

# Less is more approach by Satara

**Richard Rennie**

A Satara shareholder's desire to see the company "shrink to grow" may be fulfilled over the coming year.

The kiwifruit orchard management and packing company has told shareholders and growers it will focus on reducing the expensive orchard leasing operations that have accrued significant losses over recent years.

Consolidation underlined Satara's annual shareholders meeting (ASM) held in Tauranga. The co-operative hybrid announced a zero dividend payment to investor share holders. Grower shareholders' payments will be capped at 12c/tray.

The lease news was welcomed by non grower shareholder representative Chris Swasbrook.

Swasbrook is managing director for Elevation Capital Management, Satara's largest shareholder.

"Orchard leasing operations have tied up capital and accumulated Satara over \$8.5 million in losses over past years despite only accounting for 10% of total trays processed.

"We welcome news that lease operations are to fall further this season," he said. This will leave the

company that holds 10% of the post harvest packing market with 150ha of lease operations.

However, the cut does not go far enough for Swasbrook. He called on the company to get out of all lease operations, cutting its losses and focussing on a less indebted, "less is more" approach to building profitability.

In the past many leases have left Satara carrying all the risk and cost of operations on the lease blocks, regardless of market returns.

Last year's tense ASM had been punctuated by resolutions from Swasbrook calling for resignation of board chairman, new directors and improved performance from the company.

At this year's meeting it appeared many of those demands were being addressed.

New chairman Hendrik Pieters announced a solid financial result of earnings before interest and tax (EBIT) of \$6.2 million, up from last year's \$3.8 million.

While Satara's debt facilities do not expire until 2011, the company has focussed on reducing what has been a relatively high debt to asset level of 37% in 2007 to 34% in 2008.



Chris Swasbrook ... \$8.5m losses from leasing.

The company is now carrying \$19.8 million debt.

However, the news was not all good. The company suffered unacceptably high levels of green kiwifruit loss under controlled atmosphere (CA) storage. This was in addition to a devastating fire at a Katikati pack house that destroyed 450,000 trays.

Green kiwifruit were picked too late at too higher brix levels and inventory management was not

adequate to manage volumes. As a result Satara's Orchard Gate Returns (OGR) on green kiwifruit were \$3.35/tray, 28c/tray less than the Zespri average. Gold and organic green remained above industry average at 41c/tray and 35c/tray respectively.

"We look forward to seeing these issues being addressed this season under new management," said Swasbrook. He also welcomed news the Satara board is once again considering selling its substantial coolstore and site near the Port of Tauranga.

Newly elected director David Jensen told growers he believed Satara risked falling down the crack between being a big playing packer and a niche operator.

However, Swasbrook believed that with debt chopped further, properties disposed of and continuing operational improvements Satara could be well placed to deliver double figure returns to shareholders.

"Quitting lease operations and property could bring debt down below \$10 million. I believe this would put Satara in a position where it can drive some real returns into its business.

"For a business based in the

agricultural sector it would make sense to reduce that debt exposure. However, I also have to acknowledge that in only a year the board has made good inroads after the concerns we had last year," said Swasbrook.

Satara's chief financial officer acknowledged Satara was still relatively highly geared, with those levels highly dependent upon property valuations and gearing levels peaking at 45% through the season.

As has happened in the past at Satara meetings a few of the industry's sacred cows were questioned.

Directors were asked to lay out their views on using the single desk seller Zespri.

Ex Dairy Board director Graeme Milne was a lone voice on the board, admitting he did not know how long such an allowance should last for the industry.

"I believe the dairy industry has managed to prosper since the removal and the single desk is only there because the government recognises the kiwifruit industry as being a small, vulnerable one.

"We should hold on to it for as long as we can, but it does exclude competition."

## 'Superweed' fears in Oz

A leading Australian weed scientist has given a boost to the anti-genetic modification lobby by declaring that growing GM crops is leading to "superweeds".

Weed scientist Professor Stephen Powles this week said a new wave of glyphosate resistant weeds was "sweeping North and South America, triggered by the massive uptake of glyphosate resistant or Roundup Ready crops".

Yet a pro-GM farmers group says GM crops will lead to less weed resistance.

Powles, of the Western Australia Institute of Agriculture, said at least eight major weed species had developed resistance to glyphosate as a direct

result of the glyphosate-resistant crop revolution.

"Glyphosate has been successfully used without any major resistance problems for more than 35 years, primarily because it has been used in conjunction with other herbicides," Powles said.

"However, the advent of glyphosate resistant crops means glyphosate is now almost the only herbicide being used across huge areas in the US, Argentina and Brazil."

Gene Ethics spokesman Bob Phelps said glyphosate resistant weeds would become an "unmanageable problem".

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## Newbie co-operative fan

New Satara director David Jensen is not afraid to question the relevancy and value of the kiwifruit company's hybrid structure.

The company has experienced a rocky year with a senior management changes and a new chairman all eventual outcomes after last year's tense annual shareholders meeting (ASM).

Jensen's appointment as a new director last week is part of the cleansing experienced in recent months that has answered some investors' concerns.

However, this year's more subdued ASM still managed some pointed questions over that hybrid structure. They reinforced Jensen's own doubts over the suitability of private investors and growers sharing the same bed.

His family's dairy farming business at Pye's Pah is just up the road from his 150,000 tray kiwifruit operation and his heart continues to support a more dairy style co-operative structure within Satara.

"If the company is performing



David Jensen ... single desk outdated?

it will hold any structure you like. Only when it is not do pressure points reveal themselves, as we have seen here."

With the majority of equity held by non growers, it is difficult for growers to extricate themselves from the partnership.

If a compromise must be found to a co-operative model, he believes a structure similar to LIC's farmer-investor shares could be a way to go.

"It does at least keep it to share owners from within the industry. The difficulty though will be in unwinding it, or how

you would buy shares back off investors."

Jensen also understands reservations director Graeme Milne may have over the permanency of a single desk seller for kiwifruit.


"If Treasury said they might take it (single desk protection) away, it could be good. It would be naive to expect it to last forever."

He cautions growers should not underestimate the influence of free traders like John Luxton and Wyatt Creech, who has benefited from dairying's move to deregulation.

Jensen is clearly puzzled by Chris Swasbrook's "less is more" view. He believes Satara could make even greater gains pushing its packing capacity to the max', and lifting its Gold kiwifruit volumes on a fruit it clearly has particular skills in managing.

"While Satara did not grow with the market, a lot more growers could have left us and didn't, so they are still prepared to give Satara a go."

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