Taratahi Agricultural Training Centre
Financial Appraisal - Phase 2

Strictly private
and confidential
Draft

14 November 2018

pwc

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Status of draft

Our work is not complete and as a result this draft report may not represent our final findings or conclusions. Amongst other things, the following matters remain outstanding:

As a result, this draft report should not be relied upon by anyone for any purpose whatsoever.

[redacted]

Investment Manager
Tertiary Education Commission
9/44 The Terrace, Wellington 6011

[redacted]

John Fisk
Partner
john.fisk@pwc.com
T: +64 4 462 7486
M: +64 21 492 052

Subject: Taratahi Agricultural Training Centre (Wairarapa) Trust Board

We are pleased to report on Phase Two of our financial appraisal of Taratahi Agricultural Training Centre (Wairarapa) Trust Board ("Taratahi") in accordance with our contract dated 11 October 2018 and revised scope of work following your email dated 7 Novemeber 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 is a draft report. The comments in this draft report are subject to amendment or withdrawal. Our definitive findings and conclusions will be those set out in the final report.

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

PricewaterhouseCoopers
10 Waterloo Quay
Wellington, 6140
T: +64 4 462 7000

Executive Report

Executive Report		**4**
1	Background	5
2	Cashflow FY2018	6
3	Cashflow FY2019	8
4	Estimated Outcome Statement	9
5	Deloitte Financial Model (Assumptions)	10
6	Financial Performance FY2019	11
7	Financial Performance FY2020	12
8	Financial Support Required	13

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 675 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, with a deficit of c$7m.

Westpac New Zealand Limited ("Westpac") is owed $12.6m [redacted] 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.

Management continue to undertake cost saving initiatives to "right-size" the organisation.

***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) relating to 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 of our work was provided on 31 October 2018.

Recent further deterioration in financial performance due to reduced EFTS for end 2018 and 2019 means that incremental structural change to Taratahi may no longer be sufficient to achieve a viable and sustainable organisation. More radial change may be required. Accordingly, the scope of our work in Phase 2 has been amended to cover the following:

- Update the Estimated Outcome Statement to include analysis on the level of financial support (using the Deloitte financial model) required to ensure Taratahi's survival through FY19 and FY20.
- Update on Taratahi's cash position for December 2018 and 2019 (if available).

We note that required change could involve a change of ownership, however, this will be addressed in Phase Three together with analysis of 2018 expenditure relative to the funding received.

Cashflow FY2018 – Taratahi faces significant cashflow pressures. Management has updated the cashflow forecast since our Phase 1 report. Taratahi still expects to operate within facility limits throughout the period 11 November to 31 December 2018, however, this is reliant on continued TEC funding to achieve this, specifically December funding.

PwC view *– Management now advise that the December funding payment from TEC is required due to timing concerns regarding other receipts. Accordingly, no repayment for under-delivery in FY2018 is forecast to be achieved.*

Management has provided an updated weekly cashflow forecast as summarised in the graph below. The updated forecast assumes receipt of TEC funding in December 2018 and increased receipts from livestock sales of $410k due to sales brought forward from 2019. Accordingly, the year end cash position improves.

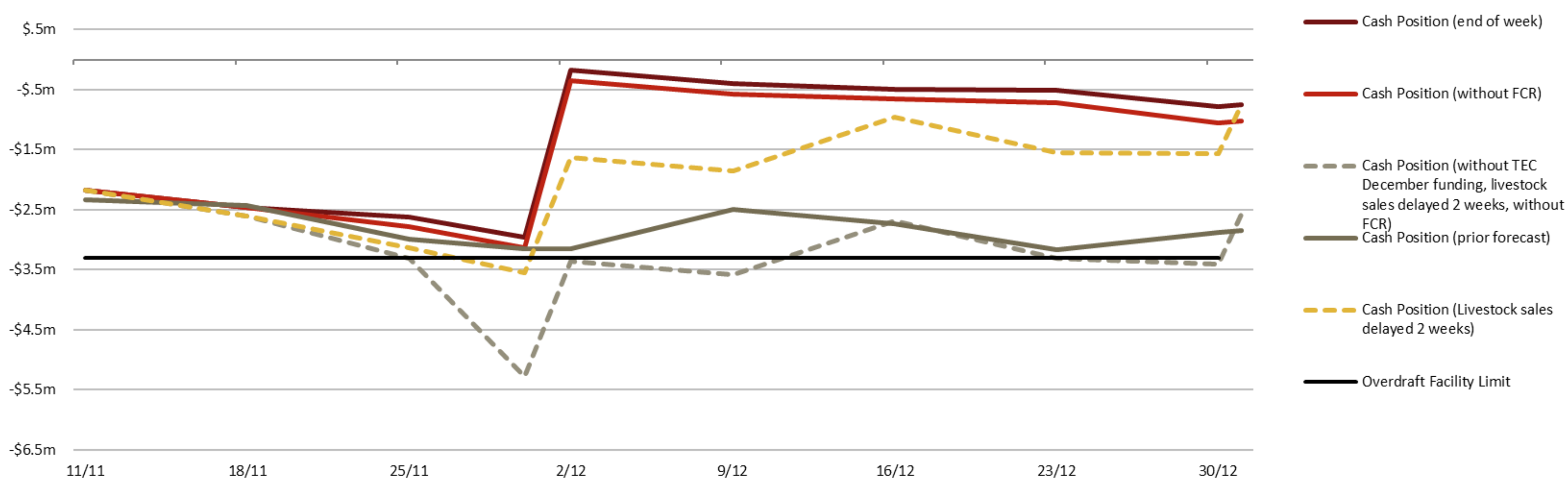
The forecast indicates that Taratahi still requires the TEC funding of $1.5m in the month of December 2018. If this payment is not made, the forecasts show Taratahi will breach its overdraft facility limits.

Management advise that Taratahi is operating within agreed payment terms with its creditors.

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

For illustrative purposes we have sensitised the impact of removing the FCR income, timing of livestock receipts and TEC funding in December 2018, as depicted in the graph below.

Weekly Cashflow - 11 November through 31 December 2018



Cashflow FY2018 (cont.) – Taratahi has forecast a cash surplus of $1.3m over the period 1 October through 31 December 2018, with a closing available cash balance of $2.6m. This includes continued funding from TEC and livestock sales of $3.2m during the period 11 November to 31 December 2018.

PwC view – *There is significant risk of not achieving FCR income forecasts due to it not yet being secured. However, the outstating 'at risk' quantum to be achieved has been reduced significantly from $471k to $294k since our Phase 1 report following $169k of delivery in October.*

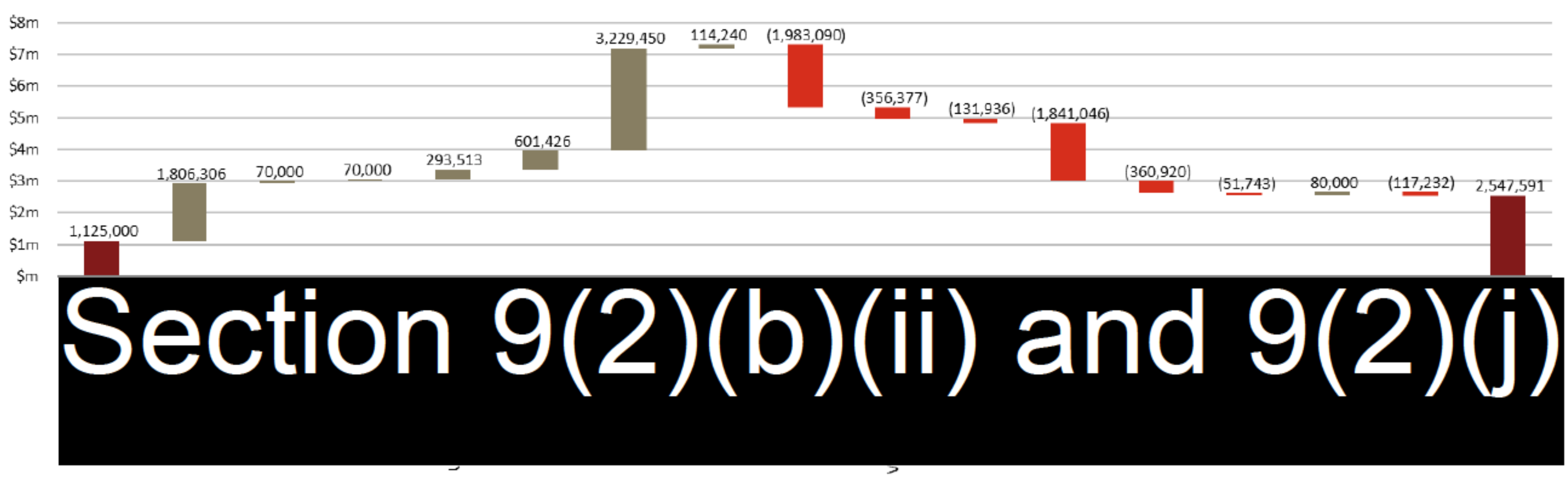
Management advise that there is now no capacity to make repayments to TEC to address the expected $7m-$8m under-delivery during 2018 nor to make any payment towards historical under-delivery debt.

Livestock sales of $3.2m (including GST) are forecast for the remaining of Q4, with residual sales of $320k (including GST) expected to be finalised by the end of March 2019. $207k of livestock sales have been achieved since 1 October 2018. These sales reflect normal trading stock to be sold at projected market values (and do not include the sale of any capital stock sold).

Trade creditors, lease payments and payroll comprises the majority of forecast expenditure. 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 and $2.3m in total is needed over the next 24 months.

Cash Inflows and Outflows - period 11 November - 31 December 2018



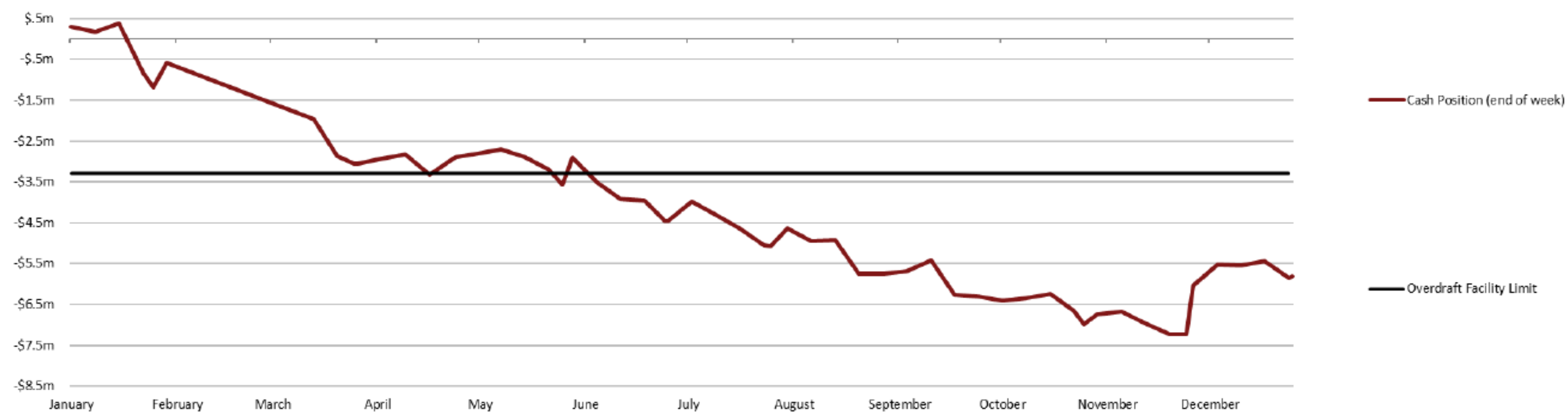
[redacted]

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

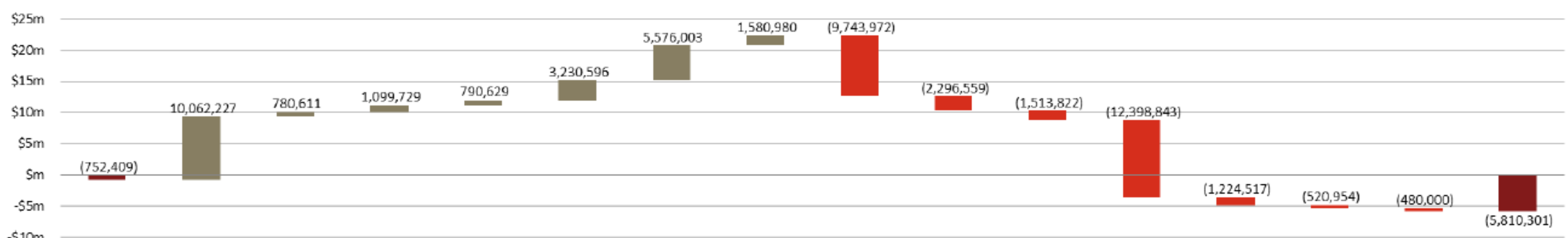
Cashflow FY2019 – Management's cashflow forecast for FY2019 shows that Taratahi's cash balace reduces by $5.06m, however, this does include $480k of TEC debt repayment. This cashflow includes education delivery of 550 EFTS and the sale of Mangarata (proceeds from the sale or interest costs savings are not included in the cashflow).

PwC view *– Taratahi has limited options available to manage the cash requirements in 2019. Educational delivery of 550 EFTS is not at a sufficient level to cover the cost base (despite significant savings forecast to be achieved), and further funding of approximately $7.5m (peak debt in December 2018) will be required to cover the operating deficit.*

Weekly Cashflow - 1 January through 31 December 2019



Cash Inflows and Outflows - period 1 January - 31 December 2019



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

Updated Estimated Outcome Statement – The book value of Taratahi's assets on the balance sheet as at 30 September 2018 totals $42m. The EOS assumes Taratahi ceases trading and conducts a controlled wind-down (most likely through a liquidation process).

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 and are based on asset realisations and liabilities using the 30 September 2018 figures.

Please refer to our Phase 1 report for detailed commentary on the table opposite, however, the following updates have been made in our Phase 2 report:

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

[redacted]

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

[redacted]

Deloitte Financial Model (Assumptions) – Deloitte was engaged by Taratahi to complete financial modelling for FY19, FY20 and FY21. We have updated the base-line FY18 figures with actuals to 31 October 2018 and used updated outputs in our analysis.

***PwC view** – We have analysed FY19 and FY20 Budget adjusted for scenarios including; Taratahi in its current state, on the basis of Mangarata being sold, and without Teford. On all scenarios, Taratahi incurs an operating deficit on an EBITDA basis*

We note the following key assumptions from the Deloitte Financial Model (incorporating updates from Taratahi):

Education

- Updated EFTS forecast (October 2018) from Taratahi of 550 (FY19) and 586 (FY20).
- SAC per EFTS of $10.9k in FY19 and $11.1k in FY20, Course fee per EFTS of $2.9k in FY19 and $3.0k in FY20. 1% increase in SAC funding income p.a and 2% increase in tuition fees p.a.

EFTS per location	*FY19*	*FY20*
Northland	67.08	68.08
Auckland	21.20	21.50
Waikato	44.90	47.90
Hawkes Bay	26.50	26.50
Taranaki	49.33	65.08
Wairarapa Incl CNIDA	144.98	150.63
Canterbury	0.00	0.00
Southland	54.70	54.70
Telford	141.50	152.00
Total	**550.18**	**586.38**

- Education direct expenses decrease by 1.5% annually compared to base-line FY18. Model assumes a fixed cost base up to 743 EFTS, following which, variable costs per EFTS are calculated.

Farms

- Based on forecast of all farms combined (excluding Mangarata) for revenues and expenses provided by Taratahi (See PwC assumptions below).

Corporate Overheads

- Overhead expenses allocated between Education (83%) and Farms (17%), decreasing by 1.5% annually form base-line FY18. When comparing educational delivery sites and farm locations, corporate overheads have been allocated on a revenue basis (which is also representative of EFTS for education delivery). This method does not make allowance for a minimum level of fixed overhead. This allocation should be considered for indicative purposes with detailed overhead analysis required for increased accuracy.

PwC assumptions

- Cost savings (all in Education) provided by Taratahi are allocated to specific locations, with the residual on a proportional cost basis. These have not been assessed as achievable or not in Phase 2.
- Farm revenues and expenses updated and based off FY18 performance as a forecast on an individual farm basis for FY19 and FY20 was not available. No growth in revenue or expenditure.

Scenarios

- **Scenario 1** –Current farming and educational delivery sites, including Mangarata.
- **Scenario 2** - Current farming and educational delivery sites, excluding Mangarata.
- **Scenario 3** - Current farming and educational delivery sites, excluding Telford
- **Scenario 4** – Consolidating farming and educational delivery to Telford, ceasing operations on all other sites.
- **Scenario 5** – Consolidating farming and educational delivery to the Home Farm, ceasing operations on all other sites.

Financial Performance FY2019

Taratahi - Education Profit and Loss, FY19

$000	S1 - Status quo	S2 - w/o Mangarata	S3 - w/o Telford	S4 - Telford only	S5 - Home farm only	S6 - Home farm, Ballan-trae, Glenside and Tautane
Total revenue	12,907	12,907	9,484	3,474	3,267	3,267
Total expenses	(11,824)	(11,824)	(8,486)	(3,339)	(2,921)	(2,921)
EBITDA before overheads and cost savings	**1,083**	**1,083**	**998**	**136**	**346**	**346**
Overheads	(6,834)	(6,834)	(6,834)	(1,839)	(1,730)	(1,730)
EBITDA before cost savings	(5,751)	(5,751)	(5,836)	(1,704)	(1,384)	(1,384)
Cost savings	2,938	2,938	2,938	576	699	699
EBITDA	**(2,813)**	**(2,813)**	**(2,897)**	**(1,128)**	**(685)**	**(685)**

Taratahi - Farms Profit and Loss, FY19

$000	S1 - Status quo	S2 - w/o Mangarata	S3 - w/o Telford	S4 - Telford only	S5 - Home farm only	S6 - Home farm, Ballan-trae, Glenside and Tautane
Total revenue	7,767	7,201	5,516	2,252	1,273	4,973
Total expenses	(6,574)	(6,158)	(4,789)	(1,785)	(890)	(4,291)
EBITDA before overheads and cost savings	**1,193**	**1,043**	**727**	**467**	**383**	**682**
Overheads	(749)	(749)	(749)	(217)	(123)	(479)
EBITDA before cost savings	445	295	(22)	250	260	203
Cost savings	-	-	-	-	-	-
EBITDA	**445**	**295**	**(22)**	**250**	**260**	**203**
Combined EBITDA	**(2,368)**	**(2,518)**	**(2,919)**	**(878)**	**(425)**	**(482)**

Financial Performance FY2020

Taratahi - Education Profit and Loss, FY20

$000	S1 - Status quo	S2 - w/o Mangarata	S3 - w/o Telford	S4 - Telford only	S5 - Home farm only	S6 - Home farm, Ballantrae, Glenside and Tautane
Total revenue	13,841	13,841	10,196	3,708	3,600	3,600
Total expenses	(11,647)	(11,647)	(8,358)	(3,289)	(2,877)	(2,877)
EBITDA before overheads and cost savings	**2,194**	**2,194**	**1,838**	**419**	**723**	**723**
Overheads	(6,731)	(6,731)	(6,731)	(1,803)	(1,751)	(1,751)
EBITDA before cost savings	(4,537)	(4,537)	(4,894)	(1,384)	(1,028)	(1,028)
Cost savings	3,006	3,006	3,006	594	716	716
EBITDA	**(1,531)**	**(1,531)**	**(1,888)**	**(789)**	**(312)**	**(312)**

Taratahi - Farms Profit and Loss, FY20

$000	S1 - Status quo	S2 - w/o Mangarata	S3 - w/o Telford	S4 - Telford only	S5 - Home farm only	S6 - Home farm, Ballantrae, Glenside and Tautane
Total revenue	7,767	7,201	5,516	2,252	1,273	4,973
Total expenses	(6,574)	(6,158)	(4,789)	(1,785)	(890)	(4,291)
EBITDA before overheads and cost savings	**1,193**	**1,043**	**727**	**467**	**383**	**682**
Overheads	(737)	(737)	(737)	(214)	(121)	(472)
EBITDA before cost savings	456	306	(11)	253	262	210
Cost savings	-	-	-	-	-	-
EBITDA	**456**	**306**	**(11)**	**253**	**262**	**210**
Combined EBITDA	**(1,075)**	**(1,225)**	**(1,898)**	**(537)**	**(51)**	**(103)**

Financial Support Required – Taratahi requires $28.5m of financial support to provide ongoing delivery throughout FY19 and FY20 on the basis that all liabilities, including TEC and Westpac debt is repaid at December 2020. If 'at risk' cost savings are not achieved this amount increases to $32.6m.

***PwC View –** Continued operations through FY19 and FY20 erode Taratahi's asset base and generates further liabilities that are* [redacted] Section 9(2)(b)(ii) and 9(2)(j) *Without confirmed financial support, Taratahi is unlikely to be in a position to continue operating.*

We have been asked to estimate the level of funding required to keep Taratahi operating for the next two years (before radical restructuring). The table opposite details the total estimated level of financial support to ensure trading throughout FY19 and FY20 continues at budget levels whilst the TEC and Wetpac debts are repaid and identified capital expenditure is incurred.

Assumptions:

- Based on Status Quo scenario
- Trade liabilities and trade assets as at 30 September 2018 are assumed to be similar to those as at 31 December 2020 and no redundancy or other restructuring costs are incurred.
- TEC Debt includes $8m at 30 September 2018 plus the October, November and December 2018 funding payments totalling $4.68m.
- Capital Expenditure totals $1.7m in FY19 and $0.6m in FY20, includes facilities and necessary ICT investments .
- Analysis excludes expenditure relating to the transition of students to another provider or the educational provision to another provider.
- Note that if teaching of current students was completed in FY19 and FY20, and no further enrolments for courses and programmes past that period were accepted then deficits generated in FY19 and FY20 would likely increase (as a portion of the new students forecast could not be enrolled in multi-year courses).

Cash requirements to continue operations to FY2020 (status quo)

$'000	Total
TEC Debt	(12,713)
Westpac Debt	(12,611)
Movement in available cash at bank at 31 December 2018	2,547
FY2019 EBITDA	(2,368)
FY2020 EBITDA	(1,075)
Capital Expenditure	(2,321)
Total required financial support	**(28,541)**
Cumulative adjustment if 'at risk' costs savings are not achieved	(4,096)
Total required financial support	*(32,637)*

Whether Taratahi can become financially independent beyond FY20 is uncertain without substantial further restructuring. The Trust Board should consider its liability if ongoing support is not secured.

We note other restructuring options have not been quantified in this report, including the funding required to maintain the status quo for one year whilst other options are considered.

Appendices

Appendices **14**

1 Restrictions 15

2 Glossary 16

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