VALUE FOCUS
Agribusiness Industry

SEGMENT FOCUS
Crops & Crop Services

2015

Q1: Agriculture Machinery, Equipment & Implements
Q2: Crops & Crop Services
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SEGMENT FOCUS

Crops & Crop Services

Agribusiness experienced a successful year in 2013, as farm income reached record-levels, totaling $128.9 billion.[1] However, farm incomes declined in 2014 and into 2015 due to lower commodity prices from record high yields. Net U.S. farm income is expected to measure $73.5 billion in 2015, a 32% decline from the 2014 estimate of $108 billion and the lowest level recorded since 2009, according to the USDA. The largest decline is expected for corn receipts, while smaller declines are anticipated for rice and cotton. Livestock was one of the better performing agricultural sectors in 2014 due to more favorable supply and demand conditions, although 2015 receipts are expected to be lower for that segment as well.

The continued decline in crop and livestock pricing should be offset to some extent by increased government payments and a slowing increase in operating expenses. Farm balance sheets remain relatively strong, despite minimal asset growth and a decline in farmland values, although certain financial risk indicators (for example, debt to equity ratios) are beginning to trend modestly upward, indicating some degree of increasing financial pressure. With respect to production expenses, declines in fuel and oil, feed, and fertilizer expenses will help to keep overall expense growth in check.[2]

Figure 1: U.S. Farm Sector Income Statement, 2011–2015F

($ billions)

	2011	2012	2013	2014F	2015F
Crops	$204.7	$236.1	$218.5	$198.2	$182.6
Livestock	163.9	168.7	182.8	209.2	199.0
Direct Government Payments	10.4	10.6	11.0	10.8	12.4
Other Farm-related Income	26.1	28.5	31.5	27.3	27.3
Gross Cash Income	**$405.1**	**$443.9**	**$443.8**	**$445.5**	**$421.3**
Noncash Income	22.8	20.2	23.4	24.0	23.8
Value of Inventory Adjustment	(1.7)	(19.1)	13.7	6.4	(1.2)
Total Gross Income	**$426.3**	**$445.0**	**$480.9**	**$475.9**	**$443.9**
Total Expenses	312.5	342.4	352.0	367.9	370.4
Net Farm Income	**$113.8**	**$102.6**	**$128.9**	**$108.0**	**$73.5**

Source: U.S. Department of Agriculture

Imports/Exports

The USDA is forecasting a decline in agricultural exports for the 2015 fiscal year following a long-term increasing trend, primarily due to the strong U.S. dollar which dampens overseas demand for U.S. originated commodities. The agricultural trade surplus, estimated at $22.5 billion in 2015, is the smallest surplus since 2007.

The effect of the strong U.S. dollar on exports will be partially offset by lower energy prices and stronger economic growth worldwide. Among exports, higher-value commodities such as livestock, tree nuts and fruit are expected to experience the most significant declines, while row crops (grains, feed, cotton, etc.) should be more stable relative to the prior year.[3]

Figure 2: U.S. Agricultural Trade, fiscal years ending September 30, 2009-2015

($ billions)

	2009	2010	2011	2012	2013	2014	2015 F
Exports	96.3	108.5	137.5	135.9	141.0	152.5	141.5
Imports	73.4	79.0	94.5	103.4	103.9	109.2	119.0
Balance	22.9	29.6	43.0	32.5	37.1	43.3	22.5

Reflects forecasts in the February 10, 2015 World Agricultural Supply and Demand Estimates report.

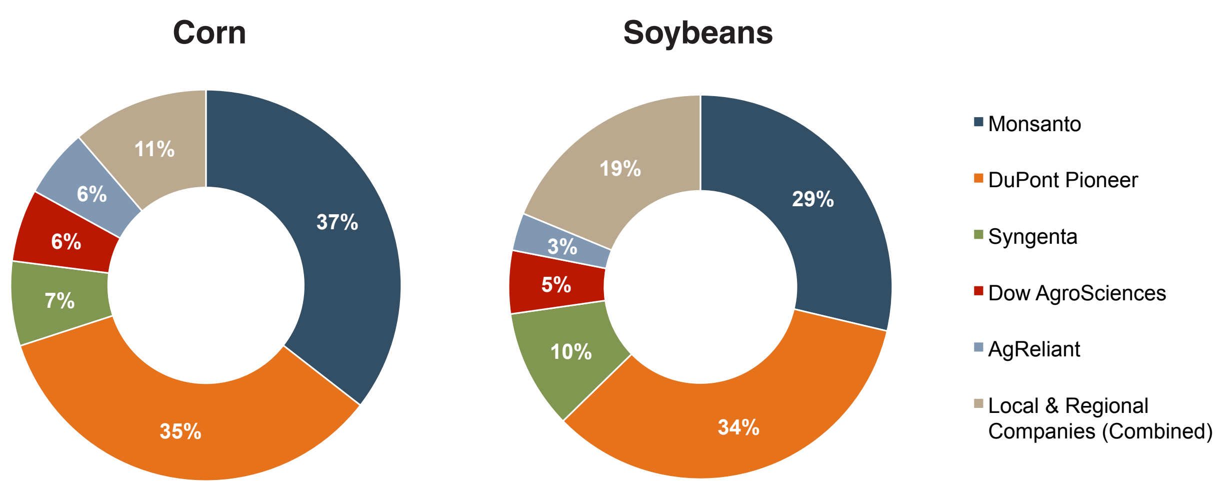
Source: Compiled by USDA using data from U.S. Census Bureau, U.S. Department of Commerce

Seeds

The overall seed market is concentrated among a select number of industry providers, with Monsanto (NYSE: MON) and Pioneer, a subsidiary of Dupont (NYSE: DD), controlling 65% to 75% of both the soybean and corn seed markets. Local and regional companies account for small but measurable market share for corn and soybean seeds (11% and 19%, respectively), but have seen their market share shrink over the last five years.[4] The chart below presents market share for soybean and corn seed markets in the U.S.

The demand for crops naturally carries a strong correlation to the demand for seeds, particularly seeds that help increase productivity and lower costs. Genetically modified (GM) seeds have continued to improve farm yields and helped create a more stable crop in a highly cyclical industry. In 2014, approximately 93% of corn farmers planted GM corn seeds, compared to 85% in 2009. GM soybean seeds were adopted earlier than corn, with the majority of farmers implementing GM soybean seeds in the late 1990s to early 2000s. In 2008, GM seeds accounted for 92% of U.S. soybean plantings, ticking up slightly to 93% in 2014. Producers of GM corn and soybean varieties prohibit the reuse of seeds from season to season in order to protect their patented gene developments and to create demand for such seeds each year. Therefore, farmers must purchase new seeds from these companies every year; consequently, the revenue derived from seed sales is expected to remain steady.[5, 6]

Figure 3: Corn and Soybeans



Source: Growing Georgia
Mercer Capital Analysis

Crop Services

The Crop Services industry consists of firms that assist in a variety of planting, harvesting and treatment activities for crop producers. The industry provides services for all types of crops, including handpicking fruit, crop dusting and cotton ginning. As such, industry performance is the aggregate result of many different types of industry operators. Despite slow growth in the industry's largest market segment, fruit and vegetable farming, revenue has increased an estimated 0.7% per year on average from $13.2 billion in 2010 to a projected $13.7 billion in 2015.

The well-established nature of U.S. farming guarantees demand for crop services. Demand for fresh fruit and vegetables calls for specialized operators to plant and pick these crops. Similarly, continued international demand for U.S. cotton will ensure a place for cotton ginners, another industry segment. Due to the specialized nature of most industry services, profit margins tend to be strong, at 7.4% of revenue in 2015.

Despite stable margins and demand for services, industry revenue is expected to fall over the next five years. Falling crop prices and decreasing planted acreage are expected to negatively affect crop production from 2015 to 2020, weakening demand for crop services. This decline is expected to be lessened as interest rates increase, which will lead farmers to be less inclined to invest in their own machinery, preferring to outsource to industry operators. As a result, industry revenue is expected to fall at an annualized rate of 0.3% to $13.5 billion by 2020.[7]

Government and Regulatory Activity

Government subsidies over the past year were comprised primarily of payments for the corn and soybean industries, the two largest in American agriculture. Once the data are finalized, this government assistance is expected to decrease during 2014, contributing to a decrease in farming revenues. This reduction of subsidies is a direct result of the Agricultural Act of 2014, which went into effect on February 7, 2014. Among other things, this "Farm Bill" legislation places income caps on farm subsidies, ends direct payment subsidies, and reverts to a farm insurance model of subsidizing, the effect of which will decrease the overall government funds paid to farmers.

In the 2007 Energy and Security Independence Act, Congress raised the Revised Renewable Fuel Standard, mandating that by the year 2022, 36 billion gallons of biofuel and renewable fuels must be in production. An increase in biofuel production directly increases the demand for corn, soybeans, and other crops, such as canola oil, that can be used in the manufacture of biofuels. Ethanol, derived from corn, serves as the most widely used biofuel.

Crop & Crop Services M&A Activity

Spotlight on Monsanto/Sygenta Combination

Syngenta AG (SYNN.VX), the Swiss-based fertilizer and ag-chemical giant, recently rejected U.S rival Monsanto's (NYSE: MON) acquisition bid, rejecting an offer estimated at $45 billion made on May 8, 2015. The 449 Swiss-franc (approximately $484) per share offer represented an approximate 45% premium to Syngenta's closing stock price on May 7, 2015. Monsanto planned to fund the acquisition with approximately 45% cash and the rest with stock.

On June 6, 2015, Monsanto made a new attempt to acquire Syngenta, with only one change to the offer: the addition of a reverse regulatory breakup fee, with Monsanto agreeing to pay Syngenta $2 billion if it cannot obtain the regulatory approvals necessary to complete the deal. Syngenta rejected the second takeover offer by Monsanto, citing the $45 billion price as undervaluing the Company. Syngenta also raised antitrust and regulatory issues; Monsanto has previously been the subject of U.S. antitrust probes and is already one of the top seed and agricultural chemical companies in the U.S. [8, 9]

The Companies long courtship dates back over four years, when the two companies held merger talks in 2011, with Syngenta repeatedly denying Monsanto's advances. The $45 billion offer values Syngenta at nearly 17x LTM EBITDA (earnings before interest, taxes, depreciation, and amortization) according to S&P Capital IQ research.

Editor's Note: On August 26, 2015, Monsanto abandoned its bid for Syngenta, following several days of extreme volatility in stock prices and a clear message from Syngenta that a takeover process would be opposed based on the Board's view of "very attractive" long-term prospects for the company and its portfolio of products and services. The move was also relatively well received by Monsanto shareholders, with the stock rising nearly 9% following the abandoned bid.

References and Data Sources

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6. IBISWorld, Soybean Farming in the US Industry Report, May 2015
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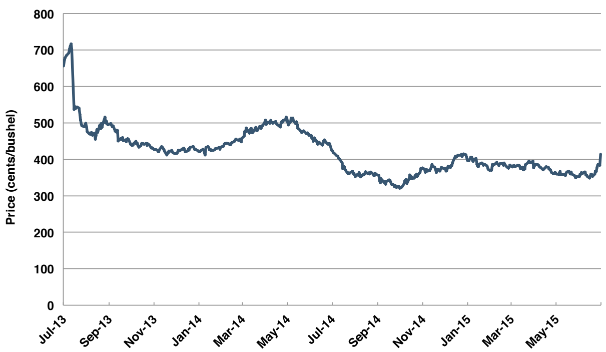
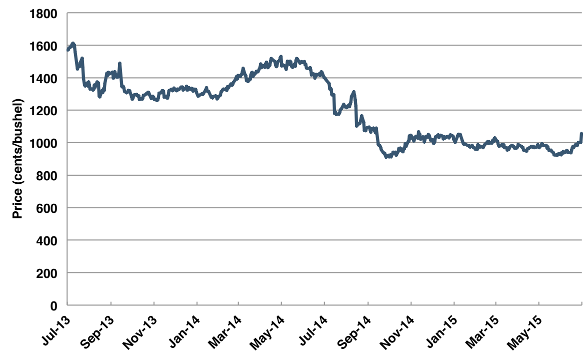
Corn



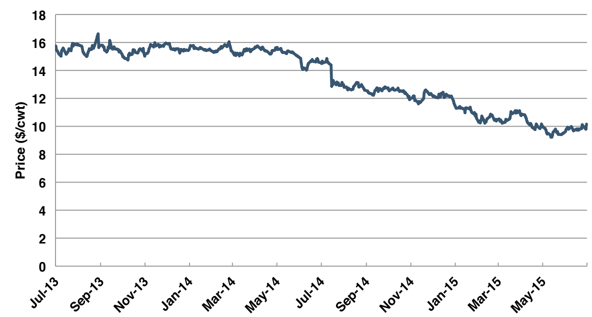
Soybeans



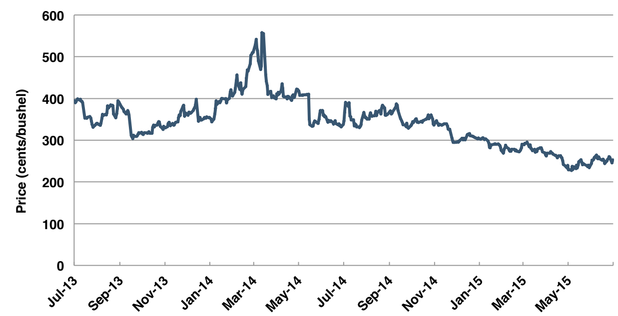
Wheat

Cotton

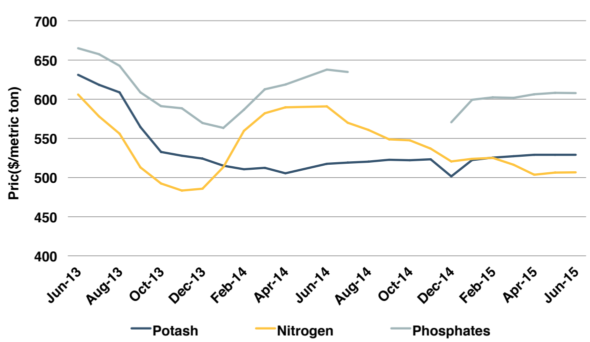
Rough Rice



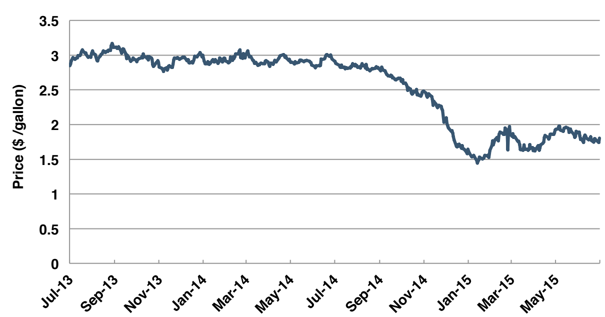
Oats



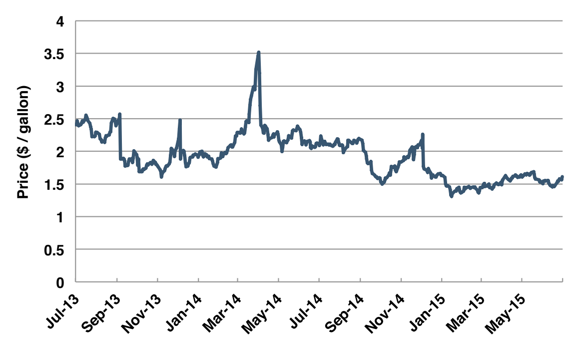
Retail Fertilizer



Gulf Coast Diesel: Ultra-low Sulfur No. 2



Ethanol

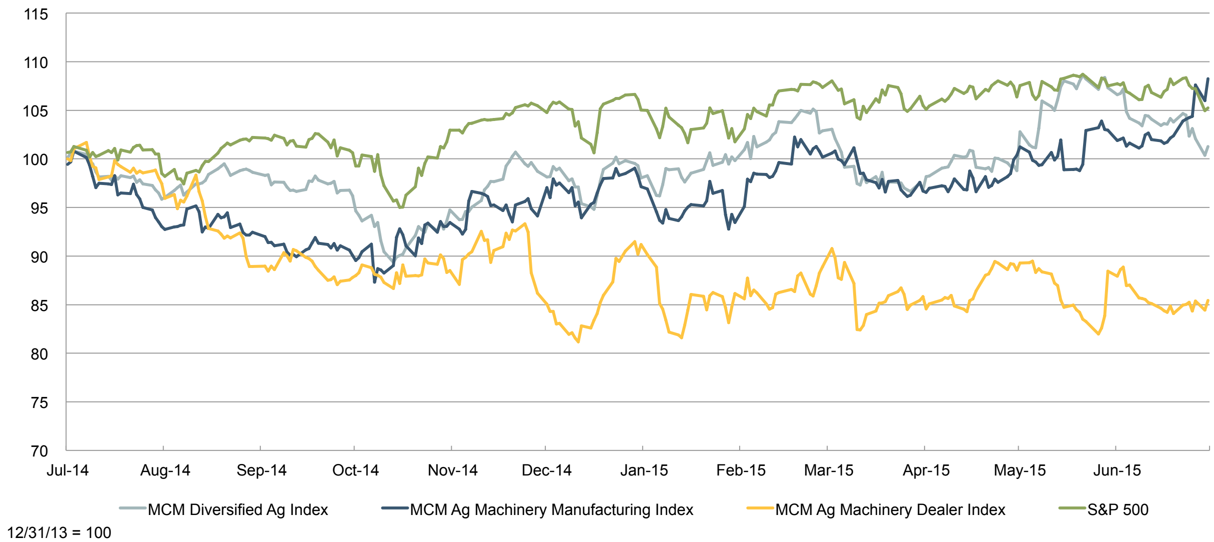


Publicly Traded Agribusiness Companies

Company Name	Ticker	June 30 Price ($)	52 Wk Perform (Market Cap)	LTM Revenue ($)	Enterprise Value ($M)	Debt/ MVTC	EBITDA Margin	EV / LTM EBITDA (x)	EV / Nxt Yr EBITDA (x)	Price/ LTM Earnings (x)
Diversified Agribusiness										
Agrium Inc.	TSX:AGU	106.09	15.0%	15,489	19,137	34.4%	11.0%	11.20	8.27	18.06
CF Industries Holdings, Inc.	NYSE:CF	64.28	20.8%	4,403	18,298	30.4%	46.6%	8.91	8.03	16.38
The Mosaic Company	NYSE:MOS	46.85	-9.8%	9,256	18,430	22.5%	26.0%	7.67	7.55	13.84
Potash Corporation of Saskatchewan Inc.	TSX:POT	31.00	-18.8%	6,402	29,920	16.3%	43.4%	10.76	9.70	17.05
Intrepid Potash, Inc.	NYSE:IPI	11.94	-28.7%	337	958	16.5%	29.0%	9.79	9.67	146.85
Rentech Nitrogen Partners, L.P.	NYSE:RNF	14.30	-15.7%	344	863	61.8%	24.9%	10.07	8.21	NM
Terra Nitrogen Company, L.P.	NYSE:TNH	121.09	-16.1%	583	2,264	0.0%	60.0%	6.47	NM	10.96
Yara International ASA	OB:YAR	51.84	2.9%	13,418	15,960	11.9%	16.7%	7.12	6.34	15.61
Monsanto Company	NYSE:MON	106.59	-23.8%	15,276	57,771	18.0%	30.7%	12.31	11.25	19.65
Syngenta AG	SWX:SYNN	405.82	8.9%	14,260	39,433	11.5%	19.5%	14.17	13.49	25.70
Archer-Daniels-Midland Company	NYSE:ADM	48.22	3.6%	73,703	35,092	23.1%	5.1%	9.27	8.91	13.24
Bunge Limited	NYSE:BG	87.80	13.3%	48,495	16,916	38.4%	3.6%	9.56	7.72	25.15
Median - Diversified Agribusiness			**-3.5%**	**11,337**	**18,364**	**20.2%**	**25.5%**	**9.67**	**8.27**	**17.05**
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Company	NYSE:DE	97.05	-1.6%	32,940	66,262	115.4%	15.5%	12.95	21.08	13.13
AGCO Corporation	NYSE:AGCO	56.78	-5.3%	8,412	6,218	30.3%	8.9%	8.26	9.23	18.30
Lindsay Corporation	NYSE:LNN	87.91	-6.4%	584	969	11.7%	14.0%	11.88	12.20	26.16
Blount International Inc.	NYSE:BLT	10.92	-23.9%	896	931	82.4%	12.6%	8.27	6.98	NM
Art's-Way Manufacturing Co. Inc.	NasdaqCM:ARTW	4.68	-18.2%	36	28	52.2%	9.0%	8.89	NM	14.15
Median - Manufacturers			**-6.4%**	**896**	**969**	**52.2%**	**12.6%**	**8.89**	**10.71**	**16.23**
Dealers										
Titan Machinery, Inc.	NasdaqGS:TITN	14.73	-9.9%	1,788	1,019	79.8%	3.6%	15.69	20.49	NM
Rocky Mountain Dealerships, Inc.	TSX:RME	7.37	-28.6%	768	469	71.4%	4.3%	14.10	15.20	12.17
Cervus Equipment Corporation	TSX:CVL	12.85	-34.0%	895	503	62.3%	4.7%	11.99	10.09	NM
Median - Dealers			**-28.6%**	**895**	**503**	**71.4%**	**4.3%**	**14.10**	**15.20**	**12.17**

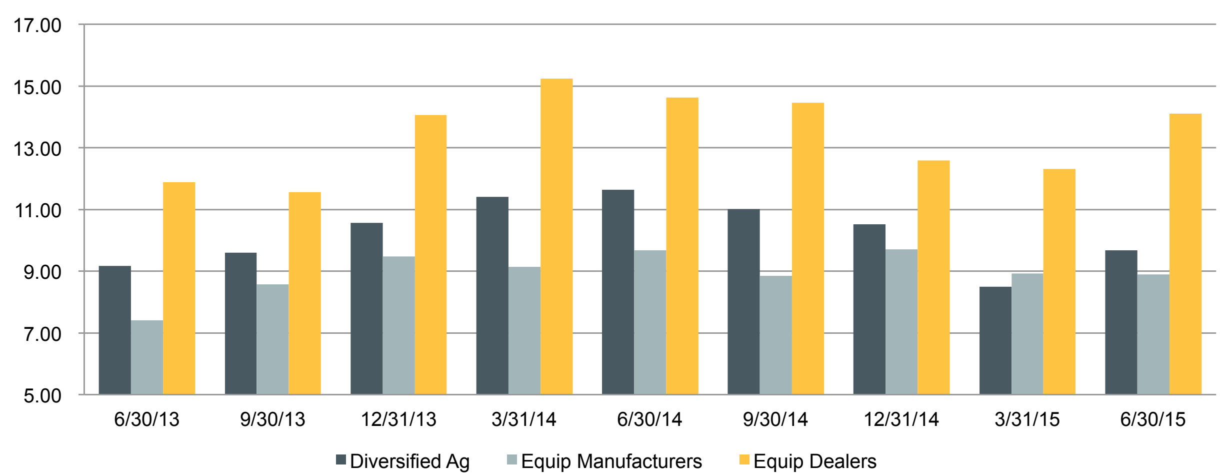
Source: Capital IQ

Mercer Capital Agriculture Indices: One Year Performance



Source: Yahoo! Finance

Historical EV / EBITDA Multiples



Source: Capital IQ

MERCER CAPITAL
BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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Agribusiness Industry Services

Mercer Capital has expertise providing business valuation and financial advisory services to companies in the agribusiness industry.

Industry Segments

Mercer Capital serves the following industry segments:

- Agriculture Machinery, Equipment, & Implements
- Crop and Crop Services
- Agriculture Real Estate
- Agriculture Chemicals

Services Provided

- Valuation of agriculture companies
- Transaction advisory for acquisitions and divestitures
- Valuations for purchase accounting and impairment testing
- Fairness and solvency opinions
- Litigation support for economic damages and valuation and shareholder disputes

Contact a Mercer Capital professional to discuss your needs in confidence.

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Erickson Partners Merges with Mercer Capital

[Mercer Capital] **Mercer Capital**, a national business valuation and financial advisory firm specializing in Corporate Valuation, Litigation Support, Financial Reporting Valuation, and Transaction Advisory Consulting, and **Erickson Partners, Inc.**, a Texas-based Valuation and Litigation Support firm, announce their merger effective July 1, 2015.

Mercer Capital, with its strong presence throughout the Southeast and Midwest, and Erickson Partners, with its strong presence in Texas and Oklahoma, are a perfect fit.

Both firms maintain the highest standards of quality for financial analysis and client service and believe deeply in hiring and developing the best professionals.

"The culture of both firms is so similar and that was important to us. The professionals of Erickson Partners are well-known in the valuation profession as some of the best and brightest. Their work product and reputation are stellar. This merger not only allows us to broaden our geographic reach but also our industry expertise," said **Matt Crow**, President of Mercer Capital.

Erickson Partners enhances Mercer Capital's broad base of industry concentrations with their exceptional history working with and knowledge of professional sports franchises and the energy sector.

"Over our 30 plus year history, Mercer Capital has developed several industry concentrations. By adding the knowledge, insight, and expertise of Don Erickson, Bryce Erickson, and the rest of the professionals of Erickson Partners, we now bring deep experience and insight to a broader range of industries than we could as separate firms," said **Chris Mercer**, CEO of Mercer Capital.

"Combining with Mercer Capital, we will now be able to offer new or expanded services that complement our existing services, as well as additional industry expertise," said **Bryce Erickson**, Managing Director of Erickson Partners. "In addition to our sports franchise and energy industry concentrations, we will be able to offer deep industry concentrations in construction and building materials, agribusiness, manufacturing and financial institutions, which includes depository institutions, insurance companies, fintech companies, asset management firms, and PE firms."

"The combined firm will have over 40 valuation professionals positioned in five markets throughout the southwest and southeast. Such a deep bench will provide us with a tremendous opportunity to better serve the expanding needs of our clients," said **Don Erickson**, President of Erickson Partners. "Joining with Mercer Capital gives us national resources that will benefit our clients in Texas and beyond."

About Mercer Capital

Mercer Capital is a national business valuation and financial advisory firm offering corporate valuation, litigation support, financial reporting valuation, and transaction advisory consulting services to a national client base. Clients include private and public operating companies, financial institutions, asset holding companies, high-net worth families, and private equity/hedge funds.

About Erickson Partners, Inc.

Erickson Partners is a professional valuation and advisory firm specializing in business valuation, litigation support, financial investigations and strategic corporate advisory services. Founded by Don & Bryce Erickson, Erickson Partners has served large and small clients by providing complex financial and economic analysis, leading to reasonable valuation opinions that withstand scrutiny.

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