



Global Agribusiness Survey

2017



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Foreword



Paul McDonald
Partner,
National Agribusiness Leader

Our survey highlights both the optimism about the future and the realisation that there will be a significant effort involved in innovation, developing personnel, sourcing finance and above all meeting the needs of customers - if organisations are to win.

We are in a time of unprecedented change and disruption and it is critical therefore that we, as participants in the industry, do what we can to ensure success. We must challenge the Government, and the Government must challenge itself – to create the right environment for agribusiness to succeed. Changes to support business must be made, and made without delay.

But Governments don't develop new products, create new product systems and win new customers. The onus is on our agribusinesses – large and small – to embrace change and find new ways to win.

How KPMG can help

KPMG's Agribusiness team can help you improve the efficiency and profitability of your business through our wide range of audit, tax and advisory services. Our national and international cross functional agribusiness professionals focus on understanding the issues faced by agribusiness companies and developing tailored solutions to meet these challenges.

We are working with private equity and financial investors around the world to support them in investing in agricultural businesses. For instance we have supported investors in making investments in a range of sectors in various geographies.

We work with clients in all agricultural sectors – arable, dairy, red meat, pork, poultry, fishing and aquaculture, viticulture, wide acre plantation, horticulture, logistics and rural infrastructure, fertiliser, animal health and genetics and agricultural financing. We understand the primary sector and how to unlock value from biological based businesses.

We combine our multi-disciplinary approach with deep, practical industry knowledge to help clients meet challenges and respond to opportunities.

Paul McDonald



The Cutting Edge of Change

2017 is set to be a marker year in the history of the global agri-food sector, writes **Ian Proudfoot**, global head of agribusiness for KPMG.

The pace of disruption continues to accelerate. Each day, KPMG's global agri-food foresight team identifies new products, experiences, technologies and business models, some of which are introducing game changers that will transform the ways we eat, work and live. Not all have such significant potential, but they build on what has gone before, tailoring existing products to better meet specific consumer needs through integrating new features, functions or experiences. We are at the start of a period we will eventually come to know as the global agrarian revolution.

“ The global agrarian evolution means farmers must challenge the legacies their families have left to them. ”

This may sound dramatic but given the way that technology is developing, it should not be surprising. The fourth industrial revolution is being fueled by the fusion of digital, biological and physical technologies. Combining plants, animals and soil with farm equipment and the farmer's knowledge of their land and intuition has always been the recipe for growth in the agricultural sector. It is consequently no surprise that the sector is facing disruption as innovators and entrepreneurs challenge the way things have been done for decades, exploring how technology can be applied to growing products in new and different ways. Examples include how farms are evolving, through changes in farming systems to new types of food being grown, processed, distributed and consumed in different ways. When I talk to groups of farmers, after the initial shocked silence (a period, I assume, when they are weighing up whether I am mad or not, having talked about insects, cultured foods, vapourised meals and the application of virtual reality on their farm among other things), the first questions usually revolve around how and when I do change my farm to be part of this emerging world.

When is easy. Yesterday was too late in my view, meaning the sooner they start exploring the opportunities that disruption presents the less they will be behind faster adopters.

The how is a much bigger question and there are no easy answers.

My initial response is that it usually depends on the value chain (or chains) that a farm business is already connected to and the alternatives that are available that are available to be accessed in the short term. A dairy farmer in New Zealand has limited flexibility to shift value chains in the short term whereas a sheep or beef farmer has more easily accessible options available.

While the realities of contracts and physical infrastructure may constrain the ability change in the short term, they should not constrain bold longer term thinking and ambition. I encourage my audiences to wake up the next morning, look in the mirror and challenge themselves over why they farm and the long-term aspirations they hold for their business. When you understand where you are heading and why you are going there, identifying the

relevant disruptions to be investigated and engaged with becomes clearer and the actions that need to be taken more obvious.

I have no doubts that this is much easier said than done. Fundamentally changing a farming system, to grow a new product, place reliance on agronomy advice provided by an algorithm or engage directly with the ultimate consumer of your food or fibre is hard.

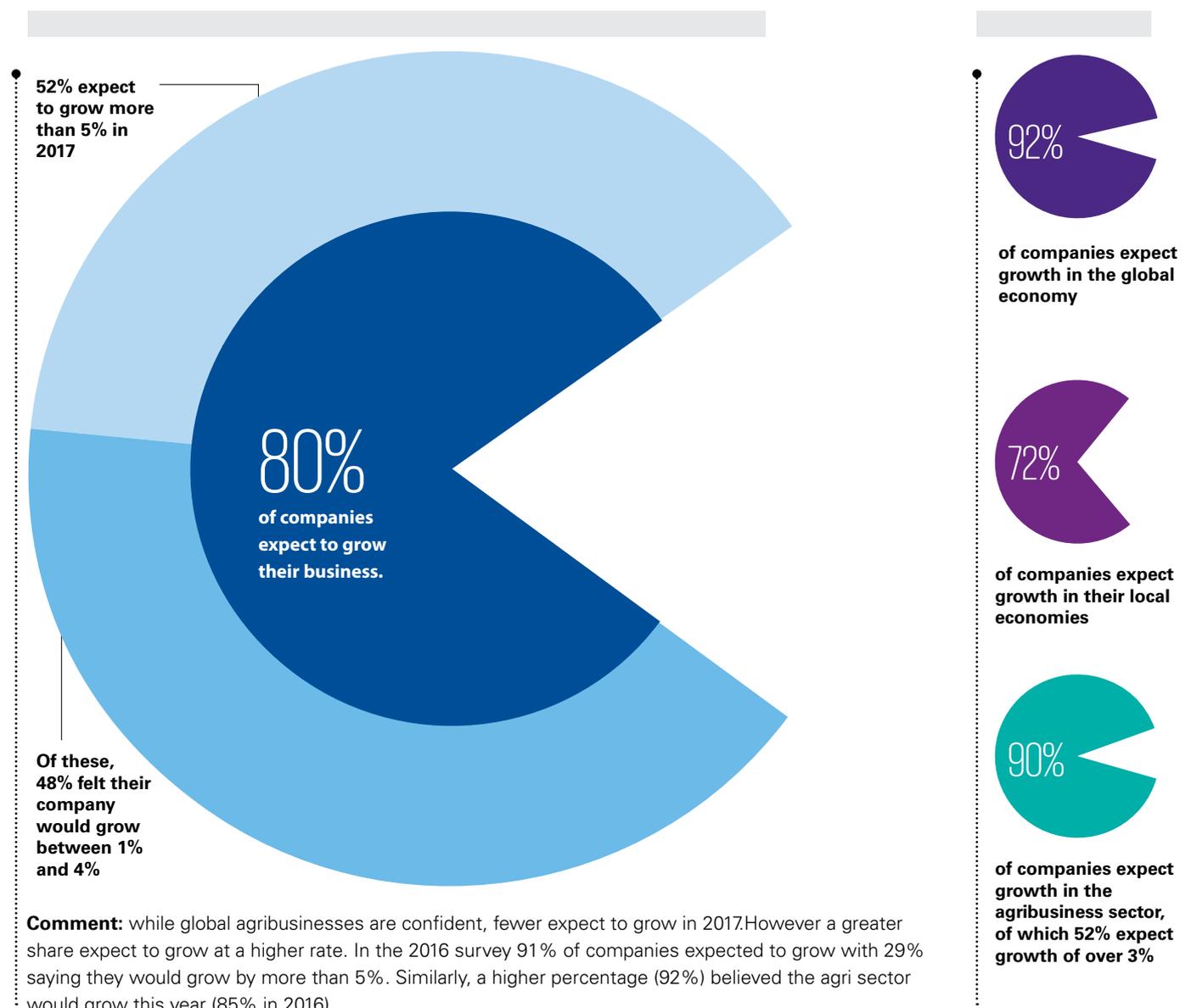
For many farmers, their systems reflect a gradual evolution of the farming practices adopted by their parents and grandparents meaning the radical changes we expect from the global agrarian revolution will require farmers to challenge the legacy their families have provided to them. This emotional connection to the status quo has to be dealt with before you can start to think about the practicalities of change, such as cost, regulation, access to markets and biosecurity among other factors.

As a result, many farmers are choosing to stick to what they know, on a comfortable belief that as food producers there will always be a market for their products in a world that needs more food. While customers may be able to be found, revolutions like cultured meat and plant-based milks, mean the demand for and desirability of traditional foods may shift radically and prices will ultimately reflect this.



Confident mood among global agribusiness

The 2017 AgriBusiness report marks the fifth year where the Irish Farmers Journal and KPMG have conducted a survey of agribusiness leaders in a bid to gauge the mood of the sector. Given the geo-political unrest of the last 12 months, the results are more pertinent than ever.



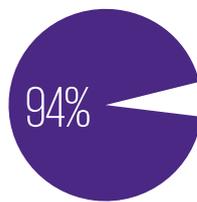
What will drive your business growth in the future?

- 1 Innovation
- 2 Expanding existing markets
- 3 Expanding into new markets
- 4 Increase in consumer demand
- 5 Mergers and acquisitions
- 6 Government regulation
- 7 Emerging markets
- 8 Sustainability initiatives

Comment: Globally, innovation was seen as the most important factor in driving future business growth, having moved up from third place last year, displacing expansion into new markets from pole position. However, regionally, companies identified contrasting factors. For example Russian companies saw the sanctions which banned western food products as key to driving growth, while UK companies cited post-Brexit policies as a key factor. Brazilian companies identified investment in infrastructure as key driver while commodity businesses believed a rise in world commodity prices would drive growth.

SUSTAINABILITY

How important is sustainability?



of companies feel sustainability is important to their business



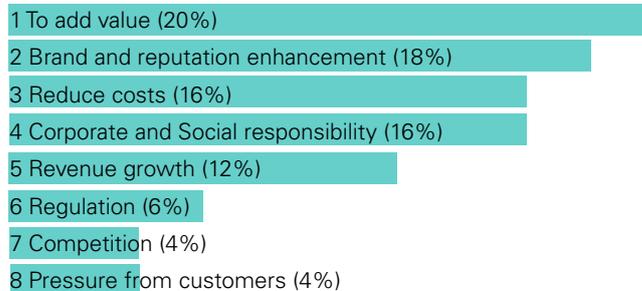
believe sustainability is important to consumers



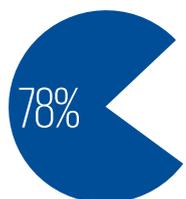
believe sustainability is important to communities

Comment: While the majority of companies surveyed believe sustainability is important to their business, consumers and the community, the main reason for driving sustainability is to add value and improve their brand and reputation. Farm efficiency gains were identified by one respondent as its main driver of the sustainability agenda.

Why is sustainability important to your business?



INNOVATION



believed research and development was important to their business



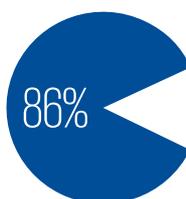
plan to invest less than 1% of turnover on innovation in 2017



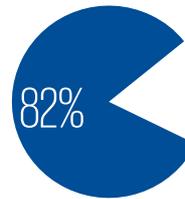
plan to invest more than 8% of turnover on innovation in 2017

Comment: While the majority of companies surveyed believed R&D to be important, just over half of those surveyed plan to invest less than 1% of turnover on innovation. 42% of companies are focusing their R&D spend on production and process improvements, while 29% plan to invest in new product development. The greatest challenges to driving innovation were identified as people, corporate culture and a lack of ownership of the full value chain.

INVESTMENT



plan to invest in the growth of their business in the next 12-18 months (82% in 2016)



of companies surveyed are happy with their ability to access finance

Comment: The majority of businesses are confident and investing to grow with an increased share of investment planned for capital projects compared with 2016 (63%). The share of companies investing most heavily in research and development investment has fallen from 9% to 4%.



Competitiveness

What is important to your country's competitive advantage:

- 1 Access to export markets (38%)
- 2 Reputation of country (16%)
- 3 Access to finance (16%)
- 4 Government support (14%)

24%

of companies surveyed believe scale is the most important competitive advantage

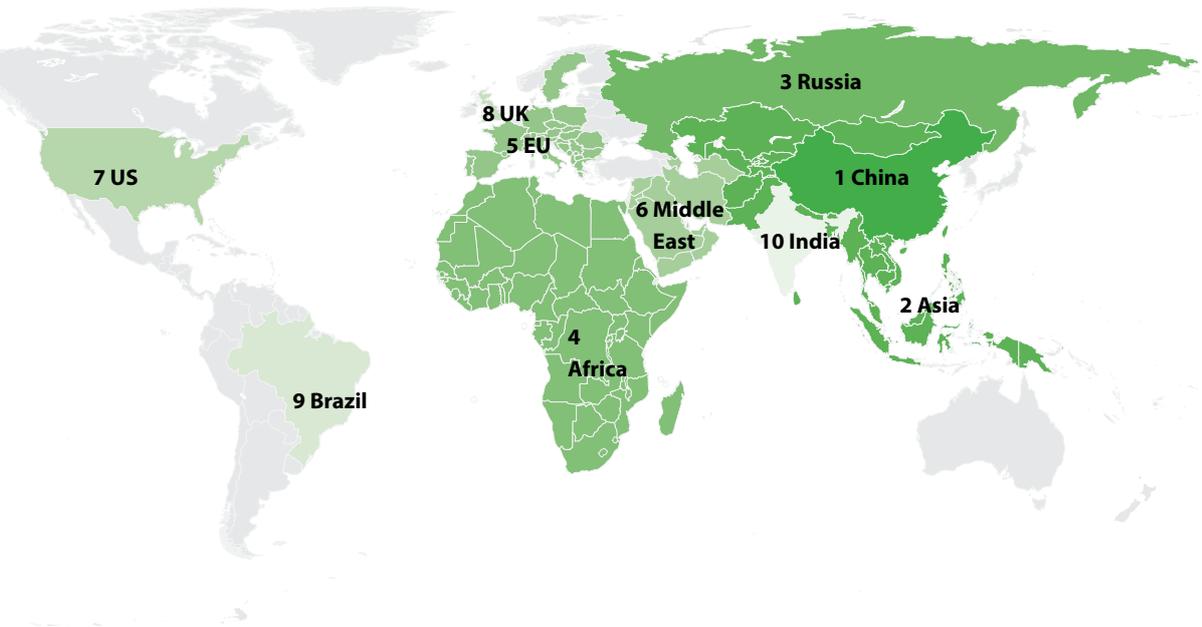
24%

of companies surveyed believe reputation and brand strength are also important competitive advantages

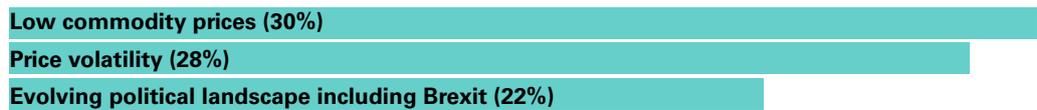
Comment:

Most companies regarded access to export markets as the key area that, if addressed by Government, would benefit their business. However, they also asked for governments to look at completing more international trade agreements, reducing insurance costs caused by the claims culture and reducing energy regulator imposed costs.

Where are the opportunities for growth



What are the key external challenges facing your business in the next three years?



What are the key challenges within your business in the next three years?



Regulation

60%

of companies feel that further regulation would hinder the sector.

34%

believe that it would grow the sector. Of these, 41% believe export rebates would be the most beneficial.

74%

of agribusinesses believe more consumers prefer to buy locally produced foods than in the past. This was 63% in 2016.

Consumers

50%

of agribusinesses do not believe further regulation is needed

74%

of agribusinesses agree freer trade is needed between regions

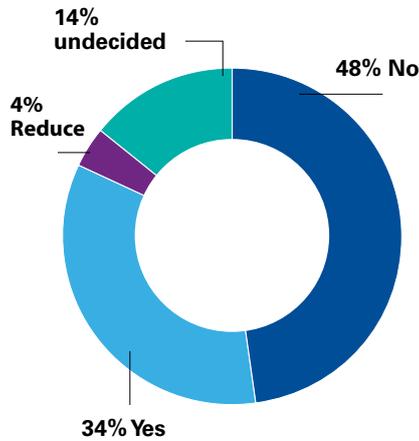
Biggest challenges facing agribusiness in the next decade:

- 1 Price volatility
- 2 Trade agreements
- 3 Food safety
- 4 New technology
- 5 Changing consumers

Comment: The two biggest challenges facing those agribusinesses in the next 10 years have remained unchanged compared to last year. Food safety has risen from 6th place to third, possibly in light of recent food scandals.

Labour

Do you plan to grow your workforce in the next year?



With 52% of those surveyed planning to just maintain or decrease their workforce, it is interesting to see that 42% of these cite the implementation of cost efficiency programmes as the main reason for not expanding their workforce. Of the 34% planning to grow their workforce, 40% of the jobs are expected to be in production, with 26% in sales and marketing.

42%

of those who are not planning to increase their workforce cite the implementation of cost efficiency programmes as the main reason for not expanding their workforce

Methodology

The research for the survey was conducted by a combined team from the Irish Farmers Journal and KPMG and was based on a representative sample of large agribusinesses from around the world.

The survey, which consisted of a broad range of questions across agribusiness related topics, was completed by senior management of selected agribusinesses around the world. The agribusiness activities reflected a cross section of the sector including, dairy, beef, lamb, poultry, pig meat, sugar, ethanol, feed, cereals and food manufacturing.

We would like to thank all the respondents for taking the time to complete the Agribusiness survey and we hope you find our results informative and insightful.

Countries that participated:

- Australia
- Brazil
- Canada
- France
- Germany
- Ireland
- Italy
- Nigeria
- Northern Ireland
- Russia
- South Africa
- UK
- Ukraine
- US



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