Views From Cyberville for 2020 & Beyond

- a black swan usually occurs each decade with two babies
- economic and financial divide of 2020
  - segment with tax problems
  - segment struggling
- government supports - a larger share of net farm income
- production was key to success in 1980s
- business IQ will be key to success in 2020s
- four segments in agriculture & rural America
  - larger/commercial consolidation
  - traditional
  - value added/niche
  - lifestylers/rural entrepreneurs
2020s- The Decade of Economic & Financial Divide

- economic volatility in extremes
- manage the controllables & manage around the uncontrollables
- adapt, innovate, focus & follow the process
- decade of management transition
- decade of the agri-entrepreneur

Global Macro Economic Risk (1)

- globalization vs. deglobalization
  - 1995-2017 purchasing power parity, hyperglobalization
    - emerging nations 2x plus
    - rich nations 44%
  - 1990-2008 global trade share of GDP 39% increase to 61%
  - 2009-2017 global trade share down 9%
    - financial crisis
    - governments, businesses and consumers agendas
  - (ISI) import substitution industrialization strategy
    - supply & marketing chains
    - made in China 2025
    - India, Europe, & U.S. more self reliant
    - concentration vs. diversification
Global Macro Economic Risk (2)

- disjointed U.S. & global recovery
  - 90% economy
  - 50-75% economy
  - 125% economy
- trade agreement uncertainty
  - Australia vs. China
  - rich nations vs. China
  - Belt & Road Initiative, medical innovation path
- central banks/government supports for ag
  - U.S./global support $2 billion per day
  - duration of support & global competitiveness
  - government encroachment, taxes, regulations, other

Rising of Asia

* ROW - Rest of World
Source: Global Insights, August 2018
**Trade Paradigm Shifts**

**Globalization Vs. Regionalization**

China's Dual Circulation Strategy

- **Asia Regional Integration**
  - Asian Region- China, Japan, S. Korea
  - Russia

- **North American Regional Integration**
  - Canada
  - United States
  - Mexico

- **Europe Regional Integration**
  - E. Europe
  - Germany
  - France
  - Great Britain
  - S. Europe

- **India/Oceania Regional Integration**
  - Australia/New Zealand
  - India

- **Southern Hemisphere Regional Integration**
  - Central/Latin America
  - Brazil
  - Argentina

- **Africa Middle East / South Asia Regional Integration**
  - Southern Asia
  - South Africa
  - Israel
  - Middle East
  - African Nations

China's Belt & Road Initiative- 68 countries, $1 trillion in loans and now a shift to a medical innovation path

---

**Global Trade Perspectives**

<table>
<thead>
<tr>
<th>Trade Agreement</th>
<th># Countries</th>
<th>Population</th>
<th>GDP</th>
<th>Trade Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCEP¹</td>
<td>15</td>
<td>2.7 Billion</td>
<td>$25.8 Trillion</td>
<td>$12.5 Trillion</td>
</tr>
<tr>
<td>CPTPP²</td>
<td>11</td>
<td>508 Million</td>
<td>$11.1 Trillion</td>
<td>$7.6 Trillion</td>
</tr>
<tr>
<td>USMCA³</td>
<td>3</td>
<td>493 Million</td>
<td>$24.4 Trillion</td>
<td>$7.8 Trillion</td>
</tr>
</tbody>
</table>

¹RCEP- Regional Comprehensive Economic Partnership (15 Asian Countries)  
²CPTPP- Comprehensive & Progressive Agreement for Trans-Pacific Partnership (Canada & 10 countries in the Asia-Pacific region).  
³USMCA- United States-Mexico-Canada Agreement (North America)
**Grain Industry Radar Screen for U.S. & Abroad**

- economic health of protein sector
- economic health of trading partners
- weather
- value of the dollar
- consumer trends
- trade issues
- ethanol

**Livestock & Other**

- access to markets & marketing changes
- concentration, cannibalization
- competitive products
  - non-meat alternatives
  - non-dairy alternatives
- regulation
- labor, immigration
- health of the U.S. economy
Greatest Threats to Net Farm Income & Cash Flow

- loss of government supports, one third of net farm income since 2016, higher for some commodities
- tax implications of the government stimulus programs-for example, reduced expenses, due diligence
- weather in extremes- globally, Canada, U.S. & locally
- loss of markets & global competition
- supply & marketing chain disruption
- changes in consumer habits
- inflating expenses, technology inputs, higher taxes, labor
- loss of non-farm revenues, fringe benefits, other

Future of Agriculture for Young People

<table>
<thead>
<tr>
<th>Degree of Optimism</th>
<th>¹Ag Lenders Percent</th>
<th>²Crop Insurance Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very optimistic</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Optimistic</td>
<td>51%</td>
<td>40%</td>
</tr>
<tr>
<td>Neutral</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Pessimistic</td>
<td>22%</td>
<td>29%</td>
</tr>
<tr>
<td>Very pessimistic</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

¹Poll results from 294 ag lenders - August 2020
²Poll results from 465 crop insurance professionals - Sept. 2020
### Positive Trends for Young Farmers

- Local niche markets have increased in demand
- Rural renaissance - broadband internet is critical
- More women, minorities, boomerangers, veterans, first responders
- New ideas
- Accelerated transition - older, younger generation
- 21% of farmers have no next generation

### COVID-19 The Black Swan Disruptor - Positives for Agriculture

- Importance of a diversified safe food, fiber & fuel source - basics of life
- Reassurance of transparency in where food is produced, processed & distributed
- Healthy soil & water
  - Plants, humans, animals & environment
- Niche markets, U.S. & globally
- Repositioning of the image of agriculture
Management Mindsets for the 2020s

Four Pillars of the Business Model of the Future

**Four Pillars:**

**Resilient**
- know cost of production
- marketing & risk management program
- capital/equity borrowing capacity

**Agile**
- working capital
- market for product
- optimization/efficiency vs. diversification/resiliency

**Entrepreneurial / Innovative**
- “people first” business
- invest in people
- align with rapidly changing marketplace
- quarterly sprints/journey of sustainability

**Strong Business IQ**
- high scores in all 15 areas
- plan, strategize, execute & monitor
- written plan for improvement
- dashboards

Which pillar is more important?
Aligning with Mindsets

**Producer A**
- How do I compare?
- What are others doing?
- think longer term & what is on the horizon

**Producer B**
- Will a lender finance me?
- Will I survive for another year?
- often a know it all or victim

School vs. Real World Perspective:
In school, you get the lesson first, then the test.
In the real world, you get the test first, then the lesson.

Management Assessment

**Greens**
- adaptive to a situation- proactive
- 5% rule
- get efficient before getting bigger
- sweat the small stuff
- plan, strategize, execute & monitor
- process oriented
- advisory teams

**Yellows**
- success because of equity & history vs. profitability & cash flow
- preparing the next generation
- bigger before better, examine human horse power
- magic bullet- the next big thing

**Reds**
- waiting for prices & markets to save them
- excuse game, not my fault
- lose money, equity keeps them going
- 80/20 rule is alive & well
Business IQ Exercise

After completing the Business IQ: Management Factors Scorecard, what are three areas/points in your business that you will continue and three areas/points for improvement?

Three areas/points to continue:
• ____________________
• ____________________
• ____________________

Three areas/points to improve:
• ____________________
• ____________________
• ____________________
**Business IQ Summary: Areas to Continue/Improve**

**HUSBAND – BUS IQ: 53**
1. Irrigation/irrigate more
2. Pest control/pest management
3. Improve crop/livestock efficiency

**LENDER – BUS IQ: 35**
1. Crop production KPIs
2. Cash flow - extending current loan terms
3. Getting outside advice

**WIFE – BUS IQ: 39**
1. Record keeping - ratios, B/E
2. More seminars on ratio/break-even
3. Communications & employee knowledge of how the business works

**DAUGHTER – BUS IQ: 38**
1. Diversifying the farm in livestock
2. Searching for a new ag lender with better rates
3. Crop/livestock KPIs

**CFO – BUS IQ: 40**
1. Crop Production
2. Lease/rent equipment
3. Diversifying in livestock

---

**Financial Ratios Across Business IQ Percentiles**

### Debt/Total Asset

- **TOP 1/3**
  - Median: 17.45%  
  - Mean: 20.52%

- **MIDDLE 1/3**
  - Median: 28.70%  
  - Mean: 32.30%

- **BOTTOM 1/3**
  - Median: 58.20%  
  - Mean: 50.08%

*Preliminary Study of Kentucky Farm Business Management Association data - Ben Isaacs, Undergraduate Research Study at University of Kentucky*
Financial Ratios Across Business IQ Percentiles

Preliminary Study of Kentucky Farm Business Management Association data - Ben Isaacs, Undergraduate Research Study at University of Kentucky

Financial Ratios Across Business IQ Percentiles

Net Farm Income

Preliminary Study of Kentucky Farm Business Management Association data - Ben Isaacs, Undergraduate Research Study at University of Kentucky
Characteristics That Are Important to Agricultural Producers for Resiliency & Agility

Poll results from 976 ag lenders - Summer 2020

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know cost of production</td>
<td>62%</td>
</tr>
<tr>
<td>Execute a marketing risk management plan</td>
<td>58%</td>
</tr>
<tr>
<td>Strong working capital</td>
<td>41%</td>
</tr>
<tr>
<td>Modest living</td>
<td>29%</td>
</tr>
<tr>
<td>Positive, proactive attitude</td>
<td>29%</td>
</tr>
<tr>
<td>High equity to debt ratio</td>
<td>28%</td>
</tr>
<tr>
<td>Use an advisory team</td>
<td>21%</td>
</tr>
<tr>
<td>Good communications</td>
<td>16%</td>
</tr>
</tbody>
</table>

What Specific Actions Are You Taking in Your Business, Family & Personal Life for Resiliency & Agility?
(300 Kansas Farm & Ranch Women Selected Top 3)

<table>
<thead>
<tr>
<th>Specific Action</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refining budgets on cost of production &amp; break-evens</td>
<td>30%</td>
</tr>
<tr>
<td>Executing a marketing &amp; risk management plan</td>
<td>16%</td>
</tr>
<tr>
<td>Building cash and working capital</td>
<td>41%</td>
</tr>
<tr>
<td>Increased communications with lenders, suppliers &amp; family members</td>
<td>22%</td>
</tr>
<tr>
<td>Utilize a team of advisors (lender, crop/livestock specialists, financial advisors, etc.)</td>
<td>21%</td>
</tr>
<tr>
<td>Refining family living budget</td>
<td>39%</td>
</tr>
<tr>
<td>Reexamining your goals - business, family &amp; personal</td>
<td>68%</td>
</tr>
<tr>
<td>Exploring more local markets and value-added opportunities</td>
<td>29%</td>
</tr>
</tbody>
</table>
The Family Business in Your Future Checklist

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is the business profitable? (Be careful of tax records!)</td>
<td></td>
</tr>
<tr>
<td>2. Have you completed a resource assessment? Is the equipment &amp; machinery rusted, worn out, etc.? What about quality of land and water resources?</td>
<td></td>
</tr>
<tr>
<td>3. What are the siblings roles?</td>
<td></td>
</tr>
<tr>
<td>4. Is enough net income generated to support family/families?</td>
<td></td>
</tr>
<tr>
<td>5. Does the operation meet the Mom/Dad, Grandma/Grandpa 50% rule?</td>
<td></td>
</tr>
<tr>
<td>6. Where will parents live?</td>
<td></td>
</tr>
<tr>
<td>7. What are the skill sets of the stakeholders?</td>
<td></td>
</tr>
<tr>
<td>8. Is an asset transition or management transition plan in place? Which is better?</td>
<td></td>
</tr>
<tr>
<td>9. Is the family business using the bank of Mom &amp; Dad or a regular lender?</td>
<td></td>
</tr>
<tr>
<td>10. Is this a pilot enterprise?</td>
<td></td>
</tr>
</tbody>
</table>

The Feisty Fifteen: Problems Your Business Should Have (1)

- Your business pays lots of taxes.
  - find sweet spot of paying taxes vs. deductions
- Your lender wants to loan you money.
  - strong profits/cash flow
  - war chest for working capital - greater than 25% of operating expenses
- You have growth frustrations, just can’t grow fast enough.
  - overestimate capital and time by 25%
  - term debt to EBITDA < 5 to 1
  - working capital to debt service > 5 to 1
  - human horsepower & management acumen
- Everyone wants to work for you.
  - attract & retain the right people, including family members
  - be a work culture magnet
  - over compensate productive people
The Feisty Fifteen: Problems Your Business Should Have

(2)

- Your business has excess cash sitting around.
  - cash is queen
  - blocking capital in adversity
  - opportunity capital for purchases or acquisitions
- In a family business, the older generation suddenly wants to exit, and they have at least 50% of retirement income generated outside the business.
- You have time for family & friends when neighboring businesses don’t.
  - 2,500/500 hour rule
- You could walk away from the business for one month and it functions fine without you.
- You left money on the table when marketing this year’s crop or livestock.
- The younger generation spends too much time in the office on the computer and in the books.
- You must spend money for a facilitator and team of advisors for your transition/estate plan.

(3)

- Your neighbor comments that you spend too much time at seminars and conferences, and you have heard it all before.
- Even though you are financially successful you still spend time refining your written business plan.
- You don’t have to bring your personal checkbook to the business board meeting.
- Mom & Dad, Grandma & Grandpa are upset about those tough questions that you are asking in developing the business plan.
Wisdom for Well-being

- M.E.D.S. for life
  - Meditate
    - shut down the drama
    - hear the silence
    - platform of peace
  - Exercise
    - endorphins
    - routine
    - work & life balance
- Diet
  - physical health
  - feel guilty once in awhile
- Sleep
  - replenish the body

AND
- a positive support network
- financial net worth is not equal to self worth in life