NEW ZEALAND RURAL LAND CO

SUSTAINABLE AOTEAROA

FY21 Results Commentary

for the period ended 30 June 2021

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New Zealand Rural Land Company (NZL) FY21 Commentary

The 2021 financial year was NZL's inaugural year as an NZX listed company. Since concluding NZL's initial public offering at the end of 2020 NZL's focus has been on establishing a rural land portfolio in the New Zealand dairy sector to lease to experienced farmer tenants.

Traditional investments in the rural sector involve direct exposure to traditional agricultural risks, such as commodity price volatility. NZL's strategy is investing in rural land as an asset class of its own. This strategy reduces exposure to those direct risks, builds predictable revenues from the rental income and gives an opportunity for capital growth where the value of NZL's rural land portfolio increases over time.

NZL is managed under a management agreement with New Zealand Rural Land Management Limited Partnership (the **Manager**) and governed by a Board comprised of a majority of independent directors.

Financial Performance/Summary for Period Ending 30 June 2021

Net Profit After Tax	$ 15.115M
Total Assets	$ 164.937M
Total Liabilities	$ 54.683M
Net Assets	$ 110.254M
Net Asset Value (**NAV**) Per Share	$ 1.3968

Acquisitions

NZL issued a product disclosure statement in November 2020 for an initial public offering (**IPO**). In December the IPO closed having secured the minimum target of $75 million to be raised. The IPO was novel as NZL had no assets or business but a strategy to offer rural land as an investment class with an initial focus on the New Zealand dairy sector. Complementing the support of investors in the IPO was strong support from Jarden, Elevation Capital and NZX who helped ensure the IPO's success.

The first quarter of 2021 was a preparatory phase for NZL to secure opportunities to deploy its capital. Extensive work was undertaken by the Manager conducting due diligence on targeted assets and working with potential tenants. These investigations led to contracting our first acquisition in mid-March, a 456 hectare dairy farm in Southland.

The acquisition of NZL's Southland farm settled on 1 June 2021 for a purchase price of $10.3 million. The farm contains a 64 Bail Rotary Dairy Shed, a 13 Bay Purpose Built Calf Shed, 4 houses, and other ancillary buildings. The farm has close proximity to two dairy factories, high quality soil and water sourced for the property from a bore. At settlement a 10 year

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lease of the dairy farm commenced with Fortuna Group. Fortuna is a Southland based company that operates more than 18 (wholly-owned and majority-owned) dairy farms in the Southland region, running more than 10,000 dairy cows over 3,626 hectares and operating 920 hectares of support land over three farms. A gross lease rate of 4.97% per annum was secured.

The Manager then recommended a large scale transaction to the Board – a transaction with Van Leeuwen Group and associated entities (**VLG**) and their primary financier to acquire fourteen large scale dairy assets in South Canterbury and North Otago totalling approximately 6,350 hectares for approximately $114 million. At the time certain entities comprising VLG had been placed in receivership due to capital structure issues. The NZL structure of owning land and not operations was a way to resolve those issues.

The VLG farms are a mixture of seasonal supply pastoral dairy farms, hybrid grass based grazing and cut and carry winter barn farms, and dairy support blocks. Due diligence investigations suggested these farms were of a very high quality with access to irrigation schemes, supply options available to three major dairy companies, soils well suited to dairy farming and a good quantity of support land for grazing animals when they are not in milk.

After NZL shareholders approved these transactions NZL acquired these assets on 1 June 2021. From settlement leases to three new tenants that derived from VLG came into effect. Each tenant entity has independent directors and satisfies NZL's security criteria for tenants. The leases deliver a gross lease rate of over 5% per annum to NZL.

At balance date NZL owned 15 dairy assets in the South Island comprising approximately 6,800 hectares. Aggregate annual rental for these assets is approximately $6.1 million. The aggregate purchase price paid for these assets was just under $125 million. These assets have been revalued for financial reporting purposes and now have a carrying value of approximately $143 million.

Subsequent Acquisition

To secure agreement to acquire the VLG farms, NZL also entered conditional agreements to acquire a further three farms if they were not otherwise sold or refinanced under pre-existing arrangements. Two of these farms did sell to third parties. The third farm, located at Makikihi in South Canterbury was not refinanced by VLG as intended and NZL acquired this farm on 1 August, subsequent to balance date.

Makikihi farm is a 500 hectare dairy farm possessing the same positive attributes of the other VLG farms that were acquired. Makikihi farm has been leased to one of NZL's existing tenants from the main transaction for a gross lease rate of 5.34%. This property is subject to put and call options where VLG may acquire it back for the purchase price plus a 4.66% per annum premium.

Financing

NZL's acquisitions were funded by IPO proceeds and new bank debt. In May 2021, NZL secured a $65 million revolving credit facility with Rabobank which still offers NZL some capacity to debt fund further acquisitions. The key banking covenant agreed with Rabobank was that NZL must maintain a loan to value ratio (LVR) of no greater than 40%. NZL is comfortably in compliance with this covenant with an LVR below 30.0% as at 30 August 2021.

NZL does have an internal debt policy of having a gearing ratio (debt to total assets) of 30.0%. The Board considers this to be a 'steady state' target for NZL which it may exceed to implement a transaction that it considers likely to deliver value to shareholders providing there is a strategy to restore gearing to 30% or less in the medium term. As advised to shareholders NZL did exceed this internal policy target to facilitate the VLG transaction.

To restore debt levels and give capacity for additional acquisitions, NZL launched a rights issue in June. This raised approximately $20 million which the Board considered was a positive result given the proximity of the rights issue to the IPO and the need for NZL to continue to broaden its shareholding base. NZL is looking to place shortfall from the rights issue in September following the release of these full year results.

Management and Board

The Board is very pleased with the work of the Manager. It has taken a lot of analysis, time and negotiations to secure NZL's acquisitions in addition to establishing processes and reporting for a newly listed company.

We recently announced that Tia Greenaway is joining the Board on 1 September as an additional independent director. Tia brings a new skillset and perspective to the Board which we believe will strengthen NZL's governance.

Outlook

Our ambition for NZL remains for it to be a large scale owner of New Zealand rural land. The Manager continues to investigate new, potential acquisitions. NZL continues to have a core focus on dairy assets for its acquisition programme but is also investigating rural land assets in other industry sectors with a view to diversifying its rural land portfolio over time.

To fund further acquisitions NZL will look to place the current rights issue shortfall at $1.10 per share. Given NZL's subsequent rise in net asset value per share, the Board does not anticipate raising capital at this level of discount again once this shortfall offer is closed. The shortfall presents an attractive opportunity for wholesale investors to increase their investment exposure or gain an investment exposure at an attractive discount to income producing, high quality productive rural land in some of New Zealand's most pre-eminent farming regions.

As NZL is now firmly established and delivering on its strategy, the management and the Board is focused on its sustainability initiatives and advantages. Investors should expect NZL to articulate further on this over the balance of 2021.

With a solid base of lease revenue being earned, NZL is on course to start paying dividends in the 2022 financial year as was targeted in the IPO documentation. The Board will look to declare a dividend when it releases its half year results to 31 December 2021.

Rob Campbell
Independent Chair
30 August 2021

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