Deloitte.

Fullers360 Waiheke Ferry Service

Review of fares and profitability

Corporate Finance| 5 September 2023

Contents

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5 September 2023

Dear Ian

Review profitability and fare setting process of Fullers360 Waiheke Ferry Service

Waka Kotahi NZ Transport Agency (**NZTA**, **you**) have asked Deloitte Corporate Finance (**Deloitte**, **we** or **us**), to review Souter Holdings Fullers Limited's (**Fullers360** or **Fullers**) current profit margin and fare setting process for the Waiheke Ferry Service (**the Services**).

At the request of the Minister of Transport, NZTA is investigating whether the Minister should recommend the Governor-General by Order-in-Council regulate Fullers' Waiheke Ferry Service. NZTA has engaged us to assist them reach a position on two criteria:

1. whether Fullers' current profit margin for the Waiheke Ferry Service is normal or supernormal; and
2. whether Fullers' fare setting process for the Waiheke Ferry Service is an appropriate commercial approach.

To determine whether Fullers' current profit margin is normal or supernormal, we have used a revenue build-up using a similar methodology to that prescribed by the Commerce Commission (**ComCom**) in setting revenues for regulated businesses such as electricity distribution or gas distribution.

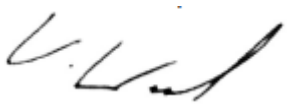
To determine whether Fullers' fare setting process for the Waiheke Ferry Service is an appropriate commercial approach, we have used a qualitative assessment based on our experience observing what other companies do.

This report (**the Report**) sets out our review and associated conclusions.

Our review is based on prevailing market conditions as at 31 July 2023. Such conditions can change significantly over relatively short periods of time.

Changes to market conditions could substantively affect our assessment of Fullers' profit margin and fare setting process. Unless requested, we will not update our review for any subsequent information or events.

Yours faithfully



William Word
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for Deloitte Limited (as trustee for the Deloitte Trading Trust)

Executive Summary

Executive summary| Approach and conclusion

Our assessment suggests that the current fare pricing does not produce revenue that could be considered as generating super profits and that Fullers' fare setting process is a normal commercial approach.

Normal vs supernormal profits assessment

- We have assessed whether or not Fullers' current profit margin for the Waiheke Ferry Service is normal or supernormal by measuring revenue
- In determining an appropriate level of revenue for Fullers' Waiheke Ferry Service we have used a revenue build-up approach using a similar methodology to that prescribed by the ComCom for regulated business in the energy industry (refer to pages 8 and 9 for more details).
- The graph opposite provides a comparison between the normalised revenue and the calculated maximum allowable revenue (**MAR**) for the Waiheke Ferry Service. Conceptually, any revenues above the MAR will result in supernormal profits.

Normalised revenue

- Actual revenues from FY20 to FY23 were abnormally low, largely attributed to the adverse impacts of the COVID-19 pandemic. Hence, we have estimated a normalised revenue for Fullers based on pre-COVID-19 patronage, and historical and current fares (see the section Normalised Revenue for more details). This represents the revenue Fullers would have earned but for COVID-19.

Comparison between MAR and normalised revenue

- s 9(2)(b)(ii)
- Our assessment indicates that the current and previous fares do not generate what could be classified as super profits. Super profits would be achieved if any normalised revenue levels were surpassing the MAR.
- Additionally, we have conducted a high-level comparison of the fares charged by Fullers and Sealink; s 9(2)(g)(i)

Revenue comparison - Waiheke Commercial

s 9(2)(b)(ii)

Fullers' fare setting process

- We have assessed whether Fullers' fare setting process for the Waiheke Ferry Service is an appropriate commercial approach, based on our experience observing what other companies do.
- In general, Fullers sets its fares considering competition, alternative activities, and how to best cover its cost base.
- We believe this is an appropriate commercial approach, not dissimilar from what other companies consider.

Methodology

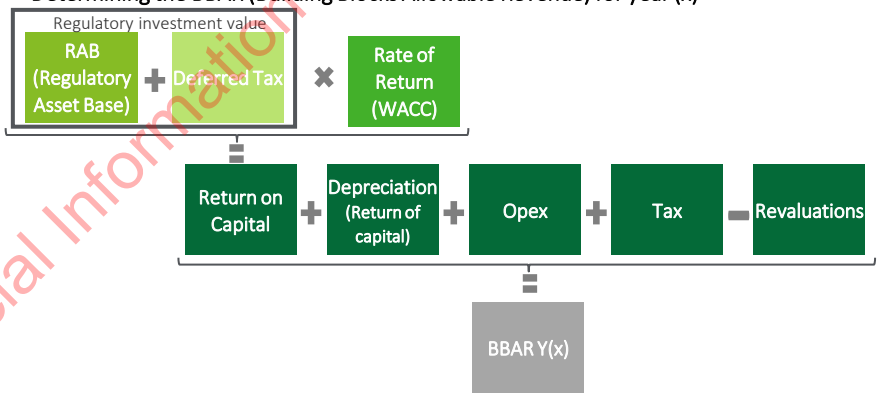
Methodology | Business regulated by ComCom

The ComCom sets maximum allowable revenue each year over a set period (typically 5 years) for electricity and gas monopolistic businesses.

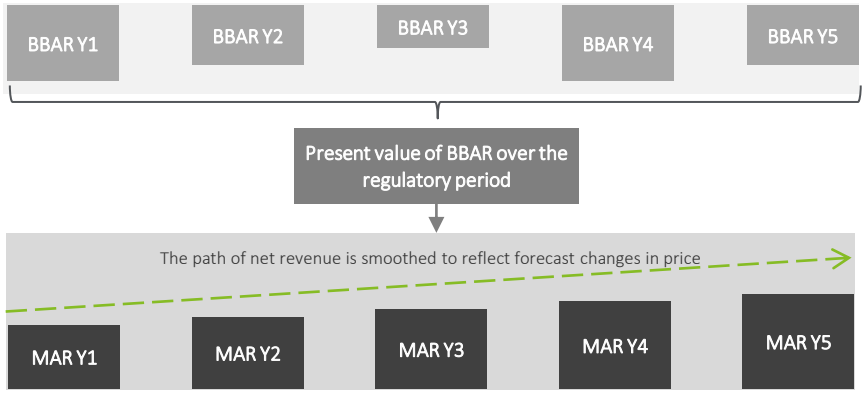
Price-quality regime overview in the energy sector

- New Zealand Electricity Distribution Businesses (**EDB**), Gas Transmission Businesses (**GTB**) and Gas Distribution Businesses (**GDB**) have natural monopolies and therefore are subject to price and quality regulation under Part 4 of the Commerce Act 1986.
- Under the Commerce Act, the ComCom has the power to set and enforce for regulatory periods:
  - Maximum levels of revenue or weighted average prices that a business can earn; and
  - The level of quality to be provided to customers.
- Regulatory periods have traditionally been five years in length.
- Price-quality regulation is designed to ensure that EDBs have similar incentives and pressures to businesses operating in competitive markets to innovate, invest and improve their efficiency.
- The form of price control, amongst other things, is defined by the Input Methodologies (**IMs**) which were last reviewed in 2016, these are currently being reviewed.
- To determine revenues, the IMs use a building blocks approach comprised of a recovery of costs (operating, depreciation and tax) and a return on capital based on the published regulatory weighted average cost of capital (**WACC**).
- Building Blocks Allowable Revenue (**BBAR**) is forecast for each year of the regulatory period and then a maximum allowable revenue (**MAR**) price path is set so that the net present value (**NPV**) of the BBAR and MAR price paths are the same during the regulatory period.
- MAR is set so that the slope of the smoothed path of revenue reflects the factors that affect each suppliers' revenue during the regulatory period. Annual rate of change of MAR is calculated as the rate of inflation less a productivity improvement adjustment (CPI - X). This restricts revenue to increasing year-on-year by the rate of inflation, less an adjustment to account for productivity improvements.

Determining the BBAR (Building Blocks Allowable Revenue) for year (x)



Determining the MAR (Maximum Allowable Revenue) for regulatory period (y)



Methodology | Framework and methodology used

We have adopted a methodology similar to that used by regulated businesses in NZ to determine the maximum level of revenue for Fullers' Waiheke Ferry Service.

Approach to determine the maximum revenue for Fullers Waiheke Ferry Service

- In determining a maximum level of revenue for the Waiheke Commercial Service we have used a revenue build-up approach using a similar methodology to that prescribed by the ComCom for regulated business in the energy industry.

Step 1 - Regulatory periods

1. We have started by setting up two regulatory periods of five years each:
   - Regulatory Period 1 (**RP1**) from FY19 to FY23; and
   - Regulatory Period 2 (**RP2**) from FY24 to FY28.
2. For each of the regulatory periods, we have calculated a regulatory WACC using the ComCom methodology. This regulatory WACC is utilised to determine the rate of return on the assets. For more details on the WACC determinations, please refer to page 10.

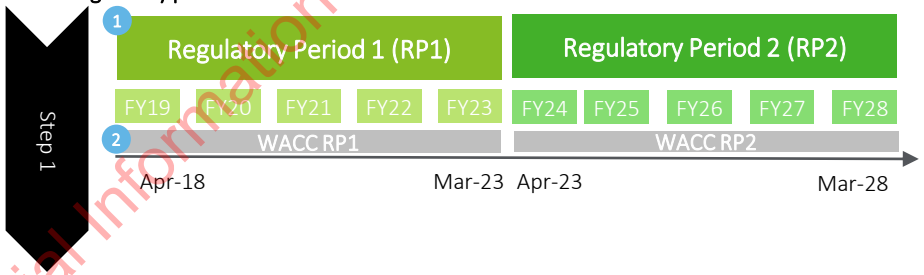
Step 2 -BBAR approach

- The BBAR approach involves estimating costs from various cost centres, where each item represents a building block.

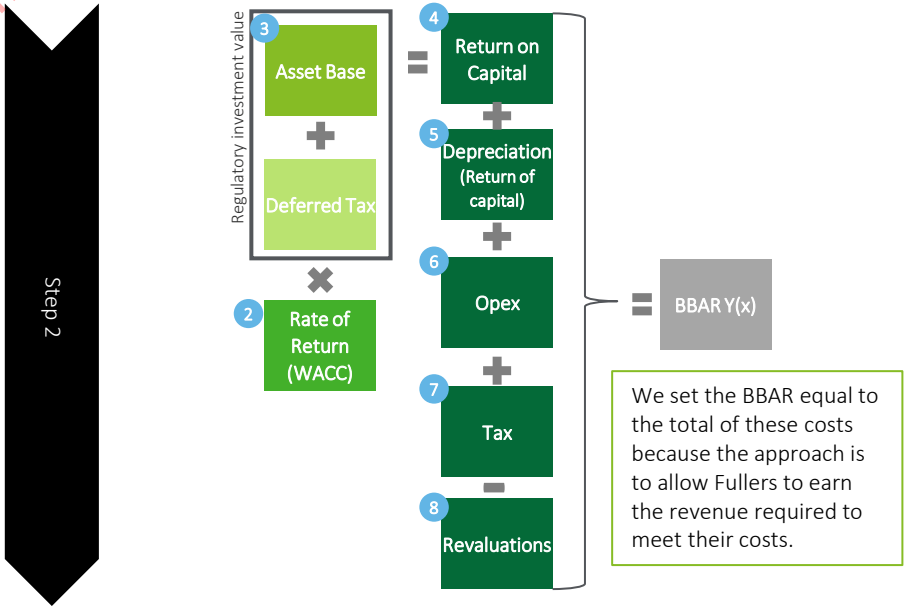
3. Key elements in determining the BBAR include calculating the net book value (**NBV**) of the asset base for each year of the regulatory period, considering depreciation and capex. We have determined the asset base by considering the ferries used on this line and other non operating assets (see pages 16 to 18) .

- The BBAR includes the following components:
  4. Return on capital: expected return on capital based on market conditions calculated using the asset base and WACC for the regulatory period;
  5. Depreciation allocated to the asset base;
  6. Opex: costs associated with operating the service such as maintenance, fuel costs and overheads
  7. Tax: Allowance for tax payments
  8. Revaluations of the asset base to reflect inflation

Regulatory periods assumed



Determining the BBAR for Fullers360 Waiheke Ferry Service



Methodology | Framework and methodology used

Then we have compared the revenue required to meet their costs or MAR to our calculation of Fullers' normalised revenue.

Approach to determine the maximum revenue for Fullers360 Waiheke Ferry Service

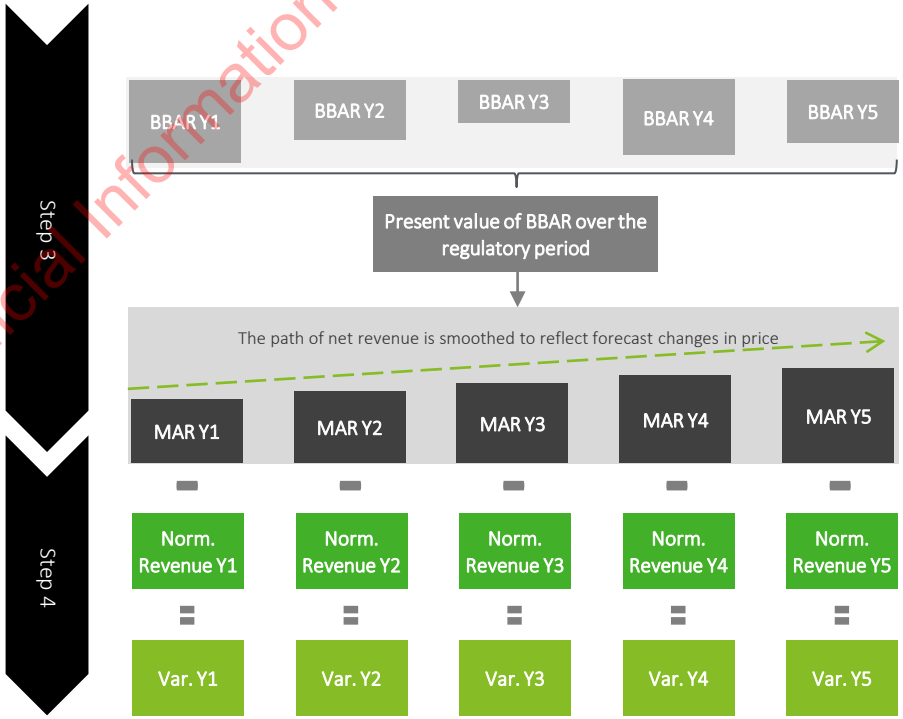
Step 3 - BBAR to MAR

- The five BBAR values may fluctuate up and down from one year to the next. As a result, the ComCom smooths out the variations to produce a smoothed price path.
- The MAR values are set such as that the present value of the five MAR values is equal to the present value of the five BBAR values.

Step 4 – Comparison between MAR and normalised revenue

- Our calculation of Fullers' normalised revenue is compared to the calculated MAR for the Waiheke service, noting that we assume the MAR is the maximum revenue allowed to achieve normal profits.
- The calculation of normalised revenue is explained on pages 20 to 24. It corresponds to the revenue level that Waiheke commercial could be expected to achieve based on a normal passenger volumes, excluding any impacts from COVID-19, and considers historical fares, current fares, and forecast fares.

Determining the MAR for comparison with normalised revenue



Methodology | WACCs

In determining the WACCs for the RP1 and RP2 for the Waiheke Commercial Service we have followed the ComCom approach.

WACC

- The regulatory vanilla WACC is used to determine the allowed rate of return on invested capital. The regulatory vanilla WACC is referred to as "vanilla" because it represents a standard, generic approach used by regulatory bodies to set the allowed return on capital for regulated businesses. The vanilla WACC represents the weighted average of the pre-corporate tax cost of debt and the cost of equity. The 67th percentile is assumed.
- In determining the WACCs for the RP1 and RP2 for Waiheke Commercial Service we have followed the ComCom approach.
- The **risk free rate** of 3.2% and 3.8% for RP1 and RP2, respectively, is based on the 10y New Zealand government bond rate (see details in appendix 4);
- **Debt premium** is based by observing average yield in the overall market with BBB, BB and B credit ratings (excluding finance companies) (see details in appendix 5);
- The **market risk premium** is the return in excess of the risk-free rate that is required to compensate investors for the additional risk associated with holding a market portfolio of equity securities. The Commission has used a TAMRP estimate of 7.0% in all decisions after 2003. We have applied this rate to be consistent.
- **Capital structure**
  - The gearing assumption (D/(D+E) or debt to debt plus equity) used in the CAPM is based on the market values of debt and equity rather than their book values and is the target gearing ratio.
  - We have assumed a target gearing ratio of 30%, reflecting our view of an appropriate level for sector participants in the New Zealand market. In determining an appropriate level for Waiheke Commercial Service we observed the average gearing ratios in FY18 and FY23 for listed companies in different industries (marine passenger and freight, land public transport, and tourism). We excluded tourism from the leverage calculation as we believe their required assets and investments are different from Fullers (see appendix 6 and 7.

ComCom Vanilla WACC Calculation - Fullers

	RP1	RP2
	Mar-18	Mar-23
Rf (risk free rate)	3.2%	3.8%
Debt premium	3.3%	4.2%
Debt issuance costs	0.2%	0.2%
Issue Premium	**3.5%**	**4.4%**
Tax rate	28.0%	28.0%
MRP	7.0%	7.0%
Leverage	30.0%	30.0%
Be (equity beta)	0.93	0.93
Kd (cost of debt)	6.7%	8.2%
Ke (cost of equity)	8.8%	9.2%
WACC	**8.2%**	**8.9%**
Post tax WACC	*7.6%*	*8.2%*
Percentile adjustent	67%	67%
Standard Deviation	1.01%	1.01%
Adjusted regulatory WACC	**8.6%**	**9.4%**

Source: Deloitte Analysis

Methodology | WACCs

We have estimated the adjusted regulatory WACC to be 8.6% for RP1 and 9.4% for RP2.

WACC (ctnd)

- Equity beta
  - The equity beta coefficient measures the systematic or non-diversifiable risk of a company's shares in comparison to the market as a whole.
  - Systematic risk, as distinct from company-specific risk, measures the extent to which the return on an investment is correlated to the markets return. Company-specific risk can be "diversified away" by the investor holding a broad portfolio, leaving systematic risk as the primary focus.
  - To estimate Fullers' equity beta, we have analysed comparable listed companies in different industry (marine passenger and freight, public transport (land) and tourism as at 31 March 2018.
  - The average and median asset beta for these comparable companies is presented in appendix 6 and 7 based on five years of monthly data.
  - We applied a weighted average of the observed beta between marine passenger industry and tourism to inform the beta for Fullers, considering 70% of their business is tourism-driven. We have excluded the data from FY23 as we consider it to be disrupted by COVID-19.
  - Based on the market data and our professional judgment, we adopted an asset beta of 0.65. When we re-leverage the asset beta using our estimated gearing of 30.0%, the equity beta is calculated to be 0.93 in both periods.
- We have estimated the adjusted regulatory WACC to be 8.6% for RP1 and 9.4% for RP2.

ComCom Vanilla WACC Calculation - Fullers

	RP1	RP2
	Mar-18	Mar-23
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Standard Deviation	1.01%	1.01%
Adjusted regulatory WACC	**8.6%**	**9.4%**

Source: Deloitte Analysis

Fares

Fares | Price setting process

Management has limited options to change the fares of the commuter tickets due to their Quality Partnership Agreement with AT. However, they can change the prices of visitor tickets based on costs, competition, and alternative services/activities available for tourists.

Users segments

- The pricing approach for the Waiheke Commercial service incorporates different methodologies to consider distinct user groups, encompassing both commuters and visitors, who use the same assets. This involves implementing a "Segmented Value Based Methodology," which assigns differing prices to various user segments based on their travel frequency/purpose. We consider this a normal commercial approach.
- Commuter / resident segment s 9(2)(b)(ii)
  - Commuters benefit from extended service hours operating year-round at a high frequency. They also have access to discounted fares through HOP AT, with some of these fares being subsidised by AT.
  - The establishment of a Quality Partnership Agreement (**QPA**) in 2022 between AT and Fullers is intended to deliver sustainable public transport services for Waiheke Island's residents, facilitating their access to essential services and employment opportunities on the mainland.
  - s 9(2)(b)(ii)
- Visitor segment s 9(2)(b)(ii)
  - s 9(2)(b)(ii)
- Community segment
  - This segment is primarily related to the SuperGold ticket, which offers senior citizens the benefit of traveling for free on designated bus and ferry services in Auckland.

Review of competitive position and alternative activities

- Management goes through a process of comparing the fares with directly comparable products and alternative services:
  - s 9(2)(b)(ii)

Cost base

- Visitor pricing undergoes a comprehensive review ahead of the peak season, recognising that the substantial portion of tickets sold to visitors and tourists from December to March offsets the losses incurred in maintaining year-round frequency for residents and commuters. As a result, the yearly operating costs are a key driver to setting the visitor prices before the peak season.

At the beginning of FY24, Fullers reviewed prices for certain tickets, resulting in a 19% increase in the Adult return ticket, from $49.5 (incl. GST) to $59.0. Additionally, the adult one-way ticket decreased by 12% to $29.5 (incl. GST), and off-peak tickets for adults and children decreased by approximately 50%. However, we have not been able to observe the full year impact of these price changes as FY24 is not yet over.

Fares | Fullers, AT and Sealink prices

Fares for the Waiheke Ferry Service, operated by Fullers, are either less expensive or equivalent to Sealink's fares, while Fullers also offer more trip options for passengers.

Fare Comparison

- The table opposite (top) presents fares for the main categories of tickets for different mid to long trips departing from downtown Auckland.
- Gulf Harbour, Half Moon Bay and Hobsonville are operated by Fullers but part of the AT transport contract as a public transport service. We note that the trips to Waiheke operated by Fullers can be purchased with the AT HOP card. Sealink's line to Waiheke is fully private.

Waiheke

- The Waiheke line operated by Sealink goes to Kennedy Point (Putaki Bay), which is slightly longer than the Fullers line, which goes to Matiatia Bay.
- The adult one-way pass for Waiheke is priced at $27.5 for Fullers and $26.5 for Sealink. The Fullers 10-trip passes and monthly pass are less expensive than Sealink's, costing $166.0 versus $197.5 (+19.0%) and $403.0 versus $446.5 (+11%) respectively.
- As shown in the table opposite (bottom), Fullers operates a ferry to Waiheke approximately every 30 to 60 minutes from 6am to 12am, while Sealink runs a ferry approximately every two hours from 6am to 6pm. Additionally, the sailing time is 35 to 40 minutes with Fullers compared to approximately an hour with Sealink. Users benefit from more trip options, greater flexibility and quicker trips when using Fullers.

Other lines

- The monthly pass to Waiheke is available with the AT HOP card at $355.0; this is subsidised.
- An adult one-way trip to Gulf Harbour costs $11.6 ($27.5 to Waiheke) and the monthly pass is $355.0 ($403.0 Fullers commercial to Waiheke).
- Whilst the distance is 30.4 km to Gulf Harbour compared to 22.0 km to Waiheke, the options for trips to Gulf Harbour are limited compared to Waiheke, as the ferry service operates only during peak hours.

Ferry prices

	Waiheke			Gulf Harbour	Half Moon Bay	Hobsonv. Point
	Fullers		Sealink	Fullers		
$	AT HOP	Com.	Com.	AT HOP	AT HOP	AT HOP
Visitor fares						
Adult one way	29.5	27.5	26.5	11.6	8.25	8.25
Child (5 to 12)	13.0	13.0	14.5	-	-	-
Child (13 to 15)	13.0	13.0	14.5	3.05	2.42	2.42
Youth (16 to 24)	29.5	27.5	26.5	5.80	4.12	4.12
Resident commuter passes						
Adult 10 trip pass		166.0	197.5			
Adult monthly pass	355.0	403.0	446.5	355.0	270.0	270.0
KPIS						
FY22 trips	20,234	20,234	n.a	5,072	8,673	8,427
Trip distance (km)	22.0	22.0	23.0	30.4	15.8	13.0
Total distance (000's km)	445.1	445.1	n.4	154.2	137.0	109.6

Com.: Commercial
Prices are GST inclusive

Source: Auckland Transport & Fullers

Waiheke timetables - Fullers and Sealink

		Monday to Thursday	Friday	Saturday	Sunday
Fullers	#Trips / day	20	22	17	15
Fullers	Time range	6.00am to 11.45pm	6.00am to 11.45pm	6.00am to 11.45pm	6.00am to 11.45pm
Sealink*	#Trips / day	10	10	10	9
Sealink*	Time range	6.00am to 6.00pm	6.00am to 6.00pm	6.00am to 6.00pm	6.00am to 6.00pm

Note (*): Winter timetable

Source: Auckland Transport & Fullers

Financials

Financials| Regulatory Asset Base

The asset base mostly comprises vessels.

Regulatory Asset Base

- To determine the expected return for the Waiheke Service, we must first assess its asset base. The RAB represents the value of the assets used to provide services, and it serves as the basis for calculating the return on capital. The opening RAB balance is revalued each year based on the change in CPI distinguishing it from the Fixed Asset Register (**FAR**).
- As shown in the table opposite, the asset base for the Waiheke commercial line consisted of six ferries as at 01 April 2018. The net book value of the six operating ferries was s 9(2)(b)(ii) We note that in FY20, two more ferries were acquired, and then in FY23 the website/app was added to the asset base (see page 18).
- To estimate the opening RAB as at 01 April 2018, we have constructed a fixed asset register that goes back to the commissioning of each asset and applied historical CPI and depreciation rates to estimate the revaluation and depreciation respectively. Based on this approach, we have determined the RAB to be s 9(2)(b)(ii) as at 01 April 2018.

Opening RAB (adjusted) 01 April 20218 - Waiheke Commercial

NZ$m	s 9(2)(b)(ii)
Te Kotuku	
Adventurer	
Ika Kakahi	
Korora	
Torea	
Takahe	
D6	
Kekeno	
Total	
Estimated RAB	

Source: FG AFAR from 2018 to 2023

Financials | RAB

The RAB is estimated to be s 9(2)(b)(ii) in FY23, including s 9(2)(b)(ii) of revaluation.

Regulatory Asset Base

- The graph opposite presents the RAB and adjusted RAB estimates from FY19 to FY28 based on the following assumptions:
  - Commissioned assets were provided by Management and are discussed on page 18;
  - The RAB is revalued each year based on the change in CPI (see appendix 10 for CPI data used);
  - The average remaining asset life for the existing assets was estimated to be 17 years as at 01 April 2018, and this was used to calculate the depreciation of the existing assets; and
  - For the commissioned assets, we have used an average asset life of 12.5 years from FY19 to FY23, reflecting the mix of refit and new vessels and a range of 5 to 8 years from FY24 to FY28 reflecting the mix of refit, capex and IT capex that have a higher depreciation rates.
- The RAB is estimated to be s 9(2)(b)(ii) as at 31 March 2023, declining to s 9(2)(b)(ii) as at 31 March 2028. The higher RAB in FY23 is due to the commissioned ferries in FY20.
- As at 31 March 2023, the adjusted RAB (excluding revaluation) is estimated to be s 9(2)(b)(ii) This compares closely with the actual FAR for the vessels of s 9(2)(b)(ii) s 9(2)(b)(ii) the difference being the website/app investment included in FY23 of c. s 9(2)(b)(ii)

RAB and Adjusted RAB - Waiheke Commercial

s 9(2)(b)(ii)

RAB - Waiheke Commercial

s 9(2)(b)(ii)

Source: Deloitte analysis, Management information

Financials | Capex

The majority of Waiheke commercial Capex is related to vessel acquisition, as maintenance costs are predominately accounted for in Opex. Capex also includes non-vessel capex, mostly related to IT projects.

Capex

- The graph opposite presents the capex used for the building blocks calculation. We used historical actual data from FY19A to FY23A and the forecast capex plan provided by Management for FY24F to FY28F.
- To operate the Waiheke commercial line, the asset base mainly comprises 8 ferries and some other intangible assets allocated to Waiheke, such as the website and the mobile app.
- In FY20A, capex amounted to s 9(2)(b)(ii) primarily due to the acquisition of two vessels (Ika Kakahi and Kekeno) for approximately s 9(2)(b)(ii) ach.
- Among the s 9(2)(b)(ii) capex in FY23A, s 9(2)(b)(ii) is attributable to the new website, which we have 100% allocated to Waiheke commercial.
- The capex plan allocates s 9(2)(b)(ii) from FY24 to FY26 to finalise the digitisation project and implement various IT improvements, including the development of a new mobile app and the installation of a new database system.
- Maintenance capex on the vessels is relatively low, as most of the maintenance is conducted annually and accounted for in opex. The capex maintenance mainly involves engine replacements, refurbishment of ferry interiors, and electronics refits.
- We have made adjustments to the capex plan provided by management to account for inflation, to present capex in nominal dollars.
- We assumed that the asset life of the commissioned assets is 12.5 years, based on observed historical capex.

Capex - Waiheke Commercial

Financials | Opex

We have utilised the opex for the Waiheke Ferry Service, which were derived from a comprehensive financial model developed by EY during FY21.

Operating expenditures

- In FY21, Fullers engaged Ernst & Young (**EY**) to develop a comprehensive financial model aimed at forecasting the cost of operations, necessary to reach an agreement with Auckland Transport for operating the contracted lines.
- This financial model provides a breakdown of the forecast financials for each route operated by Fullers and we understand that it underwent thorough reviews by both AT and PricewaterhouseCoopers (**PwC**).
- To determine the most accurate representation of the business costs in a normal operating environment (i.e. a timetable and passenger (**pax**) volume undisturbed by COVID-19) for the Waiheke Line, we relied on the forecast expenditures in this model.
- The first year of the model is FY22 and all the forecast opex is based on the current cost in FY22. As a result, we used the Diesel Ferry Public Transport Index and CPI to estimate opex in other years in nominal dollars, see appendix 10 for data used).
- To establish a normal level of expenditures for the period from FY18 to FY21, we applied the Diesel Ferry Public Transport Index to FY22 data.
- The graph opposite outlines the opex used in our building block approach. For more detailed information, a table is available in Appendix 11.

Opex - Waiheke Commercial (nominal dollars)

s 9(2)(b)(ii)

Normalised revenue

Normalised revenue | Ticket volumes

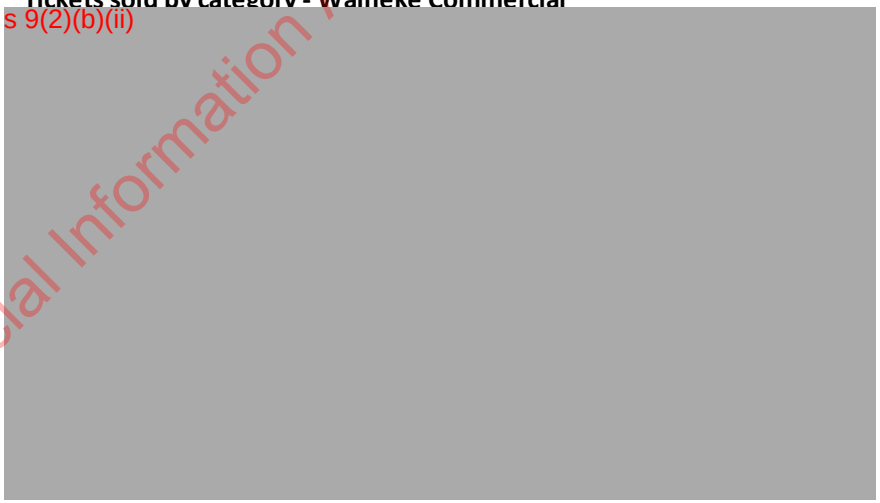
COVID-19 disruptions significantly affected patronage over the past three years. Consequently, FY19 is the latest year suitable for use as a patronage benchmark.

Ticket volumes

- Management has provided a breakdown of ticket sales by category from FY19 to FY23.
- In FY19, a total of s 9(2)(b)(ii) tickets were sold for the Waiheke line. FY20 sales were slightly lower than FY19 with s 9(2)(b)(ii) tickets sold as the last month of FY20 was the first COVID-19 lockdown in NZ (March 2020), with nearly no sales recorded.
- However if we look at average monthly tickets, FY19 was s 9(2)(b)(ii) tickets per month and if we consider FY20 was only 11 months the adjusted average sales per month in FY20 is also s 9(2)(b)(ii) .
- Sales substantially reduced in FY21 and FY22, dropping to s 9(2)(b)(ii) . This decline can be largely attributed to the adverse impacts of the COVID-19 pandemic, including lockdown and a decline in tourism due to border closures.
- FY23 sales bounced back to s 9(2)(b)(ii) However sales were still lower than historical averages due to the first half of the year being impacted by lower than normal tourism.
- Based on our assessment of these trends, we consider FY19 the last reliable benchmark for normal volumes / patronage.

Tickets sold by category - Waiheke Commercial

s 9(2)(b)(ii)



Tickets sold - Waiheke Commercial

s 9(2)(b)(ii)

Normalised revenue | Tickets volumes

The primary ticket purchased by customers is s 9(2)(b)(ii) .

Ticket volumes and revenue by category

- Management has provided a breakdown of ticket sales by category from FY19 to FY23.
- The predominant ticket purchase among customers s 9(2)(b)(ii) contributing s 9(2)(b)(ii) the total tickets sold in FY19 and s 9(2)(b)(ii) the revenue.
- We note that the SuperGold ticket represents s 9(2)(b)(ii) the tickets sold in FY19 but the user does not pay any fee. This ticket allows senior citizens to travel for free in selected bus and ferry services in Auckland. However, NZTA subsidises a portion of the SuperGold tickets for Fullers. s 9(2)(b)(ii)
- s 9(2)(b)(ii)

Tickets sold by category - Waiheke Commercial

s 9(2)(b)(ii)

Tickets and revenue by category FY19 - Waiheke Commercial

s 9(2)(b)(ii)

Normalised revenue | Normalised volumes

We have projected "normalised" volumes using FY19 as a base and applying an annual growth rate of 3%.

Normalised volumes

- The graph opposite (top) presents our projection of normalised volumes, aiming to mitigate the impact of COVID-19 on patronage.
- We have used FY19 as a base year (the last full year excluding any COVID-19 impacts) and applied a 3% annual growth rate on volumes based on discussions with Management.
- s 9(2)(b)(ii)

Ticket prices (excluding GST)

- The table opposite (bottom) presents the fares for the main ticket categories, excluding GST.
- We have used these fares to calculate a normalised revenue, in conjunction with the previously presented volumes.
- We have applied the FY23 fares (prior to price increases) from FY19 to FY23, the fares as at July 2023 for FY24, and integrated a 4% annual growth rate into the fares.
- s 9(2)(b)(ii) It's important to note that fares for tourism tickets, such as the Adult RT, can be increased at Fullers discretion. As a result, Fullers increased the price of the Adult RT ticket by 20% at the beginning of FY24 (from $40 to $48, excluding GST).
- Appendix 12 provides a detailed view on the fares for each year.

Tickets sold (actuals and normalised) - Waiheke Commercial

s 9(2)(b)(ii)

Ticket prices (excl. GST)

$	Jul-22	Jul-23
Adult RT	40	48
SuperGold*	-	-
Adult Flexi Pass	144	144
Adult 40 trip	500	500
HOP Adult	26	26
Adult RT OFFLINE	43	51
Adult RT - Pkg	25	25
Adult Monthly	350	350
HOP Monthly	15	15
Other	30	30

Note (*): The SuperGold ticket price is set to nil. However, we have taken the received subsidy into account in our normalised revenue analysis.

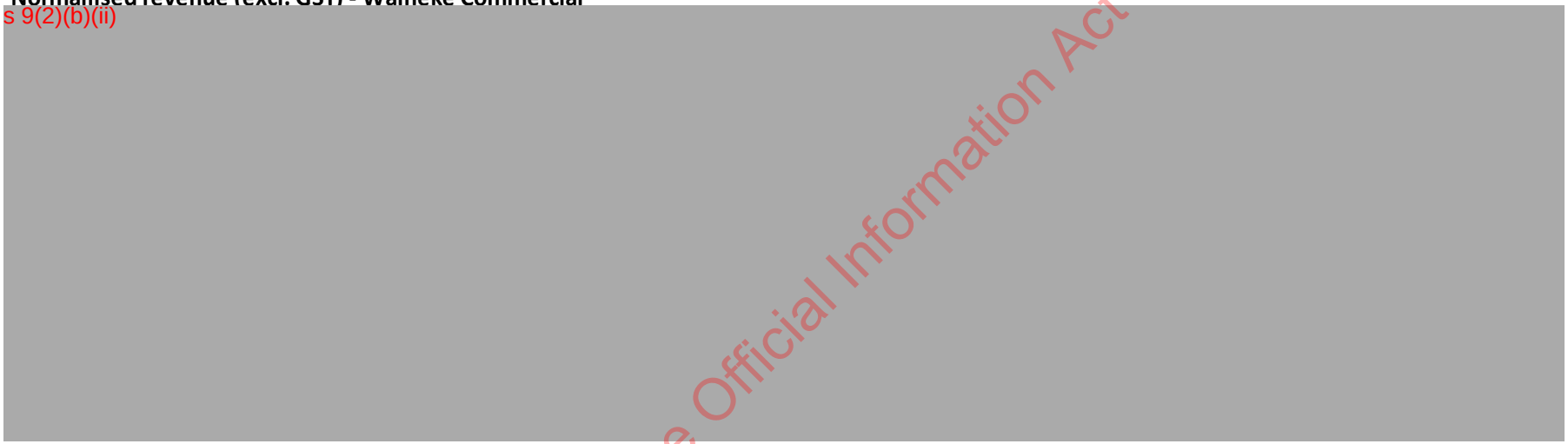
Source: Management information

Normalised revenue | Normalised revenue

We have estimated the normalised revenue to rise from s 9(2)(b)(ii) in FY19 to s 9(2)(b)(ii) in FY28 for the Waiheke Commercial Service.

Normallised revenue (excl. GST) - Waiheke Commercial

s 9(2)(b)(ii)

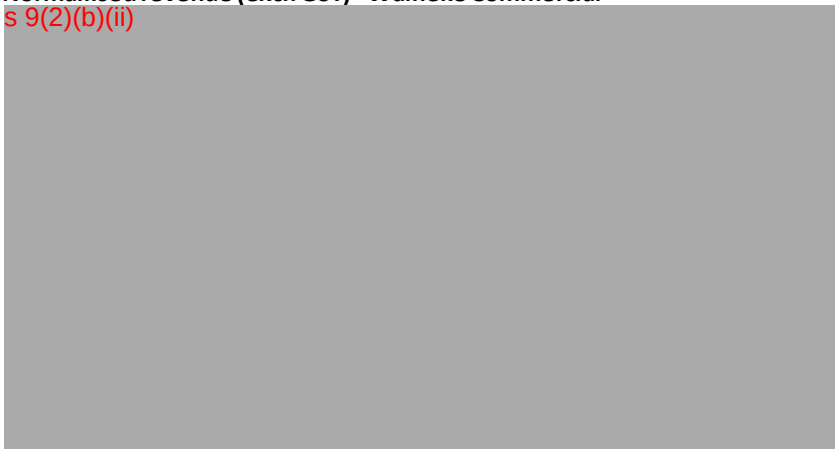


Normalised revenue

- The table above presents our estimate of normalised revenue, excluding any COVID-19 adverse impacts based on the assumptions described in the previous pages.
- The normalised revenue suggests sales of approx. s 9(2)(b)(ii) FY19 growing s 9(2)(b)(ii) in FY28.
- This normalised revenue includes a volume growth of 3% per annum, application of FY23 fares to historical periods (FY19 to FY23), utilisation of current fares for FY24 reflecting the 20.0% increase in the adult RT ticket, and subsequently, a 4% price growth rate has been applied from FY25 onwards.
- We have included the funds received from NZTA for the subsidised SuperGold tickets, which had a historical cap of c.s 9(2)(b)(ii) .a and is set to increase to s 9(2)(b)(ii) going forward for s 9(2)(b)(ii)
- As shown in the graph opposite, we have conducted a sensitivity analysis on this normalised revenue, considering no volume growth, applying FY23 fares to historical periods (FY19 to FY23), and utilising current fares for FY24 to FY28 (without price increases). This results in annual revenues of s 9(2)(b)(ii) from FY19 to FY23 and s 9(2)(b)(ii) from FY24 onwards.

Normallised revenue (excl. GST) - Waiheke Commercial

s 9(2)(b)(ii)



Revenue assessment

Revenue assessment | BBAR & MAR

We have estimated the maximum revenue for 'normal' profits based on a building blocks approach.

BBAR & MAR

- We have estimated the allowable revenues based on the building blocks approach but smoothing for MAR following two reset periods in FY19 (RP1) and FY24 (RP2).
- Opex and capex inputs were discussed in the financials section, and WACCs of 8.6% and 9.4% were utilised for RP1 and RP2, respectively, as explained on page 10.
- The chart opposite sets out the allowable revenue resulting from the building blocks approach while the table below presents the different building blocks.
- The estimated MAR stands at s 9(2)(b)(ii) FY19 increasing to s 9(2)(b)(ii) FY28, noting that we have smoothed the MAR and allow a yearly revenue growth of 4.0%.
- Since the business requires significant opex, most of the revenue is generated from the return on opex. As a result, any variance in opex could significantly impact the MAR.

Revenue (BBAR & MAR) - Waiheke Commercial

s 9(2)(b)(ii)

Revenue (BBAR & MAR) - Waiheke Commercial

s 9(2)(b)(ii)

Source: Deloitte analysis

Revenue assessment | Review of normalised revenue and MAR

Our assessment suggests that the current fares do not produce revenue that surpasses the MAR. Any revenue exceeding the MAR could be considered as generating super profits.

Review of normalised revenue and MAR

- The graph and table opposite provide a comparison between the normalised revenue and the calculated MAR for the Waiheke service. We consider the MAR to be the target revenue to achieve normal profits as the MAR is based on a revenue build up approach and establishment of fair returns (WACC based on market observations and expectations for this specific industry).
- Over the review period FY19 to FY28, the MAR is estimated to increase from s 9(2)(b)(ii) in FY28. The normalised revenue is assessed to be s 9(2)(b)(ii) n FY19, growing to s 9(2)(b)(ii) in FY28. The MAR sits slightly above the normalised revenue from FY19 to FY27 with annual variations ranging from s 9(2)(b)(ii) , equivalent to s 9(2)(b)(ii) In FY28, the MAR and the normalised revenue are nearly the same.
- We conducted a sensitivity analysis on the normalised revenue, specifically excluding any factors related to the growth in patronage and price adjustments from the existing fares. In this scenario, the revenue falls significantly below the MAR (e.g. in FY28, the MAR is projected to be s 9(2)(b)(ii) whereas the normalised revenue resulting from the sensitivity scenario is s 9(2)(b)(ii)
- Our assessment indicates that the existing fares do not generate what could be classified as super profits. Super profits would be achieved for any revenue levels surpassing the MAR.

Revenue comparison - Waiheke Commercial

s 9(2)(b)(ii)

Revenue comparison - Waiheke Commercial

s 9(2)(b)(ii)

Appendices

Appendices | A1: Scope

A1. Purpose and any background information

Purpose

To complete outstanding tasks to enable Waka Kotahi to reach a position on whether the Fullers360 Waiheke ferry service 'needs its fares to be regulated' under section 150(b)(ii) of the Land Transport Management Act 2003.

Background

At the request of the Minister of Transport Waka Kotahi is investigating whether the Minister should recommend the Governor-General by Order-in-Council make regulations requiring the Fullers360 Waiheke Ferry Service (the Service) be replaced by a unit or part of a unit provided under to contract to Auckland Transport under s150(1)(b) of the Land Transport Management Act 2003.

Before the Minister can make a recommendation to the Governor-General the Minister must be satisfied that Waka Kotahi has consulted any relevant regional council (Auckland Transport) and the operator of the Service (Fullers360).

The Minister must also be satisfied that the Service:

- is an integral part of the relevant region's public transport network and
- needs its fares to be regulated. (s150(2)(b)(ii))

Waka Kotahi is currently completing its investigation into whether the two criteria have been met.

To assist it reach a position on whether the criteria have been met Waka Kotahi engaged the services of a consultant to develop a framework for assessing the criteria and provide a view on whether the Service meets the two criteria.

The consultant concluded in his report that the two criteria appeared to have been met. Waka Kotahi has not reached a view on the consultant's report. Waka Kotahi sought separate advice as to the sufficiency of the report in reaching a Waka Kotahi position on whether the criteria had been met.

Waka Kotahi was advised that consultant's report provided sufficient basis for concluding that the Service is an integral part of the Auckland public transport network.

Conversely Waka Kotahi was advised that the consultant's report was not sufficient to conclude that the Service's fares needed to be regulated.

Auckland Transport and Fullers360 have been informed that Waka Kotahi considers that the first criterion has been met but the second criterion (fares need regulating) has not been satisfied.

Before Waka Kotahi can reach a view on whether the second criterion has been met Waka Kotahi was advised that the following matters needed further investigation:

- competition forces and whether Fullers360 is a monopoly supplier or not
- whether Fullers360's current profit margin for the Service is normal or supernormal.
- Fullers360's fare setting process for the Service.

This Consultancy Services Order is focused on addressing the latter two matters.

A2. Specific questions / instructions for Provider

Whether Fullers360's current profit margin for the Service is normal or supernormal

To complete this task the provider will need to:

- define the distinction between a normal (i.e. normal) versus supernormal profit applicable to ferry operations in New Zealand; and
- review 5 years (2017/18 FY to 2021/22 FY) of Fullers360's financial information pertaining to the Waiheke Ferry service and determine whether, on average, Fullers360's profits can be considered normal vs supernormal.

Fullers360 fare setting process for the Service

The provider will review Fullers360 pricing methodology for setting fares and assess whether this is an appropriate commercial approach for setting fares.

A3. Additional Information e.g., risks to client, additional contact information

Waka Kotahi, Fullers360 and the provider will work together to identify the documentation required to complete the investigation. Fullers360 will submit a schedule of proposed documents for review and inform discussions.

Appendices | A2: Sources of information

Documents and Information Sources Reviewed

- In undertaking this valuation we have reviewed and relied upon the following principal sources of information provided:
  - 07. Quality Partnership Agreement relating to Waiheke Island public transport ferry services between Fullers and AT dated 14 July 2022(900375944.1)
  - FG AFAR - abriged to vessels only (31.03.18 to 31.03.23)
  - FG TFAR - abriged to vessels only (31.03.18 to 31.03.23)
  - Fullers Base Financial Pack FY18 - FY22 (delinked final)
  - Fullers Base Financial Pack FY18 - FY22
  - Fullers Comps Analysis and WACC FINAL
  - Fullers P&L split PT vs Commercial to FY23
  - Goodwill Impairment Model Fullers (KPMG Edited-1 March) -to Fullers
  - Pricing Review Guide Deloitte (13.07.2023)
  - RC Model Extracts 11.7.2023 (1)
  - Revenue Based on Volume (FY23) - Final for Deloitte
  - Souter Holdings Fullers Stats 2018 to 2022
  - Waiheke Meeting Presentation 2019, updated 2023 – orig
  - Waiheke Pricing Comparator Table2707

Discussions Held

- Damien McQuarrie – Chief Financial Officer
- Dharmesh Puna – Financial Controller

External Information Sources

- the New Zealand Commerce Commission;
- the Reserve Bank of New Zealand;
- Capital IQ;
- Thompson Reuters Eikon
- Auckland Transport website; and
- other publicly available information.

Appendices | A3: Restrictions and Disclaimer

Restrictions & Limitations

- This report is provided exclusively to Waka Kotahi NZ Transport Agency. It is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than that outlined in the Introduction without Deloittes prior written permission.
- We do not assume any responsibility or liability for losses occasioned to Waka Kotahi NZ Transport Agency or to any other parties as a result of the unauthorised circulation, publication, reproduction or use of this report or any extracts therefrom.
- We reserve the right to review all calculations included or referred to in this report and, if we consider it necessary, to revise our report in the light of any information which becomes known to us after the date of this report.

Reliance on information

- In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that is available from public sources and all information that was furnished to us by Fulllers and its subsidiaries.
- We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion. However, we have not verified the accuracy or completeness of any such information nor conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Fulllers or its subsidiaries. We do not warrant that our enquires have identified or revealed any matter which an audit, due diligence review or extensive examination might disclose.

Disclaimer

- This report has been prepared with care and diligence and the statements and conclusions in this report are given in good faith and in the belief, on reasonable grounds, that such statements and conclusions are not false or misleading.
- We cannot guarantee that any forecasts of future profits, cash flows or financial position of Fulllers360 or its subsidiaries will be achieved. Forecasts are inherently uncertain. They are predictions of future events which cannot be assured. They are based upon assumptions, many of which are beyond the control of Fulllers360, its subsidiaries and their management teams. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

Appendices | A4: Risk-free rate

We have estimated the rf for RP1 and RP2 based on regulatory guidelines.

Risk-free rate

- The risk-free rate is the rate which compensates the investor for the time value of money and the expected inflation over the investment period.
- In other words, the risk-free rate is the nominal yield, that incorporates both long term expectations for inflation plus a real return component.
- The frequently adopted proxy for the risk-free rate is the long-term government bond rate. The neutral rate is the rate at which inflation is stable and output is operating at its potential. This is the interest rate that is expected to prevail in normal times, when the economy has recovered from any business cycle fluctuations. This rate is one of the anchors for the economy. Monetary policy is considered expansionary when the real interest rate is below the neutral real interest rate, and vice versa.
- The graph opposite shows the 10 year government bond yield for the last 6 years.
- In determining the risk-free rate for RP1 and RP2, we used the last three months average up to August 2018 and August 2022, respectively. This follows the approach taken by the ComCom to estimate the risk-free rate during a reset period (the average of the last three months, seven months prior to the start of the regulatory period).
- This results in a risk free rate of 3.2% and 3.8% for RP1 and RP2, respectively.

10 year New Zealand Goverment Bond Yields

Appendices | A5: Cost of debt

The cost of debt is based on observable bond yields, adjusted for the New Zealand market.

Cost of debt

- The cost of debt (**Kd**) can be derived with reference to the risk-free rate of interest (generally assumed to be the rate applicable to government stock) and a debt premium that reflects the relative risk of the business from a debt holders perspective. The risk level depends on the nature of the business including cash flow, interest cover available, and the capital structure employed.
- We calculated a debt margin for RP1 (March 2018) and RP2 (March 2023) to use in our regulatory WACC.
- We have estimated the margins (debt premium) by establishing the yield differences between the US 15-year swap rate and the average yield observed in the overall market with BBB, BB and B credit ratings (excluding finance companies), over the same time period.
- The implied average debt margin is 3.5% as of March 2018 and 4.4% as of March 2023

Cost of Debt - Margin Calculation (March 2018)

	BBB	BB	B
15y - USD Yield (Capital IQ)	4.6%	6.2%	9.3%
15 y - USD Yield (Eikon)	4.8%	6.0%	6.8%
Average USD 15 Year Yield	**4.7%**	**6.1%**	**8.1%**
US Swap Rate	2.8%	2.8%	2.8%
Margin	**1.9%**	**3.3%**	**5.3%**
Average			**3.5%**

Source: Eikon, Capital IQ and Deloitte analysis

Cost of Debt - Margin Calculation (March 2023)

	BBB	BB	B
15y - USD Yield (Capital IQ)	*5.6%*	6.8%	10.3%
15 y - USD Yield (Eikon)	*6.1%*	8.1%	10.0%
Average USD 15 Year Yield	***6%***	**7.5%**	**10.2%**
US Swap Rate	*3.4%*	3.4%	3.4%
Margin	***2.4%***	**4.0%**	**6.7%**
Average			**4.4%**

Source: Eikon, Capital IQ and Deloitte analysis

Appendices | A6: Comparable Companies – Ferry & Public Transport

Comparable listed companies - Ferry Companies & Public Transport Operators

Company	Industry	Country	2018 Leverage	2018 Asset Beta	2018 Adj. Asset Beta	2023 Leverage	2023 Asset Beta	2023 Adj. Asset Beta
Kelsian Group Limited	Passenger marine and land (Sealink)	Australia	*13.7%*	n/a	n/a	*20.3%*	0.90	0.89
AS Tallink Grupp	Marine passenger and freight	Estonia	*40.3%*	0.15	0.32	*63.8%*	0.32	0.35
Bohai Ferry Group Co., Ltd.	Marine passenger and freight	China	*13.7%*	0.94	0.93	*18.2%*	0.97	0.93
DFDS A/S	Marine passenger and freight	Denmark	*15.1%*	0.44	0.59	*39.7%*	1.11	0.96
FirstGroup plc	Public transport (land)	United Kingdom	*61.6%*	0.32	0.36	*29.5%*	1.68	1.37
Mobico Group Plc	Public transport (land)	United Kingdom	*37.4%*	0.39	0.49	*63.3%*	0.81	0.68
ComfortDelGro Corporation Limited	Public transport (land)	Singapore	*5.4%*	0.10	0.38	*10.0%*	0.43	0.59
Hainan Strait Shipping Co.,Ltd.	Marine passenger and freight	China	*0.5%*	0.93	0.95	*3.1%*	0.77	0.84
Irish Continental Group plc	Marine passenger and freight	Ireland	*4.9%*	0.45	0.62	*20.4%*	0.89	0.87
Attica Holdings S.A.	Marine passenger and freight	Greece	*47.1%*	0.30	0.40	*48.3%*	0.26	0.37
Superdong Fast Ferry Kien Giang Joint Stock Company	Marine passenger and freight	Vietnam	-	n/a	n/a	-	1.17	1.11
Viking Line Abp	Cruise lines	Finland	*45.8%*	0.08	0.25	*47.8%*	0.14	0.29
Anonimi Naftiliaki Etairia Kritis SA	Marine passenger and freight	Greece	*94.9%*	0.03	0.04	*83.9%*	0.07	0.12
Average			***29.3%***	**0.38**	**0.48**	***34.5%***	**0.73**	**0.72**
Median			***15.1%***	**0.32**	**0.40**	***29.5%***	**0.81**	**0.84**

Source: S&P Capital IQ

Tourism and Leisure

- The table above provides an overview of a set of listed companies involves in transport (marine passenger and freight & land public transport) used to help inform the asset beta and target capital structure as at 31 March 2018 and 31 March 2023 used to estimate in puts for the regulatory WACC.
- As of 31 March 2018:
  - the average (median) leverage for the companies is 29.3% (15.1%), and the average (median) asset beta is 0.38 (0.32).
  - the table also shows that the average and median adjusted asset beta (which applied the Blume adjustment to correct for the tendency of market betas to revert to 1.0) are 0.48 and 0.40 respectively.

Tourism and Leisure (continued)

- As of 31 March 2023:
  - the average (median) leverage for the companies is 34.5% (29.5%), and the average (median) asset beta is 0.73 (0.81).
  - the table also shows that the average and median adjusted asset beta (which applied the Blume adjustment to correct for the tendency of market betas to revert to 1.0) are 0.72 and 0.84 respectively.
- We note that the asset beta use five years of monthly data. Consequently, the asset beta values are highly distributed due to the impact of COVID-19, resulting in higher betas than what would be considered normal.

Appendices | A7: Comparable Companies – Tourism & Leisure

Comparable listed companies - Toursim & Leisure

Company	Industry	Country	2018 Leverage	2018 Asset Beta	2018 Adj. Asset Beta	2023 Leverage	2023 Asset Beta	2023 Adj. Asset Beta
Tourism Holdings Limited	Toursim & Leisure	New Zealand	*18.9%*	0.41	0.54	*26.5%*	1.43	1.20
SkyCity Entertainment Group Limited	Toursim & Leisure	New Zealand	*17.0%*	1.11	1.02	*19.6%*	1.20	1.07
Millennium & Copthorne Hotels New Zealand Limited	Toursim & Leisure	New Zealand	*12.7%*	(0.19)	0.17	-	0.80	0.86
Flight Centre Travel Group Limited	Toursim & Leisure	Australia	*1.6%*	0.61	0.74	*21.0%*	1.65	1.37
Helloworld Travel Limited	Toursim & Leisure	Australia	*3.3%*	0.30	0.52	*0.0%*	1.93	1.62
Corporate Travel Management Limited	Toursim & Leisure	Australia	*3.0%*	1.28	1.18	*(0.0%)*	2.02	1.68
Experience Co Limited	Toursim & Leisure	Australia	*5.4%*	n/a	n/a	*4.3%*	1.68	1.44
Webjet Limited	Toursim & Leisure	Australia	*11.1%*	0.98	0.95	*8.1%*	1.93	1.59
Ardent Leisure Group Limited	Toursim & Leisure	Australia	*3.1%*	0.62	0.73	-	2.21	1.81
EVT Limited	Toursim & Leisure	Australia	*14.4%*	0.19	0.41	*17.5%*	1.00	0.94
The Star Entertainment Group Limited	Toursim & Leisure	Australia	*22.2%*	0.80	0.79	*34.6%*	1.01	0.89
Average			***10.2%***	**0.61**	**0.71**	***12.0%***	**1.53**	**1.31**
Median			***11.1%***	**0.62**	**0.74**	***8.1%***	**1.65**	**1.37**

Source: S&P Capital IQ

Tourism and Leisure

- The table above provides an overview of a set of listed companies in the tourism and leisure industry in New Zealand and Australia used to help inform the asset beta and target capital structure as at 31 March 2018 and 31 March 2023 used to estimate in puts for the regulatory WACC.
- As of 31 March 2018:
  - the average (median) leverage for the companies is 10.2% (11.1%), and the average (median) asset beta is 0.61 (0.62).
  - the table also shows that the average and median adjusted asset beta (which applied the Blume adjustment to correct for the tendency of market betas to revert to 1.0) are 0.71 and 0.74 respectively.

Tourism and Leisure (continued)

- As of 31 March 2023:
  - the average (median) leverage for the companies is 12.0% (8.1%), and the average (median) asset beta is 1.53 (1.65).
  - the table also shows that the average and median adjusted asset beta (which applied the Blume adjustment to correct for the tendency of market betas to revert to 1.0) are 1.31 and 1.37 respectively.
- We note that the asset beta use five years of monthly data. Consequently, the asset beta values are highly distributed due to the impact of COVID-19, resulting in higher betas than what would be considered normal.

Appendices | A8: Comparable Companies – Ferry & Public Transport

Comparable listed companies - Ferry Companies & Public Transport Operators

Company	Industry	Country	LTM as at March-23 Sales ($m)	Gross margin %	EBITDA margin %	EBIT margin %	Return on equity %
Kelsian Group Limited	Passenger marine and land (Sealink)	Australia	1,477.0	*26.2%*	*10.2%*	*6.3%*	*7.7%*
AS Tallink Grupp	Marine passenger and freight	Estonia	1,451.0	*18.9%*	*17.9%*	*8.5%*	*7.2%*
Bohai Ferry Group Co., Ltd.	Marine passenger and freight	China	320.2	*8.8%*	*8.1%*	*(4.3%)*	*5.0%*
DFDS A/S	Marine passenger and freight	Denmark	6,374.1	*22.5%*	*14.8%*	*9.5%*	*16.8%*
FirstGroup plc	Public transport (land)	United Kingdom	9,369.4	*(8.4%)*	*4.3%*	*0.7%*	*10.6%*
Mobico Group Plc	Public transport (land)	United Kingdom	5,787.1	*45.7%*	*10.9%*	*4.5%*	*(17.5%)*
ComfortDelGro Corporation Limited	Public transport (land)	Singapore	4,448.3	*22.4%*	*14.6%*	*6.2%*	*7.2%*
Hainan Strait Shipping Co.,Ltd.	Marine passenger and freight	China	760.0	*43.3%*	*44.3%*	*31.8%*	*12.2%*
Irish Continental Group plc	Marine passenger and freight	Ireland	986.1	*95.4%*	*18.0%*	*11.4%*	*23.4%*
Attica Holdings S.A.	Marine passenger and freight	Greece	894.0	*12.2%*	*9.6%*	*0.6%*	*4.7%*
Superdong Fast Ferry Kien Giang Joint Stock Com	Marine passenger and freight	Vietnam	30.2	*26.8%*	*25.0%*	*13.2%*	*7.9%*
Viking Line Abp	Cruise lines	Finland	933.9	*54.3%*	*11.9%*	*7.4%*	*13.2%*
Anonimi Naftiliaki Etairia Kritis SA	Marine passenger and freight	Greece	303.5	*5.9%*	*0.5%*	*(4.8%)*	*NM*
Average			**2,548.8**	***28.8%***	***14.6%***	***7.0%***	***8.2%***
Median			**986.1**	***22.5%***	***11.9%***	***6.3%***	***7.8%***

Source: S&P Capital IQ

Comparable listed company key financial data

- The table above presents the financial data of selected comparable companies engaged in Marine passenger and public transport.

Appendices | A9: Comparable Companies – Tourism & Leisure

Comparable listed companies - Toursim & Leisure

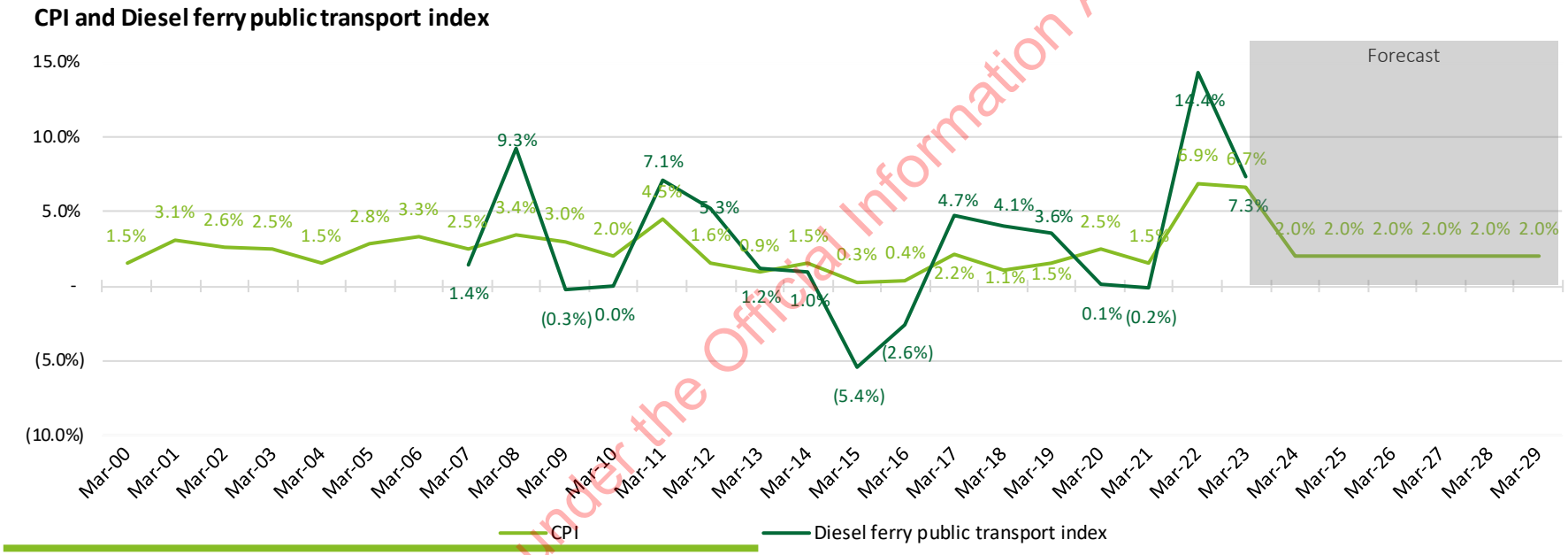
Company	Industry	Country	LTM as at March-23 Sales	Gross margin	EBITDA margin	EBIT margin	Return on equity
Tourism Holdings Limited	Toursim & Leisure	New Zealand	431.9	*64.9%*	*17.3%*	*8.2%*	*6.2%*
SkyCity Entertainment Group Limited	Toursim & Leisure	New Zealand	776.3	*57.6%*	*29.9%*	*20.1%*	*1.5%*
Millennium & Copthorne Hotels New Zealand Lim	Toursim & Leisure	New Zealand	144.2	*58.6%*	*35.1%*	*30.0%*	*5.1%*
Flight Centre Travel Group Limited	Toursim & Leisure	Australia	1,816.0	*31.7%*	*(3.9%)*	*(5.8%)*	*(13.7%)*
Helloworld Travel Limited	Toursim & Leisure	Australia	116.9	*81.0%*	*1.2%*	*(14.3%)*	*(4.8%)*
Corporate Travel Management Limited	Toursim & Leisure	Australia	547.0	*33.4%*	*8.3%*	*6.7%*	*2.6%*
Experience Co Limited	Toursim & Leisure	Australia	94.5	*39.9%*	*(0.0%)*	*(10.0%)*	*(8.7%)*
Webjet Limited	Toursim & Leisure	Australia	390.1	*65.9%*	*21.4%*	*16.6%*	*1.8%*
Ardent Leisure Group Limited	Toursim & Leisure	Australia	80.1	*74.2%*	*41.9%*	*(20.0%)*	*(10.7%)*
EVT Limited	Toursim & Leisure	Australia	1,168.6	*76.3%*	*14.8%*	*8.3%*	*12.1%*
The Star Entertainment Group Limited	Toursim & Leisure	Australia	2,105.0	*55.8%*	*15.4%*	*6.8%*	*(48.8%)*
Average			**697.3**	***58.1%***	***16.5%***	***4.2%***	***(5.2%)***
Median			**723.9**	***58.6%***	***15.4%***	***6.8%***	***1.5%***

Source: S&P Capital IQ

Comparable listed company key financial data

- The table above presents the financial data of selected comparable companies engaged in tourism industry in New Zealand and Australia.

Appendices | A10: Inflation



Inflation

- The graph above presents the historical and forecast Consumer Price Index (CPI) for New Zealand, as well as the historical data for the diesel ferry public transport index published by Waka Kotahi.
- The historical CPI data is sourced from StatsNZ, while the forecast CPI data is provided by the Economist Intelligence Unit. The CPI is used for performing the revaluation calculation of the asset base.
- The diesel ferry public transport index published by Waka Kotahi is used to index the operating expenditures.

Appendices | A11: Opex and capex details

Opex - Waiheke Commercial (nominal dollars)

s 9(2)(b)(ii)

Source: EY (RC) model, Deloitte Analysis

Capex - Waiheke Commercial

s 9(2)(b)(ii)

Source: FAR 2018 to 2023, Capex plan, Deloitte analysis

Appendices | A12:Ticket prices

s 9(2)(b)(ii)

Appendices | A13: Glossary

Glossary of terms

$	New Zealand dollars
AMP	Asset management plan
AT	Auckland Transport
BBAR	Building blocks allowable revenue
CAGR	Compound Annual Growth Rate
Capex	Capital expenditure
CAPM	Capital asset pricing model
ComCom	New Zealand Commerce Commission
CPI	Consumer price index
DPP	Default price quality path determination
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDB	Electricity distribution business
FYxx	Financial year ended 31 March 20XX
IFRS	International Financial Reporting Standards
k_d	Cost of debt
k_e	Cost of equity
Km	Kilometer
KPI	Key Performance Indicator
L3M	Last Three Months
m	Millions
Management	Fullers's Management
MAR	Maximum allowable revenue
MRP	Market risk premium
n/a	Data either not applicable or not available
NBV	Net book value
NPV	Net Present Value
NZTA	Waka Kotahi NZ Transport Agency
Opex	Operating expenditure
PAX	Passenger
PP&E	Property, plant & equipment
RAB	Regulatory asset base
RC Model	Financial model built by Earnst & Young
r_f	Risk-free rate
ROI	Return on investment
RP1	Regulatory Period 1
RP2	Regulatory Period 2
WACC	Weighted average cost of capital
Waiheke Commercial	Fullers Waiheke Ferry Service
α	Alpha
β_e	Equity beta

Deloitte.