Industry Expert Interview - Part 2

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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Anonymisation: None - interviewee consented to attributed transcript

Note (I.B.): Part 2 of three scheduled sessions with R. Calthorpe. Part 1 covered the producer roster, channel split, and ownership context for the family-controlled players. Today's focus: capex magnitude and DOC supply for colony-to-barn conversion, the free-range premium in current transaction prices, customer concentration, and producer-specific automation observations on the family-controlled cohort.

[00:00:18]

I.B.: Rob - thanks for coming back. Three follow-up areas from Wednesday. Capex and DOC supply for the colony-to-barn conversion. The free-range premium in actual transaction prices, because the public commentary is at 30%+ and you flagged compression. And the customer concentration top-3 number we parked. Sound good?

[00:00:54]

Calthorpe: Yep. I've pulled some recent numbers since Wednesday. Let me work through them in that order.

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I.B.: Great. Start with capex per bird on a colony-to-barn conversion at the McKenna business scale - call it 600,000 birds.

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Calthorpe: OK. The headline range I'd give you for a NZ colony-to-barn conversion is NZ$45 to NZ$65 per bird, all-in. That's structure, fit-out, ventilation, automation if you're going modern, manure handling, the lot. Where you sit in that range depends almost entirely on what existing infrastructure you can reuse.

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I.B.: What's the swing factor?

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Calthorpe: Two things. One - whether the existing colony shed envelope is structurally sound and the footprint works for a barn fit-out. If you can keep the building, services, and effluent infrastructure, you're at the bottom end. If you've got to demolish and rebuild, you're at the top. Two - automation level. A modern barn with automated feeding, watering, manure belts, and central egg collection sits at maybe NZ$58-65. A more basic barn fit-out with less automation can be NZ$45-50. Aurora I'd expect to land mid-range, NZ$52-58, because they've got reasonably modern colony sheds - they were upgraded in the late 2010s when Phase 1 hit - and Mark won't want to go back to manual labour on an asset of that size.

[00:03:14]

I.B.: Let's do the math. They've got 40% colony out of ~610k birds, so ~244,000 birds in colony. At NZ$55 per bird that's about NZ$13.4M of capex.

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Calthorpe: Yeah, that's directionally right. Call it NZ$11 to NZ$16 million depending on where they land in the per-bird range. It's not a bet-the-company number for them but it's a real capital programme on a NZ$10-11 million EBITDA base. You'd want to see how it's being funded.

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I.B.: DOC supply - day-old chicks. What's the lead time situation?

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Calthorpe: Right. So you can't run a barn without birds. The major NZ DOC supplier most producers use is Heritage Poultry - they're the dominant grandparent / parent stock breeder in NZ. Across the Tasman the option is the AU breeders, principally Aviagen Australia and the Hy-Line distributor down there. For a meaningful repopulation order - call it 100,000 plus pullets at intake - you're looking at 6 to 9 months from order placement to delivery in current market conditions.

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I.B.: Why so long?

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Calthorpe: Two reasons. The breeders themselves are running near capacity because every cage producer in the country is trying to repopulate cage-free birds at the same time. Phase 2 has essentially queued up two and a half years of conversion demand into an 18-month window before end-2027. And second, layer pullets aren't off-the-shelf - you order them, they're raised for 16-18 weeks at the rearing facility, then delivered to your barn at point-of-lay. There's no buffer in the system. So 6-9 months order-to-delivery is realistic right now and it could lengthen if a couple of big producers all hit the order book together.

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I.B.: And the build cycle itself - physical construction?

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Calthorpe: 12 to 18 months once consents are granted. The 12-month end is for a producer who's got their drawings done, their contractor lined up, and is fitting out an existing shed envelope with no major civils work. The 18-month end is for a full demolish-and-rebuild on greenfield-adjacent land. Aurora - assuming they're keeping the colony shed footprints - should be doable in 14 to 16 months physical build. Plus the consents up front, which is the part people forget.

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I.B.: How long are consents taking?

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Calthorpe: Resource consent under the Resource Management Act, plus building consents at the council level. For a like-for-like footprint conversion - colony shed to barn shed, same footprint, same effluent handling - call it 4 to 6 months if there's no public notification. If there's any public notification, which can happen on rural land use change near neighbours, you're easily 9 to 12 months. So worst case from start of consents to bird-in-barn is 24 to 30 months. Best case maybe 18-20.

[00:08:22]

I.B.: End-2027 deadline is 19 months away from now. So if the McKenna business haven't started consents yet, they're behind.

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Calthorpe: Yes. They needed to be in market for consents by Q4 last year to be comfortable. By now, if they haven't lodged, they're scraping. I don't know whether they have or haven't - Mark didn't tell me last time we chatted and I haven't asked because it's not my place to ask during a sale process. But it's a question your team has to answer.

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I.B.: We'll queue it for confirmatory. OK - free-range premium. Public commentary is at 30%+ historical and continuing forward. You said Wednesday you wanted to come back with current transaction-price evidence.

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Calthorpe: Right. I've had three conversations in the last six weeks with retail buyers - won't name them but they're significant accounts at both Foodstuffs and Woolworths NZ. The premium they're paying for free-range over barn at the wholesale gate, in actual transaction prices in 2026, is sitting at 18 to 22%. It's not the 30%+ that gets quoted from the early Phase 1 era.

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I.B.: Why has it compressed?

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Calthorpe: Supply has come on. Through 2024-25 a big chunk of barn capacity stood up across the industry - domestic plus some Australian imports filling gaps. With more cage-free alternatives on shelf, the retailer doesn't have to pay up as hard for the free-range tier. The premium also varies by retailer - Pak'nSave, which is value-positioned, is at the bottom of the range, sometimes only 15-17% over barn. New World and Countdown are more in the 20-22% band.

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I.B.: And forward - where do you see it going?

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Calthorpe: Compressing further. By the time barn capacity fully comes online ahead of end-2027, you'll see another step down. I'll give you a specific trajectory in Part 3 once I've stress-tested it against my retail sources, but the direction of travel is clearly down. Anyone modelling 30% premium continuing forward is - being polite - extrapolating from a pre-Phase-2 world.

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I.B.: OK. The McKenna business's free-range segment specifically. Is it commodity free-range or premium-tier?

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Calthorpe: Mid-premium. Which is a useful distinction. Pasture-raised at the top end - your Hens-on-Pasture, a couple of South Island specialty operators - they're commanding 50%+ over commodity barn. That's a different market; small volumes, premium pricing, often direct to consumer or to a small set of premium grocers. Commodity free-range - large-flock free-range that meets the basic free-range standard - that's where the 18-22% premium I mentioned applies. Aurora's free-range is in that commodity-free-range bucket. Standard industry stocking density, paddock rotation, the works, but not pasture-raised. So the premium tier above them is real and meaningful but Aurora isn't in it.

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I.B.: And on free-range volume - 30% of 610k is about 183,000 birds of free-range supply at that flock size. Where does that sit relative to the commodity free-range market?

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Calthorpe: Substantial. Mainland is bigger in absolute terms but Aurora is meaningfully bigger than Heyden on free-range alone. They're a credible top-3 free-range supplier.

[00:14:48]

I.B.: OK. Customer concentration. We parked Wednesday at 60-70% top-3 retailers. Where does that land?

[00:15:01]

Calthorpe: I've thought about this since Wednesday. I'd come down at the upper end. Specifically I'd say 60 to 70% of Aurora's revenue goes to the top three retail customers - and those three are almost certainly Foodstuffs North Island, Foodstuffs South Island, and Woolworths NZ. Those are the three biggest grocery accounts in the country and Aurora's been in supply with all three for at least 15 years.

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I.B.: How sure are you of the 60-70% range?

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Calthorpe: Sure on the top end being heavy retail. Less sure on the exact %. I haven't seen Aurora's audited customer breakdown - no one outside the company has. But based on volume ratios, what I know about their foodservice exposure (modest), and what I know about their industrial book (small), 60 to 70% lands in the right zone. If you push me to a single point estimate I'd say 65. But I'd write it as a range and confirm in confirmatory DD.

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I.B.: And the Foodstuffs / Woolworths split?

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Calthorpe: Foodstuffs heavier than Woolworths. Foodstuffs has Pak'nSave plus New World, which between them are over half the grocery volume in the country. Aurora's North Island plant supplies primarily Foodstuffs North Island. South Island plant primarily Foodstuffs South Island and partly Countdown. So Foodstuffs across both islands is probably 40-45% of Aurora's total revenue, Woolworths NZ another 20-25%. That's already 60-70 between two retailers - three counting the Foodstuffs co-ops separately.

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I.B.: Foodstuffs North Island and Foodstuffs South Island are technically separate co-ops, right? So they're two separate customers from a contracting perspective.

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Calthorpe: Correct. They're separate legal entities - Foodstuffs North Island is a co-op, Foodstuffs South Island is a co-op. They share branding (Pak'nSave, New World) but they contract separately. So when I say top-3 retailers - Foodstuffs North, Foodstuffs South, Woolworths NZ - those are three distinct contractual relationships, not two.

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I.B.: That actually softens the concentration slightly versus a single-customer view.

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Calthorpe: Yes - but only in a legal sense. From a strategic risk perspective they're correlated. If Foodstuffs North Island walks, Foodstuffs South Island is more likely to follow because the brand is shared and a tender process tends to spill across. So I'd treat the top-3 as essentially two strategic accounts that happen to contract across three legal entities.

[00:19:34]

I.B.: Good distinction. OK - the producer-specific automation gaps you flagged Wednesday. You said there were specific bottom-line opportunities at their scale. Walk me through.

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Calthorpe: Two big ones. First, feed mill. Aurora doesn't have an on-site feed mill. They buy in compound feed from third-party millers - primarily one of the major NZ commercial millers. For a producer with ~610,000 birds, feed is the single biggest line item - 60-65% of cash cost. Bringing the feed mill in-house, even at modest scale, captures the margin between miller gate price and farm-gate cost-of-grain plus processing. I'd estimate that opportunity at maybe NZ$1.5 million annual run-rate savings once you've amortised the build, with a build cost in the NZ$8-12 million range and a 6-7 year payback at current feed prices.

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I.B.: And the second?

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Calthorpe: Manual grading lines. Both of Aurora's plants - North Island and South Island - run grading and packing on what I'd call mid-generation kit. Not the latest fully-automated vision-graded lines you see at Mainland and at the larger Australian operators. There's still a lot of manual touch on candling, defect-detection, and pack-line throughput. Modern fully-automated grading lines would cut labour 30-40% on those operations and improve product quality consistency. Capex for a full upgrade - both plants - I'd put at NZ$8 to NZ$12 million. Payback again 5-7 years, depending on labour assumptions.

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I.B.: These weren't in the public material.

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Calthorpe: Of course not. The public material is selling the upside of the colony-to-barn conversion and the free-range premium. It's not going to list the things a private equity buyer would do post-close to take cost out - that's the buyer's value-creation story, and it's the buyer's job to figure it out. I'm just telling you what's there because I know the operation.

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I.B.: Are they widely known, or insider knowledge?

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Calthorpe: Anyone who's spent time at the plants knows. Not in a public document anywhere. The feed-mill point you can infer from looking at their financials if you can disaggregate feed purchase from feed cost, but the public material won't help you do that. The grading line point is literally walking the floor. Take an operations partner on the site visit.

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I.B.: Yep, will queue. Anything else on opportunities at that producer scale?

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Calthorpe: One more. Their commercial GM left a few months back - I think February or March from memory. They've been running with Mark covering both managing director and commercial duties since then. That's actually a value-creation opportunity for a buyer - bring in a professional commercial GM, modernise the customer relationship management, push on category management at the retailers. Could materially expand share-of-shelf and pricing power. But it's also a risk for the seller - you could argue the business is under-resourced right now.

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I.B.: We'll bear that in mind. OK, switching topics - refining your producer-roster numbers from Part 1. You gave me ranges. What would your central case look like?

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Calthorpe: Central case for FY26: Mainland Poultry 27% of national volume. Heyden Farms 13%. Aurora Eggs 18%. Better Eggs 9%. Zeagold 7%. Henergy 6%. Long tail of smaller producers and specialty 20%. That sums to 100% of a national flock I'd put at about 3.75 million birds - which is about 7% above the public MPI figure of 3.5 million.

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I.B.: And the discrepancy with MPI?

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Calthorpe: MPI's number is from a 2022 census. They're conservative - they only count what's been officially registered. The long tail and the specialty operators tend to under-report. Plus there's been net flock growth in absolute terms since 2022 because Phase 1 cage-bird-to-colony was a roughly 1:1 swap, but Phase 2 colony-to-cage-free typically requires more physical capacity for the same egg output - barn at lower stocking density, free-range needing range area. So the bird count goes up while the egg output stays roughly flat per bird. We'll talk about this in Part 3.

[00:27:54]

I.B.: Hone Ruatara - the GM Ops you mentioned Wednesday - anything else on him?

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Calthorpe: Solid operator. Came across from Mainland I think 2014, runs both sites tightly. Industry respected. He'd be a key person to retain post-close. The McKennas value him highly - he's effectively been Mark's number two on the operations side for years.

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I.B.: Anything else on the McKennas?

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Calthorpe: Mark is the seller motivation here, my read. He's mid-fifties, no kids in the business, Eleanor is in her late seventies and has been talking about stepping back from chair for a while. There's no fourth-generation McKenna lined up to take it over. So this is a real exit, not a partial sell-down. The family will want to clean this up properly and they'll be rational on price.

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I.B.: Helpful. Channels - refining Part 1. The McKenna business's channel mix specifically.

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Calthorpe: Aurora is heavier retail than the industry average. Industry average across NZ is 70-75% retail. Aurora I'd put at 72%. Foodservice maybe 22%. Industrial 5%. They've always been a retail-grocery house. Mark's father built those Foodstuffs and Woolworths relationships in the 80s and 90s and the family has nurtured them ever since.

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I.B.: And foodservice clients - anyone meaningful?

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Calthorpe: Mid-tier. Not the big food-processor accounts - Aurora doesn't have the manufacturing side for that. They supply some hospitality groups, hotel chains, a few QSR operators on egg products. It's diversified low-margin business, not a concentration risk on its own.

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I.B.: Industrial?

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Calthorpe: Tiny. They have one supply contract with a NZ mayonnaise manufacturer that's been running for years. Not material. They've never wanted to build out the industrial book because the margin is too tight.

[00:32:02]

I.B.: OK. Phase 2 transition - competitor positioning refresh. Mainland still 80% cage-free?

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Calthorpe: Mainland is now closer to 85%. They've been ahead of the curve since Navis-era. Heyden I'd revise down - they're maybe 45-50% cage-free, behind where they need to be. Better Eggs is 65%. Zeagold is 70-75%. Henergy is essentially 100% cage-free, always has been. Aurora at 60% cage-free - 30% barn plus 30% free-range - is in the middle of the pack but with the largest single-block of colony to convert.

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I.B.: And Heyden specifically - they're more behind than the McKenna business?

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Calthorpe: On percentage of flock that's still in colony, Heyden is similar to or slightly worse than Aurora. The difference is Heyden's owners aren't selling - so the deadline pressure on them is the same as on a future Aurora owner, but the cost of failure is reputational and commercial rather than valuation. For Aurora, the colony exposure is priced into the deal you're being shown.

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I.B.: Worth probing - are any of the named producers expected to exit the market rather than convert?

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Calthorpe: Among the top six I've named - no, all six will convert one way or another. The exit risk sits in the long tail. There are maybe 25-30 small operators with flocks under 50,000 birds where the per-bird capex of conversion is uneconomic at their scale and they'll either consolidate, sell down, or just close. EPF - Helen Marsden - is on record about this. So a chunk of that long-tail 20% I gave you will get redistributed across the named producers over the next 24 months.

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I.B.: Useful. So Phase 2 actually concentrates the market a touch.

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Calthorpe: That's right. Anyone with the capital and operational capability to convert at scale picks up the share. Aurora - if it converts cleanly - is one of the winners. If it doesn't convert in time, it's one of the losers.

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I.B.: Premium tier - we touched on pasture-raised. The McKenna business has any pasture-raised SKU?

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Calthorpe: Small one. They run a Heritage Range pasture-raised SKU at 12-pack premium price-point for New World deli sections. Couple of percent of revenue. It's a brand-positioning play, not a margin engine. The bulk of the free-range volume is the standard tier.

[00:37:24]

I.B.: OK. Going back to the colony-to-barn conversion economics - does the capex give the McKenna business a return or just keep them in the market?

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Calthorpe: Mostly the latter. Look - the colony shed is producing eggs at acceptable margins right now. The conversion turns those colony eggs into barn eggs which sell at roughly the same wholesale price. So you spend NZ$11-16 million of capex to keep producing the same volume at the same wholesale price, just with the licence to keep selling to the supermarkets after end-2027. The return on that capex is essentially 'continued market access' rather than incremental margin. Now - if the buyer simultaneously upgrades automation in the new barn, that's where you get an actual margin uplift on top of the compliance spend. So the value-creation opportunity is to bundle the colony-to-barn conversion with operational uplift, not to think of them as separate decisions.

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I.B.: That's a really useful framing. Anything else on the bridge math?

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Calthorpe: Mark will be running this from a self-funded position. The McKennas have been profitable for years and aren't levered up - Aurora has minimal debt as far as I know. So they can fund the capex without external financing, which is a strength. A new owner under PE control would also be able to fund it. The constraint isn't capital, it's time.

[00:40:18]

I.B.: OK Rob, two more areas before we close. One - the McKenna business's relationships with the AU egg market. Are they importing or competing with imports?

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Calthorpe: Modest import competition on barn-grade product. Some Australian product hits NZ retail shelves at the value end - Pak'nSave imports a small share of total egg volume from AU to fill barn-tier demand spikes. It's not a national supply story but it's a margin pressure on barn-tier producers. Aurora's free-range and pasture-raised are insulated from import competition because of the freshness premium and the local sourcing demand. Their colony and barn tier are exposed.

[00:41:38]

I.B.: And anything new on H7N6 since Wednesday?

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Calthorpe: Nothing material. WOAH ground truth holds - outbreak contained, stamped out, NZ HPAI-free again from mid-2025. The 3-5% one-off cost overlay for FY25 stands. Don't let any speculative noise about a 'next outbreak' rewrite that. The biosecurity uplift is real cost, but contained.

[00:42:32]

I.B.: OK. Last topic - there's commentary in the market suggesting a NZ$130-150M EV asking range for assets like this, 12-14x EBITDA. Plausible at that scale?

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Calthorpe: Not at face value. 12-14x is the multiple range you'd see for a clean cage-free portfolio in this market. Aurora has the largest single colony exposure of the named top-six producers and that's a discrete risk. I'd haircut for it. What's a reasonable haircut depends on your view of timeline feasibility - which we'll get to in Part 3 - but you're not paying 12-14x for a colony-heavy producer 19 months out from a hard retail-driven deadline. You're paying less.

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I.B.: How much less is the question.

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Calthorpe: I'll give you my view in Part 3 once I've thought it through. Order-of-magnitude though - you're probably paying 8 to 10x EBITDA for what Aurora actually is, allowing for the colony-risk and the premium-compression dynamic. So somewhere in the high-NZ$80M to low-NZ$110M EV range as a fair-value zone. The headline ask will start at NZ$150 - that's the seller's job. Where this lands in process is somewhere in the middle, depending on how the auction runs.

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I.B.: Got it. Final thoughts to take into Part 3?

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Calthorpe: I'll come Monday with three things: a final reconciliation between the top-down and bottom-up market sizing - your team will have run the top-down by then. A specific forward trajectory for the free-range premium across FY26 to FY28. And a final view on whether the end-2027 colony deadline is achievable for the family-controlled producer given what I can find out between now and Monday about whether they've started consents.

[00:46:08]

I.B.: Perfect. We'll send the top-down draft over Sunday so you've got it. Thanks Rob, brilliant session as always.

[00:46:24]

Calthorpe: No problem. Talk Monday.

[End of Part 2 - 47:08 elapsed]