The fixed income experts

3 March 2017

StockCo Holding Pty Ltd

Executive summary

- StockCo Group is a niche provider of a specialty agricultural finance. It provides short-term “finishing” finance facilities for pasture and feedlot based cattle and sheep producers. StockCo is a private company owned by Marcus Kight who established the business in 1995 in New Zealand. StockCo New Zealand has financed over NZD1.1bn of livestock. StockCo Australia has been in operation since 2014, and has financed over $450m of livestock
- The company issued $30m of subordinated notes in October 2016 and is seeking to raise a further $17m under the same line (Please see Appendix 1 for details of the structure)
- Elders, one of the largest national livestock agency businesses in Australia, has taken a 30% equity stake in StockCo Australia to strengthen the strategic alliance
- From the farmer’s standpoint, finishing finance is compelling as the total cost will typically only represent 2-3% of the sale price of the animal and frees up capital for investment in other activities. Banks will typically only finance up to a loan to value ratio (LVR) of about 60% of real estate value
- Finishing financing is considered a lower risk form of stock financing given it is short-term, and secured against an asset which naturally increases in value
- Given the appreciation of security value, based on average growth rates for pasture fed stock there were no instances since 1997 where producers would have been unable to put on sufficient stock weight to more than offset the volatility in beef prices. Further, both StockCo’s portfolio and the total livestock herd of StockCo’s clients are purchased over time which effectively averages price movements
- Livestock assets are a highly liquid form of collateral. Security over the assets is registered in all instances on the PPSR (Personal Property Securities Register). StockCo’s standard loan documentation also includes guarantees from individuals or related entities. Additionally, the right to mortgage additional assets is built into StockCo’s Master Livestock Agreement
- StockCo’s cattle security are tracked in real time using StockCo’s proprietary software leveraging Radio Frequency Interactive Devices (RFID) tags that all cattle are required to have. Whenever cattle are sold or transported, their location and ownership is updated
- Businesses such as StockCo’s are always at risk from bad debts and potential fraud. However so far in Australia there has been $0 write offs and no specific provisions. The historical loss rate of the New Zealand business with over NZD1.1bn of livestock funded over 20 years is 0.4%
- While there are low barriers to entry, effective and scalable livestock financing requires specialised systems, processes and management. Historically therefore, potential competitors sought minimal exposure due to the specialist knowledge required to appropriately manage direct livestock exposures

Company Description

StockCo Group Australia (StockCo) is an Australian niche provider of a specialty agricultural finance product tailored to fund the "finishing" phase of livestock's growth. Finishing finance is provided by funding the purchase price of livestock for a defined period of time with a specific end market in mind. The period of funding can vary from 2 to 12 months, and the current weighted average term of StockCo's finance book is 5.8 months. StockCo provides livestock finance facilities for pasture and feedlot based cattle and sheep producers. Please refer to Appendix 1 for details of the services offered.

StockCo Australia has been in operation since 2014, and has financed over $450m of livestock. StockCo is now the largest specialist livestock financier in both Australia and New Zealand and continues to rapidly expand its market leading position in the Australian livestock industry. This position has been recently further strengthened by Elders' purchase of 30% of StockCo Australia.

The remaining 70% of StockCo is owned by entities associated with Marcus Kight. Marcus is the founder of the business and has been operating StockCo New Zealand since 1995. In the past 20 years, StockCo New Zealand has financed over NZD1.1bn of livestock, comprising approximately 5.5 million sheep and lambs, and approximately 1.0 million cattle, with an historical loss rate of 0.4%. The New Zealand business currently has NZD75m of assets under management.

Strategy

StockCo has a proven successful business model in NZ. In Australia, it is experiencing rapid growth driven by a multichannel distribution strategy comprising direct to market and strategic distribution alliances. StockCo is progressively and selectively building a portfolio of distribution agreements. The Australian business is underpinned by processes and systems that have been developed during 20 years of successful operations in New Zealand.

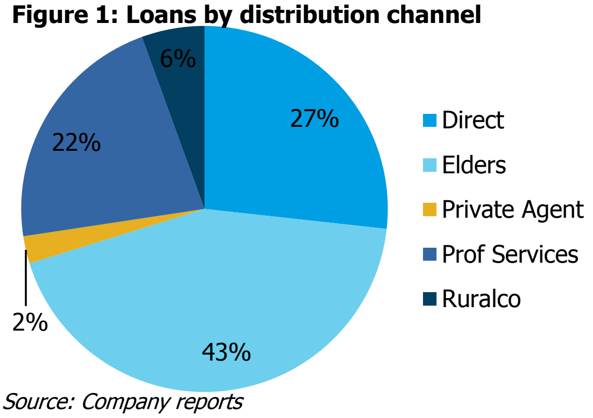
As StockCo develops larger volumes of livestock suitable for processing and/or exporting, it will negotiate headage commissions (payments for directing stock to particular processors or exporters) and distribution arrangements in line with the successful NZ model.

Distribution network

StockCo utilises various agents to distribute its product. StockCo has entered into a formal distribution agreement with Elders. Elders is one of the largest rural services and livestock agency business in Australia with over 1,800 employees and 230 branches.

StockCo commenced a national pilot with Elders on 1 August 2014 which proved successful and led Elders to purchase 30% of StockCo Australia. StockCo now has 439 approved facilities originated through the Elders network with outstanding balances of $62.6m and total approved limits of $108.2m.

Figure 1: Loans by distribution channel

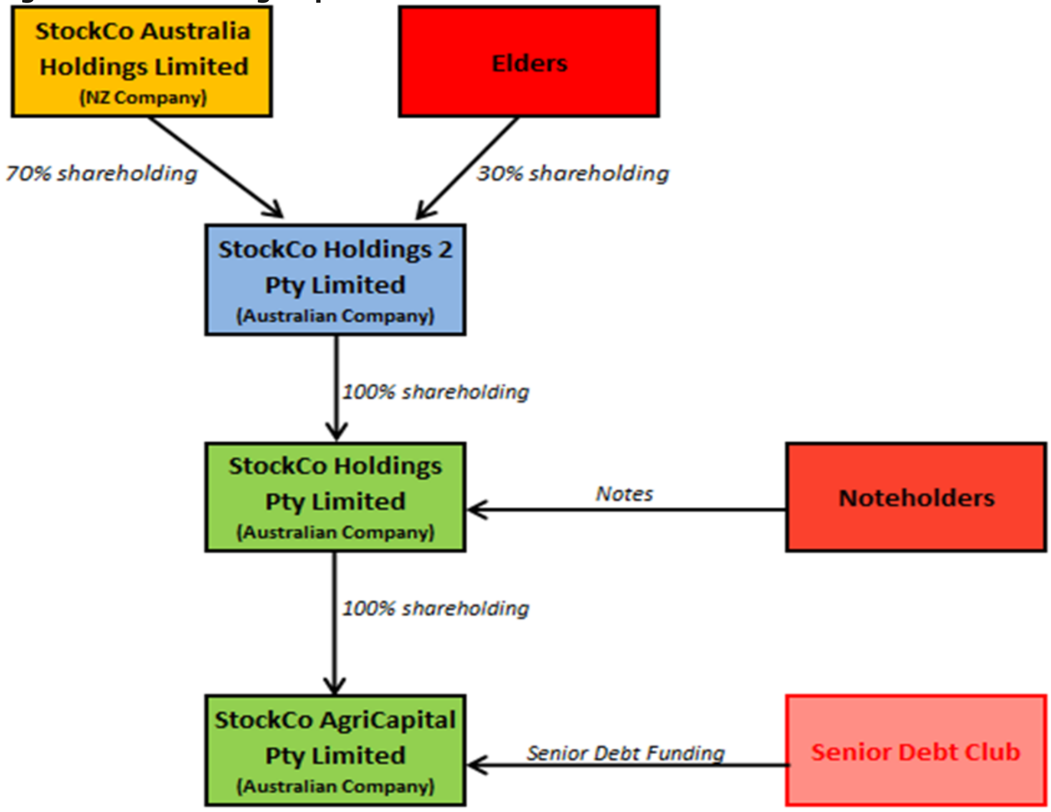


Source: Company reports

In all cases StockCo performs credit acceptance and underwriting tasks, prepares and perfects loan and security documents and controls the flow of funds. All transactions are on StockCo paper. Day to day relationship management is performed through a mixture of direct, or through the various broker agency agreements, with administration and processing tasks performed by StockCo's centralised administration team.

Corporate and funding structure

Figure 2: Australian group structure



Source: Company reports

Figure 3: Proposed capital structure

Facility	Entity	Coupon	Limit	Maturity	Rank
Senior Club	StockCo AgriCapital Pty Ltd	BBSW+3.60%	$114m	Various	Senior secured
Notes	StockCo Holdings Pty Ltd	8.75%	$47m	Sep 2022	Subordinated
Shareholder loan	StockCo Holdings Pty Ltd	0%	$10m	Sep 2022	Subordinated
Total			**$171m**		

Source: FIIG Securities, Company reports

Senior debt: Senior debt can be drawn to a maximum 70% advance rate against cash and eligible receivables.

Subordinated Notes: Under the terms of the subordinated Notes, the group consisting of both StockCo Holdings and StockCo AgriCapital is limited to funding to a maximum advance rate of 92%.

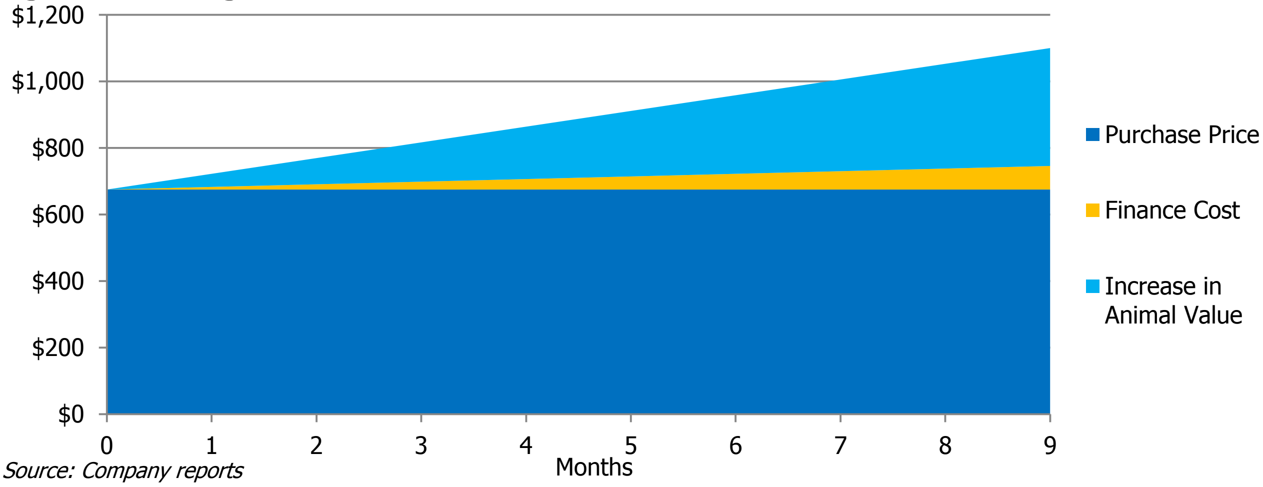
Shareholder loan: Simultaneously with the Elders equity investment, the proceeds from this sale were reinvested as an interest free shareholder loan to StockCo Holdings Pty Ltd, which have a maturity date after the maturity date of the Notes.

Strengths

Naturally de-leveraging assets: Livestock naturally accretes in value as it progresses through the finishing phase and grows to its target settlement weight. This is an important point to note and differentiates this collateral from many other forms of asset financing where the assets naturally depreciate in value, such as car loans or business equipment.

As animals grow, StockCo's security position improves with the effective loan to value ratio (LVR) decreasing over time. The following graph shows the effective finishing stock value over time for a typical transaction, with a 300kg cattle being purchased at $2.25 per kg, with average weight gain of 0.7kg per day and an all up finance rate of 14% p.a.

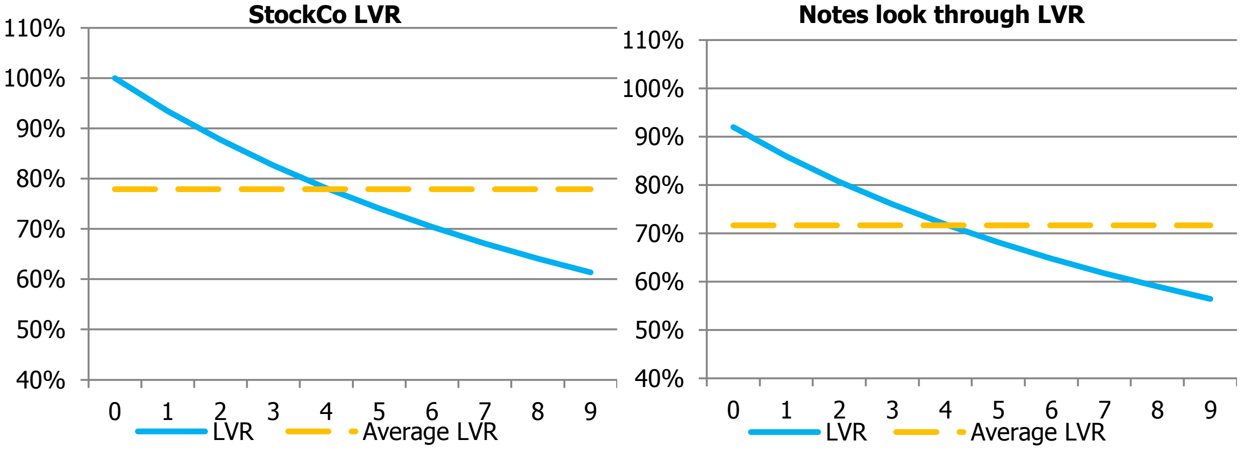
Figure 4: Finishing stock value over time



Source: Company reports

Expressing this instead as StockCo's LVR position we see that StockCo's effective LVR decreases from 100% to ~62% over the life of this contract, while the average LVR represents the effective LVR of a well-diversified (with respect to origination timing) finishing finance book. Significantly, the effective LVR of the Notes is lower having an effective look through average LVR of 72%.

Figure 5: Loan to value over time (months)

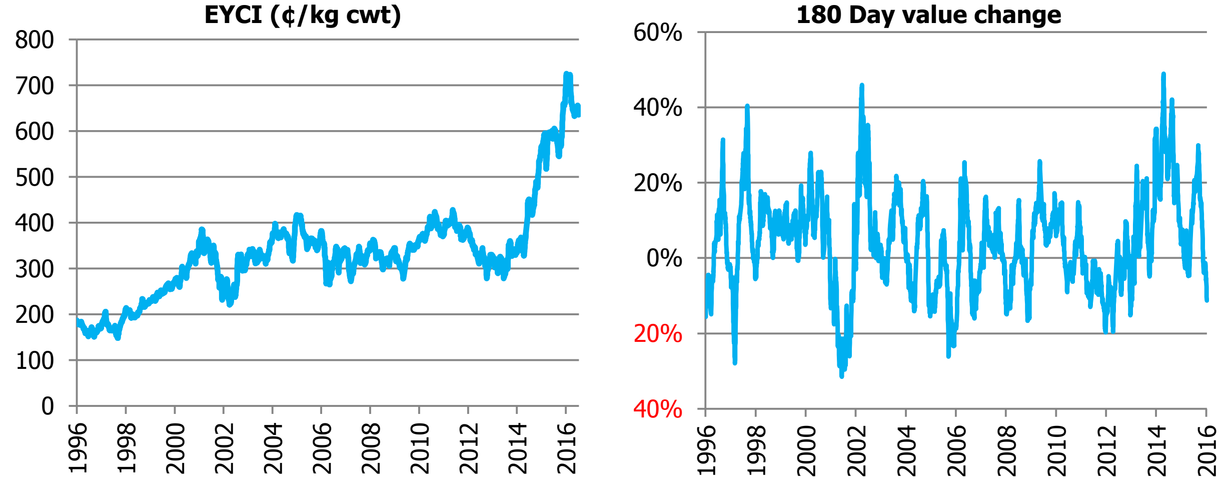


Source: Company reports

Largely immune to changes in beef prices: A fall in price can affect the value of stock and therefore the value of the security supporting the Notes. The Eastern Young Cattle Index (EYCI) is the most commonly used benchmark for beef prices in Australia (Figure 6 LHS). Figure 6 RHS shows the price volatility of the EYCI over a

180 day term. This simply compares the EYCI price to the price 180 days previous and measures the percentage change.

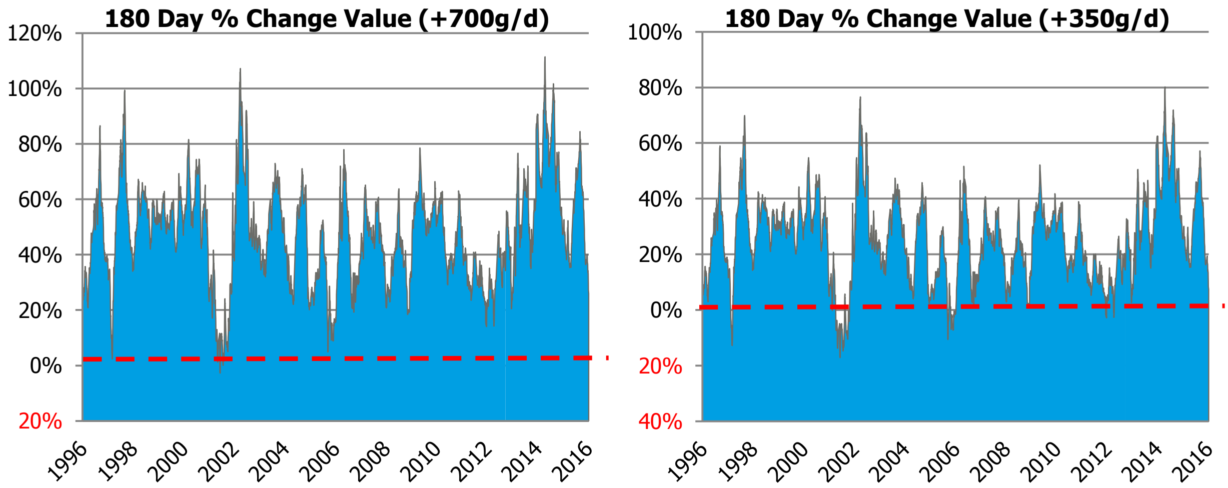
Figure 6: Eastern Young Cattle Index and 180 day volatility



Source: Company reports

The value of the animal however is the combination of weight and market price. The profitability of cattle trades across the same timeline can be forecast where stock are purchased at the EYCI, weight put on the animal, and then the animal sold at the EYCI 180 days later. Figure 7 analysis is based on the assumption that a client adds 0.7kgs / day of weight to the animal. This is based on average growth rates for pasture fed stock. Feedlots are able to demonstrate much higher growth rates (and therefore a reduced likelihood of loss). Figure 7 also shows the impact of a borrower performing poorly, only being able to add 350g per/day.

Figure 7: Value change under average and downside scenarios



Source: Company reports

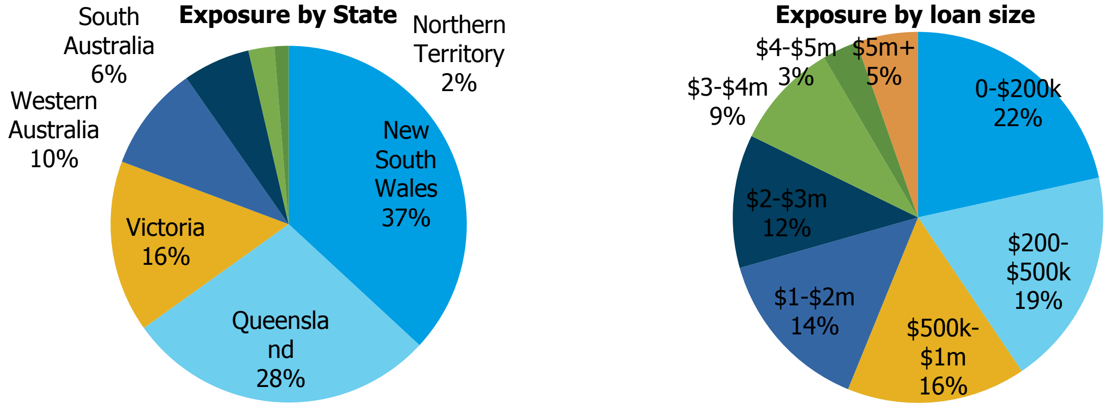
The analysis shows that producers are able to put on sufficient stock weight to more than offset the volatility in beef prices and make a sufficient return on investment under average weight gain assumptions. Even in a downside scenario, there would only have been one instance since 1997 where the value of StockCo's security would not have been able to cover the principal owing Noteholders, in mid-2002. We note that this would only have been if they had bought at the peak and sold at the bottom.

- Both StockCo's portfolio and the total livestock herd of StockCo's clients are purchased over time which effectively averages both positive and negative price movements
- If stock owned was putting on less than optimal weight, producers can retain and grow to the desired value

However we do note the profitability of the beef or sheep market drives demand for finance. Any extended fall in prices could cause lending volumes to also fall as farmers invest in more profitable markets, therefore reducing StockCo's profitability. This would be offset as financing levels reduce as the portfolio naturally runs down returning cash to the business

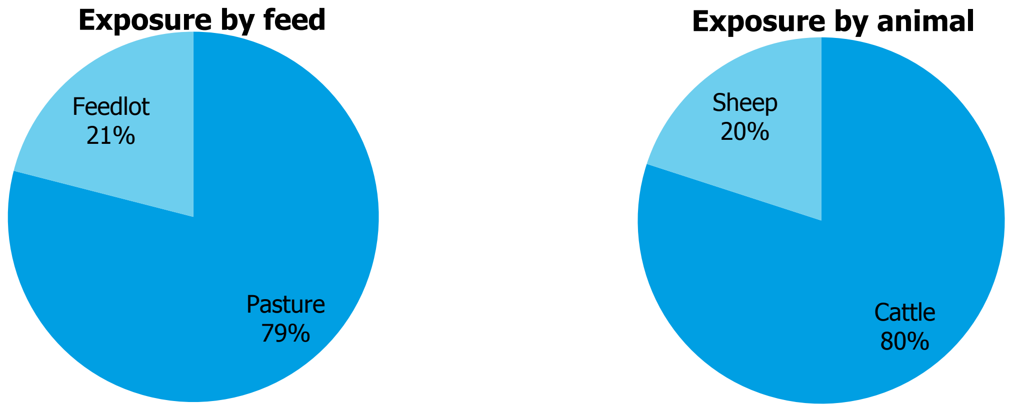
Diversity of book: At 31 January 2017, StockCo had 615 active clients with an average balance of $240,000, and average approved credit limits of $385,000. StockCo has only six clients with approved credit limits of greater than $3.5m (limits greater than $5.0m require Senior Financier approval and limits greater than $3.5m but less than $5.0m require hindsight review from their Senior Financier), with total outstanding to these clients totalling $23m, or 16% of their total book (down from 23% at 30 June 2016).

Figure 8: Loan book diversity (31 January 2017)



Source: Company reports

Figure 9: Loan book diversity (31 January 2017)



Source: Company reports

Quality of security: The primary security is the livestock assets, which are a highly liquid form of collateral. Security over the assets is registered in all instances on the PPSR (Personal Property Securities Register) giving StockCo, if necessary, the right to enter a property and take possession of livestock.

StockCo's standard loan documentation also includes guarantees from individuals or entities related to the borrower that own significant additional assets. Additionally, the right to mortgage additional assets is built into StockCo's Master Livestock Agreement which underpins all lending. This provides StockCo with mortgage security over the assets of the borrower in the event of default.

All cattle in Australia are required to have individual lifetime Radio Frequency Interactive Devices (RFID) tags implanted under the National Livestock Identification System (NLIS). Whenever cattle are sold or transported, their location and ownership is updated in the NLIS.
StockCo's proprietary software tracks the movement of its assets automatically in real time, by using the NLIS database. There are significant penalties prohibiting livestock transport agents, meat processors and sale yards from accepting stock that isn't NLIS tagged and tracked.

With lambs, StockCo has to rely on descriptions obtained at the point of purchase, however this is mitigated by only funding lambs where they are the only funder of trade lambs on a given property. The robustness of this approach is reinforced by the approximately 5.5m sheep and lambs StockCo has funded through their NZ business to date.

Low risk lending: Finishing financing is considered a low risk form of stock financing for several reasons:

- it is short-term, which reduces the risk of an adverse event occurring;
- it is secured by an appreciating asset; and
- the finishing process does not commence until after the higher risk breeding and adolescence stages are completed, and relates to young, healthy livestock, on a rising plain of nutrition, that are typically rapidly increasing in value and where the risk of mortality is low

Strong distribution network: StockCo has a broad distribution network through a variety of channel partners. The proposed Shareholders Agreement with Elders contains non-compete clauses together with the equity investment which will further align incentives and promote growth. StockCo's management believe that this is a highly cost effective way to achieve broad market coverage without increasing its fixed cost base; StockCo does not need to cover under-utilised overheads. In addition, this network is supported by established local knowledge of prospective clients and their farming practices.

Experienced management team: Marcus Kight, Group Managing Director and 70% shareholder established the business and over a 20 year period he has been responsible for the development of the company from $3.5m in assets to over $200m.
CEO Richard Brimblecombe has over 20 years' experience in senior management roles in financial services, commodity trading and processing, rural services and distribution.

CFO Jeremy Cranswick has over 15 years' experience with prior roles as leader of the Crowe Horwath Hawke's Bay Audit Department, at KPMG's Financial Services Audit Department as well as Lloyds of London insurance syndicates.

Head of Credit, Michael Foote has significant Agribusiness experience through roles in the meat processing industry and a technical product development company. He has an honours degree in Bio Technology and Bio-process Engineering from Massey University.

Niche market: Participants require specialist in-house systems and expertise to enable them to effectively and appropriately manage direct livestock exposures. Appendix 3 details StockCo's main competitors that tend to focus on different financing and parts of the market.

Robust IT, disaster recovery and backup servicing mechanisms: StockCo currently contracts a local NZ IT company, MINT, to maintain the data management and recovery systems. StockCo maintains a copy of all licences and programming code with PPB Advisory in Australia. PPB has been appointed by the banking club as the back-up service provider. Daily data updates are provided to PPB and quarterly checks are conducted to ensure the programs continue to function as required and that the updates are being recorded. This provides a robust disaster recovery mechanism for StockCo and also provides StockCo's lenders with the ability to wind down the loan book in a structured and controlled manner, using existing systems, in the event of default.

Structural elements of the Notes: The Notes benefit from a six month fully funded interest reserve account which will be topped up upon the re-tap to cover the additional interest expense. The Notes also benefit from tighter look-through covenants that the senior club debt. A breach of such covenants will trigger a cash lockup at StockCo Holdings (stopping the payment of any distributions to equity) to ensure cash flow coverage in the instance where a breach then lockup occurs at StockCo AgriCapital.

All cash will be locked in StockCo Holdings if the Interest Coverage Ratio (ICR) at StockCo AgriCapital is under 1.75x (compared to the 1.5x threshold in the Senior Club covenants), or if the ICR at StockCo Holdings is under 2x. This lockup will also be activated if StockCo AgriCapital exceeds the 70%Total Indebtedness to TTA ratio, or if the look through gearing inclusive of both StockCo AgriCapital indebtedness and StockCo Holdings unsubordinated indebtedness is greater than 92% of TTA.

If a lockup event subsists unremedied for greater than 4 months, an Event of Default is triggered. In an Event of Default, as well as the typical remedies, including exercising security on our equity interests in StockCo AgriCapital, StockCo will be prohibited from writing new business, effectively putting their book in unwind.

If StockCo AgriCapital is put into unwind (either because StockCo chooses to leave the market, or because they breach their covenants and are forced to), there is a clear and documented mechanism for this to be managed in an orderly fashion. A live backup servicer is in place (PPB Advisory) to run down the book, which given its short average tenor (5.8 months) would be expected to be repay all principal on the Notes within seven months, having been paying full interest during this process.

Weaknesses

Bad debt and fraud: Businesses such as StockCo's are always at risk from bad debts and potential fraud. However so far in Australia there has been $0 write offs and no specific provisions. The historical loss rate of the New Zealand business with over NZD1.1bnn of livestock funded over 20 years is 0.4%. Since the Implementation of RFID tags and the development of StockCo' s StockTrack program, there have been no losses incurred through farmers selling StockCo Stock and not accounting to StockCo with the proceeds.

It is worth noting that the majority of the finishing losses in NZ occurred in FY12 following, and significantly a result of, the GFC. The GFC saw some of borrowers pushed to the edge and into the situation of committing fraud against StockCo. StockCo has used the losses from this period to learn and refine the security perfection process as well as enhance credit underwriting standards. Please refer to appendix 4 for detail of bad debts history by accounts as well as mitigants put in place.

Fraud is also mitigated by StockCo's proprietary StockTrack system which tracks the movement of its assets automatically in real time, by using the NLIS database.

Ultimately, StockCo has recourse to the farmer.

Third party oversight is also carried out quarterly by PPB Advisory. PPB reviews a sample of the Group's loan portfolio. The selection of files includes the top five exposures by facility limit and fifteen randomly selected files. PPB checks for compliance with eligibility, policy and procedures.

Competition and low barriers to entry: While there are low barriers to entry, effective and scalable livestock financing requires specialised systems, customised underwriting standards, unique security documents and active management with frequent client interaction. Historically, therefore potential competitors like trading banks sought minimal exposure to funding livestock due to the specialist knowledge required to appropriately manage direct livestock exposures. If banks do take direct exposure, they will typically only offer a much lower portion of the value compared to StockCo's 100% of the purchase price.

A key competitive advantage of StockCo is its internal systems. StockCo's in-house proprietary systems include a live/daily link into Australia's legislated NLIS database, real-time active management of StockCo's security, and monitoring of operational performance of all clients.

An important barrier for effective entry into the market is for new entrants to have a distribution network. StockCo's agreement with Elders, which has one of the largest national livestock agency business in Australia, contains non-compete clauses together with the equity investment.

StockCo is exposed to agricultural shocks caused by disease: This is mitigated by: Australia's isolation and world class biosecurity regulations; the NLIS system for identification and traceability of livestock introduced to track cattle during disease and food incidents; Australia's size and therefore ability to contain outbreaks; and StockCo's geographic diversity.

There has been no major outbreak of cattle/sheep disease in Australia. Minor outbreaks of possible Foot and Mouth Disease are believed to have occurred in Australia in 1801, 1804, 1871 and 1872.[1]

StockCo is exposed to agricultural shocks caused by drought: This is mitigated by the tendency of farmers to reduce purchases of livestock when a drought is forecast given the increased difficulty or cost in securing sufficient feed and therefore return.

Lending to high risk or inappropriate producers: Further to typical credit assessment, StockCo also reduces the risk of default by screening and only lending to appropriate producers. StockCo will only lend to

[1] *Australian Government Department of Agriculture and Water Resources web site, Foot and Mouth Disease section. Information extracted 13/09/2016.*

experienced livestock producers with a proven history of successful livestock production and with a demonstrated ability to successfully engage in the proposed trades.

Initial analysis is based on gaining an understanding of farming operations and in the design of an appropriate financing structure. Farm inspections are undertaken, by a StockCo representative or delegated agent (e.g. Elders) for all potential clients. The primary objective of the inspection is to assess the quality of the farmer, land and plant, existing stock and farming practices, and suitability for the proposed transaction.

StockCo will also use its network of rural contacts to obtain discreet information regarding the reputation of a potential client from both a financial and operational standing.

Third party oversight is also carried out quarterly by PPB Advisory. PPB reviews a sample of the Group's loan portfolio. The selection of files includes the top five exposures by facility limit and fifteen randomly selected files. PPB checks for compliance with eligibility, policy and procedures.

Imperfect security and enforcement: If security and legal documentation is insufficient or not perfected, StockCo is at risk from losses when enforcement is required.

StockCo's security has been tested in litigation in NZ, which has operated with a PPSR regime since 2002, and on which the Australian PPSR regime was based. Another finance provider with a General Security Agreement (GSA) attempted to claim that some of StockCo's stock was covered by its GSA. The judge ruled that StockCo's stock were clearly identified as StockCo's.

Please refer to appendix 4 for detail of losses as well as mitigants put in place.

The security can be moved: Prior to the introduction of RFID tags, StockCo recorded multiple examples of loss given the unauthorised sale or movement of its stock (Appendix 4). Since the introduction of the RFID tag, whenever cattle are sold or transported, their location and ownership is updated in the NLIS. StockCo is alerted to this in real time via its proprietary StockTrack system.

For example, after being alerted to a potential issue through StockTrack exception reporting, an agent was sent to the property. With the oversight of police, StockCo was able to gain access to the property. All livestock were back in StockCo's control within 48 hours of the farm visit.

Limited rights in senior securitisation structure: This is offset by the covenants which are set above the senior funding levels breach of which will trigger a cash lockup at Holdings Pty Ltd level, interest reserve requirements and the right to stop origination forcing senior structure into unwind

Key man risk: Marcus Kight is the founder and a driving force behind the business. Key man risk is mitigated by the development of a capable management team including Australian CEO, Richard Brimblecombe, Group CFO, Jeremy Cranswick, and Head of Credit, Michael Foote. Richard Brimblecombe is heavily bound by non-compete clauses that endure for five years after cessation of employment and all three key executives have LTI programs designed to encourage and reward long term service.

Financial analysis

Historic figures are taken from audited account while forecasts are based upon FIIG's analysis as a conservative debt base case.

Figure 10: Financial statements

P&L summary ($m)	**FY16**	**FY17***	**FY18***	**FY19***	**FY20***	**FY21***	**FY22***
Total Revenue	**8.3**	**18.7**	**29.4**	**35.4**	**41.4**	**42.8**	**44.7**
Total expenses	3.8	6.5	7.3	8.9	10.4	10.7	11.2
EBITDA	**4.4**	**12.2**	**22.0**	**26.6**	**31.1**	**32.1**	**33.5**
Interest	4.5	7.7	10.8	14.1	16.7	18.3	19.0
Operating Profit	**(0.1)**	**4.5**	**11.2**	**12.5**	**14.4**	**13.7**	**14.5**
Tax	(0.0)	1.3	3.4	3.7	4.3	4.1	4.3
NPAT	**(0.1)**	**3.1**	**7.8**	**8.7**	**10.1**	**9.6**	**10.1**
Balance sheet ($m)	**FY16**	**FY17***	**FY18***	**FY19***	**FY20***	**FY21***	**FY22***
Cash	0.7	7.9	3.2	0.7	0.0	0.4	0.3
Accounts Receivable	0.0	0.1	0.1	0.2	0.2	0.2	0.2
Finishing advances	78.3	143.8	225.8	272.6	318.6	328.8	343.5
Accrued income	3.6	6.5	10.2	12.3	14.3	14.8	15.5
Other	1.9	4.0	4.0	4.0	4.0	4.0	4.0
Total Assets	**84.6**	**162.3**	**243.4**	**289.7**	**337.2**	**348.3**	**363.4**
Accounts Payable	1.7	2.1	2.3	2.8	3.3	3.4	3.6
Senior secured debt	82.0	92.0	167.0	198.0	234.0	239.0	253.0
Subordinated Notes	0.0	47.0	52.0	62.0	72.0	77.0	77.0
Shareholder loans	0.0	10.0	10.0	10.0	10.0	10.0	10.0
Total Liabilities	**83.7**	**151.1**	**231.3**	**272.8**	**319.3**	**329.4**	**343.6**
Total Equity	**0.9**	**11.2**	**12.0**	**16.9**	**17.9**	**18.9**	**19.9**
Credit statistics	**FY16**	**FY17***	**FY18***	**FY19***	**FY20***	**FY21***	**FY22***
Total debt	82.0	149.0	229.0	270.0	316.0	326.0	340.0
Net debt	81.3	141.1	225.8	269.3	316.0	325.6	339.7
Operating profit margin	-1.2%	23.8%	38.2%	35.2%	34.8%	32.1%	32.4%
EBITDA interest cover	1.0x	1.7x	2.0x	1.9x	1.9x	1.7x	1.8x
Equity & SH loans/Total debt	1.1%	14.3%	9.6%	10.0%	8.8%	8.9%	8.8%
Debt/(Debt+equity)	98.9%	93.0%	95.0%	94.1%	94.6%	94.5%	94.5%

** Forecasts based upon FIIG's analysis. Source: FIIG Securities, Company reports*

Financial forecasts have been revised since the original note issue in October 2016. Revenue expectations have been increased however this has been offset in FY17 by higher costs:

- StockCo has experienced higher than expected growth in its livestock finance book. The growth has been due to further enhancements to StockCo's distribution network and has been aided by favourable climatic conditions and strong livestock prices
- StockCo's cost of funds is higher than forecast in FY17 due to the inclusion of some higher cost senior debt funding. While it was anticipated that this funding would have been repaid early in the financial year this debt is still included in the senior debt club and is expected to be repaid by March 2017
- In the first quarter of FY17 the Group had a number of fee arrangements with other wider StockCo group entities and Nomura which have now ceased following the Elders acquisition and the repayment of the Nomura Mezzanine facility. Additionally, the Group incurred significant costs with the repayment of the Nomura mezzanine loan facility in 1H17

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Appendix 1: Summary of Notes

Issuer:	StockCo Holdings Pty Ltd
Guarantees:	N/A
Amount:	$17m to be consolidated and form a single series with StockCo's existing $30m notes maturing on 6 October 2022
Maturity date	6 October 2022
Optional redemption	After October 2019 at $103, after October 2020 at $101.50, after October 2021 at $100
Indicative Coupon	8.75% fixed payable monthly in arrears
	9.50% from year 5
Use of Proceeds:	For investment as equity in StockCo AgriCapital Pty Ltd
Ranking:	Subordinated (structural subordination from the asset level)
Maintenance covenants	StockCo Holdings restriction on Unsubordinated Indebtedness to 92% on a look through basis to AgriCapital
Triggering Lockup Event:	StockCo AgriCapital restriction on Total Indebtedness to 70% TTA
	StockCo Holdings Negative Pledge prohibiting any Senior Ranking Debt
	StockCo AgriCapital ICR > 1.75x (compares to Senior covenant of 1.5x)
	StockCo Holdings ICR >2x
	Interest reserve account > 6 months StockCo Holdings Unsubordinated Debt Expense
	Servicer Default
Lock Up Event	For so long as a Lock Up Event is subsisting, no payments can be made from StockCo Holdings except for Senior Expenses and interest on Senior Ranking Debt
Events of Default:	Non-payment
	Lockup event to subsist for greater than 4 months unremedied
	Cross default to Senior Facility
	Enforcement against assets
	Insolvency/winding-up/creditor arrangement
	Invalidity of Notes/Guarantee
	Breach of covenants/obligations
	No material litigation
	Cessation of business/No change to business
Change of control:	No Change of Control Protections

Source: Information memorandum

Appendix 2: StockCo's Service

StockCo's specialist finishing finance product provides short-term livestock finance facilities for pasture and feedlot based cattle and sheep producers. The finance is provided for finishing purposes, with young, healthy livestock, on a rising plane of nutrition, that are typically rapidly increasing in value and where the risk of mortality is low.

StockCo selects clients who continuously trade in livestock, conducting the same trade repetitively, or clients who conduct a similar trade on a seasonal basis, year after year. StockCo conducts an initial credit assessment and establishes a credit limit with the client, which is subject to annual credit review. Once the credit limit is established and all necessary loan and security documents are in place the client may purchase and sell any number of tranches of livestock within the approved credit limit.

As each tranche is purchased the client agrees the sale date and target weight of the livestock purchased, which is recorded in StockCo's proprietary systems. This allows active portfolio management by StockCo. StockCo controls the outbound and inbound flow of funds associated with livestock purchases and sales. This ensures vendors of livestock are paid in full, delivering clear title, and also ensures StockCo controls the distribution of sale proceeds.

The finance terms for each tranche range from two to 12 months, with a weighted average trading term of 5.6 months as of 31 January 2017. Five full trading cycles have now been completed in Australia with no losses recorded or identified. Most StockCo credit limits range from $50,000 to $5m. Individual exposures greater than $5m are submitted to StockCo's senior finance providers for credit acceptance, and limits over $3.5m for hindsight review. In addition to direct security over the livestock, StockCo also takes security in the form of additional livestock, guarantees from asset owning entities and General Security Agreement (GSA's), where such security is deemed necessary and available. This provides a further collateral buffer to StockCo.

StockCo is paid the proceeds of any sale of the livestock. StockCo then pays the balance after fees and finance charges to the farmer. StockCo's return is earned through a combination of fees and finance rates charged to the farmer, and they price transactions for a minimum annualised ROA hurdle rate of 14%.

From the farmer's standpoint, finishing finance is compelling as the total cost paid to StockCo will typically only represent 2-3% of the sale price of the animal, and frees up capital for investment in other activities. Furthermore, banks will typically only finance up to a loan to value ratio (LVR) of about 60% of real estate value and while famers may have a good relationship with their bank, it may not be possible for farmers to obtain more capital or the bank approval process is too arduous and time-consuming.

The following example of a transaction details the initial outlays, returns after 90 days and how the proceeds of stock sales are distributed. In this example, the costs to the farmer represent 2.19% of the sale proceeds, while StockCo generates 3.75% over this period, which represents an annualised return on assets of 15.22%.

Transaction		
January	Purchase 1,000 lambs for $70 / head	$70,000
March	Sell 1,000 lambs for $120 / head	$120,000
	Purchase price	($70,000)
	Administration Fee of 1.5% purchase price	($1,050)
	Finance rate at 9%	($1,575)
	StockCo pays Farmer	$47,375
Returns and costs		
Farmer's margin	$47,375/ $120,0000	39.49%
Farmer's finance cost in 90 days	$2,625/$120,000	2.19%
Farmer's Annualised finance costs		8.88%
StockCo's return in 90 days	$2,625/$70,000	3.75%
StockCo's Annualised return		15.22%.

Source: FIIG Securities, Company reports

Appendix 3: Australian industry and competitors

StockCo provides specialist finance for cattle and sheep that are produced specifically with the intent of sale via live export or to meat processors. The average number of cattle sold into these markets since 1 July 2000 is 8.5 million head per annum. The average purchase price of cattle financed by StockCo is ~$660 / head. The total market size based on the number of cattle sold and the average price at which StockCo finances cattle is $5.6 billion.

The average number of sheep sold into these markets since 1 July 2000 is 33.5 million head per annum. The average purchase price of sheep financed by StockCo is $77 / head. The total market size based on the number of sheep sold and the average price at which StockCo finances sheep is $2.6 billion. StockCo's total addressable market in Australia is therefore greater than $8 billion. Over its 20 years of operation the New Zealand business has settled at a market share of 2% to 3%.

StockCo's rapid growth in the Australian livestock financing market is predominantly because the market is under-serviced:

- The Australian banks are heavily skewed towards real estate backed mortgage lending and no longer have the distribution capacity to service many of the regional areas in which livestock are produced.
- Existing companies with the distribution reach do not have the expertise, product suite, processes and policies necessary to successfully acquire, underwrite and manage a portfolio of specialist livestock facilities.
- Livestock financing is a specialised niche requiring specialised systems, customised underwriting standards, unique security documents and active management with frequent client interaction.

In Australia, there are a variety of competitors to StockCo in the livestock finance market:

Competitor	Strengths	Weaknesses
Rural Bank	Benefit from broad distribution network	Offers no specific finishing finance product and is therefore uncompetitive on rate
Landmark	Offers extended repayment terms on Landmark trading accounts	Does not offer a specific livestock funding product
CowBank	Dairy herd financing	Does not compete directly. Services a different market segment
National Cattle Feeders	Niche player focussing solely on financing cattle as they enter feedlots	Have not grown the business meaningfully from long established client book
Society One	Provide a directly competing product via a peer to peer lending. Aimed primarily at livestock agents who extended terms to their clients	It offers maximum facility sizes of $150,000, restricting their ability to compete with StockCo (only 7% of StockCo's book have credit limits of less than $150,000)

Source: FIIG Securities, Company reports

Appendix 4: Bad debt and loss history

Advance & recovery	Background	Outcome/Improvement
New Zealand		
Advances of NZD9.233m, bad debt loss of NZD548k.	Client was placed into receivership by the Bank of New Zealand in December 2010. Following the Receivers investigations, the matter was subsequently referred to the Serious Fraud Office (SFO) in March 2011. Liquidators were further appointed in May 2011.	NAIT (New Zealand's legislated and compulsory electronic tagging system) can compare stock movements to purchase invoices, which would make it difficult to substitute livestock during a physical inspection. NAIT was only implemented in 1 July 2012.
Advances of NZD849k, bad debt loss of NZD132k.	Due to a down turn in the dairy payout the bank did not fund the purchase of the farm leaving a significant debt to the IRD and unsecured creditors. Under pressure the StockCo livestock were sold and co-mingled with the bank's livestock.	Prior to the introduction of NAIT.
Advances of NZD265k, bad debt loss of NZD34k.	Purchased additional farm land at a peak in the market, and sold StockCo cattle. The clients were later bankrupted by other creditors, and as there was no livestock remaining a loss was realised.	Use of the Stock Track monitoring system will alert to movements of StockCo livestock and enable intercept of proceeds.
Advances of NZD835k, bad debt loss of NZD51k	Client sold cattle belonging to StockCo and was bankrupted by other creditors.	Use of the Stock Track monitoring system will alert to movements of StockCo livestock and enable intercept of proceeds.
Advances of NZD14.706m, bad debt loss of NZD879k	Property price declines post GFC put the business under substantial pressure. The business had numerous farms in various areas and it became apparent livestock owned by StockCo had been sold and proceeds utilised to appease other creditors	Amended review process on accounts that do not get back to a zero balance during a 12 month period (due to ongoing trading) so that a physical audit is completed to validate stock numbers.
Advances of NZD902k, bad debt loss of NZD125k	Client used a third party agent to invoice for some stock which it later appeared did not exist. The client then left the country – clearly a case of deliberate fraud	Fraud by two parties against StockCo. Client selection and due diligence process would no longer accept this type of client who had very few assets and limited livestock experience regardless of the livestock security position.
Advances of NZD738k, bad debt loss of NZD275k.	The client had livestock on farm that was financed by StockCo and another financier (a livestock agency). The client sold StockCo livestock, retained proceeds	StockCo's policy has been amended to ensure that they are the only non- trading bank financier with the client.
Advances of NZD15.106m, bad debt loss of NZD239k	The client purchased additional land at a high point in the market. Rabobank forced the sale of the land and subsequently the livestock and claimed a security interest in the livestock.	This matter was taken to the High Court and StockCo won because StockCo had created a PMSI or had purchased livestock direct from the client and sought releases from Rabobank for such stock purchased. Business practices proved robust. No changes were required as a result of this exposure.
Advances of $213k, bad debt loss of $19k	Client was on a short term lease of Dairy Livestock with a total advance of $213k. The client was put into receivership by their primary bank. The shortfall was a result of missing livestock	The error by StockCo was the credit standards accepted were based on a recommendation and support from a prominent agribusiness company. With the current credit underwriting standards this deal would not had been approved.
Advances of NZD362k, bad debt loss of NZD90k	Alerted to a potential issue through Stock Track exception reporting and sent an agent to the property. With police all livestock were back in StockCo's control within 48 hours of the farm visit. The loss resulted from expenses incurred by StockCo in recovery of the livestock and management of the livestock until sale.	StockCo have lifted credit standards and currently such an exposure would not be approved.
Australia		
Advances of AUD2.383m, bad debt loss of AUD1.000m	This Australian leasing loss related to borrowing by a StockCo staff member. The staff member had utilised StockCo funding without issue for 3 years before using his knowledge of StockCo systems to commit fraud against StockCo. The Employee is now bankrupt and no longer employed by StockCo.	The system was subsequently enhanced into the current system that mines the NLIS database and reports exceptions on parameters StockCo set up. Stock Track now gives full visibility of transactions in addition to the exceptions. Going forward any exposure to staff or related parties are reported on monthly and put through the same credit criteria and ongoing monitoring as any client.

Source: Company reports

Appendix 5: Credit process and procedures

StockCo's credit process is based on the systems used successfully in the New Zealand business, where over NZD 1.1 billion of livestock have been financed over 20 years with a loss rate of 0.4%.

StockCo's credit process follows the following key procedures before funds are advanced:

1. **Farm visit**: Farm inspections are undertaken for all potential clients by a StockCo representative or their delegated agent
2. **Initial application and negotiation**: An initial summary application is completed by the client and reviewed by StockCo resulting in an initial terms letter being provided
3. **Assessment:** Upon acceptance of initial terms, a more thorough credit process commences. For approval to be granted, the following is required:
   - Veda credit check
   - PPSR review
   - Reference checking
   - Detailed financial review
   - Entity structure
   - Historical financial performance;
   - Cashflow projections;
   - Statement of financial position;
   - Bank letter of approval supporting existing term and od facilities;
   - Details of financial contracts, such as farm lease agreements.
   - Title searches
4. **Credit approval:** Which may include any additional guarantees/ security required
5. **Documentation and PPSR registration:** PPSR Registration is finalised before any funds are advanced. Any amendments to standard documentation are signed off by internal legal counsel
6. **Client is loaded into Veda monitoring platform**
7. **Client is established in StockCo's proprietary StockTrack system**

Upon completion of these steps, a final review must be signed off before a client's first transaction can settle. This includes peer review of Master Documentation, the initial invoice and updated PPSR searches are undertaken and signed off by a member of StockCo's senior management team.

Ongoing Credit Management

Annual reviews of operational and financial performance are conducted:

- For exposures less than $200,000, a simple review focussing on operational performance (weight gains achieved on trades) is conducted
- For exposures greater than $200,000, updated financial information is sought, where appropriate, in addition to the operational performance review

Appendix 6: Directors/Management:

Marcus Kight – Group Managing Director: Marcus owns 100% of the New Zealand Business and 70% of StockCo and has been the managing director of StockCo since its inception. Over the 20 year period he has been grown StockCo from $3.5m in assets to over $200m. Marcus was employed by Wrightson as a stock agent before moving to work as a Sharebroker with Francis Allison Symes and was a founding shareholder in Doyle Patterson Brown. He subsequently established a livestock financing business with Richmond Limited. In 1995, Richmond and Marcus formed StockCo as a joint venture to replace Richmond's livestock finance business. Marcus purchased Richmond's 50% share in 2005.

Andrew Morrison – Director: A partner with Morrison Mallett in Wellington, Andrew's professional experience is in the areas of corporate and commercial law, primary industry issues, competition law and regulatory issues. He has extensive experience in advising on major corporate restructuring and projects, and merger and acquisitions on major meat, dairy and other primary industry law, practice and arrangements. Andrew has been StockCo's legal counsel since inception, and brings a wealth of knowledge in the primary industries, including an in-depth understanding of livestock security issues.

Richard Brimblecombe – CEO Australia and Director: Richard is the CEO of StockCo Australia. He has over 20 years' experience in senior management roles in financial services, commodity trading and processing, rural services and distribution. Richard is a Director of ASX listed Geodynamics Ltd and was a Director of Grains Research and Development Corporation ("GRDC") from 2011 to 2014. He holds an MBA from Bond University.

Elizabeth Ryan – Director (Elders Nominee): Elizabeth is General Manager of Financial Services with Elders Ltd. Elizabeth joined Elders in January 2016, following a career in Financial Services (with GE Capital) and management consulting (L.E.K. Consulting and Partners in Performance). Elizabeth holds an MBA from Cambridge University and a Bachelor of Commerce/Diploma of Arts from Melbourne University. Liz is also a recent graduate of the Australian Institute of Company Directors (AICD).

David Adamson – Director (Elders Nominee): David is General Manager of Agency Services with Elders Ltd. He is a graduate of Longreach Pastoral College, holds a Bachelor of Agricultural Business from Adelaide University and a Masters of Business (Accounting) from UniSA. He is a graduate of the Australian Institute of Company Directors (AICD).

Jeremy Cranswick – CFO: Jeremy joined StockCo in 2012 having worked for Crow Horwath as leader of the Crowe Horwath Hawke's Bay Audit Department. Jeremy started his career with KPMG in Auckland working in the financial services division of the Audit Department after which he spent three years working in the UK for the largest of the Lloyds insurance syndicates as Planning and Forecasting Manager. Jeremy is a member of the New Zealand Institute of Chartered Accountants and has a Degree in Business Studies, a Graduate Diploma in Economics and a Post Graduate Diploma in Accountancy.

Michael Foote – Head of Credit: Michael joined the company in February 2005 bringing with him a wealth of Agribusiness experience through roles in the meat processing industry and a technical product development company. He has an honours degree in Biotechnology and Bio-Process Engineering from Massey University.

Graham Leathem - Head of credit Australia
Graham worked for Landmark Operations Ltd from 2006 to 2016 as Region Credit Manager – North-East, responsible for a portfolio of approx. 15,000 clients, both their trade debts and seasonal and livestock finance facilities. Prior to migrating to Australia, Graham served as the Financial Director of a group of 18 companies in South Africa which were involved primarily in agriculture. Graham holds a Bachelor of Commerce and an MBA.

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