

3 August 2020

## **SCALES CORPORATION - BUSINESS UPDATE**

Scales Corporation is pleased to provide the following business and earnings guidance update.

Pleasingly, all Scales' business units have continued to operate successfully, within the protocols established, for the first six months of the year. While operations within New Zealand have been able to operate effectively, sales rates and pricing in international markets have been more variable and, as a result, earnings for the full 2020 year are forecast to be impacted. In addition, the earnings mix for the Group, by division, are forecast to differ from previous years, as detailed below:

### **Horticulture Division:**

As outlined at the Annual Shareholders' Meeting in June, the 2020 apple harvest was completed with a total pick of 5.1 million TCEs equivalent, equal to the previous record in 2018. To date approximately 95% of the crop harvested has been packed and export packout rates are now forecast to be 80%, in line with rates for previous years and matching previous record volumes of own grown export volumes. Scales fortunately had access to adequate resources to cover harvest, packing, cool storage and shipping, and operating costs per TCE have been maintained at the levels close to the previous year.

Sales to date are approximately 70% of the expected total export volumes and we are continuing to ship to all customers. At this point market conditions for traditional varieties to Europe and UK are operating as expected with 35% of the sales remaining to be made, with average prices for the season expected to be higher than 2019. Sales rates for Asia and near markets have been adversely affected by the timing and impact of Covid-19 on China's domestic apple sales, particularly during the lock down period. This has caused ongoing disruption in most Asia markets. With 35% of sales also remaining to be made in these markets total volumes and prices will be lower than 2019.

Based on returns to date, EBITDA earnings for the Horticulture division for 2020 are forecast to be materially below the previous year's \$39.7 million.

#### **Scales Corporation Limited**

Head Office: 52 Cashel Street | Christchurch 8013 | New Zealand

Postal: PO Box 1590 | Christchurch 8140 | New Zealand

Phone: +64 3 379 7720

[scalescorporation.co.nz](http://scalescorporation.co.nz)

**Food Ingredients Division:**

Conversely, global demand for the food ingredients division and for pet food in particular have continued to remain strong. Significant trading opportunities have been captured by Shelby in the US, where market disruption from Covid-19 has also been high. While demand for the second half of the year remains uncertain, results for the first half will be materially above the same period last year. Based on current trading and outlook the Group expects to retain a good portion of this over performance for the full year.

**2020 Guidance**

At a Group level, Directors wish to advise that Underlying Net Profit for the twelve months to 31 December 2020 is now expected to be at the bottom end of the guidance range, of between \$30.0 million and \$36.0 million.

In updating guidance for 2020, directors note:

- The mix of earnings between business divisions is forecast to change meaningfully from the previous year;
- The 2020 results for all divisions have been influenced by the impact of Covid-19 on international markets, which are expected to revert back to previous benchmarks as markets adjust to the new conditions;
- Horticulture division earnings from Asia and near markets are expected to revert to historical levels next season as sales of the China domestic crop revert to normal flows;
- Guidance is prior to adjustments for Non-controlling Interests which impacts the Group results for Shelby in particular.

Scales also advises that it will release its Interim Results for the six months ended 30 June 2020, prior to market opening on Wednesday 26 August. This will be followed by a conference call at 10am.

***About Scales Corporation***

Scales Corporation is a diversified agribusiness group. It 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. Today it has operations across New Zealand, Australia and the United States. Find out more at [www.scalescorporation.co.nz](http://www.scalescorporation.co.nz).