

VALUE FOCUS

Agribusiness

Segment Focus: Agriculture Land Values
Third Quarter 2018

Segment Focus	1
Cash Rents	2
Farm Income and Financial Position	3
Agribusiness Industry	
Commodity Prices	4
Publicly Traded Agribusiness Companies	6
Historical EV / EBITDA Multiples	7
About Mercer Capital	8

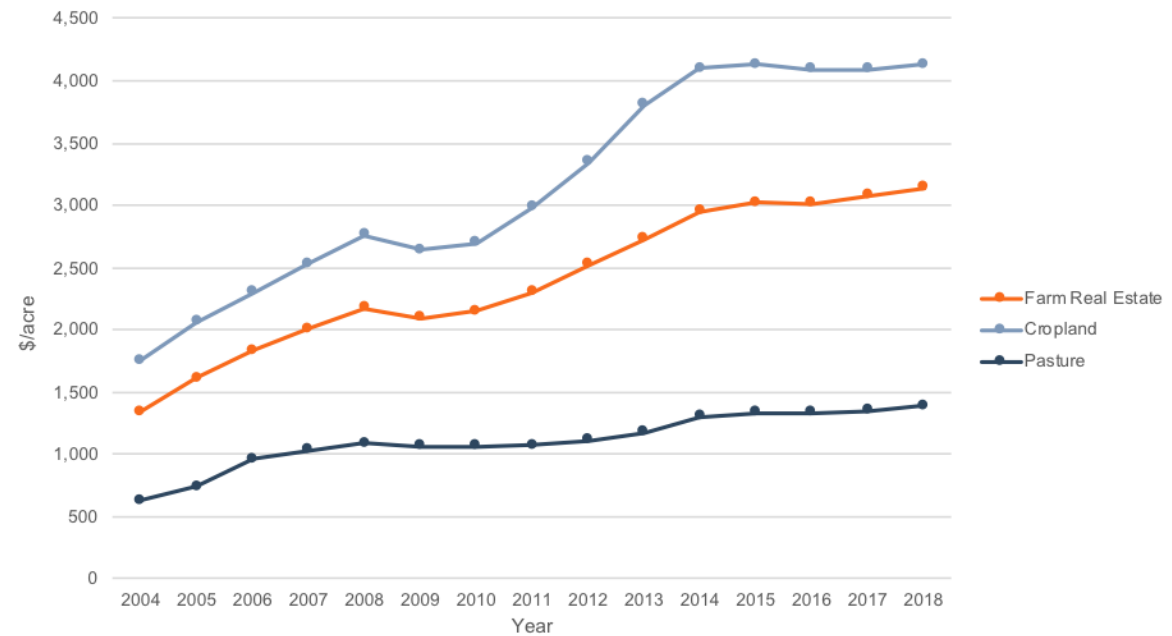


SEGMENT FOCUS

Agriculture Land Values

The 2018 USDA Land Values Summary indicates a rise in cropland, farm real estate, and pasture values in 2018. The average price of farm real estate in the U.S. grew at a rate of 1.9% over the last year, while cropland prices inched forward at 0.9% and pasture prices grew at 2.9%. Agricultural real estate prices have been increasing almost every year since 2009, but the accelerated growth in land values that was seen from 2008-2014 has flattened and become more stable. Real estate is generally the largest asset on farm balance sheets, and swings in pricing can have a huge effect on the success of farmers across the country.

Average U.S. Agricultural Land Values



Source: USDA

Cash Rents

According to the U.S. Census Bureau, 40% of agricultural land is leased, and the portion of land that is leased by non-farmer (non-operator) landlords has grown to nearly match the number of operator landlords. In general, non-operator landlords are less likely to offer favorable terms on per-acre rent pricing as commodity prices fall and farm profits suffer. Increasing agricultural land values coupled with the increase in leased agricultural land affects downstream demand for all agribusiness interests.

Steady land values paired with low commodity prices have put renters in a tenuous position. Contract renegotiations on renter's lease agreements have been common throughout the quarter, as farmers are having a hard time paying rent rates seen in previous years. A solution that some farmers and landowners have agreed on are flex leases. These agreements set a fair, base rental rate and increase rental rates if yields exceed expectations. Flex leases and renegotiations are evidence of the way in which yield performance affects every sector in the agribusiness industry. Land values are expected to remain stable for the near future, so renters must adjust their prices to the reality of the U.S. farmer or risk losing revenue once their tenants cannot pay.

Pasture Rents 2018

Region	\$/acre
Corn Belt	39
Pacific	12
Northeast	36.5
Lake States	34
Southeast	20
Appalachian	21.5
Delta States	18
Northern Plains	21
Southern Plains	7.9
Mountain	5.3
U.S. Total (48 States)	12.5

Cropland Rents 2018

Region	\$/acre
Corn Belt	204
Pacific	272
Northeast	80.5
Lake States	153
Southeast	84.5
Appalachian	99.5
Delta States	111
Northern Plains	102
Southern Plains	40
Mountain	90.5
U.S. Total (48 States)	138

Farm Income and Financial Position

Another factor that affects farmers and their real estate purchases is the interest rate environment. Historically low interest rates from 2008-2015 kept the cost of borrowing for farmers and other landowners low, stimulating borrowing. However, since 2015, the Federal Reserve has raised rates by a quarter point seven different times. If this trend continues as expected, farmers who rely on loans to purchase or rent land will be paying a higher price for that land. Many farmers also rely on short-term loans to cover expenses in periods of poor performance. These loans will be more expensive to acquire, forcing farmers to rely on government aid in the form of subsidies. These subsidies may or may not come in 2018, as the 2018 Farm Bill has not been approved by Congress. Changes to the Farm Bill will only be known once a version is agreed upon. When combined, a faltering Agricultural Price Index (API), rising rates, and government uncertainty have created a financial burden for farmers.

In 2018, U.S. Farm Sector net income could hit another low point. Despite better-than-expected revenue in 2017, net income is expected to return to cyclical lows in 2018. Pressure on farmer's income statements has further disincentivized borrowing and land purchases. Until farmer's financial struggles are alleviated or rates return to their historically low levels, borrowing is expected to remain an unsavory option.

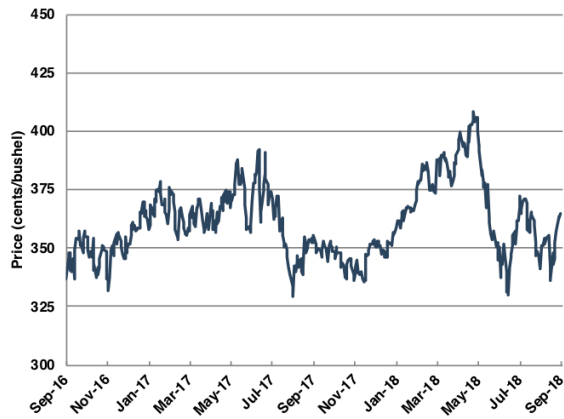
U.S. Farm Sector Income Statement, 2013-2018

\$ billions

	2013	2014	2015	2016	2017	2018F
Crops	220.8	211.4	187.6	195.0	195.4	197.6
Livestock	182.7	212.8	189.5	162.8	176.0	175.3
Direct Government Payments	11.0	9.8	10.8	13.0	11.5	13.8
Other Farm-related Income	41.0	36.6	34.4	27.9	32.9	35.0
Gross Cash Income	\$455.5	\$470.6	\$422.3	\$398.7	\$415.8	\$421.6
Noncash Income	17.7	16.9	17.8	17.1	18.6	19.8
Value of Inventory Adjustment	10.6	(4.3)	0.5	(4.1)	(5.0)	(8.4)
Total Gross Income	\$483.8	\$483.1	\$440.5	\$411.8	\$429.5	\$433.0
Total Expenses	360.1	390.7	359.4	350.2	354.3	369.8
Net Farm Income	123.8	92.4	81.1	61.5	75.2	63.1

Source: USDA WASDE Report, March 6, 2019

Corn



Soybeans



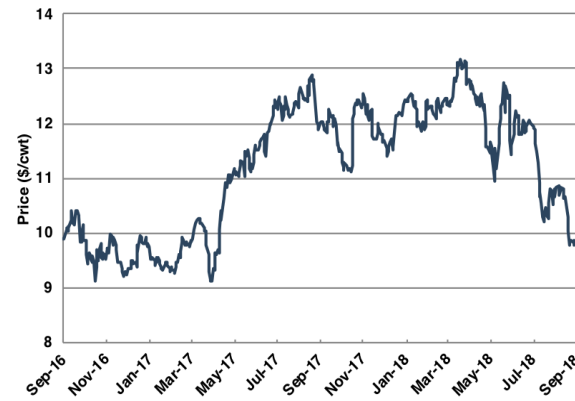
Wheat



Cotton



Rough Rice



Oats



U.S. Gulf Coast Ultra-Low Sulfur No 2 Diesel Spot Price (Dollars per Gallon)



Ethanol



Lean Hogs



Live Cattle

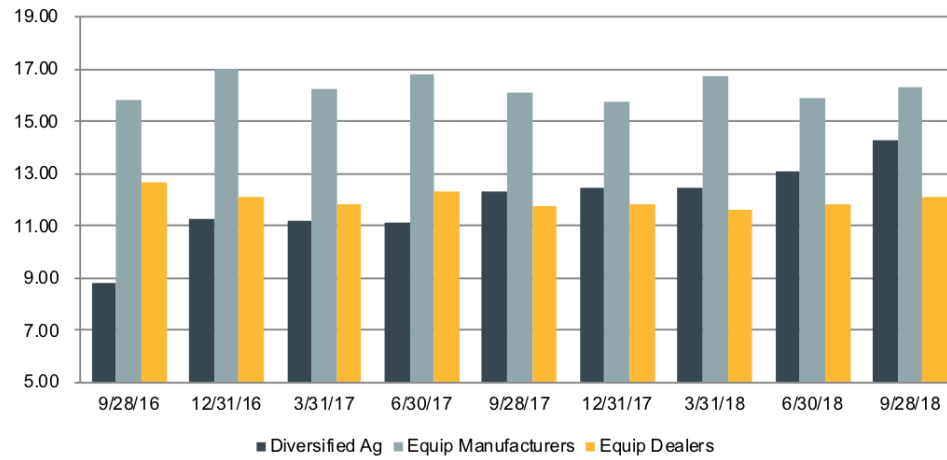


Publicly Traded Agribusiness Companies

Company Name	Ticker	Price 9/28/18	52 Wk Perform (Market Cap)	LTM Revenue (\$)	Enterprise Value (\$M)	Debt/ MVTC	EBITDA Margin	EV / LTM EBITDA (x)	EV / Nxt Yr EBITDA (x)	Price/ LTM Earnings (x)
Diversified Agribusiness										
CF Industries Holdings, Inc.	NYSE:CF	54.44	56.3%	4,226	19,443	24.1%	32.2%	14.31	12.38	21.61
The Mosaic Company	NYSE:MOS	32.48	52.5%	8,215	16,722	30.0%	18.1%	11.22	7.87	NM
Intrepid Potash, Inc.	NYSE:IPI	3.59	-18.4%	148	483	12.3%	27.5%	11.83	8.82	NM
Yara International ASA	OB:YAR	49.12	7.9%	11,941	16,823	24.7%	9.2%	15.32	7.94	135.57
Nutrien Ltd.	TSX:NTR	57.69	N/A	13,416	45,764	26.4%	19.8%	17.19	10.83	66.99
Archer-Daniels-Midland Company	NYSE:ADM	50.27	17.6%	63,491	34,965	21.8%	4.3%	12.73	10.04	14.62
Bunge Limited	NYSE:BG	68.71	-1.2%	45,816	18,374	43.4%	2.6%	15.27	8.24	NM
Median - Diversified Agribusiness			13%	11,941	18,374	24.7%	18.1%	14.31	8.82	44.30
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Company	NYSE:DE	150.33	22%	35,566	88,195	48.4%	15.2%	16.32	15.69	23.19
AGCO Corporation	NYSE:AGCO	60.79	-17%	9,059	6,540	29.8%	8.5%	8.54	7.72	21.88
Lindsay Corporation	NYSE:LNN	100.24	9%	548	1,083	10.8%	10.1%	19.67	14.58	53.10
Median - Manufacturers			9%	9,059	6,540	29.8%	10.1%	16.32	14.58	23.19
Dealers										
Titan Machinery Inc.	NasdaqGS:TITN	15.49	-2%	1,203	720	60.3%	4.1%	14.56	13.93	43.52
Rocky Mountain Dealerships Inc.	TSX:RME	7.93	-10.6%	787	462	66.2%	4.8%	12.12	14.03	9.52
Cervus Equipment Corporation	TSX:CERV	10.55	-5.2%	981	350	52.2%	4.5%	7.98	7.68	9.66
Median - Dealers			-5%	981	462	60.3%	4.5%	12.12	13.93	9.66

Source: Capital IQ

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

Contact a Mercer Capital professional to discuss your needs in confidence.

Contact Us

Nicholas J. Heinz, ASA

901.322.9788

heinzn@mercercapital.com

Timothy R. Lee, ASA

901.322.9740

leet@mercercapital.com

John T. (Tripp) Crews, III

901.322.9735

crewst@mercercapital.com

Mercer Capital

5100 Poplar Avenue, Suite 2600

Memphis, TN 38137

901.685.2120 (P)

www.mercercapital.com

Memphis | Dallas | Houston | Nashville