

27 February 2019

SCALES CORPORATION DELIVERS STRONG PROFIT RESULT ON RECORD REVENUES

Highlights – 12 months to 31 December 2018

- Group FY2018 financial results:
 - Record Underlying Group Revenues¹ of \$464.7 million, 18 per cent above FY2017.
 - Underlying EBITDA² of \$67.1 million, exceeding previously provided guidance.
 - Underlying Net Profit³ of \$35.8 million, statutory Net Profit for the Year of \$45.5 million.
- Mr Apple export volumes up 9 per cent to 3,867k TCEs⁴, a new volume record.
- Significant progress made against Strategy Refresh with sale of Liqueo, conditional sale of Polarcold, and acquisition of controlling interest in Shelby Foods.
- Significant investment in new proprietary premium varieties.
- Two new additions to the board, with Nadine Tunley and Tomakin Lai adding industry experience and depth.

Diversified agribusiness group Scales Corporation Limited (NZX:SCL) today reported its FY2018 full year results. Net Profit for the year (including non-cash NZ IFRS adjustments) was \$45.5 million (FY2017: \$31.6 million). Earnings per share for FY2018 were 32.2 cents per share (FY2017: 22.5 cents per share).

Scales Corporation chairman Tim Goodacre says: “2018 was another solid year for Scales with a number of new initiatives progressed. The company made significant progress against its Strategy Refresh, with the conditional sale of Polarcold and sale of Liqueo. Our strategy is to reinvest the proceeds from these sales in higher-returning opportunities available to us in the agribusiness space. The first of these investments was in our Food Ingredients division, with the acquisition of Shelby Foods in the United States in December 2018. We hope that this will be the first in a series of successful investments.”

¹ Underlying revenues include revenues from continuing and discontinued operations

² Earnings before interest, tax, depreciation and amortisation and excludes non-cash New Zealand International Financial Reporting Standards (NZ IFRS) adjustments.

³ Net Profit excluding non-cash NZ IFRS adjustments. A reconciliation between Net Profit and Underlying Net Profit is provided in the appendix of our annual results presentation pack.

⁴ Tray carton equivalent, a measure of apple and pear weight, defined as 18.6kg packed weight which equates to 18.0kg sale weight.

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“In addition, Scales produced a strong financial result, with Underlying profitability above previously issued guidance. This is a very satisfying result, supported by strong performances across all divisions, once again reflecting the attention to detail and commitment to excellence within the team.”

“Finally, I am very pleased to welcome Nadine Tunley and Tomakin Lai as our newest members of the Scales board. Nadine adds industry experience, whilst Tomakin replaces Weiyong Wang as the representative for China Resources Ng Fung. In accordance with standard practice, both Nadine and Tomakin will resign and offer themselves for re-election at the next Annual Shareholders Meeting.” Mr Goodacre said.

Scales Corporation managing director Andy Borland notes: “Scales is embarking upon a new and exciting journey. We are excited to welcome Shelby and their team to the Scales family, and by the many opportunities available to the Group. Mr Apple is embarking upon a new phase of orchard redevelopment – renewing our commitment to proprietary premium varieties targeted mostly at consumers in Asia. We invested \$16.3 million in capital expenditure during FY2018, of which \$10.0 million was in Mr Apple including redevelopment of nearly 67 hectares.”

“Net debt at 31 December 2018 was \$62.2 million. The increase over previous periods was mostly due to the acquisition of Shelby, which settled in late December. During the year Scales declared dividends of 18.5 cents per share.⁵ As in previous years timing, the board expects to declare a final dividend in respect of FY2018 in May, with payment in July.” Mr Borland says.

Divisions

Horticulture

The Horticulture division delivered a strong performance with Underlying EBITDA of \$42.6 million in FY2018 (FY2017: \$38.9 million).

Mr Borland noted that “Mr Apple reached a new volume record, with 3,867k TCEs of our own-grown apples exported, an increase of 9 per cent over 2017 volumes, notwithstanding a reduction in packouts from 80 per cent to 76 per cent. More pleasing was that volume growth was concentrated in sales of premium varieties, which collectively recorded volume growth of 18 per cent over 2017 export volumes.”

“In addition to increased volumes, Mr Apple achieved an increase in overall weighted average sales prices, reflecting product mix and solid demand from key markets.”

⁵ Scales declared a final dividend of 9.0 cents per share for FY2017 on 1 May 2018, which was paid on 6 July 2018 and declared an interim dividend of 9.5 cents per share for FY2018 on 5 December 2017, which was paid on 18 January 2019.

“Mr Apple is embarking on the next exciting step of its growth strategy, with significant orchard redevelopment having taken place during 2018 and further redevelopment scheduled for 2019 and 2020. Newly developed orchards will be concentrated in our proprietary varieties Dazzle® and Posy®, which are sweet apples targeted at the Asia markets. The newly developed orchards will also take advantage of developments in orchard planting. These techniques are expected to result in higher yields in less time, and reduced operating costs such as picking.”

“We also continued our focus on investing in the Mr Apple brand. This is to ensure our product is clearly differentiated in the market place as a premium-quality product to enable us to maximise returns year-on-year.”

Storage & Logistics

The Storage & Logistics division delivered another strong result with EBITDA of \$21.1 million in FY2018, an increase of 10 per cent on FY2017 Underlying EBITDA of \$19.1 million.

“Scales Logistics was the standout performer within Storage & Logistics, with EBITDA from that business up 48 per cent on the back of increased sea and airfreight activity.”

“Significant changes were made to the shape of our Storage & Logistics division with the sale of Liqueo in August 2018 and the conditional sale of Polarcold in May 2018. The sale of Polarcold remains subject to OIO approval. The deadline for satisfaction of this condition has been extended to 31 May 2019.” Mr Borland said.

Food Ingredients

The Food Ingredients division generated Underlying EBITDA of \$10.2 million (FY2017: \$8.0 million).

Mr Borland noted “the most significant development within this division was the acquisition of a controlling interest in Shelby Foods in December 2018. Shelby adds 80,000 MT of petfood ingredient sales, increasing the breadth and geographical diversity of proteins that we source as well as improving the strategic positioning of Meateor with its customers.”

“Meateor sold more than 29,000 MT of pet food ingredients, an increase of 5 per cent on its record FY2017 volumes. Profruit delivered another strong result, with overall juice concentrate sales up by 10 per cent on FY2017 volumes.” Mr Borland said.

Outlook

Looking ahead, Mr Goodacre said “the 2019 apple harvest is underway and early crop indications support a return to long-run packout rates. The Storage & Logistics and Food Ingredients divisions are also trading positively.”

Initial trading for FY2019 is in line with expectations, and with previous year's trading, although noting the revised volume forecast in Mr Apple due to orchard redevelopment and the transition to more market preferred varieties. However, Directors will not provide EBITDA guidance for FY2019 at this time, due to two key outstanding initiatives:

1. The sale of Polarcold remains conditional on OIO approval, simply reflecting the long regulatory approval process. Under the Sale Agreement the date this condition is currently required to be met has been extended by mutual agreement to 31 May 2019;
2. In line with our growth strategy, Scales' continues to make positive progress on a number of initiatives, some of which may be agreed in the near term.

Contact

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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 700 staff New Zealand wide. Find out more at www.scalescorporation.co.nz.