MANAGING DIRECTOR'S ADDRESS

2018

I will cover off performance for the year to 31 August, highlight some key aspects of our operations and our research and development, then touch on our strategy before ending with an outlook on 2019.

The key highlight was a show strong revenue increase of 37%, delivering operating EBITDA of $19.8m, up 21% on 2017. The bottom line result for shareholders is an earnings per share increase of 8.0% to 14.3 cents per share.

Our operating cash flow was impacted by a working capital increase as a result of acquisitions and also utilised to fund the rapid growth.

The two acquisitions completed during the year has effectively consumed all surplus cash.

The final dividend of 6.0 cents per share should have hit your bank accounts in the past few days. This, added to the 4.0 cents interim, brings the total full year dividend to 10.0 cents per share, unchanged from 2017.

To provide shareholders a more meaningful comparison to 2017, we have separated the results of the business that we entered the year with (what we have labelled our ‘existing Scott business’) from the results of our acquired business operations. These combined, provide the Group result as per the Annual Report.

Our existing business revenues increased 14% to $151m, with operating EBITDA increasing 11% to $18.2m. Acquisitions (being five months of Alvey and three months of Transbotics) added $31m of revenues and $1.6m of operating EBITDA. The 2018 annualised numbers shown here is a theoretical calculation which adds back the prior seven months of Alvey and nine months of Transbotics pre-acquisition to give a theoretical 2018 annualised result, including 12 months of the two acquisitions.

This slide shows the revenue and surplus after tax for our manufacturing segments. This reflects where our products are produced or manufactured.

Australasia (Australia and New Zealand) is reasonably static on 2017 with the major growth coming from the Americas, Asia and Europe. The Americas has grown with the acquisition of Transbotics and Europe with the acquisition of Alvey.

Here we have provided a breakdown of revenues by our target industry sector.

You will note the large increase in appliance industry revenues, due in part by a strong turnaround in our German business and well assisted by the team here in Christchurch, who produced several large systems, more of which you will have the chance to see here today.

This dimensional matrix provides a visual perspective of where our revenues come from in terms of both geographical location of the customer and industry classification. The darker blue spots are the more significant revenues fading to light blue for the less significant areas. This matrix view is quite relevant in that it also reflects our organisation structure with operations based and managed by geographies, and sales and marketing organised by industry sector, irrespective of geography.

This slide sets out our significant balance sheet movements. Here it clearly demonstrates our surplus cash has been used, or committed, to our acquisitions.

Working capital has increased significantly to support growth and as part of the acquisitions. The extent and effectiveness of our working capital management is a current focus within the business and an integral part of our post acquisition integration plan.

Intangible assets consisting of goodwill and finite life intangible assets have both increased significantly. Our finite life intangible assets are subject to amortisation and unfortunately amortisation is non-deductible for tax purposes, resulting in a high effective tax rate shown in our accounts.

This is slightly strange as Scott is writing off the investment in IP, such as Bladestop, at the same time we are developing new products, reaching new markets and building value!

This slide shows the time series and growth profile of our industry sectors, with Cumulative Annual Growth Rates. The five year annual growth rate of 31% across the business is a marvellous achievement and highlights the underlying strength of Scott capabilities and expertise.

Traditionally Scott has had a stronger second half than the first half. It is clearly shown here with the red bars being first half EBITDA and green being second half, both on the right hand axis. Revenues are reflected by the blue line on the left hand axis.

Our revenue bridge highlights what has changed between 2017 and 2018. This graphically shows the impact of Asia / Europe and the Americas on the revenue growth.

The net profit before tax bridge – again graphically displays the impact of individual items on net profit before tax.

Operational Review

Health & Safety is very important to Scott. The Company, through the Board, closely monitors and manages our health and safety performance. We have a strong commitment to safety at work and we continually seek to improve our systems, processes and most importantly, outcomes.

It has been a busy year, a lot has been achieved. Here we list out some of our key operational achievements.

After several years of pursuing a diversification strategy, we now have an excellent spread of customers across industries and these are supported by Scott team members located in our key markets.

Scott people are generally highly skilled, motivated people with recognised industry knowledge. We can provide our customers with skilled technical support across geographies, matching the location of our customers. The ‘One Scott Team’ approach enables us to think global and act local to deliver operational excellence in all areas of our business.

Global Foot Print

This shows our various locations around the globe. We now have good presence where we need to be.

Research & Development.

As part of our Kiwi DNA we use Research and Development to underpin organic growth and to ensure that we continually push the boundaries to develop and maintain intellectual property that keeps us at the forefront of technology and applications.

The year to 31 August was our first full year of Bladestop operation since we purchased the business after operating under licence until October 2016.

Scott continues to roll out our Bladestop saws across the globe, with recent focus on the Americas and Europe. During the year the product range was extended with the addition of the Scott600 saw and a European saw. It is pleasing to report that immediately upon completion of the development of the Scott600 saw; orders were received for 22 saws. This reflected pent up demand but also demonstrates that execution of our strategy is delivering results.

Before providing commentary on our Outlook, I’d like to touch on strategy.

The results of our research and development endeavours, combined with products added through our recent acquisitions, position Scott as an end-to-end automation solutions provider. We have many opportunities for cross-selling between industries and technologies and we have achieved recent success with cross-selling opportunities of Alvey and Transbotics equipment - earlier than planned.

Automatic Guided Vehicles from our Transbotics facility have already been sold into Australia and the UK and opportunities for Alvey technology have been opened up in the US, Australia and New Zealand.

With the support of Scott and our sales network we have seen rapid expansion of opportunities for AGV’s and next year we expect to treble the annual sales achieved in Transbotics, albeit off a low base.

A key initiative for the short term is to develop our global Services business. Historically, as an automation robotics company focused on bespoke systems, Service and Spare Parts was often an afterthought, particularly as our manufacturing base was distant from our customers. With lessons learned from our acquired businesses and an increased physical presence in-market, Scott is now well positioned to support customers with after-market Service and Spare Parts. Service is being established as its own business unit within Scott and managed globally and supported by in-country Service Managers.

Our strategy focuses management in four key areas. These are set out in this slide with key actions planned for the year ahead. Our internal Key Performance Indicators support a Balance Scorecard in each of these measures.

Management is driven to deliver on Scott's strategy. The integration of our recent acquisitions, promoting cross-selling opportunities and the provision of end-to-end solutions will drive our short term growth.

Our Service and Spare Parts business has the potential to provide superior customer experience and we expect this area of the business to grow rapidly to around 25% of our total revenues.

Research and Development, supported by our digital initiatives will keep us at the forefront and an exciting place to work, helping us to attract the right talent, which I may add, is becoming increasingly difficult in many of our geographies, particularly the USA, Australia and New Zealand.

With automation & robotics, digital is imbedded in much of what we do. With a focus on Industry 4.0 or Industrial Internet of Things, machine connectivity, artificial intelligence, augmented and virtual reality, not to mention the package software acquired through our acquisitions, Scott has a substantial digital platform.

To ensure we capture the opportunities ahead of us, we now have a technical team focussing on or digital platform development.

And, lastly, what does this all mean for us going forward?

We have a very strong workload, supported by an extensive sales pipeline. At nine months our project forward work is slightly lower than 2017, however, our business is now significantly larger, we have more projects with shorter duration and project work has reduced to under 60% of our total revenues – the other 40% being sales of engineered products, service and spare parts – what we refer to as our 'recurring revenues'.

On top of this we have significant project work underway across our key industries, many of these projects are pushing us into new technologies and applications. These may not yield great returns in the short term, but position Scott well in the longer term.

We expect to increase sales to JBS slowly and increasingly benefit from the Alvey and Transbotics acquisitions. The integration of these businesses making additional capability and technologies available to existing customers will drive organic growth.

Scott is a technology company. Our investment in R&D is significant and required to maintain and develop the business. Many growth businesses burn cash as they invest in technologies to acquire customers and to achieve revenue growth. At Scott we are achieving significant revenue growth, while at the same time generating cash, delivering profits and creating significant shareholder wealth.

It has been a challenging year. Significant growth means that things need to change and change is not welcome by all. To support growth we have added strong management, increased R&D and introduced new products and technologies.

I would like to thank you, the shareholders, for your continued support, my fellow Directors for their support and encouragement and all the team members at Scott who come to work every day to create a better future.

I now formally second the motion moved by the Chairman that the Annual Report, including the Directors Report, Financial Statements and Audit Report of Scott Technology Limited for the year ended 31 August 2018 be adopted.

Thank you.