

Wool Partners – co-operative in principle; short on info.

Wool Partners Co-operative Ltd was launched with much fanfare about the advantages of being a farmer-owned coop.

The board and management are now on an extensive range of meetings around the country persuading strong wool producers that this is an ideal opportunity for growers to take control of their industry and work together to improve returns.

As a co-operative it has much to commend it.

The share float seeks to issue 65 million shares at \$1 each.

They will be payable 20c on application and the balance in four instalments of 20c annually from May 2011. One share will be required for every kilogram of greasy strong wool produced.

Members will be required to commit their entire clip to the co-operative. The issue will only go ahead if no less than 50% of the wool clip is secured. The target is to secure 60% of the supply.

The structure of the co-op is reasonably consistent with many co-operative principles. The business is controlled by its transacting members.

The co-op has the power to issue shares to non-transacting parties but those shares will be without voting rights. This is definitely a plus though it does not avoid the conflict inherent between the suppliers who want the best return for their product and the investors who want the return on capital maximized.

Suppliers who exit the co-op can redeem their shares -again a definite plus. No supplier is locked in though the board may take up to 36 months to repay the shares.

The share standard – one share per kg of wool – is subject to a tolerance of 20% which will be calculated over a rolling 24-month basis - an excellent move which will avoid capital sloshing in and out of the balance sheet each year.

Although voting will be ‘one vote per share’ rather than one vote per member, the voting per member is capped at 5% of the total shares on issue.

Surpluses will be returned to members in proportion to the volume of wool supplied and provision is made for dividends to be paid at the discretion of directors. Both these items are consistent with co-operative principles.

The constitution provides for the board to comprise not less than five and not more than seven directors. There must always be a minimum of two board-appointed directors and the number of grower-appointed directors must always exceed the board-appointed number. That should satisfy prospective members of the co-op.

What will probably displease them is the paucity of financial information in the prospectus and the confusing way in which it is presented.

The cooperative will be acquiring “certain assets and business” from Wool Partners International.

It will not include the logistics and wool handling business of NZ Wool Handlers.

Some liabilities will be taken over from WPI and Bloch and Behrens.

The amounts are not specified but my estimation from the notes (p46) is that there will be \$23.5m of liabilities involved.

As the net amount to be paid is \$17.7m this puts a value of about \$41m on the gross assets .

No breakdown is supplied of the assets being acquired but the items include “goodwill, brands, intellectual property and established reputations with staff and customers” (p19).

The discussion on Brand Risk notes that following the settlement of the agreement for sale and purchase with WPI, Wool Partners Co-operative “intends to undergo a revaluation exercise in relation to the brands. The value of the brands is expected to increase as a result of this exercise.”

So, some possibly significant amount is being paid in cash for brands from WPI and the co-op will be revaluing its brands up.

What the balance sheet might look like is not disclosed.

In fact no prospective balance sheet is presented.

The prospectus contains a prospective statement of cash flows and greatly summarised reports of revenue and costs for the three divisions (supply, sales and marketing) plus a summary of operating expenditure.

There is no comprehensive summary of revenue and expenses and no balance sheet showing tangible and intangible assets, liabilities and equity.

This, I believe, is inadequate for a co-operative seeking to issue at least 65 million shares.

It may be all that is required by our securities regulations but New Zealand is not known for leading the way in that field.

It is very difficult to estimate whether the prospective results to October 19 2011 will result in a profit.

The table below draws together the information in the prospectus.

	\$m
Supply Division gross margin	8.084
Sales Division gross margin	2.174
Marketing Division gross margin	3.887
Total margin	14.145
Operating Expenses	11.853
EBIT	2.293
Interest	1.105
Earnings before tax	1.188
Tax	0.333
Earnings after tax	0.855

It is almost impossible to tell what allowance has been made for the amortisation of intangibles and depreciation on other non-current assets which are presumably significant in the balance sheet.

The phrase “Total operating expenses” used in the prospectus would suggest it excludes such write-offs.

The marketing division summary shows only revenue, but no expenses. That too suggests that depreciation and amortization are not included.

So, the earnings of \$855,000 could be turned to a loss if amortisations have not been included.

Prospectuses should not be confusing in the presentation of financial information. This one, sadly, is.

The woolgrowers deserve better.

Alan Robb is an Adjunct Professor in the co-operatives programme at Saint Mary's University, Canada, and independent financial analyst and commentator based in New Zealand.