

INVESTING IN QUEENSLAND AGRICULTURE

In his book *Flash Foresight*, acclaimed business strategist Daniel Burrus writes about how to predict the future. Burrus claims, it's easy – to accurately predict the future, you just take out all of the things that you can be wrong about. The certainty that remains are 'hard trends' – things that are going to happen. When this concept is applied to global food & fibre demand, there arises the *certainty* to fortify investing in Queensland Agriculture.

In this post GFC era, all investors live in an uncertain world. Today, agriculture is still considered a developing asset class, yet the international financial upheaval over the past 5 years has resulted in important adjustments in both the form and level of global investment flows into agriculture. Greater alignment of the return capability of agriculture to the expectations of investors, a need to hedge against inflation, as well as a graduation of capital to more stable, real asset investments influenced by established fundamental market drivers and supply chain control have greatly increased the pool of capital looking for food security based exposure and as such, agricultural investment.

While these key factors certainly grabbed the attention of investors and capital providers, in more recent years, it is the ever visible hard trends of rapidly growing demand for food and the greater need for its security, in both supply and in price, for the world's westernising populations that has created the greatest impetus in global investment appetites for agriculture and its value chain. Recent estimates on the pool of capital from new and existing investors waiting on the sidelines of agricultural investment are in the Billions of dollars and with new investors entering the discussion every day, there is significant global confidence that agriculture is a necessary investment sector.

Yet, with all the world as investment competition, why is it, then, that Queensland's prospects in agriculture present a global standard in investment opportunity?

There are firstly the macro factors – those that are regularly articulated – such as the national ability to offer a politically, economically and socially stable investment environment – and one that welcomes investment through its legal structures and policy; our proximity to Asia - the rapidly growing point of demand; the reputation for clean, safe, environmentally responsible production by world's best practice farming, not to mention our position as a reliable exporter of high quality food and fibre on a scale that delivers commodity volumes far beyond current and future domestic needs.

Beyond this however, the key to being a highly competitive investment target is the combination of the more unique advantages of Queensland.

Of Australia's northern most zone, Queensland has the highest level of developed, large scale, vertically integrated supply-chain infrastructure, it is globally recognised for its competitively low cost of production and there is the diversified climate across the state that allows for varied agricultural industries to produce high quality commodities, with the capability for timely, efficient & strategic supply-chain alignment.

Further and possibly most significantly, Queensland still has a globally competitive price point with a broad scope for value uplift through development.

Analysis shows that on a comparable basis, agriculture and its related value-chain businesses are considerably lower in acquisition value than all other target destinations of similar national stability and industry maturity. As such, even with the hurdle of a strong Australian dollar, it is no surprise that Australia, and more specifically Queensland, should feature strongly on the investment target radar. In Grant Thornton's summary on global food & beverage deal activity published this month, Australia ranked highest in the Asia Pacific region and 5th globally for level of acquisition targets for the 3 ¼ years to March. This result was despite difficult market circumstances domestically, including drought, price depression and domestic credit contraction. Interestingly they noted that Australia had more deal activity as a target destination than China or India.

This increasing attractiveness to investors comes at a time when capital is desperately needed to deal with the excessive levels of debt in the still largely family-owned Queensland farming sector.

Agriculture's capital framework is formed by public and private investment, both domestic and international. In Australia, government assistance is very low by global standards and thus the vast majority of capital is from credit and private equity. It is undeniable that foreign capital, through foreign direct investment will play an increasing role in the growth of Queensland agriculture. Once treated as a simple real estate transaction, investment in agricultural land is now starting to transition into private equity deals of varied, innovated and sometimes flexible structures. Having largely ignored agriculture as an asset class in the past, global private equity firms and institutional investors are now actively building appetites for agribusiness investment and broadening their view to encompass paddock to plate opportunities to participate at all levels of the value chain.

Essentially, investors are looking for greater involvement in creating the value proposition and in development of the supply chain.

Private equity and institutional investors are progressively looking for buy, upgrade through development and operate opportunities and then, there is the increasing enquiry and activity from the strategic off-take investors. These investors, most typically from Asia and the Middle-East, are looking for an ability to capture supply-chain opportunities and control the off-take or commodity produced. This may stem from a domestic need in the country of origin for greater food security for their populations, or from an increasing recognition of the advantages to be had in controlling future supply and demand dynamics.

With the increasing number of ways for investors to access exposure to Queensland agriculture it is pivotal to consider what is important for Queensland's industry to have successful and sustainable long term investment that contributes positively to industry wide prosperity and growth.

Recent industry circumstances, including credit contraction, falling land values and low commodity prices, have created a drive in many established farming businesses to seek out investment that presents an alternative to credit or divestment. In concurrence, many private equity investors are increasingly looking to partner with long established farming businesses to mitigate their investment management risk and give greater opportunities to maximize investment returns.

While not entirely new, these are exciting developments in agricultural investment for Queensland. They have the potential to provide a solution to our aging farming population and our highly leveraged industries; they can provide effective capital resources to attract and or retain industry expertise and younger farmers; as well as undertake the vast opportunity to further develop Queensland's land and water assets to grow productivity and prosperity.

Key issues that will influence the capture of these investment opportunities and their long term sustainability include:

1. The need for understanding by investors that as agriculture is generally a long term, illiquid asset class, and as such returns need to be assessed over the longer term
2. A greater alignment of investor expectations with the real capability and realities of the business of agriculture.
3. A broader flexibility on investment structures that allow for the protection and retention of legacy assets by established farming businesses
4. A better understanding by investment propositions of what makes a proposal truly investor ready
5. Large scale opportunities or prospects that are easily scalable to engage institutional investors that need align projects with the size of their portfolios
6. A greater understanding for the value and role of effective, independent investment due diligence, whether for return based investment or strategic supply chain investment.

Certainly, the increasing pool of global investment interest may serve well the interests of Queensland agriculture and its opportunity to capture future prosperity by meeting the growing export demand to which it has a distinct positional advantage. With a growing investor base, increasing interest in structures that underpin our industries current expertise in established farming families and a distinct need for effective capital to fulfil the development opportunity across Queensland agriculture, the stage is set for a significant transition of the state's primary industry capital to fulfil its potential into the Asian Century.

So lastly, you don't need to be Daniel Burrus to predict the exciting future in store for Queensland Agriculture.

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