

News Release

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ANZ report outlines alternative ways to bridge Australia's agricultural capital gap

Australia's agricultural sector needs to raise an additional AU\$109 billion in capital, or around 21 per cent on current capital investment, if the industry is to maintain its current share of exports by 2025, an ANZ InFocus research paper reveals today.

The report, *Australian Agriculture: Funding Our Future*, suggests that while Australian agriculture has capacity to enjoy sustained revenue growth over the next decade based on strong offshore demand for Australian produce, a significant injection of capital investment is required to drive productivity improvements on-farm and throughout the supply chain for the opportunity to be fully realised.

Commenting on the report, ANZ's Head of Agribusiness, Mark Bennett said: "There's little doubt Australian agriculture requires more capital to ensure it can reach its market potential. This report not only highlights the capital gap but importantly suggests practical ways forward for future growth, based on producers considering adopting more efficient and innovative funding models and structures."

Key findings from *Australian Agriculture: Funding Our Future*:

- Ownership structures and funding of Australia's agricultural sector remains largely unchanged since the 1900s. Types and sources of new funding need to evolve if producers are to remain competitive and generate economies of scale
- Structural change in the industry is creating new opportunities with capital providers looking to identify and partner with good farm managers and businesses
- If Australia is to simply maintain its current share of agriculture exports by 2025, the industry will need an additional \$109b of investment on top of current levels
- Moderate growth in Australia's share of export markets sees this capital figure increase substantially to \$133.6b, while an aggressive growth scenario puts capital requirements at \$159.5b
- Capital needs by sector (using base case assumptions) are: grains and oilseeds \$9.9b, beef \$9.7b and dairy \$12.6b
- An uplift of production could realise an additional \$700b – \$1.7t in agricultural exports over the next four decades
- Failure to attract sufficient capital will reduce productivity gains on-farm through lower investment in infrastructure, technology and innovation. A lack of capital through the entire supply chain could mean lost opportunities for efficiencies in processing and distribution.

The report reveals a range of alternative avenues to new capital that are available to farming operations of all sizes, including from institutional investors, pension funds, and foreign investment sources. This is despite Australian agriculture being predominantly owner-operated family-farming structures which are historically reliant on debt finance.

"For farms interested in tapping into the growing demand opportunity and are looking for greater scale to drive productivity, then a range of different pathways to success are available, irrespective of their operation's size and position," Mr Bennett said.

"Alternative farm ownership and management models, as well as different funding structures beyond the traditional farming approach do exist for farming enterprises and

these include joint ventures, equity partnerships, offtake agreements and corporate structures.

"This then poses the question for farmers about whether it's essential to their operations and future business success to have complete ownership. If they are open to outside investment, then it's important to ensure they're deemed 'investment ready' and that their business performance, ownership and governance arrangements are best practice," Mr Bennett said.

The report highlights that investment comes to businesses with strong financial management and reporting, as well as capable farm management with a focus on productivity. Farming operations successful in these areas make better informed decisions for themselves, as well as helping external parties judge the merit of investment and potential partnership.

Mr Bennett added that overall the opportunity ahead for Australian agriculture has never been better given the level of investment interest.

"Despite the significant capital gap outlined, investment into our food supply chain has already started to emerge and is building momentum, with an increase in institutional funding contributing to the \$630 billion worth of capital currently supporting the industry.

"There are several success stories in the market today which showcase an industry that's healthy and investment-worthy. Leadership from farming bodies and industry representatives is therefore critical to stimulate the right discussions on future business structures and the strategic approach for Australian agriculture," Mr Bennett said.

A copy of *Australian Agriculture: Funding Our Future* is available at:
<http://anz.co/RBVK306hQIG>

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