

AgLetter

26th September 2015

“Well Bugger Me!”

Just when everyone felt they were locked in and being dragged into an El Nino summer, we get the big rain! A great morale booster, and reminder that a well-placed rain can be a game-changer. The same could happen over the summer. The east coast North Island copped most of it, with 150-250 mm in Gisborne, 130-200 mm in Hawkes Bay and 120-200 in Wairarapa. The Manawatu had 25-60 mm but eastern Rangitikei got 120-140 mm (with snow!). Rainfall in Marlborough and North Canterbury ranged from 30-100 mm with Cheviot getting 75 mm but bugger all falling inland at Hawarden where they really needed it. Southland has had a great week with no wind, no rain and the sun shining bright. Great lambing weather. Still too wet to get the tractors out though, with the water table just below the surface.

Equity Partnerships
Agri-Womens' Development Trust

Animal Health Notes

Vet Services (HB & Wairarapa) suggest that if you're off-loading some wet dries, check your withholding times if you used injections or capsules in particular. There also a chance that some may have been inadvertently given an oral drench at docking too. They will they need to wait two weeks before trucking, to be sure.

Watch out for outbreaks of Ostertagia, especially in younger cattle that have not had a recent drench or have been more or less set stocked over winter. You won't get much warning: okay today, half dead tomorrow. Keep an eye on them.

Don't use any injectable copper at the same time as injectable drenches. Some farmers get away with it but we wish that they wouldn't do it. There won't be just one death, there will be many.

Store Prices

Predictably, prices for the better hoggets and ewes with lambs lifted at Feilding on Friday. Most of the ewes+lambs were over \$70 a/c and the better hoggets lifted \$10/head. This was across a yarding of only 4000 sheep. 2yo steers recovered the ground lost in the last couple of weeks, lifting 10-15c/kg to \$3.35-\$3.44 for the better cattle and \$3.15-\$3.20 for others. 2yo heifers and bulls and yearling steers were steady. Yearling heifers dipped by 5-10c/kg and yearling bulls lifted by 5c/kg to 3.05-\$3.20. In Canterbury sales, ewes+lambs lifted \$2-3/head and 2yo steers lifted 10c/kg.

Export Pricing

With the dairy payout lifting and manufacturing cow numbers dropping off, there's a bit more upward pressure on procurement prices for bull (\$5.75-\$5.80). On the other side of the ledger, the US 95CL imported price has weakened by 6c/kg which is having the opposite effect. Lamb operating prices continue to firm (\$6.20 NI, \$5.80-\$6.10 SI)

Silver Fern Farms / Shanghai Maling

Everyone's got an opinion on this. There are a number of SFF shareholders who are fearful of a dilution of control. A majority however seem to accept that there aren't too many alternatives and that this is in fact an exceptional opportunity to turn a weak company into a very strong one, to the benefit of the whole meat industry. The Alliance Group appears to be the loser in all this, having gone from being the "Hunter" to the "Hunted", and being marginalised with a limited market share and species mix.

AT A GLANCE		-2 weeks	-1 week	This Week	Trend	Change
Store Lambs 2015	(35-40 kg)	\$2.60-\$2.70	\$2.60-\$2.70	\$2.70-\$2.80	↑	+10c
Export Lamb		\$5.85-\$5.95	\$6.00-\$6.10	\$6.20	↑	+10c
Yearling Store Steer		\$3.15	\$3.15	\$3.20	↑	+5c
P2 Steer	(295 kg)	\$6.10	\$6.10	\$6.10	=	
Bull	(295 kg)	\$5.70	\$5.70	\$5.70-\$5.80	↑	+5c
Local Trade Beef (220 kg)		\$6.10	\$6.10	\$6.10	=	
Strong Wool Indicator		588	602	602	=	
90-day Bill Rate		2.85%	2.84%	2.84%	=	
US Bull Price (c/lb US)		250	254	248	↓	-6c
\$NZ/£UK		0.4090	0.4100	0.4170	=	
\$NZ/\$US		0.6315	0.6392	0.6325	=	

Equity Partnerships

Background

Rabobank and B+LNZ have been running some very good workshops on Farming Options and Equity Partnerships. This has been in conjunction with the Red Meat Profit Partnership, of which Rabobank and B+LNZ are partners. These workshops have been popular and well-attended, both by those at the beginning of their career looking to gain a stake in a business, and by farm business owners who are looking for a successor for the management role in their business.

Equity Partnerships are a concept that appears to be “coming of age” in our sector. People are becoming more comfortable with the notion of sharing equity and being more dependent on each other in a business sense.

Two Case Studies

The main part of the seminar focussed on case studies of two EP's that have recently been established in the Wairarapa. George and Sarah Tatham have an EP with Tom and Amanda Bowie at Homewood, and Jack Hodder and Toni McWhinnie have an EP with Sully and Katie Alsop at Wainuioru. Both of these Partnerships have been running for less than 2 years and are still in their “honeymoon” period.

There is a lot of advice around about EP's. The following are some of the key points that came out of this forum:

Some Key Lessons

Get Yourself Noticed

If you're an experienced stock manager/manager and you aspire to business ownership, you've got to build a track record and get yourself known in the industry. Put yourself out there, build a strong CV and reputation, build a network of contacts and be constantly on the lookout for opportunities. If it's not happening for you, make it happen.

Getting Hooked Up

EP's are formed in all sorts of ways:

- i. A land owner will be seeking an equity partner from the get-go.
 - ii. A manager will be appointed with the stated intention of an EP being formed after a period of time.
 - iii. In the case of both of these case studies, the EP option wasn't on the agenda when the employment started, but evolved as an option.
- In many ways, this last option is the easiest way to start in because the expectations are simpler (i.e. employer-employee relationship), and the parties can size each other up without the pressure of an “arranged marriage”.
 - The first two options are a more of a pressure-cooker situation, where the relationship and performance are under the spot light more. In these scenarios, the parties need to do a lot more homework before the employment commences. There's a greater risk here that the parties turn out to be incompatible.
 - Option (iii) also has the advantage of giving more time for the land owner to “prepare” the business for an EP, and for the manager to understand and get used to the concept.

Motivation for Business Owner

- i. May want to secure a good operator in the business long-term (the “golden handcuffs”)
- ii. May want to improve accountability in the business (i.e. have someone question policy and expenditure decisions).
- iii. May want to create more time and space for himself/herself to pursue interests off-farm.
- iv. Looking to grow the business with additional capital and expertise.
- v. Motivated to give someone worthy a go.
- vi. Would like to retain ownership of the land but themselves or their children do not want to do the farming.

Motivation for an Equity Manager

- i. Opportunity to leverage into business ownership with limited capital.
- ii. Opportunity to grow equity through profit share purchase
- iii. Job security
- iv. Opportunity to leverage off scale.
- v. Opportunity to enter into a business that is already performing at a high level

Getting the Business Prepared

- To accommodate an EP, the host business has to have an ownership vehicle in place that can accommodate transfer of shareholding. Typically this is a company.
- If the assets of the EP are just the stock and plant, then the ownership of these must be separated from the land ownership (the land typically being held in a trust, P/S or other entity). A lease is then set up between the land owning entity and the business entity.
- If this structure is not already in place, it can take 2 or more years to set it up, and there can be tax implications in transferring ownership of stock to a new entity.
- The company accommodating the EP has to be “cleaned up”. I.e. existing family or stakeholder interests have to be removed, or at least positioned to fall into line with the new agreement. This may require a succession process in itself to be conducted, before the business is ready to receive an EP.
- A successful EP business has to have above-average size, equity and profitability. There has to be more “buffer” in an EP than an owner-operator business to protect the interests of the shareholders, particularly the minor shareholders.

Planning the Wedding

George Tatham likens the process to a wedding because:

- During the courtship everyone’s on the best behaviour and can be blinded by enthusiasm.
- No-one’s thinking about divorce
- Once the “parents” (bankers, accountants, lawyers and advisors) get hold of it, it all gets complicated and serious (and it has to).

Getting Good Advice

- It’s very hard to be objective about a big decision like this when you’ve never done anything like it before and there’s a lot of emotion attached.
- Both parties need to seek independent advice to “watch their back”, and in particular, deal with the detail, while the main players keep their eye on the end-game
- Sully Alsop strongly recommends having an independent chair for the process. Someone who ticks the boxes, keeps the process on track and is has a clear view of the timeframe.

Planning the Divorce

- EP’s usually have a defined term (minimum 5 years), at the end of which the agreement can be reviewed.
- Hopefully the termination of the agreement is an amicable process, but there’s always a chance that it won’t be.
- Therefore it’s important that the extraction process is determined right at the start of the agreement, when everyone’s on the best behaviour and thinking clearly. This must cover such things as notice, valuation method, obligations of each party in the separation and pre-emptive rights etc.

Documentation

You had better be ready for some heavy paperwork:

Shareholding Agreement (Key clauses but not complete)	<ul style="list-style-type: none">• Term of agreement and review process• Voting rights• Borrowing policy• Shareholding percentage• Capital expenditure• Definition of profit and dividend policy• Review clauses• Governance structure. Voting rights.• Transfer of Shares• Responsibilities and authorities• Exit procedures• Dispute procedures• The three D’s – death, divorce, disability	<ul style="list-style-type: none">• Get good advice on preparing and interpreting this.• George and Sarah have equal voting rights in their agreement, even though the shareholding isn’t even.• Board structure (who’s the chair? independents?), reporting and meeting process important.• What’s maintenance expenditure? What’s capital?
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Lease Agreement (Where EP = stock & plant)	<ul style="list-style-type: none"> • Standard lease agreement • Rental a key cost to the EP. • Standard review dates & process. • Critical to define the state of improvement of the property at the commencement. • Financing of improvements. • Very important for both parties to agree what is capital and what is R&M. 	<ul style="list-style-type: none"> • Rental has to be market-related but not excessive. • Enough to cover the lessor's holding costs but not so high that it inhibits profitability and growth in the EP
Employment Agreement	<ul style="list-style-type: none"> • Same as a standard EA for a manager. • Accompanied by a detailed job description. 	<ul style="list-style-type: none"> • Market rate of wages paid
Insurance	<ul style="list-style-type: none"> • Recommended to have life cover on both parties and Income Protection Insurance on the P/S manager. • Key persons insurance 	
Guarantees	<ul style="list-style-type: none"> • Where the manager equity partner requires a guarantor for capital borrowed for initial shareholding in the business. 	<ul style="list-style-type: none"> • May be supplied by family or in rare cases, the other equity partner.
Business Plan	<ul style="list-style-type: none"> • 3- Year rolling budget & capex plan? 	<ul style="list-style-type: none"> • The parties need to assure themselves that there is sufficient profit in the business to service debt.

Costs and Time Frames

- Even where the ownership vehicle was already in place to accommodate an EP, the combined costs associated with establishing an EP could vary from \$15,000 to \$30,000, depending on how complicated the original structures are, how much restructuring is required, need to guarantees etc.
- The process for start to stop can take a year or more to work through. This is not something you want to rush

Indebtedness

- Both Partnerships stressed the importance of avoiding high indebtedness, particularly for the minority shareholder.
- Sheep & beef farming is exposed to a lot of uncontrollable risk that pushes profitability around.
- These swings in profitability can put a lot of pressure on higher-leveraged partners, which again puts pressure on the EP.

Cover the 3 D's

- There have to be means within the Shareholders' Agreement to cover death, divorce, and disability among any of the Partners. Of these, divorce is probably the hardest because it can't be insured against.

Honesty about Aspirations

- There needs to be a lot of talking at the start about aspirations. Clearly the parties' aspirations will be different, but are they compatible, or are there "party-stoppers". (E.g. the owner actually wants to sell the property after 5 years; the junior partner wants to grow the business but the senior partner is risk-adverse).
- It's better to find out you're not heading in the same direction before you spend \$20K on lawyers and accountants and entangle your businesses.

COMMUNICATION

- This was the most-used word throughout this workshop. Like any marriage, the relationship has to be managed. . An "arranged marriage" is going to be hard work. Honesty before the union is made and good communication after it is consummated will ensure that it has a good chance of succeeding.

Agri Trust Marks 1,000 Graduates in 5 Years

Five years of developing the skills and confidence of more than 1,000 women in agriculture and their achievements was celebrated last week by the Agri-Women's Development Trust (AWDT) and industry leaders.

AWDT builds women's business, leadership and governance skills through programmes and support delivered throughout New Zealand in partnership with industry.

Beginning with 11 participants in 2010, the trust now has 500 women per year completing its programmes, which range in duration from two days to 10 months.

"AWDT was set up to provide a trusted and enabling environment for all agricultural women to realise their potential, and grow the sector," trust founder and executive director Lindy Nelson said.

"Experience over our first five years has validated our earlier research - women's lives change when they find their purpose and fulfil their potential. When this happens, and they are supported, they change outcomes in agriculture."

Mrs Nelson said AWDT worked with women of all ages from grass roots farming to corporate backgrounds. "Graduates are increasing their own farm profitability, and leading regional initiatives with major economic and environmental impacts. Others are sitting at the decision making table in governance roles and leading within industry organisations, companies, Māori agribusiness and regional communities.

Speaking at last-week's celebration in Wellington attended by more than 130 people, Minister for Primary Industries Nathan Guy thanked the trust for its work in creating 'vital behaviour change and confidence'. "The huge role women play in the primary sector should not be underestimated - they are the silent heroes and big achievers."

Guest speaker Theresa Gattung talked about the value of integrating 'head and heart' in leadership. "The trust recognises that women have this quality and its work to develop it is impacting positively on the business of agriculture."

ANZ central region's John Bennett said the bank saw the impact of AWDT's work across the sector and every day with its clients. "The perspective of the phrase 'behind every great man is a great woman' has shifted to align more closely with the reality of good men and good women working side-by-side running farming and agri businesses."

More than 200 women were now measuring and monitoring their farm performance and improving profitability as a result of the trust's Understanding Your Farming Business programme. More than 30 had taken up new governance positions and others had moved into senior management positions. Four graduates sit on Canterbury water zone committees, two as chairpersons and one as deputy chair.

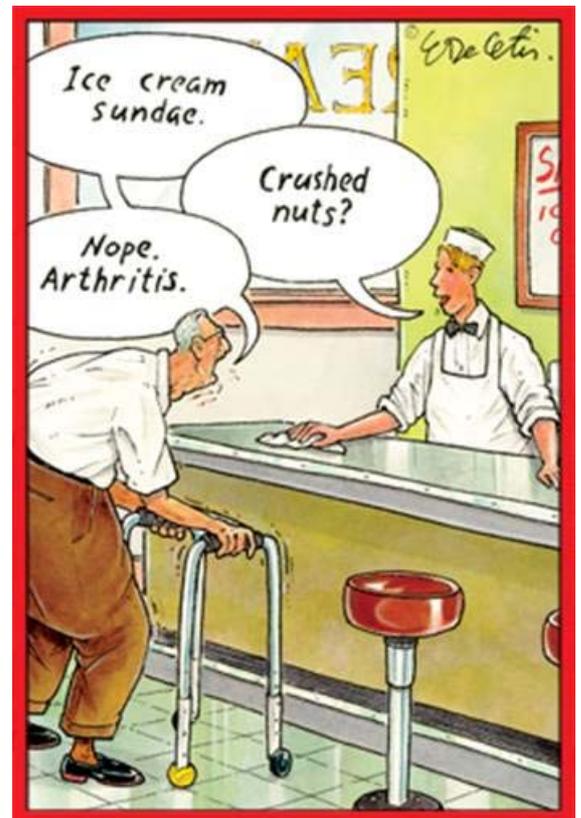
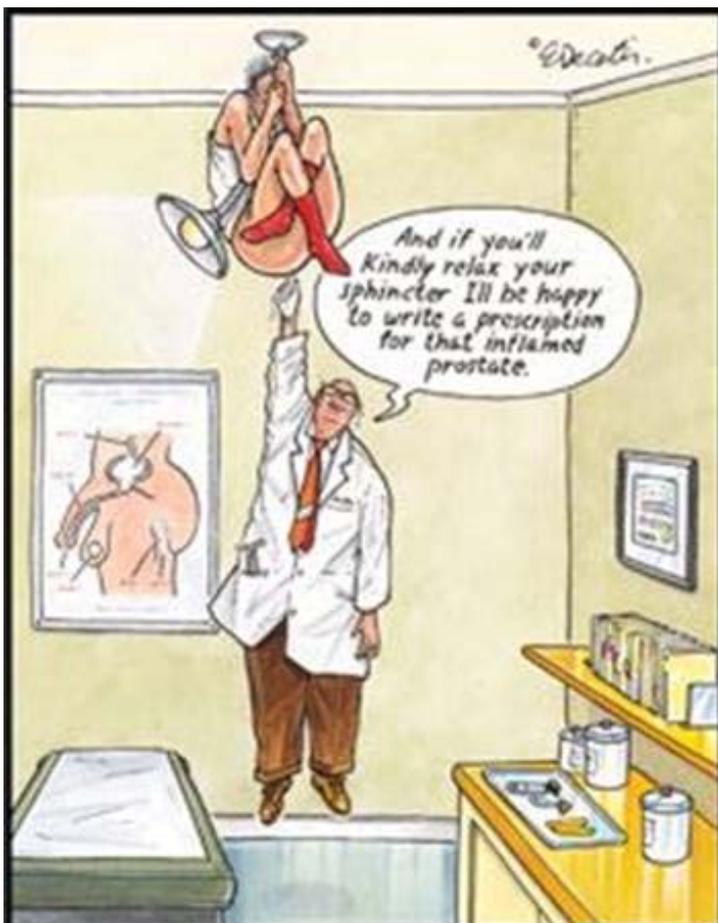
Seven graduates were now facilitating in AWDT programmes, further building the trust's unique culture of supported growth. Others had set up new regional groups to develop other women with support from the trust.

"We're also seeing our connections with women open up opportunities for industry organisations to directly connect with women and their farming partners who want to grow their businesses and engage in issues.

Tangible results provided a compelling case for sustainable and scalable growth for the trust which, with industry support, aimed to develop 5,000 women by 2020. Investment by industry partners including ANZ, Beef + Lamb New Zealand, DairyNZ, FMG and Agmardt had made AWDT programmes accessible to all agri women.

More information at www.awdt.org.nz

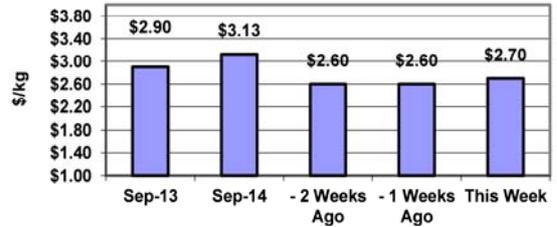
If you think women
are the weaker sex,
try pulling the
blankets back to
your side.



Indicator PM Lamb (15-19kg)



Store Lamb (27-30kgLW)



P2 Steer (295-320kg)



P2 Bull (295-320kg)



OTHER INDICATOR PRICES

SI Lamb Schedule \$5.90-\$6.10
 NI Local Trade Beef \$6.10
 NI 220-245 kg P Cow \$4.60

SI Bull Schedule \$5.50
 NI 220-245 kg M Cow \$4.60
 NI Venison 60 kg stag \$8.45

PGG Wrightson Ltd Wool Sale Report

US \$0.636		=%	17th September 2015		
STRONG SEGMENT INDICATOR		602	Napier		
		+14c			
TYPE QUOTES		SALE PRICE (Clean)	YIELD	SALE PRICE (Greasy)	CHANGE ON LAST SALE
H Fleece	37m 2-3"	562	76%	427	-16
H Fleece	37m 3-4"	609	76%	463	+5
Ewe Fleece	37 m 4-6"	596	76%	453	0
Ewe Fleece	39m 4-6"	603	76%	458	+16
2nd Shear	39m 3-4"	n/a			
2nd Shear	39m 3-5"	589	80%	471	+2
2nd Shear	39m 2-3"	562	80%	450	-10
Lambs	29m 2-3"	n/a			
Lambs	31m 2-4"	n/a			

Notices

Plantain and Clovers on Hill Country Farmer Discussion Group: Castlepoint Station. Tuesday 29 September 10.00 am - 1.00 pm. Meet at Cattle yards, Otahome (southern end of Castlepoint Station). Turn onto Waimimi Road at Whareama and follow it to Otahome. Bring lunch – 4 wheel drive is not necessary.

Wanted beef cattle grazing from now to Xmas contact Matt Radford 063743403

Mitchell van Loon is a second year at Lincoln University studying a Bachelor of Commerce (agriculture). As part of the degree we must complete 39 weeks of practical during 3 summers. He is hoping to get a job on a sheep and/or beef farm over the 15/16 summer period. He will be able to work 13-15 weeks from around mid-November to mid-February. Email:

mitch.vanloon@gmail.com

Mobile: 027 558 5566.

Rebecca Juby is a student currently studying at Lincoln University. Looking for job on sheep and beef or dairy or cropping property. Available from the beginning of November till the middle of February. Any location. 0277283227 and email:

bexs01@hotmail.com

STORE MARKET REPORT

Southern NI prices quoted in saleyards unless otherwise stated.

SI Prices mainly on-farm

		SOUTHERN NORTH ISLAND		CANTERBURY		OTAGO/SOUTHLAND	
Store Lambs (New season)							
Male	40kg+	\$2.70-\$2.80	↑	\$2.50	=	\$2.50	
	35-40kg	\$2.70-\$2.80	↑	\$2.50	=	\$2.50	=
	30-35kg	\$2.70-\$2.80	=	\$2.50	=	\$2.50	=
	25-30 kg	\$2.80-\$2.90	↓	\$2.50	=	\$2.50	=
Ewe Lambs	35-40 kg	\$2.70-\$2.80	=	\$2.50	=	\$2.50	=
Works Ewes	22-24kg	\$3.20-\$3.30	=	\$3.00	=	\$2.70-\$2.85	=
Heavy Export Ewes	28kg	\$95-\$100	=	\$90	=	\$78	=
Local Trade Ewes							
	Heavy 28kg	\$90-\$100	=	\$90	=	\$90-\$95	=
	Medium 25kg	\$80-\$85	=	\$80	=	\$80	=
Ewes + Lambs a/c	Tops	\$70-\$75	↑	\$70-\$75	↑	\$60-\$65	↓
Ewes + Lambs a/c	G-Med	\$65-\$70	↑	\$63-\$68	↑		=
	Lights	\$58-\$65	↑				=
2yo Steers							
	Traditional 480-550	\$3.20-\$3.35	↑	\$3.00	↑	\$3.00	=
	Exotic/Cross 400-450	\$3.00-\$3.15	↑	\$3.00	↑	\$2.90	=
2yo Heifers	300-350	\$2.85-\$3.00	=	\$2.90	↑	\$2.80	=
2yo Bulls	450kg	\$2.80-\$2.90	=	n/a		\$2.80	=
	400kg	\$2.90-\$3.00	=	n/a		\$2.80	=
Yearling Steers							
	Traditional	\$3.20-\$3.35	↑	\$3.15	=	\$3.00-\$3.20	=
	Cross	\$3.00-\$3.10	↑	\$3.15	=	\$2.90-\$3.00	=
Yearling Heifers		\$3.00-\$3.10	↑	\$2.85	=	\$2.80-\$2.90	=
Yearling Friesian Bulls		\$3.05-\$3.20	↑	\$2.75-\$2.80	=	\$2.70-\$2.85	=

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