Sheep and Beef
Equity Partnership Proposal

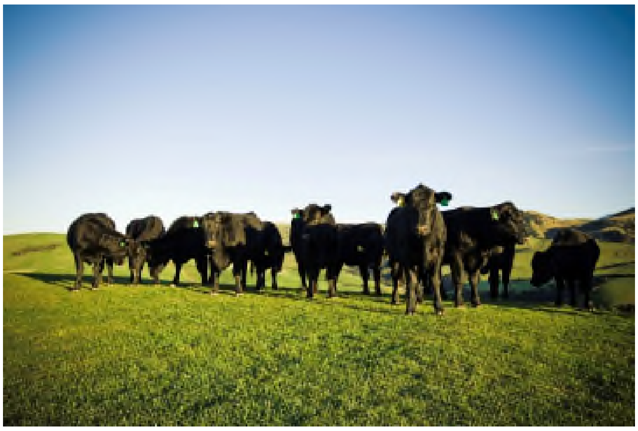
Background

I have recently been working with Andrew and Jayne Law (refer attached CV). They are a young couple in their early 30s and are looking for interested parties to join together to form a Sheep and Beef Equity Partnership. To date we have sourced two more investors, who have conditionally confirmed their commitment. Together the 3 have formed a good relationship with shared Values, Purpose and Vision, who between them, have $3.0m of equity to invest.

We are looking for 1 or 2 additional investors and expect we need to raise a further $2.0 - $3.0m of equity to source the right property. At this early stage we are looking for genuine interested parties, with an indication of their level of investment. An indicative proposal indicates an operational pre-tax Return on Equity (RoE) of 4.2% may be achievable, plus any capital gain that may or may not eventuate.

Proposal

The plan is to find a 7,000 su hill country property somewhere in the North Island of New Zealand. North Island properties appear to offer better value for money than the South Island, and hence better return.



Andrew and Jayne are open to summer safe hill country properties in areas such as King Country, Wanganui, Wairarapa, Hawkes Bay or East Coast.

Andrew and Jayne are not fazed by hills and remote locations, and it would be their preference to focus on more remote properties. The advantage of this, from an investor's point of view, is these properties are more likely to sell at closer to their productive value, than properties in more accessible and populated areas. The location of these properties tend to lack saleability, particularly in times of poor product prices. This should make them cheaper to buy, which should drive a better cash return on investment. The disadvantage is that the sale of the property at exit will be harder to achieve in a timely fashion.

The People

As discussed we have 3 investors:

Andrew and Jayne Law:

A young farming couple who have built a good reputation for hard work and attention to detail. They are strongly focussed on breeding and genetics. The key job for Andrew each year is to individually assess every breeding ewe and cow, ruthlessly selecting only the best stock to retain. On his current management position, he has lifted the number of lambs killed at weaning from 800 to 2,500 over 4 years. Throughout this process they have also run their own budgets on properties that have been listed for sale, and their degree of research and thoroughness has added an extra layer of expertise over and above their management skills.

Investor 1:

A retired farmer from Canterbury. Self-made, he has built a strong level of equity. He started his career working in the rural services industry, buying a small holding and then building up to a large scale farming operation. He has now exited farming, and has a number of investments in commercial properties and businesses, most of which are via Equity Partnerships he has helped set up. He will bring a good business head and farming experience to the group and will be a good mentor for Andrew and Jayne.

Investor 2:

One of this couple grew up in Hawkes Bay, and the other in rural Auckland. They are now fully entwined within Auckland City and are looking for a sound investment that will give them an interest in farming and an opportunity for them and their family to escape Auckland when time allows. He is the Chief Marketing Officer for a significant New Zealand brand, and they will bring a dynamic approach to the group.

All three have only just met each other. Strong family values are evident in all three, coupled with very good business acumen. It has the makings of a successful and diverse group.

Process

It is always difficult to know how to go about forming an Equity Partnership. Broadly speaking there are two options:

- Create the opportunity first and then find the people. This would involve getting a conditional sale and purchase agreement on a suitable property, and then go to the market to find investors. The advantage of this option is you can present full budgets and other financial information to allow investors to make an informed decision. The disadvantage is the lack of time available to source sufficient equity, and more importantly, the right people.

- Find the people first and then create the opportunity. This would involve finding the investors first, and then sourcing an appropriate property. The advantage with this option is you have time to find the right people and the associated capital. Furthermore, once you have formed the group, you are then in a strong negotiating position to buy a property. The disadvantage is, without a formal proposal it is difficult to get people excited about what is essentially a concept. No financial commitment can be made until a property is sourced. Once a property is sourced, and people are asked to commit, people will often back out and/or there is failure to gain agreement as a group. To be blunt, it can be like trying to herd cats.

Given the current state of both the New Zealand and Global economies, raising capital at short notice is proving to be difficult. Therefore, in this instance we have decided to go for the latter option. Find the people/equity first and then create the opportunity. Therefore, at this early stage we are looking for genuine interested parties, with an indication of what level of investment they are looking for.

How it would work

We are looking for 1 - 2 other people, as well as the Laws and the 2 other confirmed investors, to invest into what will be a newly formed Company. The Company will then purchase land, stock and plant. The Company will be managed by Andrew and Jayne Law, who will report to the Board, made up of the investor's representatives.

The Board will be responsible for setting the values, purpose and vision of the Company. It will be the responsibility of Andrew and Jayne, in conjunction with the Board, to develop the Business Plan to achieve the vision. It will then be Andrew and Jayne's responsibility to put the plan into action, to manage the business to achieve the vision.

To give a feel of how it would work from a financial point of view, I have prepared a mock proposal as follows:

Mock Proposal		
Ingoing Costs		
Purchase a 7,000 su property		$ 4,900,000
Purchase stock		$ 1,059,190
Purchase plant and machinery		$ 120,000
Legal, Accounting & Set up fees		$ 100,000
Buffer (rounding)		$ 20,810
Total Ingoing Costs		$ 6,200,000
Funded By	% Shareholding	
Andrew and Jayne Law	9%	$ 500,000
Investor 1 (conditionally confirmed)	18%	$ 1,000,000
Investor 2 (conditionally confirmed)	27%	$ 1,500,000
Investor 3	27%	$ 1,500,000
Investor 4	18%	$ 1,000,000
Total Equity/Capital invested	100%	$ 5,500,000
Bank funding	11%	$ 700,000
Total Funding		$ 6,200,000

In this example, the new Company would have $6.2m of asset value, with $5.5m of equity introduced from the 5 investors. It is standard practice that each investor could come in with differing levels of equity. The size of their shareholding will be determined by the percentage share of the total equity invested. So, for example, Investor 1 will have invested $1.0m which is 18% of the total equity invested of $5.5m.
The shortfall in funding of $700k will be sourced from a Bank. In this example, bank debt is 11% of total assets. This would be a relatively strong balance sheet, which is appropriate for the industry. The lower the debt, the better the RoE.

An indicative budget is shown below.

Indicative Budget		
Income/su	$ 105.00	$ 735,000
Farm Costs/su	$ 63.00	$ 441,000
Interest	6.5%	$ 45,500
Plant and Machinery Replacement	15%	$ 18,000
Pre Tax Surplus		$ 230,500
Pre Tax Return on Equity	4.2%	

This information is provided as an indicative guide as to what a proposal may look like. Until a property is found, we cannot provide anything other than an indication. Proper due diligence can only be done once we know what we are dealing with. Any number of variables will change.

However, in this proposal, a pre-tax surplus of $230.5000 is produced. This would be available to pay tax, and the remaining surplus may be used to:

- Repay bank principal.
- Reinvest into the property.
- Pay a dividend to the shareholders.

This would be a Board decision based on the vision for the Business.

The budget provides an operational return on equity of 4.2%. Historically, appreciating asset values have provided a capital gain. From around 1950 through to 2008, this averaged approximately 7% per year. However, since 2008, asset values have remained reasonably static. Investors will need to have their own view on what capital gain, if any, may exist into the future.

Detail

Quite clearly this proposal is light on detail. There is definitely a lack of information in this paper to allow people to make an informed decision. However, we are not wanting people to make a decision at this stage.

Until such time as we source the appropriate people and property, we cannot provide any great detail.

However, there will be legal and accounting considerations to take into account. These will include:

- Company Constitution
- Capital structure
- Shareholder's agreement
- Equity manager's employment contract
- Environmental, Health and Safety and Employment compliance

These can only be discussed, with the appropriate advisors, once we get people around the table.

Time Line

If all goes well, it would be good to have the proposed new business settle on a property in the Autumn of 2017. For that to happen we have to source a number of interested parties, some of whom may or may not be appropriate investors.

Once a core group of investors is formed, the group can then start looking for properties. Once an appropriate property is found, initial budgets will need to be completed and then move to a conditional sale and purchase agreement. Only then can we complete a thorough due diligence, upon which investors make informed decisions to invest or not. In a perfect world this would include completing the Business Plan. Heads of agreement would be reached with a broad indication of the specific requirements for the Shareholder's Agreement and Manager's Employment contract.

Once this is completed, investors need to commit and with bank funding approval the sale and purchase can go unconditional. Final legal requirements would be finalised prior to take over.

A suggested time line might be:

- November 2016 — Source at least 1 more investor.
- November/December — Search for appropriate property.
- December 2016 — Conditional contract on appropriate property.
- January/February 2017 — Due diligence completed and commitment made.
- February 2017 — Sale and purchase unconditional.
- March 2017 — Final legal and accounting detail signed off.
- April 2017 — Property take over.

This timeline will need to be very fluid and will very much be dependent on achieving each step in a timely manner.

Where to from here

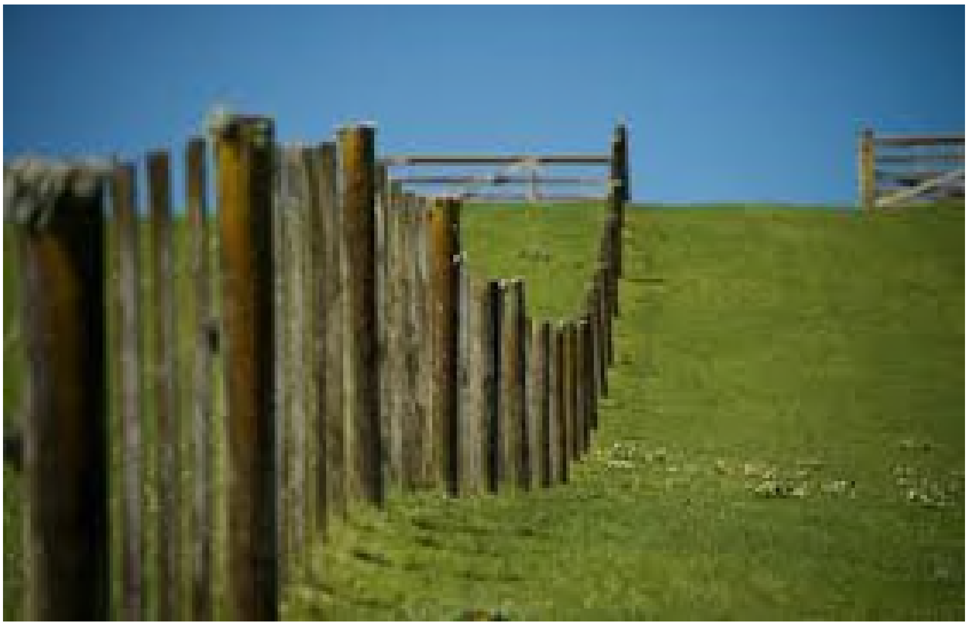
We need to circulate this memo to as wider network as possible, to gather as many interested parties as possible.

Anyone who is interested can contact either:

Peter Flannery
Farm Plan Ltd
027 615 4500
peter@farm-plan.co.nz

Andrew and Jayne Law
027 452 1167 Andrew
021 360 466 Jane
jayneys1@hotmail.com

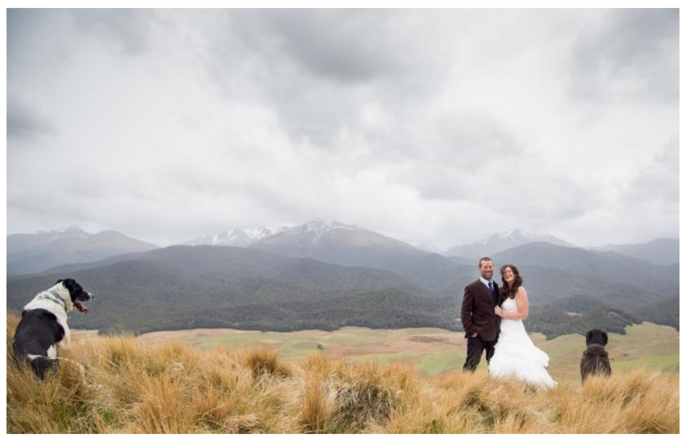
Peter Flannery
Farm Plan Ltd
Invercargill
www.farm-plan.co.nz



Andrew & Jayne Law

Lumsden, Southland

027 452 1167 or 021 360 466
Jayneys1@hotmail.com
www.aparimahorse.weebly.com



RESUME

Objective

Our next aim in life is to become an equity partner/manager of a hill or high country sheep and beef property. After managing many different properties, we are 100% ready to have a go on our own at running a complete farming business. With influence over governance and control over management we are looking forward to being fully rewarded for the results we achieve. We are flexible as to location in New Zealand and are seeking a good challenging landscape with plenty of big hills, as this is where our passion lies. Isolation does not deter us - to be tucked away in the boondocks is quite appealing! We prefer a more extensive style property, with less need for all the big machines and a more natural way of farming with what the land provides. We are passionate about farming and this is what drives us into seeking farm ownership.

Our Plan

To help achieve our objective, we are looking for a group of like-minded investors who share our vision. We seek investors who can work with us as a team to form a new company to purchase an appropriate property. The investors and ourselves will have an important part to play in the governance, vision and initial planning of the company. It will then be up to us to provide the management to achieve the vision for the benefit of all investors.

Personal Summary

We are a hard working young couple driven by a strong desire for producing top quality stock. We pride ourselves on using traditional methods of farming, the tried and true, simple and effective ways, yet believe in keeping up with technology to aid us in running a low cost, efficient operation.

We have a high standard in both the results we strive to achieve and the state of the animals, land, buildings and property maintenance. We do our very best to have something we are proud for everyone to see. Some other key things we pride ourselves in when running a farm are:

- Animal health and welfare – having healthy, happy stock that in return perform to their best ability, using good stockmanship skills to minimise stress, provide animals with adequate food and water, reasonable shelter and minimise unnecessary suffering
- Land sustainability – farm by not overstocking, protecting native trees and re-planting trees to provide natural shelter, support to the bee population, minimise erosion and protect our waterways
- Minimal machinery costs – replace motorbikes with horses, as a way to incorporate our passion for horses into everyday life, also farm on a more extensive style property with less cultivation required

And, what else is important to us?

- Running black Angus cattle and Romney sheep (obviously providing they suit the country)
- Running our small horse stud and business and being able to incorporate them into the everyday running of the farm
- Community involvement – from dog trials to pony club to bbq's with neighbours
- A place for our children to grow up that is away from the hustle and bustle, where they can have good safe old fashioned fun on the farm with us

We just purely enjoy the lifestyle and opportunities that sheep and beef farming provides.

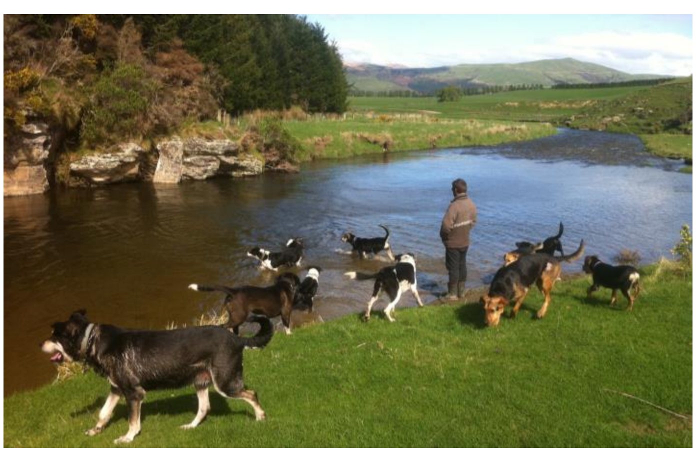
A bit more about us....

We were both raised on sheep and beef farms in Southland. Andrew's family have always leased land (leasing one property for 21 years and one for 10 years) and farmed stud stock, Romney sheep and Angus cattle with their Waimara Angus stud still running successfully, in which Andrew and his siblings are very involved with. Andrew schooled at Otago Boys High School, after completing that he took an apprenticeship as a Fitter/Welder with NZ Railways, but he couldn't wait to get back to the farm. Andrew was very successful at rowing and rugby – captaining many teams during his rugby career.

Jayne's parents are owner/managers of a large equity partnership operation – North Range, where they have been for 30years. We also now work for North Range, currently managing their 22,000 SU intensive breeding and finishing property. Jayne developed her passion for horses from her parents at a very young age and she also enjoyed hockey, netball and rugby. Jayne and siblings studied at a small rural school – Northern Southland College, after school Jayne became some-what of a jack-of-all-trades! Later studying Veterinary Nursing and practicing this for many years. She is now very involved in assisting Andrew managing the property with various computer programs, farm mapping and Cashmanager involvement.

Together we have strong family and community values, having always been involved in such things as, the local dog trials (currently Andrew is President) pony club (Jayne has been Head Instructor), shearing show (held on North Range annually), local horse events and community get-togethers, no doubt with the birth of our first child this year, that will bring more community involvement too!

Our main interests outside of the farm (however still applied on farm), are dog trialing and horses. Andrew competes successfully in dog trialing and has qualified for the NZ Champs several times now and Jayne has always competed successfully in most disciplines of equestrian. In recent years we have established a small business – Aparima Horse Services which Jayne runs. It involves training and starting young horses under saddle, children and adult horse camps for confidence and enjoyment, farm hacking and mileage, lessons and also young stock that is bred (by our stallion), broken and trained by us. Our latest venture has been a share farming agreement running 25 Angus breeding cows on a property in Clinton, Otago.



Andrew and his workmates – Cooling off!

Jayne and some of her horses!

Experience

Andrew

Manager - North Range Partnership – Lumsden – 4 years
22,000 SU sheep and beef breeding & finishing block – intensive farming system – day to day running, hiring & organising three other staff and all contractors on farm – work in conjunction with fattening block and other breeding block managers – crop, winter and pasture management – stock husbandry – stock reconciliations – monthly reports – Cashmanger

Head Shepherd – Tangihau Station – Gisborne – 3 years
60,000 SU sheep and beef breeding and finishing unit - day to day running - hiring and organising five other shepherds – stock husbandry – stock reconciliations – monthly involvement coding accounts

Manager – NZ Deer Farms, Motu Station – Tuatapere – 1 year (until farm sold)

Stock Manager – NZ Deer Farms. Haka Station – Kurow – 2 years

Various Shepherding jobs – 4 years

Fitter/Welder – NZ Railways – 3 years

Jayne

Self Employed – Aparima Horse Services – 4 years
Horse breeding, breaking/starting, training, child and adult camps – advertising – web page construction – monthly financial records – tax – invoicing

Senior Veterinary Nurse – Northern Southland Veterinary Services – Riversdale – 3 years

Kitchen Designer – Placemakers Cranford Street – Christchurch – 4 years

Casual Farm Work

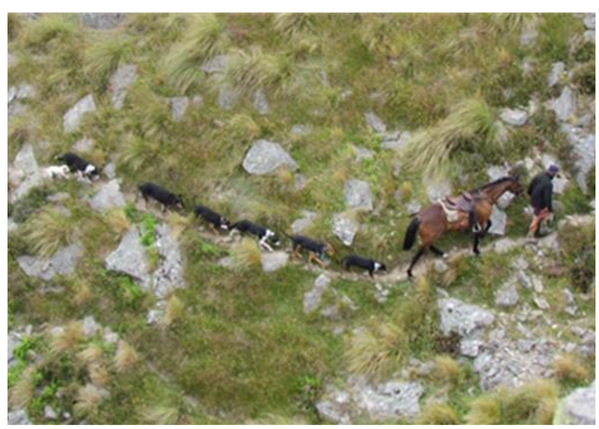
Referees

Dean McHardy – Manager at Tangihau Station - Gisborne
Phone: 06 867 0837

Barry Taylor – Partner in North Range Partnership
Phone: 03 249 7053

Peter Flannery – Farm Plan – Business Consultant
Phone: 027 615 4500

Peter O'Brien or Peter Aitken – NZ Deer Farms



September 6, 2010 TANGIHAU STATION,PRIVATE BAG 7631, GISBORNE 4072.
PHONE 06-867 0837, FAX 06-867 5043,
TANGIHAU.STATION@XTRA.CO.NZ

To whom it may concern,

Tangihau Station is a 16,200 acre sheep/cattle/deer and tourism operation situated on the East Coast of the North Island of New Zealand.

Andrew Law was employed on Tangihau Station as Head Shepherd from March 2008 to August 2010, he was responsible for organising staff and the day to day management of farm activities.

Andrew has excellent stockman ship and is exceptionally good with horses and working dogs. He is experienced in all farming and livestock practices, including stud stock and has taken every opportunity to up skill in farm related training.

Andrew proved to be completely capable, enthusiastic and a hard working member of our team.

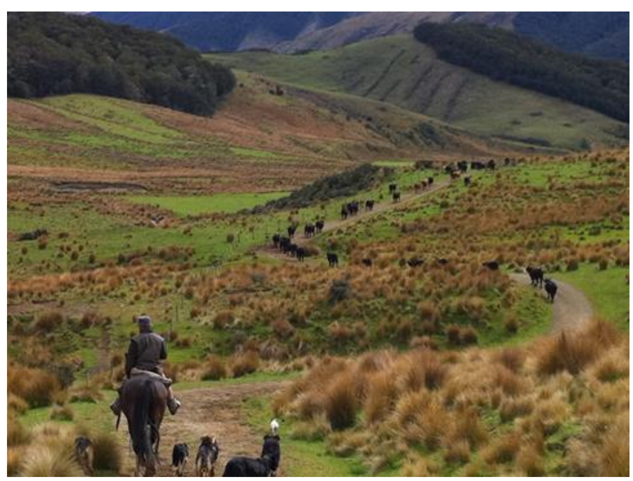
Andrew possesses integrity and is dependable. He has a strong commitment to people and is very generous of his time. He gets along with people and is a keen sportsman, representing our local rugby club for three seasons.

Andrew always wants to go the extra mile and he thrives on extra challenges. I wish Andrew every success in his future employment positions.

Please do not hesitate to contact me for further information.

Yours faithfully,
Tangihau Station.

Dean McHardy,
Manager.



Equity Partnerships – The Keys to Success

The 5 Key Elements to Success

1) People
2) People
3) People
4) Governance
5) Management
6) Other Considerations

People People People

Choosing the right people to go into business with should all be based on values.

<u>What are Values?</u>

- Values are things that each person puts a strong value on.
- They represent an individual's idea on what is right, good or desirable.
- We all have a hierarchy of values.

There is no one set of perfect values and they are formed deep within us, almost subconsciously. Our values come about through our:

- upbringing
- experiences
- culture
- friends

Your values are important because:

- Your Values influence your behaviour.
- Your behaviour influences your actions.
- Your actions influence your results.

Your values dictate your "default action or reaction", particularly when you are under pressure. Someone who places no value on honesty will revert to lying under pressure. Someone who places high value on hard work will work harder under pressure.

Having aligned values, or at least complimentary values, is the most important consideration before agreeing to go into business with someone. It will be virtually impossible to realign values after the fact. Different values are okay, and can add synergy. BUT they must be Complimentary not Adversarial. Some examples of differing values. Are they complimentary or adversarial?

Examples of opposing values – Complimentary or Adversarial?		
Wealth Creation	vs	Lifestyle
Independence	vs	Teamwork
Perfection	vs	Efficiency
Hard work	vs	Effectiveness
Developing	vs	Finishing
Saving	vs	Investment
Equality	vs	Self fulfilment
Big picture	vs	Detail

What are your values? Are your values suitable to help an Equity Partnership succeed?
What are the values of the other investors? Are their values suitable?

What Values are suited to an Equity Partnership		
Teamwork	Interdependence	Communication
Integrity	Trust	Empathy
Thoroughness	Success	Honesty
Abundance	Fun	Respect
Continuous Improvement		Empathy
What values are not suited to an Equity Partnership		
Independence	Winning	Self Importance
Developing	Spending	Confrontation
Conflict	Stubbornness	

Get alignment of values at the beginning, by selecting the right people with the right values. (Including YOU)
The single biggest cause of failure, is failure to get an alignment of values at the start.

<u>First test yourself.</u>

- What are your values?
- Are you the right person to be investing into an Equity Partnership?
- What does win/win mean to you?
- Can you work within a team, when you only have 1 vote?
- Do you have a dominating personality?
- Can you accept being outvoted?
- How do you react to surprises?
- Are you independent vs being interdependent?
- What is your purpose for investing?
- Can you leave your ego at home?
- Do you understand your own risk profile?
- Do you naturally trust people?

Then test the others.

- Are they the right people to be going into business with?
- Do they share your values and objectives?
- Could you become friends with them and or have some fun with them?
- Can they work as a team, or are their personalities dominating?
- Do they have a similar risk profile to you?

Governance

The second biggest reason for Equity Partnership failure is either a lack of good governance or at least a lack of understanding of governance.

- The Company is governed by a board of directors, appointed by the shareholders.
- The directors must act in the best interests of the Company. Not themselves.
- Governance must not interfere with Management. This is difficult to achieve when the Management team are also part of the Governing team.
- The directors should not get involved with management except at the board table.
- Just as important, management must not govern, unless they are at the board table. That is to say that the management team cannot make governance decisions in the act of managing. This point is very difficult to understand and implement.

The directors are responsible for the Company's:

- Core values.
- Purpose.
- Vision.
- Strategic plan to achieve the vision.
- Employing the Management team.
- Approval of Management plan.
- Approval of budgets.
- Review Management's performance against agreed KPIs.
- Accountable for the Company's compliance. Financially, legally, environmentally, health & safety.
- Not interfering with management.
- Dividend vs Re-investment policy.

Part of governance is having a shared set of values, purpose and vision under which the Company will conduct its business.

- Under what core values will the partnership operate under?
- Other than making money, what is the purpose of the EP?
- Other than making money, why are you investing in the EP?
- Dividends vs re investing
- Capital growth vs debt reduction
- Similar risk profile
- Similar investment terms. May have different time horizons but you must all agree to a minimum investment term.

- Is quality and pride in your investment more or less important than financial returns?
- Could you become emotionally attached to your investment?
- Do you want to grow or decrease your share over time? Do the other investors know this?
- Is this the right opportunity for you?

Governance can be particularly challenging. One of the biggest challenges is separating governance from management, particularly if there is a small group of investors and the one of the directors is also responsible for management.

Having the right governance structure and culture is vital, but should be no more complicated than necessary. Having said that, this does not mean taking a lax approach to governance. Keep it simple but keep it effective.

Management

Poor management will probably not be the reason for the failure of the Equity Partnership, unless the Board fail to act as appropriate. The management though, will make a key difference in the operational and therefore financial performance of the Equity Partnership.

The Management team must be given the scope to manage, and should not be badgered on an adhoc basis by the Governance team. The Management team must manage in accordance to an approved management plan. Any deviation from the plan needs to be agreed to by the Board. Deviations may be induced by climatic changes, financial outlook, budget changes, and capital expenditure etc.

The Management's performance needs to be judged against an agreed set of Key Performance Indicators (KPIs). Any "please explains", particularly outside of the KPIs must be handled under the guise of a Board meeting, and not an "in the paddock confrontation".

The management team may be made up of several people, including the manager (who may or may not be a shareholder), a farm supervisor, farm consultant and maybe even a fellow director.

The management team is responsible for:

- Setting the management plan in conjunction with the Board.
- Carrying out the plan.
- Accountable for the operational performance.
- Responsible for the operational risk management policy of the Company.
- Must report breaches, failures and remedial requirements to the Board.
- Complete monthly management reports to the Board.
- The difference between a good investment or a great investment.

The Management must be employed by a seperate Management Employment contract. Even if the Management are also directors of the Company, they must be employed under a contract, which will be seperate to the Shareholders Agreement.

In effect, if the Management is not performing, disciplinary procedures need to be taken, regardless of whether they are shareholders or not.

Legal Considerations

Seek good legal and accounting advice from advisors who are experienced in the field of Equity Partnerships.

The key document is the Shareholder's agreement, which will sit alongside the Company's constitution. The important points to look for in a Shareholder's agreement are:

- The term of the "joint venture". Maybe more so the minimum lock in term. This is sometimes referred to as the Sunset clause.
- Pre-emptive rights. This covers off the transfer of shares between shareholders, the rights of all parties and the process to be followed. This also covers off the exit clause.
- Dispute resolution.
- Makeup of the Board.
- Voting rights, and in particular "major transactions"

The lock in period is important to protect all investors against a change in circumstances of other shareholders, which may encourage them to want to withdraw their equity. Their circumstances may change due to:

- Death
- Illness
- Marital split
- Other opportunities

The lock in period mitigates the risk for the remaining shareholders having to find funds to buyout the shareholder who wants to exit during the lock in term. Having said that, good old fashioned communication and empathy can still be employed, and should always be the first port of call, rather than just automatically defaulting to the Shareholder's Agreement.

Other legal considerations of an Equity Partnership include

- Ownership structure. Either a Company or a Limited Liability Partnership.
- Taxation implications.
- Management must be employed under a seperate Employment Contract.
- Constitution.

Other Considerations

Apart from the key factors identifies above, there are other considerations, which are bullet pointed below

- No surprises.
- Honest and effective communication.
- People react more on <u>how</u> you say something rather than <u>what</u> you say.
- People respond to coaching rather than telling.
- The partnership needs to have clear and achievable objectives and goals.

- The partnership will need a clear and realistic plan as to how to achieve its goals and objectives.
- Accept that investing has downside as well as upside.
- Understand your investment.
- Do your homework.
- No hidden agendas.
- What contingencies exist?
- Reporting standards.
- Budgeting and variance reporting. Who is going to do it?
- Who is going to pay the bills, and run the cashbook?
- GST returns.
- Annual accounts.
- Frequency of shareholders and directors meetings.

What is the appropriate number of investors?

Advantages of more:

- More democratic.
- Conflict easier managed?
- Easier to soak up surplus shares
- More access to capital?
- More access to specialist skills?
- More balanced decision making?

Advantages of Less:

- Fewer egos.
- Less potential for conflict.
- Decision making easier.
- More control over governance.

Peter Flannery
Farm Plan Limited
June 2013
www.farm-plan.co.nz