Compelling Returns & Strong Developmental Impact from African Agribusiness

Background

Agrica Limited was founded in September 2005 to develop sustainable agribusinesses in Africa. The company has targeted the East Africa region for the near absence of commercial farming, the high prices and the large and burgeoning demand of their internal markets—a region where the consumption of staples is rising with fast-growing populations; where in some countries 95% of current production is from inefficient smallholders with limited access to inputs or modern farming methods; and where high import tariffs are entrenched by the necessity of maintaining a rural economy and food security.

The rising global demand for food and feed, coupled with falling productivity gains and an uncertainty of future supply, present a compelling investment opportunity. Food security concerns have launched a new era in which government entities from South Korea to Saudi Arabia plan to develop extensive farms in Africa to export staples home. At the same time, Africa’s own growing internal markets urgently require the establishment of modern, large-scale farms for domestic and global food security.

In December 2007, Agrica commenced operations on its first project, the redevelopment of Mngeta Farm, an ideal 5,818 hectare property in the Kilombero Valley in southern Tanzania, one of the most stable and business-friendly countries in Africa. Importing modern large-scale zero-tillage farming methods, Agrica aims to be both the lowest-cost domestic producer and environmentally sustainable. Located in the Southern Agricultural Growth Corridor of Tanzania, Agrica’s project is already the largest rice farm in the country and has been granted Strategic Investor status by the Tanzanian Government.

Agrica intends to develop a portfolio of plantations in African countries based on the following criteria:

- Favourable climate for rain-fed farming
- Stable political and business environment
- Low cost of arable land
- Abundant low-cost labour
- High prices relative to the world markets.

As rain-fed estates reach profitability the farms will:

- Prudently deploy irrigation to double yields
- Develop revenue streams from by-products
- Expand on nearby land for management, infrastructure and equipment synergies
- Develop smallholder out-grower schemes to benefit local communities and leverage milling and marketing capabilities.
Sub-Saharan Africa has the potential to become globally competitive given its highly favourable climate and soil conditions but suffers from chronic under-investment. Due to prior investment in Mngeta Farm and favourable commodity price conditions in Tanzania, Agrica can rapidly achieve competitive operations in the first rice project and generate compelling returns. Having achieved profitable operations at scale, Agrica plans to further expand its platform to access the very large agricultural potential in this area of the world.

The management team includes extensive experience in large-scale commercial agriculture in Africa and Australia, environmental conservation and sustainability. Management experience extends down to workshops and field, where a team of seasoned department heads and field supervisors were recruited from a former Commonwealth Development Corporation plantation.

Agrica’s key investors include Capricorn Investment Group, Norfund, the Norwegian Investment Fund for Developing Countries and African Agricultural Capital. The directors include Alan Boyce, the president of AdecoAgro, an integrated food and renewable energy company that farms more than 330,000 hectares of highly productive land in South America which listed recently on the New York Stock Exchange.

The First Project

High rice prices in Tanzania underpin the rapid development of Mngeta Farm first into a profitable rain-fed rice farm, and then into a competitive high-yielding irrigated rice operation. Still in the initial rain-fed phase, Agrica has planted its third rice crop over 4,100 ha, and begun irrigated trials of both rice and dry season rotation crops.

Tanzania has some of the highest rice prices in the world – for decades averaging over 65% higher than the prevailing world price. Protected by high tariffs on imported rice, the price will remain high. Moreover, internationally, due to growing demand and supply constraints, world rice prices are expected to rise. The International Rice Research Institute estimates “that in each of the next 20 years the world will need an additional 8-10 million tons of rice more than the previous year to meet expected needs.”

As the rain-fed operation reaches full productivity in 2013, Mngeta Farm will produce 20,000 tons of paddy (unmilled rice) in the wet season. Milled at the farm to produce 13,000 tons of milled rice for sale in the annual peak price season, the rain-fed rice crop will generate sales of about $8.5 million, based on conservative yield and price assumptions. The total investment required for the rain-fed farm is about $45 million, of which $30 million has been invested to date.

The second phase of development will see $25 million of debt finance the construction of a 4,000-ha irrigation system, supplied by gravity from a 4.5-km-long pipe from the company’s own mini-hydro dam in the mountains above the farm and powered by biomass plants fuelled by husk from the farm’s rice mill. Once the irrigated area achieves full production in 2016, Mngeta Farm will produce 53,000 tons of paddy and close to 34,000 tons of milled rice, and will generate sales of about $25 million each year.

Agrica is in the process of acquiring another 5,200 ha in the Kilombero Valley, 20 km from Mngeta Farm, close enough to leverage management, equipment and processing synergies.

Towards social responsibility, Agrica has supported a number of local forest conservation efforts and established an annual community development fund for the villages surrounding Mngeta Farm that have no funds for the construction of schools and deep wells for clean water. In 2010, with an Indian expert from the International Crop Research Institute for the Semi-Arid Tropics, Agrica established System of Rice Intensification (SRI) demonstration plots on the farm and with neighbouring smallholders. In India and Madagascar, SRI has dramatically boosted smallholder yields, and the first SRI smallholders in the Kilombero Valley produced yields 2 to 3 times higher than the traditional farming system in the area. This season the SRI programme has been expanded from 15 to 250 farmer families, with the goal of reaching over 4,000 by 2016.

The Opportunity

Agrica is raising a further $10 million of equity investment to complete the equity funding requirement for the first project.
Summary Financials

The financial profile of the business, based on the development of Mngeta Farm alone, is driven by the economics of growing a hectare of rice, initially rain-fed and then irrigated. Until the large-scale irrigation system becomes operational in 2015, the farm will be reliant on the rice it can produce from 5,000 ha during the rainy season. At full productivity the farm is expected to produce 4 tons per hectare rain-fed, from which it will generate a little over $1,700 of revenue, $950 of gross margin and $300 of EBITDA. The 4,000 ha irrigation system will enable the farm to boost yields in the rainy season, to produce a second crop during the dry season on the entire irrigated area, and to produce a third crop on up to 50% of the irrigated area. A leguminous rotation crop will be planted on half of the irrigated area during the dry season. At full production, therefore, the farm will be producing the equivalent of 7,000 ha/yr of irrigated rice and 1,000 ha/yr of rain-fed rice. An irrigated hectare will produce 7 tons of rice, generating over $3,000 of revenues, $1,900 of gross margin and $1,400 of EBITDA.

The cash flow profile of the Mngeta Farm project is illustrated in the chart below.

Agrica's peak funding requirement is $71.5 million, which breaks down into $47.5 million of capital expenditures, $6 million of working capital, $14 million of operating losses and an expected $4 million of funding costs. At full production, Mngeta Farm will generate $25.4 million of sales, $17.5 million of gross margin and $12.6 million of EBITDA, delivering an unlevered return on investment of 16.0%.

Agrica has raised just under $31.5 million of equity funding to date, along with $1.5 million of working capital funding. In addition to $10 million of further equity funding, Agrica plans to increase the working capital facility to $5 million and to finance the construction of the irrigation system with $25 million of long-term debt.

Agrica Limited is incorporated in Guernsey and subject to Guernsey law and UK accounting standards.

Risk Mitigation

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<th>Risk</th>
<th>Mitigation</th>
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<tr>
<td>Political risk</td>
<td>• Tanzania recognised as one of the most stable and business-friendly countries in Africa by, inter alia, UN, World Bank, US State Department, Harvard Africa Competitiveness Report</td>
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<td>Crop failure</td>
<td>• Irrigation to eliminate drought stress, the most significant threat to crop yields</td>
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<td>• Adjacent rainforest provides reliable water supply (no drought experienced in over 40 years)</td>
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<td>Rice price</td>
<td>• Global price expected to rise over medium and long term given population growth and decreasing production in Asia</td>
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<td>• Tanzanian import duties entrenched to protect 80% of population who rely on smallholder agriculture</td>
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