

VALUE FOCUS

Agribusiness Industry



SEGMENT FOCUS

Agriculture Real Estate

Segment Focus:
Agriculture Real Estate

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Agribusiness Industry

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2016

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

SEGMENT FOCUS

Agriculture Real Estate

Agriculture Land Values

The **2016 USDA Land Values Summary** indicates the value of agricultural real estate across the United States, which includes the value of all land and buildings on farms, averaged \$3,010 per acre for 2016, down 0.3% from 2015 values. Since 2015, cropland value has declined 1.0% to \$4,090 per acre, and pasture land prices remained flat (also see Figure 2 on page 2). The decline in agricultural land values is the first annual decline since 2009. Farm real estate (including both land and structures) is by far the largest asset on the farm sector balance sheet, and any material shifts in the agricultural real estate market could have a significant impact on farmers across the country.

Figure 1: Cropland Average Value per Acre – Region and United States: 2011–2016

Region	2011	2012	2013	2014	2015	2016	Change 2015-16	Change 2011-16
Northeast	\$5,200	\$5,280	\$5,260	\$5,260	\$5,330	\$5,390	1.1%	3.7%
Lake	3,310	3,790	4,240	4,670	4,730	4,740	0.2%	43.2%
Corn Belt	4,810	5,600	6,470	7,000	6,840	6,710	-1.9%	39.5%
Northern Plains	1,730	2,210	2,720	3,090	3,130	2,960	-5.4%	71.1%
Appalachian	3,440	3,550	3,690	3,780	3,830	3,840	0.3%	11.6%
Southeast	3,810	3,710	3,690	3,730	3,770	3,920	4.0%	2.9%
Delta	2,020	2,160	2,380	2,510	2,600	2,680	3.1%	32.7%
Southern Plains	1,450	1,500	1,480	1,630	1,770	1,820	2.8%	25.5%
Mountain	1,540	1,600	1,780	1,690	1,740	1,760	1.1%	14.3%
Pacific	5,070	5,310	5,690	5,860	6,160	6,330	2.8%	24.9%
United States*	2,980	3,350	3,810	4,100	4,130	4,090	-1.0%	37.2%

*Excludes Alaska, Hawaii, and American Indian Reservation land

Source: USDA Land Values 2016 Summary

Agriculture Land Values (continued)

This slowing growth was not entirely surprising, as many sources, including several Federal Reserve banks, predicted a slowdown in price appreciation in mid-2014 primarily attributable to the rapid drop in major commodity prices. Continued (albeit less dramatic) commodity price declines stemming from several years of record yields have continued to pressure land values. **According to a *Wall Street Journal* article**, lenders in the Midwest are expecting land values to drop further as supplies of major crops continue to outpace demand. The prospect for higher interest rates could likewise keep land values from rising much, if at all, in the near future.

Figure 2: Pasture Average Value per Acre – Region and United States: 2011–2016

Region	2011	2012	2013	2014	2015	2016	Change 2015-16	Change 2011-16
Northeast	\$3,220	\$3,240	\$3,370	\$3,460	\$3,480	\$3,390	-2.6%	5.3%
Lake	1,710	1,740	1,870	1,950	2,060	2,050	-0.5%	19.9%
Corn Belt	2,000	2,130	2,290	2,360	2,440	2,420	-0.8%	21.0%
Northern Plains	531	648	754	954	1,020	1,020	0.0%	92.1%
Appalachian	3,170	3,110	3,210	3,280	3,340	3,320	-0.6%	4.7%
Southeast	3,900	3,700	3,770	3,790	3,790	3,900	2.9%	0.0%
Delta	2,120	2,130	2,190	2,270	2,320	2,410	3.9%	13.7%
Southern Plains	1,350	1,390	1,410	1,540	1,570	1,580	0.6%	17.0%
Mountain	523	550	594	611	614	617	0.5%	18.0%
Pacific	1,620	1,590	1,590	1,610	1,630	1,640	0.6%	1.2%
United States*	1,070	1,110	1,170	1,300	1,330	1,330	0.0%	24.3%

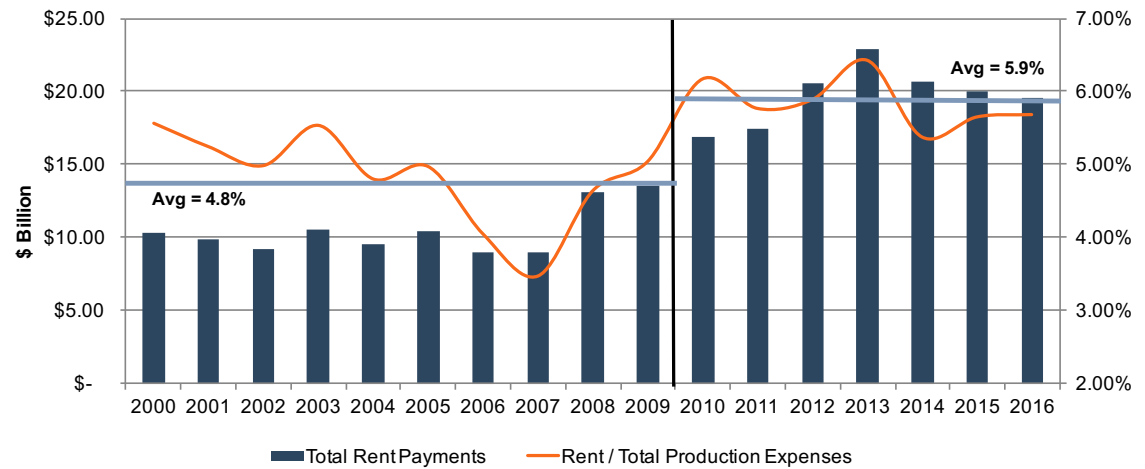
*Excludes Alaska, Hawaii, and American Indian Reservation land

Source: USDA Land Values 2016 Summary

Cash Rents

The 2012 Census of Agriculture indicates that nearly 40% of farmland across the country is leased. Thus, a large portion of farmers will not experience the effects of declining land values on their balance sheets. They may, however, finally get some reprieve from the elevated rents that typically accompany rising real estate values. As shown in Figure 3, data from the USDA indicates that the rent burden on producers has increased during the last decade and comprises a consistently higher proportion of production expenses. Of course, it isn't all good news, as any decline in land values will likely be a reflection of lower commodity prices which will impact the gross receipts and pressure margins of all farmers, both landowners and renters alike.

Figure 3: Annual Farm Rent Expense



Source: USDA

Farm Income and Financial Position

Overall, the economic picture continues to deteriorate for many U.S. farmers, although net farm income for 2015 ended much higher than initially forecast (\$80.7 billion compared to a forecast of \$58.3 billion at the same time last year). Additionally, the decline is in the context of very favorable recent market conditions. **Net U.S. farm income is expected to measure** \$71.5 billion in 2016, an 11.5% decline from the 2015 estimate.

The continued decline in crop and livestock pricing should be offset to some extent by increased government payments and a further decline 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) have been trending modestly upward for several years now, indicating some degree of increasing financial pressure.

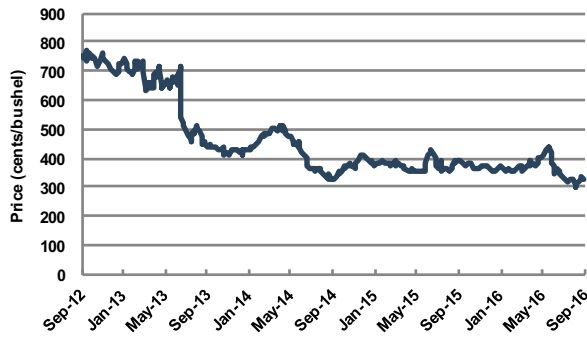
According to the Kansas City Fed, the Tenth District has seen a rising demand for farm loans to cover short-term operating expenses as farmers continue to experience weak margins due to falling commodity prices. While equity cushions remain strong relative to historical levels, several years of lower prices will eventually erode farmers' reserves. Already the volume of loan repayment problems is ticking up, as the Kansas City Fed survey reports that 7% of farm loans had major or severe repayment problems thus far in 2016, compared to an average of less than 3% over the 2011 to 2014 period.

Figure 4: U.S. Farm Sector Income Statement, 2011–2016F (\$ billions)

	2011	2012	2013	2014	2015	2016F
Crops	\$201.0	\$231.6	\$220.9	\$211.3	\$189.4	\$182.3
Livestock	164.8	169.8	182.7	212.8	189.8	171.1
Direct Government Payments	10.4	10.6	11.0	9.8	10.8	13.5
Other Farm-related Income	30.8	39.2	41.0	36.6	34.4	33.7
Gross Cash Income	\$407.0	\$451.3	\$455.6	\$470.5	\$424.4	\$400.6
Noncash Income	16.5	18.3	17.7	16.9	17.8	18.7
Value of Inventory Adjustment	(3.2)	(19.8)	10.6	(4.3)	(2.6)	0.9
Total Gross Income	\$420.4	\$449.8	\$483.8	\$483.0	\$439.5	\$420.2
Total Expenses	306.9	353.3	360.1	390.4	358.8	348.7
Net Cash Farm Income	306.9	353.3	360.1	390.4	358.8	348.7

Source: USDA WASDE Report, as of August 30, 2016

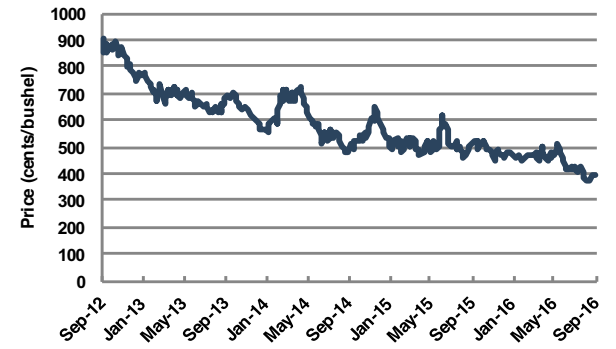
Corn



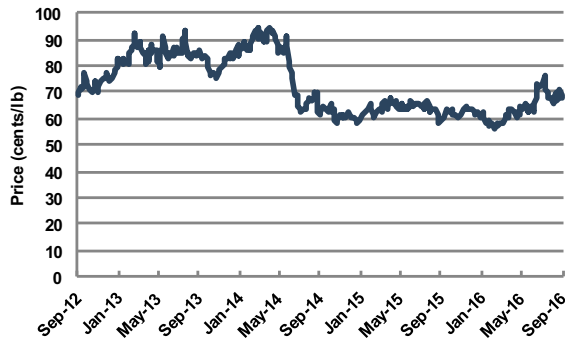
Soybeans



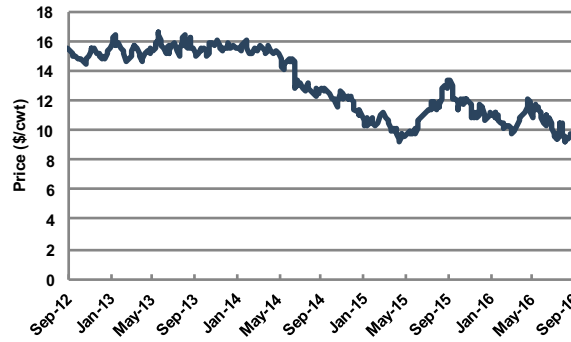
Wheat



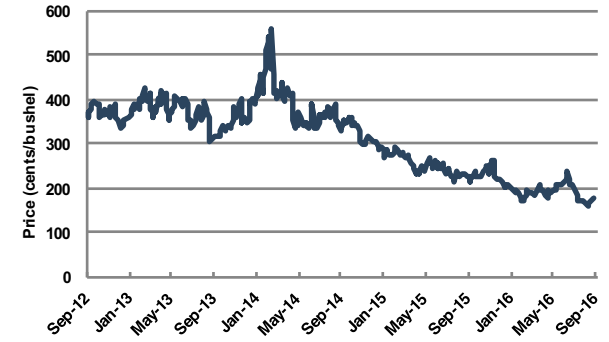
Cotton



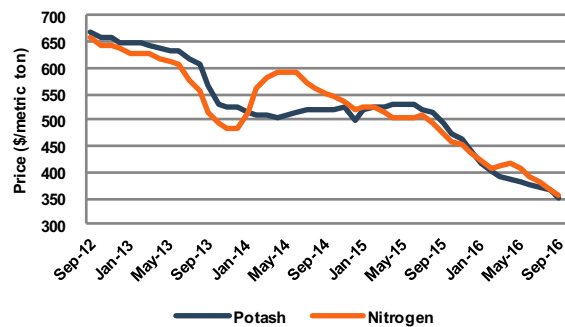
Rough Rice



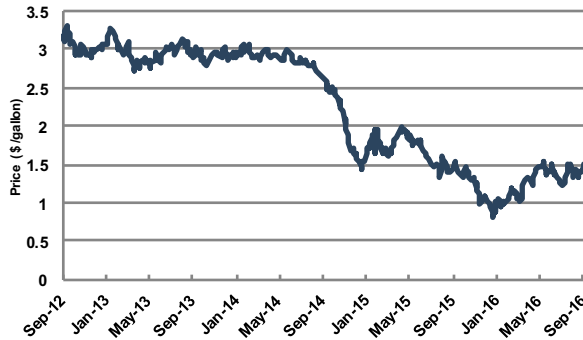
Oats



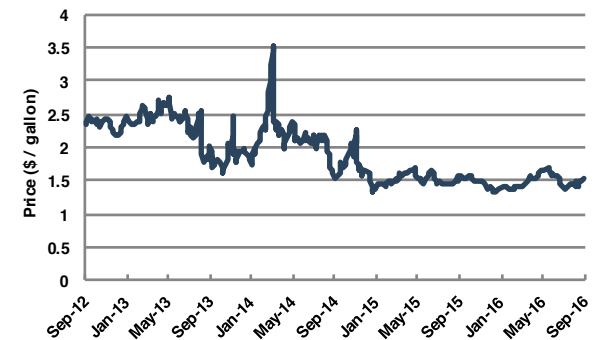
Retail Fertilizer



Gulf Coast Diesel: Ultra-low Sulfur No. 2



Ethanol

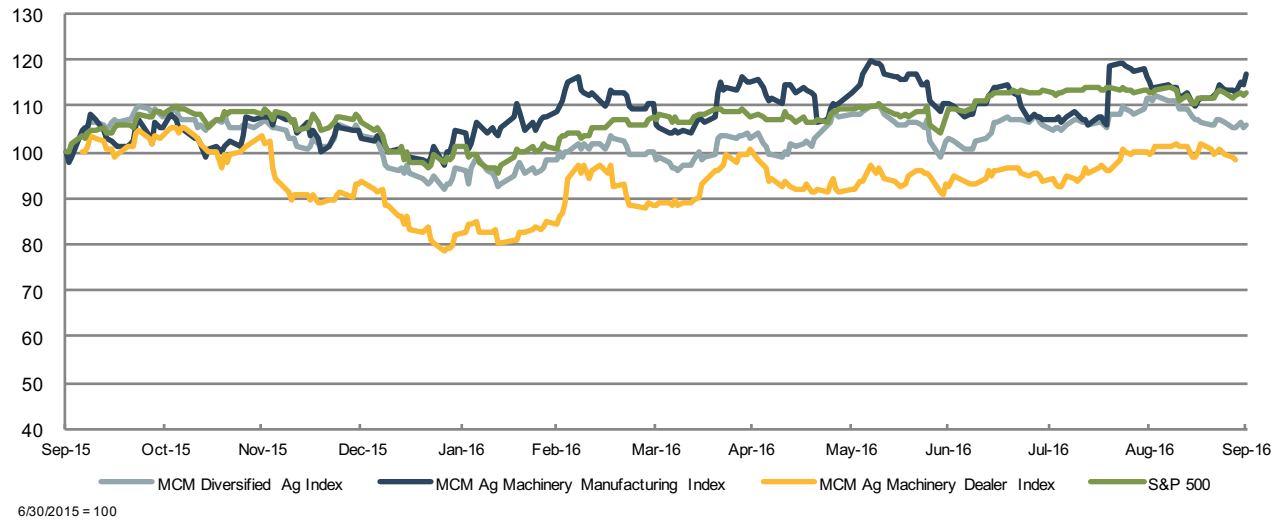


Publicly Traded Agribusiness Companies

Company Name	Ticker	Price 9/30/16 (\$)	52 Wk Perform (Market Cap)	LTM Revenue (\$)	Enterprise Value (\$M)	Debt/ MVTC	EBITDA Margin	EV / LTM EBITDA (x)	TEV / Nxt Yr EBITDA (x)	Price/ LTM Earnings (x)
Diversified Agribusiness										
Agrium Inc.	TSX:AGU	90.55	-2.0%	13,792	17,738	50.0%	12.3%	10.44	10.08	17.24
CF Industries Holdings, Inc.	NYSE:CF	24.35	-45.7%	3,933	12,390	97.6%	32.9%	9.57	8.98	81.24
The Mosaic Company	NYSE:MOS	24.46	-22.3%	7,464	11,412	45.3%	16.9%	9.02	9.46	19.47
Potash Corporation of Saskatchewan Inc.	TSX:POT	16.27	-20.1%	4,239	18,099	34.8%	33.2%	12.86	12.29	28.52
Intrepid Potash, Inc.	NYSE:IPI	1.13	-79.6%	167	186	170.7%	-8.0%	NM	7.06	NM
Terra Nitrogen Company, L.P.	NYSE:TNH	112.33	4.1%	476	2,093	0.0%	59.3%	7.42	NM	13.61
Yara International ASA	OB:YAR	33.24	-17.0%	12,336	10,554	21.3%	14.4%	5.93	6.53	10.21
Monsanto Company	NYSE:MON	102.20	12.1%	13,502	54,119	20.3%	27.7%	14.45	14.11	34.30
Syngenta AG	SWX:SYNN	438.33	37.0%	12,871	43,583	13.4%	19.5%	17.39	15.43	34.09
Archer-Daniels-Midland Company	NYSE:ADM	42.17	-2.8%	62,290	31,244	28.8%	3.8%	13.07	10.08	15.90
Bunge Limited	NYSE:BG	59.23	-21.7%	41,985	14,743	65.4%	3.9%	9.03	7.41	12.93
Median - Diversified Agribusiness			-17%	12,336	14,743	34.8%	16.9%	10.00	9.77	18.36
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Company	NYSE:DE	85.35	11%	26,729	60,441	138.9%	13.9%	16.27	24.90	17.04
AGCO Corporation	NYSE:AGCO	49.32	-2%	7,276	5,217	49.9%	7.7%	9.26	9.83	25.45
Lindsay Corporation	NYSE:LNN	73.98	1%	516	812	14.9%	9.9%	15.84	12.90	39.81
Median - Manufacturers			1%	7,276	5,217	49.9%	9.9%	15.84	12.90	25.45
Dealers										
Titan Machinery, Inc.	NasdaqGS:TITN	10.40	-10%	1,244	753	77.5%	2.5%	24.37	22.15	NM
Rocky Mountain Dealerships, Inc.	TSX:RME	7.12	48.3%	709	433	59.0%	4.8%	12.78	16.33	12.25
Cervus Equipment Corporation	TSX:CVL	8.82	-12.2%	835	366	53.4%	5.2%	8.51	9.67	9.63
Median - Dealers			-10%	835	433	59.0%	4.8%	12.78	16.33	10.94

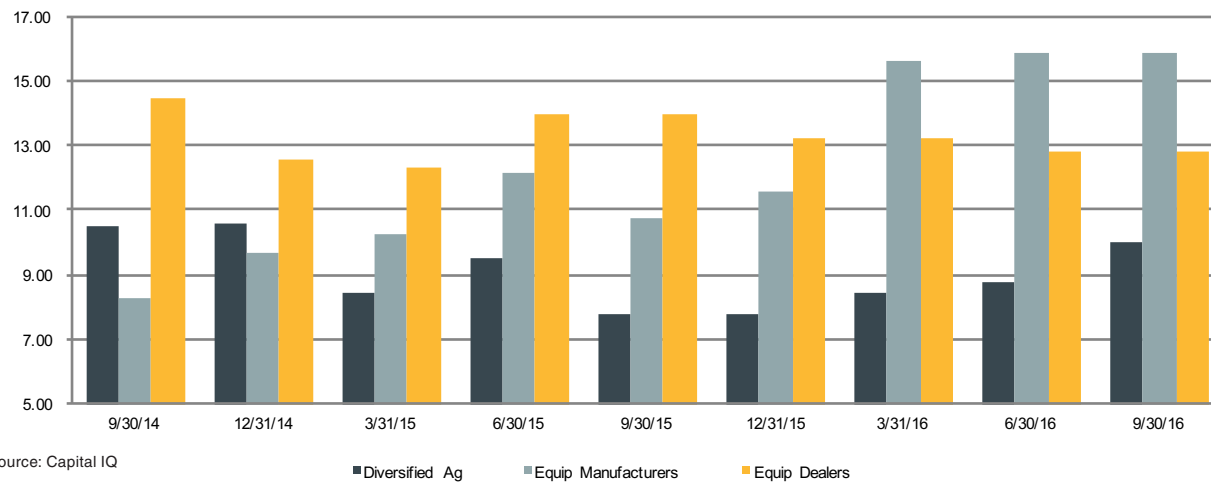
Source: Capital IQ

Mercer Capital Agriculture Indices: One Year Performance



Source: Yahoo! Finance

Historical EV / EBITDA Multiples



Source: Capital IQ

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

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