



Rabobank

# We Deer You!

*Brent Irving*

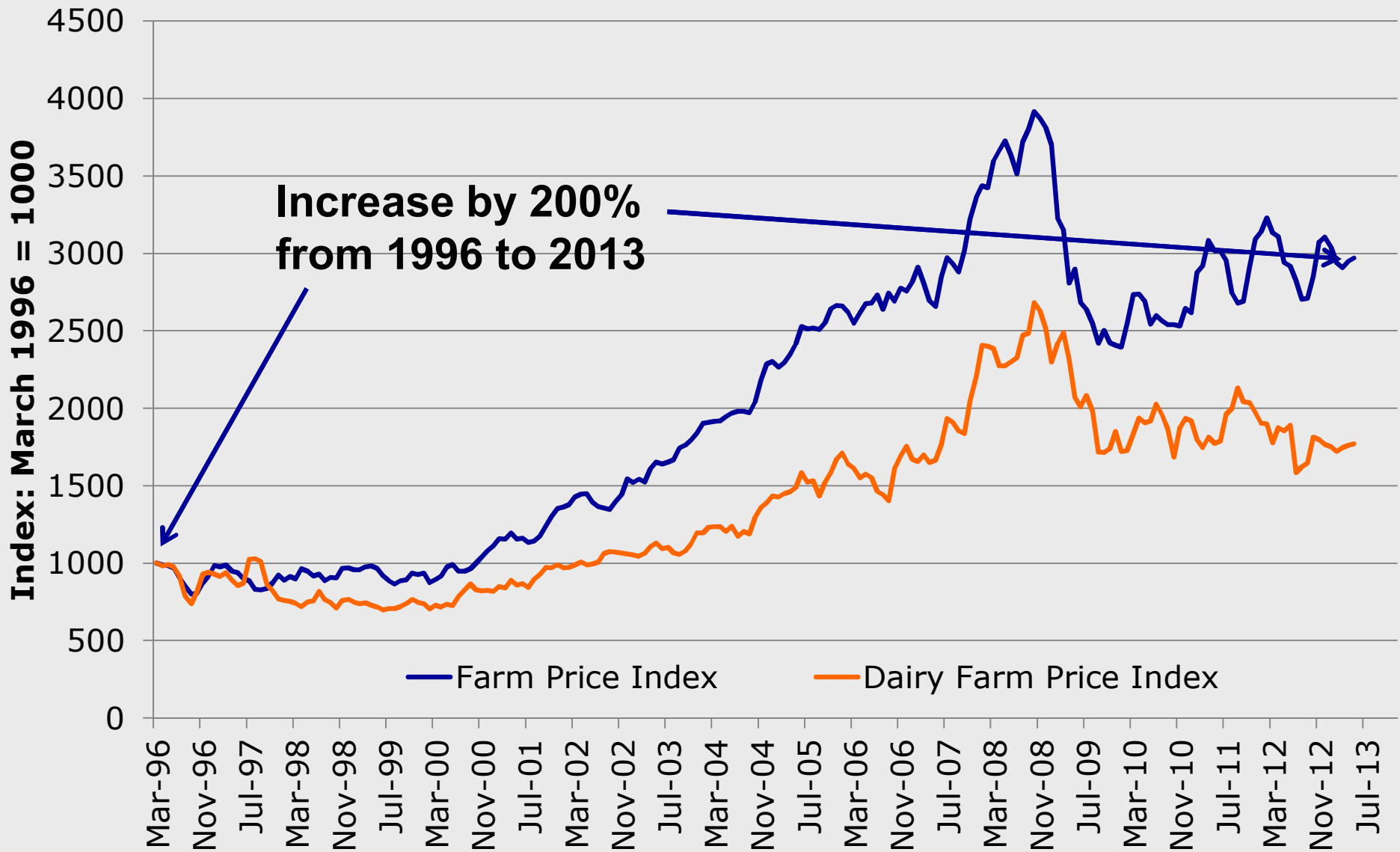
*Richard Copland*

May 2014

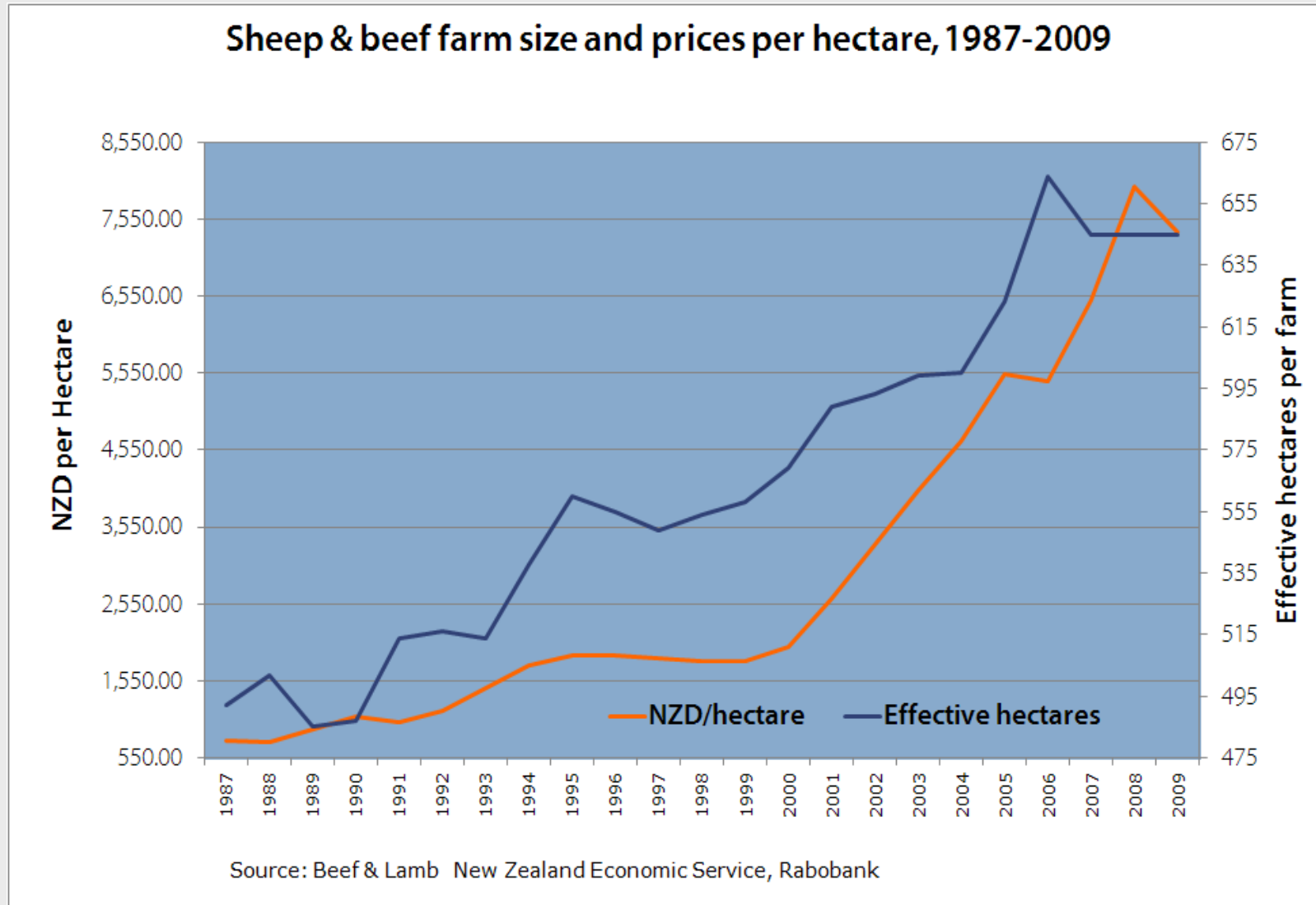
# Land price acceleration over 10 years



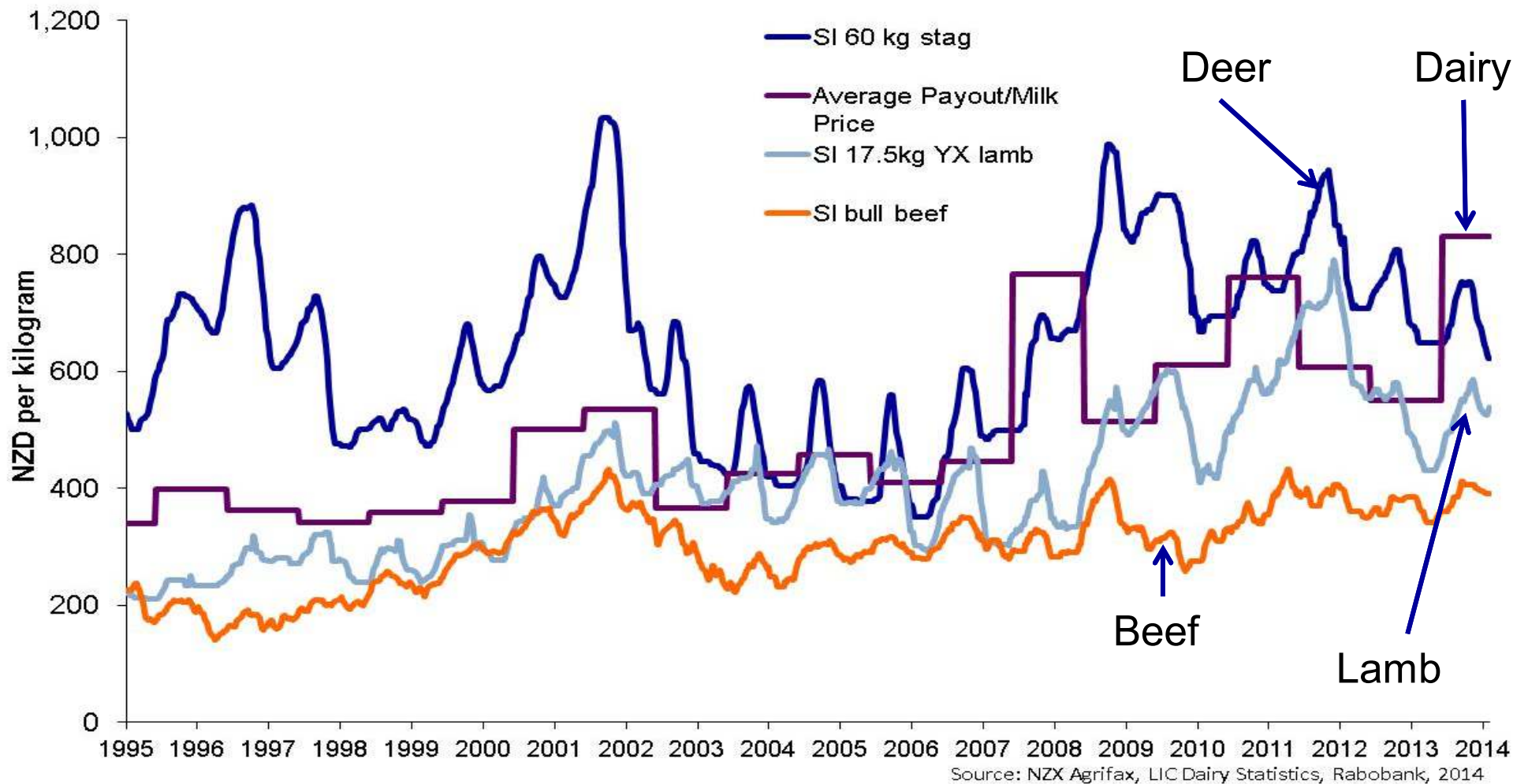
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# Sheep & Beef capital costs increase 5 fold over past decade



# Deer, sheep, beef & dairy farm gate returns



# NZ Rural debt post GFC



- *Debt per stock unit, deals at \$250 / su 5 yrs ago now over \$400 / su.*
- *Average Debt per kgMS currently around \$19 per kg.*
- *Industry looking for Cash Profit after GFC:*
  - Capital Gain no longer the main driver ?
  - Develop for profit ?
  - Return on investment / cash profits?
  - Reduced capital available to the Agri business sector.
- *General awareness of Interest Rate Trends/ inflation.*

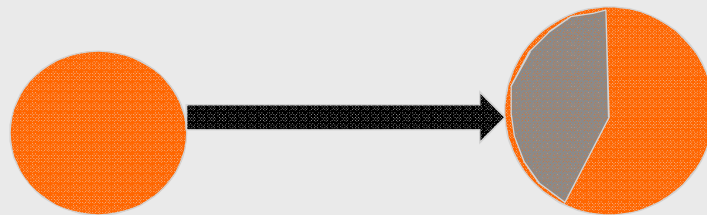
**1. How are you going to grow in this environment?**

**or**

**2. Who is going to buy your farm when you retire?**

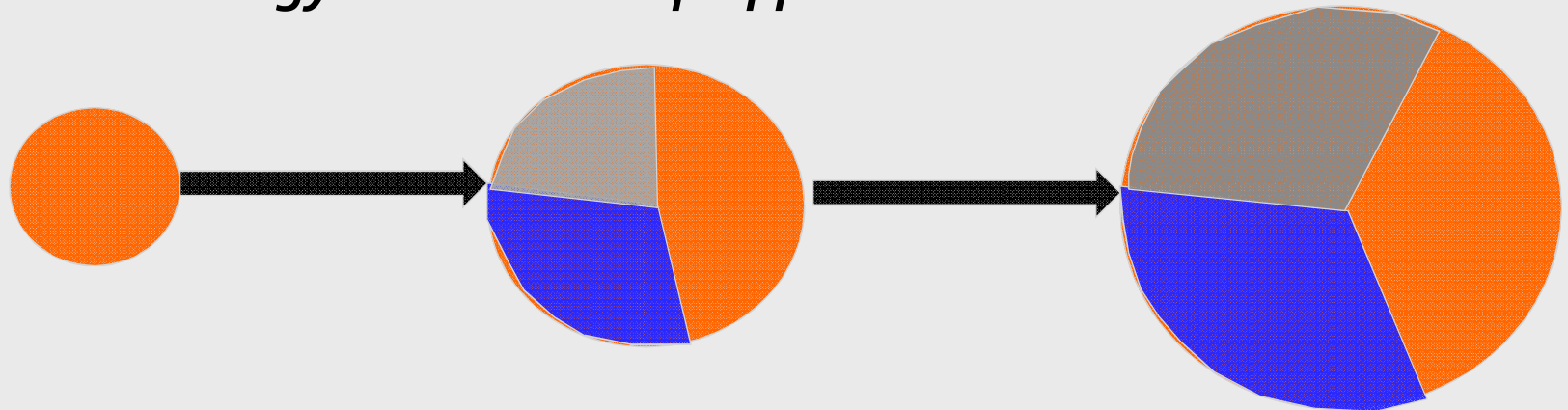
# Growing the Pie

*Traditional Strategy – “Go it alone”*



-  *Equity*
-  *Debt Funded*
-  *Equity Funded*

*Alternative Strategy – “Partnership Approach”*



*“You can’t debt fund growth forever”*

# Example 1 – Lease to Buy



- **Lessee:**
  - *Son returning to family farm.*
  - *3,500SU.*
  
- **Lessor:**
  - *Retiring farmer with no family coming through.*
  - *645ha 5,200SU*
  
- **Solution:**
  - *New Company formed to own land – Lessee buys 14%.*
  - *Lessee buys 100% S&P, then lease land off company.*
  - *5 year lease term , 1<sup>st</sup> right of purchase.*
  - *Land value capped at +20% and -10%.*



# Example 1 – Lease to Buy



- **Outcome:**
  - *End of year 3 now.*
  - *Likely Lessee will increase share of company to 50% at end of year 5 and re-lease.*
  
- **Win / Win:**
  - *Lessee achieved more scale with relatively less debt and picked up equity in land.*
  - *Lessor has earned a good lease income and also picked up capital gain vs outright sale in 2010.*

# Example 2 – Vendor finance lease



- **Lessee:**
  - *Respected Farm Manager in West Otago.*
  - *Some limited savings, no family backing.*
  
- **Lessor:**
  - *Astute farmer looking to step back, but not ready to sell*
  - *630ha 7,000su.*
  - *Lots of upside in the property.*
  
- **Solution:**
  - *8 ½ year lease.*
  - *Favourable rent in return for development.*
  - *Buy livestock over 5 years, pay 4% interest to Lessor.*
  - *Lease term 2 + 3 + 3. Rent review +/- 10%.*

# Example 2 – Vendor finance lease



- **Outcome:**            - *In year 1 now.*
  
- **Win / Win:**        - *Lessee's achieved good scale and are helped over the hurdle of buying livestock.*
- *Lessor's know the farm will go forward, ultimately achieving a higher sale price, and good income on the way through.*
- *Could develop down the track.*

# Example 3 – Trading Partnership



- *Manager :*
  - *Long term Farm Manager looking to grow.*
  
- *Owner's :*
  - *Also farmers, wanted to assist / retain the manager.*
  - *556ha 5,000su.*
  
- *Solution:*
  - *Manager's bought 50% of the livestock and plant.*
  - *Formed a new trading partnership with the Owner's.*
  - *Leased the farm together.*

# Example 3 – Trading Partnership



- *Outcomes:*
  - *At the end of 5 years the farm was sold.*
  - *Managers doubled their equity, and went on to buy a semi-retirement block*
  - *Farm owners bought another property, where the manager continues to work today*
- *Win / Win:*
  - *Production lifted 10%.*
  - *Farm costs reduced 8%.*
  - *Net result an 18% increase in EBIT .*
  - *Benefit of skin in the game – don't underestimate it!*

# What about the deer Industry?



- We are:***
- Well connected.***
  - Organized.***
  - Have a base of passionate, motivated farmers.***
  - Profitable, with plenty of upside to come.***
  - Innovator's.***

***Why can't we lead the way for the drystock industries?***

***Why can't we create the Win / Win?***

# How can Rabobank help?

- *Farm Ownership Options*
- *Farm Succession Planning*
- *FMP & EDP Programmes*
- *FAR research*
- *Virtual Farm*
- *Client Councils*

# Conclusions



- *The Industry needs young blood - We can do better.*
- *We must keep communicating, working to get an answer.*
- *Be innovative, Create the win / win.*
- *Don't under estimate the power of "skin in the game".*
- *Deer have an exciting future – we can drive this industry forward!*