

“The Farm Business Check Up”



An Employee-Owned Company

What Size Farm is the Most Profitable?

- **THE ONE THAT
MAKES MONEY!**



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Where did the \$ Go?

- Pay Off Payables
- Pay Down LOC
- Build Cash in the Checkbook
- Repair & Replace needed Equipment
- Pay Down Term Loans
- Pre Pay 2015 Expenses
- Prepare for 2016



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What are Lender's Thinking?

• Rating	Equity	D/R	Liquidity
• Ex	+75%	2:1	2:1
• Good	+60%	1.75:1	1.75:1
• Normal	+50%	1.25:1	1.25:1
• Watch	30%	1.00:1	1.00:1
• Sub Std	<25%>	0.90:1	0.90:1



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15 Point Check Up



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Pole Question #1

Who is the most important person that needs to know the #s?

- Bookkeeper
- Accountant
- Lender
- Owner



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1. “Are you sleeping at night”?

- Ownership Equity
- 50% Okay
- 30% Minimum (Is borrowing \$ bad?)
- More is better
- Net Worth / Total Assets
- Ex: $\$400\text{K} / \$1\text{M} = 40\%$



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2. “How is your back, roll over”?

- Asset Turnover
- 2.5 Years
- Average Ag Turnover 3.5 to 4 years
- Ex: \$1M farm / \$400K Income = 2.5 years



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3. “How is your appetite”?

- Current Equity –
Liquidity
- \$2 Current Assets -
\$1 Current Liabilities



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Liquidity

Current Assets

- Cash
- Savings
- Receivables (\$ owed you)
- Feed
- Market Steers/Crops
- \$2.00

Current Liabilities

- Payables over 30 days
- Past due rents
- Past due RE taxes
- Principal due in next 12 months
- \$1.00



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Pole Question #2

What has been the average historical ROA on dairy farms?

- 2%
- 4%
- 6%
- 8%



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4. “What is your weight?”

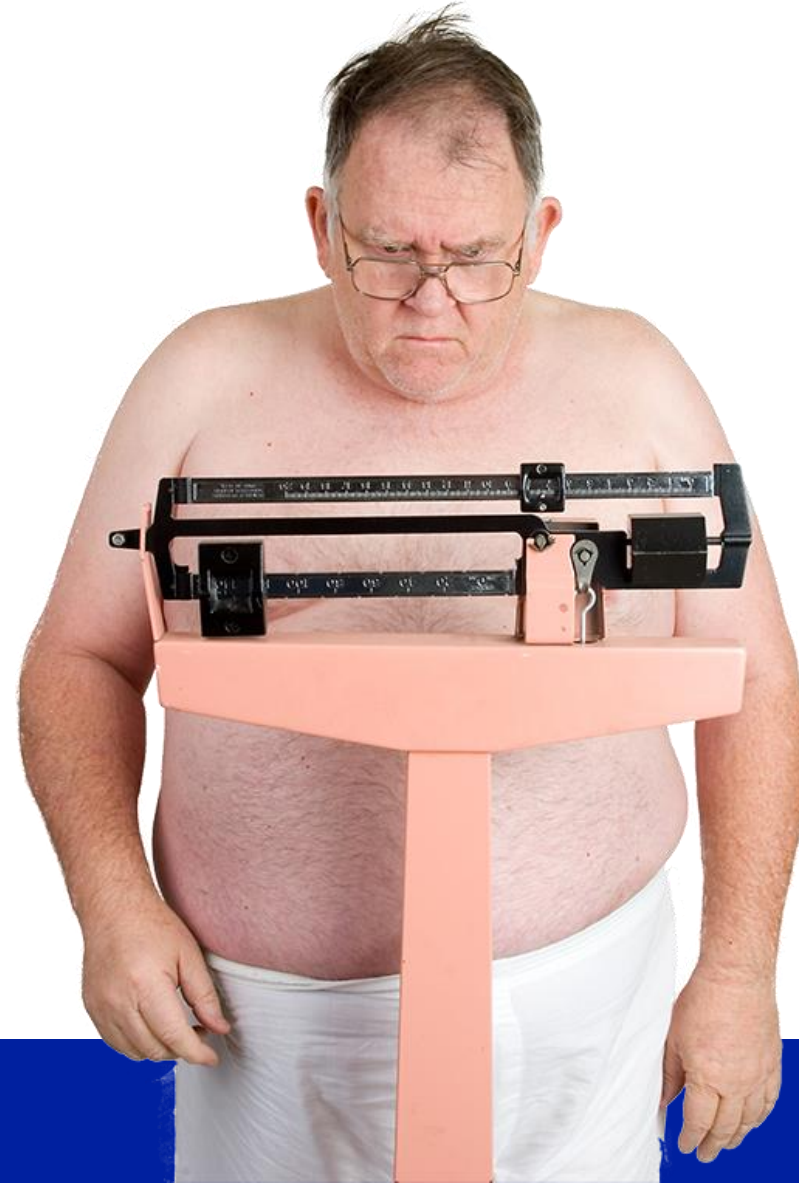
- Total Investment per cow
- \$15,000
- \$10,000 - +\$20,000
- ROA 8%Net/Total Assets without Interest
- EX: $\$80,000 / \$1,000,000 = .08$ or 8%
- ROE 6%Net/Equity (with Interest)



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5. “Have you lost any weight lately”

- Debt / Cow
- \$3,000 - \$5,000 okay
- \$7,000 ?
- More gets tough to service



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6. “Have you gained any weight lately”?

- Debt Coverage
- 15% of Income for Interest & Principal
- 20% Max
- Debt / CWT of Milk \$20



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7. “Are you getting enough exercise”?

- Income per cow
- \$5,000



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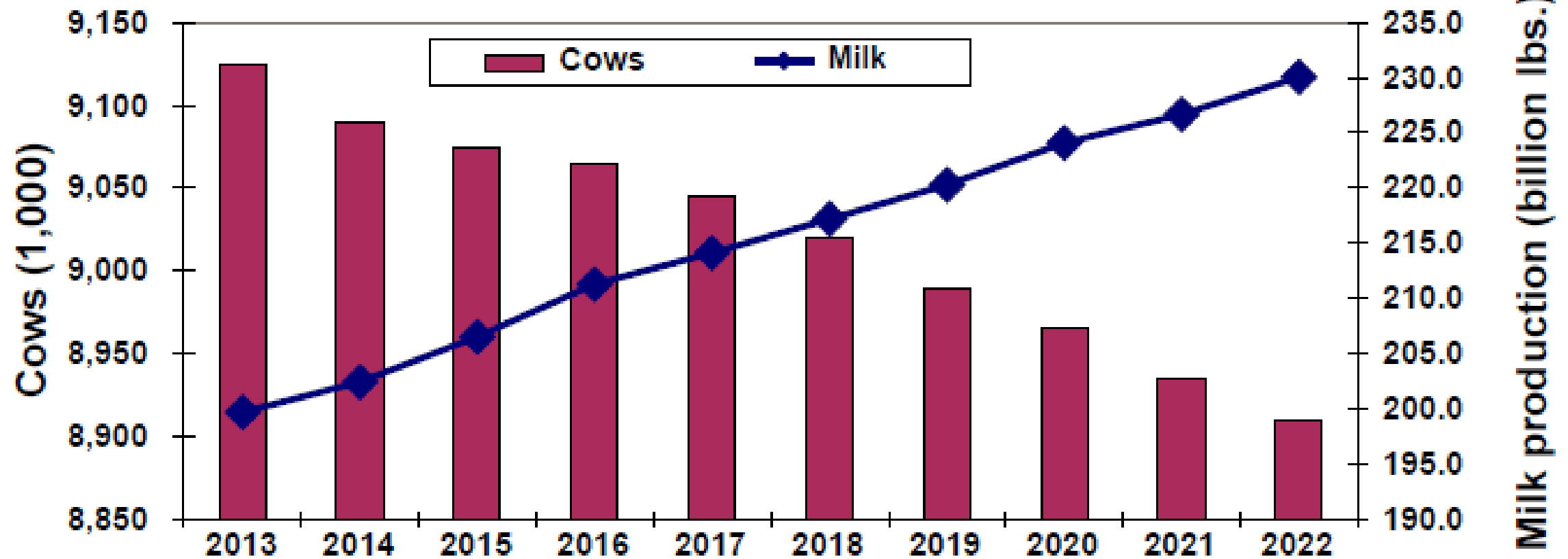
8. “Let’s check your heart”.

- Milk Sold per Cow
- 24,000 Holsteins
- 2022 Average Cow 25,500 USDA
- 17,000 Jerseys
- 16,000 Colored
- If production/income is lower is COP lower?



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USDA long-term dairy projections



DAIRYBUSINESS
Update



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9. “Have you had any operations lately”?

- Operation Cost
- 80%
- No more than 85%
- 65% - +85%.....
- Expenses, Interest, Depreciation, FL



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Pole Question #3

When should a dairy producer do budgeting for the next year?

- October of the present year
- December of the present year
- January of the budget year
- March of the budget year



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10. “Are you eating good healthy food”?

- Feed Cost
- 20% - 45%
- Feed Cost / Total Income



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11. “Are you eating your vegetables”?

- Cropping cost
- 4% and dairy with 3.5 acres per cow
- 8% maximum



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12. “Let’s check your lungs”.

- Heifer Raising Cost
- \$1,700 - \$2,000 to 24 months



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13. “Do you get headaches”?

- Labor Cost
- 16% of Total Income with Family Living
- \$1.80 - \$2.50/cwt hired labor only
- \$3.50 Total with Family Living



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14. “Do you have any joint pains”?

- Livestock cost
- 4% of Total Income



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15. “Let’s do a blood test”!

- COP
- \$17.50
- \$16 - +\$20...
- Expenses, Depreciation, FL
- Expenses, Principal, FL



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Keep Dr. “Lender” comfortable

- Know “your” numbers!
- Green runs the blood of a dairy!
- How about “your” retirement?
- How about “your” next generation?



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What to do?

- Do a Current Balance Sheet
- Do a 2015 Cash Flow (last 3 years)
- Do a 2016 Projection (with logic)
- Do a Business Plan (one page is okay)
- See your accountant (before yearend)
- See your lender (now)



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