

Execution After Crisis: Shining a light on Business Risks & Opportunities Through a Global Pandemic

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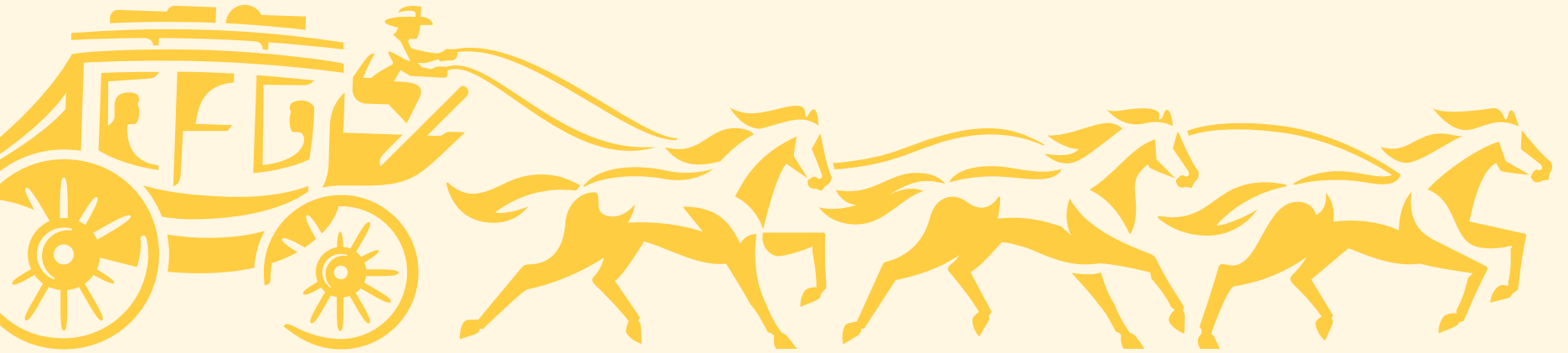
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Agricultural Outlook: What did COVID19 Really Change?

June, 2020
Michael Swanson Ph.D.
Agricultural Economist

Transitory or Permanent?

1. Structural change → Permanent

1. Elimination of demand?
2. Alternative technology?
3. Regulatory change?

2. Cyclical change → Transitory

1. Supply or demand shock
2. Currency or trade issue
3. Weather events
4. Change in interest rates

Cash and courage are both necessary.

S&P 500 Stock Index



Source: FRED, Wells Fargo

Σ Micro = Macro (how do you grow your business)

- **Capital**

- Buildings
- Equipment
- Inventory and Accounts Receivable

- **Labor**

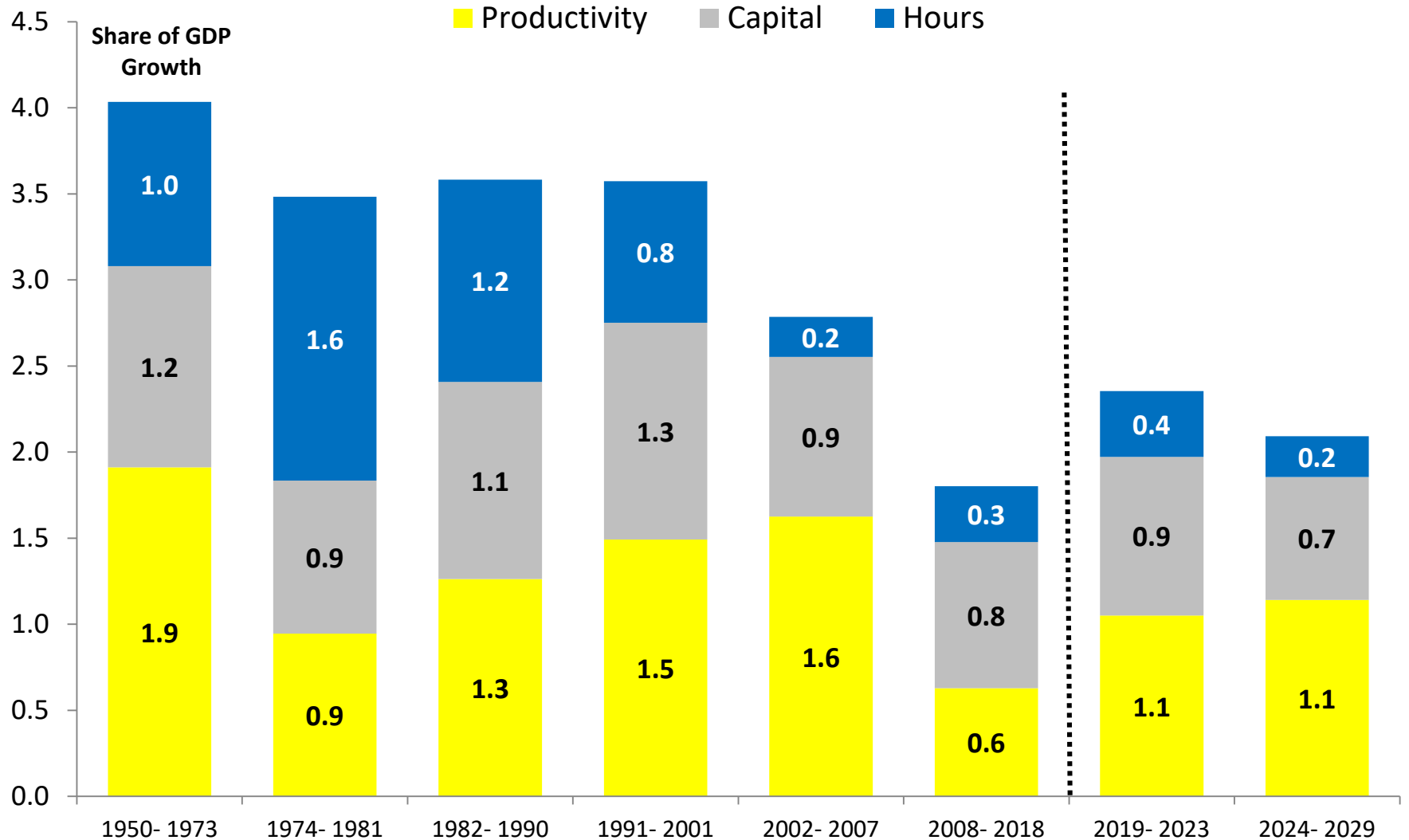
- Employees
- Hours worked
- Skill sets

- **Technological change**

- External change
- Internal adaptation
- Effectiveness of combinations

The art of guessing “potential GDP”

Real GDP Growth Factors



Source: CBO, Wells Fargo

Management is the only thing that matters

- Every business segment has the same dynamics
 - It's a system with strong linkages
 - Everyone faces the same prices
 - The returns are positive (because they must be)
 - Cycles will always be part of the world
- The gap between strong and weak drives the world
 - No price gives anyone the same signal
 - It's about dozens of factors (of varying importance)
 - Nothing is constant
 - Do you know your strengths and weaknesses?

How can they think that?

- Same price – different response
 - Different historical book value
 - “” levels of leverage
 - “” costs of borrowing
 - “” dividend needs
 - Cycles will always be part of the world
- “Easier said than done”, is a real business model.
 - It’s lots of little things
 - Putting off unpleasant decisions
 - Where is the problem?
 - Out there
 - In here

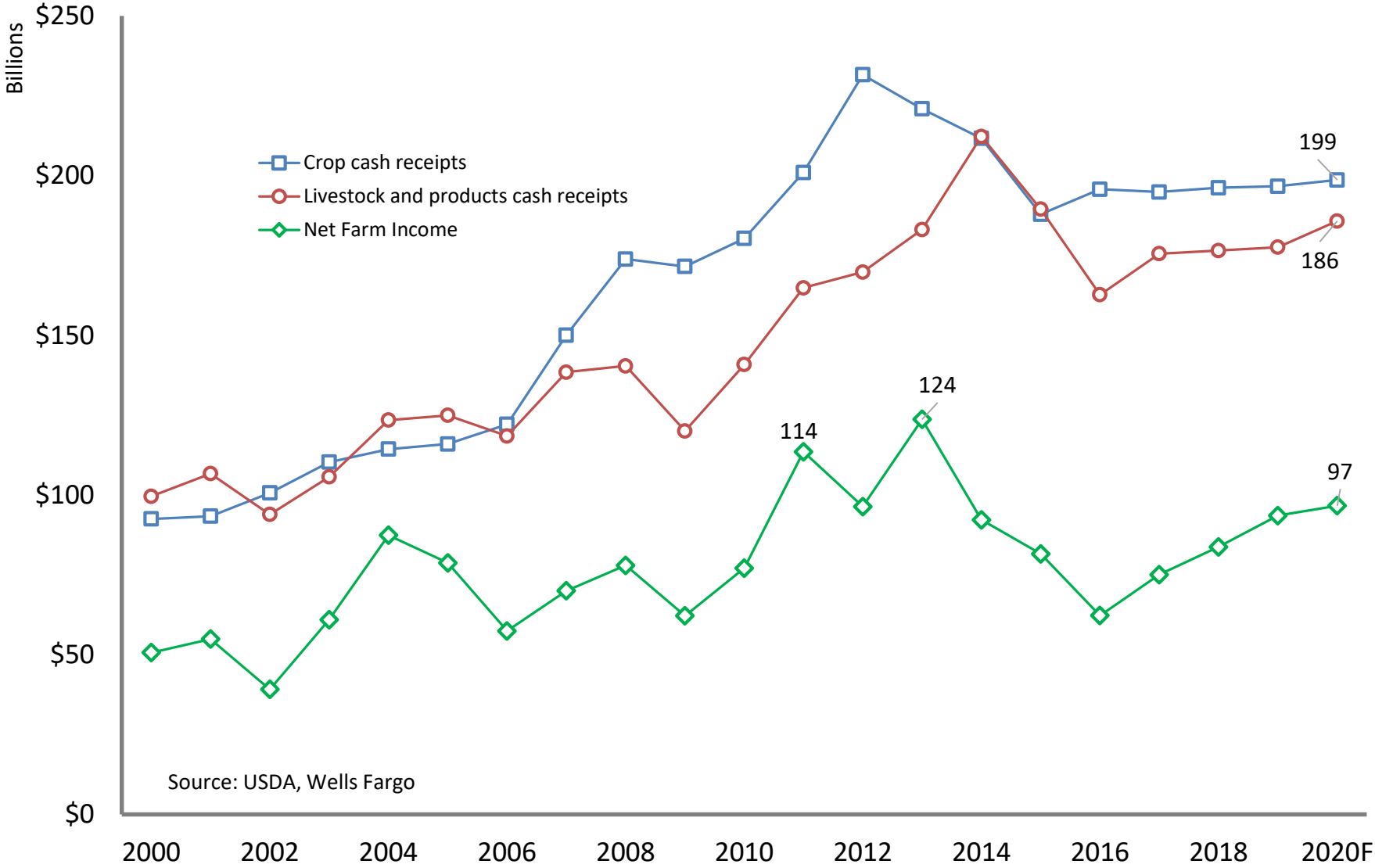
Let's talk agriculture and agribusiness to illustrate some issues.

Supply and demand trends are tough to change.

1. Demographics stay on trend
 1. Population growth continues to slow
 2. Urbanization continues to increase in developing countries
2. Yield gain stays on trend
 1. New technology
 2. Turn over in operators
 3. Consolidation brings technological concentration
3. Food trends remain unchanged
 1. Ease
 2. Health
 3. Variety

Ranch and farm markets are linked

USDA Farm and Ranch Financials in Billions of dollars



Source: USDA, Wells Fargo

The 2 Yeses

1. Do you want to continue the business?

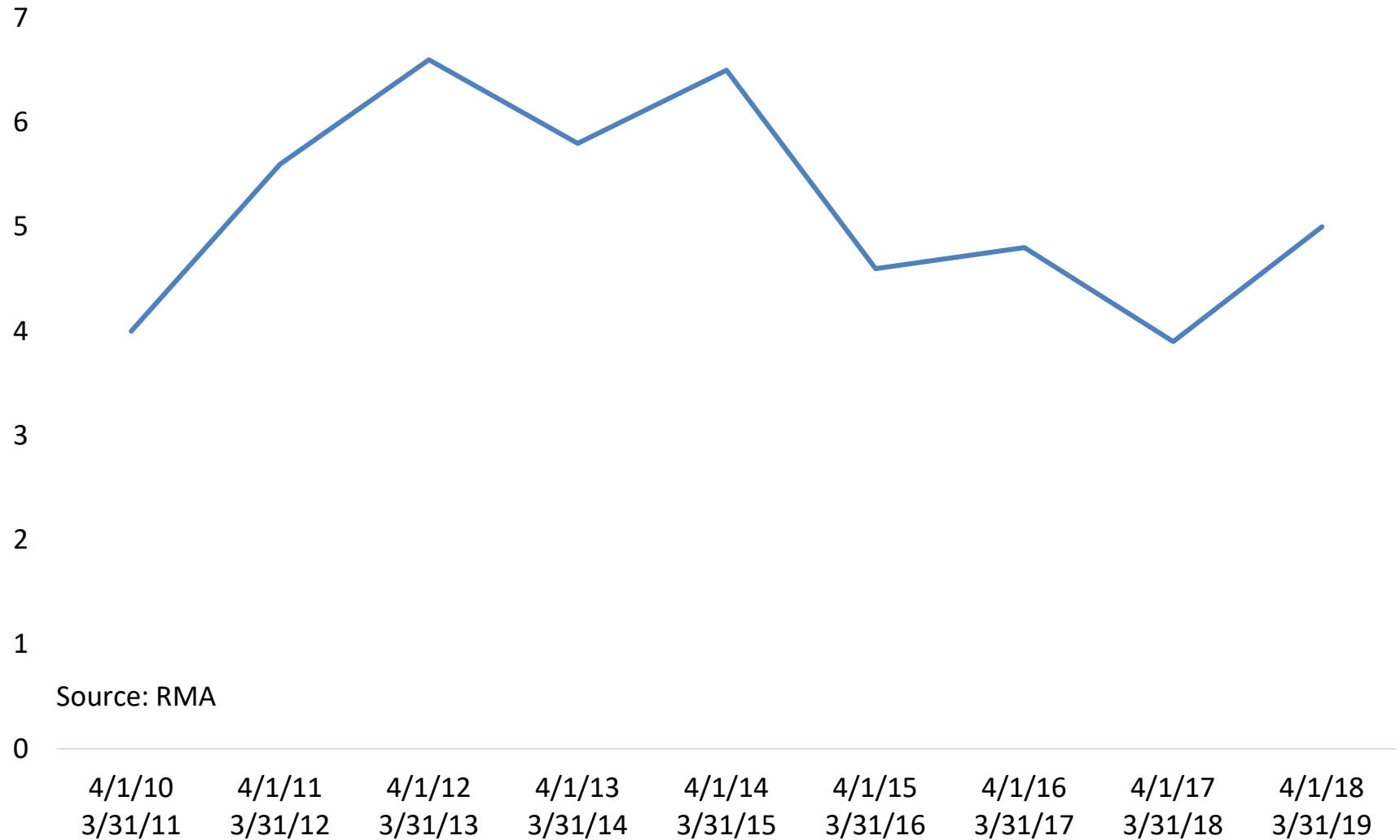
1. Returns to capital
2. Returns to labor
3. Returns to management

2. Can you continue the business?

1. Debt leverage and cash flow
2. Next generation of management
3. Next generation of ownership

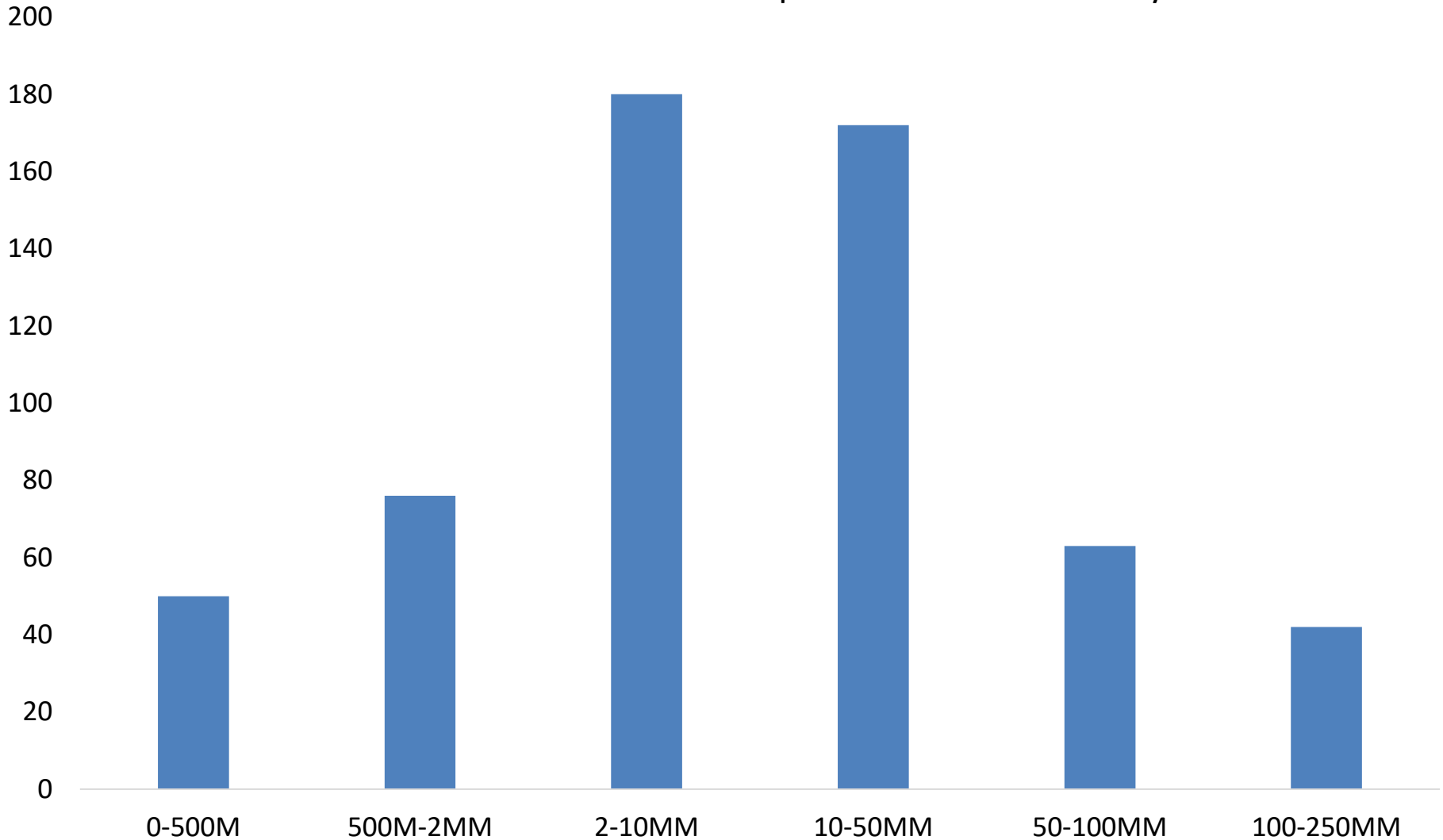
The 42 degrees in Fargo fallacy

Profit Before Taxes: Percentage of Revenue
Crop Production 111



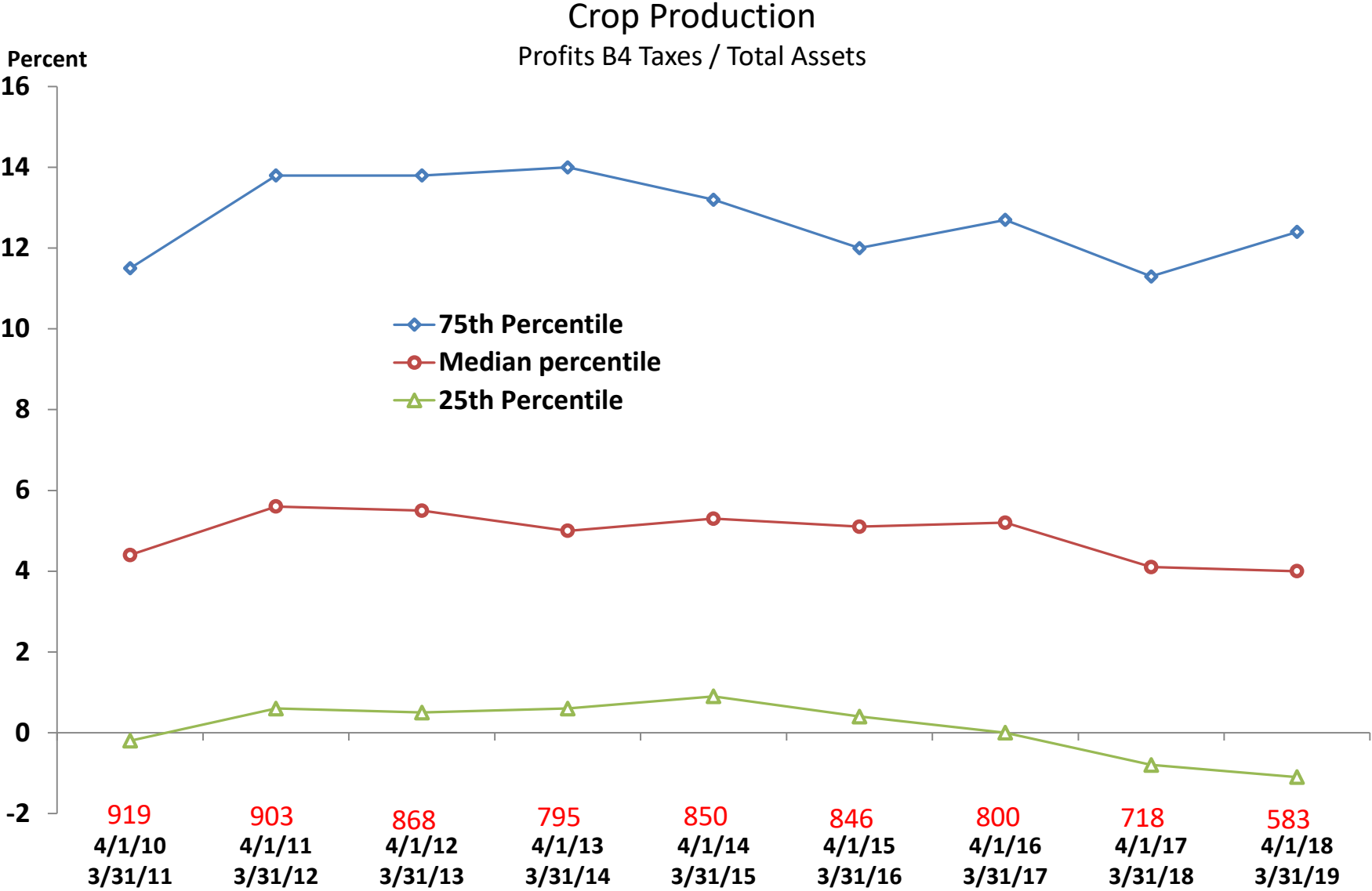
What do you know? And, how do you know it?

Asset Size in Millions of Dollars: Crop Production Firms Analyzed



Source: RMA

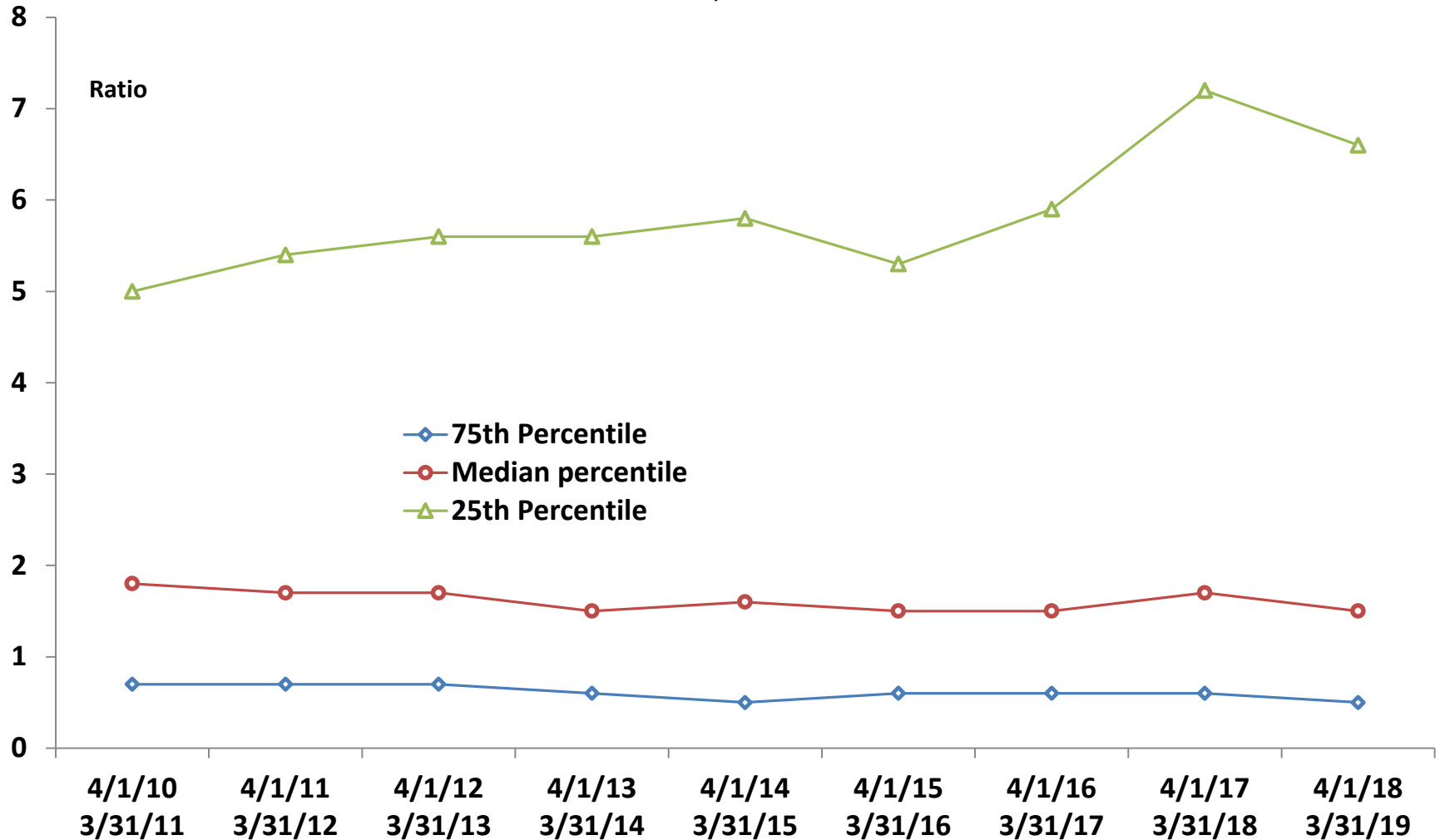
What drives the differences?



Source: RMA

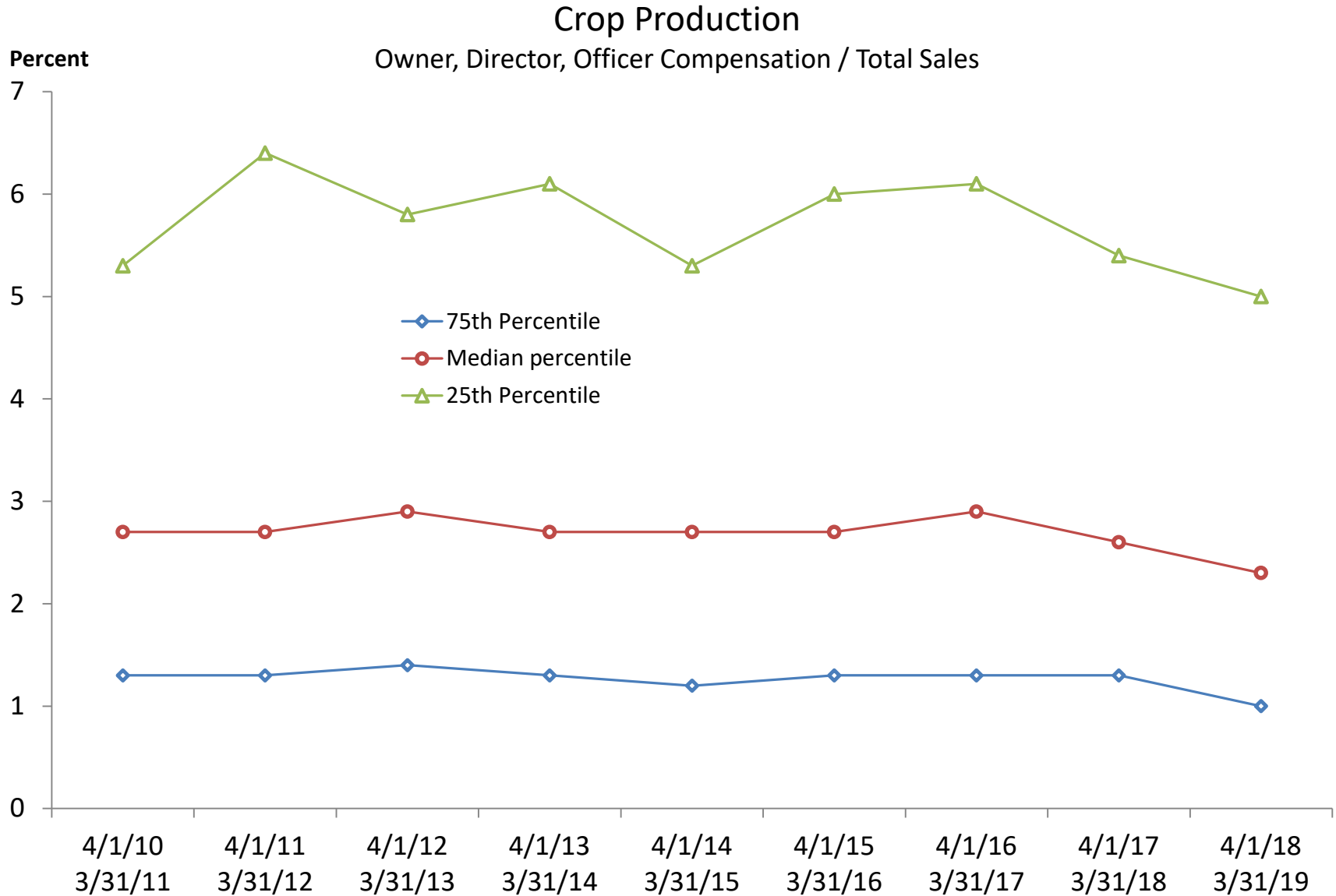
The dosage makes the poison.

Crop Production
Total Debt / Net Worth



Source: RMA

Talk about some awkward conversations.



Source: RMA

Anticipation is a mindset that requires awareness.

1. Is the perfect stopping the good?

1. How much of the delay is dithering?

2. What information do you really need?

3. Are they all or nothing bets?

2. The adaptable beat the well adapted in a volatile environment.

General disclosures

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Thank you Dr.
Swanson!

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Leadership in Times of
Fear and Uncertainty
Workshop

Robert Sher, CEO to CEO

June 24, 2020

2:00-3:00 PM