

VALUE FOCUS

Agribusiness

Segment Focus: Crops and Crop Services
Second Quarter 2019

Segment Focus	1
Imports/ Exports	2
Farm Bill Renewed in 2018	3
Crop Services	3
Floods in the Midwest	4
Agribusiness Industry	
Commodity Prices	5
Publicly Traded Agribusiness Companies	7
Indices Performance	8
Historical EV / EBITDA Multiples	8
About Mercer Capital	9



SEGMENT FOCUS

Crops & Crop Services

After a period of losses from 2013-16 and mixed results in 2017-18, slow growth is expected for the Crops and Crops Services Industries over the next five years. Low agricultural prices, trade disputes, and rising costs hurt farmers in 2018 and unpredictable weather added to farmer's woes in the first two quarters of this year. Inconsistent planting conditions should hurt large groups of farmers who could not sow fields, making those who harvest a crop beneficiaries of favorable crop prices. Uncertainty concerning the accuracy of planted acreage reports and trade agreements leave much to chance for the remainder of 2019.

Figure 1: U.S. Farm Sector Income Statement, 2013-2019F

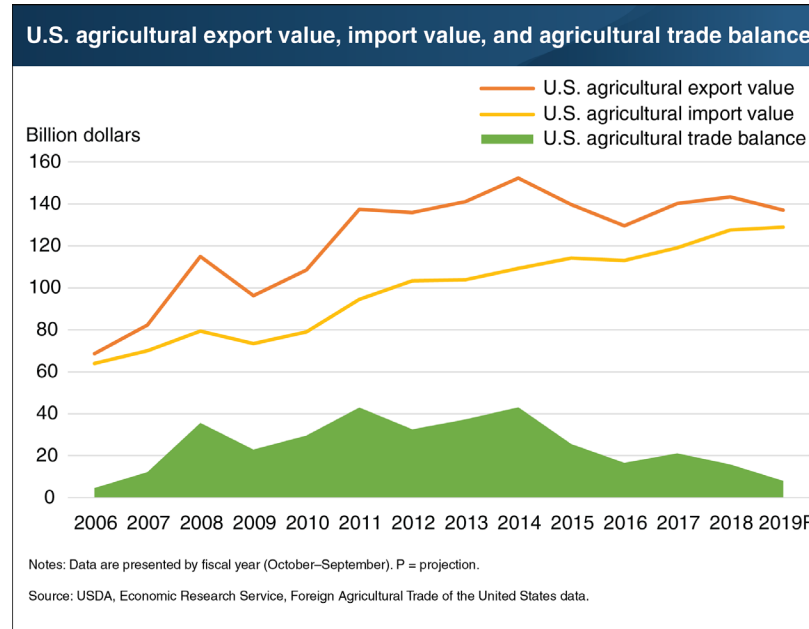
(\$ billions)

	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

Imports/Exports

The United States' agricultural trade balance is in the midst of a long-running expansion dating to the 1970s. International demand for crops has historically been a necessary and reliable revenue stream for farmers. Nonetheless, the agricultural trade surplus in the U.S. is shrinking. One external driver of this contraction is a shifting Trade Weighted Index (TWI). The dollar appreciated in 2018, causing U.S. goods to become relatively more expensive and less attractive abroad. Another cause of the shrinking trade surplus is trade instability. The last year has been riddled with tariff enforcement and the restructuring of trade deals with Mexico, Canada, and China, our three largest agricultural importers. Disturbances in free market transactions between these countries and the United States has also had its impact on the shrinkage of the trade surplus. At the end of the second quarter of 2019, trade talks between the U.S. and China were still ongoing with little possibility of speedy resolution, which could further shrink the trade surplus.



Farm Bill Renewed in 2018

Approximately every five years, Congress passes a Farm Bill that shapes and updates agricultural policy in the United States. The 2018 Farm Bill was passed into law on December 20, 2018, and there are a few noteworthy policy decisions that were made that will affect farmers through 2023. First, one important section of the bill guarantees the continuation of Price Loss Coverage (PLC). Price Loss Coverage sets a price floor for every agricultural commodity and guarantees compensation for crops produced if the price of the commodity dips below the price floor. This measure aims to keep farmers in business in the event of unexpected market swings, and price floors reflect close-to-breakeven value for producing each commodity listed. Another re-implemented program that will affect farmers is Agricultural Risk Coverage (ARC). Agricultural Risk Coverage takes a slightly different approach to keeping farms afloat during an underperforming season. In this system, if total farm revenue is below 86% of the previous five year industry Olympic Average, then ARC compensates the farm up to that amount of revenue. Farmers can choose between ARC and PLC at the beginning of the year, considering the individual concerns that affect their land and income opportunities. Some other notable sections that were passed in the 2018 Farm Bill were disaster programs meant to aid victims of natural disaster destruction and a safety net policy for struggling dairy farms.

Crop Services

Over the last five years, certain segments of the crop services industry have performed well. Grains and oilseed crops such as soybeans have become more important in providing for a growing world population, and corn has been in high demand due to increased ethanol production. The success of these crops has spurred demand for crop services like crop dusting and contract harvesting. Crop services in fruit farming have struggled, as upward pressure on wages continue to shrink margins. While fruit picking from crops services companies is a necessary practice for most fruit farms, shrinking margins raise concern for the future profitability of crops services operators in this segment.

Falling crop prices and unfavorable lending rates early in the five-year period gave a boost to the crops services industry. Farm balance sheets were not healthy enough to upgrade aging fleets, forcing farmers to call upon contract harvesting companies. Going forward, agricultural prices are expected to rise and rates are expected to fall. These economic developments do not bode well for the crops services industry. However, large, diversified crops services companies should avoid these pitfalls. For example, while cotton ginners support a singular crop, participants in the soil preparation, planting and cultivating market segment are much more diversified. Their services can be employed for almost all crops; therefore, the yearly fluctuations in the relative value of crops hardly affect this subindustry.

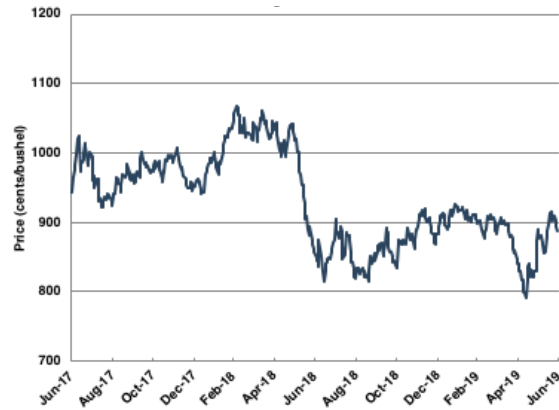
Floods in the Midwest

The first half of 2019 is on track to be the wettest on record as a result of rain and snowmelt, according to data from the National Oceanic and Atmospheric Administration, causing widespread damage to croplands and farms. The Midwest has experienced the most damage. Early estimates put the damage at around \$12.5 billion, making this spring and summer the costliest flood event in the Midwest in over ten years. A total of 3,300 miles of state and federal highways were closed due to flooding, in addition to 21 bridges. Agricultural activity has been heavily affected by the floods as well. The flooding has damaged fields, disrupted shipments, and delayed planting for many of the nation's corn farms, raising questions about this year's harvest and driving up corn prices. In fact, The USDA released a monthly projection of acres planted in June and marked down the expected corn harvest to a four year low. Many farms have decided to not plant at all, fearing the loss of insurance coverage or an early frost. While some farmers may gamble on a late-planted crop that could yield a fraction of a typical harvest, many will turn to crop insurance that pays out when farmers are unable to plant by a preset deadline. These floods add to the woes of farmers who have been struggling since 2013. The USDA is already structuring an aid package that would provide support for farmers affected by tariffs, and U.S. Agriculture Secretary Sonny Perdue has stated that disaster aid for Midwestern farms could be included in the package.

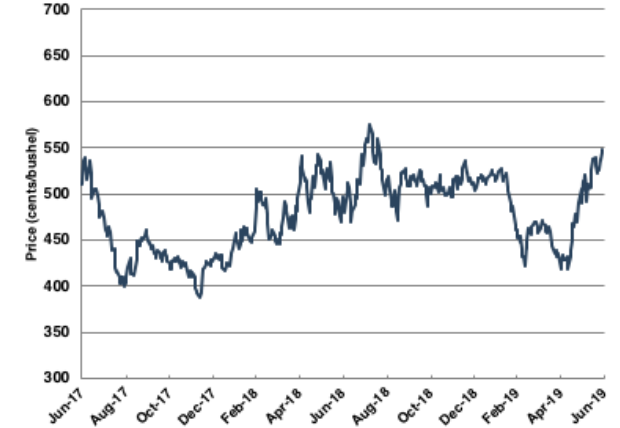
Corn



Soybeans



Wheat



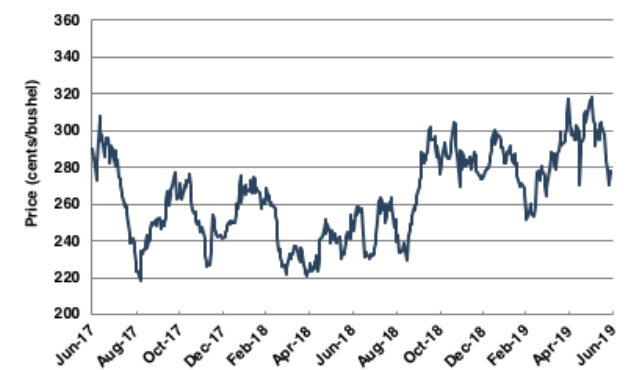
Cotton



Rough Rice



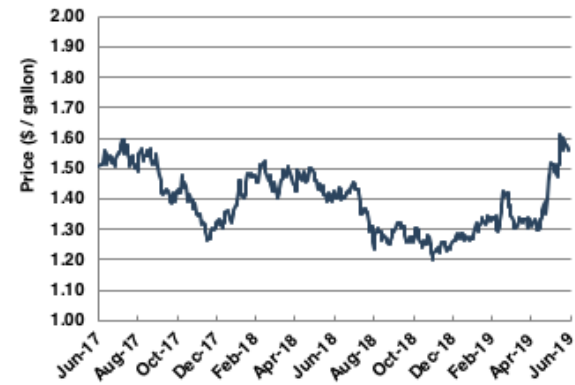
Oats



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



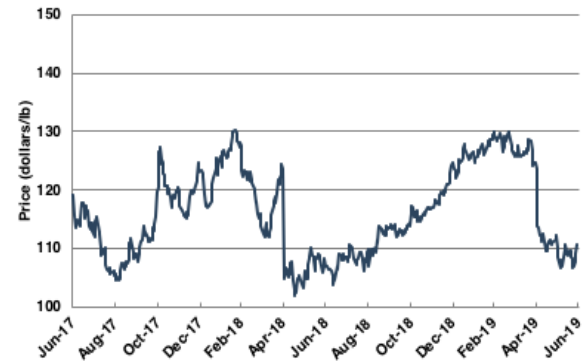
Ethanol



Lean Hogs



Live Cattle

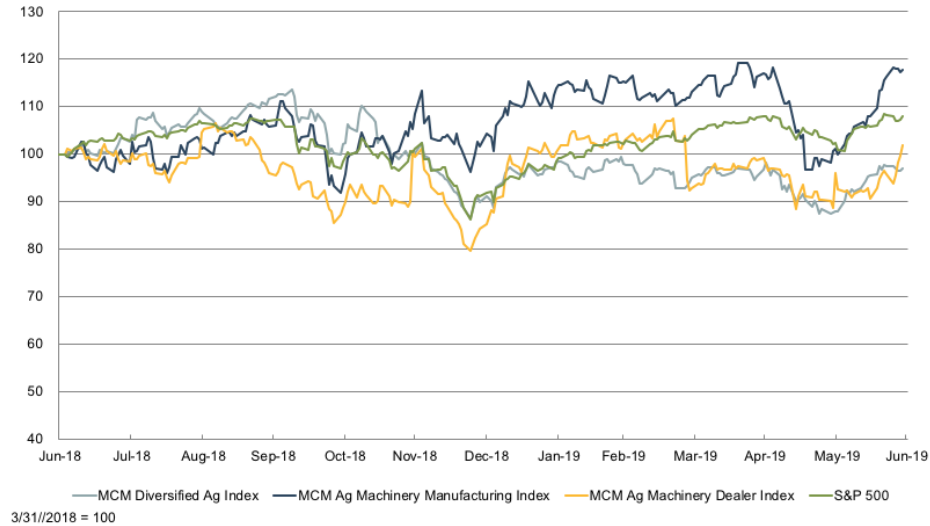


Publicly Traded Agribusiness Companies

Company Name	Ticker	6/30/19 (\$)	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	46.71	-0.3%	4,675	17,359	48.3%	38.5%	9.63	10.02	23.43
The Mosaic Company	NYSE:MOS	25.03	-10.7%	9,525	14,467	51.0%	21.3%	7.12	6.69	37.49
Intrepid Potash, Inc.	NYSE:IPI	3.36	-15.1%	168	454	17.4%	36.0%	7.50	6.53	18.99
Yara International ASA	OB:YAR	48.53	16.8%	13,281	17,709	32.8%	11.4%	11.74	7.17	22.79
Nutrien Ltd.	TSX: NTR	53.55	-7.7%	19,350	42,461	36.6%	21.5%	10.23	8.87	252.11
Archer-Daniels-Midland Company	NYSE:ADM	40.80	-10.8%	63,348	32,685	45.1%	4.0%	12.92	9.01	17.46
Bunge Limited	NYSE:BG	55.71	-19.8%	42,989	15,322	93.0%	3.8%	9.26	9.85	15.13
Median - Diversified Agribusiness			-11%	13,281	17,359	45.1%	21.3%	9.63	8.87	22.79
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Company	NYSE:DE	165.71	19%	39,011	94,393	85.5%	15.5%	15.62	16.94	15.93
AGCO Corporation	NYSE:AGCO	77.57	28%	9,225	7,816	34.7%	9.1%	9.33	8.87	15.98
Lindsay Corporation	NYSE:LNN	82.21	-15%	465	901	13.1%	4.9%	39.63	18.97	156.85
Median - Manufacturers			19%	9,225	7,816	34.7%	9.1%	15.62	16.94	15.98
Dealers										
Titan Machinery, Inc.	NasdaqGS:TITN	20.58	32%	1,296	946	59.2%	4.2%	17.22	17.13	34.26
Rocky Mountain Dealerships, Inc.	TSX:RME	5.97	-28.7%	689	500	81.1%	4.5%	16.14	16.62	15.18
Cervus Equipment Corporation	TSX:CERV	9.28	-14.3%	960	401	64.6%	4.3%	9.73	6.97	9.91
Median - Dealers			-14%	960	500	64.6%	4.3%	16.14	16.62	15.18

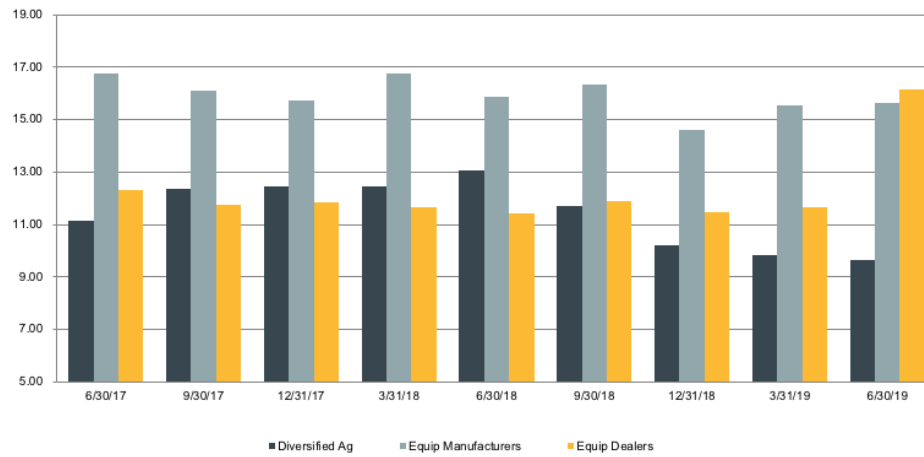
Source: Capital IQ

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

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