

Scales Corporation Limited
Fact Sheet - October 2023









Newly commissioned Meateor Australia factory, Melbourne

About Scales

Scales Corporation Limited (Scales or the Group) is an S&P NZX 50 listed agribusiness group. Its origins date back to 1897 when it was established by George H Scales to challenge the freight rates being charged by the large British shipping lines to New Zealand wool exporters. Now the Group comprises 3 operating divisions and 10 operating businesses:




Global Proteins



Petfood ingredient procurers,
processors & marketers

Edible protein exporter

Horticulture




Vertically integrated apple
grower, packer & marketer

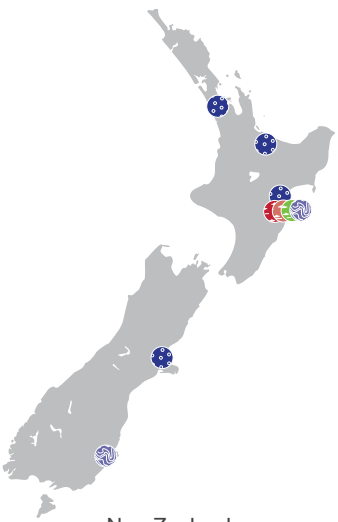
Apple marketer

Juice manufacturer

Logistics



Air & sea freight



New Zealand



USA



Australia



Belgium



Strategy

▶ Scales' Mission

To be the foremost investor in, and grower of, global agribusinesses by leveraging our unique insights, experience and access to collaborative synergies.

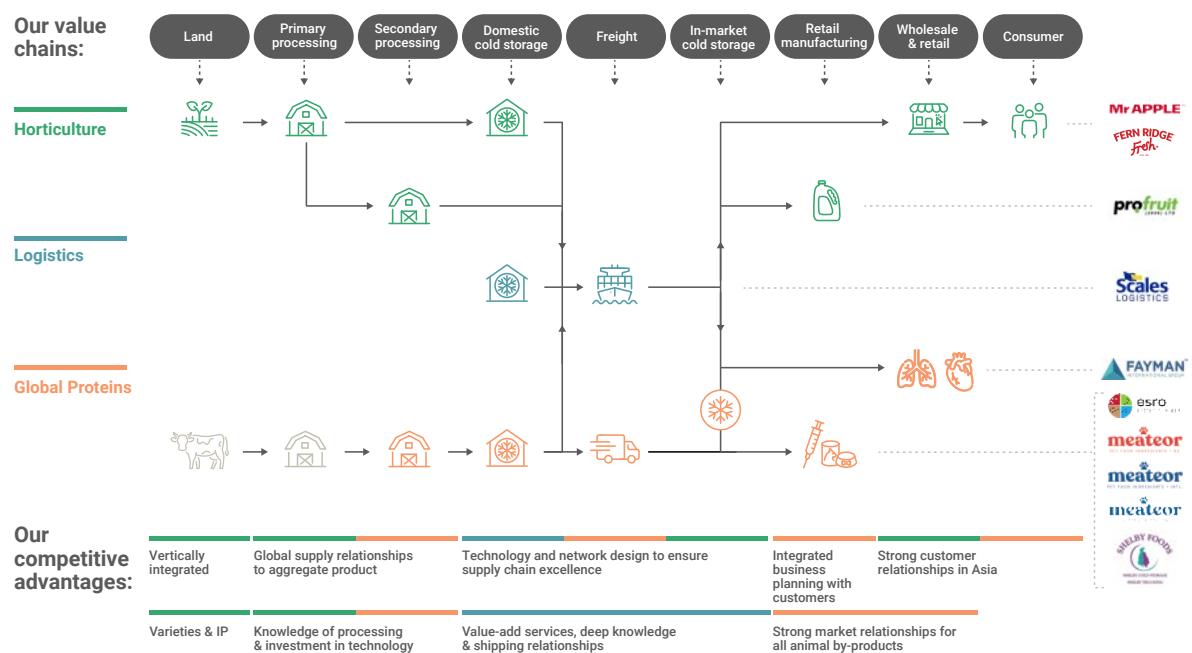
▶ Scales' Long-term Goal

To generate a long-run average 12.5 per cent ROCE across the portfolio.

▶ Corporate and Competitive Strategies

We are invested across 3 divisions. Whilst all divisions have different business models, we are able to leverage our knowledge, partnerships and Group synergies to create competitive advantages and generate sustainable value for our stakeholders.

Where we invest: our value chains



Strategic Update

We continue to proactively search for and review potential investment opportunities, both internal and external. Over the last year we have been delighted to successfully complete investments into Meateor Australia, Fayman and Esro Petfood. We have focused on opportunities that complement our strengths, including:

- Export-led businesses
- Strong production knowledge and value-add skill
- Businesses to which we can add value from our longstanding and strong relationships with both suppliers and customers
- Highly skilled supply chain and logistics expertise

Future investment is likely to be prioritised towards the fast-growing proteins markets, whilst ensuring that the opportunities align with our vision, play to our strengths and are in line with our target returns.



Sustainability Report

Scales is focused on:

- ▶ Its broader obligations as a responsible corporate citizen
- ▶ The desire of our stakeholders to receive clear reporting on our environmental footprint and sustainability improvements
- ▶ Its ability to better identify and manage all risks (as well as opportunities) facing the business
- ▶ Embedding sustainability into Scales' broader strategic planning

A key goal in 2022 was to work across our strategic planning framework to deliver Group and divisional sustainability strategies. The purpose for this review was to obtain clarity on significant sustainability risks and opportunities, as well as to improve our prioritisation and execution of the sustainability initiatives we are hoping to employ.

We initially focused on Mr Apple and have completed a horizon scan, reviewed key risks and opportunities and developed a clear 6-point action plan. This process is being rolled out to the other divisions during 2023. We also made excellent progress at a Group level, undertaking our first Group-wide water footprint and completing our first Group carbon audit and decarbonisation road map.

For further information, please read our full Sustainability Report in our 2022 Annual Report.

Share Information

| | | | |
|--------------------------------------|---------------------------------|--|---------------------------|
| NZX code | SCL | Closing share price at 30 September 2023 | \$3.01 |
| Shares on issue at 30 September 2023 | 143,095,981 | Market capitalisation at 30 September 2023 | \$431 million |
| Gross dividend yield ¹ | 5.6% | Financial year end | 31 December |
| NZX industry sector | Primary/Agriculture and Fishing | Indices: | S&P NZX All S&P NZX 50 |

Scales' share price from date of listing to 30 September 2023 is shown below.



Dividends

It is standard practice for the Directors to consider all aspects of the Group's performance and financial position prior to declaring any dividend. From 2023 onwards, our dividend policy will revert to 50 per cent to 75 per cent of Underlying NPAT Attributable to Shareholders. Any dividend is subject to Board approval.

It is expected that interim and final dividends will be split approximately evenly and will be payable in January (interim) and July (final).

| Period | Date Paid | Amount (Cash Paid) |
|--------------|-----------|--------------------|
| 2021 interim | 14/01/22 | 9.5 cps |
| 2021 final | 8/07/22 | 9.5 cps |
| 2022 interim | 16/01/23 | 6.0 cps |
| 2022 interim | 31/3/23 | 3.5 cps |
| 2022 final | 07/07/23 | 9.5 cps |

¹ Based on the 2022 financial year fully imputed interim and final dividends of 19.0 cents (gross 26.4 cents) and the average share price for the 2022 financial year.

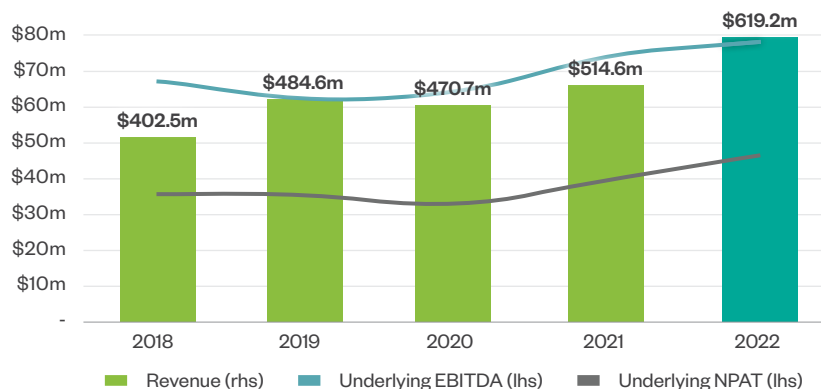
Research Coverage

| Company | Analyst | Email |
|----------------------------|----------------|--------------------------------|
| Craigs Investment Partners | Joshua Dale | joshua.dale@craigsip.com |
| Jarden | Christian Bell | christian.bell@jarden.co.nz |
| Forsyth Barr | Margaret Bei | margaret.bei@forsythbarr.co.nz |

Key Financials

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--------------------------------|----------|-----------|-----------|-----------|-----------|
| Revenue | \$402.5m | \$484.6m | \$470.7m | \$514.6m | \$619.2m |
| Underlying ² EBITDA | \$67.1m | \$62.2m | \$64.1m | \$73.8m | \$77.9m |
| Underlying EBITDA margin | 16.7% | 12.8% | 13.6% | 14.3% | 12.6% |
| Underlying NPAT | \$35.8m | \$35.4m | \$33.0m | \$39.8m | \$46.4m |
| NPAT | \$45.5m | \$121.6m | \$26.6m | \$36.9m | \$38.2m |
| Underlying NPATAS | \$35.4m | \$31.8m | \$27.5m | \$29.8m | \$27.6m |
| NPATAS | \$45.1m | \$118.0m | \$21.0m | \$26.9m | \$19.4m |
| Earnings per share | 32.2c | 84.2c | 15.0c | 19.1c | 13.7c |
| Dividends per share - declared | 18.5c | 19.0c | 19.0c | 19.0c | 15.5c |
| Average net debt / (net cash) | \$70.7m | (\$82.0m) | (\$76.2m) | (\$60.1m) | (\$21.9m) |
| Capital expenditure | \$16.3m | \$15.7m | \$24.4m | \$16.5m | \$15.6m |

Group Results 2018 to 2022



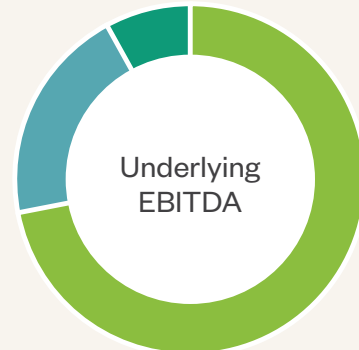
The movement in Group earnings, in part, reflect the investments and divestments made by Scales over the period shown.

² Scales believes that Underlying measures provide meaningful information that is helpful to investors and gives them a better understanding of Scales' financial performance when presented in addition to GAAP (NZ IFRS) information. Underlying earnings include the effects of NZ IFRS 16 Leases from 1 January 2019 onwards. All EBITDA and NPAT earnings shown (both NZ IFRS and Underlying) are presented before the deduction of non-controlling interests.

Divisional Overview

This chart shows the 2022 Underlying EBITDA contribution from each of Scales' 3 key operating divisions. Our Corporate division ran at an Underlying EBITDA loss of \$5.8m to achieve Underlying Group EBITDA of \$77.9m.

| | | |
|------------------------|---------------------|------------------|
| Global Proteins | Horticulture | Logistics |
| 72% | 20% | 8% |
| \$60.2m | \$17.0m | \$6.6m |



Global Proteins

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---------|----------|----------|----------|----------|
| Revenue | \$83.1m | \$155.1m | \$173.7m | \$218.9m | \$319.9m |
| % of Group revenue | 21% | 32% | 37% | 43% | 52% |
| Underlying EBITDA | \$8.5m | \$11.6m | \$21.1m | \$33.4m | \$60.2m |
| % of Group Underlying EBITDA ³ | 13% | 19% | 33% | 45% | 77% |
| <i>Operational metrics</i> | | | | | |
| - Petfood ingredients volume sold (MT) | 29,028 | 110,970 | 115,739 | 149,207 | 158,595 |

Our Global Proteins division (formerly the Food Ingredients division) converts agricultural by-products into valuable food commodities. This division has changed significantly since 2018 due to:

- The acquisition of a 60 per cent interest in Shelby in December 2018
- The sale of 50 per cent of Meateor NZ to Alliance in March 2019
- The purchase of 50 per cent of the Australian operations of Fayman International and 42.5 per cent of ANZ Exports (together, Fayman) in October 2022
- The acquisition of a 33.33 per cent interest in Meateor Australia in October 2022
- The subscription for a 50% shareholding in Esro Petfood BV in August 2023

The division now comprises 6 businesses:

- Meateor NZ – 50 per cent ownership of a processor and marketer of petfood ingredients for the global petfood industry with processing plants in Whakatu and Dunedin
- Meateor International – 100 per cent ownership of a supplier and marketer of petfood ingredients from Australia and other markets
- Shelby – 60 per cent ownership of a US procurer, processor and marketer of ingredients for the petfood industry
- Fayman – 50 per cent ownership of the Australian operations of Fayman International and 42.5 per cent ownership of ANZ Exports, a global exporter of edible proteins sourced principally from Australia
- Meateor Australia – 33.33 per cent ownership of a new petfood ingredient processing facility in Melbourne
- Esro Petfood – 50 per cent ownership of a newly established European petfood ingredient processing operation

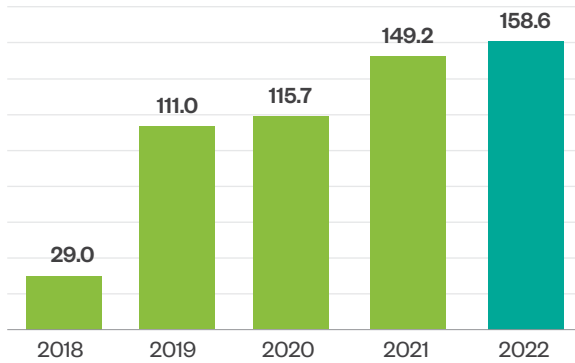
Note that Profruit, which was previously within the Global Proteins division, was transferred into our Horticulture division during 2022, where we believe its operations and strategy are better aligned. Prior year earnings figures have been restated to reflect this transfer.

³ Group revenue and Group Underlying EBITDA includes the Corporate (Head Office) division as well as inter-company eliminations.

Divisional Overview (continued)

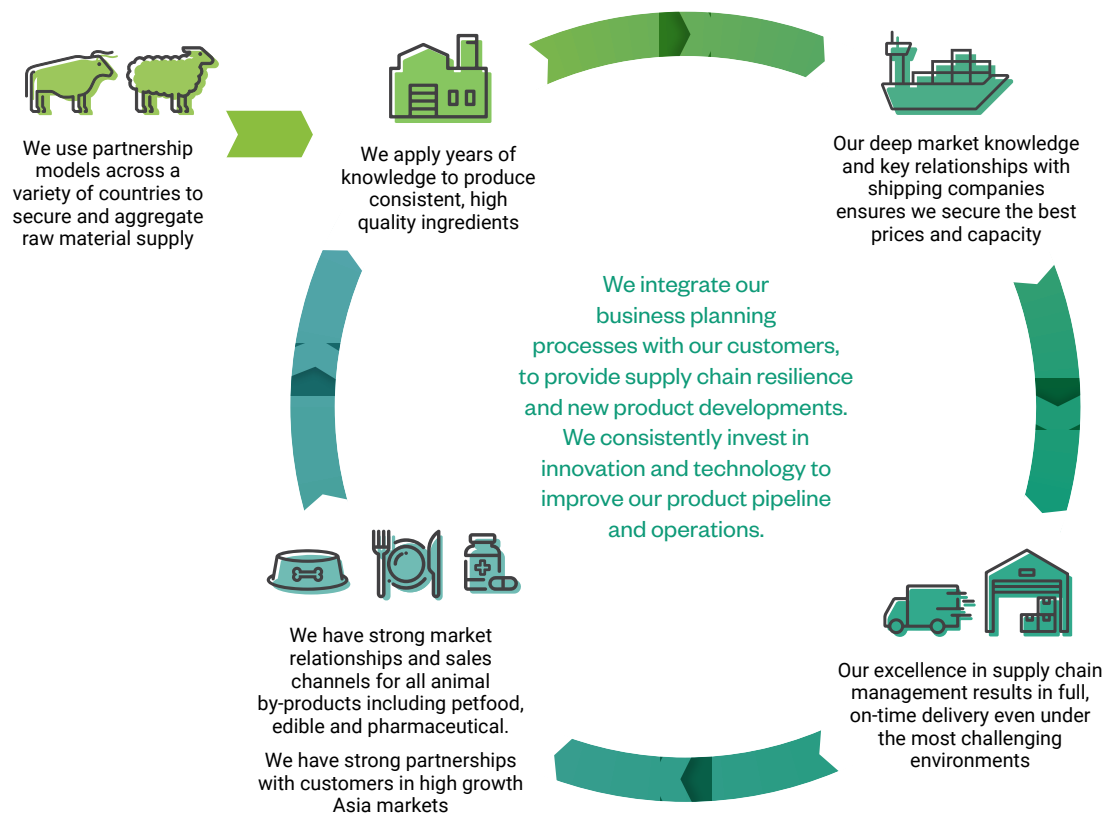
The volume of petfood ingredients sold by Global Proteins increased significantly in 2019 following the investment into Shelby.

Petfood Ingredients Sold (MT 000s)



Given the primarily edible nature of product sold, the volume for 2022 in this graph does not incorporate product sold by Fayman.

Whilst Global Proteins has previously concentrated on the supply of petfood ingredients, it also supplies to the pharmaceutical industry and, with the investment in Fayman, now supplies to the edible proteins market, particularly in Asia. It is our strategy to continue to grow our presence within each of these end-markets.



Divisional Overview (continued)

Horticulture

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|----------|----------|----------|----------|----------|
| Revenue | \$254.6m | \$264.8m | \$246.0m | \$243.4m | \$228.9m |
| % of Group revenue | 63% | 55% | 52% | 47% | 37% |
| Underlying EBITDA | \$44.3m | \$50.3m | \$42.8m | \$40.8m | \$17.0m |
| % of Group Underlying EBITDA | 66% | 81% | 67% | 55% | 22% |
| <i>Operational metrics</i> | | | | | |
| - Total planted orchard at harvest (Ha.) | 1,149 | 1,158 | 1,186 | 1,201 | 1,167 |
| - Fully mature planted orchard (Ha.) | 1,057 | 1,023 | 1,028 | 1,050 | 1,024 |
| - Total exported volume (TCEs) | | | | | |
| - Juice concentrate sold (litres 000s) | 6,219 | 6,170 | 6,544 | 6,497 | 5,748 |

As noted in the Global Proteins section, prior year earnings figures have been restated to reflect the transfer of Profruit into the Horticulture division in 2022.

Our Horticulture division comprises 3 businesses:

- Mr Apple, New Zealand's largest vertically integrated grower, packer and marketer of apples, based in Hawke's Bay. Mr Apple also packs, stores and markets apples on behalf of a number of external growers in Hawke's Bay and markets on behalf of external growers in Nelson
- Fern Ridge, a fresh produce exporter in Hawke's Bay
- Profruit – a 50 per cent owned manufacturer of high-quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay

The Horticulture division's primary strategy is to increase sales of premium branded apples throughout Asia and the Middle East.

In February 2023, Hawke's Bay was affected by Cyclone Gabrielle and many people experienced significant loss or disruption as a result of this event. The Hawke's Bay community, people and culture are an integral part of Scales and, as a result, Scales' response included:

- Commitment of \$250,000 in donations to the recovery, with donations to date being distributed to the Evergreen Foundation and the Rural Support Trust
- Tailored assistance provided to staff members who were particularly affected

The Cyclone's effect on Mr Apple's orchards and 2023 crop was:

- 3 orchards extensively damaged (Brookfields, Kinross and Pakowhai)
- 1 orchard moderately affected (Pilos)
- No significant damage to the remaining orchards
- Indications that the 2023 export crop will be down ~18% on prior year
- Estimated total tree losses of ~5% (~50ha) of total planted orchard area
- Due to expiring leases, less than 50% of this will need to be replaced

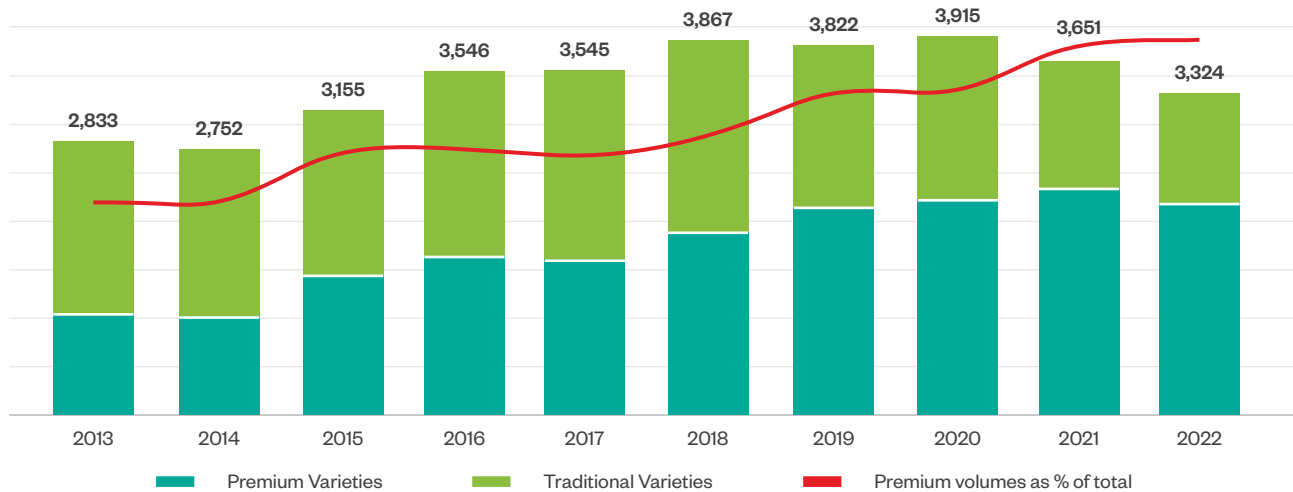
A significant amount of work was invested in the clean-up and remediation of Mr Apple's affected orchards and, whilst this has been a difficult time for the division, it provides the opportunity to further increase Mr Apple's focus on the supply of Premium apples to the Asia and Middle East markets and thus realign varieties and volumes to this strategy.

Operating statistics for 2022 included:

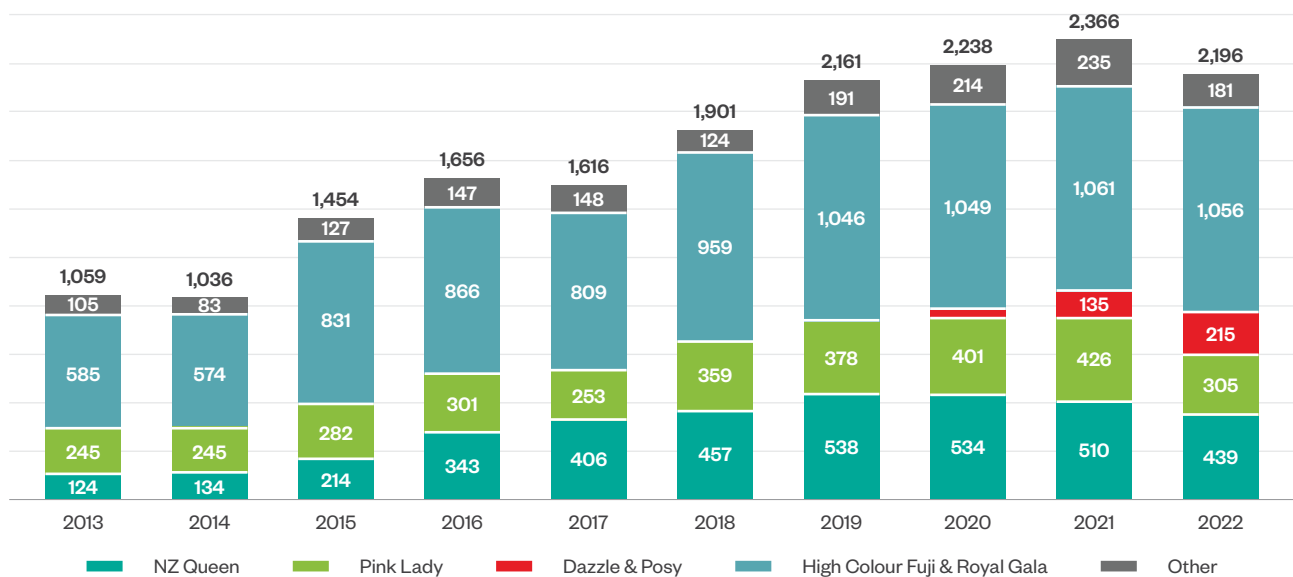
- Gross production of 4.28 million TCEs
- Own-grown export volumes of 3.32 million TCEs
- Including Fern Ridge and other external growers, 4.58 million TCEs exported
- Total planted orchard at time of harvest of 1,167 hectares

Divisional Overview (continued)

Mr Apple Own Export Volumes (TCE 000s)

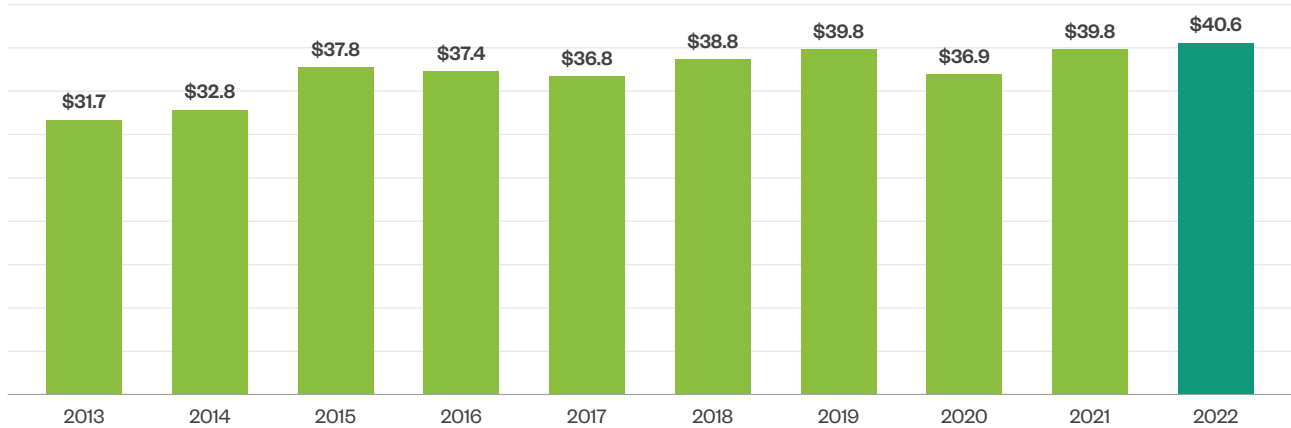


Premium Apple Volumes by Variety (TCE 000s)

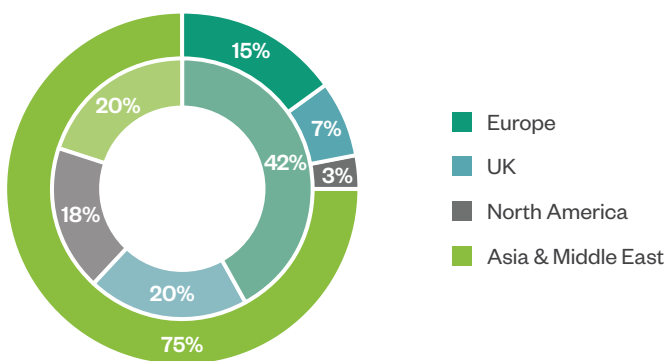


Divisional Overview (continued)

Weighted Average FOB Price / TCE for Premium Apples (NZD)



Exports by Market 2007 (inside) vs 2022 (outside)



The Horticulture division has pronounced financial seasonality:

- Over 50 per cent of Mr Apple's sales are made between February and June each year
- As at 30 June, unsold agricultural produce is measured at fair value less costs to sell, meaning that expected profit on unsold fruit is recognised in the interim result

Logistics

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--------------------------------|---------|---------|---------|---------|----------|
| Revenue | \$89.3m | \$87.1m | \$77.9m | \$81.9m | \$123.3m |
| % of Group revenue | 22% | 18% | 17% | 16% | 20% |
| Underlying EBITDA ⁴ | \$4.9m | \$4.1m | \$4.2m | \$4.9m | \$6.6m |
| % of Group Underlying EBITDA | 7% | 7% | 7% | 7% | 8% |

The services of Scales Logistics include:

- Ocean freight services to exporters and importers of perishable products, with offices in Auckland, Christchurch, Tauranga, Hawke's Bay and Melbourne
- Air freight services, including chiller facilities in Christchurch and Auckland together with warehousing facilities in Christchurch

Logistics has produced excellent results in recent years despite continued global supply chain sector difficulties and changes in the volumes of ocean freight and airfreight. The skill and expertise of the Logistics team has been demonstrated, ensuring that all product is shipped on time and in full. We believe this is a key advantage for both Scales' internal divisions as well as Logistics' external freight customers.

⁴ Due to the divestment of the Liqueo and Polaroid businesses in 2018 and 2019 respectively, for comparative purposes Underlying EBITDA for 2018 shows the earnings from Logistics only.

Capital Management

Target long-run combined ROCE for the group is 12.5 per cent or greater.

| | 2021 | 2022 |
|-----------------|--------------|--------------|
| Global Proteins | 48.0% | 67.4% |
| Horticulture | 7.8% | -0.4% |
| Logistics | 37.3% | 61.1% |
| Group | 13.8% | 13.5% |
| <i>Target</i> | <i>12.5%</i> | <i>12.5%</i> |

ROCE:

A measure of the business' return on its capital invested.

Calculation:

Underlying EBIT divided by the average of opening and closing capital employed.

Group capital employed increased by \$29.8 million in 2022, primarily as a result of our Australian investments together with an increase in Mr Apple's capital employed due to investment in its Whakatu packhouse automation project and revaluation of its land and buildings.

Governance

Board of Directors

| | |
|-----------------------|---|
| Mike Petersen | Non-Executive Independent Chair |
| Andrew Borland | Executive Managing Director |
| Tony Batterton | Non-Executive Independent Director, Chair Nominations and Remuneration Committee and Chair Finance and Treasury Committee |
| Miranda Burdon | Non-Executive Independent Director |

| | |
|----------------------|--|
| Nick Harris | Non-Executive Independent Director |
| Alan Isaac | Non-Executive Independent Director, Chair Audit and Risk Management Committee |
| Nadine Tunley | Non-Executive Independent Director, Chair Health & Safety and Sustainability Committee |
| Qi Xin | Non-Executive Director |

Management

Andrew (Andy) Borland, Managing Director

Andy joined Scales in 2007 and became Managing Director in 2011. Prior to joining Scales he had a 20 year career in banking, with his final role being Head of Corporate at Westpac New Zealand. Andy has overall responsibility for the strategic direction and day-to-day management of Scales. In addition to his directorships of the Group, Andy is currently the Chair of Primary Collaboration New Zealand Limited and Primary Collaboration New Zealand (Shanghai) Co. Limited.

Brett Frankel, President Shelby Foods

Brett established United States based Shelby Foods in 2007 and has been its President since inception. Brett has over 20 years' experience in petfood, having had a senior procurement role prior to starting Shelby. He also represents the 3rd generation of family involvement in the sector, following in the footsteps of both his father and grandfather.

Tim Harty, General Manager Meateor Pet Foods

Tim was appointed General Manager at the inception of the joint venture with Alliance in 2019. Tim has had over 20 years' experience in the export meat industry, in marketing and operational roles, both in New Zealand and overseas.

Steve Kennelly, Chief Financial Officer

Steve has been with Scales since 1993 in a variety of accounting and financial roles. As CFO, Steve is responsible for finance, funding, legal, company secretarial and information technology. Steve is a member of Chartered Accountants Australia and New Zealand.

Chantelle Ramage, General Manager Profruit

Chantelle has been with Profruit for 16 years, including 14 as General Manager. Prior to that Chantelle held Production Manager and Technical Manager roles with the company. Chantelle graduated from Lincoln University with a Bachelor of Science, majoring in Food.

Kent Ritchie, CEO Scales Logistics

Kent joined Scales in 1998 and has spent over 30 years in the shipping industry. He has been involved in setting up shipping services from New Zealand, has experience in all aspects of the transport industry and has led Scales' expansion into the logistics arena.

John Sainsbury, CEO Meateor Group

John has been with Meateor in various management roles for over 20 years. Prior to that, John worked in senior management, marketing and operational roles in the United States. John was appointed CEO of Meateor in March 2015 and CEO of Meateor Group in 2019.

Geoff Smith, Chief Operations Officer

Geoff joined Scales in 2022 from Zespri where he was Head of New Zealand Supply. Geoff has extensive experience across a variety of agribusinesses, particularly in operations, supply chain, strategy and investment. Geoff has both an Honours degree and Doctorate from Lincoln University.

Andrew van Workum, CEO Mr Apple

Andrew has worked in the apple industry for over 30 years. He joined Mr Apple at its inception in 2001 and prior to that was General Manager of Mr Apple's predecessor, Grocorp Pacific Limited, where he worked for 16 years. He has extensive experience in the production aspects of the apple industry and was previously a Director of Pipfruit New Zealand.

Company Information

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Glossary

| | |
|--------|---|
| EBIT | Earnings Before Interest and Tax |
| EBITDA | Earnings Before Interest, Tax, Depreciation and Amortisation |
| GAAP | Generally Accepted Accounting Principles |
| IFRS | International Financial Reporting Standard |
| NPAT | Net Profit After Tax |
| NPATAS | Net Profit After Tax Attributable to Shareholders |
| ROCE | Return on Capital Employed |
| TCE | Tray carton equivalent (a measure of apple and pear weight, defined as 18.6kg packed weight, which equates to 18.0kg sale weight) |

