



# **Scales Corporation Limited**

## **Growing your Diversified Agribusiness**

2019 Annual Shareholders' Meeting

12 June 2019

**Scales**   
growing New Zealand

# Agenda

- I. Welcome**
- II. Chair's Review**
- III. Managing Director's Review**
  - 1. Year in Review
  - 2. Sustainability and Governance Update
  - 3. Strategy Update
  - 4. Outlook and Investor Matters
- IV. Ordinary Business and Resolutions**
- V. Voting and Questions**





# Chair's Review

## Delivering on our strategy

- A record breaking year.
- Re-focused group investment and growth strategy.
- Continued progress on sustainability.
- Expanded Board and new China Resources Ng Fung appointee – ensuring the continuation of a strong business relationship.



# Culture & Shareholder Alignment

- Scales has cultivated a strong culture of teamwork, recognition and support.
- Senior team members compensated via an appropriate mix of short and long-term incentives:
  - STI scheme – performance based.
  - LTI scheme – linked to long-term share price performance as an absolute hurdle requiring a gross return of 20% per annum.



# Managing Director's Review

1. Year in Review
2. Sustainability and Governance Update
3. Strategy Update
4. Outlook and Investor Returns





# Year in Review

1

# Scales by the Numbers

**\$464.7m**

Underlying Revenue  
(new Revenue record)

**3**

acquisition or divestment  
contracts signed  
(Polarcold, Liqueo, Shelby)

**17%**

Return on Capital  
Employed (ROCE)  
(2017: 17%)

**18.5 cents**

dividends declared  
per share

**5,831,000**

TCEs\* of apples exported  
(Mr Apple, Longview, outside growers  
& Fern Ridge Fresh)

**29,028 MT**

petfood ingredients sold

**3,867,000**

TCEs of own-grown  
apples exported  
(new volume record for Mr Apple)

**35,210**

TEUs\*\* freighted  
(up 19% on 2017)

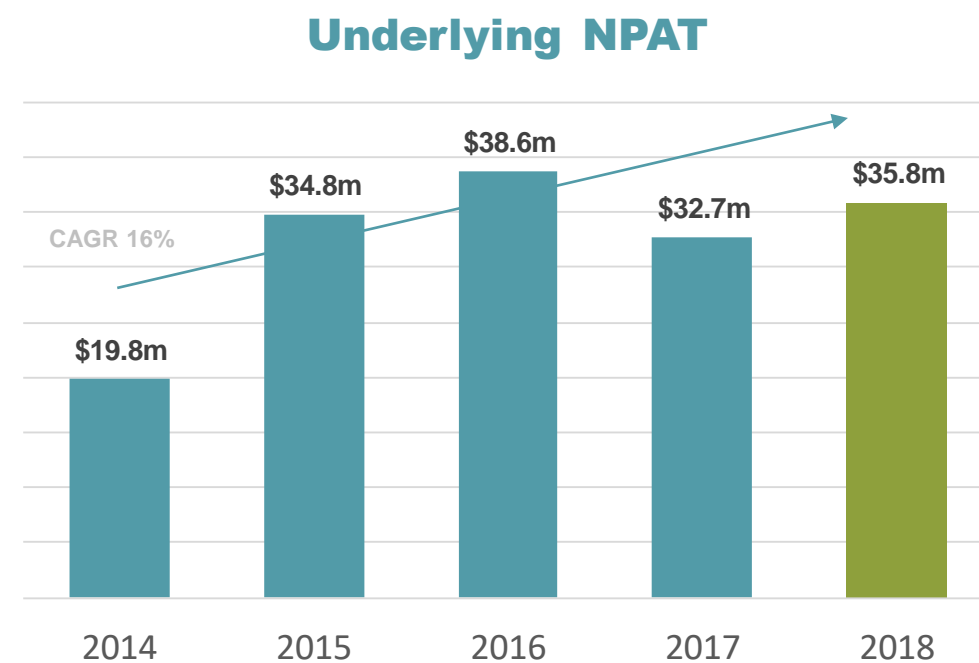
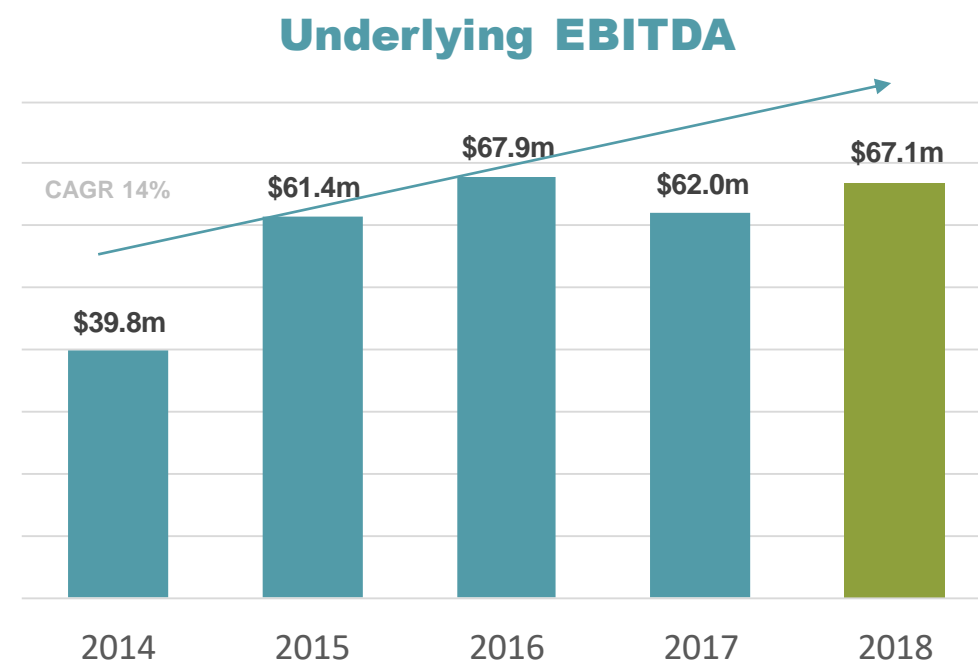
\* Tray Carton Equivalent.

\*\* Twenty-foot Equivalent Unit.

# Trends in Financial Performance

## Continued growth

- Underlying\* EBITDA and Underlying NPAT have increased at CAGRs of 14% and 16% respectively.
- Underlying EBITDA has increased by 68% and Underlying NPAT has increased by 81% since 2014.



\* Underlying Results exclude some New Zealand International Financial Report Standards (NZ IFRS) non-cash adjustments (namely, change in fair value gain on apple inventory, cash-settled and equity-settled share-based payments, and change in gross liability for non-controlling interests). Management and the Board believe that Underlying Results more accurately demonstrate the change in operational performance of the Group. Underlying Results include earnings from Polarcold (full year) and Liqueo (up until sale).



# Group Financial Performance

## A record breaking year

- Underlying Revenue \$464.7m, up 18% on 2017:
  - Solid revenue growth from all divisions.
  - Reported\* revenue (excluding discontinued operations) \$402.5m up 20% on 2017.
- Underlying EBITDA \$67.1m, up 8% on 2017 and exceeding previous guidance.
- Underlying Net Profit \$35.8m, up 9% on 2017:
  - Reported NPAT \$45.5m (2017: \$31.6m).

Income Statement			
	2018	2017 (Restated)	Growth %
\$Millions			
Underlying Revenue	464.7	393.1	18%
<b>Underlying EBITDA</b>	<b>67.1</b>	<b>62.0</b>	8%
<b>Underlying EBIT</b>	<b>52.3</b>	<b>47.8</b>	9%
<b>Underlying Net Profit</b>	<b>35.8</b>	<b>32.7</b>	9%
After tax impact of:			
Non-cash IFRS adjustments	9.7	(1.1)	
<b>Net Profit</b>	<b>45.5</b>	<b>31.6</b>	
Capital employed	360.2	307.5	
Return on capital employed	17%	17%	

\* Reported (and restated) financials exclude discontinued operations (Polarcold and Liqueo).

# 2018 Divisional Highlights

1

## Horticulture – setting a new benchmark

- Revenue of \$255m, up 15% on 2017.
- Continuation of our orchard redevelopment strategy.
- Full launch of Dazzle™ and Posy™ this year.

2

## Storage & Logistics – significant divestment activity

- Polarcold sold in May 2018, settled in May 2019.
- Liqueo sold in August 2018.
- Scales Logistics achieved standout 48% increase in EBITDA.

3

## Food Ingredients – rebalancing the portfolio

- Underlying EBITDA of \$10.2m, up 27% on 2017.
- 60% stake in Shelby Foods acquired in December 2018.
- Meateor NZ and Alliance Group entered into a 50/50 Joint Venture in March 2019.

# Divestment Achievements

## Positive returns on investment – highlighting our returns focused approach

- Approximately \$200m realised from the sale of Polarcold, Liqueo and 50% of Meateor NZ, comprising:
  - Headline values; and
  - Positive and significant purchase price adjustments.
- Excellent multiples achieved on exit.
- Scales is now in a strong financial position to pursue other attractive agribusiness opportunities.

Divestment summary		
	Liqueo	Polarcold
Consideration	\$20.0m	\$151.4m
EBITDA*	\$1.5m	\$14.5m
EBIT	\$0.6m	\$9.7m
Implied EBITDA multiple	13.3x	10.4x
Implied EBIT multiple	31.5x	15.6x

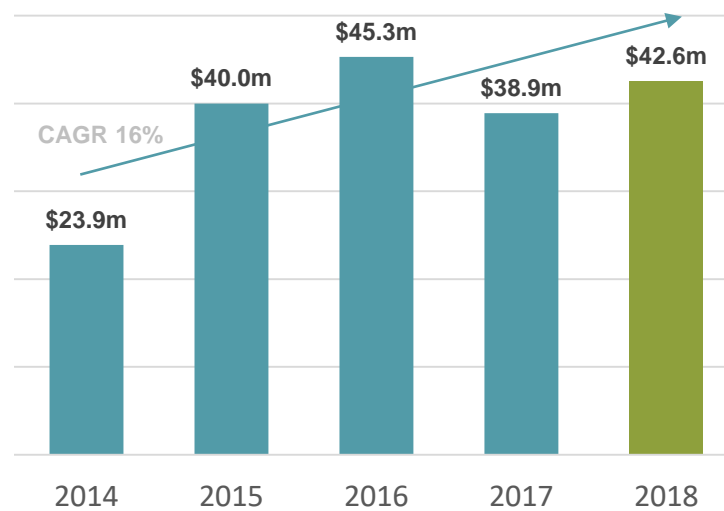
\* Based on 2017 reported EBITDA. Liqueo's EBITDA was normalised for one-off expenses.



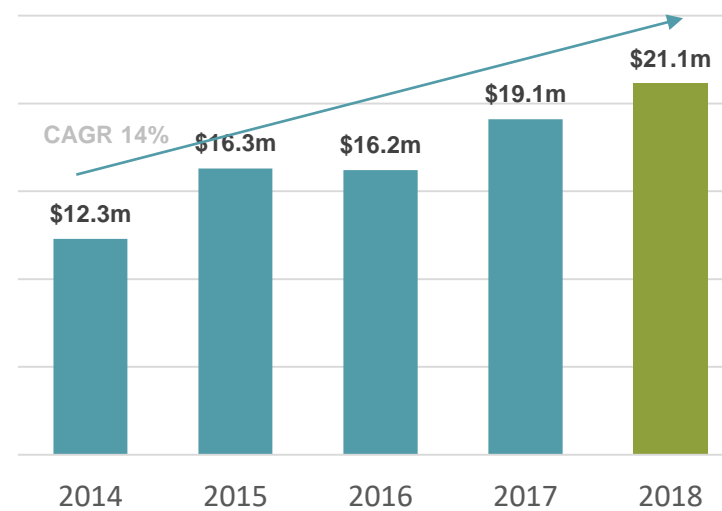
# Trends in Divisional Performance

CAGRs of 14% to 16% for divisional Underlying EBITDAs over the last 5 years

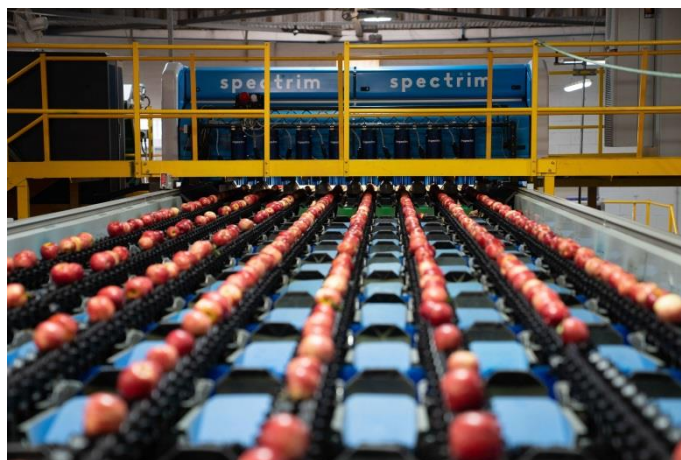
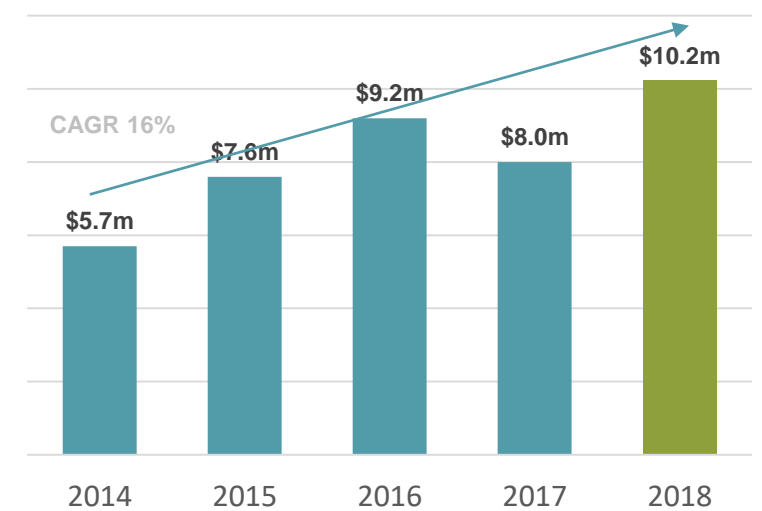
## Horticulture EBITDA



## Storage & Logistics EBITDA



## Food Ingredients EBITDA



# Balance Sheet

## Maintaining a strong financial position

- 2018 reported balance sheet showed:
  - Increase in capital employed due to Shelby transaction, capital expenditure and increases in inventories.
  - An increase in Net Debt due to the Shelby transaction, capital expenditure and working capital investment.
- Including Polarcold and Meateor transactions in the 2018 year end balance sheet (2018 Pro Forma):
  - Net Cash would have been \$117m.
  - Sale proceeds exceed carrying value, resulting in significant increase in Net Assets.

Financial Position			
\$Millions	2018 (Pro Forma)	2018	2017 (Restated)
Capital Employed	278.4	360.2	307.5
Return on Capital Employed	N/A	17%	17%
Net Cash / (Interest Bearing Debt)	116.8	(62.2)	(40.8)
Senior Debt Coverage	N/A	1.1x	0.7x
Interest Cover	N/A	22.4x	18.3x
Other Liabilities*	(36.4)	(48.1)	(44.8)
<b>Net Assets</b>	<b>358.8</b>	<b>249.9</b>	<b>221.9</b>

\* Other liabilities includes liabilities associated with Assets Held for Sale.



# Sustainability and Governance Update

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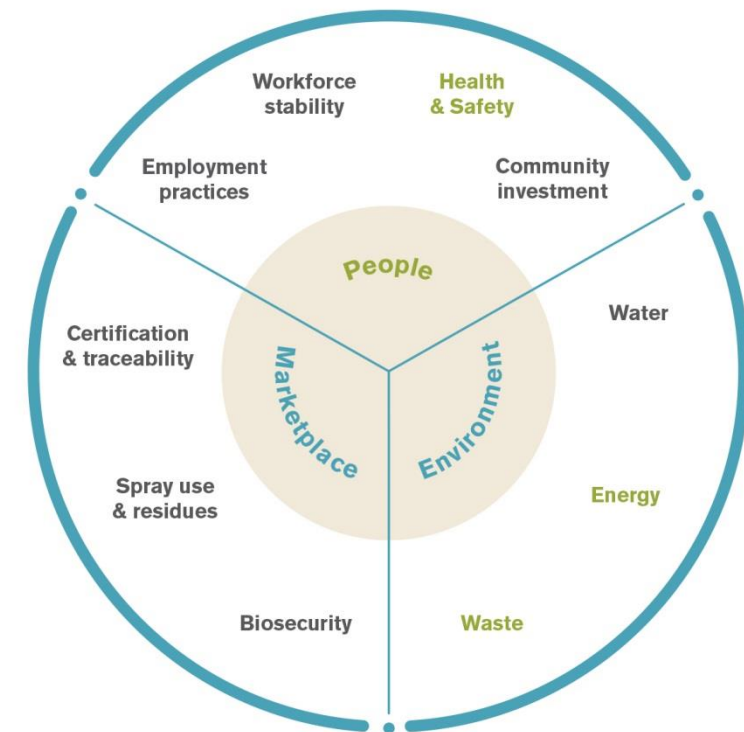


# Sustainability

## Our Sustainability journey

- In 2018 we started measuring, and setting targets for reducing our impact in, the areas of focus identified in 2017.
- These areas were:
  - People – in particular, staff engagement and health and safety.
  - Energy – participation in CEMARS® (carbon footprint calculation) baseline.
  - Waste – in particular the amount of waste sent to landfill.

## Sustainability framework - areas of focus



# Sustainability - Initiatives

## A snapshot of current and future initiatives

- People:
  - Inaugural Group-wide staff engagement survey undertaken, will be used as a baseline for measuring progress.
  - Launching independent ethical business reporting line (Report It Now) in August 2019.
- Health and Safety:
  - In-house forklift coach – dramatic change in behaviours, culture and incidents.
  - Finalist in the NZ Safeguard Awards (May 2019) for forklift competency.
- Environment:
  - Completion of the very first CEMARS® calculation for Mr Apple. We will be implementing plans to reduce our carbon footprint.
  - Energy audits completed at Mr Apple's largest packhouse and coolstore sites.
  - Focus on reducing waste to landfill – waste audits completed at Mr Apple and Balance Cargo.
  - Establishing horticulture / local council joint waste minimisation group in Hawke's Bay.



# Sustainability - Measurements

Measuring and setting targets in key focus areas

**42% female**  
**58% male**  
current staff ratio\*

**63 active**  
apprenticeship  
programmes

**85% participation**  
in the inaugural  
**staff engagement survey**

**100%** of Scales  
companies have an updated  
**Business Continuity Plan**

**First**  
**CEMARS®** certification

**2.4 times**  
more **safety**  
**observations** reported

**100%** attendance  
of the Board and CEOs at  
**safety governance and**  
**leadership training**

**Finalist**  
in the  
**NZ Safeguard Awards**

\* Excludes Liqueo and Polarcold.



# Governance

## Two new additions to our Board

- Tomakin Lai
  - Non-Executive Director.
  - Appointment effective from 28 January 2019.
  - Replaces Weiyong Wang as China Resources Ng Fung's representative on the Board.
  - Director of China Resources Ng Fung and Executive Director of China Resources Beer (Holdings) with a market capitalization of nearly NZ\$21b, making it the 63<sup>rd</sup> largest stock on the Hong Kong Exchange.
- Nadine Tunley
  - Non-Executive Independent Director.
  - Appointment effective from 26 February 2019.
  - Currently CEO of Ngai Tahu owned Oha Honey LP which farms >35,000 bee hives nationwide, and former Chair of NZ Apples & Pears.
- Continuing participation in the Institute of Directors' Future Directors programme:
  - Teresa Steele-Rika (2018/19).
  - Jemma McCowan (2019/20).





# Strategy Update

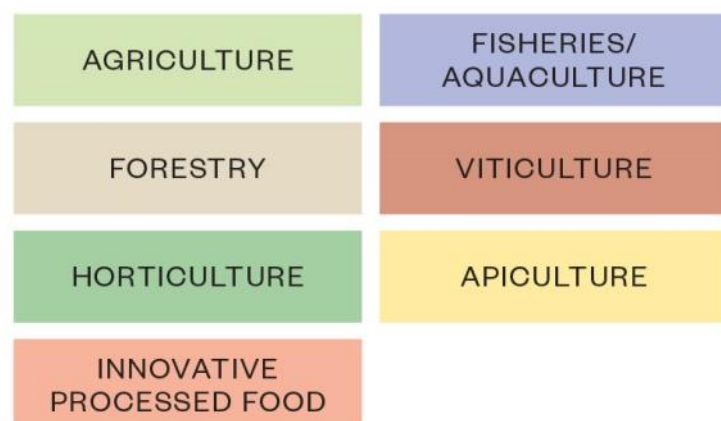
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# A Focus on Agribusiness

## Our strategies as an investor in New Zealand agribusiness

- Continue to look for diversification from our operating units, ensuring a more sustainable and robust earnings profile.
- Pursue fully integrated models where we can directly benefit from 'best practice' farming, often developed from in-house experience.
- Ensure we retain a strong market focus on both our product innovation plus in-market distribution and representation.
- Sustainability will be a key consideration for all future investment.

Our definition of agribusiness encompasses the following sectors



The Primary Sector accounts for:

**79.2%** of NZ's merchandise exports

**15%** of employment

**10.5%** of GDP



# Macro Economic Trends

## Scales is well positioned to capitalise on environmental trends

- The food & agribusiness sector has particular relevance in the fight against climate change\*:
  - As a carbon emitter (roughly a third of annual greenhouse gas emissions are from agriculture, food production and food waste).
  - As an industry vulnerable to the effects of climate change.
- The World Economic Forum has stated the ultimate goal needs to be a more sustainable food system\*\*.
- US sales of plant-based alternatives to animal proteins increased 8.1% in 2017 to US\$3.1b\*\*\*.
  - Growth continuing at 'break-neck' speed.
  - Driven by concerns such as health, animal welfare and sustainability.

\* Source: Rabobank Research – Good COP - Bad COP, January 2016.

\*\* [www.weforum.org/agenda/2019/03/plant-based-proteins-can-feed-the-world/](http://www.weforum.org/agenda/2019/03/plant-based-proteins-can-feed-the-world/).

\*\*\* Research carried out by Nielsen for the Plant Based Foods Association and the Good Food Institute.



# Strategy Progress

## Delivering on our Strategy Refresh

- Portfolio rebalancing:
  - Storage businesses divested.
- Focus on opportunities best aligned with our core strengths, with initial focus on our Food Ingredients division:
  - Acquired a controlling interest in Shelby Foods.
  - Announced a joint venture between Meateor New Zealand and Alliance Group.
  - Objective of creating a \$25m EBITDA business.
- Continuing to review a wide variety of investment opportunities:
  - Cognisant of effects of, and opportunities afforded by, climate change.
  - Other horticultural sector expectations make this a low-priority sector currently.
  - We will remain disciplined.



**ALLIANCE**  
FARMERS' PRODUCE



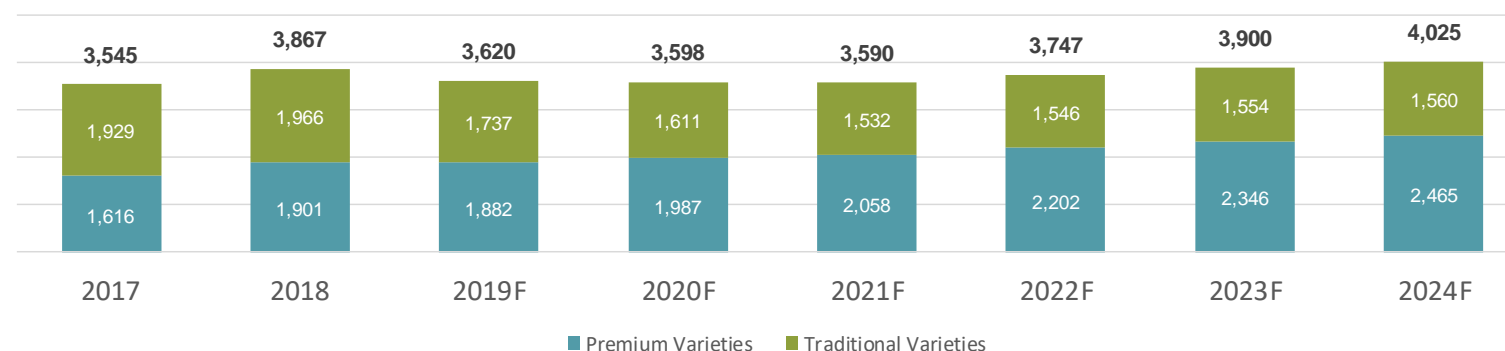
# Horticulture – Orchard Strategy

## Mr Apple expects to drive future performance through three strategic initiatives

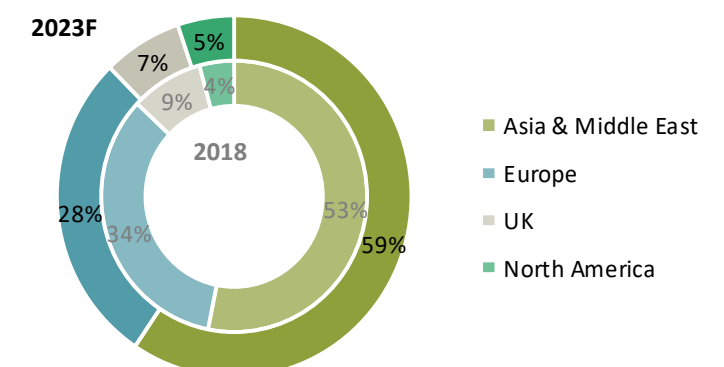
- Maintaining our focus on premium varieties to Asia and Middle East.
- Driving improved returns and branding presence through increased sales of proprietary varieties and brands (e.g. Dazzle™ and Posy™):
  - 80 hectares of Dazzle™ and Posy™ already planted.
  - Further redevelopment planned for 2019 and 2020 winters.
  - Remain committed to Hawke’s Bay region for growing due to favourable climate and water outlooks
  - Expected reduced production in the near term, with volumes returning to 2018 levels by 2023F.
- Opportunities in automation:
  - Costs are rising, specifically labour.
  - We are investing in, and actively assessing opportunities for, automation both on orchard (growing systems) and in post-harvest activities (carton packing).
  - Mr Apple is well positioned to embrace automation by virtue of its scale.



Mr Apple Own Export Volumes (TCE 000s)



Sales by Region – 2018 vs 2023F (% TCE)



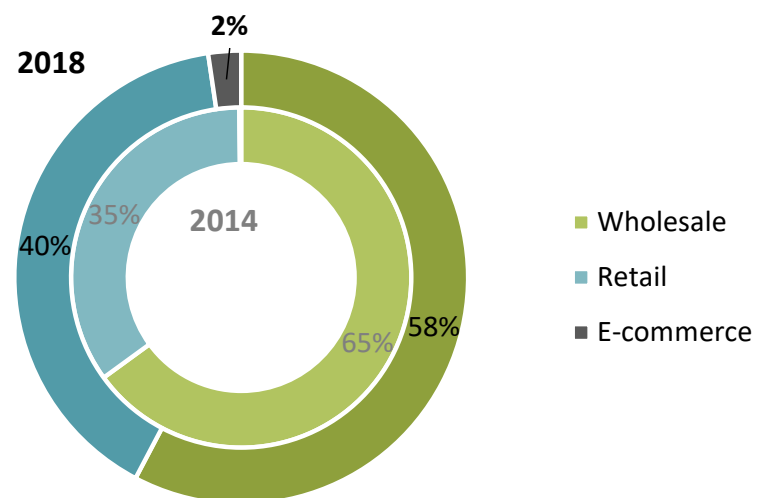
# Horticulture - Market Strategy

## A shift in focus

- Evolution of marketing focus at Mr Apple:
  - Maximisation of appeal to consumers as well as wholesalers and retailers.
- Led to a range of marketing and branding initiatives, particularly in China:
  - Increased social media, in-store promotions and exhibitions.
  - Extension of sales channels to include e-commerce.
  - Packaging innovations.
  - Collaboration with partners.
- Resulting in increased sales through retail and e-commerce channels.



**Sales by Channel – 2014 vs 2018**





# Horticulture – New Varieties

Images from our Posy™ launch in China

Posy Repack (gift box, label)



Posy online sale



Posy on shelf

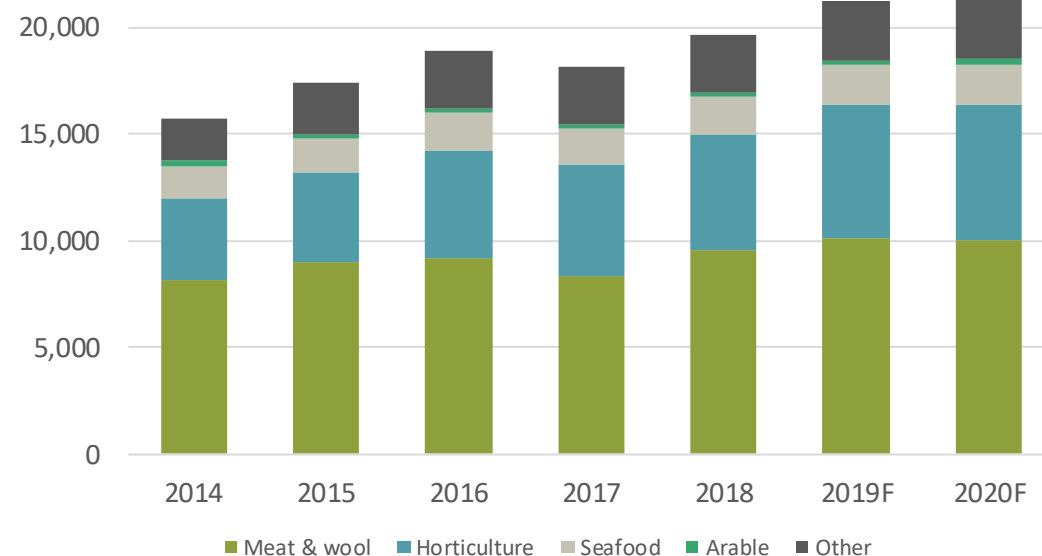


# Logistics – Australasian Strategy

## Ongoing strength in the Australasian food and perishable market

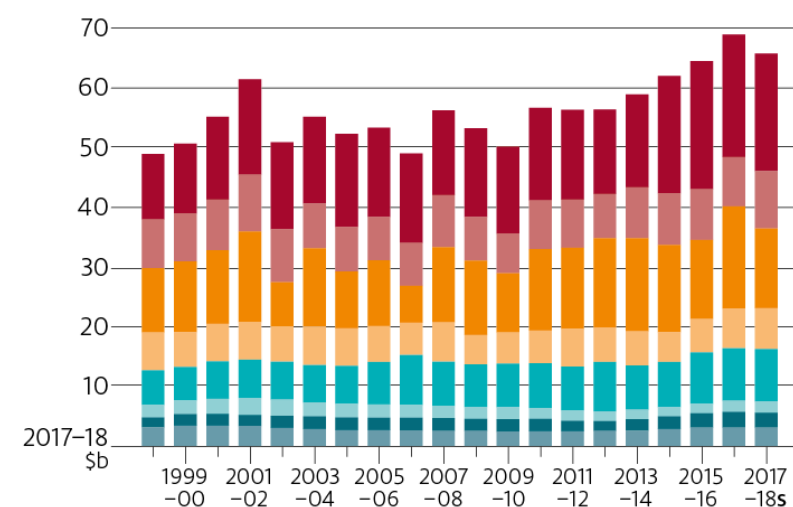
- Australasian agricultural products have, and are expected to continue to, experience strong growth.
- Scales Logistics provides end-to-end logistics services, with specialised expertise in the food and perishable sectors:
  - 2017 acquisition of OceanAir added experience in Kiwifruit and Avocado sectors as well as an Australian presence.
  - Logistics has extended its footprint. The Balance Cargo Auckland branch was opened in late 2018, and has been designed with a focus on perishable goods.

**NZ Primary Industries export revenue growth (NZ\$m)**

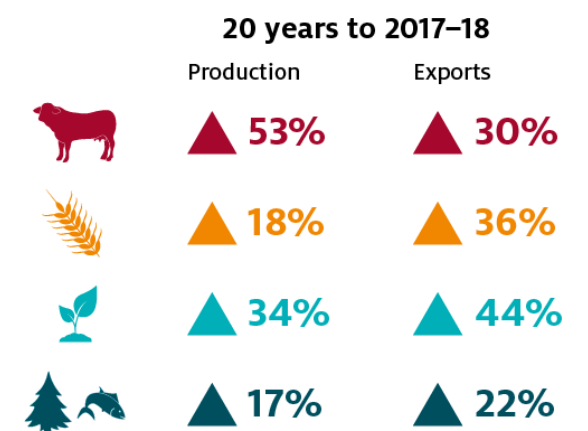


Source: MPI, 'Situation and Outlook for Primary Industries', March 2019

**AU Agriculture, Forestry and Fishing Production, 1998–99 to 2017–18s (A\$b)**



Source: ABARES, 'Snapshot of Australian Agriculture', 2018

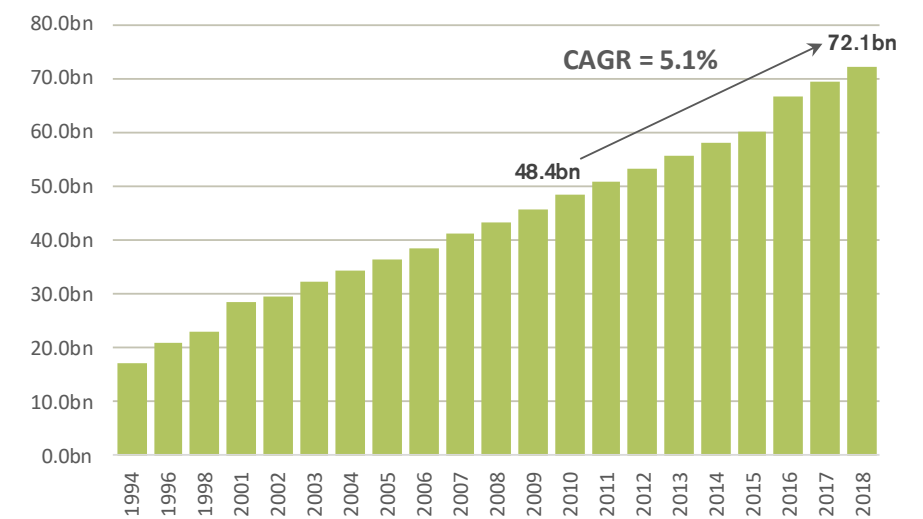


# Food Ingredients – Global Strategy

## Developing a \$25m EBITDA division

- Food Ingredients division offers attractive market opportunities and strong financial returns.
- Petfood ingredients is an attractive industry for investment:
  - Spending on pets demonstrating strong year-on-year growth, global industry now worth over US\$100b\*.
  - USA market worth US\$72b, 5.1% compounding growth\*\*. Chinese market worth US\$1.9b (2017), expecting to grow at 9.7% p.a. for the next 5 years.\*\*\*
- Scales' global petfood strategy:
  - Be a key provider to a wide range of international petfood brand owners.
  - Achieve diversification in source, and range of proteins.
  - Expand product range, with a focus on added-value and functional petfoods.
  - Explore high-value alternative applications for products (e.g. healthcare, cosmetics).
  - Leverage Scales' international network and relationships.

**Petcare expenditure in the United States (US\$b)**



Source: American Pet Products Association ([www.americanpetproducts.org](http://www.americanpetproducts.org))

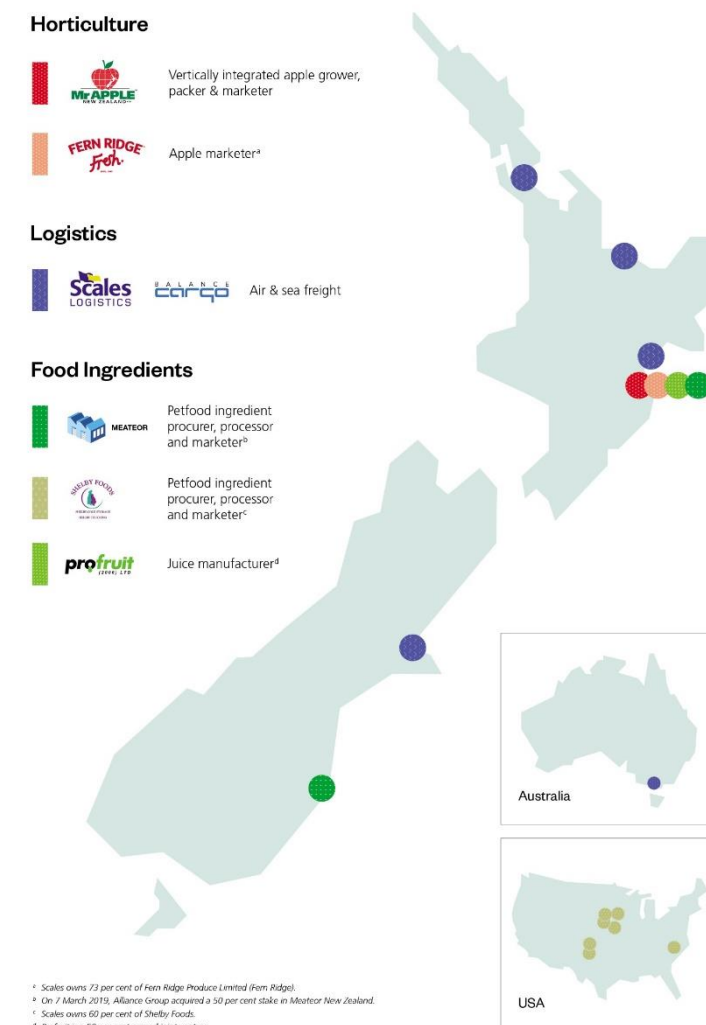
\* Source: Euromonitor , The State of Global Petfood : New Trends and Growth Opportunities, November 2016.

\*\* Source: American Pet Products Association.

\*\*\* Source: Mordor Intelligence.

# Our Developing Overseas Presence

- Through organic growth and acquisition, Scales has developed an international network spanning four regions:
  - New Zealand
  - Australia (petfood ingredients and logistics)
  - USA (petfood ingredients)
  - China (Primary Collaboration New Zealand (PCNZ), and cornerstone shareholder China Resources Ng Fung)
- In addition, Scales sells its products in over 40 different countries.
- In-market representatives for key offshore markets:
  - Recently hired US-based Shelby employee Richard Bondarenko consults to Meateor.
  - Shanghai-based PCNZ employee Jacky Qin provides in-market management services to Mr Apple.





# Outlook and Investor Matters

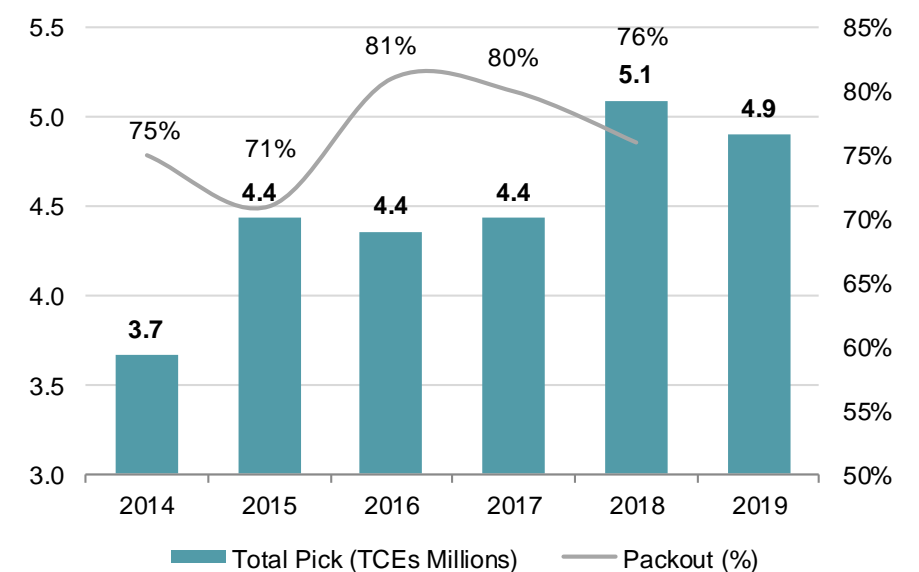
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# Trading Update

## Overall agribusiness environment remains positive

- Group:
  - Scales reconfirms previous Guidance - Underlying Net Profit Guidance for the full year of between \$32.0m and \$37.0m.
  - Implies an Underlying EBITDA range of \$49.0m and \$55.0m from operations, compared to \$48.5m in 2018 (like-for-like basis).
- Horticulture:
  - Total pick of 4.9m apples, down 4% on 2018.
  - On track for forecast export volumes previously provided.
  - Demand for key export markets remains solid.
- Logistics:
  - Positive start to the year. Activity expected to remain at 2018 levels.
- Food Ingredients:
  - 2019 petfood sale volumes will include Shelby and the impact of Alliance JV.
  - One off supply and pricing issues during 2018 / 2019 will negatively impact on first half trading in Australasia.
  - Ongoing demand remains firm.

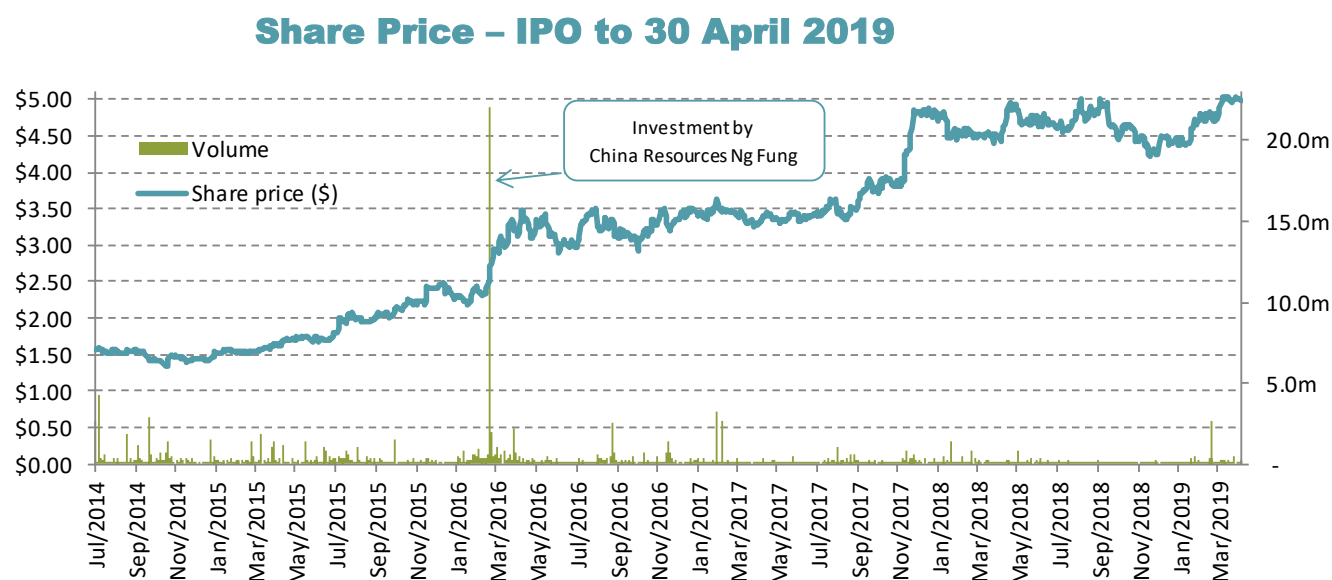
**Mr Apple - Gross Harvest and Export Packout**



# Shareholder Returns

- Dividends – a total of \$0.19 per share in cash dividends paid in respect of 2018:
  - An increase from the \$0.18 total dividend per share in 2017.
  - Represents 75% of Underlying Net Profit.
  - Scales remains committed to the current dividend cash level, whilst the company holds Net Cash.
- Shareholder Returns – from IPO to 30 April 2019:
  - Share price growth of 209%.
  - Total Shareholder Returns\* of 257% (a CAGR of 31%).

Dividends		
	Dividends Paid	Gross Dividend Yield
<b>2018</b>	<b>\$0.190</b>	<b>5.7%</b>
2017 (restated)	\$0.180	7.0%
2016	\$0.180	8.3%



\* Cash dividends paid plus / (minus) movement in share price divided by IPO price of \$1.60.



# 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 Alan Isaac be re-elected as a Non Executive Independent Director.



## Resolution 3

Having been reappointed during the year by the Board and holding office only until the Annual Meeting, that Andrew Borland be elected as an Executive Director.



## Resolution 4

Having been appointed during the year by the Board and holding office only until the Annual Meeting, that Tomakin Lai be elected as a Non Executive Director.





## Resolution 5

Having been appointed during the year by the Board and holding office only until the Annual Meeting, that Nadine Tunley be elected as a Non Executive Independent Director.



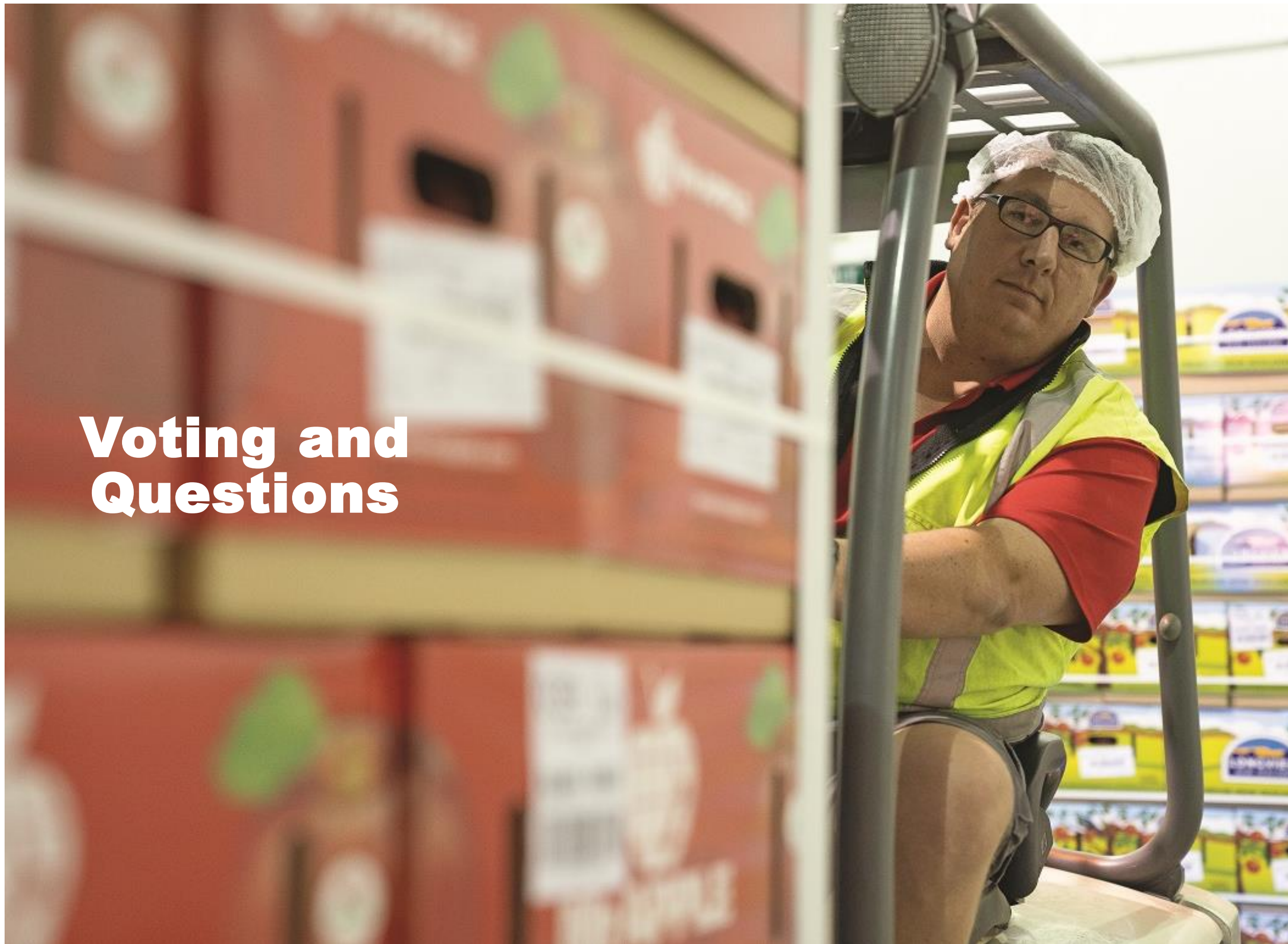
## **Resolution 6**

**Subject to the approval of Resolution 5, that the maximum total pool of Directors' remuneration payable by Scales to Directors (in their capacity as Directors) be increased by \$100,000 per annum, from a total pool of \$500,000 per annum to \$600,000 per annum, effective from the close of the Annual Meeting, with such sum to be divided amongst the Directors as the Board may from time to time determine.**

# Special Resolution

**As a result of Scales' transition to the new NZX Listing Rules on 1 May 2019, to amend Scales' Constitution in the form and manner described in the explanatory notes of the Notice of Annual Meeting, with effect from the close of the Annual Meeting.**

# Voting and Questions





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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 NZ IFRS adjustments.
- Underlying Net Profit is calculated by adding back or (or deducting) the after-tax effect of any non-cash NZ 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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