8th November 2019

Murray Creek – Farm Sale Discussion

Hello,

At last year's AGM we agreed to look at an option of buying back shares for those who wished to exit the investment, after consideration the directors decided there was not a robust enough process to determine a fair buyback price that acted in the best interest of the shareholders and subsequently decided not to proceed with a buyback option.

We think the timing is now right to review the ownership of Murry Creek Dairy Farm and have been considering options around future ownership. This is discussed below.

We have discussed with Southern Wide Real Estate the mood of the market. Southern Wide are one of the top three real estate firms in Southland, and the most significant player in the dairy sector. The situation can be summarised as follows

Negatives:

- Zero Carbon Bill
- National water standards
- Rural banking capital constraints
- Emissions Trading Scheme
- Media's constant criticism of dairy farms
- Fonterra financial and performance issues
- Rising compliance costs - M.Bovis Levels
- Staffing of farm, big variables in performances from staff

Positives:

- Strong financial performances – payouts
- Stable NZ/US $
- Production in NZ and around the world decreasing
- No more new farms/conversions
- Cash returns are positive
- Low interest rates for borrowings
- Long term capital appreciation in land value

In the last few years in general we have seen farming returns suppressed with capital lost between livestock (M.Bovis) and Fonterra share value. The agents comment that they have seen land values showing stability in the last six months and now appear to be holding their own with a renewed interest in dairy farms. Most purchasers are looking for a positive yield on the investment.

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They commented around the likelihood of a sale. “The reality is, it is all about the price. What we have proved to ourselves and the market is, if we get the price right then we sell the farms.”
Market background:

In the peak, Southern Wide sold up to 48 farms, last year they sold 24 farms.

Currently they are marketing the following farms;

Summary of current dairy farms for sale:

Up to $5,000,000 – 22 farms for sale

$5,000,0000 - $10,000,000 – 16 farms for sale

$10,000,000 – plus – 1 farm for sale

Two farms with no specified price on them. They have suggested that 50% of these listed farms will not sell, i.e. they are not priced to meet the market. More than one third of those farms have sat on the market for more than one year.

They anticipate another 5 farms coming to market in the current selling season.

Where to from here?

Below is a summary of the Land Value, Stock Value, Production, Dividend and Net Asset Backing.

Year	Land Value	Stock Values	Production	Dividend	Net Asset Backing
15/16	9,680,000	1,871,073	372154	0	1.08
16/17	9,620,000	1,889,615	407360	505,300	1.26
17/18	9,985,000	2,271,710	408259	505,300	1.34
18/19	10,045,000	2,051,513	379,019	326,000	1.31

Currently (31 October 2019) Murray Creek has debt of $2,320,625 and the interest rate is down to 3% from 3.4%

The agent has advised a sales price range for land and buildings of $10,300,000 to $10,800,000 (subject to an inspection) which compares to the valuation figure of $10,045,000.

The directors have moved to pay dividends when able since 2016. For the 18/19 season just finished we have recommended a dividend of $326,000 which would be paid in December 2019.

My feeling is that land prices and farming net returns will rise in the medium term, however, the question is how long might this take? As well, what are investors attitude to further delay. Probably on balance we should test the market now.

Another issue we need to handle is that once a farm is put on the market the sharemilker (quite understandably) looks elsewhere to secure their future employment. Bearing in mind the quality of the current sharemilker we need to be circumspect as to how we handle a sales process.

Given the recent very good production performance of Murray Creek (last year was a difficult farming season) and with pressures on stocking rates and water usage, **the directors recommend that it is a reasonable time to list the farm for sale.**

For our sharemilker and his staff this creates uncertainty around his future, (as discussed above). For this reason, we recommend that a time limit be set for the sale to happen, at which time if a sale was not conclusive, it would be removed from the market to ensure we can attract staff for the following season.

The directors will initiate a discussion re sale at the AGM and formulate a resolution to be considered by all share holders immediately after the meeting. If a decision is made to sell and we receive a firm offer for the property within the specified period, we would bring forward another resolution (special resolution) to shareholders to accept or decline the offer.

We welcome all feedback via email to the directors to help gauge a feeling from investors that are unable to attend the AGM.

If we think the sentiment is strong for a farm sale, then we need to be mindful of the real estate agents comments, and have our price expectations developed around this – our expectation to achieve the highest possible sale price, whilst balancing the (potential) desire to complete a sale.

Regards

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