Taratahi Agricultural Training Centre
Financial Appraisal - Phase 1

Strictly private and confidential

31 October 2018

pwc

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Subject: Taratahi Agricultural Training Centre (Wairarapa) Trust Board

We are pleased to report on Phase One of our financial appraisal of Taratahi Agricultural Training Centre (Wairarapa) Trust Board ("Taratahi") in accordance with our contract dated 11 October 2018.

This report has been prepared for the TEC, the Secretary for Education and the Minister of Education for the purposes of a financial appraisal of Taratahi and should not be relied upon for any other purpose, nor should it be provided to any other party without our consent.

This report is strictly confidential. Unless described in the contract or as expressly agreed by us in writing, we accept no liability (including for negligence) to anyone else in connection with this report. This report should be read subject to the restrictions set out in Appendix 1.

We look forward to discussing the report with you.

Yours sincerely

PricewaterhouseCoopers

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Executive Report

Background - Taratahi provides agricultural education and training throughout New Zealand, with its head office and core asset base in Masterton and Wairarapa. Taratahi delivers education through its own on-farm training, combining both commercial operations and tertiary level education and training.

Taratahi Agricultural Training Centre (Wairarapa) Trust Board is established as a body corporate under the Taratahi Agricultural Training Centre (Wairarapa) Act 1969. It is registered as a "charitable entity" under the Charities Act 2005, is a "public entity" for the purposes of the Public Audit Act 2013 and is also a "registered private training establishment" for the purposes of the Education Act 1989.

Taratahi has a complex corporate and legislative structure that creates a major constraint on available future options for the organisation. We are advised that having assets and operating models structured around multiple trusts (Telford and Taratahi) creates duplicate and unnecessary costs.

In July 2017, Taratahi took over Lincoln University's Telford Division, purchasing the buildings and assets located on the Telford Farms while leasing the farms from the Telford Farm Board (established under Telford Farm Training Institute Act 1963).

Overall, Taratahi has reforecast delivery to 633 EFTS in FY2018, with a deficit of $4.6m ($3.2m at an EBITDA level). Management now advise that delivery will likely be closer to 555 EFTS. The Deloitte financial model forecasts a $1.1m deficit (delivering 663 EFTS) in FY2019, with breakeven not achieved until FY2021.

Management are presently undertaking cost saving initiatives to "right-size" the organisation.

Westpac New Zealand Limited ("Westpac") is owed $12.6m (term debt, borrowing facility and overdraft) Section 9(2)(b)(ii) and 9(2)(j) Management of the debt has recently been transferred to Westpac's Loan Administration Group which deals with underperforming exposures. Taratahi is actively reviewing options to sell the Mangarata farm mortgaged to Westpac to reduce debt and provide working capital.

***PwC view** – Taratahi is facing cash flow challenges due to lower EFTS, with 2018 under-delivery of between $7m - $8m expected. In addition to its Westpac debt of $12.6m, Taratahi forecasts year end debt of c$6m to TEC following clawback. This is in addition to legacy debt of $4m (initially $8.6m) for historical under-delivery.*

PwC has been engaged to carry out a financial appraisal and options analysis. Our scope of work has been divided into threes phases:

Phase One: Assessment of current position

Assess forecast short-term cash requirements to 31 December 2018.

Complete an estimated outcome statement for the various stakeholders of the business on the base case of a wind-down that enables consideration of alternative options to be assessed against.

Phase Two: Modelling savings options and asset sales

Consider the cash saving initiatives and asset sale options available to Taratahi and quantify them. The outcome of this is to identify if there are any options that are financially viable and sustainable for Taratahi.

Analysis of cash saving initiatives and assumptions.

Complete sensitivity analysis (including downside scenarios which impact on revenue or increase costs) using the Deloitte financial model recently completed.

Consider any other material aspects that may arise during the review.

Phase Three: Consider more extensive change options

Consider the options available for achieving more far reaching change to the delivery model (e.g. exiting residential delivery, consolidating sites, partnerships, sub-contracting etc.).

Consider options involving direct Crown support, incorporating legal advice on ownership structure, legal framework and funding.

Consider any other material aspects that may arise during the review.

Cashflow – Taratahi faces significant cashflow concerns. Taratahi expects to operate within facility limits throughout the period 1 October 2018 to 31 December 2018, however, this is reliant on continued funding from TEC in November and there is very little room for adverse outcomes for anything else unforeseen to occur.

***PwC view** – Taratahi's available cash becomes very constrained towards the end of each month and will require careful management of creditor terms. If forecast income is not achieved, Taratahi will have to either defer creditor payments or rely on continued TEC funding (at the expense of December 2018 repayment for under-delivery)*

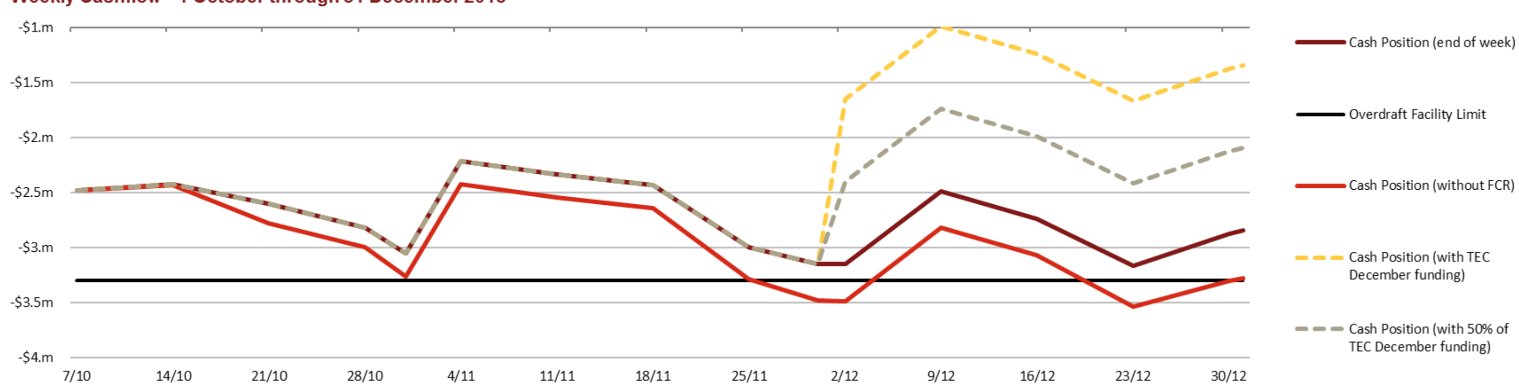
Management has provided a weekly cashflow forecast as summarised in the graph below. The forecast outlines limited available headroom for variances or future 'shocks', such as delayed timing of livestock receipts or Full Cost Recovery ("FCR") income (detailed over page) not being achieved. We note that enrolments for FCR training of corporate and international students (included in the cashflow) are not yet secured.

Management has limited capacity to manage liquidity if cash flows (primarily income streams) do not eventuate as expected (in respect to both quantum and timing) outside of managing creditor payments. Despite only 64% of trade creditors being current, Management advise that Taratahi is operating within agreed payment terms.

Taratahi Agricultural Training Centre (Wairarapa) Trust Board
Aged Payables as at 30 September 2018

$'000	Total	Share
Current	1,095	64%
August	422	25%
July	157	9%
June	33	2%
Older	(3)	0%
Total	**1,705**	**100%**

Weekly Cashflow - 1 October through 31 December 2018



Ongoing TEC funding at the start of each month is critical to Taratahi's ability to meet monthly operating costs. Taratahi has not forecast TEC funding of $1.5m in the month of December 2018, which will result in Taratahi breaching overdraft facility limits if FCR income is delayed or not achieved.

Section 9(2)(b)(ii) and 9(2)(j)

For illustrative purposes we have sensitised the impact of removing the FCR income. This has the impact of triggering multiple breaches of overdraft facility limits from December 2018. The impact of TEC continuing funding in December 2018 has also been sensitised.

FY2019

Deloitte has completed a financial model to 31 December 2021. While review of the model is outside the scope of Phase One, we note that the model forecasts a breach of the current overdraft facility limit in October 2019. Prior to that month, Taratahi forecast to remain within existing facility limits based on this model.

Cashflow (cont.) – Taratahi has forecast a cash surplus of $330k over the period 1 October through 31 December 2018, with a closing available cash balance of $455k. This includes continued funding from TEC of $3.3m and livestock sales of $3m during the period 1 October to 31 December 2018.

PwC view – *There is significant risk of not achieving FCR income forecasts. Further, the timing of livestock sales aligning with forecast is critical as they comprise a significant portion of Taratahi's income over the period.*

Taratahi's forecast cash flow excludes the December 2018 investment plan funding from TEC of $1.5m, which Management assume will be utilised as an in-plan adjustment for under-delivery in 2018. There is no capacity to make further repayments to TEC towards the $7m under-delivery during 2018, with the December 2018 in-plan adjustment only viable if all the other forecast receivables and payables are achieved.

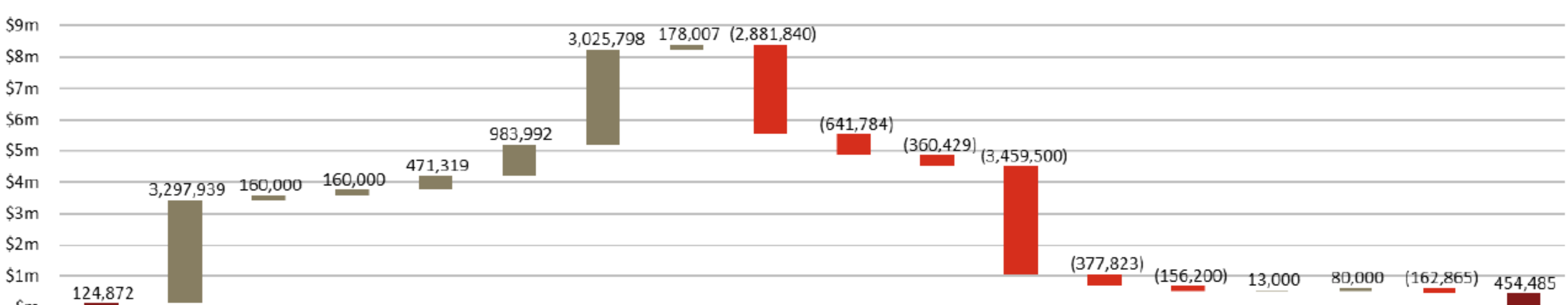
Most at risk is "User Pays, Corporate & International" (FCR) income of $471k as enrolments of students for the training are not yet secured. If this is not achieved, Taratahi is unlikely to be in a financial position to continue operations with the December 2018 in-plan adjustment.

Livestock sales of $3m (including GST) are forecast for Q4, with residual sales of $920k (including GST) expected to be finalised by the end of April 2019. These sales reflect normal trading stock to be sold at projected market values (and not capital stock sold)

Trade creditors, lease payments and payroll comprises the majority of forecast expenditure in Q4. These amounts align with previous periods and are relatively 'fixed' and certain.

No capital expenditure is included within the cashflow forecast, however, Management advises that $1m is urgently required for ICT and infrastructure.

Cash Inflows and Outflows - period 1 October - 31 December 2018



[redacted]
Section 9(2)(b)(ii) and 9(2)(j)

Estimated Outcome Statement – The book value of Taratahi's assets on the balance sheet as at 30 September 2018 totals $42m. The majority (in realisable value) of Taratahi's assets have recent valuations (land and buildings) or market values available (i.e livestock and shares). Assets 'available' Section 9(2)(b)(ii) and 9(2)(j) [redacted]

Taratahi's Estimated Outcome Statement (EOS) provides a base case that enables consideration of alternative options to be assessed against. This is outlined in the table opposite. EOS assumes Taratahi ceases trading and conducts a controlled wind-down (most likely through liquidators) and is based on asset realisations and liabilities using the 30 September 2018 figures.

Section 9(2)(b)(ii) and 9(2)(j)

[redacted]

Section 9(2)(b)(ii) and 9(2)(j)

[redacted]

Estimated Outcome Statement (cont.)

Section 9(2)(b)(ii) and 9(2)(j)

[redacted]

Estimated Outcome Statement (cont.)

Section 9(2)(b)(ii) and 9(2)(j)

[redacted]

Estimated Outcome Statement (cont.)

Section 9(2)(b)(ii) and 9(2)(j)

[redacted]

Estimated Outcome Statement (cont.)

Section 9(2)(b)(ii) and 9(2)(j)

[redacted]

Appendices

Restrictions

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Taratahi. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.

The statements and opinions expressed in this report are based on information available as at the date of the report. We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

We have relied on forecasts and assumptions about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

Glossary

Term	Definition/Meaning
Deloitte financial model	Deloitte financial model for Taratahi to 31 December 2021
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EOS	Estimated Outcome Statement
FCR	Full Cost Recovery
FYXX	Financial year ending 31 December 20XX
p.a.	Per annum
PPSR	Personal Properties Security Register
Q1/2/3/4	Quarters ending 31 March, 30 June, 30 September and 31 December, respectively
Taratahi	Taratahi Agricultural Training Centre (Wairarapa) Trust Board
Telford Farm Board	Trust Board established through Telford Farm Training Institute Act 1963
TEC	Tertiary Education Commission
YTD18	Year to date to September 2018
Westpac	Westpac New Zealand Limited