

## **The Modern Global Farmer: Positioning For the Future**

As he waited in the boarding lounge for his flight to Buenos Aires, Kip Tom contemplated the challenges and opportunities he faced in today's agriculture. His 21,000-acre farming business with locations in the United States and Argentina was facing unprecedented opportunities, as well as volatility. How should he position his business to take advantage of those opportunities and capture the value that a global farming enterprise has the potential to create in today's increasingly demanding agriculture? Kip checked his e-mail and downloaded another spreadsheet before he packed up his laptop to board his flight. He had 12 hours of uninterrupted "thought time" to contemplate and frame some answers to the key questions he was facing as the manager of a modern global agricultural production company.

Following five years of consulting in Latin America and currently producing his operation's 12th crop in Argentina, Kip recognized trends in the structure of production agriculture from those experiences that are gaining traction globally. The Latin American mega farms are structured in such a manner that works well for the area; however, in their current design, it is unlikely that these operations would be fully implemented in the United States. Yet, some components of their design have merit and possible implementation potential in the United States. Kip needed to identify those components and describe what they look like deployed in U.S. production agriculture.

Here and elsewhere, Kip understood that his options were to either build an organization that has the structure and economic advantage to acquire additional resources and market presence, or likely be acquired by those whom have recognized and embraced the changes in the business. It was becoming clear that Tom Farms needed to evolve further from their current model to one that provides a strategic advantage over their competitors — allowing them to thrive in a market that is froth with volatility and risk, yet largely made up of lifestyle and mid-sized farms that are unaware of the emerging changes.

Considerations to effectively make this step change were significant, but attainable. Kip knew it would require each and every member of the management team — both family and non-family — to be in "sync" to successfully transform Tom Farms into a "breakthrough company." As well, it

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would potentially be considered disruptive in the supply chain for the products and services they provide and the legacy of production agriculture's current culture.

Kip decided to make a short list of the opportunities and challenges that frame the future for Tom Farms.

## **The Opportunities**

### ***Nine Billion People by 2050***

Finite resources (land, water) are available to provide feed, fuel and fiber for a growing global population that is becoming more affluent. Agriculture will be asked to do more with less. But will the consumptive trends we see today continue? Will the growing populations in Asia really have the ability to change their diets to the degree we predict?

### ***Biofuels***

With biofuels consuming more than five billion bushels of the 2010 crop, but with nearly 50 percent of its value going back into the livestock rations, will demand outpace supply or will supply outpace demand for all commodities? And, will a lack of political support cause the government subsidies to diminish or EPA mandates to disappear? Probably, and sooner than later. So what impact will this have on global demand and inventories? And, how do we model our growth betting against the geo-political risk that can change overnight?

### ***China/Asia Demand***

Asia's population growth coupled with improved animal protein-based diets are critical sources of demand growth, but will incomes be sustainable to consume our growing supply? There is a risk associated with not building up Tom Farms' capabilities prior to this perceived increase in demand, but there is also a risk if it overestimates the demand and overinvests in growth. What other areas of the global supply chain could "come online," embrace modern technologies and be a lower-cost producer than the U.S. producer? What technologies will be developed that could potentially create an oversupply situation that Tom Farms, and the rest of agriculture, is unaware of today? What geo-political events in Asia, the Middle East or elsewhere could occur that would severely diminish demand globally?

### ***Investor Demand***

Following the 2008 global recession and desire to move assets from the bond and equity markets, combined with the knowledge of growing global demand, a number of investors (both institutional and private) began to pursue investment in the land market and connect with producers, such as Tom Farms. Investor demand in farmland is strong, and there is a growing interest with some investors to take a vested share in the business operations, as well. In fact, Kip gets calls from investors or project promoters on a weekly basis. Tom Farms is working to build a system of sourcing and managing sustainable investors, while accessing additional acres at the same time. This is a significant step change from the current business model where all financial needs are met internally. Currently, this new capital is only used to fund land ownership and improvements, but as Tom Farms' business grows beyond their ability to fund growth internally or with debt, they will need to partner with some of this outside equity capital that is willing and

understands the inherent risk associated with production agriculture. This will command a new level of accountability that the management of Tom Farms has not experienced in the past.

### ***Creating and Capturing Value***

Kip increasingly feels that the operation creates value by combining its relationships with its physical and intangible rewards and operating procedures, which exceed the value of the physical assets on its balance sheet. But it is not clear how he can capture the value of that “intellectual property” (IP) — the brand. In fact, many producers don’t create IP value, or if they do, they are willing to “give it away” for no consideration. Tom Farms will need to build the value of its brand to differentiate itself from the producers who are eager to grow at any cost and to be more creative in strategies to capture some of that brand value.

## **Tom Farms**

Tom Farms LLC is a more than 21,000-acre, value-adding crop farm composed of 17,000 acres in Indiana and 4,500 acres in Argentina. Crops include seed corn production, along with commercial corn and soybeans. Tom Farms also maintains a business unit that provides customized agricultural services to an additional 28,000 acres, particularly in seed production. In addition, they operate a commercial-trucking business that provides transportation and brokerage services.

Tom Farms is the largest provider of seed services in the United States and a major player in world seed markets. The operation has 4,200 acres of their own seed production in Indiana and 2,000 acres of seed production in Argentina; in addition, they harvest 10,000 acres of seed in the United States, plus their 2,000 acres in Argentina. Tom Farms provides transportation for more than 30,000 acres of seed production from the field to the processing plant and then moves \$120 million of processed seed to retail locations throughout the United States. They have an alliance with Monsanto for the production and distribution of DeKalb and Asgrow seed brands.

The current family members have been involved in the business since 1948 when Kip’s parents, Everett and Marie Tom, began farming with a 240-acre crop and livestock operation. By 1974, when Kip started farming with his parents, the business had grown to 700 acres. The transition from a traditional Midwestern farm to a value-adding business really began with the use of irrigation on their sandy loam. For the first time ever, the Toms were able to nearly “drought proof” their crops.

Then in 1985, they had the opportunity to begin raising seed for Pioneer. That arrangement bloomed as Tom Farms not only raised corn with Pioneer, but also helped Pioneer solve their “seed problems” with innovative solutions. Thus, irrigation and Pioneer became an early technology and an alliance that allowed the Toms to distinguish themselves as they grew their business. The Pioneer connection continued through the 2006 crop, when that alliance shifted to Monsanto.

Since that time, the business has broadened and expanded to include six families. Everett and Marie remain active in the business. Kip is the managing member of Tom Farms LLC, and his sister, Melissa Gerber, is the office manager and controller. In addition, three of Kip’s five children are active in running the company — sons Kyle and Kris, and daughter Kassi Rowland with her

husband, Greg Rowland. Kyle and Greg share management responsibilities for crop production, and Kassi works with Melissa in managing office and financial matters. Tom Farms currently includes five operating units as described below.

### ***Tom Farms Partners***

This unit includes the Indiana farming operations, which consist of land ownership, leased land, and the operating business of producing and marketing crops in Indiana.

### ***CereServ Inc.***

In addition to their own seed and crop production, Tom Farms provides services on 28,000 acres in both seed and non-seed production. Custom services include pesticide application, crop scouting, GPS mapping, tillage and planting, hand and mechanical detassling, male corn removal, seed corn harvesting and commercial corn harvesting. Kip says, “We want to provide services that our customers request, but in doing so, we will provide innovative solutions that add value to their business and to the community as a whole.” Two retail seed dealerships and the grain procurement operations are also in this unit.

### ***Latin America Seed S.A.***

Tom Farms leases 4,000 acres in Argentina to help Monsanto with seed production in the Southern Hemisphere. They will have about 2,000 acres in seed production this year, with the remainder in commercial crops. This venture began in 1999, when Pioneer needed production in the Southern Hemisphere, and Kip stood ready to help them solve their challenges, which included a lack of contacts and production knowledge for the area.

Production in Argentina is during the U.S. winter, which provides an opportunity to develop seed supplies that are either new varieties for use in South America or are in short supply in the Northern Hemisphere. With such rapid development of new genetic products, this gives Monsanto the capability of having two growing seasons in each 12-month period.

Overall this has been a win-win for Tom Farms and Pioneer/Monsanto, although Kip suggests that while it has generally been profitable to operate in Argentina, the challenges have been large, as well. He cites currency devaluations and the government imposition of export taxes on agricultural goods, along with cultural differences, as examples of major challenges. Another is the 6,000 miles and sheer amount of time needed to travel between Indiana and South America.

### ***Harvest Transportation Inc.***

Harvest Transportation Inc. is the unit involved with transportation solutions. Kip’s sister, Melissa, and his daughter, Kassi, are key forces in this area. The farm’s owned equipment includes approximately 20 professionally driven trucks. In addition, they operate a national freight brokerage business that can align freight needs with transportation equipment from external carriers across the country. This capacity enables them to handle nearly any size of transportation request, but the focus remains on agricultural products.

Service trailers from within their own fleet include refrigerated trailers, dry-van trailers, moving-floor trailers, hopper-bottom grain trailers, step-deck trailers, liquid tankers, food-grade tankers and double-drop equipment trailers. Other equipment is arranged through their outside carriers.

### ***GrowServ Partners***

This is the unit that develops partnerships with non-family businesses. Tom Farms works with other producers and businesses to find solutions and increase value in their operations. These non-family entities have their own land, equity, machinery, management, labor and other resources. Rather than having a “one-size-fits-all” philosophy, the farm makes flexible arrangements with partners depending upon the resources they bring and their specific needs.

Tom Farms’ business focuses on corn, soybean and seed production, along with activities related to these products in the value chain. They have regularly and consistently experimented with other crops including green beans, peppers, potatoes, sweet corn, cucumbers and tomatoes, but have found that these “higher-value” products do not leverage their core competencies and generally fail to generate a sufficiently higher return to compensate for the higher risk and the additional capital and management resources required to be “best in class.” Kip is always interested in and willing to experiment with new ventures and new ideas — for example, organic production is currently being investigated — but they have to be a strategic fit in the business, and exiting after an appropriate test period is essential.

Kip summarizes their business philosophy as follows: “Tom Farms puts people first. We treat all employees, customers, and suppliers honestly and fairly. We strive to build a business with a sustainable business structure for the future that improves the industry, the community and solves problems. We do this by quickly adapting superior technologies that deliver value, by fully utilizing resources to their maximum value, by providing our customers with products and services that add value and solve problems for them and by operating on an industrial platform. The resources to do this include a highly qualified staff, efficient machinery, a large and high-quality land base and utilization of the latest technology.”

Implementing this philosophy involves the following:

1. Quickly adapt new technologies that are either cost lowering or value increasing.
2. Find the best technology through information collection and analysis, and then develop that into a standardized system of management.
3. Develop a standardized system of command and control or standard operating procedures.
4. Utilize alliances with “partners” to learn from them, but also to extend the scope of the business.
5. Be supply chain oriented, seeking ways to maximize the value in the food supply chain from farm inputs to the dinner table through differentiation, quality and consistency.
6. Be solution oriented, seeking ways to reduce costs or increase value with their supply chain partners.
7. Continually seek to gain economies of size.
8. Once they “perfect” their technology-management-scale model, seek to replicate it in other locations or in other businesses.

A critical component of Tom Farms' success has been to identify, evaluate and adopt superior technology rapidly when the returns to that technology can be high. The farm uses GPS technology for field mapping, field management RTK auto guidance, yield mapping, nutrient and pesticide application, soil testing on grids and tractor operation monitoring. In the transportation business, they use bar code tracking and geo-referenced placement. Using these technologies allows Tom Farms to successfully leverage the information to make better decisions that affect operation efficiencies and improve productivity and yields.

In all cases, the focus is not on the technology itself, but on the value that can be added from using the technology. Plus, they always look for innovative ways to use the technology that others have not yet recognized. Kip says, "New technologies are implemented that provide information that reduces costs while making customers more aware of the products and services we are providing. We utilize sophisticated accounting to understand our various profit and costs centers." That technology is evaluated within the broader scope of the business' objectives.

Another critical part of the business, not only with respect to profitability, but also in terms of creating and capturing IP or brand value, is the relationships with key suppliers. The relationship as a seed producer for Monsanto is central to the core business — it enables Tom Farms to capture additional value from its production technology systems, including irrigation and water allocation and management, and fertility, cultivation, tillage, crop protection, planting and harvesting operations scheduling, information and implementation systems. This relationship also enables them to be aware of and test-bed for the latest genetic technology, facilitating the early adaptor strategy so critical in the commodity side of the corn and soybean businesses.

Additional deeper, value-enhancing relationships with other supply chain partners are also important. Tom Farms recently signed a "preferred" customer multi-unit discount arrangement with John Deere for a five-year duration that provides not only an 11.5 percent price discount on new machinery and equipment, but also facilitates early access to new technology, as well as utilization of cutting-edge telematics information systems that monitor equipment use, cost, efficiency, reliability and scheduling (Agri-logic) that improves overall machinery/equipment utilization, facilitates scheduling and operations by location and field and reduces downtime. This arrangement enables Tom Farms to "lock-in" machinery/equipment cost per hour for the next five years. Similar arrangements are being developed in the fertilizer supply chain — Tom Farms is constructing a 1.5 million gallon fertilizer hub that will have rail access so it can be a direct-delivery customer for a fertilizer manufacturer/distributor, thus bypassing the traditional retail fertilizer distribution systems. Ultimately, this reduces costs and the potential supply disruptions/bottlenecks that may occur in this increasingly critical but volatile supply chain.

Kip has focused on growth and return on investment rather than the accumulation of assets, such as land. As a result, they control the productive value of large land areas without the massive financial investment of ownership. However, this also means that more than 90 percent of the land is leased. Thus, landlords are one of their most precious resources. If you work at Tom Farms, Kip says, "Every one of us is in charge of landlord relations." Tom Farms hosts a "Landlord Seminar" every year with the 116 land owners they rent from, and they meet more regularly with some to deepen landlord relationships. Prospects and selected farmers in the community are invited to the "Landlord Seminar" as part of the strategy to grow the business. All of the lease

arrangements are fixed cash (93 percent) and resource sharing or flexible cash (7 percent) leases; no crop share or other risk arrangements are used.

Because of the numerous requests Kip had received from buyers, suppliers, investors and lenders, he put together a brief synopsis of Tom Farms that summarizes the business' key characteristics (Exhibit 1). "Given all the changes in the production sector and the opportunities that Tom Farms has in this changing world, I wonder what this synopsis will look like 10 years from now," Kip mused. "Maybe it would be a useful exercise to develop a 2020 Tom Farms Synopsis to 'anticipate the future' and help identify some 'stretch goals.'"

## **The Challenges**

### ***Price, Cost and Margin Volatility***

Farming has always been a risky business with the returns to reward that risk available for only brief periods of time. When measured by daily price movements in the futures markets, the range in monthly cash bid prices or any other metric one would choose, output prices have become quite variable in agriculture. Some would argue that price fluctuations are more than double what they were five to ten years ago. Erratic and intense rainfall patterns in the spring and fall of the last two years have resulted in significant variability and yields across counties, and even within the same field, for many farmers compared to the past. In addition to output price variability, input prices have also been quite variable. The fluctuations in fertilizer, chemical and energy costs have been the most dramatic. The resulting volatility in operating margins (price minus cost) has been even more dramatic than that of prices, costs or yields. By some estimates, volatility in operating margins has more than doubled, and some have argued that they have increased by as much as three to four times compared to the past. Tom Farms' fundamental risk management strategy has been to sell in the top one-third of the market, to purchase crop insurance and to be a low-cost producer. What else should they consider — is there some form of index tool that might be considered? Kip felt that the risk in agriculture today, particularly in crop production, is greater than it has been in the past, but there is opportunity to be rewarded for taking that risk. Kip sees the need to discover and implement a hedging tool that would be linked directly to profit margins. The tool would need to take into account the variability of all income and expense items and would be coupled with a weather and commodity price hedge. He would like to disconnect from all USDA programs, which would mean eliminating access to crop insurance revenue protection tools, as well.

### ***Strategic Risks***

Kip was relatively comfortable with his ability and the position of his business to manage and mitigate the traditional operating and financial risks. What kept him awake at night were the strategic risks — "unanticipated surprises" resulting from changes in government policy and regulation; mergers and acquisitions that change the competitive landscape; and disease and food safety crises such as H1N1, BSE and salmonella contamination, for example. These new uncertainties were more complex and difficult to analyze and manage than traditional business risks. They were not as predictable in frequency and consequence, and they often create opportunities for gain as well as exposures to financial losses. He knew that these potential "black swans" could be critical to the future of Tom Farms, but was unsure how to strategically position the operation to capture the upside and mitigate the downside of these uncertainties.

### ***Selecting New Ventures***

The number of new venture opportunities that Tom Farms could pursue has increased dramatically, and Kip has decided he needed to be more systematic in his venture assessment than he might have been in the past. At a recent seminar, he was introduced to a new project/venture “scorecard” that provides a structure for assessing new ventures (Exhibit 2). Kip wanted to use the scorecard in his next venture assessment, but would prefer to first review it with colleagues in other industries to see what might have been “left off the list,” as well as to see if they had an alternative framework or template for such assessments.

### ***Becoming a “Breakthrough Company”***

At another seminar Kip had recently attended (maybe he was going to too many seminars!), he was challenged to think about how to reposition Tom Farms from an owner-centric business to an entrepreneurial enterprise — a “breakthrough company” that transcends the family of origin, embraces family participation (even if not full control), and is positioned to regularly and permanently capture new opportunities and grow the business. The framework for making this transition (Exhibit 3) was useful in helping Kip think about his long-term goals for the business, the management team he would need to accomplish those goals and the succession plan he needed to develop to transfer management responsibilities to the next generation and beyond. First steps in succession planning and staffing have been initiated, but more needs to be done.

### ***Expanding the Management Team***

Kip and his family currently comprise the key management team, but additional management resources will be needed to be a “breakthrough” production company. His management structure is typical for businesses of his size — himself as CEO/CFO/COO, and others in operations and support managerial positions. The management structure and team in three to five years down the road is expected to be as follows:

- a. CEO
- b. CFO (interviewing currently)
- c. CIO (plans to hire in next two years)
- d. Risk Management Officer (currently delegated to CEO and his son Kris)
- e. Operations Manager(s) (company has three operations managers — one for grain and fertilizer business, one for field production operations and one for logistics)
- f. Mergers and Acquisitions Lead
- g. Internal CPA (three days a week now, but likely will combine with CFO)
- h. Process Engineer(s) (training of staff currently)
- i. Council/Advisory Board (in place now)

Filling these positions with the right people will be essential to the long-term success of Tom Farms, and growing to a size to support this level of overhead will also be critical.

### ***Market Access and Resource Control***

Preferred access to input and product markets will increasingly be determined by the ability to implement standard operating procedures (SOPs), deliver value and have sustainability plans in place for the business operations of partners such as Monsanto and John Deere, to name a few. Currently, Tom Farms is often selected to “beta” test many new forms of technology such as

equipment, remote sensing and controls, information tools, and genetics and traits. It is highly important for the business to be an early adopter of new technologies in an attempt to leverage operating efficiencies. Tom Farms has brought an awareness to many technology providers, helping them understand the industry's needs and has had a number of specific technologies accepted and patented by the companies with no value coming back to Tom Farms. "Maybe we need to be more creative in capturing some of this IP or brand value we are creating," Kip wondered.

In terms of commodity products, market access and premiums attained seem to be more driven by volume, as end users appear unwilling to place any values on brand, SOPs and channel coordination offerings. "Growing more important is the need for proof of our environmental sustainability and our corporate social responsibility to maintain or build market access, but again understanding of this value in a commodity market is not yet recognized," Kip indicated.

As to capital, the current business is at a size and growth rate that all capital has been sourced by leveraging internal equity, but if rapid sustained growth would occur, outside capital will be required. What is that size of operation — by today's estimates, it would be a \$100 million annual sales business? And what about the capital demands of Tom Farms' supply chain partners — will they be able to access adequate capital to maintain their market position?

Probably the most critical resource access/control issue is that of land. Kip and his family continue to expand their land holdings, but he wants to grow the business more rapidly (and with less further concentration of their investment) than family capital availability will support. Strategies being pursued to increase access/control of land include: a) Acquisition of mid-size farms, b) private placement of outside capital in land, and c) acquisition of other farm operations (where the current owner/operator has no succession plan) prior to dispersal of assets. As to this later strategy, key issues include valuing these operations and gaining control before they are dispersed for hard asset value only. If this is a model for growth, how do you approach these mid-sized operations and sell them on the rewards of this merger/acquisition strategy?

## **Creating Brand Value**

Tom Farms has historically been an early adopter of new technology — the first user of irrigation in the locale (Tom Farms currently has more than 80 center pivot irrigation units operating), production of value-added crops such as seed corn and vegetable crops, the latest high-productivity equipment, the newest tillage and other cultural practices. But the early adopter, first mover advantages of these technologies is rapidly dissipating. Neighbors can easily observe the success that Kip has experienced from using these physical technologies, acquire them from the appropriate supplier and quickly mimic his success. Kip has concluded that to create additional value that is not dissipated as rapidly in the future, the technologies, activities and ideas need to be less visible and, thus, more difficult to mimic. The "intangible" resources of relationships with buyers and suppliers; the information systems that link climatic/soil/cultural and production practices to product attributes (yields and quality characteristics); and the process control systems that enable prescription-based biological manufacturing of specific attributes in agricultural raw materials have more potential to create IP and brand value. These solutions should result not only in higher profit margins, but also a more sustainable competitive advantage and a business that has more value than the sum of its physical assets' market prices.

## **Illustrative/Opportunities**

As indicated earlier, Tom Farms has numerous “new venture” opportunities that could be pursued. Kip has identified three basic options for growth and expansion, particularly focused on control or ownership of the land base for crop production.

### ***Individual Investor***

Non-farm investors have recently become much more interested in adding farmland to their portfolio. These non-farm investors may be individuals in general (high wealth/high income), institutional investors such as pension funds, insurance companies and equity/investor/real estate investment companies. Kip has worked with the individual investor market for a number of years — in some cases local professionals or businessmen who buy farmland, and in other cases, investors from outside the community who have historical ties to agriculture and the community. These individual investors may purchase a particular property and then lease it to Tom Farms, or Kip and his management team may identify a parcel that is for sale and would fit their operation, and then approach one of their current land owners/investors to assess their interest in purchasing the property. Most of the leases with individual investors are cash rentals — the investor wants a relatively riskless return and is not interested in participating in managing the property or the operational side of the business. These investors generally have 10- to 20-year planning/holding horizons; they are the “patient” capital providers that Kip prefers. They are also a source of “repeat business” — a number of individual investors have expanded their farmland holdings with the assistance of Kip and his staff in both operating the properties and in identify additional parcels that fit both Tom Farms’ and the investors’ financial and business goals. As part of his strategy to recruit individual investors as well as other potential land owners, Kip has developed a Landowner Brochure (Exhibit 4).

### ***Institutional Investors***

The institutional investor market has expanded recently with the relative attractiveness of farmland compared to other real estate and financial investments. Kip has participated in investor workshops in Chicago, Boston and New York to gauge the interest of these investors, as well as to assess who might have the longer-term, “patient” capital — rather than buy-and-flip perspective — he feels is critical for the business’ success. His conversations with such companies as International Farming Company and Teays River Investments suggest that they are interested in not only a competitive return as a passive investment, but also some additional return and taking additional risk from the operating side of the business. Some have expressed interest in investing in infrastructure (storage, irrigation and other capital assets) and maybe even a “production company.” But Kip is concerned about institutional investor’s long-term commitment to the industry, how much of the operating income they expect to receive relative to the risk they are willing to share, and also whether Tom Farms will be adequately rewarded for the “intangible” assets it brings to the table — the buyer and supplier relationships, the information and monitoring/measuring/traceability systems and the systematic scheduling/process control systems.

In general, institutional investors have not been very successful in bidding against farmers in the Midwest farmland market. In many cases, the size of parcels and the capital commitment per transaction is relatively small and doesn’t match well to the larger capital commitments of their investment strategy. So, it is unlikely that Tom Farms will be able to use this capital source to

expand its land operation base in the geographic locales of their current operations. But Kip is not as geography bound as many farmers. He is willing to and currently considering operating farming businesses and production companies in other geographic locations, and Tom Farms has already identified “site managers” from their current workforce who would relocate to manage the daily operations of a farming business that was located in another state or geographic area.

### ***Farming Businesses***

A third expansion option that Tom Farms has pursued in the past and would like to pursue more aggressively is the acquisition of farming businesses — the equivalent of the merger and acquisition (M&A) strategy of the corporate business world. Kip has had some previous experience with this growth strategy, but most of it has been with “distressed” businesses that he has acquired with the objective of developing and implementing a turnaround strategy. In Kip’s judgment, “turnarounds/restructuring” options are not that attractive for Tom Farms. They require more managerial input and oversight than can be justified for the return generated. Kip has found that it is not unusual for the problems to be deeper and more serious than one can uncover even with the best due diligence, and the turnaround typically takes longer than expected.

The alternative of acquiring “going concerns” where the current farmer is at or nearing retirement age and has no succession plan, or the business has a strong technical and physical resource base but is undercapitalized, has much more potential in Kip’s mind. Identifying and uncovering these opportunities requires a proactive approach — “Who are the prospects, how do you approach them, and how do you value the business?” Kip asks. As part of this proactive strategy, Kip has mapped out the land ownership and demographic characteristics (age of owners and operators, family relationships, whether or not “next generation” operators are involved or expected to be involved in the business, etc.) of all the farms in the six-county area in which Tom Farms currently operates. And, he has regular conversations with real estate brokers and lenders concerning properties that might become available. But his goal is to approach prospects before they make the decision to retire or exit the industry — to acquire the business as a going concern and before it “hits the market.” This proactive approach and the discussions he has had with potential prospects pays off sometimes unexpectedly. For example, two prospects who had been thinking about retiring, but had delayed that decision because of the strong incomes/prices of the past couple seasons, found the weather-induced planting delays and challenges getting the crop planted in 2011 sufficiently frustrating, and they are now considering the option Kip has offered much more seriously. These prospects would merge their operations into Tom Farms, capture the value of their farm businesses as a retirement income stream over time rather than selling the assets and trying to determine where and how to invest the after-tax proceeds (and the tax bill would be substantial), and continue to be involved in agriculture and farming by working for Tom Farms on a part-time basis.

A final option for expansion is increasing his acreage in Argentina or other countries. Kip has been approached by global institutional investors and land acquisition companies to participate in global land investment/management ventures. Given his experience in managing the Argentine operations, he feels that Tom Farms could be successful in pursuing these options, but that the challenges and risks of direct operations in other countries is not adequate for the reward that would be received. He believes a better strategy is for him and/or Tom Farms to participate in such ventures on a consulting basis, rather than as an investor or directly managing operations.

## The Key Issues

Kip had a lot on his plate, but decided that the key issues he needed to resolve were:

1. Does a farming venture like Tom Farms create value beyond that reflected in its physical assets through its relationships and its internal capabilities (i.e., brand value) and if so, how can it capture some of the brand value it is creating?
2. How does one systematically and realistically assess the new venture opportunities (both in the United States and globally and in what stages of the value chain) that are increasingly available to successful and progressive growers/producers?
3. What key buyer and supplier relationships should be developed? Which of them should be transactional (i.e., limited/no loyalty), and which of them should be more permanent/longer term as qualified product suppliers and preferred customers of input manufacturers/suppliers?
4. How should the global farmer/entrepreneur view and participate in the increased interest of investors and the private equity capital markets in ownership of land and other agricultural resources including fertilizer and chemical resources, as well as agricultural commodities?
5. How does a modern global farmer manage the operational, financial, and strategic risk and uncertainty of modern-day agriculture? How can relationships with supply chain partners (i.e., buyers and suppliers) increase or mitigate the risks and uncertainties?
6. How should they determine and discover valuations on existing ongoing farm operations that they would like to acquire (maybe using some form of a multiple or P.E. ratio) that will be attractive to the current operator, as well as Tom Farms?

Kip closed his laptop as the flight attendants requested that passengers shut down all electronic devices. It had been a productive evening — he had outlined some of the key issues he needed to discuss with his family and his council/advisory board that would shape the future of Tom Farms. He had identified some of the criteria he needed to use in assessing the numerous ventures they could participate in, and he had reviewed and analyzed the projections needed by the banker for the renewal of his line of credit for the upcoming production season — they suggested that it was going to be a financially rewarding year. Now, if he could only make sure the weather cooperates for timely planting and harvesting operations (not much control here), and figure out how to capture value for the IP Tom Farms was creating, the future would be even brighter.

# Exhibit 1

## Tom Farms Synopsis – 2010

### Mission/Vision/Strategy/Goals

- To create a supply system that profitably yields high quality, safe products without supply interruptions from generation to generation while creating a net benefit for employees, their communities, our global customers, biodiversity and the environment

### Business Activities

- More than 17,000 acres in northern Indiana (7,600 irrigated) — approximately 25 percent of acres owned by family members.
- More than 4,000 acres in Argentina (2,000 irrigated) — all rented.
- 2.75 million bushel grain plant that is state and federally licensed.
- Currently have storage capacity to hold about 35 percent of fertilizer products, but are adding another 1.5 million gallons of product storage.
- Entire fleet of equipment to operate above acreage from beginning of processes to delivery to end users. All powered equipment is traded annually with a current contract covering the next five years.

### Buyer and Supplier Relationships

- Buy direct on seed products, with a NDA in place.
- Crop protection comes through a local retailer, but direct from distributor and pricing is at distributor level.
- Fertilizer is in state of change currently with a NDA in place, but can offer that we are reducing the number of relationships in the supply chain in an effort to reduce cost and risk.
- Maintain a “multiple user discount” or “fleet” status with John Deere, CNH, GM and Ford.
- Sell direct to many commodity end users and are building relationships with new high-value end users.

### Management Team

- Kip Tom, managing member and director of risk management, strategy and operations
- Melissa Tom Gerber, controller and administrator of all business units
- Kyle Tom, director of capital acquisitions and landowner relations, and assistant director of operations
- Kris Tom, director of CereServ Inc. operations and assistant director of risk management
- Cassandra Tom Rowland, assistant controller and administrator of all business units and logistics manager
- Curtis Hatfield, production operations manager
- Lance Woodbury, business consultant

## Exhibit 1, cont.

### Financial Performance

Tom Farms has exhibited strong growth and financial performance during the past five years, providing a strong financial base to capture future opportunities. Acreage operated in the United States has increased since 2006 by approximately 10 percent per year to more than 17,000 acres in 2010; sales as measured by value of farm production have grown by more than 30 percent annually over this same time period. Approximately 70 percent of the earnings are generated by the Indiana farming operations, 20 percent by the custom services business and 8 percent by the transportation/logistics business. In terms of financial performance, Tom Farms has consistently exceeded typical farm lender underwriting standards as summarized in Table 1.

Table 1. Tom Farms Financial Performance – 2006-2010

Current ratio	Exceeds 1.4 and increasing
Return on assets	Exceeds 5.0%; typically double digit and increasing
Return on equity	Consistently exceeds the ROA and increasing
Asset turnover ratio	More than double the industry benchmark of 25-30% and steady
Operating profit margin	Higher than the industry benchmark of 20-25% and steady
Term debt coverage ratio	More than double the industry benchmark of 1.2 and increasing

### Business Structure

- Tom Farms LLC, parent company, owns equipment assets.
- Tom Family Farms LLC owns farmland and buildings.
- Tom Farms and Partners operate all production and assume all operating risk.
- CereServe Inc. owns and manages state and federally licensed grain warehouse facilities and risk management.

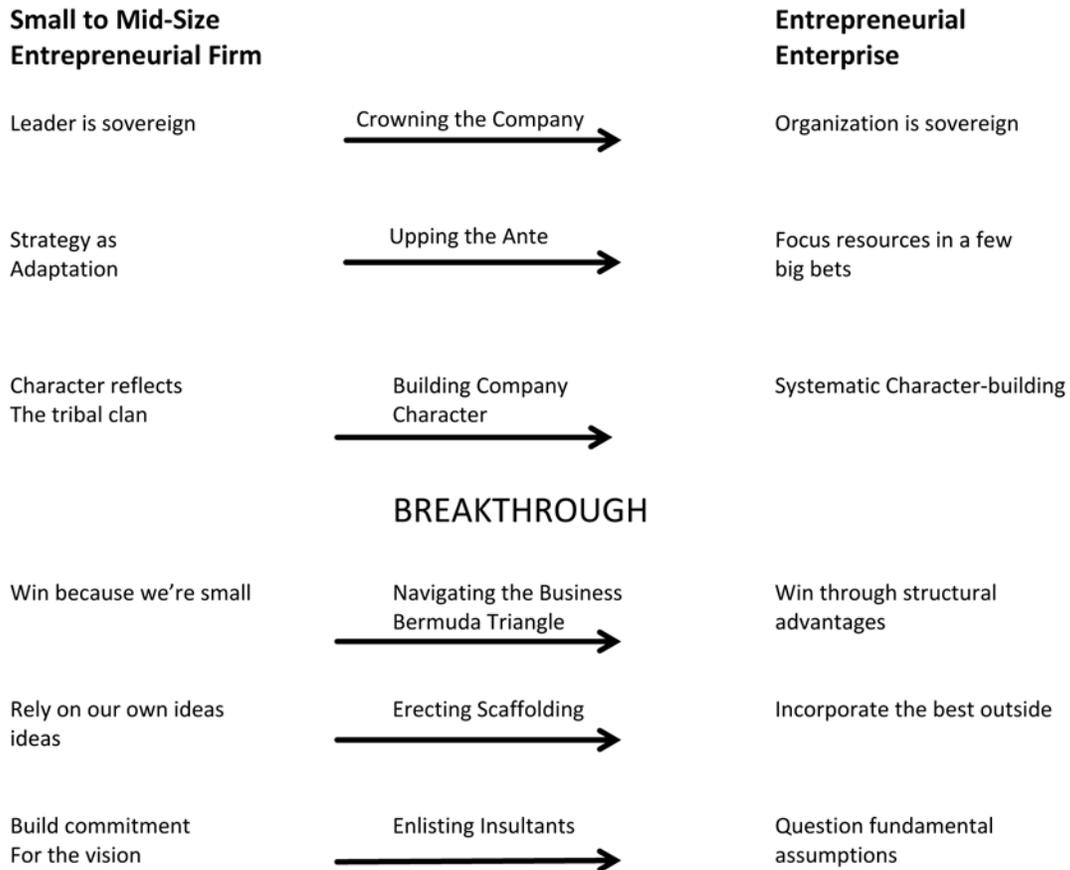
## Exhibit 2

### A Venture Choice Template

	Venture Name _____	Venture Name _____	Venture Name _____	Venture Name _____
<b>Choice Criteria</b>	(Rank each criteria on a scale of 1 to 5, where 5=high and 1=low)			
Strategic Fit				
Annual Earnings				
Risk				
Capitalization				
Entry/Exit				
Value Creation				
Management				
Portfolio				

## Exhibit 3

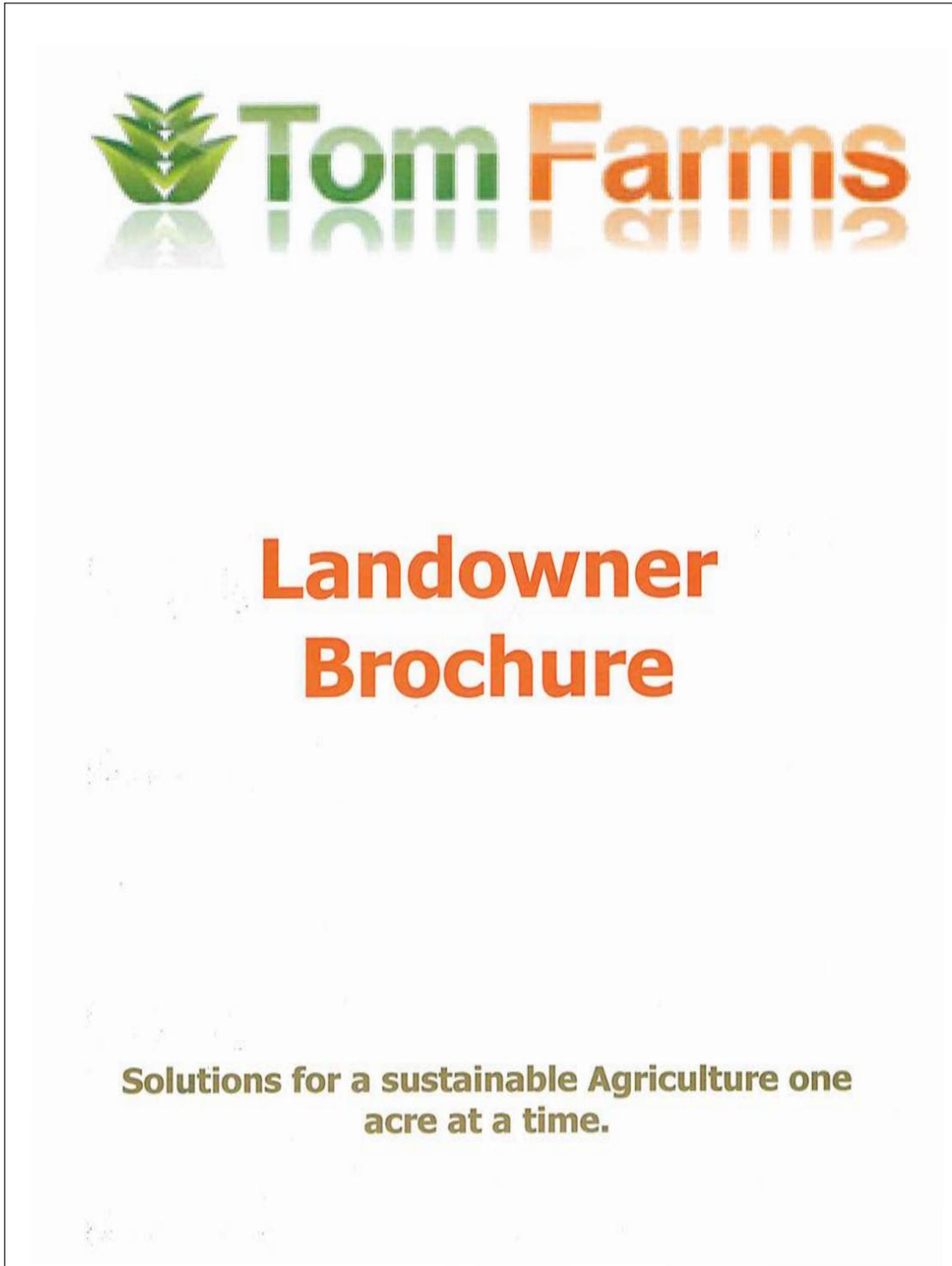
### Becoming a “Breakthrough Company”



Source: Keith R. McFarland, *The Breakthrough Company: How Everyday Companies Become Extraordinary Performers*, 1<sup>st</sup> ed. 2008.

## Exhibit 4

### Tom Farms – Landowner Brochure



## Exhibit 4, cont.



8542 North Harper Road  
Leesburg, IN 46538  
[www.tomfarms.com](http://www.tomfarms.com)

### Overview

Tom Farms a family farm business with offices and its base of operation in Leesburg, Indiana produces seed corn, tomatoes, identity preserved corn and soybeans. Our ONLY business and focus is production of crops and the services for those crops. We have invested heavily into agricultural assets, technology and people showing our sustained commitment to everyone we are involved with in the agricultural supply chain from the landowner to the consumer. Our company philosophy and goals are the same today as they were for our family whom settled in this area in 1837. Those values include crafting long term plans that preserve farm land for future generations while maximizing returns to all partners and in the mean time rewarding the industry and the community.

We believe the structure of the supply chain will continue to evolve to create the “new” value chain in agriculture, but we are firm in our beliefs that family farms like ours operated as a business will continue to be play a major role as producers meeting the challenges of the world’s food, fiber and energy demands.

Included in this brochure is more detailed information about our family business, please read through to better understand our commitment to agriculture. Most importantly please read our corporate social responsibility statement which is enclosed.

If you wish to find out more about us visit our web site at: [www.tomfarms.com](http://www.tomfarms.com)

Best regards,

Kip E. Tom

## Exhibit 4, cont.



### Corporate Social Responsibility



### Sustainable Supply System

**Vision**  
We envision a supply system that profitably yields high quality, safe products without supply interruption while creating a net benefit for employees, their communities, biodiversity and the environment.

**Principles**  
Our work towards a socially responsible supply system is motivated by our commitment to our customers, leadership on sustainability issues, and our desire to “do the right thing”. With this foundation we will:

- Use a “systems approach” to understand how our supply chain impacts and is affected by the natural and social world and to help us find solutions
- Maintain a long term view when supply planning and setting expectations.
- Combine a global perspective with locally-developed responses that meet local needs and generate on the ground results.
- Base our strategies on the best sciences available.
- Work with our suppliers to promote continuous improvement.
- Balance our long term responsibility goals with the near-term need to perform in a competitive market.

**Guidelines**

**Social and Economic**

- Protect the health and welfare of the employees and contribute to the development of the communities in which we operate.
- Seek ways to increase economic profitability by increasing resource use efficiency and harnessing the benefits of ecological services.

**Environmental**

- Maximize water use efficiency and eliminate the release of nutrients, pesticides and waste into water.
- Minimize the release of harmful byproducts into the air.
- Maximize energy use efficiency and use ecologically sustainable renewable source when feasible.
- Minimize waste production, maximize recycling and ensure proper handling of disposal of solid waste.
- Maintain soil healthy controlling erosion and improving structure and fertility.
- Preserve natural habitats for native species and production of biodiversity.
- Minimize the use of chemical pest management inputs that impact humans, animals and environmental health.

Tom Farms LLC, Corporate Social Responsibility Statement-Feb 13, 2008

## Exhibit 4, cont.



### Property Owner References

Howard Chapman  
215 E Berry,  
Fort Wayne, IN 46802  
Phone: (260) 423-9551

Lowell Stouder  
4561 W 1200 N-35  
South Whitley, IN 46787-9401  
Phone: (260) 344-1486

Dale Haupert  
8050 West County Road 800 South  
South Whitley, IN 46787  
Phone: (877) 428-7378

Phillip Smith  
12166 North Chickasaw Drive  
Syracuse, In 46567  
Phone: 574.457.5882

Larry Polk  
6287 North CR 15  
Leesburg, In 46538  
Phone: 574.453.4495

John Hall or Mike Hall  
122 West Market Street  
Warsaw, In 46580  
Phone: 574.267.3266

Gary Bailey  
7032 North 400 West  
Leesburg, In 46538  
Phone: 574.858.9759

## Exhibit 4, cont.



### Agronomic

Tom Farms employs a number of “Certified Crop Advisors “(CCA) to guide all of our agronomic decisions on all acres that are operated. This consulting service gathers and sends soil samples to the labs that are gathered by equipment with GPS (Global Positioning Satellites) equipment. This type of system allows us to gather information about a field on a 2.5, 3.3, or 5.0 acre grids, and then we apply nutrients, crop protection and seeds to each grid according to their need and capabilities. This allows us to be more prudent environmentally, and at the same time allows for some cost savings to be recognized. This same information is stored over multiple years to establish benchmarks and trends on each field.

They also then continue to monitor the crop during its different growth stages, and make recommendation on specific needs such as water management, nutrients, or crop protection products to control unwanted vegetation or insects. Our Certified Crop Advisors are certified with the State of Indiana, which allows them to make recommendations that should be followed to raise a successful crop and protect the productivity of the land for future generations.

These CCA’s spend significant time in our operation during the entire growing season, and are frequently consulted with during winter seasons to keep us abreast of current and future trends in the crop care on our operation. Tom Farms feels this type of service needs to be utilized to more fully utilize the full potential of the production capabilities, while still maintaining sound environmental practices.

This segment also utilizes Standard Operating Procedures (SOP’s) to assure proper protocol is followed in all steps of the processes in agronomic management.



## Exhibit 4, cont.



### Included Services and other Items

1. GPS soil testing and nutrient application.
2. Agronomic reports upon request.
3. Annual weather data upon request.
4. Waterway maintenance if applicable.
5. Minor tile repairs.
6. Liability Insurance on all activities.
7. Workers Compensation all employees active in farming operations on property.
8. All chemical applications by Certified Applicators.
9. Visit to crops during growing season.
10. Minimum of two roadside mowing
11. Minimum of one waterway mowing per USDA-FSA permission.



## Exhibit 4, cont.



### Insurance Providers

Hall and Marose Agency Inc.  
122 West Market Street  
Warsaw, In 46580

Contact: Mike Hall, President  
Phone: (574) 267-3266  
Email: [mhall@hall-marose.com](mailto:mhall@hall-marose.com)

### Financial Reference

Lake City Bank  
202 East Center Street  
Warsaw, In 46580

Contact: Joe Kessie, Vice President  
Phone: (574) 267-6144 Ext 6144  
Email: [joe.kessie@lakecitybank.com](mailto:joe.kessie@lakecitybank.com)



## Exhibit 4, cont.



### Vendors

**Gilsinger John Deere Inc.**

6287 North SR 15  
Leesburg, In 46538

Contact: Matt Gilsinger  
Phone number: +1 (574) 453-2084  
Email: [Matt@gilsinger.com](mailto:Matt@gilsinger.com)  
Cell Phone: 1-574-806-0183

**Clunette Elevator Inc.**

4316 W 600 N  
LEESBURG, IN 46538-9210

Contact: Gabe Ayers or John Anglin  
Phone number: +1 (574) 858 2281  
Email: [gabe@clunettelevator.com](mailto:gabe@clunettelevator.com)  
Cell Phone: 1-574-551-3252

**North Central Co-Op**

2055 South Wabash Street,  
Wabash, IN 46992  
Phone: 1-800-992-3495

**Yagel Grain Systems LLC**

550 West Business 30  
Columbia City, IN 46725  
Contact: Tim Yagel  
Phone: 1-888-327-5279  
Email: [Yagel@brightnet.net](mailto:Yagel@brightnet.net)

## Exhibit 4, cont.



### Recognitions

- Tom Farms was recognized by Ernst and Young Entrepreneur of the Year Award in Small Manufacturing in Indiana in 2002.
- Tom Farms was Top Producer of the Year in 2007 nationwide in an event sponsored by Farm Journal, Top Producer, AgWeb, Case-New Holland, John Deere, and Challenger.

### Community Involvement

- We offer and sponsor college scholarships for young people graduating from area high schools whom are seeking a careers in Agriculture.
- Various youth organizations from 4-H and FFA to youth sports leagues.
- Actively involved in speaker circuits promoting Agriculture to urban and rural audiences.
- Contribute to various community food banks with like kind contributions of food products.
- Serve on boards at the Indiana Department of Agriculture, Indiana Economic Development Corporation, and Members of Local service clubs such as Optimist, Rotary, and Lions.
- Dean's Advisory Council Member of the University of Agriculture at Purdue.
- Board of Director of the Farm Journal Foundation guiding the distribution of fund globally from Farmers Feeding the World.
- Member of the Farm Foundation.

## Exhibit 4, cont.



### Contact Information

**Tom Farms and Partners**  
8542 North Harper Road  
Leesburg, In 46538

Contact: Kip E. Tom, Managing Partner  
Phone number: +1 (574) 453-3300 ext-203  
Email: [kiptom@tomfarms.com](mailto:kiptom@tomfarms.com)  
[kristom@tomfarms.com](mailto:kristom@tomfarms.com)  
[kyletom@tomfarms.com](mailto:kyletom@tomfarms.com)  
[kassandrarowland@tomfarms.com](mailto:kassandrarowland@tomfarms.com)  
Cell Phone: 1-574-606-5060  
Web page: [www.tomfarms.com](http://www.tomfarms.com)

### General Office Location Map

