

INVESTMENT BRIEF | 21 DECEMBER 2018

CENTRAL CHERRY ORCHARD LIMITED PARTNERSHIP



MYFARM INVESTMENTS

An opportunity for wholesale investors to invest in the largest modern cherry orchard development in Central Otago. The orchard is to be developed and managed by global fresh produce exporter, Freshmax.

The investment is in Units in Central Cherry Orchard LP. Central Cherry Orchard LP is being formed to develop and own an 80 canopy hectare cherry orchard located on Waikerikeri Valley Road, Clyde in Central Otago.

This venture is in conjunction with our business partners, Freshmax. The Freshmax team will be tasked with developing, managing and exporting/marketing the fruit from the Orchard. New Zealand is a niche producer of high quality sweet cherries for the main festive season in Asia – Chinese New Year.

The Central Otago region and sector is renowned for its ability to consistently deliver fruit that is fresher, sweeter, firmer and of the highest quality as a luxury food item for this festive occasion and in other value-add formats to the broader Asian region.

The consistent high quality, New Zealand brand and value-add formats employed by New Zealand exporters results in our cherries holding a significantly higher price point. The short window of supply also provides a scarcity factor helping ensure New Zealand cherries are viewed as an exclusive novelty product. Demand for this type of product during the festive

season is virtually insatiable.

The sector is in need of development capital to reach its full potential. This is an ideal opportunity to get in at the right time and locality. The property is considered suitable for growing high quality cherries and there is preferential access to plant variety right protected and open sourced cherry trees that can be planted over the next two years.

This is serendipitous timing to invest in a region and sector that has bright growth and return prospects. While there are specific market, production, labour and development risks, partnering with the Freshmax team and engaging with the right independent experts is expected to ensure a successful development is completed, on-going management is first class to maximise returns and ensure risks are well managed.

PROJECTED ANNUAL CASH DISTRIBUTIONS

(% p.a. of Initial Contributed Capital)

FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29
0%	0%	0%	0%	0%	10%	24%	28%	31%	32%

INVESTMENT HIGHLIGHTS

- The total cost of buying and developing the Orchard is budgeted at \$249,200/cha, or \$19.9 million in total.
- The Offer is for \$13.5 million (1,350 units at \$10,000/Unit) with a minimum investment of \$100,000. The remainder will be funded by debt and cashflow from Year 6. Invested capital is to be called 70% in Year 1 and 30% in Year 4.
- The Orchard is to be designed and developed to a high specification. This will help reduce some of the key risks of producing cherries and allow high yields of export marketable product to be produced.
- Financial returns for investors are expected via:
 - Cash returns from Year 6 onwards. These are budgeted to start at 10% p.a. on contributed capital and quickly build through to 32% p.a. at mature production.
 - Producing cherries is a higher risk crop and its generally considered there will be a materially poorer harvest 1 out of every 5 years. This has not been taken into account when modelling returns – sensitivity analysis in the information memorandum cover this off.
- There is expected to be an attractive development margin for an investment of this nature, if the Orchard was sold at any point.
- Preliminary accounting advice obtained by MyFarm as part of initial due diligence investigations suggests that the investment may be tax efficient, with tax losses of around \$0.28 for every dollar invested potentially available in the development phase.
- The partly paid nature of a cherry orchard development means we can call your investment over an extended period; this plus the expected tax losses helps offset the initial wait for cash returns budgeted to start from year six.
- The Offer is only open to wholesale investors.

This offer is open to persons investing no less than \$100,000 and who fall within the exclusions applicable to offers made to "wholesale investors" as set out in Schedule 1, clause 3 of the Financial Markets Conducts Act 2013 (FMCA). You can obtain further information on FMCA requirements, and whether you come within the exclusions and their requirements at www.myfarm.co.nz/fmca

ABOUT THE PROPERTY

- The plan is to establish 72,000 cherry trees over the next three years at a density of 900 trees per hectare.
- A range of plant variety protected and open sourced cherry trees will be planted taking into account things such as: target markets, timing of harvest, size of fruit, variety ownership, fruit hardiness, storage ability, yield potential and disease susceptibility.
- This range of varieties will provide a spread in the production life cycle (i.e. flowering, fruit set, growing and ripening) and harvest period for the Orchard. This reduces production risks associated with relying on one variety and flattens the labour demand curve during the harvest period.
- An appropriate irrigation system including fertigation will be installed for the Orchard. A private irrigation scheme called the Dairy Creek Irrigation Company delivers irrigation and domestic water under pressure to the boundary. The scheme is to supply all domestic and farming water needs via an approved consent valid till 2038.
- There are a range of production risks, such as frosts, birds and rain/heat at particular times. The Orchard's favorable biophysical conditions (i.e. soils, micro climate etc); design to a high specification (i.e. bird netting and frost fans); and the experience of the Freshmax team will all help to maximise export yield potential and mitigate key risks.
- A cherry orchard is labour intensive particularly during the harvest period. Worker accommodation has been budgeted for to make an attractive destination for seasonal workers and temporary overseas workers holidaying in the popular Central Otago area.
- Fruit from the Orchard is expected to be contract packed through a number of postharvest facilities in the Clyde or Cromwell area that Freshmax presently work with. Freshmax, and its subsidiary company Valley Fresh, will export/market the fruit. They currently market 14% of New Zealand cherry exports.



RISKS

- Investments in managed investment schemes are risky. The most significant risk factors are:
- Market risk – The Orchard is targeting a high yield of export marketable fruit mainly for the Chinese New Year festive season. Given the perishable nature of cherries and specific market window being targeted, any downturn or market disruption at the wrong time of year would materially affect returns.
- Production risk - There are a range of production risks, such as frosts, birds, wind, hail, rain and disease at particular times during the production lifecycle that can negatively impact on the quality and quantity of fruit produced.
- Operating costs - A cherry orchard is labour intensive with 80-90% of its operating costs directly linked to labour expenditure. Much of this is associated with picking and packing of fruit, which is completed in a very short window. This means labour availability and cost are critical
- Development risk – The Orchard is a bareland development with unproven performance. The cost of key inputs could be higher than those budgeted for.
- Reliance on Freshmax – Freshmax will be tasked with the development, management and exporting of fruit from the Orchard. So their performance in these areas will be important.

INVESTMENT STRUCTURE

- The investment is in Units in Central Cherry Orchard LP. As a Central Cherry Orchard LP unitholder (Unitholder), you will become a limited partner in Central Cherry Orchard LP
- The MyFarm Investments division is the Offeror and the MyFarm Business division is the manager (“Manager”) of the Partnership.
- Central Cherry Orchard GP Limited is the General Partner providing oversight of the investment and will be governed by Grant Rowan and Brian Cloughley of MyFarm and an independent director to be appointed.



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