

VALUE FOCUS

Agribusiness

Segment Focus: Agriculture Real Estate
Third Quarter 2019

Segment Focus

Agriculture Land Values	1
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



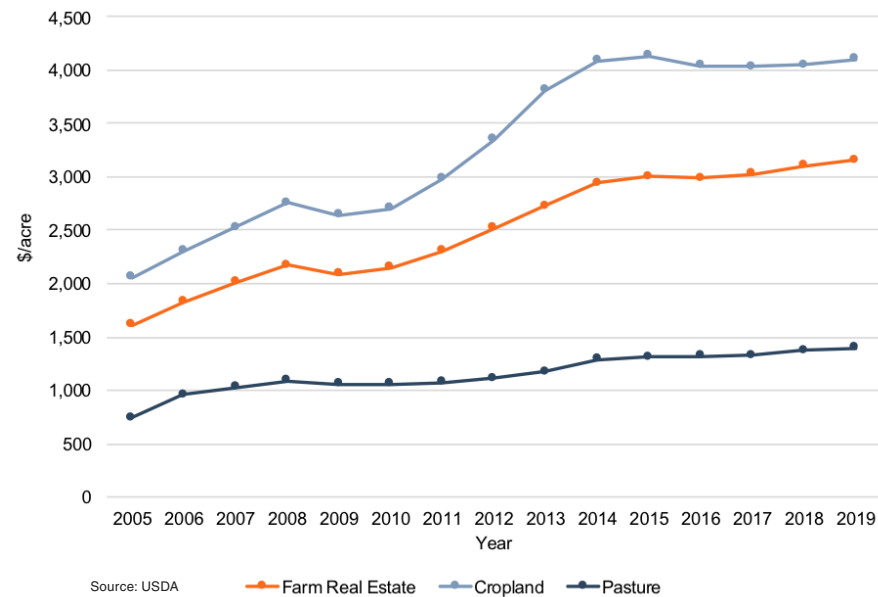
SEGMENT FOCUS

Agriculture Land Values

The **2019 USDA Land Values Summary**, released August 6, 2019, indicates a rise in cropland, farm real estate, and pasture values from levels seen in 2018. The estimates of land values contained in the report are based primarily on surveys conducted in June 2019. Farm real estate refers to “the value at which all land and buildings used for agricultural production, including dwellings, could be sold under current market conditions.” Cropland is defined as “land used to grow field crops, vegetables, or land harvested for hay.” The summary further defines pasture as “land that is normally grazed by livestock.” The value of all three categories increased in the 2019 survey compared to 2018 levels, albeit marginally.

Prior to the release of the 2019 summary, observers had anticipated a weakening in land values given the downturn in net farm income and net cash income experienced across much of the farm economy over the past five years. Factors driving down farm income, such as abnormal weather, flooding, and tariffs, also contributed to uncertainty in the land market in the past year, further strengthening the case for depressed land values. However, as evidenced in the summary, this has not materialized, as land values generally kept pace with inflation compared to values a year ago at the time of the survey.

Average U.S. Agricultural Land Values



Average Farm Real Estate Value	
Year	\$/acre
2015	3,000
2016	2,990
2017	3,030
2018	3,100
2019	3,160
2018-2019 Growth	1.94%
5 Yr. CAGR	1.04%

Average Cropland Value	
Year	\$/acre
2015	4,130
2016	4,040
2017	4,030
2018	4,050
2019	4,100
2018-2019 Growth	1.23%
5 Yr. CAGR	-0.15%

Average Pasture Value	
Year	\$/acre
2015	1,310
2016	1,320
2017	1,330
2018	1,370
2019	1,400
2018-2019 Growth	2.19%
5 Yr. CAGR	1.34%

Source: USDA

Agriculture Land Values

(continued)

One factor allowing land values to continue increasing, by at least nominal levels, is the low interest rate environment that has been persistent in the United States economy since the credit crisis and subsequent recession in 2008 and 2009. While the land values survey was conducted in the second quarter of 2019, we expect to see land values to continue to be propped up by low interest rates through the balance of 2019 and into 2020, as the Federal Reserve lowered its benchmark rate twice in the third quarter of 2019. Cheaper borrowings should continue to drive demand for agricultural land, keeping land values afloat. On the other hand, if the declining trends in commodity prices and farm incomes continue, land values could begin to slip and lose pace with inflation.

Another interesting trend to note in the 2019 Land Values Summary is the difference in the year-over-year land value growth or decline in the different major agricultural regions of the country. For instance, 2019 cropland average value per acre in the Delta region increased by 2.8% over 2018 values. This increase was higher than the national cropland value per acre increase of 1.2%. Cropland average values per acre in the Corn Belt fell by 0.2% from 2018 to 2019. Two factors may have caused this disparity. First, the differences in the primary land buyers in these regions played a role in the varying land values in the two regions. In the Delta region, there are generally more institutional and pooled investment buyers making real estate investments in ag land for reasons other than current income. Farmers and ranchers are the more prevalent buyers of ag land in the Corn Belt. Institutional investors increase the buyer pool, driving up demand for land and will oftentimes bid up land prices. While still lower than values in the Corn Belt, land values in the Delta region have benefitted from the greater presence of these institutional buyers. Second, land values in the Corn Belt were adversely affected at the time of the survey by widespread flooding across the Midwest, hampering yield and output on corn and soybeans, which drives a significant portion of farm income in the Corn Belt. The charts below show changes in cropland average values per acre from 2018 to 2019 for Delta states and states in the Corn Belt.

Cropland Average Value per Acre- Delta States			
State	2018	2019	2018-2019 Growth
Arkansas	\$2,780	\$2,850	2.5%
Louisiana	\$2,790	\$2,880	3.2%
Mississippi	\$3,000	\$3,080	2.7%
Delta States	\$2,840	\$2,920	2.8%

Source: USDA

Cropland Average Value per Acre- Corn Belt			
State	2018	2019	2018-2019 Growth
Illinois	\$7,280	\$7,300	0.3%
Indiana	\$6,210	\$6,210	0.0%
Iowa	\$7,290	\$7,260	-0.4%
Missouri	\$3,490	\$3,490	0.0%
Ohio	\$6,320	\$6,400	1.3%
Corn States	\$6,370	\$6,360	-0.2%

Source: USDA

Farm Income and Financial Position

Torrential rain and flooding continued to present challenges for farmers, grain traders, and seed suppliers in the Midwest in the third quarter of 2019. With millions of acres of corn left unplanted, seed and pesticide suppliers, such as Corteva Inc. and Bayer, were left with excess inventory and product returns. Grain shippers and processors, such as Archer Daniels Midland and Bunge, had to contend with overflowing rivers that closed down plants and raised prices throughout the Midwest. Specifically, Corteva executives stated in an earnings call in August, that costs in 2019 have climbed as farmers have replanted fields that were previously planted and swamped by floodwaters. Seed companies often cover the costs of these replantings. Further, Corteva was forced to cut seed prices, as fewer acres were planted and farmers switched seed orders to faster-maturing corn and lower-priced soybeans after storms delayed planting. Corteva executives now expect 2019 profit to be \$250 to \$300 million lower than previous forecasts. Bayer also reported declines in sales through the summer of 2019, as some farmers had no need for spraying herbicides and pesticides at all after giving up on planting corn, hampering sales of Bayer's flagship weed killer, Roundup. **Further, flooding** forced Archer Daniels Midland to shut down plants in Nebraska and Illinois during the spring, and high river waters slowed ADM barges, costing the shipper tens of millions of dollars.

Further hampering farmers in the third quarter was China's decision to suspend all imports of U.S. agricultural goods. China had been scaling back purchases of U.S. agricultural goods over the past two years, which were down to \$9.1 billion in 2018 from \$19.5 billion in 2017. Through the first six months of 2019, China's ag imports from the U.S. were down 20% from the same period in 2018. In late July, the USDA began enrolling U.S. farmers in a program that will disperse approximately \$14.5 billion to U.S. farms, which farmers claim will help alleviate some of the losses caused by the trade war and extreme weather in 2019, but won't make them whole. In September, China agreed to exempt U.S. soybeans, pork, and other farm goods from tariffs, bringing some relief to farmers in the U.S. At the end of the third quarter, **the trade dispute** was still ongoing, with another set of U.S. tariffs on Chinese goods set to be enforced beginning on October 15.

U.S. Farm Sector Income Statement, 2013-2019 (\$billions)

	2013	2014	2015	2016	2017	2018	2019
Crops	220.9	211.7	187.9	195.8	194.9	197.0	193.7
Livestock	183.1	212.3	189.5	162.7	175.6	176.5	177.4
Direct Government Payments	11.0	9.8	10.8	13.0	11.5	13.7	19.5
Other Farm-related Income	41.0	36.6	34.4	27.9	32.7	29.1	34.7
Gross Cash Income	\$456.1	\$470.3	\$422.6	\$399.4	\$414.7	\$416.3	\$425.3
Noncash Income	17.7	16.9	17.8	17.1	18.6	19.1	20.0
Value of Inventory Adjustment	10.3	(3.9)	0.4	(4.2)	(6.0)	(6.8)	(11.1)
Total Gross Income	\$484.1	\$483.3	\$440.8	\$412.3	\$427.2	\$428.6	\$434.1
Total Expenses	360.4	391.1	359.3	350.2	349.5	344.6	346.1
Net Farm Income	\$123.7	\$92.1	\$81.4	\$62.0	\$77.7	\$84.0	\$88.0

Source: USDA WASDE Report, March 6, 2019

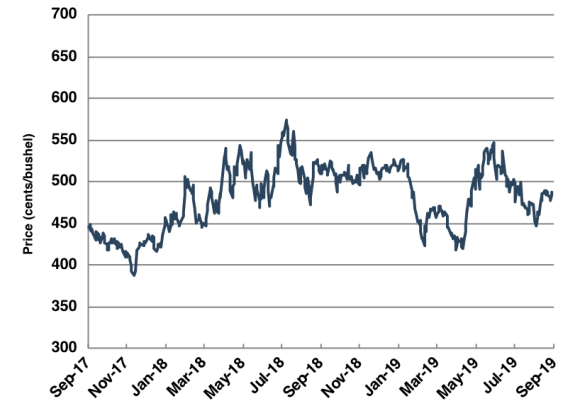
Corn



Soybeans



Wheat



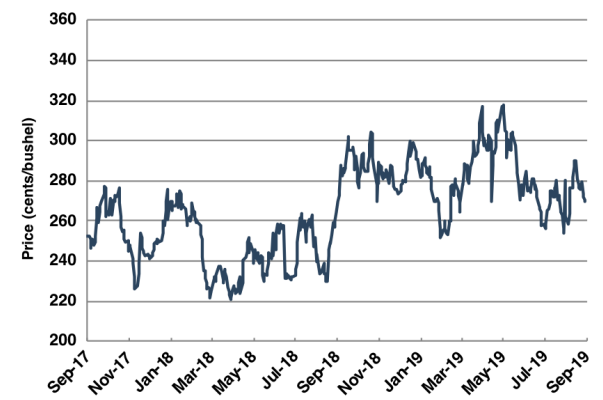
Cotton



Rough Rice



Oats



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



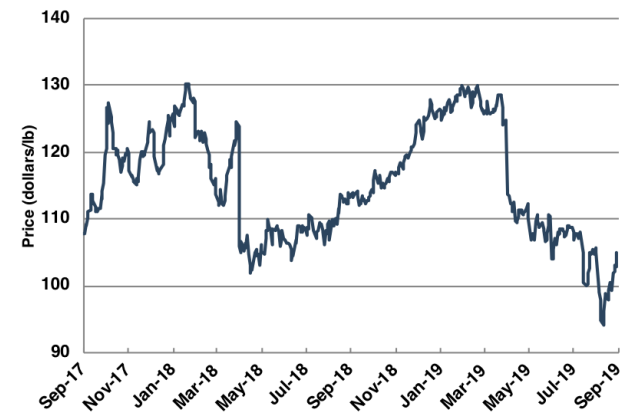
Ethanol



Lean Hogs



Live Cattle

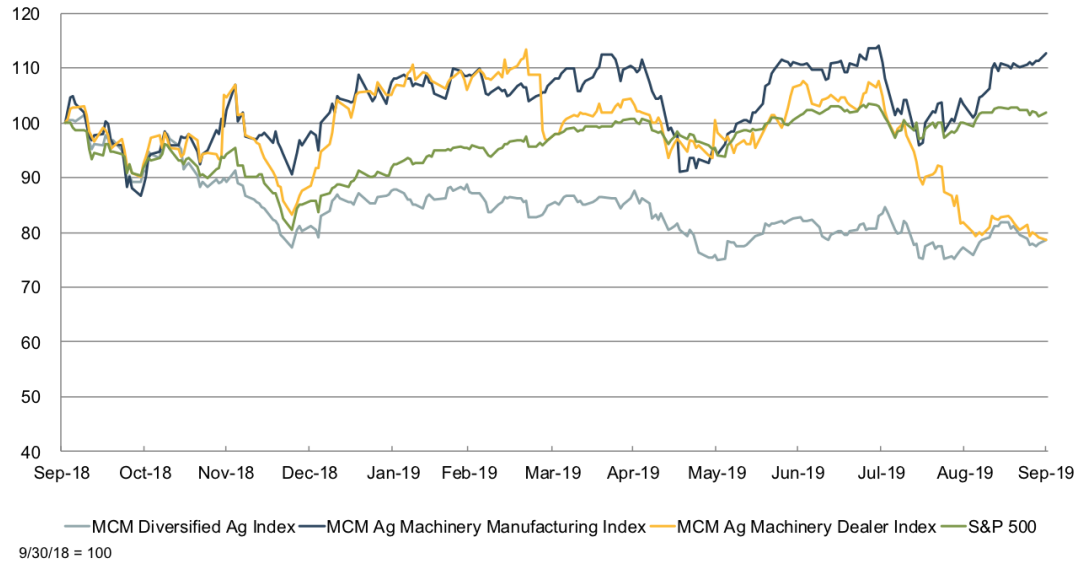


Publicly Traded Agribusiness Companies

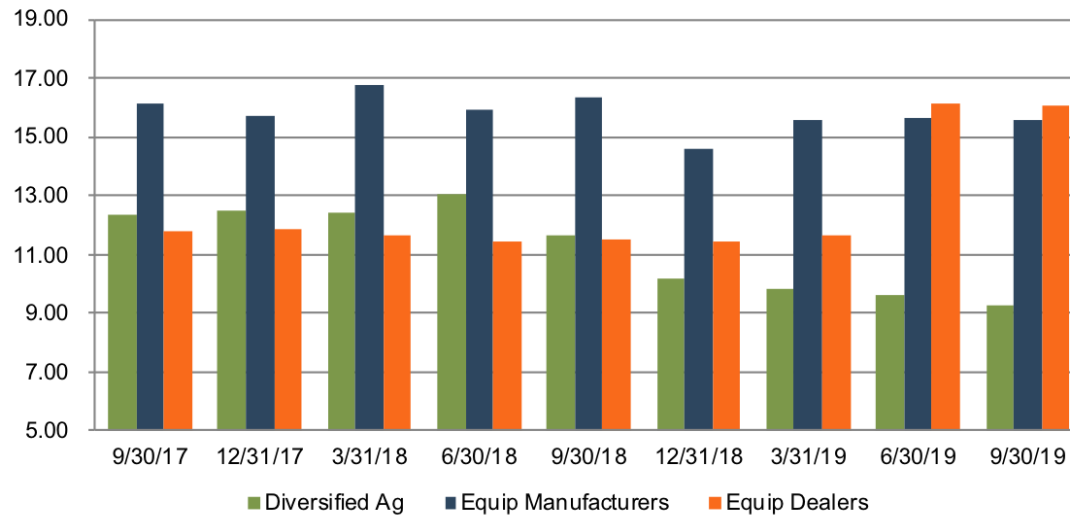
Company Name	Ticker	Price 9/30/19	52 Wk Perform (Market Cap)	LTM Revenue (\$)	Enterprise Value (\$M)	Debt/ MVTC	EBITDA Margin	EV / LTM EBITDA (x)	TEV / Nxt Yr EBITDA (x)	Price/ LTM Earnings (x)
Diversified Agribusiness										
CF Industries Holdings, Inc.	NYSE:CF	49.20	-9.6%	4,673	17,623	28.2%	39.3%	9.59	9.78	22.54
The Mosaic Company	NYSE:MOS	20.50	-36.9%	9,351	12,640	38.6%	18.7%	7.22	6.73	nm
Intrepid Potash, Inc.	NYSE:IPI	3.27	-8.9%	176	482	15.5%	33.2%	8.24	6.84	21.96
Yara International ASA	OB:YAR	43.13	-12.2%	13,254	15,728	26.6%	12.8%	9.27	6.20	21.15
Nutrien Ltd.	TSX: NTR	49.85	-13.6%	19,501	39,461	31.3%	21.4%	9.44	8.29	22.09
Archer-Daniels-Midland Company	NYSE:ADM	41.07	-18.3%	64,274	32,414	30.1%	3.9%	12.87	9.07	19.47
Bunge Limited	NYSE:BG	56.62	-17.6%	41,900	15,901	45.2%	-0.4%	nm	11.00	nm
Median - Diversified Agribusiness			-14%	13,254	15,901	30.1%	18.7%	9.35	8.29	21.96
Agricultural Machinery & Equipment										
Manufacturers										
Deere & Company	NYSE:DE	168.68	12%	38,731	95,698	47.6%	15.9%	15.57	17.00	16.18
AGCO Corporation	NYSE:AGCO	75.70	25%	9,120	7,619	26.1%	9.1%	9.22	8.42	18.60
Lindsay Corporation	NYSE:LNN	92.85	-7%	444	1,007	11.5%	4.5%	nm	18.73	nm
Median - Manufacturers			12%	9,120	7,619	26.1%	9.1%	12.39	17.00	17.39
Dealers										
Titan Machinery Inc.	NasdaqGS:TITN	14.34	-7%	1,314	867	69.4%	4.1%	16.09	14.54	23.31
Rocky Mountain Dealerships Inc.	TSX:RME	5.42	-32%	643	498	72.0%	4.0%	19.50	20.39	31.85
Cervus Equipment Corporation	TSX:CERV	6.28	-41%	891	356	73.9%	3.3%	11.97	7.73	24.36
Median - Dealers			-32%	891	498	72.0%	4.0%	16.09	14.54	24.36

Source: Capital IQ

Mercer Capital Agriculture Indices: One Year Performance



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