

# **SCALES CORPORATION LIMITED**

**GROWING YOUR DIVERSIFIED AGRIBUSINESS**

**2017 Annual Shareholders' Meeting**  
**14 June 2017**



# **MR APPLE – CONSUMER VIDEO**

# AGENDA

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





# **CHAIRMAN'S REVIEW**

## **Delivering results and meeting milestones.**

- **Welcomed China Resources and Mr Weiyong Wang.**
- **Generated another record financial performance.**
- **Increased shareholding in Fern Ridge Fresh to 73%.**
- **Completed the acquisition of Longview.**
- **Entered the S&P NZX50 Index.**
- **Produced our inaugural Sustainability Report.**

# MANAGING DIRECTOR'S REVIEW

1. Year in Review
2. Scales' People
3. Strategy Update
4. Looking Ahead and Investor Returns





# JON MAYSON - RETIREMENT

- 8<sup>th</sup> Chairman of Scales.
- Commenced as Director of Polarcold in 2012.
- Became Director and Chairman of Scales later that year.
- He has overseen the Group during its transformative years:
  - Underlying EBITDA increased from \$27.4m in 2012 to \$67.9m in 2016.
  - IPO in 2014.
  - Entering the S&P NZX50 in 2016.
- Tim Goodacre will be appointed the 9<sup>th</sup> Chairman of Scales.
- Liz Muller – Future Directors programme Board attendee departure.
- Jennifer Martin – welcome as Future Director for the forthcoming year.



A photograph of two men in an apple orchard. The man in the center, wearing a dark polo shirt with a small logo, is smiling and holding a red apple. The man on the left, wearing a dark shirt with a red stripe, is looking at him. They are surrounded by apple trees laden with fruit. A large white number '1' is overlaid on the left side of the image.

# 1

**YEAR IN REVIEW**

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# DIVISIONAL HIGHLIGHTS

Determination and persistence throughout the Group

1

**Meateor - making petfood for the world's best companies.**

Approximately 23,000 MT sold in 2016, 14% above 2015.

2

**Polarcold and Whakatu Coldstores – storing produce for world class companies** such as Kraft Heinz, Fonterra, McCains and Silver Fern Farms, with a storage capacity of 780,000m<sup>3</sup>.

3

**Scales Logistics and Balance Cargo: shipping and flying NZ produce around the world.** TEUs shipped and airfreight tonnes handled both up 17% on 2015 levels.

4

**Liqueo - delivering bulk liquid storage and value add solutions,** with a total capacity of over 20,000 tonnes.



# DIVISIONAL HIGHLIGHTS

Promoting innovation and efficiency

5

**Fern Ridge Fresh – increasing our marketing influence for NZ apples**, trading approximately 700,000 TCEs of apples p.a. including Honey Crisp and Koru into the USA market.

6

**Profruit – a special partnership**, operating 24/7 and selling 95% of our conventional apple juice concentrate into NZ and Australia this year.

7

**Mr Apple (incl. Longview) making sure it's all about the apple**, together with our external growers exporting 4.7 million TCEs in 2016 with a packout rate of 81 % - meeting our 2020 production target 4 years ahead of schedule.

# DIVISIONAL HIGHLIGHTS CONT

## To China and Beyond

The story so far:

- 2004 – first apple shipped to Hong Kong traders.
- 2012 – first Mr Apple container shipped to China wholesale.
- 2013 – first direct retail shipment of Mr Apple.
- 2014 – first direct online customer shipment of Mr Apple.
- 2015 – PCNZ (Primary Collaboration NZ) office opened in Shanghai.
- 2015 – Mr Apple expands apple category with Little Darlings.
- 2016 – Mr Apple dominates 35% of all NZ apples shipped directly.



# 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  
**6.2m L**

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**

TEUs organised for  
international transit by  
Scales Logistics

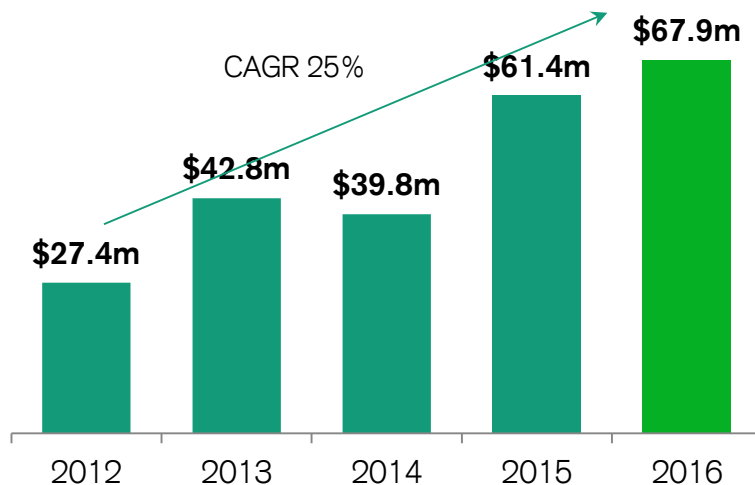


# 5 YEAR PERFORMANCE TREND

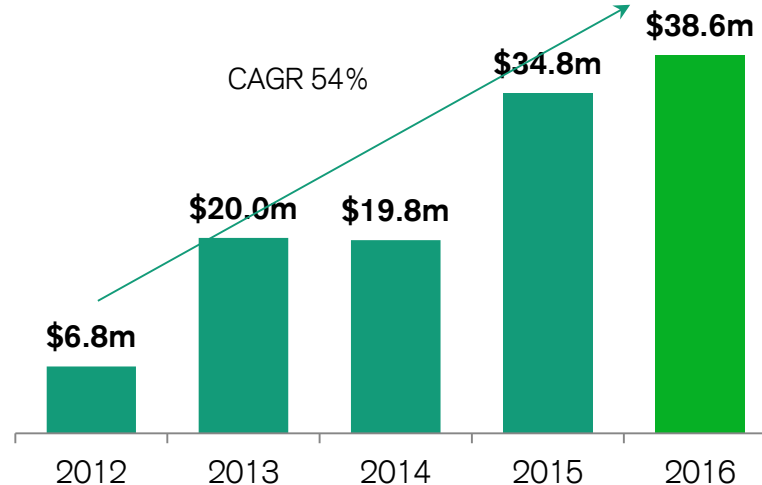
Our 2016 result maintains our steady progression in Group profitability

- 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.
- Underlying EBITDA \$67.9m, up 11% on 2015.
- Underlying NPAT \$38.6m, up 11% on 2015.
- Reported net profit for the year \$38.2m, up 6% on 2015 (restated).

*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.*

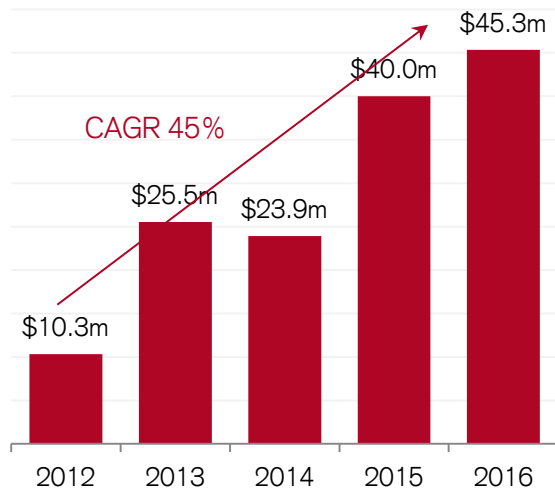
Income Statement			
\$ Millions	2016		2015
	Actual	Growth %	(Restated) Actual
Revenue	373.9	24%	301.4
Cost of Sales	(258.0)		(194.1)
<b>Underlying Gross Margin</b>	<b>115.9</b>	<b>8%</b>	<b>107.3</b>
Underlying Gross Margin %	31%		36%
<b>Underlying EBITDA</b>	<b>67.9</b>	<b>11%</b>	<b>61.4</b>
<b>Underlying 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%

# DIVISIONAL EBITDA TREND

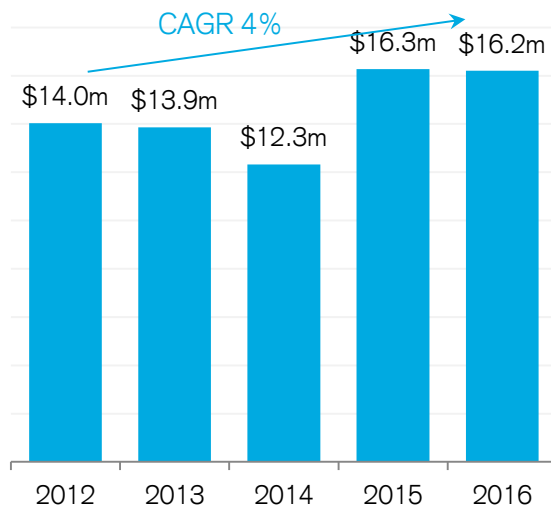
Strong growth in Horticulture and Food Ingredients  
Storage & Logistics delivering a consistent performance

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

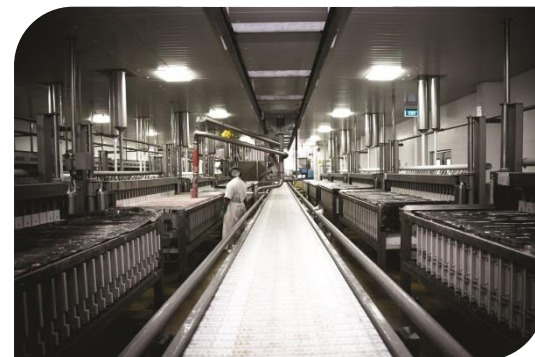
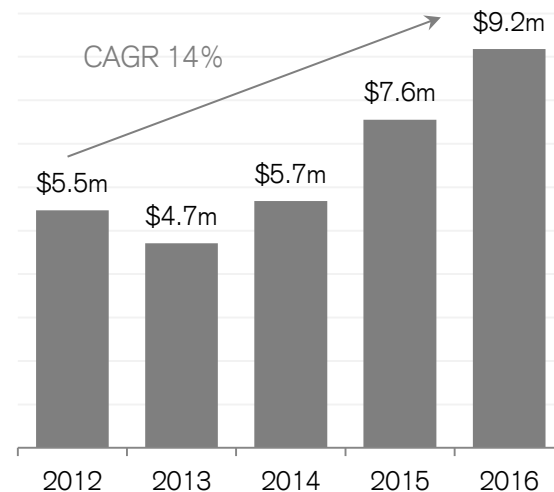
### Horticulture



### Storage & Logistics



### Food Ingredients





# STRONG BALANCE SHEET

## Excellent financial position

- Increased capital employed is mostly influenced by acquisition activity or the application of new accounting standards resulting in non-cash balance sheet adjustments.
- Strong financial position enables us to cash and debt finance strategic bolt-on acquisitions.
- We are exceeding our Return on Capital Employed targets and have considerable headroom in our banking covenants.

Financial Position		
		2015
\$ millions	2016	(Restated)
Capital Employed	293.4	209.5
<i>Return on Capital Employed*</i>	<i>21%</i>	<i>24%</i>
Net Interest Bearing Debt	(34.6)	(16.2)
<i>Senior Debt Coverage</i>	<i>0.6x</i>	<i>0.5x</i>
<i>Interest Cover</i>	<i>28.0x</i>	<i>22.6x</i>
Other Liabilities	(44.1)	(35.3)
<b>Net Assets</b>	<b>214.6</b>	<b>158.0</b>

\* Due to the timing of the acquisition, Longview has been excluded from the calculation of Group 2016 Return on Capital Employed.

A group of men are working in an apple orchard. In the foreground, a man in a red shirt is reaching up to pick a red apple from a tree. Behind him, another man in a red shirt is also working. To the right, a man in a red shirt and a wide-brimmed straw hat is looking towards the camera. In the background, two more men are visible, one wearing an orange cap and another in a brown vest. The orchard is filled with green leaves and red apples.

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SCALES' PEOPLE

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# PEOPLE

## Committed to being an employer of choice

- Our people – stable, experienced and hard-working.
- We want to develop our people's skills and potential:
  - Apprenticeships.
  - Hua initiative.
  - WINZ partnership.
  - SEED programme.
  - Training programmes:
    - Professional development.
    - National Certificates.
    - Driver training.
    - Numeracy and literacy.
  - Community investment.
  - Seasonal employment (RSE scheme).





# HEALTH AND SAFETY

## Our #1 priority

- Uncompromising in our commitment to the health and safety of our workers.
- Responsibility of every Director, manager and team member.
- Significant part of every Board meeting.
- Every employee should go home at the end of each day healthy and safe.
- Extensive training to all managers and staff:
  - Induction and training including NZQA accredited courses.
  - Safety improvements, made on a daily basis.
  - Staff engagement through the YES (Your Extraordinary IdeaS) programme.
- Seeking continual improvement in hazard identification.





An aerial photograph of a vineyard during the golden hour of sunset. The rows of grapevines are densely packed and their leaves are illuminated with a warm, golden light. In the background, there are rolling hills, a line of trees, and a small white windmill on a hill to the right. The overall atmosphere is peaceful and scenic.

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**STRATEGY UPDATE**

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# OUR VISION AND LONG-TERM GOAL

## 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.

- Seeking to extend agribusiness reach through disciplined and patient investment.
- Believe most consistent returns are achieved through fully vertically integrated businesses.
- Developing and growing an expanding network in Asia and, in particular, China.
- Our expanding international networks coupled with strong ties to China uniquely position us to add value to the export programmes of prospective targets.

## 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).



# UPDATE ON STRATEGIC OBJECTIVES

## Meeting or exceeding our objectives

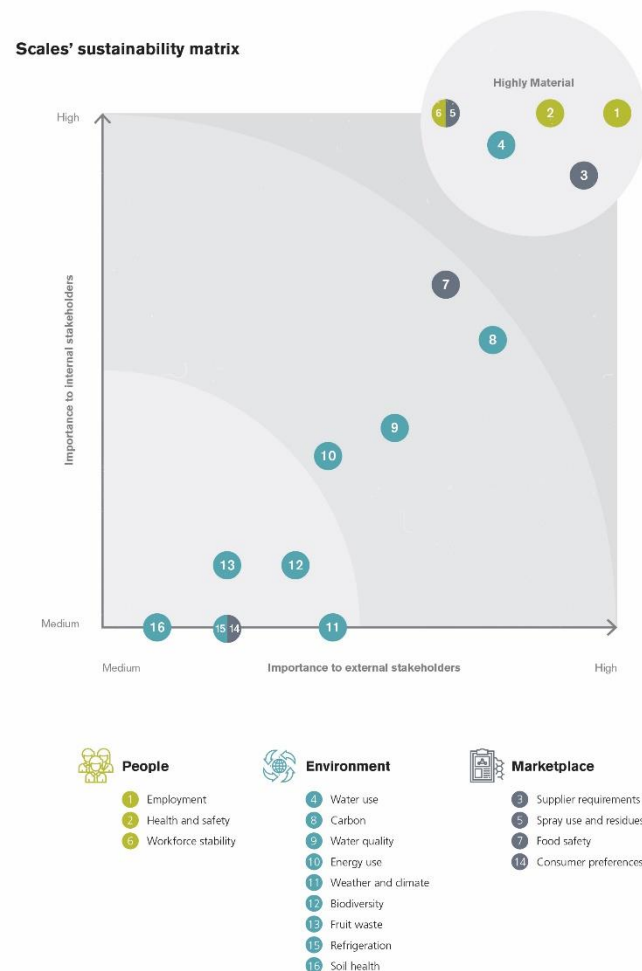
- Our objectives include:

Division	Target	Status
<b>Group</b>	<ul style="list-style-type: none"> <li>• Best in class sustainability reporting developed.</li> <li>• Prudently utilise leverage to support equity returns whilst balancing risk.</li> <li>• Reward shareholders with dividends that represent an attractive yield on current market pricing.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability report developed and included in our Annual Report.</li> <li>• Strategic acquisitions and developments made in 2016.</li> <li>• Share price risen 36% over year, 2016 dividend increased to 18.0 cents per share.</li> </ul>
<b>Horticulture</b>	<ul style="list-style-type: none"> <li>• Brand and IP developed.</li> <li>• Reach 3.5m TCEs of own grown apples.</li> <li>• Increase market penetration into China.</li> </ul>	<ul style="list-style-type: none"> <li>• Dazzle® launched December 2016, 2 new varieties in pipeline.</li> <li>• Met target 4 years ahead of schedule, new target of 4m TCEs in place.</li> <li>• Strategic partner China Resources Ng Fung welcomed and sales growing rapidly.</li> </ul>
<b>Storage &amp; Logistics</b>	<ul style="list-style-type: none"> <li>• Update software and broaden service offering.</li> <li>• Expand bulk liquid storage and logistics offerings.</li> </ul>	<ul style="list-style-type: none"> <li>• Upgrade project due to complete 2017 and new FMCG clients sourced.</li> <li>• A number of opportunities under review.</li> </ul>
<b>Food Ingredients</b>	<ul style="list-style-type: none"> <li>• Consider organic and acquisition opportunities to increase scale.</li> </ul>	<ul style="list-style-type: none"> <li>• A number of opportunities under review.</li> </ul>

# SUSTAINABILITY

## We produced our inaugural Sustainability Report

- Understand we have a responsibility to all stakeholders to have a sustainable business.
- Undertook a sustainability materiality review.
- Grouped the topics under three headings:
  - Our people.
  - Our marketplace.
  - Our environment.
- Sought to meet the NZX's proposed draft Corporate Governance Code requirements.
- Drew upon the internationally-recognised Global Reporting Initiative's materiality principles and guidance.



A person is silhouetted against a bright sunset on a ship's deck. The sun is low on the horizon, creating a strong lens flare. The sky is filled with dramatic, orange and yellow clouds. In the background, a harbor with a crane and distant hills is visible. The ship's railing and a circular hatch cover are in the foreground.

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# LOOKING AHEAD AND INVESTOR RETURNS

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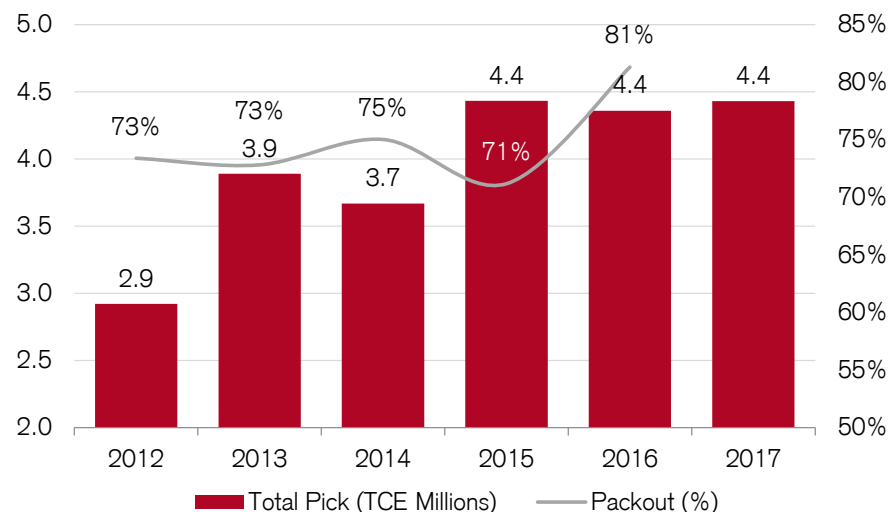


# TRADING UPDATE

## The outlook for Scales remains positive

- Horticulture:
  - Gross pick in line with past two years.
  - ~60% of fruit packed to date. Packout expected to return to long term averages.
  - Slightly more than 1/3<sup>rd</sup> of crop sold to date.
- Storage & Logistics:
  - We expect that the 2017 result will improve upon 2016 as the performance from coldstores returns to longer run levels.
- Food Ingredients:
  - Meateor's production and sales are on track for 2017, aided by the company's strategy to geographically diversify raw material supply.
  - Juice concentrate markets remain supportive.

### Mr Apple Gross Harvest & Export Packout




- Group:
  - Based on factors currently known to us, the Directors support previously provided guidance for 2017 (EBITDA of \$55 to \$62 million).

# DIVIDENDS

- Total of \$0.18 per share in cash dividends declared or paid in respect of 2016:
  - Increase from \$0.13 'ordinary' dividend per share and \$0.17 total dividend per share in 2015.
  - Represents a gross dividend yield of 8.3% on the average daily share price in 2016 (2015: 12.9%).
  - Corresponds to 66% of net profit after tax, within our stated payout range.

	EPS	Dividends Paid	Payout	Gross Dividends	Avg. Share Price for the Year	Gross Dividend Yield
<b>2016</b>	<b>\$0.270</b>	<b>\$0.180</b>	<b>67%</b>	<b>\$0.250</b>	<b>\$3.020</b>	<b>8.3%</b>
2015 (restated)	\$0.257	\$0.170	66%	\$0.236	\$1.830	12.9%
2014	\$0.141	\$0.100	71%	\$0.139	\$1.488	9.3%

An illustration of several large, cylindrical industrial storage tanks in the foreground, with a sunset or sunrise scene in the background featuring a blue sky, orange clouds, and a body of water reflecting the light.

# ORDINARY BUSINESS AND RESOLUTIONS

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# RESOLUTION 1

That the Board is authorised to fix the auditor's remuneration for the coming year.

## RESOLUTION 2

Having retired by rotation (as determined by lot), that Nick Harris be re-elected as a Director.



## RESOLUTION 3

Having been appointed during the year by the Board and holding office only until the Annual Meeting, that Weiyong Wang be elected as a Director.





## RESOLUTION 4

That the maximum total pool of Directors' remuneration payable by Scales to Directors (in their capacity as Directors) be increased by \$60,000 per annum from \$440,000 per annum to \$500,000 per annum.



# VOTING & QUESTIONS

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# DISCLAIMER

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

This presentation supplements our full year results announcement dated 28 February 2017 and Annual Report dated 29 March 2017. 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**

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## **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) 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.

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