



SCALES CORPORATION LIMITED

GROWING YOUR DIVERSIFIED AGRIBUSINESS

Half Year Results
For the six months ended 30 June 2017
24 August 2017

Scales 
growing New Zealand

HIGHLIGHTS

Reaffirming FY17 EBITDA guidance.

- Excellent result in light of challenging apple season:
 - Horticulture volumes demonstrate robustness in the face of challenging climatic conditions.
 - Storage & Logistics on track for consistent full year performance.
 - Food Ingredients processing increased volumes.
- Resilient performance in Horticulture:
 - Combined Mr Apple export volumes consistent with record FY16 crop (>3.5m TCEs), noting that like-for-like production is only ~5% lower.
 - Associated increase in on-orchard costs, coupled with increased fixed cost base, largely explains change in performance vs 1H16.
- OceanAir acquired by Scales Logistics on 1 August 2017:
 - Expands logistics operations in the key ports of Auckland and Melbourne.
 - Provides synergistic revenue opportunities.
- Full year EBITDA guidance of between \$55m and \$62m reaffirmed.



**EBITDA and EBIT are non-GAAP measures. Please see page 14 for an explanation of how these figures are calculated*

An aerial photograph of a vast vineyard at sunset. The rows of grapevines stretch far into the distance, creating a strong sense of perspective. The sun is low on the horizon, casting a warm, golden glow over the entire scene. The sky is a clear, pale blue. In the background, there are rolling hills and a line of trees. To the right, a small cluster of buildings and a red truck are visible. The overall mood is peaceful and serene.

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FINANCIALS

FINANCIAL OVERVIEW

- Revenue \$216.7 million, up 3% on 1H16.
- Gross Profit \$75.5 million, down 9% on 1H16.
- EBITDA \$48.4 million, down 11% on 1H16:
 - A resilient performance from our Horticulture division:
 - Like-for-like production down only 5% on record 2016 crop.
 - Additional on-orchard costs influenced by weather.
 - Increased fixed cost base following Longview transaction.
 - Solid first half performance from both Storage & Logistics and Food Ingredients divisions.
- Resulting NPAT \$29.0m, down 14% on 1H16.

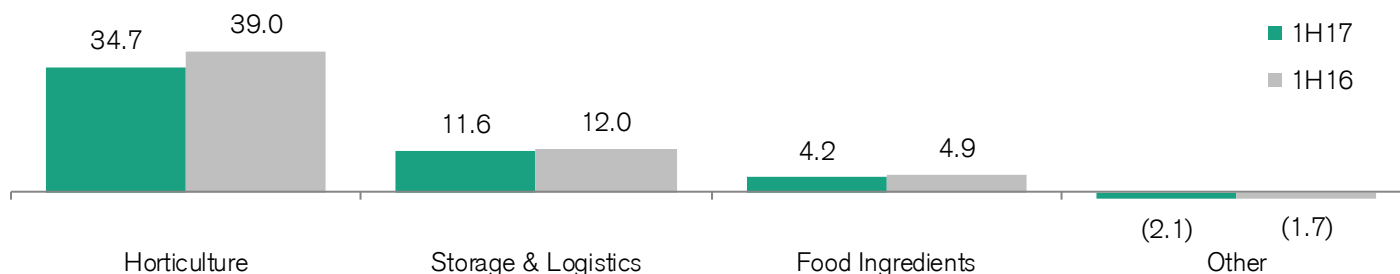
\$000	1H17	1H16	% chg.
Total Revenue	216,748	209,518	3%
Gross Profit	75,477	83,150	-9%
<i>% of Revenue</i>	<i>35%</i>	<i>40%</i>	
EBITDA	48,406	54,187	-11%
<i>% of Revenue</i>	<i>22%</i>	<i>26%</i>	
EBIT	42,184	48,174	-12%
<i>% of Revenue</i>	<i>19%</i>	<i>23%</i>	
NPAT	29,033	33,776	-14%
<i>% of Revenue</i>	<i>13%</i>	<i>16%</i>	

DIVISIONAL PERFORMANCE

All divisions showing resilience in a testing environment.

- **Horticulture** – robust performance in a challenging season. Increased investment in on-orchard costs enabled us to meet customers' expectations in terms of overall export volumes and quality despite inclement weather.
- **Storage & Logistics** – solid performance and on track for strong second half.
- **Food Ingredients** – increased volumes and continuing to pursue additional protein sources.

EBITDA by Division (\$m)



	Horticulture		Storage & Logistics		Food Ingredients		Corporate & Eliminations		Group	
\$000	1H17	1H16	1H17	1H16	1H17	1H16	1H17	1H16	1H17	1H16
Total Segment Revenue	131,470	130,697	67,551	65,487	33,978	31,064	(16,250)	(17,730)	216,748	209,518
EBITDA	34,659	39,014	11,616	11,959	4,189	4,865	(2,058)	(1,651)	48,406	54,187
% of Revenue	26%	30%	17%	18%	12%	16%			22%	26%
EBIT	31,523	35,994	8,804	9,234	3,930	4,614	(2,073)	(1,668)	42,184	48,174
% of Revenue	24%	28%	13%	14%	12%	15%			19%	23%

Note: Segment Revenue includes intercompany charges, most specifically within the Storage & Logistics division, where Scales Logistics charges Mr Apple and Meateor for shipping.

BALANCE SHEET

Robust financial position.

- Average Net Debt (average of 30 June 17 and 31 Dec 16) \$51.2m:
 - Increase of \$17.0m on 1H16 (\$34.2m), primarily due to the purchase of Longview in November 2016.
 - Net Debt to equity 29% (27% at 30 June 2016).
- We continue to invest in organic growth as well as seeking growth by acquisition.

\$'000	Group		
	Unaudited	Audited	
	1H17	1H16	31-Dec-16
Working Capital			
Current Assets			
Cash and Bank Balances	15,124	6,801	6,355
Trade & Other Receivables	66,232	53,572	17,529
Agricultural Produce	64,750	63,833	18,433
Inventories	22,398	19,521	16,365
Other Current Assets	10,833	11,292	12,119
	179,337	155,019	70,801
Current Liabilities			
Trade & Other Payables	(63,178)	(55,313)	(22,047)
Dividend Declared	(14,006)	(9,528)	(11,045)
Short-Term Borrowings	(44,000)	(29,000)	(11,000)
Current Tax Liabilities	(16,076)	(14,445)	(5,009)
Other Financial Liabilities	(1,715)	(1,503)	(3,357)
	(138,975)	(109,789)	(52,458)
Net Working Capital	40,362	45,230	18,343
Non-Current Assets			
Property, Plant and Equipment	225,862	167,393	226,652
Other Non-Current Assets	36,636	30,038	32,659
	262,498	197,431	259,311
Non-Current Liabilities			
Term Borrowings	(40,000)	(30,000)	(30,000)
Deferred Tax	(24,821)	(16,507)	(28,187)
Other Financial Liabilities	(3,379)	(4,808)	(4,877)
	(68,200)	(51,315)	(63,064)
Net Assets	234,660	191,346	214,590
Net Debt	(68,876)	(52,199)	(34,645)
Average Net Debt	(51,761)	(34,184)	(43,422)

A wide-angle photograph of a large industrial food processing facility, likely for apples. The scene is filled with multiple conveyor belts moving through the facility. Workers in white hairnets and dark uniforms are stationed along the lines, monitoring the process. The facility has a high ceiling with a complex network of steel beams and numerous overhead lights. In the background, there are stacks of boxes and a sign that reads "BLUE ZONE 1-10".

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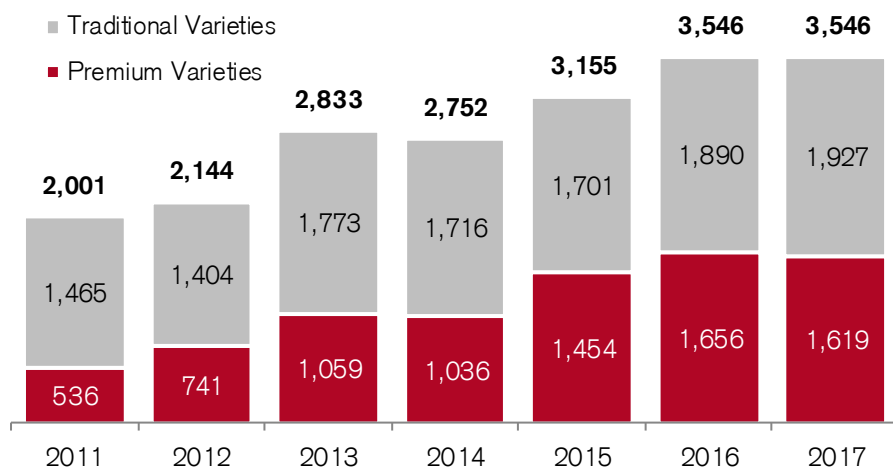
DIVISIONAL PERFORMANCE & OUTLOOK

HORTICULTURE

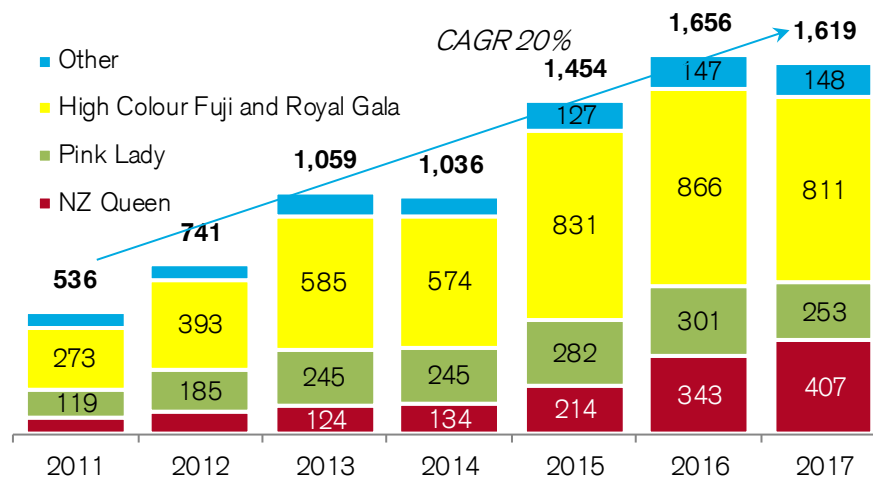
Volumes maintained in a challenging season

- Combined Mr Apple export volumes* consistent with last year:
 - Double the average rainfall in 2 months of the growing season as well as ex-Cyclone Cook.
 - Packout of 76% in line with long-term averages illustrating resilience of our orcharding expertise.
- Additional efficiency obtained from the recently acquired Longview packhouse.
- Premium Variety volumes in line with last year. Volumes of high colour varieties influenced by inclement weather.
- Slight increase in Traditional Variety volumes, 2% ahead of FY16.

Mr Apple Grown Export Volumes (TCE 000s)



Growth in Premium Volumes (TCE 000s)



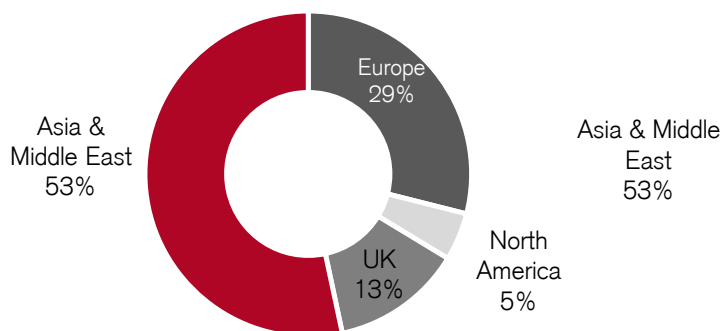
*This result includes additional 'own-grown' volumes associated with the acquisition of Longview and nearby orchards (including orchard leases) of approximately 200k export TCEs.

HORTICULTURE

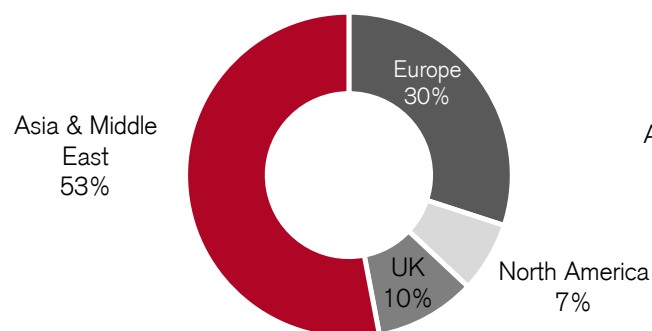
New Zealand is the best place in the world to grow apples.

- The Asian and Middle Eastern markets continue to grow:
 - >\$15m invested to redevelop 367 hectares (out of 1,042) in the last 10 years into premium varieties, sought after by Asian and Middle Eastern Markets.
 - Historical redevelopment coming into production.
 - A further 30+ ha. marked for development this year.
 - New Zealand's global food reputation and geographical proximity to these markets provide an exciting proposition.
 - We are continuing to innovate to meet emerging needs including the launch of new brands and varieties (e.g. Dazzle®) and innovations in packaging to increase brand awareness and value per apple. Further proprietary varieties in the pipeline.
 - We have continued to strengthen our relationship and market share with our key strategic shareholder, China Resources Ng Fung.

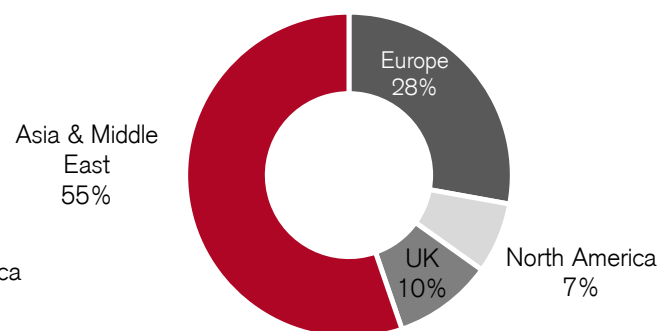
Sales by Region (TCEs) FY15



Sales by Region (TCEs) FY16



Sales by Region (TCEs) FY17F*



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

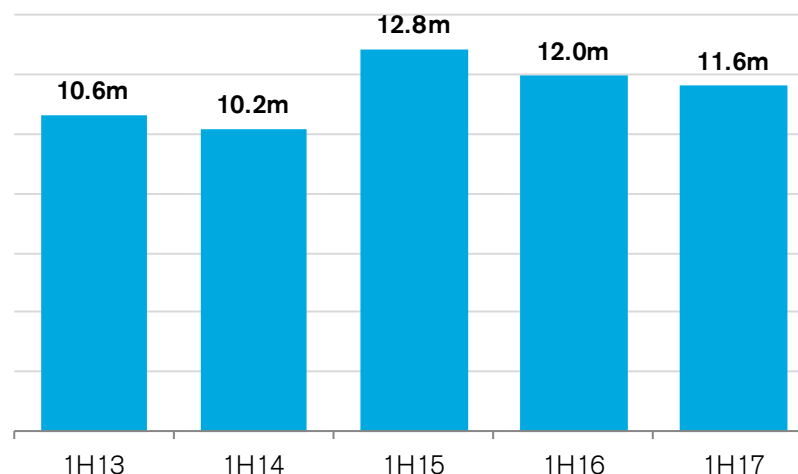
Sales to Asia and Middle East are predominantly in USD, North American sales are in CAD and USD, UK and Europe sales predominantly in their respective currencies.

STORAGE & LOGISTICS

Steady results from Storage & Logistics division.

- The acquisition of OceanAir completed on 1 August 2017 adds the key ports of Auckland and Melbourne to our logistics network:
 - This is anticipated to give rise to revenue synergies as we broaden our relationships with existing customers.
 - OceanAir also extends our skill set in perishable produce with its avocado and kiwifruit focus.
- Coldstores benefiting from a turnaround in industry conditions and increased volumes, which is expected to influence 2H17 performance.

Storage & Logistics EBITDA (\$m)



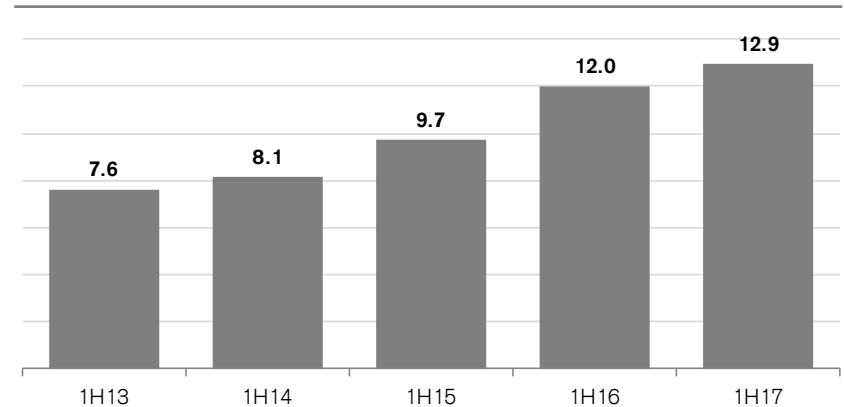
FOOD INGREDIENTS

Continued volume increases.

- Meateor:

- An 8% increase in volumes sold compared to 1H16.
- Overall margins influenced by product mix and industry competition for specific proteins.
- Business strategy continues to focus on adding value to products and expanding protein sources.

**Meateor – Volumes Sold
(MT 000s)**

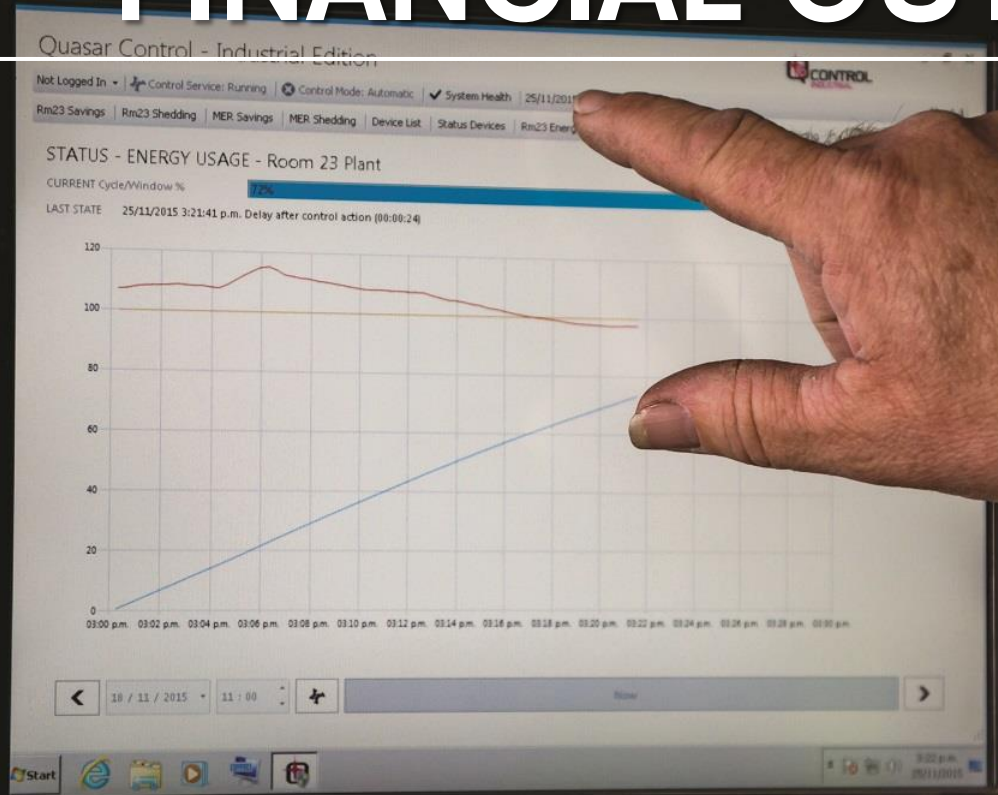


- Profruit:

- Difficult growing conditions have reduced the supply of conventional apple volumes for processing which are down ~16% on 1H16.
- Continued diversification of markets and customers has mitigated increased competition in existing export markets.

FINANCIAL OUTLOOK

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FY17 FULL YEAR OUTLOOK

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

- Horticulture:
 - An excellent outcome in a challenging growing season.
 - Investment in the Mr Apple brand in the Middle East and China markets continues to deliver sales growth.
 - Exported production in line with prior year.
 - Longview adds critical infrastructure capacity to the network.
 - Additional expenditure has been required above and beyond a normal growing year (e.g. higher spray costs, storage costs and additional labour in picking and thinning).
- Storage & Logistics:
 - 2H17 performance expected to outperform 2H16.
 - OceanAir adds strategic positioning for longer term growth in freight forwarding activities.
- Food Ingredients:
 - Positive 1H17 performance with increased petfood volumes.
 - Business expects to achieve year end targets.
- FY17 EBITDA guidance reaffirmed at \$55m to \$62m.

DISCLAIMER

Please do not read this presentation in isolation

This presentation supplements our half year results announcement dated 24 August 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).
- 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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