Industry Expert Interview - Part 1

Interviewee: Robert (Rob) Calthorpe - Senior Industry Consultant (independent)

Background: Ex-Mainland Poultry exec (1994-2011); now advises private investors

Interviewer: Iris Beaumont (Halberd Capital Partners - Research)

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Format: Video call (Auckland / New York); recording transcribed by I.B.

Anonymisation: None - interviewee consented to attributed transcript

[00:00:14]

I.B.: Rob - thanks for making time. Just to set the table, we're doing some industry-scoping research on the NZ shell egg market. I'd like to spend the first half on the producer landscape and the second half going deeper on the family-controlled players and the Phase 2 transition. Sound OK?

[00:00:42]

Calthorpe: Yep, fine. I should say up front - I don't have an active commercial relationship with the McKennas, but I've known Mark for 15-odd years through the industry circuit. So I can speak to them but it's not a confidential client relationship. Just declare that.

[00:01:08]

I.B.: Appreciated. Let's start with the producer roster. Who are the players in NZ shell eggs by volume?

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Calthorpe: Right. So Mainland Poultry is the heavyweight - they're somewhere between 25 and 30% of national volume by hen count. They've been the largest for a long time and Navis Capital owned them through the late 2010s, you'll know that deal.

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I.B.: Yes, we have the press release.

[00:02:01]

Calthorpe: Good. After Mainland you've got Heyden Farms - family-controlled, somewhere between 12 and 15%. Then Better Eggs at maybe 8 to 10%. Zeagold, 6 to 8%. Henergy at 5 to 7%. And then Aurora - and this is where it gets interesting, because Aurora is probably the second-largest by volume but they're invisible in any analyst report you'll pick up.

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I.B.: Where would you put them?

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Calthorpe: Between 17 and 19% of national volume. So they're ahead of Heyden on volume actually, when you do the math properly. Maybe ahead of Better Eggs and Zeagold combined depending on how you cut it.

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I.B.: And the reason they don't appear in analyst coverage?

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Calthorpe: Family-controlled, third generation now, doesn't disclose to anyone. Mark McKenna runs operations day-to-day, his mother Eleanor chairs the family board. They're profitable, they're stable, they don't need outside money so they've never had to file anything. They're a real company; they just sit below the analyst radar. The flock is real, the revenue is real, they ship to both major supermarket groups under long-standing supply agreements.

[00:03:48]

I.B.: When you do the bottom-up - sum across all the producers you just listed - what do you get to for total NZ flock?

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Calthorpe: Roughly 3.7, 3.8 million layer hens nationally. Maybe a touch under 4 million. The 'official' MPI figure of 3.4-3.5 million is from the post-Phase-1 census and I think it's a conservative read.

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I.B.: So bottom-up you'd put it 5-10% higher than the public number?

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Calthorpe: Roughly. Maybe more - depends if you count smaller boutique operations and the long tail of pasture-raised specialty producers. There's a real long tail of 15-20% of the market in small operators that's hard to count.

[00:05:02]

I.B.: OK. Let me ask about channels. How do you cut the market?

[00:05:08]

Calthorpe: Four channels properly. Retail grocery is the big one - Foodstuffs banners, that's Pak'nSave and New World, plus Woolworths NZ, that's Countdown. They're a clear duopoly, somewhere around 70-75% of total NZ volume goes through retail grocery.

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Calthorpe: Then foodservice - that's restaurants, cafes, hotels, hospitality. Probably 15% of volume. Then industrial - and this is where I'd push back on people who lump it with foodservice - industrial is bakeries, mayonnaise manufacturers, food processors. Those are different customers, different channels, different prices. Industrial is maybe 10% of volume but with very different unit economics. Then 'direct' - farmgate sales, farmer's markets, DTC subscriptions - is a rounding error, maybe 2-3% of volume but punching above its weight in revenue terms because it's always premium-priced.

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I.B.: So you'd treat foodservice and industrial as separate channels, not lumped?

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Calthorpe: Definitely separate. Different price discipline, different contract structures. EPF lump them in their public stats but ask any actual producer and they'll tell you they're different sales motions.

[00:07:18]

I.B.: Production system mix. You said you think the official MPI 33/33/34 is stale. What's your read on current?

[00:07:31]

Calthorpe: Phase 2 has shifted things meaningfully. The supermarket pledges to be cage-free by end of 2027 - both Foodstuffs and Woolworths NZ have committed publicly - have driven a lot of conversion ahead of the deadline. The MPI numbers from Dec 2022 were a snapshot. In the three years since, free-range has expanded most aggressively, barn has come up some, and colony has compressed.

[00:08:14]

Calthorpe: My current-era estimate would be more like 40% free-range, 40% colony, 20% barn. So free-range is now the largest single segment.

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I.B.: That's a meaningful shift from 33/33/34.

[00:08:38]

Calthorpe: Yes. And the people who are still quoting the 33/33/34 figure - they're working from the public stats page that hasn't been refreshed since the 2022 census. EPF republish it every year in their annual report but the underlying figure hasn't moved off the 2022 census. It's stale.

[00:09:02]

I.B.: Why has free-range expanded the most rather than barn? Barn is cheaper to set up, isn't it?

[00:09:11]

Calthorpe: Barn capex is cheaper per bird, yes - but barn doesn't carry the premium that free-range does. If you're a colony producer trying to convert, you're choosing between a cheaper barn build that lands you in commodity territory, or a more expensive free-range build that earns you 20-30% over commodity prices. A lot of the bigger operators have done the math and gone free-range. The smaller ones tend to go barn because of the capex constraint.

[00:09:48]

I.B.: Got it. Going deeper on the McKenna business - what's their production mix?

[00:09:55]

Calthorpe: Mark told me a year or so ago they were 40-30-30 - 40% colony, 30% barn, 30% free-range. They've been planning the colony-to-barn conversion for a while but the actual build hasn't started yet, as far as I know. The colony exposure is the deal's biggest risk.

[00:10:24]

I.B.: And the family heritage - anything we should know there?

[00:10:30]

Calthorpe: The McKennas are third generation now. Tom McKenna started the operation in the 1950s. His son ran it through the 70s and 80s, took it through battery cages then into the modern era. Mark's the current MD, he's mid-fifties, very operational, runs the day-to-day across both islands. Eleanor - Mark's mother - chairs the family board.

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Calthorpe: Operations side, day-to-day, is run by a chap called Hone Ruatara. He's been with the company maybe a decade, came across from Mainland actually. He's not on Aurora's website - they don't list operational management publicly - but he's the guy you'd want to spend time with in confirmatory.

[00:11:42]

I.B.: Good to know. On their customer relationships - do you have a sense of customer concentration?

[00:11:51]

Calthorpe: Their top retail relationships are heavy on Foodstuffs and Woolworths NZ. I'd be surprised if those two together aren't well over half of revenue. Mark would say they have 'long-standing strategic supply agreements' - which is true - but the corollary is that they're concentrated. I'd push hard on that in confirmatory; the audited top-10 customer breakdown is the number you want.

[00:12:34]

I.B.: Approximately what percentage are we talking, top-3?

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Calthorpe: I'd guess 60 to 70%. But I want to validate that with what I see on their actual product mix; let me come back to that in our next call when I've had a chance to think harder.

[00:13:01]

I.B.: Perfect. Let's move to financials. There's industry commentary positioning them at NZ$84.6M revenue and NZ$10.8M EBITDA for FY24. Does that sound right?

[00:13:17]

Calthorpe: Revenue, yes - that's consistent with what I'd estimate from their volume × wholesale price × channel mix. EBITDA at 12.8% margin is on the high side for a NZ shell-egg producer. Industry margin range is more like 8-15% with most operators clustering around 10-12%. Aurora at 12.8% is plausible - they've got the free-range premium pulling margin up - but I'd want to see how that's been calculated. Sometimes 'adjusted EBITDA' on a sell-side teaser includes some one-off addbacks that wouldn't survive an audit.

[00:14:18]

I.B.: Free-range premium specifically - public commentary is at ~30%+ historical and continuing forward. Your read?

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Calthorpe: Hmm. The 30%+ is right historically. Forward - I'd be much more conservative. With Phase 2 driving barn capacity into the market over the next two years, the free-range premium is going to compress. We'll talk numbers in Part 2 once I've checked some recent transaction data, but I'd not assume 30% holds.

[00:15:08]

I.B.: OK, parking that for Part 2. Quick one - there's third-party material claiming the McKenna business is on a 'clear path by 2027' for the colony-to-barn transition. Plausible?

[00:15:22]

Calthorpe: Depends entirely on whether they've started planning consents. A typical colony-to-barn conversion at their scale - call it 240,000 birds going from colony to barn - takes 12-18 months of physical build once consents are granted, plus 6-9 months of DOC supply lead time. So if consents aren't lodged yet, it's tight to end-2027. I don't know whether they've lodged. That's another question for Part 2.

[00:16:14]

I.B.: Useful. Let me ask about competitors' transition. Mainland - where are they on cage-free?

[00:16:22]

Calthorpe: Mainland was already mostly cage-free pre-Phase-2 - they invested heavily through the 2018-2022 period under Navis ownership. They're roughly 80% cage-free now, finishing out the remaining 20% over the next 18 months. Heyden has been slower; they're maybe 50% cage-free, very behind. Better Eggs and Zeagold are sort of in between, 60-70%. Henergy is mostly free-range from the start so they're in good shape.

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I.B.: And so the McKenna business at 40% colony exposure makes them a bit of a laggard relative to the named cohort?

[00:17:21]

Calthorpe: Yes. That's the deal-defining issue. They've got the largest single block of colony hens to convert, on the tightest timeline.

[00:17:42]

I.B.: Last question for today, then - let me leave the rest for Part 2. Avian flu - H7N6 in Otago, late 2024. How do you think about the cost overlay?

[00:17:58]

Calthorpe: WOAH self-declaration is the ground truth - outbreak contained to one property, stamped out, NZ resumed HPAI-free status by mid-2025. So it wasn't a national supply shock. But it absolutely affected biosecurity costs across the industry - cleaning, repopulation delays, additional movement restrictions. I'd model it as a ~3-5% one-off cost overlay for FY25 reporting, then normalising. Not a structural shift.

[00:18:42]

I.B.: Anyone telling you it was bigger than that?

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Calthorpe: I've heard speculation. There's a guy - won't name him - who's been running around saying 'NZ next' in some public commentary. He's wrong. WOAH is the source of truth. Don't anchor on speculation.

[00:19:14]

I.B.: Noted. OK Rob, that's a great Part 1. We've booked Part 2 for Friday and Part 3 for Monday. Friday I'd like to drill into capex magnitude, DOC supply, the customer-concentration top-3 figure, and the free-range premium transaction-price evidence. Monday we close the loop on top-down vs bottom-up reconciliation and bottom-line opportunities.

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Calthorpe: Sounds good. I'll put my numbers together for Friday.

[End of Part 1 - 52:14 elapsed]