

Smart financial planning: Business planning and loan approval for young cattlemen

R. Curt Lacy, Ph.D.
Delta Research and Extension Center
Stoneville, MS



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Purpose of a Business Plan

- A business plan has two purposes:
 - to help guide the business management team in making decisions to meet the specified objectives and goals; and
 - to demonstrate the feasibility of the proposed business potential investors and/or lenders for the purpose of acquiring capital.

Adapted from Dr. Lawrence Falconer, MSU, DREC



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Some Economic & Financing “Truths”

- Long-term the price of a commodity will approach the average cost of production.
- Many times there is a reason why others are not in a certain enterprise.
- Anything can be profitable if you can charge enough.
- The best marketing plans begin with the cost of production.
- Many times financing is more about the person than the money.



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Most Lenders Want to Know Two Things

1. Will you pay them back?
2. How much do you want?



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Components of a Business Plan

- While the components of a business plan may vary, a complete plan contains the following:
 - Business description
 - Mission statement
 - Objectives and goals
 - Production plan
 - Financial plan
 - Will it make money in the long-run
 - How long before it “Cash-Flows”
 - How much capital do you need
 - Operating
 - Investment



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Components of a Business Plan

- Marketing plan
- Risk Management
 - Production
 - Price
 - Legal & Legislative
 - Financial
 - Human Resources



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.



Business Description

1. Mission Statement – What are we doing here?
2. Goals – SMART (Specific, Measurable, Attainable, Rewarding, Timely).



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.


Examples of Good SMART Goals

- “Be selling ____ cows/heifers in ____ years.”
- “Average selling bulls for \$ ____ per head by 20 ____.”
- “Be making ____ percent of household income from agricultural enterprises by 20 ____.”
- “Have the farm/ranch paid-off (debt-free) in ____ years.”
- “Watch the kids play ____ games this year.”

MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Building the Financial Plan




MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

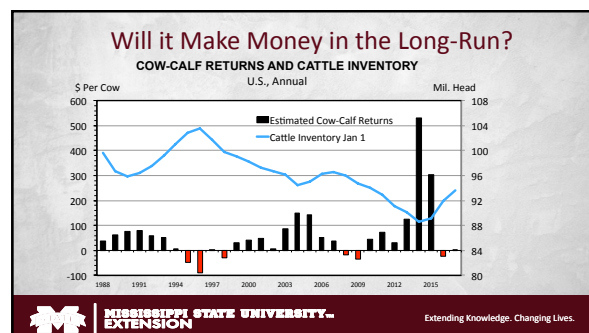
Three Keys to Financial Sustainability

1. Profitability – Will it be Profitable in the long-run?
2. Liquidity - Can you Pay your bills each year after you get going?
3. Solvency - What is/will be your financial Position?



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.



Determining Profitability

- Enterprise budgets, whole-farm budgets, or accrual adjusted income (P&L) Statement
- Operating expenses (feed, seed, fertilizer, repairs, etc.)
- Fixed Costs (depreciation and interest) → Economic depreciation not tax
 - Intermediate assets (1-7 years)
 - Equipment (including pickups and trailers)
 - Breeding stock
 - Fencing
 - Long-term assets (7+ years)
 - Real-estate
 - Buildings
 - Costs for operator's labor and management



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Economic versus Financial Profitability

- Economic Profits
 - Include an opportunity cost for land (rental value – taxes and maintenance)
 - Raised feed (hay, grains, etc.) valued at market price.
 - Operating capital valued at opportunity cost.
- Financial Profits
 - Interest is cash and accrual interest paid
 - Raised feed valued cost of production
 - Breeding stock replacement (GAAP or FFSC methods)
 - Hired labor and management compensation equivalence is used for owner-operator compensation.

Adapted from Dr. James McGrann, Beef Magazine, April 17, 2014
"Best Measure of Ranch Sustainability is Economic Profitability"



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Example 50 Cow Budget

Item	Unit	Units/cow	Total	\$/Unit	Total	\$/Cow	\$/Cwt.
VARIABLE COSTS:							
Bermuda Pasture	Acre	0.50	25.00	\$165.56	\$4,139.00	\$82.78	\$18.67
Fescue Pasture	Acre	0.75	37.50	\$142.25	\$5,334.38	\$106.69	\$24.06
Winter Annual Pasture	Acre	0.20	10.00	\$185.23	\$1,852.30	\$37.05	\$8.35
Summer Annual Pasture	Acre	0.00	0.00	\$192.55	\$0.00	\$0.00	\$0.00
Hay Production	Acre	0.00	0.00	\$513.87	\$0.00	\$0.00	\$0.00
Purchased Hay	Tons/Cow	1.50	75.00	\$130.00	\$9,750.00	\$195.00	\$43.97
Total Supplemental Feed	Cow Unit				\$6,805.50	\$136.11	\$30.69
- Cow Herd	Ton	0.36	18.00	\$275.00	\$4,950.00	\$99.00	\$22.32
- Replacement Heifers	Ton	0.00	0.00	\$0.00	\$0.00	\$0.00	\$0.00
- Bulls	Ton	0.36	18.00	\$111.00	\$1,998.00	\$39.96	\$9.09
- Calves	Ton	0.12	6.00	\$276.25	\$1,657.50	\$33.15	\$7.48
Salt & Minerals	Lbs./Cow	91.25	4562.50	\$0.28	\$1,277.50	\$25.55	\$5.76
Total Vet & Medicine	Cow Unit				\$7,072.25	\$141.44	\$4.83
- Cow Herd	Cow	1.00	50.00	\$14.00	\$700.00	\$14.00	\$3.16
- Replacement Heifers	Heifer	0.00	0.00	\$16.00	\$0.00	\$0.00	\$0.00
- Bulls	Bull	0.04	2.00	\$47.00	\$94.00	\$1.88	\$0.42
- Calves	cal/calf	0.85	42.50	\$6.50	\$276.25	\$6.53	\$1.25
Fence & Facilities Repairs & Maintenance	% of Facilities		\$92,115.10	0.00%	\$460.58	\$9.21	\$2.08
Labor (including insurance, taxes, and SS)	Hrs./Cow	7.00	350.00	\$0.00	\$0.00	\$0.00	\$0.00
Pasture Rent	Acres	0.00	0.00	\$20.00	\$0.00	\$0.00	\$0.00
Machinery Rent	Year	0.00	0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other	Cow	1.00	50.00	\$2.00	\$1,000.00	\$2.00	\$0.45
Interest on Operating Capital (8 months)	Percent		\$30,789.50	9.00%	\$1,847.37	\$36.95	\$8.33
Auction & Hauling	Head	50.00	\$32.96	\$1,647.91	\$32.96	\$7.43	\$1.66
TOTAL VARIABLE COST					\$33,007.28	\$660.15	\$148.86

Source: Dr. Levi Russell, UGA North GA Cow-Calf Budgets 2017

Item	Unit	Units/cow	Total	\$/Unit	Total	\$/Cow	\$/Cwt.
VARIABLE COSTS:							
FIXED COST SECTION							
Annual Livestock Fixed Costs					\$3,490.92	\$69.82	\$15.74
Annual Buildings & Facilities Fixed Costs					\$3,261.90	\$65.24	\$14.71
Annual Equipment Fixed Costs					\$4,214.36	\$84.28	\$19.01
Annual Land Fixed Costs Excluding Taxes	Percent of Land Value		\$63,000.00	0.00%	\$0.00	\$0.00	\$0.00
Annual Real Estate Taxes	Percent of Land Value		\$63,000.00	1.00%	\$630.00	\$12.60	\$2.84
Annual Farm Insurance	Port. of Livest. Fnd. & Eqp.		\$198,865.10	0.25%	\$497.16	\$9.94	\$2.24
TOTAL FIXED COST					\$12,894.34	\$241.89	\$54.55

EXPECTED BREAK-EVEN TABLE

ITEM	TOTAL	\$/cwt.	\$/Cow
Variable Cost	\$33,007.28	\$148.64	\$660.15
Less: Value of cull cows, bulls and heifers	\$5,194.50	(\$23.39)	(\$103.89)
NET VARIABLE COST	\$27,812.78	\$125.25	\$556.26
Annual Livestock Fixed Costs	\$3,490.92	\$15.72	\$69.82
Annual Buildings & Facilities Fixed Costs	\$3,261.90	\$14.69	\$65.24
Annual Equipment Fixed Costs	\$4,214.36	\$18.98	\$84.29
Annual Land Fixed Costs Excluding Taxes	\$0.00	\$0.00	\$0.00
Annual Real Estate Taxes	\$497.16	\$2.24	\$9.94
TOTAL COSTS	\$38,779.96	\$174.64	\$775.60

Key Measures of Financial Efficiency

- Asset Turnover Ratio
- Operating Expense Ratio
- Depreciation
- Interest Expense
- Net Income from Operations

Where does each dollar generated go?



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Liquidity - Can you pay your bills?

1. Once you get up and running can you pay your bills?
2. How long will it take you to get up and running at "full capacity?"



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Cash-flow Projections

- Annual cash flow statement for "average" year (Pro Forma).
 - Includes all CASH inflows and outflows
 - Does not include depreciation but rather Principal & Interest (P&I) payments
 - Actual owner's draw not a management fee



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Cash-flow Projections

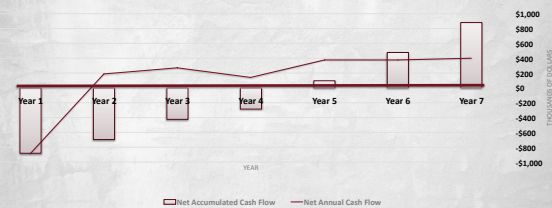
- Start-up cash-flow projection
 - Reflect actual purchase and income amounts and dates
 - Months are great
 - Two-month or quarterly is probably more realistic
 - Annual is a must
 - Helps determine two types of capital requests
 - Operating
 - Investment/Asset Acquisition
 - Accurate OPERATIONS assumptions are CRITICAL here!!!
 - How long before you can realistically start making payments?
 - If less than two years you probably missed something
 - If more than seven, it probably isn't going to work



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Example Cash Flow Projections



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

What does your solvency look like?

- Long-term your Balance Sheet (Financial Statement) should be improving.
- Most likely, the first 2-5 years will be very marginal
- Should begin to start improving after about Year 5.

Key Measures of Solvency

- Debt-to-Asset***
- Debt-to-Equity
- Equity-to-Asset



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

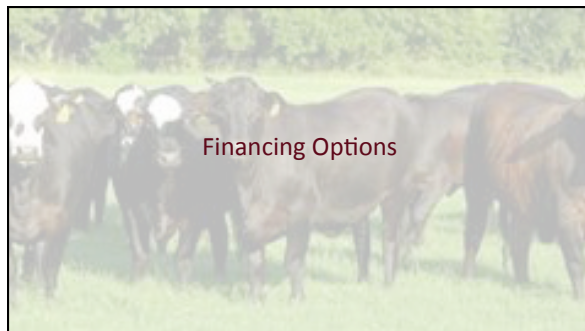
Key Financial Measures

Measure	Suggested Target
Return on Assets	5% or better
Economic Profits	Zero or more
Current Ratio	1.5+
Working Capital	Enough to run the ranch for 1 year
Debt-to-Asset	Less than 35%
Operating Expense Ratio	Less than 65%
Depreciation	Less than 15%
Interest	Less than 10%
Net income	More than 15%




MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.



Financing Options

- Conventional Loans
 - Local and commercial banks
 - Farm Credit System
- Non USDA-FSA Possibilities
 - USDA-NRCS EQIP
 - State SWCC
 - State DNR/DEQ, etc.



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Financing Options

- Conventional Loans
- Non USDA-FSA Possibilities
- USDA-Farm Service Agency Loans
 - Guaranteed Farm Loans
 - Direct Loans
 - Operating
 - Microloans
 - Farm Ownership
 - Land Contract
 - Beginning Farmer and Rancher
 - Women and Minorities
 - Conservation




MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Financing Options

- Private Financing
 - Family, friends, future enemies?
 - Investors
- Lease-Purchase/Share-Rental
 - Breeding stock
 - Rental pasture
 - Equipment



MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Summary

- Develop business plans that will show investors/lenders that:
 - Your venture will be profitable
 - They will get repaid in a timely manner
- Sustainable business plans:
 - Are profitable
 - Generate enough cash to pay bills in a timely manner
 - Build wealth over time
- Financing can be arranged through:
 - Banks
 - Farm Credit System
 - Various government lending, grant, or cost-share programs
 - Private individuals
- Younger producers with very little or no capital may consider trading "sweat equity" in a lease-purchase or share-rental venture.

MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Resources

- Local Extension office
- www.agplan.umn.edu
- <https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index>

MISSISSIPPI STATE UNIVERSITY
EXTENSION

Extending Knowledge. Changing Lives.

Smart financial planning: Business planning
and loan approval for young cattlemen

R. Curt Lacy, Ph.D.
Regional Extension Coordinator
Delta Research and Extension Center
Stoneville, MS
662-686-3268
Curt.Lacy@msstate.edu

 **MISSISSIPPI STATE UNIVERSITY**
EXTENSION

Extending Knowledge. Changing Lives.