

NZX & Media Release

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SCALES CORPORATION DELIVERS RECORD UNDERLYING PROFIT, 11 PER CENT ABOVE 2015

Highlights – 12 months to 31 December 2016

- FY2016 financial results set new Group record:
 - Net Profit for the Year of \$38.2 million, 6 per cent above FY2015 (Restated).
 - Underlying Net Profit¹ of \$38.6 million, 11 per cent above FY2015 (Restated).
 - Underlying EBITDA² of \$67.9 million, 11 per cent above FY2015 (Restated).
- Outstanding performance from Horticulture and Food Ingredients divisions.
- Strategic acquisition of integrated Hawke's Bay grower, packer and marketer of apples Longview complements existing Asia and Middle East focus whilst also adding modern post-harvest capacity to accommodate future growth.
- China Resources Ng Fung Limited (China Resources) welcomed as a strategic shareholder improving networks and access to Chinese market.
- Shareholding in apple marketing business Fern Ridge Produce increased to approximately 73 per cent.
- Own grown apple volumes of 3.55 million TCEs, achieving a target we had set for 2020 four years ahead of schedule.
- Inclusion in S&P NZX50 index in September 2016.

Diversified agribusiness group Scales Corporation Limited (NZX:SCL) today reported its FY2016 full year results, achieving record profitability for the group which is now in its 105th year of trading.

At \$38.6 million, Net Profit for the year (including non-cash IFRS adjustments) is 6 per cent ahead of our restated FY2015 result. Earnings per share from continuing operations for FY2016 was 27.0 cents per share up from 25.7 cents per share in FY2015.

¹ Net Profit excluding non-cash International Financial Reporting Standards (IFRS) adjustments. A reconciliation between Net Profit and Underlying Net Profit is provided in the appendix of our annual results presentation pack

² Earnings before interest, tax, depreciation and amortisation and excludes non-cash IFRS adjustments

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Scales Corporation chairman Jon Mayson says: “We are pleased to deliver another record profit that builds on the solid FY2015 result. Once again the entire Scales team, which now extends to more than 600 permanent staff members, have excelled themselves to deliver an outstanding result.”

“Our Horticulture and Food Ingredients divisions produced excellent results, whilst our Storage and Logistics division produced another consistent outcome.”

Scales Corporation managing director Andy Borland notes: “The FY2016 result outperforms the highly successful FY2015 result by a significant margin. In addition to our strong financial results, Scales made good progress on a number of strategic fronts. These include the acquisition of integrated Hawke’s Bay grower, packer and marketer of apples Longview in November, welcoming China Resources as a strategic shareholder in Scales with an approximately 15 per cent shareholding, and an increase in our shareholding in apple marketing business Fern Ridge to approximately 73 per cent.”

“Longview is well-regarded in the Hawke’s Bay with a strong and proud history spanning more than 100 years. The purchase also included 22 hectares of orchard immediately surrounding the Longview packhouse as well as entering into a lease for a further 17 hectares of nearby apple orchards.

“Longview provides a compelling strategic rationale to Scales. Their plantings are complementary to our Asian and Middle East consumer focus. During 2016, Longview sold approximately 62 per cent of its apple crop to this region. In addition, Longview’s packing and coolstorage facilities ideally complement our existing post-harvest facilities. The Longview operations are located nearby, providing opportunities to improve post-harvest specialisation as well as increasing overall group-wide capacity to meet expected production growth.

“We are also extremely pleased to have the strategic support of China Resources who, through their extensive networks, are well positioned to assist us with our growth through China and the rest of Asia. To further assist sales into this region, we have been making significant investments in marketing resource, presence and collateral. A number of new initiatives were introduced in 2016 and these will continue to be developed through 2017 to enhance our leading market position.

“On the balance sheet net debt ended the year at \$34.6 million. This low level of gearing places us in a strong financial position with capacity to finance future growth opportunities that may present themselves. In addition to the acquisition of Longview and its surrounding orchards, and the price paid to increase our shareholding in Fern Ridge, the group invested a further \$15.7 million in capital expenditure projects to help deliver FY2016, and drive future, growth” Mr Borland says.

During the year Scales declared dividends of 14.5 cents per share.³ An interim FY2016 dividend of 8.0 cents per share was declared in December and paid in January 2017. “As we have done in previous years, the board expects to declare a final dividend in respect of FY2016 in May with payment in July.” Mr Borland says.

Divisions

Horticulture

The Horticulture division delivered strong organic growth, with Underlying EBITDA increasing from \$40.0 million in FY2015 to \$45.3 million in FY2016, an uplift of 13 per cent for the year, Mr Borland says.

“This improvement in profit was largely driven by a significant increase in export volumes sold which were up by 12 percent to 3.55 million TCEs. The growth in export volumes was mostly influenced by a strong export ‘packout’ (percentage of fruit deemed suitable for export) due to a good crop displaying positive colour, size and taste qualities.

“The weighted average price achieved for our apples was also up slightly on 2015 levels. This was influenced by improving varietal and market mix as well as improved pricing on traditional varieties.

“In December we launched Dazzle, a large, red, sweet apple which has taken 20 years to develop. This apple is aimed at Asian consumers in particular, but has also attracted attention worldwide. In line with our strategic focus, Dazzle is the first of what we hope will be a succession of branded plant variety rights in which we have an interest.” Mr Borland says.

Storage & Logistics

“The Storage & Logistics division delivered a consistent result with Underlying EBITDA of \$16.2 million in FY2016 in line with FY2015 Underlying EBITDA of \$16.3 million.

“This result included strong performances from both bulk liquid storage business Liqueo and our freight forwarding operation Scales Logistics. These businesses benefitted from favourable market conditions and a full year of contributions from 2015 initiatives to deliver meaningful improvements in profit.

³ Scales declared a final dividend of 6.5 cents per share for FY2015 in May 2016, which was paid on 8 July 2016. This followed the 6.5c interim and 4c special dividends for FY2015 which were declared in December 2015 and paid on 20 January 2016.

“Our coldstore businesses were affected by higher product velocity and a slower start to the 2016/2017 cropping season affecting fourth quarter activity. We expect the performance from coldstores to be more subdued in years where external market factors are generally favourable to New Zealand agriculture. Scales is positioned to be a net beneficiary of these market conditions through its Horticulture and Food Ingredients divisions. Through the somewhat counter-cyclical coldstore activities, which tend to perform well in slower markets, we are managing our group-wide exposure to external market factors.

“Nevertheless, we will be reviewing our activities to see if there are opportunities we should be pursuing to enhance coldstore asset returns” Mr Borland says.

Food Ingredients

“Once again Scales’ Food Ingredients division has produced another strong result with Underlying EBITDA of \$9.2 million, 22 per cent ahead of FY2015.”

“Within the division Meateor sold nearly 23,000 tonnes of pet food ingredients, 14 per cent higher than its previous record set in FY2015. Profruit also delivered another strong result with our share of Net Profit from this business increasing by 11 per cent” Mr Borland says.

Outlook

Looking ahead, Mr Mayson says: “Apple picking for the FY2017 crop has recently begun. Early indications are positive with very good brix (sweetness), colour, and fruit size characteristics. This, coupled with generally supportive factors for other Scales’ entities allows us to reaffirm guidance provided late last year for FY2017 EBITDA of between \$55 million and \$62 million.”

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About Scales Corporation

Scales Corporation is a diversified agribusiness group. It currently comprises three operating divisions: Horticulture, Storage & Logistics and Food Ingredients. The company’s diverse spread of activities gives Scales broad exposure to New Zealand’s agribusiness sector. Scales Corporation was founded in 1897 as a shipping business by George Herbert Scales. Today it employs more than 600 staff New Zealand wide. Find out more at www.scalescorporation.co.nz.