



Northland Soft Berry Fruit

Project overview

Name of the project	Northland Soft Berry Fruit Project
Region	Northland / Te Tai Tokerau
Tier and type	Tier 2: Sectors – Food and fibre
Applicant	Onyx Capital Limited
Total project value	\$Commercial Information
Amount of funding sought from the PGF	\$Commercial Information \$Commercial Information grant and \$Commercial Information loan requested
PDU proposed financial structure	(Up to) \$Commercial Information equity and \$Commercial Information loan
PDU recommendation	Approve

113. Onyx Capital Limited (Onyx) is seeking a \$Commercial Information grant and a \$Commercial Information loan from the PGF for the rapid expansion of an existing horticultural business that will expand their labour intensive hydroponic berry operation under the Maungatapere Berries brand

114. This will involve the creation of a sustainable hi tech hydroponic horticulture platform that is intended to lead to Commercial FTEs in Northland over three to four years.

115. Onyx is also developing systems and opportunities to upskill its workforce. This includes establishing an employee shareholding scheme, training programmes for literacy and numeracy (both part of this funding application) and engaging with the Ministry of Social Development. The company has a relationship with local hapū to support their horticulture aspirations. Onyx also seeks to employ people released from prison.

116. Onyx has an existing horticulture operation in Northland that has historically focussed on kiwifruit. Recently, it has successfully expanded into the hydroponic production of berries.

PDU recommendation

117. It is the PDU's view that any grant in excess of the \$910,000 (Commercial Information) would be difficult to justify given the financial benefit that flows to existing shareholders. The basis for the \$Commercial Information grant request was the applicant's estimate of saving for the government through increased employment at Onyx, offsetting social costs associated with unemployment and incarceration.

118. The PDU considers that if grant funding of \$Commercial Information and debt funding of \$Commercial Information (as per the applicant's request) is approved, it runs the risk that the PGF is replacing existing bank debt, de-risking operations significantly and potentially creating a very valuable asset in the hands of existing shareholders. Commercial Information



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Commercial Information

119. It is the PDU's view that a compromise solution could be found. Commercial Information

120. **The PDU therefore recommends the following:**

- i. **\$Commercial Information equity.** Existing shareholders would be given an option to purchase/retire the asset from the PGF at the end of 2024 for a three year average Commercial Information. This \$Commercial Information would be for a purchase of an effective **Comme** per cent of the company and given forecasts received, would return \$Commercial Information to the PDU if purchased/retired. An early re-purchase option of \$Commercial Information during the first three years is also recommended to be offered to existing shareholders.
- ii. **Up to \$Commercial Information in loan funding,** but to retain the commercial funding (\$Commercial In) to the operation and only approve funding up to \$Commerc 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). Furthermore, given the recent weak financial performance of the company, to limit any financial risk, negotiation with the bank funder should take place before any potential flow of capital to Onyx.
- iii. **Some other combination of equity and debt that fits the requirements of the Provincial Development Unit and is suitable to the applicant.**
- iv. **To the extent that the applicant's additional expenses in terms of training, as well as existing IP "owned" by the applicant is shared with the broader Commercial Information.** This value will be used to provide grant funding or economic benefit to the business.
- v. **Performance conditions, including:**
 - total employment numbers (Commercial FTEs),
 - Māori employment (50 per cent)
 - Formal training qualifications received (20).

Local support

121. The applicant has stated that the project has the support of local Hapū and has strong support from Northland Inc. Onyx worked closely with Northland Inc. to develop their application to the PGF.

Governance

122. The applicant is well positioned to execute the project as the project is largely an expansion.



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123. Commercial Information
 [Redacted]
 [Redacted]

Benefits

124. If successful, the project is expected to have the following benefits:

- i. Delivers benefit to the community through jobs, including NEETs (non-NEETs FTEs predicted)
- ii. Adds value by building on what is already there by expanding on existing hydroponic development in an area well suited to it
- iii. Aligns with horticulture and better land use elements in both the Tai Tokerau Northland Growth Study and the Tai Tokerau Northland Economic Action Plan.

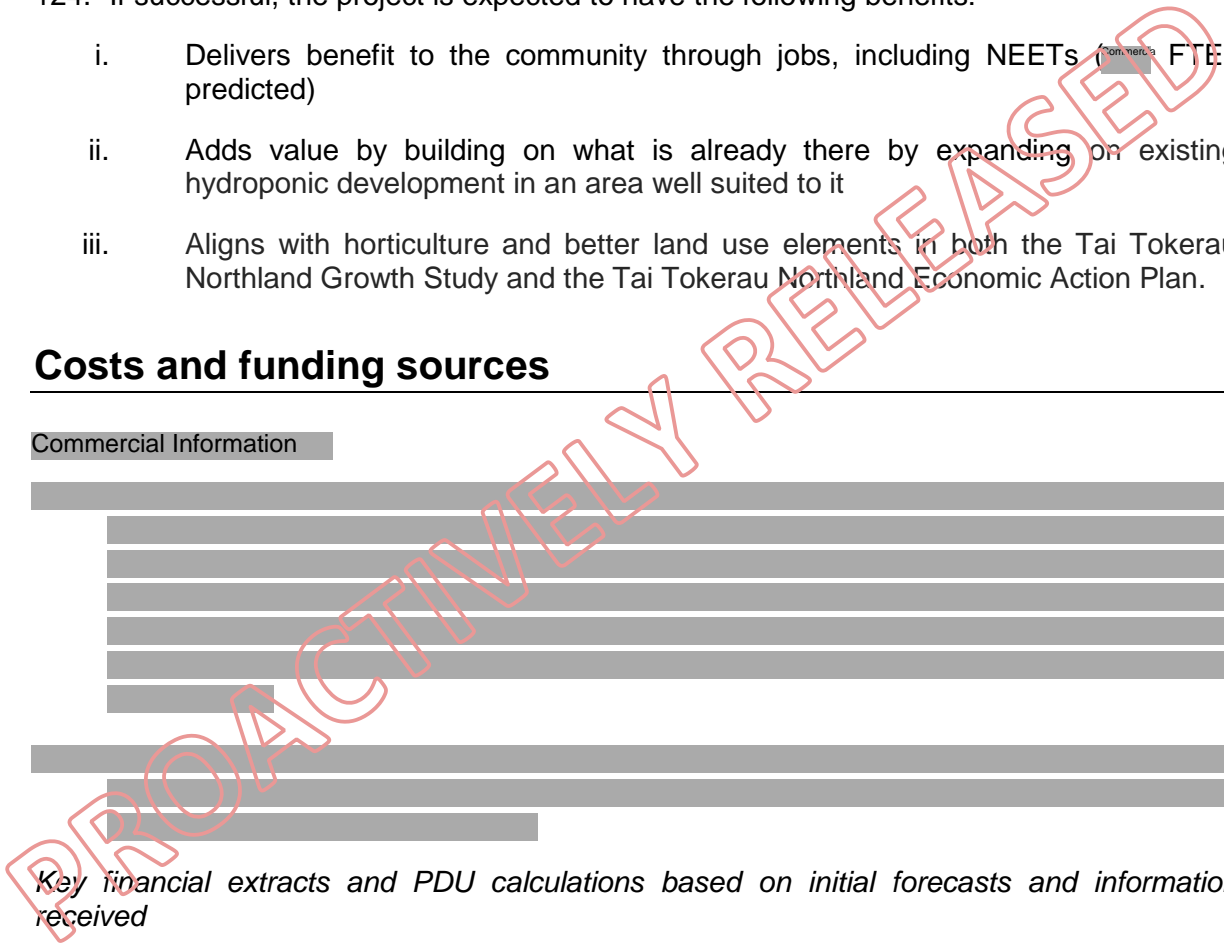
Costs and funding sources

Commercial Information

[Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]

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

\$ unless noted	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Total Sales	Commercial Information						
EBITDA avail for Int.							
Interest Repayment							
Int. Cover Ratio (X)							
Shareholders' Funds							
Retained Earnings (opening)							





Current Earnings (NPAT)	<h1>Commercial Information</h1>
Cash/(Overdraft)	
Term Debt	
Net Debt	
Net Debt/Equity %	
Return on Capital %	

127. Note that this table uses the applicant's initial forecasts (with largely flat fruit price estimates) and PGF grant/equity of \$Commercial Information and loan funding of \$Commercial Information (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.

128. The strong cash generation from 2021 onwards should allow for debt repayment to begin within three years (which the applicant is open to and has provided for in subsequent forecasts), however continuing to use bank debt will result in higher interest payments and a lower profitability.

PDU assessment of the project

129. This section provides an overview of PDU's assessment against the PGF eligibility and assessment criteria.

Assessment against PGF criteria

Criteria	Rating (1✓ to 5✓)	Comment
Sustainable regional economic development	✓✓✓	Yes, in that it creates employment and training for those not in employment, education or training (NEETs).
Productivity and innovation		Not directly.
Increased employment, training or work readiness for the sectors workforce	✓✓✓	Yes, within three years the project will provide training and FTE for <small>Commercial Information</small> people.



Criteria	Rating (1✓ to 5✓)	Comment
NZ's ability to meet climate change commitments	N/A	
Māori aspirations for utilising land and other resources and achieving cultural objectives	✓	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.
Additionality	✓	The project expands on existing hydroponic development in an area well suited to it.
Connections and alignment with regional priorities	✓✓✓	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".
Environmental sustainability and/or productivity of natural assets	✓✓✓	The project leads to more efficient and increased utilisation of land for agriculture.

Agency comments

MPI

130. MPI is supportive of this application.

MFAT

131. Commercial Information



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Treasury

132. Treasury does not think there is a strong justification presented for equity in this case. Treasury are hesitant to support equity because:

- i. With equity, the Crown would actually own some of the business and would then be legally responsible for ensuring the business complies with all legislative requirements. At some level the Crown would need to be involved and have a much more hands-on approach to the conduct of the business. This does not seem to have been considered in this proposal.
- ii. Equity poses more risk to the Crown compared to loans. If the venture fails, debt outranks equity which means the Crown is less likely to recover the full value of its investment; and there may be further calls in the future for the Crown to invest further into the business.

Risk assessment

133. The applicant's overall management of risks is considered to be sound and part of their business plan. The applicant has demonstrated experience in the activities to be taken.

134. Despite the above, the PDU considers that the below risks remain:

Type of risk	Mitigation
Given the recent losses experienced by the business, should it experience further financial stress, additional capital may be required.	The applicant states that their bankers are currently comfortable with their level of facilities and financial position.
As the applicant has originally applied for a significant proportion to be grant funded and the PDU proposal is that this rather be done in equity, there is a chance that the applicant would prefer to not take up the offer of funding at all from the PDU. This approach was taken so as to not lead to enrichment of the applicant and to some extent WTO concerns.	Any announcement should allow for the risk that the applicant may decline the offer.



Recommendations and next steps

135. The PDU recommends that you approve the request for \$^{Commercial Information} for the Northland Berry Fruit Project in the form of up to \$^{Commercial Information} of equity and \$^{Commercial Information} of loans or some other combination to be negotiated.
136. These will be reduced to the extent that training and broader community benefit from the businesses' intellectual property provide justification for grant funding or some other economic benefit, to the satisfaction of the PDU.

PROACTIVELY RELEASED