

# VALUE FOCUS

## AGRIBUSINESS



2013

Q1: Agriculture Machinery, Equipment, & Implements

**Q3: Agriculture Real Estate**

Q2: Crops and Crop Services

Q4: Agriculture Chemicals

## Segment Focus

# Agriculture Real Estate

2013 Third Quarter

Through the third quarter of 2013, agricultural land values continue to increase, sustaining a four-year increasing trend. Prices of agricultural real estate across the United States, including cropland and pasture land, have increased by an average of 9.4% from 2012 to 2013, to an average price of \$2,900 per acre.<sup>1</sup> Since 2012, cropland value has increased by 13.0% to \$4,000 per acre, while pasture land has increased by 4.3% to \$1,200 per acre. Farm real estate (including both land and structures) is by far the largest asset on the farm sector balance sheet, accounting for 84% of total U.S. farm assets in 2009.<sup>2</sup> Industry experts expect farmland values may fall over the coming years, due to rising global crop output and other efficiencies that are expected to lead to a flattening of commodities prices.

**Table 1: Cropland, Average Value per Acre**

Region and United States 2009-2013

Region	2009	2010	2011	2012	2013	Change 2012-13	Change 2009-13
Northeast	\$5,340	\$5,260	\$5,190	\$5,260	\$5,280	0.4%	-1.1%
Lake	3,020	3,120	3,500	4,090	4,660	13.9%	54.3%
Corn Belt	3,910	4,240	5,070	6,010	6,980	16.1%	78.5%
Northern Plains	1,300	1,450	1,810	2,360	2,950	25.0%	126.9%
Appalachian	3,600	3,590	3,590	3,750	3,930	4.8%	9.2%
Southeast	3,960	3,690	3,650	3,510	3,410	-2.8%	-13.9%
Delta	1,810	1,920	2,050	2,220	2,410	8.6%	33.1%
Southern Plains	1,380	1,430	1,520	1,610	1,610	0.0%	16.7%
Mountain	1,610	1,530	1,550	1,620	1,750	8.0%	8.7%
Pacific	5,210	5,080	5,240	5,540	5,820	5.1%	11.7%
<b>United States*</b>	<b>2,670</b>	<b>2,770</b>	<b>3,100</b>	<b>3,540</b>	<b>4,000</b>	<b>13.0%</b>	<b>49.8%</b>

Source: USDA Land Values 2013 Summary

\*Excludes Alaska, Hawaii, and American Indian Reservation land

**Table 2: Pasture, Average Value per Acre**

Region and United States 2009-2013							
Region	2009	2010	2011	2012	2013	Change 2012-13	Change 2009-13
Northeast	\$3,270	\$3,170	\$3,210	\$3,230	\$3,270	1.2%	0.0%
Lake	1,790	1,780	1,800	1,870	2,020	8.0%	12.8%
Corn Belt	1,950	1,970	2,100	2,280	2,490	9.2%	27.7%
Northern Plains	496	519	556	689	816	18.4%	64.5%
Appalachian	3,400	3,320	3,300	3,270	3,410	4.3%	0.3%
Southeast	4,270	4,030	3,690	3,430	3,380	-1.5%	-20.8%
Delta	2,130	2,140	2,170	2,190	2,270	3.7%	6.6%
Southern Plains	1,300	1,340	1,420	1,490	1,520	2.0%	16.9%
Mountain	517	518	525	551	558	1.3%	7.9%
Pacific	1,730	1,700	1,680	1,660	1,680	1.2%	-2.9%
<b>United States*</b>	<b>1,070</b>	<b>1,080</b>	<b>1,100</b>	<b>1,150</b>	<b>1,200</b>	<b>4.3%</b>	<b>12.1%</b>

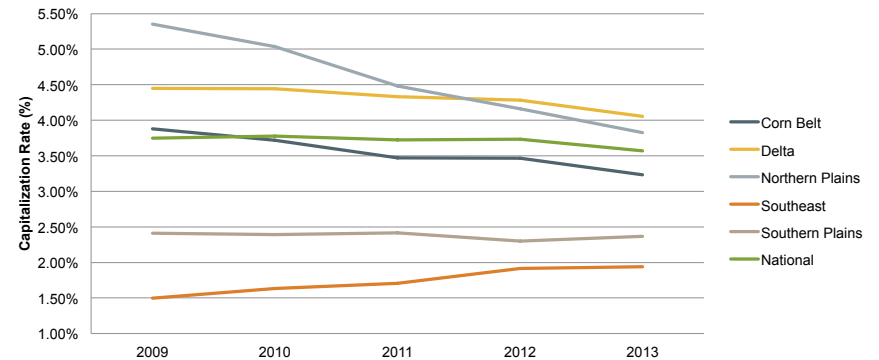
Source: USDA Land Values 2013 Summary

\*Excludes Alaska, Hawaii, and American Indian Reservation land

Figure 1 shows capitalization rates for cropland in select geographic regions based on cash rents and cropland values provided by the USDA National Agricultural Statistics Service. Since 2009, cap rates have remained fairly stable when viewed on a national basis, although the level of rates (below 4%) implies expensive cropland under conventional cap rate wisdom (i.e., a price to earnings multiple of more than 25x). Cropland cap rates have been rising in the South, although they remain well below the national average, while Corn Belt, Delta and Northern Plains real estate has continued to get more expensive.

**Figure 1: Capitalization Rate of U.S. and Select Regional Cropland**

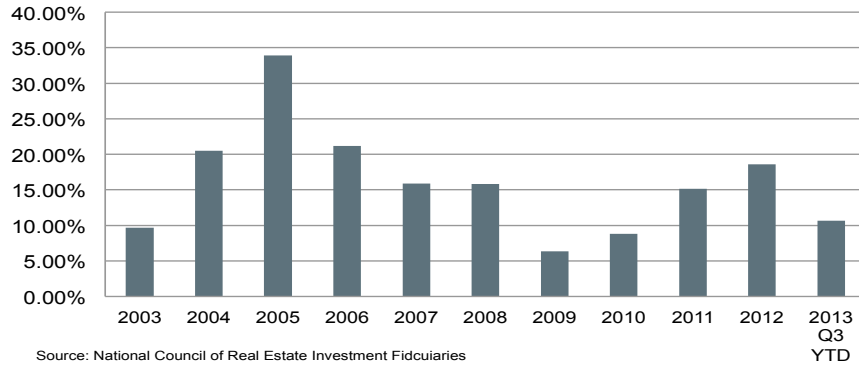
Survey Years 2009-2013



Source: USDA NASS

The past two years have seen rising demand for investment in farmland as an asset class (as opposed to investment by owner-operators). Non-operators are drawn to farmland as a stable long-term alternative to more volatile investment classes. This characteristic has been particularly attractive in the wake of the uncertainty caused by the recent financial crisis. Figure 2 presents annual farmland returns earned by investors of individual agricultural properties that were acquired in the private market for investment purposes only (primarily pension funds and other institutional investors). Thus, the data, which is also self-reported by the property owners, represents returns to only one investor class. Returns on farmland investments have increased consistently since 2009, when they reached their lowest point of the past ten years. Even so, returns on farmland, as evidenced by the chart below, never dropped below a yearly average of 5%. These sustained positive rates of return, even in the midst of the financial crisis, have contributed to the increased demand in farmland investment in the past several years.

Figure 2: Annualized Farmland Returns

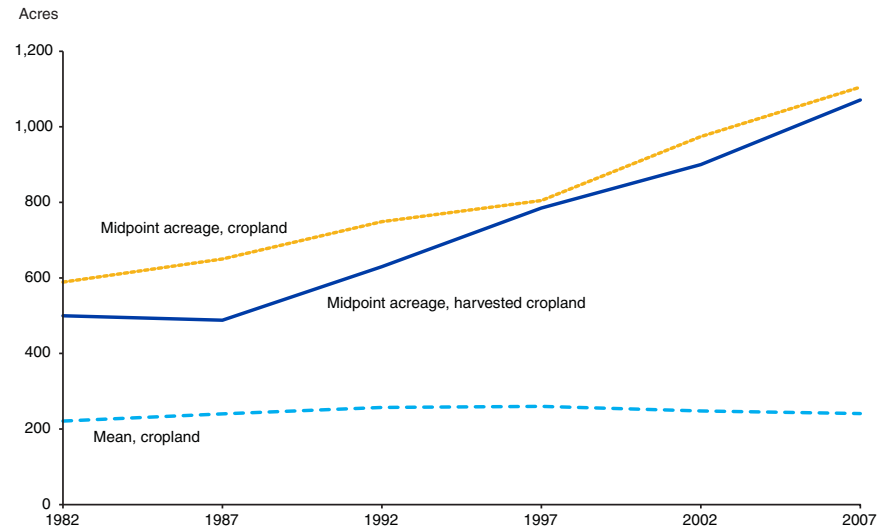


Foreign investors have shown an increasing interest in U.S. agricultural land. Of the approximately 922 million acres of farmland in America, 2.7 million (about 2.0%) is owned by foreign persons or organizations, according to the USDA.<sup>3</sup> A majority of this land is forestland, with investors from Canada and Mexico as the largest foreign holders.

### Increasing Farm Acreage Size

Median farm size has grown steadily over the past three decades, as farms have consolidated to create greater economies of scale, which lead to higher profit margins. Over the past 25 years, the median acreage for U.S. farms has doubled, shifting the dynamics of the industry.<sup>4</sup> In the United States, 83% of farms are greater than the average farm size of 234 acres, with 71% at least two times greater than the average. At the same time, however, smaller farms have increased in number as well, increasing the number of farms at both ends of the spectrum, resulting in minimal change in average farm size. Changes in technology, farm organization, and government farm policy all contributed to these swift changes in farm size, which shifted significantly from 2001 to 2010.

Figure 3: Average Crop Size



Note: "Midpoint acreage" defined—half of all cropland acres are on farms with more cropland than the midpoint, and half are on farms with less. "Mean" defined—total number of cropland acres is divided by the total number of farms with cropland.  
Sources: Mean cropland is from the Census of Agriculture, while the midpoint acreages are ERS calculations from unpublished census of agriculture data

### Farm Income

Financing for agricultural real estate remains robust, as crop prices have been strong. High prices and strong demand have increased farm income, allowing farmers to expand their operations. In 2012, U.S. National net farm income reached an all-time high of \$113.8 billion, and is expected to climb higher once 2013 is in the books, as 2012 production was plagued by drought. However, given that 2013 is shaping up to be a record year, and also given a probable decrease in government payments (see Farm Bill discussion below), national net farm income, which has increased dramatically in the past five years, is expected to decline in 2014.<sup>5</sup>

## Government Legislation/Regulation

In Congress, legislators continue efforts to formulate a new Farm Bill, a bill vital to the near future of U.S. agribusiness. The Farm Bill, which has existed in various forms since the 1930s, provides various types of assistance to the agriculture industry, including income and commodity price support, farm credit and risk management, research, economic development and the food stamp program. This Bill is typically passed every five years, at which time it is renewed and updated. Since the 2012 one-year extension of the 2008 Farm Bill, which is soon set to expire at the end of the 2013 fiscal year, Congress has included new provisions in the upcoming bill, including significant cuts to food stamps. However, emphasis on this pivotal bill has been pushed aside as Congress focuses its efforts on the impending debt ceiling debate and possible government shutdown.

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### References and Data Sources

<sup>1</sup> USDA Land Values 2013 Summary, Released August 2013. P.4.

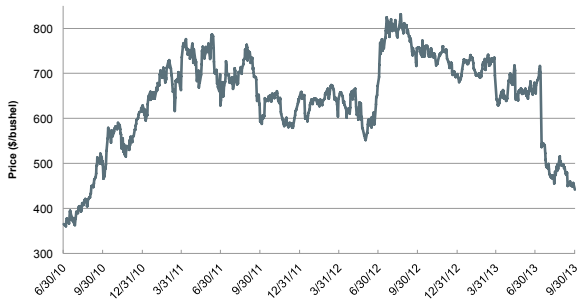
<sup>2</sup> Trends in U.S. Farmland Values and Ownership, USDA, February 2012.

<sup>3</sup> Trends in U.S. Farmland Values and Ownership, USDA, February 2012.

<sup>4</sup> USDA Farm Size and the Organization of U.S. Crop Farming, August 2013.

<sup>5</sup> U.S. Farm Income, Congressional Research Service.

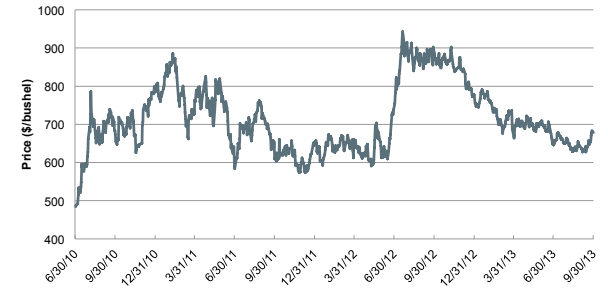
Corn



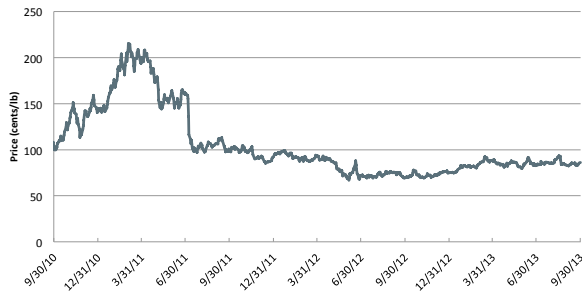
Soybeans



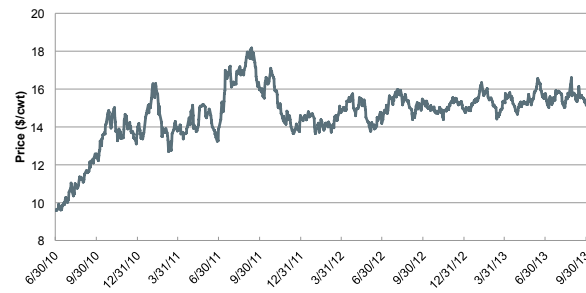
Wheat



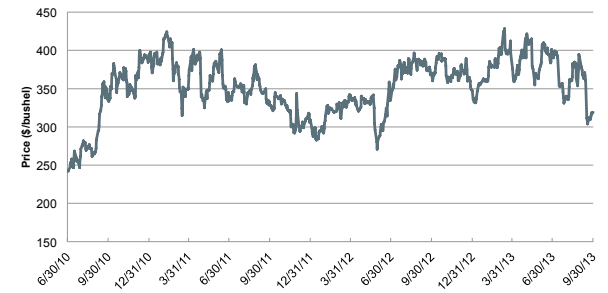
Cotton



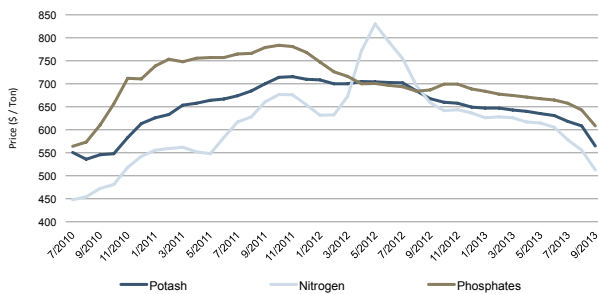
Rough Rice



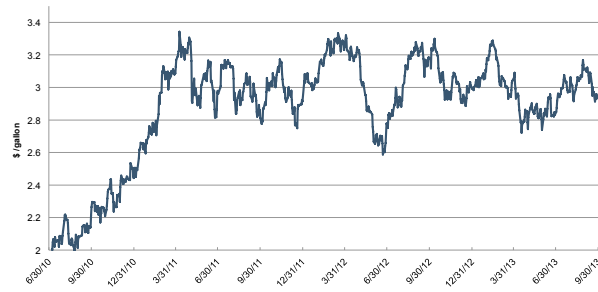
Oats



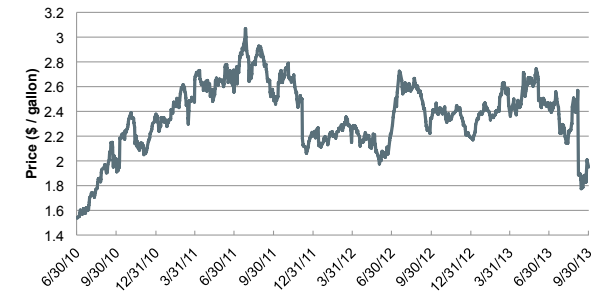
Retail Fertilizer



Gulf Coast Diesel: Ultra-low Sulfur No. 2



Ethanol



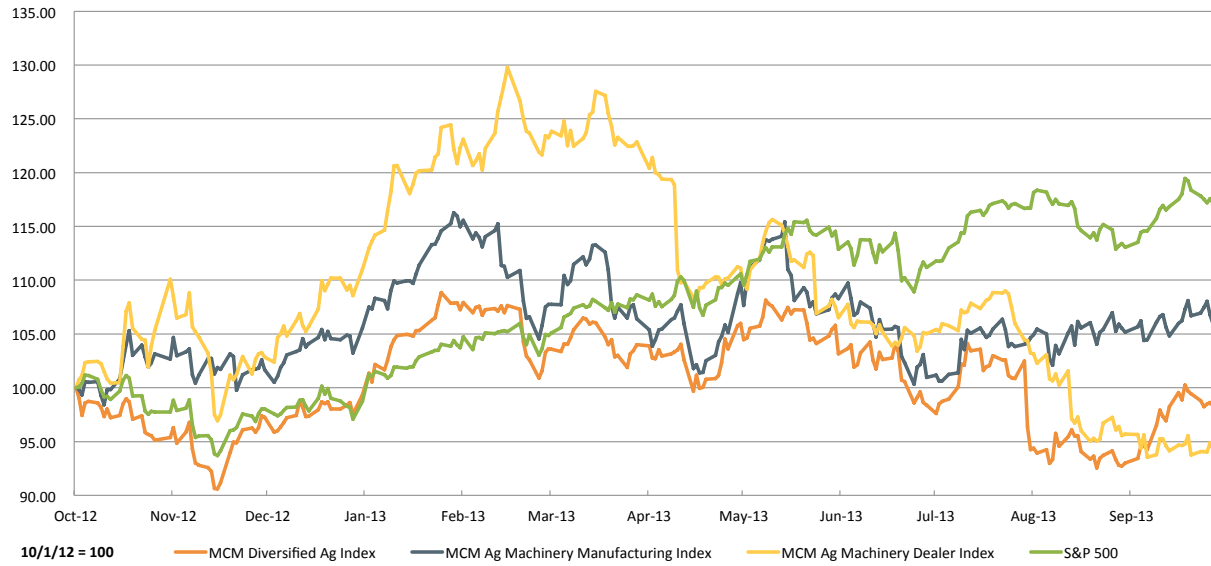
## Publicly Traded Agriculture Companies

Company Name	Ticker	Sept. 30 Price (\$)	52 Wk Perform	Sales (\$)	Enterprise Value (\$M)	Debt/Equity	EBITDA Margin	EV/EBITDA (x)	EV / Nxt Yr EBITDA (x)	Price/Earnings (x)
<b>Diversified Agribusiness</b>										
Agrium Inc	AGU	84.03	-24.4%	16,134	16,210	23.8%	14.8%	6.78	8.36	11.43
CF Industries Holdings Inc	CF	210.83	-13.5%	5,630	15,180	20.4%	50.7%	5.32	6.57	9.12
Mosaic Co/The	MOS	43.02	-25.3%	9,771	19,352	5.3%	27.6%	7.17	8.88	14.89
Potash Corp of Saskatchewan Inc	POT	31.28	-27.8%	7,406	30,579	11.7%	42.7%	9.68	10.81	14.89
Intrepid Potash Inc	IPI	15.68	-26.9%	373	1,332	11.3%	35.0%	10.18	14.67	35.40
Rentech Nitrogen Partners LP	RNF	24.52	-35.8%	349	1,273	25.1%	28.5%	12.77	12.68	21.60
Terra Nitrogen Co LP	TNH	202.70	-6.2%	774	3,788	0.0%	71.8%	6.81	nm	nm
Yara International ASA	YARIY	41.15	-18.6%	14,717	13,136	13.1%	15.0%	5.94	nm	nm
Monsanto Co	MON	104.37	13.5%	14,861	57,327	3.7%	28.2%	13.70	11.98	22.80
Syngenta AG	SYT	81.30	8.6%	14,327	11,498	34.2%	21.3%	3.77	3.74	19.50
Archer-Daniels-Midland Co	ADM	36.84	35.3%	90,582	31,125	22.1%	3.1%	11.04	8.14	16.42
Bunge Ltd	BG	75.91	14.3%	62,017	22,567	47.3%	2.5%	14.36	11.48	12.42
<b>Median - Diversified Ag</b>			<b>-16.1%</b>	<b>12,049</b>	<b>15,695</b>	<b>16.8%</b>	<b>27.9%</b>	<b>8.43</b>	<b>9.84</b>	<b>15.66</b>
<b>Agricultural Machinery &amp; Equipment</b>										
<b>Manufacturers</b>										
Deere & Co	DE	81.39	-3.5%	37,660	64,852	52.0%	16.6%	10.40	11.43	9.18
AGCO Corp	AGCO	60.42	27.7%	10,631	7,175	18.0%	10.4%	6.51	6.71	10.16
Lindsay Corp	LNN	81.62	14.7%	691	1,051	0.0%	17.3%	8.78	11.87	14.66
Blount International Inc	BLT	12.11	-7.5%	913	1,059	43.6%	13.7%	8.48	7.79	17.89
Art's-Way Manufacturing Co Inc	ARTW	6.95	nm	34	36	21.7%	9.7%	10.94	nm	23.17
<b>Median - Manufacturers</b>			<b>5.6%</b>	<b>913</b>	<b>1,059</b>	<b>21.7%</b>	<b>13.7%</b>	<b>8.78</b>	<b>9.61</b>	<b>14.66</b>
<b>Dealers</b>										
Titan Machinery Inc	TITN	16.07	-20.0%	2,296	1,419	75.9%	4.7%	13.21	18.12	7.32
Rocy Mountain Dealerships	RME	11.75	5.8%	1,018	276	19.8%	5.4%	5.02	nm	nm
Cervus Equipment	CVL	20.79	10.4%	848	367	15.0%	5.5%	7.93	nm	nm
<b>Median - Dealers</b>			<b>5.8%</b>	<b>1,018</b>	<b>367</b>	<b>19.8%</b>	<b>5.4%</b>	<b>7.93</b>	<b>18.12</b>	<b>7.32</b>

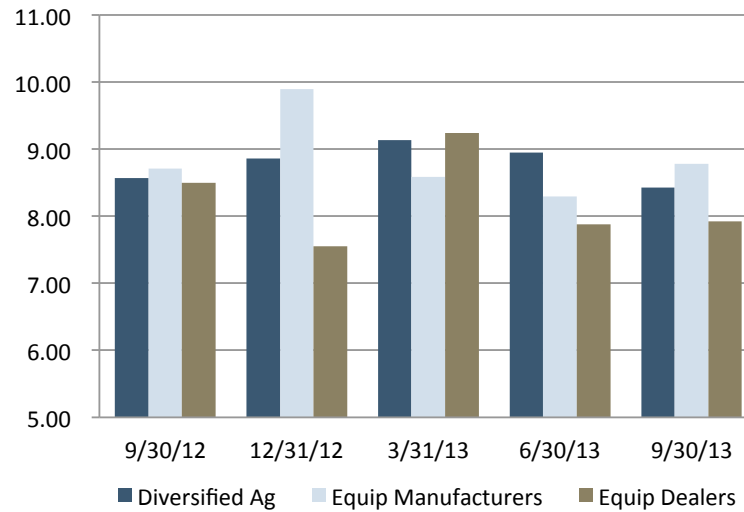
Source: Bloomberg



Mercer Capital Agriculture Indices: One Year Performance



Historical EV / EBITDA Multiples





# Mercer Capital

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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