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

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A Brave New Format

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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

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

- **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

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**International Trade Trending Upwards but Remains Challenged**

(U.S. Agricultural Exports to China Rebound from 2018 Low)

- **Meat, Poultry, and Dairy**
- **Grains and Feeds**
- **Fruits, Nuts, and Vegetables**
- **Oilseed and Products**
- **All Other Agricultural Products**

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**Many Other Tensions Mounting**

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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

- Acquires for $66 bn (2016)
- Acquires for $19 bn (2016)
- Merged for $73 bn (2017)
- Acquires for $44 bn (2017)

**Grower/Producer Consolidation: In Process & Accelerating**
The USDA counts roughly **2,050,000** Farms and Growers in the US

- Acquires for $450m (2015)
- Acquires for $342m (2015)
- Acquires (2017)
- Acquires (2017)

**Retail Consolidation: Maturing**
Estimated **50,000 - 100,000** Commercial Retailers & Distributors in the US with Heavy Market Share Concentration in the Top 20

- Acquires for $44 bn (2017)
- Acquires for $9 bn (2014)
- Merges for $14 bn (2015)
- Acquires for $14 bn (2017)
- Acquires for $550m (2017)
- Acquires (2019)
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.

Sources: 2016 Census for Agriculture; U.S. Bureau of Labor Statistics; USDA
Tensions Mount: Rising Debt

US Farm Sector Debt, Inflation Adjusted

($ in Billions)

Real Estate Debt
Nonreal Estate Debt

“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


Source: USDA, Economic Research Service

Source: AgFunder
Opportunity Abounds: Opportunity Exists in the Midst of Consolidation

And Creating a Barbell Industry

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.

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

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

Large Scale
Few vertically integrated constituents that compete on scale, volume and platform offering.
Opportunity Abounds: Scale Matters More than Ever

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

- ~70% of all small farms are operating with less than 10% profit margins while only ~17% on average are operating with greater than 25% profit margins.
- Only ~37% of large farms are operating with less than 10% profit margins while ~39% on average are operating with greater than 25% profit margins.

Large Farms are Getting Larger

Farms with >2,000 acres now represent more than 30% of all U.S. Farms.
M&A Markets Respond: Rise of Institutional Investors

Major Players of the 1990s (Sample)

Major Players Today (Sample)
“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


Sources: TIAA – CREF Center for Farmland Research, S&P, Federal Reserve, MSCI
M&A Markets Respond: Flight to Quality

While the Volume of Agricultural Transactions is Decreasing...

U.S. Food & Agriculture Transactions

Median = 1,557

Median Enterprise Value / EBITDA Multiples

Median = 10.1x

Source: Capital IQ
SO ... what’s next after Coronavirus?
Who Wants More Credit? CLE Credit, That Is!

Complete the sign in sheet included in the reminder email (sent yesterday) and return to hubble.michelle@dorsey.com.

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Questions?

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