Agriculture's **strong appetite for growth** attracts M&A

SPOT ON | ORGANIC & SUSTAINABLE AGRICULTURE | JULY 2021

AN OAKLINS REVIEW OF GLOBAL INVESTMENT TRENDS AND OPPORTUNITIES IN THE FARMING AND FOOD PRODUCTION SECTOR

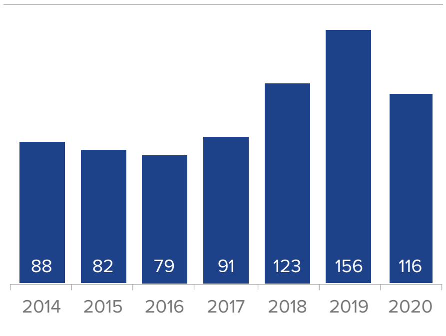
One of the largest challenges in the global economy is feeding a growing and increasingly affluent population while conserving habitats and natural resources. Sustainable intensification, the global effort to increase crop yields with fewer inputs and without expanding land use, seeks to balance these priorities. These efforts permeate the entire supply chain — from the consumer requiring increased visibility throughout the chain to farm operators focusing on increasing productivity and reducing waste at every step of the process.

These macro-trends are reshaping the way that food is grown and distributed. As a result, companies are securing funding through a variety of sources to address this rapidly changing market. The M&A market has also been active, with both corporate and institutional buyers making acquisitions.

On 23 June, Oaklins held a webinar to explore these trends and opportunities. The panel of six Oaklins advisors, each with specialized expertise in a segment of the global agriculture market, examined the major factors that are shaping agribusiness and the key role of M&A as the sector redefines its objectives.

Setting the tone for the conversation, Oaklins' President Peter Gray noted that during the past two years the mid-market M&A advisor had completed 44 deals in the agricultural space, many of which were cross-border transactions.

Organic & sustainable agriculture M&A volume



Source: Capital IQ and Oaklins Research

The Oaklins Panel

Top (L-R): Russ Tolander, Doug Kravet, Alejandro Dillon; Middle (L-R): Peter Gray, Zineb Chaouni, Bas Stoetzer; Bottom: Frank De Hek

AGRICULTURE IN THE US

DOUG KRAVET
Global Head of Agriculture
Oaklins

From 2015 to 2019, conventional agriculture in the US experienced a cyclical downturn. Then in 2020, as COVID-19 spread across the globe, the situation became extremely volatile.

During the first half of the year, as the pandemic surged, lockdowns and other restrictive measures pended the market. In the second half of the year, firms reacted to the market, and government programs to support farmers helped many food commodities to rebound. While the current outlook remains uncertain, Doug Kravet told the webinar audience that he expects the market for conventional agriculture products "to settle above the 2015 to 2019 levels" with regard to farm incomes.

In contrast, organic agriculture in the US has been growing 5–10% a year and has crossed the US$100 billion threshold in annual revenues worldwide. This market, Kravet said, also dealt with supply chain issues and proved extremely resilient during the pandemic.

Organic agriculture has crossed the **US$100bn** mark in annual revenues worldwide

"Farmland owners and operators are trying to keep up with the demand for organic food. However," he continued, "it takes three years to jump through all the hoops that are required to grow certified organic crops. Once you get over the hump, the preferred price is generally worth the switch, the growers tell us. But — and this is a big but — there are still issues related to volatility," and this, Kravet added, is inducing producers to play in both markets.

M&A TRENDS

Since 2016, the number of M&A deals in the organic and sustainable ag market steadily rose year over year, until the COVID-19 outbreak. Last year, deal count fell to 116 compared to 156 transactions in 2019 — a drop of about 26%, as travel restrictions and other pandemic-related precautions made it difficult to schedule meetings and conduct due diligence.

Throughout this period, downstream deals involving farm operators and farmland investors have predominated, representing more than 40% of total deal volume. Equipment and services, including Ag Tech, have comprised 20–30% of the deal total, while cross-border activity has accounted for 30–40% of all transactions.

Although down by **26%** in 2020, organic ag deals should recover to pre-pandemic levels this year or next

Looking ahead, Kravet said he expects the number of deals in the organic and sustainable ag sector to quickly recover to the record levels set in 2019, and resume growing either later this year or early next.

The Oaklins advisor then identified the industry sub-sectors that are attracting the most interest among M&A investors. These include producers of crops perceived as high-value, such as avocados, berries and asparagus, and firms that control the supply chain by virtue of a strong management team, ownership or control of farmland via long-term contracts, and sufficient production volumes and sophistication to do business with supermarkets and other large-scale institutions.

“Agricultural markets proved their importance this year,” Kravet concluded, “when food security and global supply chain stability became the focal point as the pandemic expanded globally. After the initial shock to the food supply system, consumers reaffirmed their preferences toward organic food, sustainability, and health and wellness activities in general. When added to the need for technology to improve productivity in emerging markets,” he noted, “this translates to a large pent-up demand for M&A opportunities and investment in the overall agriculture sector.”

DRAMATIC CHANGES TO HORTICULTURE

FRANK DE HEK
Horticulture Specialist
Oaklins, Netherlands

Joining the conversation, Frank De Hek emphasized that the horticulture and indoor farming market is changing rapidly and dramatically, and that this is affecting all of the market’s key players.

A major contributor to the new dynamic is the growing role of technology, which makes operating a greenhouse a more costly and complex endeavor. Other factors include the emergence of ultra-large greenhouses, which are gaining significant market share, more extensive government involvement in the sector, and the increasing domination of a few large players. Regulations have become stricter; sustainable growing practices are more important than ever and, overall, De Hek said, the sector’s operators are becoming much more sophisticated and professional.

> “If agriculture goes wrong, nothing else will have a chance to go right.”
>
> **M. S. SWAMINATHAN**
> GENETICIST AND FATHER OF INDIA’S GREEN REVOLUTION

Population growth plus less farmland and water are driving the **horticulture sector’s** rapid expansion

These shifts, he continued, will benefit some players while hurting others. Which market participants stand to gain the most? According to De Hek, it will be those that:

- Are active at the high-end of the market
- Have a strong presence in all the major global markets
- Are capable of processing orders on a very large scale
- Have the specialized know-how to provide sophisticated specialty products
- Offer best-in-class services and have a strong reputation together with a business model that encourages repeat business and recurring revenue.

Global population growth leading to heightened food demand, coincident with less available farmland, a shrinking supply of fresh water and more stringent environmental regulations, is driving the horticulture sector’s growth, and greenhouse capacity has increased substantially since 2018. This, De Hek said, will allow the market’s top three players to leverage their economies of scale, giving them a considerable competitive advantage.

The strength of the sector is attracting new players, resulting in numerous private equity–backed buy and build deals. This, along with the industry-wide consolidation that is taking place, has led to a growing number of M&A deals year over year since 2012. Even last year, when the pandemic caused the overall number of M&A deals to plunge by nearly a third, horticulture transactions still rose by 35%. Going forward, De Hek suggested that the number of deals should continue to rise and may even accelerate.

THE LAY OF THE LAND IN LATIN AMERICA

ALEJANDRO DILLON
Partner
Oaklins, Argentina

As the discussion turned to one of the world's most fertile regions, Alejandro Dillon explained that agribusiness in Latin America is dominated by five countries:

Argentina is one of the world's most important agricultural hubs. In 2020, overseas sales of foodstuffs totaled US$26 billion, accounting for 60% of the country's exports. As of 2018, the country ranked number 11 in wheat production, number four in corn, number three in soybeans and was numero uno in the production of soybean oil. With 39 billion hectares under cultivation, Argentina ranks sixth globally in terms of arable land and is the world's fifth largest producer of beef meat.

Brazil is the world's fourth largest food producer and agriculture comprises 25% of the country's GDP. For the past 20 years, steady increases in the land under cultivation together with sustained investment in new farming technologies have helped the Brazilian food sector grow at an average annual rate of 5.7%. The country is the world's leading producer of coffee, sugar and oranges, and ranks number two in beef. Meanwhile, it has 10 million hectares still waiting to enter production and is continuously developing new roads, railroads and waterways to serve its farms and food producers.

Chile is a world leader in the export of fresh fruits with more than a quarter million hectares under cultivation. Agriculture together with silviculture account for 3.2% of Chile's GDP. Perhaps surprisingly, the country also leads the global salmon market.

Peru has seen its agricultural sector grow explosively over the past 20 years, driven by soaring demand from other emerging economies and the shift in consumer preferences toward healthier food. In particular, the country has benefitted from rising demand for superfoods, such as avocados and blueberries, from Europe and the US.

Mexico has witnessed growth in its agricultural production that is faster than that of the country's overall economy, largely due to foreign demand for Mexican crops such as avocados and bananas.

Between 2011 and 2020, CAGR for agricultural production in Latin America was **8.29%**

For the region as a whole, Dillon noted, between 2011 and 2020, agricultural production has risen at a CAGR of 8.29%, while the CAGR for food exports has been 6.7%. Numerous international players are investing in the region's food sector, including Bayer, BASF and Louis Dreyfus from Europe, Cargill, Agrofina and Losgrobo from the Americas, and Joyvio from China, along with leading private equity concerns such as Canada's CPP Investment Board, and The Rohatyn Group and the Harvard Management Company from the US.

A major deal that Oaklins helped close this past year was Joyvio's purchase of a 94.47% stake in Chile's Australis Seafoods. The agreement was valued at US$921 million and the purchase price was 11.3 times EBITDA.

A second transaction of note in which Oaklins participated was The Rohatyn Group's sale of 15,100 hectares of prime pine and eucalyptus forests to UPM Uruguay for US$65.5 million.

CAPITAL FOR AGRITECH

RUSS TOLANDER
Managing Director
Oaklins, Dallas, USA

Another source of investment for the agritech sector has been special purpose acquisition companies, better known as SPACs. Previously robust, SPAC activity cooled during Q2 2021, although the chill may be short term.

At present, roughly US$7 billion per year of public SPAC merger and IPO funds are flowing into agritech, but this is only around 25% of what was invested by early-stage venture capital and private equity funds in 2020. That leads Russ Tolander to predict that the level of deal making will rise as these early-stage investors begin to seek exits.

US exchange-listed SPAC IPO activity increased dramatically over the past five years, with the average deal size steadily increasing to around US$320 million. Currently, there are about 420 of these investment firms, representing approximately US$130 billion in trust accounts seeking merger targets over the next two years. Factoring in potential PIPE investment and equity rollover from target tech companies, the total could be as much as US$500 billion of future merger transaction value.

At present, about **US$7bn** of SPAC and IPO funds are flowing into agritech

Ag targets generally fall into one of two categories. The first consists of higher price-to-revenue value businesses pursuing disruptive or aggressive growth strategies. These include indoor and vertical farming growers, cell biology tech developers and providers of alternative protein sources and plant-based foods. The second comprises a smaller group of more conservatively valued companies with stable cash flows, including traditional food ingredient producers and grower-packers.

SPAC issuance has sputtered lately due to the rise in intermediate interest rates, which has triggered a rotation out of disruptive growth stocks and into cyclical value sectors. As a result, the major SPAC and IPO ETFs have significantly underperformed the US equity indices through the end of Q2 2021.

In the year to date, North American SPACs have raised US$109 billion in capital, but the ag space accounts for less than 3% of the total. However, given the large investments in agritech by VCs and private equity in 2020, Tolander expects interest in SPAC merger offerings and traditional IPOs to rise going forward — assuming that the capital markets remain liquid.

If the US Federal Reserve continues to support interest rates and they remain low, this will favor higher-growth companies with disruptive business models and elevated EV-to-turnover ratios. These include developers of robotics and AI for automated harvesting, makers of precision tech for planting and crop inputs, providers of infrastructure for indoor farming, and companies that offer carbon sequestration platforms.

On the other hand, tapering by the Fed and the resulting higher interest rates would favor lower-growth companies with stable cash flows and more modest EV to EBITDA ratios. In Tolander's view, the beneficiaries would include consumer packaged goods makers with organic and healthy food offerings, as well as traditional growers and clean label ingredient providers.

ANOTHER SOURCE OF AG FINANCE: EUROPEAN DEBT MARKETS

BAS STOETZER
Debt Advisory Specialist
Oaklins, Netherlands

In Europe, as COVID-19's grip weakens, lenders are showing more of an appetite. Loan pricing and leverage levels have returned to pre-pandemic levels, and there is fierce competition among banks and assorted debt funds. As the European economy picks up steam, restructurings and defaults remain limited.

During the first quarter, **80%** of European mid-market deals involved alternative lenders

Compared to the US in particular, alternative lenders are playing a more prominent role, explained Bas Stoetzer. The pandemic, he said, has accelerated the growth of debt funds, and during the first quarter, approximately 80% of European mid-market deals involved alternative lenders. The number of SPACs listed on Euronext is also increasing.

Another significant trend is the increasing number of mid-market deals that are linked to environmental, social and governance objectives. Sometimes this takes the form of KPIs, such as waste reduction goals, greater energy efficiencies and the number of employment opportunities provided to disadvantaged sectors of the workforce. But ESG loans are not the same as green bonds, which mandate that the funds be used according to certain criteria. Looking ahead, Stoetzer said he expects that ESG mandates will become the new norm.

GROWING OPPORTUNITIES IN AFRICAN AGRICULTURE

ZINEB CHAOUNI
Partner
Oaklins, Morocco

For many African countries, agriculture remains one of their most important industries.

Sub-Saharan Africa

In sub-Saharan Africa, the sector accounts for 14% of total GDP and employs the majority of the continent's population. Crop production is mostly oriented towards cereals, roots and tubers, and is primarily for local consumption. But export crops are an important source of foreign exchange for every African country, and sub-Saharan Africa's top export crops include cocoa beans, cashew nuts, tobacco, coffee, oranges, cotton and sesame.

In Sub-Saharan Africa, agriculture accounts for **14%** of GDP

From an investment standpoint, “the sector requires around US$80 billion a year,” Zineb Chaouni told the webinar audience, “but there is some difficulty accessing capital and this is one of the major challenges faced by agribusinesses across Africa. Commercial loans are expensive and most businesses operating in the sector have very little to offer for collateral.

“Only 10% of households in rural areas are connected to formal financial institutions,” she added, “although to a certain extent innovations like mobile finance and micro-banking have provided more opportunities to boost African farmers.”

Other forms of financing, Chaouni said, include private equity, which is a growing source of funding for the sector. In the past decade, there have been more than 240 agriculture-related deals raising around US$600 million from different sources, including foundations, banks, NGOs and other types of investors. Around 20% of the funds have come from private equity firms, and Kenya, South Africa and Nigeria are home to more than 50% of the financing deals that have taken place.

At present, Chaouni remarked, “sub-Saharan Africa is considered a promising destination for investors looking for growing markets.”

Morocco

In Morocco, in northern Africa, farming employs 40% of the workforce and represents 14% of GDP. The sector, Chaouni noted, benefits from its close proximity to the European market and ideal climate conditions for food cultivation.

Farming in Morocco employs **40%** of the workforce and accounts for **14%** of GDP

Moroccan agricultural production is diverse and major crops include cereals, sugar, forage crops, citrus fruits, olives, potatoes and tomatoes. The most exported foods are fish, tomatoes, citrus fruits and, more recently, red fruits such as cranberries and strawberries, which have almost tripled in value during the past five years.

With regard to M&A activity, local laws that prohibit foreign investors from owning Moroccan farmland have been a significant constraint, although a public initiative to make public lands available for long-term rental has provided a way around this bottleneck, and foreign financing of the sector has stepped up over the past ten years. International investors now include such companies as Singapore’s Wilmar International, France’s Castel Group and Japan’s Mitsui & Co., as well as financial institutions like the European Bank, the International Finance Corp. and Development Partners International. Given Morocco’s abundance of natural resources and raw materials, Chaouni concluded, interest on the part of foreign investors is only expected to grow.

VALUATIONS IN THE CURRENT AGRIBUSINESS CYCLE

Wrapping up the session and in response to a question from the webinar audience on the duration of the current upswing in crop prices and M&A activity, Doug Kravet observed that the agribusiness cycle is driven “crop by crop and market by market.”

“There is going to be continuing demand for select crops and high-value crops, and multiples on those should be stable moving forward,” he stated. “But each geographic market is different, and the M&A cycle in one region does not necessarily correlate with another.

In the US, “for well-positioned agribusinesses,” he continued, “it’s currently a seller’s market.” Companies with certain limitations, however, “would be better off addressing those weaknesses before putting themselves on the market.”

Frank De Hek agreed that the situation in Europe is similar. Valuations are slightly lower than they were a year ago, he said, but the best assets are going for a premium.

And in Africa, climate change is playing a critical role. “Valuations,” observed Zineb Chaouni, ”increasingly depend on the location of the farmland, its access to irrigation and the availability of fresh water.”

Our track record

Our clients rely on us to help them prepare for their next challenge, whatever it may be. With deep-rooted sector expertise in organic & sustainable agriculture we are able to support you and provide the professional advice required to achieve a successful outcome.

Some of our recent deals completed in the organic & sustainable agriculture sector include:

australis SEAFOODS

has been acquired by

佳沃股份 AGRI-JOYVIO

M&A SELL-SIDE

Food & Beverage

SKIOLDGROUP SoLiX

has acquired

ROTECNA

M&A BUY-SIDE

Agriculture/Private Equity

Beacon Fisheries

has acquired

The Seafood Shoppe, Inc.

M&A BUY-SIDE

Agriculture/Food & Beverage

GREENYARD

has been acquired by

Yellow Holdings Ltd.

M&A SELL-SIDE

Agriculture

Private shareholders

have sold a minority stake in

flp

to

EcoEnterprises Fund

M&A SELL-SIDE

Agriculture/Food & Beverage

CAPRICORN Holding AG

GEISER agro.com ag

vs.fruits sa Terralog

has been acquired by

FORSTER Früchte & Gemüse AG

and

M

M&A SELL-SIDE

Agriculture/Food & Beverage/Logistics

Targus forestry assets

have been acquired by

UPM

M&A SELL-SIDE

Agriculture

URBAN planters

has acquired

nature at work

M&A BUY-SIDE

Agriculture/Business Support Services

FOR EVER

has been acquired by

Synergia capital partners

M&A SELL-SIDE

Agriculture/Private Equity

Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are

OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Organic & sustainable agriculture is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the organic & sustainable agriculture sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for organic & sustainable agriculture companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

DOUG M. KRAVET

Principal
Jacksonville, USA
T: +1 904 613 4253

Doug leads Oaklins' organic & sustainable agriculture team. He is also a principal at Heritage Capital Group, Oaklins' member firm in Jacksonville and Savannah. Doug maintains relationships with both institutional capital and operating companies in the rapidly growing organic and sustainable agriculture market. His focus on global trends in this market provides critical market knowledge to clients in the farmland transformation, seed, fertilizer, equipment, production, processing and storage segments of the market. He has advised numerous clients across the agriculture supply chain over the past two decades. Transactions and consulting assignments have included Atlantic Quality Parts, Seald Sweet International, Poultry Health Services and Carlstedt.

Oaklins is the world's most experienced mid-market M&A advisor, with over 850 professionals globally and dedicated industry teams in more than 45 countries. We have closed 1,700 transactions in the past five years.

Oaklins

Oaklins disclaimer

This report is provided for information purposes only. Oaklins and its member firms make no guarantee, representation or warranty of any kind regarding the timeliness, accuracy or completeness of its content. This report is not intended to convey investment advice or solicit investments of any kind whatsoever. No investment decisions should be taken based on the contents and views expressed herein. Oaklins and its member firms shall not be responsible for any loss sustained by any person who relies on this publication.

Oaklins is the collective trade name of independent member firms affiliated with Oaklins International Inc.
For details of the nature of affiliation, please refer to www.oaklins.com/legal.