

POSITIONING FOR SUCCESS IN THE ECONOMIC RESET

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Macro Clinic Video Blog: <http://agstar.com/edge/>

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

Dave's GPS & Dashboard Indicators: www.farmermac.com

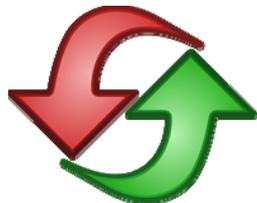
2016 – 2020 Economic Reset 1

- BRICS & KIMT's – 53% world economic growth
- growth moderating 8-5-3 Rule
- China does matter to fly over states
- 2007 to 2012 aberration in commodity prices
- one half of emerging nations in recession



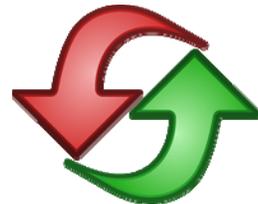
2016 – 2020 Economic Reset 2

- ethanol & biofuels
- oil black gold “recession effect”
- deflation in commodities
 - regulatory issues in developed countries
 - political dysfunction
 - technology, automation
 - demographics



2016 – 2020 Economic Reset 3

- 40% of commodity prices & asset values
- U.S. Central Bank reducing stimulus
- European Central Bank increasing stimulus
 - 60 billion plus 21 months
- Japan's stimulus
- China's Central Bank stimulus
- stock market appreciation
- beneficial to fly over states/Canada/Australia, etc.



2016 – 2020 Economic Reset 4

- weather wild card
- political military sanctions
- quality & standards risk
- consumers & public
- “Black Swans”



Global Economics: Europe

- France economy sluggish
- Germany- export driven
- Europe China connection
- Greece
- central bank stimulus extended
- Ukraine



Global Economics: China

- China PMI <50
- exports down >10%
- lowered rates five times
- stock market up 105%, down 30 to 40%
- devalued currency
- natural resource issues
- shadow banking



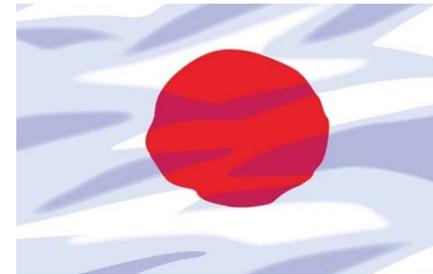
Global Economics: Other

- Russia
 - oil
 - Mr. Putin
- Brazil
 - recession
 - Infrastructure
- Argentina
 - tax
 - political dysfunction
- Brazil & China connection



Global Economics: Japan/Asia

- debt issues
- demographic wedge
- South Korea sluggish
- India quite strong



U.S. Economy Watch

- LEI declining
- PMI slowing
- manufacturing, building inventory
- housing 1.2 million
- business cycle expansion later innings

Federal Reserve's Interest Rate Barometer

Indicator	Possible Change	Definite Change	Current Status
Unemployment	7.0%	6.5%	5.0%
GDP Growth	2.0%	2.5%	2.0%
Core Inflation	2.0%	2.5%	2.0%
Headline Inflation	4.0%	5.0%	0.5%

Watch List:

- Dr. Yellen
- FOMC voting
- FOMC minutes
- Rail traffic
- Shoe shiners
- Copper prices
- Overland trucking
- Baltic Sea index

2016 Outlook:

- ❖ Will the interest rate increase be “one and done” or will there be four interest rate increases in 2016?

Grain Producers:

“Houston, We Have a Problem”

Super Cycle Observation	Constant 2014 Dollars Median Net Income
2007-2012	\$169,968
2002-2006	\$66,574
Super Cycle	2.42 x's greater
2013-2014	\$32,944
2000-2001	\$40,123
<ul style="list-style-type: none">• Lost 40% working capital in two years• Greater 60% Debt to Asset Ratios under 10% working capital• Operators under age of 30 - 24 to 15% working capital• Most leveraged farms- negative working capital• Debt coverage ratio is 45%	

Roller Coaster Economics Reset

- 2007 to 2012 aberration for the grain industry
- dot com bubble of agriculture
- asset bubble vs. credit bubble
- livestock: Clayton Kersaw's curve ball effect:
 - hogs
 - beef
 - dairy
 - poultry
- asset "fixed cost" operating cost adjustment
- early innings of adjustment

Nine Innings of an Evolution of a Cycle Reset

1. profits start to decline but asset appreciation continues
2. new lenders enter the market place
3. strong equity growth mentality creates complacency
4. machinery & equipment values first to decline
5. aggressive growth businesses & fraudulent activities occur
6. margin negative cash flow & operating lines of credit become an issue
7. marginal assets discounted
8. non-traditional & new lenders retreat
9. quality assets adjust in value depending upon length of adjustment

Dangerous Customer 2016-2020

- balance sheet bully: 80% of growth through appreciation vs. earned net worth
- gunslinger never leaves money on the table
- Alpha Dog & Alpha Pup: bigness on the brain
- high maintenance lifestyle
- interconnective risk
- victims & know it all's
- fraudulent activities
- 96-4-50 Rule
- 1 to 1 ½% Rule
- split lines of credit rule- 5 to 7 lines

Credit Financial Analysis in the Past

- stable income, high government payments
- low quality information
- lack of standardized information
- strong debt to asset ratio
- strong collateral position
- few benchmark ratios

Credit Financial Analysis- Now & in the Future

- volatility in price, cost, and markets
- international trade risk
- economic cycles are more abrupt
- concentrated debt
- interconnected debt
- control vs. ownership of assets
- sensitivity analysis- profit and cash flow
- liquidity/burn rates for liquidity and equity

Screening Guide for Negative Margins

1

Historically has the producer/entity:	Yes	No
Been profitable above interest rates and rate of inflation?		
Shown growth of balance sheet which is earned vs. appreciated net worth?		
Has built and protected working capital in positive cycle?		
Been able to cut living expenses if needed?		
Been able to sell unproductive assets?		
Followed and executed a marketing risk management program?		
Have the ability to cut 10 to 30% of costs?		

Screening Guide for Negative Margins

2

Historically has the producer/entity:	Yes	No
Been able to shed unprofitable land, machinery, livestock, & human assets if necessary?		
Had a burn rate for working capital 2.5 years or more?		
Had a term debt/EBITDA ratio <5 to 1?		

Scoring Key:

- >8 Yes boxes checked= strong candidate for refinance & workout
- 4-7 Yes boxes checked= possible problem loan
- <4 Yes boxes checked= problem loan now

Perspectives for Working Through Tight or Negative Margins

- use an advisory team
- economic cycle vs. management
- progress with mini-victories
- know personality styles
- spouse, partners
- time element
- document with a paper trail
- variance or plan vs. fact analysis
- earns & turns
- business plan & other

Groundhog Day Game Plan

- set your short term (1 year) goals & long term (5 years) goals
 - in writing
 - business, family, & personal
- cash flow that talks to the business
 - projected
 - actual
- personal living budget
- balance sheet
- review your plan with trusted advisor, peer, and/or lender

Questions

