



Scales Corporation Limited

Growing your Diversified Agribusiness

Half Year Results

For the Six Months Ended 30 June 2021

25 August 2021



Agenda

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2. COVID-19 and Sustainability Updates
3. Group Results
4. Divisional Performance
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- I. NZ IFRS Reconciliation
- II. Disclaimer





1H21 Overview

1H21 Overview

- Exceptional performance during a period with significant challenges:
 - Scales Logistics procured containers, enabling our businesses to successfully export their finished product
 - Extraordinary effort to pick and pack the harvest despite uncertainties surrounding labour availability
 - Financial performance ahead of expectations:
 - Reported NPAT of \$32.6m (1H20: \$27.8m), up 17.5%
 - Underlying* NPAT of \$33.3m (1H20: \$28.9m), up 15.4%
 - Underlying* EBITDA of \$54.8m (1H20: \$49.4m) up 11.0%
 - On the back of better than expected results we have increased guidance for the full year
 - **Note that we have adjusted our definition of “Underlying” so that it now includes the effects of NZ IFRS 16 *Leases*. This is in line with current market practice. All Underlying result numbers, including comparatives, are now inclusive of NZ IFRS 16 effects**
- Strong in-market prices on lower export volumes within Horticulture:
 - Mr Apple own export volumes of ~3.6m TCEs (2020: 3.9m), affected by inclement weather during key growing period
 - Excellent pricing achieved to date, exceeding increased labour and supply chain costs incurred
- Continued strong performance across Food Ingredients:
 - Benefitted from higher sustained volumes together with changes to product mix and margins
 - Supply chain disruptions presenting challenges at international ports

* Underlying Results exclude some New Zealand International Financial Report Standards (NZ IFRS) non-cash and other adjustments but have been amended to include the effects of NZ IFRS 16 *Leases*. 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 \$4.3m (1H21) vs \$2.4m (1H20). A reconciliation of Underlying to Reported Measures is provided in Appendix I.



COVID-19 and Sustainability Updates

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COVID-19 Update

Our people remain our first priority

- Scales notes the following with regards to the current domestic lockdown:
 - Scales' businesses continue to occupy the privileged position of being 'essential'
 - Scales had previously updated its pandemic preparedness policies, and was able to smoothly transition to lockdown
 - Picking and packing of the apple harvest had been completed prior to the lockdown announcement
- Minimising risk, together with support for our team members, remain our top priorities:
 - COVID-19 protocols remained in place throughout the apple harvest and packing season; including increased sanitation levels, gloves and masks
- We continue to anticipate disruptions to domestic and international operations including labour availability, global markets and supply chains due to the ripple effects of COVID-19, as evidenced by the current lockdown in New Zealand

A Sustainable Environment

Together we can do so much

Environment

- Carbon sequestration project with AUT nearing completion, with pleasing results for existing and long-term apple plantings
- Continued focus on reducing carbon footprint (e.g. fuel use and waste to landfill)
- Collaborated with local councils to create a 'waste database'

Health and safety

- Participating in a pilot scheme with industry participants, WorkSafe and ACC to develop a multi-disciplinary approach to injury prevention and reduction during the peak harvest period
- Mental wellbeing strategies being developed to support team members at all levels



Marketplace

- A pilot project is underway between PwC, MPI and Scales, together with Beijing Capital Agribusiness and Joy Wing Mau Corporation, to develop a prototype digital supply chain to aid MPI build an end-to-end digital supply chain
- Continuing to apply new protocols:
 - Successfully completed a GACC (General Administration of Customs China) audit ensuring continued access to China markets

Group Results

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Group Financial Performance

Diversified strategy and outstanding team performance contributes to strong interim results

- Underlying NPAT of \$33.3m (up 15.4% on 1H20)
- Underlying EBITDA of \$54.8m (up 11.0% on 1H20):

Income Statement						
\$m	NPAT			EBITDA		
	1H21	1H20	% chg.	1H21	1H20	% chg.
Underlying (excluding NZ IFRS 16)	33.6	29.2	15.1%	49.3	44.4	11.2%
NZ IFRS 16 <i>Leases</i>	(0.2)	(0.3)		5.5	5.0	
Underlying (including NZ IFRS 16)	33.3	28.9	15.4%	54.8	49.4	11.0%
NZ IFRS & other adjustments:						
Gain on sale of Havelock North Packhouse	1.0	-		1.0	-	
Transaction costs	(1.2)	(0.2)		(1.2)	(0.2)	
Other adjustments	(0.5)	(0.9)		(0.2)	(0.8)	
Reported	32.6	27.8	17.5%	54.5	48.4	12.6%

Notes:

1. Prepared on an Underlying basis (including the effects of NZ IFRS 16 *Leases*). 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
3. Earnings are shown before the deduction of share of NPAT for Non-Controlling Interests (Fern Ridge and Shelby) of \$4.3m (1H21) vs \$2.4m (1H20)

Divisional Overview

Excellent Results in Horticulture and Food Ingredients divisions

- Horticulture – strong in-market prices on lower export volumes, assisted by diversified markets and varieties
- Food Ingredients – benefitted from increased demand and changes in product mix and margin
- Logistics – affected by lower export volumes, particularly in stonefruit

Divisional Performance					
\$m	1H21	1H20	2H20	FY20	% chg. 1H21 v 1H20
Horticulture	38.0	36.9	3.9	40.8	2.9%
Food Ingredients	16.1	11.0	12.1	23.1	46.3%
Logistics	2.7	3.6	0.6	4.2	-24.0%
Corporate	(2.0)	(2.2)	(1.8)	(4.0)	-5.3%
Underlying EBITDA	54.8	49.4	14.8	64.1	11.0%
Underlying NPAT	33.3	28.9	4.2	33.0	15.4%

Notes:

1. Prepared on an Underlying basis (including the effects of NZ IFRS 16 *Leases*). 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
3. 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 unsold fruit is recognised in our interim result, giving rise to seasonality in profitability

Balance Sheet

- Net Cash of \$38.0m at 30 June 2021 vs \$54.8m at 30 June 2020 reflecting:
 - Investment in new coolstore, orchard redevelopment and other projects
 - Increase in working capital, specifically Food Ingredients inventories, due to shipping delays at international ports
- Agricultural produce represents unsold fruit at 30 June:
 - As at 30 June 2021, 47% of crop sold (30 June 2020: 51%)
 - Lower volume of unsold crop valued at a higher price compared to prior year
 - As of today, ~27% of crop unsold

Balance Sheet		
\$m	Jun-21	Jun-20
<i>Current assets excluding cash</i>		
Trade & other receivables	77.0	86.6
Inventories	32.7	26.4
Agricultural produce	74.4	75.8
Other	11.5	9.5
Current Assets	195.7	198.3
<i>Current liabilities excl overdraft, borrowings & dividends declared</i>		
Trade & other payables	(63.0)	(72.5)
Lease liability	(10.4)	(9.5)
Other	(17.8)	(20.2)
Current Liabilities	(91.2)	(102.2)
Net Working Capital	104.5	96.1
<i>Non-current assets</i>		
Property, plant & equipment	183.0	167.4
Other non-current assets	82.6	83.0
Right of use asset	78.8	77.5
Non-Current Assets	344.4	327.9
Capital Employed	448.9	424.0
<i>Non-current and other liabilities</i>		
Deferred tax liabilities	(14.4)	(14.4)
Other financial liabilities	(2.5)	(5.1)
Dividends declared	(13.4)	(13.4)
Lease liability	(71.2)	(69.8)
Non-current and other liabilities	(101.5)	(102.6)
<i>Net cash</i>		
Cash less overdraft	91.2	112.0
Borrowings	(53.3)	(57.2)
Net cash	38.0	54.8
Total Equity	385.4	376.2



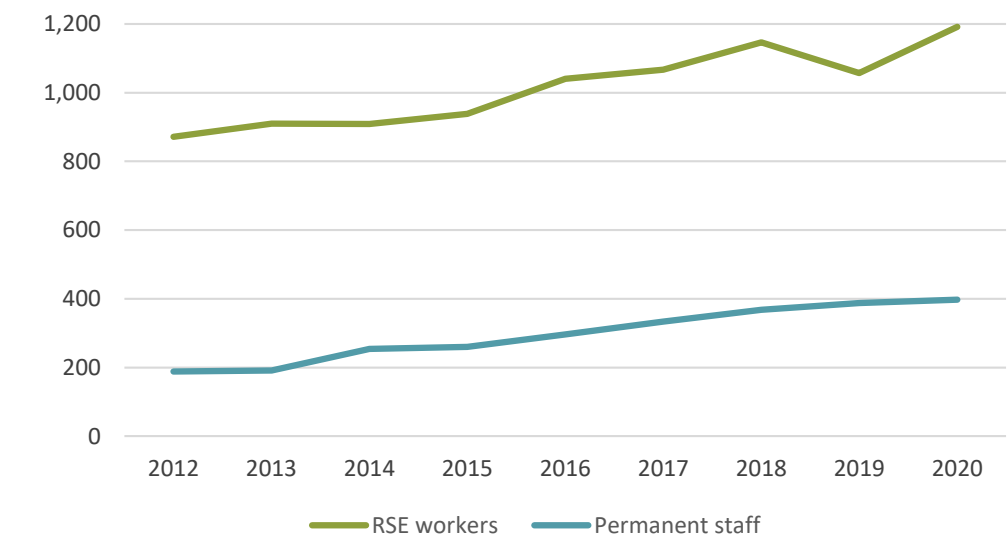
Divisional Performance

Horticulture – Performance and Labour

Strong performance despite shortage of labour

- Underlying EBITDA \$38.0m (1H20: \$36.9m):
 - Higher pricing partially offset by lower volumes and increased labour and shipping costs
- Impacted by shortage of skilled RSE workforce:
 - ~14% less RSE workers over the key February to April harvest period compared to 2020
 - Workforce supplemented by NZ and Working Holiday Scheme (WHS) workers
 - Extremely grateful to the entire Mr Apple team for their extraordinary effort to pick, pack and export this year's harvest
 - RSE workers play a vital role in enabling overall company growth - a 37% increase in RSE workers over the period 2012 to 2020 has assisted Mr Apple to increase its permanent staff numbers by 111%
 - Both skills acquired and wages earned are highly beneficial to RSE workers, their whānau and their Pacific communities

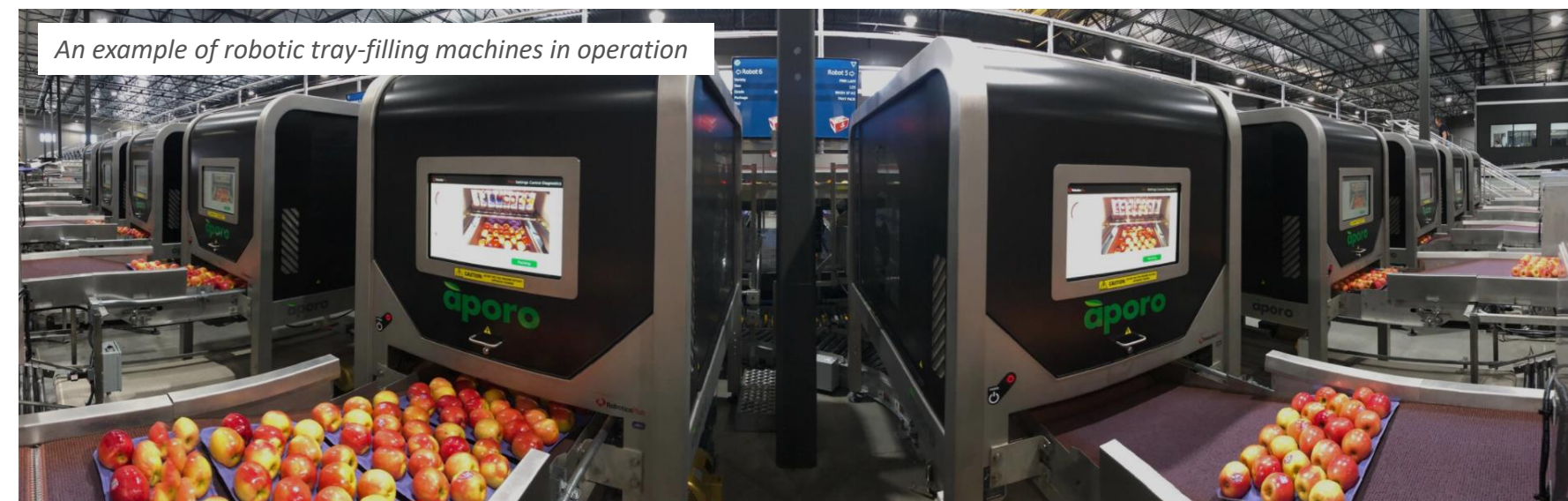
Mr Apple staff numbers



Horticulture – Automation

Improving efficiency and returns through automation

- Mr Apple is part-way through a 10-year investment and automation plan to increase productivity across the business
- Our initial focus is on our post-harvest activities. The first step of this journey was the development of the new Whakatu Coolstore:
 - This bin store is adjacent to our largest packhouse and was opened in time for the current 2021 season. The coolstore is delivering a number of efficiencies including reduced power consumption, reducing the double-handling of fruit (lowering fruit damage and labour cost), and reductions in transportation costs and carbon emissions
- The next stage of our plan is to fully automate the Whakatu packhouse – a 3-4 year project that, when completed:
 - Will significantly increase labour productivity
 - Will reduce the number of human touch points as we develop one of the world’s only packhouses to fully-automate fruit handling
 - Leads to possible 24x7 packing, which would enable further consolidation of our packing activities and therefore greater freight and labour efficiency across the network
- On-orchard automation and technology solutions are actively being monitored and considered and will likely follow the packhouse upgrade project

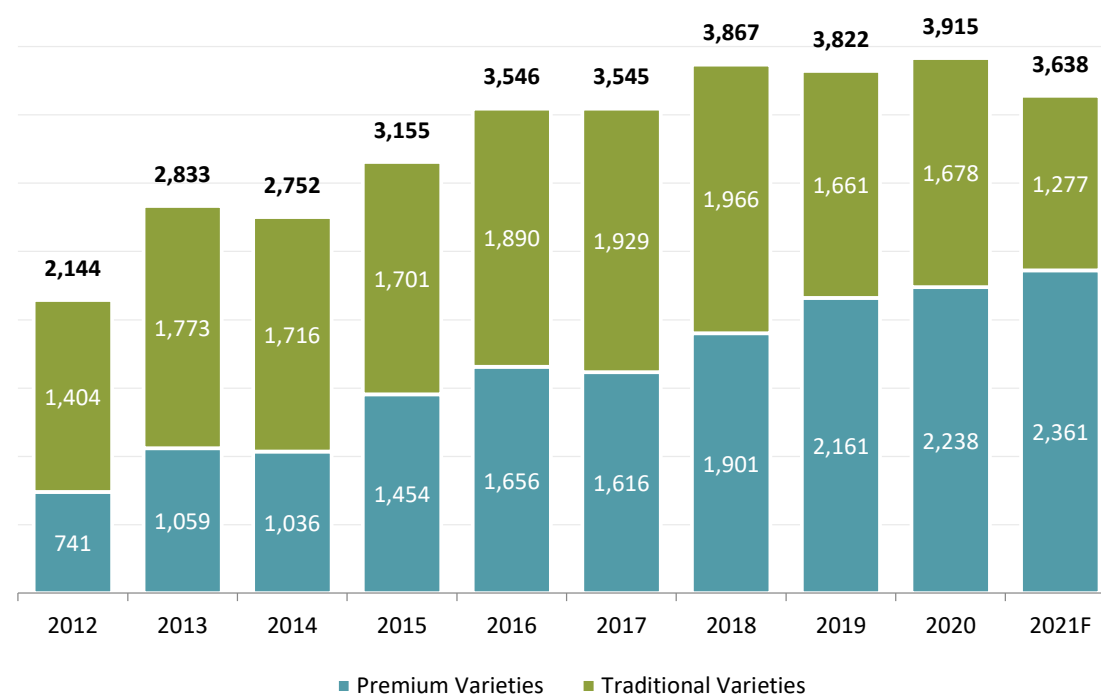


Horticulture – Volumes

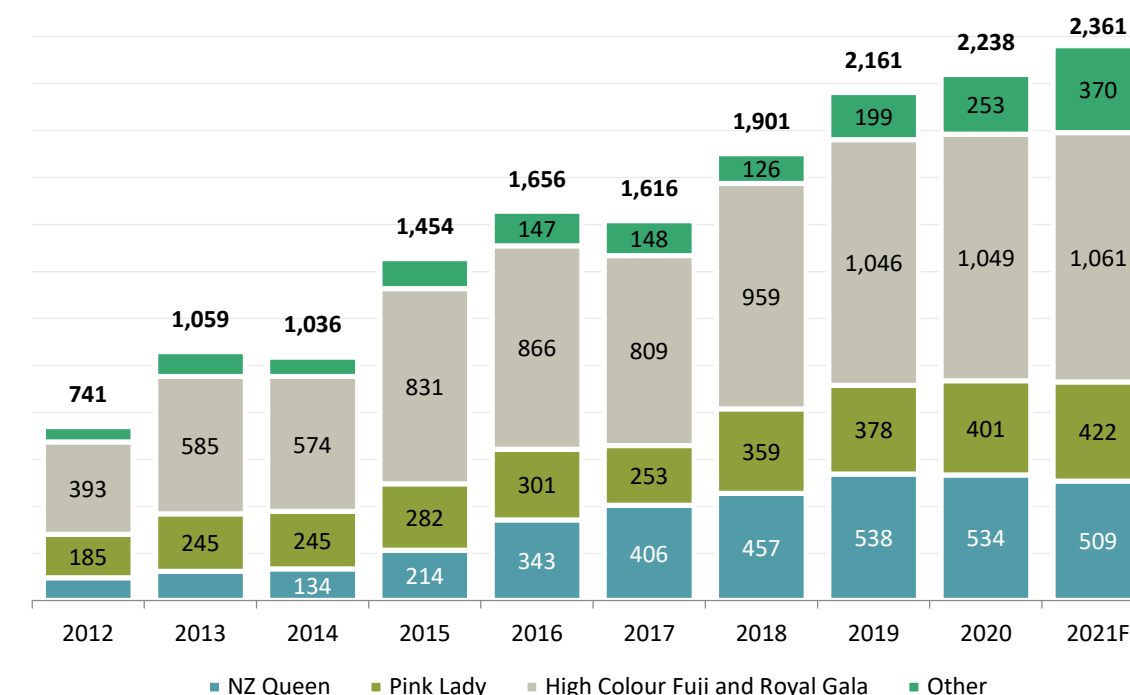
2021 volumes impacted by inclement weather

- Forecast Mr Apple total own grown export volumes of 3.6m TCEs (2020: 3.9m TCEs):
 - Exceptional effort made by a smaller Mr Apple team to pick all fruit
 - Export packout to date approximately 73% (2020: 76%). Our technology is able to efficiently grade fruit for export. Non-export grade fruit is sold fresh domestically, converted to juice at Profruit, or sold for further processing
- Continued strong growth in Premium variety volumes:
 - Overall 9% increase in Premium varieties including considerable growth in Dazzle™ and Posy™ sales
 - Traditional volumes impacted by redevelopment (reducing planted hectares of traditional varieties) and weather

Mr Apple Own Export Volumes (TCE 000s)



Growth in Premium Volumes (TCE 000s)

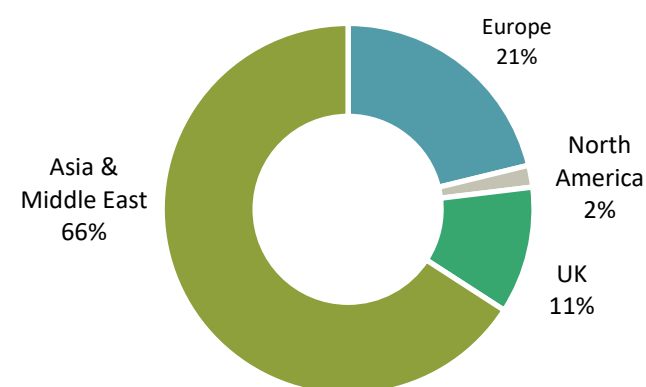


Horticulture – Markets and Pricing

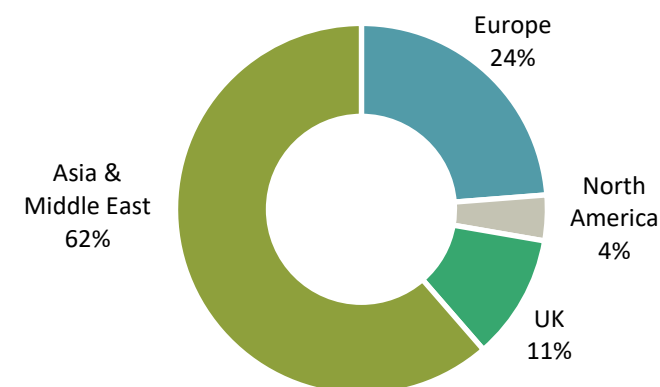
Geographical and channel diversification continuing to provide benefits

- UK market stable, Europe impacted by lower available volumes of Traditional varieties:
 - Pricing above or in line with prior year
 - As a result of a lower anticipated European crop, the sales period for that market is expected to be both stronger and longer
- Continued strength in sales to Asia and Middle East markets
- Pleasing shipments of other products (including kiwifruit and pears) by Fern Ridge Fresh

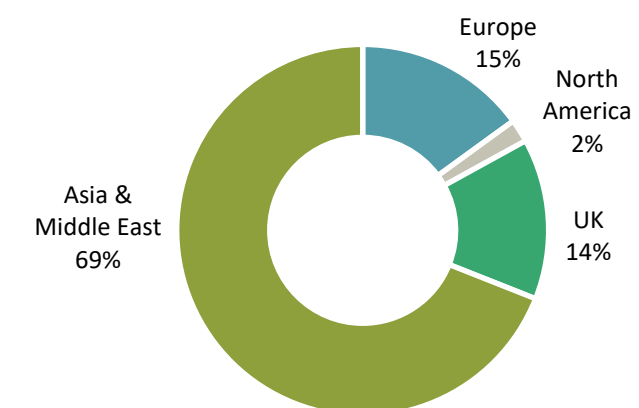
Sales by Region (TCEs) FY19



Sales by Region (TCEs) FY20



Sales by Region (TCEs) FY21F*



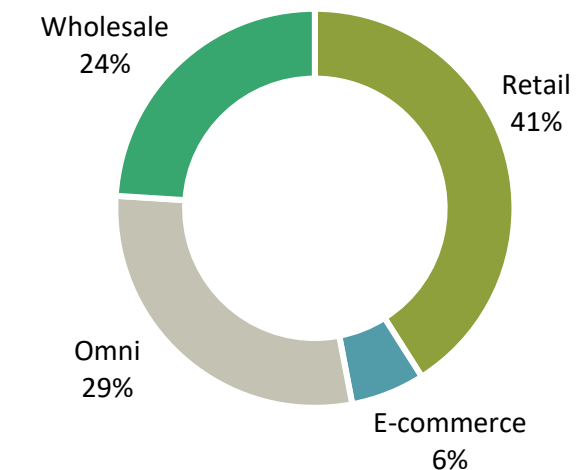
* Actual sales by region will not finally be known until all fruit is sold.
Sales to Asia and Middle East are predominantly in USD, North American sales are in CAD and USD, UK and Europe sales predominantly in their respective currencies.

Horticulture - Branding and Market Strategies

Maximising appeal throughout the value chain, to consumers as well as wholesalers and retailers

- The ongoing focus on investing in the Mr Apple brand continues to pay dividends, particularly as our business increases the proportion of direct sales to retailers
- Marketing effort and increased in-market branding initiatives, particularly in China:
 - Increased social media, in-store promotions and exhibitions
 - Extension of sales channels to include e-commerce
 - Packaging innovations
 - Collaboration with partners
- Resulted in retail, e-commerce and omni (multi-channel) sales:
 - Comprising 76% of China / Hong Kong sales in 2020
- Supported by:
 - Our strategic shareholder China Resources Ng Fung Limited
 - In-market presence of Shanghai-based services company Primary Collaboration New Zealand
- Product development and launch innovations continue:
 - Flagship store on TMALL (Alibaba) now operational
 - TMALL to market and sell a range of Mr Apple products directly to China consumers
 - Dazzle™ launched in 2020 through high end Chinese retailers such as Hema

Sales by Channel – China - 2020



Box design for TMALL delivery



Launch of Dazzle™ in China retail

Mr Apple – Social Media Examples

Using social media to actively build our brands with consumers throughout Asia

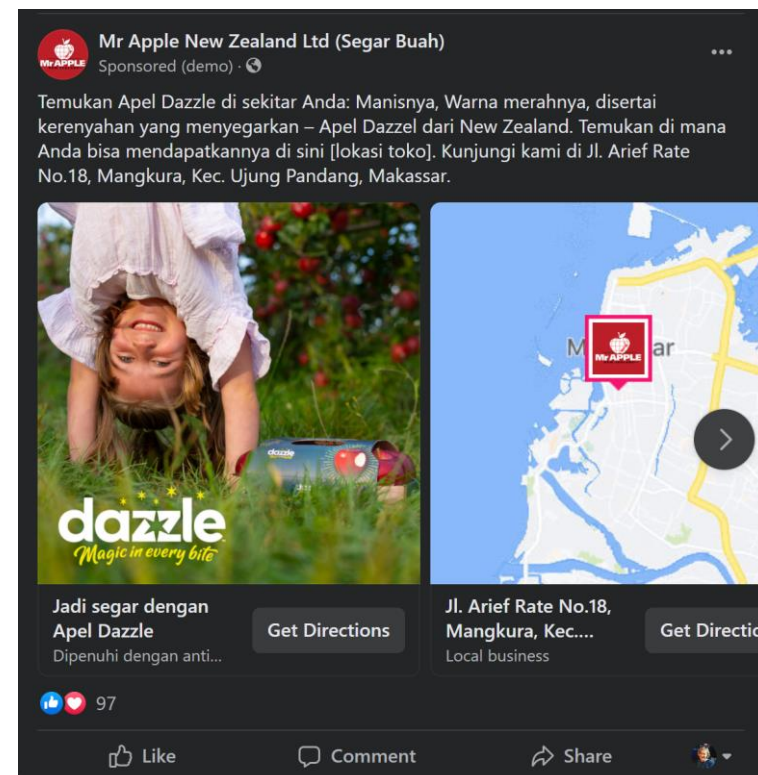
- Mr Apple has presence on Facebook across SE Asia, and in China is on WeChat, Weibo, Douyin (tiktok) and Little Red Book
- Facebook and Instagram campaigns held May to September in Vietnam, Indonesia and Japan to reach Mr Apple consumers:
 - Vietnam – focus on Dazzle™ to drive awareness and purchase and collect first party data
 - Indonesia – partnership with customer PT Indofresh with store locator, combined with instore promotions
 - Japan – geo-targeted posts close to stores carrying Dazzle™ apples

Vietnam



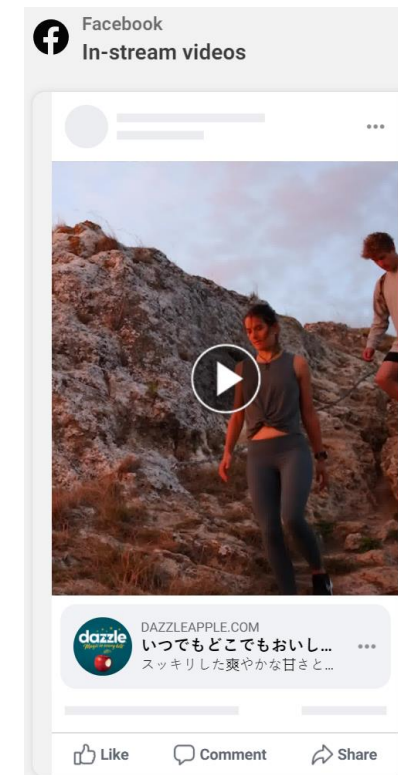
Facebook lead generation

Indonesia



Store traffic / location campaign

Japan



Facebook Dazzle™ videos

China



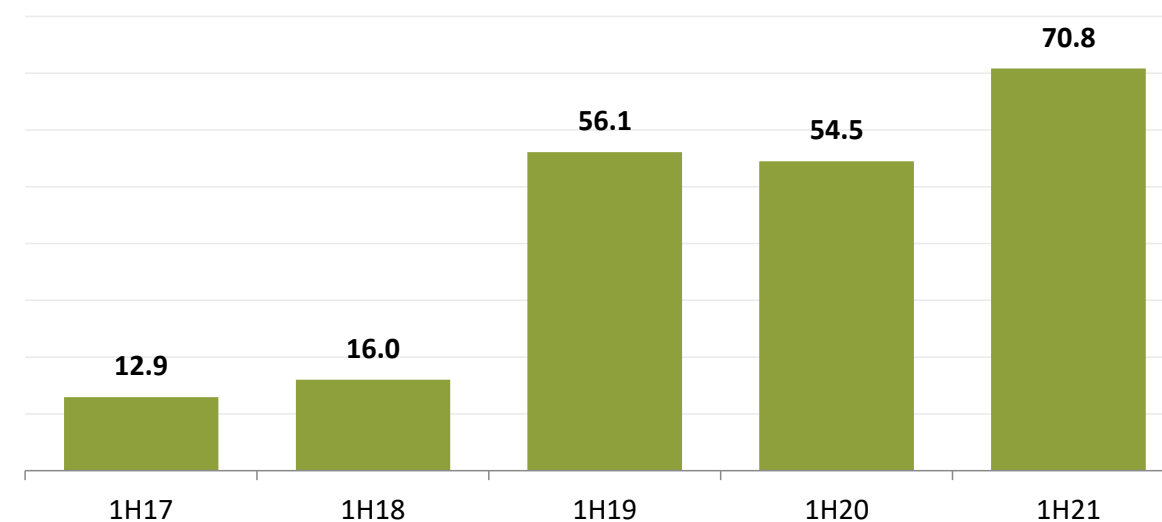
Key Opinion Leader pictures from Little Red Book

Food Ingredients - Performance

Strong performance reflecting sustained pet food demand

- Excellent first half results, Underlying EBITDA of \$16.1m (1H20: \$11.0m):
 - 30% increase in volumes sold compared to 1H20
 - Movement in profitability reflects changes in product mix and margin
 - Year-on-year comparison in profitability is also impacted by the relative contribution of different operations within the division
 - Shelby results supported by one-off US wage subsidy scheme (NZ\$0.9m)
- COVID-19 continuing to impact Australasian supply chain:
 - Shelby benefiting from domestic customer base
- Strong domestic sales by Profruit help to offset supply chain difficulties encountered for export sales
- Opportunities to expand Meateor and Shelby products and services continue to be investigated

Meateor Group – Total Volumes Sold (MT 000s)

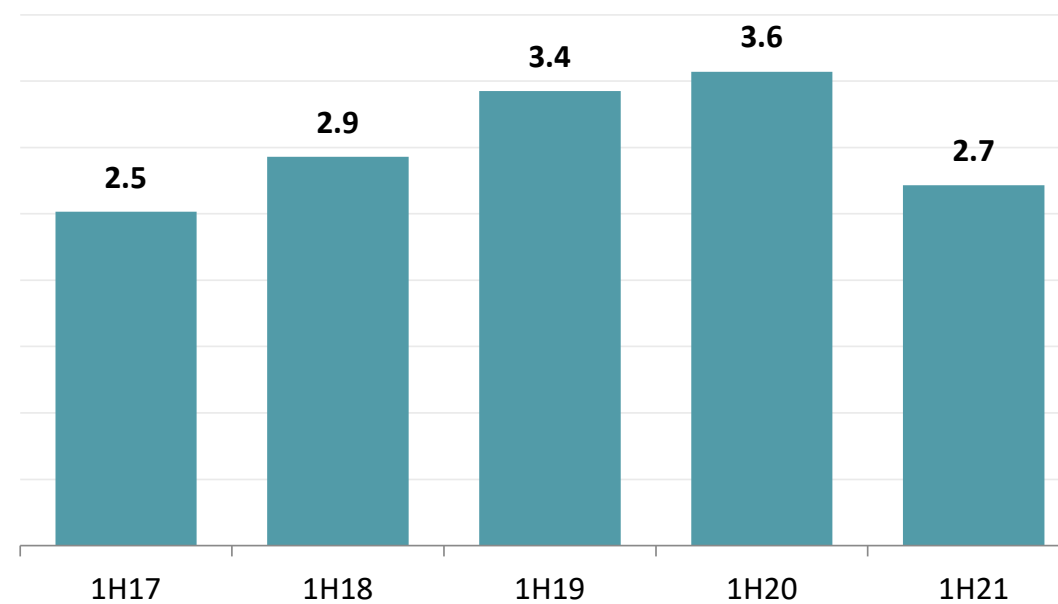


Logistics - Performance

Strategic value far exceeds financial contribution

- Scales Logistics successfully navigated a domestic shortage of refrigerated containers (reefers) to ensure all of its horticulture customers were able to ship their 2021 harvest. Scales Logistics' perishable expertise and strategic value continues to pay dividends for all of our customers
- Underlying EBITDA of \$2.7m (1H20: \$3.6m), principally due to lower national agricultural export volumes
- A challenging time for international freight with continued, significant, national and global supply chain disruptions:
 - High import demand
 - Port congestion and container demand

Scales Logistics Underlying EBITDA (\$m)





FY21 Outlook

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Full Year Outlook for 2021

Due to a strong 1H21 result Scales has upgraded its FY21 guidance

- Full year Underlying Net Profit* now expected to be between \$32.0m and \$37.0m. This is inclusive of the effect of NZ IFRS 16 *Leases* of approximately \$0.5m
 - Implies an Underlying EBITDA range of between \$65.0m and \$72.0m. This is inclusive of the effect of NZ IFRS 16 *Leases* of approximately \$11.0m
- Horticulture:
 - Ongoing disruptions to global markets and logistics anticipated
 - Continued focus on availability and cost of future labour
 - Automation strategy developed, commencing with Whakatu packhouse this year
 - Investigating increased use of technology throughout all areas of the business
- Food Ingredients:
 - Positive full year performance expected
- Despite incurring significant one-off transaction costs in respect of an unsuccessful acquisition, we continue to believe that we are well positioned to take advantage of future opportunities
- Outlook for FY22 expected to be affected by ongoing ripple effects of COVID-19, particularly with regard to global supply chains for both availability and cost

* Prior to Non-Controlling Interests.



Appendices

Appendix I – NZ IFRS Reconciliation

Reconciliation of Divisional Underlying Profitability to Reported Profitability										
\$m	Group		Horticulture		Food Ingredients		Logistics		Corporate & Eliminations	
	1H21	1H20	1H21	1H20	1H21	1H20	1H21	1H20	1H21	1H20
Underlying / Reported Revenue	253.8	253.3	127.4	136.3	99.8	84.1	43.6	50.3	(17.0)	(17.4)
EBITDA Reconciliation										
Underlying EBITDA (excluding NZ IFRS 16)	49.3	44.4	33.0	32.4	16.1	11.0	2.3	3.2	(2.1)	(2.2)
NZ IFRS 16 Leases	5.5	5.0	5.0	4.6	0.0	0.0	0.4	0.4	0.0	0.0
Underlying EBITDA (including NZ IFRS 16)	54.8	49.4	38.0	36.9	16.1	11.0	2.7	3.6	(2.0)	(2.2)
Other adjustments:										
Gain on sale of Havelock North Packhouse	1.0	-	1.0	-	-	-	-	-	-	-
Change in fair value gain on apple inventory	0.4	(0.4)	0.4	(0.4)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.1)	(0.1)	-	-	(0.1)	(0.1)	-	-	-	-
Equity settled employee benefits	(0.4)	(0.3)	-	-	-	-	-	-	(0.4)	(0.3)
Transaction costs	(1.2)	(0.2)	-	-	-	-	-	-	(1.2)	(0.2)
Reported EBITDA	54.5	48.4	39.5	36.6	16.0	10.9	2.7	3.6	(3.7)	(2.6)
EBIT Reconciliation										
Underlying EBIT (excluding NZ IFRS 16)	44.0	38.9	28.2	27.7	15.7	10.5	2.2	2.9	(2.1)	(2.2)
NZ IFRS 16 Leases	1.1	1.1	1.0	1.0	0.0	0.0	0.1	0.1	0.0	0.0
Underlying EBIT (including NZ IFRS 16)	45.2	40.0	29.3	28.7	15.7	10.5	2.3	3.1	(2.1)	(2.2)
Other adjustments:										
Gain on sale of Havelock North Packhouse	1.0	-	1.0	-	-	-	-	-	-	-
Change in fair value gain on apple inventory	0.4	(0.4)	0.4	(0.4)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.1)	(0.1)	-	-	(0.1)	(0.1)	-	-	-	-
Equity settled employee benefits	(0.4)	(0.3)	-	-	-	-	-	-	(0.4)	(0.3)
Transaction costs	(1.2)	(0.2)	-	-	-	-	-	-	(1.2)	(0.2)
Reported EBIT	44.8	39.0	30.7	28.3	15.5	10.3	2.3	3.1	(3.7)	(2.7)
NPAT Reconciliation										
Underlying NPAT (excluding NZ IFRS 16)	33.6	29.2	20.3	19.6	13.3	8.7	1.6	2.1	(1.6)	(1.3)
NZ IFRS 16 Leases	(0.2)	(0.3)	(0.2)	(0.3)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Underlying NPAT (including NZ IFRS 16)	33.3	28.9	20.1	19.4	13.3	8.7	1.5	2.1	(1.6)	(1.3)
Other adjustments:										
Gain on sale of Havelock North Packhouse	1.0	-	1.0	-	-	-	-	-	-	-
Change in fair value gain on apple inventory	0.4	(0.4)	0.4	(0.4)	-	-	-	-	-	-
Change in gross liability for non-controlling interests	(0.1)	(0.1)	-	-	(0.1)	(0.1)	-	-	-	-
Equity settled employee benefits	(0.4)	(0.3)	-	-	-	-	-	-	(0.4)	(0.3)
Transaction costs	(1.2)	(0.2)	-	-	-	-	-	-	(1.2)	(0.2)
Tax effect of other NZ IFRS adjustments	(0.3)	(0.1)	(0.1)	0.1	(0.2)	(0.2)	-	-	-	0.0
Reported NPAT	32.6	27.8	21.4	19.1	12.9	8.4	1.5	2.1	(3.3)	(1.8)

Appendix II - Disclaimer

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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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