

## MyFarm Webinar – Time to invest in dairy?

Questions and Answers

25 August 2021

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The following Q & A features questions asked by investors during the webinar. The responses have been provided by MyFarm CEO Andrew Watters.

### **Summary of MyFarm's presentation:**

1. The NZ dairy industry was un-investable post the 2014/15 and 2015/16 downturn. Growing global milk pools resulted in volatile commodity pricing and an uncertain regulatory environment.
2. Today the milk growth has flattened, resulting in improved market price stability and we have visibility on government regulation. This means a targeted strategy focused on buying and leasing high quality dairy farms is becoming an attractive proposition for investors seeking yield and some further diversification in their investment portfolio.
3. Dairy farming does have some environmental impact. Dairy investments with a strong Environmental, Social and Governance (ESG) focus are important for any investment to be sustainable in the long term.

### **Questions & Answers**

- **Is the upcoming trade agreement with the UK likely to be positive?**  
Positive but probably not significant for NZ dairy. This is quite a change from where we were some four decades ago!
- **Getting good labour is still an issue. How is industry responding?**  
Labour is an important industry issue and to turn things around is complex and will take some time. In this environment it is important to stand out. MyFarm intends to partner with a lessee with outstanding pedigree with their ability to attract, develop and retain people.
- **The labour market is a major issue in the sector overall, one large dairy farmer recently told Grant Robertson they needed 1400 migrant workers urgently in Southland. In a post covid world are we moving fast enough to invest in AI and associated technology unlock capacity in the absence of human capital? and/or how can we drive this better?**  
In addition to providing an attractive workplace where people can carve a meaningful career in dairy farming, our focus will be on larger farms with automation. Technology will help, for example the use of cow-collars to manage animal wellness.
- **What is the outlook for dairy farmland prices?**  
Dairy land prices will reflect supply and demand. We think that the market for larger farms will be stable for a period. Dairy farm prices haven't lifted at the rate that we have seen in the horticulture sector!

- **Can dairy negotiate a social license with a Labour government?**  
Yes. There is some pressure at the pace of change and how the change is being implemented, but the direction of travel is supported by most farmers. MyFarm is aiming to get ahead of the curve with our ESG focus.

- **Does Fonterra have a clear strategy going forward?**  
We are waiting for the new Fonterra strategy to be published. However, if MyFarm does enter dairy farm investments we are most likely to be leasing the properties out and we won't be Fonterra shareholders.

- **What is the threat to dairy demand from non-dairy (vegetarian) products? These seem to be growing significantly - soy milk etc.**

Soy and other plant-based milk substitutes are expected to continue to grow at their historic rate of 1% p.a. (market share). Meanwhile dairy demand for food service (cheese, cream, butter) and consumer products (cultured foods, ice cream) is growing. Long term, non-dairy substitutes will find their way into the market and dairy demand may fall. However New Zealand can carve out a niche in naturally produced, better-for-the-environment, whole foods for customers wanting a natural rather than ultra-processed diets.

Ultimately if we buy good quality land with good access to water, we have land use change options should superior land uses emerge.

- **How will you ensure the lessee adopts your ideal ESG practices?**  
From our discussions to date, we have strong alignment to lead in the Environmental and Social space. A set of ESG targets will be set with each investment and will be a key part of annual reporting.

- **Interested in the impact of He Waka Eke Noa and your thoughts on dairy returns? Has this been factored into current land prices and therefore returns?**  
He Waka Eke Noa is a call to action for the industry to adopt best practice around carbon emissions – yes, we will play our part fully. If carbon is priced and farmers must participate in the NZ Emissions Trading Scheme, the scenarios we have seen could result in costs equivalent to 1 – 5% of dairy revenue.

- **How long is the leasing for?**  
Ten years.

- **Have any of your existing dairy syndicates that MyFarm is involved with changed to a leasehold model?**  
No. But we think owning very good quality land with a lease tied to the milk price is a great idea that others may adopt as well.

- **Why are you confident that a lease-hold model is going to be attractive to people wanting to get into farming as opposed to owning it themselves and funding largely via bank lending? How big is this group do you think?**

We can work with our partner to operate dairy lease at scale. They are focused on the cashflow returns available from operating large dairy farms which employ technology to drive efficiencies and returns.

- **What if the industry is made to offset all its GHG, whether domestically via the ETS or via GHG-related tariffs into export countries? How will the landscape look in that scenario?**

NZ dairy produces milk products with almost 50% less GHG emissions than other major dairy nations. This is a major factor in helping prevent non-tariff trade barriers. There is a shortage of dairy products in our key export markets and little ability for them to substitute our production. If we were forced down an offset route, MyFarm is well-placed to implement such a strategy through our manuka forests or pine plantations.

- **Are you thinking about sharing returns with the lessee in your lease arrangements for lessors to share in upside?**

We will adopt a risk sharing model through the lease. The lease will vary with the bottom lease rate set at a \$6/kgms milk price and the top lease rate capped at \$8/kgms. Any milk price above \$8 is to the lessee's benefit.

- **What about investing in a farm with a combination of cropping land and dairy land?**

It is easier to do one thing rather than two. But importantly, if we buy good quality land then we can always lease it out for cropping in the future as an alternative.

- **Any thoughts on premiums such as A2 and organic?**

Yes to A2. Our experience with organics is that it is hard to scale well, so no to organics.

- **Is this going to be a similar model to the NZ Rural Land Company? e.g. MyFarm purchases the farm & then leases back to a proven farmer on a long term basis?**

A different model. Investors will know what they are getting into with both the property and the lessee. We think our model will perform very well over time.

- **Could you get a milk price premium by using the ESG approach?**

Yes! Most major dairy companies are now starting to pay for these attributes.

- **Are you saying a combined carbon offset asset and a dairy farm will increase the capital??**

One option to offset the costs, if farming should come into NZ's Emissions Trading Scheme, would be to add some manuka forests or pine plantations to the investment. Any carbon sequestered on the forests or plantations can offset any emissions on the dairy farm - and there is still income from harvesting trees or manuka honey. This is a future option - as a guide, investing in carbon offset might take 3 – 10 cents in every dollar that we have invested in dairy.

- **So, in summary are you saying that dairy is good for cash flow for the foreseeable future? But (as the industry is going to shrink, and demand is likely to drop) capital growth in the underlying land is gone - so that is why leasehold model?**

Leasing takes out operational risk and gives investors exposure to very competitive milk

price related returns derived from owning a quality asset and being in business with a top operator. We will still benefit from any long-run land price appreciation, enhanced because we will have some land use change optionality. This sort of investment will suit those looking for a nice yield and long-term exposure to land.

- **Farming with a lessee sounds more about owning land and limiting your exposure to the new regulations....**

With a lessee in place, we avoid the day-to-day issue of the new regulations, but we will have these at the front of our minds when we select property and decide what development that we might fund. We and our lessee partners aim to get ahead of the regulation as fundamentally cleaner water, reduced greenhouse emissions, and happier staff will be good for the business long term.

- **What are your thoughts about leading on further environmental factors, such that farms could be literally off the grid with wind/solar/biofuels (methane biodigesters, Hydrogen, biodiesel etc).**

Maybe. The main losses that we need to think about are nitrogen to groundwater and GHG emissions including methane and nitrous oxide. If we can make progress on these major factors, then we are ahead of the game. We like solar panels!

- **Do you see an increasing issue with dairy platforms/effluent spreading in regions with increasingly subdivided neighbouring land, affecting their land price, nitrate management?**

Our old business partner always said that with well located land, town gets closer every day. Though I do think here we will be well and truly in the country, and we won't need to worry about small block owners. Good effluent disposal systems shouldn't have much drift....

- **What is the time frame for MyFarm to put out an offer document?**

This spring!

- **Is 20% reduction in GHG over 10 years aspirational enough?**

This is our 'lick our finger and stick it in the air' estimate. By the time we come to the market we will firm things up. The climate change commission has two figures; a 24% reduction in GHG from farming by 2050 and a 47% reduction by 2050. They call the former 'with headwinds', the latter 'with tail winds'. The reality is that we don't have potential technologies such as methane vaccines and inhibitors available yet, and breeding will take time to make an impact. 20% reductions by say 2032 would be a very solid step towards the more ambitious climate change commission goals.