

Cultivating growth

The Deloitte South Island Index

A review of the performance of South Island listed companies during the quarter ending 31 December 2017

February 2018

40th Edition

Introduction

Welcome to the 40th edition of the Deloitte South Island Index.

In this edition we reflect on the performance of South Island listed companies during the most recent quarter to 31 December 2017.

The December 2017 quarter continued the steady growth experienced in the prior three quarters, as the Deloitte South Island Index grew \$1,874.5 million (9.0%), the strongest quarter of growth for the 2017 calendar year.

Movements in December 2017

The Deloitte South Island Index increased by 2.4% for the month of December, with all other indices we track also increasing. The Index's increase was only matched by the S&P/NZX 50 Capital Index which also recorded a 2.4% increase for the month of December. The ASX All Ords' had it tougher than the rest, recording the lowest level of growth at 1.2%.

Quarterly movements – Q4 2017

The Deloitte South Island Index increased its market capitalisation by \$1,874.5 million (9.0%) in the last quarter of 2017. This result was driven by growth in the Aged Care (formerly reported as Property) and Primary sectors which grew by \$777.7 million (15.4%) and \$366.2 million (13.9%) respectively.

Annual movements – December 2016 to December 2017

The Deloitte South Island Index grew by \$4,242.6 million (22.8%) during the twelve months to 31 December 2017. Comparatively, it was only outperformed by the Dow Jones' 25.2% growth. In the local Australasian markets, the Deloitte South Island Index outperformed the S&P/NZX 50 Capital Index and ASX All Ords, which gained 17.3% and 7.8% respectively over the year.



Executive summary

The Deloitte South Island Index's final quarter for 2017 was its best quarter recording its highest level of market capitalisation growth for the year.

Key points for the fourth quarter of 2017 include:

- The Deloitte South Island Index increased by \$1,874.5 million (9.0%) during the quarter to 31 December 2017. All other indices tracked also recorded growth over the same period with the Dow Jones edging out the Deloitte South Island Index, increasing by an impressive 10.4%, the ASX All Ords market capitalisation increased by 7.4% and the S&P/NZX 50 Capital Index increased by 5.3%.
- Heartland Bank was the fifth company on the Deloitte South Island Index to achieve market capitalisation greater than \$1,000.0 million. Heartland Bank finished the quarter with a market capitalisation of \$1,158.8 million and growth of 22.1% for the quarter.
- The collective growth of the five companies whose market capitalisation is greater than \$1,000.0 million (the Top Five companies) was \$1,393.7 million (8.4%) which represented 74.4% of the total Index's December quarter growth of \$1,874.5 million.
- Ryman Healthcare was the leader in dollar terms of the Top Five companies gaining \$660.0 million (14.2%), followed by Synlait Milk gaining \$102.2 million (8.6%), EBOS Group increased by \$216.6 million (8.3%) and Meridian Energy finished the December quarter with a gain of \$205.1 million (2.8%).

- The smallest 10 companies pulled the overall Index's performance down as they underwent a collective decline of 23.2% (\$28.8 million).
- Outside of the Top Five, the Index's best performers (in percentage terms) were Energy Mad whose market capitalisation increased 100% (\$0.3 million) during the December quarter followed by Silver Fern Farms increasing their market capitalisation by 36.4% (\$20.1 million).
- The Index declines were led this quarter by BLIS Technology, who dropped 41.1% (\$13.3 million), closely followed by Pharmazen who fell by a 40.0% (\$6.4 million) and Blue Sky meats who dropped 24.4% (\$5.2 million).
- During the quarter we have reviewed the sector compositions to reflect the evolving nature of the South Island Index participants. We have created a Technology sector, which includes; BLIS Technologies, Pacific Edge, Pharmazen, Connexionz, SLI Systems and Syft Technologies Limited. The Property sector (Ryman Healthcare and Arvida Group) has also been renamed to Aged Care.
- Six of the seven sectors posted positive movements in the quarter to 31 December 2017. The Aged Care sector led the way with a gain of 15.4%, followed by the Primary sector increasing by 13.9%.

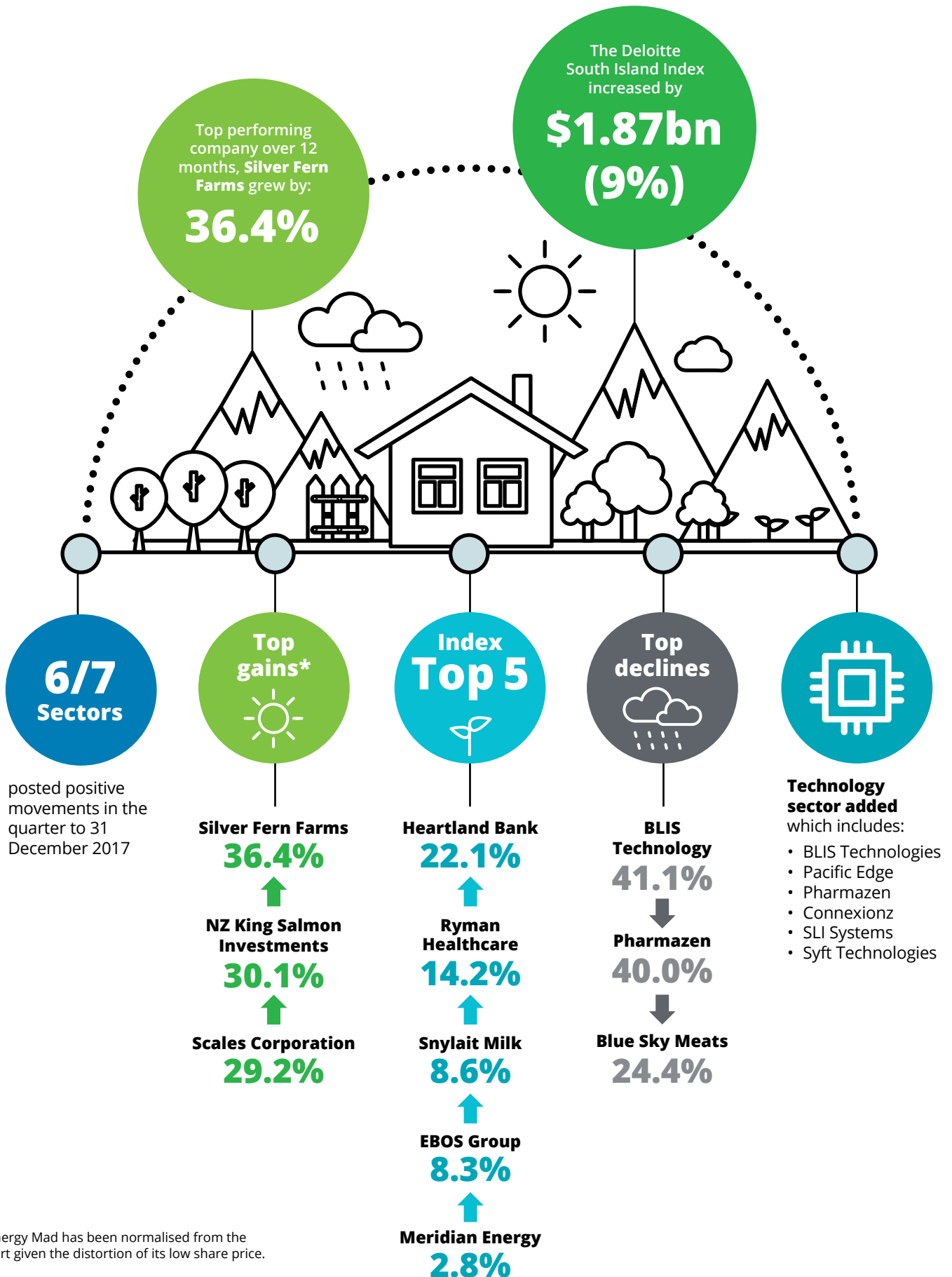
Key points for the 12 months to December 2017 include:

- Over the twelve months to 31 December 2017 the top performers, in percentage terms, were Synlait Milk (up 131.7%), New Zealand King Salmon Investments (up 80.9%), and Scott Technology (up 67.1%). In dollar terms the list looks different with Ryman Healthcare topping the table with growth of \$1,240.0 million for the past twelve months, followed by Meridian Energy (up \$833.0 million) and Synlait Milk (up \$733.4 million).
- The largest declines over the 12 months in percentage terms were led by Energy Mad (down 78.3%), BLIS Technology (down 57.5%) and SLI Systems (down 55.6%). In dollar terms Pacific Edge fell by \$43.4 million followed by BLIS Technology (down \$25.5 million) and Marlborough Wine Estates Group falling \$23.5 million.

Over the twelve months to 31 December 2017 the top performers, in percentage terms, were Synlait Milk (up 131.7%), New Zealand King Salmon Investments (up 80.9%), and Scott Technology (up 67.1%).

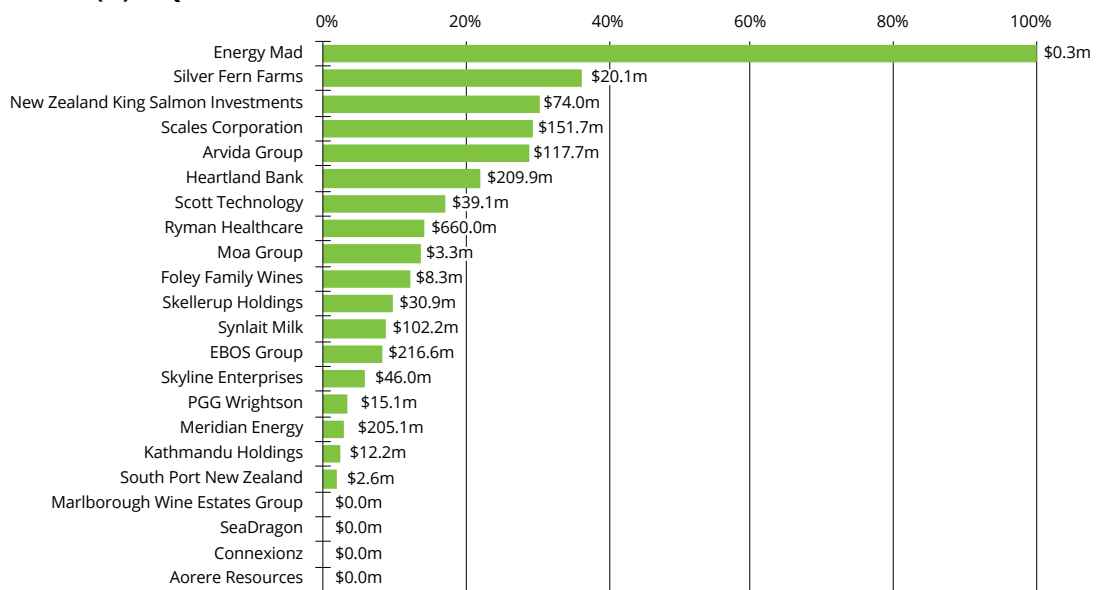
South Island Index – fourth quarter 2017

At a glance



Quarter to 31 December 2017

Growth in Market Capitalisation (%) in Quarter



Growth in Market Capitalisation

On a percentage change basis there were 18 participants that recorded growth in market capitalisation for the December quarter. Four participants recorded no movement in market capitalisation and the remaining nine participants declined.

Energy Mad recorded the largest percentage increase (100%) in market capitalisation for the quarter. The large percentage change in market capitalisation growth is distorted by the minimal share price which increased from \$0.002 to \$0.004 during the quarter. During the December quarter, Energy Mad announced their settlement date to sell Energy Mad has been delayed to February 2018 and Chair Brent Wheeler said the delay was “because the company is trying to get sales to a certain level to meet the necessary conditions.”

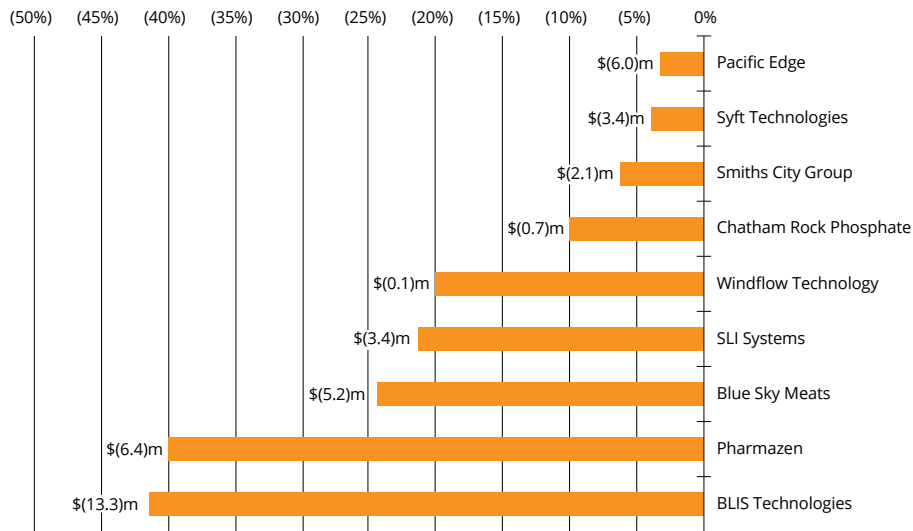
Silver Fern Farms’ strong quarter resulted in a 36.4% change in market capitalisation recording share price growth of \$0.20 over

the quarter. Silver Fern Farms appointed Simon Limmer (previously COO of Zespri) as their new Chief Executive during the quarter and also during the quarter agreed the full and final subscription price of \$260m in cash for the 50:50 partnership with Shanghai Mailing following the completion of the settlement date audit and all relevant adjustments.

New Zealand King Salmon Investments recorded their highest share price since joining the index in October 2016 during the quarter, finishing the quarter up 30.1%. This lift in share price was achieved on the back of a lift in earnings guidance for the financial year ending 30 June 2018, with increased volumes and solid sale prices. Pro-Forma Operating EBITDA to 30 June 2018 is now forecast to be between \$24.5m and \$26.0m, an increase to the \$22.4m forecast for the period in the Product Disclosure Statement registered for New Zealand King Salmon’s initial public offering in September 2016.

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Decline in Market Capitalisation (%) in Quarter



Declines in Market Capitalisation

BLIS Technology experienced the largest decline in market capitalisation on a percentage terms basis as it declined by 41.4%. BLIS Technology released their half year report which noted a 46% reduction in trading revenue (down \$1.767 million) compared to the same period last year (HY18 \$2.069 million and HY17 \$3.836 million).

this period including additional costs incurred in the commissioning of the new plant and equipment including cost of consents, consultants and resultant variations to the build and installation programme. The balance of the year result was going to be heavily dependent on the speed with which the current opportunities and new freeze dryer commissioning can generate revenue."

BLIS Technology experienced the largest decline in market capitalisation on a percentage terms basis as it declined by 41.4%.

Pharmazen finished the December quarter with a decrease in market capitalisation for the quarter of 40.0%. In the October press release it noted "The company faced a number of challenges over

Blue Sky Meats also recorded a decline in market capitalisation for the quarter, with a 24.4% decrease with only one trade during the quarter. This was a \$0.45 per share reduction from its previous trade.



Sector movements

Quarter to 31 December 2017

Growth was spread throughout the Index with only one sector recording a decline for the December quarter.

In percentage terms, the growth of the Index was led by the newly named Aged Care sector which grew \$777.7 million (15.4%) during the quarter as both participants achieved growth. Avida Group finished first in percentage terms with an increase of 28.9% (up \$117.7 million), followed by Ryman Healthcare's 14.2% increase (up \$660.0 million).

The Primary sector achieved an overall 13.9% increase in market capitalisation for the quarter. Blue Sky Meats was the only participant in the sector to record a decline. SeaDragon and Marlborough Wine Estates recorded no change during the quarter. Silver Fern Farms (36.4%, \$20.1 million), New Zealand King Salmon Investments (30.1%, \$74.0 million) and

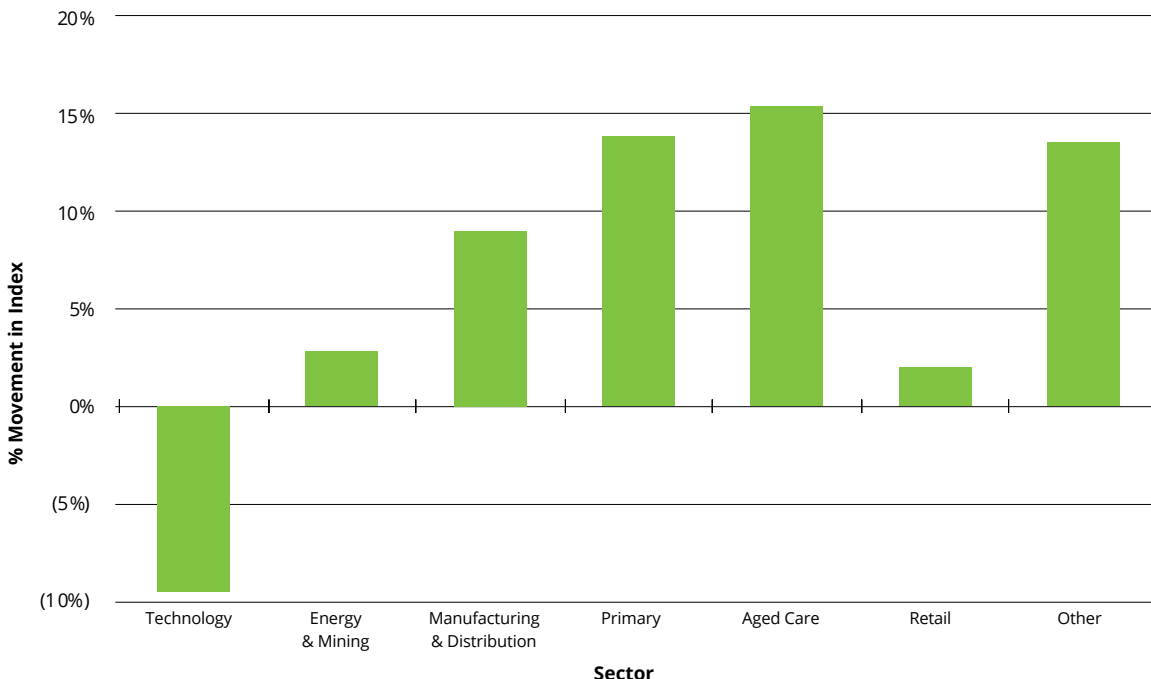
Scales Corporation (29.2%, \$151.7 million) were the top performers for the Primary sector in percentage terms.

All participants of the Other and Manufacturing & Distribution sectors, recorded growth for the December quarter.

The newly formed Technology sector was the only sector to record a decline. All participants with the exception of Connexionz who recorded no change, recorded declines in market capitalisation. The largest percentage decrease was BLIS Technology (down 41.4%), followed by Pharmazen (down 40.0%), SLI Systems (down 21.4%). Pacific Edge and Syft Technologies declined by 3.2% and 4.0% respectively.

In percentage terms, the growth of the Index was led by the newly named Aged Care sector as it grew \$777.7 million (15.4%) during the quarter as both participants achieved growth.

Movement in Sector Indices – Quarter to December 2017



Industry	Number of Companies	31 Dec 2017 \$ million	30 Sept 2017 \$ million	Mvmt in Quarter \$ million	% change in Mkt Cap during quarter	% of Index
Technology	6	\$307.4	\$339.9	\$(32.5)	(9.6)%	1.3%
Energy & Mining	4	\$7,505.0	\$7,300.7	\$204.3	2.8%	32.9%
Manufacturing & Distribution	4	\$3,455.3	\$3,168.4	\$286.9	9.1%	15.1%
Primary	9	\$3,004.9	\$2,638.7	\$366.2	13.9%	13.2%
Aged Care	2	\$5,820.5	\$5,042.8	\$777.7	15.4%	25.5%
Retail	2	\$522.9	\$512.8	\$10.1	2.0%	2.3%
Other	4	\$2,195.3	\$1,933.5	\$261.8	13.5%	9.6%
TOTAL	31	\$22,811.3	\$20,936.8	\$1,874.5	9.0%	100.0%



Benchmarking

Quarterly comparison of the Deloitte South Island Index and other indices

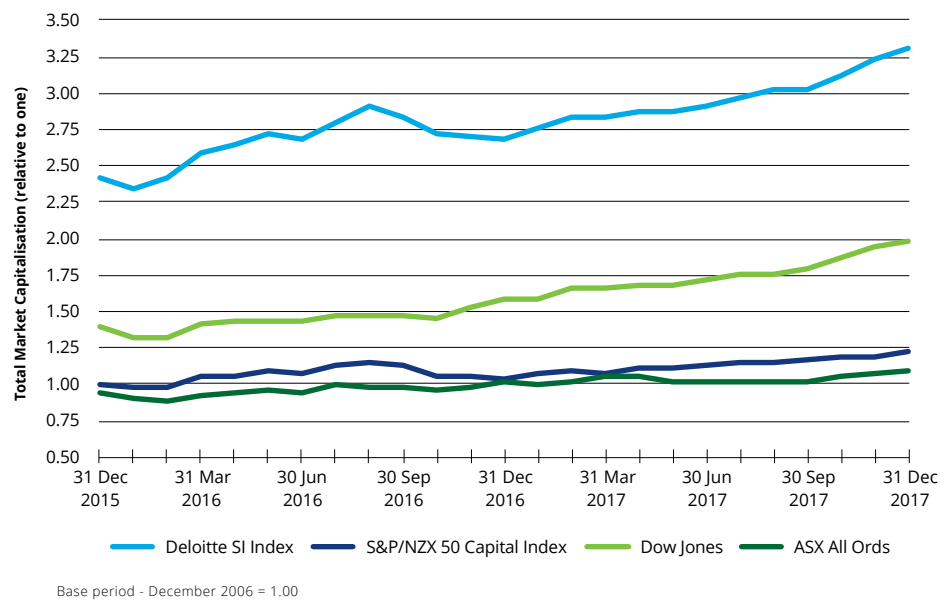
The Deloitte South Island Index continued to improve and build on the solid foundation it has established during the first three quarters of the 2017 calendar year and finished the quarter with a \$1,874.5 million (9.0%) gain in market capitalisation.

The Dow Jones Index was the top performer of the other indices tracked for comparative purposes as it grew over the quarter by 10.4%. The growth trajectory for the quarter mirrored the Deloitte South Island Index.

The ASX All Ords gained 7.4%, closely followed by the S&P/NZX 50 Capital Index which grew by 5.3%.

The Dow Jones Index was the top performer of the other indices tracked for comparative purposes as it grew over the quarter by 10.4%. The monthly movements mirrored the Deloitte South Island Index.

Performance of Deloitte South Island Index vs major indices



Deloitte South Island Index – December 2017

Of the 31 companies currently listed on the Deloitte South Island Index, 18 (58%) experienced a rise in market capitalisation during the quarter to 31 December 2017, 9 declined and 4 remained unchanged.

The full Deloitte South Island Index for the quarter ended 31 December 2017, ranked by market capitalisation, is set out in the table below.

	Dec 2017 Rank	Sept 2017 Rank	Ticker	Company	Sector	Mcap Dec 2017 (\$m)	Mcap Sept 2017 (\$m)	Change in Mcap (\$m) in Quarter	Change in Mcap (%) in Quarter	Share Price 31 Dec 2017
→	1	1	MEL	Meridian Energy	Energy & Mining	\$7,496.8	\$7,291.7	\$205.1	2.8%	\$2.925
→	2	2	RYM	Ryman Healthcare	Aged Care	\$5,295.0	\$4,635.0	\$660.0	14.2%	\$10.590
→	3	3	EBO	EBOS Group	Manufacturing & Distribution	\$2,829.6	\$2,613.0	\$216.6	8.3%	\$18.550
→	4	4	SML	Synlait Milk	Primary	\$1,290.4	\$1,188.2	\$102.2	8.6%	\$7.200
→	5	5	HBL	Heartland Bank	Other	\$1,158.8	\$948.9	\$209.9	22.1%	\$2.080
→	6	6	SKYLINE	Skyline Enterprises	Other	\$851.2	\$805.2	\$46.0	5.7%	\$25.000
→	7	7	SCL	Scales Corporation	Primary	\$671.6	\$519.9	\$151.7	29.2%	\$4.780
↑	8	10	ARV	Arvida Group	Aged Care	\$525.5	\$407.8	\$117.7	28.9%	\$1.270
↓	9	8	KMD	Kathmandu Holdings	Retail	\$491.3	\$479.1	\$12.2	2.5%	\$2.430
↓	10	9	PGW	PGG Wrightson	Primary	\$452.9	\$437.8	\$15.1	3.4%	\$0.600
→	11	11	SKL	Skellerup Holdings	Manufacturing & Distribution	\$356.7	\$325.8	\$30.9	9.5%	\$1.850
→	12	12	NZK	New Zealand King Salmon Investments	Primary	\$319.9	\$245.9	\$74.0	30.1%	\$2.310
→	13	13	SCT	Scott Technology	Manufacturing & Distribution	\$268.4	\$229.3	\$39.1	17.1%	\$3.560
→	14	14	PEB	Pacific Edge	Technology	\$181.9	\$187.9	\$(6.0)	(3.2)%	\$0.390
→	15	15	SPN	South Port New Zealand	Other	\$157.4	\$154.8	\$2.6	1.7%	\$6.000
→	16	16	SYF	Syft Technologies	Technology	\$81.9	\$85.3	\$(3.4)	(4.0)%	\$1.150
↑	17	18	FFW	Foley Family Wines	Primary	\$78.3	\$70.0	\$8.3	11.9%	\$1.500
↑	18	19	SFF	Silver Fern Farms	Primary	\$75.3	\$55.2	\$20.1	36.4%	\$0.750
↓	19	17	MWE	Marlborough Wine Estates Group	Primary	\$73.3	\$73.3	\$0.0	0.0%	\$0.250
→	20	20	SCY	Smiths City Group	Retail	\$31.6	\$33.7	\$(2.1)	(6.2)%	\$0.600
↑	21	23	MOA	Moa Group	Other	\$27.9	\$24.6	\$3.3	13.4%	\$0.510
→	22	22	SEA	SeaDragon	Primary	\$27.1	\$27.1	\$0.0	0.0%	\$0.006
↓	23	21	BLT	BLIS Technologies	Technology	\$18.8	\$32.1	\$(13.3)	(41.4)%	\$0.017
→	24	24	BLUESKY	Blue Sky Meats	Primary	\$16.1	\$21.3	\$(5.2)	(24.4)%	\$1.400
↑	25	26	SLI	SLI Systems	Technology	\$12.5	\$15.9	\$(3.4)	(21.4)%	\$0.200
↓	26	25	PAZ	Pharmazen	Technology	\$9.6	\$16.0	\$(6.4)	(40.0)%	\$0.060
→	27	27	CRP	Chatham Rock Phosphate	Energy & Mining	\$6.3	\$7.0	\$(0.7)	(10.0)%	\$0.380
→	28	28	CNX	Connexionz	Technology	\$2.7	\$2.7	\$0.0	0.0%	\$0.050
→	29	29	AOR	Aorere Resources	Energy & Mining	\$1.5	\$1.5	\$0.0	0.0%	\$0.001
↑	30	31	MAD	Energy Mad	Manufacturing & Distribution	\$0.6	\$0.3	\$0.3	100.0%	\$0.004
↓	31	30	WTL	Windflow Technology	Energy & Mining	\$0.4	\$0.5	\$(0.1)	(20.0)%	\$0.010
	31	31		TOTAL		\$22,811.3	\$20,936.8	\$1,874.5	9.0%	

The Deloitte South Island Index ('the Index') is compiled from information provided by the NZX, and Unlisted on the market capitalisation of each South-Island based listed company. Broadly, a company is included in the Index where its registered office is in the South Island and/or a substantial portion of its operations are focused in the South Island. The information on South Island listed companies is extracted and totalled to provide a cumulative market capitalisation for all South Island listed companies.

The base period of the Deloitte South Island Index is 31 December 2006 and for the purposes of the Index this data is given a notional value of one. All subsequent quarterly cumulative market capitalisation totals are divided by the totals for the December 2006 quarter to obtain a relative movement. Market capitalisation will move as a result of capital injections, payments of dividends and capital returns. If a new South Island based company lists on the NZX or Unlisted they will be reflected in the Index as though they were present in the base period. Accordingly, the Index will only reflect changes in market capitalisation subsequent to listing. If a company is suspended or delisted during a quarter, no data will be included for the company, including any historical data, until the company is re-listed or the suspension lifted.

For the purposes of the sector analysis some sector segments have been grouped to provide a more meaningful analysis.

Information

Deloitte Corporate Finance is the firm's specialist corporate finance practice. For information regarding the Deloitte South Island Index or any of the services that we offer please contact any of our selected South Island based team below.

Christchurch

Scott McClay

Partner | Corporate Finance
+64 (03) 363 3834
smcclay@deloitte.co.nz

Rob McDonald

Director | Corporate Finance
+64 (0) 3 363 3836
robmcdonald@deloitte.co.nz

Richard Bailey

Partner | Corporate Finance
+64 (0) 3 363 3828
richardbailey@deloitte.co.nz

Aaron Thorn

Partner | Tax & Private
+64 (03) 363 3813
athorn@deloitte.co.nz

Shari Carter

Partner | Tax & Private
Direct : +64 (03) 363 3849
sharicarter@deloitte.co.nz

Mike Hoshek

Partner | Audit
Direct : +64 (03) 363 3744
mhoshek@deloitte.co.nz

Steve Law

Partner | Consulting
Direct : +64 (03) 363 3872
stelaw@deloitte.co.nz

Dunedin

Mike Hawken

Partner | Audit
Direct : +64 (03) 474 8684
mhawken@deloitte.co.nz

Kyle Cameron

Partner | Tax & Private
Direct : +64 (03) 474 8674
kycameron@deloitte.co.nz

Mike Horne

Partner | Tax & Private
Direct : +64 (03) 474 8647
mhorne@deloitte.co.nz

Phil Stevenson

Partner | Tax & Private
Direct : +64 (03) 474 8665
p Stevenson@deloitte.co.nz

Queenstown

Daniel Hellyer

Partner | Tax & Private
Direct : +64 (03) 901 0573
dhellyer@deloitte.co.nz

Christchurch

151 Cambridge Terrace,
Christchurch 8013
PO Box 248, Christchurch 8140
New Zealand
Tel: +64 (0) 3 379 7010
Fax: +64 (0) 3 366 6539
www.deloitte.co.nz

Dunedin

Otago House, 481 Moray Place,
Dunedin 9016
PO Box 1245, Dunedin 9054
New Zealand
Tel: +64 (0) 3 474 8630
Fax: +64 (0) 3 474 8650
www.deloitte.co.nz

Queenstown

Level 2, 10 Memorial Street
PO Box 794,
Queenstown 9348
New Zealand
Tel: +64 (0) 3 901 0570
Fax: +64 (0) 3 901 0571
www.deloitte.co.nz



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