

# **Scales Corporation Limited**

## **Growing your Diversified Agribusiness**



**2020 Annual Shareholders' Meeting**  
**9 June 2020**

**Scales**   
growing New Zealand

# Agenda

## **I. Welcome and Chair's Review**

## **II. Managing Director's Review**

1. COVID-19 Update
2. Year in Review
3. Sustainability and Governance Update
4. Strategy Update
5. Outlook

## **III. Ordinary Resolutions**

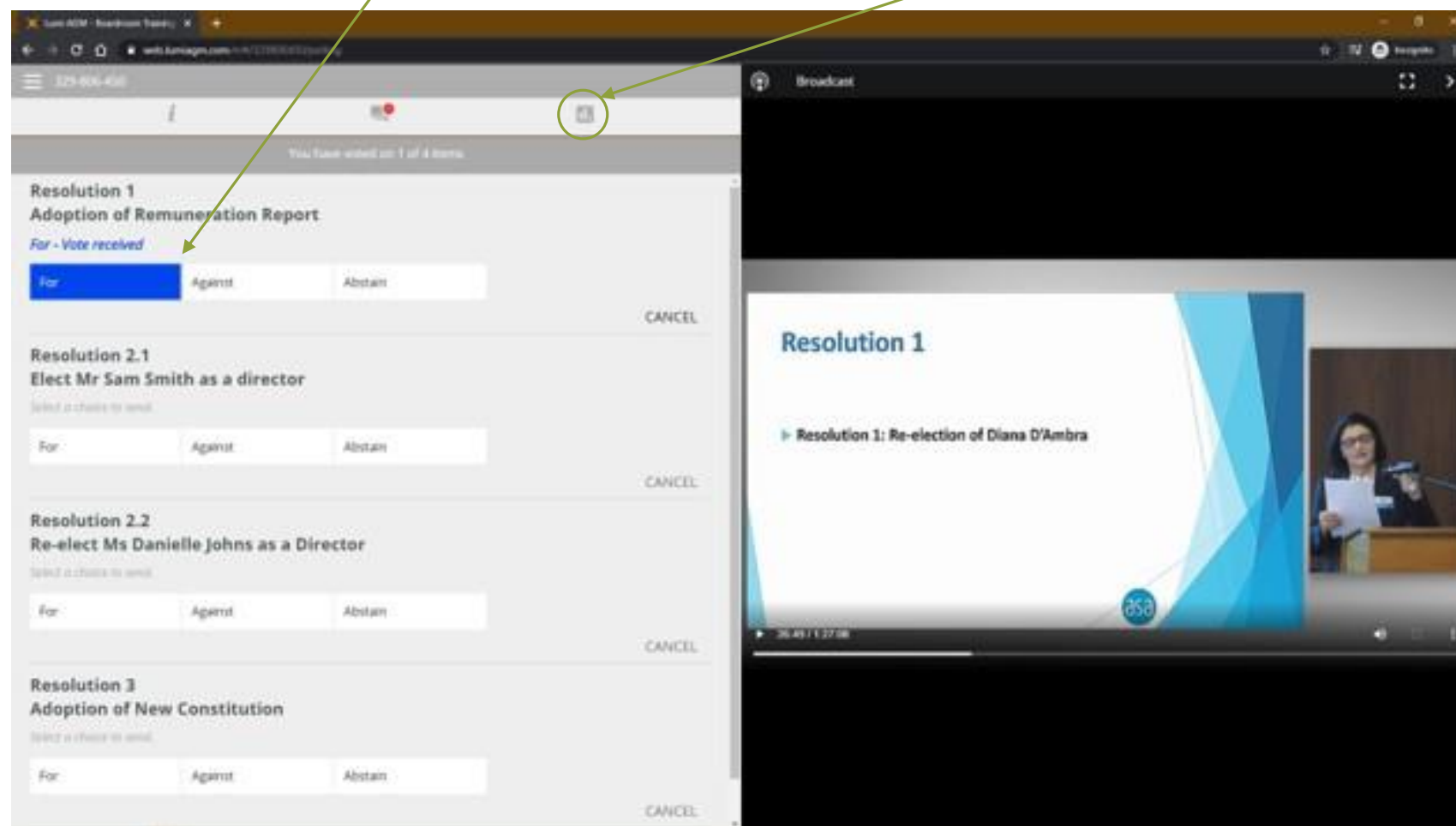
## **IV. Voting and Questions**






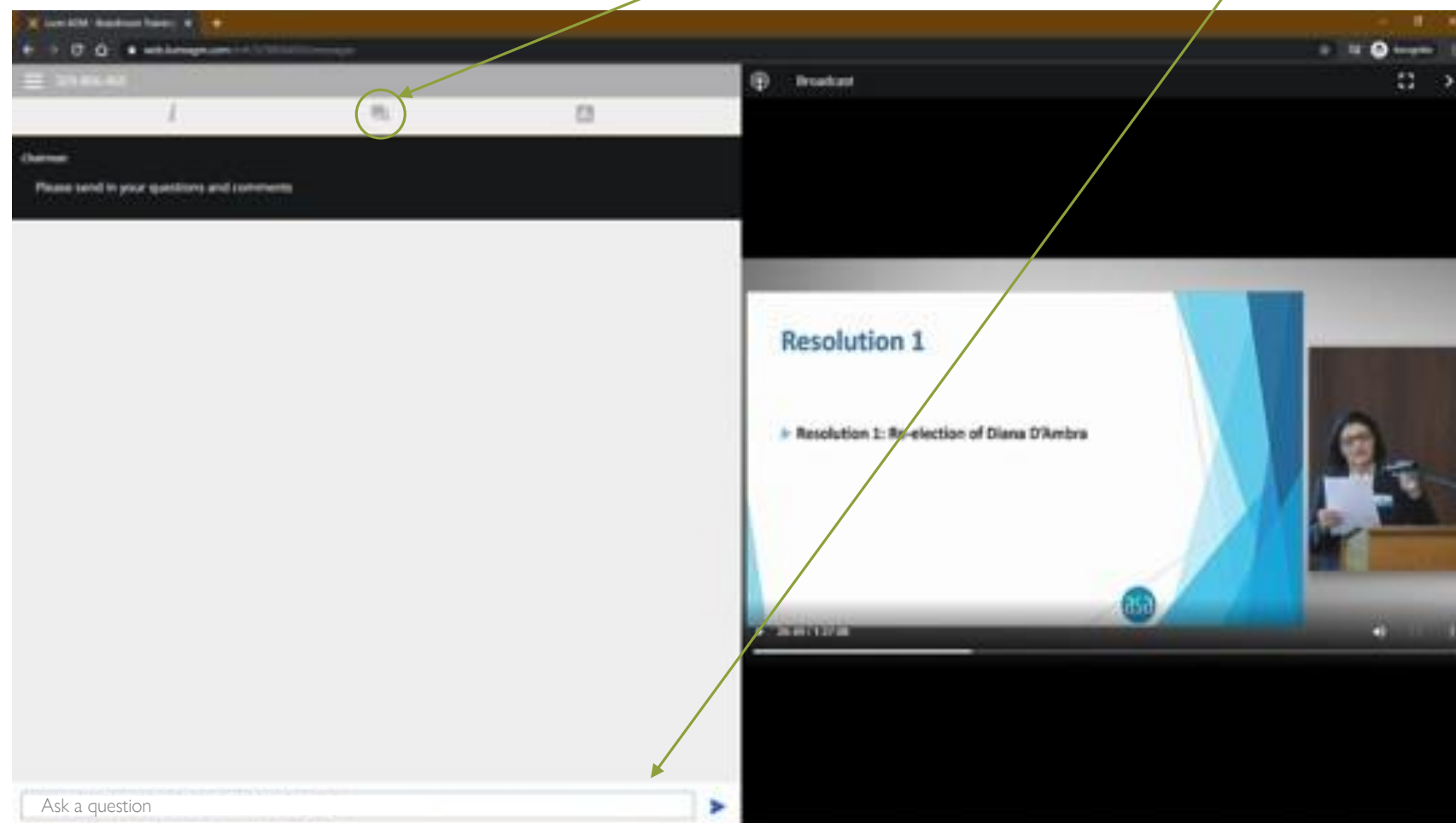
# Voting Process

- When the poll is open, the vote will be accessible by selecting the voting icon at the top of the screen.
- To vote simply select the direction in which you would like to cast your vote, the selected option will change colour.
- There is no submit or send button, your selection is automatically recorded.



# Question Process

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# I. Welcome and Chair's Review



# Welcome

- Welcome to all shareholders and stakeholders.
- First virtual ASM in over 100 years of trading.
- Extremely grateful to our hard-working team members, especially during lockdown:
  - Scales' entities occupied the privileged position of being able to trade throughout lockdown.
  - Safety of staff an absolute priority.
  - Exceptional effort from the entire Scales community.



Physical distancing measures in place at Mr Apple's Whakatu packhouse.

# Chair's Review

## Positive strategic momentum

- Record Net Profit for the Year of \$121.6 million.
- Completed divestment phase of Strategy Refresh.
- Continued improvements in sustainability matters.
- Actively progressing organic growth and acquisition opportunities.



The Profruit management team.



# Staff and Shareholders

- Results reflect hard work, skill and positive manner of all team members.
- Focused on leadership, training in bullying & harassment prevention and mental health awareness in 2019.
- Continued incentive based remuneration scheme aligned to positive group and personal performance.
- In support of Overseas Investment Act Phase 2 Reforms.



Kurt Livingstone, a Fern Ridge team member, and friends, who raised ~\$19k for the NZ Cancer Society by driving a Fern Ridge sponsored 1,000cc vehicle as part of the 2019 Mongol Rally.





## **II. Managing Director's Review**



# Managing Director's Review

1. COVID-19 Update
2. Year in Review
3. Sustainability and Governance Update
4. Strategy Update
5. Outlook







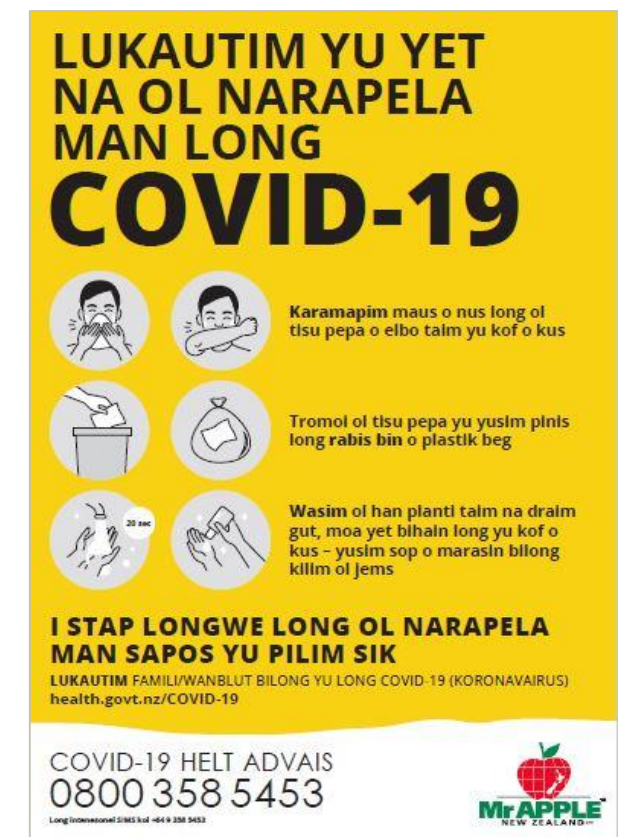
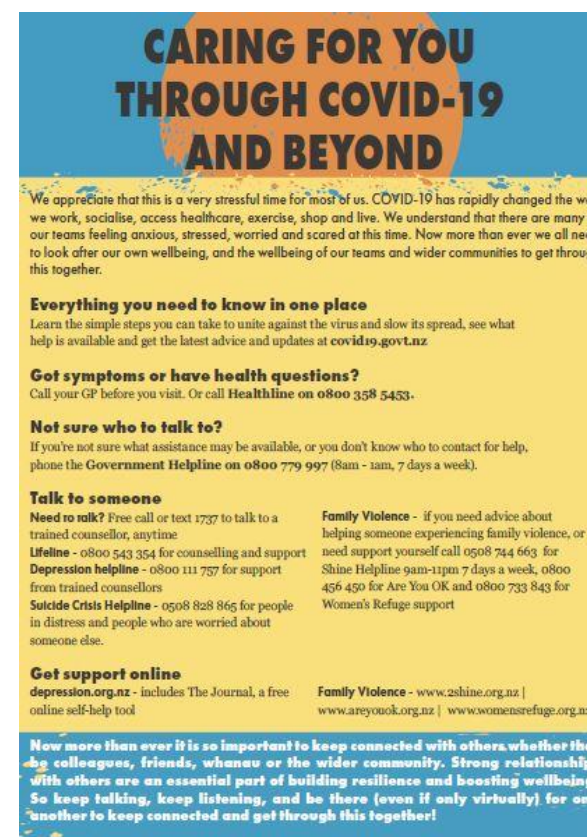
# COVID-19 Update



# COVID-19 – Trading through the alert levels

## Scales' businesses occupied the privileged position of being 'essential'

- Advice and direction received from Ministry for Primary Industries (MPI).
- Priority on minimising risk to team members; staff worked from home where possible.
- Implemented protocols quickly, including compliance with MPI best practice.



Examples of COVID-19 protocol documents and posters.



# COVID-19 – Team Effort

## It takes a village

- Business continuity made possible by outstanding leadership effort and teamwork of all staff:
  - Lockdown occurred during crucial apple harvest period.
- Active involvement at government level to assist vital Recognised Seasonal Employer (RSE) workers:
  - Assisting with ongoing work until repatriated.
  - Future quota for, and sustainability of, the scheme.
- Supported both local and overseas communities with apple donations.





# COVID-19 – Safety Measures

Safety measures put in place at Mr Apple and Meateor







# Year in Review

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# Strength in Numbers

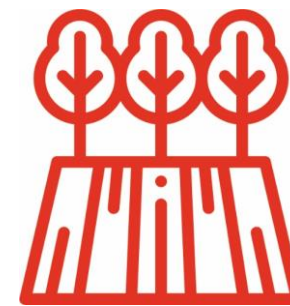
**\$484.6m**  
revenue  
(new revenue record)



**16%**  
ROCE  
(2018: 17%)



**5,953,000**  
TCEs of apples exported\*  
(up 2% on 2018)



**3,822,000**  
TCEs of own-grown  
apples exported  
(in line with 2018)

**39,438**  
TEU equivalents freighted  
(up 12% on 2018)



**111.0 MT**  
petfood ingredients sold\*\*  
(step change resulting from acquisition  
of Shelby)



**19.0 cents**  
dividends declared  
per share

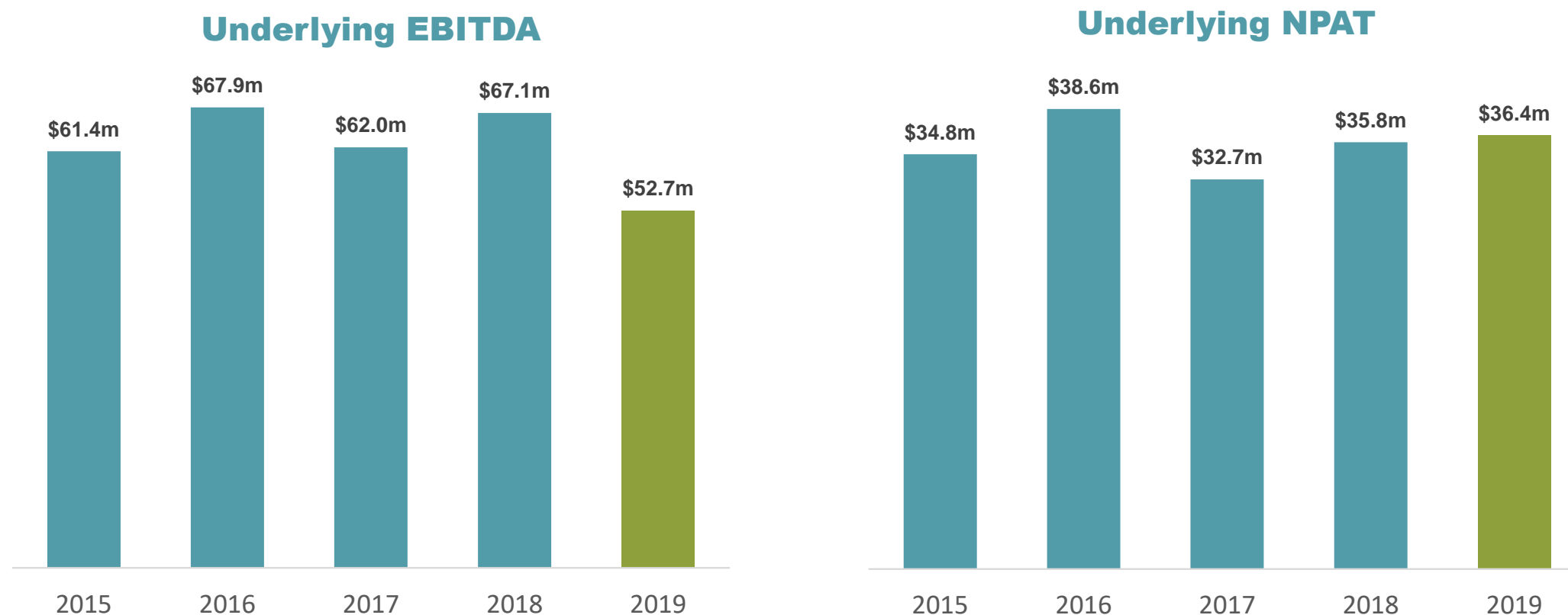


**\$104.9m**  
Net Cash  
(2018: \$62.2m net debt)



# Trends in Financial Performance

- Historic results not adjusted for businesses divested or acquired.
- Graphs reflect changes in Group structure, particularly over 2018 and 2019.



Directors and management believe that Underlying profit measures provide meaningful information that is helpful to investors and give them a better understanding of a company's financial performance when presented in addition to GAAP (NZ IFRS) information. Underlying profit measures are used internally to evaluate performance of our divisions, establish operational goals and to allocate resources. Non-GAAP (Underlying) profit measures are not prepared in accordance with NZ IFRS and are not subject to an audit or review. A full reconciliation between NZ IFRS and Underlying measures is provided on pages 38 and 39 of our 2019 Annual Report.

Underlying measures for 2019 do not include Polarcold operational earnings and only include 50 per cent of Meateor NZ from 1 April 2019 (2018: includes Polarcold and Meateor NZ for the full year, Liqueo up to 1 August 2018 and Shelby from 20 December 2018). All of the above measures (both NZ IFRS and Underlying) are presented before the deduction of Fern Ridge and Shelby non-controlling interests in NPAT of \$3.6 million (2018: \$0.4 million).

# Group Financial Performance

## Strategic changes contributing to record profit

- Record revenue up 20% on 2018:
  - Includes full year trading from Shelby.
- 2019 Underlying EBITDA \$52.7m. Prior year includes:
  - Polarcold (full year).
  - Liqueo (up to 1 August 2018).
  - Full share of Meateor NZ earnings.
- Underlying Net Profit up 2% on 2018.
- Reported Net Profit of \$121.6m impacted by:
  - Gain on sale of Polarcold (\$73.0m, including interest).
  - Establishment of Meateor NZ (gain on sale of \$9.8m and revaluation gain \$9.8m).
  - Implementation of NZ IFRS 16 *Leases* (net impact of negative \$1.0m).

Income Statement			
\$Millions	2019	2018	Growth %
Revenue	484.6	402.5	20%
<b>Underlying EBITDA</b>	<b>52.7</b>	<b>67.1</b>	-21%
<b>Underlying EBIT</b>	<b>42.5</b>	<b>52.3</b>	-19%
<b>Underlying Net Profit</b>	<b>36.4</b>	<b>35.8</b>	2%
After tax impact of:			
Non-cash IFRS adjustments	85.2	9.7	
<b>Net Profit</b>	<b>121.6</b>	<b>45.5</b>	
Capital employed	280.6	261.3	
Return on capital employed	16%	17%	



# 2019 Divisional Highlights

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## Horticulture

- Record revenue of \$264.8m, up 4% on 2018.
- Higher than expected Mr Apple export crop during ongoing orchard development.
- Initial sales of Posy™.

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## Food Ingredients

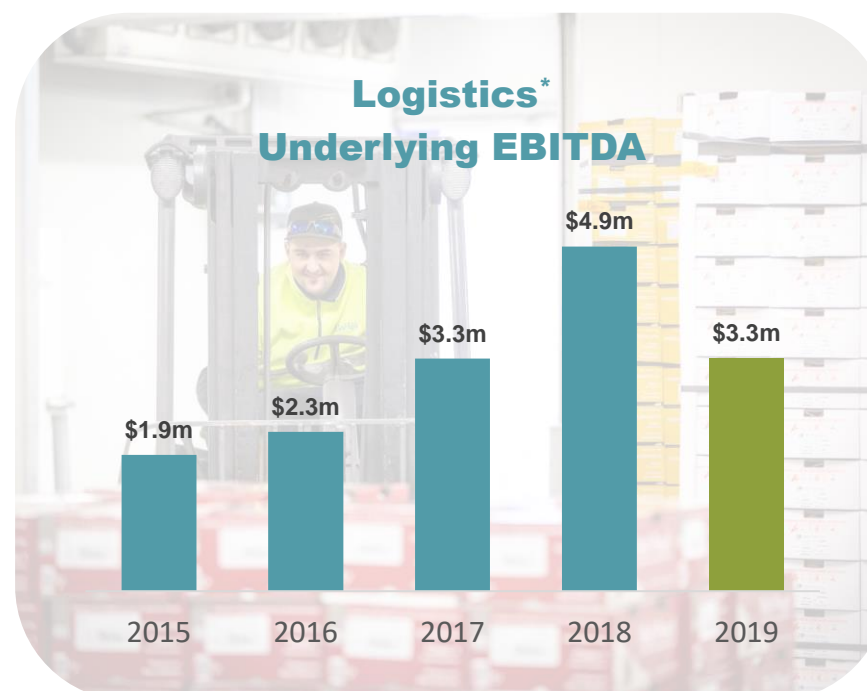
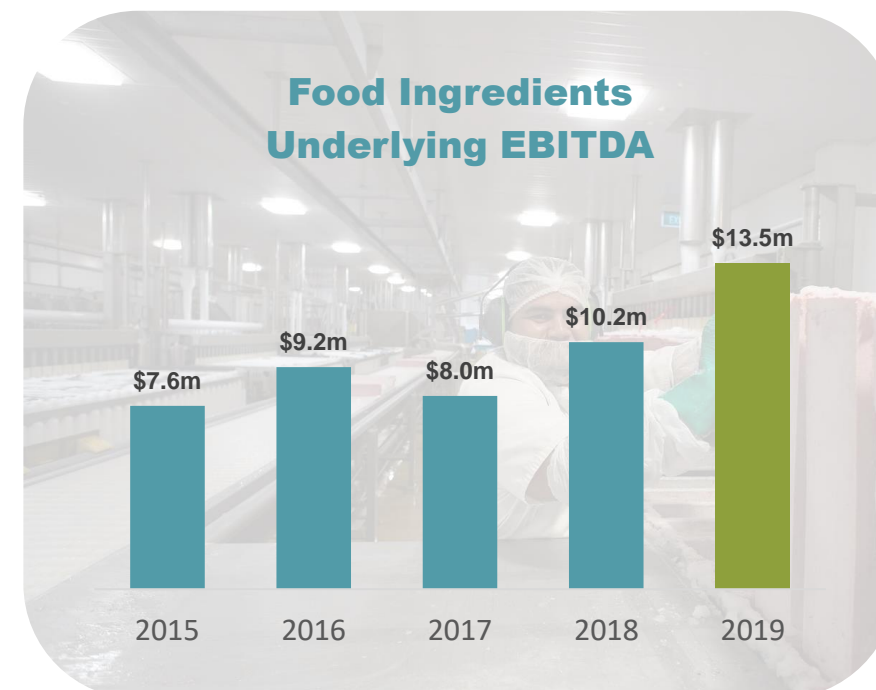
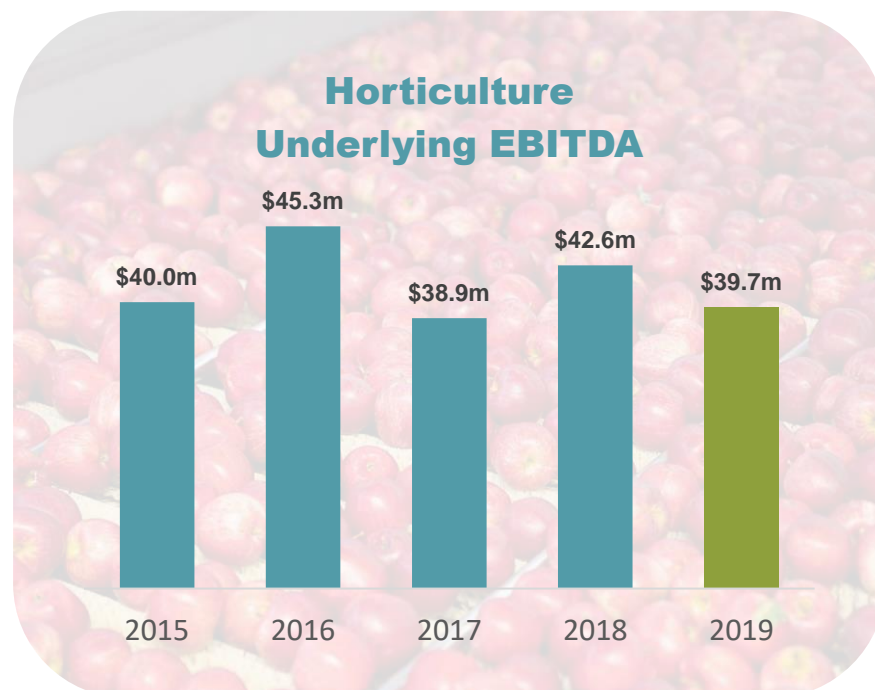
- Step change in revenue to \$155.1m (2018: \$83.1m) following acquisition of Shelby.
- 50/50 petfood joint venture with Alliance established on 1 April 2019.
- Significant progress in diversifying geographical exposure and range of protein options.

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## Logistics

- 12% increase in ocean freight to 39,438 TEUs.
- Polarcold divestment settled in May 2019.
- Increased resource in Christchurch (warehouse) and Melbourne (sales).

# Trends in Divisional Performance





# Balance Sheet

## Reflecting strategic changes

- Net cash position attributable to proceeds from the divestment of:
  - Polarcold.
  - 50% of the Meateor NZ business.
- Increase in Other Liabilities due to implementation of NZ IFRS 16 *Leases*:
  - Resulting in additional assets and liabilities of ~\$80m.
- Capital expenditure investment included:
  - Ongoing orchard redevelopment.
  - Investment in RSE accommodation.

Financial Position			
\$Millions	2019	2018	2017
Capital Employed	280.6	261.3	307.5
<i>Return on Capital Employed</i>	16%	17%	17%
Net Cash / (Interest Bearing Debt)	104.9	(62.2)	(40.8)
Other Liabilities	(107.4)	(36.4)	(44.8)
<b>Net Assets</b>	<b>359.0</b>	<b>249.9</b>	<b>221.9</b>





# Sustainability and Governance Update

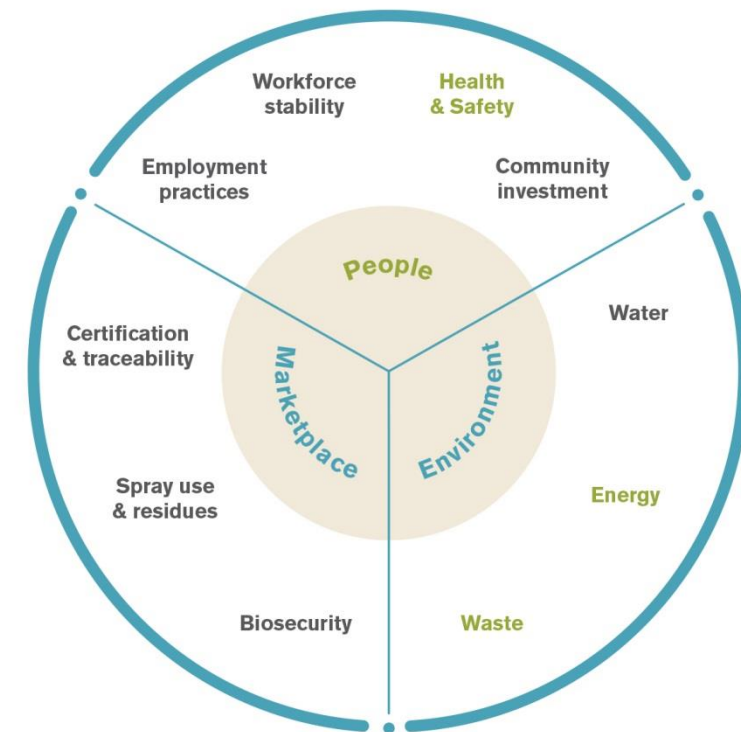
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# Sustainability

- Continued progress on our Sustainability journey.
- Measured impact in, and set targets for, our key Sustainability focus areas:
  - **People** – in particular, staff engagement, leadership and health and safety.
  - **Energy** – carbon footprint calculation and emission reduction initiatives.
  - **Waste** – in particular, reducing the amount of waste sent to landfill and increasing recycling or repurposing.

Sustainability framework - areas of focus



# It's All About Our People

**>500**  
permanent staff  
members

**~25%**  
staff with  
>10 years service

**43 years**  
longest serving  
employee

**~30%**  
female senior  
management staff

**18**  
different ethnicities  
recorded in our payroll  
system

**>30 people**  
involved in the Solo Parent  
and Seasonal Employer /  
Employee Development  
programmes

**~25%**  
permanent  
female staff

**>170 people**  
undertaken NZQA  
*Health and Safety*  
*Representative* training



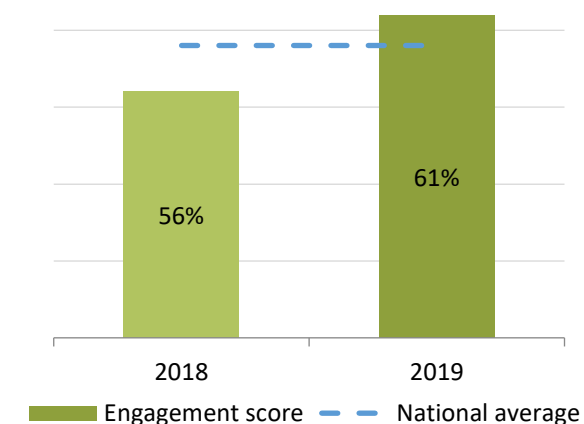
# People and Health & Safety

## Health and safety of our people is our number 1 priority

### People

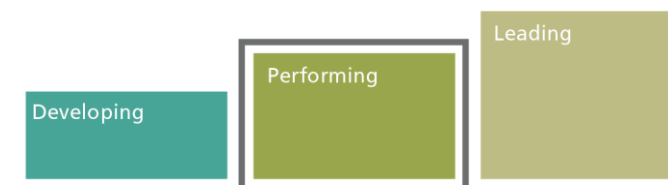
- Second Group-wide staff engagement survey undertaken, engagement score of 61%.
- Leadership, bullying & harassment prevention and mental health awareness training undertaken.
- Significant investment in community living environment and infrastructure for RSE workers.

### Staff Engagement Survey Results



### Health and Safety

- 5 dedicated personnel focusing on the health, safety and wellbeing of teams.
- 3 year Strategic Safety Plans created at Mr Apple and Balance Cargo.
- Achievement of 'Performing' in our first SafePlus assessment.



# Marketplace and Environment

## Progress made in a wide range of areas

### Marketplace

- All businesses continue to have an annually updated Business Continuity Plan.
- Continuing investment in technology to provide traceability.

### Environment

- EECA audit at 2 Mr Apple sites showed excellent energy management.
- Second carbon footprint certification process carried out at Mr Apple; a 4% footprint reduction.
- >20 people meet quarterly to track progress and innovate on 4 chosen UN Sustainable Development Goals.





# Governance

## Investing in our strategic leadership

- Two new additions to the Board in 2019:
  - Tomakin Lai – appointed January 2019.
  - Nadine Tunley – appointed February 2019.
- Brought complementary skills and expertise to our Board table.
- Continued participation in the Institute of Directors' *Future Directors* programme:
  - Jemma McCowan, General Manager Marketing at New Zealand King Salmon Limited – appointed June 2019.
- Established 4 new diversity objectives.
- Further developments made with our ethics programmes:
  - Whistleblower hotline launched August 2019, in partnership with Report it Now™.
  - Anti-bribery and corruption training for the senior financial, operational and sales teams undertaken.
  - Whistleblower policy (to accompany hotline and reporting channels) implemented.



Jemma McCowan





# Strategy Update

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# Horticulture – Orchard Strategy

## Redevelopment – a decade long investment

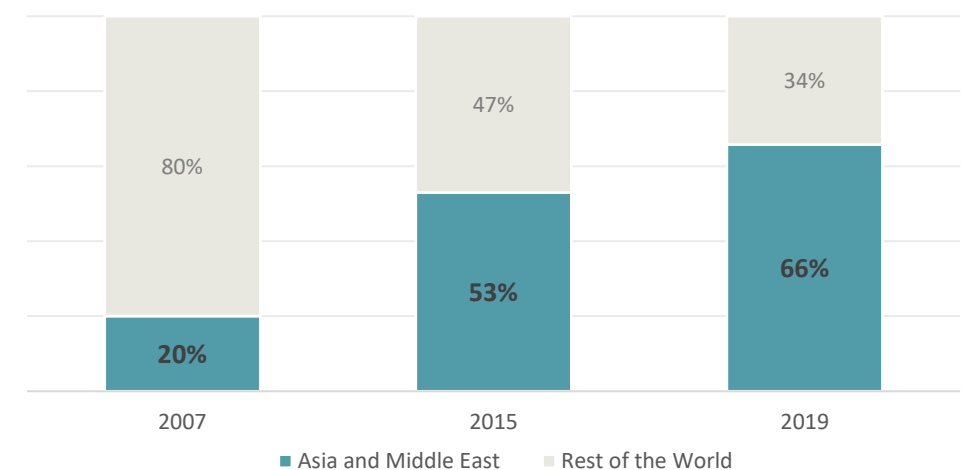
- When complete, approximately 475 ha of orchard will have been redeveloped to premium varieties.

### Orchard Redevelopment Programme



- Sales to Asia and Middle East have increased from 20% (2007) to 66% (2019)\*.
- Ongoing strategies include:
  - Increasing premium variety offering.
  - Evaluating traditional varieties.
  - Focussing on branding and market presence.
  - Exploring automation and technology opportunities.
- Ground work for new Whakatu Coolstore has commenced.

### Growth in Asia and Middle East Sales



\* TCEs as a percentage of export volumes.

# Horticulture – Volumes and Pricing

## Benefits expected from the replanting profile

- Absent further redevelopment, orchard production expected to increase in future as recent plantings mature.
- New planting techniques involve considerably more trees / ha:

More traditional planting techniques involve ~800 trees / ha, spaced well apart from each other (~3m apart in each row, and typically 4m+ between rows).



Newer planting techniques involve many more trees / ha (typically ~2,500 / ha) spaced much closer to one another. The trees are trained to be less voluminous, making them easier and quicker to pick when mature.





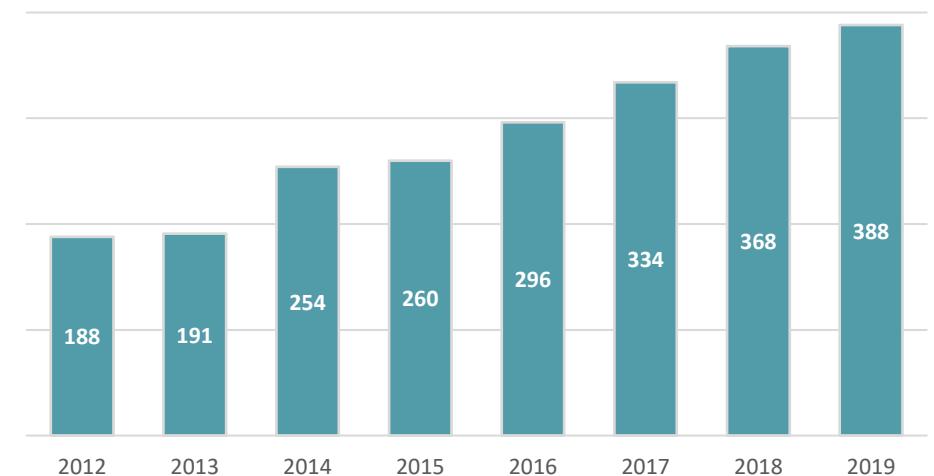
# Horticulture – Volumes and Pricing (cont.)

## Benefits expected from the replanting profile

- Volume increases, facilitated by RSE scheme workers, generate a meaningful growth in permanent roles (up 106% between 2012 and 2019).
- Driving improved pricing through:
  - Higher proportion of premium varieties.
  - Investments in marketing / packaging and expansion of sales channels.
  - Ownership (and control) of new varieties and brands (e.g. Dazzle™, Posy™, Diva™).
- Improved productivity:
  - New planting techniques lead to orchard efficiencies including in picking, pruning, and thinning.



Mr Apple Permanent Roles



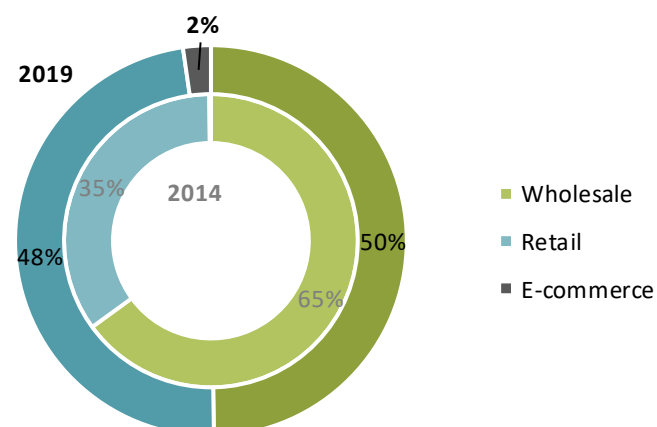
# Horticulture – Marketing

## Maximising appeal to consumers, wholesalers and retailers

- Enhanced in-market branding and marketing initiatives, particularly in Asia and Middle East.
- China represented 17% of Mr Apple export volumes in 2019 (2018: 10%):
  - Supported by China Resources Ng Fung Ltd and Primary Collaboration New Zealand.
- Continued move to retail and e-commerce channels, particularly in Asia.
- Ongoing product development and launches:
  - Posy™ marketing commenced in China mid-2019.
  - Positive feedback and sales from a special February 2020 shipment of Posy™.



Sales by Channel – 2014 vs 2019



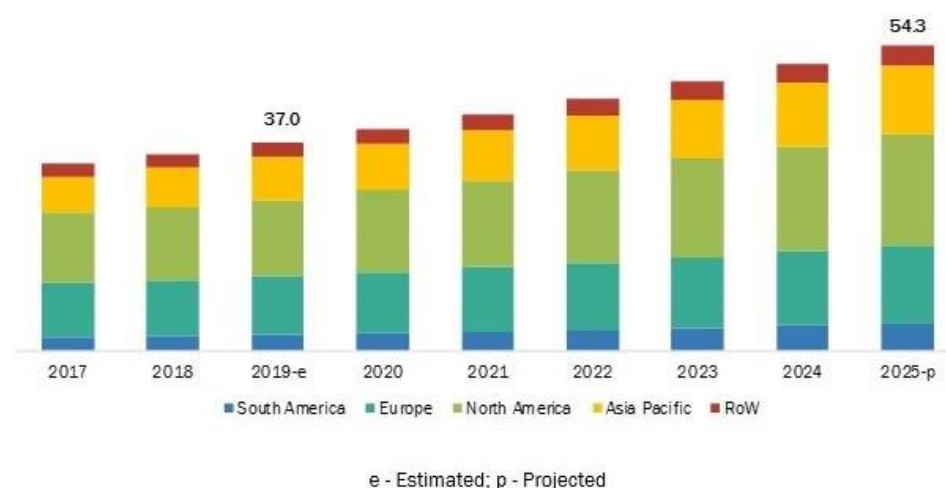


# Food Ingredients – Industry Focus

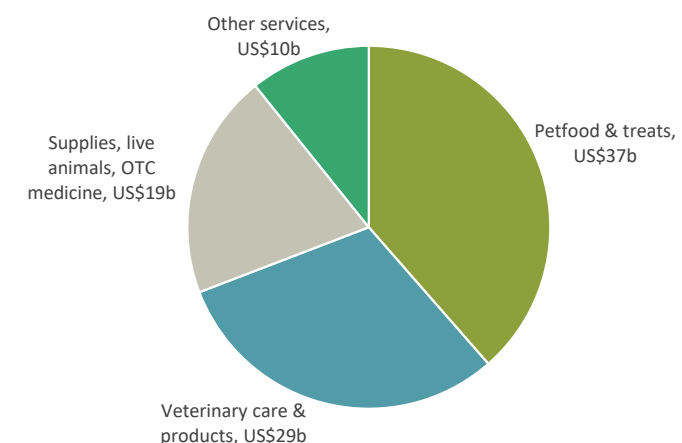
## Solid foundation for continued growth

- Initial investments provide base for expansion in an attractive industry:
  - Global petfood ingredients market estimated at US\$37.0b in 2019\*.
  - Projected to grow at a CAGR of 6.6% to US\$54.3b in 2025\*.
  - 2019 USA petfood and treats market reached US\$37.0b\*\*.
- COVID-19 impact on the industry remains unclear, but will likely include / be influenced by:
  - Supply chain changes.
  - Move from retail to e-commerce distribution channels.
  - Increased levels of pet adoption immediately prior to global lockdowns.

**Petfood Ingredients Market, by Region (US\$b)\***



**2019 USA Petcare Spending\*\***



\* Source: <https://www.marketsandmarkets.com/Market-Reports/global-pet-food-and-care-products-market-147.html>.

\*\* Source: <https://www.petfoodprocessing.net> US pet spending nears \$100 billion in 2019, 3 March 2020.

# Food Ingredients – Global Strategy

**A key provider of petfood ingredients to a wide range of international brands**

- Actively reviewing opportunities to expand product range, with added-value and functional petfoods.
- Aiming to be a key provider to a range of international petfood brand owners.
- Continuing to seek diversification in source and range of proteins.
- Pleased with potential opportunities in the US:
  - Other proteins.
  - By-products.







Outlook

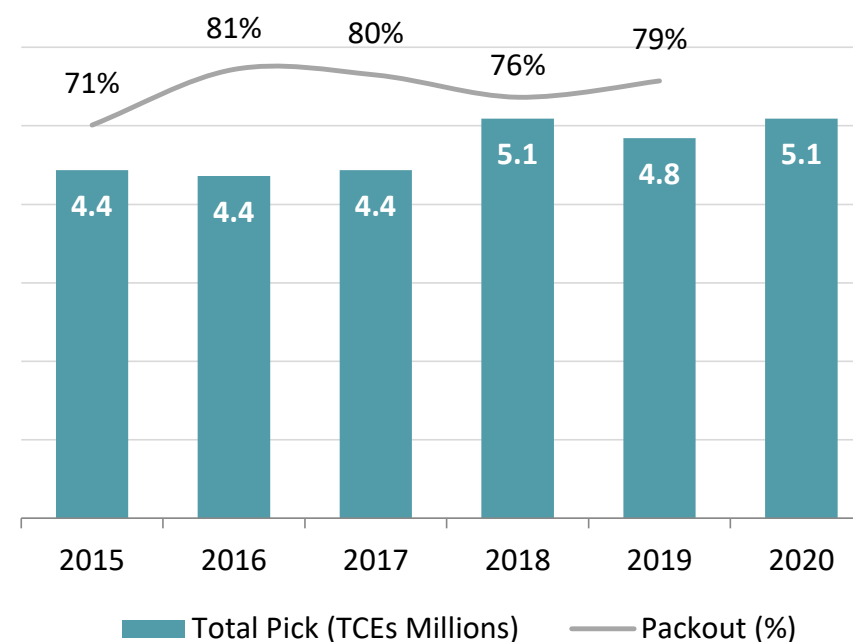
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# Trading Update – Horticulture

- Apple harvest completed with limited disruption. Total pick of 5.1m TCEs equal to the previous record in 2018.
- Packing is underway with approximately 2/3<sup>rd</sup>s completed. Whilst final export packout rates will not be known until the end of the season, performance to date is in line with recent averages.
- Sales to date (approximately 1/3<sup>rd</sup> of the harvest) are broadly consistent with last year.
- There continues to be demand for fresh, healthy fruit, however we are yet to see the full impact on distribution networks and the ability of end consumers to physically access our fruit. We are working hard, and have been ably supported by our local and global partners, to ensure accessibility of our fruit.

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





# Trading Update – Food Ingredients and Logistics

## Food Ingredients

- Demand ‘front-loaded’ as customers have accelerated purchases to mitigate their own supply-chain risks.
- Trading through the balance of the year will likely be lower as a result.

## Logistics

- Has also benefitted from demand acceleration.
- Reduction in global airfreight volumes expected to impact full year trading.



Physical distancing and safety measures in place at Scales Logistics.

# Trading Update – Group

## Group

- Impact on group earnings due to COVID-19 difficult to assess:
  - Precautions and distancing measures allowed us to continue trading during lockdown.
  - Picking has been completed, but packing and marketing in progress.
  - Situation and market dynamics, including supply chain implications, remain fluid.
- Scales is resiliently positioned to ‘weather the storm’:
  - Experienced management and staff.
  - Essential agribusiness.
  - Strong balance sheet.
- Any changes to profit guidance will be monitored and updates provided as appropriate.
- Scales remains committed to the current annual dividend level of no less than 19 cents cash per share whilst the Group holds net cash.





### **III. Ordinary Resolutions**

# Resolution 1

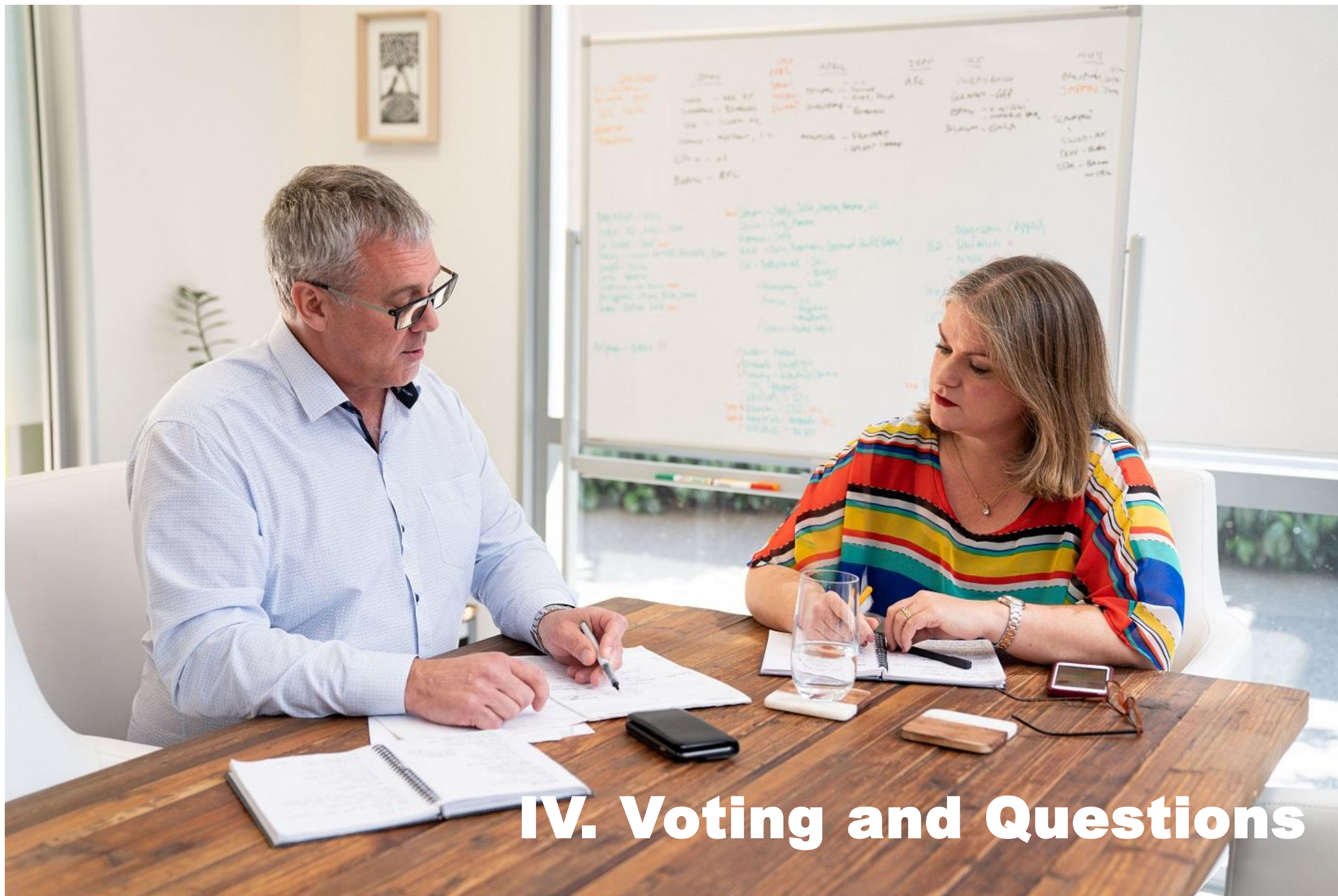
**That the Board is authorised to fix the auditor's remuneration for the coming year.**



## Resolution 2

Having retired by rotation, that Nick Harris be re-elected as a Non Executive Independent Director.


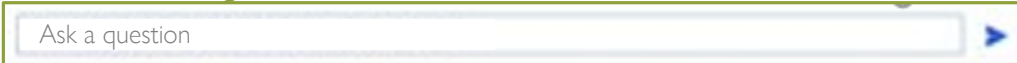


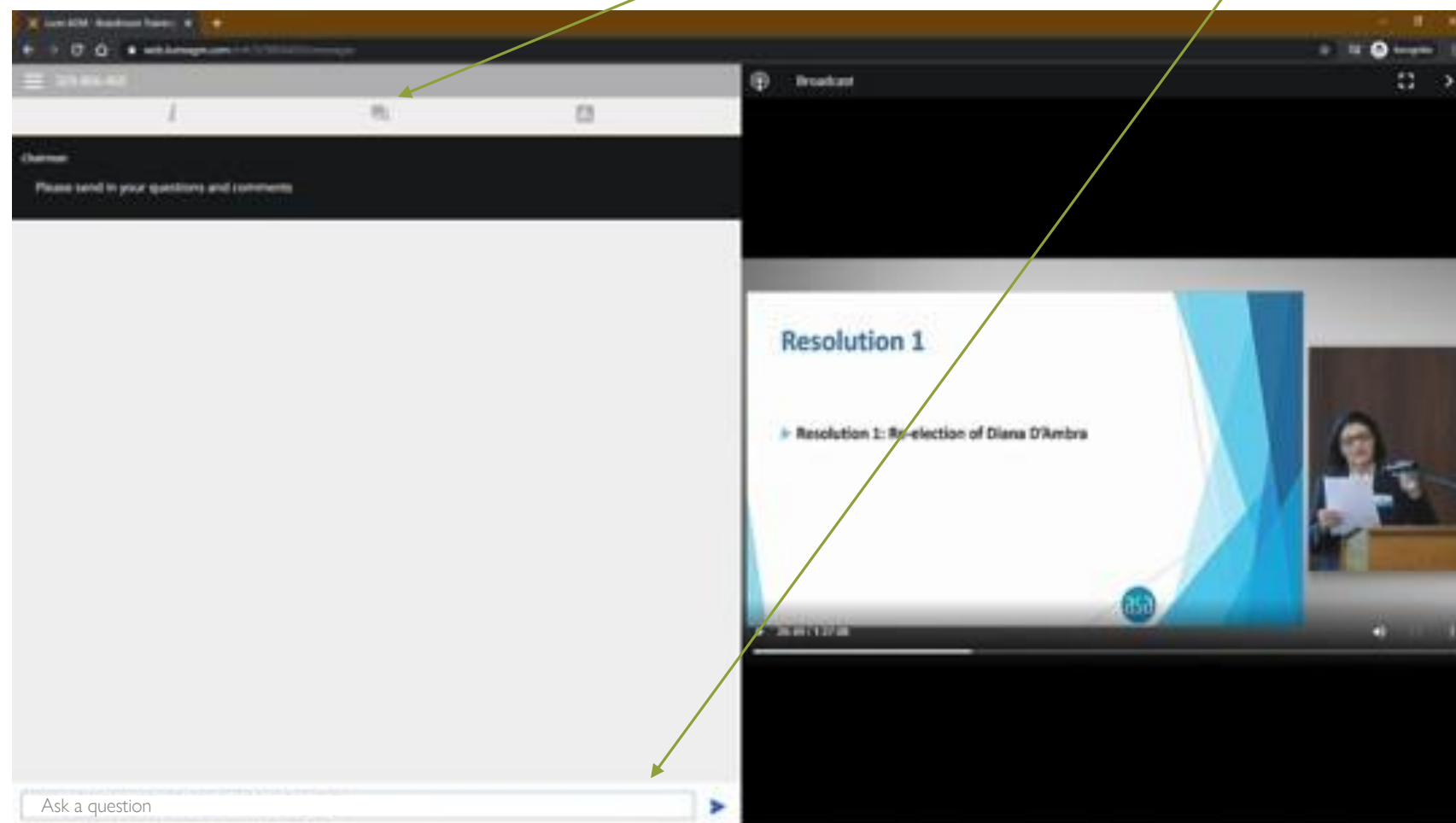


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Our results are reported under NZ IFRS. This presentation includes non-GAAP financial measures which are not prepared in accordance with NZ IFRS. The non-GAAP financial measures used in this presentation include:

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