

# **SCALES CORPORATION LIMITED**

## **GROWING YOUR DIVERSIFIED AGRIBUSINESS**



**Half Year Results**  
**For the six months ended 30 June 2016**  
**25 August 2016**

**Scales**   
growing New Zealand

# HIGHLIGHTS

## Another record result.

- Profit for the period up 3% on 1H15:
  - Strong performance running ahead of our record 1H15 result.
  - EBITDA\* and EBIT\* also up 3% on 1H15.
- Full year guidance upgraded:
  - EBITDA\* now expected to be between \$55m and \$62m (up from \$48m to \$55m).
  - NPAT between \$29.6m and \$34.6m.
- Revenues up 30% on 1H15.
- Apple export volumes >3.5m TCEs, 12% above record FY15 volume.
- New initiatives in Storage & Logistics are performing well.
  - Auckland coldstore delivering to expectations.
- China Resources welcomed as a 15% shareholder:
  - Access support to significant Chinese market.
  - Strategic support via board participation.
- Meateor sale volumes running 24% ahead of 1H15.
- Stake in Fern Ridge Produce lifted from 50% to 72.88%.

*\*EBITDA and EBIT are non-GAAP measures. Please see page 15 for an explanation of how these figures are calculated*





A low-angle photograph of a person standing on a tall aluminum ladder in an apple orchard. The person is wearing a dark jacket, blue jeans, and black rubber boots, and has a large canvas bag slung over their shoulder. They are reaching up towards the branches of an apple tree. The trees are densely packed with green leaves and many ripe, red apples. The sun is shining brightly from the right side of the frame, creating a strong lens flare that radiates across the scene. The sky is a clear, pale blue. The overall mood is one of hard work and the bounty of harvest.

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# FINANCIALS

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# FINANCIAL OVERVIEW

- Revenue \$209.5 million, up 30% on 1H15.
- Gross Profit \$83.2 million, up 10% on 1H15.
- EBITDA \$54.2 million, up 3% on 1H15:
  - A strong performance from our Horticulture division reflecting:
    - Significantly higher than forecast export volumes.
    - Good growth in premium volumes.
  - Solid year to date performance from both Storage & Logistics and Food Ingredients divisions.
- NPAT \$33.8m, up 3% on 1H15.

<b>\$000</b>	<b>1H16</b>	<b>1H15</b>	<b>% chg.</b>
Total Revenue	209,518	161,186	30%
Gross Profit	83,150	75,824	10%
<i>% of Revenue</i>	<i>40%</i>	<i>47%</i>	
<b>EBITDA</b>	<b>54,187</b>	<b>52,437</b>	<b>3%</b>
<i>% of Revenue</i>	<i>26%</i>	<i>33%</i>	
EBIT	48,174	46,934	3%
<i>% of Revenue</i>	<i>23%</i>	<i>29%</i>	
NPAT	33,776	32,785	3%
<i>% of Revenue</i>	<i>16%</i>	<i>20%</i>	



# UNDERSTANDING OUR RESULTS

Our 1H16 results include both the consolidation of Fern Ridge Produce and a significant accounting change.

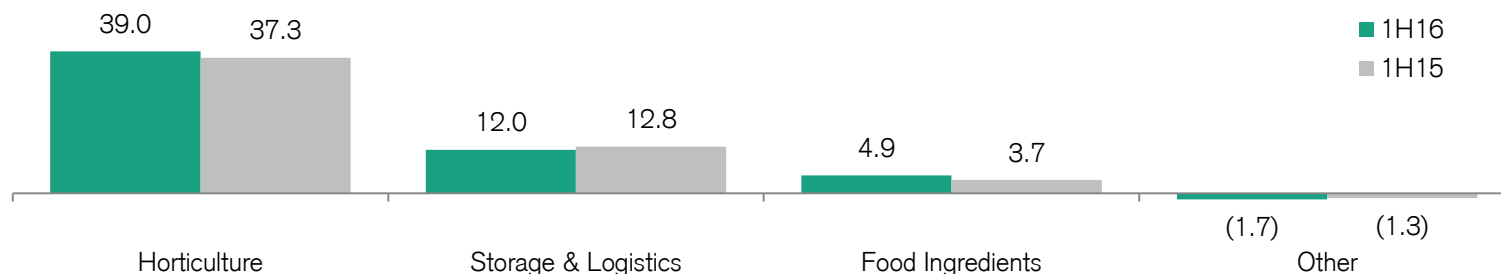
- Consolidation of Fern Ridge Produce (FRP):
  - In previous periods, FRP was an associate business – Scales equity accounted 50% of NPAT.
  - This was a single line item in the P&L.
  - From January 2016, FRP became a subsidiary. As a result, 100% of FRP's revenues and costs are consolidated into the Group P&L with a minority interest deducted.
  - FRP is a high-revenue, low margin business with annual revenues of \$25-\$30 million.
- Amendments to Accounting Standards NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture*:
  - Amendments to these standards result in us accounting for our apple trees in the same way as Property, Plant and Equipment (i.e. capitalised at cost and depreciated over their useful lives).
  - This has required us to restate our FY15 accounts to:
    - Reverse the impact of the FY15 revaluation of the trees (\$3.0m).
    - Recognise a depreciation charge on the trees (\$1.2m).
  - 1H16 results include a depreciation charge on our apple trees as described above (\$0.6m).
- In this presentation our 1H16 results are compared to the restated 1H15 results.

# DIVISIONAL PERFORMANCE

Horticulture and Food Ingredients ahead of 1H15.

- **Horticulture** – 12% increase in volumes (premium volumes up 14%).
- **Storage & Logistics** – new initiatives performing well, industry headwinds impacting core business.
- **Food Ingredients** – ongoing strength in petfood ingredients.

## EBITDA by Division (\$000s)



	Horticulture		Storage & Logistics		Food Ingredients		Corporate & Eliminations		Group	
\$000	1H16	1H15	1H16	1H15	1H16	1H15	1H16	1H15	1H16	1H15
Total Segment Revenue	130,697	93,659	65,487	60,004	31,064	22,627	(17,730)	(15,104)	209,518	161,186
<b>EBITDA</b>	<b>39,014</b>	<b>37,270</b>	<b>11,959</b>	<b>12,840</b>	<b>4,865</b>	<b>3,650</b>	<b>(1,651)</b>	<b>(1,323)</b>	<b>54,187</b>	<b>52,437</b>
% of Revenue	30%	40%	18%	21%	16%	16%			26%	33%
EBIT	35,994	34,383	9,234	10,498	4,614	3,402	(1,668)	(1,349)	48,174	46,934
% of Revenue	28%	37%	14%	17%	15%	15%			23%	29%

Notes: (1) Segment Revenue includes intercompany charges, most specifically within the Storage & Logistics division, where Scales Logistics charges Mr Apple for shipping.

# BALANCE SHEET

## Strong financial position.

- Average Net Debt (average of 30 June 16 and 31 Dec 15) \$34.2m:
  - Improvement of \$10.3m on 1H15 (\$44.5m).
  - Increase of \$1.6m on FY15 (\$32.5m) reflects additional export volumes and seasonal timing of sales and collections.
  - Net Debt to equity reduced to 27% (31% at 30 June 2015).
- An increase in Other Current and Non-Current Assets reflects:
  - Unrealised, non-cash, mark to market revaluations of outstanding foreign currency hedges as at 30 June 2016.
  - Increases in goodwill following increased investment in Fern Ridge Produce.
- We continue to invest in our business, underpinning future growth:
  - In the current environment the best returns are achieved from investing in our businesses.
  - We are forecasting \$16.7m of capital expenditure for FY16 of which ~\$10m is for growth projects (FY15: \$15.8m capital expenditure including \$11.3m for growth projects).

	Group		
	Unaudited	Audited	
\$'000	1H16	1H15 (Restated)	31 Dec 15 (Restated)
<b>Working Capital</b>			
<b>Current Assets</b>			
Cash / Overdraft Balances	6,801	10,575	13,832
Trade & Other Receivables	53,572	38,931	14,681
Inventories	83,354	70,879	29,807
Other Current Assets	11,292	7,858	8,442
	155,019	128,243	66,762
<b>Current Liabilities</b>			
Short-Term Borrowings	(29,000)	(29,500)	-
Trade & Other Payables	(55,313)	(36,749)	(22,276)
Taxes Payable	(14,445)	(14,292)	(4,427)
Dividend Payable	(9,528)	(9,874)	(14,527)
Other Current Liabilities	(1,503)	(8,630)	(2,229)
	(109,789)	(99,045)	(43,459)
<b>Net Working Capital</b>	<b>45,230</b>	<b>29,198</b>	<b>23,303</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	167,393	162,369	168,067
Other Non-Current Assets	30,038	12,848	17,402
	197,431	175,217	185,469
<b>Non-Current Liabilities</b>			
Term Borrowings	(30,000)	(30,000)	(30,000)
Deferred Tax	(16,507)	(8,414)	(17,933)
Other Non-Current Liabilities	(4,808)	(10,197)	(2,854)
	(51,315)	(48,611)	(50,787)
<b>Net Assets</b>	<b>191,346</b>	<b>155,804</b>	<b>157,985</b>
Net Debt	(52,199)	(48,925)	(16,168)
<b>Average Net Debt</b>	<b>(34,184)</b>	<b>(44,469)</b>	<b>(32,547)</b>





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## DIVISIONAL PERFORMANCE & OUTLOOK

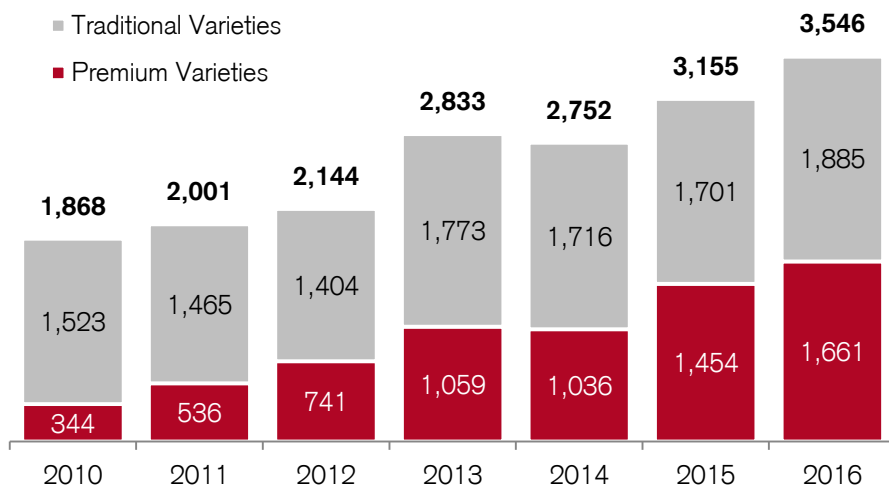
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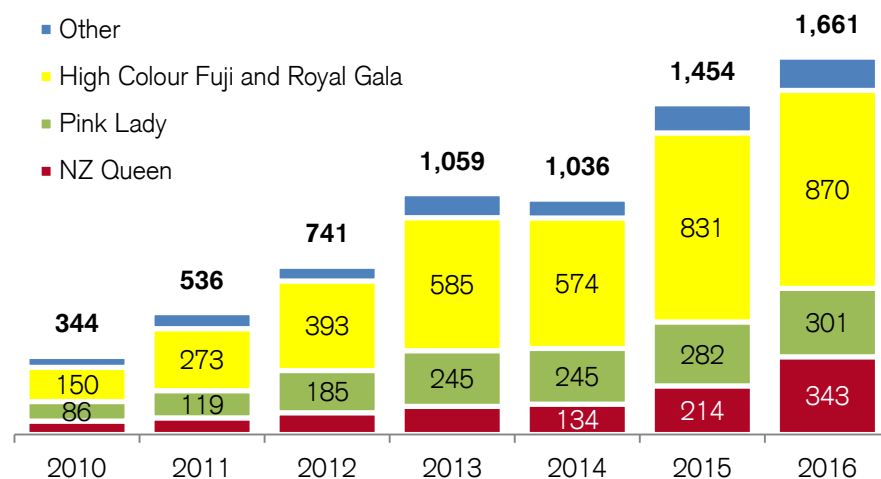
# HORTICULTURE

- Stellar 12% increase in Export Volumes to more than 3.5m TCEs:
  - Excellent season with no hail and strong packouts.
  - Meeting our 2020 target 4 years ahead of forecast (2020 volume forecast remains unchanged).
- Good growth in Premium Variety volumes, up 14% on FY15:
  - Benefitting from maturing of recently developed orchard and ongoing investment in reflective foil to improve colour.
  - Strong growth in NZ Queen volumes, up 60%.
- Traditional Variety volumes, up 11% on FY15, includes a strong uplift in Fuji apples (~80k TCEs).

## Mr Apple Grown Export Volumes (TCE 000s)



## Growth in Premium Volumes (TCE 000s)

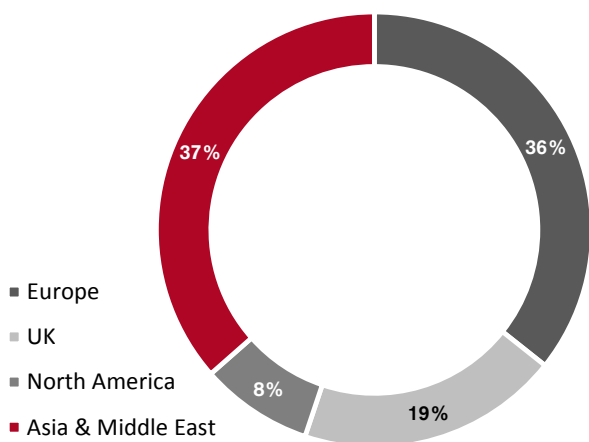


# HORTICULTURE

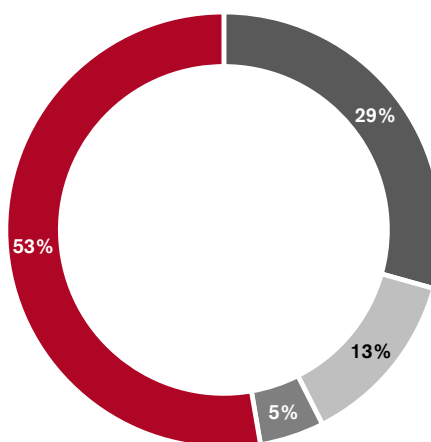
## Variety and market mix.

- Lower returning orchard has, and will continue to be, redeveloped into high quality premium varieties:
  - Following a large increase in fruit sold to Asia and the Middle East in FY15 we have consolidated our position in those markets whilst building our presence slightly in North America.
  - Our focus is on the broader Asia and Middle East markets where we benefit from strong demand and faster shipping times. Future redevelopment targeted at the demand preferences of these markets.
  - We continue to invest in the Mr Apple brand to consolidate our position as the leading southern hemisphere premium fresh apple exporter.
  - We are continuing to diversify risk – by growing smaller volumes of a broader range of varieties, and by expanding both our customers and markets.

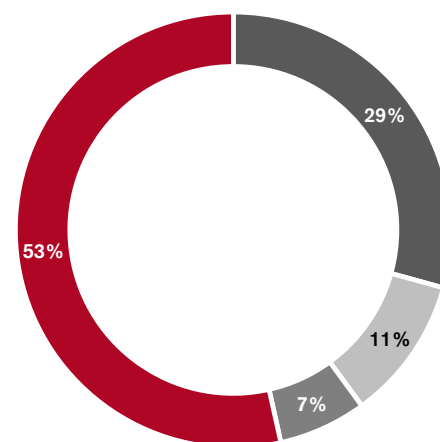
Sales by Region (TCEs) FY14



Sales by Region (TCEs) FY15



Sales by Region (TCEs) FY16F\*



*\*Actual sales by region will not be known until all fruit is sold.*

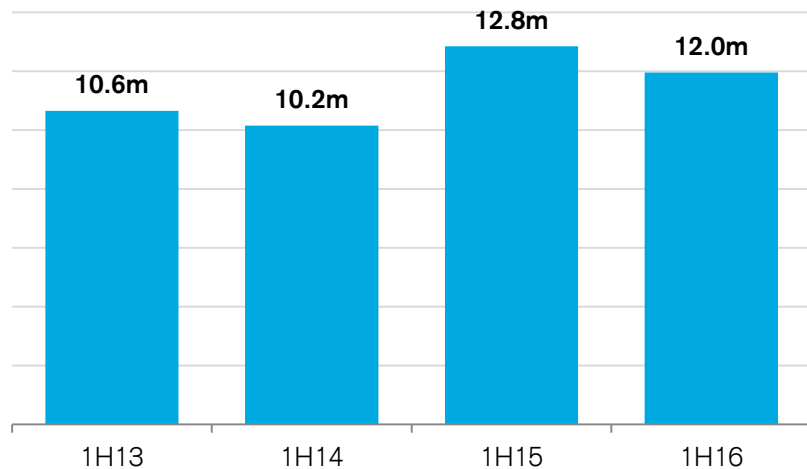
*Sales to Asia and Middle East are predominantly in USD, North American sales are in CAD and USD, UK and Europe sales predominantly in their respective currencies.*

# STORAGE & LOGISTICS

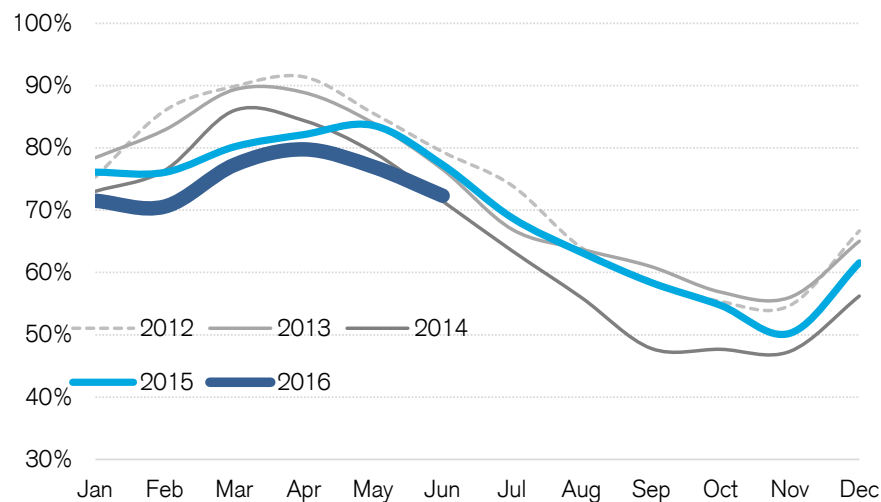
Strong performance from new initiatives.

- New initiatives (Auckland Coldstore, Liqueo expansion, Balance Cargo) performing well.
- Industry headwinds affecting 'core' coldstorage operations.
- 2H16 EBITDA expected to outperform 2H15 (2H15 results were dragged down by initial trading losses from the Auckland coldstore which is now trading profitably).

## Storage & Logistics EBITDA (\$m)



## Coldstore Utilisation (excl. Auckland) %



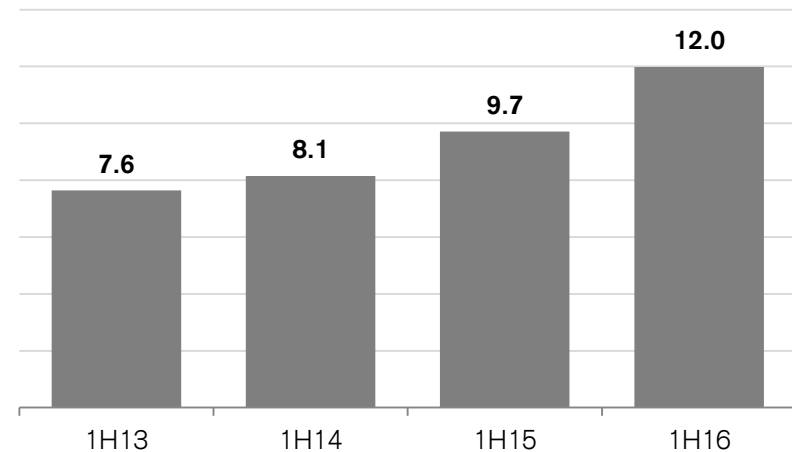


# FOOD INGREDIENTS

Steadily improving.

- Meateor:
  - Our procurement strategy, focused on New Zealand and Australia and on a range of proteins, continues to deliver positive outcomes with volumes sold up 24% on 1H15.
  - Strong focus on inventory levels and working capital management results in positive cash outcomes.
- Profruit:
  - Favourable growing conditions have resulted in high packouts for growers (benefitting our Horticulture division) but has reduced the supply of conventional apple volumes for processing which are down ~25% on 1H15.
  - Organic apple and kiwifruit volumes ahead of last year.
  - Firm market economics, supported by our diversified range of products, markets and customers, suggests Profruit on target to deliver a result in line with FY15.

**Meateor – Volumes Sold  
(first 6 months, MT 000s)**



# FINANCIAL OUTLOOK

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# 4



# FY16 FULL YEAR OUTLOOK

Updated guidance – EBITDA of \$55m to \$62m.

- Horticulture:
  - Final crop now known, with good growth in export volumes including premium varieties.
  - Investment and expenditure in crop has been rewarded with significantly higher volumes displaying good colour characteristics.
  - In-market prices are firm, but FX improvements have been offset by recent NZD appreciation.
  - FY15 result supported by significant hail insurance proceeds (\$4.2m).
- Storage & Logistics:
  - 2H16 performance expected to be higher than 2H15 generating a full year result consistent with FY15.
- Food Ingredients:
  - Good start to the year, some product shortages may slow second half growth.
  - Expect performance generally in line with FY15.
- FY16 EBITDA guidance raised to \$55m to \$62m.
  - Deducting forecast depreciation, interest, and tax derives NPAT of between \$29.6m and \$34.6m.



# DISCLAIMER

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

This presentation supplements our half year results announcement dated 25 August 2016. It should be read subject to and in conjunction with the additional information in that release, and other material which we have released to the NZX.

## **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).
- EBIT. We calculate EBIT by adding back (or deducting) finance expense / (income), and taxation expense to net earnings / (loss).

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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