



**STATEMENT OF  
CORPORATE INTENT  
2019-2020**



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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 2019 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 is a specialist provider of food assurance services to customers operating across the food supply chain in NZ and other global locations.

## OUR PURPOSE

TOGETHER WE  
BUILD AND PROTECT  
CONSUMER CONFIDENCE

## OUR ROLE

GLOBAL EXPERTS  
IN FOOD ASSURANCE

## OUR VALUES



**STRONGER  
TOGETHER**



**DO THE  
RIGHT THING**



**EXCEED  
EXPECTATIONS**



**TAKE  
THE LEAD**

## OUR PEOPLE

There are more than 1,700 people in our business, based across New Zealand and Australia.

We have a diverse workforce with 60 different nationalities represented across the business.

We have a spread of ages across multiple generations as 39% aged 18-37 years, 28% aged 38-53 years, and 33% are 54 and over

Gender statistics show a higher proportion of female staff in Testing Services while Inspection & Certification attracts more males. Over total staff 56% are female and 44% male.

Most of our people are full-time employees based in frontline service delivery roles.



## WHAT WE DO

With extensive domestic and international accreditations, AsureQuality provides a range of specialist food assurance services covering the entire food supply chain:



### FOOD & CONTAMINANT TESTING

Testing and analysis against regulatory and retailer standards for pathogens, toxins, allergens, chemical residues, genetically modified organisms and nutritional information.

Seed testing and certification for arable, dairy, livestock farming and export.

Plant and pest taxonomy, border control and pathology services.

Proficiency testing, reference materials and related services (Global Proficiency).



### INSPECTION AND CERTIFICATION

Independent audit, inspection, verification and certification against domestic and international regulatory and retailer standards.

Veterinary and field technician services including; farm assurance, dairy farm assessment, sample collection, TB testing and related disease management.

Ante-mortem and post-mortem meat inspection.



### OTHER SPECIALIST SERVICES

Biosecurity readiness, capability, incursion response and surveillance services provided under agreement with NZ's Ministry for Primary Industries (MPI).

Contract manufacturing of diagnostic products and distribution of specialist veterinary test kits for use in disease management.

Industry training to meet food safety and quality requirements.

Product assurance marks, such as AQ Assured and AQ Certified that provide independent evidence and verification of food product features, claims or supply chain authenticity.

Technical insight services to 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

Most of AsureQuality's business is focussed on core markets of New Zealand, Australia and Southeast Asia, and particularly across the dairy, livestock and meat industries.

### SOUTHEAST ASIA

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

### 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.

### NEW ZEALAND

We are the leading provider of food assurance services to the NZ food and agriculture industries, with particular strength in dairy and livestock & meat.

We also provide services to several international customers, either directly or in support of our teams in market as required.





## OUR STRATEGIC PRIORITIES



### 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 motivated, performance driven teams who are passionate about what we do**

People engagement

**Outstanding customer experience delivered consistently**

Customer satisfaction

**Sustainable profitability so we can reinvest in our future**

EBIT margin

**Develop new growth models – BVAQ International, Assurance Marks, Digital Services, Environmental**

Business growth

## PERFORMANCE TARGETS

Total company financial and non-financial performance targets for 2020-2022 are:

| YEAR ENDING 30 JUNE                     | 2020     | 2021     | 2022     |
|---|----------|----------|----------|
| <b>FINANCIAL PERFORMANCE</b>            |          |          |          |
| Revenue                                 | \$206.7m | \$184.2m | \$190.2m |
| Earnings Before Interest and Tax (EBIT) | \$21.9m  | \$22.0m  | \$23.5m  |
| Net Profit After Tax (NPAT)             | \$14.1m  | \$13.8m  | \$14.8m  |
| Net Cash Flow from Operating Activities | \$24.8m  | \$22.8m  | \$21.9m  |
| <b>KEY RATIOS</b>                       |          |          |          |
| Total Shareholder Return                | 7%       | 4%       | 4%       |
| Dividend Yield                          | 7%       | 4%       | 4%       |
| Dividend Payout                         | 100%     | 73%      | 78%      |
| Return on Equity                        | 19%      | 19%      | 19%      |
| Return on Capital Employed              | 26%      | 25%      | 25%      |
| Operating Margin                        | 15%      | 18%      | 18%      |
| Gearing Ratio *                         | 32%      | 31%      | 29%      |
| Interest Cover                          | 16       | 14       | 14       |
| Solvency                                | 1.1      | 1.1      | 1.1      |
| <b>NON-FINANCIAL PERFORMANCE</b>        |          |          |          |
| Staff Turnover Rate                     | <12%     | <12%     | <12%     |
| Total Recordable Injury Frequency Rate  | <4.4     | <4.2     | <4.0     |
| Critical Programme Audit Failures       | Nil      | Nil      | Nil      |
| Critical Facility Audit Failures        | Nil      | Nil      | Nil      |

\* The gearing ratio has increased by 9% in 2020 due to implementation of NZ IFRS 16.

## RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

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

| YEAR ENDING 30 JUNE               | 2020     | 2021     | 2022     |
|-----------------------------------|----------|----------|----------|
| Shareholders Funds                | \$71.8m  | \$76.7m  | \$83.0m  |
| Total Assets                      | \$141.1m | \$143.8m | \$150.4m |
| Shareholders Funds / Total Assets | 51%      | 53%      | 55%      |

### RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

Shareholders' Funds includes share capital and reserves (otherwise called 'total equity'). Total assets includes 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 2020 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 2020. 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, except for the application of the following mandatory standards:

- *NZ IFRS 15 – Revenue from Contracts with Customers (as of 1 July 2018)*  
The standard provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers and introduces new disclosures about revenue. The Group has reviewed its contracts with customers and assessed that the profile of revenue and profit recognition will not change significantly. The Group's updated accounting policies for its revenue streams are:
  - Revenue is measured at the fair value of the consideration received.
  - Revenue from the rendering of services is recognised in profit or loss over time, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total service to be provided.
  - Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and is recorded net of returns.
- *NZ IFRS 9 – Financial Instruments (as of 1 July 2018)*  
The standard introduces new classifications and removal of some existing classification and measurement regime for financial assets and liabilities. There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss. The Group was required to revise its impairment methodology for Trade and other Receivables to use a new expected credit losses model. There was no material impact from this change in accounting policy.
- *NZ IFRS 16 – Leases (as of 1 July 2019)*  
The standard requires a lessee to recognise a lease liability reflecting the future lease payments and a 'right-of-use asset' for substantively all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets. The new approach will result in a significant increase in debt on the balance sheet for the Group. The Group will have to present interest expense on the lease liability and depreciation on the right-of-use asset in their income statement. In comparison with operating leases under IAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.  
The new guidance will also change the cash flow statement, because lease payments that relate to contracts that have previously been classified as operating leases are no longer presented as operating cash flows in full. Only the part of the lease payments that reflects interest on the lease liability can be presented as an operating cash flow. Cash payments for the principal portion of the lease liability are classified within financing activities. Payments for short-term leases, for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are presented within operating activities.

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## 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.

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## CONSULTATION ON SALE AND PURCHASE OF ASSETS

AsureQuality, or any of the subsidiaries it controls, may acquire or dispose of assets or shares in another business where this activity is consistent with the nature and scope of AsureQuality's business.

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, with a book value in excess of 10% of AsureQuality's equity, consultation with Shareholding Ministers will be undertaken prior to completion of the transaction or transactions.

Where disposal of assets or shares with a book value in excess of 10% of AsureQuality's equity is contemplated, an assessment of market value of the assets or shares will be undertaken as part of the sale or disposal process.

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## 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.

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## 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 2019 the Board's estimate of the commercial valuation of the Crown's investment in AsureQuality is \$216 million.

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

- The valuation was calculated as at 30 June 2019.
- 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 9.2% was assumed.
- The current commercial value of the Crown's investment of \$216 million (often referred to as the equity value) was calculated by taking the enterprise value of \$237 million and deducting net debt of \$21 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 I: PERFORMANCE TARGETS

## FINANCIAL PERFORMANCE

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

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### KEY RATIOS

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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 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 Dividend Payout is the proportion of net operating cash flow less an allowance for capital maintenance paid out as a dividend to the shareholder. Calculation: Dividends paid divided by (Net cash flow from operating activities less depreciation 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 EBIT Margin indicates the level of profitability of the business. Calculation: EBIT adjusted for IFRS fair value movements 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 Solvency measure indicates the ability of the company to pay its debts as they fall due. Calculation: Current assets divided by Current liabilities.

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### NON-FINANCIAL PERFORMANCE

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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.

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## 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.

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**ASUREQUALITY**

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