



## Agriculture Industry Flash

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Wednesday, January 29<sup>th</sup>, 2020

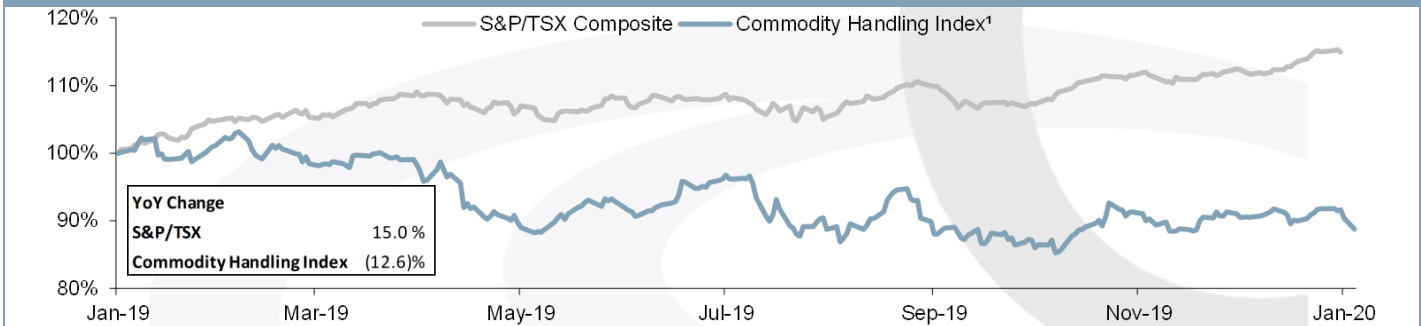


## COMMODITY HANDLING

### News Scan

- On January 22<sup>nd</sup>, the **European Bank for Reconstruction and Development (EBRD)** announced an agreement to provide **Louis Dreyfus Company (LDC)** with a financing facility of US\$100 million to facilitate LDC's expansion in eight eastern European countries including Bulgaria, Poland, Romania and Ukraine. LDC is a diversified agriculture company based in the Netherlands that has a primary focus on the processing and distribution agricultural products. The expansion is expected to provide many regional small and medium-sized grain and cotton farmers with access to LDC's supply chains, which will support cross-border trade flows and expansion of the agriculture commodities markets in these countries
- On January 21<sup>st</sup>, **Olam International Limited (Olam)** announced plans to reorganize its business portfolio to create two new operating groups for further growth aligned with consumer trends and market opportunities. The two new operating groups to be created are Olam Food Ingredients and Olam Global Agri, which will focus on food ingredients and global agriculture, respectively. Sunny Verghese, CEO of Olam, expressed the company's vision of growth and sharp focus aligned with the creation of two distinct groups. The objective of the 6-year restructuring plan is to unlock long-term value and accelerate profitable growth with the potential for IPO listing of the two operating groups
- On January 13<sup>th</sup>, **Glencore Agriculture (Glencore)** increased its stake in **Renova** by 16.67%, becoming the majority owner with a total interest of 66.67%. Renova is an Argentinian supply chain and processing business which exports soybean oil, soybean meal and corn globally. Glencore expressed the strong fit of Renova assets with Glencore's business and the long-term nature of the investment

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

Market	Market		TEV/EBITDA		Price/Earnings		Week Δ	Δ Price
	Cap	TEV	2020E	2021E	2020E	2021E	Price	52Wk High
ADM	24,661	32,666	7.8x	7.5x	13.5x	12.3x	(2.9)%	(6.9)%
Bunge Limited	7,695	15,878	10.2x	9.9x	15.7x	13.6x	(7.9)%	(13.5)%
Graincorp Limited	1,328	2,132	10.9x	9.1x	nmf	19.8x	0.4%	(16.2)%
The Andersons, Inc	774	2,039	6.9x	na	12.8x	na	(7.4)%	(39.2)%
Ceres Global Ag	89	164	na	na	na	na	(5.8)%	(26.6)%
<b>Mean</b>			<b>9.0x</b>	<b>8.9x</b>	<b>14.0x</b>	<b>15.2x</b>	<b>(4.7)%</b>	<b>(20.5)%</b>

1 "Commodity Handling Index" is composed of equally weighted market prices for: ADM, Bunge, Graincorp, The Andersons, and Ceres

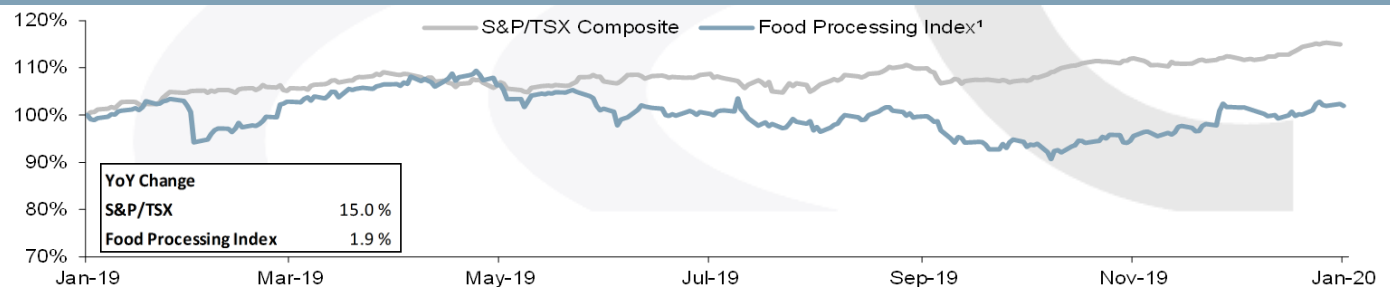


## FOOD PROCESSING

### News Scan

- On January 24<sup>th</sup>, **Nestle S.A. (Nestle)** announced it had entered into a joint development agreement with Canadian ingredient manufacturers **Merit Functional Foods (Merit)** and **Burcon Nutrascience Corp. (Burcon)** to develop plant-based protein ingredients. Nestle cited access to unique expertise and high-quality ingredients for plant-based food and beverages as reason for the partnership with Burcon and Merit
- On January 23<sup>rd</sup>, non-GMO and organic food ingredient supplier **Green Boy Group Inc. (Green Boy)** announced it acquired **Sweet Nature** for an undisclosed sum. Based in California, Sweet Nature distributes an extensive portfolio of specialty non-GMO and organic syrups to customers in the natural and organic food industry throughout the US. The acquisition expands Green Boy's liquid sweetener ingredients footprint in North America
- On January 17<sup>th</sup>, **Nestle S.A. (Nestle)** announced it will invest up to CHF 2 billion (US\$2.1 billion) in sustainable packaging. The company stated it will buy up to 2 million metric tons of food-grade recycled plastics, shifting away from its current process involving virgin plastics, in an effort to increase the sustainability of its operations. Nestle also intends to launch a CHF 250 million (US\$258 million) venture fund targeting companies that focus on sustainable packaging development
- On January 15<sup>th</sup>, **Califia Farms LP (Califia)**, a plant-based beverage company in California, announced the closing of its Series D financing round for US\$225 million. The round was led by **Qatar Investment Authority** and also included Singapore-based investment firm **Temasek** and Bronfman family investment office **Claridge Inc.** Califia was founded in 2010 and is estimated to generate annual sales greater than US\$100 million. Califia intends to use the proceeds to invest in increased production capacity, research and development and continued expansion
- On January 13<sup>th</sup>, **TreeHouse Foods, Inc. (TreeHouse)** announced the termination of its agreement to sell its ready-to-eat cereal business to **Post Holdings, Inc. (Post Holdings)**. Steven Oakland, President and CEO of TreeHouse, stated that the company has decided to seek another buyer for the business in light of challenges posed by the Federal Trade Commission, which filed an administrative complaint opposing the transaction in December. The cereal business was previously sold to TreeHouse by **Conagra Brands (Conagra)** in 2016 and generated revenue of US\$268 million in 2018

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

	Market		TEV/EBITDA		Price/Earnings		Week Δ	Δ Price
	Cap	TEV	2020E	2021E	2020E	2021E	Price	52Wk High
George Weston Limited	12,507	32,218	7.4x	7.3x	13.8x	12.6x	1.2%	(6.1)%
ConAgra Foods, Inc.	15,714	26,181	12.0x	11.5x	14.7x	13.4x	(0.0)%	(6.4)%
Ingredion Incorporated	6,160	7,967	8.3x	8.7x	13.5x	14.0x	(1.5)%	(8.7)%
Tate & Lyle plc	4,823	5,389	8.0x	7.8x	15.5x	14.0x	(0.6)%	(2.1)%
Premium Brands	2,690	3,672	13.6x	12.5x	23.3x	20.4x	0.7%	(4.5)%
Maple Leaf Foods Inc.	2,436	2,954	10.7x	7.8x	30.2x	19.8x	4.1%	(28.0)%
SunOpta Inc.	247	928	16.1x	10.3x	neg	neg	(9.3)%	(43.0)%
Rogers Sugar	389	641	9.0x	8.8x	12.7x	11.8x	(2.2)%	(22.1)%
<b>Mean</b>			<b>10.6x</b>	<b>9.4x</b>	<b>17.7x</b>	<b>15.2x</b>	<b>(1.0)%</b>	<b>(15.1)%</b>

<sup>1</sup> "Food Processing Index" is composed of equally weighted market prices for: George Weston, ConAgra, Ingredion, Tate&Lyle, Premium Brands, Maple Leaf Foods, SunOpta, Rogers Sugar.

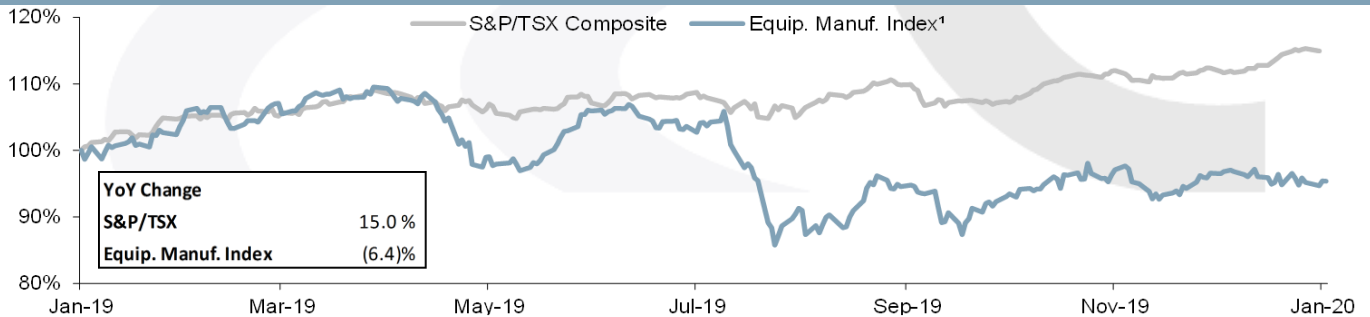


## EQUIPMENT MANUFACTURERS AND SERVICES

### News Scan

- On January 24<sup>th</sup>, **Nors, S.A. (Nors)** announced the acquisition of **Strongco Corporation (Strongco)** for C\$3.15 per share, representing a transaction value of approximately C\$193 million. Nors is a privately held Portuguese company that sells, rents and services construction, infrastructure, forestry and mining equipment in four continents with a primary focus in Europe. **Strongco** (TSX:SQP) is a Toronto-based mobile equipment dealer with operations across Canada which sells, rents and services equipment used in construction, infrastructure, mining, oil and gas, utilities, forestry and agriculture. The transaction is expected to increase Nors' global presence and brand recognition by adding an established Canadian platform
- On January 21<sup>st</sup>, **The Toro Company (Toro)** announced the acquisition of privately held **Venture Products, Inc. (Ventrac)** for US\$167.5 million in an all cash offer. Ventrac is an Ohio-based manufacturer of articulating turf, landscape and snow and ice management equipment designed for a variety of outdoor settings. The transaction is set to close before the end of Toro's fiscal 2020 second quarter and will be financed by its revolving credit facility
- On January 20<sup>th</sup>, **AGCO Corporation (AGCO)** announced the acquisition of a 15.7 hectare manufacturing site in Beauvais, France for €40 million. The site is located next to AGCO's current Massey Ferguson manufacturing centre in Beauvais and is expected to increase AGCO's ability to meet growing demand for Massey Ferguson tractors and begin producing hydraulic tubes in-house, which are currently sourced from external suppliers in Europe and Asia
- On January 16<sup>th</sup>, Saskatoon-based **Golden Opportunities Fund Inc.**, in syndication with **Westcap MBO II Investment LP**, announced the investment in **Degelman Industries LP (Degelman)**. Degelman is a Regina-based designer and manufacturer of premium equipment for the agricultural and industrial sectors, and its equipment includes rock pickers, tillage equipment, land rollers, heavy harrows and bulldozer blades. The investment is intended to solidify Degelman's base in Saskatchewan and ensure the continued success of the firm in its local market. Financial terms were not disclosed
- On January 16<sup>th</sup>, **Ag Growth International Inc. (AGI)** announced it has acquired 100% of the shares outstanding of **Affinity Management Ltd. (Affinity)**. The transaction was funded from the company's operating facilities. Affinity is a provider of software solutions to the agriculture industry and includes a comprehensive Enterprise Resource Planning system for growers and agricultural retailers. Financial terms were not disclosed

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

	Market		TEV/EBITDA		Price/Earnings		Week Δ	Δ Price
	Cap	TEV	2020E	2021E	2020E	2021E	Price	52Wk High
Deere & Company	53,555	57,618	12.5x	14.2x	17.2x	16.2x	(1.6)%	(5.7)%
AGCO Corporation	5,423	7,365	7.6x	7.2x	13.5x	12.1x	(3.0)%	(11.8)%
Ag Growth International Inc.	673	1,297	9.8x	9.2x	16.2x	14.7x	0.9%	(25.4)%
Rocky Mountain Dealerships Inc.	98	149	8.0x	6.1x	13.4x	11.6x	(0.9)%	(31.7)%
Cervus Equipment Corporation	105	210	5.9x	6.1x	21.6x	10.5x	9.8%	(34.8)%
<b>Mean</b>			<b>8.8x</b>	<b>8.5x</b>	<b>16.4x</b>	<b>13.0x</b>	<b>1.0%</b>	<b>(21.9)%</b>

1 "Equip. Manuf. Index" is composed of equally weighted market prices for: Deere & Co., AGCO, Ag Growth Intl., Rocky Mountain Dealerships and Cervus.

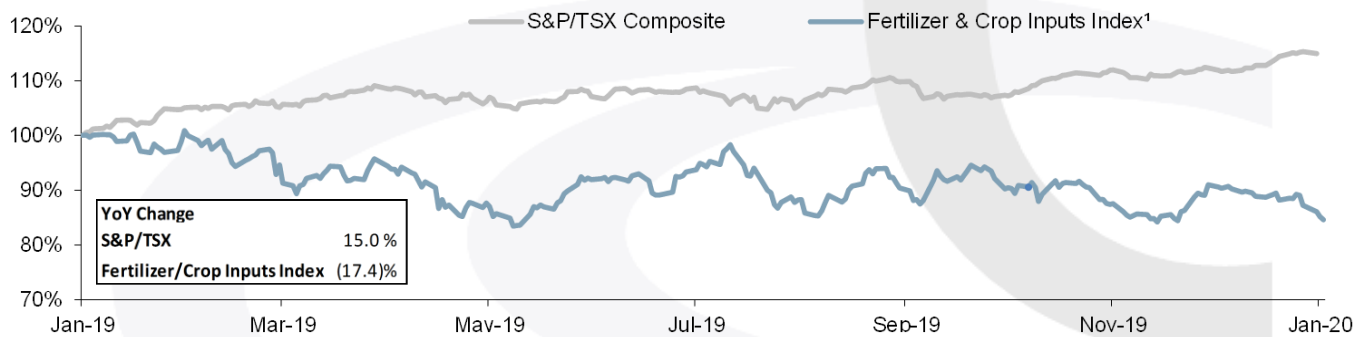


## FERTILIZERS AND CROP INPUTS

### News Scan

- On January 23<sup>rd</sup>, **Yara International ASA (Yara)**, in collaboration with **IBM Corp.**, announced the launch of The Open Farm & Field Data Exchange. The open data exchange is designed to facilitate collaboration around farm and field data in an effort to improve efficiency and sustainability in global food production. Yara and IBM established a partnership in 2019 to connect and support the global community of farmers
- On January 20<sup>th</sup>, **Anglo American plc (Anglo American)** announced it has reached an agreement with **Sirius Minerals plc (Sirius)** to acquire the company for £5.50 per share in cash, valuing Sirius at approximately £405 million. Mark Cutifani, CEO of Anglo American, stated the transaction provides greater certainty for Sirius shareholders and a wider group of stakeholders as Anglo's resources will bring Sirius' potash mine development project closer to realization. The offer price represents a 34% premium to Sirius' closing price of £4.10 on January 7<sup>th</sup>, one day before the initial offer was announced, and a 62% premium to Sirius' three-month volume-weighted average price of £3.40 prior to initial offer. The transaction is expected to close before March 31<sup>st</sup>
- On January 6<sup>th</sup>, **China National Chemical Corp. (ChemChina)** announced the consolidation of its agricultural assets with those of **Sinochem Group Co., Ltd. (Sinochem)**. The merger of both state-owned companies' assets will be completed via the formation of a new holding company, **Syngenta Group**, which will incorporate **Adama**, ChemChina's crop-protection chemical business, as well as **Syngenta**, ChemChina's diversified business that operates in the crop protection, seeds and garden markets globally. The transaction, through fundraising and eventual IPO listing, is designed to decrease ChemChina's debt in advance of a complete merger with Sinochem. ChemChina has approached state-backed investors for up to US\$10 billion in funding as part of the reorganization

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

Market	Market		TEV/EBITDA		Price/Earnings		Week Δ	Δ Price
	Cap	TEV	2020E	2021E	2020E	2021E	Price	52Wk High
Nutrien Ltd.	33,326	45,601	10.0x	9.5x	20.8x	18.4x	(5.7)%	(21.6)%
CF Industries Holdings, Inc.	8,899	15,590	9.0x	8.7x	16.5x	15.6x	(13.4)%	(27.6)%
Yara International ASA	10,153	14,521	5.8x	5.5x	11.0x	10.1x	(5.2)%	(22.7)%
The Mosaic Company	7,250	11,527	6.6x	5.6x	15.9x	10.8x	(11.5)%	(42.9)%
Nufarm Ltd.	1,462	2,318	8.8x	7.5x	16.6x	16.6x	1.6%	(19.7)%
Input Capital Corp.	33	43	na	na	na	na	0.0%	(33.3)%
<b>Mean</b>			<b>8.0x</b>	<b>7.4x</b>	<b>16.2x</b>	<b>14.3x</b>	<b>(5.7)%</b>	<b>(28.0)%</b>

<sup>1</sup> "Fertilizers and Crop Inputs Index" is composed of equally weighted market prices for: Nutrien, CF Industries, Yara, Mosaic, Nufarm and Input Capital.

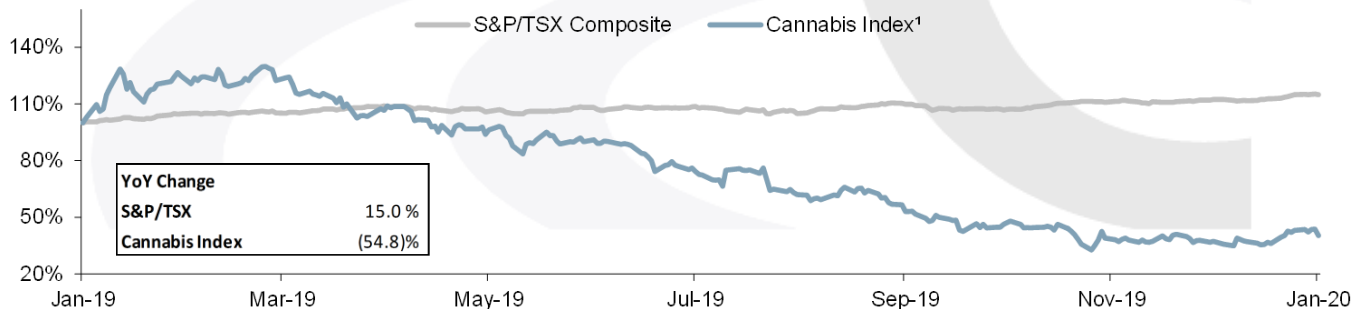


## CANNABIS AND HEMP

### News Scan

- On January 24<sup>th</sup>, **Aphria** announced it has agreed to receive a C\$100 million investment from an unidentified institutional investor. Under the transaction, the investor will be issued approximately 14 million units of Aphria, each unit being composed of one common share and one-half share purchase warrant, at a price of C\$7.12 per unit. The warrants were offered with an exercise price of C\$9.26 per share and a term of 24 months. The transaction is expected to close on January 31<sup>st</sup>
  - On January 21<sup>st</sup>, **Aphria** announced approval from the **Malta Medicines Authority (MMA)** for the European Union Good Manufacturing Practices (EU GMP) certification. The certification will allow Aphria's subsidiary, **Avanti Rx Analytics**, to ship bulk and finished dried flower and cannabis oil for medicinal use throughout permitted jurisdictions in the European Union. Aphria expects the certification to advance its presence in the growing European medicinal cannabis market
- On January 23<sup>rd</sup>, **HEXO** announced the closing of its US\$20 million registered direct offering with institutional investors, previously announced on January 17<sup>th</sup>. Under the offering, HEXO sold nearly 12 million common shares at US\$1.67 per share and an additional 6 million share purchase warrants at an exercise price of US\$2.47 per share with a five-year term. The transaction comes following a previous registered direct offering for US\$25 million, finalized on December 26<sup>th</sup>. HEXO intends to use the proceeds of both offerings to fund research and development initiatives and innovation strategies
- On January 17<sup>th</sup>, **OrganiGram Holdings Inc. (OrganiGram)** announced that it has secured a supply agreement with **Medical Cannabis by Shoppers**, the online medical cannabis platform by **Shoppers Drug Marg Inc. (Shoppers)**. Through the agreement, OrganiGram will provide Shoppers with dried flower, oils and other derivative products, increasing Canadian consumers' access to medical cannabis products. The three-year agreement is subject to renewal for an additional two years
- On January 14<sup>th</sup>, **Tilray** announced that it hired Jon Levin as its new Chief Operating Officer and Michael Kruteck as its new Chief Financial Officer. Levin was previously a commercial executive at Revlon, Inc., a US producer of beauty and personal care products. Kruteck has previously held executive positions at Pharma Integrative Pharmacy and Molson Coors Beverage. Tilray's shares closed at US\$21.22 on January 14<sup>th</sup>, representing a 22% price increase for the day

### Relative Performance Index



### Key Indicators

All Figures in USD millions unless indicated

Market	Market		TEV/Revenue		TEV/EBITDA		Week Δ	Δ Price
	Cap	TEV	2020E	2021E	2020E	2021E	Price	52Wk High
Canopy Growth Corporation	7,907	6,065	12.6x	7.5x	neg	neg	(12.8)%	(60.0)%
Aurora Cannabis Inc.	2,214	2,644	7.0x	4.5x	nmf	26.1x	(10.5)%	(81.9)%
Aphria Inc.	1,333	1,086	2.3x	1.8x	18.5x	10.8x	(7.0)%	(55.5)%
Cronos Group Inc.	2,650	1,317	11.0x	4.6x	neg	25.7x	(14.4)%	(71.0)%
Tilray, Inc.	1,985	2,333	7.4x	4.9x	neg	73.9x	(11.5)%	(79.4)%
OrganiGram Holdings Inc.	449	482	4.5x	3.0x	18.3x	9.8x	(18.8)%	(69.4)%
<b>Mean</b>			<b>7.5x</b>	<b>4.4x</b>	<b>18.4x</b>	<b>29.3x</b>	<b>(12.5)%</b>	<b>(69.5)%</b>

1 "Cannabis Index" is composed of equally weighted market prices for: Canopy Growth, Aurora Cannabis, Aphria, Cronos, Tilray and OrganiGram.



## ADDITIONAL NEWS AND AGRICULTURE COMMODITIES UPDATE

### News Scan

- On January 27<sup>th</sup>, the **President of the United States** announced expanded coverage of steel and aluminum tariffs to include certain nails, staples, electrical wires and other derivative products on the grounds of national security. Derivative aluminum products will bear additional tariffs of 10% while derivative steel products will bear an additional 25%. Canada, among select other countries, was exempt from the additional tariffs on both product groups
- On January 23<sup>rd</sup>, founding members of the **Covantis Initiative**, an initiative which aims to modernize global trade operations, have announced the selection of ConsenSys as the lead technology partner to develop its transformative platform. ConsenSys is a market-leading blockchain company that aims to leverage its enterprise-ready blockchain solutions and services to cater to both small and large players across the supply chain. The Covantis initiative includes Archer-Daniels-Midland Company, Bunge, Cargill, Louis Dreyfus Company and Glencore Agriculture
- On January 23<sup>rd</sup>, **Agriculture and Agri-Food Canada (AAFC)** released its first supply and demand estimates for the 2020-2021 marketing year, including a forecast for wheat production of 33.9 million tonnes, an increase of 1.5 million tonnes on the year. Much of the increase is attributed to durum production, which is forecasted to increase 18% to 5.9 million tonnes. The forecast for canola production is 18.5 million tonnes, representing the smallest crop in six years
- On January 20<sup>th</sup>, **TMX Group** launched The S&P/TSX Cannabis Index (TSX:XCAN), featuring companies listed on the Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV) that are significantly involved in the cannabis market. The index currently consists of 15 companies including Canopy Growth, Aurora Cannabis, Cronos Group, Aphria and OrganiGram Holdings
- On January 20<sup>th</sup>, **US Agriculture Secretary** Sonny Perdue stated that US farmers should not expect to receive trade-related aid for fiscal year 2020. US farmers received government aid in 2018 and 2019, with the last package of US\$16 billion in aid announced in May 2019. This announcement comes following the signing of the US' Phase I trade deal with China
- On January 15<sup>th</sup>, the US and China signed the first phase of its trade agreement that includes a commitment by China relating to the additional purchases of US goods and services in the coming years. The agreement brings an end to the ongoing trade war, since China raised import tariffs by 25% on US soybeans in July 2018 in retaliation to US duties on Chinese goods. Agriculture is specifically addressed in the trade agreement, stating the expected increase of US food, agriculture and seafood product exports. Under the agreement, China will purchase US\$40-50 billion of agricultural goods annually from the US for the next two years
- Grain producers in Manitoba are seeking financial relief after it was determined that producers in the region are paying a significant amount in carbon tax related to the cost of drying grain. **Keystone Agricultural Producers (KAP)** determined that the average producer paid C\$3.69 per acre in carbon tax on grain drying, including propane and natural gas, resulting in more than C\$1.6 million in carbon taxes being paid during the recent harvest season
- The US **Consumer Price Index (CPI)** for baked foods and cereal products finished stronger in 2019, increasing 1.4% after a gain of 0.4% in the previous year. Overall, 17 of 18 categories finished higher for the year, with only the flour and prepared flower mixes categories decreasing from the prior year

### Commodities Futures as of January 29<sup>th</sup>, 2020

Commodities Futures	Price Unit	Latest Price (US\$)	Month to Date	Year to Date
Corn (CBOT)	\$ per bu.	\$3.87	(1.28)%	(1.28)%
Wheat (CBOT)	\$ per bu.	\$5.70	1.70 %	1.70 %
Oats (CBOT)	\$ per bu.	\$3.07	3.02 %	3.02 %
Rough Rice (CBOT)	\$ per cwt.	\$13.59	3.23 %	3.23 %
Rapeseed (Canola) (ICE)	CAD per T	\$461.80	(3.79)%	(3.79)%
Ethanol (CBOT)	\$ per gal.	\$1.35	(1.75)%	(1.75)%



## Recent Earnings News

Company	EPS YoY Change	Comments	Analyst Consensus	Premium to Current
<b>Equipment Manufacturers &amp; Services</b>				
Buhler Industries Inc.	(21.0%)	Buhler Industries, a manufacturer and distributor of agricultural equipment in Canada and internationally, reported FY 2019 earnings. Revenue for the year was C\$229 million, down almost C\$59 million from FY 2018 revenue of C\$288 million. The company's lower sales are a result of trade uncertainties that have particularly impacted the wider agriculture sector, as well as poor crop yields and low commodity prices. Net loss for the year was just under C\$30 million, an improvement of C\$20 million from the prior year. In FY 2019, the company undertook cost-saving measures that have resulted in improvements to gross margin (1.2% in 2018 compared to 4.5% in 2019) and reduction in selling and administrative expenses, yielding FY 2019 EBITDA of C\$2 million, compared to a loss of C\$29 million the prior year	n/a	n/a
CHS Inc.	n/a	CHS Inc., an integrated agricultural company providing grains, foods, and energy resources to businesses and consumers in North America and internationally, reported earnings for Q1 of FY 2020. Net income was reported at US\$178 million, compared to US\$348 million for Q1 of FY 2019. Revenue for the quarter was reported at US\$7.6 billion compared to US\$8.5 billion for Q1 of FY 2019. Strong supply chain performance in the propane business was a positive contributor due to efficient sourcing. Overall market conditions were less advantageous in the refined fuels business compared to Q1 of FY 2019, during which the company experienced historically wide pricing spreads between Canadian and US crude oil. Moreover, negative pressure on grain volume and margins persisted due to slow movement of grain associated with unresolved trade issues between the US and foreign trading partners, hurting business operations and demand drivers	n/a	n/a
<b>Cannabis</b>				
OrganiGram Holdings Inc.	nmf	OrganiGram Holdings Inc., the parent company of OrganiGram Inc., a leading licensed producer of cannabis announced earnings for the first quarter of fiscal 2020. Net revenues more than doubled to C\$25 million from C\$12 million in Q1 2019. The company reported a net loss of C\$0.9 million, compared to a net income of C\$29.5 million in Q1 2019, largely due to non-cash fair value charges to their biological assets and inventories in the prior quarter. Adjusted EBITDA was reported at C\$5 million, down from C\$7 million in Q1 2019. The company received licensing to produce and package chocolate edibles in December 2019, and is on track for initial sales of cannabis-infused chocolates in 2020. Despite the large cash outlays required to fund ongoing capex and new product launches, the company has enough capital to fund operations and capex plans with C\$34 million of cash and short-term investments at quarter end. Moreover, the company has C\$30 million in undrawn term loan capacity and C\$32 million available under its C\$55 million at-the-market equity program	C\$6.20	73%

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