

Playing Offense in 2014: A Lender's Perspective on the Road Ahead

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Farm Credit Mid-America

- One of 80 associations that comprise the U.S. Farm Credit System
- Financial strength in numbers
 - \$20 billion in assets
 - Cover four-state territory (IN, OH, KY, TN)
 - More than 97,000 customer-members
 - Governed by member-elected Board
 - 1,145 staff in 93 offices

The Landscape

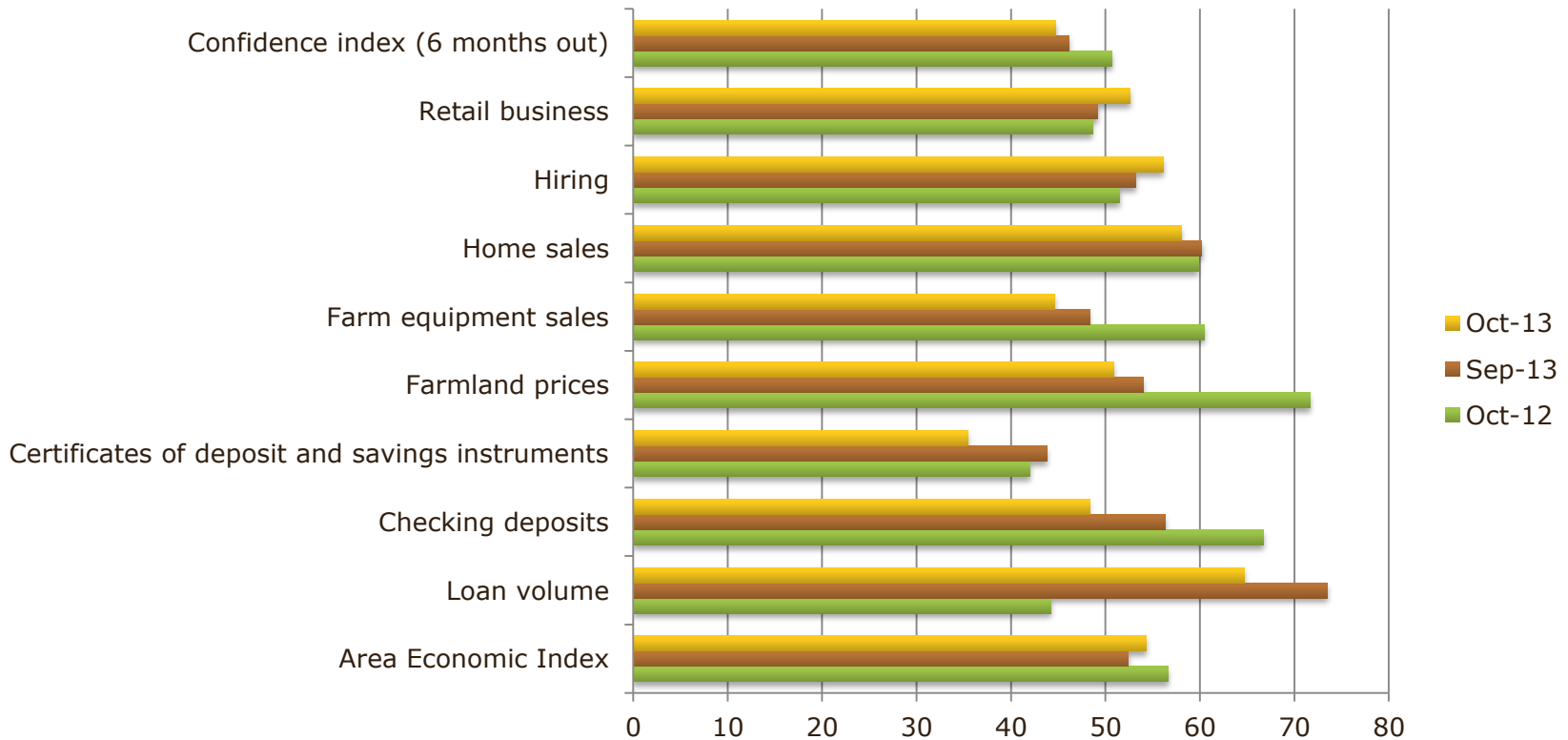
Global Outlook

- Still recovering from 2008-09 financial crisis
- Overall growth rate will end up below 3% in 2013
- Advanced economies expected to close current output gap
- More significant slowdown expected for less mature economies
- Projected long-term global slowdown will be driven largely by structural transformations in emerging economies
 - As BRIC countries mature from rapid, investment-intensive catch-up growth to more balanced model, the structural speed-limits of their economies are likely to decline, bringing down global growth despite the recovery anticipated in advanced economies after 2013

U.S. Economic Outlook

- Slow GDP growth in 2013, expected to improve in 2014
- Fed phase-out of quantitative easing likely to further impact long-term interest rates
- Short-term interest rates likely to remain low in 2014
- Unemployment likely to stabilize
- Consumer/business confidence is low due to government shutdown and short-term debt ceiling issues– economy will enter 2014 with less vigor
- Inflation likely to remain tame well into 2014

Rural Mainstreet Index*



*Index >50 indicates expansion

Covers 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300.

Source: Creighton University

Industry Implications

Industry Implications

- If interest rates rise...supply-side pressure on grain prices coupled with speculative money going out of commodities could carve as much as 30 % to 40% off peak commodity prices
- Lower grain and feed costs will improve profits for livestock producers
- Land values – will land and rental prices decline?
- Government and regulatory changes (Farm Bill, crop insurance)

Industry Implications

- Fiscal 2014 ag exports projected to decline
 - Exports to China down from 2013
 - Canada poised to return to position as top market for U.S. agricultural products
- 2014 ag imports forecast expected to increase
- Lower fuel and fertilizer costs in 2014, which will encourage higher ag output and export volumes
- Farm Bill and immigration reform outcomes important for continued improvement in ag exports.

Future of Agriculture is bright

- Increasing world population will need more food
- Developing economies are consuming more protein
- Continued demand for ethanol, even with lower RFS
- A new generation of farmers poised to make their mark on U.S. agriculture, as baby boomers reach retirement
- The composition of production agriculture continues to change
 - Young, beginning, small and minority farms on the increase
 - Lifestyle farmers continue part-time activities
 - Traditional continues to evolve; succession planning a priority
 - Consolidation marches on – creating larger farms



**Bottom Line:
A strong
offense is the
best defense for
2014**

Proactive Management is Key

- A 5-year plan is critical to continued growth – Start planning for 2019 today
- Contingency planning important – multiple scenarios critical
- Succession planning important for prolonged growth
- Always look for opportunity -- Rapid changes in market demand = opportunity
- One-size-fits-all financing no longer works
 - Specialization, volatility and capital access require solutions tailored to specific situations
- Prepare your cash flow for higher interest rates and lower grain prices

Manage for Growth:

**Do you
have
access to
adequate
working
capital?**

**Are you at
risk of
outgrowing
your
lender?**

**Are your
financials
fine-tuned
to attract
capital to
fuel
growth?**

Access to Adequate Working Capital?

- Create an accurate projection of worse-case scenario
- Balance short, intermediate, and long-term debt
- Fix interest rates for long-term debt for life of loan
- Use crop insurance and other risk management tools
- Establish a line of credit with adequate cushion
- Plan ahead for future purchases/expansion
- Build adequate cash reserves – NOW!

Outgrowing Your Lender?

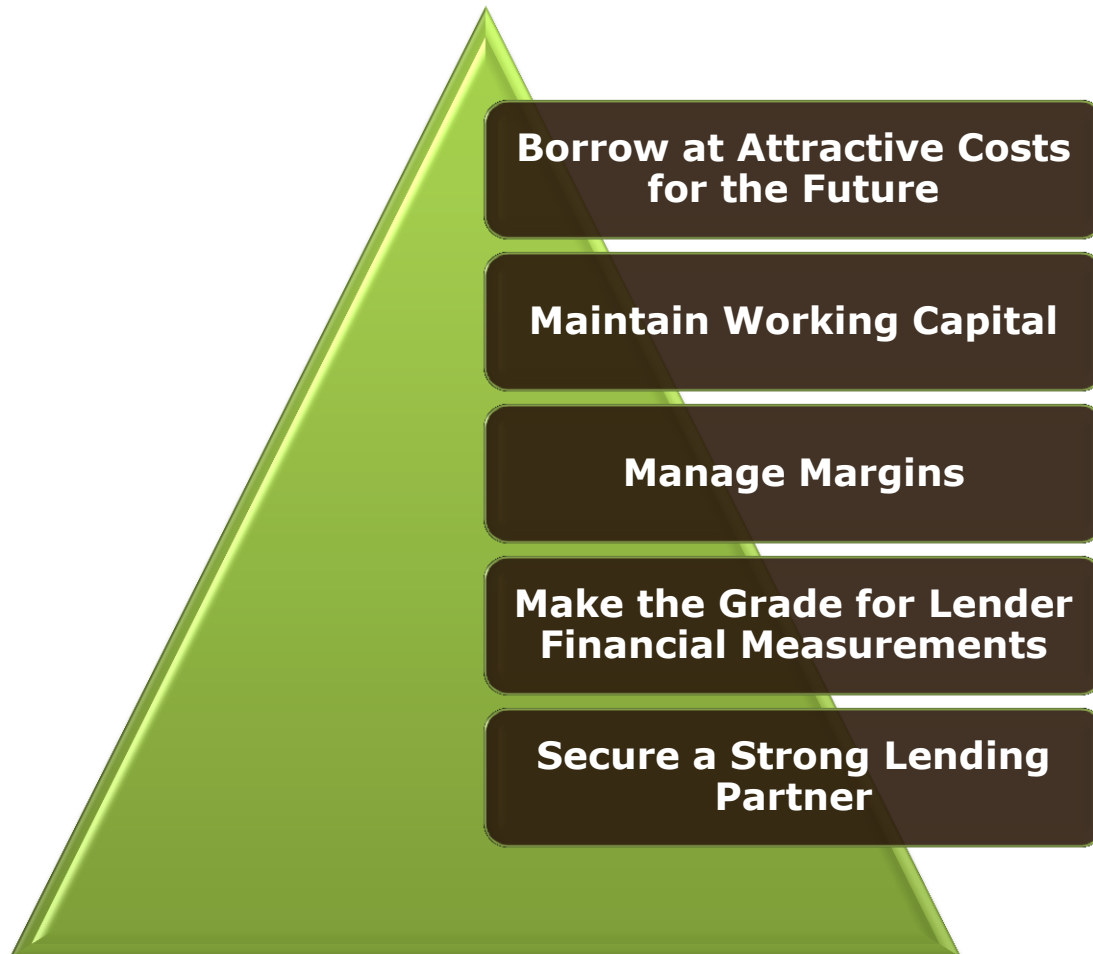
Does your lender:

- Review your business plan?
- Challenge your assumptions?
- Talk about lending limits?
- Offer risk management tools?
 - Fixed interest rates, hedging, etc.
- Work with your next generation management?
- Bring new concepts/tools to you before you ask?

Fine-Tuned Financials?

- Annual financial statements prepared for each enterprise
- Cost of production calculated by enterprise and unit
- Defined and working within formal marketing plan
- As operation grows, so do financial requirements
 - At what point are accountant prepared records required?
 - When does a farm become an agribusiness?
- One-hour of financial management is worth 10-hours in the field!

Strategies for Risk Management



Sources:

- USDA
- The Conference Board
- Farmland Forecast
- Kiplinger

