



# INSIGHTS INTO THE KIWIFRUIT INDUSTRY INVESTMENT OPPORTUNITIES AND CHALLENGES

PREPARED BY CLIENT INSIGHTS COMMERCIAL & AGRI  
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The New Zealand (NZ) kiwifruit sector recorded its largest ever crop in 2016/17 generating sales of \$2 billion<sup>(1)</sup>. With Zespri's ambition to grow global sales to \$4.5b by 2025<sup>(1)</sup>, demand for kiwifruit orchards is increasing and are selling at record levels.

However, the growth forecasts come with challenges. Labour is a key capacity constraint, given tight local market conditions, potential migration cuts and minimum wage increases. Another area is the vast amount of capital which is required to build the scale and infrastructure to support a significantly higher level of kiwifruit production. Also an important consideration is access to water and resource consents.

Despite this, kiwifruit is a rapidly growing industry which has a strong governance structure and a proven ability to innovate and respond to changing market dynamics (e.g. the evolution of SunGold post PSA). However, further collaboration is required across the industry to ensure the kiwifruit community benefits as a whole.

## PURPOSE OF PAPER

This paper aims to highlight some considerations for those looking to invest in the kiwifruit industry, with a particular focus on kiwifruit growers.

The information included in this report does not constitute advice and we recommend professional advice is obtained as part of any investment decision.

ANZ's size and depth of understanding of the industry enables us to provide analysis which covers the following areas:

### 1. Market opportunity

Zespri's SunGold licence rollout

### 2. Orchard performance benchmarking

Key financial metrics

### 3. Investing

Orchard Purchase, Greenfield Development, Orchard Conversion and Zespri Shares

### 4. Current themes and challenges

Highlighting some of the main topics for orchardists

## LORRAINE'S FOREWORD

The kiwifruit industry has an exciting future but at the same time faces a number of challenges.

After a strong recovery from PSA, the industry is going through a renewed growth phase. This will provide opportunity and risk for those investing in kiwifruit.

The intention of this paper is to highlight a number of these issues as well as providing the reader with some financial metrics and modelling concepts that can be applied to both greenfield development and orchard conversion scenarios.

ANZ has a long history of supporting the kiwifruit industry through numerous cycles and is well placed to provide further support to help with the expected growth across regional New Zealand.



Our aim is to ensure we understand our customer's business and their goals. ANZ's team of kiwifruit specialists are available to discuss with you the points made in the paper and the modelling concepts to help you achieve those goals.

We are grateful for the collaboration with Zespri and Kiwifruit Growers Incorporated (KGI). We look forward to further discussion with the wider kiwifruit industry.

**Lorraine Mapu**

New Zealand – Regional Manager, Commercial and Agri – ANZ

(1) Zespri 5 Year Market Outlook (Nov 2017)

# 1. MARKET OPPORTUNITY

## OVERVIEW

Zespri's investment in the quality of its brand has assisted in increasing global demand for NZ kiwifruit. Global kiwifruit sales rose by \$694m from the 14/15 season to the 16/17 season, largely driven by the success of both green and SunGold.

Zespri intends to release 3,750ha of SunGold licenses over the next five years with 750ha being released in 2018<sup>(1)</sup>. This includes 250ha of organic SunGold which will be released over five years with 50ha being scheduled for release in 2018<sup>(1)</sup>.

Against this backdrop, investors need to balance the risk of increased supply and competition while maintaining the premium price bracket which NZ Kiwifruit currently enjoys. The Chinese kiwifruit market, where all fruit production is currently consumed locally, is set to increase production

significantly in coming years. This may mean Chinese kiwifruit entering the export market. Those investigating kiwifruit investment will need to consider the sustainable price point for SunGold on a longer term basis.

Additionally, the increase in licences will require a significant structural shift from how the market currently operates, requiring more land, water, labour, processing capacity and capital investment. To support this, Zespri are focused on innovating throughout the supply chain to increase efficiency and scale.

A range of other factors also need to be considered for those investing in kiwifruit. These include, but are not limited to, packhouse capacity, health and safety and innovation and succession and are discussed further in section four.

(1) Zespri 5 Year Market Outlook (Nov 2017)

## 2. ORCHARD PERFORMANCE BENCHMARKING

The purpose of this section is to provide a benchmark for typical revenue and expense structures of NZ kiwifruit orchards.

Sources attributed to ANZ are based on data provided by 99 orchards. Only orchards that generated at least 90% of total orchard income from kiwifruit sales were included. Orchards ranged between 2-20 canopy hectares in size.

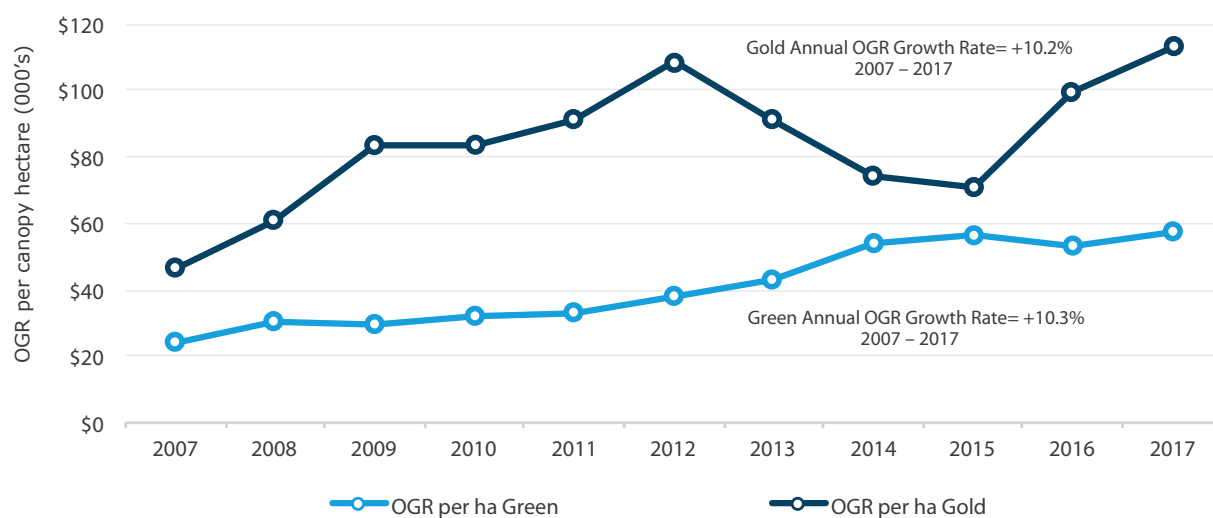
### ORCHARD GATE RETURN (OGR)

OGR is the revenue received by an orchardist after post harvest costs are deducted. OGR is driven by yields, fruit size, dry matter content, market prices and other off-orchard costs such as coolstore, packing costs, marketing, logistics, etc.

OGR has improved over the past 10 financial years, with consistent growth in green and a bounce back in gold post 2015<sup>(1)</sup>. For the 2017-18 season Zespri are forecasting OGR of \$57k per hectare for green and \$112k per hectare for SunGold.<sup>(1)</sup>

### AVERAGE KIWIFRUIT OGR PER HECTARE (\$'000'S)

Source: Kiwiflier



(1) Zespri 5 Year Market Outlook (Nov 2017)

## WAGES

Direct growing costs have moved higher over the past two years with the average green and SunGold cost per canopy hectare at \$32k per ha and \$37k per ha respectively<sup>(1)</sup>. The difference is driven primarily by wages, where the higher fruit yield and maintenance requirement for SunGold has required a higher cost structure. However, some growers are now saying that growing costs between green and SunGold are beginning to converge.

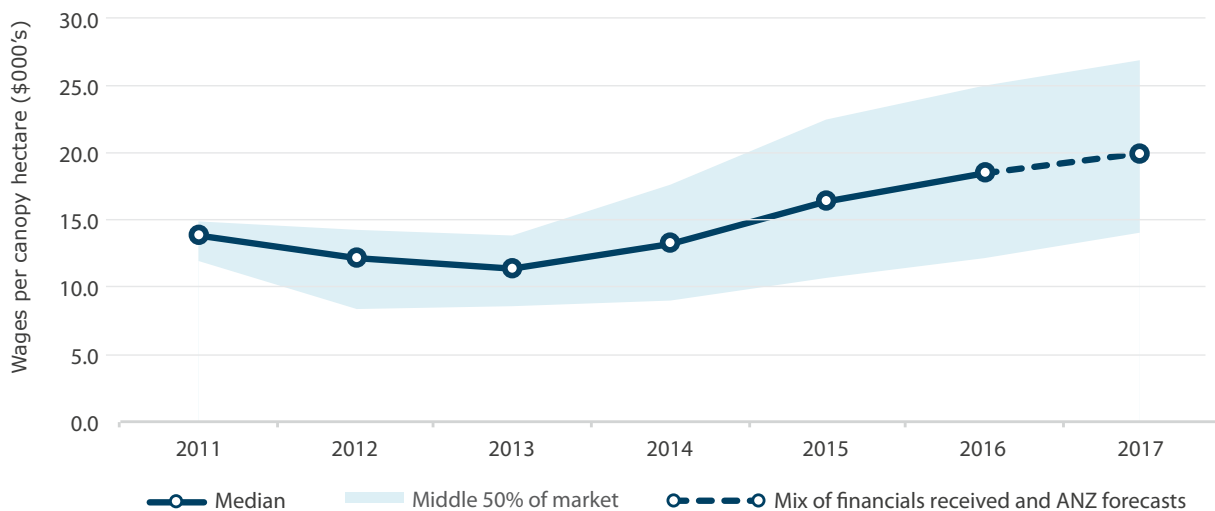
The graph below demonstrates both the median and the middle 50% of the market by way of wages per canopy hectare. This is based on sample data for both green and gold orchards. Across both varieties the median wage outcome typically ranges between 25%-35% of OGR and 50-55% of direct growing costs.

Wages per canopy hectare are on the increase. Looking forward the government has pledged to increase the minimum wage to \$20hr by 2021, a 27% increase from the current \$15.75hr. This will have a financial impact across most orchards with the first of a series of staged increases set to occur in April 2018.

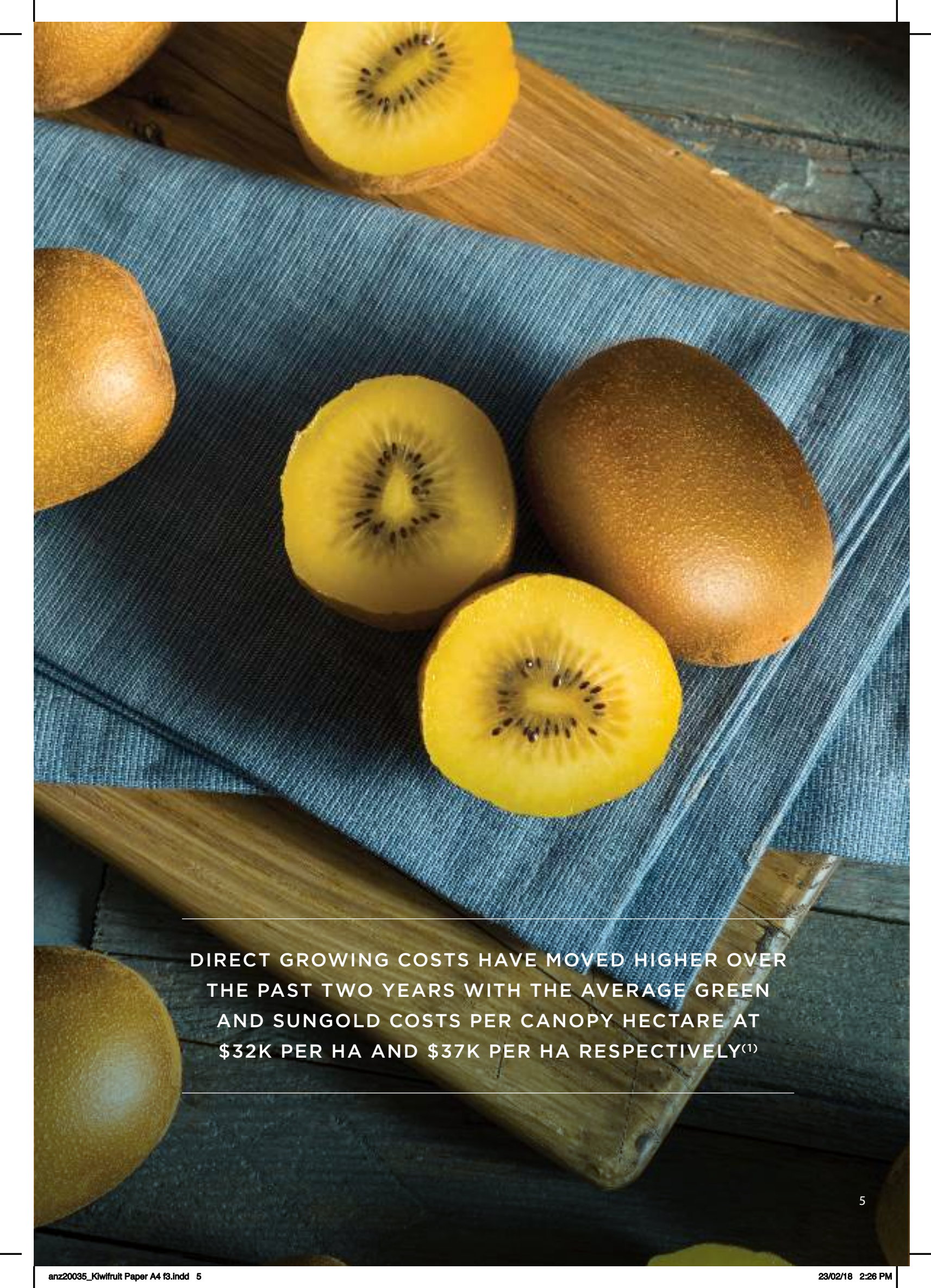
As the industry grows and existing orchards increase in size, there will be a higher demand for seasonal staff. With more area to harvest, prune and spray, and a shortage of seasonal workers, this may result in an impact to the cost of labour. Smaller orchards may have difficulty finding sprayers or pruners willing to work a smaller area. In time, this may lead to increased focus on automation as growers and pack houses look to create efficiencies through investment in robotics. Automation is not a problem solver to manage the lack of labour supply today, but it is something with potential that the industry is considering longer term.

## WAGES PER CANOPY HECTARE (EXCLUDES MANAGEMENT FEES)

Source: ANZ



(1) Zespri 5 Year Market Outlook (Nov 2017)



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DIRECT GROWING COSTS HAVE MOVED HIGHER OVER THE PAST TWO YEARS WITH THE AVERAGE GREEN AND SUNGOLD COSTS PER CANOPY HECTARE AT \$32K PER HA AND \$37K PER HA RESPECTIVELY<sup>(1)</sup>

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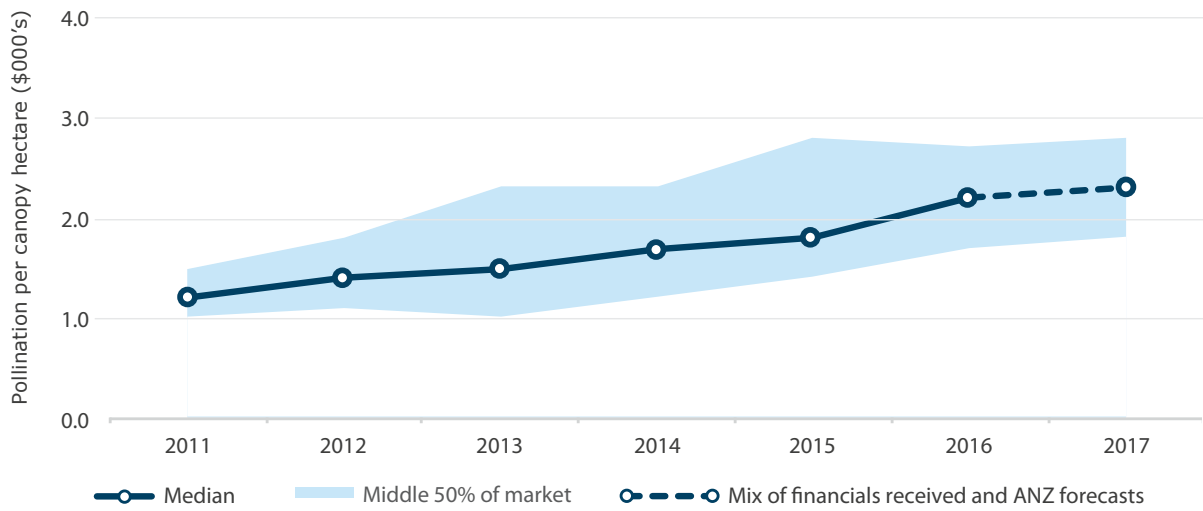
## POLLINATION, FERTILISER AND WEED AND PEST

Pollination, fertiliser and weed and pest are key expense areas which have a direct impact on orchard productivity. Together these represent approximately 17-20% of an orchard's direct costs per hectare.<sup>(2)</sup>

A breakdown of these categories has been provided on a per canopy hectare basis.

### POLLINATION PER CANOPY HECTARE (\$000'S)

Source: ANZ

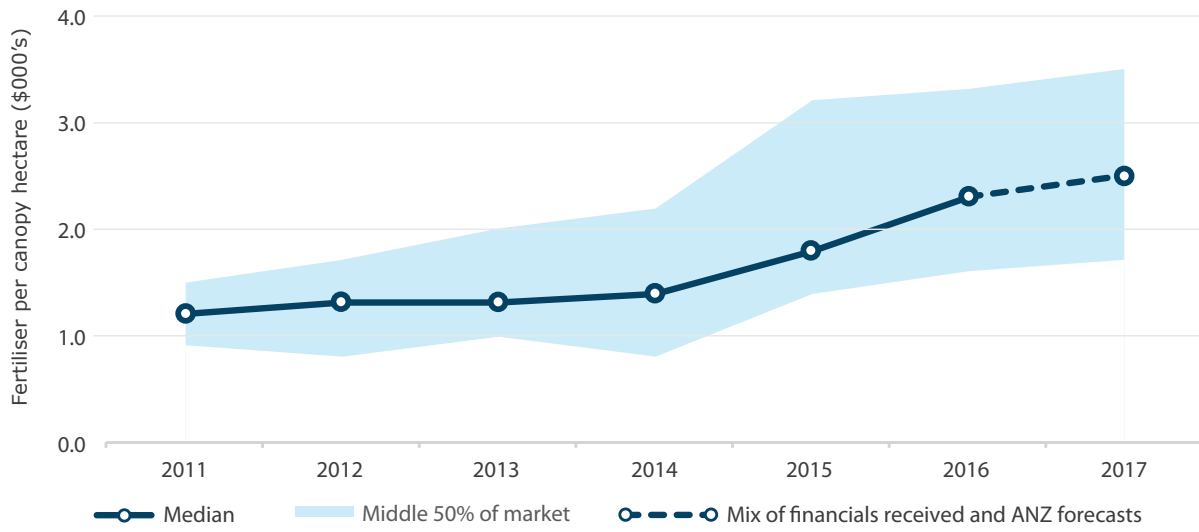


(2) ANZ analysis – Note this excludes biosecurity risks which could escalate these costs.



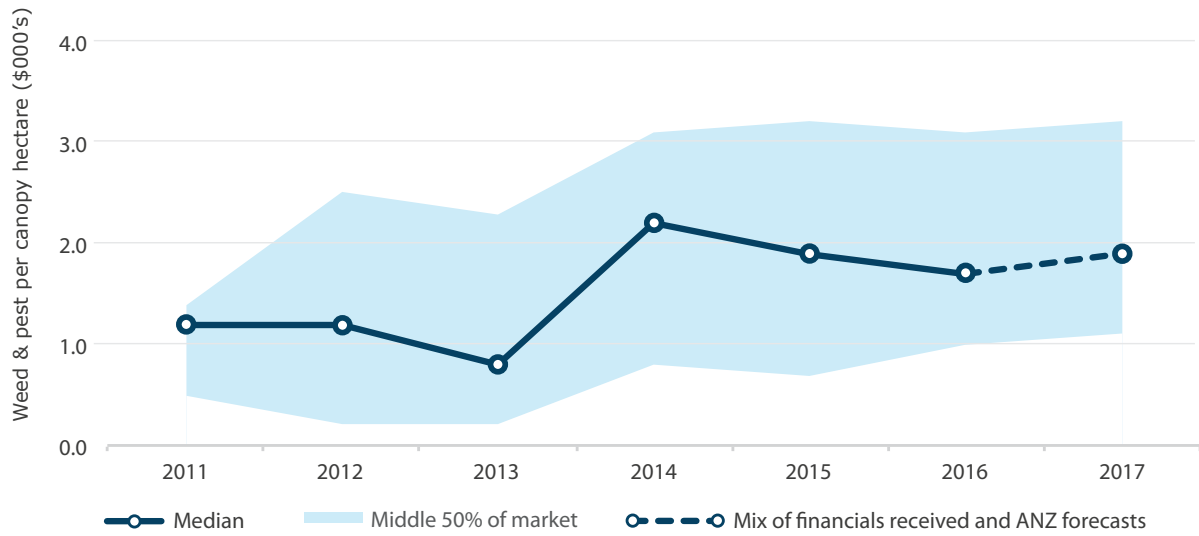
### FERTILISER PER CANOPY HECTARE (\$'000'S)

Source: ANZ



### WEED AND PEST PER CANOPY HECTARE (\$'000'S)

Source: ANZ



### 3. INVESTING

#### Important Information

The cost of land, licences, development and the funding structures applied by individual orchards will differ from our examples provided in this section. These examples do not contemplate any movements in OGR, interest rates, kiwifruit yields, or any other underlying costs structures which change over time in line with market conditions and are based on a number of assumptions. Understanding these sensitivities is an important part of the due diligence process and independent advice is recommended.

#### ORCHARD PURCHASE

With strong global demand for NZ kiwifruit, premium prices are currently being paid for orchards.

Valuations across NZ have been on the increase, but the areas which have performed the best are the traditional growing regions i.e. Bay of Plenty (BOP) due to proximity to the supporting business network and good growing conditions.

In BOP, in some cases valuations have doubled from pre-PSA levels (2010) with green orchards currently valued in the \$300k-\$450k per hectare range and SunGold orchards in the \$700k-\$1,000k per hectare range.

Prices paid are dependent on the quality of the orchard and associated infrastructure (e.g. soil quality, frost protection, shelter, buildings, etc.).

#### BOP KIWIFRUIT PROPERTY VALUATIONS (NOV 17)

Source: ANZ Analysis

Pre-PSA		Post-PSA	
Green	\$250k ha	Green	\$300k – \$450k ha
Gold	\$450k ha	Gold	\$700k – \$1,000k ha

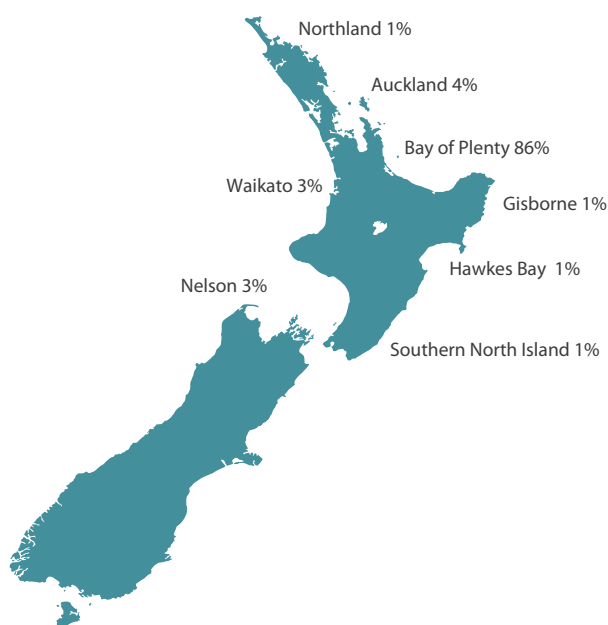
Areas such as BOP, Hawkes Bay and Northland are already established growing areas. However, Northland's subtropical climate and wide diversity of soil is being considered by industry participants as an area with strong growth potential, which would suit the SunGold variety.

With an already established grower network, Northland's kiwifruit industry has the opportunity to grow. Forecasts from the University of Waikato predicts kiwifruit earnings will more than double to \$72 million and the number of jobs expected to increase from 380 to 886 by 2030<sup>(3)</sup>.

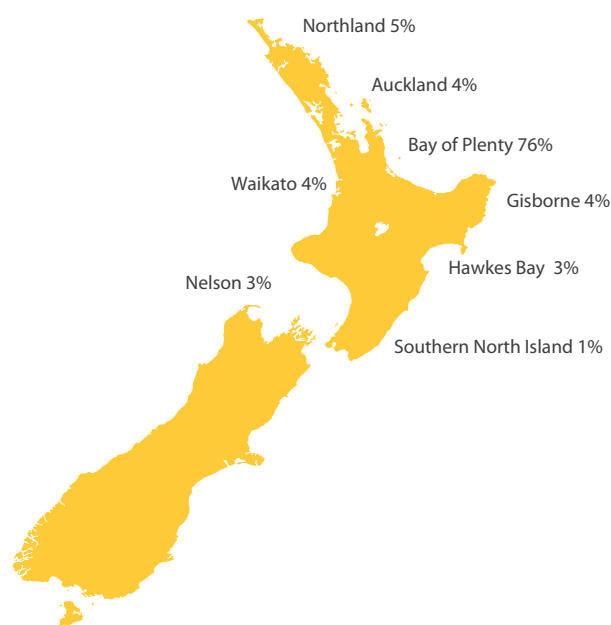
#### NEW ZEALAND ORCHARD LOCATIONS

Source: Zespri

##### Green kiwifruit



##### SunGold kiwifruit



(3) <https://www.zespri.com/Documents/Waikato-Uni-Kiwifruit-GDP-Report.pdf>

## GREENFIELD DEVELOPMENT

With 12,694 hectares and 2,435 growers spread across the country, NZ is the second highest producer of kiwifruit in the world<sup>(4)</sup>. The majority of NZ kiwifruit is grown in the BOP<sup>(4)</sup>, however with limited greenfield land available, the sale of the SunGold licence by Zespri will require alternative growing regions.

When entering new areas and converting from previous land uses (dairy, sheep and beef, etc) a number of factors will need to be considered, including local council regulations, water rights, land suitability, altitude, the availability of local labour, logistics and other supporting infrastructure.

### Background:

The following example works through a hypothetical one canopy hectare greenfield development for SunGold kiwifruit.

Firstly suitable land and a licence for SunGold needs to be purchased. For our example we have assumed a land price of \$125k for one hectare and a SunGold licence cost of \$250k.

In addition, we assume capital investment of \$100k per hectare to develop orchard infrastructure and a further capital allocation of \$100k per hectare to meet growing costs before the SunGold vines reach full maturity at 4-5

years. For simplicity of our example we have assumed that all capital required (i.e. \$575k) is captured on balance sheet at day one. In reality, the drawdown of capital will be staged over the first few years as the orchard is developed.

It is also important to highlight that costs will differ from the figures provided. This will be dependent on the condition of the land prior to development, water availability, shelter requirements, etc. Additionally, there may be variability in other operating expenses which are incurred before the kiwifruit vines start to yield revenue over and above their ongoing annual cost. These movements are not contemplated in this analysis.

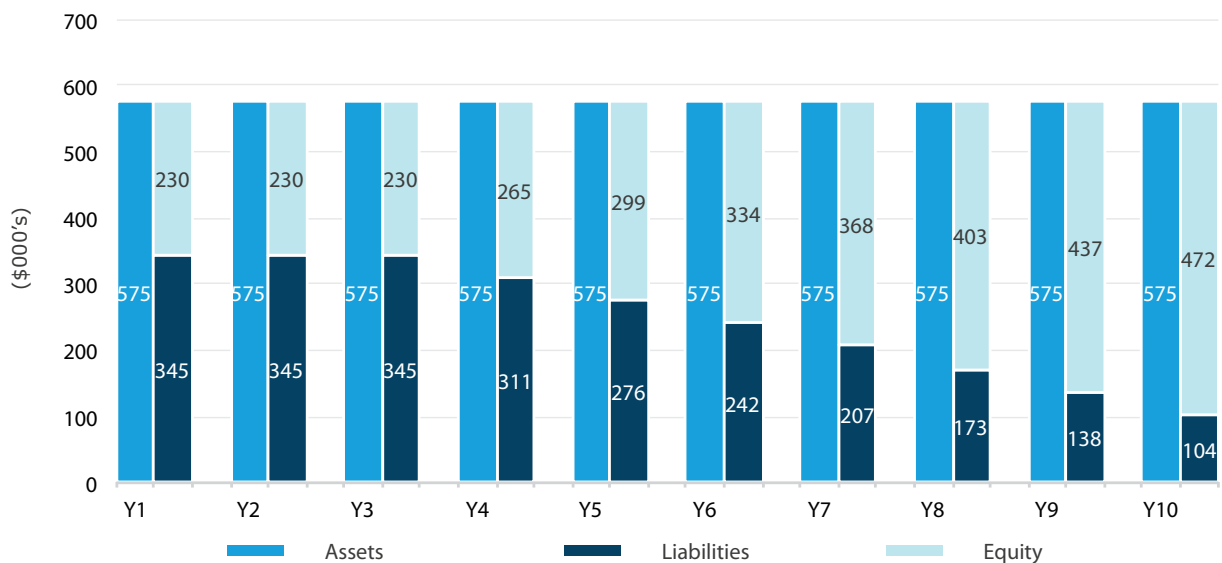
### Balance Sheet:

For the total capital requirement outlined above of \$575k, we have assumed that this is funded by \$345k debt (60%) and \$230k equity (40%). Interest rates are assumed constant at 6.50% for the term of the analysis and debt is repaid over a 10 year period starting at year four when the kiwifruit revenue stream starts to increase.

Assuming that market valuations for both property and the SunGold licence remain static for the term of the analysis and ignoring retained earnings, the annual asset, liability and equity position are shown below. In reality, these will change over time in line with market conditions.

## ASSET, LIABILITY & EQUITY POSITION (GREENFIELD)

Source: ANZ



(4) Zespri – Beyond recovery, growth, value and innovation in the kiwifruit industry

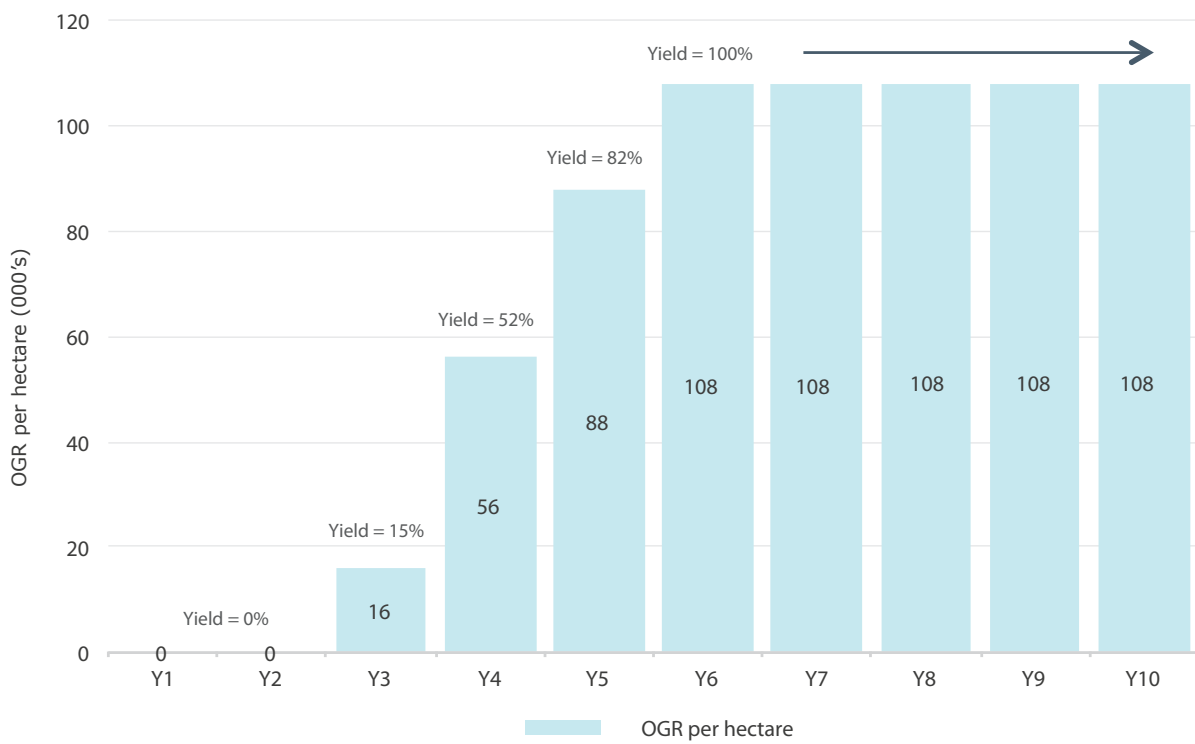
**Revenue:**

The below chart shows a hypothetical example OGR profile for SunGold per canopy hectare. This is based upon a tray OGR price of \$8.00 and trays per hectare 13,500 once at 100% yield<sup>(5)</sup>. While static prices and yields are not the case in reality, the example aims to highlight how a scenario can be arrived at for a forecast revenue profile. Prices are based off the long term Zespri outlook.

Importantly, there is a delay until the kiwifruit vines are able to yield their full revenue potential. This means that the greenfield development would need to be appropriately capitalised, or have another source of income to support outgoing cash flows for the first few years.

**FORECAST SUNGOLD OGR PER HECTARE (GREENFIELD)**

Source: ANZ



(5) Note that vines may yield significantly more or less based on prevailing conditions.



**Cashflow:**

Over the course of the first year the cost of the land (\$125k), licence (\$250k) and orchard development (\$100k) are incurred. This is deducted from the opening capital of \$575k leaving a balance of \$100k. Further, growing costs of (\$6k) and interest (\$22k) are incurred in year one, leaving a closing cash balance of \$72k.

To model the ongoing operational cashflows we have assumed that growing costs will increase, moving to \$36k<sup>(1)</sup> annually as the kiwifruit vines reach 100% yield.

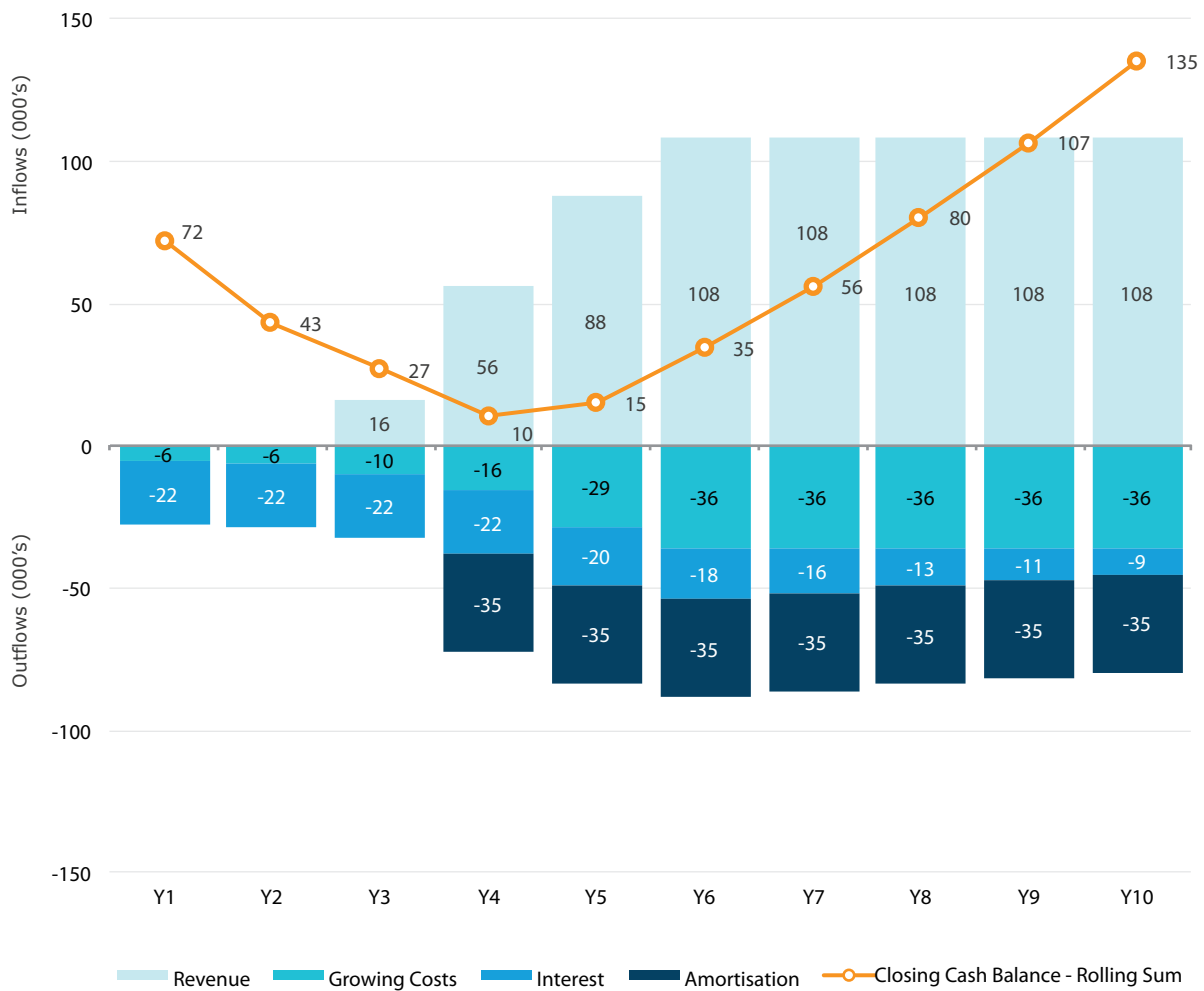
Interest is paid at 6.5% on the outstanding loan balance and annual debt repayments of (\$35k) begin at year four.

As previously noted, additional expenses can accrue in the first few years until the kiwifruit vines start to yield revenue in excess of their ongoing annual costs. These can include interest, amortisation, unforeseen development costs or any other additional capex over and above the initial orchard development. These costs will vary by orchard.

All other sources of costs and uses of funds are not considered in our example (i.e. tax, further capital raisings, etc.).

**CASHFLOW FORECAST (GREENFIELD)**

Source: ANZ



(1) Zespri 5 Year Market Outlook (Nov 2017)

## ORCHARD CONVERSION

While on the surface a higher revenue stream for SunGold is more attractive, further analysis should be undertaken as to both the financial and opportunity cost involved in converting already productive green kiwifruit into a new variety.

This is particularly so given global demand for green kiwifruit remains strong and there is an overall industry requirement to maintain export volumes at current levels to satisfy global demand.

### Background:

The following examples work through a hypothetical one canopy hectare conversion of green kiwifruit to SunGold.

We have assumed a SunGold licence price of \$250k and development/conversion cost of \$20k. The lower development cost when compared to a greenfield development is a result of orchard infrastructure already being in place (i.e. structures, shelter, water, rootstock, etc).

As with our previous greenfield development example an additional budget has been allocated. This is assumed at \$50k and is in order to meet ongoing annual expenses before the SunGold vines reach maturity.

For simplicity of our example we have assumed that all capital required (\$320k) is captured on balance sheet at day one. In reality, the drawdown of capital will be staged over the first few years as the orchard is converted.

It is important to highlight that costs will differ from the figures outlined above. This will be dependent on a number of factors, including the condition of the land prior to development, water availability, shelter requirements, etc. Additionally, there may be variability in other operating expenses which are incurred before the kiwifruit vines start to yield revenue over and above their ongoing annual expenses. These movements are not contemplated in this analysis.

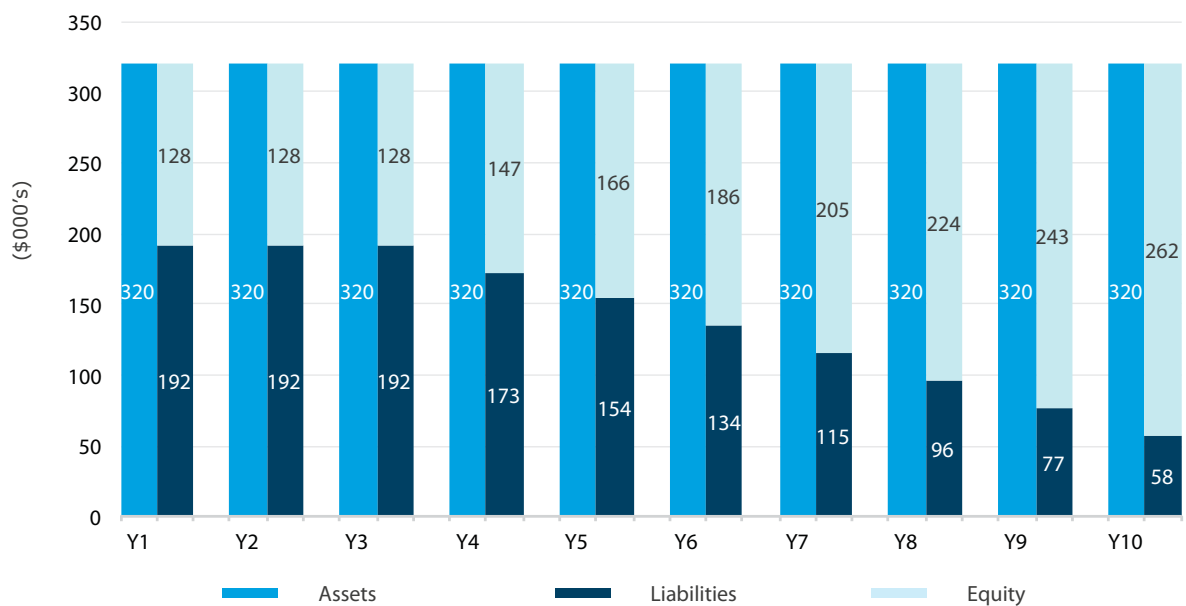
### Balance Sheet:

For the capital requirement of \$320k outlined above we have assumed this is funded by \$192k of debt (60%) and \$128k of equity (40%). Interest rates are assumed constant at 6.50% for the term of the analysis and debt is repaid over a 10 year period starting at year four when the kiwifruit revenue stream starts to increase.

Assuming that market valuations for both property and the SunGold licence remain static for the term of the analysis and ignoring retained earnings, the annual asset, liability and equity position are shown below. In reality, these will change over time in line with market conditions.

## ASSET, LIABILITY & EQUITY POSITION (CONVERSION)

Source: ANZ



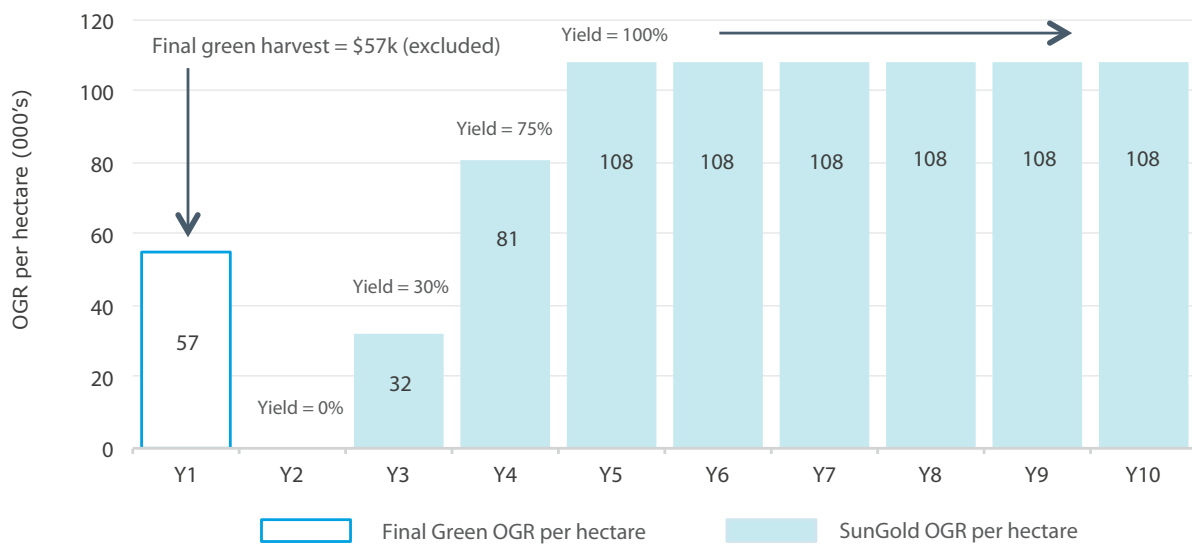
The chart below shows a forecast OGR profile for a green to SunGold orchard conversion.

Just prior to the re-grafting of the new SunGold variety a final green harvest occurs. In our example this generates \$57k<sup>(1)</sup> of year one revenue which would typically be available to offset SunGold establishment costs. For simplicity, we have excluded this cash flow from the analysis provided on the following pages.

For our OGR profile we have assumed revenue generation from year three, moving to 100% yield at year five.

### FORECAST OGR PER HECTARE (CONVERSION)

Source: ANZ



(1) Zespri 5 Year Market Outlook (Nov 2017)



**Cashflow:**

Over the course of the first year the cost of the licence \$250k and the orchard conversion costs \$20k are deducted from the opening capital balance of \$320k. This leaves the remaining capital allocation of \$50k from which growing costs \$6k and interest \$12k are deducted. The closing cash balance in year one is \$32k.

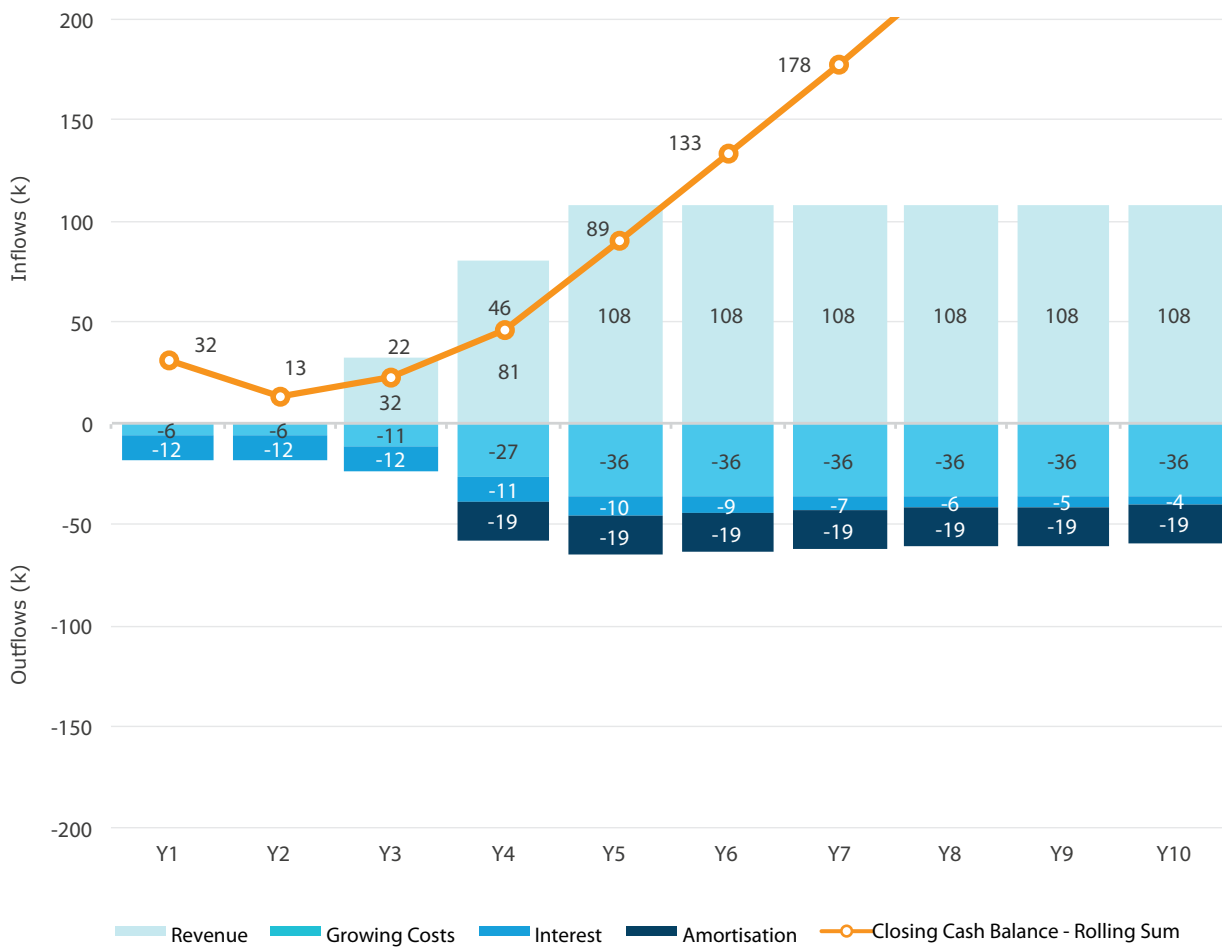
Interest is paid at 6.50% on the outstanding loan balance and annual debt repayments of \$19k begin at year four.

As discussed, additional expenses can accrue in the first few years until the kiwifruit vines start to yield revenue in excess of their ongoing annual costs. These could include interest, amortisation, unforeseen development costs or any other additional capex over an above the initial orchard development. This will vary by orchard.

All other sources and uses of funds are not considered in our example (i.e. tax, further capital raisings, etc.).

**CASHFLOW FORECAST (CONVERSION)**

Source: ANZ



### Economic Return:

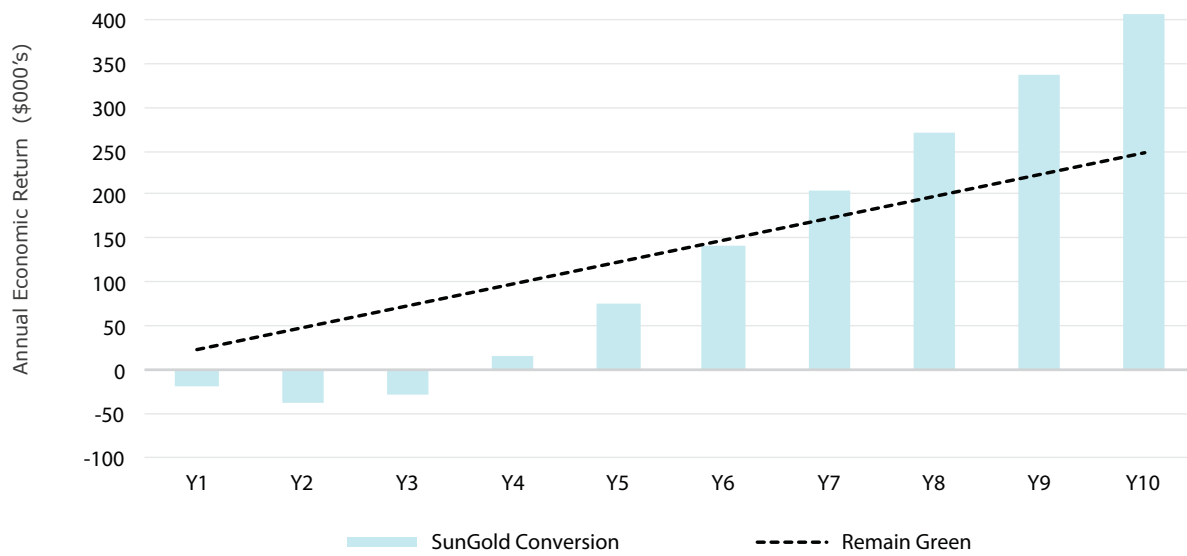
Finally, a comparison of the economic return for SunGold needs to be compared to remaining green. We define the annual economic return for each variety as (OGR – direct growing costs – interest).

To remain green no additional debt is required. Additionally, there is no downtime from production while vines grow. Therefore, our annual economic return for green is constant at \$25k for the term of the analysis. This figure is based on Zespri's latest forecast for OGR of \$57k<sup>(1)</sup> less growing costs of \$32k<sup>(1)</sup>.

Our SunGold economic return profile shows that after recovering from loss of production in the first few years, plus factoring in interest expenses, it takes circa seven years to return to economic breakeven. Obviously, this excludes all future variability in OGR, interest rates and other unforeseen events which can significantly change the outcome of this analysis.

### CASH AND BREAKEVEN ANALYSIS (CONVERSION)

Source: ANZ



(1) Zespri 5 Year Market Outlook (Nov 2017).

## ZESPRI SHARES

While the sale of Zespri shares is restricted to growers, a significant number of shares are currently owned by growers who have left the industry.

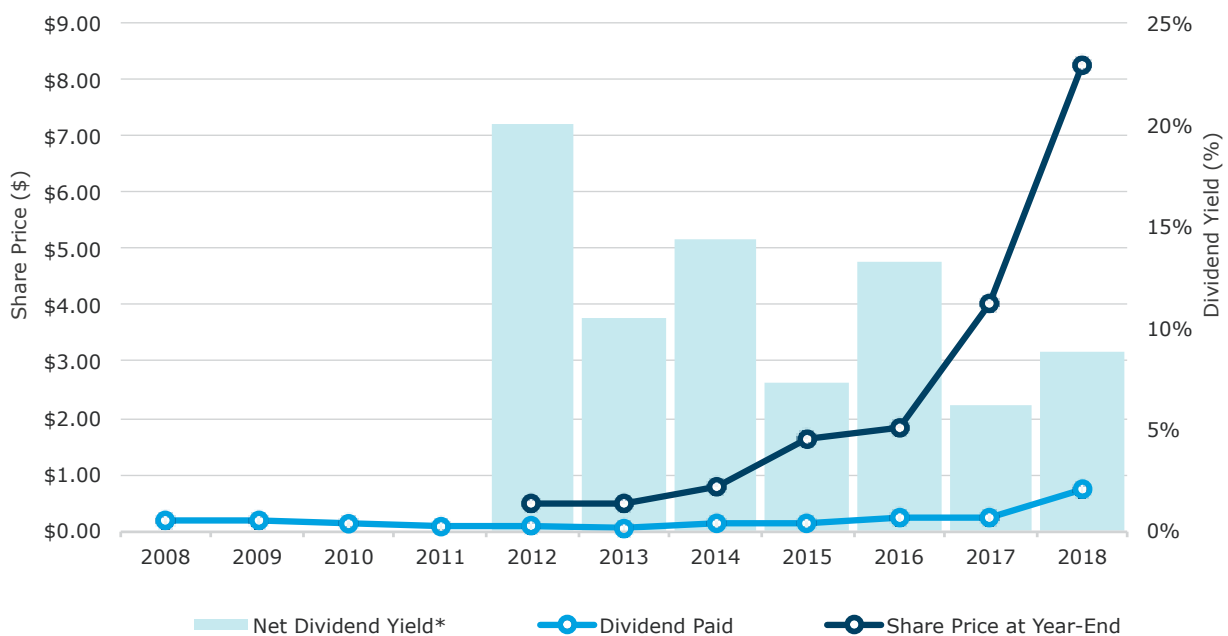
Only individuals or entities that own or lease a kiwifruit orchard can vote their shares. However, the misalignment of ownership and production creates significant debate within the industry.

Zespri's intention longer term is to have share ownership and production fully aligned so that only current orchardists can benefit from not only growing, but also sales and marketing activities.

Growers purchasing an orchard should ensure that they have the ability to purchase shares as part of the orchard transaction, if deemed suitable. Shares can provide access to income from discretionary dividends which are aligned to the financial performance of Zespri. Dividends are typically paid in August and December, with the amount varying from year to year.

## ZESPRI SHARE PRICE, DIVIDEND PAID AND NET DIVIDEND YIELD (%)

Source: KIWIFLIER



2012-17 share value and net dividend is based on Zespri annual reports. The 2018 share value is as at December 2017.

## 4. CURRENT THEMES AND CHALLENGES

### LABOUR

According to the University of Waikato, the industry looks set to generate 29,000 new jobs by 2030, therefore programmes like the Recognised Seasonal Employer (RSE) scheme are vitally important to maintain labour supply. The programme is administered by Immigration NZ and allows horticulture or viticulture employers to recruit offshore employees on a short term seasonal basis only to plant, maintain, harvest and pack crops where NZ labour is insufficient to meet demand. In 2016, due to increased demand, the annual cap on the number of RSE workers was lifted by 1,000 to 10,500 workers.

There are 129 registered companies operating RSEs in NZ. 70% of RSE workers are employed by the apple and viticulture sectors while only 10% are kiwifruit seasonal workers.

There is a potential risk that the government may review the RSE cap in future and restrict labour supply. While automation and development of new technologies may provide a solution to the issue in medium term, the kiwifruit growing industry is lobbying for a dedicated share of RSE workers.

Robotics is a potential part of the solution for lack of labour supply. However, this will require capital investment, testing and assessment of financial benefits which will likely result in a gradual transition over time. As such, labour supply will still be extremely important over the next few years.

The industry will need to find and attract more workers for both seasonal and permanent work therefore alternative sources like the RSE scheme will become increasingly important.

### PACKHOUSE INFRASTRUCTURE

Packhouses should be commended for their ability to change and adapt in such a rapidly growing industry. However, to satisfy further growth, additional packing and storage facilities are needed<sup>(6)</sup>. This will require additional capital which will need to be sourced from one, or a combination of, the below channels:

- Debt from a financial institution and/or
- Shareholder capital and/or
- Introduction of capital from outside the sector and/or
- Retained profits (decrease dividend).

While retained profits may assist in organic growth, the industry needs to grow at a much faster rate. Given that retaining profits typically results in tensions between packhouses and shareholders, it is likely that capital will come from debt, shareholder injection or new external sources.

While additional capital is necessary for the sector to grow, the infrastructure cost will change the balance sheet risk profile for the sector. Packhouses will need to provide a foundation for future proofing the industry by responding quickly to demand. Given the additional infrastructure costs, we would expect to see pricing pressure on packing costs to rise.

(6) ANZ analysis shows that infrastructure spend over five years would be approx. \$500m which is a significant amount of liquidity in the NZ market. This data is based on an additional \$40m tray volume within the next 5 years.

### SUCCESSION

Kiwifruit growers are an ageing population, with 53% aged over 60 years of age. The high capital requirement for orchard ownership poses similar barriers to entry as in other farming industries, creating a succession challenge for the sector. There is an increased focus on ensuring the industry continues to attract new people. However, this needs to happen sooner rather than later to avoid a surge in orchard liquidity at a particular point in time.

### ROOTSTOCK

This year, 750ha of licences will be released which may prove problematic for rootstock and graftwood certified growers. ANZ analysis shows that if half of these hectares are taken up by greenfield conversion, then a further ~140,000 plants will be required. Nursery growers will need to think ahead to manage demand and supply dynamics.

### CULTIVARS FOR THE FUTURE

Zespri, along with Plant and Food Research invest between 1%-1.5% of NZ revenue in innovation (with the cultivar breeding programme receiving more than half). The programme is focused on the development of new cultivars which aims to keep NZ ahead of international competitors.

The new 'Red' variety is currently being trialled on orchards around NZ. However, similar to our examples provided, growers take a commercial risk in planting a new variety by converting part of the existing productive orchard to make room for new kiwifruit. This causes losses in income and cashflow for two to three years until the new vines become established.

Planting new varieties comes at a risk to the grower as the performance of the variety in the field and in the market is unknown. Growers will need to carefully assess these risks before committing to buy newly licensed varieties.

Researchers are also working on a new green variety, but a new SunGold variety could be some years away.

### ENVIRONMENTAL TARGETS

The government has pledged zero carbon emissions by 2050 and already we see large corporates announcing their intention to meet this target. Early planning and strategy are essential, particularly by distributors if the industry is going to meet zero emissions.

These changes may impact the profitability of growers in the near future (e.g. water quality, water take, land use restrictions, monitoring and reporting). Access to quality water for irrigation and frost prevention is therefore essential to an orchards strategy.

## ORGANICS

To support environmental practices, Zespri provides 50ha per year dedicated to organic licences, or those which are certified to leading organic standards by Bio Gro NZ. This not only provides sustainable production practises to protect the environment, but also provides opportunity for additional value add/premium product categories.

Around 80% of organic produce global sales are to the North American, Europe and Japanese markets<sup>(7)</sup>. Orchardists who wish to take advantage of this opportunity must give consideration to the types of chemicals used on plants (e.g. Hydrogen Cyanamide or Hicane), including consideration of adjacent properties who may have spray programmes. In recent years, the BOP Spray Focus Group, which includes representatives of kiwifruit marketers Zespri, NZ Kiwifruit Growers Inc, Kiwifruit Vine Health, Regional Council staff and the public, have worked to reduce the effects of sprays on the community, using best practice spraying methods.

## BIOSECURITY

Management and prevention of outbreaks of pests and disease (e.g. Queensland fruit fly, the brown marmorated stink bug and white peach scale) is crucial to the industry's success, especially with a concentration of plantings in a limited geographic area. Kiwifruit Vine Health (KVH)<sup>(8)</sup> manages the wider biosecurity readiness and response for the industry. The industry pays a 0.6c levy to KVH per tray for all varieties increasing to its maximum possible rate of 1c per tray in 2018.

The industry has demonstrated an ability to respond to and manage such events following the PSA outbreak that first occurred in 2010. The industry has adapted to the realities of PSA through initiatives that include targeted spray programmes and planting of cultivars that are more disease tolerant. This has resulted in a steady recovery in fruit volume over recent years as re-grafted vines begin to mature.

Growers and investors need to be aware of the risks and potential disruption that can be caused through a biosecurity event.

## HEALTH AND SAFETY

On an orchard, growers are not only responsible for the health and safety of anyone they employ directly but also for others on the orchard that they may direct or influence. This includes contractors and their employees.

Food Safety compliance is an increasingly important issue for Zespri's customers. Growers will need be aware of the requirements and may need to invest in infrastructure to support compliance.

(7) [agrihq.co.nz](http://agrihq.co.nz)

(8) ([http://www.kvh.org.nz/most\\_unwanted](http://www.kvh.org.nz/most_unwanted))

The interdependent nature of the industry means there are overlapping duties between orchard owners, contractors, post-harvesters and Zespri. Overall, Zespri plays an important part in being able to promote greater awareness and higher standards over health and safety.

## INFRASTRUCTURE

The increase in labour requirements will put a strain on already stretched housing in the BOP region but may provide an opportunity for the industry to invest in housing development.

As the general population grows more vehicles will also be on the road. This will have an impact on already congested roads and distributors may find the Tauranga Port less accessible due to congestion. Collaboration with central and local government on roading improvements will be required.

## COMPETITION

Zespri's brand attracts a premium price in key export markets, which compensates NZ orchardists for higher growing costs relative to international competitors. The sustainability of Zespri's model is dependent on maintaining the brand's value and intellectual property. Zespri's strategy includes an extensive kiwifruit breeding programme, with more than 100,000 potential cultivars in clonal trials. Zespri has the ability to commercialise other varieties in future (e.g. Zespri Red) to maintain brand recognition and differentiation, with red varieties and a new green in pre-commercial trials.

## TARIFFS

A number of NZ's major markets impose significant tariffs on kiwifruit imports. Europe is NZ's largest market where a tariff of approx. 8% resulted in an approx. \$33m tariff in 2016 (on \$433m of exports). Korea imposes the highest percentage tariff at approx. 30% (\$19m p/a). However, at 3% of the export volume the figure is less significant than other markets and due to the free trade agreement with Korea this will reduce to zero by 2020. Changes to tariffs and quotas will ultimately impact the OGR received by growers.

## WRAP UP

### CONCLUSION

The release of SunGold licences in 2018 will provide an opportunity for those investing in kiwifruit. However, there are challenges for the industry which will need to be considered as part of the due diligence process.

This paper highlights some of the financial metrics and modelling concepts that could be applied to both greenfield development and orchard conversion scenarios.

ANZ has a team of kiwifruit specialists who are available to talk through these concepts to provide a fair, balanced view of each orchard project and we welcome the opportunity to discuss further.

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