



Scales
Corporation
Limited

Fact Sheet 2020

About Scales

Scales Corporation Limited (Scales) is an S&P NZX 50 listed agribusiness group with 3 operating divisions:

Horticulture



Vertically integrated apple grower, packer & marketer



Apple marketer^a

Food Ingredients



MEATEOR

Petfood ingredient procurer, processor and marketer^b



Petfood ingredient procurer, processor and marketer^c

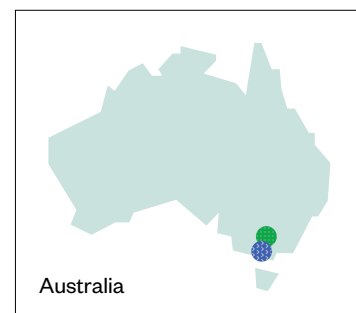


Juice manufacturer^d

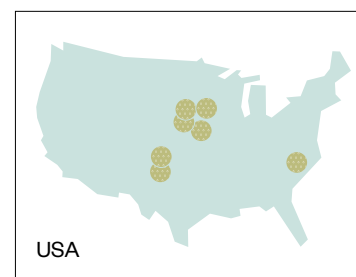
Logistics



Air & sea freight



Australia



USA

Scales' origins date back to 1897 when it was established by George H Scales to challenge the freight rates being charged by the large British shipping lines to New Zealand wool exporters. Now the group comprises:

- Mr Apple – New Zealand's largest fully vertically integrated apple business, based in Hawke's Bay.
- Fern Ridge – 73 per cent ownership of a fresh produce exporter in Hawke's Bay.
- Meateor NZ – 50 per cent ownership of a processor and marketer of petfood ingredients for the global petfood industry, with processing plants in Whakatu and Dunedin.
- Meateor International – a supplier and marketer of petfood ingredients in Australia and other markets.
- Shelby – 60 per cent ownership of a US procurer, processor and marketer of ingredients for the petfood industry, purchased in December 2018.
- Profruit – 50 per cent ownership of a manufacturer of high quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay.
- Scales Logistics – leaders in ocean freight services to exporters and importers of perishable products, with offices in Auckland, Christchurch, Tauranga, Hawke's Bay and Melbourne.
- Balance Cargo – providers of air freight services, including a purpose-built chiller and warehousing facilities, based in Christchurch.

^a Scales owns 73 per cent of Fern Ridge Produce Limited (Fern Ridge).

^b On 1 April 2019, Alliance Group (Alliance) acquired a 50 per cent stake in Meateor New Zealand (Meateor NZ).

^c Scales owns 60 per cent of Shelby Foods (Shelby).

^d Profruit is a 50 per cent owned joint venture.

Vision and Strategy

Scales' Vision

To be the foremost investor in, and grower of, New Zealand agribusinesses by leveraging our unique insights, experience and access to collaborative synergies.

Strategy Update

During 2018 and 2019 we divested our storage businesses (Liqueo Bulk Storage Limited (Liqueo) and Polarcold Stores Limited and Whakatu Coldstores Limited (Polarcold)) as these businesses were less aligned with our core strengths.

In addition, in 2018 we acquired a 60 per cent stake in Shelby, a large independent US buyer, processor and seller of ingredients for the petfood industry and in 2019 we divested 50 per cent of our Meateor NZ business to Alliance.

Having completed our divestment programme, our investment attention is now focused on 3 main areas:

1. Organic growth opportunities that strengthen our existing business units.
2. Acquisition growth opportunities that strengthen our existing business units.
3. Investment opportunities in new sectors where Scales can add value or enhance an existing business through its capital resources, agribusiness experience and/or export network, especially in China.

We are considering a number of opportunities and examples of this include:

- A significant post-harvest investment in the construction of a modern coolstore adjacent to Mr Apple's Whakatu packhouse.
- Continued orchard redevelopment and Recognised Seasonal Employer (RSE) accommodation investment at Mr Apple.
- A number of organic growth opportunities in the Food Ingredients division, both domestically and offshore, to further extend the range of added value petfoods that this division makes available to its customers.
- Acquisition opportunities, including opportunities that strengthen existing business units as well as opportunities in new agribusiness sectors.

Strategies to Create Value

Our underlying strategies to create value remain the same. We will:

- Extend our agribusiness reach through disciplined and patient investment to develop new divisions or market sectors by:
 - Using our core investor competency of identifying sectors with the appropriate growth characteristics and supporting this with our in-depth industry due diligence capabilities.
 - Aligning investments with our core operating competencies to deliver collaborative synergies.
 - Seeking a long-run Return on Capital Employed (ROCE) target of 15 per cent across our portfolio.
 - Targeting investments that have, or are able to reach, scale.
 - Retaining a focus predominately (but not exclusively) on New Zealand.
 - Where appropriate, aligning investments with our expanding network in China and Asia, taking advantage of the connection and support from our cornerstone shareholder China Resources Ng Fung Limited (China Resources Ng Fung) and our participation in Primary Collaboration New Zealand (PCNZ).

- Support business units by making material investment in growth assets, our people and our culture.
 - This includes significant investment in our team, fixed assets, brands and market position.
 - Develop our sustainability philosophy and reporting such that we are seen to be an 'Employer of Choice'.
- Be transparent in our market communications.
 - Provide relevant key operating metrics with honesty and integrity, subject to maintaining commercial confidentiality.

Sustainability Report

Progress on our Sustainability journey continued in 2019. In 2018 we began measuring our impact in, and setting targets for, our key Sustainability focus areas and we maintained this momentum in 2019.

Our focus remains on the 3 key areas identified previously, being:

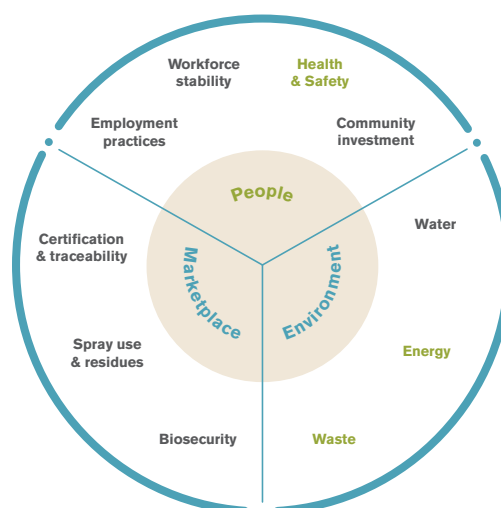
- People – in particular, staff engagement, leadership and health and safety.
- Energy – carbon footprint calculation and emission reduction initiatives.
- Waste – in particular, reducing the amount of waste sent to landfill and increasing recycling or repurposing.

We have made significant progress and continue to make incremental improvements in a wide range of areas. We know that meeting our sustainability goals will be a journey where we are smart about what we do and how we do it, in the most sustainable way possible.

Climate change is also a concern for us, as it is for all global businesses. During 2020 we will start to look at this in more depth, consulting the science world for a factual baseline from which we can assess the potential implications for our businesses.

For further information, please read our full Sustainability Report in our 2019 Annual Report.

Sustainability framework - areas of focus



Share Information

NZX code	SCL
Shares on issue at 30 April 2020	141,880,895
Gross dividend yield¹	5.5%
NZX industry sector	Primary / Agriculture and Fishing

Closing share price at 30 April 2020	\$4.87
Market capitalisation at 30 April 2020	\$691 million
Financial year end	31 December
Indices	S&P NZX All S&P NZX 50

Scales' share price from date of listing to 30 April 2020 is shown below.



Dividends

It is standard practice for the Directors to consider all aspects of the Group's performance and financial position prior to declaring any dividend, but we are committed to the current annual dividend level of no less than 19 cents cash per share whilst the Group holds net cash. Any dividend is subject to Board approval.

It is expected that dividends will be fully imputed for NZ tax residents with the interim and final dividends split approximately evenly and payable in January (interim) and July (final).

Period	Date Paid/ Payable	Amount (Cash Paid/Payable)
2018 interim	18/01/19	9.5 cps
2018 final	05/07/19	9.5 cps
2019 interim	17/01/20	9.5 cps
2019 final (declared)	10/07/20 (payable)	9.5 cps (payable)

¹ Based on the 2019 fully imputed interim and final dividends of 9.5 cents each (gross 13.2 cents each) as at 21 May 2020 and average share price for the 2019 financial year.

Research Coverage

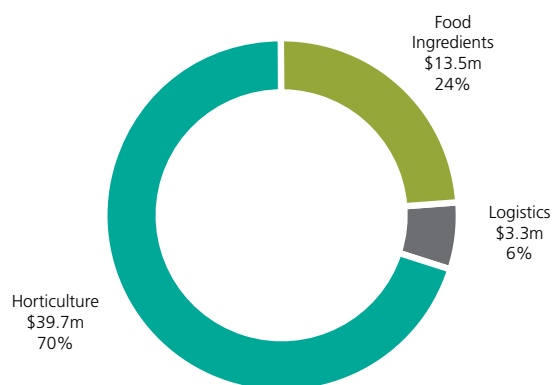
Company	Analyst	Email
Deutsche Craigs	Chris Byrne	chris.byrne@craigsip.com
Jarden	Jack Crowley	jack.crowley@jarden.co.nz
Forsyth Barr	Guy Hooper	guy.hooper@forsythbarr.co.nz

Key Financials

	2015	2016	FY2017 (Restated)	2018	2019
Revenue ²	\$301.4m	\$373.9m	\$393.1m	\$402.5m	\$484.6m
Underlying ³ EBITDA	\$61.4m	\$67.9m	\$62.0m	\$67.1m	\$52.7m
Underlying EBITDA margin	20.4%	18.1%	15.8%	16.7%	10.9%
Underlying Net Profit	\$34.8m	\$38.6m	\$32.7m	\$35.8m	\$36.4m
Net Profit	\$35.9m	\$38.2m	\$31.6m	\$45.5m	\$121.6m
Earnings per share	25.7c	27.4c	22.5c	32.2c	84.2c
Dividends per share - declared	17.5c	14.5c	19.0c	18.5c	19.0c
Average net debt / (net cash)	\$32.5m	\$43.4m	\$54.8m	\$70.7m	(\$82.0m)
Capital expenditure	\$15.8m	\$15.7m	\$13.5m	\$16.3m	\$15.7m

Divisional Overview

The chart below shows the 2019 Underlying EBITDA contribution from each of Scales' 3 key operating divisions. Our Corporate division ran at an EBITDA loss of \$3.7m to achieve Underlying Group EBITDA of \$52.7m:



² Includes revenue from Liqueo and Polarcold in 2015 to 2017.

³ Scales believes that Underlying measures provide meaningful information that is helpful to investors and give them a better understanding of Scales' financial performance when presented in addition to GAAP (NZ IFRS) information. Underlying measures for:

- 2017 includes Liqueo and Polarcold for the full year.
- 2018 includes Polarcold and Meateor NZ for the full year, Liqueo up to 1 August 2018 and Shelby from 20 December 2018.
- 2019 does not include Polarcold operational earnings and only includes 50 per cent of Meateor NZ from 1 April 2019.

All of the above measures (both NZ IFRS and Underlying) are presented before the deduction of Fern Ridge and Shelby non-controlling interests in Net Profit After Tax. A full reconciliation between NZ IFRS and Underlying measures is provided on pages 38 and 39 of our 2019 Annual Report.

Horticulture

	2015	2016	2017 (Restated)	2018	2019
Revenue	\$178.1m	\$230.1m	\$222.0m	\$254.6m	\$264.8m
% of Group revenue	59%	62%	56%	63%	55%
Underlying EBITDA	\$40.0m	\$45.3m	\$38.9m	\$42.6m	\$39.7m
% of Group Underlying EBITDA	65%	67%	63%	63%	75%
Orchard area					
- Total planted orchard at harvest (Ha.)	1,052	1,042	1,142	1,149	1,158
- Fully mature planted orchard (Ha.)	902	922	1,043	1,057	1,023
Packhouses	3	4	4	3	3
Peak coolstore volumes (bins)	106,875	107,385	109,818	128,711	127,280

Our Horticulture division remains the largest division within the Scales group and comprises:

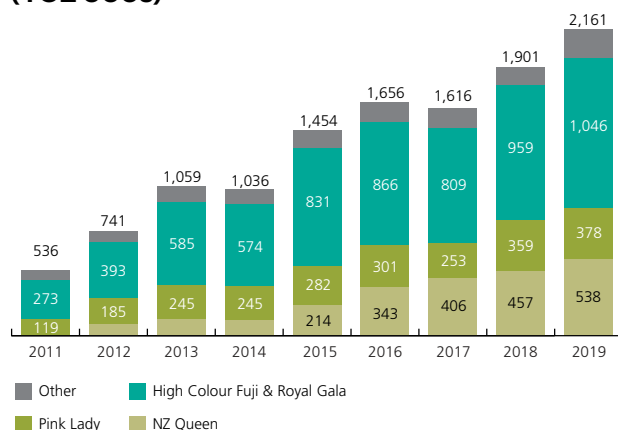
- Mr Apple, New Zealand's largest vertically integrated grower, packer and marketer of apples, based in Hawke's Bay. Mr Apple also packs, stores and markets apples on behalf of a number of external growers in Hawke's Bay and markets on behalf of external growers in Nelson.
- A 73 per cent stake in Fern Ridge, a fresh produce exporter in Hawke's Bay.

The Horticulture division's strategy is to increase sales of premium branded apples throughout Asia and the Middle East. During 2019:

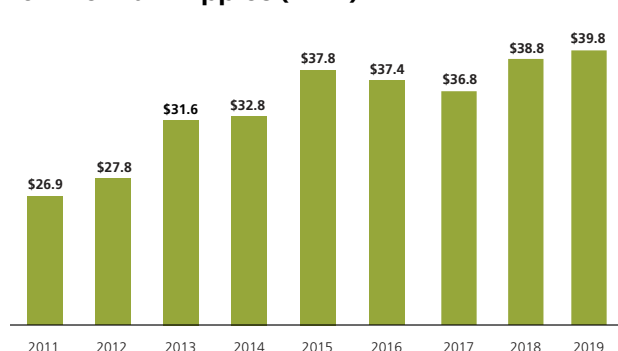
- We continued to redevelop lower-performing orchards and varieties into higher value varieties, with 44 hectares redeveloped during the winter of 2019. A further 32 hectares are scheduled for redevelopment over the 2020 winter meaning, when completed, approximately 475 hectares of orchard will have been redeveloped to premium varieties since our orchard redevelopment programme began in 2008.
- We continued to focus on new variety development:
 - Posy™, a red, very early apple, was launched in China during 2019. Market feedback from an initial airfreight shipment in February 2020 was very positive, with one online platform selling out of all of their stock within a week.
 - Further product launches for both Posy™ and other premium brands are anticipated in 2020.
- Our presence in Asia and the Middle East continued to grow, with sales to this market accounting for 66 per cent of all exports in 2019. In particular, sales to China grew strongly during 2019, reflecting multiple factors including our ongoing in-market efforts, support from our cornerstone shareholder China Resources Ng Fung and increased participation in the market by PCNZ.
- We increased marketing activations and in-market branding initiatives, particularly in Asia and the Middle East, to support the increased volume of export sales to these regions.

Over 560 million apples were picked from Mr Apple's planted apple orchards in the 2019 season from approximately 1,158 hectares of Mr Apple's planted apple orchard. This equates to a gross production of 4.84 million TCEs of which 3.82 million TCEs were exported. Including Fern Ridge and other external growers, the Horticulture division exported approximately 5.95 million TCEs.

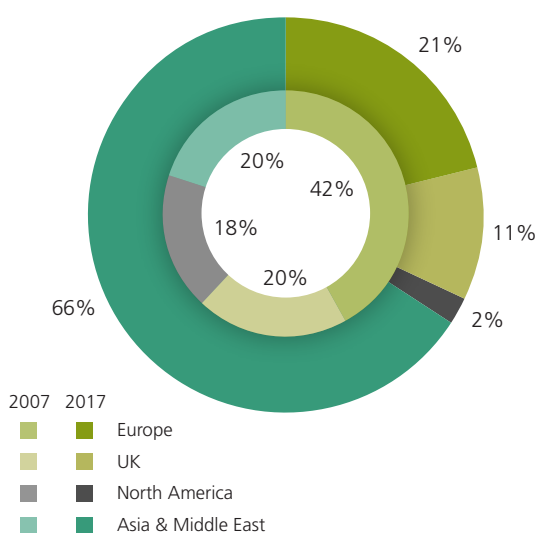
Premium Apple Volumes by Variety (TCE 000s)



Weighted Average FOB Price / TCE for Premium Apples (NZD)



Exports by Market



The Horticulture division has pronounced financial seasonality:

- Over 50 per cent of Mr Apple's sales are made between February and June each year.
- Produce growing on apple trees are accounted for as unharvested agricultural produce assets under NZ IAS 41 *Agriculture*. This requires unsold agricultural produce to be measured at fair value less costs to sell, meaning that expected profit on unsold fruit is recognised in the interim result.

Food Ingredients

	2015	2016	2017 (Restated)	2018	2019
Revenue	\$48.6m	\$58.0m	\$68.9m	\$83.1m	\$155.1m
% of Group Revenue	16%	16%	18%	21%	32%
Underlying EBITDA	\$7.6m	\$9.2m	\$8.0m	\$10.2m	\$13.5m
% of Group Underlying EBITDA	12%	14%	13%	15%	26%

Our Food Ingredients division converts agricultural by-products into valuable food commodities. This division changed significantly during 2018 and 2019 as a result of the acquisition of a controlling interest in Shelby in December 2018, and the sale of 50 per cent of Meateor NZ to Alliance in March 2019.

The division now comprises 4 businesses:

- Meateor NZ – a 50 per cent owned processor and marketer of petfood ingredients for the global petfood industry, with processing plants in Whakatu and Dunedin.
- Meateor International – a 100 per cent owned supplier and marketer of petfood ingredients in Australia and other markets.
- Shelby – a 60 per cent owned US procurer, processor and marketer of ingredients for the petfood industry.
- Profruit – a 50 per cent owned manufacturer of high quality apple, kiwifruit and pear juice concentrates, located in Hawke's Bay.

Our strategy for Food Ingredients is for it to be a key provider of petfood ingredients to a wide range of international brands. The acquisition of Shelby significantly enhanced the volumes of petfood ingredients sold by the Food Ingredients division and this, together with Meateor NZ's partnership with Alliance, allowed the division to make significant progress in diversifying its geographical exposure and range of protein options.

The volume of petfood sold by the Meateor group in 2019 increased by 282 per cent compared to 2018, whilst Profruit's 2019 sales volumes were in line with 2018.

We expect a further improvement in performance from the division in 2020 as its individual businesses continue to develop organic growth opportunities both domestically and offshore.

Logistics (formally Storage & Logistics)

	2015	2016	2017 (Restated)	2018	2019
Revenue	\$95.6m	\$108.4m	\$126.0m	\$89.3m	\$87.1m
% of Group Revenue	32%	29%	32%	22%	18%
Underlying EBITDA	\$16.3m	\$16.2m	\$19.1m	\$4.9m	\$3.3m
% of Group Underlying EBITDA	27%	24%	31%	7%	6%

Note: the results above include Liqueo and Polarcold for the years 2015 to 2017.

Our Logistics division changed significantly during 2018 and 2019 as a result of the sale of Liqueo in August 2018 and the sale of Polarcold, which settled in May 2019.

The division now comprises:

- Scales Logistics – leaders in ocean freight services to exporters and importers of perishable products, with offices in Auckland, Christchurch, Tauranga, Hawke's Bay and Melbourne.
- Balance Cargo – providers of air freight services, including a purpose-built chiller and warehousing facilities, based in Christchurch.

2019 saw a return to long-run performance for Logistics following a particularly strong 2018 year, which benefitted from large airfreight volumes due to stock-building orders for our customers.

The recent growth in Australasian agricultural products, together with Scales Logistics' specialist expertise in moving food and perishable produce, means we believe there are opportunities to grow this division through the medium term. Accordingly, we are committed to seeking further opportunities for growth, both organic and through acquisition.

Capital Management

Target ROCE for the group is 15 per cent or greater.

	2018	2019
Horticulture	21%	17%
Food Ingredients ⁴	32%	16%
Logistics ⁵	107%	70%
Group	17%	16%
ROCE:	A measure of the business' return on its capital invested.	
Calculation:	Underlying EBIT divided by the average of opening and closing capital employed.	

⁴ Food Ingredients ROCE in 2018 excludes Shelby.

⁵ Logistics ROCE is based only on Scales Logistics.



Governance

Board of Directors

Tim Goodacre	Independent Chair
Andy Borland	Managing Director
Nick Harris	Independent Director, Chair Health & Safety and Sustainability Committee
Mark Hutton	Independent Director, Chair Nominations and Remuneration Committee and Finance and Treasury Committee
Alan Isaac	Independent Director, Chair Audit and Risk Management Committee
Tomakin Lai	Director
Nadine Tunley	Independent Director

Management

Andrew (Andy) Borland, Managing Director

Andy joined Scales in 2007 and became Managing Director in 2011. Prior to joining Scales he had a 20 year career in banking, with his final role being Head of Corporate at Westpac New Zealand. Andy has overall responsibility for the strategic direction and day-to-day management of Scales. In addition to his directorships of the Group, Andy is currently Chair of Akaroa Salmon Limited, PCNZ and Primary Collaboration New Zealand (Shanghai) Co. Limited, and is a Director of George H Investments Limited, Rabobank New Zealand Limited, Rabobank Australia Limited and Rabo Australia Limited.

Hamish Davis, Managing Director Fern Ridge

Hamish joined Fern Ridge in 2001, becoming Managing Director in 2008 following supply management and sales roles. He has over 30 years' experience in the growing and post-harvest sectors of the apple industry, and remains very active in export sales for the company.

Brett Frankel, President Shelby Foods

Brett established United States based Shelby Foods in 2007 and has been its President since inception. Brett has over 20 years' experience in petfood, having had a senior procurement role prior to starting Shelby. He also represents the 3rd generation of family involvement in the sector, following in the footsteps of both his father and grandfather.

Steve Kennelly, Chief Financial Officer

Steve has been with Scales since 1993 in a variety of accounting and financial roles. As CFO, Steve is responsible for finance, funding, legal, company secretarial and information technology. Steve is a member of Chartered Accountants Australia and New Zealand.

Karen Morrish, Group Health & Safety, Compliance and Sustainability Manager

Karen was appointed to this new Group role in 2017. Prior to that Karen was the Health & Safety and Compliance Manager for Mr Apple, where she has worked for 15 years. In 2019 Karen also took on the role as a Director of New Zealand Apples & Pears Incorporated.

Kent Ritchie, CEO Scales Logistics

Kent joined Scales in 1998 and has spent over 30 years in the shipping industry. He has been involved in setting up shipping services from New Zealand, has experience in all aspects of the transport industry and has led Scales' expansion into the logistics arena.

John Sainsbury, CEO Meateor

John has been with Meateor in various management roles for the last 19 years. Prior to that, John worked in senior management, marketing and operational roles in the United States. John was appointed CEO of Meateor in March 2015 and CEO of Meateor Group during 2019.

Andrew van Workum, CEO Mr Apple

Andrew has worked in the apple industry for over 30 years. He joined Mr Apple at its inception in 2001 and prior to that was General Manager of Mr Apple's predecessor, Grocorp Pacific Limited, where he worked for 16 years. He has extensive experience in the production aspects of the apple industry and was previously a Director of Pipfruit New Zealand.

COVID-19

The full impact on Scales from the COVID-19 outbreak in the first quarter of 2020 continues to remain uncertain. Our businesses are deemed essential businesses by the Ministry of Business, Innovation and Employment and so remained in operation during the Level 3 and 4 lockdown period, with appropriate health and safety measures in place to protect our teams. Investors will be kept updated of progress in the usual manner as information comes to light.

Company Information

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Glossary

EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
PCNZ	Primary Collaboration New Zealand
ROCE	Return on Capital Employed
TCE	Tray carton equivalent (a measure of apple and pear weight, defined as 18.6kg packed weight, which equates to 18.0kg sale weight)