

# SCALES CORPORATION LIMITED

## GROWING YOUR DIVERSIFIED AGRIBUSINESS

Annual Results Presentation  
For the twelve months ended  
31 December 2016

28 February 2017



**Scales**  
growing New Zealand





# AGENDA

- 2016 Highlights
- Financial Performance
- Divisional Performance & Outlook
- Capital Management
- Strategy
- Outlook
- Appendices





A perspective view of a long, well-lit warehouse aisle. On both sides, tall metal shelving units are filled with numerous stacks of cardboard boxes. The boxes are mostly brown and some are wrapped in clear plastic. The aisle floor is a smooth, light-colored concrete. The ceiling structure with steel beams and lights is visible above the stacks. The overall impression is one of a large, organized storage facility.

1

2016 HIGHLIGHTS

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# HIGHLIGHTS

## Financial Highlights for 2016

- 1** **Record Underlying EBITDA of \$67.9m**, 11% ahead of 2015.
- 2** **Record Underlying NPAT of \$38.6m**, 11% ahead of 2015  
(Statutory NPAT of \$38.2m).
- 3** **A 24% increase in revenue to \$374m**. 29% increase in revenue to \$230m within the Horticulture division.
- 4** **14.5 cps (fully imputed) cash dividends declared in 2016.**
- 5** **27.0c earnings per share.**

# HIGHLIGHTS

We're Growing: Strategic and Operational Highlights for 2016

1

**Significant strategic developments:** Longview acquired in November 2016, **China Resources** welcomed as a shareholder, **Fern Ridge** shareholding increased to 73%.

2

**3.5m TCEs of Mr Apple's own fruit exported:** Meeting our 2020 production target 4 years ahead of plan.

3

**Investing in our brands and developing new varieties:** Significant increase in Mr Apple brand development through 2016 to continue, Dazzle launched December 2016 (more to come).

4

**TEUs shipped and airfreight tonnes handled by Storage & Logistics both up 17% on 2015:** 24,713 TEUs and 3.3M tonnes respectively.

5

**Development of our sustainability reporting:** Sustainability materiality review undertaken and feedback received.

6

**Entered the S&P NZX 50 Index** in September.



# SCALES BY THE NUMBERS

UNDERLYING  
EBITDA  
\$67.9m

11% above 2015

> half a  
billion

apples picked from Mr  
Apple's orchards

5.7m

litres of juice concentrate  
sold by Profruit

We used

6.2mL

of rainwater collected from our  
Auckland coldstore, reducing our  
burden on stormwater and  
Auckland's fresh water supply

22,971MT

sold by petfood  
ingredients manufacturer  
Meateor, 14% above  
2015

24,713

twenty foot container  
equivalents organised for  
international transit by  
Scales Logistics

A high-angle photograph of an apple sorting facility. Multiple conveyor belts are filled with red apples. Workers in blue uniforms and hairnets are sorting the apples. A large white number '2' and the word 'FINANCIALS' are overlaid on the image.

# 2 FINANCIALS

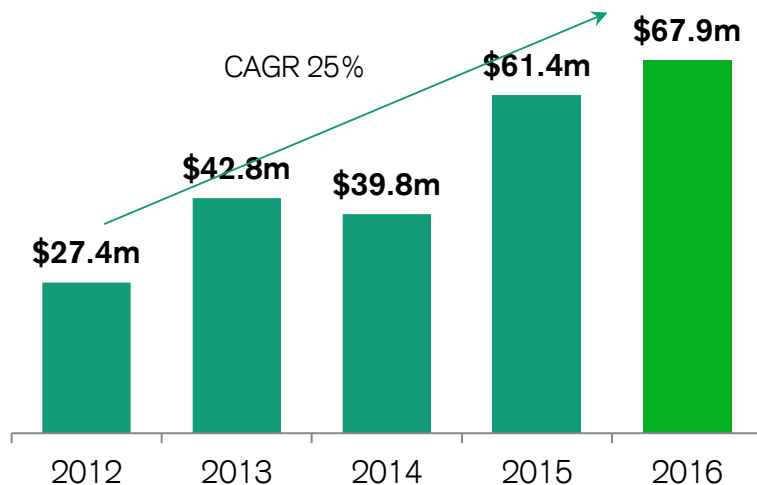
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# 5 YEAR PERFORMANCE TREND

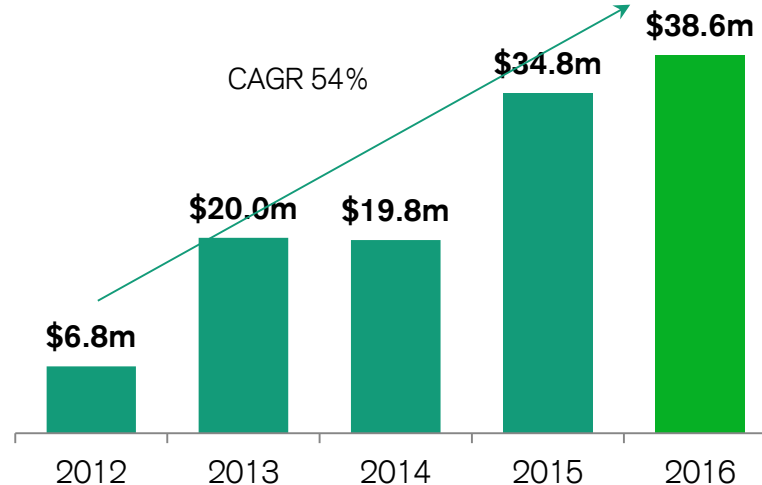
Our 2016 result maintains our steady progression in Group profitability

- Underlying EBITDA has increased by 147% in the past 4 years.
- We are continuing to invest in growth both organically and by acquisition.

**Underlying EBITDA\***



**Underlying NPAT\***



\* Underlying Results exclude all IFRS non-cash adjustments (most notably fair value or revaluation gains and mark-to-market gains or losses on FX contracts not exercised during the period). Management and the Board believe that Underlying results more accurately demonstrate the change in operational performance of the Group.



# SUMMARY FINANCIAL PERFORMANCE

## Significantly ahead of 2015 results

- Revenue \$373.9m, up 24% on 2015:
  - Good organic revenue growth in all divisions.
  - ~\$35m due to consolidation of Fern Ridge (previously equity accounted), a high-revenue, low margin business.
  - Longview acquisition did not contribute revenue in 2016.
- Underlying EBITDA \$67.9m, up 11% on 2015:
  - Including an EBITDA of \$2.1 million from Fern Ridge.
- Underlying NPAT \$38.6m, up 11% on 2015:
  - Underlying NPAT attributable to Scales' shareholders \$38.2m after deducting minority interests of \$406k (being 27% of Fern Ridge profit after tax).
- Reported Net Profit for the year \$38.2m, up 6% on 2015 (Restated).

Income Statement			
\$ Millions	2016		2015
	Actual	Growth %	(Restated) Actual
Revenue	373.9	24%	301.4
Cost of Sales	(258.0)		(194.1)
<b>Underlying Gross Margin</b>	<b>115.9</b>	<b>8%</b>	<b>107.3</b>
Underlying Gross Margin %	31%		36%
<b>Underlying EBITDA</b>	<b>67.9</b>	<b>11%</b>	<b>61.4</b>
<b>Underlying EBIT</b>	<b>55.8</b>	<b>11%</b>	<b>50.1</b>
<b>Underlying Net Profit</b>	<b>38.6</b>	<b>11%</b>	<b>34.8</b>
After tax impact of:			
Non-cash IFRS adjustments	(0.5)		1.1
<b>Net Profit</b>	<b>38.2</b>	<b>6%</b>	<b>35.9</b>
Adj. capital employed*	271.1		209.5
Return on capital employed*	21%		24%

*Underlying gross margin excludes fair value gains relating to Mr Apple's unharvested crop.*

*\* Adj. capital employed / Return on capital employed excludes capital employed and net losses from the Longview acquisition which, due to the timing of the acquisition, did not contribute to 2016 profits.*

# DIVISIONAL EBITDA

Strong performances from our Horticulture and Food Ingredients divisions

- Favourable international demand environment:
  - Has resulted in ongoing strength in our Horticulture and Food Ingredients divisions which continue to deliver strong growth.
  - Tends not to favour our storage activities within the Storage & Logistics division.
  - Diversified nature of our agribusiness reduces exposure to external effects.

Underlying Divisional EBITDA				
\$ Millions	2016		2015	
	Actual	Growth %	Actual	Growth %
Horticulture	45.3	13%	40.0	67%
Storage & Logistics	16.2	-1%	16.3	32%
Food Ingredients	9.2	22%	7.6	33%
Other	(2.9)	17%	(2.4)	18%
	<b>67.9</b>	<b>11%</b>	<b>61.4</b>	<b>54%</b>

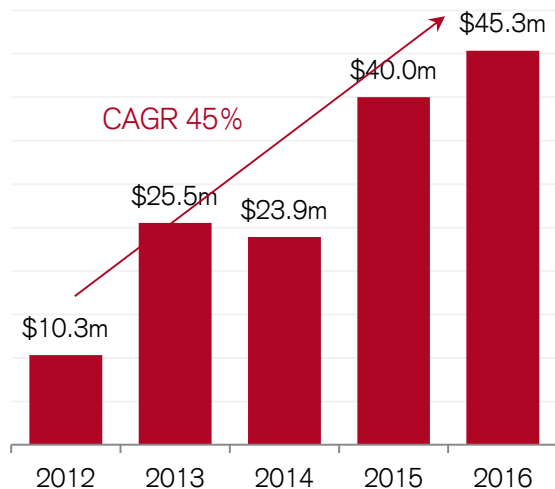


# DIVISIONAL EBITDA TREND

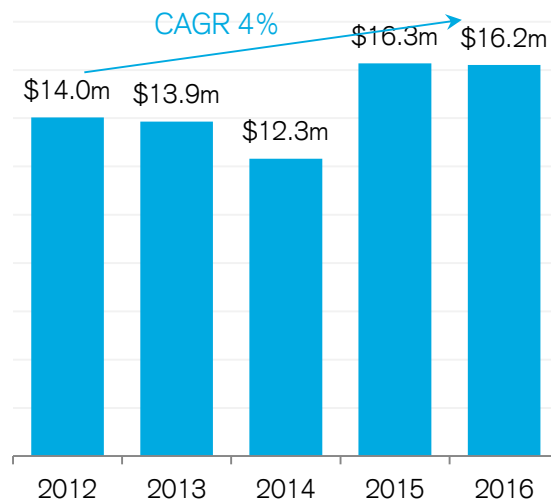
Strong growth in Horticulture and Food Ingredients. Storage & Logistics delivers consistent performance

## Trends in Underlying Divisional EBITDA (\$m)

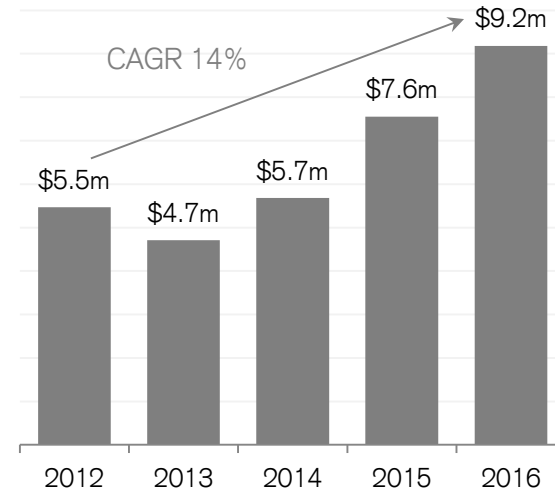
### Horticulture



### Storage & Logistics



### Food Ingredients



# BALANCE SHEET

An increase in capital employed is mostly influenced by the application of accounting standards resulting in non-cash balance sheet adjustments

- Scales' key assets are subject to periodic revaluation, including:
  - 742 ha. orchards owned by the Group (further 402 ha. leased).
  - 322,000 m3 of owned coldstorage space.
- During 2016 we experienced a \$84m increase in Capital Employed. The majority of the increase in Capital Employed is either due to acquisition activity or non-cash impacts from applying accounting standards, including:
  - Acquisition of Longview and nearby orchards \$20.5m.
  - Consolidation of Fern Ridge (including goodwill) \$5.7m (primarily a non-cash accounting adjustment).
  - Revaluation of orchard assets (apple trees and unharvested produce) giving rise to a non-cash gain of \$12.8m.
  - Revaluation of land & buildings giving rise to a non-cash gain of \$26.9m.
  - Non-cash gain from marking to market our financial instruments of \$9.4m.

Balance Sheet		
	2016	2015
		(Restated)
\$ Millions	Actual	Actual
Current Assets (excluding Cash)		
Trade Debtors	17.6	14.7
Inventory	16.4	14.3
Unharvested Agricultural Produce	18.4	15.5
Other	12.1	8.4
	<u>64.5</u>	<u>52.9</u>
Current Liabilities (excluding Overdraft and Dividends Declared)		
Trade Creditors & Other Payables	(22.0)	(22.3)
Other	(8.4)	(6.7)
	<u>(30.4)</u>	<u>(28.9)</u>
<b>Net Working Capital</b>	<b>34.1</b>	<b>24.0</b>
Non-Current Assets		
Apple Trees	31.0	17.3
Land & Buildings	140.7	100.1
Other PP&E	55.0	50.6
Investments & Intangibles	21.3	11.2
Other	11.4	6.2
	<u>259.3</u>	<u>185.5</u>
<b>Capital Employed</b>	<b><u>293.4</u></b>	<b><u>209.5</u></b>



# BALANCE SHEET (CONTINUED)

## Excellent financial position

- Scales continues to be in a strong financial position.
- At 31 December 2016, Net Debt was \$34.6m.
- Average net debt for the year was \$43.4m, or 0.6x EBITDA.
- Our strong financial position enables us to cash and debt finance strategic bolt-on acquisitions, including:
  - Our increased stake in Fern Ridge which was cash flow funded.
  - The acquisition of Longview, which was financed from cash and debt.

Balance Sheet (continued)		
	2016	2015
		(Restated)
\$ Millions	Actual	Actual
Non-Current or Other Liabilities		
Deferred tax liabilities	(28.2)	(17.9)
Other financial liabilities	(4.9)	(2.9)
Dividends declared	(11.0)	(14.5)
	<u>(44.1)</u>	<u>(35.3)</u>
Net Debt		
Cash less Overdraft	6.4	13.8
Borrowings	<u>(41.0)</u>	<u>(30.0)</u>
Net Debt	<u>(34.6)</u>	<u>(16.2)</u>
<b>Total Equity</b>	<b><u>214.6</u></b>	<b><u>158.0</u></b>
Covenants		
<b>Interest Cover</b>		
Ratio	28.0x	22.6x
Covenant	3.0x	3.0x
Headroom	833%	653%
<b>Senior Debt Coverage</b>		
Ratio	0.6x	0.5x
Covenant	2.5x	2.5x
Headroom	317%	400%



# DIVISIONAL PERFORMANCE & 3 OUTLOOK

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# HORTICULTURE – FINANCIAL PERFORMANCE

Another strong performance as premium orchards mature

- Record revenue of \$230m (29% above 2015 results), including approximately \$35m of revenue from subsidiary company Fern Ridge.
- Underlying divisional EBITDA of \$45.3m (13% above 2015 results).
- Record Mr Apple underlying EBITDA of \$43.6m (11% above 2015 results).
  - Excellent packout rate, 87% up from 78% in 2015.
- Solid performance from Fern Ridge (EBITDA of \$2.1m).

## Financial Performance - Horticulture

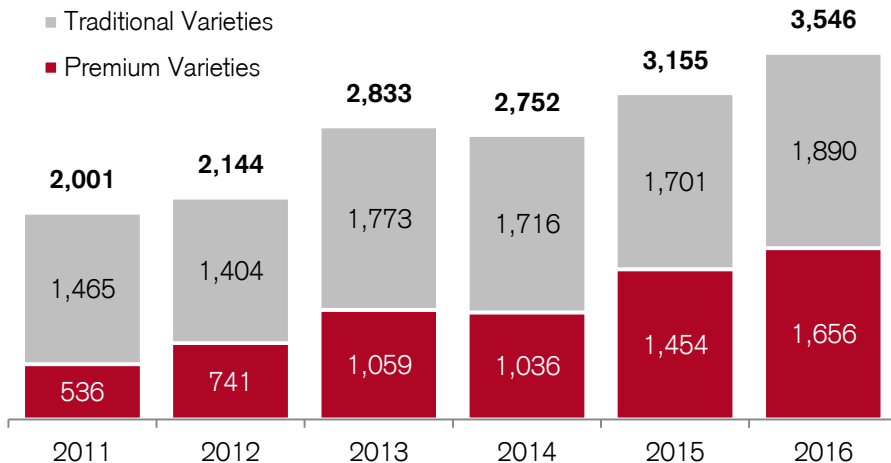
\$ Millions	2016		2015	
	Actual	Growth %	Actual	Growth %
<b>Revenue</b>	<b>230.1</b>	<b>29%</b>	<b>178.1</b>	<b>12%</b>
<b>Underlying Gross Profit</b>	<b>67.4</b>	<b>4%</b>	<b>64.6</b>	<b>40%</b>
<i>Underlying Gross Profit Margin</i>	<i>29%</i>		<i>36%</i>	
Other income, administration and operating expenses	(22.1)	-13%	(25.4)	12%
<b>Mr Apple Underlying EBITDA</b>	<b>43.6</b>	<b>11%</b>	<b>39.2</b>	<b>67%</b>
<b>Fern Ridge Underlying EBITDA</b>	<b>2.1</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>
<b>Longview Underlying EBITDA</b>	<b>(0.4)</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>
Share of Fern Ridge Produce net profit after tax	-	-100%	0.8	77%
<b>Underlying Horticulture EBITDA</b>	<b>45.3</b>	<b>13%</b>	<b>40.0</b>	<b>67%</b>
Depreciation and amortisation	(6.2)		(5.8)	
<b>Underlying Horticulture EBIT</b>	<b>39.1</b>	<b>14%</b>	<b>34.2</b>	<b>75%</b>

# HORTICULTURE – OWN-GROWN VOLUMES

## Premium and traditional volumes both up during 2016

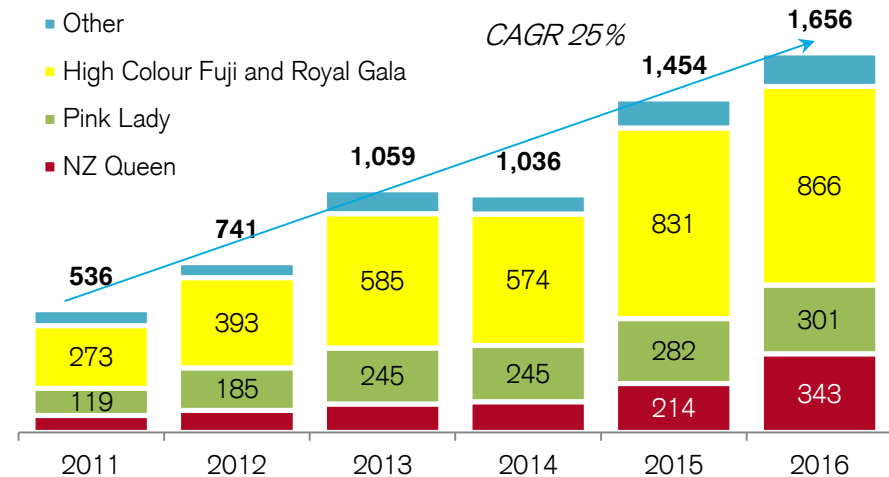
- Total own grown volumes of 3.55m TCEs, up 12% on 2015.
- Growth concentrated in premium varieties where volumes were up by 200k TCEs (14% increase):
  - Volumes of NZ Queens, highly sought after in Asian markets, were up 60% to 343k TCEs.

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



*Volumes may have changed slightly from half year as final sales data on unsold fruit was received.*

### Growth in Premium Volumes (TCE 000s)



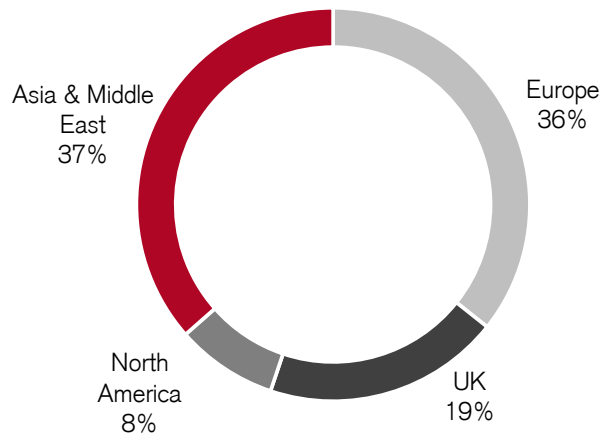
# HORTICULTURE – STRATEGY

Our strategy is focused on: (1) Sales to Asia & the Middle East...

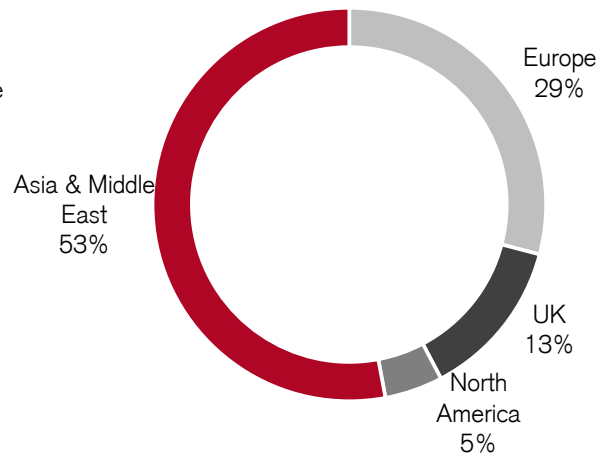
- During 2016 Mr Apple and Fern Ridge sold over half a billion (5.46 million TCEs) apples to more than 150 customers in approximately ~40 countries.
- Mr Apple's sales to Asia & Middle East increased markedly in 2015, this position was solidified in 2016.
- The Asian and Middle Eastern markets are key markets for us going forward:
  - Marketing campaigns focus on food safety and apple quality of New Zealand apples.
  - China Resources is well positioned to assist with growth into the large China market and the rest of Asia.
- Longview's activities and production is geared towards sales to Asia, with this region accounting for 62% of their 2016 sales.

**Mr Apple – Sales by Region (TCEs)**

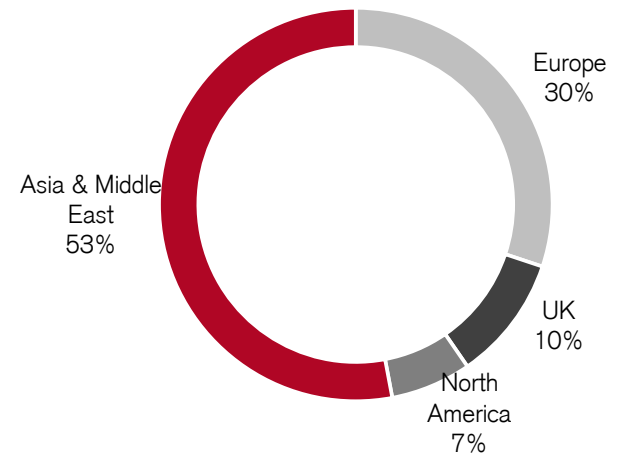
**FY14A**



**FY15A**



**FY16A**





# HORTICULTURE – STRATEGY (CONTINUED)

## ...and (2) Increasing sales of branded apples and Plant Variety Rights

- We have partnered with two other large New Zealand apple growers to secure proprietary rights to new apple varieties. Through this partnership we have, and are, developing new apple brands:
  - Dazzle. Dazzle, a large red sweet apple which has taken 20 years to develop was launched in December 2016.
  - Diva. Diva are our premium high colour (red) Fuji apples marketed principally in Asia commanding a significant premium.
  - We hope to have further announcements in the future around new exciting apple varieties and brands.



# HORTICULTURE – PRICES

Our strategy is delivering improvements in the weighted average selling price across the crop

- Across our entire apple crop, prices showed improvement over strong 2015 pricing. The increase in the weighted average sale price for our apples was achieved by:
  - Attention to detail and care through the harvest and post-harvest process. We often pick the same tree a number of times improving the overall quality (and therefore value) of apples from each tree.
  - A higher proportion of premium apples (47% of the total crop), including large growth in ultra-premium varieties.
  - Firm pricing for premium varieties – broadly in line with 2015.
  - Small improvements in pricing from traditional varieties as customers in those markets compete for the supply of New Zealand's high quality apple produce.

Apple Prices by Variety				
NZD / TCE, FOB	2016		2015	
	Actual	Growth %	Actual	Growth %
Premium Varieties	37.4	-1%	37.8	15%
Traditional Varieties	29.3	5%	28.0	13%
<b>Total Mr Apple Orchards</b>	<b>33.1</b>	<b>2%</b>	<b>32.5</b>	<b>17%</b>
Price uplift - Premium vs Traditional	28%		35%	

# HORTICULTURE – OTHER KPIS

- External grower volumes showed good growth with increased supply from both Hawke's Bay and Nelson external growers.
- Exchange rates displayed minor improvement over 2015.
- Foreign exchange exposure continues to be managed, however, if current spot FX rates are maintained this will present a headwind for the business post 2017.

Key Performance Measures				
	2016		2015	
	Actual	Growth %	Actual	Growth %
<b>Volumes (TCE 000s)</b>				
Mr Apple own-grown volumes	3,546	12%	3,155	15%
External grower volumes	1,187	17%	1,019	-16%
<b>Total volume sold</b>	<b>4,733</b>	<b>13%</b>	<b>4,174</b>	<b>5%</b>
<b>FX Rates</b>				
NZD:USD	0.70	-4%	0.73	-11%
NZD:EUR	0.60	1%	0.60	0%
NZD:GBP	0.47	-3%	0.48	-2%
NZD:CAD	0.86	0%	0.86	-5%



# S&L – FINANCIAL PERFORMANCE

## Another steady result from the Storage & Logistics division

- Revenues of \$108.4m, 13% ahead of 2015.
- EBITDA of \$16.2m, in line with 2015.
- Good growth from bulk liquid storage business Liqueo, EBITDA up 30% on 2015:
  - Full year contribution from 20-year edible oils storage contract.
  - Full year contribution from 2015 acquisition of Ahuriri (Napier) bulk liquid processing operation.
  - Rationalisation of Hawke's Bay processing activities to Ahuriri.
- Excellent performance from Scales Logistics:
  - EBITDA up 17% on 2015 results due to increases in TEUs shipped and airfreight tonnes handled.
- Coldstores EBITDA affected by:
  - Strong storage velocity (a factor that tends to favour our other divisions).
  - A slower start to the 2016/2017 cropping season affecting Q4 volumes.
  - Closure of South Island fish customer.

Financial Performance - Storage & Logistics				
\$ Millions	2016		2015	
	Actual	Growth %	Actual	Growth %
<b>Revenue</b>	<b>108.4</b>	<b>13%</b>	<b>95.6</b>	<b>6%</b>
Cost of Sales	(70.2)	14%	(61.5)	-1%
<b>Gross Profit</b>	<b>38.2</b>	<b>12%</b>	<b>34.1</b>	<b>20%</b>
<i>Gross Profit Margin</i>	<i>35%</i>		<i>36%</i>	
Other income, administration and operating expenses	(22.0)	24%	(17.8)	11%
<b>EBITDA</b>				
All Coldstores	11.7	-7%	12.6	23%
Liqueo	2.3	30%	1.8	38%
Scales Logistics	2.3	17%	1.9	146%
<b>Total Storage &amp; Logistics EBITDA</b>	<b>16.2</b>	<b>0%</b>	<b>16.3</b>	<b>32%</b>
<i>EBITDA Margin</i>	<i>15%</i>		<i>17%</i>	
<b>Total Storage &amp; Logistics EBIT</b>	<b>10.9</b>	<b>-4%</b>	<b>11.3</b>	<b>46%</b>

# S&L – STRATEGY

Storage & Logistics is characterised by extremely high barriers to entry

- Key strategies for 2017 include:
  - Reviewing existing coldstore activities to explore potential for improved financial performance and asset returns.
  - Complete rollout of FMCG capable warehouse management software and thus broaden our service offering.
  - Continue to expand our bulk liquid storage and logistics offerings through organic or acquisition growth opportunities.



# S&L – KPIS

- Key Performance Indicators in line with expectations:
  - Total coldstore space up 8% on 2016 with increases in Christchurch based storage capacity.
    - Note, a coldstore we manage in Wellington was damaged by the November earthquake. This coldstore was closed in the early part of 2017.
  - Scales Logistics (and its airfreight division Balance Cargo) has achieved strong growth (volumes handled up 17%) due to:
    - Increased trade from captive customers (Mr Apple and Meateor).
    - Good horticulture volumes in 2016.
    - Acquisition of new customers.
  - Liqueo's installed capacity reflects rationalisation of Hawke's Bay activities.

Key Performance Measures				
\$ Millions	2016		2015	
	Actual	Growth %	Actual	Growth %
Coldstores				
Total available refrigerated coldstore space	780.4	8%	721.6	19%
Liqueo				
Installed capacity of all tanks	20,308	-10%	22,500	1%
Logistics				
TEUs shipped	24,713	17%	21,125	22%
Airfreight tonnes	3,306	17%	2,832	79%



# FOOD INGREDIENTS – FINANCIAL PERFORMANCE

Continued growth from our agricultural by-products businesses

- Food Ingredients followed on from a solid 2015 result to deliver an even stronger 2016:
  - Meateor sold 22,971 MT of petfood ingredients, 14% ahead of 2015 to deliver \$58.0m in revenue (19% ahead of 2015 results) and \$7.6m in Underlying EBITDA (24% ahead of 2015 results).
  - Profruit sold more than 5.7mL of juice concentrate – another strong result in light of good industry packouts (lower proportion of fruit rejected during the grading process).
- We continue to review opportunities to add value through innovation to maximise the potential of this division.

Financial Performance - Food Ingredients				
\$ Millions	2016		2015	
	Actual	Growth %	Actual	Growth %
<b>Meateor Revenue</b>	<b>58.0</b>	<b>19%</b>	<b>48.6</b>	<b>31%</b>
Meateor Cost of Sales	(47.8)	19%	(40.0)	32%
<b>Gross Profit</b>	<b>10.3</b>	<b>20%</b>	<b>8.6</b>	<b>24%</b>
<i>Gross Profit Margin</i>	18%	0%	18%	-5%
Other income, administration and operating expenses	(2.7)	9%	(2.5)	10%
<b>Meateor Underlying EBITDA</b>	<b>7.6</b>	<b>24%</b>	<b>6.1</b>	<b>31%</b>
<i>Meateor EBITDA Margin</i>	13%		13%	
Share of Profruit Net Profit	1.6	11%	1.5	40%
<b>Underlying Food Ingredients EBITDA</b>	<b>9.2</b>	<b>22%</b>	<b>7.6</b>	<b>33%</b>
Depreciation & Amortisation	(0.5)	1%	(0.5)	-11%
<b>Underlying Food Ingredients EBIT</b>	<b>8.7</b>	<b>23%</b>	<b>7.1</b>	<b>38%</b>
KPIs				
Meateor Volume Sold (MT)	22,971	14%	20,220	23%
Juice Concentrate Sold (million Litres)	5.7		6.1	

A photograph of a dirt road winding through a lush, green landscape. On the right side of the road, there is a long, low wooden fence made of horizontal planks. The road is flanked by dense trees and foliage, with sunlight filtering through the leaves. The sky is visible in the background, showing a clear blue color.

# 4

## CAPITAL MANAGEMENT

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# PERFORMANCE AGAINST BENCHMARKS

## Return on Capital Employed and EBITDA Margins

- Return on Capital Employed (ROCE) and EBITDA Margins are monitored for each division and the group.
- We target a long-run combined ROCE of 15% and EBITDA Margin of 13%.
- As previously discussed, groupwide capital employed increased by 40% between 2015 and 2016 but this increase was mostly due to acquisition or non-cash revaluation and other accounting gains.
  - Capital employed / ROCE adjusted to exclude Longview (due to timing of the acquisition).
  - Adjusted Capital Employed increased by 29% between 2015 and 2016.
- ROCE from Horticulture and Food Ingredients remains excellent, notwithstanding increase in asset base due to non-cash revaluation gains.
- Storage & Logistics continues to deliver solid returns. ROCE is significantly impacted by non-cash revaluation gains in Land & Buildings.
- EBITDA margins comfortably met at group and divisional levels.

### Capital Management

	2016	2015
	Actual	Actual
<b>Return on Capital Employed</b>		
Horticulture <sup>1</sup>	28%	34%
Storage & Logistics	11%	13%
Food Ingredients	53%	49%
<b>Group</b>	<b>21%</b>	<b>24%</b>
<b>Target</b>	<b>15%</b>	<b>15%</b>
<b>EBITDA Margins<sup>2</sup></b>		
Horticulture	20%	22%
Storage & Logistics	15%	17%
Food Ingredients	13%	13%
<b>Group</b>	<b>18%</b>	<b>20%</b>
<b>Target</b>	<b>13%</b>	<b>13%</b>

1. Due to the timing of the acquisition, Longview has been excluded from the calculation of Horticulture and Group 2016 ROCE

2. Excluding share of profit from associate company and joint venture



# CAPITAL EXPENDITURE

## Investing in Growth

- Operational capital expenditure at \$7.0m was slightly higher than 2015 but includes certain projects that are expected to improve operational effectiveness (for example rollout of the upgraded Mr Apple finance software).
- We also invested \$8.7m in growth projects to enable us to deliver the improved 2016 result as well as to position us for future earnings growth. Investments during 2016 include:

➤ Horticulture:

- Redevelopment of ~30.5 hectares to premium varieties.
- Improved camera grading technology at our packhouse to improve throughput.
- Purchase of ~4 hectares of land surrounding Mr Apple's Whakatu Packhouse.

➤ Storage & Logistics:

- Ongoing work to upgrade of the warehouse management system at Polarcold.
- Liqueo upgrades to accommodate the long-term oil storage contract and rationalise Hawke's Bay activities to Ahuriri.

### Capital Expenditure

	2016	2015
	Actual	Actual
<b>Operational capital expenditure</b>		
Horticulture	3.3	1.9
Storage & Logistics	3.4	2.4
Food Ingredients	0.4	0.2
Other	0.0	0.0
<b>Total operational capital expenditure</b>	<b>7.0</b>	<b>4.5</b>
<b>Growth capital expenditure</b>		
Horticulture	5.0	3.7
Storage & Logistics	3.7	7.6
Food Ingredients	-	-
<b>Total growth capital expenditure</b>	<b>8.7</b>	<b>11.3</b>
<b>Total capital expenditure</b>	<b>15.7</b>	<b>15.8</b>

An aerial photograph of an industrial facility, likely a water treatment plant or refinery. The scene is dominated by numerous large, white, cylindrical storage tanks arranged in rows. Some tanks have blue-colored tops. A network of white pipes and metal walkways with railings connects the tanks. In the lower right, two yellow trucks are parked on a paved area; one is a tanker truck with "WASTE AWAY" written on its side, and the other is a dump truck. The background shows a body of water under a clear blue sky. The text "5 STRATEGY" is overlaid on the left side of the image.

# 5

# STRATEGY

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# UPDATE ON STRATEGIC OBJECTIVES

## Meeting or Exceeding our Objectives

- In our 2016 Annual Report we outline updated objectives for the Group and each of our divisions.
  - We intend to assess ourselves against these objectives, and to create new objectives where targets have been met.
  - We will report on our assessed progress each year in our Annual Report.
- Our Group objectives are:

<b>Sustainability</b>	<b><i>Significant Progress</i></b>
<ul style="list-style-type: none"><li>• Develop and evolve our reporting and measuring of key sustainability aspects affecting Scales' businesses</li><li>• Develop best-in-class sustainability reporting</li><li>• Demonstrate improvements in sustainability</li></ul>	<p>Sustainability report developed and to be included in our Annual Report</p> <p>GRI framework adopted</p>
<b>Financial</b>	<b><i>Good Progress</i></b>
<ul style="list-style-type: none"><li>• Position our diversified agribusiness to deliver consistent and sustainable growth in financial performance</li><li>• Prudently utilise leverage to support equity returns whilst balancing risk</li></ul>	<p>Strategic acquisitions and developments made in 2016 position the group well for sustained growth. Acquisitions financed via leverage</p>
<b>Shareholder returns</b>	<b><i>Good Progress</i></b>
<ul style="list-style-type: none"><li>• Reward our shareholders with dividends that represent an attractive yield on current market pricing</li><li>• Deliver capital gains and shareholder liquidity through careful strategic execution, and transparent and easy to understand stakeholder communications</li></ul>	<p>Share price improved, interim dividend increased to 8.0 cents per share</p> <p>Finalist in INFENZ emerging communicator of the year</p>



# 6 OUTLOOK





# WHAT WE KNOW ABOUT 2017

## The outlook for Scales remains positive

- Market dynamics remain supportive:
  - Horticulture:
    - The apple harvest has just begun. Early indications are pleasing - brix (sweetness) is very high, colour is great, and fruit size on par with previous years.
    - Gross production is expected to be similar to or potentially higher than 2016 with the addition of Longview volumes and ongoing orchard maturity (export volumes will be influenced by packout and it remains too early to gauge performance here).
    - Marketing and branding efforts will continue throughout Asia.
    - Foreign exchange rates create some headwinds, albeit some protection from contracts taken in previous periods.
  - Storage & Logistics:
    - We expect that the 2017 result will improve upon 2016 as the performance from coldstores returns to longer run levels.
  - Food Ingredients:
    - We continue to review ways that we can offer our customers a competitive advantage by remaining at the innovative edge of petfood and juice concentrate.
    - We are exploring a number of opportunities to continue the growth of this division in the future.
- Based on factors known to us at the time of writing, the Directors support previously provided guidance for 2017 (EBITDA of \$55 to \$62 million).



# 7

## APPENDICES

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# RECONCILIATION TO STATUTORY ACCOUNTS

- This table reconciles Underlying EBITDA and Underlying Net Profit to Net Profit as Reported in our Financial Statements.
- In FY2016, IFRS rules around the treatment of biological assets changed. Rather than revaluing orchards as was previously required, we now depreciate the value of bearer plants over their economic life in the same way as property, plant and equipment.
- The produce growing on bearer plants continues to be accounted for as agricultural produce assets under NZ IAS 41.
- Revaluations of land and buildings will take place on a 3-yearly basis as is currently the case. This will not impact on cash profit, but may result in an increase in our reported depreciation expense.

## Reconciliation of Underlying EBITDA to Net Profit

	2016	2015
	(Actual)	(Restated)
\$'000		
<b>Underlying EBITDA</b>	<b>67,856</b>	<b>61,405</b>
RECONCILIATION TO GAAP INFORMATION		
- Depreciation	(11,438)	(10,243)
- Amortisation	(661)	(1,088)
- Finance revenue	167	185
- Finance charges	(2,533)	(2,801)
- Taxation	(14,752)	(12,663)
<b>Underlying Net Profit</b>	<b>38,638</b>	<b>34,795</b>
- Foreign exchange contract revaluations / hedge ineffectiveness	(1,258)	1,759
- Fair value gain on apple inventory (pursuant to IAS 41)	993	n/a
- Equity settled employee benefits	(270)	(168)
- Taxation	74	(493)
	(460)	1,099
<b>Net Profit as reported in Financial Statements</b>	<b>38,178</b>	<b>35,894</b>



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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 charges / (revenue), and taxation expense to net earnings / (loss) from continuing operations.
- EBIT. We calculate EBIT by adding back (or deducting) finance charges / (revenue), 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.
- Underlying Net Profit is calculated by adding back or (or deducting) the after-tax effect of any non-cash IFRS adjustments.

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 NZ IFRS. Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies.

Forward-looking statements are subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances.

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