



EQUITY
PARTNERSHIPS
IN FARMING



ABOUT ANZ

ANZ's Commercial & Agri business supports medium and large commercial and farm businesses. This sector makes a sizable contribution to the New Zealand economy and many of these businesses have immense growth potential. We want to help them to unleash this potential, to realise their own goals and to help all of New Zealand succeed.

Many of our Relationship Managers are sector specialists. They have in-depth knowledge of the issues facing their customers and the solutions that have delivered real growth to similar businesses. Others are focused on their local region. All understand their customers and help them connect with the wider ANZ network.

The agri sector forms a significant share of our portfolio. We recognise that farming is big business in New Zealand and, with growing international demand for high-quality food, agribusiness will continue to drive the New Zealand economy into the future.

Our size and scale mean we see and hear so much of what is happening in the market, and our longevity lets us draw on the wisdom of hindsight, to give our customers meaningful insights into what businesses can do to grow.

ANZ SNAPSHOT

- > Around 1,000 staff focused on Commercial & Agri customers
- > Dedicated Commercial & Agri offices in 39 locations across New Zealand
- > The largest branch and ATM network of any bank in New Zealand – more than 300 branches and over 700 ATMs
- > 40% of farmers bank with ANZ
- > One in three commercial businesses have a relationship with one of our brands.

INTRODUCTION TO EQUITY PARTNERSHIPS

The agricultural investment environment continues to undergo significant change.

However, given the reality of the amount of capital tied up in farming businesses, it is clear that traditional family ownership is not necessarily going to remain the main form of land ownership as we go forward.

Each year we see an increasing number of Equity Partnerships formed where individuals pool their capital with others in order to gain an ownership interest in a larger property.

There are currently over 500 non-family Equity Partnerships in existence, mostly in dairy, but also within the sheep and beef, cropping and viticultural sectors.

There are many success stories. We see evidence of a number of highly successful Equity Partnerships that are continuing to meet the needs of their investors. This booklet will look at some of the critical success factors to the forming of a successful Equity Partnership.

WHAT IS AN EQUITY PARTNERSHIP?

An Equity Partnership is a joint venture between individuals who have come together to pool their capital and possibly skills to enable the partners to obtain revenue and growth from their investment. Generally one of the partners is employed as the farm manager.

HOW ARE EQUITY PARTNERSHIPS SET UP?

Equity Partnerships can be set up through individuals who already know each other. The bank's Equity Partnership Specialists can also help connect individuals interested in Equity Partnerships using the power of the bank's network.



HOW DO EQUITY PARTNERSHIPS WORK?

Putting in place simple and sound structures and process will determine how and how well the Equity Partnership works.

For example, this is how an Equity Partnership can be structured:

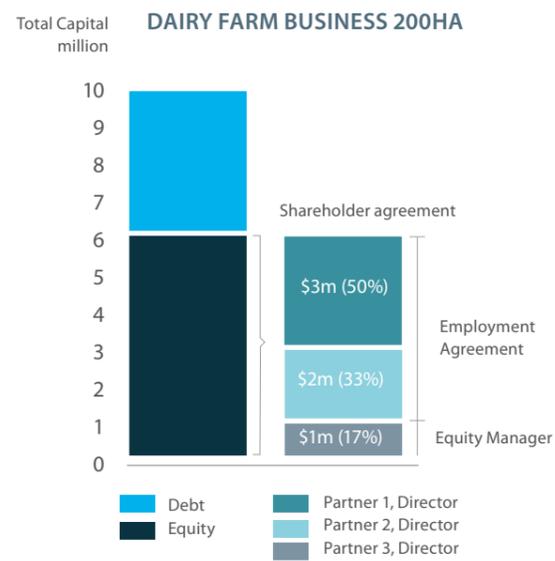
- > A company is set up with a standard farming company constitution
- > All assets, including land, stock and plant, are owned and farmed by the company
- > Shareholding is based on the amount of share capital that individuals contribute to the set-up
- > Purchase of the assets are funded by shareholders' capital and bank debt borrowed by the company
- > Shareholders' capital contribution may come from individuals' own cash or from borrowing against their own assets
- > A binding Shareholders' Agreement is signed by all shareholders. This sets out how the joint venture will operate. It will include clauses on the following:
 - Objectives and purpose of the joint venture
 - Authority to make commitments on behalf of the company
 - Share transfer and exit clause (includes the "sunset" clause)
 - Banking arrangements
 - Meetings and reporting standards
 - Voting on major decisions (e.g. capital expenditure, leases, investment in other companies)
 - Appointment of directors
 - Other clauses aimed at protecting individuals' property rights
 - An Individual Employment Contract for the manager even if a shareholder.

Other forms of Equity Partnerships include trusts, limited partnerships or other structures to establish the joint venture arrangements. The right type of structure depends on a number of factors. We recommend you talk to your accountant, solicitor and/or financial adviser about the options when considering an Equity Partnership.

It's important to establish clear roles from the outset. The Farm Manager needs to know who they report to and partners need to understand what their roles are. Farm reporting, financial reports and cashflow updates should be provided monthly with meetings or telephone conference calls set up to discuss these reports.

WHAT DOES AN EQUITY PARTNERSHIP LOOK LIKE?

Here is a simple model of an Equity Partnership set up to purchase a 200ha dairy farm.



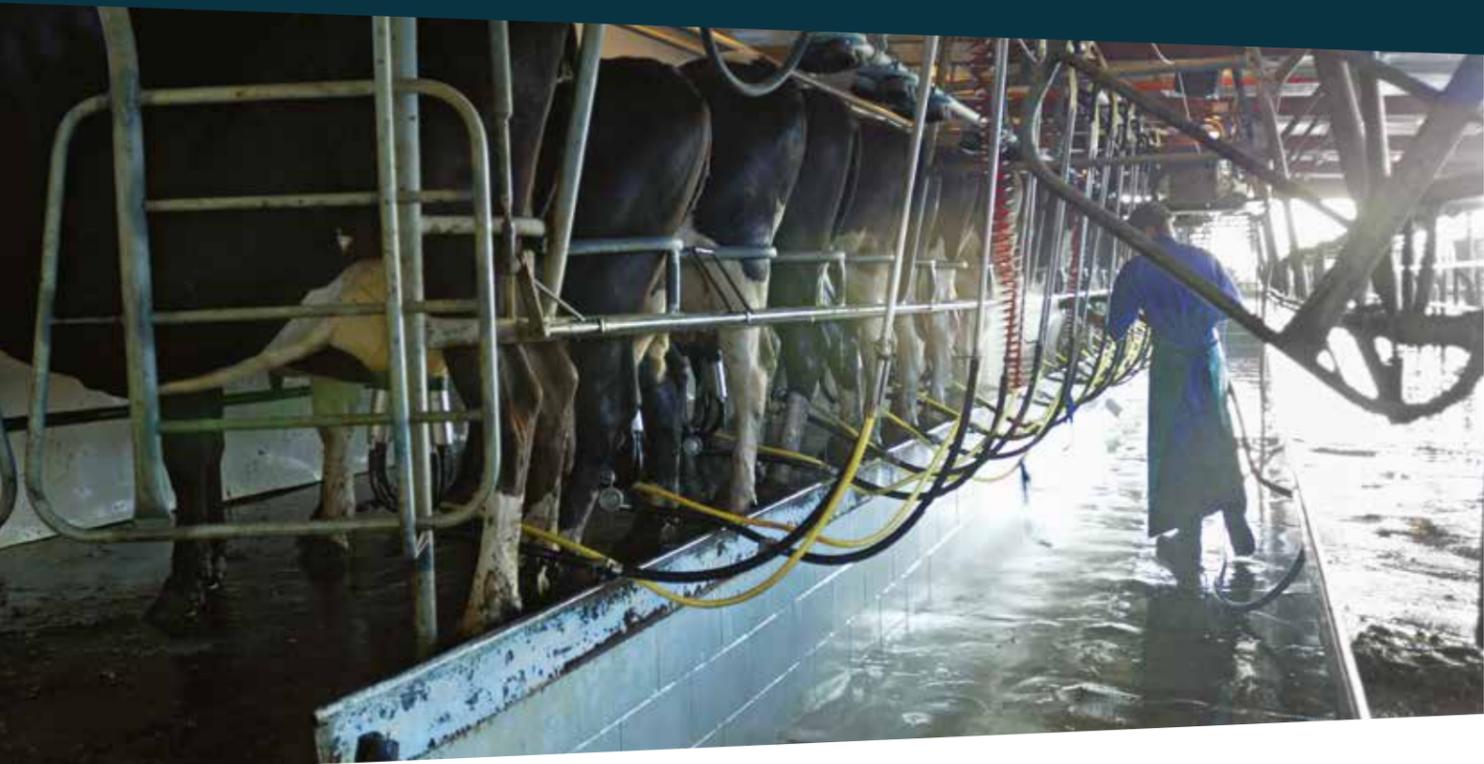
In this example, three shareholders with varying levels of equity investment have pooled together their capital to purchase this farm. In funding the company, they have also used \$4M of bank debt. One of the investors is also going to run the business and is referred to as the Equity Manager.

WHAT ARE THE BENEFITS?

There are a number of benefits associated with an Equity Partnership.

- > It provides opportunity for farm ownership for skilled managers
- > You may access some of the financial rewards of large scale farming while not being a large scale operator yourself
- > You enhance the ability to employ the very best farm managers with proven large scale farming skills
- > You have the opportunity to grow wealth and income without taking on increased workload
- > You can spread your risk beyond your existing farming operation
- > It can give you a personal interest with growth and development opportunities
- > It could expand your network in the industry and develop your business management and decision making skills.





ARE THERE RISKS?

A due diligence process will help you understand what risks (and potential returns) are involved in an Equity Partnership.

Many of the risks that exist are the same that apply to the industry generally, be it sheep, beef, dairy, deer farming or growing.

Other risks and benefits are related to the structure and process, and the individuals involved. With Equity Partnerships specifically,

as the decision making process involves more than one person it may prove to be slower but may result in a better decision being made. Decisions may be a compromise and may not meet all your personal expectations.

The process to exit the company should be clearly laid out but may not happen on a specific date due to the need to find a buyer for a parcel of investment interests or for the whole farm. Most farmers face this issue already.

An Equity Partnership is typically a medium/ long term investment like most farming ventures. You need to weigh up the risks and the benefits against your own personality and individual needs.

We recommend you speak to your accountant, solicitor and/or financial adviser as part of your due diligence process when considering an Equity Partnership.

INFORMATION MEMORANDUM

In all environments there are many deals out there seeking equity for their own venture. With a backdrop of scarce capital, greater due diligence from wary investors and a number of competing avenues for capital, how does your proposition stand out from the rest? How do you articulate to investors your proposition in such a way that will make them investigate yours further, before others?

Part of this process is putting together a good Information Memorandum (IM).

This IM should cover a full but concise description of the property, business and management, clearly outlining strengths, weaknesses, opportunities and threats.

First impressions are important, so the IM should be carefully prepared and clearly identify the "Value Proposition" for the opportunity you want to promote.

The opportunity needs to be differentiated from others that may be competing for the same investment. This differentiation may be around:

- > The cost of the opportunity
- > The cashflow predicted
- > Potential for growth
- > Location
- > Management factor
- > Scale
- > Type of business
- > Anything else that may provide a competitive advantage.

If you are offering an investment opportunity to someone who might be regarded as having been selected for the offer as a member of the public, there are also important securities law compliance requirements.

We recommend you speak to your solicitor when putting an IM together and considering how to promote it to potential investors, to ensure compliance with the Fair Trading Act, the Securities Act and other laws.



WHERE TO FROM HERE?

Don't be put off by the initial effort involved. There are some good opportunities out there. The good opportunities go to people who have done their homework and are able to act quickly when the right opportunity arises. It's important you analyse what you want and why.

Ask yourself:

- > What do I want to achieve?
- > Will an Equity Partnership help me achieve it?
- > Will this help me be who I want to be?

KEY FACTORS TO SUCCESS

- > Do not rush into an Equity Partnership
- > Seek advice from professionals
- > Understand the value proposition for the investment
- > Clearly identify and prioritise your needs as an investor
- > Carefully prepare an Information Memorandum
- > Take care during due diligence
- > Take care choosing your fellow investors – their attributes are more important than the capital they provide
- > Agree on a Business Plan
- > Complete a Shareholders' Agreement, Partnership Agreement or similar prior to investment.

WHAT IS THE ROLE OF AN ANZ EQUITY PARTNERSHIP SPECIALIST?

Put simply, an Equity Partnership Specialist's role is to get you on the road to success. With an approximately 40% market share of agri lending, we have the knowledge, insights and importantly a network that you can tap into to help make an Equity Partnership a reality for you.

WHO DO I CONTACT?

NORTHERN

NORTHLAND

Paul Thomson
027 241 6202

AUCKLAND NORTH

Raymond Barnes
027 291 0566

SOUTH AUCKLAND

Glendon Carter
027 249 3505

WAIKATO / BAY OF PLENTY

Scott Neeley
027 475 4684

TAURANGA / BAY OF PLENTY

Nick Street
027 686 6971

WAIKATO

Thomas Williams
021 821 516

CENTRAL

HAWKES BAY / GISBORNE

Marcus Bousfield
027 498 9425

WHAKATANE

Jason Parkinson
027 447 7129

TARANAKI / UPPER STH ISLAND

Nick Lawn
027 230 1699

WAIRARAPA / MANAWATU

Hamish Edge
027 247 2730

WELLINGTON

Simon Pearce
027 202 3037

SOUTHERN

CANTERBURY

Geoff Lill
027 263 7435

CANTERBURY / WEST COAST

Jeff Bennett
027 448 8749

MID AND SOUTH CANTERBURY

Tom Laming
027 220 4287

SOUTH CANTERBURY / NORTH OTAGO

Hamish Fraser
027 294 3484

OTAGO SOUTHLAND

Sam Eckhoff
027 434 0246

SOUTHLAND

Grant Dermody
027 233 0728

NATIONAL EQUITY PARTNERSHIPS MANAGER

NEW ZEALAND

David Pratt
027 435 6819

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