

Scales Corporation Limited
Shareholders' Letter



We are pleased to inform you that Scales' interim financial statements for the 6 months ended 30 June 2023 (1H23) are now available.

A copy is available on our website at <https://scalescorporation.co.nz/investors/shareholder-information/>

Scales delivered a resilient 6-month performance, with Underlying Net Profit Attributable to Shareholders of \$14.5 million (1H22: \$25.6 million). An excellent performance by Global Proteins, together with solid earnings from Logistics, partly offset lower results from our Horticulture division due to the effects of Cyclone Gabrielle.

As previously noted, many people experienced significant loss or disruption as a result of Cyclone Gabrielle. The Hawke's Bay community, people and culture are an integral part of Scales and we have been keen to support both our teams and the community in every way that we can. As a result, Scales' response has included:

- Commitment of \$250,000 in donations to the recovery, with donations to date being distributed to the Evergreen Foundation and the Rural Support Trust, organisations that provide a wide range of support services for Cyclone-affected families and communities
- Tailored assistance provided to staff members who were particularly affected, such as immediately housing displaced RSE workers at our Hastings accommodation centres, providing financial contributions towards replacing lost belongings, offering wellbeing workshops and assisting other growers with their harvest

Extensive orchard remediation has been undertaken by our Horticulture teams and we would like to acknowledge the enormous effort by everyone at Mr Apple in managing both the recovery and the daily operations of the season. Approximately 165 hectares of damaged orchards have been recovered from silt, debris and slash, with 50% of these recovered blocks having been re-seeded. Mr Apple has a target to complete the re-seeding by the end of August. Mr Apple is continuing its business review and we expect Mr Apple's performance to return to more normal levels for FY24.

Global Proteins produced an extremely good result, continuing to capitalise on operational improvements made in prior periods. Underlying EBITDA was \$30.1 million (1H22: \$29.9 million). Results include our 50% share of NPAT for the Fayman businesses, with earnings for these businesses currently trading ahead of 1H22.

We were recently delighted to further expand the Global Proteins division by establishing a presence in Europe through Esro Petfood JV. This joint venture aligns with our strategic objectives for the division in a number of ways:

- It reinforces our global supply and logistics excellence
- It provides species diversification
- It adds value through innovation
- It deepens our customer relationships

We are also pleased to note that Meateor Australia's Melbourne petfood manufacturing facility was commissioned this month, initiating the transition in earnings of the Australian operations.

Our Horticulture division produced a commendable operating result given an extremely difficult growing and post-harvest period due to Cyclone Gabrielle. Underlying EBITDA was \$11.4 million compared to \$24.5 million in 1H22. Higher in-market apple prices helped to compensate for lower volumes and Mr Apple also experienced encouraging growth in its premium varieties of Dazzle™ and Posy™.

Logistics continued to provide strategically important services and solutions despite its volumes also being affected by Cyclone Gabrielle. Underlying EBITDA was \$2.7 million compared to \$3.6 million in 1H22. The division experienced strengthened demand for airfreight volumes due to new customers and changes in product mix. In addition, the logistics sector has seen some improvement in the reliability of the supply chain, with pricing easing and delivery times improving. Further recovery is anticipated in forthcoming periods.

In respect of the full year 2023 outlook, Directors re-confirm that Underlying Net Profit Attributable to Shareholders is expected to be within the previously advised range of \$14.0 million to \$19.0 million. In re-confirming this guidance Directors' note:

- Broader economic trends may affect international markets
- Global Proteins continues to perform strongly, noting that 2H23 divisional results will be affected by:
 - Initial trading losses whilst the Australian and European petfood plants reach full production (the Australian plant was commissioned in August 2023, the European plant is expected to be operational in 4Q23)
 - The transition of business from the legacy Australian operations to the new joint venture
- Mr Apple currently has approximately 26% of crop to be sold (August 2022: approximately 40%)

As ever, our results are not possible without the hard work and effort of each and every individual within the Group, and we would like to extend our thanks to all our team members, especially to those who were personally affected by the Cyclone.

On behalf of the Board and leadership team, we would also like to thank you, our shareholders, for your continued support.



Chair



Managing Director

1H23 at a Glance

Underlying NPAT
Attributable to
Shareholders of

\$14.5m

1H22: \$25.6 million

▼ down 43.5%

Reported NPAT of

\$14.3m

1H22: \$35.1 million

▼ down 59.3%



An excellent result from Global Proteins, capitalising on operational improvements made in prior periods



A commendable result from Horticulture given the effects of the Cyclone on the growing and harvesting period, with higher in-market apple prices helping to compensate for lower volumes



A solid result from Logistics notwithstanding volumes also being affected by Cyclone Gabrielle