

NEW ZEALAND RURAL LAND CO.

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22 October 2021

NZL enters unconditional agreement to acquire large scale dairy asset portfolio

New Zealand Rural Land Company Limited (**NZL.NZX**) has entered into an unconditional agreement with Dairy Farms Partnership (DFP) (**Vendor**) to acquire a large scale dairy asset portfolio comprising of six dairy assets in Maniototo, Central Otago totalling approximately 3,500 hectares.

The Transaction

Under the transaction NZL will acquire six dairy assets for an aggregate cost of approximately \$61.40M (including transaction fees but subject to final adjustments and costs). NZL has also entered into leasing arrangements for the six assets which have a gross lease rate above 5% per annum.

This transaction reaffirms NZL's strong pipeline of attractive opportunities to acquire large scale rural assets and the appeal to experienced tenants of partnering with NZL.

To enable settlement before the traditional annual farm settlement date (1 June), NZL has entered into a short term lease with the Vendor for a term commencing on settlement of the transaction and expiring on 31 May 2022. This enables the Vendor to complete the current financial year as operator of the assets.

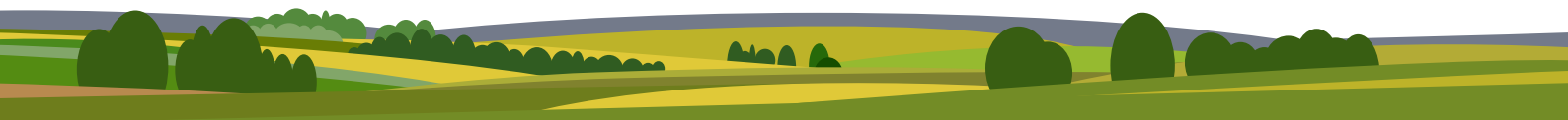
On 1 June 2022, NZL's new long-term tenancy will commence. NZL has entered into a lease with WHL Capital Limited (**Tenant**) for an initial term of 10 years with two 10 year rights of renewal. The Tenant currently owns, operates or is associated with 18 farms in the South Island. Following extensive due-diligence on the Tenant, NZL is satisfied that the Tenant meets the operational experience and financial standing requirements under NZL's tenant and leasing policy.

The Farms

NZL's Manager, New Zealand Rural Land Management Limited Partnership (**Manager**), has completed wide ranging due diligence on the farms. There are 17 houses, 5 dairy sheds and a number of ancillary buildings located on the farms. These buildings are generally in good condition with the Vendor having developed and renovated a number of these buildings over the past ten years. In particular:

- dairy shed audits undertaken at the beginning of this year noted no critical issues; and,
- all houses on the farms are compliant with Healthy Homes legislation.

Within the six farms there is a mixture of productive dairy platforms, support farms, and modern infrastructure. The farms have averaged over 2.4 million kilograms of milk solids per annum since 2017 and the assets have been well maintained with investment in infrastructure to mitigate environmental impacts and climate change risks. Approximately 70% of the assets are covered by central pivot irrigation (the most efficient irrigation method available to the region). This irrigation platform has been



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enhanced by the construction of a 1,100,000m³ dam to increase water reliability. The farms receive a large proportion of water from the Maniototo Irrigation Company which offers two key benefits for NZL and the Tenant: (i) low water cost; and (ii) high water reliability. Weather modelling commissioned during due diligence highlighted that the region has a variable climate and rainfall demonstrating the value of these benefits.

Pursuant to Plan Change 8 which is the Otago Regional Council's response to the recent National Environmental Standard (NES) that updated requirements for the protection of New Zealand's fresh water sources and NZL's commitment to enhance environmental outcomes for its rural assets, NZL may further invest to improve effluent storage and infrastructure on a number of farms within this portfolio. Resource consents were reviewed in due diligence and no material indications of compliance issues were noted. One consent has recently expired and is currently being replaced however all other consents do not begin to expire until 2029 at the earliest, with some in place until 2050.

The Manager also commissioned (at its cost) various third parties to produce due diligence reports on the following aspects of the farms:

- legal due diligence;
- valuation;
- environmental risk review;
- nutrient summary;
- irrigation information memoranda for each farm;
- resource management advice; and,
- water modelling.

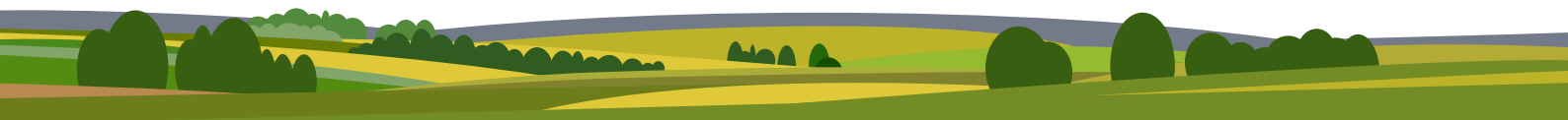
No material concerns were left outstanding following this due diligence. The valuation undertaken on the farms suggests that NZL is acquiring the farms for below their market value. However, the farms will be held at their total cost to NZL and re-valued for financial reporting purposes at a later time, most likely in the course of NZL's next audit. Accordingly, the valuation commissioned in due diligence may not be reliable as a carrying value for NZL and is therefore not disclosed.

Finally, the Manager has worked closely with the Tenant in due diligence to identify development opportunities at the farms. A number of opportunities have been identified but are subject to feasibility studies and future agreement with the Tenant on funding.

Finance

The transaction will be financed using a combination of cash on hand and an extended debt facility with Rabobank. In May 2021, NZL's shareholders approved NZL establishing a \$65M revolving credit facility with Rabobank and Rabobank has agreed to extend this facility to \$88.5M.

Settlement of this transaction will see NZL temporarily exceed its 'steady state' internal debt policy of 30% of total assets. However, NZL will comply with its loan to value ratio (LVR) covenant with Rabobank of 40%. The Directors are comfortable with this position in the near-term given the immediacy of cash flows from this acquisition, NZL's resulting diversification of tenants and the quality, large scale assets that this transaction provides to NZL.



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General

NZL has been granted a waiver by NZ RegCo from being required to obtain shareholder approval to the transaction under Listing Rule 5.1.1. The agreements are accordingly unconditional and are expected to settle on 10 November 2021.

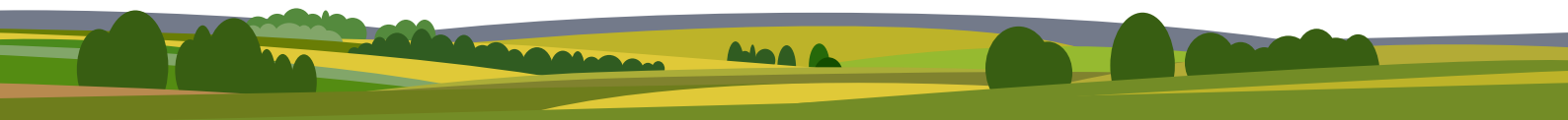
Settlement of this transaction will see NZL owning approximately 10,800 hectares of dairy assets in the South Island (in aggregate) with a gross asset value of approximately \$220M. NZL will be pleased to achieve this within 11 months of its Initial Public Offering (IPO).

NZL will update its dividend guidance to account for this transaction and will provide that updated guidance to the market in the coming weeks.

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