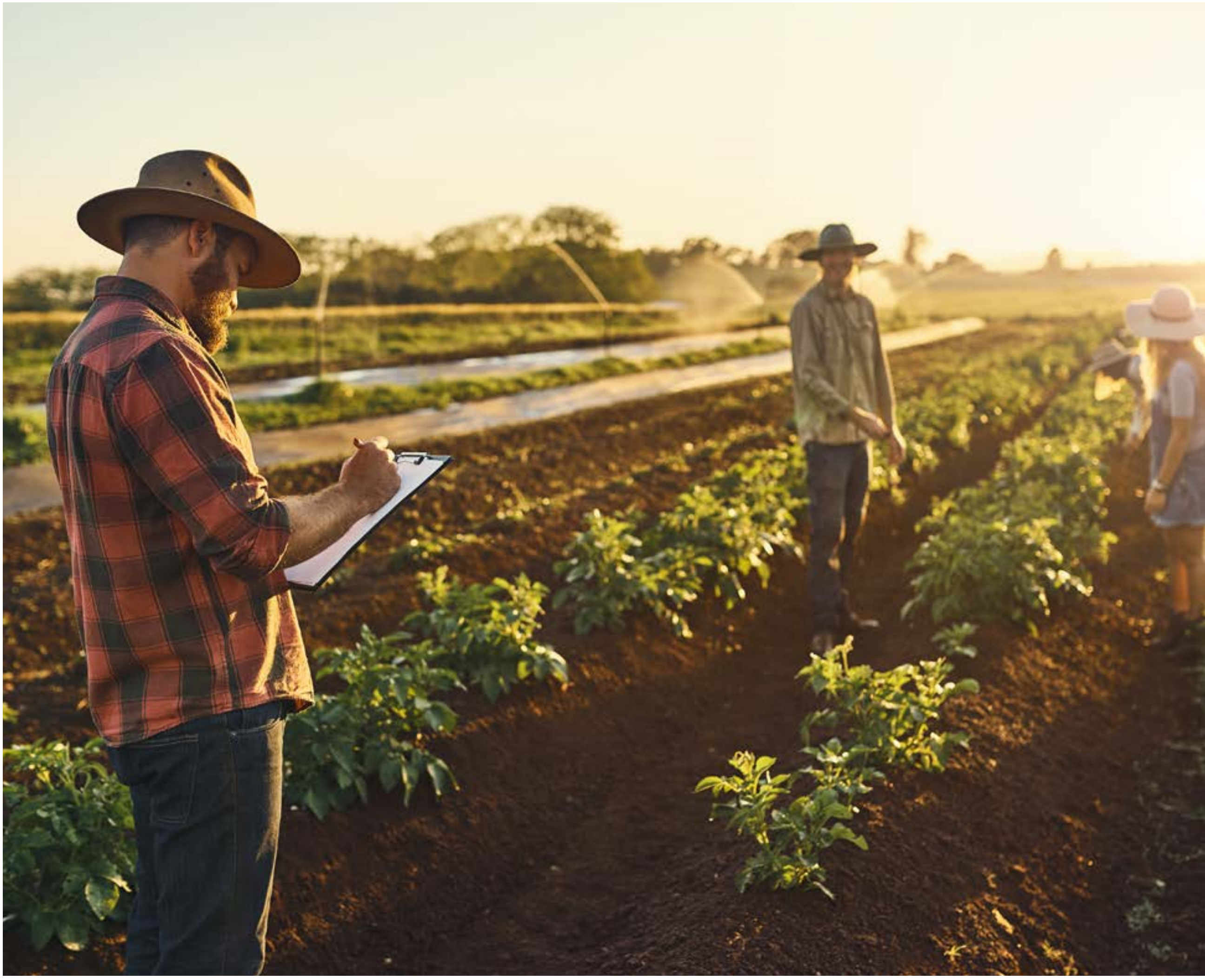
November 2017

Once in a lifetime: Sow, grow or harvest?

The opportunity for Australian agribusiness



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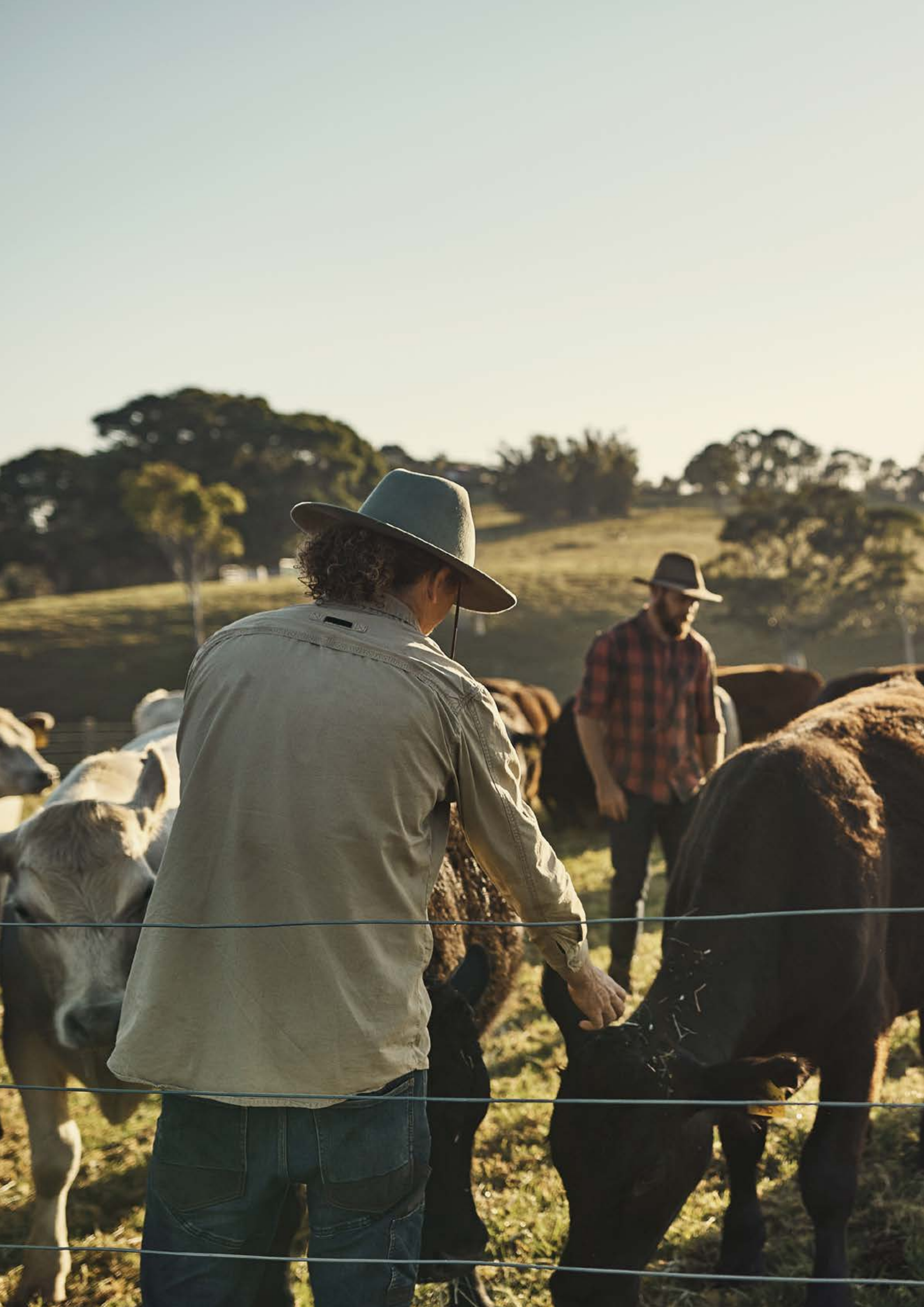

Something big is happening

Australia is currently in the midst of the largest transfer of wealth and leadership responsibility in our nation's history. Over the next few years, PwC modelling estimates that more than 350,000 family and private businesses will change hands as owners retire, sell up or pass the reins on to the next generation.

With many of these businesses involved in food and agriculture – a sector that has recently become the biggest contributor to national economic growth[1] – getting this transfer right is crucial, not only for business owners, but also for the broader economy.

We know that agribusinesses face unique challenges. On the one hand, there's a lack of capital, an ageing workforce and a decline in young people entering the sector. But on the other, businesses are performing well, the market is buoyant, and growth prospects for 'brand Australia' are bright.

Business owners have some tough decisions ahead. But whatever path they choose to take – sowing seeds of improvement, growing through the next generation, or harvesting via a sale – with careful planning and the right actions they can reap the rewards.

PwC's 'Once in a lifetime' report aims to help owners navigate their options by shining a light on the key issues and opportunities currently at play in the sector.

We explore the drivers behind the current intergenerational transfer of wealth and outline why it's essential for Australia to get it right. We also clarify the critical decisions that retiring or exiting agribusiness owners need to think about and offer guidance on how to make sure their next move is a success.

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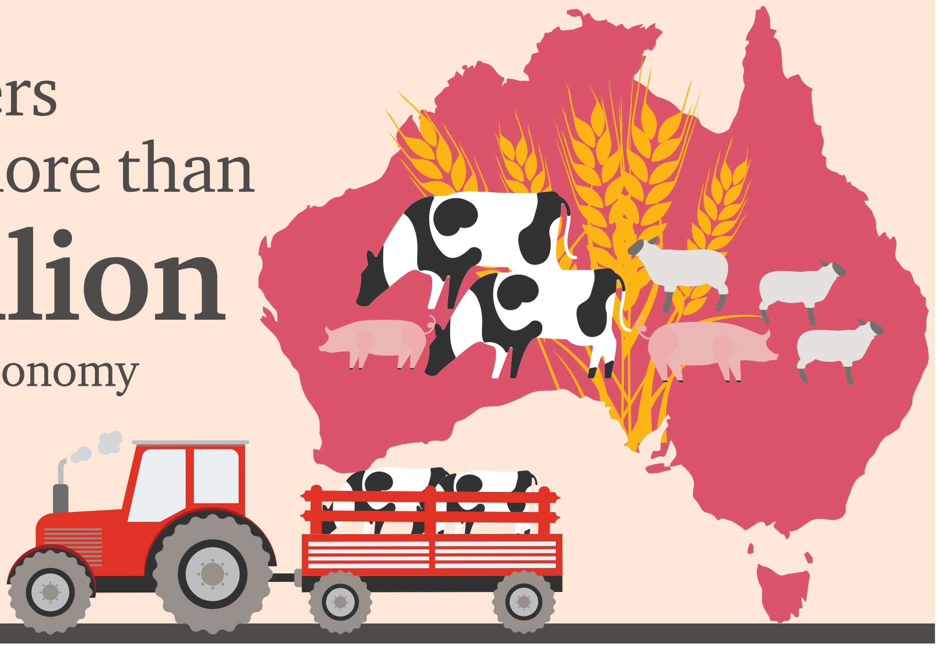
The risk and reward of wealth transfer

Agribusiness is a backbone of the Australian economy. The sector feeds 80 million people, contributes more than $56 billion to the economy, and employs over 1.6 million Australians[2]. It's also our largest contributor to economic growth. In fact, without the strong performance of agribusiness over the last three quarters, Australia would be officially in recession.

Aussie farmers contribute more than **$56 billion** to the Australian economy and employ over 1.6 million Australians



More than two-thirds of businesses will change hands

But the winds of change are blowing. PwC's latest Family Business Survey found that more than two-thirds (69 percent) of Australian family and private businesses – including agribusinesses – plan to either sell or pass on to the next generation in the next five years.

This transfer of wealth will have a significant impact on both the agribusiness sector and the economy. If mismanaged, it could hurt productivity, employment and the reliability of our food system, as well as lead to a significant loss of specialist skills, knowledge and capital.

A harvest for the taking – or losing

Getting it right, on the other hand, will support the continued growth of the sector, helping agribusinesses innovate, attract new capital and new talent. Importantly, successful transfers will have a positive impact on the well-being of families and the communities in which they live and work.

Unfortunately, family and private businesses are better at creating wealth than they are at passing it on. Our experience shows that around 70 percent of business and wealth transfers fail when moved between generations.

Australia's continued economic prosperity, and the security and sustainability of our food supply are closely tied to making sure that the transfer of agribusiness wealth in progress or set to take place over the next decade is successful.

In other words, getting this once-in-a-lifetime opportunity right is in everybody's interest.

The challenge and opportunity for agribusiness

Agribusiness owners who are looking to grow, sell or pass their operation to the next generation face some unique challenges and opportunities. In many ways, the conditions for transfers are better than they have been for some time.

Workforce is ageing, capital is tight

For a start, the workforce is ageing and desperately needs an influx of young, talented leaders. The average farmer is 56 years old, 17 years older than the average Australian worker[3]. And with the number of young people taking up careers in agribusiness declining, the talent pool is being drained of new skills, ideas and perspectives.

The sector also faces a significant shortfall of capital. A report by the ANZ Bank estimated that Australian agribusiness would need an additional $600 billion by 2050 to maintain its current growth trajectory, and a further $400 billion to support older farmers out of the sector by allowing the next generation of farmers to buy them out.

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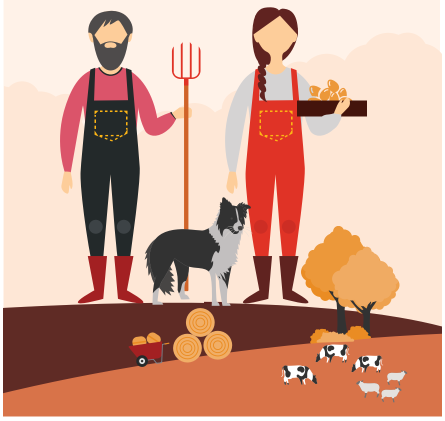


Business is good, and outlook is bright

Despite these challenges, agribusinesses in Australia are performing well. Supported by solid commodity prices, growing export demand and increased productivity, agriculture was Australia's fastest growing sector in 2016-17, expanding in value by a whopping 23 percent[4].

The outlook over the medium to long term is also positive, supported by growing domestic and international demand, particularly from Asia. In fact, 'brand Australia' is becoming increasingly valuable in global markets as consumers look for food and agricultural products that they can trust. Agribusinesses that can build 'food trust' will find consumers are willing to pay a premium for their goods.

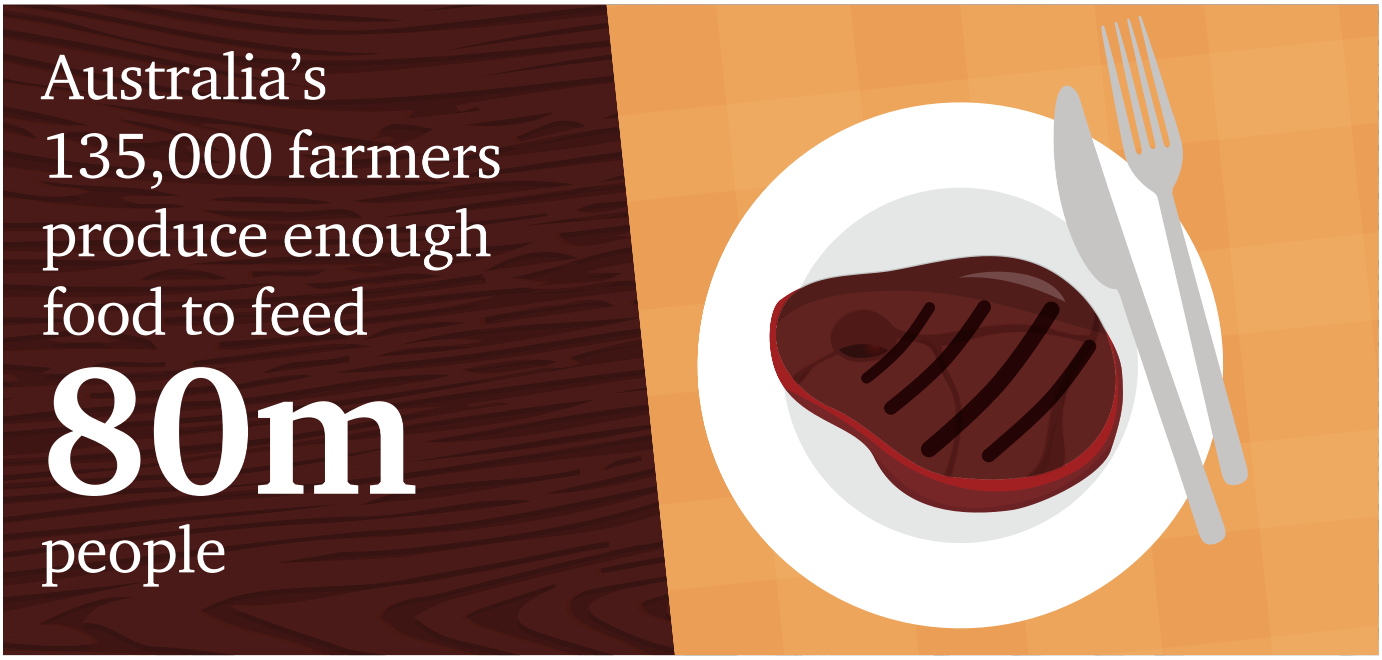
Valuations and investor interest on the rise

Another sign of the sector's strength is the steady increase in the value of agricultural land. Over the past 20 years, the price of Australian farmland has grown on average by 6.4 percent per annum[5]. This, along with the upbeat outlook for agribusiness generally, has caught the eye of investors, both locally and overseas. More and more funds and institutions are looking to Australia as a safe place to invest, and to agribusiness as a strong store of wealth with a longer term yield.

With these current conditions in mind, what should owners be doing to make sure their next move is a success?

Sow the seeds of progress: get ‘investor ready’

Whichever path you decide to take with your business, you’re more than likely going to want to attract capital: either in the form of a sale, funding for growth, or allowing for a fair and equitable succession.



Investors looking for opportunities

The good news is that the sector is gaining traction with investors, who have set their sights on opportunities right throughout the value chain. As investors become more comfortable with agribusiness, some distinct preferences and trends are starting to emerge.

Investors are currently favouring:

- ***Agricultural leasing*** – gaining access to the agriculture sector but with less direct agricultural risk
- ***Direct investments*** – some investors are by-passing managed funds, and the associated fees, and investing directly in agribusiness enterprises
- ***Joint venture structures*** – JV or equity partnerships are allowing investors to work closely with local operators, who have specific expertise and experience
- ***Single commodities*** – investors are becoming more inclined to build large portfolios around a single commodity before looking at other types

Get 'investor ready'

Regardless of the particular funding arrangement that might suit your circumstances, the best way to attract quality capital and realise the value of your business is to make sure it's 'investor ready'.

For any business, this starts with good financial information. Investors will want to see up to date – as well as historic – balance sheets and cash flows. You'll also need to provide evidence of profitability.

Many agribusiness owners think that if they invite an investor for a cup of tea and a visit to their farm or their processing plant, that will be enough. But professional investors need to do their due diligence, and a 'handshake deal' simply won't cut it.

You'll also need to think about the types of business structure you're operating and any tax arrangements you have in place. Many agribusinesses still operate under a family trust, which may have worked for the family business but is unlikely to suit a potential investor.

Put the systems in place now

To become 'investor ready', you'll need to put proper reporting and governance systems in place. But this can take time; businesses without the right arrangements find it can take two to three years to get them up and running. So if you haven't already done this, think about starting soon.

In our experience, knowing the true financial state of the business is a 'light bulb' moment for owners. More often than not, they are pleasantly surprised; at the very least they have a realistic picture of where they stand – often for the first time.

Making sure your business is operating efficiently, profitably and professionally will give you the best chance of reaping the rewards for all your hard work. It will also help buffer your business against the ups and downs of agriculture – something owners know only too well – and make it more competitive and more attractive to investors.

Grow your business with the next generation

Handing over the farm is a long-standing tradition in the agribusiness sector. But with fewer and fewer people choosing to stay on the land, succession is becoming an increasingly complicated affair. And unfortunately, only a handful of family and private agribusinesses have formal successions plans in place.

Why it's not always straightforward

Succession is more than just choosing who inherits what. It can be a complex process involving various legal, accounting and financial issues. It can also be highly political and emotional, particularly if more than one family is involved.

Agribusiness owners must often consider a range of competing goals and ambitions. For example, what if some of your children don't want to be involved in the business? How will you compensate those that chose a different path?

Or what if you want to pass on the business, but the next generation has different ideas about how it should be run? Young people, many of whom have acquired skills and experience outside of agribusiness, are increasingly looking to change the way that farms or food businesses are structured and operated. How do you make sure your business continues to evolve and thrive?

Whatever your circumstances, by not planning for succession, you are increasing the chances that the transfer will either fail or cause problems for the business or the family down the track.

Discussion is the heart of succession

The most critical part of succession planning is regular and effective communication among family members. Families need to pay as much attention to family issues as they do to business issues.

Be open and honest about everyone's expectations, plans and intentions. And don't wait for problems to arise before you talk about them – have the important conversations early and often. Finally, get your successors involved in the business as soon as appropriate and keep an open mind about trying new ideas.

Key tips for succession

- Have open and honest conversations – the sooner issues are raised, the better
- Plan as a team but acknowledge that some family members may want to be more involved than others
- Start training successors early by getting them involved in the business
- Consider a gradual handover to help manage the emotional impact of succession and allow mentors to guide new owners or younger family members
- Be open to implementing new ideas and a fresh vision for the family legacy – encourage success, don't wait for failure
- Get professional help to ensure you're on top of all of the legal, financial and accounting matters

Finding the right partner, getting prepared and focusing on people were the keys to Bindaree's successful equity raising, which will see the family business supplying more of its premium branded beef to growing international markets.

Five years ago the family members of Australian beef business, ***Bindaree***, realised they needed to act.

The industry was changing before their eyes with domestic competitors growing larger and larger, and foreign players aggressively contesting the global market.

The family knew that if they didn't grow too, they'd be taken over or left behind.

But ***Bindaree*** – which raises, fattens, processes and exports beef and other animal protein from its operations in northern NSW – also wanted to make sure that their path to growth was consistent with their business and family values.

"We were very particular about what sort of partner we wanted," says CEO Andrew McDonald.

"We've always seen ourselves as one of the big 'small guys', rather than one of the small 'big guys' because it means we have scale yet can still deliver high-quality, tailor-made products."

"Fortunately, as we went through our negotiations, it became clear that the company that eventually bought the controlling stake held values very similar to our own."

In September this year, a 51 percent share in ***Bindaree Beef Group*** was bought by the family company of Chinese-Australian businessman Hui Wing Mau for an undisclosed sum.

Getting 'investor ready'

In addition to finding the right partner, ***Bindaree*** had to make sure the business was 'investor ready', a process that took about three years and involved a fair amount of work.

"We knew we needed to be more professionally run to meet the demands of an outside partner," said Andrew.

"One of the biggest challenges was changing from a family decision-making process to one that was more formal."

"Like many families, most of our decisions were made around the kitchen table. But we realised that we needed some more rigour, analysis and documentation around those decisions."

Bindaree also improved governance by completely restructuring the company's board to ensure the appropriate level of oversight and independence.

Having the tough discussions

According to Andrew, the whole process would not have been possible if not for open and honest communication, which has been a part of the Bindaree family business from the beginning.

"We have always believed that you shouldn't sweep issues under the rug. We've been blessed with having a family – and a father in particular – who has always encouraged us to talk about the future of the business and everyone's role."

"Whether it's a capital raising, whether it's succession, or whether it's a sale, the most important thing is to have open dialogue throughout the family."

"And for agricultural businesses, which often have lots of capital tied up as well as issues of generational succession and legacy, those conversations are critical," says Andrew.

Continuing the legacy

When it comes ***Bindaree's*** legacy, Andrew believes it's to ensure that the company continues to put people first.

"I've learnt from my father that people are the backbone of your business, so we've been extremely lucky to find a partner with the same values.

"If I can continue that legacy, by encouraging and growing relationships with the people who work with us, then I see the success of ***Bindaree*** being built on that," says Andrew.

Make your last harvest a good one

You only get one chance to sell your business. And for many owners, the sale represents the culmination of a lifetime's work. Unfortunately, most private and family agribusinesses don't prepare well enough for sale.

While it can be a challenge to shift from operations mode to sale mode, poor exit planning has consequences, which can be financial or personal – or both. So it's worth investing the time and resources to get in right.

A good time to sell – if you're investor ready

So if you are thinking about selling, now is the time to start making sure your business is in good shape.

Buyers – both local and international – are showing a lot of interest in Australian agribusinesses, and the market for quality assets it buoyant. Strong business performance, increasing land values, and the sector's positive medium to long-term outlook are driving demand and valuations are robust.

We also see a growing trend towards agribusiness companies seeking to 'own' more of their supply chain, both as a way to capture efficiencies and to ensure quality control, thereby delivering on the growing consumer preference for secure and 'trusted' food.

Owners who do their homework and take the necessary steps to get 'investor ready' will give themselves a good chance of harvesting the true value of their business in the current environment.

Have you considered alternatives to sale?

For those thinking about selling, but not sure if they want to exit the sector completely, there are options available. Increasingly, investors are willing to consider alternatives to an outright sale.

For example, a 'sale and leaseback' allows you to sell your land to an investor with an agreement to lease it back for an agreed period at an agreed amount. This can free up significant capital, which could be used either to support a transfer of wealth to the next generation or to allow your farming operation to expand.

Don't forget to plan for the personal

While having a plan to get your business in sound financial shape is essential to a good sale, all too often owners overlook the impact that the transaction will have on their personal lives and the lives of their families.

This is particularly relevant in agribusiness, where decisions about land and inheritance can have significant impacts on families – often for generations. Owners need to think and plan carefully to ensure that the proceeds of a sale are fair and equitable and take into account the different circumstances of family members.

They also need to consider the impact of their sale on their own well-being. Waking up one day and not having a business or a farm operation to attend to can be a big shock, particularly if it's been a fundamental part of your life for decades.

Here are top ten things you can start doing now to make your last harvest your best yet.

Top 10 tips for preparing to exit your business

1. Take your time

You will generally achieve a better result if you allow at least 6-12 months to properly plan the sale of your business.

2. Put family first

Take family objectives into account prior to embarking on a path to sale; small differences now can become magnified nearer the point of sale and put the process at risk or lead to family conflict post sale.

3. Know your buyer

The natural buyers of your business will typically pay the highest price; identify who they are and how they assess value so you can prepare your business to maximise valuation and competitive tension on sale.

4. Make yourself redundant

If you are the key person running the business, you need to step away and hire a strong CEO/GM and support team who can prove themselves for at least a year prior to sale. This will give a future buyer comfort the business won't fail without you.

5. Pay for some housekeeping

One of the biggest problems we see is a lack of investment in professionalising the business; sort out financial reporting and accounting, separate the owner's affairs from the business and tidy up legal and operational risks.

6. Work your EBIT (Earnings before interest and taxes)

Every sustainable dollar added to the EBIT figure is worth 'x' times EBIT when you come to sell. Ideally, give yourself two years to realise profit improvement initiatives and demonstrate their sustainability to buyers.

7. Leave something for the next person

Buyers will pay more if there are opportunities for future growth, such as new products, geographic expansion, or new channels; plan and partially implement these opportunities so buyers can believe them, and therefore be willing to pay for them.

8. Protect your sales proceeds

Any proceeds you make from selling your business will be after tax; make sure you have the right tax structure for sale. Also, draw up a wealth strategy for protecting your post-sale proceeds to meet retirement and succession goals.

9. Be prepared as timing can be everything

The market for businesses in any given industry can grow hot and cold very quickly, and have a large bearing on valuation. Get your business in a sale-ready condition as early as possible so you can respond quickly to changes in the market.

10. Above all, do your homework

You only get one shot at selling your business, so engage the help of professionals when required. Remember, selling your business is very different to running your business.

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Endnotes

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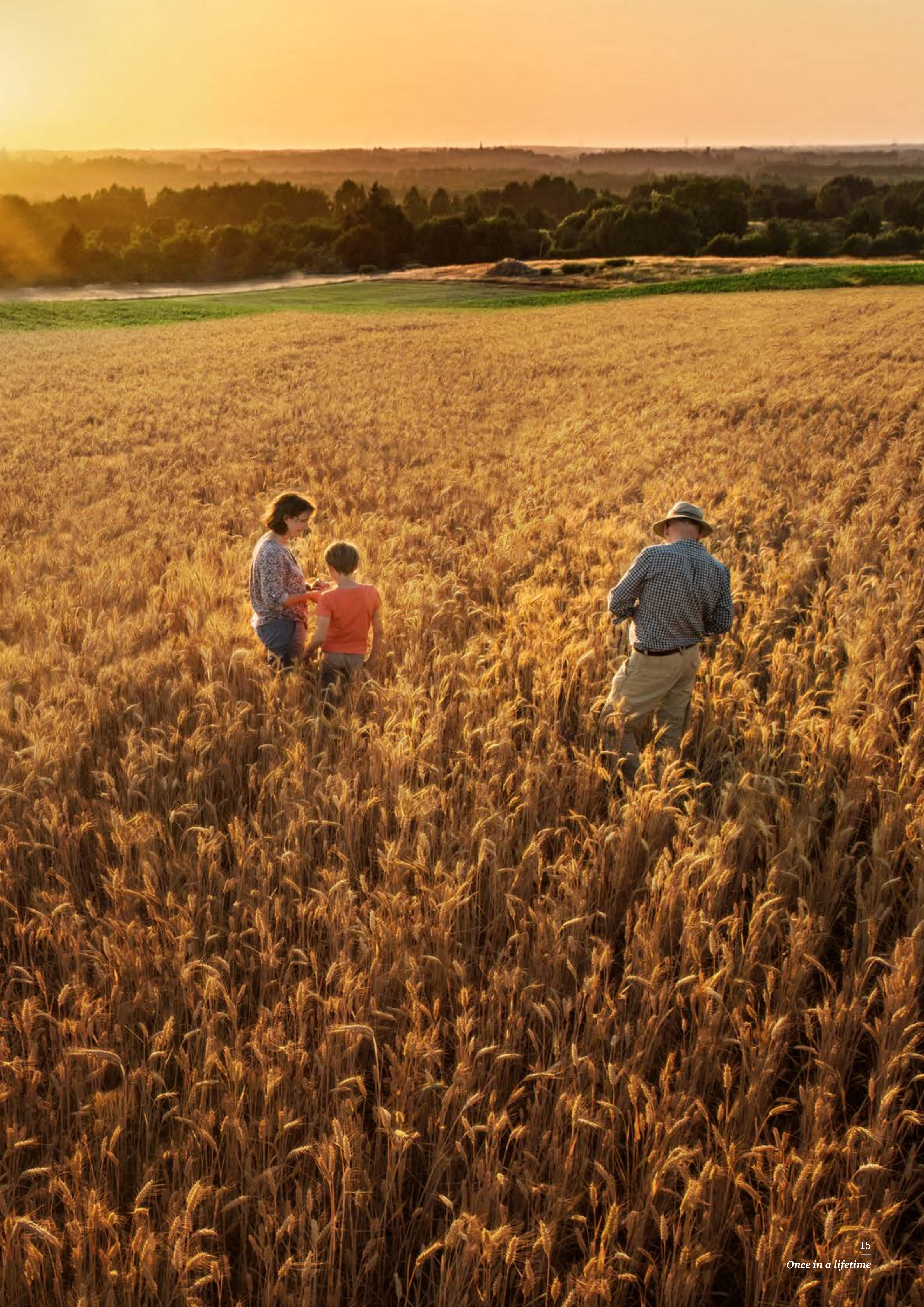

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