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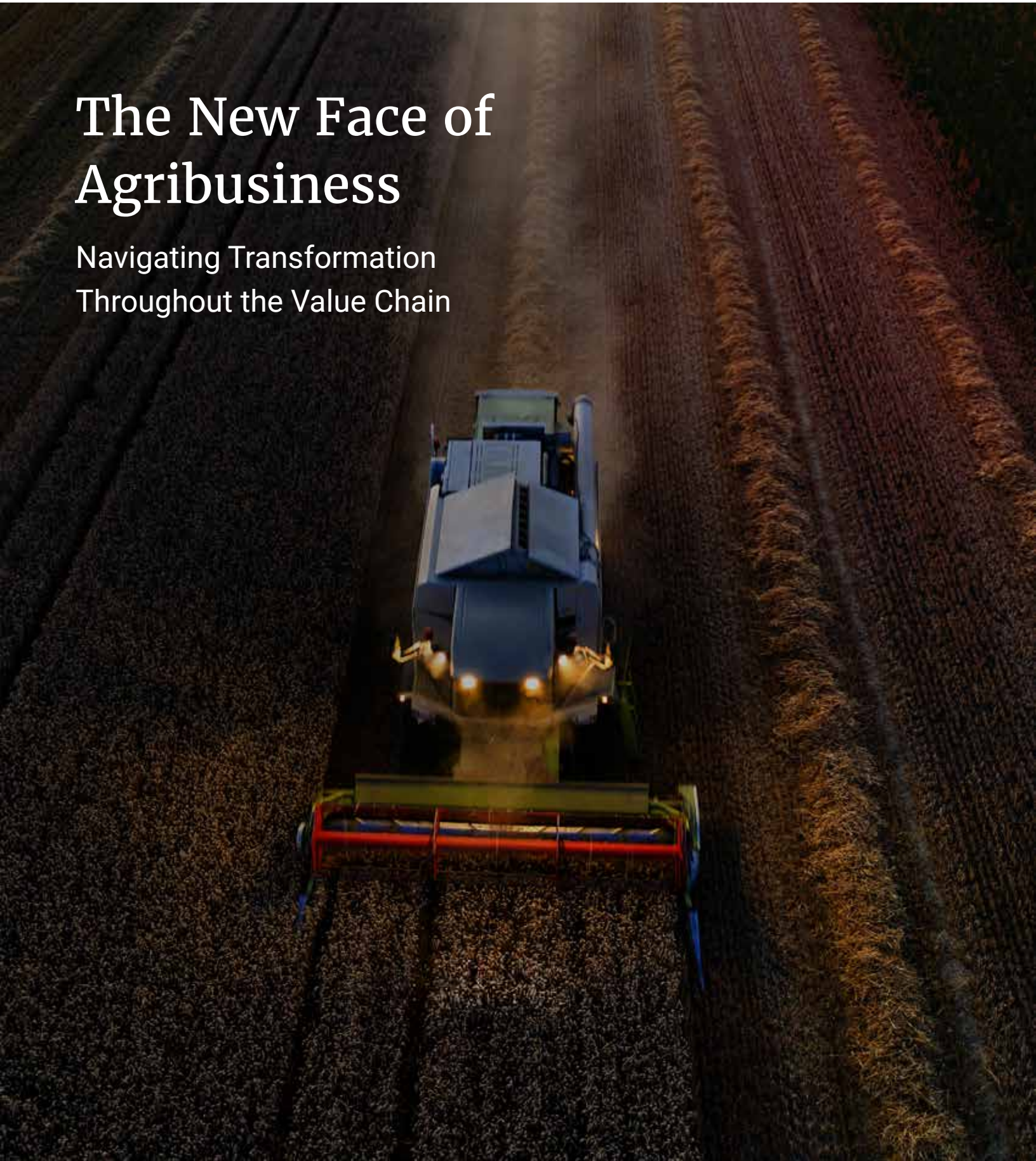
PARTNERS

The New Face of Agribusiness

Navigating Transformation Throughout the Value Chain



Introduction

The 2030 Agenda for Sustainable Development is set to encounter profound changes in the coming years. These changes play a strong role in eradicating hunger, ensuring sustainable agriculture, promoting food security, and guaranteeing access to healthy and wholesome nutrition—all of which contribute to the second major goal of the SDGs defined by the United Nations.

These goals set a clear roadmap for the main actors of the sector. According to the FAO, the world population will reach more than 9.7 billion people in the coming years. It is up to the sectoral actors to meet the demand by 2050 by more than 70% by making decisions that are influenced by, but not limited to, climate change and the need to increase food production.

Faced with these social, environmental, regulatory, and demographic challenges, our global Partners observed and studied how the sector started a revolution that has resulted in the modernization and development of new strategies, business models and practices that provide solutions to the emerging trends of *Agribusiness* currently transforming the industry.

The global Agribusiness industry today is worth more than 3 trillion dollars. The main players (equipment, fertilizers and seed manufacturers, large and medium-sized producers, traders, retailers, and investors) are under pressure, on the one hand, to achieve the objectives of the 2030 Agenda and, on the other, to carry out the necessary search for talent that encourages greater efficiency and profitability.

This whitepaper on Navigating Transformation Throughout the Value Chain seeks to understand how innovation and change are being addressed within each link of the agribusiness chain. In a joint effort by our global partners, we have held conversations with more than 50 executives of the industry in different regions (North America, LATAM, APAC and Europe) that allowed us to obtain valuable information and to delve into the major challenges of the industry at a global level on issues related to the current moment of change, digitalization and new business models appearance. This paper highlights the challenges and trends within the Iberoamerican regions.

The Inflection Point

In recent months, we have witnessed how the agri-food sector has withstood the worst moments of the pandemic with respect to the supply, demand and exports—generating a positive global balance that favors the acceleration of this growth and drives the transformation through the entry of new investors and the development of technological solutions. Sustainable production models will guide this transformation.

Digitalization will democratize the use of new technologies such as Cloud Computing, Edge Computing, IoT, Blockchain and Artificial Intelligence, which will make it possible to offer more transparency, optimize production, reduce food waste, and redesign business models.

Companies in the agricultural sector are combining forces to develop fully integrated operations to increase scale, improve the flexibility and variability of their processes and reduce costs.

However, the real force driving transformation in the agri-food industry is undoubtedly related to the concept of sustainability. This movement affects the industry in many ways—but we can encompass them into two broader areas. One is the environmental impact and the optimization of traits related to the performance of a crop or animal. The other is the transformation of the food system itself, resulting in a change in consumer habits characterized by healthier and more nutritious food.

With regard to the first area, we note that the food and agriculture industry account for 21-37% of global greenhouse gas emissions and one-third of cultivated or arable land is severely degraded and loses productivity. To address this problem, new soil management practices have been developed. The trend is fast leaning towards the utilization of organic pesticides and the introduction of biotechnology and precision agriculture to facilitate more sustainable farming.

"We are seeing how on the sustainability side the circular economy is gaining more and more ground on how farmers and ranchers themselves are impacting and influencing in their own environment. At the same time, products with clear traceability will end up imposing themselves on the market."

"On the other hand, if we talk about environmental impact, "the boat" is clearly heading towards the reduction of Carbon Footprint by 52%, but we still have a long way to go. If we continue in this direction, maybe by 2045 we will be able to reach this goal."
General Manager at a leading financial services firm focused in Agribusiness

"The pressure from large supermarkets to produce the healthiest product possible has concerned farmers about how to solve the problems associated with being sustainable and at the same time being profitable. The new Nitrate footprint certification will reduce the polluting impact of nitrates on the environment and improve the profitability of companies by being more efficient, and if BIOCHAR (charcoal obtained from plant residues and biomass) is introduced in Intensive Agriculture, we will be able to reduce 15% of CO2 emissions."
Rafael Álvarez, CEO Verde Smart

Likewise, consumers have changed their behavior in the last decade. The new consumer profile demands products adapted to their lifestyle, place of residence and level of digitization. This is a more aware and informed consumer who is interested in the nutritional value of food and environmental sustainability.

"Healthy products are becoming increasingly important for consumers. We are launching a joint project with two publicly traded companies so that the customer has all the information about the origin of the products. If we look at it from the producer's point of view, it is important to note that the average product margin goes up when the product is ECO or Bio."
General Manager at a leading financial services firm focused in Agribusiness

This consumer trend has accelerated innovation in the search for new products that provide a diet rich in plant-based foods and with less animal-based foods. Producers and processors consider this to be a tremendously positive approach to sustainability.

Go Big or Go Home with Digitalization

Contrary to what it may seem at the forefront, the agricultural sector is tremendously technological and the advances around data are rapidly transforming the entire value chain. The ability to process, analyze, and exchange data generated in real-time through the direct application of technology into production processes will largely determine the success of the transition to digitalization.

As is the case with other sectors such as finance, real estate or consumer goods, where technology is strongly impacting the environment through Fintech, Proptech, SaaS or e-commerce solutions—it is the same in the world of agribusiness. We found a huge openness towards innovation when discussing with leading senior executives about the degree of adoption and impact of technology in their businesses.

It is also important to highlight that one of the greatest challenges for the industry is the homogenization of the available data and the integrated information available. Each new technology associated with a process generates its own information model (SCADA, Drones, PLCs, etc.). New digital tools will help increase transparency in the way crops are grown, livestock is produced, and food is processed and distributed, and will also aid in meeting consumer and regulator demand for more information about the food we eat.

"The future lies in the application of AI and Deep Learning into processes, such as selective spraying, where cameras detect the condition of leaves and apply phytosanitary products exclusively to those that are in poor condition. This generates a 70% reduction in the use of herbicides and a 7-8% increase in productivity, in addition to reducing the impact of chemicals on the environment."
Jaime Monreal, President AGC Technologies

The main benefits of technology adoption in production are related to cost reduction and increased productivity. Digitalized systems allow you to adjust the variability of crops by having the optimized product in every inch of the crop area.

Currently, adoption is much faster than expected by farmers. Two generations are coexisting, and although they are moving at different speeds, neither of them is oblivious to technology. The older generations are beginning to see the benefits of having detailed data and information to make better decisions.

And of course, regionally there are differences as well. For example countries like Brazil and Argentina are way ahead of Europe in terms of technology adoption in precision agriculture. We find that specialized equipment is designed for large crop extensions. Its effectiveness is not as good as it should be in a market like Spain or with the characteristics of crops in the Mediterranean region, for example.

"We closely follow the technological developments happening in Silicon Valley because this innovation generates great benefits for our industry."
Antonio Marzia, VP General Manager EMEA & APAC at Topcon

Annex: 2020 AgriFoodTech Investment

A New World: New Business Models

The agricultural value chain used to be simple and based on a supply-driven model where the primary goal of farmers was to maximize the yield of their crops and then seek markets for them.

Now, a new demand-driven paradigm is taking over, forcing farmers to balance the desire to increase yields with two other increasingly critical factors: regulation that forces the sustainable and environmental use of the elements needed to produce (land, water, fertilizers, energy, etc.); and changing consumer consumption patterns that demand healthier, safer, and more nutritious food.

"In the last year we have acquired three companies to develop more sustainable and environmentally friendly biostimulants."
Ricardo Llatser, CEO of TIMAC Agro - Groupe Roullier

Large corporate groups resulting from mergers in the agrochemical sector and the leadership of traders (the famous ABCD companies) collaborating to standardize and digitize international grain trade through technologies such as blockchain and artificial intelligence are raising the competitive bar for all agricultural input suppliers.This puts

pressure on prices and forces these companies to sophisticate their internal operations and relationships with customers as they move up and down along the agricultural value chain to seek new revenues.

"Large Fertilizer companies, Seed houses or farm equipment manufacturers themselves are investing very heavily in R&D and even acquiring technology startups (e.g., FieldView - Monsanto) that allow them to monitor data and work with it to subsequently design their own products or business strategies."
Jaime Monreal, President at AGC Technologies

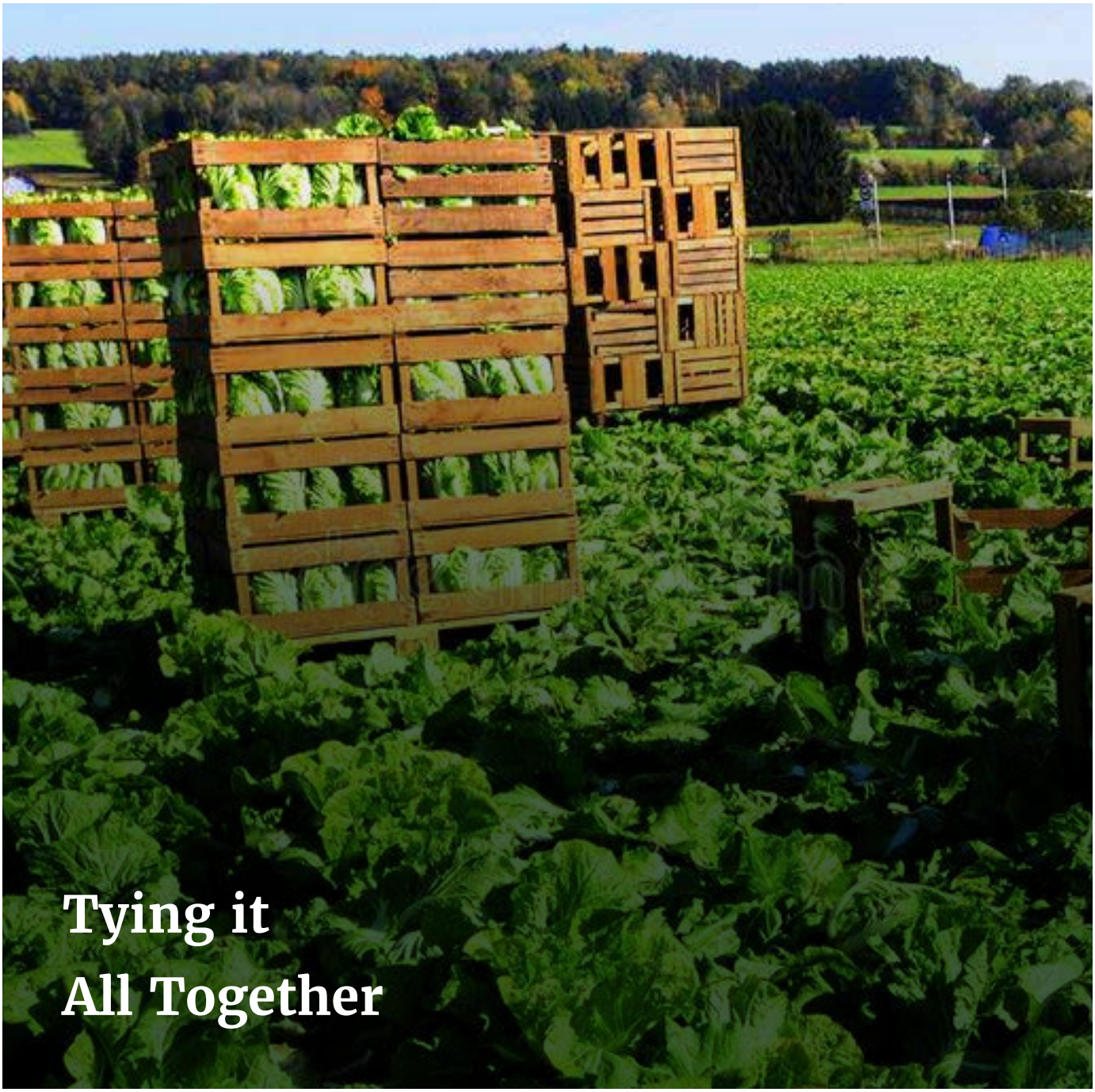
Farmers are in a situation where they need to find and implement new ways to create, deliver and capture value to compete and overcome emerging challenges. As we have pointed out, there have been significant advances in capacity, technology or efficiency in recent years. Still, the change in the model has not been as fast as expected. It is now that we are accepting and noticing the innovations that are really changing the industry. They hail from small and medium-sized companies that are paving the way for large companies—which according to our estimations, will begin to adopt these changes from 2025 onwards.

"We have developed a pioneering business model that allows us to be much closer to the farmer and become true partners for the development and protection of their crops."
Ricardo Llatser, CEO of Timac Agro

Many of these changes are occurring in the last stage of the value chain where producers are looking for alternatives to reach the customer directly with Farming-as-a-Service solutions and leveraging cloud solutions to streamline the distribution chain.

But also, at the production level, we see how the mindset of farmers is moving towards a much more entrepreneurial perspective, where, in addition to introducing innovation and technology, they are starting to think globally and act locally. The concept of Glocalization is said to be the main pillar of the transformation of the global supply chain through the development of strategies based on the adoption of a standard business model adapted to the particular conditions where it is established.

"We are a bank focused on agribusiness—the bank from the agroindustrial chain. We are present on the day by day and growth of our clients, supporting them in both the good and the bad times. Clients value to be able to sit down with professionals that speak the same language and can add value. This is our key differentiator factor."
Rafael Bonasso – General Manager at Rabobank Argentina



Tying it All Together

We face enormous challenges with respect to the transformation of the value chain in the industry. These have a direct impact on the different stakeholders that conform the market. For companies to generate competitive advantages and develop efficient management of their operations, it is important to balance the ability to lead businesses beyond our borders with the specific knowledge of the industry.

It is necessary to incorporate processes from other industries that have a higher degree of maturity and reliability because they have been tested and improved over time. **In this sense, we believe it is important to attract executives from different sectors who are able to combine their strategic leadership skills with the essential characteristics of the agricultural world while embracing innovation and putting technology at the center of their business to transform decision making.**

"Throughout many challenges facing the agribusiness along this last 18 months, the ability to learn and manage unexpected, unplanned, uncontrollable events became essential. Leaders are required to be in the front line maneuvering day-to-day rapid changing dynamics and, at the same time, keeping the sight in the far horizon to anticipate changes."

"Leaders have to be agile enough to be with the team in driving the dynamics of the operation with the current day-to-day volatility, and at the same time, broaden their view on the horizon to anticipate changes in the operating landscape and act to avoid negative impacts on the Business according to what they see."
Senior Vice President Global Supply Chain at worldwide leading company within the agri-food industry.

In recent years we have gone from needing agricultural engineers to true software managers. This is a very profound change that affects not only the culture of companies but the way they are managed, as the focus shifts from worrying about the health of plants or animals to understanding what technology to apply at any given moment to be more sustainable.

Industry developments will occur through the acquisition of technology companies, and those leaders who are able to integrate them properly into their production processes without killing innovation will be the ones to gain a competitive advantage.

There is no doubt that we are facing a complex value chain made up of many links with different interests but with a common goal of adapting to the changes that are taking place. We are experiencing a unique moment in an industry that is addressing the future through the adoption of technology but that still has significant challenges to overcome. As has always been the case, these challenges often respond to external forces that are precisely those at the origin of innovation in the chain.

At Kingsley Gate Partners, we understand the challenge of finding the leaders capable of guiding companies into the future, but we know that the first step has already been taken; now it is time to continue navigating through the uncertainty firmly, with global vision and with the support of the Board.

Annex: Forecast on the Future Leaders of Agribusiness

Annex I

A forecast of the C-Level talent needs of the future in Iberia and Latam:

- **CEO Agribusiness** - there is a demand for executives who are able to control and understand field operations while mastering corporate management strategies.
- **Chief Marketing Officer** - there is a need for brand creation and development along the value chain that involves marketing actions coming from the FMCG world.
- **Chief Strategy Officer** - the adoption of new technologies will lead to M&A transactions in the market, and it will be important to have executives capable of analyzing the impact of potential corporate transactions on the company.
- **Chief Communication Officer** - the regulatory framework and the impact of agricultural activities on society and the environment require professionals specializing in corporate reputation.
- **Chief Data Officer** - operations tend to be increasingly supported by data technology, which requires in-depth data processing skills for decision making.

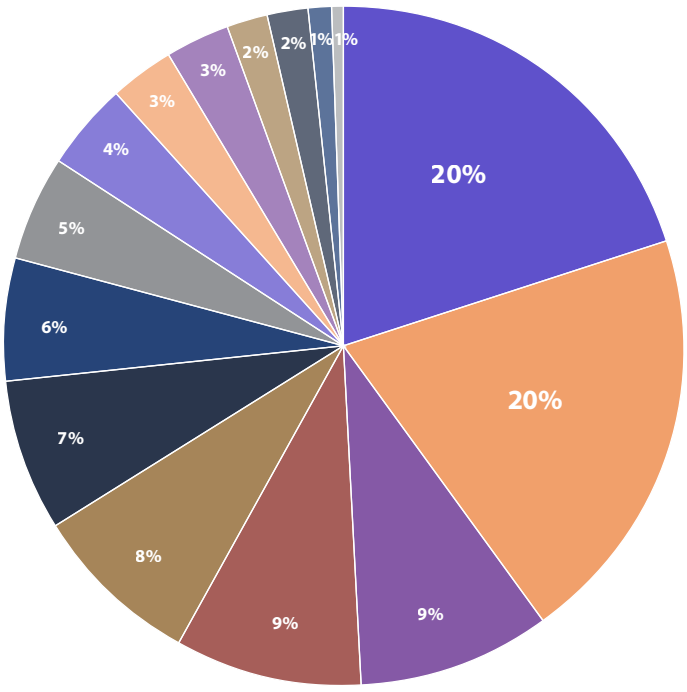
Annex II

Agrifoodtech – Technology as an accelerator of change

The term Agrifoodtech encompasses the ecosystem of entrepreneurs and startups that are innovating by applying new technologies to improve all elements of the food chain—from production to distribution and, ultimately, consumption.

Like any ecosystem, it must be supported by the investment that makes it evolve and therefore, we consider it essential to listen to the investors in the sector. We have seen how the AgriFoodTech environment has obtained a capital of 26,100B USD in 2020, representing a year-on-year increase of 15.5%. The estimated amount for 2021 is more than 30,000B USD, which would imply a growth of 34.5% compared to 2019.

2020 AgriFoodTech Investment



AGFUNDER

DEALS BY CATEGORY

- Midstream Technologies
- eGrocer
- Innovative Food
- Retail Technology
- Restaurant Marketplaces
- Cloud Retail Infrastructure
- Ag Biotechnology
- Novel Farming Systems
- Agribusiness Marketplaces
- Farm Mgmt SW, Sensing & IoT
- Bioenergy & Biomaterials
- Online Restaurants & Mealkits
- Miscellaneous
- Farm Robotics Mechanization& Other Farm EQ
- Home & Cooking

Agribusiness Team

Alberto Terrón
Vice President
Madrid

Pedro Folque de Almeida
Senior Partner
São Paulo

Eduardo Taylor
Senior Partner
Mexico

María Cristina Mejía
Partner
Bogota

Eduardo Antunovic
Senior Partner
Santiago de Chile

Margot Carlés
Vice President
Buenos Aires

Cali Santa María
Senior Partner
Lima

Rosana Souza
Principal
São Paulo

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