Getting a Grip on Agriculture and the Economy

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Macro Clinic Video Blog: www.compeer.com/education
Road Warrior of Agriculture: www.cornandsoybeandigest.com
Ag Globe Trotter: www.northwestfcs.com
Dave's GPS & Dashboard Indicators: www.farmermac.com

Walking the Line-"Fresh Start 2020"

<u>Five Positives in Agriculture</u>

- low, stable interest rates
- stable energy cost
- market volatility, proactive base hits
- land value stability & resilience
- accelerated generational transfer –
  - young farmers, ranchers and green shoots

Walking the Line-"Fresh Start 2020"

<u>Five Challenges in Agriculture</u>

- dependence on government income
- loss of international markets/market competitiveness
- global political posturing/change
- alternative agriculture, consumer demand shifts
- consolidation backlash

Perspectives on the New Decade

- more change in the next decade than the last 70 years
  - technology, consumers & management
- economic & financial volatility
  - friend: proactive manager
  - foe: reactive manager
- business IQ is the common denominator for success
- decade of transitions
  - capital, human assets & business culture shifts
- more opportunity for success or failure depending on your mindset, capitalizing and controlling your destiny
- balance "high tech" with "high touch"
  - high tech- biotech, engineering, big data
  - high touch- in the moment, interpersonal skills, interdependent

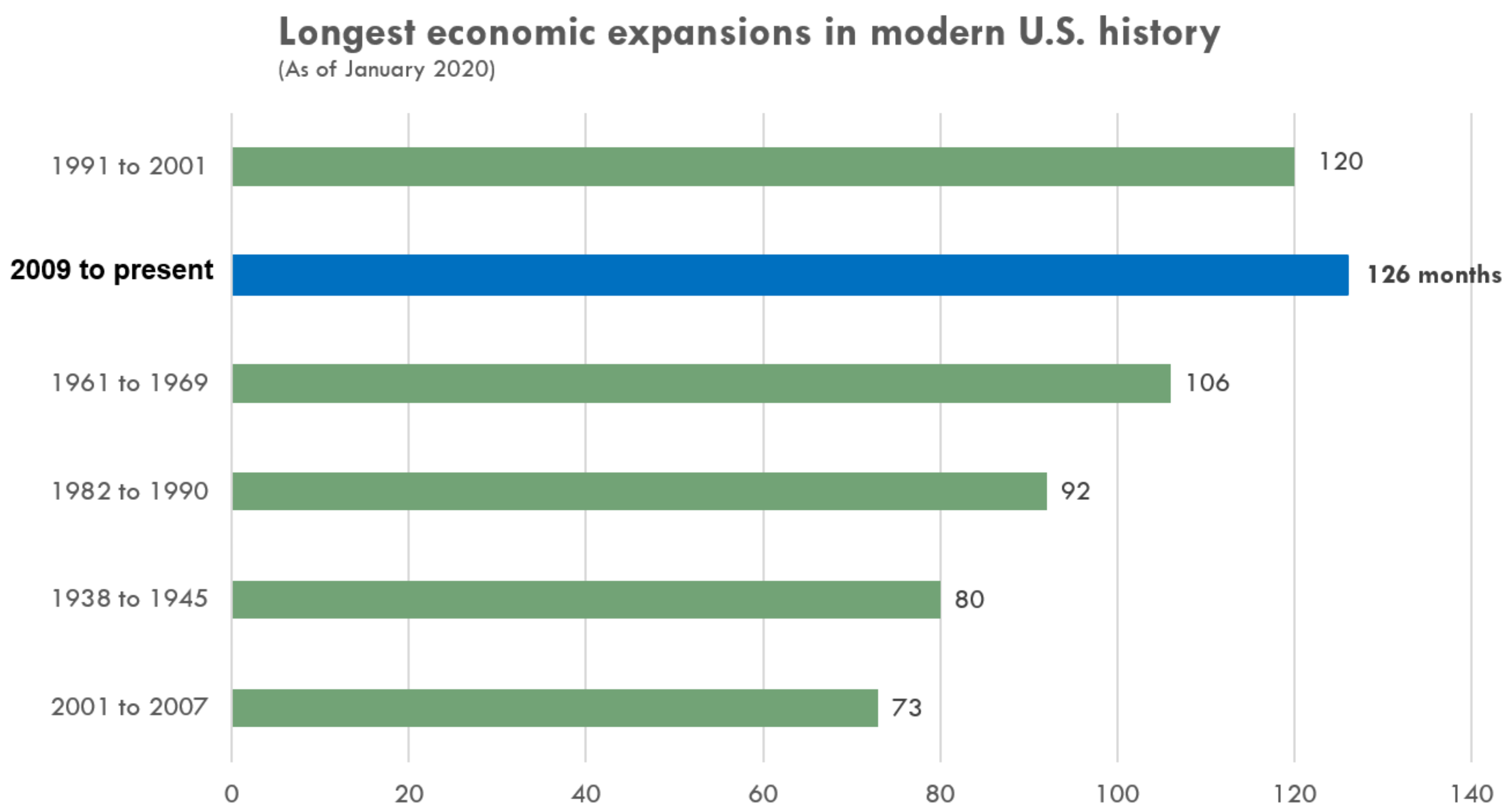
Eras & Cycles: Fork in the Road

Decade	Era of Economics
1950's - 1960's	Post War, Go-Go Production Era
1970's	Go-Go Economics Era
1980's	No Go Economics Era
1990's	Slow Go Economics Era
2000's	Go-Go Super Cycle Era
Teen Years	Slow & No Go Economics Era
Adult Years	Fork in the Road Management & Economics Era

Economic Radar Screen- Globalization vs. Decoupling

- international trade
  - USMCA
  - China's Belt & Road Initiative
- synchronized global economic moderation
  - China- slowest growth rate in 28 years
  - Japan- negative growth rate
  - Germany – negative growth rate
  - Central Bank's stimulus in China
  - high debt levels in urban real estate in China
- political uncertainty
  - Brazil
  - Venezuela
  - Mexico
  - Argentina
  - Germany, Britain & Euro Sector
  - U.S.

By Mid-June, Longest Economic Expansion in the U.S.



Source: NBER, Economic Cycle Research Institute **(Note: current expansion still in progress)**

Next Recession View Points

- signs to watch for
- timing
- causes
- length and depth
- impact on agriculture
- how to prepare

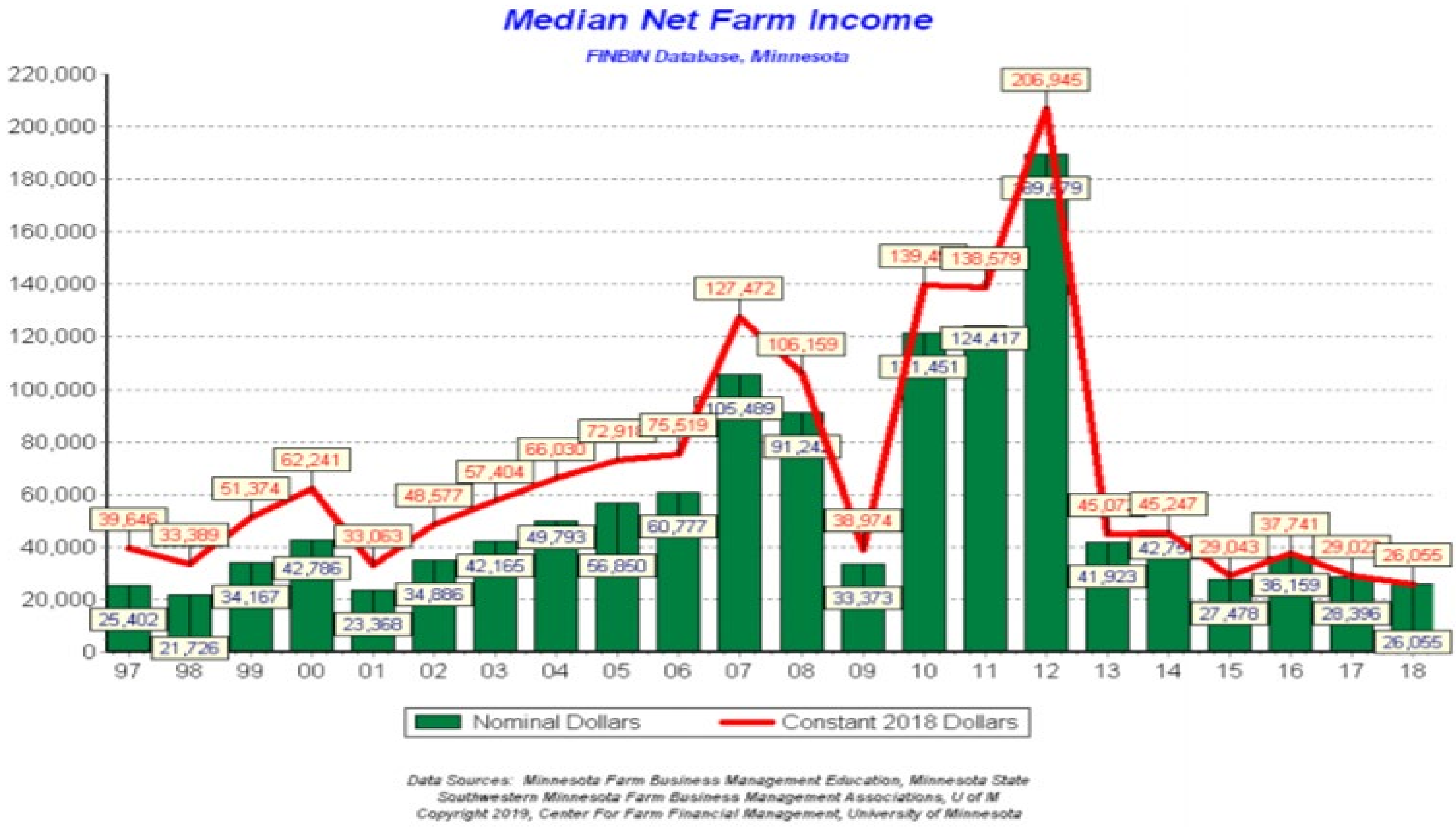
Top Five Economic Indicators

Indicator	Growth	Neutral	Recession
LEI/Diffusion Index	Positive	Flat/Decline	Decline 0.3% for 3 consecutive months AND >1% overall
Consumer Sentiment	>90	80-90	<80
Housing Starts	1.5 Million	1.0-1.5 Million	<1.0 Million
PMI	>50	41.7-50	<41.7
Stock Market	10% increase	Flat	>30% decrease

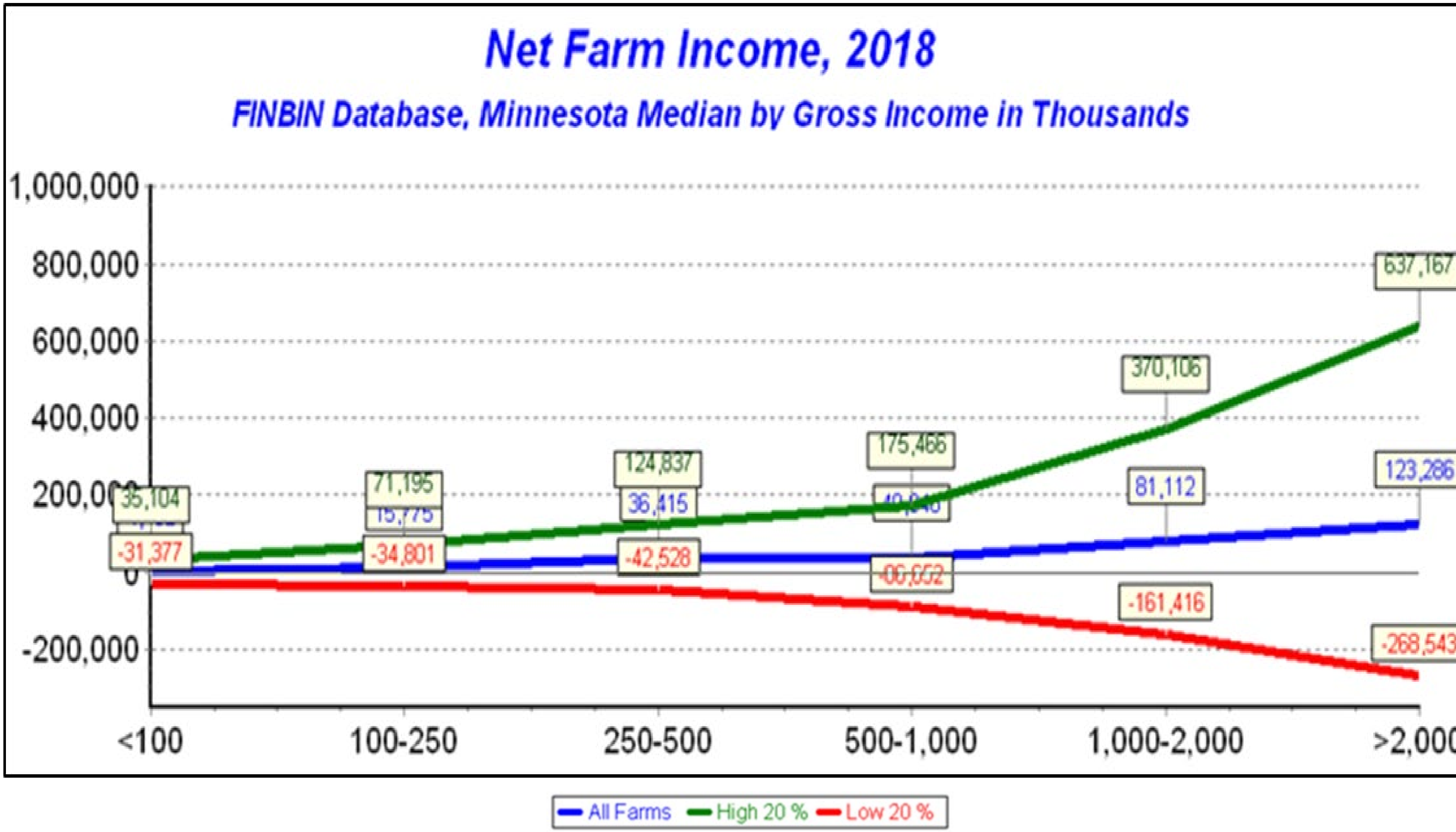
Mega Trends 2020-2030

- alternative products - meat & milk continue to grow/mature
- production increases worldwide
  - technology
  - new land/resources in use
  - weather
- loss of export market share
- land value commodity
  - price disconnect
- NGO's bigness under attack
- government supports continue
- energy and oil prices stability
- young farmers/ranchers/women/minorities/veterans
- urban agriculture
- other

Median Net Farm Income

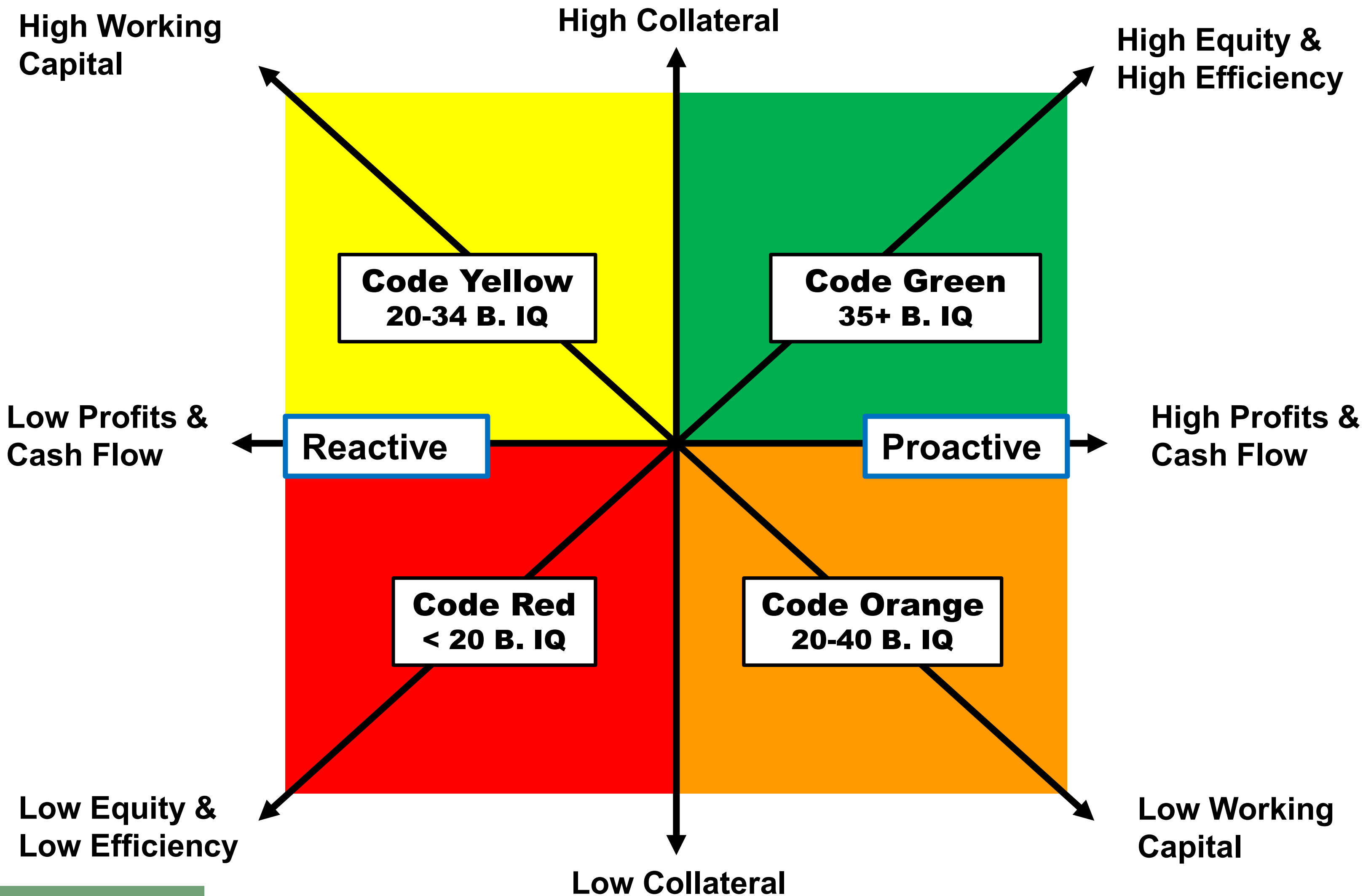


Net Farm Income, 2018



Data Sources: Minnesota Farm Business Management Education
SW Minnesota Farm Business Management Association, U of M
Copyright 2018, Center For Farm Financial Management, University of Minnesota

Business IQ:
Spectrum of Performance Possibilities



B. IQ= Business IQ

Paddling - Upper Right Quad.
Code Green - Disciplined Growth

- strong business IQ score of 35+
- proactive manager
- > 60% equity
- term debt to EBITDA <2.5:1
- operating expense/revenue ratio (excluding interest and depreciation) <75%
- working capital to expenses >30%

Treading Water- Upper Left Quad. Code Yellow - Limited Growth

- moderate business IQ score of 20-34
- 70% equity
- working capital to expenses >20%
- operating expenses/revenue ratio (excluding interest and depreciation) >80%
- competitive issues in industry

Paddling or Bailing Water – Lower Rt.
Code Orange - Excessive Growth

Paddling towards Green

- business IQ score >38
- ROA averages 6%
- <50% equity
- modest family living expenses
- dimensional revenue streams
- earns and turns

Bailing towards Red

- business IQ score of <28
- profit issues- ROA averages 1%
- <50% equity
- high living costs
- specialized revenue streams
- lack earns & turns

Bailing Water -Lower Left Quad.
Code Red- Partial or Total Liquidation

- poor business IQ score of <20
- reactive manager
- <40% equity
- working capital is negative
- operating expense to revenue over 90%
- excessive family living expenses
- victims & "know-it-alls"

2020 Winter Renewal Season Dashboard

Criteria	Calculation	Vulnerable	Resilient	Agile	Customer 3 Year Average
Operating Expenses/Revenue	Operating Expenses[1] / Total Farm Revenue	>85%	75-85%	<75%	
Term Debt/EBITDA	Total Term Debt (non-operating) / EBITDA[2]	>6:1	3:1-6:1	<3:1	
Working Capital/Expenses	Current Assets - Current Liabilities / Total Farm Expenses	<10%	10-33%	>33%	
Coverage Ratio	(Net Farm Income + Interest + Depreciation + Total Non-Farm Income – Income Tax Expenses- Family Living Withdrawals) / Total Annual Principal & Interest Payments on Term Debts & Capital Leases	<110%	110-150%	>150%	

[1]Operating Expenses Excluding Interest and Depreciation
[2] EBITDA = Net Farm Income + Interest + Depreciation

Financial Trip Points

- split lines of credit
  - > 10 lines
- term debt/EBITDA 6 to 1 or more
  - 3 to 5 years earnings on average
- burn rate on core equity <2.0 years
- operating expense/revenue ratio excluding interest & depreciation above 95% (three year average) with no non-farm income
- victim, know it all attitude concerning business improvement

Producers: Advice Given But Least Listened to or Followed in Practice

- working capital to expenses greater than 25% with 20% of current assets in cash- “dry powder”
- developing, following & monitoring projected cash flow to actual results
- drop dead exercise in transition management
- written goals- “the six degrees”
- hire for attitude, train for aptitude
- indistractables- mental vs. physical health/hygiene
- separate business & personal living budgets
- develop a written business plan that is executed and monitored
- establish regular quarterly meetings with advisory team
- net work of people = financial and mental net worth

<u>Lenders</u>: Advice Given But Least Listened to or Followed in Practice

- most financial issues start outside of the numbers
- global family living cost concept
- credit scoring model is great tool but not the gospel
- trust but verify inventory, payables & other liabilities
- don’t be a perfectionist on accruals, just ask questions
- fear of lender liability – advice vs. alternatives
- emotional drainer- “victim vs. know it all attitudes”
- growth and expansion- 25% rule
- indistractables
- lender cost cutting vs. investment in training

Rates

Farm & Ranch Loan Purchase Solution

Products	Term	Amortization	Choice Reset Margin	Standard Rates	Choice Rates
5-year VRM	15 | 20	15 | 20		3.54%	3.19%
5-year VRM	25 | 30	25 | 30		3.55%	3.20%
7/1 ARM	15	15 | 25	3.25%	3.71%	3.58%
10/1 ARM	15	15 | 25	3.25%	3.94%	3.81%
10-year VRM	15 | 20	15 | 20		4.16%	3.81%
10-year VRM	25 | 30	25 | 30		4.22%	3.87%
15-year VRM	20	20		4.30%	3.95%
15-year VRM	25 | 30	25 | 30		4.39%	4.04%
7-year Fixed	7	15 | 25		3.72%	3.37%
10-year Fixed	10	10		4.02%	3.67%
15-year Fixed	15	15		4.05%	3.70%
15-year Fixed	15	25		4.34%	3.99%
20-year Fixed	20	20		4.24%	3.89%
25-year Fixed	25	25		4.39%	4.04%
30-year Fixed	30	30		4.51%	4.16%

As of 1/16/2020

Thank you!

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