

TAKING CARE OF BUSINESS

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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

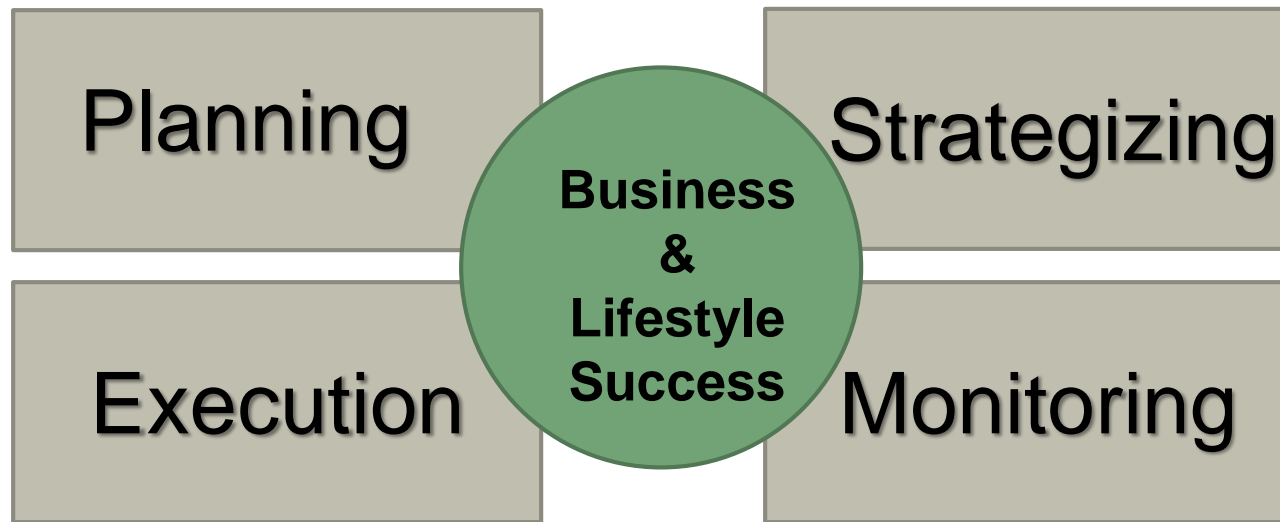
Dave's GPS & Dashboard Indicators: www.farmermac.com

Views from the Road

- agriculture is in the 7th year of economic reset
- low margins, high volatility
- manage & manage around strategy
- Business IQ will be a requirement

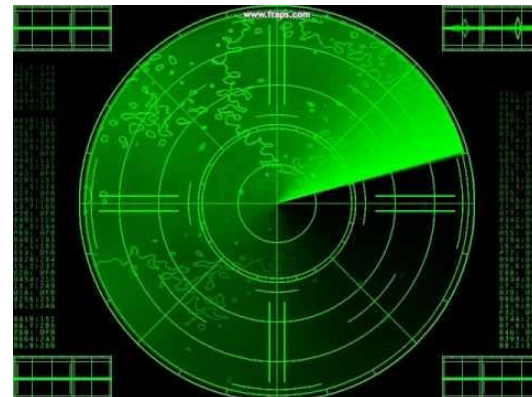


Four Cornerstones of Management



Economic Radar Screen

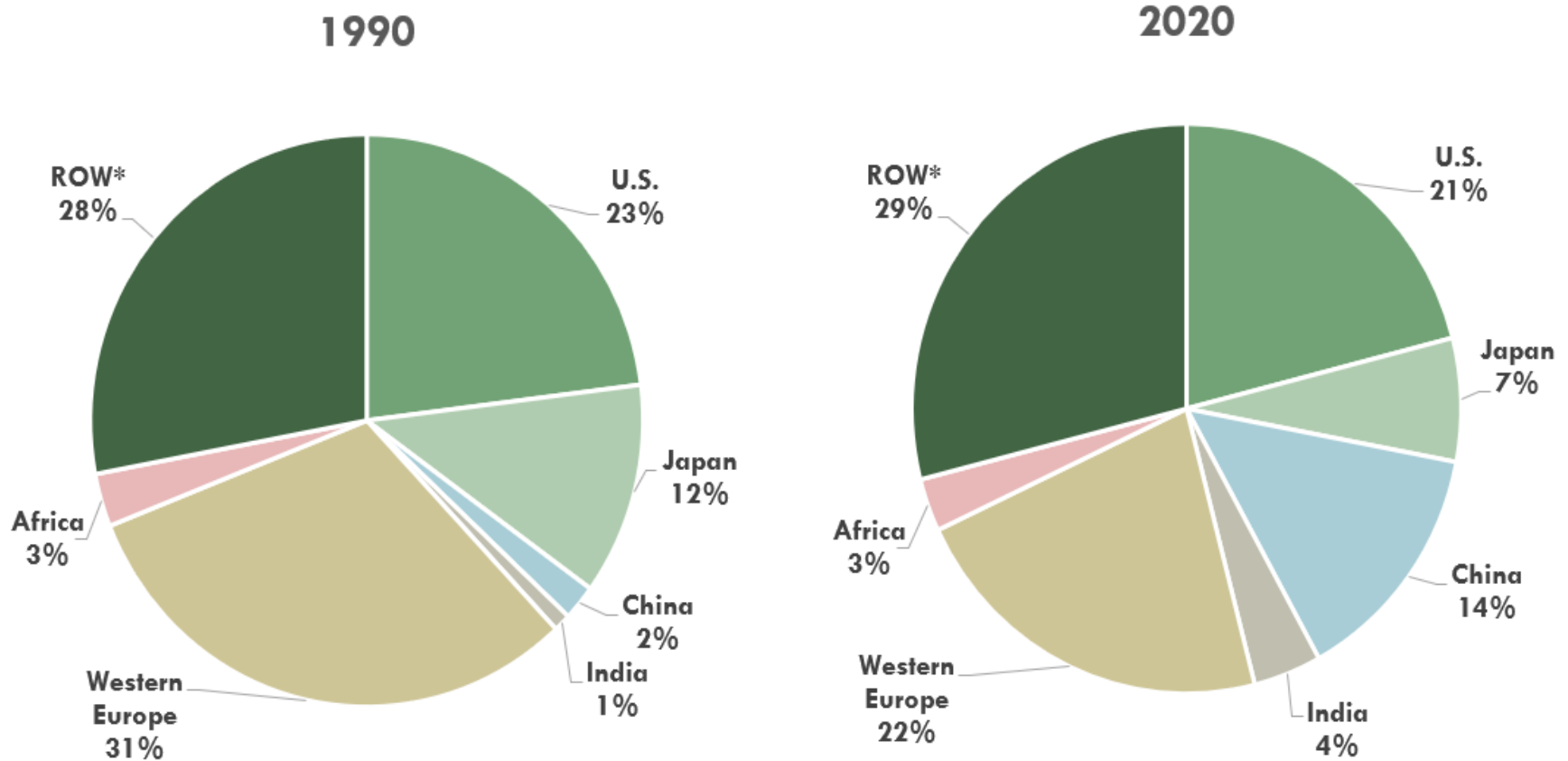
- international trade
 - USMCA
 - China's Belt & Road Initiative
- synchronized global economic slowdown
 - China- slowest growth rate in 28 years
 - Japan- negative growth rate
 - Germany – negative growth rate
 - Central Bank's stimulus in China
 - high debt levels in urban real estate in China
- political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



North America's Economic Power Block

- 28% of the global economy's GDP
- energy & oil
 - U.S. #1
 - Canada #4
 - Mexico #8
- 450+ million people
- 47% of Mexico's population is under 25
- ag trading partners:
 - Canada #1
 - Mexico #3

Rising of Asia



* ROW- Rest of World

Source: Global Insights, August 2018

Farm Real Estate Perspectives

- farm real estate appreciated or stayed level 79% of years from 1910-2017
- since WWII (1941) farm real estate appreciated or stayed level 88% of the years
- 1910-WWII (1940) farm real estate appreciated 57% of the years
- farm real estate was flat or declined for 13 years from 1920-1933
- farm real estate declined for four years in the 1980's

Drivers of Change on Land Values

- interest rates
- investor funds
- refinancing cycle
- baby boomer farmer
- relatives who inherit land
- supply and demand of commodities
- crop insurance



State of U.S. Economy

- 110-plus months
- 106 & 120 months
- urban and coastal economies and the fly over states
- central bank driven- U.S. and abroad
- wealth effect
 - consumer investing
 - consumer spending

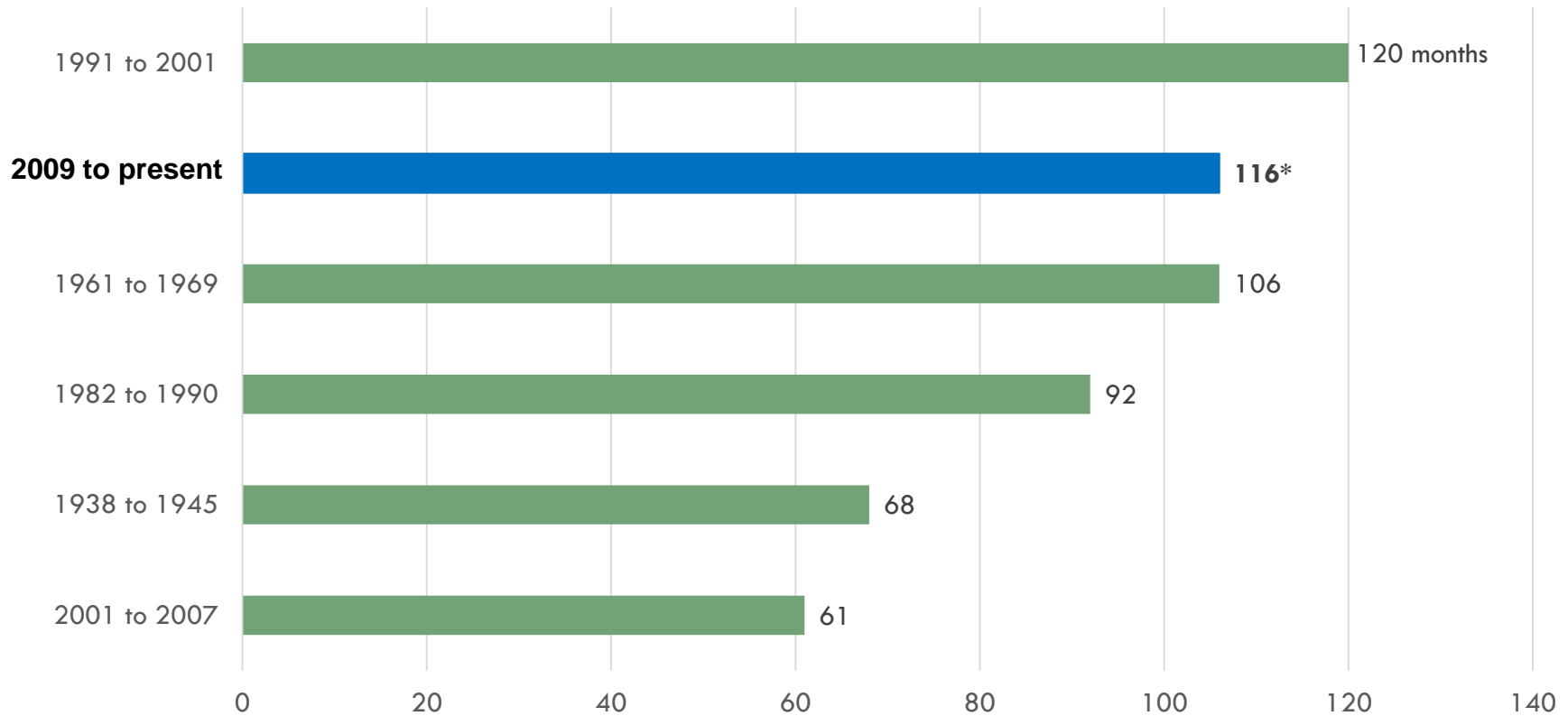


IMPACT: killers of economic expansions

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

Longest economic expansions in modern U.S. history

(As of February 2019)



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

Killers of Economic Expansion

- expansions don't die/killed off
- Central Bank tightening strategies
- oil prices
- stock market decline
- bubbles
- trade issues



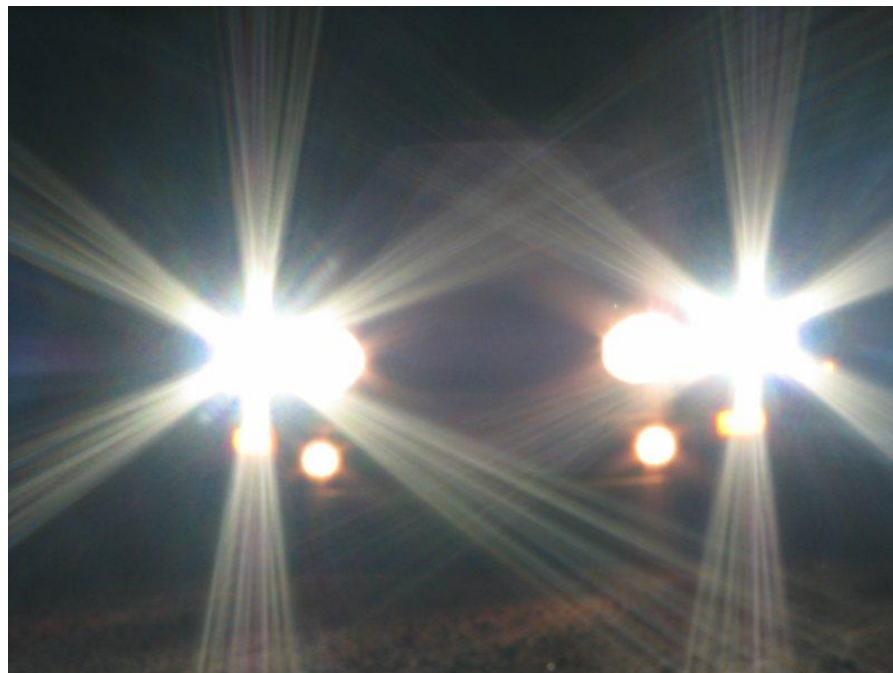
Federal Reserve's Interest Rate Barometer

- two rate increases in 2019
- one possible rate decline in 2019

Indicator	Current Estimated “Flag” Levels
Unemployment	Below 5.0% or Above 6.0%
GDP Growth	Above 3.0% or Below 2.0%
Inflation	Above 2.5% or Below 1.0%
Consumer Sentiment	Above 90 or Below 80

- trends matter
- stock market/real estate wealth effect
- copper prices

Mega Trends 2020-2030: “High Beams”



Mega Trends 2020-2030: Dietary Trends



- Millennials, Gen Z & Baby Boomers
- cultured meat & non-dairy
- vegans- U.S. & abroad
- environmental footprint
- 95% of success is alignment of:
 - resources
 - talents
 - markets
- experiences & personalization vs. commoditization

“We have not seen anything yet.”



Mega Trends 2020-2030: Technology/Consumer



- bio engineering
- information convergence
- production
- consumers/food industry/producers
- great wall of protein & “impossible burger sliders”
- skill base
 - analyze data
 - critical thinking
 - communication
- first replaces labor
 - higher level of talent
- systems/replicate – use of information data
- too connected

“Think beer.”



Mega Trends 2020-2030: Tech Transformation



- robotics
- data in the food chain
- retail & wholesale disruption
- blockchain technology

“Market disruptors.”



Mega Trends: Technology & Production



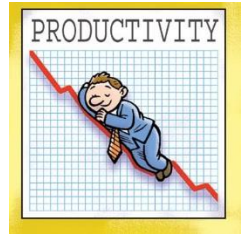
Metric Tons Increase Since 2008-2009 til 2018

Country	Corn (Percent Change)	Soybeans (Percent Change)
U.S.	21%	55%
China	48%	1.1%
Brazil	85%	108%
Argentina	174%	73%
Canada	36%	125%
Europe	-9%	
Paraguay		168%

Source: Kirksville, MO presentation - University of Missouri



Mega Trends 2020-2030: Technology & Productivity



- interruptions occur on average every 2-7 minutes
- It takes a half hour to regain focus after interruptions
- drops IQ 10 points once interruptions occur
- interruptions contribute to a poor night's sleep
- need 2 hours per day with no technology
- errors increase 19 times
- 4 alcoholic drinks
- techlash
- People touch their phone 2,617 times per day on average, or 2 hours and 25 minutes. Source: Wall Street Journal on May 17, 2018.

“Silence is golden.”



Mega Trends 2020-2030:

Old School Generation Vs. New School Generation

Old School
vs.
New School

Old School Generation	New School Generation
Control	Structure
Manage	Mentor
Collaboration	Private Time
Career Path	Projects
Tell How to Do	Problem Solvers
8-5	Productivity & Flexibility
Course	Bit Size
Job Description	Create Job Description
Task	Internships
Training	Training & Development “Life Skills”

“Old school vs. new school.”



Mega Trends 2020-2030: Non-Government Organizations



- Smithfield lawsuits
- Monsanto lawsuits
- others
- biosecurity
- open pens
- antibiotic free
- animal welfare

***“NGOs more disruptive than
government regulations.”***

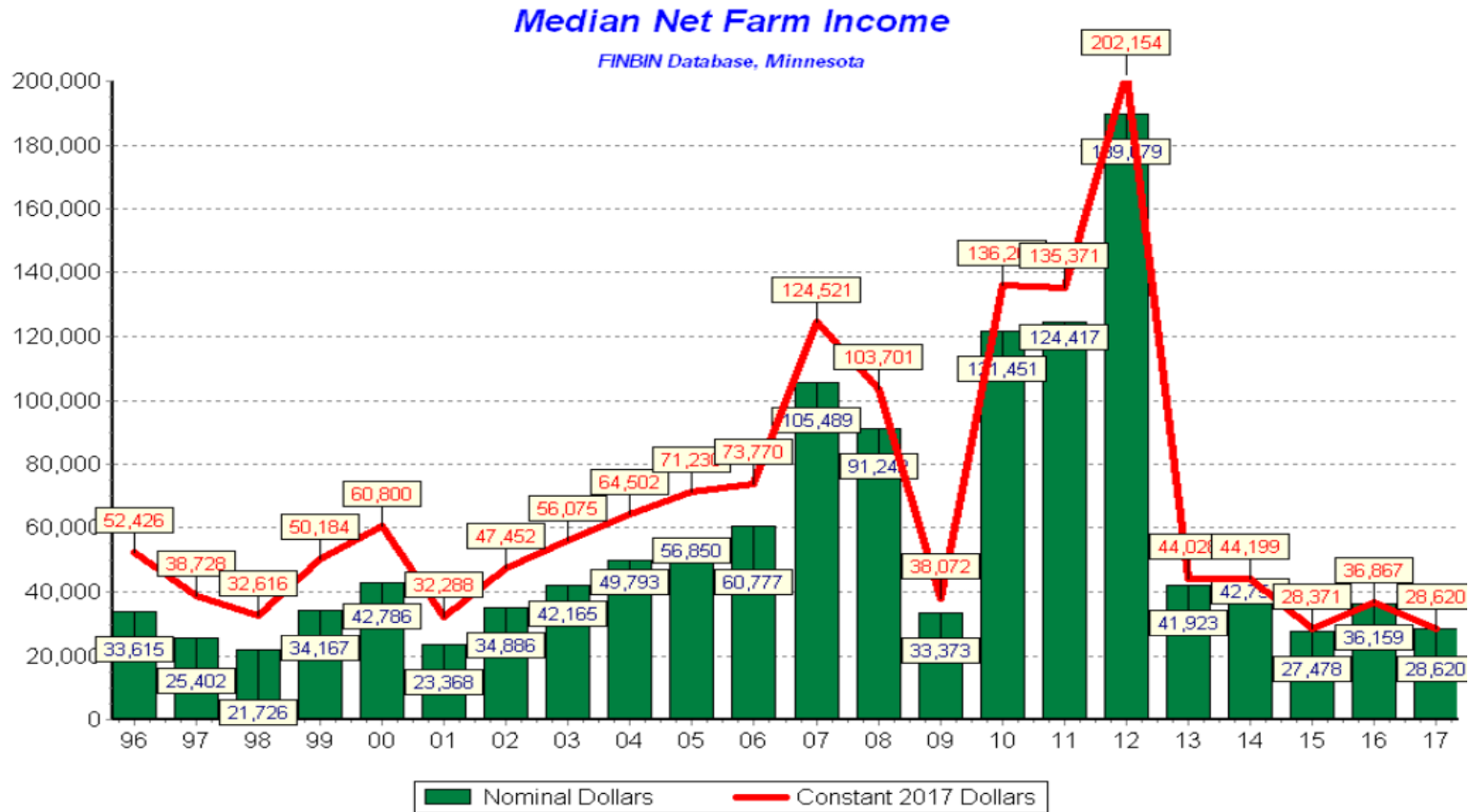


Is the New Normal the Old Normal?

<u>Time Period</u>	<u>Approximate Net Farm Income In Constant Dollars</u>	<u>Era Name</u>
2013-2017	\$35,000	Agricultural Economic Reset
1996-2001	\$50,000	Asian Tigers Boost Commodity Demand
2001-2005	\$54,000	Pre Agricultural Super Cycle
2007-2012	\$125,000	Agricultural Commodity Super Cycle

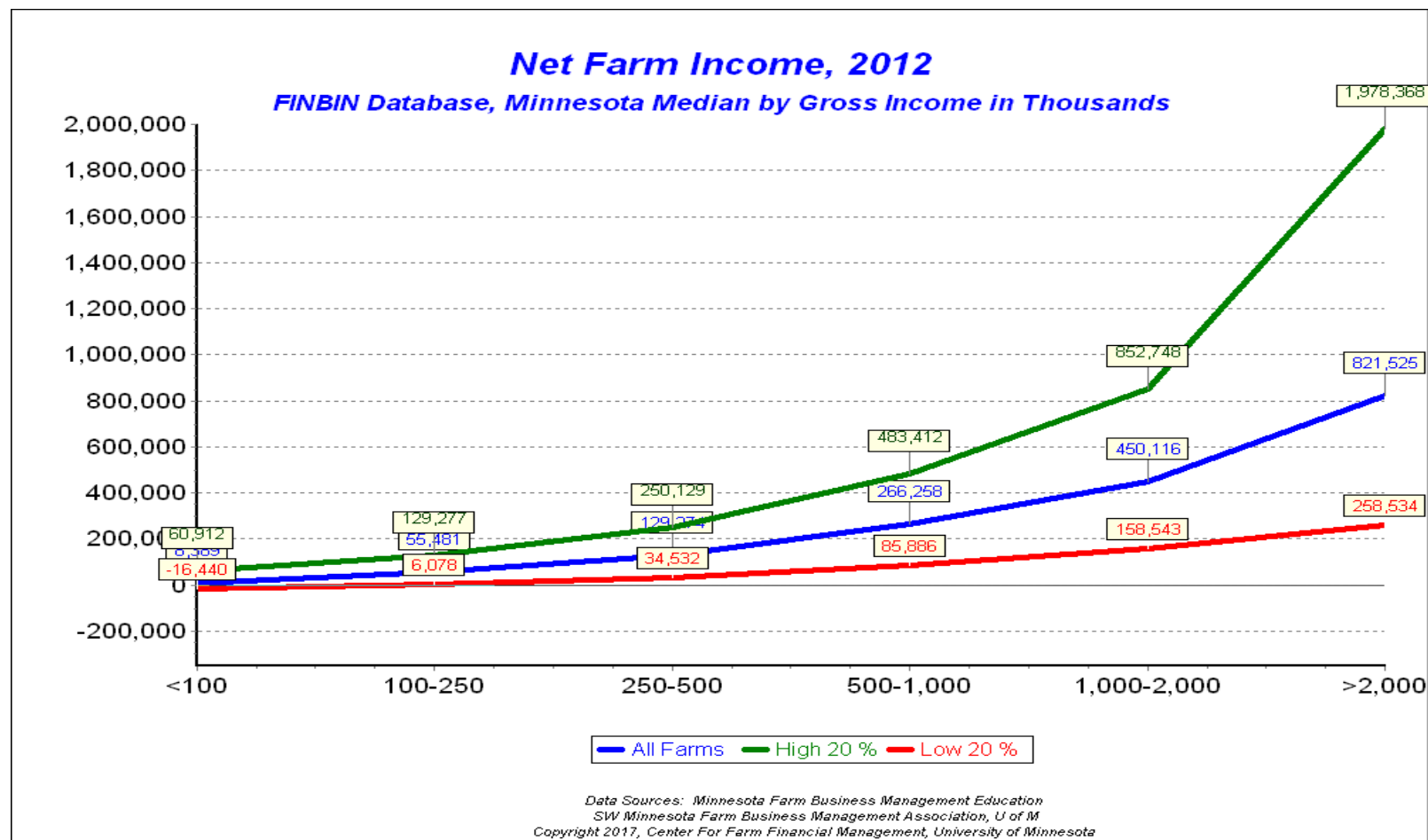
Source: <https://finbin.umn.edu/>

Median Net Farm Income



Data Sources: Minnesota Farm Business Management Education, Minnesota State Southwestern Minnesota Farm Business Management Associations, U of M
Copyright 2018, Center For Farm Financial Management, University of Minnesota

Net Farm Income, 2012



Net Farm Income, 2016

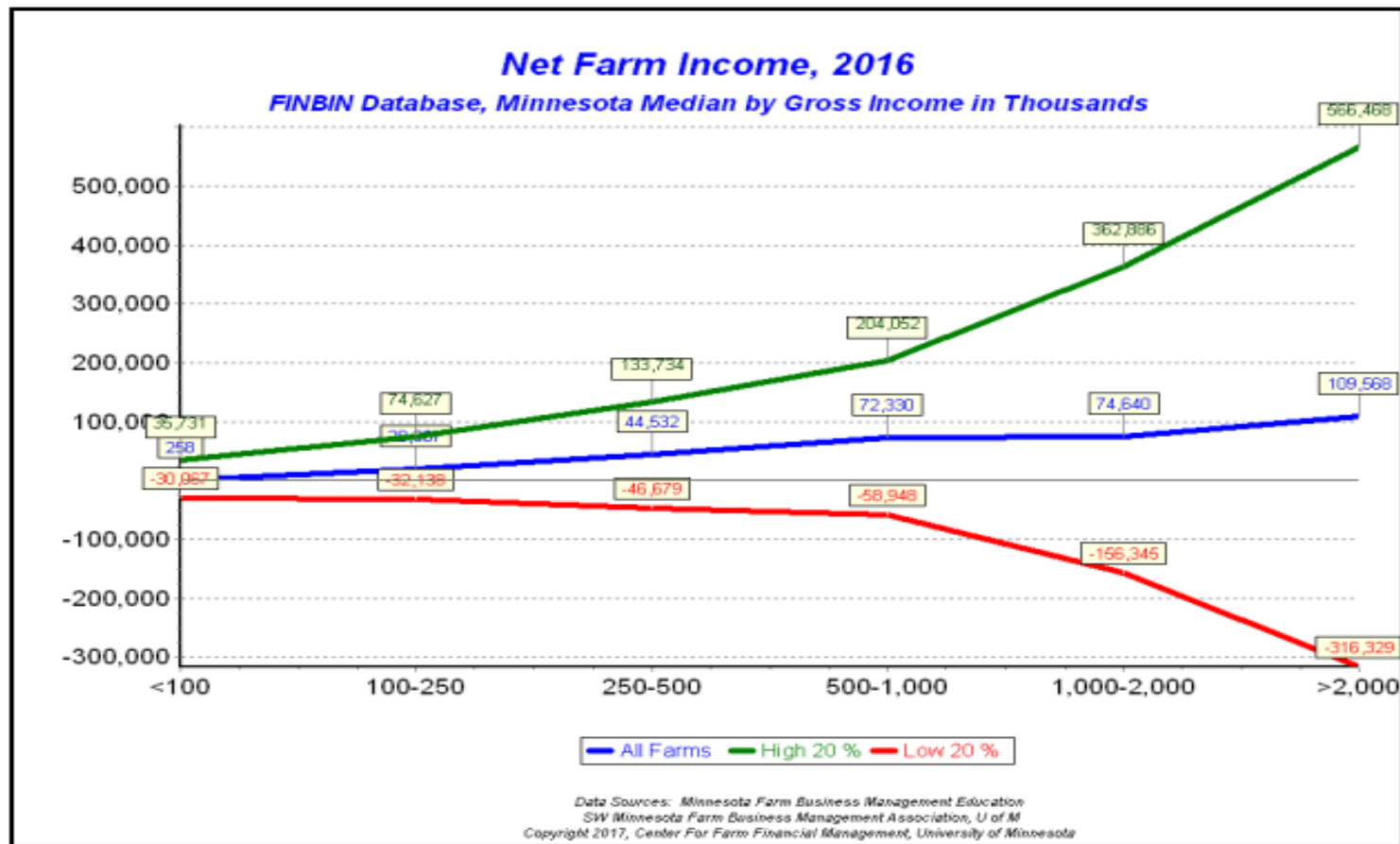
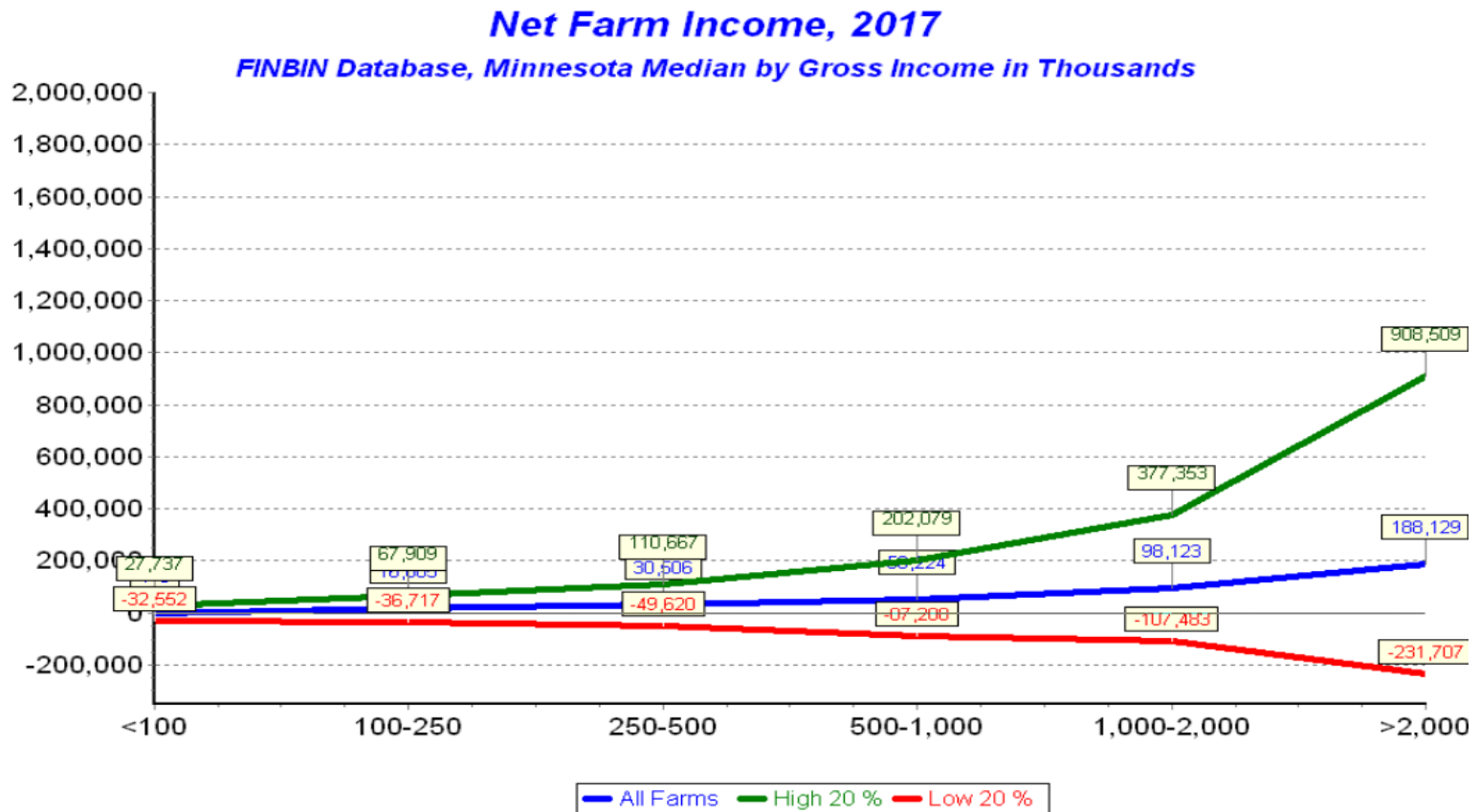


Figure 13: Net Farm Income by Farm Size

Net Farm Income, 2017



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

Why Some Businesses Are More Profitable Than Others

- These businesses are a “**little**” better at:
 - production
 - marketing
 - cost control
 - asset and capital efficiency
- utilize the 5% Rule

Business IQ: Management Factors

Critical Questions for Crucial Conversations

Customer Checklist	Green (3-4 points*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production	Written	In head	No idea
2. Knows cost of production by enterprise	Written	In head	No idea
3. Goals- business, family & personal	Written	In head	No idea
4. Record keeping system	Accrual	Schedule F (one & done)	No idea
5. Projected cash flow	Written	In head	No idea
6. Sensitivity analysis	Written	In head	No idea
7. Understand financial ratios, break evens	Written	In head	No idea
8. Work with advisory team and lender	Yes	Sometimes	Never
9. Marketing plan written and executed	Yes	Sometimes	Never
10. Risk management plan executed	Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget	Yes	Sometimes	Non existent
12. Written plan for improvement executed & strong people management	Yes	Sometimes	Non existent
13. Transition plan/Business Owner plan	Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses	Yes	Sometimes	Never attend
15. Attitude	Proactive	Reactive	Indifferent

*Extra Points:

- **Progressive Business** may receive 4 points for #2,6,7,8,14
- **Struggling Business attempting turnaround** may receive 4 points for #3,5,8,11,12

Score	Overall Analysis
35-50	Strong management rating & viability
20-34	Moderate risk & viability; will most likely show previous refinancing
<20	High risk & lack of long term viability

Habits of Successful Producers 1

- goal focused & balanced
 - business
 - family
 - personal
- core values focused on five to seven key words that means success
- invest in productive assets
 - land
 - machinery & equipment
 - livestock
 - people
- modest family living withdrawals from the business
- develop and monitor income statements and cash flows
 - monthly
 - quarterly



Habits of Successful Producers 2

- understand macro economics- how it creates opportunities and challenges and complete scenario analysis for:
 - production
 - price
 - cost
 - interest rates
- follow the management principle of better before bigger
 - 5% rule
- 60-30-10 rule of profitability and positive economic cycles
- interdependent vs. independent – know the value of people
- best crop you will ever raise
 - children
 - grandchildren
 - aspiring agriculturalists



Staying Positive in the Down Cycle

- network of people = self worth + net worth
- older – mentor and wisdom
- education and development
- take a look at yourself
 - exercise
 - hear the silence
- giving back
- sweat the small stuff
- position for small accomplishments