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It's a growing concern.



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In agriculture,
only the hardy survive.

How resilient are you

A large, light blue question mark graphic is centered on the page. It consists of a curved hook and a solid circular dot below it.

This year, the World Bank declared 33 nations at risk for social unrest due to rising food and energy prices. This is in stark contrast to the images of abundant crops, fish-filled oceans and cattle grazing on open fields that often define Canada's greenhouses, livestock farms and fisheries.

To be sure, Canada's agri-food industry faces significant challenges. At the same time, abundant opportunities exist on the global stage. To mitigate industry risks and uncover new opportunities, ask:

- Do companies have a strong enough strategy to weather industry shifts?
- Can lenders' portfolios withstand sector turbulence?
- Are private equity firms investing in the companies most likely to survive current economic challenges?
- Has government adopted the right policies to safeguard the agricultural industry?

Read on to get the answers you need.

What happens when the landscape changes?

Paul van Eyk and Peter Barr

If Canada's agriculture industry isn't under siege, it's getting close. A higher Canadian dollar has compromised local producers' competitive edge. A weakening U.S. economy has led to increased American protectionism, resulting in the threat of reduced access to their markets. Rising input costs – from oil and gas to fertilizer and freight rates are tightening margins. A diversion of corn to ethanol fuel production is raising animal feed and food costs significantly. At the same time, Canada's producers face both domestic and international competition from U.S. competitors and low cost regions.

The landscape has changed for Canada's livestock farms, greenhouses and fisheries. The result? Higher input costs, unprecedented price volatility for food fuelled by shifting international demand and the growing role of commodity traders, declining margins and, in some cases, financial crisis.

Taking their cue from U.S. trends, some traditional lenders and private equity firms are tightening access to capital and borrowings. Emerging sectors like the oil sands and gas exploration are competing for scarce government program support. And while crop growth remains strong, many sectors of Canada's agricultural industry seem poised on the edge of a serious crisis.

“This isn't a cyclical challenge that will resolve if left alone. To uncover the opportunities amid this crisis, companies, lenders, government agencies and private equity firms need to align with specialists who understand both the perils and the potential.”

Paul van Eyk

Is the future as dire as it appears? Or do options exist for agricultural businesses and their lenders, public sector organizations and private equity firms? The answers lie in preparing for industry transformation, leveraging the best practices of global organizations and carefully choosing partners that can help you minimize risk and capitalize on opportunities.

To sow the seeds for a brighter tomorrow, constant innovation is essential. Don't let current challenges compromise your future prospects. Get help from people who know where agri-food opportunities lie.

Let's talk



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Organizations facing crisis turn to Paul for help with corporate restructurings, review of short- and long-term strategies, performance enhancement initiatives, assistance for distressed companies and negotiation of debt restructurings.



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Peter leads Deloitte's national agriculture practice and works extensively with agri-business companies from producers to processors. He helps clients grow their businesses by providing strategic guidance and solutions from marketplace strategy to trade negotiations and disputes to business planning.



A dark cloud over the greenhouse sector

How are you responding to declining demand?

Rob Biehler

Times have changed for greenhouse operators. The historically weak Canadian dollar helped bolster Canada's greenhouse sector. Low interest rates and strong exports helped too, encouraging new greenhouse construction and expanded production at existing facilities. Lenders also took advantage of this growth to strengthen their portfolios.

Then the U.S. market softened. Currency volatility left numerous lenders exposed. Greenhouse operators now contend with rising energy and fuel costs, tighter border restrictions and rules, and more rigorous inspections limiting access to U.S. markets. Competition – both from domestic players and foreign operators – is intensifying. For proof, just look at Mexican tomato producers, who are narrowing the technology gap with Canada to enhance both yields and quality.

How greenhouse players can increase their yield

Yes, demand is declining, however savvy growers and investors can always unearth new potential. That's why greenhouse players need to think creatively. Here's how:

Companies can

- Shore up your financial, operational and marketing expertise by bolstering your internal skill sets
- Address lender expectations by partnering with specialists who can help you build a strong development strategy, adopt appropriate cash flow models and effectively present your brand
- Explore your options for creative financing
- Improve your tax management to ensure you maximize all available government incentives
- Reduce energy costs by investing in alternative fuels such as biomass burning, co-generation and geothermal heating
- Consult specialists who can help you form regional partnerships to co-market your products and global partnerships to offset the effect of foreign competition
- Automate to improve productivity and reduce labour costs
- Capitalize on Canada's market leading food safety practices to further sell internationally
- Seek opportunities to become a global player to mitigate seasonality and enhance diversification
- Pursue non-traditional cost reduction activities, such as collective purchasing

“For greenhouses that want to position for future growth, the success factors are clear: sound business fundamentals, strong stakeholder relationships, and owners and managers who produce a high quality product and find the best market for it.”

Rob Biehler

Lenders can

- Facilitate alternative financing by partnering with non-traditional lenders to enhance greenhouse operations while reducing your risk
- Help companies with strong prospects thrive by reassessing your portfolios to determine where particular debtors fit into the marketplace
- Ensure debtors maximize all available government incentives to enhance profitability

Government can

- Link financial support to measurable results
- Re-examine agricultural property zoning regulations
- Help greenhouses better capitalize on Canada's leading food safety requirements
- Explore policies to help greenhouses better penetrate domestic and international markets

Private equity can

- Look to greenhouses to fuel your growth strategy by leveraging their technical sophistication to meet specialized consumer demands, such as the production of high-end vegetables or plants
- Loosen the covenants imposed on greenhouse operators to provide them with greater discretion on the deployment of their capital
- Partner with specialists who can help greenhouses access the expertise required to complement the skills of existing management
- Re-examine greenhouse operator fundamentals to invest in firms positioned to survive current economic challenges
- Ensure greenhouses in your current portfolio maximize all available government incentives to enhance profitability

Opportunity doesn't knock twice

Maximize your tax incentives

Brian Blommaert

Canada's complex support programs can make it difficult for greenhouse operators to maximize all available opportunities. Did you know that:

- The AgriStability program protects farm income from declines. Changing the size of the operations or the mix of commodities, however, requires the completion of a "structural change adjustment". Similarly, it can be difficult for greenhouse operators to determine which expenses are eligible. One mistake in assessing an AgriStability claim can easily result in a missed benefit of \$100,000 or more.
- Many greenhouses don't know what qualifies for Scientific Research & Experimental Development (SR&ED) incentives. For instance, some eligible activities include efforts to improve a plant's production or fruit quality, create solutions for a new disease, trial a new growth regime for existing plants or develop a new irrigation system.
- Greenhouse operators are worried about the capital investment required to adopt alternative energy sources, such as methane boilers, anaerobic digesters and co-generation systems. But the government can help. Beyond ongoing operational savings, operators can offset costs by determining their eligibility for federal and provincial tax programs such as the ecoAgriculture Biofuels Capital Initiative.

Ask yourself:

- Does your choice of crop give you time to respond to market changes?
- Are you maximizing all available government incentives and grants?
- How will succession affect your business?
- As a lender, have you considered ways to strengthen the performance of key companies in your portfolio?
- As a lender, have you begun to facilitate partnerships between your clients?
- As an equity investor, how well do you understand the nuances of the greenhouse sector?

Need answers? Let's talk.



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Rob gives restructuring and turnaround advice to debtor and creditor businesses facing financial distress in diverse sectors, including greenhouses and hog operations, helping them preserve enterprise value for stakeholders.



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Brian provides innovative, reliable advice and solutions to agricultural and agri-business clients of all sizes and backgrounds. He assists clients with farm income and business risk management program applications and helps them obtain R&D tax credits.



Time to abandon the herd mentality

Rethinking livestock

Victor Kroeger and Russ Holmes

Hog farmers and cattle producers have long faced pricing volatility for their product. Yet recent economic factors have flipped the industry on its ear. U.S. dollar weakness creates lower or negative margins for Canadian operators, who sell at American prices. The higher Canadian dollar compromises the competitiveness of domestic operators, resulting in plummeting exports.

Rising U.S. protectionist policies – such as country of origin labelling legislation – place producers at risk of losing current market access or selling at steep discounts. Skyrocketing prices for both feed and fuel affect profitability. At the same time, a significant reduction in available processing capacity mandates a complete re-think of traditional operating policies.

In June 2008, the Alberta government responded to these challenges with the Alberta Farm Recovery Plan II (AFRP II). This ambitious program is geared at placing Alberta's livestock industry on a sustainable footing by vastly enhancing domestic and international competitiveness. As other governments contemplate introducing similar programs, one question looms large: What steps must livestock producers and other supply chain participants take to build sustainable operations capable of withstanding the current crisis?

There is no “one size fits all” solution

While many sector players anticipate a market rebound, business fundamentals have likely shifted irrevocably. Government programs that worked in the past may now have to be revised. Lenders, limited in their ability to restructure these types of operations, must gain a more intimate understanding of the dynamics shaping the industry.

Thriving in this environment requires new skills for all industry stakeholders. Here are some high level ideas:

Companies can

- Work with third party specialists who can help you access the capital you need to innovate
- Improve your tax management to ensure you maximize all available government incentives
- Uncover hidden opportunities for retooling your operational strategies by working with professionals who bring industry experience, restructuring skills and knowledge of budding market opportunities to the table
- Leverage your strengths in areas such as food quality to differentiate your product. For instance, some cattle farmers have begun raising hormone-free and organic beef to address consumer health concerns
- Adopt strategies to address country of origin labelling legislation and turn it to your advantage
- As a cattle producer, ensure your ownership over your cattle remains intact upon their transfer to the feedlot

Lenders can

- Explore alternative capital structures that can help hog and cattle operators restructure while reducing your risk exposure
- Help debtors maximize all available government incentives to enhance profitability
- Mitigate sector-specific risk by financing different types of operations (i.e., diversified smaller producers, large network producers, herds, barns, etc.)
- Ensure you clearly understand any complex corporate or security structures being used by large hog networks
- Properly register your security on loans to cattle operators to ensure it attaches to cattle following their transfer to feedlots

Government can

- Maintain your commitment to business risk management programs such as Farm Credit Canada and its provincial counterparts
- Re-evaluate your funding criteria to support operators that are most likely to survive negative market conditions
- Seek guidance from specialists capable of helping you inject business decision-making discipline into your program development initiatives

“The hog industry is cyclical, so some people think they’ll emerge from current challenges unscathed. They’re mistaken. A stronger Canadian dollar, high feed costs and spiralling U.S. protectionist forces have changed sector fundamentals. Organizations must ask the right questions and respond with the right strategies.”

Russ Holmes

Way beyond a way of life

There was a time when livestock operations, like most agricultural operations, were a way of life. To address the seismic shifts rocking the industry, however, that lifestyle has given way to more immediate business imperatives.

As the world's population grows, Canada's livestock operators need to determine how to meet global demand. At the same time, the assumption of significant levels of debt has compromised the growth prospects of many companies – threatening not only Canada's rural economies, but the thousands of workers employed by the livestock industry.

Given the central role of Canada's livestock sector, industry players must position themselves to do more than address the challenges presented by rising feed prices, foreign exchange imbalances and U.S. border restrictions. You must also consider potential consolidation and/or diversification strategies, mitigate your business risks, enhance performance by applying approaches such as lean manufacturing to your operations and streamline your tax position – whether you work on a farm in rural Manitoba or the boardrooms of Bay Street.

Unearth new solutions to take a new approach. Deloitte can help you get from here to there by devising and implementing the strategy you need to succeed.

Ask yourself:

- Are you maximizing all available government sponsorships and grants?
- Do you know what you have security over and where your security is?
- As a lender, have you considered the management skill of your debtors?
- Do your debtors have the critical mix to survive the current environment?
- As processing capacity diminishes, are your shipping costs still economically viable?
- Does it cost more to ship your cattle using your own trucks vs. contracting with a third party shipping company?

Need answers? Let's talk.



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Russ has over 28 years' experience in restructuring services, including work-outs, monitor engagements, proposals to creditors and receivership appointments. Russ has a particular emphasis in agriculture.



Go big or go home

Canada's fisheries swim against the current

Ian Penney and Brian Groves

The current economic weakness presents a mixed message for fishery operators. On the one hand, demand for premium products like shellfish is dropping. On the other hand, demand for cheaper fish is increasing. The same mixed results apply to rising energy costs. While fuel and electricity expenses are spiking, higher energy costs may be dampening a recent trend to process fish in China, rather than North America.

Yet this is where the uncertainty ends. Without question, fisheries are being negatively affected by a falling U.S. dollar, which is reducing exports and profit margins. Similarly, for Canada's east coast fisheries at least, government restrictions on the control of fishing licenses create a barrier to consolidation that threatens the industry's viability.

An inability to use fishing licenses as security prevents harvesters from accessing the capital they require. Ownership restrictions on licenses also leave Atlantic processors without guarantees to specific quotas, which discourages the consolidation of processing plants. These challenges create difficulties for fish harvesters and processors and are causing lenders to reconsider their approach to the sector.

Good enough isn't good enough anymore

Although current regulations challenge portions of Canada's fishery sector, global best practices for improvement abound. To thrive, Canada's fishery players must begin to look at more distant shores. Here's how:

Companies can

- Work with specialists to conduct due diligence and devise appropriate financing and tax structures for potential consolidation opportunities
- Explore alternative forms of financing to enhance performance, reduce operational costs and modernize your plants
- Manage risk by exploring tax and operational restructuring
- Hedge against U.S. dollars to offset price volatility
- Identify third party professionals who can help you access global co-packaging and/or co-processing opportunities
- Expand your market share by selling through alternative food channels, such as mass retailers and/or pharmacies
- Improve market penetration by appealing to Canada's wealthy aging population which is in search of healthy food choices
- Offer more convenient and portable packaging options to increase customer satisfaction

**“There's no question that Canada has world-class fishing grounds.
But our fisheries can only take their place in a global market
if we revise our antiquated rules.”**

Brian Groves

Lenders can

- Strengthen your operational financing programs for fish harvesters
- Work with fish processors to bolster loan structures
- Share your expertise to help operators enhance their business fundamentals and restructure their operations
- Review your loan portfolio to ensure the integrity of your security
- Ensure debtors maximize all available government incentives to enhance profitability

Government can

- Loosen federal restrictions on the use, ownership, sale and renewal of fishing licenses to give harvesters more discretion on the size of their boats
- Follow other international models to enable processors to stabilize their access to raw materials

“If Canada’s fisheries are to compete on the world stage, a painful consolidation needs to happen. Until there’s a real will to change among harvesters, processors and the government, the sector will remain inefficient.”

Ian Penney

Ask yourself:

- How are you dealing with currency risks and escalating fuel costs?
- How can you structure smart mergers and acquisitions in an environment that discourages consolidation?
- As a privately-owned processor or harvester, are you prepared for any pending ownership changes? Have you put a transition plan into place?
- Are you maximizing all available government sponsorships and grants?
- Do you know how to navigate through complex government rules and regulations?
- As a government body, have you considered strategies for strengthening Canada's fishery sector to meet increasing global competition?

Need answers? Let's talk.



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Reaping the rewards



depends on how you sow the seeds

Operating amid crisis is like trying to navigate in the dark. One wrong turn and you risk never reaching your destination.

Rethinking your operational strategies can be scary and challenging, but the implications of inaction are even worse. If you do not understand how disparate federal and provincial rules apply to different operators, how market realities shift across the country or how the fundamentals of each sector vary, you risk making decisions that could compromise your productivity, your profitability and even your livelihood.

To gain traction in this environment, you need more than resiliency. You need a solid plan that maps out future growth strategies. You need proven risk mitigation approaches and knowledge of global best practices. Above all, you need access to industry-altering insights.

That's what Deloitte delivers.

Future growth depends on the strength of your ideas

Who's helping you innovate





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