Trends in Australian Agricultural Investment

March 2020
Overview

1. Background
2. Landscape of Australian agriculture
3. Corporate agriculture – who is active
4. Benefits of foreign investment in agriculture
5. The role of technology in agricultural investment
6. Relevance of corporate agriculture to Nuffield Scholars
Careers in corporate agriculture – a personal case study

• Family farm at Nevertire, NSW

• Rural Financial Counsellor, then consulting

• Stanbroke Pastoral Company – Qld & NT

• Elders – feedlots, meat trading, live trade

• Clyde Agriculture – NSW & Qld

• Hassad Australia – Qld, NSW, Vic, SA & WA
Stanbroke Pastoral Company in 2004

• 13.7m ha across 27 stations with feedlot and abattoir
• 520,000 head including 220,000 breeders
• Sales of 165,000 head per annum
• Sold in 2004 to Nebo Group for $490m
• Menegazzo then sold 80% for ~$600m
• AMP achieved ~24% internal rate of return over 39 years
Board Roles
Australian agricultural in context
Total Farm Businesses 2016 – 85,000

<table>
<thead>
<tr>
<th>Size Group</th>
<th>Total Farms</th>
<th>% Farms</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. &lt;$500k</td>
<td>62,766</td>
<td>74%</td>
<td>22%</td>
</tr>
<tr>
<td>2. $500k to $1mill</td>
<td>11,722</td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>3. $1mill to $5mill</td>
<td>9,608</td>
<td>11%</td>
<td>38%</td>
</tr>
<tr>
<td>4. &gt;$5mill</td>
<td>898</td>
<td>1%</td>
<td>23%</td>
</tr>
</tbody>
</table>
Total Farm Businesses 2006 – 2016

• Number of farm businesses has decreased from 153,000 to 85,000
• Businesses with turnover between $1m & $5m increased by 74%
• Businesses with turnover greater $5m increased by 140%
## Total Farm Businesses >$5m revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>No. Farm</th>
<th>% Farms</th>
<th>% Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>378</td>
<td>0.25%</td>
<td>11%</td>
</tr>
<tr>
<td>2011</td>
<td>579</td>
<td>0.43%</td>
<td>16%</td>
</tr>
<tr>
<td>2016</td>
<td>898</td>
<td>1.1%</td>
<td>23%</td>
</tr>
<tr>
<td>2020</td>
<td>???</td>
<td>3.0%?</td>
<td>30%?</td>
</tr>
</tbody>
</table>

Neil Clark & Associates
Total Farm Businesses 2016

Horticulture 24%
Cotton 19%
Grain 16%
Beef & Sheep 16%
Pigs & Poultry 15%

60% are family corporates
Unknown foreign investors

Neil Clark & Associates
Corporate Agriculture

- Farm Businesses
  - Corporate
  - Commercial
  - Semi commercial
    - Domestic
      - Family
      - Institutional
    - Foreign
      - UHNW
      - Institutional
Who’s in the market?

• Pension Funds:
  • Major source of foreign investment capital worldwide
  • Typically take a long term view

• Example:
  • TIAA-CREF (invest in Australia through Westchester)
  • TIAA-CREF is a >$500 billion US Pension Fund which has pioneered direct farmland investment.
  • Hold substantial investments in Australia
  • Speaker here tomorrow
Who is in the market?

- **Sovereign Wealth Funds:**
  - Major source of foreign investment capital worldwide
  - Typically take a long term view but not always

- **Example:**
  - Qatar Investment Authority created Hassad Australia ~A$500m
  - Food security was the focused
  - Exit after 8 years
Who is in the market?

- **UHNWs / Family Offices:**
  - Motivations are often around preservation of capital / defensive investment
  - Examples:
    - Sir Michael Hintze
    - Rausing Family
    - John Swire & Sons

- **Trading Houses / Corporates:**
  - Examples:
    - OLAM with almonds and cotton
    - Shandong RuYi with Cubbie Cotton
    - Marubeni with Rangers Valley Beef
What are they looking for?

- Data Rich Assets – long run production AND financial records
- Scale Assets
- High quality properties that do not require further development capital
- Sound counterparties (lessees or co-investors)
- Experienced Country Managers

- If seeking production exposure;
  - investors are drawn to experienced management and stable workforces
  - properties that enjoy strong paths to market (i.e. contracts with processors or supermarkets)
Who is active in large scale investments?
Northern Pastoral & CQ Beef

- Hancock Agriculture (including S Kidman and Co. JV with Shanghai CRED)
- Paraway Pastoral Company (a MIRA Fund)
- North Australian Pastoral Company (QIC manage a controlling interest)
- Hewitt Cattle Australia (backed by PSPIB)
- Rural Funds Group (ASX:RFF)
- Australian Country Choice (Lee Family)
- Gunn Agri Partners (Gunn Agri Cattle Fund)
- HNWI – Stokes, Forest, Blundy
- Family Corporates – Hughes, Gibson et al
Northern Rivers NSW & Qld

- Warakirri Asset Management (DIRT and Daybreak/PSPIB)
- One Tree Ag (A Proterra backed Partnership)
- MH Premium Farms
- Australian Food and Fibre (in JV with PSPIB)
- Lawson Grains (a MIRA Fund)
- Viridis (a MIRA Fund)
- Hancock Natural Resources Group
- CS Agriculture
- Union Agriculture
- Large Families – Morella Ag, Cleveland Ag, Reardon Farms
Riverina Permanent Plantings

- CK Group
- Ontario Teachers Pension Plan
- Webster Limited – sale to PSP
- Select Harvests Limited (ASX:SHV)
- Optifarm (Dutch PE)
- Hancock Natural Resources Group
- International Farming Corporation (IFC)
- goFARM Australia
- Rural Funds Group (ASX:RFF)
- Harvard Management Company
Southern NSW, SA & WA Cropping

- Duxton Broadacre Farms (ASX:DBF)
- Optifarm (Dutch PE)
- Daybreak Cropping (Warakirri Asset Management / PSP)
- Warakirri Asset Management (DIRT and Daybreak/PSPIB)
- WGIM/Nuveen as asset manager for several funds
- Viridis (a MIRA Fund)
- SALIC
- CK Life
Tasmanian Dairy

- Farm Right (on behalf of PSPIB)
- Laguna Bay Pastoral Company
- Compass Ag (New Zealand PE)
- Dutch Mill (Thailand)
Specialised assets

POULTRY
- ProTen (ROC for First State Super)
- Southern Cross Poultry Fund (AAMIG)
- Rural Funds Group (ASX:RFF)
- Arrow Funds
- Processors
  - Inghams
  - Baiada

WATER
- Duxton Water Ltd (ASX:D20)
- Riparian Partners
- Kilter Rural
Capital appreciation of farmland

CAGR of Australian farmland was 4.7% between 1980 and 2014

Increases in value is not consistent so timing of entry and exit is vital

1980 – 1988  +14.2% CAGR
1998 – 1999  -3.9% CAGR
1999 – 2008  +15.1% CAGR
2008 – 2014  -5.2% CAGR

* Source: Herron Todd White – Grazing Values Index
What benefits does foreign investment bring?
Creating more value from scale than we destroy with overheads

Challenge for Corporate Agriculture
Farm Enterprise

- 151,874 ha over 9 farms
- 72,000 ha of winter crop
- ~$60m in sales from farms
- 90 employees on farms
- Operational office in Dubbo
- Head office in Melbourne
Hassad Australia’s journey

2009
Comiences Awassi breeding

2010
Extended grain strategy to SA & WA

2012
Grain strategy change to maximising ROA and removed Awassi from high rainfall zone

2015
Concentration of Awassi to only two aggregations

2016
Sale of 5 farms ~ $120m returned to shareholder

2017
Focus on absolute returns, no emphasis on food security with meat marketing 50% of income

2018
Grain Marketing Division commenced

2019
Investment in agri-food sector in Australia

HA established with objective to supply Awassi lambs and grain to Qatar
Awassi

- Fat-tail breed
- 40 micron “hair” = $0/kg
- 75% lamb marking
- Requires US$300/hd for lambs
- Passion, not economics
Telopea Downs, VIC

- 47,500 ha
- Aggregation of 10 farms – 5 permanent residents
- Clayed 10,000 ha at $400/ha
- 12,000 ha Lucerne
- 80,000 DSE
- Sold to Australian family
# Total Factor Productivity – 1978 to 2015

1. Dairy 1.5% 1.0% last 15 years
2. Beef 1.3% 0.5% last 15 years
3. Sheep 0.3% 2.7% last 15 years
4. Cropping 1.5% 2.1% last 15 years
Corporate efficiencies example

People - Linkages to:
- Partnerships
- Communication
- Planning
- Integration

Precision Ag partners
Variations in Yield

- Wheat Yield 2014
- Ave: 1.57t/ha
- CV%: 62.87% - very high variability
Radiometric Potassium zones
### Variable Rate Lime

<table>
<thead>
<tr>
<th>Zone</th>
<th>Rate T/ha</th>
<th>Hectares</th>
<th>Tonnes</th>
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<tbody>
<tr>
<td>Multi Field</td>
<td>4.5</td>
<td>106.9</td>
<td>481.05</td>
</tr>
<tr>
<td></td>
<td>2.5</td>
<td>184.8</td>
<td>462</td>
</tr>
<tr>
<td></td>
<td>1.5</td>
<td>153.8</td>
<td>230.7</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>59.4</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>518.9</td>
<td>1173.75</td>
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Traditional Tonnes @ 2.5T/ha

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<tr>
<th>Savings = 123 Tonne @ $30/T Spread</th>
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Total: 1297.25

**$3,690**
Emerging technology

- Hummingbird – weed detection and crop analysis by drone
- Ear tags – uses animals unique movement to calculate weight, disease etc
- Seaweed – Future Feed R&D estimates >90% reduction in methane
What is the relevance to this audience?

- As a career path
- Co-investment such as Proterra and PSP
- Leasing to expand
- Knowledge transfer of technology
May you live in interesting times

• Social license to operate
• Drought
• Bushfires
• Corona Virus
THANK YOU
Questions?