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SCALES CORPORATION'S DIVERSIFIED STRATEGY UNDERPINS STRONG GROUP PERFORMANCE

Highlights – 12 months to 31 December 2021

Diversified agribusiness group Scales Corporation Limited (NZX:SCL) today reported its FY2021 full year results. Profit for the Year was \$36.9 million (FY2020: \$26.6 million). Earnings per share for FY2021 were 19.1 cents per share (FY2020: 15.0 cents per share).

- Group FY2021 financial results:
 - Revenue of \$514.6 million, up 9 per cent (FY2020: \$470.7 million)
 - Reported NPAT of \$36.9 million, up 39 per cent (FY2020: \$26.6 million)
 - Underlying¹ NPAT attributable to shareholders of \$29.7m, up 8 per cent (FY2020: \$27.5m)
 - Underlying NPAT of \$39.8 million, up 20 per cent (FY2020: \$33.0 million)
 - Underlying EBITDA of \$73.8 million, up 15 per cent (FY2020: \$64.1 million)

- Outstanding performance across all divisions:
 - Food Ingredients exceeding the EBITDA target for the division
 - Horticulture performing strongly in a challenging environment
 - Logistics financial performance returning to previous levels

Scales Corporation Chair Tim Goodacre commented: “Once again, the hard work and dedication of the entire Scales team has excelled in what has been another challenging year, with all divisions performing strongly.”

“Our diversified agribusiness strategy has underpinned record revenue and record Underlying NPAT notwithstanding the effect of COVID-19 on both global and domestic markets. In particular, the Food Ingredients division has recorded another outstanding result, partly aided by the growing demand for petfood together with its geographical and protein diversity.”

¹ Underlying results exclude some New Zealand International Financial Reporting Standards (NZ IFRS) non-cash and other adjustments. 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. A reconciliation between Net Profit and Underlying Net Profit, EBITDA and Underlying EBITDA is provided in Appendix 1 of our annual results presentation pack.

“Mr Apple also benefited from diversification in terms of both markets and varieties. Whilst volumes were affected by weather and orchard redevelopment, it was aided by strong in-market pricing. Scales Logistics’ strategic value to its customers, including in house customers Mr Apple and Meateor, once again proved to be invaluable, with supply chain challenges successfully navigated.”

Andy Borland, Managing Director of Scales Corporation, noted: “It has been another demanding year for the Group, and the Board and senior leadership team are indebted to all staff for their unwavering commitment. We are especially proud of their ability to adapt to the changing operations and conditions throughout the year. Their health, safety and wellbeing is our priority, and we continue to introduce and develop initiatives to assist in this area.”

“In addition to a record financial year, we have progressed our strategic plans. Mr Apple has commenced its multi-year packhouse automation project, as well as continuing the redevelopment of its orchards. Food Ingredients has identified a number of growth opportunities and its divisional CEO, John Sainsbury, expects to relocate to the USA this year to progress a number of those.”

“Our sustainability team responded to new challenges and developed new initiatives, including an initial in-house carbon footprint assessment for Meateor NZ. Our new Whakatu coolstore has also exhibited environmental benefits, by reducing freight movements between it and our coolstores as well as reducing power consumption.”

“Our financial position is strong, with net cash at 31 December 2021 of \$82.1 million. This gives us security to invest in both organic and acquisitive growth opportunities.”

During the year Scales declared dividends of 19.0 cents per share². As in previous years, the Board expects to declare a final dividend in respect of FY2021 in May, with payment in July.

Divisions

Horticulture

Underlying FY2021 EBITDA for the Horticulture division was \$39.1 million (FY2020: \$40.8 million).

Mr Borland commented “The Horticulture division delivered a very strong result given the significant market uncertainty and logistics challenges. The Mr Apple harvest of 3,651k TCEs³ was picked, packed and exported in full and on time to global markets, with a pleasing 6 per cent increase in premium varieties compared to 2020. Weather and orchard redevelopment impacted the volumes of traditional varieties.”

² Scales declared a final dividend of 9.5 cents per share for FY2020 on 30 April 2021, which was paid on 9 July 2021 and declared an interim dividend of 9.5 cents per share for FY2021 on 8 December 2021, which was paid on 14 January 2022.

³ Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight.

“We experienced continued growth in the Asia and Middle East markets despite disruptions caused by COVID-19. In-market pricing was also strong, with pricing above the prior year for most varieties. This reflected reduced in-market volumes, larger fruit for certain varieties and strong demand for our new varieties such as Dazzle™. Mr Apple’s diversified strategy, both in terms of geographical markets and varieties, continues to prove successful.”

“Mr Apple implemented its multi-year investment and automation plan to increase productivity and sustain margins, with the installation of tray de-nesting machines at the Whakatu packhouse. We believe that this project, once complete, will result in the Whakatu packhouse becoming one of the world’s most automated apple packhouses. We also redeveloped 35 hectares of orchard, primarily into Dazzle™ and NZ Prince™ varieties, as well as continuing to implement our ‘intensive planting’ techniques to enable pruning, thinning and picking efficiencies”

Food Ingredients

The Food Ingredients division generated Underlying EBITDA of \$35.1 million (FY2020: \$23.1 million), an increase of 52 per cent.

Mr Borland noted “This was an outstanding performance by Food Ingredients, causing it to easily exceed its long-run EBITDA target of \$25 million. Volumes of petfood ingredients sold increased by 29 per cent compared to FY2020, reflecting a sustained growth in the global and domestic petfood market. Increased volumes were processed by Shelby in part due to the commissioning of a new plate freezing facility in the Dodge City, Kansas, premises.”

“The division continues to take advantage of its diversified geographical and protein supplies, which reduced the impact of COVID-19 on global supply chains. We have confidence in the growth opportunities available to this division both domestically and overseas.”

Logistics

The Logistics division delivered Underlying EBITDA of \$4.9 million (FY2020: \$4.2 million), an increase of 17 per cent.

Mr Borland said “the strategic value of Scales Logistics was once again apparent, with the business successfully navigating a challenging and complex international supply network on behalf of its customers. Financially, it generated a strong full year result despite being impacted by global logistics pressures and increased costs.”

Outlook

Mr Goodacre commented: “Whilst Scales’ diversification has helped mitigate disruption to both domestic and international operations, there continues to be significant uncertainty about the year ahead. Global supply network pressures are expected to remain in place at least throughout 2022, with a significant increase in shipping and other logistics costs anticipated. There is also an ongoing shortage of labour within the agribusiness sector.”

“In our Food Ingredients division, exports from Australia have outperformed expectations however, we note that as of 31 December 2023, we will no longer have an exclusive ongoing relationship with our existing supplier.”

“Notwithstanding the market pressures, picking and packing of the 2022 season has commenced at Mr Apple and current indications are positive, with strong early demand for our branded varieties such as Posy™ and Dazzle™. Global petfood demand also shows little sign of slowing, and we believe our Food Ingredients businesses are well placed to capitalise on this growth. The relocation of John Sainsbury to the USA reinforces our confidence in the opportunities available to the division.”

“Accordingly, the Board reconfirms the Underlying Net Profit Attributable to Shareholders guidance for the group to be between \$23.5 million and \$28.5 million, implying an Underlying Net Profit range of \$30.5 million to \$35.5 million and an Underlying EBITDA range of \$62.0 million to \$67.0 million.’

Mr Goodacre also noted “Once again I would like to extend my thanks and appreciation on behalf of the Scales Directors and Shareholders to the entire Scales team. Without their commitment our strong results would not be possible.”

Contact

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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.