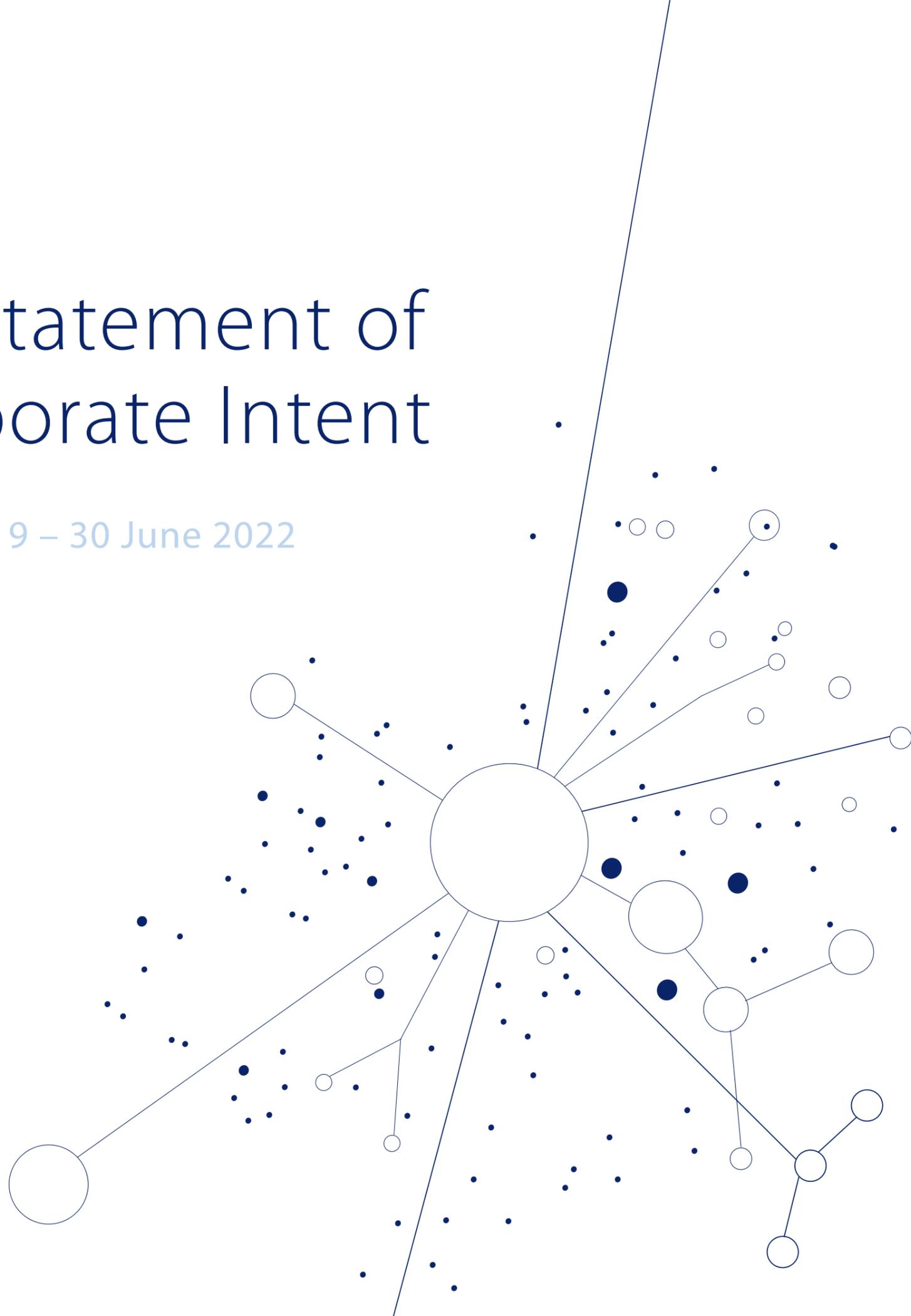


# QV Statement of Corporate Intent

1 July 2019 – 30 June 2022



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## The QV story

We deliver property intelligence to help government, business and the public make better decisions. This is essential for New Zealand's prosperity and wellbeing.

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Quotable Value Limited Group (QV) is at the heart of nearly every property transaction in New Zealand. We have been trusted property valuers for more than 100 years, first as New Zealand's Valuation Department through to the commercial state-owned entity we are today.

We connect people to accurate property data, analysed by our skilled professionals across New Zealand. We provide property intelligence to help business, central and local government and the public make better decisions.

Property intelligence is essential for a well-functioning economy, contributing to taxation, construction and infrastructure planning, through to disaster planning and environmental protection, all for New Zealand's prosperity and wellbeing. We have built on our core capabilities by providing rating valuations to the Australian market since 2000.

Today we are operating in a rapidly changing environment where our customers are expecting more for less. Traditional ways are making way for new approaches and

technology is changing the way services are delivered and experienced. We need to keep up with customer expectations and evolve our offerings to create a sustainable future.

We are engaging with our customers and the wider market to facilitate greater and more accessible property intelligence. We are committed to pushing boundaries to develop customer solutions and property platforms which provide predictive modelling, data analytics and deep insights in real time.

We are dedicated to delivering greater value from our existing operations and diversifying our revenue base to continue to be commercially successful. Therefore we need to invest in new technologies, capabilities and approaches.

We are proud to be owned by New Zealand. We deliver property intelligence to help government, business and the public make better informed decisions. This is essential for New Zealand's prosperity and wellbeing.

This Statement of Corporate Intent is submitted by the Board of Directors of QV and has been prepared in accordance with section 14 of the State-Owned Enterprises Act 1986 (the SOE Act). It sets out QV's objectives and priorities for the financial year commencing 1 July 2019 and the succeeding two financial years.

# Our core strengths

QV is at the heart of nearly every property transaction in New Zealand. We have been trusted property experts for more than 100 years. We strive to provide property information to help government and business customers make better decisions for New Zealand's prosperity and wellbeing.



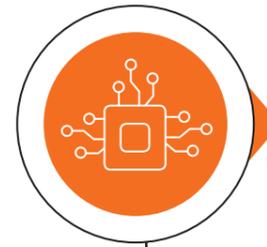
We are New Zealand owned and operated, and invested in New Zealand's wellbeing

- We have been trusted by New Zealand to value properties for more than **100 years**
- Total dividend paid **\$37.7m** over last 5 years, including special dividends of **\$29m**



We are New Zealand's largest property valuation information business employing more than 250 people, across all New Zealand regions and NSW, Australia

- Our property experts serve New Zealand from **18 locations**
- We employ and **train more graduate valuers** than anyone in New Zealand
- We hold the rating valuation contracts for **17% of NSW** including the Sydney CBD



We have invested in sector leading and next generation technology platforms

- Our QV CostBuilder platform pulls residential cost data from more than **100 data sources** and is used by businesses and tertiary organisations across New Zealand
- Updatemyproperty.co.nz crowdsourcing application is being promoted to property owners to **update data** held on their property



We have strong market presence and wide reach, working with central and local government and a broad range of business customers

- We are the market leader in New Zealand, serving **87%** of New Zealand councils and all major residential lending banks
- **70%** of all property sales transactions are recorded via QV's Sales Direct - a free digital sales notification platform



Trusted reputation and strong brand recognition with customers and the public

- **83%** brand awareness amongst customers and ratepayers
- We are trusted by **67%** of customers and ratepayers and viewed as independent by **71%**



# QV: delivering property intelligence to help government, business and the public make better decisions

## Our market environment

### Customers expect more

- We are operating in a rapidly changing market
- Customers are expecting more for less
- Collaboration creates new possibilities

### Technology provides new opportunities

- Enabling real-time data intelligence
- Achieving efficiency gains through automation

### Meeting shareholder and societal expectations

- Drive for commercial success
- Delivering greater societal value

## Our scope of activities



### Market valuations

Specialist property valuations for the residential, commercial and rural sectors

### Rating valuations

Rating valuations provided for 87% of the New Zealand councils and 17% in NSW, Australia

### Asset valuations

Independent, specialist asset valuations for financial reporting purposes

### Property management

Property portfolio management for private and public sector organisations

### Property intelligence and tools

Providing market intelligence, data analytics, tools and customised solutions

- QV CostBuilder
- Sales Direct
- QV Homeguide
- Database management

## Our core customers

While most New Zealanders benefit from our property data and intelligence, our core customers are:

Central government, including departments and other SOEs and Crown entities

Local government, city, district and regional councils across New Zealand and NSW, Australia

Business, including banking/insurance, property, construction and education

## Our strategy



### Partnering

We are trusted by our customers and the wider sector to co-create new solutions and facilitate accessible and comprehensive property data and intelligence.



### Pushing boundaries

We are pushing boundaries to deliver more across our existing operations and to develop new solutions to solve customer challenges.



### Operating responsibly

We are committed to being commercially successful, enabling ongoing investment in our technology and people, while delivering sustainable returns to our shareholder and New Zealand.

## Our core strengths

We are New Zealand owned and operated, and invested in New Zealand's wellbeing

We employ 250 property experts, who are on the ground across all New Zealand regions and NSW, Australia

We have strong market presence and wide reach, working with central and local government and a broad range of business customers

We have a trusted reputation and strong brand recognition with customers and the public

We have invested in sector leading and next generation technology platforms

# Our business

Quotable Value (QV), and its predecessors have been trusted property experts for more than 100 years. Our purpose is to deliver property intelligence to help government, business and the public make better decisions.

Quotable Value Limited Group (QV) operates across New Zealand and in New South Wales (NSW), Australia providing property information services. We have two wholly owned subsidiaries. Darroch Limited is a wholly owned subsidiary of QV and operates in the commercial property market in New Zealand. Quotable Value Australia Pty Limited is also a wholly owned subsidiary of QV undertaking rating valuation contracts.

## What we do

QV provides rating, market and asset property valuations and information, while also capturing data and added-value insights. Our property consultants provide information on the latest local property, social and economic trends to customers across New Zealand and NSW, Australia. This property intelligence is essential for a well-functioning economy. The information we provide contributes to taxation, construction and infrastructure planning, as well as disaster planning and environmental protection, all for New Zealand's prosperity and wellbeing.

Local councils throughout New Zealand and New South Wales use our data, insights and information to help set equitable rates assessments. Corporates and local and central government access our asset and advisory services to make financial decisions and comply

with regulations. We also provide market valuations for insurance companies, banks, government organisations, businesses and those looking to buy, sell or renovate homes.

## Who we are

There are 250 people in our business spread across all regions of New Zealand and in the locations of Sydney, Wagga Wagga and Albury in New South Wales.

Our people range in years of service to QV from newly joined to those with over 40 years' experience. The average service tenure of our people is 10 years across the whole business.

Over 60% of our people are property valuers. Over 80% of our people are in frontline service delivery roles.

Our gender mix is 46% female and 54% male. Females in leadership and Board level positions exceed 50%.

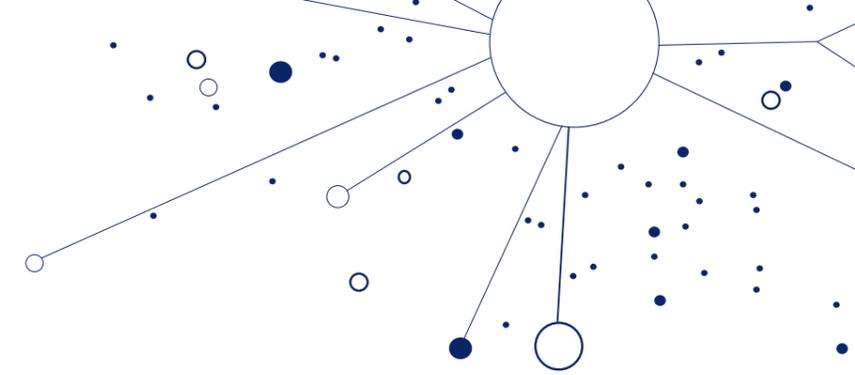
# Our brands

We continue to focus on providing rating and valuation services to the residential, rural, government and commercial sectors, while also expanding our products and services to support the needs of customers.

Title	Core services	Customers
	<ul style="list-style-type: none"> <li>Residential market and insurance (rebuild) valuations</li> <li>Rating valuation assessments</li> </ul>	<ul style="list-style-type: none"> <li>Residential home owners, financial service providers, corporates and government</li> </ul>
	<ul style="list-style-type: none"> <li>Asset valuations for financial reporting purposes</li> <li>Rural market valuations</li> </ul>	<ul style="list-style-type: none"> <li>Local government</li> <li>Rural sector</li> </ul>
	<ul style="list-style-type: none"> <li>Building costs data and information</li> </ul>	<ul style="list-style-type: none"> <li>Professionals</li> </ul>
	<ul style="list-style-type: none"> <li>Online submission of property sale notices</li> <li>Mobile property app accessible on smartphones/devices</li> </ul>	<ul style="list-style-type: none"> <li>Building and property professionals</li> </ul>
	<ul style="list-style-type: none"> <li>Rating and land tax valuations</li> <li>Asset valuations for financial reporting purposes</li> <li>Compensation valuations</li> </ul>	<ul style="list-style-type: none"> <li>State and local government</li> </ul>
	<ul style="list-style-type: none"> <li>Commercial property and asset valuations</li> <li>Property management services including lease management and negotiation, tenant liaison and communication, property maintenance and financial management and reporting</li> </ul>	<ul style="list-style-type: none"> <li>Government, commercial and industrial organisations</li> <li>Private property owners</li> </ul>

# Our market and strategy

Our purpose: delivering property intelligence to help government, business and the public make better decisions.



## Our market environment

### Customers expect more

**We are operating in a rapidly changing market:** Our valuation business is facing more competition than ever before from both within our sector and from the technology sector. On the information side the barriers to entry have reduced and professional services compliance costs have increased. We must add value to existing products and services and diversify our revenue base.

**Customers are expecting more for less:** Our customers are looking for new and unique experiences and solutions, but do not want to pay more. They are open to looking at alternative approaches and ways of finding the information they need.

**Collaboration creates new possibilities:** Existing property information is fragmented and held by multiple agencies making it inefficient for users. In the new sharing economy, our customers and partners are more open to secure data collaboration with trusted partners. We are ideally placed to provide access to more property information. We are exploring solutions to help solve this pain point for NZ.

### Technology provides new opportunities

**Enabling real-time property intelligence:** Rapid technological advancement and widespread technology adoption creates opportunities to develop new and improved products and services. Today data in itself is not enough, our customers want predictive modelling, data analytics and deep insights – and they want it in real time. This requires ongoing investment of resources and capital.

**Achieving efficiency gains through automation:** Automation is providing opportunities for greater efficiency gains, saving us time and money. This also allows us to better use the expertise of our people to deliver more specialised property intelligence.

### Meeting shareholder and societal expectations

**Drive for commercial success:** Our market is changing, requiring new technology & capability investments which will take time to deliver a return. We therefore need to be even more efficient to deliver greater value from our existing operations to ensure ongoing shareholder returns.

**Delivering greater societal value:** As an SOE we understand the importance of the Government's Living Standards Framework. Property is New Zealand's biggest asset class. There is an opportunity to provide greater property intelligence, helping to drive our economy and contributing to areas of taxation, construction and infrastructure planning, as well as disaster planning and environmental protection.

## Our strategy



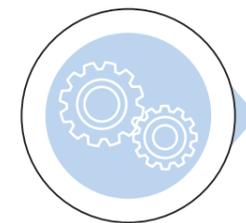
### Partnering

Using our trusted position with customers and the wider sector to co-create new solutions and facilitate accessible, comprehensive property data and intelligence.



### Pushing boundaries

We are pushing boundaries to deliver more across our existing operations and to develop new solutions to solve customer challenges.



### Operating responsibly

We are committed to being commercially successful, enabling ongoing investment in our technology and people, while delivering sustainable returns to our shareholder and New Zealand.

## Our strategic priorities

Establishing formal collaboration frameworks

Delivering profitable customer-led solutions

Ongoing investment in technology and capabilities to support existing and new business opportunities

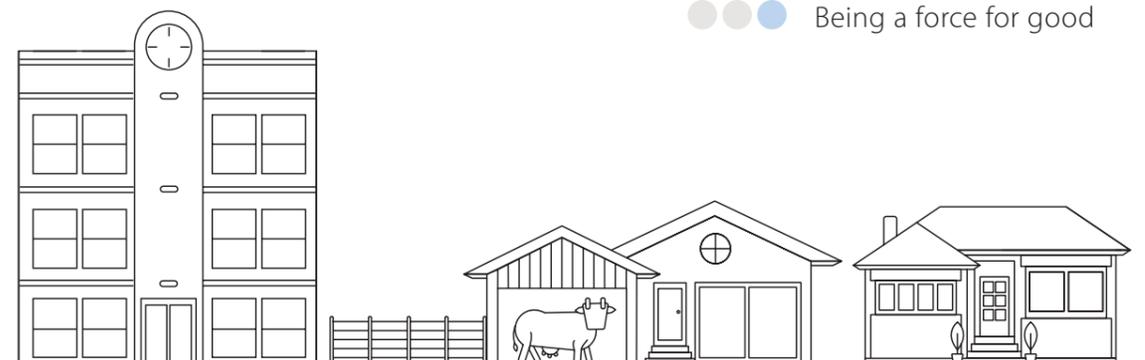
Increase customer loyalty and satisfaction by lifting the customer experience

Improving efficiency across existing operations

Improved financial systems and governance framework

Engagement and wellbeing

Being a force for good



## Summary of strategic priorities

Strategic initiatives for 2020	How we will measure progress	Alignment to strategic pillars
<b>Establishing formal collaboration frameworks</b> <ul style="list-style-type: none"> <li>Building strategic relationships with our business and government customers to solve common pain-points in the property sector</li> <li>Developing partnerships to facilitate secure sharing of key data sets that relate to property</li> </ul>	<ul style="list-style-type: none"> <li>Brand independence and trust scores</li> <li>Strategic partnerships established</li> </ul>	 
<b>Delivering profitable customer-led solutions</b> <ul style="list-style-type: none"> <li>New product development methodology established</li> <li>Delivering co-created customer solutions</li> </ul>	<ul style="list-style-type: none"> <li>Customer innovation workshops</li> <li>New revenue</li> </ul>	  
<b>Ongoing investment in technology to support existing and new business opportunities</b> <ul style="list-style-type: none"> <li>Investment in platforms to facilitate current and new services</li> <li>Establishing technology partner agreements with key providers</li> </ul>	<ul style="list-style-type: none"> <li>Technology Strategy</li> <li>Progress against milestones</li> </ul>	 
<b>Increase customer loyalty and satisfaction</b> <ul style="list-style-type: none"> <li>Lifting the customer experience</li> <li>Understanding customer problems</li> </ul>	<ul style="list-style-type: none"> <li>Customer net promoter score</li> </ul>	 
<b>Improving efficiency across existing operations</b> <ul style="list-style-type: none"> <li>Optimising our resources and fixed costs base</li> <li>Automation of high-volume repeatable tasks</li> <li>Greater flexibility in workforce and corporate costs</li> </ul>	<ul style="list-style-type: none"> <li>Gross margin</li> <li>Indirect cost per FTE</li> <li>Variable employment arrangements</li> <li>Flexible supplier contracts</li> </ul>	 
<b>Improved financial systems and governance framework</b> <ul style="list-style-type: none"> <li>QV business intelligence and risk management dashboard</li> <li>Upgrading financial systems and governance framework</li> </ul>	<ul style="list-style-type: none"> <li>Improved Reporting</li> <li>Audit grading</li> </ul>	
<b>Engagement and wellbeing</b> <ul style="list-style-type: none"> <li>Health and Safety and Wellbeing Programme</li> <li>Structures and systems for an engaged and right-skilled team</li> </ul>	<ul style="list-style-type: none"> <li>Prequal rating</li> <li>Employee net promoter score</li> </ul>	
<b>Being a force for good</b> <ul style="list-style-type: none"> <li>Community engagement programme</li> </ul>	<ul style="list-style-type: none"> <li>Property education through access to property data and insights</li> <li>Access to free digital sales portal for solicitors and councils</li> </ul>	

Refer to Performance Targets pages 15 and 17 for detailed measures

# Our targets, policies and responsibilities

## Ratio of Consolidated Shareholder Funds to Total Assets

The table below shows the ratio of Consolidated Shareholder Funds to Total Assets for the planning period (the Group's Annual Financial Year End is 30 June):

	FY20 SCI \$'000	FY21 SCI \$'000	FY22 SCI \$'000
Consolidated Shareholder Funds	8,584	11,686	9,668
Total Assets	18,913	21,965	18,751
Ratio	45.39%	53.20%	51.56%

Consolidated Shareholder Funds means the fully paid ordinary shares together with retained earnings and reserves.

Total Assets means the sum of all current assets, goodwill, investments and fixed assets as set out in the financial statements.

## Accounting Policies

The consolidated financial statements presented are for the Quotable Value Limited Group as at, and for the year ending 30 June 2020 and onwards. The Group comprises Quotable Value Limited and its subsidiaries.

The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. The consolidated financial statements also comply with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 2013, and the State-Owned Enterprises Act 1986 and generally accepted accounting practice in New Zealand ("NZ GAAP") as appropriate to Tier 1 for-profit entities.

The detailed accounting policies applied in the preparation of the consolidated financial statements are consistent with the accounting policies disclosed in the June 2018 Annual Report, which can be found on our external website, apart from the changes related to the application of NZ IFRS 9 Financial Instruments, NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 16 Leases which will be included in the June 2019 Annual report. The adoption of NZ IFRS 9 is not expected to have a material impact on the consolidated financial statements. The expected impact from adoption of NZ IFRS 15 & NZ IFRS 16 have been taken into account in the above consolidated financial targets for the periods ending 30 June 2020 and onwards.

The significant change resulting from adoption of NZ IFRS 15 will be that revenue recognised in the Consolidated Financial Statements will be determined differently to previous periods, where the Group recognises revenue when it transfers control of a service to a customer. The effect is greatest in the Council triennial rating valuation contracts within QV where revenue is often annualised over a three year term. The recognition is driven by the Councils' triennial general valuations, which will be recognised in the year that the valuation occurs (once every three years currently).

The significant change resulting from adoption of NZ IFRS 16 will be the recognition of the right of use asset and lease liability. The standard removes the distinction between operating and finance leases for lessees and requires the lessee to recognise all leases on the Consolidated Statement of Financial Position through an asset representing its right to use the leased asset for the lease term and a liability for its obligation to pay the lease instalments.

## Financial Performance Targets

Financial targets for the next three financial years having accounted for changes in NZ IFRS 9, 15 and 16 can be summarised as follows:

	FY20 SCI \$'000	FY21 SCI \$'000	FY22 SCI \$'000
<b>General</b>			
Revenue	34,568	37,278	30,863
EBITDA	3,117	6,906	106
Profit after Taxation and Impairment and before Capital Gains and Dividends	526	3,602	-1,018
Profit after Taxation and Impairment/Revenue	1.52%	9.66%	-3.30%
EBIT/Tangible Assets (excl Abnormal Items/Capital Gains)	8.19%	38.58%	-13.76%
<b>Shareholder Returns</b>			
Normalised Total Shareholder Return (Normalised End Equity - Start Equity + Ordinary Dividends - Equity Injected/Ave Commercial Value)	3.48%	23.85%	-6.74%
Normalised Dividend Yield (Ordinary Dividend Paid/Ave Commercial Value excluding special dividend)	1.66%	3.31%	6.62%
Ordinary Dividend Payout (Ordinary Dividend Paid/Estimated Prior Operating Cash Flow) (Note – Refer to Dividend Policy on page 18)	10.40%	18.66%	25.81%
Return on Equity (NPAT/Ave Equity) (excl Abnormal Items and Capital Gains)	6.23%	35.54%	-9.53%
<b>Profitability and Efficiency</b>			
Return on Capital Employed (EBIT/Ave Debt + Equity)	7.44%	31.55%	-9.27%
Gross Margin (Gross Margin/Revenue)	36.56%	42.14%	29.73%
Operating Margin (EBITDA/Revenue)	9.01%	18.52%	0.34%
<b>Leverage/Solvency</b>			
Gearing Ratio (Net Debt/Net Debt + Equity)	3.29%	-3.64%	-1.56%
Interest Cover (EBIT/Net Interest)	4.83	30.30	-7.96
Solvency (Current Assets/Current Liabilities)	150.40%	165.04%	122.85%

Under NZ IFRS, goodwill and intangibles with an infinite useful life are tested for impairment on an annual basis. Intangible assets with a finite useful life are amortised over the estimated useful life of the asset.

Definitions for the financial performance targets above can be found at: <http://www.treasury.govt.nz/statesector/commercial/guidance/fpm-soes.pdf>.

In the current year, the Group has applied NZ IFRS 15 Revenue from Contracts with Customers (as amended in April 2016). NZ IFRS 15 introduces a 5-step approach to revenue recognition.

For the Council triennial general valuation there is a timing difference between payment for the service and when the service is delivered to the customer. An adjustment to revenue has therefore been made to reflect the change in accounting. The Council rating valuation contracts entitle the Group to bill for services on a monthly basis. When delivery of the service is completed before the Group has been entitled to full bill, a contract asset is recognised in respect to that contract. When the Group has billed under the contract and the service has not been delivered, a contract liability is recognised in respect to that contract.

The general valuation is performed every three years and the fee is set annually which accounts for the general valuation being performed, therefore a portion of the contract fee has been allocated to the triennial general valuation performance obligation and is recognised in the year the triennial general valuation is performed.

## Non-Financial Performance Targets

The non-financial performance targets aim to measure factors that are critical to the successful delivery of QV's services in addition to meeting the financial performance measures.

- Customer Net Promoter Score (NPS) is a recognised customer satisfaction tool used by QV management to gauge loyalty and engagement of our customers. In the full year to 30 June 2019 QV has moved to conducting the survey frequency to coincide with the cyclical nature of QV and our customers' businesses. Surveys will now be conducted 6 monthly and methodology has been revised to reflect this by moving to a rolling 6 monthly average. NPS is measured by asking customers to rank from 0-10 whether they would recommend QV to others. The NPS is the difference between the percentage that rank QV a 9 or 10 (Promoters) less the percentage that rank QV a 0 to 6 (detractors).
- Employee Net Promoter Score (eNPS) is a way to gauge how loyal and engaged our people are. eNPS is measured by asking employees to rank from 0-10 whether they would recommend QV as a good place to work. The eNPS is the difference between those that rank a 9 or 10 (promoters) less the percentage that rank a 0-6 (detractors), providing a score between -100 and +100.
- Provide property information to the New Zealand open source data set. This includes media releases and information via digital platform(s).
- Provide Rating Valuation Education to council rate payers to improve their understanding of the rating base.
- Enhance the credibility of our brand by maintaining the results that QV achieves in being recognised for providing independent information and improve the trust in QV's information.
- Maintain the Health & Safety Prequal rating which ensures our systems and processes are robust while allowing us to tender for certain contracts.
- Improvement in our environment systems and controls (ESCO) financial audit grades measured independently each year. This measure indicates the level of compliance with laws, regulations and policies.

Focus	2020	2021	2022
Customer Net Promoter Score	45-50	48-52	51-56
Employee Net Promoter Score	0-2	2-4	4-6
Data and insights available on a quarterly basis	Meet	Meet	Meet
Valuation Education available during revaluation period	Meet	Meet	Meet
QV provides independent information	73%	74%	74%
Trust QV's information	69%	70%	70%
Health & Safety Prequal	Maintain	Maintain	Maintain
Audit ESCO grade	Good	Good	Good

## Corporate Social Responsibility

QV's data and values have a critical role in the New Zealand property market. Property is New Zealand's biggest asset class, and we recognise the role QV can play in helping the country to manage this valuable asset. Almost the entire property market in New Zealand makes reference, at some stage, to the values we calculate. Property information drives our economy and contributes to areas of taxation, construction and infrastructure planning, through to disaster planning and environmental protection. We have a central role in giving New Zealand the confidence to make property decisions. We ensure much of this information is available through digital platforms and provide transparency on the property data we hold through tools such as Update My Property. We do not take this responsibility lightly.

QV believes it is important to act professionally, ethically and responsibly in all matters. This can be seen in our view about our relationships with our employees, our customers and our environment. QV's health and safety programme ensures our people have a safe working environment, and our wellness programme gives our people the opportunity to achieve a good work-life balance. We also have programmes in place to reduce electricity and fossil fuel use.

## Personnel Policies

QV values its people and works hard to ensure our people are supported and fairly rewarded for the work they do. QV is committed to:

- Implementing effective and equitable policies and systems of remuneration, reward and recognition that encourage participation, innovation, commercial decision-making, personal development and contribution to profitability
- Identifying and implementing training and personal development activities that meet the present and evolving needs of QV and its employees and providing:
  - Open and effective two-way communication with employees
  - Operation guided by social responsibility, values and ethics
  - A safe and secure workplace for our people
  - Equality of opportunity irrespective of race, gender or age

## Capital Investment and Intellectual Property

QV will continue to invest in intellectual property, technology, core business and new products over the next three years. This is fundamental to meeting strategic goals and business plan objectives and positioning QV to meet customer needs in the future.

	FY20 SCI \$'000	FY21 SCI \$'000	FY22 SCI \$'000
Foundational, risk and best practice tools & systems	490	450	550
Revenue, growth & product development initiatives	500	1,000	980
Cost optimisation, automation & productivity initiatives	300	500	450
<b>Total Capital Investment</b>	<b>1290</b>	<b>1950</b>	<b>1980</b>

## Dividend Policy (and Estimated Normal Dividend to the Crown)

QV's policy is to distribute to its shareholder between 50% and 60% of net operating cash flows after interest costs based on audited year end results. The dividend is ordinarily paid each October immediately succeeding the year on which it is calculated, providing this can be done without impairing QV's ability to meet its financial obligations (including debt repayment, investment and capital expenditure plans) as they fall due.

The Board manages dividend flows and total shareholder returns through a combination of operating performance, value-accretive investments and the use of gearing commensurate with the scale. Internal gearing targets of 10% (allowing for peaks of 20%) are a key planning parameter for management and the Board. Gearing is measured on a net debt basis with the bank covenant being 30%.

Net debt is defined in the covenant terms as all of the Borrower's term debt less any cash balances held with a registered bank.

Term debt is not deemed to include the financial liabilities that have been recognised as a result of adoption of the amendments to NZ IFRS 16 Leases, effective for periods beginning on or after 1 January 2019, as the lease liability is recognised due to a right-of-use asset being capitalised and not as a result of debt incurred with a financial institution.

Having considered the capital investment needs of the business while the business continues to transform the following dividends have been assumed in the financial plan for assessment annually.

	FY20 SCI \$'000	FY21 SCI \$'000	FY22 SCI \$'000
Estimated Normal Dividend to the Crown (alongside estimated capital expenditure plans)	250	500	1,000

If the Board believes that the dividend payment cannot be sustained in any period, submissions will be made to the shareholder accordingly.

## Value of the Crown's Investment in the Company

In accordance with section 14 of the SOE Act, the Board's estimates of the value of the Crown's investment in QV are:

<b>Book Value of Crown Investment in QV</b>	FY20 SCI \$'000	FY21 SCI \$'000	FY22 SCI \$'000
Forecast Net Asset Value as at 30 June	8,584	11,686	9,668

The Board considers that the net asset values understate the value of QV, which as a professional services company retains significant value in its people and systems. A Valuation Disclosure Statement is attached in Appendix 2; in summary it gives an estimate of the current commercial value of the QV business as at 30 June 2019 in the range of \$12.1m to \$16.1m. After adjusting for net debt of \$0.8m, the value of the shares is in the range of \$11.3m to \$15.3m, with a midpoint of \$13.3m.

## Information to be Provided to the Shareholder

To enable the shareholder to assess the value of their investment in QV, any information that would normally be supplied to a controlling private sector shareholder will be made available.

Annual reports will be submitted in accordance with section 15 of the SOE Act.

Half-yearly reports will also be provided in accordance with section 16 of the SOE Act and will include an unaudited statement of financial performance, a statement of financial position, a statement of cash flows and other details necessary to permit an informed assessment of QV's performance during the period.

QV intends to comply fully with section 18 of the SOE Act by providing to the shareholder such additional information as may from time to time be requested.

A business plan will be made available to shareholding Ministers for discussion prior to the commencement of each financial year.

## Procedure for Acquisition of Shares and Disposals

QV will only invest in the shares of another entity when the securities acquired are likely to bring added value to QV. In any instance where QV intends to subscribe for or otherwise acquire (whether at the same time or over a period of time) 20% or more of the issued capital of any company, or make an investment representing more than 20% of the net assets of QV, it will give prior written notice to the shareholder of its intention. In the case of subsidiaries, QV will comply with the rules set out in Appendix 1. QV will not lease, sell, convey, transfer or otherwise dispose of any material part of its assets or undertaking without prior consultation with the shareholder.

## Activities for Which Compensation is Sought

Where the Government wishes QV to undertake activities or assume obligations that will, or may, result in a reduction in the surplus or net worth of QV, the Board will seek compensation to allow QV's financial position to be preserved.

# Appendix 1: Subsidiaries and Associated Companies

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QV will ensure at all times that:

- Control of the affairs of every subsidiary is exercised by a majority of the directors of that subsidiary.
- A majority of the directors of every subsidiary are persons who are also directors or employees of QV, or have been approved by the shareholding Ministers for appointments as directors of the subsidiary.

Without prior consultation with the shareholding Ministers, neither QV nor any subsidiary will sell or otherwise dispose of, whether by a single transaction or any series of transactions, and whether by a sale of assets or shares, the whole or any substantial part of the business or undertaking of QV and its subsidiaries (taken as a whole).

Where QV or its subsidiaries hold 20% or more of the shares in any company or other body corporate (not being a subsidiary of QV), it will not sell or otherwise dispose of any shares in that company without first giving written notice to the shareholding Ministers of the intended disposition.

# Appendix 2: Commercial Valuation Model Disclosure Statement

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The Board's estimate of the current commercial value of the Crown's equity in QV is in the range of \$11.3 million to \$15.3 million. If a single value is required, a value in the middle of the range is appropriate, being \$13.3 million.

Key points about the manner in which this value was assessed are:

- QV, Darroch and QVA were valued separately. Each business was valued using both the discounted cash flow (DCF) and capitalisation of earnings approaches.
- A mid-point discount rate of 11.6% p.a. was used in the QV DCF valuation, a mid-point discount rate of 20% p.a. was used for the Darroch DCF valuation and a mid-point rate of 13.7% was used for the QVA DCF valuation.
- An EBITDA multiple range of 4.5 to 5.5 times was used for the QV DCF and a multiple range of 4.5 to 5.5 times EBITDA was used for the QVA DCF valuation.
- The current commercial value of the Crown's investment of \$13.3 million (i.e. the value of 100% of the equity) was calculated by taking the total of the mid-point enterprise values for QV, Darroch and QVA (\$14.1 million) and adding cash (net of debt) of \$0.8 million.
- This valuation compares with a mid-point valuation as at 30 June 2018 of \$15.1 million. The decline in equity value of \$1.8 million reflects a deterioration of QV's net financial position of \$1.6 million (i.e. \$0.5 million cash decrease and \$1.1 million debt increase) and the decrease in Darroch's value. The mid-point discount rate used in the DCF approach and the multiple range used for QV in the earnings capitalisation approach are unchanged from last year.

This valuation was prepared by Deloitte Limited Corporate Finance under instruction by QV.

