

SCALES CORPORATION LIMITED

Bringing Nutrition to the World

Petfood and Edible proteins investment in Australia

27 September 2022



Agenda

- Investment outline
- Strategic rationale for the investments
- Petfood proteins overview
- Edible proteins overview
- Global proteins – updated supply chain
- Alignment to strategic objectives



Investment Outline

Transaction #1

Petfood Proteins

- Scales has entered into an agreement to subscribe for a 33% shareholding of a newly established Petfood business based in Australia
- This business is currently developing a greenfield site in Melbourne to process and market petfood proteins. The plant has been ordered, and we are in advanced discussions on supply contracts
- Scales will be partnering with two recognised industry participants who bring extensive supply relationships. Each shareholder shall subscribe for a 1/3rd stake
- The investment will be the pro-rated capital expenditure and working capital requirements. Scales' contribution to the initial set up costs are expected to be AUD\$4 million (subject to further capital requirements to be agreed between the parties)

Transaction #2

Edible Proteins

- Concurrently, Scales has entered into an agreement to purchase 50% of the Australian operations of Fayman International and 42.5% of ANZ Exports (hereafter collectively referred to as 'Fayman International'), for an approximate initial cash consideration of ~AUD\$23 million
- Fayman International are a leading global exporter of edible by-products sourced from Australia, and have been operating for over 40 years
- The initial investment, together with purchase price adjustments following completion of the FY23 year, equate to an entry multiple of 6x EBITDA
- Completion is expected in October – see further commentary for business overview, and strategic rationale

Combined Cash Investment

- The combined initial investment from Scales is ~AUD\$27 million
- The investments will be funded through cash, and will allow Scales to maintain its conservative capital structure
- Drawdown of capital funds for the Petfood development will be tranced over time as the development progresses

Financial

- The investment is unlikely to have a material impact on Scales' earnings guidance for FY22
- We expect some disruption to earnings as these investments are integrated into the division, and also whilst the Petfood Proteins business becomes fully established

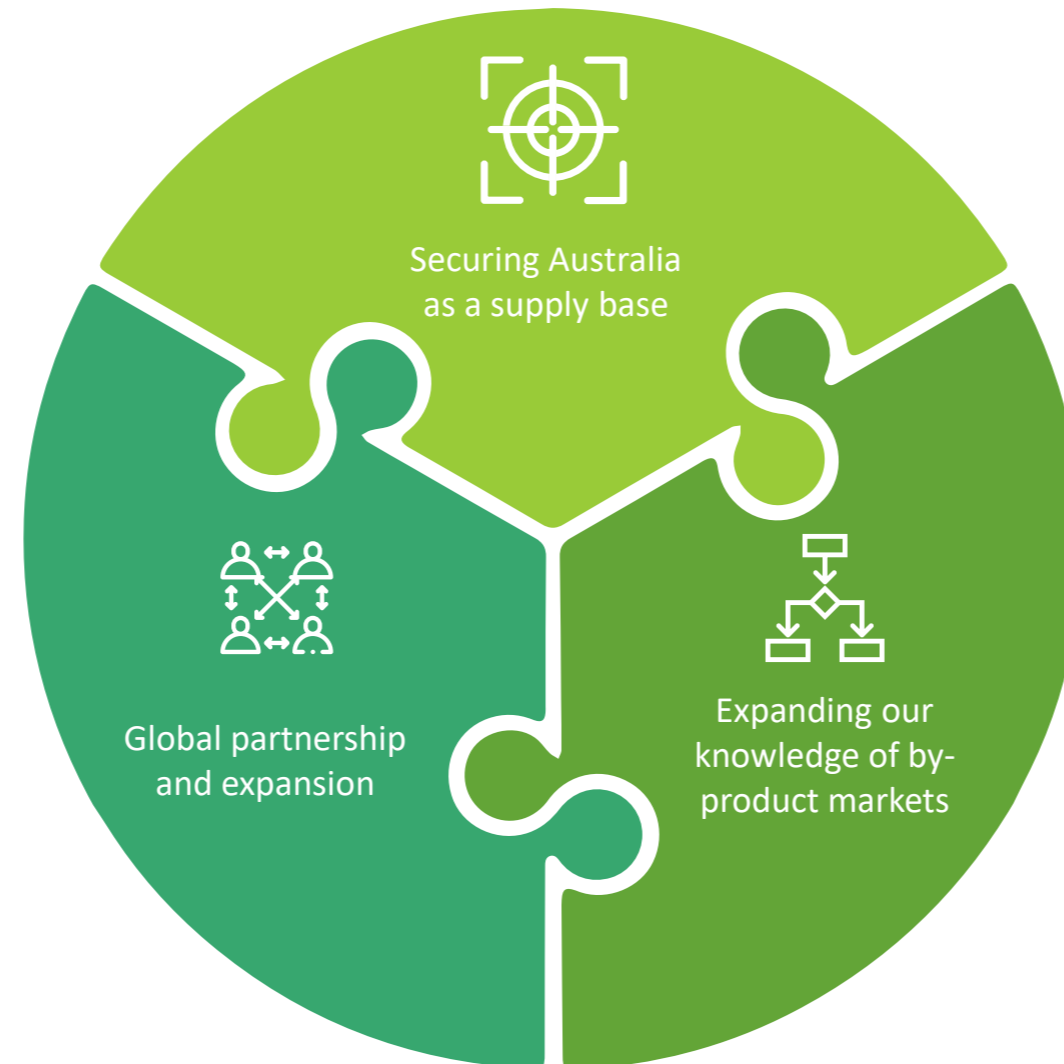
Strategic Rationale for the Investments

Australia's product mix, growth and proximity to Asia make it a strategically important supply base for both our petfood customers and edible by-product markets

These investments are another step towards improving our footprint in Australia, moving up the supply chain, establishing direct supply relationships and improving the breadth of our networks and products

As demand for proteins increases, access to global supply and key growth markets becomes strategically important

This partnership will give us access to the above, and provide further opportunities to expand and diversify our business globally



We have been wanting to leverage our existing value chain and explore alternative channels for animal derived by-products

This investment provides the foundation for Scales to explore these alternative markets, expanding our relationships across a range of customers and channels

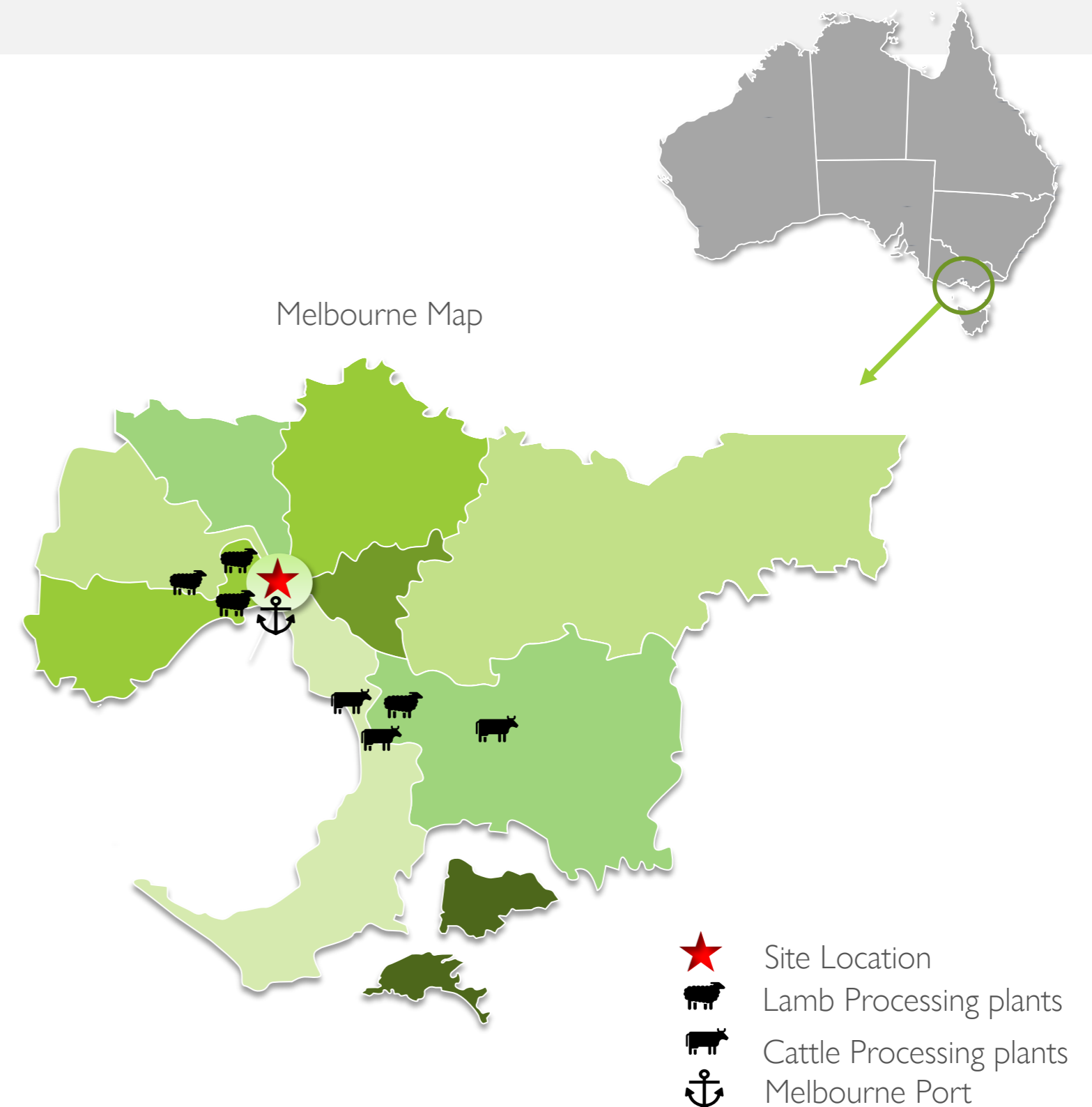
Part 1: Petfood Proteins Investment

- Scales has announced the establishment of a new Australian-based petfood protein manufacturing facility
- Scales will be partnering with industry participants who bring extensive supply relationships to the venture. Each shareholder shall subscribe for a 1/3rd stake
- Capital expenditure for the development and working capital requirements will be shared pro rata between shareholders
- The company will be named Meateor Australia Pty Ltd

Key Transaction Metrics	
Cash contribution	Scales' contribution to the initial set up costs are expected to be AUD\$4 million (subject to further capital requirements to be agreed between the parties)
Governance	6 Directors, Scales has the right to appoint 2
Funding	Purchase price funded through cash
Further Obligations	Puts/Calls ('Options') in favour of other shareholders/Scales, whereby Scales would increase its shareholding in the future. The EBITDA multiple increases to 7x on any exercise of the Options
Due Diligence	Extensive due diligence covering commercial, financial, tax, legal, and environmental

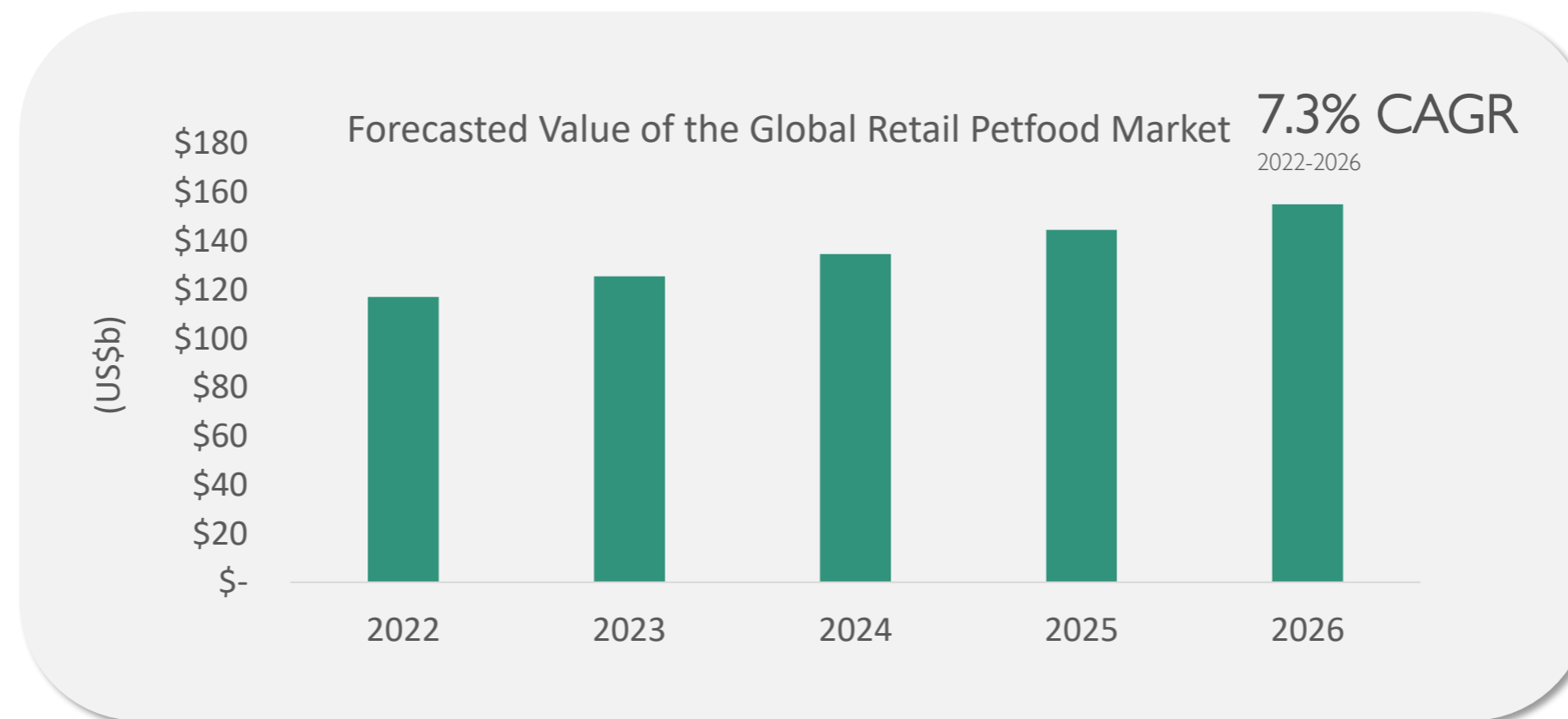
Part 1: Petfood Proteins Overview

- The facility is expected to be commissioned in Q1 2023. The plant has been ordered, and we are in advanced discussions on supply contracts. Our intention is to scale up to full production over the course of 2023
- As mentioned in the outline, there maybe some disruption to earnings as this development becomes established
- The facility is located close to many abattoirs in the food processing district of Melbourne, which will reduce the cost and complexity of internal freight and logistics
- This will ensure ongoing security and continuity of supply for our customers through a more direct supply chain



Part 1: Petfood Proteins - Continued Growth

- The expected value of the global petfood market is increasing due to demand for increased quantity and quality of petfood
- Rising levels of disposable income in emerging markets and social changes globally, are the key drivers of pet ownership growth
- Older age groups are also increasingly likely to have pets for the companionship and associated health benefits
- China's pet population rose 113% between 2014–2019 coinciding with relaxation of ownership restrictions and a falling birth rate, and is expected to continue to grow, with US exports increasing 243% to China in the last 12 months



<https://www.healthforanimals.org/reports/pet-care-report/global-trends-in-the-pet-population/>
<https://digital.petfoodprocessing.net/sosland/pfp/pet-food-processing-september-2022/index.php#/p/24>
<https://www.mpi.govt.nz/dmsdocument/51121-Pet-food-export-stats-factsheet>

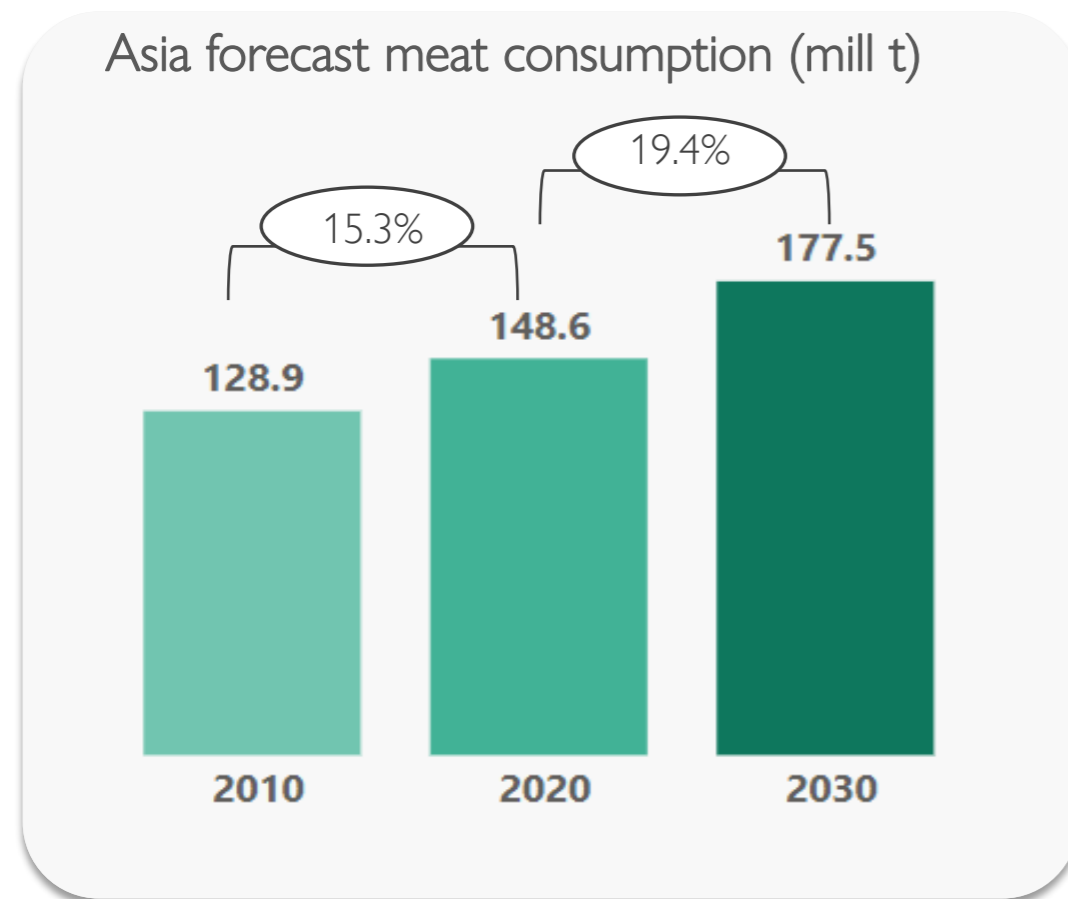
Part 2: Edible Proteins Investment

- Scales is also announcing a further partnership with the Fayman family, via their Australian interests in Fayman International
- Over 40 years of operations, Fayman International have built relationships with, and sourced supply from, more than 70 abattoirs in Australia and has more recently been developing procurement relationships in other key supply markets
- This business is an exporter of edible by-products predominantly to Asia - this enables Scales to leverage our understanding of these markets and share common shipping and logistics networks

Key Transaction Metrics	
Cash consideration	Approximate initial cash investment of ~AUD\$23 million for 50% shareholding, and a contingent top-up payment on completion of FY23 result
Implied Multiple	Approximately 6x EBITDA
Governance	6 Directors, Scales has the right to appoint 3
Funding	Purchase price funded through cash
Further Obligations	Put/Calls ('Options') in favour of other shareholders/Scales, whereby Scales would increase its shareholding in the future. The EBITDA multiple increases to 7x on any exercise of the Options
Due Diligence	Extensive due diligence covering commercial, financial, tax, legal, and environmental

Part 2: Edible Proteins Overview

- While Fayman International exports across the globe, it generates ~90% of its revenue from exports to 8 countries, with a specific concentration of sales to South East Asia
- Fayman International have developed deep relationships with customers in these markets, with long tenures over their operating history
- Scales views these as a key strategic growth markets with large forecasted increases in meat consumption as incomes rise and consumer preferences change (see chart below)

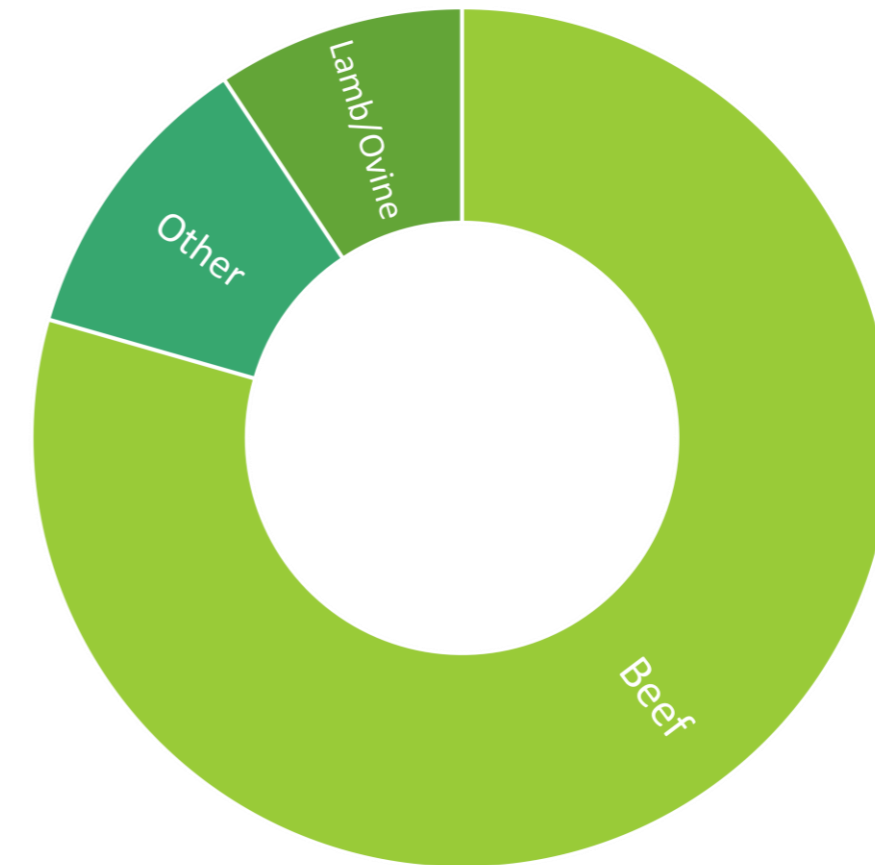


OECD, RC analysis



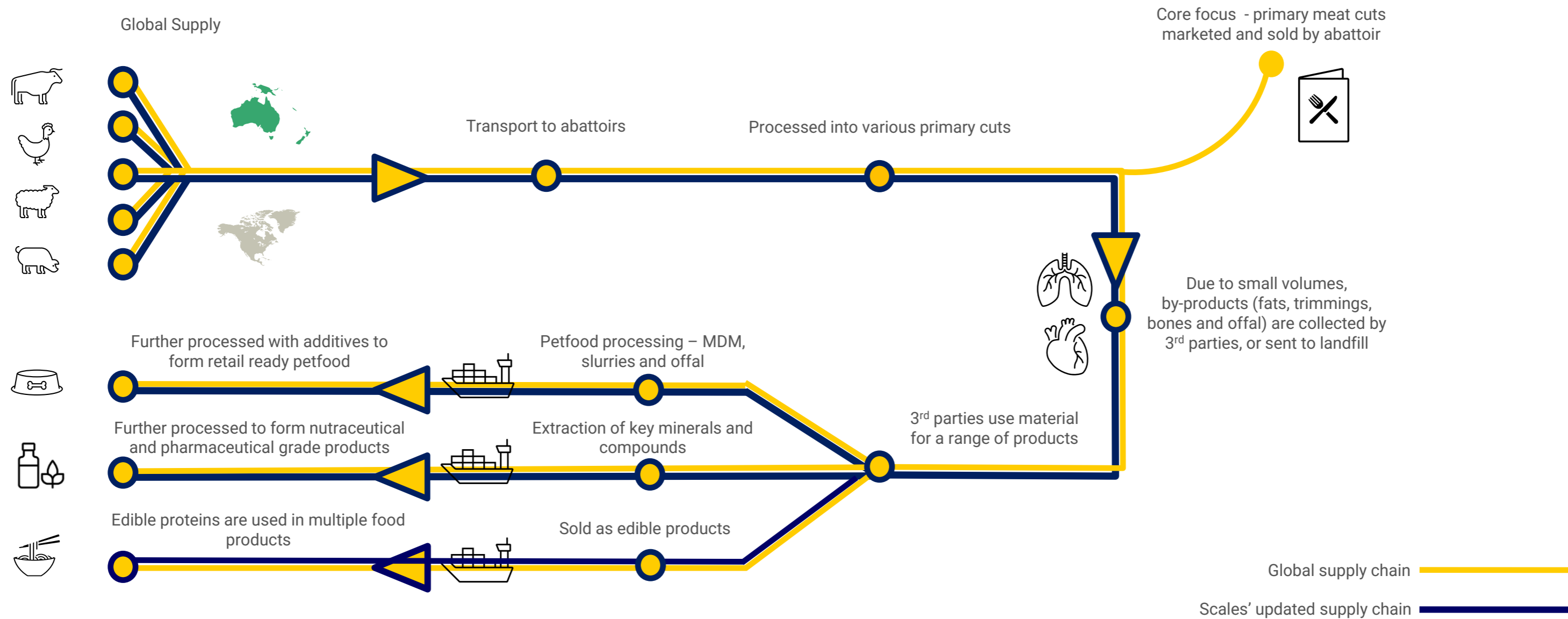
Part 2: Edible Proteins Overview

- Fayman International has developed its business by positioning itself as a solutions provider.
- Their value proposition to suppliers is that they are able to market and sell all of their by-product, as a single offtake partner, thereby simplifying suppliers' operations. This includes both edible and inedible protein
- Their product mix is heavily weighted towards Beef by-products; however, they also export lamb, chicken and pork
- Australian cattle herd numbers are rebuilding, and this lays the platform for increasing supply volume from this market



Global Proteins – Updated Supply Chain

- Scales’ strength in global proteins lies in its supplier and customer relationships coupled with its logistics network, and a reputation for quality products. As mentioned in the half year presentation, Scales will look to leverage this expertise for complementary expansion
- These transactions provides Scales access to all three by-product channels - as demonstrated below



Alignment to our Strategic Objectives

These investments deliver on Scales' strategic objectives by



Secure global supply and access new markets

- Becoming a strategic partner to our suppliers, taking all by-product material – both inedible and edible
- Giving access to new markets and customers across key growth regions



Expand species offering

- Providing a direct relationship with 70+ abattoirs, giving us access to new proteins out of Australia
- Providing the opportunity to procure and process Australian beef material sourced through our expanded edible network for petfood processing



Add value through innovation

- Giving Scales access to knowledge and potential markets for value-add opportunities, including but not limited to opportunities in the Pharmaceutical industry



Expand logistics globally

- Leveraging our combined operations in Australia, and adding critical resource to our existing logistic network
- Simplifying our supply chain due to the site's proximity to the Port