# PGG Wrightson Limited

Independent Appraisal Report

October 2018

KordaMentha

# Contents

# 1 Terms of the Proposed Transaction

## 1.1 Introduction

PGG Wrightson Limited (**PGW** or **the Company**) is a New Zealand incorporated company, listed on the NZX Main Board.

PGW, in its current form, was established in October 2005 through the merger of Pyne Gould Guinness and Wrightson.

PGW is New Zealand's leading provider of agricultural products and services to growers, farmers and processors in New Zealand, and also operates internationally. The Company's core operating segments are **Seed and Grain**, **Retail and Water** and **Agency**:

- **Seed and Grain** is the largest forage-seed supplier in the Southern Hemisphere and has established operations in New Zealand, Australia and South America. This business also undertakes grain trading, seed exports and significant research and development (**R&D**) activities to develop proprietary seeds best suited to certain temperate growing conditions.
- **Retail and Water** includes 94 retail stores nationwide that sell a variety of farming and horticulture products to the New Zealand agricultural sector, from seed to agricultural chemicals and dairy detergent to stock nutrition. PGW's water business designs, implements and operates irrigation and pumping systems for predominantly rural customers, as well as horticulture, golf, landscape and sports turf customers, in New Zealand.
- **Agency** is a multidisciplinary segment of the Company, with services that include livestock trading, livestock export, wool brokerage and wool export (provided through Bloch and Behrens) activities. This segment also has rural real estate, insurance and finance operations.

DLF Seeds A/S (**DLF Seeds**) is a Denmark-based global seeds group, established in 1872. It is owned by DLF AmbA, a co-operative owned by approximately 3,000 Danish seed growers. DLF Seeds is active in more than 80 countries worldwide and operates within forage and turf seed, sugar and fodder beet seed, seed potatoes and multiplication of vegetable seed.

On 6 August 2018, PGW announced that it had entered into an agreement to sell 100% of the shares of PGG Wrightson Seeds Holdings Limited (**PGWSHL**) to DLF Seeds (**the Proposed Transaction**). DLF Seeds would thereby acquire substantially all of the assets and operations of the Seed and Grain business in New Zealand, Australia, South America and internationally.

After completion adjustments, DLF Seeds has agreed to pay cash consideration of approximately $413 million for 100% of the equity in the Seed and Grain business and would also assume or repay approximately $21 million of Seed and Grain's outstanding net debt as at 30 June 2018.

DLF Seeds has advised us that the key rationale for the Proposed Transaction is to develop complementary geographic operations in the temperate and cool-climate seeds industries in the Northern and Southern Hemispheres.

The Directors of PGW have appointed KordaMentha to prepare this Appraisal Report (**the Report**) to inform PGW's shareholders. Although the Report is not specifically required under NZX Listing Rules, the Directors have determined that the Report should be provided to shareholders to assist them to consider the Proposed Transaction. Our appointment has subsequently been approved by NZX Regulation (**NZXR**).

The Report is being sent to the shareholders of PGW, together with the **Notice of Meeting**. Shareholders should read the Notice of Meeting issued by PGW in conjunction with the Report.

Accepting or rejecting the Proposed Transaction is a matter for individual shareholders based on their own views as to value, future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional advisers.

## 1.2 The Proposed Transaction

### 1.2.1 Summary of key terms

Key terms of the Proposed Transaction are summarised as follows:

- DLF Seeds will purchase 100% of the shares of PGWSHL.
- The proposed cash consideration for the Seed and Grain business is based on an equity value of $413 million. Completion adjustments have been made to the purchase price, based on how the audited value of net assets actually transferred to DLF Seeds (measured as at 30 June 2018) compared to a target net assets amount of $201 million.
- There will be an adjustment for interest accrued between 30 June 2018 and the actual settlement date.
- DLF Seeds will assume or repay approximately $21 million of Seed and Grain's outstanding net debt as at 30 June 2018.

### 1.2.2 Conditions and features of the Proposed Transaction

The Proposed Transaction is still conditional upon:

- Approval by PGW's shareholders of a major transaction, in accordance with the Companies Act and NZX Listing Rules.
- Overseas Investment Office (**OIO**) approval for DLF Seeds' purchase of PGWSHL's shares.
- New Zealand Commerce Commission approval, on terms acceptable to DLF Seeds.
- Australian Competition and Consumer Commission approval, on terms acceptable to DLF Seeds.
- Applicable regulatory approvals in South America.
- Change-of-control consents from PGW's joint-venture partners relating to Grasslands Innovation Limited, Forage Innovations Limited and Endophyte Innovation.

The Proposed Transaction is subject to a range of other conditions, which are relatively standard in transactions of this type. These conditions are for the benefit of DLF Seeds and may be waived at its discretion.

Other notable features of the Proposed Transaction include the following:

- PGW and Seed and Grain (under DLF Seeds' ownership) will enter into a long-term distribution agreement for PGW to continue to distribute seed and grain products through its New Zealand retail stores.
- PGW will grant a licence to Seed and Grain for the continued use of the PGG Wrightson Seeds brand.
- PGW will continue to provide and recharge at cost a range of corporate functions and shared services to Seed and Grain for a transitional period of between 12 and 18 months.

## 1.3 Shareholder Approval

PGW's shareholders are being asked to consider and, if thought fit, pass a resolution that would allow the Proposed Transaction to proceed.

The resolution is a special resolution, requiring a majority of 75% of the votes to be in favour of the Proposed Transaction for it to proceed. A special resolution is required because the Proposed Transaction is a major transaction for the purposes of Section 129 of the Companies Act, as it involves the disposal of assets valued at more than 50% of PGW's total asset base.

The **Shareholder Meeting** to consider the Proposed Transaction is set to be held on 30 October 2018 in Christchurch.

The Directors of PGW unanimously recommend that shareholders vote in favour of the Proposed Transaction at the Shareholder Meeting. In their view, the Proposed Transaction is in the best interests of PGW and its shareholders.

## 1.4 Purpose of the Report

### 1.4.1 NZX Listing Rules requirements

The Proposed Transaction between PGW and DLF Seeds is subject to Rule 9.1.1 of the NZX Listing Rules, which states that, unless approved at a meeting of shareholders, an issuer shall not enter into a transaction to sell assets that would:

- change the essential nature of its business; or
- whereby the gross value of the transaction exceeds 50% of its average market capitalisation.

The Proposed Transaction requires approval by special resolution of shareholders under NZX Listing Rule 9.1.1 because the proposed consideration for the Seed and Grain business exceeds 50% of PGW's market capitalisation. There is no specific requirement for an Appraisal Report in respect of Rule 9.1.1. However, NZX Listing Rule 9.1.2 requires a notice of meeting containing a resolution to approve any transaction referred to in Rule 9.1.1 to contain, or be accompanied by, such information, reports, valuations and other materials as are necessary to enable shareholders to appraise the implications of the transaction. PGW's Directors have determined that the Report shall be provided to shareholders to assist them to appraise the implications of the Proposed Transaction.

NZXR has approved KordaMentha's appointment to provide an Appraisal Report, pursuant to NZX Listing Rule 1.7.1. In our opinion, the information that has been provided to us for the purposes of preparing the Report, and the information to be provided by PGW to shareholders that are non-associated shareholders (as given meaning at NZX Listing Rule 1.7.2), is sufficient to enable the non-associated shareholders to understand all the relevant factors and to make an informed decision in respect of the Proposed Transaction. We also confirm that there have been no restrictions to our terms of reference that have impacted our scope of work and the Report.

Under the NZX Listing Rules, the key requirement of an Appraisal Report is to state whether the consideration and terms and conditions of the Proposed Transaction are "fair" to non-associated PGW shareholders. Although the exact meaning of the word "fair" is not prescribed in the NZX Listing Rules, it is usually given a relatively narrow definition focusing on the price paid or received for the assets involved. For this Appraisal Report on the Proposed Transaction to sell the Seed and Grain business to DLF Seeds, the main focus for PGW's shareholders is whether the price and terms and conditions offered for the Seed and Grain business are favourable to PGW. There are no shareholders "associated" with DLF Seeds. Therefore, "non-associated" shareholders are all of the shareholders of PGW.

## 1.5 Other

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1.

The Report should be read in conjunction with the statements and declarations set out in Appendix 2, regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of the Report.

References to '$', dollars or cents are to New Zealand dollars, unless specified otherwise. References to financial years or 'FY' mean PGW's financial year end, 30 June, unless specified otherwise.

Please note, tables may not add due to rounding.

# 2 Executive Summary

This executive summary is a summary only. It should be read in conjunction with the balance of the Report.

## 2.1 The Proposed Transaction

On 6 August 2018, PGW announced that it had entered into an agreement to sell 100% of the shares of its Seed and Grain business to DLF Seeds.

After completion adjustments, DLF Seeds has agreed to pay cash consideration of approximately $413 million for 100% of the equity in the Seed and Grain business and would also assume or repay approximately $21 million of Seed and Grain's outstanding net debt as at 30 June 2018.

DLF Seeds has advised us that the key rationale for the Proposed Transaction is to develop complementary geographic operations in the temperate and cool-climate seeds industries in the Northern and Southern Hemispheres.

The Directors of PGW have appointed KordaMentha to prepare the Report to inform PGW's shareholders.

In order to assess the Proposed Transaction, we have considered:

- the Proposed Transaction's price and terms and conditions relative to our assessment of the value of the Seed and Grain business; and
- other factors relevant to shareholders when assessing the Proposed Transaction.

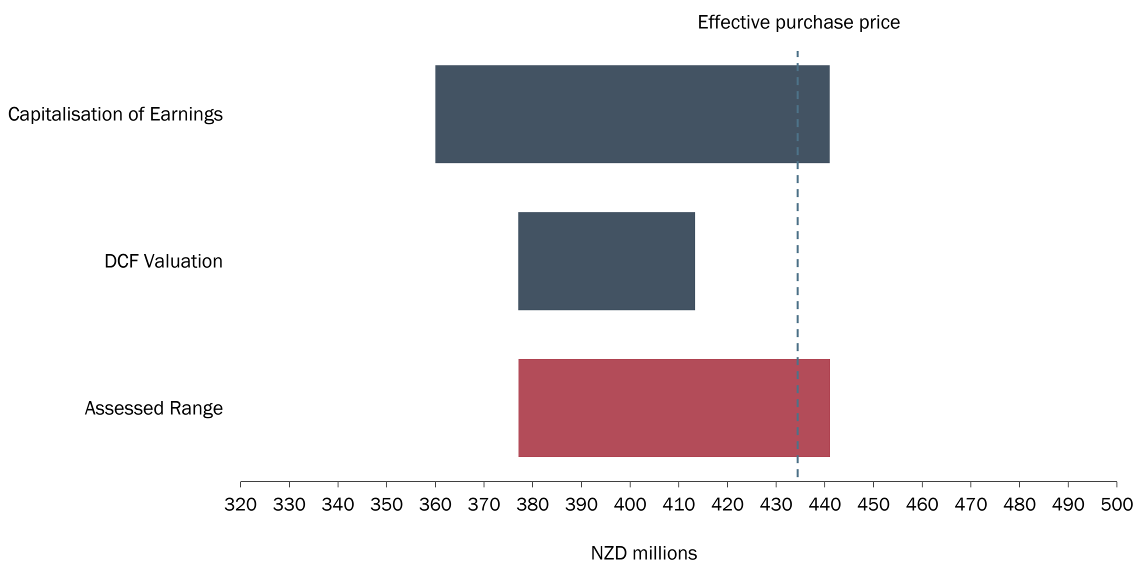
## 2.2 Valuation of the Seed and Grain Business

Figure 2.2.1 presents the standalone enterprise value ranges from our capitalisation of earnings and Discounted Cash Flow (**DCF**) valuation approaches for the Seed and Grain business.

We have assessed a valuation range for Seed and Grain, on a standalone basis, between $377 million and $441 million with a midpoint of $409 million.

The effective purchase price offered by DLF Seeds ($434 million, including the debt assumed) sits towards the top end of our assessed range for Seed and Grain's enterprise value.

### Figure 2.2.1: Standalone valuation summary for Seed and Grain




*Source: KordaMentha analysis*

As part of the Proposed Transaction, Seed and Grain (under DLF Seeds' ownership) would enter into distribution, brand and shared-services agreements with PGW. Our valuation assessment assumes that these arrangements would leave Seed and Grain in a similar operating and financial position to its current situation.

### 2.2.1 Capitalisation of earnings valuation

Our capitalisation of earnings valuation results in a standalone enterprise value between $360 million and $441 million.

Key assumptions underlying our capitalisation of earnings valuation approach are summarised below.

- We have selected an earnings multiple range between 10.0x and 10.5x to apply to Seed and Grain's normalised earnings before interest, tax, depreciation and amortisation (**EBITDA**). The selected multiple has been determined after considering:
  - 9x EBITDA is the median forecast multiple observed for comparable trading companies. We consider an EBITDA multiple between 10.0x and 10.5x is more appropriate when the trading multiples are adjusted to include a control premium and to recognise Seed and Grain's R&D investment programme, greater proportion of proprietary products and higher profitability than many of the comparable companies.
  - A multiple of 10.0x EBITDA is broadly consistent with the comparable transaction multiples, particularly when outliers are removed from consideration.
- For valuation purposes, we have assessed Seed and Grain's normalised EBITDA to lie in a range between $36 million and $42 million, although note that Seed and Grain's recent trading results have been at the low end of this range.
  - The lower bound of $36 million reflects the EBITDA achieved by Seed and Grain in FY18 and Seed and Grain's forecast EBITDA for FY19. $36 million is also the lowest EBITDA result achieved since FY15.
  - The high end of $42 million reflects the best EBITDA result achieved by Seed and Grain over the period FY15 to FY18. $42 million EBITDA is therefore attainable for the business, particularly in years when trading conditions are favourable for its Australian and South American business units. We note that this earnings level appears optimistic given Seed and Grain's recent trading history and projected financial performance.

### 2.2.2 DCF valuation

Our DCF valuation results in a standalone enterprise value between $377 million and $413 million. To derive this range, we have relied upon:

- a five-year indicative forecast provided by PGW Management;
- terminal growth in the range of 1.5% to 2.5% per annum; and
- our assessed Weighted Average Cost of Capital (**WACC**) range of 9.3% to 9.7%.

The DCF valuation is heavily dependent on the terminal value assumptions adopted. More than 75% of Seed and Grain's enterprise value is contributed by the terminal value calculation. As a result, the DCF valuation is sensitive to changes that impact Seed and Grain's long-term earnings results and margins.

We consider there is some risk around Seed and Grain's ability to achieve the EBITDA growth and margin expansion projected by Management, which require all business units to consistently improve over the next five years. Future outcomes are particularly uncertain for the Australian and South American businesses, which both have a track record of inconsistent performance due to events outside of PGW Management's control (e.g. weather conditions).

## 2.3 Other Factors Relevant to Shareholders

### 2.3.1 Likelihood of the Proposed Transaction being approved

Agria (Singapore) Pte Limited (**Agria**), as PGW's largest shareholder, controls 50.2% of PGW's voting rights. We understand, as at 30 September 2018, that Agria has not provided an irrevocable undertaking to vote in favour of the Proposed Transaction. Therefore, it remains to be seen whether Agria will vote for or against the Proposed Transaction.

Given Agria has representatives on the PGW Board, and the PGW Board has unanimously recommended the Proposed Transaction, it would appear most likely that Agria will vote for the Proposed Transaction.

The Proposed Transaction will not proceed if Agria votes against it at the Shareholder Meeting. Equally, if Agria votes in favour of the Proposed Transaction but other shareholders that collectively represent more than 17% to 25% of PGW's voting rights (depending on voter participation) reject it, the Proposed Transaction will not proceed.

### 2.3.2 Rural Services

If the Proposed Transaction proceeds, PGW shareholders will retain their shareholdings in the remaining PGW business.

Excluding Seed and Grain, PGW's remaining operations are the Retail and Water, Agency and Corporate segments of the business (**Rural Services**). Rural Services will be a materially smaller business than PGW in its current form. The business will be less diversified operationally and geographically, given that its operations will be entirely based in New Zealand. There is a risk that the cost overheads and corporate structure will exceed the requirements needed to support the smaller business. We understand that PGW Management will review the head office and governance costs, should the Proposed Transaction proceed.

Post completion of the Proposed Transaction and completion of a capital return, PGW's market capitalisation would be materially lower than currently. Accordingly, PGW is less likely to attract analyst coverage and investor interest, and its shares are likely to trade with reduced liquidity.

The Rural Services business is projecting relatively steady financial performance between FY18 and FY19. Key points to note in connection with the expected financial performance of Rural Services include:

- Retail and Water achieved a record EBITDA of $23.8 million in FY18, as Retail's and Water's contributions both improved on the previous year. Management expects modest earnings growth to be achieved in FY19, through the continued expansion of Retail's key product lines and via Water's broader service offering.
- Agency delivered a record EBITDA of $20.1 million in FY18. However, New Zealand's rural real estate market softened during FY18, which made trading conditions difficult for the Real Estate unit. Management has forecast lower earnings for the Agency segment in FY19.
- We understand that PGW Management will review the appropriate structure of Rural Services, should the Proposed Transaction proceed, with the objective of reducing costs to the extent possible to reflect the new business.

Following the Proposed Transaction, PGW may potentially make a tax-free cash distribution to shareholders of up to $292 million of available subscribed capital (subject to a favourable binding ruling from the Inland Revenue Department (**IRD**)) and use the remaining proceeds from the divestment to pay down debt. The final composition of Rural Services' balance sheet will not be known until PGW determines the quantum of funds to be returned to shareholders and utilised to pay down debt. However, it would appear likely that the balance sheet will be de-risked to some degree with materially lower levels of debt than currently in place for PGW.

PGW has announced that in addition to the Seed and Grain divestment, the PGW Board is continuing with a strategic review to explore options for Rural Services.

### 2.3.3 If the Proposed Transaction does not proceed

If the Proposed Transaction does not occur, PGW shareholders will retain their shareholdings in the PGW business, which would include Seed and Grain.

The status quo leaves PGW as a diversified rural-servicing business and its prospects are largely unchanged from the position it was in prior to the announcement of the Proposed Transaction. Those prospects include relatively consistent levels of profitability and manageable debt levels.

If the Proposed Transaction does not proceed, in the absence of any other factors, we consider that PGW's share price may well recede from levels observed following the announcement of the Proposed Transaction, unless an alternative transaction were to eventuate. It is likely that the current share price observed for PGW has been affected by the control premium that is expected to be achieved from divesting the Seed and Grain segment.

PGW has been undertaking a strategic review throughout 2018. The Directors of PGW appointed Australasian and global investment banks to canvass interest for various transactions involving the sale of all or part of PGW's business. It is likely that any superior alternative transaction that could eventuate to acquire PGW would have presented itself during that process. There is always potential for a superior alternative transaction to eventuate, although in these circumstances that would appear less likely.

## 2.4 Summary

**In our opinion, the consideration and terms and conditions of the Proposed Transaction are fair to PGW's non-associated shareholders.**

We note that each shareholder's circumstances and investment objectives will be unique. It is therefore not possible to prescribe or advise what action an individual should take in respect to the Proposed Transaction. Our advice is necessarily general in nature and is intended to assist each shareholder to form their own opinion as to what action they should take given their specific circumstances.

# 3 Profile of PGG Wrightson

## 3.1 Background and History

PGW has a long history by New Zealand standards, with its legacy companies having worked alongside New Zealand farmers to service their on-farm needs for more than 175 years.

PGW, in its current form, was established in October 2005 through the merger of Pyne Gould Guinness and Wrightson. Both founding companies have long histories dating back to 1851 and 1841 respectively, and were themselves the result of many amalgamations and mergers of smaller, more regional-focused, rural-servicing businesses.

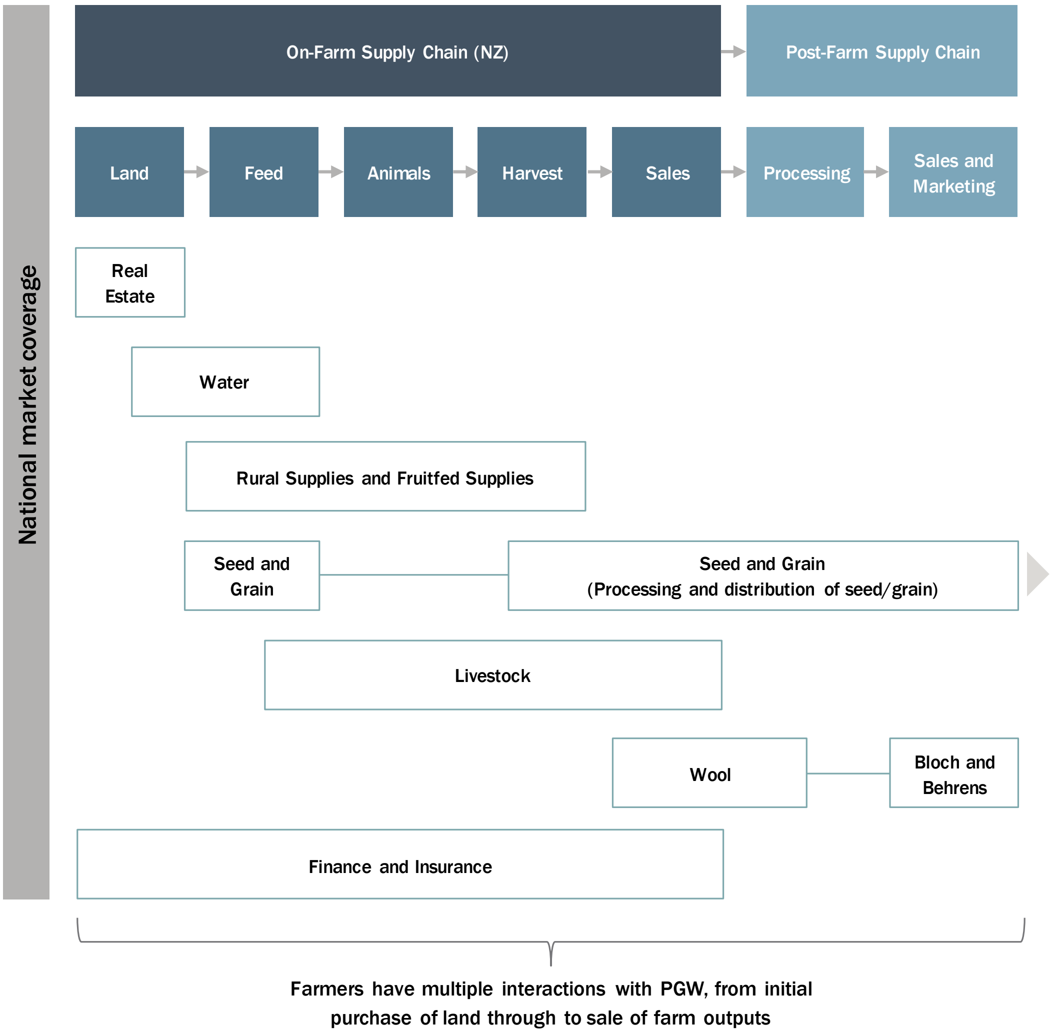
PGW is domiciled in New Zealand and listed on the NZX Main Board. The Company employs approximately 3,000 people, who are located throughout New Zealand as well as in key regions of Australia and parts of South America.

## 3.2 Overview of Business Operations

PGW sells a wide range of products and services to the agricultural sector in New Zealand and internationally. The Company is deeply embedded within New Zealand, given its long-term brand presence and breadth and scale of operations.

PGW provides key inputs and offers services throughout the agricultural production cycle in New Zealand, as is illustrated by Figure 3.2 below.

**Figure 3.2: PGW's presence throughout the supply chain**




*Source: PGW Management*

## 3.3 Seed and Grain

Seed and Grain produces approximately 65 species of seeds and around 403 varieties via third-party farmers. The business is the global leader in the $2 billion temperate forage-seeds market, trading in New Zealand under both the PGG Wrightson Seeds and Agricom brands. Forage seeds are used for animal grazing. Seed and Grain, in conjunction with its research partners, undertakes substantial research activities to develop proprietary seeds and enhance farm production and profitability. The intellectual-property (**IP**) rights are held within joint ventures between Seed and Grain and its research partners.

PGW's Seed and Grain business units maintain a market share of between 40% and 60% across New Zealand, Australia and South America.

### Table 3.3a: Share of key trading markets

| Business Unit | FY18 EBITDA | Key Market | Market Position |
|---|---|---|---|
| Seed and Grain New Zealand | $31m | Proprietary forage seed | #1 |
| Seed and Grain Australia | $2m | Domestic proprietary forage seed | #1 |
| Seed and Grain South America | $4m | Uruguay pasture seed | #1 |

*Source: PGW Management*

The R&D investment programme is focused on the development of new proprietary forage and turf products for PGW's major markets, being New Zealand and the temperate regions of Australia, USA, South America, Europe and South Africa. With its established R&D function, Seed and Grain is well positioned to expand into adjacent markets, particularly tropical seeds which is considered a major opportunity by Management. Tropical seeds are produced in regions with typically warm climates.

Seed and Grain also operates grain-trading and brokerage services within New Zealand, researches, produces and sells turf seed and associated non-seed turf products, and exports a variety of products to more than 45 countries annually.

Seed and Grain is the segment that employs the largest amount of capital and generates PGW's highest level of earnings. Key external factors affecting financial performance include farmgate milk and livestock prices, farmer confidence, weather conditions, global prices for seed and grain commodities, and foreign exchange rates.

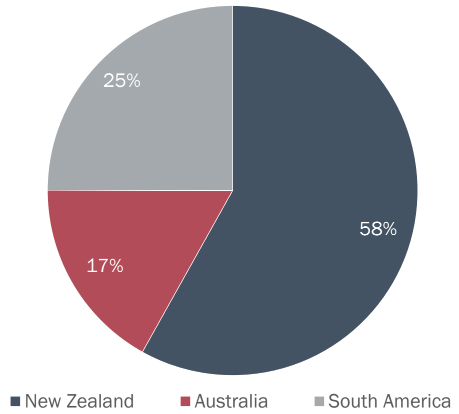
Table 3.3b below summarises the current status of Seed and Grain's operations across its key markets. The relative revenue contributions made by each Seed and Grain business unit are presented in Figure 3.3, which follows.

### Table 3.3b: Status of operations

| Market | Status |
|---|---|
| New Zealand | Established and market-leading position |
| Australia | Strong market share in key niche products |
| South America<br>• Uruguay<br>• Argentina<br>• Brazil | <br>• Established market position and early-stage market development<br>• Relatively new entrant in the market<br>• Relatively new entrant in the market |
| Tropical Seeds | A major opportunity in the future |

*Source: PGW Management*

**Figure 3.3: FY18 revenue contributions***




** Seed and Grain Research / Corporate has been excluded*
*Source: PGW Management*

### 3.3.1 New Zealand

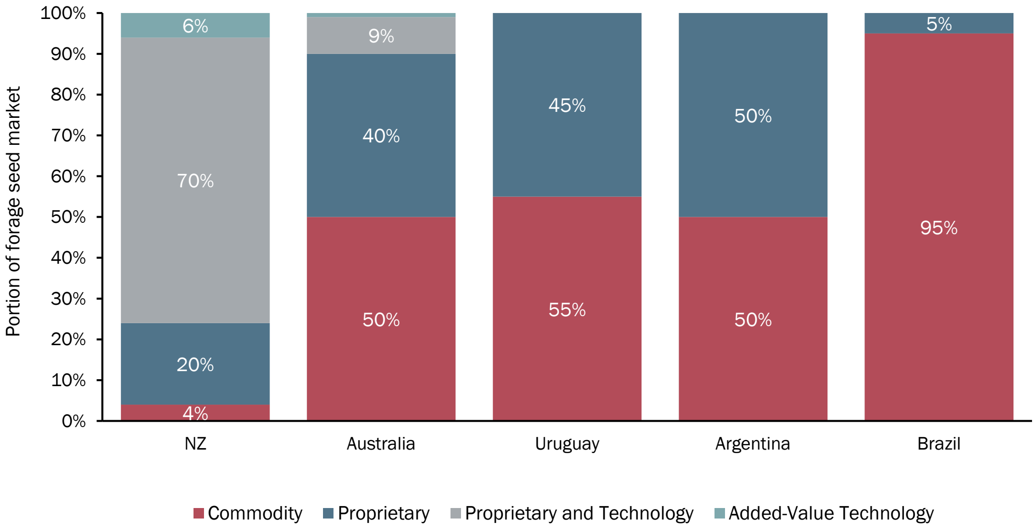
New Zealand has a sophisticated farming market and the forage seeds produced here are highly proprietised. Proprietary seeds are the product of R&D programmes and are protected by IP rights.

Seed and Grain New Zealand has developed and maintains a strong portfolio of IP, which supports its proprietary-seed offering. Seed and Grain produces the leading varieties of forage seeds in New Zealand, as measured by the DairyNZ Forage Value Index, and has an approximate 60% share of the NZ forage-seeds market.

Seed and Grain's market-leading proprietary technology, and the advanced nature of New Zealand's market, enable the business to generate high margins and ensure it is well positioned to expand as global forage-seed markets grow (both in terms of volume and the degree of proprietisation).

Figure 3.3.1 below shows that New Zealand's consumption of proprietised seeds is significantly higher than in other countries where PGW operates.

**Figure 3.3.1: Composition of forage-seed markets**




*Source: PGW Management*

In addition to forage-seed activities, Seed and Grain New Zealand has operations focused on seed exports, grain trading and the sale of turf products. The four key business areas are summarised in Table 3.3.1 below.

New Zealand products are distributed via PGW's Rural Supplies stores, as well as through Farmlands, Farm Source, a range of smaller retailers and an exclusive relationship with Landcorp.

#### Table 3.3.1: Operations of Seed and Grain New Zealand

| Seed and Grain NZ | Description | Est. Market Size |
|---|---|---|
| NZ Forage Seeds | The NZ Forage Seeds unit sells forage seeds for animal grazing. This business unit has seven seed-processing operations and three distribution centres in New Zealand. 85% of sales are of proprietary seeds. | $120m |
| International | The International business unit exports proprietary seeds to countries outside of New Zealand, Australia and South America where PGW does not have a physical presence, such as South Africa, Europe and USA. | $90m |
| Grain | Primary activities of the Grain business unit include:<br>• sales of proprietary cultivar planting seeds;<br>• maize trading, drying, processing and storage;<br>• cereal trading – wheat, barley, oats, peas and beans; and<br>• wheat and barley research and new variety development. | $300m |
| NZ Turf | NZ Turf sells grass seed and non-turf products for use by stadiums, golf courses, sports clubs and councils. | $20m |

*Source: PGW Management*

### 3.3.2 Australia

Seed and Grain Australia is evolving to increase the uptake of proprietary products and diversifying into adjacent market segments.

Seed and Grain Australia has broadened its product offering through strategic acquisitions of various businesses in Victoria, Queensland and New South Wales. These acquisitions have given Seed and Grain Australia access to tropical, cereal and export markets, and have made the Australian business more resilient to volatile weather conditions.

In Australia, opportunities exist for greater product proprietisation. The proprietisation level is approximately 50% at present, compared to 96% in the New Zealand market. Seed and Grain Australia is building a pipeline of proprietary Australian products, which is expected to provide a platform for growth. Notably, the investment in Australian R&D operations has introduced greater product specialisation and diversification.

Seed and Grain Australia now sells forage, cereal and turf products, with sales largely driven by autumn pasture renewals. The business has a strong presence in the temperate-pasture zones of Australia and has opportunities to grow in the tropical-pasture zones and export markets. The main exports from Australia are Alfalfa (also known as Lucerne) to the Middle East and South America, supported by exports to Europe, North Africa and Asia.

Management estimates the total size of Australia's market to be A$245 million. Seed and Grain Australia's revenue was $76 million (A$70 million) in FY18.

### 3.3.3 South America

Seed and Grain has invested to establish a presence in South America, which serves as a platform for future growth and an opportunity to leverage proprietary technology and IP. South America also presents Seed and Grain with a chance to expand into the tropical-seeds market in the future.

The South American business sells a mix of pasture seed, crop seed, chemicals and other farm inputs and solutions via several channels (wholesale, partnerships and direct).

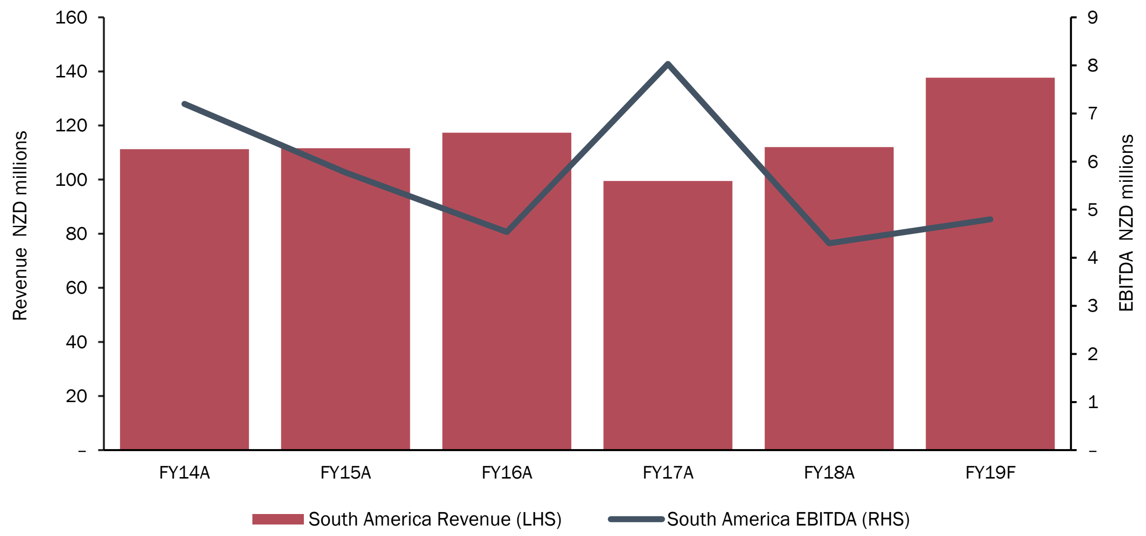
To date, the business has primarily operated in Uruguay. Significant investment has been made to set up core infrastructure in this market and full-service capabilities have been achieved via 50% shareholdings in Agimol Corporation S.A. (**AgroCentro**) and Fertimas S.A. (**Fertimas**). The infrastructure established in Uruguay can now support ongoing sales of forage-seed products in the country. Uruguay operations, including AgroCentro and Fertimas, contributed approximately 92% of the business unit's FY18 revenue.

The South American business has also set up offices and branches in Argentina and Brazil. These are early-stage operations but together contributed approximately 8% to the business unit's FY18 revenue.

The financial performance of Seed and Grain in South America was negatively impacted by a fall in commodity prices in 2015 and severe flooding in 2016. These events have led to liquidity issues in Uruguay's rural sector, which AgroCentro has the greatest exposure to given its retail focus. Wholesale operations undertaken through subsidiary, Wrightson Pas S.A., deal with larger commercial entities and have been less affected. The South American business also performed below Management's expectations in FY18 due to difficult climatic conditions.

The business unit's historical and forecast financial performance is summarised in Figure 3.3.3.

**Figure 3.3.3: Revenue and EBITDA profile**



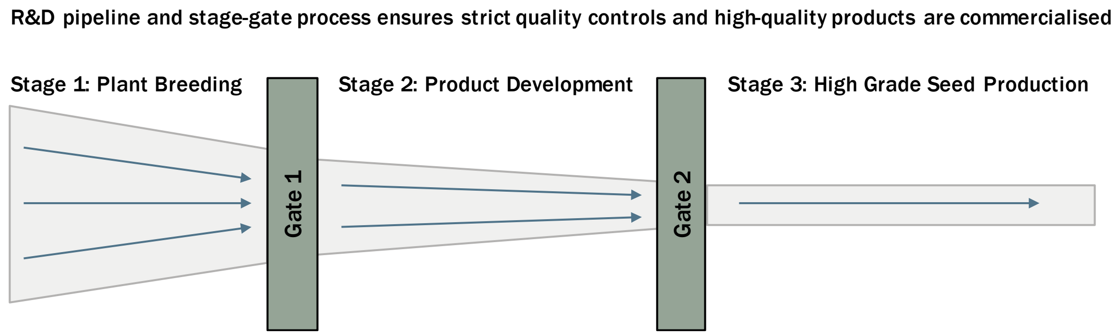

*Source: PGW Management*

### 3.3.4 Research

Management estimates that Seed and Grain has the world's largest R&D investment programme for pasture seed. As such, it has a pipeline of new proprietary products under development. Ongoing investment in proprietary-product innovation helps to increase farm production and profitability, and delivers higher margins for Seed and Grain.

Figure 3.3.4 illustrates how Seed and Grain's R&D pipeline translates into commercialised products.

### Figure 3.3.4: R&D pipeline and product development process




*Source: PGW Management*

Seed and Grain has R&D capability within New Zealand, Australia and South America, including through investments in joint-venture companies, Grasslands Innovation Limited, Forage Innovations Limited and Endophyte Innovation.

The business also partners with external research organisations to further leverage its capabilities and resources. These R&D relationships span across nine different countries.

All of Seed and Grain's R&D activities are coordinated from New Zealand but tend to have a regional focus.

## 3.4 Retail and Water

PGW operates the largest retail network for the New Zealand rural sector, with 94 stores and approximately 679 staff servicing over 46,000 B2B customers nationwide. The core product range encompasses essential agricultural and horticultural inputs and supports non-discretionary farmer/grower spend. The retail network operates under two store brands, Rural Supplies and Fruitfed Supplies.

The Retail business unit also operates a wholesale business, Agritrade, which supplies both PGW stores and external retailers such as Farm Source and Farmlands.

The Water business unit became part of the Retail and Water segment in late 2016. This unit specialises in the design and construction of broad-acre and pastoral irrigation systems, commercial watering systems, the sale of irrigation componentry and the servicing of existing irrigation schemes.

The Retail and Water segment accounts for approximately 30% of PGW's EBITDA. Key drivers of financial performance include farmgate milk prices and discretionary farm spending, livestock prices, global demand for New Zealand's horticultural exports and climatic conditions. PGW's water business is also impacted by government policy regarding water usage and irrigation schemes.

### 3.4.1 Retail

PGW's retail network supplies a wide variety of products to many different areas of the primary sector. Each industry has different underlying drivers, which provides diversification benefits for the business.

The operations of Rural Supplies, Fruitfed Supplies and Agritrade are summarised in Table 3.4.1.

Table 3.4.1: Retail operations

| Retail Network | Description |
|---|---|
| Rural Supplies | Rural Supplies is a network of retail stores, which supplies farm products to sheep and beef (46% revenue), dairy (39% revenue) and arable and other farmers (15% revenue). These stores also distribute Seed and Grain's products to customers.<br><br>Rural Supplies has 160 technical field reps who work with the technical team to help improve production and crop yields and provide other on-farm technical advice. |
| Fruitfed Supplies | Fruitfed Supplies also has a network of retail stores, which supplies products to horticulture (65% revenue) and viticulture (35% revenue) customers. This business is the largest provider to New Zealand's horticulture and viticulture industries.<br><br>Fruitfed Supplies' technical team helps growers to maximise opportunities to sell crops profitably via a range of advisory services relating to crop production, quality and yields. |
| Agritrade | Agritrade wholesales and distributes a range of agricultural chemicals, animal health and other rural products to PGW stores and to other retailers. Several products are distributed under exclusivity arrangements.<br><br>PGW has a strategy to expand Agritrade and significant growth has been achieved since 2012. PGW is focused on broadening the Agritrade product range to achieve continued sales growth and improvements in gross product margin. |

*Source: PGW Management*

The Retail business unit operates across a number of product categories, including agricultural chemicals, seed and grain, fertiliser, fencing, stockfood, animal health and general merchandising.

The Retail unit is currently undergoing a systems transformation project, focused on replacing the current in-store POS systems and integrating a logistics solution (Project RoBuST).

Phase one of an integrated e-commerce platform and CRM tool is currently being developed. Implementation of phase one remains on track for completion in October 2018 at an estimated cost of $7.8m. The platform will complement existing on-farm sales representatives and will improve engagement with farmers through increased relationship touch points and data analytics. This is expected to increase basket sizes and drive sales growth.

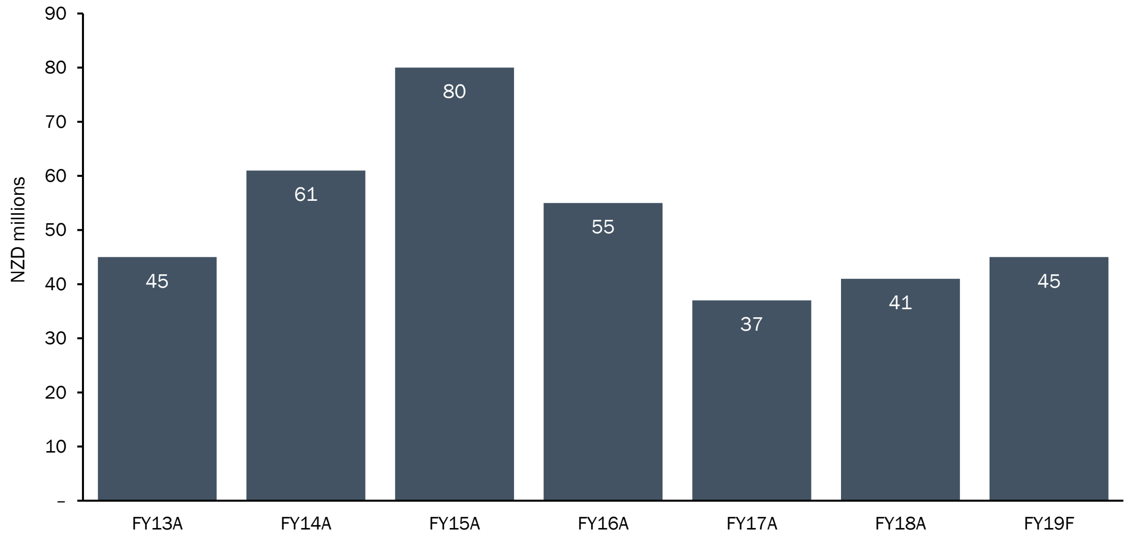
### 3.4.2 Water

The Water business unit was adversely impacted in FY17. The core business of pivot irrigation installations underperformed in response to a weak payout to dairy farmers, and due to uncertainty surrounding changes to government policy regarding irrigation schemes.

The Water unit has been restructured in an attempt to realise synergies with Retail and turn around performance. The business unit now leverages the expertise of PGW's retail sales network and the relationships of its sales representatives.

The financial performance of the Water business unit improved in FY18, although an EBITDA loss was still recognised for the period. Further improvement is projected for FY19.

**Figure 3.4.2: Water business unit sales**




*Source: PGW Management*

PGW is also focused on diversifying the services of the Water business unit to drive growth and insulate earnings from dairy-industry economics and government-policy risks. Demand for new irrigation schemes is unpredictable in nature and therefore diversification may help to provide a more stable earnings base for this business unit. A strategic initiative is in place to undertake more activity in the non-dairy market, as well as in systems servicing and precision water technology.

Further details on New Zealand's dairy industry, and the government's irrigation policy, are provided in the Industry Overview section of the Report.

## 3.5 Agency

The Agency segment comprises business units that earn income from transaction commissions, being Livestock, Wool, Real Estate, Insurance and Finance. The Livestock and Wool business units collectively accounted for over 90% of Agency's EBITDA in FY18.

Key drivers of financial performance include livestock and wool prices, transaction volumes and commission rates.

### 3.5.1 Livestock

The Agency segment operates the largest stock-trading business in New Zealand.

The Livestock business unit is supported by a nationwide network of agents and saleyards, with 219 specialist agents across New Zealand. The core business is focused on sheep and beef, but there is an increasing focus on expanding market share in dairy stock.

PGW also has the leading share of the deer-velvet market, brokering 35% of New Zealand trades.

The key sales channels for PGW's Livestock business include Auction, Private Sales and Prime, as outlined in Table 3.5.1 below. The Auction sales channel contributes over half of the total Livestock commission.

**Table 3.5.1: Livestock sales channels**

| Sales Channel | Description |
|---|---|
| Auction | The Livestock business unit brokers transactions by auction through either saleyards or on farm.<br>For auction sales, the average commission income is around 5%. |
| Private Sales | The Livestock unit also brokers transactions through directly matching vendors and purchasers.<br>The average commission income is approximately 4% for private sales. |
| Prime | This involves the procurement of prime livestock on behalf of meat processors.<br>PGW earns an average income of $2 per animal through this channel. |

*Source: PGW Management*

The Livestock business unit launched 'Go Livestock' in late 2015, offering grazing contracts to farmers for sheep and cattle. PGW earns fee income for stock traded using the Go Livestock products and retains exclusive rights to act as an agent for the sale or purchase of stock. To date, approximately 50% of product uptake has been from farmers who did not previously use the Livestock unit's services.

Investments are also being made in developing an online-trading platform for livestock known as bidr®, which will be the first of its kind in New Zealand. Implementation of the platform is anticipated in early 2019, with further enhancements planned for an expanded livestock offering, sale of wool and possibly feed requiring additional investment. Historically, the Livestock unit has relied on a network of saleyards to facilitate trades.

### 3.5.2 Wool

PGW is a wool exporter and New Zealand's leading wool broker, with a nationwide network of agents and stores.

The Wool business unit offers a range of services to its clients including Brokerage, Logistics and Export, as outlined in Table 3.5.2 below. Brokerage is the largest service and is a leading part of this business unit.

**Table 3.5.2: Wool services**

| Service | Description |
|---|---|
| Brokerage | The Wool business unit provides brokerage services for New Zealand growers, primarily by auction. Services include the sampling, testing and display of wool. |
| Logistics | The Wool unit handles the receipt, storage, assembly of consignments and despatch of wool from company-operated bulk stores. Services are provided externally to Merino NZ and Alliance. |
| Export | The Wool business is also responsible for the selection and procurement of wool to achieve customer specifications. Services include arranging, scouring and international shipping to ports.<br>Export activities are operated through Bloch and Behrens, with supplies made to local mills and more than 30 countries worldwide. |

*Source: PGW Management*

The Wool unit has experienced challenges over recent years due to a decline in crossbred wool prices and reduced sales volumes. Financial performance improved in FY18, as volumes increased in response to a recovery in wool prices.

Agency's online-trading platform (currently under development) could incorporate functionality to support wool sales and the certification process required for wool broking.

### 3.5.3 Real estate

PGW's Real Estate unit is one of New Zealand's largest, full-service real estate companies with a rural focus. There are 37 offices nationwide and a sales team of over 150 agents.

Commission rates of between 2% and 3% are earned on the sale of rural, lifestyle and residential property. Approximately 50% of revenue is generated from the sale of properties categorised as rural (i.e. commercial farms and horticultural properties). PGW maintains a leading position in the rural real estate market.

New Zealand's rural real estate market has softened since mid-2017 and this trend continues. 1,466 farms were sold in the 12 months to August 2018, down 14% on the year prior. The median price per hectare for all farms sold in the three months to August 2018 was $19,792 compared to $27,928 recorded for the same period in 2017 (a 29% decrease)[1].

### 3.5.4 Insurance and finance

These two business units earn commission from legacy operations, which have been divested. Earnings are forecast to decline gradually as customers churn to other providers for these services.

The Insurance unit earns commission from AON Insurance for customer referrals. This arrangement was established following the sale of PGW's insurance broking business to AON Insurance in 2004.

Finance commissions are received from Heartland Bank for customer referrals. PGG Wrightson Finance was sold to Heartland Bank in August 2011.

[1] REINZ Rural Press Release (24 September 2018)

## 3.6 Corporate

PGW's corporate function provides shared services to its operating segments including IT, Finance, Human Resources, Legal and Regional Administration support.

Corporate also manages PGW's governance requirements, related to areas such as Risk and Assurance, Tax and Corporate Accounting, and Health and Safety.

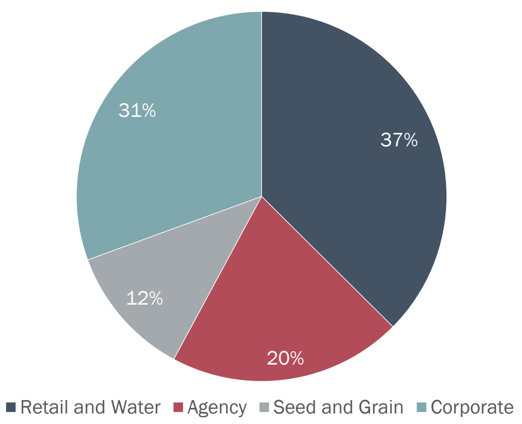
**Table 3.6: Corporate functions and overheads**

| FY18 Allocations | # FTEs | FY18 Overheads ($m) |
|---|---|---|
| **Shared Services** | | |
| Business Operations | 41 | 4.2 |
| Human Resources | 16 | 3.3 |
| Information Technology | 50 | 9.5 |
| Corporate Operations | 8 | 0.8 |
| Regional Administration | 22 | 3.6 |
| Legal | 2 | 0.3 |
| Governance / Head Office* | 28 | 8.8 |
| **Total** | 165 | 30.5 |

** FTE figure excludes PGW Board of Directors*
*Source: PGW Management*

A breakdown of how the services and overheads relate to PGW's business segments is set out in Figure 3.6.

**Figure 3.6: Corporate overheads allocation**




*Source: PGW Management*

# 4 Industry Overview

## 4.1 Global Agricultural Outlook

The comments in this section have been sourced from the OECD-FAO Agricultural Outlook 2018-2027.

PGW's business is significantly influenced by global changes to agricultural commodity markets, and can also be affected by unfavourable weather conditions amongst other factors.

Conditions in world agricultural markets are very different today compared to the last decade. Production has grown strongly across commodities and in 2017, reached record levels for most cereals, meat products, dairy products and fish. This has coincided with slower demand growth for commodities and consequently, prices of agricultural products are expected to be low for the foreseeable future.

### 4.1.1 Demand

Agricultural commodities are primarily consumed as food, feed and fuel. Food demand is influenced by population and income growth, and also by dietary patterns and consumer preferences. Demand for animal feed is closely linked to the human consumption of livestock products, such as meat, eggs and milk. Industrial uses of agricultural commodities (mostly as fuel) are influenced by general economic conditions, as well as government policy and technological advances.

Over the last decade, global demand has increased significantly for a wide range of agricultural commodities. Much of the demand growth has been led by rising per capita incomes in China, which stimulated the country's demand for meat, fish and animal feed. This source of demand growth is decelerating.

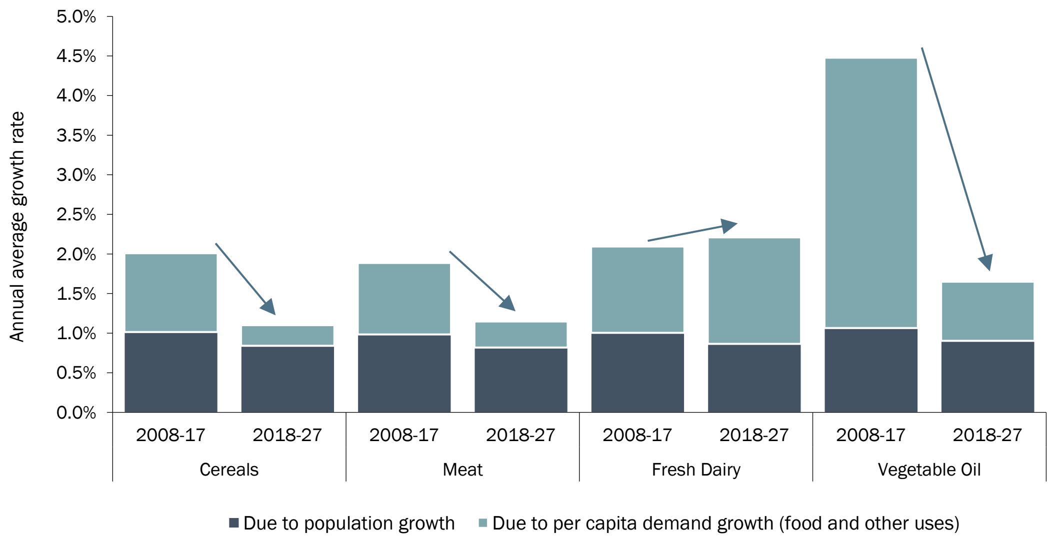
Weaker demand growth is expected to persist over the coming decade. Population will be the primary driver of consumption for most agricultural commodities, although the rate of global population growth is forecast to decline. Furthermore, per capita consumption of many commodities is expected to remain flat at a global level.

For cereals and oilseeds, future demand growth will be sourced from feed products, closely followed by food. A large share of incremental feed demand will come from China. Feed demand growth is nevertheless projected to slow on a global level.

Demand growth for meat products is slowing due to regional variability in preferences and constraints to disposable incomes. Conversely, demand for fresh dairy products is expected to grow at a faster rate over the next decade. This is largely due to greater consumption in developing countries.

Vegetable oil was the fastest-growing commodity over the past decade, as biofuel policies, industrial uses and food use supported demand. Demand growth is expected to slow for vegetable oil but will remain strong compared to other products.

**Figure 4.1.1: Growth in annual demand for key commodities**




*Source: OECD FAO data*

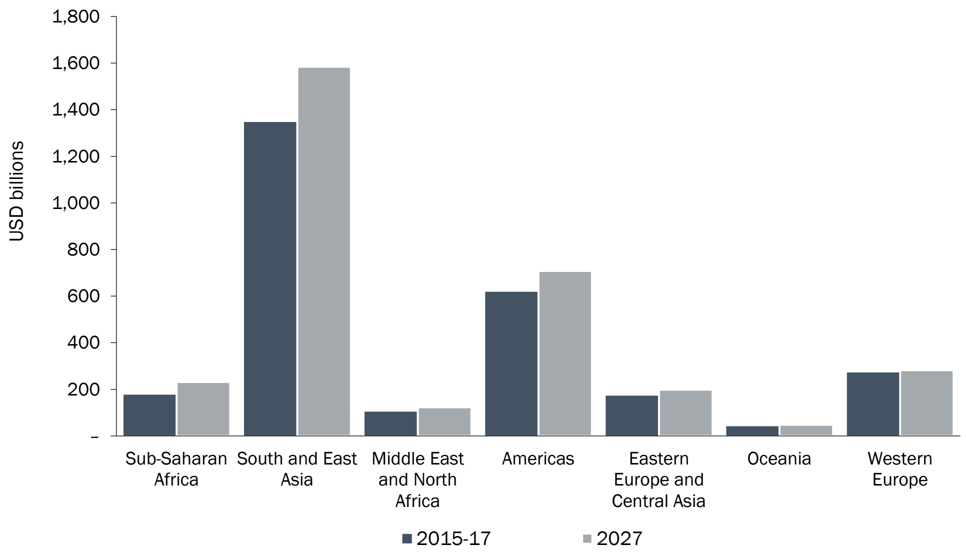
### 4.1.2 Production

During the last decade, robust demand and high agricultural prices led to strong production growth across commodities. Global agricultural production is projected to grow more slowly in the coming decade.

Global agricultural production is projected to grow by around 20% between 2018 and 2027, but with considerable variability across regions. Strong growth is expected in Sub-Saharan Africa, South and East Asia and the Middle East and North Africa. By contrast, production growth in the developed world is expected to be lower, especially in Western Europe where productivity is already high and the availability of resources is limited.

The growth in production is expected to be achieved from intensification and efficiency gains, and partially from an enlargement of the production base through herd expansion and the conversion of pasture to cropland.

**Figure 4.1.2: Net value of agricultural production**




*Source: OECD FAO data*

### 4.1.3 Pricing

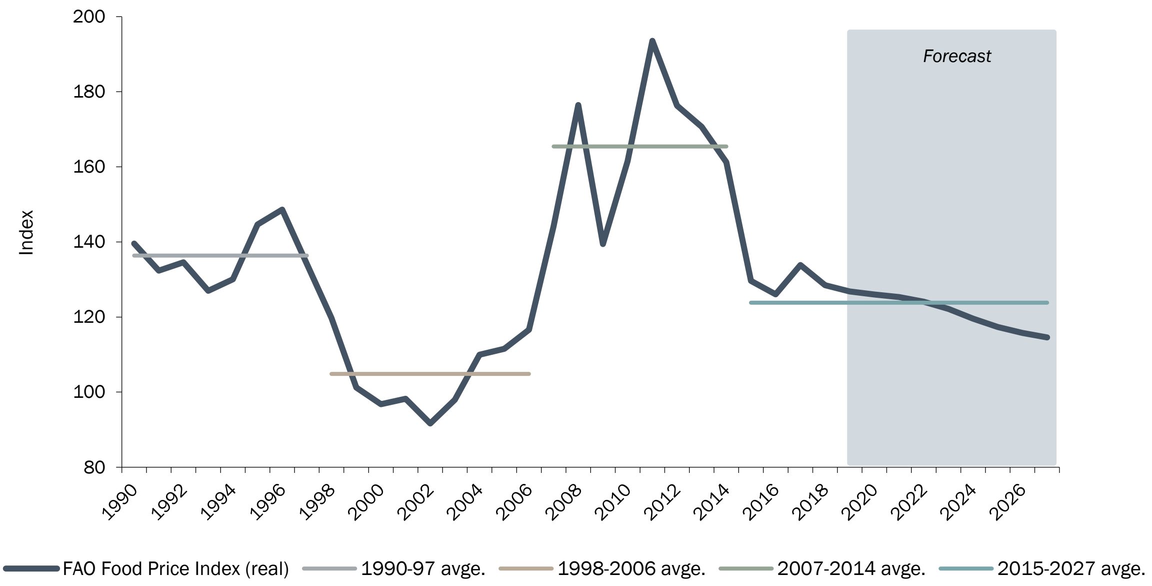
Real food prices, as measured by the Food and Agriculture Organisation of the United Nations (**FAO**), can be used to assess the forecast price path of agricultural commodities and therefore farm decisions affecting demand for on-farm inputs.

Real food prices were relatively high between 2007 and 2014 compared to depressed levels in the late 1990's and early 2000's.

Weaker demand growth, strong production growth and high stock levels have caused prices to fall in recent years. Similar supply and demand dynamics are cited by the FAO as key reasons for real prices being expected to remain constrained between 2018 and 2027.

Figure 4.1.3a below highlights the global trend in real food prices and their cyclical nature.

### Figure 4.1.3a: FAO Food Price Index (real)




*Source: OECD FAO data*

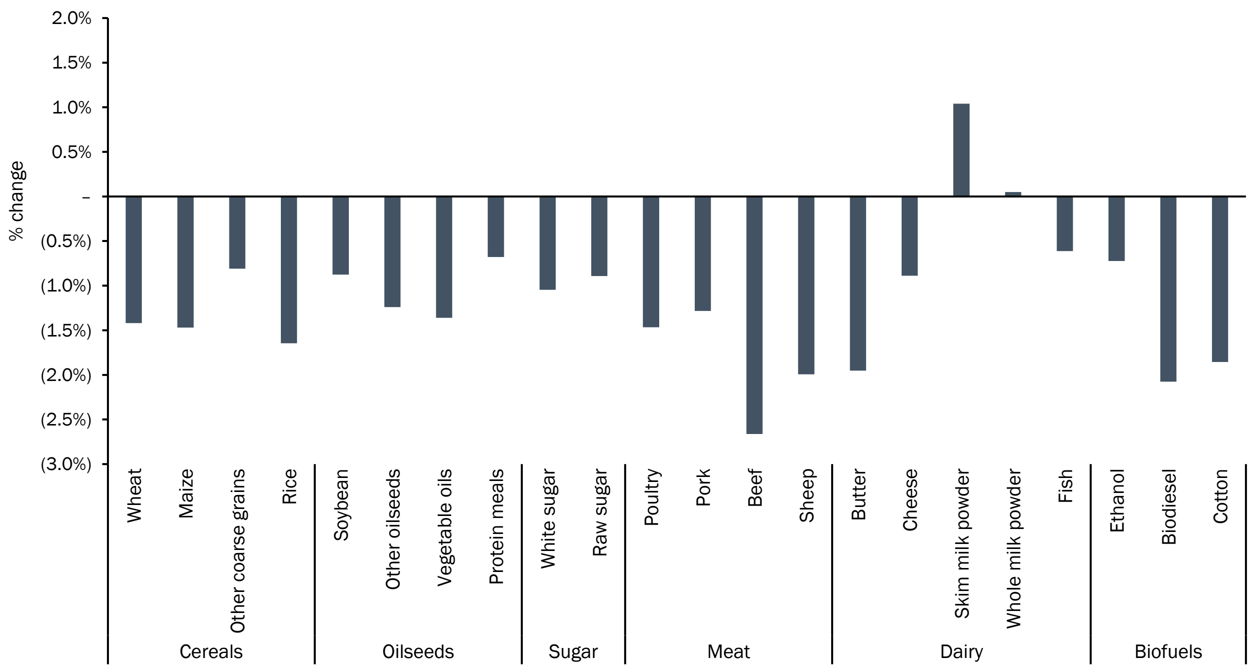
Figure 4.1.3b shows the FAO's projections of real price changes over the next decade, per agricultural commodity.

Projected trends for dairy products stand out. Real prices for butter are forecast to decline by 2% per annum, following the "butter bubble" in 2017. Conversely, skim milk powder and whole milk powder prices are expected to increase.

Despite the FAO forecasting prices to trend downwards, short-term volatility may result in significant deviations from the trend.

We also note that the index is predominantly based in United States dollars, so prices in New Zealand dollars could be materially different depending on exchange rates.

### Figure 4.1.3b: Real price changes for agricultural commodities




*Source: OECD FAO data*

## 4.2 New Zealand Agricultural Sector

PGW's business depends on farm profitability and the general prospects of the rural sector, particularly in New Zealand.

New Zealand's agricultural sector can be can be divided into three key parts:

- **On farm** – businesses that utilise an area of land to grow crops and rear animals. These businesses are subject to volatility in weather and other environmental issues, which can affect production outputs.
- **Rural servicing** – businesses that provide goods and support services to farms.
- **Processing** – value-add processors that process the outputs of farms and produce foods for retail or wholesale customers.

PGW operates as a rural-servicing business and benefits from being a market leader in this area of the sector (refer to Table 3.3a). For product supplies, PGW's key competitors in New Zealand are Farm Source, Farmlands and to a lesser extent, Ruralco:

- **Farm Source** is an initiative started by Fonterra to connect the co-operative to its 11,000 farmer suppliers.
- **Farmlands** is the largest rural-supplies farmer co-operative in New Zealand with a network of over 80 stores.
- **Ruralco** is a business 100% owned by the Ashburton Trading Society (**ATS**) rural-supplies co-operative.

For seed and grain production, PGW's key competitor is Barenbrug, a global seed business headquartered in the Netherlands that trades as Agriseeds in New Zealand and as Heritage in Australia.

**Figure 4.2: Landscape of New Zealand agricultural sector**

| On farm | |
|---|---|
| **Dairy** | 12,000+ farms<br>2.4m ha<br>6.5m cattle<br>1.7b milk solids |
| **Sheep and Beef** | 26,000+ farms<br>9.6m ha<br>3.5m cattle<br>28m sheep |
| **Horticulture** | 7,500+ farms<br>0.2m ha |
| **Cropping** | 3,000+ farms<br>0.12 hectares |

| Rural servicing | |
|---|---|
| **Supply companies** | PGG Wrightson<br>Farm Source<br>Farmlands<br>Ruralco (ATS)<br>Horticentre |
| **Fertiliser** | Ballance Agri-Nutrients<br>Ravensdown |
| **Genetics** | Livestock Improvement (LIC) |
| **Major input producers/suppliers** | Corteva (chemicals)<br>Syngenta (chemicals)<br>Bayer (chemicals)<br>Nufarm (chemicals)<br>PGG Wrightson (seed)<br>Barenbrug (seed)<br>Genetic Technology (seed)<br>Agrifeeds (feed) |

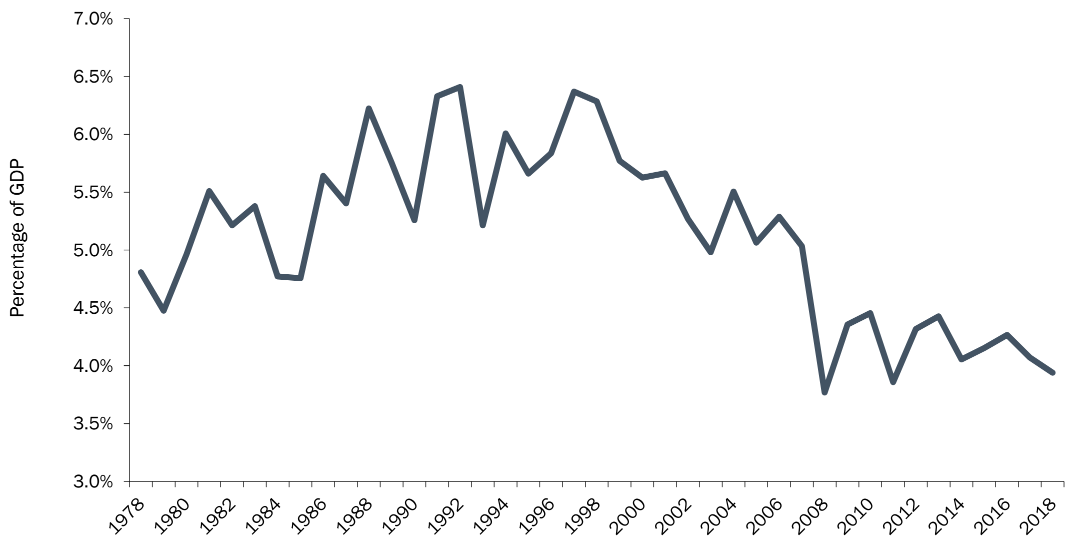
| Processing | |
|---|---|
| **Dairy** | Fonterra<br>Synlait<br>a2 Milk<br>Danone<br>Open Country Dairy<br>Westland<br>Tatua<br>Miraka<br>Oceania Dairy<br>Yashili |
| **Meat** | Silver Fern Farms<br>Alliance<br>AFFCO<br>ANZCO |

*Source: Statistics New Zealand and PGW Management*

### 4.2.1 New Zealand agricultural revenue

The agricultural sector is a critical component of the New Zealand economy. It is the largest source of export revenue, accounting for approximately 40% of total New Zealand export revenue and contributes 4% of New Zealand's GDP[2]. However, agriculture's contribution to GDP has declined since the late 1990's, due to diversification of the New Zealand economy and the expansion of its services sector.

**Figure 4.2.1a: Agricultural sector contribution to GDP**

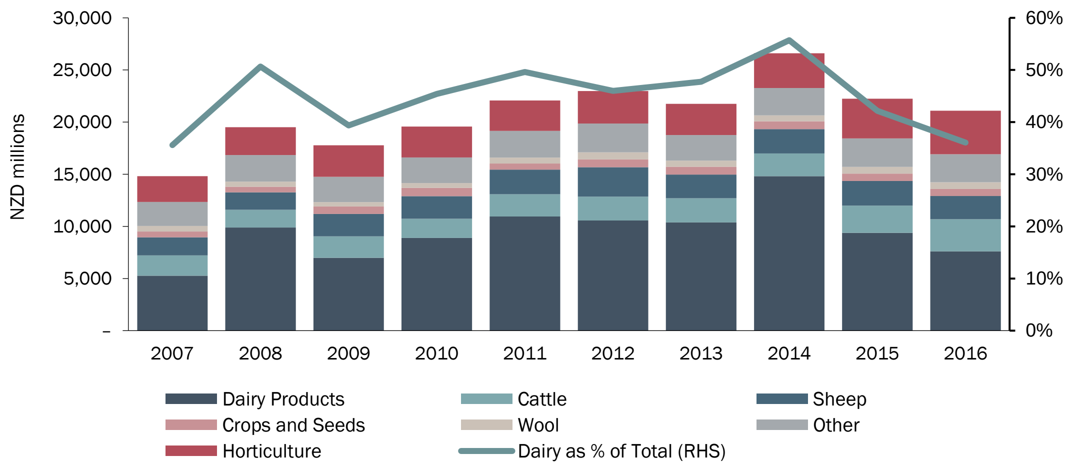



*Source: Statistics New Zealand*

Dairy is the largest, fastest-growing and most price-sensitive contributor to the New Zealand agricultural sector. New Zealand is the largest dairy exporter in the world, accounting for approximately 3% of the world's total milk production. Approximately 95% of New Zealand milk production is exported to other countries[3].

Dairy is forecast to remain the strongest growing part of the New Zealand agricultural sector, in line with global trends. Dairy has accounted for between 36% and 56% of gross agricultural revenues over the past decade and therefore, New Zealand's agricultural sector will benefit from continued growth in global demand for dairy products[4].

**Figure 4.2.1b: Agricultural sector gross revenue**




*Source: Statistics New Zealand*

[2] [4] Statistics New Zealand: www.stats.govt.nz

[3] Fonterra: www.fonterra.com

### 4.2.2 Fonterra farmgate milk price

Fonterra's farmgate milk price is paid to the vast majority of New Zealand dairy farmers as compensation for the supply of raw milk. This is a key driver of performance in the dairy industry and indicator of the health of New Zealand's rural sector.

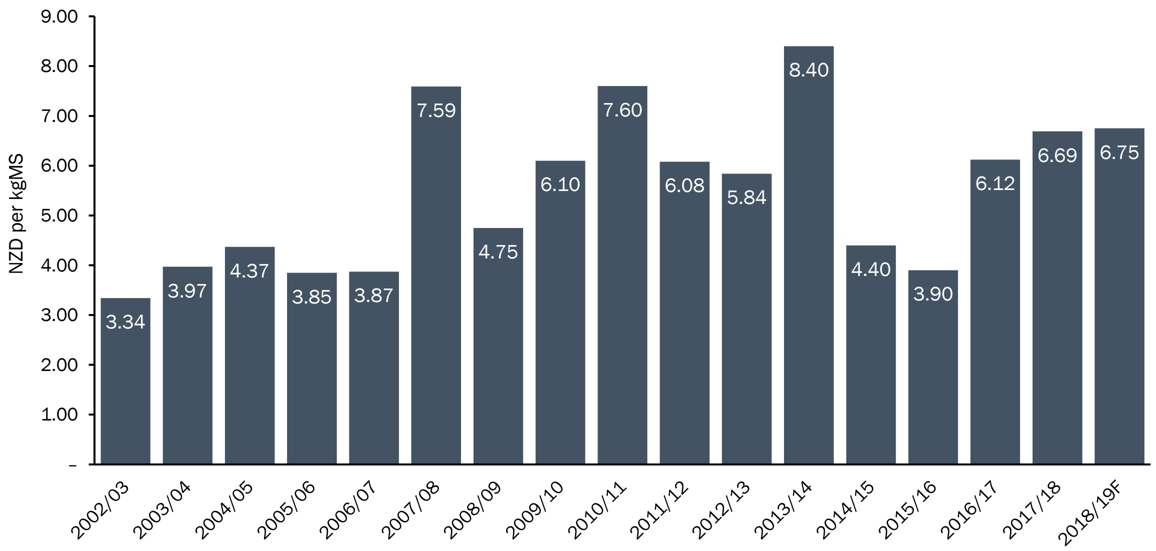
New Zealand is unique in that 95% of processed milk products are exported offshore and Fonterra collects a large proportion of the raw milk supplied by farmers. There is no market price set through competition for supply, but Fonterra calculates a farmgate milk price using a regulated methodology[5].

Global dairy prices declined throughout 2014 to 2016, reflecting a surplus of product supply and weak demand, particularly from China and Russia. New Zealand dairy farmers faced significant challenges during this period, as farmgate milk prices were reduced to levels below the cost of production for many farms.

Fonterra increased its forecast farmgate milk price in both the 2016/17 and 2017/18 seasons, in response to a recovery in global dairy prices. The price is forecast to increase to $6.75 per kilogram of milk solids (**kgMS**) in the 2018/19 season, which should ensure most New Zealand dairy farms achieve profitability.

A history of Fonterra's farmgate milk price is set out in Figure 4.2.2 below.

**Figure 4.2.2: Fonterra farmgate milk price**




*Source: Fonterra*

### 4.2.3 Livestock prices

Livestock prices are another key factor affecting farm profitability and therefore PGW's financial performance.

Livestock prices have increased across New Zealand in recent years, due to strong demand for beef and sheep meat products and lower livestock numbers. Export demand is particularly strong in the current market, with annual beef and lamb exports both expected to surpass $3 billion for the first time in the 2017/18 season ended September. Beef and lamb exports are both projected to exceed $3 billion again in the 2018/19 season[6].

Beef + Lamb New Zealand has estimated the average farmgate price for finished lamb at $7.08 per kg, or $131 per head, for the 2017/18 season. The forecast at the beginning of the season was $5.55 per kg. The average farmgate price for cattle is estimated at $4.91 per kg for the 2017/18 season, down approximately 0.8% on the previous year.

Beef + Lamb New Zealand has estimated farm profit before tax at $133,400 for all classes of sheep and beef farms in the 2017/18 season. This is 58% higher than forecasts published in their New Season Outlook 2017-18 report. Farm profit before tax is forecast to average $129,700 per farm in the 2018/19 season, down 2.8% on the 2017/18 year.

[5] Fonterra: www.fonterra.com

[6] Beef + Lamb New Zealand: https://beeflambnz.com

**Figure 4.2.3: Key livestock prices**


*Source: PWC VDD report*

## 4.2.4 New Zealand government policy

The current Labour-led coalition government was formed after New Zealand's general election in September 2017. The new government has made several policy changes that could impact the rural sector going forward. Examples include:

- **Restrictions on the sale of rural land to foreign buyers**: A directive letter has been issued to the OIO to tighten rules around the sale of all rural land larger than five hectares, other than forestry land.
- **Reduced funding of irrigation schemes**: The government will cease to fund new large-scale irrigation projects but has agreed to honour commitments to existing schemes and three new projects. The Central Plains Water Stage 2, Kurow-Duntroon and Waimea Community Dam schemes are still eligible to receive construction funding from the government due to their advanced status. However, Tasman District councillors voted against proceeding with the Waimea Community Dam project in late August 2018.
- **Increases to the minimum wage**: The legislated minimum wage rate increased from $15.75 to $16.50 per hour on 1 April 2018. Further increases will see the minimum wage set at $20 per hour by 2021, which could affect farm profitability.

## 4.2.5 Farmer confidence

Farmer confidence is a key determinant of on-farm activity and is driven by farmgate returns, weather conditions and commodity prices.

The Rabobank Rural Confidence Survey for the quarter ended June 2018 shows that New Zealand farmer confidence has declined since the previous quarter. Although farmer confidence remains at net positive levels, the index decreased to +2% after being +15% in the March 2018 survey. Concern about Mycoplasma bovis disease was cited as the main reason for reduced confidence amongst farmers. Farmers' expectations of their own performance were down in the June 2018 quarter but remain elevated overall, particularly for horticulturalists. Farmers' investment intentions also remain strong despite the reduction in confidence[7].

New Zealand was one of the last countries in the world to have an outbreak of Mycoplasma bovis, but infected cattle were detected on a South Canterbury dairy farm in July 2017. In May 2018, the government decided it would attempt to eradicate the disease using a phased approach. It is expected that 126,000 additional livestock will need to be culled at an estimated cost of $886 million[8].

[7] Rabobank Rural Confidence Survey (media release on 5 July 2018)

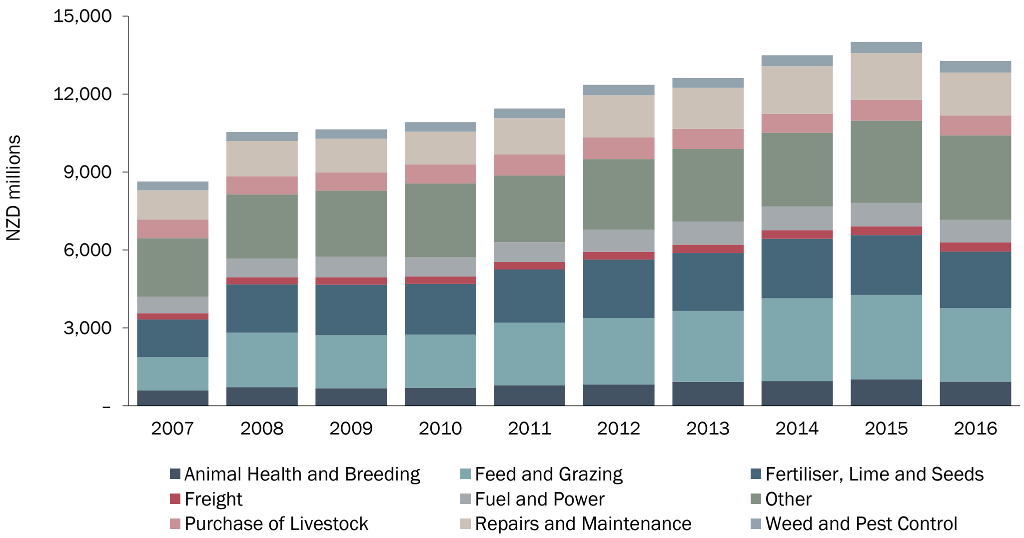
[8] Stuff: www.stuff.co.nz/business/farming/105484274/Eradicating-cattle-disease-M-bovis-may-be-costly-even-impossible-but-we-must-try

### 4.2.6 New Zealand agricultural expenditure

PGW's business model is intrinsically linked to New Zealand on-farm expenditure. On-farm expenditure has increased strongly since 2007 (a year affected by drought) and the high farmgate milk prices paid out in the years up to 2013/14 led to many farms being converted to dairy platforms and other high-intensity farming systems. The fall in farmgate milk prices observed during the 2014/15 and 2015/16 milk seasons has caused farm expenditure to level off recently.

Figure 4.2.6 summarises New Zealand's agriculture intermediate consumption, as a proxy for farm spending.

**Figure 4.2.6: Agricultural sector intermediate consumption**




*Source: Statistics New Zealand*

# 5 Financial Performance

## 5.1 Consolidated Financial Performance

Table 5.1 summarises PGW's consolidated earnings for the period FY15 to FY18, as well as FY19 forecast information prepared by PGW Management.

The FY19 budget was prepared as part of PGW Management's budgeting process and was signed off by the PGW Board in June. It represented PGW's best estimate of financial performance for FY19 at that time. A revised FY19 forecast has recently been prepared by Management and is presented in the tables and charts that follow. This reflects first quarter trading, which is generally a quieter trading period for PGW given seasonality.

The revenue and expense components that make up FY19 EBITDA for the consolidated business and Rural Services' business segments are commercially sensitive.

**Table 5.1: Consolidated earnings summary***

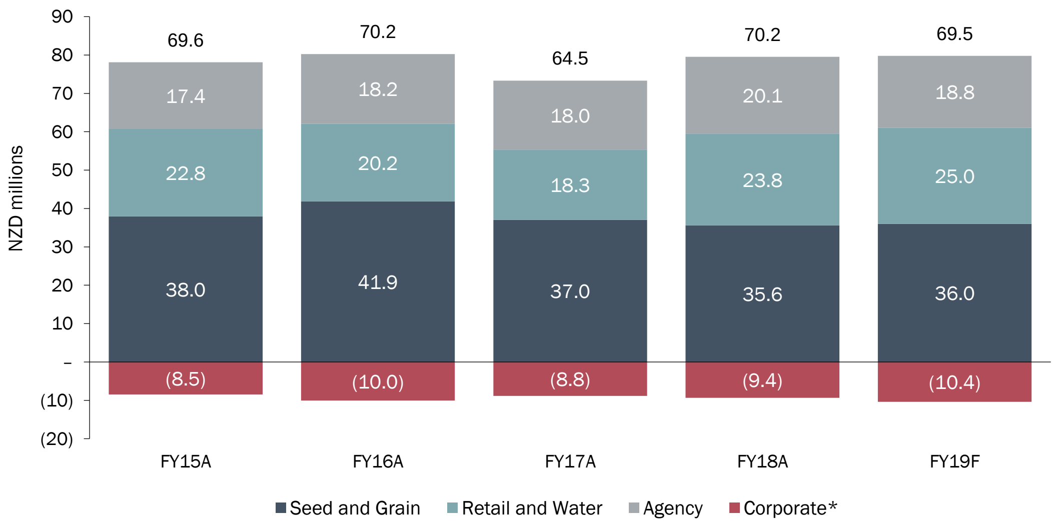
| NZD millions | FY15 Actual | FY16 Actual | FY17 Actual | FY18 Actual | FY19 Forecast |
|---|---|---|---|---|---|
| Revenue | 1,203.4 | 1,182.1 | 1,133.5 | 1,191.8 | |
| Cost of sales | (885.7) | (854.9) | (804.3) | (847.3) | |
| **Gross profit** | **317.7** | **327.2** | **329.2** | **344.5** | |
| *Gross profit margin %* | *26.4%* | *27.7%* | *29.0%* | *28.9%* | |
| Salaries and wages | (149.3) | (156.1) | (160.9) | (165.8) | |
| Direct expenses | (98.8) | (100.9) | (103.8) | (108.5) | |
| **EBITDA** | **69.6** | **70.2** | **64.5** | **70.2** | **69.5** |
| Depreciation and amortisation | (7.9) | (9.2) | (10.7) | (13.0) | |
| **EBIT** | **61.7** | **61.0** | **53.8** | **57.2** | |
| *EBIT margin %* | *5.1%* | *5.2%* | *4.7%* | *4.8%* | |

** Non-trading items are excluded from EBITDA and EBIT*

*Source: PGW Management*

Figure 5.1 presents a breakdown of PGW's EBITDA by segment for the period FY15 to FY19.

**Figure 5.1: EBITDA by segment**




** Corporate includes sold/discontinued operations*

*Source: PGW Management*

PGW's revenue decreased by 4% between FY16 and FY17 due to reduced turnover by the Seed and Grain and Agency segments of the business. Revenue recovered in FY18, up by approximately $58 million (an increase of 5%). All key operating segments generated higher revenues in FY18 compared to the previous year.

PGW generated EBITDA of $70.2 million in FY18, as revenue increased and margins remained stable. This exceeded the top end of the $65 million to $70 million guidance range provided to the market. The Retail and Water and Agency segments both achieved record results in this period, reporting EBITDA growth of 30% and 12% respectively. Seed and Grain reported lower earnings despite a relatively strong performance from its New Zealand business unit.

The Mycoplasma bovis disease outbreak has not affected PGW's financial performance, to date. However, the Company is working with customers and industry bodies to manage and monitor its impact on New Zealand's rural sector.

PGW's FY19 financial performance figures (shown above in 5.1) have been sourced from the Company's revised forecast.

The macro assumptions underpinning the FY19 forecast include:

- a Fonterra farmgate milk price of $6.30 per kgMS;
- average beef and lamb commodity prices of $5.40 and $5.50 per kg respectively;
- an average crossbred wool price of $3.50 per kg;
- increased New Zealand milk-solids production and horticulture export volumes;
- stable sheep and cattle numbers in New Zealand; and
- general cost inflation of around 2% in New Zealand.

Management has forecast continued growth for PGW's core business units and expects new technology investments across Seed and Grain, Retail and Livestock to provide opportunities for further EBITDA upside. Notable technology initiatives include:

- Retail and Water's RoBuST digital strategy;
- Agency's online-trading platform for livestock and wool, and continued investment in Go Livestock products;
- Retail's Agritrade expansion strategy; and
- further proprietary-seed innovation to grow the Seed and Grain business, particularly in South America.

Further details about the FY19 forecast are included in the sections that follow.

## 5.2 Seed and Grain Financial Performance

Table 5.2 summarises Seed and Grain's historical earnings for the period FY15 to FY18, as well as FY19 forecast information prepared by PGW Management.

For all business segments, earnings are presented post allocations of corporate costs related to shared services. PGW Management has advised that the cost allocations represent best estimates of standalone costs for Seed and Grain.

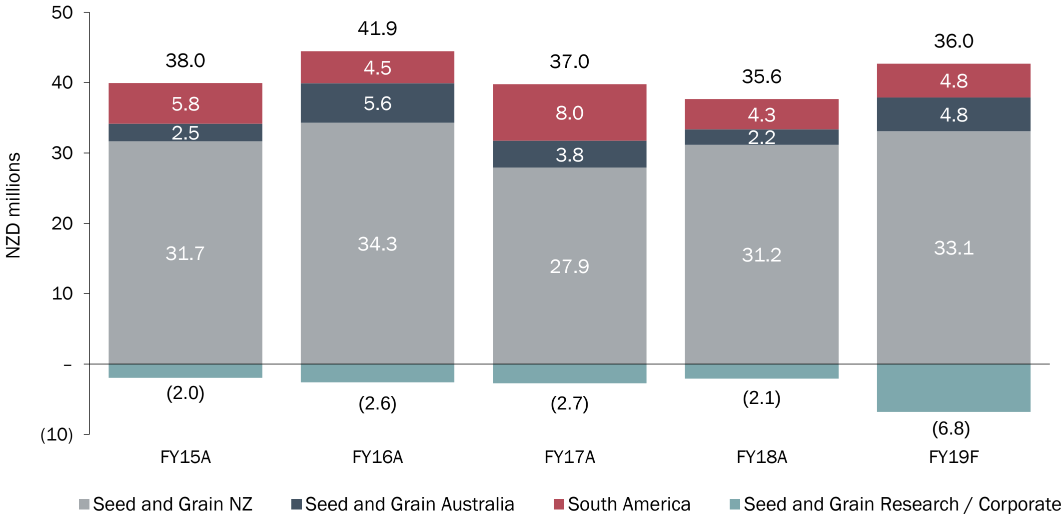
**Table 5.2: Seed and Grain earnings summary***

| NZD millions | FY15 Actual | FY16 Actual | FY17 Actual | FY18 Actual | FY19 Forecast |
|---|---|---|---|---|---|
| Revenue | 451.2 | 452.9 | 428.9 | 447.6 | 536.4 |
| Cost of sales | (333.6) | (327.6) | (304.3) | (319.9) | (396.3) |
| **Gross profit** | **117.6** | **125.3** | **124.5** | **127.7** | **140.1** |
| *Gross profit margin %* | *26.1%* | *27.7%* | *29.0%* | *28.5%* | *26.1%* |
| Direct expenses | (77.1) | (80.7) | (84.7) | (88.6) | (100.1) |
| Corporate overhead allocation | (2.5) | (2.8) | (2.8) | (3.6) | (3.9) |
| **EBITDA** | **38.0** | **41.9** | **37.0** | **35.6** | **36.0** |
| Depreciation and amortisation | (3.5) | (4.4) | (5.5) | (6.1) | (7.8) |
| **EBIT** | **34.5** | **37.5** | **31.5** | **29.6** | **28.2** |
| *EBIT margin %* | *7.6%* | *8.3%* | *7.4%* | *6.6%* | *5.3%* |

** Non-trading items are excluded from EBITDA and EBIT*

*Source: PGW Management*

Figure 5.2: Seed and Grain EBITDA by business unit




*Source: PGW Management*

Seed and Grain's EBITDA decreased in FY17 and again in FY18. The FY17 financial performance was negatively impacted by uncertainty in the dairy industry and challenging weather conditions, both of which affected Seed and Grain New Zealand and Seed and Grain Australia. Wet conditions during April 2017 meant that New Zealand farmers were unable to complete their regrassing and autumn pasture renewal plans. In Australia, dry conditions in the key dairy regions of Victoria contributed to reduced demand for pasture seed.

The South American business achieved higher EBITDA in FY17, as performance recovered following the floods experienced in 2016.

EBITDA decreased to $35.6 million in FY18 due to weaker-than-expected results from Seed and Grain's South American and Australian operations. Extremely dry weather made trading conditions difficult in these markets and AgroCentro has encountered issues with debtor management, as difficult climatic conditions have led to liquidity issues in Uruguay's rural sector.

The New Zealand business unit contributed 88% of Seed and Grain's EBITDA in FY18, reflecting improvements to dairy-farming conditions and overall farmer confidence in this country.

Management has forecast EBITDA for Seed and Grain in FY19 to be similar to the FY18 result. However, included in the forecast for South America are two non-recurring expense items related to AgroCentro, which total approximately $3 million. Normalising for these non-recurring costs would increase Seed and Grain's forecast EBITDA to around $39 million for FY19.

## 5.3 Rural Services Financial Performance

Excluding Seed and Grain, PGW's remaining operations are the Retail and Water, Agency and Corporate segments of the business. These operations are collectively referred to as Rural Services in the Report.

### 5.3.1 Retail and Water

Table 5.3.1 summarises Retail and Water's historical earnings for the period FY15 to FY18, as well as FY19 forecast information prepared by PGW Management.

**Table 5.3.1: Retail and Water earnings summary***

| NZD millions | FY15 Actual | FY16 Actual | FY17 Actual | FY18 Actual | FY19 Forecast |
|---|---|---|---|---|---|
| **Revenue** | **578.4** | **550.1** | **562.2** | **606.2** | |
| Direct expenses | (545.7) | (518.5) | (533.1) | (571.0) | |
| Corporate overhead allocation | (9.9) | (11.3) | (10.7) | (11.4) | |
| **EBITDA** | **22.8** | **20.2** | **18.3** | **23.8** | **25.0** |
| Depreciation and amortisation | (1.4) | (1.5) | (1.7) | (3.1) | |
| **EBIT** | **21.4** | **18.7** | **16.6** | **20.7** | |
| *EBIT margin %* | *3.7%* | *3.4%* | *2.9%* | *3.4%* | |

** Non-trading items are excluded from EBITDA and EBIT*

*Source: PGW Management*

Retail and Water's EBITDA decreased by $1.9 million in FY17 (a decrease of 9%), due to weakness in the Water unit's financial performance. The Water unit was negatively impacted by a market-wide reduction in the number of irrigation projects implemented and uncertainty around irrigation policies in the lead up to the 2017 general election.

The Retail business unit performed well in FY17 and increased its operating EBITDA by $3.8 million (an increase of 19%). Retail's strong performance reflected growth in sales of high-margin products and the expansion of PGW's Agritrade business.

Retail and Water achieved a record EBITDA of $23.8 million in FY18, as Retail's and Water's contributions both improved on the previous year. The Retail business unit continues to benefit from its technical expertise and PGW's strategy to invest in Agritrade (PGW's wholesale distribution business servicing PGW's retail stores and third parties). The Water unit experienced challenges over this period due to reduced investment in irrigation schemes.

Management expects further earnings growth to be achieved in FY19, through the continued expansion of Retail's key product lines and Agritrade business, and via Water seeking to broaden its service offering in order to stabilise its earnings.

### 5.3.2 Agency

Table 5.3.2 summarises Agency's historical earnings for the period FY15 to FY18, as well as FY19 forecast information prepared by PGW Management.

**Table 5.3.2: Agency earnings summary***

| NZD millions | FY15 Actual | FY16 Actual | FY17 Actual | FY18 Actual | FY19 Forecast |
|---|---|---|---|---|---|
| **Revenue** | **218.4** | **229.0** | **197.5** | **200.8** | |
| Direct expenses | (193.8) | (203.2) | (173.4) | (174.4) | |
| Corporate overhead allocation | (7.2) | (7.6) | (6.1) | (6.3) | |
| **EBITDA** | **17.4** | **18.2** | **18.0** | **20.1** | **18.8** |
| Depreciation and amortisation | (1.3) | (1.3) | (1.1) | (1.1) | |
| **EBIT** | **16.1** | **16.9** | **16.9** | **19.0** | |
| *EBIT margin %* | *7.4%* | *7.4%* | *8.5%* | *9.5%* | |

** Non-trading items are excluded from EBITDA and EBIT*

*Source: PGW Management*

The Agency segment achieved similar EBITDA results in FY16 and FY17 (approximately $18 million), but the earnings mix was different. The Livestock business unit delivered record earnings in FY17, as strong international demand for meat products and lower stock numbers combined to drive up livestock prices. Conversely, the Wool unit was negatively impacted by a collapse in global crossbred wool prices, which resulted in lower volumes of wool being sold.

The performance of PGW's Real Estate, Insurance and Finance units remained relatively stable between FY16 and FY17.

Agency delivered a record EBITDA of $20.1 million in FY18, up 12% on the FY17 result. The Livestock unit performed well again due to consistently strong sheep and beef prices, and the Wool business unit recovered as underlying crossbred wool prices improved and sales volumes increased.

New Zealand's rural real estate market softened during FY18, which made trading conditions difficult for the Real Estate unit. PGW Management has attributed the weak market conditions to heightened uncertainty regarding a number of factors, including bank funding, Mycoplasma bovis and changes to government policy around land sales to foreign buyers and the environment.

Management has forecast lower earnings for the Agency segment in FY19. The recent results achieved by the Livestock and Wool business units are not considered sustainable given the cyclical nature of these markets. However, PGW's Go Livestock products and online-trading platform are expected to drive efficiencies and future growth in commission revenues.

### 5.3.3 Corporate

Table 5.3.3 summarises PGW's corporate overheads for the period FY15 to FY19.

PGW incurred total corporate costs of $31 million in FY18, in line with FY17. More than $20 million of the total corporate costs incurred in FY18 related to shared services for PGW's core operating segments (Seed and Grain, Retail and Water and Agency). These expenses are allocated to each segment based on a detailed analysis of their use of the shared services. The cost allocations are denoted as "Corporate overhead allocation" in the table below.

At an EBITDA level, this leaves approximately $10 million of overheads within the Corporate segment. These are costs related to head office and governance functions that have not been allocated to the business segments.

**Table 5.3.3: Corporate overheads***

| NZD millions | FY15 Actual | FY16 Actual | FY17 Actual | FY18 Actual | FY19 Forecast |
|---|---|---|---|---|---|
| **Sold and discontinued** | **3.4** | **3.3** | **3.1** | **0.7** | |
| Direct expenses | (31.5) | (35.1) | (31.6) | (31.2) | |
| Corporate overhead allocation | 19.6 | 21.7 | 19.6 | 21.2 | |
| **EBITDA** | **(8.5)** | **(10.0)** | **(8.8)** | **(9.4)** | **(10.4)** |
| Depreciation and amortisation | (1.8) | (2.0) | (2.3) | (2.7) | |
| **EBIT** | **(10.3)** | **(12.1)** | **(11.2)** | **(12.1)** | |

** Non-trading items are excluded from EBITDA and EBIT*
*Source: PGW Management*

The table above includes sold and discontinued operations in order to reconcile to consolidated financial statements.

# 6 Financial Position

Table 6 summarises PGW's consolidated financial position as at 30 June 2018. The table also includes a balance sheet for Seed and Grain, which represents the net assets to be acquired by DLF Seeds in accordance with the Proposed Transaction.

The Proposed Transaction has a locked-box pricing mechanism, which means DLF Seeds would effectively assume all risks and rewards of the Seed and Grain business from 30 June 2018 onwards. PGW's investment in Agri Optics, a New Zealand business specialising in precision agriculture products, will not transfer across with Seed and Grain under the Proposed Transaction.

### Table 6: Consolidated and Seed and Grain balance sheets

| **30-Jun-18**<br>**NZD millions** | **Consolidated** | **Seed and Grain*** |
|---|---|---|
| Trade and other receivables | 307.0 | 133.3 |
| Inventory and WIP | 263.4 | 185.2 |
| Trade and other payables | (197.0) | (87.4) |
| Accruals and provisions | (71.2) | (19.3) |
| Other working capital | (8.7) | (2.0) |
| **Net working capital** | **293.6** | **209.8** |
| Property, plant and equipment | 124.2 | 78.0 |
| Investments | 16.8 | 15.7 |
| Intangible assets | 13.0 | 1.0 |
| Deferred tax asset/(liability) | 16.3 | 3.7 |
| Other non-current assets/(liabilities) | (1.2) | 17.7 |
| **Long-term net operating assets** | **169.0** | **116.1** |
| Cash and cash equivalents | 10.9 | 8.3 |
| Overdraft and short-term debt | (30.6) | (21.3) |
| Long-term debt | (145.9) | (27.9) |
| Defined benefit superannuation scheme provision | (9.7) | (0.1) |
| **Net cash/(debt)** | **(175.2)** | **(41.1)** |
| **Net assets** | **287.5** | **284.8** |

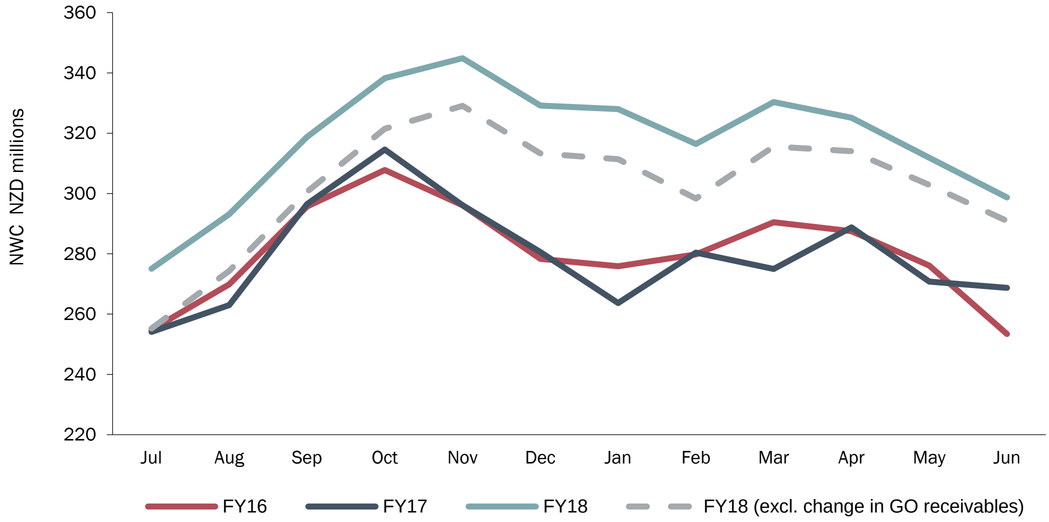
** Agri Optics investment will not transfer as part of the Proposed Transaction*
*Source: PGW Management*

## 6.1 Consolidated Financial Position

Key points to be considered when reviewing PGW's balance sheet include:

- PGW has a significant net working capital (**NWC**) requirement due to the nature of the business, with approximately 66% of the Company's NWC invested in the Seed and Grain business. NWC increased in FY18 and continues to track higher than budget levels. Receivables related to the Go Livestock products have increased significantly and are the key driver of PGW's net working capital growth. The Go Livestock receivables balance is budgeted to average $37m throughout FY19 and is approximately $40 million at present.
- NWC is cyclical in nature, but the balance is smoother for the group than for the individual business segments. This is because NWC has varied seasonal patterns across different segments and this seasonality is partially offset upon consolidation. Figure 6.1 below highlights the seasonality of PGW's consolidated NWC balance.

Figure 6.1: Consolidated net working capital




*Source: PGW Management*

- Property, plant and equipment included land and buildings with a net book value of $60.4 million, leasehold improvements, plant and equipment with a net book value of $60.0 million and capital works projects of $3.8 million as at 30 June 2018. Management is undertaking a property divestment programme and realised a $1.7 million gain on sale of properties in FY18. Management plans to dispose of PGW's retail property in Amberley during the first half of FY19.
- Investments relates primarily to Seed and Grain's 50% equity investments in AgroCentro and Fertimas. The investment in AgroCentro was impaired by $7.8 million in FY18, partially offset by a $5.1 million release of an earnout provision held as part of the original AgroCentro investment. Furthermore, as part of finalising the Seed and Grain purchase price, subsequent changes have been made to account for inventory, debtor and value adjustments relating to South America (including AgroCentro), which totalled a further reduction of $6.9 million.
- Intangible assets are made up of software, trademarks, patents and rights. The carrying value of intangible assets increased in FY18, reflecting PGW's recent IT investments.
- Interest-bearing debt comprises a syndicated banking facility in Australia and New Zealand, finance leases in Australia, New Zealand and South America and various bank facilities in South America. Total interest-bearing debt increased by $40.8 million in FY18 to help fund working capital growth (notably Go Livestock receivables), capital expenditure and dividend distributions.
- PGW makes contributions to a defined benefit plan, which provides a range of superannuation and insurance benefits to current and former employees. The provision recognised on PGW's balance sheet is considered a debt-like item.

## 6.2 Seed and Grain Financial Position

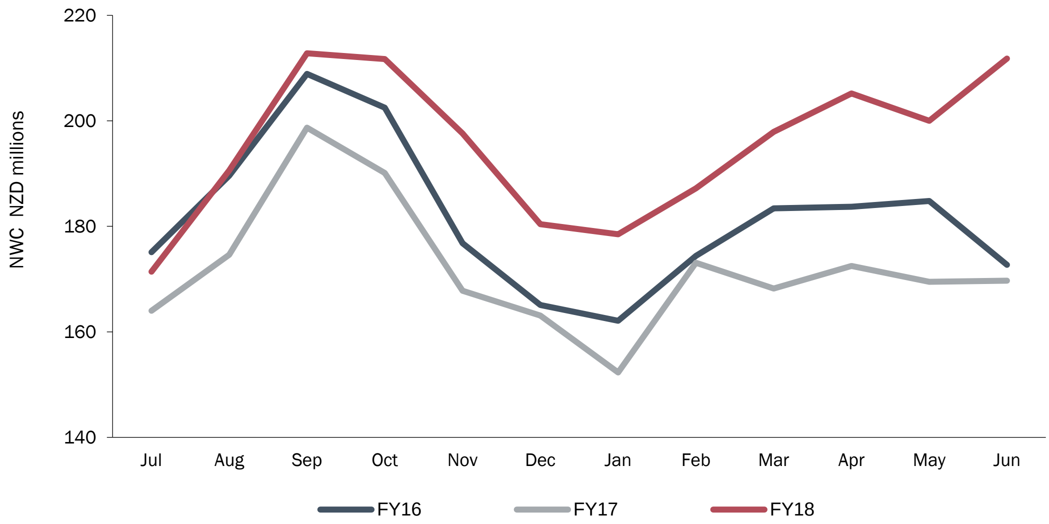
### 6.2.1 Net working capital

Seed and Grain makes significant investments in inventory, due to the long planning and production cycle associated with seeds. It also maintains high receivables and payables balances due to long payment terms in the South American market. Seed and Grain contributes approximately two thirds of PGW's overall NWC level.

Management maintains initiatives to minimise the NWC, particularly with regards to excess inventories currently being held by Seed and Grain's Australian and South American businesses.

Seed and Grain's NWC is seasonal and the working-capital cycle differs for the New Zealand, Australian and South American business units. Overall, Seed and Grain's NWC balance peaks in September (as a result of spring sales in New Zealand and crop sales in South America) and April/May (being autumn sales in Australasia and pasture sales in South America) each year and experiences a trough during January prior to the new season harvest.

**Figure 6.2.1: Seed and Grain net working capital**




*Source: PGW Management*

### 6.2.2 Debt

Seed and Grain's net interest-bearing debt was $44 million as at 30 June 2018, being $52 million of short-term and long-term borrowings (including finance leases) less $8 million of cash on hand.

Seed and Grain's debt is in the form of various bank facilities, which are used to fund South American operations and are denominated in United States dollars. PGW's syndicated banking facility is not allocated to the core operating segments of the business.

## 6.3 Rural Services Financial Position

Table 6.3 displays a post-transaction balance sheet for Rural Services, which represents PGW's consolidated balance sheet less Seed and Grain's net assets to be transferred and makes adjustments for the Seed and Grain sale proceeds and planned uses of the capital. The pro-forma balance sheet summary shows Rural Services' financial position as at 30 June 2018, as if the Proposed Transaction and subsequent capital adjustments had occurred on that date.

After completion adjustments, DLF Seeds has agreed to pay $413 million to purchase the equity of the Seed and Grain business. Following the Proposed Transaction, PGW may potentially make a tax-free cash distribution to shareholders of up to $292 million of available subscribed capital (subject to a favourable binding ruling from the IRD) and use the remaining proceeds from the divestment to pay down debt.

As shown in Table 6.3 below, Rural Services would have a pro-forma debt balance, as at 30 June 2018, of approximately $36 million if the PGW Board decided to make a total cash distribution to shareholders of $292 million.

### Table 6.3: Rural Services balance sheet summary

| **30-Jun-18** | **Consol.** | **Proposed Transaction Adjustments** | | | | **Rural Services** |
|---|---|---|---|---|---|---|
| **NZD millions** | **Pro forma*** | **Price adjustment** | **S&G sale** | **Capital return**** | **Debt repay** | **Pro forma** |
| Trade and other receivables | 173.8 | | | | | 173.8 |
| Inventory and WIP | 78.2 | | | | | 78.2 |
| Trade and other payables | (109.6) | | | | | (109.6) |
| Accruals and provisions | (51.9) | | | | | (51.9) |
| Other working capital | (6.7) | | | | (1.5) | (8.2) |
| **Net working capital** | **83.8** | | **–** | **–** | **(1.5)** | **82.3** |
| Property, plant and equipment | 46.2 | | | | | 46.2 |
| Investments | 286.0 | (6.9) | (277.9) | | | 1.2 |
| Intangible assets | 12.0 | | | | | 12.0 |
| Deferred tax asset/(liability) | 12.5 | | | | | 12.5 |
| Other non-current assets/(liabilities) | (18.9) | | | | 24.7 | 5.8 |
| **Long-term net operating assets** | **337.8** | **(6.9)** | **(277.9)** | **–** | **24.7** | **77.7** |
| Cash and cash equivalents | 2.7 | | 413.0 | (292.0) | (123.7) | – |
| Overdraft and short-term debt | (9.2) | | | | | (9.2) |
| Long-term debt | (118.0) | | | | 100.5 | (17.5) |
| Defined benefit superannuation scheme provision | (9.5) | | | | | (9.5) |
| **Net cash/(debt)** | **(134.1)** | | **413.0** | **(292.0)** | **(23.2)** | **(36.2)** |
| **Net assets** | **287.5** | **(6.9)** | **135.1** | **(292.0)** | **–** | **123.7** |

** Consolidated balance sheet presents the net book value of Seed and Grain as part of Investments*

*** PGW may make a capital return to shareholders, up to a maximum of $292 million*

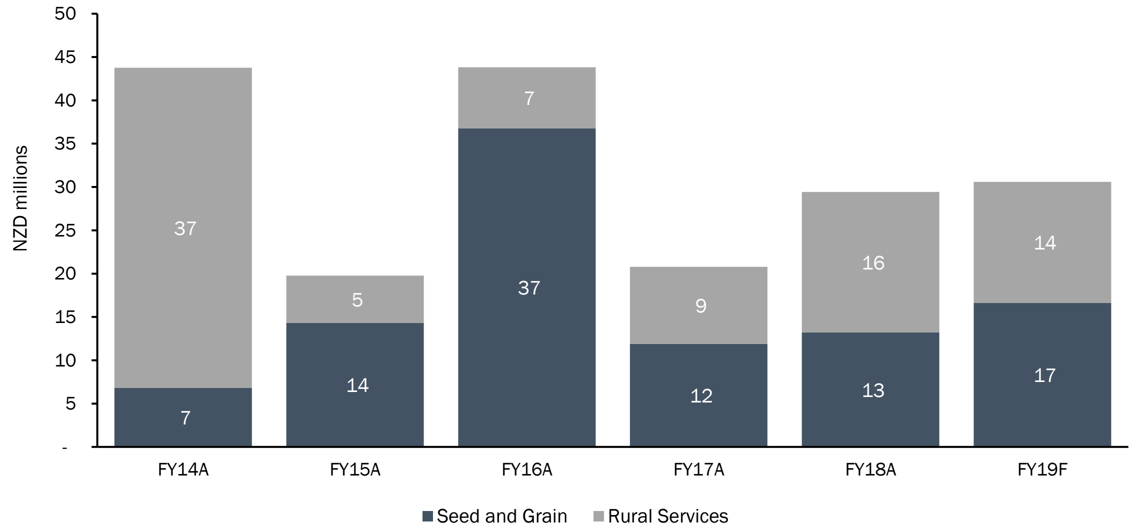
*Source: PGW Management*

# 7 Cash Flow

## 7.1 Capital Expenditure

Figure 7.1 presents a breakdown of cash capital expenditure (**capex**) by segment over the FY14 to FY19 period.

Figure 7.1: Capex by segment




*Source: PGW Management*

Seed and Grain incurred significant capex in FY16, in particular. Spend in this year included the:

- investment in South American retailer, AgroCentro (US$6.0m);
- construction of a logistics centre in Montevideo, Uruguay (US$14.5m across FY15 and FY16); and
- construction of a maize dryer in Gisborne ($6.5m).

Seed and Grain's capex is forecast to be $17 million in FY19. Included is spend on a new office in Christchurch and various operational and R&D plant and equipment, including Stage 2 of the maize facility in Gisborne.

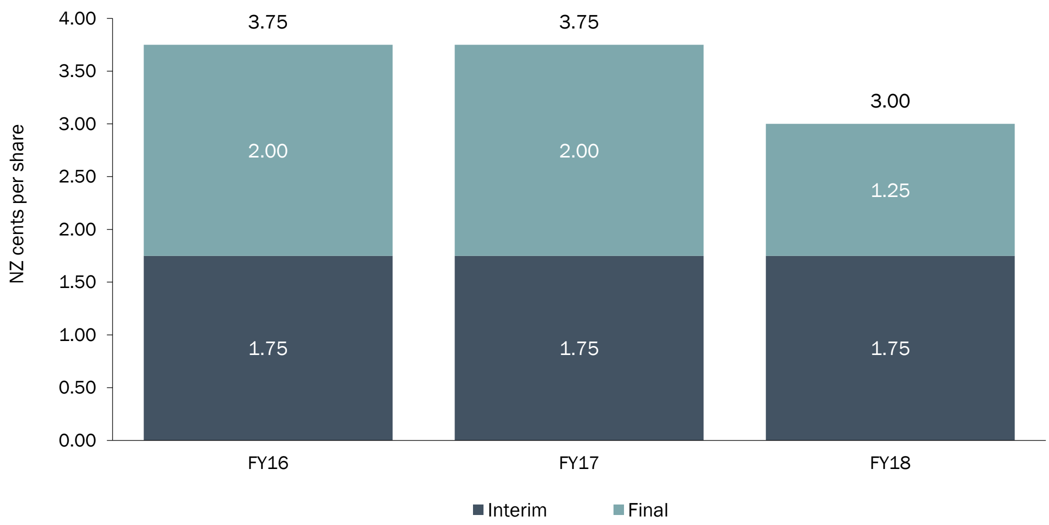
## 7.2 Dividends

PGW declared a final dividend of 1.25 cents per share for FY18, which is fully imputed and was paid to shareholders on 3 October 2018.

This is lower than the final distribution of 2.00 cents per share paid in FY16 and FY17. PGW Management has cited reinvestment opportunities and reduced net profit after tax (**NPAT**) following one-off, non-trading items (including remediation costs for historical liabilities under the Holidays Act 2003) as the key reasons for the reduced payment to shareholders.

PGW's interim and final dividend payments for FY16, FY17 and FY18 are shown below. All dividends have been fully imputed.

### Figure 7.2: PGW dividends




*Source: PGW Management*

# 8 Share Ownership and Price History

## 8.1 PGW Share Register

PGW has 754,848,774 shares on issue and more than 12,000 registered shareholders. As at 31 August 2018, the top 20 shareholders accounted for 65.8% of the ordinary shares on issue.

### Table 8.1.1: Share register as at 31 August 2018

| Shareholder | | Shares | Percentage |
|---|---|---|---|
| 1. | Agria (Singapore) Pte Limited | 379,068,619 | 50.2% |
| 2. | HSBC Nominees (New Zealand) Limited | 22,027,874 | 2.9% |
| 3. | Forsyth Barr Custodians Limited <1-Custody> | 19,288,716 | 2.6% |
| 4. | FNZ Custodians Limited | 11,863,087 | 1.6% |
| 5. | Masfen Securities Limited | 10,400,000 | 1.4% |
| 6. | HSBC Nominees (New Zealand) Limited A/C State Street | 7,851,730 | 1.0% |
| 7. | Accident Compensation Corporation | 7,075,511 | 0.9% |
| 8. | Citibank Nominees (New Zealand) Limited | 4,888,952 | 0.7% |
| 9. | BNP Paribas Nominees (NZ) Limited | 4,844,369 | 0.6% |
| 10. | JPMorgan Chase Bank NA NZ Branch | 3,428,752 | 0.5% |
| 11. | Leveraged Equities Finance Limited | 3,376,910 | 0.5% |
| 12. | Philip Carter | 3,358,702 | 0.4% |
| 13. | H & G Limited | 3,067,323 | 0.4% |
| 14. | Michael Benjamin | 3,000,000 | 0.4% |
| 15. | Forsyth Barr Custodians Limited <2-33> | 2,682,868 | 0.4% |
| 16. | Custodial Services Limited | 2,634,327 | 0.4% |
| 17. | FNZ Custodians Limited <DTA Non Resident A/C> | 2,279,142 | 0.3% |
| 18. | Arden Capital Limited | 2,004,605 | 0.3% |
| 19. | Nicolaas Kaptein | 2,000,410 | 0.3% |
| 20. | Woolf Fisher Trust Incorporated | 1,850,000 | 0.3% |
| **Top 20 shareholders** | | **496,991,897** | **65.8%** |
| Remaining shareholders | | 257,856,877 | 34.2% |
| **Total** | | **754,848,774** | **100.0%** |

*Source: PGW Management*

The major shareholder is Agria, which holds 50.2% of the ordinary shares on issue.

Other than a high concentration with Agria, PGW's ordinary shares are widely held by retail investors.

## 8.2 Share Price Performance

Figure 8.2 illustrates the share price and volume for PGW shares since July 2011.

### Figure 8.2: Share price and volume on NZX Main Board


*Source: Capital IQ and KordaMentha analysis*

PGW's share price has increased over the last two years and reached a high of $0.71 in June 2018.

Approximately 86 million PGW shares traded in the 12 months prior to the Proposed Transaction, at prices between $0.55 and $0.71 per share. PGW shares have a relatively modest level of liquidity on the NZX Main Board.

The share price has increased since PGW announced it would be undertaking a strategic review of the business, from $0.58 prior to the announcement to $0.70 following the announcement of the Proposed Transaction on 6 August 2018. PGW's share price was $0.61 as at 30 September 2018.

### Table 8.2: VWAP and volume as at 5 August 2018

| | Share Price | | | Volume (million) | Proportion of Issued Capital |
|---|---|---|---|---|---|
| | Low | High | VWAP | | |
| One month | $0.62 | $0.68 | $0.66 | 10.0 | 1.3% |
| Three months | $0.61 | $0.71 | $0.67 | 33.7 | 4.5% |
| Twelve months | $0.55 | $0.71 | $0.62 | 86.0 | 11.4% |

*Source: Capital IQ and KordaMentha analysis*

# 9 Assessment of the Proposed Transaction

To assess the Proposed Transaction, we have considered:

- the Proposed Transaction's price and terms and conditions relative to our assessment of the value of the Seed and Grain business; and
- other factors relevant to shareholders when assessing the Proposed Transaction.

## 9.1 Valuation of the Seed and Grain Business

### 9.1.1 Approach

There are four methodologies commonly used for valuing businesses:

- Discounted Cash Flow (DCF) analysis;
- Capitalisation of earnings;
- Estimate of proceeds from an orderly realisation of assets; and
- Industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved. These valuation methodologies are detailed in Appendix 3.

Any valuation, by its very nature, must attribute a current value that reflects the expected future financial performance of the subject business. Consequently, information regarding the expected future performance, such as financial projections, is vital to the valuation exercise.

For the purposes of informing the Report, PGW Management has prepared a revised FY19 forecast which has been disclosed in the Report. In addition, PGW Management has prepared an indicative forecast for the period FY20 to FY23, which reflects Management's best estimate of the longer-term prospects of the Seed and Grain business. This indicative forecast has been used to inform the assessed DCF valuation range, but has not been disclosed in the Report.

We have adopted the capitalisation of earnings and DCF methodologies to assess the market value of Seed and Grain on a standalone basis. Our primary valuation methodology is the capitalisation of earnings approach, given the nature of information made available to us. We have supported our primary valuation methodology by performing DCF analysis using the indicative forecast provided.

### 9.1.2 Capitalisation of earnings

*Earnings multiple*

To undertake a capitalisation of earnings valuation, it is necessary to determine an appropriate earnings multiple to be applied to an estimate of earnings.

Comparable earnings multiples are generally derived by benchmarking the entity being valued against the sale and purchase of shares in comparable companies. Transaction evidence is typically sourced from:

- earnings multiples based on the current share prices of comparable listed companies; and
- earnings multiples based on recent transactions of comparable companies.

*Comparable trading multiples*

We have selected comparable listed companies based on the following criteria:

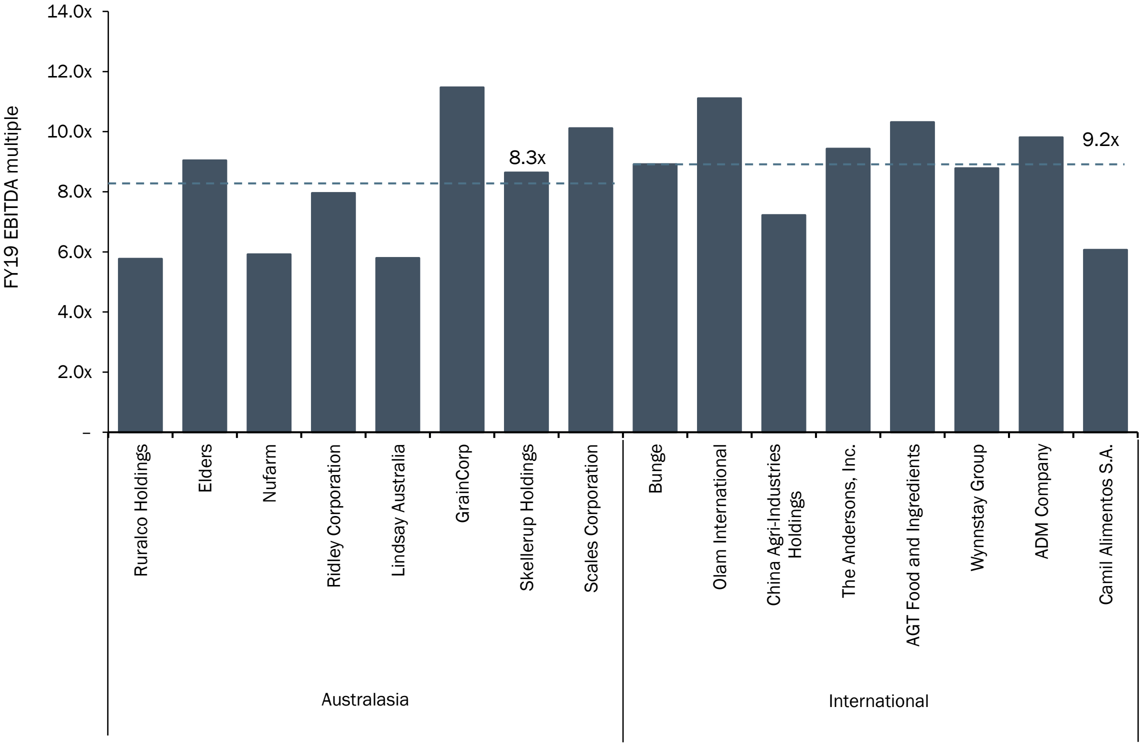
- **Industry:** We have selected companies that supply goods and services to the agricultural sector, including seed and grain products.
- **Geography:** We have selected Australasian and international rural-servicing businesses. The selected companies are likely to be impacted by similar macro-economic trends affecting the markets for agricultural products.

- **Size:** Companies with an enterprise value above $80 million have been selected. The enterprise value is much higher for most of the businesses analysed, but we have excluded the relatively small businesses which tend to have lower multiples.

Figure 9.1.2a illustrates the forecast EBITDA multiples for the respective listed companies. We have divided the comparable companies into two subsets: (1) Australasian companies (which are domiciled in either Australia or New Zealand) and (2) international companies.

Our analysis has been set out in more detail in Appendix 4.

### Figure 9.1.2a: Comparable listed companies – forecast EBITDA multiples




*Source: Capital IQ and KordaMentha estimates*

The comparable listed companies have forecast EBITDA multiples in a range between 5.8x and 11.5x EBITDA. There are a number of fundamental differences between Seed and Grain's operations and those of the listed comparable companies, as summarised below:

- The listed companies tend to offer a diversified range of products and services to rural customers, whereas Seed and Grain is solely focused on seed and grain products. The comparable companies are therefore exposed to a wider range of consumer markets than Seed and Grain and will have different earnings drivers.
- Seed and Grain is smaller than most of the comparable companies, with only one business, Wynnstay Group plc, having lower EBITDA than Seed and Grain.
- Seed and Grain's historical revenue and EBITDA growth has been variable and lower than the typical growth achieved by the comparable companies.
- Seed and Grain generates a higher earnings margins than most of the comparable companies, owing to its strong portfolio of IP and proprietary-seed offering.
- Skellerup Holdings and Scales Corporation are not direct competitors of Seed and Grain. These agricultural businesses are included to ensure New Zealand market data has been considered in our valuation assessment. They trade in line with, although slightly higher than, the other comparable companies.

Observed trading multiples need to be adjusted for factors such as relative size, growth, profitability and risk.

The comparable trading multiples are based on prices assessed for small minority parcels of shares. Therefore, the multiples set out above do not include a control premium that would typically apply to a 100% shareholding.

The profitability of Seed and Grain is typically higher than that of the comparable companies analysed. Seed and Grain generated an earnings before interest and tax (**EBIT**) margin of approximately 7% in FY18, compared to a median of 4% for the comparable businesses. Seed and Grain's R&D programme and development of proprietary products helps to deliver high earnings margins for the business. New Zealand has the most proprietised forage-seeds market in the world.

We have also considered the valuation multiples implied by transactions involving comparable businesses. These are outlined below.

*Comparable transaction multiples*

Figure 9.1.2b illustrates the historical EBITDA multiples implied by announced transactions of broadly comparable rural-servicing businesses. The comparable companies have seed and grain operations.

We have applied the same selection criteria as used for the comparable trading multiples, and only transactions announced since the beginning of 2012 were considered. The selected transactions include acquisitions of both majority and minority interests and not all transactions have completed (the uncompleted transactions are marked in red).

Further details of our analysis, including descriptions of the transactions, are included in Appendix 4.

### Figure 9.1.2b: Comparable transactions – historical EBITDA multiples


*Source: Mergermarket and KordaMentha estimates*

The following factors are relevant when considering transaction multiples:

- The transaction multiples presented in Figure 9.1.2b are historical multiples based on the companies' earnings in the most recent 12 months prior to the transaction. Some of the transactions set out above involved unlisted companies and as such, the level of public information is limited. Typically, assuming business earnings are increasing, forecast earnings multiples are lower than historical earnings multiples.
- The comparable transactions have EBITDA multiples in a wide range of approximately 6x to 17x, with an overall median of 9.6x. The Plum Grove Pty Ltd. transaction is at the high end of the range and appears to have been skewed by the low level of earnings relative to assets acquired.
- Removing outliers at the top and bottom ends of the range adjusts the median EBITDA multiple to above 10.0x.

- GrainCorp Limited is a listed company headquartered in Australia, engaged in handling and storing grain and other bulk commodities. Of the target companies included in Figure 9.1.2b, GrainCorp is the most directly comparable to Seed and Grain. In 2013, Archer Daniels Midland (ADM) Company approached GrainCorp to acquire the 80.15% shareholding it did not already own, at a multiple of 8.9x EBITDA. However, the takeover was deemed to be against Australia's national interest and was rejected by the government.

#### *Selection of earnings multiple range*

We have selected an earnings multiple range between 10.0x and 10.5x to apply to Seed and Grain's normalised EBITDA. The selected multiple has been determined as follows:

- 9x EBITDA is the median forecast multiple observed for the comparable trading companies, considering all of the Australasian and international businesses analysed. We consider an EBITDA multiple between 10.0x and 10.5x is more appropriate when the trading multiples are adjusted to include a control premium and to recognise Seed and Grain's higher profitability, R&D investment programme and proprietary products.
- 10.0x is broadly reflective of the historical transaction multiples observed. A multiple above 10x EBITDA is applicable when outliers in the set are removed from consideration.

#### *Normalised earnings*

For valuation purposes, we have assessed Seed and Grain's normalised EBITDA to lie in a range between $36 million and $42 million, although note that Seed and Grain's recent trading results sit at the low end of this range.

The lower bound of $36 million reflects the EBITDA achieved by Seed and Grain in FY18 and the lowest EBITDA result observed since FY15. Management has also forecast EBITDA to be $36 million in FY19.

The high end of $42 million reflects the best EBITDA result achieved by Seed and Grain over the period FY15 to FY18. $42 million EBITDA is therefore attainable for the business, particularly in years when trading conditions are favourable for the Australian and South American business units. We note that this earnings level appears optimistic given Seed and Grain's recent trading history and projected financial performance.

These figures are estimates of Seed and Grain's earnings on a standalone basis. As part of the Proposed Transaction, Seed and Grain (under DLF Seeds' ownership) would enter into distribution, brand and shared-services agreements with PGW. We understand that these arrangements would leave Seed and Grain in a similar operating and financial position to its current situation.

#### *Capitalisation of earnings valuation summary*

Our capitalisation of earnings valuation results in a standalone enterprise value between $360 million and $441 million for the Seed and Grain business.

This compares to the effective consideration of $434 million offered by DLF Seeds, being $413 million for 100% of the shares of PGWSHL plus $21 million of debt liabilities assumed.

Based on the assessed EBITDA, as shown below, the effective consideration from DLF Seeds represents an implied EBITDA multiple of between 10.3x and 12.1x. The higher end of this range is above our assessed EBITDA multiple range, and the lower end sits in the middle of our assessed multiple range.

The capitalisation of earnings calculation is set out in Table 9.1.2 below.

### Table 9.1.2: Capitalisation of earnings valuation

| NZD millions | Low | High |
|---|---:|---:|
| Assessed EBITDA | 36.0 | 42.0 |
| Multiple | 10.0x | 10.5x |
| **Enterprise value** | **360.0** | **441.0** |

*Source: KordaMentha analysis*

### 9.1.3 Discounted Cash Flow

We have performed DCF analysis to compare to the results of our capitalisation of earnings valuation. Details are provided below.

*Key assumptions and valuation parameters*

**Valuation date:** 30 June 2018.

**Forecast period:** The DCF valuation is based on Seed and Grain's revised FY19 forecast and the indicative forecast for FY20 to FY23. Collectively, this represents a five-year forecast ending 30 June 2023.

The projections represent PGW Management's best estimates of Seed and Grain's financial performance on a standalone basis.

**EBITDA:** Seed and Grain's EBITDA is expected to be similar in FY19 to FY18, but grow at a compound annual growth rate (**CAGR**) of approximately 12% over the five-year forecast period. The South American and Australian businesses are expected to lead the expansion in earnings, while Seed and Grain New Zealand is forecast to achieve relatively steady year-on-year growth. EBITDA margin increases from 7% to 10% in the indicative forecast, as operating cost growth is expected to be slightly lower than revenue growth.

**Movements in NWC:** The active management of excess inventories and overdue debtors is expected to reduce Seed and Grain's NWC balance in FY19, releasing approximately $16 million of cash for the business. The indicative forecast then allows for NWC requirements to increase broadly in line with revenue between FY20 and FY23, maintaining an average working capital turnover ratio of approximately 2.5x.

**Capex and depreciation**: Capital additions are projected to average $11 million over the forecast period, which is in line with average net capex over the FY14 to FY18 period. Capex is projected to be higher in the near term, as known projects like Stage 2 of the maize facility in Gisborne are recognised in the indicative forecast. As the outer years approach, it is possible that more capital projects will be initiated and actual capex could be higher. We have set capex equal to average depreciation of $6 million per annum in our terminal value calculation.

**Terminal valuation assumptions**: Terminal value is calculated by assuming unlevered free cash flows grow in perpetuity at the terminal growth rate. We have adopted a range of 1.5% to 2.5% per annum for the terminal growth rate. This range is based on observed trends in Seed and Grain's historical earnings and cash flows, and on the forecast cash flows provided by Management. We have been cognisant of the varied performance results achieved by Seed and Grain Australia and South America and the downward pressure on agricultural prices observed since 2014, which is a trend that industry commentators expect to continue over the coming decade.

**Weighted Average Cost of Capital** (**WACC**): We have estimated Seed and Grain's nominal, post-tax WACC at between 9.3% and 9.7%. This WACC range has been used to discount Seed and Grain's forecast free cash flows, denominated in New Zealand dollars. Our WACC calculation has been set out in Appendix 5.

*DCF valuation summary*

Table 9.1.3 summarises our DCF valuation of Seed and Grain, based on the revised FY19 forecast and indicative forecast (FY20 to FY23) provided by PGW Management.

The DCF valuation results in a standalone enterprise value between $377 million and $413 million. To derive this range, we have relied upon:

- the five-year indicative forecast provided by PGW Management;
- terminal growth in the range of 1.5% to 2.5% per annum; and
- our assessed WACC range of 9.3% to 9.7%.

The DCF valuation is heavily dependent on the terminal value assumptions adopted. More than 75% of Seed and Grain's enterprise value is contributed by the terminal value calculation.

### Table 9.1.3: DCF valuation

| NZD millions | Low | High |
|---|---|---|
| Terminal growth rate | 1.5% | 2.5% |
| WACC | 9.7% | 9.3% |
| DCF of FY19 – FY23 | 84.4 | 85.1 |
| Terminal value | 292.7 | 328.2 |
| **Enterprise value** | **377.0** | **413.3** |

*Source: KordaMentha analysis*

The DCF valuation is very sensitive to changes that impact Seed and Grain's earnings results and margins, as is illustrated by Figure 9.1.3 below. We consider there is risk around Seed and Grain's ability to achieve the EBITDA growth and margin expansion projected by Management, which require all business units to consistently improve over the next five years. Future outcomes are particularly uncertain for the Australian and South American businesses, which both have a track record of inconsistent performance due to events outside of PGW Management's control (e.g. weather conditions) and are currently in a recovery phase.

The valuation also depends on Management's ability to effectively reduce Seed and Grain's debtor and inventory levels and normalise its NWC balance. Active working capital management is required to achieve working capital turnover of 2.5x and maintain the ratio at this level in the long run.

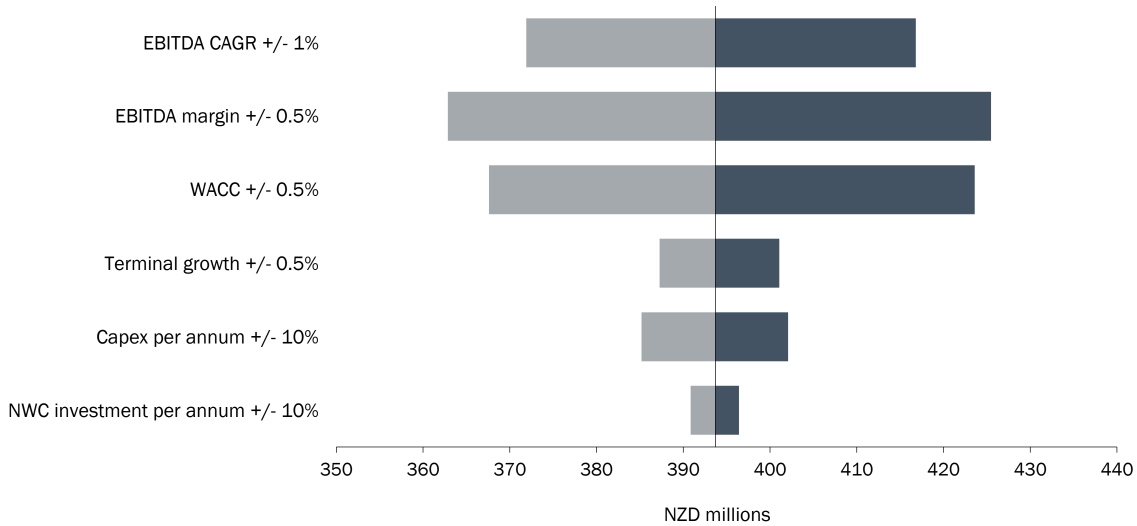
#### *Sensitivity analysis*

Figure 9.1.3 shows that relatively small changes in key assumptions can have a material impact on the DCF valuation results.

The DCF valuation is particularly sensitive to assumptions that influence Seed and Grain's EBITDA and EBITDA margin. A +/- 1% change to the forecast CAGR for EBITDA results in an enterprise value range of $372 million to $417 million[9]. Similarly, +/- 0.5% adjustments to Seed and Grain's forecast EBITDA margins result in a range between $363 million and $426 million[10].

More detailed sensitivity analysis could not be performed, due to the limited nature of PGW's indicative forecast.

### Figure 9.1.3: DCF sensitivity analysis




*Source: KordaMentha analysis*

[9] This sensitivity is calculated by adjusting EBITDA growth rates up or down by 1%, compared to Management's base growth assumptions, in each forecast period. This is a compounded effect that also impacts the terminal value calculation.

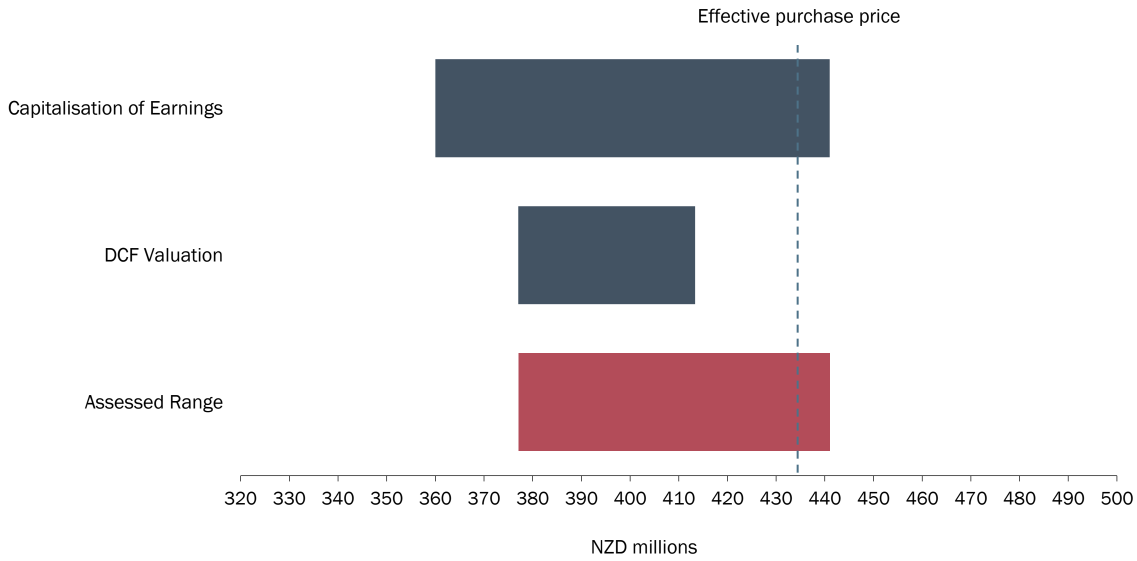
[10] In each forecast year, the EBITDA margins projected by PGW Management are adjusted higher or lower by 0.5%. Terminal value is affected.

### 9.1.4 Standalone valuation summary

Figure 9.1.4 presents the standalone enterprise value ranges from our capitalisation of earnings and DCF valuation approaches. We have assessed a valuation range for Seed and Grain, on a standalone basis, between $377 million and $441 million with a midpoint of $409 million.

The effective purchase price offered by DLF Seeds sits within the top end of our assessed range for Seed and Grain's enterprise value.

**Figure 9.1.4: Standalone valuation summary for Seed and Grain**




*Source: KordaMentha analysis*

### 9.1.5 Head office costs and synergies

PGW has approximately $10 million per annum of unallocated corporate costs. These costs represent the governance and head office costs of the Company. However, potentially some of these costs are required to service the Seed and Grain business and similar costs may need to be incurred by DLF Seeds as the new owner of Seed and Grain. Furthermore, there is also potential for some of these corporate costs to be reduced in Rural Services should the Seed and Grain business be sold.

For the purposes of our analysis of the Proposed Transaction, we have not quantified the impact of any additional costs that may be incurred, which would reduce the standalone value of Seed and Grain. Nor have we considered some potential benefits to PGW's shareholders from reducing the corporate cost base. There is a significant amount of uncertainty as to what the quantum of any of these costs might be and whether they would necessarily relate directly to the Seed and Grain business. We note that any additional costs that could be incurred by DLF Seeds in providing these governance services to the Seed and Grain business may be more than offset by potential synergies available to DLF Seeds from owning the Seed and Grain business.

DLF Seeds' rationale for acquiring the Seed and Grain business is to develop complementary geographic operations in the temperate and cool-climate seeds industries in the Northern and Southern Hemispheres. In DLF Seeds' view this will allow for:

- further investment in research and development, including new biotechnology methods;
- a unique global supply chain, utilising DLF Seeds' Northern Hemisphere presence and Seed and Grain's business in Australasia and South America; and
- combining the skill sets of the two businesses, knowledge sharing, best practices and business development.

DLF Seeds advises us that it foresees limited changes to the Seed and Grain business following its acquisition. DLF Seeds also notes that the acquisition is not driven by significant cost synergies, although it has identified potential market synergies where the combination of supply chains and market access is expected to drive synergies and allow for global distribution of Seed and Grain's products through its sales network, predominantly in the Northern Hemisphere where Seed and Grain's current market access is not comprehensive.

DLF Seeds advises that while it has identified potential market synergies and, to a lesser extent, has investigated some potential cost synergies, it has not quantified those and expects to do so after properly engaging with Seed and Grain Management following the acquisition, should the Proposed Transaction proceed.

For the purposes of our analysis of the Proposed Transaction, we have not been able to quantify any impact of potential synergies from DLF Seeds' acquisition of Seed and Grain. In any event, our valuation analysis for the Seed and Grain business includes an allowance for a control premium which, in turn, makes allowance for the typical level of synergies available to acquirers of businesses. We have been provided with no additional analysis that would suggest the synergies available to DLF Seeds would be materially higher or lower than those typically observed in other sales of broadly comparable businesses.

## 9.2 Other Factors Relevant to Shareholders

### 9.2.1 Likelihood of the Proposed Transaction being approved

Agria, as PGW's largest shareholder, controls 50.2% of PGW's voting rights. We understand, as at 30 September 2018, that Agria has not provided an irrevocable undertaking to vote in favour of the Proposed Transaction. Therefore, it remains to be seen whether Agria will vote for or against the Proposed Transaction.

Given Agria has representatives on the PGW Board, and the PGW Board has unanimously recommended the Proposed Transaction, it would appear most likely that Agria will vote for the Proposed Transaction.

The Proposed Transaction will not proceed if Agria votes against it at the Shareholder Meeting. Equally, if Agria votes in favour of the Proposed Transaction but other shareholders that collectively represent more than 17% to 25% of PGW's voting rights (depending on voter participation) reject it, the Proposed Transaction will not proceed.

### 9.2.2 Rural Services

If the Proposed Transaction proceeds, PGW shareholders will retain their shareholdings in Rural Services.

Excluding Seed and Grain, PGW's remaining operations are the Retail and Water, Agency and Corporate segments of the business. Rural Services will be a materially smaller business than PGW in its current form. The business will be less diversified operationally and geographically, given that its operations will be entirely based in New Zealand.

Post completion of the Proposed Transaction, PGW's market capitalisation would be materially lower and accordingly, it is less likely to attract analyst coverage and investor interest.

We understand there is limited interdependence between Rural Services and Seed and Grain and the separation of the two businesses is expected to be relatively straightforward. There will be agreements put in place between Seed and Grain and the Retail business unit for Retail to continue to distribute Seed and Grain's products throughout New Zealand, on terms similar to those currently in place between the Seed and Grain and Rural Services segments.

The level of corporate costs allocated to the Seed and Grain business is relatively low, which further highlights the relatively autonomous nature of the Seed and Grain business and the expected lack of impact on Rural Services from its sale.

***Financial performance***

The Rural Services business is projecting relatively steady financial performance between FY18 and FY19. Key points to note in connection with the expected financial performance of Rural Services include:

- Retail and Water achieved a record EBITDA of $23.8 million in FY18, as Retail's and Water's contributions both improved on the previous year. The Retail business unit continues to benefit from its technical expertise and PGW's strategy to invest in Agritrade. Management expects modest earnings growth to be achieved in FY19, through the continued expansion of Retail's key product lines and Agritrade business, and via Water's broader service offering which is designed to stabilise its earnings.
- Agency delivered a record EBITDA of $20.1 million in FY18, up 12% on the FY17 result. The Livestock unit performed well due to consistently strong sheep and beef prices, and the Wool business unit recovered as underlying wool prices

improved and sales volumes increased. New Zealand's rural real estate market softened during FY18, which made trading conditions difficult for the Real Estate unit. Management has forecast lower earnings for the Agency segment in FY19.

- In FY18, more than $20 million of annual corporate costs related to shared services and these expenses were allocated across to PGW's core operating segments (Seed and Grain, Retail and Water and Agency). At an EBITDA level, this left approximately $10 million of overheads within the Corporate segment, which are costs related to head office and governance functions. This level of corporate cost is relatively high for what would be a reduced Rural Services business. We understand that PGW Management will review the support and governance costs, should the Proposed Transaction proceed, with the objective of reducing costs to the appropriate level to reflect the structure and size of the remaining Rural Services business.

*Financial position*

A post-transaction balance sheet for Rural Services is shown below, which includes adjustments for the Seed and Grain sale proceeds and planned uses of the capital.

### Table 9.2.2: Rural Services balance sheet summary

| 30-Jun-18 | Consol. | Proposed Transaction Adjustments | | | | Rural Services |
|---|---|---|---|---|---|---|
| **NZD millions** | **Pro forma*** | **Price adjustment** | **S&G sale** | **Capital return**** | **Debt repay** | **Pro forma** |
| Trade and other receivables | 173.8 | | | | | 173.8 |
| Inventory and WIP | 78.2 | | | | | 78.2 |
| Trade and other payables | (109.6) | | | | | (109.6) |
| Accruals and provisions | (51.9) | | | | | (51.9) |
| Other working capital | (6.7) | | | | (1.5) | (8.2) |
| **Net working capital** | **83.8** | | **–** | **–** | **(1.5)** | **82.3** |
| Property, plant and equipment | 46.2 | | | | | 46.2 |
| Investments | 286.0 | (6.9) | (277.9) | | | 1.2 |
| Intangible assets | 12.0 | | | | | 12.0 |
| Deferred tax asset/(liability) | 12.5 | | | | | 12.5 |
| Other non-current assets/(liabilities) | (18.9) | | | | 24.7 | 5.8 |
| **Long-term net operating assets** | **337.8** | **(6.9)** | **(277.9)** | **–** | **24.7** | **77.7** |
| Cash and cash equivalents | 2.7 | | 413.0 | (292.0) | (123.7) | – |
| Overdraft and short-term debt | (9.2) | | | | | (9.2) |
| Long-term debt | (118.0) | | | | 100.5 | (17.5) |
| Defined benefit superannuation scheme provision | (9.5) | | | | | (9.5) |
| **Net cash/(debt)** | **(134.1)** | | **413.0** | **(292.0)** | **(23.2)** | **(36.2)** |
| **Net assets** | **287.5** | **(6.9)** | **135.1** | **(292.0)** | **–** | **123.7** |

** Consolidated balance sheet presents the net book value of Seed and Grain as part of Investments*

*** PGW may make a capital return to shareholders, up to a maximum of $292 million*

*Source: PGW Management*

Following the Proposed Transaction, PGW may potentially make a tax-free cash distribution to shareholders of up to $292 million of available subscribed capital (subject to a favourable binding ruling from the IRD) and use the remaining proceeds from the divestment to pay down debt.

The final composition of Rural Services' balance sheet will not be known until PGW determines the quantum of funds to be returned to shareholders and to pay down debt. However, it would appear likely that the balance sheet will be de-risked to some degree with materially lower levels of debt than currently in place for PGW.

### 9.2.3 If the Proposed Transaction does not proceed

If the Proposed Transaction does not occur, PGW shareholders will retain their shareholdings in the PGW business, which would include Seed and Grain.

The status quo leaves PGW as a diversified rural-servicing business and its prospects are largely unchanged from the position it was in prior to the announcement of the Proposed Transaction. Those prospects are relatively sound with consistent levels of profitability and manageable debt levels.

PGW has been undertaking a strategic review throughout 2018 and through that process had identified a number of potential transactions involving the sale of all or part of PGW's business. Therefore, it is entirely possible that should the Proposed Transaction not proceed, an alternative transaction could eventuate and potentially be put to shareholders for approval. As at the date of this report, there is no firm alternative proposal that is capable of acceptance by the PGW Board. Given the scope of the strategic review and the range of proposals considered to date, it would be reasonable to assume that any alternative transaction that could eventuate may be on less favourable terms than the Proposed Transaction currently being considered by PGW shareholders.

In the absence of any other factors, we consider there is a prospect that PGW's share price may recede from levels observed following the announcement of the Proposed Transaction unless an alternative transaction were to eventuate. It is likely that the current share price observed for PGW has been affected by the control premium that is expected to be achieved from selling the Seed and Grain segment.

### 9.2.4 Likelihood of a superior alternative transaction

As noted, PGW has been undertaking a strategic review throughout 2018. The Directors of PGW appointed Australasian and global investment banks to canvass interest for various transactions involving the sale of all or part of PGW's business. It is likely that any superior alternative transaction that could eventuate to acquire PGW would have presented itself during that process. There is always potential for a superior alternative transaction to eventuate, although in these circumstances that would appear less likely.

# Appendix 1: Sources of Information

## Documents Relied Upon

Key information that was used and relied upon, without independent verification, in preparing this report includes the following:

- PGW annual reports
- PGW management accounts
- PGW FY19 revised forecast and indicative forecast for FY20 to FY23
- PGW management presentations
- PGW share register as at 31 August 2018
- PWC vendor due diligence (**VDD**) report
- OECD-FAO Agricultural Outlook 2018-2027
- Statistics New Zealand website (www.stats.govt.nz)
- Fonterra website (www.fonterra.com)
- Beef + Lamb New Zealand website (https://beeflambnz.com)
- Rabobank Rural Confidence Survey (media release on 5 July 2018)
- REINZ Rural Press Release (24 September 2018)
- Capital IQ
- Mergermarket

We have also had discussions with PGW Management in relation to the nature of PGW's business operations and the known risks and opportunities for the foreseeable future.

## Reliance Upon Information

In forming our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by PGW and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion, but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of PGW. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose.

# Appendix 2: Qualifications and Declarations

## Qualifications

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Grant Graham (BCom, CA); Shane Bongard (BCom (Hons)); and Hamish Don (BCom (Hons)). All have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

## Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion as to merits of the Proposed Transaction. KordaMentha expressly disclaims any liability to any PGW security holder that relies or purports to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

## Indemnity

PGW has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of, or in connection with, the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. PGW has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

## Independence

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with PGW that could affect its ability to provide an unbiased opinion in relation to this transaction. KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the Proposed Transaction or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction. We note for completeness that a draft of this report was provided to PGW and its advisers, solely for the purpose of verifying the factual matters contained in the Report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

## Consent

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to PGW shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

# Appendix 3: Valuation Methodologies

There are four methodologies commonly used for valuing businesses:

- Discounted Cash Flow (DCF) analysis;
- Capitalisation of earnings;
- Estimate of proceeds from an orderly realisation of assets; and
- Industry rules of thumb.

Each of these valuation methodologies is appropriate in different circumstances. A key factor in determining which methodology is appropriate is the actual practice commonly adopted by purchasers of the type of businesses involved.

## Discounted Cash Flow

It is a fundamental principle that the value of an asset or business is represented by its expected future cash flows, discounted to present value at a rate which reflects the risk inherent in those cash flows. This approach, referred to as the DCF methodology, is particularly suited to situations where a business is in a growth phase or requires significant additional investment to achieve its projected earnings.

The DCF methodology requires considerable judgement in estimating future cash flows and the valuer generally places significant reliance on medium to long-term projections prepared by management. The DCF valuation methodology can also be very sensitive to changes in underlying assumptions. Notwithstanding these limitations, DCF valuations are appropriate where current earnings are not representative of reasonable expectations of future earnings.

## Capitalisation of Earnings

The capitalisation of earnings methodology requires an assessment of the maintainable earnings of the business and the selection of an appropriate capitalisation rate, or earnings multiple. This methodology is most appropriate where there is a long history of relatively stable returns and capital expenditure requirements are neither large nor irregular. In practice, it is often difficult to obtain accurate forecasts of future cash flows and therefore the capitalisation of earnings methodology is often used as a surrogate for the DCF methodology.

## Realisation of Assets

The realisation of assets approach is based on an estimate of the proceeds from an orderly sale of assets. This methodology is more commonly applied to businesses that are not going concerns. The valuation result reflects liquidation values and typically attributes no value to any goodwill associated with ongoing trading.

## Industry Rules of Thumb

In some industries, businesses are valued using well established ‘rules of thumb’. Generally, these rules of thumb are used as a cross-check for other valuation methodologies.

# Appendix 4: Valuation Evidence

## Comparable Companies

Table A4.1 shows earnings multiples for publicly-listed companies that specialise in the provision of products and services to customers in the agricultural sector. Descriptions of the comparable companies follow the table.

### Table A4.1: Comparable listed companies

| Company | Country | Enterprise Value (NZD millions)* | FY18 EBITDA Margin | FY18 EBIT Margin | EBITDA Multiples | | EBIT Multiples | |
|---|---|---|---|---|---|---|---|---|
| | | | | | FY18 | FY19 | FY18 | FY19 |
| **Australasian Companies** | | | | | | | | |
| Ruralco Holdings | Australia | 465 | 4% | 3% | 6.3x | 5.8x | 7.8x | 7.1x |
| Elders | Australia | 853 | 5% | 4% | 10.3x | 9.0x | 10.9x | 9.6x |
| Nufarm | Australia | 3,340 | 12% | 8% | 8.2x | 5.9x | 11.7x | 8.3x |
| Ridley Corporation | Australia | 515 | 6% | 4% | 8.8x | 8.0x | 13.3x | 11.5x |
| Lindsay Australia | Australia | 247 | 10% | 5% | 6.2x | 5.8x | 13.9x | 12.5x |
| GrainCorp | Australia | 3,438 | 6% | 2% | 12.9x | 11.5x | 32.8x | 25.4x |
| Skellerup Holdings | NZ | 438 | 19% | 16% | 9.6x | 8.6x | 11.5x | 10.1x |
| Scales Corporation | NZ | 709 | 17% | 14% | 10.2x | 10.1x | 12.6x | 12.3x |
| **Australasian Median** | | | **8%** | **4%** | **9.2x** | **8.3x** | **12.2x** | **10.8x** |
| **International Companies** | | | | | | | | |
| Bunge | USA | 25,650 | 4% | 3% | 9.0x | 8.9x | 13.3x | 13.2x |
| Olam International | Singapore | 17,418 | 5% | 4% | 11.5x | 11.1x | 15.5x | 14.7x |
| China Agri-Industries Holdings | China | 5,053 | 4% | 2% | 7.8x | 7.2x | 10.7x | 9.9x |
| The Andersons, Inc. | USA | 2,303 | 5% | 2% | 10.6x | 9.4x | 26.5x | 18.2x |
| AGT Food and Ingredients | Canada | 1,218 | 4% | 2% | 14.9x | 10.3x | 30.7x | 16.1x |
| Wynnstay Group | UK | 193 | 3% | 2% | 9.1x | 8.8x | 11.5x | 11.0x |
| ADM Company | USA | 44,638 | 5% | 3% | 10.2x | 9.8x | 13.9x | 12.8x |
| Camil Alimentos S.A. | Brazil | 1,167 | 10% | 8% | 6.5x | 6.1x | 8.0x | 6.9x |
| **International Median** | | | **5%** | **3%** | **9.7x** | **9.2x** | **13.6x** | **13.0x** |

** Enterprise value figures have been translated to New Zealand dollars using exchange rates on 23 August 2018*

*Source: Capital IQ and KordaMentha estimates*

#### *Ruralco Holdings Limited*

Ruralco Holdings Limited sells and markets a broad range of merchandise, fertilisers, water products, grain products and financial-services products to rural customers in Australia. Ruralco Holdings is based in Macquarie Park, Australia.

#### *Elders Limited*

Elders Limited provides livestock, real estate, grain marketing, wool agency and financial-services products to rural and regional customers, primarily in Australia. It also offers rural farm inputs such as seeds, fertilisers, agricultural chemicals, animal-health products and general rural merchandise, as well as professional production and cropping advisory services. Elders was founded in 1839 and is headquartered in Adelaide, Australia.

#### *Nufarm Limited*

Nufarm Limited, together with its subsidiaries, manufactures and sells crop-protection products in Australia, New Zealand, Asia, Europe, North America, Latin America and internationally. It also provides seeds and seed-treatment products and engages in croplands-equipment business. Nufarm is headquartered in Laverton North, Australia.

#### *Ridley Corporation Limited*

Ridley Corporation Limited, together with its subsidiaries, provides animal nutrition solutions throughout Australasia and is involved in the sale of residual properties. It primarily offers its products under the Barastoc, Rumevite, Cobber and Primo brands, providing them to food producers, laboratory animals and the equine and canine markets. Ridley Corporation was founded in 1987 and is headquartered in Melbourne, Australia.

### *Lindsay Australia Limited*

Lindsay Australia Limited provides transport, logistics and rural-supply services to the food processing, food services, fresh produce, rural and horticultural sectors in Australia. Its Rural segment sells and distributes a range of agricultural supply products. Lindsay Australia is headquartered in Acacia Ridge, Australia.

### *GrainCorp Limited*

GrainCorp Limited operates as a food ingredients and agribusiness company. It works with grain, malt, oilseed and other bulk commodities and has operations in Australia, New Zealand, Asia, North America, the United Kingdom and Europe. GrainCorp was founded in 1916 and is based in Sydney, Australia.

### *Skellerup Holdings Limited*

Skellerup Holdings Limited manufactures, markets and distributes technical polymer products and vacuum pumps for various specialist industrial and agricultural applications. It operates both in New Zealand and internationally. Skellerup Holdings was founded in 1910 and is headquartered in Auckland, New Zealand.

### *Scales Corporation Limited*

Scales Corporation Limited engages in agribusiness activities in New Zealand. It operates Horticulture, Food Ingredients and Storage & Logistics segments and also provides insurance services. Products are exported to Asia, the Middle East, Europe, North America and elsewhere. Scales Corporation was founded in 1897 and is headquartered in Christchurch, New Zealand.

### *Bunge Limited*

Bunge Limited operates as an agribusiness and food company worldwide. The Agribusiness segment works with agricultural commodities and commodity products, including oilseeds, primarily soybeans, rapeseed, canola and sunflower seeds, as well as grain such as wheat and corn. It provides products to animal-feed manufacturers, livestock producers, wheat and corn millers and other oilseed processors. Bunge was founded in 1818 and is headquartered in White Plains, New York.

### *Olam International Limited*

Olam International Limited engages in the sourcing, processing, packaging and merchandising of agricultural products worldwide. It operates in five segments and the Food Staples and Packaged Foods segment offers rice, sugar and sweeteners, grains and animal feed, edible oils and dairy and packaged foods. Olam International was founded in 1989 and is headquartered in Singapore.

### *China Agri-Industries Holdings Limited*

China Agri-Industries Holdings Limited, an investment holding company, engages in the production, processing and distribution of agricultural products in China and operates through five segments. It was incorporated in 2006 and is based in Causeway Bay, Hong Kong.

### *The Andersons, Inc.*

The Andersons, Inc. is an agriculture company that operates in the grain, ethanol, plant-nutrient and rail sectors in the United States and internationally. It was founded in 1947 and is based in Maumee, Ohio.

### *AGT Food and Ingredients Inc.*

AGT Food and Ingredients Inc. produces and exports pulses and grains, staple foods and food ingredients worldwide. It was formerly known as Alliance Grain Traders Inc. and changed its name in October 2014. AGT Food and Ingredients was incorporated in 2009 and is headquartered in Regina, Canada.

### *Wynnstay Group plc*

Wynnstay Group Plc manufactures and supplies agricultural products in the United Kingdom. It trades in grains and offers animal-nutrition products to the agricultural market, and cereal and herbage seeds and fertilisers to arable and grassland farmers. The business also operates a retail network of 50 rural outlets and online stores, which provides specialist products to farmers, smallholders and pet owners. Wynnstay Group was founded in 1917 and is headquartered in the United Kingdom.

### *Archer Daniels Midland (ADM) Company*

Archer Daniels Midland (ADM) Company engages in agricultural commodities, products and ingredients in the United States and internationally. It operates through four segments: Carbohydrate Solutions, Nutrition, Oilseeds and Origination. The business offers oilseeds, corn, wheat, milo, oats, rice and barley, and also processes grains. ADM Company was founded in 1898 and is headquartered in Chicago, Illinois.

### *Camil Alimentos S.A.*

Camil Alimentos S.A., together with its subsidiaries, engages in processing, producing, packing, distributing and selling rice, beans, sugar and canned fish. It was founded in 1963 and is headquartered in São Paulo, Brazil.

## Comparable Transactions

Table A4.2 presents EBITDA and EBIT multiples for announced transactions of similar companies around the world. Descriptions of the transactions follow the table.

### Table A4.2: Comparable company transactions

| Ann. Date | Target | Acquirer | Target Location | Enterprise Value (NZD millions)* | Historical EBITDA Multiple | Historical EBIT Multiple |
|---|---|---|---|---|---|---|
| Nov-17 | Sunrise Agritec Co. | Yuan Longping High-tech Agriculture | China | 196 | 6.3x | 6.7x |
| Oct-17 | Bayer AG (Crop Science) | BASF SE | Germany | 9,786 | 15.3x | n/a |
| Sep-16 | Beijing Origin Seed | Beijing Shihui Agricultural Development | China | 83 | 5.8x | 10.3x |
| Jun-16 | Glencore (Ag Products) | British Columbia Investment Management | Switzerland | 8,777 | 8.5x | 11.9x |
| Dec-15 | Tereos Internacional S.A. | Tereos Participations S.A.S | Brazil | 3,077 | 8.3x | n/a |
| Oct-15 | Suba Seeds | Paine Schwartz Partners | Italy | 131 | 10.4x | n/a |
| Aug-15 | Olam International | Mitsubishi Corporation | Singapore | 17,362 | 9.6x | 11.2x |
| Jul-15 | Spearhead International | Paine Schwartz Partners | UK | 533 | 11.8x | n/a |
| Aug-14 | Guangxi Kanghua Agricultural | Zhejiang Busen Garments Co. | China | 733 | 14.8x | 15.0x |
| Sep-13 | AFGRI Limited | AgriGroupe Holdings | South Africa | 574 | 10.3x | 16.5x |
| May-13 | GrainCorp | ADM Company | Australia | 4,779 | 8.9x | 11.3x |
| Feb-13 | Tandou | Laguna Bay Pastoral | Australia | 80 | 6.3x | 7.7x |
| Feb-13 | Padiberas Nasional Berhad | Consortium of investors | Malaysia | 1,060 | 9.0x | 10.4x |
| Dec-12 | Plum Grove | Mitsui & Co. | Australia | 94 | 17.0x | 17.3x |
| Mar-12 | Viterra Inc. | Glencore | Canada | 8,893 | 10.4x | 15.0x |
| **Median** | | | | | **9.6x** | **11.3x** |

** Enterprise value figures have been translated to New Zealand dollars using exchange rates on the announcement dates*

*Source: Mergermarket and KordaMentha estimates*

#### *Sunrise Agritec Co. – Yuan Longping High-tech Agriculture*

Yuan Longping High-tech Agriculture Co. Ltd. Has agreed to acquire a 49.45% stake in Sunrise Agritec Co. Ltd in order to expand its crop-cultivation business. The transaction is subject to a profit-guarantee agreement for the following three years. Sunrise Agritec Co. is based in China and engages in the production and sale of sunflower hybrid seeds.

#### *Bayer AG (Crop Science) – BASF SE*

BASF SE has entered into an agreement to acquire selected crop science businesses of Bayer AG. The assets to be acquired include Bayer AG's global glufosinate-ammonium non-selective herbicide business, as well as its seed businesses for key crops in select markets such as canola hybrids in North America, oilseed rape in European markets, cotton in the Americas and Europe, and soybean in the Americas.

#### *Beijing Origin Seed – Beijing Shihui Agricultural Development*

Beijing Shihui Agricultural Development Co. Ltd. has signed a definitive agreement to acquire Beijing Origin Seed Limited from Origin Agritech Limited. Beijing Origin Seed is a China-based company headquartered in Beijing, which is engaged in commercial corn-seed production and distribution. The acquisition includes all the equity interests in Beijing Origin Seeds' subsidiaries.

#### *Glencore (Agricultural Products) – British Columbia Investment Management*

British Columbia Investment Management Corporate acquired a 9.99% stake in Glencore Agricultural Products from Glencore plc. Glencore Agricultural Products is an integrated grain and oilseed business based in Switzerland. The transaction implied an enterprise value for the business of US$6.25 billion.

#### *Tereos Internacional S.A. – Tereos Participations S.A.S*

Tereos Participations S.A.S acquired a 30.17% stake in Tereos Internacional S.A., a Brazil-based company engaged in cereal and sugar production.

#### *Suba Seeds – Paine Schwartz Partners*

Paine & Partners LLC, the US-based private equity firm, acquired Suba Seeds Company in 2015. Suba Seeds is domiciled in Italy and is involved in the production and distribution of vegetable and legume seeds. The target has a workforce of more than 200 employees.

*Olam International – Mitsubishi Corporation*

In 2015, Mitsubishi Corporation acquired a 12% shareholding in Olam International Limited via private placement. Olam International is a listed company headquartered in Singapore, which engages in the sourcing, processing, packaging and merchandising of agricultural products. The price offered by Mitsubishi Corporation represented a 44% premium over the closing share price one day before the transaction.

*Spearhead International – Paine Schwartz Partners*

Paine & Partners LLC acquired Spearhead International Limited in 2015. Spearhead International is a UK-based producer of agricultural products. The acquisition intended to help Spearhead International capture knowledge and product synergies to expand its vertically-integrated operations.

*Guangxi Kanghua Agricultural – Zhejiang Busen Garments Co.*

Zhejiang Busen Garments Co. Ltd. agreed to acquire Guangxi Kanghua Agricultural Corporation from a consortium of investors that held 100% of the shares. Guangxi Kanghua Agricultural is an agricultural company headquartered in Guilin, China.

*AFGRI Limited – AgriGroupe Holdings*

AgriGroupe Holdings Proprietary Limited acquired AFGRI Limited, a diversified agri-services and food-processing company based in South Africa. AFGRI Limited's operations include grain management and grain marketing. The transaction was announced in September 2013 and completed in March 2014.

*GrainCorp – ADM Company*

In 2013, Archer Daniels Midland (ADM) Company approached GrainCorp Limited to acquire the 80.15% shareholding it did not already own. GrainCorp is a listed company headquartered in Australia, engaged in handling and storing grain and other bulk commodities. The takeover was deemed to be against Australia's national interest and was rejected by the government.

*Tandou – Laguna Bay Pastoral*

Laguna Bay Pastoral Company and other investors collectively acquired a 24.38% stake in Tandou Limited in 2013. Tandou is an Australian company engaged in the business of water entitlements and water trading, as well as the production and marketing of crops and livestock. The shareholding was sold by Guinness Peat Group Plc.

*Padiberas Nasional Berhad – Consortium of investors*

A consortium of private investors launched a mandatory offer to acquire a 27.43% shareholding in Padiberas Nasional Berhad, a listed company based in Malaysia. Padiberas Nasional Berhad is involved in rice processing, distribution and seeds production. Upon completion of the transaction, Padiberas Nasional Berhad was delisted from the Bursa Malaysia exchange.

*Plum Grove – Mitsui & Co.*

Mitsui & Co. Ltd. acquired a 25% stake in Plum Grove Pty Ltd., an Australian company engaged in managing and marketing wheat and barley pools. The transaction was announced in December 2012 and completed in January 2013, and enabled Mitsui & Co. to reinforce its grain accumulation in Australia.

*Viterra Inc. – Glencore*

Viterra Inc. was acquired by Glencore International plc in 2012, in a transaction approved by the boards of both companies. Viterra Inc. is a vertically-integrated agribusiness company, headquartered in Canada, which provides ingredients to leading global food manufacturers. The price offered by Glencore represented a 48% premium over Viterra Inc.'s closing share price one day prior to public announcement of the transaction.

# Appendix 5: Weighted Average Cost of Capital

We have estimated the post-tax, nominal Weighted Average Cost of Capital (WACC) for Seed and Grain to be within a range of 9.3% to 9.7%.

The WACC has been determined as follows:

$$WACC = R_d(1-T_c)\frac{D}{D+E} + R_e\frac{E}{D+E}$$

where:

- $R_d$ = Pre-tax cost of debt = 5.50%, based on a credit margin of 2% above the long run risk-free rate
- $T_c$ = Marginal corporate tax rate = 28%
- D / (D + E) = Target gearing (where E represents market capitalisation) = 28.6%, which is equivalent to 40% 'debt to equity' and is based on the ratios of PGW and the comparable companies
- $R_e$ = Cost of equity = 11.5% to 12.0%

We have determined the cost of equity using the Brennan-Lally specification of the Capital Asset Pricing Model, which uses the following formula:

$$R_e = R_f(1-T_i) + \beta_e[R_m - R_f(1-T_i)] + SCRP$$

where:

- $R_f$ = Risk free rate = 3.50%, based on the yields of long-term government bonds
- $T_i$ = Investors' effective tax rate on interest, dividends and capital gains = 28%
- $\beta_a$ = Asset Beta = a range of 0.85 to 0.90, based upon a review of the betas of comparable companies and broker reports
- $\beta_e$ = Equity Beta = $\beta_a$ (1+D/E) = a range of 1.19 and 1.26
- $R_m$ - $R_f$ (1- $T_i$) = Expected excess return, after investor taxes, on the market portfolio of equity investments = 7.5%
- SCRP = Specific company risk premium = 0% (we have not made an adjustment to WACC to include a SCRP)

# Appendix 6: Glossary of Key Terms and Definitions

## Glossary

| Term | Definition |
|---|---|
| $ or NZD | New Zealand dollars |
| A | Actual |
| A$ | Australian dollars |
| US$ or USD | United States dollars |
| Agria | Agria (Singapore) Pte Limited |
| AgroCentro | Agimol Corporation S.A. |
| ATS | Ashburton Trading Society |
| CAGR | Compound annual growth rate |
| Capex | Capital expenditure |
| DCF | Discounted Cash Flow |
| DLF Seeds | DLF Seeds A/S |
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| F | Forecast |
| FAO | Food and Agriculture Organisation of the United Nations |
| Fertimas | Fertimas S.A. |
| FTE | Full time equivalent staff |
| FY | Financial year |
| IP | Intellectual property |
| IRD | Inland Revenue Department |
| kg | Kilogram |
| KgMS | Kilogram of milk solids |
| m | Million |
| n/a | Not applicable |
| NPAT | Net profit after tax |
| NWC | Net working capital |
| NZXR | NZX Regulation |
| OIO | Overseas Investment Office |
| PGW or the Company | PGG Wrightson Limited |
| PGWSHL | PGG Wrightson Seeds Holdings Limited |
| R&D | Research and development |
| Rural Services | PGG Wrightson Limited’s business excluding Seed and Grain |
| The Proposed Transaction | Agreement to sell 100% of the shares of PGWSHL to DLF Seeds |
| The Report | KordaMentha’s Appraisal Report to the shareholders of PGG Wrightson Limited |
| VDD | Vendor due diligence |
| WACC | Weighted Average Cost of Capital |