Banking the seafood and aquaculture industry

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Short Introduction to Rabobank
Rabobank, the world’s leading food and agribusiness bank

- Present in 46 countries
- Nearly 60,000 employees worldwide
- Over 10 million clients worldwide
- 732 billion euros in assets
- 3 billion euros in net profit
- Tier-1 ratio of 17%
- Rating: AA

Information correct as of 31 December 2011
Rabobank in Asia since 1986

Offices in China, Hong Kong, India, Indonesia, Japan, Malaysia and Singapore

India
- Wholesale Banking Branch since 2011
- NBFC since 1998, primarily term lending based
- F&A Private Equity Fund
- RIAS advisory mandate
- Rabo Foundation

Hong Kong
- Regional Asia Headquarters
- Fully licensed bank established in 1990, offering comprehensive suite of wholesale banking and advisory services in Greater China.

Japan
- Branch established in 2000
- Strong Treasury operations in Tokyo

China
- Present since 1995
- Full branch license in Shanghai since 2003 and Beijing branch licence since 2012
- 9% stake in United Rural Cooperative Bank of Hangzhou
- Strategic Co-operation MOU with Agriculture Bank of China
- Taiwan is serviced from Shanghai

Singapore & Representative Markets
- Comprehensive suite of wholesale banking and advisory services with Branches in Singapore (since 1986) and Labuan and Marketing Office in Kuala Lumpur
- Wholesale product hub for South East Asia
- Thailand, Philippines and Vietnam are serviced from Singapore

Indonesia
- Integrated Wholesale and Retail Banking services with over 100 retail branches
- Rabo Foundation
Rabobank’s Approach to Banking the Seafood and Aquaculture Industry
Key premise:

“Never invest in a business you can’t understand.”

Warren Buffet
Key premise in practice:
First create a view on the industry: Demand growth is the key feature of aquaculture.

**Demand growth is a key feature for all aquaculture subsectors**

- No or limited supply growth from wild catch

- Growth needs to come from aquaculture

- US and Europe have good demand growth. Asia has huge potential

- F&A in general is a sector with consistently growing demand, but has had a relative under investment for decades

- Aquaculture is a great example of this

**Chinese relative expenditure of aquatic products (left axis) and meat products (right axis)**

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Source: Rabobank, China Statistical Yearbook 2012
The seafood ladder: Income Drives and Seafood Consumption in China

Chinese Relative Expenditure on Aquatic Products Per Income Group (2010)

Source: Rabobank, China Statistical Yearbook 2012
Second: Create a View the Sub-sectors and companies in it

**Crustaceans and Molluscs**
- Fragmented
- Diverse
- Leaders emerging
- High bio-risk

**Salmonids**
- Corporate
- Transparent
- Consolidated
- High access to capital
- Cyclical

**Small pelagic**
- Huge barriers to entry
- Consolidating
- Good access to capital

**White Fish**
- Groundfish
- Corporate
- Regulated
- High access to capital
- Freshwater white fish
- Fragmented
- Low barriers to entry
- High risk
- Low access to capital

**Aqua feed**
- Lower risk
- Consolidating
- Good access to capital
- Over capacity?

**Tuna**
- Consolidated sector
- High access to capital

Source: Rabobank 2012
Company Specific Analysis: Identify the Key Profitability Drivers and Risks

**Drivers of Sales**
- Sales in volume
- Price dynamics and cycles
- Market growth
- Market share dynamics
- New products, add-ons

**Drivers of Cost**
- Raw material costs
- Other costs, fixed costs, morality etc

**Risks (disease, natural disasters & market risk)**
- Historical occurrences
- Diversification: species, regions, customers

**Legislation changes, quotas etc**
- Regulation of the sector
- E.g. Import tariff changes

**CSR issues**
- Overfishing / pollution / environmental impact......

*Key goal: Get a reasonable view on the cash flow of the company in the future*

*View is long term: Rabobank focuses on long term relationships*
Company Specific Analysis (2): Legal / Debt Structure and Financial Analysis

**Legal / Structure analysis**

- How is debt positioned relative other debt instruments? What is the debt senior to and what subordinated to.

- Security sources:
  1. cash flow,
  2. assets,
  3. ability and guarantees by owners

**Financial analysis**

- Models for profitability, liquidity and solvency

- Leverage ratios – net debt / ebitda ; equity / debt etc.

**Pricing**

- Cost of funding + risk premium
- Provided availability / bank balance sheet

Source: Bloomberg 2012
Financial Products Used in Food and Agribusiness
Loans are the most common financial products

- **Bilateral loans** – quite simple, one bank structure

- **Syndicated loans** - For larger loans banks need to group up and spread the risk among each other

- **Corporate bond market** - the largest organization can access the public bond markets
  - Bond issuing has a high fixed costs

Loans require the guarantee of a certain minimum level of performance for a longer period of time

- **Diversification** – in species and regions

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Corporate bond market
c. USD 200mln

Syndicated loans
c. USD 50mln

Bilateral loans
Inventory and trade flow finance

- Financing from the moment of purchase of the raw material to the moment of selling the final good
- Best used for commodities, common with sugar, soy beans, coffee, wheat, palm oil, soy bean meal etc.
- Can be used with frozen seafood
- Difficult with perishable goods (or biomass) – needs to be storable
- Can be done for pollock and cod blocks and fillets, tuna loins, shrimp......
- Needs a relatively large liquid market, standard products
- Needs price visibility, public price availability

Factoring

- Financing needed from the moment a product is sold to the moment the money is received
- Account receivable (factoring), relatively easy if the buyer is for instance a large retailer or credit insured company

Export finance

- Finance of machinery purchases from countries (e.g. Germany, Netherlands) which use export finance guarantees
Leasing products

Leasing is common in the Food and Agriculture sector

- DLL (De Lage Landen) is Rabobank’s global leasing company, active in 35 countries
- Harvesters, silos and argi-equipment, trucks, processing equipment etc.
- Equipment with a longer working life
- Needs an assessment of second hand value
- Mostly done via the producers of the equipment

Challenges in Aquaculture:

- Very specialized equipment, most of it not easily transferable.
- Equipment producers are often small companies

Leasing Options in Aquaculture Could Be:

- Feed barges, feed blowers?
- Nets?
- Processing equipment?
- Ice machines?
Project finance

What is project finance?

- A single activity which to be completely ring fenced from all risk, leveraged and possibly taken of balance

- Possible options: cold storage warehouse, wind mills, ethanol plants, feed mills
- In some rare cases, major farm development projects
- Minimum size is c.50 million
- Very high due diligence costs

Where do we see options in seafood and aquaculture?

- Feed mills, cold storage
- Tolling type of processing operations?
- Hatchery as a separate entity?
Risk management products (futures, options, swaps)

- Used for exchange rates, interest rates, crude oil price risk management
- Also used in soft commodity markets: wheat, corn, sugar, soy beans ...
- Risk management products are emerging for milk, orange juice, frozen pork bellies, butter, and salmon with various degrees of liquidity

Many challenges

- Worldwide we are asked if we have 100s of different risk management, tools like hazel nuts, ketchup, many fruits and vegetables
- Regulation is complex and different in every country
- Most commodities do not have markets large enough to justify the cost of product development
- Liquidity is hard to achieve

What is available for aquaculture?

- Exchange rates, crude oil, interest rate hedging tools
- Fishpool has a futures for Atlantic salmon
- Can fish meal and fish oil be approximated with soybean meal and soybean oil?
- Can feed costs be approximately hedged with soybean meal contracts?
Mergers and Acquisitions Advisory

- Rothschild and Rabobank have a 50/50 JV in M&A advisory for F&A
- Most aquaculture (except salmon farming) does not have a lot of M&A activity
- Reasons: There are good organic growth opportunities; owners are usually not capitalized well enough to seek acquisitions

Financial logistics and cash management

- Cash across subsidiaries can be stored in deposit accounts, managed access different region with electronic bill payment, etc.
- Cash management should be possible in aquaculture and it is currently in development

Acquisition of a minority stake in Calvo 2012
A lot is possible in the aquaculture industry from a financial product perspective

- Aquaculture is a new frontier for the financial services industry

We need to identify where the opportunities are

- As the sector evolves new financial products are becoming a possibility

- Also the financial industry is innovating and looking for new products and services in aquaculture

- We can learn from other industries such as animal proteins and agriculture and adapt to our needs

Rabobank is committed to the sector and here for the long run
“The financial link in the global food chain”™