

Swedish Black Earth:

The Trials and Tribulations of the publicly traded, investor-led,
Western Farming Model

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Session: Understanding the role of finance in farmland acquisitions

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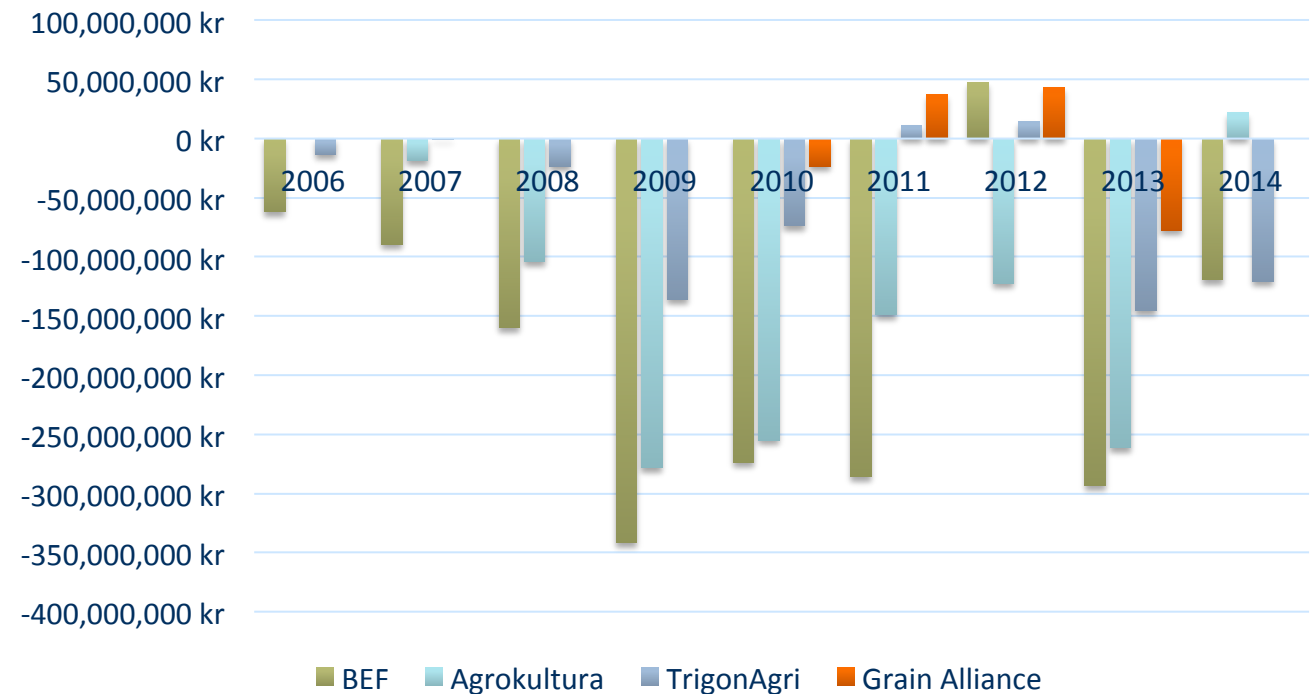
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Geography, Stockholm University and Swedish University of
Agricultural Sciences

Questions/Aim

- Why have Nordic Agroholdings not been so successful?
- critically examine and contextualize claims concerning the degree to which super large corporate farms financed by stock market capital achieve superior agricultural performance

Net Profit / Loss



2 Main arguments

- Finance plays a mixed role
 - “Finance” – stock market or private equity investors from outside agriculture.
 - 1.2 billion USD but contradictions
- Initial failure to appreciate local challenges of agriculture.
 - Over-confidence in “international best practice”

Publically Traded, “Pure-Play” or “Broad-acre” Agroholdings in Russia and Ukraine

<u>Company Name</u>	<u>Stock market</u>	<u>Land Bank (2014)</u>	<u>Country of investment</u>
<u>Black Earth Farming</u>	Stockholm	254000	Russia
<u>Agrokultura*</u>	Stockholm	216800	Russia and Ukraine
<u>Trigon Agri</u>	Stockholm	130000	Russia, Ukraine, Estonia
Agrogeneration	Paris	120000	Ukraine and Argentina
IMC	Warsaw	120700	Ukraine
Agroton	Warsaw	125000	Ukraine
KSG Agro	Warsaw	120000	Ukraine
Mryia	Warsaw	313000	Ukraine

*delisted in Feb. 2015

Grain Alliance AB, unlisted but goal is IPO, currently 48000 ha in Ukraine (near Kyiv)

Who are the investors?

- Kinnevik and Vostok Nafta – Black Earth Farming
- Alpcot Capital Management – Agrokultura
- Trigon Capital Management – Trigon Agri
- Claesson Fastigheter AB – Grain Alliance

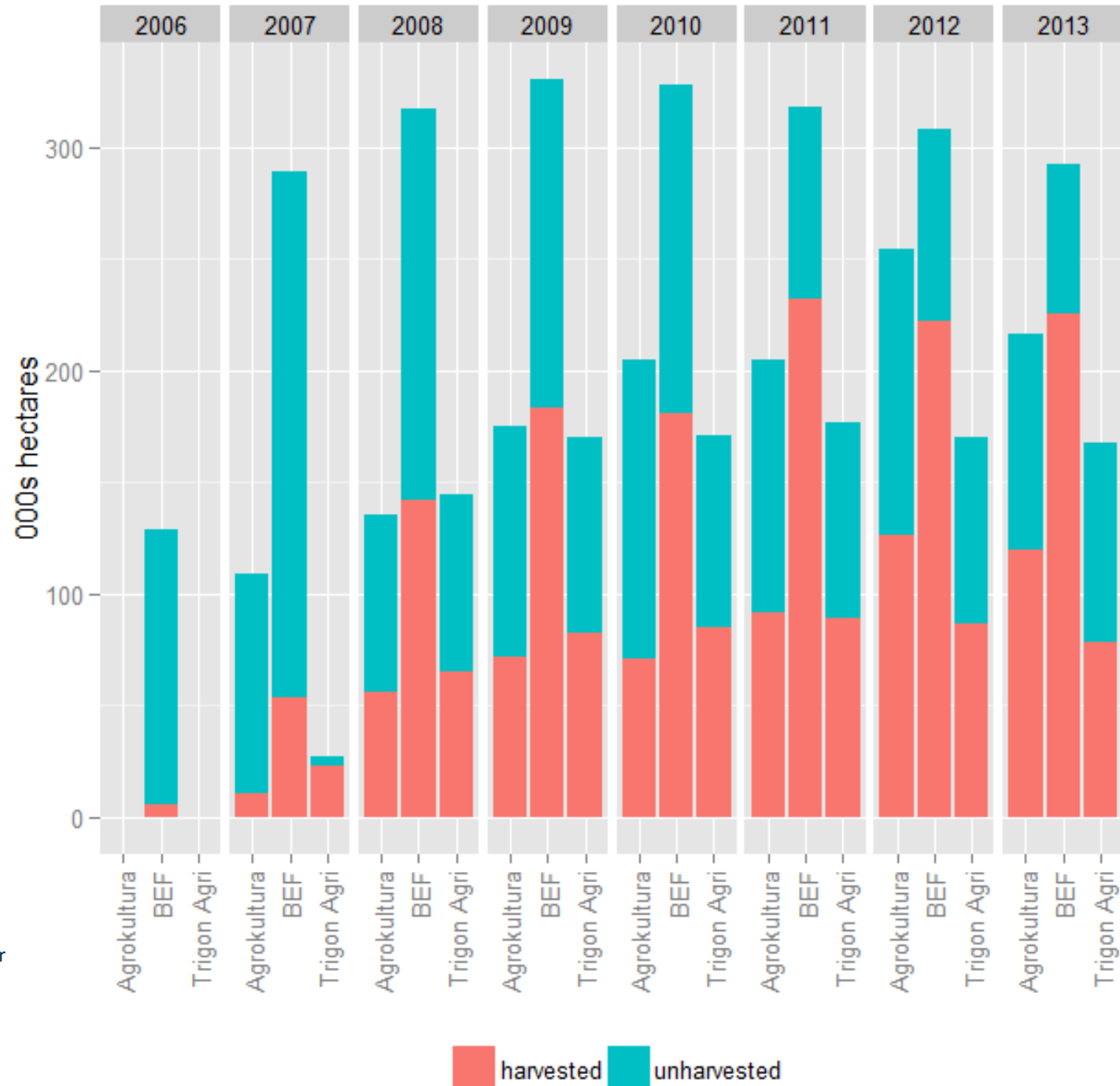
Method / Sources / Approach

Eclectic approach

- Interviews
- Corporate Documents
- Business Press
- Shareholder Meetings
- Quarterly Results Conference Calls

Asset Play Agriculture

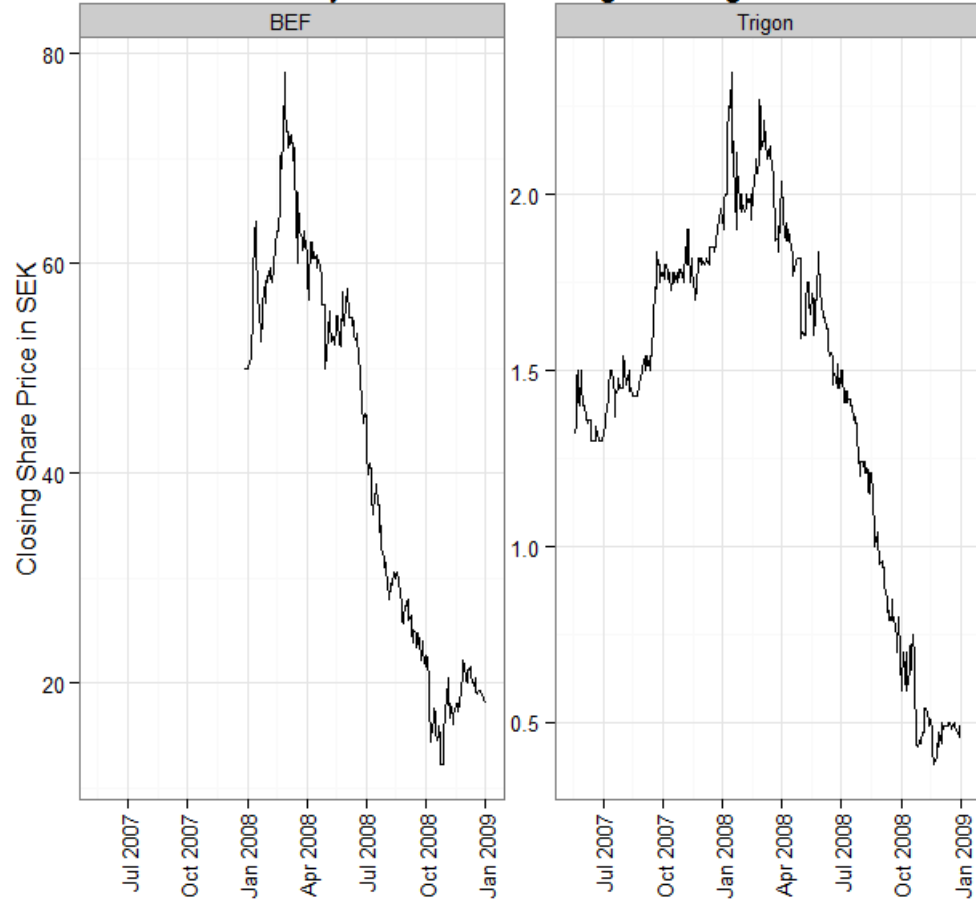
“... you do not control the financial treadmill (*ekorrhjul*) yourself. When you have AP-funds, hedge funds involved, investors from Switzerland, everyone chiming in with 2.2 or 2.3 *billion* kr. That is ridiculous money. ... The expectation was: “buy land, buy land always”. They wanted us to buy land. They gave us money to buy land. Mainly. ... They really wanted to see the distribution of money in acquired land.” (Interview with a former manager of Agrokultura, November 2014).



Source: annual reports of the three companies, detailing land holding year for year

Markets still today prefer asset-plays

Share Price Dynamics of Nordic Agroholdings 2007-2008



Share Price Dynamics of Swedish Agroholdings 2013-2014



Agriculture as seen from a corporate board room

- Agriculture a “real” investment like any other “real” investment
- Not much experience with agriculture on corporate boards of Nordic agroholdings

Agriculture as seen from a corporate board room

- No real analysis of the problems of Soviet agriculture – fetishization of black earths
- Weather hedging
 - Mitigate weather risk by dispersing land assets
- Importance of External Economies of Scale

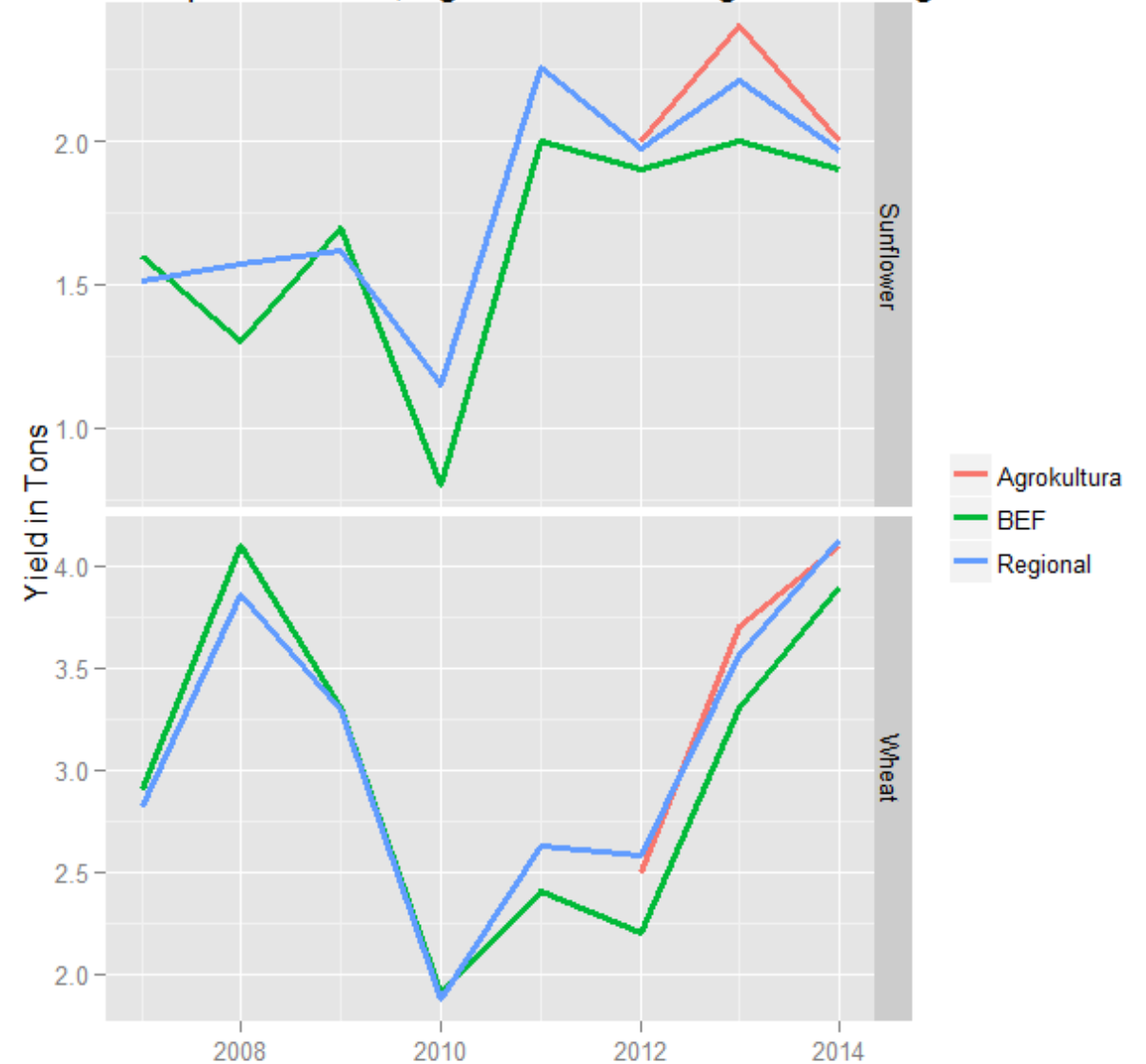
Overconfidence and Yield Gaps



- International best practice agronomy + Western machinery would deliver 200% yield improvement

“Regional” yield here is un-weighted average of farm enterprise (“farm organization”) yield in Voronezh, Kursk, Tambov and Lipetsk, source: Rosstat, BEF and Agrokkultura

Yield Comparison: BEF, Agrokkultura and Regional Average

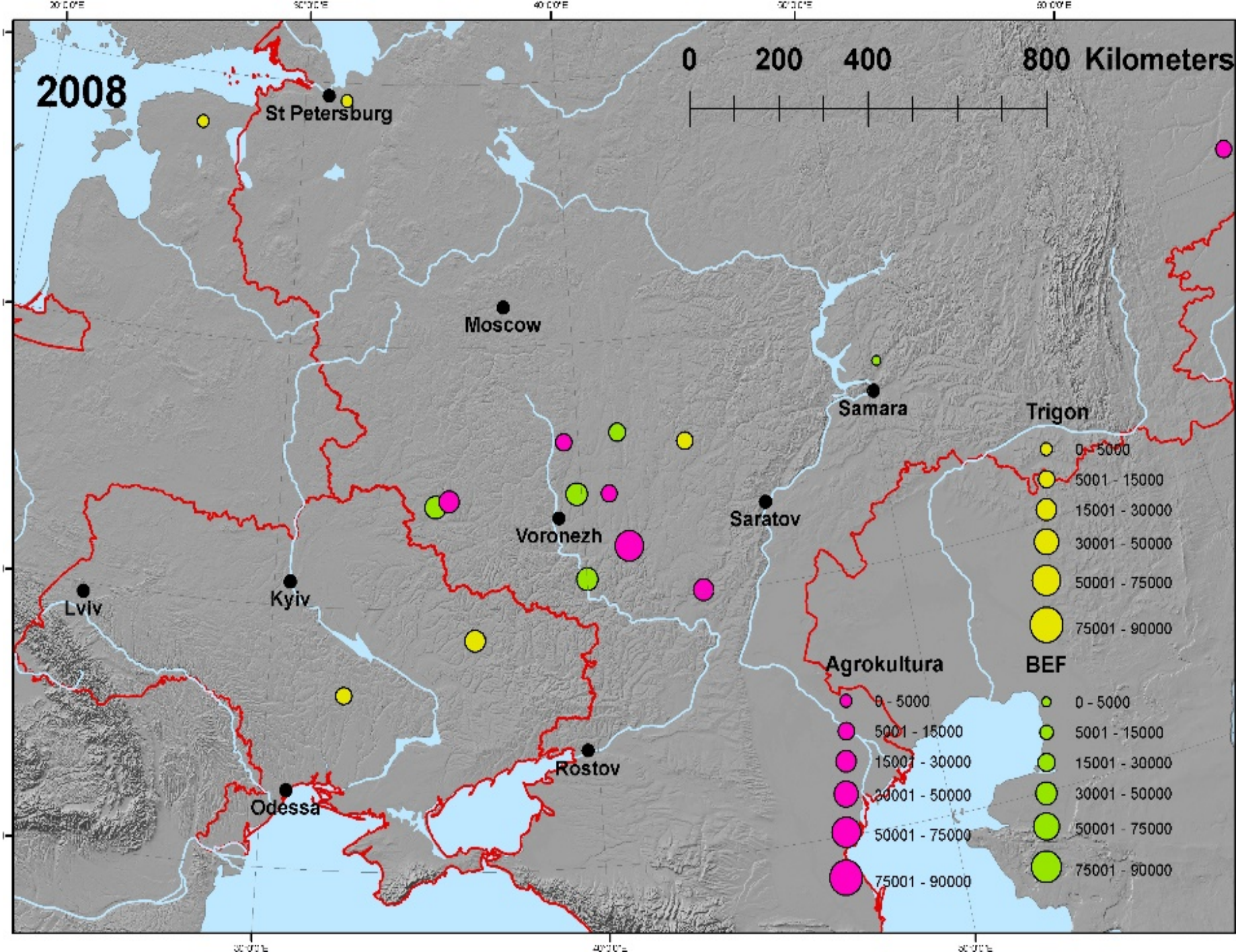


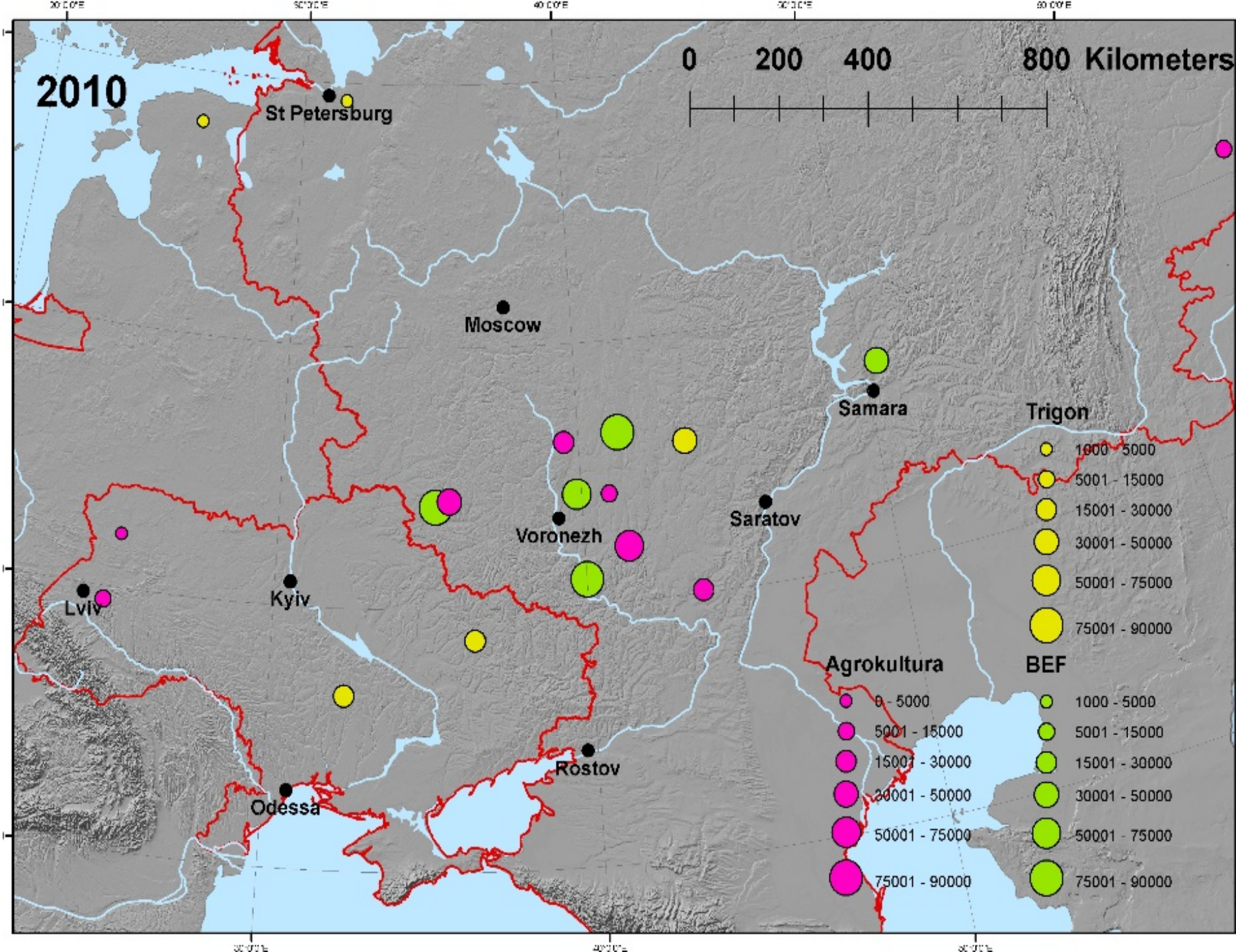
Lessons Learned

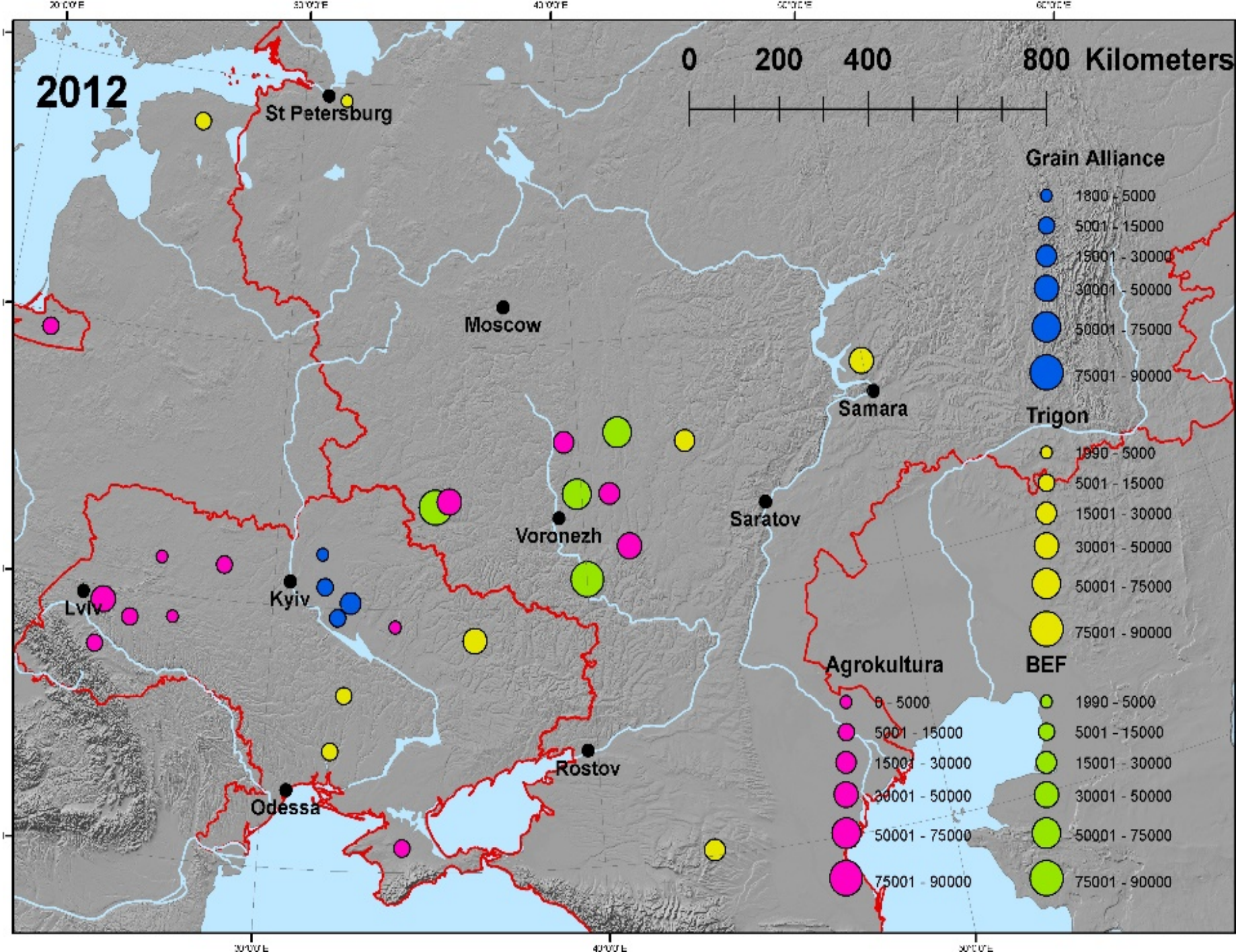
- Consolidation for logistical purposes
 - Logistics trumps weather hedging
 - Rain trumps black earths
 - Within cluster efficiency (timings)
- Lower yield expectations, emphasis on cost control and instituting efficient management systems

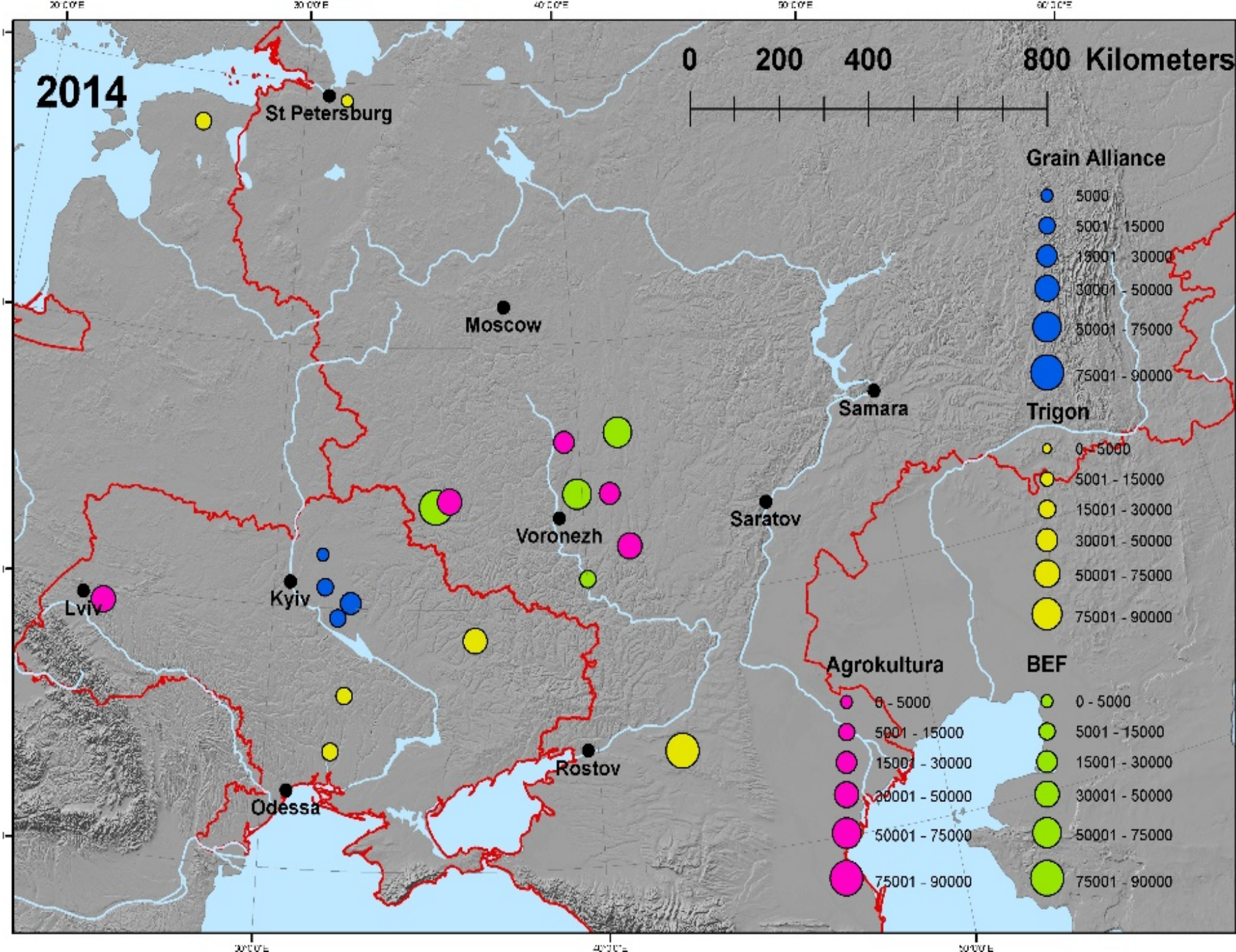


New
Geography of
Production










Conclusions – Contradictions of the business model

- “Asset play” and “yield play” not easily compatible
 - The few successful pure-play agroholdings all in Ukraine where land speculation is constrained.
 - Successful companies expanded slowly
- External economies of scale in purchasing yes – but inputs have to be applied to fields in timely manner.

Conclusions -- Contradictions of the business model

- stock market facilitates investor “short-termism”
- The global vs the local:
 - The case for these investments based on “global drivers”, borrowed benchmarks
 - ignored local conditions (or naively believing could be overcome by, e.g., weather hedging.)

A wide-angle photograph of a vast, flat field of golden wheat stretching to the horizon under a clear, pale blue sky. The wheat is densely packed and appears to be in the late stages of ripening. The horizon line is perfectly straight and divides the image roughly in half. There are a few small, faint white marks in the sky, possibly birds or artifacts from the camera.

Thank you for your attention !!!