

VALUE FOCUS

AGRIBUSINESS



2014

Q1: Agriculture Machinery, Equipment, & Implements
Q3: Agriculture Real Estate

Q2: Crops and Crop Services
Q4: Agriculture Chemicals

Segment Focus

Crops and Crop Services

2014 First Quarter

Agribusiness experienced a successful year in 2013, as farm income reached record-levels, totaling at \$130.5 billion.¹ In the preceding years, high crop prices, caused by increased international demand for grain and federal regulations for ethanol production, kept income strong. The severe drought in 2012 also helped to keep prices high, as many acres of crops were destroyed and yields diminished. In 2013, favorable weather aided in the majority of crops in the U.S. having strong yields and significant harvests. Farmers produced the largest corn crop in U.S. history, 13.9 billion bushels, as well as the third largest soybean crop, nearly 3.3 billion bushels.² However, as shown below, net farm income (as measured by the USDA) was also bolstered in 2013 by strong noncash income (the value of home consumption of farm products plus the imputed rental value of operator and hired labor dwellings) and a \$20.5 billion positive swing in the inventory value adjustment component relative to 2012.

U.S. Farm Sector Income Statement

2010-2014F (\$ Billions)

	2010	2011	2012	2013F	2014F
Crops	\$179.5	\$202.0	\$223.5	\$216.1	\$189.4
Livestock	141.4	165.9	171.6	182.2	183.4
Direct Government Payments	12.4	10.4	10.6	11.2	6.1
Other Farm-Related Income	18.3	26.1	33.6	35.7	33.3
Gross Cash Income	\$351.7	\$404.5	\$439.3	\$445.2	\$412.3
Noncash Income	21.6	22.8	23.7	25.0	25.7
Value of Inventory Adjustment	(7.8)	3.2	(8.1)	12.5	6.0
Total Gross Income	\$365.5	\$430.5	\$454.9	\$482.7	\$444.0
Total Expenses	287.5	312.5	341.1	352.2	348.2
Net Farm Income	\$78.0	\$118.0	\$113.8	\$130.5	\$95.8

Source: Economic Research Service, USDA

The outlook for farm income in 2014, however, projects an approximately 27% drop, to an estimated total of \$95.8 billion. The USDA predicts crop receipts to decrease by more than 12% in 2014.³ Such a drop in prices is in part caused by the vast supply of crops in the market as well as the elimination of certain direct federal payments to farmers in the Agricultural Act of 2014. This forecasted net farm income is the lowest since 2010, though it remains \$8 million above the prior 10 year average.⁴

Expectations for crop prices and receipts in 2014 are, on the whole, trending downward, a major contributing factor to the decrease in farm incomes. Corn and soybean prices are both predicted to decrease in 2014, soybeans more dramatically by approximately 19.3%. Due to a large global crop and decrease in price of feed alternatives, the annual price of wheat in the U.S. is expected to decrease significantly in 2014, along with wheat receipts and value of production. Cotton prices, due to global oversupply and alternative materials, are expected to decline. On the other hand, rice prices are anticipated to increase in 2014, one of the only field crops to do so.⁵

The primary crop-related production expenses of seeds, fertilizers, and chemicals are expected to decline temperately in 2014, the first drop since 2009, although the decline will not be enough to offset revenue reductions, leading to significantly lower margins for farm producers. Experts predict these expenses together to decrease by \$2.9 billion.⁶ Many farmers began 2014 by trimming expenses, primarily in the category of farm machinery.

Imports/Exports

The USDA is forecasting agricultural exports for the 2014 fiscal year of a record \$149.5 million, while imports are forecast to be \$110.5 billion, or 6.3% higher than fiscal 2013. The trade surplus, estimated at \$39 billion in 2014, is the second highest ever.

U.S. agriculture exports will be supported by lower U.S. energy prices and increasingly available credit, as well as a relatively low value and stable U.S. dollar. Imports will be bolstered primarily by an improving U.S. economy.⁷

U.S. Agricultural Trade

Fiscal Years Ending September 30, 2008-2014 (\$ Billions)

	2008	2009	2010	2011	2012	2013	2014 F
Exports	114.9	96.3	108.5	137.4	135.8	140.9	149.5
Imports	79.3	73.4	79.0	94.5	103.4	103.8	110.5
Balance	35.6	22.9	29.5	42.9	32.4	37.1	39.0

Reflects forecasts in the May 9, 2014 World Agricultural Supply and Demand Estimates report.
Source: Source: Compiled by USDA using data from U.S. Census Bureau, U.S. Department of Commerce

Seeds

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, as well as other agricultural technologies such as soil diagnostic testing, have continued to improve farm yields and helped create a more stable crop in an unpredictable industry. In 2014, approximately 90% of corn farmers planted GM corn seeds, up 10% from 2013, and 93% of soybean crops were GM soybean seeds.⁸ In the corn industry, 0.2% of the harvested corn is used as seeds for future crops, while 2.0% of the produced soybeans are used as seeds. Such relatively low percentages of the harvested crop used for future planting demonstrates the dominant and growing use of GM seeds in the farming industry.

In this segment, Monsanto Company controls a significant portion of the GM seed market, accounting for 46.0% of the GM Corn Seed market, while DuPont, through its subsidiary Pioneer, holds a 29.9% market share.⁹ Monsanto claims an even greater market share in the GM soybean seed market at 63.0%, with DuPont sustaining a 24.7% market share.

Crop Services

The crops services industry serves a wide variety of customers in diverse capacities, such as fertilizing, harvesting, storage, and other agricultural necessities. Due to the decrease in 2014 farm income, crop services, an industry directly correlated with the health of the farming economy, is anticipated to experience a decline in revenues during the year. However, despite this correlation, the crop services industry as a whole has not enjoyed the same level of growth in recent periods, primarily due to weaker performance in the fruit and vegetable segment, reporting an annualized revenue decline of 0.8% from 2008 to 2013. Grains and oilseed crops offset the poor performance in the fruit and vegetable segment and are expected to contribute increasingly to growth in the industry going forward.

As discussed above, farmers do not expect to reduce expenses commensurate with the expected decline in revenues (total acres planted will remain relatively unchanged) and most expense reductions will occur first in the machinery and equipment segment, helping to support demand in this industry. Additionally, the reduced purchasing of capital equipment by farmers may increase their reliance on the industries support services. However, some of the industries major products, fertilizers and pesticides, are at risk of reduced usage over time due to advancing precision ag technologies and improved GM seeds. Industry participants will need to find a way to integrate the newer technologies into their product offerings, which will require near-constant attention to the rapidly changing and improving technologies.¹⁰

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. This government assistance is expected to decrease during 2014, leading 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; in part, 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 2020, 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.

References and Data Sources

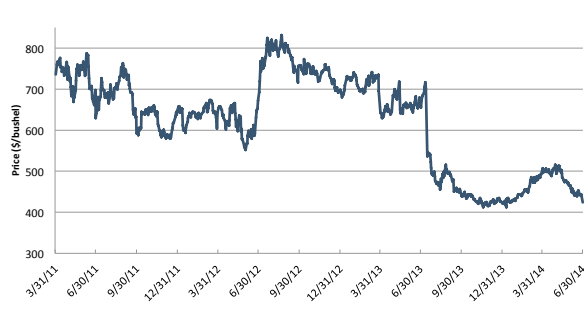
- ¹ U.S. Farm Income. Feb, 28, 2014. Randy Schnepf. Congressional Research Service.
- ² USDA NASS. http://www.nass.usda.gov/Statistics_by_Subject/result.php?F9199E1E-CD.E3-30A5-8BEE-9769BB166119§or=CROPS&group=FIELD%20CROPS&comm=CORN
http://www.nass.usda.gov/Statistics_by_Subject/result.php?682C946A-BFAA-3ACD-B2F4-6E0652574A9D§or=CROPS&group=FIELD%20CROPS&comm=SOYBEANS.
- ³ USDA 2014 Farm Sector Income Forecast: <http://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/2014-farm-sector-income-forecast.aspx#.U-Oh12PQraJ>.
- ⁴ Ibid.
- ⁵ Ibid.
- ⁶ Ibid.
- ⁷ Outlook for U.S. Agricultural Trade, USDA, May, 29, 2014.
- ⁸ IBISWorld, Corn Farming in the US Industry Report. p. 7.
- ⁹ IBISWorld, GM Corn Seed Production Industry Report.
- ¹⁰ Crop Services in the US iExpert Report, IBISWorld, September 2013.

Recent M&A and Investment Activity

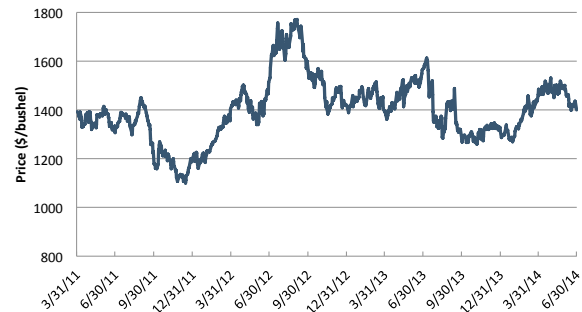
Transactions in the crop services industry are more often than not characterized by very large acquirers operating on a global scale.

- » On March 17, 2014, CHS, a farmer-owned cooperative, agreed to acquire certain retail assets from Crop Production Services (Canada), Inc., a wholly-owned subsidiary of Agrium. Financial information concerning the transaction was not disclosed. The 16 newly acquired retail agronomy locations will be served by a new 42,000-ton fertilizer plant just outside Shelby, Montana, which will have access to the BNSF rail line.
- » On June 6, 2014, ADM completed the previously announced acquisition of the remaining 20% minority stake in Toepfer International for €83 million. ADM has owned 80% of Toepfer since 2002. Toepfer is a global merchandiser of agricultural commodities through 37 locations worldwide, and also operates inland, river, and export facilities in Argentina, Bulgaria, Canada, Hungary, Romania, Ukraine, and the U.S. ADM hopes to more fully leverage its integrated supply chain and origination network with Toepfer's global presence.
- » On June 16, 2014, Sygenta announced the acquisition of winter wheat and winter oilseed rape breeding businesses in Germany and Poland from Lantmännen. It is expected that the deal will help support the continued development of hybrid cereals to growers worldwide, in particular enabling the development of hybrids with yield stability, increased winter hardiness and broader disease resistance. Financial details surrounding the transaction were not disclosed.
- » On April 17, 2014, Sygenta acquired Società Produttori Sementi one of Italy's oldest seed companies and a leader in durum wheat breeding and production for pasta. Sygenta hopes to leverage the tradition and "made in Italy" hallmarks of the acquired brand with Sygenta's leading edge R&D and global presence to meet the demand of the increasing global pasta market, valued at \$16 billion.
- » Closer to home, Cargill announced in July 2014 that it plans to use West Memphis, Arkansas, as a major barge hub to serve the Latin America and China markets with corn and soybeans commodities. The Company plans to build a \$45 million shipping center on the Mississippi which will enable and increase in bushels handled from 10 million to upwards of 200 million. The plant is scheduled to open in 2016.

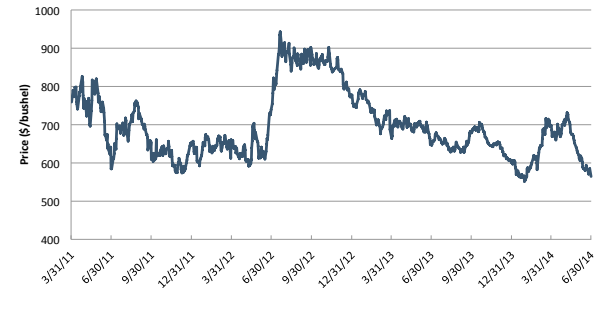
Corn



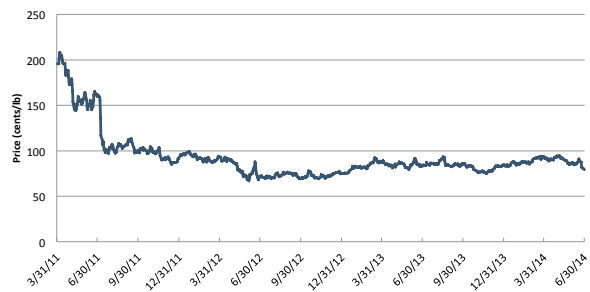
Soybeans



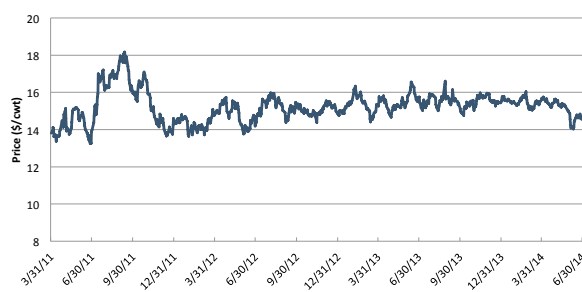
Wheat



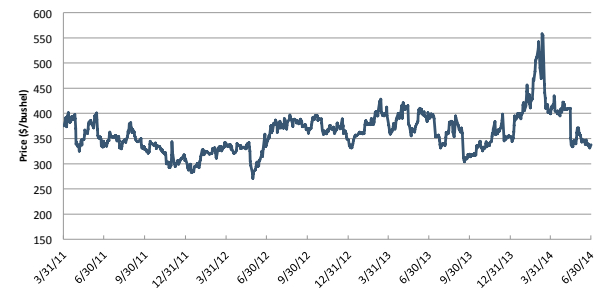
Cotton



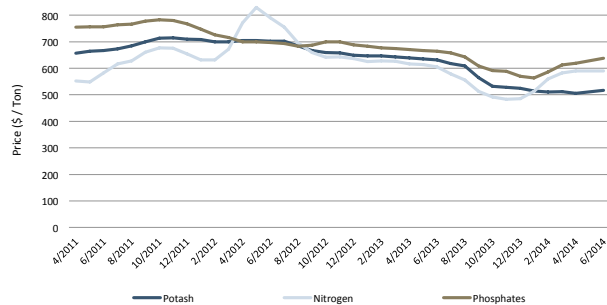
Rough Rice



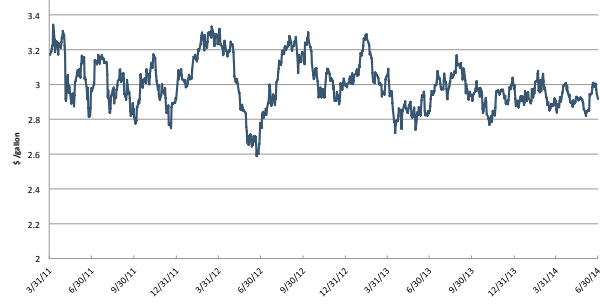
Oats



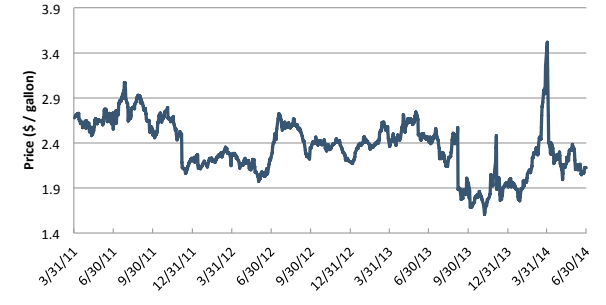
Retail Fertilizer



Gulf Coast Diesel: Ultra-low Sulfur No. 2



Ethanol

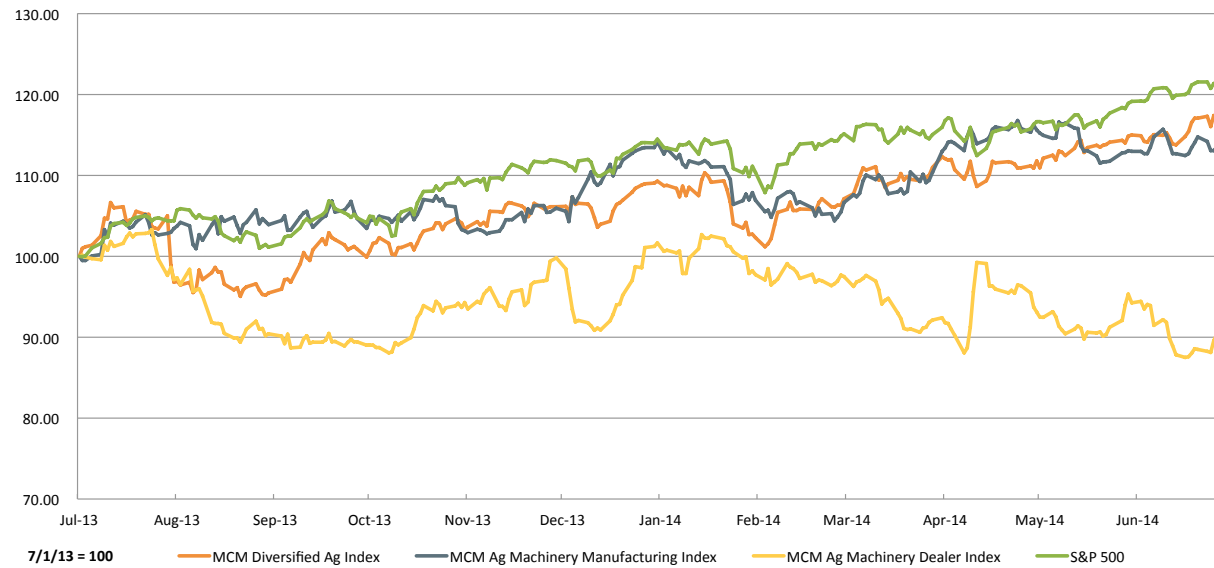


Publicly Traded Agriculture Companies

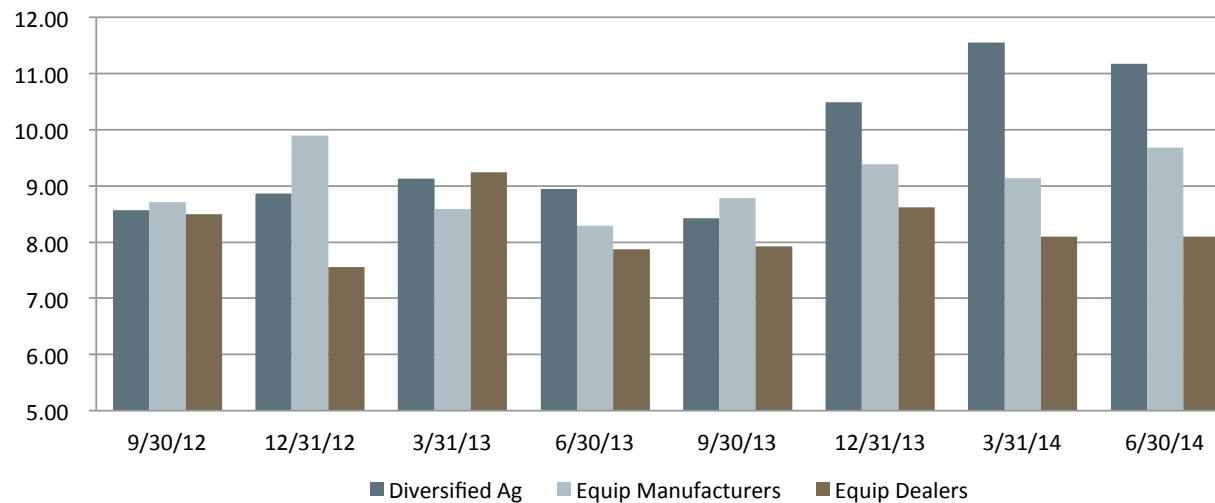
Company Name	Ticker	June 30 Price (\$)	52 Wk Perform	Sales (\$)	Enterprise Value (\$M)	Debt/Equity	EBITDA Margin	EV/EBITDA (x)	EV / Nxt Yr EBITDA (x)	Price/Earnings (x)
Diversified Agribusiness										
Agrium Inc	AGU	91.63	2.4%	16,153	17,511	24.6%	10.5%	10.31	7.52	16.13
CF Industries Holdings Inc	CF	240.53	20.9%	5,029	16,539	27.8%	44.9%	7.32	7.44	8.36
Mosaic Co/The	MOS	49.45	-17.1%	8,517	21,855	13.8%	21.3%	12.03	8.48	27.94
Potash Corp of Saskatchewan Inc	POT	37.96	-3.4%	6,633	35,621	11.6%	38.1%	14.08	10.83	23.29
Intrepid Potash Inc	IPI	16.76	-10.4%	354	1,416	10.6%	21.3%	18.75	10.47	nm
Rentech Nitrogen Partners LP	RNF	16.98	-42.4%	308	980	32.6%	18.6%	17.10	9.22	nm
Terra Nitrogen Co LP	TNH	144.32	-33.1%	642	2,697	0.0%	71.9%	5.85	nm	11.39
Yara International ASA	YARIY	50.05	27.2%	14,254	15,377	10.1%	13.6%	7.96	nm	14.72
Monsanto Co	MON	124.74	26.4%	15,427	68,632	4.7%	29.9%	14.89	12.93	25.10
Syngenta AG	SYT	74.80	-5.1%	14,806	11,553	40.6%	18.9%	4.13	3.37	4.25
Archer-Daniels-Midland Co	ADM	44.11	27.6%	87,726	34,514	16.3%	3.8%	10.24	8.07	17.71
Bunge Ltd	BG	75.64	5.3%	61,330	20,550	42.5%	2.8%	12.05	9.35	172.85
Median - Diversified Ag			-0.5%	11,385	17,025	15.1%	20.1%	11.17	8.85	16.92
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Co	DE	90.55	4.4%	37,062	69,201	52.4%	19.3%	9.68	14.07	9.92
AGCO Corp	AGCO	56.22	7.2%	10,419	6,507	18.8%	10.5%	5.96	6.89	10.28
Lindsay Corp	LNN	84.47	9.7%	619	1,075	0.0%	14.9%	11.65	11.22	21.55
Blount International Inc	BLT	14.11	19.9%	915	1,140	38.8%	13.2%	9.46	7.60	78.39
Art's-Way Manufacturing Co Inc	ARTW	5.74	-22.0%	32	35	33.9%	3.8%	28.59	nm	114.80
Median - Manufacturers			7.2%	915	1,140	33.9%	13.2%	9.68	9.41	21.55
Dealers										
Titan Machinery Inc	TITN	16.46	-16.0%	2,250	1,381	74.7%	3.9%	15.64	18.29	71.57
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
Median - Dealers			-8.3%	999	387	18.4%	3.9%	8.10	18.29	17.32

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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