



Scales Corporation Limited  
Fact Sheet  
October 2021

2021

# 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, and marketer

 Apple marketer

## Food Ingredients

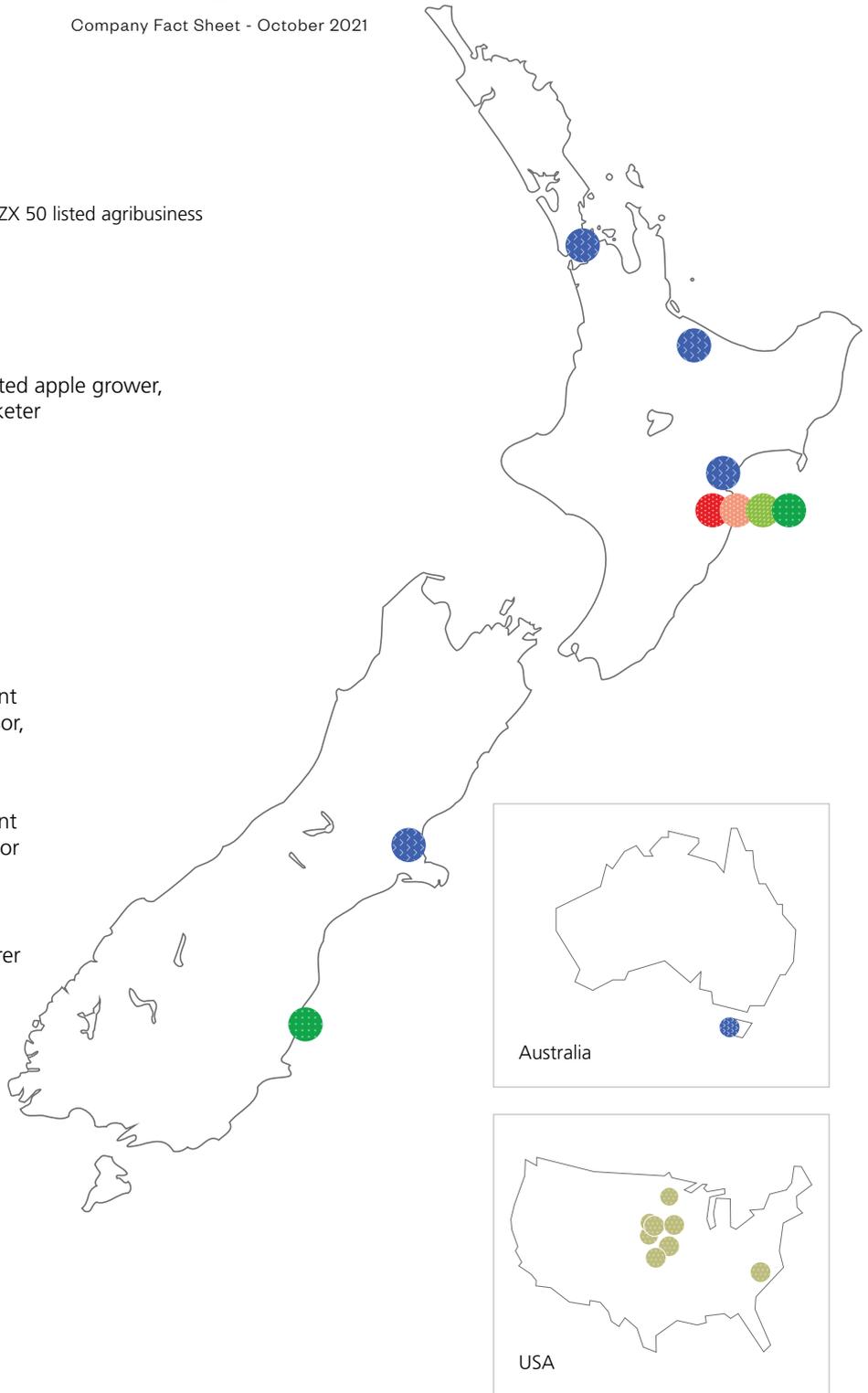
 Petfood ingredient procurer, processor, and marketer

 Petfood ingredient procurer, processor and marketer

 Juice manufacturer

## Logistics

 Air & sea freight



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 from Australia and other markets
- Shelby – 60 per cent ownership of a US procurer, processor and marketer of ingredients for the petfood industry
- 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 air and ocean freight services to exporters and importers of perishable products; with chiller and warehousing facilities in Christchurch, and offices in Auckland, Christchurch, Tauranga, Hawke's Bay and Melbourne

# 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

Whilst our ability to visit new overseas opportunities has been curtailed by COVID-19 travel restrictions, we continue to actively research and review growth opportunities. This includes both internal projects, such as the construction of our new coolstore at Whakatu, related automation projects and our orchard redevelopment, and external acquisition or investment prospects.

We will continue to seek opportunities that align with our core strategic vision, play to our strengths and provide a return in-line with our target Return on Capital Employed (ROCE). These investment initiatives continue to be 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

## 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 combined 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

Sustainability remains an important part of both our strategic and day-to-day operations and we continued to make considerable progress during 2020, despite the disruptions of COVID-19.

During 2020 we undertook a materiality assessment, the first since our initial materiality review was completed in 2016. This identified new areas of interest and we will work towards realigning our strategy and environmental plan in line with the results, whilst developing bigger and bolder goals for our future.

Our key areas of focus are:

- People – in particular employment, health and safety and workplace stability
- Environment – including water use and quality, carbon footprint and energy use
- Marketplace – in particular supplier requirements, spray use and residues, food safety and consumer preferences

We also prepared our inaugural Task Force on Climate-related Financial Disclosures (TCFD) climate change report this year. Within this report we set out the 4 areas of the TCFD framework to explore what impacts climate change will have upon our business (risks and opportunities) and the direction in which we are going to address or adapt to them. We strongly believe this is a concern for all global businesses, of which we are one.

For further information, please read our full Sustainability Report in our 2020 Annual Report.

### TCFD themes

#### Governance

Disclose the organisation's governance around climate-related risks and opportunities.

#### Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

#### Risk Management

Disclose how the organisation identifies, assesses and manages climate-related risks.

#### Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

# Share Information

<b>NZX code</b>	SCL	<b>Closing share price at 30 September 2021</b>	\$5.49
<b>Shares on issue at 30 September 2021</b>	142,394,837	<b>Market capitalisation at 30 September 2021</b>	\$782 million
<b>Gross dividend yield<sup>1</sup></b>	5.5%	<b>Financial year end</b>	31 December
<b>NZX industry sector</b>	Primary / Agriculture and Fishing	<b>Indices</b>	S&P NZX All S&P NZX 50

Scales' share price from date of listing to 30 September 2021 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, although at a level no greater than actual Net Profit for each year. 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	Amount (Cash Paid)
2019 interim	17/01/20	9.5 cps
2019 final	10/07/20	9.5 cps
2020 interim	15/01/21	9.5 cps
2020 final	09/07/21	9.5 cps

## Research Coverage

Company	Analyst	Email
Craigs Investment Partners	Joshua Dale	joshua.dale@craigsip.com
Jarden	Christian Bell	christian.bell@jarden.co.nz
Forsyth Barr	Jamie Foulkes	jamie.foulkes@forsythbarr.co.nz

<sup>1</sup> Based on the 2020 fully imputed interim and final dividends of 9.5 cents each (gross 13.2 cents each) as at 30 September 2021 and average share price for the 2020 financial year.

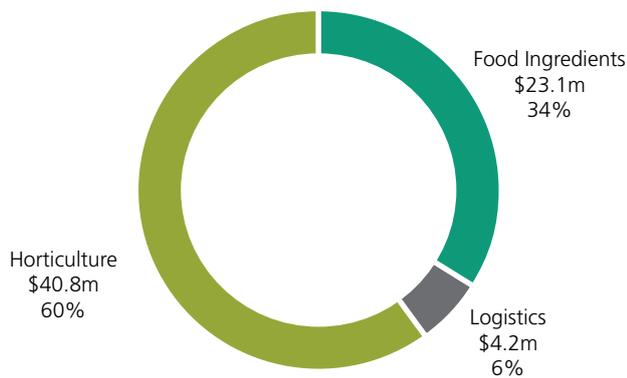
## Key Financials

	2017 (Restated)	2018	2019	2020 (excl. IFRS 16)	2020 (incl. IFRS 16)
Revenue <sup>2</sup>	\$393.1m	\$402.5m	\$484.6m	\$470.7m	\$470.7m
Underlying <sup>3</sup> EBITDA	\$62.0m	\$67.1m	\$52.7m	\$53.9m	\$64.1m
Underlying EBITDA margin	15.8%	16.7%	10.9%	11.5%	13.6%
Underlying Net Profit	\$32.7m	\$35.8m	\$36.4m	\$33.8m	\$33.0m
Net Profit	\$31.6m	\$45.5m	\$121.6m	\$26.6m	\$26.6m
Earnings per share	22.5c	32.2c	84.2c	15.0c	15.0c
Dividends per share - declared	19.0c	18.5c	19.0c	19.0c	19.0c
Average net debt / (net cash)	\$54.8m	\$70.7m	(\$82.0m)	(\$76.2m)	(\$76.2m)
Capital expenditure	\$13.5m	\$16.3m	\$15.7m	\$24.4m	\$24.4m

With effect from 1 January 2021, and in line with current market practice, our definition of 'Underlying' has been amended to include the effects of NZ IFRS 16 *Leases*. As shown above, we have restated 2020 to illustrate the effect of this change.

## Divisional Overview

The chart below shows the 2020 Underlying EBITDA contribution, including IFRS 16, from each of Scales' 3 key operating divisions. Our Corporate Division ran at an Underlying EBITDA loss of \$4.0m to achieve Underlying Group EBITDA of \$64.1m:



<sup>2</sup> Includes revenue from divested businesses, Liqueo and Polarcold, in 2017.

<sup>3</sup> 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.

# Horticulture

	2017 (Restated)	2018	2019	2020 (excl. IFRS 16)	2020 (incl. IFRS 16)
Revenue	\$222.0m	\$254.6m	\$264.8m	\$246.0m	\$246.0m
% of Group revenue	56%	63%	55%	52%	52%
Underlying EBITDA	\$38.9m	\$42.6m	\$39.7m	\$31.4m	\$40.8m
% of Group Underlying EBITDA	63%	63%	75%	58%	64%
Orchard area					
- Total planted orchard at harvest (Ha.)	1,142	1,149	1,158	1,186	
- Fully mature planted orchard (Ha.)	1,043	1,057	1,023	1,028	
Packhouses	4	3	3	3	
Peak coolstore volumes (bins)	109,818	128,711	127,280	133,830	

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 2020 Mr Apple:

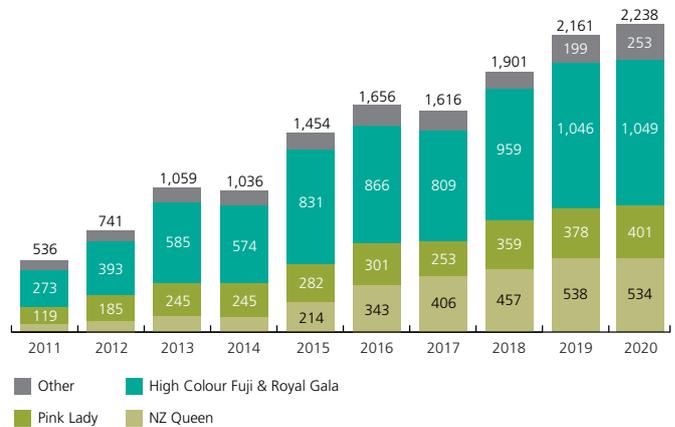
- Completed the second phase of its orchard redevelopment programme, planting and / or redeveloping around 36 hectares of orchard. This brings the total orchard redeveloped since 2008 to over 530 hectares, of which approximately 141 hectares were redeveloped to Dazzle™ and Posy™, premium brands in which we have a proprietary interest
- Continue to focus on the Asia and Middle East markets, with sales to this market accounting for 62 per cent of all exports in 2020. Sales to China remained strong, reflecting ongoing in-market efforts together with support from our cornerstone shareholder China Resources Ng Fung and increased participation in the market by PCNZ
- Invested time and resources into delivering innovative marketing activations and in-market branding initiatives, particularly in Asia and the Middle East, to support Dazzle™ and Posy™
- Completed the construction of a new coolstore at Whakatu, which is expected to provide both operational and logistic efficiencies and permits greater centralisation of our post-harvest operations
- Incorporated new 'twin leader' planting techniques to enable pruning, thinning and picking efficiencies

Almost 580 million apples were picked from Mr Apple's planted apple orchards in the 2020 season from approximately 1,186 hectares. This equates to a gross production of 5.12 million TCEs, of which 3.92 million TCEs were exported. Including Fern Ridge and other external growers, the Horticulture division exported approximately 5.74 million TCEs.

The Horticulture Division has pronounced financial seasonality:

- Over 50 per cent of Mr Apple's sales are made between February and June each year
- At 30 June, unsold agricultural produce is measured at fair value less costs to sell, meaning that expected profit on unsold fruit is recognised in the interim result

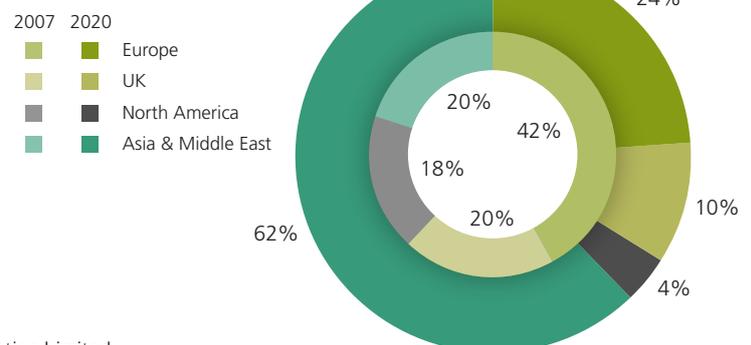
## Premium Apple Volumes by Variety (TCE 000s)



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



## Exports by Market



## Food Ingredients

	2017 (Restated)	2018	2019	2020 (excl. IFRS 16)	2020 (incl. IFRS 16)
Revenue	\$68.9m	\$83.1m	\$155.1m	\$173.7m	\$173.7m
% of Group revenue	18%	21%	32%	37%	37%
Underlying EBITDA	\$8.0m	\$10.2m	\$13.5m	\$23.1m	\$23.1m
% of Group Underlying EBITDA	13%	15%	26%	43%	36%
<i>Operational metrics</i>					
- Petfood volume sold (MT)	29,028	29,028	110,970	115,739	
- Juice concentrate sold (litres 000s)	6,219	6,219	6,170	6,544	

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 from 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.

Food Ingredients took a considerable step towards its long-run EBITDA target of \$25 million in 2020, and we believe it continues to be an attractive industry for investment with the global petfood industry showing no sign of slowing.

## Logistics (formally Storage & Logistics)

	2017 (Restated)	2018	2019	2020 (excl. IFRS 16)	2020 (incl. IFRS 16)
Revenue	\$126.0m	\$89.3m	\$87.1m	\$77.9m	\$77.9m
% of Group revenue	32%	22%	18%	17%	17%
Underlying EBITDA	\$19.1m	\$4.9m	\$3.3m	\$3.4m	\$4.2m
% of Group Underlying EBITDA	31%	7%	6%	6%	7%

Note: 2017 includes Liqueo and Polarcold.

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 services of Scales Logistics now include:

- Ocean freight services to exporters and importers of perishable products, with offices in Auckland, Christchurch, Tauranga, Hawke's Bay and Melbourne
- Air freight services, including purpose-built chiller and warehousing facilities based in Christchurch

Logistics produced a solid result in 2020 in a year where activity was impacted by global supply chain disruptions due to COVID-19 and lockdowns. This caused a decrease in the volumes of both ocean and air freight managed by the division. However, the impact of COVID-19 was lessened by the division's focus on the essential agribusiness sector.

Forecast 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 long-run combined ROCE for the group is 15 per cent or greater.

	2019	2020
Horticulture	17%	11%
Food Ingredients	16%	29%
Logistics <sup>4</sup>	70%	89%
<b>Group</b>	<b>16%</b>	<b>15%</b>

ROCE: A measure of the business' return on its capital invested.

Calculation: Underlying EBIT<sup>5</sup> divided by the average of opening and closing capital employed.

Group capital employed increased by \$12.4 million in 2020. This was primarily due to an increase in Horticulture capital employed as a result of the construction of its new coolstore and orchard redevelopment expenditure. We expect Horticulture ROCE to remain below target levels until redeveloped orchards reach maturity from 2023 onwards.

# Governance

## Board of Directors

<b>Tim Goodacre</b>	Independent Chair
<b>Andrew Borland</b>	Managing Director
<b>Nick Harris</b>	Independent Director, Chair Health & Safety and Sustainability Committee
<b>Mark Hutton</b>	Independent Director, Chair Nominations and Remuneration Committee and Finance and Treasury Committee
<b>Alan Isaac</b>	Independent Director, Chair Audit and Risk Management Committee
<b>Sun Qiang (Alex)</b>	Director
<b>Nadine Tunley</b>	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 Rabobank New Zealand 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.

### Tim Harty, General Manager Meateor Pet Foods

Tim was appointed General Manager at the inception of the joint venture with Alliance in 2019. Tim has had a 20 year career in the export meat industry in marketing and operational roles, both in New Zealand and overseas.

### 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.

### Chantelle Ramage, General Manager Profruit

Chantelle has been with Profruit for 14 years, including 12 as General Manager. Prior to that Chantelle held Production Manager and Technical Manager roles with the company. Chantelle graduated from Lincoln University with a Bachelor of Science, majoring in Food.

### 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 Group

John has been with Meateor in various management roles for approximately 20 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

COVID-19 continued to impact the group throughout 2020, and is currently impacting 2021, resulting in us operating in a 'new normal'. Being essential businesses, we have operated throughout all lockdowns and level changes, having implemented protocols quickly in order to operate safely. A number of these protocols remain in place today.

COVID-19 has impacted the entry of Recognised Seasonal Employer (RSE) workers into New Zealand and continues to have an effect on global supply chains, including congestion at both domestic and overseas ports. As a result, we expect ongoing ripples from the pandemic to impact our current year results and, accordingly, we will keep investors updated in the usual manner as appropriate.

<sup>4</sup> Logistics ROCE is based only on Scales Logistics.

<sup>5</sup> Excluding the effect of IFRS 16.

# Company Information

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# Registry Information

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T: +64 9 488 8700  
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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)
TCFD	Task Force on Climate-related Financial Disclosures