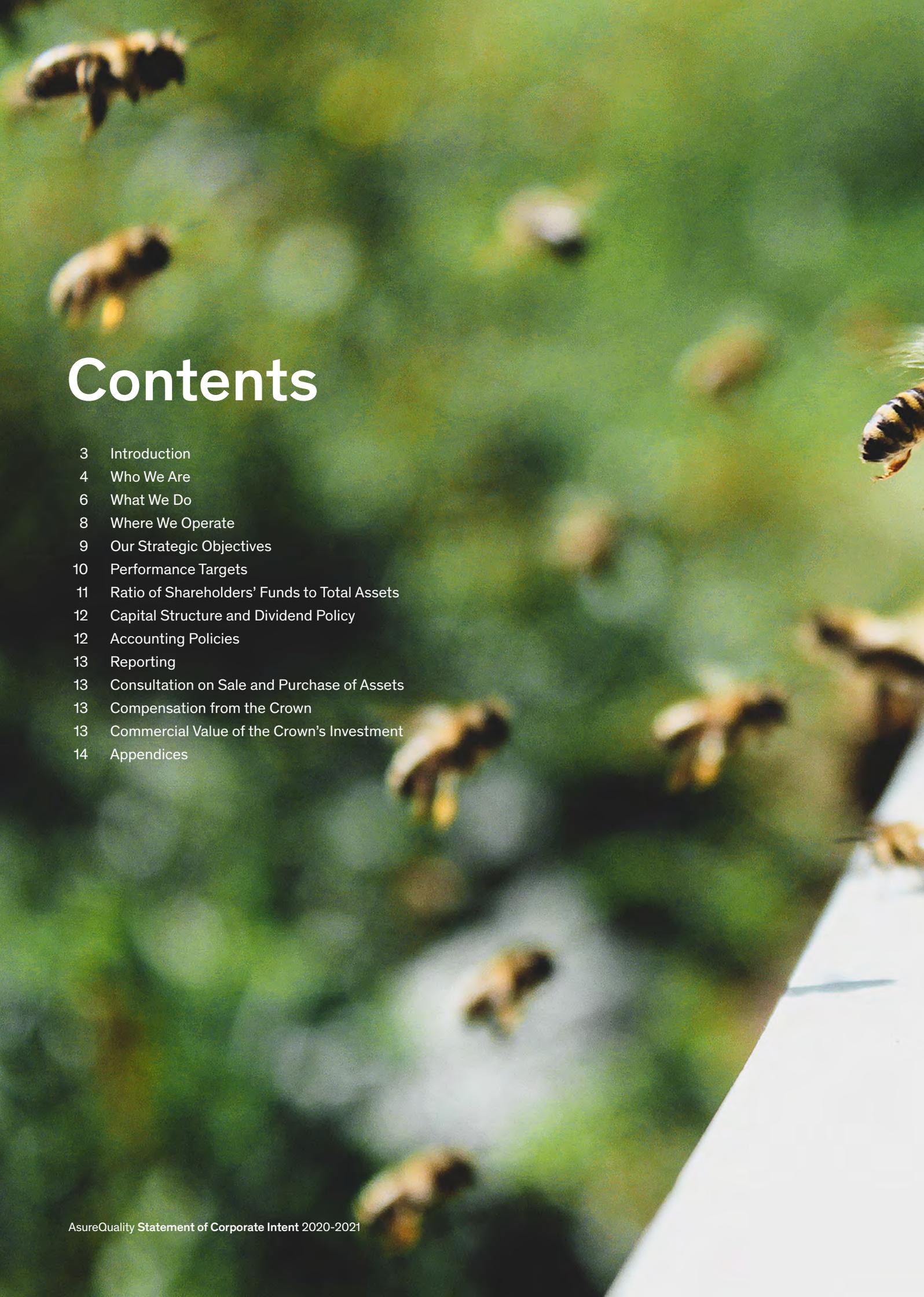


AsureQuality
Kaitiaki Kai

Statement of Corporate Intent

2020-21





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Introduction

This Statement of Corporate Intent (SCI) is applicable to AsureQuality Limited (AsureQuality). This SCI is submitted in accordance with Section 14 of the State- Owned Enterprises Act 1986 (the Act). It sets out the overall intentions and objectives for AsureQuality (and subsidiary companies) for the financial year commencing 1 July 2020 and the succeeding two financial years.

The Board of Directors (Board) of AsureQuality is accountable to the shareholding Ministers in the manner set out in the Act. All decisions relating to the operation of AsureQuality shall be made by or pursuant to the authority of the Board in accordance with this SCI.



Who We Are

AsureQuality provides a broad range of food assurance services to New Zealand's food and primary production sectors. Every day our people work closely with our partners, sharing knowledge and insights gained from over 100 years' experience and helping them to uphold what Aotearoa stands for in food - a higher standard of quality and safety.

Our Purpose

Helping Aotearoa shape
a better food world



Our People

We have 1800 dedicated people, working with care and passion across our business. Our workforce is diverse with 60 different nationalities and ages spread across multiple generations with 43% aged 18-37 years, 27% aged 38-53 years, and 30% are 54 and over.

Gender statistics show a higher proportion of female staff in Testing Services, while Inspection and Certification are evenly split. Our people are a mix of 56% female and 44% male with most being full-time employees based in frontline service delivery roles.

Our Values



Stronger Together



Do the Right Thing



Exceed Expectations



Take the lead

What We Do

AsureQuality provides the broadest range of food assurance services in New Zealand, working closely with our partners across the entire food supply chain.



Testing Services

We offer a range of testing analysis against regulatory and retailer standards for pathogens, toxins, allergens, chemical residues, genetically modified organisms and nutritional information which enables customers to access their market.

Through our specialist Seed laboratory, we deliver testing and certification services to the seed, arable, dairy, livestock sectors which enable market access for exporters.

Our Plant and Pest laboratories offer taxonomy, border control and pathology services to the Government, horticulture, agriculture and food production sectors. Global Proficiency provides proficiency testing, reference materials and related services to a wide range of industries.



Inspection and Certification

We provide independent audit, inspection, verification and certification services against domestic and international regulatory and retailer standards. Working in the field alongside our partners, our veterinary and field technicians provide a range of services including; farm assurance, dairy farm assessment, sample collection, TB testing and related disease management.

Our people perform ante-mortem and post-mortem meat inspection services to support our partners and ensure that our animal products meet the highest global standards of quality.



Specialist Services

Our Assurance Marks, AQ Assured and AQ Certified, provide independent verification of product features, claims or supply chain authenticity which help our partners meet the growing demand from consumers who want to know where their food comes from.

We partner with government, industry and communities to implement operational solutions to issues affecting food security, economy and the environment. We have a legacy of working in partnership with the Ministry for Primary Industries to protect Aotearoa from the impact of pests and diseases. We provide industry training services to help customers meet food safety and quality requirements.

We provide contract manufacturing of diagnostic products and distribution of specialist veterinary test kits for use in disease management. Our Technical Insight Services help customers improve food safety and quality performance in their business; covering risk management, supplier performance and development, regulatory support, culture development and crisis management.

Where We Operate

While we are primarily focused on supporting New Zealand's food and primary producers, we also support customers in Australia and Southeast Asia through our network of laboratories in these important regions.

New Zealand

We are the leading provider of food assurance services to New Zealand's food and primary producers, helping them to proudly uphold what Aotearoa stands for in food – a higher standard of quality and safety. We also support several international customers, through our specialist services and expertise.

Australia

We provide testing, inspection and certification services through our joint venture with Bureau Veritas. Together we own DTS Food Assurance, the leading service provider to Australian agri-food industries, with laboratories in Melbourne, Sydney, Brisbane and Perth.

We also have AsureQuality facilities in Melbourne, where our Diagnostics business and a Global Proficiency office is located.

Southeast Asia

We provide testing services to customers in Southeast Asia via our joint venture partnership with Bureau Veritas (BVAQ), with laboratories located in Singapore, Vietnam, Indonesia, Malaysia and Thailand.



Our Strategic Priorities

Purpose

Helping Aotearoa shape a better food world

ONEAQ: The way we work

- Caring for each other
- Customer at the centre of what we do
- Doing the basics well
- Financial discipline
- Collaborating to grow

Strategic Outcomes

Measures

Highly engaged teams who are passionate about what we do

Engaged People

Growth in our core business through consistently delivering great customer experience and building customer intimacy

Engaged Customers

Operational excellence at scale to safeguard the future for our people, customers and shareholder

Sustainable Profitability

Develop new business models, BVAQ International, Assurance Marks, Digital Services, Environmental Assurance

Future Growth

PERFORMANCE TARGETS

Total company financial and non-financial performance targets for 2021-2023 are:

YEAR ENDING 30 JUNE	2021	2022	2023
FINANCIAL PERFORMANCE			
Revenue	\$208.2m	\$190.3m	\$197.2m
Earnings Before Interest and Tax (EBIT)	\$17.0m	\$19.2m	\$21.8m
Net Profit After Tax (NPAT)	\$11.7m	\$12.0m	\$13.6m
Net Cash Flow from Operating Activities	\$17.7m	\$22.9m	\$23.6m
KEY RATIOS			
Revenue growth	86%	91%	104%
EBITDA growth	87%	116%	114%
Total Shareholder Return	4%	3%	4%
Dividend Yield	4%	3%	4%
Capital Replacement	157%	213%	164%
Return on Equity	14%	14%	15%
Return on Capital Employed	21%	21%	22%
Operating Margin	13%	16%	18%
Gearing Ratio	26%	27%	27%
Interest Cover	17	15	14
Debt to EBITDA	0.7	0.7	0.7
NON-FINANCIAL PERFORMANCE			
Staff Turnover Rate	<12%	<12%	<12%
Total Recordable Injury Frequency Rate	<4.0	<3.8	<3.6
Critical Programme Audit Failures	Nil	Nil	Nil
Critical Facility Audit Failures	Nil	Nil	Nil

Refer to Appendix 1 for a description of each ratio and the way it is calculated.

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

AsureQuality's targets for the ratio of Shareholders' Funds to Total Assets are:

YEAR ENDING 30 JUNE	2021	2022	2023
Shareholders' Funds	\$82.1m	\$86.7m	\$92.6m
Total Assets	\$144.8m	\$151.9m	\$161.0m
Shareholders' Funds / Total Assets	57%	57%	58%

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

Shareholders' Funds includes share capital and reserves (otherwise called 'total equity'). Total assets include all current assets and non-current assets (fixed assets, investments and goodwill) for AsureQuality.

CAPITAL STRUCTURE AND DIVIDEND POLICY

CAPITAL STRUCTURE

An appropriate capital structure for AsureQuality will maximise the value of the business for the shareholder by enabling growth aspirations to be met, but also minimise the risk of financial distress. The capital structure deemed appropriate for AsureQuality was a long-term BBB credit rating agency benchmark. While the level of debt is only one factor in assessing a credit rating, a gearing ratio of 40% is generally viewed as commensurate with this credit rating.

AsureQuality's Board and management recognise the importance of managing all assets of the business effectively, including capital.

The Board will periodically review the Company's target capital structure and may amend the debt profile over time should circumstances require it.

DIVIDEND POLICY

The extent of funds available to pay dividends will be driven by AsureQuality's capital structure. Any distribution to AsureQuality's shareholder will be subject to meeting the solvency requirements of the Companies Act 1993 and will follow the processes and procedures generally adopted by directors of publicly listed companies.

In determining the level of funds to distribute as a dividend the Board will take into consideration the following:

- The sustainable financial structure for the business;
- Prevailing economic conditions;
- AsureQuality's medium-term, fixed asset expenditure programme;
- AsureQuality's investment in new business opportunities;
- AsureQuality's working capital requirement; and
- AsureQuality's assessment of the competitive environment.

AsureQuality aims to pay two dividends each year. For the 2021 financial year it is expected there will be an interim dividend paid in February and a final dividend paid in September.

Subject to maintaining an appropriate capital structure and the above circumstances, AsureQuality will seek to ensure a consistent share of profit is returned to the shareholder through the payment of dividends. As such, the rate of dividend projected in the SCI is based on targeting consistent annual dividends at a ratio of 60% of Net Profit after Tax adjusted to exclude any fair value movements. AsureQuality recognises the shareholders desire for dividends and this ratio will be reviewed annually by the Board.

ACCOUNTING POLICIES

The financials presented are for the AsureQuality Limited Group ("AsureQuality" or "the Group") as at, and for the year ended 30 June 2021. The Group comprises AsureQuality Limited and its subsidiaries, and its investments in associates and joint ventures.

The accounting policies will be consistent with:

- the legal requirements of the Companies Act 1993 and the State-Owned Enterprises Act 1986 and any other relevant legislation; and
- New Zealand's Generally Accepted Accounting Principles as appropriate to Tier 1 for-profit entities.

AsureQuality's detailed accounting policies are set out in AsureQuality's latest annual report which can be found here: <https://asurequality.com/about-us/annual-report/>

There have been no changes to these accounting policies.

REPORTING

In accordance with the State-Owned Enterprises Act and the requirements of Shareholding Ministers, AsureQuality will provide the following information.

Within three months after the end of each financial year, an Annual Report including:

- Audited financial statements for the year;
- Notes to the financial statements including accounting policies; and
- A report from the Chair and CEO including a review of operations, changes, if any, to the nature and scope of the Company's activities, an assessment of performance against targets, comments on the outlook for the Company, and matters in relation to dividends.

Within two months after the end of each half-year, a report including:

- An abridged, unaudited statement of the Company's financial performance for the half-year; and
- A report from the Board on the Company's performance.

Within one month after the end of each intervening quarter, a report covering:

- Performance against targets for the preceding quarter;
- Forecasts of key financial and operating performance measures for the remaining quarters of the financial year as appropriate; and
- The reasons for material differences between actual and target performance.

In addition, the Company will provide Shareholding Ministers with a Business Plan and SCI each year.

The Company will also provide other information relating to the affairs of the Company as requested by Shareholding Ministers, in accordance with the provisions of the Act.

CONSULTATION AND APPROVAL FOR CAPITAL INVESTMENT DECISIONS

For some capital investment decisions, AsureQuality may need to seek approval from shareholding Ministers, consult with shareholding Ministers, or simply inform shareholding Ministers.

Where AsureQuality, or any of the subsidiaries it controls, intends to acquire or dispose of assets or shares, either by a single transaction or a series of transactions, that meets the definition of a 'major transaction' as defined in the Companies Act 1993 and/or where AsureQuality proposes to change its dividend policy to fund the investment, shareholding approval is required.

For any transaction or initiative that is not a major transaction and does not require Crown capital or a change in dividend policy, AsureQuality will consult shareholding Ministers before entering into such a transaction if it:

- intends to acquire or dispose of assets or shares, either by a single transaction or a series of transactions, with a book value in excess of \$5 million
- falls outside the nature and scope of AsureQuality's activities as defined in its SCI,
- or involves diversification or overseas expansion (including offshore investments).

Where disposal of assets or shares with a book value in excess of \$5 million is contemplated, an assessment of market value of the assets or shares will be undertaken as part of the sale or disposal process.

AsureQuality will inform shareholding Ministers, in advance, of any transaction that does not require approval or consultation but that falls within the scope of the 'no surprises' policy.

COMPENSATION FROM THE CROWN

AsureQuality reserves the right, under Section 7 of the Act, to seek compensation from the Crown for the necessity to provide any service where AsureQuality is constrained from acting in a normal commercial manner. There are currently no requests for compensation from the Crown proposed by AsureQuality under Section 7 of the Act.

COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

Section 14 of the Act specifies that State-Owned Enterprises must include a current commercial valuation in its SCI that reflects the value of the Crown's investment in the company.

AsureQuality undertakes an independent valuation every year to estimate a current commercial valuation.

As at 30 June 2020 the Board's estimate of the commercial valuation of the Crown's investment in AsureQuality is \$202 million.

Key points about the manner in which this value was assessed are:

- The valuation was calculated as at 30 June 2020.
- The discounted cash flow (DCF) methodology was used to calculate a net present value (NPV) of projected future cash flows of AsureQuality, including all subsidiaries, on an after tax basis.
- The DCF/NPV was based on the nominal (i.e. not inflation adjusted) future cash flows set out in AsureQuality's 3 year business plan, with forward projections made for a total of five years.
- A discount rate of 8.8% was assumed.
- The current commercial value of the Crown's investment of \$202 million (often referred to as the equity value) was calculated by taking the enterprise value of \$224 million and deducting net debt of \$22 million.

Other material factors that are relevant to the determination of this valuation are:

- The valuation was based on future projections.
 - The projections used in the valuation did not include new business opportunities identified by AsureQuality, where cash flows have a high degree of uncertainty.
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APPENDIX 1: PERFORMANCE TARGETS

FINANCIAL PERFORMANCE

The financial performance targets are accounting based measures of operating performance and financial resources.

KEY RATIOS

The key ratios are targets for operating performance and financial measures expressed in relative rather than absolute terms. This allows for easier comparison over time or with other businesses. A description of each ratio and the way it is calculated is shown below.

The Revenue Growth measures the change in revenue. Calculation: Current year's Revenue divided by Previous year's Revenue.

The EBITDA Growth measures the change in EBITDA. Calculation: Current year's EBITDA divided by previous year's EBITDA

The Total Shareholder Return is the performance from an investor perspective incorporating dividends and investment growth. Calculation: (Change in commercial valuation plus dividends paid less equity injected) divided by beginning commercial valuation.

The Dividend Yield is the cash return to the shareholder. Calculation: Dividends paid divided by average commercial valuation.

The Capital Replacement measures capital investment relative to maintenance investment levels. Calculation: Capital expenditure divided by Depreciation and amortisation expense.

The Return on Equity indicates the payback on the funds the shareholder has invested in the company. Calculation: Net profit after tax divided by average equity.

The Return on Capital demonstrates the efficiency and profitability of a company's capital from both debt and equity sources. Calculation: EBIT adjusted for IFRS fair value movements divided by Average capital employed.

The Operating Margin indicates the level of profitability of the business. Calculation: EBITDA divided by Revenue.

The Gearing Ratio is a measure of financial leverage and expresses the level of funds contributed by debt holders as a percentage of the total investment in the business. Calculation: Net debt divided by Net debt plus Equity.

The Interest Cover is the number of times that earnings can cover interest. Calculation: EBITDAF divided by Interest paid.

The Debt to EBITDA measures the size of debt relative to earnings. Calculation: Net debt divided by EBITDA.

NON-FINANCIAL PERFORMANCE

AsureQuality is a provider of what can be generally described as conformity assessment services. The non-financial performance measures aim to measure factors which are integral to the successful delivery of these services in addition to the achievement of financial performance measures.

The Staff Turnover rate measures the percentage of total staff that leave the business over a 12 month period.

The Audit Failure measures are an indication of the level of compliance with the various standards that are applicable to AsureQuality.

The Total Injury Frequency Rate is a measure of staff health and safety.

APPENDIX 2: SUBSIDIARIES AND ASSOCIATED COMPANIES

The following provisions will apply to any subsidiary or associated company that AsureQuality has interests in.

AsureQuality will ensure at all times that:

- Control of the affairs of every wholly owned subsidiary of AsureQuality is exercised by a majority of the directors appointed by AsureQuality;
- A majority of the directors of every subsidiary of AsureQuality are persons who are also directors or employees of AsureQuality or who have been approved by Shareholding Ministers for appointment as directors of the subsidiary; and
- Without the prior consent of Shareholding Ministers, neither AsureQuality or any subsidiary of AsureQuality shall sell or otherwise dispose of, whether by a single transaction or by any series of transactions and whether by a sale of assets or shares, the whole or any substantial part of the business or undertaking of AsureQuality and its subsidiaries (taken as a whole).

Should AsureQuality or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of AsureQuality), they will not sell or dispose of any shares in that company without first giving written notice to Shareholding Ministers of the intended disposal.

Note:

The terms “share”, “Shareholding Ministers”, and “subsidiary” have the same meaning as in Section 2 of the State-Owned Enterprises Act.

Helping Aotearoa shape a better food world



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