

VALUE FOCUS

AGRIBUSINESS



2013

Q1: Agriculture Machinery, Equipment, & Implements

Q3: Agriculture Real Estate

Q2: Crops and Crop Services

Q4: Agriculture Chemicals

Segment Focus

Agriculture Chemicals

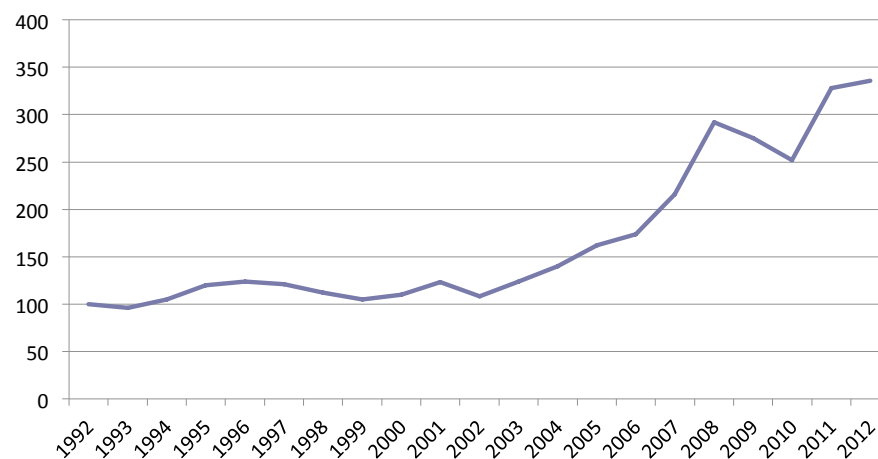
2013 Fourth Quarter

The market for agricultural chemicals has been volatile over the past five years, as demand tends to follow farm income and crops planted, both of which have fluctuated in recent years. However, due to high crop yields in 2013, aggregate agricultural chemical revenues and demand have risen in the short term.

Fertilizer

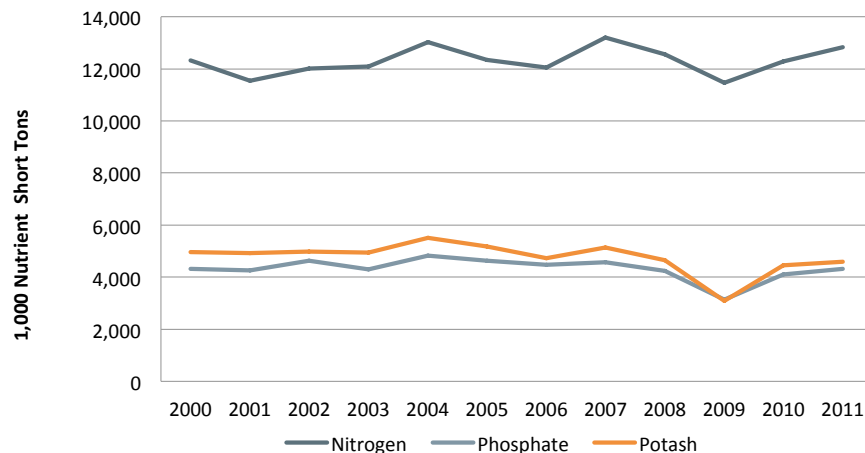
The fertilizer industry is dependent on farm income and crops planted, which leads to volatility over time. While fertilizer consumption has been somewhat volatile, fertilizer prices have fluctuated significantly in the past decade. Over the ten year period from 2002 to 2012, the USDA fertilizer price index rose from 108 to 336 as shown in Figure 1.¹

Figure 1: Index of Price Paid by Farmers for Fertilizer



Source: NASS and BLS

Figure 2: U.S. Consumption of Plant Nutrients: 2000-2011



Source: ERS, TVA, AAPFCO, TFI

Prices jumped dramatically in 2008, and as a result in 2009 total fertilizer consumption fell to 18 million tons, down 24% from 2004.² When prices declined in 2010 and into 2011, fertilizer consumption resurged, with consumption totaling 22 million tons in 2011, primarily a result of increased nitrogen use.³

Expected rising input prices will continue to drive fertilizer prices up in the coming years. Prices of natural gas, a major input in the nitrogen fertilizer process, are expected to gradually rise from their sustained low levels, posing a potential threat to the industry.

A large quantity of U.S. fertilizer consumption is supplied by imports, most commonly from Canada. The USDA reports that in 2011 more than 85% of the potash supply used in U.S. was imported. In the future, the U.S., with its limited domestic nitrogen and potash production capacity, will consume an even larger portion of these fertilizers from foreign imports. U.S. phosphate production, however, is overwhelmingly domestic. U.S. manufacturers produce more than 90% of U.S.-consumed phosphate. Additionally, U.S. manufacturers exported more than 41% of production in 2011.⁵

Pesticide

From 2008 to 2013, revenue growth in the pesticide industry was negative 3.5%. Although farm income reached record levels in 2013, which has helped to boost industry revenue by approximately 7.3%, this level of growth is not expected to continue indefinitely, as the industry is forecast to record revenue growth of 0.9% from 2013 to 2018.⁶ A number of factors will contribute to this stagnation, including more integrated pest management, organic farming, more selective use of herbicides, increasing use of genetically modified crops and more precise soil monitoring using improved technologies.

In this \$12.5 billion industry, there are only 174 businesses in operation in the U.S. as of December 2013. Even so, domestic firms produced the majority of U.S. pesticide supply, with only approximately 11.9% of pesticides imported in 2013. Exports accounted for 31.0% of industry revenue in 2013, with greater than half going to Canada and Brazil.⁷ These exports have increased in the past several years, as the dollar has been relatively weak and demand abroad has grown, particularly in developing countries.

Corn, soybeans, and cotton prices have major impacts on the pesticide market as these three crops, along with potatoes, consume 80% of the pesticide use in the United States.⁸ Recent escalating oil prices have also influenced pesticide production, which is an energy-intensive manufacturing process.

The increasing implementation of genetically engineered crops has replaced some of the demand for pesticides and may threaten the industry in the long-run. In addition, the growing trend of organic farming avoids from the use of synthetic chemical pesticides, opting instead to use production practices and natural means to reduce pests.

Industry Updates

Newly proposed regulations in the European Union regarding pesticide use could materially impact U.S. agricultural commodity exports to the region. According to a study commissioned by CropLife America, if the regulation is implemented as proposed it could block more than \$4 billion of U.S. agricultural exports to the EU, in addition to exports of crop protection active ingredients. In short, the regulations diverge from the EPA's current regulatory approach, which takes into account exposure and risk assessment, in addition to hazard identification which is the only basis for regulation used by the proposed EU standards. The report estimates that at least 24 active crop protection products and 25 different types of commodities could be impacted, with the largest effects on tree nuts, fruit, soybeans, groundnuts and grains.⁹

As of December 31, 2013 Congress had still not passed the Farm Bill, the current version of which expired in 2012 and is operating under a one-year extension which expired at the end of 2013. Disagreement over spending for food stamps and expanding crop insurance for farmers are two of the larger sticking points for passing new legislation. Instead, on Thursday, December 12 the House passed a one-month extension, delaying an ultimate resolution into the first part of 2014.

References and Data Sources

¹ USDA Economic Research Service, "Fertilizer Use & Markets." <http://www.ers.usda.gov/topics/farm-practices-management/chemical-inputs/fertilizer-use-markets.aspx#.U9qnAGPQral>.

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ USDA Fertilizer Use & Markets: <http://www.ers.usda.gov/topics/farm-practices-management/chemical-inputs/fertilizer-use-markets.aspx#.U9q0XWPQral>.

⁶ IBIS Pesticide Industry Report.

⁷ Ibid.

⁸ USDA Pesticide Use in U.S. Agriculture, 1960-2008.

⁹ U.S. Agricultural Exports Threatened by EU Pesticide Regulation, CropLife America, November 21, 2013.

Recent M&A Activity

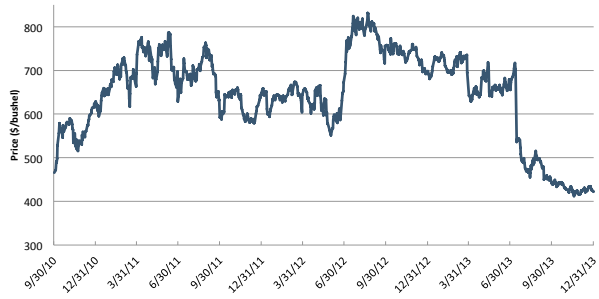
Agricultural Chemicals

- » The Mosaic Company agreed on October 28, 2013 to acquire the phosphate business from CF Industries, Inc., located in Florida, for \$1.2 billion in cash plus an additional \$200 million to fund the targets retirement obligation escrow. In addition to the purchase price, Mosaic expects to make significant capital investments of approximately \$700 million. The total \$2.1 billion of investment is expected to be offset by \$2.1 billion in capital savings related to the cancellation of certain planned projects, as well as significant operational efficiencies.

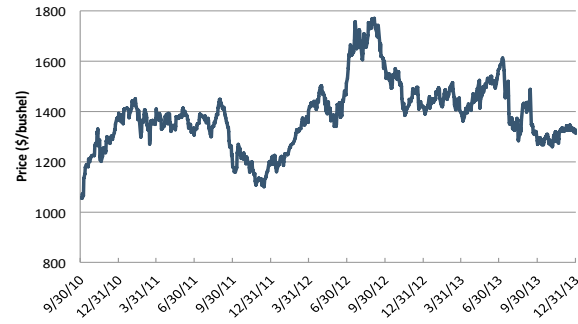
The acquisition is expected to increase Mosaic's fertilizer production by more than 20%, from 8.2 million tonnes annually to 10 million tonnes. Additionally, the two companies signed strategic supply agreements, with CF providing Mosaic up to 1 million tonnes of ammonia annually.

- » On October 1, 2013, Agrium Inc., one of North America's largest agricultural chemical manufacturers, announced its acquisition of the Canadian retail assets of Viterra Inc. for a total consideration of approximately C\$300 million (which includes C\$300 million of estimated net working capital). Assets acquired include retail centers, fertilizer and ammonia storage, and distribution centers. Agrium expects to achieve cost synergies ranging from C\$15 million to C\$20 million. The expected annual EBITDA contribution, net of divestitures, is in the range of C\$75 million to C\$90 million, implying a range of EBITDA multiples on a pro forma basis of 3.3x to 4.3x.

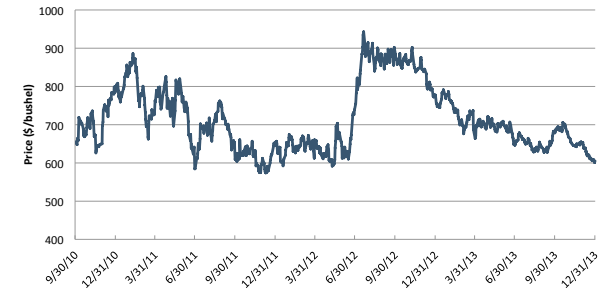
Corn



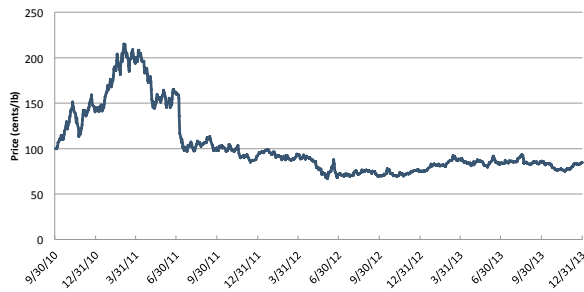
Soybeans



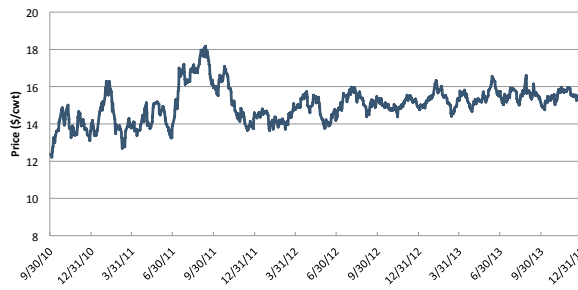
Wheat



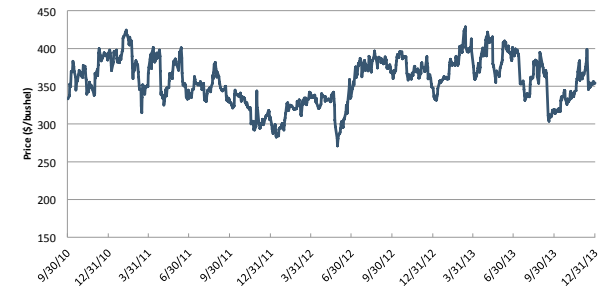
Cotton



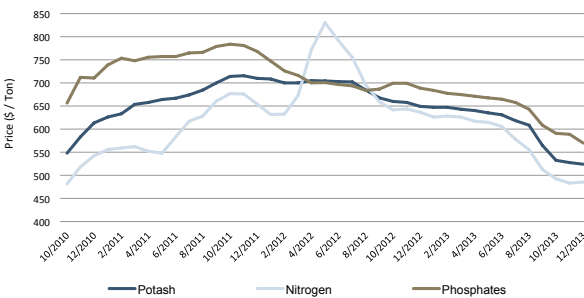
Rough Rice



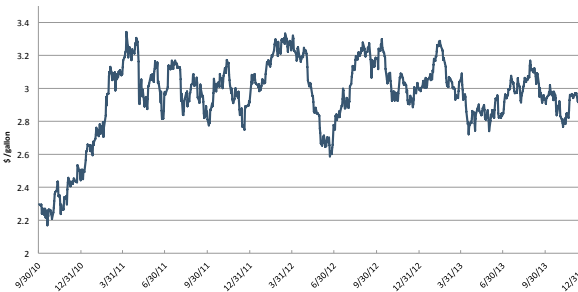
Oats



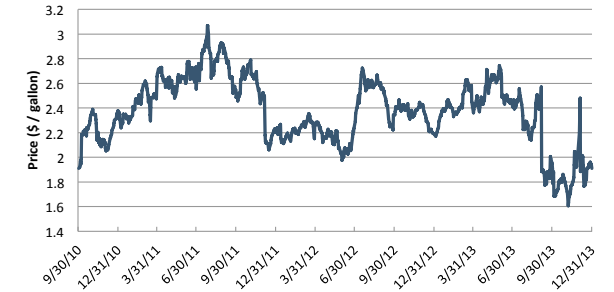
Retail Fertilizer



Gulf Coast Diesel: Ultra-low Sulfur No. 2



Ethanol

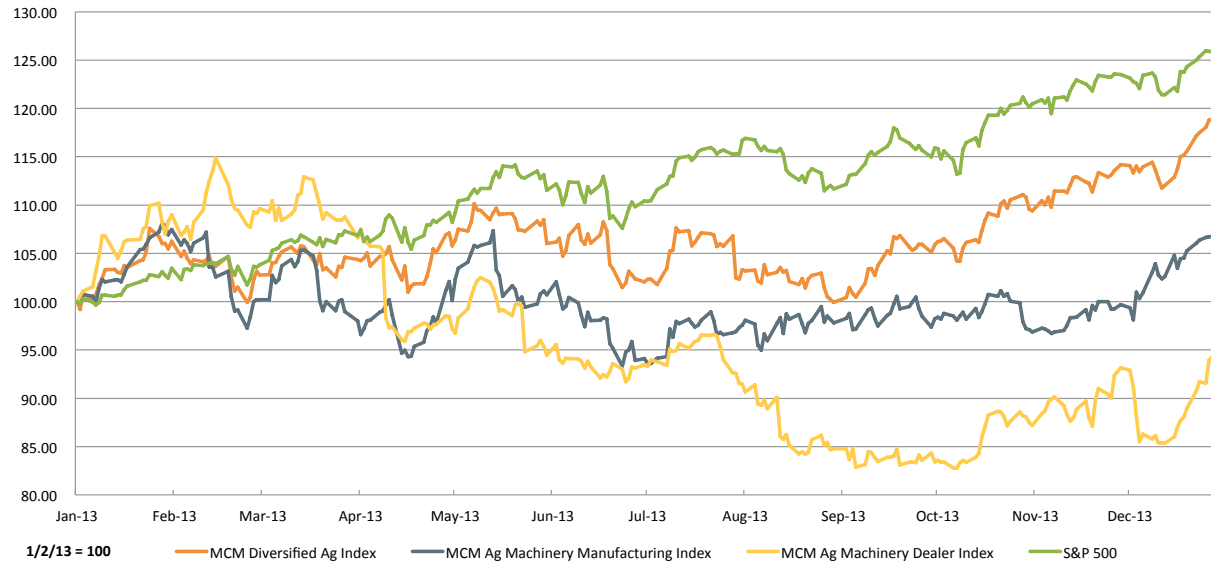


Publicly Traded Agriculture Companies

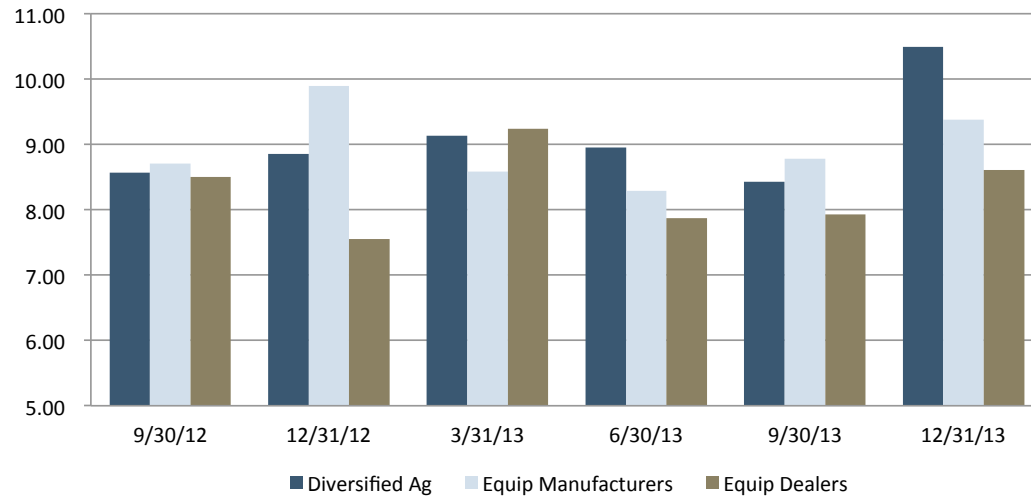
Company Name	Ticker	Dec. 31 Price (\$)	52 Wk Perform	Sales (\$)	Enterprise Value (\$M)	Debt/Equity	EBITDA Margin	EV/EBITDA (x)	EV / Nxt Yr EBITDA (x)	Price/Earnings (x)
Diversified Agribusiness										
Agrium Inc	AGU	91.48	-11.5%	15,800	17,061	22.8%	12.9%	8.39	7.33	12.64
CF Industries Holdings Inc	CF	233.04	1.8%	5,475	16,113	19.2%	51.1%	5.76	7.25	9.46
Mosaic Co/The	MOS	47.27	-16.5%	9,132	23,169	13.1%	24.5%	10.37	8.99	15.40
Potash Corp of Saskatchewan Inc	POT	32.96	-19.8%	7,305	32,155	12.2%	41.5%	10.61	9.78	16.24
Intrepid Potash Inc	IPI	15.84	-25.5%	336	1,344	11.2%	30.4%	13.16	9.94	52.80
Rentech Nitrogen Partners LP	RNF	17.60	-53.2%	311	1,004	31.9%	21.4%	15.10	9.44	176.00
Terra Nitrogen Co LP	TNH	141.10	-34.1%	736	2,637	0.0%	70.9%	5.05	nm	8.95
Yara International ASA	YARIY	42.93	-15.4%	14,415	13,638	12.3%	13.6%	6.95	nm	12.23
Monsanto Co	MON	116.55	20.8%	15,065	64,500	5.1%	28.2%	15.17	12.15	25.34
Syngenta AG	SYT	79.94	-1.0%	14,688	10,543	30.4%	19.6%	3.66	3.07	4.50
Archer-Daniels-Midland Co	ADM	43.40	58.5%	89,804	35,471	19.4%	3.4%	11.67	8.29	21.38
Bunge Ltd	BG	82.11	14.1%	61,352	21,940	41.5%	2.9%	12.35	9.98	93.31
MEDIAN - DIVERSIFIED AG			-13.4%	11,773	16,587	16.2%	22.9%	10.49	9.22	15.82
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Co	DE	91.33	1.9%	37,795	68,615	50.2%	19.5%	9.32	13.95	10.06
AGCO Corp	AGCO	59.19	21.2%	10,787	7,013	17.8%	10.8%	6.05	7.43	9.85
Lindsay Corp	LNN	82.75	4.0%	691	1,069	0.0%	16.5%	9.38	11.16	16.19
Blount International Inc	BLT	14.47	-8.1%	901	1,152	38.0%	13.1%	9.77	7.68	nm
Art's-Way Manufacturing Co Inc	ARTW	6.09	8.3%	34	35	30.5%	7.4%	14.07	nm	16.03
Median - Manufacturers			4.0%	901	1,152	30.5%	13.1%	9.38	9.42	13.04
Dealers										
Titan Machinery Inc	TITN	17.82	-27.1%	2,302	1,540	75.4%	4.3%	15.65	20.39	15.36
Rocy Mountain Dealerships	RME	12.79	7.5%	1,008	297	18.1%	4.1%	7.17	nm	15.99
Cervus Equipment	CVL	23.91	28.4%	900	411	12.7%	5.3%	8.61	nm	16.16
Median - Dealers			7.5%	1,008	411	18.1%	4.3%	8.61	20.39	15.99

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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