

# VALUE FOCUS

## Agribusiness Industry



### SEGMENT FOCUS

## Agriculture Machinery, Equipment & Implements

## 2015

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

## Segment Focus

# Agriculture Machinery, Equipment & Implements

2015 First Quarter

The agricultural equipment industry enjoyed a strong run over the 2009 to 2013 period due to rising commodity prices, land values and crop yields, as well as the benefits of the economic recovery. However, the decline in farm income in 2014 depressed sales of agricultural machinery, a trend that is expected to continue into 2015. Lower commodity prices due to record high yields in 2014 will reduce the amount of disposable income available to producers to fund new equipment purchases and upgrades.<sup>1</sup>

Net U.S. farm income is expected to measure \$73.6 billion in 2015, a 32% decline from the 2014 estimate of \$108 billion and the lowest level recorded since 2009, according to the USDA. The largest decline is expected for corn receipts, while smaller declines are anticipated for rice and cotton. Livestock was one of the better performing agricultural sectors in 2014 due to more favorable supply and demand conditions, although 2015 receipts are expected to be lower for that segment as well.<sup>2</sup>

## Manufacturers

Agricultural equipment manufacturing has increased as a whole for the five years to 2015, reporting 1.5% annual revenue growth. However, the majority of that growth occurred in the early part of that period, as recent trends have led to a decline in sales. Industry forecasts, anticipate a decrease in 2015, with revenue dropping by 5.0%. Several factors that will contribute to industry demand going forward include:<sup>3</sup>

- Lower expected crop prices and the resulting decline in farm income will reduce demand for new equipment
- An expected increase in interest rates will reduce the ability of farmers to finance equipment purchases, thus reducing demand
- Rising agricultural investment in foreign countries will increase demand, although the ability to satisfy the demand will be limited somewhat by a particular company's ability to sell and deliver into foreign markets
- New technological developments, including precision-ag technologies and other computer sampling and testing systems, will shift demand from certain obsolete product categories to newer, more cost-effective products
- Although crop production is expected to decline in 2015, the global demand for food products will continue to increase over the long run, and along with it, the demand for products that can improve crop yields and farm efficiency

## Dealers

Agricultural machinery and equipment dealerships have been consolidating for the past several years, a trend taking place across the United States. From 2009 to 2015, the number of North American farm equipment dealer groups that owned five or more stores grew from 151 to 188. Consolidation provides dealers with increasing economies of scale, and is viewed favorably by the manufacturers as well because it reduces the number of dealers that they must oversee. John Deere exhibits this trend most dramatically, with 71% of Deere dealers falling into the “big dealer” category, followed by Case IH (48%), New Holland (22%), AGCO (17%), and Kubota (13%).<sup>4</sup>

Through April 2015, dealers continued to see the most dramatic sales declines in the higher horsepower equipment, likely due to the higher price point at which these products sell and the lower levels of disposable income in the sector, forcing producers to “trade down” for their equipment purchases. Additionally, combine sales exhibited a dramatic decline through April 2015.<sup>5</sup>

The dramatic sales declines hitting dealers in late 2014 and early 2015 has led to significant layoffs at some dealer groups. In March 2015 Titan Machinery (NASDAQ: TITN), headquartered in North Dakota, announced a 14% reduction in overall workforce, along with the closure of some retail locations.<sup>6</sup> Although not a dealer, CNH Industrial (a manufacturer of farm and construction equipment) announced the layoff of 216 workers at plants in North Dakota and Nebraska in response to a 14% drop in profit for 2014 (a 12% decline in profit from the agricultural equipment segment specifically). CNH expects sales to fall to \$28 billion in 2015, compared to \$32.5 billion in 2014.<sup>7</sup>

## United States Unit Retail Sales – April 2015

	April			YTD – April			Beginning Inventory Apr 2015
	2015	2014	%Chg	2015	2014	%Chg	
<b>2WD Farm Tractors</b>							
< 40 HP	15,369	13,047	17.8	33,778	31,245	8.1	72,755
40 < 100 HP	5,986	5,479	9.3	17,430	17,147	1.7	33,773
100+ HP	2,615	3,260	-19.8	9,133	10,991	-16.9	11,414
<b>Total 2WD Farm Tractors</b>	<b>23,970</b>	<b>21,786</b>	<b>10.0</b>	<b>60,341</b>	<b>59,383</b>	<b>1.6</b>	<b>117,942</b>
<b>4WD Farm Tractors</b>	<b>268</b>	<b>586</b>	<b>-54.3</b>	<b>1,117</b>	<b>2,117</b>	<b>-47.2</b>	<b>959</b>
<b>Total Farm Tractors</b>	<b>24,238</b>	<b>22,372</b>	<b>8.3</b>	<b>61,458</b>	<b>61,500</b>	<b>-0.1</b>	<b>118,901</b>
<b>Self-Prop Combines</b>	<b>583</b>	<b>886</b>	<b>-34.2</b>	<b>1,588</b>	<b>2,722</b>	<b>-41.7</b>	<b>1,395</b>

Source: Association of Equipment Manufacturers

## Technology

Applying new technologies to agriculture will continue to increase crop yields, streamline operations, and increase overall efficiency. Machinery manufacturers and farm technology firms are continuing to increase automation on the farm, producing new technologies such as precision steering and intelligent management systems. Companies in this industry include technology specific companies, such as Trimble Navigation Limited, as well as more traditional equipment manufacturers that have started to explore technologies to enhance their core product, such as Deere & Company. The precision ag technology centers on Geographical Information Systems (GIS), the intricacy of which has increased significantly over the past five years. Other products include variable-rate application controllers, yield monitoring systems, guidance systems, and technical support.

The Precision Agriculture Systems and Services Industry (precision ag) has experienced 4.5% annual revenue growth from 2010 to 2015. While certain factors such as commodity pricing and general demand for agricultural machinery will negatively impact growth in the near-term, technological advances and the desire for improved crop yields and productivity will continue to drive demand for the industry.

Technological innovation is an important and rapidly changing aspect of this industry. Current technologies enable farmers to, among other things:

- Assess the viability and variability of fields for certain crop products based on soil sampling
- Optimize the use of farming inputs, including water, fertilizer, and pesticides
- Manage field maintenance and usage using software that is specific to the task
- Increase the output from fields by identifying the yield-limiting characteristics

The efficiencies available through the use of increased technology in farming are potentially staggering. The NASS estimated in 2011 that crop producers in the United States could save 16 million gallons of fuel, 2 million quarts of herbicide, and 4 million pounds of insecticide if guidance systems were used on only 10% of planted acres.

Another development for this industry involves the potential use of unmanned aerial vehicles (UAVs), which received certain exemptions for agricultural use from the FAA in January 2015. Final regulations allowing for the commercial use of UAVs are expected to be finalized in late 2015 or 2016.<sup>8</sup>

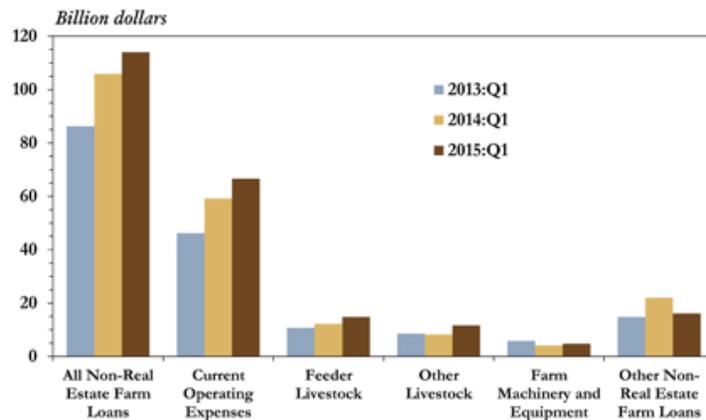
## Financing for Agricultural Machinery

A prolonged period of low interest rates has served to stimulate the market for agricultural equipment, much of which is purchased on credit. Recent strong commodities prices have left producers flush with cash, reducing the amount of equipment purchased on credit. While farm balance sheets remain healthy coming off several strong years, as cash cushions for producers begin to dwindle more will likely turn to some form of financing to fund equipment purchases. Complicating that equation is the possibility that the Federal Reserve may begin to increase benchmark rates toward the end of 2015, which would drive down industry demand, all else equal.

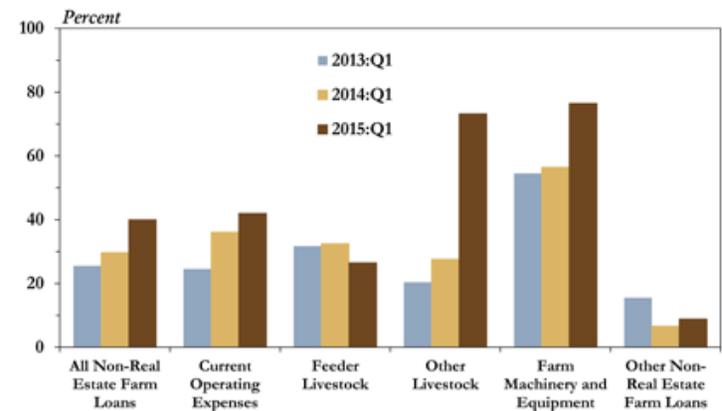
The effect of declining cash balances has already become evident, as the Federal Reserve Bank of Kansas City reported in April 2015 that loan volumes continue to increase in the face of lower farm incomes. As shown below, while machinery and equipment loans comprise a relatively modest portion of *bank* lending to farmers, the amount of these loans outstanding increased year over year for first quarter 2015. A large portion of machinery lending is likely not reflected in these amounts due to the fact it is dealer-financed.

It also appears that producers are anticipating a near-term rate increase, as the proportion of fixed rate loans increased in first quarter 2015 for nearly all non-real estate lending segments, particularly machinery and equipment, relative to first quarter 2014. It is also possible that a modest uptick in rates during the first quarter of 2015 could have further prompted farmers to “lock-in” at historically low levels.<sup>9</sup>

Non-Real Estate Farm Loan Volumes by Purpose



Shares of Non-Real Estate Farm Loans with Fixed Interest Rates by Purpose



Source: Agricultural Finance Databook, Table A.3, data obtained from the national Survey of Terms of Bank Lending to Farmers, conducted February 2015

## Recent M&A Activity

### Agricultural Equipment & Technology

Many of the recent notable acquisitions in the agricultural machinery space are related to agricultural technology, including some vertical integration moves by larger manufacturers.

### Major Transactions

**March 16, 2015: AgJunction, Inc.** (TSX: AJX), a provider of hardware and software applications for precision agriculture worldwide, agreed to acquire **Novariant, Inc.**, a provider of advanced steering solutions for precision agriculture. Novariant generated 2014 revenues of approximately \$30 million. Terms of the deal were not disclosed.<sup>10</sup>

**Trimble Navigation** (NASDAQ: TRMB) remained acquisitive, snapping up a number of ag technology companies, a few of which are described below.

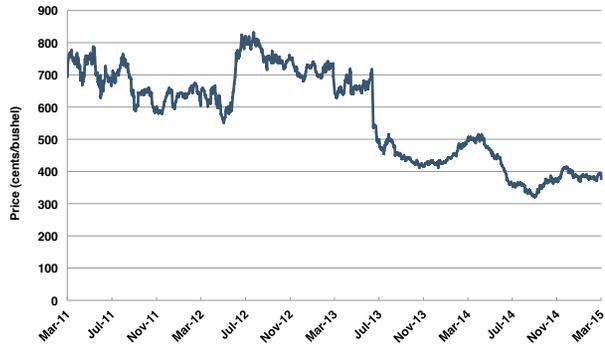
- **April 22, 2015:** Trimble announced the acquisition of **HarvestMark**, a provider of food traceability and quality inspection solutions. The acquisition is meant to further enhance Trimble's position in agriculture and transportation logistics within the food supply chain. Financial terms of the deal were not disclosed.<sup>11</sup>
- **March 10, 2015:** Trimble's forestry division acquired privately held **Fifth Element**, a provider of forestry enterprise and mobile software solutions for logistics and harvest operations headquartered in Espoo, Finland.<sup>12</sup>
- **December 23, 2014:** Trimble completed the acquisition of privately held **IRON Solutions, Inc.** located in Franklin, Tennessee. IRON Solutions provides market information, analytics-based intelligence, and a cloud-based enterprise system to improve dealer and producer productivity. The combination will provide farmers, their equipment dealers, and their agronomy advisors with a connected farm platform for collaboration on key investment and prescription decisions. IRON Solutions manages over 15 million data points annually from over 1,200 manufacturers and 2,200 retail sources throughout North America.<sup>13</sup>

**December 1, 2014: CNH Industrial** (NYSE: CNHI) announced its acquisition of **Miller-St. Nazianz, Inc.**, a precision spraying equipment manufacturer with a large presence in North America. Miller products will be integrated into the New Holland portfolio.<sup>14</sup>

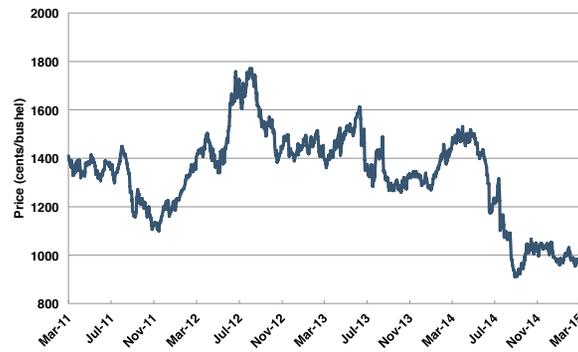
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- <sup>1</sup> IBISWorld, Tractors & Agricultural Machinery Manufacturing in the US, January 2015.
- <sup>2</sup> "2015 Farm Sector Income Forecast," Online, Available, <http://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/2015-farm-sector-income-forecast.aspx>, Accessed May 19, 2015.
- <sup>3</sup> IBISWorld, Tractors & Agricultural Machinery Manufacturing in the US, January 2015.
- <sup>4</sup> "Ranks of the 'Big Dealers' Continue to Grow," Online, Available, <http://www.farm-equipment.com/articles/11616-ranks-of-the-big-dealers-continue-to-grow>, Accessed May 19, 2015.
- <sup>5</sup> "April 2015 Flash Report: United States Unit Retail Sales," Online, Available, <http://www.aem.org/AllDocuments/AEM/MI/Reports/15%2004%20USAG.pdf>, Accessed May 19, 2015.
- <sup>6</sup> "Titan Machinery Laying Off Workers and Closing Store," *Farm Equipment*, March 11, 2015.
- <sup>7</sup> "CNH Industrial to Lay Off 200 in Nebraska & N.D. Plants," *Farm Equipment*, March 5, 2015.
- <sup>8</sup> IBISWorld, Precision Agriculture Systems and Services in the US, February 2015.
- <sup>9</sup> "Loan Volumes Continue Rising as Lower Farm Incomes Persist," *Agricultural Finance Databook: National Trends in Farm Lending, Federal Reserve Bank of Kansas City – Tenth District*, April 22, 2015.
- <sup>10</sup> "AgJunction to Acquire Novariant," Online, Available, <http://www.corp.agjunction.com/InvestorCenter/MediaReleases/tabid/125/Post/555/AgJunction-to-Acquire-Novariant>, Accessed May 19, 2015.
- <sup>11</sup> "Timble Acquires HarvestMark to Provide Food Traceability and Quality Control," Online, Available, <http://investor.trimble.com/releasedetail.cfm?ReleaseID=907841>, Accessed May 19, 2015.
- <sup>12</sup> "Timble Acquires Fifth Element to Expand its Global Presence in Forestry Logistics and Harvest Solutions," Online, Available, <http://investor.trimble.com/releasedetail.cfm?ReleaseID=900694>, Accessed May 19, 2015.
- <sup>13</sup> "Timble Acquires IRON Solutions, Inc. to Broaden its Connected Farm Solution for Growers, Ag Dealers and Agronomists," Online, Available, <http://investor.trimble.com/releasedetail.cfm?ReleaseID=888804>, Accessed May 19, 2015.
- <sup>14</sup> "CNH Industrial completes acquisition of Miller-St. Nazianz, Inc.," Online, Available, [http://www.cnhindustrial.com/en-US/media\\_center/press\\_release\\_cnhi/FiatDocuments/2014/December/20141201\\_PR\\_CNH\\_Industrial\\_Miller\\_Acquisition\\_Closing](http://www.cnhindustrial.com/en-US/media_center/press_release_cnhi/FiatDocuments/2014/December/20141201_PR_CNH_Industrial_Miller_Acquisition_Closing), Accessed May 19 2015.

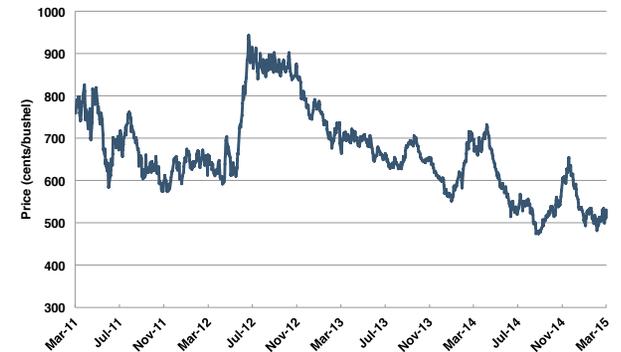
Corn



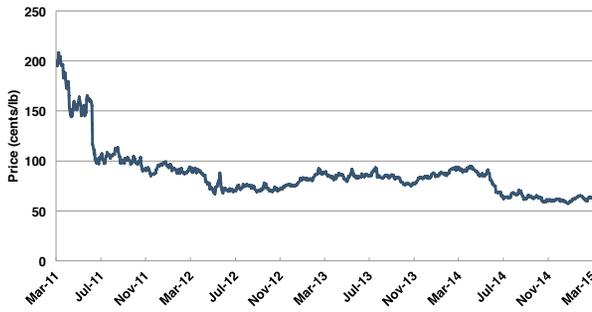
Soybeans



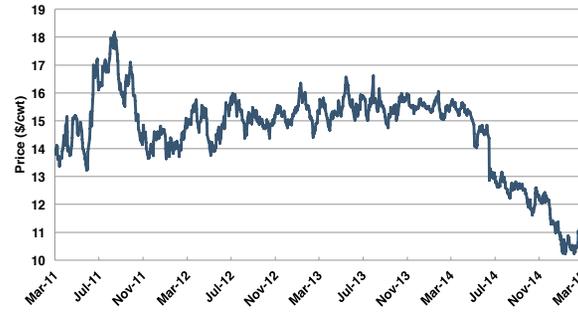
Wheat



Cotton



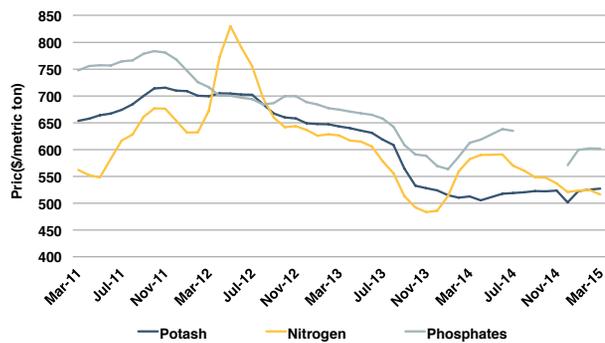
Rough Rice



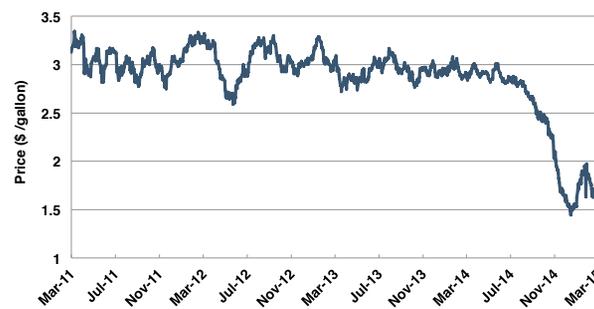
Oats



Retail Fertilizer



Gulf Coast Diesel: Ultra-low Sulfur No. 2



Ethanol

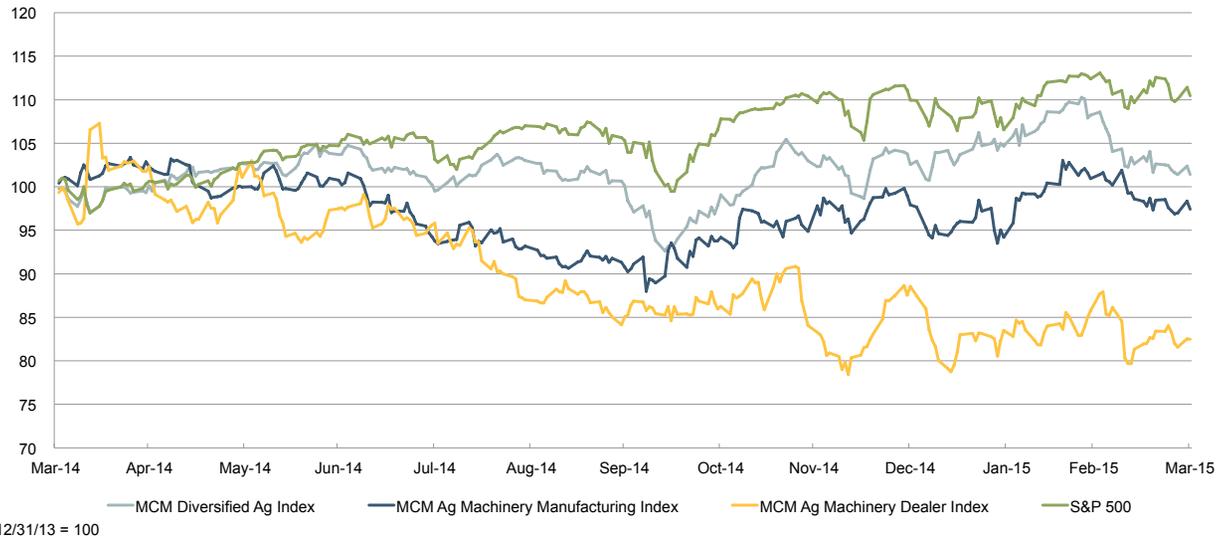


## Publicly Traded Agribusiness Companies

Company Name	Ticker	March 31 Price (\$)	52 Wk Perform (Market Cap)	Sales (\$)	Enterprise Value (\$M)	Debt/ MVTC	EBITDA Margin	EV/ EBITDA (x)	EV / Nxt Yr EBITDA (x)	Price/ Earnings (x)
<b>Diversified Agribusiness</b>										
Agrium Inc	AGU	104.27	10.4%	16,042	20,112	25.3%	10.6%	11.80	7.79	18.92
CF Industries Holdings Inc	CF	283.68	1.8%	4,743	18,304	25.1%	58.2%	6.63	7.01	10.73
Mosaic Co/The	MOS	46.06	-11.3%	9,056	20,761	18.5%	22.8%	10.07	7.61	17.12
Potash Corp of Saskatchewan Inc	POT	32.25	-9.0%	7,115	31,020	13.7%	40.0%	10.90	8.90	17.62
Intrepid Potash Inc	IPI	11.55	-25.3%	410	1,022	14.7%	23.5%	10.61	8.32	88.85
Rentech Nitrogen Partners LP	RNF	15.06	-15.8%	335	921	36.4%	19.3%	14.24	9.61	nm
Terra Nitrogen Co LP	TNH	145.71	3.0%	648	2,723	0.0%	60.7%	6.92	nm	12.07
Yara International ASA	YARIY	50.75	17.5%	15,122	16,040	12.8%	15.8%	6.73	nm	11.56
Monsanto Co	MON	112.54	-7.3%	15,582	62,590	13.0%	29.8%	13.49	11.26	22.83
Syngenta AG	SYT	67.81	-8.0%	15,134	10,523	40.9%	16.3%	4.26	3.37	3.85
Archer-Daniels-Midland Co	ADM	47.40	8.5%	81,201	35,884	15.9%	4.5%	9.83	8.50	13.82
Bunge Ltd	BG	82.36	4.2%	57,161	17,890	29.1%	2.7%	11.64	8.07	29.58
<b>Median - Diversified Agribusiness</b>			<b>-2.7%</b>	<b>12,089</b>	<b>18,097</b>	<b>17.2%</b>	<b>21.1%</b>	<b>10.34</b>	<b>8.19</b>	<b>17.12</b>
<b>Agricultural Machinery &amp; Equipment</b>										
<b>Manufacturers</b>										
Deere & Co	DE	87.69	-8.9%	34,796	66,388	55.2%	18.3%	10.41	19.98	11.06
AGCO Corp	AGCO	47.64	-17.3%	9,724	5,339	20.5%	9.5%	5.76	7.33	10.98
Lindsay Corp	LNN	76.25	-19.1%	593	1,023	11.5%	14.0%	12.27	12.91	21.54
Blount International Inc	BLT	12.88	8.0%	945	1,020	37.7%	11.3%	9.55	6.67	17.64
Art's-Way Manufacturing Co Inc	ARTW	4.72	-26.5%	36	29	33.9%	7.1%	11.24	nm	20.52
<b>Median - Manufacturers</b>			<b>-17.3%</b>	<b>945</b>	<b>1,023</b>	<b>33.9%</b>	<b>11.3%</b>	<b>10.41</b>	<b>10.12</b>	<b>17.64</b>
<b>Dealers</b>										
Titan Machinery Inc	TITN	13.35	-14.2%	2,118	1,317	78.3%	3.3%	18.72	25.44	nm
Rocy Mountain Dealerships	RME	8.85	-19.7%	962	212	21.7%	4.3%	5.19	nm	11.49
Cervus Equipment	CVL	18.99	-9.8%	926	407	29.2%	4.7%	9.28	nm	16.09
<b>Median - Dealers</b>			<b>-14.2%</b>	<b>962</b>	<b>407</b>	<b>29.2%</b>	<b>4.3%</b>	<b>9.28</b>	<b>25.44</b>	<b>13.79</b>

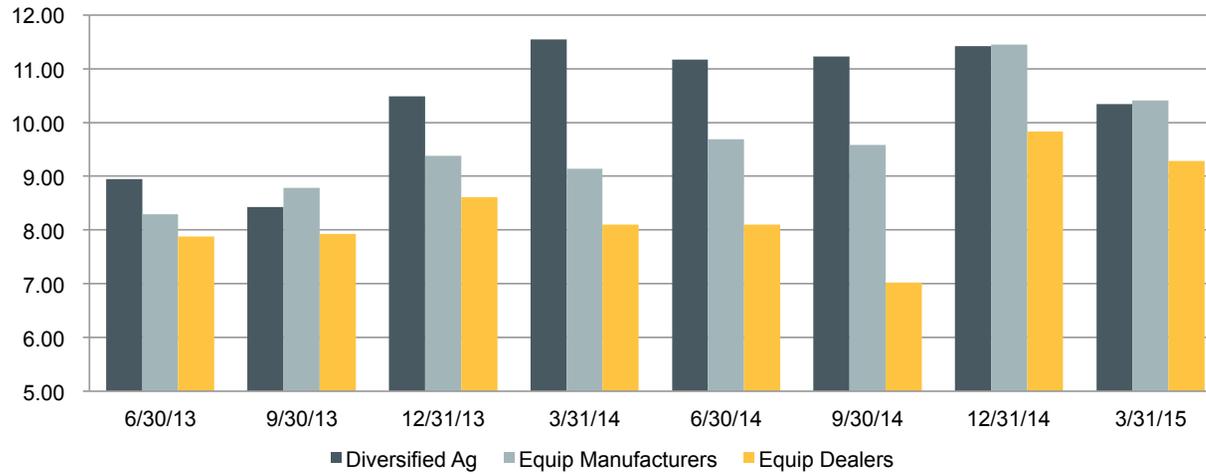
Source: Bloomberg

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.

## Contact Us

**Nicholas J. Heinz, ASA**  
901.322.9788  
heinzn@mercercapital.com

**Matthew R. Crow, CFA, ASA**  
901.685.2120  
crowm@mercercapital.com

**Timothy R. Lee, ASA**  
901.322.9740  
leet@mercercapital.com

**Laura J. Stevens, CFA**  
901.322.9764  
stevensl@mercercapital.com

**Mercer Capital**  
5100 Poplar Avenue, Suite 2600  
Memphis, Tennessee 38137  
901.685.2120 (P)

[www.mercercapital.com](http://www.mercercapital.com)