



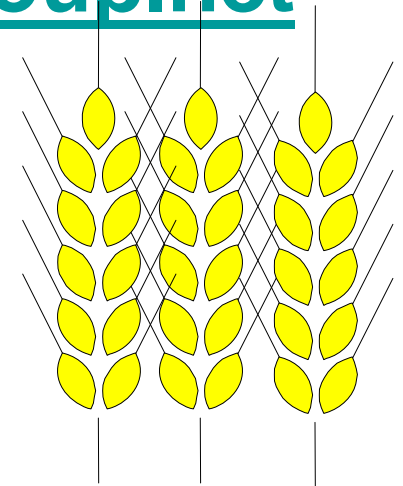
Welcome

**Top Producers
January 17, 2008**

In

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Tremendous Potential In Production Agriculture

“There will be more opportunity to create wealth in US production agriculture in the next ten years than has been created in the last 25 years.”

Moe Russell





A look at history

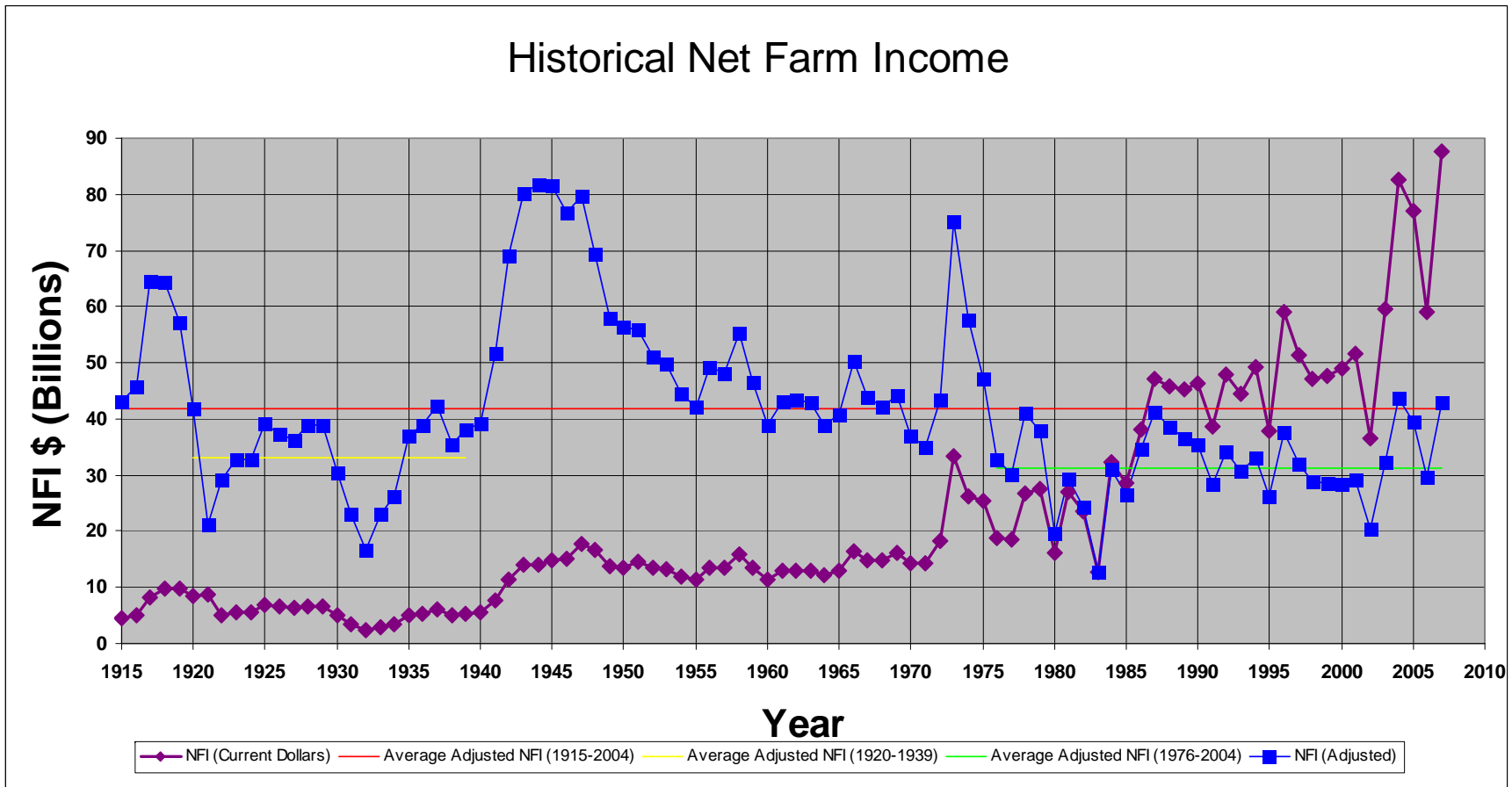
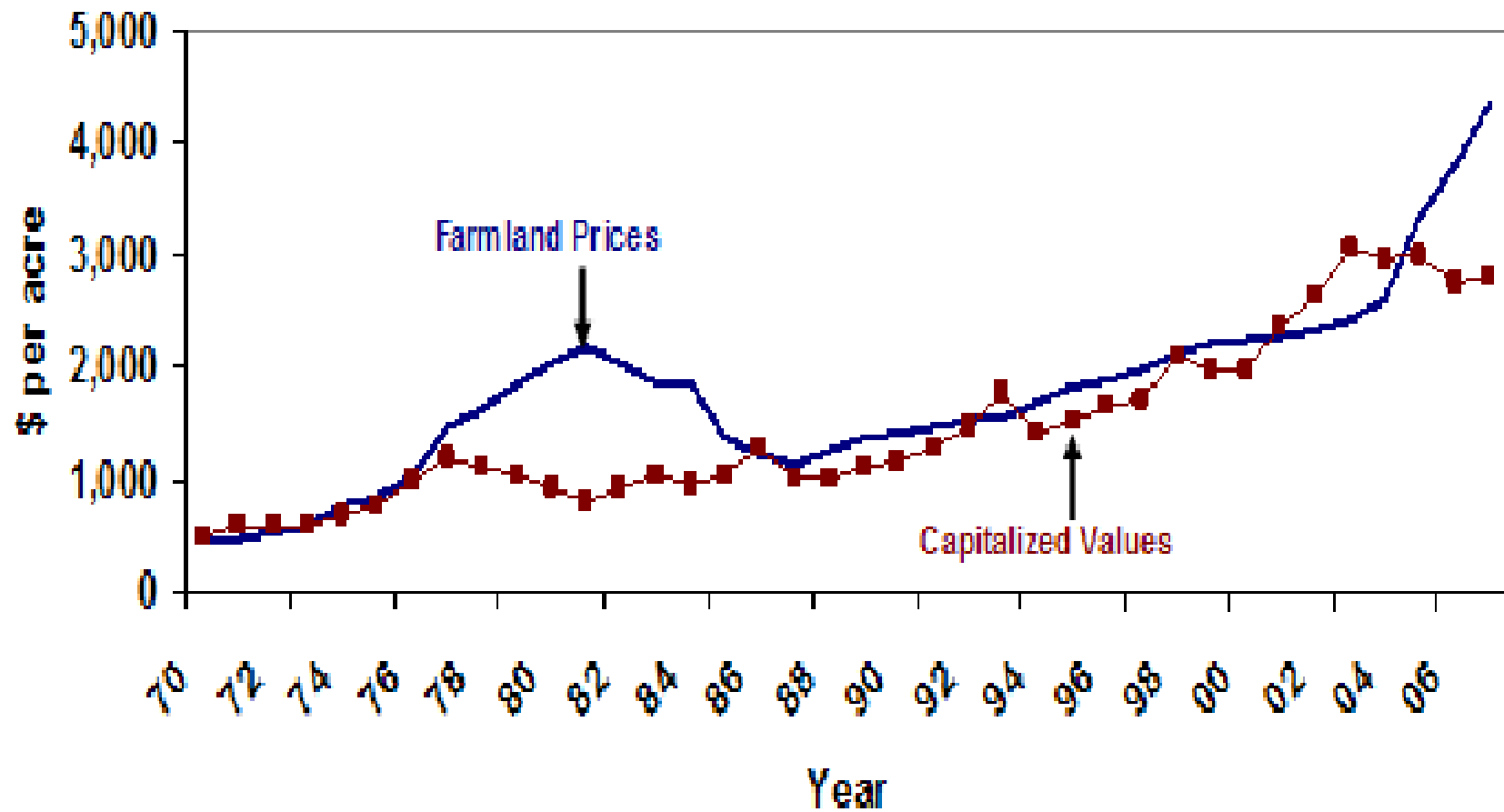




Figure 1. Farmland Prices and Capitalized Values in Illinois, 1970 - 2007.



Profitability is not a function of size, type of operation, or location

Operation	ROA	ROE
800 acres & custom feeds 4,000 head pig space, 9 yr ave	12%	16.4%
1306 acres 700 hd cattle, 500 hd hogs 7 year average	10.0%	12.2%
12,000 acres corn and soybeans 30 year average	15.5%	21.5 %
300 sow farrow to finish 5 year average	16.2%	28.6%
1350 acres & 20,000 hogs 5 year average	12.7%	23.2 %
ROA (Return on Assets) ROE (Return on equity)		

Trends in Agriculture

- The attitude, skills, knowledge, and profit gap among producers is getting farther apart, by the day.
- We are entering a whole new wave of consolidation in production agriculture.
 - Demographics
 - Volatility
 - Technology
 - Acquiring Businesses vs Assets





Trends



- Good times do not last long.
- Everything up, income, costs, leverage and volatility.
- Seek, hire, train, & retain top people DITH, SITG
- Get Green, Stay Green, Grow Green
- Have a PR plan
- Bullet proof your BS



Corn

• Year	High	Low	Range
• 1970	\$1.60	\$1.16	\$.44
• 1971	\$1.63	\$1.12	\$.51
• 1972	\$1.64	\$1.21	\$.43
• 1973	\$3.33	\$1.32	\$2.01
• 1974	\$4.00	\$1.95	\$2.05
• 1975	\$3.55	\$2.32	\$1.23



Soybeans

• Year	High	Low	Range
• 1970	\$3.10	\$2.41	\$.70
• 1971	\$3.42	\$2.76	\$.67
• 1972	\$3.87	\$2.96	\$.91
• 1973	\$9.29	\$3.23	\$6.06
• 1974	\$9.56	\$5.06	\$4.50
• 1975	\$7.77	\$4.83	\$2.94



Trends

- Contingency plan w/o Government payments
- Partnering with input suppliers.
- Vertical integration in crop production
- Diversification Strategies
- People management





Financial Leverage



- Lets take a closer view
- Financial leverage is one of the factors that has allowed RCG customers to maximize their ROE to double the average
- 16.99% vs 7.02%



Financial Leverage

- Is like fire, it can be very useful or very destructive, depending on it's use and management.





Assumptions

- You have \$100,000 of assets
- \$50,000 of equity
- \$50,000 of debt @ 7%
- You earn 10% ROA
- $\$10,000 - \$3,500 = \$6,500 / \$50,000$
- 13% ROE



Same 50% leverage

- You have \$100,000 in assets
- \$50,000 equity
- \$50,000 debt @ 7%
- You earn -10% ROA
- $-\$10,000 - \$3,500 = -\$13,500$
- -26% ROE



Assumption

- You have \$100,000 in Assets
- \$20,000 equity
- \$80,000 debt @ 7%
- You earn 10% ROA
- $\$10,000 - \$5,600 = \$4,400 / \$20,000$
- 22% ROE

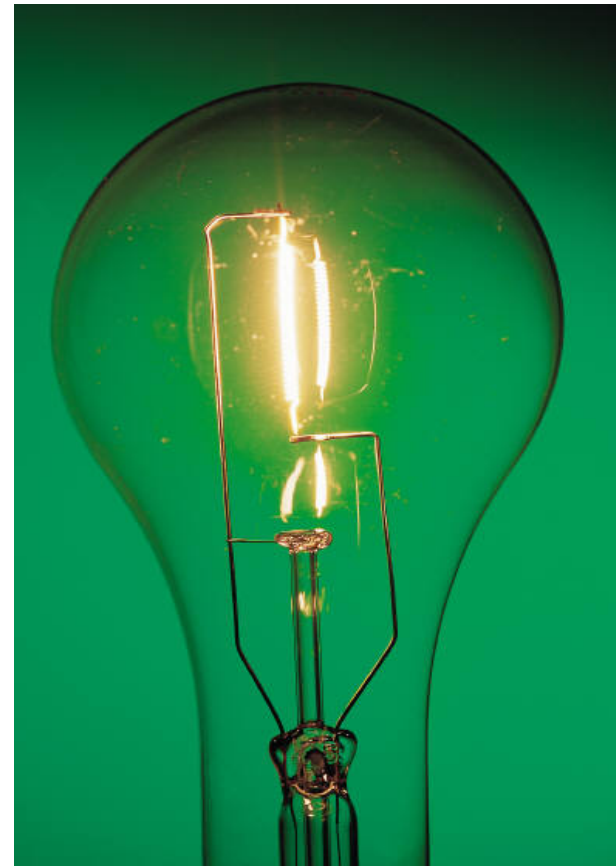


Same 80% leverage

- You have \$100,000 in assets
- \$20,000 equity
- \$80,000 debt @ 7%
- You earn -10% ROA
- $-\$10,000 - \$5,600 = -\$15,600 / \$20,000$
- -78% ROE

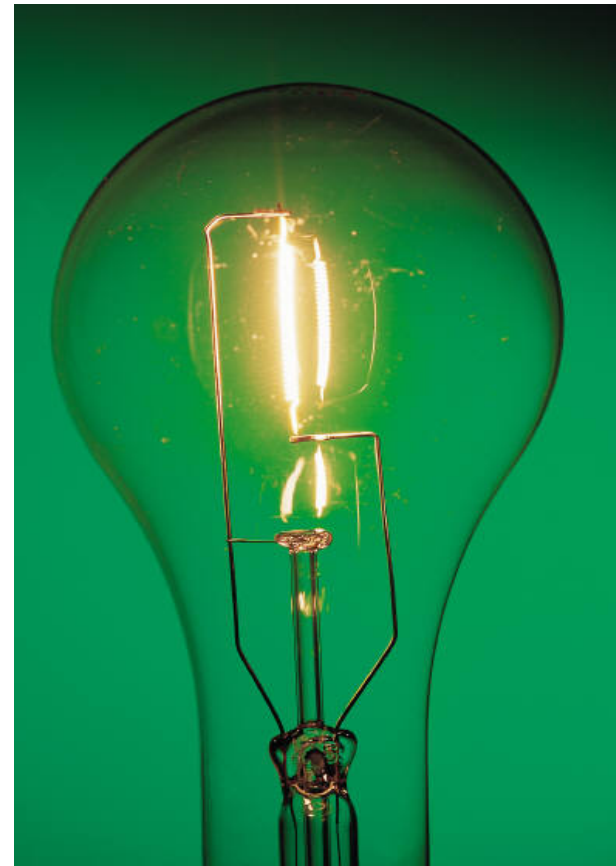
Managing Financial Leverage

- Use fixed interest rates, higher the leverage the more debt should be @ fixed rates.
- Use risk management to lock in costs and returns.
- Manage the margins



Managing Operating Leverage

- The higher % of costs that are fixed, the higher the operating leverage
- Small change in revenue equals a large drop in ROE
- If high financial leverage, keep rents and equipment leases highly variable.



ROA of Fortune 500 in 51 industries



- Oil & Gas Equip Serv 14.0 %
- Petroleum Refining 13.2%
- Metals 12.6%
- Food Services 12.5%
- Network, Comm Eq 11.2%
- Medical Prod and Equipment 11.0%
- Pharmaceuticals 9.9%

Source: April 30, 2007 Fortune Magazine

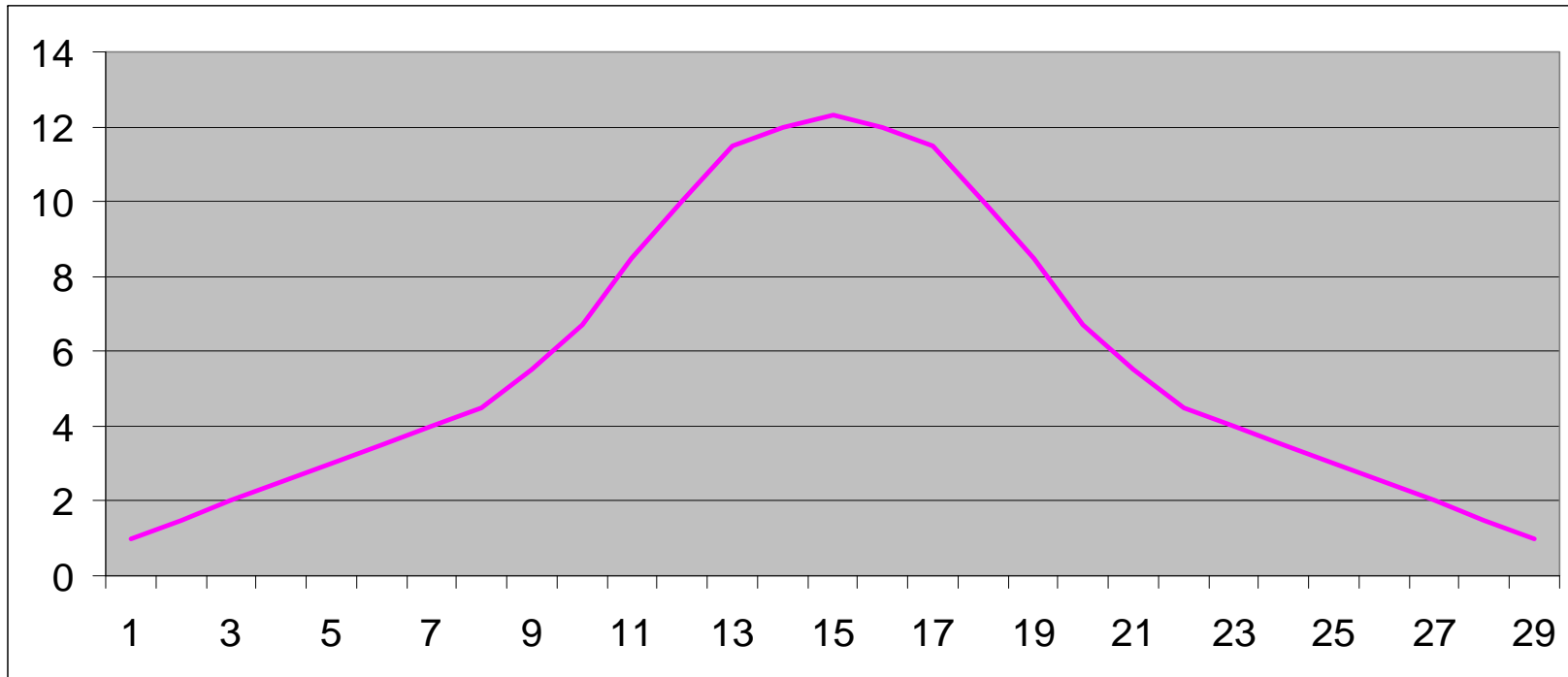


Fortune 500 Companies

- Median ROA in 2006 was 4.6%
- Median ROE in 2006 was 15.4%
- Walmart, Kmart and Target
all started in 1962
- Same economy and conditions, **but**
- Different plans and strategies, **produce**
- Different Results



The Bell Curve





Examples

Automobile Industry

- Toyota earned 15 Billion in 2006 –more than the combined profits of Ford, GM, Daimler Chrysler and Volkswagen

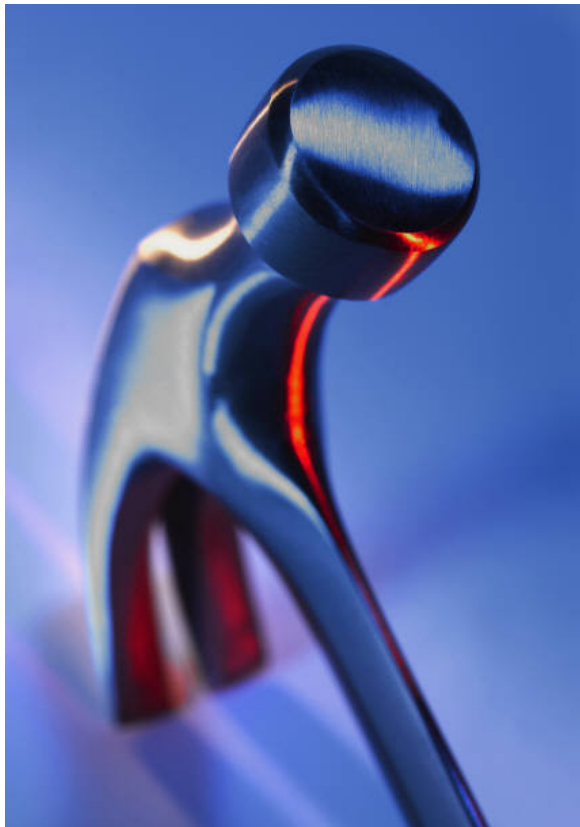
Airline industry

Southwest Airlines is included in the top ten most respected companies in America. Most others in the industry are struggling

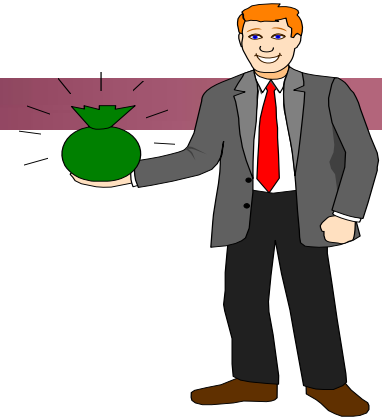
Lesson-do not benchmark your business with the average.



What should top producers focus on?



What are the most important leverage points to reaching income targets?



Leverage Points of High Profit Farms

Marketing	\$0 to \$99/acre	Realistic
Equipment Cost Mngt	\$0 to \$119/acre	
Labor Management	\$0 to \$101/acre	
Agronomic management	\$0 to \$90/acre	
Input cost management	\$0 to \$10/acre	
Total	\$419/ acre	\$100



2. Develop a marketing plan
to meet income goals



Financial analysis
spreadsheet



RCG Client Base

- Machinery cost/acre Range \$22 to \$137 Ave **\$58.45**
- Labor cost per acre Range \$9.15 to \$110 Ave **\$33.61**
- Combined average machinery & labor Ave **\$92.06** **\$169**
- **Combined benchmark to shoot for** **\$60.00**

- Return on Assets Ave 10.84% (4.8%) ISU FBA
- Return on Equity Ave 16.31% (7.02%) ISU FBA

- Acreage Corn 1196, Beans 970

Examples

• <u>Acres</u>	<u>Mach</u>	<u>Labor</u>	<u>Combined</u>
• 2,132	\$54	\$20	\$74
• 5,684	\$48	\$9	\$57
• 4,000	\$29	\$17	\$46
• 9,955	\$24	\$26	\$50
• 1,200	\$45	\$20	\$65



Examples

<u>Acres</u>	<u>Mach</u>	<u>Labor Combined</u>	
• 5,300	\$33	\$12	\$45
• 12,000	\$34	\$20	\$54
• 3,120	\$45	\$16	\$61
• 1,277	\$37	\$25	\$62

Diversification

- \$100,000 invested @ 7% for 10 years = \$196,968

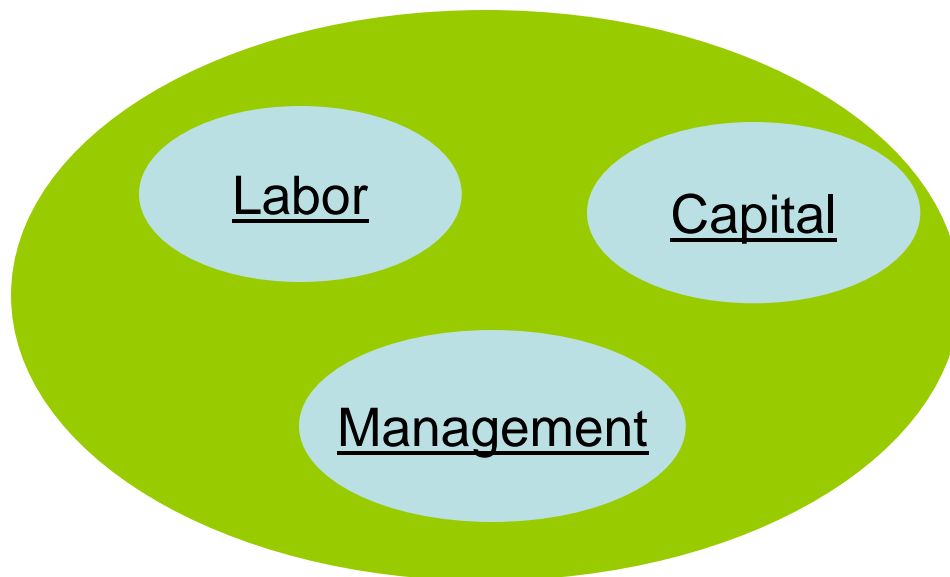


Diversification

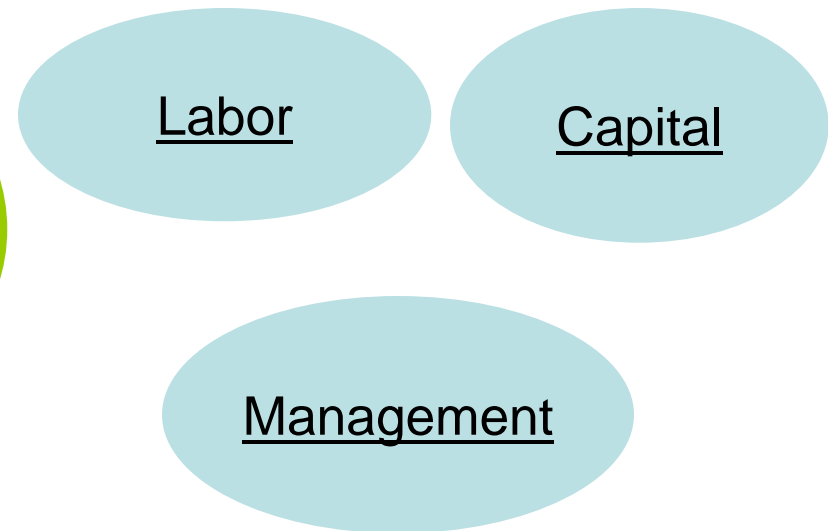
- \$20,000 @ 20% for 10 years = \$123,834
- \$20,000 @ 15% for 10 years = \$80,914
- \$20,000 @ 7% for 10 years = \$39,343
- \$20,000 @ 0% for 10 years = \$20,000
- \$20,000 lose it all = \$0
- Total \$264,715
- 34% more than \$196,968

Availability and Utilization of Resources

- Traditional



- New



Unprecedented Growth Opportunities



- Growth is frequently most limited by management, not capital.

Capital

- Capital flows to individuals and businesses that are profitable or that have a sound business model.





RUSSELL
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**Any
Questions?**

[See Appendix](#)