POSITIONING FOR SUCCESS IN THE ECONOMIC RESET

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2016 – 2020 Economic Reset

- 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

- ethanol & biofuels
- oil black gold “recession effect”
- deflation in commodities
  - regulatory issues in developed countries
  - political dysfunction
  - technology, automation
  - demographics
2016 – 2020 Economic Reset

- 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

- 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

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Possible Change</th>
<th>Definite Change</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>7.0%</td>
<td>6.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>2.0%</td>
<td>2.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Core Inflation</td>
<td>2.0%</td>
<td>2.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Headline Inflation</td>
<td>4.0%</td>
<td>5.0%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

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”

<table>
<thead>
<tr>
<th>Super Cycle Observation</th>
<th>Constant 2014 Dollars Median Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2012</td>
<td>$169,968</td>
</tr>
<tr>
<td>2002-2006</td>
<td>$66,574</td>
</tr>
<tr>
<td>Super Cycle</td>
<td>2.42 x’s greater</td>
</tr>
<tr>
<td>2013-2014</td>
<td>$32,944</td>
</tr>
<tr>
<td>2000-2001</td>
<td>$40,123</td>
</tr>
</tbody>
</table>

- 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

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

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<th>Historically has the producer/entity:</th>
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<tr>
<td>Been able to shed unprofitable land, machinery, livestock, &amp; human assets if necessary?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Had a burn rate for working capital 2.5 years or more?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Had a term debt/EBITDA ratio &lt;5 to 1?</td>
<td></td>
<td></td>
</tr>
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</table>

### 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