

TERRACAPITAL

News and Views

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Food as an investment theme has received significant publicity over the past two years and a number of ASX listed companies, which are now well known, have performed extremely well. Despite being a crowded trade, most would agree the industry as a whole represents a significant investment opportunity, in my opinion this is as a result of the following long-term structural drivers of growth:

- Global population growth at c.1.2% a year (Asia focus)
- Continued and intensifying issues around fresh water, pest and disease problems
- Increased meat eating (which is grain-intensive) and preference for better quality (taste, colour, shape) fruit and vegetables
- Declining productivity improvements in addition to declining arable land/salinity issues

Given the above factors most investors would agree that farmland as an asset or companies with an ability to improve the use of arable land are likely to outperform most other assets over time. However, farm land is expensive, illiquid and companies that can make better use of arable land are hard to come by.

Enter Abundant Produce who are leveraging a portfolio of seed developments (IP) and who are expected to enter long term, global sales and distribution agreements in return for royalty payments. Abundant are positioning their products as high quality, non-GM seed cultivars with benefits to both growers and end users in terms of features such as:

- Improved yield, particularly under non-ideal growing conditions;
- Improved quality, enabling farmers to produce a higher proportion of A-grade fruit (fewer rejects);
- Reduced input costs (e.g. energy for greenhouse heating);
- More favourable taste, shape and colour;
- Plant architecture (for easier growing); and
- Resistance to diseases and insects

Abundant Produce envisage selling their designer seeds commercially via a global distributor. The commercial seed industry is dominated by a small number of transnational pharmaceutical and chemical corporations, who via significant consolidation have acquired or merged with competing firms. This trend has influences that constrain the opportunities for renewable agriculture, such as reductions in seed lines and a declining prevalence of seed saving. To better portray the current structure of the industry, ownership changes from 1996 to 2008 are represented visually with information graphics (Figure 1). Since the commercialization of transgenic crops in the mid-1990s, the sale of seeds has become dominated globally by Monsanto, DuPont, Syngenta and Limagrain.

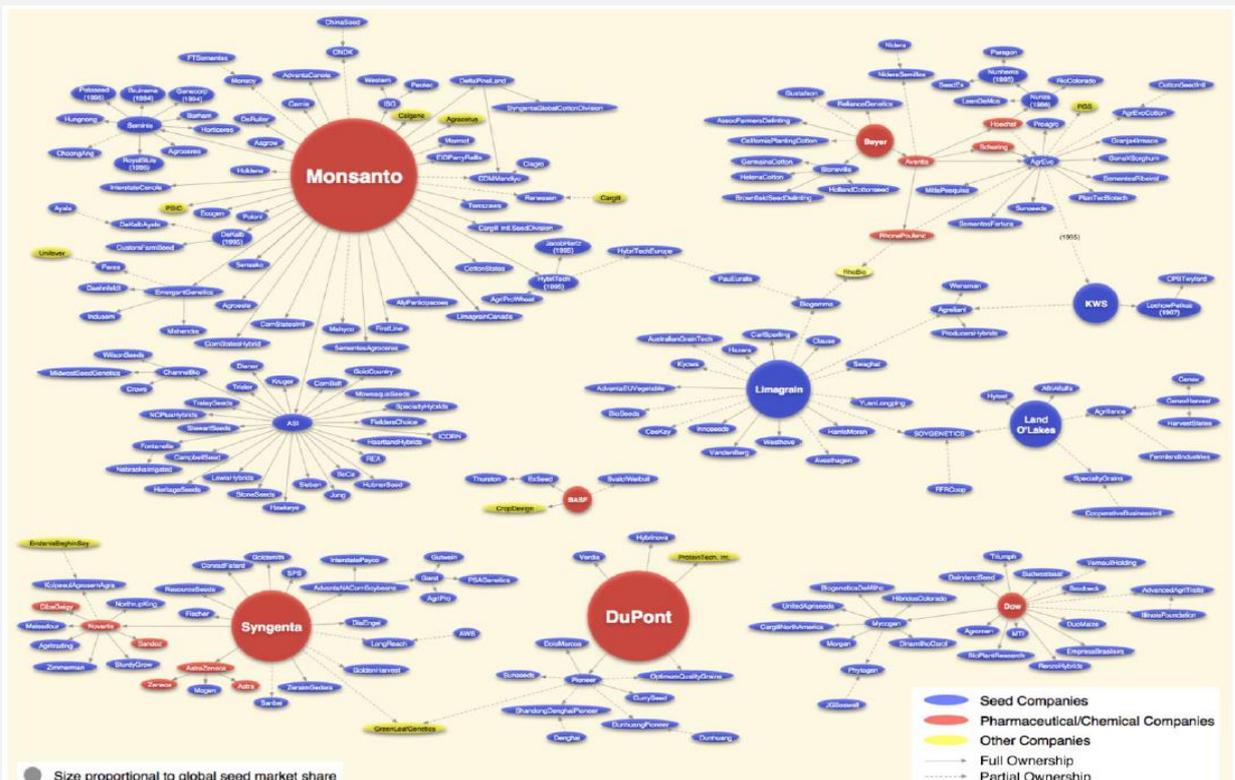


Figure 1: Visualizing Consolidation in the Global Seed Industry: 1996–2008. Philip H. Howard, Department of Agriculture and Resource Studies, Michigan State University, 2009

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In broad terms it takes 5 years for a plant breeder to modify and breed a vegetable with targeted characteristics – this time period is the barrier to entry for another company to copy a specific, successful vegetable being sold by a competitor. In formulating particular vegetables to design, Abundant Produce assessed the aforementioned large commercial seed companies, considering where they had gaps in their offerings as well as identifying popular vegetables where Abundant Produce believed they could make improvements.

During the past 5 years Abundant Produce has initiated new breeding programs for the following vegetable crops:

- Tomato seeds with optimal flavour, colour and heat tolerance with a (currently engaged in commercial trials with a range of interested parties)
- Cucumbers with high early season yield featuring optimal taste, colour, crunch, lifespan and resistance to insects and disease (completed its third cucumber trial in Middle East with a globally-recognised seed distribution company)
- Capsicums/sweet peppers – suitable for greenhouse cultivation;
- Zucchini/corquettes – self-pollinating and with a new plant structure suitable for greenhouse cultivation;
- Eggplants/aubergines – suitable for greenhouse cultivation and self-pollinating for high yields;
- Chillis – suitable for greenhouse cultivation; and
- Pumpkins/winter squashes – suitable for field cultivation, self-pollinating and with a higher flesh-seed ratio.

Abundant Produce has access to world class facilities and a deep pool of highly skilled scientists. This IP and royalty business model has very low overheads and is extremely scalable. Significant returns are therefore achievable if sales are increased given the very low operational cost base. This low cost base is evident in the June quarter result where Abundant Produce spent \$232,000 and is expecting Australian Government research and development rebates of \$350,000. This low cost base is made more interesting by the size of the revenue opportunity. The below is a broad revenue matrix for the sale of a single vegetable's seeds:

	Price per seed									
	\$ 0.06	\$ 0.08	\$ 0.10	\$ 0.12	\$ 0.15	\$ 0.20	\$ 0.30			
1,000,000	60,000	80,000	100,000	120,000	150,000	200,000	300,000			
5,000,000	300,000	400,000	500,000	600,000	750,000	1,000,000	1,500,000			
10,000,000	600,000	800,000	1,000,000	1,200,000	1,500,000	2,000,000	3,000,000			
25,000,000	1,500,000	2,000,000	2,500,000	3,000,000	3,750,000	5,000,000	7,500,000			
50,000,000	3,000,000	4,000,000	5,000,000	6,000,000	7,500,000	10,000,000	15,000,000			
75,000,000	4,500,000	6,000,000	7,500,000	9,000,000	11,250,000	15,000,000	22,500,000			
100,000,000	6,000,000	8,000,000	10,000,000	12,000,000	15,000,000	20,000,000	30,000,000			
125,000,000	7,500,000	10,000,000	12,500,000	15,000,000	18,750,000	25,000,000	37,500,000			

Pricing notes: Low quality Chinese vegetable seeds are sold for 6c - Abundant's seeds will be priced above this but likely below high quality retail seeds being sold for 30c each.

Given the Company is cultivating and testing multiple vegetable lines a significant revenue opportunity exists. When coupled with the low operating costs of the company we believe Abundant Produce presents a highly compelling opportunity.

Abundant Produce ABT ASX

Share Price: 83c
 Market Cap (fully diluted): \$38.6m
 Cash (approx.): \$2.2m

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