

## About Scales

Scales is an NZX listed agribusiness group with three diverse operating divisions: horticulture, storage & logistics, and food ingredients. The company's operations include growing, producing and processing food for export together with the provision of essential storage and logistics services for a range of primary exporters.

Businesses in its portfolio include:

- **Mr Apple** New Zealand's largest integrated apple grower, packer and marketer
- **Fern Ridge Produce** a 50% owned apple and produce exporter and trader
- **Meateor** a processor and marketer of ingredients for the global pet food industry
- **Profruit** a 50% owned apple and kiwifruit juice concentrate manufacturer
- **Whakatu Coldstores** and **Polarcold** the largest providers of temperature controlled storage in New Zealand
- **Liqueo** an operator of bulk liquid storage terminals
- **Scales Logistics** an air and sea freight specialist

Scales' 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.

## Vision and Strategy

Scales' vision is to be the foremost investor in, and grower of, New Zealand agribusinesses by leveraging our unique insights, experience, and access to collaborative synergies. We operate a portfolio of businesses that will directly benefit from improvements in New Zealand agricultural output. We have the people, experience, expertise, networks, insights and assets to help unlock agribusiness growth.

- We use world-leading orchard techniques to grow more premium apples:
  - We're close to achieving world's best yields in our orchards
  - We're getting higher prices by using technology to improve quality
  - By 2018 our premium apple production is forecast to be 43% higher than it was in 2014
- The Storage and Logistics division will increase throughput and margins by:
  - Adding an Auckland coldstore to extend the FMCG coldstore network nationwide
  - Upgrading infrastructure to achieve cost efficiencies and win new contracts
- Growing New Zealand primary industry volumes and associated by-products provide Meateor and Profruit the opportunity to add value and meet increasing demand from the global pet food and beverage industries

## Key Financials

\$million	FY2013	FY2014	FY2015 <sup>^</sup>
EBITDA	42.8*	39.8	41.2
EBITDA margin (%)	15.7	15.1	15.8
Net Profit	19.6*	19.8	20.8
Net Profit (statutory)	20.4	18.4	20.8
Earnings per share (cents)	16.2*	14.3	14.9
Dividends per share (cents)	11.3	9.4-9.6 <sup>^</sup>	10.5-10.7
Average net debt	N/A	40.8	38.2
Capital expenditure	13.0	11.0	10.6

<sup>^</sup>Forecast    \*Pro forma financial information

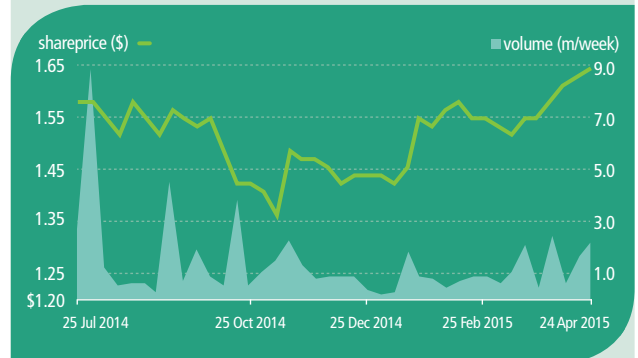


## Share information

NZX code	SCL
Share price at 24/4/15	\$1.64
Shares on issue	139,779,006
Market capitalisation at 24/4/15	NZ\$229.2m
Dividend yield incl. imputation credits*	8.0%
Financial year end	31 December
NZX industry sector	Primary/Agriculture and Fishing
Indices:	NZX All

All currency is NZ\$ unless otherwise indicated.

\*Based on forecast dividend of 9.4 cents per share with full imputation credits. Guidance is for 9.4 - 9.6 cents per share.



## Dividends

Scales' dividend policy is to target a payout ratio in respect of each financial year of between 65% and 75% of Net Profit, or Pro forma Net Profit in the case of FY2014F. It is expected that dividends will be fully imputed for NZ tax residents.

Period	Date	Amount
2014 Interim	19/12/14	3 cps

## Research coverage

Company	Analyst	Email
Deutsche Craigs	Chris Byrne	chris.byrne@craigsip.com
First NZ Capital	Kar Yue Yeo	karyue.yeo@fnzc.co.nz



# DIVISIONAL OVERVIEW

## Horticulture



FERN RIDGE

Revenue	FY2014	\$158.8 million (60% of total revenue)
	FY2015	\$158.9 million (61% of total revenue)
EBITDA	FY2014	\$23.9 million (60% of total EBITDA)
	FY2015	\$24.0 million (58% of total EBITDA)

Orchard area	Owned	707ha
	Leased	330ha
	Total	1,037ha
Packhouses	3	Coolstore facilities 5

Mr Apple is New Zealand's largest integrated grower, packer and marketer of apples. All of its growing and post-harvest activities are located in Hawke's Bay. In addition, Mr Apple 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.

In FY2014, Mr Apple exported 4.0m TCEs including apples from external suppliers of which 2.8m TCEs were from Scales' 1,037 ha of apple orchards and the balance supplied by external growers. Scales' volume represented 23% of New Zealand's total apple exports.

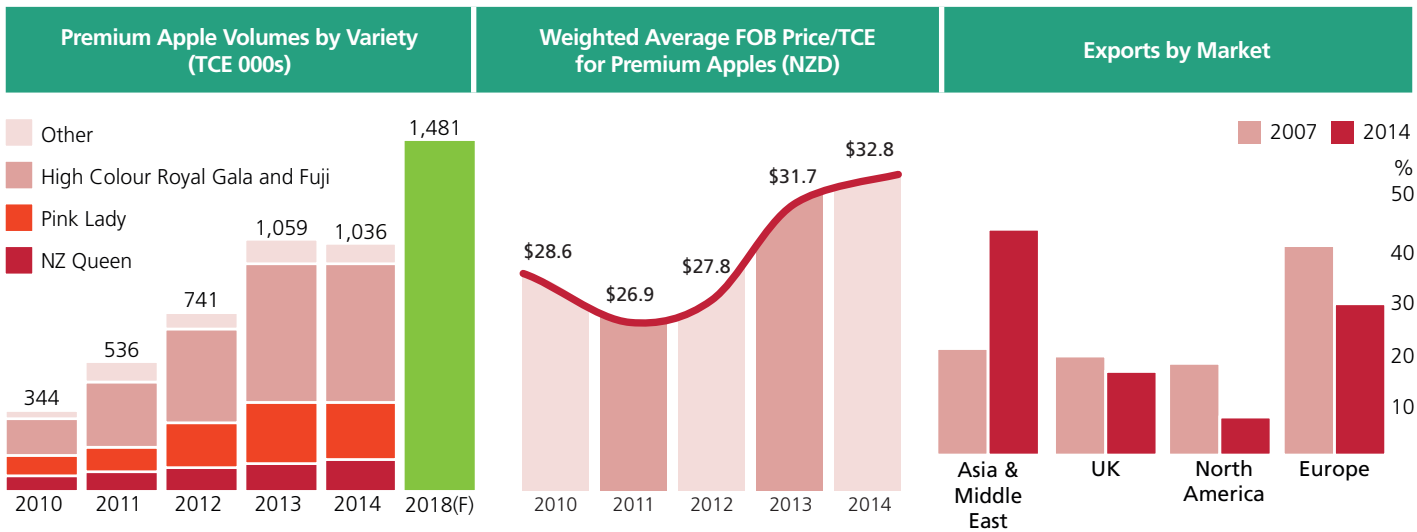


Mr Apple now exports nearly half its production to fast growing Asian and Middle Eastern markets.

Fern Ridge Produce is a 50% owned apple and produce exporter.

### Growth strategy:

- Increase apple exports to Asia and Middle East
- Invest in brand profile in offshore markets focusing on Asia and Middle East
- Continued redevelopment of orchards towards premium varieties
- Review opportunities to acquire or lease additional apple orchards



## Financial Seasonality

Scales has pronounced financial seasonality

### Horticulture Division:

- ~55% of Mr Apple's sales are made between February and June each year
- Accounting standard NZ IAS 41 "Agriculture" requires unsold agricultural produce to be measured at fair value less costs to sell. This means that the expected profit on unsold fruit is recognised in the interim result

### Storage & Logistics Division:

- ~75% of divisional EBITDA is earned during the first 6 months due to the seasonality of customers' storage and logistics requirements
- Lower storage volumes, coupled with scheduled maintenance during the off-season, result in lower levels of profit during the second half of the year

# DIVISIONAL OVERVIEW

## Storage & Logistics



Revenue	FY2014	\$90.6 million (34% of total revenue)
	FY2015	\$93.4 million (36% of total revenue)
EBITDA	FY2014	\$12.3 million (31% of total EBITDA)
	FY2015	\$14.8 million (36% of total EBITDA)

Whakatu Coldstores and Polarcold are together the largest independent provider of temperature controlled storage in New Zealand. They offer essential supply chain services for some of New Zealand's largest exporters, importers and FMCG businesses.

Whakatu Coldstores operates cold storage facilities in Hastings, Napier, Kerepehi and Wellington with 341,131m<sup>3</sup> of temperature controlled storage.

Polarcold operates cold storage facilities in Dunedin, Timaru and Christchurch, with 265,499m<sup>3</sup> of temperature controlled storage. A 95,700m<sup>3</sup> purpose built coldstore in South Auckland, under construction and scheduled for opening in late 2015, will add 16% to available capacity. A 10 year contract with Fonterra will see it take 50% of the new capacity.

Liqueo operates bulk liquid storage terminals in Timaru and Hawke's Bay with a total capacity of 22,200 tonnes for the storage of tallow, edible and non-edible oils, liquid stock foods and liquid waste products.

Scales Logistics provides logistics services to exporters and importers of perishable products including fish, fruit and vegetables. Mr Apple and Meateor are major customers.

### Growth strategy:

Growth in food exports of more than 6% annually is expected through to 2017. To meet this growth Scales plans to:

- Open a 95,700 m<sup>3</sup> coldstore in Auckland in late 2015
- Expand its existing coldstore and liquid storage network through organic growth and acquisitions
- Continued roll out of a highly successful coldstore software system which will improve customer integration
- Target new coldstore customers, particularly FMCG businesses
- Consider complementary logistics business acquisition opportunities



## Food Ingredients



Revenue	FY2014	\$37.2 million (14% of total revenue)
	FY2015	\$34.8 million (13% of total revenue)
EBITDA	FY2014	\$5.7 million (14% of total EBITDA)
	FY2015	\$4.1 million (10% of total EBITDA)

The food ingredients division comprises two businesses that complement Scales' other businesses:

- Meateor which processes and markets pet food ingredients for the global pet food industry
- Profruit is a 50% owned apple and kiwifruit juice concentrate manufacturer located in Hawke's Bay

### Growth strategy:

- Expansion of Meateor's raw material supply with operations recently commencing in Australia
- Expand Meateor's product range to encompass alternative proteins
- Expand Profruit's product range
- Consider complementary food ingredients acquisition opportunities

# CAPITAL MANAGEMENT

### Target returns for the group are:

- Return on capital employed of 15% or greater
- EBITDA margin of 13% or greater

	FY2014	
	ROCE	EBITDA margin
Horticulture	20%	16%
Storage & logistics	10%	14%
Food ingredients	38%	12%
Group	15%	15%
Target	15%	13%

EBITDA margin: A measure of the business's core profitability

Calculation: EBITDA (earnings before interest, tax, depreciation and amortisation) divided by revenue

Return on capital employed (ROCE): A measure of the business's return on the capital invested

Calculation: EBIT (earnings before interest and tax) divided by capital employed (non current assets plus current assets (excluding any cash or cash equivalent balances) less current liabilities (excluding any overdraft or short term debt))



## Governance

### BOARD OF DIRECTORS

<b>Jon Mayson</b>	Independent Chairman
<b>Andy Borland</b>	Managing Director
<b>Tim Goodacre</b>	Non-Executive Independent Director
<b>Nick Harris</b>	Non-Executive Independent Director
<b>Mark Hutton</b>	Non-Executive Independent Director, Chair Nominations & Remuneration Committee
<b>Alan Isaac</b>	Non-Executive Independent Director Chair Audit & Risk Management Committee

### MANAGEMENT

**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 is currently a director of Pipfruit New Zealand Incorporated, George H Investments Limited and Central Otago deer and beef cattle breeding and fattening farming company Loganbrae Limited.

**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.

**Andrew van Workum** CEO Mr Apple  
 Andrew has worked in the apple industry for nearly 30 years and has extensive experience in the production aspects of the industry. He joined Mr Apple at its inception in 2001 and prior to that was General Manager of Mr Apple's predecessor Grocorp Pacific Limited.



**Kevin Cahill** CEO Polarcold and Liqueo  
 Kevin joined the staff of Polarcold in 1978 as Works Manager, when the company was known as SC Co-op Cool Stores Limited.

**Stephen Foote** CEO Whakatu Coldstores and Meateor  
 Stephen has been with the Whakatu Coldstores' group of companies in various management roles for 20 years.

**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.

## Company information

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## Glossary

EBITDA	Earnings before interest, tax, depreciation and amortisation
FMCG	Fast moving consumer goods
IPO	Initial public offering
TCE	Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight

## July 2014 NZX listing

In the IPO, 60.8% of the company was sold by Direct Capital Investments Limited (DCIL) which retained a holding of 18.05% and \$30 million was raised from the issue of new equity. The funds from the new equity were used to fund issue costs and to pay down debt. DCIL is holding the shares for the beneficial owners of the shares, including the Guardians of the New Zealand Superannuation as manager and administrator of the New Zealand Superannuation Fund.