



CASE STUDY: VALUING AGRIBUSINESS ASSETS

CHALLENGE

A leading commercial agribusiness client in Argentina was interested in selling their company, which was focused on cultivating and producing olive oil, table olives and wines. The company retained Valuation Research Group's Argentinian affiliate, R. Biasca & Associates, to develop a valuation analysis of all the assets the company owned as part of the process to get the company ready for sale.

At the time of engagement the company owned 1,000 hectares (≈2,471 acres) of developed land that was in production, as well as an additional 3,900 hectares (≈9,637 acres) of land, of which 1,000 hectares were suitable for cultivation and planting, however, the remaining 2,900 hectares (≈7,166 acres) required an additional investment to prepare the land for suitable use. The title for the 3,900 hectares had also been under litigation for years. The company also had a state-of-the-art winery and pressurized irrigation drip systems that supplied high-quality ground water from ten wells producing 200,000 liters (≈52,834 gallons) per hour. Equipment used by the olive oil processing plant had been retrofitted for use while the wine processing plant equipment was almost new. Since the company's founding in 2010, it had made significant investments and set a goal to reach its full production capacity in five years, projecting olive and olive oil production would grow from

five million kilograms in 2010 to 14 million kilograms in 2014. Grape production would remain steady at nearly two million kilograms.

SOLUTION

R. Biasca & Associates approached the full valuation and consulting process in three phases:

- 1. Valuation Phase.** Conduct initial data gathering for development of the valuation.
- 2. Mergers & Acquisition Phase.** Development of the Memorandum as part of the sell-side M&A process, assist in search for potential buyers, and assist in managing negotiations.
- 3. Management Consulting Phase.** Develop and deliver strategic recommendations (specifically, to split the wine from the olive business) and operational proposals, and address shareholder/management issues.

At the time of the valuation, VRG's analysis arrived at an estimated fair value sale price of approximately US\$20 million dollars however, the company owners were targeting a price of US\$30-35 million dollars. In Argentina, oftentimes local inflation rates and a politically influenced exchange rate can add complexity to the valuation analysis.

To arrive at the final valuation, R. Biasca & Associates used three different valuation approaches:

1. Market Approach

Comparable food companies in Argentina had been sold at 0.7 to 1.5 times their annual sales revenue. Exceptional transactions were made at two times annual sales. When considering the company's projected 2014 sales and applying a ratio of two, we arrive at an amount of US\$21 million. Previous transactions in Argentina were made at 0.2 to 1.4 times EBITDA. Additional input from local M&A firms and accounting consultants suggested applying a ratio multiple of five or seven, respectively, and when applying a multiple of seven, the figure once again would reach US\$21 million dollars. Therefore, VRG felt this was an optimistic figure.

2. Income Approach

Present value was dependent on the interest rate but there was a lack of data to calculate the business risk and the country risk. It was difficult to imagine a discount rate of less than 15%. Another consideration was the number of years and the perpetuity value. Sophisticated methods (options, etc.) were not considered appropriate for this particular client.

Taking into consideration the time period from 2010 to 2014 and making some assumptions (such as the productivity of the olive plants), the income approach model showed it would take the company 20 years of operations to reach a present value of US\$15 million dollars.

3. Cost Approach

The owners of the company added optimistic values:

- The price of the land with olives and grapes in Spain
- Market value for the machinery, buildings at cost less depreciation
- Trademark value
- Marketing network value (the company also created an export trading company for its products)
- Unproductive land values, which were determined to be unrealistic since a portion of the land parcel remained under litigation issues

The total of these added values came to US\$32.5 million dollars. Although these numbers could be used for bargaining purposes, the assumptions could be easily challenged and lowered to a value of US\$25 million dollars or less.

EXECUTION

After the data gathering and valuation analysis was complete, a Memorandum was made and an intense international search for potential buyers began. Of the large list of interested buyers, two ideal candidates were selected: an Australian company that had already purchased land in Argentina was very interested in the olive business, and a major Latin American wine company was interested in the wine business. Offers were presented that totaled approximately US\$18 million dollars, which was clearly much less than the desired and estimated value the owners assessed but was closely in line with R. Biasca & Associates' valuation of US\$21 million dollars. As this was a family company and part of a set of companies that belong to a wealthy holding organization, the personal interests of some key shareholders prevailed and the sale of the company was ultimately postponed.

After the valuation engagement was completed, several events occurred -- both positive (commodity prices increased, and olive plants have grown and have better productivity) and negative (country risk in Argentina has sharply increased) -- that would impact the state of the company and the assessment of its fair value. Given these changes, if at a later time the company and its stakeholders reconsider a sale of the family's olive, olive oil and wine business, they would require an updated valuation study. **VRG**

ABOUT R. BIASCA & ASSOCIATES

R. Biasca & Associates is a small and prestigious Argentine consulting firm that built its initial reputation with its work in the business transformation field. The firm offers deep experience with international best practices, profound knowledge of Latin American culture, expansive international contacts and a near 40 year history of delivering value to clients. R. Biasca & Associates has completed work in all countries within Continental Latin America with specialty focuses on Argentina, Chile and Uruguay.

R. Biasca & Associates has been part of the Valuation Research Group (VRG) affiliate network since VRG's inception in 1995. VRG provides quality valuations and value-related services for the U.S. and International business communities. Our valuation specialists have intimate knowledge of local economies, languages, cultures, and legislative frameworks.

We invite you to learn more about R. Biasca & Associates, the VRG global affiliate network, and our valuation professionals. Visit or contact us today. VRG-AR.com

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ABOUT VRG

Valuation Research Group (VRG) provides quality valuations and value-related services for the U.S. and International business communities. Our global network consisting of nearly 1,000 professionals, has an established reputation for providing expert and independent opinions of value for business enterprises, intangible assets, real estate and personal property. Collectively, our professionals have served clients in more than 60 countries.

Multinational engagements are managed locally by a single point of contact and executed by professionals located in their respective countries. Our valuation specialists have intimate knowledge of local economies, languages, cultures, and legislative frameworks.

We understand U.S. GAAP requirements, as well as the tax and financial reporting requirements specific to a particular country. Our professionals have superior management skills, providing clients with deliverables within their required time frames.

We invite you to learn more about our global affiliate network and valuation professionals by visiting us online today at VRG.net.

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