



MinterEllison

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# Ahead of the Harvest: 2020 – 2022

Creating value from capital flow

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A study in conjunction with



Acuris





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# Introduction and overview

Despite a perfect storm of challenges during 2020, Australia's agribusiness sector continues to grow.

While there are challenges, we remain optimistic about the future. We believe agribusiness will prove to be one of the country's more resilient sectors.

Agricultural producers and farmers in Australia are leading the way in technology adoption and innovation. The longer-term prognosis for the sector points to positive signs for growth.

There's no doubt global and domestic sources of capital view the sector favourably long-term. In 2019 almost AU\$1.2bn of Australian agribusiness deals were made by Canadian pension funds. In addition, domestic and international investment firms seem optimistic of significant growth for decades to come. This is a key driver for Australia's economic prosperity.

In 2020, the country's agribusiness sector is valued at AU\$60bn. The Australian Department of Agriculture, Water and the Environment projects that it will grow to AU\$100bn by 2030.

It's easy to see why. Australia produces what the world increasingly wants – safe and healthy food and farmed goods. Our proximity to key growth markets in Asia Pacific means we are ideally placed to meet growing demand from middle classes in emerging markets.

Equally important, Australia's robust and ever-expanding infrastructure network is making it easier than ever for agricultural providers to get their produce from farm to the family dinner table. This, matched with many free trade agreements, is allowing Australian agribusiness exports to expand handsomely.

In terms of opportunities, medicinal cannabis in particular is catching investors' attention, with many noting the huge potential.

In this report we combine insights from 100 investors in the agribusiness sector, coupled with our own expertise, to examine the future investment potential of the agribusiness sector in Australia.

We found that while there are significant growth opportunities, there will also be challenges ahead.

Climate change and natural disasters continue to put pressure on the industry. The spread of coronavirus, growing protectionism and geopolitical tensions pose unparalleled uncertainty. Several mega trends – including an ageing farming population and imminent tech disruption – are adding to these pressures.

In the long run, however, Australia's overall market advantages and resilient agribusiness sector will help it weather these storms if partnered with continued investment and improvement in productivity.



**Stuart Johnson,**  
Managing Partner,  
Capital Markets  
Corporate

## Methodology

MinterEllison commissioned Acuris Studios, the publishing division of Acuris to research agribusiness investors.

- ☐ They canvassed 100 agribusiness investors to gauge their opinions on the investment opportunities, trends and challenges in Australia.
- ☐ 60% were based outside Australia.
- ☐ 40% were domestic Australian firms.
- ☐ All respondents had completed at least one investment in the Australian agribusiness sector in the past 12-24 months.
- ☐ Most of these investments were in the USD\$100m to USD\$500m range.
- ☐ Within the graphed survey results, percentages may not add up to 100% due to rounding, or when respondents were allowed to choose more than one answer.
- ☐ All quoted data is proprietary Mergermarket (an Acuris company) data unless otherwise stated.



# At a glance

*Note: Present market conditions lead us to believe some figures would be different if we conducted the research again today.*



**65%** of investors intended to increase their investment in Australian agribusiness assets

**85%** of respondents said government policy would support growth

**166%** Increase in deal values since 2018

**AU\$2.58bn** the amount invested through **22** deals since 2018

**53%** expected financing for agribusiness deals to increase



## Australia's advantages:

**72%** say Free Trade Agreements

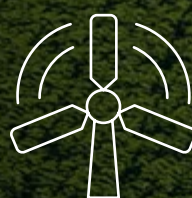
**65%** say Good infrastructure

**63%** say Political and legal stability

**85%** say medicinal cannabis is the top opportunity sector. Only 1% say it is risky.

**72%** say Australia has greater medicinal cannabis opportunities than other markets

**82%** believe variable climate and natural disasters will be the top challenge facing investors



## Investment opportunities:

**74%** say Viticulture

**65%** say Grains, seeds and oils

**52%** say Beef and livestock

**81%** expect investment from North Asia to increase. Followed by **76%** for North America and **63%** for Europe.

**80%** say green energy will help agribusiness grow and develop. Only **30%** say farmers and operators have been successful at harnessing the potential of renewables and sustainable solutions.



## Greatest impact:

**69%** say Ageing farmer population

**68%** say Agtech

## Most active in agribusiness:

**89%** say Domestic funds

**85%** say Agribusiness corporations

**66%** say International funds

**45%** say MNCs



**52%** say agribusiness has not seen any significant technological disruption to date. However 100% expect an increase in disruption over the next two years.

**67%** say there will be increasing competition for Australian agribusiness assets in the year ahead





# Australia's agribusiness: betting on the farm

The COVID-19 pandemic has reshaped industries across the world. As we look towards economic recovery, the agribusiness sector offers important opportunities for economic rebound.

Appetite for Australian agribusiness assets prior to the coronavirus was strong as investors set their sights on the country's abundant food and farming opportunities. And while the economic impact of the coronavirus is severe, the agricultural sector is well placed to rebound quickly.

Even the most stable of industries are facing disruption and uncertainty. Yet agribusiness's resilience – built up over years of uncertainty around seasons and variable climate events – puts it in a strong position to lead Australia's recovery.

## Growing potential

Australian agribusiness holds huge potential. The industry stands to benefit from developing demographic trends across Asia Pacific. This includes rapid urbanisation, a growing middle class and corresponding desire for higher protein and sugar intake. We also have the advent of new technologies, for example, AI and robotics.

In early 2020, the sector's contribution to the Australian economy remained strong with a gross value of

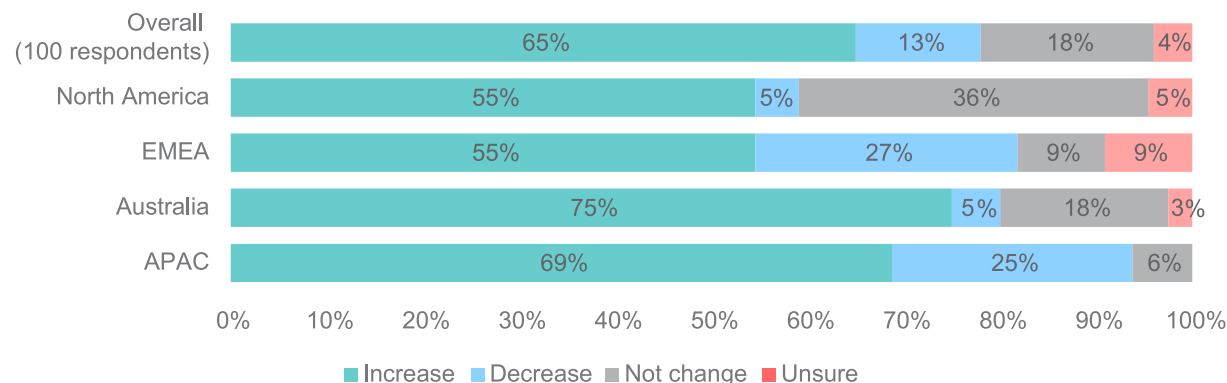
approximately AU\$60bn in 2020, despite the drought and bushfires that were prevalent in the summer of 2019-2020.

Australian farmers have seen an increase in the value of the industry of 34% over the last two decades. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) attributes this growth to improved productivity and the adoption of new technology that is transforming the agribusiness sector.

For these reasons, among others, most agribusiness investors in our research (65%) say they intended to grow their holdings in Australia over the next 12 months (Figure 1). A further 18% say these investments will remain unchanged from current levels. While this question was answered pre-global lock downs, we believe there is still a positive sentiment for Australian agribusiness in the next 12 months and beyond.

Figure 1\*. Are you planning to increase, decrease or not change your current level of investment into Australian agribusiness in the next 12 months?

\*Survey results as at December 2019



# Australia's agribusiness: betting on the farm (cont'd)

## A preferred destination

Explaining their desire to invest, respondents paint a picture of Australia as a preferred destination for their capital. According to one respondent, *"We invest in agribusiness companies that have potential to support growth on a global level and Australia has targets that are suitable for this purpose."*

Another says that the *"... number of opportunities in Australia's agribusiness has increased over the past decade on the heels of improved infrastructure."*

## Secure and stable

The response to the COVID-19 pandemic and subsequent lockdowns have highlighted the importance of this sector to Australia.

A focus on national food security in the wake of short-term product shortages as a result of 'panic buying' meant that Australian agribusiness has thrived; even though the balance between overseas and domestic consumption shifted.

Another respondent praises Australia for its resilience in turbulent economic times. *"... Australia has demonstrated that they are a stable economy and can sustain tougher conditions. ... we plan to direct funding to regions that can provide good returns over the next few years."*

Indeed, with the entire world facing significant economic fallout as a result of COVID-19, Australia's stable political environment and history of economic resilience make this focus more important than ever.

Many respondents recognise the agribusiness opportunity here, highlighting growth in the industry over the past decade.

Many more are pointing to the future, with one respondent saying that: *"... due to extensive R&D within the agribusiness sector, Australia can look forward to faster growth in this space in the years ahead."*

This respondent also notes growing demand for Australian food products due to their *"... clean and hygienic methods for harvesting, transport and packaging"* compared to other markets in the region.

## A strong future

Looking at the various investor groups, sentiment is strongest among domestic firms: 75% of Australian respondents are intent on increasing their investments.

Interest among foreign investors also shows promise. Respondents from Asia Pacific were the most positive on Australian agribusiness (69% noting they will increase investments), followed by their North American and European counterparts (both 55% intent on furthering investments).

While the onset of COVID-19 may have slowed foreign investment, the overall long-term interest is likely to continue due to the strength and resilience of this sector.



75% of  
Australian  
respondents  
are intent on  
increasing  
their  
investments

A man in a plaid shirt is seen from the back, holding a tablet and a remote control, operating a drone in a field at sunset. In the background, a tractor is visible, and the sky is filled with soft, golden light. The scene is a composite image used for a report.

“

Australian agribusiness has always been appealing due to efficient farming practices, negligible sovereign risk and a keen focus on agtech. Now more than ever, investors will take confidence in the sector's resilience and long-term prospects.”

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Matthew Cunningham,  
Partner

# Cultivating confidence

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**Our research points to several factors that emphasise Australia's attractiveness to agribusiness investors. The sector's recent resilience in the face of a broader economic downturn due to COVID-19 has emphasised that appeal.**

**Several key factors are driving confidence among investors to pursue agribusiness investments in the long-term. These include:**

## **Infrastructure**

*65% of respondents say established and improving infrastructure make it a key reason to invest.*

Australia boasts modern and established infrastructure for the relatively efficient flow of produce from farm gate to the customer.

While further investments are needed for greater efficiencies and cost savings, some projects are already in development. The Australian Government has invested millions to establish Northern Australia infrastructure and agricultural opportunities.

An inland rail project is underway. When completed it will connect Melbourne and Brisbane ports with shipments – taking an estimated 24 hours to reach their final destinations. Other initiatives like the Western Sydney Airport Agribusiness Precinct and the Wellcamp Airport Agricultural Precinct are being developed to enable paddock to plate in overseas destinations within 24 hours. Together these two initiatives alone will transform fresh food production, supply chain and marketing in Australia.

The opportunities in infrastructure have increased since this research was conducted. The federal government has identified infrastructure as a key focus area for economic growth, and has announced a \$1 billion COVID-19 [Relief and Recovery Fund](#) to support regions, communities and industry sectors that have been disproportionately affected by the Coronavirus crisis. Agriculture is one of the sectors identified.

There are other indicators that point to improved infrastructure: State Governments have also committed to fast-track infrastructure projects and Australian superannuation funds have an appetite for investing in infrastructure. Growth in infrastructure support for agribusiness is likely to be greater and faster than anticipated, providing investor confidence in the sector's resilience.

In particular, infrastructure investment, ranging from stable and reliable internet access to modern transportation corridors, will create further transformation by creating efficient IoT-enabled smart farms through to quickening routes to international markets. However, even before those factors came into play, the infrastructure that is currently in place was considered more than adequate by respondents, with 65% nominating it as a reason to invest.

One respondent says that agribusiness opportunities have increased and *"positive returns can be expected from these businesses in the year ahead"* as a result.

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The federal government's announcement that it will fast-track approval for 15 major infrastructure projects valued at over AU\$72 billion in investment, under a bilateral model between the Commonwealth, states and territories, is important news for agribusiness investors, as infrastructure is key to the sector's growth and appeal.”

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**Kate Koidl,  
Partner**



# Cultivating confidence (cont'd)

## Water regulation

Australia's water policy and infrastructure funding frameworks are constantly adapting to help the agribusiness sector meet the challenges of climate change and extreme weather events and to realise efficiencies in rural water use and management.

Australia has well-established rules for managing water resources. Relatively uniform State-based laws provide for the allocation of available water between commercially productive uses, community needs and the environment. In that sense, Australia has a highly advanced water regulatory framework relative to most of the developed world.

In addition, the Council of Australian Governments is committed to an ongoing program of water reform, which includes a renewed focus on the interaction between water policy and agriculture, the need for reliable rural water services and sustainable economic development in the regions (i.e. particularly through water infrastructure investment decisions).

*"Australia is one of the most sophisticated nations when it comes to managing its water resources. Its regulatory systems enable governments to account for varying demands on the resource, and provide for competing needs to be prioritised according to settled, transparent parameters, even when times are tough,"* says Brendan Clark, MinterEllison partner.

**Political stability and legal certainty**  
*63% of respondents say governance, stability and transparency make Australia attractive for agribusiness investment.*

Australia's strong foundations, sound governance and transparency make it one of the safest places in the world to do business and with the politically bipartisan approach to infrastructure investment, this is unlikely to change in the near term.

Indeed, one respondent said, *"The stable political climate is one of the main reasons Australia has remained attractive to investors domestically and across the globe. It generates trust in the economy and also the regulatory practices can be relied on."*

The federal and state governments' cohesive response to COVID-19 through its national cabinet has further emphasised Australia's political stability during a time of crisis.

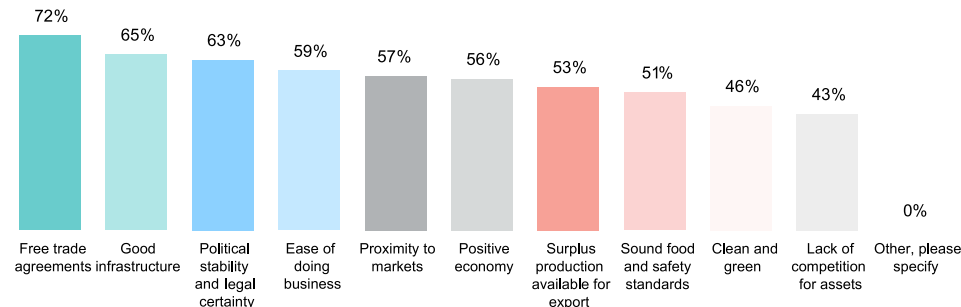
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The Australian government is committed to developing water infrastructure to support agriculture and the communities that support the sector.”

**Brendan Clark,**  
Partner

Figure 2\*.  
What makes Australia attractive for investments into agribusiness? (Select all that apply)

\*Survey results as at December 2019



# Cultivating confidence

## (cont'd)

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### Government support

*85% of respondents say government policy would remain favourable for agribusiness (Figure 3).*

According to one respondent, "Moderately supportive government policies have created effective trading relations with countries such as Japan, US, Singapore, Indonesia and (until recently) China. Slowly, but steadily, Australian companies are entering the global trading stage, facilitated by mutually-agreeable terms."

Respondents attribute this to the view that agribusiness is a cornerstone of the economy and a segment where growth and further investment needs to be encouraged. The federal government's increased focus on infrastructure and increasing interest in food security points to that.

However, policy changes could be likely as digital technologies come into play, with one respondent noting that "... in the next 12 months, though, things are likely to change as agribusiness and ecommerce activities come together, requiring some fresh perspectives from the government."

### Free Trade Agreements

*72% say FTAs are Australia's top advantage when discussing agribusiness investment*

Australia is a globally-integrated market, ranking among the top 20 trading nations. Crucial to Australia's international competitiveness is its 14 free trade agreements (FTA) currently in force. These take in key markets across the Asia Pacific (including China, Japan and Korea among these) and the United States.

Australia has also signed and concluded but not yet put in force the PACER Plus FTA between New Zealand and eight Pacific Island countries (Cook Islands, Kiribati, Nauru, Niue, Samoa, Solomon Islands, Tonga and Tuvalu).

So critical are these FTAs that the Australian government is pursuing a further six (United Kingdom, European Union, India, the Gulf Cooperation Council, Pacific Alliance and the Regional Comprehensive Economic Partnership) that will open Australian agribusiness to export opportunities.

Short term, some of these opportunities have been paused as global economies suffer the consequences of the COVID-19 pandemic.

However, longer term, Australia's drive to enter into negotiations to open more markets in the Asia Pacific region will be good news for agribusiness investors. Respondents listed it as an area of growth and potential for the industry.

### Foreign Investment Review Board (FIRB) – threshold to zero

Temporary changes to the FIRB regime were announced on 29 March 2020. These were implemented by the Foreign Acquisitions and Takeovers Amendment (Threshold Test) Regulations 2020 (Cth).

As a result, the acquisition by 'foreign persons' of interests in an Australian agribusiness may require prior FIRB approval, regardless of value.

The position for 'foreign government investors' is unchanged.

Changes to Australia's FIRB regime are proposed to be implemented from 1 January 2021. The impact of these proposed changes on the sector is not yet clear, though it is expected that agribusiness (and agricultural land) will remain a sensitive sector for FIRB purposes.





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Foreign investors must consider whether prior clearance from FIRB is required before undertaking any transaction in Australia or transactions that involve downstream Australian companies and businesses.

If prior FIRB clearance is required, we recommend investors seek to engage with FIRB as soon as possible in the transaction process to avoid unanticipated delays to the deal timeline. Agribusiness is a sensitive sector, and agricultural land is screened carefully, particularly if there is a potential change of use.”

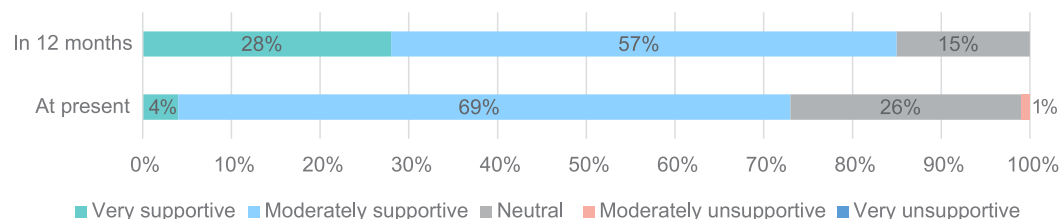
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David Moore and Mellissa Lai,  
Foreign Investment & Trade Centre for Excellence

## Cultivating confidence (cont'd)

Figure 3\*. How supportive are Australian government policies (specifically the FIRB regarding foreign investment) toward the agribusiness sector at present? How supportive will they be in 12 months' time?

\*Survey results as at December 2019



### Other factors (refer Figure 2)

Other key factors influencing the growth of Australian agribusiness include sound food and safety standards (51% of respondents say) and Australia's clean and green initiative (46% say).

Food and safety standards have been in the spotlight during COVID-19. Among regional markets, Australia stands out for its safe and premium products, which have seen a demand swell from consumers across the Asia Pacific.

A survey respondent says "Higher food and safety standards have also made Australia attractive, especially to developed countries, where this criterion is given higher importance."

The importance of agribusiness and maintenance of high standards in the

industry is reflected in the attention it receives from regulators, including the Australian Competition & Consumer Commission (ACCC).

Significant resources are dedicated by the ACCC to agribusiness to identify, understand and remedy a broad range of competition and consumer issues, and consult with the sector. These resources include a nominated Agriculture Commissioner, an Agriculture Unit, an Agricultural Consultative Committee and a 'hotline' for agricultural complaints.

The ACCC is also called upon by the federal government to conduct deep dive inquiries into concerns in agricultural industries, including a newly announced inquiry into bargaining power in supply chains for perishable agricultural products in Australia.

While domestically the sector is supported by strong governance, Australia faces an uncertain future with agricultural exports to China as reflected by recent developments including trade restrictions.

Lower numbers praising Australia as a clean and green hub could be due to the renewables trend only starting to take off. But many recognise the huge potential clean energy offers Australia as a standalone industry, and one that could directly benefit agribusiness.

This theme is discussed further in *A greener farm: Renewable energy on page 17 of this report.*

“

The food and agribusiness sector has long been a priority area for the Australian Competition and Consumer Commission and strong scrutiny of the sector is likely to continue.”

Miranda Noble,  
Partner



# Australia's challenges

## Ageing farmer population

Australian farmers are getting older.

Research from the Australian Bureau of Statistics (ABS) finds the average age for agriculture workers to be 56 years old. That same research shows that this is 17 years older than the average Australian worker, at 39 years.

What may be more pressing is that the industry faces a retention problem. Younger generations are reluctant to take over the family farm or seek employment within the industry.

For these reasons, 69% of respondents say this issue will be the top trend facing the industry in the years ahead.

Another respondent points out that *"since this business requires skilled personnel, it will cause local pressure" if agribusiness talent is not replaced.*

Australian agribusiness also faces a real challenge of adapting workplaces and work practices to meet the needs and interests of an older demographic. According to a 2019 report released by The Centre of Excellence in Population Ageing and Research (CEPAR), 39% of workers aged 55-64 reported that they are not given training to maintain/upgrade their skills.

*"Ensuring the continued support of ageing farmers with*

*the provision of upskilling and training is a solution that needs to be embraced and encouraged. By the same token, helping the younger generation realise the value in knowledge transfer from an experienced farmer is important for the continued growth of the industry", says MinterEllison Partner, Kristy Edser.*

Another skills factor which may have short-term challenges is the sector's reliance on temporary workers from overseas for many manual tasks such as horticultural picking. With COVID-19 closing borders for the immediate future, farmers, consumers and reliant adjacent industries and communities will face pressure around supply.

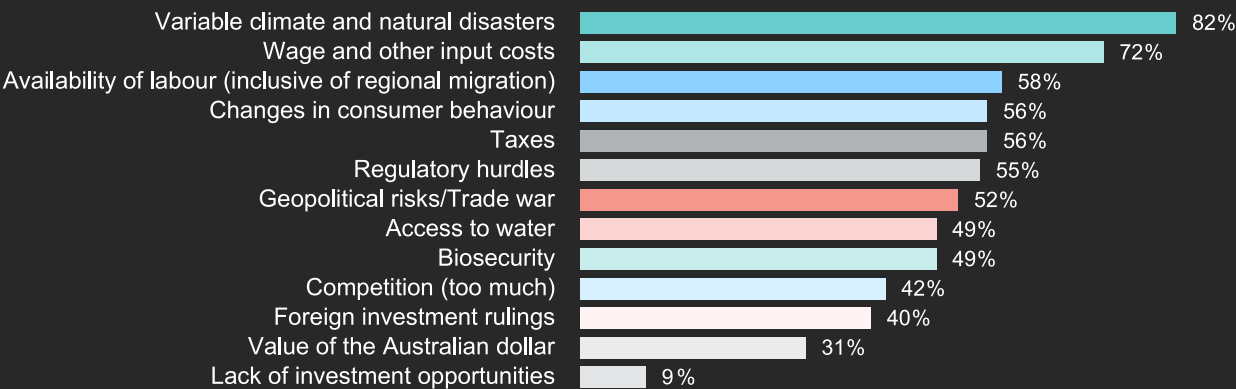
## Climate change and natural disasters

The top challenge is variable climate and natural disasters, noted by 82% of respondents (Figure 4).

This is relatively unsurprising given recent events in Australia. 2019 is reported to have been the hottest and driest year on record with much of Australia experiencing drought. One respondent says: *"When considering Australian agribusiness investments, most risks are attached to climatic change and natural disasters. Heavy damage to crops and further production, disruption to infrastructure models, financial losses and more can be expected due to environmental changes"* - sentiments that were echoed by many others.

Figure 4\*. Which of the following will be the most significant barrier/challenge to investment in Australian agribusiness in the next 12 months? (Select all that apply)

\*Survey results as at December 2019



## Australia's challenges (cont'd)

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They also spoke about the impact of a drier environment and water scarcity, adding it had the potential to put a brake on production. Globally, consumers and investors are increasingly interested in the carbon footprint of food production.

Respondents believe there may be a national push for action on climate change that will flow through with policy changes. Whether this will happen remains to be seen.

Respondents also said they're likely to respond to the challenge by adopting renewable energy and incorporating it into existing operations.

Sarah Barker, MinterEllison Head of Climate Risk Governance says that investor expectations on climate risk governance and disclosure is building from overseas – particularly Europe. This, combined with active commitments from major players in the Australian market to achieve a net zero portfolio (or in the case of lenders, financed) emissions, will put pressure on Australian investors, lenders and borrowers to accelerate their integration of climate risk governance into strategy and portfolio risk management.



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In addition, overseas investors are broadening their focus beyond climate risk governance to those associated with the financial risks of biodiversity loss. Regardless of the policy response, investors are starting to price these risks, and the agribusiness sector will need to respond accordingly.”

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Sarah Barker,  
Head of Climate Risk Governance



# Leading the rebound

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## Agricultural technology (Agtech)

Agtech is a worldwide opportunity but one that is having a profound impact on Australia. New technologies are making it easier to meet changing food demands while also emphasising cost efficiencies – particularly regarding energy consumption – so that farmers can produce more with fewer resources.

This could prove hugely beneficial as an ageing, diminishing and decreasing workforce puts pressure on the industry to find ways to optimise operations and production.

68% of respondents say agtech will be the second-greatest opportunity shaping the industry.

Agtech and innovation have been priorities for Australian farmers for a long time.

*"Technology is key to Australian farmers' ability to make do with scarce resources," says MinterEllison Partner, Matthew Cunningham. "Countries like the Netherlands illustrate the importance of innovation and agtech. Such a geographically small country is the second largest producer of fruit and vegetables in the world – all led by their innovative approaches. For Australia, this model illustrates to us the incredible potential of agtech and thinking outside of the square."*

However, in recent times, with the digitisation of society accelerating so rapidly as a result of COVID-19, the power of technological change is magnified.

The Australian Trade Commission describes Australia's agricultural sector as a research leader with state and federal governments along with the private sector undertaking R&D.

Agtech will be crucial as farms and agricultural producers transition from smaller, family-run land holdings to much larger and expansive operations.

Indeed, the size of the Australian farm is growing. ABARES reports sector performance is driven by the largest and most productive farms.

ABARES also reports the structure of Australian farms reflect the market with farms consolidating and getting larger.

## The changing face of farming: Innovation and disruption

The comments of one respondent seem to sum up the advantages of Australia's existing agtech edge and the need for future tech: *"Innovation allows farmers to do more with less: less land, fewer employees, and less water."*

Due to its diverse climate, Australia has historically been quite innovative when looking at water supply as well, and has always sought ways to move and capture water for improved use and sustainability to account for climatic variations.

Innovation and technology was a theme in the respondent commentary. It was further elaborated when these

respondents were asked to nominate the technologies they felt would have the greatest impact on Australian agribusiness in the next 12 months. The top three technologies chosen included:

64% biotech

55% big data and analytics

54% sustainability initiatives

Advanced sensor technology (41%) was also tapped to play its part in the evolution of the agribusiness space.

This suggests that respondents are looking at innovation not just to raise farming efficiency and output, but also to adapt to changes in climate.

Organisations like [SparkLabs Cultiv8](#) are at the leading edge of innovation. SparkLabs Cultiv8 provides an invaluable role in enabling early and late stage agtech and foodtech start-ups to experience world class growth globally through its accelerator programs.

A robotic arm with a black and white jointed structure is positioned in a greenhouse. The arm is reaching towards a row of green plants growing in a grid-like structure. The background shows the glass and metal framework of the greenhouse, with more plants visible in the distance.

“

Agtech is driving the greatest change within the Australian agribusiness sector. Use of artificial intelligence, sensor technology and robotics are changing the entire landscape.”

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Survey respondent



# Leading the rebound (cont'd)

## Population growth in Asia Pacific

Today, food security carries a premium price. Food demand continues to expand. Populations across Asia Pacific – specifically growing affluent middle classes keen on safer, healthier and more sustainable food options – present a profitable opportunity for Australian agribusiness.

As such, 61% of respondents see this as a trend that will drive the greatest change within the industry.

In the decade ahead, spending on food among Asian populations is set to double, increasing to AU\$12tn (US\$8tn) by 2030 (according to research from PwC). This will happen as population growth adds an additional 250 million mouths to feed to already swelling demographics.

Adding to this, South East Asian countries largely rely on imports to meet their food needs. There is also a growing shift in Asian middle class diets to include more proteins like beef.

Given its proximity to emerging Asian markets, Australia is well-positioned to rise to the challenge of meeting this demand and ensuring food security across the region.

Figure 5\*. Which three innovations will have the greatest impact on Australian agribusiness in the next 12 months?

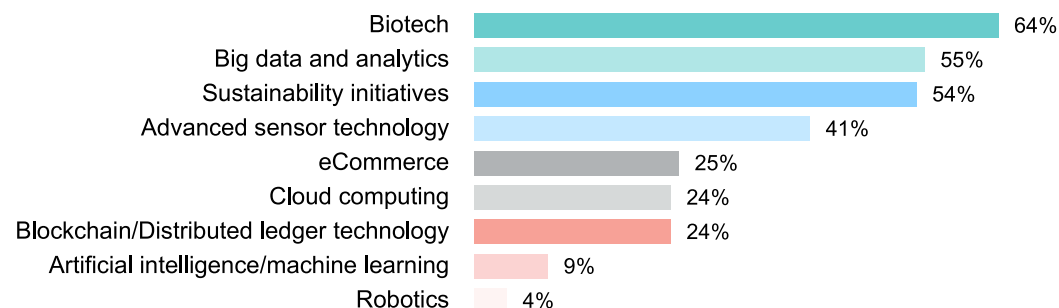


Figure 6\*. Which of the following mega trends and global/local pressures are driving the greatest change within the Australian agribusiness sector?

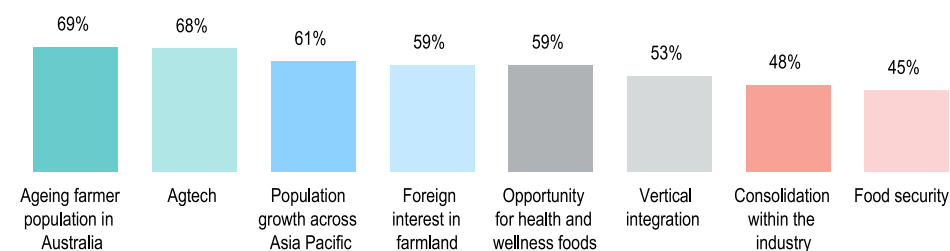
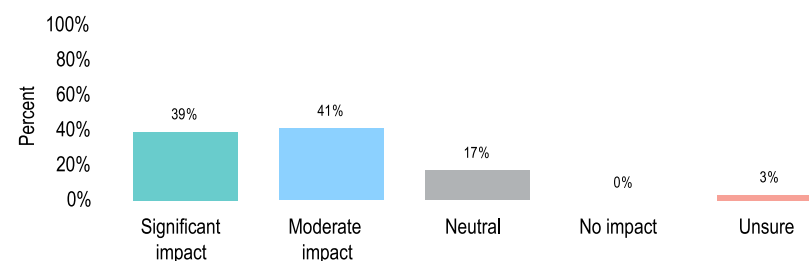


Figure 7\*. What kind of impact will the increasing use of renewable energy have in helping the Australian agribusiness grow and develop?



\*Survey results as at December 2019



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The agribusiness sector is exploring a number of renewable energy opportunities. For example, farms with large amounts of land are introducing onsite solar energy options to reduce their own carbon footprint and lower their electricity costs. Others are looking at creating biofuel out of agricultural waste such as sugarcane offsets. Key to the success of these initiatives is a regulatory environment that is supportive and straightforward.”

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Simon Scott,  
Partner



### A greener farm: Renewable energy in agribusiness

Key Finding: 80% of respondents say that increasing use of renewables will have a positive impact on the industry's growth – of which 39% say renewable energy will have a transformative effect.

Renewable energy will undoubtedly play a role in helping farms become more sustainable.

Research in our global Renewable Energy report *Australian renewable energy investment trends and outlook* shows that Australia has a supportive renewable energy investment environment. Government frameworks and adequate financing will help the industry move forward – progress that, in time, will have a direct benefit to the country's farming and agriculture space.

Respondents agree that the future of agribusiness will need to have a green component. Other respondents say renewables will play a vital role in the fight against climate change and shift to sustainability.

To date, however, the application of renewables in agribusiness has not reached a point of widespread impact.



# Opportunity sectors

Medicinal cannabis is high on the list of sectors where investors are most eager to invest. However, more traditional agriculture businesses may also hold potential.

## Medicinal cannabis: the next big thing?

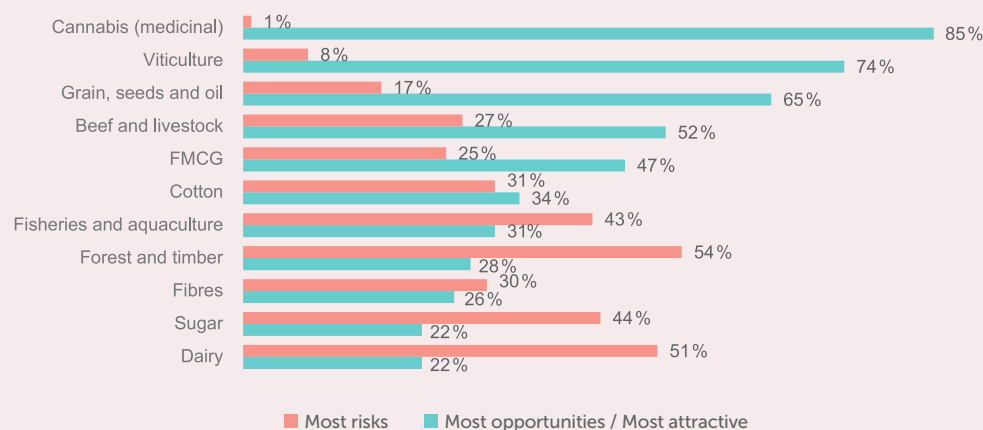
Respondents see significant upside in Australia's medicinal cannabis opportunity with 85% saying it presents the greatest investment potential by sub-sector (Figure 8).

Equally important, these same respondents see incredibly limited risks as growth sweeps this emerging industry.

Only in its fourth year of legalisation, the industry is still establishing itself. However, respondents are eager to participate, with 40% saying they are actively looking to enter the Australian medicinal cannabis space within the year.

Regardless of investment intentions, respondents overwhelmingly agree that Australia's cannabis opportunity ranks among the highest in the world.

Figure 8\*. Which sub-sectors of agribusiness have the most opportunities and which have the most risks in Australia?



\*Survey results as at December 2019

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Australia has the fourth largest medicinal cannabis market in the world and there continue to be significant opportunities for further growth.

Regulatory changes are boosting Australia's ambitious cannabis industry and Australia is emerging as a leader in the APAC region, emulating Canada's position in North America.

Con Boulougouris,  
Partner

# Opportunity sectors (cont'd)

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## Viticulture

Viticulture is another opportunity area, according to 74% of respondents.

In 2019, Australian growers produced 1.73 million tonnes of wine grapes, according to Australian Government authorities.

This was slightly less than the average 1.75 million tonnes produced each year. However, growers were able to take advantage of higher prices with the crush valued at AU\$1.17bn – up 6% on the previous year. China is by-far Australia's most lucrative wine export market, worth AU\$1.3bn in 2019. However, at the time of writing, China's anti-dumping and countervailing-duties investigation into subsidies have producers and exporters concerned.

## Grain, seeds and oil

The grain, seeds and oil sub-sector is an important contributor to the Australian economy.

According to ABARES, in 2017-18 production of grains, oilseeds and pulse crops contributed AU\$12.8bn to the total gross value of farm production (around 21%) and almost a quarter (23%) of the total value of farm export income.

As such, 65% of respondents said there is opportunity to be found in this sub-sector, though the sentiment will no doubt change with the recent implementation of an 80% tariff on Australian barley coming into China.

## Beef and livestock

Like the grains industry, Australia's beef and livestock industry has been badly impacted by the prolonged drought and the recent bushfires. Perhaps for this reason, 27% of respondents say the sub-sector is too risky.

## Dairy and timber

Dairy has experienced difficult times recently with commodity prices falling below production costs, the ongoing drought impacting productivity and cost of production, and high profile transactions in the sector challenged. This could explain investors' aversion to the industry, although more than half (52%) still say it is a sub-sector of interest.

Some respondents highlighted challenges associated with investing in forest, timber and dairy sub sectors. For example drought and fires of summer 2020 were cited as concerns. However, we believe the outlook for forest and timber is positive and demand will continue to increase accordingly. This is primarily due to ongoing supply side constraints generating increased competition for plantation assets.

Among dairy producers, risks are also abundant. Facing critical issues regarding water (access to and efficient use of) and carbon impact, climate change will also pose a challenge here.

Finding, training and retaining a quality workforce is another matter, as reflected among the list of mega trends hitting Australian agribusiness.

However, the dairy industry is recalibrating, with smaller and nimble players picking up milk supply.

Furthermore, deals in the sector over the last couple of years have been by Chinese acquirers. However, the recent preliminary decision by the Australian Treasurer that the proposed acquisition by China Mengniu Dairy Co Limited (Mengniu) of Lion Dairy & Drinks Pty Ltd would be "contrary to the national interest", and the subsequent withdrawal of the application by Mengniu, may reflect further potential challenges around sources of future investment and ascertaining value of future dairy investments.



# M&A overview: bountiful harvest

**Australia's strong fundamentals matched with the positive investor sentiment have no doubt contributed to the agribusiness boom in M&A in recent years. Following several years of sustained deal-making, agriculture M&A has seen a noticeable uptick in both volumes and values (Figure 9).**

**2019 was a bountiful year in the sector where dealmakers completed 22 transactions valued at AU\$2.58bn.**

While this was the same deal volume as 2018, it marked a 166% year-on-year increase in deal value (AU\$967m in 2018). Hitting the highest level seen since 2010, when AU\$5.9bn in deals were recorded, according to Mergermarket data.

Aside from being a year of records, 2019 saw noticeable participation from foreign buyers. International firms were involved in 50% of deals, up from 41% in 2018. More impressive is the 82% of deal dollars (AU\$2.12bn) in 2019 that came from foreign-funded transactions, a major increase from 48% (AU\$461m) in 2018.

Clearly 2020 and 2021 are going to be very challenging years for the sector. We believe there will be marked declines across the board in 2021.

At the halfway mark of 2020, there were five completed agribusiness deals and two ongoing. It's interesting to note that the largest deal in Q1 2020

was a domestic transaction involving GrainCorp Limited's demerger of its international malt business for AU\$915m.

Among foreign buyers, Canadian investors have led this trend over the past 24 months, contributing heavily to both deal volumes and values. Profile deals included the AU\$837m acquisition of agri-firm Webster Limited by Canadian Public Sector Pension, notable for being one of the highest deals over the past two years, completed in Q1 2020.

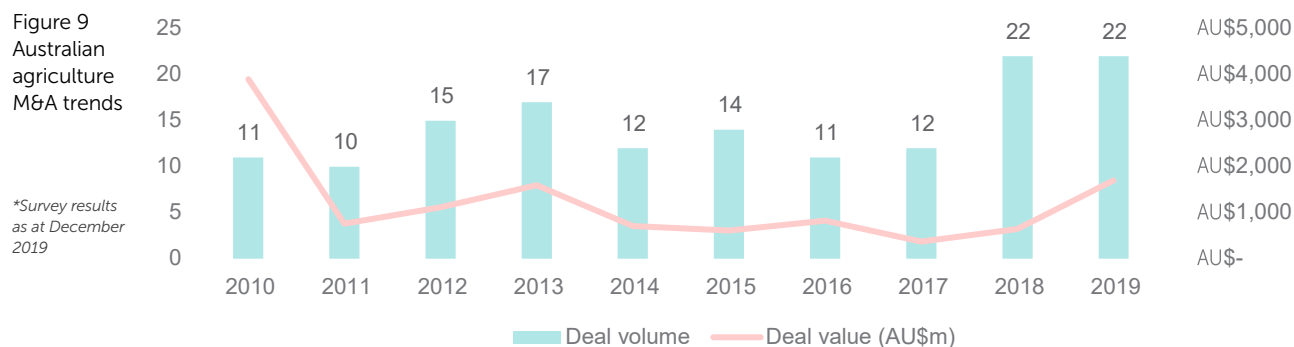
Other recent Canadian interests were also involved in deals involving Australian cotton producer Midkin Aggregation (AU\$308m) and Ruralco (AU\$632m), both completed in September 2019.

European buyers were also present in the market in 2019, although far fewer in number. One of the notable deals involved German-based Nordzucker AG's AU\$226m acquisition of Mackay Sugar.

Regarding broader Australian M&A, deals slumped in the first quarter of 2020, dropping to 93 deals valued at AU\$4.3bn. In 2019, Q1 deals totalled 137 deals valued at AU\$18bn, while 2018 had 153 at AU\$30bn.

Likewise, M&A globally has fallen precipitously, although M&A markets were already showing declines ahead of the virus spreading. The full impact on deals may not show for some time as M&A transactions take months to come together.

**Figure 9**  
Australian  
agriculture  
M&A trends



A man with a beard, wearing a brown leather apron over a dark shirt, is holding a wooden crate filled with ripe oranges and green leaves. The background is a soft-focus outdoor scene with green foliage and sunlight filtering through the trees.

“

Some things don't change much in agriculture. For the most part it remains a scale game with, wherever feasible, vertical integration protecting your margin and improving distribution. The exchange rate has a significant impact of course. The trend for consolidation and aggregation will continue in the short to medium term across the sector.”

---

Tim Watkin,  
Partner



# M&A overview: bountiful harvest (cont'd)

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## Agribusiness and Tax

The constantly evolving Australian tax regime has had a significant impact on M&A activity across various industries in Australia.

Historically, stapled structures (i.e. a structure where an asset-holding entity holds land assets, and leases the land assets to the operating entity undertaking the operations) have been commonly used by foreign investors making investments in the agribusiness industry. This allows them to access the concessional managed investment trust withholding tax regime.

As a result of recent reform on stapled structures (which limits the application of the concessional managed investment trust withholding tax on agribusiness stapled structures) it is unlikely that stapled structures would be used by foreign investors going forward. Existing stapled structures would need to be restructured (noting that the concession for existing structures is available until 2026).

Consideration should be given to the investors and their tax profile to determine the most efficient structure when making investments in the agribusiness industry in the future.

It is common for investors to fund investments using a mixture of both equity and debt. The thin capitalisation regime limits tax deductions claimed on interest payments made on debt interests, where the total amount of debt exceeds the safe harbour debt amount (i.e. 60% of the value of the total assets).

On the basis that the safe harbour debt amount is determined by the value of the total assets of an entity, the safe harbour debt amount could be breached where asset values are decreased as a result of economic downturn.

In addition to the thin capitalisation regime, the Australian Taxation Office has increased their activity on the potential application of general anti-avoidance provisions to debt-push-down structures (even where the thin capitalisation regime is not breached). The impact of these developments on the appropriate debt/equity funding ratio should be monitored.

As one of the measures to combat the economic downturn arising from the outbreak of COVID-19, the Government has increased the instant asset write off threshold from AU\$30,000 to AU\$150,000 for all businesses with aggregated turnover of less than \$500 million until 30 June 2020.

Accordingly, there could be an increase in investments made in plant and equipment assets that are under the increased instant-write threshold.



# Financing

The availability of finance has been a powerful catalyst behind the M&A drive in recent years. It will be critical to future investments in agribusiness.

With an increased demand from consumers for local products off the back of COVID-19 comes the need for debt to fund the sector's growth. Farming is capex intensive. To meet new demand – for example, by planting additional crops and hiring more workers – organisations need investment. Investors and financiers will be looking long-term to see meaningful returns.

At the time of the survey, just over half of respondents were expecting availability to expand: 46% are expecting a moderate increase, and 7% are expecting a significant increase over the next 12 months (Figure 10).

Overwhelmingly, respondents said foreign investment would be one of the top sources of financing in that time, a trend that has so far developed with international capital playing a significant role in the market (Figure 11). Given current conditions, expectations that foreign investors will continue onward and upward will be dampened, at least in the near term.

However, at the moment, it seems that domestic banks, funds and investors are filling in that hole.

Figure 10\*. Over the next 12 months, do you expect the availability of financing for M&A/investment in Australian agribusiness to change compared to the previous 12 months?

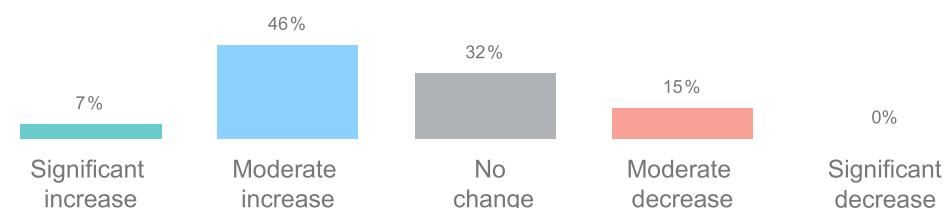
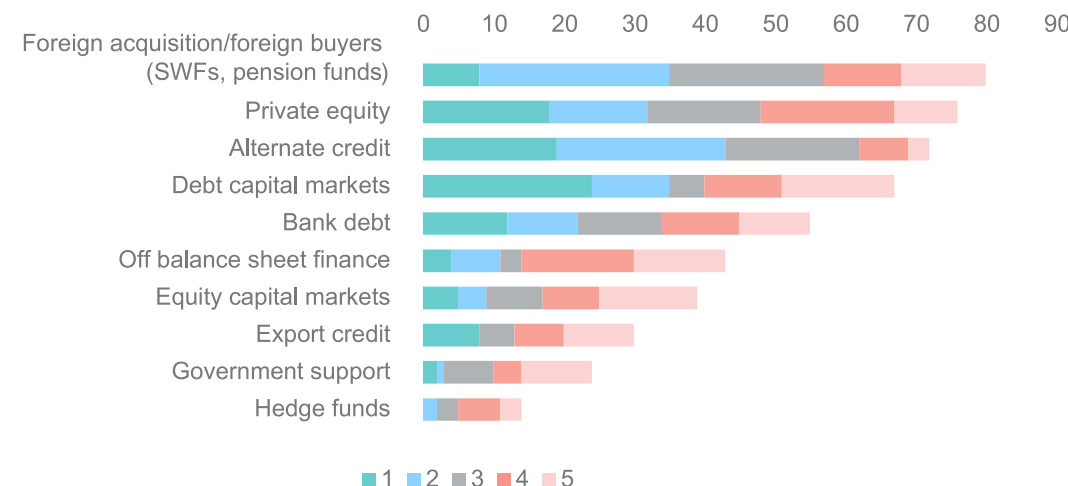


Figure 11\*. Where do you see the main source of funding to agribusiness to come from in the next 12 months? (Rank top 5 only where 1 = most likely)

*\*Survey results as at December 2019*





# Foreign and local interest

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**Domestic investors are tapped to lead agribusiness M&A and investment in the short term, although foreign funds and corporations will also be key players as competition in the market heats up in the coming years.**

While agribusiness investment is largely expected to be domestic driven, there is significant room for foreign investors to join the pecking order – and many already have.

Going forward, most respondents in our research expect international capital to play a significant role in the market post COVID-19. This will be driven by a search among advanced and emerging market investors for reputable agricultural products and strong market fundamentals, all of which Australia has to offer.

“

Multinational corporates are repatriating capital to their home jurisdiction to weather the COVID storm. So we're seeing more activity and interest from Australian-based producers.”

---

**Andrew Corletto,**  
Partner



# Foreign and local interest (cont'd)

## Asia Pacific

Prior to COVID-19, investors from Asia Pacific were actively seeking out agribusiness deals in 2020.

Respondents say North Asia (China, Japan, South Korea and Hong Kong) will be the top group of foreign buyers in 2020 (Figure 12). 81% say North Asian investments will increase in the year ahead (50% of which say increases will be significant). Given the current FIRB restrictions and contraction of markets, this is unlikely in the near future.

Overall, even prior to COVID-19 and modified FIRB restrictions, Asian investors had been relatively absent from the market in recent years (Figure 13).

In 2019, only two Asian sourced deals were completed worth AU\$146m, eclipsed by inbound deals from North America, although ahead of European totals. While this was an improvement on values from 2018 (when only AU\$30m in deals were completed) it was a far cry from the AU\$271m in 2017 (Figure 14). What respondent expectations may be saying about future investment is that it has nowhere to go but up.

Figure 12\*. What do you expect will happen to the level of investment into the Australian agribusiness sector from the following international investor groups in the next 12 months?

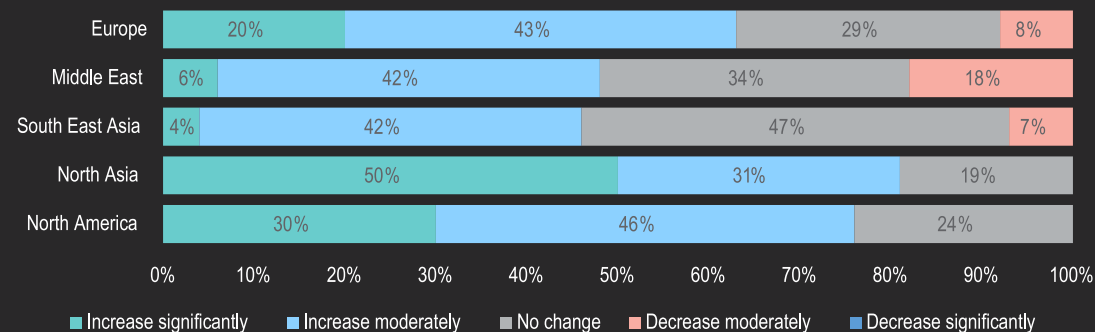


Figure 13. Australian agriculture inbound M&A: Bidder geography (Deal volume)

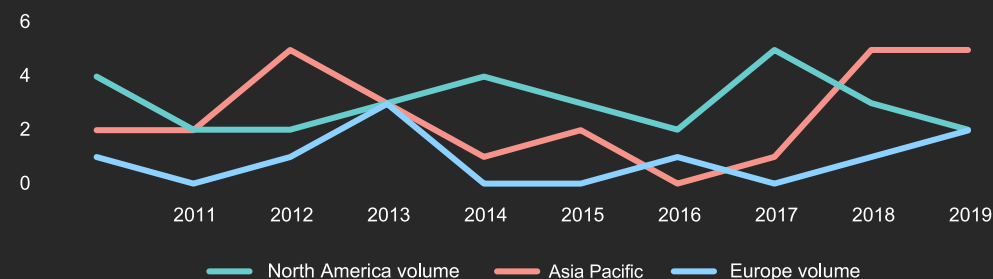
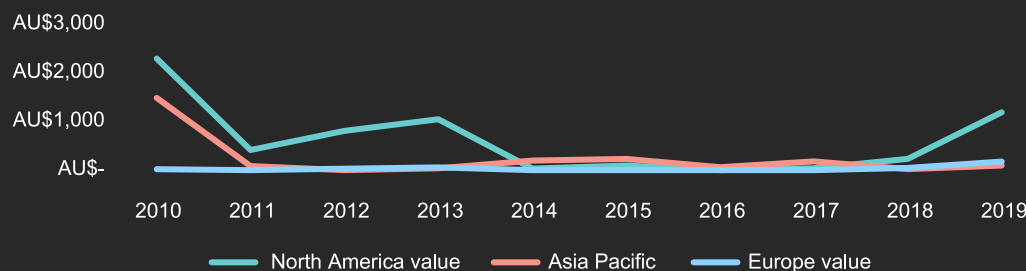


Figure 14. Australian agriculture inbound M&A: Bidder geography (Deal value AU\$m)

\*Survey results as at December 2019





## Foreign and local interest (cont'd)

### North America

When looking at the M&A actuals, North American investors have far and away led M&A trends. These investors completed five deals valued at AU\$1.8bn in 2019.

Respondents anticipated that investors from the United States (92%) would play the greatest role.

M&A actuals, however, show that – while there is potential for such investment to come from US-based investors – in recent years deal-making among North American investors has been almost exclusively a Canadian endeavour.

Not only have Canadian investors been involved in the most deals of any foreign investor group, their deals rank among some of the highest valued since 2018.

Based on these trends, it is somewhat surprising that only 42% of respondents expect Canadian investors to be the lead inbound group from North American in 2020.

### Europe and the Middle East

European investors have been active in the market in recent years, although to a much lesser extent than their Asian and North American counterparts.

In 2019, inbound M&A from European buyers contributed just two deals valued at AU\$288m.

Respondents were hopeful that a pickup in European investment will unfold in 2020. 63% of respondents say such investment will increase, and the bulk of this will involve investors from the UK and Germany.

Dealmakers from the Middle East could also join the investor mix in the coming years.

While only 48% of respondents expect this investment to increase anytime soon, already buyers from the Middle East are making moves into Australian agribusiness. 55% of respondents say Saudi Arabia will be the most active participant from the Middle East in pursuit of agribusiness deals.

Figure 21. Which of the following corporate/financial sponsor groups do you expect to be most active in the Australian agribusiness market in the year ahead? (Select all that apply)

*\*Survey results as at December 2019*

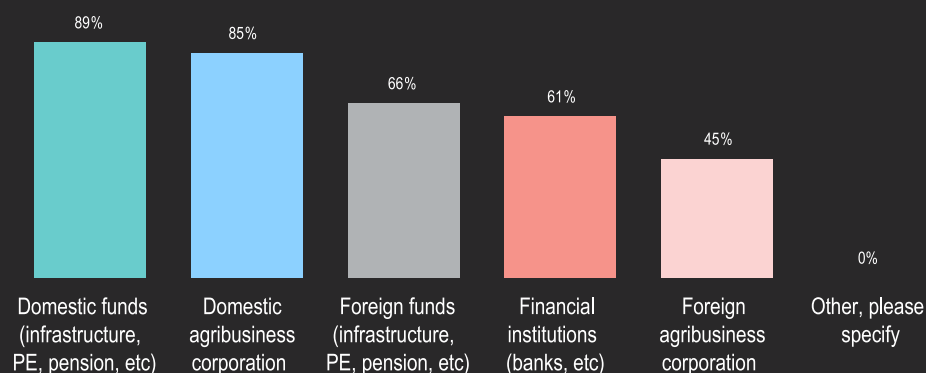
### Corporate and financial sponsors

As previously highlighted, in 2019 almost AU\$1.2bn of Australian agribusiness deals were made by Canadian pension funds, followed by both domestic and international investment firms.

It is funds and investment vehicles like these that have the resources and the patience to ride out Australian agriculture's peaks and troughs with a long-term view on investment returns.

While the economic recovery from the impacts of COVID-19 will be multi-paced based on jurisdiction, the historically stronger investors – like Canadian pension funds – are likely to come back first.

In 2020 and beyond, respondents believe investment will largely be driven by domestic investors as they look for industries where they can put their capital to work (Figure 15). However, they do not believe international interest will drop, with 66% expecting foreign funds to also be active.



“

Agribusiness assets have unique qualities which are attractive to longer term investors with more patient capital. Canadian pension funds have a long-standing interest and expertise in agribusiness investments, realising value both from a commodity/operating business perspective and also from capital growth of the underlying agricultural land.”

**Glen Sauer,**  
Partner

A wooden crate filled with fresh green broccoli is the central focus of the image. The background is a blurred grocery store aisle with various other produce and packaging visible, creating a sense of a fresh market environment.

“

Due to extensive research and development being conducted within the agribusiness sector, we are looking forward to faster growth patterns. There is also higher demand for Australian food products, due to their use of clean and hygienic methods for harvest, transport and packaging.”

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Survey respondent



# Conclusion



**There is no doubt that COVID-19 has put a pause on the world's focus on new M&A transactions. While it's clear there will be significantly-reduced volumes of activity for the remainder of 2020, our expectation is that there will be a modest recovery in 2021 and 2022.**

Australia's agribusiness sector has demonstrated it has built in resilience to withstand the most egregious of crises; drought, floods, bushfires and a global pandemic. The sector remains a significant contributor to Australia's economic prosperity. COVID-19 has highlighted the strength of the industry in Australia and the global demand for high quality produce, both domestically and internationally. Governments and market participants are increasingly aware that sufficiency and quality of supply are just as important as efficiency in supply chains.

All of these factors lead us to conclude that the agribusiness opportunity -

whether investors choose to participate or not, will continue to grow.

Australia is creating and deploying agtech solutions and innovative practices to help farmers and agribusiness operators raise their efficiency, allowing them to produce more while using fewer, scarcer resources.

These advances are also enabling food producers to meet growing demand for food that is safer, greener and healthier and a higher quality.

Equally, Australia's agtech edge and the adoption of new technologies will allow agribusinesses to get ahead of and mitigate the impact of climate change and extreme weather events.

It's ideal position within growing global markets – and rising demand from emerging consumer classes in Asia – is another advantage that will drive industry growth. Free trade agreements and its connection to established trade channels, matched with significant government support and funding environment, add to these market positives.

With investors intent on ramping up their exposure in the agribusiness space, this rising interest in the country and sector will see increased competition from a variety of domestic and international sources of capital.

Likewise, investors need to recognise that there are certain risks associated with agribusiness assets that need to be evaluated with a ground-level perspective.

With this in mind, investors must ask: to what extent will overwhelmingly positive expectations and increased competition change the nature of investing in Australian agribusiness? And what kind of strategy must investors – especially those offshore – use to find the best opportunities, maximise their investments and extract the most value in a post COVID-19 environment?

These are the questions that will prove most valuable in the future for investors, and MinterEllison is committed to finding the answers to help its clients navigate the Australian market and find value in the future of farming.

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