REPORT ON NZKGI'S POSITION ON THE 2024 ZGS PRODUCER VOTE

Contents

Executive summary

The purpose of this report is to explain the process NZKGI has gone through to inform Forum members on the ZGS Producer Vote so that they can make the best informed decision when taking a position. This involved assessing the risks, mitigants of the risks and rewards that Zespri has communicated to growers which can be summerised as follows:

Risks: Most risk impacts for growers were considered to be negligible, with some others minor or moderate. No major or catastrophic risks were identified. The risks identified are not new to ZGS, given Zespri has been pursuing a 12-month supply strategy for over 20 years and 5,000ha are already planted. A 50% increase in plantings could increase the risks, but may also add to controlling the risks through the increased benefit from scale. The likelihood of the risks occurring was highly variable and the frequency of their occurrences was not determined.

Risk mitigants: NZKGI assessed the mitigants communicated by Zespri and has validated that they can be found in ZGS contracts and processes. NZKGI also has the position that to mitigate the risks, conditions must be placed on the expansion to hold Zespri accountable to ensuring the ZGS strategy is successful.

Rewards: The rewards ('what's in it for growers') communicated to growers by Zespri were assessed with varying levels of acceptability as outlined in this report. The rewards were summerised as a 2033/34 value for SunGold of +$0.63 - $1.32/TE, Green of +$0.47-$0.96/TE and shareholders of +$0.36 - $0.38. The rewards require the achievement of the 12-month supply strategy in key markets. Members of the Forum also noted that a sufficient (rather a minimum) number of hectares should be planted for the strategy to fulfill its true potential.

Risks vs rewards: Both risks and rewards were compared and are summerised in this report.

Other considerations: The NZKGI Forum were presented with findings that:

- The 12-month supply strategy is the right strategy for consumer retention
- It is not efficient to produce 12-months of supply from New Zealand
- There are limitations around creating varieties for 12-months of supply from New Zealand
- Use of another brand for ZGS would severely hinder the success of the ZGS strategy

The NZKGI Forum came to the following position which was communicated to growers.

NZKGI Position:

NZKGI supports the ZGS expansion draft proposal*

**That growers support the allocation of up to 420 additional hectares per year of SunGold Kiwifruit over 6 years across Italy, France, Japan, South Korea and Greece, subject to annual review by the Zespri Board to confirm demand remains ahead of supply and the provision of annual reporting to growers.*

In supporting the resolution, NZKGI will work with Zespri on annual reporting expectations and KPIs which we expect to cover the following areas:

- Specific details by market of the cross over between NZ fruit and ZGS fruit
- A trend towards a rebalancing of overheads to ZGS and reduction in advertising and promotional spend in 12-month supply markets
- Details of any PVR/GAP audits and breaches in ZGS including remedial action taken
- A trend towards an increasing percentage of ZGS fruit being sold between January and April every year to demonstrate progress towards 12-month supply in key markets

Rewards

Zespri have communicated the benefits of ZGS expansion to growers through avenues such as their Shed Talks, the Zespri Canopy and the September issue of Kiwiflier. The rewards can be summerised as the 'value at stake' as follows:

		Impact in 2033/34 vs. current plan		
		SunGold NZS Pool (in NZD per TE)	Green NZS Pool (in NZD per TE)	Shareholder earnings in NZD per share[1]
PROTECT VALUE	**Protected value-proposition:** Losing market share, best shelf space, price premium erodes returns (conservative case/high impact case[2]).	0.57 - 1.26	0.41 - 0.90	0.09 - 0.11
		VALUE AT RISK IF NO EXPANSION		
OPTIMISE COSTS	**Optimised costs:** A&P spend is more efficient due to not having to restart sales when NZ fruit returns.	+0.04	+0.04	
	Rebalanced overheads: NZS overhead costs would decrease as a result of a reduced relative share of NZS vs ZGS.	+0.02	+0.02	-0.02
INCREASE VOLUME	**Increased Shareholder Returns:** Earnings on more sales deliver additional dividends.			+0.29
TOTAL VALUE AT STAKE *(sum of expected gains and value protection)*		SUNGOLD $0.63 - $1.32 PER TE	GREEN $0.47 - $0.96 PER TE	SHAREHOLDERS $0.36 - $0.38 EARNINGS PER SHARE AFTER TAX

[1] Earnings per share after tax.
[2] Conservative case: 10% price impact on ZGS season and 10% on NZS on 20% of NZS season; High-impact case: 10% price impact on ZGS and 15% impact on NZS on 30% of NZS season.

Zespri's explanation of 'The Financial Benefits of the ZGS Proposal for New Zealand Growers'. September issue of Kiwiflier.

Rewards Analysis

Colin Bond, NZKGI, assessed the above rewards alongside Merv Dallas and Craig Greenlees. These individuals were chosen as they are also members of the margin review committee and have a good understanding of the Zespri business. Noting that there are a lot of assumptions in the data analysed, which is unavoidable when looking that far into the future, the below findings were made.

Protected Value Proposition: The range of impact from value erosion (10% price erosion for ZGS season/10% impact for 20% of NZ season through to 10% impact for ZGS season/15% impact for 30% of the NZ season) are based on the erosion of current price premiums and current time of ZGS fruit in the market at the start of the NZS season. The team found that they appear reasonable assumptions, <u>but only if Zespri can achieve 12-month supply</u>.

The team also notes that there has been more of a focus on value erosion during the ZGS season and the start of the NZS season. It is possible that there will also be a value impact at the end of the NZS season and certainly less ability for Zespri to manage the shoulder seasons if the Northern hemisphere fruit is competitor fruit. This value at risk has not been quantified.

Advertising & Promotional spend: The four cents Advertising & Promotional saving presented by Zespri assumes 25% of the market achieves 12-month supply. The team believes that this is an unreasonable assumption in the very short term given ZGS fruit storage performance, but a reasonable assumption out to 2033 if ZGS fruit can be proven to store for longer.

Overhead expenditure: The two cents from rebalanced overhead expenditure from New Zealand Supply to ZGS assumes that funds are not spent in other areas and therefore flow through to the EBIT line and then distributed via increased loyalty. That assumes strong cost control by Zespri which is possible, but perhaps not probable. The team also recognizes that two cents does not have significant materiality.

Increased shareholder returns: The 29 cent benefit to shareholders is volume driven. More revenue from ZGS flows through to increased shareholder returns.

Value for green growers: The benefit to green growers is essentially a halo effect from gold. The team sees this as harder to validate but not entirely unreasonable given the historic experience in markets like the USA where the introduction of gold helped improve the returns of the whole category. Even if the benefit was half as much, the team believe it is still significant for growers out to 2033. Especially for green growers with less margin to play with. The benefit could contribute to covering a significant portion of their cost increases over the same period.

The team also notes:

- There are other benefits such as diversification, 12-month innovation which have not been quantified but add value to NZ growers.
- Losing the opportunity to work with the best growers and giving up market share intuitively is not an outcome that will benefit NZ growers.

Risks

Risks with the proposed resolution were analysed in order to support the Forum making an informed decision.

Zespri: Zespri has identified the risks associated with ZGS as well as stated the risk mitigants.

KNZ: KNZ's role is to ensure that risks are identified and communicated to growers: "*The decision about the desirability of an activity, its risks, or whether the benefits of an activity outweigh the risks involved are all decisions for producers. KNZ's role is to ensure that producer oversight is engaged, and producers have the information necessary to make an informed vote*."

NZKGI: Took it upon itself to support the Forum and growers understanding of the risk mitigants by assessing them.

The risks and mitigants assessed by NZKGI were those identified by Zespri and communicated to growers via the Zespri Canopy as of 20.08.2024 as below:

Brand reputation & customer perception:

- Risk of Food safety breach which causes brand reputation damage
- Risk of Sustainability/environment and/or social responsibility issues

Mitigation
ZGS fruit has equivalent standards and auditing systems in place to NZ fruit
ZGS growers have equivalent independently audited food safety assurance systems to NZ such as GAP (other than Korea where this is currently under review as part of the Zespri GAP refresh)
ZGS growers must comply with Zespri's crop protection programme and residue testing check compliance like in NZ
Reinforcement of protocols through grower training and education
Zespri oversight of growers and post-harvest facilities with experienced staff on the ground

(In addition, there has also been a suggestion by a Forum member to understand the maturity testing standards before it goes into a Zespri box).

Financial risks:

- Risk of ZGS and NZ fruit competing in the same market during season cross-over
- Risk of markets being over-supplied
- Risk of cost to NZ growers from operating the ZGS business

Mitigation
Prioritising NZ fruit sales is the key principle as international seasons change. The aim is always to ensure that NZ fruit sales are not disadvantaged by the presence of ZGS fruit*
Market allocations are planned based on this principle and we review plans regularly based on seasonal circumstances and transit times*
The season cross-over is monitored and reported to industry *
ZGS covers its own overheads and contributes to wider Zespri costs on a user-pays basis (by volume or time)*

As ZGS grows, it will contribute more to the costs of running Zespri*
We regularly assess demand and supply to ensure that ZGS demand remains ahead of supply to maintain premium*
We seek to ensure we find the right balance between extending the NZ season and minimising fruit loss to maximise NZ grower returns*

Intellectual property risks:

- Risk that Zespri knowledge and techniques are used by competitor growers
- Risk of PVR leakage

Mitigation
All growers agree to confidentiality provisions when signing contracts and growers are reminded of this with disclaimers on all documents. Only authorised SunGold Kiwifruit growers can attend Zespri technical events
Legal systems exist in ZGS production countries to address unauthorised planting which will be utilised where appropriate*
ZGS creates opportunities for overseas growers to plant SunGold Kiwifruit in ZGS production countries which reduces the risk of unauthorised planting. Generally speaking, anyone who meets our requirements and wants to grow SunGold Kiwifruit can do that through our partners*
ZGS has been operating for over 20 years and provides growers with the opportunity to be part of a growing community of authorised Zespri partners which creates additional incentive for growers and the community to report unauthorised planting activity, as well as creating a network of people that improve Zespri's ability to become aware of unauthorised activity early*
Zespri has skilled staff in place in ZGS production countries who are part of the local growing community and are able to identify potential unauthorised plantings*
Only Zespri authorised growers can access SunGold nursery stock and grow SunGold Kiwifruit*
All planting is audited and recorded
Zespri accredits only reputable nursery partners and monitors plant material development
Zespri's innovation programme considers what lessons can be taken from our ZGS locations and applied to NZ*

*NZKGI has not requested evidence of these mitigants as they are already being communicated to NZKGI.

Risk Matrix

ZGS expansion does come with risks, as does growing kiwifruit in New Zealand. Yet both practices have been successful for decades. The purpose of the risk matrix and mitigation exercise below was to help provide some context around the risks and whether those risks can be mitigated to a satisfactory level. Opinions will differ between growers, as they did between Forum members, but the exercise goes some way to make the risks relative.

At the 20 August Forum meeting, a risk matrix was utilised to weigh the risks identified by Zespri as well as some additional risks identified by the Forum with the below results:

Likelihood	Impact / Consequence				
	1 Negligible	2 Minor ~<50c/TE/yr	3 Moderate ~50c - $2/TE/2 yrs	4 Major ~>$2/TE/>2yr	5 Catastrophic
5 Almost certain	LOSS OF ZESPRI KNOWLEDGE & TECHNIQUES 5	10 PVR LEAKAGE	15	20	25
4 Likely	4	8	12	16	20
3 Possible	BLACK MARKET 3 POOR STORAGE	ESG 6 UNSKILLED	9 ZGS/NZ COMPETE	12	15
2 Unlikely	2 POOR QUALITY	4	6 FOOD SAFTEY	8	10
1 Rare	OVER SUPPLY 1 ZGS COST TO NZ GROWER	2	3	4	5

Likelihood definitions

- *Rare: May occur, but only in exceptional circumstances. It would be highly unexpected*
- *Unlikely: Could occur in some circumstances, but would be surprised if it happens*
- *Possible: Might occur in some circumstances*
- *Likely: Is expected to occur in most circumstances. Not surprised if it happens*
- *Almost certain: Is expected to occur and is almost inevitable*

Impact/consequence definitions

- *Negligible: No adverse financial, environmental or brand impact*
- *Minor: Minor financial, environmental or brand impact (~<50 cents/TE/one year) that can be remedied or likely to have a financial impact of one or two years.*
- *Moderate: Financial (~50 cents - $2/TE/two years), environmental or brand impact with a long-term financial impact lasting several years.*
- *Major: Severe financial, environmental or brand impact resulting in significant, long-term financial downturn (~>$2/TE/>2 years) for the NZ kiwifruit industry.*
- *Catastrophic: Likely to end the New Zealand kiwifruit industry as it currently functions.*

Explanation of Risks

The following definitions explain the risks which can be found in the risk matrix:

Brand reputation & customer perception:

- Food safety breach which causes brand reputation damage
- Sustainability/environment and/or social (ESG) responsibility issues

Financial risks:

- Risk of ZGS and NZ fruit competing in the same market during season cross-over
- Risk of markets being over-supplied
- Risk of cost to NZ growers from operating the ZGS business

Intellectual property:

- Risk that Zespri knowledge and techniques are used by competitor growers
- Risk of PVR leakage

Additional risks identified by Forum:

- Risk of ZGS-grown kiwifruit being sold on the black market
- Risk of ZGS-grown kiwifruit experiencing storage issues
- Risk of ZGS-grown kiwifruit experiencing quality issues
- Risk of poor education for ZGS growers

Summary:

While growers will have their own appetite for risk, the above heat map should provide some clarity on the extent of risk which exists for ZGS. It must also be noted again that these risks currently exist with ZGS as well as New Zealand fruit. The extent of the risk may change if the number of ZGS hectares increase, but these could also be managed by the risk mitigants.

Mitigant Assessment

Zespri has stated their mitigants to deal with the identified risks. NZKGI has then attempted to validate these mitigants via the following process:

- At NZKGI's request, Zespri submitted extracts of ZGS contracts which reflected the above stated mitigants to brand reputation & customer perception as well as Intellectual property risks.
- NZKGI did not procure evidence of mitigants for the financial risks as it was deemed that Zespri regularly update NZKGI on the mitigants in this area.
- Members of NZKGI who were recently in Europe also had the opportunity to identify these mitigants first hand. Some Forum members described their observations of some mitigants in Europe. No Forum members had any observations of mitigants not functioning correctly in Europe.

Risks vs Rewards

Having made an assessment of the risks and mitigants, it was also important to consider the risks of doing nothing, which is essentially the reward at stake. The rewards at stake have been noted above in the report as a 2033/34 value for SunGold of +$0.63 - $1.32/TE, Green of +$0.47-$0.96/TE and shareholders of +$0.36 - $0.38.

+ OPTIMISED COSTS
+ REBALANCED OVERHEADS
+ INCREASED SHAREHOLDER RETURNS
= SHAREHOLDERS +$0.36 - $0.38

+ PROTECT VALUE PROPOSITION
= GOLD VALUE +$0.63 - $1.32/TE
= GREEN VALUE +$0.47-$0.96/TE

Likelihood	Impact / Consequence				
	1 Negligible	2 Minor ~<50c/TE/yr	3 Moderate ~50c - $2/TE/2 yrs	4 Major ~>$2/TE/>2yr	5 Catastrophic
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2 Unlikely	2 POOR QUALITY	4	6 FOOD SAFTEY	8	10
1 Rare	OVER SUPPLY ~~1~~ ZGS COST TO NZ GROWER	2	3	4	5

There may be different opinions between growers on the frequencies of the likelihood of different risks occurring. There is more certainty around the rewards being realised as noted with the considerations taken in the rewards section of this report.

We also note that it is not possible to weigh this value against the risks, despite the impact being identified by the NZKGI Forum, because of the speculative frequency of the likelihood of the risk occurring.

Further Considerations

The NZKGI Forum and growers were presented with expert views to allow them to make a more informed decision on the ZGS topic.

KNZ: Kiwifruit New Zealand CEO Geoff Morgan gave a presentation to Forum on the role of KNZ in this ZGS Producer Vote. He highlighted several factors, including KNZ's role to ensure producers are fully informed of the proposed activities, ensure the voting process meets the regulatory requirements as well as to monitor and enforce the results of the Producer Vote. A podcast of Geoff's talk will be made available in the near future.

David Hughes: International speaker on global food and drink industry issues David Hughes talked to the NZKGI Forum on the advantages/disadvantages of 12-month supply. David covered several different areas, with his primary conclusion that Zespri 12-month supply is essential for consumer retention. A podcast of David's talk will be made available in the near future.

Kiwifruit Breeding Center: CEO Matt Glenn was asked if future varieties allow for 12-month supply to be produced from NZ. Matt presented that producing varieties for an early and later harvest has not been a focus of the center to date. He also noted that you can only push biology so far with the development of new varieties. Matt's presentation will be made available on the Producer Vote page on NZKGI's website.

Start Afresh: Joint Managing Director Dave Tanner was asked if a New Zealand supply chain, particularly coolstore technology, could allow for 12-month supply to be produced from New Zealand. Dave talked to the challenge as well as the tools available to support fruit being exported so that it arrives in best condition in market. One of his conclusions was that while the tools should be used for both New Zealand and offshore supply to create a more reliable delivery, the further out the delivery is, the higher the cost for growers, to the extent that the cost could outweigh the benefit. Dave's presentation will be made available on the Producer Vote page on NZKGI's website.

Forum members experiences in Europe: Several Forum members recently visited European orchards and markets where they had the opportunity to view the ZGS business. Their observations have been minuted and a podcast of the highlights will be available on the Producer Vote page on the NZKGI website in the near future.

Alternative branding: A discussion about branding ZGS fruit differently to New Zealand kiwifruit concluded that it would not be practical. The reasoning for this was that ZGS growers, who have grown under the Zespri brand for 20 years, would be unlikely to invest in a new brand over one of the now established competitors, which they now have a choice to change to. Further, having two Zespri brands on shelves would not support the strategy of keeping the Zespri brand in front of consumers 12 months of the year.