

# Pukerewa & Baywood Forests

Combined Meeting, 26 January 2024





# Introductions

- **Welcome**

- With harvesting commencing this financial year, the common interests of the two forests align, and we want to discuss our proposal to capture the mutual benefits for all

- **Protocols**

- Presentation from the Directors - about an hour
- Questions are welcomed. There will be a Q&A at the end.
- For online participants:
  - Use “RAISE HAND” icon
  - Or submit via “Q&A”
- Meeting is being recorded and the link will be circulated to all investors
- No decisions will be made at this meeting
- All mobile phones to silent please

# Agenda

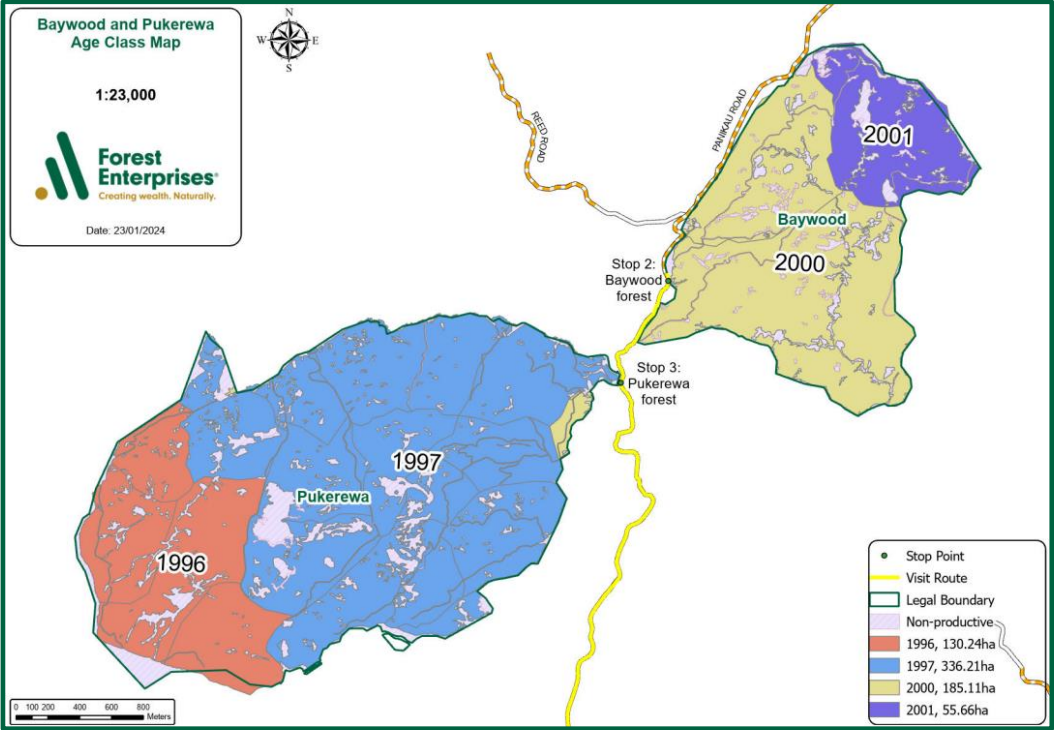
- Matters Impacting Harvest: Forest Specific and Operating Environment
- Recommended Solution to Maximise your Harvest Return – Collective Harvest
- Status of the Investments
- Mechanics of the Collective Harvest by Joint Venture
- Harvest Reporting and Distributions
- Second Rotation and Exit Options
- Next Steps

# Matters Impacting Harvest



# Matters Impacting Harvest

## 1. Forest Specific



## 2. Gisborne Operating Environment



# Matters Impacting on the Harvest

## Forest Specific Matters

Forest specific matters start with a **Harvest Plan**

- The infrastructure (roads and landings) currently identified is deemed necessary for a cost-effective harvest
- Ignores age classes
- Achieves required average tree age of 30 years for Pukerewa & 28 Years for Baywood
- Has harvesting planned to start in 2024 (FY24)
- Confirms that we should be able to cost-effectively harvest **both** forests
- Is dynamic and **will** change in response to conditions on the ground and issues arising during harvest

# Matters Impacting on the Harvest

## Forest Specific Matters (cont)

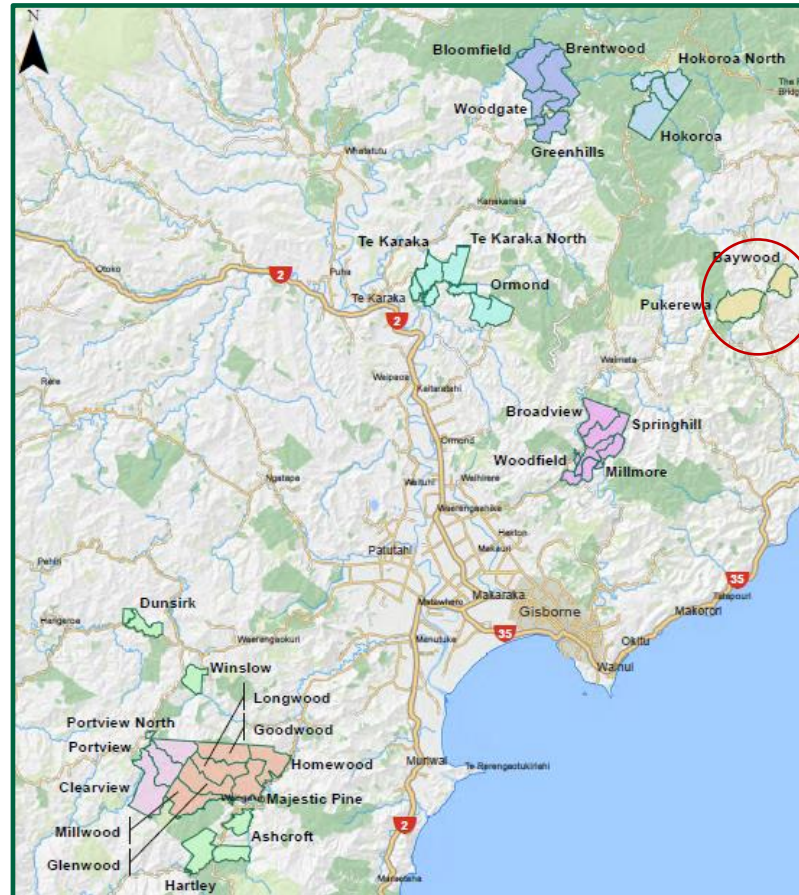
- The plan involves building a significant amount of infrastructure within the forest
- The Harvest Plan identifies options and challenges
  - Options are good!
  - Challenges must be addressed
- Some of the challenges and options identified are:
  1. Major valley systems to cross
  2. Fragile soils
  3. Steep slopes
  4. Streams and river crossings
  5. Limited road entrances
  6. Mix of harvesting systems (hauler vs. ground-based)



# Matters Impacting on the Harvest

## Gisborne Operating Environment

- Constraints posed by the operating environment in Gisborne
- Regional issues impact on harvesting



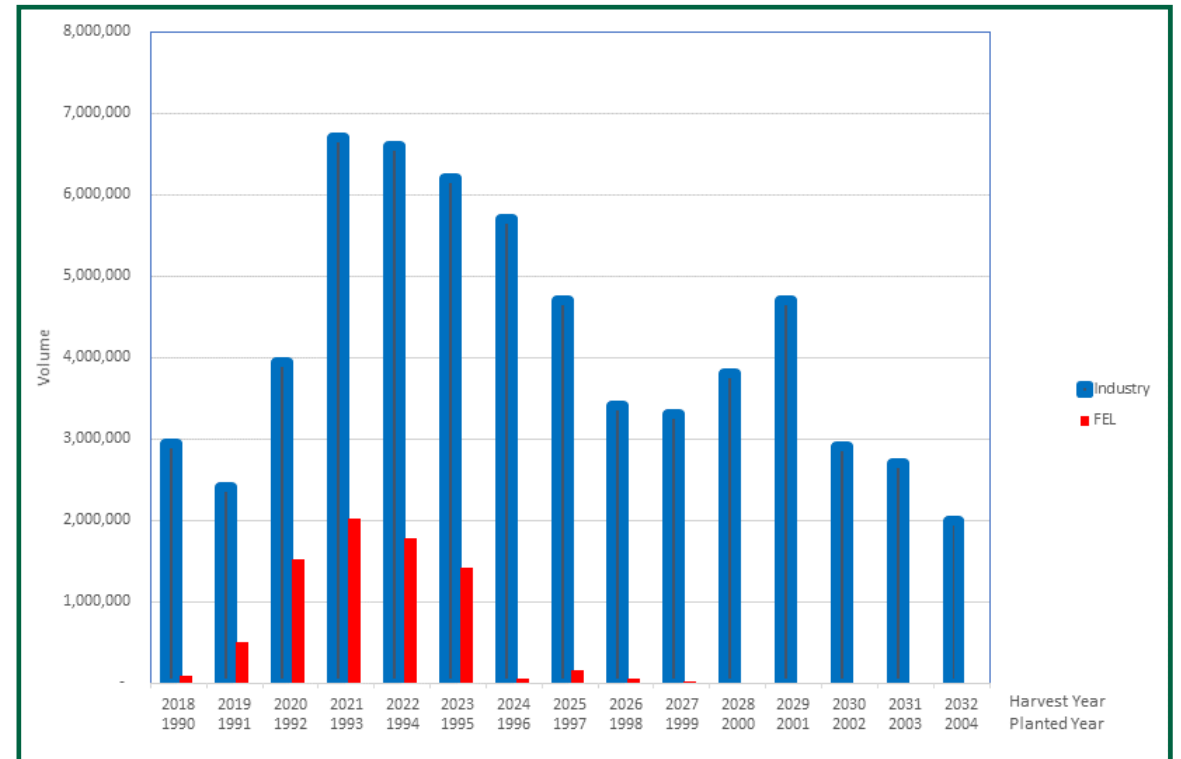


# Matters Impacting on the Harvest

## Gisborne Operating Environment (cont)

- Many of our forests planted during 1990s planting boom
- 1990s boom plantings are to be harvested and sold, not just Forest Enterprises Investors' trees
- Volume to go to:
  1. Local Mills – around **15%**
    - Kiwi Lumber Gisborne
    - PanPac Napier
    - CHH
    - (Wairoa – very small quantities)
    - (Juken New Zealand seldom buy wood in)
  2. The extra volume will be exported – **85%**

## Gisborne



# Matters Impacting on the Harvest

## Gisborne Operating Environment (cont)

- Potential bottlenecks in the supply chain:
  - Logging contractors
  - Trucking contractors
  - Roading contractors
  - Transport to sawmills and Eastland Port
  - Eastland Port a major bottleneck
  - (Napier Port not currently a viable option from Gisborne)

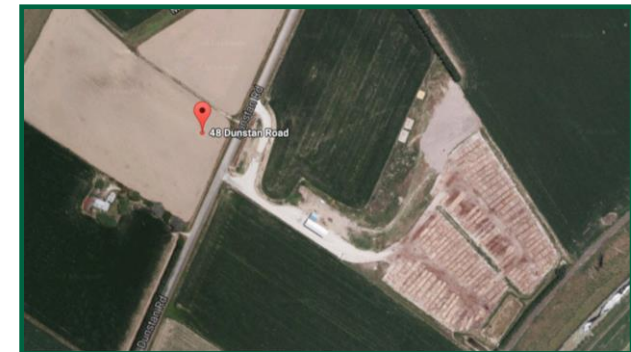




# Matters Impacting on the Harvest

## Gisborne Operating Environment (cont)

- Currently, Eastland Port (Gisborne Port) is handling approx. 2.5 million tonnes of logs annually
- Eastland Port may soon be the second largest log export port in New Zealand
- Capacity of Eastland Port is constrained -
  - Currently limited to loading one log ship at a time
  - Limited onsite storage - offsite storage is already having to be used (Dunstan Road)
- Port's objective is to be able to load two ships concurrently, and supply the wood from both on-site and off-site storage
- Forest Enterprises is working closely with Eastland Port
  - Currently exporting from Eastland Port at an annual rate of 295,000 tonnes
  - Providing projected annual woodflows for the next 14 years





# Matters Impacting on the Harvest

## Gisborne Operating Environment (cont)

- Status of Forest Enterprises in Gisborne operating environment
  - We are currently harvesting more than 350,000 tonnes p.a. in Gisborne
- Well-established in the harvesting business in the Wairarapa and exporting through CentrePort
- Now also operate a parallel harvesting and exporting business in Hawke's Bay
- Expected regulation changes post Cyclone Gabrielle





# Matters Impacting on the Harvest

## Infrastructure to address bottlenecks

- Partnership arrangement with PFP for export from Gisborne and Hawke's Bay
  - PFP is one of the largest log export companies in New Zealand
    - Partnership arrangement with the other major log export company (TPT) for Wellington export
- Open book agency at fixed fee



# Matters Impacting on the Harvest

## Gisborne Operating Environment

- As noted at the outset of this section, we cannot plan for the harvest of individual forests without consideration of:

1. Constraints posed by the Operating Environment

**AND**

2. Forest Enterprises responsibility to all the other investment forests we manage





# Recommended Solution to Maximise Harvest Return



# Forest Enterprises Solution for these Forests

- Must have a harvest solution for every forest under management within the constraints posed by Gisborne's operating environment which also:
  - Maximises the investment return for each forest
  - Minimises the risks for each forest
  - Provides options to address the forest specific matters in each forest (addressed earlier)

## ***AND***

- Is also logical for the second rotation - the plan is for there to be a second rotation investment with or without some or all of the existing Investors (to be discussed later)

# Combined Harvest – “Panikau”

The output from accommodating all of these factors is:

- A projected sustainable maximum combined harvest volume per annum
- A logical reduction in the number of individual Gisborne forest entities from 30 to 8
- Anticipate a continuous harvest program through until 2031 – time in market minimises market risk
- Harvest date was based upon harvest at tree age 28 years
  - Have always reported that there would be a spread – harvesting a single age class in 1 year is not possible
  - Target average tree age **now 30 years**
- Harvest to commence in 2024
  - The original projection for the 2 forests showed harvest commencing in
    - 2024 for Pukerewa
    - 2027 for Baywood



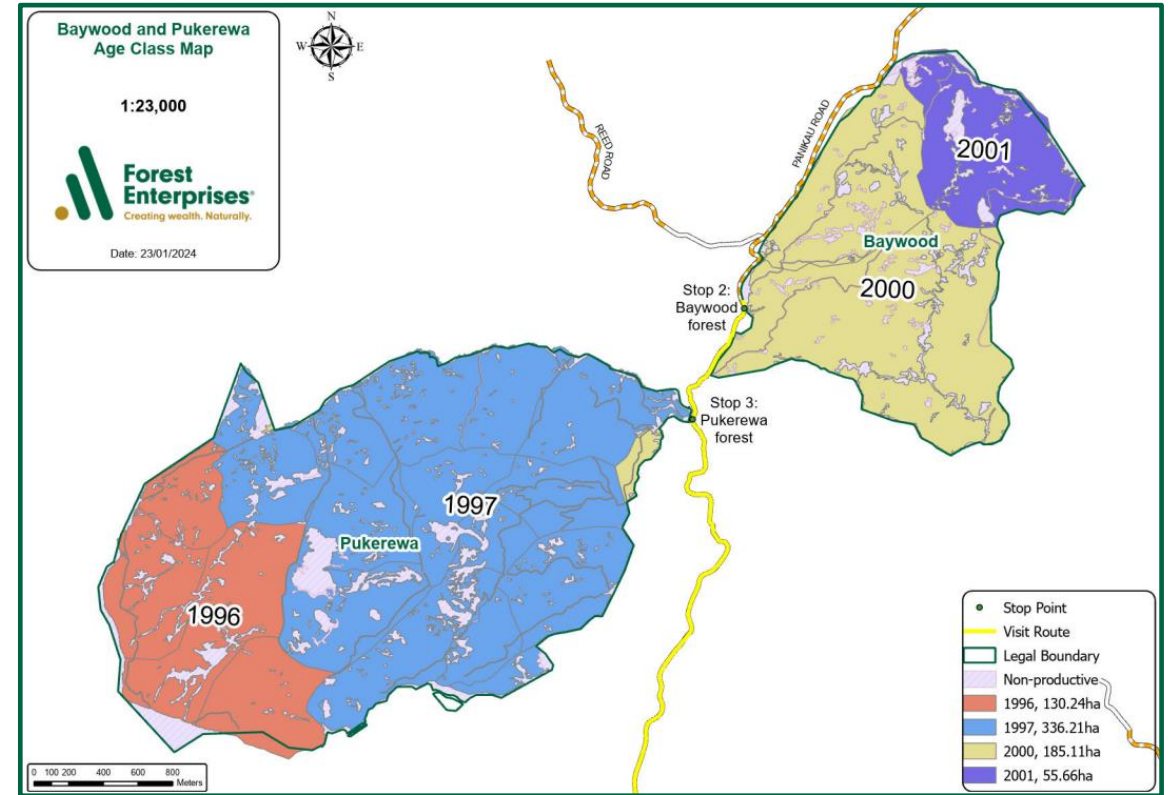
# Panikau Combined Harvest

- Projected harvest spread targets the necessary average harvest age of 30 years
  - Younger trees will have less than the average volume therefore return less value
  - Older trees will have higher than the average volume therefore return higher value
  - Anticipate overall value outcome to be about the same
- Spread does have an impact on the timing of distributions (discussed later)

# Panikau Combined Harvest

## Why does this solution make sense?

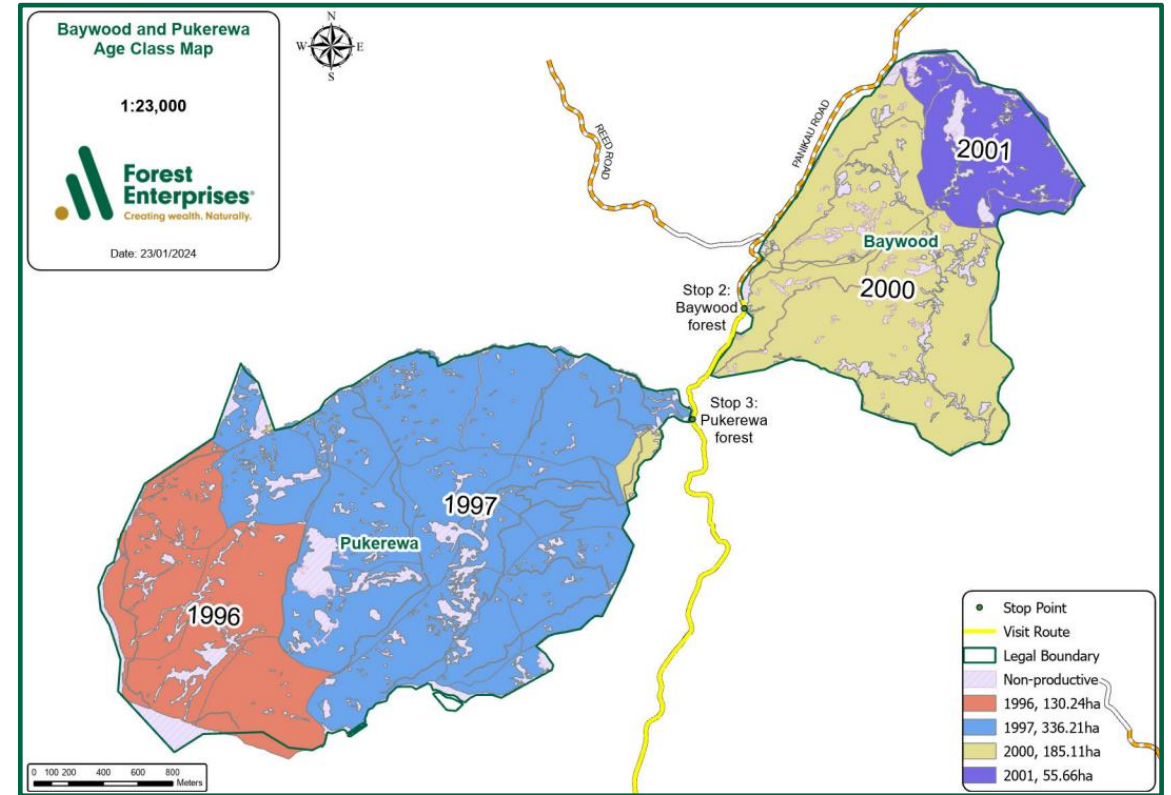
- Combined harvest program of 700 hectares (great scale for economies and risk mitigation)
- Harvesting as one program solves the early and late harvest issue:
  - Becomes irrelevant where the early and late harvest occurs between the 2 forests
  - BECAUSE the total harvest can achieve an average harvest age for the total program of 30 years
  - The younger trees will have less volume and value BUT the older trees will have more volume and value



# Panikau Combined Harvest

## Why does this solution make sense? (cont)

- Combined forest will harvest continuously for 8 years, finishing around 2031
- Positive outcomes:
  - Longer market exposure should deliver the long run average log price
  - Early distributions
  - Projected average crop age at harvest 30 years
  - Preserve favourable option for those wishing to exit





# Status of the Investments



# Financial Status of Investments

<b>Calls Paid</b>		
	<b>Pukerewa</b>	<b>Baywood</b>
Prospectus Gross Call Projection	\$ 20,591	\$14,175
Actual Calls (Gross Contributions)	\$18,773	\$12,406
Difference	\$1,818	\$1,769
<i>Per 200 shares</i>		
<b>Projected Financial Return - Last Reported Balance Date</b>		
	<b>Pukerewa</b>	<b>Baywood</b>
Prospectus Pre-tax Return	\$140,016	\$90,261
Projected Pre-tax Return	\$104,181	\$51,832
Difference	\$35,835	\$38,429
Prospectus Tax Paid IRR	8.5%	8.0%
Projected Tax Paid IRR	6.0%	5.6%
<i>Per 200 shares</i>		

Projecting a solid return for a long-term investment

# Collective Harvest by Joint Venture



# Panikau Collective Harvest

## Collective Harvest Objectives

- To ensure the forests of each participant investment can be harvested
- To maximise the opportunity for a better harvest outcome for each investment
- To minimise the risks for each investment, including crop, access to contractors, access to domestic markets, access to port
- To aim to achieve an average age at harvest of 30 years

## Maximise Return and Minimise Risk



# Panikau Collective Harvest

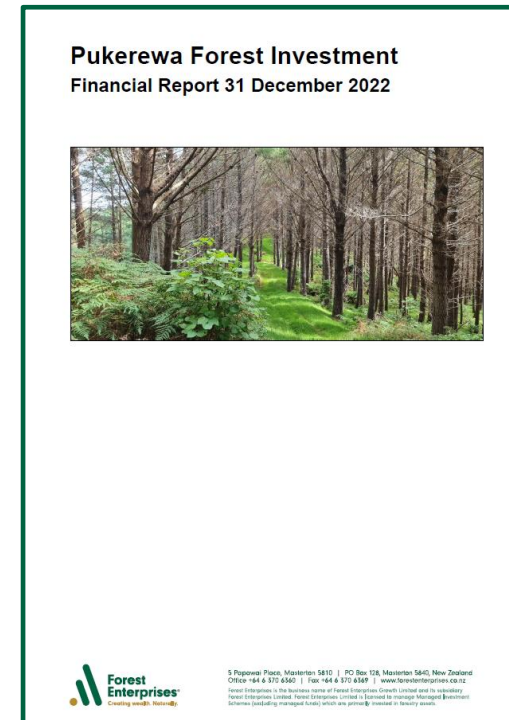
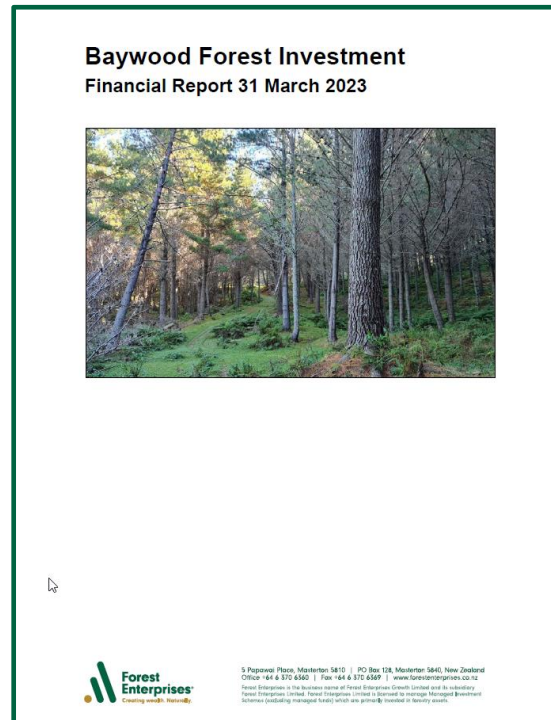
## Collective Harvest Solution

- Proposal is NOT to “amalgamate” for harvest
  - To do so would create harsh and unacceptable tax consequences
  - A favourable Binding Ruling has been issued by Inland Revenue
- Proposal is to establish a Joint Venture with
  1. Agreed share of the total harvest revenue passing from the Joint Venture to each of the two existing forests
  2. Requirement for a Land Limited Partnership (Land LP) which owns the combined land and second-rotation trees – Land LP is jointly owned by participant JV investments
- Fair equitable allocation of shares in both Harvest JV and Land LP
- Forestry Right required for tree crop in Harvest JV
- Existing forests continue to operate as stand-alone investments until wound up at the conclusion of harvest

# Panikau Collective Harvest

## 1. Allocation of harvest share

- There is a common sense allocation measure solution without need for argument or consultants
- This is to allocate according to the **Forest Crop Value** methodology in the Financial Report (page 7), with two refinements to enable the fair allocation of collective harvest revenue between the 2 participant forests
  - Average tree age 30yrs
  - 3.5% discount rate



# Panikau Collective Harvest

## 1. Allocation of harvest shares

- The **Forest Crop Value:**
  - Accommodates differences in:
    - Net stocked area
    - Age classes
    - Forest crop qualities
    - Specific infrastructure for each forest area
    - Harvest costs
  - Complies with Accounting Standards
  - Complies with NZIF standards
  - Is audited
  - An existing and reliable figure

Land & Trees		Pukerewa	Baywood
Title Area	ha	538.4	266.9
NSA	ha	473.0	237.1
<b>Harvest</b>			
Total volume harvested	m3 or tonnes	367,562	171,852
Average Yield	m3/ha (or t/ha)	777	725
Harvest Road Distance	km	23.0	9.5
Metal	m3	36,800	15,200
Metal	loads	2,044	844
Metal truck movements	number of	4,088	1,688
Roading density	(metres/ha)	49	40
<b>Planned Landings</b>			
Planned Landings	number of	64	20
NSA per landing	(ha)	7.4	11.9
Log tonnage	m3 or tonnes	367,562	171,852
Truck loads of logs	number of	13,127	6,138
Log truck movements	number of	26,254	12,276
Area Ground based harvesting		17%	36%
Area Hauler based harvesting		83%	64%

# Panikau Collective Harvest

## 1. Allocation of harvest shares (cont)

- Percentage Shares = The percentage of each Managed Investment Scheme's forest crop value to the total of the forest crop values for all MIS in the joint venture
- **Example calculation**

Example	Investment 1	Investment 2	Investment 3
Forest Crop Value per Allocation Model	\$4,000,000	\$4,500,000	\$3,500,000
Percentage of Total (with refinements)	33%	38%	29%

- **NOTE**
  - These figures are an example only
  - We will carefully review the data assumptions and all the inputs and provide these at the time of the investor vote, including the counterfactual for a standalone harvest



# Panikau Collective Harvest

## 2. Allocation of shares in Land LP

- Forest Crop Value used for collective harvest shares reflects all variables relevant to the *current crop and its harvest*
- But – the allocation calculation for Land LP must accommodate different variables – need to identify equitable relative value between the 2 investments in Land LP
- **Land Market Value + Land Expectation Value** combination recommended by Mark Morice, forestry land valuer
  - Using a composite of 80% Market Value + 20% Indicative Land Expectation Value will produce values fit for the unique purpose they are required
- NB: Therefore, allocation % will be different for each participant investment for their share of Harvest JV and for Land LP

# Harvest Reporting and Distributions







# Harvest Reporting & Distributions

## Distributions

- It's *your* money
- Distributions will be approximately quarterly (not in annual lump sums)
- Limited surpluses at the beginning of harvest
  - Forward investment in roading
- Funding required for replant (more to come on this later)
- We have distributed \$100m+ to investors since April 2017

# Second Rotation & Exit Options



# Second Rotation and Exit Options

## When will replanting for the second rotation occur?

- The second rotation forest will be planted progressively during harvest because:
  - Harvesting is a permitted activity **provided** harvested areas are replanted within 18 months
- Areas harvested by Labour Weekend will typically be replanted the following winter
- Replanted trees are owned with the Land by Land LP ready for second rotation investment
- Replanting has a consequential impact on distributions as some of the harvest cashflow (approximately \$2,000 per hectare) will be used to fund the replant





# Second Rotation and Exit Options

## Investors are *not* trapped in the second rotation investment

- You signed up for 1 investment rotation, therefore you must be able to exit around the conclusion of harvest
- Forest Enterprises' responsibility is to meet the expectations of all Investors, including those who want to retain the value invested by the first rotation for future generations. There is a logical process to work through to enable this.

Options to exit:

- **Plan A:** Replanted second rotation forest (land and trees) is promoted as a new investment (new LP) which can occur prior to completion of harvest with the appropriate structures in place
- **Plan B:** Sell the second rotation forest (land and trees)
  - The same qualities which make the replanted forest an attractive investment, make it attractive to parties wishing to buy the underlying land and trees
- Investors will vote closer to harvest completion on selling Land LP. A vote in favour on selling to a new investment (Plan A) gives options to those investors who wish to continue investing for themselves or others and an exit option for those who do wish to exit. A vote against (Plan B) does not allow anyone an opportunity for continuing with a forestry investment.



# Second Rotation and Exit Options

## Mechanics of setting up to allow a second rotation investment (Plan A)

1. Each investment grants itself a Forestry Right
  - Forestry Right is over the mature trees being harvested under the Joint Venture which remain the property of each existing investment (subject to the Joint Venture)
2. Each investment transfers its land (subject to the Forestry Right) or its remaining mature crop to Land LP in preparation for the second rotation investment
3. The investments will own shares in the Land LP, ready for selling as a new investment (if that future vote is in favour)

### Therefore, investors will:

- Continue to hold their shares in the original investments, meaning:
  - They will receive distributions arising from the JV harvest program according to agreed share allocation, and
  - Still own their proportionate share of Land LP (land and replanted trees) via their existing investment





# Second Rotation and Exit Options

## Exit or Continue Options

- Once harvest has concluded, the original 2 participating investments will wind up, however
- Forest Enterprises expects to make options available well before conclusion of harvest
- Before the conclusion of harvest, the new investment entity is legally formed, and shares are allocated to each investor
- If you are planning to exit (i.e. not continue for the second rotation), you will sell your shares in the new second rotation investment
  - Releasing cash for:
    - Your share of the value of the land
    - Your share of the investment made in the second rotation crop (planted throughout harvest)
    - Your share of any remaining unharvested mature crop
- Investors wishing to continue in the second rotation and wish to purchase more shares will be able to do so.
  - You can also sell some of your shares and keep the balance
  - You can gift some/all shares in the second rotation to other family member



Questions





# Next Steps



# Investor Decision Making

- Decision-making completed in time for harvest commencement
- Finalise the proposal for investors to consider in the coming weeks, including updated cashflow projections
- Vote on the Collective Harvest Joint Venture Proposal, with remaining supporting information
  - Separate formal decision required by each investment – Special Resolution (of those who vote, 75% in favour)
  - The proposal will not proceed if one investment does not pass the resolution
- We have similar processes underway for many other investments we manage – each forest group has some unique characteristics:
  - 12 collective harvest JVs already underway (37 investments)
  - These are the final forest groupings to be considered



# Straw poll

