

THE WISE AG UPDATE



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COMMENTARY by Ken Nofziger



For farmers, bankruptcy isn't always the end – sometimes it's a new beginning.

As we turn the corner into spring and the winds pick up, I am reminded of our industry as a whole. Whether I'm walking to the car or sitting in the bleachers at my daughter's softball games, the wind always seems to be howling in the direction I'm facing this time of year. For farmers, this is all too common a feeling right now as they face the headwinds of low commodity prices, increasing interest rates, rising labor costs, potential issues with water, and potential macro issues such as international trade.

With all these headwinds, many find themselves in dire situations, which is why so many notable farm bankruptcies occurred across the U.S. in 2017 and early 2018. Farmers, experiencing this have little in common when it comes to what they grew – there were major bankruptcies of growers of blueberries, strawberries, Concord grapes, Vidalia onions, dairy, sweet potatoes and grain. These bankruptcies are not specific to one area, as they have been filed in states across the U.S.: California, Georgia, Indiana, Kansas, Michigan, Mississippi, Missouri, North Carolina and North Dakota.

This year as interest rates continue to move higher and margins remain slim for growers, I expect more individuals to find themselves between a rock and a hard place. However, as previously mentioned, it is not one geographic location – or a single crop – experiencing this, but the industry as a whole.

Perhaps the most notable story in agricultural distress this year was the case of Boersen Farms in Michigan. With more than 300 million dollars of debt involved, this was one of the largest distressed farming operations in the country. But it's not just grain farmers facing headwinds right now. Penick Produce, one of the largest sweet potato growers and packers in Mississippi as well as owners of more than 3,000 acres of sweet potato-producing ground, filed for bankruptcy in the early summer of 2017. Recently another sweet potato grower and packer, Alexander Farms, agreed to buy Penick Produce out of bankruptcy for \$12.75 million. Eclipse Berry Farms, a large strawberry grower in Oxnard, CA filed early this year. Following the death of the Company's CEO and primary equity holder in early 2017, Murray Wise Capital (MWC) was engaged by the Company to evaluate its strategic options. Upon MWC's

recommendations, EBF appointed a third party Chief Restructuring Officer ("CRO") and began the process of implementing procedures to maximize the recovery of asset values for all legally interested parties. In order to complete the wind-down and liquidation process and to orderly address the creditor claims, the company filed for Chapter 11 bankruptcy protection in early 2018. MWC is continuing to serve as financial advisor to EBF during this process and is responsible for assisting in the completion of the transaction with Superior Fruit and handling many of the financial reporting and administration duties required to file and implement a final Chapter 11 liquidating plan. *Other large agricultural bankruptcies include:*

- 10,000+ acres of farmland in Kansas in the Boegel Farms filing which has since been sold.
- Blueberry & Concord grape operation in Georgia & Michigan in the Spiech Farms case.
- Large grain operation in Missouri in the Farmhand Supply filing.
- Grain operation near Robersonville, N.C., in the K & J Farms case.
- Grain farm in North Dakota in McM Inc. case.
- Large potato & onion grower in Washington in the Wahluke Produce filing.
- Grain operation & grain elevator in the Cline Grain filing in Indiana.
- Large Dairy operation in Hagerstown, IN, Bowman Dairy Farms.

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In many of these bankruptcies, the debtors must have felt as though this was the end. However, that is not always the case. Take Grainger Farms, a large farming operation in Florida, as an example. In this case, the farming operation was in a position in which the owners needed to declare Chapter 11 bankruptcy to reorganize. We were hired to help them through the bankruptcy process and restructure by selling excess property to pay down debt, successfully exit bankruptcy and continue farming. This would not have been possible had they not filed bankruptcy, as they were able to continue operations as a debtor-in-possession.

Perhaps the most common advantage of a farming operation filing bankruptcy is the ability to be a debtor-in-possession after filing and maintain control. Often, creditors will threaten foreclosure or legal action due to debts owed. With control, Grainger Farms was able to continue operations and guide the reorganization process, deciding which property to sell in order to reorganize. The enterprise was able to systematically address all creditors through the process and manage

overreaching debt obligations and non-market leases. Another reason I have seen farming operations file is due to pending litigation, such as in the Spiech Farms case in Michigan in which there was a dispute with a creditor over a payment that could threaten the viability of operations.

Don't think that I'm saying any specific farming operation should file for bankruptcy. This is a very complicated process, and often people can find themselves feeling lost, not knowing who to call, whether they should file Chapter 7, 11, or 12 bankruptcy or what needs to be done in terms of working with creditors. By evaluating the situation with financial professionals and legal representatives, an enterprise may be able to avoid bankruptcy altogether through open, honest dialogue.

When you find yourself in a distressed situation – whether you are the debtor or a manager of special assets at a bank – know this: Who you hire is important. Hiring the right firm to take control of the process and work through it can be the difference between a successful reorganization and a complete liquidation and exit from the

industry, with creditors receiving next to nothing for their collateral.

In a situation such as the latter, no one is happy, whereas the former is making the best of a bad situation. I've often heard Robert Marcus, an attorney, farmer, trustee and chief restructuring officer that we have worked with on a number occasions say, "The key to a successful bankruptcy case is taking what the debtors feel like is a road to nowhere and building a bridge on that road through bankruptcy that leads to somewhere with a positive outcome for all interested parties."

Don't make the problem worse than it is by hiring either a firm that knows nothing about agriculture or simply the cheapest broker you can find. There are many options available in these situations such as debtor-in-possession financing and sale of non-essential assets to the operation. Make sure you have looked at every possible option. With our experience in this industry, we can help you through these tough decisions and present you with all your options. ♦

THE CALIFORNIA CENTRAL VALLEY "SNACK PACK"



If you're anything like us, as you've grown older, you've tried to eat a little healthier. You may have replaced some unhealthy snacks with nuts or a piece of fruit.

The 3 p.m. Twinkie has become the 3 p.m. mandarin orange or a handful of walnuts, almonds or pistachios. We know we're not alone in this. With new high-dollar ad campaigns by brands such as Wonderful Halos, Sun Pacific's Cuties and the California Walnut Board – plus more focus on a healthy diet – Americans are eating more and more crops grown in California's Central Valley.

With the increased demand for these products, there has been an increase in



supply trying to meet that demand. For example, in the last 10 years, walnut-bearing acreage in California has increased by 70,000 acres, and mandarin orange-bearing acreage has more than doubled.

Almonds and pistachios have also seen large increases in production. The California almond crop regularly tops 2 billion pounds annually, and the

pistachio crop has grown to over 700 million pounds annually, up from around 300 million pounds just 10 years ago.

Don't bet on the growth of these industries slowing anytime soon, with well-heeled marketing campaigns in place, a health food trend that continues to boom, and the popular opinion that these are some of the tastiest products in the world.

If we've learned anything from these numbers, it's that there are a lot more people like us snacking on the fruits and nuts of California's Central Valley – or as we like to call it, our afternoon California Snack Pack. ♦

ILLINOIS LAND MARKET CONTINUES TO SHOW RESILIENCE



Prices for high quality Illinois land are generally holding firm, even rising in some areas of the state, while farm income has been going down. This may seem counter-intuitive. The more cash a property is generating from operations, the more someone should be willing to pay for it. Conversely, the less cash a property generates from operations, the less someone should be willing to pay for it. However, the pinch on operating income has not had a drastic effect on the value of high quality farmland.

Why is this?


First of all, many of the farmland buyers that we see have become frustrated with

the lack of good investment options available to them. They can put their money in the bank and get essentially zero return. They can put their money in the stock market, which seems increasingly pricey and risky to many. Or they can put their money in farmland which produces a stable and predictable (if not flashy) cash return along with the potential for appreciation.

Secondly, the cost to borrow money remains very low even though we have seen a modest uptick in interest rates recently. Many buyers today are cash buyers but those who need a little financing are able to do so at still attractive rates.

Lastly, despite lower commodity prices, there are still farmers buying land because they have been able to effectively navigate the commodity downturn and are eager to add to their operations because of their long term belief in the future of Agriculture.

Given the strong demand from farmer and investor buyers we expect values for high quality land in Illinois to remain strong.

Lower quality, less productive farmland will likely continue to remain soft as we do not see the same demand for those types of properties in Illinois. 

IN A MIXED MARKET, LOCATION MATTERS



The golden rule of real estate: location, location, location. Does it apply to farmland? Absolutely! As you would expect, there is a big difference in the value of two high-quality, productive grain farms if one is located in the Mississippi River delta and the other is in central Illinois. The differences are easy to spot – the type of soil, yield potential, the need for irrigation or drainage, access to grain markets and the rent levels the area is able to support.

But what about two high quality farms both located in central Illinois? Those differences might be harder to see. Let's say we have two farms: both picturesque rectangular 80-acre properties, each with a Productivity Index rating in the low 140s, that drain well and have easy access off a paved road. One is located in Piatt County, and the other in Sangamon County – about 80 miles apart as the crow flies. Both of these farms were sold at auction in the 4th quarter of 2017, and general consensus is that both sold well with good auction attendance and spirited


bidding. When the dust settled, the farm in Sangamon County brought \$13,400 per acre while the farm in Piatt County “only” brought \$10,750 per acre. Why such a difference?

This is where having an experienced firm such as MWA Auctions and Real Estate on your side will help ensure you do not overpay as a buyer or let a farm go for too little as a seller.

In the above scenario, several factors come into play. While the farms are statistically similar, the major differences may be the location and the strength of the surrounding neighborhood, both financially and from a demand perspective. At MWA, we keep a close eye on various land markets across the country. When we are contacted about selling a farm, one of the first questions we typically are asked is, “What is my property worth?” This is the start of our questioning process. To really answer the question takes a bit of effort. We have to look at the strength of the local operators. Are

they well capitalized? Will there be multiple bids for top-of-market rents to an investor? We look at neighboring farm ownership. Will these direct neighbors – or neighbors down the road – be potential buyers? Is the number of adjoining neighbors limited as the farm is cut off by an interstate highway or railway? Sometimes, just the name of a county or area will demand a higher price as investors like to say they own land in a certain location and want to buy only there. We also look at sales data to see if there have been a high number of sales in a particular location, taking some potential buyers off the table as they have already made purchases.

Feeling overwhelmed?

This is where having an experienced firm such as MWA Auctions and Real Estate on your side will help ensure you do not overpay as a buyer or let a farm go for too little as a seller. We always dig just a little bit deeper to help you better understand the potential value of a piece of property. 

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Congratulations Nick & Sunny Cummings!



Our friend and auction partner Nick Cummings, along with his wife Sunny, were recently named "Outstanding Young Farmer" at the National Outstanding Young Farmer Congress in Sacramento, CA. Murray Wise Associates often partners with Nick and his colleagues at the Wendt Group to conduct real estate and farm machinery auctions and we are honored to work with such a great group of professionals.

Well deserved Nick & Sunny! 

MWA SEEKING FARMLAND ACQUISITIONS

Permanent Crop Properties

MWA is seeking to acquire high quality permanent crop properties in California, Oregon, Washington and other areas of the United States. We have the ability to creatively structure leaseback and/or partnership strategies with best in class owner/operators.

Contact Joe Bubon at 217-369-7463 for more information

Row Crop Properties

MWA also has investors seeking sale/leaseback opportunities on high quality land in the midwest.

Contact John Kirkpatrick at 515-532-2878 for more information 

To receive email updates on upcoming auctions, join our mailing list by scanning the code with your smartphone or calling (800) 607-6888 and requesting auction information.



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