



Scales Corporation Limited

Growing your Diversified Agribusiness

Half Year Results

For the six months ended 30 June 2019

28 August 2019

Scales 
growing New Zealand

Agenda

1. Highlights
2. Sustainability
3. Group Results
4. Divisional Performance
5. Strategy Update
6. FY19 Outlook

Appendices:

- I. NZ IFRS Reconciliation
- II. Disclaimer



Highlights

1



Operational and Strategic Highlights

Record interim result reflecting profit on divestments

- Underlying EBITDA for continuing businesses of \$47.3m, in line with 1H18 (\$47.1m).
- Apple volumes ahead of forecast (actual export volume of 3,822k TCEs vs forecast of 3,620k TCEs):
 - Volumes in line with 2018 notwithstanding significant redevelopment and weather conditions that resulted in a smaller average apple size.
 - Prices reflective of market dynamics in each geographic sector.
- Solid result from Food Ingredients whilst integrating new trading structures.
 - Pleasing first 6 months of trading from Shelby.
 - One-off profits relating to establishment of Meateor NZ (our petfood JV with Alliance).
- Statutory NPAT of \$121.8m, a record result:
 - Includes \$93.2m in profits and fair value gains as a result of divestment activity.
- Solid progress in Strategy Refresh.

Strategy Refresh Update

Continued solid performance in implementing Strategy Refresh

- A number of milestone achievements during 1H19:
 - The sale of Polarcold to Emergent Cold settled in May 2019 following OIO approval.
 - Establishment of a New Zealand Joint Venture petfood operation with Alliance in April 2019.
- Our acquisition of a 60% interest in Shelby Foods (December 2018) is progressing well:
 - A number of new shared appointments provide both sales and administrative resource to support further growth for the Group.
 - Trading continues well, with sales and earnings for the 6 month period in line with expectations.



Horticulture



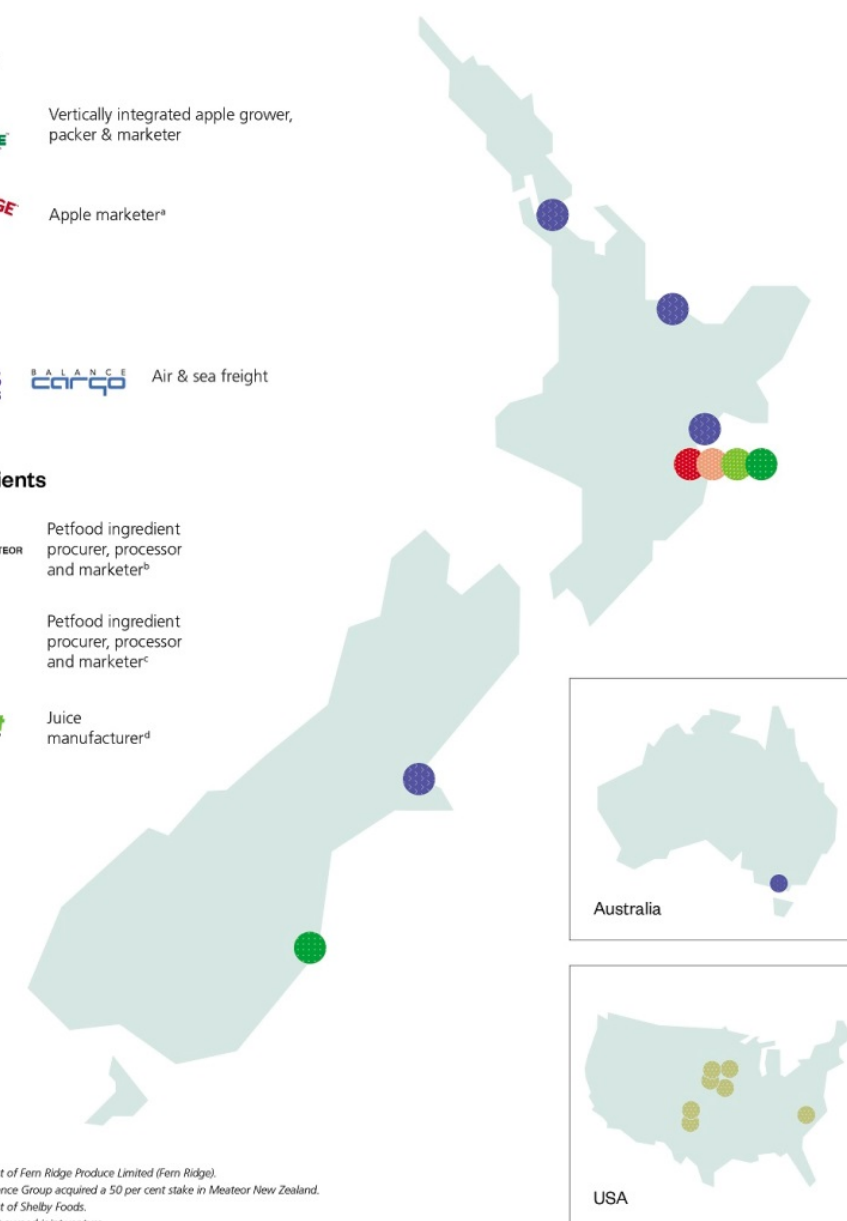
Logistics



Food Ingredients



^a Scales owns 73 per cent of Fern Ridge Produce Limited (Fern Ridge).
^b On 7 March 2019, Alliance Group acquired a 50 per cent stake in Meateor New Zealand.
^c Scales owns 60 per cent of Shelby Foods.
^d Profruit is a 50 per cent owned joint venture.



Sustainability

2



Sustainability Update

Continuing to minimise our impact on the environment

- Our carbon footprint, and how we can reduce this, continues to be a key focus. We have established a number of goals following our inaugural carbon footprint calculation in 2018:
 - Reduce electricity consumption by 3% and overall fuel use by 5% by 2024.
 - Reduce waste to landfill by up to 30% by 2024.
 - Reduce paper use by 10% per annum.
- An Environmental Plan is being developed for Mr Apple with goals that will align with those of the UN. Our initial focus is on the following 4 UN Sustainable Development Goals:



- Recent EECA* audit identified excellent energy management already in place at Mr Apple.
- Creation of a local joint horticulture / council Waste Minimisation Group in Hawke's Bay.
 - Identifying recycling opportunities for a number of otherwise disposal items.

“We need to leave our businesses better for the next generation of managers and owners.”

Andy Borland, Managing Director

Sustainability Developments

Ongoing commitment to being an Employer of Choice

- Health and Safety continues to be a top priority:
 - Critical risk training undertaken with all Mr Apple permanent staff, will be completed at Balance Cargo and Meateor by the end of the year.
 - Roll out of the Mr Apple forklift competency framework continues throughout Balance Cargo and Meateor.
 - Ammonia reviews of all sites undertaken to ensure compliance to the WorkSafe New Zealand framework.
 - KPMG Safe+ assessment commenced at Mr Apple and Balance Cargo.
 - Pipfruit safety group created to share ideas and minimise risks within the industry.
- Implementation of a number of Governance initiatives:
 - Follow up business ethics training for Mr Apple and Meateor staff scheduled for October 2019.
 - *Report It Now* ethical hotline launched in August 2019.
 - Ethics Committee created to manage any hotline calls received.
- Significant investment in both the quantity and quality of community living environment and infrastructure for our critical RSE scheme and seasonal workers.





Group Results

3

Group Financial Summary

Record result impacted by both strategic and NZ IFRS changes

- 1H19 results are impacted by the following items:
 - Divestment of Polarcold, resulting in a gain on sale of \$73.0m.
 - Establishment of Meateor NZ joint venture, giving rise to a \$10.1m gain on sale and a further \$10.1m revaluation gain.
 - Implementation of NZ IFRS 16 *Leases*, which resulted in non-cash adjustments, reducing operating expenses by \$5.0m, offset by additional depreciation expense of \$3.9m and additional financing expenses of \$1.5 million. Underlying results exclude the impact of NZ IFRS 16 for comparison purposes.

Income Statement						
\$Millions	EBITDA			NPAT		
	1H19	1H18	% chg.	1H19	1H18	% chg.
Underlying	47.3	47.1	0.5%	30.1	29.4	2.6%
NZ IFRS & other adjustments:						
Discontinued Operations	-	-		-	5.4	
Gain on sale - Polarcold	-	-		73.0	-	
Gain on sale - 50% of Meateor NZ	10.1	-		10.1	-	
Revaluation gain - 50% of Meateor NZ	10.1	-		10.1	-	
NZ IFRS 16 <i>Leases</i>	5.0	-		(0.4)	-	
Other NZ IFRS adjustments	(1.4)	(0.3)		(1.2)	(0.0)	
Reported	71.1	46.7	52.1%	121.8	34.8	250.2%

* Numbers in the table above are shown before the deduction of share of NPAT for Non-Controlling Interests (Fern Ridge and Shelby) of \$1.7m (1H19) vs \$0.2m (1H18).

Divisional Overview

Revenue growth within all divisions

- Horticulture – higher expected crop with strong sales into Asia endorsing our ongoing strategy to focus on premium varieties.
- Food Ingredients – a strong performance during a period of change, impacted by one-off inventory revaluation.
- Logistics – solid performance, continuing to build on existing operations.
- Scales Corporation – benefited from lower transaction costs in 1H19.

Divisional Performance

	Horticulture		Food Ingredients		Logistics		Corporate & Eliminations		Group	
\$Millions	1H19	1H18	1H19	1H18	1H19	1H18	1H19	1H18	1H19	1H18
Total Segment Revenue	159.5	143.8	80.7	45.5	54.8	46.2	(17.1)	(15.5)	278.0	220.1
EBITDA	41.3	41.3	5.1	6.2	3.1	2.9	(2.1)	(3.3)	47.3	47.1
EBITDA Margin	26%	29%	6%	14%	6%	6%	12%	21%	17%	21%
EBIT	36.9	37.1	4.5	5.9	2.9	2.8	(2.1)	(3.3)	42.3	42.5
EBIT Margin	23%	26%	6%	13%	5%	6%	12%	21%	15%	19%

Notes:

1. Prepared on a Continuing Underlying basis. A reconciliation to NZ IFRS is provided in the Appendices.
2. Segment Revenue includes intercompany charges, most specifically within the Logistics division, where Scales Logistics charges Mr Apple and Meateor for shipping.

Balance Sheet

Significant capacity for investment

- Balance sheet changes reflect the impact of the Liqueo and Polarcold divestments, and the sell-down of 50% of Meateor NZ business to JV partner Alliance.
- Net Cash at 30 June 2019 of \$59.0m, an improvement in Net Debt vs 30 June 2018 of \$133.9m, being:
 - ~\$195m in proceeds from divestments.
 - Less:
 - \$35m (NZ equivalent) for Shelby acquisition.
 - \$26m investment in working capital and capital expenditure.
- Implementation of NZ IFRS 16 *Leases* resulted in additional assets and liabilities of ~\$80m.

Balance Sheet			
\$Millions	Jun-19	Jun-18	Dec-18
<i>Current Assets (excluding Cash)</i>			
Trade Debtors	94.9	73.4	22.9
Inventory	34.0	27.8	45.4
Agricultural Produce	59.1	61.6	20.5
Other	8.3	5.7	7.3
	196.3	168.4	96.2
Assets Held for Sale	-	107.7	97.6
<i>Current Liabilities (excluding Overdraft, Borrowings, and Dividends Declared)</i>			
Trade Creditors & Other Payables	(63.4)	(57.4)	(27.3)
Lease Liability	(9.2)	-	-
Other	(23.6)	(21.9)	(6.5)
	(96.3)	(79.3)	(33.8)
Liabilities assoc. w/Assets Held for Sale	-	(18.3)	(19.3)
Net Working Capital	100.0	178.5	140.8
<i>Non-Current Assets</i>			
Property, Plant & Equipment	146.7	133.4	150.6
Other Non-Current Assets	75.0	27.2	57.1
Right of Use Asset	80.5	-	-
	302.1	160.7	207.7
Capital Employed	402.2	339.2	348.5
<i>Non-Current or Other Liabilities</i>			
Deferred Tax Liabilities	(10.5)	(8.7)	(15.6)
Other Financial Liabilities	(5.5)	(5.6)	(7.5)
Dividends Declared	(13.3)	(12.5)	(13.3)
Lease Liability	(71.7)	-	-
	(101.1)	(26.8)	(36.4)
<i>Net Debt</i>			
Cash less Overdraft	123.8	1.8	(1.0)
Cash in Assets Held for Sale	-	4.3	6.7
Borrowings	(64.8)	(81.0)	(68.0)
Net Cash / (Debt)	59.0	(74.9)	(62.2)
Total Equity	360.1	237.5	249.9

Divisional Performance

4

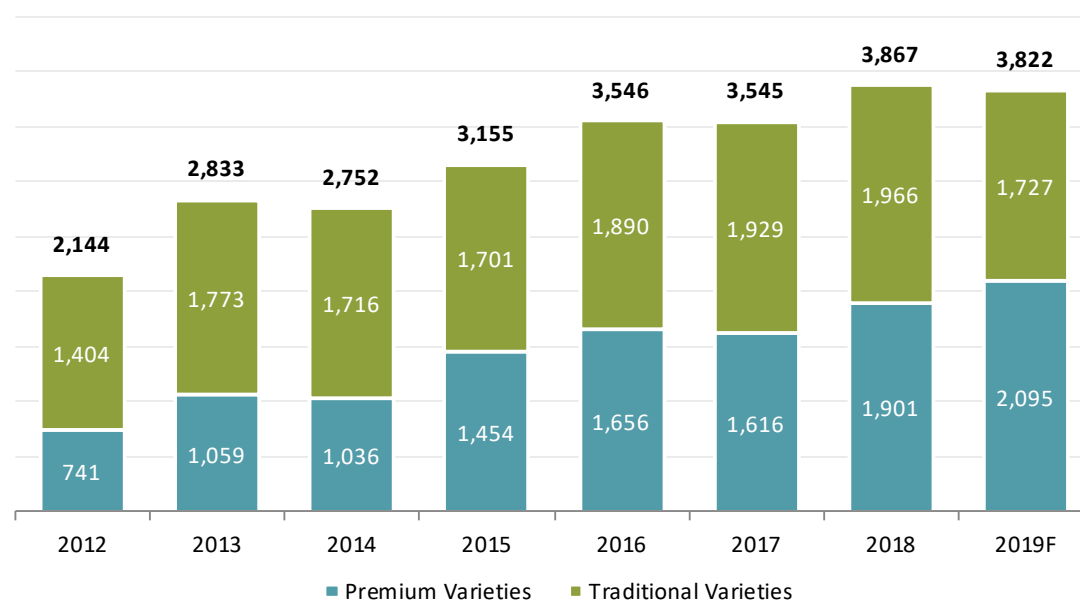


Horticulture – Volumes

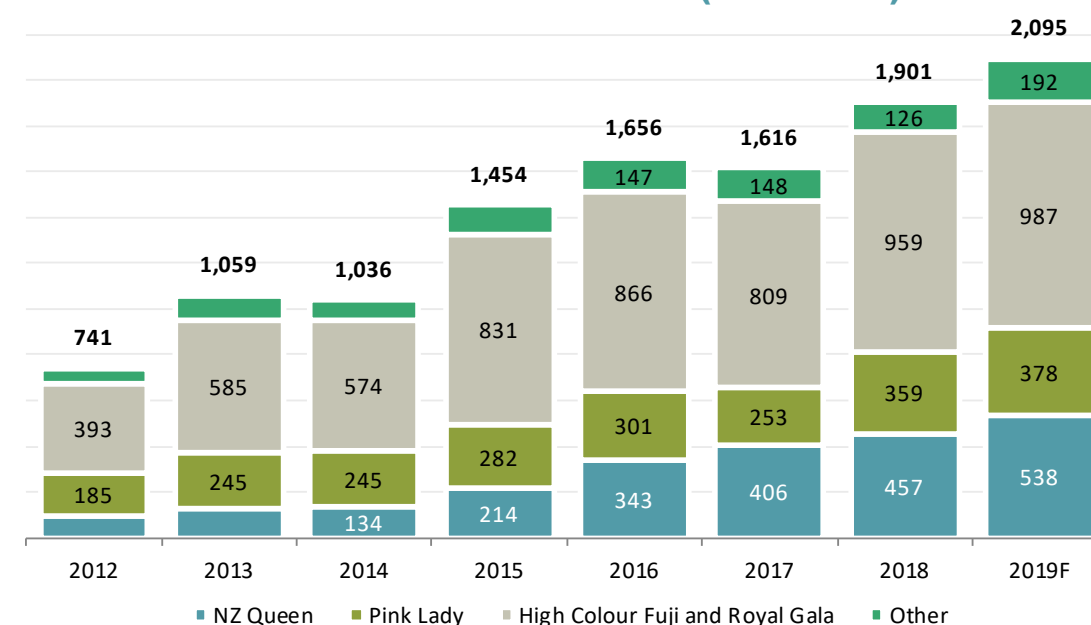
2019 volumes ahead of forecast, markets mixed

- Excellent crop with Mr Apple total own grown export volumes of 3.8m TCEs:
 - On par with 2018 volumes and ahead of 2019 forecast volumes, notwithstanding the ongoing orchard redevelopment programme.
 - Export packout of 79%, ahead of 2018 packout of 76%.
- Weather conditions resulted in smaller than average apple size:
 - Consequent impact on pricing for certain traditional varieties, with softer demand anticipated for the end of the season.
 - Validates ongoing redevelopment of these orchards.
- 10% increase in Premium Variety volumes:
 - Includes inaugural sales of Posy™ and Dazzle™.
 - Pleasing 18% growth in NZ Queen.

Mr Apple Own Export Volumes (TCE 000s)



Growth in Premium Volumes (TCE 000s)

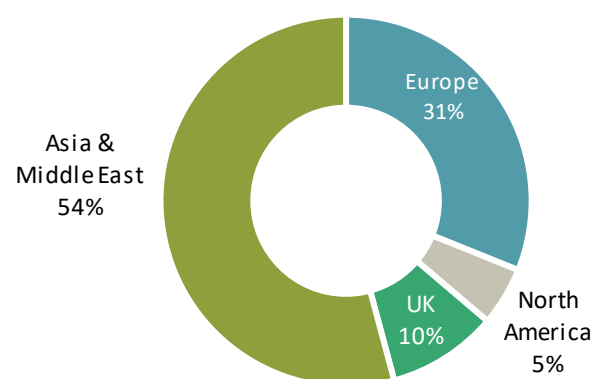


Horticulture – Strategy and Markets

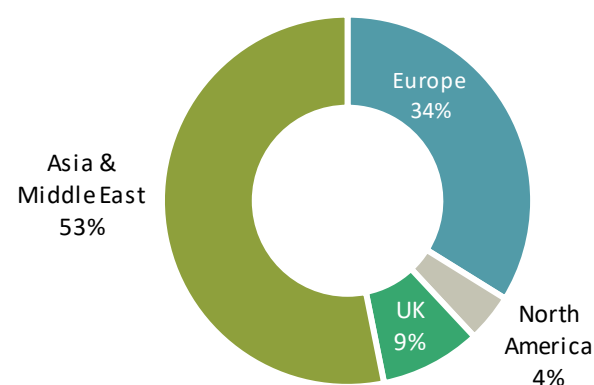
Validation of marketing focus

- Continued strong focus on Asia and Middle East markets:
 - Excellent performance in 2019 with volumes up notably on recent years (sales to this market are expected to comprise 64% of all season sales, a new record), with strong pricing maintained.
 - We continue to focus on maximising our appeal throughout the value chain – to wholesalers, retailers and consumers. This includes a renewed marketing effort and increased in-market branding.
 - We are ably supported by our strategic shareholder China Resources Ng Fung.
- A slow start in Europe due to a larger European crop last year:
 - Forthcoming European season expected to be lower.
- Ongoing redevelopment strategy corroborated:
 - Improved returns and branding presence achieved from proprietary varieties and brands, particularly in Asia and Middle East.

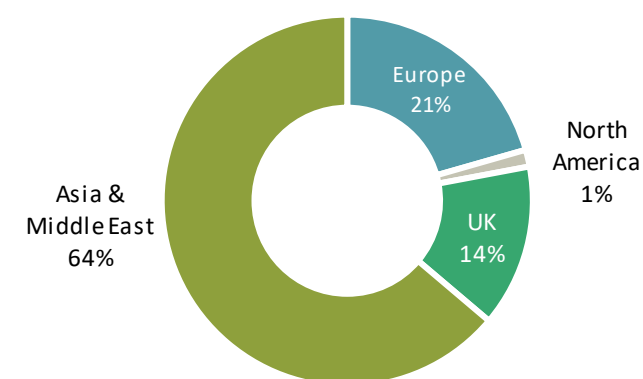
Sales by Region (TCEs) FY17



Sales by Region (TCEs) FY18



Sales by Region (TCEs) FY19F*



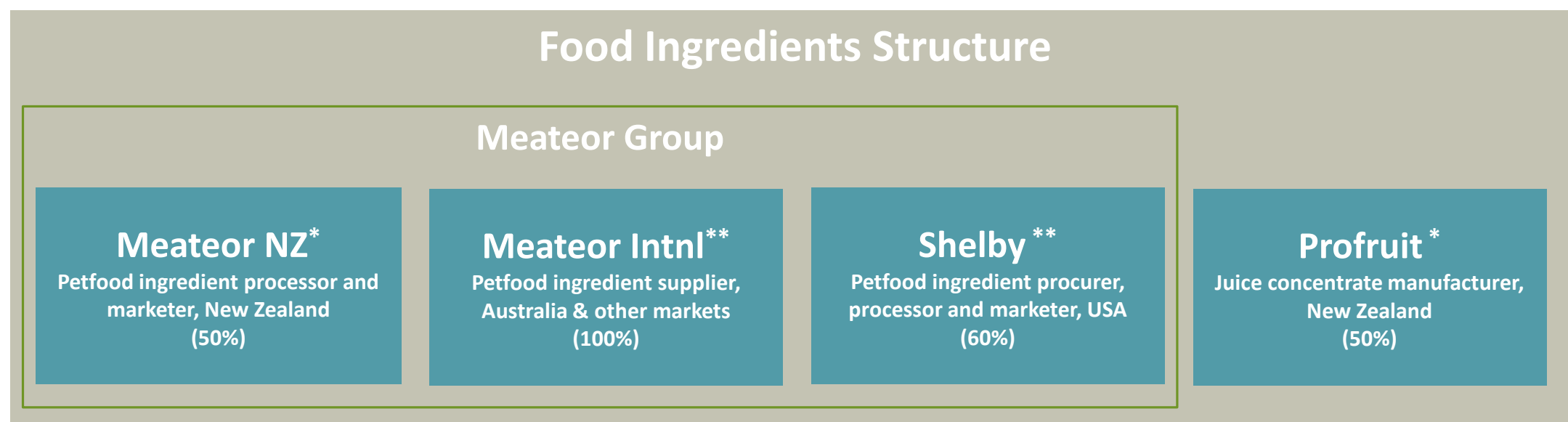
* Actual sales by region will not finally be known until all fruit is sold.

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.

Food Ingredients - Strategy

Excellent progress on execution of the divisional strategy

- Considerable change to the Food Ingredients divisional structure:
 - Full 6 months of trading of Shelby.
 - Integration of Alliance JV from April 2019.
- Developing a \$25m EBITDA division:
 - Progress and achievements to date supports ongoing searches for, and reviews of, appropriate investments.
 - We continue to seek and supply additional protein sources, including those from new geographic markets.



* Equity accounted.

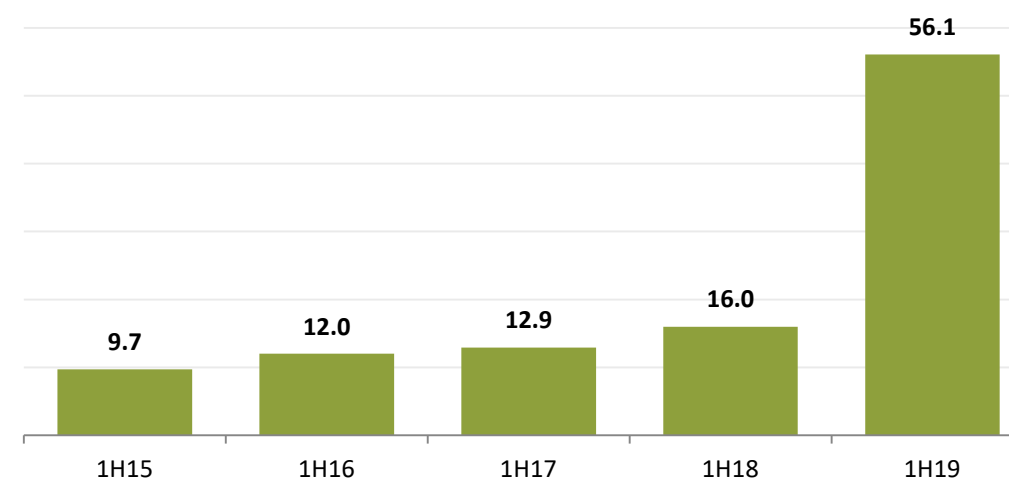
** Fully consolidated into Scales' financial results, with non-controlling interests deducted from NPAT. International has been abbreviated to Intl.

Food Ingredients - Performance

Solid result during a period of change

- Positive 6 months of trading from Shelby.
- Encouraging impact of joint venture collaboration:
 - Additional value being obtained from merging supply chain capabilities and customer relationships.
- Meateor Group performance impacted by a one-off inventory valuation adjustment:
 - An isolated operational decision to purchase stock outside of normal contract terms.
 - No ongoing effect on forecast trading or volumes.
- Fruit processing volumes at Profruit are in line with 1H18, with sales volumes ahead of the comparable period.

Meateor Group – Total Volumes Sold (MT 000s)



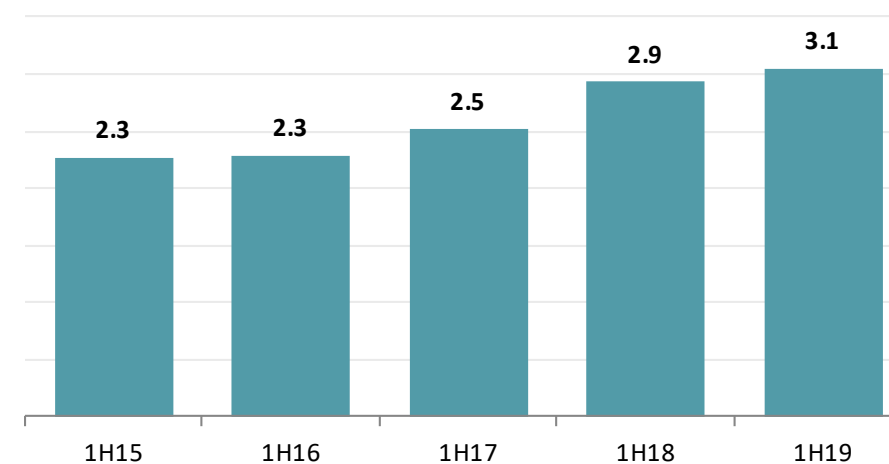
Logistics

Trading slightly ahead of 1H18

- Balance Cargo operations expanded in Christchurch with additional warehouse space.
- Increased sales resource in Melbourne.
 - Opportunity to capitalise on forecast growth in the Australasian agricultural products sectors.
- Ongoing commitment to expansion opportunities for this division.



Scales Logistics EBITDA (\$000)





Strategy Update

5

Strategy Update

Continued focus on pure agribusiness

- Our strategy focuses on:
 - Diversifying our operating units, ensuring a more sustainable and robust earnings profile.
 - Retaining a strong market focus on product innovation and in-market distribution and representation.
 - Investment preferences include:
 - Export-led businesses, especially with an opportunity in China.
 - Fully integrated models, benefiting from in-house experience.
- Shelby and the Alliance Joint Venture met our investment objectives:
 - Complemented existing operations.
 - Opportunities to extend export reach, including into the China market.
- Ongoing review of a wide variety of appropriate investment opportunities, both organic and acquisitive:
 - Remaining patient and disciplined in approach.
 - Board composition ensures stringent investment hurdles are assessed and met.
- We reiterate our dividend policy, being a dividend payout ratio of 65% – 75% of Underlying Net Profit:
 - We remain committed to the current annual dividend level of no less than 19c cash per share whilst the company holds Net Cash.

FY19 Outlook

6



Full Year Outlook for 2019

Underlying Net Profit Guidance of \$32.0m to \$37.0m reaffirmed

- Implies an Underlying EBITDA range of \$49.0 million and \$55.0 million, from continuing operations, on a like-for-like basis:
- Horticulture:
 - Export volumes in line with prior year.
 - Asia and Near Markets demonstrating strong demand for our premium varieties coupled with a market window enabling us to sell fruit earlier in the season.
 - Ongoing orchard redevelopment programme takes advantage of NZ's strong reputation in Asia and Near Markets.
- Food Ingredients:
 - Expect to benefit from the ongoing co-ordination amongst Meateor NZ, Meateor International and Shelby.
 - Excluding the one-off inventory valuation adjustment, the full year result is expected be consistent with expectations.
 - Profruit remains on-track for another solid performance.
- Logistics:
 - Full year results anticipated to be in line with expectations.



Appendices



Appendix I - Reconciliation of Underlying to Reported Measures

Reconciliation of Divisional Underlying Profitability to Reported Profitability										
	Group		Horticulture		Food ingredients		Logistics		Corporate and eliminations	
	1H19	1H18	1H19	1H18	1H19	1H18	1H19	1H18	1H19	1H18
EBITDA										
Underlying	47.3	47.1	41.3	41.3	5.1	6.2	3.1	2.9	(2.1)	(3.3)
Fair value gain on recognition of investment in joint venture	10.1	-	-	-	10.1	-	-	-	-	-
Gain on disposal of Meateor New Zealand business	10.1	-	-	-	10.1	-	-	-	-	-
NZ IFRS 16 Leases	5.0	-	4.5	-	0.0	-	0.4	-	0.0	-
Change in fair value gain on apple inventory	(0.7)	(1.0)	(0.7)	(1.0)	-	-	-	-	-	-
Share based payments	(0.0)	(0.1)	-	-	-	-	-	-	(0.0)	(0.1)
Equity settled employee benefits	(0.4)	(0.2)	-	-	-	-	-	-	(0.4)	(0.2)
Transaction costs	(0.3)	0.7	-	-	-	-	-	-	(0.3)	0.7
Intercompany transactions with discontinued operations	0.0	0.3	0.3	0.6	0.2	0.4	-	0.0	(0.5)	(0.7)
Reported	71.1	46.7	45.4	40.9	25.6	6.6	3.4	2.9	(3.3)	(3.6)
EBIT										
Underlying	42.3	42.5	36.9	37.1	4.5	5.9	2.9	2.8	(2.1)	(3.3)
Fair value gain on recognition of investment in joint venture	10.1	-	-	-	10.1	-	-	-	-	-
Gain on disposal of Meateor New Zealand business	10.1	-	-	-	10.1	-	-	-	-	-
NZ IFRS 16 Leases	1.0	-	0.9	-	0.0	-	0.1	-	0.0	-
Change in fair value gain on apple inventory	(0.7)	(1.0)	(0.7)	(1.0)	-	-	-	-	-	-
Share based payments	(0.0)	(0.1)	-	-	-	-	-	-	(0.0)	(0.1)
Equity settled employee benefits	(0.4)	(0.2)	-	-	-	-	-	-	(0.4)	(0.2)
Transaction costs	(0.3)	0.7	-	-	-	-	-	-	(0.3)	0.7
Intercompany transactions with discontinued operations	0.0	0.3	0.3	0.6	0.2	0.4	-	0.0	(0.5)	(0.7)
Reported	62.1	42.1	37.5	36.7	25.0	6.3	3.0	2.8	(3.4)	(3.7)
NPAT										
Underlying	30.1	29.4	26.5	26.7	4.1	4.5	2.1	2.0	(2.6)	(3.8)
Gain on sale - Polarcold	73.0	-	-	-	-	-	-	-	73.0	-
Discontinued operations - Polarcold and Liqueo	-	5.4	-	-	-	-	-	-	-	5.4
Fair value gain on recognition of investment in joint venture	10.1	-	-	-	10.1	-	-	-	-	-
Gain on disposal of Meateor New Zealand business	10.1	-	-	-	10.1	-	-	-	-	-
NZ IFRS 16 Leases	(0.4)	-	(0.3)	-	(0.0)	-	(0.0)	-	(0.0)	-
Change in fair value gain on apple inventory	(0.7)	(1.0)	(0.7)	(1.0)	-	-	-	-	-	-
Share based payments	(0.0)	(0.1)	-	-	-	-	-	-	(0.0)	(0.1)
Equity settled employee benefits	(0.4)	(0.2)	-	-	-	-	-	-	(0.4)	(0.2)
Transaction costs	(0.3)	0.7	-	-	-	-	-	-	(0.3)	0.7
Intercompany transactions with discontinued operations	0.0	0.3	0.3	0.6	0.2	0.4	-	0.0	(0.5)	(0.7)
Tax effect of other NZ IFRS adjustments	0.2	0.3	0.2	0.3	-	-	-	-	0.0	0.0
Reported	121.8	34.8	26.0	26.6	24.6	4.8	2.1	2.0	69.1	1.4

Appendix II - Disclaimer

The information in this presentation has been prepared by Scales Corporation Limited with due care and attention. However, neither Scales Corporation Limited nor any of its directors, employees, shareholders nor any other person shall have any liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

This presentation supplements our half year results announcement. 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.

This presentation may contain projections or forward-looking statements regarding a variety of items. Such projections or forward-looking statements are based on current expectations, estimates and assumptions and are subject to a number of risks, uncertainties and assumptions. There is no assurance that results contemplated in any projections and forward-looking statements in this presentation will be realised. Actual results may differ materially from those projected in this presentation. No person is under any obligation to update this presentation at any time after its release to you or to provide you with further information about Scales Corporation Limited.

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.

Forward-looking statements are subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. Nothing in this presentation constitutes legal, financial, tax or other advice.