

2.18 Timber Offsite Manufacturing Factory in Cromwell

Project:	Timber Offsite Manufacturing Factory in Cromwell – Residential and Commercial Construction		FOR:	Approve
Applicant:	Hector Egger Holdings NZ Limited		Pipedrive ID:	Commercial
Application type:	Main PGF	(A) Total Project Value:	\$ Commercial Information	
Funding type:	Loan	(B) PGF Funding Sought:	\$ Commercial Information	
Entity Type:	Company (Joint venture)	(C) PGF Funding Recommended:	\$600,000	
Region:	Otago	(D) Applicant Contribution:	\$ Commercial Information	
Tier:	2 - Sectors	(D/A) Co-contribution Rate:	Comm %	
Sector:	Manufacturing / Engineering			
Application summary:	<p>Hector Egger Holdings NZ Limited is a new venture between New Zealand partners (Tristan Franklin and Stephen Mausli) and Hector Egger Holzbau AG (a respected international partner in the space of robotics driven Modular housing solutions). A capitalisation table containing detail regarding shareholders and directors of partners to the joint venture (i.e. Hector Egger Holdings NZ Ltd) is included in the application description (page 3).</p> <p>The new company specialises in the manufacture of high-tech timber elements and prefabricated timber panels for both residential and commercial building construction. The Commercial Information is seeking PGF funding Commercial Information to fund the construction of an off-site manufacturing factory and office space in Cromwell.</p> <p>The applicant expects the factory that it intends to build to commence production from Commercial Information if PGF funding is secured. Failure to secure funding will push production back approximately 12-18 months.</p> <p><i>[Please see full project description on Page 3]</i></p>			

It is recommended that the SROs:

Approve \$600,000 of loan from the PGF fund towards Hector Egger Holdings Limited:

➤ Because

- This project is in line with the PGF Wood Processing Principles Paper, which seeks to encourage the growth of increased modular housing and offsite manufacturing solutions that utilise wood. Hector Egger Holzbau AG is a respected international partner in the space of robotics driven modular housing solutions and this venture is expected to play a role in the advancement of modular housing technology in New Zealand.
- The project is set to generate between Commercial Information jobs from the day the factory commences production.

Roles will include carpenters, CAD designers, CNC machine operators and administrative staff.

- The factory will create additional work for local suppliers of goods and services through the outsourcing of some work.
- The provision of PGF funding will accelerate the project by 12-18 months, enabling the factory to potentially commence production in [Commercial Information].
- A secured loan is the most suitable mechanism to fund this project. Despite grant funding from the PGF recently being provided to firms that are part of the Southland and Otago Regional Engineering Collective (SOREC), the PDU considers a loan to be the most appropriate mechanism to fund this project because:
 - The applicant is better placed to repay and provide security for a loan than the SOREC applicants due to Hector Egger Holdings NZ Ltd being mainly-owned by an established foreign company
 - The applicant has requested a loan as its preferred method for funding
 - The nature of the project being funded significantly differs from the SOREC projects that have been funded, which were exclusively for the purchase of new equipment and machinery.
- The applicant's products will contribute to reducing the national housing supply problem through alternative residential construction solutions. The estimated capacity of the factory is between 100 and 150 houses per annum.
- Hector Egger Holzbau AG's largest Swiss factory is currently undergoing an advanced robotic upgrade in collaboration with robotics manufacturer Güdel. The applicant has noted that this intellectual property will become available to New Zealand's off-site manufacturing industry through its entry to market, with the potential for additional high-skilled jobs in robotics and engineering to be created.
- The applicant will have expertise readily available for the project from Hector Egger Holzbau AG in Switzerland through its production manager.
- Land has been purchased and the applicant has obtained resource consent for the construction of the factory.

➤ Subject to

- The structure of loan agreement being negotiated with the applicant. PDU officials consider it important that further conversations are had with the applicant to determine which company is the most suitable to be contracted party with regard to the role of Hector Egger company in the project and what security will be provided. PDU does not consider it appropriate to contract with Hector Egger Holzbau AG as it is not a New Zealand based company.
- Satisfactory financial analysis and due diligence.
- The applicant raising the further \$ [Commercial Information] of shareholder funding.
- Confirmation that the final structure is acceptable to the OIO.

➤ Note

- The applicant has been formally invited to apply for HNZA Offsite Manufacturing (OSM) Panel programme; however it is likely that the current factory would rather target "high end" housing, initially in Queenstown.
- That PGF has recently provided a \$110,000 grant towards NZ Structural Insulated Panels, a Cromwell-based business that are also in the prefabricated housing industry, for the purchase of new machinery. NZ Structural Insulated Panels will likely service a different market segment than full wood built modular housing, the market which the applicant is seeking to enter.
- Hector Egger Holdings NZ Ltd, Hector Egger NZ Ltd and Hector Egger Construction Ltd are all mainly-owned (55% shareholding) by PM Innovation Holdings AG, a Swiss company.
- PM Innovation Holdings AG has already provided \$ [Commercial Information]

- [Redacted] Free and frank opinions [Redacted]

Free and frank opinions

Section A: Triage – Assessment against PGF eligibility criteria

Is the project:

➤ an illegal activity?	No
➤ located in the three main metropolitan areas?	No
➤ seeking investment in large scale infrastructure of social assets?	No
➤ three waters	No

Application description

Hector Egger New Zealand Ltd (HENZ) is a joint venture undertaken by PM Innovation Holdings AG (a Swiss company) and local partners (SMIF Trustees Ltd and F H Trustee Victoria Ltd) to manufacture high-tech timber elements and prefabricated timber panels. The applicant is seeking a \$600,000 secured loan ^{Commercial Information}) from the PGF. ^{Commercial Information}

The project is to construct a 3450m² timber prefabrication factory with an office space in Cromwell. Construction will commence in January 2020 and HENZ expect the factory to commence manufacturing in October 2020.

Note that this application has been made by Hector Egger Holdings New Zealand Ltd (HEHNZ). HEHNZ has been established as the New Zealand arm of Hector Egger Holzbau AG, a Swiss company. Hector Egger Holzbau AG is a well-established construction company and has delivered over 900 timber construction projects in Switzerland.

The table below sets out the shareholding of the partners to the joint venture (i.e. shareholders of Hector Egger Holdings NZ Ltd):

Shareholders	Number of shares	% of total shares
Hector Egger Holdings NZ Ltd		
PM Innovation Holding AG	55,000	55%
SMIF Trustees Limited	22,500	22.5%
F H Trustee Victoria Limited	22,500	22.5%
Directors of Hector Egger Holdings NZ Ltd are Tristan Franklin, Stephan Mausli, Michael Schar and Paul Schar (note Paul Schar is the CEO of Hector Egger Holzbau AG and Michael Schar is part of its management)		
PM Innovation Holding AG – Swiss company so limited information is available		
SMIF Trustees Limited		
Elliot Charles Goldman	100	100%
Eliot Goodman is the sole director of SMIF Trustees Ltd		
F H Trustee Victoria Limited		
Michael John Foley	1	50%
Simon John Oldbury Jones	1	50%
Michael Foley and Simon Jones are the sole directors of F H Trustee Victoria Ltd		

Note that 45% of the legal shareholding of HEHNZ resides with the Trust companies identified above however HEHNZ publically states that the joint venture is between Hector Egger Holzbau AG, Stephen Mausli and Tristan Franklin.

The provision of a \$600,000 secured loan will allow HENZ to begin production between 12-18 months earlier. A ^{Commercial Information}

PGF funding is being sought because private lenders have reservations and concerns around the construction sector generally and have taken a conservative approach to lending. The applicant notes that products will be imported from Switzerland until the factory is constructed if the loan ^{Commercial Information} cannot be secured from the

PGF.

The factory is to be constructed by Hector Egger Construction Services Ltd and will be owned by HEHNZ (the applicant). Once constructed, the building will be leased to Hector Egger New Zealand Limited. All three companies have the same shareholding and are mainly owned by PM Innovation Holdings AG, a Switzerland-based company.

From start-up, the applicant estimates that between [Commercial Inf] skilled jobs will be created. The applicant will provide training opportunities for employees as well as offering apprenticeship programmes. Roles will include carpenters, CNC machine operators, CAD designers and administrative staff. The applicant also notes that the factory would also bring significant business to local suppliers of products and services and that its office building has been designed with co-working in mind.

New Zealand is currently experiencing difficulties in providing cost effective housing and construction services and it is expected that a factory of the kind proposed will reduce cost, improve speed of delivery and quality for both residential and commercial construction projects. The applicant estimates that the factory will be able to produce between [Commercial Informat] houses per annum. Breakeven for the factory is estimated to be [Comme] units per annum. PGF investment will enable the applicant enter the New Zealand market much sooner and with it improving the diversity of housing solutions available to the market.

MPI have commented on the proposal and noted that there is a lack of local skilled labour.

Co-Funding Table:

Co-Funder	Pledged/Confirmed/Cash/In-Kind	\$x,xxx,xxx
Shareholder funded – land purchase	Completed	\$ [Commercial Information]
[Commercial Information] – factory construction	Confirmed	\$ [Commercial Information]
Shareholder funded – factory construction	To be confirmed	\$ [Commercial Information]
Shareholder funded - CNC Machinery	Completed	\$ [Commercial Information]
Commercial Information	In discussion	\$ [Commercial Informat]
Total		\$ [Commercial Information]

Overseas Investment Office

- | | |
|---|-----|
| ➤ Is the application being made by a non-New Zealand based legal entity? (Foreign investment laws may apply and the Overseas Investment Office consulted) | Yes |
|---|-----|

Section B: Operational Assessment Criteria (Complete for EoIs and Applications)

(Rate and comment – 1= poor, 5 = very good - Provide the number for this project, not subsequent phases)

Fund and government outcomes

Please highlight number below

Would the project:		
➤ create permanent jobs?	Commercial In staff will be employed from commencement of the factory's operation. Roles will include carpenters, CNC machine operators, CAD designers and administrative staff. No detail of the number of construction jobs that will be required to construct the factory has been provided.	N/A 1 2 3 4 5
➤ deliver community benefits?	The applicant will work with suppliers of products and services, bringing new business to Cromwell. The product produced by the factory will also help address a national issue of supply of housing, as prefabricated houses can be produced quicker than using traditional construction methods for a fixed price.	N/A 1 2 3 4 5
➤ increase utilisation of and returns on Maori assets?	N/A	N/A 1 2 3 4 5
➤ enhance the sustainability of natural assets?	The applicant notes that all of their projects use sustainably sourced timber.	N/A 1 2 3 4 5
➤ mitigate climate change effects, or assist with the lowering of emissions?	Indirectly, the use of timber promotes sustainable forestry which helps mitigate climate change effects through carbon sequestration.	N/A 1 2 3 4 5
Additionality		
Would the project:		
➤ add value by building on what is already there, without duplicating effort?	The applicant has already purchased land and secured building consents for the construction of the factory. The project will commence regardless of whether PGF funding is granted, the benefit of PGF funding is that the project will be accelerated by 12-18 months. Note that there is already a Cromwell-based company (NZ Structural Insulated Panels) manufacturing prefabricated housing panels. PDU officials consider that NZ Structural Insulated Panels service a different market segment than full wood built modular housing. NZ Structural Insulated Panels were recently granted PGF funding under the SOREC arrangement at the October 31 SRO meeting.	N/A 1 2 3 4 5
➤ be a catalyst for productivity potential in the region?	PGF funding will bring forward the date production at the factory commences by 12-18 months. This means that production will take place in New Zealand during this period creating new jobs in the Cromwell area rather than offshore. Prefabricated housing solutions will also contribute to addressing the shortfall in housing supply in the Otago region. Lack of housing centrally is	N/A 1 2 3 4 5

	set to worsen in Dunedin as workers move to the city to contribute to the hospital reconstruction and lack of suitable housing for seasonal workers in central Otago is an ongoing issue.	
Connected to regional stakeholders and frameworks		
Does the project:		
➤ align with regional priorities, such as frameworks, or regional plans?	The Southland Otago Regional Engineering Collective has recently been established through the PGF to invest in new technology for the engineering and manufacturing sectors in Otago and Southland.	N/A 1 2 3 4 5
➤ have the support of local governance groups (councils, iwi and hapu)?	The applicant notes that public consultation is not required for this project however provided a list of entities that they had engaged with already, including the likes of local councils and Ngai Tahu.	N/A 1 2 3 4 5
Governance, risk and project execution		
Does the application show:		
➤ robust project management and governance systems?	A construction management plan is currently being developed for the project, which will also include the Health and Safety policy for the project. Management practices are also defined within Hector Egger Holzbau ISO9001 certified management procedures. Hector Egger Holzbau AG have significant experience as an offsite manufacturer in Switzerland and the applicant will appoint a production manager from the Switzerland site. The production manager will work in NZ for 18 months under a Specific Purpose Work Visa.	N/A 1 2 3 4 5
➤ plans for future ownership and operational management?	-Hector Egger Holdings New Zealand Ltd will own the building -Hector Egger New Zealand Ltd will lease the building -Hector Egger Construction Services Ltd will construct the building All three companies have the exact same shareholding and are mainly owned by PM Innovation Holdings AG (55%).	N/A 1 2 3 4 5
➤ how the project will be delivered and managed?	Key personnel, including members of the project team, have been identified. A construction management plan is also currently being developed. A tender for the construction of the factory was run with three Central Otago-based construction companies, however, the applicant decided to assume the Main Contractor role following a review of the pricing. The applicant notes that local suppliers will be used in the construction and operation of the factory where possible.	N/A 1 2 3 4 5

Section C: Risk Management Evaluation			
Does this application demonstrate consideration of the following risks?			Yes
Type of risk	Risk description	Mitigations	Risk Rating
<input checked="" type="checkbox"/> Project risk	Factory is not delivered on time, to specification or within budget.	<p>The applicant has budgeted \$^{Commercial Information} for contingency in the event of an overrun in construction costs. The applicant also notes that additional shareholder funds will be available in this event if required. Hector Egger Construction Services Ltd will construct the factory and the construction project is managed and overseen by ^{Privacy of natural persons}</p> <p>The applicant has indicated that the site chosen is not sensitive land in terms of the OIO definitions; however, the PDU has recommended that this be made this a condition of approval.</p>	Low
<input checked="" type="checkbox"/> Operational risk	Insufficient demand for pre-fabricated housing solutions means forecasted sales are not achieved.	The applicant notes that the factory is able to adapt its operation to produce traditional frames and trusses in the event of the market being slow to accept its products.	Low

Section D: Funding and financial analysis		Please highlight number below
Does the application show:		
<ul style="list-style-type: none"> How strong is the financial position of the applicant organisation? 	<p>The company is a not operational (Hector Egger Holdings NZ Ltd was incorporated on 28 May 2018) and was started to house the new venture. As at 31 August 2019, the applicant's net assets were ^{Commercial Information} Net assets were ^{Commercial Information} at the end of the 2018 year</p>	N/A 1 2 3 4 5

	<p>(31 December). Net assets of Hector Egger NZ were ^{Commercial Information} as at 31 August 2019.</p> <p>^{Commercial Information}</p> <p>Free and frank opinions</p>	
<ul style="list-style-type: none"> How does the scale of the project compare to their overall business? 	<p>Hector Egger Construction Services Ltd (HECS) are a recently established company (31 October 2018) ^{Commercial Information}</p> <p>There are experienced personnel overseeing the project and the project will be supported by Hector Egger Holzbau AG. ^{Privacy of natural per}</p> <p>^{Privacy of natural persons} is responsible for oversight and delivery of the new factory.</p>	N/A 1 2 3 4 5
<ul style="list-style-type: none"> Why is Crown funding being sought rather than commercially-available funding? 	<p>The applicant notes that private lenders are conservative when it comes to lending to the construction sector in general. The applicant notes that the factory will be completed if PGF support cannot be obtained, however a \$600,000 loan from the PGF will accelerate the timeline for this project by 12-18 months.</p>	N/A 1 2 3 4 5
<ul style="list-style-type: none"> What does the independent financial analysis/ business case indicate? 	N/A	N/A 1 2 3 4 5
<ul style="list-style-type: none"> Is the funding model requested appropriate? Is the PDU recommending a different model? 	<p>The PGF secured loan will ^{Commercial Information} approximately ^{Commercial Information}.</p> <p>This is considered appropriate as the \$600,000 secured loan enables a ^{Commercial Information} project to be commenced that is expected to create ^{Commercial Inf} jobs.</p>	N/A 1 2 3 4 5
<ul style="list-style-type: none"> Has the applicant provided evidence of market pull for this project? 	<p>The applicant notes that New Zealand is currently facing significant problems in regards to housing supply. The factory is expected to produce between ^{Commercial Information} houses per year and the applicant notes the factory will be flexible and will be able to produce frames and trusses if required.</p> <p>The applicant has also provided evidence that they have been invited to participate 1-1 interviews with the ^{Commercial Information} following an 'Invitation to Participate' process.</p>	N/A 1 2 3 4 5
<ul style="list-style-type: none"> Has the applicant provided evidence that their supply chain is secure? 	<p>The construction of the Hector Egger Factory will be undertaken by Hector Egger Construction Services Ltd (HECS). HECS was established on 31 October 2018 and has a small asset</p>	N/A 1 2 3 4 5

Summary of funding and financial analysis:	Post capitalisation it should have \$ Commercial Information	N/A 1 2 3 4 5
Funding arrangements		
PDU recommends providing a loan/ Commercial Information of \$600,000. Commercial Information		

Consultation from partner agencies undertaken or implications

MPI have commented on this application and recommended:
 “approve the application subject to queries outlined in this memorandum, particularly around:

- Scale, agility and competing business models
- Approach for deficiencies in local skilled labour force
- Further clarity on equity position, and remaining shareholder funds”

Free and frank opinions

[Redacted]

[Redacted]

[Redacted]

Conflicts of interest and T&Cs

Due diligence has been undertaken and no further action is required.

Summary statement of Peer Review undertaken

The following Peer Review has taken place in connection with this application:

All applications are discussed between the Regions Team and Investment Team during the assessment process and prior to submission to SROs / IAP.

Consultation with the relevant partner agencies has occurred allowing them to provide any relevant technical advice with any feedback included verbatim within this application form.

In the development of this form:

- i. A peer review by an Investment Director has taken place and included the following to the satisfaction of the peer reviewer:
 - a. An evaluation against the PGF criteria;
 - b. Financial analysis;
 - c. A risk assessment, highlighting any relevant or key risks;
 - d. Conflicts of interest have been noted and accepted
 and the peer reviewer concurs with the recommendation proposed.
- ii. The Head of Investment has reviewed this recommendation.
- iii. This application has been reviewed by the PDU SLT.

Peer Review has been completed

Yes

Supporting proposal:

Yes

Appendices:

Yes – Applications and supporting letters are as annexes

Supporting letters withheld - Commercial Information

Author of paper:

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