

THE WISE AG UPDATE



FOURTH QUARTER, 2011

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COMMENTARY by Ken Nofziger



Before I get any further, let me introduce myself. I'm Ken Nofziger, President of Murray Wise Associates LLC and Murray Wise Capital LLC (you can read my bio on our website, www.mwallc.com) and this is my initial opportunity to "take over" the first page of the newsletter. Murray Wise Capital's role in the group of businesses that Murray has established is to provide financial advice and counseling to agribusinesses across the country. Executing that mission leads us to a slightly different perspective on the U.S. agricultural economy than what we see when selling and managing farms. My goal with this inaugural Commentary is to provide you a glimpse at this broader picture.

Enough introduction. Let's get to it.

Consolidation and Integration in US Agribusiness

Here's news for you: the world is changing. We see it every day as businesses and whole industries must be reinvented or wither on a formerly healthy vine. Agribusiness is not immune. Consolidation has already had significant impacts in several fields and vertical integration of agricultural processes formerly independent of one another is becoming commonplace.

Take seed companies for example. Just a decade ago we were served by more than 300 independent seed marketers. Today we have

approximately 100...and it's not because we're using less seed. Similar developments are underway or anticipated in almost every input on which producers depend. To the extent that this consolidation is the result of competitive market forces and more successful and efficient management, that's a good thing. Farmers and growers profit from improved technology, often delivered by these competing suppliers and dealers.

Today the line is rapidly blurring between what we call agribusinesses and the actual producers themselves. This vertical integration of the overall business of delivering food and fiber has been going on among processors and distributors for years. In fact, it's a large contributing factor to the consolidation mentioned above. However, the leading edge of the movement has crept into the area of actual production where processors and growers are formalizing relationships via joint ventures and equity investments (see the Treehouse California Almonds case study on this

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CASE STUDY: Treehouse California Almonds

Role: Financial Advisor

Investors: V Lions Operations, LP; Triple Crown Holding, LP; and TIAA CREF

Client: Treehouse California Almonds, LLC, is a leading supplier of high quality, value added almonds to the world's most demanding candy, baking and high-end snack food companies. Strategically located in California's Central Valley (which supplies 80% of the global almond crop), Treehouse operates two of the industry's most efficient and modern processing facilities.

Transaction Description:
Murray Wise Capital LLC

was engaged by Treehouse to pursue a majority interest recapitalization of the Company to provide liquidity to the primary shareholder and offer ownership opportunities to the management team and leading grower/suppliers. The transaction and negotiation process resulted in three of Treehouse's leading growers owning substantial minority interests in the Company along with management and the principle selling shareholder.

TIAA CREF, V Lions Operations and Triple Crown Holdings collectively own and farm more than 10,000 acres of almond orchards in central California. The three entities have been supplying premium almonds to Treehouse since it began operations in 2002.



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page as a recent example).

One of the results of the twin phenomena we're discussing is to broaden the opportunity for agribusinesses to do their own re-invention...to adapt and change to deal with the rapidly evolving business climate surrounding them. Some will simply need to expand, to

widen market areas or product lines. Others will need to find partners to provide a competitive advantage-- or mitigate a disadvantage. For some with great positive momentum, gathering the capital to maintain and take advantage of their opportunity is a knotty problem.

In short, I see a whole industry in the

midst of significant change and many individual businesses that will need to analyze their positions carefully and develop—then execute-- strategies that ensure continued success. Frankly, this is why we formed Murray Wise Capital, to help evaluate and execute these strategic options. ♦

MARKET OBSERVATIONS

***Iowa Farmland Values Up Over 30%... What Now?***

The Des Moines Register recently reported that the Realtors Land Institute survey of Iowa farmland values indicates an increase of 34% for the twelve month period ended September 1, 2011. According to committee members who supervised the survey, that's the largest annual increase noted since the Institute began the annual surveys in 1978.

The underlying causes and buyer rationale for the increases are analyzed in some depth, but we thought the situation was summed up nicely in the single sentence, "In addition to near record crop prices and historically low interest rates, there is a limited amount of farmland that comes up for sale, a lack of alternative investments that pay decent returns and inflation fears, which is reflected in the rapid rise in gold prices as well as land." That pretty well states the case for investing in farmland.

Clearly all those factors mentioned have led farmers and investors alike to "bid up" farmland, but how likely are these conditions to continue? How will commodity prices hold up in the next decade? Will inflation

return with a vengeance? Will the government eliminate ethanol subsidies or mandated use? Will China remain an importer?

In a July 2011 article about the future of farmland values, AglandUSA Crops Editor Jane Fyksen examined a study of the future of farmland values done by Purdue University Ag Economist Craig Dobbins. We didn't have access to the entire paper, but based on the Fyksen article it seems well reasoned and thorough.



In many ways Dobbins ratifies the simple statement we quoted from the Register. However, his analysis is well tempered with cautions: "Current farmland values are not excessive, but this is all based on the idea that expectations of strong farmland income, low interest rates, and a continued growth in farmland income will be realized." Changes in any of those factors could dampen enthusiasm for land purchases.

However, Dobbins and the team he worked with to develop his analysis earlier this year note that, "The stage is set for exports, bio-fuels policy, and U.S. monetary policy to provide important support to grain prices over the intermediate-term."

Fyksen also comments that "increasing productivity is a potential driver of farmland income growth." She notes that farmland has averaged nearly 2% increase in productivity annually for decades. Generating more income from the same land clearly improves performance, though some of the increase is absorbed in the cost of the technological advances that led to the improved productivity.

So, what now?

We doubt that anyone expects to see continued 30% increases in farmland...many, in fact, anticipate some "correction." However, as we read pieces like those cited above, we become more confident than ever that the future of American agriculture remains very positive and that we'll see a continuation of the bull market in farmland we've seen for a decade or more. ♦

INDUSTRY TRENDS

USDA Estimate: 2011 Net Farm Income Up 31%!

Things are looking good on the farm.

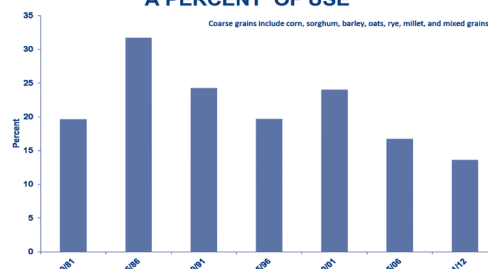
The Economic Research Service of the U.S. Department of Agriculture estimates that net farm income for 2011 will exceed \$103 Billion. That would be \$24 Billion higher than 2010 and the highest—in inflation adjusted terms—since 1974.

Just a matter of weeks ago, farmers throughout the Midwest were expressing concern about yield

dampening weather. Today, most are now reporting yields that are not exceptional by any means, but better than feared recently.

In a year with less than stellar yields, good grain prices resultant from

WORLD COARSE GRAIN ENDING STOCKS AS A PERCENT OF USE



Source: Ag Resource, Inc.

ethanol use and rising global demand for grain produced outstanding results. (See the chart below for a graphic description of the declining year end stock of coarse grains relative to their demand worldwide.) While true that production costs also rose, their estimated increase of 10% paled in contrast with receipts.

The ERS tracks three measures of farm financial performance: Net Farm Income, Net Cash Income and Net Value Added. All three indicated outstanding results in 2011. ♦

NEW ASSOCIATES

We're pleased to welcome two new associates to our growing group.

Kaitlyn (Kati) Przybylski is a new Senior Associate and **Lisa Barbee** is



our administrative assistant.

Kati interned with us while earning her degree in Agricultural and Consumer Economics from

the University of Illinois and has now become a permanent part of the family. She will be involved with the auction business, but will also assist Ken Nofziger in the capital side. She was born in Michigan but raised in the Chicago suburbs. Kati brings us youthful enthusiasm and energy, but also skill on skates! She was a member of the University's Synchronized Ice Skating team and is currently coaching a local youth team.



Lisa has quite a different background. She lives on a farm in nearby Seymour, Illinois that's been in the family for more

than a century. She counts herself a direct descendant of one of the founders of the town itself. She comes to us with ten years experience in real estate and property management. It will be Lisa's responsibility to make sure the logistics are in place to ensure that office and business run smoothly and efficiently. On a personal basis, she speaks with pride of her seven year old daughter who's a level 4 gymnast on the Champaign County YMCA Mustangs.

We think both Kati and Lisa will have long and productive careers with Murray Wise Associates...and our clients will be better served for their involvement. ♦

BRIEFS

For our Briefs this issue we present two thoughts from our good friend Carl Carter:

On Investing in Farmland

"Pretty much everybody in the past five years who decided to wait for lower prices before buying a farm has missed out or had to pay more." We couldn't have said it better, but we'd have used a longer time frame... maybe a decade.

On Ethanol and Peoples' Memories

Carl also sent us some information about the advantage of using ethanol as an oxygenate in gasoline as opposed to petroleum based MTBE. "People forget that ethanol replaced MTBE...because MTBE was poison," he wrote. He concluded his message, "Ethanol is clean energy. Gasoline is literally poison. Simple as that."

THE WISE AG UPDATE

UPCOMING AUCTIONS & RECENT TRANSACTIONS



Upcoming Auctions

Tuesday, November 29 at 1PM – 35 Acres in Woodbury County, Iowa – Adjacent to the airport and interstate – Development Potential

Wednesday, November 30 at 1PM – 302 Acres in Logan County, Illinois – Offered in 5 Tracts including productive farmland with development potential - This farm features excellent Ipava and Tama soils.

Recent Land Transactions

\$1,565,000 – August – 143 Acres in Champaign and Ford Counties – Excellent soils and country home

\$2,475,000 – September – 386 Acres in Jasper and Newton Counties, Indiana – Tillable Farmland

\$4,900,000 – September – 565 Acres in Woodford County, Illinois – Productive Farmland

\$768,600 – September – 480 Acres in Texas County, Missouri – Working ranch and country home

\$2,025,000 – October – 470 Acres in Union County, Ohio – Productive Tillable Land

\$8,305,000 – October – 755 Acres in Kendall County, Illinois – Productive Farmland

Recent Capital Transaction



has been recapitalized
with investments by

V Lions Operations, LP
Triple Crown Holdings, LP
and



Financial Services

Murray Wise Capital acted as exclusive
financial adviser to Treehouse
California Almonds, LLC



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