Oaklins

The next big thing: **growers scaling up**

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In this issue of Spot On, Oaklins' Frank de Hek draws on deep experience in the horticulture industry to share his industry intelligence on the merger and acquisition dynamics among growers.

Read more on the following:

"Growers are getting squeezed between the breeders and wholesalers, who are both gaining bargaining power due to their increased size. We expect growers to fight back by increasing scale, with the ultimate goal of dealing directly with big-box retailers.

The consolidation among growers will be accelerated by many other advantages of increased scale, the benefits of an integrated business model and the vast number of succession issues. On top of that, the valuation spread between small and advanced businesses offers opportunity for value creation, which can result in attractive returns for companies that take the lead.

In 10 years from now, we expect to see several growing platforms on all continents."

FRANK DE HEK
HORTICULTURE SPECIALIST
AMSTERDAM, NETHERLANDS

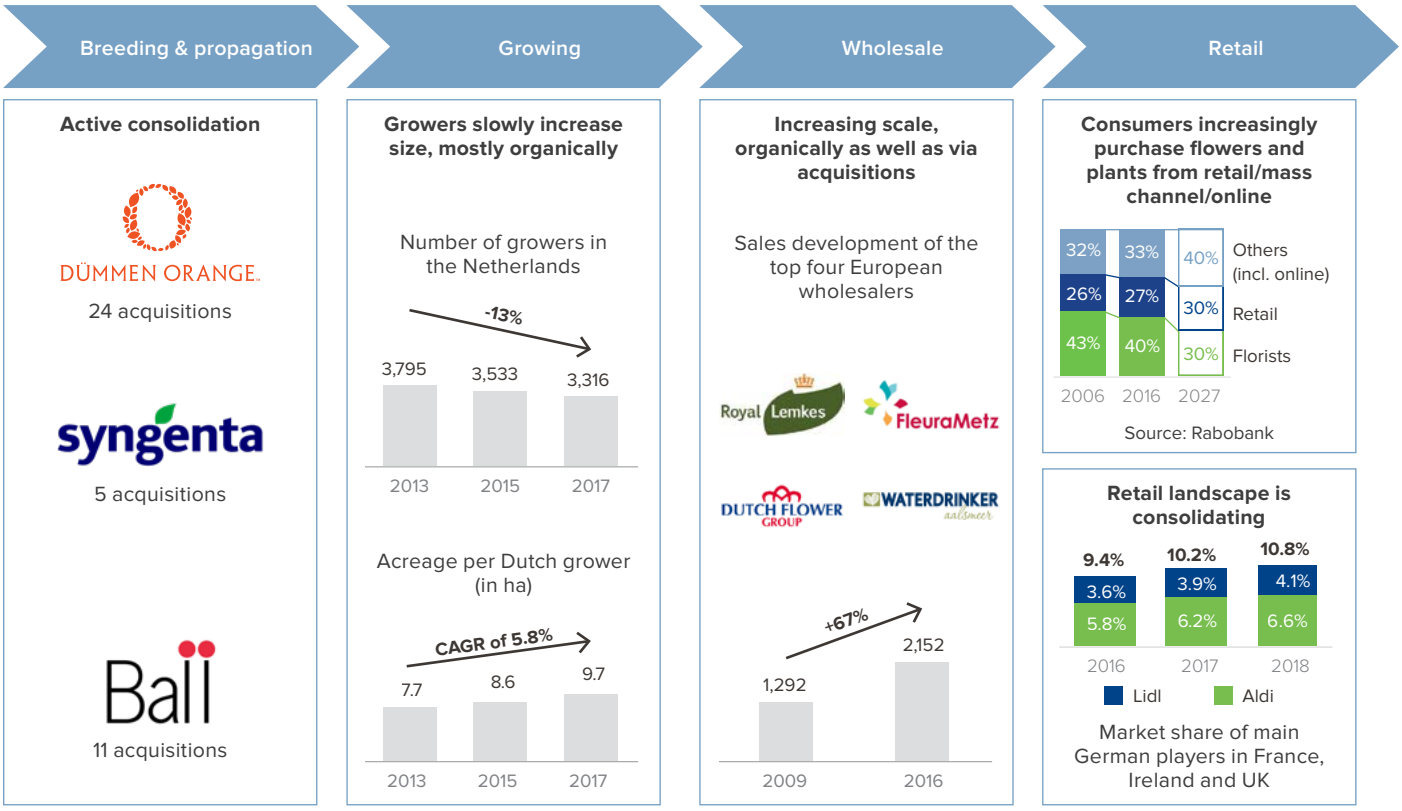
Market developments

Certain parts of the horticulture value chain have experienced a great amount of consolidation in recent years.

In the initial stages of the value chain, breeding platforms are acquiring smaller peers that provide them with access to new products, geographical markets and/or clients. By leveraging on their advanced breeding techniques, economies of scale and one-stop-shop product offering, consolidators aim to beat the competition in these new areas.

At the other end of the value chain, mass retail and online channels are gaining considerable market share. Mass retailers in particular prefer to deal with large counterparts, and with a lack of large growers to do business with directly, they turn to wholesalers. Subsequently, wholesalers are also increasing scale, both organically and by acquisitions. As part of a highly scattered landscape, growers find themselves in a squeeze between larger counterparts, which puts pressure on their profit margins.

Squeezed growers have clear incentives to transform



Source: Oaklins research

NORTH AMERICA VERSUS OTHER CONTINENTS

In North America, the consolidation of the mass retail landscape has been going on for many years and, nowadays, there are just a few large players that dominate the continent. Their preference to do business with a limited number of large (institutionalized) suppliers and their strategy to skip parts of the value chain in order to reduce costs and increase margin have triggered a consolidation among growers in the last decade. In the USA, for example, the 100 largest growers have a combined floriculture greenhouse market share of 60%.

Prime examples of North American consolidators are Altman Plants and Costa Farms, which have, by organic growth as well as via acquisitions, become the largest producers of ornamental plants in North America and even the world.

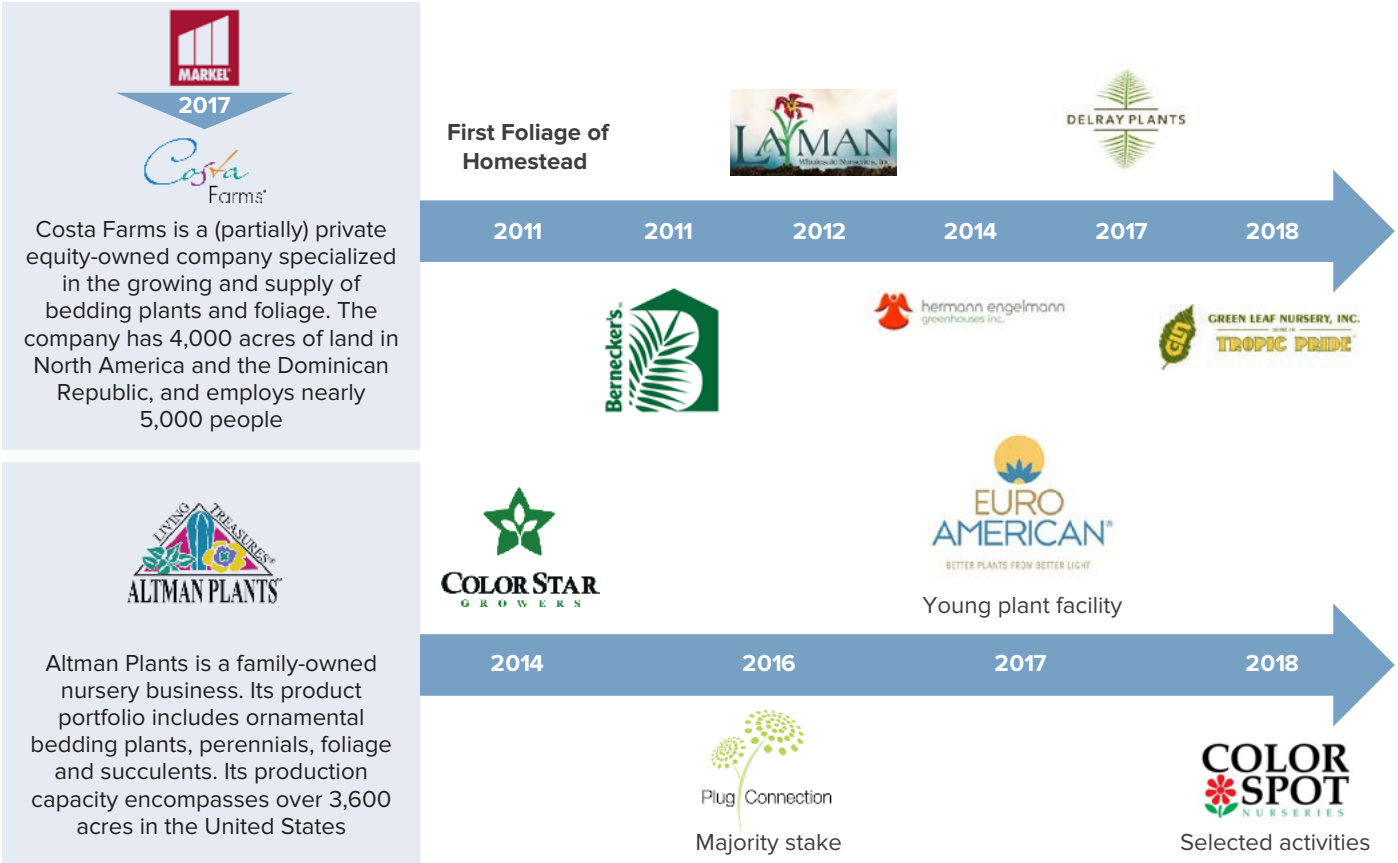
At the moment, over 10% of the floricultural greenhouses space in the USA is owned by these two parties. As Altman Plant's most recent acquisition almost doubled the company's size, Altman is likely to be busy with the integration for some time to come. With the backing of Markel Ventures, which became a shareholder in 2017, Costa Farms is likely to continue its acquisitive growth path.

In Europe, Africa and Asia, the retail landscape is not as consolidated as in North America. The grower landscape is even more scattered, with the largest European grower, for example, having not even 1% market share.

The grower landscape is changing, with the number of growers declining and the surface per grower increasing. The change is, however, mostly driven by organic growth, with very few acquisitions.

The grower landscape is starting to change

Examples of active consolidators



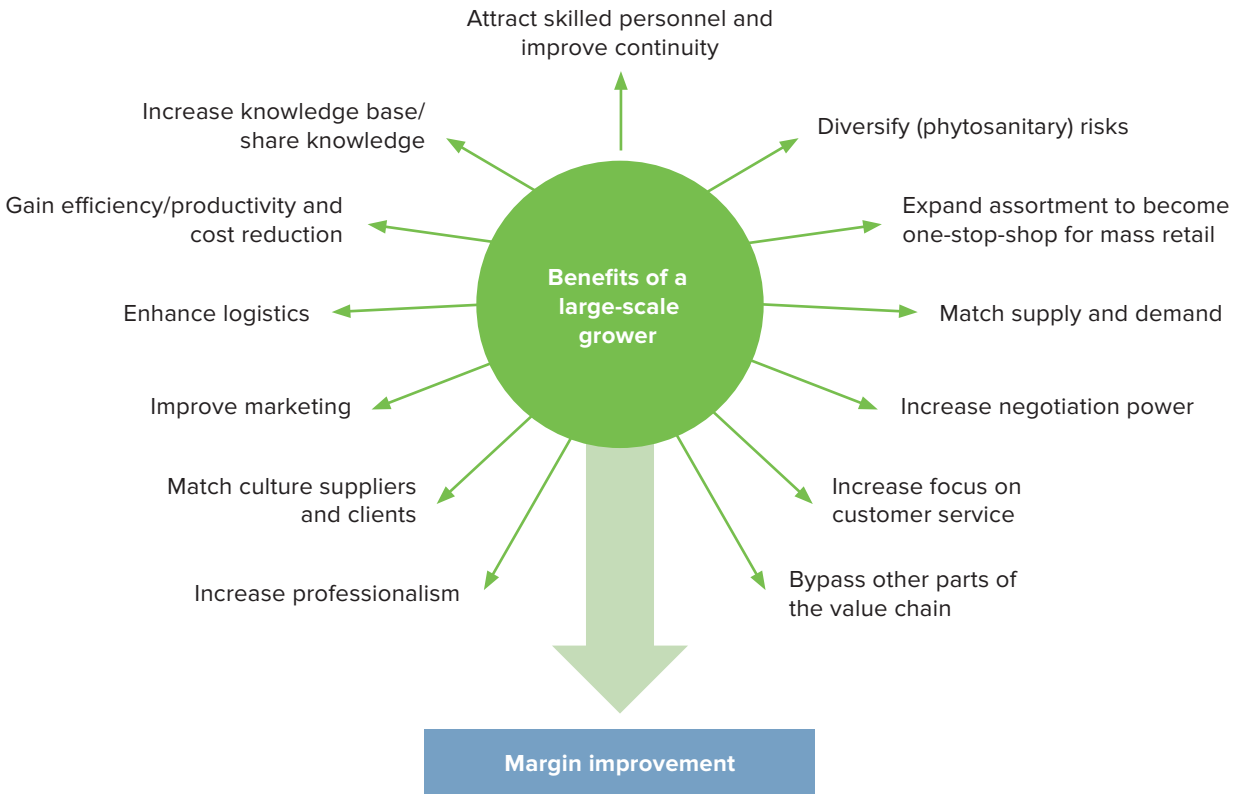
URGE FOR SCALE

In addition to the changing supplier, wholesaler and retail landscape, there are a number of other market dynamics that are impacting the world of growers. Examples are the increased technology standards, shifting consumer preferences, the increased importance of marketing, fair trade and sustainability (certificates) becoming an industry standard, and increased activities in low-cost countries.

Together with many companies having succession issues at management level, these factors emphasize the urge for more professional and larger growers, and preferably even platforms that can supply their clients with a large spectrum of products and that fit into mass retail's category management approach.

Apart from the changing dynamics in the horticulture sector, there are clear advantages for growers in increasing scale

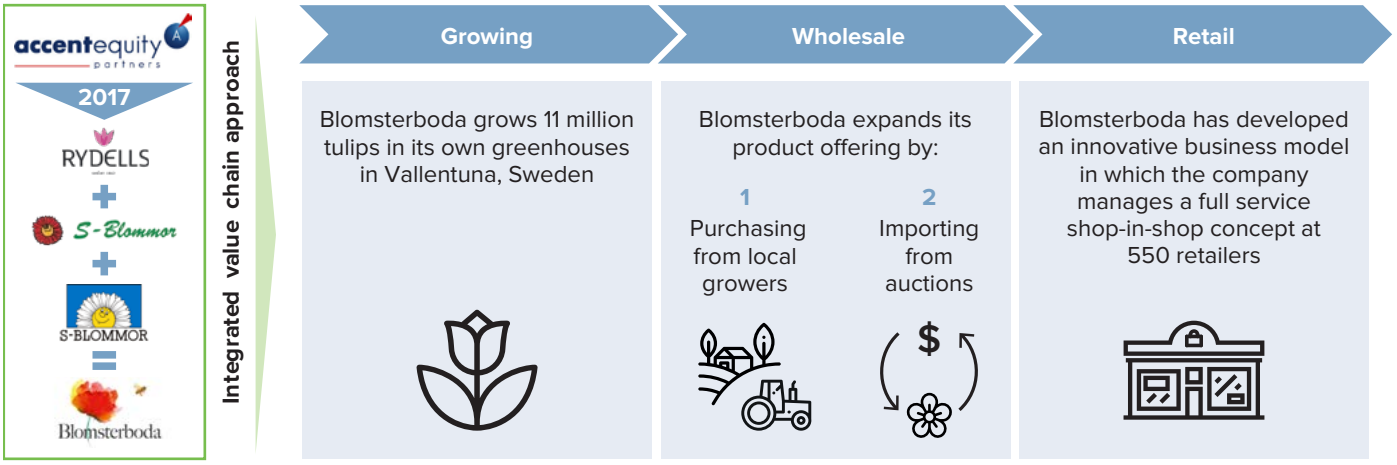
Advantages of increased scale

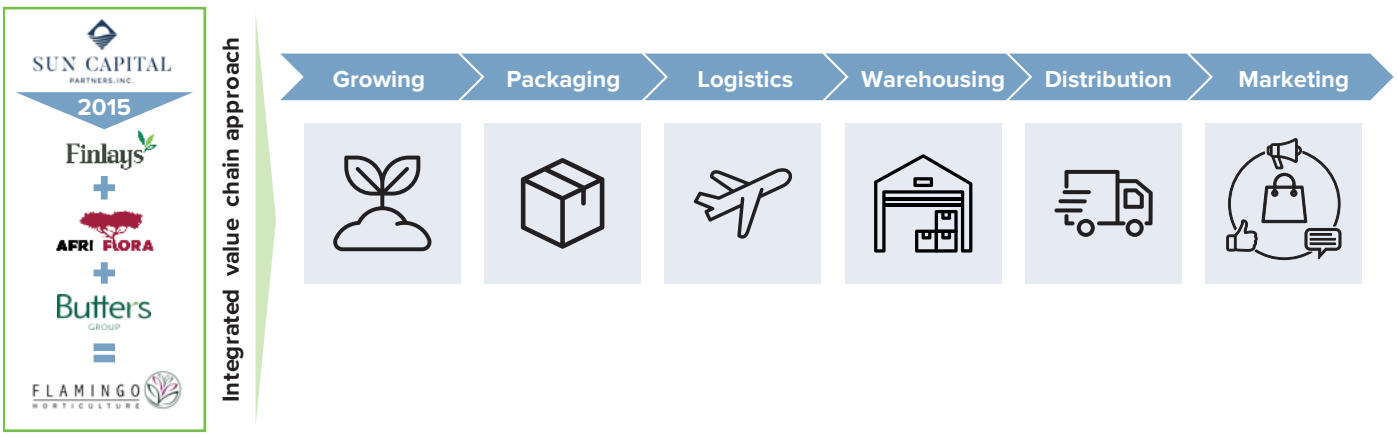


VALUE CHAIN INTEGRATION

Next to upscaling by means of expanding own capacity and acquiring peers, the changing forces in the value chain are also resulting in a trend towards becoming an integrated player and developing new business models. This also fits the framework of scaling up, increasing efficiency and gaining power in the value chain — all geared to increasing margins.

Examples of integrated players



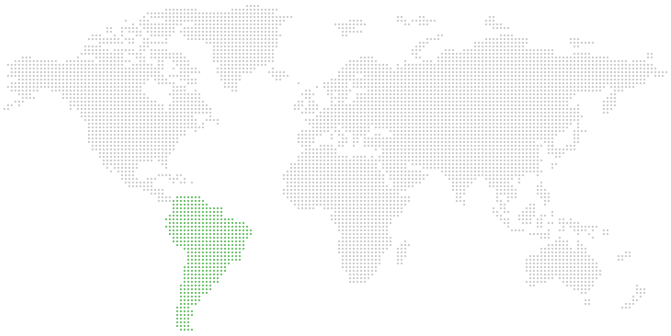


Source: Oaklins research

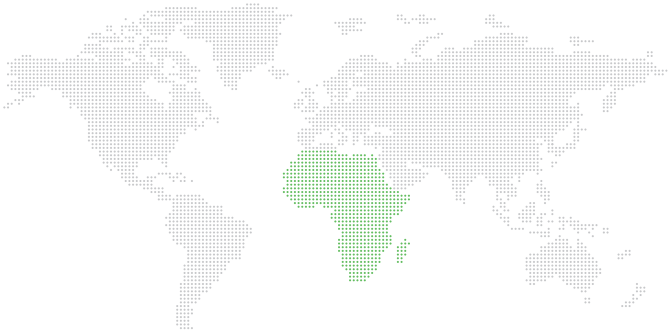
SELECTION OF GROWERS WORLDWIDE

NORTH AMERICA

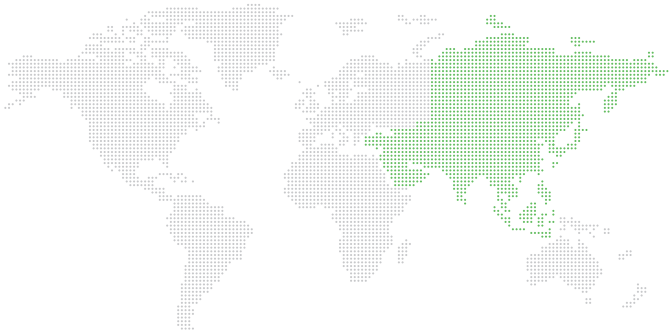
SOUTH AMERICA



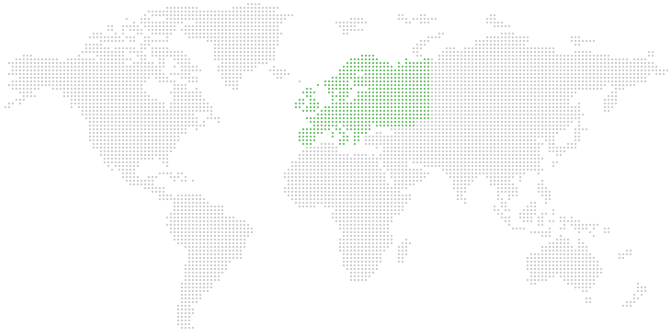
AFRICA



ASIA



EUROPE



SECTOR VIEW

"On the back of clear advantages for growers to increase scale, the benefits of an integrated business model and the vast number of succession issues, we expect the North American grower market to continue its consolidation at its current pace. Looking at other continents, we foresee the same forces driving a consolidation among growers. The consolidation is, however, expected to take place at a more rapid pace than in North America, as the retail landscapes are expected to catch up with the North American situation.

In 10 years from now we expect to see several growing platforms on all continents, many of which are integrated into the value chain, institutionalized, fitting into a category management approach of mass retail and also active in trading/distribution in order to complement their product portfolio and own volume. Financial investors will play a key role in this transformation."

FRANK DE HEK
HORTICULTURE SPECIALIST, AMSTERDAM, NETHERLANDS

“We have made a bold move by merging with a competitor.”

Floré Group is a family-owned company that is mainly active in potted plants. With a €125m turnover and 550 employees, Floré Group leads the Belgian market and is one of Europe’s prominent horticultural groups. The company operates several divisions, which are active in almost all parts of the value chain, including breeding, propagation, acclimatization, growing, forcing and trading. Floré Group has, over the years, regularly reinvented itself in terms of its activities and its market position.

Sector view

by Werner Krott, CEO of Floré Group

The horticulture sector is, more than ever, subject to forces that change the fundamentals of how companies operate in the industry. Constantly monitoring changes and tailoring the market position is of vital importance to safeguard continuity. "These dynamics impact all parts of the value chain."

We spoke to Werner Krott about changing dynamics and the recent merger of Floré Group's growing activities with those of a competitor.

"Oaklins' approach and experience in the horticulture sector proved to be invaluable in helping us find the right partner."

"Though current changes in our industry may have limited impact on the financial performance of companies in the short run, the future of a company in the mid to long run is determined by the actions taken today. I believe it is not the strongest companies that survive, nor the most intelligent, but the ones most capable of adjusting themselves to a changing environment. At Floré Group, we are constantly considering what our markets could look like in 10 years from now. By anticipating long-term market developments, we can determine which market position and key competences are necessary to stay among the leading companies in our industry. We are actively working on adjusting and strengthening our organization to be ready for the future.

Realizing the merger

One of our divisions was ID'Flor, an azalea grower and forcer. In recent years the azalea market has been characterized by overcapacity. We decided to make a bold move based on low margins, changing market fundamentals, the benefits of economies of scale and increased technology and sustainability standards. With the increased transparency in the value chain, only parties that truly add value are granted a proper margin.

We wanted to innovate our business proposition together with our suppliers, clients and competitors. After considering several options, we decided to merge our azalea activities with those of a competitor, De Bruyne – Flandresse, into a newly formed company called FlorAmor. The transaction was finalized in June 2018. The newly formed company has put us in a favorable position again, and we are already generating the benefits. We are now a one-stop-shop that can supply all types of azaleas and in all seasons. Furthermore, because of our scale, we can optimize logistics and operational processes, invest in automation, boost our marketing and innovation efforts, professionalize our customer service and fulfill XXL-orders.

More benefits

There are two other significant advantages. First of all, we are now more capable of retaining and attracting talent. Many young and higher-educated people are ambitious and prefer to work at a firm with a clear strategy that is geared to improving an industry. With our business being a people's business, I believe that our best-in-class team will put us further ahead of the competition. Secondly, sustainable operations are becoming an order qualifier instead of an order winner. With our newly gained scale, we are innovating in order to be the most sustainable company in our field — a position which is underpinned by quality assurance policies and certificates, such as MPS, which are hardly affordable for companies with limited scale.

Outlook

Our successful merger has not gone unnoticed. We are already being approached by other market players that are considering teaming up with us because of the clear benefits. I am delighted to see such reactions and think that in 10 years from now, the grower landscape will look very different from what it is now; as a result of mergers, acquisitions and partnerships, there will be several growing clusters in all sorts of crops. Those parties will be the ones that are most successful."

Werner Krott
CEO, Floré Group

About Werner Krott

Werner Krott (64) has been CEO/Managing Director of Floré Group since 2007 and holds several non-executive board positions at other companies. He has broad experience in various sectors, including horticulture, aquaculture, building materials, food and oil. Mr. Krott holds a master's in civil engineering.

Valuation dynamics

Valuations of selected listed growers

Company	Category	Enterprise value (US$m)	EV/ Revenue	EV/ EBITDA	EV/ EBITDA
Bumitama Agri	Palm oil	1,242	2.1x	7.5x	9.0x
Costa Group	Fruit & vegetables	1,760	2.0x	12.1x	16.3x
First Resources	Palm oil	2,086	2.9x	6.7x	8.3x
Kuala Lumpur Kepong	Palm oil & rubber	7,048	1.5x	14.6x	18.2x
PT Eagle High Plantations	Palm oil	936	N/A	9.2x	N/A
Sarawak Plantation	Palm oil	119	1.6x	12.2x	N/A
Select Harvests	Nuts	449	2.6x	9.9x	13.8x
SIPEF group	Palm oil	691	2.3x	7.8x	16.4x
SLC Agricola	Cotton, soybean & corn	1,427	1.9x	7.1x	8.8x
Total Produce	Fruit & vegetables	780	0.2x	7.8x	7.9x
Village Farms International	Vegetables	203	1.1x	6.9x	8.9x
		Median	**2.0x**	**7.8x**	**9.0x**

There are no floricultural growers publicly listed, which is in line with the previous observation that the grower landscape has very few sizable companies. There are, however, several other types of growers listed; for example, companies that are active on the edible side of the market. Though not spot-on, statistics on their valuations do provide valuation guidance.

The valuation multiples of the selected companies are very diverse and are, amongst other factors, influenced by the type of crop(s) the respective company is active in, the growth cycle of their plants, the country the plantations are located in, the ownership situation of the premises, the company's speed of growth and, especially, the capital intensity of the business.

"Valuations of growers are very dependent on the situation. Smaller growers with succession issues might be sold for asset value or 2-3x EBITDA. On the other hand, a sizable, multicrop, integrated and institutionalized company with a strong retail approach that is consequently well positioned to take advantage of the changing market dynamics can see valuations north of 7x EBITDA. One should bear in mind that with the lack of an IP and (especially greenhouse growers) strong asset base requirements, EBITDA valuations of growers are, typically, significantly lower than those of breeders."

FRANK DE HEK
HORTICULTURE SPECIALIST
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M&A activity

Overview of selected M&A transactions in the grower sector

Date	Target	Bidder	Rationale	Country	Valuation			
					EV (US$m)	EV/ Sales	EV/ EBITDA	EV/ EBIT
21-Dec-2018	COLOR SPOT NURSERIES Selected activities	ALTMAN PLANTS	Achieve economies of scale and expand retail footprint		N/A	N/A	N/A	N/A
25-Jul-2018	COLOR SPOT NURSERIES Hines division	TREE TOWN USA	Increase efficiency through economies of scale		N/A	N/A	N/A	N/A
18-Jun-2018	FLANDRESSE ID'Flor	Not applicable (merger)	Create one-stop-shop that supplies all types of azaleas in all seasons		N/A	N/A	N/A	N/A
4-Jun-2018	COEN KESSELS containerplanten	GEBR. SEUREN ROZENKWEKERIJEN BV	Replace part of conifer growing business with new product portfolio		N/A	N/A	N/A	N/A
17-Apr-2018	Carzan Flowers kariki	Marginpar Ethiopia	Increase supply chain efficiency		N/A	N/A	N/A	N/A
1-Apr-2018	MY PEONY SOCIETY	DUTCH FLOWER GROUP	Expand product portfolio		N/A	N/A	N/A	N/A
14-Mar-2018	Bell NURSERY	CENTRAL Garden & Pet	Expand in live plant business		N/A	N/A	N/A	N/A
26-Feb-2018	GREEN LEAF NURSERY, INC. TROPIC PRIDE	Costa Farms	Expand product portfolio with producer of indoor foliage and tropical plants		N/A	N/A	N/A	N/A
20-Dec-2017	AFRI FLORA	SUN CAPITAL PARTNERS, INC.	Expand product portfolio		N/A	N/A	N/A	N/A
16-Aug-2017	bridge farm group	NORTH EDGE	Back management buyout from its family shareholders		N/A	N/A	N/A	N/A
26-Jul-2017	Costa Farms	MARKEL	Support continued growth of the company		219	N/A	N/A	N/A
8-Jun-2017	S-Blommor RYDELLS	accentequity partners	Expand production chain and customer database		N/A	N/A	N/A	N/A
10-Mar-2017	DELRAY PLANTS	Costa Farms	Expand product portfolio with indoor houseplant grower		N/A	N/A	N/A	N/A
2-Oct-2012	Rowe farming	PRODUCE INVESTMENTS plc	Diversify both the customer base and the product mix		19	N/A	N/A	5.1x
				Median	N/A	N/A	N/A	**5.1x**

Our core business is built on genuine relationships. They are the breeding ground for the greatest things that we achieve.

A selection of recent Oaklins M&A transactions

ADOMEX
has sold a minority stake to
Van Lanschot Participaties
M&A SELL-SIDE
Agriculture/Private Equity

Bakker.com
has been acquired by
EXISTIUM
M&A SELL-SIDE
Agriculture/Consumer & Retail

BOAL GROUP
has been acquired by
EQUISTONE
MANAGEMENT ADVICE
Agriculture/Private Equity

Hydro Organics
has been acquired by
CENTRAL Garden & Pet
M&A SELL-SIDE
Agriculture

Kieft Seeds the flowering future
has sold a stake to
Ball
M&A SELL-SIDE
Agriculture

olij rozen
has been acquired by
DÜMMEN ORANGE
M&A SELL-SIDE
Agriculture/Private Equity

POKON NATURADO
has been acquired by
EVERGREEN Garden Care
M&A SELL-SIDE
Agriculture/Consumer & Retail/Private Equity

Végétal
has been acquired by
ciclad
M&A SELL-SIDE
Agriculture/Food & Beverage/Private Equity

Case study

FLOWER AND HOME GARDEN VEGETABLE SEED BREEDER FLORANOVA HAS BEEN SOLD TO SYNGENTA, A LEADING AGRICULTURE COMPANY THAT DEVELOPS AND PRODUCES AGROCHEMICALS AND SEEDS

Over the years, Oaklins has obtained a strong track record of advising on M&A transactions in the horticulture sector. As such, Oaklins' horticulture team has an excellent understanding of the market dynamics, buyer landscape, pitfalls and value drivers in the industry. This expertise was one of the reasons that the owners selected Oaklins to advise them on the sale of their company in 2018.

"Oaklins' approach and experience in the horticulture sector proved to be invaluable in helping us find the right partner."

Oaklins' dedicated horticulture team, together with the local team in the United Kingdom, acted as the exclusive financial advisor to the sellers. Frank de Hek, head of Oaklins' global horticulture practice: "As one of the leading global M&A advisor in the horticulture industry, we have a good understanding of the industry dynamics and long-standing relationships with all key players. This allowed us to position Floranova as a highly attractive investment opportunity and approach all potential buyers at C-level."

Floranova's broad portfolio and international presence will be important to Syngenta in fast growing markets, like China and India.

Global reach, local execution

Jeff Colegrave, Chairman at Floranova: "It was a complex transaction that wouldn't have been possible without the deep subsector expertise provided by Oaklins Netherlands, together with the invaluable advice of the team at Oaklins Smith & Williamson. Oaklins' joined-up approach of international reach and local execution helped deliver a uniquely competitive sale process; this was instrumental in the success of this deal. Oaklins added value at every stage and clearly understood our company and the industry. I don't think we could possibly have been in better hands."

About Floranova

Floranova, founded some 40 years ago in the United Kingdom, has become well-known in the industry for its strong brand and for meeting the needs of growers in both established and emerging markets.

Syngenta, with more than 2,300 employees in the flowers business, is a well-established player in the pot and bedding plants market, serving growers around the globe. It is known for breeding innovative varieties that offer outstanding performance, both for professional growers and retailers alike, in the landscape and the consumer garden segments.

Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are

OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Horticulture is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the horticulture sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for horticulture companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

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Oaklins is the world's most experienced mid-market M&A advisor, with 800 professionals globally and dedicated industry teams in 40 countries worldwide. We have closed over 1,500 transactions in the past five years.

Oaklins

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