

CONNECTING THE DOTS

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Macro Clinic Video Blog: <http://agstar.com/edge/>

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

Dave's GPS & Dashboard Indicators: www.farmermac.com

Views From the Road

- livestock lags crop industry by two years in some cases
- growth oriented larger producers with no land equity target for off ramp
- debt concentration in the rest stop- "too big to fail"
- double digit year over year declines in upper Midwest on land values in 2017
- watch agribusiness sector
- proactive vs. reactive on cost adjustments
- peer/peer lending
- fraudulent activities

State of the State of Agricultural Economics Reset: The Mid Innings

- emerging nations, BRICS & KIMT, slow growth, one half in recession
- ethanol & oil's impact on commodity prices
- Central Banks - U.S. & abroad
- duration of the strong dollar
- weather: supply & demand



3

Game of Economic Reset

- Innings 1-3
 - profit margins decline, cash flow issues
- Innings 4-6
 - relief pitcher, use working capital, refinance
- Innings 7-9
 - core equity, sale of property, multiple refinancing



4

Global Economics: Europe

- Brexit
- immigration issues
- next year's elections
- break up of euro
- other



5

Global Economics: China

- TPP: China's role
- water, soil, & air issues
- asset bubbles:
 - stock
 - real estate
 - other
- military buildup
- South China Sea



6

Global Economics: Japan

- leader in support of TPP
- aging population
- Central Bank's stimulus
- military
- shrinking economy



7

Global Economics: Russia, Brazil & Others

- Oceania
- political disconnect
- economic challenges
- currency valuation
- weather
- other



8

New Administration

- international trade
- banking regulations
- health care
- immigration
- taxation
- trillion dollar infrastructure spending

9

Federal Reserve's Interest Rate Barometer

- three increases in 2017!

Indicator	Current Status
Unemployment	4.7%
GDP Growth	3.5%
Inflation	2.5%
Consumer Sentiment	>90%
Copper Prices	

- stock market/real estate wealth effect

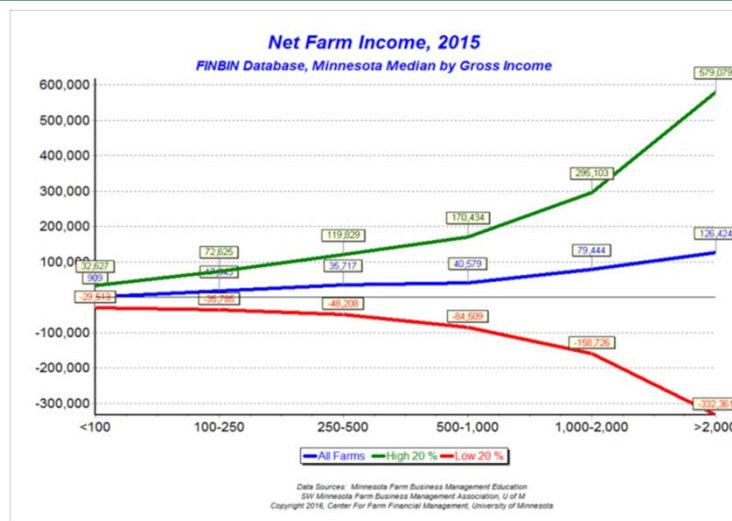
10

State of the U.S. Economy

- 90 months of expansion
- 106/120 months
- coastal vs. fly over states
- republicans/recession
- velocity of money
- stock market

11

Net Farm Income, 2015



12

Market Buckets in Ag Lending

- refinance select
- refinance de-market
- opportunities for growth, transition & phase out
- young and/or beginning producers
- young producer retention



13

Crossroads Exit Ramp

Exit Ramp Questions:	Yes	No
1. Hidden and/or increase in open accounts?		
2. Capital leases not listed?		
3. Loans from friends or relatives?		
4. Credit card debt?		
5. Sale of capital assets to cover short falls?		
6. Discrepancy in assets?		
7. Victims & know it all's?		
8. End run customer?		
9. No active responses?		
10. Cutting wrong costs?		

14

Sixth C Question Checklist



Question	Vulnerable	Resilience & Growth
	NO	YES
Do you know cost of production?		
Do you know cost of production by enterprise?		
Do you have modest family living expenses?		
Have you shed non-productive or non-economical assets?		
Do you have a written improvement plan?		
Do you practice four corners of business success? Plan, Strategize, Execute, Monitor		
Do you execute a marketing plan?		
Do you have a handle on record keeping?		
Do you sweat the small stuff?		
Are you preparing for the next generation?		15

The Burn Rate – Working Capital

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 \$500,000 = 2.5 Years

Projected Loss \$200,000

Green >3.0 Years

Yellow 1.0-3.0 Years

Red <1.0 Year

The Burn Rate – Debt Service Payments

Revenue \$2,000,000 Current Assets \$1,000,000
 Expenses 1,800,000 Current Liabilities 500,000
 Profit \$200,000 Net Working Capital \$500,000
 Debt Service Payments = \$100,000

Net Working Capital \$500,000 = 5.0 Years
 Debt Service Payments \$100,000

Green >5.0 Years
 Yellow 2.5-5.0 Years
 Red <2.5 Years

17

Burn Rate on Core Equity (Assume \$150,000 Earnings Loss)

Assets-Market Value	Estimated Value	Loan Maximum	Collateral Position	Remaining Principal	Equity Excess Reserves
1. Long Term	\$2,000,000	X 70%	=\$1,400,000	- \$700,000	= \$700,000
2. Intermediate	\$1,000,000	X 60%	=\$600,000	- \$300,000	= \$300,000
3. Current	\$1,650,000	X 80%	=\$1,320,000	- \$860,000	= \$460,000

Burn Rate: Land & Long Term Equity Reserves = $\frac{\text{Excess Reserves} = \$700,000}{\text{Earnings Loss}^1 = \$150,000} = 4.67 \text{ Years}$

Burn Rate: Intermediate Term Equity Reserves = $\frac{\text{Excess Reserves} = \$300,000}{\text{Earnings Loss}^1 = \$150,000} = 2.0 \text{ Years}$

¹ Assume Earnings Loss of \$150,000

18

Burn Rate on Core Equity

(Assume \$150,000 Earnings Loss & 20% land value decline)

Assets- Market Value	Estimated Value	Loan Maximum	Collateral Position	Remaining Principal	Equity Excess Reserves
1. Long Term (20% Decline on Land)	\$2,000,000 \$1,600,000	X 70% X 70%	= \$1,400,000 = \$1,120,000	- \$700,000 - \$700,000	= \$700,000 = \$420,000
2. Intermediate	\$1,000,000	X 60%	= \$600,000	- \$300,000	= \$300,000
3. Current	\$1,650,000	X 80%	= \$1,320,000	- \$860,000	= \$460,000

Burn Rate: Land & Long Term Equity Reserves = $\frac{\text{Excess Reserves} = \$420,000}{\text{Earnings Loss}^1 \$150,000} = 2.8 \text{ Years}$

¹ Assume Earnings Loss of \$150,000

19

Connecting the Dots for a Better Borrower/Business

Better Borrower/Business Questions:	Yes	No
1. One page recovery plan?		
2. Business goals for one and five years?		
3. Do you have a projected cash flow?		
4. Do you check credit score and get report?		
5. Do you practice modest family living?		
6. Invest in productive assets?		
7. Work with team of advisors?		
8. Open to education and seek education opportunities?		
9. Do you plan, strategize, execute, and monitor?		
10. Accurate balance sheet and income statement?		

20

Five Parting Views From the Road

- variance analysis- projected vs. actual
- one page corrective action plan from borrower
- focus on personal living budget and credit cards
- watch technology & lender liability
- know personalities- victims & know it all's

21