

Scales Corporation Limited

Growing Your Diversified Agribusiness



Half Year Results
For the Six Months Ended 30 June 2020
26 August 2020

Scales
growing New Zealand

Agenda

1. COVID-19 Update
2. Financial and Operating Summary
3. Sustainability
4. Group Results
5. Divisional Performance
6. FY20 Outlook

Appendices:

- I. NZ IFRS Reconciliation
- II. Disclaimer





COVID-19 Update

Built to Weather a Pandemic Storm

Strong business foundations served us well

- Courageous, hard-working and inspirational team ✓
- Diversified geographical and operational businesses ✓
- Essential businesses, supplying the world with nutritious food and petfood ✓
- Full vertical integration ✓
- Strong financial position ✓
- People-first safety culture, optimising health and safety outcomes for our teams ✓



COVID-19 – Focused on Safety

Our people were our first priority

- Priority on minimising risk to, and supporting, team members:
 - Ensured safe working environment.
 - Staff worked from home where possible.
 - Full salaries and wages retained, without use of government subsidies.
 - Financial impact on cost and productivity.
- Active involvement at government level to assist vital Recognised Seasonal Employer (RSE) workers:
 - Assisted with ongoing work and overall welfare until repatriated.
 - Future quota for, and sustainability of, the scheme.



COVID-19 – Trading Through the Alert Levels

Scales’ businesses occupied the privileged position of being ‘essential’

- Business continuity made possible by outstanding leadership effort and teamwork of all staff:
 - Lockdown occurred during crucial apple harvest period, requiring quick reaction.
 - Confident and decisive strategic decisions made.
- Implemented protocols quickly, including compliance with MPI best practice.
- Rapid and effective adjustment to new market conditions, aided by:
 - Diversified nature of businesses and markets.
 - Sufficient available resource.



Proactive Response to COVID-19

Operating in a 'new normal'

- Uncertainty in global markets over the impact and duration of COVID-19.
- All businesses continue to maintain elevated hygiene practices.
- Pandemic preparedness policies updated to allow a smooth and immediate transition to lockdown, if required.
- Working closely with MPI and government around continuity of RSE scheme for 2021 season.
- Taking a proactive, but cautious, approach to potential investment opportunities.
- Notwithstanding the current COVID-19 outbreak in Auckland, all businesses continue to operate within their 'new normal' practices.



Financial and Operating Summary

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Financial and Operating Summary

- Reported NPAT of \$27.8m (1H19: \$121.8m).
- Underlying* NPAT of \$29.2m (1H19: \$30.1m), down 3.2% on 2019.
- Underlying* EBITDA of \$44.4m (1H19: \$47.3m), a strong result during a global pandemic.
- Divisional earnings mix differs from prior years.

- Record export volumes for Mr Apple, with 3.9 million TCEs exported:
 - Due to later season packout performance, export packout rate approximately 76%.
 - Sufficient resource available for harvest, packing, cool storage and shipping.
 - Timing and impact of COVID-19 has disrupted normal supply and demand rates for Asia and near markets in particular.
 - Diversified markets and varieties helped to mitigate effects.

- Food Ingredients global demand remained strong:
 - Benefitted from increased pet food demand during lockdown.

* Underlying Results exclude some New Zealand International Financial Report Standards (NZ IFRS) non-cash and other adjustments. Management and the Board believe that Underlying Results more accurately demonstrate the change in operational performance of the Group. Underlying Results are shown before the deduction of share of NPAT for Non-Controlling Interests (Fern Ridge and Shelby) of \$2.4m (1H20) vs \$1.7m (1H19). Underlying Results for 2019 include only 50% of earnings from Meateor's NZ business and operations from 1 April 2019. A reconciliation of Underlying to Reported Measures is provided in Appendix I.

Sustainability

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Sustainability Update

Operating in a COVID-19 environment

COVID-19

- Continued to run the business effectively across all sites during times of peak harvest and production.
- Wages and salaries maintained.
- Ongoing supply of fresh apples into national foodbank networks.

Our environment

- Continued focus at Mr Apple on reducing fuel, electricity, waste to landfill, and paper use.
- Large gains in reducing waste to landfill:
 - New initiatives found for recycling or diverting waste, e.g. balers purchased for packhouses to bundle black plastic wrap which is now collected and recycled.
 - Scales Logistics measuring waste to landfill and maximising recycling opportunities with local providers.
- Climate change adaptation project underway:
 - 4% reduction already in Mr Apple's carbon emissions (first two years).
 - Introduction of Task Force on Climate-related Financial Disclosures (TCFD) disclosures into future annual reports.
- We continue to carefully manage, monitor and protect our valuable water right resources, which remain adequate for the business.



People and Governance

More than ever, it's all about our people

Health and safety

- Focus for 2020/2021 on critical risks, with ongoing awareness training and a continual improvement focus throughout all sites.
- 3 year health and safety strategy developed for Mr Apple and Scales Logistics:
 - All on track to achieve quarterly milestones.

Governance and compliance

- Various policies updated:
 - Anti-fraud, bribery & corruption; travel & expenses; gifts, entertainment & hospitality.
 - Privacy / sensitive information, in relation to the new Privacy Act, to be updated in 2H20.
- Pay equality review being completed throughout all business units.
- *Report it Now* whistle-blower line well-known throughout the business and included in all staff inductions.
- Imminent launch of intranet for the Board and Senior Management, to allow easier access to all policies and governance requirements.





Group Results

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Group Financial Performance

Solid Underlying earnings

- Solid Underlying NPAT of \$29.2m (1H19: \$30.1m) and EBITDA of \$44.4m (1H19: \$47.3m).

Income Statement						
\$m	NPAT			EBITDA		
	1HY20	1HY19	% chg.	1HY20	1HY19	% chg.
Underlying	29.2	30.1	-3.2%	44.4	47.3	-6.3%
NZ IFRS & other adjustments:						
Gain on sale of Polarcold	-	73.0		-	-	
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	(0.3)	(0.4)		5.0	5.0	
Other NZ IFRS adjustments	(1.1)	(1.2)		(1.0)	(1.4)	
Reported	27.8	121.8	-77.2%	48.4	71.1	-31.9%

Notes:

1. %'s are calculated based on non-rounded figures, figures may not sum due to rounding.
2. Earnings are shown before the deduction of share of NPAT for Non-Controlling Interests (Fern Ridge and Shelby) of \$2.4m (1H20) vs \$1.7m (1H19).

Divisional Overview

Divisional earnings impacted by COVID-19

- Horticulture – record export crop, with strong sales into Europe. Sales patterns in Asia and near markets adversely affected by COVID-19 lockdowns.
 - NZ IAS 41 *Agriculture* requires unsold agricultural produce to be measured at fair value less costs to sell. This means that the expected profit on our unsold fruit is recognised in our interim result, giving rise to seasonality in profitability as shown below.
- Food Ingredients – strong 1H20 demand as customers brought forward orders to shore-up supply lines.
- Logistics – trading in line with prior period.

Divisional Performance					
\$m	1H20	1H19	2H19	FY19	% chg. 1H20 v 1H19
Horticulture	32.4	41.3	(1.6)	39.7	-21.5%
Food Ingredients	11.0	5.1	8.4	13.5	116.4%
Logistics	3.2	3.1	0.3	3.3	4.6%
Corporate	(2.2)	(2.1)	(1.7)	(3.7)	6.9%
Underlying EBITDA	44.4	47.3	5.4	52.7	-6.3%
Underlying NPAT	29.2	30.1	6.3	36.4	-3.2%

Notes:

1. Prepared on an Underlying basis. A reconciliation to NZ IFRS is provided in the Appendices.
2. %'s are calculated based on non-rounded figures, figures may not sum due to rounding.

Balance Sheet

Well capitalised financial position

- Net Cash of \$54.8m at 30 June 2020 vs \$59.0m at 30 June 2019.
- Increase in agricultural produce due to unsold fruit at 30 June 2020:
 - As at 30 June 2020, 51% of crop sold (30 June 2019: 59%).
 - As of today, approximately 20% of crop unsold.
- Dividends will continue to be paid at current levels whilst Scales holds net cash.

Balance Sheet			
\$m	Jun-20	Jun-19	Dec-19
<i>Current assets excluding cash</i>			
Trade & other receivables	86.6	94.9	20.6
Inventories	26.4	34.0	26.4
Agricultural produce	75.8	59.1	21.6
Other	9.5	8.3	8.2
Current Assets	198.3	196.3	76.9
<i>Current liabilities excluding overdraft, borrowings, and dividends declared</i>			
Trade & other payables	(72.5)	(63.4)	(19.8)
Lease liability	(9.5)	(9.2)	(9.4)
Other	(20.2)	(23.6)	(7.2)
Current Liabilities	(102.2)	(96.3)	(36.5)
Net Working Capital	96.1	100.0	40.4
<i>Non-current assets</i>			
Property, plant & equipment	167.4	146.7	165.7
Other non-current assets	83.0	75.0	76.7
Right of use asset	77.5	80.5	78.8
Non-Current Assets	327.9	302.1	321.2
Capital Employed	424.0	402.2	361.6
<i>Non-current and other liabilities</i>			
Deferred tax liabilities	(14.4)	(10.5)	(19.4)
Other financial liabilities	(5.1)	(5.5)	(4.0)
Dividends declared	(13.4)	(13.3)	(13.3)
Lease liability	(69.8)	(71.7)	(70.7)
Non-current and other liabilities	(102.6)	(101.1)	(107.4)
<i>Net cash</i>			
Cash less overdraft	112.0	123.8	159.4
Borrowings	(57.2)	(64.8)	(54.6)
Net cash	54.8	59.0	104.9
Total Equity	376.2	360.1	359.0



Divisional Performance

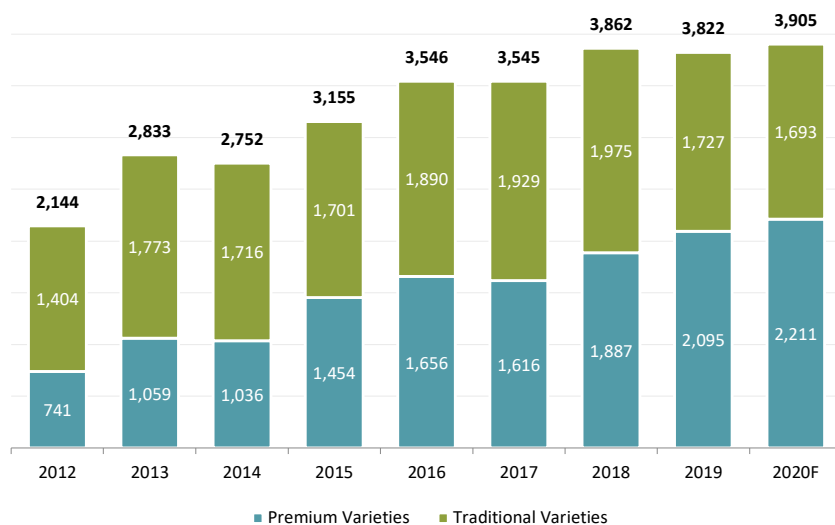
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Horticulture – Volumes

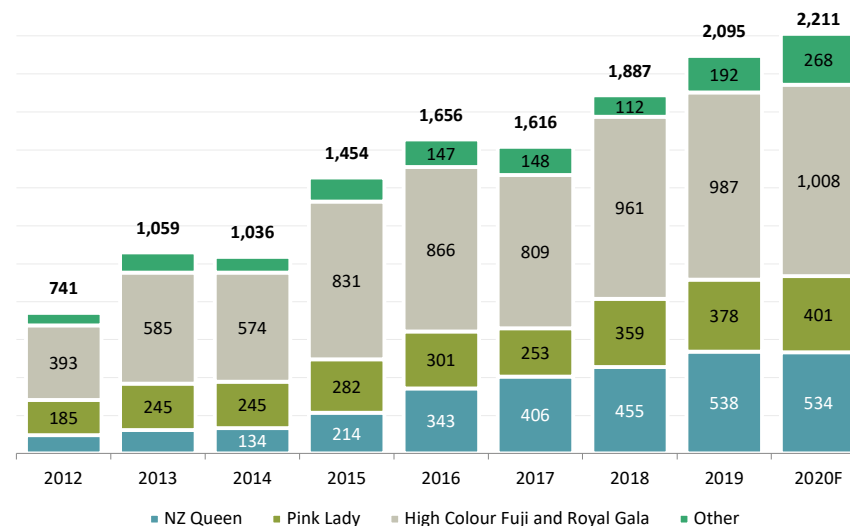
2020 volumes ahead of forecast, markets mixed

- Record Mr Apple total own grown export volumes of 3.9m TCEs:
 - Export packout of approximately 76% (2019: 79%).
- 6% increase in Premium Variety volumes:
 - Significant increases in Dazzle™ and Posy™ sales.

Mr Apple Own Export Volumes (TCE 000s)



Growth in Premium Volumes (TCE 000s)

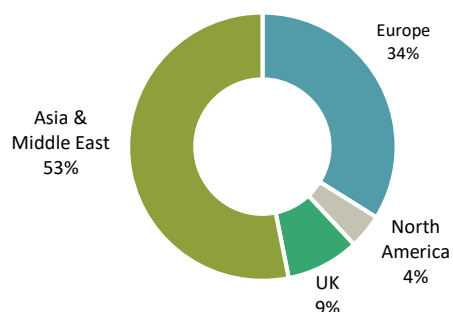


Horticulture – Markets

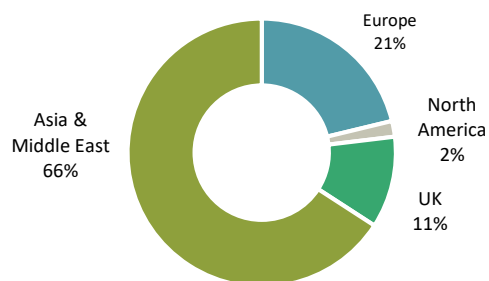
Benefited from geographical and channel diversification

- Sales to date approximately 80% of packed export volume.
- European and UK market providing positive returns:
 - Increased throughput of produce.
 - Demand strong for some traditional varieties.
- Impact on volumes and prices in Asia and Middle East (in particular China) due to:
 - Timing of lockdowns and resultant impact on logistics and purchasing patterns.
 - Delay in release of produce from coolstores during lockdown.
 - Economic impact of COVID-19 on consumers.
- Fern Ridge Fresh continues to perform well, providing alternative export channels for apple, pear and kiwifruit growers.

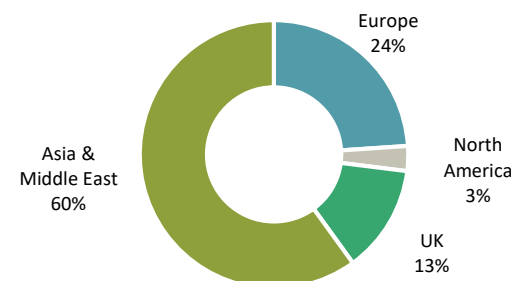
Sales by Region (TCEs) FY18



Sales by Region (TCEs) FY19



Sales by Region (TCEs) FY20F*



* Charts above refer to Mr Apple export volumes only. 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.

Horticulture – Margin Analysis

Analysis undertaken of recent margin trends

- Comprehensive internal review of profit margins performed:
 - The Horticulture industry has experienced margin compression in recent years.
 - Mr Apple has measured a 4% EBIT margin decline over the 2015 – 2019 period.
 - This decline reflects an increase in costs (predominantly labour), marginally offset by orchard gate returns (sales price adjusted for FX rates and shipping costs).
 - Increases in labour cost and compliance account for the majority of expense growth.
- The company acknowledges headwinds in margins and is focused on initiatives to maintain current margins:
 - >140 ha of orchards have been planted / redeveloped between 2018 and 2020, predominantly in Dazzle. Better yield per hectare and higher premium prices for these apples is expected to lift margins as these orchards approach maturity (2023 onwards).
 - New planting techniques, adopted in recent years, significantly change orchard management. The new ‘2-dimensional’ structure will be more efficient to prune, thin, and pick from maturity (2023 onwards).
 - The new Whakatu coolstore will improve logistics and operating efficiencies when it is operational (expected for the 2021 season).
 - A comprehensive orchard and varietal review will see a number of underperforming varieties replaced in the near term by higher value and better yielding varieties.

Traditional planting techniques - greater spacing (~800 trees / ha), ‘3-dimensional’ surface



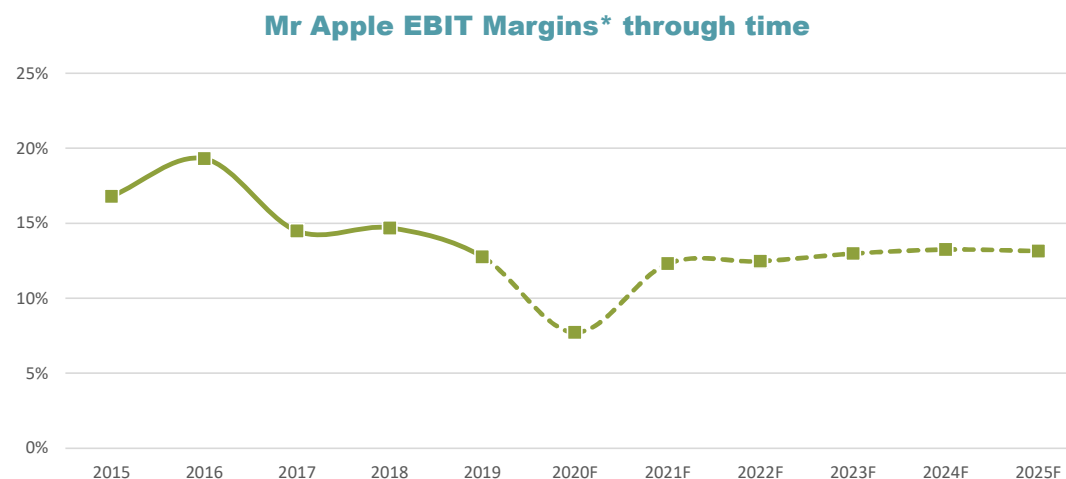
Newer planting techniques – planted closer (~2,500 trees / ha), ‘2-dimensional’ surface



Horticulture – Margin Analysis (Continued)

FY20 margins impacted by short-term industry factors before returning to normal levels

- FY20 EBIT margins will be below recent years predominantly due to price pressures in Asian markets.
- We expect these factors to be temporary and for margins to return to normal levels in FY21. These dynamics together with margin initiatives explained on the previous page see margins broadly remaining at FY19 levels through our forecast period:



* Historical results have been adjusted to remove hail insurance proceeds in 2015.

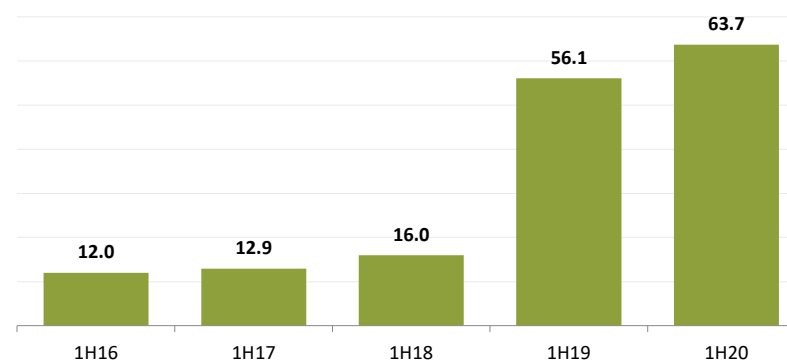
Food Ingredients - Performance

Strong global petfood demand

- Excellent first half trading, Underlying EBITDA \$11.0m (1H19: \$5.1m):
 - 14% increase in volumes sold compared to 1H19.
 - Change in customer purchasing behaviour due to COVID-19, orders brought forward.
 - Advantage taken of trading opportunities, particularly in the USA.
- COVID-19 impact on the industry remains uncertain, but will likely include / be influenced by:
 - Supply chain changes.
 - Move from retail to e-commerce distribution channels.
 - Increased levels of pet adoption and fostering immediately prior to global lockdowns*.
- Actively reviewing opportunities to expand product range:
 - Added-value and functional petfoods.
 - Other protein and by-product opportunities in the USA.
- Profruit fruit benefited from high fruit brix and exceptional yields:
 - Sales ahead of 1H19 and expectations.



Meateor Group – Total Volumes Sold (MT 000s)



* <https://www.cnn.com/2020/04/11/coronavirus-increased-pet-adoptions-now-rescuers-face-new-challenges.html>

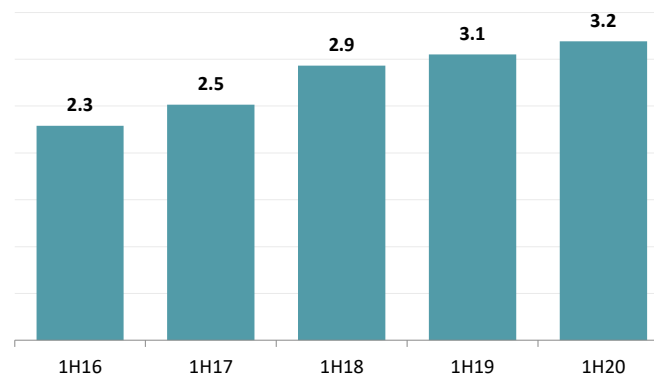
Logistics - Performance

Steady performance by logistics businesses

- Freight volumes benefitted from exposure to agribusiness customers:
- Air freight capacity and pricing affected by COVID-19:
 - Valuable support by Government and industry should ensure capacity available for upcoming seasonal shipments.
- Combined sea and air freight business to be rebranded together as 'Scales Logistics'.



Scales Logistics Underlying EBITDA (\$m)





FY20 Outlook

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Full Year Outlook for 2020

Uncertainty remains for full year result

- Full year Underlying Net Profit* expected at the bottom end of previously advised guidance of between \$30.0m and \$36.0m.
- Horticulture:
 - Ongoing disruption in global markets, with approximately 20% remaining to be sold and final wash-up payments to be determined.
- Food Ingredients:
 - Full year performance projected to be ahead of expectations, with a good portion of 1H20 over-performance retained.
- Logistics:
 - Full year results in line with expectations due to positive volumes from agribusiness customers to date.
- Initiatives in relation to investment opportunities hampered by inability to travel.

* Prior to Non-Controlling Interests.



Appendices

Appendix I – NZ IFRS Reconciliation

Reconciliation of Divisional Underlying Profitability to Reported Profitability										
	Group		Horticulture		Food Ingredients		Logistics		Corporate & Eliminations	
\$m	1H20	1H19	1H20	1H19	1H20	1H19	1H20	1H19	1H20	1H19
Underlying / Reported Revenue	253.3	278.0	136.3	159.5	84.1	80.7	50.3	54.8	(17.4)	(17.1)
EBITDA Reconciliation										
Underlying EBITDA	44.4	47.3	32.4	41.3	11.0	5.1	3.2	3.1	(2.2)	(2.1)
NZ IFRS & other adjustments:										
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	5.0	4.6	4.5	0.0	0.0	0.4	0.4	0.0	0.0
Change in fair value gain on apple inventory	(0.4)	(0.7)	(0.4)	(0.7)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.1)	-	-	-	(0.1)	-	-	-	-	-
Share based payments	-	(0.0)	-	-	-	-	-	-	-	(0.0)
Equity settled employee benefits	(0.3)	(0.4)	-	-	-	-	-	-	(0.3)	(0.4)
Transaction costs	(0.2)	(0.3)	-	-	-	-	-	-	(0.2)	(0.3)
Intercompany transactions with discontinued operations	-	0.0	-	0.3	-	0.2	-	-	-	(0.5)
Reported EBITDA	48.4	71.1	36.6	45.4	10.9	25.6	3.6	3.4	(2.6)	(3.3)
EBIT Reconciliation										
Underlying EBIT	38.9	42.3	27.7	36.9	10.5	4.5	2.9	2.9	(2.2)	(2.1)
NZ IFRS & other adjustments:										
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	1.1	1.0	1.0	0.9	0.0	0.0	0.1	0.1	0.0	0.0
Change in fair value gain on apple inventory	(0.4)	(0.7)	(0.4)	(0.7)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.1)	-	-	-	(0.1)	-	-	-	-	-
Share based payments	-	(0.0)	-	-	-	-	-	-	-	(0.0)
Equity settled employee benefits	(0.3)	(0.4)	-	-	-	-	-	-	(0.3)	(0.4)
Transaction costs	(0.2)	(0.3)	-	-	-	-	-	-	(0.2)	(0.3)
Intercompany transactions with discontinued operations	-	0.0	-	0.3	-	0.2	-	-	-	(0.5)
Reported EBIT	39.0	62.1	28.3	37.5	10.3	25.0	3.1	3.0	(2.7)	(3.4)
NPAT Reconciliation										
Underlying NPAT	29.2	30.1	19.6	26.5	8.7	4.1	2.1	2.1	(1.3)	(2.6)
NZ IFRS & other adjustments:										
Gain on sale - Polarcold	-	73.0	-	-	-	-	-	-	-	73.0
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	(0.3)	(0.4)	(0.3)	(0.3)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Change in fair value gain on apple inventory	(0.4)	(0.7)	(0.4)	(0.7)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.1)	-	-	-	(0.1)	-	-	-	-	-
Share based payments	-	(0.0)	-	-	-	-	-	-	-	(0.0)
Equity settled employee benefits	(0.3)	(0.4)	-	-	-	-	-	-	(0.3)	(0.4)
Transaction costs	(0.2)	(0.3)	-	-	-	-	-	-	(0.2)	(0.3)
Intercompany transactions with discontinued operations	-	0.0	-	0.3	-	0.2	-	-	-	(0.5)
Tax effect of other NZ IFRS adjustments	(0.1)	0.2	0.1	0.2	(0.2)	-	-	-	0.0	0.0
Reported NPAT	27.8	121.8	19.1	26.0	8.4	24.6	2.1	2.1	(1.8)	69.1

Appendix II - Disclaimer

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- 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.

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