

TAKING CARE OF BUSINESS

Dr. David M. Kohl

Professor Emeritus, Agricultural and Applied Economics
Member of Academic Hall of Fame, College of Agriculture & Life Sciences
Virginia Tech, Blacksburg, VA



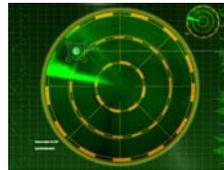
(540) 961-2094 (Alicia Morris) | (540) 719-0752 (Angela Meadows) | sullylab@vt.edu

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Macro Clinic Video Blog: www.compeer.com/education
Road Warrior of Agriculture: www.cornandsoybeandigest.com
Ag Globe Trotter: www.northwestfcs.com
Dave's GPS & Dashboard Indicators: www.farmermac.com

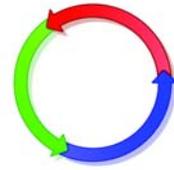
Radar Screen

- international trade agreements
 - NAFTA
 - CPTPP
- immigration
- Central Bank Policy in U.S. and abroad
- wealth effect/correction
- oil & energy sector
- weather- Southern Hemisphere & Northern Hemisphere
- accelerated transition
 - farming and ranching
 - ag lenders
 - agricultural and rural areas
 - urban satellite cities
- geopolitical economy- global and U.S.



Economic Drivers of This Cycle

- technology/management
- interest rates low/flat
- elongated agricultural economic super cycle
- stronger financial underwriting
- working capital and land equity cushion
- crop insurance programs



3

Evolution of the Agricultural Economic Cycle- Summer

Offensive Domain:

2006-2012 Super Cycle

- strong demand from emerging nations
- low value of the dollar
- low interest rates
- ethanol boom
- technology

Summer Stage



4

Evolution of the Agricultural Economic Cycle- Fall

Transition Domain:

2013-2017 Early Stages of Economic Reset

- commodity surplus
- suppressed margins, profits, and cash flow
- working capital burn
- refinance for liquidity
- land values maintain resiliency

Fall Stage



5

Evolution of the Agricultural Economic Cycle- Winter

Defensive Domain: 2018-2021

- widening gap of economic performance
- vendors/non-trationals provide operating credit
- working capital bridge unstable
- core equity burn rate
- marginal land steep decline
- top 40% selectively grow business

Winter Stage



6

Evolution of the Agricultural Economic Cycle- Spring

Creative Domain: 2021-2025 Regeneration

- greenliners vs. redliners
- equity tenure vs. management & growth
- consumer driven
- data driven
- people driven
- one size enterprise does not fit all

Spring Stage



7

Wisdom on Economic Cycles 1

- When the bottom third of any industry makes money, then economic difficulties are ahead.
- Technology growth and use accelerate by strongest managers in offensive domain creating surplus within two to five years.
- “Fence row to fence row” mentality including overpaying for marginal resources- “growth blinders”
- Lowest interest rate is the #1 attribute in offensive domain. Relationship is the #1 attribute in the transition, defensive and creative domains.

8

Wisdom on Economic Cycles 2

- Operating lines of credit, working capital and liquidity are the “choke points” of any business.
- Family living cost follows the Corvette Rule through six decades of economic cycles.
- “If you’ve got the dirt, you can’t get hurt” mentality creates complacency in producer and lender.
- Credit scoring and risk rating systems work if you don’t check your brain at the door.

9

State of the U.S. Economy

- over 100 months of expansion
- 106/120 months
- coastal vs. fly over states
- Republicans/recession
- velocity of money
- stock market

10

Killers of Economic Expansion

- expansions don't die/killed off
- Central Bank tightening strategies
- oil prices
- stock market decline
- bubbles

11

Top Five Economic Indicators

Indicator	Growth	Neutral	Recession
LEI/Diffusion Index	Positive	Flat/Decline	Down three months in a row
Consumer Sentiment	>90	80-90	<80
Housing Starts	\$1.2 Million	\$800,000-1.2 Million	<\$800,000
PMI	>50	40-50	<40
Stock Market	10% increase	Flat	>20% decrease

12

Federal Reserve's Interest Rate Barometer

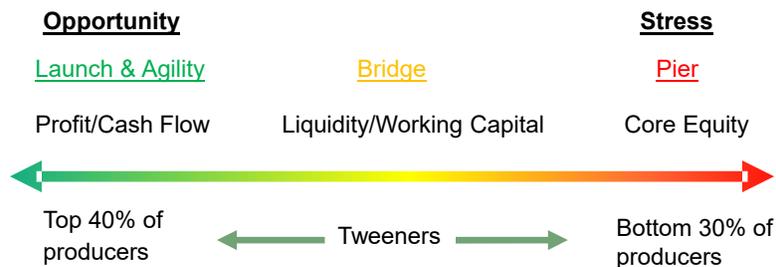
- Three increases in 2018!

Indicator	Current Estimated "Flag" Levels
Unemployment	Below 5.0% or Above 6.0%
GDP Growth	Above 3.0% or Below 2.0%
Inflation	Above 2.5% or Below 1.0%
Consumer Sentiment	Above 90 or Below 80

- trends matter
- stock market/real estate wealth effect
- copper prices

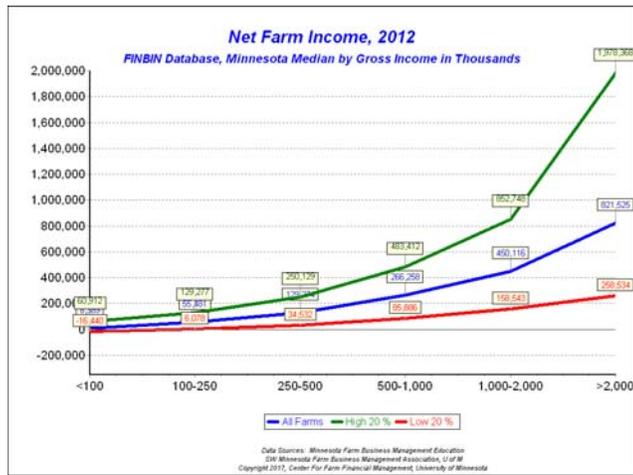
13

Agricultural Economic Cycle Spectrum: Stages of the Financial Statements



14

Net Farm Income, 2012



15

Net Farm Income, 2016

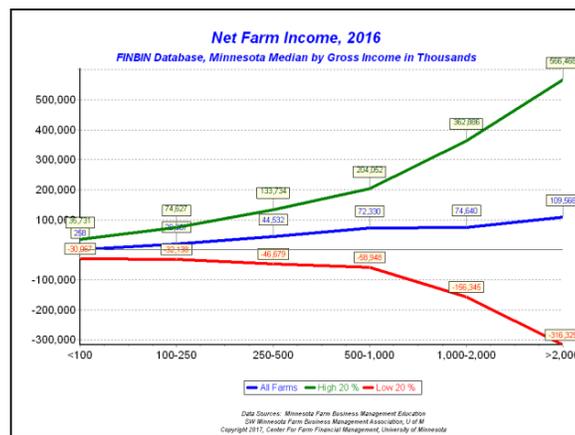


Figure 13: Net Farm Income by Farm Size

16

Take Home Tools Regardless of the Cycle: Accrual Analysis

Seven Major Questions/Answers for Accrual Analysis

Question	Positive	Negative
1. What is the direction of inventory value?		
2. What is the direction of aging accounts payable?		
3. What is the direction of accrued expenses?		
4. What is the direction and aging of accounts receivable?		
5. What is the direction of amount of prepaid expenses?		
6. Operating lines of credit vs. inventory/receivables		
7. Are current assets quick to cash?		

17

Take Home Tools Regardless of the Cycle: Refinancing Request Filter Questions

Questions to ask before refinancing a customer:

Refinancing Request Filter Questions	Yes	No
Poor lifestyle habits (family living, killer toys)?		
Poor management habits?		
Poor marketing and financial habits?		
Failure to build working capital in good times?		
Uncontrollable events (macro or micro)?		
Repeating refinance cycle multiple times?		
Poor quality collateral assets (land, machinery, livestock)?		

18

Multiple Entities

- multiple entities who own repayment source
- purpose of loan
- direction of loan proceeds
- success factors into loan repayment

19

Watch List for Multiple Entities

- lack of cooperation
- high employee turnover
- delinquent payroll
- signs of management discord
- deteriorating asset base



20

Ten Commandments of Character 1

1. follow thru on commitments
 - educational programs
 - financial statement requests
2. use of borrowed funds as agreed upon
3. accuracy in financial statements such as balance sheet, income statement, etc.
4. willingness to sacrifice lifestyle pursuits and balance with business growth
5. good communication of goals and in times when there are issues and challenges

21

Ten Commandments of Character 2

6. minimal surprise business purchases
7. willingness to work with advisory team
8. consider constructive coaching
9. proper use of profits, cash flows and windfalls
10. have and utilize a network of people, peers, and pursuits

22

Six C's of Lending

Organization

- conservative
- courageous
- consistent

Lender

- calculate
- critically think
- communicate

