



# **Walnuts New Zealand Co-operative Limited**



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## **ANNUAL REPORT 2022**

For the year 1 April 2021 to 31 March 2022

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# Contents

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Contents .....	1
About us .....	2
Our statement of purpose.....	2
Board of directors.....	2
Report of the Company Chair and General Manager .....	4
Summary of financial performance.....	7
Shareholding and participation by walnut suppliers .....	8
Market and brand development.....	9
Other non-financial performance .....	10

## **AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2021**

Company directory (page 3)	
Directors' annual report (pages 4–5)	
Statement of profit or loss and other comprehensive income (page 6)	
Statement of changes in equity (page 7)	
Balance sheet (page 8-9)	
Statement of cash flows (page 10-11)	
Notes to the financial statements (pages 12-36)	
Independent auditor's report (to follow)	

## About us

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Walnuts New Zealand Co-operative Limited is a grower-owned co-operative company whose main activities are to purchase, process, market and sell walnuts. We operate a walnut processing factory in West Melton, Canterbury. Our range of products is sold



nation-wide and includes kernel pieces for snacking and baking, in-shell walnuts, ground walnuts for food manufacturers, and specialist items such as oil, flour and dukkah. Our retail products carry our new, unified brand, Trickett's Grove, and our ingredients (non-retail) products are sold under the Co-operative's logo.



Walnuts New Zealand Co-operative Limited commenced business on 1 May 2015. On 23 December 2015 we registered a Product Disclosure Statement to offer shareholding to walnut suppliers. Shareholding is based on volume of supply, with the share standard being one share per kilogram of walnuts supplied. As at 31 March 2022, we had 45 shareholders holding a total of 245,388 shares.

This annual report covers our seventh year in business, from 1 April 2021 to 31 March 2022.

### Our statement of purpose

The purpose of our co-operative company is to grow the wealth and security of our New Zealand walnut producer-shareholders through our common goals of:

- Reliable supply of premium-value product to our consumers;
- Providing a path to market for our shareholders;
- Efficient and effective processing and cohesive marketing;
- Unity of purpose amongst our suppliers;
- Behaviour that is socially, financially and environmentally responsible.

### Board of directors

Our constitution requires a board of seven directors. Generally, directors must be shareholders of the Company, though our constitution allows one Appointed Director who is not a shareholder. To date, board members have not been paid for their role as directors, other than a payment for the Company Chair to help cover expenses. Current directors are:

Andrew Horsbrugh (Company Chair)

*Andrew and his wife Jo own and operate Tunlaw Farm Limited, a 45-ha walnut orchard in West Melton. Andrew is an orchardist, a consultant, a director of Donaghys and a member of the Institute of Directors New Zealand. Andrew and Jo are also the New Zealand agent for AMB Rousset walnut harvesting and processing equipment.*

Frank Brenmuhl

*Frank and Margaret have a 32-ha walnut orchard at Aylesbury. Frank is a retired dairy farmer and farm consultant. He was a National Board Member of Federated Farmers of*

*New Zealand which included the roles of National Dairy Section Chairman, Chairman of the Dairy Industry Awards Trust and National Vice President of FFNZ.*

Heather North (Company Secretary) – retired September 2021

*Heather owns a 17-ha orchard near Lincoln with business partner Clive Marsh. Heather is a research scientist, working as a self-employed contractor. She is a member of the Institute of Directors. In addition to her duties as a director, Heather also served as Company Secretary and Share Registrar for Walnuts New Zealand Co-operative (receiving a monthly fee) until 30 April 2021.*

Colin Prebble

*Colin and his wife Karen have a 20-year-old orchard they developed from scratch. Colin is a Chartered Accountant with experience on various boards and committees. He is also a partner in some Christchurch-based hospitality businesses.*

Tim Armitage

*Tim and Cherry have a 26-year-old walnut orchard at Eyreton. Tim worked internationally as an Institutional Development consultant. He is a Fellow of Engineering New Zealand and assesses the competence of applicants for infrastructure-related diplomas.*

Basil Meyer

*Basil farms in partnership with Trudi; they have 1000 walnut trees on their property near Charing Cross, Darfield. Both are originally from Switzerland and settled in New Zealand in 1987. Through the sharemilking route they purchased their dairy farm on the West Coast in 1993, which they sold in 2013 to concentrate on their walnut orchard. From 2000 to 2010 Basil was a director of Westland Co-operative Dairy Company. Basil and Trudi are the New Zealand contact for Feucht Obsttechnik, the German manufacturer of walnut harvesting equipment.*

Paul Visser – Retired September 2021

*Paul has been involved in the walnut industry since it evolved from the Tree Crops Association. He has held roles of President of Southern Nut Growers Association (Nut Growers of New Zealand) and several terms as Chairman of the New Zealand Walnut Industry Group.*

Maria Tiede – Elected September 2021

*Maria has a 1300 tree walnut orchard, in partnership with husband Damien and sister Anna, which they planted 15 years ago. Maria works for Wyma Solutions as a design planner and compliance manager*

Clive Marsh – Elected September 2021

*Clive has 17Ha orchard, 24 years old. Off farm work includes self-employed consultant Process Engineer specialising in Food, Medical Device and Pharmaceutical manufacture. Clive has skills in Process & product development, quality systems and regulatory affairs (ISO & GMP compliance). Clive has a PhD in engineering and many years working in research roles.*

## Report of the Company Chair and General Manager

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### Overview

We live in changing times with environmental, political, social, and economic pressures on growers and farmers like never before. We also have had individual health as a focus to ensure we can cope with the many challenges like Covid 19 that come our way. However, out of challenge comes opportunity and discerning consumers are reacting to this by wanting food that not only tastes good, but is natural, good for them, and good for the environment. The stars are aligning for us and the years we have spent developing our orchards and growing a great product fit with the convergence of these trends. Our walnut cultivars have been chosen for their great taste, walnuts are one of the world's top ten health super foods, and our orchards are carbon sequestering and climate positive. Our co-operatives challenge is how we capitalise on this.

We are on the way to building a business that can best position NZ walnuts to maximise our co-operative performance and pay-out to growers, but it is taking time. Our co-operative has established new brands, implemented technology to optimise processing efficiency, has talented and hardworking staff, and committed governance. Our key challenge is lack of volume, but this is changing.

Last year we processed 190MT of walnuts and this year are expecting 230MT, a 21% increase. Our annual crop volume is subject to climate driven variations, however most trees have yet to reach full maturity. If we have no new plantings, we still have the potential to triple this year's volume over the next 10 years. This extra volume over our largely fixed cost structure would materially increase our performance and grower pay-out.

Recognising that extra volume is a key driver to our sectors success your board committed the time and effort to host a new grower field day in February. This was a joint initiative with the Walnut Industry Group (WIG) and despite Covid and weather challenges had a good turnout. The open day included experts talking on growing walnuts, financials, environmental impacts (we are climate positive!) and nutritional benefits. Please view the WIG website for links to the video of the day and links to all the positive radio and news articles that followed. This field day certainly helped give walnuts the profile we need with potential growers including an episode on Country Calendar featuring our orchard and Tricketts Road factory.

### Results

Our performance for the FY2022 year was a good result, all things considered. Despite lower factory throughput volumes than budgeted, and a year disrupted with covid, we finished in a good cash position which enabled us to pay growers a 5% premium. With lower volumes, \$200k less revenue than expected, and business disruptions, we had to put some improvement projects on hold and tightly manage every cost to keep our result positive. This result is a credit to the co-op staff who achieved it for us in trying circumstances.

Our net operating profit (after paying the increased pay-out to growers) was a loss of \$14,560. The year end result is however worse as new auditors required us to account for some items in a different way than we have previously which resulted in a large one-off write down. In particular \$43k of brand development costs (we had original approval that we could amortise these over the period of the benefit) and \$66.5k of goodwill from when we purchased the business we have had to write off (due to having no retained earnings as we pay excess to growers as a pay-out premium). Please see the financial report for more detail on this. The overall reported result after these one-off write offs is a book loss of \$120,467.

### **General Manager**

A big change for our Co-op in 2021 was the retirement of Shane McKenzie. Shane has been our General Manager since our co-op inception seven years ago and has been instrumental in setting our business up to what it is today. Our thanks go to Shane for his years of hard work and considerable achievements over this time, and we wish him well in his new venture with the Hazelnut Company Limited.

As one door closes another opens, and we are excited to welcome Kevin Parish as our new GM. Kevin brings a rich array of professional and personal experience in trade and enterprise, collaboration, product development, as well as a strong business leadership and marketing background both in New Zealand and internationally. Kevin brings the dual strengths of customer service, product & market development, together with strong commercial skills and rigour. We are delighted to have been able to attract a person of Kevin's calibre and have already seen various improvements to our business in Kevin's first four months with us.

### **Audit**

A big challenge we have as a small cooperative business is our very high compliance costs. Due to our constitution and current structure, we are required to have the highest formal level of audit applied to a New Zealand company. We believe an annual audit is good practise and should occur but not to the level we are forced to do which has high cost for little benefit. In fact, due to the costs and complexity of this audit our previous auditor resigned at the end of last financial year, and we had a mid-year appointment of Crowe as our new auditors. With new auditors, new GM, new Chair, and new accountant support it has been an incredibly resource hungry exercise to complete our reporting requirements. As a small business we cannot afford to take out our GM and some of his team for nearly three months and spend what we estimate to be over \$60k each year producing financial reports that comply with the international financial standards applicable to our largest public companies. The board is currently reviewing if there is an alternative structure that will remove this burden.

### **Customers**

A key focus of Kevin's first few months with us has been to meet with our distributors and key customers. We have a group of loyal customers that we are ever grateful to, and it has been important to meet them face to face and share with them details of our business. Unfortunately, it has also been an unprecedented time of cost increases and the recent visits enabled us to explain in person the need for price increases. Key challenges in the Auckland market continue to be our costs to serve with very low profitability after all costs of distribution are accounted for. Canterbury and the wider South Island presents an opportunity for the business to develop over the coming years. It is evident that we need to

add value and present a higher value proposition to the market if we are to improve our profitability. This is a key area of work we will be focusing on in the coming year.

### **Acknowledgements and Board of Directors**

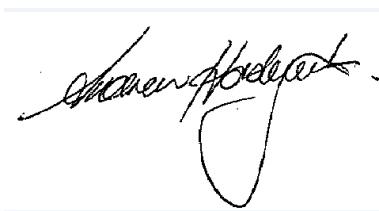
At this year's Director Elections three directors due to retire by rotation – Frank Brenmuhl, Tim Armitage and myself. Tim and I put our names forward for re-election and the co-op received one new nomination for Mark Wren. With three places available, and three candidates, we welcome all three onto the WNZC board without the need for any voting at our AGM. Mark has an orchard on the Banks Peninsula and a life of primary sector involvement initially as a vet through to his current role heading the Lead with Pride on farm quality program at Synlait. We welcome Mark and his expertise to the board.

As mentioned above it was with regret that Frank informed us that he will be retiring from the board at the end of this term. Frank has been on the board since our co-op's formation, with many as Chair, and has worked tirelessly for all growers for over 7 years. We are incredibly grateful for Frank (and Margaret's) immense contribution to our co-op and wish them all the best.

I would like to acknowledge the rest of the board who freely give their time and work hard for all shareholders to help make us a stronger, more resilient, more profitable business. I would also like to thank our hard-working staff for their commitment and efforts through the year.

Finally, I would like to thank our shareholders for entrusting us to support you and your business and help develop this industry. Your support of our co-operative is important and really appreciated as we collectively strive to be the trusted producer of high quality, high value, safe, nutritious, climate positive food.

Ngā Mihi



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**Andrew Horsbrugh**  
Chair



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**Kevin Parish**  
General Manager

## Summary of financial performance

Here we review some of the key financial results for the year; for details please see the full audited accounts included in this Annual Report.

### *Selected financial information for 2022 financial year compared to previous years*

*For details please see the Financial Statements section of this Annual Report, including the auditor's report. Financial Statements from previous years can be found on the Product Disclosure Statement Offer Register at <https://disclose-register.companiesoffice.govt.nz> offer number OFR10376.*

SELECTED FINANCIAL INFORMATION	For the 11 months to 31 March 2016 (\$)	For the Year Ending 31 March 2017 (\$)	For the Year Ending 31 March 2018 (\$)	For the Year Ending 31 March 2019 (\$)	For the Year Ending 31 March 2020 (\$)	For the Year Ending 31 March 2021 (\$)	For the Year Ending 31 March 2022 (\$)
Revenues – Sales	1,084,141	1,215,261	1,237,484	1,137,610	1,326,568	1,502,860	1,530,793
Earnings before interest, tax, depreciation and amortisation (EBITDA)	10,591	(4,572)	42,652	53,609	85,434	117,585	72,480
Net profit after tax	(20,171)	(26,300)	5,437	15,717	16,032	28,966	(14,560)
Total assets	781,204	822,375	630,803	932,021	868,652	1,245,737	949,930
Cash and cash equivalents	164,162	202,524	85,557	266,136	130,281	394,480	299,930
Total liabilities	478,319	489,074	204,856	451,226	365,702	670,230	432,058
Total interest-bearing liabilities	140,806	79,786	16,277	0	225,377	272,084	243,099
Net cash flows from operating activities	(23,176)	70,611	(123,359)	195,958	(87,064)	257,998	(5764)
'Current value' of share as at end of financial year ( <i>total assets minus total liabilities divided by number of shares on issue</i> )	\$2.23	\$2.12	\$2.24	\$2.35	\$2.43	\$2.59	2.11
Comments:	Walnuts New Zealand Co-operative Limited commenced trading on 1 May 2015						

One indicator of the financial strength of the Company is the 'current value' (the underlying net asset position per share) as shown in the table above. Over previous years the current value of the share has been moving steadily upwards but unfortunately this has declined this year as a result of the Goodwill and Branding investments being written off against earnings.

Other indicators of the Co-operative's financial performance are:

- In the 2020/21 year and in the 2021/22 year, the Company's financial position allowed for an early interim payment to suppliers – in August – followed by a second in December, with final payment at the end of the financial year. In previous years, there was one interim payment in October/November with final payment at the end of the financial year.

By March 2022, it was clear that a profit was expected for the year. As a result the board made the decision to increase the payout to growers by 5%.

Walnut quality from the 2021 harvest was better than the previous year (when wet spring conditions heightened disease pressure). Processing is more efficient when walnut quality is good, which in turn benefits overall profitability. However, to achieve further significant gains in efficiency, the Co-operative needs to be processing greater volumes of product. Orchard production has not increased at the rate originally predicted, and this is currently a limiting factor for financial performance.

No dividends were paid to shareholders in respect of the 2021/22 financial year.

## Shareholding and participation by walnut suppliers

As at the end of March 2022, the Co-operative had 45 shareholders, holding a total of 245,388 shares. This is an increase of 22,848 shares during the financial year. With a nominal share price of \$2.75, the total (gross) capital investment by walnut growers at 31 March 2022 was \$674,817.

As at 31 March 2022, substantial shareholders (holding 5% or more of the issued shares) were those listed in the table below.

<b>Substantial shareholders</b> (holding 5% or more of the issued shares)	<b>Number and percentage of shares as at 31 March 2021</b>
Clive Marsh & Heather North	44,144 shares (18.0%)
Tunlaw Farm Limited	38,239 shares (15.6%)
Aylesbury Walnuts Limited	25,406 shares (10.4%)
Stephen Thomas & Sonya Olykan	14,691 shares (6.0%)
Nelson Hubber & Wilhelmina Hubber	12,409 shares (5.1%)

Shareholders are continuing to make use of their ability to transfer shares between one another.

Growers supplying under 2 tonnes of walnuts per year do not have to own shares under the Company's constitution, though many do. In recent years, our supply figures show that over 99% of our supply comes from growers who are shareholders.

## Market and brand development



### Trickett's Grove Premium Walnuts



In-shell walnuts  
400g, 1kg,  
15kg loose



Halves  
90g, 500g



Walnut Pieces  
100g, 300g,  
1kg



Oil



Flour



Moroccan Dukkah

The new packaging for the Trickett's Grove brand is now complete across our two retail ranges (premium and organic). The flour packaging highlighted the nutritional aspects including protein, fibre, Omega 3 and 6, and the flour's gluten-free status. We have rolled out the new packaging to all current and new customers. After much hard work, Trickett's Grove is now listed by Foodstuffs South Island and Foodstuffs North Island (Foodstuffs supply Pak'nSave, New World, Four Square supermarkets and Raeward Fresh amongst others). We have also continued to make inroads into specialty retailers over the last year across the country. We are delighted to be continuing to supply our ingredient customers, My Food Bag, 180 Degrees and Pure Delish.



### Trickett's Grove Organic Walnuts



ORGANIC  
In-shell Walnuts  
400g, 1kg &  
15kg loose



ORGANIC  
Walnut  
Halves  
90g & 500g



ORGANIC  
Walnut Pieces  
1kg



ORGANIC  
Walnut Pieces  
300g



ORGANIC  
Walnut Pieces  
100g

## Other non-financial performance

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The board would like to thank our dedicated General Manager and team at the factory for their hard work and commitment, particularly through what proved to be another extremely challenging year with Covid-19.

### *Health and safety –*

- Monthly staff meetings at the factory include discussion of health & safety and food safety, as well as quality/process improvements.
- The board undertook an internal health & safety audit during the year. The key finding continued to relate to floors becoming slippery with walnut residue and guarding of the cracker. The response includes new guarding and increased cleaning frequency and a review of cleaning chemicals as well as a decision that rubber-soled shoes should be worn.
- For the full year, one injury was recorded (none resulting in lost time), with two near-miss incidents. Staff identified 8 potential hazards during the year, enabling mitigation actions to be planned and monitored.
- Covid impacted the team throughout the period. With a small production team, the impacts were more pronounced however the agile nature of the team meant production was able to continue to meet customer demand.

### *Food safety programme –*

- In 2018, the Ministry of Primary Industries (MPI) brought nut and seed producers and processors in under the new Food Act 2014. The Co-operative is operating under a custom food control plan to meet the requirements of the Act.
- The Food Act also requires growers to meet standards, with regular verification. To ease this process for growers, the Co-operative developed a set of recording and verification forms within the Safe Food Pro mobile app. Implementation of this programme began in September 2020. The Co-operative and MPI can then carry out audits remotely using the data that growers submit.
- We have a part-time staff member covering roles in Quality & Assurance and Health & Safety, which allows for dedicated attention to these important areas.

### *Equipment and premises –*

- We are still managing to fit our processing operation within the footprint of the current premises on Tricketts Road. This is enabled by: (1) streamlining the processing operation and the layout of equipment; (2) larger growers storing their product on-farm until it is called in by the factory; (3) regular removal of empty bins from the factory by shareholders.
- Space requirements are, however, increasing, as is electricity demand for the business; and the loading facilities at the premises are not ideal for the crop volume we are now handling.
- Several items of 'wrap-around' equipment have been identified to optimise the operation of the Bühler smart sorter, but plans to complete this have been delayed due to Covid-19 disruptions.
- We aim to review and restructure the walnut grading system so that the payout better matches the quality of product receipted at the factory and how this relates to the rework required before it can be sold and/or value that can be obtained from this product in the market.



### *Strategic planning –*

The board plans to update the Co-operative's strategic plan in December 2022 (the current strategic plan was developed in 2020). The Objectives are as listed below. An implementation plan with actions and key performance indicators has been developed for each one.

Objective 1: WNZCL enjoys an engaged shareholder base as a result of being well regarded and successful. Growers become financially successful and enjoy participating in their industry and new participants are being attracted.

Objective 2: Financially successful.

Objective 3: Participating in high margin "Super Profit" market sectors.

Objective 4: Improve operational efficiency.

Objective 5: Build the capacity to process and sell 500 tonnes of walnuts each year.

Objective 6: Committed, safe and stable management team and staff.

Objective 7: Be sustainable: improve our footprint and lead in the area we want to market our products.

The first six Objectives continue from our earlier strategic plan. Objective 7, however, was new last year. Top-end food suppliers are adding carbon labelling to their products as consumers demand more information about the environmental footprint of the items they purchase. This is a big opportunity for us but will require commitment from both growers and factory to achieve.

## **AUDITED FINANCIAL STATEMENTS AS AT 31 MARCH 2021**

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**Company directory (page 3)**

**Directors' annual report (pages 4-5)**

**Statement of profit or loss and other comprehensive income (page 6)**

**Statement of changes in equity (page 7)**

**Balance sheet (page 8-9)**

**Statement of cash flows (page 10-11)**

**Notes to the financial statements (pages 12-36)**

**Independent auditor's report (to follow)**