

Bell Potter – Home Grown Conference

Rural Market Update

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PRESENTED BY

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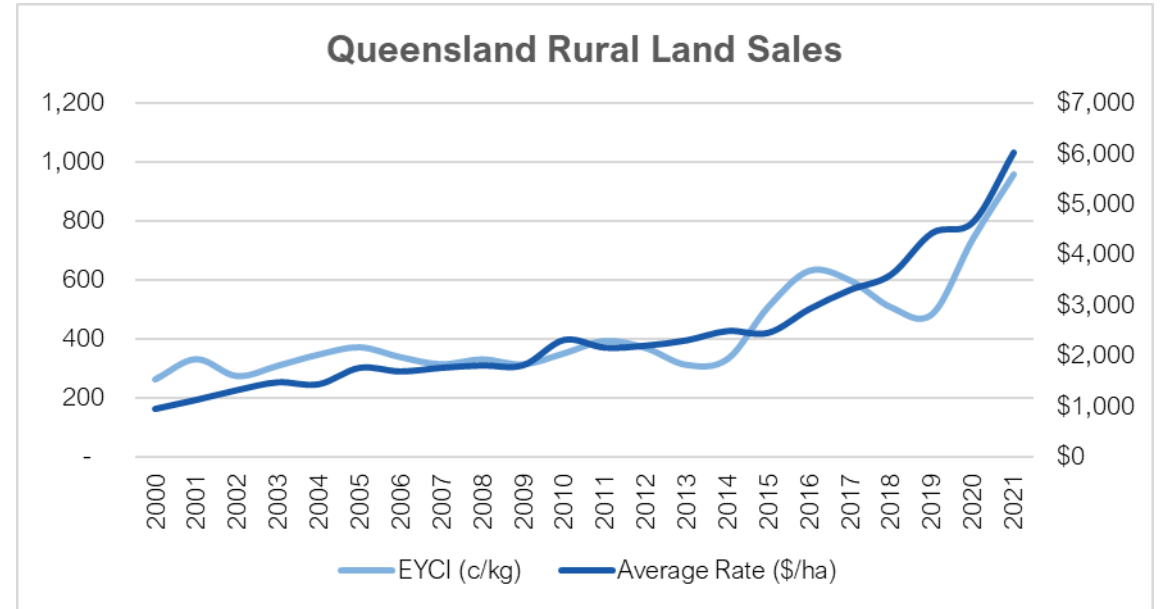
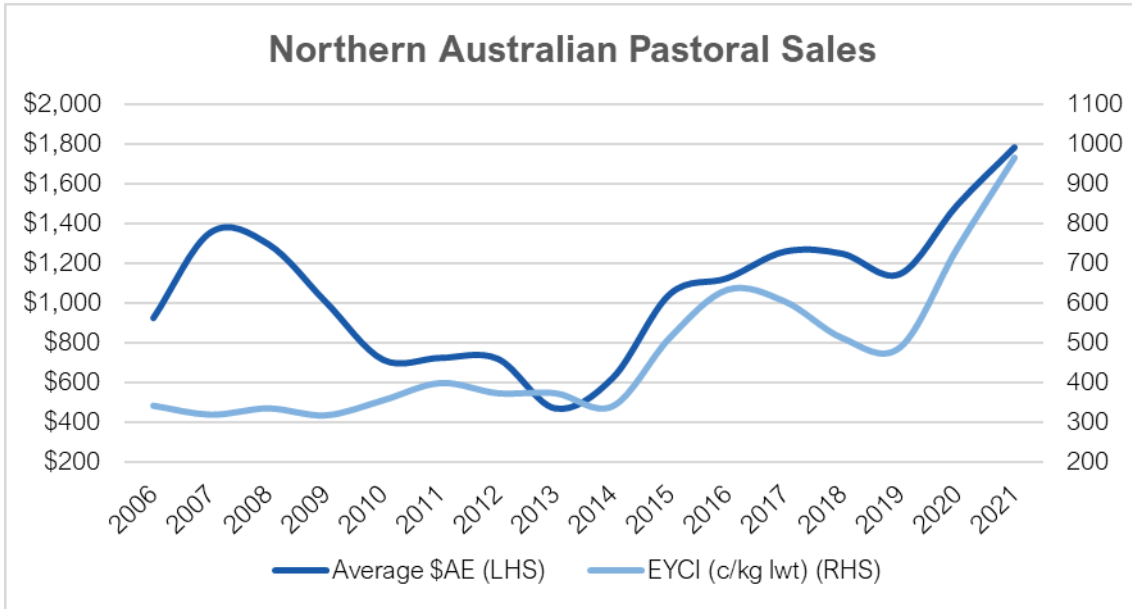
Current Market

- The market is “red hot” across most geographies and most commodities.
- Grazing and cropping land values remain strong and are strengthening.
- Debt remains highly accessible for customers with strong balance sheets (noting most balance sheets have benefitted from the doubling (or more) in grazing and cropping land values over the last 3 - 5 years).
- The market is being driven principally by local farmers effecting farm build-up strategies to increase scale and operational efficiencies.
- However, domestic and global institutional investors also remain active, and there is circa \$4 billion of fresh capital (on top of allocations not deployed last year) for Australian agriculture from institutional investors.
- Commodity prices remain very high (for the most part) and almost the whole country is full of moisture - the effects of the widespread and longstanding La Niña conditions.
- All of this points to a continued strengthening of land values as demand continues to outstrip supply.

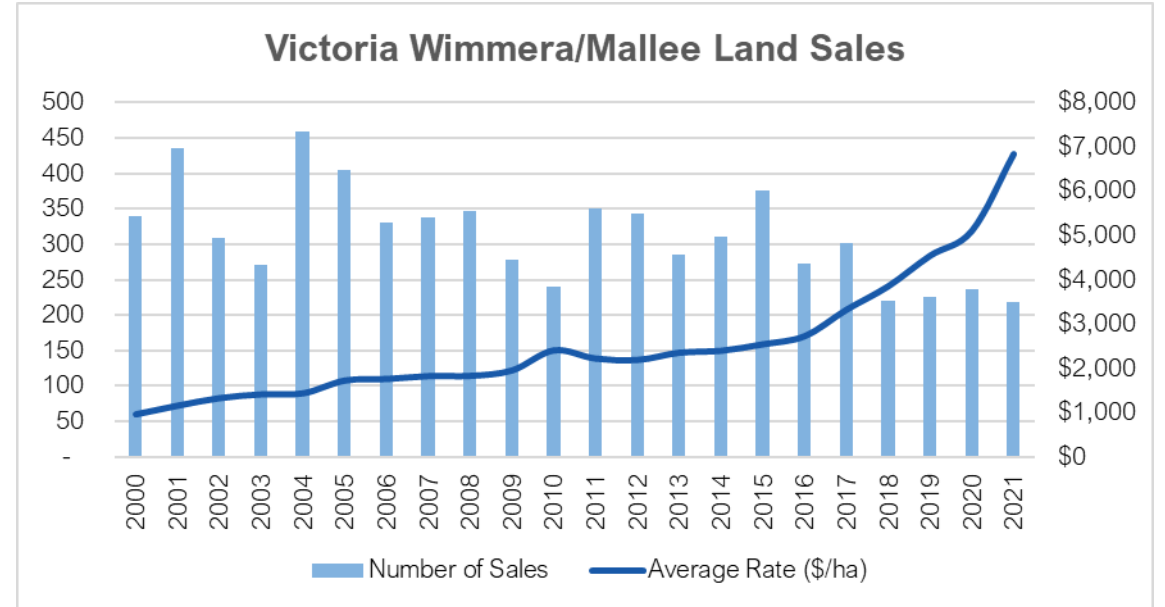
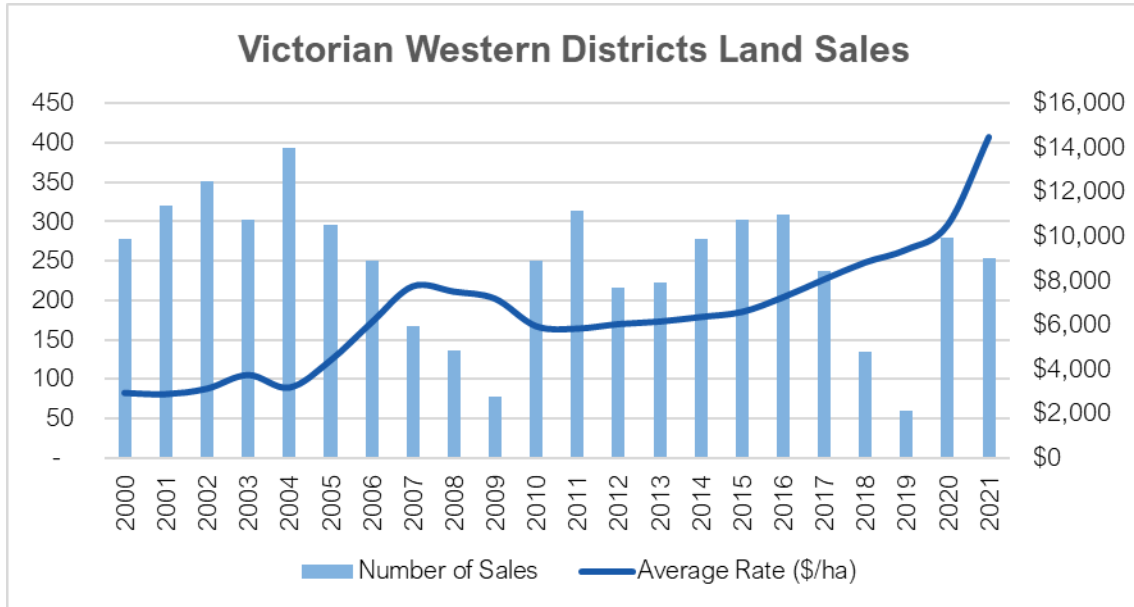
The key driver is the low cost of debt. Most borrowers are accessing debt at between 1.5% - 2.5%, which for context, on an interest only basis, equates to a cost of \$15,000 to \$25,000 per \$1 million. In that context, and under auction conditions, it is easy to rationalise why nearby and adjoining owners are throwing away the rule book on established district land values and are bidding up values to unprecedented levels. Indeed, each new sale process seems to elicit a new record level of value. It is certainly a "sellers market".

Auction has been the favoured selling method for smaller holdings and the market has quickly embraced online auctions with some record prices being achieved through the *AuctionsPlus* platform in particular.

Northern Australia - Active Markets



Southern Australia - Active Markets



The changing impetus in the market is best shown by contrasting two of the largest deals completed last year.

Sale of Lawson Grains Q2, 2021

- 10 aggregations across NSW & WA comprising a total land area of 103,006* hectares (circa 97,000 hectares arable)
- Marketed in behalf of Macquarie Group
- 130 EOIs, but failed to produce enough interest in all parcels to undertake a break-up.
- Was sold to AIMCo (Canadian Pension, who's investment is managed by NewForests) for \$580 million as a going concern business with the deal struck mid 2021. This showed a significant increase on the 2020 book values, but by the time it settled in January 2022 the market had strengthened further. Lawson Grains will continue to operate as it has and with a new owner will look to expand its cropping operations both within existing regions and into new regions. And possibly new commodities.

Sale of the Corinella Group Portfolio

- An amalgamation of 50* properties across four aggregations (VIC & SA) comprising a total land area of 22,386* hectares
- This campaign commenced in Spring 2021 and was also an EOI
- Demand from individual farmers was very strong and after the first round of EOIs we undertook a Boardroom Auction for one asset and settled on preferred bidders for the whole Western District aggregation (a syndicate of locals), the whole SA aggregation (also a syndicate of locals), and we sold the Wimmera Aggregation to a large fund. We dealt with individual bidders on Greens Creek. In total we undertook 27 transactions and all settled by late January / early February.
- 2020 book value was circa \$280m
- A number of portfolio bids were received at \$310-\$330m
- By undertaking the break up the vendors received \$370m (\$90m more than the 2020 book values).

These two sale processes for similar type assets demonstrate what we believe is a significant step change in the market.

Demand from local farmers is exceptionally strong, and deals can be completed on cash terms, with short settlements, light touch reps and warranties contracts and no Foreign Investment Review Board approval. Large institutional investors are finding it hard to compete in these circumstances.

Other market segments

- The **fruit and vegetable** sector is going through a period of significant consolidation. The effects of COVID on labour availability has been significant, as have changes to labour laws and minimum hourly rates. That, combined with an ageing owner base has seen a number of these owners make the decision to divest. We think there are some good value buying opportunities and we are seeing this being rapidly institutionalised as a number of North American funds look to deploy money into this sector. There are some big deals happening in the stone fruit, pome fruit and protected cropping (glasshouses and netted developments) sectors.
- **Edible nuts** remains a hot investment space with significant volumes of institutional capital flooding into Almonds, Macadamias, Pistachios, Pecans and Walnuts. This would be one of the hottest land use change / development sectors of the market with a number of private equity groups accumulating land and getting it shovel ready for nut development. We are presently taking one such portfolio to market in Katunga in northern Victoria known as Sandmount Farms on behalf of goFARM with a sale expectation of >\$250m.
- The **white meat sector (pigs and poultry)** also continues to consolidate with the most notable deals this year being the JBS acquisition of Riverlea Pork, BGH's acquisition of the Hazledene Poultry business and the current marketing of another significant pork growing business. This sector continues to benefit from its place as the cheaper alternative to red meat protein as prices for beef and lamb remain at all time highs.

- **Aquaculture** has also been a hot investment sector this year, noting JBS acquisition of Huon Salmon and their on market shoot-out with Twiggy Forrest. Major competitor Tassal has continued to consolidate its footprint in prawns.
- **Timberlands** remained a hot investment sector as Global Forest Partners sold their 24,000 hectare portfolio for a record \$780m to AXA IM. They also have now listed their 19,000 hectare Hume Forests portfolio.
- **Cotton / broad scale irrigation** is resurgent on the bank of widespread water availability across all the growing regions and an incredibly high cotton price. There are a number of very large deals happening in this space, both in the traditional growing zones on the eastern seaboard as well as a wave of pioneering investment (typically private equity) into vast areas of northern Australia.

Headwinds

- Input costs, particularly the cost of nitrogen and diesel, is the major concern for producers going into 2022.
- Labour shortages remain. The cost of skilled labour is also increasing rapidly.
- Land cost for new entrants is prohibitive in many geographies in an environment where existing owners can justify a higher cost based on a dollar averaging to historical cost.

Opportunities

- Land use change remains a major draw for new investment, particularly in northern Australia, the southern Murray Darling Basin and southern Western Australia.
- Many farmers are looking (sensibly) as productivity improvements through further investment in their existing holdings rather than buying more land and they are judiciously using core debt for this.

Q & A