



# SCALES CORPORATION LIMITED

## YOUR DIVERSIFIED AGRIBUSINESS PORTFOLIO

Craigs Investor Day  
23 June 2015

**Scales**   
growing New Zealand

# AGENDA

- Introduction to Scales: “Who we are, what we do, and why we are different.”
- A Closer Look at our Divisions
- 2014 Financial Results
- Growth Story
- 2015 Outlook
- Investor Returns





A photograph of a vineyard at sunset. Rows of grapevines are supported by wooden stakes and wires, stretching into the distance. The sky is a mix of orange, yellow, and blue, with some clouds. The overall mood is serene and professional.

# 1

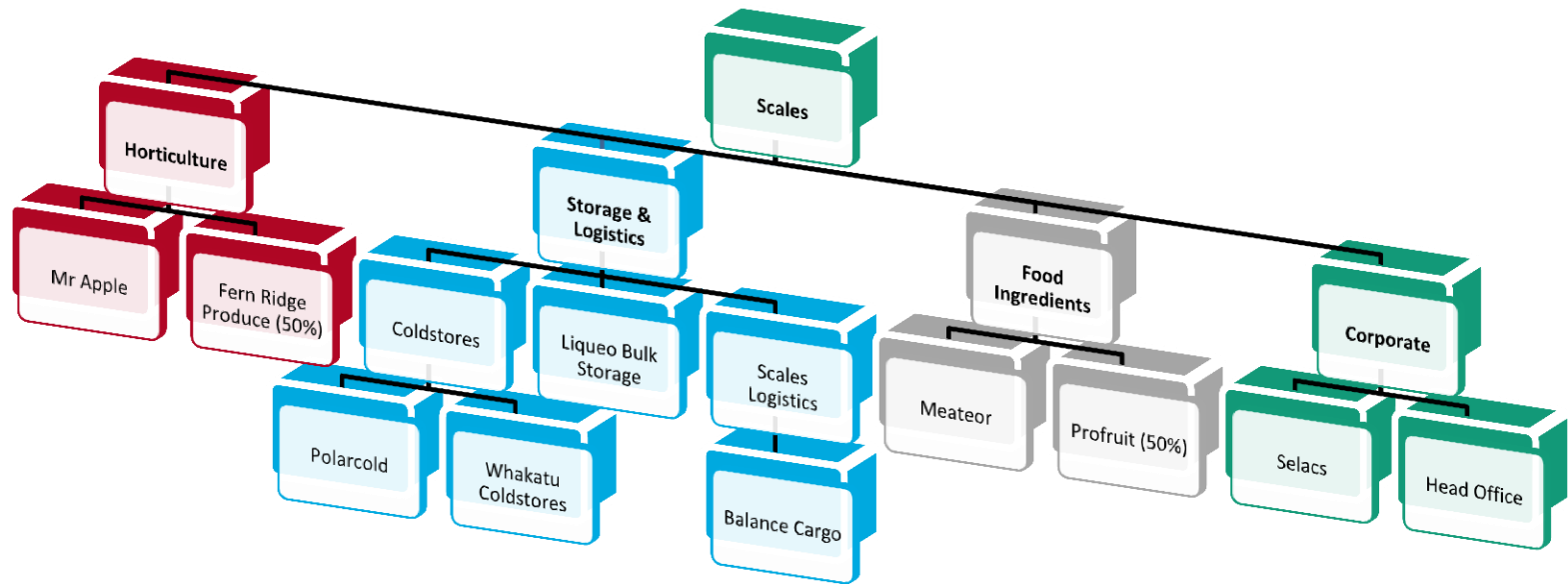
## INTRODUCTION TO SCALES

**“WHO WE ARE, WHAT WE DO,  
AND WHY WE ARE DIFFERENT”**

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# WE ARE A DIVERSIFIED AGRIBUSINESS PORTFOLIO

Scales is a diversified agribusiness group with 117 years of trading experience. The Group comprises 8 operating companies organised into 3 trading divisions managed by a corporate office.



# DIVERSIFIED BY SECTOR AND REGION

National coverage, critical scale.

- Asset rich portfolio, scale efficiencies, very high entry barriers.



# WHAT WE DO

We have skills, experience, expertise, and capital to assist in delivering – and will greatly benefit from – improvements in NZ Agricultural production.

- There's 3 things that we absolutely believe.

1

New Zealand's agribusiness sector can be the most productive and the most competitive in the world.

2

This country produces premium products that hold their own anywhere.

3

And when a diversified agribusiness portfolio like ours think big, we're doing justice to this country's farmers and their capabilities.

# WHY WE ARE DIFFERENT

We have the expertise, experience and financial capability to help transform New Zealand into a global agribusiness super-power amongst the world's temperate climates.

## Endowments:

- Culture – the “Scales’ Way”
- Great Assets
- Market breadth

## With these endowments, we:

- Add value to the portfolio
- Use insights to direct future investment
- Have extensive industry experience
- Provide shareholders with unique agricultural investment exposure and returns

## Focus on Cash Returns

- Pre-tax dividend yield **8.7%**, tax-paid yield **6.25%** on IPO price (\$1.60)



A large white storage tank, likely for liquefied gas, stands as the central focus. Two excavators, one green and one yellow, are positioned in front of the tank. The green excavator on the left has 'SENEBOGEN' written on its arm. The yellow excavator on the right has 'JCB' on its arm. In the foreground, a large pile of cut logs is visible. The sky is filled with heavy, grey clouds. The text '2' is overlaid on the left side of the image.

2

DIVISIONAL DETAIL

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# HORTICULTURE AT A GLANCE

New Zealand's largest integrated apple grower, packer and marketer.

1,052 Ha. planted  
orchard



420m+ apples  
picked



4m boxes packed



Outside Growers

During the height of the  
Apple Harvest, we will fill  
more than 5,500 bins a  
day

**130+ CUSTOMERS**  
**40+ COUNTRIES**

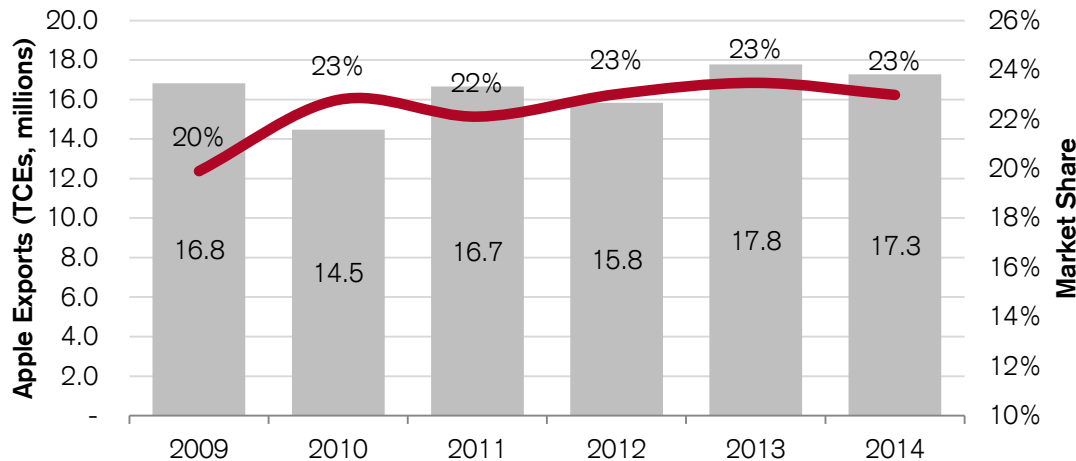


# HORTICULTURE DIVISION

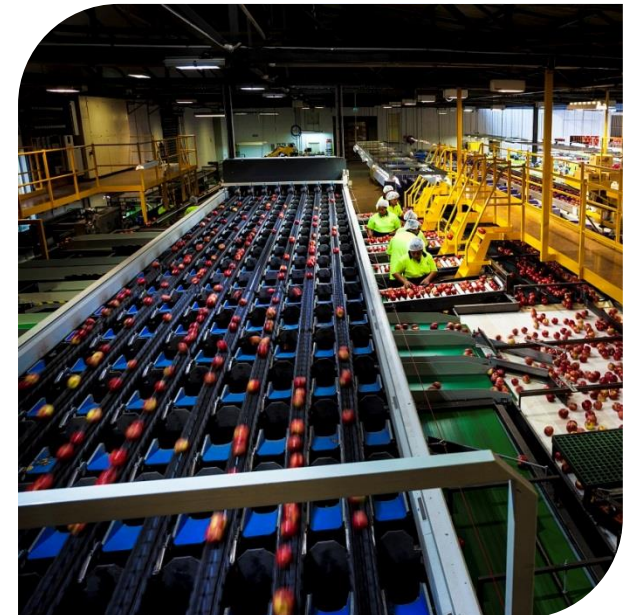
New Zealand's largest integrated grower, packer, and marketer.

- 1,052 Ha. Planted apple orchard.
- 3 packhouses, 2 with high-speed apple sorting machines.
- 5 coolstores.
- Mr Apple's share of the national apple crop is ~23%. If we add in volumes exported by our associate company Fern Ridge Produce, this share increases to ~26%.

**Mr Apple's share of total NZ Apple Export Market**



Source: Pipfruit Statistical Annual 2014. Our 50% interest in Fern Ridge Produce was acquired in [x]



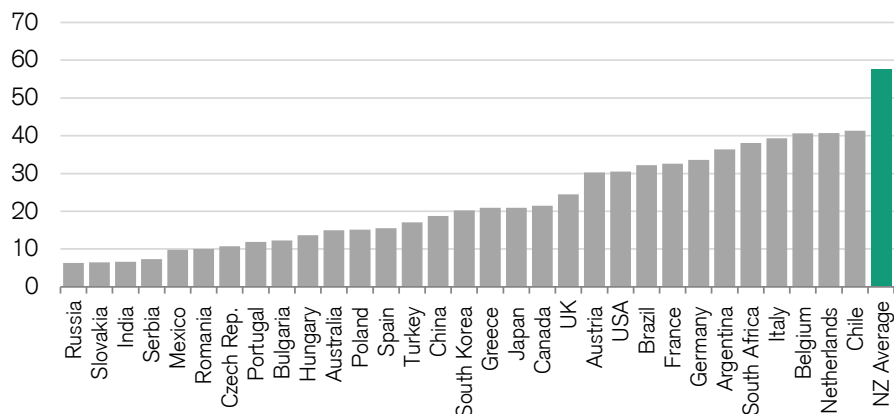
# HORTICULTURE DIVISION

Excellent yields through climatic, soil, and orchard management advantages.

1

**NZ achieves better yields than any other country...**

Chart: Gross Yields / Ha. – Apple Producing Countries

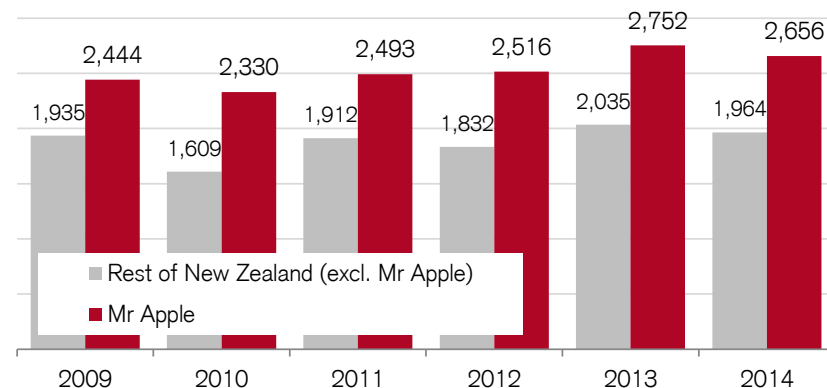


Source: World Apple Review 2014.

2

**... and our Yields are better than the rest of New Zealand (avg. 35% above for 2009-2014)**

Chart: Export Yields / Ha.

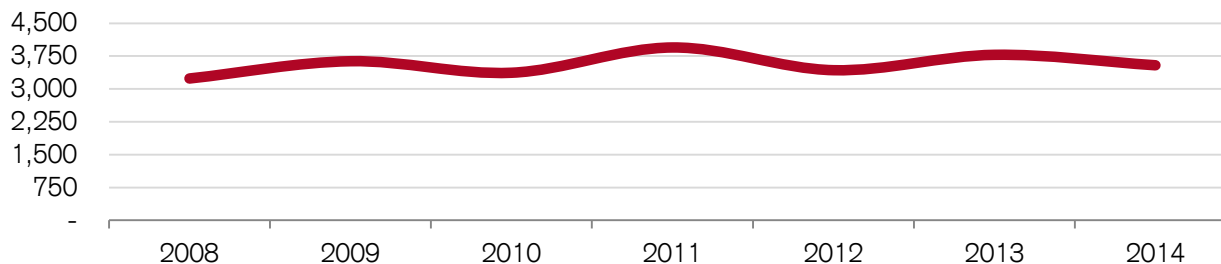


Source: Pipfruit Statistical Annual 2014, Mr Apple. Tonnes converted to TCEs at 18kg.

3

**Highly experienced orchardists + 100 frost-fighting wind machines + 90% permanent irrigation across orchard = consistent yields regardless of climate**

Chart: Gross Yields / Ha. – Apple Producing Countries



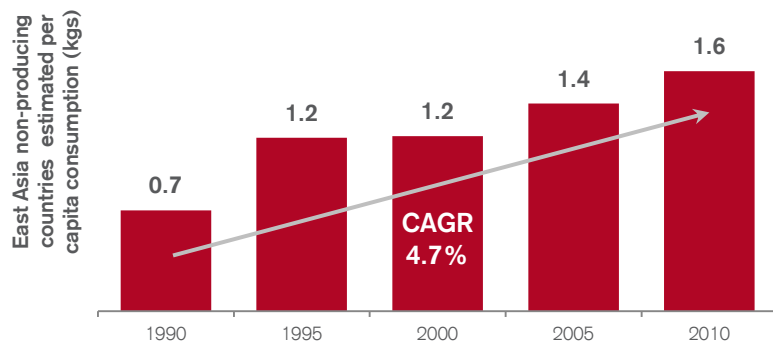


# HORTICULTURE DIVISION

## Shift in Focus to Asian and Middle Eastern Markets.

- Increasing middle class, and diet westernisation driving considerable demand from Asian markets.
- \$11.3m invested to redevelop 301 hectares (out of 1,052) in last 7 years into premium varieties sought after by Asian and Middle Eastern Markets.
  - Production has commenced, further 450,000+ TCEs of premium varieties coming into production by 2018.

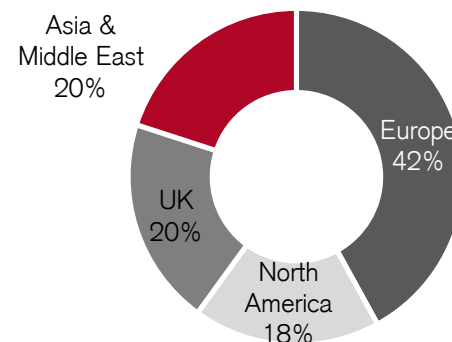
**Rapid increases in per capita income in many Asian countries has significantly increased demand for fresh fruits**



Source: World Apple Review 2014.

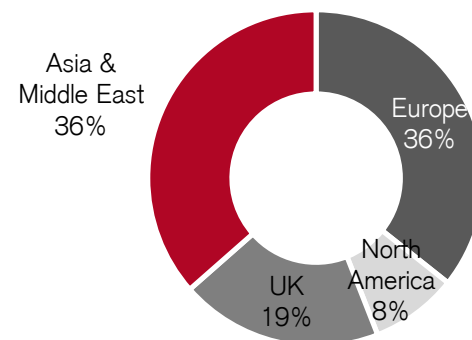
**We are seeing a large shift in our customer mix from traditional markets...**

**Chart: Exports by Market 2007**



**...to nearer Asian and Middle Eastern Markets, which we expect to continue.**

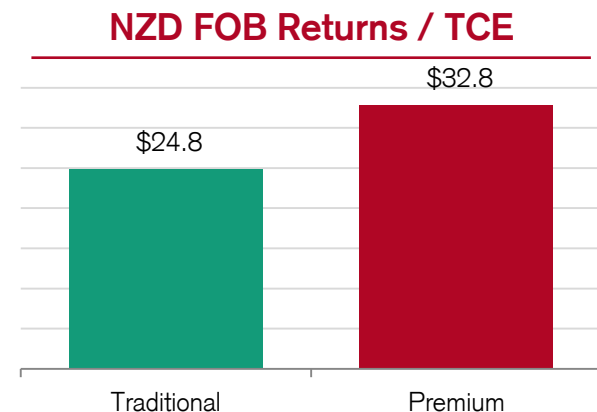
**Chart: Exports by Market 2014**



# HORTICULTURE DIVISION

## Shift in Focus to Asian and Middle Eastern Markets (continued).

- Premium varieties targeted to Asian and Middle Eastern markets achieving weighted average premiums of 30%+. Asia & Middle East want apples that are:
  - Red
  - Sweet
- Additional \$2.1m invested in 500kms of reflective foil (improves apple colour and results in a higher proportion of 'premium' apples).



# HORTICULTURE DIVISION

We Have Evolved Apple Growing from an Art into a Science.

## Growing:

- 53 Global Gap accredited orchards.
- 100 wind machines providing frost protection.
- 90% of our orchards are permanently irrigated.
- \$2.1m invested in ~500 kilometres of reflective foil.
- \$11.3m invested in 301 hectares of premium varieties.
- Technology focus – proprietary, best-in-class software accessible on iPads in the orchard.



## Harvesting:

- Scientific-based approach to ensure apples meet stringent maturity standards (brix, firmness, starch).
- As a result, Mr Apple apples last longer and store better with limited loss in quality, allowing us to service the market over the entire season.
- Multiple picks optimising growing conditions.
- Experienced fruit pickers with high level of return seasonal employees through RSE scheme.

## Grading:

- Automated defect grading, complemented by inhouse software with commercial opportunities removes human error.
- \$3.4m invested in world leading grading equipment, instantly analysing an apple to sort by size, colour profile, and reject fruit with defects.
- Significantly enhances consistency, and ensures all cartons meet customer specifications.





# HORTICULTURE DIVISION

We Have Evolved Apple Growing from an Art into a Science (continued).

## Cool Chain:

- Mr Apple has invested more than \$10.6m in state of the art forced air cooling.
- Ability to SmartFresh, pre-cool, store, and Controlled Atmosphere (CA) store over 25,000 pallets.
- During the harvest 800 pallets are cooled from a field temperature of 22C down to a pulp temperature <2C every day.
- Full vertical integration permits the most efficient utilisation of our coolstore investment.



## Shipping:

- Dedicated shipping team ensures customer's shipments are completed on time, as required.
- Relationships with multiple shipping lines to accommodate global distribution all season long.
- Fully automated in-house logistics system.

## Globally Leading Brands:

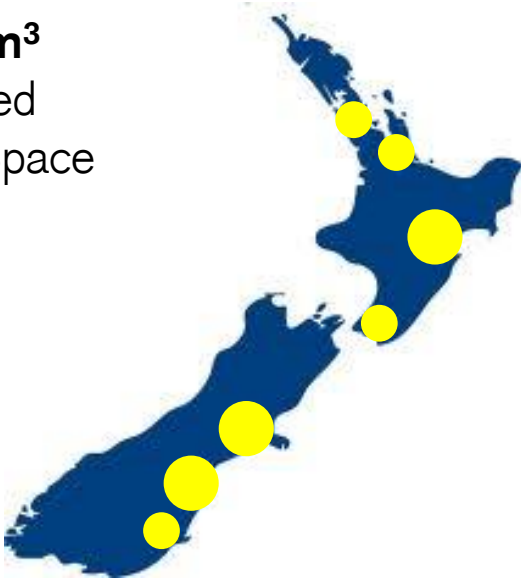
- Our commitment to product excellence, supplemented by our marketing support means that our brands are highly sought after.
- Insights and networks are being established and developed throughout China and the wider Asian markets via our participation in the Primary Collaboration NZ (Shanghai) Joint Venture.



# STORAGE & LOGISTICS DIVISION

## Storage & Logistics at a Glance

**702,300 m<sup>3</sup>**  
Refrigerated  
Warehouse Space

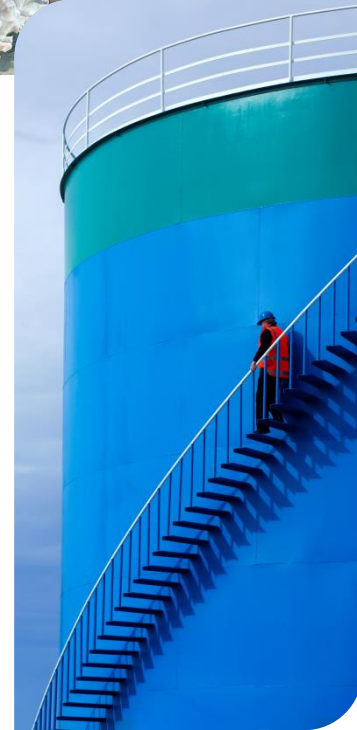


Over 2,000,000 m<sup>3</sup>  
of product loaded in  
and out every year



Sea and Air freight  
logistics arranged  
for more than  
**17,300 TEUs**

57 Bulk Liquid  
Storage tanks  
**22,200 MT**  
capacity



# STORAGE & LOGISTICS DIVISION

## Essential Services to some of the Largest Exporters.

- Very strict rules govern the storage of foods and other products:
  - Temperature (storage temperatures vary significantly between food groups)
  - Time to bring down product to temperature (e.g. Most customers require that meat must be brought down to –10-18C (depending on the customer and where they are based) from ~7C within 48 hours of processing)
  - Storage proximity to / separation from other products.
- This is both challenging and extremely expensive for customers to do themselves.
  - Blue chip customer base including some of the country's largest exporters.

McCains

Fonterra

Heinz

Silver Fern Farms

- Our solution:
  - Specialised storage provider, highly familiar with rules across wide range of products, both locally and relevant to end-market.
  - Sophisticated warehouse management software – our customers ask us to tell them how much product they have.
  - By grouping requirements, we offer a lower cost than doing it yourself.
  - Large infrastructure assets strategically located near ports, rails, and highways.

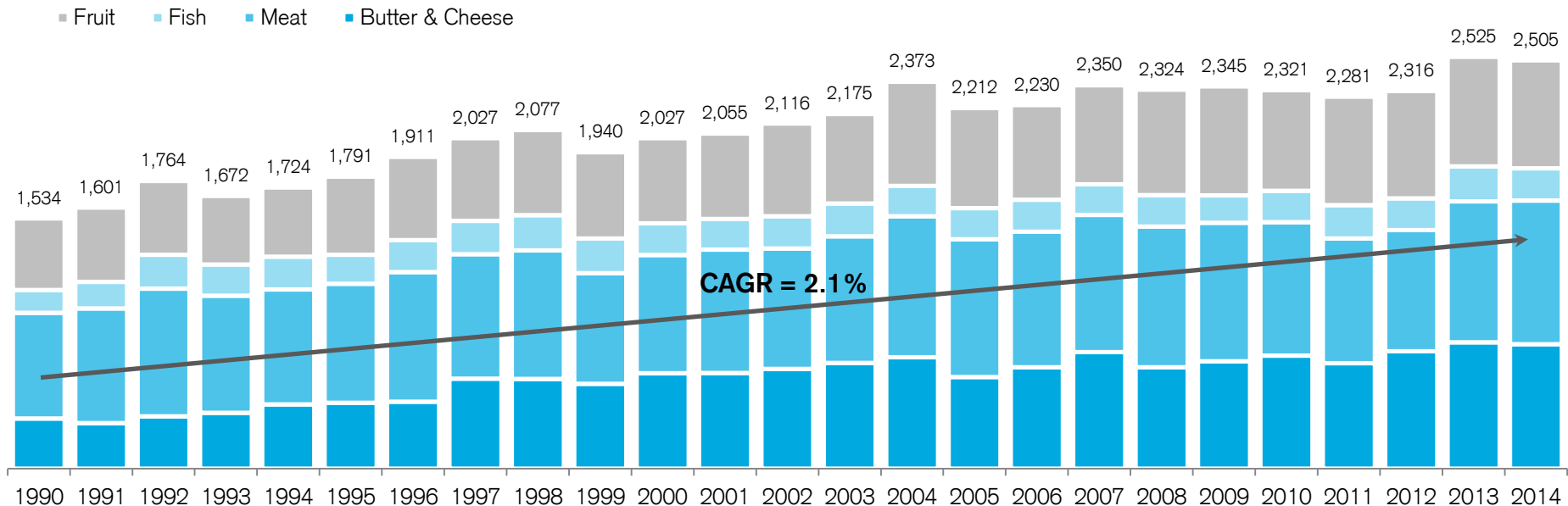


# STORAGE & LOGISTICS

## Strong Drivers of Demand.

- Linked to New Zealand's agricultural output, which has, and is expected to continue to increase:
  - Improvements in technology and agronomy practices.
  - Large scale irrigation projects (e.g. Central Plains).

### New Zealand – Total Exports of Perishable Foods (Tonnes 000s)



Source: Statistics New Zealand.

# FOOD INGREDIENTS DIVISION

Petfood and Apple Juice Concentrate.

**16.4m** kg Petfood Ingredients sold



**4.6m** Litres  
Juice Concentrate

- Apple
- Organic
- Kiwifruit



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2014 HIGHLIGHTS





# TRADING AHEAD OF IPO FORECASTS

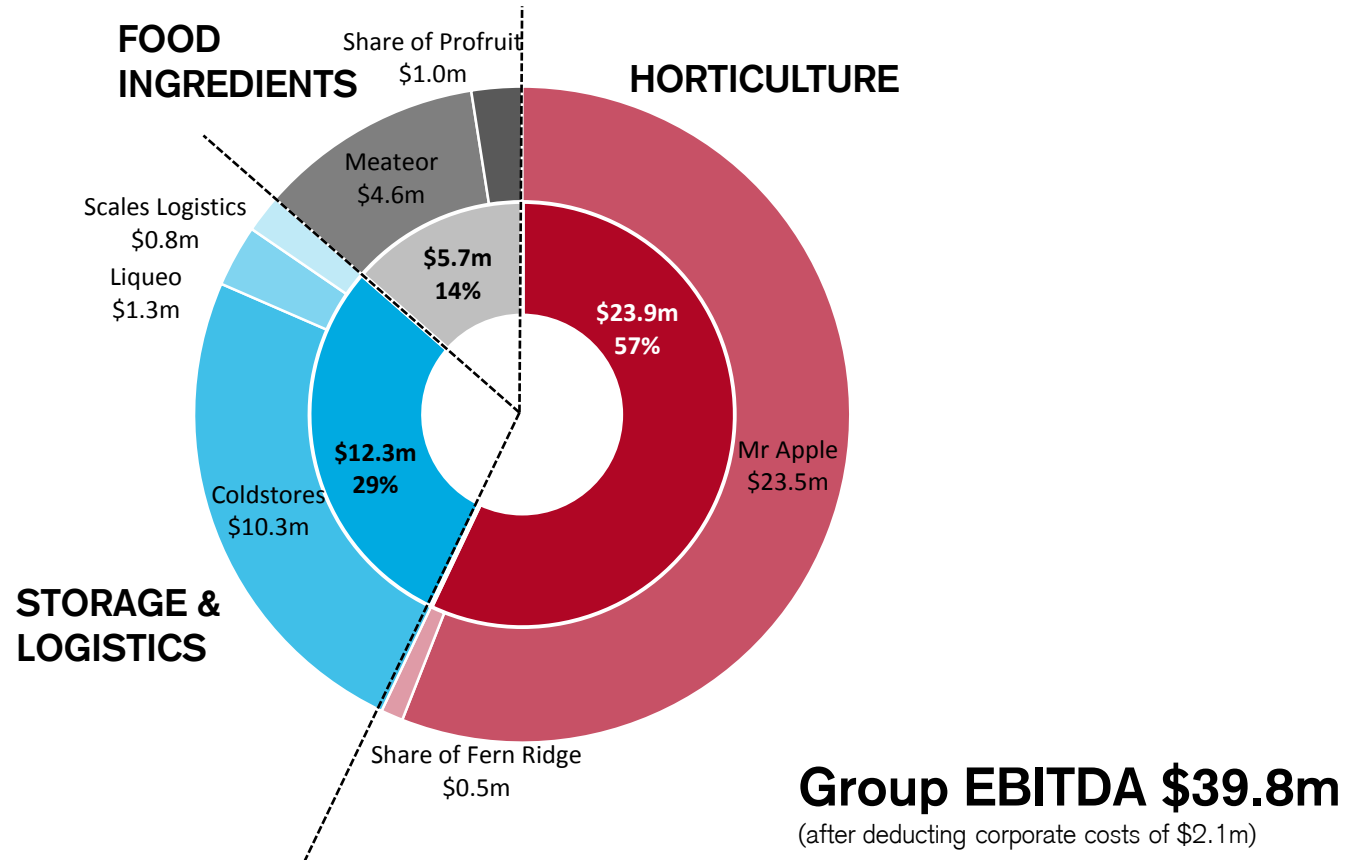
Financial performance targets exceeded.

- We are committed to delivering on our IPO forecasts and so far have met those targets.

\$'000	2014 Actual	2014 IPO Forecast	Variance
Revenue	<b>263,262</b>	253,927	<b>+3.7%</b>
Gross Margin	<b>81,273</b>	77,256	<b>+5.2%</b>
Underlying EBITDA	<b>39,849</b>	38,811	<b>+2.7%</b>
Underlying Net Profit	<b>19,763</b>	18,530	<b>+6.7%</b>
Net Profit from Continuing Operations	<b>18,076</b>	15,655	<b>+15.5%</b>

# EBITDA COMPOSITION

## FY2014A EBITDA by Division and Business (NZ\$)

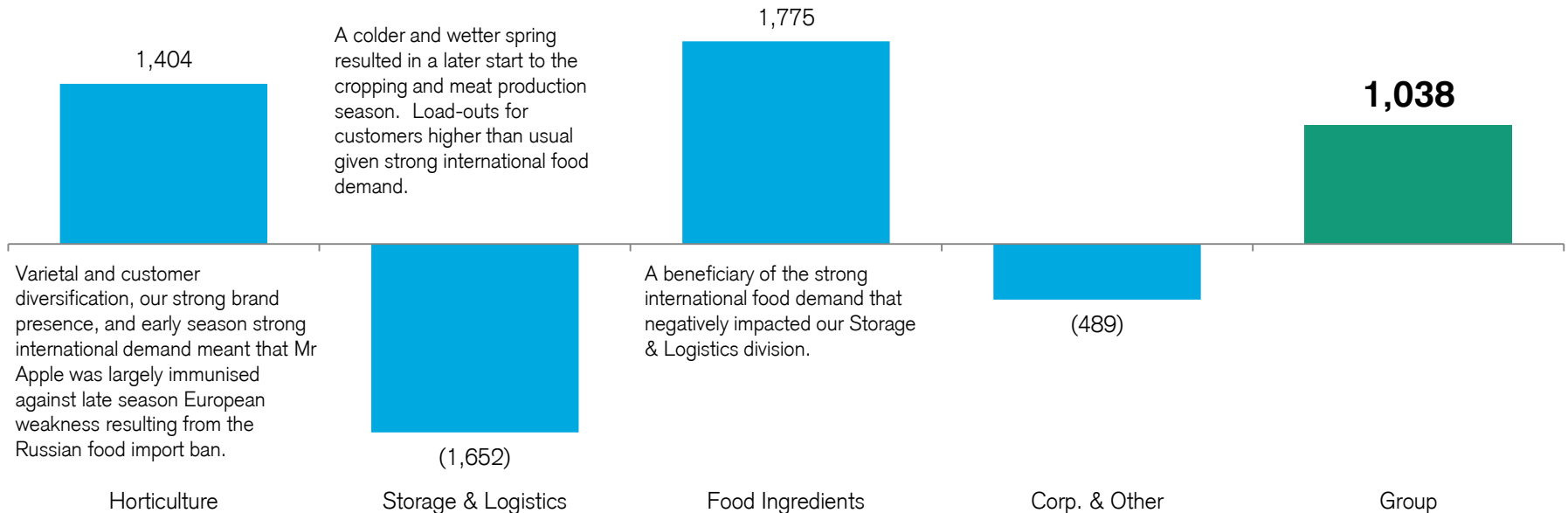


# STRENGTH THROUGH DIVERSITY

Consistent, and predictable, financial performance through diversification.

- Since listing, some of the challenges identified in our Prospectus have arisen. With our diversified economic strength, and through careful management of those risks, Group performance exceeded targets.

## 2014 EBITDA by Division, Variance to PFI (\$'000)



# MEETING OR EXCEEDING KPIs

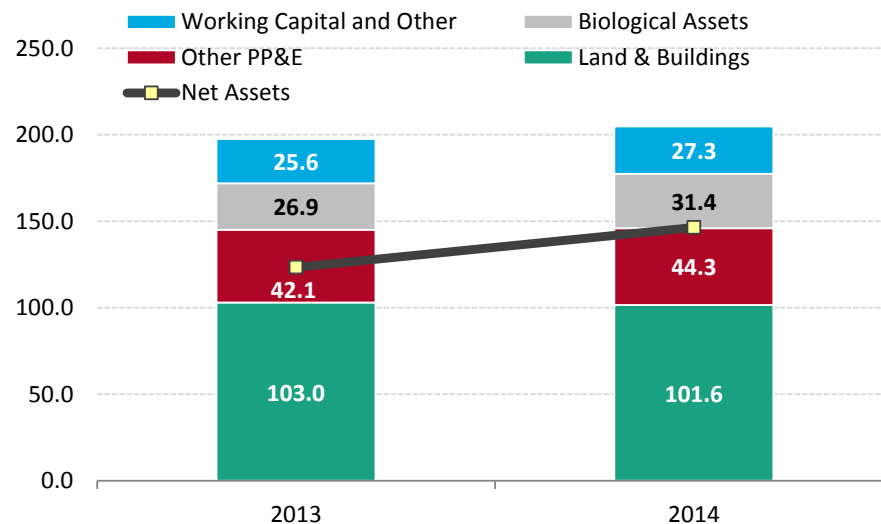
\$'000	2014 Actual	2014 IPO Forecast	Variance
<b>Horticulture:</b>			
Total Volume Sold (Mr Apple + External Growers)	3,970	3,887	+2.1%
Total Mr Apple Volume Sold	2,752	2,569	+7.1%
<i>Comprising:</i>			
Premium Apples			
- Mr Apple total own volumes sold (TCE 000s)	1,036	984	+5.3%
- Weighted average price (NZD / TCE – FOB)	\$32.8	\$30.5	+7.5%
Traditional Apples			
- Mr Apple total own volumes sold (TCE 000s)	1,716	1,585	+8.3%
- Weighted average price (NZD / TCE – FOB)	\$24.8	\$25.1	-1.2%
<b>Storage &amp; Logistics:</b>			
Total refrigerated coldstorage space (at end of year, m3 000s)	606.6	606.6	-
Total capacity of all bulk liquid storage tanks (MT 000s)	22,200	22,200	-
TEUs shipped	17,336	n/a	
Airfreight tonnes arranged	1,623	n/a	
<b>Food Ingredients:</b>			
Petfood ingredients sold (million kgs)	16.4	15.8	+3.5%



# STRONG BALANCE SHEET

- We have a large asset base centred around our material investment in land and buildings.
- We currently have considerable headroom in our banking covenants.

## Assets by Category



## Banking Covenants

FY2014

Actual IPO Forecast

### Interest Cover Ratio

Ratio	11.8x	9.1x
Covenant	3.0x	3.0x
Headroom	293%	203%

### Senior Term Debt Leverage Ratio (times covered)

Ratio	0.8x	0.8x
Covenant (must be less than)	2.5x	2.5x
Headroom	213%	213%



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# OUR STRATEGY FOR CREATING GROWTH

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## **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.

## **Our long-term goal:**

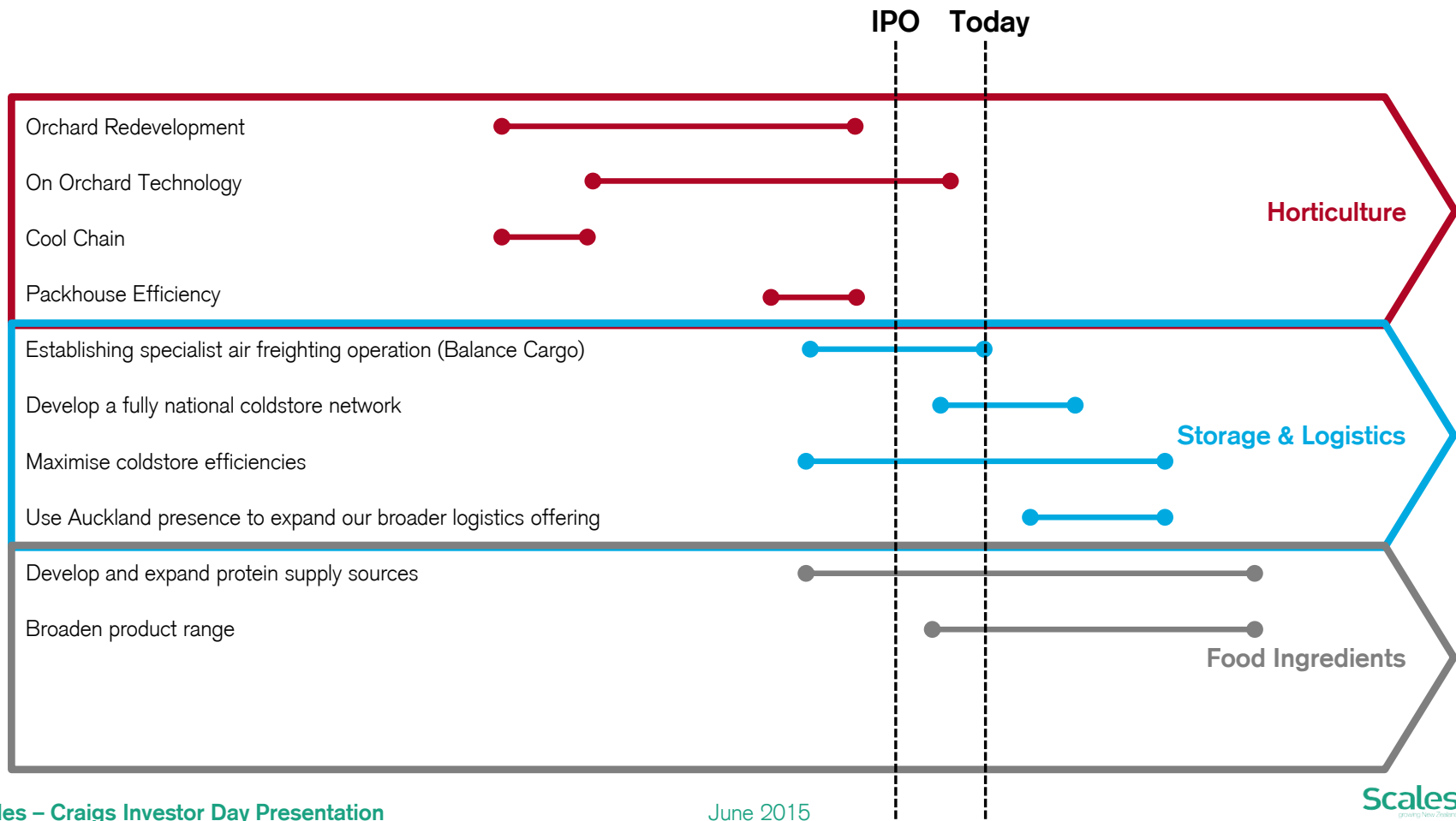
To generate a long-run average 15% Return on Capital employed across our portfolio.\*

\*Calculated as Underlying EBIT / Capital Employed, where Underlying EBIT is calculated as Underlying Net Profit plus Net Financing Costs and Tax, and Capital Employed is calculated as Non Current Assets plus Current Assets (excluding any Cash or Cash Equivalent balances) less Current Liabilities (excluding any Overdraft or Short-Term Debt balances).

# ORGANIC GROWTH STRATEGY

Progressing the next phase of our growth strategy.

- Our pre-IPO growth strategy was focused around an intensive 3-5 year investment in our Horticultural division. With that investment largely completed and paying dividends, our attention is now fully on our Storage & Logistics and Food Ingredients divisions.





# FOCUSING ON STORAGE & LOGISTICS

Our current investment cycle is focused on achieving even better returns from our Storage & Logistics division.

- Established perishable airfreight specialist division Balance Cargo – growing strongly.
- Auckland Coldstore – construction progressing well. Opening for business Q4.
  - Auckland Coldstore will become a base from which to expand broader logistics offering.
- Investing in efficiencies and capabilities in Timaru coldstores and bulk liquid operations.
  - Allows us to store increased mozzarella cheese production which is now being made 24/7 at Fonterra's Clandeboye plant.



# EXPANDING OUR REACH

- We have the skills, networks and experience to add value to the New Zealand agricultural sector.
- We continue to actively investigate ways we can develop our existing divisions or extend our agribusiness reach either by:
  - Acquiring appropriate 'bolt-on' businesses to support our existing operating divisions.
  - Developing new divisions or market sectors.
  - In some cases this may mean we invest offshore to support our local operations (e.g. petfood ingredients sourcing from Australia).
- But we will remain patient and disciplined. All investment should:
  - Align with our core beliefs.
  - Deliver collaborative synergies and align with our core competencies.
  - Have scale, enhance scale, or be able to achieve scale.
  - Be forecast to meet our minimum Return on Capital Employment benchmark of 15% across the portfolio.

# CLEARLY DEFINED OBJECTIVES

- Our Annual Report clearly outlines our Near and Medium Term Objectives, both for the Group and for each of our operating divisions.
- Our Group objectives are repeated below:

## OUR OBJECTIVES

### NEAR TERM OBJECTIVES (<2 YEARS)

Align Health & Safety practices across the Group to meet global best practice.

Meet or exceed Financial Performance projections in our Prospectus.

Enhance current business activities by continuing to invest in their growth and unlock their potential.

### MEDIUM TERM OBJECTIVES (2-5 YEARS)

Be recognised as one of New Zealand's safest companies to work for.

Deliver meaningful growth in our existing, or potentially new, divisions through organic investment and/or acquisition.





DIVA

CLASS 1

DIVA

DIVA

5

THE YEAR AHEAD

COUNTRY OF ORIGIN  
NEW ZEALAND APPLES



# TRADING UPDATE Q1

We remain confident of meeting our 2015 IPO forecast.

Horticulture	Storage & Logistics	Food Ingredients
Apple harvest completed. Gross production volumes above forecast, but final export volumes subject to 'packout' (export recovery).	Coldstore utilisation has started well (as predicted – product inflows have caught up following last years' slow start to the cropping and meat processing seasons). As with all years, Q3/Q4 volumes subject to some uncertainty.	Petfood trading to April 2015 in line with the same period for 2014.
Net returns on apples sold (for the year to date, ~33% sold) when adjusted for FX and freight savings are in line with expectations. Late season market pressure experienced in 2014 is not expected to return.	Shipping volumes handled by our logistics companies (Scales Logistics and Balance Cargo) continue to display positive growth.	

# GROUP FINANCIAL PERFORMANCE

FY2013 and FY2014 Actual vs FY2015 IPO Forecast Performance.

Scales - Group Financial Performance			
NZ\$000s	FY2013 Actual	FY2014 Actual	FY2015 IPO Fcst
Horticulture Revenue	174,171	158,808	158,881
Storage & Logistics Revenue	91,662	90,609	93,374
Food Ingredients Revenue	33,113	37,217	34,794
Other / Intercompany Eliminations	(26,730)	(23,372)	(26,656)
<b>Total Revenue</b>	<b>272,216</b>	<b>263,262</b>	<b>260,393</b>
Horticulture EBITDA	26,200	23,916	24,049
Storage & Logistics EBITDA	13,838	12,323	14,810
Food Ingredients EBITDA	4,707	5,684	4,120
Other / Intercompany EBITDA	(1,922)	(2,074)	(1,731)
<b>Total Underlying EBITDA</b>	<b>42,823</b>	<b>39,849</b>	<b>41,248</b>
<b>Underlying Net Profit</b>	<b>19,990</b>	<b>19,763</b>	<b>20,794</b>
Net Profit from Continuing Operations	19,559	18,076	20,794





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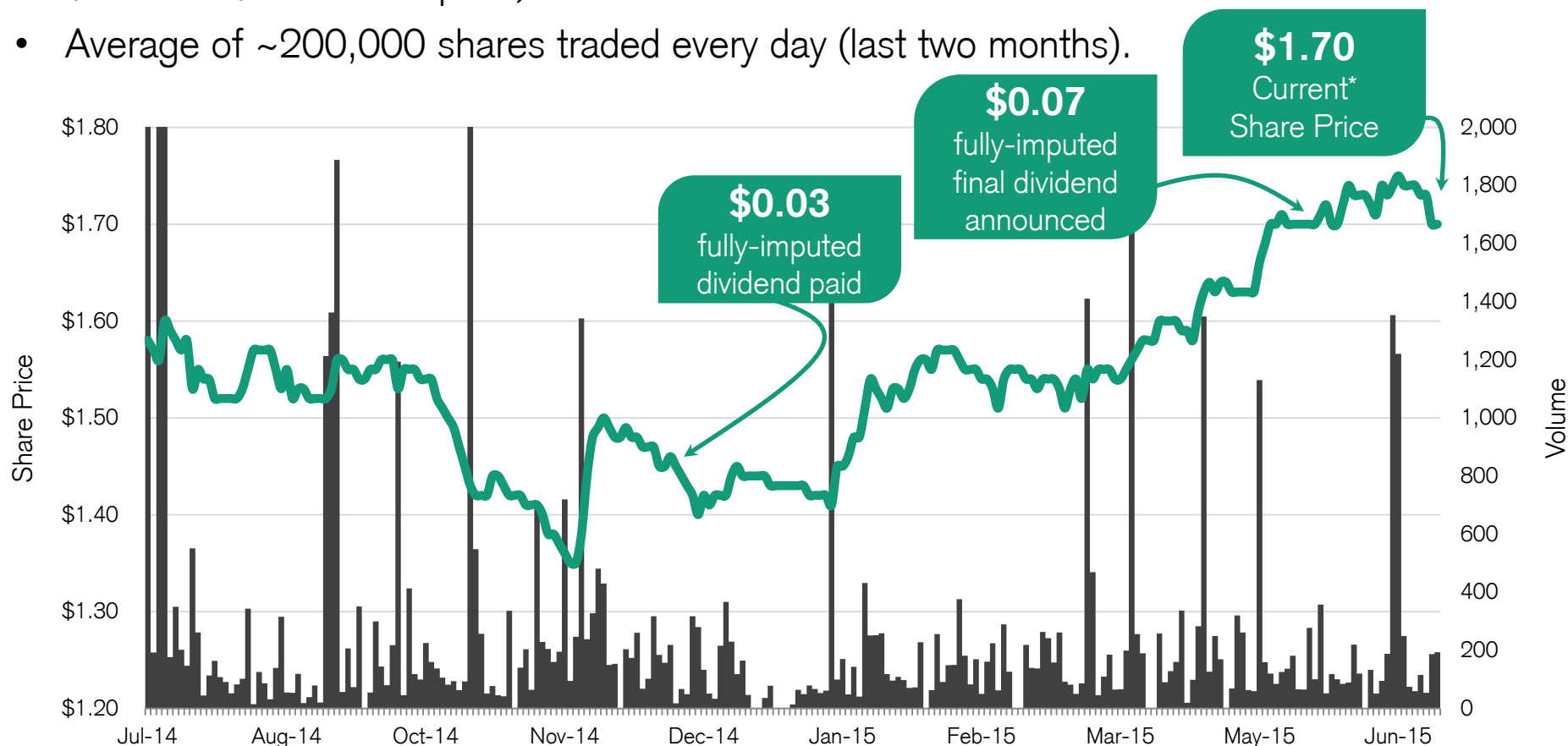
INVESTOR  
RETURNS

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# SHARE PRICE AND VOLUME

- Solid share price appreciation since mid-October 2014.
- 8% return on issue price to date (being \$0.03 cash dividend + current\* share price of \$1.70 on \$1.60 issue price).
- Average of ~200,000 shares traded every day (last two months).



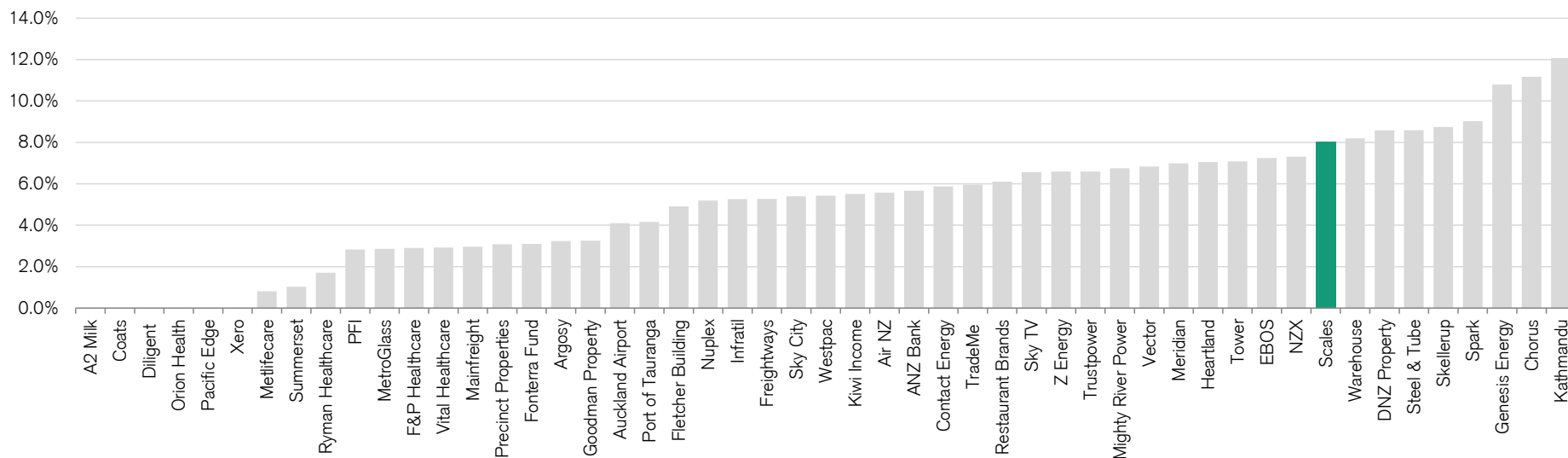
\*Share Price as at close on 19 June 2015.



# DIVIDEND YIELD

- At current pricing, Scales offers a leading dividend yield.
  - The chart below compares the dividend yield of all companies in the NZX50 and how Scales compares to those companies (NB. For clarification, Scales is not currently included in the NZX50).

## Gross Dividend Yield\*, Based on Closing Prices as at 29 May 2015



\*Dividend yield calculations exclude special dividends paid. For all companies, yields are based on dividends paid in the last 12 months (or the most recent dividend within the last 12 months plus the value of a declared dividend to be paid in the next few weeks). Yields include any imputation credits attached to dividends.



An aerial photograph of a vast agricultural field, likely a nursery or a young orchard. The field is filled with rows of young green plants, possibly seedlings, planted in white plastic mulch. The rows are straight and run parallel to each other, creating a strong sense of perspective that leads the eye towards the horizon. The plants are densely packed in some areas and more spaced out in others. In the background, there are some trees and a few small structures, suggesting a rural or farm setting. The overall color palette is dominated by the vibrant green of the plants and the stark white of the plastic mulch.

# QUESTIONS

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# DISCLAIMER

## **Please do not read this presentation in isolation**

This presentation supplements our full year results announcement dated 26 February 2015 and Annual Report dated 27 March 2015. It should be read subject to and in conjunction with the additional information in that release, other material which we have released to the NZX, and our Investment Statement and Prospectus.

## **There is no offer or investment advice in this presentation**

This presentation is for information purposes only. It is not an offer of securities, or a proposal or invitation to make any such offer. It is not investment advice or a securities recommendation, and does not take into account any person's individual circumstances or objectives. Every investor should make an independent assessment of Scales Corporation on the basis of independent expert financial advice.

## **Non-GAAP financial measures**

Our results are reported under NZ IFRS. This presentation includes non-GAAP financial measures which are not prepared in accordance with NZ IFRS. The non-GAAP financial measures used in this presentation include:

- EBITDA. We calculate EBITDA by adding back (or deducting) depreciation, amortisation, finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- EBIT. We calculate EBIT by adding back (or deducting) finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- Underlying EBITDA and EBIT are calculated by adding back (or deducting) any non-cash IFRS adjustments and IPO offer costs.
- Underlying Net Profit is calculated by adding back or (or deducting) the after-tax effect of any non-cash IFRS adjustments, discontinued operations, and IPO offer costs

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 NZIFRS. Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies.

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