



# SCALES CORPORATION LIMITED

YOUR DIVERSIFIED  
AGRIBUSINESS PORTFOLIO

2015 Annual Shareholders' Meeting

**Scales**   
growing New Zealand

# AGENDA

- Welcome
- Chairman's review
- Managing Director's review
- Ordinary business and resolutions

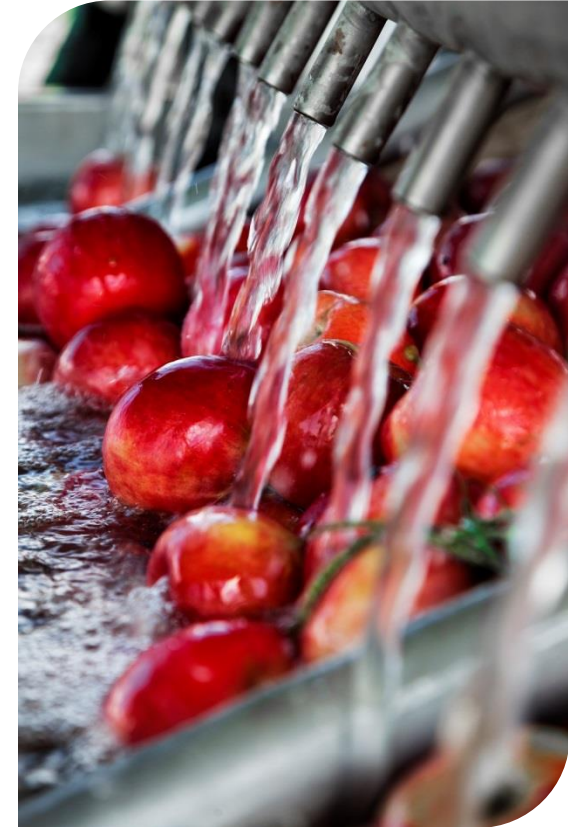




# CHAIRMAN'S REVIEW

A landmark year for Scales.

- Restructured Board
- Successful transition to a NZX listed company
- Exceeded our IPO forecasts



# MANAGING DIRECTOR'S REVIEW

- Who we are, what we do, and why we are different
- 2014 highlights
- Mr Apple's technology led growth
- Our strategy for delivering growth
- The year ahead
- Investor return performance







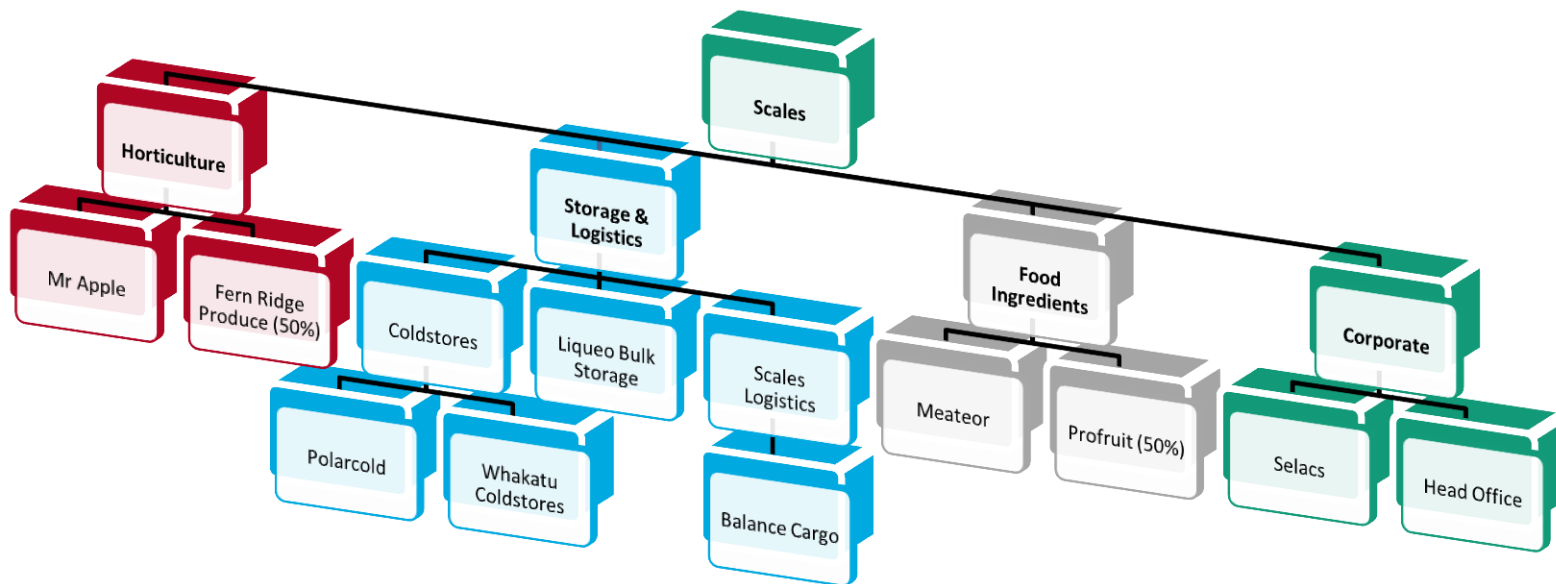
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**WHO WE ARE, WHAT  
WE DO, AND WHY WE  
ARE DIFFERENT**

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# WE ARE A DIVERSIFIED AGRIBUSINESS PORTFOLIO

Scales is a diversified agribusiness group with 117 years of trading experience. The Group comprises 8 operating companies organised into 3 trading divisions managed by a corporate office.



# HORTICULTURE DIVISION

New Zealand's largest integrated apple grower, packer and marketer.

1,052 Ha. planted  
orchard



420m+ apples  
picked



4m boxes packed



**130+ CUSTOMERS**  
**40+ COUNTRIES**

Outside Growers

During the height of the  
Apple Harvest, we will fill  
more than 5,500 bins a  
day

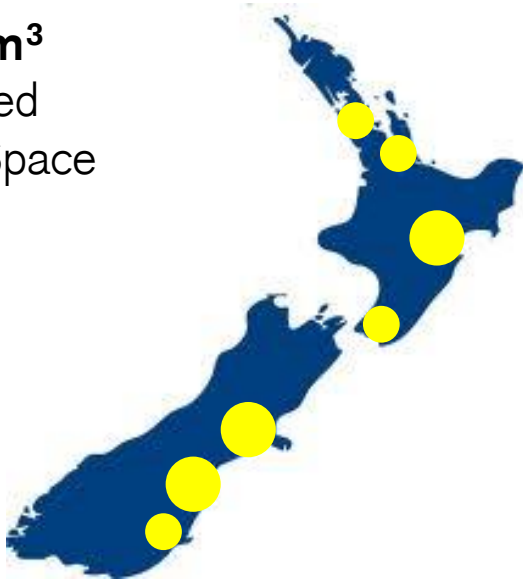




# STORAGE & LOGISTICS DIVISION

New Zealand's largest independent coldstorage network. Complementary bulk liquid storage and freight logistics operations.

**702,300 m<sup>3</sup>**  
Refrigerated  
Warehouse Space



Over 2,000,000 m<sup>3</sup>  
of product loaded in  
and out every year



Sea and Air freight  
logistics arranged  
for more than  
**17,300 TEUs**

57 Bulk Liquid  
Storage tanks  
**22,200 MT**  
capacity





# FOOD INGREDIENTS DIVISION

Petfood and Apple Juice Concentrate.

**16.4m** kg Petfood Ingredients sold



**4.6m** Litres  
Juice Concentrate

- Apple
- Organic
- Kiwifruit



# DIVERSIFIED BY SECTOR AND REGION

National coverage, critical scale.

- Asset rich portfolio, scale efficiencies, very high entry barriers.
  - Horticulture Division:
    - Multiple packhouses, coolstores, and >1,000 ha of planted apple orchard.
  - Storage & Logistics Division:
    - Coldstores near most major NZ ports.
    - Bulk Liquid storage terminals in Hawke's Bay and Timaru.
  - Food Ingredients:
    - North and South Island petfood production facilities to capture offtake from key meat regions.





# WHAT WE DO

We have skills, experience, expertise, and capital to assist in delivering – and will greatly benefit from – improvements in NZ Agricultural production.

- There's 3 things that we absolutely believe.

1

New Zealand's agribusiness sector can be the most productive and the most competitive in the world.

2

This country produces premium products that hold their own anywhere.

3

And when a diversified agribusiness portfolio like ours think big, we're doing justice to this country's farmers and their capabilities.

# WHY WE ARE DIFFERENT

We have the expertise, experience and financial capability to help transform New Zealand into a global agribusiness super-power amongst the world's temperate climates.

- We have been endowed with:
  - Passionate, innovative, and experienced people operating in an empowering **culture**.
  - Diversified, strategically located, highly productive, and vertically-integrated agribusiness **assets**.
  - Access to rapidly growing export **markets**.
- With these endowments, we:
  - **Add value to our portfolio** by providing specialist governance, strategic direction, capital support, and critical mass.
  - Have **specialist networks and insights** to direct future investment.
  - Have **extensive industry experience** – our people are at the leading edge of their fields.
  - Provide our shareholders with **unique access** and investment exposure to growth-focused, **NZ-based, primary production and servicing businesses**.
- Focus on cash returns to shareholders:
  - Pre-tax dividend yield 8.7%, tax paid yield 6.25% will be delivered to shareholders that bought in at the IPO price of \$1.60.





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2014 HIGHLIGHTS

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# TRADING AHEAD OF IPO FORECASTS

Financial performance targets exceeded.

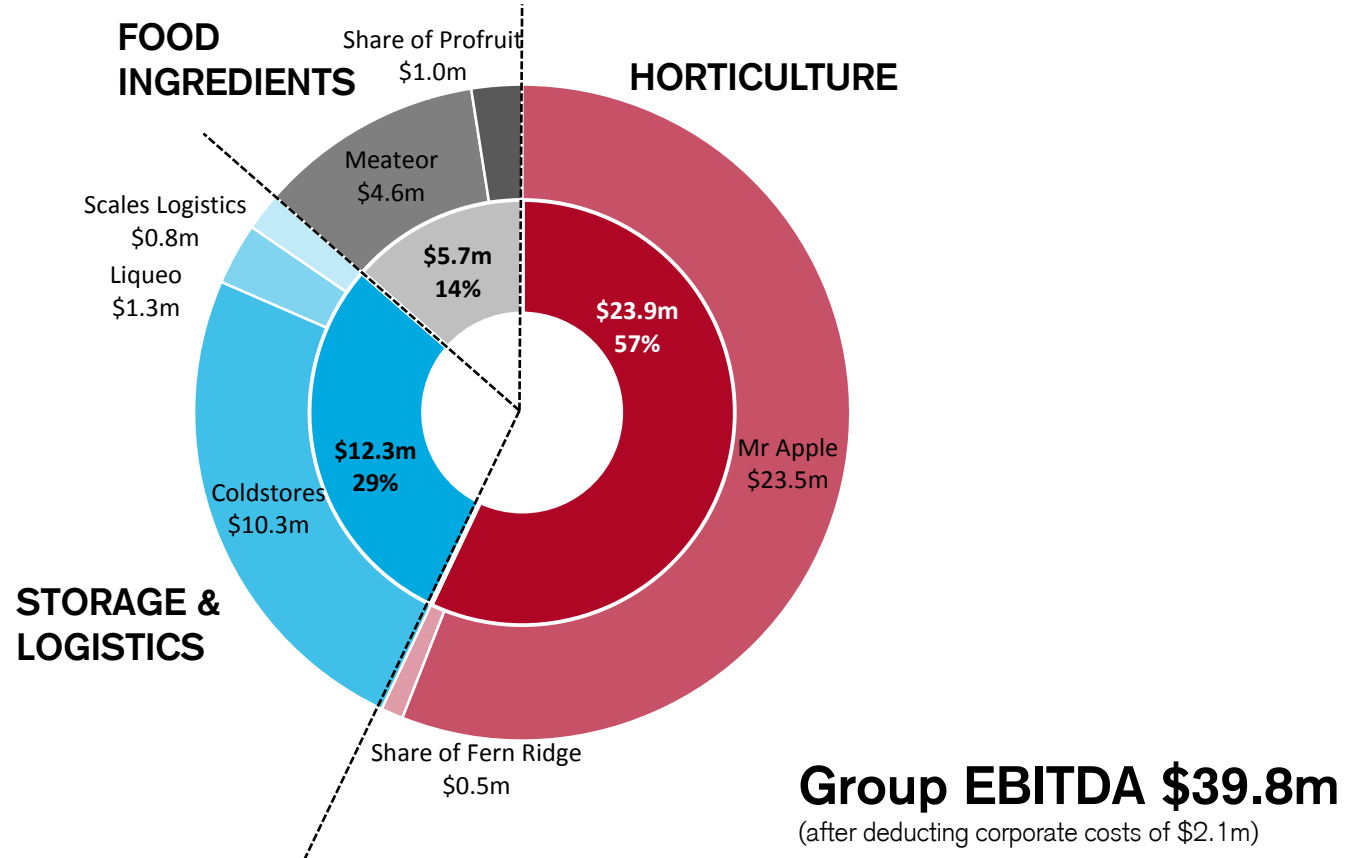
- We are committed to delivering on our IPO forecasts and so far have met those targets.

| \$'000                                | 2014 Actual    | 2014 IPO Forecast | Variance      |
|---------------------------------------|----------------|-------------------|---------------|
| Revenue                               | <b>263,262</b> | 253,927           | <b>+3.7%</b>  |
| Gross Margin                          | <b>81,273</b>  | 77,256            | <b>+5.2%</b>  |
| Underlying EBITDA                     | <b>39,849</b>  | 38,811            | <b>+2.7%</b>  |
| Underlying Net Profit                 | <b>19,763</b>  | 18,530            | <b>+6.7%</b>  |
| Net Profit from Continuing Operations | <b>18,076</b>  | 15,655            | <b>+15.5%</b> |



# EBITDA COMPOSITION

## FY2014A EBITDA by Division and Business (NZ\$)

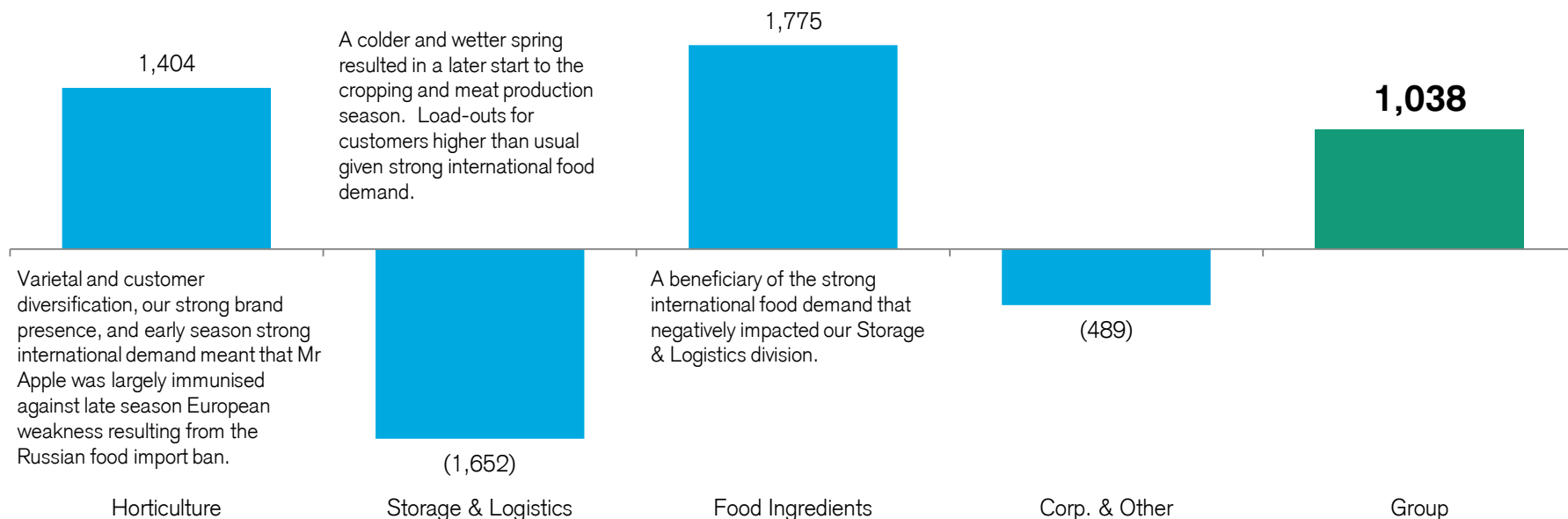


# STRENGTH THROUGH DIVERSITY

Consistent, and predictable, financial performance through diversification.

- Since listing, some of the challenges identified in our Prospectus have arisen. With our diversified economic strength, and through careful management of those risks, Group performance exceeded targets.

## 2014 EBITDA by Division, Variance to PFI (\$'000)



# MEETING OR EXCEEDING KPIs

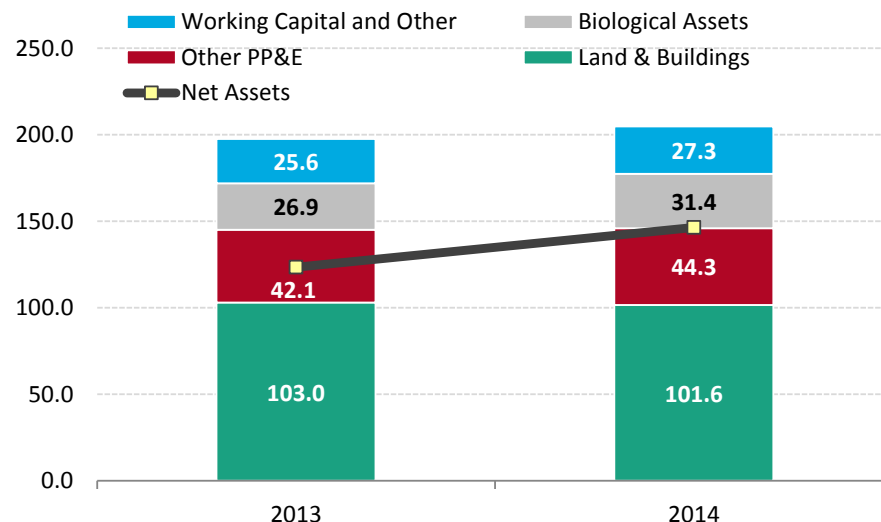
| \$'000   | 2014 Actual | 2014 IPO Forecast | Variance |
|--|-------------|-------------------|----------|
| <b>Horticulture:</b>   |             |                   |          |
| Total Volume Sold (Mr Apple + External Growers)                | 3,970       | 3,887             | +2.1%    |
| Total Mr Apple Volume Sold                                     | 2,752       | 2,569             | +7.1%    |
| <i>Comprising:</i>   |             |                   |          |
| Premium Apples   |             |                   |          |
| - Mr Apple total own volumes sold (TCE 000s)                   | 1,036       | 984               | +5.3%    |
| - Weighted average price (NZD / TCE – FOB)                     | \$32.8      | \$30.5            | +7.5%    |
| Traditional Apples   |             |                   |          |
| - Mr Apple total own volumes sold (TCE 000s)                   | 1,716       | 1,585             | +8.3%    |
| - Weighted average price (NZD / TCE – FOB)                     | \$24.8      | \$25.1            | -1.2%    |
| <b>Storage &amp; Logistics</b>                                 |             |                   |          |
| Total refrigerated coldstorage space (at end of year, m3 000s) | 606.6       | 606.6             | -        |
| Total capacity of all bulk liquid storage tanks (MT 000s)      | 22,200      | 22,200            | -        |
| TEUs shipped   | 17,336      | n/a               |          |
| Airfreight tonnes arranged                                     | 1,623       | n/a               |          |
| <b>Food Ingredients</b>  |             |                   |          |
| Petfood ingredients sold (million kgs)                         | 16.4        | 15.8              | +3.5%    |



# STRONG BALANCE SHEET

- We have a large asset base centred around our material investment in land and buildings.
- We currently have considerable headroom in our banking covenants.

## Assets by Category



## Banking Covenants

FY2014

Actual IPO Forecast

### Interest Cover Ratio

|          |       |      |
|----------|-------|------|
| Ratio    | 11.8x | 9.1x |
| Covenant | 3.0x  | 3.0x |
| Headroom | 293%  | 203% |

### Senior Term Debt Leverage Ratio (times covered)

|                              |      |      |
|------------------------------|------|------|
| Ratio                        | 0.8x | 0.8x |
| Covenant (must be less than) | 2.5x | 2.5x |
| Headroom                     | 213% | 213% |

# 3

## MR APPLE'S TECHNOLOGY LED GROWTH

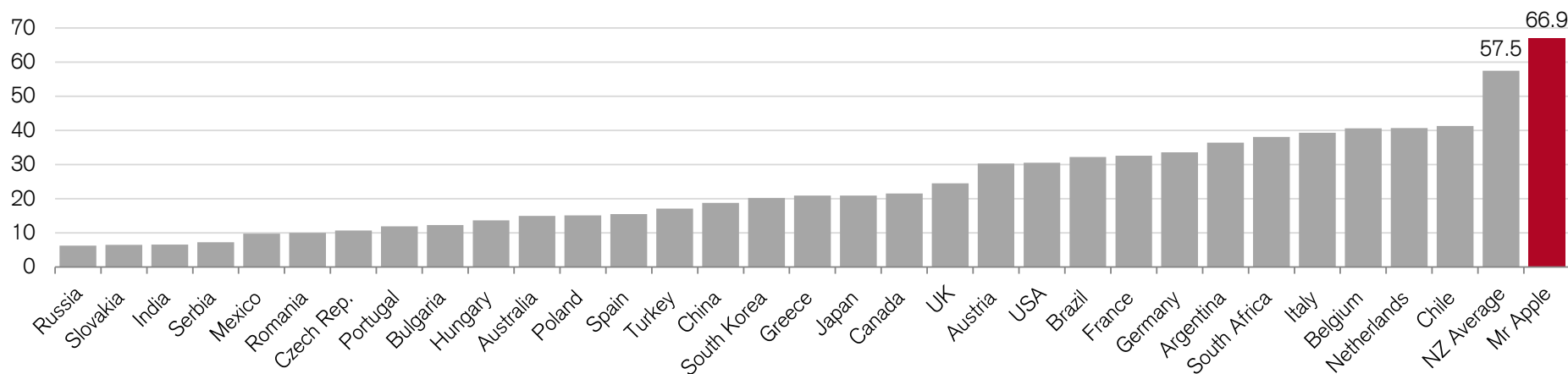


# A GLOBAL LEADER

We combine excellent growing conditions, technology, and the world's best apple orchardists working collaboratively to achieve (what we think are) the world's leading apple yields.

- Our yields are:
  - 16% higher than the NZ average.
  - ~3x higher than the global average.
  - Consistent.
- Without giving away any secrets, the next few slides cover some of the technology we employ to achieve world leading yields.

## Yields per Hectare (Gross Production in Metric Tonnes, 2011-13)



Source: World Apple Review 2014, Mr Apple.



# FROM ART TO SCIENCE

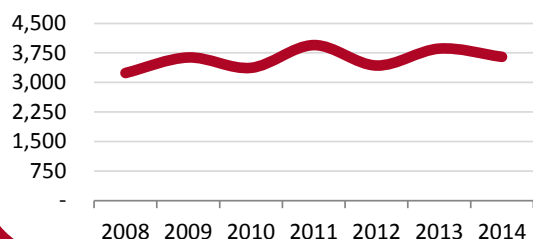
Mr Apple is a highly efficient and effective apple grower, packer and marketer.

## Growing:

- 53 Global Gap accredited orchards.
- 100 wind machines providing frost protection.
- 90% of our orchards are permanently irrigated.
- \$2.1m invested in ~500 kilometres of reflective foil.
- \$11.3m invested in 301 hectares of premium varieties.
- Technology focus – proprietary, best-in-class software accessible on iPads in the orchard.

**To deliver consistent and improving yields every year.**

Gross Production / Ha. (TCEs)

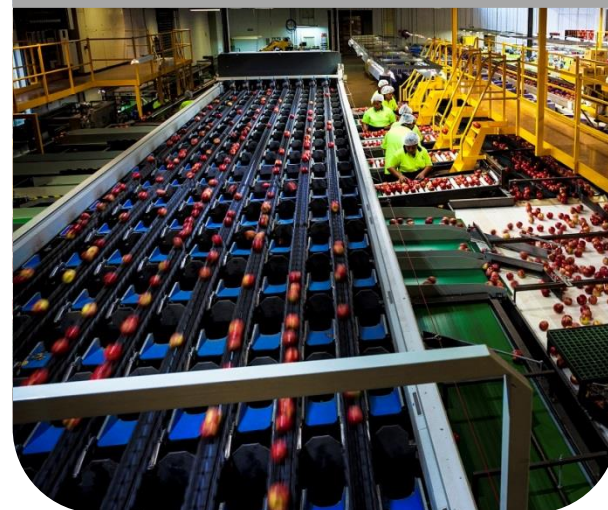


## Harvesting:

- Scientific-based approach to ensure apples meet stringent maturity standards (brix, firmness, starch).
- As a result, Mr Apple apples last longer and store better with limited loss in quality, allowing us to service the market over the entire season.
- Multiple picks optimising growing conditions.
- Experienced fruit pickers with high level of return seasonal employees through RSE scheme.

## Grading:

- Automated defect grading, complemented by inhouse software with commercial opportunities removes human error.
- \$3.4m invested in world leading grading equipment, instantly analysing an apple to sort by size, colour profile, and reject fruit with defects.
- Significantly enhances consistency, and ensures all cartons meet customer specifications.



# FROM ART TO SCIENCE (CONT'D)

## Cool Chain:

- Mr Apple has invested more than \$10.6m in state of the art forced air cooling.
- Ability to SmartFresh, pre-cool, store, and Controlled Atmosphere (CA) store over 25,000 pallets.
- During the harvest 800 pallets are cooled from a field temperature of 22C down to a pulp temperature <2C every day.
- Full vertical integration permits the most efficient utilisation of our coolstore investment.



## Shipping:

- Dedicated shipping team ensures customer's shipments are completed on time, as required.
- Relationships with multiple shipping lines to accommodate global distribution all season long.
- Fully automated in-house logistics system.

## Globally Leading Brands:

- Our commitment to product excellence, supplemented by our marketing support means that our brands are highly sought after.
- Insights and networks are being established and developed throughout China and the wider Asian markets via our participation in the Primary Collaboration NZ (Shanghai) Joint Venture.







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**OUR STRATEGY FOR  
CREATING GROWTH**

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## **Scales' Vision:**

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

## **Our long-term goal:**

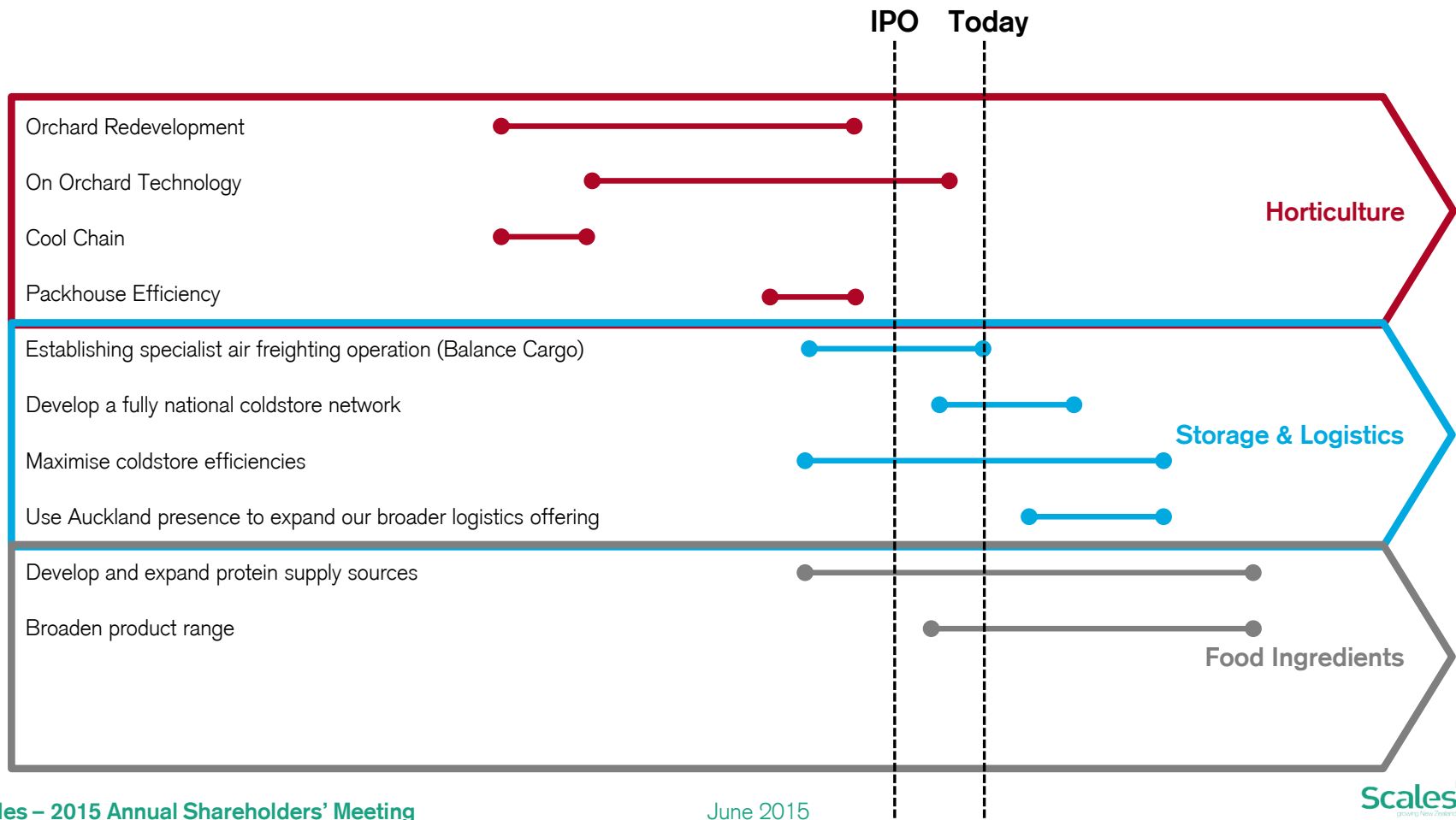
To generate a long-run average 15% Return on Capital employed across our portfolio.\*

\*Calculated as Underlying EBIT / Capital Employed, where Underlying EBIT is calculated as Underlying Net Profit plus Net Financing Costs and Tax, and Capital Employed is calculated as Non Current Assets plus Current Assets (excluding any Cash or Cash Equivalent balances) less Current Liabilities (excluding any Overdraft or Short-Term Debt balances).

# ORGANIC GROWTH STRATEGY

Progressing the next phase of our growth strategy.

- Our pre-IPO growth strategy was focused around an intensive 3-5 year investment in our Horticultural division. With that investment largely completed and paying dividends, our attention is now fully on our Storage & Logistics and Food Ingredients divisions.



# FOCUSING ON STORAGE & LOGISTICS

Our current investment cycle is focused on achieving even better returns from our Storage & Logistics division.

- Established perishable airfreight specialist division Balance Cargo – growing strongly.
- Auckland Coldstore – construction progressing well. Opening for business Q4.
  - Auckland Coldstore will become a base from which to expand broader logistics offering.
- Investing in efficiencies and capabilities in Timaru coldstores and bulk liquid operations.





# EXPANDING OUR REACH

- We have the skills, networks and experience to add value to the New Zealand agricultural sector.
- We continue to actively investigate ways we can develop our existing divisions or extend our agribusiness reach either by:
  - Acquiring appropriate 'bolt-on' businesses to support our existing operating divisions.
  - Developing new divisions or market sectors.
  - In some cases this may mean we invest offshore to support our local operations (e.g. petfood ingredients sourcing from Australia).
- But we will remain patient and disciplined. All investment should:
  - Align with our core beliefs.
  - Deliver collaborative synergies and align with our core competencies.
  - Have scale, enhance scale, or be able to achieve scale.
  - Be forecast to meet our minimum Return on Capital Employment benchmark of 15% across the portfolio.

# CLEARLY DEFINED OBJECTIVES

- Our Annual Report clearly outlines our Near and Medium Term Objectives, both for the Group and for each of our operating divisions.
- Our Group objectives are repeated below:

## OUR OBJECTIVES

### NEAR TERM OBJECTIVES (<2 YEARS)

Align Health & Safety practices across the Group to meet global best practice.

Meet or exceed Financial Performance projections in our Prospectus.

Enhance current business activities by continuing to invest in their growth and unlock their potential.

### MEDIUM TERM OBJECTIVES (2-5 YEARS)

Be recognised as one of New Zealand's safest companies to work for.

Deliver meaningful growth in our existing, or potentially new, divisions through organic investment and/or acquisition.



61  
**DIVA**

CLASS 1

**DIVA**

**DIVA**

**5**

**THE YEAR AHEAD**

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COUNTRY OF ORIGIN  
**NEW ZEALAND APPLES**

# TRADING UPDATE Q1

We remain confident of meeting our 2015 IPO forecast.

| Horticulture  | Storage & Logistics  | Food Ingredients   |
|---|--|--|
| Apple harvest completed. Gross production volumes above forecast, but final export volumes subject to 'packout' (export recovery).  | Coldstore utilisation has started well (as predicted – product inflows have caught up following last years' slow start to the cropping and meat processing seasons). As with all years, Q3/Q4 volumes subject to some uncertainty. | Petfood trading to April 2015 in line with the same period for 2014. |
| Net returns on apples sold (for the year to date, ~33% sold) when adjusted for FX and freight savings are in line with expectations. Late season market pressure experienced in 2014 is not expected to return. | Shipping volumes handled by our logistics companies (Scales Logistics and Balance Cargo) continue to display positive growth.  |  |





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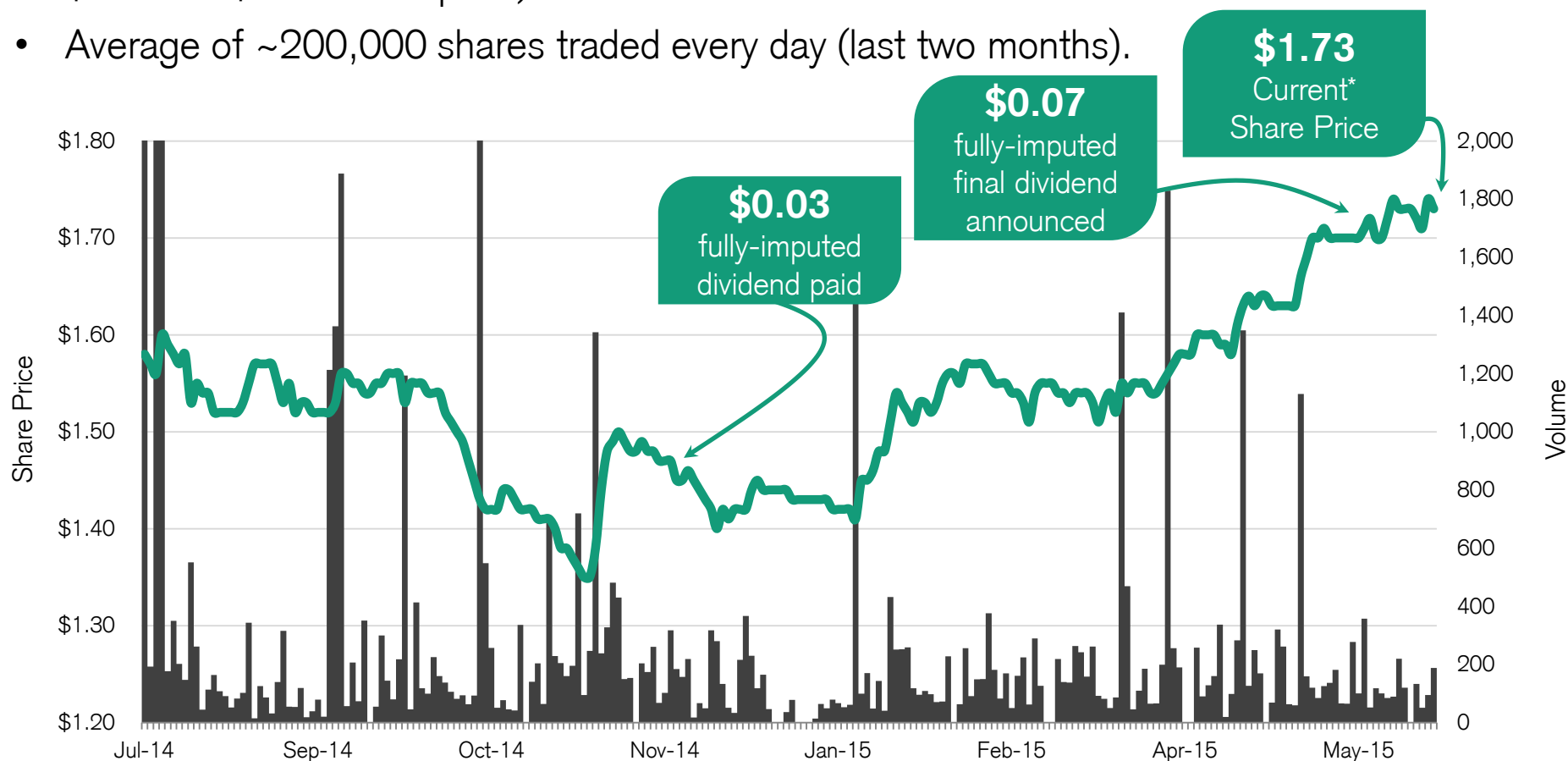
INVESTOR  
RETURNS

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# SHARE PRICE AND VOLUME

- Solid share price appreciation since mid-October 2014.
- 10% return on issue price to date (being \$0.03 cash dividend + current\* share price of \$1.73 on \$1.60 issue price).
- Average of ~200,000 shares traded every day (last two months).

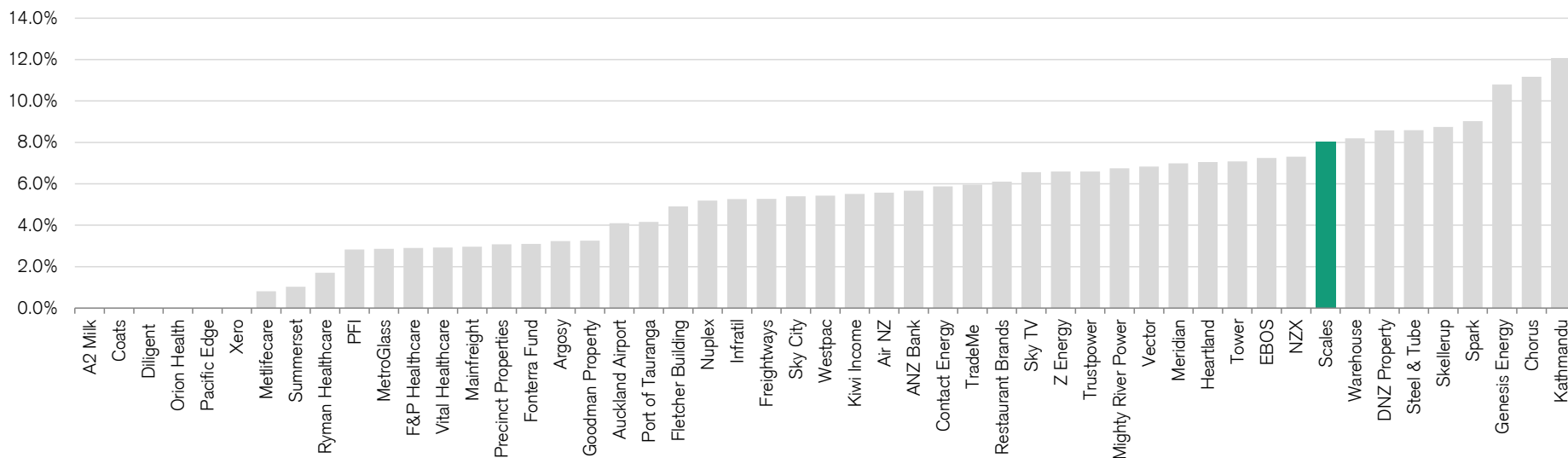


\*Share Price as at close on 5 June 2015.

# DIVIDEND YIELD

- At current pricing, Scales offers a leading dividend yield.
  - The chart below compares the dividend yield of all companies in the NZX50 and how Scales compares to those companies (NB. For clarification, Scales is not currently included in the NZX50).

## Gross Dividend Yield\*, Based on Closing Prices as at 29 May 2015



\*Dividend yield calculations exclude special dividends paid. For all companies, yields are based on dividends paid in the last 12 months (or the most recent dividend within the last 12 months plus the value of a declared dividend to be paid in the next few weeks). Yields include any imputation credits attached to dividends.



An aerial photograph of a vast agricultural field, likely a nursery or a young orchard. The field is filled with rows of small, green plants spaced evenly apart. Each row is separated by a strip of white plastic mulch, creating a strong diagonal pattern across the frame. The plants are in various stages of growth, with some showing more developed foliage than others. In the background, the field extends to a distant horizon under a clear sky. A few trees and structures are visible on the far left edge of the image.

# QUESTIONS

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# ORDINARY BUSINESS AND RESOLUTIONS

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# RESOLUTION 1

## Remuneration of auditor

### POSTAL AND PROXY VOTING

|                      |                   |               |
|----------------------|-------------------|---------------|
| <b>FOR</b>           | <b>64,617,221</b> | <b>99.27%</b> |
| <b>AGAINST</b>       | <b>54,194</b>     | <b>0.08%</b>  |
| <b>DISCRETIONARY</b> | <b>418,409</b>    | <b>0.64%</b>  |
| <b>ABSTAIN</b>       | <b>113,689</b>    | <b>N/A</b>    |

# RESOLUTION 2

## Re-election of Nicholas Harris

### POSTAL AND PROXY VOTING

|                      |                   |               |
|----------------------|-------------------|---------------|
| <b>FOR</b>           | <b>64,612,810</b> | <b>99.28%</b> |
| <b>AGAINST</b>       | <b>1,000</b>      | <b>0.00%</b>  |
| <b>DISCRETIONARY</b> | <b>465,739</b>    | <b>0.72%</b>  |
| <b>ABSTAIN</b>       | <b>123,964</b>    | <b>N/A</b>    |

# RESOLUTION 3

## Re-election of Timothy Goodacre

### POSTAL AND PROXY VOTING

|                      |                   |               |
|----------------------|-------------------|---------------|
| <b>FOR</b>           | <b>64,481,626</b> | <b>99.08%</b> |
| <b>AGAINST</b>       | <b>132,184</b>    | <b>0.20%</b>  |
| <b>DISCRETIONARY</b> | <b>465,739</b>    | <b>0.72%</b>  |
| <b>ABSTAIN</b>       | <b>123,964</b>    | <b>N/A</b>    |



# DISCLAIMER

## **Please do not read this presentation in isolation**

This presentation supplements our full year results announcement dated 26 February 2015 and Annual Report dated 27 March 2015. It should be read subject to and in conjunction with the additional information in that release, other material which we have released to the NZX, and our Investment Statement and Prospectus.

## **There is no offer or investment advice in this presentation**

This presentation is for information purposes only. It is not an offer of securities, or a proposal or invitation to make any such offer. It is not investment advice or a securities recommendation, and does not take into account any person's individual circumstances or objectives. Every investor should make an independent assessment of Scales Corporation on the basis of independent expert financial advice.

## **Non-GAAP financial measures**

Our results are reported under NZ IFRS. This presentation includes non-GAAP financial measures which are not prepared in accordance with NZ IFRS. The non-GAAP financial measures used in this presentation include:

- EBITDA. We calculate EBITDA by adding back (or deducting) depreciation, amortisation, finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- EBIT. We calculate EBIT by adding back (or deducting) finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- Underlying EBITDA and EBIT are calculated by adding back (or deducting) any non-cash IFRS adjustments and IPO offer costs.
- Underlying Net Profit is calculated by adding back or (or deducting) the after-tax effect of any non-cash IFRS adjustments, discontinued operations, and IPO offer costs

We believe that these non-GAAP financial measures provide useful information to readers to assist in the understanding of our financial performance, financial position or returns, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZIFRS. Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies.

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