

SCALES CORPORATION LIMITED

GROWING YOUR DIVERSIFIED AGRIBUSINESS

Acquisition of Longview New Zealand
3 November 2016

Scales
growing New Zealand



TRANSACTION OVERVIEW

Scales Corporation Limited (**Scales**), through its wholly owned subsidiary Mr Apple New Zealand Limited (**Mr Apple**), has agreed to acquire Longview Group Holdings Limited (**Longview**), a standalone Hawke's Bay grower, packer, and marketer of apples. The purchase also includes 22 ha of orchard immediately surrounding Longview and a lease of a further 17 ha of orchard (collectively **the transaction**)

- Mr Apple has agreed to:
 - Acquire 100% of the shares in Longview. In addition to Longview's packing, coolstorage and marketing operations, Longview leases 76 ha of orchard and bare land under long-term leases (~70 ha has >10 years to run).
 - Acquire 22 ha of orchards and associated plant & equipment immediately surrounding the Longview packhouse and coolstore.
 - Lease a further 17 ha with another Longview shareholder.
- Purchase price of approximately \$20.5m¹:
 - Represents an acquisition multiple of 5.6x FY17F² incremental EBITDA.
 - Purchase price for Longview shares is on a cash free, debt free, tax paid basis.
 - Significant land and building asset backing.
 - Will be funded entirely from cash and debt (forecast year end debt position ~\$30-\$35m).
 - Immediately EPS accretive, adding approximately 4% to after tax earnings.
 - Completion scheduled for 7 November 2016.



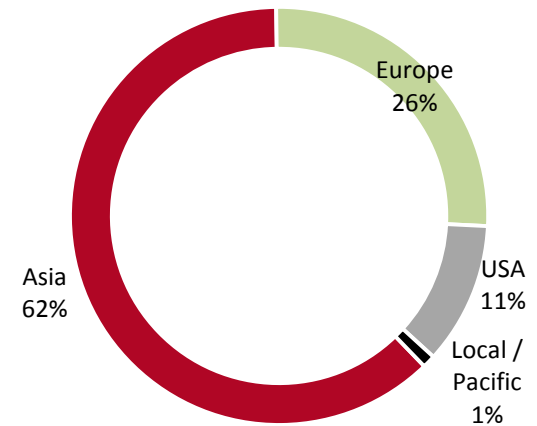
1. Prior to purchase price adjustments (including working capital). 2. Management forecast based on consistent apple prices.

LONGVIEW AT A GLANCE

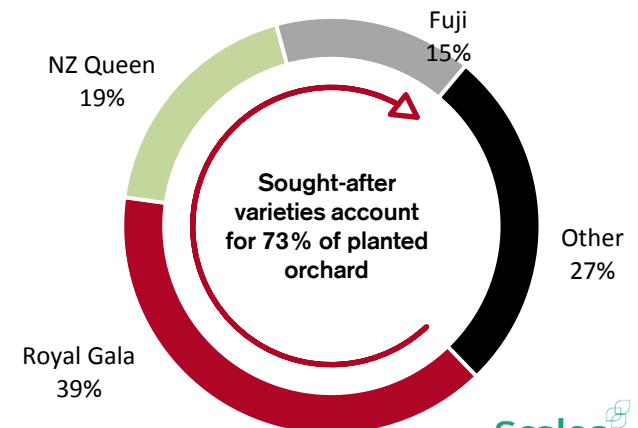
An iconic and well established family business that grows, packs and markets ~530k TCEs annually.

- Founded in 1912 by Italian apple grower Vincent Caccioppoli, Longview grows, packs and exports apples sourced entirely from the Hawke's Bay:
 - ~115 ha of orchard included in the transaction.
 - ~85 ha planted, ~30 ha bare land available to be planted in new varieties.
 - ~530k TCEs packed and marketed annually.
- Complementary market focus and varietal mix:
 - Near market focus: Asia accounted for ~62% of Longview's 2016 sales.
 - Orchard composition geared towards preferred varieties: 73% of planted orchards in varieties sought-after by near markets (Royal Gala, NZ Queen and Fuji).
- The current Longview packhouse and coolstore was built in 2006 using state of the art technology. The Longview packhouse has the capacity to double production.
- Strong historical track record of growing volumes and profitability.
- Recent international brand recognition – in October, the Longview brand was recognised by the China Fruit Marketing Association as one of the top 10 brands of fruit imported into China during 2016.

**Longview - Sales by Region
(TCEs) FY16F**

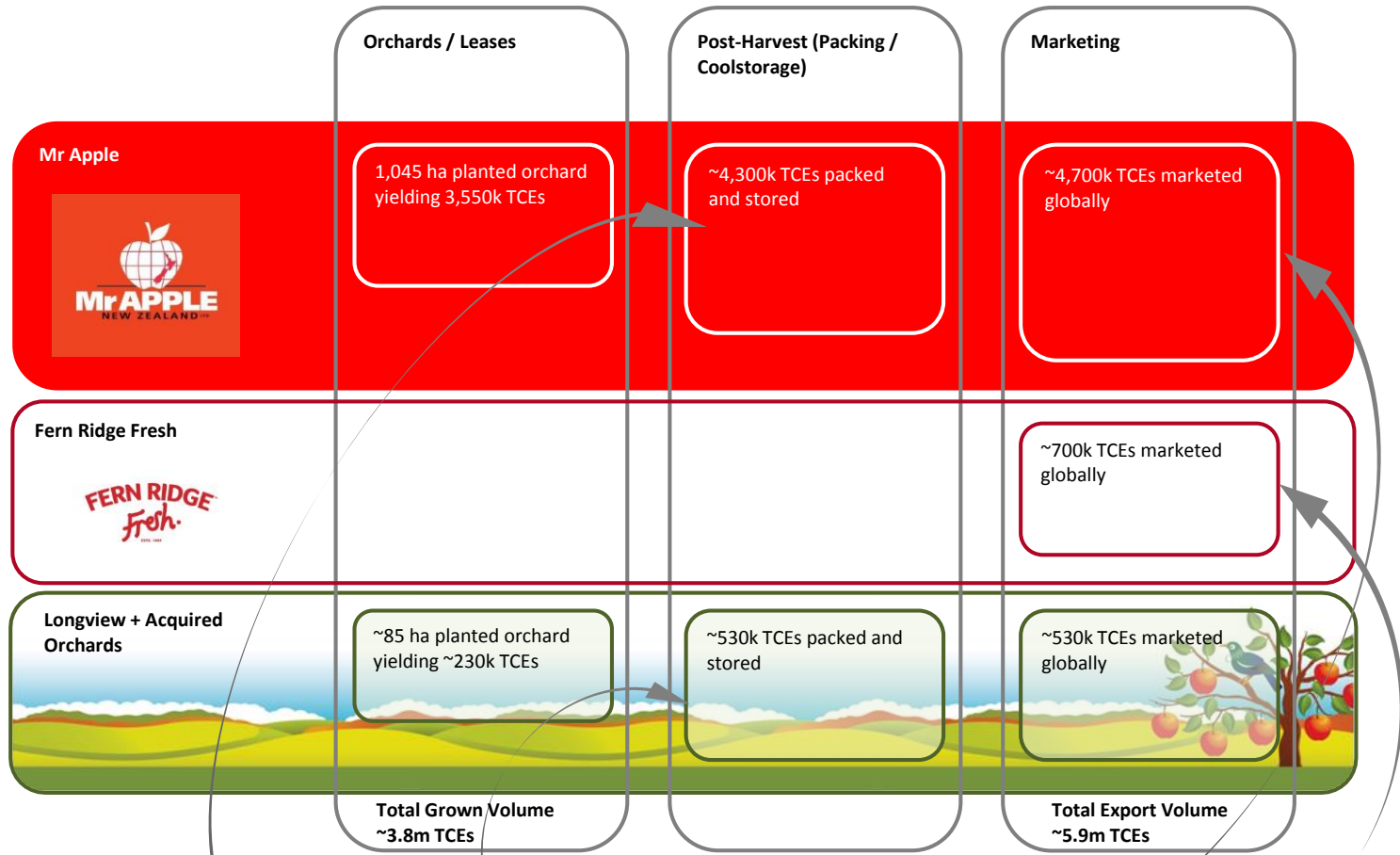


**Composition of Planted
Orchard (total 85 ha)**



CLEAR FIT WITHIN HORTICULTURE

Longview is a natural and obvious fit within our existing Horticultural division.



Independent Growers (Hawke's Bay & Nelson):

- Mr Apple: ~1,100k TCEs (about 60% in Hawke's Bay, 40% in Nelson)
- Fern Ridge Fresh: ~700k TCEs (all major growing regions)
- Longview: ~300k TCEs (all from the Hawke's Bay). Selling shareholders (representing >50% of this volume) have committed supply for a 1-3 year period as a part of the transaction

COMPELLING STRATEGIC RATIONALE

Mr Apple is positioning itself to be the supplier of choice in the fast-growing Asian regions. Longview provides us with increased orchard space, relationships with external growers, modern post-harvest capacity, and a highly regarded brand.

- To be the supplier of choice into Asia, we need to be able to:
 - Deliver large volumes
 - Of consistently high quality fruit
 - In the varieties preferred by near markets
 - To customers across a wide variety of market formats (wholesale / retail / online)
- Longview is a critical addition to our capabilities of meeting this objective:
 - A significant increase in apple volumes, with a high proportion of sought-after varieties, through controlled or independent orchard relationships.
 - Access to modern post-harvest infrastructure with surplus capacity to accommodate Mr Apple's underlying volume growth:
 - Mr Apple's current post-harvest infrastructure is operating near full capacity.
 - Longview has the capacity to double current packhouse volumes. It is expected that this capacity will be fully utilised by 2020.
 - A strong existing brand, well regarded in Asia, that will supplement our existing market position.



COMPELLING STRATEGIC RATIONALE (2)

Longview is close to existing operations providing significant synergy potential for a price that delivers value to existing Scales shareholders.

- The existing Longview team are highly capable, experienced and operate within a culture closely aligned to our own.
- Longview is close to existing Mr Apple infrastructure and expertise providing significant synergy opportunities:
 - Opportunities to improve post-harvest specialisation improving turn-around efficiency.
 - Numerous revenue and cost synergies including packaging, administration, systems, and intelligence.
- The transaction is expected to be immediately earnings accretive (estimated ~4% improvement in EPS) at a price that delivers value for Scales shareholders (Price / Incremental FY17 EBITDA of 5.6x).



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