



Scales

growing New Zealand

Pitched By: Anna Marsden

Scales Corporation Ltd

Company Profile

Scales

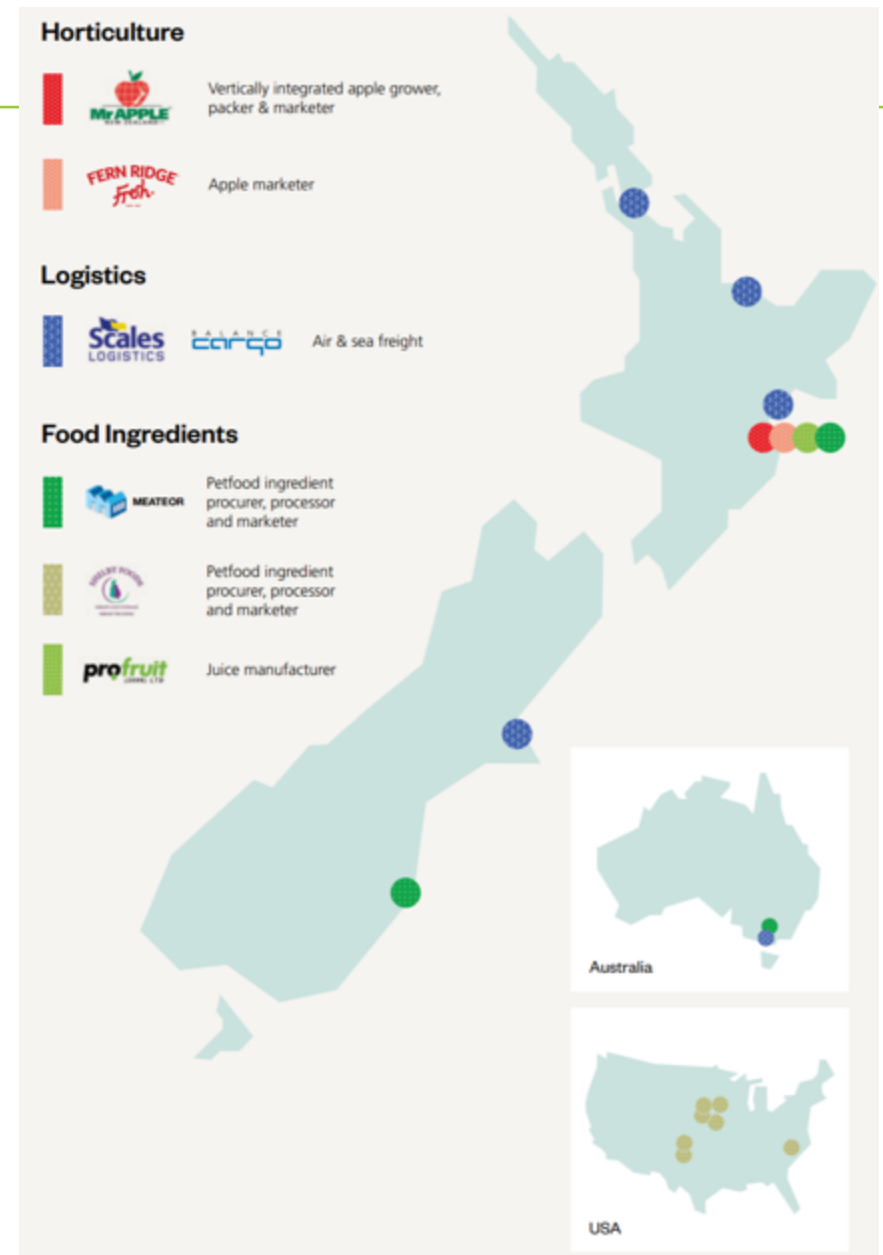


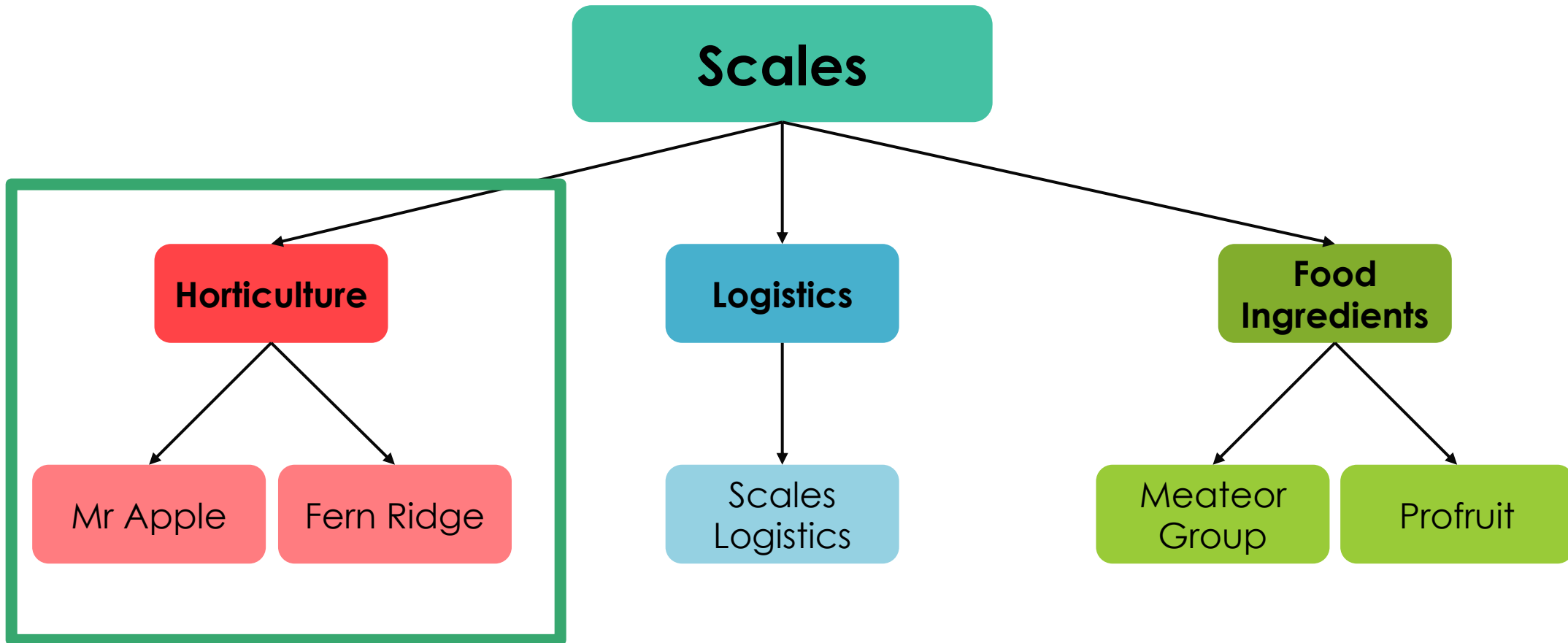
Information

Current price	\$5.05 (19/08/20)	P/E	6.050
52 week range	9.78% increase Up \$0.45	Market cap	\$717,557,000

- Scales is listed on the NZX, but has global reach with operations across New Zealand, Australia and US
- Scales currently operates in three divisions, Horticulture, Logistics and Food Ingredients
- Recent diversification into Pet Foods with Acquisition of Shelby in December 2018 and joint venture with Alliance (2019)
- Focus on the large and growing Chinese market
- Strong focus on Environmental Sustainability and on their team

Scales has 3 main divisions,
with multiple business in
each division located
across the world



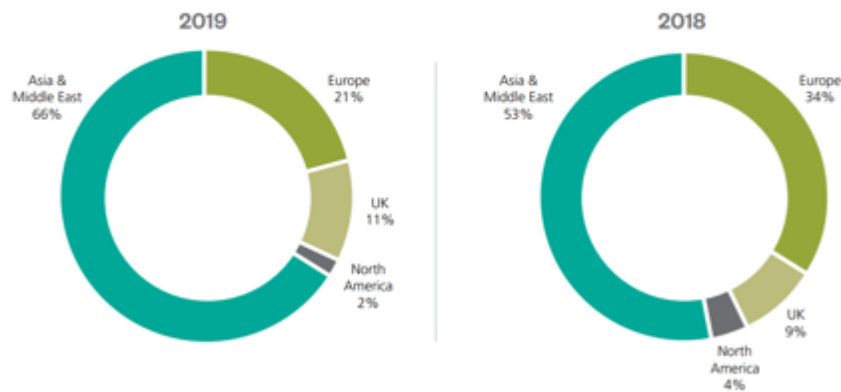


Scales' Horticulture Division

Mr Apple

- NZ's largest fully and vertically integrated apple business
- Based in Hawkes Bay
- Growing interest in the Chinese Market – specifically in the premium products

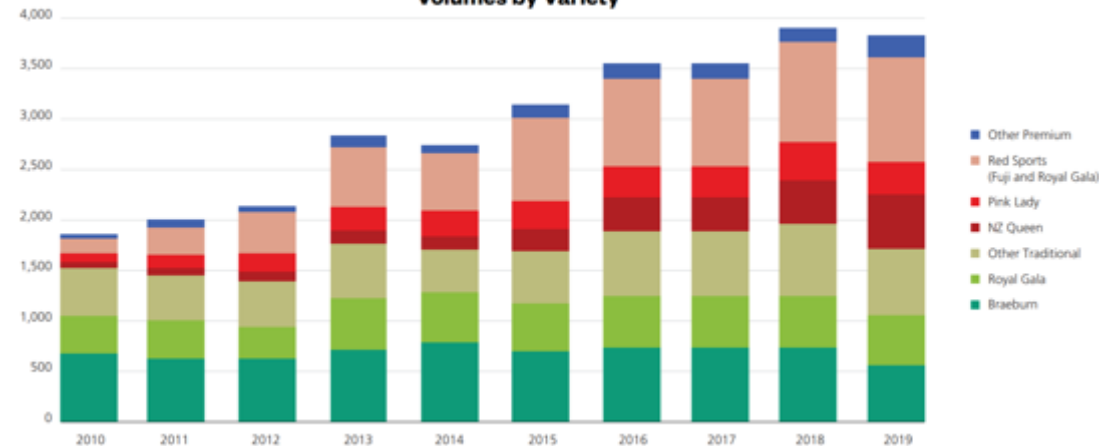
Mr Apple - Sales by Region (TOEs)

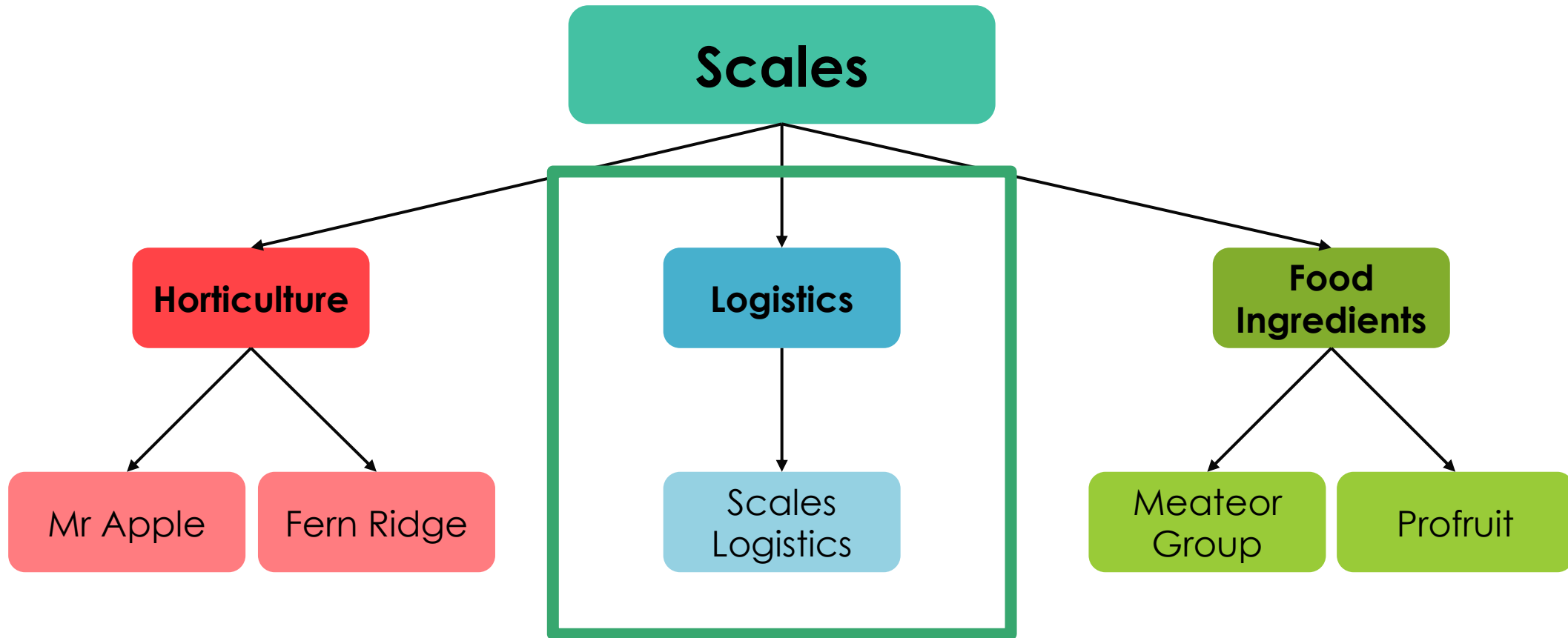


Fern Ridge

- 73% stake in Fern Ridge
- Fresh Produce Exporter of products such as:
 - Meat (red e.g. Beef, Lamb, Goat)
 - Pork
 - Other (mussels, oysters, apples)
- Based in Hawkes Bay

Volumes by Variety

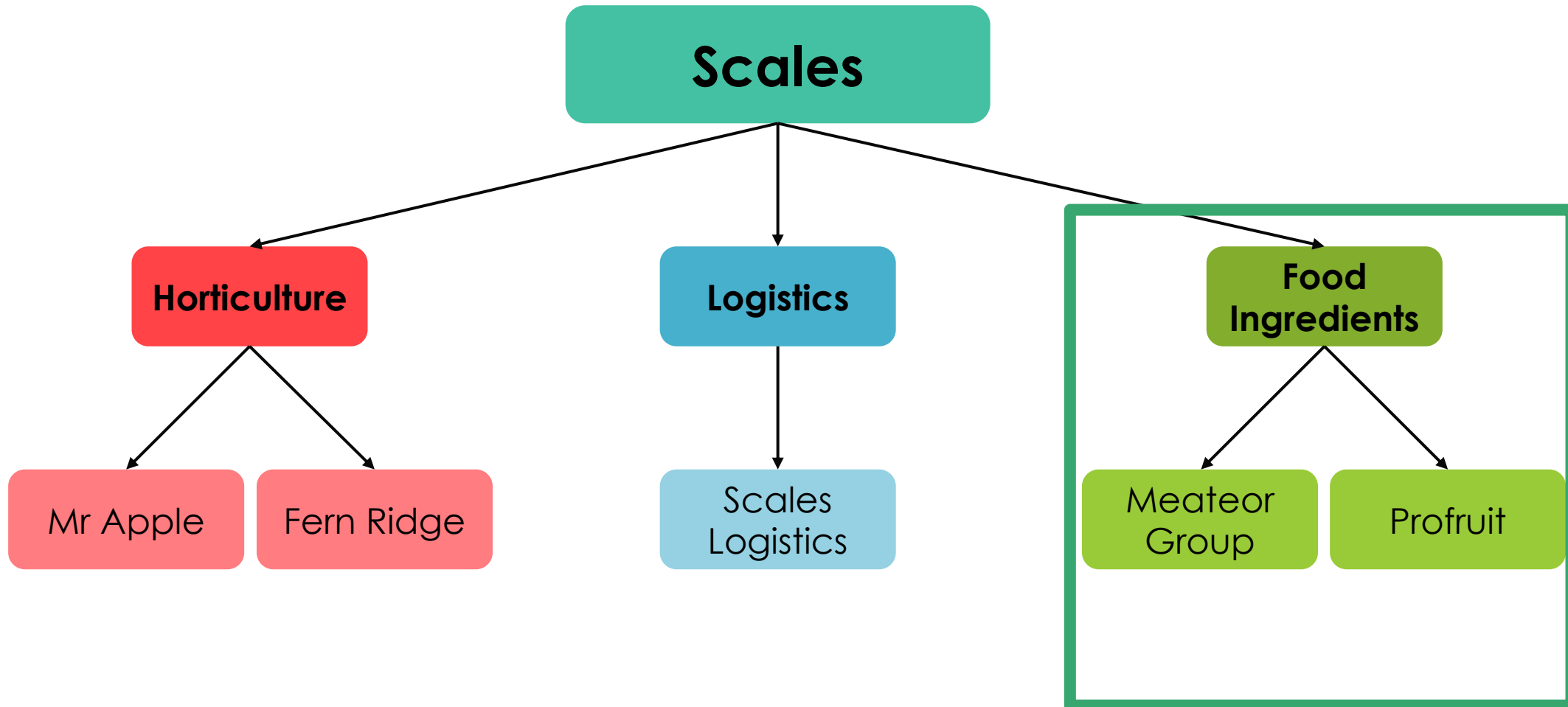




Scales' Logistics Division

- Specialises in moving perishable food and produce with over 100 years of international shipping
- Provides all land-side services for encompassing import and export transportation
- Parent company of Balance cargo (uses web based software to add customer value)
- Locations in:
 - Christchurch (head office)
 - Napier
 - Auckland
 - Tauranga
 - Melbourne





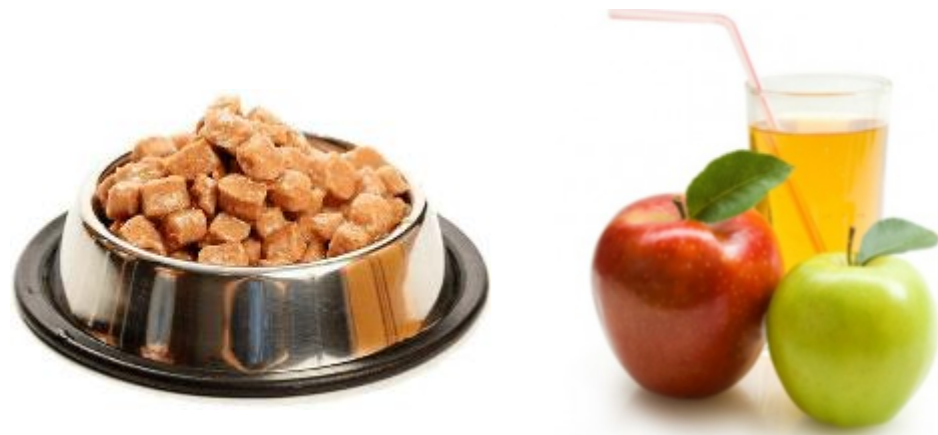
Scales' Food Ingredients Division

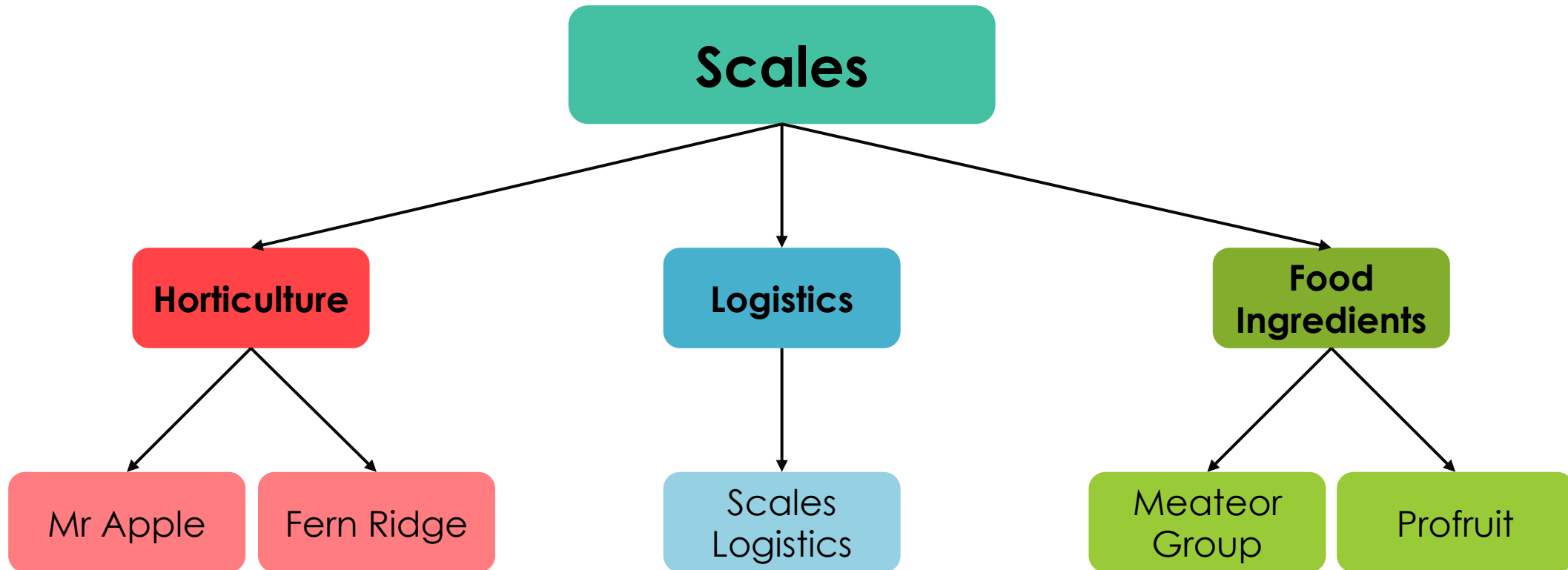
Meatear Group

- Focused on the Petfood market
- Three Businesses within Meatear Group:
 - **Meatear NZ** (50%) – Petfood ingredient processor and Marketer in New Zealand (other 50% was transferred to joint venture with Alliance)
 - **Meatear International** (100%) – Petfood ingredient and supplier across Australia & other markets
 - **Shelby** (60%) – recent acquisition (Dec 2018) Petfood ingredient procurer, processor and marketer USA

Profruit

- Juice concentrate processor in New Zealand
 - Predominantly in exports
 - Business to Business supplier
- Scales owns 50% of Profruit
- Located in Hawkes Bay





Scales' Revenue Has been increasing Across Segments

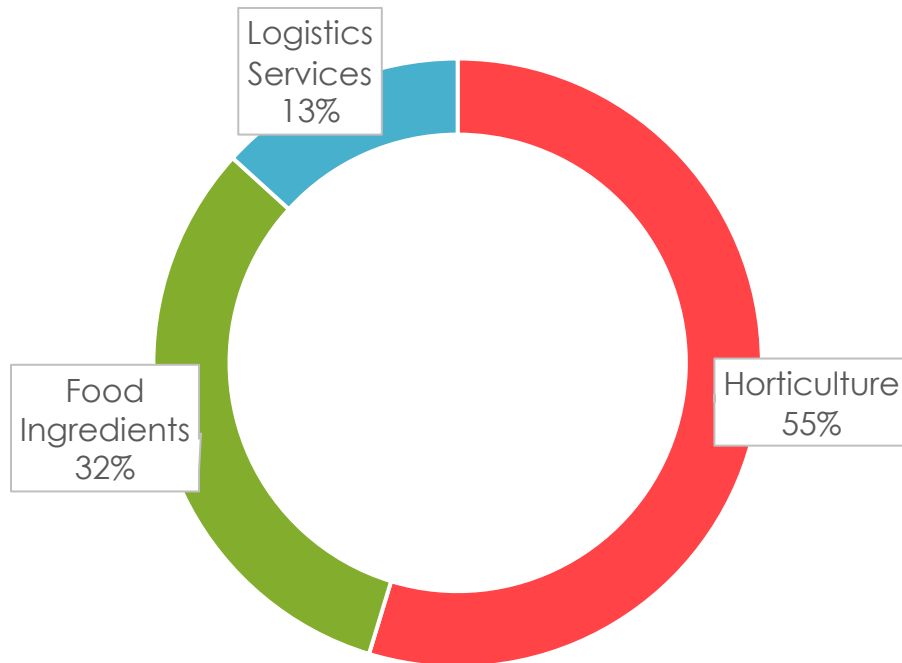
Revenue Increase from 2018 to 2019



- Revenue has been maintained or increased across all divisions
- Food Ingredients has seen a large increase in revenue due to the acquisition of Shelby

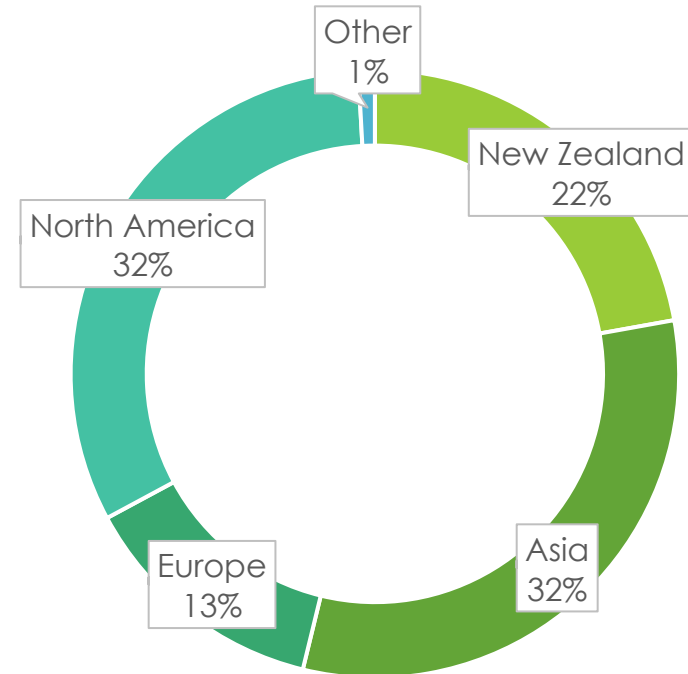
Scales' Revenue Breakdown

Revenue By Segment



■ Horticulture ■ Food Ingredients ■ Logistics Services

Revenue By Market



■ New Zealand ■ Asia ■ Europe ■ North America ■ Other

Environmental Sustainability

Scales is committed to reducing their environmental impact through:

- Reducing carbon footprint, waste to landfill and electricity use
- Investing in ways to use water efficiently
- Development of a Mr Apple Environmental Plan with all areas of the business undertaking projects to further reduce carbon footprint:
 - A team to meet quarterly to track progress and innovate
 - Focus on the 4 UN Sustainable development goals listed right



Team Sustainability

Scales has a strong focus on their employees and team:

- Group-wide staff engagement surveys show rise in engagement between 2018 to 2019 of **5%** (from 56% - 61%)
- Leadership, bullying & harassment, and mental health awareness training undertaken in 2019
- Significant investment in community living environment and infrastructure for our critical RSE scheme and seasonal workers
- Continued high level of attention to Health and Safety

“It’s all about our people”

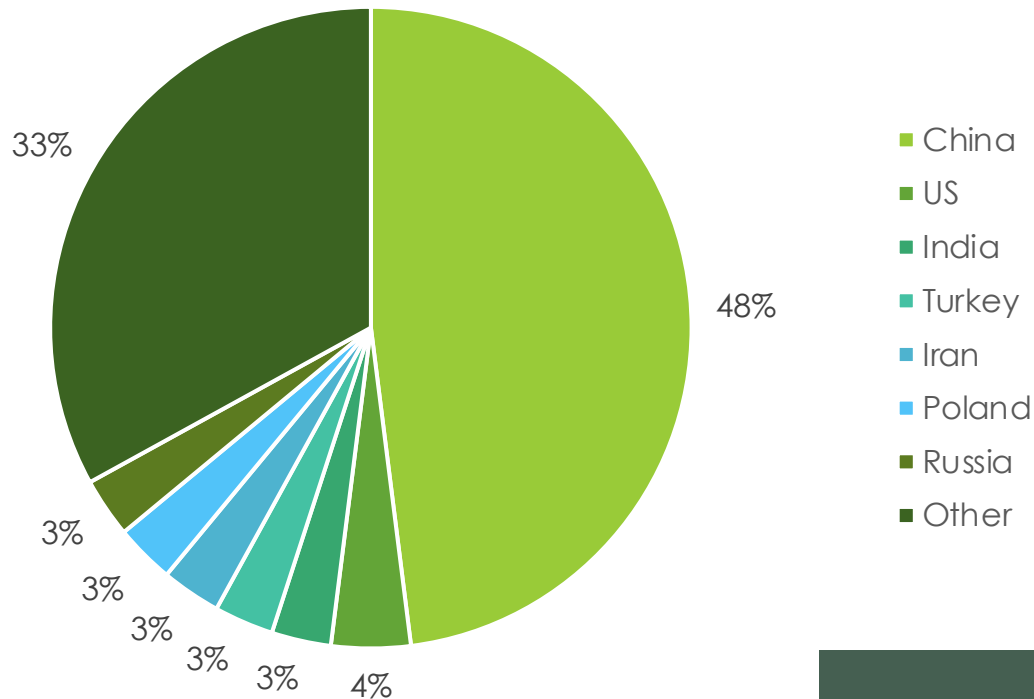


A wide-angle photograph of a lush green cornfield stretching to the horizon. The sky is a mix of orange, yellow, and blue, indicating a sunset or sunrise. A small, dark barn is visible on the horizon line to the left. A semi-transparent grey rectangle is centered over the middle of the image, containing the word "Industry" in white text.

Industry

Apple consumption world wide

Worldwide apple consumption

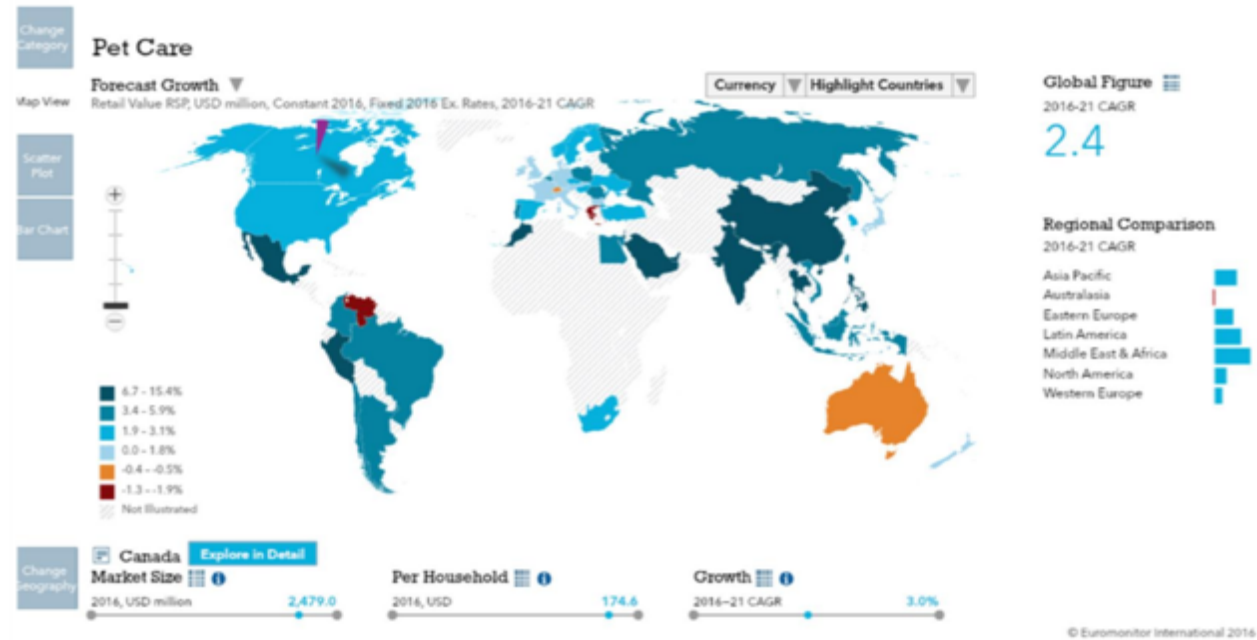


- China dominates in apple consumption, consuming almost half of the world's apples
- China's demand for apples has also been growing with an increase of 7.2% from 2007 to 2016
- Annual apple growth rate is +3.5% per year
- Growing prices and interest in premium apple brands

World apple industry **US \$52.9 billion** in 2016

Value of the Petfood Market to grow

- The Pet food market is growing.
 - China and Mexico leading the growth of countries in emerging regions (6.7% - 15.4%)
 - US showing growth between 1.9% - 3.1%
- Aligns with Scales acquisition of Shelby in the US and targeting of consumers in China



Petcare industry worth **US \$100 billion**

China's petfood market valued at **US\$1.7 billion**



Strategy and CA

“
*To be the foremost investor in, and grower of,
New Zealand agribusinesses by leveraging its
unique insights, experience and access to*
”
collaborative synergies

Scales' Strategy focuses on core business strengths

In 2017 Scales refreshed their growth strategy to focus on pure agribusiness



Led to a focus on strengths such as full vertical integration, export led and China relationships



Organic growth opportunities that strengthen existing business units



Acquisition growth opportunities that strengthen existing business units



Investment opportunities in new sectors where Scales can add value or enhance an existing business

Examples of Scales' implementation of their strategy

Examples of Scales strategy implementation and opportunities they are considering

- Acquisition of Shelby (2018) and partnership with Alliance (2019)
- Investment in coolstore adjacent to Mr Apple's Whakatu packhouse (will result in increased efficiencies and decreased environmental impact)
- Organic growth opportunities in the Food Ingredients division
- Acquisition opportunities that strengthen existing business or open Scales to new agribusiness sectors



Scales has several strong Competitive Advantages

1. **Vertical integration** (grow, pack and export produce)
2. **Portfolio diversification** (including investment in geographic diversification)
3. **Strong brand reputation**, especially in key markets (i.e. China)
4. **Global focus**, reach and demand with the aim to continue to grow and expand into a global player
5. Strong focus on both team and environmental **sustainability**





Risks

Risks and Mitigations

Risks

- Number of business operations in the Hawkes Bay region
- Exposure to foreign exchange movements, especially surrounding Mr Apple
- Climate Change affecting crops and animals



Mitigations

- Diversification strategy with acquisitions such as Shelby in the US
- Scales following a hedging strategy where they take foreign exchange cover. (Also attempts to cover levels for seasonal and market variations in future years)
- Scales is working hard to reduce their environmental impact and geographic diversification also assists in this



Pitched By: Anna Marsden

A top-down view of a silver metal bowl filled with dry dog food. The kibble consists of various shapes, including bone-like and star-like forms, in shades of tan and reddish-brown. Several pieces of kibble are scattered on the light-colored, wood-grained surface around the bowl. A semi-transparent olive-green rectangle is positioned in the center-left, containing the text 'Financial Statements' in white.

Financial Statements

Scales Corporation Ltd

Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income for the year ended 31 December 2019

	NOTE	2019 \$'000	2018 \$'000
Continuing operations			
Revenue	B1	484,609	402,542
Cost of sales	B2	(383,126)	(312,228)
		101,483	90,314
Administration and operating expenses	B2	(43,965)	(40,512)
Fair value gain on recognition of investment in joint venture	C3	9,782	-
Gain on disposal of Meateor New Zealand business	C3	9,782	-
Share of profit of entities accounted for using the equity method	C3	2,997	1,706
Other income	B3	421	236
Other losses	B3	(647)	-
EBITDA		79,853	51,744
Amortisation		(592)	(534)
Depreciation	C1	(9,654)	(8,713)
Depreciation of right of use asset	G2	(7,824)	-
EBIT		61,783	42,497
Finance revenue		2,834	265
Finance cost	B4	(3,549)	(2,695)
Finance cost of lease liability	G2	(3,075)	-
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		57,993	40,067
Income tax expense	B5	(9,418)	(11,044)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		48,575	29,023
Profit from discontinued operations (net of tax)	F2	73,002	16,476
PROFIT FOR THE YEAR		121,577	45,499
Profit for the year from continuing operations is attributable to:			
Equity holders of the Company		45,000	28,608
Non-controlling interests		3,575	415
		48,575	29,023

Profit for the year from discontinued operations is fully attributable to equity holders of the Company.

EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:

Basic earnings per share (cents):			
Continuing operations	D5	32.1	20.5
Discontinued operations	D5	52.1	11.8
Total	D5	84.2	32.2
Diluted earnings per share (cents):			
Continuing operations	D5	32.0	20.4
Discontinued operations	D5	51.9	11.7
Total	D5	83.9	32.1

Consolidated Statement of Comprehensive Income (continued) for the year ended 31 December 2019

	NOTE	2019 \$'000	2018 \$'000
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on cash flow hedges		6,496	(6,775)
Income tax relating to cash flow hedges		(1,819)	1,897
Share of other comprehensive income of joint ventures	C3	209	-
Income tax relating to share of other comprehensive income of joint ventures		(58)	-
Foreign exchange (loss) gain on translating foreign operations		(125)	49
		4,703	(4,829)
Items that will not be reclassified to profit or loss:			
Revaluation of land and buildings		11,117	9,762
Income tax relating to buildings		(818)	(175)
Revaluation of apple trees		1,431	(466)
Income tax relating to apple trees		(401)	131
		11,329	9,252
OTHER COMPREHENSIVE INCOME FOR THE YEAR	D2	16,032	4,423
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		137,609	49,922
Total comprehensive income for the year attributable to:			
Equity holders of the Company		134,034	49,507
Non-controlling interests		3,575	415
		137,609	49,922

Scales Corporation Ltd

Statement of Financial Position

Consolidated Statement of Financial Position as at 31 December 2019

	NOTE	2019 \$'000	2018 \$'000
EQUITY			
Share capital	D1	95,273	94,184
Reserves	D2	62,511	71,999
Retained earnings	D2	197,230	80,109
Equity attributable to Scales Corporation Limited shareholders		355,014	246,292
Equity attributable to non-controlling interests		3,989	3,581
TOTAL EQUITY		359,003	249,873
CURRENT ASSETS			
Cash and bank balances		18,632	2,790
Term deposits		142,000	-
Trade and other receivables	E1	20,593	22,910
Current tax assets		164	-
Other financial assets	E2	4,571	3,921
Unharvested agricultural produce	C2	21,619	20,547
Inventories	C5	26,422	45,442
Prepayments		3,482	3,391
		237,483	99,001
Assets held for sale		-	104,378
TOTAL CURRENT ASSETS		237,483	203,379
NON-CURRENT ASSETS			
Property, plant and equipment	C1	165,741	150,586
Investments accounted for using the equity method	C3	24,973	5,213
Goodwill	C4	43,784	43,875
Other financial assets	E2	7,117	6,903
Computer software		807	1,131
Right of use asset	G2	78,775	-
TOTAL NON-CURRENT ASSETS		321,197	207,708
TOTAL ASSETS		558,680	411,087

Consolidated Statement of Financial Position (continued) as at 31 December 2019

	NOTE	2019 \$'000	2018 \$'000
CURRENT LIABILITIES			
Bank overdrafts		1,188	3,749
Trade and other payables	E3	19,843	27,282
Dividend declared	D3	13,328	13,299
Borrowings	E4	-	2,000
Related party borrowings	G3	-	1,329
Current tax liabilities		2,842	845
Other financial liabilities	E5	4,377	5,663
Lease liability	G2	9,427	-
		51,005	54,167
Liabilities associated with assets held for sale		-	19,281
TOTAL CURRENT LIABILITIES		51,005	73,448
NON-CURRENT LIABILITIES			
Borrowings	E4	54,551	64,664
Deferred tax liabilities	B5	19,442	15,588
Other financial liabilities	E5	3,966	7,514
Lease liability	G2	70,713	-
TOTAL NON-CURRENT LIABILITIES		148,672	87,766
TOTAL LIABILITIES		199,677	161,214
NET ASSETS		359,003	249,873

Scales Corporation Ltd

Statement of Cash Flows

Consolidated Statement of Cash Flows for the year ended 31 December 2019

	NOTE	2019 \$'000	2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Receipts from customers		511,371	460,458
Dividends received		1,517	1,019
Interest received		791	280
		513,679	461,757
<i>Cash was disbursed to:</i>			
Payments to suppliers and employees		(442,424)	(409,843)
Interest paid		(6,624)	(2,695)
Income tax paid		(8,532)	(12,652)
		(457,580)	(425,190)
NET CASH PROVIDED BY OPERATING ACTIVITIES		56,099	36,567
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from sale of storage businesses		148,882	20,323
Proceeds from sale of Meateor New Zealand business	C3	15,000	-
Advances repaid		722	487
Sale of property, plant and equipment and computer software		57	120
		164,661	20,930
<i>Cash was applied to:</i>			
Net cash outflow on acquisition of businesses		-	(35,269)
Investment in term deposits		(142,000)	-
Purchase of computer software		(495)	(827)
Purchase of financial instruments		(497)	(932)
Purchase of property, plant and equipment		(16,313)	(15,589)
		(159,305)	(52,617)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		5,356	(31,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from term facility borrowings		-	33,945
Proceeds from seasonal facility borrowings	E4	79,000	67,500
Proceeds from related party borrowings		-	1,329
Treasury stock sold		-	109
		79,000	102,883

Consolidated Statement of Cash Flows (continued) for the year ended 31 December 2019

	NOTE	2019 \$'000	2018 \$'000
<i>Cash was applied to:</i>			
Repayments of term facility borrowings	E4	(10,000)	(10,000)
Repayments of seasonal facility borrowings	E4	(81,000)	(72,000)
Repayments of related party borrowings		(1,329)	-
Repayments of lease liabilities		(6,459)	-
Dividends paid		(26,625)	(25,184)
Dividends paid to non-controlling interests		(3,167)	(440)
		(128,580)	(107,624)
NET CASH USED IN FINANCING ACTIVITIES		(49,580)	(4,741)
NET INCREASE IN NET CASH		11,875	139
Net foreign exchange difference		(201)	(59)
Cash and cash equivalents at the beginning of the year		5,770	5,690
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		17,444	5,770
<i>Represented by:</i>			
Cash and bank balances		18,632	2,790
Bank overdrafts		(1,188)	(3,749)
Cash and bank balances attributable to discontinued operations		-	6,729
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		17,444	5,770

Statement of Cash Flows (continued)

Consolidated Statement of Cash Flows (continued)

for the year ended 31 December 2019

		2019	2018
	NOTE	\$'000	\$'000
NET CASH GENERATED BY OPERATING ACTIVITIES			
Reconciliation of profit for the year to net cash generated by operating activities:			
Profit for the year		121,577	45,499
<i>Non-cash items:</i>			
Gain on disposal of storage businesses	F2	(68,131)	(8,174)
Gain on disposal of Meateor New Zealand business	C3	(9,782)	-
Fair value gain on recognition of investment in joint venture	C3	(9,782)	-
(Gain) loss on disposal of property, plant and equipment		(57)	127
Amortisation		592	643
Depreciation (including on right-of-use asset)		17,478	10,779
FX option premiums		639	-
Deferred tax		941	1,306
Share of equity accounted results		(2,997)	(1,706)
Share-based payments		1,000	983
Change in gross liability on put options		273	(147)
<i>Items classified as investing and financing activities:</i>			
Dividends received from equity accounted entities		1,500	1,000
<i>Changes in net assets and liabilities:</i>			
Working capital amounts included in acquisition of businesses		-	8,180
Trade and other receivables		(579)	(8,599)
Unharvested agricultural produce		(1,072)	(358)
Inventories		3,540	(23,345)
Prepayments		(975)	(302)
Trade and other payables		(235)	9,733
Current tax		2,169	948
NET CASH PROVIDED BY OPERATING ACTIVITIES		56,099	36,567

Revenue Growth Across Segments

B1. Revenue

	2019 \$'000	2018 \$'000
By nature:		
Revenue from the sale of goods	390,855	312,890
Revenue from the rendering of services	90,280	84,918
Fees and commission	89	84
Net foreign exchange (loss) gain	(127)	1,688
Rental revenue	3,512	2,962
	484,609	402,542
By market:		
New Zealand	107,465	106,543
Asia	153,301	117,938
Europe	64,621	93,853
North America	154,994	82,968
Other	4,228	1,240
	484,609	402,542
By segment and type:		
Horticulture - sale of agricultural produce	237,584	232,041
Horticulture - agricultural produce related services	23,695	19,572
Horticulture - other	3,503	2,955
Food ingredients - sale of pet food ingredients	152,963	82,246
Food ingredients - other	2,114	807
Logistics services	64,128	64,487
Other	622	434
	484,609	402,542

Scales Corporation Ltd

Segment Info

	Horticulture \$'000	Food Ingredients \$'000	Logistics \$'000	Other \$'000	Eliminations \$'000	Total \$'000
2019 (continuing operations)						
Total segment revenue	264,782	155,077	87,076	3,461	(25,787)	484,609
Inter-segment revenue	-	-	(22,948)	(2,839)	25,787	-
Revenue from external customers	264,782	155,077	64,128	622	-	484,609
Gain on sale of non-current assets	45	-	-	1	-	46
Share of profit of entities accounted for using the equity method	-	2,997	-	-	-	2,997
EBITDA	47,909	32,921	4,058	(5,035)	-	79,853
Amortisation expense	(486)	(1)	(36)	(69)	-	(592)
Depreciation expense	(8,296)	(1,016)	(328)	(14)	-	(9,654)
Depreciation of right of use asset	(7,122)	(62)	(583)	(57)	-	(7,824)
Finance revenue	19	10	3	2,802	-	2,834
Finance costs	(16)	(23)	(33)	(3,477)	-	(3,549)
Finance cost of lease liability	(2,739)	(20)	(301)	(15)	-	(3,075)
Segment profit (loss) before income tax	29,269	31,809	2,780	(5,865)	-	57,993

	Horticulture \$'000	Food Ingredients \$'000	Logistics \$'000	Other \$'000	Eliminations \$'000	Total \$'000
Segment assets	293,249	101,091	18,619	145,721	-	558,680
Segment liabilities	112,426	11,110	12,269	63,872	-	199,677
Segment carrying value of investment accounted for using the equity method	-	24,973	-	-	-	24,973
Segment acquisition of property, plant and equipment and computer software	15,002	191	470	10	-	15,673
2018 (continuing operations)						
Total segment revenue	254,568	83,053	89,270	3,756	(28,105)	402,542
Inter-segment revenue	-	-	(24,783)	(3,322)	28,105	-
Revenue from external customers	254,568	83,053	64,487	434	-	402,542
Gain on sale of non-current assets	72	-	-	-	-	72
Share of profit of entity accounted for using the equity method	-	1,706	-	-	-	1,706
EBITDA	43,466	11,021	4,902	(7,645)	-	51,744
Amortisation expense	(471)	(4)	(31)	(28)	-	(534)
Depreciation expense	(7,916)	(578)	(206)	(13)	-	(8,713)
Finance revenue	189	4	1	71	-	265
Finance costs	(14)	-	(34)	(2,647)	-	(2,695)
Segment profit (loss) before income tax	35,254	10,443	4,632	(10,262)	-	40,067
Segment assets	198,761	92,382	10,706	4,860	-	306,709
Segment liabilities	43,958	20,330	6,650	70,995	-	141,933
Segment carrying value of investment accounted for using the equity method	-	5,213	-	-	-	5,213
Segment acquisition of property, plant and equipment and computer software	10,002	516	780	171	-	11,469
Property, plant and equipment and computer software included in business acquisitions	-	4,900	-	-	-	4,900



Appendices

Appendix A

Strategy Targets

Specific Strategic Targets

Division	Target	Status
Group	Sustainability	Significant Progress
	<ul style="list-style-type: none"> Further develop and evolve our reporting and measuring of key sustainability aspects affecting Scales' businesses. Develop best-in-class sustainability reporting. Demonstrate improvements in sustainability. 	<p>Second carbon footprint certification process completed, with a 4 per cent reduction in emissions.</p> <p>Energy Efficiency and Conservation Authority (EECA) audit undertaken at 2 Mr Apple sites.</p> <p>Second group-wide staff engagement survey undertaken.</p> <p>A Mr Apple Environmental Plan developed.</p>
	Financial and operational	Good Progress
	<ul style="list-style-type: none"> Maintain financial returns in line with, or above, industry returns. Continue to seek acquisitive and organic growth to expand the business. 	<p>Strong return achieved.</p> <p>Divestments settled, a joint venture entered into and integration of a 60 per cent acquisition achieved.</p> <p>A large number of opportunities reviewed.</p>
	Shareholder returns	On Track
	<ul style="list-style-type: none"> Continue to provide shareholders with an attractive yield on dividends. Deliver capital gains and shareholder liquidity through careful strategic execution. 	<p>Interim dividend maintained at 9.5 cents per share.</p> <p>Continued to maintain Group ROCE above long-run target of 15 per cent.</p>
Horticulture	Brand and Intellectual Property development	Good Progress
	<ul style="list-style-type: none"> Continue to develop the Mr Apple brand, particularly within our key markets of Asia and the Middle East. 	<p>Renewed marketing activations and increased in-market branding initiatives.</p> <p>Increased presence in China.</p>
	Volumes	Excellent Progress
	<ul style="list-style-type: none"> Reach 4 million TCEs of our own grown apples. 	<p>3.82 million TCEs exported, 6 per cent ahead of forecast</p>
	Sales	Excellent Progress
	<ul style="list-style-type: none"> Continue to increase market penetration into Asia through services company Primary Collaboration New Zealand (PCNZ) and strategic partner China Resources Ng Fung Limited (China Resources Ng Fung). 	<p>Notable increase in volumes to Asia and Middle East markets.</p> <p>Increase in retail and e-commerce channel sales.</p>
Food Ingredients	Plant Varieties	Significant Progress
	<ul style="list-style-type: none"> Acquire new Plant Variety Rights (PVRs) to meet emerging needs. Redevelop lower-performing orchards and varieties into higher value crops. 	<p>Marketing for Posy™ commenced mid-year and initial shipment of Posy™ airfreighted in February 2020.</p> <p>44 hectares of orchard redeveloped during winter 2019.</p>
	Increase scale and expand offering	On Track
	<ul style="list-style-type: none"> Review strategic initiatives and consider organic and acquisition opportunities to increase divisional scale. 	<p>Integration of Shelby and joint venture with Alliance adding diversification of geographical exposure and range of protein options.</p> <p>Further growth opportunities being investigated.</p>
Logistics	Rebalance our portfolio of businesses	Completed
	<ul style="list-style-type: none"> Review investment in the division in line with Strategy Refresh. 	<p>Storage businesses (Polarcold and Liqueo) sold.</p>
	Expand logistics offerings	On Track
	<ul style="list-style-type: none"> Develop scale to utilise the expertise and capacity within the team. 	<p>Increased throughput of ocean freight volumes.</p> <p>Increased resource in Christchurch (warehouse) and Melbourne (sales).</p>