

Financial Moves in a Potentially Not-So-Good Year

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Stick to the Fundamentals

- Revisit your goals and core values
 - Critical to your decision making!
- Have a plan
 - And a back-up plan (or several)
- You're already used to making decisions in uncertain times!
 - Stick to your fundamentals

Thought Process

- **“If it costs more than it’s worth, don’t do it”**
 - If Added Cost $>$ Added Revenue, don’t do it
- Partial Budget
 - “Good Side”
 - Added Revenues
 - Reduced Expenses
 - “Bad Side”
 - Reduced Revenues
 - Added Expenses
- If the Good Side $>$ Bad Side: Your profits should increase

Thought Process

- The only trick is figuring out:
 - What will prices be at the time of sale?
 - In what state will processors or markets be at sale time?
 - What will everyone else do?
 - Impact of trade & politics?
 - Wave 2, Wave 3?
 - **What is your Cost of Production (\$/unit)?**
 - **You NEED to know this!**

Selected Futures Prices (CME)

Enterprise	Late 2020		Early 2021	
Corn	Dec 20	\$3.32/bu	Mar 21	\$3.45/bu
Soybeans	Nov 20	\$8.45/bu	Mar 21	\$8.35/bu
Feeder Cattle	Sep 20	\$135/cwt	Mar 21	\$110/cwt*
Live Cattle	Oct 20	\$102/cwt	Apr 21	\$92/cwt*
Lean Hogs	Dec 20	\$52/cwt	Apr 21	\$64/cwt
Milk Blend Price	Oct-Dec 20 \$16-17/cwt (Covington)			

Prices do not account for local basis. * 2021 cattle prices are roughly adjusted for slide.

Doc White's Crystal Ball (Magic Eight Ball!)

- Disruption to the agricultural supply chain
 - Meat, milk, aquaculture, vegetables – looking at least 1-2 years to “recover”
 - Looking for large structural changes to the US system
 - Move towards supply control?
 - Move away from the concentration of processing?
 - Decreased efficiency may lead to higher consumer prices
 - Impact on demand?
 - Move away from JIT inventory systems?



The Curse of Free Markets

- What if you cut production, but no one else does?
 - A dairy farmer cuts production by 15%, but no one else does
 - Basically no impact on total supply, or price
- What if you switch enterprises, and so does everyone else?
 - You switch from corn to soybeans, and so does everyone else
 - Supply of that new enterprise increases
 - Leads to lower prices...

Store Crops Until March vs Sell at Harvest

- Added Cost
 - Storage costs
 - Storage losses (shrink)
 - Quality deterioration
 - Additional interest on operating capital
 - No funds to repay your operating lines until you sell the crop
 - If adding new storage facilities, don't forget the overhead costs/year
 - I estimate the annual overhead costs at 10-15% of the purchase price

Store Crops Until March vs Sell at Harvest

- Added Return
 - Higher price after storage (will it be higher?)
 - \$0.13/bu expected **increase** for corn (no basis)
 - \$0.10/bu expected **decrease** for soybeans (no basis)
 - Adjust for shrink & quality loss
- Can you store your corn crop for less than ~\$0.13/bu until March?
 - That's roughly \$0.03/bu/month

Sell 550-lb Weaned Calves vs 750-lb Calves

- Assumptions:
 - Spring calving (Feb/Mar)
 - 550-lb calf at weaning (Oct) \$134/cwt (Sept 2020 futures, no basis)
 - ADG of 2 lbs/day throughout
 - 100 days to reach 750 lbs \$120/cwt (Jan 2021 futures, no basis, \$12 slide)
 - Feed Cost
 - Hay equivalent @ \$120/ton vs \$30/acre rent + \$70/acre maintenance VC
 - \$15/head “other cost”
 - Vet, grain, interest, etc.
 - 1% death loss, 2% shrink

Sell Weaned Calves vs 750-lb Calves

	Weaned Calf	750-lb Calf	Change
Revenue	\$737	\$873	\$136/hd
Feed (Hay Equivalent)		\$93	
Other		\$15	
Added Cost		\$108	\$108/hd
Change in Return to Labor			\$28/hd
Breakeven Selling Price (adj. for death loss & shrink)		\$116/cwt	
Maximum Cost of Gain (\$/lb gain)		\$0.68/lb gain	

Using Land Rent + Pasture Maintenance: BE Selling Price = \$114/cwt

Input Usage

- Should I cut back on input levels due to expected low selling prices?
 - Apply less fertilizer
 - Hire less workers
 - Reduce herd size
 - Cull more cows and/or heifers

Input Usage

- Same thought process
 - What am I giving up (The Bad Side)?
 - Lower yields or production = lower revenues
 - Impact on next year's production
 - Soil quality, reproductive efficiency, herd size, **loss of market**, etc.
 - What am I getting in return (The Good Side)?
 - Lower input costs
 - Lower operating line needs & interest

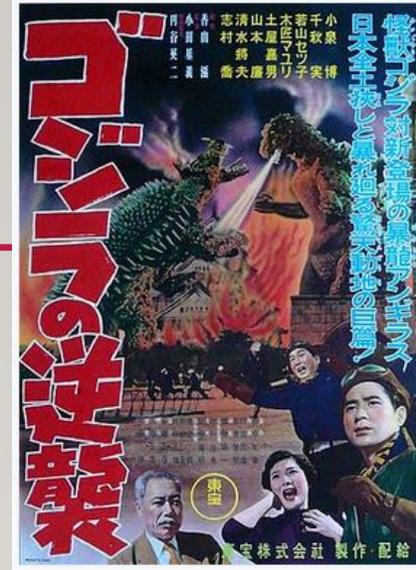
Financial Management Tips

- Develop an improved record keeping system
 - **Enterprise accounting**
 - Must know your Cost of Production (COPs)!!!
 - \$/cwt, \$/bu, \$/gallon, etc.
 - **Accrual basis or accrual-adjusted**
 - Good COPs = based on accrual-based enterprise accounting
 - Bad COPs = based on cash-based Schedule F



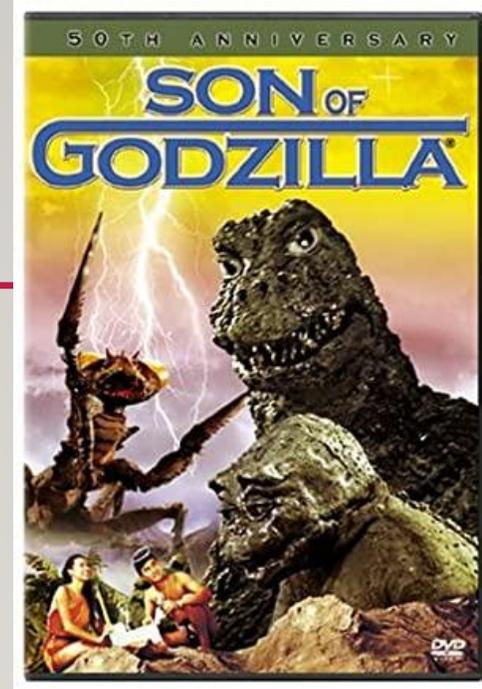
Financial Management Tips Again

- Develop a monthly cash flow statement (aka cash budget)
 - Farm and **household** cash flows
 - Identify periods of cash surplus or deficit
 - For debt prepayments, savings/liquidity, capital purchases
 - Estimate operating loan/line needs & repayment
 - Scheduling of term debt payments
 - Improve communication with your creditors



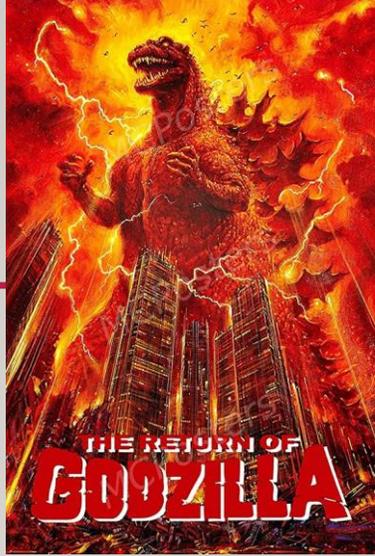
Son of Financial Management Tips

- Talk with your lender
 - **Maintain constant, open communication**
 - Discuss your operating needs – Op Loan/LOC
 - Options for repayment of operating debt this fall
 - Needs for next year if 2020 isn't a good year



Return of Financial Management Tips

- Have a tax management plan
 - Including SE Taxes and Income Taxes = ~25-35%
 - Need to spend \$3-4 to save \$1 in taxes
 - What if – pay the taxes and use the other \$2-3 to build liquidity, pay down debt, etc.?
 - Prepaying expenses – need an exit plan
 - And it is an unsecured transaction
 - Carryover/carryback of losses
 - 2 years back, no time limit forward



Tax Move: Prepaying Expenses

- Last year you prepaid \$50,000 for feed/fertilizer in December
 - 30% taxes (including SE)
 - Save \$15,000 in taxes
- Assume this year is a bad year (low price)
 - There's no cash or LOC available for this year's prepayment
 - Already expensed the \$50,000 last tax year
 - Nothing to offset the revenues for this tax year
 - Your taxable income will be \$50,000 **higher** in a bad year

Tax Move: Buying Assets You Don't Need

- Need to spend \$30-40,000 to save \$10,000 in taxes
 - Hurts liquidity, profitability, & financial efficiency
- Borrowing funds to make (unneeded) purchases for tax purposes
 - Hurting liquidity, solvency, repayment ability, profitability & financial efficiency
 - Guess what your lenders use to evaluate your financial condition
 - Go ahead, guess

Mmph, why give
money to the
government?
Mmph!



Same Old Same Old

- Build your emergency savings (usable liquidity) to 3-6 months
 - Working Capital/Expenses > 25%
- **Have a clear, defined marketing plan**
 - Price protection is critical!
 - Stick to your fundamentals!
- Have a risk management plan
 - Back-up markets, liability insurance, estate/transition plan