



Mercer Group Limited

Annual General Meeting
30th November 2011
Chairman's introduction



2011 year in review

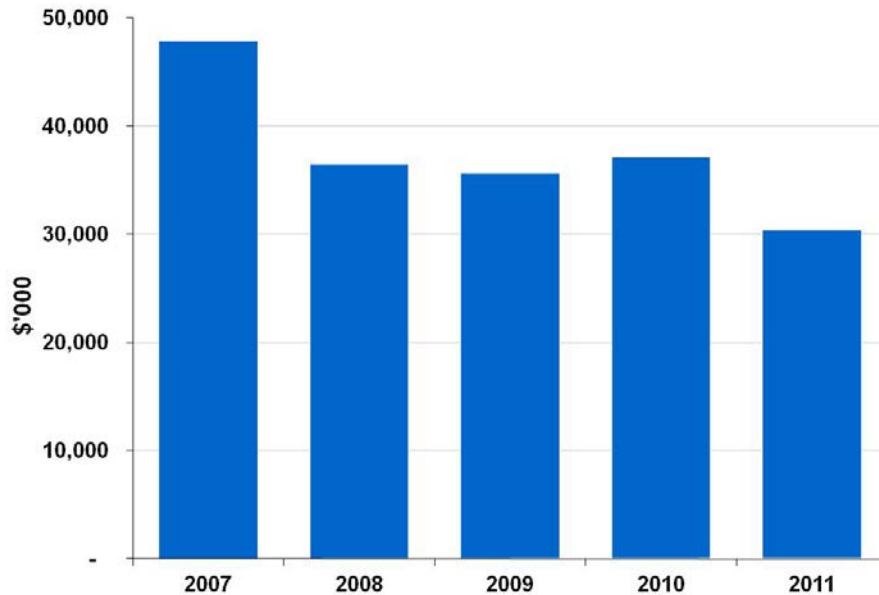
- A disappointing year of performance for the Mercer Group in which we have failed to meet the performance challenges in the market

23 December 2010	Expected year end EBIT projection	\$1.2m
27 April 2011	Expected year end EBIT projection	- \$2.6m to - \$3.0m
30 June 2011	Underlying trading EBIT Result	-\$3.4m
	Total deficit for the year	-\$9.4m

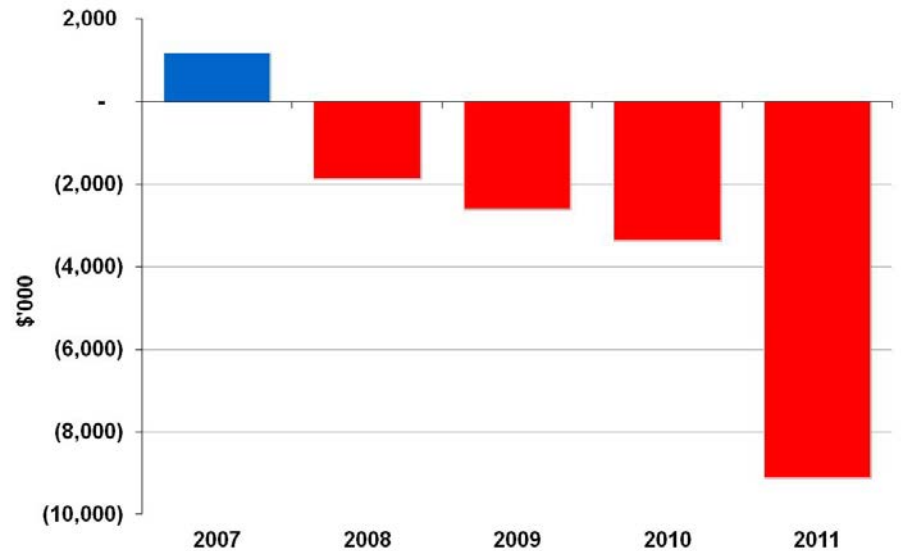
2011 year in review

- This year is part of a trend in the last five years of

Flattening Revenues



Declining Profitability



2011 year in review

- A number of significant changes during and immediately after the close of the year will underpin a return to profitability
- February 2011 closure of the Rights Issue for \$8.5m, resulting in a reduction of debt from \$12.3m on 30 June 2010 to \$6.5m on 30 June 2011
- Following the retirement of Ian Farrant on 6 May 2011, appointment of Garry Diack as Chairman
- Strategic review of Mercer market positioning and performance in June 2011
- Appointment of Rodger Shepherd as CEO in early August 2011



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Chief Executive's report



2010 / 11 Year Financial Performance Was Poor

Segment	Y/E 30 June 2011 Underlying	Y/E 30 June 2010 Reported	Y/E 30 June 2011 Reported
Mercer Stainless	(2.1)	(1.7)	(7.2)
Mercer Products	(0.5)	0.4	(0.8)
Mercer Medical	-	0.3	(0.1)
Corporate	<u>(0.8)</u>	<u>(0.7)</u>	<u>(1.2)</u>
Continuing EBIT	<u>(3.4)</u>	<u>(1.7)</u>	<u>(9.3)</u>

Significant changes made

- ✓ New management team recruited
- ✓ New funding package
- ✓ Restructure of Australian Stainless business
- ✓ Restructure of Australian Products business
- ✓ Forecast cash operating profit this year
- ? Clearer focus on Research and Development



New management team recruited

- Rodger Shepherd appointed CEO on August 2nd
- Tobin Blathwayt appointed CFO (part time) in August
- New General Manager for Medical, Charles Brothers appointed
- New General Manager for Products being recruited
- Performance reviews with managers completed: clear targets in place
- Changed to customer focused organisation with action bias and performance culture
- Addressing poor health and safety culture: current LTIFR over 40



New funding package

- We were in breach of our banking covenants under the Westpac loan arrangements and had little flexibility to restructure Australia, make the necessary redundancies and get our creditors up to date
- First established a Shareholder loan facility of \$1.3m at 12% interest rate and have drawn down \$0.8m
- We courted other trading banks and were pleased with their responses. We chose BNZ package. Key terms:
 - \$5m loan, two year maturity
 - \$50k monthly repayments from March
 - \$1m overdraft
 - Back in line with covenants
- We expect to repay the Shareholder loan but retain the facility
- We have moved creditors to 60 day terms, most have accepted, and we will now pay them on-time



Restructure of Australia Stainless business

- We closed the Brisbane fabrication workshop on 30th September: it was unproductive, costly and not highly skilled
- Kept small team of four comprising sales and project management, trading as Mercer Technologies Pty Limited
- Most jobs can be fabricated in New Zealand and shipped more cheaply than local manufacture
- After a poor first quarter and consistent losses over many years the new Mercer Technologies company is already a break even business
- Slow orderly wind down of Mercer Stainless Pty Limited



Restructure of Australia Products business

- Considerable marketing and thought around product range in place.
- Given all this base work, we decided we would like to keep a presence in Australia, but restructure
- Expensive sales team covering Australia was unsustainable
- Laying off most of the sales team and the appointment of agents, moves the business closer to break even
- Next step is to appoint a distributor, who can add more resource to selling Mercer products: we currently have two parties keen to become our distributor and we are working through details to decide which to select
- We have verbal agreement to begin producing OEM product for a large Australian company: timing first quarter of calendar year 2012





Forecast cash operating profit for the year

New Zealand Stainless

- Business currently trading far better than last year
- Full order book through Q3
- Working on some larger jobs for Q4 and expect to land at least one before Christmas
- Confident of meeting our NZ Stainless targets for the year





Forecast cash operating profit for the year



Mercer Medical

- Mercer lost Belimed agency to Gallay when General Manager of Medical moved over (he resigned the day before I started!)
- Signed two year contract with MMM for NZ exclusive supply as replacement for Belimed
- Developing our own line of washers with our controllers
- Negotiating with a number of other Equipment Principals for New Zealand representation
- Strengthened our Service Department, and turning it into a profit centre (more akin to automotive industry)
- Secured Auckland University contract and confident we will exceed our targets set for this business unit



Forecast cash operating profit for the year

New Zealand Products

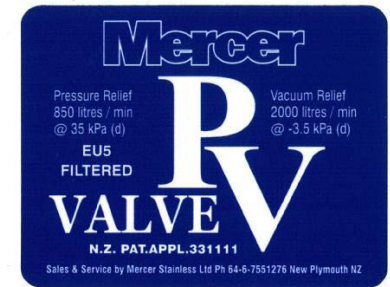
- Building market very slow: residential consents totalled \$398m in September 2011 – a 12% drop on the same month in the previous year
- Mercer lost some market share during 2010/11 year (to Chinese imports) but remains #1 player in sinks with 30-40% share
- We are about to launch our own low cost Chinese import brand for the merchant sector
- Strengthening the Mercer brand with better marketing and NZ made logo
- Continue to import “high end” Reginox series from Europe and market better into specifiers
- Softer results than budgeted are now expected, and still some time before we see improvements from Christchurch whose September 2011 residential consents were only \$3m





Clearer focus on Research and Development

- Mercer had \$1.6m of research and development projects capitalised on its books at the end of June 2011. These were written down to \$0.7m at year end
- Historically little progress has been made converting these projects into revenue opportunities
- We believe commercialising R&D projects is a substantial opportunity for Mercer and have taken steps to advance this objective
- Terry Kemp to become dedicated to R&D and outsourced his IT responsibilities
- We have prioritised all R&D projects and will focus on six key opportunities
- As yet, we have no significant success to announce, but we hope to have some success before year end



2012 objectives

- Achieve a cash operating profit (EBITDA) of positive \$1m
- Achieve positive cash flow (EBITDA less capex less interest) pre restructuring
- Commercialise at least one R&D project
- Stainless Australian breakeven
- Conclude arrangements with distributor to ensure Products Australia is EBITDA positive
- Meet new BNZ banking covenants
- LTIFR below 20 and tracking downwards

➤ We look forward to seeing you next year and reporting against these objectives