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HIPCo – Finance options

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Purpose

Outline some finance options

- Identify products, entities and contacts:
  - Commercial lenders – bank and non-bank
  - Government lenders – state and federal
- Develop and convey HIP opportunity to lenders
- Role of hedging, offtake & ESG to de-risk finance

Key messages

Government Lenders – Lower cost but focus is entry level

Commercial Banks – More choice of service and products

Non-bank/funds – Bespoke but more costly

Hedging – Secret weapon of production reliability

Offtake – Provides increased cashflow certainty to lender

Environment, Social and Governance – ‘Emerging Obligations’

Project sustainability impacts financier support – now and in future

ESG driving lending policy

ACCU price rising with premiums for co-benefits (esp. First Nations People)

Carbon neutral cotton selling for $100/bale more

12-month horticulture offtake agreements with major retailers due to carbon neutral

Australian Banking Association – Anna Bligh, CEO (Sept 2022 AFR)

‘Climate change is a core economic issue for Australian banks … impetus (for change) will come from government and the financial markets due to risk considerations”

“Investors will start moving their book to a lower (energy) rated book”

Background - ESG trends impact access to finance – Global to Australia

Climate Action 100+ - Global investor-led initiative… world's largest corporate… emitters take necessary action...

(GFANZ) is a global coalition of leading financial institutions committed to… decarbonization

ABA - Submit to International Sustainability Standards Board (ISSB)

ABA - Global standards for disclosures of financed emissions

ABA - "Significant limitations at present time with sustainability related metrics"

Local graziers consider drought-correlated cattle prices, lack of ability to lay-off cattle price risk and importance of holding onto breeders

- Buy fodder cheaply and store in good (grazing) season
- Buy fodder at a moderate price when drought is forecast
- Buy fodder at high price in drought

Store on-farm or warehouse with third party ‘cash and carry’

Hedging (cotton, grains, maybe cattle)

Certainty of production (reliable water) allows forward price and volume commitments

Protects income stream (underpins finance)

Presents trading opportunity / enhanced returns

LOCAL ACCESS TO FINANCE

Step 1. Who we spoke to – Interviewed ~10 lenders and valuers

Commercial Lenders — Major & regional banks and bespoke lenders

Government Lenders — Federal (RIC), State (QRIDA) and Northern (NAIF)

Valuers — CBRE (major), niche experts (ex-majors)

Commercial Lenders

Majors & Rabo

Ready to assist, superior range of products and research

Regionals

Relationship driven, less sophisticated

Non-Bank

Lenders - Higher LVRs, know water and commodities

Funds - May buy and lease water to farmer

Government lenders – entry / smaller producer focus

RIC Aust Govt Cost of Funds (low), 2nd Mortgage ok

QRIDA Qld Govt linked Cost of Funds, 2nd Mortgage ok

NAIF Coming soon… ~$1-10m, localised approach

Northern Australia Infrastructure Fund may soon enter smaller low-cost loans:

'…seeking smaller loan sizes ($1 to $10 million) across sectors crucial to the northern Australia economy – ranging from energy, resources, **agriculture/water**, social infrastructure, or transport.

'Using a 'localised' approach, under the reforms NAIF will seek to establish a range of partnerships across northern Australia with regional financiers who will provide NAIF funding directly to small-scale proponents seeking investment. Proponents would benefit from more localised decision making on loan approvals and potentially simplified public benefit and Indigenous engagement requirements.' https://naif.gov.au/about-naif-finance/reforms/

Valuers perspective

Lenders needs

Insurance backed valuation given repurposing of land

Land Vs Water

Can be land only, water or both (farm enterprise)

Water valuation Drivers

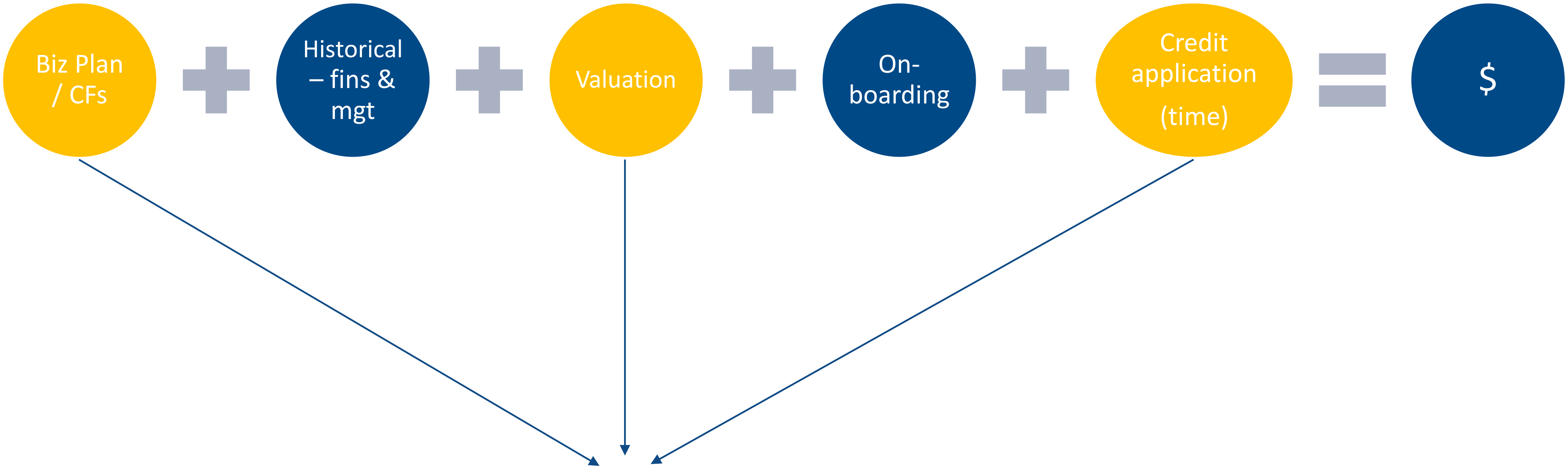
Transferability, transparency, reliability, returns (crop - yield and price), water use efficiency and more land becoming available

Small farm example: Small fodder/hay farm (no house)

Asset	Irrigation rate	Units	Price per unit	Capital cost ($)	Portion of investment (%)
Land		100 ha	$1,750/ha	$175,000	7%
Medium priority water	14ML/ha	1,400 ML	$1,500/ML	$2,100,000	84%
High priority water			$4,000/ML		0%
On-farm shed / road		1	$225,000	$225,000	6%
Farm equipment (lease tractor, bailer, centre pivot, mower/rake)		4	$25,000	$100,000	3%
Total *				**$2,600,000**	**100%**

Note: * A minimum $2-2.6 million seems likely. This could be comprised of cash and debt. Say 50/50. Cash of $1-1.6 million from a syndicate may allow $1-1.5 million debt to be raised.

General funding process



Special focus recommended for HIPCO investors

Indicative funding mix for different sized enterprises

Farm type	Total farm value (land + water)	Land & water LVR	Lender mix example	Reason
Small / new starter	*$3-5m fodder*	*50%*	*RIC, QRIDA, then Rabo or NAB*	*Exploit subsidised/holiday loans to get established, then in future move to commercial bank with value-add potential e.g. research/local service*
Mid sized	*$5-10m cotton*	*60%*	*RIC or QRIDA and commercial bank e.g. CBA from outset*	*Exploit subsidised loans, refinance the govt subsidised loan to existing commercial bank relationship with value-add e.g. hedging facility*
Large	*$10-20m mixed (trees, cotton & fodder)*	*65%*	*Major bank and / or Rabo*	*Large enough to have more than one lender, allows for competition and benefit from different value adds e.g. Rabo global research and NAB hedge desk*
Corporate	*$20-40m*	*70% (lower for trees)*	*Major bank or institution relationship*	*High value ag, diversification and economic yield may support higher leverage. Several banks (banking panel – may consider trade finance and end buyer market franchise e.g. HSBC)*

Increase lender support due to a sustainable project

There are now Green and Sustainability linked loans

Can tailor interest only period by government lenders to fit agronomic needs

Offtake agreement considerations e.g. credit worthiness of off-taker, ESG, lending rates and enterprise value.

Reports of AUD100/bale more for carbon neutral cotton

Implied MP Water Value based on NPV (FCFF) 25 Years @ 2% Terminal Growth								
$0.00	11	10	9	8	7	6	5	ML
$450	-$9,030	-$7,679	-$6,328	-$4,977	-$3,626	-$2,275	-$924	
$500	-$4,149	-$2,798	-$1,447	-$96	$1,255	$2,606	$3,957	
$550	$731	$2,082	$3,433	$4,784	$6,135	$7,486	$8,837	
$600	$5,612	$6,963	$8,314	$9,665	$11,016	$12,367	$13,718	
$650	$10,492	$11,843	$13,194	$14,545	$15,896	$17,247	$18,598	

- Probably a thin market, so let's assume AUD50/bale
- **Implied** Impact of AUD50/bale higher price = AUD4,881/ML capacity to pay (basis 10/ML/Ha water use and $550 to $600 bale premium)
- BIG DISCLAIMER 1 – there are assumption within this model beyond the co-efficients presented here i.e. there are more than 2 variables in farming, as you know!
- BIG DISCLAIMER 2 – The sustainability and environmental commodities space is 'nascent' (budding / new / evolving)
- Sustainability - 1. premiums, 2. 'seat at the table' or 3. discounted/excluded markets for those not planning/participating
- Banks – Green and SLL loans

Production reliability allows for income reliability

- **Offtake agreements** – Graziers have expressed willingness to buy fodder from project farms. Other creditworthy off-takers
- **Fixed price cash sales** – For example, for cotton, sell to merchant (but bank is generally a better counterparty*)
- ***Bank OTC hedge facility** – Income hedge underpins finance
- **HIPCo row crop farmer** – Opportunity to crystalise hedge profits & plant alternate crops not in oversupply

Tully Sugar Testimonial – OTC Commodity Price Hedging

The Queensland Sugar industry operated under a single-desk marketer until deregulation around 15 years ago. Decisions around finance and price risk management of raw sugar output was largely centralised downstream of the mill. The original State-wide sugar pool typically returned season average results. Soon after deregulation, the Tully Sugar board was approached to hedge (by John Reeve - CBA) and, following a period of **education, executed a series of long dated sugar swaps that protected our income stream above our cost of production. We remain active** in this risk management activity - it has helped the mill maintain a **clean balance sheet and added to the resilience** of growers, mill, other stakeholders and the community. (Gerry Borgna, Director, Tully Sugar Limited)

Lender Findings and Recommendations

Develop detailed steps/timing (e.g. investment/financing/valuation/risk/register titles)

Investigate insurance and valuation considerations / discrepancies between banks and valuers (‘as if complete’ valuations and insurance)

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