

Fact Sheet

April 2016

Scales
growing New Zealand

All currency is NZ\$ unless otherwise indicated.

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 ~73% 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 independent 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 believe that we are, or are close to, achieving the world's best commercial yields in our orchards
 - We're getting higher prices by using technology to improve quality
 - By 2020 we have forecast sales of 3.5m TCEs, 11% higher than 2015 volumes
- The Storage & Logistics division will increase throughput and margins by:
 - Network expansion, the most recent example of which was the opening of our Auckland coldstore in November 2015
 - Complementary acquisitions, such as Liqueo's acquisition of a bulk liquid processing terminal in Napier in August 2015
 - 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



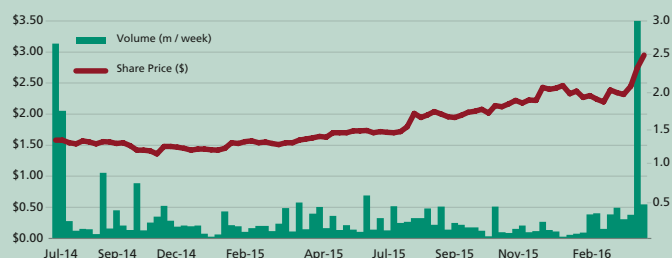
DIVISIONAL OVERVIEW



Share Information

NZX code	SCL	Closing share price at 24-Mar-2016	\$2.92
Shares on issue	139,779,006	Market capitalisation at 24-Mar-2016	\$408m
Dividend yield incl. imputation credits*	8.1%	Financial Year End	31 December
NZX industry sector	Primary / Agriculture and Fishing	Indices	NZX All

*Based on the closing share price on 24 March 2016, the 2015 interim dividend of 6.5 cents, a 2015 final dividend of the same value, and the 2015 special dividend of 4 cents, all with full imputation credits.



Dividends

A payout in respect of each financial year of between 65% and 75% of Net Profit is targeted. It is expected that dividends will be fully imputed for NZ tax residents with the interim and final dividends split approximately evenly and payable in January (interim) and July (final).

Period	Date Paid	Amount (cash paid)
2014 Interim	19/12/14	3 cps
2014 Final	10/07/15	7 cps
2015 Interim	20/01/16	6.5 cps
2015 Special	20/01/16	4 cps

Research Coverage

Company	Analyst	Email
Deutsche Craigs	Adrian Allbon	adrian.allbon@craigsip.com
First NZ Capital	Kar Yue Yeo	karyue.yeo@fnzc.co.nz

Key Financials

\$ million	FY2012	FY2013	FY2014	FY2015
Revenue	221.7	272.2	263.3	301.4
EBITDA*	27.4	42.8	39.8	61.4
EBITDA Margin	12.4%	15.7%	15.1%	20.4%
Net Profit*	6.8	19.6	19.8	35.7
Net Profit (Statutory)	13.6	20.4	18.4	38.9
Earnings per share (cents)	N/A	16.2**	14.3	27.9
Dividends per share (cents - declared)***	N/A	11.3	10.0	17.5
Average Net Debt	N/A	N/A	40.8	32.5
Capital Expenditure	14.5	13.0	11.1	15.8

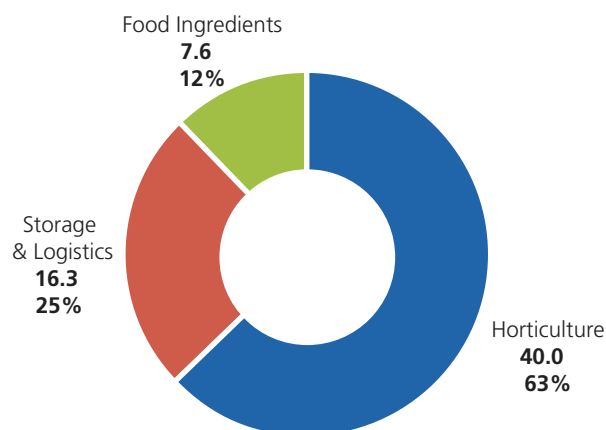
*Underlying results excluding gains or losses associated with asset revaluations, IPO offer costs, and mark to market of FX contracts and interest rate swaps.

**Pro forma financial information.

***An interim and special dividend relating to FY2015 were declared in Dec-15 and paid in Jan-16.

Divisional Overview

Scales comprises three key operating divisions. The chart below shows the 2015 EBITDA contribution from each division. A corporate division runs at an EBITDA loss of \$2.5m to achieve group EBITDA of \$61.4m:





Horticulture



\$ million	FY2012	FY2013	FY2014	FY2015
Revenue	134.2	174.2	158.8	178.1
% of Group Revenue	61%	64%	60%	59%
EBITDA	10.3	26.2	23.9	40.0
% of Group EBITDA	38%	61%	60%	65%
Orchard Area				
- Owned				727
- Leased				315
- Total				1,042
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 FY2015, Mr Apple exported 4.17m TCEs including apples from external suppliers of which 3.15m TCEs were from Scales' 1,042 ha of apple orchards and the balance supplied by external growers. Scales' volume (when combined with Fern Ridge Produce) represented 27% of New Zealand's total apple exports.

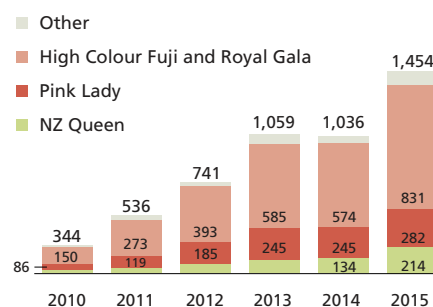
Mr Apple now exports more than half of its production to fast growing Asian and Middle Eastern markets.

Fern Ridge Produce is a ~73% owned apple and produce exporter.

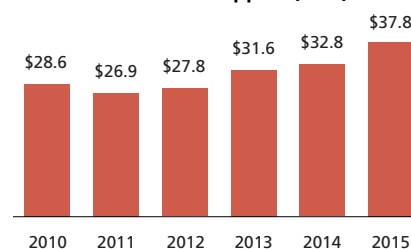
Growth strategy:

- Increase apple exports to Asia and Middle East by:
 - Investing in owned and controlled brands
 - Continue redevelopment of orchards to encompass premium varieties including proprietary varieties
- Review opportunities to acquire or lease additional apple orchards

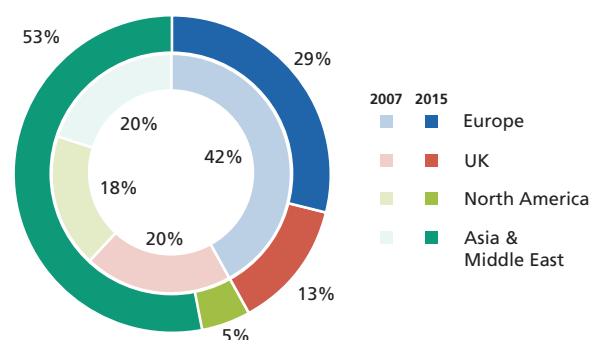
Premium Apple Volumes by Variety (TCE 000s)



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



Exports by Market



DIVISIONAL OVERVIEW

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

Storage & Logistics



\$ million	FY2012	FY2013	FY2014	FY2015
Revenue	77.2	91.7	90.6	95.6
% of Group Revenue	35%	34%	34%	32%
EBITDA	14.0	13.9	12.3	16.3
% of Group EBITDA	51%	32%	31%	27%

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.

The group has coldstores in Auckland, Kerepehi, Hastings, Napier, Wellington, Christchurch, Timaru and Dunedin. The combined cold storage capacity of the group is 721,600m³.

The group recently extended its network into the Auckland market with a state-of-the-art custom built coldstore in Wiri with a capacity of 95,700m³. This coldstore first opened in November 2015. The group will recognise a full year of trading from this coldstore during FY2016.

Liqueo operates bulk liquid storage terminals in Timaru and Hawke's Bay with a total capacity of 22,500 tonnes for the storage of tallow, edible and non-edible oils, liquid stock foods and liquid waste products. Liqueo commenced a new long term contract for the storage of edible oils in its Timaru facility in August 2015. Also during August 2015, Liqueo acquired a bulk liquid processing operation in Napier to expand its capabilities and operations in that region.

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:

Scales' management expect that New Zealand exports of food products will continue to increase. To meet this growth Scales plans to:

- Explore opportunities to continue to expand its network in suitable areas
- Continue the roll out of a highly successful coldstore software system which will allow the group's South Island coldstores to be able to provide storage solutions to FMCG customers
- Consider complementary business acquisition opportunities

Food Ingredients



\$ million	FY2012	FY2013	FY2014	FY2015
Revenue	33.6	33.1	37.2	48.6
% of Group Revenue	15%	12%	14%	16%
EBITDA	5.5	4.7	5.7	7.6
% of Group EBITDA	20%	11%	14%	12%

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:

- Geographic expansion of Meateor's procurement including a successful extension into 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

The group exceeded both targets during 2015.

	2015	
	ROCE	EBITDA Margin
Horticulture	35%	22%
Storage & Logistics	13%	17%
Food Ingredients	49%	13%
Group	24%	20%
<i>Target</i>	<i>15%</i>	<i>13%</i>

EBITDA margin: A measure of the business' core profitability

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

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

Jon Mayson	Independent Chairman
Andy Borland	Managing Director
Tim Goodacre	Non-Executive Independent Director
Nick Harris	Non-Executive Independent Director
Mark Hutton	Non-Executive Director, Chair Nominations and Remuneration Committee
Alan Isaac	Non-Executive Independent Director, Chair Audit and 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, Chairman of both Primary Collaboration New Zealand Limited and Primary Collaboration New Zealand (Shanghai) Co. Limited, and has an involvement with 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 approximately 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.

Stephen Foote, CEO Whakatu Coldstores and Polarcold

Stephen has been with the Whakatu Coldstores' group of companies in various management roles for 22 years. Prior to joining Whakatu Coldstores, Stephen worked for Dominion Breweries and had interests in orcharding in Hawke's Bay.

John Sainsbury, CEO Meateor

John has been with Meateor in various management roles for the last 15 years. Prior to that, John worked in senior management, marketing and operational roles in the United States. John was appointed CEO of Meateor Foods in March 2015.

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.

Kevin Cahill, Executive Director Liqueo

Kevin joined the staff of Polarcold in 1978 as Works Manager, when the company was known as SC Co-op Cool Stores Limited. Kevin was previously the CEO of Polarcold and Liqueo, retiring from his position as CEO of Polarcold in May 2015, having spent 37 years with the company.

Company information

Scales Corporation Limited
PO Box 1590, Christchurch 8140
52 Cashel Street, Christchurch 8013, New Zealand
T: +64 3 379 7720
E: info@scalescorporation.co.nz
W: www.scalescorporation.co.nz

Registry information

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
T: +64 9 488 8777
E: enquiry@computershare.co.nz

Glossary

EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FMCG	Fast moving consumer goods
ROCE	Return on Capital Employed. A measure of the business' return on its capital invested
TCE	Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight

