

High Plains Case Farm



High Plains Case Farm

- Working capital burn rate
- Collateral analysis
- Management assessment
- Risk rating



What's the best single financial risk management tool for agriculture?

Working Capital



How do you grow working capital?

1. Make money
2. Don't spend all of it



Drains on working capital

- **Capital purchases with cash**
 - Machinery
 - Land down payments
- **Financing CapEx on the operating line**
- **Out of control family living**
- **Killer toys**



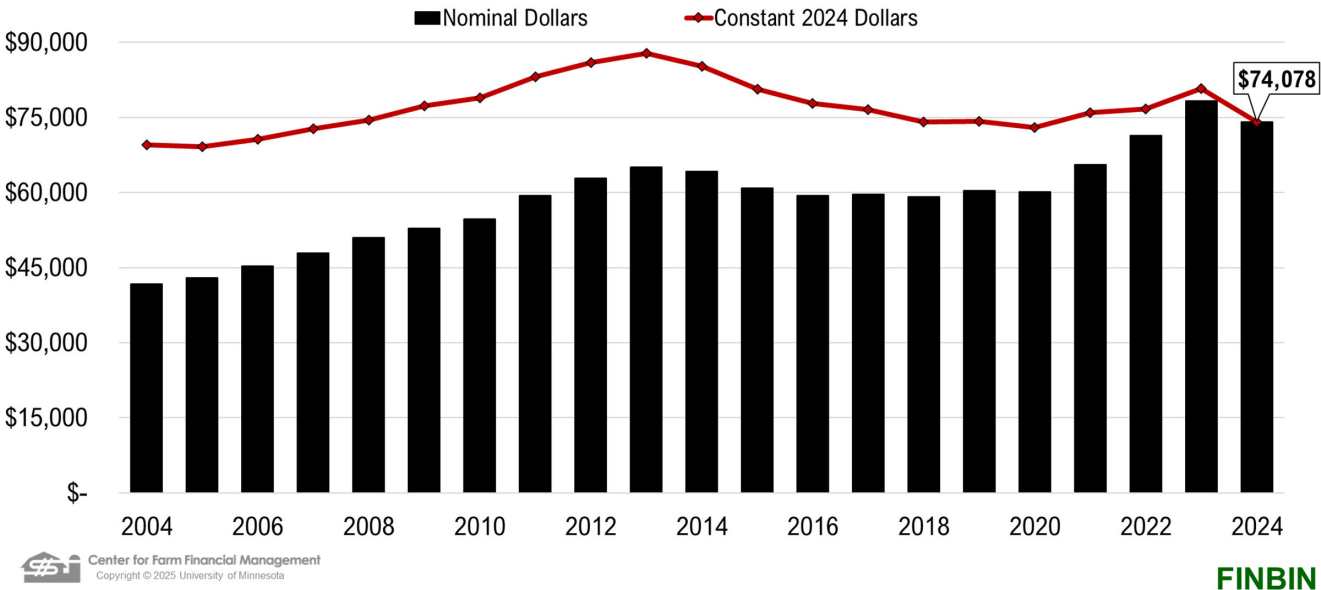
Machinery Investment per Acre – a look at MN farms

Average of all farms	\$914
Small farms (<\$250k GFI)	\$728
Large farms (> \$1M GFI)	\$948
High profit farms	\$928
Low profit farms	\$992
Young farmers (< 31 years of age)	\$527
Experienced farmers (> 60 years of age)	\$1,067



Family Living Expense

Data: Minnesota Average, Only includes sole proprietors who kept detailed family living records



2024 Family Living Expenses – MN Sole Proprietors

Household and Personal Expenses (Farms Sorted By Net Farm Income)			
	Low 20%	40 - 60%	High 20%
Number of farms	74	77	51
Average family size	2.8	2.8	3.2
Family Living Expenses			
Food and meals expense	12,891	10,501	12,423
Medical care	3,460	3,531	7,073
Health insurance	4,610	4,527	9,284
Cash donations	3,094	2,818	4,598
Household supplies	7,862	7,117	10,217
Clothing	2,680	1,468	2,504
Personal care	4,535	4,699	3,361
Child / Dependent care	434	1,502	675
Alimony and child support	221	407	108
Gifts	2,647	2,459	3,438
Education	1,445	1,297	2,665
Recreation	7,225	5,653	6,594
Utilities (household share)	2,835	2,900	3,231
Personal vehicle operating exp	3,703	4,196	3,998
Household real estate taxes	915	1,224	1,294
Dwelling rent	78	193	176
Household repairs	2,608	2,654	4,199
Personal interest	2,233	1,844	1,698
Disability / Long term care ins	678	823	438
Life insurance payments	5,185	4,419	5,836
Personal property insurance	684	607	535
Miscellaneous	7,377	5,905	7,408
Total cash family living expense	79,401	70,744	91,491
Family living from the farm	95	311	581
Total family living	79,495	71,056	92,072
Other Nonfarm Expenditures			
Income taxes	35,667	17,994	46,244
Furnishing & appliance purchases	234	263	490
Nonfarm vehicle purchases	3,016	4,655	5,737
Nonfarm real estate purchases	29,928	-1,887	5,002
Other nonfarm capital purchases	466	-7,563	26,613
Nonfarm savings & investments	-13,535	-11,156	-4,791
Total other nonfarm expenditures	55,777	2,307	79,297
Total cash family living investment & nonfarm capital purch	135,177	73,051	170,788



Quality of Working Capital

Cash Cycle – How long to cash?

Asset	Months to Cash
Cash	0
Cash crops	1 – 9
Feed crops	Up to 12
Feeder livestock	Up to 12
Raised livestock	Up to 12 or more
Prepaid expenses and supplies	10 – 20
Growing crops	3 – 16
Accounts receivable	1 – 2
Hedging accounts	Length of the hedge



Working Capital Burn Rate

Revenue	\$2,000,000	Current Assets	\$1,000,000
Expenses	<u>2,200,000</u>	Current Liabilities	<u>500,000</u>
Loss	-\$200,000	Net Working Capital	\$500,000

Net Working Capital ÷ Projected Loss = No. of years of working capital avail.

$$\text{\$500,000} \div \text{\$200,000} = 2.5 \text{ years}$$

Dr. Kohl's Benchmarks

Green > 3.0 years

Yellow 1.0 to 3.0 years

Red < 1.0 years



Collateral Analysis



**Gather
information**



Verify and inspect



Set the value



Document the file



Collateral Analysis: Value Types

- **Balance sheet value**
- **Current market value**
- **Trade-in value**
- **Auction value**
- **Liquidation value (per bank's discount policies)**
- **Book value**
- **Appraised value**



- **Auctions**
- **Dealers**
- **Newspapers**
- **Industry guides (Machinery Pete)**
- **Appraisal**
- **SWAG**



Worksheet 4 - Collateral Analysis					
Liabilities:					
Current	\$	649,556			
Intermediate	\$	134,330			
Long-Term	\$	368,229			
					Collateral
		Collateral:	Total Value	Discount	Position
		Cash	\$ - x	100%	\$ -
		Accounts Receivable	\$ - x	90%	\$ -
		Crop Inventory	\$ 313,850 x	90%	\$ 282,465
		Growing Crops	\$ 4,800 x	80%	\$ 3,840
		Market Livestock	\$ 393,067 x	90%	\$ 353,760
		Prepaids	\$ - x	75%	\$ -
		Other Current	\$ 2,250 x	75%	\$ 1,688
		Machinery & Equipment	\$ 427,065 x	65%	\$ 277,592
		Raised Breeding Stock	\$ 284,050 x	85%	\$ 241,443
		Real Estate - 560 ac*	\$ 420,000 x	80%	\$ 336,000
Total Loans	\$	1,152,115	\$ 1,845,082		\$ 1,496,788
Total borrowing capacity (collateral position)		\$1,496,788			
Total borrowed (liabilities)		\$1,152,115			
Total excess reserve (collateral margin)		\$ 344,673			
Percent decline until collateral depleted		23%			
Loan-to-Value %		76.97%			
* RE was appraised 7/18/2004					



Management Assessment

- **Management team**

- Experience
- Strengths and limitations
- Succession – management versus ownership
- Use of advisors/consultants

- **Track record**

- Compared to peers for production metrics
- Compared to peers for financial metrics
- Variance from historical
- Trends for liquidity, leverage, CapEx
- How do they act in the good times? In the bad times?



Management Assessment

- **Planning**

- Do they complete a cash flow projection?
- CapEx plan – 1 year? 5 years?
- Scenario planning
- Sensitivity analysis
- Assumptions – are they realistic?

- **Communication**

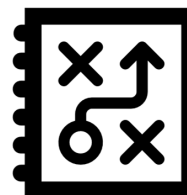
- Reports are accurate and timely
- Regular communication – both good & bad
- Open to visits
- Responsive to information requests



Management Assessment

• Operational management

- Knows cost of production
- Utilizes price risk management tools and skills
- Facilities and equipment are in good order
- Evaluates and adjusts as needed



Management Assessment



MANAGEMENT ASSESSMENT	
(1 = excellent & 5 = poor)	
Management Team:	Rating:
Have managed through economic cycles & adversity	1 2 3 4 5
Annually performs SWOT analysis	1 2 3 4 5
Effectively works with advisors, consultants, and lender	1 2 3 4 5
Has transition/succession plan for management and ownership	1 2 3 4 5
CATEGORY TOTAL	/ 4 =
Track Record:	Rating:
They have been conservative in good times	1 2 3 4 5
Financial performance compared to industry segment	1 2 3 4 5
Production performance compared to industry segment	1 2 3 4 5
Management of liquidity, leverage & capex	1 2 3 4 5
CATEGORY TOTAL	/ 4 =
Planning:	Rating:
Have defined written goals derived through a planning process	1 2 3 4 5
They complete an annual cash flow projection	1 2 3 4 5
They have a capex plan (1 year, 5 year)	1 2 3 4 5
They perform sensitivity analysis and scenario planning	1 2 3 4 5
CATEGORY TOTAL	/ 4 =
Communication:	Rating:
Written reports are accurate and timely	1 2 3 4 5
They are open and receptive to written communication & visits	1 2 3 4 5
They are responsive to requests for information	1 2 3 4 5
They demonstrate strong internal communication (regular meetings involving ownership, managers, employees)	1 2 3 4 5
CATEGORY TOTAL	/ 4 =
Operational Management:	Rating:
Always knows accurate cost of production by enterprise	1 2 3 4 5
Effectively utilizes price risk management tools	1 2 3 4 5
Facilities and equipment in good order	1 2 3 4 5
Regularly tracks forecasts to actuals and adjusts as needed	1 2 3 4 5
CATEGORY TOTAL	/ 4 =
*Add each category total and divide by 5 for overall score	
SUBTOTAL	/ 5
OVERALL SCORE	

Risk Rating



Agricultural Risk Rating Example Worksheet					
Borrower Name	Date	Ratio / Rating	Ratio / Rating Score	Weight	Weighted Score
ENW Change -	>1% ENW gain in OE - each of the last 5 Yrs -1 >1% ENW gain in OE - each of the last 2 Yrs -2 >1% ENW gain in OE - in 2 out of the last 3 Yrs -3 >1% ENW gain in OE - in 2 out of the last 4 Yrs -4 All others -5			x	20%
Debt to Asset Ratio	<25% -1 25% -39.99% -2 40% - 54.99% -3 55% - 69.99% -4 >70% -5			x	15%
WC to Revenue	> 50% -1 35 - 49.99% -2 20 - 34.99% -3 5 - 19.99% -4 <= 5% -5			x	20%
Term Debt Coverage Ratio	>2.50 -1 1.50 -2.49 -2 1.25 -1.49 -3 1.00 - 1.24 -4 <1.00 -5			x	20%
Operating Expense Ratio	< 65.99% -1 66% - 74.99% -2 75% - 85.99% -3 86% - 99.99% -4 >=100% -5			x	10%
Management Assessment :	Excellent -1 Good -2 Average -3 Some deficiencies -4 Poor -5			x	15%
				100%	
Total Score					
Risk Rating:					
Classification:					
Scoring ranges:					
0.00	TO	1.49	1	Excellent	
1.50	TO	2.40	2	Good	
2.41	TO	3.24	3	Satisfactory	
3.25	TO	3.59	5	Pass/Watch (PW)	
3.60	TO	3.91	6	Special Mention (SM)	
3.92	TO	4.50	7	Substandard (Sub)	
4.51	TO	4.85	8	Doubtful (Dbt)	
4.86	TO	5.55	9	Loss	