

Key M&A Trends in Food and Ag Shaping 2020 – and Post-COVID predictions

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10 Themes We're Watching in the Agribusiness M&A Landscape Today

Tensions Mount:

1. COVID-19, International Trade, Capital Intensity & More
2. Supply Chain Consolidation
3. Succession Planning Challenges
4. Rising Debt

Opportunity Abounds:

5. Macro Trends, Water, AgTech & More
6. Barbell Industry is Occurring
7. Scale Matters

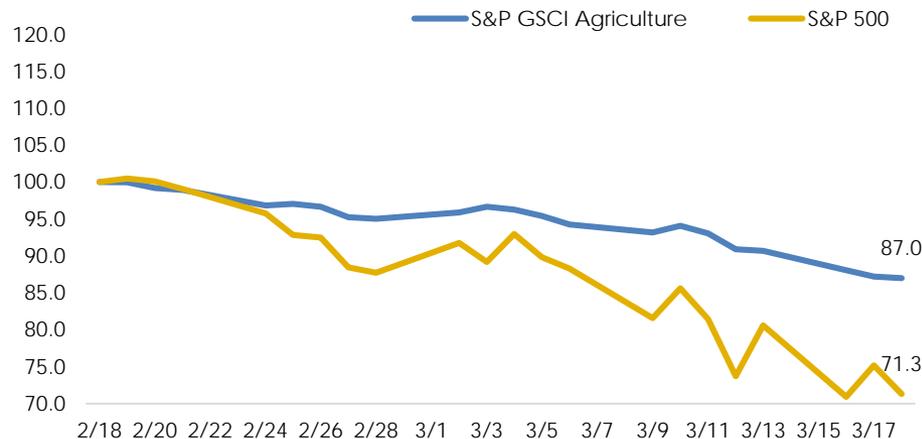
M&A Markets Respond:

8. Rise of Institutional Investors
9. Historical Returns
10. Flight to Quality – Bifurcation in Market

Tensions Mount: COVID-19, International Trade, Capital Intensity & More

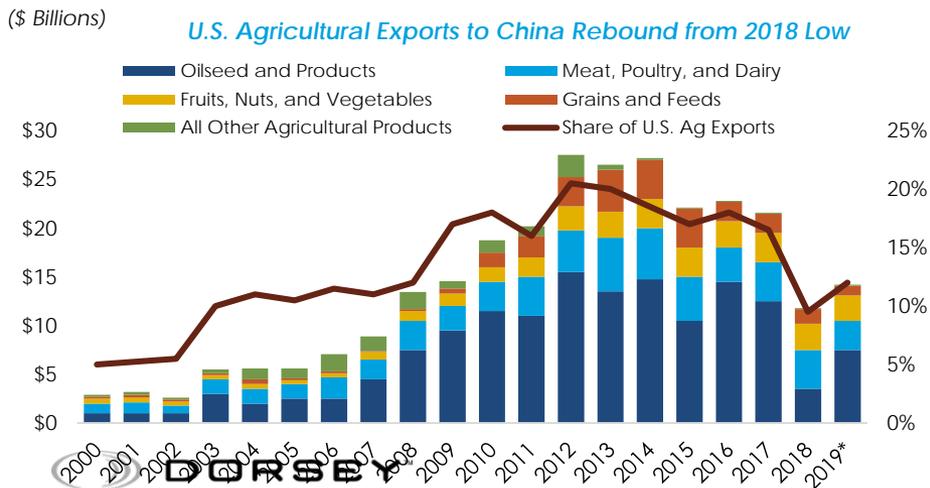
COVID-19 – Impact, Implications & Response for Food & Ag Business Owners

- **Potential Headwinds for the Global Agriculture Markets but this too Shall Pass**
 - Slower economic growth and weak economic activity in china
 - Supply chain disruption
 - Mixed implications on the immediate term – be prepared to meet the opportunity
- **How to Respond**
 - Examine supply chain and manage risk through redundancy
 - Plan for potential plant disruption
 - Stress test financial statements
- **Impacting M&A**
 - Those directly impacted have processes on hold
 - Those indirectly impacted have processes elongate
 - Valuations remain stable



Source: Capital IQ

International Trade Trending Upwards but Remains Challenged



Source: USDA; U.S. Census Bureau Trade *Includes only Jan-Nov Data

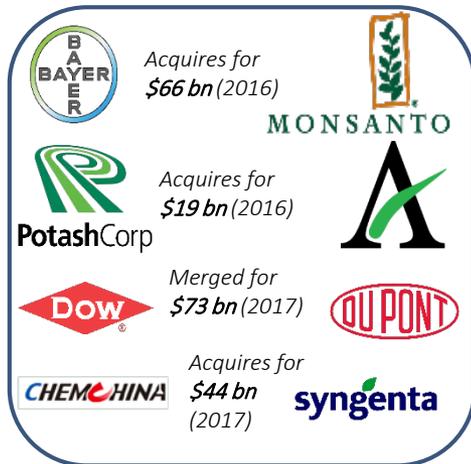
Many Other Tensions Mounting

- **Increased Capital Intensity**
 - High farmland values with less future appreciation
 - Technology improving yield but increasing upfront cost
- **Strong U.S. Dollar**
 - Making U.S. goods less competitive on a global scale
 - Impacting trade balance
- **Labor and Immigration Reform**
 - Lowest employment rate in 49 years
 - Rising minimum wage
 - Immigration Reform
- **Supply Chain Consolidation**
 - Growers being squeezed by multibillion-dollar consolidations at the input and retail level
- **Succession Planning Challenges**
 - Aging owners challenged on how to best transition their business

Tensions Mount: Supply Chain Consolidation

Supplier/Crop Input Consolidation: Maturing

Estimated 50,000 – 100,000 Commercial Farm Supplier or Crop Input Companies in the US with Heavy Market Share Concentration in the Top 20



Grower/Producer Consolidation: In Process & Accelerating

The USDA counts roughly 2,050,000 Farms and Growers in the US



Retail Consolidation: Maturing

Estimated 50,000 – 100,000 Commercial Retailers & Distributors in the US with Heavy Market Share Concentration in the Top 20



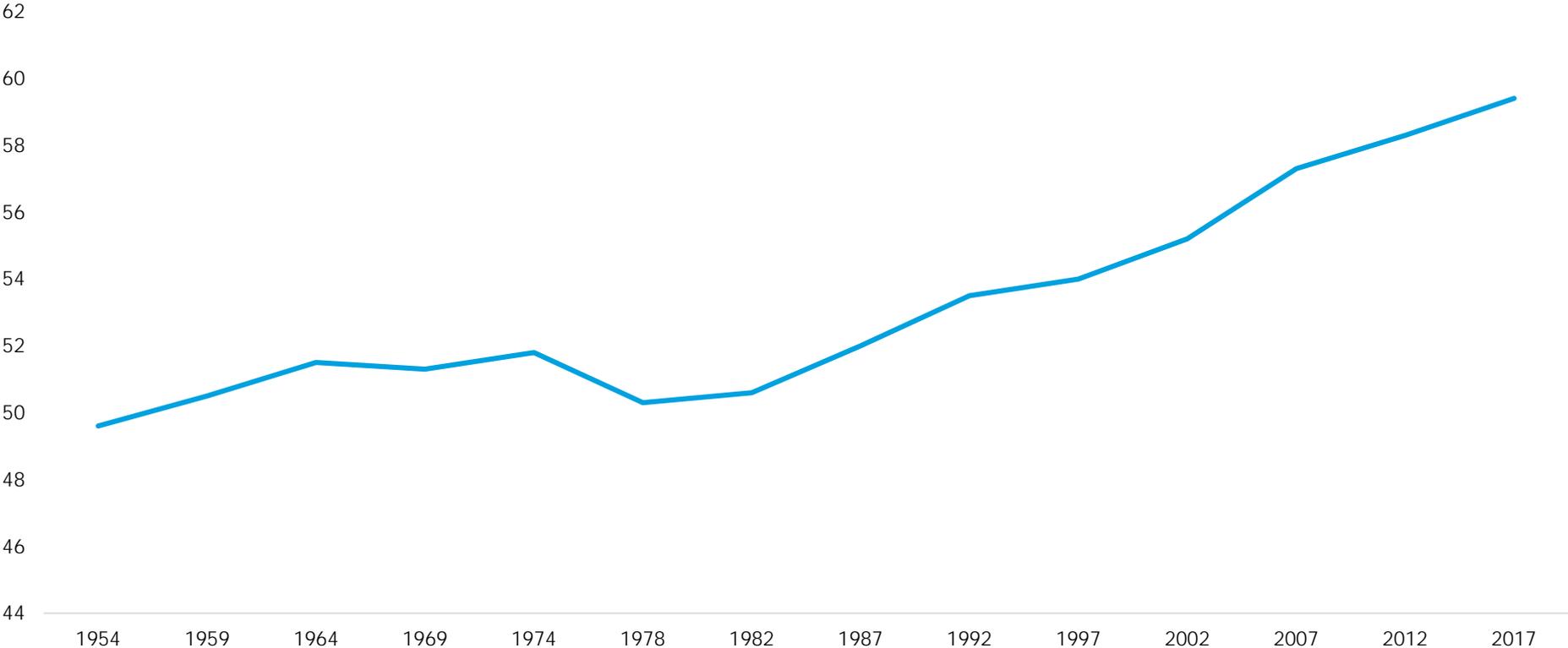
Tensions Mount: Succession Planning Challenges

The rising age of farmers along with complex transaction dynamics present succession challenges for U.S. farms, 96% of which are family-owned

Rising Age of U.S. Farmers

In 2017, the average age of U.S. farmers was 57.5 years, up from 56.3 years in 2012 and far above the median U.S. worker of 42.0

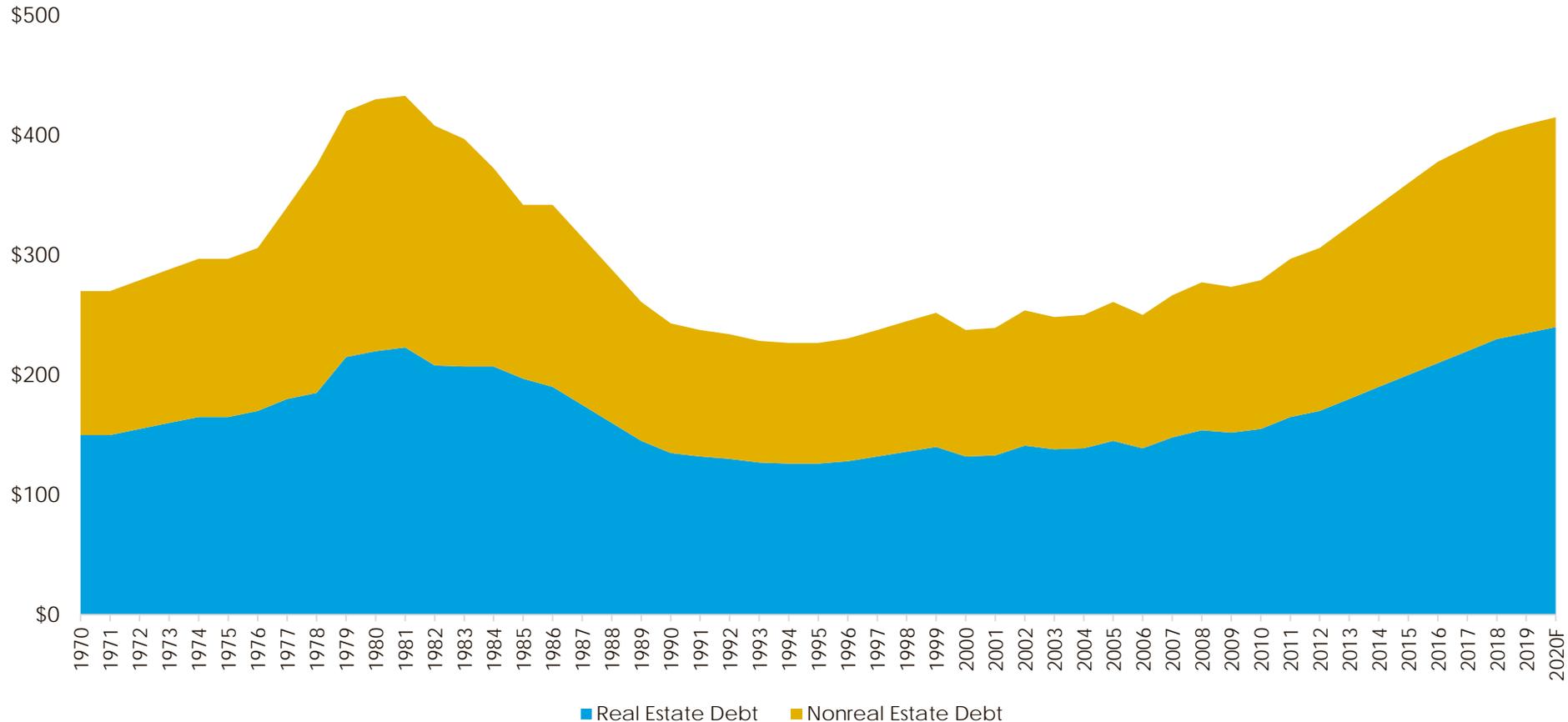
Average age of Principal Operator



Tensions Mount: Rising Debt

US Farm Sector Debt, Inflation Adjusted

(\$ in Billions)



"Farmers are in a level of debt not seen since the 1980s agricultural crash. About one in 10 crop farms is "highly leveraged," meaning it has lots of debt, as are one in 15 dairy farms" – Sonny Purdue, US Secretary of Agriculture

Opportunity Abounds: Macro Trends, Water, AgTech & More

Strong Macro Trends

- **Rising middle class demanding high quality food**
 - The increasing purchasing power of this rising middle class will alter global food consumption patterns from basic staples towards more appetizing, nourishing and safe foods
- **A growing world population**
 - Farmers and producers are utilizing technology in order to meet the growing demand for food. The way to optimize the output of variable inputs is through higher yielding farms via new technology, higher density orchards and precision farming
- **Limited arable land**
 - Arable land use per person has dropped 39% in North America and 29% worldwide since 1960

Farmland with Strong Water Rights is Highly Coveted

Cumulative Percent Gain 2002-2017 S&P 500 vs WRPI Water Rights Price Index



Technology in Ag is Changing Dynamics

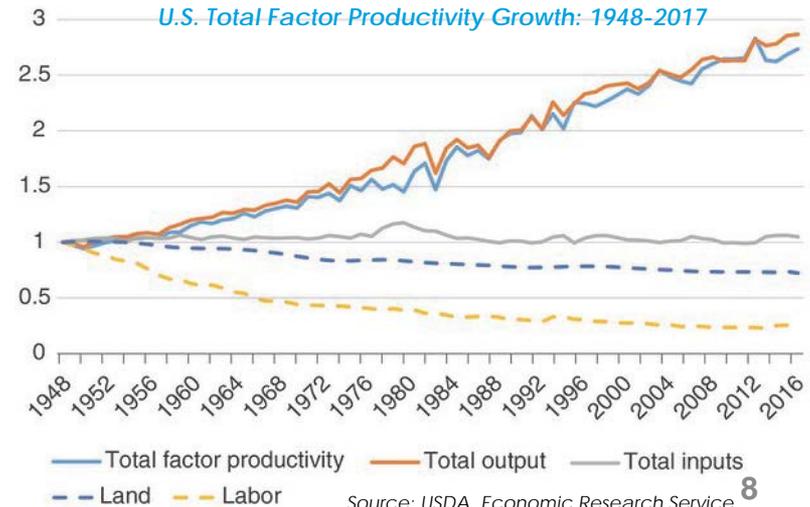
The amount of capital focused on farm technology is higher than ever before

(\$ Financings in Billions)



Productivity Will Continue to Rise

U.S. Total Factor Productivity Growth: 1948-2017



Source: USDA, Economic Research Service 8

Opportunity Abounds: Opportunity Exists in the Midst of Consolidation

Number of Farms in the U.S. is Rapidly Declining

(U.S. Farms in Thousands)



Source: USDA Farms and Land in Farms 2019

And Creating a Barbell Industry

Specialized/ Differentiated

Highly specialized, niche players such as organic, proprietary varieties, brand name, etc.

The industry will continue to consolidate into a barbell industry of few, large-scale players that compete on volume & scale and few, specialized & differentiated players that dominate a niche

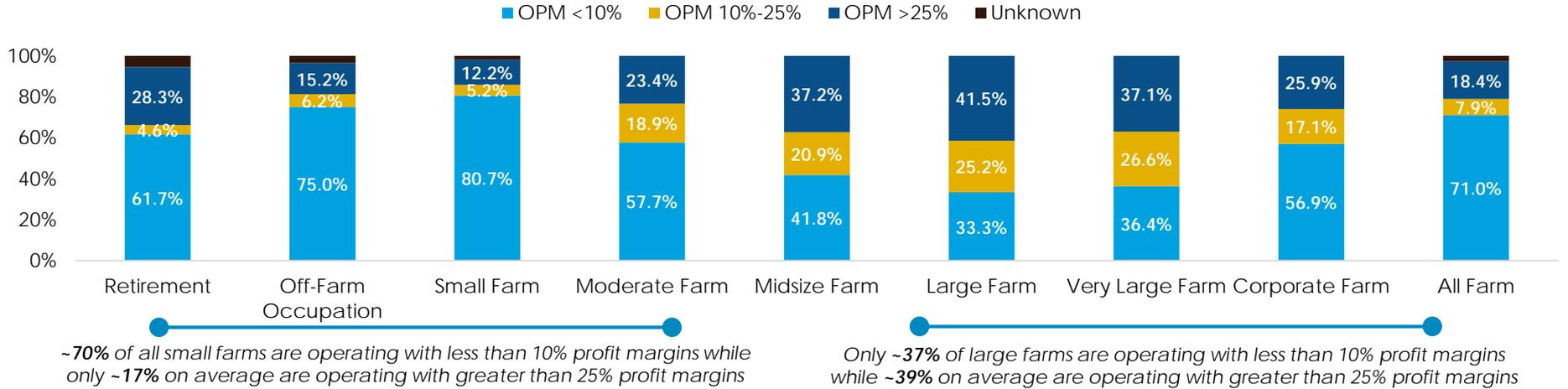
Large Scale

Few vertically integrated constituents that compete on scale, volume and platform offering

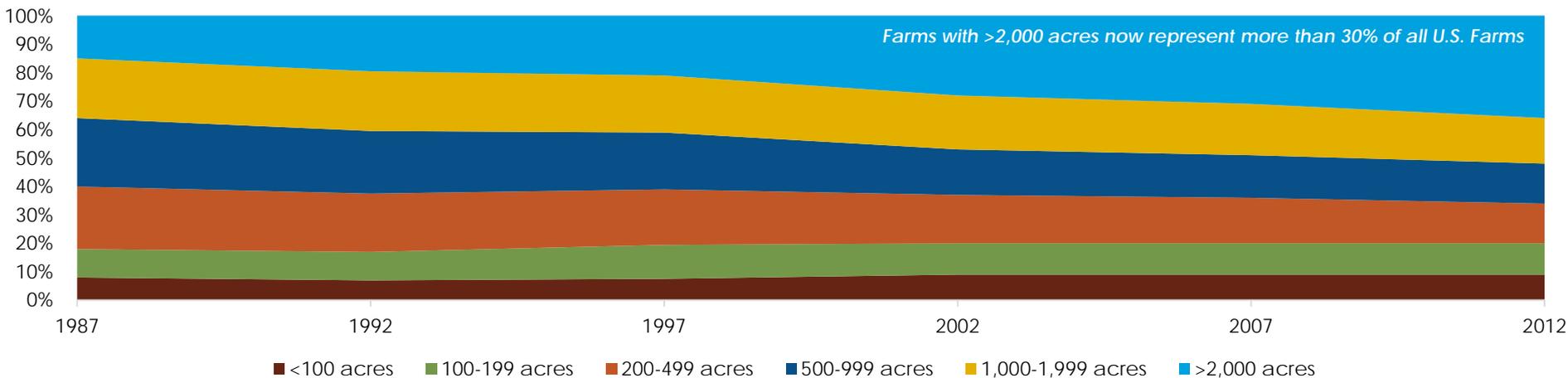
Players in the middle have been or will continue to be consolidated, creating acquisition and growth opportunities for the "platform" companies

Opportunity Abounds: Scale Matters More than Ever

Large-Scale Farms Experience Meaningfully Better Margins than their Small-Scale Counterparts



Large Farms are Getting Larger



M&A Markets Respond: Rise of Institutional Investors

Major Players of the 1990s (Sample)



Major Players Today (Sample)

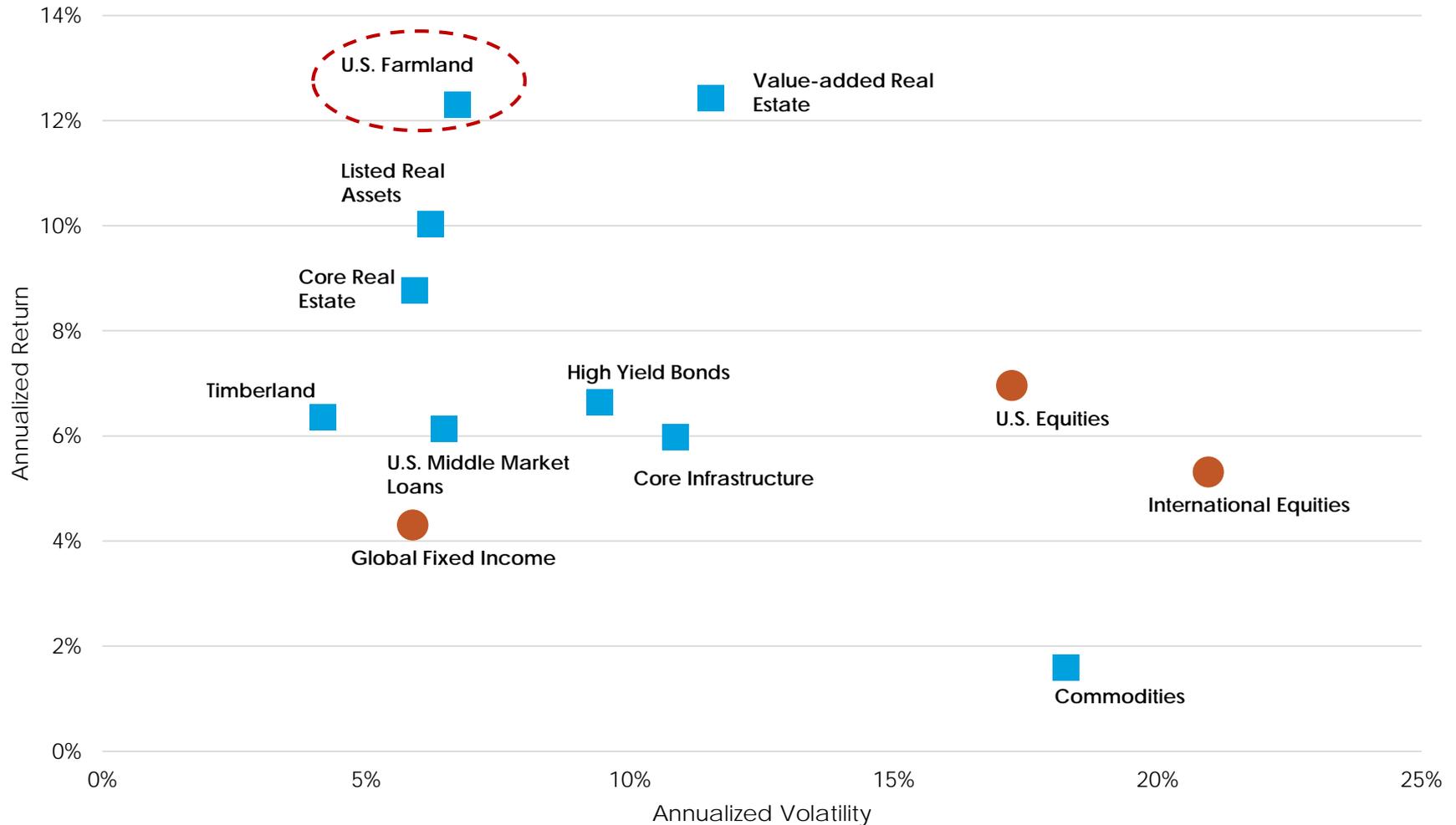


CLE Code

“We have some lawyers participating today that need a CLE code for verification. The CLE Code for this March 25 webinar is _____.”

M&A Markets Respond: Investor Returns

Annual Return vs. Volatility (1970-2018)

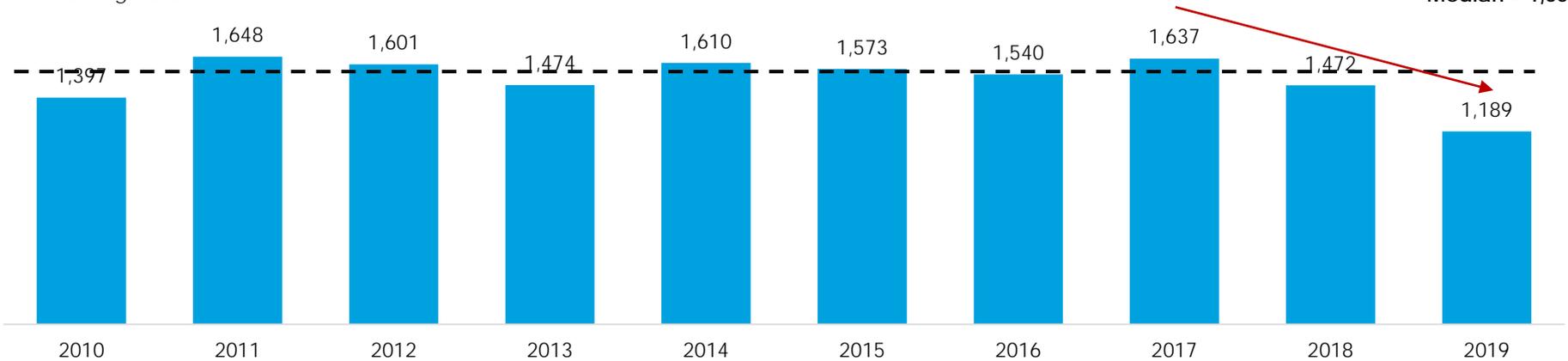


M&A Markets Respond: Flight to Quality

While the Volume of Agricultural Transactions is Decreasing...

U.S. Food & Agriculture Transactions

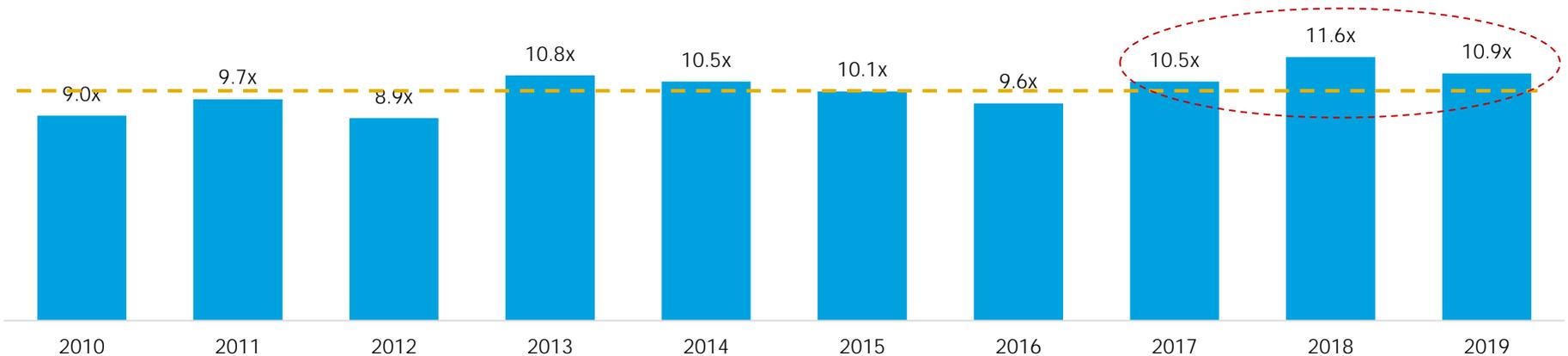
Median = 1,557



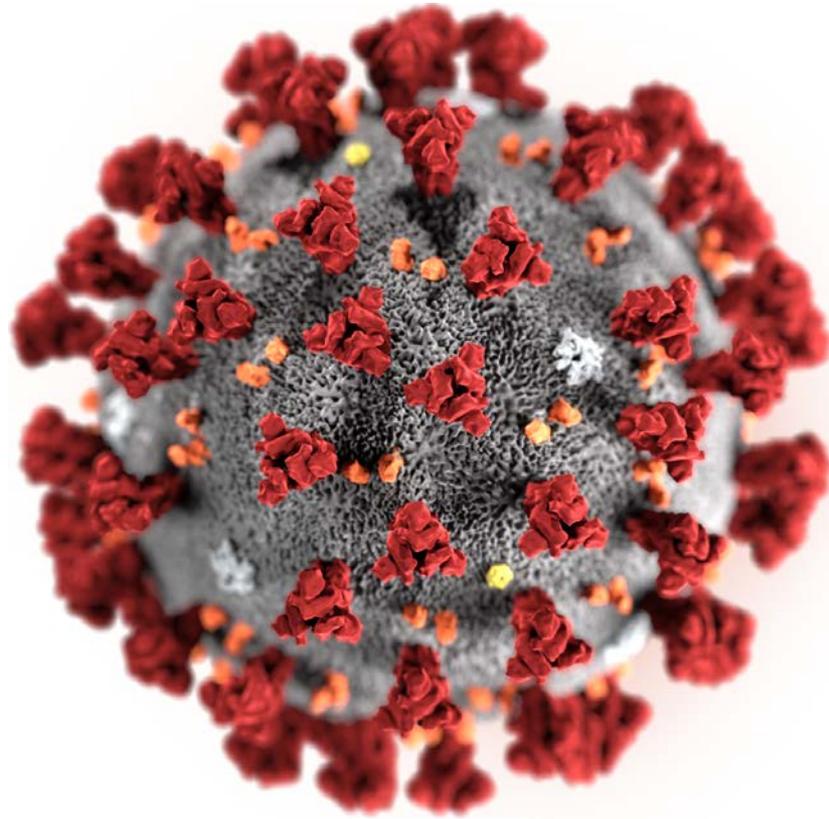
...Valuations Remain High as Investors Seek High-Quality Assets

Median Enterprise Value / EBITDA Multiples

Median = 10.1x



SO ... what's next after Coronavirus?



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We will send CLE Certificates to those who return the form.

Questions?



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