

# SCALES CORPORATION LIMITED

## Growing Your Diversified Agribusiness

2022 Annual Shareholders' Meeting

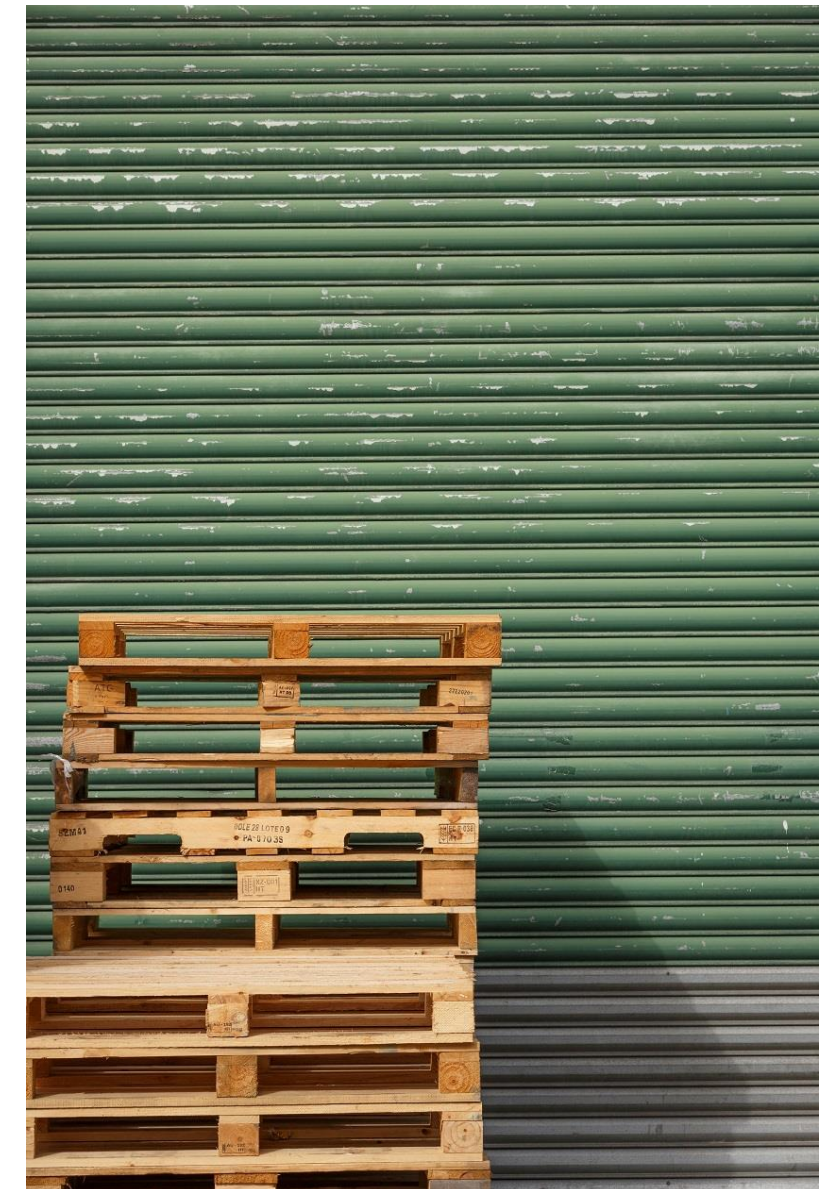
8 June 2022





# Agenda

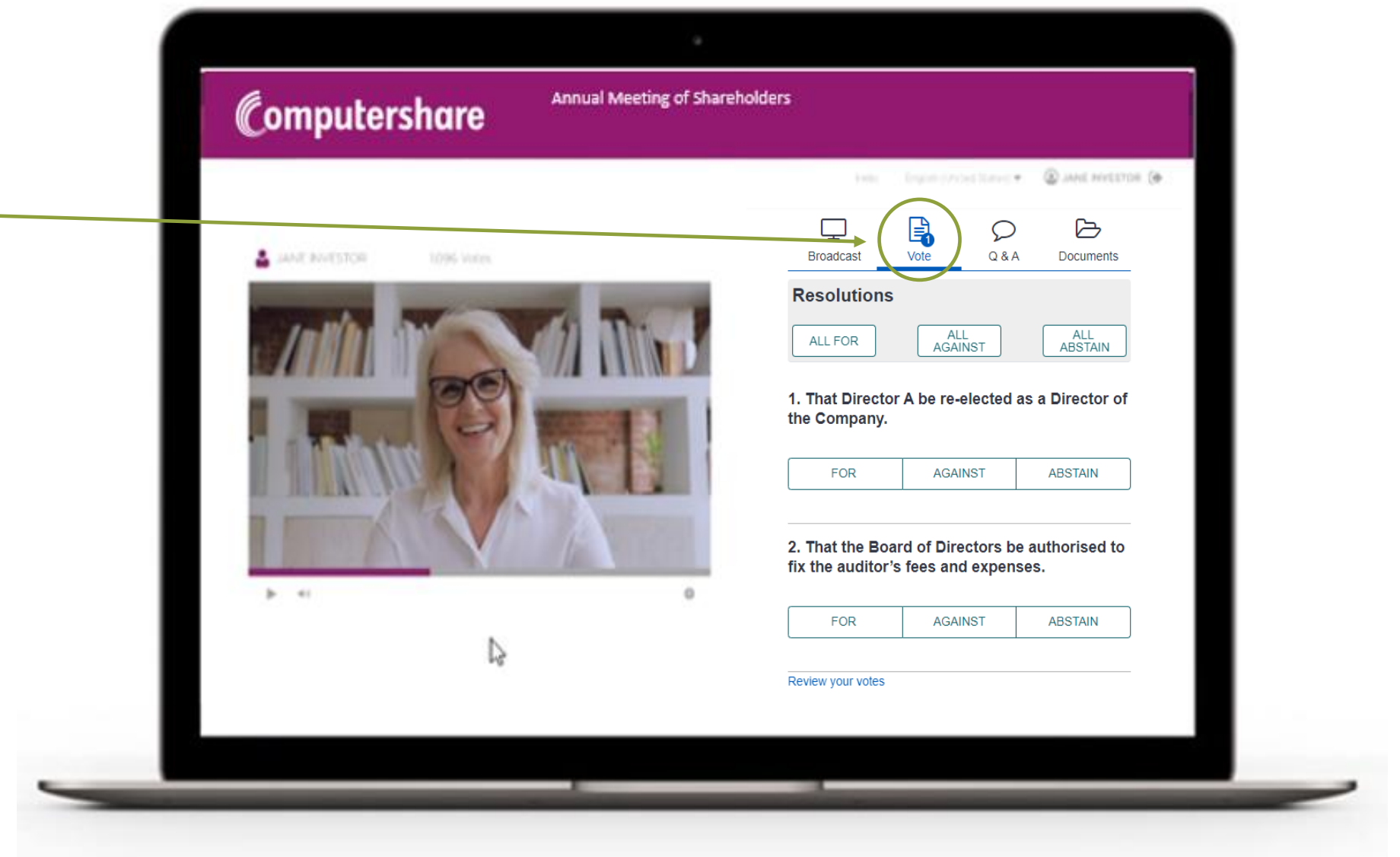
1. Welcome and Chair's Review
2. Managing Director's Review
  - a) Year in Review
  - b) Sustainability Update
  - c) Business Update
  - d) Outlook
3. Ordinary Resolutions
4. Voting and Questions



# How to Participate in Virtual/Hybrid Meetings - Voting

## Shareholder and proxyholder voting

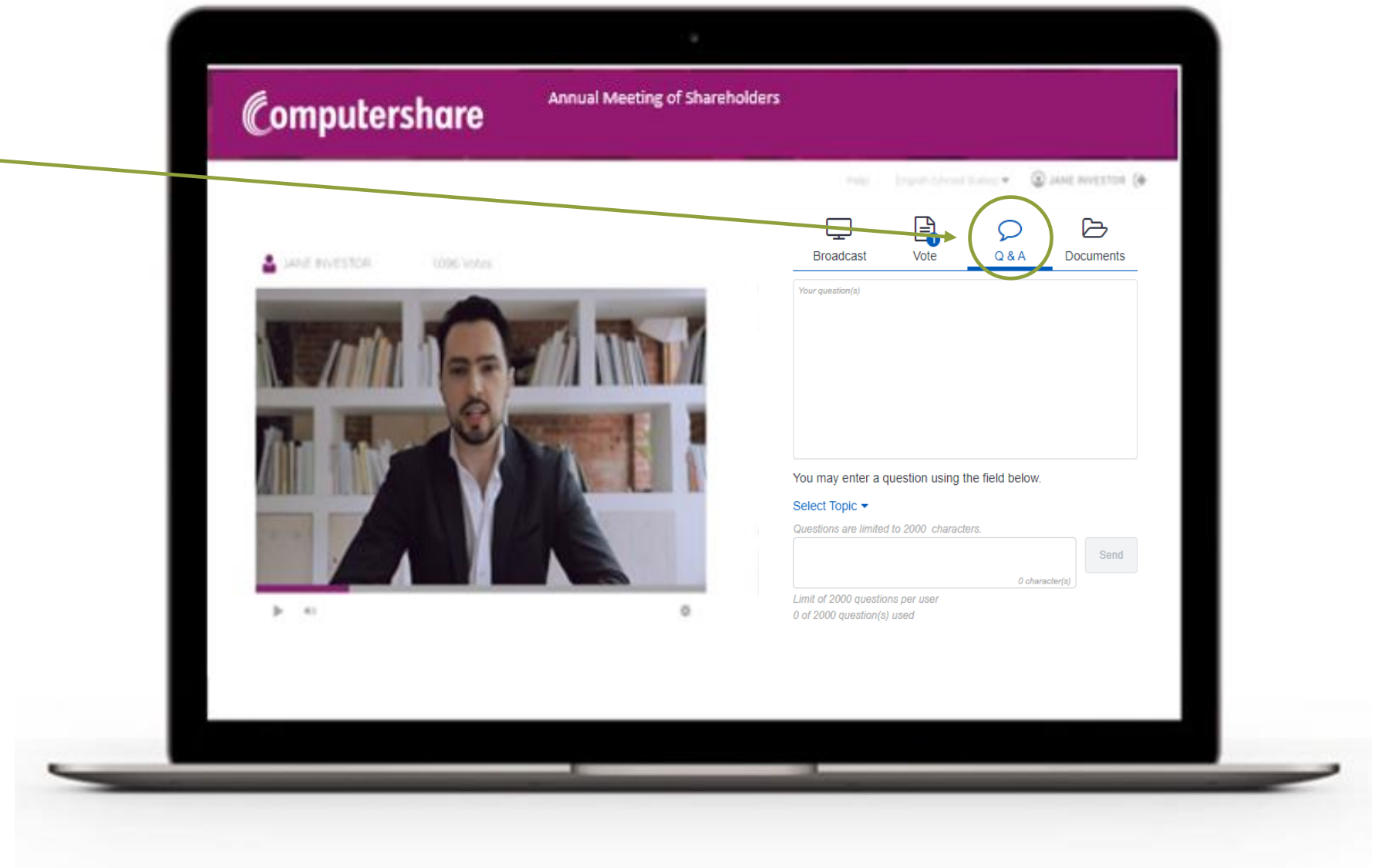
- Once the voting has been opened, the resolutions and voting options will allow voting
- To vote, simply click on the 'Vote' tab, and select your voting direction from the options shown on the screen
- You can vote for all resolutions at once or by each resolution
- Your vote has been cast when the tick appears
- To change your vote, select 'Change Your Vote'



# How to Participate in Virtual/Hybrid Meetings - Q&A

## Shareholder and proxyholder Q&A participation

- Written Questions:
  - If you have a question to submit during the meeting, please select the 'Q&A' tab on the right half of your screen at anytime
  - Type your question into the field and press submit
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- Help:
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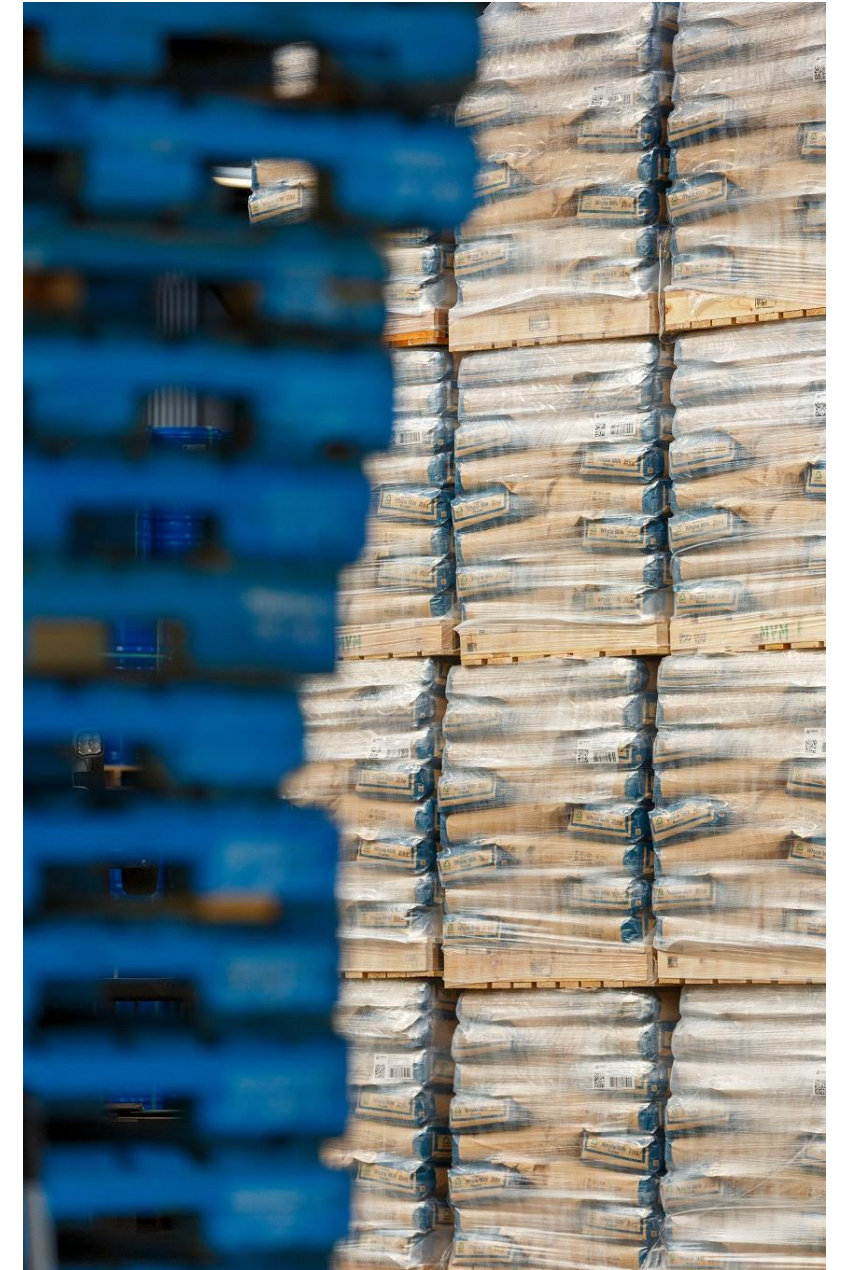


# 1. Welcome and Chair's Review



# Welcome

- Welcome to all shareholders and stakeholders, both in person and online
- Diversified strategy underpinned the Group's outstanding result during another challenging year:
  - Business operations continued during the lockdowns
  - COVID-19 presented, and continues to present, challenges in areas such as labour availability, markets, supply chains and logistics
- Our staff's safety was, and continues to be, of ultimate importance





# Chair's Review

Teamwork and personal commitment succeeded over uncertainty and disruption

- ✓ Top priority given to health and wellbeing of staff during uncertain times
- ✓ Extraordinary effort made by the Mr Apple team to pick, pack and export the harvest
- ✓ Food Ingredients continued its remarkable growth trajectory
- ✓ Sufficient containers and capacity procured by Scales Logistics, enabling our businesses and customers to successfully export their finished product
- ✓ Financial performance ahead of expectations, exceeding Revised Guidance, paid dividends as scheduled



# Our Staff

- Our teams rose to the challenge of another turbulent year, operating throughout all lockdowns and traffic light settings
- We observed the importance of our critical RSE workers and were impacted by availability of this skilled workforce during 2021:
  - Compared to 2020, the RSE workforce was approximately 14 per cent lower over the key harvest period, which placed significant pressure on our local permanent team
- Aware of the mental and emotional toll on our staff from the last two years:
  - Implemented a partnership with Groov (previously Mentemia) to provide wellbeing tools and resources





# Governance and Ethics

## Strengthening our Director and Senior Management Team

- Commenced Board succession process, assisted by external advisors, Boardworks:
  - Tim Goodacre and Mark Hutton will not seek re-election at the end of their current 3-year tenure, scheduled to end at the 2024 Annual Meeting
- Qi Xin appointed as Non-Executive Director in December 2021:
  - Senior Director of a department within China Resources Enterprise, Limited
- Participated in the Institute of Directors' Future Director programme:
  - The term of our fifth appointee, Kelly Brown, concludes today
- Appointment of Geoff Smith as Chief Operations and Sustainability Officer in January 2022:
  - Extensive operational, supply chain, strategy and investment experience across a variety of agribusinesses
- Outstanding leadership, management and teamwork throughout the Group
- The Board are delighted with the feedback received on Scales' governance from the New Zealand Shareholders Association, proxy advisors and from institutional shareholders





## 2. Managing Director's Review



# Managing Director's Review - Agenda

- a) Year in Review
- b) Sustainability Update
- c) Business Update
- d) Outlook







a) Year in Review



# Our Year in Numbers

**\$514.6m**  
revenue  
(2020: \$470.7m)



**\$82.1m**  
net cash  
(2020: \$97.6m)



**13.8%**  
ROCE  
(2020: 12.3%)

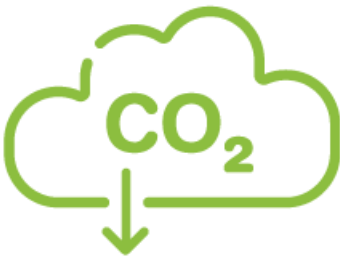


**19.0 cents**  
dividends declared  
per share

**Second**  
climate change  
report prepared



**Fourth**  
carbon footprint  
certification completed



**4,983,000**  
TCEs of apples exported\*  
(2020: 5,739,000)



**3,651,000**  
TCEs of own-grown  
apples exported  
(2020: 3,915,000)

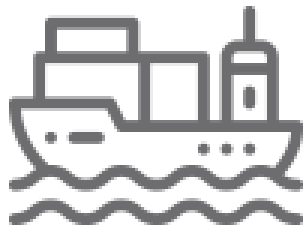
**149,200 MT**  
petfood ingredients sold\*\*  
(2020: 115,700 MT)



**6.5m litres**  
of juice sold  
(2020: 6.5m litres)

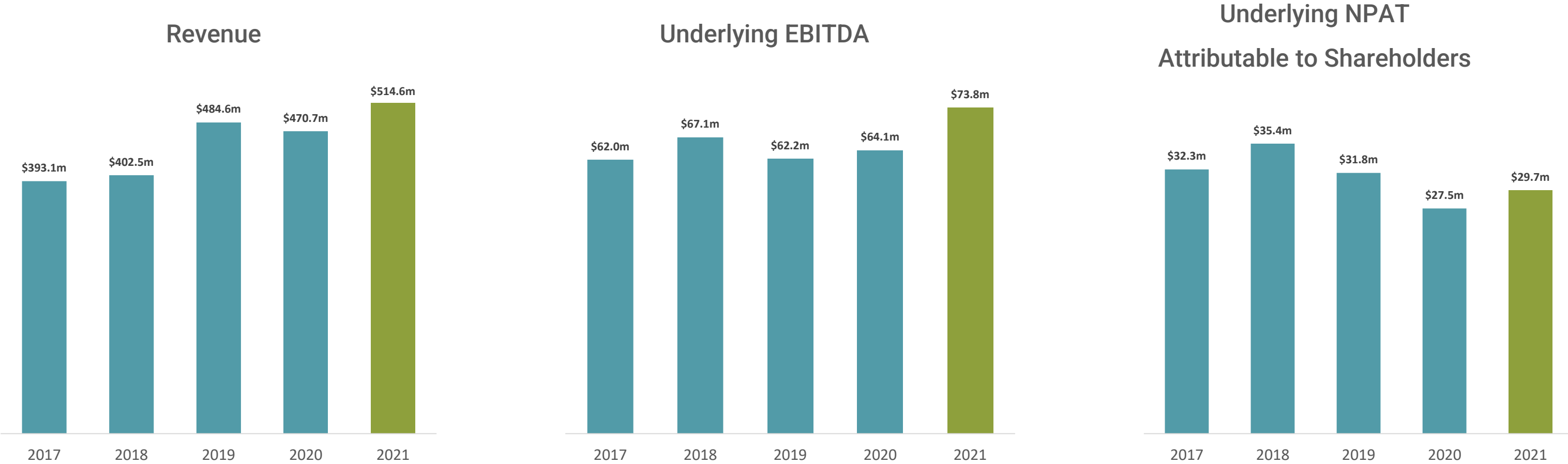


**30,313 TEUs**  
of ocean freight managed  
(2020: 35,502 TEUs)



\* Mr Apple, outside growers and Fern Ridge Fresh  
\*\* Includes 100% of volumes from Meateor NZ; i.e. total volumes controlled directly and indirectly by the Meateor Group

# Trends in Group Financial Performance



Historic results are unadjusted for businesses that have been sold or acquired. 2017 and 2018 results have not been restated for the effects of NZ IFRS 16 Leases.



# Group Financial Performance

Outstanding results aided by diversification strategy and exceptional team performance

- Record revenue of \$514.6m, up 9% (2020: \$470.7m)
- Underlying EBITDA of \$73.8m, up 15% (2020: \$64.1m)
- Record Underlying NPAT of \$39.8m, up 20% (2020: \$33.0m)
- Underlying NPAT attributable to shareholders of \$29.7m, up 8% (2020: \$27.5m)
- Earnings per share of 19.1 cents per share, up 27% (2020: 15.0 cents per share)

Income Statement												
	Revenue			EBITDA			NPAT			NPAT Attributable to Shareholders		
\$m	2021	2020	% chg. <sup>1</sup>	2021	2020	% chg. <sup>1</sup>	2021	2020	% chg. <sup>1</sup>	2021	2020	% chg. <sup>1</sup>
Underlying (excluding NZ IFRS 16)	514.6	470.7	9%	63.0	53.9	17%	40.4	33.8	20%	30.4	28.2	8%
NZ IFRS 16 Leases				10.8	10.3		(0.7)	(0.7)		(0.7)	(0.7)	
<b>Underlying (including NZ IFRS 16)</b>	<b>514.6</b>	<b>470.7</b>	<b>9%</b>	<b>73.8</b>	<b>64.1</b>	<b>15%</b>	<b>39.8</b>	<b>33.0</b>	<b>20%</b>	<b>29.7</b>	<b>27.5</b>	<b>8%</b>
NZ IFRS & other adjustments:												
Impairment of non-current assets				1.6	(4.3)		1.2	(3.1)		1.2	(3.1)	
Other NZ IFRS adjustments				(3.8)	(3.1)		(4.0)	(3.4)		(4.0)	(3.4)	
<b>Reported<sup>2</sup></b>	<b>514.6</b>	<b>470.7</b>	<b>9%</b>	<b>71.6</b>	<b>56.7</b>	<b>26%</b>	<b>36.9</b>	<b>26.6</b>	<b>39%</b>	<b>26.9</b>	<b>21.0</b>	<b>28%</b>

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)

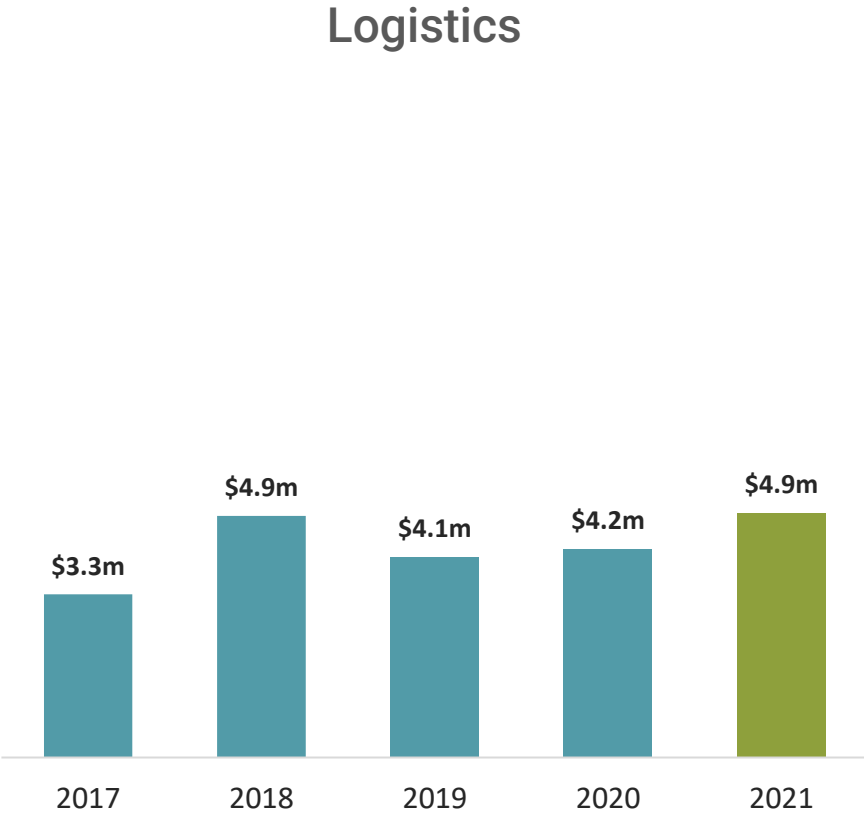
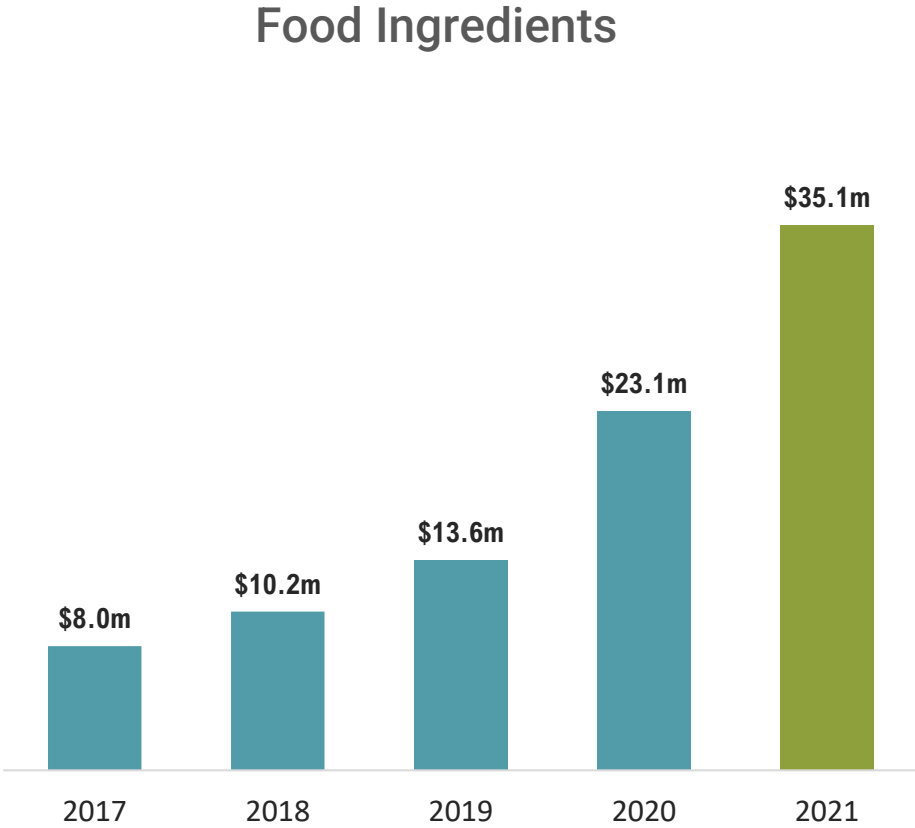


# Divisional Summary

Horticulture	<ul style="list-style-type: none"><li>• Very strong result given significant market uncertainty, supply chain challenges and lower volumes of fruit</li><li>• All fruit picked, extraordinary effort by the entire Mr Apple team to pick, pack and export the harvest</li><li>• Strong in-market pricing balanced reduced volumes and cost pressures (labour and shipping)</li><li>• Commencement of the Whakatu packhouse automation project with the installation of tray de-nesting machines</li></ul>
Food Ingredients	<ul style="list-style-type: none"><li>• Outstanding performance, reflecting ongoing demand for global petfood</li><li>• Significant increases in volumes sold, revenue and Underlying EBITDA</li><li>• Diversified geographical locations proving strategically beneficial</li></ul>
Logistics	<ul style="list-style-type: none"><li>• Strong 2021 despite difficult conditions</li><li>• Invaluable expertise and strategic value provided to customers, including Mr Apple and Meateor</li></ul>



# Trends in Divisional Underlying EBITDA



The Logistics division was previously 'Storage and Logistics' up to and including 2018, graph shows performance of continuing business only. 2017 and 2018 results have not been restated for the effects of NZ IFRS 16 Leases.

# Balance Sheet

## Strong financial position

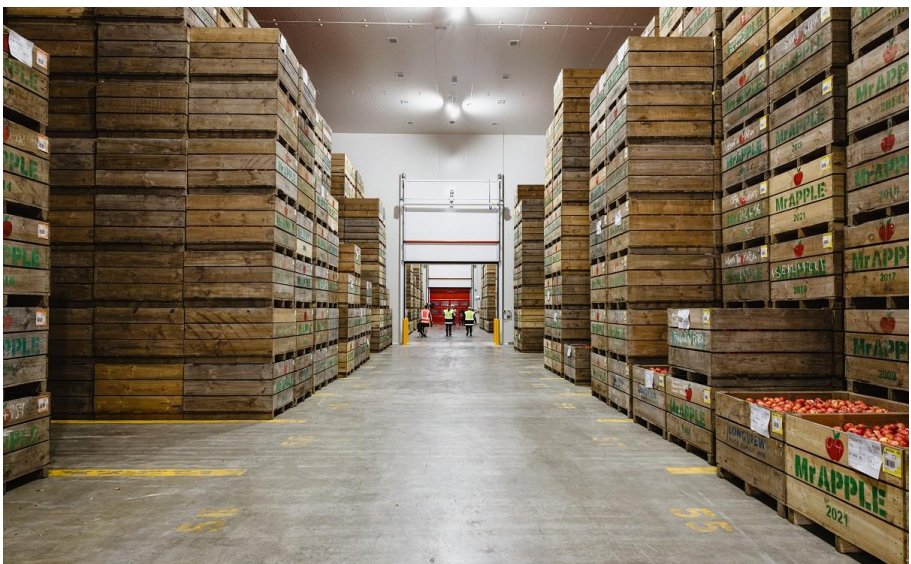
- Movement in capital employed\* reflects:
  - Revaluation of land and buildings
  - Capital expenditure, including orchard redevelopment, the Whakatu coolstore and the Mr Apple automation project
  - Increase in working capital
  - Revaluation of FX derivatives
- Movement in Net Cash reflects increased capital expenditure
- Increase in Other Liabilities due to an increase in deferred tax liabilities

Financial Position		
\$m	2021	2020
Capital employed*	415.8	370.9
Return on Capital Employed	13.8%	12.3%
Net Cash / (Interest Bearing Debt)	82.1	97.6
Other Liabilities	(114.6)	(112.3)
<b>Net Assets</b>	<b>390.3</b>	<b>378.4</b>

\* Capital Employed is calculated as non-current assets plus working capital (excluding cash, overdrafts and borrowings, dividends declared, derivative assets / liabilities and employee loans)



Tukituki orchard



Coolstore interior



Automated tray de-nesting machines





## **b. Sustainability Update**



# Sustainability Overview

## Responding to new challenges

### Environment

- Reduced freight movements as a result of the commissioning of the Whakatu coolstore
- Creation of sustainability champions at packhouses to increase communication and feedback between sites and head office
- LED replacement at an orchard accommodation site to reduce electricity usage
- Project commenced to monitor and improve soil health, helping us to understand our impact on the ecosystem
- In-house carbon footprint assessment undertaken for Meateor NZ
- Participation in a *Sustainable is Attainable* initiative, aiming to find the most cost effective and valuable disposal method for waste streams
- Installation of liner-less labellers for carton end labels at the Whakatu packhouse
- Received initial report on the potential carbon sequestration of apple trees from AUT





# Our People

**>500**  
Permanent staff members

**45 years**  
Longest serving employee

**~1,150**  
RSE workers

**5th**  
Future Director appointed

**38%**  
Permanent female staff  
Scales wide

**30%**  
Female senior leadership /  
management staff

# COVID-19 and Health & Safety

Health and safety remains our primary priority

## COVID-19

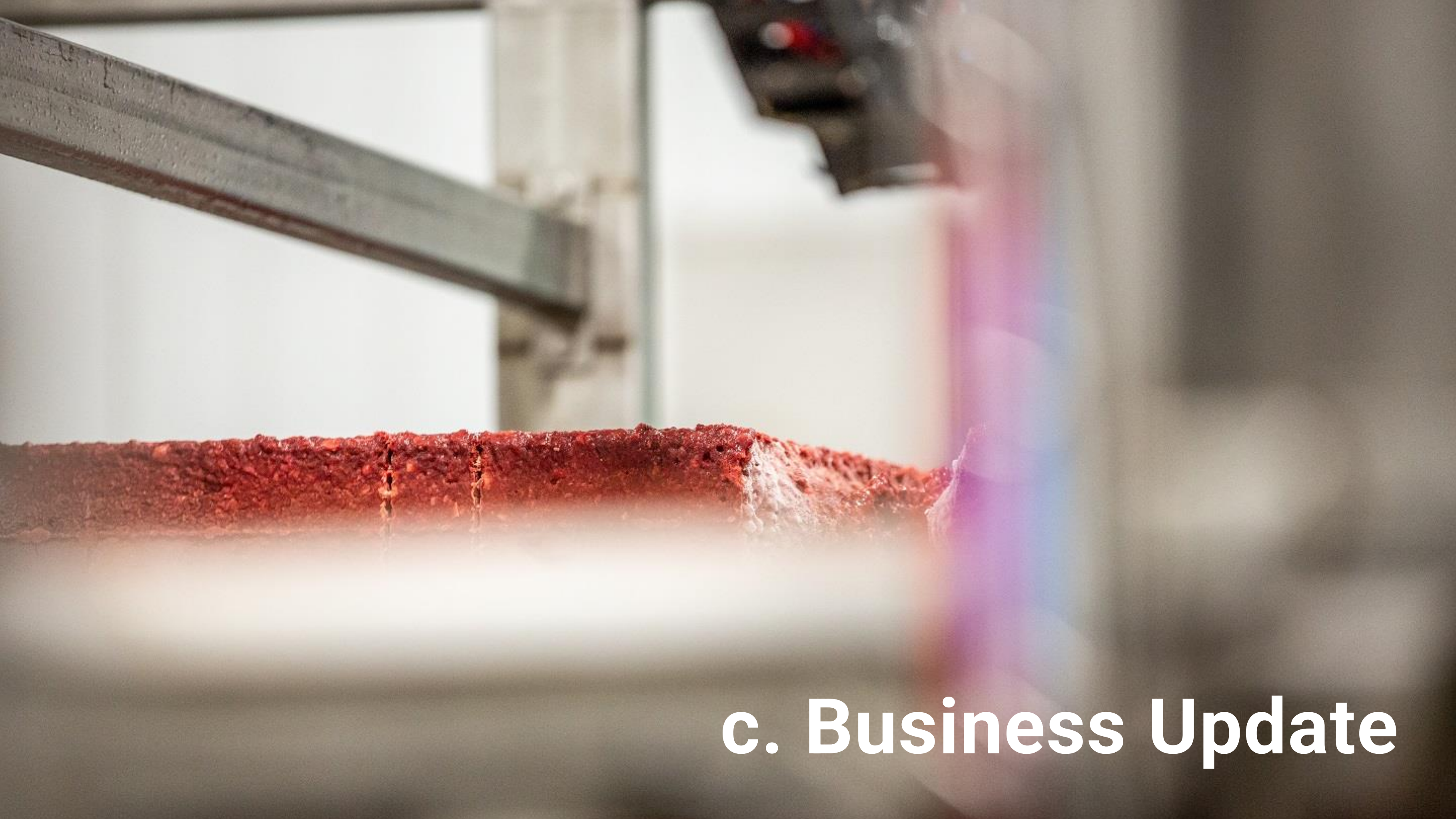
- Business operations continued during the lockdowns, in line with our pandemic preparedness policies
- Reducing risk, whilst supporting all our staff, is of ultimate importance
- Adaptable COVID-19 response planning put in place, embracing new contact tracing technology

## Health and Safety

- Targeted injury management focus with specific prevention initiatives developed across the businesses
- Leading engagement with forklift simulator programme, including upskilling and cross-site safety standard auditing
- Partnership with Groov (previously Mentemia) to provide wellbeing tools and resources to our employees
  - Continued growth of wellbeing strategy







**c. Business Update**

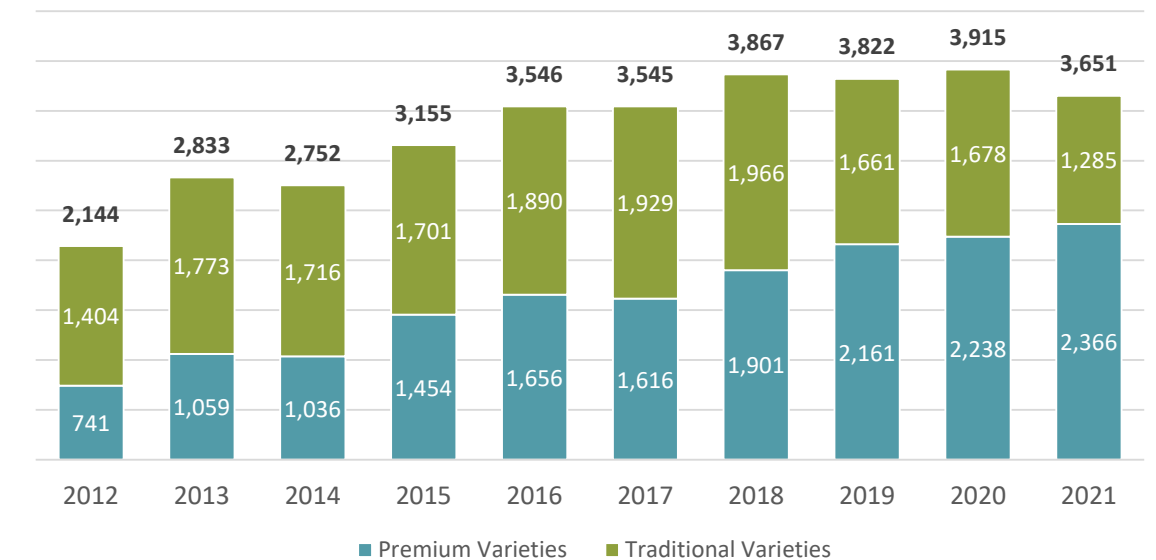


# Horticulture – Volumes and Pricing

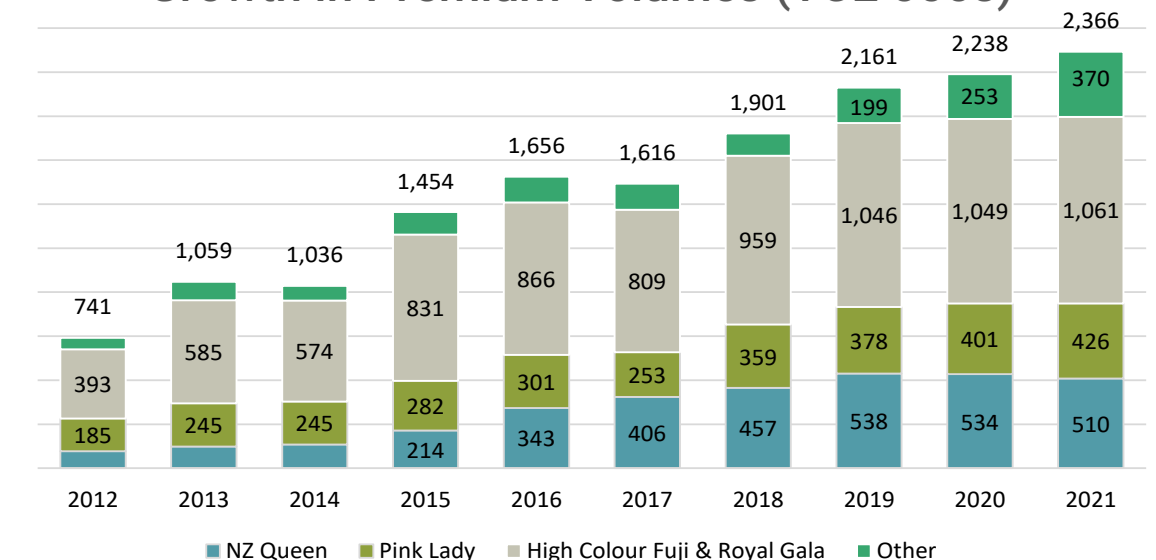
Continued strong growth in Premium varieties, benefitted from both geographical and channel diversification

- Increase in Premium varieties of 6% compared to 2020:
  - Compound Annual Growth Rate (CAGR) of 14% since 2012
  - Significant growth in sales of Dazzle™ and Posy™
- Weather and orchard redevelopment (reducing planted hectares of traditional varieties) impacted Traditional volumes
- Benefitted from geographical and channel diversification:
  - Strong growth in Asia and Middle East, UK was stable, Europe affected by lower Traditional volumes
- Pricing above prior year levels for most varieties, reflecting:
  - Reduced market volumes
  - Larger fruit for certain varieties
  - Strong market demand for Dazzle™
- Total volumes sold (including those on behalf of other growers), were 4,983k TCEs (2020: 5,739k TCEs):
  - Reduced external grower volumes largely reflected a challenging season for Nelson growers

Mr Apple Own Export Volumes (TCE 000s)



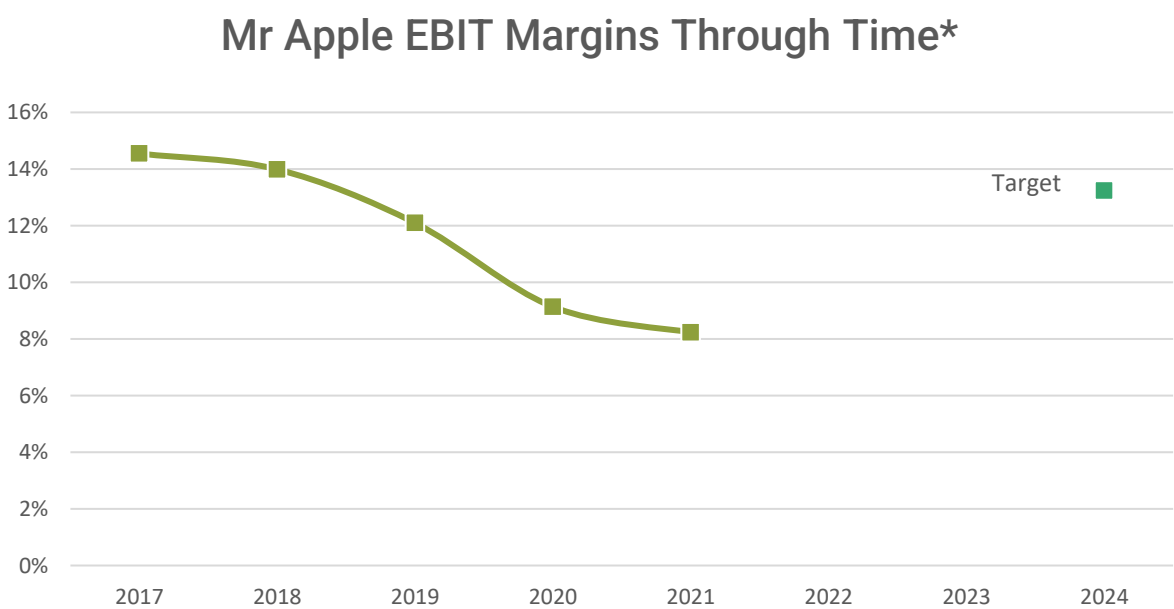
Growth in Premium Volumes (TCE 000s)



# Horticulture – Automation and Orchard Development

## Commencement of automation plan helping to stabilise Mr Apple margins

- Multi-year investment and automation plan implemented to increase productivity and sustain margins
- First phase was Whakatu coolstore – reducing: power consumption, double-handling of fruit, transport costs and carbon emissions
- Automation of the Whakatu packhouse has commenced with installation of tray de-nesting machines:
  - The project will result in the Whakatu packhouse becoming one of the world’s most automated apple packhouses
  - This multi-year project will reduce our reliance on scarce local seasonal labour
- Continued progress on our orchard redevelopment programme:
  - 35 ha of orchard planted / redeveloped during the 2021 winter, primarily into Dazzle™ and NZ Prince™
  - Ongoing implementation of our ‘intensive planting’ techniques, to enable pruning, thinning and picking efficiencies



\* EBIT Margins are calculated on an Underlying basis and prior to the impact of IFRS-16  
\*\* Target based on average yields



# Horticulture – Meeting the Challenges of a Changing International Market

## Investment made in brand positioning, design and digital infrastructure

- Continued growth in Asia and Middle East markets despite disruptions:
  - China and Hong Kong represented ~20% of Mr Apple total export sales (2020: ~17%)
  - Near Markets (Asia, India and Middle East) accounted for ~72% of Mr Apple export sales (2020: ~62%)
  - Sales to Russia have been suspended
- Focus on key customers in these markets to generate impact and deliver value
- Consolidating Dazzle™'s early strong and growing presence in key markets
- Market research undertaken with China, Vietnam and Thailand consumers suggested Mr Apple brand is seen as meaningful, but there are opportunities to differentiate it and make it more salient
- New, simplified branding generated for Mr Apple:
  - Incorporates new brand design, logo, packaging and direction, providing consistency and linking the Mr Apple story to the 5 point promise
  - Impact of COVID-19 has increased preference for packaged product in China

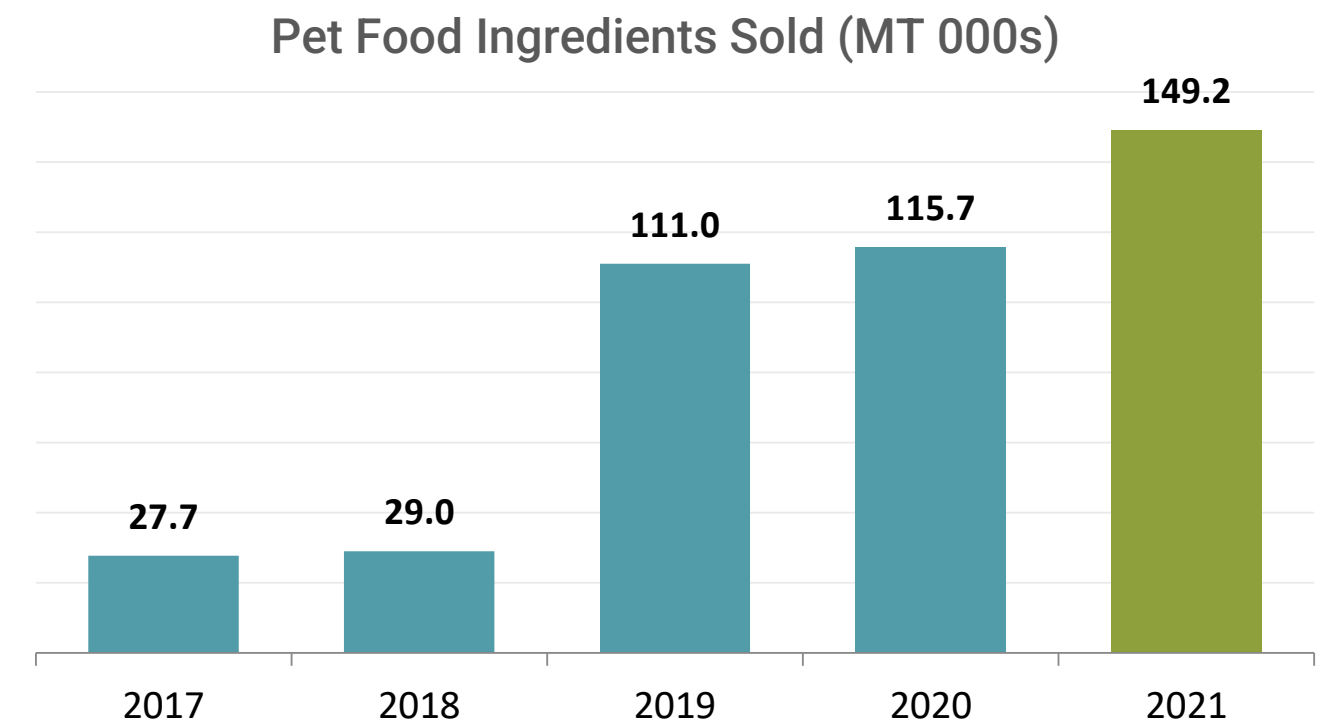
**MrAPPLE<sup>NZ</sup>**  
新西兰苹果先生



# Food Ingredients – Performance

Outstanding performance, reflecting ongoing demand for global petfood

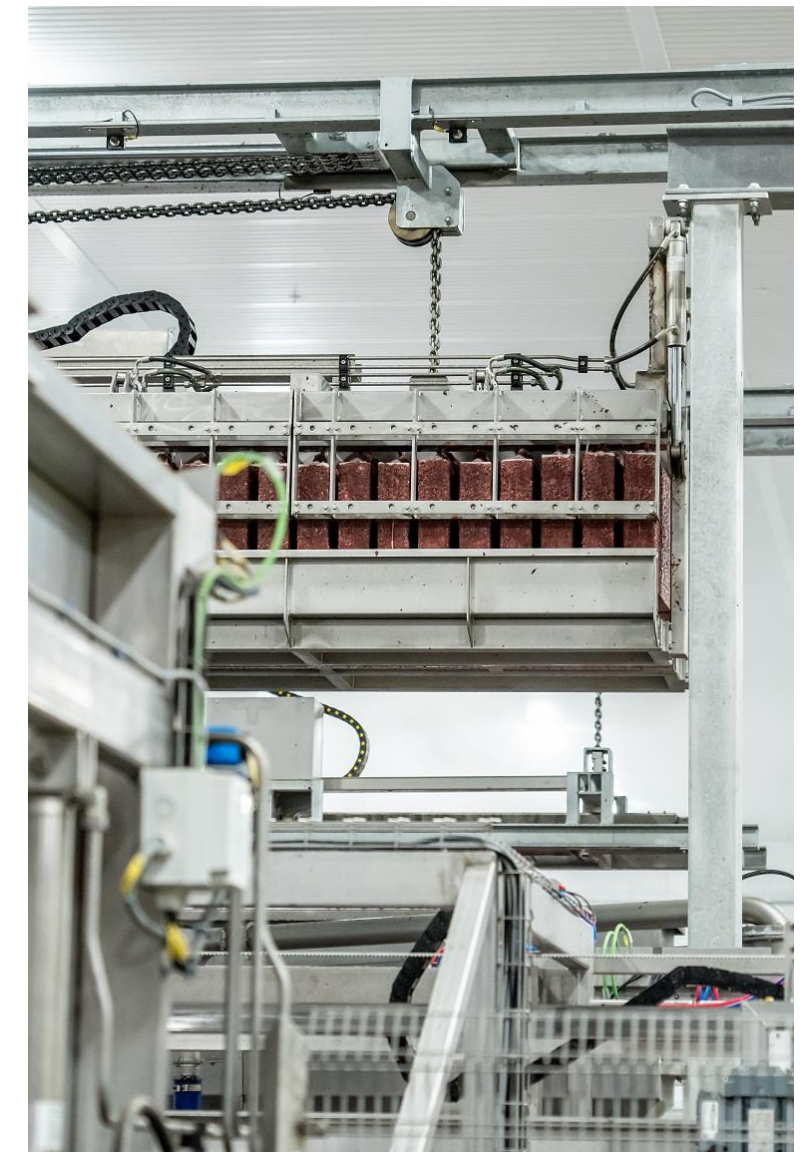
- Excellent full year result:
  - 29% increase in volumes sold
  - 26% increase in revenue
  - 52% increase in Underlying EBITDA, exceeding the division's long-run EBITDA target
  - Increased profitability reflects movements in product origin, mix and margin together with the changing contribution of operations within the division
  - One-off US wage subsidy scheme of NZ\$0.9m received by Shelby during the year
- Profruit sales volumes down only slightly on record 2020 year:
  - Lower availability of product and reduced yield
  - Local demand helped to offset shipping difficulties for export sales





# Food Ingredients – Industry Update

- Growth of 8.2% in global petfood production, with a 17.1% increase in Asia-Pacific\*
- Reported increases in USA\*\* and worldwide petfood sales\*\*\*
- Strength of the industry largely attributed to:
  - Rise in pet ownership due to the COVID-19 pandemic
  - Focus on pets' health and well-being
- Supply chains impacted by strong global shipping demand and port & logistics constraints:
  - Impact on Shelby lessened due to domestic customer base
  - Similarly, Meateor NZ also increased sales to domestic petfood manufacturers



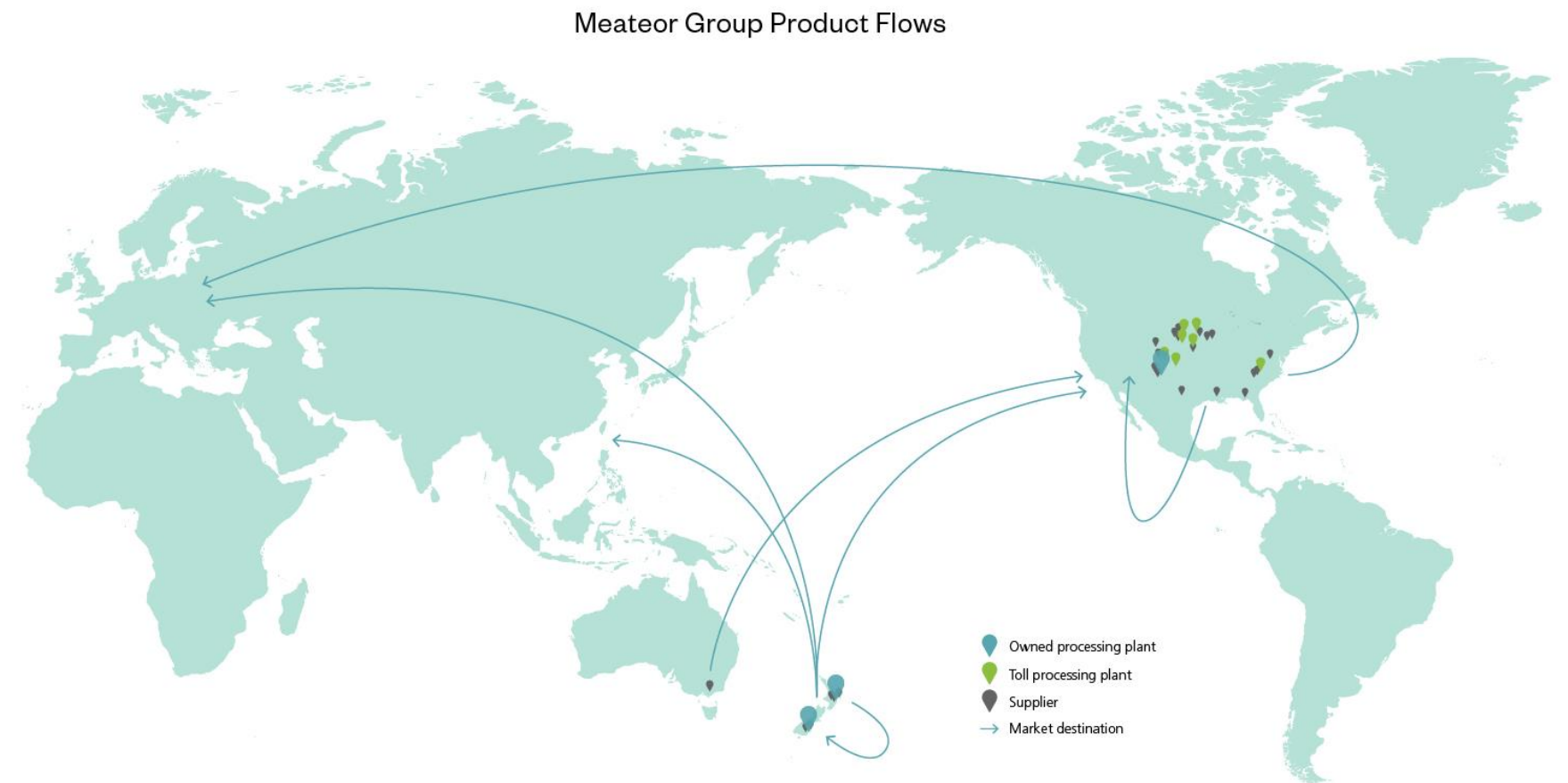
\* <https://www.petfoodindustry.com/articles/10971-global-pet-food-production-up-82-in-2021-asia-led>

\*\* <https://www.petfoodindustry.com/articles/10128-us-pet-food-sales-rose-10-in-2020-5-projected-for-2021>

[https://www.petfoodindustry.com/blogs/7-adventures-in-pet-food/post/10737-us-pet-food-spending-worldwide-pet-food-sales-up-in-2020?utm\\_source=Omeda&utm\\_medium=Email&utm\\_content=NL-Petfood+Industry+News&utm\\_campaign=NL-Petfood+Industry+News\\_20211025\\_0200&oly\\_enc\\_id=3803J1451478D1W](https://www.petfoodindustry.com/blogs/7-adventures-in-pet-food/post/10737-us-pet-food-spending-worldwide-pet-food-sales-up-in-2020?utm_source=Omeda&utm_medium=Email&utm_content=NL-Petfood+Industry+News&utm_campaign=NL-Petfood+Industry+News_20211025_0200&oly_enc_id=3803J1451478D1W)

# Food Ingredients – Strategy

- Strategy is to be a key global provider of petfood ingredients to a wide range of international brands
- Whilst previous travel restrictions limited our ability to pursue opportunities, internal and external growth opportunities continue to be actively investigated:
  - We are pursuing opportunities that will expand our geographical presence and protein offering
  - We are also seeking to expand our product range with added-value and functional petfoods
  - Due to our confidence in available opportunities, John Sainsbury (Division CEO) is in the process of relocating to the USA on a permanent basis to further drive growth
  - A significant number of potential projects are already being reviewed





# Logistics – Update

## 2021 performance underlines strategic benefit of division

- Strong full year performance:
  - 5% increase in revenue
  - 17% increase in Underlying EBITDA, with performance returning to previous levels
  - Decrease in volumes due to reduced volumes of agricultural exports and impact of COVID-19
- Exceptional effort by the entire team
- Invaluable expertise and strategic value provided to customers:
  - Team's resilience and ability to innovate and adapt ensured produce shipped and airfreighted as required
  - Reinforces benefit of the full logistics services provided by the division
- Supply chain pressures and challenges expected to continue throughout this year:
  - Scarcity of containers and shipping capacity
  - Labour shortages
  - High shipping, airfreight and fuel costs
  - High demand and port congestion





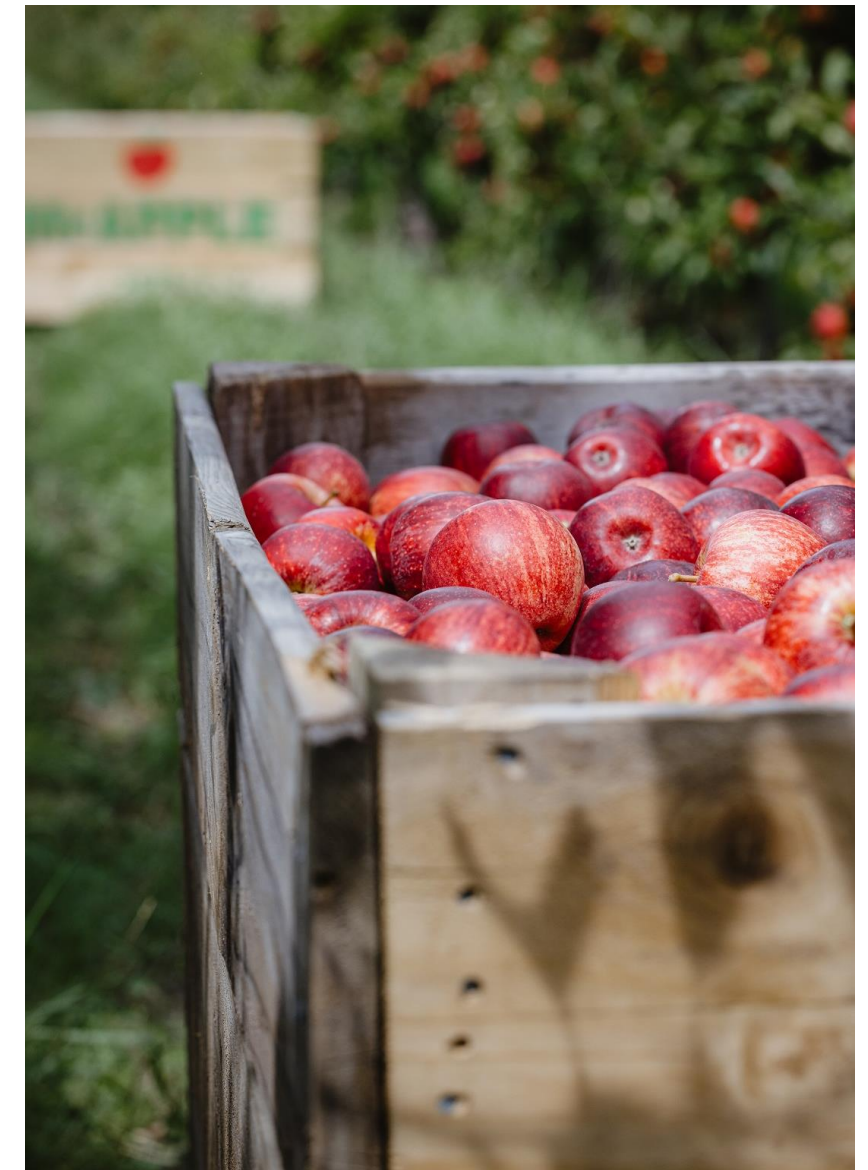
# d. Outlook



# 2022 Outlook

## Scales' diversification continues to mitigate global complexity

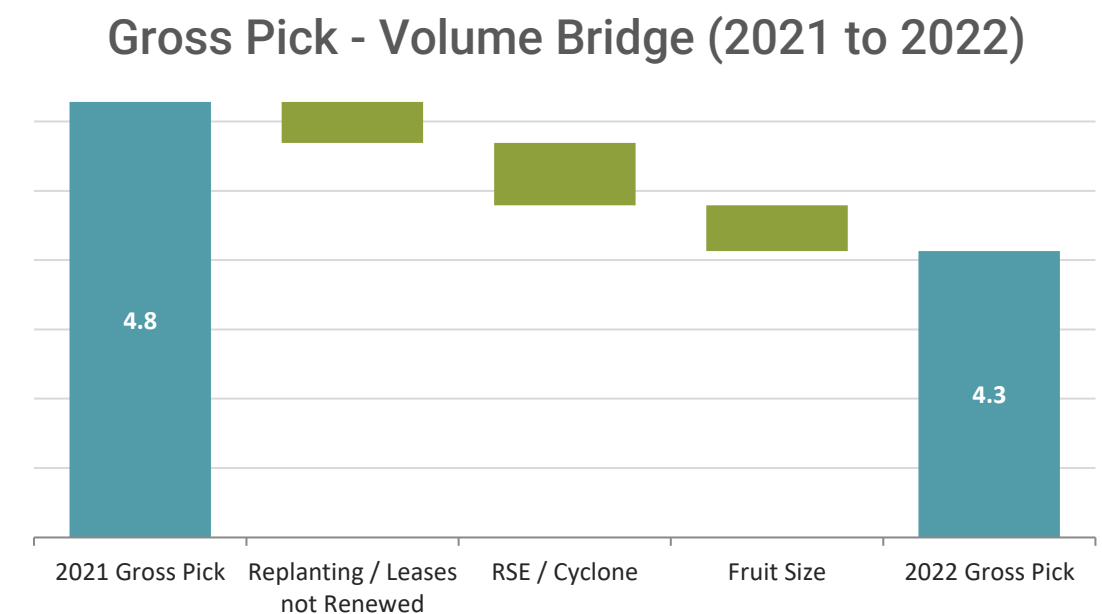
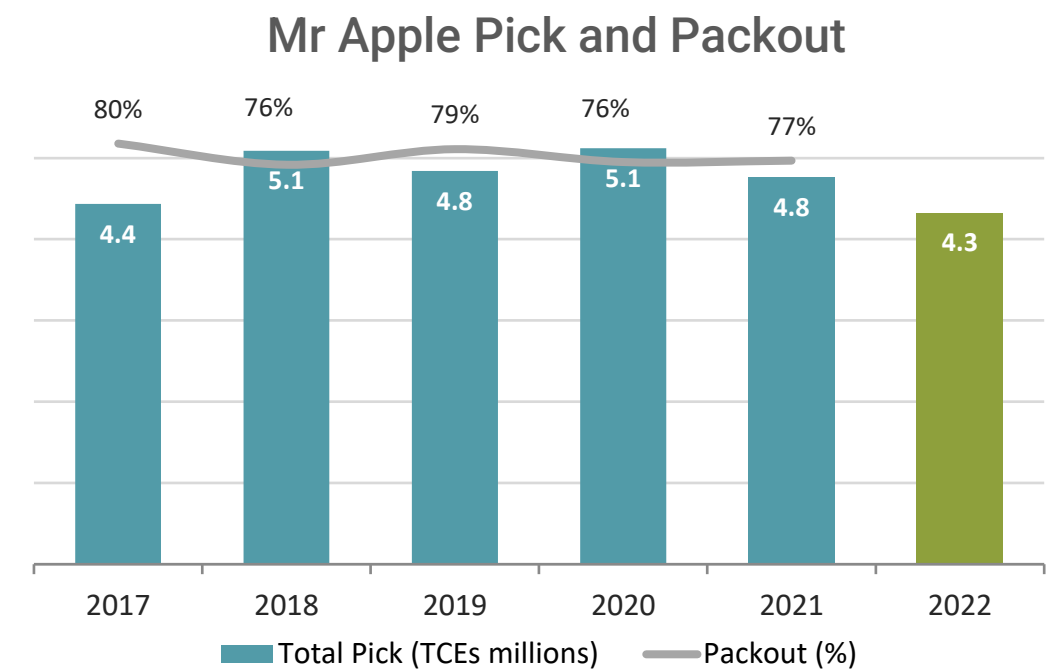
- Outlook summary:
  - Food Ingredients earnings now forecast to at least match 2021
  - Apple prices strong compared to the same time last year due to variety mix and positive sales results from near markets
  - Crop volume down 9% on 2021
- As a result, Directors have reconfirmed market profit guidance for 2022:
  - Underlying Net Profit Attributable to Shareholders of \$23.5m to \$28.5m, in line with 2021 initial guidance
  - Implying an Underlying Net Profit range of \$30.5m to \$35.5m and an Underlying EBITDA of \$62.0m to \$67.0m



# 2022 Trading Update

## Horticulture

- Volumes lower than originally forecast, early pricing indications positive:
  - Hawke's Bay and other growing regions, impacted by adverse weather events during key growing period
  - Pipfruit New Zealand has revised its crop estimate down for the Hawke's Bay region by 15%, and for the National crop by 12%
- Harvest completed with total pick of 4.3m TCEs, another incredible team effort to harvest the crop
- Mr Apple own-grown volumes lower than both forecast and 2021 due to:
  - RSE availability
  - Effect of severe winds due to cyclone event
  - Orchards not being in production or producing at lower levels due to orchard redevelopment
  - Orchard leases, principally planted in lower varieties, not renewed
  - Cloudy weather conditions impacting size and brix of apples
- Export packout rate of picked fruit in line with previous periods (final packout rates will only be confirmed once the season is completed)
- To date, sales and pricing are positive:
  - Pricing in near markets above 2021, Posy™ and Dazzle™ being well received across all markets
- Increased shipping costs being incurred, and logistics capacity constraints being experienced
- Whakatu packhouse automation project will continue at the completion of the current season





# 2022 Trading Update (Continued)

## Food Ingredients

- Our petfood businesses have continued to grow and perform strongly
- We are actively reviewing a number of growth opportunities:
  - John Sainsbury is investigating opportunities both in the USA and elsewhere
  - Value adding options are also being actively pursued

## Logistics

- Pressure on the global supply chain is ongoing, with restricted shipping capacity, labour shortages and increased costs
- The business is continuing to prove strategically important in ensuring customers' product is shipped on time

## Group

- Higher net interest income expected for 2022
- No material M&A due diligence costs incurred in the year to date



A photograph of a food processing facility. In the foreground, a large blue recycling bin is partially visible, with the text "SHELBY FOODS, INC." and "1361" printed on it. In the background, another similar bin is being moved by a worker in a yellow protective suit. The floor is wet and reflective, and the ceiling has industrial lighting.

### 3. Ordinary Resolutions



# Resolution 1

That the Board is authorised to fix the auditor's remuneration for the coming year

# Resolution 2

Having retired by rotation, that Alan Isaac be re-elected as a Non Executive Independent Director



- Alan's current external roles include:
  - Chair of the Basin Reserve Trust
  - Director of Oceania Healthcare (NZ) Limited
  - Director of Skellerup Holdings Limited
  - Director of a number of other private companies



# Resolution 3

Having retired by rotation, that Nadine Tunley be re-elected as a Non Executive Independent Director



- Nadine's current external roles include:
  - CEO of Horticulture New Zealand
  - Director of Plant & Food Research
  - Member of Nga-Pouwhiro Taimatua
  - A range of other governance and advisory roles

# Resolution 4

Having retired by rotation, that Andrew Borland be re-elected as a Director



- Andy's current external roles include:
  - Chair of Primary Collaboration New Zealand Limited
  - Chair of Primary Collaboration New Zealand (Shanghai) Co. Limited
  - Chair of Rabobank New Zealand Limited



# Resolution 5

Having been appointed during the year by the Board and holding office only until the Annual Meeting, that Qi Xin be elected as a Non-Executive Director

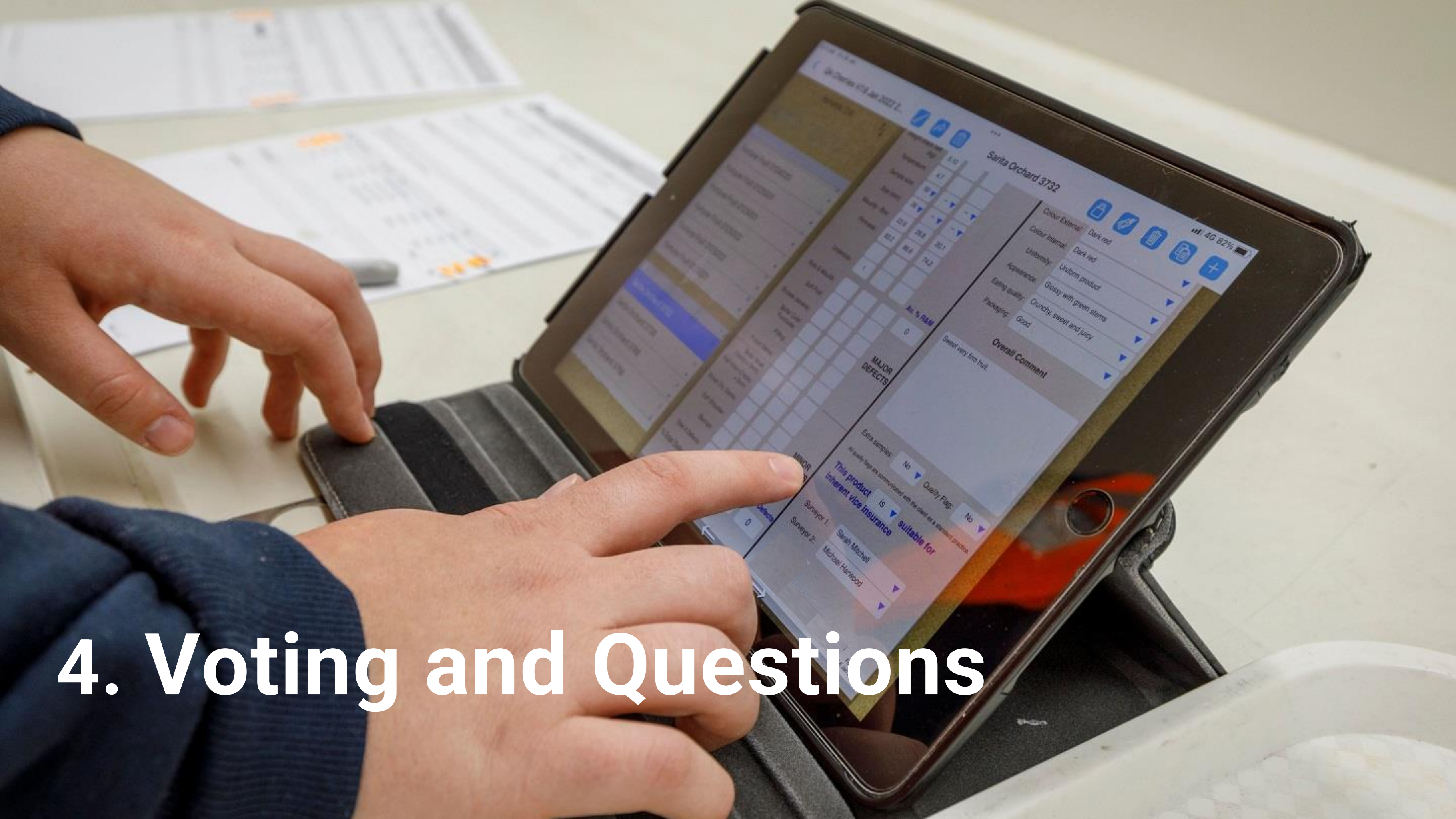


- Xin is a Senior Director of a department within China Resources Enterprise, Limited

# Resolution 6

That the maximum total pool of directors' remuneration payable by Scales to directors (in their capacity as directors) be increased by \$50,000 per annum, from a total pool of \$600,000 per annum to \$650,000 per annum, effective from the close of the Annual Meeting, with such sum to be divided amongst the directors as the Board may from time to time determine





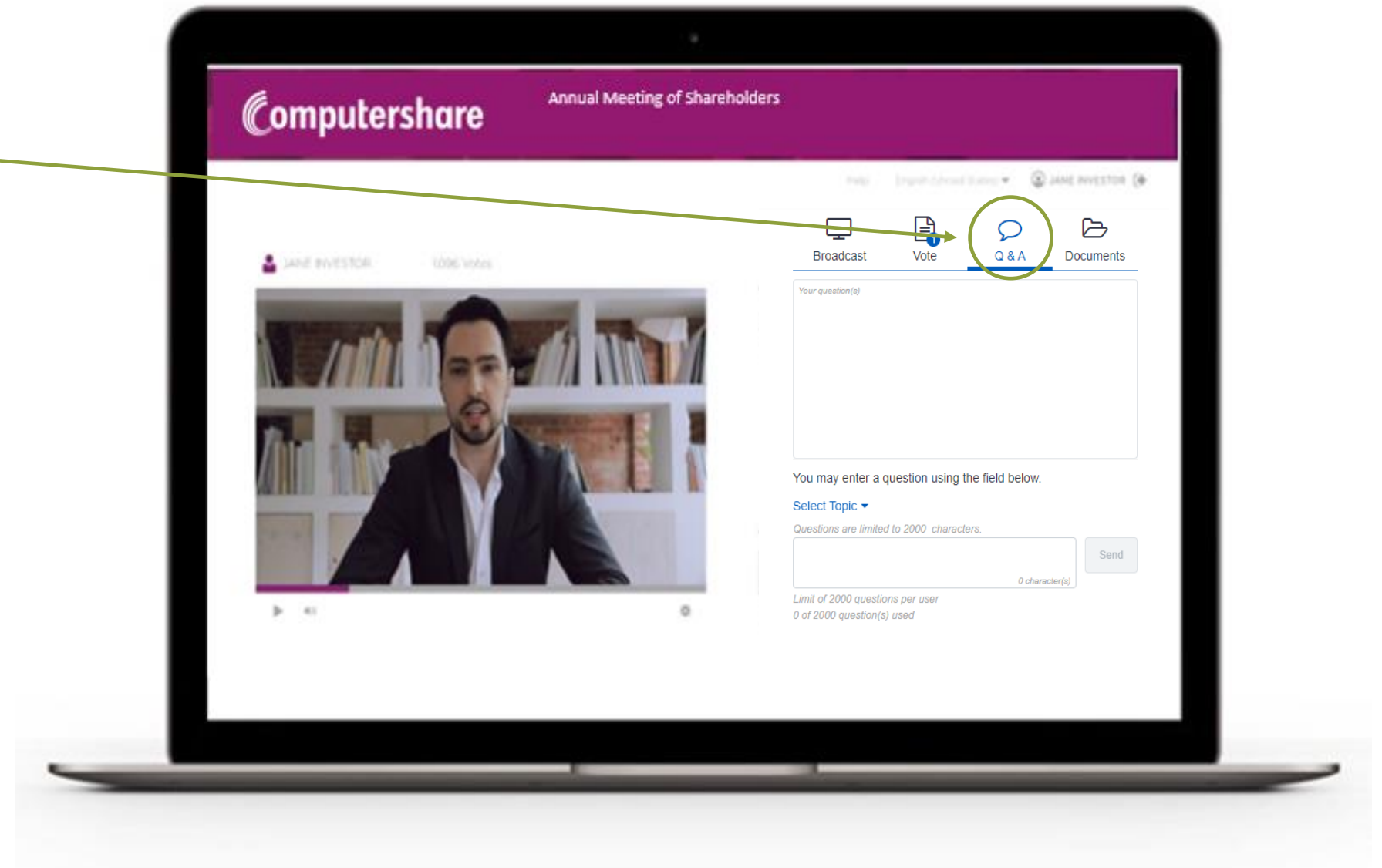
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# Scales Corporation Limited

## 2022 Annual Shareholders' Meeting



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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

A full reconciliation of Underlying to reported measures is provided in our Annual Report.

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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