

Agricultural Economy in Southern Minnesota

PAUL LANOUE

DEAN OF MANAGEMENT

MINNESOTA WEST



Where are we at?

Variability

- Yields
- Weather
- Financial health
- Commodities
- Land Ownership
- Debt load
- Tax planning

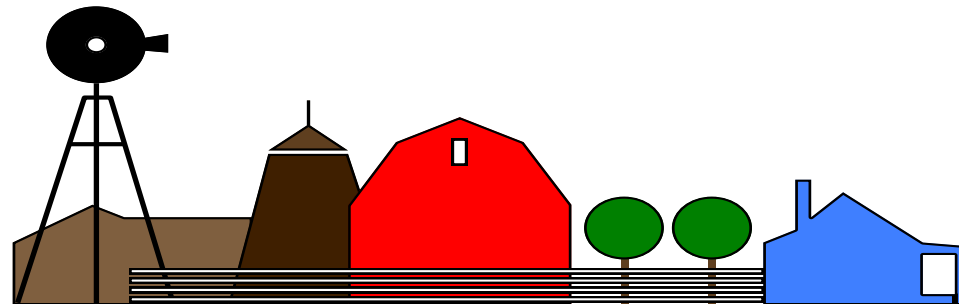
2015 Financial Year in Review

ANALYSIS FINANCIAL TREND DATA

COMPILED BY

AL BRUDELIE (RETIRED DEAN OF MANAGEMENT)

MARCH 2016



2015 in Review

Gross farm income was \$840,341-2015, from \$925,932 in 2014.
Down **9.2%**.

Cash op. expenses was \$724,501-2015, from \$776,714 in 2014.
Down **6.7%**.

Net cash income was \$115,840 in 2015, from \$ 149,218 in 2014 .
Down **22.4%**.

Net farm income was \$35,915 Down from \$ 96,337 in 2014,
Down **62.7%**.

2015 in Review

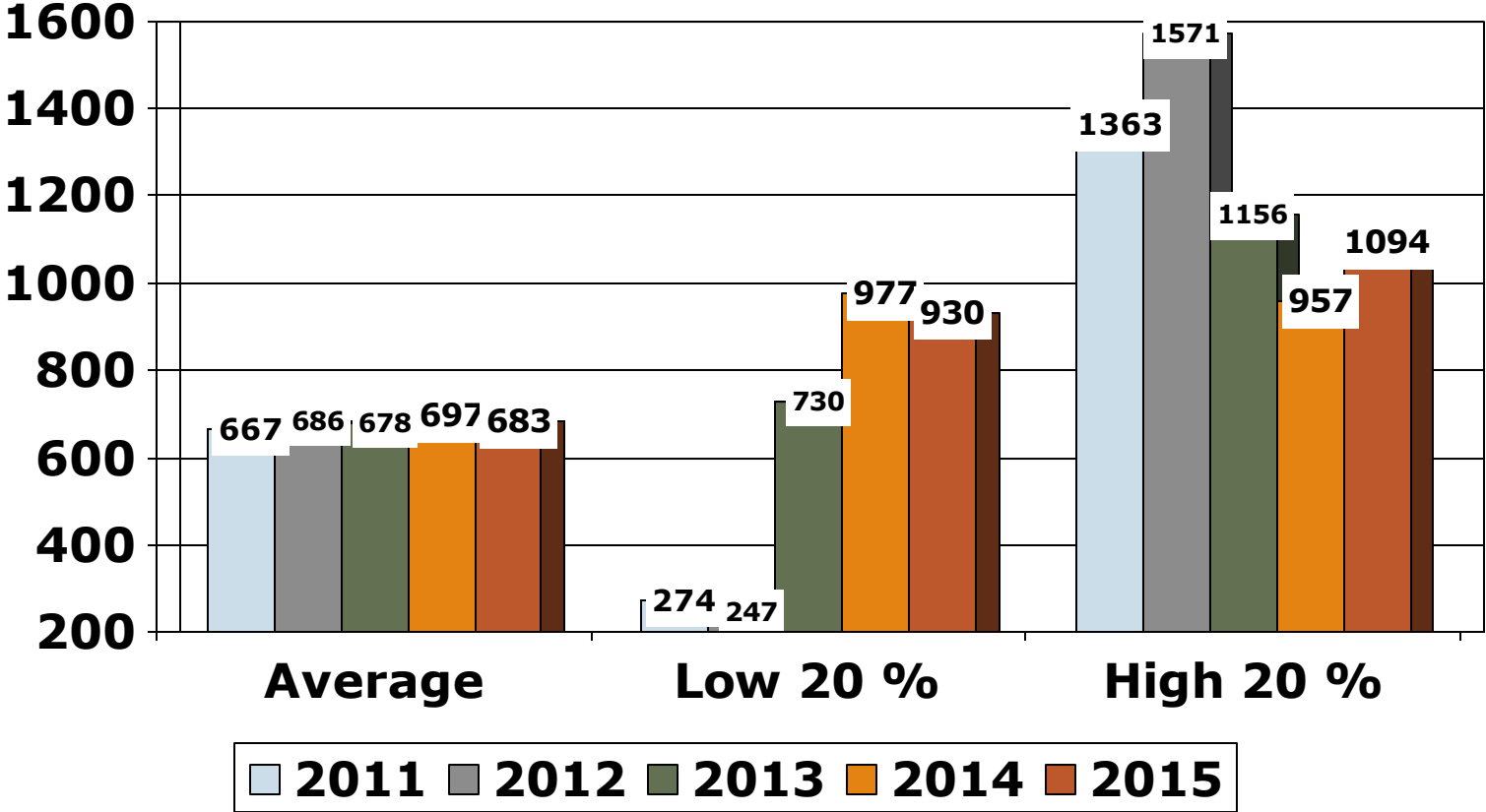
Corn production was up **25.7%** to a yield of 205.9 bu. in 2015 from a yield of 163.8 in 2014.

The highest yield ever was in 2015 at 205.9 bu. The lowest was 54 bu. in 1965.

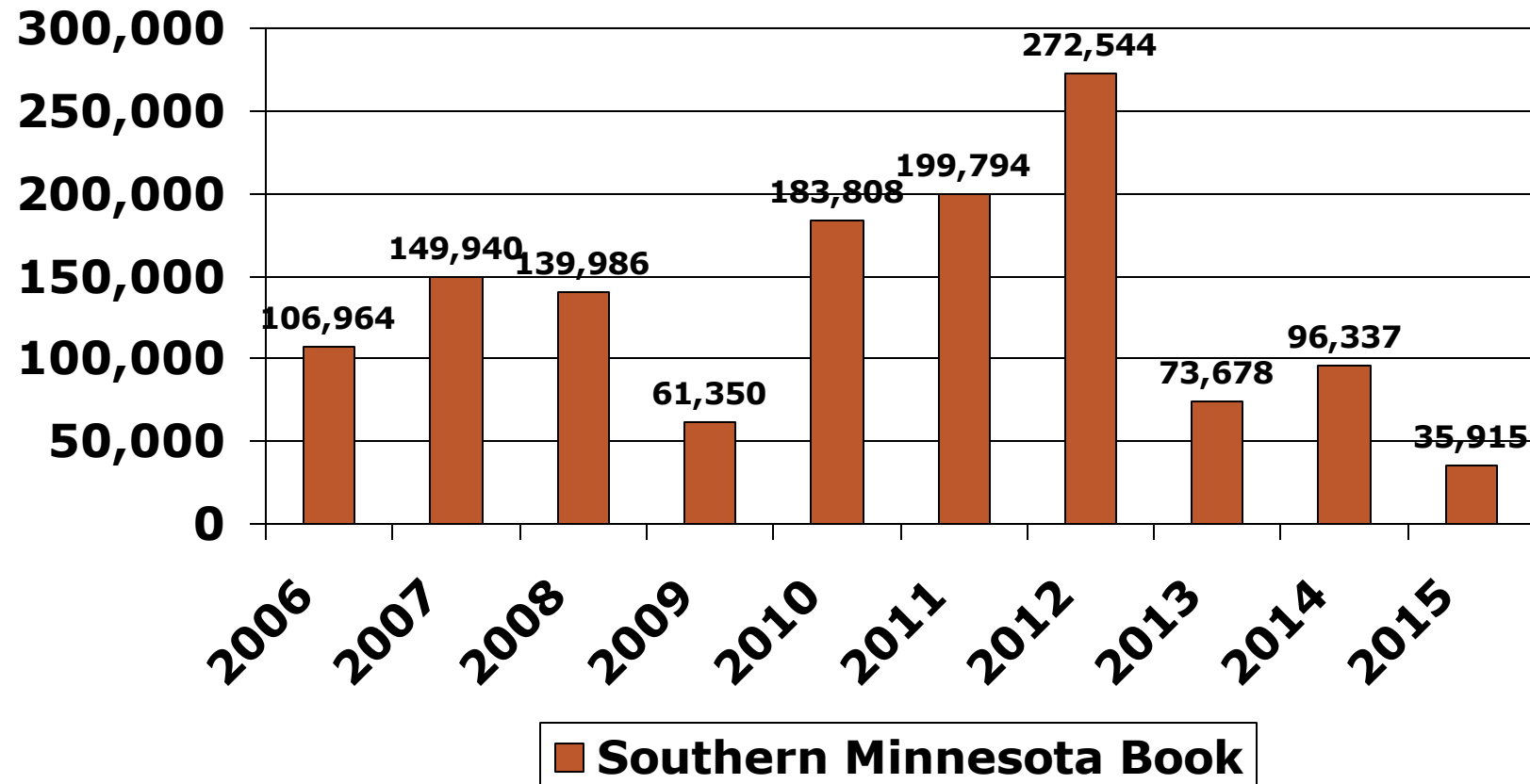
Soybean production was up **27.8%** to a yield of 60.1 bu. in 2015 from a yield of 47.0 bu. in 2014.

The lowest yield was 18 bu. in 1996. The highest yield was 60.1 bu. in 2015.

Crop acres

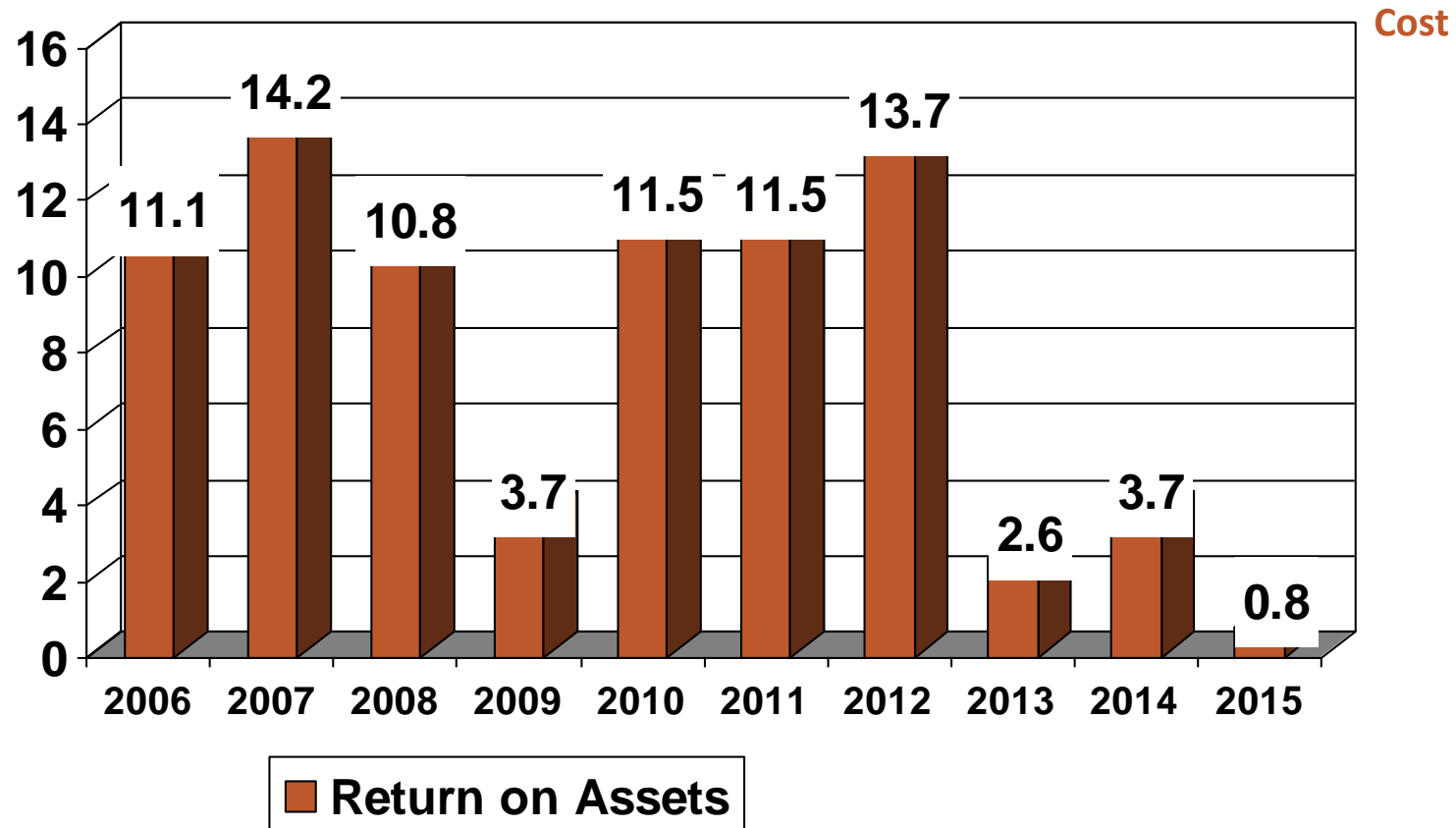


Net Farm Income (Ave)

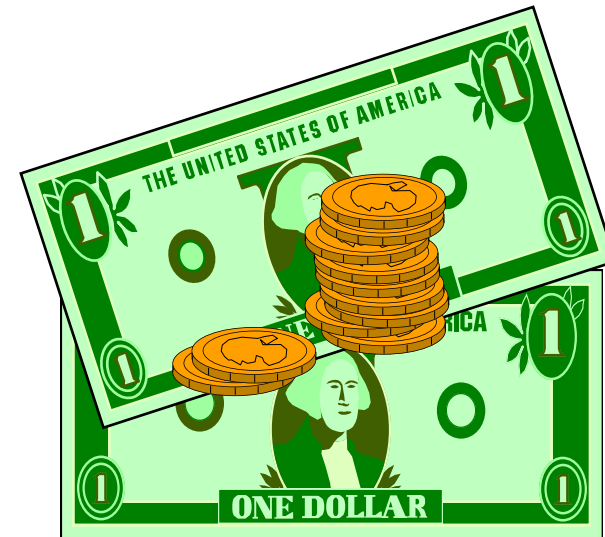
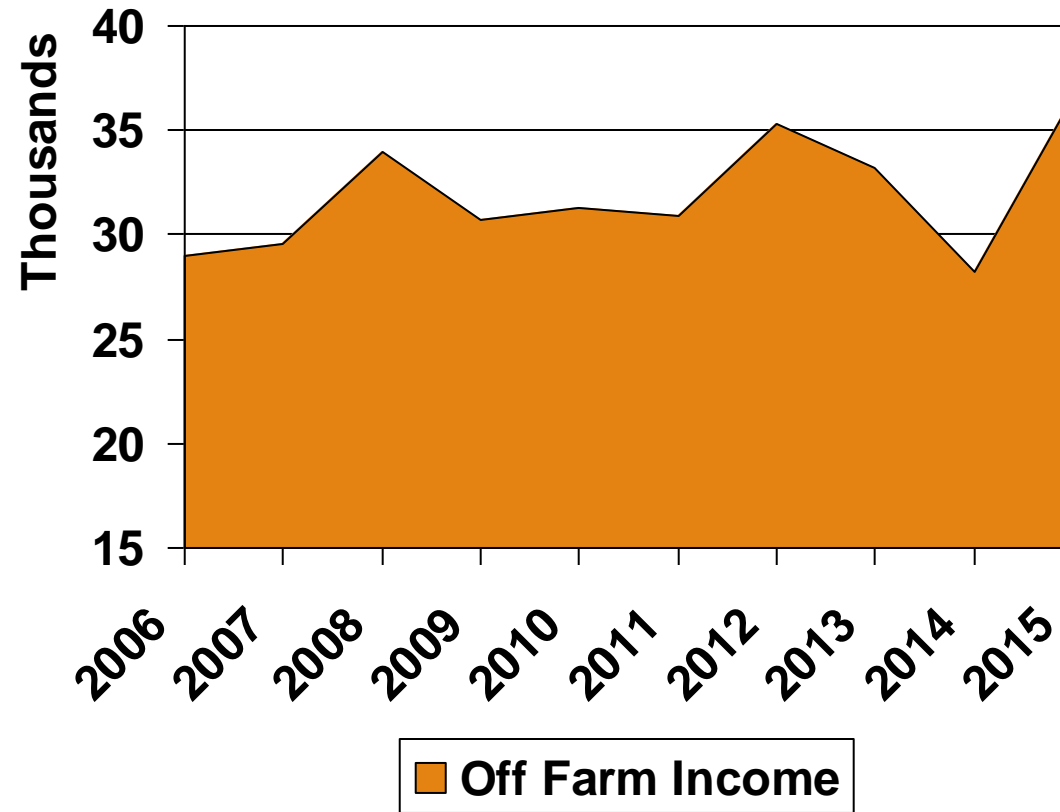


Profitability Analysis

Rate of Return on Assets



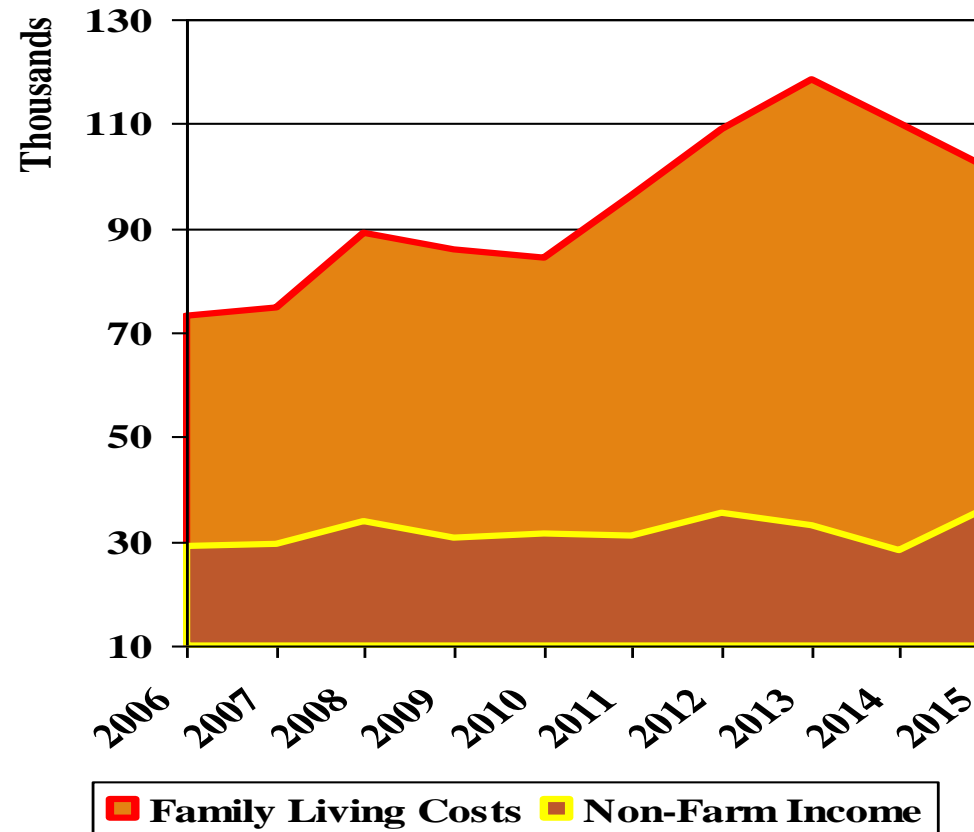
Non-farm Income



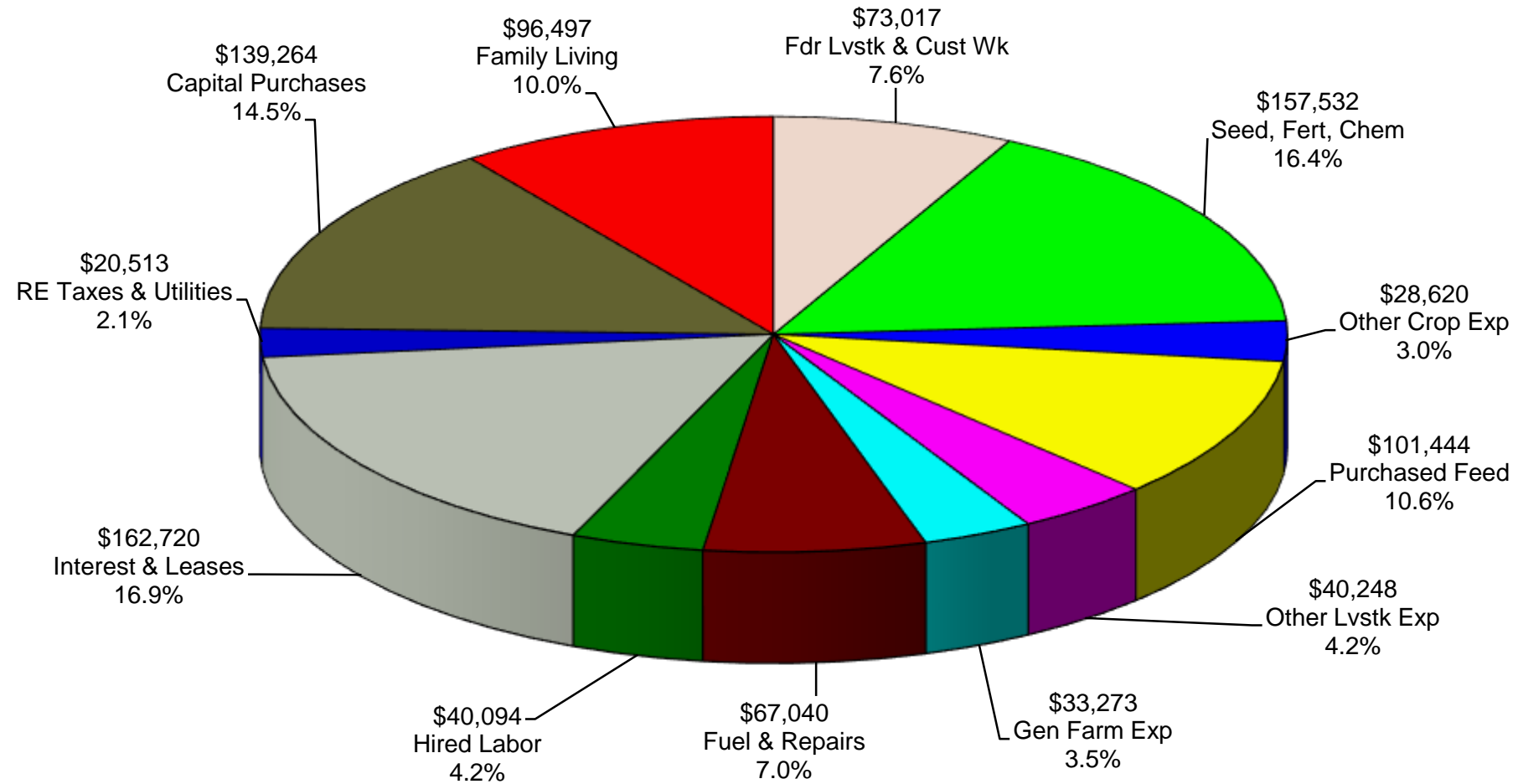
Non-Farm Income & Family Living

Both have trended upward over the years. In many cases, the employee benefits add significant value to the non-farm employment.

Non-farm income pays for approximately half of household and personal spending.



**Each farmer, on average, spent \$960,262 in the Greater Community
in 2015**



Average Money Spent by Each Farmer in the Greater Community:	\$960,262
Average Money Spent by Each Farmer in a 40 Year Career:	\$38,410,480
Money Spent in Community by 1287 Farmers:	\$1,235,857,194

Farm Financial Standards

The American Bankers Association has endorsed the use of sixteen “standards” to rate business performance (see page 20).

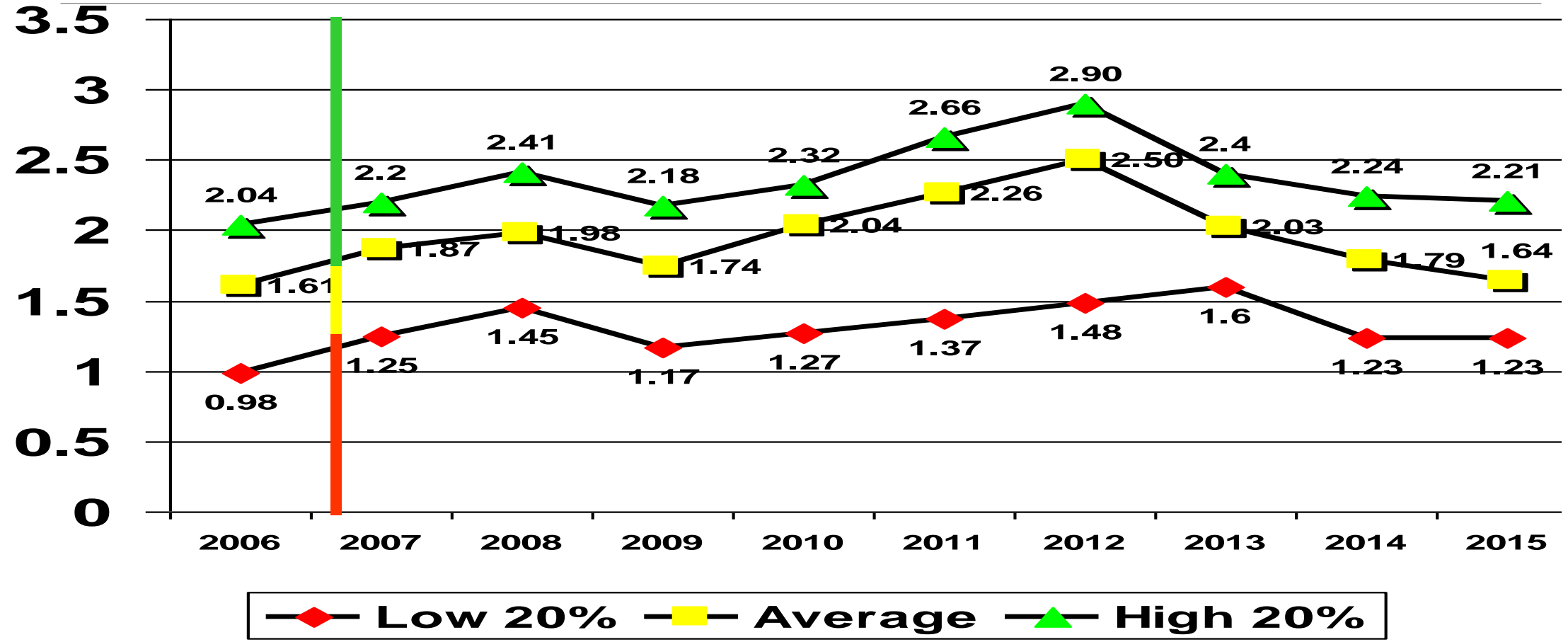
These standards are measures of:

- Liquidity
- Solvency
- Profitability
- Repayment Capacity
- Financial Efficiency

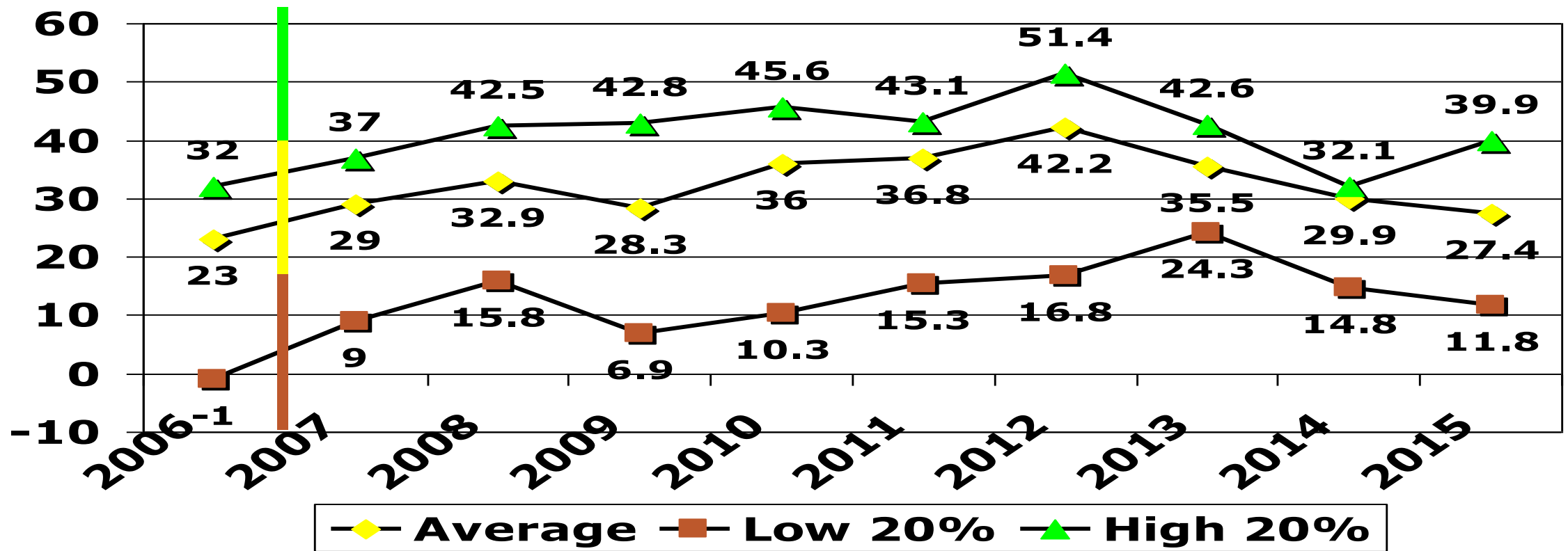


Current Ratio (Liquidity)

Current farm assets / current farm liabilities

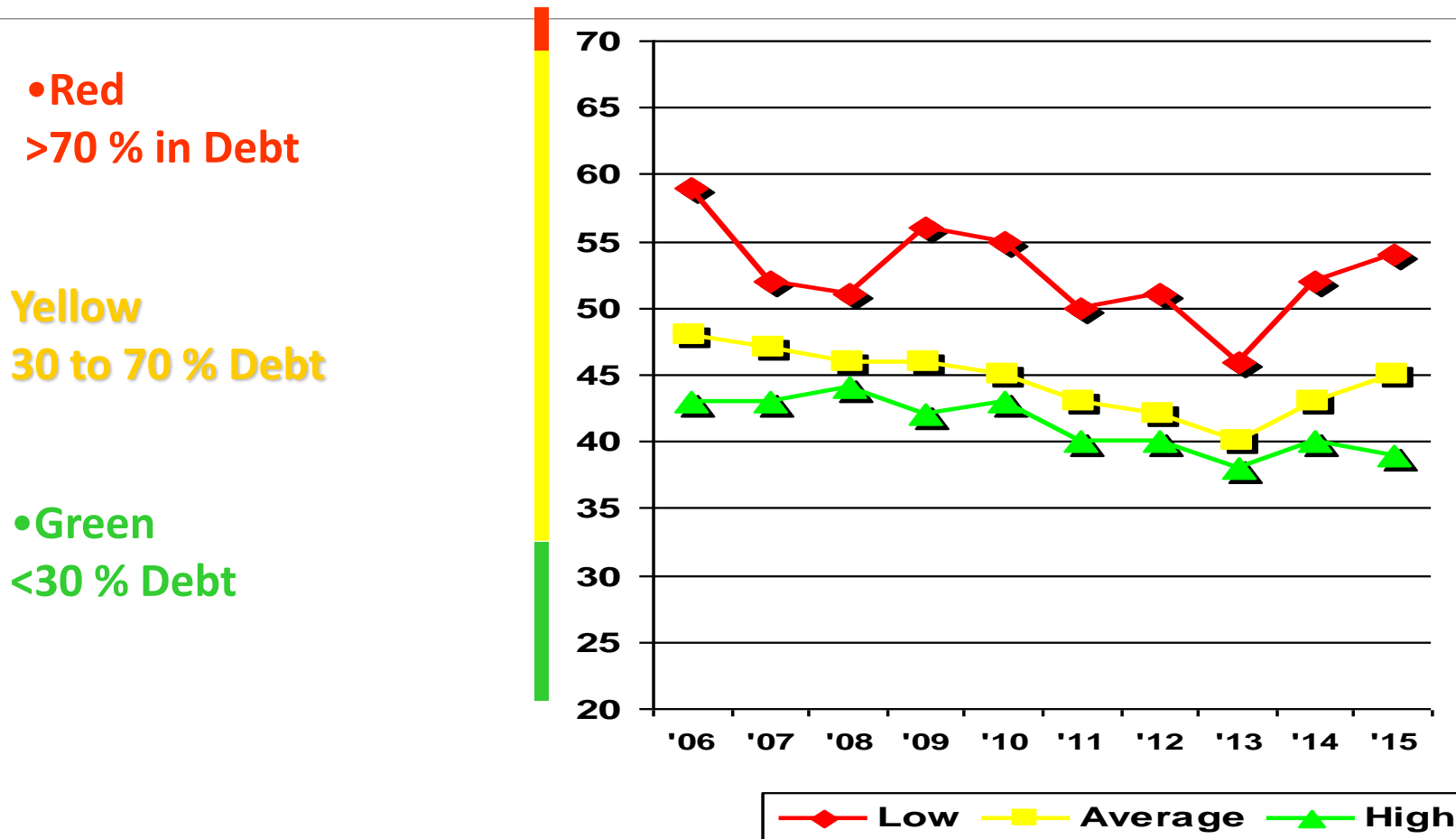


Working Capital to Gross Income All Farms



Debt to Asset Ratio (Solvency)

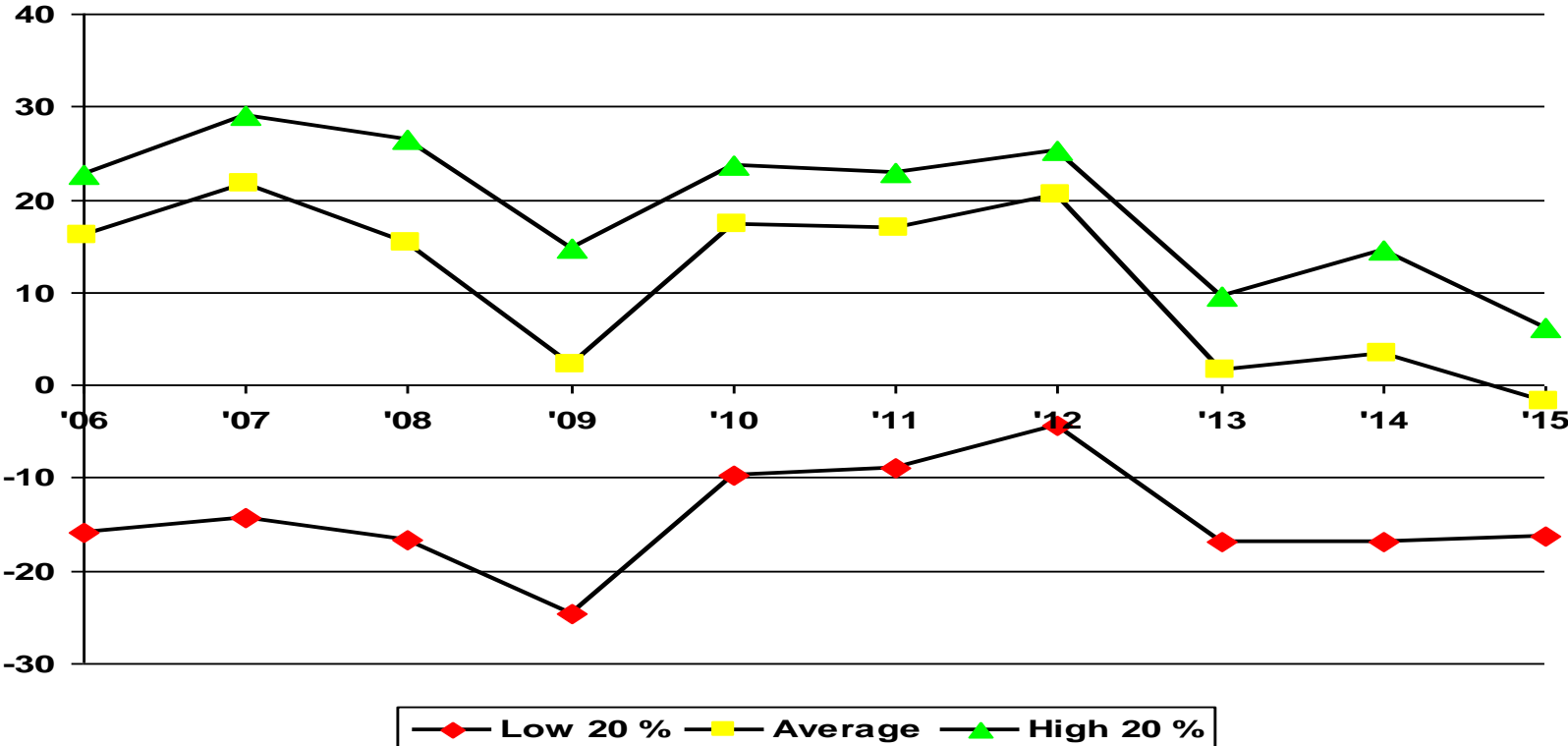
Total farm liabilities / total farm assets



Rate of Return on Farm Equity (Profitability)

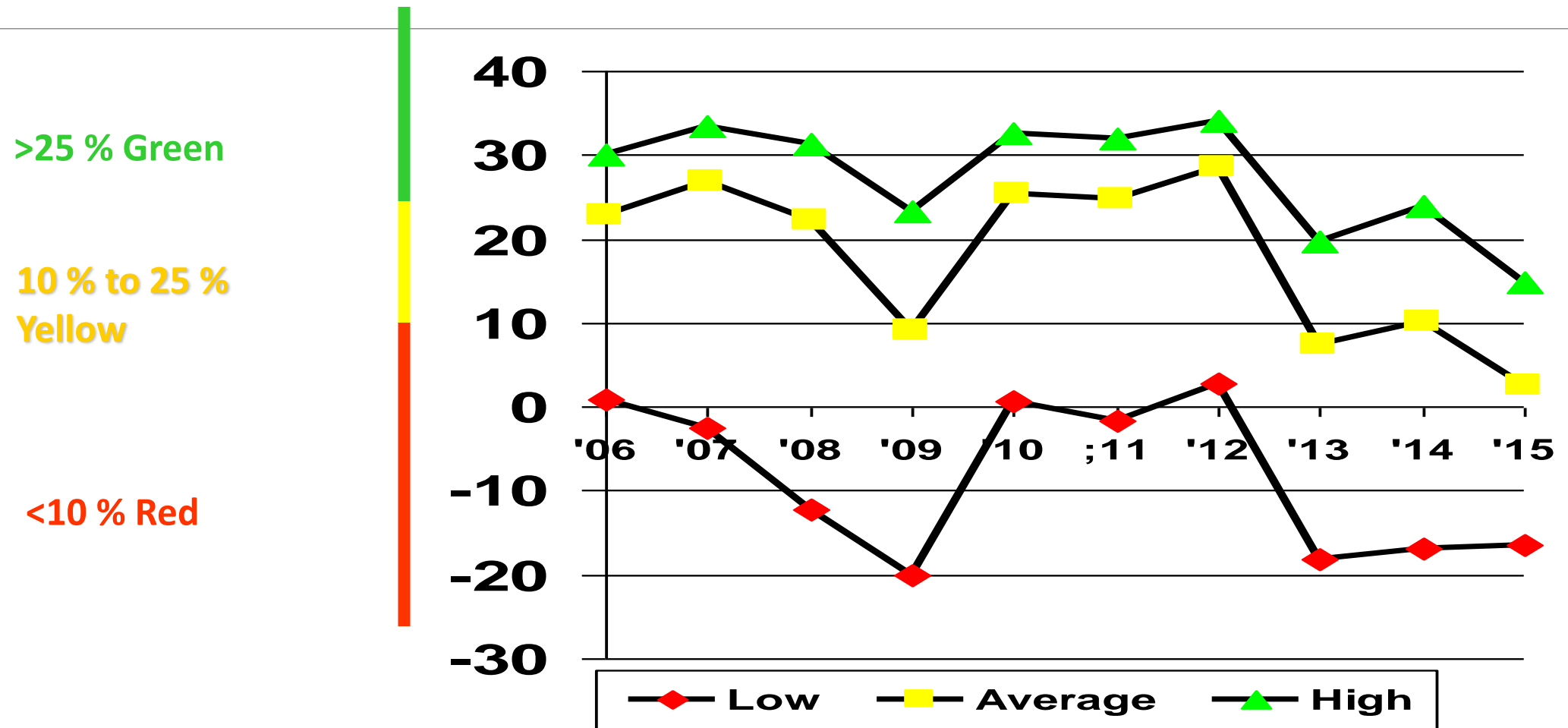
[Net farm income from operations minus value of unpaid labor & mgmt] / average farm equity

Watch your trend information to be sure you are heading in the desired direction.



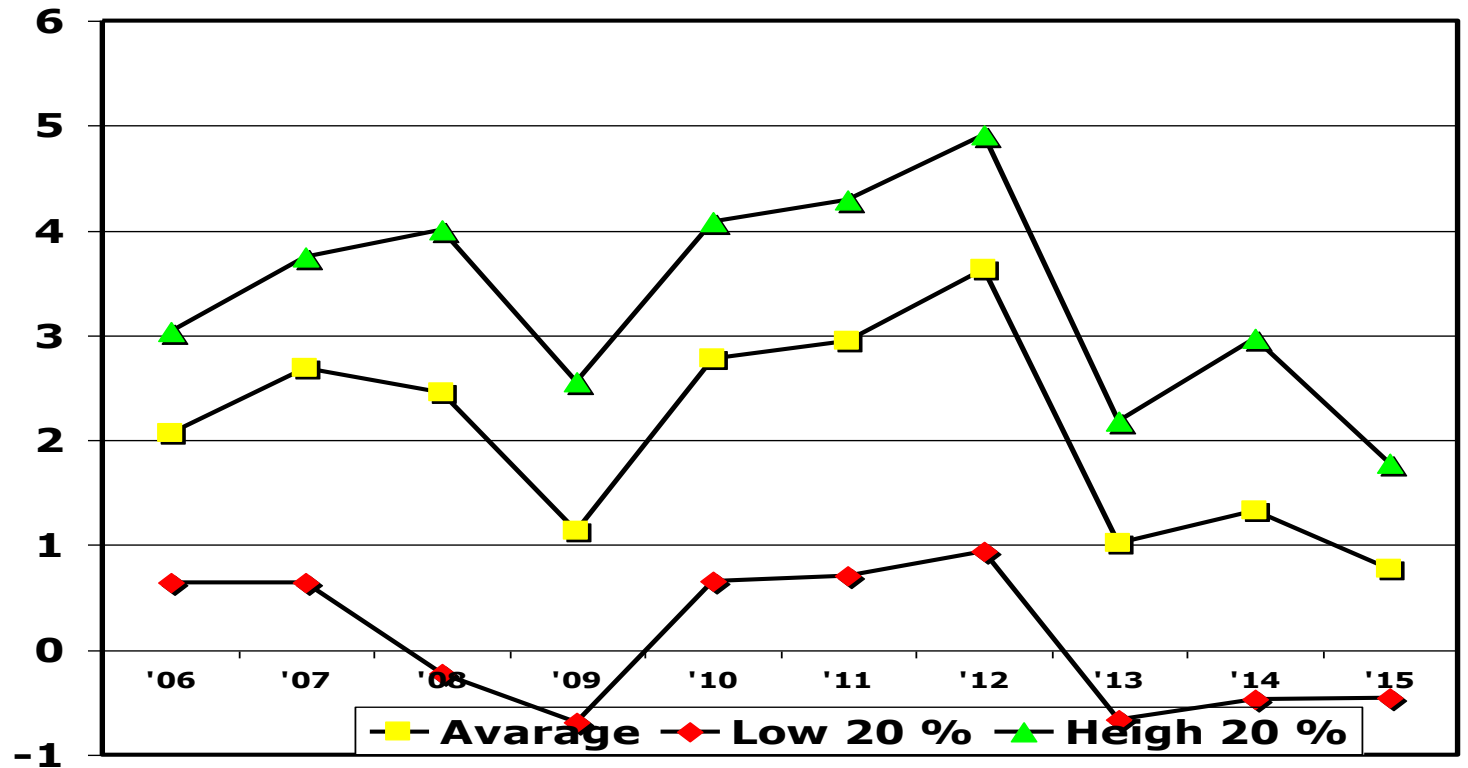
Operating Profit Margin Ratio (Profitability)

[Net farm income from operations + farm interest expense minus value of unpaid labor & mgmt] / gross revenue

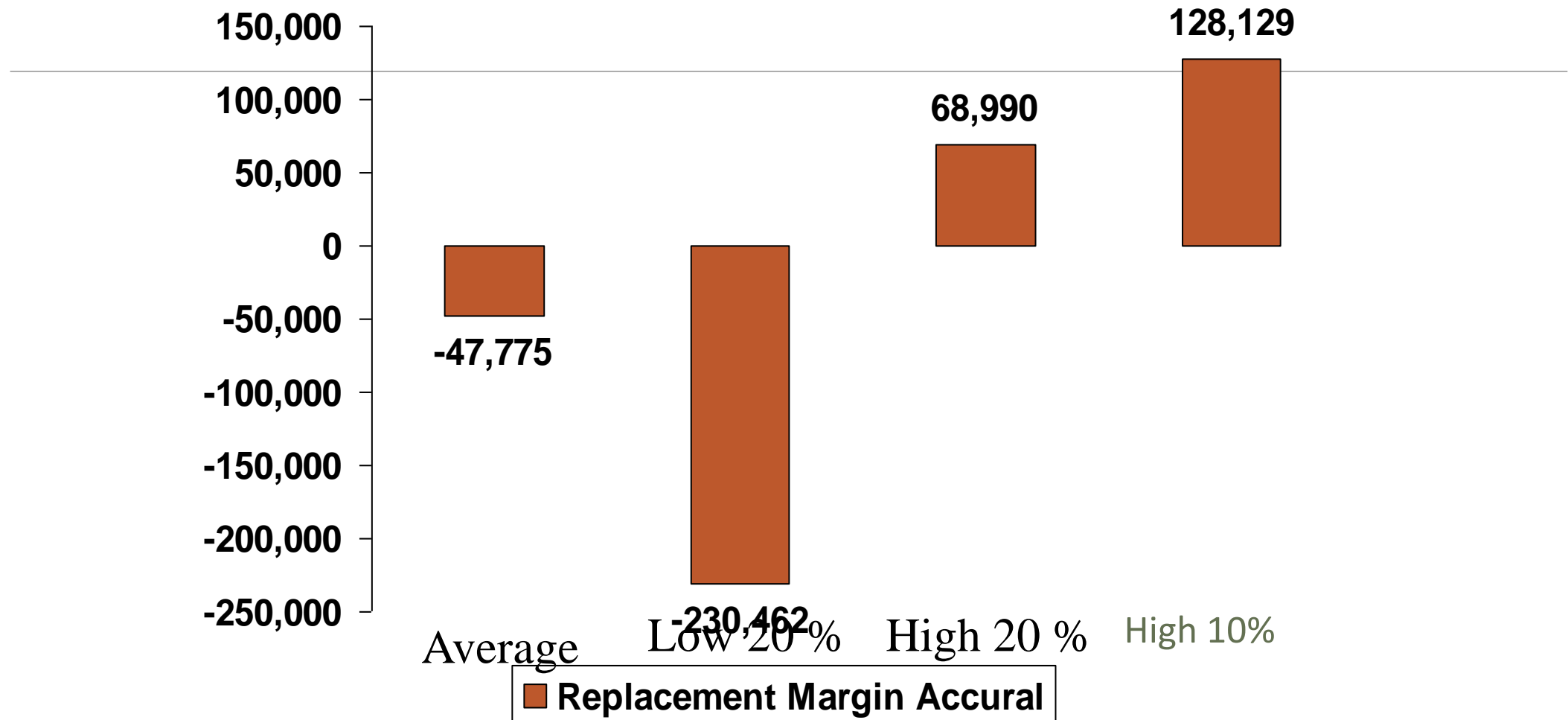


Term Debt Coverage Ratio

>150 % Green
110 to 150 yellow
<110 % Red

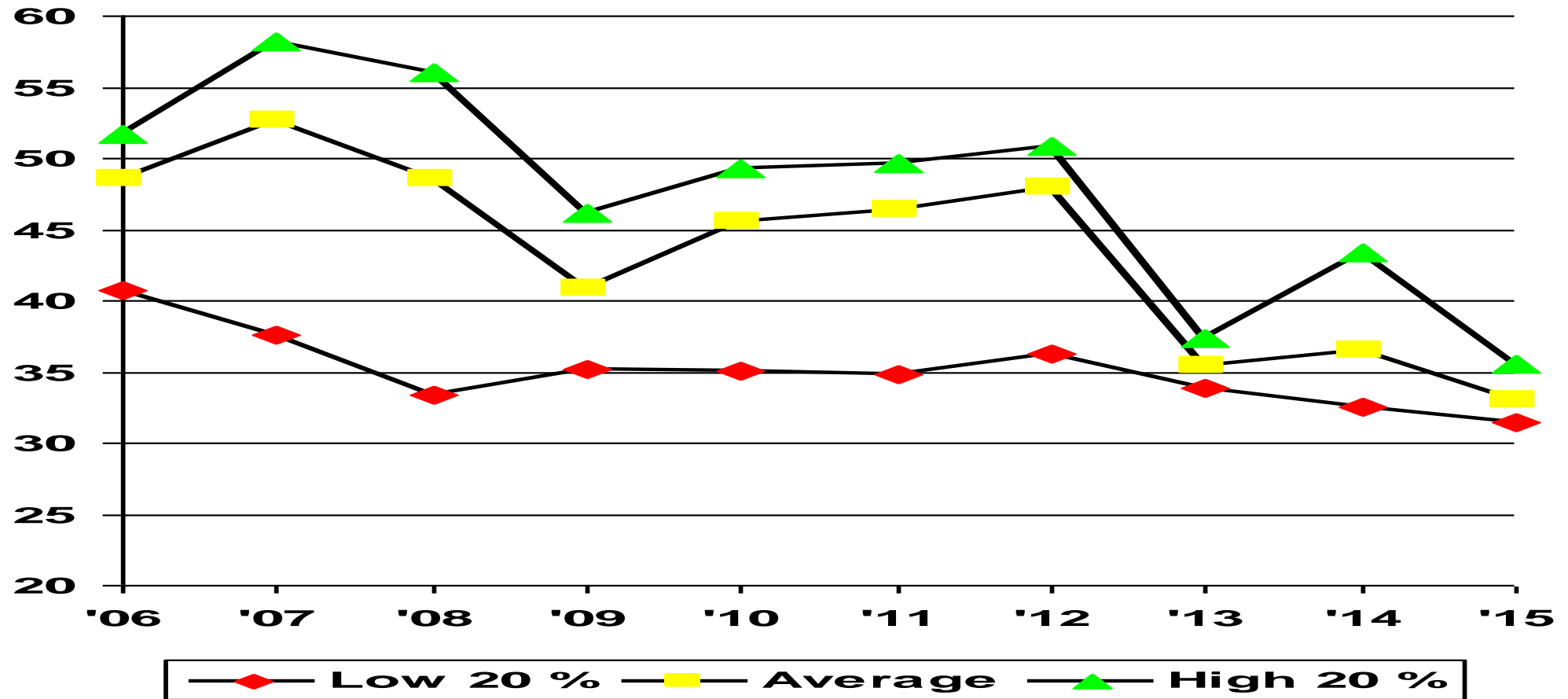


Capital Replacement Margin 2015



Asset Turnover Rate (Financial Efficiency)

Gross revenues / average total farm assets



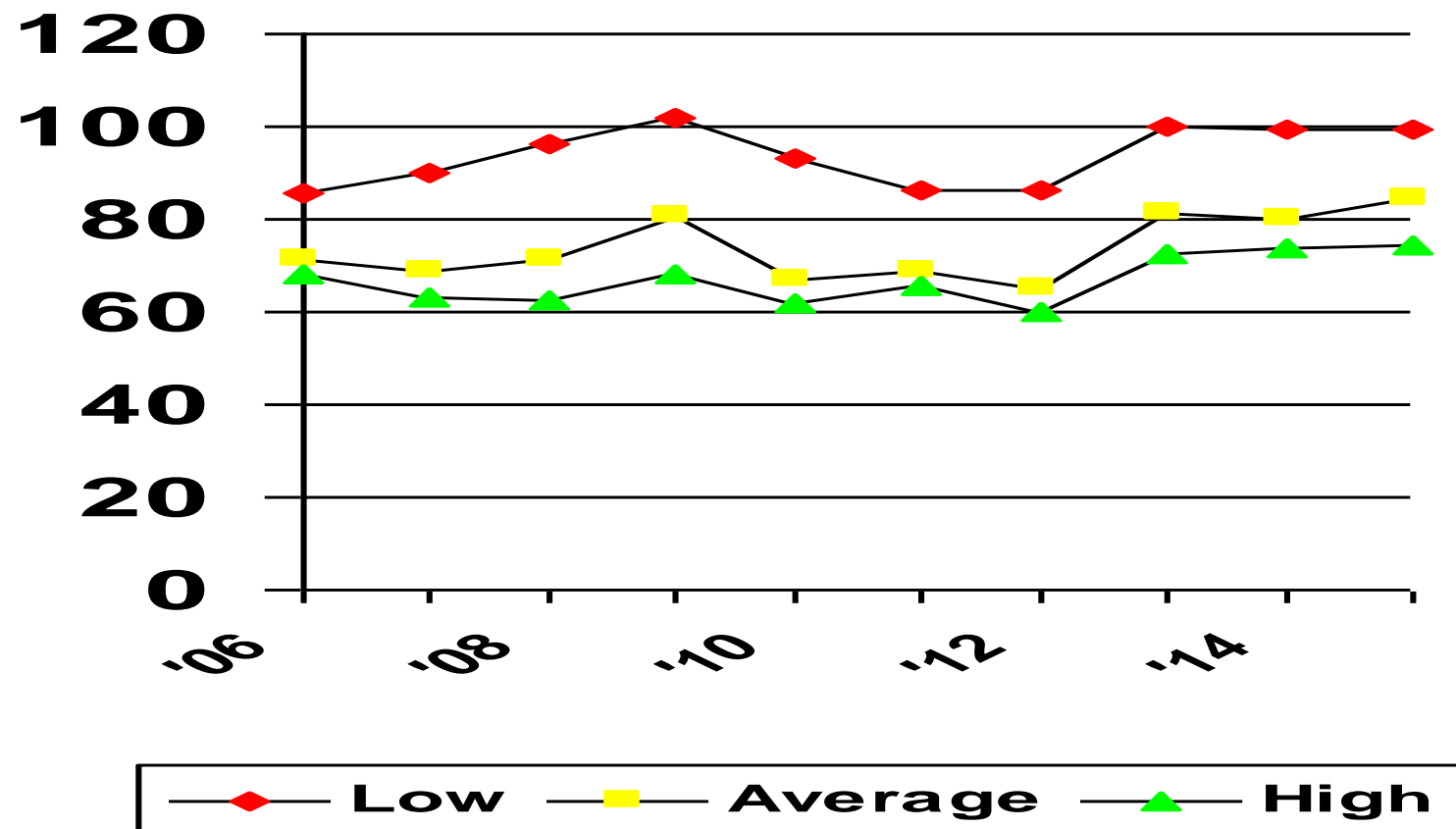
Operating Expense Ratio (Financial Efficiency)

[Total operating expenses minus depreciation] / gross revenue

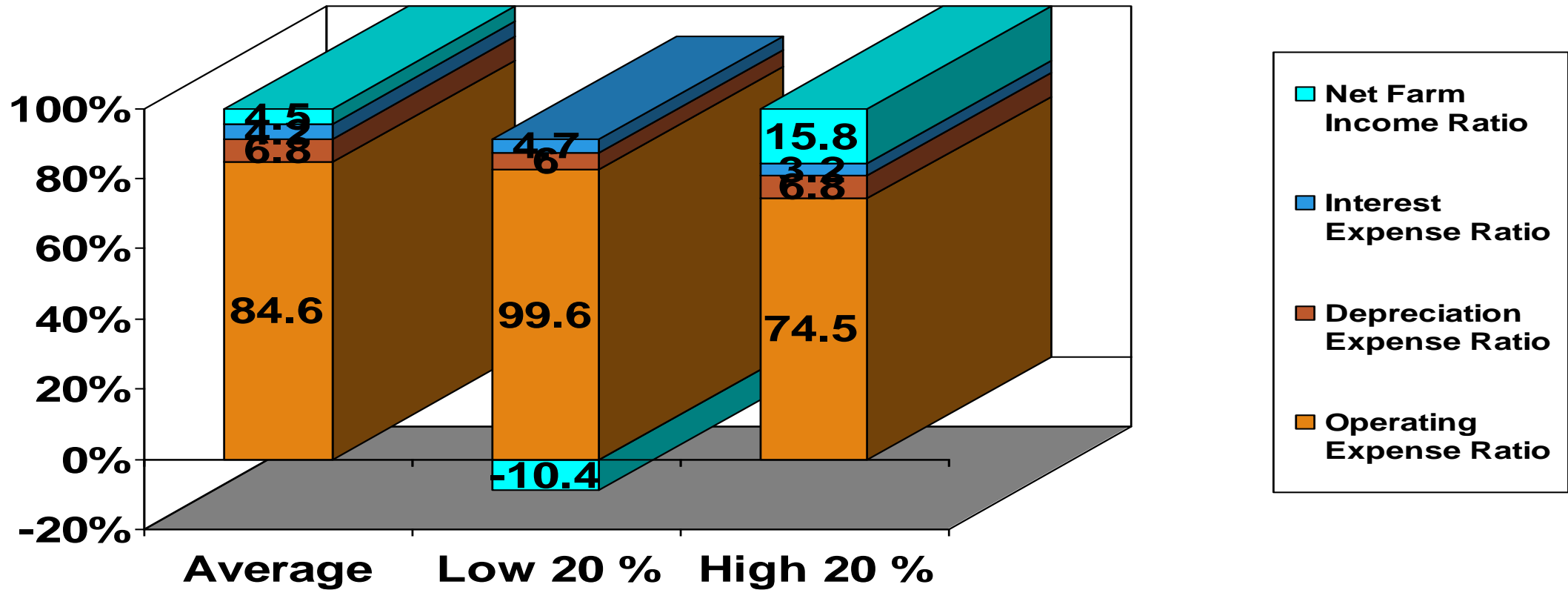
>85 % is Red

75 % to 85 % Yellow

<65 % is Green



Operating Expense Ratio 2015



Conclusions about ratios

Business trend lines are priceless

Compare information for the last 5 years

Compare farm data to peer groups

How does the business stack up?

What are your new strategies?

Managing in volatile times?

How do you improve your bottom line?

- Conduct Variance Analysis (planned vs. actual)
- Position your balance sheet
- Manage 100 things 1% better each year
- Manage the operation to be on the right side of the financial divide

How do you survive the volatile ride ahead?

Conduct sensitivity analysis cash flows

Aspire to be a top half marketer by having a written marketing plan

Form peer advisory groups

Form strategic alliances

Capture economies of scale, reducing costs, improving asset utilization



Looking forward to 2017

What is in store?

Let's look at impact of price and yield variability on farm profit.

[Access Farm Profit Tool](#)

Have a Great Year in 2017!

MAKE SURE YOU ARE ON YOUR A GAME IN MANAGING YOUR
OPERATION THIS YEAR!