#### CONQUER AG'S CYCLES

Strategies To Drive Your Farm's Performance

## FINE TUNING YOUR FINANCIALS

**Curt Hudnutt & Steve Allard** 



DTN Ag Summit 2017



farmcredit

### RABOBANK OVERVIEW



An international financial services provider dedicated to being a leading customer-centric bank with a cooperative core & principles

- Headquartered in the Netherlands
- One of the highest rated privately-owned banks in the world
- 115+ years of agricultural, retail, and community banking experience
- **\$900+** billion in assets
- Globally active in 40 countries
- Over 8 million clients
- Over 44,000 full-time employees

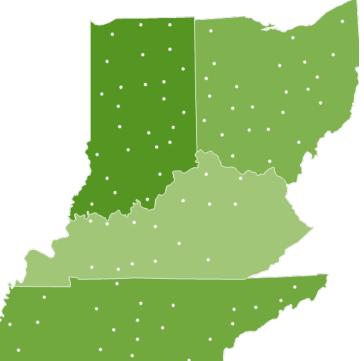
### FARM CREDIT MID-AMERICA OVERVIEW

#### Securing the future of rural communities and agriculture.





FARM CREDIT INVESTS IN THE COMMUNITIES WE SERVE AND HAS NEARLY 90 OFFICES TO CONVENIENTLY SERVE OUR CUSTOMERS.



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### STATE OF THE AG ECONOMY

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- Increase in 2017 stocks, increases the probability of lower grain prices in the short term, 2018-2019.
- **Prices remain low long term** (baseline average received price= \$3.50-\$3.80 per bushel for corn; \$9.25-\$9.80 per bushel for soybeans)
- Long term US animal agriculture is the <u>key growth factor</u> for grain and meal consumption.
  - This means trade policy will impact crop production directly and indirectly.
- Costs have adjusted (9% 2017/2018 YoY, just over 12% from peak in 2013) breakeven (~\$3.65-\$3.75/bu for corn) still above average received farm gate price.
- Land values have adjusted, need to adjust lower over the next two years; opportunities to decrease equipment debt should be maximized.

# STATE OF THE ECONOMY WHEN DOES THE FARMING CYCLE NEAR THE BOTTOM?

### Definition of a bottom:

The point where the combination of operating revenue and equity leverage can no longer finance operations.

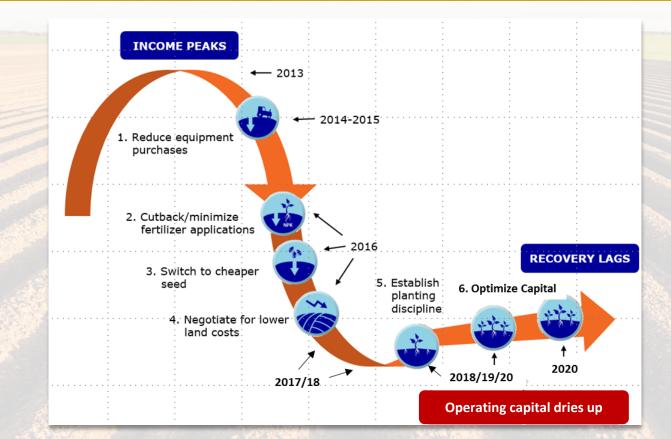
• The key factor at the current point in the cycle is the ability to secure operating debt.

#### Recovery happens when...

Rebalance of supply and demand results in increased prices (usually through contracted acres) and declining costs of production, which combine to establish relatively thin margins.

More rapid consolidation of the industry.

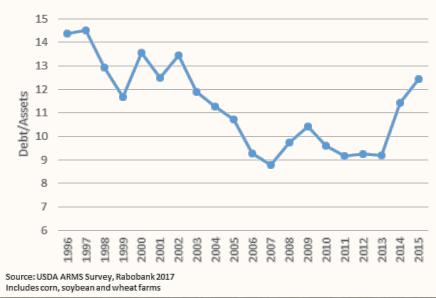
### STATE OF THE ECONOMY THE CYCLE



#### STATE OF THE ECONOMY BEYOND LIQUIDITY, DIVING INTO EQUITY

- Debt is currently the major source of liquidity.
- Farm financial positions have deteriorated.
- Growing stocks to use negative for prices.
- Equity is being used to finance operations not just expansion.
- The cost of risk (debt) is increasing.
- Production costs have adjusted down 1-2%.
  - Remain above average farm gate prices

### FARM DEBT TO ASSET RATIO DETERIORATING

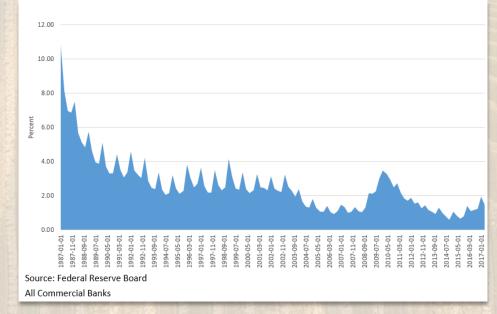


#### STATE OF THE ECONOMY BEYOND LIQUIDITY, DIVING INTO EQUITY

#### Delinquency Rates Remain Low

- Nearly all liquidity in row crop production is now either debt or investment capital.
- Debt coverage ratios are expected to be negative in 2017/18 which will require short term debt to cover long term debt for some farming businesses.
- Unencumbered land has/is being pledged to generate capital for operations and some growth.
- Consequently, delinquency rates have risen, but only back to historically normal levels.

#### DELINQUENCY RATE ON LOANS TO FINANCE AGRICULTURAL PRODUCTION



### STATE OF THE ECONOMY WHERE WE ARE HEADED

### The next two years are pivotal

- Low interest rate environment
  - Fixed Rate Debt vs. Variable Rate •
- Costs have adjusted, breakeven (~\$3.65-\$3.75/bu for corn) still above average received farm gate price
- Fertilizer/Seed/Crop protection costs will compete with land and equipment cost for share of crop value

### Tight margins over the long term

- Long term US animal agriculture is the key growth factor for grain and protein meal consumption .
  - Trade policy will have a double impact on crop production ٠
- The cost of land has adjusted, needs to adjust lower over the next two years ٠
- Opportunities to decrease equipment debt should be maximized .
  - Long term equipment costs should remain between 15-18% of expected crop values per acre ٠

### STATE OF THE ECONOMY WHERE WE ARE HEADED

#### What to Expect: 2018 - 2020

- More intensive negotiations over land leases = decreased land values
- Continued loss years in 2017 & 2018, looking to 2019 for a good chance of breakeven
  - Highest probability of breakeven or better comes after 2018 season
- 2019 has a higher probability of making an investable profit, if there is:
  - No increase in planted acres •
  - Uninterrupted export growth (animal protein and crop commodities)
  - Disciplined lending/borrowing
- **Producers will quit farming** by choice or involuntarily



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# WHAT TO EXPECT UNDER THE CURRENT ADMINISTRATION

### THE TRUMP ADMINISTRATION - Year 1

### The Story Thus Far For...

- Interest Rates
- USD
- 2018 Farm Bill

- Trade
- Immigration
- Regulations

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### BUILT TO LAST TAKING CONTROL OF THE FUTURE

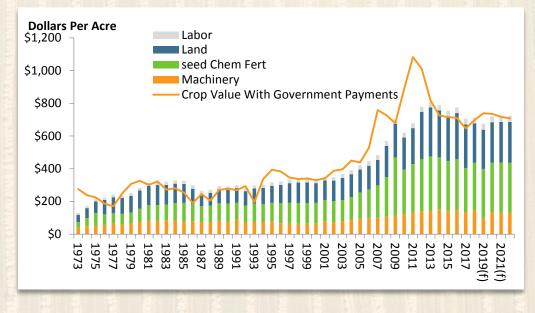
#### Your level of knowledge and understanding is key.

- Do you understand your current financial position today?
- Do you have an understanding of how investments today balance with the value of crops in the future?
- Do you know your cost of production?
- Can you budget so that liquidity or working capital are sufficient to manage through future tight margin years?

### BUILT TO LAST BUDGETING

#### Budgeting for 2018 -2020

- Crop values are expected to stabilize at lower levels
- Seed/Chem/Fert expected to continue to capture 40-42% of the crop value
- Controllable equipment cost per acre should be budgeted at 15-18% of expected crop value
- This means that land will need to decline from 40% of crop value in 2017 to 30-35%



### BUILT TO LAST HOW PRODUCERS SURVIVED

Survivors proactively & aggressively communicated with their landlords & managed their liquidity & equity positions.

#### They knew their true break even and:

- Walked away from acres
- Sold excess equipment and balanced debt loads
- Liquidated non-core assets and made lifestyle changes
- Managed risk relative to market and production volatility
- Explored alternatives

### BUILT TO LAST

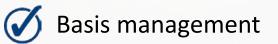
**PROACTIVE MANAGEMENT** 

#### Don't Hope to Survive, Plan to Succeed

- Re-create your Business
- Diversify
- Understand the Cost Levers
- Data Management and Analysis
- Peer and Industry Benchmarking

## BUILT TO LAST STRATEGY

Group buying

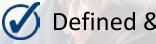


Economies of scale

Carry vs. Inverse Market

**Oiversification** 

Finding niche markets



Defined & disciplined marketing plans

Employ professionals to assist

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# TALKING WITH YOUR LENDER

### TALKING WITH YOUR LENDER GETTING INSIGHT

- Get in to see your lender early & often
- Be open to your weaknesses
- Be judicious with your equity
- Explore alternatives and develop scenarios

- Bring a business plan that goes beyond debt or "wait & see"
- Develop a marketing strategy to limit losses & preserve liquidity
- Listen to your lender
- Maintain good financial information

#### If your lender doesn't have insights, **find a new lender**

### Thank You!



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