

“BUILT TO LAST”

STRATEGIC POSITIONING FOR SUCCESS

**DTN Ag Summit
Chicago
December 10, 2104**

**Doug Stark
President and CEO
Farm Credit Services of America**



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Key Topics Today

- Strategic positioning for opportunities ahead
- Land buying decisions – in an uncertain market



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Looking Back

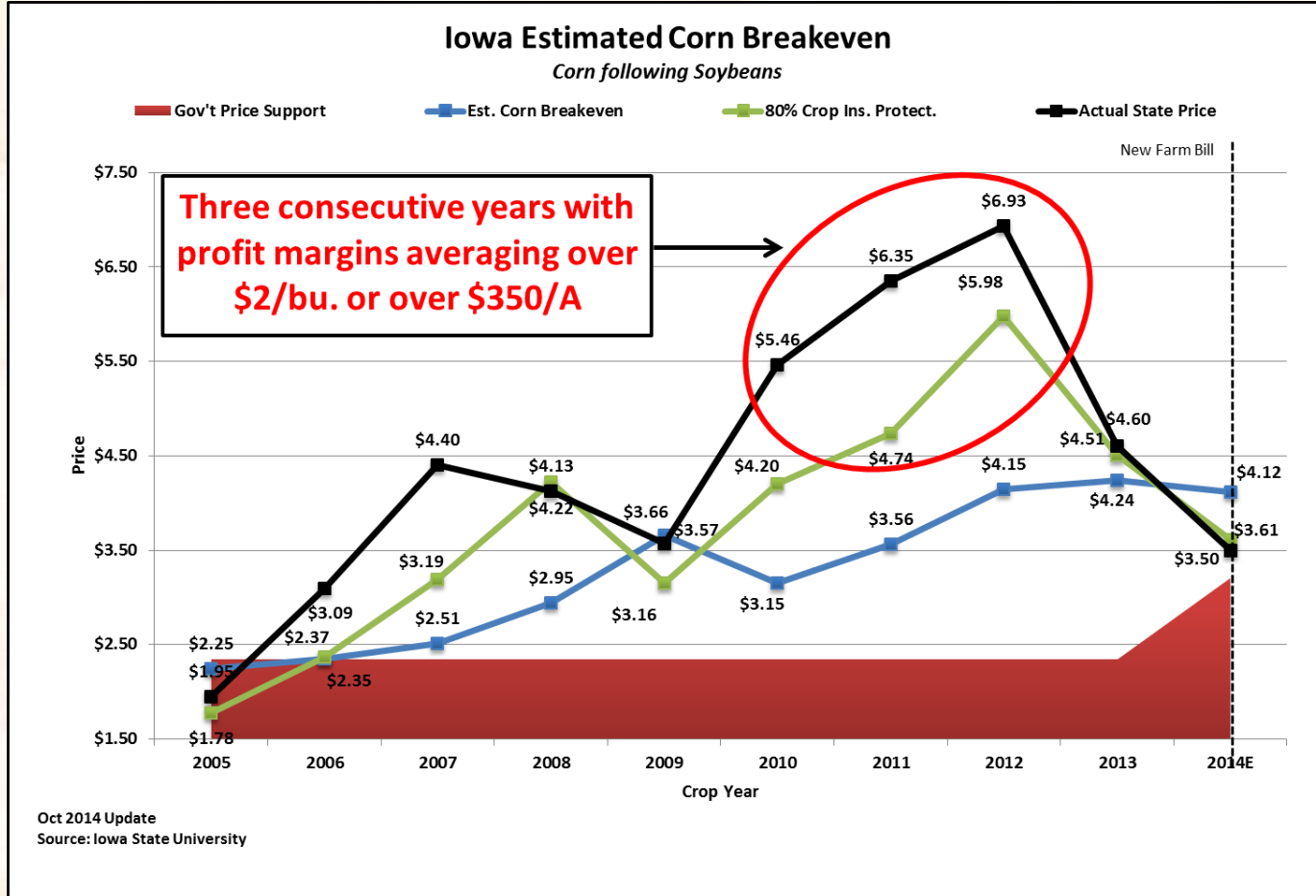
- Record Net Farm Income
- Extraordinary margins per acre
- Strong cash positions
- Producers upgraded entire equipment lines
 - Now over-equipped
- Working to defer income tax
 - Prepaids, equipment purchases,
- Chased land values upward

Corn Breakeven



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Views on a Competitive Market – Agricultural Production



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“The function of a competitive market is to drive the economic return to the average producer to breakeven through supply and demand in both input and output markets...”

...In equilibrium, the top end are profitable and growing, the average are hanging in there, and the bottom end are losing money and exiting the industry.”

**Professor Danny Klinefelter
Texas A & M University**

Corn Supply / Demand Equilibrium



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- 2008 – 2012 demand overwhelmed supply
- Primarily due to ethanol infrastructure and weather events
- This trend has been reversed



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Today

- Record corn crop
- Significant carry-over
- Price adjustments
- Fed tapering
- Input prices now have increased
- Strong balance sheets
- Tremendous uncertainty



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Thinking Beyond the Moment

Key to managing cycles:

Balance dealing with the current situation – with thinking, planning and deploying resources today for tomorrow’s reality and opportunities

An aerial photograph of a massive crowd of people gathered for a rally. In the center, a truck is carrying the Indian national flag. The crowd is dense and extends far into the background. A yellow banner with the word 'India' is visible in the upper right corner. The text 'World Population' is overlaid in white, underlined font.

World Population

Today = 6 billion

2050 = 8 billion



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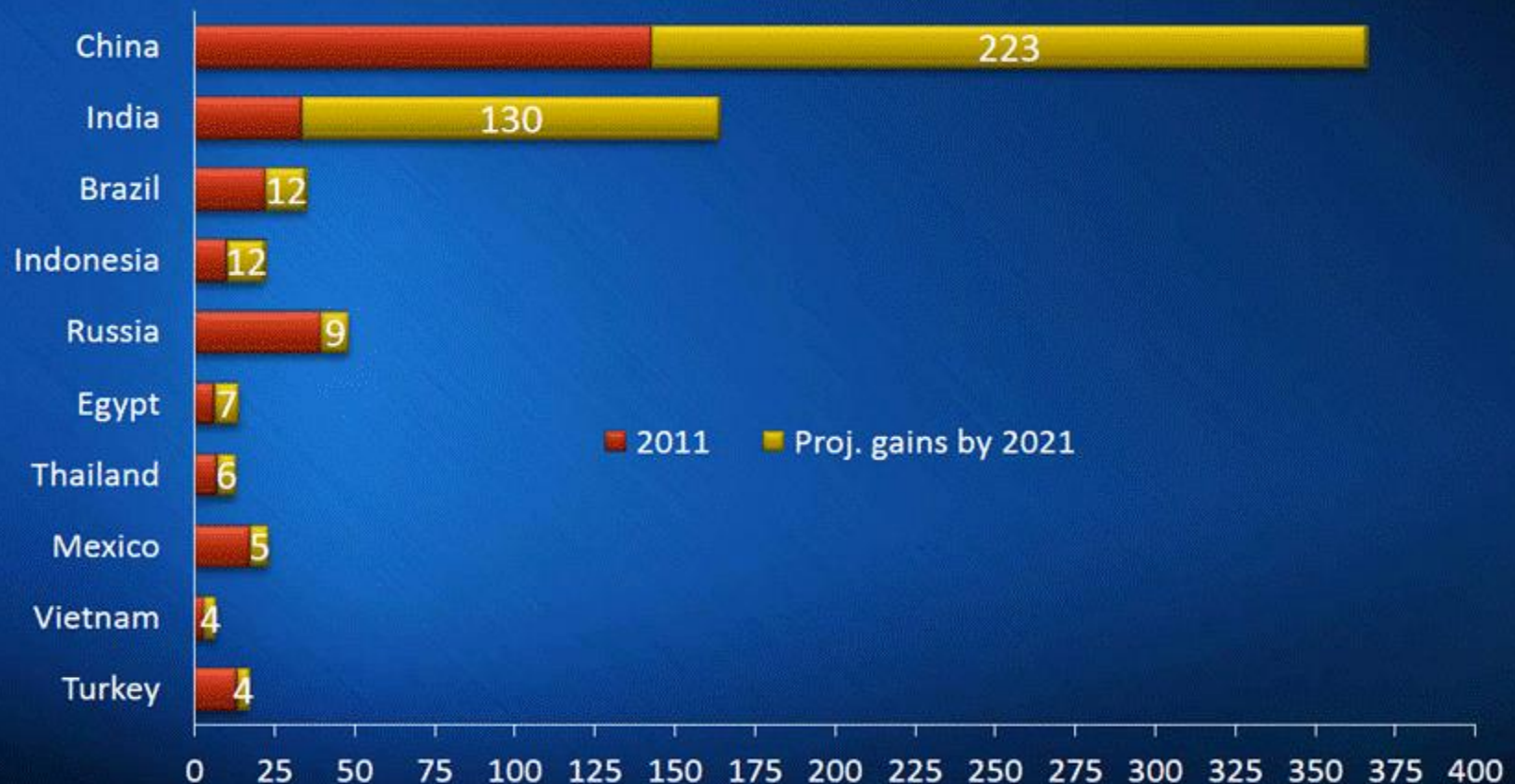
United Nations Projections

- Global food production will need to increase 40% by 2030 and 70% by 2050; **beef and dairy production will need to DOUBLE by 2050**
- Farming in 2050 will occupy **only 13% more land** than is used in 2008

Developing Countries With Fastest Growing Middle Class

32% of households in these countries are middle class. By 2021, this could increase to 56%

Households with real PPP incomes greater than \$20,000 (millions)



Source: Global Insight's Global Consumer Markets data as analyzed by OGA

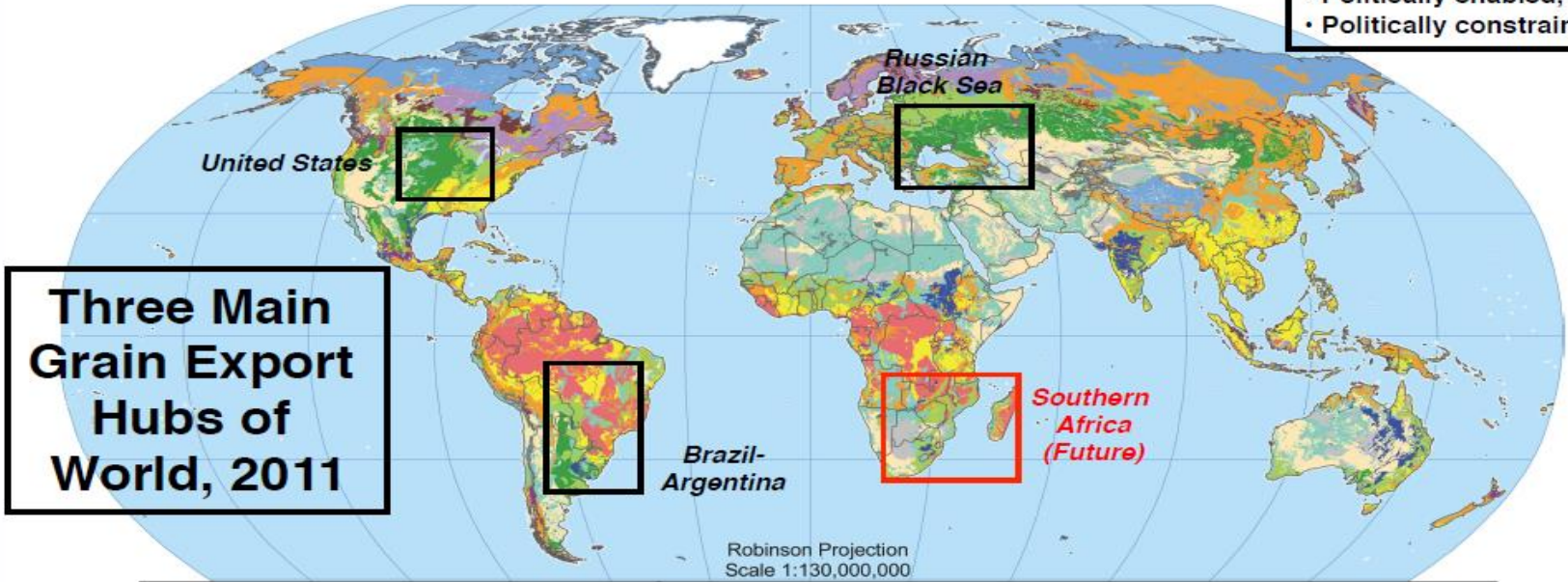
Global Policy Analysis Division
Office of Global Analysis



Global Soil Regions

Hub Land Areas can be either:

- Politically enabled, or
- Politically constrained



Three Main Grain Export Hubs of World, 2011

Soil Orders									
	Alfisols		Entisols		Inceptisols		Spodosols		Rocky Land
	Andisols		Gelisols		Mollisols		Ultisols		Shifting Sand
	Aridisols		Histosols		Oxisols		Vertisols		Ice/Glacier



US Department of Agriculture
Natural Resources
Conservation Service

Soil Survey Division
World Soil Resources
soils.usda.gov/use/worldsoils

November 2005

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Transportation Advantages

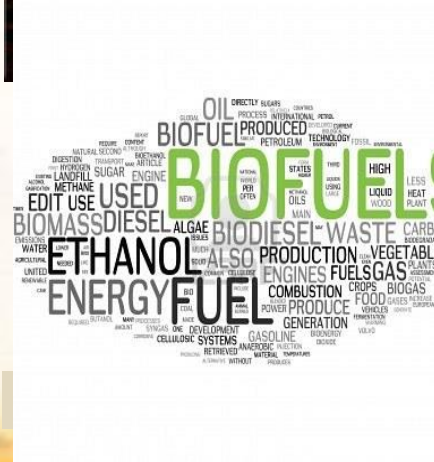




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Energy Independence



North America – A Strategic Advantage



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Reasons To Be Optimistic

- Long-term world demand
- Rise of the middle class
- Demographic position
- Innovation
- Transportation infrastructure
- Agriculture's overall balance sheet position
- No country can produce more ag product, at a higher quality, more efficiently – and can deliver



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The Ultimate Question

How do you position your operation/business to withstand the challenges facing us today, yet take advantages of the opportunities that exist long term?



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It's All About:

... Strategic Thinking

... Strategic Planning

.... Strategic Positioning



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A Strategic Approach- Three Simple Steps

1. Efficiency, Efficiency, Efficiency
 - You must be a low cost producer

2. Working Capital
 - The first shock absorber

3. Marketing and Risk Management
 - Crop Insurance
 - Marketing plan
 - Interest rate management



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Tangible Producer Actions

- Know your land cost / acre
- Know your equipment investment per acre
- Fix long term interest rates
- Resist aggressively prepaying fixed rate loans
- Crop insurance coverage –
 - revenue protection
 - Trend adjusted yield
- Flex leases

“To Buy Or Not To Buy” What is the Question ?



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1. How long will you own it?
2. Can you afford it?
3. Do you have adequate risk bearing capacity for the low part of the cycle (ie: working capital)?



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In Review

- \$20,000+ Per Acre Land
- Prime Time TV Coverage
- Strong Farm Income
- Excess Cash
 - Lack of alternative investments
- Low Interest Rates
- Equipment Investment and operating capacity



Intangible Value

- Access/Control of land adds significant value
 - Cash rent or ownership
- Land Ownership has more than an “economic” meaning
- Strategic land ownership opportunities are rare
 - “I don’t want to own everything, just what borders me”
- Hope/optimism on surging cycles
- Fear/Caution in uncertain times



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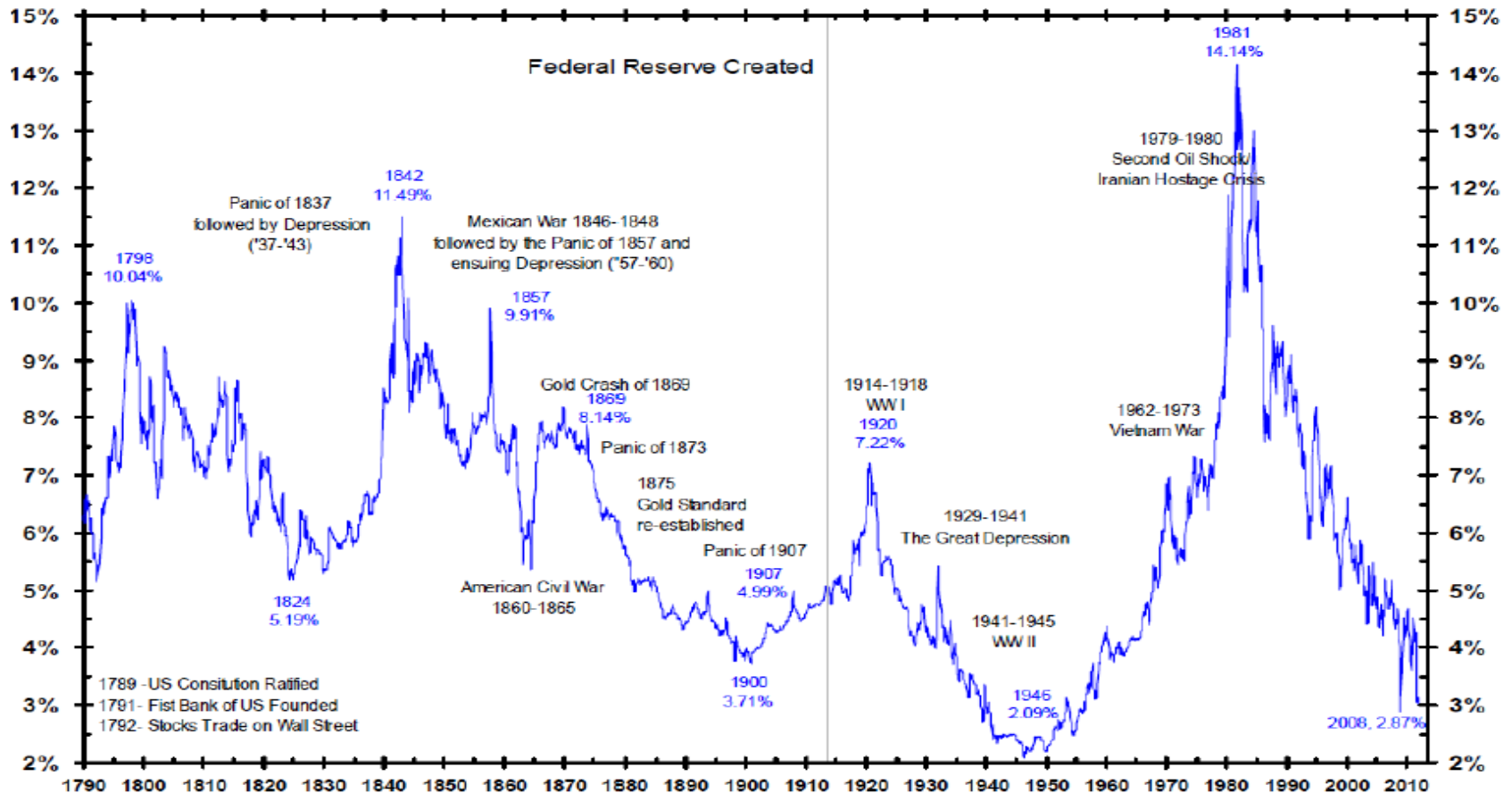
Interest Rates Impact

- Federal Reserve Bond Purchase taper has ended
- General consensus – Short-term rates will rise & long-term to follow
- Rising interest rates will put additional pressure on land values



Long-Term Interest Rate Trends

Long Term Interest Rates Back to 1790





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10 Year Treasury Rate

U.S. Treasury Bond Interest Rate History



Source: Observations (ObservationsAndNotes.blogspot.com)



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10 Year U.S. Treasury

CBOE Interest Rate 10-Year T-No

■ ^TNX

Dec 19, 2013



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■ Volume

Thousands

200.00
150.00
100.00
50.00
0.00



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30 Year Treasury

Treasury Yield 30 Years

■ ^TYX

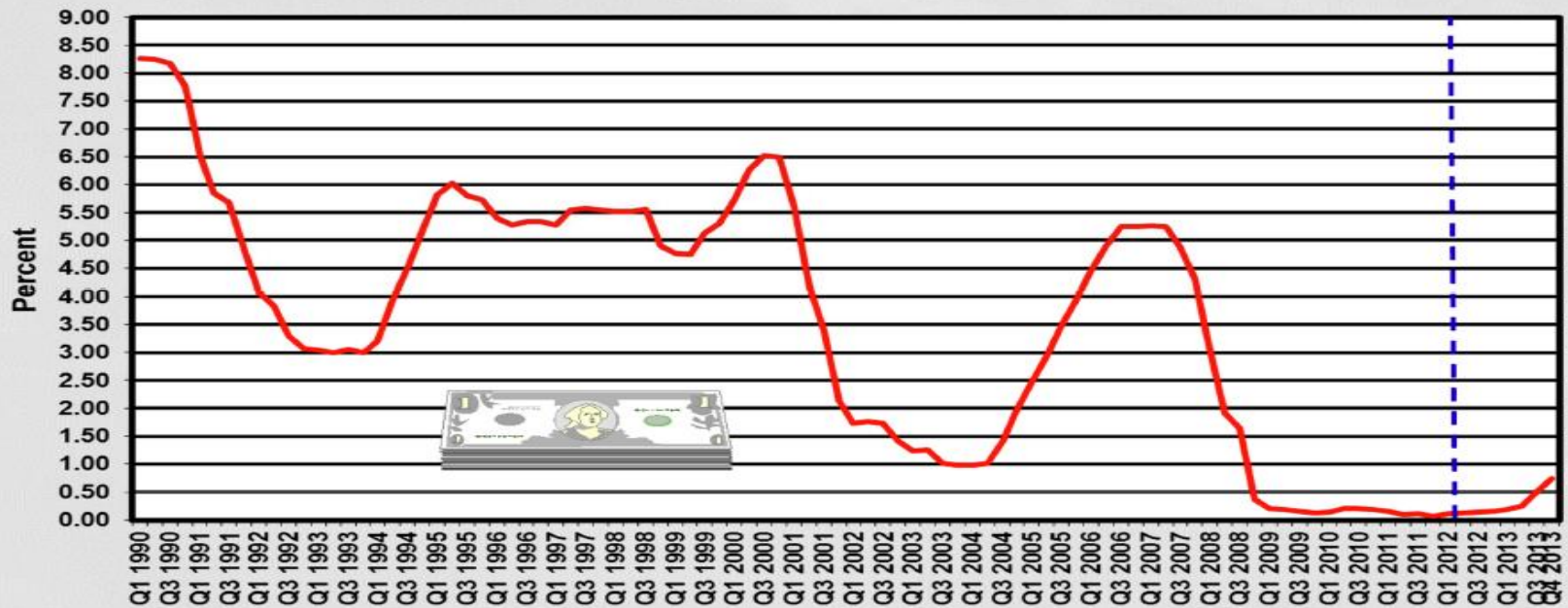
Dec 19, 2013





Short Term Rates

U.S. Federal Funds Rate



Source: FRB G.13 'Selected Interest Rates' Release



Land Ownership Costs

Example:

160 Acres valued @ \$10 K
/acre = \$1.6 Million

\$800,000 Loan (50%)

Interest cost/acre (annual)

5% Interest = \$250/acre

Example:

160 Acres valued @ \$6,667K
/acre = \$1.1 Million

\$550,000 Loan (50%)

Interest cost/acre (annual)

7.5% Interest = \$250/acre



Financial Management Strategies

- Not an environment to be highly leveraged in
 - *thoughtfully manage how you structure your debt*
- Migrate towards an accounting system capable of tracking accrual earnings
- Fix long term rates
 - possibly the opportunity of a lifetime
- Build/maintain working capital
 - *consider the cycle you're in, the needs of your business for the next 20 years*
 - There is a ST cost to holding liquidity, but will the LT gain more than off-set that?



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Final Thought

- The stability of agriculture in the US is virtually unmatched by any other industry
- Investments that support / enhance agriculture will pay off for decades to come



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with
purpose.**



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