



PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Australia's food sector – Hungry for growth

May 2014

 an independent member of
BAKER TILLY
INTERNATIONAL

Overview

Australia's food sector is said to be in prime position to capitalise on the impending 'dining boom' and become the Food Bowl of Asia. However, they need to look at ways to expand food production and processing, open their minds to new ways to do business and explore growth opportunities in relatively unexplored territories.

This is not the first time Australia has reaped huge rewards from agriculture. In the 1950's Australia rode on the sheep's back, as global demand for wool drove prices high, injecting wealth straight into the economy.

While the opportunity is great, it won't just happen. Our proximity to Asia, quality food and available land resources provide us an advantage, but to truly prosper, Australian food and agribusinesses must seek out opportunity and not wait for it to come knocking.

The constant pressure on margins created by the supermarket duopoly means food and agribusiness groups struggle to find the capital required to invest in product development, new plant and equipment and other infrastructure. Domestic banks and share market investors are reticent when it comes to Australia's food processing sector because of its volatility.

Farming is dependent on the weather and Australia is a country of extremes – being particularly susceptible to droughts.

To go to the next level, the sector needs foreign investment and new markets to sell into.

While trade missions help to open doors, they don't seal the deal – they do little to complete the transaction.

Australian companies need to do more to help themselves. They need to meet future food challenges, both here and overseas. A growing global population, a shrinking arable land base and the threat of a changing climate have put food production and resources into a global spotlight.

To expand its food production, Australian agricultural businesses need capital investment that's often not available within the country.

Foreign capital has always supplemented domestic savings to drive employment and prosperity, including in agriculture. It can help farmers, agricultural enterprises and food processors and manufacturers diversify, become more competitive and boost incomes. It helps sustain Australia's agricultural productivity and economic prosperity more broadly.

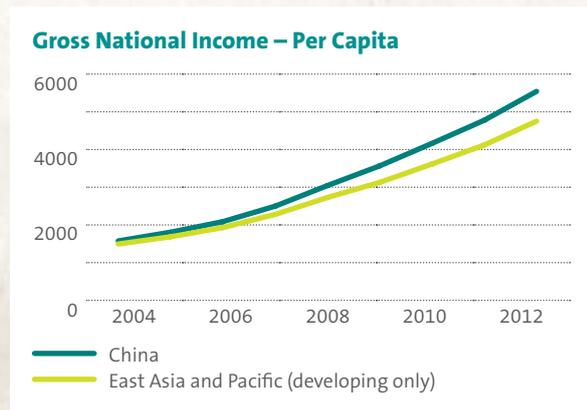
Meanwhile quality Australian agriculture, on Asia's doorstep, is an attractive and potentially profitable prize for international investors.

Growing demand and the Asian ‘food bowl’

Global food demand will rise alongside the world’s population, which is expected to grow by 60 million people a year over the next 20 years.

Estimates are that food production must increase by 70% to feed the world’s anticipated 9 billion people in 2050. It is not just a rising population that requires feeding, but also a more wealthy population with a growing demand for vegetables and proteins.

The world is on the cusp of a leap in demand for higher-value food products.



Asia will be home to the majority of the global middle-class by 2030 – 3.2 billion affluent, middle class people – representing significant opportunities. As the average income increases so too does the size of the middle class, who are now demanding higher quality produce, specifically meat and dairy. Investors can see that Australia is in a prime position to provide these products and as can be seen over leaf, are making acquisitions of Australian food producers.

While the statistics around demand paint a rosy picture, Australia also has an enviable position when looking at the global activity to meet this demand.

Reap export opportunities

At the moment, Australia’s small to mid-sized food processors are too focused on the supermarket duopoly that exists in this country.

They need to look beyond this and open their eyes to the opportunities that are there for the taking in overseas’ sales.

Most Australian food and beverage companies want to double their exports to 21.5% of product sales in the next two years, with most of the growth coming from South East Asia and China, according to a recent industry survey.

But becoming an exporter and entering new markets is tough and free trade agreements, on which the government has made great inroads, is merely a starting point.

Australian business need to demonstrate to foreign investors that they are open and willing to do business with them. They need to become more sophisticated and innovative in their approaches, particularly those looking to export, where they need to better understand the demand of Asian customers in general, and develop and market their products accordingly.

We need to build infrastructure to send food to the Asian consumer – the multitude of Asian tastes and cultures means there is no ‘one size fits all’ solution.

To capitalise on the opportunities that abound in this relatively untapped field, Australian food and beverage companies need to invest in innovation.

Australia feeds the world

Between now and 2050, Australia's food industry will need up to \$1 trillion in additional capital to increase its size, productivity and competitiveness in the global market.

Domestic capital will not be enough, so foreign investment will be needed to help the industry increase its size, productivity and competitiveness. This includes growth-oriented investment (\$600 billion) to increase production capacity by 125% and capital investment (\$400 billion) to manage the generational change in farm ownership from small to larger family-owned or corporatised farms.

Many food businesses face input costs that rise faster than the price of what they sell. Improving productivity is the main way for businesses to address this challenge over the long term.

Capital is sorely needed to invest in R&D – not just farms but the entire supply chain. R&D drives technical change, which drives productivity. Productivity growth has declined and continued low growth will impede Australia's ability to take advantage of the Asian dining boom.

Productivity growth needs to pick up, supported by:

- Well focused R&D driving technical improvement
- Adjustment in the sector that drives the productivity of under-performing farms

In addition to capital, to grow and prosper, food businesses need access to many other inputs at competitive prices. Critical inputs across the food supply chain include labour, infrastructure, transport, machinery, land, water, energy, fertilisers, packaging materials, agricultural chemicals, veterinary medicines and genetic resources.

Australia has long been open to foreign investment in food processing and remains the preferred location in the Asia Pacific region for advanced food and beverage processing.

There is ongoing strong interest in Australia's farm businesses among foreign investors, especially in China, with a particular focus on larger scale projects.

While traditional markets will provide a significant amount of foreign direct investment (FDI), opportunities from emerging markets are likely to increase over time as developing economies become a growing source of FDI. Our food sector will need to adopt new approaches to attract investors and be open to exploring emerging sources of capital to size the opportunities generated by Asia's growth.

In an increasingly competitive investment landscape, Australia's food and agriculture sector continues to attract investment from new companies and markets.

Recent activity in the food sector

While investment markets in the post GFC environment continue to be volatile and dynamic, Australia has succeeded in attracting foreign and domestic investors to parts of our food sector.

The table demonstrates the transaction activity taking place since the beginning of 2012. The transactions listed are those in which the target is an Australian private or listed company operating in the food and agribusiness industry.

Target	Acquirer	Transaction value \$m
Australasian Food Group	Charter Hall Group	62.0
Ernest Hillier	Re: Capital Australia	11.0
Foodlink Queensland	Bidvest Australia	31.0
Glenprairie Station	Camm Cattle Company	28.0
Goodman Fielder	Green's Foods Holdings	17.0
Harvey Fresh (1994)	Parmalat Australia	117.4
Harvey Industries Group	Minderoo Group	40.0
Inghams Enterprises	TPG Capital	880.0
Jindi Cheese	Groupe Lactalis S.A.	20.0
Joe White Maltings	Cargill Australia	420.0
Kitchens of Sara Lee	McCain Foods	82.0
Moraitis Group	Chevalier International	212.0
MSF Sugar	Mitr Siam International	327.5
Olam Almonds Australia	Consortium	200.0
Pactum Australia	Nutrition Ventures	6.2
Rafferty's Garden	PZ Cussons	69.8
Redisland Australia	Boundary Bend	4.0
Seafarm	Queensland Aquaculture	11.2
Tully Sugar	COFCO Sugar (Hong Kong)	168.6
United Dairy Products	Chinarise Capital (Hong Kong)	70.0
Warrnambool Cheese and Butter	Saputo Inc	536.8
Yarrows Family Bakers	Prima Limited: Sumitomo Australia	50.1

Source // Capital IQ, May 2014

Case studies

Inghams



Following the successful acquisition of Sydney-based Inghams Enterprises Pty Ltd (Inghams) by TPG Capital (TPG) in March 2013, the company has continued its outstanding performance. TPG is now attempting a significant sale and lease back transaction of Australia and New Zealand property, in order to raise capital of approximately \$650m.

Moraitis Group



Hong Kong based Chevalier International Holdings led a consortium of investors to acquire Australian company Moraitis Group Pty Ltd (Moraitis) in April 2013 in a deal valued at \$212m.

Warrnambool Cheese and Butter



In October 2013, large Canadian listed company, Saputo Inc (Saputo) acquired 87.9% of the equity in ASX listed and Victorian company Warrnambool Cheese & Butter Factory Co Ltd, valuing it at almost \$600m.

Other transactions Pitcher Partners has been involved in:

- **Payne & Partners** // New York based private equity firm acquired 50% of Costas. We advised the Costa family in relation to their side of the deal, worth hundreds of millions of dollars.
- **Boundary Bend** // A \$70m acquisition of Timbercorp assets. We assisted with the capital raising and funding required for the acquisition.

Our commercial services to dynamic businesses

Financial essentials

- Accounting and business advisory services
- Audit, risk management and assurance
- Internal audit
- Recovery, turnarounds and insolvency
- Tax advice and compliance

Planning and growth

- Corporate advisory including mergers and acquisitions
- Business consulting and commercial advice
- Business performance improvement
- Business structuring
- Corporate governance
- International business advisory
- Investment advisory services
- Succession planning
- Superannuation services
- Tax consulting
- Technology and IT consulting
- Valuations

Our private wealth services

- Estate Planning
- Family office management
- Investment advisory services
- Philanthropy services
- Succession planning
- Superannuation strategies
- Tax advice and compliance

Industry specialisations

- Retail
- Professional services
- Health and aged care
- Manufacturing
- Not for profit
- Property and construction
- Government and the public sector
- Agriculture
- Food and beverage
- Hospitality

Pitcher Partners refers to the Victorian partnership and its associated entities including Pitcher Partners Advisors Limited, Pitcher Partners Consulting Pty Ltd, Pitcher Partners Corporate Pty Ltd, Pitcher Partners Transaction Services and Pitcher Partners Investment Services Pty Ltd.

Est.
1991

\$3.4BN

Billion worldwide revenue 2013 (USD)

89

Partners

1000+

National staff



Independent member of the Baker Tilly International global network



PITCHER PAR

Pitcher Partners
is a national
association of
independent
firms.

Liability limited by a scheme approved under
Professional Standards Legislation.

Our transaction experts

Michael Sonego



Transaction Services Partner

Michael's astute business acumen and persuasive negotiating skills assists many clients in their transaction pursuits and growth strategies. He draws on his existing financial and banking networks to maximise business and financial results. He has worked with many clients on their expansions, particularly through their buy and sell side mandates.

+61 3 8610 5485

michael.sonego@pitcher.com.au

James Beaumont



Transaction Services Senior Manager

James has advised many clients, from small startup businesses to large multinational enterprises in a range of industries, including agribusiness and FMCG. James specialises in M&A advisory, bringing experience gained from buy side due diligence to provide pragmatic, commercial advice to sell side engagements. He lends his transactional expertise to all his clients to ensure seamless management of all aspects of the engagement and the maximisation of business and financial outcomes.

+61 3 8610 5568

james.beaumont@pitcher.com.au

Get in touch...

Melbourne

+61 3 8610 5000
partners@pitcher.com.au

Sydney

+61 2 9221 2099
partners@pitcher-nsw.com.au

Perth

+61 8 9322 2022
partners@pitcher-wa.com.au

Adelaide

+61 8 8179 2800
partners@pitcher-sa.com.au

Brisbane

+61 7 3222 8444
partners@pitcherpartners.com.au

Newcastle

+61 2 4911 2000
newcastle@pitcher.com.au



PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Pitcher Partners is a national association of independent firms.
Liability limited by a scheme approved under Professional Standards Legislation.