

SCALES CORPORATION LIMITED

Bringing Nutrition to the World

Half Year Results

For the Six Months Ended 30 June 2022

24 August 2022



Agenda

1. 1H22 Overview
2. Global Proteins
3. Sustainability
4. Group Results
5. Divisional Performance
6. FY22 Outlook

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- I. NZ IFRS Reconciliation
- II. Disclaimer





1. 1H22 Overview

1H22 Overview

Sustained growth in our Food Ingredients division has reaffirmed our belief in its global potential, particularly with regards to proteins. The success of our strategy, combined with the opportunities that are presenting themselves, has led to a renaming of the division to Global Proteins. Our strategy for growth of the division is outlined on slides 6 to 11

- ✓ Resilient Group performance:
 - ✓ Outstanding Global Proteins performance and steady Logistics earnings offset by lower Horticulture results
 - ✓ Financial results in line with expectations:
 - ✓ Underlying* NPAT Attributable to Shareholders of \$25.6m (1H21: \$29.0m), down 11.7%
 - ✓ Reported NPAT of \$35.1m (1H21: \$32.6m), up 7.5%
 - ✓ Directors advise that Underlying Net Profit Attributable to Shareholders is now expected to be at the upper end of the previously advised range of \$23.5m to \$28.5m due to expectations that 2H22 will be marginally above 2H21
- ✓ An exceptionally strong first half from Global Proteins, attributed to increased volumes sold together with changes in product mix and margins
 - ✓ Strong in-market prices to date more than offset by reduced volumes and increased costs in Horticulture
 - ✓ Logistics continuing to prove strategically important, providing vital services and solutions for both internal and external customers

* Underlying Results exclude some New Zealand International Financial Report Standards (NZ IFRS) non-cash and other adjustments. Management and the Board believe that Underlying Results more accurately demonstrate the change in operational performance of the Group. Underlying NPAT and Underlying EBITDA are shown before the deduction of share of Non-Controlling Interests (Fern Ridge and Shelby). Note that our definition of "Underlying" includes the effects of NZ IFRS 16 Leases in line with current market practice. All Underlying result numbers, including comparatives, are now inclusive of NZ IFRS 16 effects. A reconciliation of Underlying to Reported Measures is provided in Appendix I.



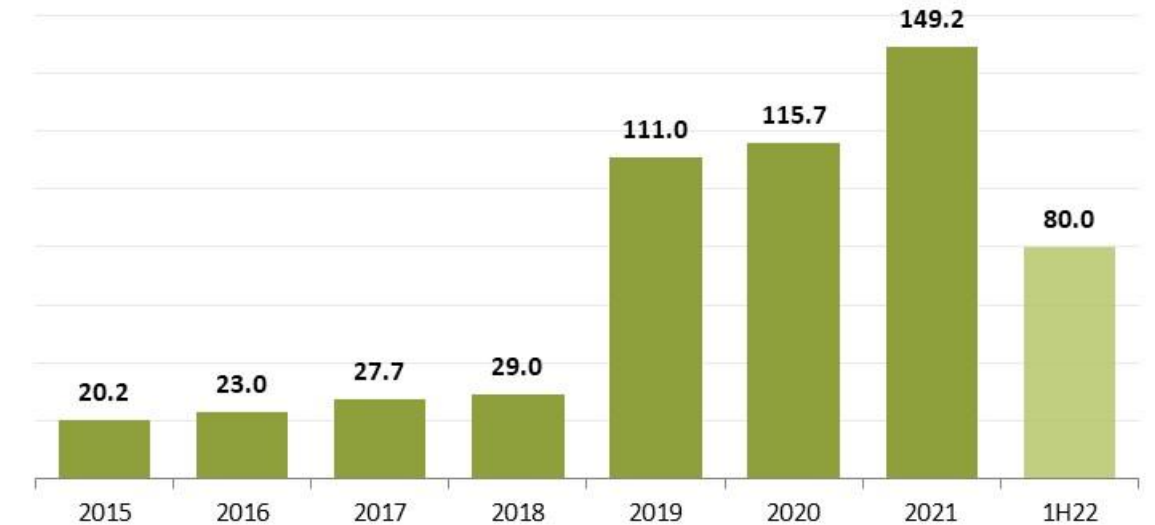
2. Global Proteins

Global Proteins – A Review to Date

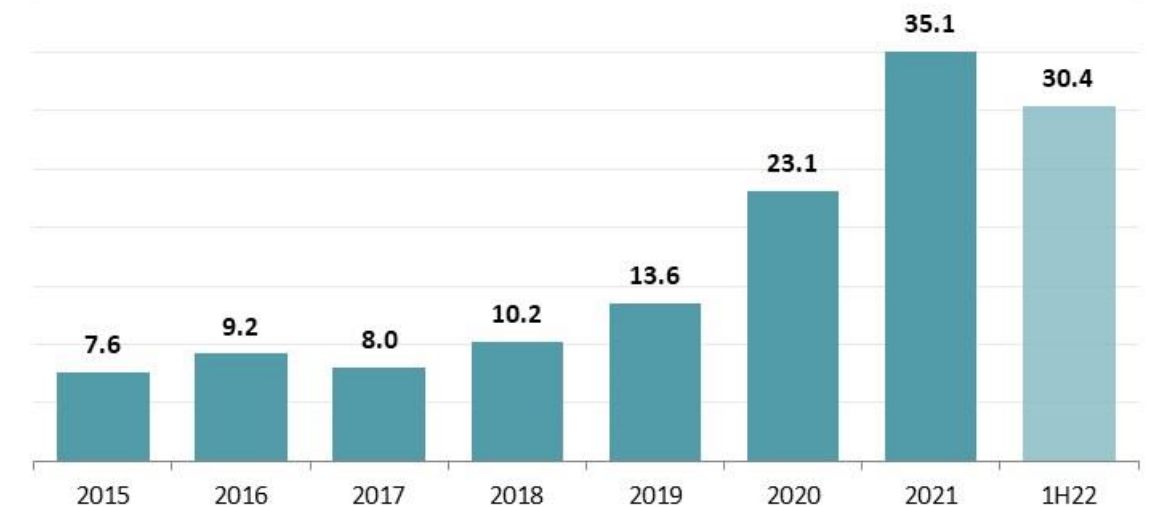
We are actively progressing our strategy objectives

- We firmly believe in the potential of the food ingredients opportunity. Given both the recent results of the division, and its global potential, we have changed the name of the division to better reflect its focus
- The previously outlined strategy is delivering results:
 - ✓ Divisional 5-year EBITDA target of \$25m set in December 2018 has been exceeded
 - ✓ Creating businesses dedicated to providing key protein ingredients
 - ✓ Expanding reach of supply and range of proteins
 - ✓ Partnering to further develop the supply network
 - ✓ Seeking to provide additional products and services
- Scales' value proposition and competitive advantage, coupled with the growing global protein demand, makes us confident about the future potential of the division

Petfood Ingredients Sold (MT 000s)



Underlying EBITDA (\$m)



Global Proteins – Global Protein Demand is Growing

- There is a correlation in the growth in petfood and human consumption protein demand due to their related drivers:
 - Estimated global population of 8.6 billion by 2030, with most of the growth from developing / emerging countries
 - The middle class could reach 4.9 billion people by 2030, a 172% increase from 2009
 - 7 out of 10 countries with the highest GDP growth are in Asia
 - Growing preference for pet ownership. Currently 59% of Asian households have a pet, compared to 70% of USA households
 - ‘Humanisation of pets’ driving preference for quality, sustainable and ethical products
 - The mismatch between protein supply and demand is anticipated to grow
- Demographic and social changes will drive a shift in our food systems
- Scales is seeking to position itself to benefit from the anticipated growth in protein demand for by-products for pet consumption and other edible applications

Global Human Meat Consumption (MT) vs Global Petfood Consumption (\$)

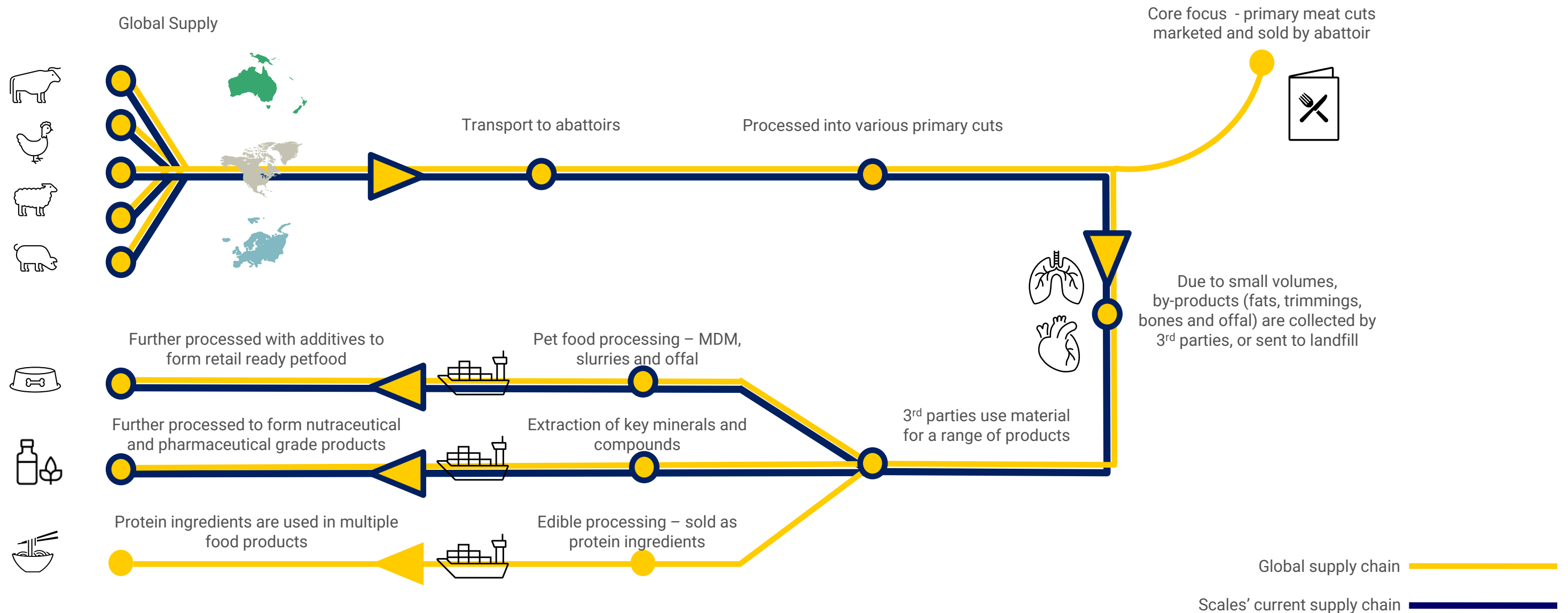


Sources: <https://www.pwc.co.nz/pdfs/2019pdfs/global-megatrends-and-impacts-on-the-food-value-chain.pdf>, United Nations, MPI, OECD, FAO

Global Proteins – Protein Supply Chain

There is a strong relationship between petfood and edible protein supply chains

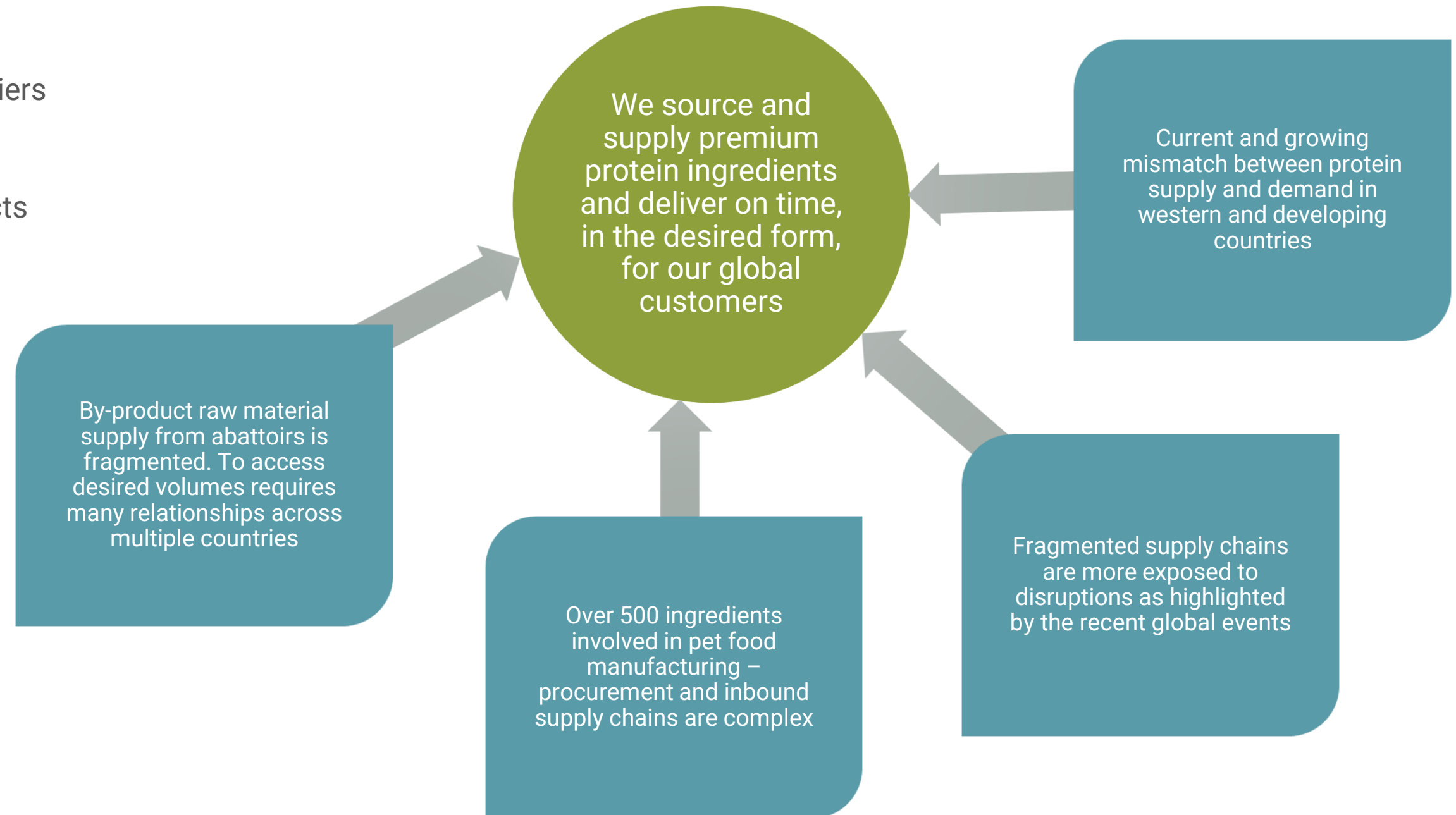
- Scales’ strength in global proteins lies in its supplier and customer relationships coupled with its logistics network, and a reputation for quality products. Scales will look to leverage this expertise for complementary expansion



Global Proteins – Scales’ Value Proposition

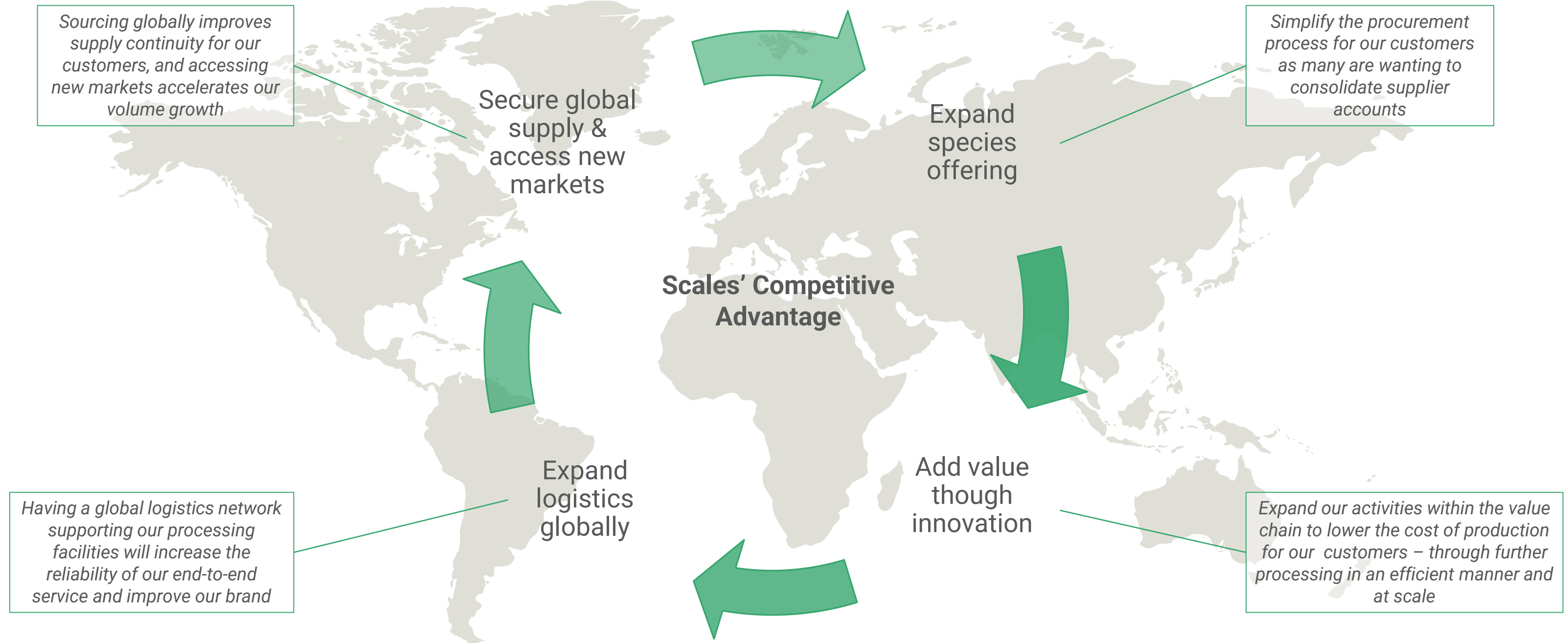
Our value proposition is our wide range of quality ingredients and end-to-end supply chain excellence

- ‘One stop shop’ for customers and suppliers
- Global supply relationships
- Specialised processing to turn by-products into higher value ingredients
- End-to-end logistics provider



Global Proteins - Creating a Global Competitive Advantage

The critical factors in becoming a global strategic partner to our customers and suppliers are:



Global Proteins – Scales’ Strategic Objectives

Secure global supply and access new markets

Objective

- We will enter into partnerships, joint ventures and alliances to further develop our supply network, either working alongside existing operations that are complementary to our own or with protein suppliers to achieve access to additional protein sources
- We recognise that each market presents unique opportunities thus our partnership model will be adaptable by region

Actions:

- We are actively investigating options to enhance our supply of protein across existing and new markets

Expand species offering

Objective

- We intend to extend our range of proteins offered
- Leverage our existing supplier and customer relationships to expand into new species

Actions:

- We continue to discuss options to expand our species offering

Add value through innovation

Objective

- Look to provide additional services to enable our customers to remain nimble, reduce fixed capital costs and enable them to focus on the range and mix of products offered
- Closely monitor trends in the pet food market to lead development of innovative new products to meet the needs created by those trends

Actions:

- Through disciplined research we continue to look for ways to be innovative and enhance the value we add for our customers

Expand logistics globally

Objective

- As we expand, look for options to improve our freight, logistics, and storage solutions

Actions:

- We have increased our staff presence in key growth markets to explore new options to enhance our logistics service



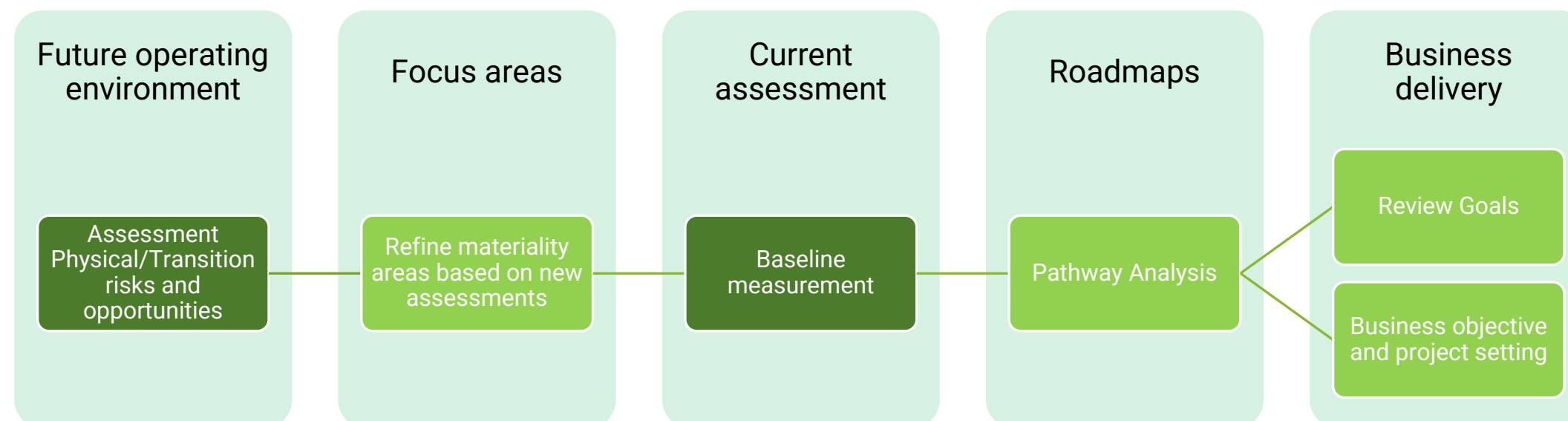
3. Sustainability

Sustainability Overview

Continuous improvement

2022 is about re-focusing on the key material issues

- We are currently undertaking scenario analysis to better understand our future physical and transitional risks and opportunities
- The aim is to then re-visit our material issues, and use this information to get clarity on our key focus areas
- In parallel, we are also doing a group-wide baseline assessment for carbon and water. These footprints will feed into our future carbon and water reduction roadmaps
- Our existing projects across environment, people and marketplace are all progressing well



4. Group Results



Group Financial Performance

Diversification strategy and strong teamwork delivering resilient and solid results

- Reported NPAT Attributable to Shareholders of \$26.1m (down 8.0% on 1H21)
- Underlying NPAT Attributable to Shareholders of \$25.6m (down 11.7% on 1H21)
- Underlying NPAT of \$34.7m (up 4.0% on 1H21)
- Underlying EBITDA of \$55.4m (up 1.0% on 1H21)

Income Statement									
\$m	NPAT Attributable to Shareholders			NPAT			EBITDA		
	1H22	1H21	% chg.	1H22	1H21	% chg.	1H22	1H21	% chg.
Underlying (excluding NZ IFRS 16)	25.8	29.3	-11.8%	34.8	33.6	3.8%	49.7	49.3	0.8%
NZ IFRS 16 Leases	(0.2)	(0.2)		(0.2)	(0.2)		5.7	5.5	
Underlying (including NZ IFRS 16)	25.6	29.0	-11.7%	34.7	33.3	4.0%	55.4	54.8	1.0%
NZ IFRS & other adjustments:									
Gain on sale of Havelock North Packhouse	-	1.0		-	1.0		-	1.0	
Transaction costs	(0.0)	(1.2)		(0.0)	(1.2)		(0.0)	(1.2)	
Other adjustments	0.5	(0.5)		0.5	(0.5)		1.1	(0.2)	
Reported	26.1	28.3	-8.0%	35.1	32.6	7.5%	56.4	54.5	3.6%

Notes:

1. Prepared on an Underlying basis (including the effects of NZ IFRS 16 Leases). A reconciliation to NZ IFRS is provided in Appendix I
2. %'s are calculated based on non-rounded figures, figures may not sum due to rounding
3. Earnings are shown before the deduction of share of NPAT for Non-Controlling Interests of \$9.0m (1H22) vs \$4.3m (1H21)
4. A combination of an increase in the apple tree useful life assumption and the impact of revaluations has led to a slight decrease in depreciation expense

Divisional Overview

Solid results underpinned by sustained growth in Global Proteins

- Global Proteins – an exceptionally strong 1H22, attributed to increased volumes sold together with changes in product mix and margins
- Horticulture – strong in-market prices to date more than offset by reduced volumes and increased costs
- Logistics – positive result notwithstanding lower volumes and difficult market conditions

Divisional Performance					
\$m	1H22	1H21	2H21	FY21	% chg. 1H22 v 1H21
Global Proteins	30.4	16.1	19.0	35.1	88.6%
Horticulture	24.0	38.0	1.1	39.1	-36.8%
Logistics	3.6	2.7	2.2	4.9	31.9%
Corporate	(2.7)	(2.0)	(3.3)	(5.3)	31.3%
Underlying EBITDA	55.4	54.8	19.0	73.8	1.0%
Underlying NPAT	34.7	33.3	6.5	39.8	4.0%
Underlying NPAT Attributable to Shareholders	25.6	29.0	0.7	29.8	-11.7%

Notes:

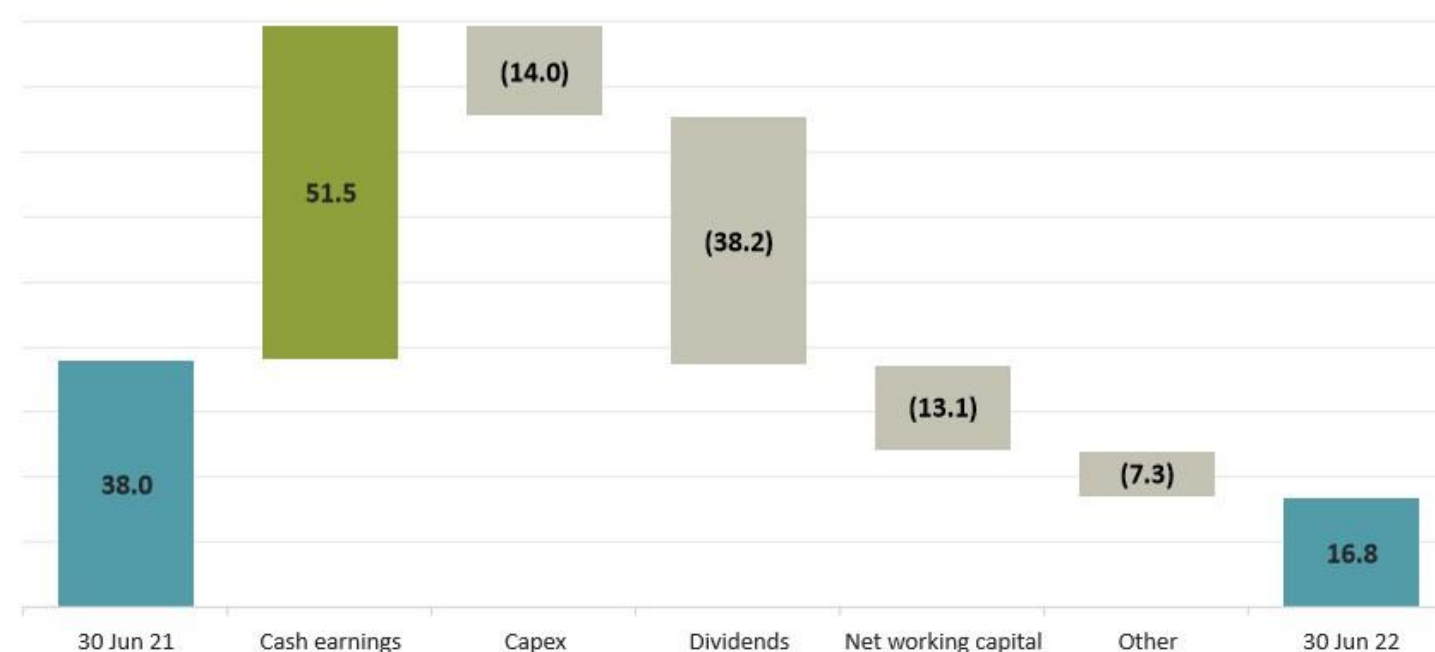
1. Prepared on an Underlying basis (including the effects of NZ IFRS 16 *Leases*). A reconciliation to NZ IFRS is provided in Appendix I
2. %'s are calculated based on non-rounded figures, figures may not sum due to rounding
3. NZ IAS 41 *Agriculture* requires unsold agricultural produce to be measured at fair value less costs to sell. This means that the expected profit on unsold fruit is recognised in our interim result, giving rise to seasonality in profitability

Balance Sheet

Strong financial position

- Net Cash of \$16.8m at 30 June 2022 vs \$38.0m at 30 June 2021
- Agricultural produce represents unsold fruit at 30 June:
 - As at 30 June 2022, 36% of crop sold (30 June 2021: 47%)
 - As of today, ~40% of crop unsold
- Increase in net financial liabilities, reflecting the mark-to-market position of FX hedging

Net Cash Reconciliation (\$m)



Balance Sheet		
\$m	Jun-22	Jun-21
<i>Current assets excluding cash</i>		
Trade & other receivables	101.6	77.0
Inventories	38.7	32.7
Agricultural produce	85.4	74.4
Other	7.6	11.5
Current Assets	233.3	195.7
<i>Current liabilities excl overdraft, borrowings & dividends declared</i>		
Trade & other payables	(85.3)	(63.0)
Lease liability	(10.1)	(10.4)
Other	(24.7)	(17.8)
Current Liabilities	(120.0)	(91.2)
Net Working Capital	113.2	104.5
<i>Non-current assets</i>		
Property, plant & equipment	214.5	183.0
Other non-current assets	85.5	82.6
Right of use asset	74.9	78.8
Non-Current Assets	374.9	344.4
Capital Employed	488.1	448.9
<i>Non-current and other liabilities</i>		
Deferred tax liabilities	(9.4)	(14.4)
Other financial liabilities	(25.1)	(2.5)
Dividends declared	(13.4)	(13.4)
Lease liability	(68.4)	(71.2)
Non-current and other liabilities	(116.3)	(101.5)
<i>Net cash</i>		
Cash less overdraft	56.3	91.2
Borrowings	(39.4)	(53.3)
Net cash	16.8	38.0
Total Equity	388.6	385.4



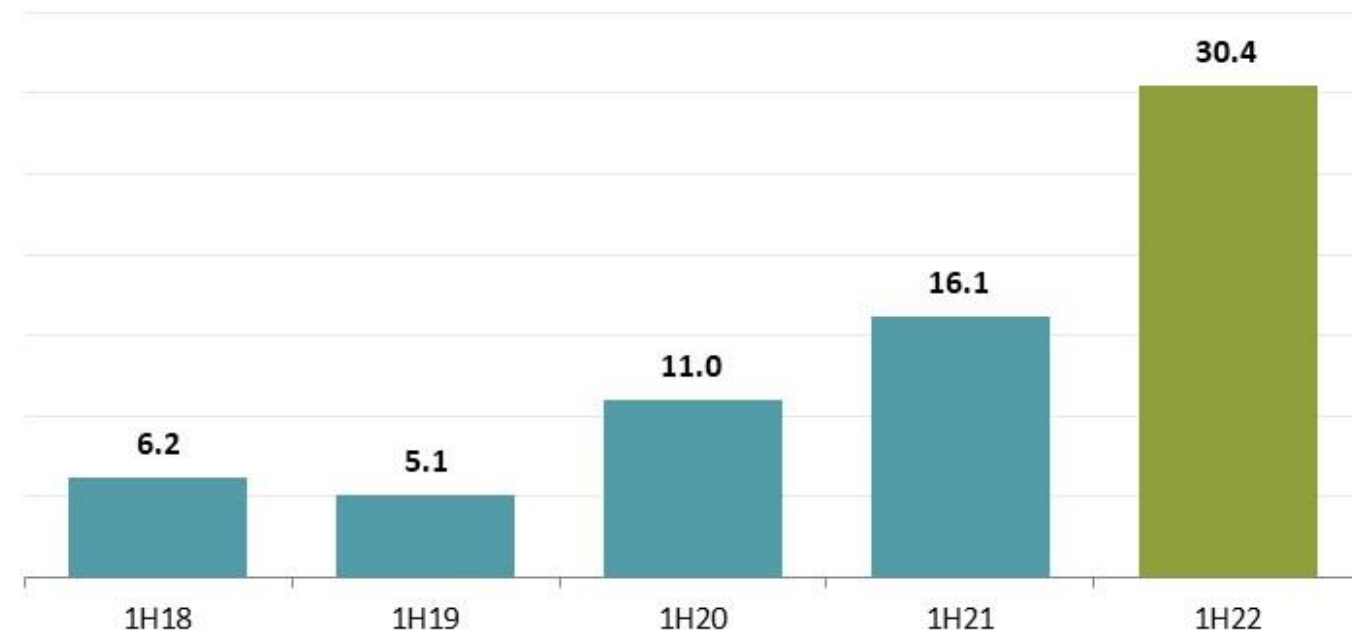
5. Divisional Performance

Global Proteins – Financial Result

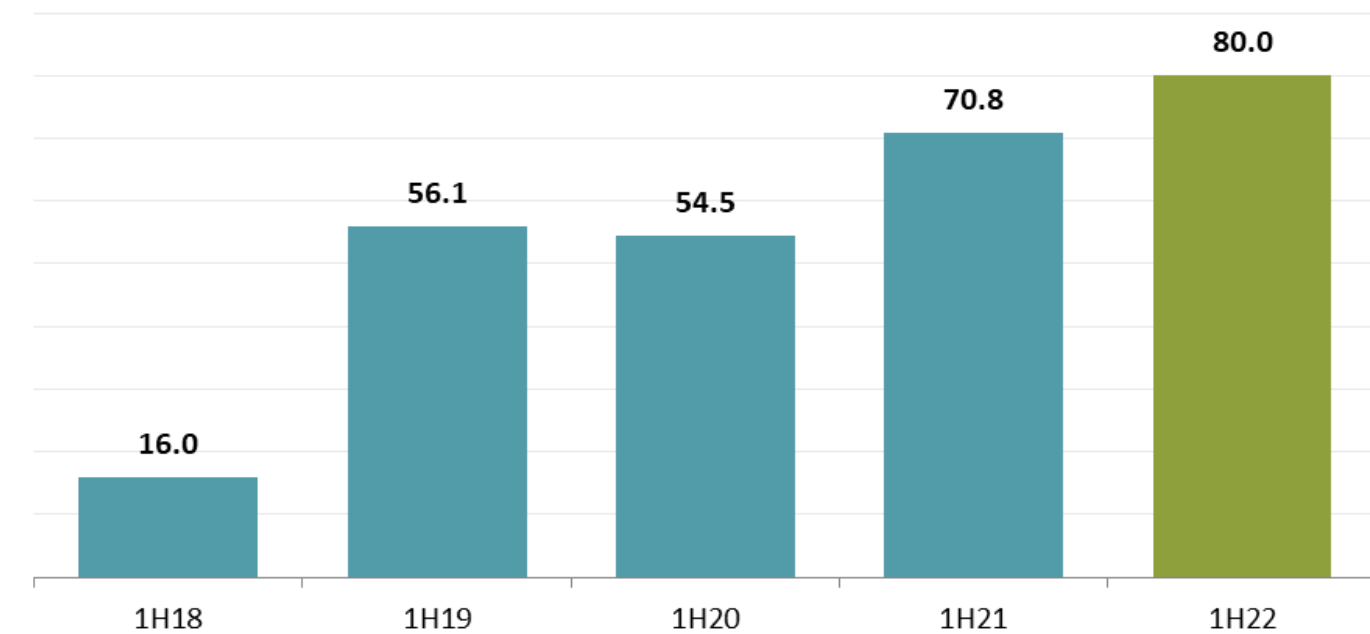
Significant growth, reflecting ongoing global demand for petfood

- Excellent half year result:
 - Underlying EBITDA of \$30.4m (1H21: \$16.1m), an increase of 88.6%
 - 13% increase in volumes sold
 - We expect that earnings for the 2H22 will be similar to 2H21
 - The development of new organic growth opportunities remains encouraging

Global Proteins - Underlying EBITDA (\$m)



Petfood Ingredients - Volumes Sold (MT 000s)

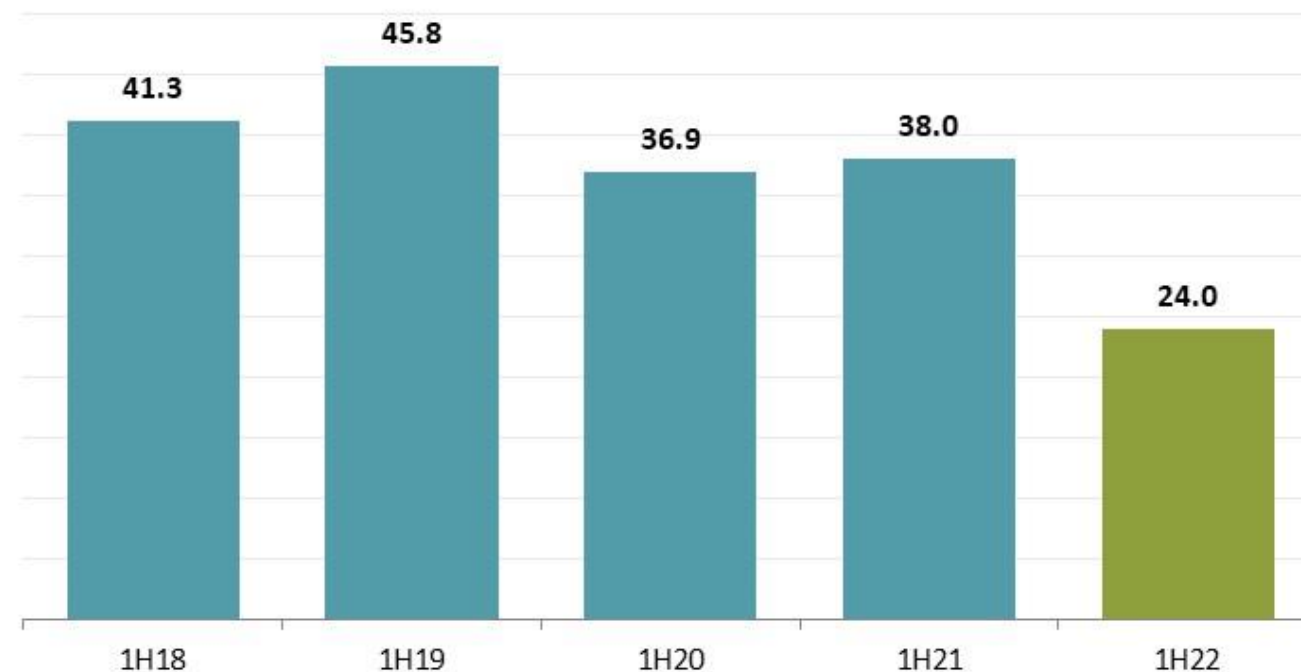


Horticulture – Financial Result and Drivers

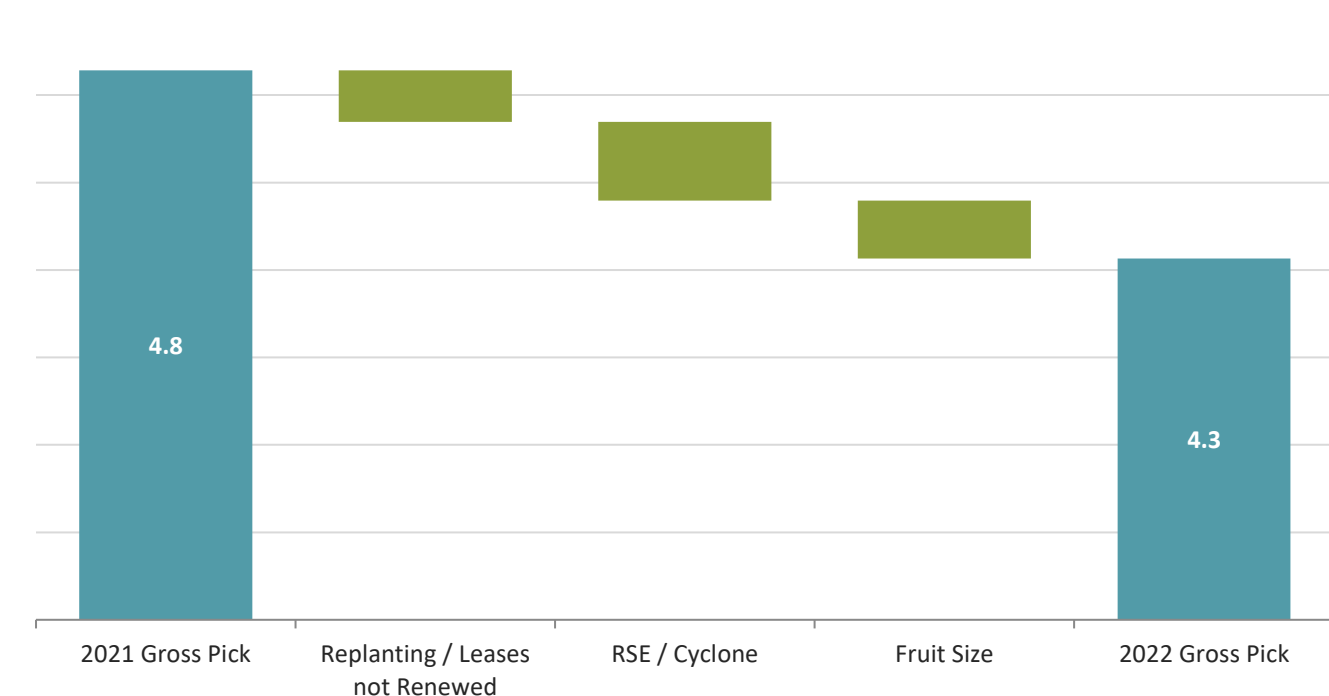
Significant headwinds encountered

- Underlying EBITDA \$24.0m (1H21: \$38.0m):
 - Higher in-market pricing was offset by lower export volumes and increased labour and shipping costs
- Mr Apple own-grown volumes lower than both forecast and 2021 volumes
- Packhouse automation project progressing well

Horticulture - Underlying EBITDA (\$m)



Gross Pick - Volume Bridge (2021 to 2022)

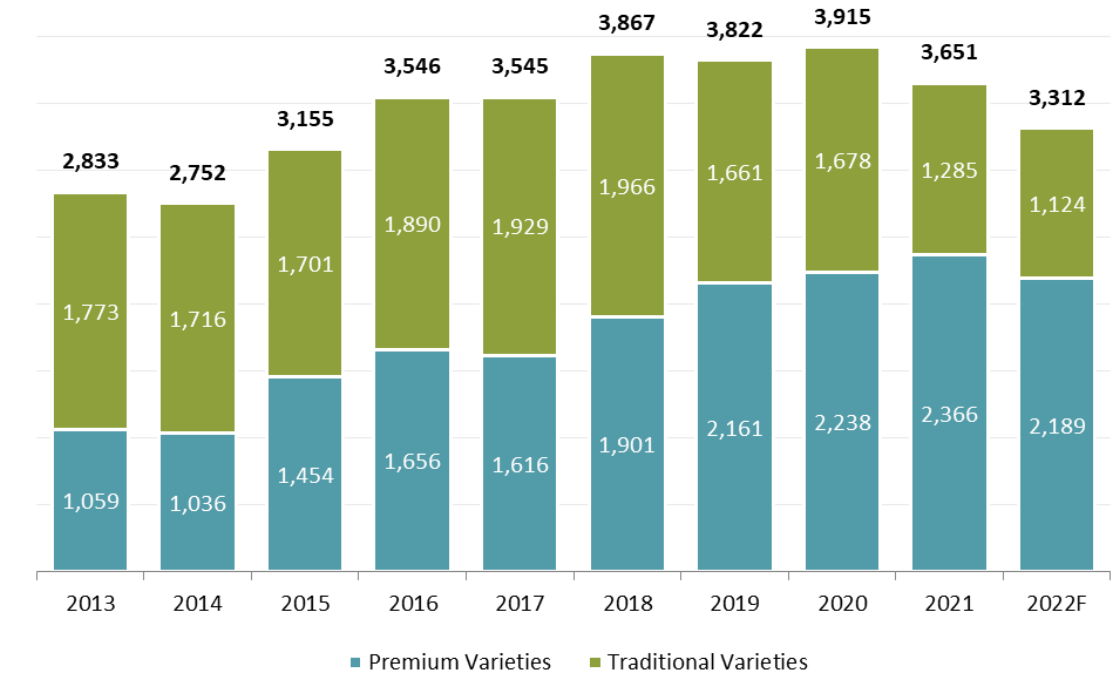


Horticulture – Volumes

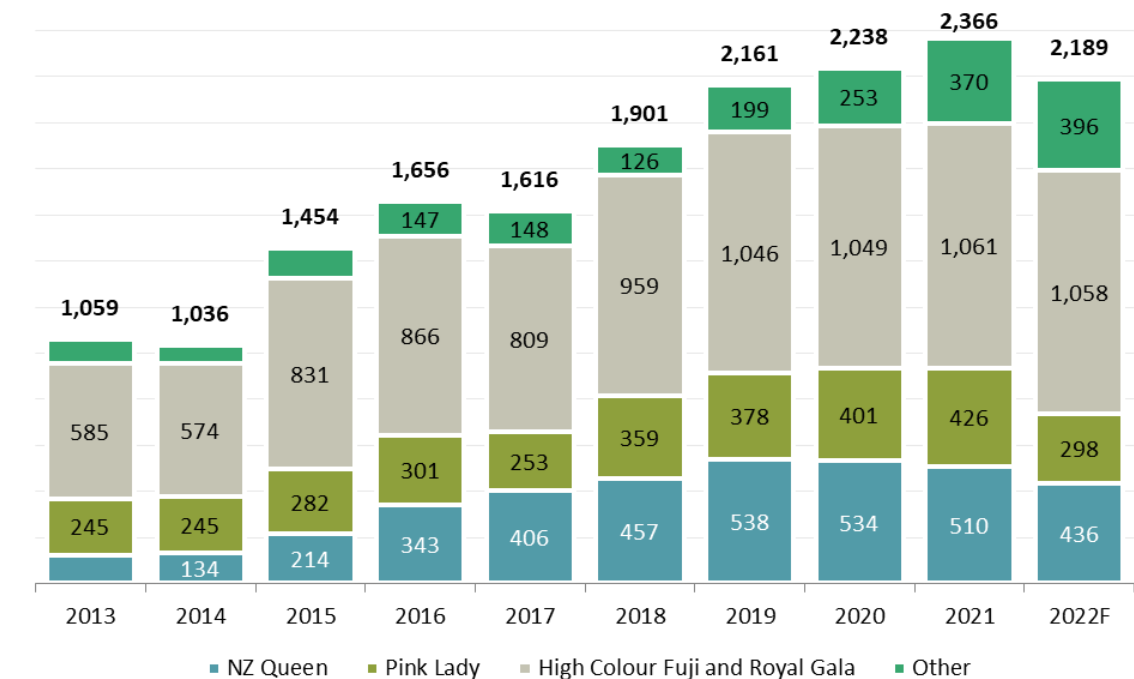
Volumes affected by weather and operational effects

- The National crop volumes for 2022 are forecast to be around 6% less than 2021
 - Hawke’s Bay and other growing regions, impacted by adverse weather events during key growing period
 - Industry affected by RSE and other labour availability
- Forecast Mr Apple total own grown export volumes down 9% on prior year at 3.3m TCEs (2021: 3.6m TCEs). Crop also impacted by:
 - Orchard redevelopment and some orchard leases not renewed
 - Cloudy weather conditions impacting size and brix of apples
- Export packout to date approximately 75% (2021: 77%)
- Forecast decrease in both Premium and Traditional variety volumes:
 - Reduced volumes of NZ Queen and Pink Lady
 - Significant % growth in Dazzle™ and Prince™ volumes
 - Traditional volumes impacted by reduced planted area of traditional varieties and weather

Mr Apple Own Export Volumes (TCE 000s)



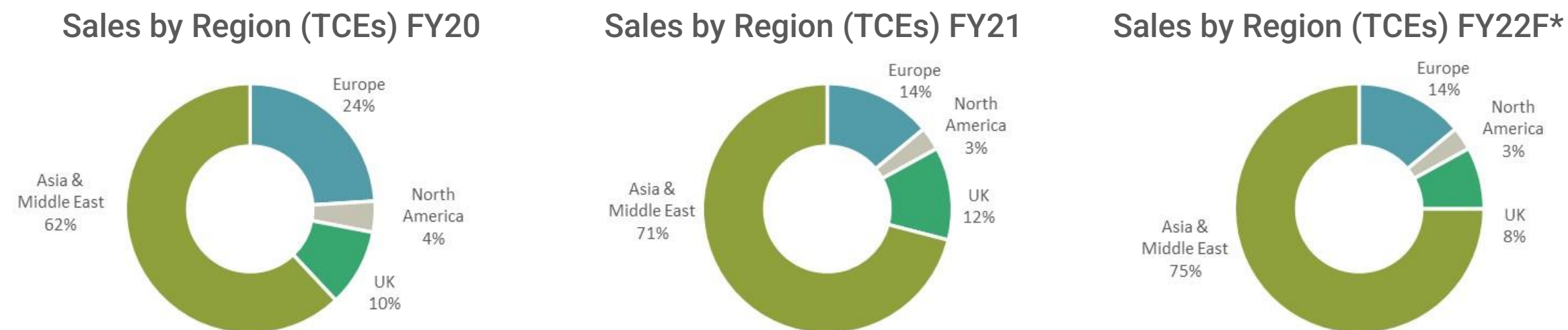
Growth in Premium Volumes (TCE 000s)



Horticulture – Markets and Pricing

Market diversification partially offset effects of difficult season

- Inflation and the overall cost of living has curbed consumer spending globally
 - Expected positive demand for the upcoming China Mid-Autumn Festival, although lockdowns impacted earlier sales volumes
 - Steady demand in other Asian markets such as Thailand and Singapore, with pressure in other markets due to apples being imported from other countries
 - European and UK markets affected by high domestic volumes, low consumer confidence and the large summer fruit season
- Pricing above, or in line with, 2021 in most export markets:
- Continued focus on growing demand via branding and new varieties



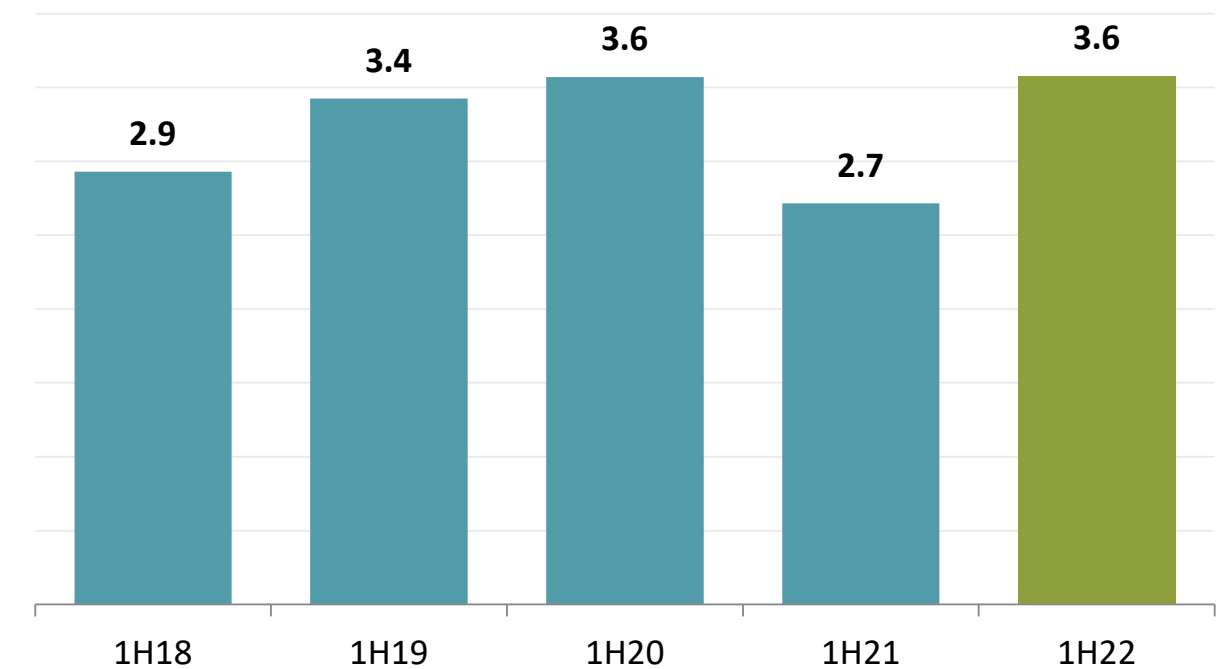
* Actual sales by region will not finally be known until all fruit is sold.
Sales to Asia and Middle East are predominantly in USD, North American sales are in CAD and USD, UK and Europe sales predominantly in their respective currencies.

Logistics – Update

Strategic value continuing to prove important

- Underlying EBITDA of \$3.6m (1H21: \$2.7m), an increase of 31.9%
- Ongoing pressure on the global supply chain:
 - Restricted shipping capacity, labour shortages and increased costs
- Skill and expertise of team providing vital services and sourcing solutions for both internal and external customers:
 - Opportunity to expand this offering and expertise to global markets
- Supply chain difficulties and elevated pricing expected to continue into 2023

Logistics - Underlying EBITDA (\$m)





6. Outlook

Full Year 2022 Outlook

Scales has updated its FY22 guidance

- Directors advise that Underlying Net Profit Attributable to Shareholders is now expected to be at the upper-end of the previously advised range of \$23.5m to \$28.5m
 - Due to the change in earnings mix, the implied Underlying Net Profit range has increased to \$35m to \$43m and the Underlying EBITDA range has increased to \$65m to \$75m
- In providing this updated guidance for 2022, Directors' note:
 - Global Proteins' earnings for 2H22 are expected to be similar to 2H21
 - Earnings from the Horticulture division remain subject to the success of the Mid-Autumn Festival sales in China and also a stronger finish to sales in the European market than experienced in 2021
 - Mr Apple has a higher level of fruit that is unsold compared to last year
 - The challenges in global logistics are expected to continue through to at least 2023
- Finally, Scales continues to investigate an increasing number of, predominantly offshore, opportunities to grow the Global Proteins division

Appendices



Appendix I – NZ IFRS Reconciliation

Reconciliation of Divisional Underlying Profitability to Reported Profitability										
\$m	Group		Global Proteins		Horticulture		Logistics		Corporate & Eliminations	
	1H22	1H21	1H22	1H21	1H22	1H21	1H22	1H21	1H22	1H21
Underlying / Reported Revenue	309.3	253.8	151.7	99.8	117.3	127.4	67.9	43.6	(27.6)	(17.0)
EBITDA Reconciliation										
Underlying EBITDA (excluding NZ IFRS 16)	49.7	49.3	30.4	16.1	18.8	33.0	3.2	2.3	(2.7)	(2.1)
NZ IFRS 16 Leases	5.7	5.5	0.0	0.0	5.2	5.0	0.4	0.4	0.0	0.0
Underlying EBITDA (including NZ IFRS 16)	55.4	54.8	30.4	16.1	24.0	38.0	3.6	2.7	(2.7)	(2.0)
Other adjustments:										
Gain on sale of Havelock North Packhouse	-	1.0	-	-	-	1.0	-	-	-	-
Change in fair value gain on apple inventory	1.4	0.4	-	-	1.4	0.4	-	-	-	-
Change in gross liability for non-controlling interests	0.0	(0.1)	0.0	(0.1)	-	-	-	-	-	-
Equity settled employee benefits	(0.3)	(0.4)	-	-	-	-	-	-	(0.3)	(0.4)
Transaction costs	(0.0)	(1.2)	-	-	-	-	-	-	(0.0)	(1.2)
Reported EBITDA	56.4	54.5	30.5	16.0	25.4	39.5	3.6	2.7	(3.0)	(3.7)
EBIT Reconciliation										
Underlying EBIT (excluding NZ IFRS 16)	44.5	44.0	30.1	15.7	14.1	28.2	3.1	2.2	(2.7)	(2.1)
NZ IFRS 16 Leases	1.2	1.1	0.0	0.0	1.1	1.0	0.1	0.1	0.0	0.0
Underlying EBIT (including NZ IFRS 16)	45.7	45.2	30.1	15.7	15.2	29.3	3.2	2.3	(2.7)	(2.1)
Other adjustments:										
Gain on sale of Havelock North Packhouse	-	1.0	-	-	-	1.0	-	-	-	-
Change in fair value gain on apple inventory	1.4	0.4	-	-	1.4	0.4	-	-	-	-
Change in gross liability for non-controlling interests	0.0	(0.1)	0.0	(0.1)	-	-	-	-	-	-
Equity settled employee benefits	(0.3)	(0.4)	-	-	-	-	-	-	(0.3)	(0.4)
Transaction costs	(0.0)	(1.2)	-	-	-	-	-	-	(0.0)	(1.2)
Reported EBIT	46.8	44.8	30.1	15.5	16.5	30.7	3.2	2.3	(3.1)	(3.7)

Appendix I – NZ IFRS Reconciliation (continued)

Reconciliation of Divisional Underlying Profitability to Reported Profitability										
\$m	Group		Global Proteins		Horticulture		Logistics		Corporate & Eliminations	
	1H22	1H21	1H22	1H21	1H22	1H21	1H22	1H21	1H22	1H21
NPAT Reconciliation										
Underlying NPAT (excluding NZ IFRS 16)	34.8	33.6	24.3	13.3	10.1	20.3	2.2	1.6	(1.8)	(1.6)
NZ IFRS 16 Leases	(0.2)	(0.2)	(0.0)	0.0	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)
Underlying NPAT (including NZ IFRS 16)	34.7	33.3	24.3	13.3	9.9	20.1	2.2	1.5	(1.8)	(1.6)
Other adjustments:										
Gain on sale of Havelock North Packhouse	-	1.0	-	-	-	1.0	-	-	-	-
Change in fair value gain on apple inventory	1.4	0.4	-	-	1.4	0.4	-	-	-	-
Change in gross liability for non-controlling interests	0.0	(0.1)	0.0	(0.1)	-	-	-	-	-	-
Equity settled employee benefits	(0.3)	(0.4)	-	-	-	-	-	-	(0.3)	(0.4)
Transaction costs	(0.0)	(1.2)	-	-	-	-	-	-	(0.0)	(1.2)
Tax effect of other NZ IFRS adjustments	(0.6)	(0.3)	(0.2)	(0.2)	(0.4)	(0.1)	-	-	-	-
Reported NPAT	35.1	32.6	24.1	12.9	10.9	21.4	2.2	1.5	(2.1)	(3.3)
NPAT Attributable to Shareholders Reconciliation										
Underlying NPATAS (excluding NZ IFRS 16)	25.8	29.3	15.3	9.0	10.1	20.3	2.2	1.6	(1.8)	(1.6)
NZ IFRS 16 Leases	(0.2)	(0.2)	(0.0)	0.0	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)
Underlying NPATAS (including NZ IFRS 16)	25.6	29.0	15.3	9.0	9.9	20.1	2.2	1.5	(1.8)	(1.6)
Gain on sale of Havelock North Packhouse	-	1.0	-	-	-	1.0	-	-	-	-
Change in fair value gain on apple inventory	1.4	0.4	-	-	1.4	0.4	-	-	-	-
Change in gross liability for non-controlling interests	0.0	(0.1)	0.0	(0.1)	-	-	-	-	-	-
Equity settled employee benefits	(0.3)	(0.4)	-	-	-	-	-	-	(0.3)	(0.4)
Transaction costs	(0.0)	(1.2)	-	-	-	-	-	-	(0.0)	(1.2)
Tax effect of other NZ IFRS adjustments	(0.6)	(0.3)	(0.2)	(0.2)	(0.4)	(0.1)	-	-	-	-
Reported NPAT Attributable to Shareholders	26.1	28.3	15.1	8.7	10.9	21.4	2.2	1.5	(2.1)	(3.3)

Appendix II – Disclaimer

The information in this presentation has been prepared by Scales Corporation Limited with due care and attention. However, neither Scales Corporation Limited nor any of its directors, employees, shareholders nor any other person shall have any liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

This presentation supplements our full year results announcement. It should be read subject to and in conjunction with the additional information in that release, and other material which we have released to the NZX.

This presentation may contain projections or forward-looking statements regarding a variety of items. Such projections or forward-looking statements are based on current expectations, estimates and assumptions and are subject to a number of risks, uncertainties and assumptions. There is no assurance that results contemplated in any projections and forward-looking statements in this presentation will be realised. Actual results may differ materially from those projected in this presentation. No person is under any obligation to update this presentation at any time after its release to you or to provide you with further information about Scales Corporation Limited.

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 charges / (revenue), and taxation expense to net earnings / (loss) from continuing operations
- EBIT. We calculate EBIT by adding back (or deducting) finance charges / (revenue), and taxation expense to net earnings / (loss) from continuing operations
- Underlying EBITDA and EBIT are calculated by adding back (or deducting) certain non cash NZ IFRS and other adjustments
- Underlying Net Profit is calculated by adding back or (or deducting) the after-tax effect of certain non cash NZ IFRS and other adjustments

A full reconciliation of Underlying to reported measures is provided in our Annual Report.

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

Forward-looking statements are subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances.

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