15 March 2023

Warrant Terms, Valuation Methodology and Assumptions

Warrant Terms

New Zealand Rural Land Company Limited (NZL.NZX) announced a 1 for 3 pro-rata rights offer on 1 March 2023. As part of this offer NZL is also offering 1 warrant for every 3 shares subscribed for in the equity raising. The terms of the warrant are as follows:

*   Type - American
*   Expiry - 30 November 2025
*   Exercise Price - $1.20 per warrant
*   Expected quotation date - 23 March 2023 (quoted on the NZX Main Board as NZLWA).

As warrants are somewhat uncommon in the New Zealand market NZL believes it is important to provide investors with an indication of the warrant's value and a brief overview of the methodology to that value.

Estimated Warrant Value

Applying the binomial pricing methodology described above to the new warrants provides an indicative value range of **$0.10c - $0.13c** per warrant.

Warrant Valuation Methodology

To determine the appropriate valuation methodology for the warrant, NZL has consulted a number of experienced valuation practitioners.

As a result of these conversations, NZL considers that a Binomial pricing model is the appropriate methodology to apply. This methodology accounts for the value associated with an investor's ability to exercise the warrant at any time prior to expiry, the defining feature of an American style warrant.

The binomial model values a warrant using an iterative approach utilising multiple periods. There are two possible outcomes with each iteration - a move up or a move down. The binomial model therefore allows for the calculation of the stock price and warrant value for multiple periods along with the range of possible results for each period.

The advantage of this multi-period view is that the change in stock price can be visualised from period to period and the warrant evaluated based on decisions made at different points in time. The current value of a warrant is therefore equal to the warrant's probability weighted future payoffs.

The well known Black-Scholes model assumes that a warrant is only exercised at expiry. As a result, Black-Scholes is more useful for valuing a European style warrant than an American style warrant.

Assumptions

When implementing the binomial methodology NZL was required to make several key assumptions. These are outlined below:

- Volatility - 29% to 33% - the valuation is particularly sensitive to volatility inputs as this informs the probability of the stock price moving up or down. The binomial model uses implied rather than historical volatility, this is the expected future volatility of the stock over the life of the warrant. NZL assumed that as the company grows over the next three years the volatility of the stock will begin to approach that of other globally comparable agri-focused real estate companies. NZL therefore used the weighted average of the volatilities along with NZL's historical volatility in determining the input range. NZL's daily volatility since listing has been 20.7%.

- Risk free rate - 4.10%.

- Dividend yield - 4.5% - NZL used a conservative dividend yield being the midpoint of the lower end of dividend forecasts for FY23 and FY24. As NZL has not provided the market with guidance, forecast FY25 dividend yield was not considered.

For further information please contact:

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