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New Zealand equities

Investment Strategy Group
31 July 2026

Zespri

Creating value beyond the vine sale

Key data

Code	ZGL
Current price	$9.20
PE (+12m)	5.7x
Fwd gross yld (+12m)	15.9%
Market cap (m)	$1,811

Zespri delivered another record result in FY26, underpinned by a larger crop, strong market execution and a significant increase in licence revenue. While headline NPAT increased 81% to $280.1m, the more noteworthy development was the continued improvement in underlying operating performance, with profit excluding licence release revenue reaching a record $123.8m. This suggests earnings are becoming increasingly supported by the core operating business rather than periodic licence auctions alone.

The result also highlighted Zespri's ability to absorb another step change in supply without materially compromising grower returns. New Zealand-grown kiwifruit sales from the 2025 season increased 12% to 215.6 million trays, while global sales reached a record 248.1 million trays and total fruit and service payments rose to an all-time high of $3.6bn for the season. Average per hectare Orchard Gate Returns increased across every major category, with Green returns jumping 32% and SunGold returns rising 9%.

Core earnings continue to strengthen

Licence revenue remains an important earnings contributor, with revenue from SunGold licence releases increasing to $224m and helping lift group NPAT. However, underlying operating trends were equally encouraging. EBIT excluding licence release revenue increased to $166.5m from $109.9m, while profit excluding licence releases rose to a record $123.8m.

Growth was driven by stronger performance across both major operating segments. The New Zealand supply business increased EBIT to $72.2m despite higher employment and Horizon programme costs, while the Non-New Zealand supply business delivered a particularly strong result, with EBIT increasing to $50.1m from $18.2m the previous year. Revenue per employee increased from $5.6m to $7.1m, while trays sold per employee rose from 236,000 to 285,000, reflecting the benefits of scale as volumes continued to grow.

This development is notable as it highlights the increasing contribution from Zespri's operating businesses. Historically, a significant portion of shareholder returns has been driven by proprietary cultivar development and associated licence sales. While licence revenue remains an important earnings contributor, FY26 demonstrated that the underlying operating platform is becoming increasingly profitable as volumes grow and scale benefits emerge.

Global supply becoming increasingly significant

One of the standout features of the FY26 result was the continued improvement in Zespri Global Supply (ZGS). ZGS sales volumes increased 22.7% to 32.3 million trays, while segment EBIT almost tripled year-on-year.

The strategic rationale for offshore production has traditionally been centred on extending shelf presence, strengthening retailer relationships and supporting year-round availability. FY26 suggests ZGS is evolving beyond a strategic necessity and becoming a meaningful contributor to shareholder returns.

Importantly, management continues to view year-round supply as a key pillar of its long-term strategy. Expanded offshore production and ongoing discussions around future supply models, including China, remain central to the ambition of supplying global customers twelve months of the year.

Record volumes successfully marketed

With another record volume of fruit marketed during FY26, the year provided a useful test of Zespri's demand-led growth strategy. The company was able to successfully clear increased volumes while maintaining strong returns across all major varieties.

Europe was a standout performer throughout the season, delivering strong weekly sales rates and absorbing an increasing proportion of New Zealand supply despite heightened competition. North America also continued to perform well despite ongoing tariff uncertainty. These regions helped offset softer trading conditions in parts of Asia and reinforced the benefits of Zespri's diversified market footprint.

China remains strategically important, but conditions were more challenging. Management cited weaker consumer sentiment and broader macroeconomic pressures earlier in the season, resulting in slower sales rates and elevated inventory levels. While momentum improved later in the season, China remains both Zespri's largest long-term opportunity and one of its largest risks.

Brand metrics continue to strengthen. Zespri retained the number one ranking in aggregated brand power across its 15 core markets for the second consecutive year and increased household penetration globally, demonstrating that brand investment continues to support demand as supply increases.

Quality remains the key operational watchpoint

While FY26 was a strong year operationally, fruit quality remains a key area of focus.

Green kiwifruit quality outcomes improved, with cost of quality falling from $1.81 per tray to $1.31 per tray. However, SunGold quality costs increased from $1.41 per tray to $1.99 per tray due to elevated inventory levels, slower mid-season sales rates and late-season fruit quality challenges in some markets.

Management has initiated a broader quality review aimed at improving accountability across the supply chain and reducing quality-related costs. This is likely to remain a key area of focus as production volumes continue to increase. As production volumes continue to increase, maintaining consistent fruit quality is likely to remain a key focus area in supporting Zespri's premium brand positioning.

Protecting intellectual property remains a priority

FY26 reinforced the importance of protecting Zespri's intellectual property.

Management highlighted the formal opposition lodged against the Plant Variety Rights (PVR) application for the E2 variety, alongside ongoing efforts to protect sales channels from Chinese-grown Gold3 fruit.

While these matters may appear legal in nature, they are fundamentally about protecting the long-term value of Zespri's proprietary genetics. The ability to commercialise new cultivars such as SunGold and Red80, while preserving exclusivity and licence value, remains a competitive advantage and underpins a significant portion of shareholder returns.

Potential changes to New Zealand's PVR framework could further extend protection periods and represent upside optionality, although we do not incorporate this into our base case assumptions at this stage.

Industry alignment continues to improve

Beyond the financial result, management continued to focus on increasing grower ownership and strengthening alignment across the industry.

Following the introduction of the Loyalty as Shares (LaS) and Dividends as Shares (DaS) initiatives, grower ownership increased from approximately 50% to 65% during CY25 and is expected to exceed 70% following the CY26 programme. Zespri has now established a target of 80% grower ownership by 2035.

The 2026 programmes resulted in the issuance of approximately 7.4 million new shares, increasing shares on issue from around 189.5 million to approximately 196.9 million and implying dilution of roughly 3.8%. While this represents fewer shares than the 8.3 million issued under the 2025 programme, the previous year's issuance was partially offset by a 2.1 million share buyback completed in September 2025. With no buyback planned to follow the 2026 issuance, net dilution is expected to be modestly higher than the prior year despite the introduction of tighter eligibility criteria.

The revised eligibility settings restricted participation to growers holding one share or fewer per tray of production, directing new share issuance towards undershared growers rather than the broader shareholder base. While this represents a step in the right direction, dilution remains relatively high for an alignment programme. As grower ownership increases towards management's 80% target, it may be appropriate to shift towards mechanisms that improve alignment while limiting dilution, including more targeted issuance, greater utilisation of existing share supply and approaches that better match share demand from participating growers with willing sellers before new shares are created.

Looking ahead

The launch of Zespri's 2035 strategy outlines management's priorities for the next phase of growth. The strategy is built around three pillars: unleashing brand-led demand, transforming global supply and creating the product portfolio of the future. Management has also outlined an ambition to increase grower returns to 1.5-2.0x current levels by 2035.

In the near term, the May 2026 licence release provides visibility into FY27 earnings, with approximately $311m of licence revenue expected to be recognised next year, up from $224m in FY26. Demand for both SunGold and Red80 licences reinforces confidence in orchard economics and the long-term attractiveness of Zespri's cultivar portfolio.

Investment view

FY26 suggests the underlying operating platform is generating a greater proportion of earnings as volumes continue to grow. Record volumes were absorbed without significant disruption to grower returns, offshore supply is developing into a meaningful earnings contributor and underlying operating profitability continues to improve.

While China, fruit quality and intellectual property protection remain key areas to monitor, the company enters FY27 from a position of operational strength. Combined with a strong FY27 licence auction outcome, improving industry alignment and ongoing investment in future growth initiatives, the result supports a constructive medium-term outlook for the business.

Financial information ($nzd)

	FY22a	FY23a	FY24a	FY25a	FY26a	FY27f	FY22-27 CAGR
	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-27
NZ Kiwifruit	3,356	3,239	3,256	4,270	5,041	5,219	9.2%
Non-NZ Kiwifruit	539	519	654	655	876	858	9.8%
Sale of PVR licences	437	308	217	110	224	312	-6.5%
PVR Royalty income	45	47	50	63	74	76	10.9%
Other Revenue	17	18	9	41	14	16	-1.0%
Revenue	**4,394**	**4,131**	**4,187**	**5,138**	**6,229**	**6,481**	**8.08%**
Growth %	*9.3%*	*-6.0%*	*1.3%*	*22.7%*	*21.2%*	*4.0%*	n/a
Cost of Goods sold	-3,562	-3,468	-3,605	-4,533	-5,251	-5,403	8.7%
Gross Profit	**832**	**663**	**582**	**605**	**979**	**1,078**	**5.32%**
Growth %	*-0.9%*	*-20.2%*	*-12.3%*	*3.9%*	*61.8%*	*10.2%*	n/a
Selling General & Admin Exp.	-351	-380	-377	-440	-498	-533	8.7%
Other Expenses	20	31	14	39	-138	-75	-230.3%
EBIT	**501**	**315**	**218**	**204**	**342**	**470**	**-1.26%**
Net Interest Income	3	12	24	20	15	18	42.4%
Other Non-Operating Exp.	2	12	12	-8	31	-2	n/m
Net Profit before Tax	**505**	**331**	**253**	**216**	**388**	**486**	**-0.78%**
Income Tax	144	93	80	60	109	136	-1.1%
Net Profit	**362**	**239**	**173**	**156**	**280**	**350**	**-0.66%**
Growth %	*30.5%*	*-34.0%*	*-27.4%*	*-10.5%*	*80.5%*	*9.8%*	n/a
Earnings per share	1.97	1.30	0.95	0.85	1.49	1.59	-4.3%
Free cash flow	410	106	110	183	260	535	5.5%
Dividend per share	1.78	1.17	0.85	0.77	1.39	1.41	-4.6%
Net debt (cash)	-414	-398	-416	-515	-623	-623	8.5%
Key metrics	**2022**	**2023**	**2024**	**2026**	**2026**	**2027**	**FY22-27 Change**
Gross Margin	18.9%	16.1%	13.9%	11.8%	15.7%	16.6%	-230 bps
EBIT Margin	11.4%	7.6%	5.2%	4.0%	5.5%	6.7%	-470 bps
Free cash flow margin	9.3%	2.6%	2.6%	3.6%	4.2%	8.3%	-100 bps
EPS growth	30.5%	-34.0%	-27.4%	-10.5%	74.6%	5.3%	n/m
Dividend payout ratio	90%	90%	89%	91%	91%	90%	-
Return on Equity	125.8%	74.0%	51.5%	42.7%	64.5%	81.0%	-44.8 pp
Net Debt/EBITDA	-0.8x	-1.2x	-1.8x	-2.4x	-1.8x	-1.4x	-0.6x

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