

# VALUE FOCUS

## AGRIBUSINESS



2014

**Q1: Agriculture Machinery, Equipment, & Implements** Q2: Crops and Crop Services  
Q3: Agriculture Real Estate Q4: Agriculture Chemicals

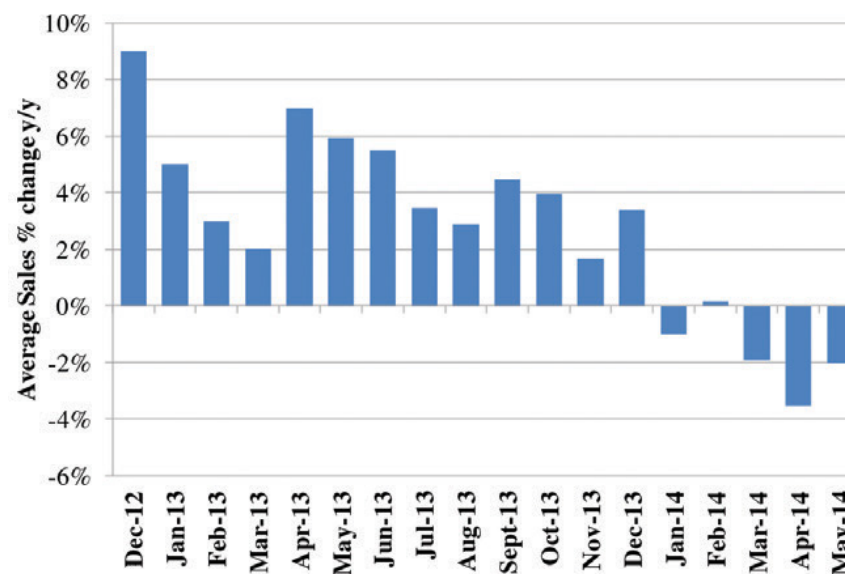
## Segment Focus

# Agricultural Machinery, Equipment, & Implements

2014 First Quarter

The agricultural equipment industry has enjoyed a strong run recently due to rising commodity prices, land values and crop yields. However, the projected decline in farm income in 2014, compared to record-high income in 2013, is expected to depress sales of agricultural machinery, a trend that has already begun as shown in the chart below.<sup>1</sup> Although equipment sales are highly seasonal, the chart presents the change in sales on a year over year basis, which should eliminate the effects of seasonality.

**Figure 1: Agriculture Equipment Monthly Sales – Overall**



Source: Cleveland Research, AEI

## Manufacturers

Agricultural equipment manufacturing has increased as a whole for the past five years, reporting 3.9% annual revenue growth.<sup>2</sup> Strong tailwinds in the agricultural industry, including high crop prices and strong demand for biofuels, following the recession of 2009 helped to bolster demand for agricultural machinery.

Industry forecasts, however, anticipate a decrease in 2014, with revenue dropping by 6.2%. Several factors that will contribute to industry demand going forward include:<sup>3</sup>

- » Lower expected crop prices and the resulting decline in farm income will reduce demand
- » An expected increase in interest rates will reduce the ability of farmers to finance equipment purchases, thus reducing demand
- » Rising agricultural investment in foreign countries will increase demand, although the ability to satisfy the demand will be limited somewhat by a particular company's ability to sell and deliver into foreign markets
- » New technological developments, including precision-ag technologies and other computer sampling and testing systems, will shift demand from certain obsolete product categories to newer, more cost-effective products
- » Although crop production is expected to decline in 2014, the global demand for food products will continue to increase over the long run, and along with it the demand for products that can improve crop yields and farm efficiency

## Dealers

Agricultural machinery and equipment dealerships have been consolidating in the past several years, a trend taking place across the United States. From 2009 to 2013, the number of North American farm equipment dealer groups that owned five or more stores grew from 151 to 184. Consolidation provides dealers with increasing economies of scale, and is viewed favorably by the manufacturers as well given that it reduces the number of dealers that they must oversee. One of the industry's largest dealer groups, Case IH dealer Titan Machinery (NASDAQ: TITN), reported 96 locations (62 of which were ag related) in early 2013, compared to 120 locations (78 of which were ag related) in April 2014.<sup>4</sup>

Dealers expect to see a decline in revenue for 2014 for the same reasons a decline is expected by manufacturers. However, dealers, smaller ones in particular, are focused on a finite geographic region, which can leave sales more vulnerable to region-specific conditions such as drought. It also lessens the benefit that can be realized from increased demand on a global scale.

## Technology

Applying new technologies to agriculture will continue to increase crop yields, streamline operations, and increase overall efficiency. Machinery manufacturers and farm technology firms are continuing to increase automation on the farm, producing new technologies such as precision steering and intelligent management systems.

The Precision Agriculture Systems and Services Industry (precision ag) has experienced 5.3% annual revenue growth from 2009 to 2014. Companies in this industry include technology specific companies, such as Trimble Navigation Limited, as well as more traditional equipment manufacturers that have started to explore technologies to enhance their core product, such as Deere & Company.<sup>5</sup> The precision ag technology centers on Geographical Information Systems (GIS), the intricacy of which has increased significantly over the past five years. Other products include variable-rate application controllers, yield monitoring systems, guidance systems, and technical support.

Technological innovation is an important and rapidly changing aspect of this industry. Current technologies enable farmers to, among other things:

- » Assess the viability and variability of fields for certain crop products based on soil sampling
- » Optimize the use of farming inputs, including water, fertilizer, and pesticides
- » Manage field maintenance and usage using software that is specific to the task
- » Increase the output from fields by identifying the yield-limiting characteristics

The efficiencies available through the use of increased technology in farming are potentially staggering. The NASS estimated in 2011 that crop producers in the United States could save 16 million gallons of fuel, 2 million quarters of herbicide and 4 million pounds of insecticide if guidance systems were used on only 10% of planted acres.<sup>6</sup>

## Government Regulations

On February 7, 2014, the President signed the Agricultural Act of 2014, which had been three years in the making, into law. The 2014 Farm Bill changes much of the way the government handles farmer subsidies as well as food stamps. It eliminates direct subsidies to farmers, placing an income cap on the farmers receiving government funds. It also institutes a crop insurance system, ensuring farmers prices and making up the difference if prices fall below a certain level, removing some of the volatility associated with farming. Other sections of the Farm Bill contain cuts to the food stamp program.

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### References and Data Sources

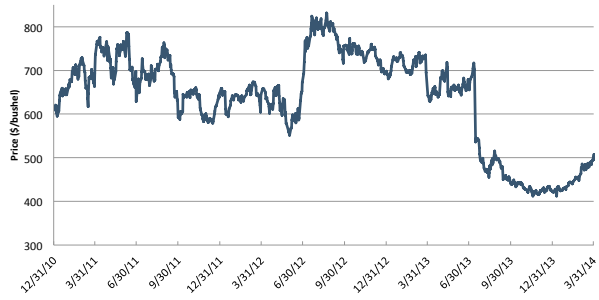
- <sup>1</sup> Dealer Sentiment & Business Conditions Update, Ag Equipment Intelligence, Vol. 2, No. 6.
- <sup>2</sup> IBISWorld, Tractors & Agricultural Machinery Manufacturing.
- <sup>3</sup> Ibid.
- <sup>4</sup> Ag Equipment Intelligence, Currie Management Consultants: [<http://farministrynews.com/farm-equipment/dealer-consolidation-continues-its-steady-pace>].
- <sup>5</sup> IBISWorld, Precision Agriculture Systems & Services.
- <sup>6</sup> Ibid.

## Ag Equipment Industry Recent M&A

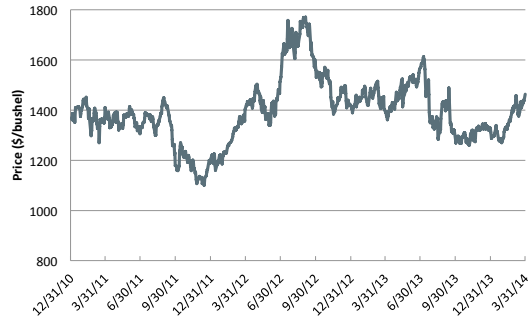
In keeping with the recent industry trend of consolidation, a number of acquisitions occurred in the space in recent months. Many of these acquisitions involved smaller privately held or family-owned companies, and thus no financial or pricing information was released.

- » Ag-Pro Companies, a John Deere dealer located in Boston, Georgia, acquired Fayette Tractor & Equipment, Inc. and Lawn Equipment Solutions Inc. on February 18, 2014. Both of the targets operate in the metro Atlanta area and significantly increase the size of Ag-Pro's market area. The combined company will have \$600 million in annualized sales and 29 locations across 4 states.
- » On January 31, 2014 Fillmore Equipment, Inc., a John Deere dealer located in Michigan, acquired Howard and Sons Inc. and Gilsinger Implement Co., agricultural equipment dealers located in Indiana. The combined company will operate under the new name Greenmark Equipment.
- » On January 6, 2014, E & H Hardware Group, acquired Scott Supply, a Case IH and New Holland equipment dealer located in Ohio. The acquisition offers an interesting example of diversification by a family-run business group, as E&H is an operator of 12 ACE Hardware stores in Ohio, and also owns Beuhler's Fresh Foods Supermarkets.
- » On December 12, 2013 Trimble Navigation Limited (Nasdaq: TRMB) acquired assets of C3 Consulting, a privately-held ag data solutions company located in Madison, Wisconsin. C3 combines crop information with detailed soil data to improve crop yield, quality and health. Its signature product is the C3 Soil Information System which analyzes 120 unique soil and topographic properties. Financial details surrounding the transaction were not disclosed.
- » On December 23, 2013, Deere & Company (NYSE: DE) completed the sale of a majority 60% interest in its landscape business, previously announced in October 2013, to private equity firm Clayton, Dubilier & Rice, LLC. The cash purchase price for the 60% interest was \$300 million and Deere will retain the remaining 40% stake in the business, which has more than 2,000 employees at 400 locations in 41 states. The sale will allow Deere to focus more exclusively on global growth in the agriculture and construction lines of business.

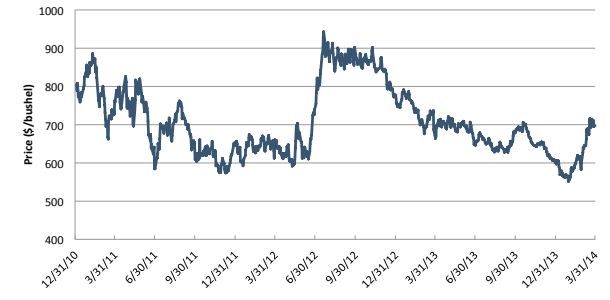
**Corn**



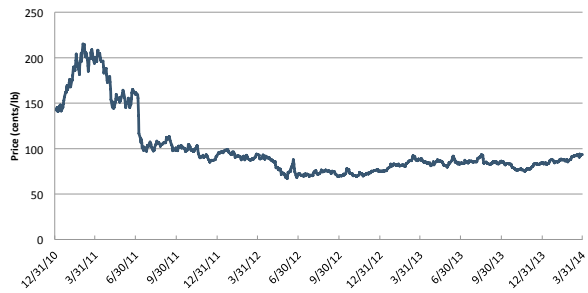
**Soybeans**



**Wheat**



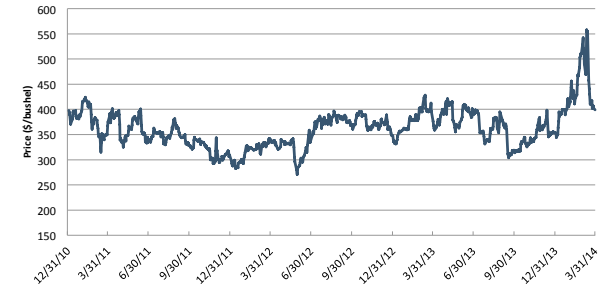
**Cotton**



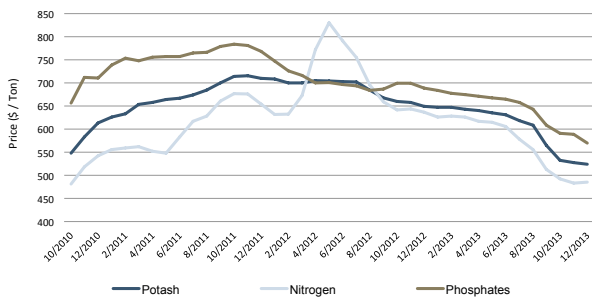
**Rough Rice**



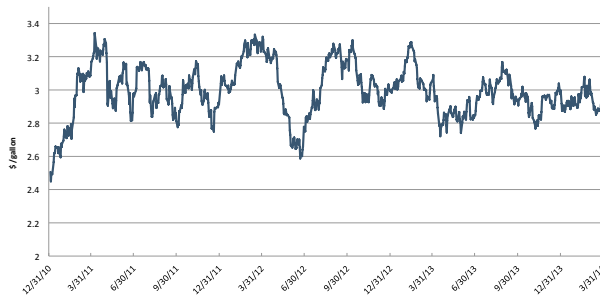
**Oats**



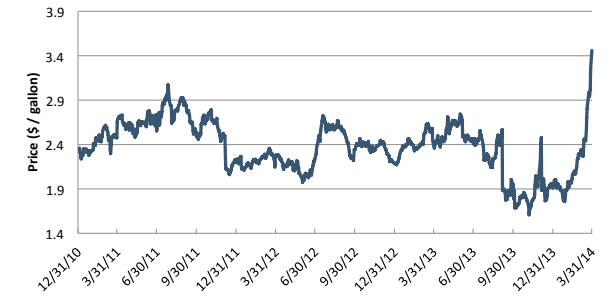
**Retail Fertilizer**



**Gulf Coast Diesel: Ultra-low Sulfur No. 2**



**Ethanol**

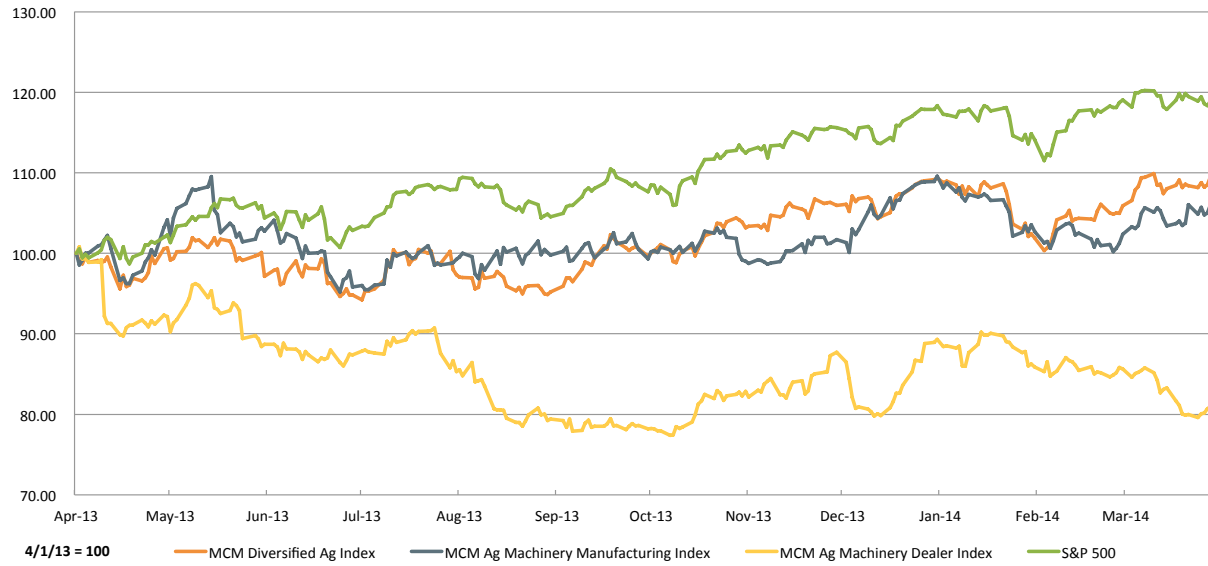


## Publicly Traded Agriculture Companies

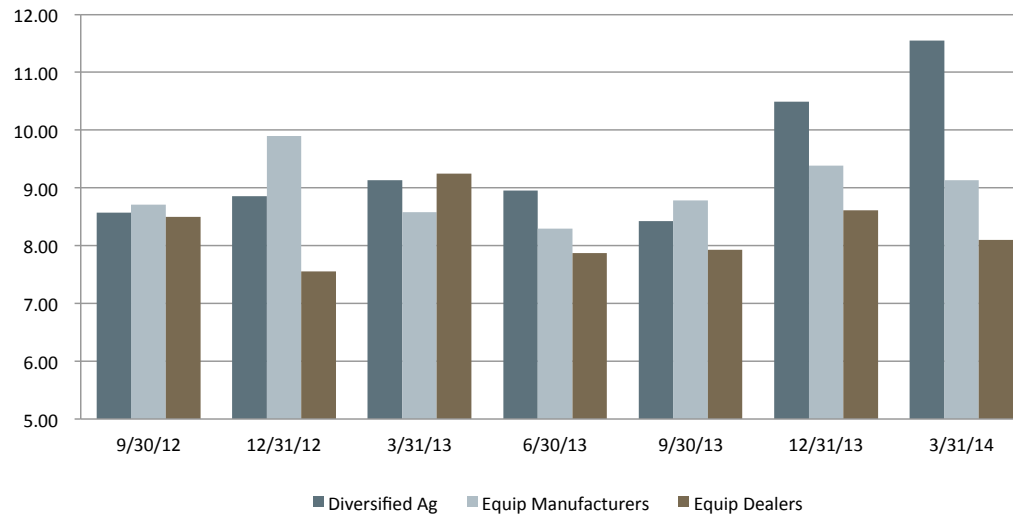
Company Name	Ticker	Mar. 31 Price (\$)	52 Wk Perform	Sales (\$)	Enterprise Value (\$M)	Debt/Equity	EBITDA Margin	EV/EBITDA (x)	EV / Nxt Yr EBITDA (x)	Price/Earnings (x)
<b>Diversified Agribusiness</b>										
Agrium Inc	AGU	97.52	-2.1%	15,723	17,552	20.0%	11.8%	9.49	7.54	15.38
CF Industries Holdings Inc	CF	260.64	19.4%	5,271	18,341	25.0%	48.6%	7.15	8.25	8.39
Mosaic Co/The	MOS	50.00	-22.7%	8,613	22,543	13.5%	22.4%	11.70	8.75	19.23
Potash Corp of Saskatchewan Inc	POT	36.22	-10.6%	6,885	34,842	12.1%	40.1%	12.63	10.59	20.12
Intrepid Potash Inc	IPI	15.46	-16.4%	336	1,317	11.4%	24.4%	16.09	9.74	162.22
Rentech Nitrogen Partners LP	RNF	18.61	-47.1%	308	1,044	30.7%	18.6%	18.20	9.81	nm
Terra Nitrogen Co LP	TNH	152.18	-29.9%	690	2,844	0.0%	66.9%	6.16	nm	10.83
Yara International ASA	YARIY	44.30	-3.7%	14,327	13,839	11.3%	13.1%	7.37	nm	14.02
Monsanto Co	MON	113.77	5.6%	15,425	62,823	5.0%	29.7%	13.73	11.83	22.62
Syngenta AG	SYT	75.78	-8.6%	14,688	10,162	31.5%	19.6%	3.52	2.96	4.26
Archer-Daniels-Midland Co	ADM	43.39	28.0%	88,773	34,093	16.6%	3.4%	11.39	7.97	21.48
Bunge Ltd	BG	79.51	8.2%	60,028	21,579	42.6%	2.5%	14.11	9.81	nm
<b>Median - Diversified Ag</b>			<b>-6.2%</b>	<b>11,470</b>	<b>17,946</b>	<b>15.1%</b>	<b>21.0%</b>	<b>11.55</b>	<b>9.24</b>	<b>17.31</b>
<b>Agricultural Machinery &amp; Equipment</b>										
<b>Manufacturers</b>										
Deere & Co	DE	90.80	1.3%	38,028	67,982	50.6%	19.6%	9.14	13.82	9.83
AGCO Corp	AGCO	55.16	2.8%	10,717	6,465	19.9%	10.7%	5.64	6.85	9.43
Lindsay Corp	LNN	88.18	1.2%	668	1,134	0.0%	15.9%	10.69	11.83	18.96
Blount International Inc	BLT	11.90	-9.6%	900	1,030	42.9%	13.4%	8.55	6.87	99.17
Art's-Way Manufacturing Co Inc	ARTW	6.50	1.4%	32	37	29.4%	4.8%	24.40	nm	54.17
<b>Median - Manufacturers</b>			<b>1.3%</b>	<b>900</b>	<b>1,134</b>	<b>29.4%</b>	<b>13.4%</b>	<b>9.14</b>	<b>9.35</b>	<b>18.96</b>
<b>Dealers</b>										
Titan Machinery Inc	TITN	15.67	-40.6%	2,226	1,310	74.6%	3.9%	14.95	17.36	38.22
Rocy Mountain Dealerships	RME	11.78	-8.3%	999	277	18.4%	3.9%	7.16	nm	17.32
Cervus Equipment	CVL	22.33	9.7%	918	387	13.5%	5.2%	8.10	nm	15.40
<b>Median - Dealers</b>			<b>-8.3%</b>	<b>999</b>	<b>387</b>	<b>18.4%</b>	<b>3.9%</b>	<b>8.10</b>	<b>17.36</b>	<b>17.32</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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