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SCALES CORPORATION DELIVERS RECORD PROFIT RESULT AND CONTINUING POSITIVE MOMENTUM WITH STRATEGIC INITIATIVES

Highlights – 12 months to 31 December 2019

- Group FY2019 financial results:
 - Record Group Revenues from Continuing Businesses¹ of \$484.6 million, 20 per cent above FY2018.
 - Profit for the year of \$121.6 million (FY2018: \$45.5 million) supported by gains from the sale of Polarcold and part-sale of Meateor's New Zealand operations.
 - Underlying² Net Profit of \$36.4 million, 2 per cent above FY2018.
- Underlying EBITDA from the Horticulture Division of \$39.7 million (FY2018: \$42.6 million), an outstanding result in light of mixed regional market returns.
- Mr Apple export volumes of 3,822k TCEs³ in line with record 2018 export volumes (3,867k TCEs), notwithstanding significant redevelopment.
- The Food Ingredients Division is well positioned for growth. Shelby had a positive first year both financially and strategically, whilst the creation of a joint venture for Meateor NZ is opening up a number of future development opportunities.

Diversified agribusiness group Scales Corporation Limited (NZX:SCL) today reported its FY2019 full year results. Net Profit for the year was \$121.6 million (FY2018: \$45.5 million), a record result supported by gains from the sale of Polarcold (\$73.0 million, including interest) and part-sale of Meateor's New Zealand operations (giving rise to a \$9.8 million gain on sale and \$9.8 million revaluation gain). Earnings per share for FY2019 were 84.2 cents per share (FY2018: 32.2 cents per share).

Scales Corporation chairman Tim Goodacre says: "2019 marked the completion of the divestment phase of our Strategy Refresh, with the part-sale of Meateor's New Zealand operations to Alliance

¹ FY2018 revenue does not include revenues from Polarcold and Liqueo.

² Underlying results exclude some New Zealand International Financial Report Standards (NZ IFRS) non-cash and other adjustments. A reconciliation between Net Profit and Underlying Net Profit, EBITDA and Underlying EBITDA is provided in Appendix 1 of our annual results presentation pack.

³ Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight.

Group at the end of March and settlement of the Polarcold sale in May. Scales remains committed to reinvesting the proceeds from divestments and is making significant progress in developing both organic growth opportunities as well as reviewing and progressing a number of prospective acquisition opportunities.”

“Our first significant investment, being the purchase of 60% of US based petfood ingredients business Shelby Foods in December 2018, delivered a pleasing result for its first year. Financial performance from the acquisition was consistent with our forecasts, and good progress was made against our strategic objectives from this investment, including development of a number of growth opportunities for Shelby.”

“Scales produced a record profit, largely due to one-off gains on the sale of Polarcold and part-sale of Meateor’s New Zealand operations. In addition, Scales also produced a strong Underlying result, with Underlying Net Profit near the upper-end of previously issued guidance. This is a very satisfying result, especially in light of the mixed regional market returns for the Horticulture division and the one-off inventory valuation adjustment affecting the Meateor Group.”

“Mr Apple’s varietal mix, focused on premium apples to the Asia and Middle East markets, allowed it to achieve a solid financial result. The challenges with traditional apple varieties and the European market in particular validate our ongoing redevelopment investment away from these varieties.”

Scales Corporation managing director Andy Borland notes: “With the divestment phase of Strategy Refresh now clearly behind us, Scales is actively progressing a number of organic growth opportunities and acquisition opportunities for successful reinvestment of the proceeds at our return on capital targets.”

“At Mr Apple for example, Scales expects to invest \$25 million in capital expenditure through FY2020 to ensure the Mr Apple brand continues to maintain its pre-eminence in the market, including ongoing orchard redevelopment and a new purpose built coolstore next to the existing Whakatu Packhouse. This coolstore will not only take advantage of the latest technology to deliver improved labour efficiency, it will also significantly cut down on truck movements – lowering both Mr Apple’s carbon footprint as well as improving transportation efficiencies. This investment supplements nearly \$16 million of capital expenditure during FY2019, for orchard redevelopment as well as a number of RSE accommodation upgrades.”

“At 31 December 2019 Scales reported a net cash position of \$104.9 million. This position includes \$159.4 million of cash and term deposits for investment. During the year Scales also declared dividends of 19.0 cents per share⁴. As in previous years timing, the board expects to declare a final dividend in respect of FY2019 in May, with payment in July.” Mr Borland says.

⁴ Scales declared a final dividend of 9.5 cents per share for FY2018 on 20 May 2019, which was paid on 5 July 2019 and declared an interim dividend of 9.5 cents per share for FY2019 on 5 December 2019, which was paid on 17 January 2020.

Divisions

Horticulture

The Horticulture division delivered a solid result with Underlying EBITDA of \$39.7 million in FY2019 (FY2018: \$42.6 million).

Mr Borland noted that “New Zealand apple growers faced mixed market conditions during 2019 with Europe in particular presenting adverse conditions. However, Mr Apple’s premium varietal mix and sales network through Asia (including China) and the Middle East continued to perform strongly and as such its overall performance was only marginally down on last year.”

“Mr Apple is actively investing in its business to improve margins and increase its breadth of premium apple variety offerings to the Asia and Middle East markets. We are nearing the end of our second phase of orchard redevelopment, seeing a further 175 hectares of premium orchard developed, including significant plantings of Dazzle™ and Posy™ where we have a proprietary interest. These new plantings are expected to begin producing significant commercial volumes from the 2022 year. In addition, Mr Apple is pursuing investments in modern post-harvest facilities located in close proximity to other infrastructure and optimally designed to deliver enhanced labour efficiencies, including the new coolstore at Whakatu. These initiatives, together with future investment on-orchard and across post-harvest operations, are anticipated to drive improvements in margin.”

“We continue to invest in our in-market branding with results showing. We’ve seen a significant increase in the proportion of fruit sold directly through e-commerce and retail channels as well as increased sales to China in particular.”

Food Ingredients

The Food Ingredients division generated Underlying EBITDA of \$13.5 million (FY2018: \$10.2 million).

Mr Borland noted “the Food Ingredients division produced a positive improvement in earnings in its first year of its new expanded format. We expect a further improvement in performance in 2020 as the division progresses towards its \$25 million EBITDA target.”

Logistics

The Logistics division delivered a result in line with its FY2017 performance with Underlying EBITDA of \$3.3 million (FY2018: \$4.9 million).

“The Logistics division, which now solely encompasses Scales’ specialist freight business Scales Logistics, delivered a result more in line with its longer term earnings trajectory.” Mr Borland noted.

Outlook

Looking ahead, Mr Goodacre said “the impact on Scales and Mr Apple in particular from the COVID-19 outbreak remains uncertain at this time. It is expected that any impact may be mitigated by:

- A more balanced global supply situation in 2020 with sales more equally focussed between Europe / UK and Asia. Initial shipments to Asia are scheduled to arrive in early March, and to China in mid-March.
- To date there have been no issues with shipping to non-China markets.
- There appears to be a strong pipeline of sales from the e-commerce channel in Asia, balancing out a potential reduction of in store sales.
- Our dedicated in-house logistics operation and our agents throughout Asia remain confident of the actions of authorities to facilitate flow of food products in particular.”

“Scales is pleased to contribute product to those impacted, through our agents, to support those communities most affected by the COVID-19 outbreak.”

Mr Goodacre also noted “the 2020 apple harvest has already begun and early crop indications are positive and in line with our forecast. The Logistics and Food Ingredients divisions are also trading positively. Underlying Net Profit guidance has been reconfirmed by the Board at between \$30 million and \$36 million, implying an Underlying EBITDA range of between \$49 million and \$55 million.”

Contact

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About Scales Corporation

Scales Corporation is a diversified agribusiness group. It currently comprises three operating divisions: Horticulture, Food Ingredients and Logistics. The company’s diverse spread of activities gives Scales broad exposure to New Zealand’s agribusiness sector. Scales Corporation was founded in 1897 as a shipping business by George Herbert Scales. Find out more at www.scalescorporation.co.nz.