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HD **Mercer posts FY loss on new staff hires, tough Aust market**

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Mercer posts annual loss on new staff hires, tough Australian conditions

By Suze Metherell

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Aug. 29 (BusinessDesk) - Mercer **Group**, the stainless steel manufacturer, reported an annual loss as it hired new staff to fuel future profit growth while trading conditions in Australia remained tough.

The Auckland-based **company** posted a loss of $483,000 in the year ended June 30, from a profit of $778,000 a year earlier, it said in a statement. Sales rose 5.4 percent to $40.8 **million**, while earnings before interest, tax, depreciation and amortisation was $1 **million**, from $2.5 **million** in 2013, and in line with guidance. It didn't declare a dividend.

The **company** halved its Ebitda forecast in May, saying slow sales growth and delayed stainless steel contracts had combined with costs taken on in anticipation of growth, denting profit. Mercer wants to expand to the North American market and has previously signalled staff hiring would impact earnings over the coming year.

"The **company** is committed to this growth strategy, but recognises it has affected near-term endings," it said in a statement.

Its stainless division, which makes equipment largely for the food industry, reported a 60 percent drop in Ebitda to $1.3 **million** on largely unchanged sales at $27.7 **million**, as it expanded its workforce to build and manufacture its Titan Slicers. The **company** secured three customers in the US market, and said it had orders for two slicers and expects sales in the coming year to exceed 12 slicer sales. The segment also has orders for Symons Transport, the Pahiatua **dairy** expansion, Synlait **Milk**'s dryer project and Westland **Milk** Products.

Its interiors division, which manufactures sinks, basins, toilets and laminate products in New Zealand, posted an Edbitda loss of $521,000 from a profit of $279,000, as sales increased 2.7 percent to $8.37 **million**. The segment changed general managers and its new tight radius sinks product took longer than expected to implement, Mercer said.

Meanwhile trading conditions across the Tasman were difficult as it lost and struggled to replace a secondary administrator, while the relative strength of the kiwi dollar against the Australian currency made products look even more expensive against cheaper **Chinese** imports in the competitive market.

It said an anti-dumping notice issued by the Australian government to target sinks exported from **China** and the duty, collectable post-balance date from Aug. 13, would range from between 19 percent to 61 percent depending on the supplier. It said it was working with its primary distributor, Argent Australia, to grow sales.

Mercer Medical, which supplies sterilisation, washing and disinfection equipment, more than doubled Ebitda to $468,000 as sales rose 28 percent to $3.6 **million**. The **company** introduced MMM equipment into New Zealand and bought the remaining **business** and assets of Med-Chem, which was in liquidation, giving it greater scale and more products to sell.

The metal producer finalised a licence agreement for S-Clave, its sterilisation technology, with a large multi-national **company** which injected $800,000 upfront for its US expansion, without being more specific.

Mercer will receive a further $1 **million** in funding over the next two years from the Callaghan Institute, the government innovation fund, for S-Clave, and expects to invest $1 **million** itself over the next two years. It will use the cash for development with the aim of bringing it to market in the next two to three years and believes a significant portion of its total **business** value now reflects the intellectual property of S-Clave.

It forecast 10 percent sales growth over the coming year, and expected to invest around $1.2 **million** in plant, equipment and intangibles. Mercer doesn't expect to pay a dividend in 2015.

The **company** had a series of setbacks during the global financial crisis in 2008 when it was caught out with too much debt on its books and halted repayments to South Canterbury Finance, when Alan Hubbard was a cornerstone shareholder, after breaching its banking covenant. In 2011, it appointed Rodger Sheppard, a former senior Fairfax New Zealand and PMP executive, to head the **company** after a strategic review of the **business**.

In January, Milford Asset Management spent about $2.3 **million** snapping up a 5.2 percent **stake** in the **company** after a dispute between Hubbard's widow and the statutory managers of the various Hubbard entities was settled last year.

The shares were unchanged at 19.5 cents in morning trading, and have gained some 22 percent year to date.

(BusinessDesk)

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