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The Rise of the Food & Agriculture Private Equity Space

An Asset Manager´s perspective of the global space and the specific trends & opportunities in South America.

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Executive Summary

The study reviews the rise of the global food & agriculture private equity space in the context of increased interest from private and institutional investors around the globe to allocate capital to the growing agriculture asset class and provides an in-depth analysis of the dynamics and outlook of the South American market.

Global F&A Private Equity: Investing beyond the farm.

- The agriculture industry is undergoing unprecedented change, driven by demographics, globalization, sustainability pressures, new energy sources, and concerns about food safety and security. These challenges are exacerbated due to a prolonged period of under-investment in the decades before the 2000s.
- The rapid growth along emerging markets in the early 2000s and the sharp increase in food imports that followed were the trigger for the industry to start attracting significant new capital from private and institutional investors in order to meet these complex challenges.
- Indeed, in the last decade, the food & agriculture sector became one of the most pursued broader macroeconomic themes that could offer both potential return enhancement and diversification, together with other sectors such as timber, natural resources, renewable energy and infrastructure.
- Investors are now actively considering agri PE opportunities with the aim of improving risk-adjusted returns and providing a source of diversification. As these investors start to assign separate allocations to the sector, we expect the capital flow to accelerate in the coming years.
- The F&A value chain provides an ever growing pool of investment opportunities. At present, over 230 investment funds are operating in the food and agriculture sector, against 33 in 2005. As of 2014, these funds have around US$ 44 Billion in AuM.
- The F&A private equity sector, excluding farmland investments, is also gradually taking shape. At present, there are more than 40 PE funds specialized in this sector, with close to US$ 8 Billion in AuM.
- The global F&A private equity market sector is poised to grow considerably over the coming years as private and institutional investors discover the sector´s attributes and the pool of opportunities lying in the PE space.

South America:
Fertile conditions for Private Equity investments in food & agriculture

- South America's rich agricultural resources have allowed it to develop a world-class agricultural industry with a long history of local and foreign investment. Today the region has an enviable position in terms of scale, quality, diversity and competitiveness of its agricultural sector that enables it to feed more of the world in the next decades, driving increases in agricultural exports.
- Yet despite these advantages, South America faces significant challenges if it is to maintain its leadership in the global agricultural industry and compete on a world stage. Among these challenges, the availability and cost of capital, infrastructure limitations along the value chain with diverse realities by country and long-term strategies for sustainable agricultural practices and technology innovation are key.
- In response to these challenges, a broad wave of investments reached the region during the 2000s, with the bulk of the capital targeting farmland investments, but increasingly also targeting private equity opportunities along the value chain.
- Since then, country-specific PE funds and then multi-country PE funds emerged in the sector. Now also international players in the F&A space are targeting the region.
- The fact that there is a large presence of family-run businesses as well as the fact that public markets in the region are still dominated by natural resource companies and banks, create a need and an opportunity for private equity, local and foreign, to fill in the investment gaps.
- Another distinct aspect of the South American food & agriculture PE market is its interconnection with the infrastructure and energy themes, which creates substantial investment opportunities for private equity investors.
- On the other hand, the large potential in the region has also attracted the interest of strategic players – including input suppliers and international trading houses – and of the investment arms of Asian and Middle Eastern sovereign wealth funds.
- All these factors point to increasing activity and to the expected entry of new PE players in the near future. As agricultural challenges grow in size & importance, a new wave of investments is required to overcome them. In this context, PE investments will have a larger role to play in the regional food & agribusiness industry.
- PE Funds specialized in the sector can build effective organizations and develop successful investment strategies to position ahead of these trends. Among the key success factors we emphasize the importance of i) building synergies and risk hedges with infrastructure & energy assets, ii) considering a broad regional strategy to include the new ag frontier, iii) developing local resources to enable a proprietary deal flow, iv) opening the deals to strategic co-investors and v) prioritizing organic growth acceleration and consolidation.

1. In the last decade, the food & agriculture sector has attracted increasing private & institutional capital.

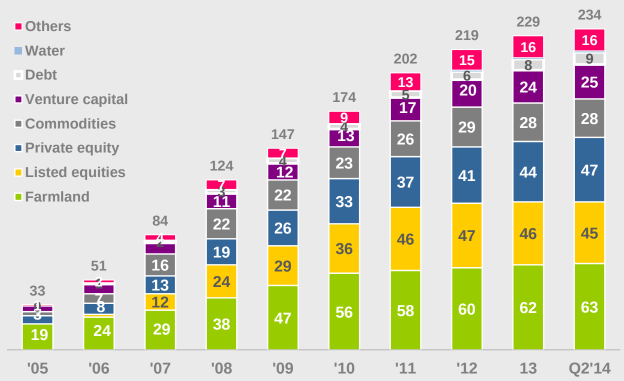
Food & agriculture: a growing asset class.

After a decade of strong fundamentals, with increasing capital inflows and healthy returns across most assets and geographies, the food & agriculture sector has become an asset class in itself, with ever-growing base of investments.

At present, there are over 230 investment funds specialized in the F&A sector, against only 33 back in 2005.

The growth reflects the increased investors' interest in real assets of which natural resources are a relevant theme, and in particular the rising interest in food, land and water.

Chart 1: Number of F&A funds by asset type



Source: Valoral Advisors' analysis.

A broad spectrum of opportunities.

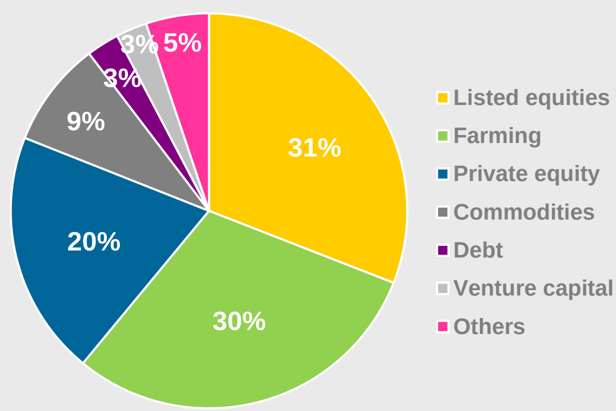
Investors willing to build or expand their exposure to the agribusiness asset class can choose from a broad range of assets with different breadth of styles.

Farmland and listed equities remain the largest assets with a combined 61% of all AuM.

Private equity funds have been growing steadily as managers chase new sources of returns and lower correlation to traditional investments.

Among other investments, we highlight commodities, trade finance, venture capital and forestry.

Chart 2: AuM by investment target



Source: Valoral Advisors' analysis.

Growing regional diversification.

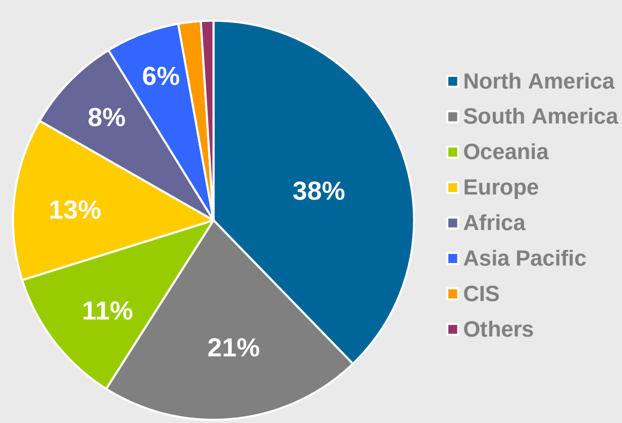
If commodities and listed equities are excluded, it is easier to observe the relative weight of other major geographical regions.

North America remains the leading target market for investors, but South America and Oceania gain importance. Both regions continue to attract the interest from both private and institutional investors.

Europe, Africa and Asia Pacific are also experiencing growing activity. The asset class is truly global and investors recognize the opportunities beyond their domestic borders.

The increased turmoil in the CIS region has reduced the interest of international investors in this part of the world although the region, notably Russia and Ukraine, have attractive agricultural resources.

Chart 3: AuM by main geographical destination excluding equities & commodities



Source: Valoral Advisors' analysis.

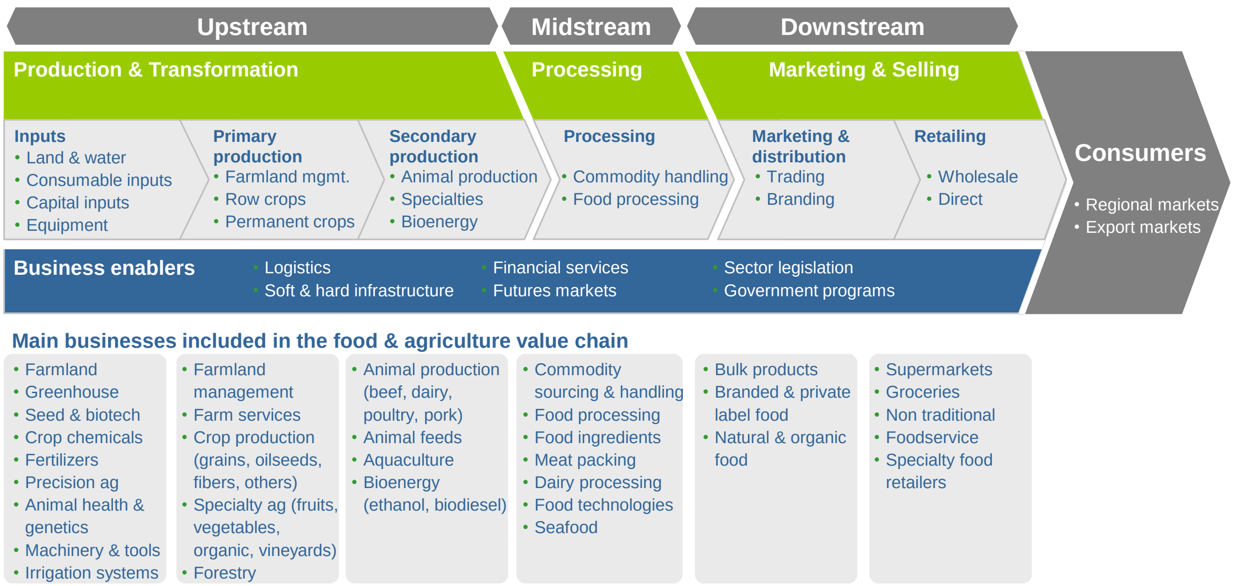
2. The F&A value chain, with its multiple activities and sub-sectors, provides a broad spectrum of investment opportunities.

Figure 1 illustrates some of the main activities along the agribusiness value chain. Indeed, considering different products and activities, it would be possible to count dozens of sub-sectors.

The value chain is generally depicted as integrating three broad value addition steps that go from the farm to the fork: i) production and transformation of primary goods and all the inputs, equipment and services that supply those sectors, ii) food processing and iii) marketing & selling of food products.

Across these segments, we find sectors that act as business enablers, supporting the activities performed along the value chain. These group of "business enabling" activities is becoming more critical and more pursued by investors.

Figure 1: A simplified version of the F&A value chain



3. The food & agriculture private equity space is gradually taking shape.

Although PE Firms can find investment opportunities all across the value chain, in practice most of them frame their investment space in the following terms:

- **Picks & shovels rather than farmland:** Most PE Firms are shy of investing in tracts of land and instead prefer to focus on the associated inputs, equipment and services to support farmers. Still, there are certain PE Firms invested in farmland and permanent crops.
- **Midstream and downstream:** This is one of the other major areas of investment for agri PE Firms. Some of them look more into the processing side, while others focus on consumer-packaged goods.
- **Ag infrastructure:** PE funds were quick to realize that ag infrastructure is missing or limited across many agricultural regions in emerging markets. Being infrastructure a major theme for the broader PE market, agri PE funds are focusing increasingly on building the infrastructure that will be needed to enable larger production and trade volumes.
- **Clean energies:** In a similar fashion, PE Firms are increasingly looking at biofuel production, with particular interest in integrated projects.
- **Agtech:** While agtech is still the preferred space for Ag VC funds, PE managers are also looking at agtech companies that are in more mature stages. Hot sectors include precision agriculture, big data, agbiotech and bio chemicals.

Figure 2: Private equity opportunities pursued by food & agriculture funds

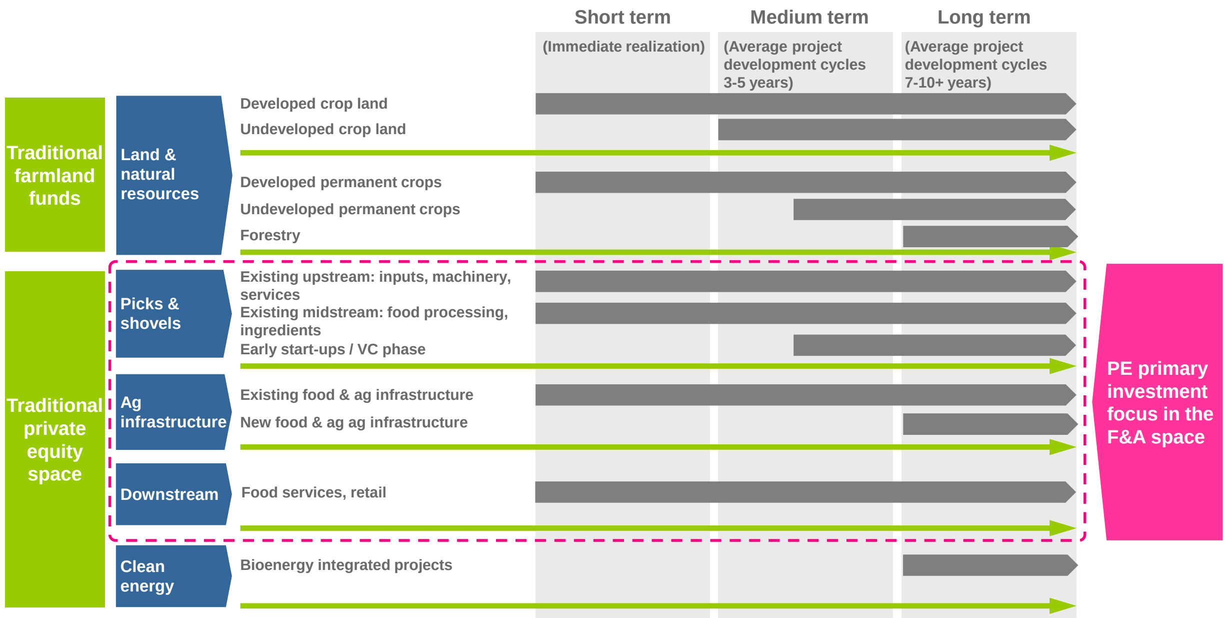


Figure 2 shows the main traditional investment sectors for agri PE funds. Different PE funds are targeting different assets and in different development stages, however the picks & shovels, downstream and infrastructure are the most pursued themes.

For the purpose of this document, farmland, permanent crops and forestry are excluded from the scope of F&A PE funds.

4. While allocations to F&A Private Equity start from a low basis…

In the past, PE investors mostly focused on traditional private equity strategies with little interest in alternative sectors, including agriculture.

Over the last years, however, PE investors have increased their interest in hard asset strategies, with the focus predominantly on infrastructure, real estate and energy strategies.

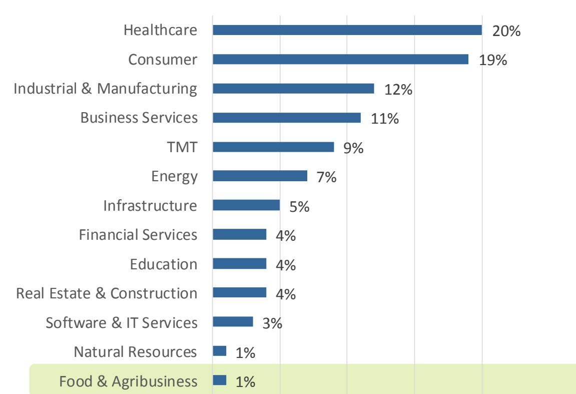
Investors are pursuing these assets to provide an inflation hedge and portfolio diversification. These assets are typically mature businesses, which have the potential to provide recurrent income and hedge against sovereign defaults, against currency depreciation and against inflation.

As investors become more aware of the attributes of F&A assets, they are starting to create specific allocations to the sector, with interest in both developed and emerging markets.

Until the sector emerges as a relevant PE theme, the drawback for investors is that there is a limited number of funds available with experienced management teams and deep track records.

Chart 4: Selected results from Grant Thornton global private equity report 2013/14

In which sectors do you expect PE firms to be most active over the coming 12 months?



Source: Grant Thornton - based on a survey to 156 top executives from private equity firms around the world.

The sector has a role to play, by building the bridge between the farm and the investment community and by developing suitable investment vehicles that can provide the value expected by investors.

5. The F&A private equity sector is poised to grow considerably in the coming years.

There are several factors that contribute to the increased interest in the F&A private equity investing, as summarized in figure 3.

Figure 3: Drivers for increased F&A Private Equity investments

	Investment trends in 2000s	Investment trends in 2010s	
Challenges in other assets of the F&A space	• Initial focus of private investments in agribusiness asset class were channeled through farmland vehicles. • Liquid opportunities in equities & commodities also captured early attention.	• Farmland wave maturing as prices soared and new laws restrict foreign ownership in many countries • Interest dropped in commodities after weak results amid high volatility. • High correlation of equities with broader market not conducive to diversification.	**F&A PE seen as more attractive option to gain smart exposure to the ag space**
PE's relative attributes against other assets in the sector	• The agri PE sector used to lack critical mass, depth and exit strategies. • Strong surge in agri sector's revenue growth and profitability started from mid 2000s. • Limited presence of institutional investors and sovereign funds	• Growth in agribusiness & food sector allows for more specialized investors, a broader M&A market and more exit options. • Growth of other asset categories like agricultural infrastructure, trade finance and VC will fill the pipeline for PE opportunities. • Increased role of these long term investors, with preference for PE deals.	**Increasing depth in the ag space provides more opportunities for PE investing**

6. Indeed, food & agriculture PE investments are already extending globally…

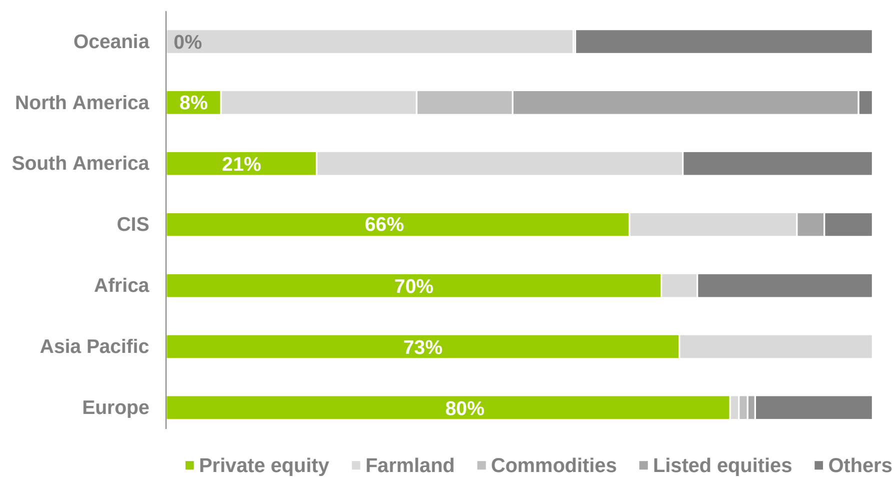
The chart below illustrates the asset allocation mix by geographical destination for all the funds analyzed.

While the size of F&A PE investments in the U.S. is very relevant, the overall PE weight in the total investments is limited due to the weight of farmland, listed equities and to a lesser extent, the ag commodities.

In South America, farmland is the driving sector and other assets such as forestry and trade finance are also growing. However, we expect PE to continue growing.

Finally, Africa, Europe and Asia Pacific concentrate agribusiness investments mostly oriented towards the associated inputs, services, and infrastructure through private equity vehicles, hence its large weight in the total allocation.

Chart 5: Investment funds active in the global agribusiness by type of asset (% of total AUM by region)

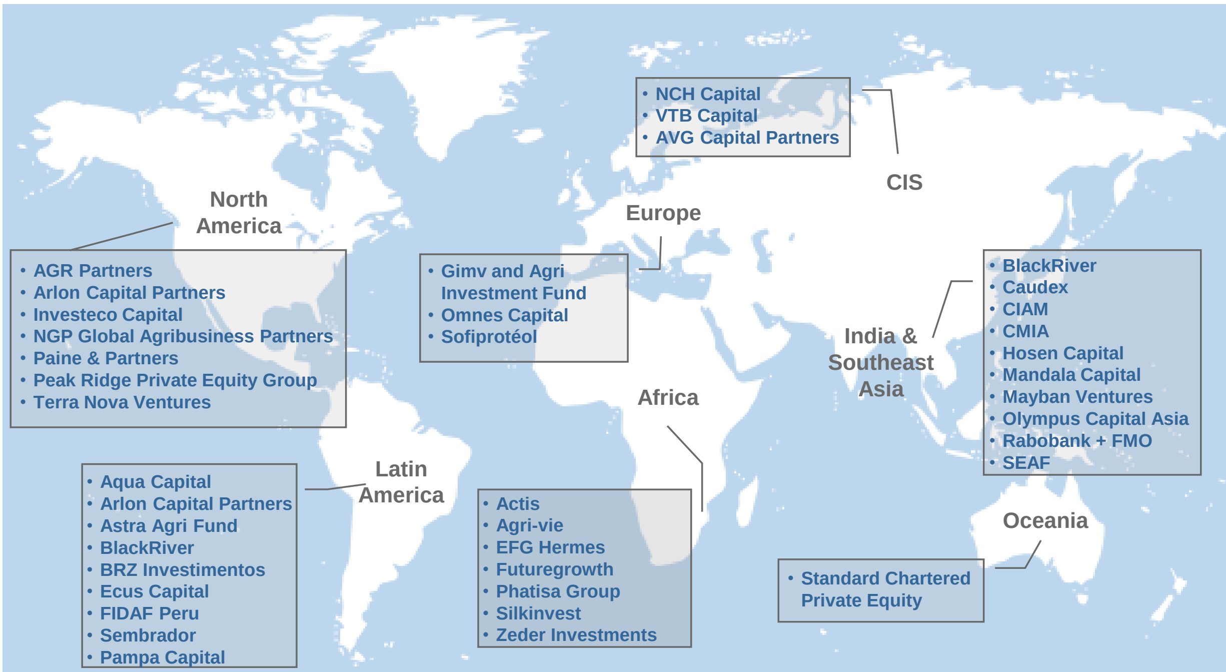


Source: Valoral Advisors' analysis.

7. As PE Firms launch investment funds in the major regional markets.

At present there are more than 40 PE funds specialized in the food & agriculture sector, with capital in excess of US$ 8 Billion.

Map 1: Relevant food & agriculture PE Firms by region



North America

- The North American PE market does not have many F&A specialized funds, but deals are typically done by diversified large and middle PE funds.
- Recently, most relevant deals were done by strategic players (incl. Climate Corporation acquisition by Monsanto), signaling the interest of large players to acquire new technology, production capacity and/or sales channels).
- Paine & Partners is the leader in the market, currently investing their Fund III.
- Arlon Group, part of Continental Grain, is running another specialized PE agri fund in U.S.

Europe

- Most PE deals involving F&A companies have been done by large and broad European PE funds.
- Among specialized PE funds, we find Omnes Capital (prev. Credit Agricole PE) and GIMV & Agri Investment Fund.
- Interest is concentrated in sectors linked to the regional market: greenhouse production & technology, frozen food, food ingredients, machinery, as well as biotech and nutrients.

CIS

- AVG Capital Partners is one of the few funds formally established in the region, as many deals are done through direct private investments.
- NCH Agribusiness Partners L.P. is also active across the region, however with more focus on farmland investments.
- VTB Capital Agri Fund is the latest agri-focused PE fund to be launched in the region, part of the financial conglomerate VTB Capital. The fund is thought to have raised so far $200 Million.
- Russia counts with dozens of holding groups that own large farmland assets and related investments in logistics and secondary processing, including Basic Element, Razgulay Group, Trigon Agri, Rusgrain, Ekosem-Agrar, EkoNiva-APK, RAV Agro, Rusagro, Rurik Agro, RZ Agro, among others.

Africa

- There are several small to medium funds investing in private equity opportunities, often funded by European public institutions and U.S. institutional investors.
- There are three distinctive markets: North Africa (mainly Egypt), the Sub-Saharan region and South Africa, the last one being the most developed market in the continent.
- Investments are usually directed towards local food processing capabilities, logistics and distribution channels.

Asia Pacific

- China and India are the leading markets for PE agribusiness investing in the region.
- There are several Chinese funds investing in regional agribusiness developments.
- Among private managers, CMIA Capital Partners is one of the most active in China mainland and is thought to be raising funds for their CMIA IV Fund.
- In India, Rabobank is investing to assist the expansion of the local food & agribusiness sector.

Regional spotlight: South America

8. The food & agriculture institutional PE space in Latin America is relatively young…

Although the sector has a history of local and foreign investment, until the early 2000s the sector was generally under-capitalized, with capital sources limited to local families and strategic players, both local and international.

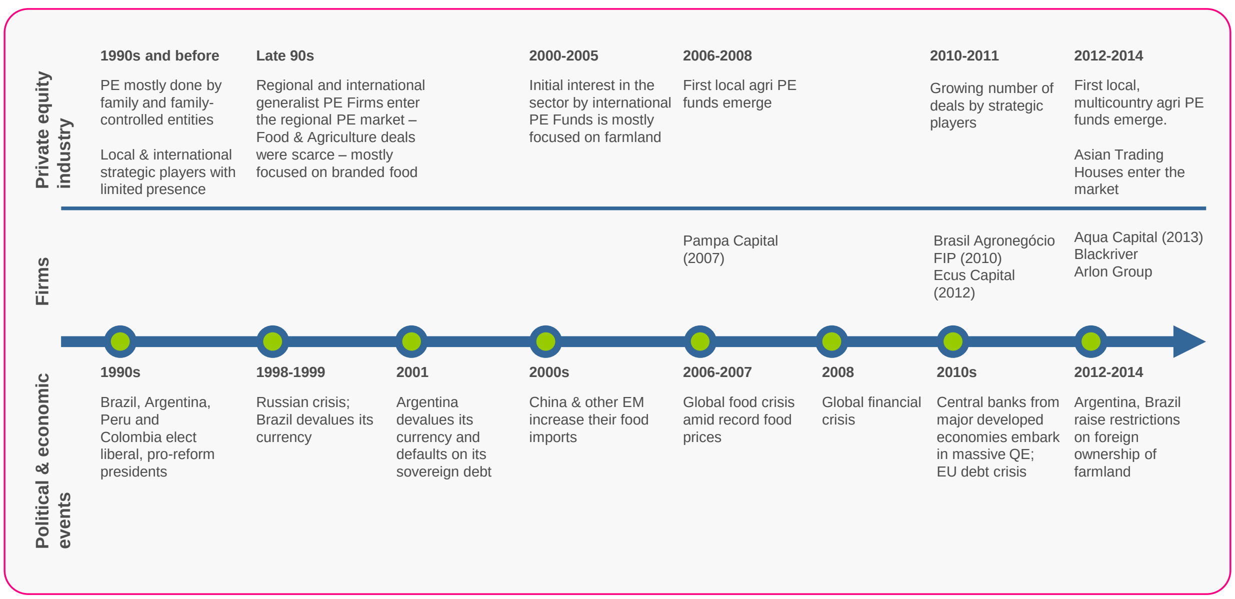
Even though the initial wave of PE investments in the region took place during the 1990s, generalist funds dominated the regional PE market and the F&A sector was somehow below the radar, at a time when ag commodities had relatively low prices and the sharp increase in food demand by emerging markets was yet to materialize.

Since the early 2000s, the global investment community realized that demand for agricultural commodities from emerging markets would soar, prompting asset managers to launch new PE investment strategies focused on the sector.

After the 08/09 financial crisis, investors' shift to emerging markets and real assets collaborated to create a new investment wave into the sector. As we transit 2014, it is evident that the F&A PE space continues to evolve very quickly.

Figure 4 shows a timeline of the F&A private equity sector in Latin America, including a description of some structural issues affecting the regional economy throughout this period.

Figure 4: A timeline of F&A private equity in South America



Source: Valoral Advisors' analysis.

9. However, it is already a relevant sector for PE investors.

Even if it is still rather small compared to other traditional PE segments, the South American F&A private equity market has evolved considerably in recent years, with an ever-increasing number of funds focusing on the regional market: Brazil remains the key focus area, but the Andean region is increasing in prominence and the Southern Cone mantains its long term attractiveness.

Indeed, according to the Coller Capital and LAVCA 2013 Latin American Private Equity Survey, agriculture and agribusiness is one of the top 10 sectors for PE investment over the next 3 years according to LPs views. In particular, close to 40% of international LPs were considering investments in the sector, against around 25% among Latin American LPs.

This is probably one of the most prominent characteristics of the future of the F&A PE market in South America: Global players will increasingly want a piece of it.

10. Several PE Firms are already investing capital in the regional F&A market.

The table below provides basic information about the most relevant asset managers focused on the regional food & agriculture PE space. The table includes Firms that either are currently raising funds, investing or have already invested across South America.

This information is not exhaustive but it rather intends to provide a broad overview of the main players and their relevant developments across the regional market:

Table 1: PE Firms specialized in F&A that are present across South America.

General Partner	Co-sponsors and advisors	Fund	Closing date	Stage	Size ($M)	Regional target	Sector focus
Pampa Capital	None.	Pampa Agribusiness Fund LP	2007	Invested	$ 365 Million	Argentina, Brazil and Southern cone	Production & transformation
BRZ Investimentos	GP Investimentos & Banco do Brasil	Brasil Agronegócio FIP	2010	Investing	~ $ 350 Million	Brazil	Broad agribusiness value chain
Ecus Capital	In association with AXA Private Equity	Ecus Agri-Food	2012	Investing	~ $ 30 Million	Chile	Broad focus across the value chain
Aqua Capital	None.	Aqua Capital	2013	Investing	$ 173 Million	Brazil, Andean, Southern cone	Broad focus across the value chain
Black River (Cargill)	None	Latam Special Situation Opportunity Fund	2013	Investing	$ 264 Million	Latam	Businesses linked to crop production
Arlon Private Equity	Co-sponsors Continental grain and Rabobank	Arlon Latin America Partners	Open	Fund raising	$ 400 Million target	Focus on Brazil and greater Andean region	Broad focus across the value chain
Gama Investimentos	Unknown	N/A	N/A	N/A	N/A	Brazil	N/A
Astra Investimentos	Unknown	Astra Agro Fund L.P.	Open since 2011	Fund raising	$ 500 Million target	Brazil	Broad agribusiness value chain
Sembrador	None	Victus	Open	Fund raising	$ 100 Million target	Chile & Andean region	Mainly primary production
		Agro desarrollo	Oct' 2009	Invested	~ $ 40 Million	Chile	Fruit plantations
		Crecimiento Agricola (FICA)	Dec' 2005	Harvesting	~ $ 20 Million	Chile	Fruit plantations

Source: Valoral Advisors based on news, company websites and industry reports.

Besides the specialized PE funds, there are other large PE firms that are actively investing in the region with a broader industry scope. Some of these firms have invested in selected F&A deals, although it has not been so far a major target sector.

In general, most of these PE funds follow the traditional PE terms in respect to lifetime and compensation. F&A PE funds target gross IRR of between 20% to 30%, with a planned lifetime of 10 years. They will usually charge a management fee plus a performance fee that is dependent on the fund achieving a certain hurdle rate.

As the broader PE market evolves, F&A PE funds are increasingly willing to bring co-investors to the deals and to provide mezzanine structures to both investors and companies. A hybrid of straight equity and convertible debt offered to portfolio companies can improve liquidity and reduce risk to the Fund, and consequently, to the investors.

The prospects for a more dynamic secondaries market in the F&A PE segment is also a positive development to provide more liquidity to investors.

11. It is not only the PE Firms that are active, also strategic players and large institutional investors are pursuing opportunities in the regional market.

As the South American food & agriculture market continues to evolve, new investment players arrive. Among them, we identify three main investor types, each of them attracted by different factors, as described in figure 5.

Figure 5: Investors' segments in the South American F&A private equity market

	Private Equity Funds		Strategic players		Sovereign wealth funds
	General	Specialized	Independent	State owned or with state support	
International investors	• World-class PE firms with large AuM deployed through a large number of general & regional funds • E.g. Blackstone, KKR, Carlyle Group, etc.	• PE firms concentrated on the food & agriculture sector and with global ambitions • E.g. Paine & Partners, Arlon Group, Blackriver, etc.	• Large multinational companies eager to establish regional presence or gain market share. • E.g. Bayer, Syngenta, Monsanto, Bunge, Cargill, etc.	• Food Cos. and trading houses with links to national governments • E.g. COFCO, Olam, Salic, etc.	• Sovereign funds and investment arms of countries that pursue investments to mitigate the risk of food supply and as diversification in real assets. • E.g. Temasek and several Middle Eastern SIFs.
Regional & local investors	• Regional PE funds with ties to local markets. • E.g. Southern Cross, Pátria Investimentos, etc.	• PE firms created to target local or regional opportunities in a defined geography. • E.g. Pampa Capital, Aqua Capital, Sembrador, etc.	• Local and regional players that pursue a regional growth strategy. • E.g. JBS	• Not relevant at the moment in South America.	• Not relevant at the moment in South America.

Source: Valoral Advisors' analysis.

- **The general PE Funds** have long disregarded the regional F&A sector for a variety of reasons. We expect that as a new wave of fundraising takes place in the next few years, many of these funds will target the food sector due to all the considerations explained in the previous sections. Still, we consider that PE Funds that have a mandate to invest strictly in the sector can gain certain advantages against the broader PE Funds.

- **Strategic players** have recently become a serious competition to PE Firms but they also represent the most common exit option for these Firms. Among them, we see two major groups:

  - **Independent players:** Private companies, local and multinational ones, have become more active in recent years as they have accumulated cash and are willing to acquire assets in existing and new markets to increase penetration and revenues and to improve product portfolio and technology pipeline. In other cases, deals are defensive moves to restrict more players from entering their natural markets.

  - **State owned or with state support:** Private companies in which national states have certain ownership and certain decision-making are proliferating across Asia and Middle East. These companies have been actively chasing assets around the globe and many of them have South America as a strategic region to build a food production and/or trading platform.

- **Sovereign wealth funds** are also increasingly targeting the regional food & agriculture sector, a move that reflects their concerns on food security but also the recognition that the sector provides attractive returns and inflation-protected assets. Their investment focus has also expanded from farmland to include assets across the entire value chain, with particular emphasis on infrastructure & food processing.

Another trend rapidly emerging in the region is the growing role of shadow banking as a financing source to companies along the F&A value chain. Originally focused on short-term trade finance solutions, some of this commercial lending is progressively targeting project finance and the private equity space, albeit in usually small deals.

We do not expect this source of capital to be a major competitor to PE Firms, especially for the larger transactions, however we highlight the increasing interest in the asset management industry to allocate capital to the sector.

This increasingly crowded market is a challenge for new F&A PE Funds, however we believe that there is room for everybody to invest and we consider that F&A PE Funds can build a strategy to compete effectively against these new players.

12. In South America, the agriculture, infrastructure and energy sectors link up to provide an attractive source of PE opportunities.

A distinctive aspect of the South American F&A PE market is its interconnection with the infrastructure and energy themes, which creates substantial investment opportunities for private equity investors.

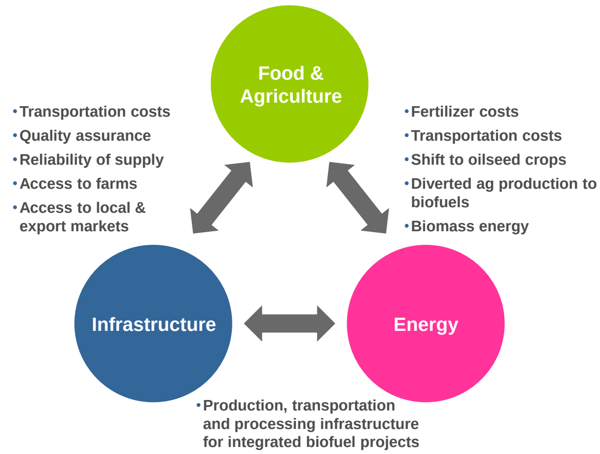
Moreover, the expansion of the agricultural frontier and the effects of climate change will intensify the interdependencies between these sectors.

Infrastructure catch-up

The region combines vast agricultural resources that extend across thousands of kilometers. In many cases, the local roads, grain storage, and conditioning infrastructure are missing or are very limited.

Infrastructure bottlenecks become evident in most regional transportation ways, either railways, river ways or highways. The export facilities, as well, have limitations in many cases.

Figure 6: Interlinking resources: How food & agriculture, infrastructure and energy are increasingly interconnected



The lack of adequate infrastructure is amplified by the growth in production and trading volumes and by the expansion of the agricultural frontiers, which takes place in the more remote areas where infrastructure is completely missing.

Biofuels for the future

Record energy prices during the years before the ‘08/’09 global financial crisis convinced local governments and businesses that biofuels could bring an attractive alternative use for the growing volumes of soybean, sugar cane and palm oil produced across the region.

The competitive advantage in the production of key crops that serve as input for bioenergies quickly created a large bioenergy sector, especially in Brazil and Argentina but also in other markets such as Colombia. In most cases, the increased biofuel production was a result of local policies that established mandated blends, but it was also driven by increasing demand elsewhere and especially in Europe.

At present, Brazil and Argentina have relevant production infrastructure for biodiesel and ethanol. The challenge for most of the local operators is to manage the economics of the biofuel business amid volatile global energy and ag commodities markets and changing policies and intervention in local energy prices.

Despite this uncertainty, we expect biofuels’ impact on the future demand of agricultural crops to grow, as governments continue to support mandated consumption levels, and high oil prices help to keep production economically viable.

Hedging risks, capturing synergies

The lack of infrastructure in the region and the challenges of managing biofuels can be considered as risks to F&A private equity investments across the region. However, those PE players who can build an integrated approach to agriculture, infrastructure and energy investments and who can develop synergies across their portfolio companies may gain a strategic advantage against pure F&A PE Firms. There are four major areas where PE Firms can act:

- Gain more control over critical feedstock supply (i.e. own crop production for biofuel plants)
- Unlock efficiencies along the value chain (production localization, transportation systems, value added processes, distribution networks)
- Adapting production portfolio and production systems
- Investing in breakthrough and incremental innovations in crop production, transportation and logistics, food processing and/or conversion to bioenergy.

In perspective, PE Firms ultimately need to innovate with new business models. These actions can result in lower volatility at the portfolio level and overall improved returns.

13. PE Funds can pursue several investment themes & diversify across the region.

Opportunities for growth and innovation can be found across all activities of the value chain and more so in production. From a PE's perspective, there are four broad investment themes that encompass the best opportunities available in the South American food & agriculture market:

Investment themes	Key sectors	Rationale
Sustainable development & management of natural resources	• Land conversion & marginal land development • Water management for irrigation & drainage • Biomass & biofuels	• Farmland investments will also require on-farm infrastructure & equipment to convert & optimize lands. • Growth of regional economies & specialty food will demand local processing capabilities. • Biofuels & waste management are poised to continue growing.
Productivity improvements through technological innovation	• Plant genomics • Bio fertilizers, bio pesticides • Animal health • Irrigation technology • Precision agriculture & big data	• There is a large yield gap across the region for crops and animal production, which farmers can reduce by incorporating technology. • Growing trend for development of tailored technologies to the specific soil and weather conditions across the region. • Large production extensions are suitable for the development and application of new technologies, especially if they can reduce costs.
Value addition in production & distribution	• Animal feed • Food traceability & quality assurance • Processed food, healthy food • Food ingredients • Food service	• As food supply chain goes global, Asian Cos. will increasingly look to secure food production & ingredients in most competitive regions. • Global beef, poultry & pork demand will drive more grain conversion into proteins – for local and export markets. • Strict traceability & quality assurance will become a norm.
Development & expansion of business enablers	• Local storage • Transportation infrastructure including roads, railways and river ways • Trading platforms • Financing	• Broad opportunities to develop infrastructure associated to large-scale farming and commercial plantations to enable market access. • Large infrastructure developments used alternatively for agriculture and other natural resources. • Soft infrastructure opportunities across trading and financing activities, especially in less developed markets, regional economies.

From a geographic point of view, multi-country funds that can target the three sub-regions may benefit by diversifying the portfolio and capturing the specific opportunities available in the different countries. However, diverging country risks across the region can make some of these countries less attractive for certain PE Firms:

Brazil highlights

- Largest economy and population in Latam.
- Agricultural superpower: World leader in production & trade of key food staples.
- Strong prospects for further expansion of food production and value addition.
- Biofuel sector is also a major sector.
- Infrastructure remains a key challenge.

Andean region highlights

- Continued improvement in economic & political conditions.
- Large exporters of high value tropical fruits, soft commodities.
- Growing position in palm oil.
- Infrastructure issues are a major obstacle/opportunity.
- The Pacific Alliance (Chile, Colombia, Mexico & Peru) and international free trade agreements are likely to attract more investments.

Southern cone highlights

- Argentina has large potential but political & economic outlook remain uncertain.
- Uruguay & Paraguay are attractive agricultural nations.
- Chile is the more developed PE market.
- Important agricultural frontier in Paraguay, Bolivia and Argentina.
- Space for consolidation in certain sub-sectors.

14. Strategic thoughts for Private Equity Firms

Based on the experience gained in the South American food & agriculture market and the specific work done in the private equity space, we highlight certain ideas to facilitate a discussion of the opportunities and challenges that private equity Firms face in this growing market.

Investment strategy: Leverage real asset platform in infrastructure and energy sectors for maximum synergies

- Food & agriculture assets in the region are intrinsically linked to infrastructure assets and increasingly connected to the energy sector due to i) the expansion of biofuel production through a variety of feedstock, ii) an increasing regional consumption and iii) new export markets for the local biofuel surplus.
- PE Firms that have expertise and visibility across infrastructure and energy assets linked to the F&A value chain can build and capture synergies from agricultural assets.
- By taking a full supply chain approach, including infrastructure and energy related assets, PE Firms may also have the ability to capitalize on parts of the supply chain that may benefit from broader macro trends as well.

Regional scope: Exploit Brazil´s opportunities but expand to Andean region and Southern cone

- Brazil is possibly 5-10 years ahead of the rest of Latin America in terms of its PE market development.
- Building an investment strategy to target the wider South American region can improve the deal flow as i) Brazil is expected to remain crowded (which might yet drive pricing up and returns down) and ii) the agricultural frontier expansion creates new opportunities elsewhere.
- In doing so, PE Firms can build a larger pool of opportunities in the middle market segment, as there are just not enough businesses for sale at the larger buyout end. This can also influence the fund´s required size.

Deal flow: Build proprietary deal flow in each country with in-house team and local partners

- One of the challenges for F&A PE funds in South America is that the pool of opportunities is probably still too shallow to sustain all this growing interest, which makes some of these funds to struggle for attractive deal flow.
- To complicate the things further, the geographical extension of Brazil and the other relevant agricultural nations across South America require a good amount of resources to search for and analyze investment opportunities, more often because many of the most attractive deals are far in the countryside.
- In order to build an effective deal flow, it is thus also convenient to leverage selected local relationships who have specific sector expertise and the local knowledge to bring exclusive opportunities along the value chain.

Co-investing: Partner rather compete with the newcomers

- PE firms are increasingly more willing to co-invest in food & agriculture deals. This happens as Family Offices and institutional investors are demanding more opportunities to co-invest rather than invest in a blind fund.
- This is a positive development, particularly in the South American market, as it i) facilitates reaching the required capital, ii) reduces the pressure on prices and iii) creates an exit strategy through institutional investors.
- In other cases, co-investing is required when another PE fund or advisor sources the deal – this is the case specially when dealing with local firms.

Adding value to investments: Pursue organic growth acceleration and consolidation

- The regional F&A covers multiple type of companies with different sizes and performance.
- Even though there are certainly companies in distressed situations and with potential for operational improvement, we could argue the highest potential for PE Funds is to invest in companies that offer potential for organic growth acceleration and regional consolidation.
- This is particularly the case in all those businesses closely linked to the food production, processing and trading that can be scaled up and/or consolidated as the subjacent production continues to grow.

About Valoral Advisors

We are investment advisors specialized in the global food & agriculture industry.
We help investors & asset managers to build and implement investment portfolios along the broad food & agriculture value chain.

We believe that successful agribusiness portfolios are built with a long-term approach and with an effective diversification strategy along different assets and geographies.

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Disclaimer

The aim of this study is to give general information regarding agribusiness markets and trends in an educational context only.

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