

VALUE FOCUS

Agribusiness

Segment Focus: Agriculture Machinery, Equipment & Implements
First Quarter 2019

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Segment Focus

Agriculture Machinery, Equipment & Implements

The agricultural equipment industry has had to face several challenges in the past five years. Despite falling interest rates, revenue has slipped for an average annual loss of 5.2% from 2014-2019. Decreases in revenue can be attributed to declining crop prices and an appreciated U.S. dollar. These factors hamper farm revenue, and farmers are having trouble coming up with the money to update aging fleets that were purchased before the 2014-2019 period.

The two main sources of cash for the agricultural equipment industry are domestic farmers and international buyers. The appreciation of the U.S. dollar has been a double-edged sword, as it has negatively affected crop and equipment exports. These goods are globally less attractive as the dollar strengthens, and exports are a large part of the industry's market, generating 22.7% of revenue in 2018.

However, despite these hurdles, the agricultural equipment industry is expected to experience slow growth in the next five years. Experts predict an increase in the agricultural price index (API), giving farmers the revenue required to purchase new equipment. Also, the dollar is expected to depreciate, giving much-needed stimulus to the export market.

The U.S. Farm Sector Income Statement projects net income of \$63.1 billion in 2018. This decrease in net income is expected to reverse in 2019 and continue increasing into the next five years.

U.S. Farm Sector Income Statement, 2013-2019

\$ billions

	2013	2014	2015	2016	2017	2018F	2019F
Crops	220.8	211.4	187.6	195.0	195.4	197.6	201.7
Livestock	182.7	212.8	189.5	162.8	176.0	175.3	179.9
Direct Government Payments	11.0	9.8	10.8	13.0	11.5	13.8	11.5
Other Farm-related Income	41.0	36.6	34.4	27.9	32.9	35.0	34.5
Gross Cash Income	\$455.5	\$470.6	\$422.3	\$398.7	\$415.8	\$421.6	\$427.5
Noncash Income	17.7	16.9	17.8	17.1	18.6	19.8	20.6
Value of Inventory Adjustment	10.6	(4.3)	0.5	(4.1)	(5.0)	(8.4)	(6.7)
Total Gross Income	\$483.8	\$483.1	\$440.5	\$411.7	\$429.5	\$433.0	\$441.5
Total Expenses	360.4	391.1	359.4	350.2	354.3	369.8	372.0
Net Farm Income	\$123.4	\$92.0	\$81.1	\$61.5	\$75.2	\$63.1	\$69.4

Source: USDA WASDE Report, March 6, 2019

Manufacturers

Domestic agriculture equipment sales have been faltering during the five-year period from 2014-2019. Already low crop prices have continued to fall, and the dollar has continued to gain strength, driving down demand. However, due to the quality of U.S. agricultural equipment, demand abroad has retained much of its strength. These foreign purchases, especially from fast-growing Asian and South American countries, have propped up the industry in the past two years, helping manufacturers recover from revenue slashes of 17.6% in 2015 and 20.7% in 2016. Domestic and international demand is expected to increase, and manufacturers should feel good about growth prospects.

Going forward, one point of contention for manufacturers is going to be overnight rate increases. Almost all equipment sales are made with financing agreements and increasing the prime rate will make it more expensive for farmers to finance new equipment purchases. Whether or not these circumstances materialize will depend mainly on actions of the Federal Reserve's Open Market Committee in 2019.

Dealers

Dealers of agricultural equipment have continued to shift towards industry consolidation. Despite suffering the largest revenue losses in the sector, more locations were built in the U.S. over the past five years. From 2014-2019, establishments grew at 2.2% annually to 1,457 locations. Because of this establishment growth, employment at the dealer level has inched forward at an annualized 0.3% from 2014-2019. Lower profit margins have forced smaller dealers out of the market, and large dealers have been building more locations to counteract low profits with economies of scale.

United States Unit Retail Sales - March 2019

	March			YTD March			Beginning Inventory
	2019	2018	% Chg.	2019	2018	% Chg.	Mar-19
2WD Farm Tractors							
<40 HP	13,586	13,562	0.2	28,975	26,431	9.6	98,286
40 < 100 HP	4,731	4,892	-3.3	11,357	11,531	-1.5	37,076
100+ HP	1,584	1,511	4.8	3,598	3,589	0.3	8,962
Total 2WD Farm Tractors	19,901	19,965	-0.3	43,930	41,551	5.7	144,324
4WD Farm Tractors	245	216	13.4	593	476	24.6	952
Total Farm Tractors	20,146	20,181	-0.2	44,523	42,027	5.9	145,276
Self-Prop Combines	411	240	71.3	977	719	35.9	1,103

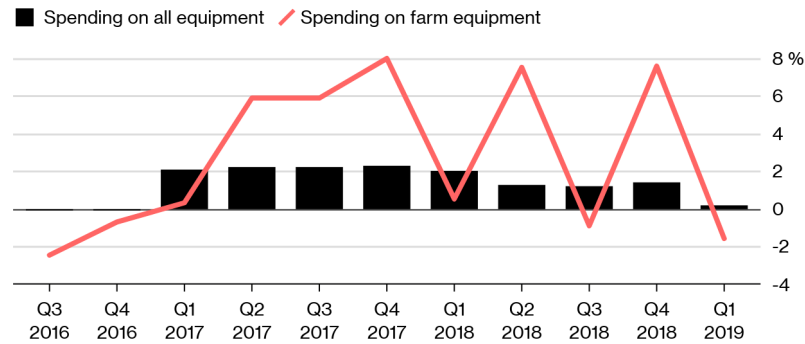
Source: AEM United States Ag Tractor and Combine Report March 2019

Financing for Agricultural Machinery

Despite a prolonged period of low interest rates, equipment spending has remained low from 2014-2019. During times of high farm income, like the period before 2014, farmers will typically increase their investments in new equipment. When these purchases are made, they are almost always made on credit. However, despite the low-rate environment, low agricultural prices have put pressure on farm balance sheets, stifling equipment spending. Looking forward, rising crop prices should stimulate equipment upgrades domestically, but rising interest rates could make the investments less appealing.

Farmers Hold Back

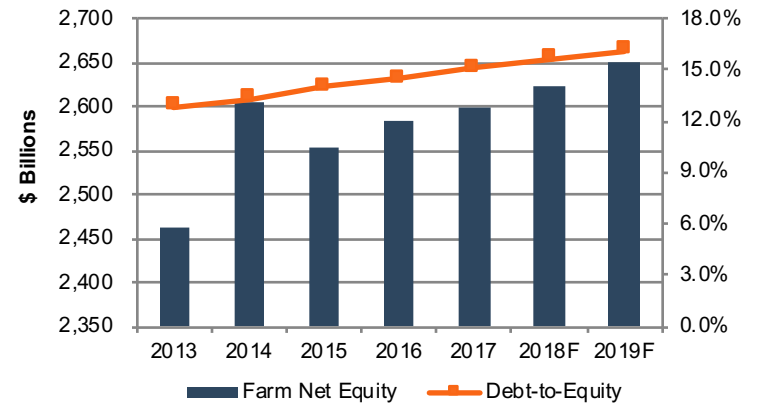
Reduced spending by farmers in 1Q weighed on equipment purchases



Note: Q/Q SAAR
Source: U.S. Department of Commerce

Bloomberg

Farm Balance Sheet Leverage



Trade Dispute with China

The United States is currently in an unresolved trade dispute with China, with the U.S. issuing three different classifications of tariffs on Chinese imports in 2018. Goods affected include solar panels, steel, and aluminum. China has issued retaliatory tariffs on United States goods, and the largest export industry that has been affected is agriculture.

The agricultural trade relationship between the two nations has seen explosive growth in the last twenty years. In 1993, U.S. ag exports to China totaled \$376.2 million dollars (\$579.3 million in 2017 dollars). In 2017, ag exports had risen to over \$17 billion dollars.

Soybeans are easily the largest U.S. agricultural export to China, and the period between January 2018 and October 2018 saw a 63% decrease in soybean exports. However, there is some hope for this industry. China promised to buy 5 million tons of soybeans in December 2018 and an additional 5 million tons in January 2019. These promises bode well for farmers as the harvest in July 2018 brought in a record soybean yield, but it will take more than these transactions to equal the nearly 35 million tons that China has demanded in the past.

Select U.S. Agricultural Exports to China, 2017

Product	Rank of the China Market	Share of Product's World Exports	Value (\$bn)
Soybeans	1	57%	\$12.25
Cotton	2	17%	\$0.98
Hides and Skins	1	50%	\$0.94
Coarse Grains	1	75%	\$0.84
Dairy Products	2	11%	\$0.57
Pork	4	8%	\$0.49
Hay	2	27%	\$0.38
Wheat	5	6%	\$0.35
Tobacco	2	16%	\$0.16
Processed Fruit	3	8%	\$0.14

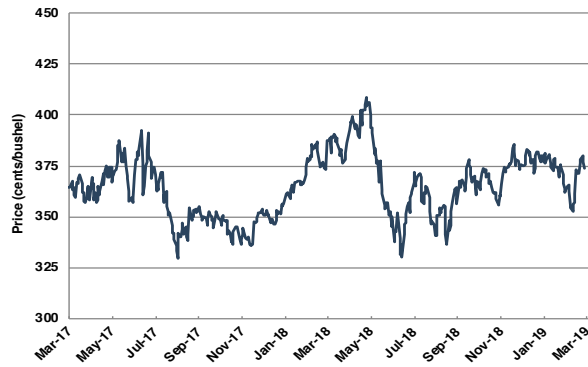
Source: Heritage.org

Chinese Tariffs on Select U.S. Agricultural Products

Product	Tariff Imposed by China
Cotton	50%
Pork	25%
Apples	40%
Cherries	40%
Cheese	25%
Ginseng	25%
Seafood	25%
Sorghum	25%
Soybeans	25%
Whiskey	25%

Source: Heritage.org

Corn



Soybeans



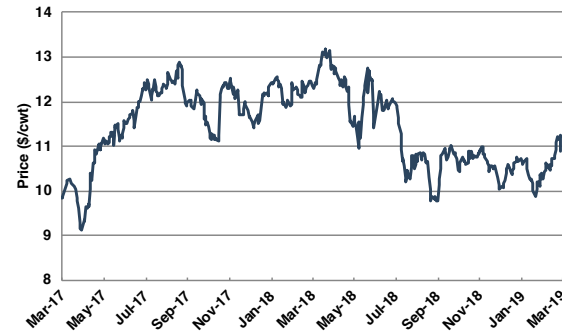
Wheat



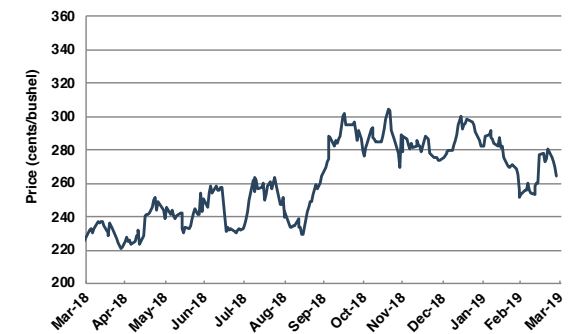
Cotton



Rough Rice



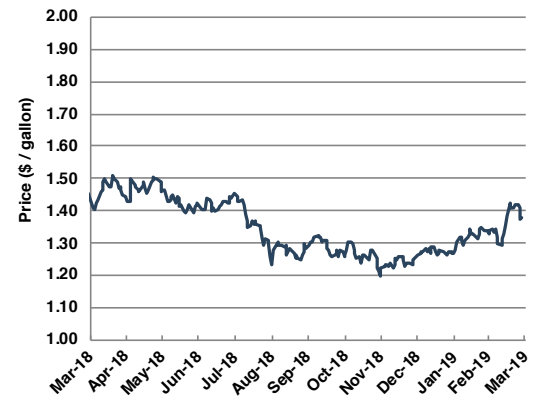
Oats



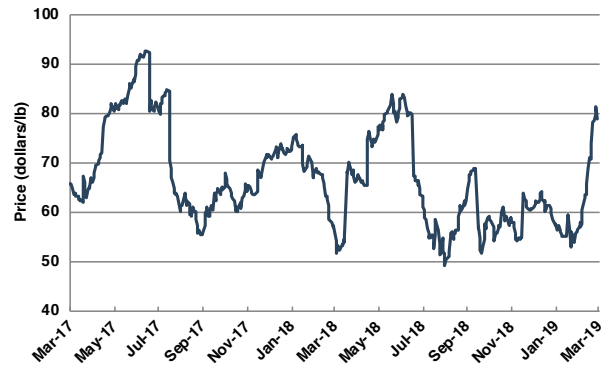
Gulf Coast Diesel: Ultra-low Sulfur No. 2



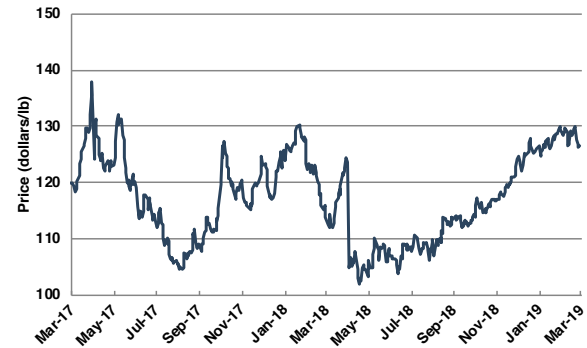
Ethanol



Lean Hogs



Live Cattle

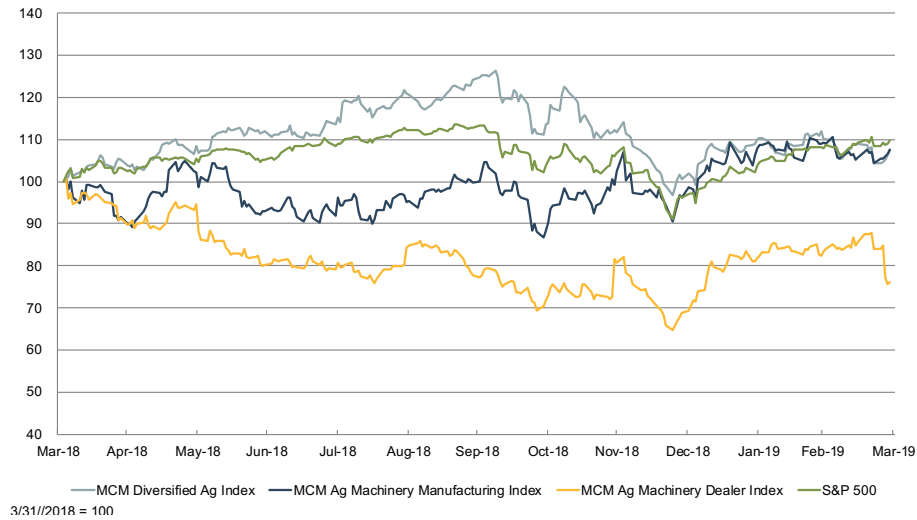


Publicly Traded Agribusiness Companies

Company Name	Ticker	Price 3/31/19 (\$)	52 Wk Perform (Market Cap)	LTM Revenue (\$)	Enterprise Value (\$M)	Debt/ EV	EBITDA Margin	EV / LTM EBITDA (x)	TEV / Nxt Yr EBITDA (x)	Price/ LTM Earnings (x)
Diversified Agribusiness										
CF Industries Holdings, Inc.	NYSE:CF	40.88	8.3%	4,473	15,881	31.4%	36.1%	9.83	8.91	29.66
The Mosaic Company	NYSE:MOS	27.31	12.5%	9,553	14,416	34.6%	22.0%	6.87	6.38	18.85
Intrepid Potash, Inc.	NYSE:IPI	3.79	4.1%	162	505	11.0%	34.0%	9.14	7.69	30.06
Yara International ASA	OB:YAR	40.96	-3.0%	13,081	15,215	29.6%	10.0%	11.68	7.27	80.45
Nutrien Ltd.	TSX: NTR	52.73	11.7%	18,834	38,560	27.9%	20.5%	10.01	8.27	2,947.59
Archer-Daniels-Midland Company	NYSE:ADM	43.13	-0.6%	64,119	30,606	35.0%	4.3%	11.06	8.78	14.76
Bunge Limited	NYSE:BG	53.07	-28.2%	45,040	13,671	50.7%	3.6%	8.34	8.84	26.09
Median - Diversified Agribusiness			4%	13,081	15,215	31.4%	20.5%	9.83	8.27	29.66
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Company	NYSE:DE	159.84	3%	38,388	91,459	47.3%	15.3%	15.56	15.58	15.11
AGCO Corporation	NYSE:AGCO	69.55	7%	9,340	6,529	32.0%	8.7%	8.00	7.55	16.64
Lindsay Corporation	NYSE:LNN	96.79	6%	514	1,024	11.4%	7.3%	27.18	15.39	79.38
Median - Manufacturers			6%	9,340	6,529	32.0%	8.7%	15.56	15.39	16.64
Dealers										
Titan Machinery Inc.	NasdaqGS:TITN	15.56	-34%	1,262	629	55.4%	4.3%	11.67	11.74	28.33
Rocky Mountain Dealerships Inc.	TSX:RME	6.73	-29.2%	755	453	85.1%	4.6%	12.95	15.06	10.89
Cervus Equipment Corporation	TSX:CERV	9.91	-6.8%	1,000	305	83.2%	4.3%	7.03	6.04	8.62
Median - Dealers			-29%	1,000	453	83.2%	4.3%	11.67	11.74	10.89

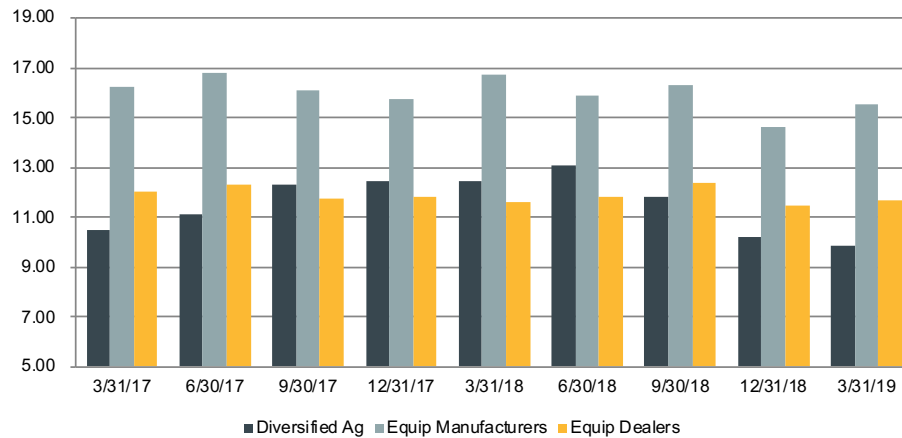
Source: S&P Capital IQ

Mercer Capital Agriculture Indices: One Year Performance



Source: Yahoo! Finance

Historical EV / EBITDA Multiples



Source: Bloomberg

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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