

# AGRIBUSINESS SUMMARY REPORT

2020 - 3<sup>rd</sup> Quarter

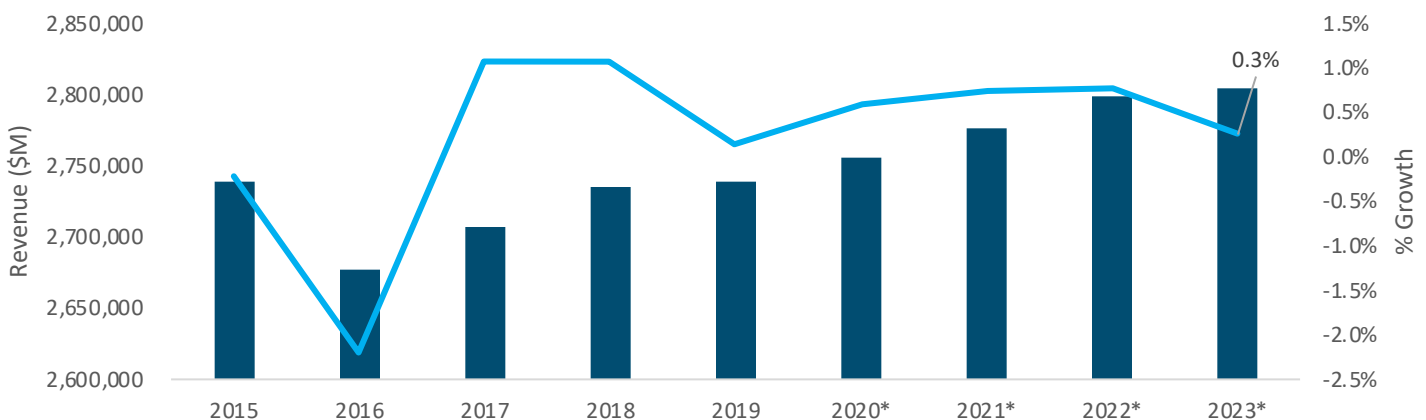


## AGRIBUSINESS OVERVIEW

- Agribusiness in the US is a nearly 3 trillion-dollar industry and includes the beginning production and processing of crops and livestock to the final point of retail sale. The industry has a high degree of interconnectivity, with outputs like corn and soybeans used as inputs in meat production. Agricultural commodity prices have seen steep declines in the past decade, in part due to an oversupply caused by GMOs. To cut costs in response to a challenging market, there has been a trend of corporatization of small family-owned farms leading to increased consolidation.
- The US agribusiness industry has suffered a severe decline in revenue as the COVID-19 pandemic cut restaurant demand, disrupted supply chains, and halted seasonal workers. The largest impact of the virus may be that consumers have opted for less expensive products to conserve incomes during the economic downturn.
- Meat markets have faced especially tough challenges posed by the pandemic. Crowded on-site workers in meat processing plants led to multiple high-profile outbreaks that forced closures throughout the country. This created a serious bottleneck in supply chains, despite President Trump’s executive order allowing plants to remain open. Beef processing in early May fell 40% below the same period a year ago, leading to meat shortages as experienced by large retail customers such as restaurants and fast food operators. With nowhere to sell their animals, rising backlogs have forced pork farmers to euthanize their hogs by the thousands.
- Trade has also been a cause for concern in the industry, following reports that China has not been purchasing as many U.S. goods as agreed upon in the Phase One agreement. The agreement was centered around agricultural purchases, but Chinese farm product purchases are only at 39% of their target. Although reduced demands from the pandemic are certainly a factor, there is a growing fear among business leaders that the recent flare up in tensions between the countries may lead to the deal being scrapped.
- Continued advancements in technology have supported the industry, seen particularly with recently increasing biofuel quotas. Biofuel is fuel derived from biomass, namely the ethanol from corn that is required to make up 10% of U.S. gasoline by volume. The federal government is expected to raise its biofuel quota from 20.09 billion gallons in 2020 to 36.0 billion gallons by 2022. This increase in demand may shore up the oversupply of corn. However, ethanol production fell 43% in April from the year before as demand for motor gasoline dropped. Overestimates of gasoline consumption that are matched by increased corn production could ultimately exacerbate the oversupply.
- The agribusiness M&A market has been driven by a trend of increased corporatization and consolidation in response to lean market conditions. Offsetting these trends, business owners have been presented with uncertainty from major disruptions such as tariffs, volatile commodity prices, and now COVID-19. We expect distressed M&A to continue, and a more robust market to resume once these disruptions subside.

*IBISWorld, WSJ, Congressional Research Service, RCO Research.*

### INDUSTRY REVENUE



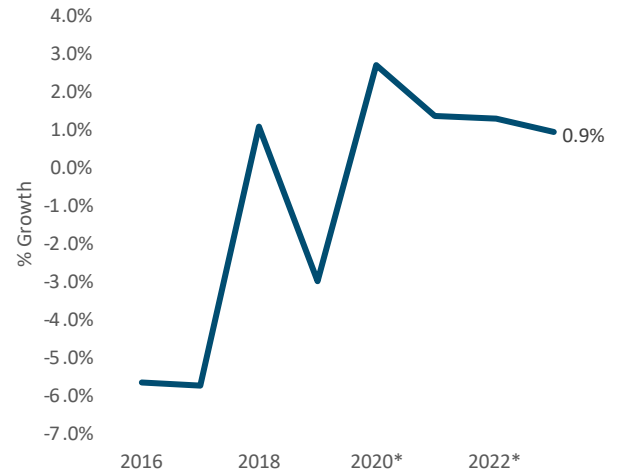
*\*Indicates forecasted industry revenue prior to current impacts of COVID-19. IBISWorld.*

# FEATURED SEGMENT: FARM ANIMAL FEED PRODUCTION

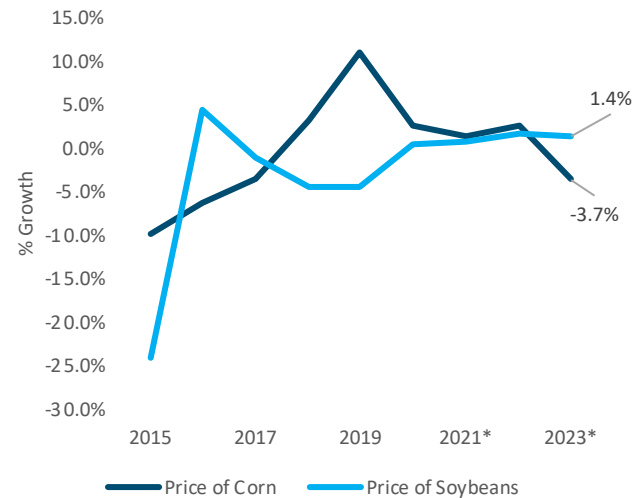


- Farm animal feed is one of the most important inputs into the livestock production industries. Feed varies depending on the animal it is produced for, however typically contains ingredients such as corn, soybeans, vitamins, and various other grains. As such, feed prices are highly dependent on the prices of these underlying commodities. Due to extreme oversupply, the past decade has seen the prices of corn, soybeans, and other commodities plummet and remain low, causing feed prices and revenue to remain suppressed.
- Feed demand is closely correlated with farm animal production in the US, and more recently global production. The past few years has seen demand from US farmers decline slightly, however there has been a rise in global demand from a growing middle class in developing countries. As more people can afford meat, livestock production is growing in these countries and provides a larger market to export feed to in the coming years.
- The Coronavirus pandemic caused an initial bump in demand for feed in the second quarter. As meat processing plants experienced backlogs and farmers could not slaughter their animals, their options were to either euthanize or maintain their livestock until the plants reopened. Livestock inventory increased accordingly requiring increased feed demand. The pandemic is expected to ultimately drop feed demand for 2020 as overall animal production slows from the plant slowdowns and closures.
- In response to the backlogs, swine and cattle producers have looked to feed strategies to slow the growth of their livestock. A number of methods such as limit feeding, increasing fiber intake, and lowering energy intake have been adopted.
- Another consequence of the pandemic has been a shift to soybean meal from dried distillers grains with solubles (DDGS). DDGS is a byproduct of ethanol production from corn. As mentioned in the industry overview, ethanol production has plummeted from last year leaving a shortage of DDGS, a key ingredient in animal feed. Though soybean meal is a slightly more expensive alternative, prices may soften if soybean exports to China continue to remain suppressed. *IBISWorld, FeedStrategy, RCO Research.*

FARM ANIMAL FEED DEMAND

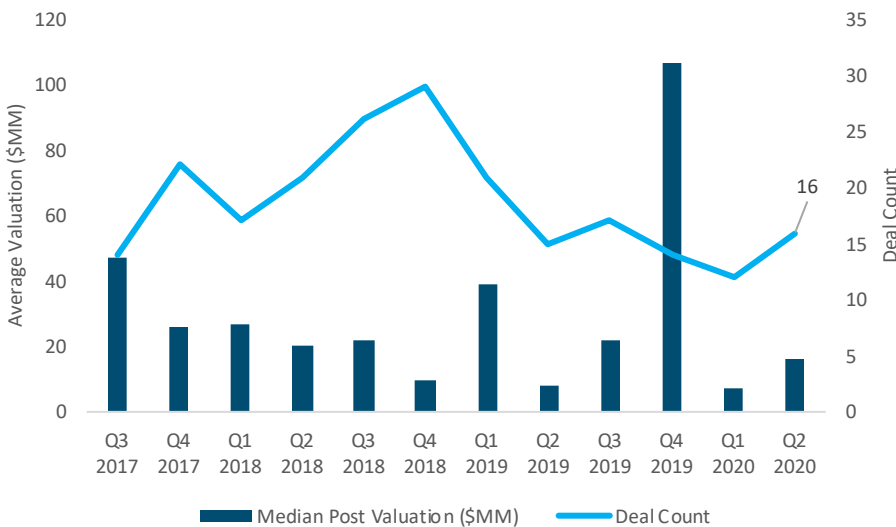


PRICE OF AGRICULTURAL COMMODITIES



\*Indicates forecasted industry revenue and prices prior to current impacts of COVID-19. IBISWorld.

NORTH AMERICAN DEAL COUNT & AVERAGE VALUATIONS – UP TO \$250MM



PitchBook data through June 30, 2020.

TEV/EBITDA Multiples

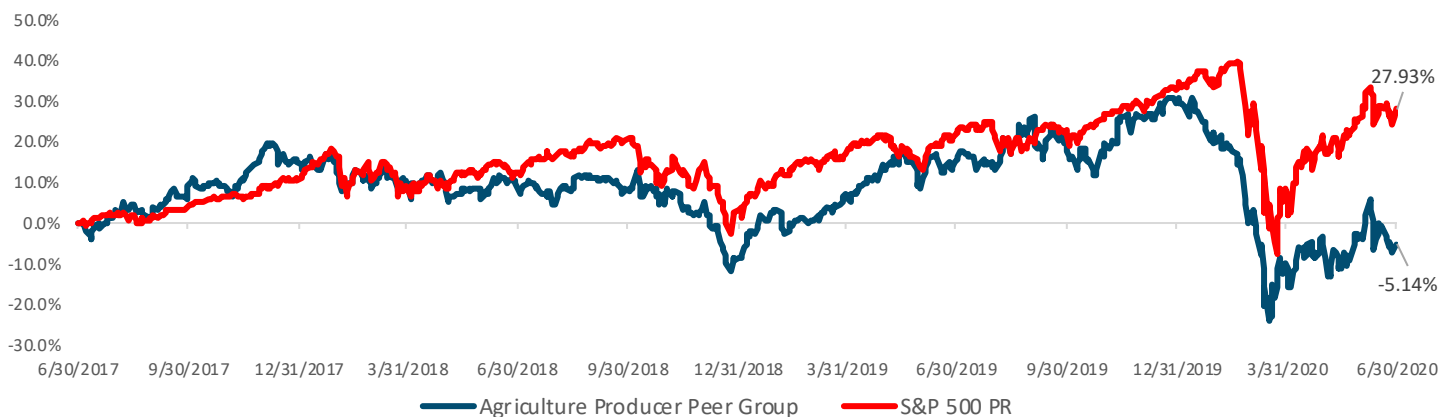
TEV Range (\$MM)	Meat Processing	Crop Production
10 - 50	5.9x	5.3x
50 - 250	6.4x	N/A
Average	6.1x	5.3x

GF Data® 2003 through June 30, 2020.

# R&C AGRIBUSINESS INDICES

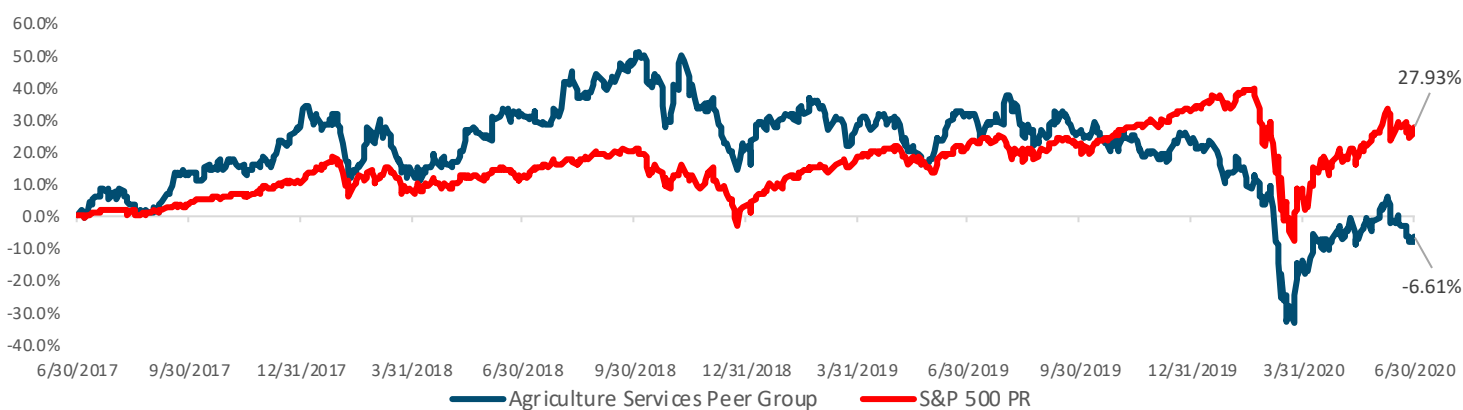


## AGRICULTURE PRODUCER INDEX



Peer Group	As of 6/30/2020			TTM 6/30/2020		EV Multiples	
	\$ / share	Market Cap	Enterprise Value	Sales	EBITDA	TTM Sales	TTM EBITDA
Archer Daniels Midland Company	\$ 39.90	\$ 22,164.30	\$ 30,246.30	\$ 64,322.00	\$ 2,842.00	0.5x	10.6x
Tyson Foods, Inc.	59.71	21,753.56	33,581.56	43,472.00	4,035.00	0.8x	8.3x
Sanderson Farms, Inc.	115.89	2,577.34	2,761.93	3,519.43	91.19	0.8x	30.3x
Fresh Del Monte Produce Inc.	24.62	1,174.86	1,977.26	4,452.80	178.10	0.4x	11.1x
Calavo Growers, Inc.	62.91	1,109.64	1,226.58	1,206.02	37.88	1.0x	32.4x

## AGRICULTURE SERVICES INDEX



Peer Group	As of 6/30/2020			TTM 6/30/2020		EV Multiples	
	\$ / share	Market Cap	Enterprise Value	Sales	EBITDA	TTM Sales	TTM EBITDA
Nutrien Ltd.	\$ 31.94	\$ 18,177.00	\$ 30,106.00	\$ 20,518.00	\$ 3,620.00	1.5x	8.3x
The Scotts Company LLC	134.47	7,463.36	9,763.46	3,416.60	583.60	2.9x	16.7x
CF Industries Holdings, Inc.	28.14	6,016.26	12,687.26	4,560.00	1,856.00	2.8x	6.8x
The Mosaic Co.	12.51	4,741.55	9,606.85	8,804.70	(690.30)	1.1x	-13.9x
Green Plains, Inc.	10.22	362.57	883.81	2,876.75	(73.03)	0.3x	-12.1x

PitchBook data through June 30, 2020.



Acquired by



On June 2, 2020, PastureMap, a developer of ranching software, announced its acquisition by Soilworks Natural Capital, a public benefit corporation focused on accelerating the regenerative food movement.

PastureMap's software is designed to improve cattle grazing and achieve grass-fed certifications. The software combines aerial imaging, soil maps, and rainfall data to optimize grazing and livestock resources.

Financial terms of the agreement were not disclosed.<sup>1</sup>

On April 23, 2020, MPS Egg Farms announced the acquisition of Texas-based egg producer, Feather Crest Farms.

Feather Crest Farms operates two farms, one in Kurten, Texas, and the other in Center, Texas. This acquisition will allow MPS Egg Farms to add 1 million hens to its operation for a total of 11 million hens. The acquisition also significantly expands their geographic footprint, enabling the company to sell its products in Texas and beyond.

Financial terms of the agreement were not disclosed.<sup>2</sup>



Acquired by



Acquired by



On April 10, 2020, Sakata Seed America, a subsidiary of Japan-based Sakata Seed Corp (TYO:1377), acquired Vanguard Seed, a lettuce seed company based in the Salinas Valley, CA.

Vanguard Seed develops lettuce genetics for breeding and seed production. Prior to this acquisition, Sakata was a market leader in multiple segments, especially broccoli. Vanguard's seed team will bring their existing Vanguard lettuce genetics and allow Sakata to become a major player in the lettuce market as well.

Financial terms of the agreement were not disclosed.<sup>3</sup>

PitchBook.

1. Transaction Press Release, dated June 02, 2020. <https://blog.pasturemap.com/a-new-chapter-for-pasturemap>
2. Transaction Press Release, dated April 23, 2020. [https://www.poultrytimes.com/poultry\\_today/article\\_51b9ecac-85ad-11ea-a6b9-97123f237bdc.html](https://www.poultrytimes.com/poultry_today/article_51b9ecac-85ad-11ea-a6b9-97123f237bdc.html)
3. Transaction Press Release, dated January 03, 2020. <https://www.thepacker.com/article/sakata-seed-america-acquires-lettuce-seed-company>



# ROMANCHUK & CO.

## FIRM CAPABILITIES



Romanchuk & Co. is a boutique investment banking firm providing mergers and acquisitions (M&A) and financial advisory services to lower middle-market leaders within the diversified industrials sectors. We advise owners and investors of privately-held businesses, private equity firms and corporations on the preparation and sale of their company, assist them in identifying strategic

opportunities, and help them execute upon those strategies. Our team of licensed investment bankers specializes in providing sell-side M&A advisory services to lower middle-market companies with enterprise values ranging from \$15 million to \$250 million. For more information, please visit our website at [www.romanchukco.com](http://www.romanchukco.com).

## RECENT EXPERIENCE

Our most recently closed deals showcase our firm's unique ability to execute transactions across the diversified industrials sectors, while maximizing value for our clients in the lower middle-market. Drawing on our collective industry experience and strengths, Romanchuk & Co. is focused on providing creative, impactful M&A strategies to our clients across the diversified industrials sector.



## INDUSTRY RECOGNITION



Romanchuk & Co. was selected as the Boutique Investment Banking Firm of the Year for 2018. Over 230 nominees, representing over 600 companies, became finalists for the awards. An independent judging committee of 29 top M&A industry experts determined the ultimate recipients of the awards.

In addition, Romanchuk & Co. was named a finalist in the following categories: Energy Deal of the Year, Industrials Deal of the Year (\$10MM-\$50MM), M&A Deal of the Year (\$10MM-\$25MM), and M&A Deal of the Year (\$50MM-\$75MM).

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