

SCALES CORPORATION LIMITED

GROWING YOUR DIVERSIFIED AGRIBUSINESS



Acquisition of 60% stake in Shelby JV LLC
14 December 2018

Scales 
growing New Zealand

TRANSACTION OVERVIEW

- Scales has today announced the acquisition of a 60% interest in Shelby JV LLC (**Shelby**), one of the largest independent buyer and processor of ingredients for the petfood industry in the United States.
- Shelby is an attractive investment when viewed against our investment criteria:
 - Shelby represents an extension of our existing petfood ingredients business Meateor. It operates in a sector that we know and understand well.
 - This investment is consistent with our stated Refresh Strategy and in an area that plays well to our strengths.
 - Shelby handles approximately 80,000 MT of petfood ingredients annually, bringing total petfood ingredient volumes handled by Scales' Food Ingredients division to over 107,000 MT, making us a significant independent, global petfood ingredients processor.
 - Opportunities exist to extract synergies through the increased breadth of proteins, customer and supplier networks, and know-how.
 - Attractive standalone economics. Over time, Shelby is expected to deliver a ROCE in excess of our long-term objective.

Key Transaction Metrics

Purchase Price	US\$23.2m for 60% shareholding
Implied Multiple	6.5x 2019 maintainable EBITDA
Governance	5 Directors, Scales has the right to appoint 3
Funding	Purchase price funded through debt
Due Diligence	Extensive due diligence covering commercial, financial, tax, legal, and environmental
Advisors	Maher & Associates (buy-side) PwC (financial & tax) Sills, Cummis & Gross (legal)

All figures in this presentation are in USD unless stated otherwise.

SHELBY – OVERVIEW

Shelby's operations are similar to Meateor's operations within New Zealand

Procurement

In 2018, Shelby purchased animal byproducts (mostly offals) from some 20 meat processing plants as shown on the map below.

Processing

Byproducts are processed at one of 7 locations. Shelby owns and manages its processing facility in Amarillo, TX. Third parties toll-process the remaining product.

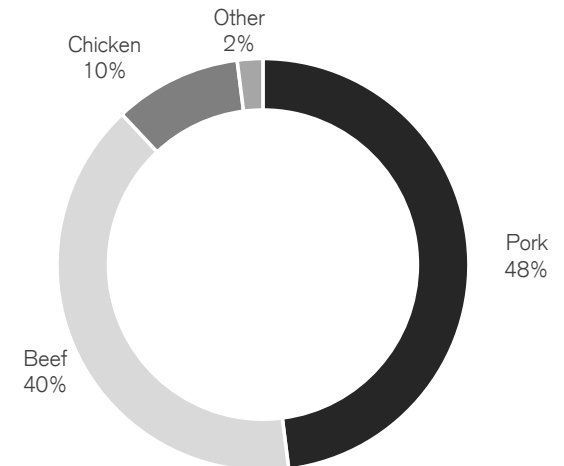
Sales

Sales are made to large petfood manufacturers. During 2017, Shelby generated revenues of US\$56m from the sale of ~175m lbs (~80k MT) of ingredients. The majority of sales are Pork and Beef offals.

Shelby, Locations of Suppliers and Processing Operations



Sales by Species (2017)



SHELBY – OVERVIEW (CONTINUED)

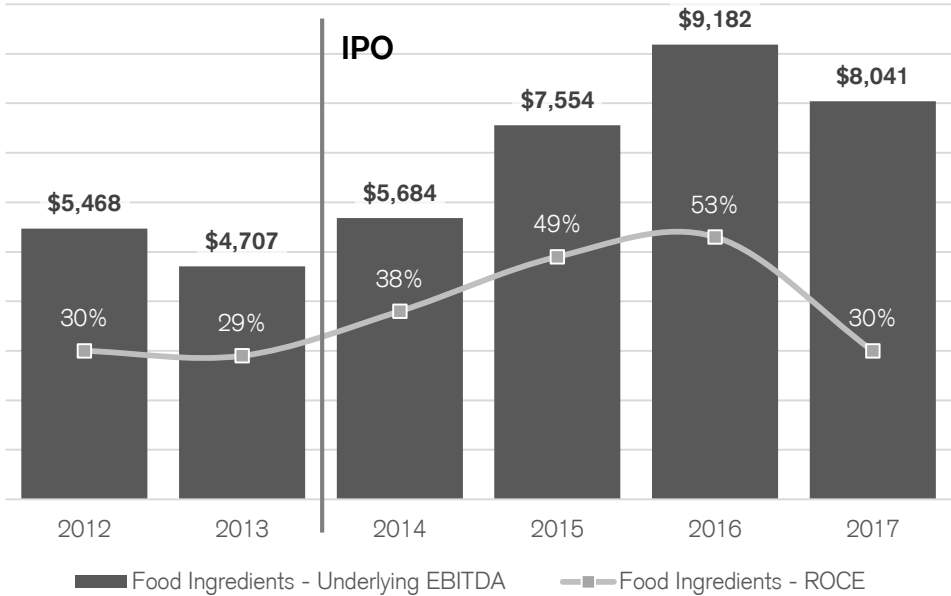
Leadership and Governance

- Shelby is capably led by a high quality management team:
 - Brett Frankel (President and Founder):
 - With over 20 years of experience in the petfood industry, Brett has strong networks amongst suppliers and customers. Brett is well-regarded and connected within the industry.
 - Brett will continue to be responsible for day-to-day management of the company and retains a 40% shareholding in Shelby.
 - Bruce Curtis (Chief Operations Officer):
 - Bruce is Shelby's head of operations and has over 40 years of experience in the petfood and meat industries.
 - Bruce is also very well-regarded in the industry, shares responsibility for petfood sales with Brett, and remains committed to working with Shelby.
 - Heather Gorny (Chief Financial Officer):
 - Heather started with Shelby in 2016. She has a background in accounting, and previously managed the Shelby account in her role as a public accountant.
- Shelby will be governed by a board of 5 Directors.
 - An extensive Shareholder's Agreement governs the operations of Shelby.
 - This agreement provides Scales with the ability to appoint up to 3 Directors (out of a maximum 5). Scales will appoint a US-based individual with relevant sector experience to sit alongside Andy Borland and John Sainsbury on the Board.

STRATEGY REFRESH

- Scales has focused investment initially on its Food Ingredients division, as it offers both attractive market opportunities and strong financial returns.
- This division has consistently delivered positive results since our IPO:
 - EBITDA has increased by 71% between 2013 and 2017.
 - ROCE (30% in 2017) continues to perform well above our long-term Group objective of 15%.
- Scales believes the Food Ingredients division can comfortably replace the earnings from the pending sale of the Coldstore business over the next three years.

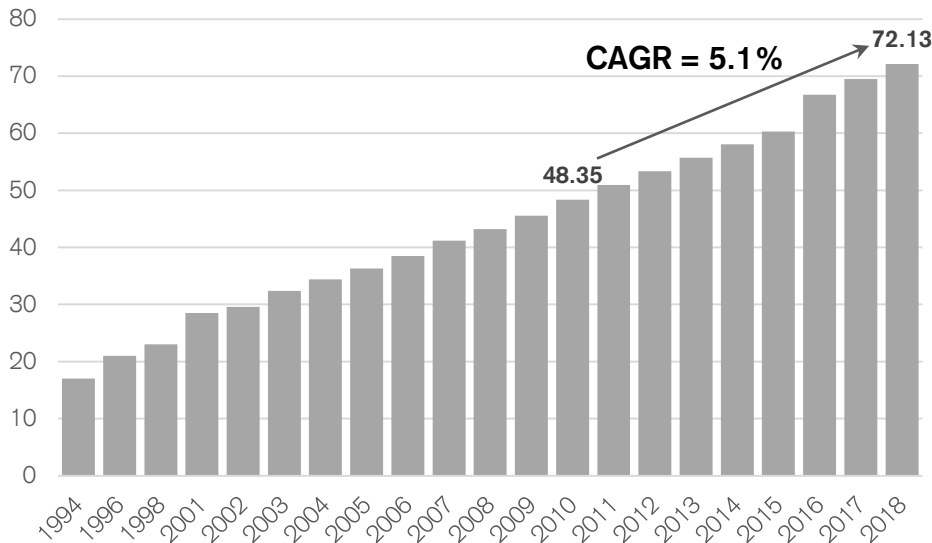
Food Ingredients EBITDA (\$000s) and ROCE, 2012-2017



STRATEGY REFRESH (CONTINUED)

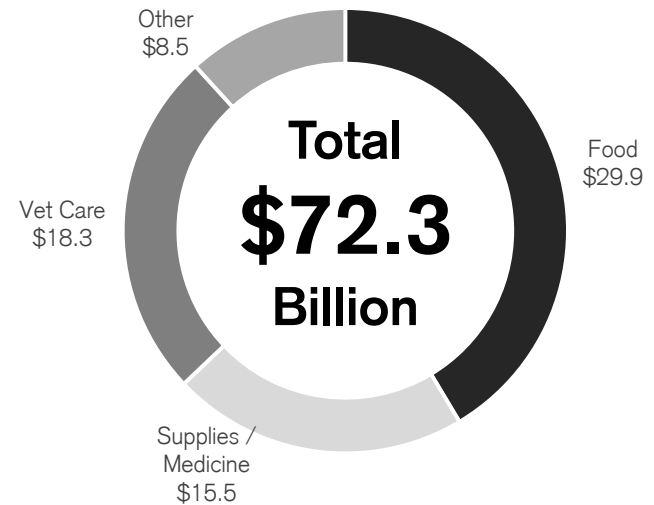
- Petfood ingredients is the key component of Scales' Food Ingredients division. We believe this continues to be an attractive industry for investment:
 - Spending on pets is demonstrating strong year-on-year growth. This growth is being driven by lifestyle changes such as delayed marriages and fewer children.
 - Globally, petcare is a \$100b industry of which ~\$72b is forecast to be spent in the United States. The petcare industry in the US has grown at a compounding annual rate of 5.1% since 2010.
 - China, third in the world for dog ownership, is also demonstrating strong growth. The Chinese petfood market was valued at US\$1.9b in 2017 and is expected to grow at a CAGR of 9.7% for the next 5 years (*source: Mordor Intelligence*)
 - Petfood ingredients provide broad exposure to this trend. Scales' objective is to be a key provider to a wide range of brand owners.

Petcare expenditure in the United States, (\$ billions)



Source: American Pet Products Association (www.americanpetproducts.org)

Petcare expenditure in the United States, 2018 by sector (\$ billions)



GAME PLAN

The purchase of Shelby accelerates the development of our petfood ingredients business and its growth strategy.

- Scales intends to implement the following game plan for Meateor:
 - To create a business dedicated to providing key protein ingredients to petfood brand owners operating internationally.
 - Meateor now sources product from NZ, Australia and the United States. Meateor intends to further extend our reach of supply and the range of proteins offered to our petfood customers.
 - Meateor will enter into alliances to further develop this network; either working alongside existing operations that are complementary to our own, or with protein suppliers to ensure access to all highly regarded protein sources.
 - Acknowledging that our customers are operating in a fast moving consumer market Meateor will look to provide additional services to enable them to remain nimble, reduce fixed capital requirements, and enable them to focus on developing the range and mix of products offered.
 - Meateor will leverage Scales' existing experience with export markets, and in particular China, where the market metrics for petfood growth is considerable and proteins available from offshore are highly sought after.

Scales has set an EBITDA earnings target of \$25.0 million over the next five years for its Food Ingredients division, and Scales has ear-marked further funding of up to \$50.0 million over this period to meet these targets. It is expected that the Food Ingredients division will continue to exceed our ROCE target of 15.0% on a consistent basis.

DISCLAIMER

Receipt of this presentation constitutes acceptance of the terms set out above in this disclaimer.

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