

MAYER • BROWN

The State of Agribusiness



Financing, Deal Making and Prospects for 2012

April 3, 2012

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FINANCING, DEAL MAKING AND PROSPECTS FOR 2012

Global Overview of Agriculture Commodities as an Asset Class

Bruce Scherr

Chairman of the Board, Chief Executive Officer
Informa Economics

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FINANCING, DEAL MAKING AND PROSPECTS FOR 2012



Select US Trends That Make A Difference

- **“Take To The Bank”**
- **Formative**
- **Fading**

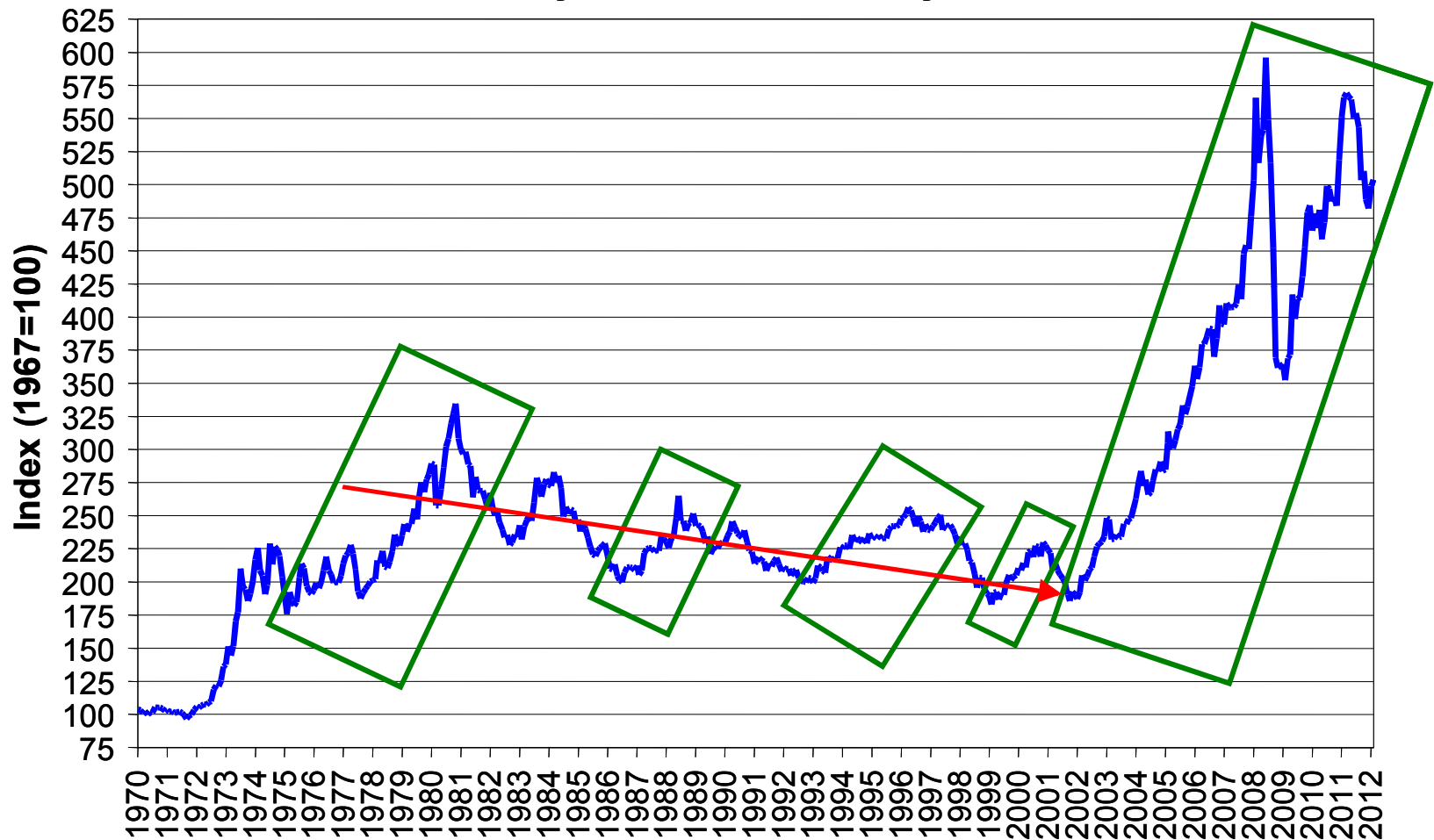


Commodities As An Asset Class: A Decade of Evidence

- **Relative Prices**
- **Inefficiency To Efficiency**
- **Returns To The Asset Class**



Monthly CRB Spot Index January 1970 – February 2012





Global Growth Engines

- **Synchronous Expansion**
- **Episodic Events**
- **Weak Industrial Nations**

World Macroeconomic Indicators

Indicator	2010	2011	2012	2013
Real Growth (% Chg.)				
World	4.4	2.9	2.5	2.9
OECD	3.0	1.6	1.3	2.0
Asia/NIC/Emerging *	9.4	7.5	6.6	6.4
Latin America	6.2	4.4	3.5	3.8
Eurozone	1.8	1.5	-0.5	0.9
Country Specific				
United States	3.0	1.7	2.2	2.5
Canada	3.2	2.5	2.5	2.6
United Kingdom	2.1	0.8	0.2	1.3
Japan	4.5	-0.9	1.0	1.6
China [Inflation Rate '11 5.4%]	10.4	9.3	8.0	7.4
India	8.8	7.6	7.5	7.3

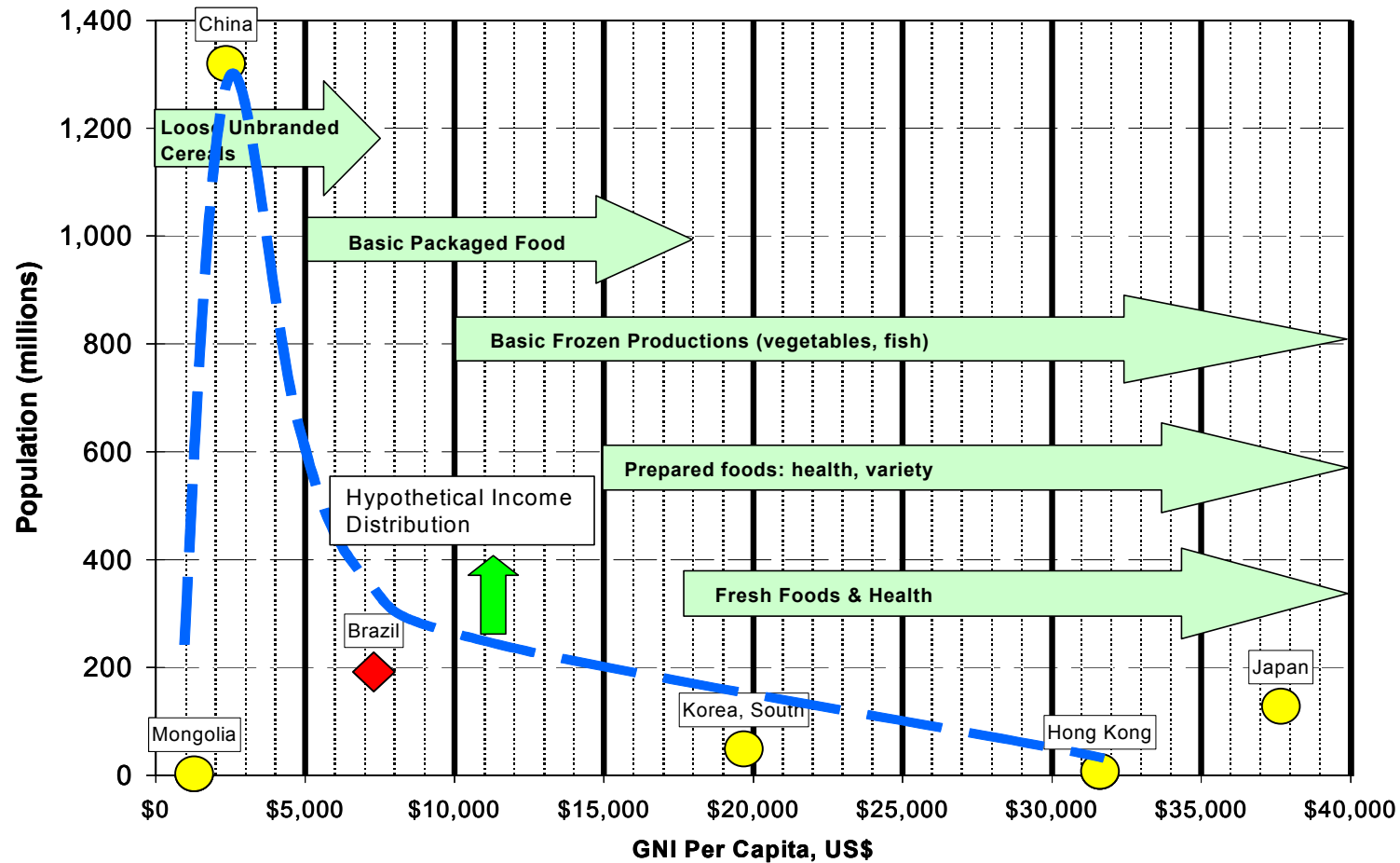
* Note Asia (NIC): Korea, Taiwan, Hong Kong, Singapore; NIC (Newly Industrialized).
Emerging: China, India, Indonesia, Malaysia, Thailand.



Food: A Case Study

The China Model For The World?

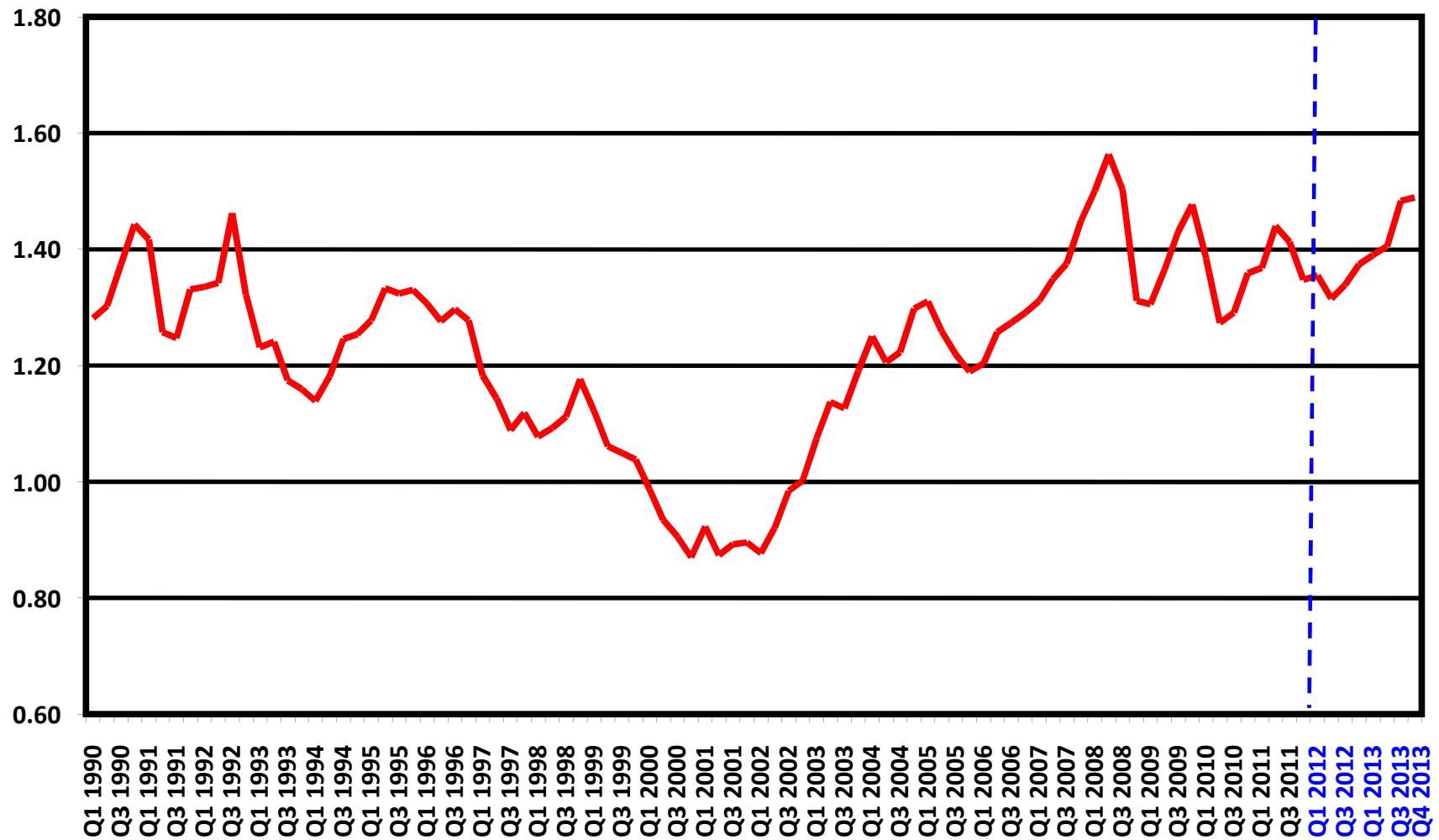
Trigger Levels of Gross National Income Per Capita for Different Types of Foods and the Potential Impact of China's Emerging Middle Class on Consumption





The Dollar: Still Relatively Weak

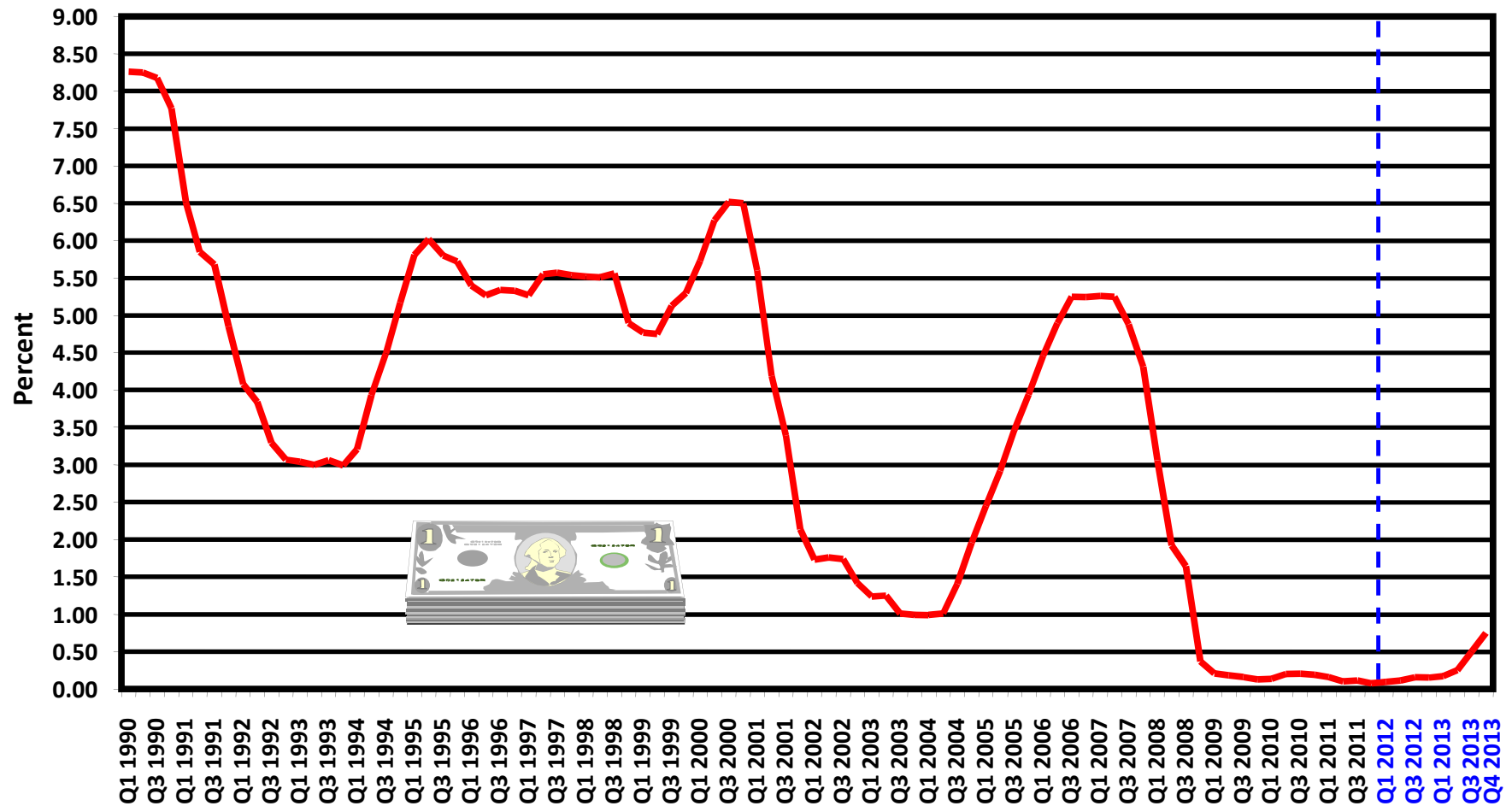
\$ / Euro





Low Interest Rates: When Is The Party Over?

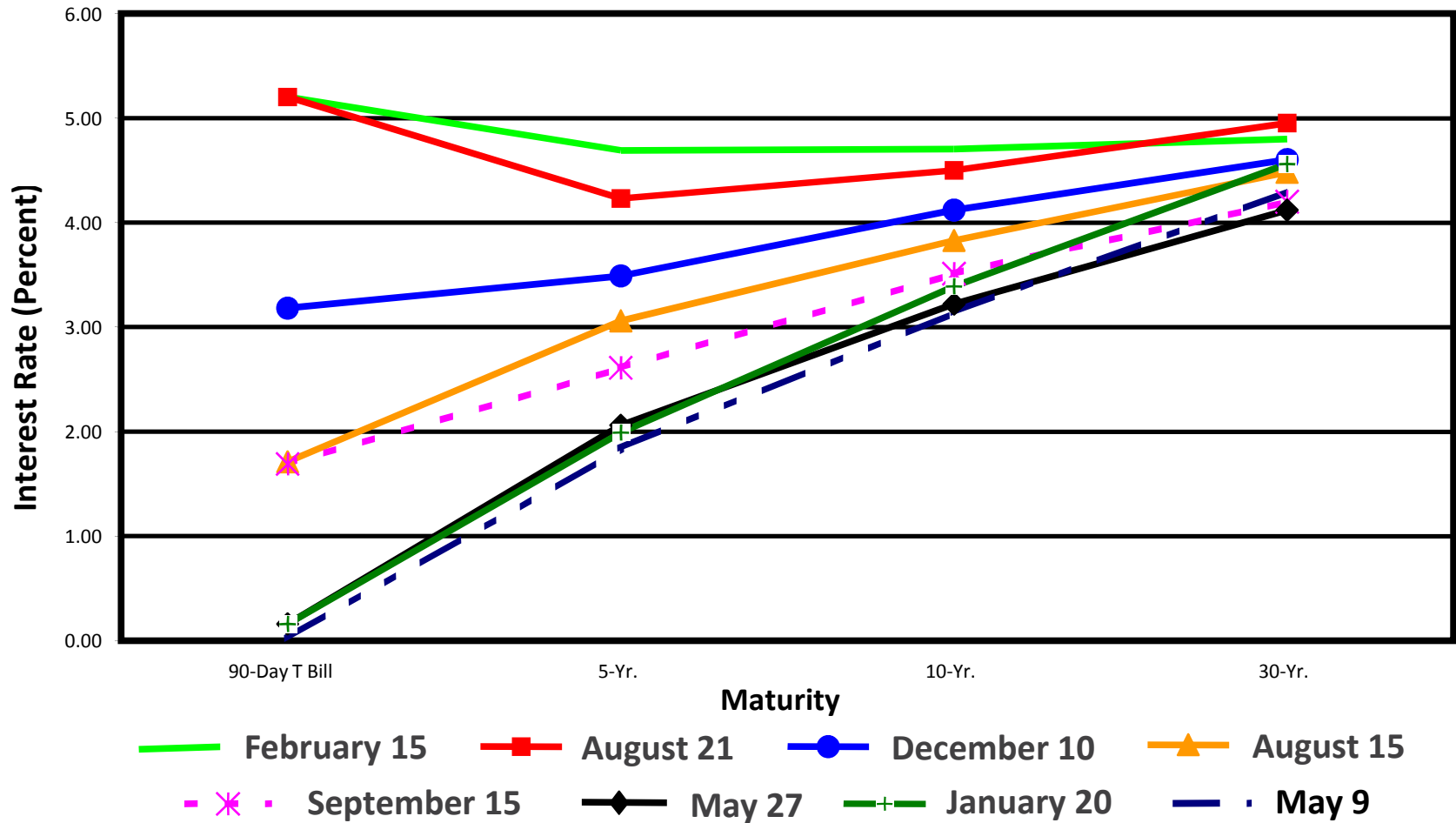
U.S. Federal Funds Rate



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

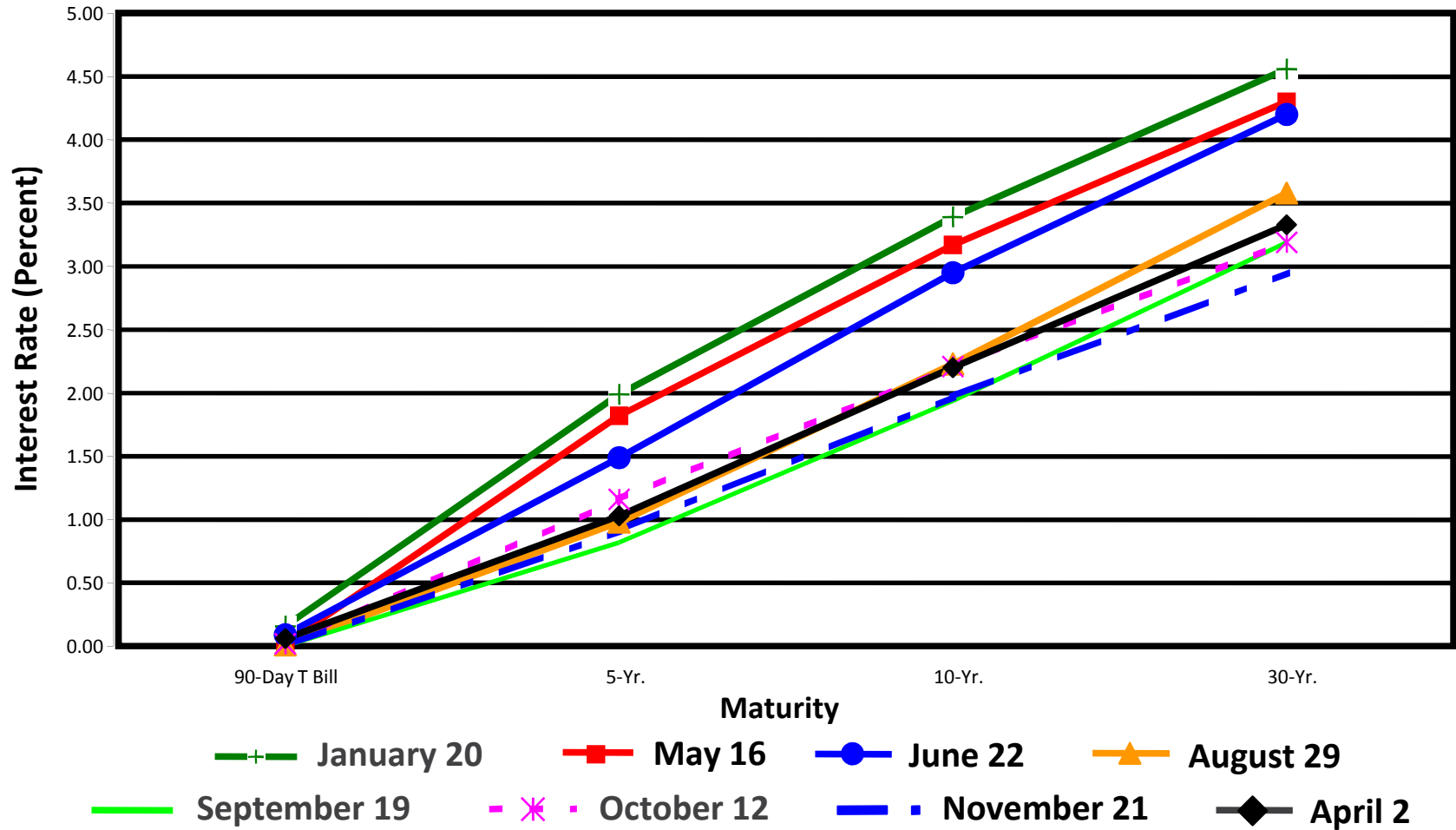
Yield Curve

Rates as of February 15, August 21 and December 10, 2007;
August 15 and September 15, 2008; May 27, 2010; January 20 and May 9, 2011



Yield Curve

Rates as of January 20, May 16, June 22, August 29, September 19, October 12 and November 21, 2011; and April 2, 2012





The US Livestock Sector Needs Export Markets

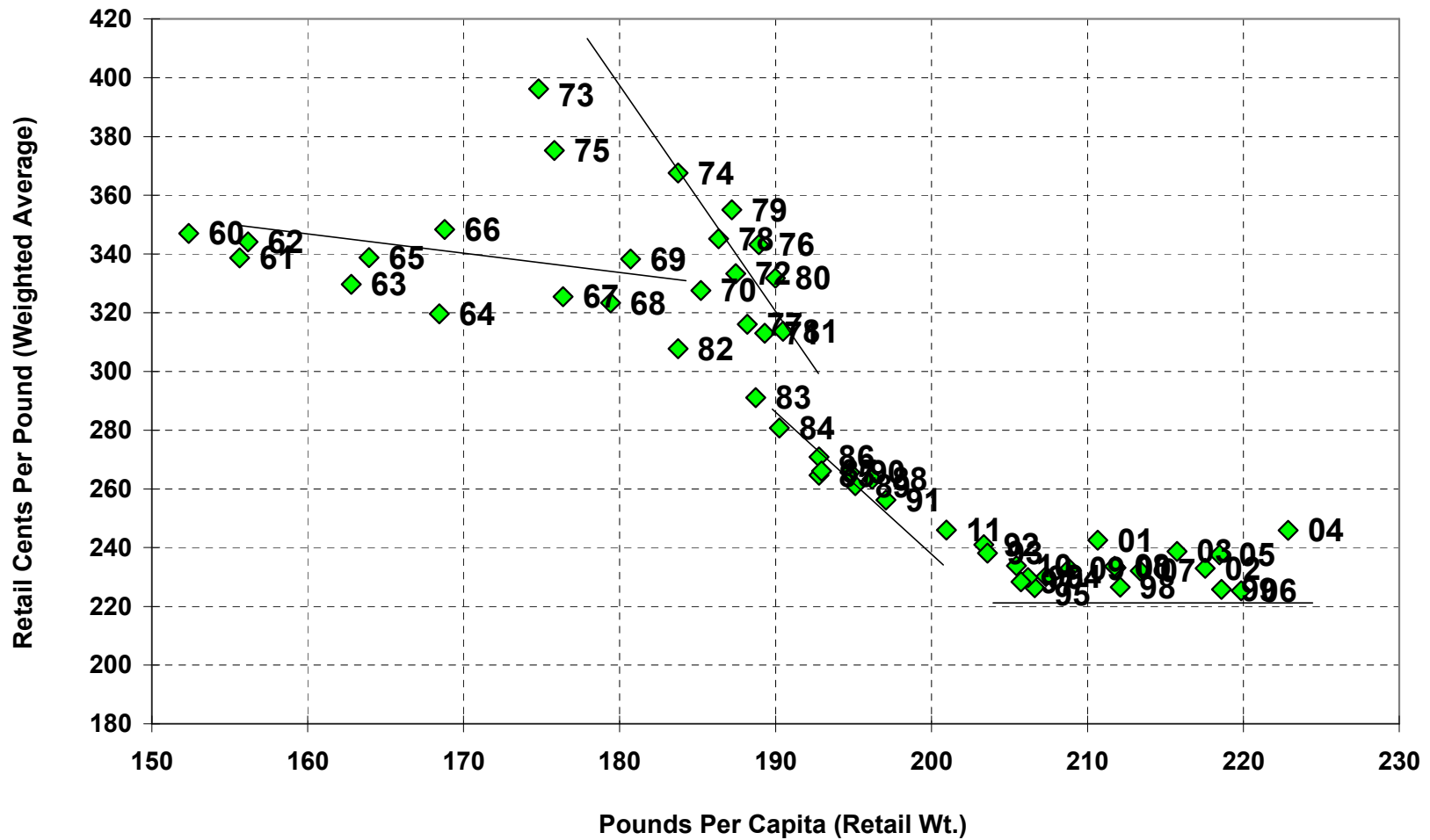


Red Meats and Poultry: Force Feeding The Domestic Market

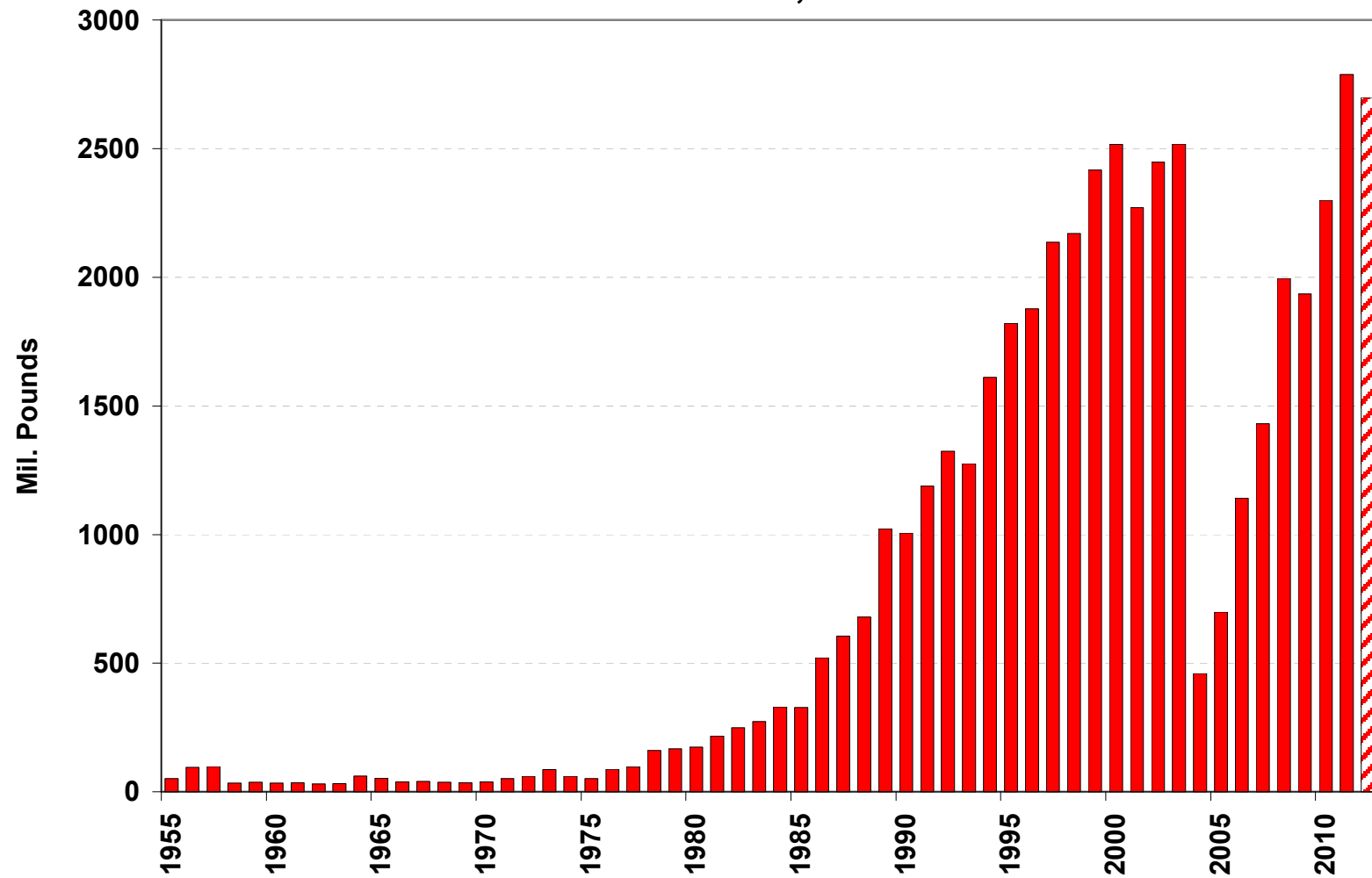
- **Demand Shifts**
- **Elasticity Changes**
- **Implications**

Total Meat Price-Quantity Relationship

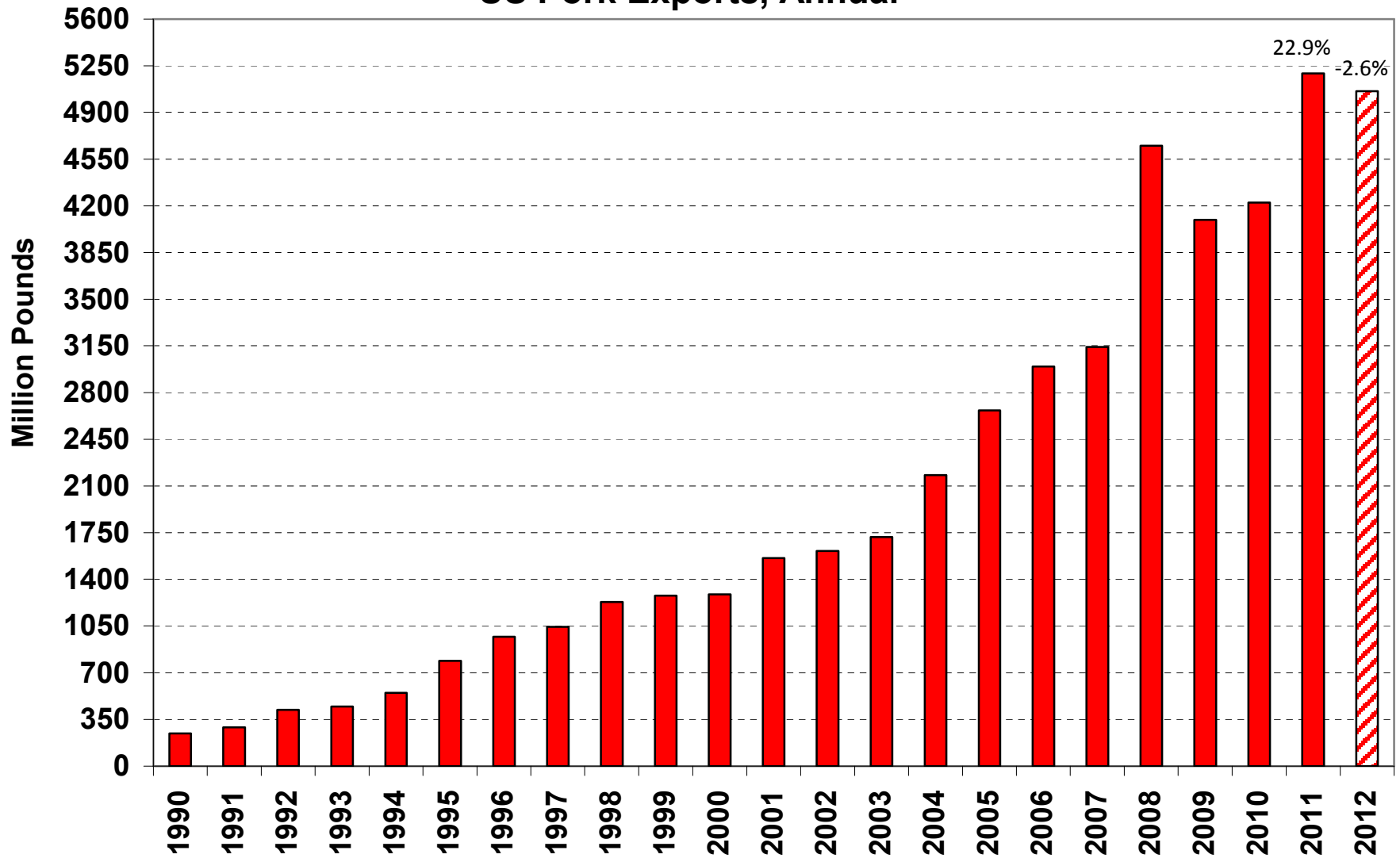
Annual, Wtd. Price Defl by GDP Deflator



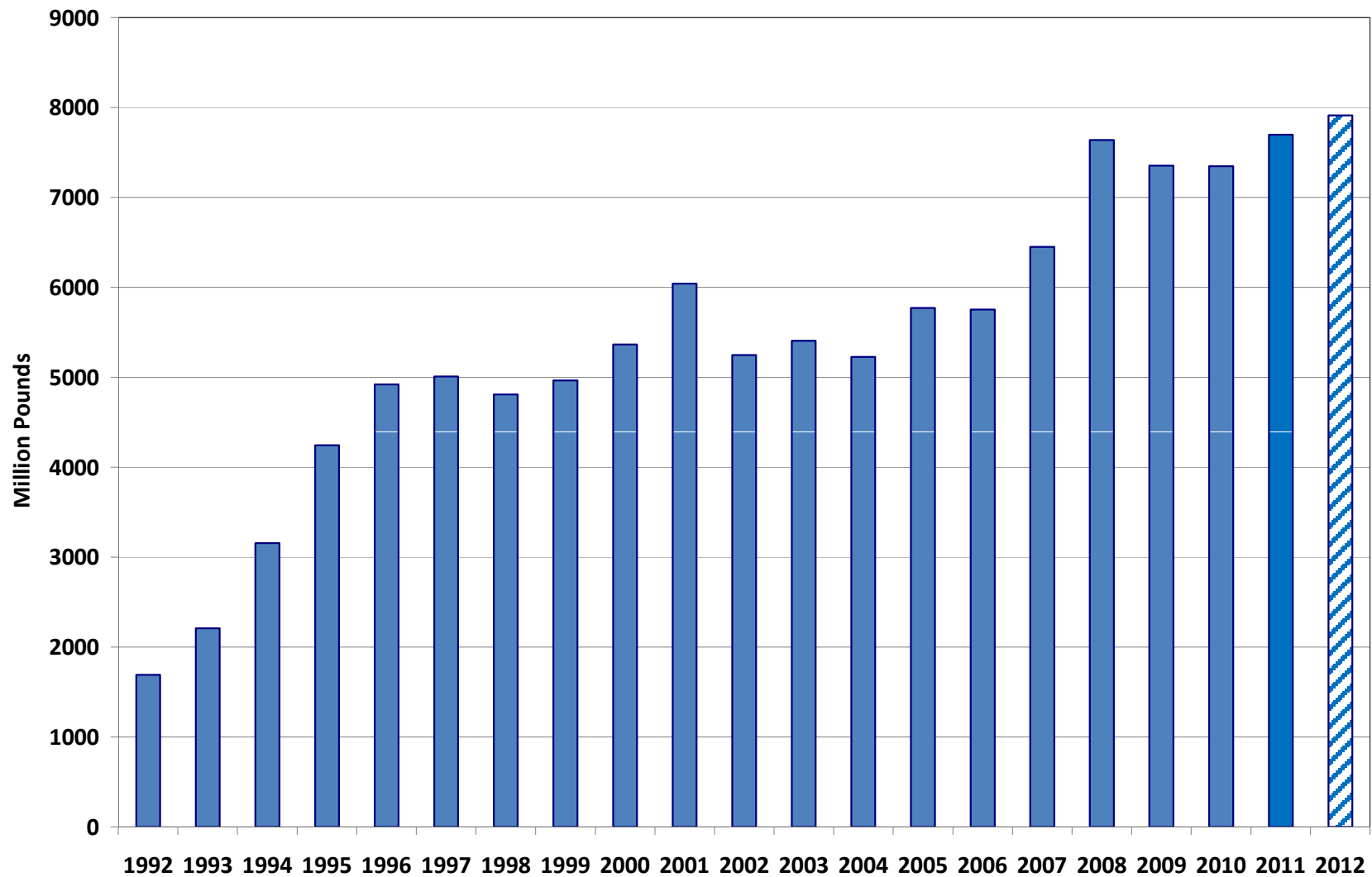
BEEF & VEAL EXPORTS CARCASS WEIGHT, ANNUAL



US Pork Exports, Annual



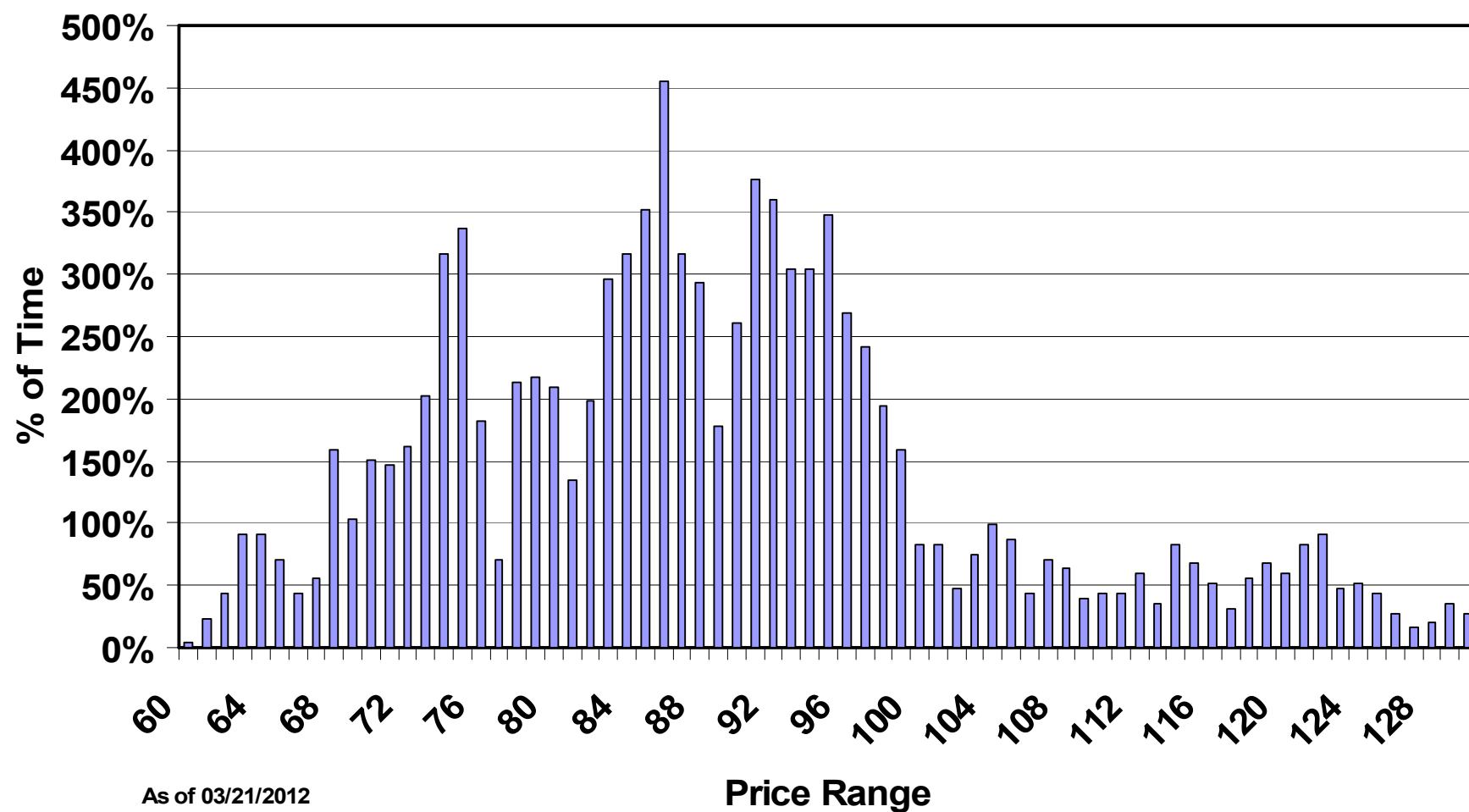
Total Poultry Exports



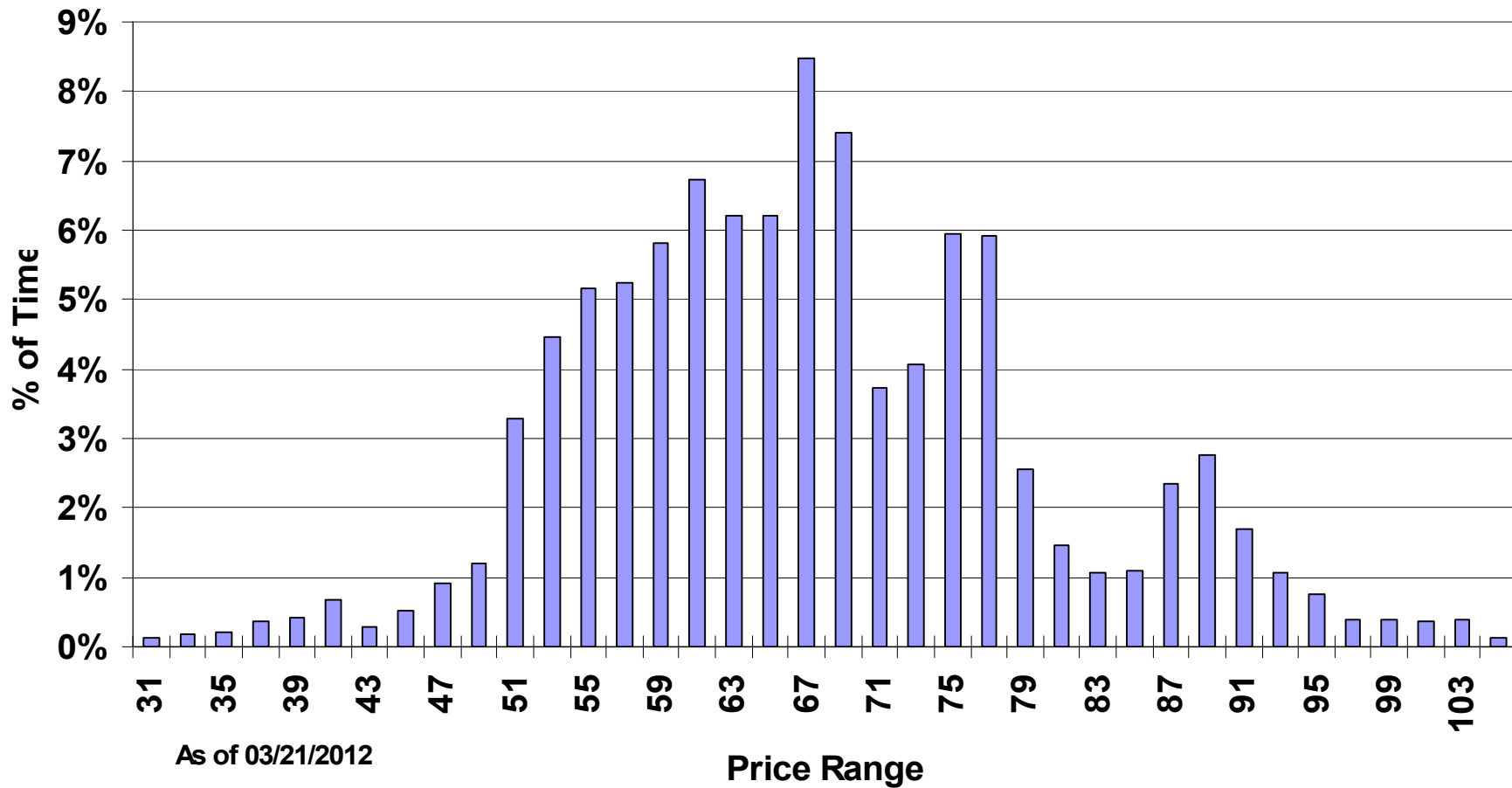


Prices and Distributions

Live Cattle Futures Price Distribution: 2001-Current

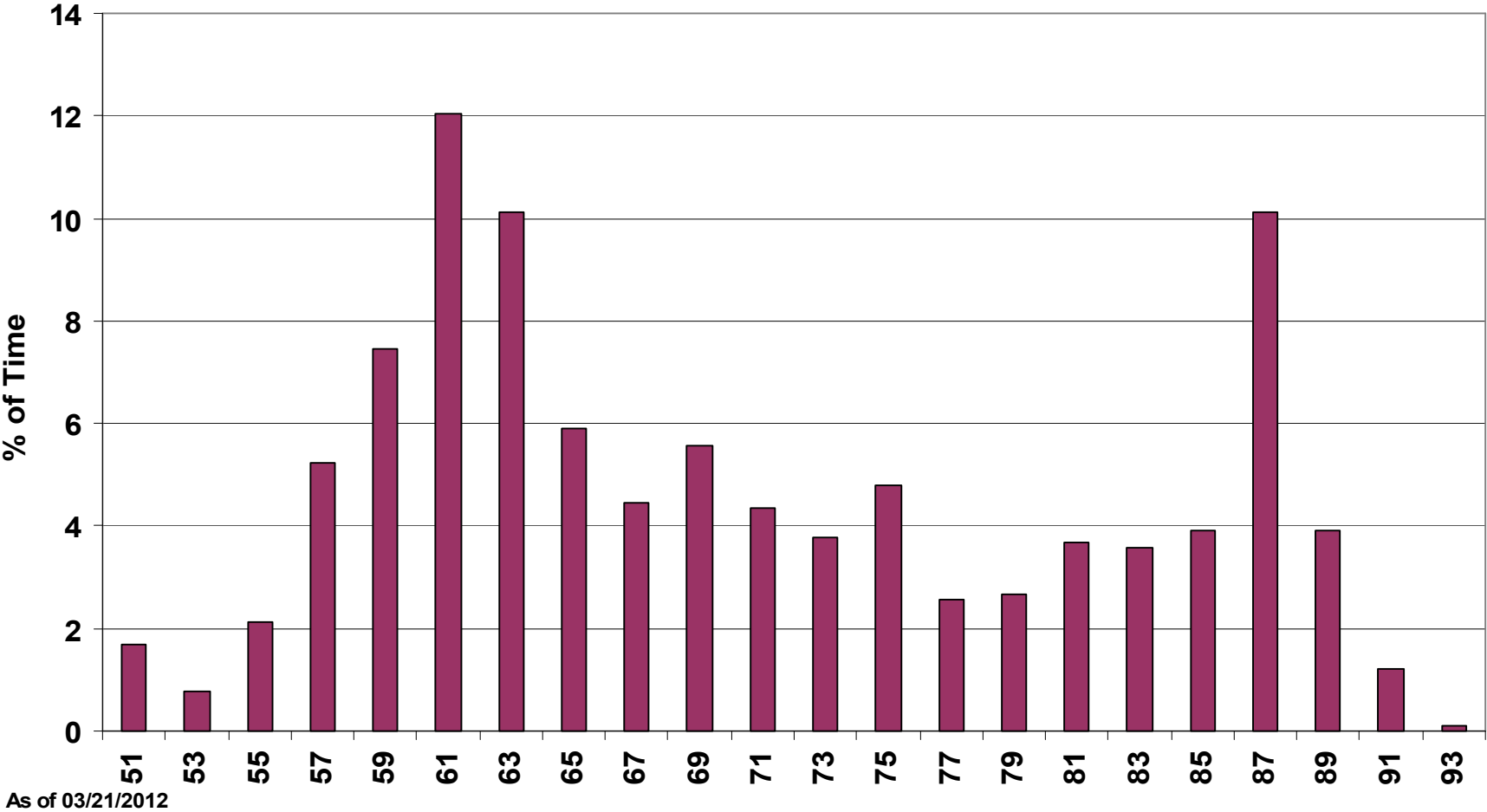


Chicago Hog Futures Price Distribution 2001-Current



Broilers Cash Price Distribution-1995-Current

Georgia Dock Average Weighted Price





US and Global Agriculture 2020-2040: A Productivity Challenge or Back to the Old Days



Imagine A World

With 2 to 3 Billion More People!

November 1, 2011

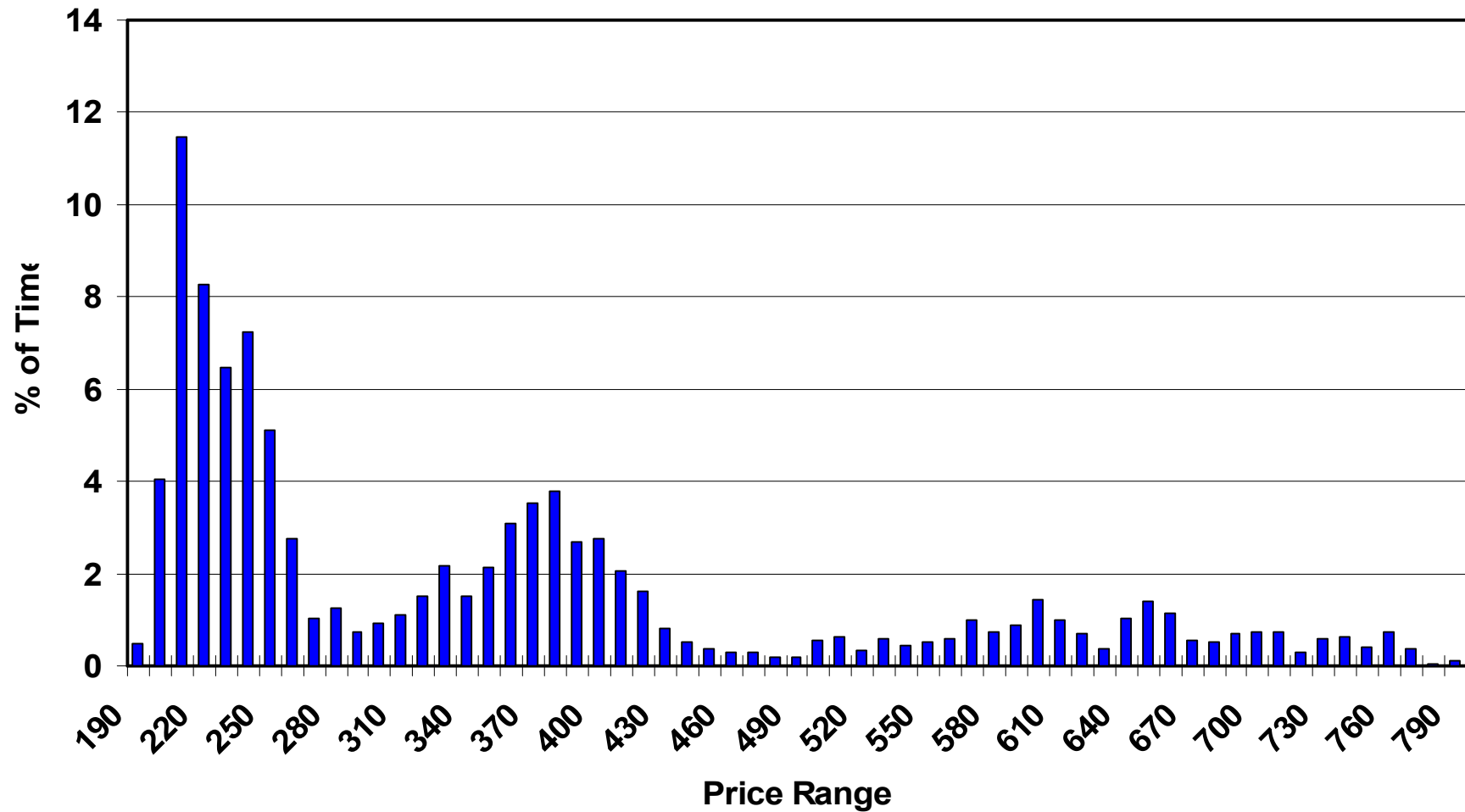
World Population Was 7 Billion



Price As A Motivator And Fertilizer

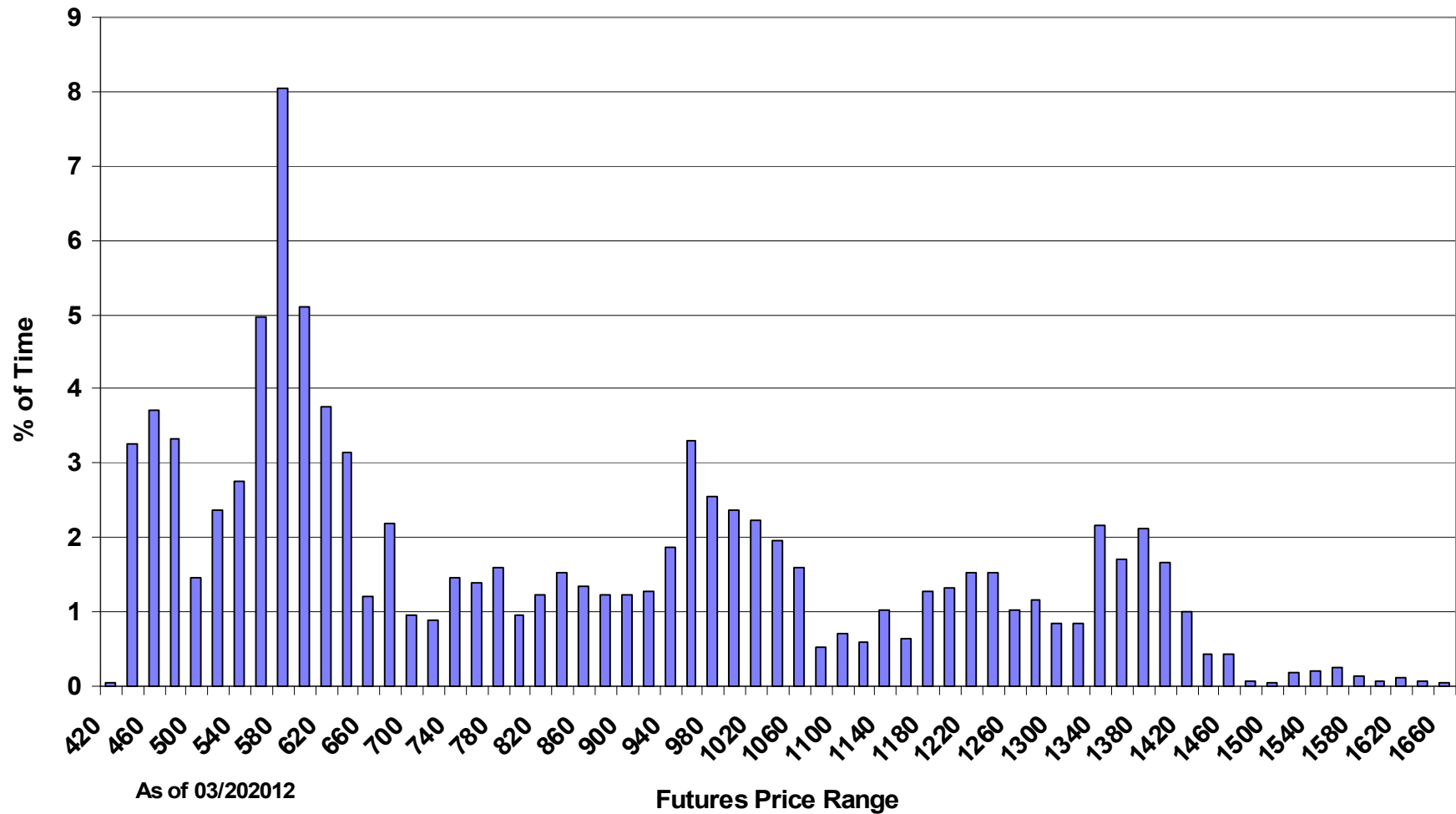
Question: Mean Reversions in Price

Corn Futures Price Distribution 2001-Current



As of 03/20/2012

Soybean Futures Price Distribution: 2001-Current



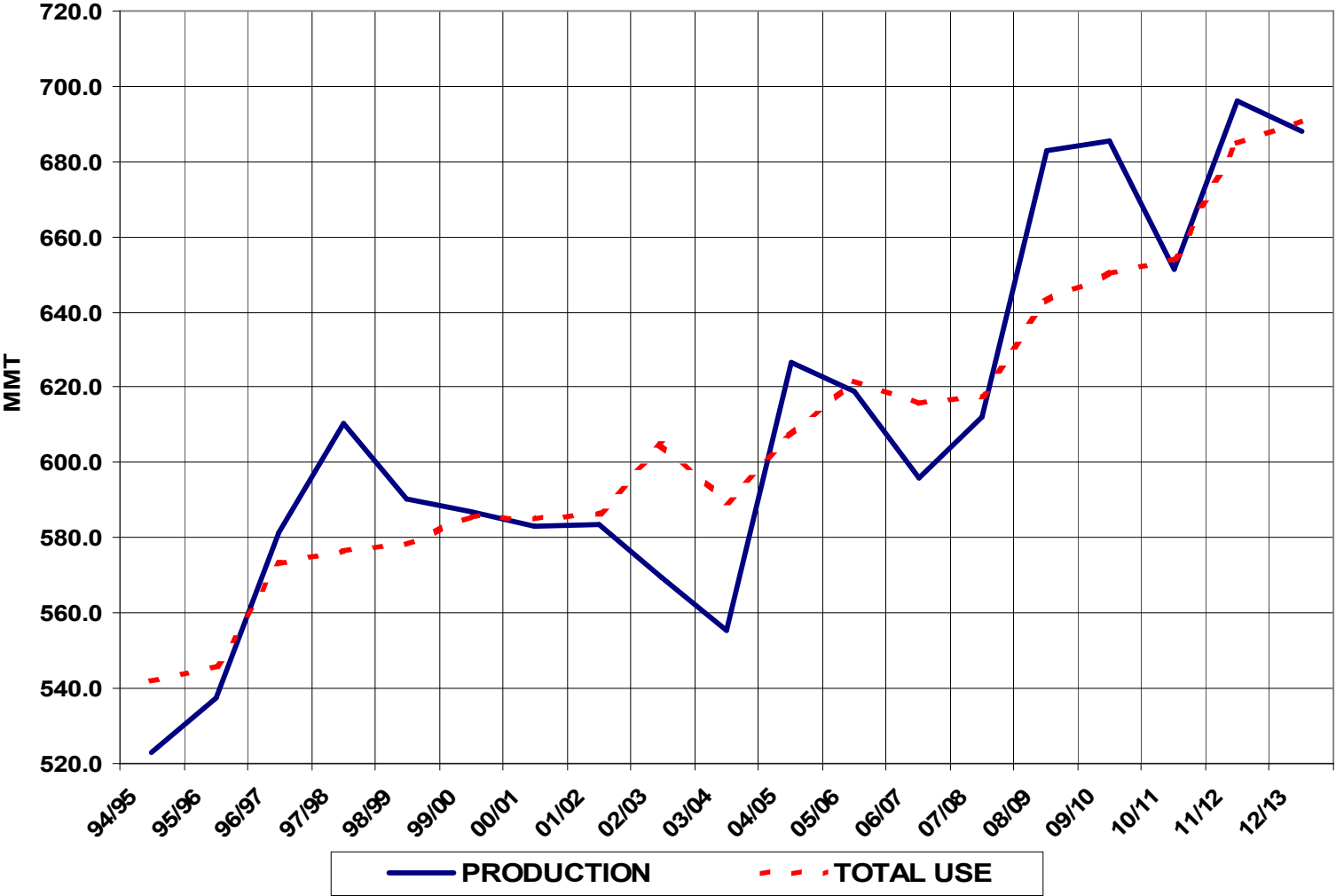


Demand Pull or Cost Push?

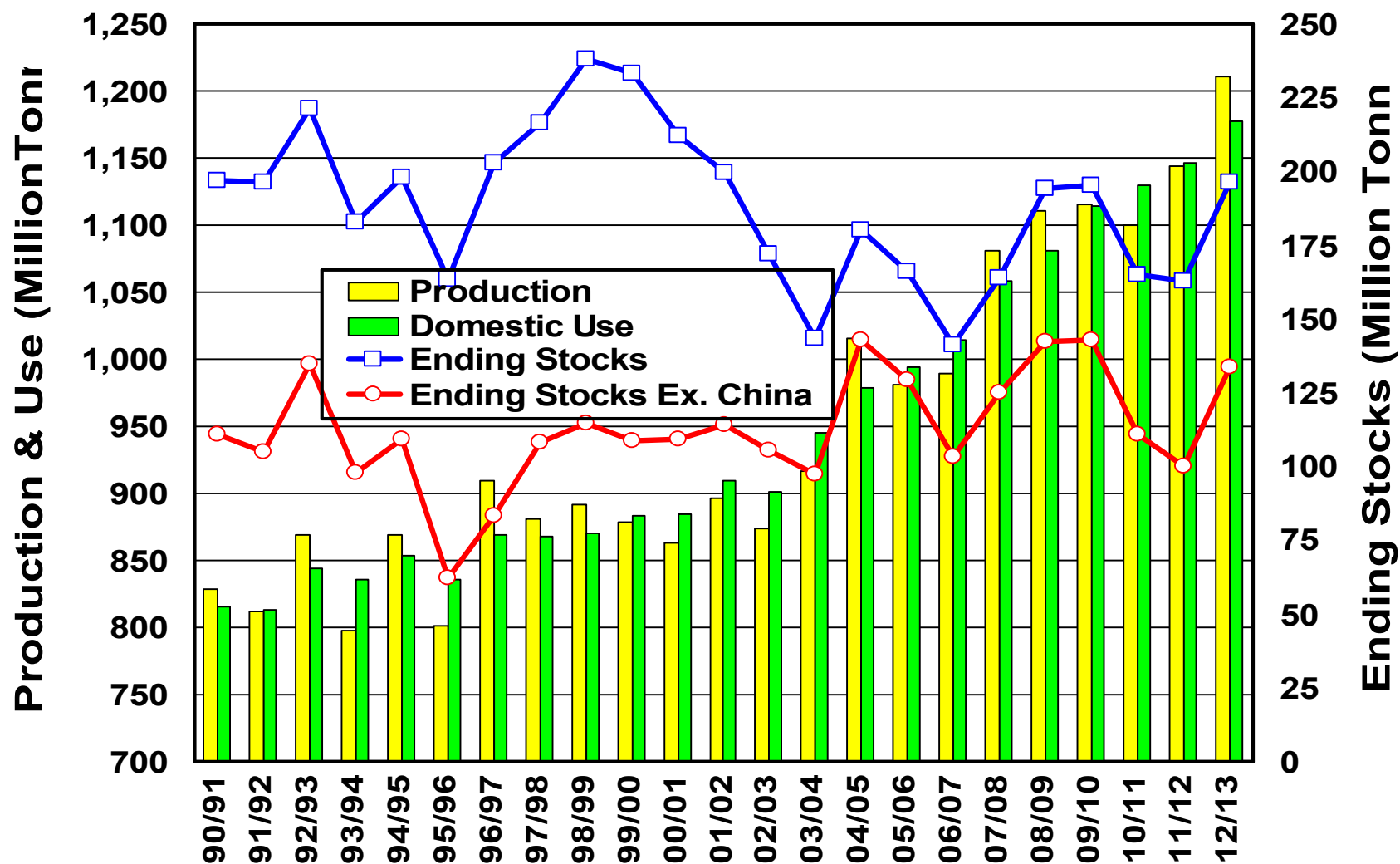


Grain Consumption Trends

GLOBAL WHEAT TRENDS

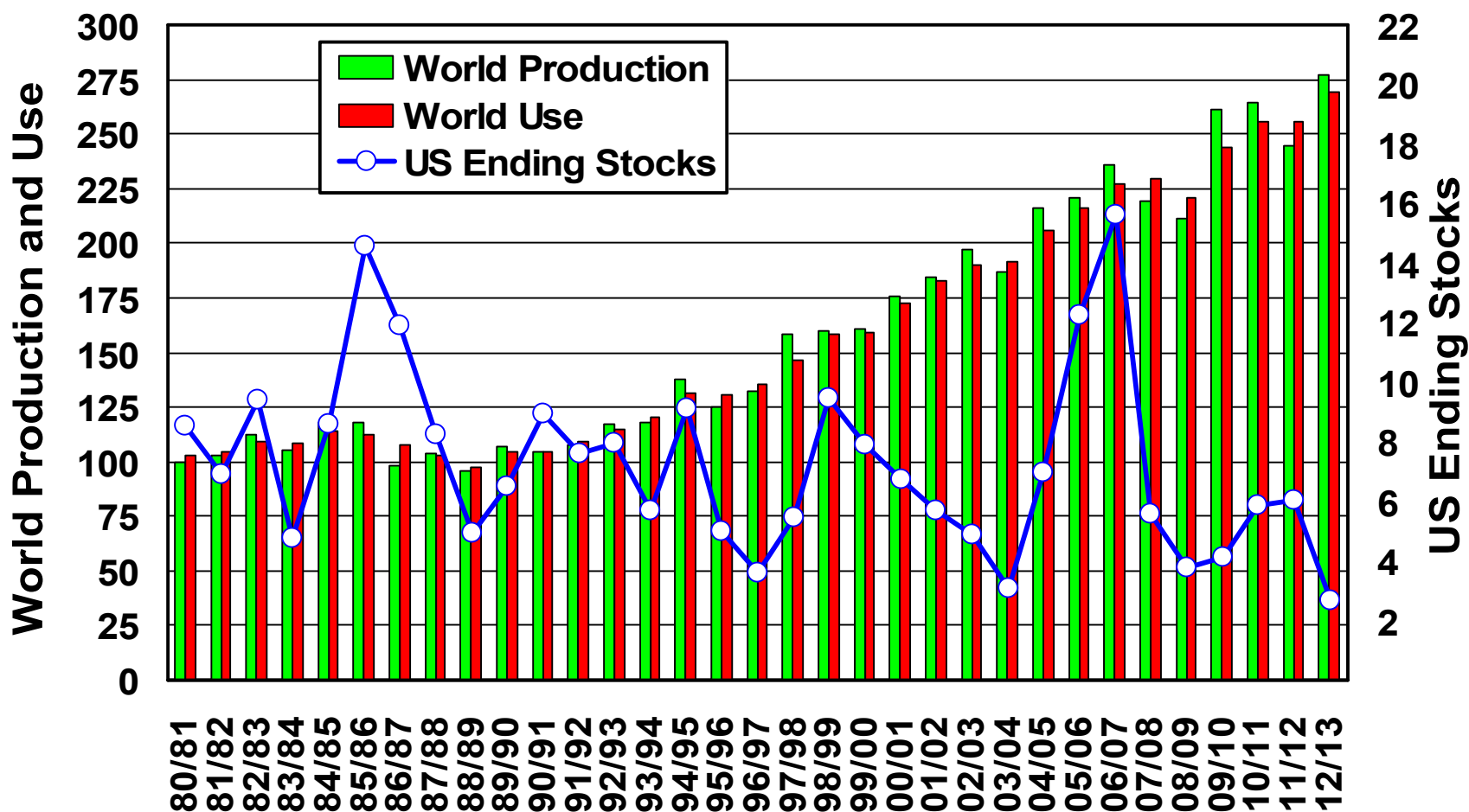


World Coarse Grains Production, Use & Ending Stocks



Soybean Supply and Demand

Million Tonnes



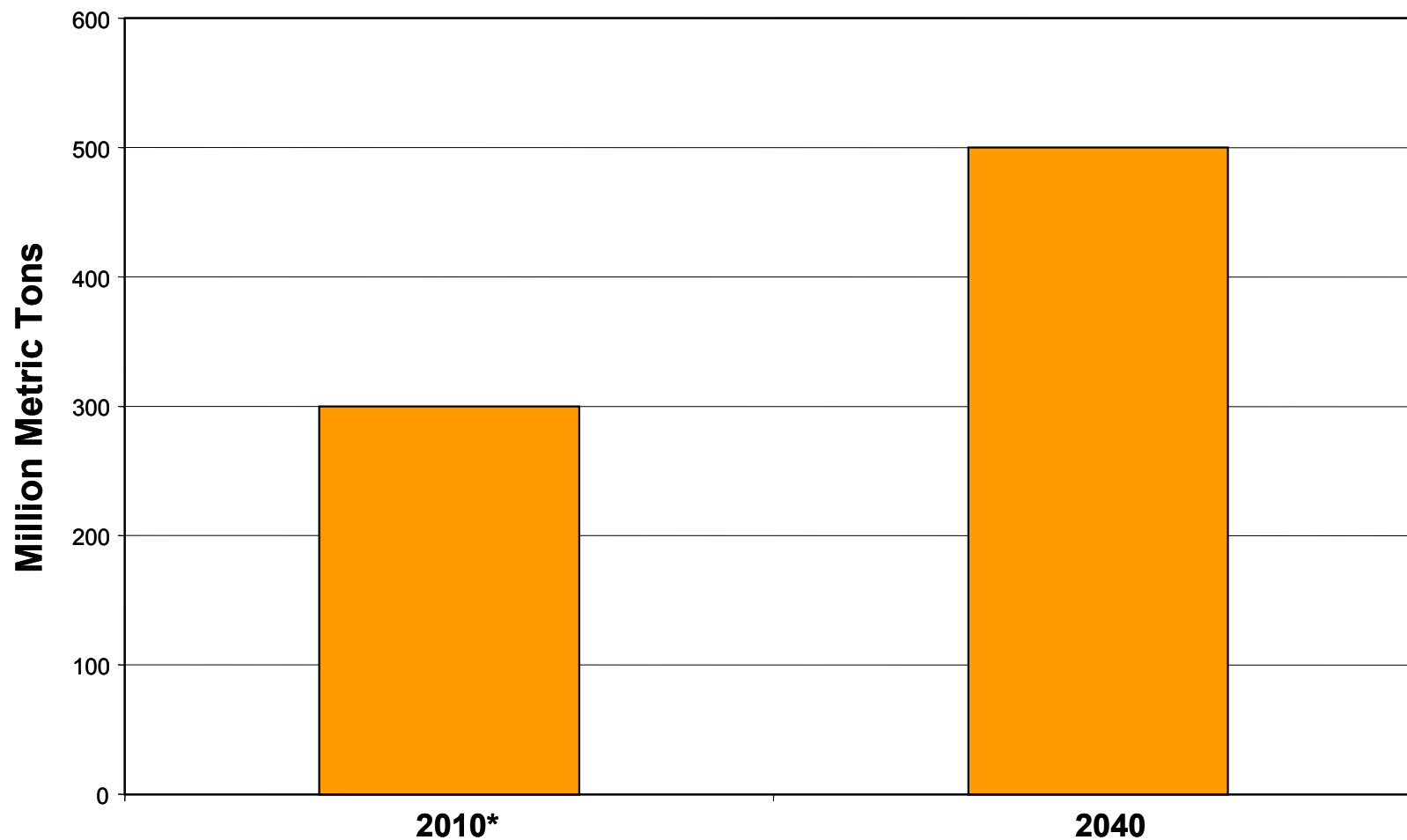


Looking Ahead Thirty Years



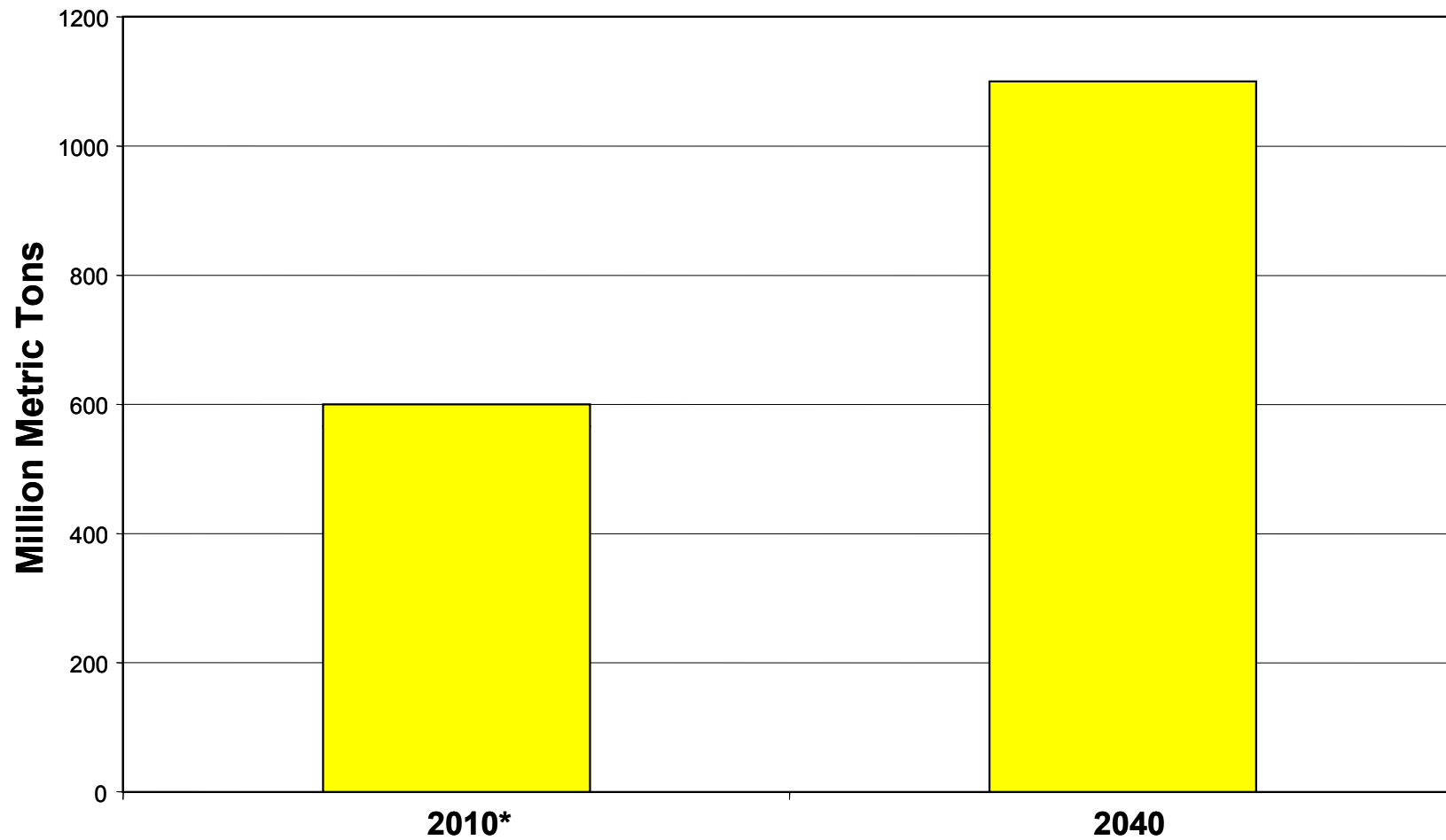
The Global Demand Pull For Grains and Oilseeds: More Meats, Poultry and Dairy!

World Meat and Poultry Consumption



*** Up 180 Million Metric Tons from 1980**

World Dairy Consumption



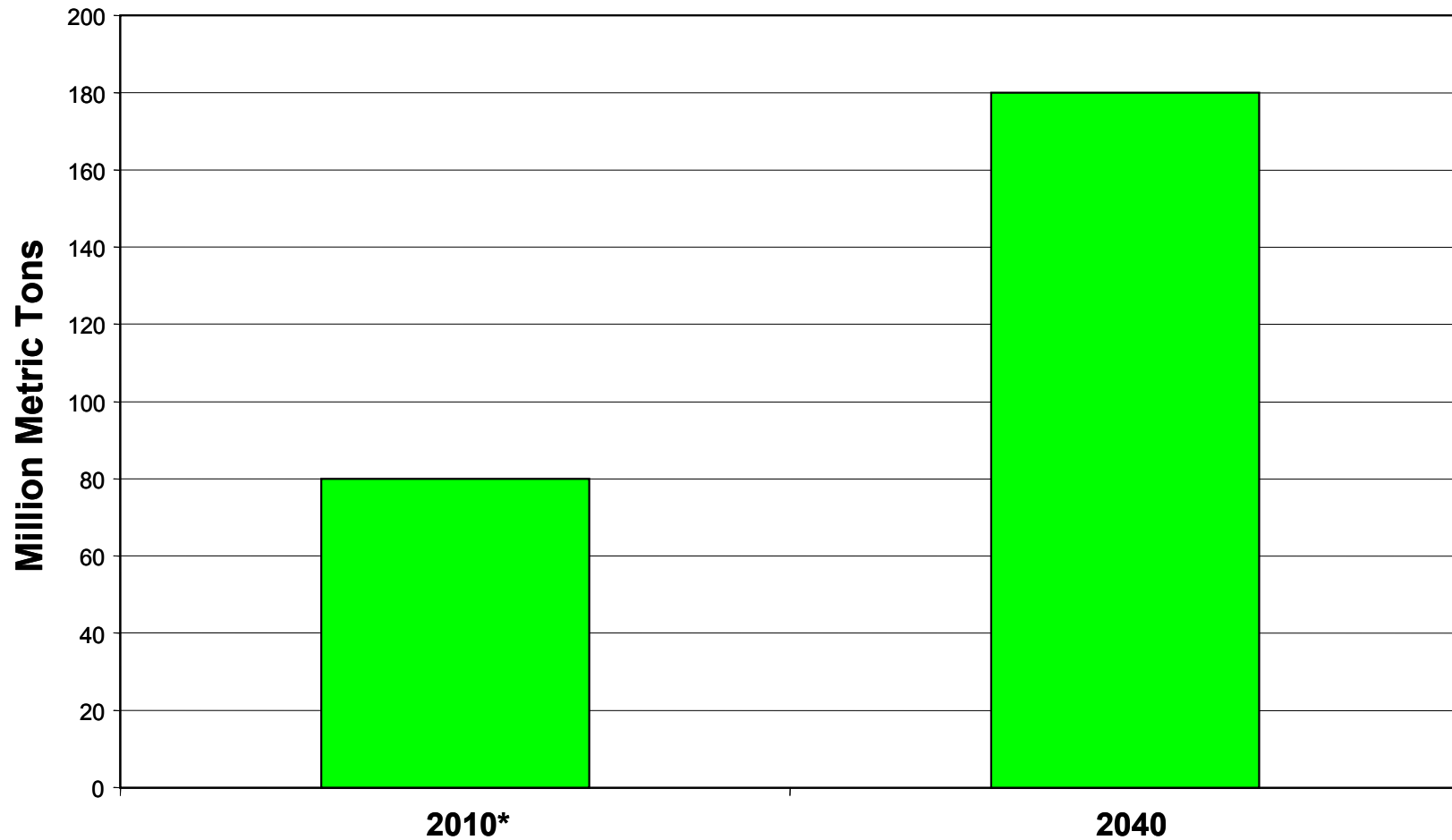
*** Up 300 Million Metric Tons from 1980**



Vegetable Oils

Food, Fuel and Renewable Chemicals

World Vegetable Oils Consumption



*** Up 50 Million Metric Tons from 1980**

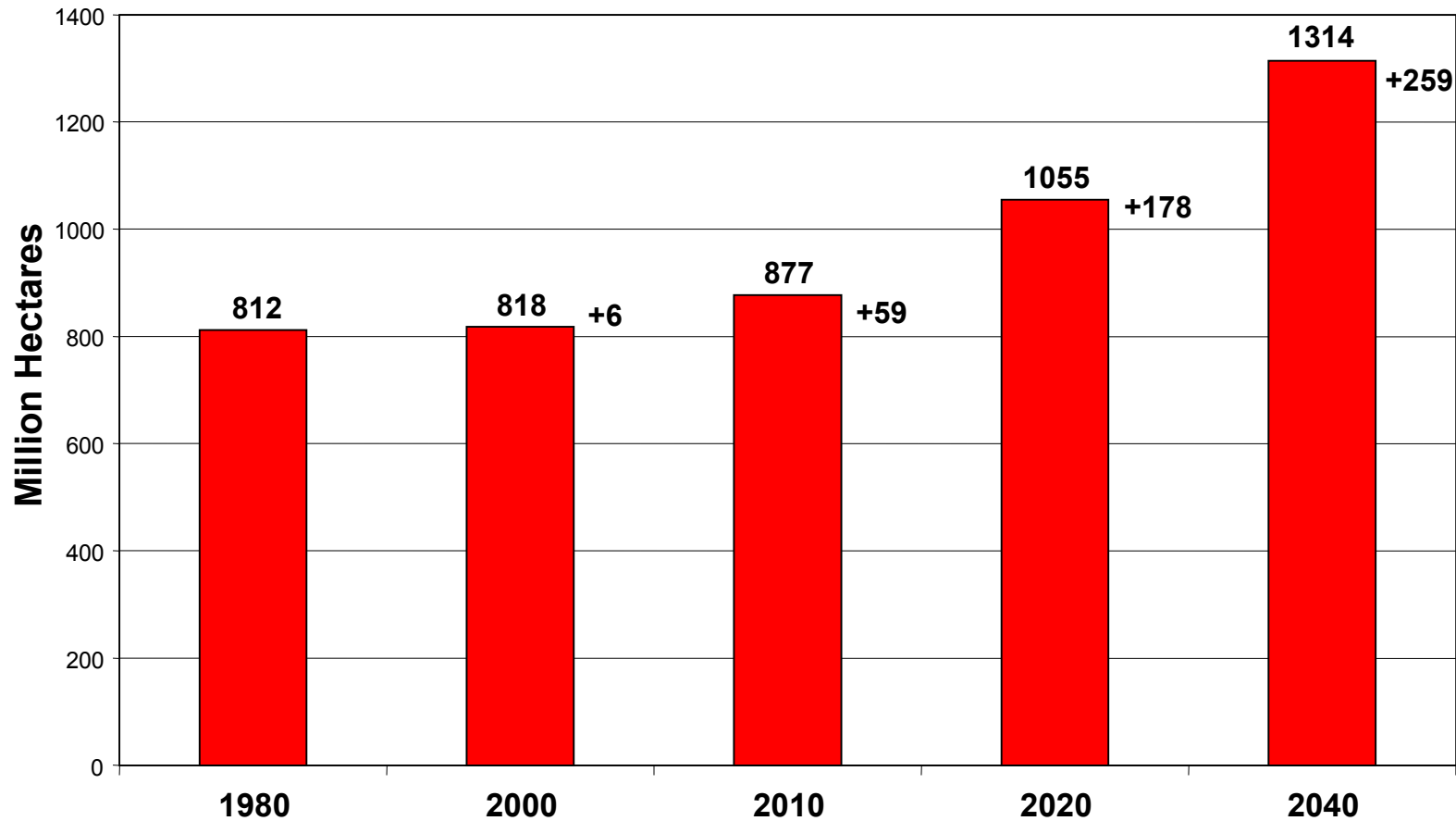


The Productivity Challenge



Can We Meet Our Production Needs By Land Additions, Alone?

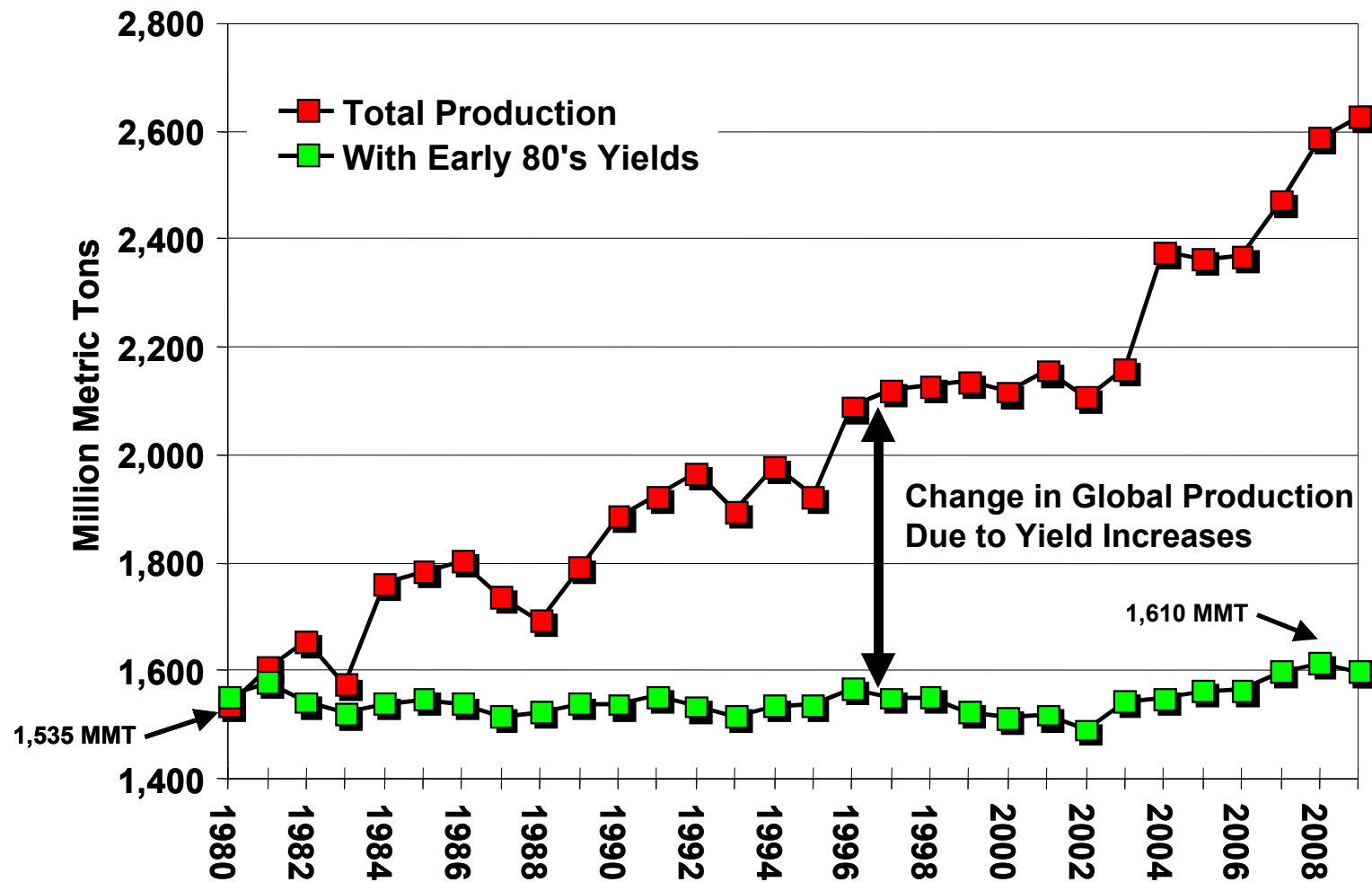
Meeting Production Requirements For Food Grains and Oilseeds with Added Cropland Assuming Recent Productivity and Technology Trends



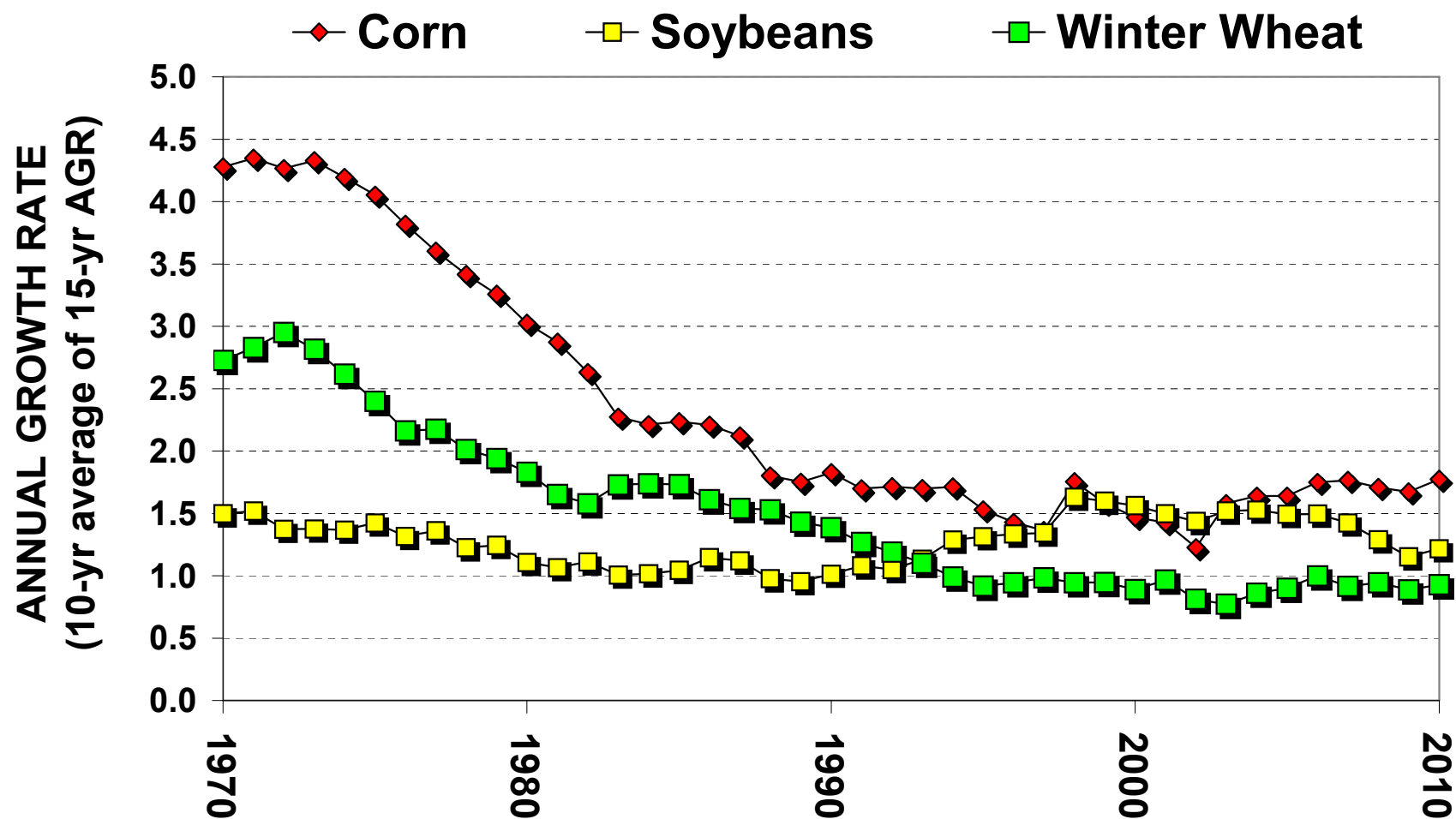


The Yield Challenge

World Crop Production, Grain and Oilseed



US Yield Growth Rate Over 4-Decades





US Corn and Soybean Balance Sheets: “New Tipping Points”



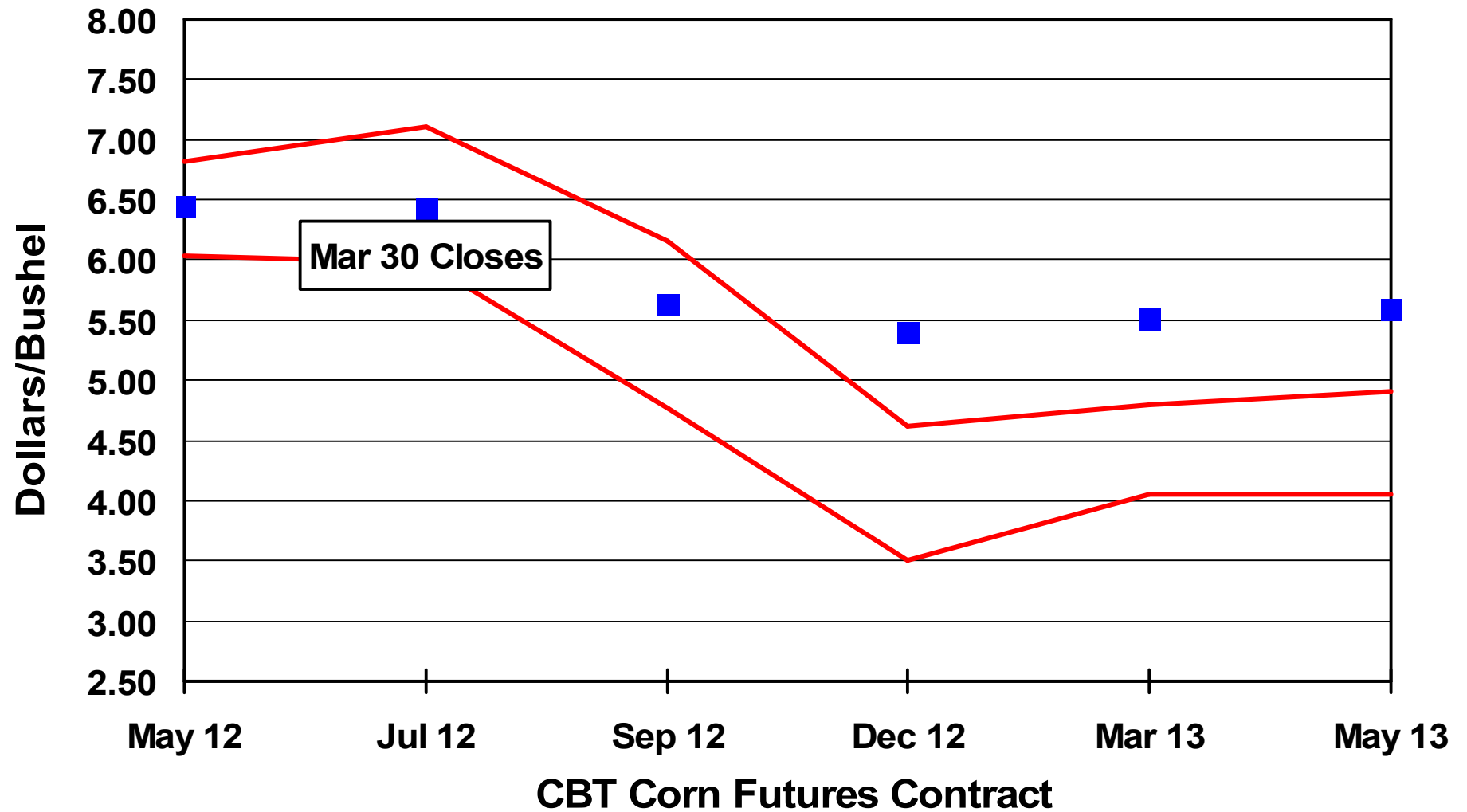
Corn

US Corn Supply and Demand

(Million Bushels/Million Acres)

	2008/09	2009/10	2010/11	2011/12		2012/13
				USDA	Informa	Informa
Planted Acres	86.0	86.4	88.2	91.9	91.9	96.4
Harvested Acres	78.6	79.5	81.4	84.0	84.0	88.7
Yield	153.9	164.7	152.8	147.2	147.2	163.5
Carryin	1,624	1,673	1,708	1,128	1,128	676
Production	12,092	13,092	12,447	12,358	12,358	14,507
Total Supply	13,729	14,774	14,182	13,506	13,506	15,203
Feed & Residual	5,182	5,125	4,793	4,600	4,650	5,250
Food/Seed/Ind	5,025	5,961	6,428	6,405	6,480	6,515
Ethanol for Fuel	3,709	4,591	5,021	5,000	5,075	5,100
Exports	1,849	1,980	1,835	1,700	1,700	1,650
Total Use	12,056	13,066	13,055	12,705	12,830	13,415
Carryout	1,673	1,708	1,128	801	676	1,788
Stocks/Use	13.9%	13.1%	8.6%	6.3%	5.3%	13.3%
Futures (\$/Bu.)	3.93	3.72	6.47		6.30	4.40
Farm Price (\$/Bu.)	4.06	3.55	5.18	5.90-6.50	6.10	4.05

Corn Futures Trading Range Forecast





Soybeans and Products

US Soybean Supply and Demand

(Million Bushels/Million Acres)

	2008/09	2009/10	2010/11	2011/12		2012/13
				USDA	Informa	Informa
Planted Acres	75.7	77.5	77.4	75.0	75.0	74.2
Harvested Acres	74.7	76.4	76.6	73.6	73.6	73.3
Yield	39.7	44.0	43.5	41.5	41.5	44.5
Carryin	205	138	151	215	215	234
Production	2,967	3,359	3,329	3,056	3,056	3,265
Total Supply	3,185	3,512	3,495	3,286	3,285	3,514
Crush	1,662	1,752	1,648	1,615	1,650	1,650
Exports	1,279	1,499	1,501	1,275	1,275	1,650
Seed	90	90	87	87	86	95
Residual	16	20	43	34	40	50
Total Use	3,047	3,361	3,280	3,011	3,051	3,445
Carryout	138	151	215	275	234	69
Futures (\$/Bu.)	10.15	9.76	13.13		13.05	14.45
Farm Price (\$/Bu.)	9.97	9.59	11.30	11.40-12.60	12.30	14.10

Brazil Soybean Complex

(1,000 Tonnes/1,000 Hectares)

	2009/10	2010/11	2011/12	2012/13
SOYBEANS				
Harvested Area	21,563	23,350	24,173	24,900
Yield	2.65	2.94	3.12	2.73
Production	57,200	68,700	75,300	68,000
Crush	30,779	35,701	37,633	36,000
Exports	28,204	29,332	34,147	31,000
SOYBEAN MEAL				
Domestic Use	11,365	12,366	13,835	13,952
Exports	12,357	14,725	14,727	13,500
SOYBEAN OIL				
Food Use	3,257	3,441	3,734	3,798
Biodiesel	1,137	1,751	1,842	1,962
Exports	1,581	1,810	1,732	1,400

Argentina Soybean Complex

(1,000 Tonnes/1,000 Hectares)

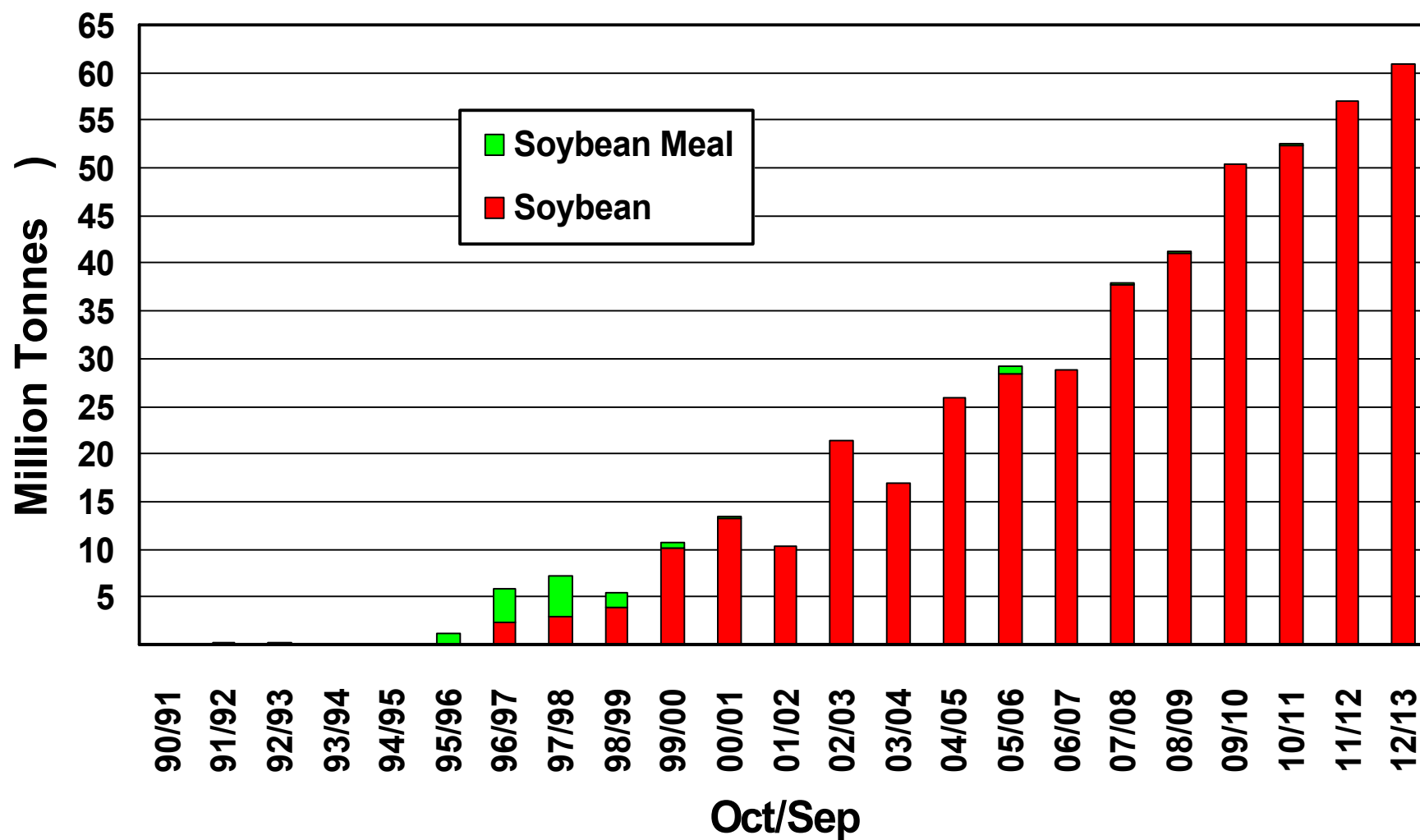
	2009/10	2010/11	2011/12	2012/13
SOYBEANS				
Harvested Area	16,768	18,131	18,600	18,600
Yield	1.85	3.01	2.69	2.55
Production	30,993	54,500	50,000	47,500
Imports	157	0	13	0
Crush	28,555	39,196	37,750	38,000
Exports	3,486	13,701	10,405	9,500
SOYBEAN MEAL				
Domestic Use	1,231	1,719	1,540	1,566
Exports	21,309	28,384	28,000	28,000
SOYBEAN OIL				
Food Use	270	326	237	301
Biodiesel	1,418	1,965	2,643	2,731
Exports	3,709	5,180	4,325	4,200

China Soybean Complex

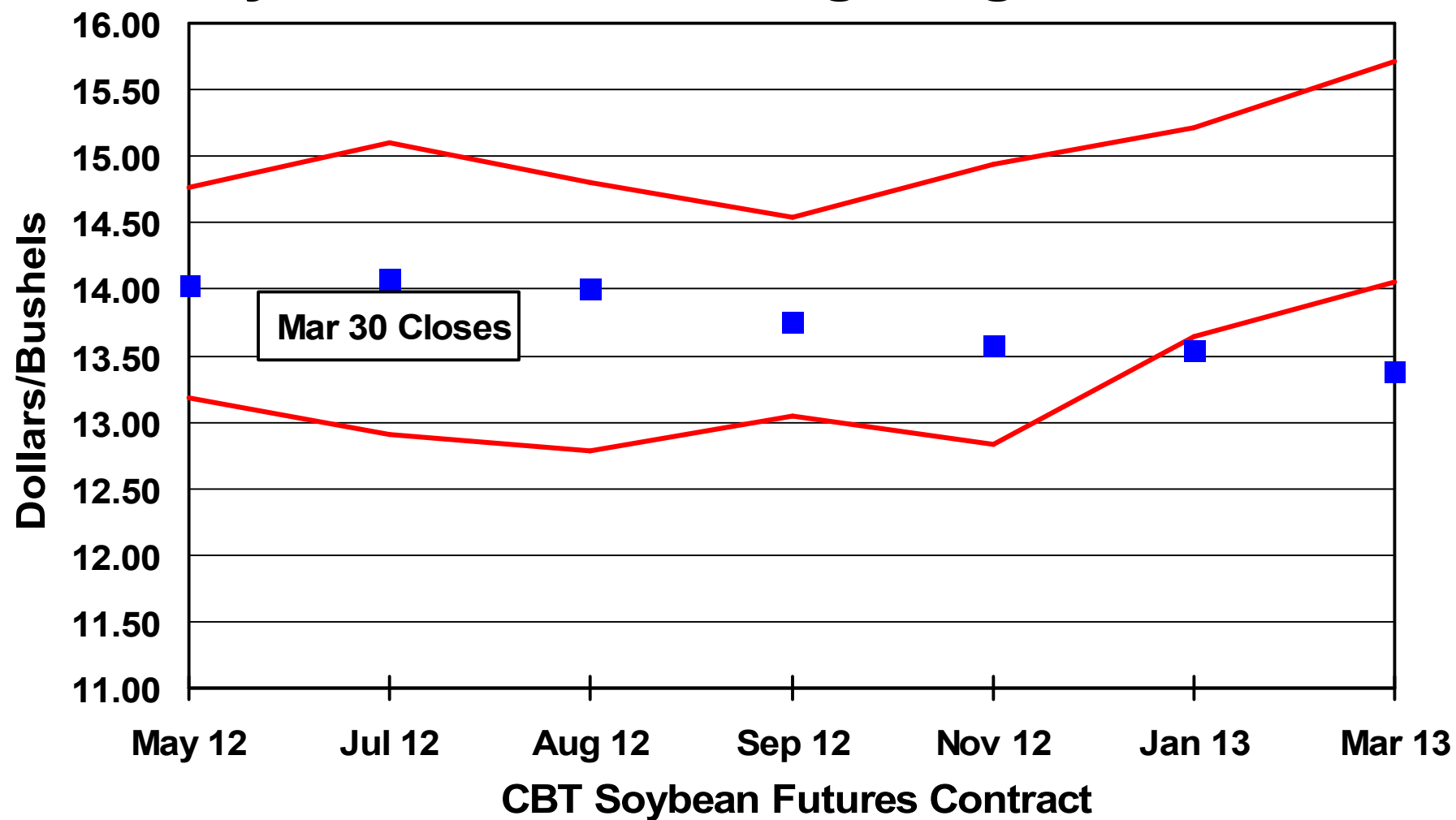
(1,000 Tonnes/1,000 Hectares)

	2009/10	2010/11	2011/12	2012/13
SOYBEANS				
Harvested Area	9,190	8,520	7,650	8,500
Yield	1.63	1.77	1.76	1.76
Production	14,980	15,100	13,500	15,000
Imports	50,338	52,339	57,000	61,000
Crush	48,830	55,000	59,800	64,600
Carryout	13,259	14,558	14,000	14,000
SOYBEAN MEAL				
Domestic Use	37,550	43,391	47,061	50,863
Exports	1,177	463	450	500
SOYBEAN OIL				
Imports	1,514	1,319	1,325	1,250
Domestic Use	10,435	11,109	11,882	12,714

China Soybean and Soybean Meal Imports



Soybean Futures Trading Range Forecast





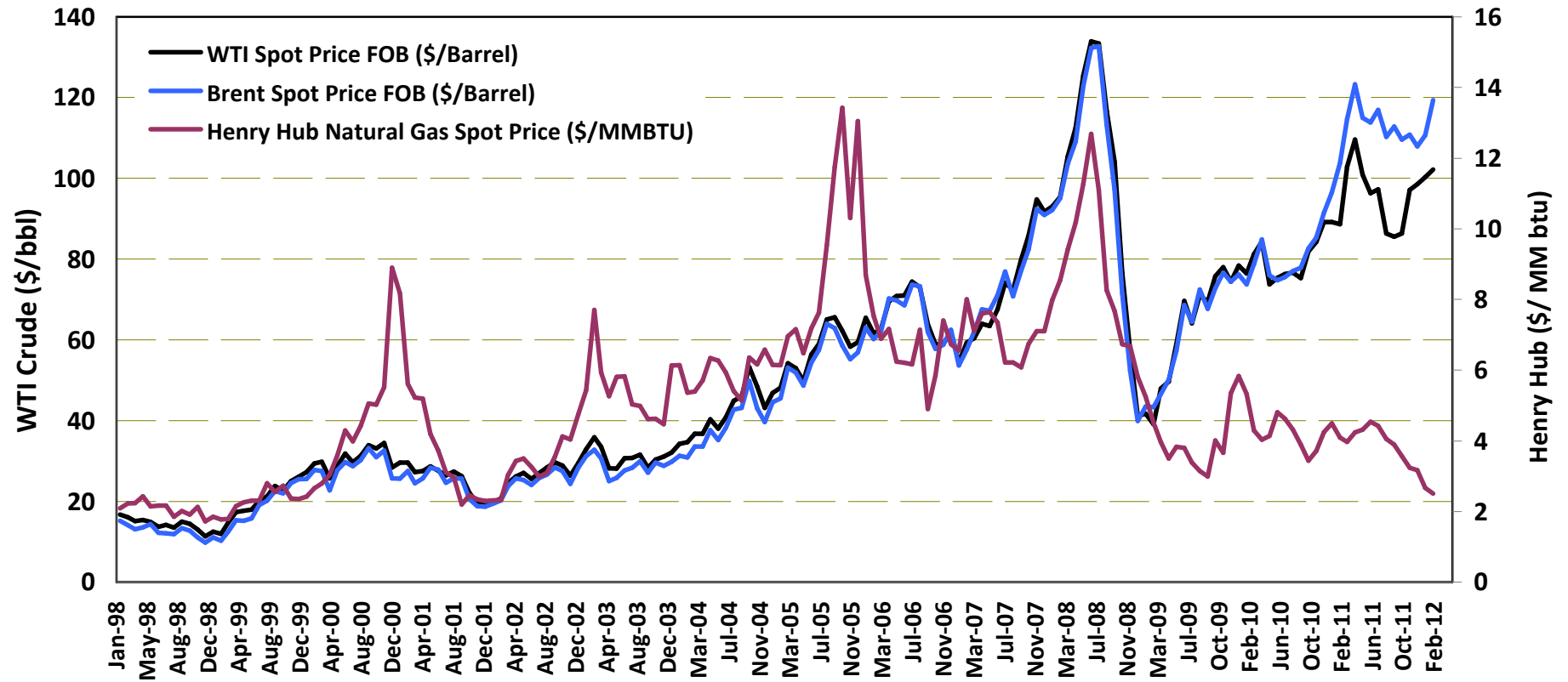
North America's Energy “Ace in the Hole” Natural Gas



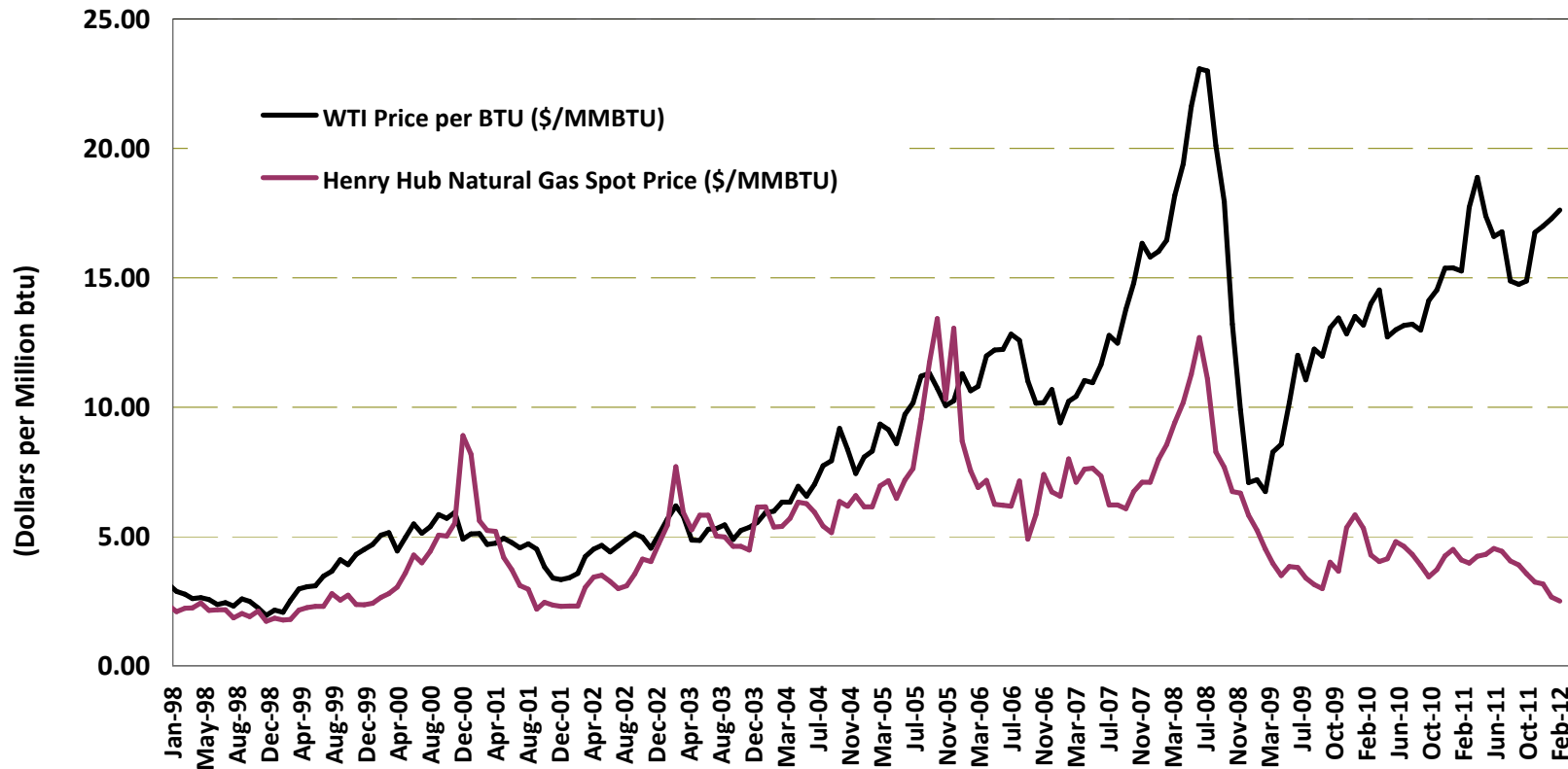
Crude Oil and Natural Gas Price Relationships

- **Recent Divergence**
- **Energy Implications**
- **Implications For Renewable Fuels**

Relationship Between WTI, Brent, and Henry Hub Natural Gas Spot Prices



Comparison of WTI Crude and Henry Hub Spot Prices per MM btu



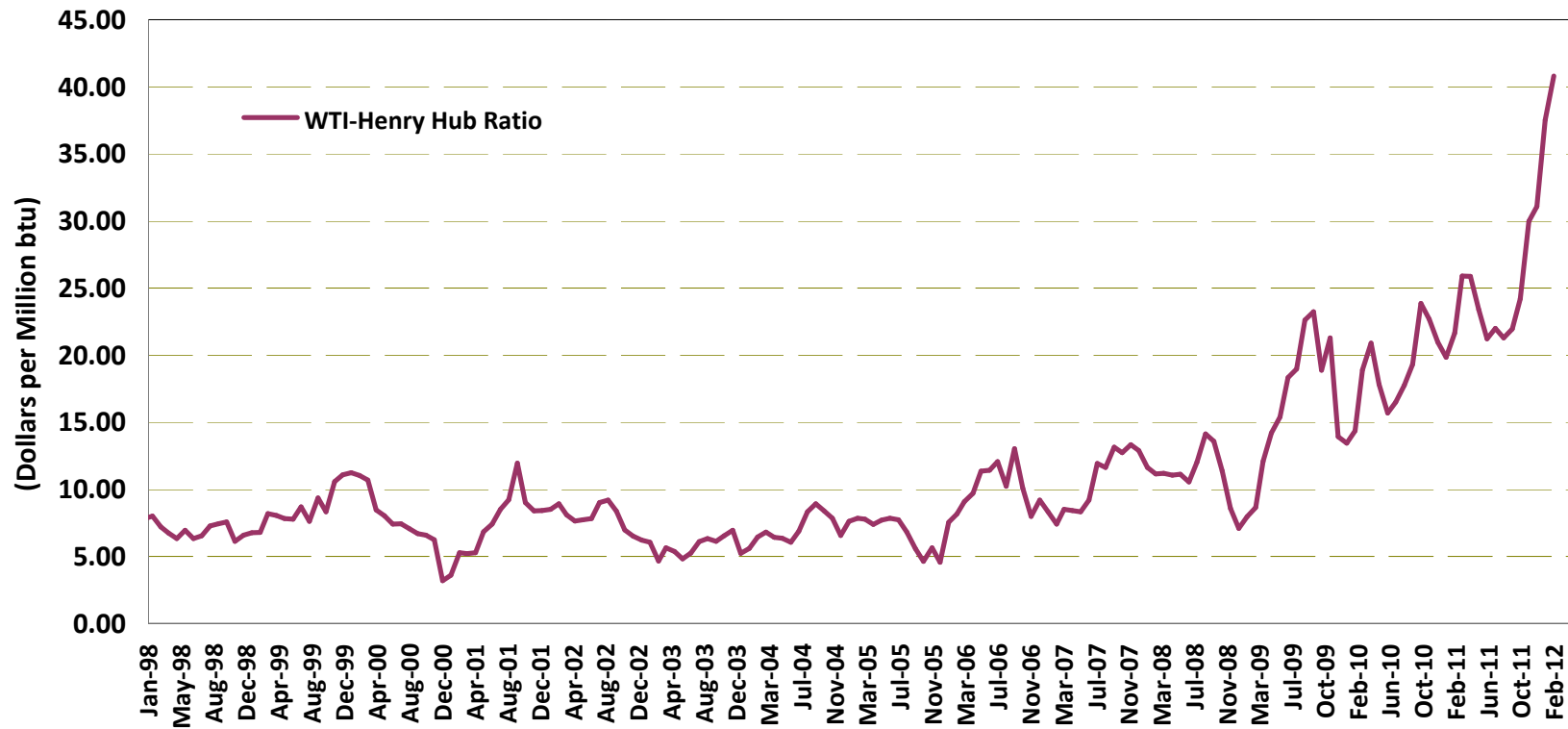
1 barrel of Crude Oil contains 5.8 million btu.

The current price (Feb 2012) of 1 barrel of Crude Oil is \$102.2 per barrel.

Cost per million btu in the form of Crude Oil = $\$102.2 / 5.8 = \17.62 .

Cost per million btu in the form of Natural Gas = \$2.51.

Ratio Between WTI Crude and Henry Hub Spot Prices

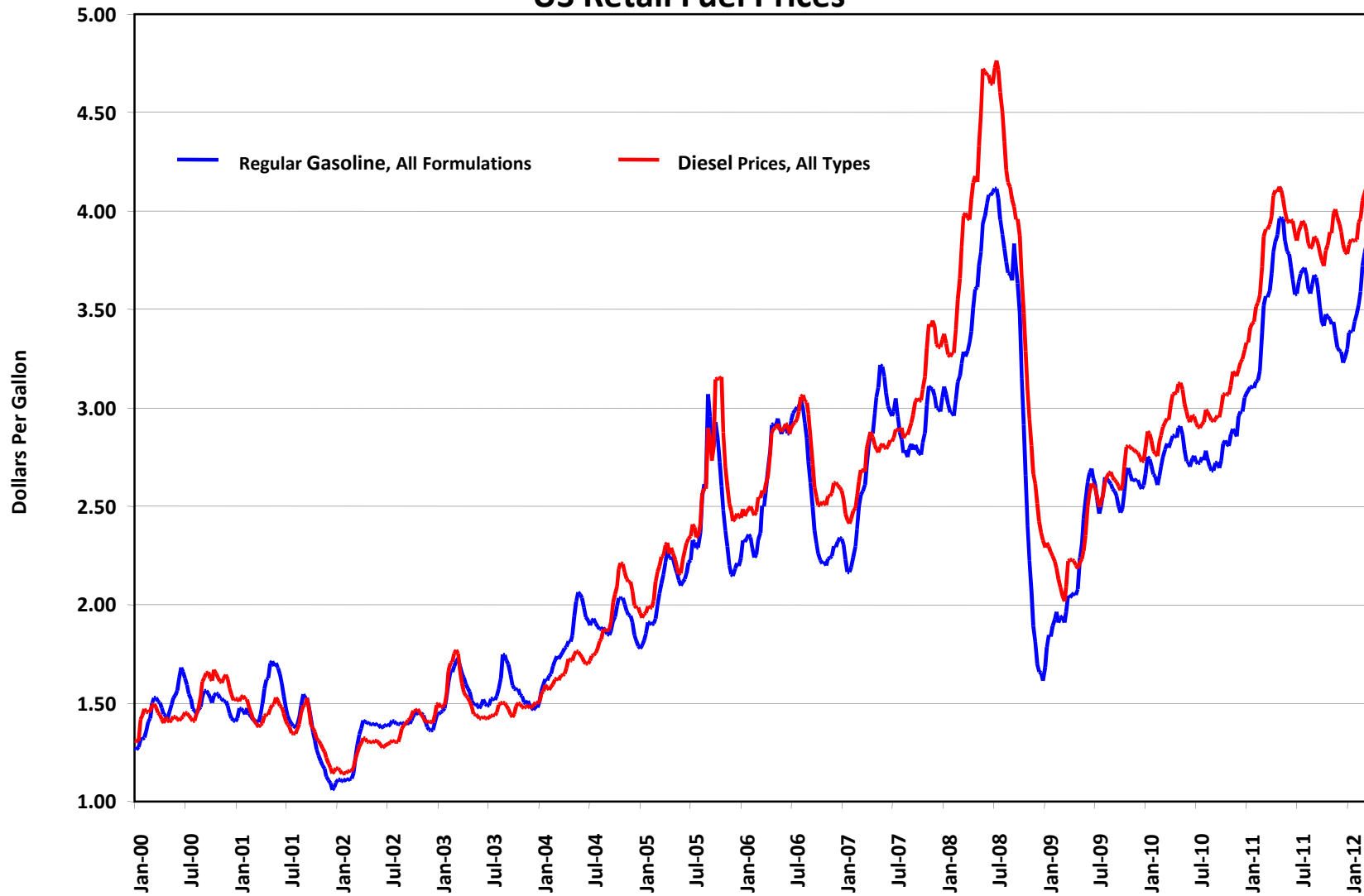


Note: 1 barrel of Crude contains 5.8 million btu



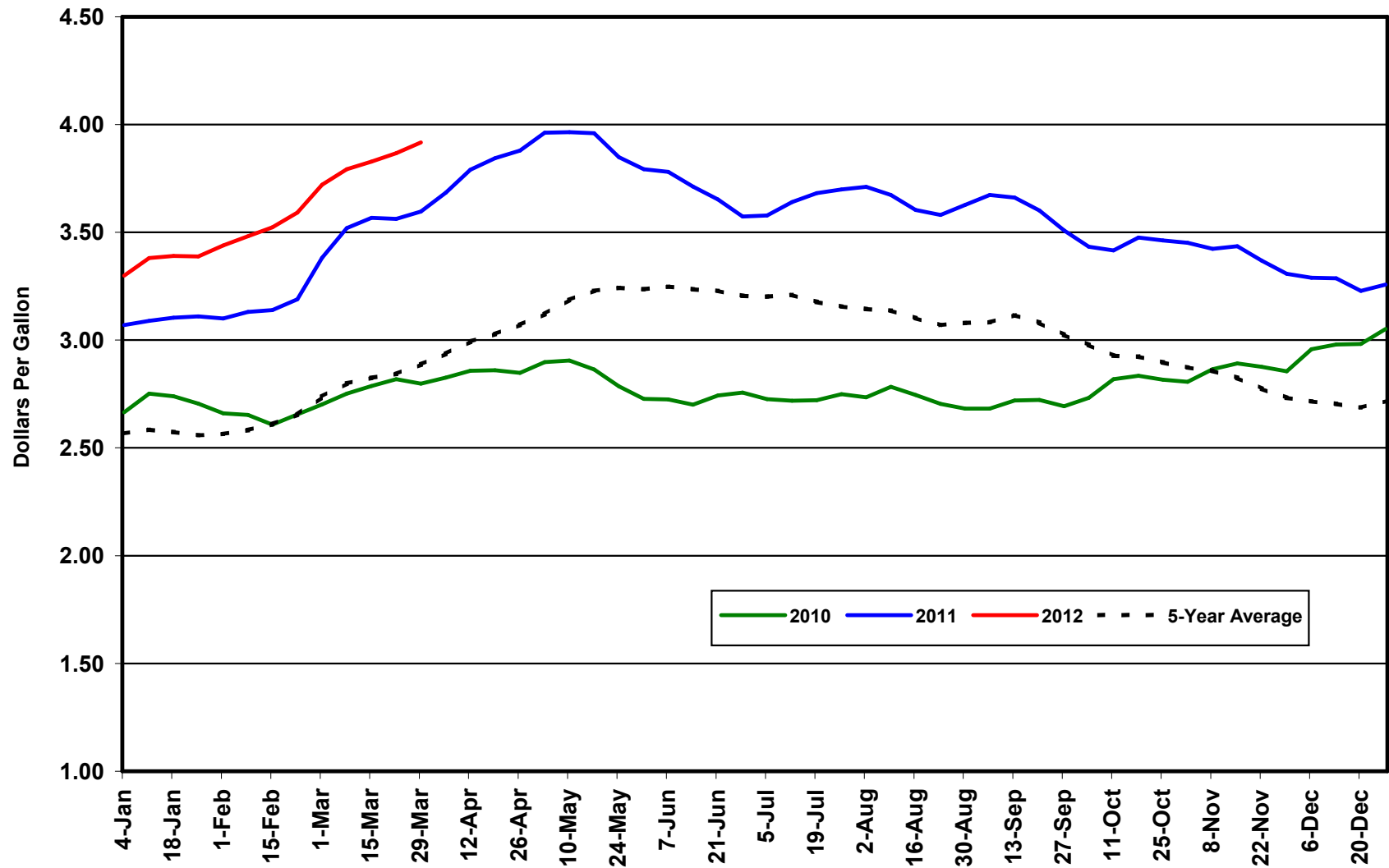
Declining Gasoline Use!

US Retail Fuel Prices

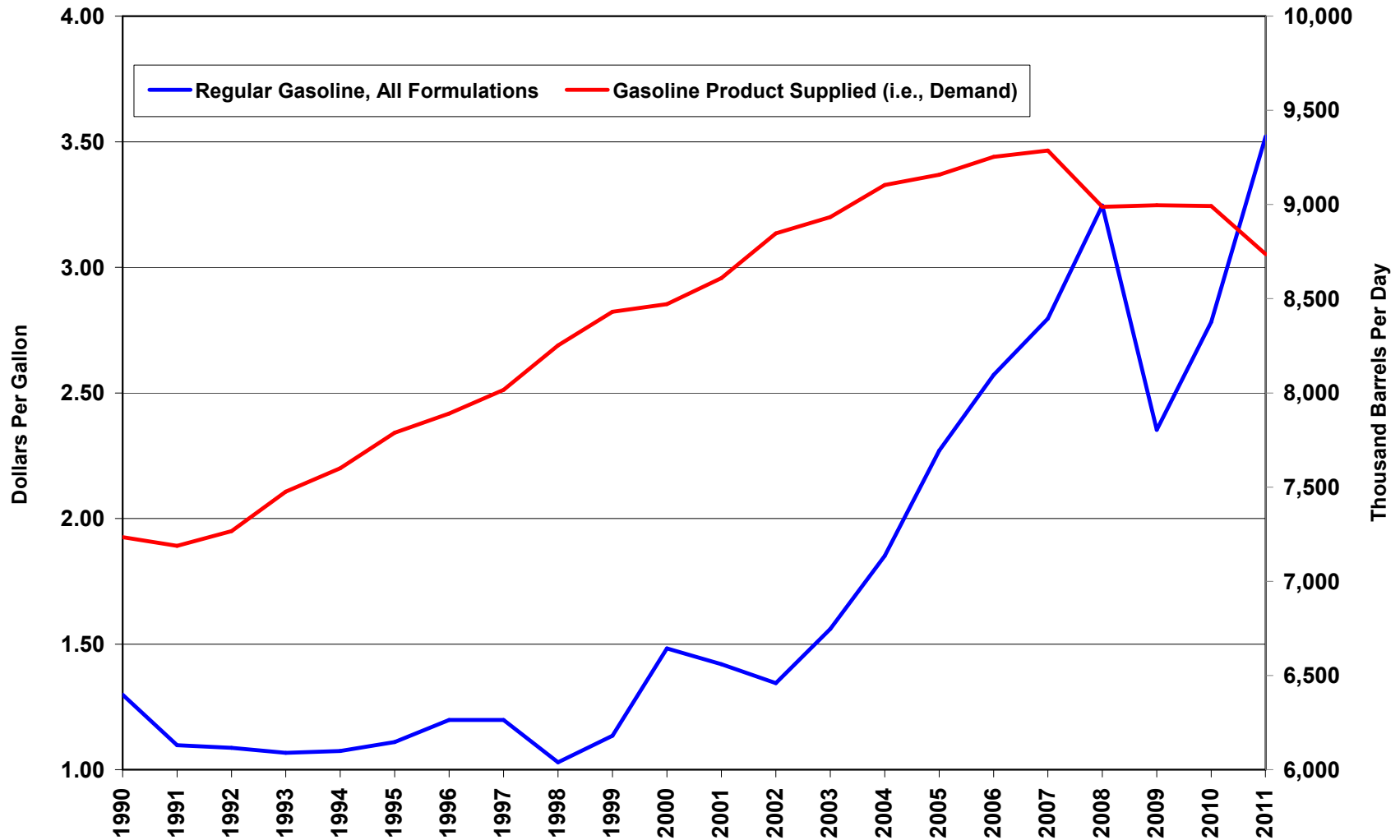


US Weekly Retail Gasoline Prices

Source: DOE-EIA



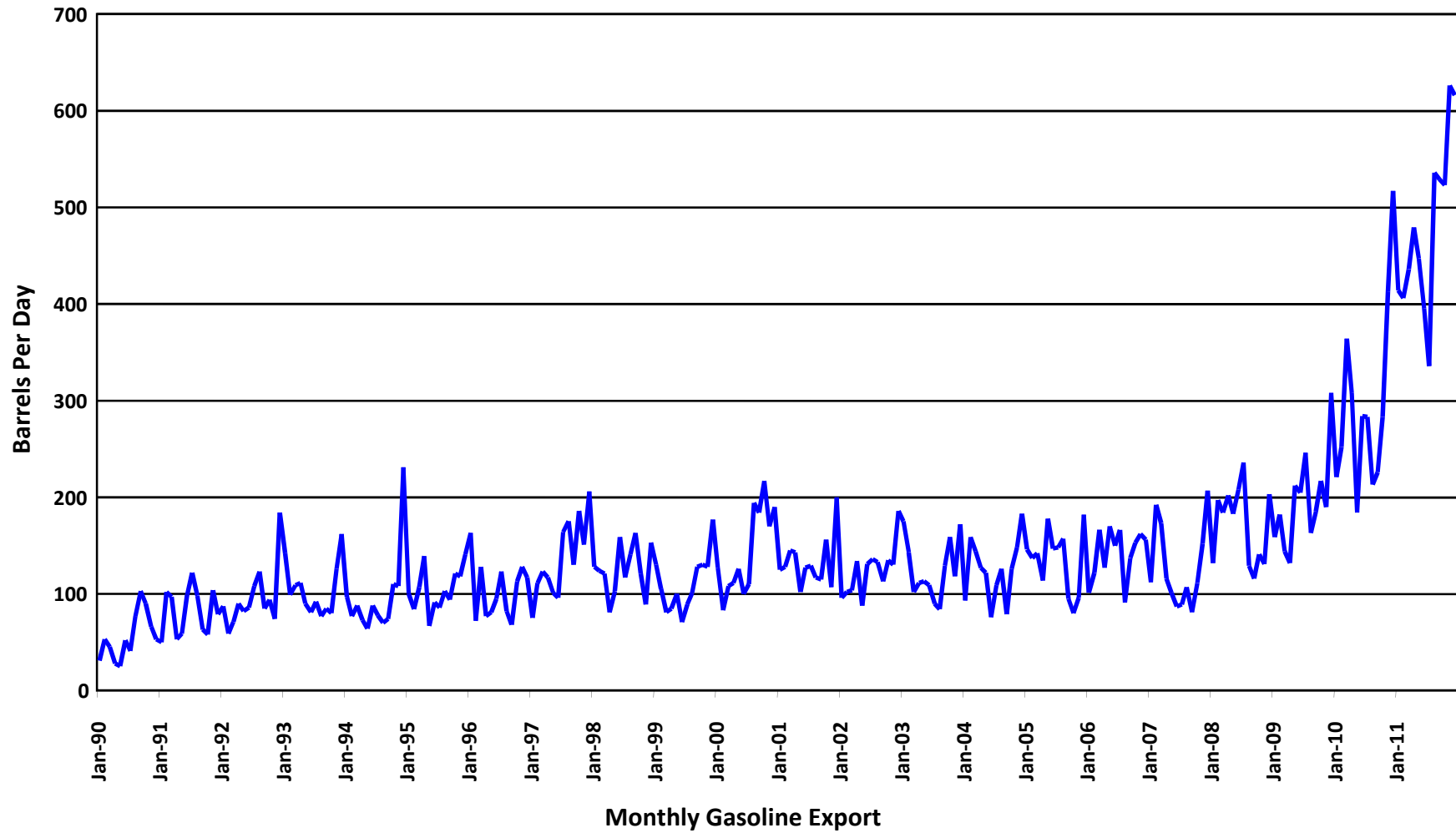
US Retail Gasoline Fuel Prices and Product Supplied (1990-2011)



Source: DOE-EIA

Monthly Gasoline Exports

Source: DOE-EIA



US Weekly Gasoline Disappearance

Source: DOE-EIA

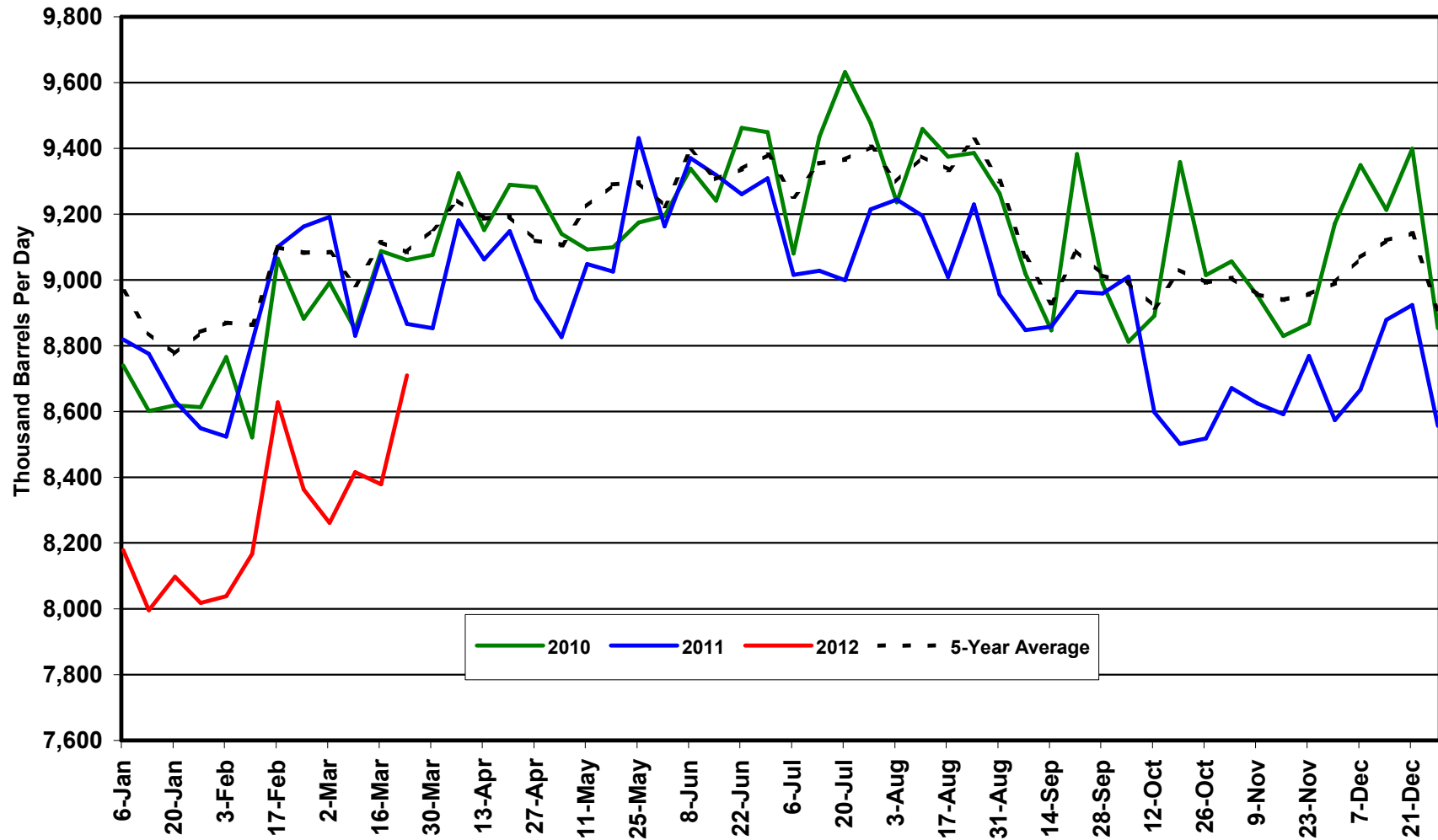
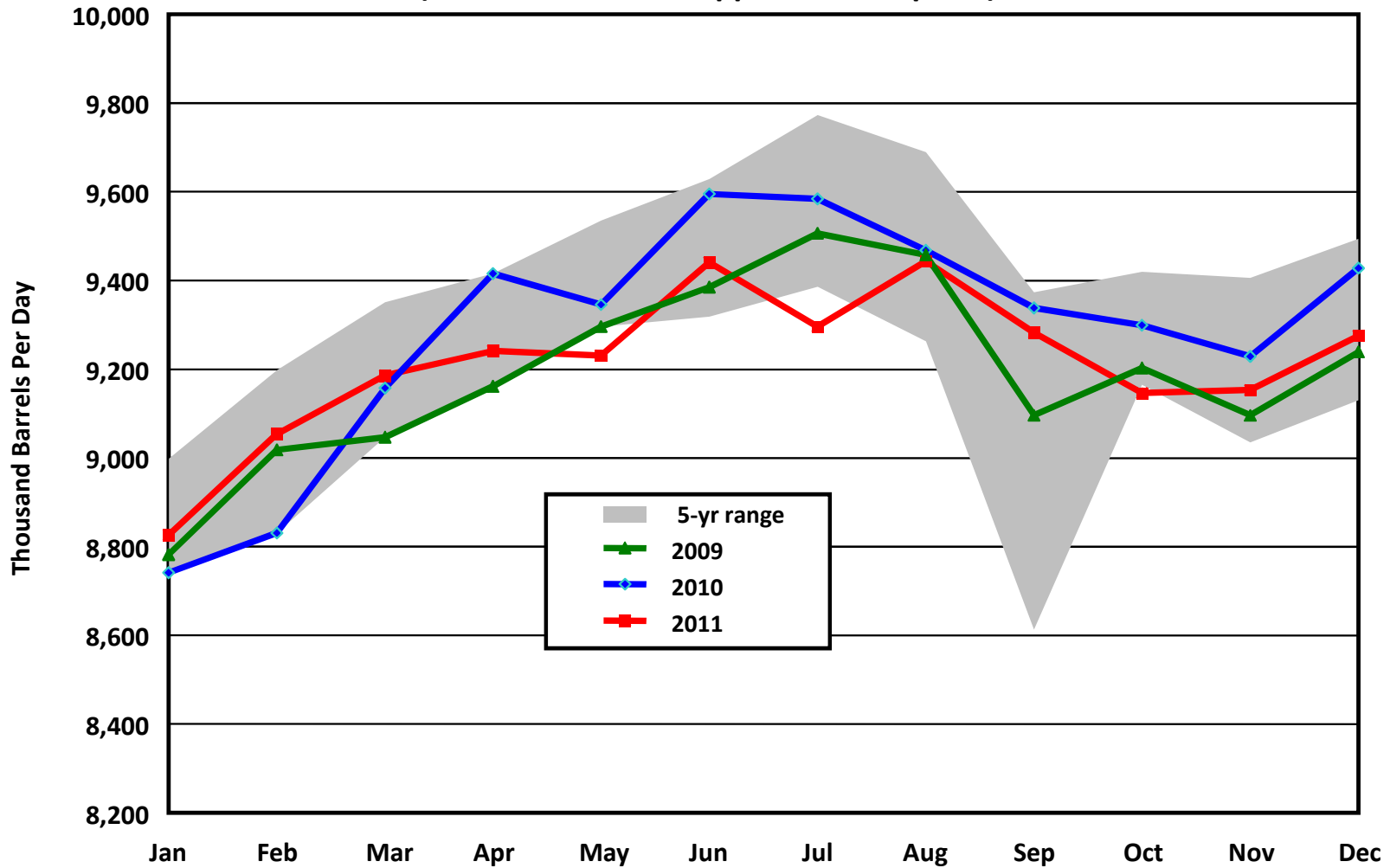


Chart based on unrevised weekly EIA data

Implied Total Gasoline Disappearance (Gasoline Product Supplied Plus Exports)



Global Overview of Agriculture Commodities as an Asset Class



Summary and Questions

15-MINUTE BREAK

Credit Markets



John Weubbe

Head of Food & Agribusiness
Wells Fargo Commercial Banking

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Credit Markets Panel



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Sebastien Ribatto

Managing Director Energy & Natural
Resources
Societe Generale

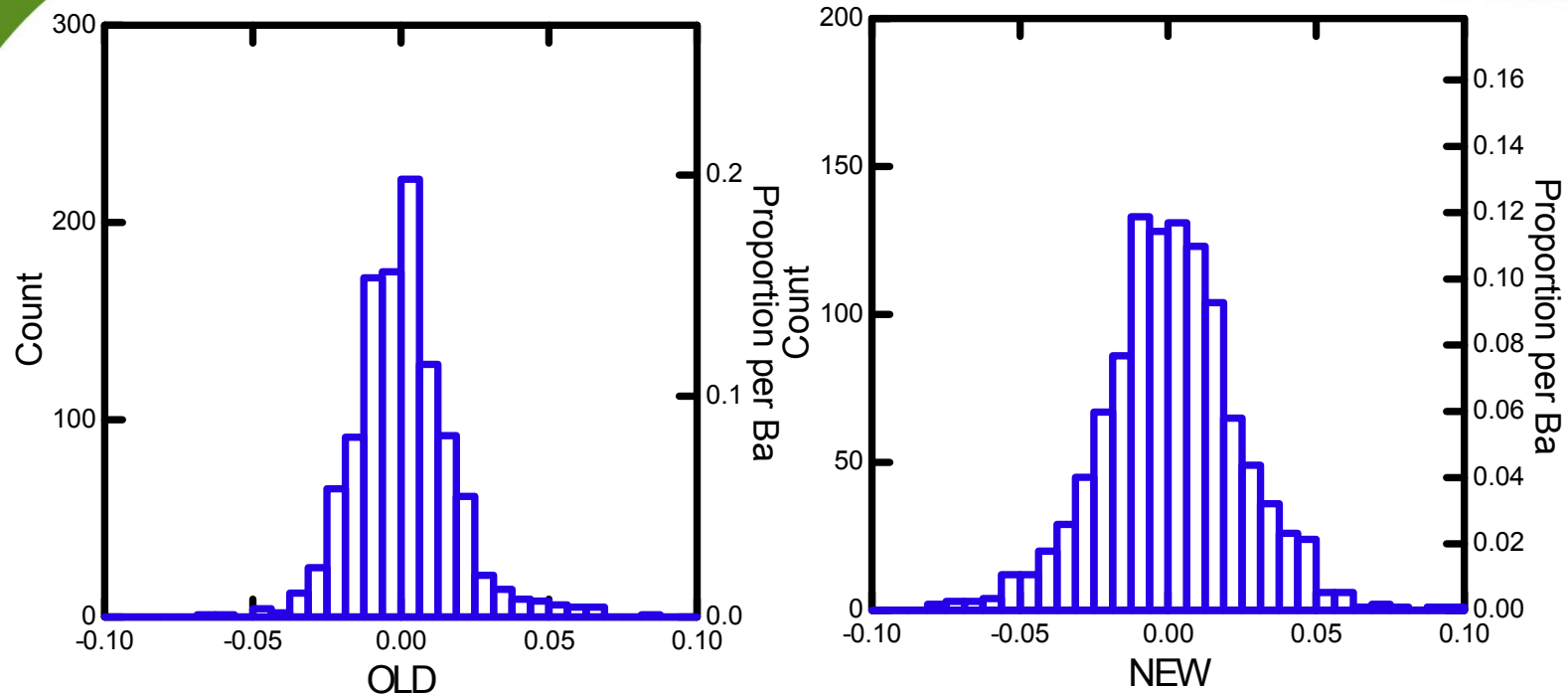
Erica Kuhlmann

Managing Director and Sector Head, Food &
Beverage
BMO Harris Bank

John Weubbe

SVP and Industry Manager – Food and
Agribusiness Industry Specialty Group
Wells Fargo & Company

Daily percent price volatility CME corn



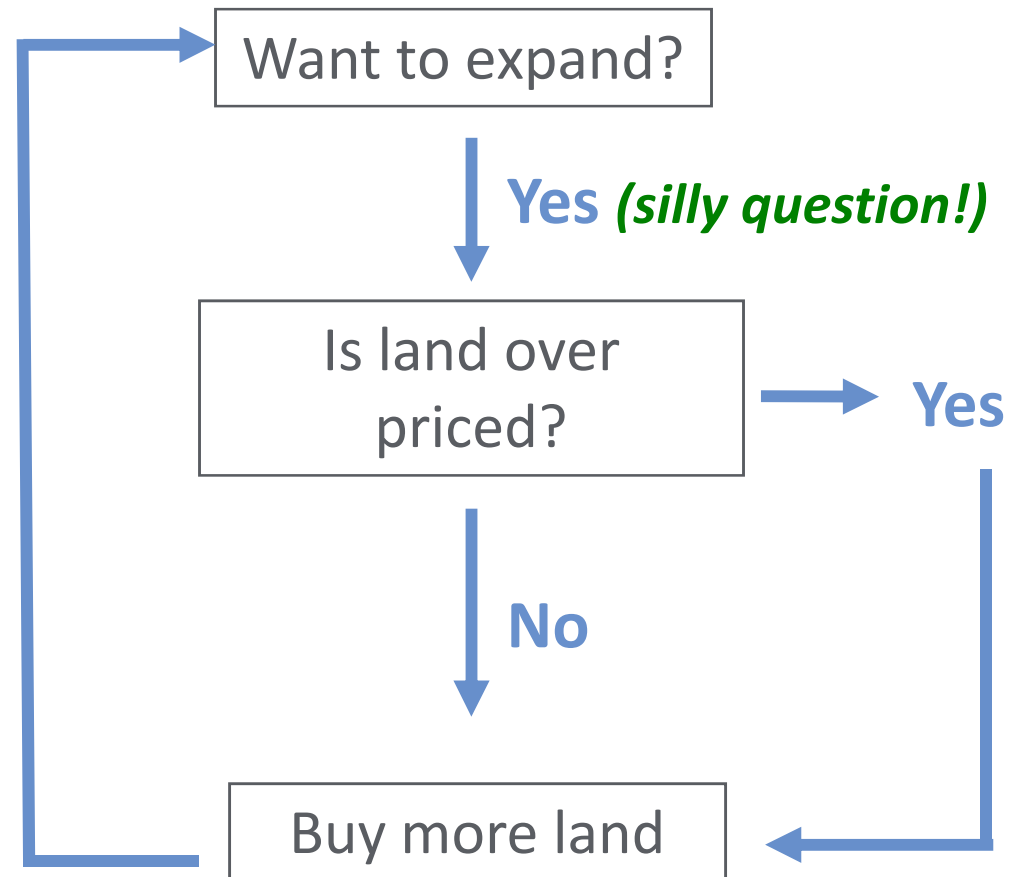
Daily Percentage Change in CME nearby corn contract	2007 to June 2011	2002 to 2006
N of Cases	1,120	1,120
Minimum	-7.8%	-6.5%
Maximum	9.8%	8.4%
Range	17.6%	14.9%
Median	0.0%	0.0%
Arithmetic Mean	0.1%	0.1%
Mode	0.0%	0.0%
Standard Deviation	2.3%	1.7%
Skewness (G1)	0.01	0.70
Kurtosis (G2)	0.81	2.38

What about agriculture land value?



It's value is a function of expected
profits versus opportunity cost

Farmer expansion flow chart



Do you need to own the land?



An alternative view of land values

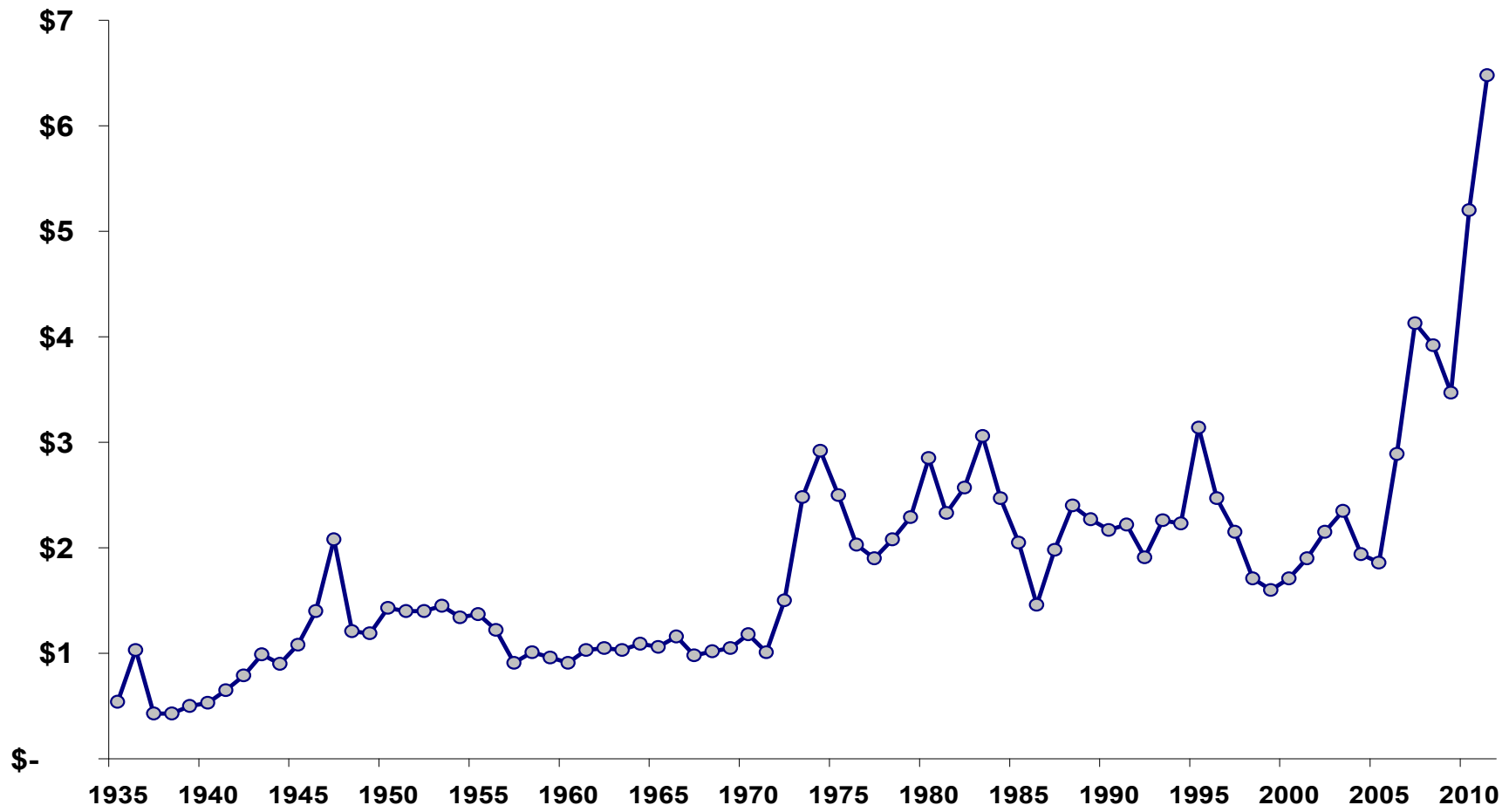
What drives land value?

1st Corn price, distant 2nd Interest rates



Corn Price per Bushel

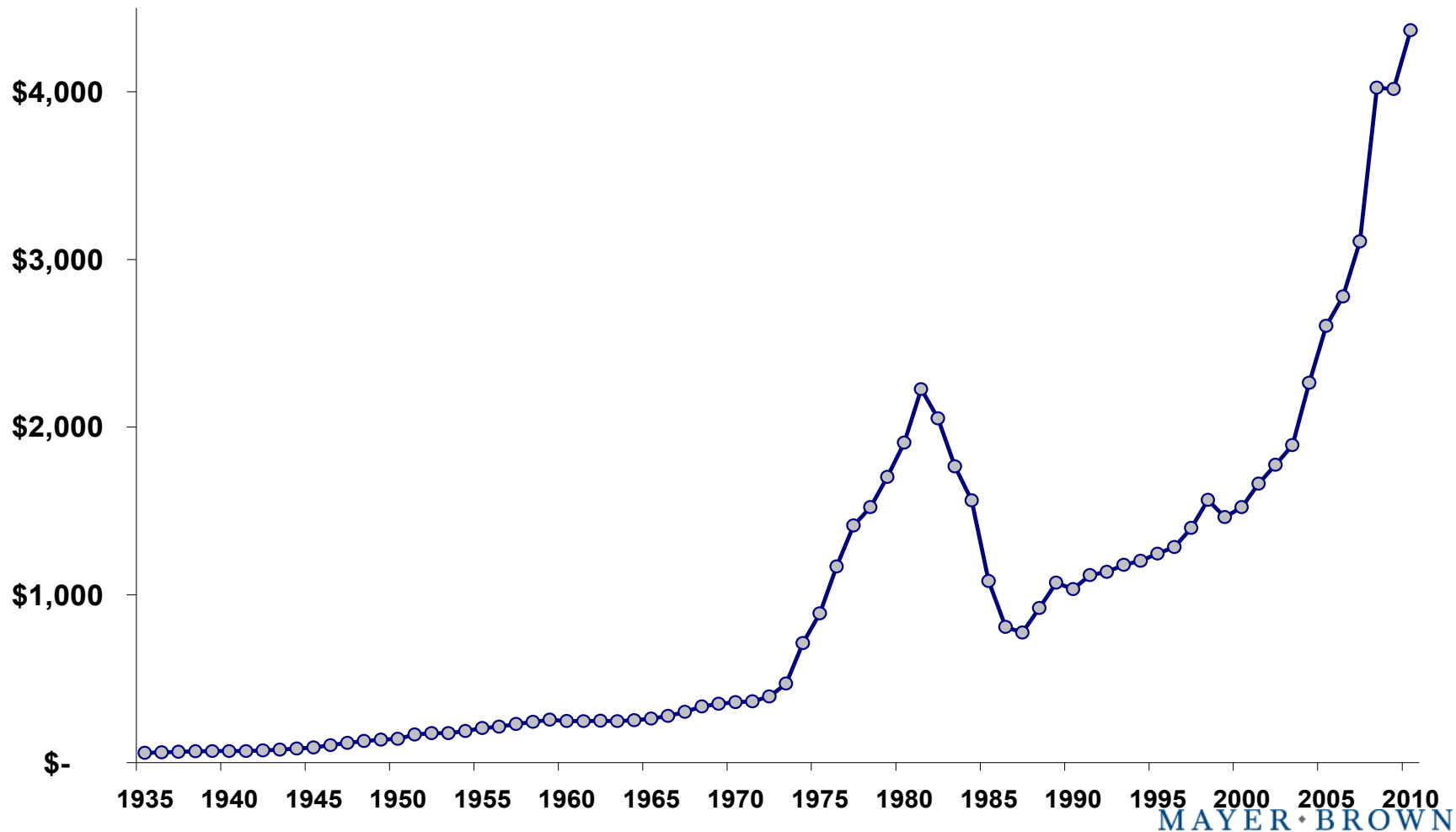
SW Minnesota



Still waiting for 2011 data

Land Value: Dollars Per Acre

SW Minnesota

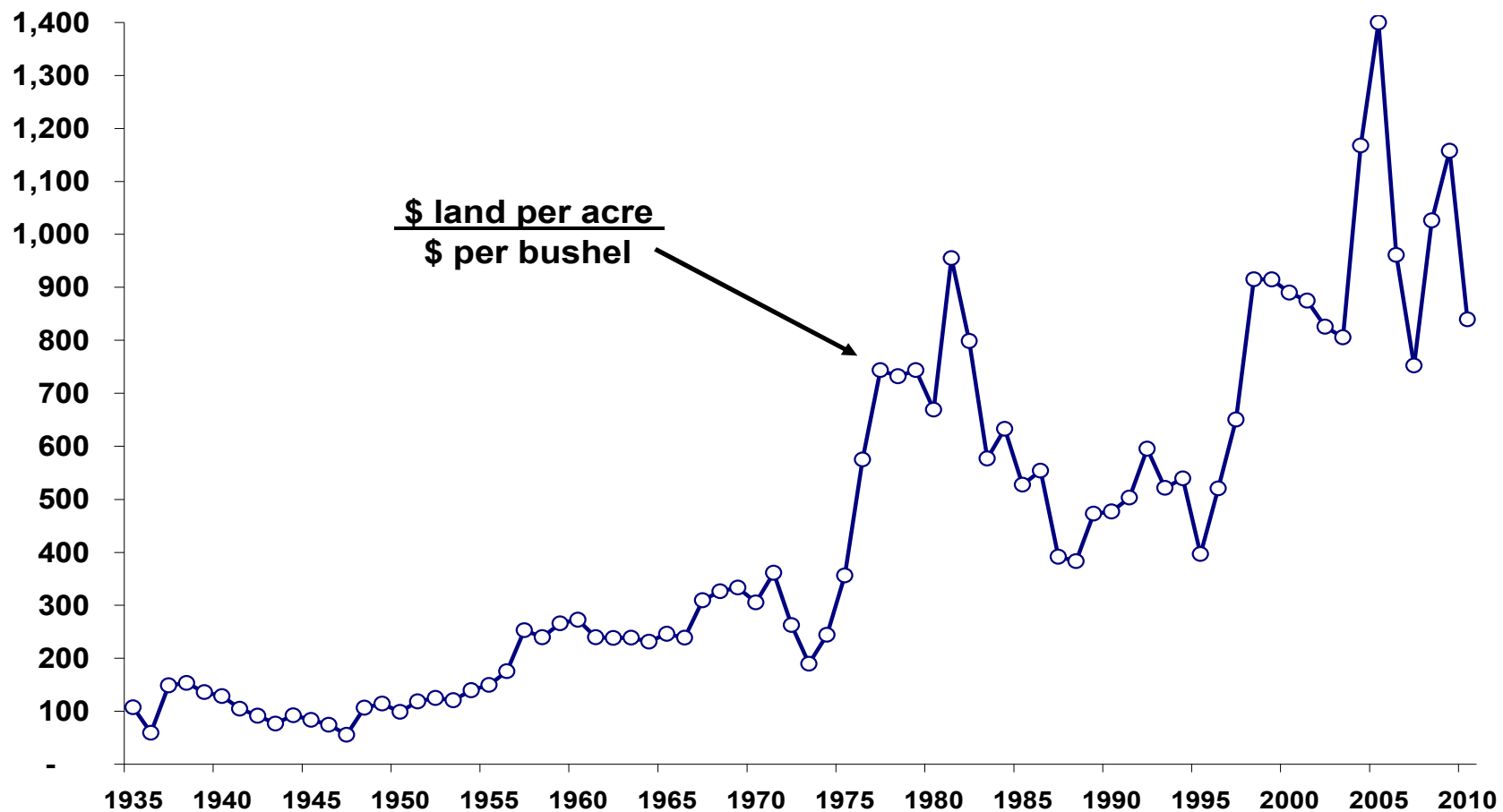


The price of anything is what you gave up to get it



Bushels Paid Per Acre

SW Minnesota

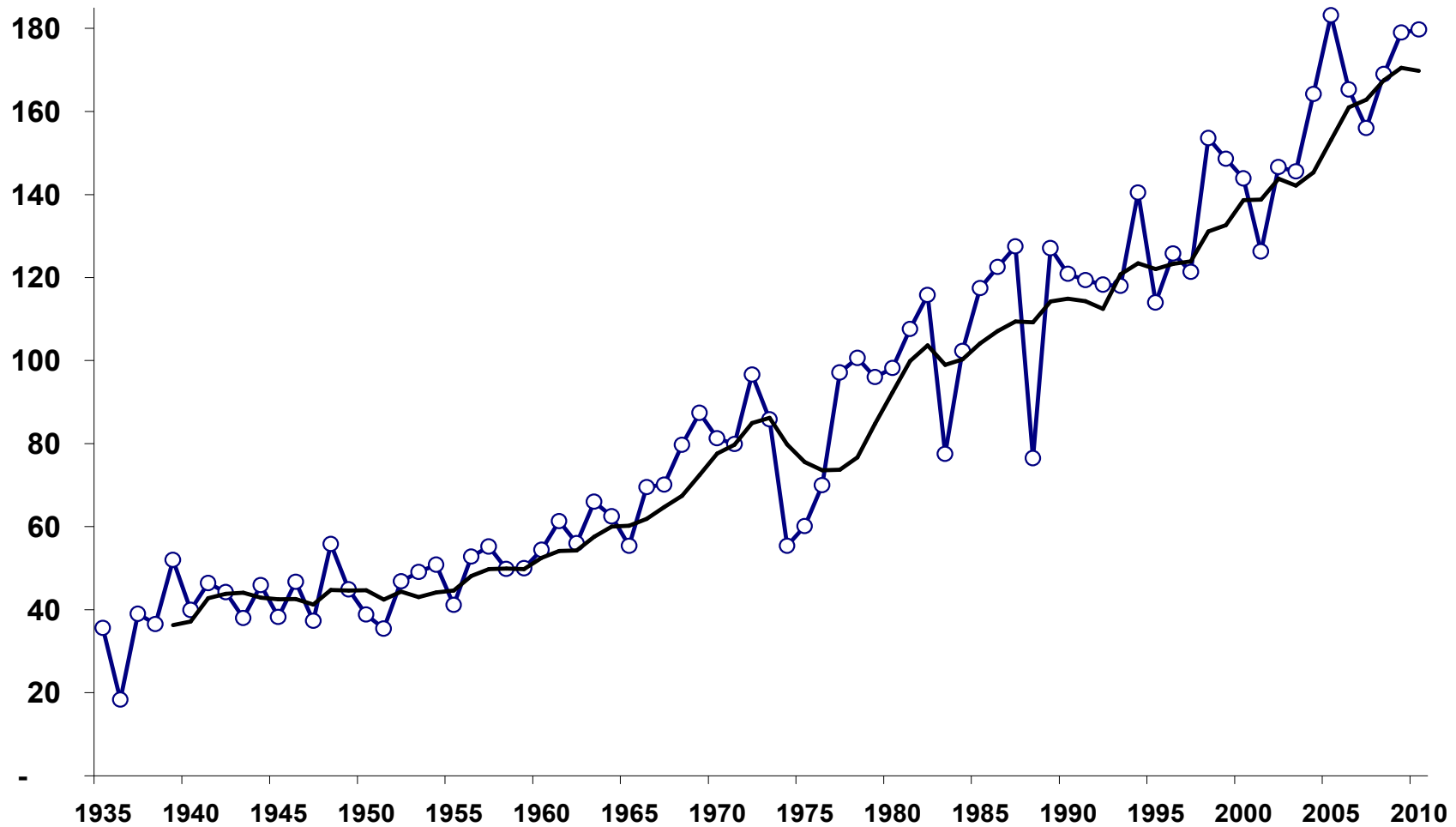


Yield changes too with time



Corn Yields Bushels Per Acre

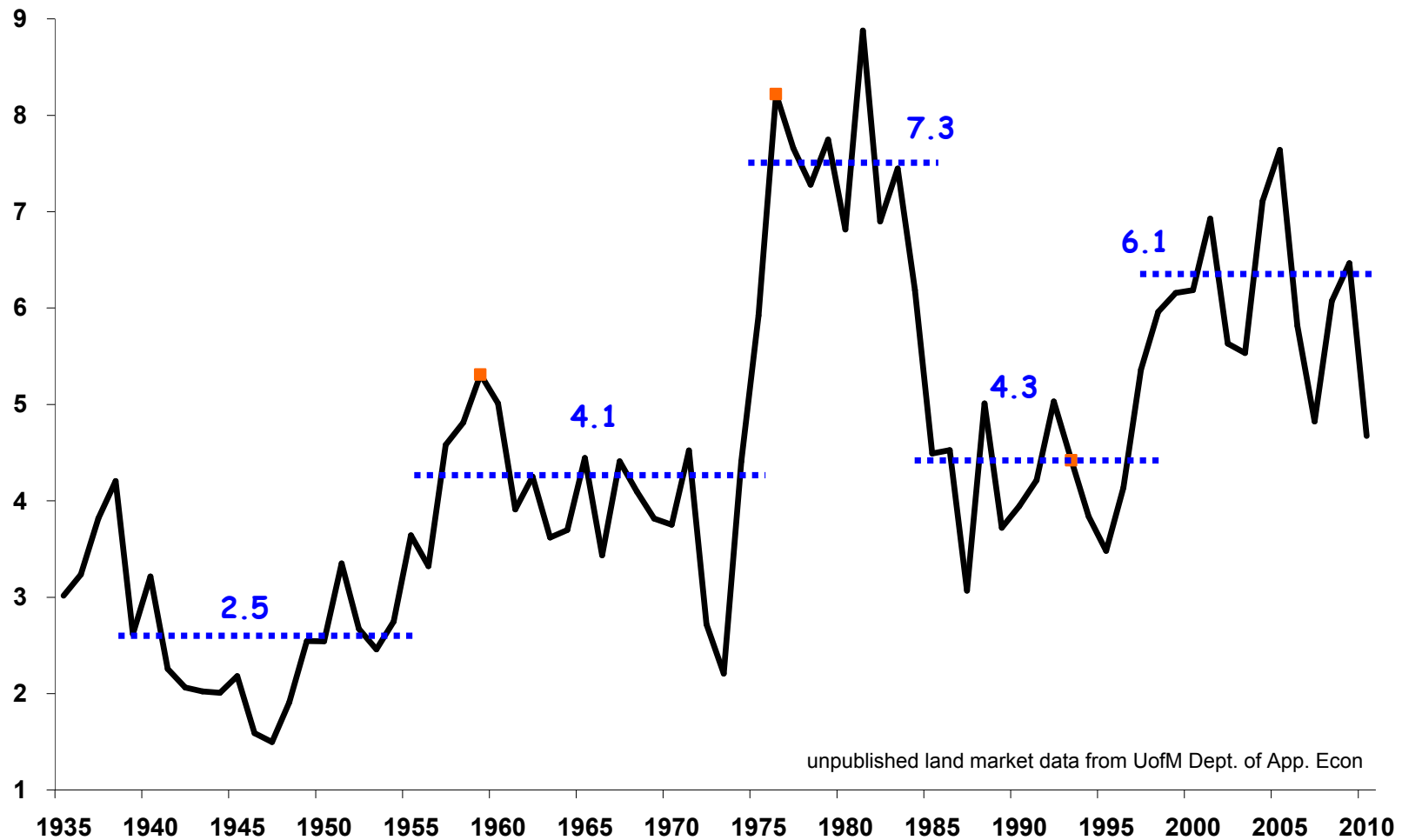
SW Minnesota



Years of production traded for land

Years of Yield Traded per Acre

SW MN



unpublished land market data from UofM Dept. of App. Econ

They're not making anymore . . .



Keeping an eye on all the
variables

Plenty of ground to ramp off



Grains: Corn, Sorghum, Rye and Wheat

Country	Attribute	2005	2006	2007	2008	2009	2010	2011
USA	Area Harvested	54,432	50,828	59,921	58,917	55,956	55,284	55,076
	Production	354,286	327,858	404,369	392,589	407,770	389,120	377,331
	Yield	6.5	6.5	6.8	6.7	7.3	7.0	6.9
World	Area Harvested	470,005	467,147	485,356	488,203	488,227	483,261	487,509
	Production	1,528,932	1,517,072	1,620,242	1,719,337	1,732,287	1,680,003	1,764,399
	Yield	3.3	3.3	3.3	3.5	3.6	3.5	3.6

Rice

Country	Attribute	2005	2006	2007	2008	2009	2010	2011
USA	Area Harvested	1,361	1,142	1,112	1,204	1,256	1,463	1,059
	Rough Production	10,108	8,827	8,998	9,242	9,972	11,027	8,391
	Yield (Rough)	7.4	7.7	8.1	7.7	7.9	7.5	7.9
World	Area Harvested	153,844	154,532	155,193	157,790	156,023	157,026	160,234
	Rough Production	622,897	626,220	644,750	669,135	659,422	676,419	693,247
	Yield (Rough)	4.1	4.1	4.2	4.2	4.2	4.3	4.3

Ratios are crucial to understanding systems



Grains: Corn, Sorghum, Rye and Wheat

USA to World Ratios

Attribute	2005	2006	2007	2008	2009	2010	2011
Area Harvested	12%	11%	12%	12%	11%	11%	11%
Production	23%	22%	25%	23%	24%	23%	21%
Yield	200%	198%	202%	189%	205%	202%	189%

Rice

USA to World Ratios

Attribute	2005	2006	2007	2008	2009	2010	2011
Area Harvested	0.9%	0.7%	0.7%	0.8%	0.8%	0.9%	0.7%
Rough Production	1.6%	1.4%	1.4%	1.4%	1.5%	1.6%	1.2%
Yield (Rough)	183%	191%	195%	181%	188%	175%	183%

Balance sheet of the U.S. Farming sector

Financial measures	2008	2009	2010	2011F	2012F
			\$ billions		
Farm assets	2,023.3	2,054.4	2,190.9	2,339.8	2,474.3
Real estate	1,703.0	1,724.4	1,853.7	1,987.2	2,104.5
Livestock and poultry	80.6	79.8	81.4	80.2	79.6
Machinery and motor vehicles 2/	123.4	126.0	127.9	133.5	139.2
Crops stored 3/	27.6	32.9	35.6	39.6	46.3
Purchased inputs	7.2	7.2	7.3	7.6	7.8
Financial assets	81.6	84.1	84.9	91.8	97.0
Total farm debt 3/	241.6	241.9	246.9	244.8	254.1
Real estate	134.7	131.3	136.3	132.2	139.4
Farm Credit System	57.7	57.2	61.7		
Farm Service Agency	2.3	2.3	2.8		
Commercial banks	50.6	50.1	51.9		
Life insurance companies	15.0	13.5	12.8		
Individuals and others	8.9	7.8	6.9		
Storage facility loans	0.2	0.5	0.2		
Nonreal estate	106.9	110.6	110.6	112.5	114.7
Farm Credit System	37.3	39.9	40.5		
Farm Service Agency	2.7	2.8	3.3		
Commercial banks	57.3	57.0	56.6		
Individuals and others	9.7	10.8	10.1		
Farm equity	1,781.7	1,812.5	1,944.0	2,095.0	2,220.2
Selected ratios:					
Debt-to-equity	13.6	13.3	12.7	11.7	11.4
Debt-to-asset	11.9	11.8	11.3	10.5	10.3

F = forecast

Numbers may not add due to rounding.

1/ Balance sheet is as of a 31. Values updated on a quarterly basis as new data become available

2/ Includes only farm share of value for trucks and automobiles.

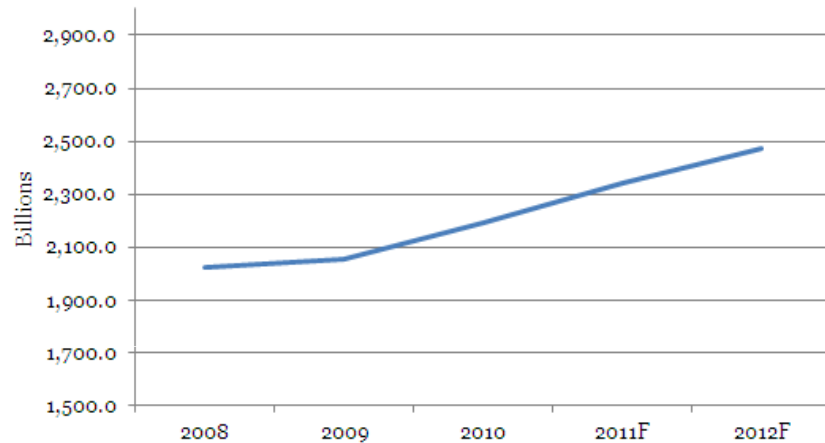
3/ Non-CCC crops held on farms plus value above loan rates for crops held under CCC.

4/ Includes CCC storage and drying facilities loans but excludes debt on operator dwellings and for nonfarm purposes.

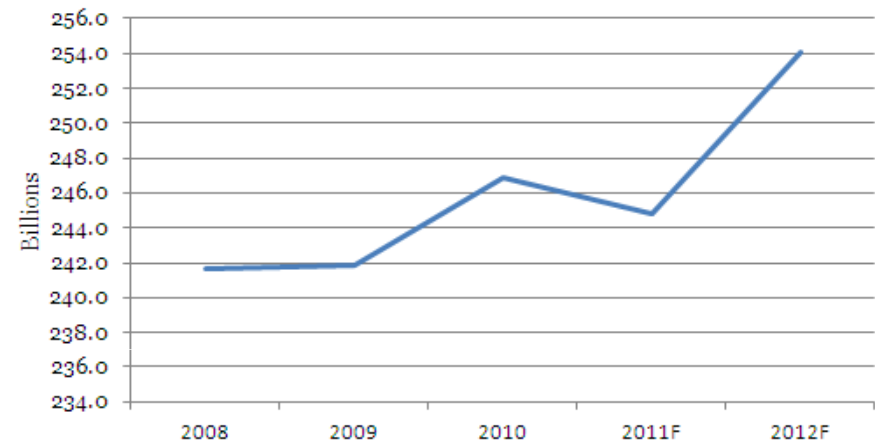
Balance sheet of the U.S. Farming sector



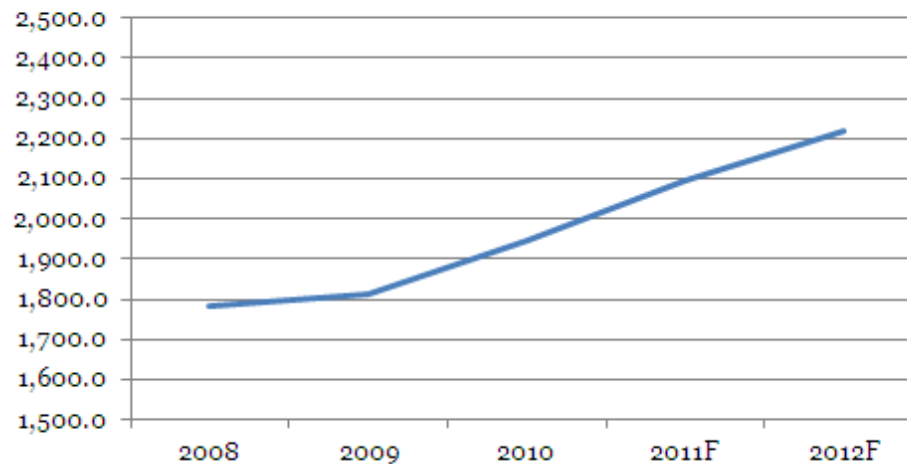
Farm assets



Total farm debt



Farm equity



F-forecasted

Income statement of the U.S. Farming sector

	2008	2009	2010	2011F	2012F
	\$ billions				
Cash income statement					
a. Cash receipts	316.7	288.6	314.4	362.9	364.1
Crops 1/	175.0	168.3	172.9	196.9	198.3
Livestock	141.6	120.3	141.4	166.0	165.8
b. Direct Government payments 2/	12.2	12.2	12.4	10.6	11.0
c. Farm-related income 3/	21.5	22.0	18.3	22.6	19.9
d. Gross cash income (a+b+c)	350.4	322.8	345.0	396.1	395.0
e. Cash expenses 4/, 5/	261.8	248.4	252.7	287.4	298.7
f. Net cash income (d-e)	88.6	74.4	92.3	108.7	96.3
Farm income statement					
g. Gross cash income (a+b+c)	350.4	322.8	345.0	396.1	395.0
h. Nonmoney income 6/	20.9	21.1	21.6	23.2	24.7
i. Value of inventory adjustment	6.6	-1.1	-2.0	0.1	5.9
j. Total gross income (g+h+i)	377.9	342.7	364.7	419.4	425.5
k. Total expenses	293.2	281.1	285.6	321.3	333.8
<u>l. Net farm income (j-k)</u>	<u>84.7</u>	<u>61.6</u>	<u>79.1</u>	<u>98.1</u>	<u>91.7</u>

F = forecast

Numbers may not add due to rounding.

1/ Includes CCC loans.

2/ Note: Government payments reflect payments made directly to all recipients in the farm including landlords. The non-operator landlords' share is offset by its inclusion in rental expenses paid to these landlords and thus is not reflected in net farm income or net cash income.

3/ Income from custom work, machine hire, recreational activities, forest product sales, and other farm sources.

4/ Excludes depreciation and perquisites to hired labor.

5/ Excludes farm households.

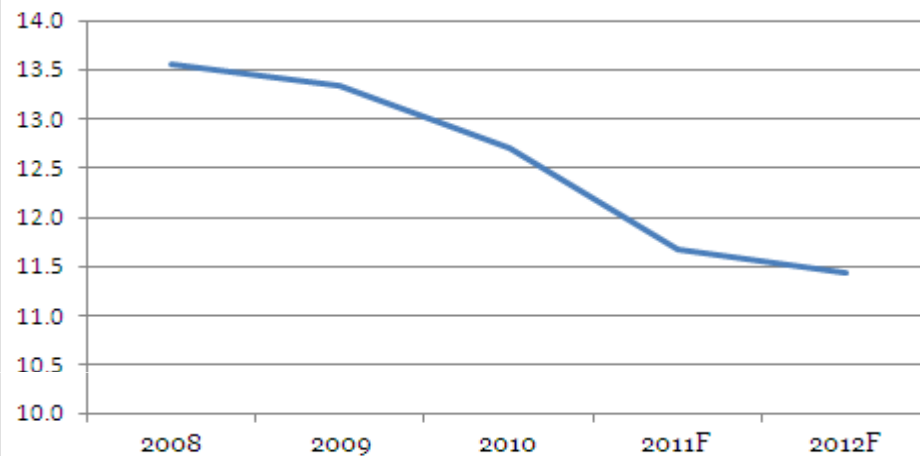
6/ Value of home consumption of farm products plus the imputed rental value of operator and hired labor dwellings.

Note: This farm income forecast reflects USDA's assessment of the outlook for commodities as reflected in the latest WASDE report.

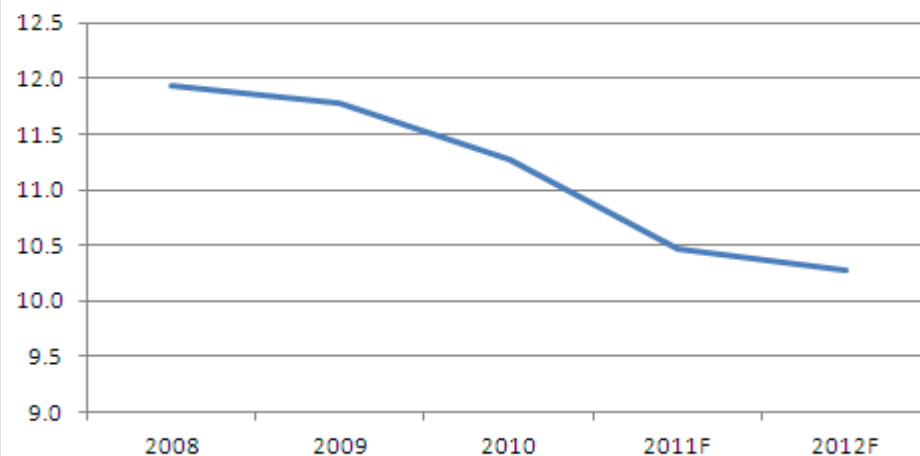
Balance sheet of the U.S. Farming sector: Key ratios



Debt-to-equity

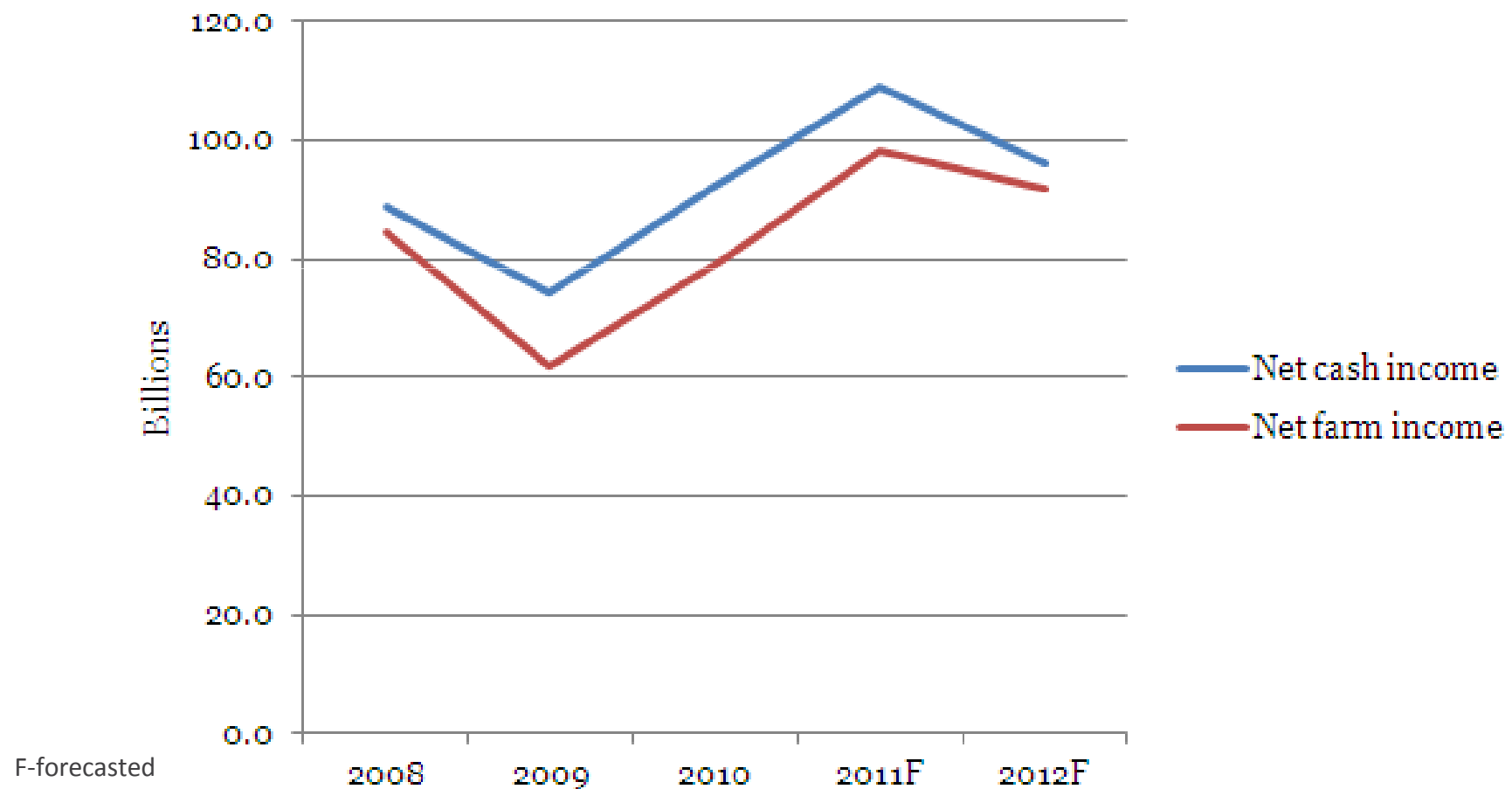


Debt-to-asset



F-forecasted

Income statement of the U.S. Farming sector



Credit Markets

Brian Klatt

Senior Vice President and Head of Capital Markets
CoBank

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The State of Agribusiness
FINANCING, DEAL MAKING AND PROSPECTS FOR 2012

Bank Market Overview

- Bank loan volumes approached \$2 trillion in 2011, the highest on record.
- Refinancing wave cannibalized 2012 issuance as the majority of 2012 maturities were taken care of with the flurry of activity that took place during the second half of 2011.
- First quarter loan issuance volume is weak.
 - European sovereign debt concern
 - Low/slower domestic growth
 - Low M&A activity
 - Capital ratios/stress testing
- Secondary trading is experiencing August lull early as a result of low new issuance and relatively stable to slightly moderating pricing

Investment Grade / High Yield Distinction

	S&P / Fitch	Moody's
Investment Grade or High Grade	AAA	Aaa
	AA+	Aa1
	AA	Aa2
	AA-	Aa3
	A+	A1
	A	A2
	A-	A3
	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
Leveraged or High Yield	BB+	Ba1
	BB	Ba2
	BB-	Ba3
	B+	B1
	B	B2
	B-	B3
	CCC+ and Below	Caa1 and Below

Trending



- **Investment Grade**

- 5 year tenors
- Stable to modestly lower pricing but hitting minimum pricing and unused floors
- Relationship lenders determine amount of availability

- **Leveraged**

- Banks providing attractive pro-rata tranches on reasonably leveraged and structured financings (BB- and better and some B+'s)
- Institutional investors will to take risk for yield (LIBOR floors and spread of 400+ basis points) on aggressively leveraged and structured financings

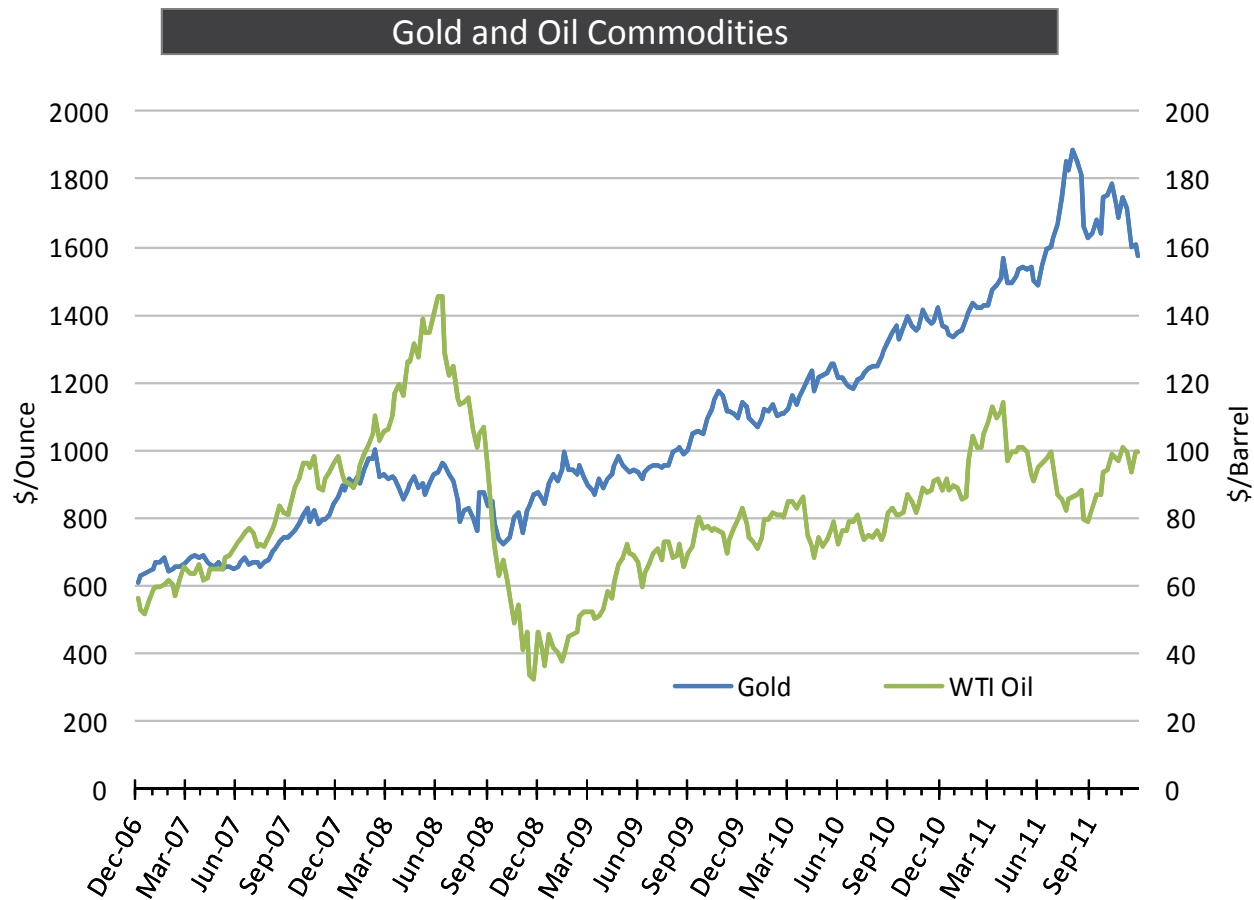
- **ABL**

- Stable pricing
- Works if the asset base is conducive

Commodity Market Volatility



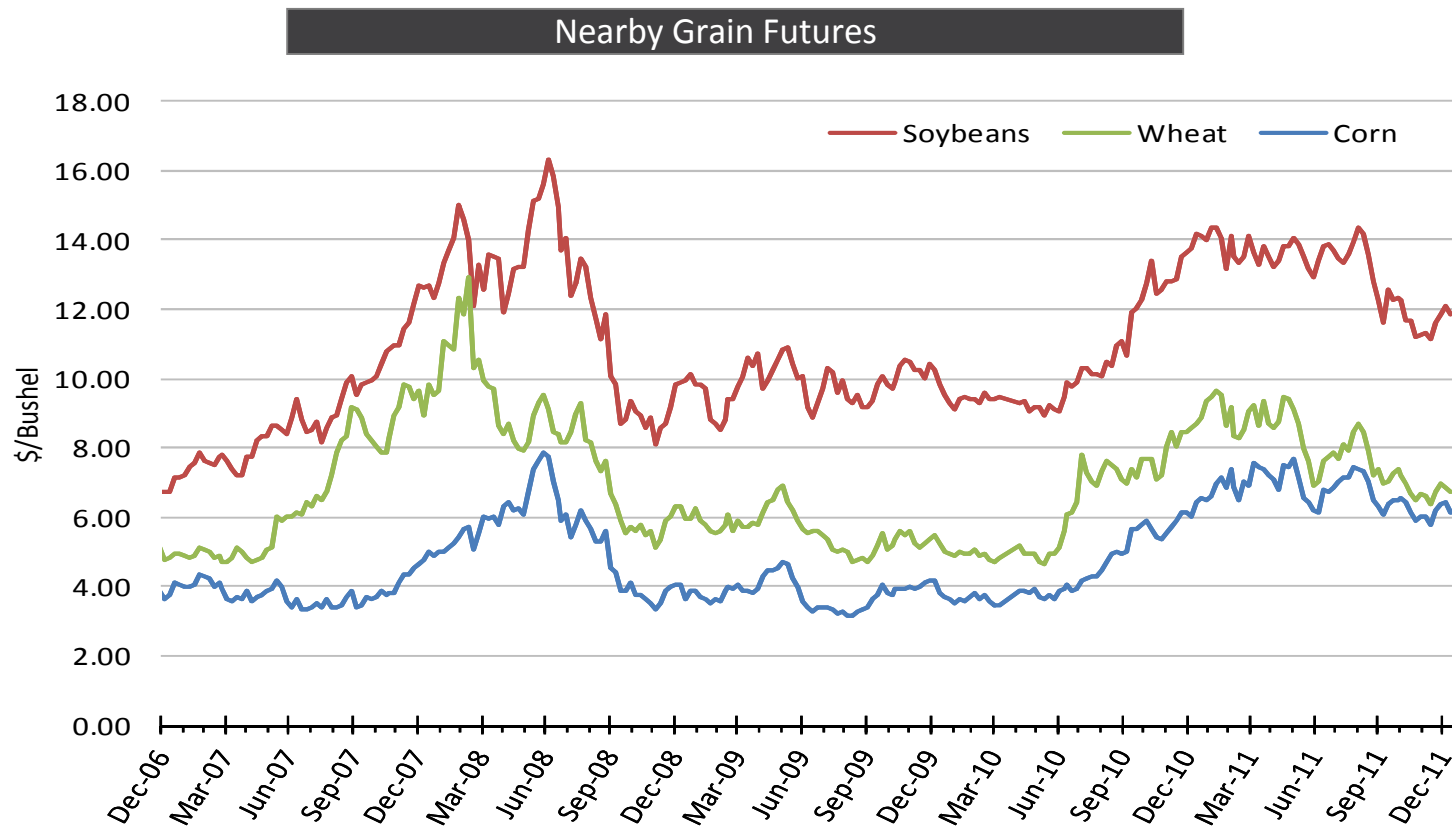
- More closely monitored commodities price increases an indication of inflation?



Source: Bloomberg

Commodity Market Volatility

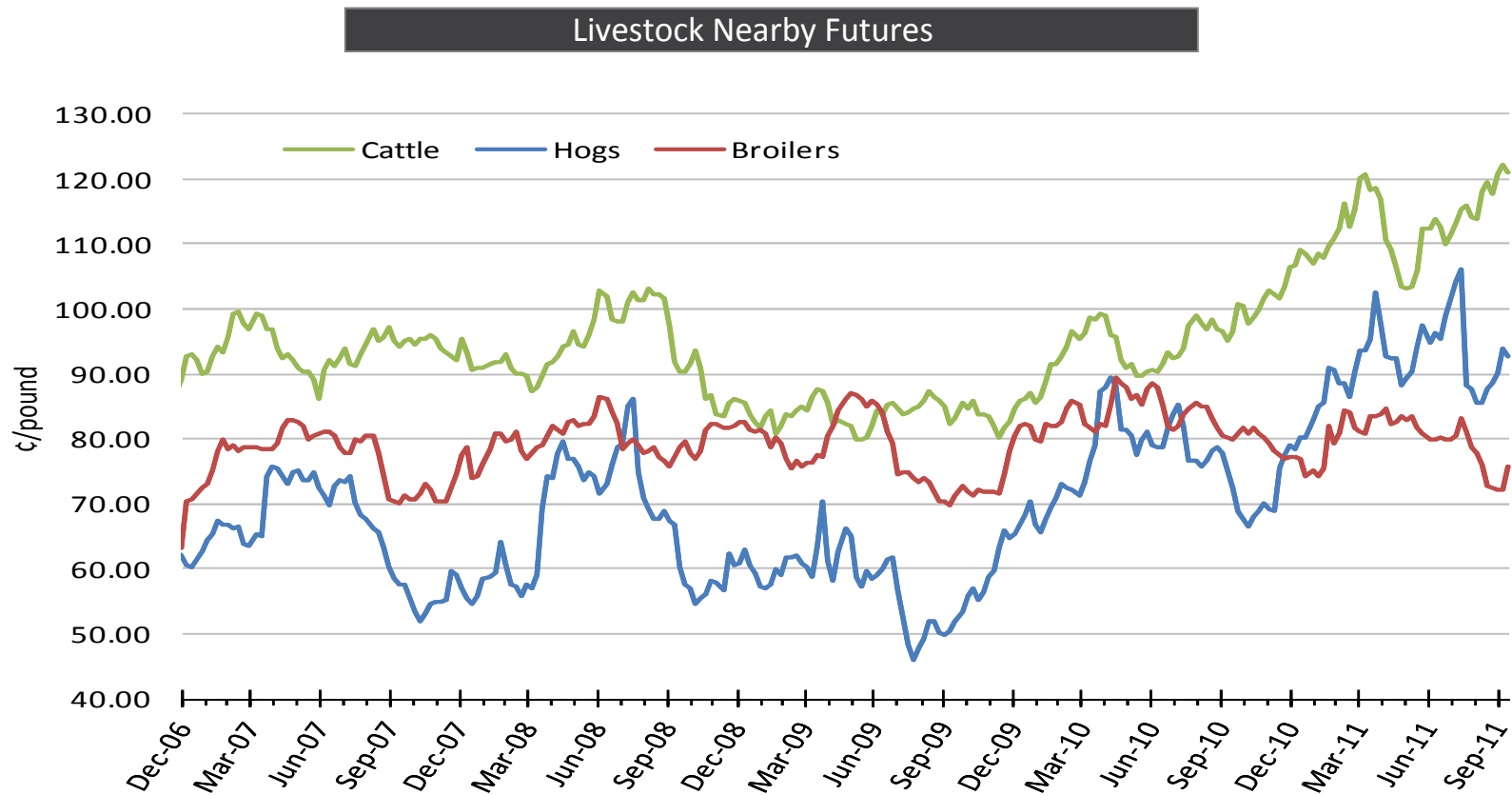
- Grain commodities have been impacted by lower reported production and stocks.



Source: USDA Economic Research Service

Commodity Market Volatility

- Increasing livestock prices reflect increased costs for feed and processing.



Source: Livestock Marketing Information Center

M&A Outlook, 2012 and Beyond

April 3, 2012

Chuck Adair
Vice Chairman
BMO Capital Markets

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The State of Agribusiness
FINANCING, DEAL MAKING AND PROSPECTS FOR 2012

Recent M&A News in Agribusiness

Glencore announces definitive agreement to acquire Viterra

Gavilon a target: The takeover rumours in

EC clears Cargill to buy Provimi

Agco acquires GSI for \$940M

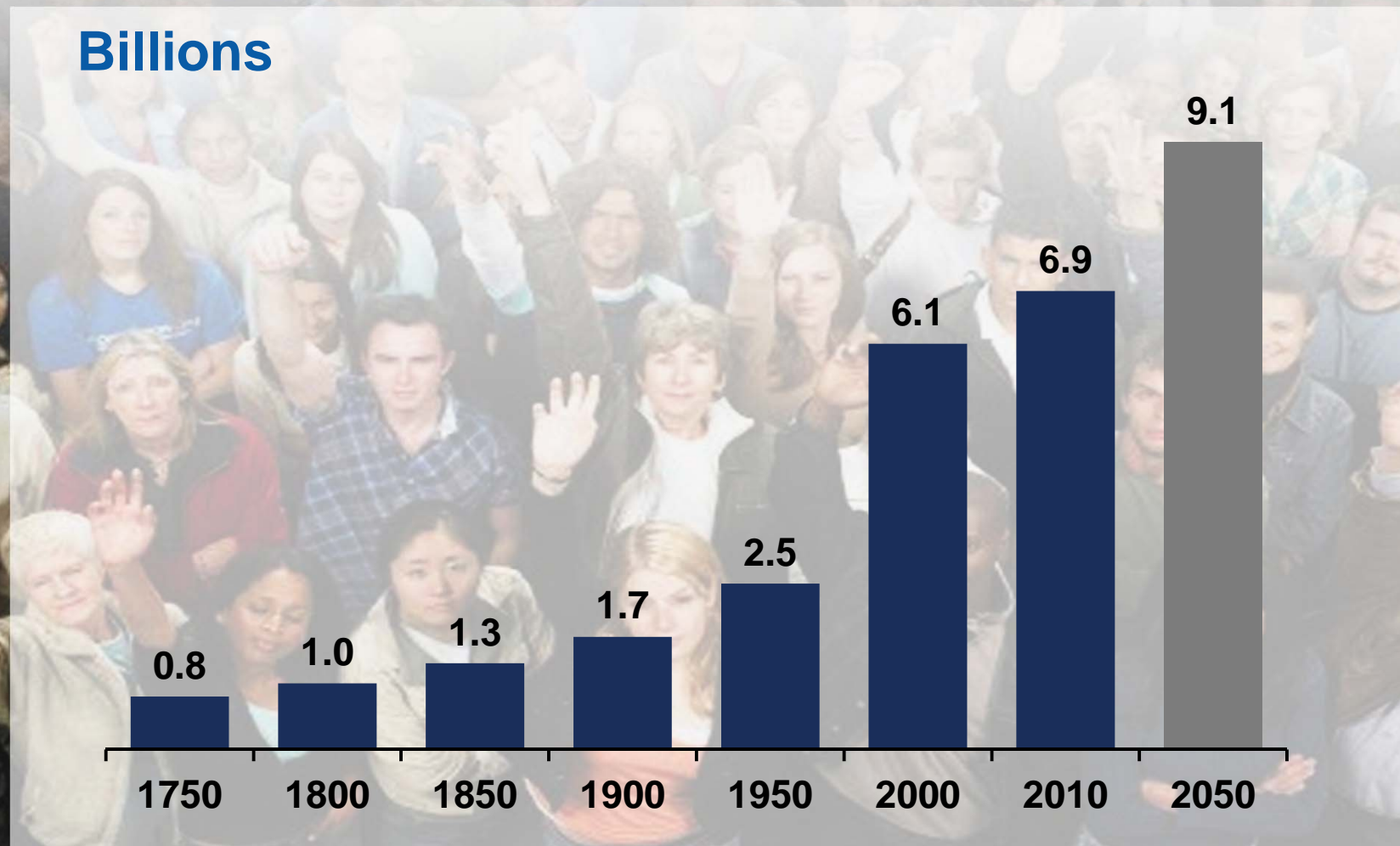
Allen Family Foods sold to Harim

Olsen's Brothers Enterprises sells grain storage assets

Supporters Of BPI's Product Say, "Dude, it's Beef!"

Source: Beef Magazine, Fairfax Media Limited, Financial Deals Tracker, Mergermarket, The Deal Pipeline, and The Globe and Mail

Global Population Growth



Source: United Nations

Growth Concentrated in Undeveloped Nations

Population (billions)

10
9
8
7
6
5
4
3
2
1
0

2011

Undeveloped Nations

Developed Nations

1950

1970

1990

2010

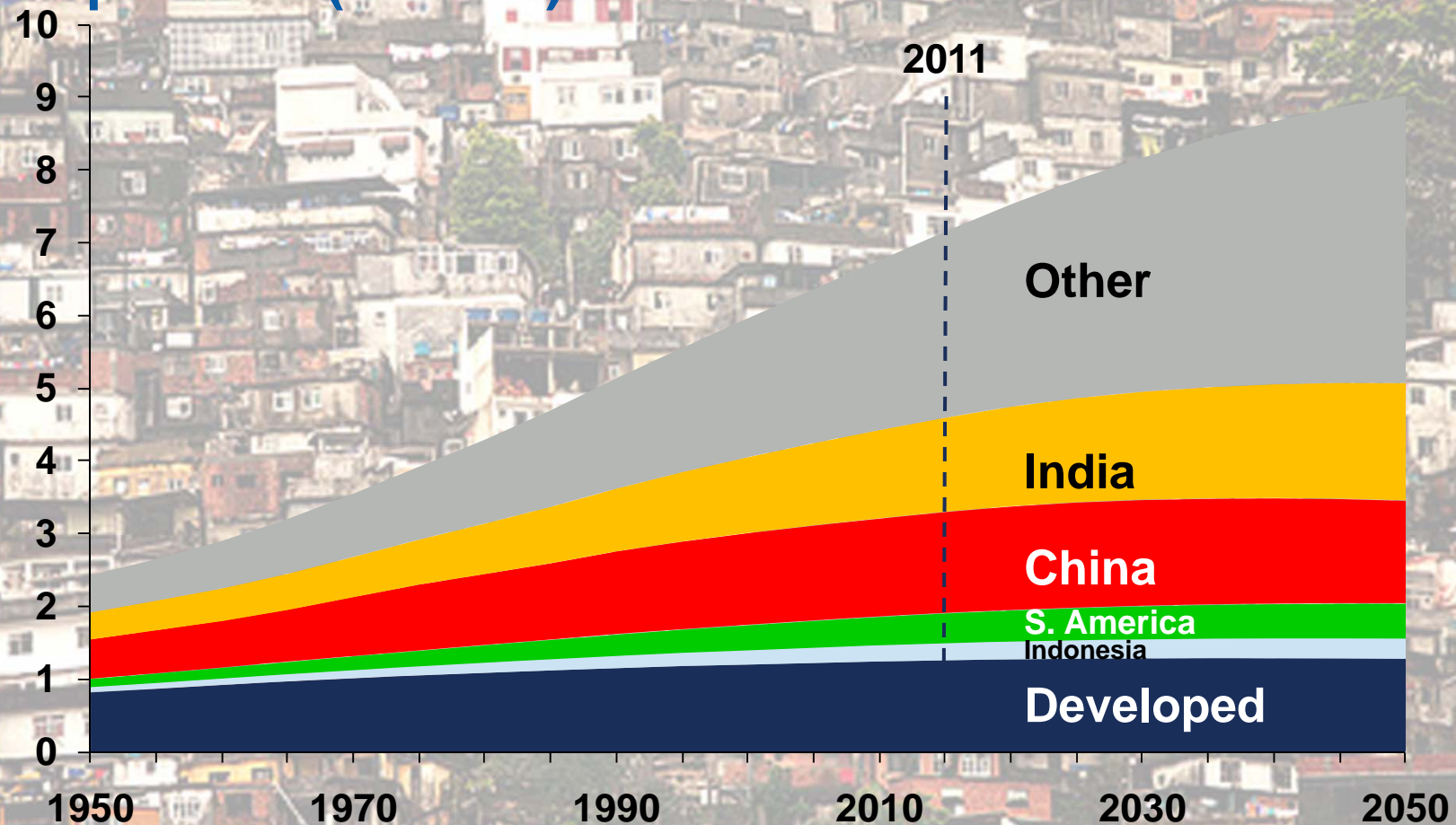
2030

2050

Source: United Nations

Growth Concentrated in Undeveloped Nations

Population (billions)

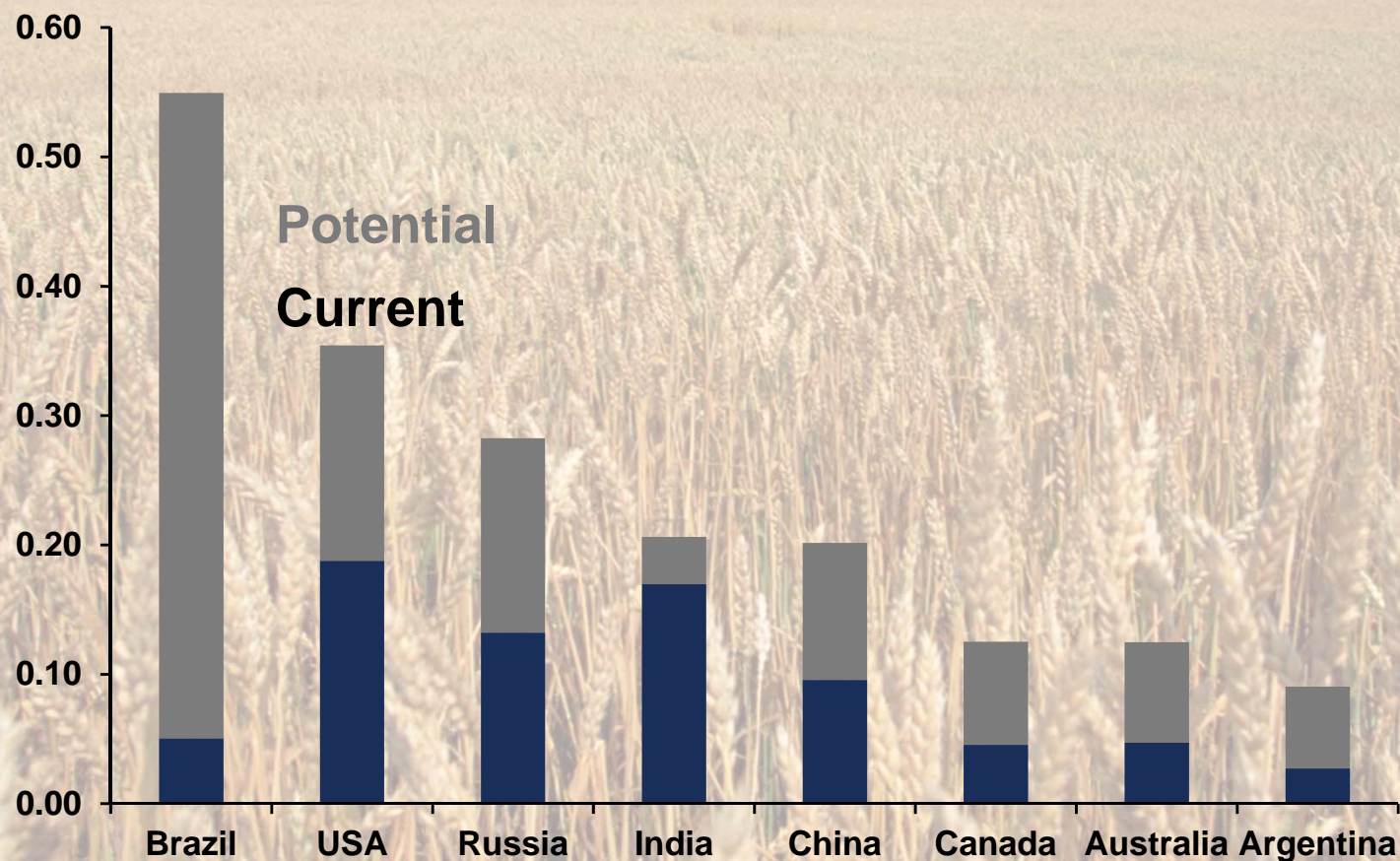


Source: United Nations

Note: "Developed" includes all regions of Europe plus Northern America, Australia/New Zealand and Japan.

Arable Land Is Finite

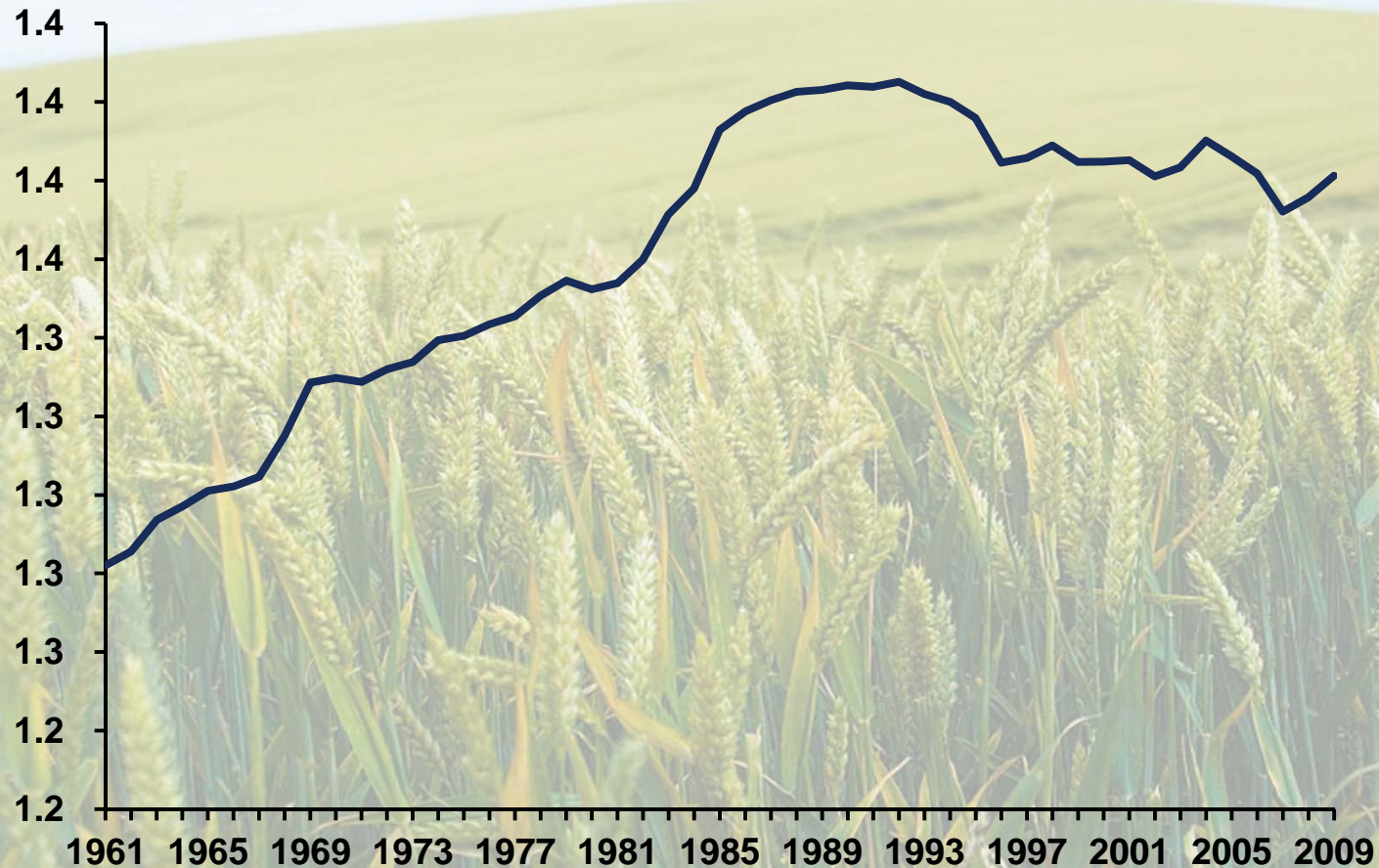
Billion hectares



Source: Food and Agriculture Organization of the United Nations

Global Arable Land

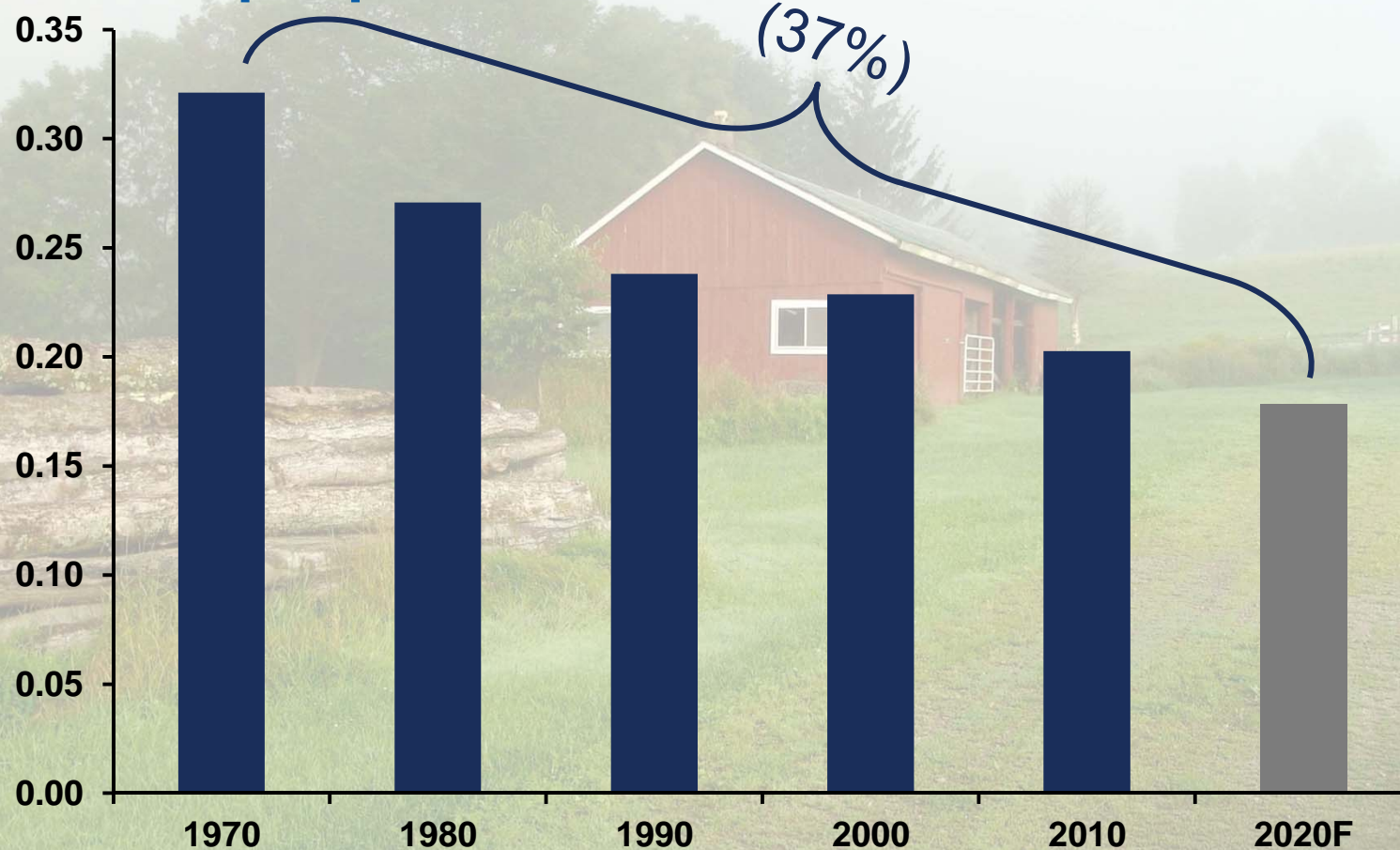
Billion hectares



Source: Food and Agriculture Organization of the United Nations

Global Arable Land Per Person

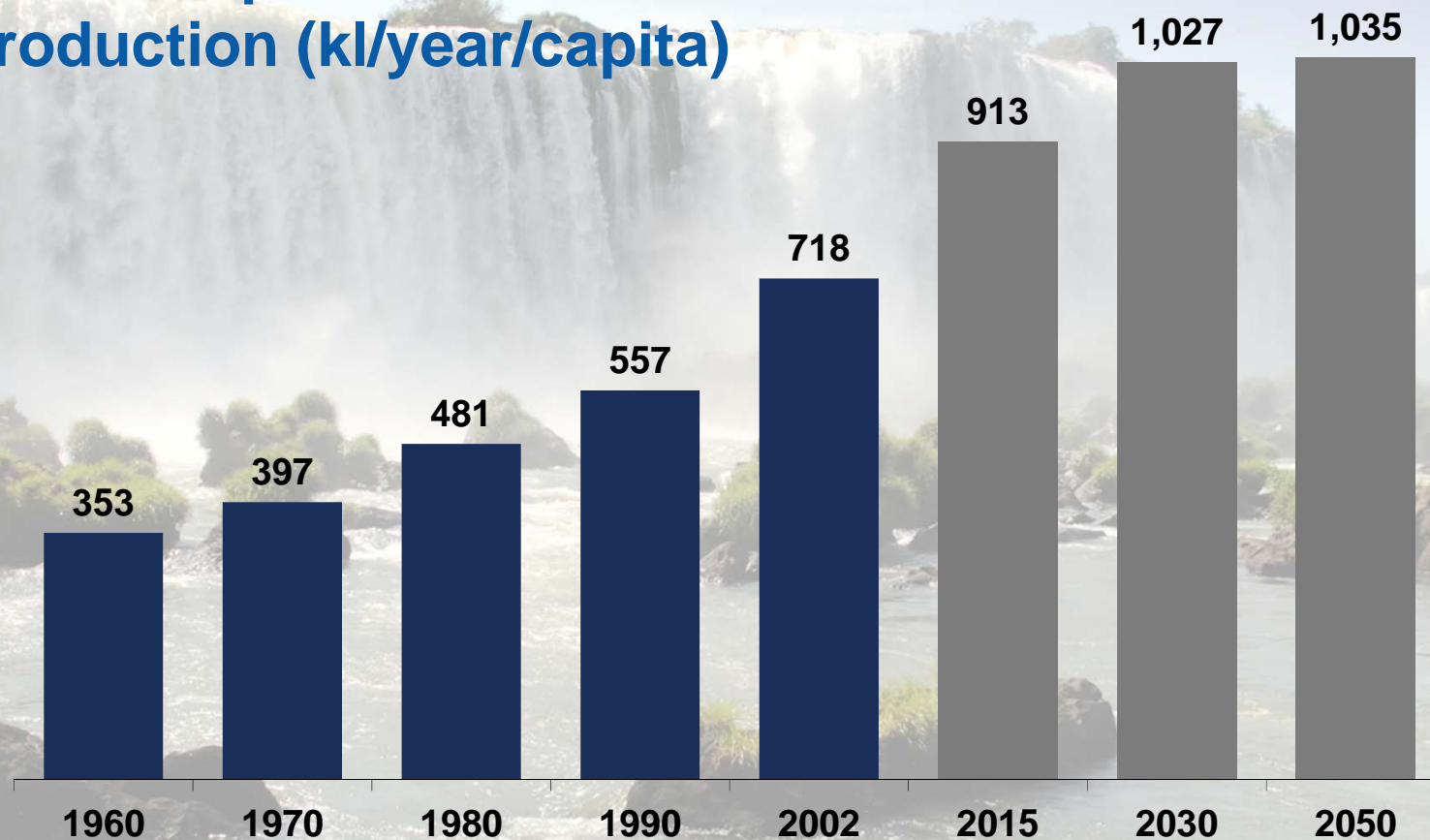
Hectares per person



Source: Food and Agriculture Organization of the United Nations, World Bank

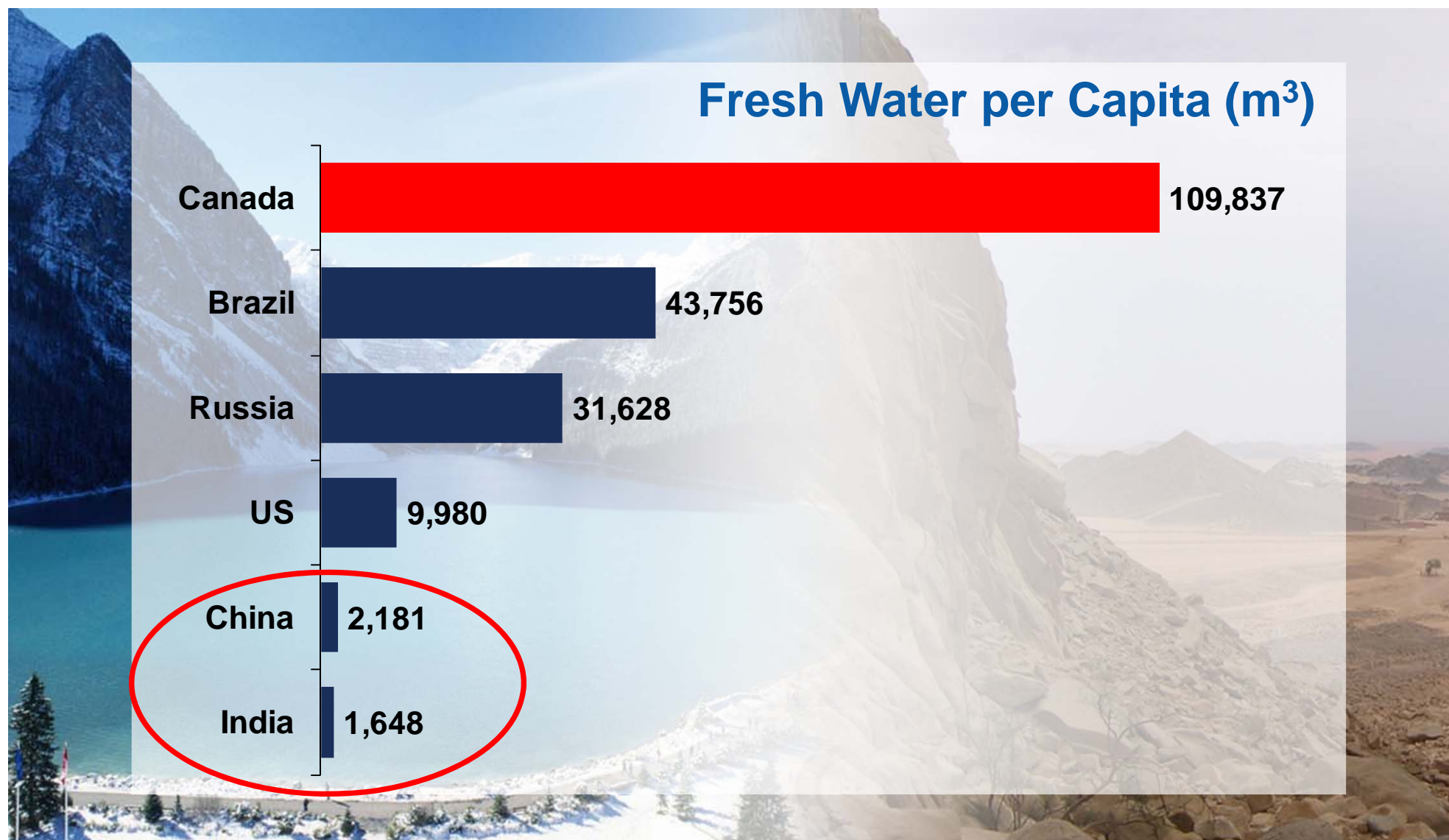
Fresh Water Need for Food Production Increasing

Water Requirements for Food Production (kl/year/capita)



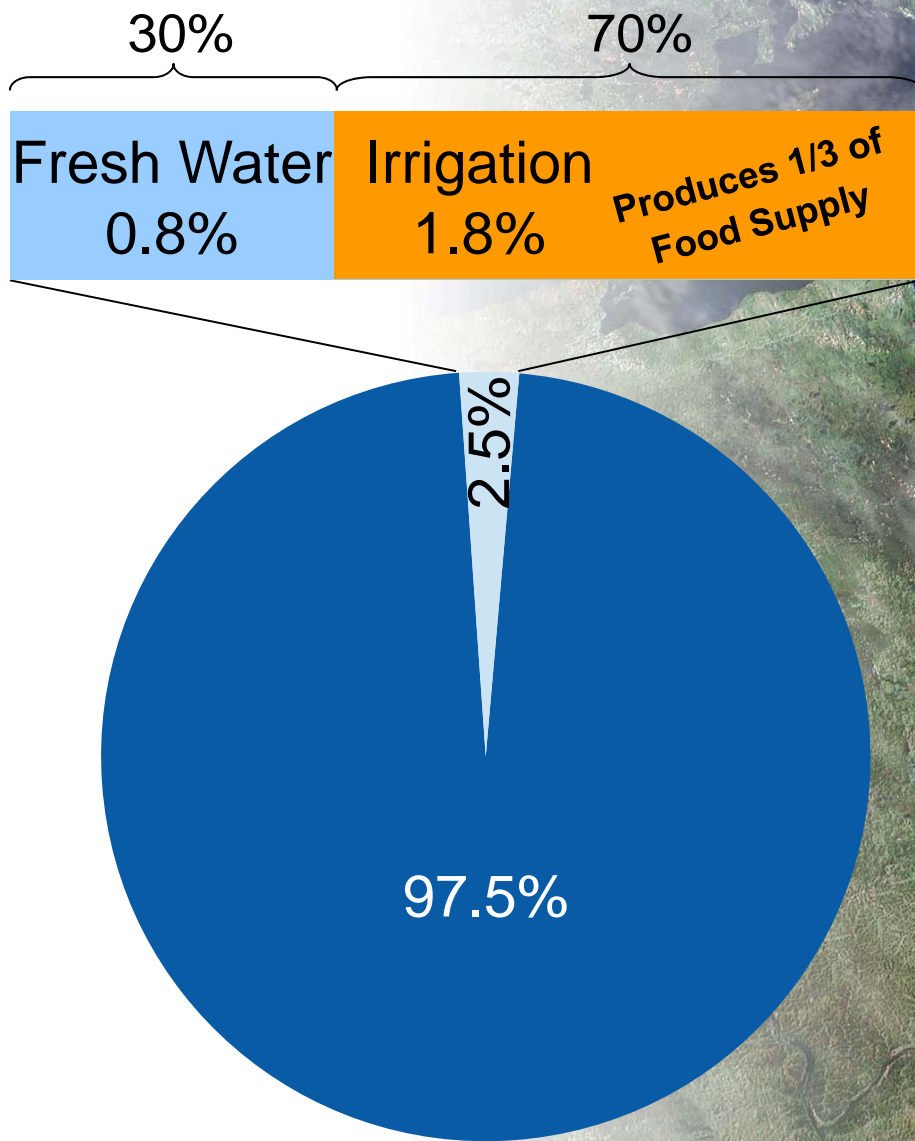
Source: United Nations Environment Programme

Water Resources are Distributed Unevenly

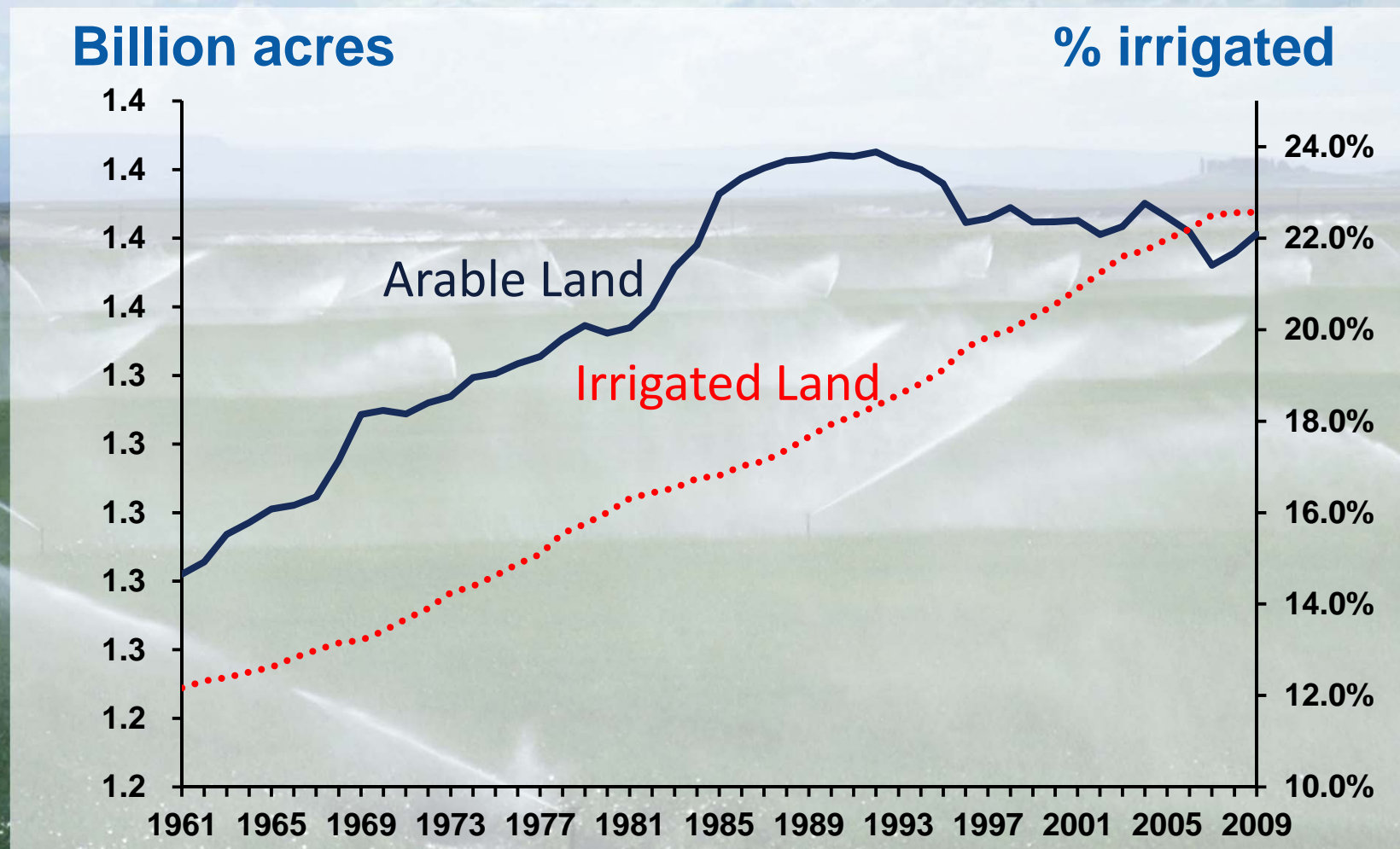


Source: Food and Agriculture Organization of the United Nations, International Food Policy Research Institute (Projections)

Available Fresh Water is Limited

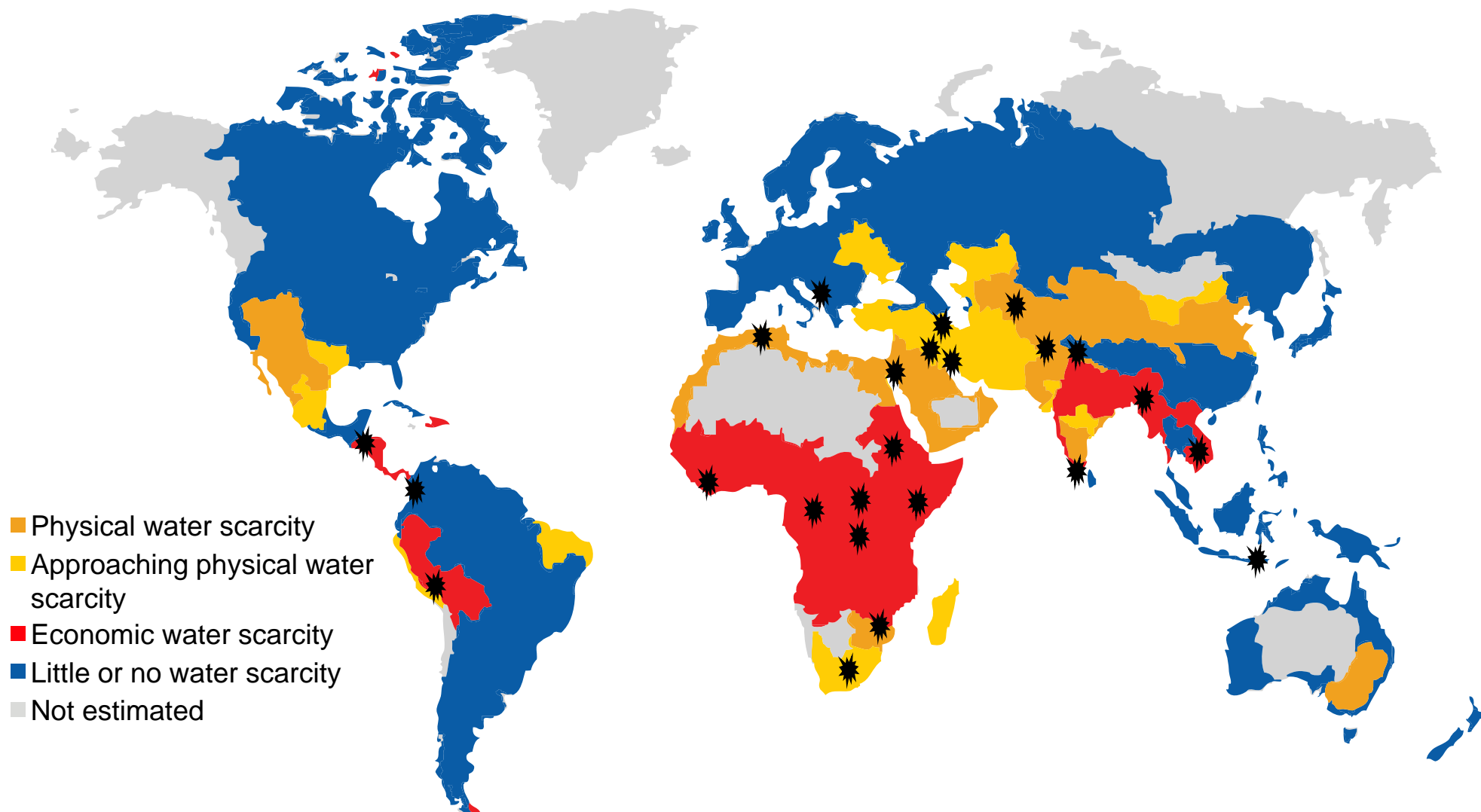


Global Irrigated Land

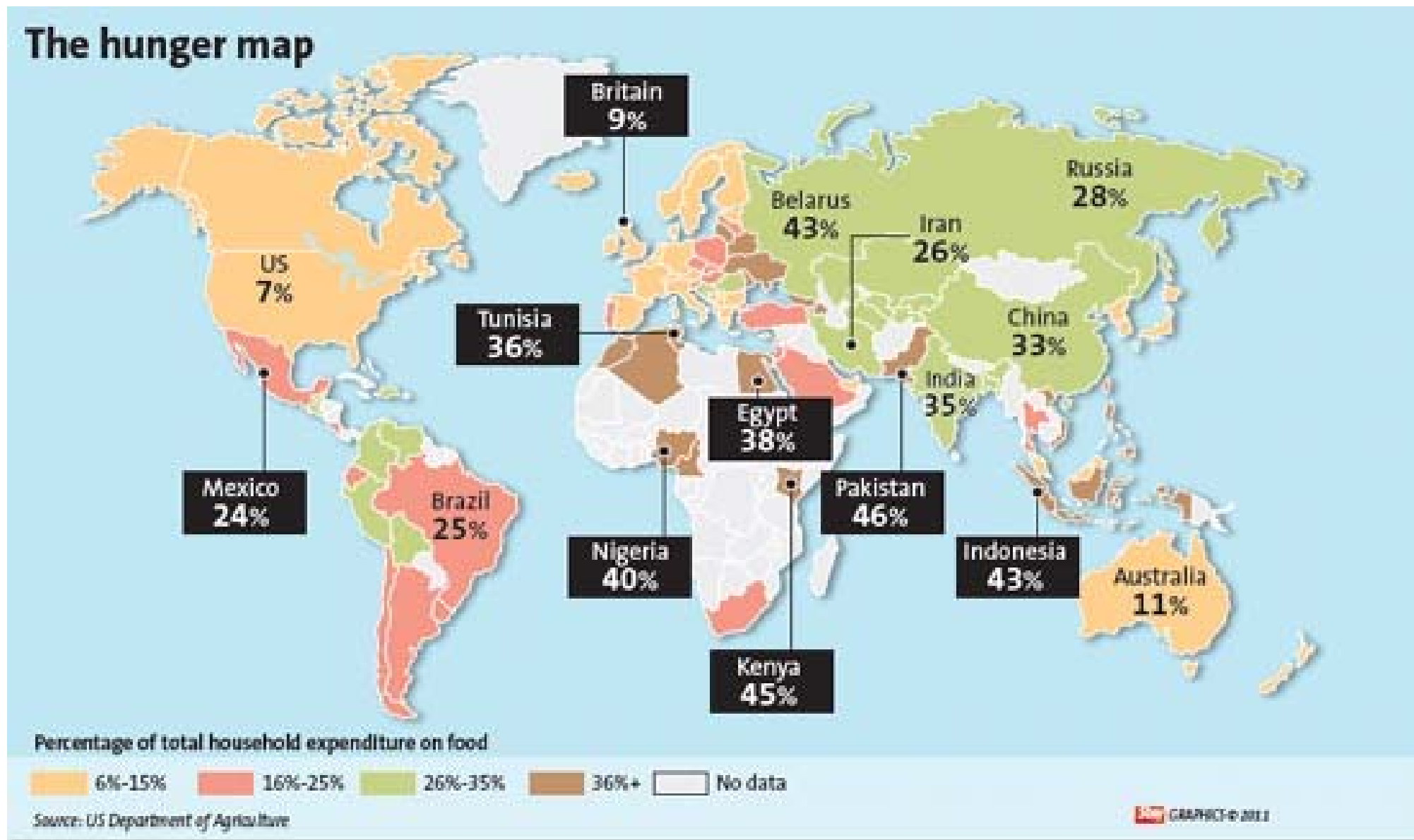


Source: Food and Agriculture Organization of the United Nations

Water Scarcity



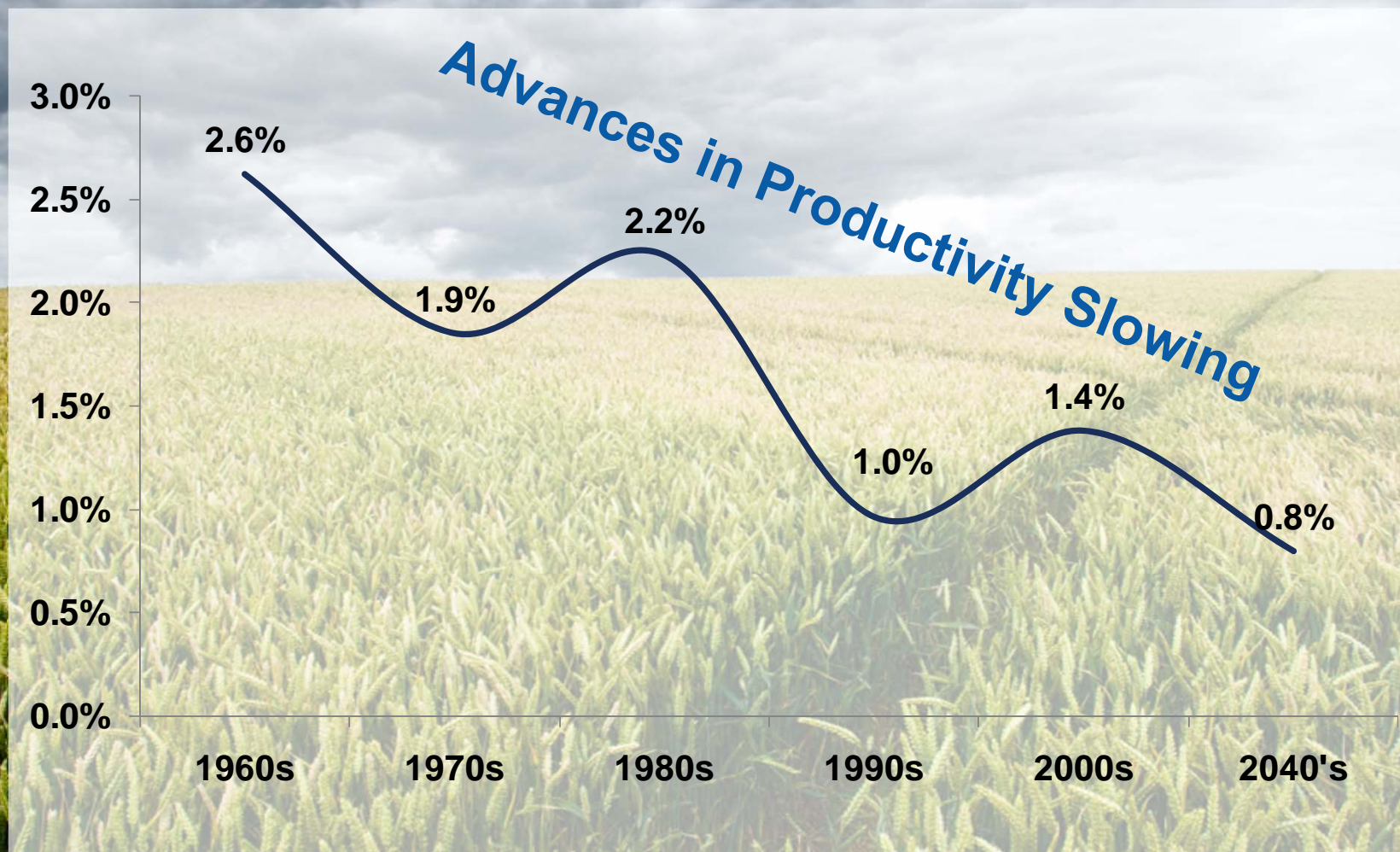
Food Expenditures



Camels Need Water Too



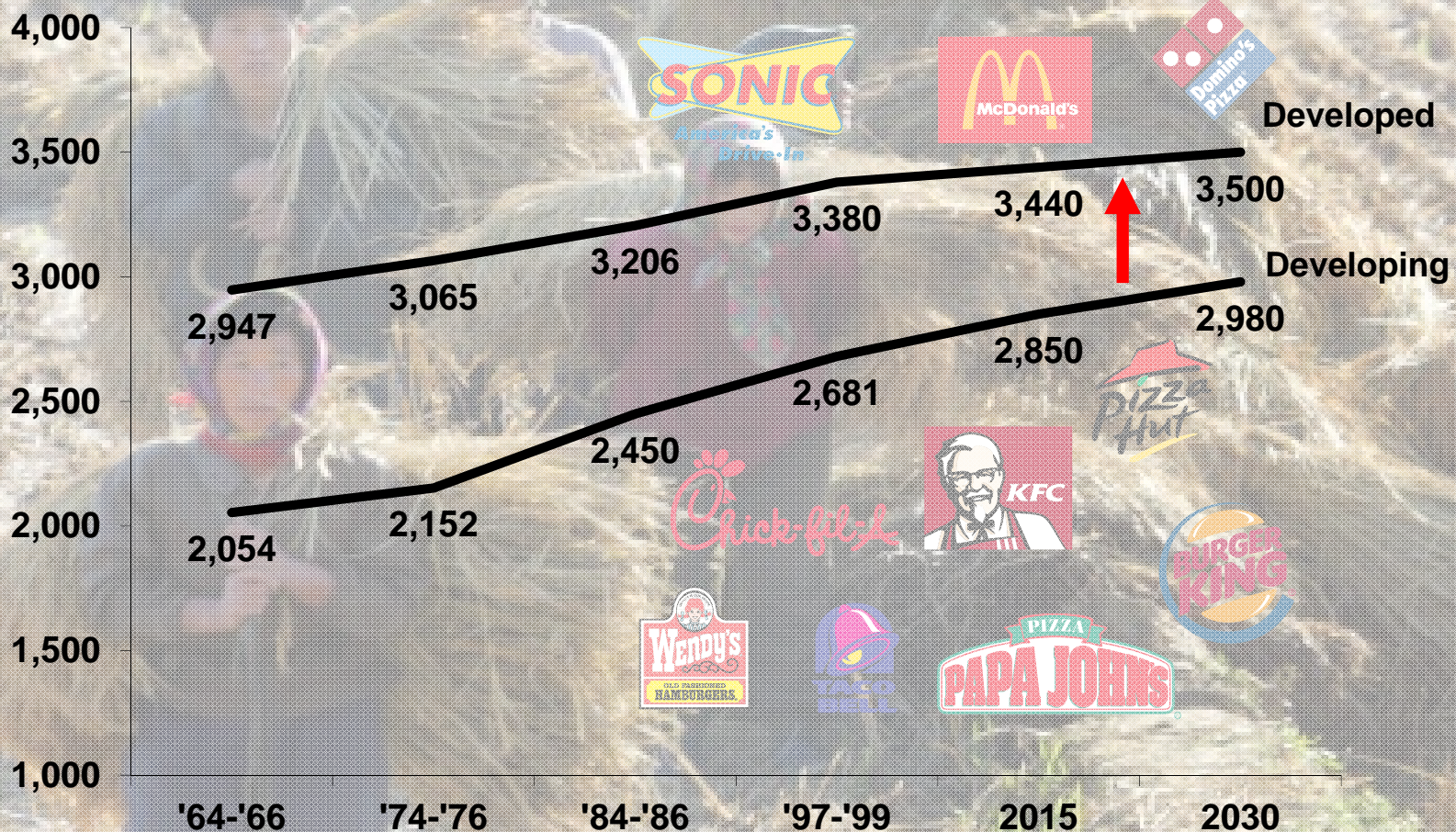
Average Annual Productivity Growth Rate



Source: Food and Agriculture Organization of the United Nations, International Food Policy Research Institute (Projections)

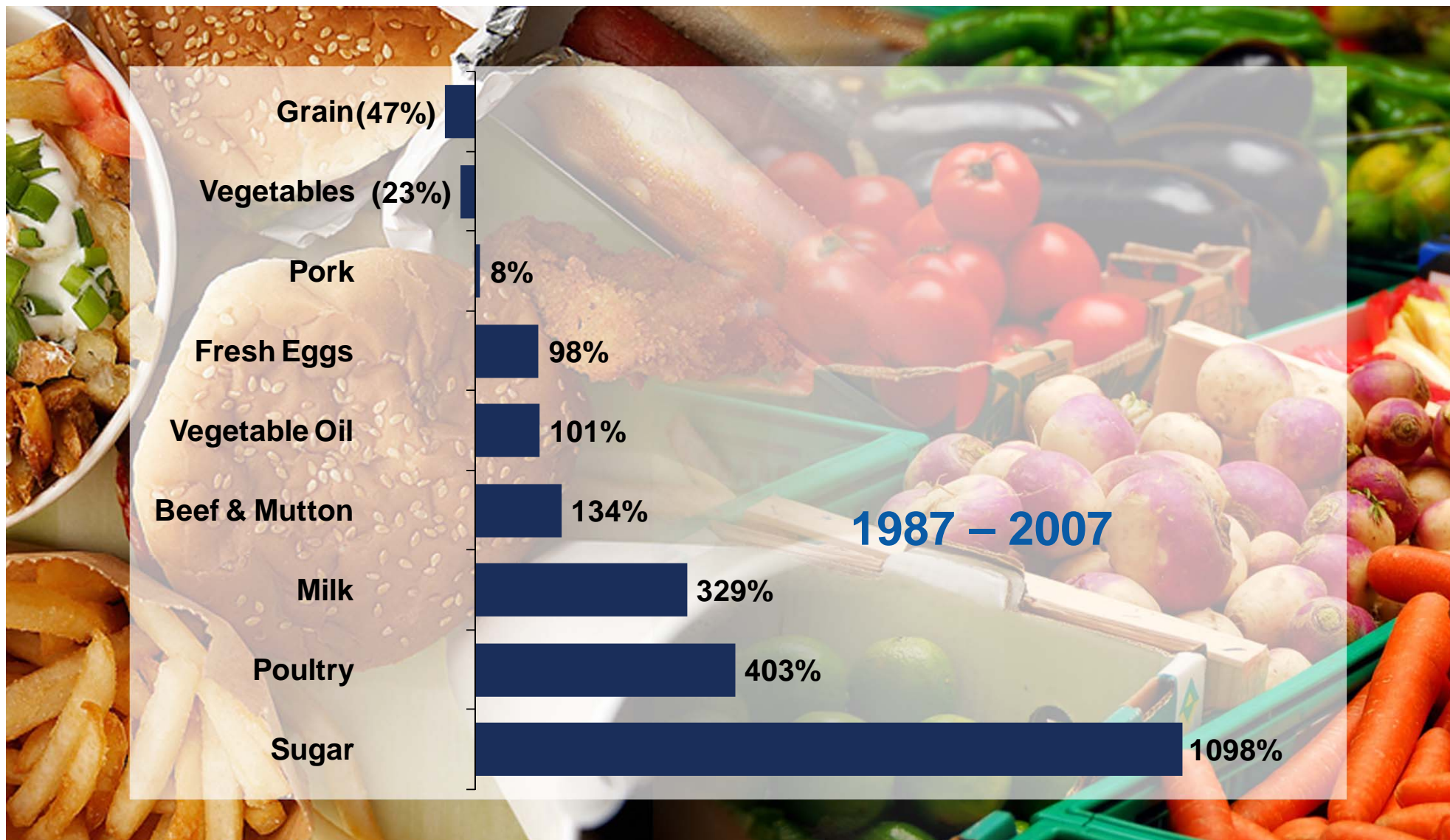
Developing World's "Expanding" Middle Class

Consumption (kcal/day/capita)



Source: Food and Agriculture Organization of the United Nations

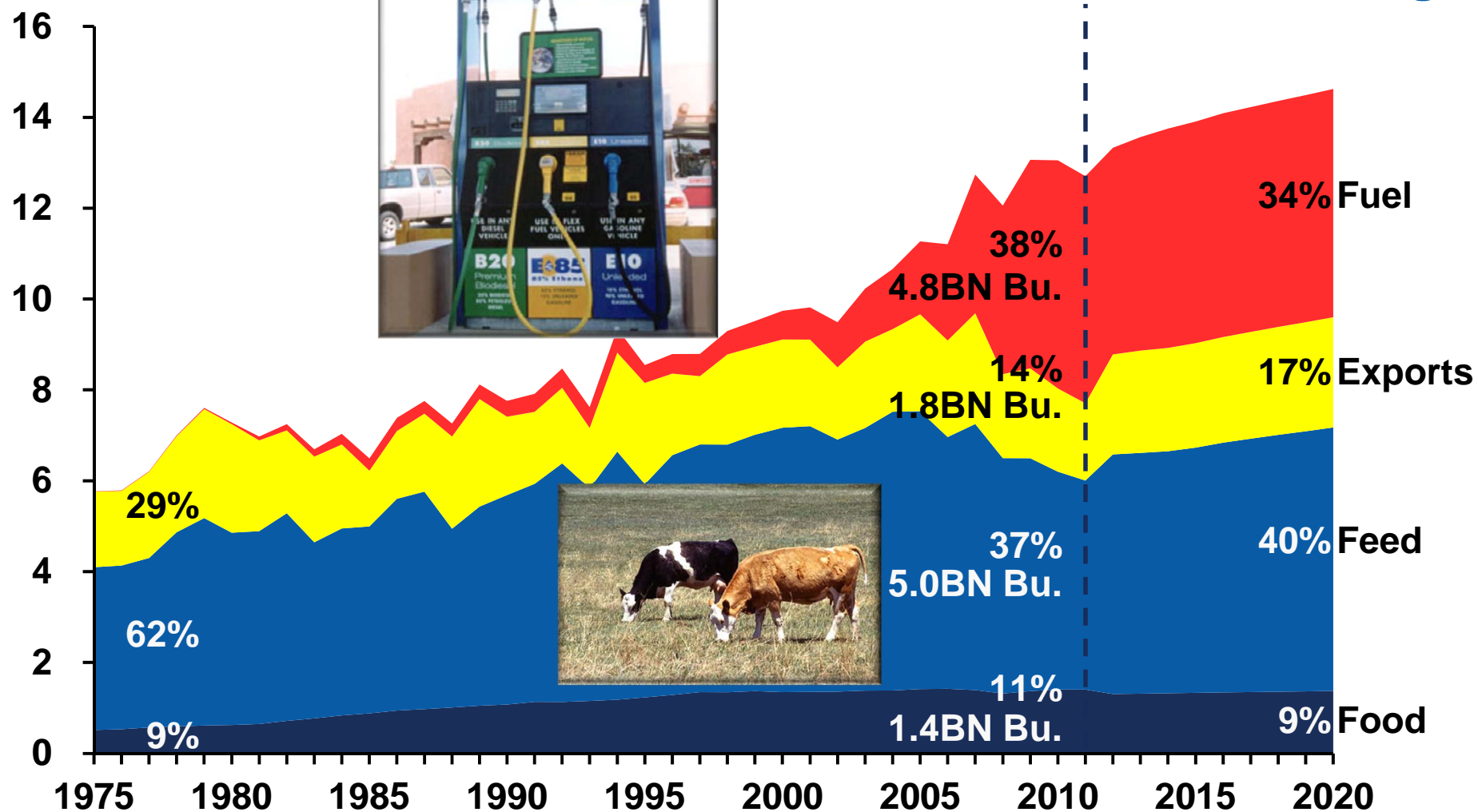
Change in Chinese Urban Household Food Consumption



Source: U.S. Department of Agriculture

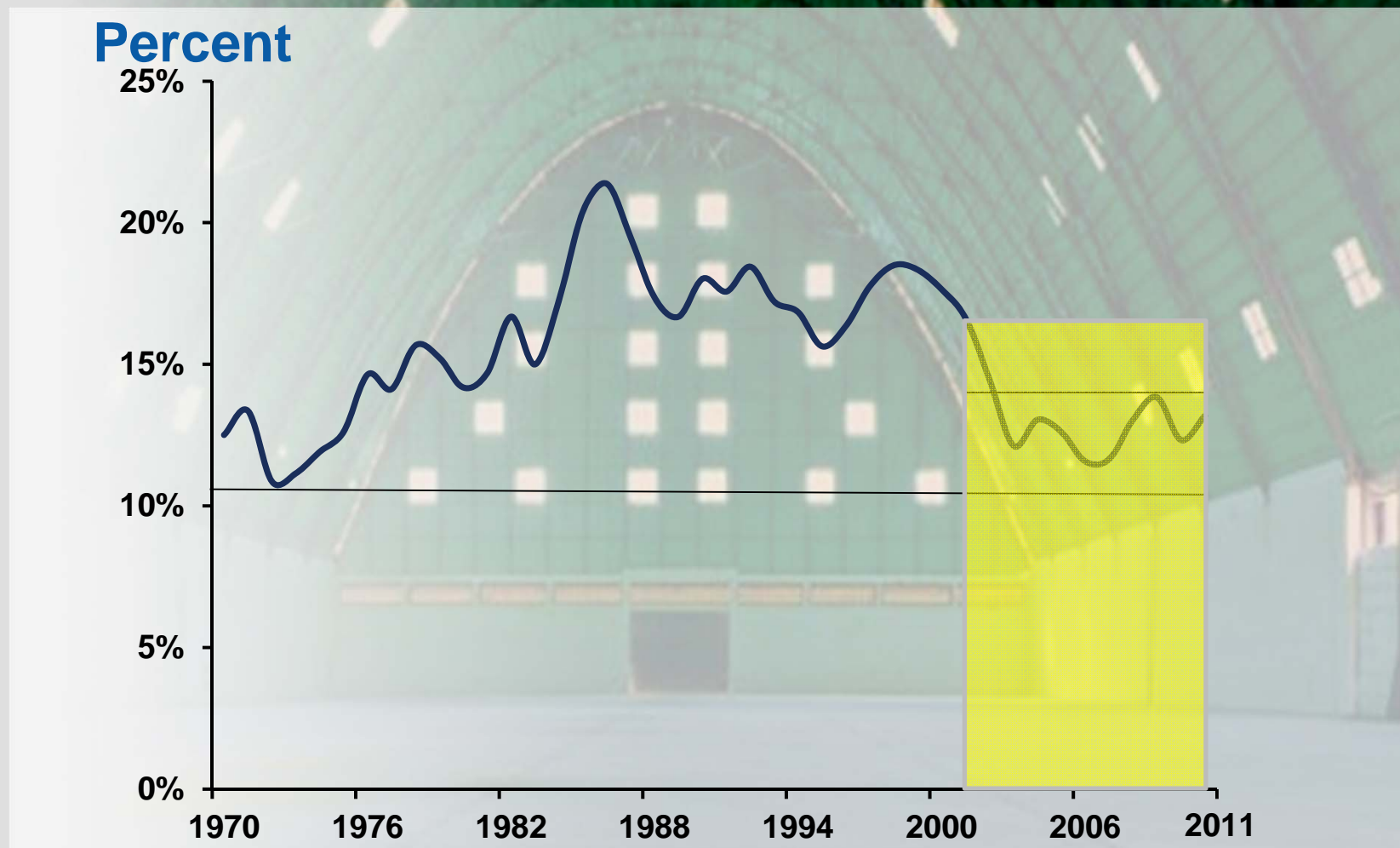
Bio Fuels Demand

Billion bushels



Source: U.S. Department of Agriculture

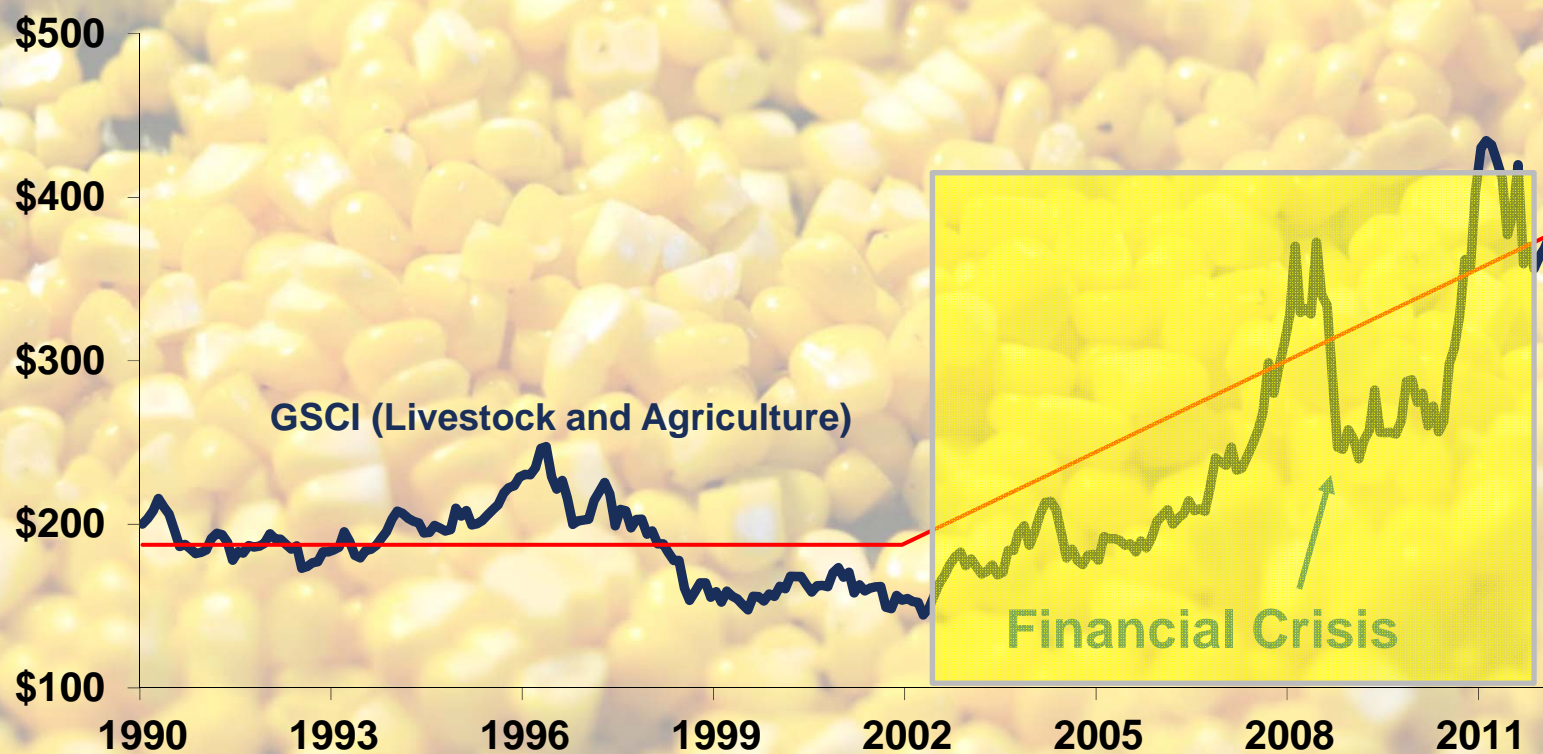
Global Year End Crop Reserves...Fragile



Source: U.S. Department of Agriculture
Note: Index comprised of grains and oilseeds

Commodity Prices

Super Cycle Resumes



Source: FactSet

Note: GSCI comprises the GSCI Agriculture and GSCI Livestock indices, evenly weighted

Summary of the Global Food Supply Dynamics





M&A Outlook, 2012 and Beyond Panel

Charles Adair

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Jamie Garrett

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Issues Surrounding the 2012 Farm Bill Debate



Joe Glauber

Chief Economist
USDA

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The State of Agribusiness
FINANCING, DEAL MAKING AND PROSPECTS FOR 2012

Outline

- 2012 Farm Bill in historical context
- Budget
- Direct payments
- Chairs' proposal
- WTO implications

Reforms in farm policy, 1985-96



- Lower support prices
- Moves towards greater planting flexibility
- Moves towards decoupling payments from plantings
- Conservation programs

1996 farm bill



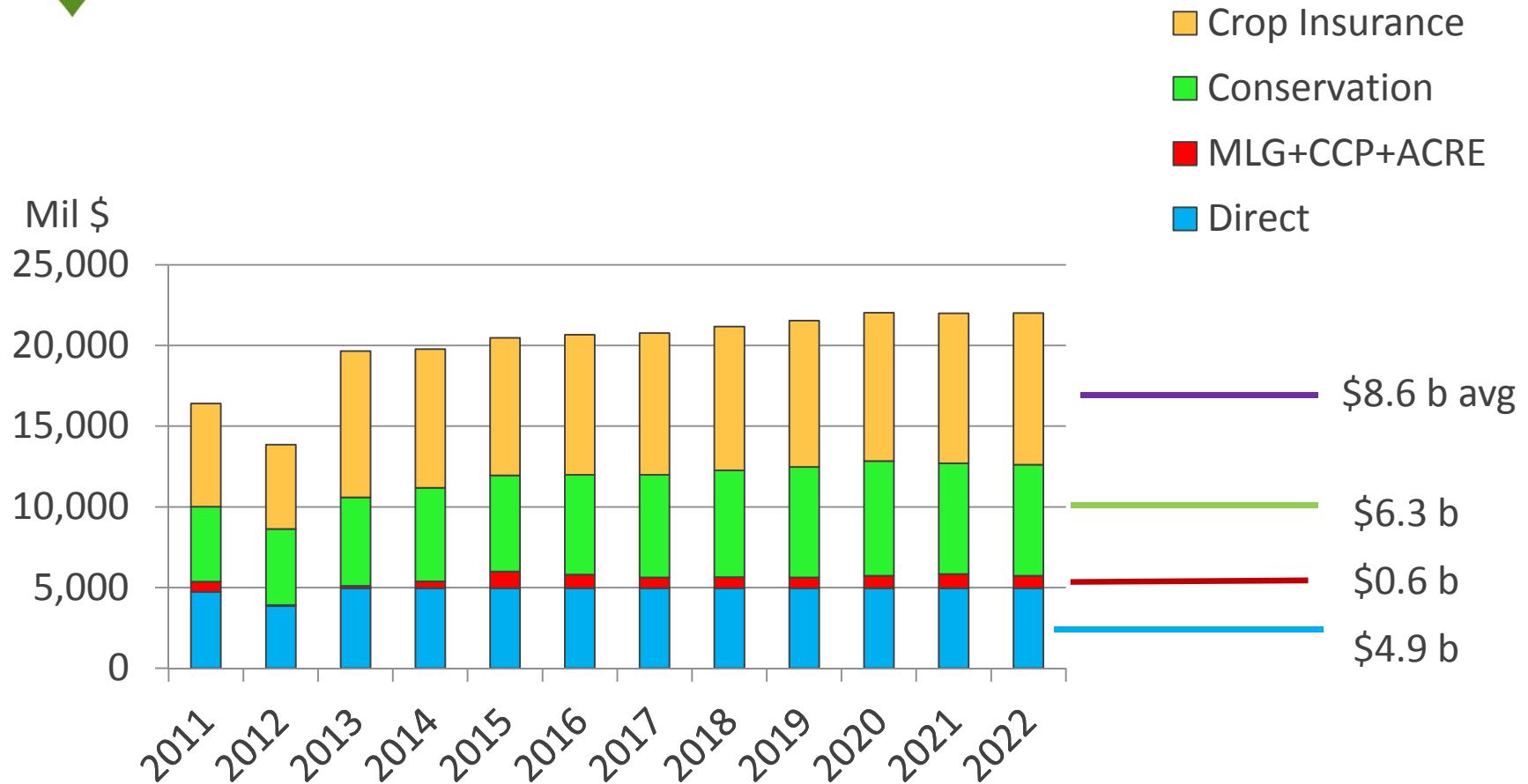
- Freeze loan rates
- Eliminate set asides; [almost] full planting flexibility
- Replace deficiency payments with fixed transition payments
- Eliminate honey and wool; phase out dairy support

The “counter-reformation”



- Collapse in prices in late 1990s => ad hoc legislations
- Dairy program is extended
- 2002 Farm Bill
 - Raised loan rates; extended to pulses
 - Reintroduced counter-cyclical payments
 - Updated payment bases
- 2008 Farm Bill
 - ACRE
 - SURE

Projected Outlays Selected programs



Source: CBO Baseline—March 2012

Budget proposals

- Administration FY 2013 budget: \$32 billion cut over 10 years
- Ag Committees: \$23 billion cut over 10 years with \$15 bil coming from commodity programs
- House Budget FY 2013: \$33.2 cut over 10 years

Where to cut?

- Little savings in cutting in price/revenue-based programs
- Crop insurance program popular for most farmers
- Some savings from reduced CRP/CSP
- Bulk of savings from elimination of direct payments (\$49 billion over 10 years).

Dissatisfaction with Direct Payments

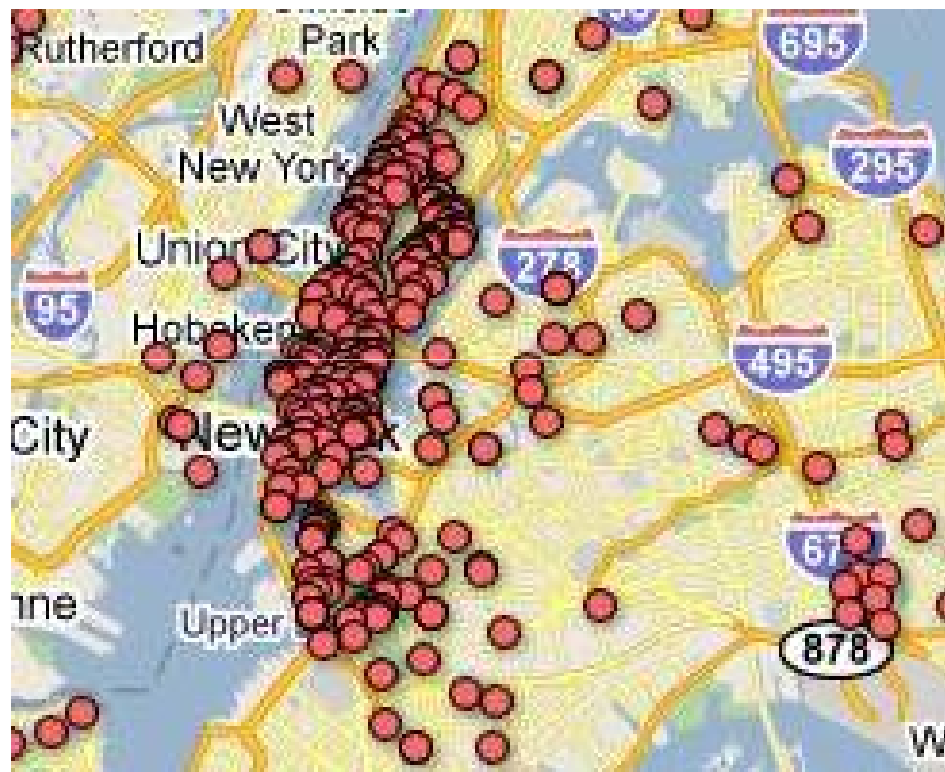


- Need for payments questioned in times of high prices
- Criticized as not providing adequate protection when prices are low (eg, late 1990s)
- Benefits accrue largely to landowners (and capitalized into rents)
- Wide differences between planted and base acres

But...

- For many producers, DPs are the only payments received over past several years
- Minimally trade distorting; notified as green box
- Tie to conservation compliance

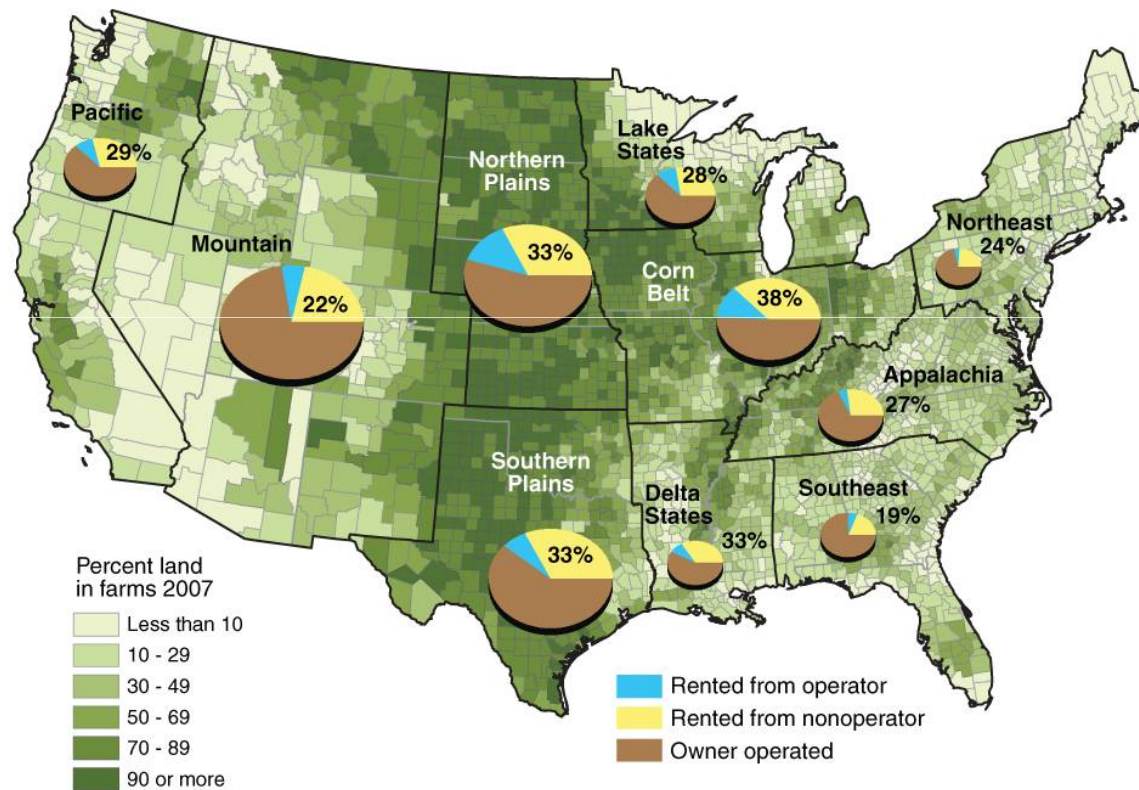
Direct payments—who benefits?



Source: EWG

Direct payments—who benefits?

Figure 14
Share of U.S. farmland, by ownership type, 2007

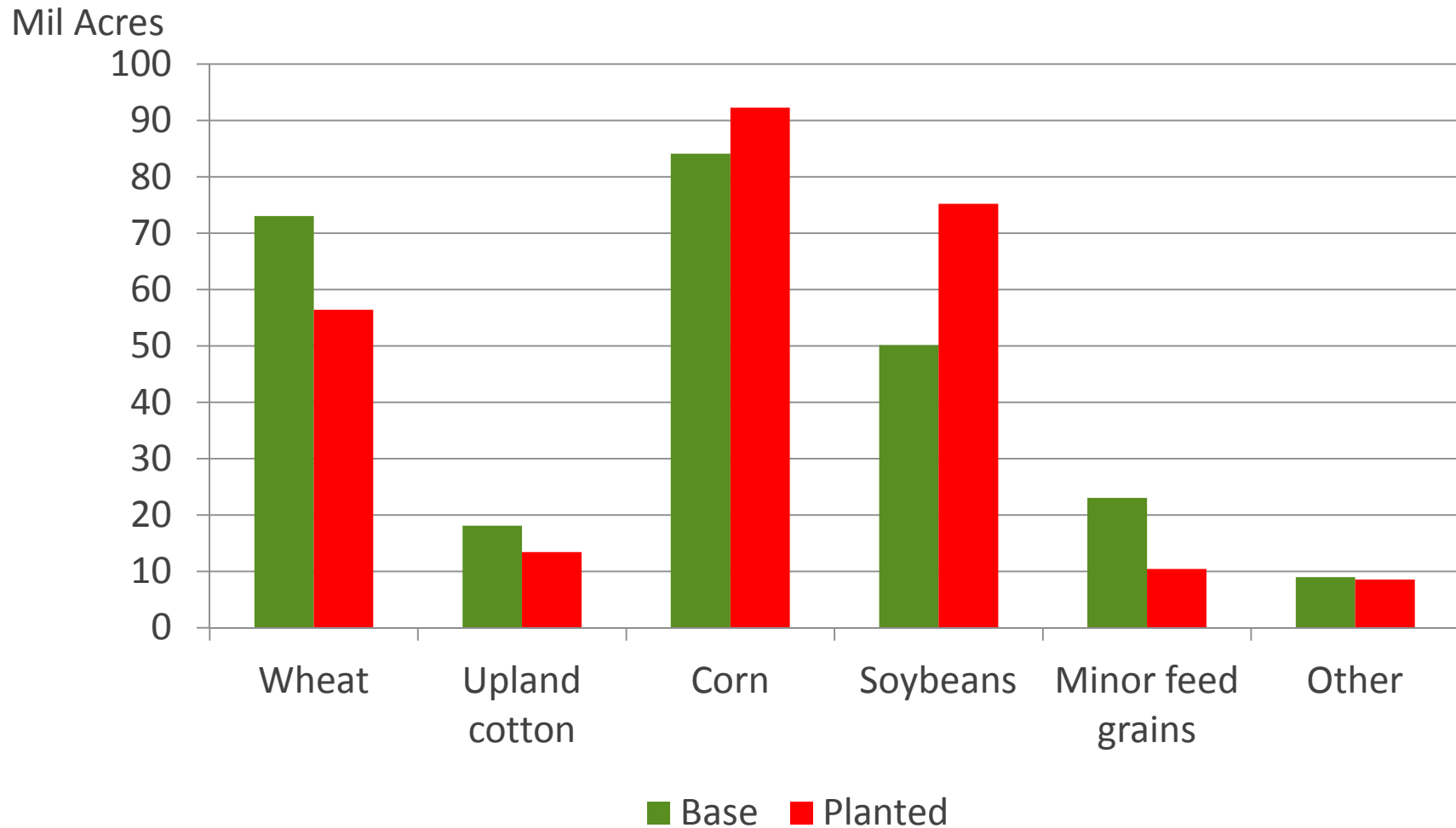


Source: USDA, National Agricultural Statistics Service.

Source: Nickerson et al. 2012

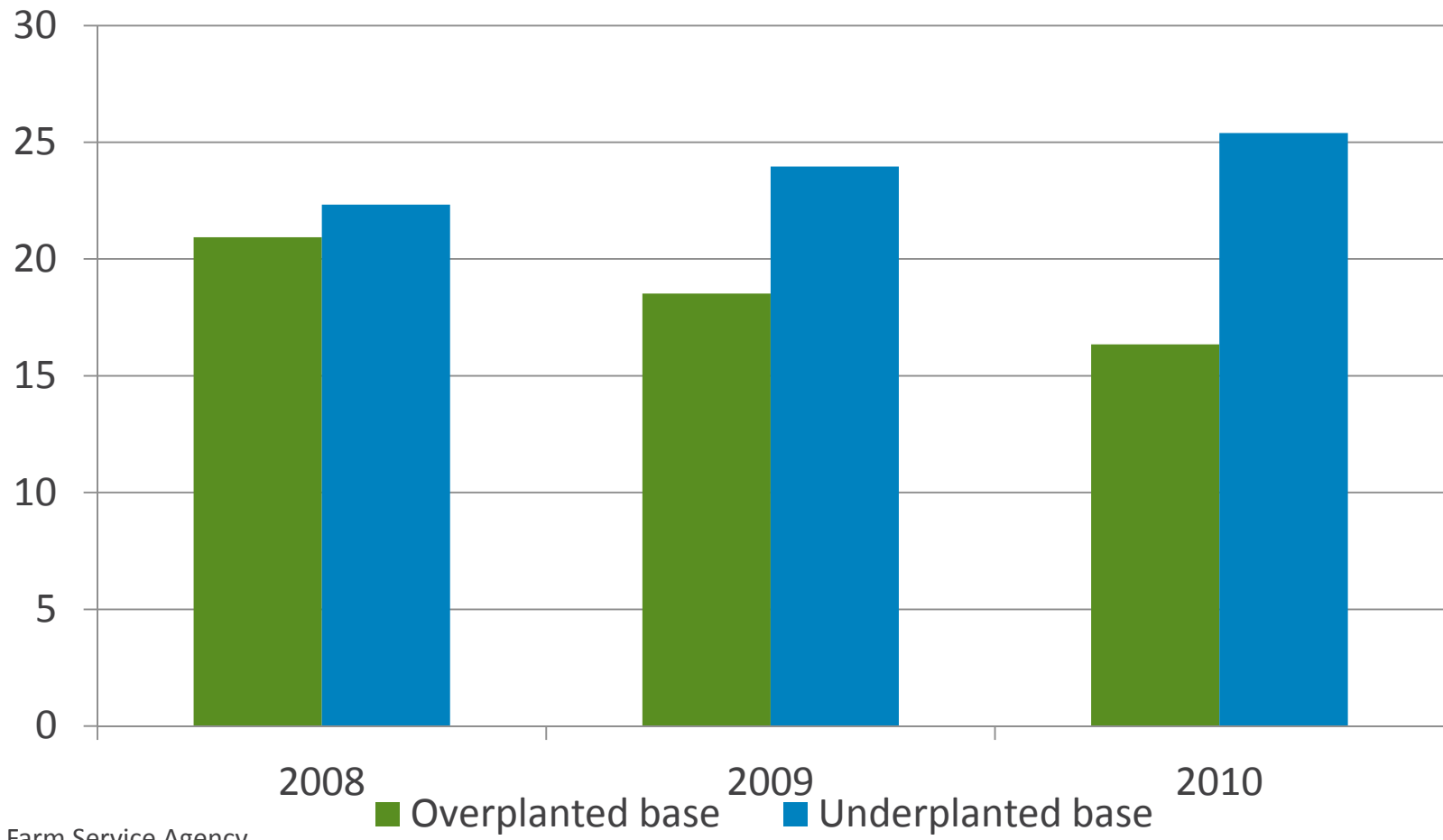
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Base versus Planted Acreage



Planted acres compared to base acres

Mil acres

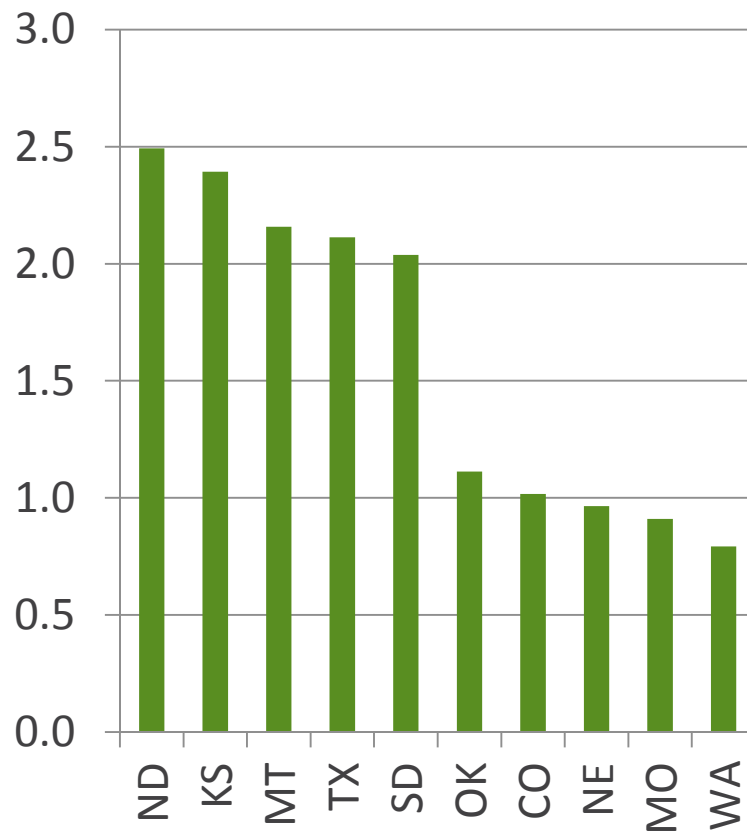


Source: Farm Service Agency

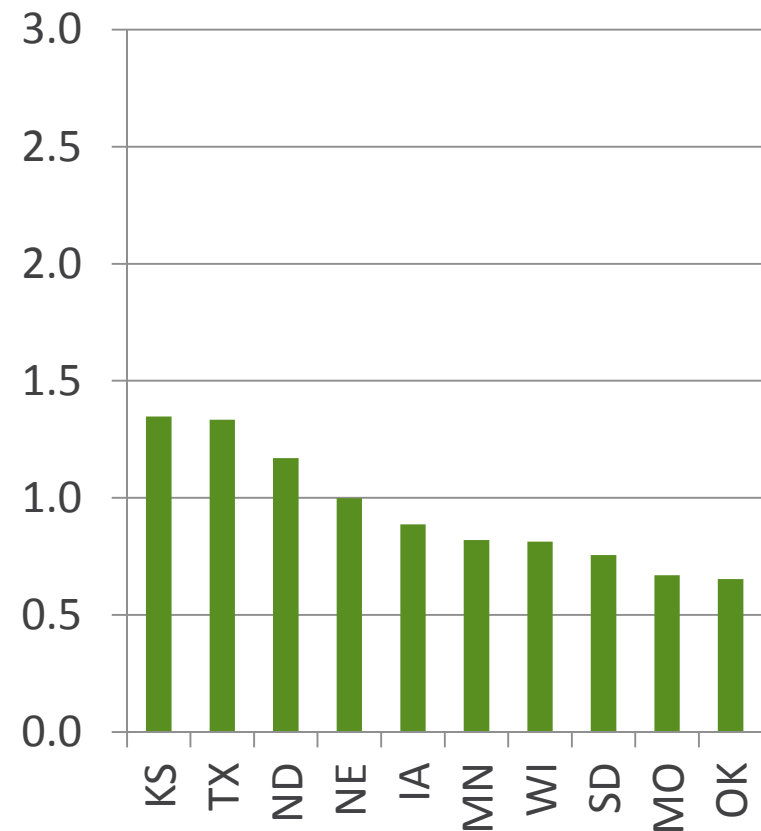
Planted vs Base Acres--2010 (mil acres)



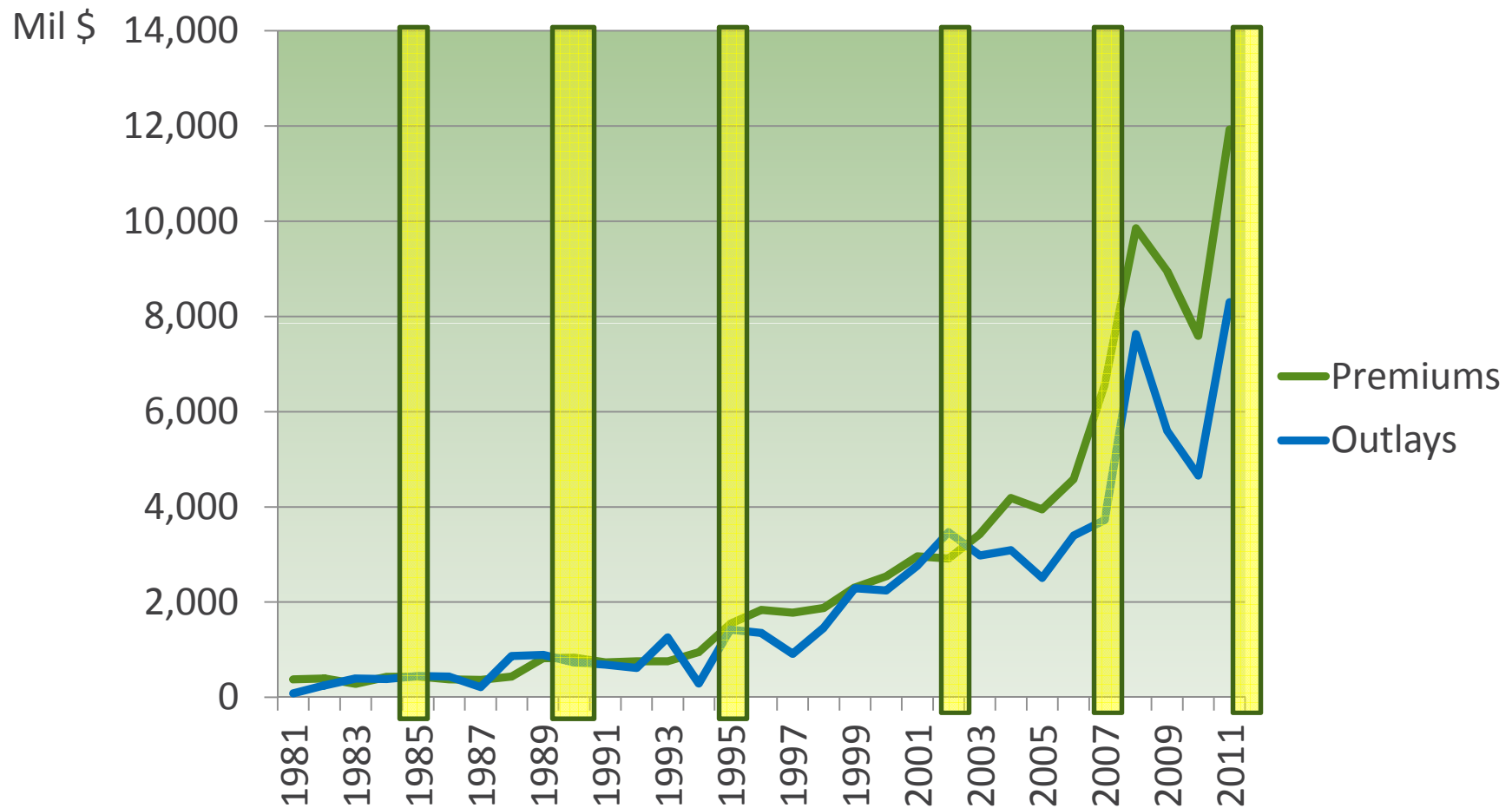
Underplanting



Overplanting



Growth of the crop insurance program



Chairs' Proposal to Super Committee

- Eliminate direct and countercyclical payments
- Agricultural Risk Coverage
 - Price loss coverage
 - Revenue loss coverage
- STAX for cotton
- Dairy
 - Eliminate product price supports/MILC
 - Dairy Producer Margin Protection Program
 - Dairy Market Stabilization Program

Agricultural Risk Coverage

- Producers would make a one time, irreversible decision between Price Loss and Revenue Loss Coverage
- Price Loss Coverage
 - Similar to CCP except payable on planted acres
 - Higher target prices
- Revenue Loss Coverage
 - Similar to ACRE except on individual farm basis
 - Payments tied to moving average of prices and yields
 - Range of losses covered (75-87%)
 - Reference prices would limit downward moves of benchmark revenue

STAX (cotton only)

- Supplemental insurance program for cotton growers
- County-level revenue guarantee (similar to GRIP)
- Pay on losses between 90% and primary crop insurance coverage level, but no less than 70%
- Yields based on GRIP yield or 5-year Olympic, whichever higher
- Price based on GRIP price or 65 cents/lb reference price, whichever higher (compared with 71.25 cents/lb under current CCP)
- Producer pays 20% of premium costs

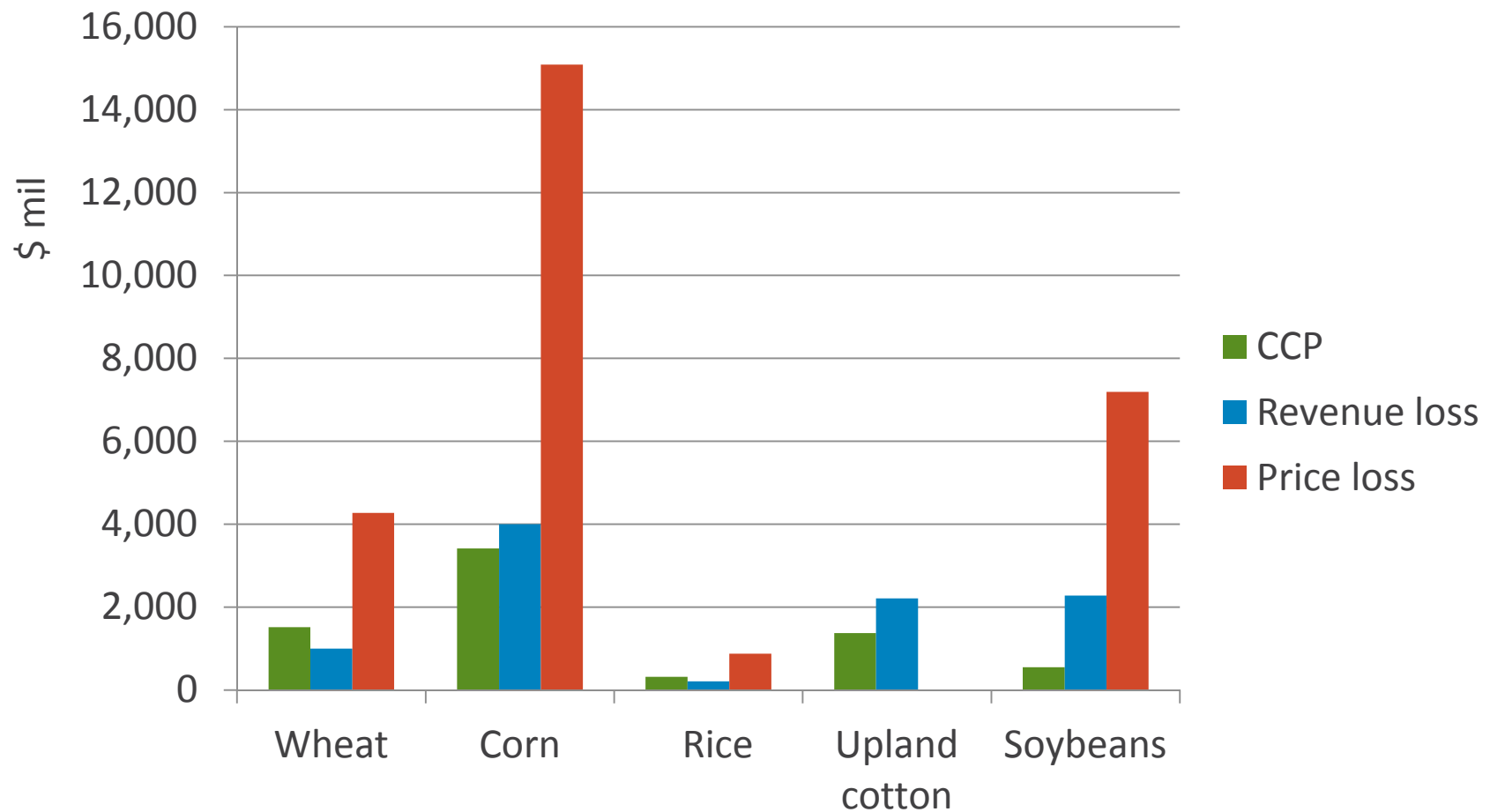
Observations

- New programs pay on planted area not fixed base acres
- New reference prices are substantially above current target prices (except for cotton)
- Complicated signup decisions:
 - possible for producer to sign up corn under revenue loss and soybeans under price loss
 - Possible for two corn producers in same county to sign up for different programs
- In short run, both programs would pay out with drop in prices
- Prolonged low prices, revenue loss program
- High reference prices, current loan rates

Reference prices would increase support above current target prices

	Current target price	Proposed reference price
Wheat (\$/bu)	4.17	5.50
Corn (\$/bu)	2.63	3.64
Grain sorghum (\$/bu)	2.63	3.87
Barley (\$/bu)	2.63	3.64
Rice (\$/cwt)	10.50	13.98
Soybeans (\$/bu)	6.00	8.31
Peanuts (\$/ton)	495.00	534.00

Budget exposure increases: Maximum payments under ARC, STAX, CCP

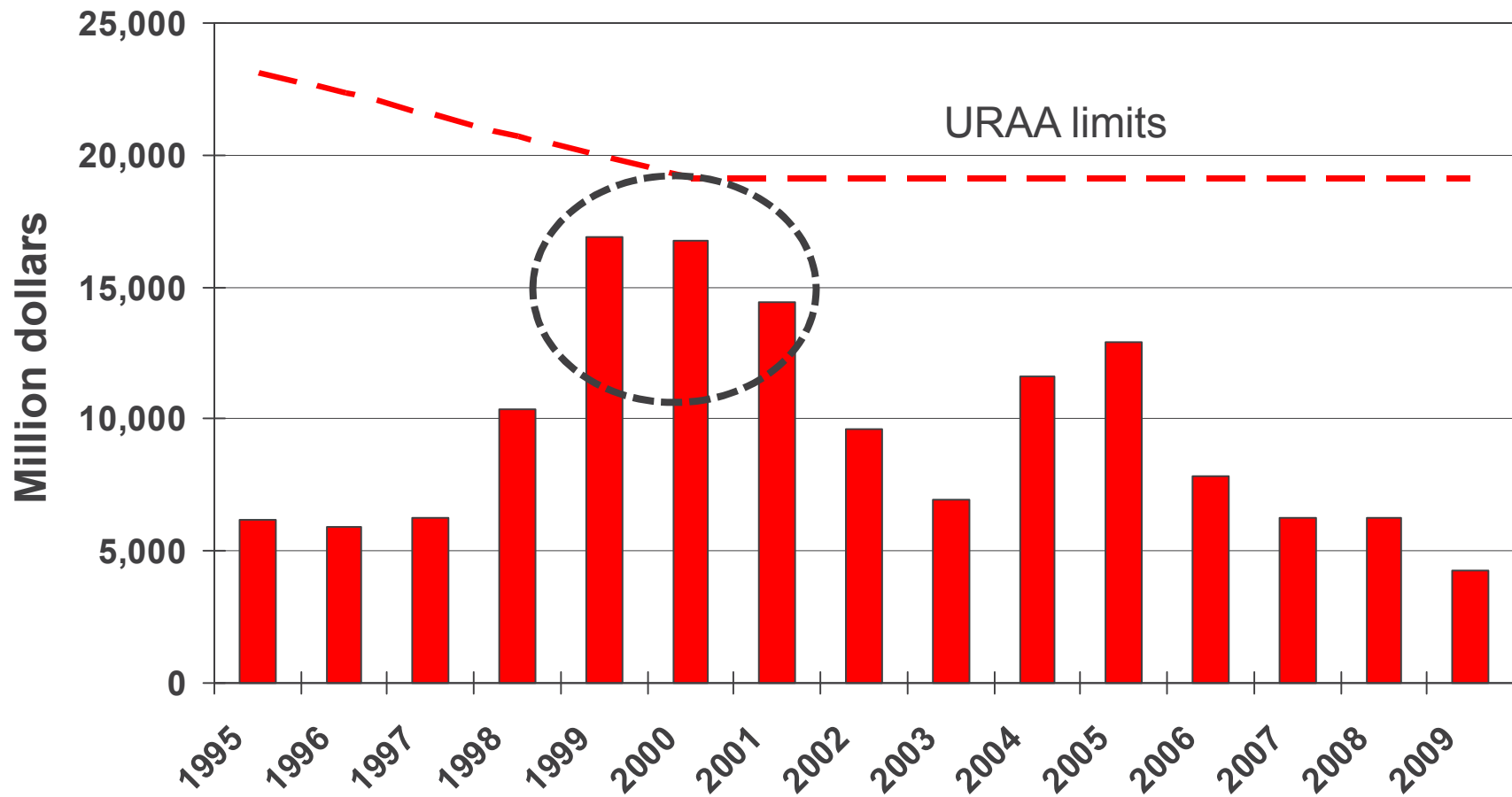


Classification of Domestic Support Programs for WTO Notification

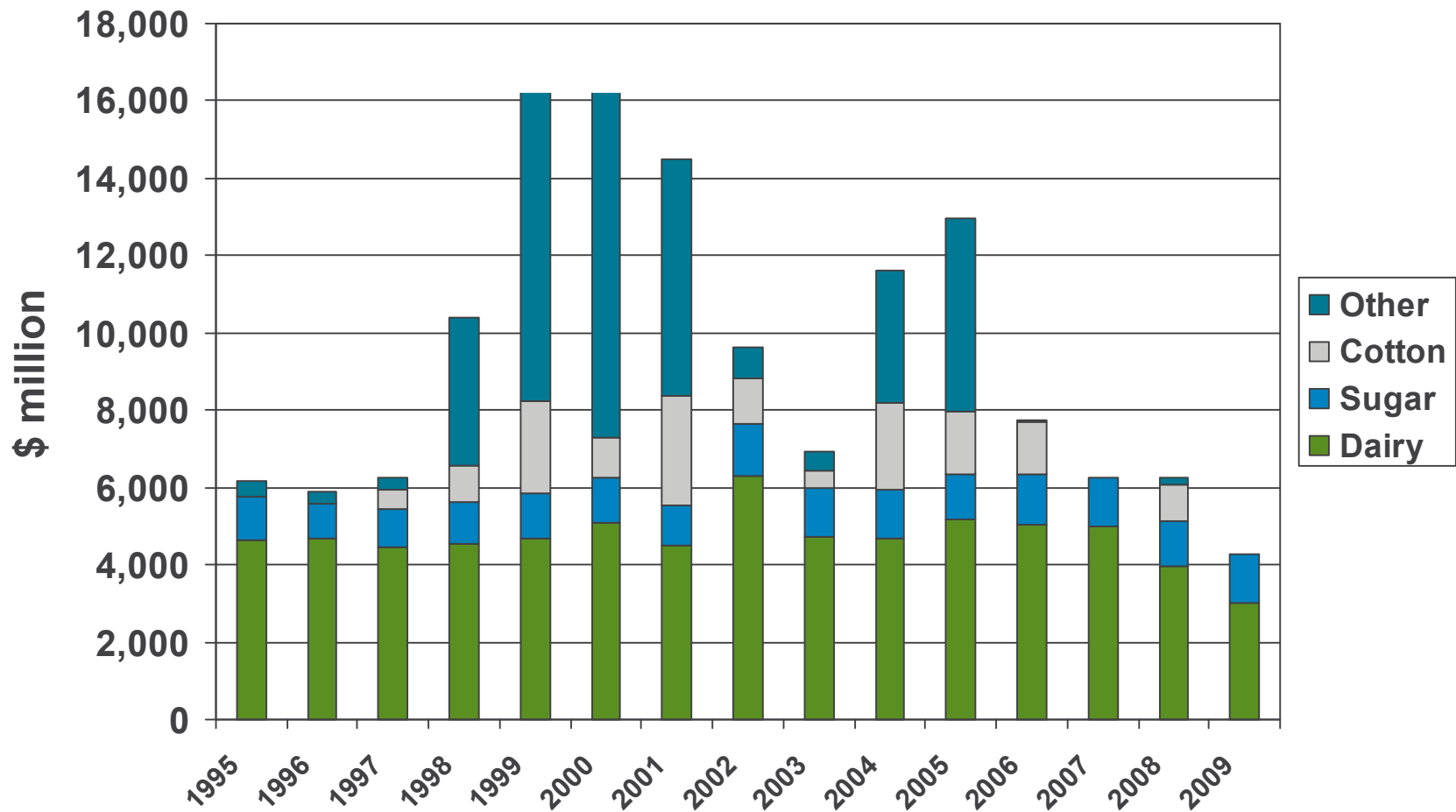


Program	Under URAA	Under Doha agreement
Direct payments	Green	Green
Marketing loan benefits	Product-specific amber	Product-specific amber
Counter-cyclical payments	Non-product specific amber	Blue
Crop insurance premium subsidies	Non-product specific amber	Policies > 70%: non-product specific amber Policies ≤ 70%: green
Crop insurance delivery costs (A&O + underwriting gains)	Green	Green
ACRE payments	Product-specific amber	Product-specific amber
Supplemental disaster (SURE)	Non-product specific amber	Non-product specific amber
Livestock disaster payments	Product-specific amber	Product-specific amber
Dairy price support	Product-specific amber	Product-specific amber
Milk Income Loss Contract	Product-specific amber	Product-specific amber
Sugar	Product-specific amber	Product-specific amber
Conservation Reserve Program	Green	Green
Environmental Quality Incentive Program	Green	Green
Conservation Stewardship Program	Green	Green
Nutrition Programs	Green	Green

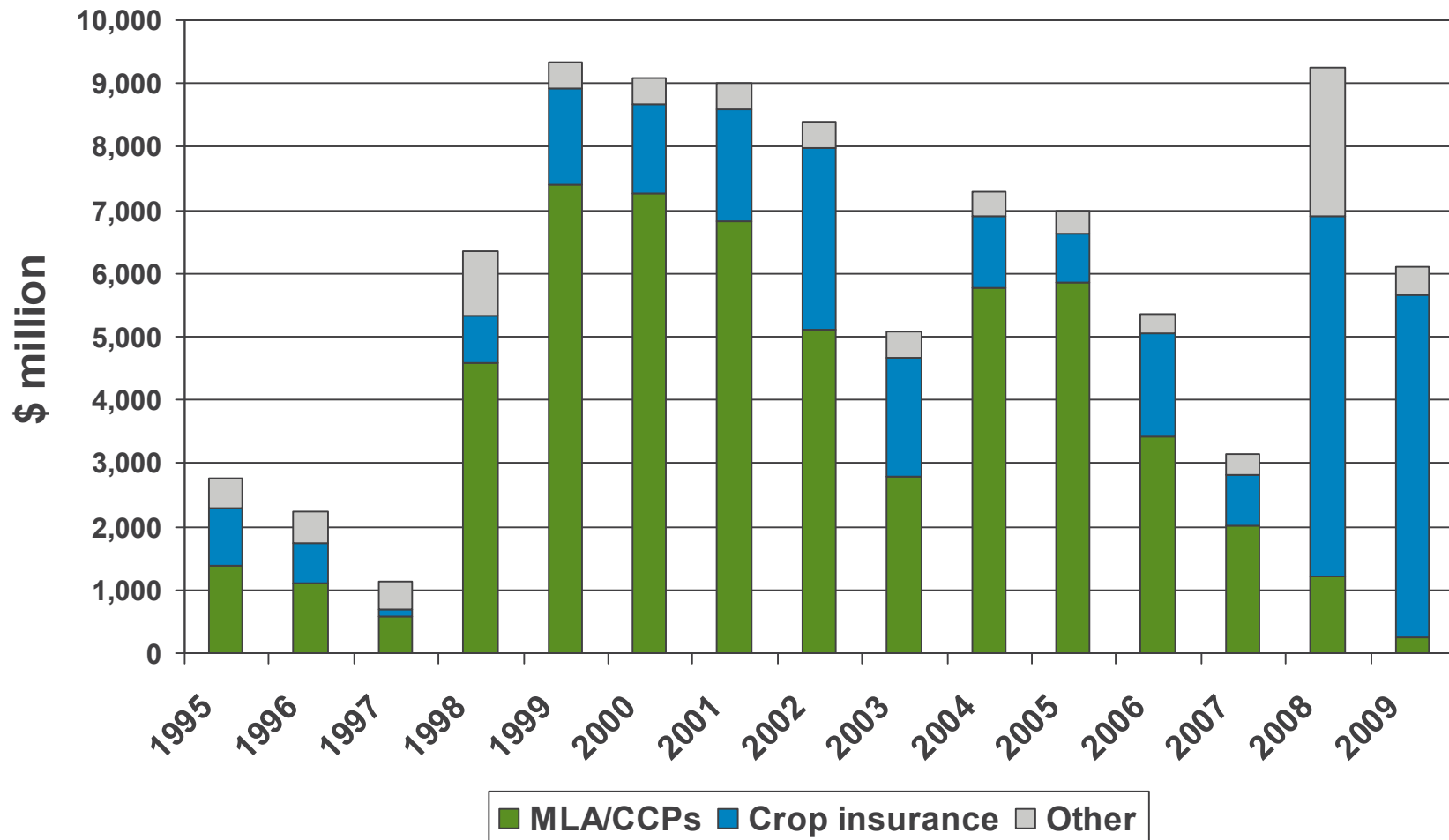
US amber box support



Composition of U.S. AMS



Non-product specific support



Conclusions

- From 1985-1996, farm policy moved towards lower support levels, more planting flexibility, and decoupled payments.
- Since mid-1990s, US farm policy has moved back towards recoupling payments to prices and production
- High prices have kept outlays (and AMS levels) low, but potential for breaching limits remains non-trivial if prices fall
- Budget pressures present opportunity to make significant changes in farm policy, but likely outcome will favor policies that are tied to prices and actual plantings
- Chairs' proposal would shift green box spending (direct payments, CRP) into amber box (revenue loss, price loss).
- Proposal would decrease dairy AMS on average but with potential for large outlays if margins fall (e.g., 2009).
- Overall, AMS will increase compared to current law.

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