging solutions. As a result we downsized our fabrication division in New Plymouth and moved our machines business to Christchurch.

The Stainless Fabrication division suffered from the downturn in the dairy sector in New Zealand and continued losses from the Brisbane operation which was closed in February 2016. Given the high operational costs of the business, the downturn in the dairy sector resulted in material losses in New Plymouth (which has since been downsized), and also in Christchurch over the Christmas and New Year period of 2015/16. The Christchurch operation had good workflows in the second half of the financial year, underpinned by a large project building an alphamatic for Tetra Pak which is for Fonterra's cheese plant in Stanhope, Australia. We are seeing the early signs that investment in the dairy processing sector has picked up again in the South Island so we are comfortable with our exposure to the industry.

The Titan business had another poor year with an operating loss of $1.3m. As previously announced, the business suffered from some significant operational issues which have taken time to unwind. It also caused the business to lose momentum in all of its markets. These issues are now being resolved and we remain committed to growing Titan in North America through our distributor Nu-Meat, and with an increased focus in Australia where Titan has a considerable historical footprint.

Our other key food processing and packaging technologies, being the Aico range of packaging equipment, the Beta range of cheese processing equipment, our cooking and cooling range and the PV valve, all have positive outlooks and will benefit from the centralisation of design and manufacturing in Christchurch.

We will provide a detailed overview of each of these products and their markets at our AGM.

S-Clave:

The S-Clave is the disruptive sterilisation technology that has been developed by MGL over a number of years. MGL has pivoted its approach to the S-Clave from carrying out all R&D and commercialisation in house to a collaborative approach with industry players. In that regard, as announced in June 2016, we are now partnering with A.E.Atherton & Sons, Australasia's leading manufacturer and supplier of steam sterilisation products, to bring the S-Clave to market in Australia initially. MGL will continue to own all of the IP related to the S-Clave.

The S-Clave is an exciting technology that has the potential to be disruptive in the large global sterilisation market. The Board is confident that the change in approach will result in the S-Clave getting to market earlier than previously anticipated. We are targeting to start generating operating revenue from the S-Clave in the 2017 financial year.

We will be providing a full update of the S-Clave technology, the potential market size, our approach to the market and the risks inherent with the technology at the AGM.

Rights Issue:

MGL is to undertake a renounceable 2.25 to 1 rights issue. Subject to obtaining the necessary shareholder approvals, the rights issue will be fully underwritten by Asset Management Limited. The issue price at which the rights may be exercised will be $0.01 per new ordinary share. MGL will make application for the rights to be listed on the NZSX.

The proceeds of the rights issue will be applied to reduce borrowings and to provide working capital.

The underwriting agreement was signed today and is subject to a number of conditions, including:

(a) shareholder approval by way of ordinary resolution; and

(b) the underwriter being satisfied that all requirements of the NZX Listing Rules, the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Takeovers Code relating to the rights issue and the underwriting agreement have been complied with.

Shareholder approval of the underwriting arrangements will be required at the upcoming annual general meeting because:

(a) HJD Rolleston, a substantial security holder of Mercer Group Limited, is associated with the underwriter; and

(b) the issue of new ordinary shares to HJD Rolleston and associates in the rights issue and underwrite would otherwise be a breach of the fundamental rule in the Takeovers Code.

An independent appraisal report has been commissioned and will be sent to shareholders with the notice of annual general meeting.

The annual general meeting is expected to be held in Christchurch in October 2016. Actual dates will be advised as soon as they can be finalised.

John Dennehy, Board Chair

For further information contact:

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