

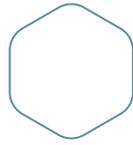


**Buying and Selling Companies in
the Food & Agriculture Sector**

A step-by-step guide to finding the deal that's right
for you.



Food & Agriculture Sector



Executive Summary

The value of this guide

CDI Global has advised companies on mergers and acquisitions (M&A) for 40 years. We have a deep knowledge of the Food & Agriculture sector and understand the prime importance of making informed choices in this complex global industry. Opportunities are plentiful, but so are potential pitfalls. Until now you may have been sufficiently concerned by the latter to miss the former. This guide aims to explain both and demonstrate that, with the right expertise, there are deals to be made that can greatly benefit your business.

Who is it for?

Companies throughout the Food & Agriculture sector and those seeking investment opportunities, such as private equity firms. In particular, senior executives and owners of smaller and middle market companies who want to know more about mergers and acquisition in Food & Agriculture, whether it has been on their 'to do' list or not. If you've never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

Key takeaways

- The state of the Food & Agriculture sector M&A current market
- The benefits of buying or selling
- M&A - the promise and pitfalls
- Auctions - is there another way to buy?



Get an experienced perspective on your Food & Agriculture sector ambitions.

CDI Global works with Food & Agriculture businesses throughout the world to achieve the very best M&A outcomes. CDI Global has extensive knowledge of the dynamic and innovative changes occurring in the global Food & Agriculture industry. With us as your partner, you're equipped with the agility to navigate market changes, enter creative and powerful new directions, putting you firmly on the path to positive results. Our appetite for the Food & Agriculture industry provides us with the knowledge and insights to advise on complex M&A deals, fundraisings and provide comprehensive corporate finance services. Our professionals understand competitive pressures and globalization trends. If you are considering buying or selling in the sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our Food & Agriculture experts by phone or Skype™.

[FIND OUT MORE HERE](#)



Why buy or sell in the Food & Agriculture sector?

Food & Agriculture remains arguably the world's most important industry, with \$5 trillion massive value, which represents 10% of global consumer spending and employing 40% of the global workforce.

It is estimated that current output will need to increase by 70% to meet the needs of the world's growing population by 2050. Crop demand for human consumption and animal feed will need to increase by at least 100%. At the same time, more resource constraints will emerge: for example, 40% of water demand in 2030 is unlikely to be met. Already, more than 20% of arable land is degraded.

The world's growing population coupled with rising incomes have led to an increased demand for food, feed, ingredients, and associated goods and materials that will continue to rise well into the foreseeable future. While the Food & Agriculture sector remains largely fragmented, it has been able to consolidate more and more into large, integrated operations. Irrespective of sector, size, and type of operations, numerous forces are reshaping the global Food & Agriculture industry, leading to a spate of new business models, consolidation, and thus, M&A activity. Therefore, if you're not growing, you're probably getting replaced and M&A is often the best method to get to market in the highly competitive Food & Agriculture space.

For investments or divestments, this presents tremendous opportunity. But Food & Agriculture is not easy. The value chain can be long and complex, markets can be volatile, competition intense, margins thin, and performance can hinge on a range of unpredictable factors, often in unfamiliar or developing geographies.

An important driver can also be the need to focus on strengths. Strip non-core elements out of the business and build excellence and specialty in your field. This may include buying competitors and complementary businesses. Acquisition is also effective for securing growth in new geographies or for increasing scale and market power in more mature market segments.

That said, if your company is operating in a legacy Food & Agriculture sector, the opposite approach – branching into a new high growth field – might be the correct strategy. The right acquisition can deliver Research and Development (R&D), diversification and access to new markets in one deal. As we have said, the Food & Agriculture sector is complex (currently at an inflection point, with a confluence of factors driving radical shifts along the entire value chain) and there is simply no single best strategy.

However, one thing is certain: the right 'fit' is as important as the right price and, for this, bespoke deals informed by sector expertise are best.

With firm roots in local soil but with a global presence, CDI Global help you discover the most extraordinary opportunities. We'll act on your vision and work tirelessly to achieve your goals. Our expertise, worldwide relationships and creativity help our clients successfully identify the right strategic partners to realize the highest valuations.



Investors willing to build or expand their exposure to the global Food & Agriculture asset class are faced with an ever-growing range of assets with different breadth of styles. We can help you to explore a broader spectrum of investment possibilities in this space, particularly among private strategies which include a wide range of assets and structures.



The State of the Food & Agriculture Market in 2019



Where do the opportunities lie?

Everywhere! Most important is being clear on your strategic rationale for the purchase/sale you seek and having the means to find the right company to make the deal, wherever it may be. Therefore, having someone who can source the right targets can be critical.

- The Food & Agriculture value chain provides an ever-growing pool of investment opportunities. At present, over 440 funds are operating in this sector managing approximately \$73 Billion in assets.
- The sector has attracted private and institutional investors – Pension funds, endowment funds and family offices are increasing allocations..
- The number of funds are growing across mainstream asset strategies such as farmland and private equity, but also across niche areas like venture capital and private debt.
- The institutionalization of the asset class is also driving innovations in terms of investment strategies and capital structures.
- Global organic food & beverages market is expected to reach USD 211.44 billion by 2020, growing at a CAGR of 15.7% from 2014 to 2020. Growing adoption of organic food & beverages owing to associated health benefits and eco-friendly characteristics is expected to drive demand over the next six years.
- The Agriculture and Food sector is led by innovation and new technologies. In such a vital and constantly changing industry you need the right experts to help you when you come to a fork in the road. CDI Global offers a proprietary methodology whereby we can support and add value to Food and Agriculture companies (and their stakeholders) at every stage, from start-up to exit.
- There are abundant growth opportunities in supporting industries, such as breeding, animal-health testing, feed, and vaccines.





What are the challenges?

- Food & Agriculture is one industry that affects every person on the planet. With a growing population, changing climate and increased demand for a Western-style diet, Food & Agriculture faces some clear challenges. In short, it has to do more with less. Many regions continue to suffer economic and political instability, and technology could well disrupt the agricultural sector as it has so many others that had been too slow to adapt. Some of the acquisitions currently awaiting regulatory approval are enormous, and how successful they are remains to be seen. In terms of M&A activity, the current climate promises to be a much more interesting and acquisitive one for Food & Agriculture. That's why, when considering M&A, it's really important to get an independent advisor to help craft a cogent global strategy, test the logic of any deal, putting forward counter strategies including organic growth of your company. It can save you a lot of anguish later.
- In Europe, the challenge derives from the requirement for high-quality traceable food, while producers face increasing competition from large-scale farmers across the globe.
- In the Middle East -and parts of Africa- arable land is limited, and weather conditions are extreme. Driven by government policy, farming is moving away from water intensive crops – such as wheat, rice and potatoes – towards higher-value crops such as fruit and fresh produce, with new technologies changing the face of agribusiness.
- Africa could be two or three times more productive if it intensifies its agricultural productivity. Despite having a massive social and economic footprint (more than 60% of the population of sub-Saharan Africa is smallholder farmers, and about 23% of sub-Saharan Africa's GDP comes from agriculture) full agricultural potential remains untapped. Africa could produce two to three times more cereals, grains, horticulture crops and livestock.
- In South America, the demand for food is rising and wealthier consumers seek a greater variety of goods.. South America is turning to a more market-friendly political and economic environment which may offer the regional food and agriculture sector an opportunity to become an ever more important supplier of food to the world and a source of sustainable development for the region.
- Key Facts: Green Revolution transformed food production + Climate change + Population growth + Large-scale agriculture and competing industries have meant that many areas simply do not have enough quality water and land. In those markets, new techniques and technology can help to do more with limited resources, and M&A may be the only way to change current modalities.
- By 2020, more than half the world's GDP growth is expected to come from countries outside the OECD. As these countries are getting richer and more people are moving to cities, their diets are changing too (more calories, more processed food, and more animal protein). In fact, to meet demand from a growing population with changing tastes, global meat production will need to increase by 74% by 2050. Those companies that can answer this problem will score big in the global landscape.



The Political Environment

- Agriculture is an intensely political subject, with protectionism and concern over availability often trumping economics. The international competition for food security can sometimes be overhyped: despite the headlines about wealthier nations grabbing farmland in the developing world, its impact is relatively small.



Trends





Trends

- Globally, consumers are more conscious about health and sustainability extending to both diet –such as gluten-free, organic – and environment.
- The balance of power in supply chains around the world is shifting, with prices, being dictated not by producers but by supermarkets.
- Investment in agriculture has moved from focusing on land acquisitions to encompassing the entire supply chain, including processing, logistics, ports, and trading.
- The agricultural industry is currently split into two distinct camps: large, integrated firms at one end of the scale and specialized niche players at the other.
- Farming in much of the world is a relatively stable occupation due to generous subsidies, meaning that deal flow in the sector is limited: there is simply little incentive to sell. That is beginning to change as third or fourth generation family members take control and are more open to strategies other than retaining full control. That opens the door to outside investors.
- Large companies, on the other hand, are looking to expand their global footprint via significant M&A activity.
- Data has the potential to reshape agribusiness by combining information on weather and prices with real-time conditions in the fields.
- Food security will remain a significant factor in M&A activity, either by boosting domestic production to provide self-reliance, or by securing land or imports from overseas.
- While corporate venturing is a relatively new model in agri-food, big players are incorporating strategic investments into their long-term play.
- The model is a win-win. Corporates get access to innovation and disruption, with less risk; while start-ups get access to funding, global networks to scale, and resources such as on-farm research or specialty lab facilities.
- Consumers now have an established expectation that corporates should be contributing to their communities and the environment.
- Precision farming industry could be a \$240 billion market by 2050.



Trends to Watch



As industry currents shift, today's trends will continue to force sector participants to weigh critical strategic decisions and prepare for the future:

- Increased capital intensity driven by both agtech and traditional yield productivity improvement.
- Continued adoption of high-density growing techniques.
- Vertical integration: investment in harvesting, packaging, and process optimization products.
- Focus on agtech opportunities that increase production and improve efficiency by using less water, labor and land.
- Rapid digitization of the value chain and the increased utilization of big data.
- Additional transparency and compliance driven by the consumer. Increased emphasis on food safety and transparency.



"Identify the Right Opportunity"

What to do if you're looking to buy



"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy."

1 The starting point:

It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide the framework for defining the criteria when choosing your target.

2 Next steps:

Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector who will also advise on how and when to approach the companies in question.

3 Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates, they tend to be self-hedging if the changing value of debt and profits go hand in hand. Investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings. CDI Global's M&A advisors understand global markets and can shepherd you through the landscape and financial ramifications of your deal.

4 Identifying the right opportunity:

As we have said, many companies seek to strengthen their core when acquiring; but other businesses may diversify, either into higher margin sectors or to hedge against shocks in specific markets or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

- i. A steadily growing sales and profit profile
- ii. Good growth potential based on factors such as holding a niche position and/or valuable intellectual property.
- iii. Fragmented supplier and customer bases, relatively immune to cost/price pressures and more able to sustain margins.

5 Auctions:

On the face of it, auctions appear a good solution for time-poor senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a glossy prospectus that arrives in the post, to be read at your leisure. But there are three immediate disadvantages:

- the prospectus will often go to many other potential buyers
- you may receive it irrespective of the suitability of the offer
- the focus for the bank conducting the auction is getting the best price for the seller.

So, your chance of acquiring a company that's a good fit at a reasonable price is diminished. And companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to color their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

6 Why use a specialist?

Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere. You need someone who understands your sector inside out and talks your language, yet also works cross-border as a matter of course, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors and driving the deal home.

CDI Global deploys experienced specialists that listen to your needs in order to craft comprehensive strategies based on your precise requirements. Having an expert in your corner means maximizing your team's time and getting the job done to secure the best possible M&A outcome.





What to do if you're looking to buy...continued



"We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction."

7

Due diligence:

CDI Global has the experience to recognize the warning signs of a bad deal and works with you to avoid those pitfalls. These warning signs include:

- i. The seller appears not to be irrevocably committed to selling.
- ii. The seller has limited or poorly prepared due diligence materials.
- iii. The seller may not have proper support from professional advisors.
- iv. The timetable is unclear or key deadlines in the process are missed or not respected by the seller.
- v. The business starts to under-perform or miss key financial targets.
- vi. The seller reneges on key aspects that have already been agreed.
- vii. Due diligence uncovers one or more 'skeletons in the cupboard'.

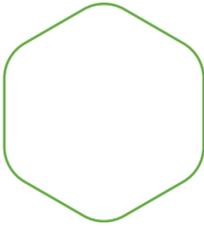
However, cross-border deals in the food and agriculture sector can have specific pitfalls, especially when dealing in certain Asian countries where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes. If your new acquisition brings with it hidden environmental liabilities, it can have a ruinous impact on your whole business, not just the new company. You need to find these during due diligence, and for that you need expert help. We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction.

8

Managing the transition:

With the deal nearing agreement, you will need clear plans (30-day, 90-day or similar) on what will be done immediately once the new business is acquired. It's vital to get role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You need to have clear answers to these important questions. CDI Global can help develop a strategy to navigate your post-merger integration to help optimize efficiency and synergies.





What to do if you're looking to sell?





1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labor. Is the next generation willing or able to pick up the reins? If not, what are the options to transition the business? Is selling the right answer?

2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well-defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually craft a plan based on your desired timing. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension liabilities).

3 Finance:

It is the buyer who ultimately fixes the value of your business based on market, competition, and your unique selling points. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical determinant of value. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price and expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more saleable. This may be necessary to remove an obstacle to sale (e.g. an environmental issue), but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or financial buyers, i.e. private equity.

4 Due Diligence:

What does a 'good' buyer look like?:

- i. They have the right attitude and commitment to do the deal.
- ii. They can provide proof of sufficient finances to complete the transaction.
- iii. They have the resources, in particular the right people, to progress the deal.
- iv. They have a track record of closing other similar deals.



5. Legacy / Cultural Considerations:

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately-owned company, do you want the company name and brand to continue?



Case Study



CDI Spearheads Sale of Breeders & Packers Uruguay to NH Foods Group

CDI Uruguay and CDI ANZ are pleased to announce the sale of Breeders & Packers Uruguay (BPU) to NH Foods Group for \$135M. The transaction has been announced to the Tokyo Stock Exchanges on April 28th, 2017. This transaction shows the strength of the CDI network, where the transaction involved a global search and deal negotiations between entities located in Uruguay, Japan and Australia.

CDI was the lead Corporate Advisor to BPU. After a global search for potential acquirers NH Foods Australia was identified as providing the best offer for the business. NH Foods Australia owns a number of significant beef business in Australia, including Oakey Beef Exports, Wingham Beef, Thomas Borthwick & Sons and Walhalla Beef.

Whilst the initial negotiations were with NH Foods Australia, once the Non-Binding Letter of Intent was signed, NH Foods Group engaged Goldman Sachs as their lead Corporate Advisor. CDI ANZ managed communication with Goldman Sachs and CDI Uruguay managed communication with BPU and NH Foods Corporate Advisors in Uruguay.

CDI developed the Divestment Plan with BPU and Information Memorandum, identified acquirers of the business and conducted a global search for potential partners. They then reached out and managed communication with each acquirer, managed initial discussions and site visits, and negotiated and finalized the Non-Binding Offers. CDI was the lead Corporate Advisor for BPU and Goldman Sachs for NH Foods group. CDI ANZ managed communication with Goldman Sachs and CDI Uruguay managed direct communication with BPU and NH Corporate Advisors in Uruguay. They

also developed and managed the virtual data room, corporate advisors and face-to-face meetings.



Breeders & Packers Uruguay



About BPU

Uruguay is an excellent country for meat producers because of its stable government, economy, and less climate change such as droughts. BPU is a leading slaughterhouse in Uruguay with professional management team and excellent business systems. BPU processes meat with the most modern equipment, and exports the products to China, Europe, the United States and other countries. It has sales of around \$200M and over 700 employees.

About NH Food Groups

NH Foods Group, founded in 1942, is one of the leading global companies in food production, with 155 farms, 2 fish farms, 100 processing plants, 3 research centers and 361 logistic and sales points, with operations in about 100 locations in 18 countries and regions excluding Japan. NH Foods Group produces fresh meat and marine products with annual revenues of over \$11.3B. By acquiring BPU, the Company intends to expand its sales in enormous beef consumption markets including North America and Europe as well as emerging markets in Asia and other regions where the demand for the beef is rapidly increasing.



About CDI Global

We hope this guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 40 years of experience has shown CDI Global how to navigate the shifting marketplace, and guide companies through the process to find opportunities that match their goals.

**We have the knowledge.
Would you like to reap the benefit?**

CDI Global offers expertise in:

- Food & Agriculture sectors – unlike banks and investment advisors, our team has both worked and conducted M&A advisory within various sectors across the industry. We know the industry structure and dynamics inside out.
- Custom-tailored, pro-active approach. We go out and find the best deal for your unique requirements, and offer pragmatic, hands on support.
- Extensive network of contacts, particularly among privately owned companies in the Food & Agriculture sector.
- Cross-border M&A expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- We focus on best strategic fit, not just best price.
- Experience in search projects and approaching SME owners on a highly confidential basis, improving closing rates and sourcing “not-for-sale” vs auction opportunities.
- Experience and support in organizing local Due Diligence, managing negotiations and providing results.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions - based on trust and professionalism.



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