

# Queensland Beef Producer Investment Guide



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Sources used in obtaining the information, based on which we performed our analysis to reach certain conclusions and points of view that are included in this guide, are outlined in references section of this report.

This guide is designed to provide guidance to Queensland beef cattle producers on the typical states involved in investment decision making.



Investment allows producers to realise opportunities they may otherwise not have access to. Increased financial flexibility can help producers pursue opportunities that may include reducing their risk exposure, investing in their operations, growing their business and/or tapping into new markets.

## Some specific ways an investor can help you ...

### Debt reduction

Securing investment to reduce debt can help to manage exposure to risks including large upfront cost of a herd, the working capital requirements relating to the time from production to sale, unpredictable price changes at offtake and climatic events

### Operational efficiency

Operational efficiencies can be driven by using funding to invest in things such as machinery to improve business performance and maximise profit

### Competitive advantage

Investors may provide avenues for developing competitive advantages including vertically or horizontally integrating operations to drive efficiencies through the supply chain and maximise value

### Scaled operations

Investment can be used to develop economies of scale and enhance competitive advantage in the market by realising opportunities to reduce production costs and increase margin

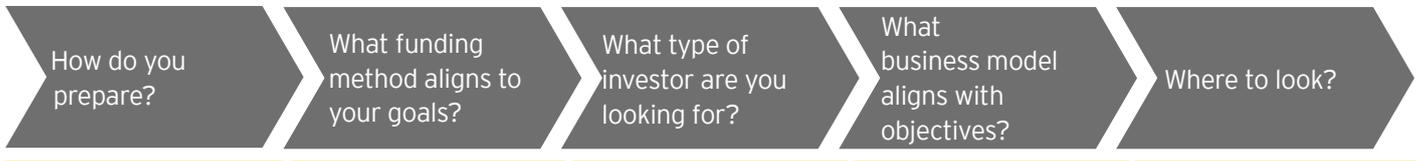
### Expertise

Different investors can provide expertise in a variety of areas. An investor within the industry may provide operational insights while an institutional investor may assist with strategy

### Market access

Leveraging an investor's network can increase access to key domestic and international markets

# Investment Decision Flow



Due Diligence Getting Ready	Investor Types Investor Breakdown	Business Models	Investment or debt?	Where to find investors? Where to find Help?
Complete a Business Position Statement to prepare value proposition before going to market. What information will an investor need?	See what different types of investors exist and the relative advantages/disadvantages of each type	Identify the characteristics of different business models and how they may suits your needs	Analyse different funding mechanisms to identify the most appropriate model	Determine the most appropriate way to approach an investor

## Producer Due Diligence



Due diligence is a key component of all transactions to determine if the investment opportunity reflects investor preferences and the price paid. A Business Position Statement will support producers to articulate their value proposition. Variables examined through the due diligence process typically include legal and regulatory requirements, financial and operational capacity, infrastructure and environmental variables. The due diligence process varies depending on the type of investment and the investor, however can be simplified into two phases.

### 1 Initial Appraisal

- ▶ High level analysis for investors to determine how the opportunity aligns with their investment preferences
- ▶ High level overview of the investment that highlights key details (e.g. business model, property size, herd size, performance metrics and financial data)
- ▶ Can usually be completed remotely however investors may meet with management to discuss key details or concerns.

### 2 Detailed Assessment

- ▶ Rigorous appraisal of opportunity components depending on the investor, and investment type.
- ▶ May include a detailed assessment of components of the investment opportunity such as the regulatory, financial, operational, infrastructure and environmental components of the investment.
- ▶ If the investor is from a foreign entity a foreign investment review process may be required

Image: MLA

# Producer Due Diligence



Initial Appraisal				
High level overview of investment opportunity (business model, property size, herd size, financial data)				
Detailed assessment				
Regulatory	Financial	Operational	Infrastructure	Environmental
Legal	Valuation	Herd size and structure	Property size	Natural resource management
Ownership/Tenure	Benchmark comparison	Carrying capacity		Land capability
FIRB process if required	Historical financial data	Genetics	Key assets and infrastructure	Water rights and availability
	Forecast financial data	Turnoff numbers and weights	Building inspection	Drought history and susceptibility
Existing contracts and renewal options			Access to utilities and bores	Environmental contamination
Forecast capital expenditure requirements				
Labour requirements				
Production plan				

## Ownership/Tenure

Relevant legal structures and rights to utilise land

## Herd size and structure

Understanding of herd configurations that will drive budgeting and cash flows

## Natural resource management

Practices required under relevant legislation

## Historical financial data

Previous financial statements as the basis for investment evaluation

## Forecast financial data

Cash flow projections as the basis for investment evaluation

## Turnoff numbers and weights

Including current targeted markets

## Getting ready

### Understand ...

the Business Position Statement to inform how you prepare your value proposition.

### Plan ...

why you are seeking funding and what you will use the funding for.

### Measure ...

data and performance regularly to support your value proposition with tangible data and information.

### Track ...

significant changes in operations, contracts, regulation and the industry.

# Investor Types

Characteristics	Investor types					
	High net worth individuals	Domestic intra-industry groups	Foreign intra-industry group	Financial Institutions	Real Estate Investment Trusts	Private Equity
<b>Industry Agnostic</b>	Varied	No	No	Usually	Yes	Usually
<b>Likelihood of input in decision making</b>	High	High	Varied	Low	Low	Medium
<b>Key requirements</b>	Varied	Industry Operators	Industry Operators	Established Businesses	Land/ Real estate	Seek more speculative growth investments
<b>Size</b>	Small to Large	Small to Large	Medium to Large	Large	Large	Medium to Large
<b>Horizon</b>	Varied	Varied	Varied	Long term	Long term	Short term
<b>Risk Preference</b>	Low to High	Low to High	Low to High	Low	Low	Medium
<b>Expected Return</b>	Varied	Varied	Varied	Consistent returns	Consistent rental returns	High return



# Investor Breakdown



	Motivations of investor type	Advantages of this type of investor	Implications of this type of investor
<b>High Net Worth Individuals</b>	Variety of motivations	<ul style="list-style-type: none"> <li>▶ Opportunity to work with an individual may simplify the investment relationship</li> <li>▶ Variability in investment motivations (e.g. risk appetite, investment horizon) will assist in finding an investor who is a good match</li> </ul>	<ul style="list-style-type: none"> <li>▶ Investor may seek input into decision making and dilute control</li> <li>▶ Increased relationship risks from working with a single investor</li> <li>▶ Short investment horizon</li> <li>▶ Restrictive investment conditions</li> </ul>
<b>Domestic Intra-industry Groups</b>	<ul style="list-style-type: none"> <li>▶ Greater industry market share</li> <li>▶ Vertical/horizontal integration</li> </ul>	<ul style="list-style-type: none"> <li>▶ Boosts supply chain scale with industry investor</li> <li>▶ Improve market access to domestic and export markets</li> <li>▶ Use industry knowledge and expertise of two or more businesses to improve offering and drive efficiency</li> <li>▶ Leverage economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>▶ Domestic industry investors likely to seek input in decision making</li> <li>▶ Industry consolidation reduces competition</li> <li>▶ Investors outside the industry may have new ideas for innovation and performance improvement</li> <li>▶ Consolidation may increase dependency on a single sales channel</li> </ul>
<b>Foreign Intra-industry Groups</b>	<ul style="list-style-type: none"> <li>▶ Access to differentiated markets (differentiated product)</li> <li>▶ Foreign industry presence</li> <li>▶ Vertical/horizontal integration</li> </ul>	<ul style="list-style-type: none"> <li>▶ Boosts supply chain scale with industry investor</li> <li>▶ Foreign investors less likely to require direct input into management/operational decisions</li> <li>▶ May improve market access to domestic and export markets</li> <li>▶ International investor may simplify the complexity and reduce the time spent in accessing foreign markets</li> <li>▶ Use industry knowledge and expertise of two or more businesses to improve offering and drive efficiency</li> </ul>	<ul style="list-style-type: none"> <li>▶ Strict regulatory environment can be a barrier to entry from limiting the allowed scale and scope of foreign investment</li> <li>▶ Some reluctance of foreign firms to invest in operational beef stations due to the regulatory requirements associated with maintaining livestock</li> <li>▶ High minimum investment value threshold limits the appetite for investment</li> <li>▶ Propensity to invest will be reduced with new regulations imposed by the Australian government on foreign investors who use a stapled structure</li> </ul>

	Motivations of investor type	Advantages to this type of investor	Implications from this type of investor
<b>Real Estate Investment Trusts</b>	<ul style="list-style-type: none"> <li>▶ Investment in land/ real estate</li> <li>▶ Annuity based income</li> </ul>	<ul style="list-style-type: none"> <li>▶ Aggregated capital enables large scale investments</li> <li>▶ Low barriers to entry for investors provides a greater pool of potential capital</li> <li>▶ Attractive tax structure for retail and institutional investors.</li> <li>▶ REITs are generally “closed-ended”. Closed-ended funds have a fixed number of shares which are not redeemable from the fund. This structure reduces the risk of an investor withdrawing creating greater funding stability and set investment horizons</li> <li>▶ Emergence of agricultural-focused funds is improving investor access to cattle properties</li> <li>▶ Effective vehicle for sale and leaseback arrangements, enabling graziers to sell their property but maintain operational control</li> </ul>	<ul style="list-style-type: none"> <li>▶ Pass through tax treatment only available where funds invest primarily to earn rental returns – may act as a disincentive to invest in improving on-farm infrastructure</li> </ul>
<b>Financial Institutions</b>	<ul style="list-style-type: none"> <li>▶ Seek long term investments</li> <li>▶ Seek sustained returns</li> </ul>	<ul style="list-style-type: none"> <li>▶ More hands-off and tendency to retain experienced management</li> <li>▶ Access to large, stable capital base</li> <li>▶ More willing to invest in on-farm infrastructure to improve productivity over an extended investment horizon</li> </ul>	<ul style="list-style-type: none"> <li>▶ Limited industry expertise/ knowledge</li> <li>▶ Volatility in agriculture and investors associated risk appetite reduce investors in the market</li> </ul>
<b>Private Equity</b>	<ul style="list-style-type: none"> <li>▶ Shorter term investment horizon</li> <li>▶ Higher expected returns</li> </ul>	<ul style="list-style-type: none"> <li>▶ Expertise in identifying and delivering increased operational efficiencies</li> <li>▶ Ready access to capital</li> <li>▶ Experience and access to other sectors. For example the technology sector, which is likely to disrupt agricultural production in the medium term</li> </ul>	<ul style="list-style-type: none"> <li>▶ Short investment horizon may be unsuitable for an industry where market cycles may last many years</li> <li>▶ Short investment horizon may act as a disincentive to sustainable investment and operation</li> <li>▶ Restrictive investment conditions</li> </ul>

# Business Models



## Sole Trader

100% Owner Operator Model.  
Benefits of this model include the owner retains full control of the business and associated profits. This business model also accrues primary producer tax advantages. A disadvantage is the owner must completely self fund with their own capital or debt financing. This model puts full responsibility on the owner for all risks (both operational and financial).

## Partnership

Partnership between individuals, or family members are owner operators.  
This model is the most common in the Beef industry. Similar to a sole trader an advantage of this model is accrued primary producer tax advantage. A partnership allows operators to share the burden of responsibility. A disadvantage of this model (especially when within a family) can be accessibility to funding.

## Company

Legal Entity separate from Shareholders.  
Companies are owned by shareholders and taxed at a fixed rate. As a separate Legal Entity, the liability to shareholders is limited. Companies are not able to access primary producer tax advantages.

## Trust

Vessel which holds assets and distributes profits for beneficiaries. Holds property, assets or income for the benefit of nominated beneficiaries. Trusts are treated the same way as companies and have associated tax benefits.

## Joint Venture

Two or more parties.  
Each party usually contributes property, expertise and/or funding to the business. This model allows investors outside the industry to gain industry exposure.

## Co-operative

Entity with multiple members who own, operate and receive benefit from the co-operative.  
An advantage of the co-operative business model is enhanced scalability and breadth of operations. Forming a co-operative can help to generate other competitive advantages such as economies of scale, improved bargaining power and tax benefits.

## Collaborative

Multiple operations owned separately are managed by single operation.  
Farm owners can be passive and receive returns in the form of dividends. Alternatively they can work as an employee of the farm and receive a salary/wage as well as a dividend.

# Investment or Debt?



	Investor Funding	Debt Financing
Funding Size	The ability to “share” risk with an investor can be preferable for larger funding amounts. Engaging an investor can help minimise downside risk such as the default risk of debt financing.	For smaller amounts debt financing is often more attractive. Debt financing is generally easier than finding a new investor for smaller funding amounts.
Timing	It’s preferable to spend time to find the “right” investor and establish terms. Needing funding sooner can reduce leverage when negotiating terms and may lead to paying a premium to secure investment.	Debt funding in most cases is easier to organise quickly. Standardised loan terms can expedite the process of receiving funding.
Future Strategy	The “right” investor often contributes value beyond funding. An investor may provide: expertise to drive efficiencies; access to new markets; and opportunities to develop competitive advantages.	Raising debt is generally more flexible and easier to expedite. There is the additional downside risk of default however, generally also allows the upside potential to be retained if successful.
Relative Risk	Securing funding from an investor may involve of sharing downside risk and upside potential.	The risk of default if repayments are not met increases the risk associated with debt financing. Repayment terms are dependant on variables including existing debt, credit history and business performance.
Cost of Funding	Investment cost depends on terms which vary between investors and investments. Ultimately cost paid to an investor will be the return from operations or assets.	The cost to repay debt depends on factors including credit history and business performance. The cost of debt is the principal amount plus repayments equal to interest on the outstanding amount. Defaulting on repayments may lead to the seizure of assets used as collateral.

## Case Studies of Investment in the Queensland Beef Cattle Sector



### Case Study

#### Rural Funds Group and Camm Agricultural Group

- ▶ Rural Funds Group (RFG) a Real Estate Investment Trust (REIT), acquired the Natal Downs, Longton and Narellan cattle properties from Camm Agricultural Group (Camm) for \$50 million in October 2017 (Capital IQ).
- ▶ Under Australian law, REITs that invest primarily to earn rental income receive favourable tax treatment. A sale-and-leaseback was therefore the most suitable model for RFG.
- ▶ The sale was beneficial to the Camm family both in terms of it's succession planning and also to provide access to capital that enabled restocking and capital improvements including; fencing and watering improvements (Beef Central 2017, AFR 2017).

### Case Study

#### Australian Country Choice and Acton Land & Cattle

- ▶ Australian Country Choice (ACC) acquired a 51% stake in Acton Land & Cattle (Acton), a large vertically-integrated beef producer, for an undisclosed amount in July 2015.
- ▶ ACC and Acton will operate Acton's pre-transaction assets under a joint venture arrangement. Acton's assets comprise of 135,000 head of cattle (including 70,000 breeders) spread across 1.5 million hectares in Queensland, including backgrounding country and feedlots (Capital IQ).
- ▶ Acton's sale to a fully integrated primary producer allowed the family to remain involved in the operation and also secure offtake for their produce (ABC News, 2015)
- ▶ The transaction allowed Acton to reduce its debt burden and provided the opportunity to focus on markets where it holds a competitive advantage (ABC News, 2015).

### Case Study

#### Queensland Investment Corporation and NAPCO

- ▶ Queensland Investment Corporation (QIC) acquired an 80% stake in the North Australian Pastoral Company (NAPCo) for approximately \$300 million from MP Evans and the Foster family (CapitalIQ). NAPCo's holdings include 5.8 million hectares of property supporting nearly 180,000 cattle (NAPCo) .
- ▶ MP Evans, who held a 34% stake, were motivated to sell in order to focus on its core Indonesian palm oil business (Financial Times, 2016).
- ▶ The Foster Family, who were previously NAPCo's majority shareholders, made the decision to sell after a strategic review of their portfolio (ABC News, 2013). However, they will ultimately retain a 20% stake, and remain a key component of management (Beef Central, 2016).
- ▶ The sale of NAPCo to QIC has provided the company access to capital for infrastructure that is delivering productivity improvements.

Case Study

### Shauna Hills

- ▶ Shauna Hills is a 6,014 ha property located near Rolleston in Central Queensland.
- ▶ The property sold for \$10.8 million at Beef Australia 2018 (Australia’s national beef expo).
- ▶ The on-farm water infrastructure had been recently upgraded, with 16 dams and a flowing bore pumping water to 36 troughs around the property and supporting extensive buffel grass coverage (Beef Central, 2018).
- ▶ The pasture coverage and extensive water infrastructure network meant it was identified by the purchaser as an ideal grass finishing property.
- ▶ The transaction represents a domestic intra-industry acquisition, with Shauna Hill’s rich grasslands being used to support existing grazing operations. Finishing properties are generally operated as a part of vertically-integrated supply chains.

Case Study

### New Hope Investment and Kilcoy Pastoral Company

- ▶ New Hope Investment (New Hope), a large Chinese agribusiness company, acquired Kilcoy Pastoral Company (KPC), a Queensland export abattoir, for approximately \$100 million in December 2013 (CapitalIQ).
- ▶ KPC sought to expand exports to premium Asian markets, and had sought a strategic partner to provide the capital necessary to support this expansion and provide access to these premium markets (ABC News, 2017).
- ▶ The investment provided KPC access to capital to upgrade equipment and expand its operations to new demand generated by New Hope’s network of partners, customers and suppliers (ABC News, 2017).
- ▶ An intra-industry sale generated unique synergies given New Hope’s established supply chains in China and the United States (ABC News, 2017).

Case Study

### Investment in feedlots

- ▶ Feedlots sit in the middle of the beef cattle supply chain. Often investment in a feedlot will be from an intra-industry investor looking to vertically integrate. While generally owning a larger portion of the supply chain allows for increased value to be realised, upstream and downstream operators can have different motivations.

#### Processors

- ▶ Investment in a feedlot can provide processors a secure and more consistent supply. Control over the upstream supply of cattle enables cost savings through optimised operation scheduling and reduced exposure to market prices.

#### Breeding and backgrounding cattle properties

- ▶ Investment in a feedlot can provide breeding and backgrounding properties risk mitigation against times of drought, allowing animals to be finished when pasture is deficient. Additionally, finishing all cattle through a feedlot can enable an increase in the breeding herd ultimately increasing yearly turnoff. Through the use of a feedlot a wider range of markets can be achieved resulting in reduced risk from single market reliance. It should be noted that these benefits can be also achieved without investing in a feedlot through longterm supply contracts and collaborations.

## JBS Australia and Scott Technology

- ▶ JBS Australia (JBS), Australia's largest meat processor, acquired a 50.5% stake in Scott Technology (Scott), a New Zealand designer and producer of industrial machinery, for \$94 million (Mergermarket).
- ▶ Scott developed industrial robots to quickly and efficiently bone out up to 600 sheep carcasses an hour, with the technology being adapted for cattle and pig carcasses.
- ▶ The incorporation of X-ray, Computed Tomography Scanning and weighing technology means the robots can utilise machine learning software to adapt to different carcase shapes and sizes, processing with a 90% accuracy rate (Business Insider, 2016).
- ▶ Scott Technology was motivated to sell in order to leverage JBS's global scale and relationships, as well as gaining access to the capital needed to develop and expand their product offerings (Farm Online, 2015).



## Where to find investors



The method of finding the right investor to suit your needs will vary depending on an array of factors. This may include the investment type, size, and location.

<b>Trade Conventions</b>	Trade conventions, such as Beef Week, can be a key generator of transaction activity (ABC News, 2015). Trade conventions provide a platform to showcase breed quality, supply chain development and beef products. These events facilitate investor understanding of the complexity of beef supply chains, and the value they can create. <ul style="list-style-type: none"> <li>▶ For Domestic investors trade conventions are used to evaluate different opportunities through the supply chain. Trade conventions facilitate broadening your network and displaying your business to both operators within the industry and investors outside of it.</li> <li>▶ For Foreign investors these events provide an opportunity to develop a greater understanding of the Australian Beef Industry and see a range of operators through the supply chain which allows them to analyse potential investment opportunities and benchmark similar supply chain operators.</li> </ul>
<b>Commercial Property Brokers</b>	Property brokers are the primary facilitators of grazing property sales. Investors using brokers are more likely to be seeking a specific location or individual property.
<b>Sophisticated Investors</b>	Sophisticated investors, such as financial institutions and private equity firms, generally place greater emphasis on technical factors and supply chain accessibility. These firms tend to perform in-house analysis, identify targets, and hire corporate finance firms to advise on a transaction. Sale of meat processors have been largely handled by corporate finance firms in recent years.

## Where to find help

<b>Department of Agriculture and Fisheries (DAF)</b>	DAF is a government department that provide a range of services to help promote sustainability, innovation, and support to the agriculture sector. DAF has regionally based extension officers who provide technical advice and training. DAF has extensive research capabilities and develop best practice guides over a wide range of topics.
<b>Trade and Investment Queensland (TIQ)</b>	TIQ is a government entity that assists Queensland exports to reach global markets. It provides a range of services including skill development, market intelligence and in-market introductions.
<b>Industry Bodies</b>	There are a number of industry bodies such as Meat and Livestock Australia (MLA) and the Australian Meat Processors Corporation (AMPC) who produce reports and tools to assist producers in the beef-cattle industry. Other bodies such as Co-operative Research Centres (CRC), conduct research projects on behalf of government examples include the CRCSI (spatial intelligence) and the CRCNA (developing northern Australia).
<b>Professional Services Firms</b>	These firms provide specialist advice through agribusiness teams that advise in areas such as supply chain optimisation, digital integration, transaction advice and growth opportunities.
<b>Specialist Services</b>	Specialist services are becoming increasingly accessible with firms operating in grazing regions and provide advice across a number of areas including but not limited to soil-testing, grazing management and performance analysis.
<b>Austrade</b>	The Australian Trade and Investment Commission (Austrade) provides a range of services to international and domestic businesses. Austrade can provide extensive information and relevant networks of foreign investors.

## Useful links

Business Information: <https://www.business.qld.gov.au/running-business/growing-business>

Commercial Information: <https://investmentcentre.moneymanagement.com.au/>

Government Support: <https://www.daf.qld.gov.au/business-priorities/business-trade/trade-and-export>

Future Beef: <https://futurebeef.com.au/>

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'Queensland Beef Producer Investment Guide' is part of the document series 'The Investment Outlook for the Queensland Beef Supply Chain' developed by EY on behalf of the Queensland Department of Agriculture and Fisheries. This document series explores the existing and growing opportunities for the Queensland beef industry. It consists of:

- ▶ Strategic Drivers of the Queensland Beef Supply Chain
- ▶ The Existing Queensland Beef Supply Chain
- ▶ Future Outlook for Queensland Cattle and Beef Products
- ▶ Investment Analysis of the Queensland Beef Supply Chain
- ▶ Investor's Guide to the Queensland Beef Supply Chain
- ▶ Queensland Beef Producer Investment Guide



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