

Farm Management Seminar



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December 2007



Agricultural Finance Discussion Topics

- Information for Obtaining or Renewing a Loan
- Key Financial Ratios
- Traits of Successful Producers
- Farm Land Values
- Looking Ahead



Information for Lenders

- Operation Structure (Individuals involved, partnership, corporations, etc.)
- Current Balance Sheets
 - Detailed equipment lists
 - Debt Schedules with rate & payment info.
- Earnings History (usually 3 yrs. tax returns)



Information for Lenders

- Cropping Plan
- Rental Terms (crop rent, cash rent)
- Production History (usually by farm)
- Changes to Operation (recent past or future plans)
- Capital Expenditure Plan



Key Financial Measures & Ratios

- **Net Worth:** Total Assets minus Total Liabilities
- **Ownership Equity:** Net Worth divided by Total Assets. This ratio shows the percentage of assets that are owned vs. borrowed. The higher the percentage the better. Established operations should be at 50% or higher.



Key Financial Measures & Ratios

- **Current Assets:** These are assets that either cash, or will be converted to cash within 12 months of the balance sheet date.
 - Examples: Crop Inventories, Government Payments Receivable, Accounts Receivable, Prepaid Expenses, Marketable Securities



Key Financial Measures & Ratios

- **Current Liabilities:** Debts or obligations that have to be paid within 12 months of the balance sheet date.
 - Examples: Operating Loan Balances, Accrued Interest, Payments on Term Debts, Rent, Lease Payments, Income Taxes



Key Financial Measures & Ratios

- **Working Capital:** This is Current Assets minus Current Liabilities.
 - This is the margin between what is owed currently and what is available for payments.
 - Target amount of working capital for a row crop farming operation is 15% of Gross Farm Revenue. (\$15,000 for each \$100,000 of Gross Revenue)



Key Financial Measures & Ratios

- Having a good **working capital** position is very important in a traditional farming operation. Strong working capital increases the farmer's **flexibility** in marketing crops and acquiring assets. It also **reduces interest costs** in the operation.



Key Financial Measures & Ratios

- Profitability and Cash Flow Margin

Total Income (crops, government payments, etc)

- Total Expenses (fuel, fertilizer, seed, labor, etc)

- Interest Costs

- Family Living & Income Taxes

= Net Cash From Operations



Key Financial Measures & Ratios

Net Cash From Operations

- Term Debt Principal Payments
- = Cash Flow Margin

Cash Flow Margin is a primary source for building working capital.



Key Financial Measures & Ratios

- Operating Expense Ratio: This is an efficiency ratio.

Total Operating Expenses (excluding interest and depreciations) divided by Gross Farm Revenue. A good target for this ratio is for operating expenses to be less than 70% of gross revenue.



Key Financial Measures & Ratios

- At AgHeritage FCS, we look at these ratios, along with other ratios to evaluate the loan request.
- We recognize that the ag market is very cyclical with significant changes in results from year to year.
- We focus on trends in the operation more than just one year's results.



Key Financial Measures & Ratios

- As you look at your own operation's financial measures and ratios, look at the trends over time just as much as the most recent year.
- Are the ratios moving in the right direction. If not, what changes can be made to become more efficient or financially sound.



Land Values

- Farm land appreciation rate for the last ten years in Eastern Arkansas = 61% total, 5.71% average/year
- Factors influencing favorable farm land pricing include:
 - Strong commodity prices
 - Farm programs
 - Favorable interest rates
 - Tax incentives (1031)
 - Recreational use
- Land values in the near term are expected to increase modestly



Traits of Successful Producers

- Stable and improving production history
- They are focused on efficiency – spreading fixed costs (equipment investment) over more acres and reducing input cost per acre.
- They keep good records so they can understand their costs and plan for changing conditions.
- They work to market their crops to lock in a profit and minimize risk.
- Transition Plan



Looking Ahead

- We are seeing high commodity prices at this time, and the outlook for prices is good.
- Input costs are continuing to increase, offsetting much of the commodity price gains.
- With higher input costs, risk is higher in the event of drought conditions, crop disease, or other crop failure.



Looking Ahead

- Remember that high commodity prices usually don't last, and they can fall rapidly...be prepared in case they do fall.
- If bad times do return, don't get discouraged. Remember that, as we have seen recently, things can get better just as fast as they seem to go bad.



AgHeritage Farm Credit Services

We are a customer owned, customer driven lender that is fully committed to agriculture. We return a portion of our profits through patronage to our customer/owner.

Please visit one of our nine branch offices for your financial needs.

Batesville, Pocahontas, Newport, Searcy,
Brinkley Lonoke, Stuttgart, Star City, Dermott

Thank You!