

SCALES CORPORATION LIMITED

GROWING YOUR DIVERSIFIED AGRIBUSINESS

2018 Annual
Shareholders Meeting

13 June 2018



Scales 
growing New Zealand

AGENDA

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





CHAIRMAN'S REVIEW

Delivering on our strategy.

- Consolidated our position in challenging conditions
- Re-focused group investment / growth strategy
- Completed the acquisition of OceanAir
- Continued progress on sustainability
- Capital redeployment enabled with Coldstores divestment

MANAGING DIRECTOR'S REVIEW

1. Year in Review
2. Sustainability progress
3. Strategy Update
4. Looking Ahead and Investor Returns





1

YEAR IN REVIEW

SCALES BY THE NUMBERS

Revenue

\$399.1m

7% increase

Underlying EBITDA

\$62.0m

9% decrease

Underlying Net Profit

\$32.7m

15% decrease

ROCE

16%

(2016: 21%)

EPS

22.6 cents
per share

(2016: 27.4 cents per share)

Dividends declared

19.0 cents
per share

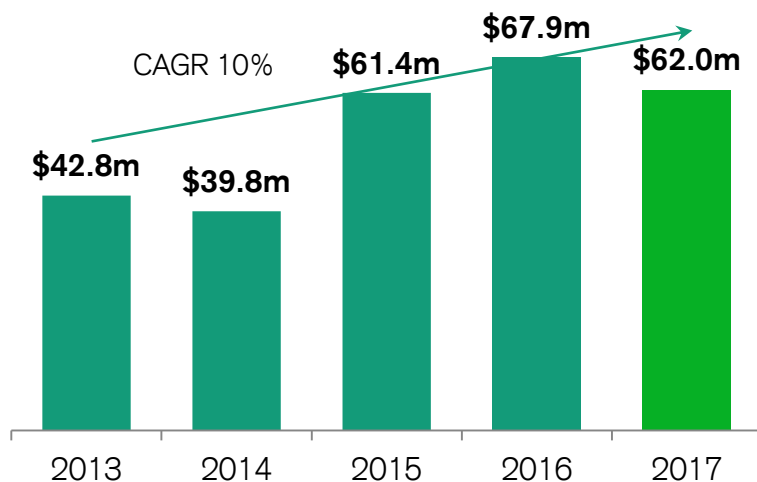
(2016: 14.5 cents per share)

5 YEAR PERFORMANCE TREND

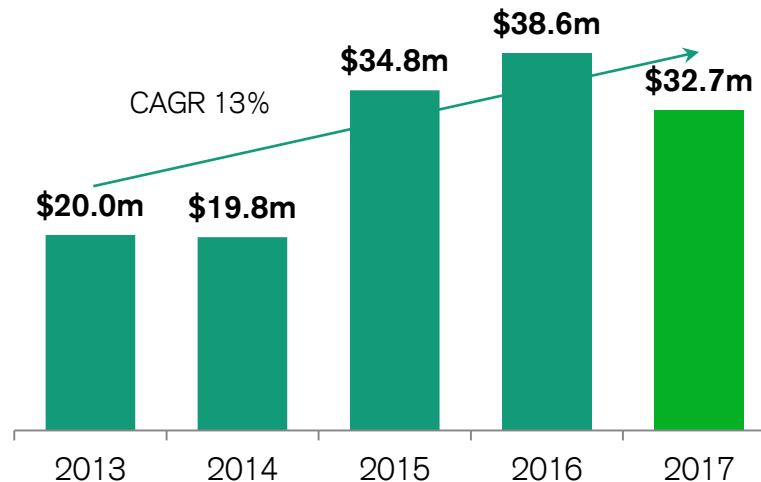
2017 result consolidates our recent growth

- Five year growth trend in EBITDA and NPAT maintained.
- We are continuing to explore options to grow and rebalance the portfolio.

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

Delivering revenue growth and above target return on capital

- Revenue \$399.1m, up 7% on 2016.
- Underlying* EBITDA \$62.0m, at the top end of previously provided guidance.
- Underlying NPAT \$32.7m.
- Reported net profit of \$31.8m after deducting non-cash IFRS adjustments.

Income Statement

\$ Millions	2017		2016	
	Actual	Growth %	Actual	Growth %
Revenue	399.1	7%	373.9	24%
Cost of Sales	(287.1)		(262.5)	
Underlying Gross Margin **	112.0	1%	111.5	4%
Underlying Gross Margin %	28%		30%	
Underlying EBITDA	62.0	-9%	67.9	11%
Underlying EBIT	47.8	-14%	55.8	11%
Underlying Net Profit	32.7	-15%	38.6	11%
After tax impact of:				
Non-cash IFRS adjustments	(1.0)		(0.5)	
Net Profit	31.8	-17%	38.2	6%
Capital employed***	307.5		271.1	
Return on capital employed ***	16%		21%	

* Underlying Results exclude all International Financial reporting Standards (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.

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

*** Capital Employed and Return on Capital Employed in 2016 excludes capital employed and net losses from the Longview acquisition which, due to the timing of the acquisition, did not contribute to 2016 profits. Longview has been included in the 2017 calculation.

2017 DIVISIONAL HIGHLIGHTS

Resilience and a focus on strategy across the Group

1

Horticulture – solid performance despite challenges.

- Better packhouse efficiencies with Longview integration now complete.
- Excellent results in challenging conditions. Great momentum for Dazzle®.
- Asia and the Middle-east, remain central focus for future growth.

2

Storage and logistics – rebalancing the portfolio.

- Rebrand complete and strong performance improvement at Coldstores.
- Strong organic and acquisitive (OceanAir) growth at Scales Logistics.
- Short-term impacts at Liqueo but outlook is positive.

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Food ingredients – record sales volumes.

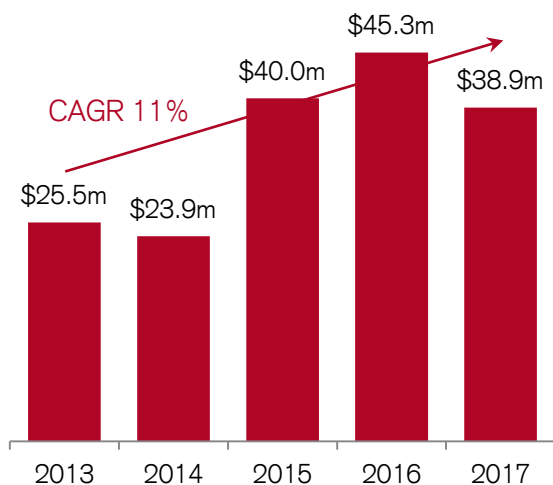
- Record Petfood ingredient sales through Meateor.
- Steady results from Profruit partnership.
- Future strategy focused on building scale and deepening relationships.

DIVISIONAL EBITDA TREND

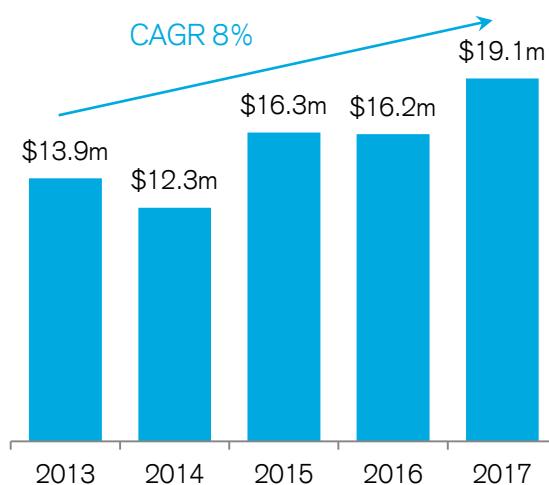
Strong performance improvement from Storage & Logistics
Horticulture and Food Ingredients delivering solid results

Trends in Underlying Divisional EBITDA (\$m)

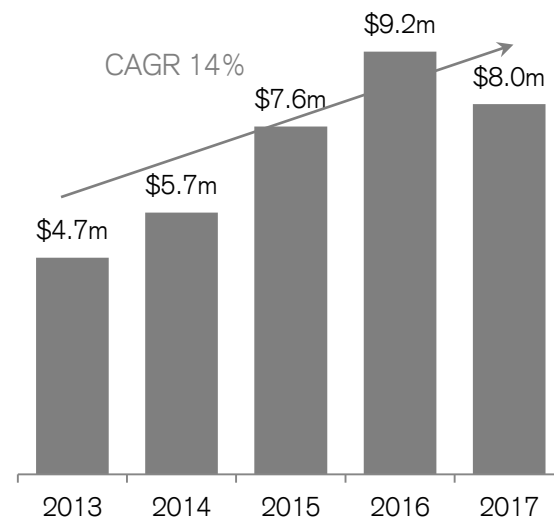
Horticulture



Storage & Logistics



Food Ingredients



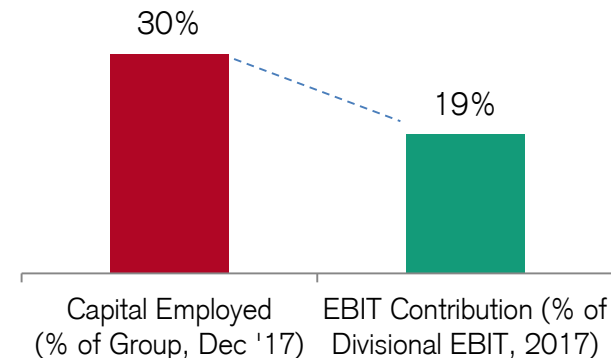
COLDSTORES SALE ANNOUNCED

Opportunity to redeploy capital more effectively

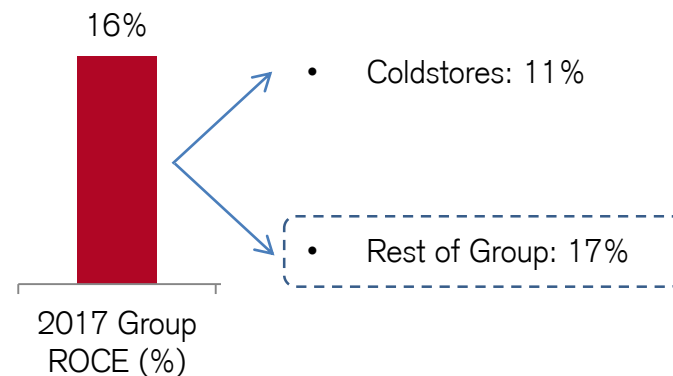
- Agreement entered into with Emergent Cold to sell shares in Polarcold for \$151.4m.
- Low return on capital versus rest of group and other opportunities available.
- Sale subject only to OIO regulatory approval.
- Transaction proceeds to be retained and applied to growth initiatives in line with our strategy.



Coldstores versus Rest of Scales Group



Impact on ROCE



STRONG BALANCE SHEET

Maintaining excellent financial position

- We continue to exceed Return on Capital Employed targets and maintain considerable headroom in our banking covenants.
- Well placed for strategic acquisitions given strong financial position (further bolstered by Coldstores divestment).

Financial Position

\$ millions	2017		
	2017	2016	(excluding Polarcold)
Capital Employed	307.5	293.4	220.1
<i>Return on Capital Employed*</i>	<i>16%</i>	<i>21%</i>	<i>17%</i>
Net Interest Bearing Debt	(40.8)	(34.6)	110.6
<i>Senior Debt Coverage</i>	<i>0.7x</i>	<i>0.5x</i>	
<i>Interest Cover</i>	<i>18.3x</i>	<i>24.1x</i>	
Other Liabilities	(44.8)	(44.1)	
Net Assets	221.9	214.6	

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



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SUSTAINABILITY

SUSTAINABILITY

Journey progressing to plan

- Full review of the business in 2017:
 - Group Sustainability and Health & Safety role established.
 - Evaluated current position and identified KPIs.
- Three areas of focus to future-proof our business:
 - Being an Employer of Choice.
 - Water.
 - Energy / carbon footprint.

Scales' sustainability framework



BEING AN EMPLOYER OF CHOICE

Sustainability starts with our people

- Committed to the goal.
- Proud of what we do already.
 - Company-wide training and investment in our staff.
 - Collaboration with WINZ.
 - Efforts to promote diversity.
- But keen to understand what we don't know.
 - 2018 staff-wide engagement survey.
 - Empowering our people.
 - Benchmark where we are at.
 - Serious investment in our People.



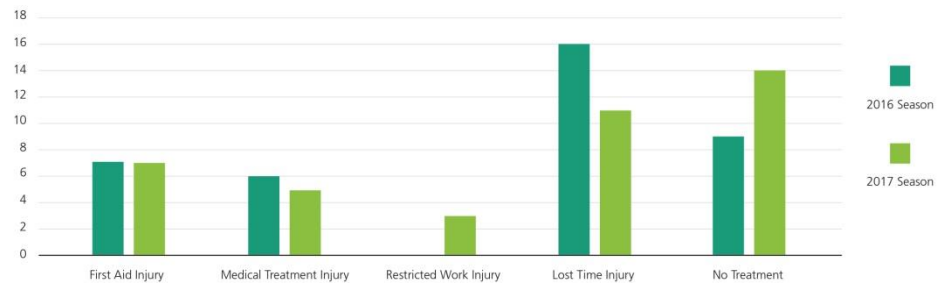
HEALTH AND SAFETY

Remains our #1 priority

- Big push to standardise policy and procedures across the Group.
 - Taking best practice and rolling it out.
 - Replicating positive H&S culture.
 - Leveraging processes that already work – e.g. forklift coach training at Mr Apple, applied to Group.
- And investing behind H&S innovation that really makes a difference.
 - E.g. big drop in severity of ladder incidents due to introduction of Velcro strips.
- Most (and best) initiatives come from the floor.
- Staff engagement survey will be another important tool in lifting the bar on H&S.



Severity of ladder incidents



A person is standing on a rooftop, looking out over a city at sunset. The sun is low on the horizon, creating a bright glow and long shadows. The sky is filled with dramatic, orange and yellow clouds. The rooftop has a white railing and a large, curved, metallic structure in the foreground.

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STRATEGY UPDATE

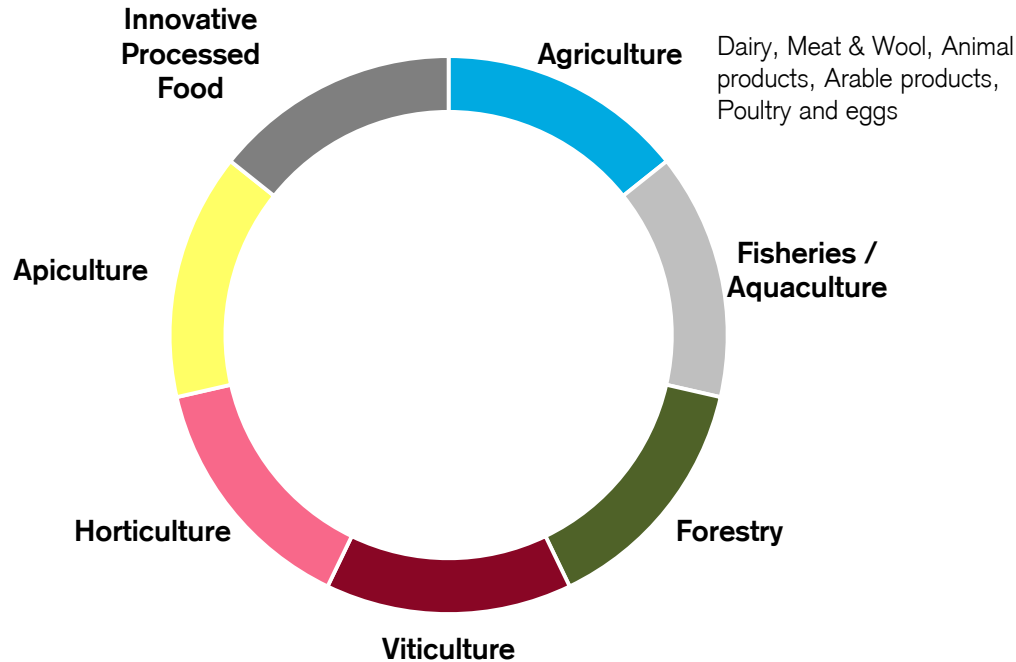
OUR STRATEGY

A greater focus on pure agribusiness

- We have refined our group investment / growth strategy, adopting a greater focus on pure agribusinesses.
- We will focus on opportunities that play well to our strengths:
 - Fully-vertically integrated.
 - Export-led.
 - Add value from our Chinese relationships.
- Targeting a meaningful rebalancing of our current portfolio of businesses:
 - We will look to acquire businesses that play well to our strengths.
 - We will seek to divest operations that are not well-aligned with our strengths.
- Extremely exciting time to be a diversified investor in, and grower of, agribusinesses.

OUR INVESTMENT UNIVERSE

Agribusiness encompasses the following primary industries



Within this universe Scale has identified **two sectors** that are now subject to detailed due diligence

The Primary Sector accounts for:

79.2%
of New Zealand's
merchandise exports

15%
of employment

10.5%
of GDP

APPROACH TO CAPITAL ALLOCATION

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.

Our long-term goal:

To generate a long-run average 15% Return on Capital employed across our portfolio.*

Strategies to Create Value

As an operator we will:

- Support our businesses by investing in people, culture, and equipment
- Expand through appropriate investment in growth
- Provide operating and financial support

As an investor we will:

- Remain patient and disciplined
- Identify sectors with appropriate vertically-integrated, scale, and growth characteristics
- Identify opportunities where we can add value through our core strengths
- Remain focused upon our long-term ROCE objectives

*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).



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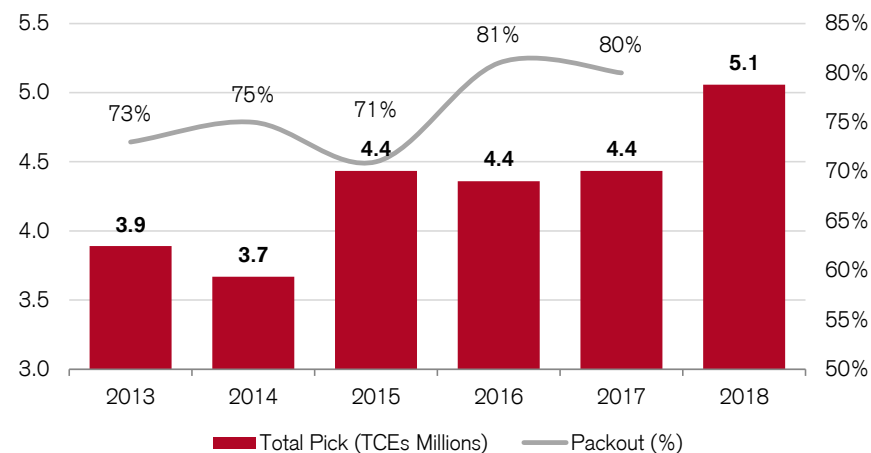
LOOKING AHEAD AND INVESTOR RETURNS

TRADING UPDATE

The outlook for Scales remains positive

- Horticulture:
 - Total pick, up 14% to 5.1m apples.
 - ~2/3rd of fruit packed to date. Packout expected to be in line with long run averages.
 - Slightly more than 1/3rd of crop sold to date.
 - Strong momentum for Dazzle® with significant license agreement signed in the US.
- Storage & Logistics:
 - Coldstores profits generated until 31 May accrue to Scales. Storage levels for Q1 generally strong.
 - Other businesses trading in line with, or slightly ahead of this time last year.
- Food Ingredients:
 - Production and sales continue to be strong reflecting attractive industry fundamentals.

Mr Apple Gross Harvest & Export Packout



- Group:
 - Based on factors currently known to us, the Directors support previously provided guidance for 2018 (EBITDA of \$58 to \$65 million).

DIVIDENDS

- Total of \$0.18 per share in cash dividends paid in respect of 2017:
 - No change from the \$0.18 total dividend per share in 2016.
 - Represents a gross dividend yield of 7.0% on the average daily share price in 2017 (2016: 8.3%).

	EPS	Dividends Paid	Payout	Gross Dividends	Avg. Share Price for the Year	Gross Dividend Yield
2017	\$0.226	\$0.180	80%	\$0.250	\$3.579	7.0%
2016	\$0.274	\$0.180	66%	\$0.250	\$3.020	8.3%
2015 (restated)	\$0.257	\$0.170	66%	\$0.236	\$1.830	12.9%



ORDINARY BUSINESS AND RESOLUTIONS

RESOLUTION 1

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

RESOLUTION 2

Having retired by rotation, that
Tim Goodacre be re-elected as a Director.



RESOLUTION 3

Having retired by rotation, that
Mark Hutton be re-elected as a Director.





VOTING & QUESTIONS

DISCLAIMER

Please do not read this presentation in isolation

This presentation supplements our full year results announcement dated 28 February 2018 and Annual Report dated 29 March 2018. It should be read subject to and in conjunction with the additional information in those releases and other material which we have released to the NZX.

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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 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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