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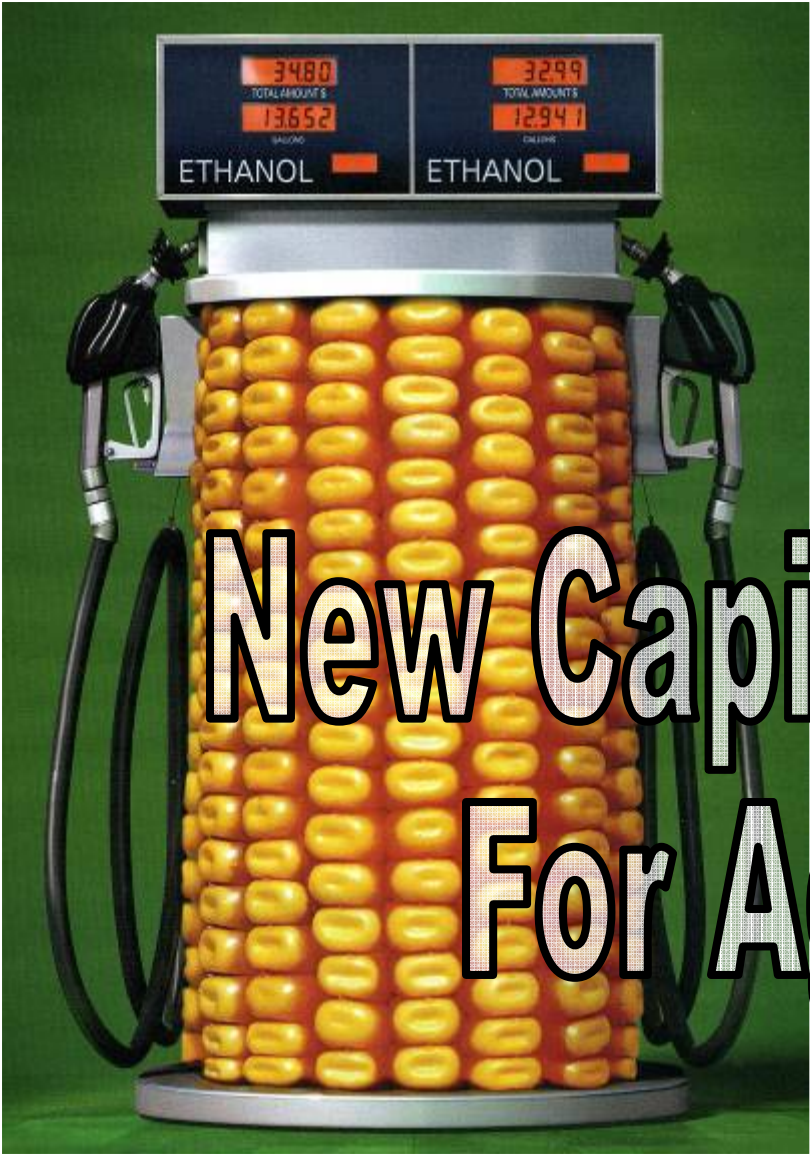
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Agricultural Outlook Forum  
U.S. Department of Agriculture

February 21-22, 2008

New Capital Structures for Agriculture

David Kruse



# David Kruse

## New Capital Structures For Agriculture





# **Risk Management Company**

*Royal, Iowa*

**Commodity Brokerage (RJO)**

**AgriVantage Crop Insurance**

**The CommStock Report**

**Royalty Insurance**

**Ethanol Option, LLC**

**D.A.D Kruse Farms, LLC**

**Royal Beef, LLP**

**Brazil Iowa Farms, LLC**

# Percentage Change in Iowa Land Values 2006 to 2007

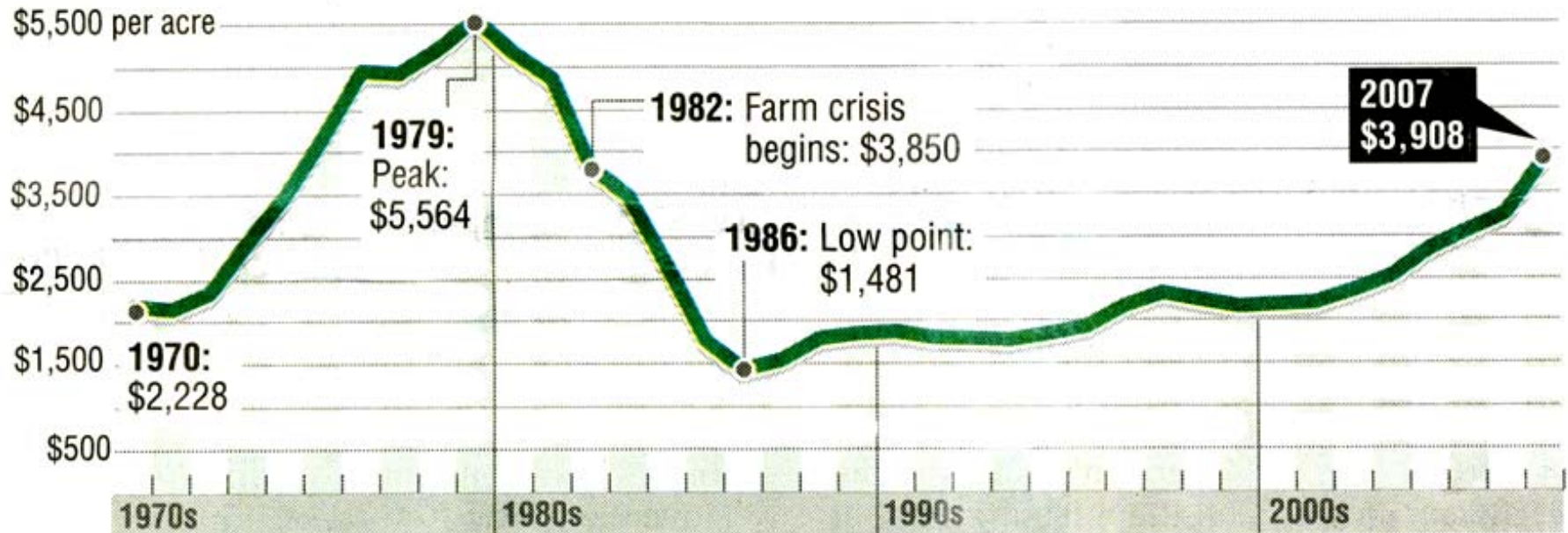
LYON 4458 29.3%	OSCEOLA 4687 28.7%	DICKINSON 4210 23.7%	EMMET 4515 21.3%	KOSSUTH 4537 22.4%	WINNEBAGO 4054 25.2%	WORTH 4162 27.4%	MITCHELL 4235 30.2%	HOWARD 3400 29.7%	WINNESHEK 3413 25.5%	ALLAMAKEE 2640 24.2%
SIoux 5204 28.1%	O'BRIEN 5306 24.7%	CLAY 4506 24.7%	PALO ALTO 4392 24.6%	HANCOCK 4381 22.0%	CERRO GORDO 4439 24.5%	FLOYD 4325 30.3%	CHICKASAW 3767 29.5%	FAYETTE 4144 24.2%	CLAYTON 3610 23.7%	
PLYMOUTH 4802 25.4%	CHEROKEE 4466 24.7%	BUENA VISTA 4846 23.8%	POCAHONTAS 4663 21.7%	HUMBOLDT 4689 21.1%	WEBSTER 4807 20.5%	FRANKLIN 4329 23.1%	BUTLER 4398 27.2%	BREMER 4603 27.1%		
WOODBURY 3570 18.5%	IDA 4426 20.6%	SAC 4745 24.1%	CALHOUN 4878 23.2%	HAMILTON 4779 18.3%	HARDIN 4934 20.4%	GRUNDY 4985 24.7%	BLACK HAWK 5083 28.6%	BUCHANAN 4518 26.8%	DELAWARE 4628 19.7%	DUBUQUE 4239 20.7%
MONONA 3452 21.6%	CRAWFORD 4013 23.3%	CARROLL 4434 23.8%	GREENE 4235 22.0%	BOONE 4680 19.5%	STORY 4852 20.7%	MARSHALL 4103 19.5%	TAMA 4123 24.2%	BENTON 4485 23.9%	LINN 4638 16.5%	JONES 3719 18.2%
HARRISON 3773 22.0%	SHELBY 4057 23.4%	AUDUBON 3991 20.5%	GUTHRIE 3675 24.0%	DALLAS 4327 27.8%	POLK 4234 21.4%	JASPER 3929 19.1%	POWESHIEK 3776 20.8%	IOWA 3785 20.9%	JOHNSON 4579 17.1%	JACKSON 3501 19.4%
POTTAWATTAMIE 4072 23.6%	CASS 3598 22.0%	ADAIR 2742 24.7%	MADISON 3316 25.4%	WARREN 3588 22.2%	MARION 3555 21.5%	MAHASKA 3547 19.7%	KEOKUK 3262 15.0%	WASHINGTON 4289 18.4%	CLINTON 3798 15.6%	SCOTT 5699 12.3%
MILLS 3827 23.6%	MONTGOMERY 3167 20.4%	ADAMS 2688 22.0%	UNION 2622 25.8%	CLARKE 2213 22.2%	LUCAS 2098 25.5%	MONROE 2454 23.9%	WAPELLO 2719 21.5%	JEFFERSON 2811 18.3%	HENRY 3668 19.4%	LOUISA 3997 17.1%
FREMONT 3478 22.8%	PAGE 2823 19.0%	TAYLOR 2435 25.0%	RINGGOLD 2126 23.2%	DECATUR 1828 24.8%	WAYNE 1947 22.0%	APPANOOSE 1908 22.0%	DAVIS 2406 23.0%	VAN BUREN 2642 22.4%	DES MOINES 3899 22.7%	LEE 3602 24.5%

County estimates of average dollar value per acre for Iowa farmland based on U.S. Census of Agriculture estimates and a Nov. 1, 2007, survey of Iowa real estate brokers. The top figure is the estimated Nov. 1, 2007, value; the bottom figure is the percentage of change from the estimated Nov. 1, 2006, value.

**IOWA STATE  
UNIVERSITY**  
University Extension

## Average Iowa farmland prices, adjusted for inflation

Farm values, adjusted for inflation according to 2007 dollars, were highest in the late 1970s and early 1980s, topping out at more than \$5,500 per acre.

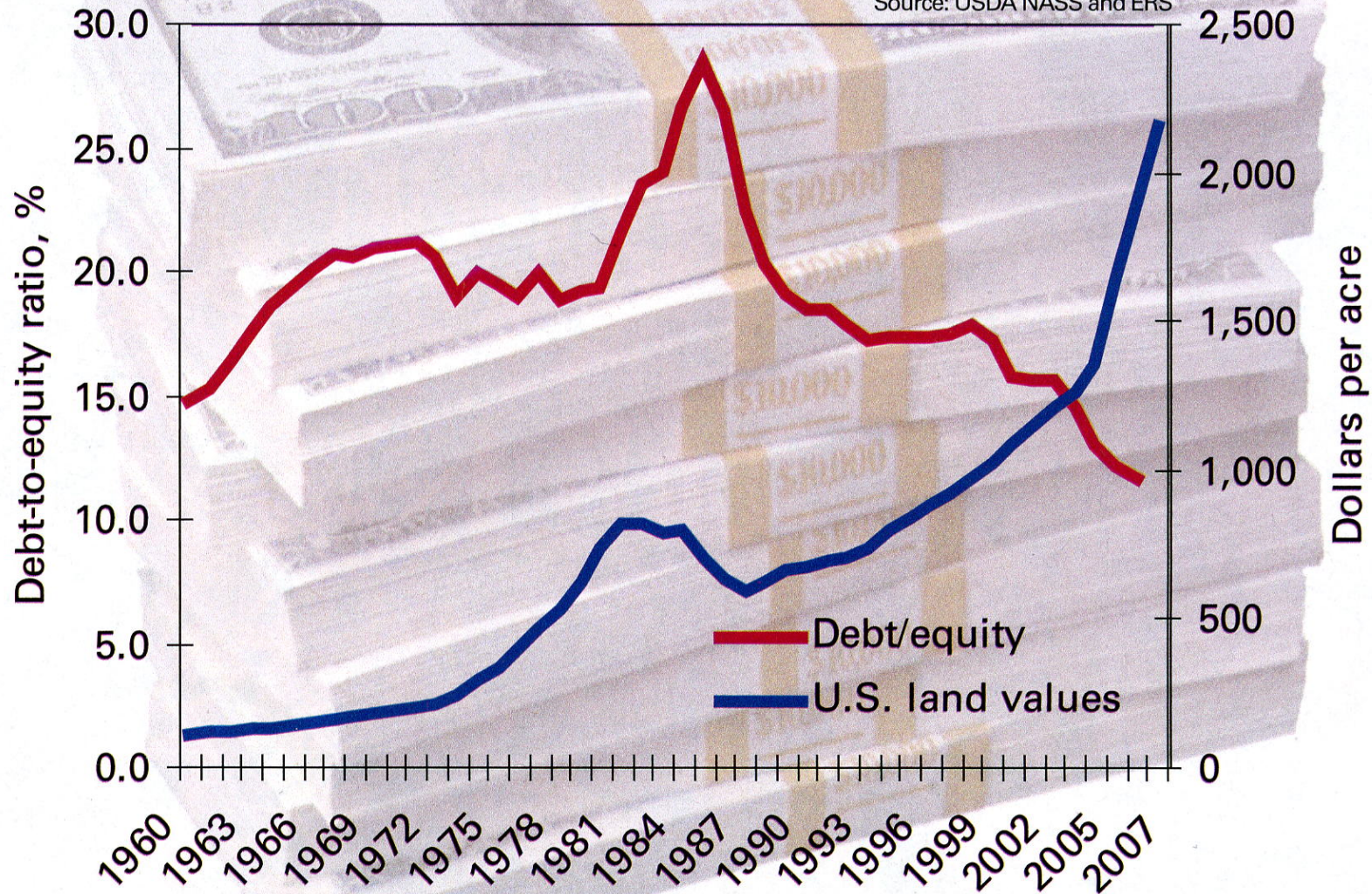


Source: Iowa State University Extension

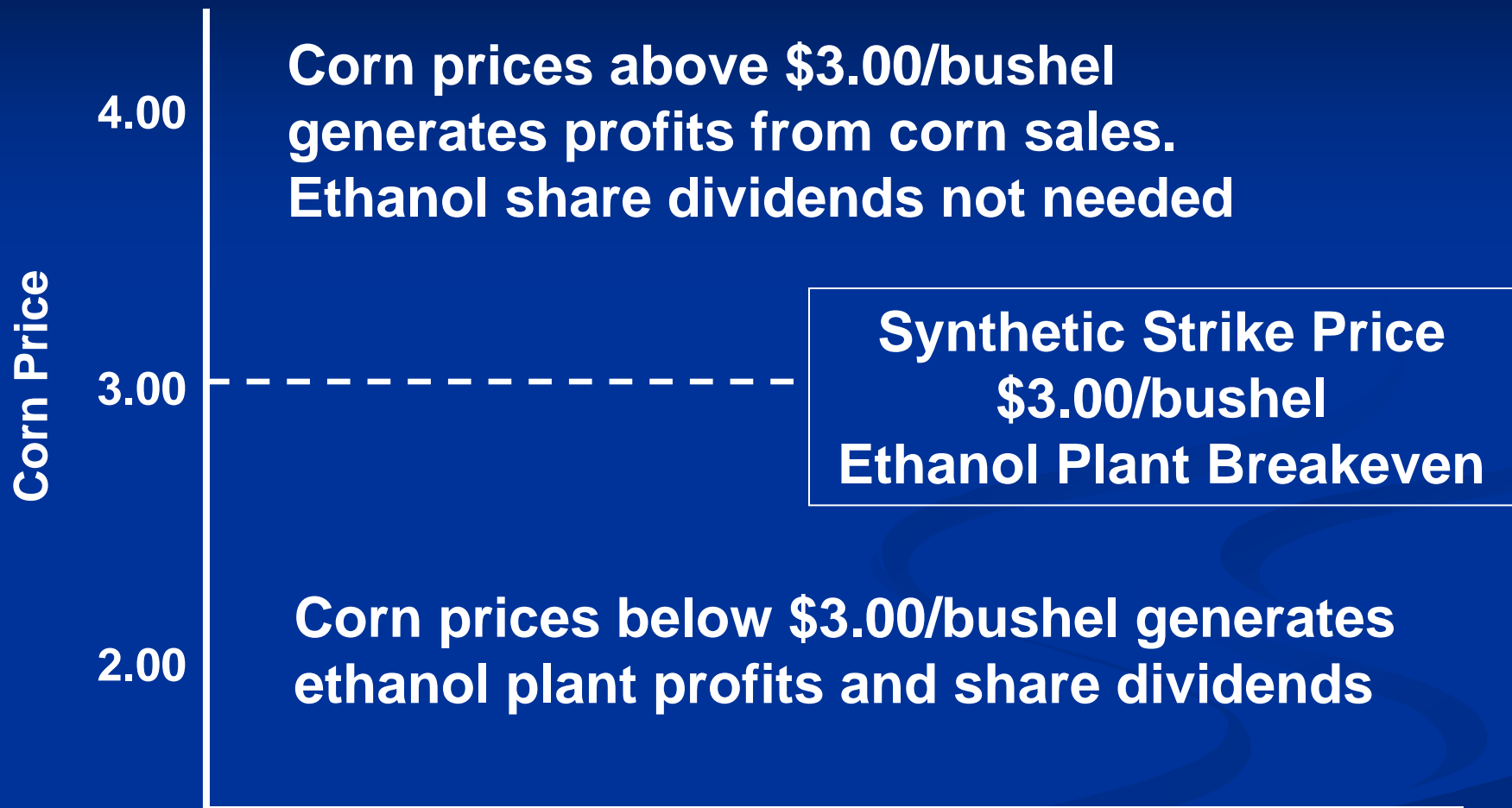
THE REGISTER

# Rising land values improve U.S. farm debt ratios

Source: USDA NASS and ERS



# Ethanol Put Option



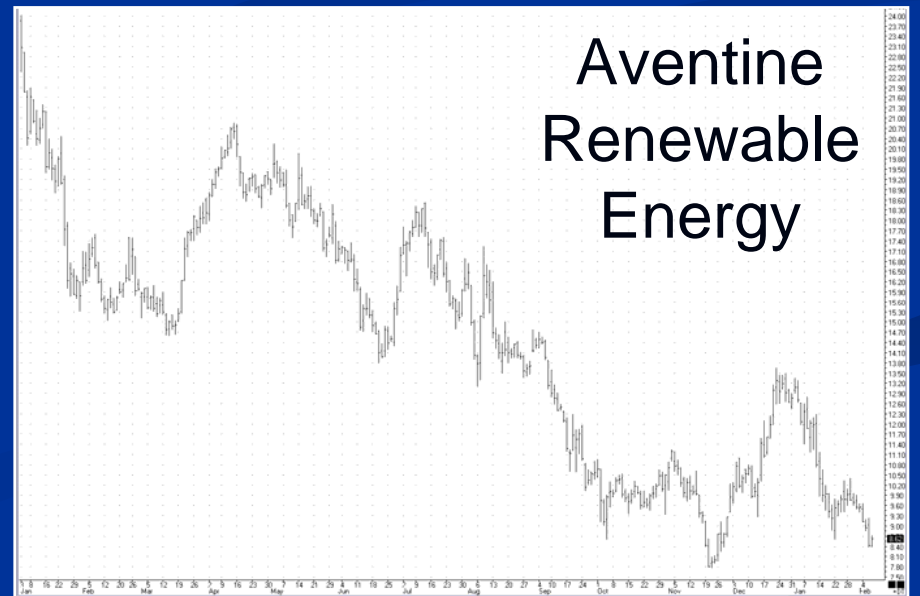
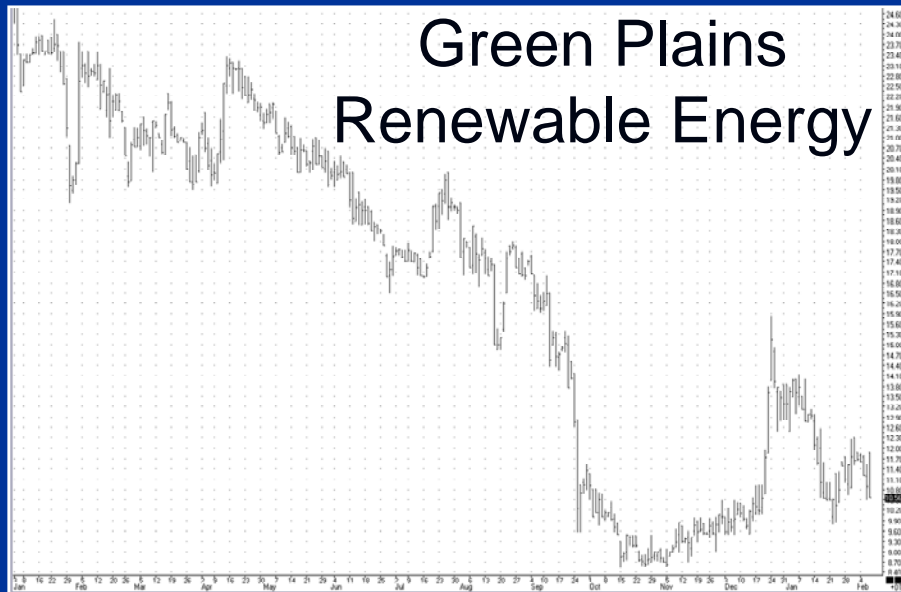
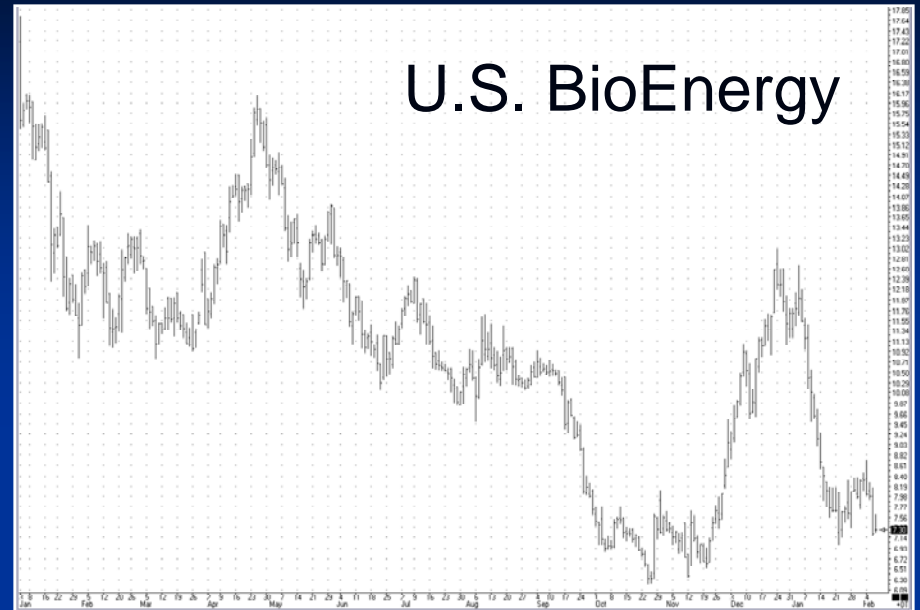
**Corn prices above \$3.00/bushel  
generates profits from corn sales.  
Ethanol share dividends not needed**

**Synthetic Strike Price  
\$3.00/bushel  
Ethanol Plant Breakeven**

**Corn prices below \$3.00/bushel generates  
ethanol plant profits and share dividends**



# Ethanol Company Stocks

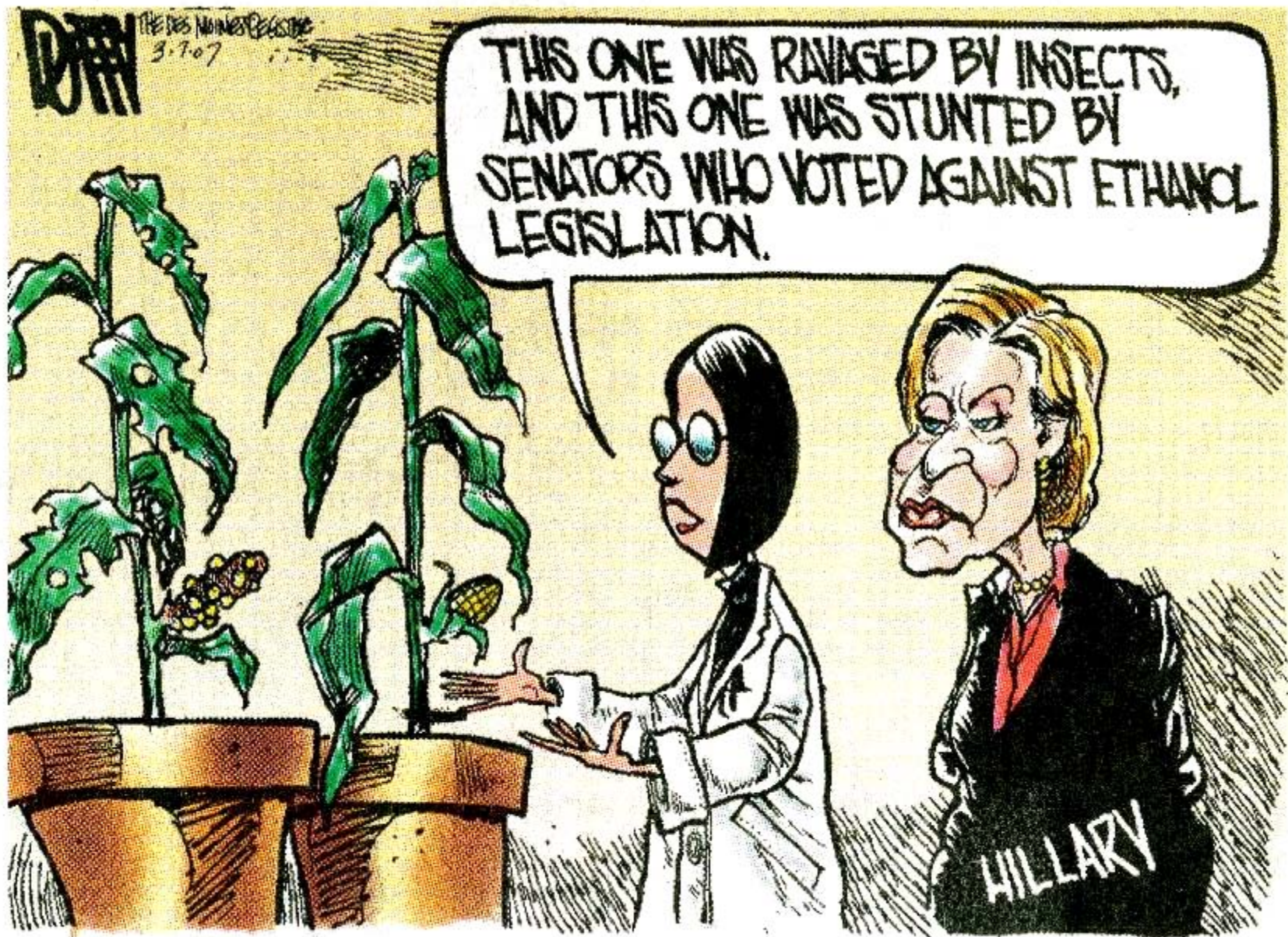


## How Much Can Ethanol Pay For Corn?

<i>With Tax Credit</i>	
<b>Crude Oil</b>	<b>Corn</b>
\$40	\$2.67
\$50	\$3.36
\$60	\$4.05
\$70	\$4.74
\$80	\$5.43

<i>Without Tax Credit</i>	
<b>Crude Oil</b>	<b>Corn</b>
\$40	\$1.14
\$50	\$1.83
\$60	\$2.52
\$70	\$3.21
\$80	\$3.90

Source: Dr. Dermot Hayes, ISU



See some of Duffy's cartoons online: [DesMoinesRegister.com/duffy](http://DesMoinesRegister.com/duffy)

## A look at the next level for ethanol

Ethanol has lived up to its promise in 2006, producing record returns for farmer investors, jobs for rural America, and a safer fuel additive to replace MTBE.

But it faces challenges and choices, symbolized by the blender pump shown at right. If the pumps were widely used, more consumers could pick from four levels of ethanol blends. This is just one facet of a futuristic look at ethanol.

This special section examines making ethanol with less natural gas, using ethanol-friendly corn hybrids, turning cellulose and butanol (another type of alcohol) into ethanol, and dealing with an ethanol market with shrinking margins.



**This South Dakota blender pump shows the ethanol choices some want to offer.**

# **Coop Structure**

**Almost defunct / now evolving**

- 1. One Man One Vote inequitable**
- 2. Must do business with Coop to invest**
- 3. Restricted access to capital**
- 4. Less profit driven**
- 5. Coops owning/partnering with LLCs**



# LLC Structure facilitates:

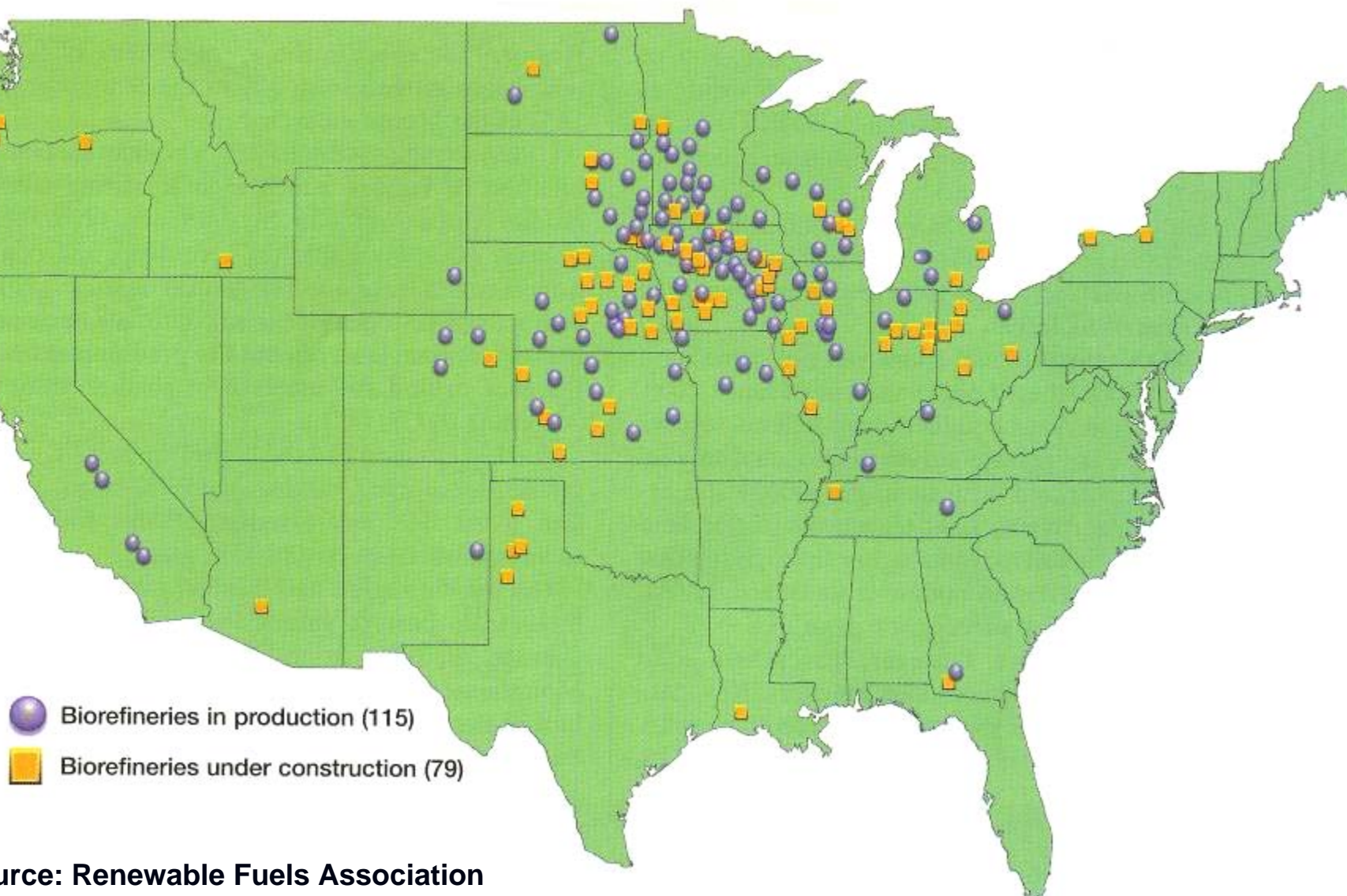
- Capital Acquisition
- Enhanced management structure
- Efficiency of scale
- Accelerated technology adoption
- Enhanced market clout
- Producer participation in supply chain integration

Successful traditional producers will mesh into LLCs accepting outside investment

Farms will be run by CEOs and CFOs

# U.S. Ethanol Biorefinery Locations

SOURCE: RENEWABLE FUELS ASSOCIATION



Source: Renewable Fuels Association



**ROYAL BEEF**  
Primed for the Future

# LOCATED IN THE HEART OF THE CORNBELT

## LOW COST OF GAIN



- High-moisture corn
- Dry-rolled corn
- Ethanol co-products  
(six plants within 60 miles)
- Dry-shell corn
- Consulting nutritionist on staff



## CONSISTENT PERFORMANCE

- Cattle housed in two 2,800 head monoslope bedded confinement buildings
- Strict health and nutrition protocols
- Pen size: 180, 240 and 300 head
- Cattle comfortable in all seasons

## COMPETITIVE MARKETS

- Quality feeder cattle
- Grid based or cash marketing
- 3 packing facilities within 100 miles
- 5 packing facilities within 150 miles
- Financing available



**WWW.ROYALBEEF.COM**  
**jcbeef@royaltelco.net**







ROYAL BEEF  
Primed for the Future

LOCATED IN THE HEART OF THE CORNBELT





ROYAL BEEF  
Primed for the Future

LOCATED IN THE HEART OF THE CORNBELT





ROYAL BEEF  
Primed for the Future

LOCATED IN THE HEART OF THE CORNBELT



# Successful Farming

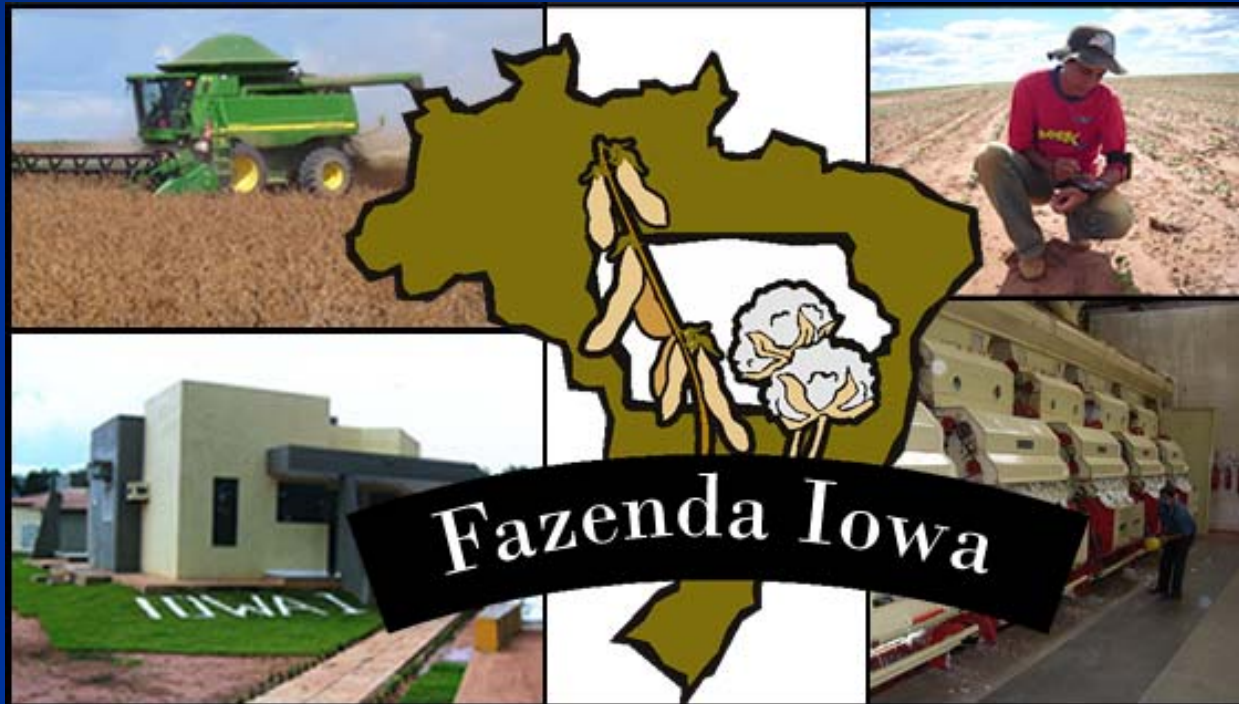
September 1968



LOUIS THIESENS AT THE FAIR  
*PUT ON FERTILIZER THIS FALL*  
CAN YOU AFFORD \$800 LAND?  
*HOW TO PICK FEEDER PIGS*  
REMAKE YOUR PASTURES NOW



# Brazil Iowa Farms



# Fazenda Iowa



**Headquarters**

**Royal, Iowa USA**

**Luis Eduardo Magalhaes, Bahia, Brazil**

**Capitalization**

**US\$ 27MM**

**LLC has 315  
Unitholders**



**USA** { 29 }  
States



**Canada**



**Brazil**



**Japan**

**CEO**

**David Kruse**

**CFO**

**John Zulk**

**Director of  
Brazil Operations**

**Matthew Kruse**

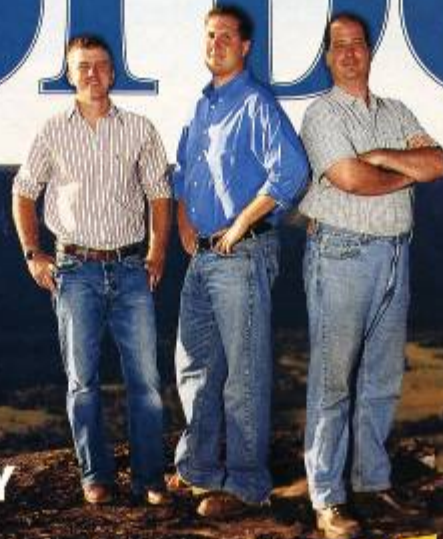


**INTERNATIONAL  
INVESTING GUIDE**

**Bill Gates' Bold Plan  
To Save The World**

JULY 25, 2005 | WWW.FORBES.COM

# Forbes



**WHY  
AMERICANS  
ARE SUDDENLY  
CASHING IN  
ON BRAZIL**

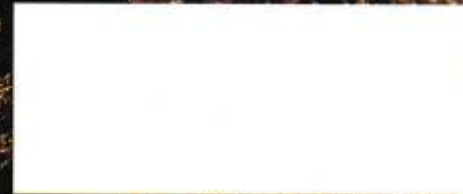
# LAND RUSH!

EXPAT FARMERS  
JOHN CARROLL,  
MATTHEW KRUSE  
AND BRIAN WILLOTT

**ALSO ►**

**THE MAN WITH THE  
\$216 MILLION TAX BILL**

**CHINESE SPIES IN  
YOUR COMPUTER**





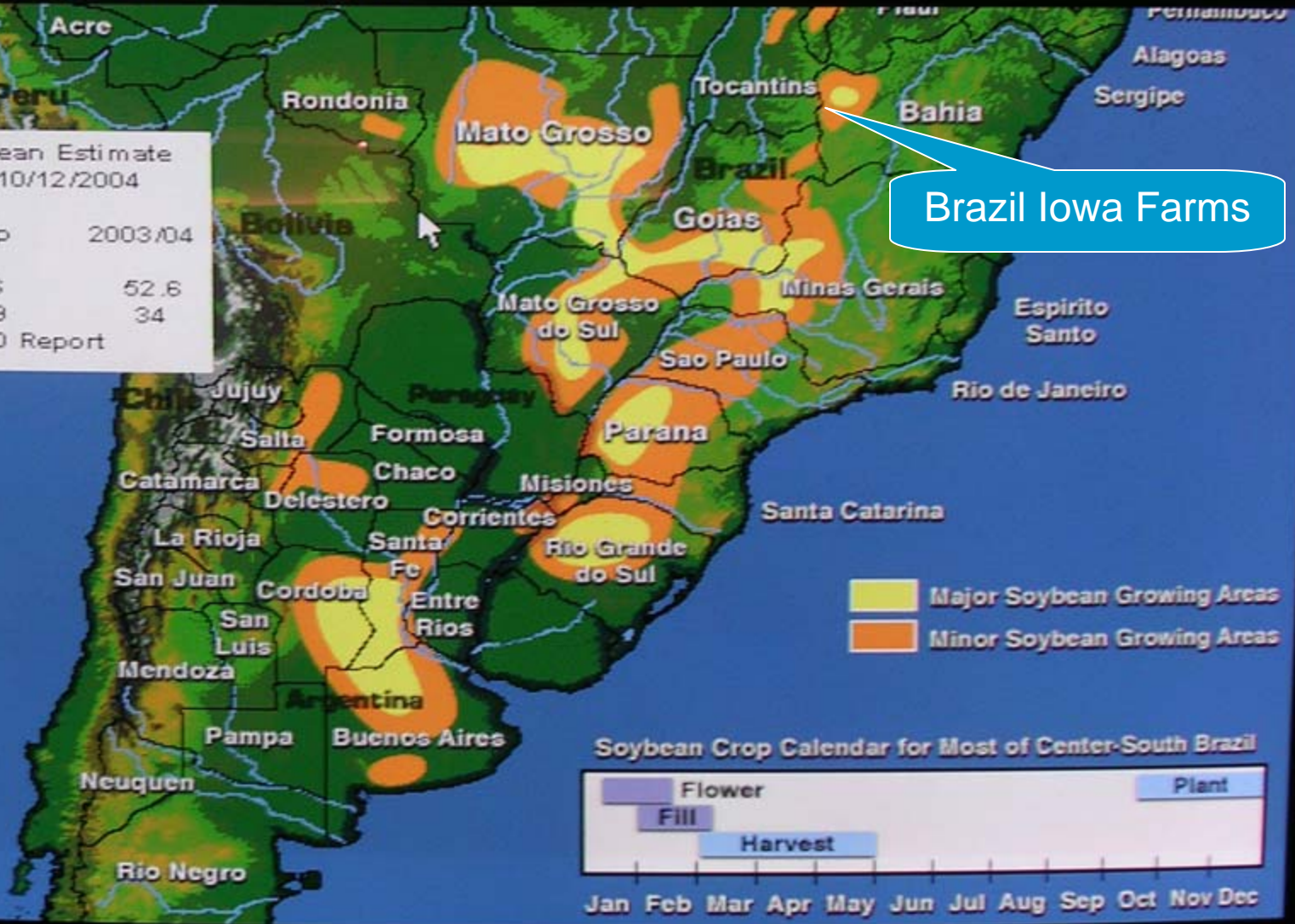
# BIF Location is a Strategic Asset

## South America Major and Minor Soybean Growing Areas

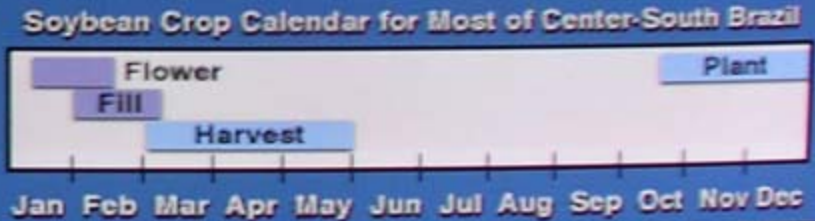
South American Soybean Estimate  
(million metric tons) 10/12/2004

	Oct	Sep	2003/04
Brazil	64.5	66	52.6
Argentina	39	39	34

Source: USDA Oct S/D Report



FARM SMARTER™

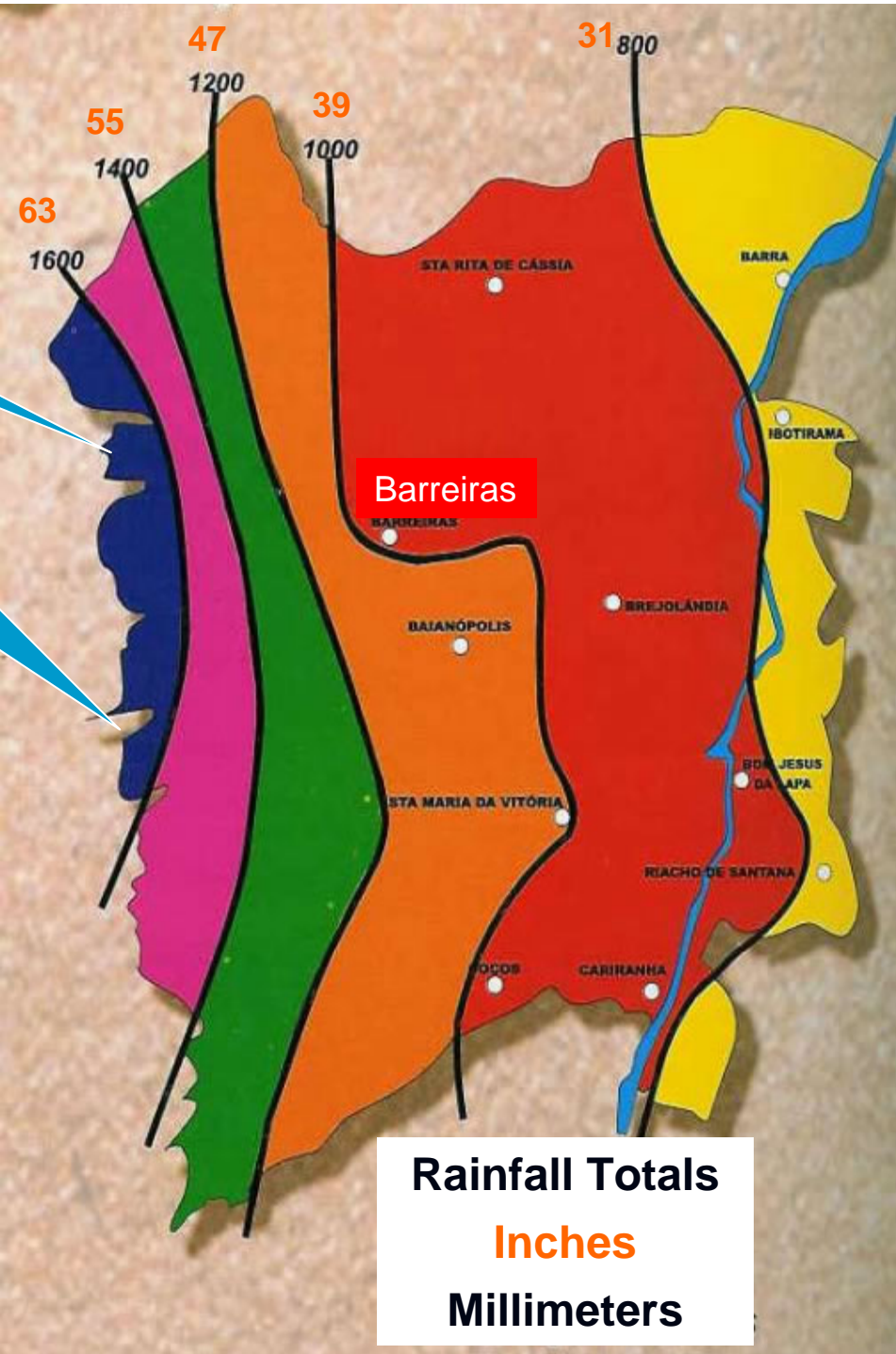


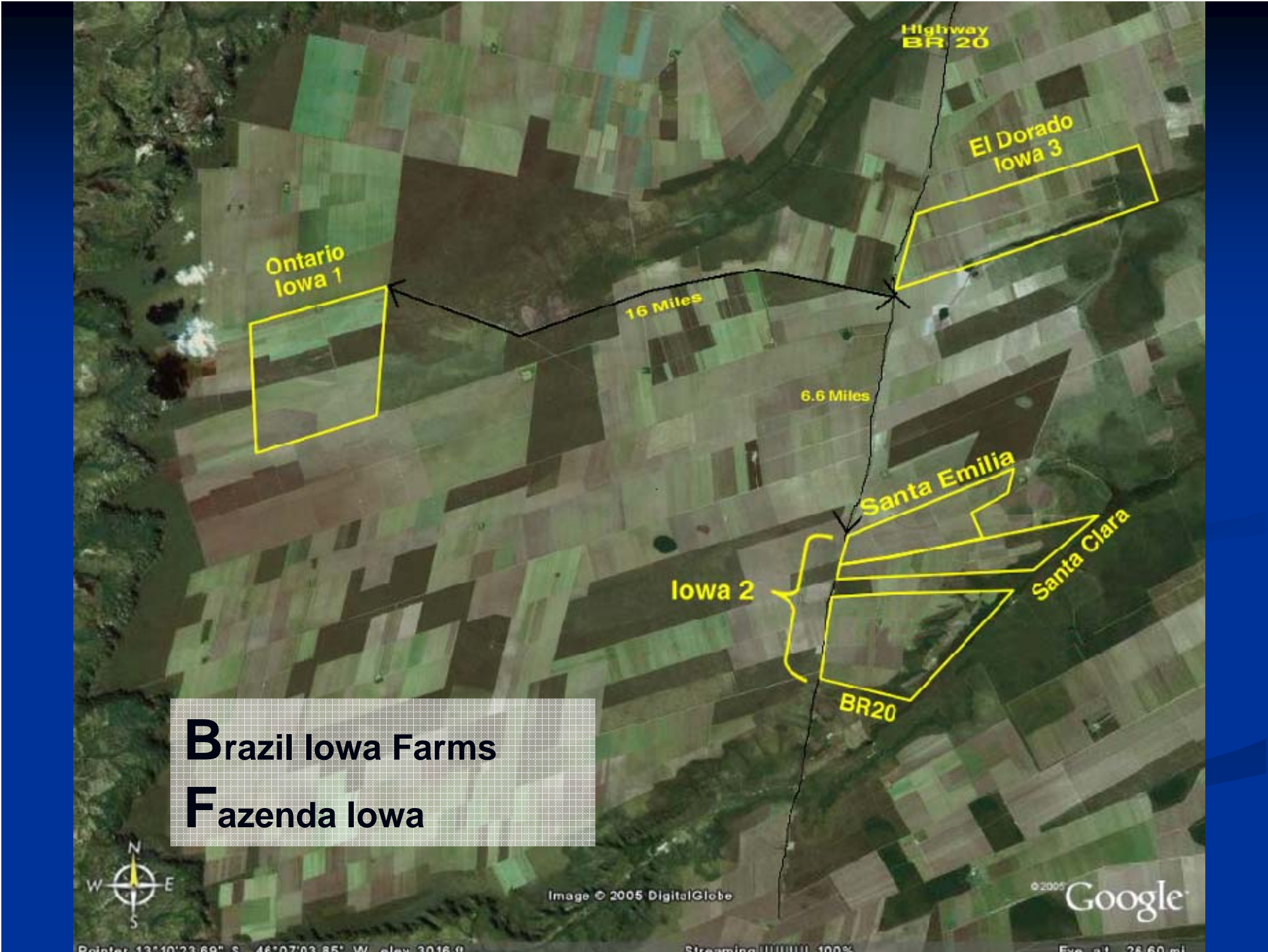


Escarpment

Brazil Iowa Farms

Escarpment





**B**razil Iowa Farms  
**F**azenda Iowa



Image © 2005 DigitalGlobe

© 2005 Google

Point: 13°40'23.69" S, 46°27'03.85" W, elev: 2016 ft

Streaming: 100%

File: 26.60 mb













  
**Cargill**<sup>TM</sup>  
Cotton

Exhibit C

**Confidential**

# Brazil Iowa Farms



Competing In Global Agriculture



**Information and Analysis of  
Proposed \$50 Million Equity  
Transaction**

**Planning For The  
Future**

This Booklet contains important information on the future of your company.  
Please read the material carefully. Call us at 712-933-9400 if you have any  
questions.

# Futuristic producers will . . .

- Own farm as LLC
- Hire custom farming service of LLC
- Store grain in condo LLC
- Commit Grain/Livestock to value added LLC
- Own shares in ethanol / bio diesel LLC

**LLC is the vehicle to integration  
for futuristic producers**

# Questions

