

COVER SHEET

3.2. Northland Soft Berry Fruit Project PGF Application		For: Approve	
Tier:	2 - Sectors	Sector:	Food and Fibre
Background & context:		Recommendation(s):	
<p>Applicant Organisation:</p> <ul style="list-style-type: none"> Onyx Capital Limited – A family owned company <p>Location:</p> <ul style="list-style-type: none"> Whangarei/ Northland/ Te Tai Tokerau <p>Proposal:</p> <ul style="list-style-type: none"> The proposal is for the rapid expansion of an existing horticultural business that will expand their labour intensive hydroponic berry operation under the Maungatapere Berries brand. It involves the creation of a sustainable hi tech hydroponic horticulture platform that plans to create an opportunity for ^{Commer} FTEs in Northland over 3-4 years. <p>Funding Sought:</p> <ul style="list-style-type: none"> Total project value: \$^{Commercial Informatio} over 5 years (including internally generated funding from existing operations of \$^{Commercial Informa}). PGF Funding: \$10m (\$^{Commer} Grant and \$^{Commer} Loan) <p>Background:</p> <ul style="list-style-type: none"> Onyx is an existing horticulture operation in Northland that has historically focussed on the cultivation of kiwifruit. Recently, it has successfully expanded into the hydroponic production of berries. Onyx has worked closely with Northland Inc. to develop their application. The orchard is called Maungatapere Berries 		<p>We recommend that the IAP:</p> <p>a) Note the applicant has requested \$10m, as a \$^{Commer} loan, \$^{Comme} grant split. The basis for the \$^{Commer} grant was the applicant's estimate of saving to the government through increased employment at Onyx ^{Commercial Information}. It is the PDU's view that any grant in excess of the \$^{Commercial Informat} (equivalent to staff training costs) would be difficult to justify given the financial benefit that flows to existing shareholders.</p> <p>b) Discuss the difficulty with the request of \$^{Commer} grant funding and \$^{Commer} loan funding from the applicant to potentially displacing existing bank debt and be applied to the purchase of land. There is scope within the expenditure forecast to apply this to items within the PGF's mandate and any support would have to be ring-fenced to these items.</p> <p>c) Consider whether applying grant funding to the project results in significantly derisking operations and overly enriches the shareholders, and whether this is justified by the potential job creation.</p> <p>d) Note the key PGF criteria this application satisfies include: that it delivers benefit to the community through jobs, adds value by building on what is already there by enhancing the agricultural industry in the region and aligns with the regional priorities and plans.</p> <p>e) Note that MPI is supportive of this application.</p>	

and since its inception in 2016 has rapidly established itself as a leading industry soft berry brand - winning a highly recommended award in the 2017 NZ Food Awards.

- As well as seeking to expand and diversify its operation, Onyx has been developing systems and opportunities to upskill its workforce. This includes, the establishment of an employee shareholding scheme, training programmes for literacy and numeracy (both part of this funding application), and engaging with MSD (it is currently ranked by MSD as a good employer). Onyx also seeks to employ people released from prison and has noted it will continue to do so. The company also has a relationship with local hapū to support their horticulture aspirations.

- According to management, Commercial Information

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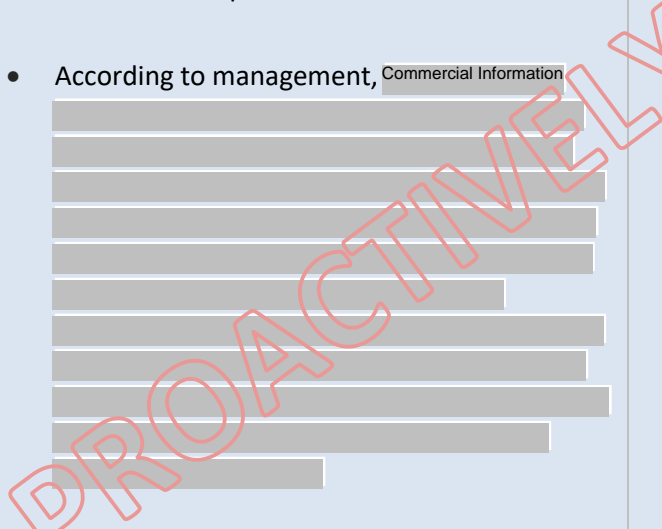
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f) **Discuss** the concerns the PDU has with regards to approving the exact terms of the applicant's original request. It is the PDU's view that a compromise solution could be found. Any solution would require that the PGF not displace bank debt and that PGF funding is not used to purchase land. In addition, equity type funding with an option for the applicant to buy it back at an attractive EBITDA multiple (potentially 4X) if suspensive conditions are met, should prove a viable solution. Alternatively, suspensive loans that become a grant if conditions are met could be considered (although this may also result in overly benefitting the applicant financially while there are also concerns that currently only the Minister of Finance has the ability to write off a loan).

g) **Approve** up to \$10m support for the project made up of a combination of debt and equity, subject to a final approval from the head of the PDU subject to receipt of the final structure. The PDU recommends the following:

- **\$4m of Equity.** Existing shareholders would be given an option to purchase/retire the asset from the PGF at the end of 2024 for a Commercial Information, depending on conditions being met around the number of full time jobs created and other PGF milestone/suspensive criteria (including Māori employment and training). This \$^{Commercial} would be for a purchase of an effective Comm% of the company and given forecasts received, would return \$^{Commercial} to the PDU if purchased/retired. An early re-purchase option of \$^{Commer} during the first 3 years is also recommended to be offered to existing shareholders.
- **Up to \$6m in loan funding,** but to retain the commercial funding (\$^{Commercial}) to the operation and only approve funding up to \$^{Commer} to the extent that commercial funding cannot be found (as the strong projected cash flows may support this if equity is raised from the PGF). Commercial Information
[Redacted]
[Redacted]



Commercial Information		<p>negotiation with the bank funder should take place before any potential flow of capital to Onyx.</p> <p>h) Commercial Information</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
PGF criteria that this proposal supports:		
PGF Criteria	Assessment Commentary	Rating (1✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	<ul style="list-style-type: none"> Yes, within 3 years it will provide training and FTE for [REDACTED] people. 	✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> Yes, in that it creates employment and training for NEETs. 	✓✓✓
Increased utilisation and returns of Māori asset base	<ul style="list-style-type: none"> Not significantly. TPK commented that they “encourage PDU to ensure the Northland project leans into Māori investors, and Māori employment as a condition of funding”. The PDU recommends making provision for Māori employment in the milestone/suspensive condition. Employees will benefit to some extent through the staff incentive scheme. 	✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> It leads to more efficient and increased utilisation of land for agriculture. 	✓✓✓
Mitigation of climate change effects	<ul style="list-style-type: none"> No 	
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> It expands on existing hydroponic development in an area well suited to it. 	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> Not directly. 	
Connected to regional stakeholders and frameworks		

Alignment with regional priorities	<ul style="list-style-type: none"> Aligns with horticulture and better land use elements in both the Tai Tokerau Northland Growth Study and the Tai Tokerau Northland Economic Action Plan. The action plan also states that “retaining and engaging the Māori youth cohort will be a vital factor in Northland’s recovery”. 	✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> The applicant has stated the initiative has the support of local Hapu and it has strong support from Northland Inc. 	✓✓

Governance, risk management and project execution

Robust project management and governance systems	<ul style="list-style-type: none"> The project is largely an expansion and as such the applicant should be well positioned on the execution of the project. Given the business is largely family run, oversight of the family will be significantly limited. 	✓✓
Risk management approach	<ul style="list-style-type: none"> Management of risks is considered sound, is part of their business plan, and the applicant has demonstrated experience in the activities to be undertaken 	✓✓✓
Future ownership / operational management	<ul style="list-style-type: none"> Future ownership is expected to remain within the family trusts with the exception of a 5% employee trust (to be established). 	✓

The purpose of this briefing is to consider recommending PGF funds to Onyx Capital Limited

Risks Issues:

Commercial Information

Key financial extracts and PDU calculations based on initial forecasts and information received

\$ unless noted	Commercial Information
Total Sales	
EBITDA avail for Int.	
Interest Repayment	
Int. Cover Ratio (X)	
Shareholders’ Funds	
Retained Earnings (opening)	

Current Earnings (NPAT)	Commercial Information
Cash/(Overdraft)	
Term Debt	
Net Debt	
Net Debt/Equity %	
Return on Capital %	

Note: This table uses the applicant's initial forecasts (with largely flat fruit price estimates) and PGF grant/equity of \$^{Commer} and loan funding of \$^{Commer} (which replaces bank debt), but would need to be reworked with the applicant depending on the final mix and cost of grant, equity and loan support.

Commercial Information

Eligibility points of note:

- *Due diligence*:- Full due diligence is to be completed. It is a condition of approval that due diligence is to be to the satisfaction of the Head of PDU Investment team.
- *Conflict(s) of interest*:- Based on the information provided no conflict of interest is evident noting that full due diligence will inform this item further.
- *Illegal Activity*:- Based on the application information provided and feedback from other agencies there is no indication that the applicant or project has been involved in, or associated with illegal activity.
- *Alignment with Regional development plans*:- Tai Tokerau Northland Growth Study and the Tai Tokerau Northland Economic Action Plan.
- *Commercial funding availability*:- Given the nature of the project, the development of a mix of funding is judged to be the best option.

Consultation undertaken or implications:

Legal	N/A	HR	N/A	Finance	N/A	MBIE policy	N/A	Other	MPI, TPK
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MFAT to be consulted regarding the potential for berry exports.

Supporting proposal:	Yes
Appendices:	Yes - Applications and supporting letters are as annexes
Sponsor(s):	N/A
Manager/Author of paper:	Paul Swallow & Jason Hall - Investment Team/ Tania Anderson – MPI