POST COMMODITY SUPER CYCLE

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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

Macro Global Trade Risk

"The agricultural industry is the point dog."

	Yes	No
King dollar duration		
Economic slowdown of emerging nations		
Political sanctions		
Supply & demand		
Political, military, quality & standards risk		
TOTAL		

Domestic Economy Risk

"Counter-cyclical: flyover states vs. population centers"

	Yes	No
Interest rate increases		
Land ownership - asset bubble		
Consumer spending economic recession		
Transportation & distribution		
Energy		
TOTAL		

The Burn Rate – Working Capital

Revenue	$2,000,000	Current Assets	$1,000,000
Expenses	-2,200,000	Current Liabilities	-500,000
Loss	-$200,000	Working Capital	$500,000

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	Working Capital	$500,000

Debt Service Payments = $100,000

$$\frac{\text{Working Capital}}{\text{Debt Service Payments}} = \frac{\$500{,}000}{\$100{,}000} = 5.0 \text{ Years}$$

Green >5.0 Years

Yellow 2.5-5.0 Years

Red <2.5 Years

Ten Questions of "True Liquidity" (1)

- concentration of assets- current
- hollow grain bin- verify & confirm
- forward pricing- marketing/risk, contract, quality
- attitude on risk
- accounts receivable
  - concentration
  - collectable
  - timing
- crops growing in field & livestock in pens
  - insurance/level
  - timing
  - quality

Ten Questions of "True Liquidity" (2)

- prepaid expenses
  - cash conversion cycle
  - how secure?
  - line of credit
- accounts payable/line of credit
  - less than inventory
  - timing
  - <5% revenue vs. >25% revenue
- cash
  - amount debt service
  - amount compared to major expenses
- deferred tax consequences

True Working Capital Analysis

Assets / Liabilities

Scenario A (Base Hits- Sweat the Small Stuff)

Months	Current Asset	Amount	Months	Current Liability	Amount
0-4 mo.	Cash	$100,000	**0-4 mo.**	A/P	$100,000
	A/R	$75,000		Operating Line	$560,000
	Inventory	$350,000		Payment	$50,000
	Subtotal	**$525,000**		**Subtotal**	**$710,000**
5-8 mo.	A/R	$75,000	**5-8 mo.**	Payment	$50,000
	Inventory	$350,000			
	Crops Growing	$200,000			
	Subtotal	**$625,000**		**Subtotal**	**$50,000**
9-12 mo.	Prepaid Expenses	$500,000	**9-12 mo.**	Payment	$100,000
	Subtotal	**$500,000**		**Subtotal**	**$100,000**
	Total Current Assets	**$1,650,000**		**Total Current Liabilities**	**$860,000**

True Working Capital Analysis Calculations- Scenario A

1. Current Ratio=	Current Assets / Current Liabilities	$1,650,000 / $860,000	=	**1.92**
2. Working Capital to Revenue (Revenue= $2,000,000)	WC=$1,650,000-$860,000	$790,000 / $2,000,000	=	**39.5%**
3. Burn Rate on Working Capital= (assuming $200,000 projected losses)		$790,000 / $200,000	=	**3.95 Years**
4. Burn Rate on Debt Service Payments= (assuming $200,000 annual debt payment)		$790,000 / $200,000	=	**3.95 Years**
5. Debt to Asset Ratio=			=	**60%**
6. Return on Assets (ROA)- 3 Year Trend=			=	**8%**

True Working Capital Analysis

Assets Liabilities

Scenario B (Home Run, Alpha Dog, Go-Go Balance Sheet Bully)

Months	Current Asset	Amount	Months	Current Liability	Amount
0-4 mo.	Cash	$25,000	**0-4 mo.**	Payment-Tractor	$100,000
	Crop Inventory	$400,000		A/P	$200,000
	Crops Growing	$300,000			
	Subtotal	**$725,000**		**Subtotal**	**$300,000**
5-8 mo.	A/R	$50,000	**5-8 mo.**	Payment-Land	$200,000
	Prepaid Expenses	$250,000		Operating Line	$500,000
	Subtotal	**$300,000**		**Subtotal**	**$700,000**
9-12 mo.	Livestock Inv.	$200,000	**9-12 mo.**	Payment-Combine	$100,000
	Subtotal	**$200,000**		**Subtotal**	**$100,000**
	Total Current Assets	**$1,225,000**		**Total Current Liabilities**	**$1,100,000**

True Working Capital Analysis Calculations- Scenario B

1. Current Ratio=	Current Assets / Current Liabilities	$1,225,000 / $1,100,000	=	**1.11**
2. Working Capital to Revenue= (Revenue= $2,000,000)	WC=$1,225,000-$1,100,000	$125,000 / $2,000,000	=	**6.25%**
3. Burn Rate on Working Capital= (assuming $200,000 projected losses)		$125,000 / $200,000	=	**.63 Years**
4. Burn Rate on Debt Service Payments= (assuming $400,000 annual debt payment)		$125,000 / $400,000	=	**.31 Years**
5. Debt to Asset Ratio=			=	**25%**
6. Return on Assets (ROA)- 3 Year Trend=			=	**2%**

Collateral Analysis – Year Z

	Year Z	Estimated Value		Loan Maximum		Collateral Position		Remaining Principal		Excess Reserve
1	Long-term	$400,000	x	75%	=	$300,000	-	$250,000	=	$50,000
2	Intermediate	$1,040,000	x	60%	=	$624,000	-	$450,000	=	$174,000
3	Current	$305,000	x	80%	=	$244,000	-	$130,000	=	$114,000
	Total	$1,745,000				$1,168,000		$830,000	=	$338,000

4	Total borrowing capacity (collateral position)	$1,168,000
5	Total borrowed (remaining principal)	$830,000
6	Total excess reserve	$338,000
7	Excess reserve long-term area	$50,000
8	Excess reserve intermediate area	$174,000
9	Excess reserve current area	$114,000
10	Percent long-term assets can decline in value (excess reserve / collateral position)	16.7%
11	Percent intermediate assets can decline in value (excess reserve / collateral position)	27.9%
12	Percent current assets can decline in value (excess reserve / collateral position)	46.7%

Collateral Analysis – Projected Year

Projected	Estimated Value		Loan Maximum		Collateral Position		Remaining Principal		Excess Reserve
1 Long-term	$1,400,000	x	75%	=	$1,050,000	-	$1,210,000	=	($160,000)
2 Intermediate	$1,050,000	x	60%	=	$630,000	-	$360,000	=	$270,000
3 Current	$267,000	x	80%	=	$213,600	-	$165,000	=	$48,600
Total	$2,717,000				$1,893,600		$1,735,000	=	$158,600

4 Total borrowing capacity (collateral position)	$1,893,600
5 Total borrowed (remaining principal)	$1,735,000
6 Total excess reserve	$158,600
7 Excess reserve long-term area	($160,000)
8 Excess reserve intermediate area	$270,000
9 Excess reserve current area	$48,600
10 Percent long-term assets can decline in value (excess reserve / collateral position)	(15.2%)
11 Percent intermediate assets can decline in value (excess reserve / collateral position)	42.9%
12 Percent current assets can decline in value (excess reserve / collateral position)	22.8%

LSU Graduate School of Banking Views:

LSU Graduate School of Banking- Mergers

Has your bank or institution been involved in a merger during the last three years?

Yes or No	Percent
Yes	55%
No	45%

LSU Graduate School of Banking- Biggest Threats

What is the biggest threat to your country's economy?

Threat	Percent
Foreign Competition	2%
Terrorist	9%
Government Dysfunction	35%
Aging Population Issues	6%
Government and/or Individual Debt	48%

LSU Graduate School of Banking- Greatest Global Competition

What is the greatest global competition to North America?

Area/Country	Percent
Asian Region	40%
China	33%
South American Region	13%
European Region	8%
Middle Eastern Region	5%

LSU Graduate School of Banking- Federal Reserve and Interest Rates

When do you believe the Federal Reserve will raise interest rates? (from banker surveys)

Date	Percent
June 2015	0%
September 2015	12%
December 2015	22%
1st Quarter 2016	34%
Later 2016	30%
Never	2%

LSU Graduate School of Banking-
Stock Market Trends

The Dow Jones Index is currently 18,000. What do you expect it to be at the end of 2015?

Level	Percent
18,000	18%
19,000	36%
20,000+	16%
17,000	25%
16,000 or Lower	5%

LSU Graduate School of Banking-
Number of Banks

There are approximately 6,000 banks in the U.S. today. How many do you expect there will be in 2025?

Number	Percent
6,000+	5%
5,000-5,999	11%
4,000-4,999	27%
3,000-3,999	21%
Less than 3,000	36%

Questions