



Agriculture Industry Flash

Monday, May 31st, 2021



POLITICAL INSIGHTS SERIES:

How Government Regulation, Policy and Relations impact the Canadian Food & Ag Sector



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Cumberland Strategies is a national public affairs and government relations firm headquartered in Toronto. Mackenzie Taylor is a Toronto-based Consultant with a focus on agriculture and the agri-food sector. Bliss Baker is the Chairman and founder of Cumberland Strategies and has represented a range of large Canadian and multi-national companies in the ag-sector.

An Unexpected Challenge to Canada's Dairy Sector

In an unexpected development, on May 25, US Trade Representative Katherine Tai formally requested a dispute settlement panel to examine allegations from American producers that Canada is denying them fair access to the Canadian market. This move by the US government has surprised Canadian stakeholders, with some worried about what this means for Canada's supply management system. **While concerns around compliance and access to the fair market might have driven this action, politics and concerns about a looming election in Canada will almost certainly delay any impacts of the trade action.**

On the Canadian side

To sum up last Tuesday's developments, the United States is challenging Canada's tariff-rate quotas, using language such as 'unfair access' and 'market monopoly'. Insiders know that contention over dairy quotas is not new; they were a huge sticking point that held up the United States-Mexico-Canada trade negotiations two years ago. While Canada ultimately made some concessions on market access for US dairy into Canada, both sides have differing opinions on how those concessions translate in reality.



Cumberland Strategies

An Unexpected Challenge to Canada's Dairy Sector

Whatever the findings of the final report - due later this year - examining the US allegations, Canada will continue to vigorously defend the dairy sector. Politically, there is simply no choice given the pending election and the concentration of dairy farmers in Quebec and Ontario - the battle ground that will determine the outcome of the election. Additionally, with the United States already expected to gain \$314 million in market share from dairy quotas, we can expect the federal government to push back on any attempt by the US administration to "define" these concessions in a way that further harms the sector.

And south of the border

In his previous role as President and CEO of the United States Dairy Export Council (USDEC), Tom Vilsack, US Secretary of Agriculture, was vocal about advocating for dismantling Canada's supply management system. However, as Secretary of Agriculture under the Obama administration, Vilsack was anything but hawkish on trade. We believe that Vilsack understands that the United States dairy oversupply dilemma cannot be fixed through changing Canada's supply management system alone and we do not expect an aggressive assault on our sector from the new Secretary. More specifically, his knowledge of the sector makes him less combative and more well-versed on the layers of complexity. In addition, Secretary Vilsack is focused on the well-being of his home state, Iowa, where cash crop farmers wrestle with ongoing trade wars with China.

Where the incentives lie

Overall, these latest trade measures are not surprising and are part of a larger political dynamic in Congress, with President Biden attempting to appease those on both sides of the aisle with anti-free trade sentiments. Ultimately, there will be more trade irritants between the US and Canada. **In this case, however, with 64,836 dairy jobs at stake in the province of Quebec, and an election on the horizon, there is every incentive for the federal government to battle any attempted changes to the dairy supply management system.**

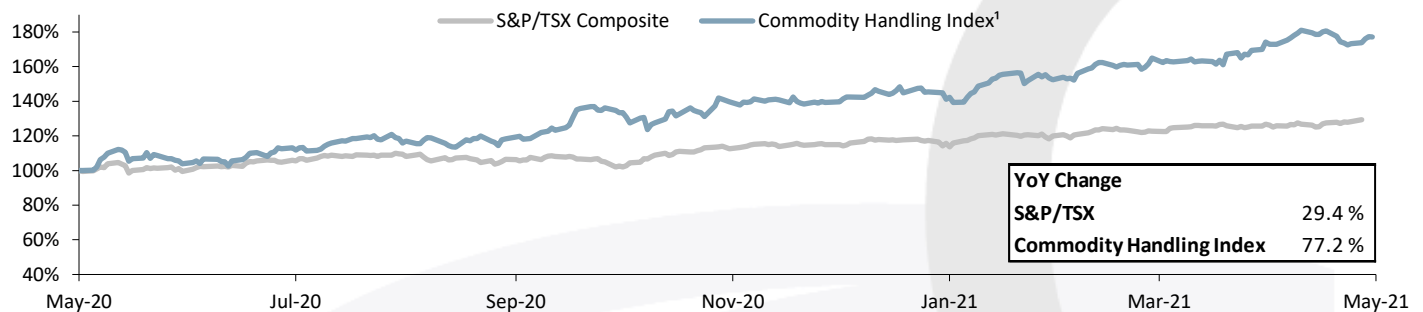


COMMODITY HANDLING

News Scan

- On May 25th, **Ceres Global Ag Corp.** announced that, subject to financing, it plans to build a US\$350 million integrated canola processing facility along the US-Canada border in Northgate, Saskatchewan, to help meet growing demand for canola products. The facility will have capacity to process 1.1 million metric tonnes of canola and refine over 500,000 metric tonnes of canola oil annually
- On May 21st, **Kansas City Southern** agreed to a US\$30 billion merger with **Canadian National Railway Co. (CN)**, rejecting the US\$25 billion bid from **Canadian Pacific Railway Ltd.** CN is now awaiting approval from the **US Surface Transportation Board** for CN to use a voting trust to complete the financial portion of the transaction
- On May 12th, **Perdue AgriBusiness (Perdue)** acquired the operations of **Associated Grain**, Virginia's last independent grain dealer. Associated Grain operates two grain elevators with a capacity of 1.2 million bushels. This acquisition will increase Perdue's overall storage capacity to 84.2 million bushels, 19th in the US

Relative Performance Index



Key Indicators

All Figures in USD millions unless indicated

	Market		TEV/EBITDA		Price/Earnings		Week Δ	Δ Price
	Cap	TEV	2021E	2022E	2021E	2022E	Price	52Wk High
ADM	37,170	47,144	10.0x	10.0x	14.8x	15.0x	0.3 %	(3.0)%
Bunge Limited	12,279	21,538	9.4x	10.6x	11.1x	12.5x	1.2 %	(5.8)%
The Andersons, Inc	1,015	2,658	8.7x	8.5x	17.1x	15.5x	2.5 %	(3.1)%
Graincorp Limited	883	1,248	5.4x	6.1x	11.7x	17.9x	(2.0)%	(11.8)%
United Malt Group Limited	1,014	1,218	11.4x	9.2x	30.1x	18.9x	(2.0)%	(11.5)%
Ceres Global Ag	125	202	na	na	na	na	9.1 %	(1.8)%
Mean			9.0x	8.9x	17.0x	16.0x	1.5 %	(6.2)%

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

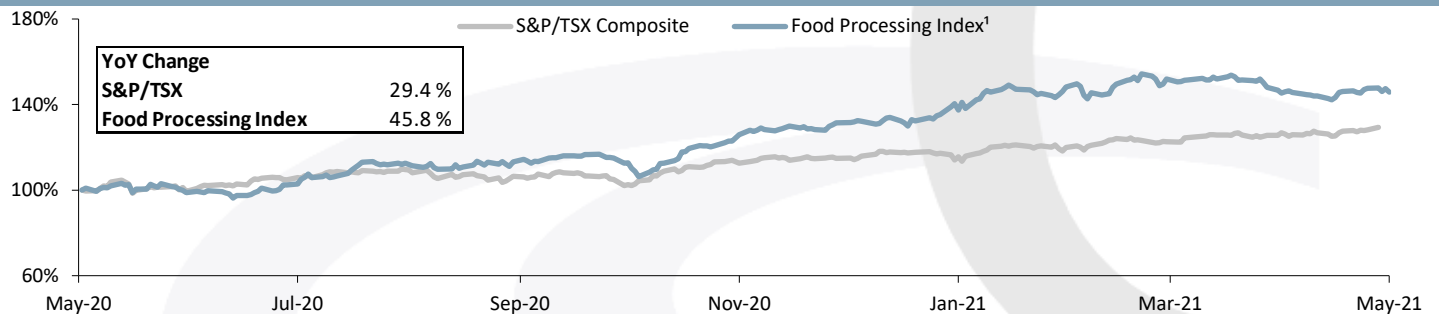


FOOD PROCESSING

News Scan

- On May 25th, Montreal based dairy company **Saputo** acquired **Bute Island Foods**, producer of vegan cheese, and the Reedsburg facility of **Wisconsin Specialty Protein**, manufacturer of value added ingredients like organic lactose. The combined value of these two deals is C\$187 million and the transactions are expected to accelerate and broaden Saputo's ingredient offerings
- On May 21st, **Sysco**, the world's largest broadline food distributor, agreed to acquire US based Italian specialty distributor **Greco and Sons**. Greco and Sons currently operates ten distribution centres across the United States and will operate as a standalone division within Sysco upon completion. This acquisition will allow Sysco to better serve Italian-focused customers
- On May 19th, **The Hershey Company (Hershey)** signed an agreement to acquire **Lily's**, a US-based high-growth, better-for-you brand offering low sugar confection products, for an undisclosed amount. Lily's is regarded as a promising strategic complement to Hershey's existing offerings in the better-for-you category. This acquisition follows Hershey's February announcement of a multi-pronged better-for-you confection strategy
- On May 17th, Atlanta based private equity firm **Roark Capital (Roark)**, acquired Texas based bundt cake bakery, **Nothing Bundt Cakes**, and its franchise locations. This is Roark's 29th restaurant investment, following others including **Inspire Brands** and **Focus Brands**.

Relative Performance Index



Key Indicators

All Figures in USD millions unless indicated

	Market Cap	TEV	TEV/EBITDA		Price/Earnings		Week Δ Price	Δ Price 52Wk High
			2021E	2022E	2021E	2022E		
Saputo Inc.	13,246	16,222	12.7x	11.8x	21.8x	19.2x	4.7%	(1.6)%
Ingredion Incorporated	6,358	8,184	8.8x	8.4x	14.5x	13.5x	(1.0)%	(3.4)%
Tate & Lyle plc	5,034	5,529	7.7x	7.5x	12.8x	13.6x	(4.1)%	(6.8)%
Premium Brands	4,411	5,381	14.9x	13.0x	28.4x	23.0x	1.6%	(0.7)%
Maple Leaf Foods Inc.	2,742	3,430	9.6x	8.2x	22.6x	16.8x	(0.6)%	(14.1)%
SunOpta Inc.	1,557	1,838	23.3x	20.0x	nmf	nmf	(0.7)%	(30.1)%
Rogers Sugar	486	786	9.0x	8.9x	13.3x	12.5x	(0.5)%	(2.7)%
High Liner Foods Incorporated	444	738	8.1x	7.8x	12.0x	11.3x	2.2%	(5.0)%
Mean			11.8x	10.7x	17.9x	15.7x	0.2%	(8.1)%

¹ "Food Processing Index" is composed of equally weighted market prices for: Saputo, Ingredion Incorporated, Tate & Lyle plc, Premium Brands, Maple Leaf Foods Inc, SunOpta Inc, Rogers Sugar, High Liner Foods Incorporated

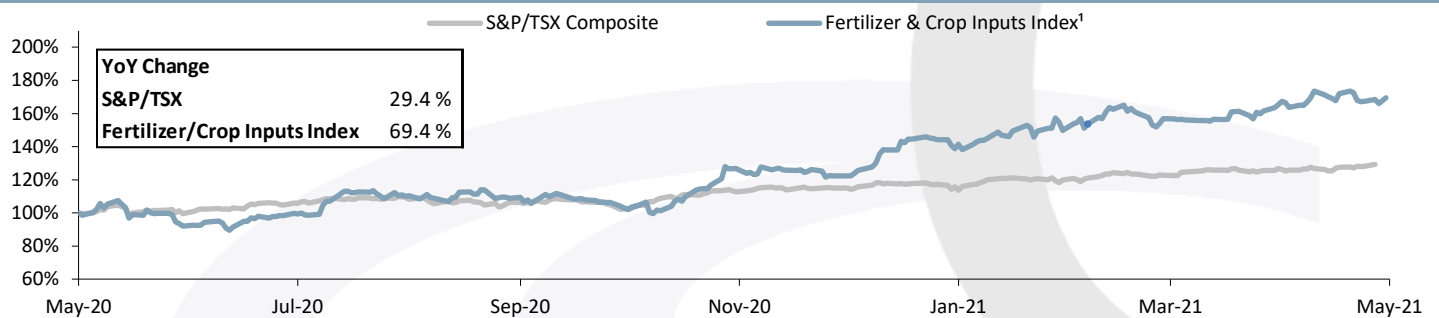


FERTILIZERS AND CROP INPUTS

News Scan

- On May 28th, it was reported that **Nutrien Ltd. (Nutrien)** and **BHP Group (BHP)** are in ongoing negotiations with respect to a multi-billion dollar joint venture on BHP's Jansen project, a potash mine in Saskatchewan, and one of the largest projects ever undertaken in the province. If successful, the joint venture would see Nutrien take control of Jansen mine operations once construction is completed
- On May 24th, **Australian Potash** received commitments from investors for a placement of AU\$10 million. The funds raised will support pre-development activities at the Lake Wells sulfate of potash project and commencing the maiden DDH programme
- On May 13th, Omaha based irrigation equipment and services company **Valmont Industries** acquired **Prospera**, an Israeli crop analytics startup, for US\$300 million. This acquisition creates the largest vertically integrated global irrigation company and builds on a successful two year partnership between the companies
- On May 12th, **EarthRenew Inc. (EarthRenew)**, an agtech company focused on creating organic fertilizer formulizations, closed its C\$9 million acquisition of Alberta based regenerative fertilizer company **Replenish Nutrients Ltd.** EarthRenew plans to scale the combined entity's production capacity by 10x and transition it into a cash flow positive business

Relative Performance Index



Key Indicators

All Figures in USD millions unless indicated

Market	Cap	TEV	TEV/EBITDA		Price/Earnings		Week Δ Price	Δ Price 52Wk High
			2021E	2022E	2021E	2022E		
Nutrien Ltd.	42,840	52,466	10.8x	10.5x	23.9x	22.5x	2.5 %	(1.6)%
CF Industries Holdings, Inc.	11,406	17,872	9.3x	9.8x	17.1x	19.4x	(0.2)%	(7.6)%
The Mosaic Company	13,725	17,883	6.3x	6.9x	11.8x	13.5x	1.9 %	(5.9)%
Yara International ASA	13,862	16,871	6.8x	6.4x	13.7x	13.7x	0.3 %	(2.9)%
Nufarm Ltd.	1,422	2,083	7.2x	6.5x	25.4x	18.9x	(1.8)%	(14.3)%
Mean			8.1x	8.0x	18.4x	17.6x	0.5 %	(6.4)%

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

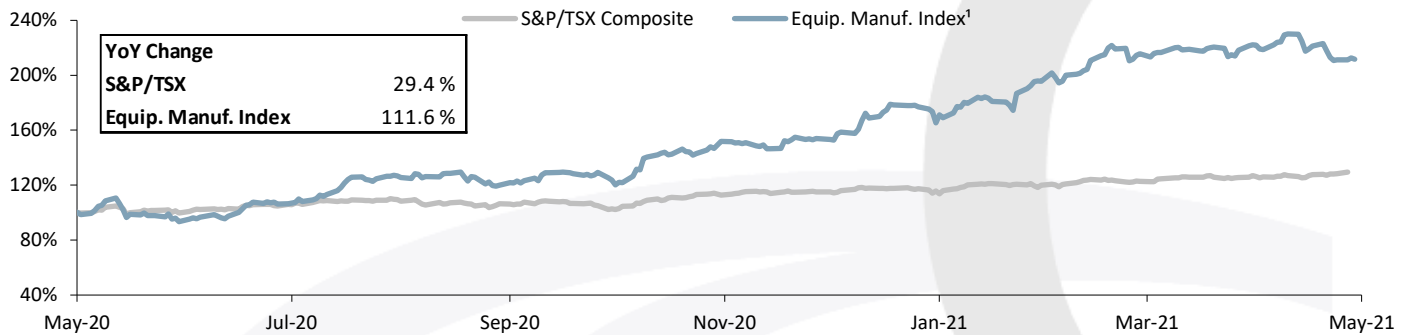


EQUIPMENT AND TECHNOLOGY

News Scan

- On May 21st, American water treatment company **Pentair** completed its US\$80 million acquisition of beverage equipment and service provider **Ken's Beverage Inc (KBI)**. This acquisition is expected to enhance Pentair's product offering and service capabilities and will further its vision to be the leading provider of residential and commercial water treatment solutions
- On May 12th, **Apeel Sciences**, developer of plant-derived shelf-life extension technology, acquired **ImpactVision**, maker of a hyperspectral imaging software that provides real time information about food quality. This acquisition will enable Apeel to quantify the quality of fresh produce which will give food suppliers and retailers insights to help them reduce food waste
- On May 10th, St. Louis based crop genetics startup **Benson Hill** announced it will go public via a US\$2 billion merger with SPAC **Star Peak Corp II**. The deal is expected to raise approximately US\$625 million in proceeds which will accelerate Benson Hill's bid to bring down plant based food costs

Relative Performance Index



Key Indicators

All Figures in USD millions unless indicated

	Market		TEV/EBITDA		Price/Earnings		Week Δ	Δ Price
	Cap	TEV	2021E	2022E	2021E	2022E	Price	52Wk High
Deere & Company	112,642	153,965	17.9x	16.4x	19.6x	17.5x	1.1 %	(9.5)%
AGCO Corporation	10,426	11,947	9.6x	9.0x	16.0x	14.7x	2.7 %	(12.5)%
Ag Growth International Inc.	629	1,335	9.5x	8.4x	15.9x	12.0x	(3.6)%	(15.8)%
Cervus Equipment Corporation	221	380	6.8x	6.3x	10.6x	9.6x	1.0 %	(3.5)%
Mean			11.0x	10.0x	15.5x	13.4x	0.3 %	(10.3)%

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

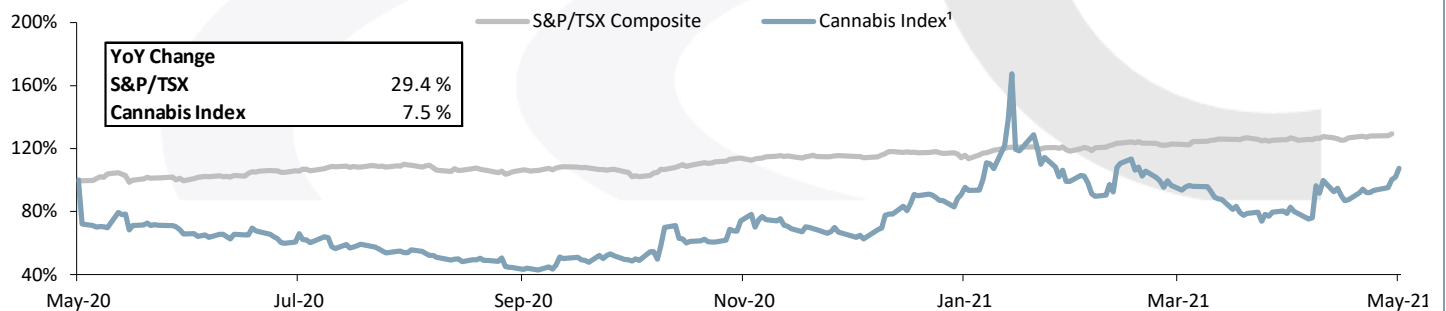


CANNABIS AND HEMP

News Scan

- On May 28th, **HEXO Corp. (HEXO)** announced it has entered into a definitive agreement to acquire Redcan, Canada's largest privately owned licensed producer of cannabis, for C\$925 million in cash and through the issuance of HEXO common shares. This acquisition creates a robust foundation for growth, efficiency at scale and improved financial results for HEXO and positions them to become the number one licensed producer of cannabis by recreational market share in Canada
- On May 17th, **Curaleaf Holdings Inc. (Curaleaf)**, an international provider of consumer cannabis products, announced the acquisition of **Los Suenos Farms**, the largest outdoor growing operation in Colorado, for US\$67 million in a combination of stock, cash and debt. This acquisition provides Curaleaf with expertise in commercial outdoor growing of cannabis and provides them with direct access to the US\$2.2 billion Colorado cannabis market
- On May 17th, **HempFusion**, a health and wellness company that provides probiotics and products containing CBD, signed a definitive agreement to acquire **Apothecanna**, a provider of cannabis based body care and topical treatments for US\$15 million. This acquisition bolsters HempFusion's retail and ecommerce distribution of its products and is accretive to HempFusion's revenues
- On May 10th, **Trulieve Cannabis Corp. (Trulieve)**, the largest fully licensed medical cannabis company in Florida, signed a definitive agreement to acquire **Harvest Health and Recreation Inc.**, a vertically integrated cannabis company, in an all stock transaction for US\$2.1 billion. This acquisition expands Trulieve's retail presence in new and established markets and accelerates entry into the Arizona market
- On May 5th, **Sundial Growers Inc (Sundial)** acquired **Inner Spirit Holdings Ltd.** in an all stock transaction for US\$131 million. With this acquisition, Sundial acquires Canada's largest single brand retailer with over 86 stores across Canada

Relative Performance Index



Key Indicators

All Figures in USD millions unless indicated

	Market Cap	TEV	TEV/Revenue		TEV/EBITDA		Week Δ Price	Δ Price 52Wk High
			2021E	2022E	2021E	2022E		
Canopy Growth Corporation	9,961	8,856	14.8x	10.6x	neg	nmf	13.6 %	(56.1)%
Tilray, Inc.	7,458	8,097	9.6x	6.8x	nmf	41.4x	11.0 %	(11.0)%
Cronos Group Inc.	4,018	2,969	32.7x	18.4x	neg	nmf	20.2 %	(46.2)%
Aurora Cannabis Inc.	1,891	2,207	10.8x	8.0x	neg	neg	31.9 %	(52.1)%
OrganiGram Holdings Inc.	947	978	15.5x	9.2x	neg	nmf	20.4 %	(52.0)%
Mean			16.7x	10.6x	na	41.4x	19.4 %	(43.5)%

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



ADDITIONAL NEWS AND AGRICULTURE COMMODITIES UPDATE

News Scan

- On May 26th, the Biden Administration announced they will sue Ottawa under the United States-Mexico-Canada Agreement (USMCA), accusing Canada of breaking an agreement to partially open its protectionist dairy market to US imports. Canada is expected to defend vigorously against these allegations
- On May 24th, in response to the growth in grain export volumes, **The Canadian Grain Commission** proposed a reduction of service fees for four official grain inspection and official grain weighing services. Official inspection and weighing services fees would drop from C\$1.48 to C\$1.05 per tonne for ships, and decrease C\$37.88 per official inspection and weighing service for a railway car, truck, or container
- On May 24th, it was reported that **Morocco** would increase wheat import duties on common and durum wheat to protect domestic producers from foreign competition, raising import duties from 0% to 135% and from 0% to 175% for common and durum wheat respectively
- On May 21st, **The Canadian Wheat Research Coalition** pledged C\$2 million to fund research activities through the **University of Alberta's** wheat breeding program with a primary focus on developing new Canadian Western Red Spring and Canadian Prairie Spring Red wheat varieties
- On May 20th, it was reported by the **United States Department of Agriculture** that **China** has already bought more than one-third of its projected total corn imports for the 2021-22 marketing year from the United States. China's demand for corn has risen dramatically as its hog herd expands; the ramp up in its US purchases is likely due to uncertainty about corn crop in Brazil
- On May 19th, **Health Canada's Pest Management Regulatory Agency (PMRA)** released its re-evaluation decision for imidacloprid, a Bayer insecticide applied to canola and corn seed in Canada to protect crops from pests early in the growing season. The decision to ban the pesticide was overturned for most uses as, contrary to earlier belief, they meet current standards for protection of human health and the environment
- On May 6th, the price of corn hit an 8-year high after a six week gain due to international supply concerns. These relate to **Brazil's** shrinking crop due to inadequate weather conditions, and **Argentina's** lack of rain which is making a significant dent in agricultural exports

Commodities Futures as of May 31st, 2021

Commodities Futures	Price Unit	Latest Price (US\$)	Month to Date	Year to Date
Corn (CBOT)	\$ per bu.	\$6.57	(3.35)%	35.76 %
Wheat (CBOT)	\$ per bu.	\$6.64	(7.59)%	3.35 %
Oats (CBOT)	\$ per bu.	\$3.78	(7.36)%	6.04 %
Rough Rice (CBOT)	\$ per cwt.	\$13.30	(3.20)%	4.52 %
Rapeseed (Canola) (ICE)	CAD per T	\$714.20	0.58 %	12.35 %
Ethanol (CBOT)	\$ per gal.	\$2.37	(2.87)%	59.60 %



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