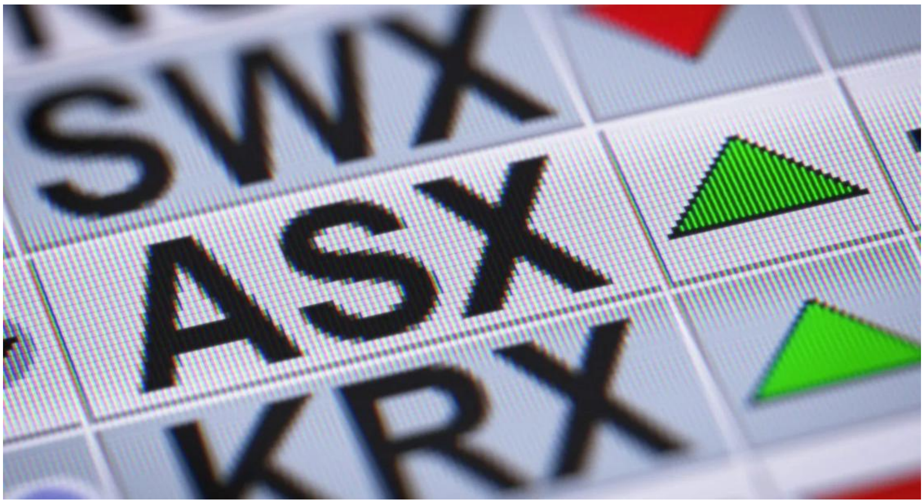
AgFunder News

Why Are Agtech Startups Listing on the Australian Stock Exchange?

NOVEMBER 7, 2017 EMMA COSGROVE



In October, Israeli startup Roots Sustainable Agriculture Technologies lodged a prospectus to raise A$5 million ($3.82 million) and list on Australian Securities Exchange (ASX), with a market cap of A$12 million.

Roots Sustainable has developed climate control and irrigation systems that heat and cool greenhouse crops at the roots, which, according to the company, makes both functions more energy- and water-efficient. The Roots Sustainable system allows greenhouse growers to operate year-round in climates where growers would otherwise need to stop growing during either extremely hot or extremely cold months.

The eight-year-old Israeli startup had raised A$3 million ($2.3 million) previously from private investors and the Israel Innovation Authority, but according to one of the cofounders, it decided to go public with the idea that future fundraising would be less time-consuming and would allow him to focus more on expanding his business and less on raising his next round.

"A CEO finds himself most of the time dealing with fundraising. Once you are public, it's more available to you with relatively less work," says Roots co-founder Boaz Wachtel, who has listed two companies on the ASX before; medical cannabis businesses MMJ Phytotech Ltd. (MMJ) and Creso Pharma(CPH).

Once a company is publicly listed, raising more funding still takes time and effort, but the process is less laborious than going from investor to investor, he adds.
"It is a very strenuous period from the time you decide to take the company public, but its a period of a year and then once you get to the stock exchange, you end up

with A$5 million and you can expand internationally. That's how we see it," says Wachtel. Roots (ROO) is currently awaiting an official listing date but expects to go up on the board in mid-November.

Why Go the Public Route?

It is rare for agrifood tech startups to list publicly on any exchange, especially startups with only a few million dollars to their name. But in the last year, at least three agrifood tech startups have listed on the ASX (including Roots), suggesting that this may be the start of a funding trend.

In-field IoT provider CropLogic (CLI) listed on the ASX on September 12. The company raised its target of A$8 million in a fully-subscribed share offer with a market cap of $25 million. The Christchurch, New Zealand-based company's software gathers field data and makes crop prescriptions and management recommendations based on proprietary models.

On the date of its debut, the stock dropped 23% to A$15.5. In October it was down 40% from its original A$0.20 per share issue price.

CropLogic did have some success in the private market before deciding to list; it raised A$2.5 million in May after an earlier A$512,200 crowdfunding campaign on Equitise in 2016.

CropLogic's current clients are mainly potato farmers in the pacific northwest region of the US, after it acquired Washington state agronomy services provider Professional Ag Services in June.

The advantages of listing for CropLogic were fairly unique in his view, since the business model relies on acquisitions, according Jamie Cairns, CEO of CropLogic.

"Strategic acquisitions provide CropLogic with immediate market access, relationships, and acres under management and have always been a fundamental part of our market entry strategy," he says.

"We look for successful traditional service providers where we can use our technology to transform their business models… We wanted listed stock particularly because stock in a privately-held company is not attractive to all vendors."

Outside of agriculture, but well within agrifood tech, Dragontail Systems, a software company using computer vision and machine learning to spot food quality issues in pizza and fast food, raised A$6 million on the ASX at the end of 2016 and recently raised an additional $8.8 million in a secondary offeringin October.

Why the ASX?

Australia has an appetite for agriculture technology demonstrated by its growing deal count, which brought the country into the top five for agrifood tech deal activity in the first half of 2017, according to AgFunder data. But a Silicon Valley-like ecosystem has yet to fully form, with later stage funding harder to find, though growing accelerators like the SproutX program provide early-stage support.

Still, Australian investors seem to respond to agriculture opportunities, says Wachtel, “The market in Australia has a real appetite for technology like ours.”

The ASX has also made efforts to welcome smaller companies than most countries’ primary exchanges, affording startups the image of listing on a major exchange, despite having relatively small market caps.

The CEO of the ASX Domenic Stevens, in his recent presentation to the exchange’s annual general meeting, recalled that a small Israeli company that recently listed said that other exchanges had offered listings on their “second boards,” and the startup found the ASX “just right.”

“For smaller companies, listing on the ASX often makes more sense than say the NASDAQ because their IPOs are smaller in scale, Australian listing costs are less, and the ASX performances are strong,” said Adam Blumenthal, Chairman of EverBlu Capital, a corporate consultancy based in Sydney.

Two-thirds of ASX companies are small and medium-sized enterprises (SMEs) with market capitalizations under A$100 million, according to Blumenthal, who says that Australian investors have an affinity for companies this size.

“On the ASX there is an increasing investor appetite for smaller companies … Momentum grows as companies from similar countries and sectors become known in the Australian investment community. Companies get used to Australian regulatory conditions and investor mindsets,” he said.

CropLogic’s Cairns said that he considered his home exchange, the New Zealand Stock Exchange (NZX), but the mainboard required a market cap of NZ$50 million ($69 million), which was too large, and the secondary board had only ever had four companies list there at the time.

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