

23 February 2023

STRONG GROUP PERFORMANCE DRIVEN BY RECORD GLOBAL PROTEINS RESULT

Highlights – 12 months to 31 December 2022

Diversified agribusiness group Scales Corporation Limited (NZX:SCL) today reported its FY2022 full year results. Reported NPAT¹ Attributable to Shareholders was \$19.4 million (FY2021: \$26.9 million). Earnings per share for FY2022 were 13.7 cents per share (FY2021: 19.1 cents per share).

Underlying² NPAT Attributable to Shareholders of \$27.6 million (FY2021: \$29.8 million) was towards the top end of market Guidance.

A dividend of 3.5 cents per share is being paid on 31 March 2023. This is the second instalment of the FY2022 total dividend.

- Group FY2022 financial results:
 - Reported NPAT of \$38.2 million, up 3 per cent (FY2021: \$36.9 million)
 - Underlying NPAT of \$46.4 million, up 17 per cent (FY2021: \$39.8 million)
 - Underlying EBITDA of \$77.9 million, up 6 per cent (FY2021: \$73.8 million)
 - Revenue of \$619.2 million, up 20 per cent (FY2021: \$514.6 million)

- Divisional summary:
 - Further outperformance by Global Proteins, with a record result, complemented by strategic investments made in Australia
 - Lockdowns in China resulted in material reductions in market prices during critical sales windows, especially during the latter parts of the season, adversely impacted Horticulture results
 - Logistics continued its growth trajectory, and provided vital support to both internal and external customers

¹ Net Profit After Tax

² Underlying results exclude some New Zealand International Financial Reporting Standards (NZ IFRS) non-cash and other adjustments. In line with current market practice, "Underlying" includes the effects of NZ IFRS 16 Leases. A reconciliation between Net Profit and Underlying Net Profit, EBITDA and Underlying EBITDA is provided in Appendix A of our annual results presentation pack.

Tim Goodacre, Chair of Scales Corporation, commented: “We are pleased to report excellent Group profitability for FY2022. Global Proteins and Logistics produced outstanding results, with Horticulture dealing admirably with a number of challenges throughout the year. As ever, exceptional leadership and extraordinary effort from the Scales team were instrumental in delivering these results.”

“Our strategy of diversification has continued to prove important, with the Global Proteins division reporting significant growth, both organically and through investment. Its organic growth has been driven by strong market conditions and new product development, leading to improved volumes, mix and margin.”

“The Horticulture division was impacted by lockdowns in China together with lower volumes, higher shipping costs and labour availability. However, strong leadership and management kept the impacts of these events to a minimum.”

Andy Borland, Managing Director of Scales Corporation, stated: “Each year I am indebted to the Scales team for their effort and hard work, and this year has been no different. We were especially saddened to see the devastation caused to Hawke’s Bay during the recent Cyclone. Whilst we are very pleased to report that all of our staff are safe and well, many have experienced significant loss or disruption as a result of this event. The Hawke’s Bay community, its people, and culture, are an integral part of Scales. Accordingly, Scales is making a donation of \$250,000 to the recovery. We will also be providing tailored assistance to those staff members who have been particularly affected.”

“Sustainability also plays a huge part in the future of our businesses, and we remain committed to maximise our efforts in this area and accomplish as much as we can. We have made significant strides in our Sustainability strategy and reporting this year and we look forward to sharing details of that with you in our Annual Report.”

“We were pleased to welcome our Australian partners from Fayman International and ANZ Exports (together ‘Fayman’) to the Group towards the end of the year and are excited to work with them going forward. Our financial position remains strong, with net cash at 31 December 2022 of \$27.0 million, providing us with the ability to rebuild from the damage as well as to continue to invest in further growth opportunities.”

During the year Scales declared dividends of 15.5 cents per share³. As previously announced, our dividend payments will be in 3 instalments this year. The first instalment, of 6.0 cps, was paid in January and we will pay the second instalment, of 3.5 cps, on 31 March 2023. We will review, and advise on, the third instalment in respect of FY2022 in early May 2023. Directors advise that the dividend policy will revert to 50 per cent to 75 per cent of Underlying NPAT Attributable to Shareholders from FY2023.

³ Scales declared a final dividend of 9.5 cents per share for FY2021 on 28 April 2022, which was paid on 8 July 2022 and declared an interim dividend of 6.0 cents per share for FY2022 on 9 December 2022, which was paid on 16 January 2023.

Divisions

Global Proteins

Underlying EBITDA for Global Proteins was a record \$60.2 million (FY2021: \$33.4 million), an increase of 80 per cent⁴.

Mr Borland noted “Global Proteins continued to outperform expectations with its significant growth over the year. Petfood ingredient volumes sold increased by 6 per cent⁵ compared to FY2021, with revenue increasing 46 per cent over the same period.”

“The leadership and management of the division contributed to the division’s performance, underlined by strong, long term customer relationships built on trust and a track-record of consistent delivery of our high quality ingredients. Operational improvements, new products and changes in mix, together with a 2-month contribution from Fayman, also supplemented the division’s growth.”

“We continue to believe there is significant opportunity within the proteins market and we have global growth aspirations for the division over the short to medium term.”

Horticulture

The Horticulture division produced an Underlying FY2022 EBITDA of \$17.0 million (FY2021: \$40.8 million).

Mr Borland commented “FY2022 was a very challenging year for the Horticulture division as well as the overall horticulture industry. In addition to adverse weather at the start of the season, earnings and volumes were impacted by lockdowns in China, particularly during critical sales windows including during the latter parts of the season. Lower volumes, higher shipping costs and labour availability also contributed to the results.”

“Mr Apple’s own-grown export volume was 3,324k TCEs⁶ (FY2021: 3,651k TCEs), with both Premium and Traditional volumes decreasing compared to the prior year. However, demand for Premium varieties remained strong. Overall prices were affected by the slow sales rates, although encouragingly many Premium prices were in line with, or slightly above, the prior year, substantiating our strategy of investing in Premium varieties.”

“Progress was made on Mr Apple’s Whakatu packhouse automation programme together with the ongoing orchard redevelopment programme. However, taking into account the effects of Cyclone Gabrielle, future investment will be prioritised towards other projects both within the Horticulture and Global Proteins divisions.”

⁴ Note that, due to the change in strategic focus of the Global Proteins division, Profruit earnings have been reclassified to the Horticulture division for 2022 and 2021.

⁵ Excludes volumes sold by Fayman

⁶ Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight.

Logistics

Logistics also delivered a record Underlying EBITDA, of \$6.6 million (FY2021: \$4.9 million), an increase of 33 per cent.

Mr Borland stated “Logistics experienced significant growth in airfreight volumes, which offset a small decline in ocean freight volumes, partly due to lower horticultural production. An excellent increase in profitability was also accompanied by a 51 per cent increase in revenue.”

“Once again, Scales Logistics proved its ability to navigate complex supply-chain disruptions to ensure timely delivery of perishable products to its customers, and the skill and expertise of the Logistics team remains a key advantage for both internal and external freight customers.”

Outlook

Mr Goodacre noted: “As previously advised, due to the wide ranging impacts of Cyclone Gabrielle on Hawke’s Bay, we have withdrawn our FY2023 profit Guidance at this time. However, we expect to provide updated Guidance as soon as practicable once the financial impacts of the cyclone are fully understood.”

“As we embark on our journey to restore our orchards following the effects of Cyclone Gabrielle, I would like to offer my heartfelt thanks and appreciation to the efforts of the each and every Scales team member. Their dedication and commitment is remarkable, and Scales would not be the Group it is without them.”

Contact

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About Scales Corporation

Scales Corporation is a diversified agribusiness group. It comprises three operating divisions: Global Proteins, Horticulture and Logistics. The company’s diverse spread of activities gives Scales broad exposure to the 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.