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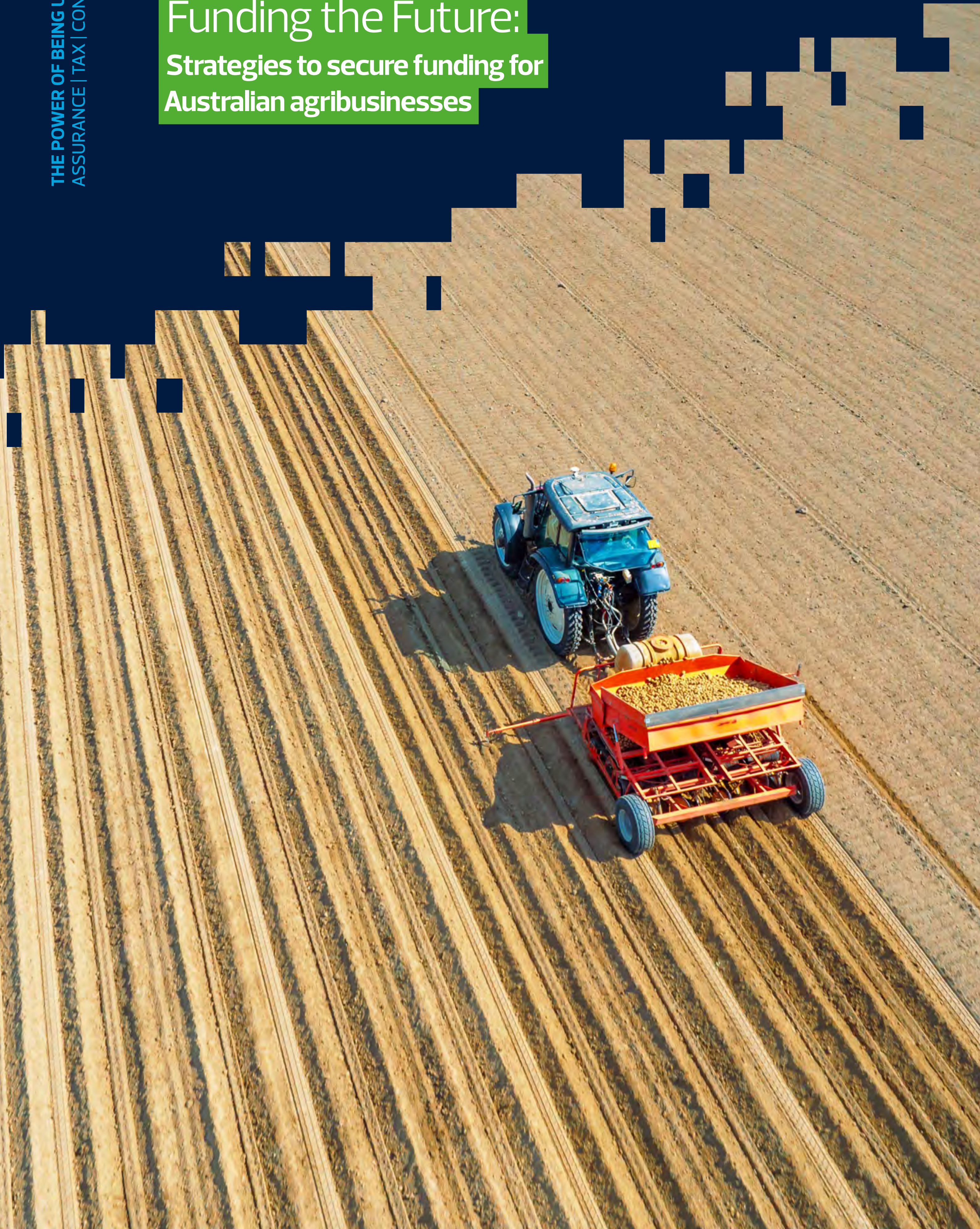
Funding the Future:

Strategies to secure funding for Australian agribusinesses



It's an exciting time with increasing interest from a wide range of investors in Australian farms and food production

Foreword

By Ross Paterson, National Leader, Agribusiness and Justin Audcent, Director, Corporate Finance

Australia's $90b agricultural sector is thriving, thanks to a combination of good seasons and relatively high commodity prices, and our agricultural production continues to be highly valued in key export markets. At the same time, agtech and biotech advances are increasing efficiency and productivity gains and contributing to the long term sustainability and global competitiveness of the industry.

But access to capital remains a constraint for many, despite large-scale foreign investment in the sector. Small-to-medium farms and agribusinesses are struggling to raise capital, whilst innovative agtech start-ups are finding it hard to attract early stage funding.

According to the agricultural industry's Research and Development Corporation, AgriFutures, Australia needs to invest at least $8.7b into agriculture annually if the sector is to reach its target potential of achieving $100b of gross production by 2030.

The National Farmers Federation has publicly stated that Australian agriculture needs more domestic and international investment to "remain globally competitive and to have the capacity to take up and use modern sustainable technology and practices so as to continue to provide food and fibre to Australian and international export markets."

Whilst debt funding in the form of loans from major banks – as well as personal savings and retained enterprise profits – has traditionally funded the growth of the agricultural sector over the past century, the scale of future investment required will depend much more on outside sources of capital, including from large institutions and superannuation funds as well as foreign investors.

This report looks at potential sources of funding available to agribusinesses to expand their operations, increase productivity and benefit from advances in technology. These options range from government and industry grants and federal R&D tax incentives, to banks, institutional funding, private equity and other sources of private capital, and – for some – an IPO on the Australian Securities Exchange. We have included case studies of businesses which have successfully pursued different funding pathways.

At RSM, we work with leading agribusinesses and producers across Australia to advise on the funding options available to drive their growth and business expansion, as well as the best structure to enable successful investment.

We have seen inbound investment continue to be driven by securing product for export markets within both the branded food and beverages and primary production segments, whilst a number of global players are seeking to build vertically integrated agribusinesses from pre farm gate through to processing and export. Other overseas investors are primarily seeking long term ownership of productive agricultural land. In recent years, high net worth families have also become increasingly active in large-scale agricultural investment.

Private equity funds, with a short to medium-term investment horizon, have traditionally avoided agriculture but remain active investors in food and beverage companies with a strong brand and market position, which they see as both defensive and growth investments. Private debt funds – both in Australia and offshore – are also now more prominent in funding agribusiness, providing greater leverage than the major banks are able to offer, albeit at higher lending margins.

An exciting growth area in recent years has been the agtech sector, with Australia acknowledged as a global leader in developing innovative technologies for the agrifood industry, as evidenced both by the establishment of a number of specialist agtech venture capital funds and by the attendance of major global investors at the annual AgriFutures evokeAG conference. Global investment in the agtech segment has grown from US$3b in 2017 to over US$10b in 2022, of which 25% was in the Asia-Pacific region.

For agribusinesses seeking investment and looking to take advantage of these opportunities, the importance of being "investor ready" cannot be overstated. In addition to having the right corporate structure, a robust business plan will be required – including details of the funding required, how it will be employed to drive growth, and an assessment of the associated business risks. It is also important to understand clearly what different sources of funding will be looking for and therefore how to pitch successfully to them, as their investment mandates and objectives differ widely.

RSM is proud to have been supporting Australian agribusinesses for over 100 years and has the depth of knowledge and experience to advise and assist with securing funding from all sources. We look forward to playing a key role in the future growth and success of the sector, so that Australian agriculture can continue to lead the way in what promises to be a bright and buoyant decade ahead.

Australian agriculture: A sector overview

By Devika Shivadekar, Economist, RSM Australia

Australia's agricultural sector is now a $90b powerhouse industry.

In just a decade, it has increased 66% in size by farmgate value of production (from $54b in 2014), contributes 3.17% of the nation's GDP, accounts for 12% of Australia's exports and employs 325,000 workers.

The ambitious growth target set in 2018 by the National Farmers Federation of turning the agricultural sector into a $100b super-industry by farmgate production value (prior to any value-adding or processing) by 2030 is tantalisingly close to realisation.

Agriculture now stands as a fundamental pillar of the nation's economy, encompassing a vast expanse of approximately 427m hectares or using 55% of the country's land. It uses 24% of all water resources, totalling 2809 gigalitres in 2020-21.

Agricultural income, calculated as the gross agricultural product at factor cost minus consumption of fixed capital, compensation of employees, and net rent and interest payments, reached $11.3b in the third quarter of 2023.

In November 2023, the broader agricultural sector, including forestry and fisheries, accounted for 2.1% of total employment.

These figures underscore the substantial impact of Australian agriculture, not only in shaping the rural landscape but also in influencing national economic dynamics and employment patterns.

The agribusiness sector reflects a robust and dynamic industry marked by several key insights.

Firstly, the sector is characterised by a high degree of innovation and technology adoption. Farmers and businesses in Australia leverage cutting-edge technologies such as precision agriculture, drones, and advanced irrigation systems to enhance productivity and sustainability.

This technological integration has not only improved efficiency but also positioned Australia as a global leader in agricultural innovation.

Secondly, the sector is responsive to evolving consumer preferences and international market trends, with a growing emphasis on organic and sustainable practices to meet the increasing demand for ethically produced food.

Thirdly, the agribusiness landscape in Australia is influenced by a strong focus on export-oriented production such as meat, grains, and dairy. This export-oriented approach has been supported by strategic trade agreements, efficient supply chains, and a commitment to meeting stringent international quality standards. The sector's ability to tap into global markets contributes significantly to its economic resilience and competitiveness on the international stage.

A rocky road ahead

Due to a challenging international macro-environment, trade – particularly for agricultural commodities – is predicted to slow down. Agricultural export values are projected to fall by $11b to $67b in 2023-24, mainly due to lower crop export values according to the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

Despite these challenges, Australia is positioned to capitalise on key Asian export markets, supported by economic growth and consumption in Southeast Asia and expected recovery in Chinese consumption as well as bilateral relationships.

Weather conditions, including below-average rainfall and the influence of El Niño and positive Indian Ocean Dipole, are expected to affect pasture growth, leading to increased demand for supplementary feed. Furthermore, agriculture remains responsible for 14-16% of Australia's total greenhouse gas emissions. On the other hand, heightened bushfire risk is expected to have limited impact on national agricultural production and exports.

Elevated input costs, particularly for fuel and fertilisers, along with increased finance costs, pose challenges for Australian agricultural businesses. The return of overseas seasonal workers has eased labour pressures, but some industries, such as meat processing, still face tight labour markets.

Through our work at RSM, we've had the opportunity of directly engaging with some of our key farming clients. One major concern that has emerged from these discussions is the difficulty in retaining labour due to high attrition rates, particularly among young seasonal workers who are lured away by higher-paying mining positions. Our clients have emphasised the challenge of recovering the costs invested in training these individuals, especially given the short average tenure of just two years.

Potential galore

The Federal Department of Agriculture Forestry and Fisheries (DAFF) reports a significant surge in farm productivity attributed to the adoption of cutting-edge technology on farms, three consecutive years of good seasonal conditions across most of the nation, high commodity prices and an inflow of serious investment capital into the long-neglected sector.

With stringent biosecurity measures in place, Australia maintains a global reputation for delivering clean, green, and safe agricultural products. Despite challenges, the agriculture industry in Australia is marked by its commitment to innovation and sustainability. This commitment is crucial for navigating challenges such as climate variability and market fluctuations.

Farms — and farmers — are becoming increasingly efficient, helped by economies of scale. While the total number of commercial farms has shrunk from 180,000 farms 40 years ago to just 54,400 in 2022, their size and scale has grown significantly.

The latest 2023 DAFF Snapshot of Australia Agriculture report concluded that risks associated with climate change are starting to have an impact on the sector's ability to further boost production. Notably though, Australia's agricultural sector is not just farms and primary produce.

While 72% of agricultural produce valued at $64b is exported each year relatively unprocessed, the food manufacturing and beverage sector also adds enormous extra value and transformation to much of Australia's raw farm produce. Last year it boosted the original value of agricultural output by $133b.

Consider the value increase of turning grapes into wine, wheat into biscuits or pasta, a steer into high quality individually packaged beef cuts, or milk into cheese and infant milk formula.

The food industry sector accounts for 20% of all Australian sales and service income and employs 276,000 people in 9,000 food and beverage manufacturing businesses. The meat processing sector is the largest food processing employer in the land. It is also one of the fastest growing parts of the food chain, with many food processors and manufacturers choosing to locate their businesses in rural and regional Australia close to the source of the raw produce needed to produce their value-added food.

Backing up the food supply chain, the agribusiness sector also includes all those suppliers servicing farmers and primary producers, the rural stock and chemical agents, machinery companies, agricultural consultants, livestock feed suppliers, technology providers and farm contractors.

Sources

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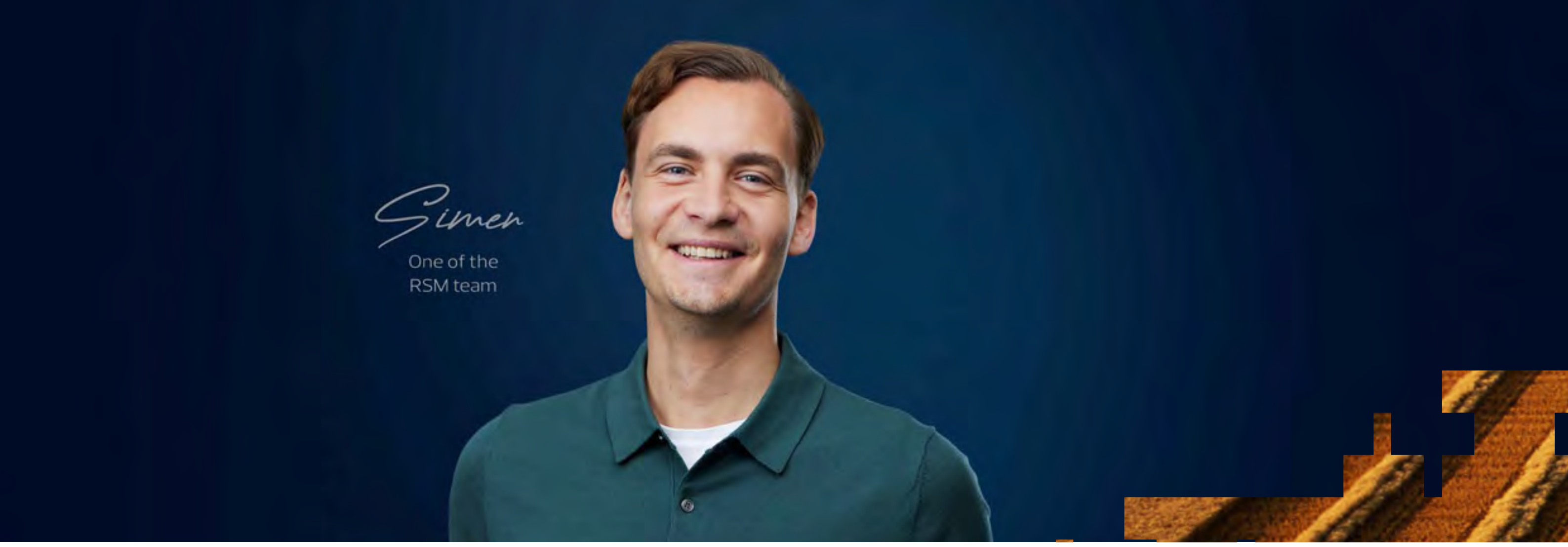

The need for investment in the agricultural sector

A landmark report commissioned by the ANZ in 2012, the Port Jackson "Greener Pastures" study[1], was the first to seriously try to estimate how much a lack of access to investment and capital was holding the agricultural sector back.

Somewhat alarmingly, it estimated Australia's agricultural sector needed a total investment of $1000b over the 38 years to 2050 if it was to modernise, grow and thrive to become a powerhouse sector of the national economy.

Of that amount, the *Greener Pastures* report found $600b was needed for modern capital improvements on farms to increase production, and $400b to facilitate transition of ownership to support older farmers exiting the sector.

In the eight years to 2020, it estimated a total capital inflow of at least $150b was needed. A follow-up study, *Greener Pastures 2* by the ANZ[2] a decade later in 2022, found that, unexpectedly, the increasing attractiveness of Australia's agricultural sector because of relatively low farmland values and high commodity prices had seen that figure exceeded.

Agricultural investments and land purchases between 2012 and 2022 by large overseas pensions funds such as Canada's Public Sector Pension (PSP) Investments, the Singapore government's Temasek Investments, major foreign entities such as Olam, Canada's Saputo and China's Mengniu Dairy – as well as by local agricultural corporations such as Macquarie Agriculture and Bega Cheese and wealthy individuals such as Andrew Forrest, Gina Rinehart, and Peter Hughes' Georgina Pastoral company – totalled more than $212b.

But despite greater inflows of capital than expected, *Greener Pastures 2* declared there is still a large shortfall of $284b of capital needed for Australian agriculture to reach its target potential of producing $100b of gross production by 2030.

Another report, *"The Capital Requirements of Australia's Agriculture, Fisheries and Forestry (2020)"*[3] by National Capital Economics (NCE) on behalf of AgriFutures, came to a similar, although slightly less alarming, conclusion.

The AgriFutures report[4] identified the scale of capital inflows required annually to achieve the industry's potential, in terms of farm purchases, infrastructure development and supply chain enhancement, as sitting at $8.7b per annum of new investment for each and every year up to 2030.

Given the existing ratio of debt to equity as a capital source for agriculture over the past decade (about 1:4), NCE estimated the additional debt capital required over the next 10 years to reach the $100b production target was about $17b, while the additional equity capital required was about $70b. It also said the demand for investment could be as high as $22b a year.

Last year, the federal government agricultural economics agency, ABARES, in its *"Where to next for Agriculture?"* paper[5], called for a new focus to make sure all future capital investment in agriculture – mainly in research and development (R&D) and innovation rather than farmland assets – was directed into the right fields.

"Productivity growth and a changing climate will continue to change the face of agriculture, including both how and where agriculture takes place," said the ABARES report. "Past microeconomic reforms have enabled the farm sector to adapt to changing circumstances (known as 'structural adjustment') which has delivered strong sector performance over the past 20 years.

"While this has led to the number of farms falling, it has delivered growth in farm sector returns and average farm returns. Changes to farm types and sizes will continue; so too the general trend that has seen many farms grow larger and use more capital investment in place of labour,

[1] media.corporate-ir.net/media_files/IROL/24/248677/ANZ_insight_3_Greener_Pastures.pdf
[2] www.anz.com/institutional/industries/food-beverage-agribusiness/greener-pastures
[3, 4] agrifutures.com.au/product/capital-requirements
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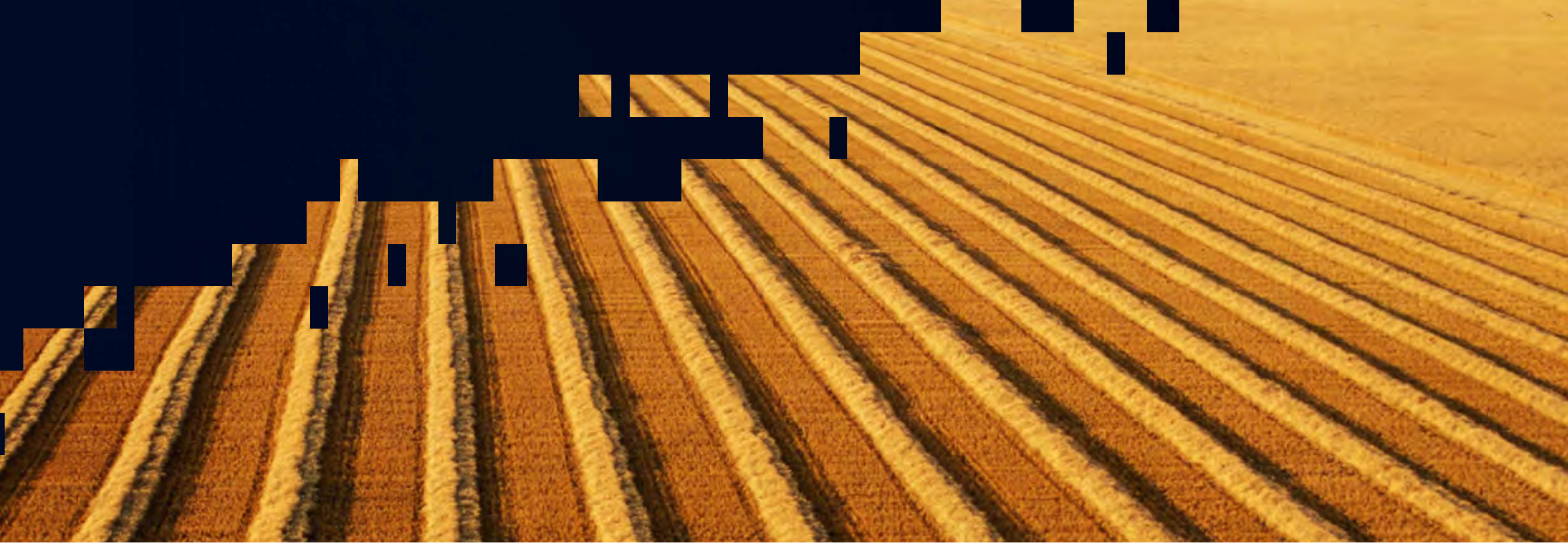


is expected to continue. This long running trend is evidence of an innovative sector responding to economic signals."

The ABARES report recommended future Research & Development funding – and more efforts and spending by farmers – focus on both improving productivity and on addressing the risks and opportunities associated climate change. It listed investments to increase sustainability, reduce greenhouse gas emissions, maintain agriculture's social licence to operate, and produce new products generating income for the sector while maintaining agricultural production (such as carbon and biodiversity credits), as key priorities.

"For Australian agriculture, getting on top of these challenges is going to require both private and public investments by industry and government. At the same time, investment in practices to enhance climate adaptation and productivity growth is vital."

RSM's view of the current state of agribusiness investment

RSM's National Leader of Agribusiness, Ross Paterson, believes agriculture is entering an exciting phase, with options and sources for obtaining both debt funding and equity investment to grow and change the face of the industry more than ever before.

Like the ABARES Insight report, Paterson sees the new federal laws requiring mandatory reporting and disclosure from 1 July 2024 by Australia's largest listed and unlisted private companies and financial institutions of their greenhouse gas emissions and climate-related financial risk exposure as offering new opportunities for agriculture.

Paterson expects new sources of capital to now start flowing to Australia's farming and agribusiness sector for its renewable energy generation and carbon emissions potential.

He believes this new group of interested investors will augment the traditional avenues of capital inflows to agriculture – namely bank finance, private capital, foreign capital, super funds and institutions – that are keen to invest because of the relatively affordable value and capital gain potential of the farmland, or related rural businesses assets, themselves.

The 2023 Australian Farmland Values survey by the Rural Bank[6] found farmland values are maintaining a strong growth trajectory.

In 2022-23, the national median price of farmland climbed 20% to $8,506 per hectare. The previous year also recorded a 20% annual rise in farmland value.

For the first time in the 28 years of the Rural Bank survey, growth of more than 15% was recorded for farmland value across all states and territories. The average price of farmland per hectare more than doubled in a single year in the Northern Territory in 2023 and jumped 54.9% in Tasmania.

The Rural Bank attributed the steady median price rise to Australian farmland being "reasonably priced" for foreign investors relative to other nations such as Brazil and Canada that are similarly net exporters of agricultural products. Good seasons and high commodity prices also boosted local farm incomes, allowing many Australian landholders to grow their scale while giving fewer reasons to sell.

[6] www.ruralbank.com.au/siteassets/_documents/publications/flv/farmland-values-mid-year-2023.pdf

At the same time, some large corporate investors and overseas private equity funds, such as the US-based Proterra Investment Fund, decided the past two years were a good time to sell Australian assets.

During 2022 and 2023, Proterra put its $800m-plus portfolio of quality farming properties in five states on the market – citing strong demand from buyers and big recent land price rises – to reap the profits and exit Australia.

"There are some interesting changes happening in the farmland market because of the significant increase of the value of farmland in recent years," Paterson said. "For example, land in Esperance in Western Australia (WA) that two to three years ago was selling for $3000/acre is now worth more than $6000/acre.

"So I would expect to see some big corporate players such as overseas pension or private equity funds – like Proterra – starting to exit Australian agriculture because of that big rise in land value.

"Others, like Nuveen (formerly Westchester, which manages the superannuation/pension funds for American teachers and college staff), will find their preferred management model where they buy land and lease it back to the farmer for about 6-9% of the capital purchase price difficult to implement when land values are so high, so may choose to sell up."

But Paterson predicted rural land values across Australia would remain high, despite some exits, because of new entrants into the market, which he and RSM are already starting to see.

"A lot of people are looking to buy farmland because of its potential location for solar or wind farms," Paterson said. "Then we also have heavy emitters of greenhouse gases – such as power companies or airlines – looking at carbon farming as a way to offset their emissions, and who are considering either directly buying farms, or buying the offsets from other companies or businesses that are planting trees, letting pastoral land regenerate or using other methods to carbon farm."

Paterson pointed to one of RSM's clients on a large pastoral lease north of Kalgoorlie in WA, who has moved to regeneration of native pastures, plants and trees on large parts of his sheep station. After the five years of gathering data and gaining carbon scheme certification (and based on current prices), he could be selling his carbon credits for $150,000 on the carbon trading market.

"It's a win-win for farmers like him in the pastoral zone; he now has an alternative and reliable income source which means he doesn't have to run the rest of his land so hard," Paterson said.

Paterson predicts the big investment trends affecting agriculture and farmland in the next few years will be:

- A continuing shift toward farmers looking to expand to grow their scale, leasing rather than owning all of their land in preferred 10-20 year long term leases, freeing up capital for equipment and operational purchases and reducing intergenerational debt loads
- Ongoing foreign investment from countries such as China and Saudi Arabia, keen to lock in farm production as much as the land value, to boost their own food security
- Growing hurdles for international pension funds and companies looking to invest, because of the $15m farmland threshold set by the Foreign Investment Review Board – above which land must be publicly advertised for sale for 30 days – reducing their market agility to act quickly
- Renewed interest – and probably grants being offered – by food processors and supermarkets to producers and business to help with their adoption of sustainability and decarbonisation strategies, so they can ensure their own supply chain carbon neutrality and other ESG credentials to governments, stakeholders and consumers
- A move by many importers and governments to restrict market access and trade with Australia unless a commitment to reducing carbon emissions of the products can be demonstrated – and backed by whole-of supply chain data.

"It's an exciting time for agriculture; there are plenty of opportunities with so many different groups wanting to invest in farms and food production," Paterson summarised.

"But it will come with an increased requirement to be able to demonstrate things such as carbon neutrality, decarbonisation strategies, commitment to ESG (Environmental, Social, and Governance) principles and good animal welfare, and a range of other things that are important to consumers and food companies.

"For example, we recently had an abattoir in WA that has a supply deal with Costco, being asked to demonstrate not just its ESG, animal welfare and carbon credentials, but also its policies and commitments on anti-slavery.

"These are questions popping up more and more and there will be flow-on sales, marketing, export contract and trade consequences unless agribusinesses take note and respond accordingly."

An exciting time for agriculture with plenty of investment opportunities

Types and sources of investment funding for agrifood businesses

As the saying goes, much of Australia's current agricultural wealth has literally been built 'on the sheep's back' or, at least, from past and historical farm prosperity.

In modern financial parlance, that can be translated to mean that in the past 200 years farmers have largely funded growth, expansion and capital improvements on their properties by making use of their own spare cash or 'liquid assets', generated from former good seasons and farm profits, often stored after good years in agriculture-specific Farm Management Deposits.

Figures from the Reserve Bank of Australia also show that taking on debt by borrowing money from the major banks, particularly to buy new farms or fund major machinery purchases or land improvements, has traditionally funded about 25% of agriculture's financial requirements.

But personal liquid assets and bank borrowings are no longer the only sources of funding available to Australian agribusiness looking to adapt, change and grow.

There is now a myriad of outside funding options available to agribusinesses.

They include government and corporate grants to small agribusinesses, R&D tax write-offs, rebates and incentives, and kickstart programs to turn fledgling startups and their ideas into commercial reality.

Capital investment can also come from other nations' sovereign or government wealth funds, massive foreign superannuation or pension funds, university endowment funds, commercial lenders, wealthy family offices looking to preserve their wealth for future generations or high net worth individuals with a passion for agriculture.

Private equity investment funds such as ROC and Paine Schwartz partners have also been active in recent years, as have Australian agri-specialist asset fund managers such as Laguna Bay, Macquarie Agriculture and Warakirri Asset Management.

A public listing on the Australian Securities Exchange (ASX) via an Initial Public Offering (IPO) is another way for medium-sized growing agribusinesses, often family-owned, to convert some of their family shareholding into cash, raise additional capital for growth by opening the business up to external investors, install a more formal corporate structure, and gain in corporate credibility and financial clout.

In the next section, we examine the different types of capital funding and finance available, what type of business is best suited to access each form of funding, and profile recent real case studies in Australian agribusiness to demonstrate how each funding source has helped grow and transform the size, scale, efficiency and purpose of each individual enterprise.

Grant funding

RSM's Senior Manager of Government Grants, Edward Day, says how to access and win a government grant is often the most misunderstood part of grasping the agricultural and agribusiness funding landscape.

Day said the common misconception by businesses is that government grants are a readily available source of finance and meeting the eligibility criteria almost guarantees success.

Nothing could be further from the truth, says Day, whose role within RSM is to help the food and beverage sector, food processors, ag startups and primary producers understand the grant funding landscape across Australia. In reality, grants are always a highly competitive process where meeting eligibility is just the minimum standard. Success lies in building a compelling narrative to ensure your project meets all the merit-based assessment criteria.

"Government uses grants to stimulate growth and expansion in the economy as a whole or at a sub-sector level rather than at the individual business level. Government is looking for projects with broader economic benefits, that bring new technologies or capabilities to an industry or a region or create new employment opportunities. Applicants need to demonstrate how their project meets these objectives and the need for government intervention to get the project across the line," says Day.

"We always advise clients to consider their application from the funder's perspective and position your project as a 'solution to their problem'. It is important to articulate that, if they pick your project, it will deliver the desired benefits such as local employment, implementing new capabilities, building resilience in food supply chains, improving sustainability outcomes and providing broader community benefits."

Day, who previously managed WA's Department of Primary Industries and Regional Development's Food and Beverage fund to grow and diversify WA food, fibre and beverage industries, says the starting point for winning a government grant is to first get the basics of eligibility right. Once you've done that, demonstrate what the broader benefits of any grant funding to the local region, state and nation might be – perhaps through an economic activity analysis – and differentiate the project so the application stands out from the rest.

Day said the grant landscape is constantly changing, making it harder for companies to keep up with what is on offer, and what is most suited to their specific circumstances.

Some state-based government funds offering grants to rural and food manufacturers and processors include Queensland's *Made in Queensland* program, South Australia's *Economic Recovery Fund*, Victoria's *Business Competitive Program* for small manufacturers, and Western Australia's *Regional Economic Development Grants* program supporting projects that stimulate economic growth and development in regional Western Australia and the *Agrifood and Beverage Voucher Program* offering grants to help small businesses engage business consultants and technical experts.

But Day said the 'big game in town' in the grants space is currently the federal government's new $392m Industry Growth Program for small and medium-sized businesses building manufacturing capabilities through commercialisation and growth projects relating to highly innovative and novel products, processes or services. Projects aligned to post-farm gate value-adding in the agricultural, forestry and fisheries have been identified as one of seven key priority areas.

Under this program, early stage commercialisation projects, can access grants in the $50,000-$250,000 range for initial work such as feasibility studies and proof of concept research.

Where the concept is at a later stage of its development, grants of between $100,000 to $5m are on offer to support the process beyond prototyping up to full-scale commercialisation and growth into new markets.

In the pre-farm gate sector, there is a funding focus on soil carbon and land restoration projects. The WA government will shortly announce Round 3 of its Carbon Farming and Land Restoration Fund which offers $3.5m in funding for projects that promote practice that increase the amount of carbon captured in the soil or enhance natural capital assets through land restoration and revegetation activities that promote biodiversity, protect and enhance native vegetation and deliver other co-benefits. Unlike traditional grants, funding is provided in the form of a loan to be repaid over a period of up to 10 years with an agreed number of Australian Carbon Credit Units (ACCUs) generated by the project.

New South Wales-based biotech startup ProAgni[7] found it required capital for its start-up business idea, creating animal feed using probiotic compounds to replace harmful and overused antibiotics. Two small grants – one from the government-funded Impact Investing Australia and another from Industry body Meat and Livestock Australia, made all the difference to their eventual global success.

Leading agribusiness investment banker David Williams of Kidder Williams says there is plenty of government money out there to help, but it is often hard to know how and who can tap it. Top priority grants currently, he says, are linked to government funding for food manufacturing and agtech ventures.

He cites the Victorian government's $2b Breakthrough Victoria co-investment Fund, which has $100m available for deep innovation in agtech and the agrifood sector. It funded Smart Paddock's Bluebell non-battery supercapacitor ear tag tracker, together with private sector investments from Telstra, Skalata, Twynam and the Little group.

In the Northern Territory, the family-owned Humpty Doo Barramundi farm underwent a major expansion that allowed it to scale up enough to supply fresh barramundi to Woolworths nationally, with the help of a $10m grant from the NT Development Fund.

And in 2022 the federal government committed $113m under its Modern Manufacturing Initiative fund, while the South Australian (SA) government promised a $65m grant, to three pulse-based plant protein manufacturing facilities in the state

[7] proagni.com

in a $365m project – together with three private sector companies – to generate 8500 full time jobs and $4b in exports by 2032. It remains on the drawing board.

"Everyone wants food manufacturing in their state. Invest Victoria for example has a small fund of $20m available to attract food and agtech companies to come to Victoria. They will write a cheque for up to $5m tomorrow for the right project," says Williams.

"So getting grants is all about being in the same space as the government's priorities at that time – at the moment, it centers around food manufacturing, innovation, reducing greenhouse gas emissions, exports and indigenous foods - and then having your projects ready to go."

Not all grants come from government. For example, companies such as Telstra, Elders and Westpac have all been very active in funding new agricultural technology, especially in the big data, wifi and mobile telecommunications field. Landcare grants have long-funded rural community and on-farm shelter belts, tree farming, erosion control and soil sustainability projects.

In 2015, leading Australian retailer Coles launched its Coles Nurture Fund, offering grants of up to $500,000 to help Australian farmers innovate, grow and develop new food products, or to improve the environmental sustainability of their businesses.

In the past decade, more than 100 small and medium-sized farm producers have benefitted from $33m of grants from the Coles Nurture Fund. These grants have helped develop carbon-neutral bananas, assisted in harvesting melaleuca bush honey by an indigenous company in the Kimberley region of WA, build a new animal-welfare-friendly freedom-farrowing system for birthing sows at an SA piggery and introduced AI technology at Esperance Bay Orchards in Tasmania to reduce rejections and food waste.

"There is grant funding out there, especially for manufacturing and value-adding processing, whether you are in early stage development or scaling up commercial production," Day concludes.

"But it's not a quick or easy process and there are pitfalls; even if you get the grant it's the beginning of the process, not the end, because often you need matching funds and these are legally binding agreements where you must account for how every dollar is spent."

One successful WA business to recently benefit from government grant funding was Manjimup's Bendotti Exporters.

In January 2024, its grant application to upgrade and expand its frozen potato chip factory, creating 12 new jobs, boosting local potato purchases, increasing production by 36% and contributing an extra $19.5m to Gross State Product, saw the local company awarded $1.8m under the Native Forestry Transition Plan. This will create new industry opportunities in the south-west region of WA as native forest logging ends.

Navigate Australia's grant programs – key considerations to position for success:
rsm.com.au/insights/tax-insights/grant-funding-101-navigating-australias-government-grant-programs

Case study

Bendotti Exporters: How government grant funding is helping grow a WA agribusiness

In just under 100 years, the Bendotti family has transformed from newly-arrived Italian immigrants growing potatoes on a few hectares of land near Pemberton in WA's Great Southern region, to become a major processor of frozen chips, wedges, potato scallops and French fries.

Bendotti Exporters has had its own potato processing facility just north of Pemberton at Manjimup since 2002 where nearly 10,000 tonnes of locally-grown WA potatoes are processed annually for its own Bendotti and WA Chip brands as well as supermarket private labels.

Stephen Bendotti with WA Minister for Agriculture and Food; Forestry; Small Business Jackie Jarvis and RSM's Director of Business Advisory Peter Sarandopoulos

Now the family-owned group, headed by Director Stephen Bendotti, is looking to increase its processing capacity and move into wider Australian distribution of its low-fat French fries, as well as make its processing plant more energy and water efficient.

Its expansion plans, up until now largely funded internally or by bank debt, have been boosted by a $1.78m grant to the company from the WA government in January 2024, under its Native Forest Transition Plan and associated New Industry Development Grants (NIDG) funding program.

Bendotti's operations are based in the south-west corner of WA where the timber industry has been a long-term major employer. But the recent halt to commercial native forest logging by the state government has led to a severe loss of timber harvesting jobs, local family income and community upheaval, especially in traditional timber industry towns such as Manjimup, Pemberton, Northcliffe, Nannup and Albany.

The WA government's $80m Native Forest Transition Plan is intended to help existing and new businesses in this region – especially in the food and tourism sectors – grow and develop further, supporting new economic activity in local communities and offering alternative employment opportunities.

Bendotti Exporters, which currently employs 39 local staff, was one of the major recipients of the government's most recent round of grant funding. The funds will be used to buy new automated processing equipment, including robotic case packing, energy efficient ovens, and new storage technology, replacing ageing equipment and allowing the plant's employees to be trained in advanced food manufacturing technologies.

Assisted in its grant application by RSM's National Grants Manager, Dr Rebecca Barnes and Senior Analyst Dr Stephanie Guiney, the $1.78m grant will allow Bendotti Exporters to buy 3500 tonnes of additional potatoes from local Manjimup regional growers, increase its processing capacity by 36% and, with extra storage capabilities, move the plant into full production capacity for the first time, operating 24 hours a day for five days of every week of the year.

The upgrades and expansion to the plant, as well as energy and water efficiency measures, will see Bendotti Exporters return an extra $1.75m to local potato growers in new sales, allowing an extra 56 hectares of potatoes to be sown and harvested as well as boost Bendotti Exporters' own revenue by more than $5m.

Stable employment will be created at the Manjimup potato processing plant for 12 extra local workers, with Bendotti saying these would most likely be displaced forestry workers who can now remain working and living in the local community with their families.

Economic impact analysis showed the successful $1.78m grant application by Bendotti Exporters will also indirectly create another 22 full time jobs across WA's food supply chain and contribute $19.5m to Gross State Product in additional economic activity.

WA Forestry Minister Jackie Jarvis said the end of native timber logging marked the start of new sustainable era for the South West region.

"These New Industry Development Grants are just another way the WA Government is continuing its commitment to timber communities; these significant grants will help support diversification, business growth and the creation of new jobs in the region," Jarvis said.

Stephen Bendotti said applying for the WA government grant had been a highly competitive process, but that he believed the company's proposed project had aligned well with the wider intent and purpose of the NIDG funding.

He attributed the company's success to well-written explanations of the competitive strengths of the project, analysis of its broader economic impact, evidence of broad support for the plant's

modernisation and expansion project from potato growers, customers, suppliers and the local community, and the development of robust project planning documentation such as risk management and project governance plans.

Bendotti thanked his staff and the wider community for its support and said he was delighted with the grant outcome, which will allow the $10m family company to finance its expansion, without the need to take on more bank debt or invite in outside shareholders offering equity capital.

He said the assistance and knowledge of RSM and Dr Barnes and Dr Guiney had been pivotal to the success of Bendotti's targeted grant application under the Native Forest Transition Plan.

"They proved to be particularly helpful through the whole of the grant research, preparation and lodgement – being professional, focused, succinct, and experienced – allowing the grant proposal to be prepared in a very time efficient manner, while still meeting all of the grant criteria," Bendotti said.

"In addition to their professionalism, they were both polite and patient towards us; if completing grant-related paperwork could ever be pleasurable, they caused it to be."

RSM's Dr Barnes said obtaining government grant funding could often act as the key for a growing agribusiness to unlock its expansion, changing the face of both the business and its local community. But knowing which grants to apply for and how to write clearly targeted grant applications was vital.

"Grants for this sector typically target innovation, job creation or projects with broad economic impacts," Barnes said.

"Identifying the right grant for the right project at the right time is important; when that alignment is strong, so is the reward."

bendotti.com.au

Capital growth funding using Debt or Farm Management Deposits

Traditionally Australia's rural sector has relied on a combination of using farm bank balances and relatively liquid assets from good years, combined with bank borrowings, to grow, expand and diversify.

Many producers preserve substantial amounts of cash from good seasons to tide them through the variability of poor times. They are often held in tax-effective Farm Management Deposits (FMDs,) a primary producer-only system administered by the Australian Taxation Office, to even out income flow for farmers.

The scheme allows farmers to deposit profits into their own FMD, held with an approved bank or financial institution, without the need to pay tax. It is only treated as income in the year the FMD amount, or a portion of it is withdrawn, as long as it has been in the FMD for more than one year.

FMDs provide a buffer against short-term reductions in income and are often redrawn to provide working capital for post-drought recovery, for herd and flock rebuilding, or to buy a new property or land.

As at 31 December 2023, the total holdings in the Farm Management Deposits (FMD) scheme were around $6.01b[8], a near record amount after three good seasons and the sudden drop in livestock prices during 2023 not yet having made an impact. (Six months earlier, after record harvests, the total amount held in FMDs exceeded $7b for the first time.)

Currently, more than 50,000 farms have FMD accounts – with the interest able to be offset against farm loans – with the 10-year rolling average of FMD account holdings at $6.84b (DAFF 2024). This equates to the average size of an FMD for every farmer being $136,800.

The banking sector in Australia has always been a major lender to the rural industry, with NAB the leading debt funder in Australian agriculture. Over the past two decades, the average farm has been 20-30% debt-funded, although dairy farms typically carry higher levels of debt than cropping properties.

But by June 2022 (the latest ABARES figures[9]) the average equity-to-debt ratio for cattle, sheep, cropping and dairy farms had climbed to a record 91%, mainly due to steep increases in agricultural land values and an increase in the proportion of farms with no debt after several consecutive high profit years.

The latest agricultural lending statistics[10] provided by the Reserve Bank and the Australian Prudential Regulation Authority, showed loans to the agricultural sector had ballooned to $116b by June 2023, up from $110b the previous year and $80b in 2019.

Lending to the farm sector increased in all states and territories during 2022–23 with an average 5.7% increase nationally. Tasmania grew its rural debt the most, increasing at 9.3% on 2022. The aggregate amount of interest paid by the farm sector in 2022 was $2.1b.

The ABARES 2023 report on *Trends in Farm Debt* concluded[11] that "debt financing is of critical importance to the farm sector, both to fund new investment and to help manage variability in farm revenue and profit." It found the two main reasons for borrowing are to fund land purchases, and to invest in capital improvements on-farm such as better stockyards and shearing shed, more irrigation and water systems, fencing improvements and new machinery.

ABARES said "rising land prices and low interest rates had provided farmers with greater equity to support increased borrowings, while historically high farm incomes in most agricultural industries had substantially improved farmers' ability to service debt."

On average, specialist broadacre cropping farms had the highest debt amongst all farms, at around $2.31m per farm in 2022, while specialist sheep farms had the lowest amount of debt at $309,400 per farm.

Across all rural industries, just 5% of farms accounted for nearly half (47%) of the aggregate debt held. In contrast, nearly 50% of properties carried little or no debt.

The ABARES report found that "the use of debt financing is more common among larger farms (as measured by turnover) than smaller farms. A high proportion of aggregate debt is held by a comparatively small number of very large farm businesses that generate high cash flows on average that allows them to service their debts."

An RSM client that used a combination of debt funding combined with a private capital raising to kick-start their new highly-automated stock feed mill project in the heart of WA's wheatbelt near Narrogin, was Patmore Feeds.

RSM's Director of Corporate Finance, Justin Audcent, said as a new greenfield project, it was initially a task of working out the best combination of debt and equity to finance the venture, having regard to the required equity returns of private investors and the lending parameters and other

[8] www.agriculture.gov.au/agriculture-land/farm-food-drought/drought/fmd/statistics#_2023
[9, 10] www.agriculture.gov.au/abares/research-topics/surveys/farm-debt
[11, 12] daff.ent.sirsidynix.net.au/client/en_AU/search/asset/1034901/0

requirements of the commercial banks. Ultimately the project was funded on a 50:50 debt to equity basis, with one of the major banks providing the debt funding and the remaining funds being sourced through a private capital raise, including investment from many local farmers.

"For a new project such as this, lenders and investors have to consider construction risk as well as the commercial risks once in operation, so it is essential to ensure you have a compelling investment proposition, including a fixed price construction contract" says Audcent. "Patmore Feeds put forward a strong business case, targeting an undersupplied market and looking to build a highly automated plant designed to minimise production costs and located close to customers and suppliers".

Besides the seven major banks that lend to the rural sector – NAB, ANZ, Westpac, CBA, Rabobank, Suncorp and Rural Bank – a new source of agricultural debt lending since 2019 has been the Australian government-backed Regional Investment Corporation (RIC).

While the RIC is a new and comparatively small lender, it has recorded substantial increases in lending to the agricultural sector over the past four years, according to ABARES. At December 2023, the RIC's lending portfolio was around $3.24b.[12]

Nearly half of the RIC's concessional lower-interest lending portfolio of more than 3000 loans is concentrated in the grain growing and mixed grains-livestock industry, with 56% of its loan book with NSW farmers.

Case study

Patmore Feeds: Funding by bank debt and a local private capital raise

In 2020, Dean Toovey and John Patmore had a bright idea they knew would be good for both farmers and the agricultural prosperity of WA's wheatbelt.

But how to fund their ambitious plan to build a new pelletised feed mill for cattle, sheep and pigs on farmland owned by the Patmore family in the heart of WA's wheatbelt at Cuballing, north of Narrogin, was another thing.

"We knew there was a market for pellets because there was a chronic undersupply of pellets for sheep and lambs in the region," says Dean Toovey, co-founder and now-director of Patmore Feeds.

"But we didn't know how much a new mill would cost, how to fund it, how much equity would be needed, how to structure the company or how to present the offer to investors; that's where RSM's Corporate Finance team was so important in guiding us along the pathway and doing it right from the start."

The point of difference for Patmore and Toovey was that their greenfield feed mill would be state-of -the-art, highly automated and, being located close to the source of both grain and livestock feed demand, would be able to offer well-priced pellets.

The new mill design was capable of producing 180,000 tonnes of pellets annually. Patmore and Toovey thought they had a rough idea of what it would cost. But once planning, environmental studies, groundwork, finance, design and construction quotes came in, the capital requirement of the total project almost doubled.

"We had a number in our heads as to what we thought it would cost. We just thought then that interested parties would put money in to fund the project, and we would go and build a mill," recalls Toovey. "But it's all much more complicated than that. How to structure it all was clearly beyond us. Under RSM's guidance, we formed a private company, with a board and independent chairman, and went to potential investors seeking funding in return for a shareholding in Patmore Feeds."

RSM's Corporate Finance director Justin Audcent said it can be very challenging for a greenfields project to raise funding, especially for a new company with no existing assets or operations.

However RSM quickly realised that there was a strong business case for the new feed mill and worked closely with Dean and John to develop an investable proposition, which included de-risking the project so far as possible, developing robust cash flow forecasts and determining an appropriate funding structure.

Once the capital requirement was locked in and a formal business case developed, it became clear that a 50:50 debt to equity ratio would be the best structure for the fledgling Patmore Feeds business.

Very quickly, a major bank came on board with the debt funding, to provide half the capital requirement of the new mill project. Numerous local growers and sheep producers – including retired farmers looking to diversify their superannuation – then invested in the business to become equity shareholders.

Audcent said the chosen bank was selected to help fund the new Patmore Feeds mill because of its knowledge of the agribusiness sector, ability to understand the market opportunity for the feed mill, and its offer of a structured debt package which addressed the specific challenges of the project, including a trade finance solution for imported plant and equipment.

The new Patmore Feeds company was formed in December 2020, almost entirely owned by regional WA shareholders. The feed mill started to be built in mid-2021 and was operational in the second half of 2022.

"Patmore Feeds is a great example of a private capital raise where local investors really liked the project and the fact it was WA-owned, addressed a real need in the local farming community and offered very attractive potential returns," says Audcent. "In addition, many of the investors have themselves become suppliers and/or customers of Patmore Feeds".

Pellet production is now at full strength, servicing the WA pork industry as well as sheep, dairy and beef markets.

"When we built the mill, we designed it so we could double the capacity quite easily and drop in another pellet production line," says Toovey. "That's the future plan."

patmorefeeds.com.au

Funding early growth through Research and Development funding and tax incentives

Taking a smart idea or an invention and turning it into a serious agribusiness is hard work, especially in the early stages of trying to refine the concept, verify trial results and get a commercial business off the ground.

RSM's Principal Ross Dixon, says in the early days, many people are reluctant to relinquish ownership of the IP of their nascent business or beloved "baby", to outside investors offering capital in return for an equity stake in their bright idea.

But Dixon, based in Albury, NSW, says the alternative of obtaining traditional bank funding via loans (debt) is a real challenge, as agtech startups often have no track record, no assets to use as collateral, and are unlikely to be profitable for several years even under the most optimistic business plan.

"It's not that the banks are discriminating against agtech or agrifood startups, but at the moment they have little focus on funding startups that will increase food production or food security; it's all about a green lens and projects that reduce greenhouse gas emissions or store carbon," Dixon said.

"Yet in the manufacturing sector, there is this focus on rebuilding Australian sovereign capability, but it's all about defence supply chains and renewable energy transition; that's why R&D tax incentives and rebates are becoming so important in the agtech and agrifood space."

Dixon said for such companies, the 43.5% Federal Government R&D Tax Incentive was vital. It means even before a company was generating profits, that at the end of the financial year it was returned nearly half its early R&D spend as a cash rebate.

Andrew and Jocie Bate, who are the co-founders and majority owners of leading agricultural robotic company SwarmFarm, said they couldn't have done it without the R&D Tax Incentive when starting their business in 2012.

According to Dixon, the best approach for early stage innovative companies with high growth potential is to go hunting for investment dollars everywhere they can.

He said this could range from friends and family prepared to invest some of their own self-managed super funds in the enterprise, to approaching neighbours who might have been big farmers but who have now sold their properties and have some spare dollars, to attending the EvokeAg[13] innovation and agtech annual conference and pitching your startup and investment proposal at hundreds of interested attendees.

Dixon said a prime example was Zetifi[14], an innovative Wagga Wagga based startup whose long range wifi extension products are suited to rural Australia, which recently raised $12m in funding from Telstra, GrainInnovate, GrainCorp and Artesian.

Similarly ProAgni[15], another Albury-based business, originally battled for funding to take it from an alternative startup to a global leader in its field, to get through what Dixon calls the "barrier to entry" in growing in value from $2m to $20m. The key was not giving up technological IP or proprietary knowledge to outside investors in the desperate search for capital to grow.

> "There is huge interest in buying established Australian-owned well-recognised businesses in the $20-$200m range, from both local and foreign private investors. People like to buy into the story of the farmers behind the invention, behind the brand, just like ProAgni," Dixon said.

"This is because Australia is seen as a real leader in the agtech and biological space – as it is in food produce – we are world class in our agricultural breakthroughs and food quality, but I'm not sure that is always realised locally, or that enough help is given to promising companies in this early difficult stage of development when they are trying to scale the business."

[13] www.evokeag.com
[14] zetifi.com
[15] proagni.com

Case study

SwarmFarm: From little things, big things (and robots) grow

It would be hard to find a new agricultural or agtech business more revolutionary, more innovative and initially more risky and difficult to comprehend – and so difficult to attract funding for – than Andrew and Jocie Bate's SwarmFarm robot company.

In the beginning, back in 2012, it was just the couple operating from the verandah of their grain property near Emerald in central Queensland, fuelled by a great idea, fiddling with little bits of machinery and desperately trying to attract the interest of universities and government grant agencies.

Now, 12 years later, SwarmFarm has more than 86 of its small robots operating commercially on farms, vineyards, orchards and turf farms around Australia, doing everything from precision spraying weeds in grain crops to mowing turf 24/7.

It is one of only a handful of companies worldwide making and selling agricultural robots successfully, with huge interest now coming from the United States in its robot technology. Its robots have accumulated more than 150,000 engine hours of commercial agricultural work, outside of early trials and R&D.

SwarmFarm's point of difference is that its autonomous robots are small, light and built to zip around paddocks without supervision and in groups or a "swarm" if required – all controlled by a mobile phone app – rather than massive, expensive and heavy existing tractors converted to operatorless-driving, as has been the main US pathway led by companies such as John Deere.

"It's been a hard journey but I think we are starting to get there," says Andrew Bate.

"The hardest part has been trying to change people's thinking; to help them understand that this is not just about labour savings, much lower chemical-use or replacing their big tractor, or even about automated farming.

"Yes, it's all of those things, but my wider purpose has always been to re-imagine and reinvent how we can farm better and to help create new farming systems of the future that take us into the next productivity wave, using robotics to achieve that; it's the really exciting revolution ahead," says Bate.

SwarmFarm's Farmbot base robot – the size of a small car – sells for about $305,000, with further mechanical hardware and tailored smart applications costing another $180,000-$350,000 fitted individually on top of the robot base platform to suit each individual purchaser's requirements for specific agricultural use.

SwarmFarm now has its own cutting-edge engineering and robot construction factory located on the Bates' rural farm. More than 25 of Australia's brightest young tech-heads and robot engineers have moved to Emerald to be involved in the exciting venture. Another 30 employees are located across Australia, with plans to establish a team – and possibly a robot factory – in the US next.

Jocie Bate, SwarmFarm Chief Financial Officer, says almost every type of funding has been accessed in the growth of their robot business, taking it from a penniless agtech start-up to now being a private incorporated company with many shareholder investors and more than $15m of investment funding behind it.

Initially SwarmFarm was assisted in its earliest days by research co-operation with several universities, industry partnerships with companies such as Westpac, Elders and Telstra and grant funding from the federal and Queensland governments.

"We call those days the "Valley of Death"; we had our early prototypes and there was enormous interest in what we were doing.

"But we didn't have the money or approvals to go to the next stage, there was very little venture capital around in Australia then other than for apps and fintech, not for ag hardware, and the government grants we could apply for needed to be matched one for one with our own money, which we didn't have," laughs Ms Bate now.

Matching funds were scraped up by Andrew operating a contract farming service with the early robots to earn extra cash and selling sponsorship and branding rights on their prototype robots used in agricultural field days demonstrations to companies and groups like the Fitzroy Basin Association wanting to associate themselves with agricultural innovation.

"But we wouldn't have survived without the federal R&D tax incentives, that made all the difference," says Ms Bate. "We are a world-first tech company, so we have had to develop an enormous amount of technology all built inhouse; you can't buy a driverless car yet, but we can do it in agriculture, which is something we are very proud of.

"At the start, it was all done on the smell of an oily rag, and the federal government's R&D tax incentive was key to that. You get a cash rebate while you're not profitable (43.5 cents in the dollar), and then it

becomes a tax deduction, for everything you invest in new technology, which for a company like us doing deep research and hardware technology was vital."

A $1m matched-funding Commercialisation Australia grant followed, helping SwarmFarm get its first commercial robots onto major farms such as those run by Treasury Wines and Macquarie Agriculture; first as a trial and then coming on board as early customers.

An initial $6m capital raise to fund construction of a new factory and technology facility on their Emerald home farm was oversubscribed and attracted $12m of investment funding from interested investors and new partners, including a lead Canadian investor who specialised in agtech funding, and the Grain Research and Development Corporation's Innovator Fund, in return for SwarmFarm shares.

Full scale ahead production and sales followed, with robots now operating in all Australian states, sold to both corporate and large family farms. Their first export robot has landed in the USA and is operating in the state of Indiana.

Andrew Bate says with such fast expansion and ever-moving technology advances, more capital is now needed to progress to the global stage.

"The next round of capital raising is underway; we are looking in the range of $15-$30m," says Bate. "This will be to expand globally now we have international runs on the board; it will help fund the support and delivery of robots overseas and setting up a second and third manufacturing site as part of that expansion.

"We will be looking at bringing in more global lead investors this time; Agtech investments generally don't excite interest from super funds or institutional money, but certainly a lot of wealthy private family offices and high-net-worth individuals are keen, as well as some serious venture capital money this time around.

"It's been a long road, but my advice to other agtech companies would be to stick with it, and don't ignore the early opportunities from government grants, corporate sponsorship and R&D tax incentives, even if a lot of paperwork and accounting assistance is involved. Once you get to a certain scale and commercialisation, we've found funding gets easier."

swarmfarm.com

Case study

ProAgni: Taking game-changing biotech from Albury to the world

Startup growth through R&D and government grants

Thinking outside-the-square drove Fiona Soulsby and her co-founders to begin a small start-up biotechnology company, ProAgni, in 2015 in Albury, NSW, that in its early days was regarded as something of an alternative agricultural venture.

More recently, that same innovative thinking – especially in regard to funding options – has transformed ProAgni into a mainstream livestock nutritional company attracting capital and winning awards and funding grants from around the world, now looking to raise $30m to build its first pilot-scale reverse encapsulation probiotic fermentation.

ProAgni is a business founded to counteract the global over-use of antibiotics in livestock feed, which has led to increasing resistance to popular antibiotics considered essential to human health.

Soulsby said she and her co-founders Rob Bell, Lachlan Campbell and Warren Lee, all then connected to cattle and sheep farming, started to ponder eight years ago if targeted probiotics – live microorganisms or bacteria that can feed and improve the gut microbiome – could replace the role of antibiotics and ionophores in livestock feed, and offer even better health and productivity outcomes to ruminants such as cattle and sheep.

Since those early days, it has been a long road to research and back their scientific theories in university tests, practical farm trials and intensive animal situations, as well as to establish a nutritional company that is now growing rapidly in both financial scale and popularity.

At the start, Soulsby, who is now ProAgni's Chief Financial Officer, said the company found it difficult to attract and raise capital, partly because there was not a great deal of understanding of the biotech company's complex work and partly because its "natural" focus was seen as too far outside mainstream agriculture.

It was left to the founders and local friends and family to initially fund early research.

A small amount of philanthropic backing followed, then two grants: one from industry body Meat and Livestock Australia's Producer Innovation Program and another small grant from Impact Investing Australia.

This funding allowed ProAgni to launch its first replacement natural nutritional feed supplement ProTect in early 2018, with sales contributing to further growth funding, followed by its stunning win at the big Beef Australia convention in Rockhampton of the first Pitch-in-the-Paddock competition for innovative new products for cattle producers.

Funding then started to take-off. First was $1.5m of seed capital raised from fellow Australian farmers largely on the back of its Beef Australia exposure, followed by other producers who started to use ProAgni products and wanted to take an equity stake in the company.

For every dollar that poured in, ProAgni was able to use it to meet the 1:1 government matching grant funding requirement, as well as qualifying for significant R&D tax incentive rebates.

RSM's Principal Ross Dixon, with a background in agtech, provided early advice and guidance to ProAgni, while also assisting with corporate compliance issues. RSM's team of grants, R&D tax and international tax specialists also helped ProAgni progress on its local and global path.

Soulsby said at this stage it was still difficult to work out what the business was potentially worth and how to structure its next expansion phase.

But it was in the United States in late November 2022 that ProAgni's fortunes catapulted it onto the world stage. With new research and trials showing that its natural feed supplements not only increased animal productivity and replaced antibiotic use, but could also reduce harmful methane emissions from livestock by 10-15%, ProAgni took out the top prize and a $1m kitty from Cornell University's prestigious and highly-contended Grow New York competition for new system-shifting ideas in food and agriculture.

It was followed by massive new interest in investing in the cutting-edge business from high-net-worth individuals and family offices, as well as by private equity interests, taking its total investments and revenue to $10m and allowing for the ProAgni team to expand from 4 to 13 employees in Australia and also establish a presence in the US.

A year later, ProAgni was part of a wider consortium awarded nearly $2.5m from the US Foundation for Food and Agriculture Research as part of its Greener Cattle Initiative, on the back of the carbon emissions reduction potential of its future probiotic feed supplements and the "ability of its novel nutrition solutions for livestock to help farmers reduce their environmental and social production without hurting farm productivity or increasing the price of food."

The consortium aims to advance low emission, highly efficient production, and assist dairy and beef sectors towards a target of net zero emissions, benefiting producers, animals and the environment.

Soulsby said the win "further validates ProAgni's approach to reducing methane emissions and antibiotic use in animal agriculture and its technology, but also showed the strength of innovation in Australian agriculture in general."

ProAgni has partnered with Singapore-based Austrianova to develop its line of shelf-stable probiotics for cattle feed, with a significant capital raise of $30m planned in 2024 to kickstart its construction of a novel probiotic fermentation production plant.

"We have a long list of potential investors we have been discussing our progress with, many of them with corporate goals around ESG and carbon emission reduction. What we offer is reducing harmful antibiotic use in livestock systems around the world without any loss of productivity in sheep and cattle farming ," says Soulsby.

"While it was difficult in early days to raise capital, that is changing, especially with the current focus on carbon emissions reduction; we were probably a bit ahead of our time.

"Now we have become mainstream; our aim is not to be alternative but to replace conventional farming systems – which include antibiotics and ionophores – with a new, natural way of doing things, which at the same time increases feed conversion efficiency and reduces methane emissions from the rumen."

Soulsby said the next challenge is to produce probiotic bacteria commercially by fermentation and to make them a stable component in livestock feed, which may be via pelletised feed or even a slow-release bolus in the rumen, in more extensive farming situations.

But the location of ProAgni's first commercial probiotic "precision fermentation" production facility – the first in the world – to be funded from the next capital raise remains up for grabs.

"I'd love it to be in Albury where our story all started," admits Soulsby, "but it really depends on a multitude of factors, such as capital, people and where production is well placed to serve the market we are working to support".

proagni.com

R&D tax incentives and rebates are becoming so important in the agtech and agrifood space

International, institutional and private equity investment

By far the bulk of funding for Australia's largest farm, agribusiness and agrifood companies is flowing into Australia from overseas, from private family businesses and private equity investment companies as well as major international pension or superannuation funds.

One of the largest investors in Australian agribusiness has been Canada's Public Sector Pension (PSP) Investments fund, the Montreal-based superannuation company that invests and manages the retirement income of Canada's federal public servants, from its famed Mounties and federal police to its judges, defence force personnel and clerks.

PSP now has half of its global "natural resource" assets invested in Australia – more than A$6.5b – and has bought farmland and partnerships in outback cattle stations, avocado farms, macadamia nut orchards, grain properties, cotton plantations, dairy farms, organic sheep properties, horticultural assets, vineyards and free range piggeries.

It owns more than three million hectares of farmland, from vast outback cattle stations to prized small vineyards in South Australia, is the biggest owner of irrigation water entitlements in the Murray Darling food bowl and is collectively one of Australia's biggest producers of food and rural exports ranging from milk, wheat and meat to salmon, nuts and fruit.

Value-adding food processing facilities, including cotton gins, nut shelling plants and grain storage, are progressively being added to its realm, mainly through its preferred model of partnering with, and then funding the expansion of, existing high performing Australian family-owned farm and food businesses.

"PSP is just a class act; we are lucky to have them here," corporate agribusiness adviser David Williams told AgJournal magazine[16] last year.

"We should be grateful PSP has invested so heavily in agricultural assets because, when they buy these things, they then spend significant capital with their partners in these properties, to improve the land and make it more sustainable and productive.

"They also hold ownership of those assets and stay the game with a 20-year plus view – they don't just buy, improve and then get out with a profit like some funds; it's been fantastic for the sector and for Australia that they are here."

PSP's Natural Resources head Marc Drouin says Australia and New Zealand agriculture and aquaculture are high on its global radar as priority places for long term investment.

"We are very comfortable investing in Australia and in agriculture; we understand agriculture and its volatility but we are long term investors and rural land values provide great stability," Marc Drouin told AgJournal in an exclusive interview.

"We find Australia very investment-friendly, it's a stable regime and the investment rules and land tenure are clear. We have also proven that we can obtain scale in investment in agriculture here, have found a wonderful group of like-minded local family operators to partner with who are really great at what they do, and who are as equally committed to sustainability and ESG principles as PSP is.

"We like diversification – we like being across everything from the crops to grazing and tree nuts to glasshouses. We like the fundamentals of food and the growing demand for protein and plant-based food globally. But we are also conscious of our responsibility to contribute to global food security given our scale; it is very much in everyone's interests in a food sense that we make our land as sustainable and productive as we can.

"But we are very long-term investors. We are not about buying an asset, prettying it up and quickly selling it off; part of our ethos is we want to use our capital not just to produce food but to improve our assets, help the transition to carbon net zero and be good stewards of the land we own and operate."

The latest figures from the Foreign Investment Review Board (FIRB)[17] show 12.3 % or 47.71 million hectares of

[16] www.weeklytimesnow.com.au/agribusiness/agjournal/psp-investments-hewitt-cattle-how-foreign-investors-bought-outback-hearts/news-story/8a344a5ef010dcb951f75f7db2de7d40

productive Australian farmland was owned by foreign interests in June 2022, the latest available figures.

This was down on the 53 million hectares (14.1%) owned by overseas interests a year previously, mainly because of a sell-off by Chinese investors and some European and US pension funds as rural land values soared. Only Canada – mainly through PSP's investments – increased its rural holdings in the 2022 financial year, while all other countries reduced their exposure.

FIRB's latest report found that 85% of farmland owned by foreign interests is used to run livestock.[18]

Other foreign pension funds and institutional investors active in Australian agriculture include the Singapore government's Temasek Holdings, sovereign funds from Middle Eastern countries such as Qatar and Saudi Arabia, Danish pension fund Pensionskassernes Administration (PKA), the Harvard University Endowment Fund, Canada's Ontario Teachers' Pension Plan (OTPP) through its Australian agriculture subsidiary AustOn Corporation, and Nuveen (formerly Westchester,) the $US1 trillion investment management arm of the Teachers Insurance and Annuity Association of America (TIAA).

All remain active in investing in Australian agriculture, with Nuveen Natural Capital spending $70m last year to buy one of Australia's largest macadamia orchards south of Bundaberg, and AustOn announcing in January 2024 that it was adding to its extensive horticultural interests in Australia by taking a majority stake in large family-owned apple grower and packer Montague.

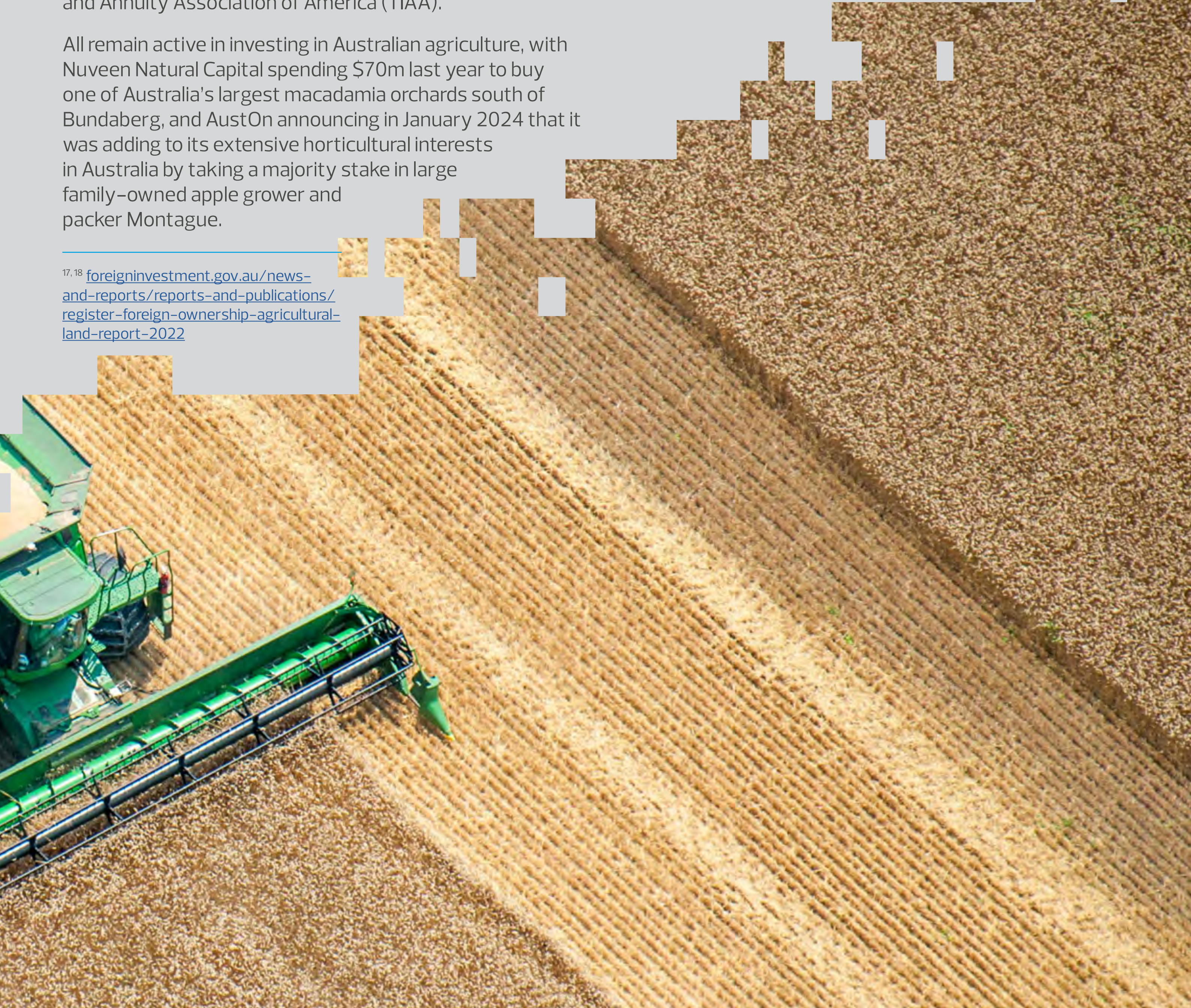
Scott Montague, Managing Director of Montague, who will remain a shareholder, said the injection of foreign capital from AustOn would fund the "exciting" next stage in the growth of the company.

"The financial backing of a global investor in agriculture opens a range of possibilities that both businesses have been keen to explore," Montague said.

Similarly the Hewitt family, who have overseen a massive expansion of their cattle empire since entering into a partnership with PSP, said the foreign investment into their business had allowed it to grow and expand into new value-adding areas – including exporting organic and sustainable beef and lamb – that it could never have financed or contemplated itself.

While Australian super funds have been slower to invest in the local agricultural sector, seeing it as too climate exposed, with volatile income and offering limited growth, the successful and significant investments by overseas pension funds such as AustOn and PSP who have seized these opportunities are now slowly changing that misconception.

[17, 18] foreigninvestment.gov.au/news-and-reports/reports-and-publications/register-foreign-ownership-agricultural-land-report-2022



Case study

Hewitt Cattle: Institutional investors partnering with Australian family farming businesses

A fascinating example of how foreign capital can help transform Australian farming and food production is the large-scale investment by Canada's juggernaut public servant pension fund, PSP Investments, in Queensland family-owned cattle company, Hewitt Cattle.

In 2012, ambitious son Mick Hewitt had started looking around for ways to finance the family business growth. The Hewitt family already owned four cattle stations around Theodore in central Queensland, but Mick and his brother Ben had bigger plans.

They decided to look for a financial institution or pension fund that might be interested in investing in Australian agriculture, backing their own fourth-generation farm knowledge and cattle wisdom with capital in a long-term partnership. They went about the two-year process of making their family cattle business "investment-ready" for an outside corporate partner.

"As a kid, our parents Colin and Linda Hewitt instilled in us a fierce tenacity to achieve, creating something for future generations, " Mick Hewitt, 43, told The Weekly Times' AgJournal magazine[19] last year.

"I used to dream about sitting in boardrooms in the city, doing deals and buying more properties to create a cattle empire like the great pastoral houses of Kidman and AACo; it was always my passion."

But two years of meeting with dozens of prospective investors and mainly foreign farmland companies dampened the Hewitts' enthusiasm. None really grasped their family's vision for a joint long term endeavour that could seize future global opportunities in the organic and regenerative beef space for decades to come.

Then in 2015, the Natural Resources arm of Canada's giant Public Sector Pension (PSP) Investments fund with its $A270b of superannuation reserves to invest came knocking at their farm gate.

Unlike many other foreign investors, PSP Investments did not just want to buy Australian farmland for its potential capital gain and to lease the agricultural operations back to local farmers. Nor were they looking to make a quick return by investing, improving the productivity of the farms and then selling up.

Instead, PSP was looking for long term business partners in Australian agriculture. It actively sought out top-tier farm owner-operators, favouring families like the Hewitts, already running successful businesses but who lacked the capital – or who did not want to take on more bank debt – to expand, achieve scale efficiencies, and produce enough food produce to have clout and supply reliability in major retail and export markets.

It also wanted the families involved to retain a financial stake in the new joint venture, to continue to have "skin in the game." The highest levels of environmental and sustainability requirements, as well as safety and governance standards, had to be guaranteed to meet their own stakeholder ethical demands and Canadian pension fund legislative requirements.

Mick Hewitt says in hindsight, he is always grateful that the Hewitt Cattle Company and PSP Investments found each other.

"PSP were greatly respectful of our skills, our family history and our passion for the industry," says Hewitt, whose family has run cattle in Queensland's Dawson Valley for four generations and 120 years. "They "got" us and what we hoped we could achieve.

"They brought their skills in governance and business, and their capital, to the joint venture and allowed us to pursue our vision; it was great to find a partner that really believed in the outcome and wasn't just driven by scale, loans and repayment dates."

Since then, the joint venture has boomed. The Hewitt-PSP partnership has invested more than $500m in the past seven years in new acquisitions. It now runs more than 120,000 mainly organic cattle across more than 2.2 million hectares, employs 300 staff and owns more than 20 major groups of cattle stations from north Queensland's Gulf Country across southern Queensland to central Australia and northern NSW.

Its reach now also includes free range pig and organic sheep production, and part ownership of the large Arcadian Organic & Natural Meat company and its Cleavers Organic meat brand and export arm.

"If a consumer in Europe or the United States wants to dedicate their shopping choices to sustainable food outcomes, I want to be able to deliver that," Mick Hewitt told AgJournal.[20]

"That's what the partnership with PSP has allowed us to do. To take great organic and regenerative meat products to the world and to know that when we say we can 'feed the world with a great natural and sustainable system that will last forever,' that it is actually true."

"PSP's business model is pretty simple; they've done an excellent job of finding the best- in- class operators and farming families across a range of agriculture in Australia and partnering their capital with them, but always with regard for the environment and long-term sustainability.

"They rightly demand we run a sophisticated progressive business with great governance and skilled management teams in place. But the general sense has always been that if and when we identify the next right strategic assets and investment opportunities to buy, PSP is there to co-invest further with us."

Ben Hewitt, head of Agribusiness who manages the vast Hewitt station network, says the partnership with PSP doesn't mean their meat and livestock business now has unlimited funds at its disposal to waste.

"We are very much shareholders too; the bulk of our family wealth is in this business and the people who work with us know that if they are spending a dollar, it's a Hewitt family dollar and no one else's," Ben Hewitt told AgJournal.

"We don't put one cent of PSP money where we wouldn't put our own. We respect the partnership and its demands, and what it has allowed us to do, but practically PSP largely leaves the day-to-day running and decision-making of the business up to us, our team and our Board."

Private capital

The majority of Australian domestic investment in the food and agri sector comes from various sources of private capital, including private companies, high net worth individuals and wealthy intergenerational family offices wanting exposure to the safe and secure farmland or water assets.

Institutional private equity has also played a part in agribusiness investment – albeit generally not in primary production – whilst emerging venture capital funds are increasingly focusing on opportunities within the agtech sector.

In recent years, much of this private equity investment has come from overseas. For example, a consortium led by US-based private equity investment firm Paine Schwartz Partners recently made a $1.5b offer for Australia's largest fruit and vegetable business, ASX-listed Costa Group, which has just (in February 2024) been approved by its shareholders.

In October 2021, Brazilian meat giant JBS, largely owned by the wealthy Batista family, acquired ASX-listed Tasmanian salmon farming business Huon Aquaculture for $425m, after its family majority ownership had seen it struggle to raise capital.

The wealthy US Rockefeller family have bought significant land holdings in Tasmania as a climate change landbank hedge, the Argentinian-Australian Kahlbetzer family are investing in vertical horticulture, the US-based Simplot family owns the Simplot-BirdsEye vegetable processing business in Tasmania while specialist private equity agribusiness investor Roc Partners has $2.1b invested in Australian oysters, almonds, Flavorite glasshouse tomatoes and vegetables, as well as the Stone Axe luxury wagyu beef empire.

Roc Partners also recently closed a special $400m private investment fund, specially created to provide family office and high net worth investors with access to private equity agribusiness opportunities, saying while the sector was well established amongst global investors, it had flown "under the radar" in Australia despite its strong market fundamentals.

"There is increasing demand from sophisticated investors and wealth managers to access private market opportunities," said Mike Lukin, Roc Partners' Managing Director. "With the broader market shift from public shareholdings to private investment, long term focused investors will continue."

Other high-profile investments from private investors into Australian agriculture include mining magnate Gina Rinehart's $386m purchase of privately-owned iconic family cattle business, S. Kidman and Co in 2016, in 33% partnership with Chinese property developer Shanghai CRED, and Andrew Forrest's family investment into oysters, cattle, abattoirs, red meat exports and tequila through his private company, Harvest Road.

RSM's Director of Corporate Finance, Justin Audcent, said large institutional capital investors were usually looking for scale, long term assets and the spreading of portfolio risk when investing, with large agricultural businesses that had aggregated farms and owned land with a value of between $200-$500m being particular targets.

Many mid-market private equity funds also have capital available and are actively seeking to invest $50-$200m for a majority stake in private businesses, but generally avoid the risks associated with agricultural assets in favour of food processing and beverage businesses, particularly those with a strong market position and branding. Audcent said, "private equity funds are very disciplined and in the current market are taking a cautious approach to valuation. This segment of the market also attracts overseas buyers, so private equity is often competing against major players from China and Japan."

Audcent further commented that "most private equity investment is made through closed end funds, which generally require strong value creation over a period of three to six years, followed by an exit event. With fund managers not only providing access to capital, but also strategic input and active support in growing the business, this can be a great option for business owners requiring capital for investment with a view to driving aggressive growth".

In 2020, the federal government and the four major banks established the Australian Business Growth Fund (ABGF) with a focus on providing strategic growth capital of up to $15m to small and medium-sized businesses (SMEs) with revenue of between $2m and $100m. "ABGF has filled a gap in the market" said Audcent "with SMEs having previously had limited options to access institutional capital and the expertise of an experienced investment team. Whilst ABGF has yet to make its first investment in the agribusiness sector, its focus on

[19, 20] www.weeklytimesnow.com.au/agribusiness/agjournal/psp-investments-hewitt-cattle-how-foreign-investors-bought-outback-hearts/news-story/8a344a5ef010dcb951f75f7db2de7d40

"for-purpose" investments would sit well with many businesses in the sector, particularly those with a focus on sustainability, innovation or regional employment and economic growth".

For early stage companies, venture capital funds are increasingly focusing on opportunities within the agtech sector, with Australia becoming a hotbed for innovation in on-farm and other technology with the potential to drive significant productivity benefits. A small number of funds have been established with a specific focus on agtech investments including Tenacious Ventures, which focuses on early stage companies that are helping transform food and agriculture towards a carbon neutral and climate-resilient future.

As a classic case of how capital can transform an agricultural operation, investment banker David Williams pointed to the high-profile partnership and cash injection into NT cattle station "Beetaloo" by retail billionaire entrepreneur and businessman Brett Blundy, together with its owners the Dunnicliff family.

In 2013, Blundy bankrolled a $40m ground-breaking water plan started by John Dunnicliff to switch from an extensive cattle grazing system based on vast paddocks and a few bores on the 1 million hectare station, to installing hundreds of kilometres of water pipes, fencing, troughs and tanks, making the paddocks smaller, and ensuring the cattle walked less and made better use of pastures.

In ten years, carrying capacity jumped from 20,000 to nearly 100,000 cattle. The sale value of Beetaloo increased ten-fold to $300m in 2023.

"Increasing productivity is going to be essential to the beef industry and that was the start of our relationship," Blundy explained to the ABC in 2014[21] of his unlikely pastoral partnership. "John was doing something spectacular. It needed funding to be successful. It was too good an opportunity."

Success at Beetaloo Station led Blundy to invest in two more NT cattle stations and replicate the same blueprint and massive productivity boost.

"It's off the scale. It's turning out to be even better than the original production gain forecasts which is terrific all round; from an investment point of view and also from the view of utilising the land and being able to produce more beef. The world needs that. So it's a win-win," Blundy said.

[21] www.abc.net.au/news/2014-10-26/australian-entrepreneur-invests-in-nt-livestock/5839146

Case study

Costa Group: Growth through Private equity funding and Stock Exchange listing

The inherent investment risk associated with Australia's dry climate, drought frequency and climate change variability has sometimes deterred foreign investors, particularly large private equity players, from choosing Australian agricultural assets as a preferred safe place to build wealth.

But Australian horticulture, particularly irrigated almond plantations along the Murray and Murrumbidgee rivers, and fruit and vegetable production under glasshouse cover or netted orchards, has been an exception to this not-always-true-perception.

The Costa family fruit and vegetable group was a trailblazer in this regard.

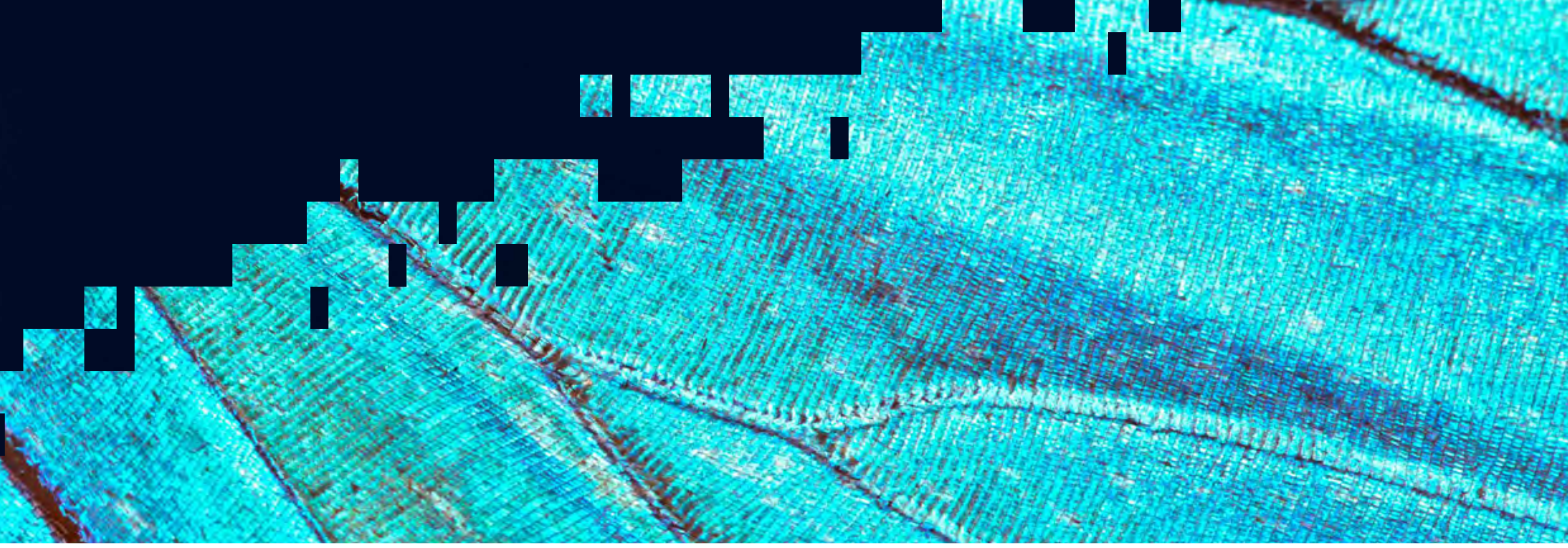
Now Australia's leading grower, packer and marketer of fresh fruit and vegetables and the major player in Australia's berry, mushrooms, glasshouse tomatoes, citrus and avocado industries, the Costa Group is currently listed on the ASX and valued at A$1.5b.

It now owns and farms 7,200 hectares of horticultural farmland, 40 hectares of glasshouses and three mushroom growing facilities in Australia, as well as majority-owned blueberry and berry joint venture farms in Morocco and China.

But in 2011 it was a private company – largely owned by the Costa brothers – that had been in the Costa family for 100 years. Some of the extended family wanted to take their shares and money out of the business; while others wanted to remain and grow the company but were unsure how best to structure and fund further expansion.

Enter US-based Paine & Partners, a private equity investment firm focused on investing globally in the food, agriculture and agribusiness sector. In July 2011 it bought 50 % of the vertically-integrated fresh produce grower and marketer, for an undisclosed sum.

Kevin Schwartz, a founding Partner at Paine & Partners, said when announcing the move[22], that the



private equity partnership with the Costa family would "strengthen the company's balance sheet and provide significant access to additional capital to facilitate a number of potential growth opportunities, support Costa's long-term business goals and create new market opportunities."

Paine & Partners then both funded and provided strategic leadership to the Costa Group for the next four years, marked by a major increase in its covered protected cropping areas – glasshouses for tomatoes and underground mushroom farms, rationalised its areas of specialisation to just five major crops, significantly boosted berry and mushroom production as demand for these foods soared, and invested in overseas fruit operations.

Paine & Partners' half-ownership of Costa Group also prepared it for an Initial Public Offering (IPO) on the Australian Securities Exchange in July 2015. About 245 million shares were offered to the public, representing 76.4 % of the company and raising $550m for the Costa family and Paine & Partners.

After the 2015 ASX float, individual members of the Costa family retained a combined 21.6% of the listed Costa Group – then with a market capitalisation of $720m, while its private equity backer, Paine & Partners, decreased its shareholding to just 12 % of the total business.

Fast forward eight years and in 2023, the next phase of the close relationship between the Costa Group and the renamed Paine Schwartz Partners began, when the private equity firm and an associated consortium began a total takeover of the massively-enlarged Costa Group, now valued at $1.5b.

The move, recommended by the Costa Board, will return Australia's largest horticulture business back into the hands of its previous 50 % private equity foreign owner, Paine Schwartz, and see the Australian business delisted and removed from the ASX.

The other consortium entities in the Paine Schwartz buyout are California-based global berry grower Driscoll's (also owned separately by Paine Schwartz) and an institutional investor, Canada's British Columbia Investment Management Corporation.

Costa Chairman Neil Chatfield said that while the board still believed the company had solid fundamentals to continue as an ASX-listed company, the cash offer had outweighed those longer-term considerations.

"The scheme provides certainty for shareholders in an uncertain operating environment by delivering cash proceeds to shareholders at an attractive premium," Chatfield told shareholders.

"Key considerations for Costa's board included a number of different valuation scenarios, potential risks relating to the future execution of Costa's business growth plan, and the price at which Costa shares could trade over the medium to longer term if it continues as an independent listed company."

The Costa Group's 12 year rollercoaster ride of restructuring, private equity capital injection, ASX float and now foreign buyout and delisting – combined with its expansion and growth from a $500m company to one valued at $1.5b – provides a classic case study of the huge benefits, and potential dispassionate selldowns, profit-taking and opportunistic buyouts, associated with private equity investment and also IPOs in agribusiness.

[22] www.prnewswire.com/news-releases/paine--partners-makes-strategic-investment-in-the-costa-group-australias-top-fresh-produce-company-125949478.html

Funding by Initial Public Offering and listing on the ASX

It's a tough time to be a publicly-listed agrifood company on the ASX, according to investment adviser David Williams, which is why new IPOs (or floats) in the agricultural and food sector are currently few and far between.

Williams says the share price of many food companies has nearly halved in the past year because local consumers are buying less branded food as the cost-of-living crisis hits hard, making it challenging for them to raise capital.

Whilst the large listed companies such as Bega Cheese can weather the storm, because they have strong balance sheets, access to debt funding and are popular with fund managers, smaller companies (with $20-$150m market capitalisation) are finding the only capital available may be either equity funding offered at a 20-30% discount to their already low share prices, or bank debt at distressed interest rates of up to 12%.

"It's not a good time to be a small listed company," says Williams. "Even the good brands are seeing much less interest from investors because they are not making annual profits."

Being publicly listed and owned by thousands of shareholders is also becoming a potential threat to corporate stability according to some, as more of the world's wealth ends up in the hands of major institutions and gigantic pension funds, or super-rich individuals and families, capable of mounting takeovers.

Certainly the private buyout and delisting of several major agricultural companies from the ASX in the past few years has been evidence of that trend. In 2017, there was the sale of troubled dairy giant – and former farmer-cooperative – Murray Goulburn for $1.3b to Canada's privately owned Saputo Dairy which was followed by its delisting from the ASX.

In late 2021, the Bender family relinquished control of their publicly-listed Tasmanian salmon farming business Huon Aquaculture, with private Brazilian meat processing beef company JBS completing a successful buyout for $425m and removing the former public company from the ASX.

In 2022, Australian agribusiness fund manager Laguna Bay made a successful $32m private equity bid for listed South Australian oyster producer Angel Seafood, which has also now disappeared from the ASX.

And later this year, the massive fruit and vegetable Costa Group will become the latest and largest Australian agricultural business to cease trading in the public market, moving into private hands after its $1.5b purchase by a consortium led by US private equity company Paine Schwartz Partners. The $1.1b Tasmanian salmon company Tassal is also now owned by Canada's Cooke family and is no longer traded on the ASX.

The future of other major public agrifood companies, such as Australia's oldest cattle and beef business, AACo, is also in doubt, as wealthy private investors and pension funds move onto their share registers as major shareholders, ahead of potential takeover and privatisation moves.

RSM's Director of Corporate Finance, Justin Audcent, says "in an environment of rising interest rates, continued economic uncertainty and a cautious approach to the market from institutional investors, IPO activity has been at an all time low over the last two years. It has been particularly challenging for early stage businesses to raise capital in the public markets – whether on IPO or for existing ASX listed companies".

Within the agrifood sector, Cobram Estate Olives Limited, which is responsible for over 70% of Australia's olive oil production, was the only major ASX float in recent years when it listed in August 2021. However, having been unable to raise capital at the valuation sought, the IPO proceeded as a compliance listing, i.e. with no associated capital raising. The company is now valued at $690m, around 15% down on its market capitalisation on listing.

"It's important to bear in mind that the IPO market is cyclical" says Audcent. "At this stage we expect the "IPO window" to reopen in the second half of 2024, however this remains subject to economic conditions and in the past it has required a major IPO to get away successfully to kickstart renewed IPO activity more generally".

Conclusion

Demand for capital in Australian agribusiness to fund its growth, productivity gains and global positioning remains strong.

As this report has shown, diverse sources of funding for agricultural enterprises and new agtech and biotech ventures range from small government grants and R&D incentives to massive injections of capital via foreign investment, private capital and occasional IPOs on the Australian Securities Exchange.

In the past the agricultural industry may have been regarded unfavourably by many investors as being too exposed to uncontrollable climate conditions, lacking in sufficiently attractive growth opportunities and slow to move on from traditional farming methods and practices. However, with global challenges around population growth, climate change and food security, together with rapid advances in on-farm and supply chain technologies, the sector is now attracting interest – and inflows of capital – from investors far and wide

Extensive focus by federal and state governments is helping boost interest and investment in agriculture. So too is the financial success and buoyant returns enjoyed by early foreign investors in Australia's farmland and agricultural enterprises, now slowly being followed by Australian super funds.

That said, long term climate change remains a real threat to the sector and its investment potential. So too does the need to curb agriculture's greenhouse gas emissions, while also offering major potential benefits on-farm such as the alternative sources of income offered by soil carbon storage and access to carbon credits.

Agricultural technology offers the potential to overcome, or help ameliorate, many of these obstacles, whether it is via field robots reducing chemical spray use by targeting specific weeds, or asparagopsis seaweed extract in feed lowering methane emissions by livestock.

But continued strong investment remains an imperative if the agricultural sector's potential to be – and always remain – one of Australia's leading industries and export earners is to be achieved.

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ACKNOWLEDGEMENTS

Thank you to the following individuals for their valuable input:

Stephen Bendotti – Director, Bendotti Exporters
John Patmore and Dean Toovey – Directors, Patmore Feeds
Fiona Soulsby – Chief Financial Officer, ProAgni
Andrew and Jocie Bate – Founders, SwarmFarm Robotics
Mick Hewitt – Group CEO, Hewitt Cattle
David Williams – Managing Director, Kidder Williams Advisory
The Weekly Times *(for permission to reprint parts of the Hewitt Cattle Company and Paine Schwartz Partners case study)*

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