



# **Lindsay Corporation – Long**

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Kevin Romanteau

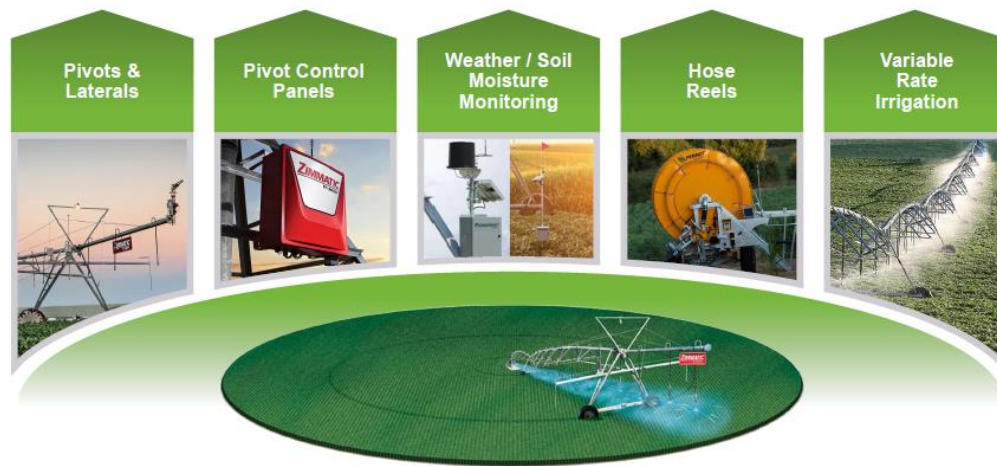
5 July 2023

# Lindsay Corp. (LNN) Business Overview

- LNN provides a variety of proprietary water management and roads infrastructure products and services
- Irrigation segment includes the manufacture and marketing of center pivot, lateral move and hose reel irrigations systems, and technologies
  - Distributes products through 200 independent dealers
- LNN is a steady growing business that has compounded EPS ~6% over time, w/ 7-8% EPS growth long-term

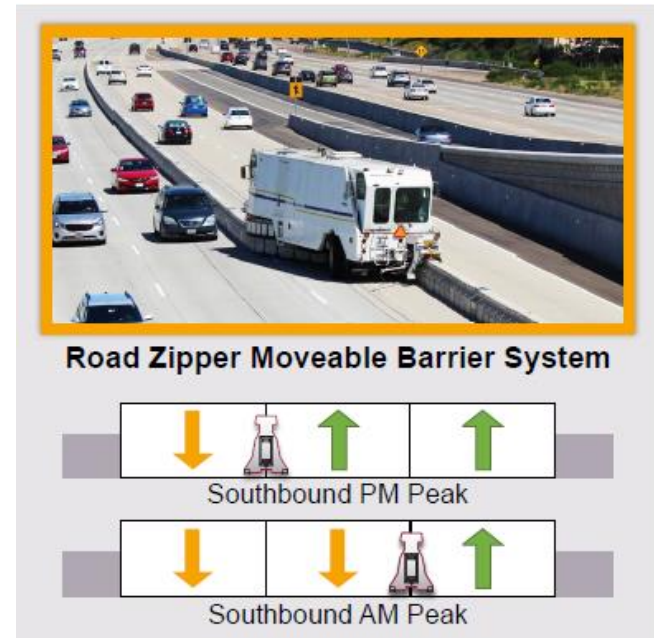
Cap Table	
Price as of 04.07.23	\$119.0
Diluted Shares	11.0
Market Cap	\$1,312
Total Debt	\$116
Cash	\$156
Net Debt	(\$40)
Enterprise Value	\$1,272

FY 31.08	2012	2022	CAGR
<b>Revenue</b>	<b>\$551</b>	<b>\$771</b>	<b>3.4%</b>
Irrigation	86%	86%	3.4%
Infrastructure	14%	14%	3.3%
<b>Operating Income</b>	<b>\$66</b>	<b>\$95</b>	<b>3.7%</b>
Irrigation	96%	85%	2.8%
Infrastructure	4%	15%	23.0%
EPS	\$3.38	\$5.94	5.8%
<b>Stock Price</b>	<b>\$65.4</b>	<b>\$160.4</b>	<b>145.3%</b>



# LNN Business Overview: Infrastructure Segment

- **Road Zipper** can be used in different ways:
  - ▶ Lease option: Leasing period may be required during construction program. Road Zipper provides workers safety during the project
  - ▶ Permanent installation: Sales for a highway or road improvement.
    - Regulating high traffic flow, Road Zipper and a permanent installation provide flexible lanes
    - Solving existing congestion issues (e.g. bridge)
    - Price range from \$2-30m
  - ▶ Limited competition
  - ▶ Main drivers: population growth, and road improvement safety
- Distribution: direct sales, network of distributor, and third-party
- Market growth supported by strong fundamentals and the incremental funding available through IIJA
  - ▶ Delay in releasing funding, but LNN seems to be well-positioned to capitalize on market growth '25-'26



**Road Zipper System®**  
innovative moveable  
road barrier



**Road Safety Products**  
crash cushions, end  
treatments, attenuators, and  
other road safety solutions



**Road Marking Tape**  
easy to apply and fast  
to remove temporary  
road markings

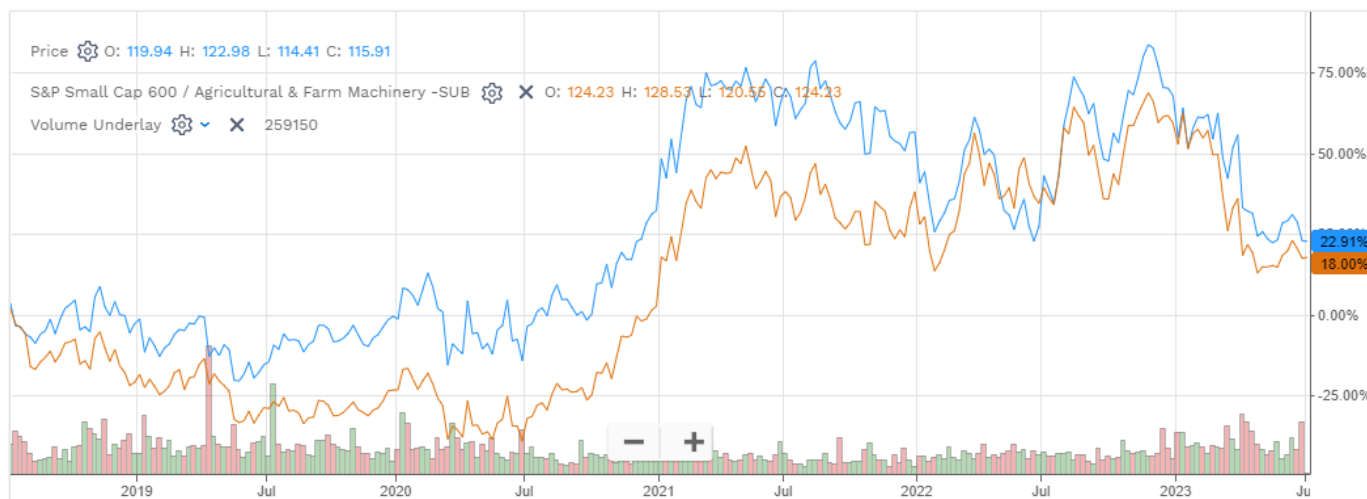
# Share Price over L10Y

- LNN has been an excellent long-term stock, w/ price up 2.6x over L10Y, though volatile and highly correlated to commodity market price



# Share Price over L5Y

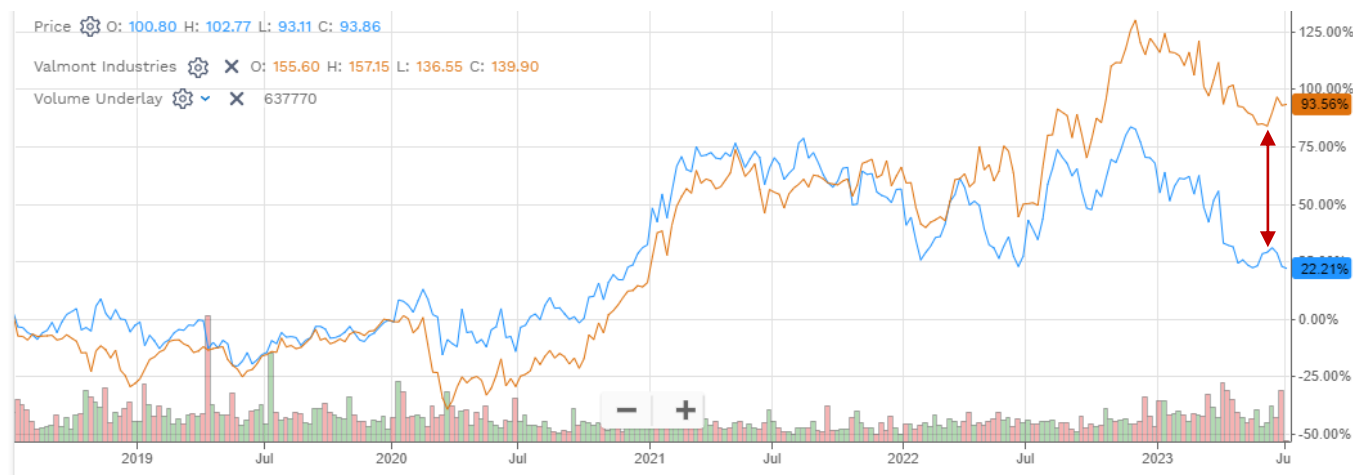
- LNN has meaningfully underperformed the main peer Valmont over the last 5 years, w/ all of that underperformance coming over the last 6 months mainly driven by sector disenchantment



IRRIGATION (17.3%)		
VMI-US	324.2	291.8 (10.0%)
LNN-US	157.7	119.0 (24.5%)

FARM MACHINERY (7.2%)		
CAT-US	238.9	247.9 3.8%
BUCN-CH	396.8	390.2 (1.7%)
AGCO-US	137.3	132.3 (3.6%)
DE-US	424.3	406.8 (4.1%)
MTU-FR	26.4	24.7 (6.4%)
CNHI	16.1	14.5 (9.7%)
EXE-FR	56.2	49.8 (11.4%)
TITN-US	39.6	30.0 (24.3%)

Peer performance since Jan '23



# Long Thesis

- **Since '13 peak, multiple headwinds have emerged, leading to cyclical downturn in U.S. irrigation for several years:**
  - ▶ Phenomenal track record '12-'22: +3.5% revenue CAGR, +3.7% EBIT CAGR, EPS increased by +5.8% CAGR, stock price 2.5x bagger
  - ▶ '12-'13 temporary tailwind due to drought condition dissipated, then irrigation market entered a cyclical downturn
  - ▶ '15-'17 irrigation revenues contracted due to lower commodity price and w/ lower farm income, favorable growing condition, and the lack of significant demand driven by storm damage. End '18 uncertainty regarding the outcome of U.S. steel tariffs and trade negotiations weighted on farmer sentiment towards investment decisions.
- **'20-'22 Temporary tailwind have emerged from commodity price dynamics – fundamentally shifting three key drivers:**
  - ▶ 1) Higher unit demand: Positively affected by several factors such as commodity price, farm income and weather condition:
    - (i) Strong commodity price due to lower yield during the '22 crop season, supporter by Russian/Ukraine conflicts
    - (ii) Farm income boosted by \$24bn federal government direct program payments during pandemic (“CFAP”)
    - (iii) Favorable weather conditions w/ storm damage leading to unprecedented replacement and repairment demand
  - ▶ 2) Higher ASP: to pass through inflation costs to farmers, finalized at the beginning '23.
  - ▶ 3) Lower operating margin: impacted by COGS expansion due to supply chain constraints, increase on raw material costs (i.e. hot-rolled coil steel represents 30% COGS) , increase in freights and logistics costs.
- **My theory is that market tailwind has been offset by lack of farmer confidence deferring purchases into unusual seasonality**
  - ▶ **Farmers sentiment:** Anticipated reduction in net farm income in '23 due to lower government incentives. Nevertheless, NFI is still expected to be more than 26% above its 20-year. Uncertainty on inflation, interest rates, general economic uncertainty, and commodity price lead farmers to adopt a wait and see position, suggesting a shifting in seasonality demand to pre-harvest in LNN Q1/Q2 '24.
  - ▶ **Irrigation cycle 101:** 1) inadequate rainfall levels lead to persistent drought conditions, 2) early start in irrigation (higher replacement), 3) drought supports higher commodity prices, 4) irrigators can increase grain yields, 5) increase farms income, leading to new investment in irrigated agriculture and water management solutions (i.e. FieldNET)
    - The US is a mature market, if corn holds the \$5-6 range, the margins are decent enough for that replacements will occur.
  - ▶ **Valuation:** LNN PE NTM is trading at 10Y trough compared to Valmont - 18.6x P/E NTM vs. range 30.0x avg L10Y. Based on 30Y reverse-DCF, at current P/E level, market is embedding only 1% revenue growth and 10.5% operating margin vs. 11.4% over L3Y
  - ▶ **Infrastructure:** the IIJA or the Bipartisan Infrastructure Bill legislation released in November '21 w/ \$110bn in incremental federal funding, planned for roads, bridges are facing temporarily funding delayed – impacting Road Zipper leasing demand
- **Since Jan '23, LNN is down ~25% driven primarily by seasonality shift which have turned down farm machinery sector**
  - ▶ Due to current uncertainty, even if farmers were very active for quoting during the spring season, they adopted a temporary wait-and-see approach. Nevertheless, the current drought condition suggests a peak in demand btw Q1/Q3 '24 similar to '12-'13 period.
  - ▶ Q2 EPS \$1.63 above \$1.53 consensus but revenue down by 26%, stock price declined ~30% in one day. Q3 EPS \$1.53 missed \$2.15 consensus.
  - ▶ **Infrastructure:** Funding delay in IIJA program, but LNN seems to be well-positioned to capitalize on market growth '25-'26

# Irrigation 101

- **Agriculture irrigation** comes mainly into three forms: Center pivot, lateral move irrigation or hose reel travelers
  - ▶ **Center-pivot** in the U.S. is typically seven pans and ~ 1,300 feet long and designed to circle within a quarter-section of land, w/ 160 acres, wherein it irrigates ~130 acres. A center-pivot or lateral move system can be customized to irrigate from ~25 to 600+ acres.
  - ▶ **Hose reel travelers** are deployed in smaller or irregular fields are usually easy to operate, and move from field to field, and require a smaller investment than a typical standard center pivot.
  - ▶ Demand for pivots comes from three sources: 1) **conversion** to center pivot systems, 2) **replacement** of older pivots (w/ higher demand during hurricane season or prolonged drought periods), 3) conversion of **dry land farming** to irrigated farming (w/ strong international market demand such as Brazil). International demand is driven by projects connected to global food security and shifting climate patterns.
- **Market Overview**
  - ▶ **Key figures:** Large and sustainable growing market w/ '22-27 7-8% CAGR from ~\$8.8bn to ~\$12.6bn. Valmont estimated '22-'27 8.7% CAGR, w/ 6-8% CAGR for equipment and parts, w/ 15-17% CAGR for technology products.
  - ▶ **Major Players:** Four major players control most of the U.S. incl. Valmont and Reinke (private). Valmont is the main competitor w/ \$4.3bn revenue, \$1.3bn agriculture revenue in which 43% from international, and operating margin 14.7%.
  - ▶ **Commodity price:** Farmer chases price w/ equipment's purchases, therefore commodity cycle has major impact on purchases of new systems.
  - ▶ **Seasonality:** Irrigation equipment are seasonal by nature. During the fall season farmers replace or repairs the equipment. New systems are ordered in the fall and early winter, and erection takes place through fall and winter. According to a farmer for Nebraska, Mid-June through first week in September are the main irrigating months for them. So, July is the critical month for corn and August for soybeans but a lack of rain in June can certainly hurt as seen in both 1988 and 2012.
    - Farmers generally order systems to be delivered and installed before the growing season, w/ peak demand in Q2 and Q3.
    - Weather conditions, particularly leading up to the planting and early growing season (e.g. corn: beg. April and last into June) can affect farmers' purchasing decisions of irrigation equipment.
    - When there is a lack of natural precipitations during the germinated crop period, the irrigation starts earlier, meaning a more extended season. Additional hours per year for the irrigation machine tend to support the replacement and repairment.
- **Unit of Economic**
  - ▶ **Income:** Irrigation creates the potential to grow several crops p.a. and increase the crop yield (e.g. +44% for corn) and incremental profit for the farmer. Commodity prices, farm income, interest rates are the primary triggers that motivate purchasing decisions.
  - ▶ **Cost per unit:** 1/3 of the investment goes to for the pivot, and 2/3 is attributable to the installation of additional equipment such as wells, pumps, underground water pipes, electrical supply, and pads.
  - ▶ **ROI:** Irrigation systems offer an attractive ROI. Current market conditions, high corn price (\$5-\$6 per bushel) accelerate the payback of the irrigation investment, w/ a breakeven point between 2-3 years.



# Margin Structure vs. Peers

- LNN has a relatively high EBIT margin (+100-200 bps vs peers), though this margin structure is necessary to compensate the capital intensity of LNN's businesses

## IRRIGATION

Source: Factset as of 03 July 23

	Mkt cap (m)	Revenue (m)	Gross Margin		EBIT Margin		WACC	ROIC		Capex %
			LR	L5Y	LR	L5Y		LR	L5Y	sales
VALMONT	\$6,128.4	\$4,345.3	26.0%	25.3%	10.1%	8.3%	9.1%	9.9%	7.5%	2.1%
<b>LINDSAY</b>	<b>\$1,313.8</b>	<b>\$770.7</b>	<b>25.8%</b>	<b>28.0%</b>	<b>12.3%</b>	<b>8.9%</b>	<b>9.2%</b>	<b>13.1%</b>	<b>7.3%</b>	<b>2.0%</b>
<i>bps vs. peer</i>			(20)	269	219	57		322	(23)	(12)

## FARM MACHINERY

	Mkt cap (m)	Revenue (m)	Gross Margin		EBIT Margin		WACC	ROIC		Capex %
			LR	L5Y	LR	L5Y		LR	L5Y	sales
DEERE	\$118,798.5	\$52,510.0	29.2%	28.9%	18.6%	16.2%	7.7%	13.6%	8.9%	7.2%
CNH	\$19,291.8	\$23,552.0	29.6%	23.8%	18.5%	13.0%	n.a.	8.4%	4.3%	4.2%
AGCO	\$9,838.6	\$12,651.4	23.4%	21.9%	10.5%	7.6%	9.3%	17.4%	10.0%	3.1%
BUCHER	\$4,005.7	\$3,596.8	22.8%	20.8%	11.4%	9.0%	n.a.	19.3%	14.3%	2.7%
TITAN MACHINERY	\$668.7	\$2,209.3	19.2%	18.9%	6.3%	3.8%	7.7%	16.2%	6.2%	1.7%
<b>MEDIAN</b>			<b>23.4%</b>	<b>21.9%</b>	<b>11.4%</b>	<b>9.0%</b>	<b>7.7%</b>	<b>16.2%</b>	<b>8.9%</b>	<b>3.1%</b>
<b>LINDSAY</b>	<b>\$1,313.8</b>	<b>\$770.7</b>	<b>25.8%</b>	<b>28.0%</b>	<b>12.3%</b>	<b>8.9%</b>	<b>9.2%</b>	<b>13.9%</b>	<b>7.3%</b>	<b>2.0%</b>
<i>bps vs. peer</i>			248	606	93	(17)		(234)	(159)	(105)



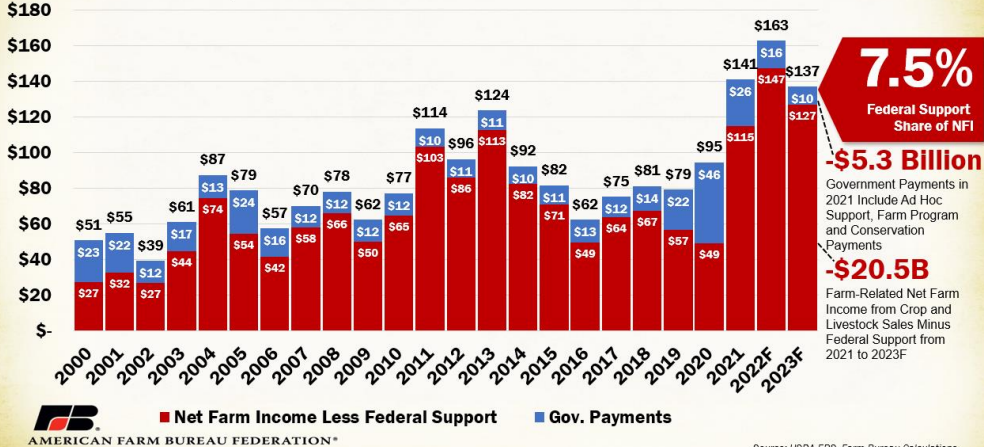
# DEMAND DRIVER: Net Farm Income (NFI)

- In '23 USDA anticipates 16% decrease in NFI
  - ▶ Government payments expected to be down 34%, ending the COVID assistance program
  - ▶ Production expenses expected to increase +4%
- Temporary tailwind in '21-'22 - NFI was boosted by \$24bn incentives for Coronavirus Food Assistance Program ("CFAP")
- **\*\*Insurance indemnities are expected to increase by 12.5%, making the highest payment since '12-'13 period**
  - ▶ Commodity insurance indemnities are triggered in the event of revenue yield loss for growers who have purchased crop insurance
  - ▶ ERP program phase 2 deadlines June '23
- **\*\*Additional discussion should be conducted industry experts to assess the incentive impact on book order?**
- **\*\*\*Next data released on late August/ early September**

**FIGURE 1: NET FARM INCOME**

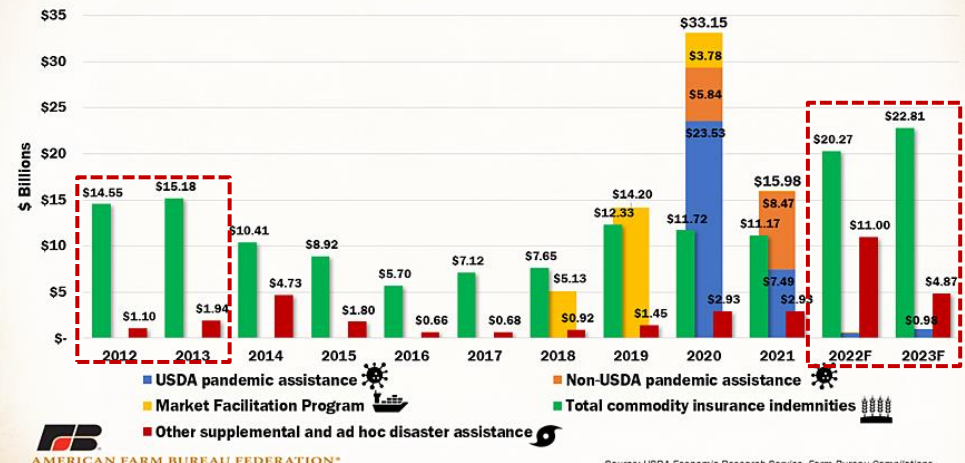
With and without Federal Support

U.S. Farm Sector Net Farm Income, Billion Dollars



**FIGURE 2: BREAKDOWN OF AD HOC DISASTER ASSISTANCE**

2012 – 2023F | Commodity Insurance Indemnities for Comparison

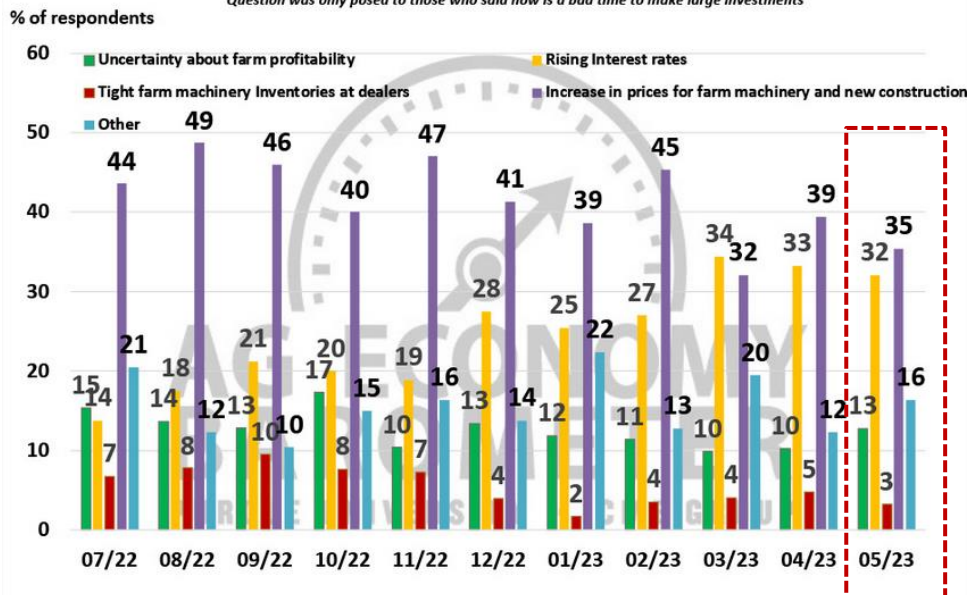


# Farmer Capital Investments

- Temporary headwinds due to macro uncertainty negatively impacted farmer sentiment
- Even if farmers are delaying their investment decisions, temporary tailwind seems to dissipate
  - ▶ **Interest rate** – Fed temporarily paused interest rate in June '23 – end interest rates hikes this year?
    - Credit access relies on US regional banks, since the SBV and First Republic crisis, banks remain more cautious
  - ▶ **Inflation** – Lindsay already passed through inflation cost to customers over the last months
  - ▶ **ASP** – Back to normal steel price will reduce pressure on consumer pricing

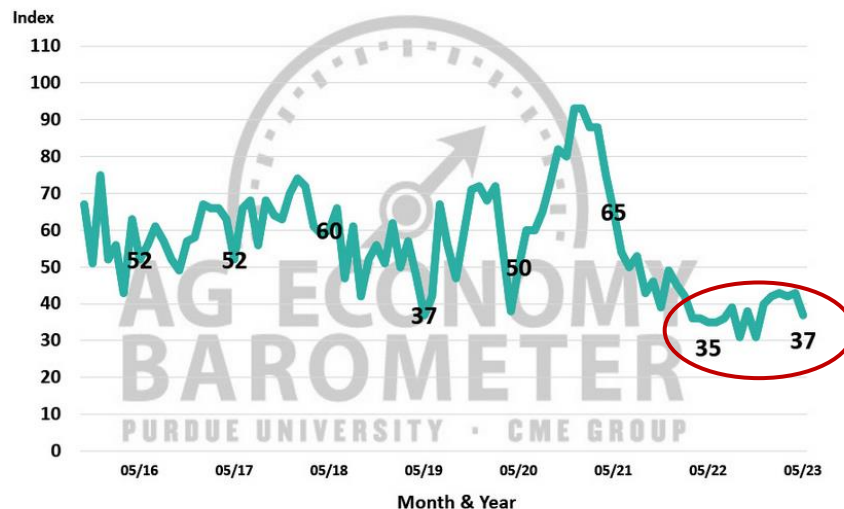
**Primary Reason Now Is a Bad Time to Make Large Investments**

*Question was only posed to those who said now is a bad time to make large investments*



Source: Purdue Center for Commercial Agriculture, Producer Survey, May 2023

**Farm Capital Investment Index**



Source: Purdue University Center for Commercial Agriculture, Producer Survey, May 2023

# DEMAND: US a Mature Market for Replacement

- According to USDA '18 survey, the U.S. market reached a mature stage
- '13-'18 slow acres irrigation growth
  - ▶ \*\*New survey released in Q4 '23 or Q1 '24
  - ▶ \*\*\* **Additional data on industry/ sell-sides view on sector should be considered**
- Higher unit sales volume in North America driven by increase in storm damage replacement demand
  - ▶ '22 exceptional storm damage – LNN positive impact +\$15m on revenue w/ 60% replacement
- **\*\*Replacement depends on the insurance willingness to cover the damage**
  - ▶ Replacement cos insurance is getting expensive >\$3,000/year for a regular 7-tower pivot & SAC system
- Earlier irrigation start this year could drive machine repairment/replacement
  - ▶ Put more hours on the machine in '23-'24
  - ▶ Avg. growth spends ~\$3k p.a. for a regular 7-tower pivot (after 10,000 hours) on pivot repair
  - ▶ Opportunity in the equipment/parts segment?

	2018			
	Farms	Land in farms	Acres irrigated	% Acres Irrigated
2018	231,474	222,028,954	55,938,795	25.2%
2013	229,237	213,993,983	55,319,417	25.9%
CAGR '13-'18	0.2%	0.7%	0.2%	-66 bps
CAGR '02-'18	(1.6%)		0.1%	
2017	294,235		58,013,907	
2012	296,303		55,822,231	
CAGR '12-'17	(0.1%)		0.8%	
2007	301,028		56,599,305	
2002	299,583		55,311,236	
CAGR '02-'07	0.1%		0.5%	

Source: USDA '18 report from '17 Census of Agriculture

	Center Pivot - Total		Side Roll + Wheel Move	
	Farms	Acres	Farms	Acres
2018	109,184	31,656,895	16,130	1,788,443
2013	121,655	34,894,109	16,806	1,859,017
CAGR '13-'18	(2.1%)	(1.9%)	(0.8%)	(0.8%)

Source: USDA '18 report - Table 30

# DEMAND DRIVERS: Brazil's Aggressive Program Funding

- Brazil has abundant water supply and the largest area of arable land
  - ▶ **\*\*\*w/ 29.6 million acres production, less 1.5% of land irrigated**
- In June '23, new government announced Annual crop "Plano Safra" w/ 20bn funding
  - ▶ Aggressive government financing program to enhance farm infrastructure
  - ▶ **\*\*\* Program funding for irrigation increased by ~25% meaning ~\$500m**
  - ▶ Interest rate locked at 10.5%
- Irrigation investment highly depend on financing condition - anticipates higher volumes demand from Brazil over the N2Y.
- Assuming higher sales volumes in Q4 '23 onwards w/ 15% growth p.a. over N2Y
  - ▶ **\*\*Additional data and industry expert calls should be considered**

Scenario				
Assuming costs: 1/3 investment pivot, 2/3 equipments				
Center pivot		\$0.18	\$0.18	\$0.18
Equipment pivot		\$0.33	\$0.33	\$0.33
<b>Price per unit (\$m)</b>		<b>\$0.50</b>	<b>\$0.50</b>	<b>\$0.50</b>
Funding program irrigation		\$500.0	\$500.0	\$500.0
Total units		1,000	1,000	1,000
<b>Mkt share Lindsay</b>		<b>10%</b>	<b>15%</b>	<b>30%</b>
Implied units for Lindsay		100	150	300
Staggering (units p.a.)				
Scenario: 1-year		100	150	300
<b>Est. Pull-forward (\$m)</b>		<b>\$50</b>	<b>\$75</b>	<b>\$150</b>
International Irrigation LTM	\$264	\$314	\$339	\$414
% growth		19%	28%	57%
Scenario: 2-year		50	75	150
<b>Est. Pull-forward (\$m)</b>		<b>\$25</b>	<b>\$38</b>	<b>\$75</b>
International Irrigation LTM	\$264	\$289	\$301	\$339
		9%	14%	28%
Scenario: 3-year		33	50	100
<b>Est. Pull-forward (\$m)</b>		<b>\$17</b>	<b>\$25</b>	<b>\$50</b>
International Irrigation LTM	\$264	\$280	\$289	\$314
		6%	9%	19%

# Business Momentum

- Gross margin - temporary headwind in '21-'22 due to high record in steel price
- Hot-rolled coil steel represents ~30% of COGS – jumped by 260%
  - Mgmt. forecast 30-31% GM – depending on the project activity level
    - \*\*Large project on the irrigation side could be dilutive (e.g. 250 project units in the MEA confirmed in Q3 '23)

Fiscal year ended December,	2017	2018	2019	2020	2021	2022	Q1 23	Q2 23	Q3 23
Period ending	8-31-17	8-31-18	8-31-19	8-31-20	8-31-21	8-31-22	11-30-22	2-28-23	5-31-23
Days in period	365	365	365	366	365	365	91	90	92
<b>SUMMARY REVENUE BUILD</b>									
<b>TOTAL REVENUE</b>	<b>\$518.0</b>	<b>\$547.7</b>	<b>\$451.1</b>	<b>\$480.5</b>	<b>\$567.6</b>	<b>\$770.7</b>	<b>\$176.2</b>	<b>\$166.2</b>	<b>\$164.6</b>
% yoy	0.3%	5.7%	(17.6%)	6.5%	18.1%	35.8%	6.0%	(16.9%)	(23.2%)
% 2 year	(7.5%)	6.1%	(12.9%)	(12.3%)	25.8%	60.4%	62.4%	15.8%	1.6%
YOY	2	30	(97)	29	87	203	10	(34)	(50)
% qoq							n.a.	(5.6%)	(1.0%)
Cost of goods sold	(\$373.0)	(\$396.2)	(\$329.5)	(\$322.1)	(\$417.4)	(\$571.6)	(\$123.1)	(\$112.0)	(\$111.3)
% of sales	72.0%	72.3%	73.0%	67.0%	73.5%	74.2%	69.9%	67.4%	67.7%
bps yoy	78	34	69	(599)	650	62	(757)	(1,118)	(356)
% yoy	1.4%	6.2%	(16.9%)	(2.2%)	29.6%	36.9%	(4.3%)	(28.8%)	(27.0%)
<b>GROSS PROFIT</b>	<b>\$145.0</b>	<b>\$151.5</b>	<b>\$121.7</b>	<b>\$158.4</b>	<b>\$150.2</b>	<b>\$199.2</b>	<b>\$53.0</b>	<b>\$54.3</b>	<b>\$53.2</b>
% margin	28.0%	27.7%	27.0%	33.0%	26.5%	25.8%	30.1%	32.6%	32.3%
bps yoy	(78)	(34)	(69)	599	(650)	(62)	757	1,118	356
% yoy	(2.4%)	4.4%	(19.7%)	30.2%	(5.1%)	32.6%	41.6%	26.3%	(13.7%)
<b>INCREMENTAL MARGIN</b>	<b>(220.4%)</b>	<b>21.7%</b>	<b>30.9%</b>	<b>124.9%</b>	<b>(9.4%)</b>	<b>24.1%</b>	<b>155.7%</b>	<b>(33.4%)</b>	<b>17.0%</b>



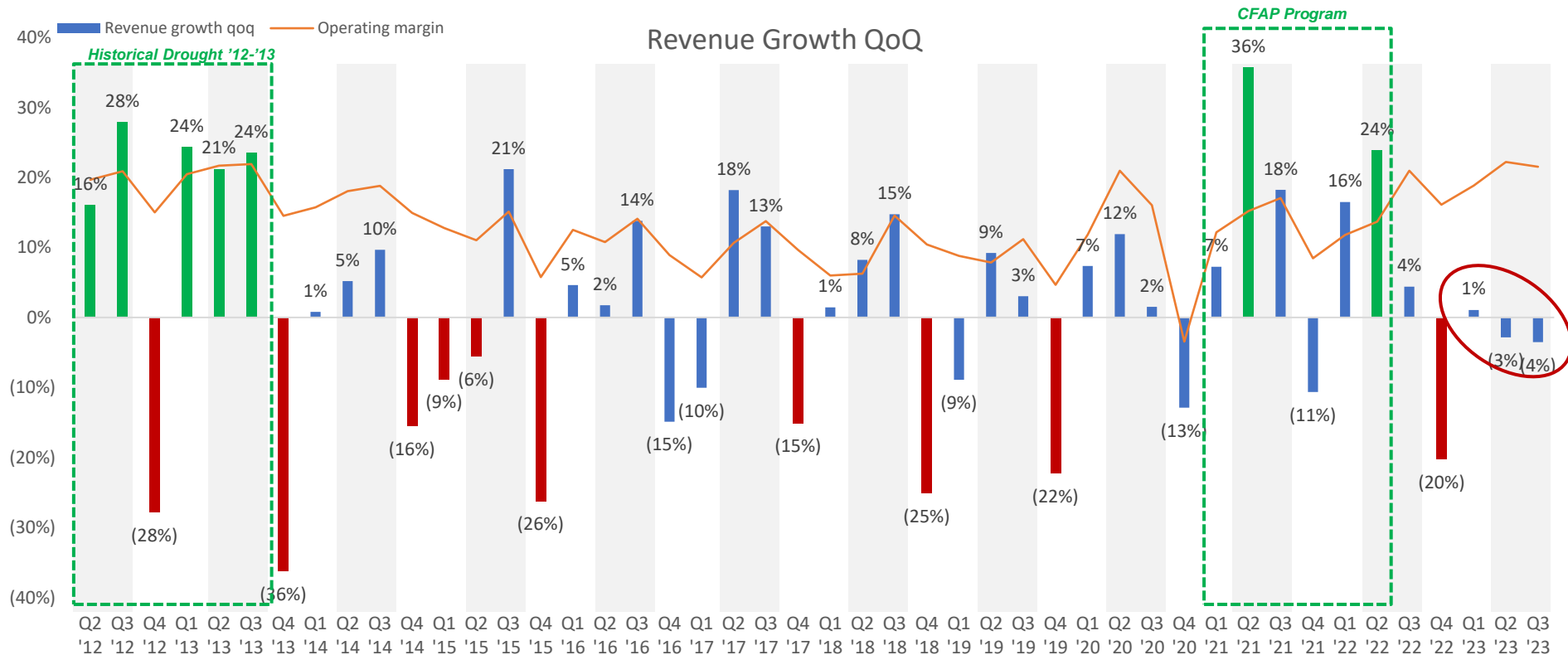
# Business Momentum by Segments

- '21-'22 COVID-pull forward led to a peak of volumes orders
- \*\*'23 Farmers adopted a wait-and-see approach - suggesting a peak demand btw Q1/Q3 '24?**
  - Current vs. historical seasonality shows a large deficit in Q2/Q3 compared to avg. '14-'22
- Significant improvement in irrigation operating margin over L5Y from 8.3% to 22%

Fiscal year ended December,	2017	2018	2019	2020	2021	2022	Q1 23	Q2 23	Q3 23
Period ending	8-31-17	8-31-18	8-31-19	8-31-20	8-31-21	8-31-22	11-30-22	2-28-23	5-31-23
Days in period	365	365	365	366	365	365	91	90	92
<b>SUMMARY REVENUE BUILD</b>									
<b>TOTAL IRRIGATION REVENUE</b>	<b>\$418.0</b>	<b>\$439.9</b>	<b>\$358.5</b>	<b>\$349.3</b>	<b>\$471.4</b>	<b>\$665.8</b>	<b>\$152.1</b>	<b>\$147.8</b>	<b>\$142.6</b>
% yoy	(0.8%)	5.2%	(18.5%)	(2.6%)	34.9%	41.3%	4.2%	(18.2%)	(24.4%)
% 2 year	(7.3%)	4.3%	(14.2%)	(20.6%)	31.5%	90.6%	74.1%	24.6%	1.7%
YOY	(4)	22	(81)	(9)	122	194	6	(33)	(46)
% qoq							1.1%	(2.8%)	(3.5%)
<b>Historic Seasonality ('14-'22)</b>							<b>1.0%</b>	<b>10.9%</b>	<b>10.0%</b>
<b>current vs. history</b>							<b>0.1%</b>	<b>(13.7%)</b>	<b>(13.5%)</b>
<b>OPERATING INCOME</b>	<b>\$42.8</b>	<b>\$41.9</b>	<b>\$29.8</b>	<b>\$41.3</b>	<b>\$63.2</b>	<b>\$105.8</b>	<b>\$28.6</b>	<b>\$32.8</b>	<b>\$30.7</b>
% margin	10.2%	9.5%	8.3%	11.8%	13.4%	15.9%	18.8%	22.2%	21.6%
bps yoy	(144.5)	(69.9)	(122.1)	349.9	159.3	248.0	703.6	852.6	58.3
% yoy	(13.1%)	(2.0%)	(28.9%)	38.4%	53.1%	67.4%	66.4%	32.7%	(22.3%)
<b>INFRASTRUCTURE</b>									
<b>TOTAL INFRA REVENUE</b>	<b>\$99.9</b>	<b>\$107.8</b>	<b>\$92.6</b>	<b>\$131.2</b>	<b>\$96.3</b>	<b>\$104.9</b>	<b>\$24.1</b>	<b>\$18.5</b>	<b>\$22.0</b>
% yoy	5.5%	7.9%	(14.2%)	41.7%	(26.6%)	9.0%	18.9%	(4.7%)	(14.0%)
% 2 year	(8.3%)	13.8%	(7.4%)	21.6%	4.0%	(20.0%)	13.9%	(26.2%)	1.0%
YOY	5	8	(15)	39	(35)	9	3.8	(0.9)	(3.6)
% qoq							(39.4%)	(23.3%)	19.0%
<b>Historic Seasonality</b>							<b>(18.1%)</b>	<b>6.5%</b>	<b>29.6%</b>
<b>current vs. history</b>							<b>(21.3%)</b>	<b>(29.8%)</b>	<b>(10.5%)</b>
<b>OPERATING INCOME</b>	<b>\$20.1</b>	<b>\$23.9</b>	<b>\$16.6</b>	<b>\$43.8</b>	<b>\$20.2</b>	<b>\$18.3</b>	<b>\$3.4</b>	<b>\$2.0</b>	<b>\$3.6</b>
% margin	20.1%	22.1%	17.9%	33.4%	21.0%	17.5%	14.0%	10.9%	16.2%
bps yoy	58.4	197.9	(419.1)	1,544.1	(1,242.0)	(348.2)	34.2	926.2	139.6
% yoy	8.6%	18.5%	(30.4%)	163.7%	(53.9%)	(9.2%)	21.9%	523.1%	(5.9%)

# Irrigation Revenue Growth

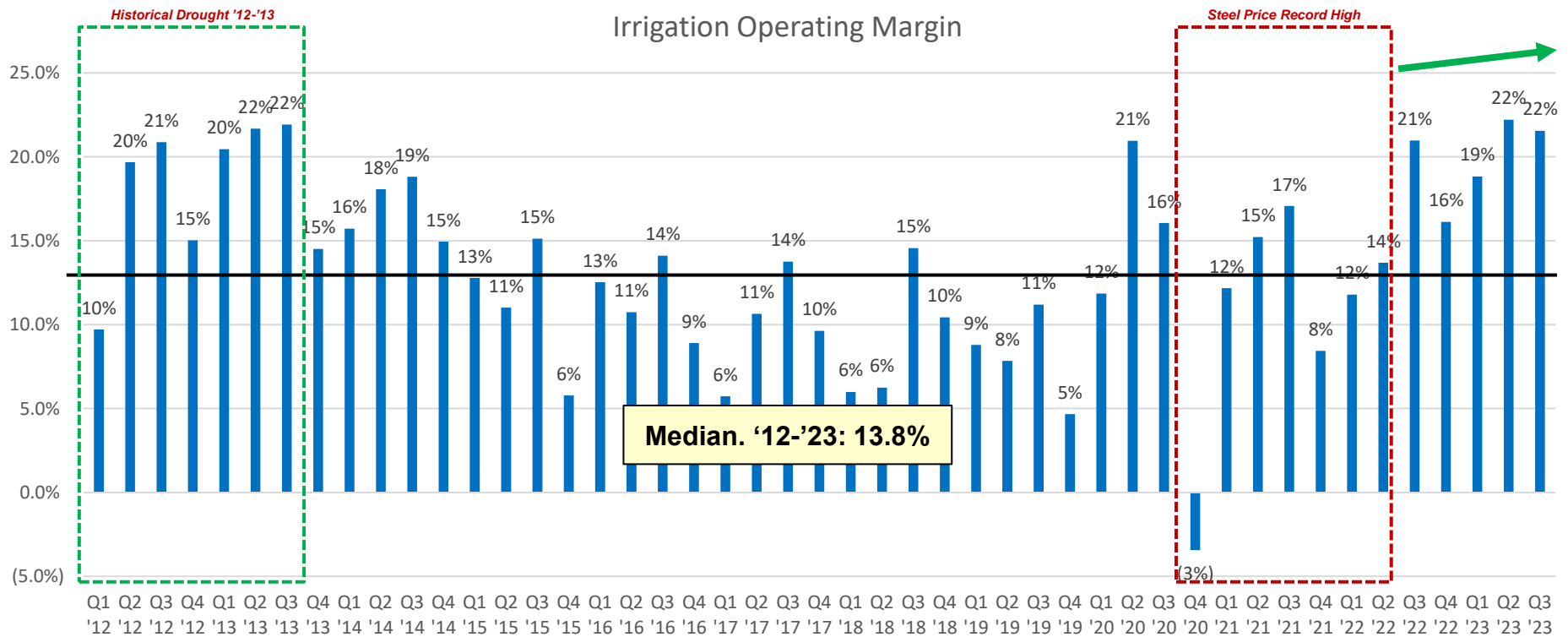
- '12-13 drought condition shifted seasonality demand btw Q1/Q3, w/ 3 consecutive quarters to mid-twenties
- '21-22 USDA pandemic subsidies of \$33.15bn led to peak of volumes orders
- \*\*'23 Farmers adopted a wait-and-see approach - suggesting a peak demand btw Q1/Q3 '24?**





# Irrigation Operating Margin

- Operating Margin reached a peak btw Q3 '22 and Q3 '23 w/ range ~16%-22%
  - Margin performance was supported by gross margin improvement



# Capex

- '19-'22 heavy capex spending (well above D&A) weighed on EBIT margins, EPS, Free Cash Flow
- '23 guidance seems to be back to historical level w/ \$15-20m
  - **\*\*Does mgmt. guidance include potential acquisitions?**
  - **\*\*\*Additional discussions w/ management should be considered**

(Figure in \$m - FY 31.08)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022			
Acquisition	Claude Laval	Elecsys	SPF Water				Net irrigate			Blyncsy	Average		
Transaction value	\$29.0	\$67.5	\$2.5				\$4.8			?	13-'18	19-'21	Delta
Irrigation Capex	\$10.9	\$14.8	\$12.4	\$8.4	\$6.3	\$9.3	\$9.5	\$9.3	\$19.2	\$10.7	\$10.3	\$12.6	22%
% sales	1.7%	2.7%	2.7%	2.0%	1.5%	2.1%	2.6%	2.6%	4.1%	1.6%	2.1%	3.1%	98 bps
Infra Capex	\$0.4	\$2.2	\$2.7	\$3.0	\$1.6	\$0.9	\$4.9	\$11.3	\$6.9	\$3.8	\$1.8	\$7.7	328%
% sales	0.7%	2.8%	2.5%	3.1%	1.6%	0.9%	5.3%	8.6%	7.1%	3.6%	1.9%	7.0%	510 bps
Corporate Capex	\$0.2	\$0.8	\$0.2	\$0.1	\$1.0	\$0.9	\$8.8	\$0.9	\$0.5	\$1.1	\$0.5	\$3.4	559%
D&A	\$12.6	\$14.8	\$16.4	\$16.7	\$16.9	\$16.5	\$14.0	\$19.4	\$19.2	\$20.2			
Total Capex	\$11.5	\$17.8	\$15.3	\$11.5	\$8.9	\$11.1	\$23.3	\$21.6	\$26.6	\$15.6			
Capex Gap	(\$1.1)	\$3.0	(\$1.1)	(\$5.1)	(\$8.0)	(\$5.4)	\$9.3	\$2.2	\$7.4	(\$4.5)			
% sales	1.7%	2.9%	2.7%	2.2%	1.7%	2.0%	5.2%	4.5%	4.7%	2.0%	2.2%	4.8%	257 bps
% D&A	0.9x	1.2x	0.9x	0.7x	0.5x	0.7x	1.7x	1.1x	1.4x	0.8x			
Guidance '23: \$15-20m													

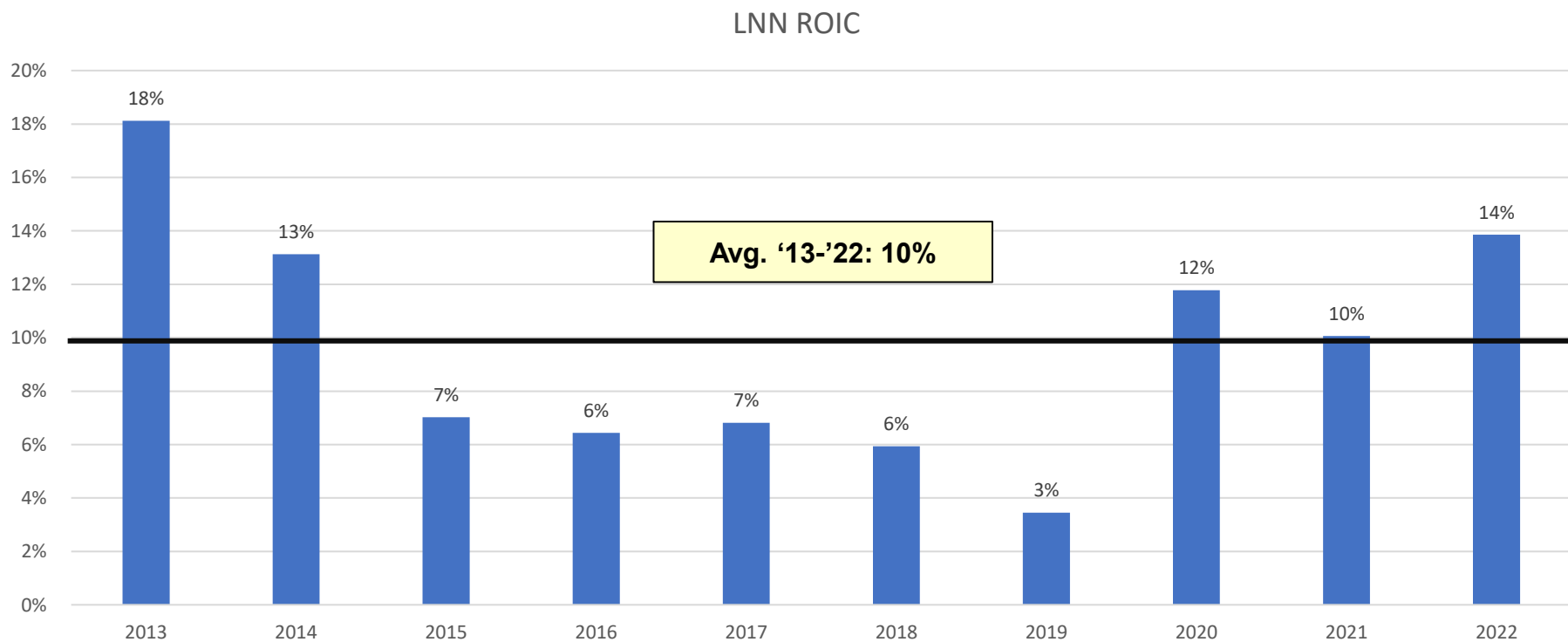
# FCF Yield

- Capex spending compressed FCF, turning into negative territory in '19 and '22

Fiscal year ended December,	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Period ending	8-31-12	8-31-13	8-31-14	8-31-15	8-31-16	8-31-17	8-31-18	8-31-19	8-31-20	8-31-21	8-31-22
Days in period	365	365	365	365	365	365	365	365	366	365	365
<b>SUMMARY REVENUE BUILD</b>											
<b>CASH FLOW STATEMENT</b>											
<i>(in millions)</i>											
<b>OCF</b>		57.5	91.8	46.7	33.1	39.4	33.9	3.8	46.0	44.0	3.0
% margin		8323.8%	14856.7%	8333.5%	6410.1%	7606.4%	6189.5%	842.3%	9580.3%	7745.7%	395.5%
Net working capital		266.7	257.7	227.1	204.2	200.9	251.0	231.4	245.5	277.9	316.2
Changes in Working capital			(9.0)	(30.6)	(22.9)	(3.3)	50.1	(19.6)	14.1	32.4	38.3
<b>OCF, pre-WC changes (in \$m)</b>			9.1	30.6	22.9	3.3	(50.1)	19.6	(14.1)	(32.4)	(38.3)
% margin			1471.4%	5470.9%	4441.2%	644.7%	(9141.1%)	4345.6%	(2924.8%)	(5700.0%)	(4968.8%)
<b>Capex</b>		(11.1)	(17.7)	(15.2)	(11.5)	(8.9)	(11.1)	(23.2)	(21.4)	(26.5)	(15.6)
% margin		1.6%	2.9%	2.7%	2.2%	1.7%	2.0%	5.1%	4.5%	4.7%	2.0%
<b>Guidance</b>											
<b>FREE CASH FLOW</b>		\$46.37	\$74.08	\$31.44	\$21.60	\$30.54	\$22.85	(\$19.41)	\$24.59	\$17.46	(\$12.55)
% margin		6.7%	12.0%	5.6%	4.2%	5.9%	4.2%	(4.3%)	5.1%	3.1%	(1.6%)
% FCFY, ttm		3.4%	5.4%	2.3%	1.6%	2.2%	1.7%	(1.4%)	1.8%	1.3%	(0.9%)
FCF/NI		0.7x	1.4x	1.2x	1.1x	1.3x	1.1x	(2.1x)	0.6x	0.4x	(0.2x)
<b>FCF per share</b>		\$3.59	\$5.75	\$2.65	\$1.98	\$2.86	\$2.12	(\$1.80)	\$2.26	\$1.59	(\$1.14)
% yoy			60.0%	(53.9%)	(25.5%)	44.5%	(25.7%)	(184.7%)	(226.1%)	(29.8%)	(171.6%)

# Returns on Capital

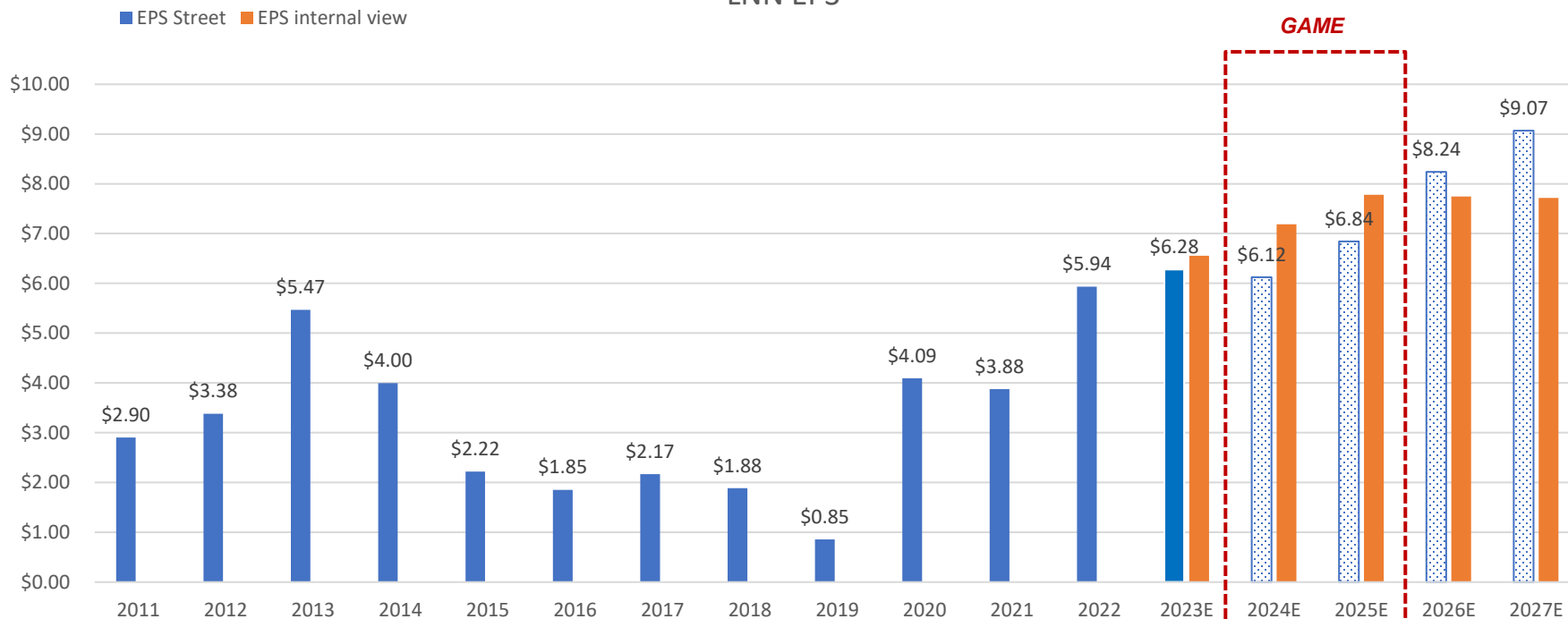
- ROIC '13-'22 average ~10%
- Returns have expanded back to mid-teen levels as margins increase



# EPS Consensus

- Consensus forecast slightly decreases in EPS '24 and anticipates high growth in '26-'27
  - Diverges from the street, based on historical seasonality and revenue pattern analysis
- Base case scenario assumes a bounce back btw '24-'25, followed by stabilization in growth
  - \*\*\*Additional discussions should be conducted w/ street to understand what is baked into forecast**

LNN EPS



# LNN Long - Valuation, R/R, Trading Considerations

## ▪ Valuation

- ▶ Current valuation at trough P/E levels (18.6x NTM P/E) near to low 5-year level
- ▶ Since August '21, P/E declined by 55% to trough at 18x in June '23, EPS rose from \$3.88 to \$6.28 (EPS '23e)
- ▶ Absolute valuation metrics – 13.9% ROIC, -1% FCF yield, 1.1% and dividend yield w/ 21% payout ratio

## ▪ Expectations

- ▶ Consensus assumes slow recovery and margin contraction in '24, followed by growth in '25 afterward
- ▶ However, drought condition and farmer are delaying investment decisions which suggests peak demand in '24
- ▶ My base case is below '24 consensus:
  - Assumes bounce back in the irrigation segment w/ '15% revenue growth in '24 and 10% in '25, and 3% afterward
    - > Due to seasonality shift demand, drought condition, Brazilian government funding
  - Assumes slight contraction in gross margin from 31.7% to 30.0% and operating margin 15.4%

## ▪ Trading Considerations

- ▶ **\*\*\*Entry point:** would like to see an improvement in farmer sentiment and see impact of drought condition on commodity price
- ▶ **Key trading risks:** farmers continue to delay investment decisions in '24 and/or corn price drops below \$4.5-5.0 per bushel
- ▶ **\*\*\*Size up into Q1/Q2 '24, as we expect farmer confident to improve during the fall**
- ▶ **\*\*\*Biggest payday likely Q2/Q3 '24 prints during the seasonality peak**

## ▪ Catalysts

- ▶ Q4 '23 earning call in August
- ▶ Q1'24 earning call in November
- ▶ Net farm income late August / early September
- ▶ Monthly Ag Economy Barometer – monitor farmer sentiment and farmer capital investment index

## ▪ Reward/Risk 3-year

- ▶ Attractive 1.5x R/R ratio
- ▶ Risk case contemplates negative/slow growth in the irrigation

	3 Year Return Scenarios			
	2027 EPS	P/E	12m Target	% return
Bull	\$9.62	22.0x	\$211.64	77.8%
Base	\$7.72	20.0x	\$154.35	29.7%
Bear	\$4.30	18.0x	\$77.40	(35.0%)
Reward (50% bull, 50% base)			\$182.99	53.8%
Risk			\$77.40	(35.0%)
R/R				1.5x

# Disaggregation Return

- Core LNN compounder w/ 7-10% EPS growth CAGR over L10Y
  - Over time stock appreciated w/ EPS compounds at higher rates
- Trading at discount w/ temporary headwinds due to farmers uncertainty
  - Opportunity to buy at low end of P/E ranges
- LNN was down -30% one day due to a large negative revision Q2 print released

	Price	EPS	P/E
2011	\$62.2	\$2.90	21.4x
2022	\$160.4	\$5.94	27.0x
	158%	105%	26%

EPS Break Down	
Irrigation	85.2%
Infra	14.8%
<b>Total</b>	<b>100.0%</b>

	Price	EPS	P/E
2021	\$164.8	\$3.88	42.5x
2023E	\$119.3	\$6.28	19.0x
	(28%)	62%	(55%)

FY 31.08	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E
EPS	\$2.90	\$3.38	\$5.47	\$4.00	\$2.22	\$1.85	\$2.17	\$1.88	\$0.85	\$4.09	\$3.88	\$5.94	\$6.28
% yoy		16%	62%	(27%)	(44%)	(17%)	17%	(13%)	(55%)	380%	(5%)	53%	6%
Implied P/E	21x	19x	14x	19x	34x	39x	40x	51x	103x	24x	43x	27x	19x
% yoy		(10%)	(28%)	40%	76%	13%	3%	27%	103%	(76%)	74%	(36%)	(30%)
Price	\$62.2	\$65.4	\$76.0	\$77.8	\$76.2	\$72.0	\$86.6	\$95.8	\$88.3	\$99.9	\$164.8	\$160.4	\$119.3
% yoy		5%	16%	2%	(2%)	(6%)	20%	11%	(8%)	13%	65%	(3%)	(26%)



# Historical Sector Return – Riding the Algorithm

- Irrigation sector returns beat
  - ▶ S&P 600 Construction & Heavy Trucks Index
  - ▶ Russel 2k
- Irrigation sector is very volatile due to the strong correlation w/ commodity prices
- \*\*'08-recession LNN dropped by 46%, nevertheless when stock crack followed by strong recovery
  - ▶ Assumed this scenario in our bear case

Sector vs. S&P600 Construction & Heavy Trucks				
	LNN-US	VMI-US	AVG	REL
Avg.	14.5%	16.2%	15.3%	(1.4%)
Bat Avg.			29.9%	19.6%

StDev S&P	34.3%	30.1%
Sharpe	0.4x	0.5x

			Perf	Rel
2023 YTD	(10.1%)	29.6%	9.7%	(30.6%)
2022	(19.6%)	(4.8%)	(12.2%)	(6.3%)
2021	79.2%	107.8%	93.5%	52.0%
2020	12.2%	(10.4%)	0.9%	4.8%
2019	(15.2%)	(15.9%)	(15.6%)	2.7%
2018	8.7%	0.8%	4.7%	(2.8%)
2017	31.5%	10.6%	21.1%	(15.1%)
2016	(22.8%)	13.8%	(4.5%)	(7.9%)
2015	4.1%	(21.8%)	(8.8%)	(7.6%)
2014	12.7%	6.2%	9.4%	(37.5%)
2013	15.5%	18.3%	16.9%	0.7%
2012	(5.7%)	25.5%	9.9%	6.1%
2011	117.1%	32.7%	74.9%	38.8%
2010	(4.3%)	0.8%	(1.7%)	(37.4%)
2009	(61.0%)	(30.9%)	(46.0%)	(10.4%)
2008	91.8%	43.3%	67.6%	87.0%
2007	63.3%	56.5%	59.9%	10.5%
2006	15.0%	80.2%	47.6%	7.9%
2005	(1.8%)	12.7%	5.4%	(12.1%)
2004	3.4%	17.7%	10.6%	(78.1%)
2003	0.3%	(4.3%)	(2.0%)	2.6%
2002	21.8%	11.7%	16.8%	3.0%
2001	(3.2%)	(8.4%)	(5.8%)	(3.3%)

Sector vs. Russel 2K				
	LNN-US	VMI-US	AVG	REL
Avg.	14.5%	16.2%	15.3%	7.7%
Bat Avg.			29.9%	27.6%

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2010	(4.3%)	0.8%	(1.7%)	(21.6%)
2009	(61.0%)	(30.9%)	(46.0%)	(19.7%)
2008	91.8%	43.3%	67.6%	84.9%
2007	63.3%	56.5%	59.9%	44.9%
2006	15.0%	80.2%	47.6%	34.3%
2005	(1.8%)	12.7%	5.4%	(2.7%)
2004	3.4%	17.7%	10.6%	(21.4%)
2003	0.3%	(4.3%)	(2.0%)	1.1%
2002	21.8%	11.7%	16.8%	26.6%
2001	(3.2%)	(8.4%)	(5.8%)	(4.9%)

# LNN P/E NTM is Extremely Cheap

- LNN is trading at a 5-year discount since 2021 EPS dropped by 55%

Lindsay Corporation (LNN-US)

31 May 2011 - 3 Jul 2023 , Mont



# LNN P/E NTM is Extremely Cheap

- LNN PE NTM spread is trading at a 10-year trough compared to Valmont



# Normalized Earnings

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# Normalized Earnings

													\$7.72
	\$2.17	\$1.88	\$0.85	\$4.09	\$3.88	\$5.94	\$6.55	\$7.18	\$7.78	\$7.74	\$7.72		Earning Power
	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E		
Operating Profit	\$41	\$39	\$13	\$60	\$54	\$95	\$104	\$113	\$123	\$123	\$123		\$123
% margin	7.8%	7.1%	2.9%	12.5%	9.5%	12.3%	15.9%	15.4%	15.2%	14.6%	14.3%		14.3%
bps yoy	n.a.	(72)	(420)	957	(296)	275	365	(51)	(24)	(56)	(27)		
% yoy	n.a.	(4%)	(66%)	356%	(10%)	75%	9%	9%	8%	(0%)	0%		
Incremental Margin	n.a.	(6%)	27%	159%	(7%)	20%	(7%)	12%	13%	(0%)	1%		
Interest Expense	(\$5)	(\$5)	(\$5)	(\$5)	(\$5)	(\$4)	(\$4)	(\$4)	(\$4)	(\$4)	(\$4)		(\$4)
Non-operating income/(loss)	(\$0)	(\$0)	\$1	(\$1)	\$1	(\$3)	(\$3)	(\$3)	(\$3)	(\$3)	(\$3)		(\$3)
Pre-Tax Profit	\$36	\$34	\$9	\$55	\$50	\$88	\$97	\$107	\$116	\$116	\$116		\$116
% margin	6.9%	6.2%	2.0%	11.4%	8.9%	11.4%	14.9%	14.5%	14.3%	13.8%	13.5%		13.5%
bps yoy	n.a.	(71)	(415)	935	(250)	252	349	(39)	(16)	(53)	(26)		
% yoy	n.a.	(5%)	(73%)	497%	(8%)	74%	10%	10%	9%	(0%)	0%		
Income Tax Expense	(\$13)	(\$14)	\$0	(\$10)	(\$8)	(\$22)	(\$24)	(\$27)	(\$29)	(\$29)	(\$29)		(\$29)
Effective tax rate	35%	40%	(1%)	19%	16%	25%	25%	25%	25%	25%	25%		25%
Net Income	\$23	\$20	\$9	\$44	\$43	\$65	\$73	\$80	\$87	\$87	\$87		\$87
Diluted Shares	10.7	\$11	\$11	\$11	\$11	\$11	\$11	\$11	\$11	\$11	\$11		\$11
% yoy	n.a.	1%	0%	0%	1%	0%	0%	0%	0%	0%	0%		
Change YOY	n.a.	0	0	0	0	0	50	50	50	50	50		
Adjusted EPS	\$2.17	\$1.88	\$0.85	\$4.09	\$3.88	\$5.94	\$6.55	\$7.18	\$7.78	\$7.74	\$7.72		\$7.72
% yoy	n.a.	(13%)	(55%)	380%	(5%)	53%	10%	10%	8%	(0%)	(0%)		
Consensus							\$6.28	\$6.12	\$6.84	\$8.24	\$9.07		
Internal vs. consensus							4.3%	17.4%	13.8%	(6.0%)	(14.9%)		

# Reverse DCF – What is Priced in?

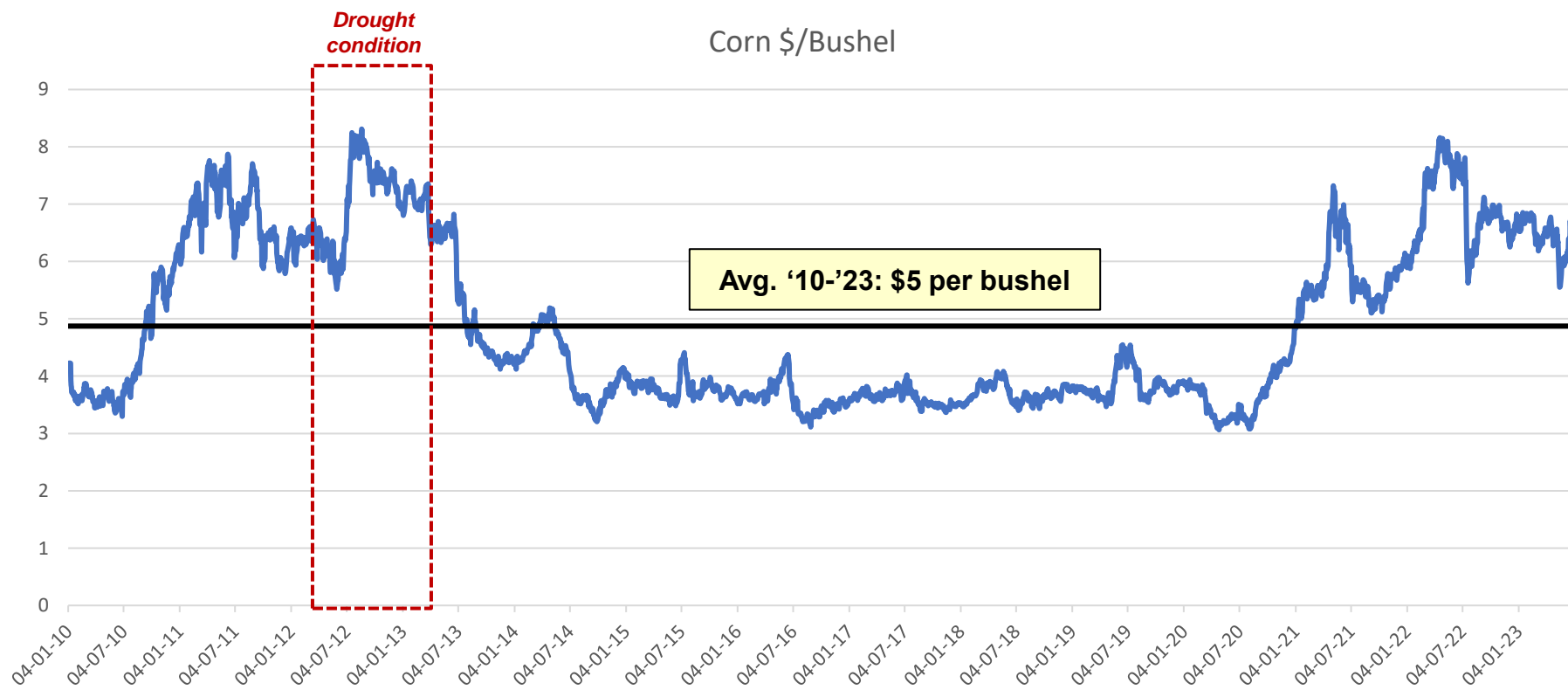
- Base DCF is \$175 (implies 26.5x internal 2023 EPS \$6.55)
  - Key inputs: base model through 2027, 5% top line 2027-30, 3% thereafter

Output	
Cost of Capital	9.0%
Cumul NPV of FCF	\$1,703
PV of Terminal Value	\$19
<b>Value of Operating Assets</b>	<b>\$1,723</b>
Add: Value of Cash	\$156
<b>Value of Firm</b>	<b>\$1,879</b>
Less: Debt	(\$116)
Less: NCI	\$0
<b>MV OF EQUITY</b>	<b>\$1,838</b>
FDO	\$11
<b>VALUE PER SHARE</b>	<b>\$166.6</b>
% Return	40.1%
Bagger	1.4x

What is Priced in:	@ \$119
Long Term Revenue Growth	1.0%
Normalized Operating Margin	10.5%
Tax rate	25.0%
FCFInv % sales	2.5%
WCInv % sales	2.5%

# Commodity Prices

- Corn price above 10-year average level
  - Historically observed corn price range: \$3-8 per bushel
  - '12-'13 peak price at \$8.3 per bushel due to weather condition and low corn yield
- Price range btw \$5-6 are decent margin to foster replacement





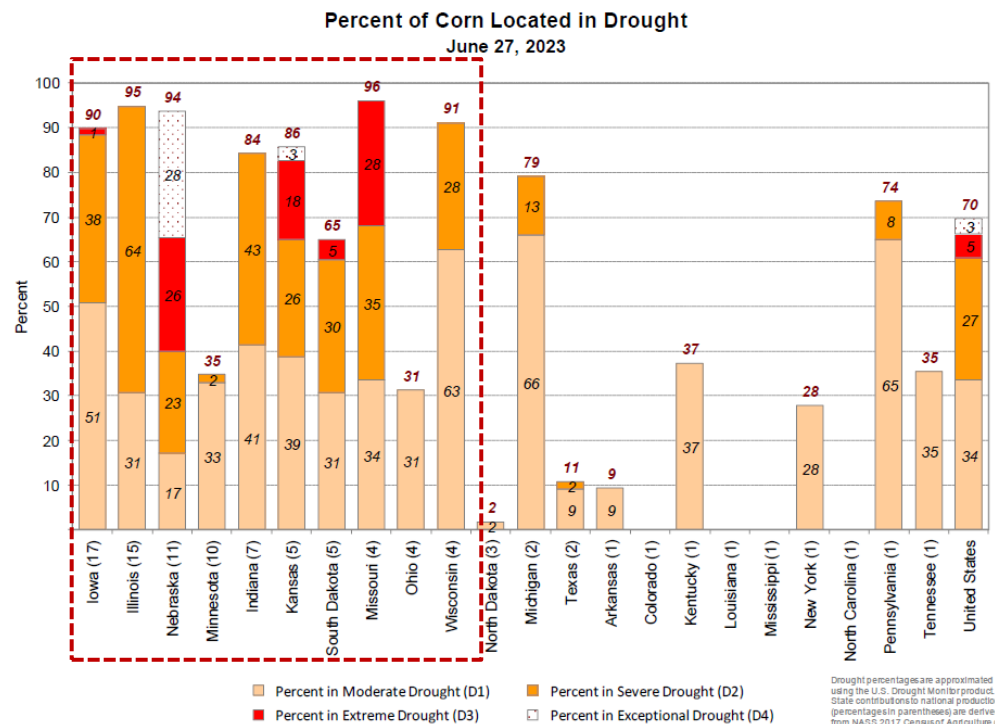
# Drought Condition

- The 2012 drought destroyed or damaged portions of the major field crops in the Midwest, particularly field corn and soybean
  - ▶ Drought-related crop damage, U.S. export prices for corn soared nearly 128%
- Currently ~70% of corn production is within an area experiencing drought vs. 80% in '12
  - ▶ Assumes that current drought condition will persist impacting production yield and corn price

Export corn price index and market-year (September–August) corn production percent changes, January 2003–September 2012



SOURCES: Corn prices, U.S. Bureau of Labor Statistics; and corn production, U.S. Department of Agriculture.



## Corn Belt

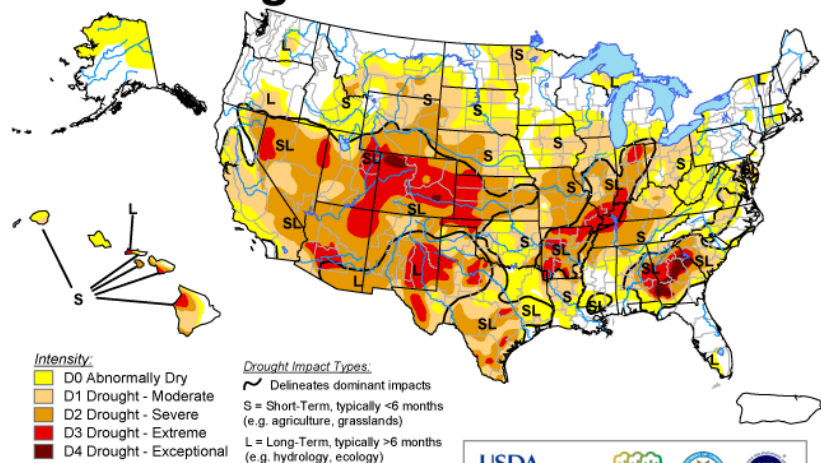
Traditional area in the midwestern U.S., including western Indiana, Illinois, Iowa, Missouri, eastern Nebraska, and eastern Kansas, in which corn and soybeans are the dominant crops

# Drought Condition – Lessons learned from '12-'13?

- In '13'13, severe drought condition in most of the corn-growing states worsened the corn crop condition. Dryness was less intense but more widespread
- In '12 the early planting season was not favorable to corn growers, as they were hampered by abnormally wet and cold spring weather.
  - ▶ U.S. corn growers produced 10.8bn bushels, 13% below the '11 crop
  - ▶ **\*\*\*Corn yield was catastrophic as excessively dry and hot weather continued through the summer**
    - Corn yield was estimated at 123 bushels per acre down from 147 yield in '11
- El Nino is expected to be in place June-August '23 w/ similar conditions
  - ▶ **\*\*\*Additional discussions w/ experts should be considered**

## U.S. Drought Monitor

July 3, 2012  
Valid 7 a.m. EDT



The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

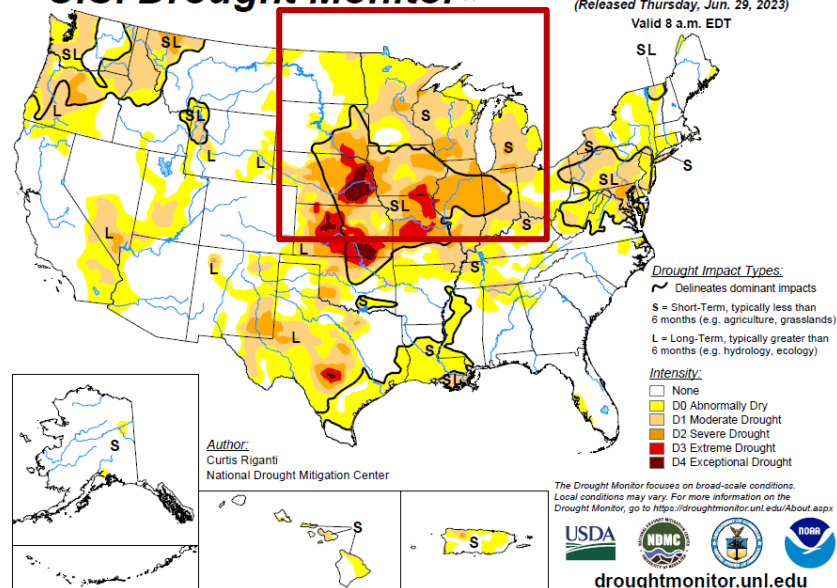
<http://droughtmonitor.unl.edu/>



Released Thursday, July 5, 2012  
Author: Rich Tinker, NOAA/NWS/NCEP/CPC

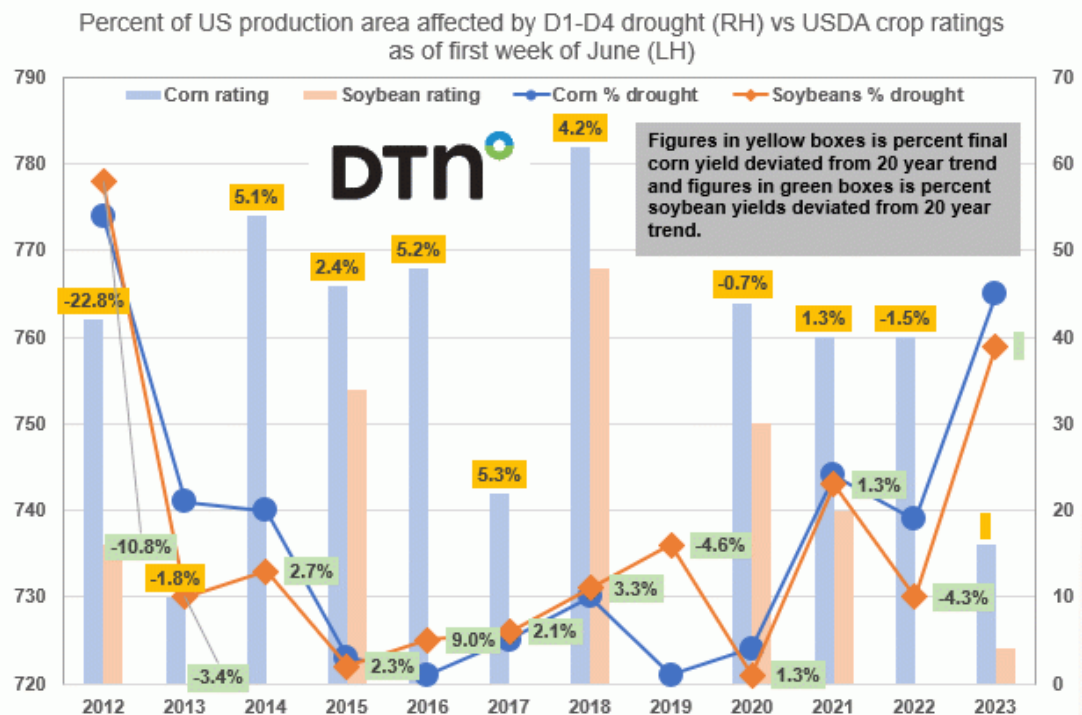
## U.S. Drought Monitor

June 27, 2023  
(Released Thursday, Jun. 29, 2023)  
Valid 8 a.m. EDT



# Percent of US Corn and Soybean Area in Drought

- U.S. Drought Monitor reports percentage of growing area that is affected by drought
  - w/ D1 moderate drought
  - w/ D2 severe drought
  - w/ D3 extreme drought
  - w/ D4 exceptional drought
- July is the critical month for corn and August for soybeans but lack of rain in June can certainly hurt as seen in both 1988 and 2012
- Production area impacted by D1-D4 drought
  - 45% of the U.S. corn
  - 39% of the national soybean area
- Corn ratings are the lowest for this time of year since 2013



# Incomes and Grains Price

- **Income:** Higher income result in greater cash in hand , thus more capital purchases
- **Yields:** Corn and wheat yields have seen more variance than beans
- **Costs:** Fertilizer and rents are most likely the two largest costs
  - Fertilizers reached a peak in April '22 (+50% in 1Y), back to normal level
- **\*\*Data from Department of Agriculture Economics as of July '22**

Figure 1: Incomes and Grain Prices

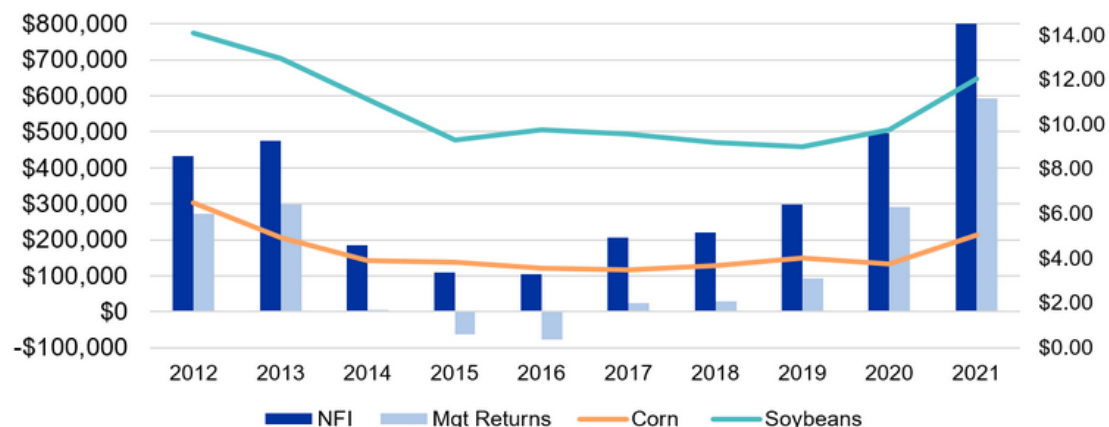


Table 1: Historical Yields

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Corn	78	190	161	186	174	197	188	193	199	205
Soybeans	45	53	52	53	53	57	53	53	59	60
Wheat	66	81	79	79	85	80	69	82	66	94

Table 2: Input Costs

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fertilizer	149	139	135	122	109	94	98	112	105	118
Chemical	51	64	62	62	66	68	64	69	76	84
Seed	81	85	85	84	82	82	81	83	87	84
Fuel	40	41	38	26	20	24	27	26	21	29
Rent	183	195	189	194	188	184	182	188	189	197

# Seasonality Shift Misunderstood by the Street?

- Q1/Q3 '12 peak in demand due drought condition, w/ strong margin impact
  - Assumes that farmer uncertainties will dissipate around Q1/Q3 '24
- \*\*It appears that the street is misunderstanding the shift in seasonality demand**

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Good morning, everyone.

I would like to start off on the commentary that you made about farmer uncertainty shifting demand from what's normally a spring selling season into the fall. I think that's maybe the first time ever I've heard an irrigation supplier talk about demand shifting into the fall where you're typically seeing the crop growing, people on out there generally installing equipment on top of that crop. Can you just give us some more detail on the dynamics around that and why it is that you think that demand shifts into the fall? I would have thought that if it was shifting, it would have probably shifted into next spring.

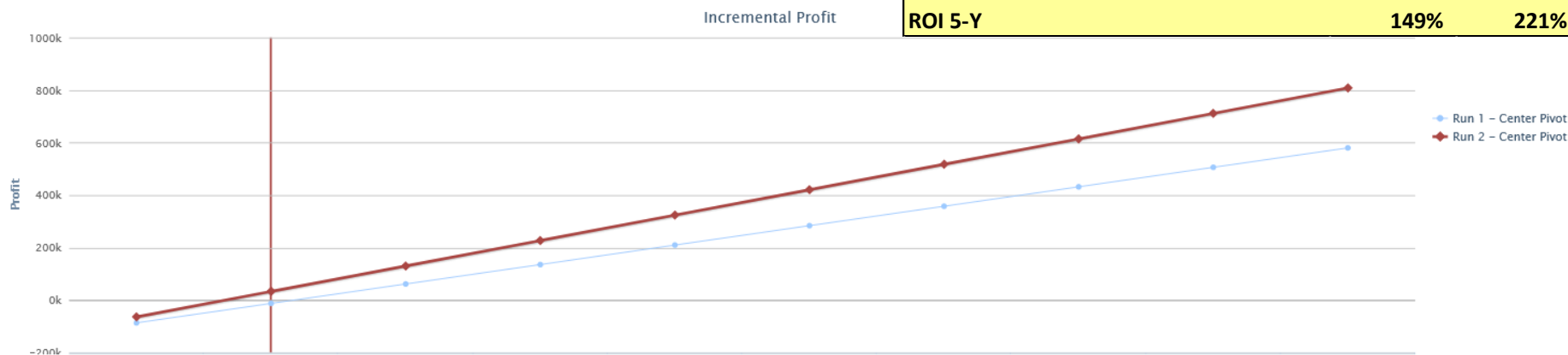
Q

Fiscal year ended December,	2011	Q1 12	Q2 12	Q3 12	Q4 12	2012	Q1 13	Q2 13	Q3 13	Q4 13
Period ending	8-31-11	3-31-12	6-30-12	9-30-12	12-31-12	8-31-12	3-31-13	6-30-13	9-30-13	12-31-13
Days in period	365	91	91	92	92	365	91	91	92	92
<b>SUMMARY REVENUE BUILD</b>										
TOTAL IRRIGATION REVENUE	\$369.9	\$100.8	\$117.0	\$149.6	\$107.9	\$475.3	\$134.2	\$162.7	\$201.0	\$128.2
% yoy		0.0%	27.6%	17.9%	113.3%	28.5%	33.2%	39.1%	34.3%	18.8%
% 2 year		n.a.	n.a.	n.a.	n.a.	n.a.	33.2%	77.5%	58.3%	153.3%
YOY		9	(10)	99	57	n.a.	33	46	51	20
% qoq		99.2%	16.1%	27.9%	(27.9%)		24.4%	21.2%	23.5%	(36.2%)
Historic Seasonality ('14-'22)		(0.7%)	9.4%	10.6%	(15.8%)		1.0%	11.5%	10.0%	(16.4%)
current vs. history		99.9%	6.7%	17.3%	(12.0%)		23.3%	9.7%	13.5%	(19.9%)
OPERATING INCOME	\$59.1	\$9.8	\$23.0	\$31.2	\$16.2	\$80.3	\$27.5	\$35.3	\$44.1	\$18.6
% margin		9.7%	19.7%	20.9%	15.0%	16.9%	20.5%	21.7%	21.9%	14.5%
bps yoy		n.a.	n.a.	n.a.	n.a.	n.a.	1,075.6	200.3	104.2	(50.4)
% yoy		n.a.	43.8%	22.1%	110.6%	n.a.	180.7%	53.2%	41.0%	14.8%

# Farmers Return on Investment

- Assuming 300 acres, w/ 230 acres irrigated,
  - w/ investment \$160,000
  - w/ run 1: corn price \$5.0 per bushel ('18-'23 L5Y)
  - w/ run 2: corn price \$6.4 per bushel ('23 avg)
- Attractive ROI - Payback btw 2-3 years depending on corn price and
- Center pivot increases in yields over dryland farming. Water is a critical factor in crop quality and yield based on a typical 160 acre field and w/ '22 avg. closing price (USDA recent figures)
  - Corn +44%
  - Wheat +55%
  - Soybeans +29%

Return on Investment	Run 1	Run 2
Center Pivot	300	300
Total Acres	230	230
Investment (\$)	\$160,000	160,000
Corner	No	No
Crop Type	Corn	Corn
Avg. Dry Yield (Bushel/Acre)	175.0	175
Corn price (\$/Bushel)	\$5.0	\$6.4
Energy source	Diesel	Diesel
Horsepower	75	75
Gal/Min	500	500
Hours/Year	500	500
Application Rate (Inches/Acre/Year)	2	2
Anticipated Irrigation Yield (Bushel/Acre)	245	245
Fuel Cost (\$/Gallon)	3	3
<b>Upfront investment</b>	<b>\$160,000</b>	<b>\$160,000</b>
<b>Incremental Profit p.a.</b>	<b>\$79,800</b>	<b>\$102,623</b>
<b>Break Even Year</b>	<b>3</b>	<b>2</b>
<b>ROI 5-Y</b>	<b>149%</b>	<b>221%</b>



Upfront Investment: \$160,000    Net Annual Revenue Increase: \$102,623    Break Even Year: 2



# \*\*\*RISK: Is Valmont Eating Market Shares?

- Valmont is a fierce competitor both in North America and international segments
  - '14-'22 revenue growth 5.8% CAGR vs. 2.7%
  - Post-COVID +32% revenue growth
- Nevertheless, LNN operating margin +248bps vs. VMI
- \*\*\* What is LNN strategy on Equipment & Parts segments?

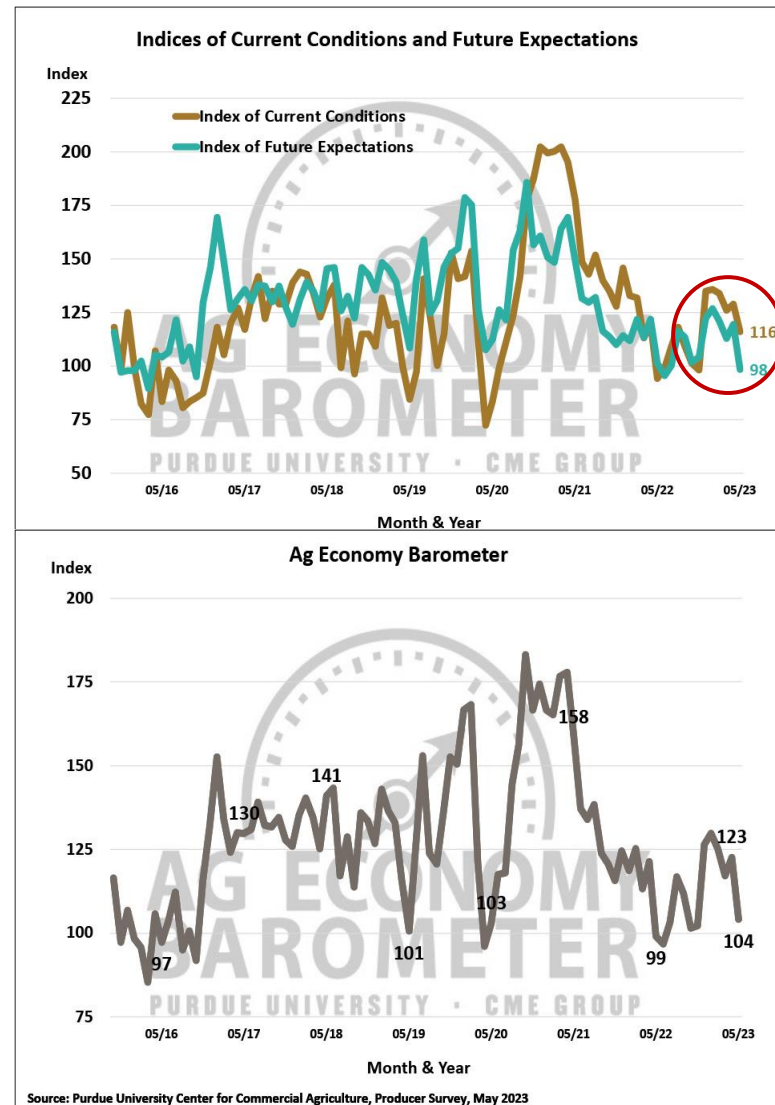
VMI			LNN		
Revenue '22	\$4,275		\$771		
Infra	\$2,928		\$105		vs. VMI
<b>Agriculture</b>	<b>\$1,347</b>	<b>31.5%</b>	<b>\$666</b>	<b>86.4%</b>	0.5x
North America	\$768	57.0%	\$356	53.4%	0.5x
International	\$579	43.0%	\$310	46.6%	0.5x
<b>Operating Margin</b>	<b>13.4%</b>		<b>15.9%</b>		248
<i>Guidance '27E</i>					
Equipment & Parts	\$550				
Technology	\$150	CAGR			
<b>Est. Agriculture '27e</b>	<b>\$2,047</b>	<b>8.7%</b>			

VALMONT										VMI CAGR		LNN CAGR	
VMI	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	15-22	19-22	15-22	19-22
<b>Revenue</b>	<b>\$3,123</b>	<b>\$2,619</b>	<b>\$2,522</b>	<b>\$2,746</b>	<b>\$2,757</b>	<b>\$2,767</b>	<b>\$2,895</b>	<b>\$3,502</b>	<b>\$4,275</b>	<b>7%</b>	<b>16%</b>	<b>5%</b>	<b>20%</b>
<b>Irrigation</b>	<b>\$856</b>	<b>\$619</b>	<b>\$575</b>	<b>\$575</b>	<b>\$634</b>	<b>\$585</b>	<b>\$646</b>	<b>\$1,029</b>	<b>\$1,347</b>	<b>12%</b>	<b>32%</b>	<b>6%</b>	<b>23%</b>
% yoy		(28%)	(7%)	0%	10%	(8%)	10%	59%	31%				
% sales	27%	24%	23%	21%	23%	21%	22%	29%	32%				
bps yoy	n.a.	(377)	(84)	(186)	204	(183)	116	707	213				
<b>North America</b>	<b>\$846.3</b>	<b>\$612.2</b>	<b>\$575.2</b>	<b>\$351.4</b>	<b>\$386.7</b>	<b>\$378.6</b>	<b>\$378.4</b>	<b>\$545.6</b>	<b>\$768.0</b>	<b>3%</b>	<b>27%</b>	<b>4%</b>	<b>16%</b>
% growth	n.a.	(28%)	(6%)	(39%)	10%	(2%)	(0%)	44%	41%				
<b>International</b>	<b>\$10.1</b>	<b>\$7.2</b>	<b>\$0.0</b>	<b>\$223.8</b>	<b>\$247.0</b>	<b>\$206.6</b>	<b>\$267.4</b>	<b>\$483.1</b>	<b>\$579.0</b>	<b>87%</b>	<b>41%</b>	<b>8%</b>	<b>33%</b>
% growth	n.a.	(28%)	(100%)	n.m	10%	(16%)	29%	81%	20%				



# \*\*\*RISK: Farmer Sentiments

- Purdue/CME group Ag Economy Barometer is back to pandemic level
- Among the three-fourths (76%) of producers who said it's a bad time for large investments, two-thirds (67%) said the key reasons are:
  - ▶ Rising machinery price
  - ▶ Rising interest rates
- \*\*Concern among producers in the upcoming year remains
  - ▶ Higher input costs
  - ▶ Risk of lower crop/yield due drought condition
- \*\*\***U.S. bank failures can lead to some changes in farm loan terms in the upcoming year**
  - ▶ Possibly putting more financial pressure on farmer operations

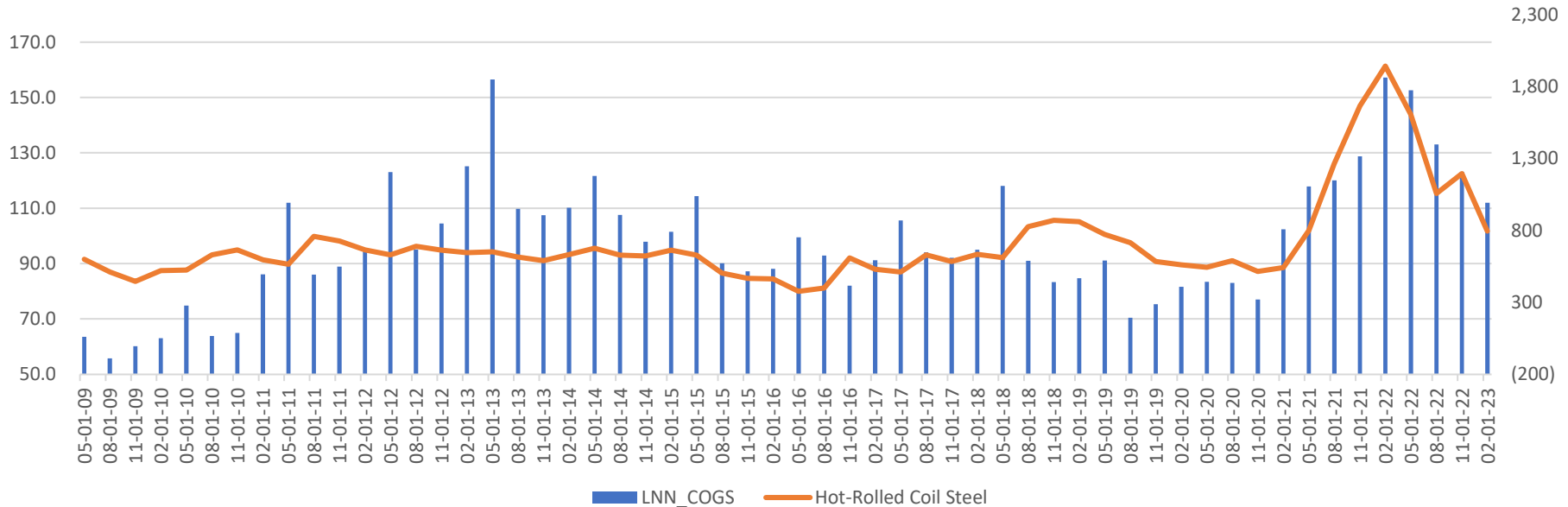


# \*\*\*RISK: Gross Margin

- Hot-rolled coil steel represents ~30% of COGS
- OM down to 9.5% from 12.5% 11.4%

Correlation	
No Lag	46.2%
Lagged 1Q	56.2%
Lagged 2Q	60.2%
Lagged 3Q	60.5%
R-Squared	
No Lag	21.4%
Lagged 1Q	31.6%
Lagged 2Q	36.3%
Lagged 3Q	36.6%

COGS - Correlation w/ Hot-Rolled Coil Steel



# Ownership

- Market cap €1.3 bn, 99% free float
- Less than ~1% of LNN owned by management
- Blackrock owns ~17% - recently reinforced position
- Royce & Associates, highly respected small cap specialists - though have been trimming
  - Would want to chat w/ them on their thesis
- With no controlling shareholders, the group's strong medium- and long-term performance could attract outside interest or potential bid from a financial/strategic player

Rank	Type	%OS	Position (000)	Pos Chg (000) [Recent]	Mkt Val (MM)
-	<b>Total</b>	<b>59.62</b>	<b>6,563</b>	<b>322</b>	<b>759</b>
-	<b>Institutions</b>	<b>59.05</b>	<b>6,500</b>	<b>317</b>	<b>752</b>
1	<b>BlackRock Fund Advisors</b>	<b>14.65</b>	1,613	8	187
2	The Vanguard Group, Inc.	11.30	1,243	1	144
3	Neuberger Berman Investment Advisers LLC	6.52	717	-103	83
4	SSgA Funds Management, Inc.	3.54	390	9	45
5	Royce & Associates LP	3.51	387	-40	45
6	Dimensional Fund Advisors LP	2.64	290	2	34
7	KBI Global Investors Ltd.	2.51	276	128	32
8	KBC Asset Management NV	2.35	259	16	30
9	Invesco Capital Management LLC	2.11	233	59	27
10	Nuance Investments LLC	1.99	219	137	25
11	Geode Capital Management LLC	1.88	207	11	24
12	<b>BlackRock Advisors (UK) Ltd.</b>	<b>1.81</b>	200	8	23
13	Allianz Global Investors GmbH	1.72	189	35	22
14	Global Alpha Capital Management Ltd.	1.35	148	5	17
15	Norges Bank Investment Management	1.18	130	42	15
-	<b>Insiders / Stakeholders</b>	<b>0.57</b>	<b>62</b>	<b>5</b>	<b>7</b>
1	Wood Randy A	0.19	21	1	2
2	Christodolou Michael N	0.12	13	1	1
3	Ketcham Brian L	0.10	11	2	1
4	Brunner Robert E	0.08	9	1	1
5	Rayburn David B	0.07	8	1	1

# Bear/Base/Bull Cases – 3 Year Target

Bear EPS €4.30				Base EPS €7.72				Bull EPS €9.62			
P/E	Target	% return	3Y IRR	P/E	Target	% return	3Y IRR	P/E	Target	% return	3Y IRR
18.0x	\$77.4	(34.9%)	(13.3%)	20.0x	\$154.4	29.8%	9.1%	24.0x	\$230.9	94.1%	24.7%
17.0x	\$73.1	(38.5%)	(15.0%)	19.0x	\$146.7	23.3%	7.2%	23.0x	\$221.3	86.0%	23.0%
16.0x	\$68.8	(42.2%)	(16.7%)	18.0x	\$139.0	16.8%	5.3%	22.0x	\$211.6	77.9%	21.2%
15.0x	\$64.5	(45.8%)	(18.5%)	17.0x	\$131.2	10.3%	3.3%	21.0x	\$202.0	69.8%	19.3%
14.0x	\$60.2	(49.4%)	(20.3%)	16.0x	\$123.5	3.8%	1.3%	20.0x	\$192.4	61.7%	17.4%
Bear Case Thoughts				Base Case Thoughts				Bull Case Thoughts			
Assumes slow growth in irrigation				Assumes irrigation bounce back in '24-'25				Assumes irrigation strong bounce back in '24-'25			
Assumes modest growth in irrigation				Assumes infra higher growth '25-'26				Assumes higher demand from Brazil in '25			
Assumes pressures on margin w/ steel price ↑				Margin structure slightly higher L3Y				Assumes infra higher growth '25-'26			
Assumes SG&A back to '20-21 level				SG&A aligned w '23 figures				GM closer to in-line w/ guidance			
								SG&A aligned w '23 figures			

	Bear	Base	Bull
FY 27 Earnings Power	\$4.30	\$7.72	\$9.62
Target P/E	18.0x	20.0x	22.0x
Target Price	\$77.4	\$154.4	\$211.6
% return	(34.9%)	30%	78%
% IRR	(13.3%)	9.1%	21.2%

	Bear (1)	Base (2)	Bull (3)
Irrigation Revenue	\$620	\$748	\$788
Infra Revenue	\$100	\$109	\$114
Gross Margin	26.5%	28.2%	30.0%
Operating margin	10.0%	14.3%	16.8%
EPS	\$4.30	\$7.72	\$9.62

3 Year Return Scenarios				
	2027 EPS	P/E	12m Target	% return
Bull	\$9.62	22.0x	\$211.64	77.8%
Base	\$7.72	20.0x	\$154.35	29.7%
Bear	\$4.30	18.0x	\$77.40	(35.0%)
Reward (50% bull, 50% base)			\$182.99	53.8%
Risk			\$77.40	(35.0%)
R/R				1.5x

# \*\*\*Reward / Risk

Ticker	LNN											Tactical R/R				
Action	Long		2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	Price	Reward	Risk	R/R	% move
Last Updated	04-07-23	Revenue	\$451	\$481	\$568	\$771	\$650	\$736	\$809	\$840	\$857	\$170.00	8.0%	(55.7%)	0.1x	42.9%
Cap Table		% yoy	(17.6%)	6.5%	18.1%	35.8%	(15.6%)	13.1%	10.0%	3.8%	2.0%	\$167.00	10.0%	(54.9%)	0.2x	40.3%
Price as of 3.7.23		\$119.00										\$164.00	12.0%	(54.0%)	0.2x	37.8%
Diluted Shares	11	Adjusted EBIT	\$13	\$60	\$54	\$95	\$104	\$113	\$123	\$123	\$123	\$161.00	14.1%	(53.2%)	0.3x	35.3%
Market Cap	\$1,315	% margin	2.9%	12.5%	9.5%	12.3%	15.9%	15.4%	15.2%	14.6%	14.3%	\$158.00	16.2%	(52.3%)	0.3x	32.8%
Total Debt	\$116	% yoy	(66.3%)	355.9%	(9.9%)	74.9%	9.5%	9.5%	8.3%	(0.0%)	0.1%	\$155.00	18.5%	(51.4%)	0.4x	30.3%
Cash	\$156											\$152.00	20.8%	(50.4%)	0.4x	27.7%
Net Debt	(\$40)	Adjusted EPS	\$0.85	\$4.09	\$3.88	\$5.94	\$6.55	\$7.18	\$7.78	\$7.74	\$7.72	\$149.00	23.2%	(49.4%)	0.5x	25.2%
Enterprise Value	\$1,275	% yoy	4.5%	379.7%	(5.3%)	53.1%	10.4%	9.6%	8.3%	(0.5%)	(0.4%)	\$146.00	25.8%	(48.4%)	0.5x	22.7%
		Street EPS					\$6.28	\$6.12	\$6.84	\$8.24	\$9.07	\$143.00	28.4%	(47.3%)	0.6x	20.2%
Buy price	\$125.0	% yoy					5.8%	(6.6%)	(4.8%)	5.9%	17.1%	\$140.00	31.2%	(46.2%)	0.7x	17.6%
No-brainer price	\$140.0	Expected Delta					4.3%	17.4%	13.8%	(6.0%)	(14.9%)	\$137.00	34.0%	(45.0%)	0.8x	15.1%
												\$134.00	37.0%	(43.8%)	0.8x	12.6%
3 Year Target			2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	\$131.00	40.2%	(42.5%)	0.9x	10.1%
2027 EPS	\$7.72	EV/Sales	2.8x	2.7x	2.2x	1.7x	2.0x	1.7x	1.6x	1.5x	1.5x	\$128.00	43.5%	(41.1%)	1.1x	7.6%
Target P/E	22.0x	EV/EBIT	96.8x	21.2x	23.6x	13.5x	12.3x	11.2x	10.4x	10.4x	10.4x	\$125.00	46.9%	(39.7%)	1.2x	5.0%
3 Year Target	\$169.78	P/E	139.5x	29.1x	30.7x	20.1x	18.2x	16.6x	15.3x	15.4x	15.4x	\$122.00	50.5%	(38.2%)	1.3x	2.5%
% return	42.7%	Street P/E	139.5x	29.1x	30.7x	20.1x	18.9x	19.4x	17.4x	14.4x	13.1x	\$119.00	54.3%	(36.7%)	1.5x	0.0%
x money multiple	1.4x											\$116.00	58.3%	(35.0%)	1.7x	(2.5%)
% IRR	12.6%											\$113.00	62.5%	(33.3%)	1.9x	(5.0%)
												\$110.00	66.9%	(31.5%)	2.1x	(7.6%)
12 Months Base Target												\$107.00	71.6%	(29.6%)	2.4x	(10.1%)
2025 EPS	\$7.78											\$104.00	76.6%	(27.5%)	2.8x	(12.6%)
Target P/E	20.0x											\$101.00	81.8%	(25.4%)	3.2x	(15.1%)
EOY Target Price	\$155.62											\$98.00	87.4%	(23.1%)	3.8x	(17.6%)
% return	30.8%											\$95.00	93.3%	(20.7%)	4.5x	(20.2%)
												\$92.00	99.6%	(18.1%)	5.5x	(22.7%)
12 Months Risk Case												\$89.00	106.3%	(15.3%)	6.9x	(25.2%)
2024 Risk EPS	\$4.71											\$86.00	113.5%	(12.4%)	9.2x	(27.7%)
Target P/E	18.0x															
Next 12 Months Risk	\$84.78															
% return	(28.8%)															

# Risk to Long Case

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- Relationship between U.S and China (e.g. U.S. steel tariffs and trade negotiations)
- Natural Resource Districts (NRD) – ban on new drillings of irrigation weels
- Funding delay in Infrastructure Investment and Jobs Act (IIJA)
- Deceleration in irrigation demand in the U.S
- Government and insurances incentives
- Net farm income and farmer confidence
- Commodity price (corn, soybean, steel)
- Interest rates and credit access
- Whether condition during the planting season and hurricane season
- Water scarcity and restriction

# Due Diligence – Key Focus Areas Going Forward

- **Refine view on business quality, deepen understanding of the industry & business**
  - Meet management & build relationships
  - Attend industry conferences
  - Speak w/ former LNN employees
  - Speak w/ key irrigation dealers
  - Speak w/ key competitors, mainly Valmont
  - Speak w/ large/smart shareholders
  - Speak w/ smart private equity investors in the space – try to give them the public market view
  - Speak w/ investment bankers who are active in the space (avoid those who have worked on LNN)
- **\*\*\*Solidify data on future industry growth**
  - Get better data from sell-side on the industry and USDA to assess farm income
  - Speak with farmers and Irrigation Dealer Association (membership subscription needed for additional data)
  - **Key Areas for Diligence:**
    - Industry forecast and growing potential
    - Replacement potential in the U.S. and assess equipment & parts segment size
    - Weather condition
- **Put better probabilities around the externalities inherent to LNN's operating environment**
  - Commodity price movements
  - Drought condition
  - Recession scenario
- **Get a better understanding of expectations**
  - Build out detailed line-by-line street expectations
  - Speak w/ buy-siders who follow the space, try to understand where true expectations lie
  - Understand what could be thesis-changing for shorts

# Due Diligence – To Do List

- **Meet management team**
  - Ideally visit senior management team – see how they think, deeply understand how they view the world, understand their long-term strategy, establish a quality relationship and try to be helpful to them if possible (so they will pick up the phone when I call)
  - Berenberg European conf. (December '23), Irrigation show conf. (June '24)
- **Attend key industry conference**
  - Irrigation Show conf. in San Antonio
  - Establish strong, ongoing relationships with industry experts and clients
  - Sell-side notes from this conference tend to be helpful, indicating there is real news flow on seasonality
- **Speak w/ key dealers/customers**
  - Understand how farmer think about investments – what drivers motivatess investment decision? Understand how pricing is set, and what ROI are needed to cancel a purchase? Understand how customers think about irrigation replacement. Always try to be helpful in any way I can to build strong relationships.
- **Speak w/ key competitors**
  - Understand how they look at economics of expansions – IRR/ROE/ROIC/etc. Understand how they view LNN as a competitor, the importance of scale, and how larger/smaller players compete w/ LNN. Also run through my thoughts on industry, what I am hearing from other players and from LNN. Always try to be helpful in any way I can, to build strong relationships.
- **Get better data**
  - Most/all of the data herein is from the web-scraping– mentioned that data is spotty/incomplete, so getting better monthly/quarterly data could give me an analytical edge vs. Street
  - Access to broker notes **Learn how dealership work**
  - Seasonnality is a key value driver – ask sell-side firms if I can sit down with their consumers trader/analyst to do an “irrigation dealers 101” to understand destocking approach and keep contact with them to try to get a better sense of dealer demand dynamics.