

The background of the slide is a collage of US dollar bills, including \$100 and \$20 bills, arranged in a layered, overlapping fashion. The bills are in shades of green and blue, with some text and serial numbers visible.

IS AGRICULTURE RECESSION-PROOF?

Karol Aure-Flynn

Executive Director

Food and Agribusiness Research and Advisory
Rabobank International



Opportunities and Challenges in Agriculture

Recession Proof? So what for Kern County?

Karol Aure-Flynn
Executive Director
Food and Agribusiness & Advisory

March 2009

Food & Agribusiness Advisory

Contents



- Intro
- The Big Picture
- The R word and U.S. Ag
- So what for Kern County?

Rabobank's History



- 1898 - Created for farmers by farmers, cooperatively
 - Centrale Cooperatieve Raiffeisen Bank – Utrecht
 - Cooperatieve Centrale Boerenleenbank – Eindhoven
- 1972 - Merger of regional cooperatives
 - Cooperatieve Centrale **Raiffeisen – Boerenleenbank = Rabobank**
- 1981 – First International Operation
 - New York Branch

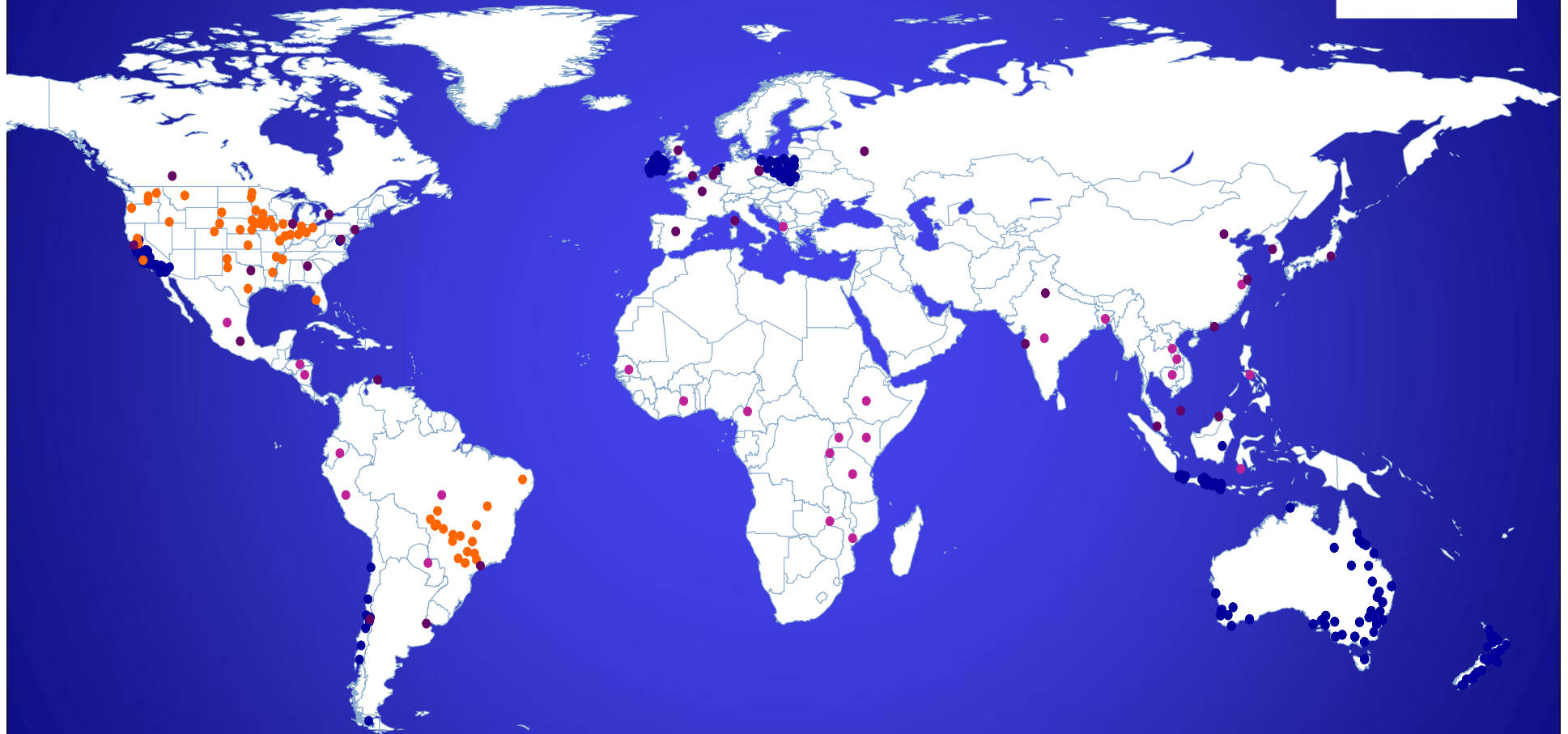
Rabobank Today



- C\$800 Billion in Assets
- 38 Countries
- AAA Rating from S&P and Moody's
- Corporate and Wholesale
 - M & A
- Retail and Commercial
- Production Ag and Rural



Rabobank Globally



- Corporate Banking
- Retail
- Ag / Rural Lending
- Rabobank Development Program

Food and Agribusiness & Advisory

M&A - our clients are the best farmers in the world, from local operations to multinationals

Selected Q3 and Q4 2008 F&A M&A transactions



2008

Highly successful M&A transactions despite the difficult economic climate and challenging credit market



Closed: July 24, 2008
Acquirer: Pernod Ricard
Target: V&S Win & Spirit
Transaction Value: \$8.9 billion
Valuation Multiples:
5.0x sales, 21.5x EBITDA



Announced: September 3, 2008
Acquirer: Atlantic Industries (KO)
Target: China Hui Yan Juice
Seller: Zhu Xinli, Warburg Pincus LLC, Groupe DANONE
Transaction Value: \$2.5 billion
Valuation Multiples:
6.3x sales, 56.1x EBITDA



Closed: October 1, 2008
Acquirer: Grupo SOS
Target: Bertolli, Olive Oil and Vinegar business
Seller: Unilever
Transaction Value: \$888 million
Valuation Multiples:
1.5x sales, 9.3x EBITDA



Closed: October 6, 2008
Acquirer: Mars
Target: Wrigley
Transaction Value: \$23.0 billion
Valuation Multiples:
4.1x sales, 18.4x EBITDA



Closed: November 6, 2008
Acquirer: J.M. Smucker Company
Target: Folgers Coffee
Seller: Procter & Gamble
Transaction Value: \$3.3 billion
Valuation Multiples:
1.9x sales, 8.6x EBITDA



Closed: November 18, 2008
Acquirer: Centre Partners (Private Equity)
Target: Connors Bros. Income Fund
Transaction Value: \$681 million
Valuation Multiples:
0.7x sales, 7.5x EBITDA



Closed: November 18, 2008
Acquirer: InBev
Target: Anheuser-Busch
Transaction Value: \$61.9 billion
Valuation Multiples:
3.6x sales, 13.6x EBITDA



Announced: December 10, 2008
Acquirer: Grupo Bimbo
Target: George Weston's U.S. fresh bakery business
Transaction Value: \$2.4 billion
Valuation Multiple:
9.3x EBITDA

Retail and Agricultural Banking - Rabobank, N.A.



- 90 Branches from Imperial Valley to Sacramento
- 13 Commercial loan centers
- Total assets of \$9.4 billion
- 200,000 Clients
- Four business units:
 - Commercial Banking
 - Commercial Real Estate
 - Retail Banking
 - Agriculture
- ₈ Over 1620 employees



The global Food and Agribusiness Research (FAR) group has 80 members in 13 countries

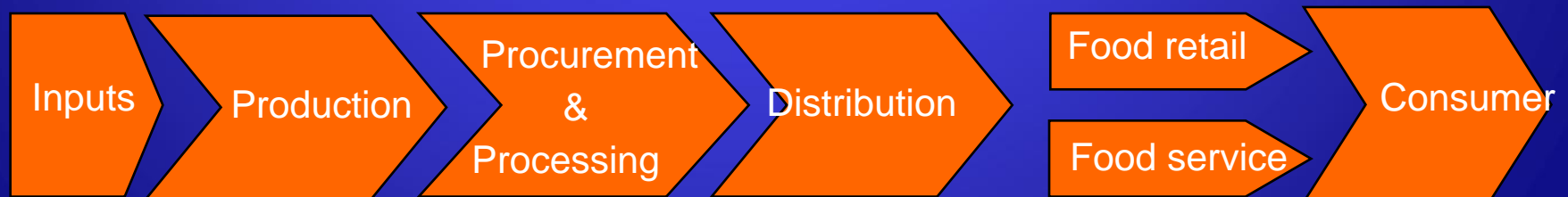


FAR analysts cover all the major Food and Agribusiness sectors...



- Inputs
- Grains & Oilseeds
- Animal Protein
- Beverages
- Cotton
- Rice
- Dairy
- Sugar
- Fruits & Vegetables
- Food Ingredients

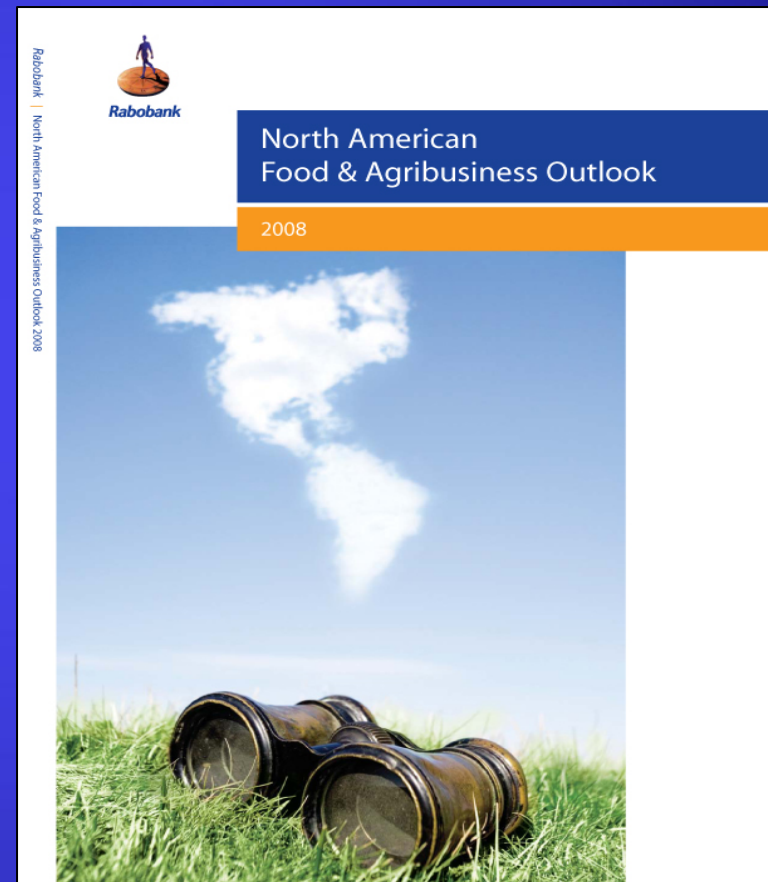
- Food Processing
- Food Retail
- Foodservice
- Forestry
- Grains and Grain-based products
- Rendering
- Rubber
- Sugar-based products
- Fiber processing



Research available via a range of publications.



- North American Food & Agribusiness Outlook – Annual Publication
- Ag Focus - Reports geared to farmers , providing a global view of Ag sectors
- Industry Notes – Short topical publications
- F&A Reviews - Extensive industry reports
- World Maps - Trade flows of Dairy, Grain, Wine, Oilseeds, Animal Proteins, etc.





The Big Picture

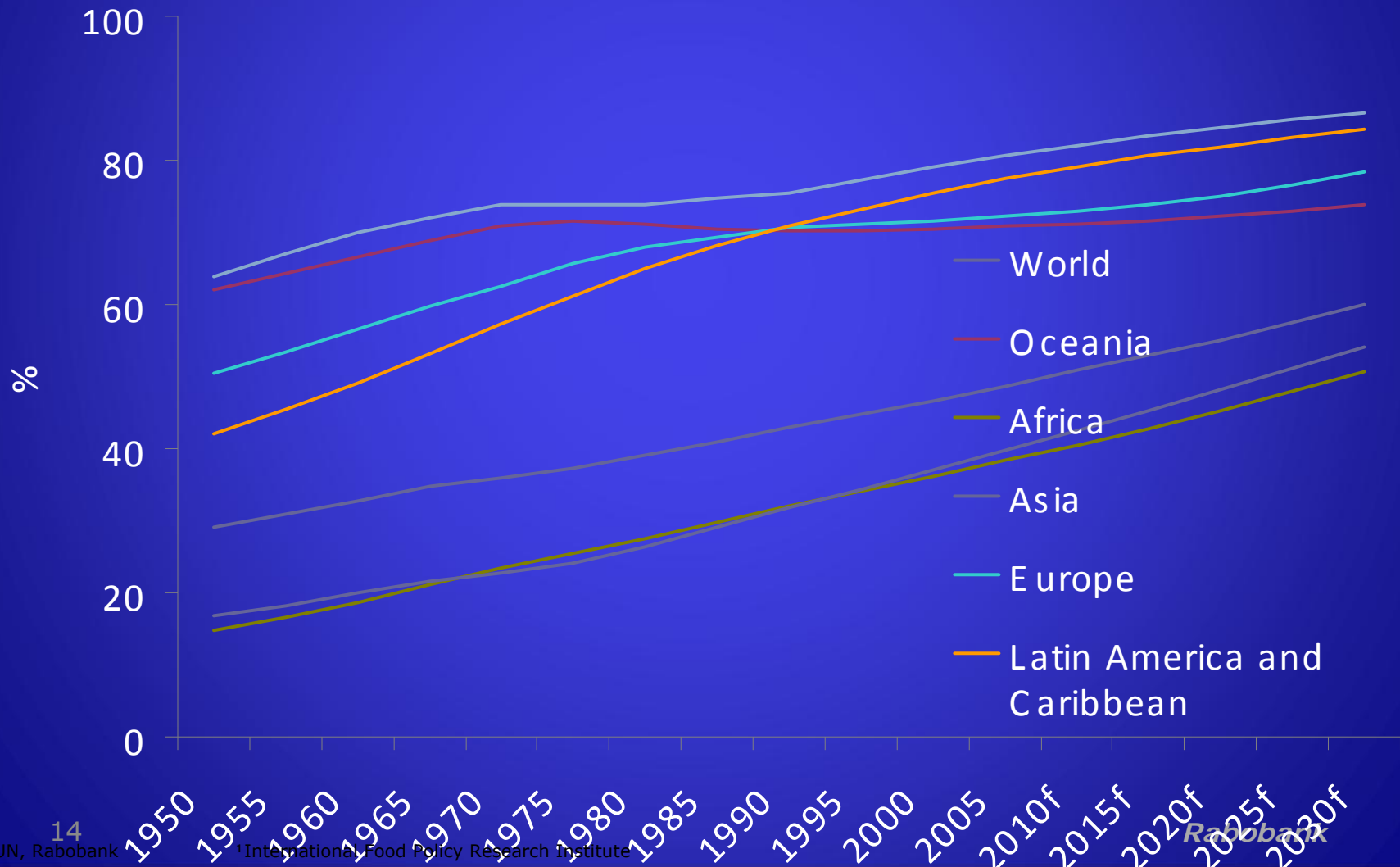
Global demand for agriculture products



- Demographics urbanization and aging
- GDP growth, per capita income
- Population growth
- Emerging economies vs developed world
- Renewable fuels
- Long term ag resources constrained
- Grain and oilseed stocks are vulnerable

Urbanization is a global phenomena

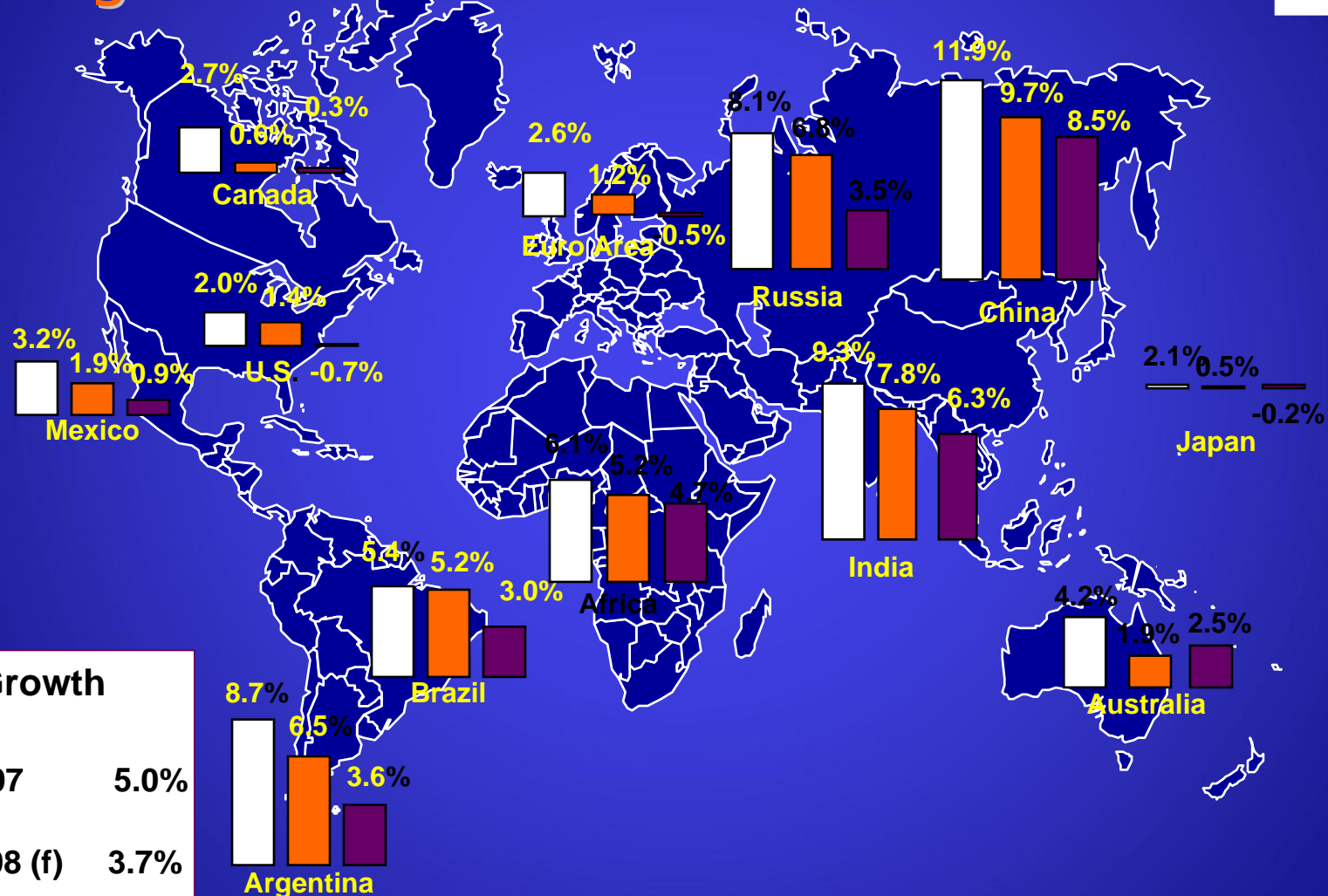
Proportion of population in urban areas



Estimates for global GDP are being revised downward, and emerging countries still at higher growth rates...



Rabobank



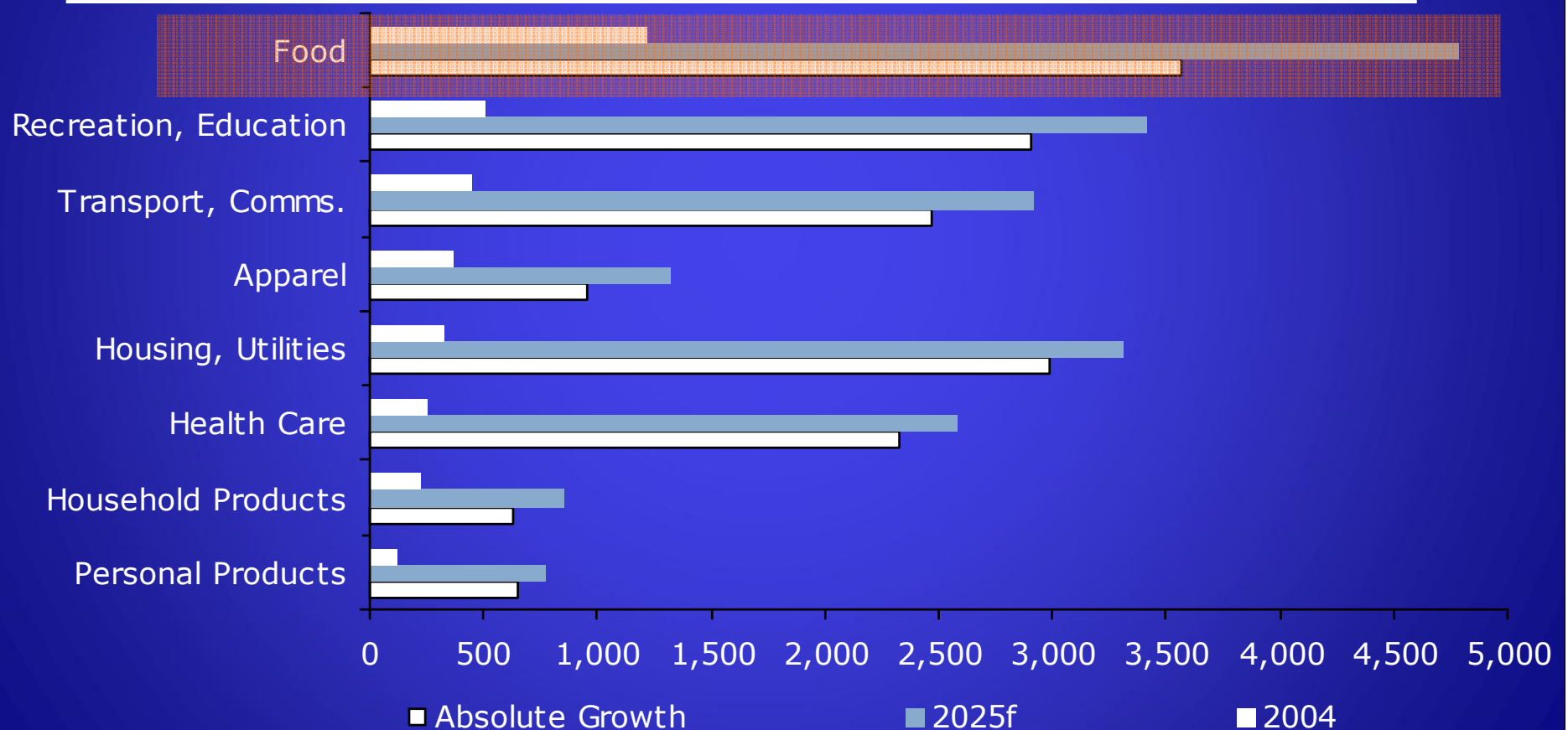
Source: Rabobank based on IMF Data

Food expenditures are greater priority in developing countries



Consumer Spending in China (bln RMB)

Source: McKinsey

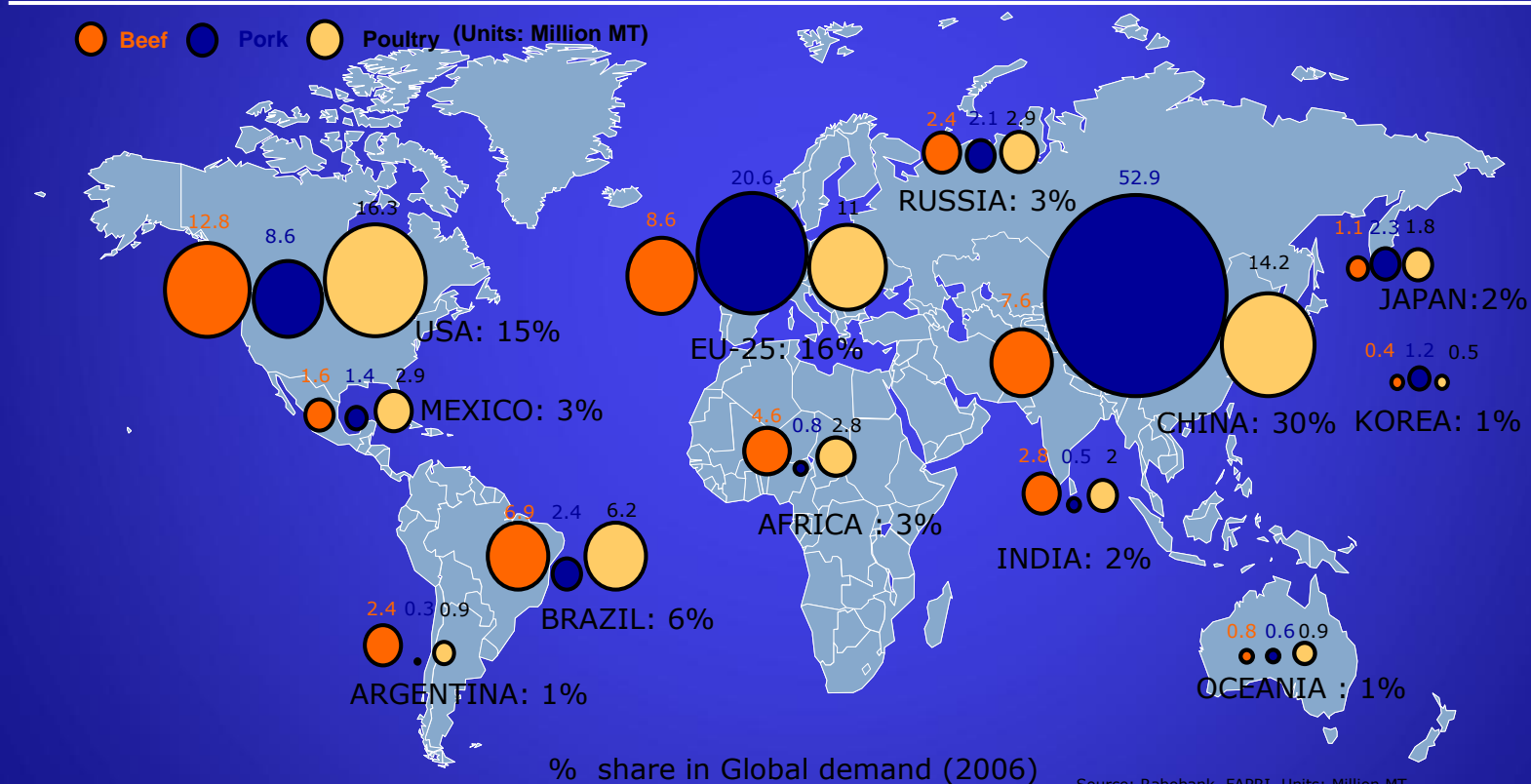


Food and Agribusiness & Advisory

Driving shifts in dietary preferences

Global Meat Demand

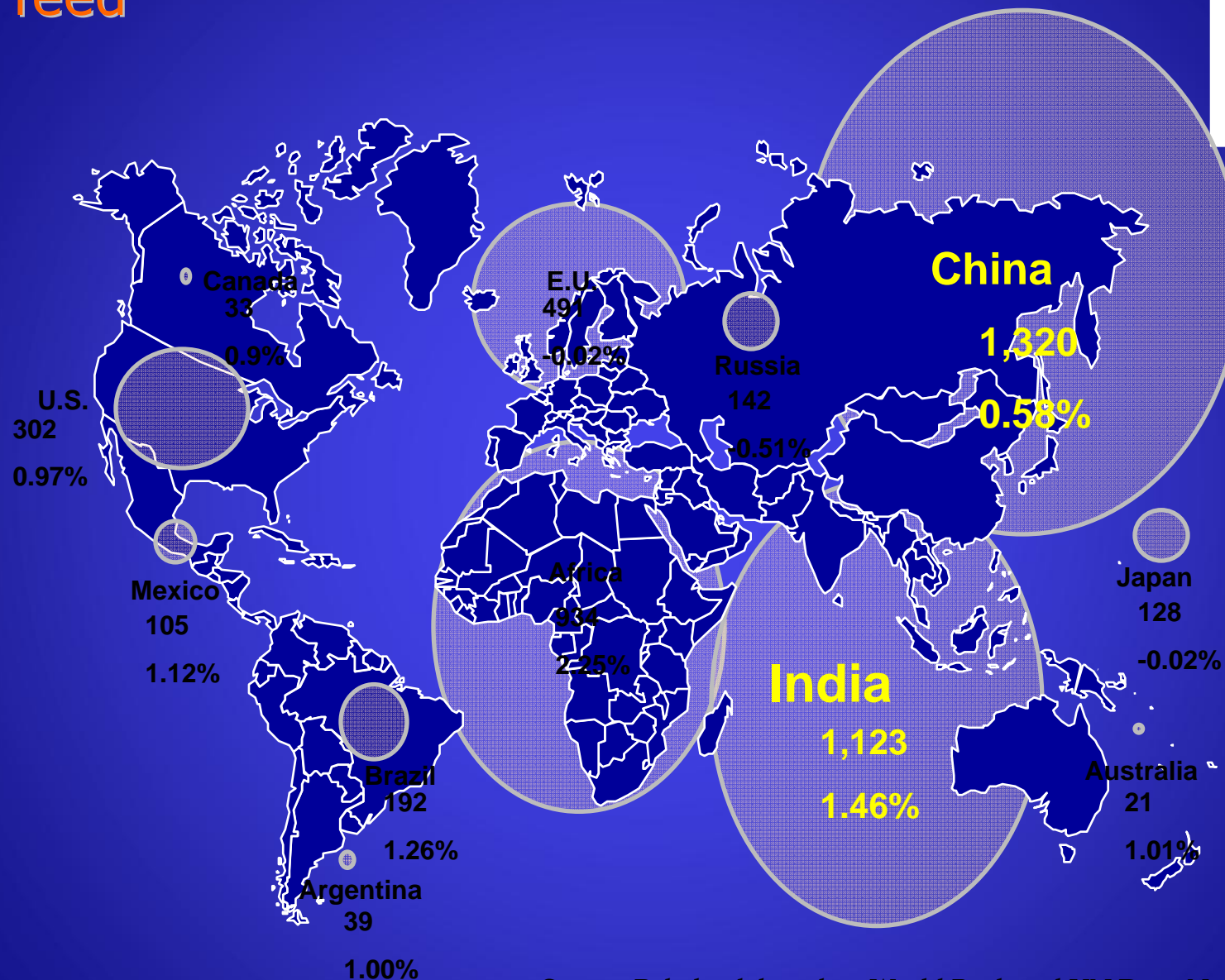
Size of circle indicative of consumption volume



... and these have the largest populations to feed

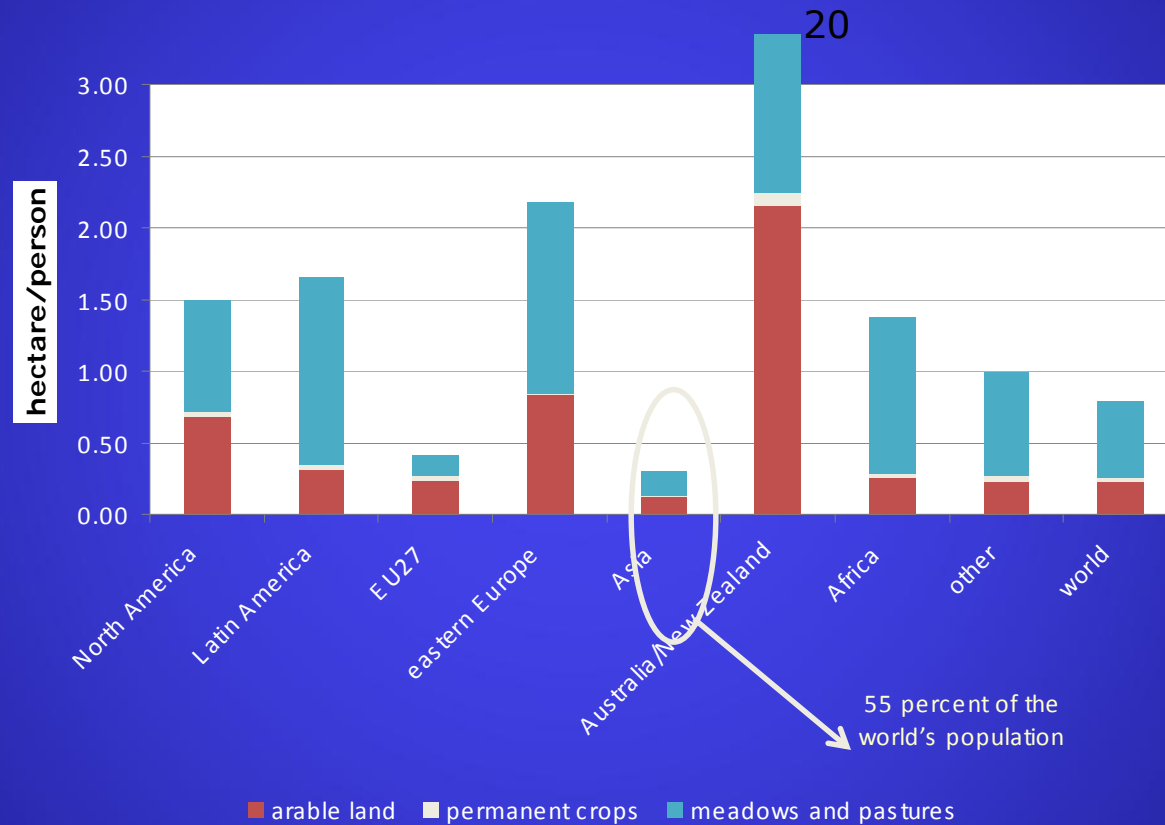


Rabobank

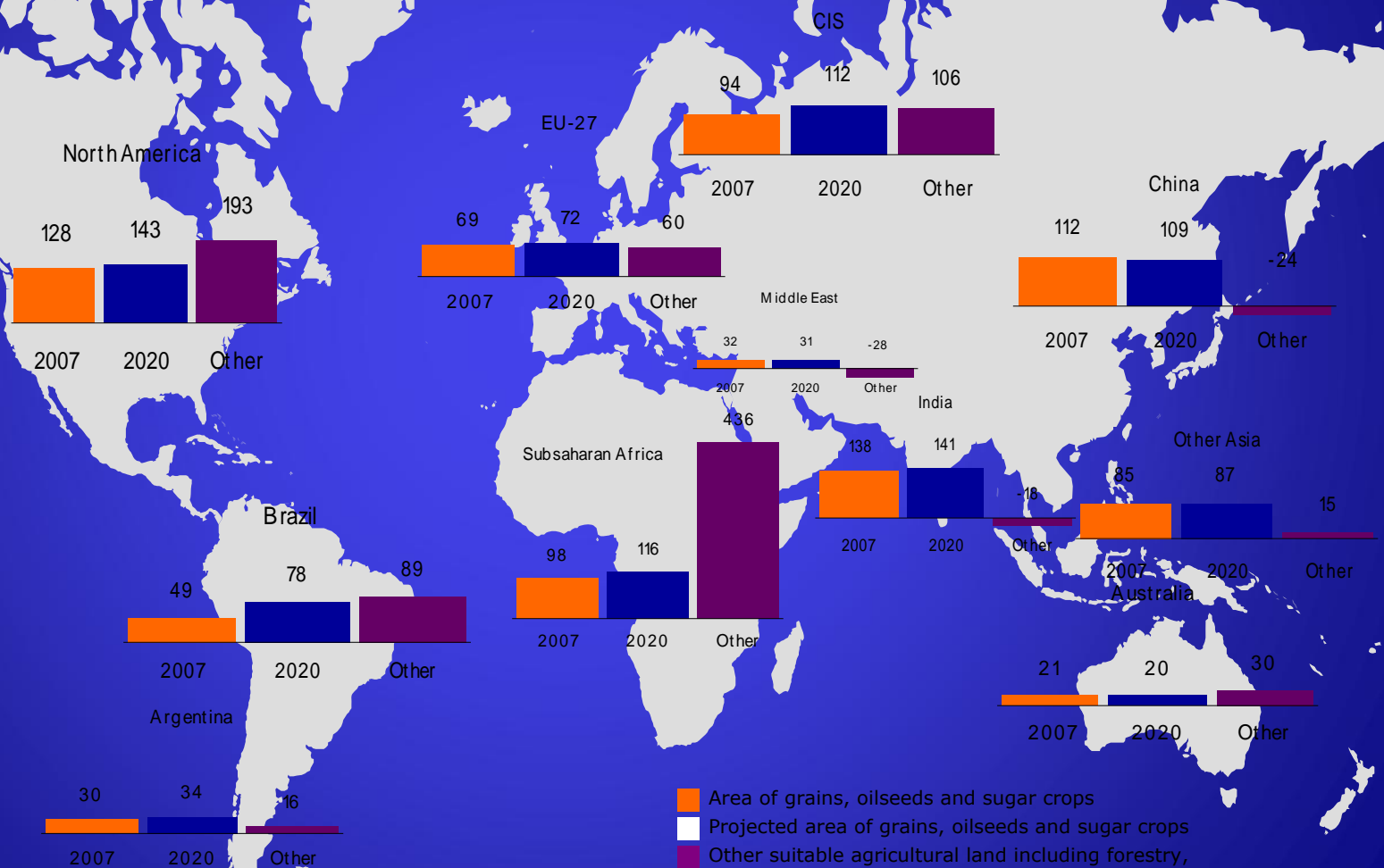


Source: Rabobank based on World Bank and UN Data, November 2008

Structural lack of land in Asia fuels international trade

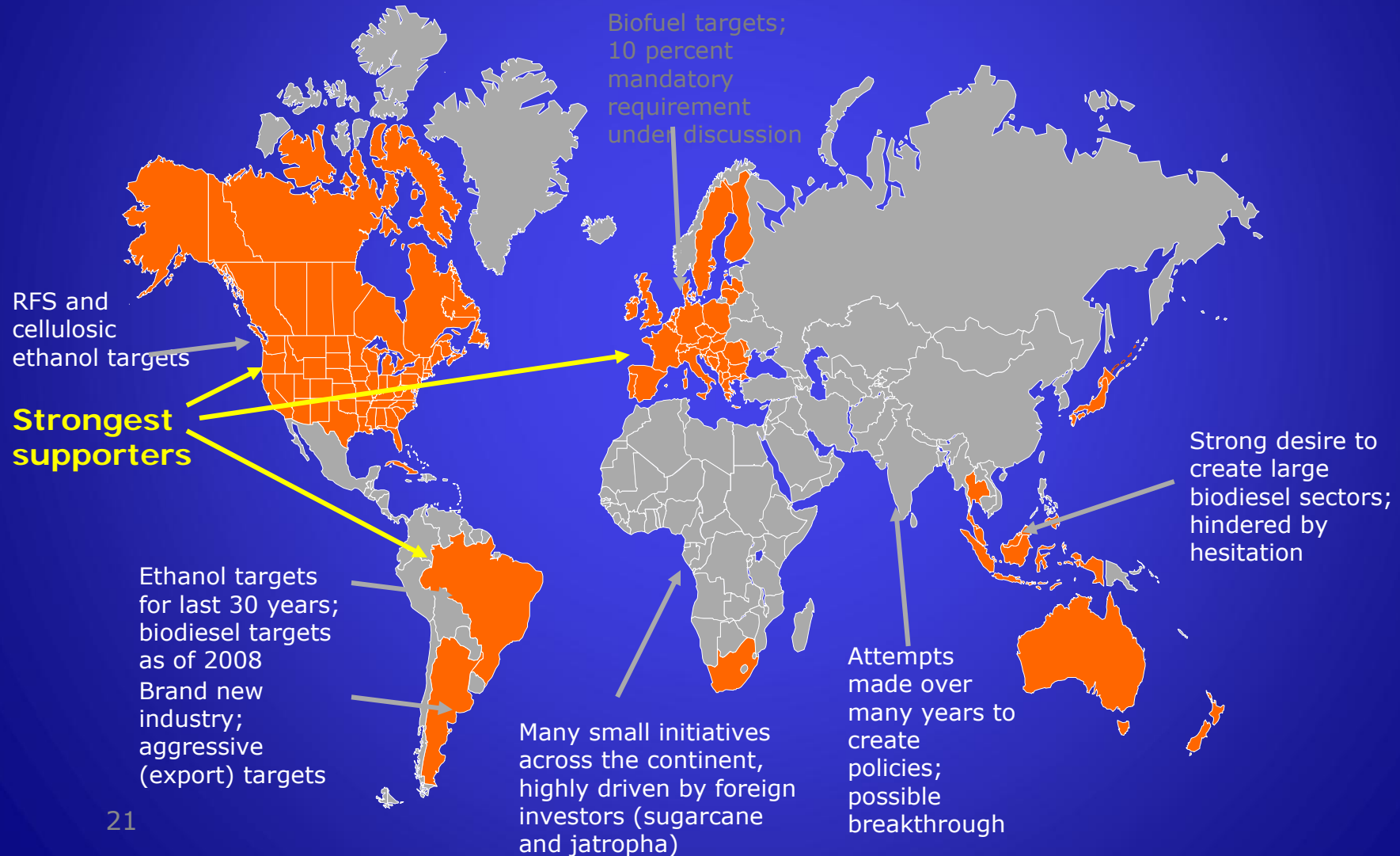


Additional Ag Resources are limited



■ Area of grains, oilseeds and sugar crops
■ Projected area of grains, oilseeds and sugar crops
■ Other suitable agricultural land including forestry, orchards and pasture land OR land that may be taken out of agriculture due to environmental issues
 million hectares

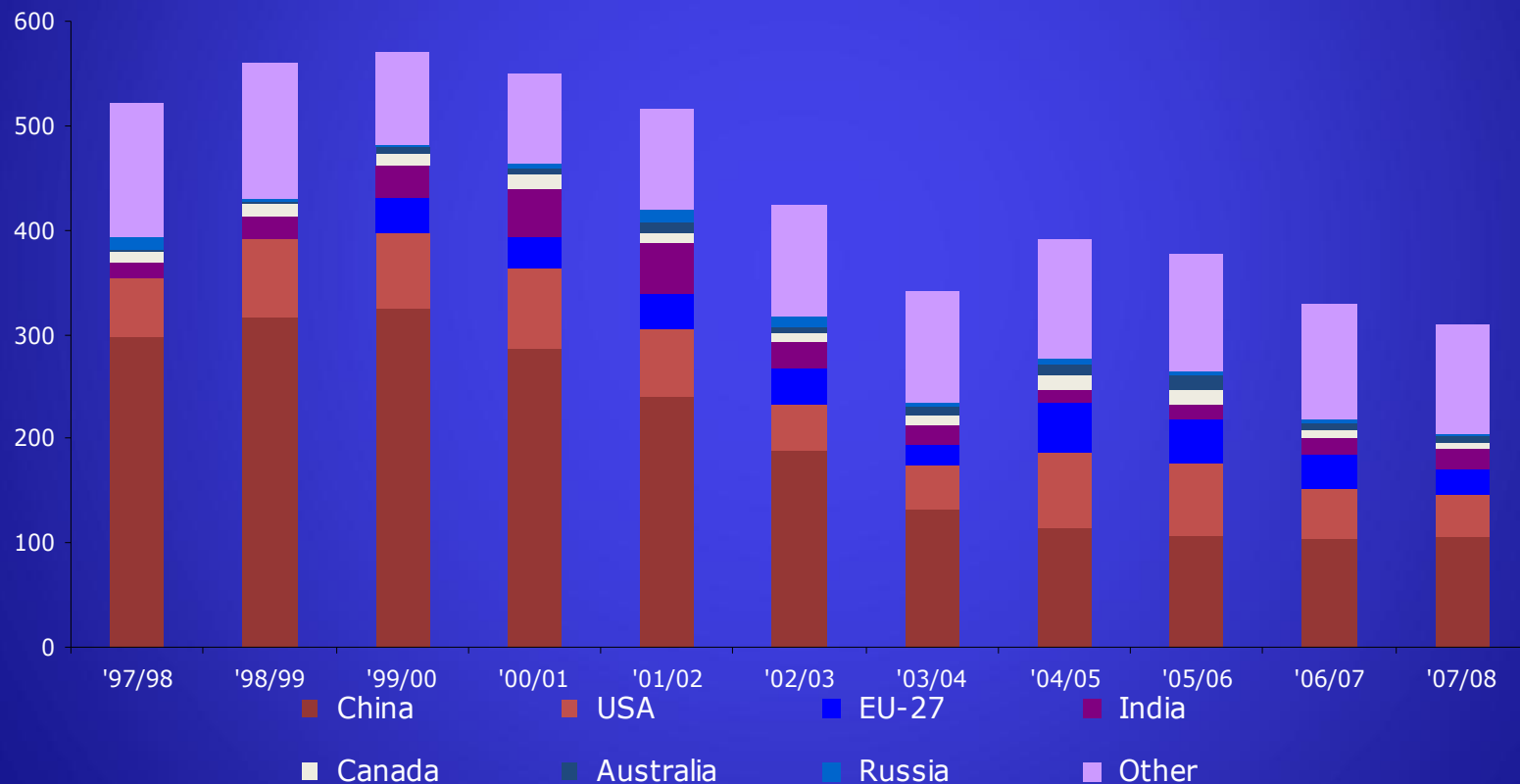
Biofuel production expected to more than double by 2015



Stock levels remain vulnerable and...most critical in regions with rapidly changing diets..



Global stock levels for grains (mln MT)



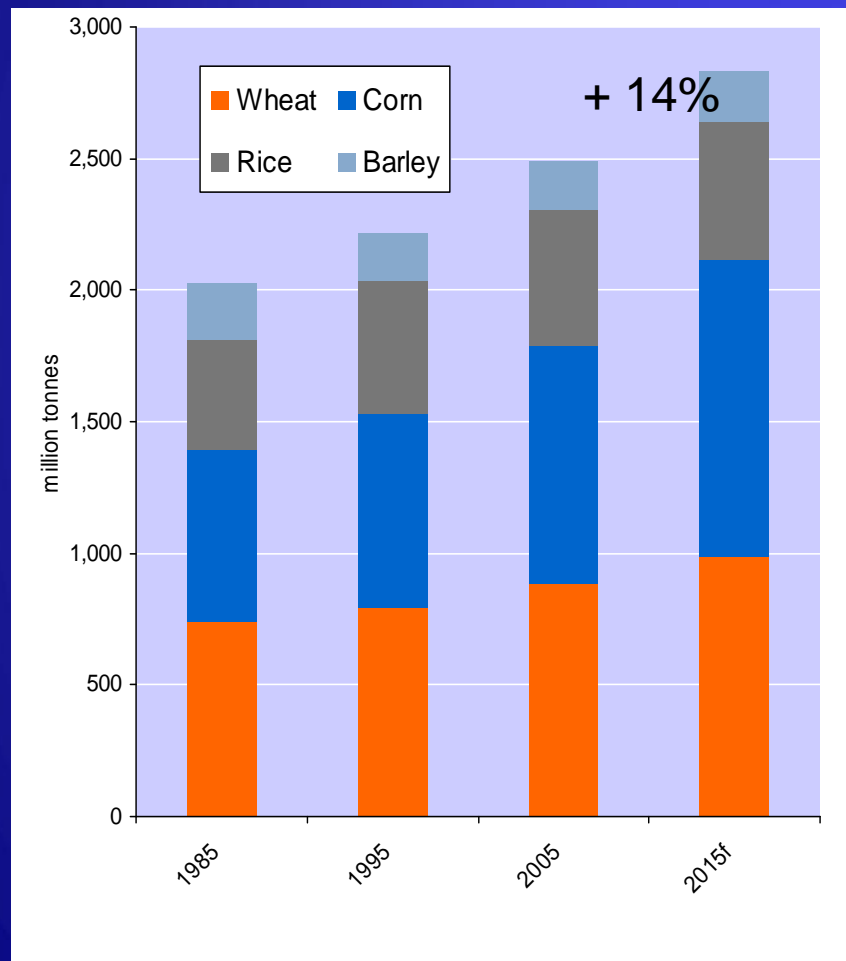
Source: USDA, Rabobank, 2008 (including corn, wheat, barley and rice)

Food & Agribusiness and Advisory

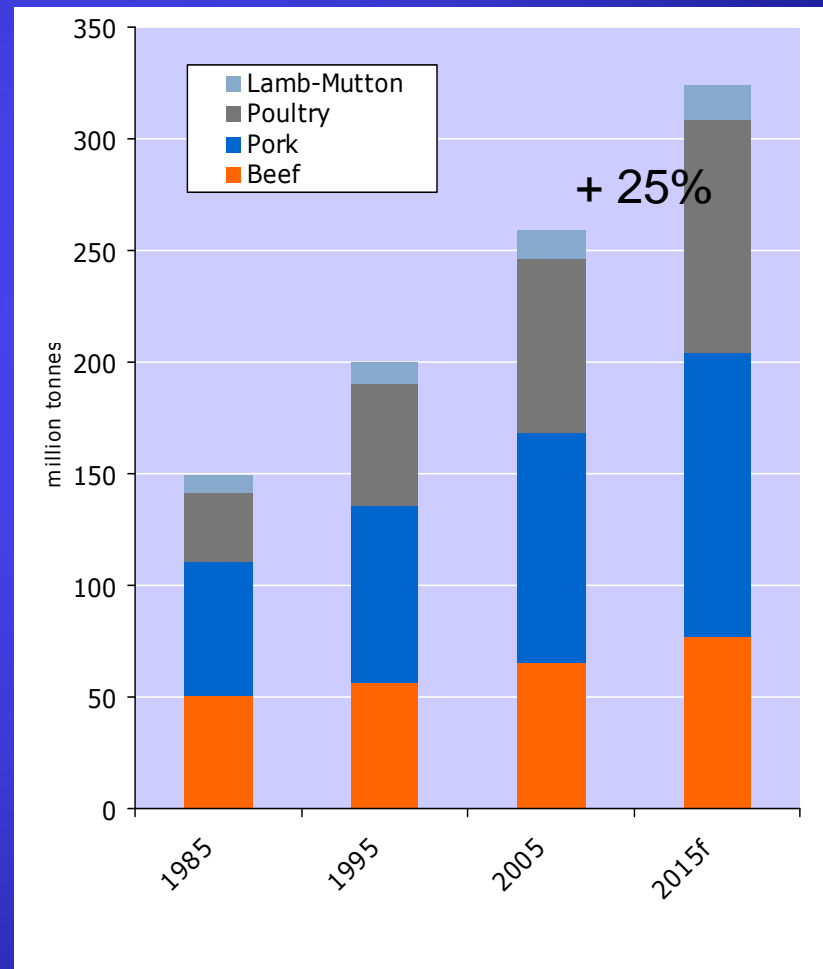
Grain and meat demands destined to climb



Global grain demand



Global meat demand



Food security depends on the vantagepoint...



Somalis riot against rising food prices and soaring inflation in Mogadishu.

Policy responses



Source: Various, Rabobank, correct as at 31 March 2008



- ✓ **Long term trends supportive for demand**
 - Increasing demand for proteins, edible oils, dairy
 - Higher per capita income increases demand for value-added, health benefits, lifestyle items

- ✓ **Long term constraints on supply supportive for prices**
 - Encourages innovative technology
 - Production vs consumer traits

- ✓ **Short term constraints**
 - Global economic slowdown
 - Trade restricted
 - Credit crisis inhibits production capabilities
 - Policy interference can be expected hand-in-hand with economic uncertainty



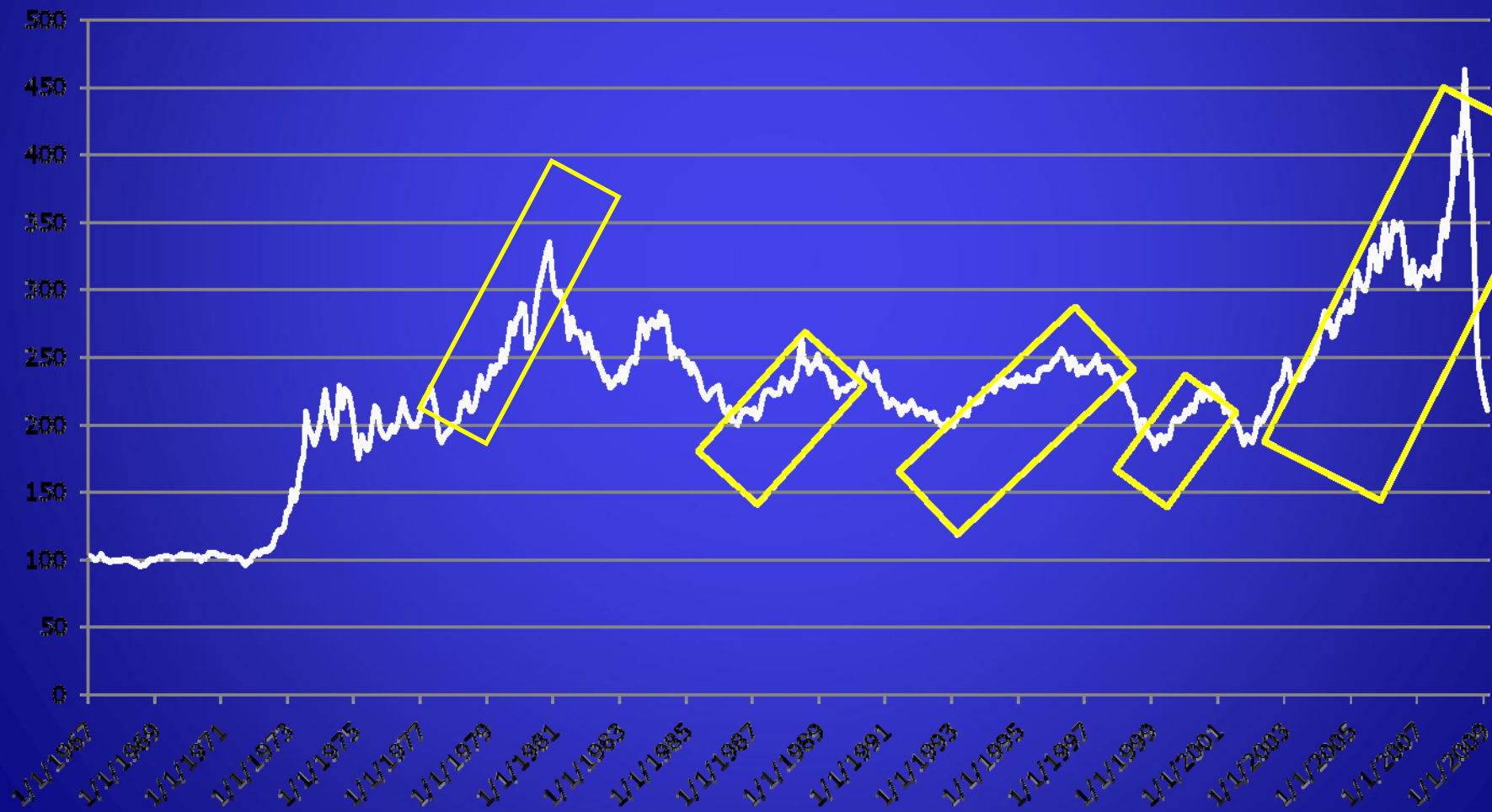
US Perspective

Recession Proof? So what for Kern County?

Commodity boom drove discussion of structural change..



RJ/CRB Commodity Price Futures Index - Monthly



Financial Turmoil: the trump card...



Source: Markit

Happy talk?



- “Everybody’s got to eat”
- Demand destruction
- Plummeting prices
- Credit is tightened
- Uncertainty

Variations in theme by sector – demand, reliance on exports, supply and uncertainty



- Grains and oilseeds
 - Demand destruction
 - Except where supply tight
 - Curious case of CA medium grain rice and soybeans
- Dairy
- Beverages
- Inputs
- Fruits and Vegetables

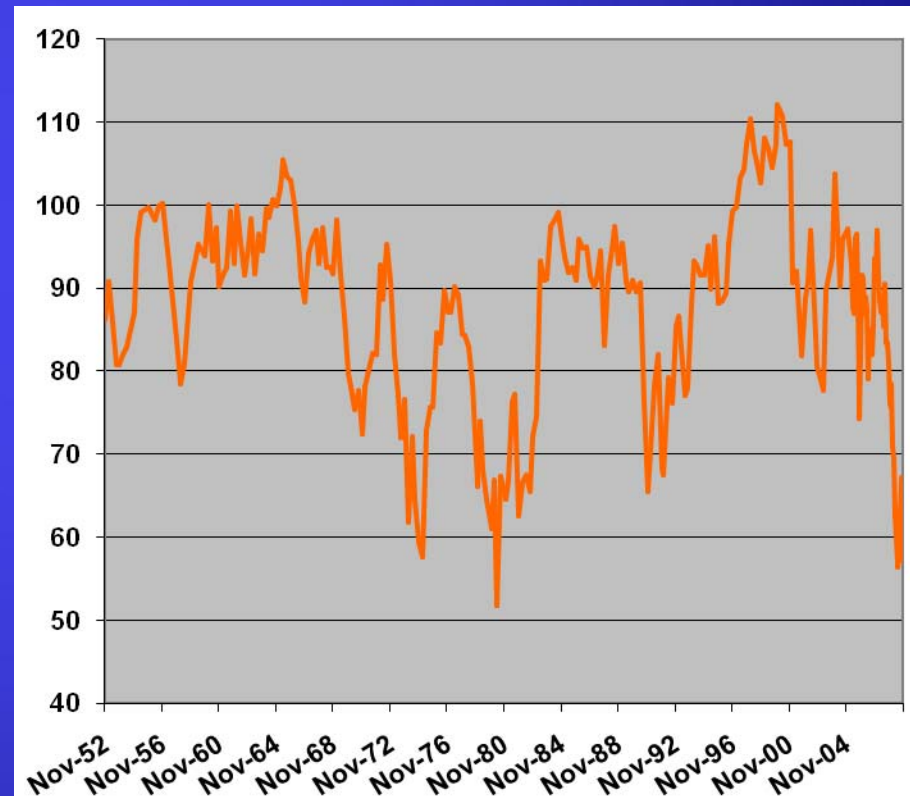


Ag will adjust to the consumer...



- Declining wealth and rising costs are eroding consumer sentiment and causing changes in U.S. consumption patterns:
 - U.S. consumer sentiment reached its lowest point in 30 years
 - Eating out- a bellwether for consumer sentiment and general economic performance- is at its lowest point of the past 18 years

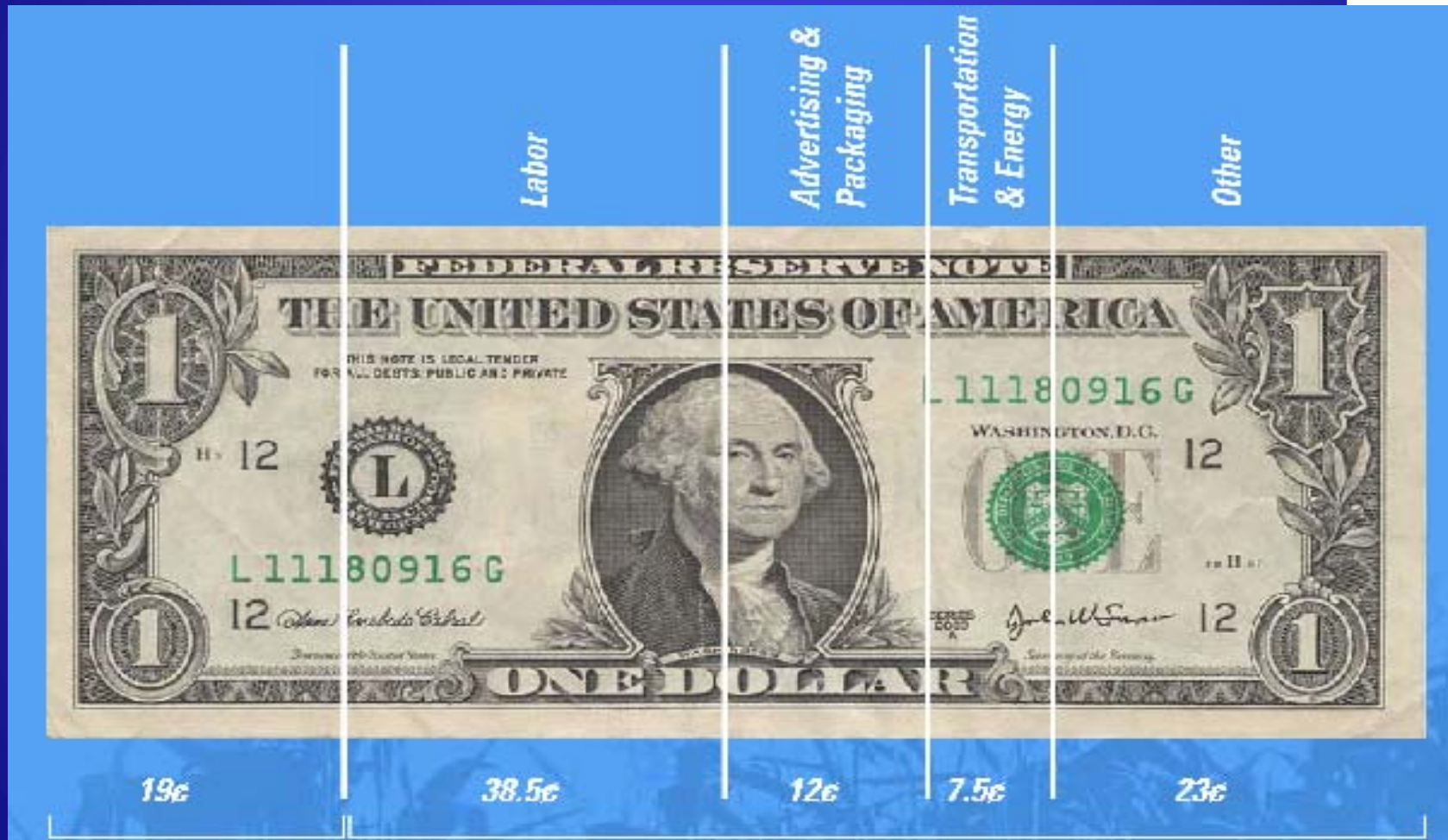
Index of Consumer Sentiment



U.S. food dollar...



Rabobank



Farm Value

Processing and Marketing

USDA, 2006

Signs that Ag may be faring better this time around



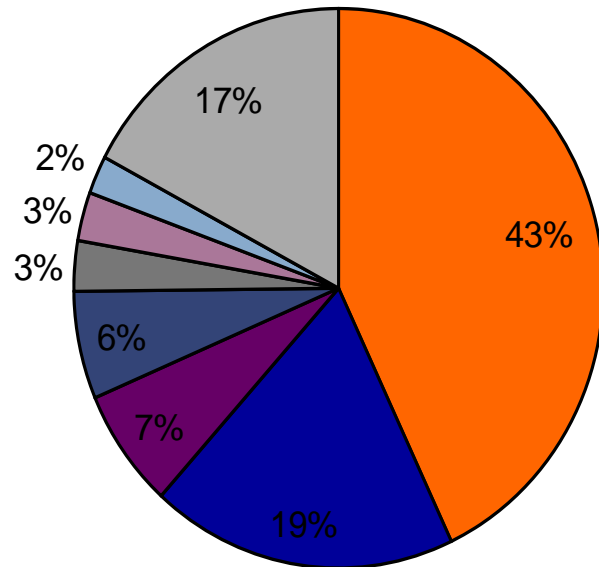
- Generally sound financial health
 - Strong balance sheets / record net farm income
 - Some sectors faring better than others
- Higher trading zones
 - Short term demand issues, mid term demand supportive
 - Stocks still historically low
- Agricultural Lenders with relatively less exposure to elements of crisis

U.S. agriculture plays an important role in feeding the world

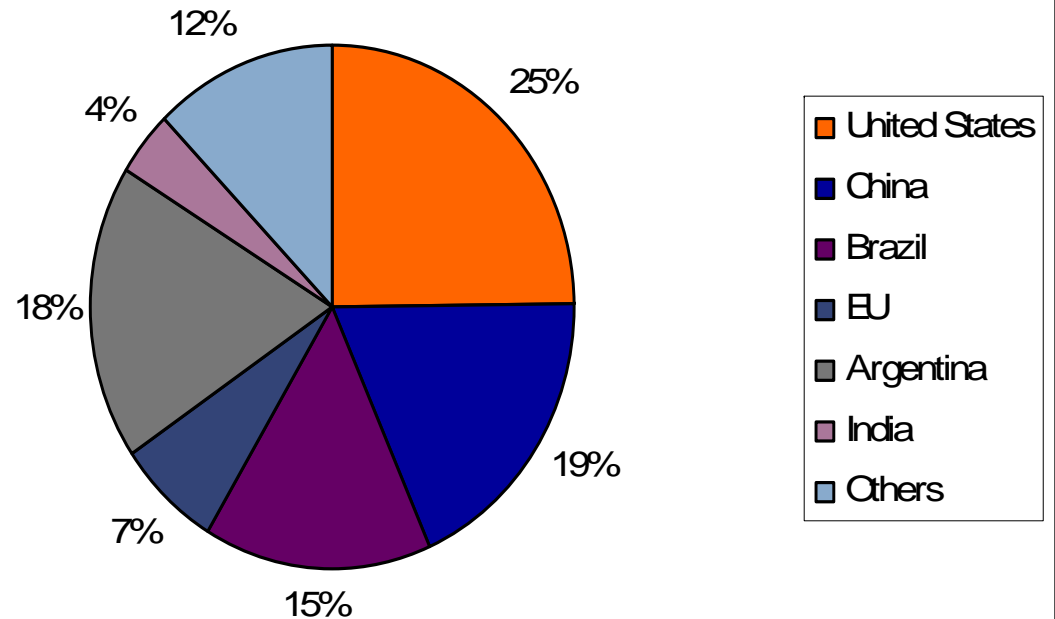


Rabobank

World Corn Production 2007



World Soybean Production 2007



US Farm receipts



Table 27. Farm receipts, expenses, and income, long-term projections

	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>Billion dollars</i>									
Cash receipts:									
Crops	147.0	178.8	163.1	164.2	166.4	168.0	169.9	173.2	177.3
Livestock and products	137.9	142.7	139.9	139.6	143.7	146.8	149.4	152.0	153.3
All commodities	284.8	321.5	303.0	303.8	310.1	314.8	319.3	325.1	330.5
Farm-related income	16.6	17.7	18.1	18.6	19.0	19.5	20.0	20.5	21.0
Government payments	11.9	12.4	10.0	10.8	9.9	9.3	9.3	9.3	9.3
Gross cash income	313.4	351.6	331.1	333.2	339.0	343.7	348.6	354.9	360.8
Cash expenses	226.0	261.1	250.1	250.2	255.0	259.9	264.9	269.5	274.5
Net cash income	87.4	90.5	81.0	82.9	84.0	83.7	83.7	85.4	86.3
Value of inventory change	3.7	0.1	-1.5	0.5	0.1	0.0	0.8	1.4	1.7
Noncash income	24.0	25.4	27.2	27.4	27.9	28.5	29.0	29.5	30.0
Gross farm income	341.1	377.2	356.7	361.0	366.9	372.1	378.3	385.8	392.5
Noncash expenses	18.2	18.6	19.2	20.9	21.2	21.4	21.7	21.9	22.1
Operator dwelling expenses	10.2	11.2	11.7	11.8	11.9	12.1	12.2	12.4	12.5
Total production expenses	254.4	290.9	281.0	282.9	288.0	293.3	298.7	303.6	309.0
Net farm income	86.8	86.3	75.8	78.1	78.9	78.8	79.7	82.2	83.6

US Exports



Table 28. Summary of U.S. agricultural trade long-term projections, fiscal years

	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>Billion dollars</i>									
Agricultural exports (value):									
Livestock, dairy, and poultry	16.4	22.2	20.4	20.2	21.3	22.1	23.0	23.8	24.5
Livestock, poultry, and products	13.9	18.1	17.3	17.3	18.5	19.5	20.4	21.3	21.9
Dairy products	2.5	4.0	3.1	2.8	2.7	2.6	2.6	2.6	2.5
Grain and feeds	24.3	38.3	28.3	26.0	25.6	25.5	25.2	25.4	26.1
Coarse grains	9.8	15.8	10.9	10.4	10.2	10.1	10.0	10.0	10.3
Oilseeds and products	13.7	22.9	18.3	18.3	18.4	18.5	18.3	18.2	18.4
Soybeans and products	11.0	19.3	15.6	15.5	15.5	15.5	15.2	15.1	15.2
Horticultural products	18.0	20.8	21.5	22.1	22.8	23.5	24.2	24.9	25.6
Fruits and vegetables, fresh	4.8	5.5	6.0	6.2	6.3	6.5	6.6	6.8	7.0
Fruits and vegetables, processed	4.4	5.4	5.6	5.7	5.9	6.0	6.2	6.3	6.5
Cotton and linters	4.3	4.8	4.0	3.4	3.6	4.1	4.4	4.6	4.9
Other exports	5.6	6.5	6.0	5.6	5.8	6.0	6.1	6.3	6.4
Total agricultural exports	82.2	115.5	98.5	95.7	97.5	99.7	101.2	103.2	105.9
Bulk commodity exports	31.5	50.7	37.6	35.4	35.6	35.8	35.5	35.7	36.6
High-value product exports	50.6	64.8	60.9	60.2	62.0	63.8	65.6	67.5	69.3
High-value product share	61.6%	56.1%	61.8%	62.9%	63.6%	64.0%	64.9%	65.4%	65.4%

U.S. Agricultural Trade and the Dollar



Source: USDA, Economic Research Service

The Golden State



State	Rank	Total Value <i>Billion Dollars</i>
California	1	31.4
Texas	2	16
Iowa	3	15.1
Nebraska	4	12
Kansas	5	10.3

California

Ranked items within U.S., 2007

Item	Quantity	U.S. Rank
MARKET VALUE OF AGRICULTURAL PRODUCTS SOLD (\$1,000)		
Total value of agricultural products sold	33,885,064	1
Value of crops including nursery and greenhouse	22,903,021	1
Value of livestock, poultry, and their products	10,982,043	2

Dominant force in exports

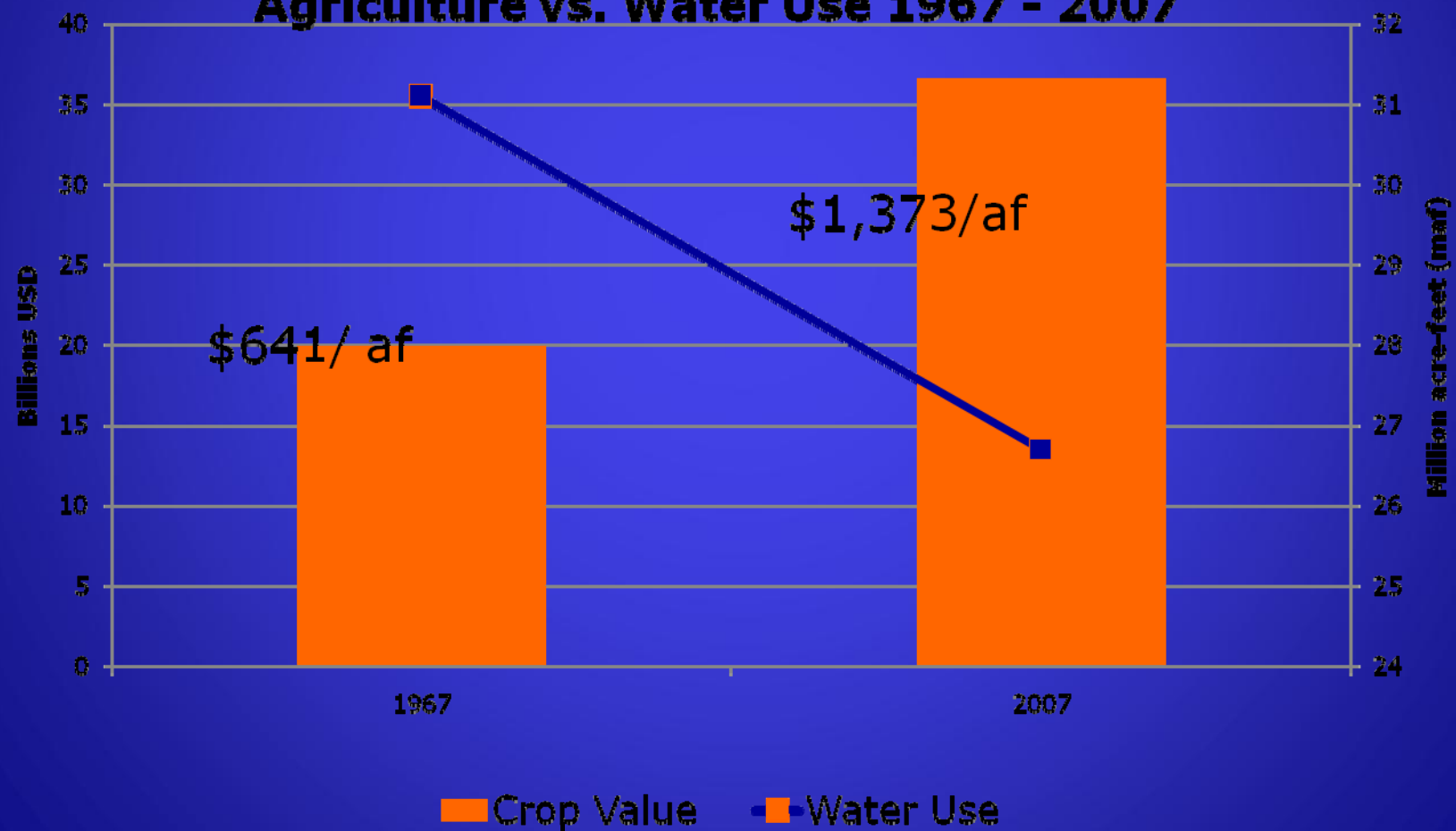


	2007 Export Value	California Percent Share
Animal Products	10,641,400,000	11.3%
Field Crops	15,778,388,000	8.80%
Fruits and Products	4,926,300,000	65.3%
Tree Nuts	2,687,707,000	100%
Vegetables	1,470,619,000	57.4%
Flowers and Nursery	370,537,000	16%

Doing more with less...



Inflation Adjusted Farmgate Value of California Agriculture vs. Water Use 1967 - 2007



Kern County



2006

Fresno \$4,843,392,000

Tulare \$3,870,843,000

Monterey \$3,489,923,000

Kern \$3,476,801,000

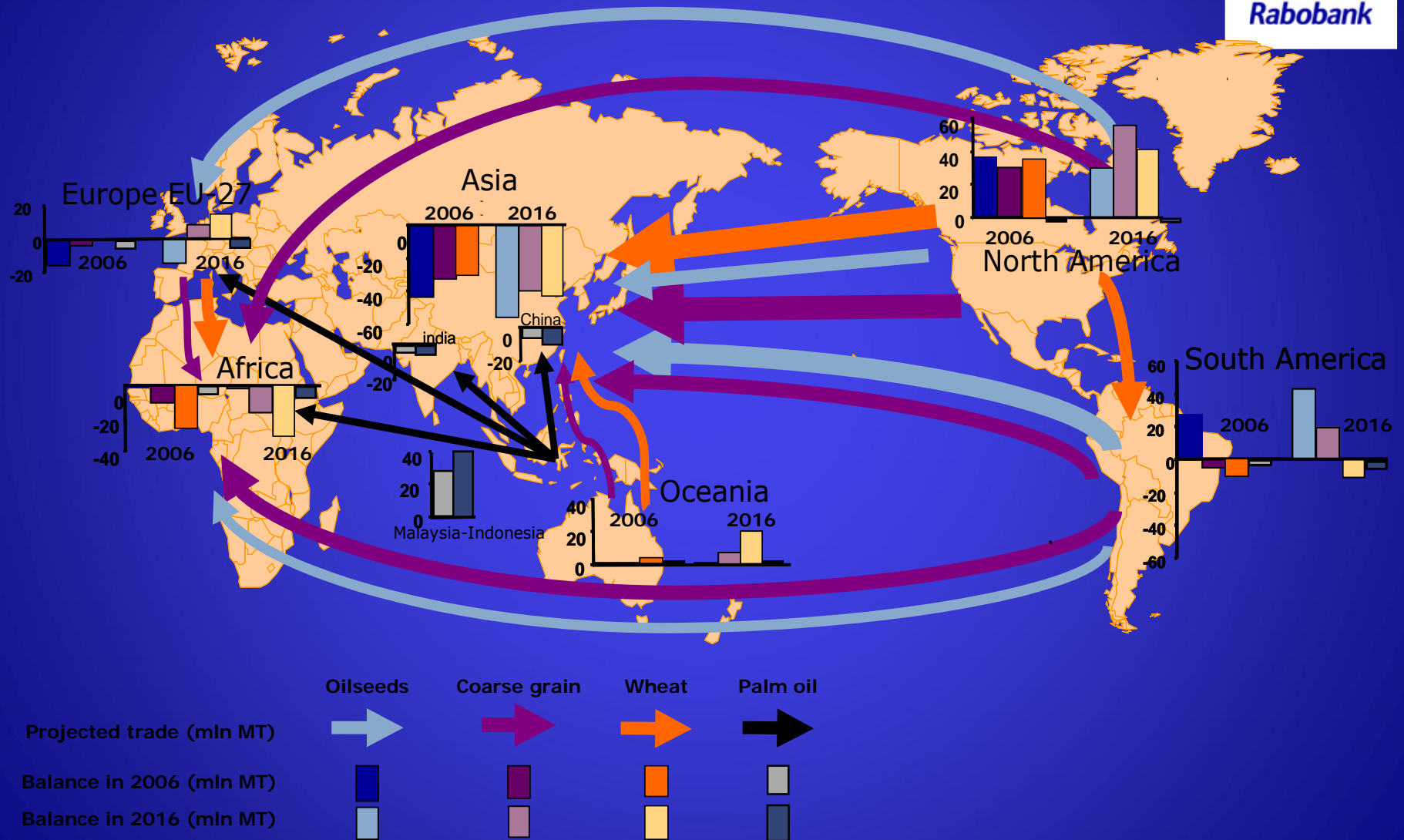
Almonds and
byproducts, All
Grapes, Milk, all
Carrots, All Citrus



Agricultural Trends Shaken but intact

Conclusions and Outlook

Long term trends intact. Trade flow trends of major grains & oilseeds by 2016...



Our customers, *Our competitors*



Evolution of Meat Consumption in China (mln MT)

Source: Rabobank, 2008



Food and Agribusiness & Advisory

The roots of Ag run deep..





Rabobank

The financial link in
the global food
chain™